Government of **Western Australia**
School Curriculum and Standards Authority

WACE
Western Australian Certificate of Education

Western Australian Certificate of Education Examination, 2013

Question/Answer Booklet

ECONOMICS

Stage 3

Please place your student identification label in this box

Student Number: In figures

In words _____

_____

Time allowed for this paper

Reading time before commencing work: ten minutes
Working time for paper: three hours

Materials required/recommended for this paper

To be provided by the supervisor
This Question/Answer Booklet
Multiple-choice Answer Sheet

Number of additional answer booklets used (if applicable): ☐

To be provided by the candidate
Standard items: pens (blue/black preferred), pencils (including coloured), sharpener, correction fluid/tape, eraser, ruler, highlighters

Special items: non-programmable calculators approved for use in the WACE examinations

Important note to candidates

No other items may be taken into the examination room. It is **your** responsibility to ensure that you do not have any unauthorised notes or other items of a non-personal nature in the examination room. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

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Ref: 13-041

Structure of this paper

Section	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage of exam
Section One: Multiple-choice	24	24	35	24	24
Section Two: Data interpretation/ Short response	3	3	65	36	36
Section Three: Extended response	4	2	80	40	40
				Total	100

Instructions to candidates

1. The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2013*. Sitting this examination implies that you agree to abide by these rules.

2. Answer the questions according to the following instructions.

   Section One: Answer **all** questions on the separate Multiple-choice Answer Sheet provided. For each question, shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, then shade your new answer. Do not erase or use correction fluid/tape. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

   Sections Two and Three: Write your answers in this Question/Answer Booklet.

3. You must be careful to confine your responses to the specific questions asked and to follow any instructions that are specific to a particular question.

4. Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.
   - Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
   - Continuing an answer: If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question that you are continuing to answer at the top of the page.

Section One: Multiple-choice **24% (24 Marks)**

This section has **24** questions. Answer **all** questions on the separate Multiple-choice Answer Sheet provided. For each question, shade the box to indicate your answer. Use only a blue or black pen to shade the boxes. If you make a mistake, place a cross through that square, then shade your new answer. Do not erase or use correction fluid/tape. Marks will not be deducted for incorrect answers. No marks will be given if more than one answer is completed for any question.

Suggested working time: 35 minutes.

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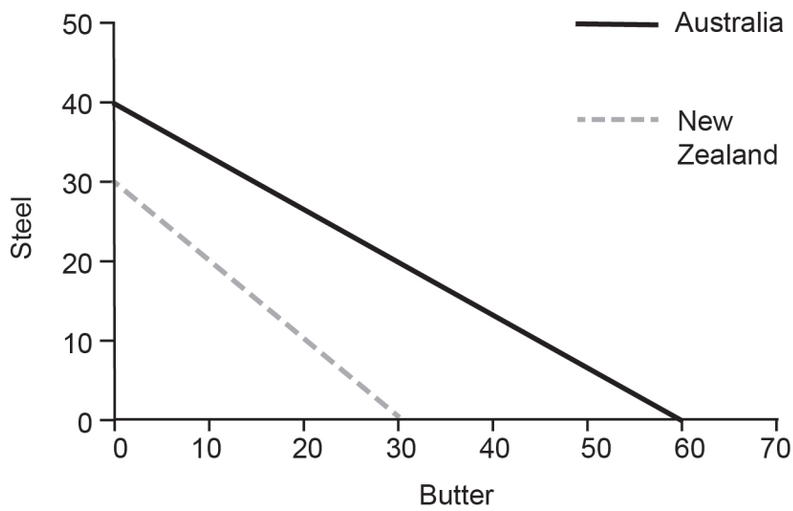
1. Which of the following is **not** likely to be associated with globalisation?

   (a) higher levels of protection against cheap foreign imports
   (b) an increase in exports as a proportion of nations' gross domestic product (GDP)
   (c) growth in the influence of multinational corporations
   (d) higher rates of economic growth for countries which increase their trade openness

2. This question is based on the graph below, which shows the production possibilities in Australia and New Zealand for butter and steel.



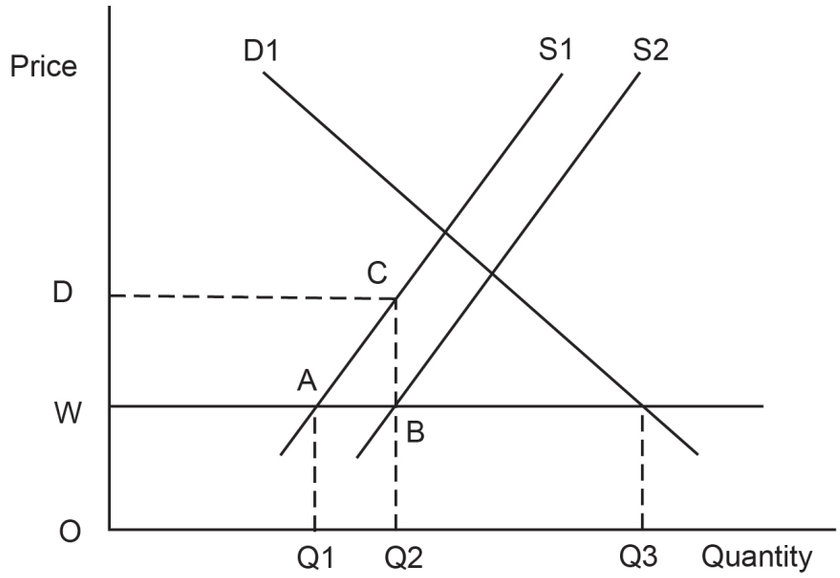
   Which of the following statements is correct?

   (a) Australia has a comparative advantage in both products.
   (b) New Zealand has a comparative advantage in steel.
   (c) It would be best for Australia to produce both products.
   (d) The opportunity cost of producing 1 unit of butter in Australia is 2 units of steel.

3. Which of the following combination of factors provides the best explanation for an increase in the volume of Australian imports?

(a) an appreciation of the Australian dollar and a high rate of inflation in China
(b) an appreciation of the Australian dollar and a high rate of domestic economic growth
(c) a depreciation of the Australian dollar and a low rate of domestic economic growth
(d) a depreciation of the Australian dollar and a high rate of economic growth in China

4. This question is based on the diagram below, which shows the domestic demand and supply for a particular traded product. (S1 = domestic supply without a subsidy, S2 = domestic supply with a subsidy and OW represents the world price.)



Which of the following statements relating to the introduction of a subsidy is **incorrect**?

(a) The total cost of the subsidy is DCBW.
(b) The increase in producer surplus is DCAW.
(c) There is a deadweight loss of CBA.
(d) Domestic production will increase to OQ3.

5. A potential benefit of trade liberalisation is that it will

(a) allow countries to specialise in goods in which they have the greatest opportunity cost.
(b) tend to lead to greater diversity in domestic production.
(c) reduce the level of the current account deficit in the short term.
(d) lead to higher living standards for domestic consumers.

6. Australia's main source of imports by value is _____, while the largest service export is _____ and _____ is the largest service import. Which of the following completes the statement above correctly?

(a) China, education, tourism
(b) China, iron ore, tourism
(c) China, education, freight services
(d) Japan, education, freight services

7. Which of the following items would be recorded as a debit on Australia's current account?

(a) a Chinese company purchasing a Western Australian wheat farm
(b) the sale of Australian wine to the United States of America
(c) interest paid on Australian Government bonds to overseas investors
(d) an increase in the number of foreign tourists entering Australia

8. This question refers to the information in the table below, which shows terms of trade data for a hypothetical economy.

Year	Export price index	Import price index
1	100	100
2	115	110
3	102	108

Which of the following statements is correct for this economy?

(a) In Year 2, import prices increased at a faster rate than export prices.
(b) The value of exports fell in Year 3.
(c) In Year 3, a given quantity of exports will buy a smaller quantity of imports.
(d) In Year 2, the value of exports from this economy decreased.

9. What is the **most** likely impact of a significant improvement in Australia's terms of trade?

(a) more imports can only be purchased with an increased volume of exports
(b) a depreciation in the value of the Australian dollar
(c) a decrease in the capital and financial account surplus
(d) the current account deficit will increase

10. If Australia experienced a significant appreciation in the value of its currency, likely effects would include

(i) a loss of competitiveness for domestic import competing firms.
(ii) an increase in interest servicing costs on foreign debt.
(iii) an increase in foreign capital inflow as it becomes cheaper to invest in Australia.
(iv) a fall in the number of Australian tourists travelling overseas.

(a) (i)
(b) (i), (ii) and (iii)
(c) (ii) and (iv)
(d) (i) and (iv)

11. Which of the following is **most** likely to increase the level of Australia's foreign debt in the short term?

(a) an appreciation of the Australian dollar
(b) a fall in the proportion of income saved by households
(c) an increase in the Federal Government budget surplus
(d) a fall in the current account deficit

12. Which one of the following events is likely to have an effect on aggregate demand that is different from the other three events?

(a) an increase in the income tax free threshold
(b) an appreciation of the Australian dollar
(c) an increase in the terms of trade
(d) an improvement in business expectations

13. This question is based on the hypothetical data in the table below.

Year	Unemployment rate (%)	CAD as % of GDP
2010	6.1	6.2
2011	5.3	5.4
2012	5.5	5.2
2013	6.5	3.5

From the information in the table above, which of the following events is **most** likely to have occurred in 2013?

(a) a fall in the level of consumer confidence
(b) an increase in the rate of economic growth
(c) an increase in the capital and financial account surplus
(d) a fall in the terms of trade

14. The consumption function will tend to shift upward as a result of an increase in the

(a) level of income.
(b) marginal propensity to save.
(c) level of consumer confidence.
(d) value of net exports.

15. Which of the following factors would shift the aggregate supply curve in an economy to the left?

(a) the implementation of competition policy, such as tariff reform
(b) an increase in world oil prices
(c) the implementation of a contractionary fiscal policy
(d) a cut in interest rates

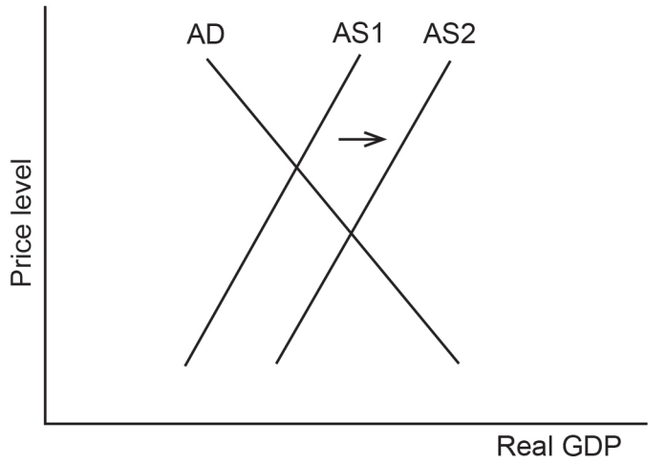
16. This question is based on the table below, which shows the aggregate income and consumption figures for a hypothetical economy.

Year	Income ($b)	Consumption ($b)
1	200	150
2	300	225

Calculate the new equilibrium level of income for Year 3 if investment falls by $20 billion.

(a) $380b
(b) $280b
(c) $220b
(d) $205b

17. This question refers to the diagram below.



The change shown in the diagram above is **most** likely to have been caused by

(a) the Federal budget changing from a deficit to a surplus.
(b) the Reserve Bank of Australia cutting the cash rate.
(c) increased competition in the provision of electricity in Australia.
(d) a fall in the value of the Australian dollar.

18. Which of the following statements is a likely consequence of a fall in the rate of economic growth in Australia?

(a) The Reserve Bank will increase interest rates in order to attract more foreign investment into Australia.
(b) There will be an increase in the labour force participation rate.
(c) There will be an increase in the current account deficit as a result of fewer goods being available for export.
(d) The budget deficit will increase as a result of falling tax revenues.

19. A government budget deficit may **not** have the expected expansionary impact on the economy when

(a) there was a surplus budget in the previous year.
(b) selling bonds to finance the deficit increases competition for loanable funds in the finance market.
(c) the majority of the additional government spending is directed to low income welfare recipients.
(d) the Reserve Bank has reduced interest rates in the same period.

20. Which of the following is an example of discretionary fiscal policy?

(a) a cut in the rate of company tax from 30 per cent to 29 per cent
(b) an increase in welfare spending as a result of higher cyclical unemployment
(c) lower revenue from the minerals resource rent tax due to falling commodity prices
(d) a fall in company tax collections due to falling profit levels

21. Which of the following is an objective of monetary policy, as defined by the Reserve Bank Act?

(a) maintaining and improving the economic welfare of the people of Australia
(b) maintaining the stability of the Australian currency by reducing fluctuations in the exchange rate
(c) achieving an efficient allocation of resources within the Australian economy
(d) reducing the level of the current account deficit

22. A decrease in the cash rate is likely to lead to

(a) an increase in aggregate expenditure and a fall in asset prices.
(b) a decrease in aggregate expenditure and an increase in the exchange rate.
(c) an increase in aggregate expenditure and an increase in asset prices.
(d) a decrease in aggregate expenditure and a decrease in the exchange rate.

23. Which of the following **best** describes the ability of an economy to produce goods and services using resources with the least opportunity cost?

(a) technical efficiency
(b) productive efficiency
(c) dynamic efficiency
(d) allocative efficiency

24. Which of the following is **not** an example of a government induced source of structural change?

(a) reduced levels of protection
(b) taxation reform
(c) deregulation of the labour market
(d) technological change

End of Section One

Section Two: Data interpretation/Short response **36% (36 Marks)**

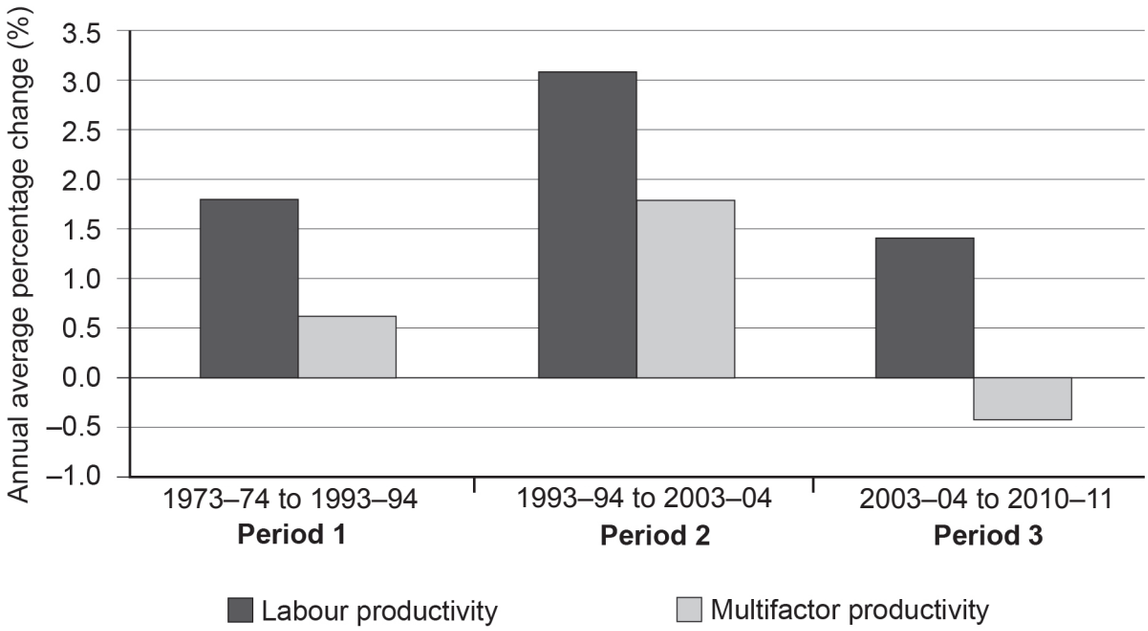
This section contains **three (3)** questions. Answer **all** questions. Write your answers in the spaces provided.

Spare pages are included at the end of this booklet. They can be used as additional space if required to continue an answer. If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question that you are continuing to answer at the top of the page.

Suggested working time: 65 minutes.

Question 25 **(12 marks)**

Australia's productivity growth, 1973–74 to 2010–11



(a) (i) What was the annual average percentage change (to **one** decimal place) in Australia's labour productivity in **Period 3** (2003–04 to 2010–11)? (1 mark)

_____

(ii) Between **Period 2** and **Period 3**, annual average multifactor productivity changed

by _____ percentage points. (1 mark)

(b) Explain why the change in labour productivity between **Period 2** and **Period 3** is a cause of concern for the Australian economy. (4 marks)

Question 25 (continued)

(c) Explain how fiscal policy and microeconomic reform can be used to increase labour productivity. (6 marks)

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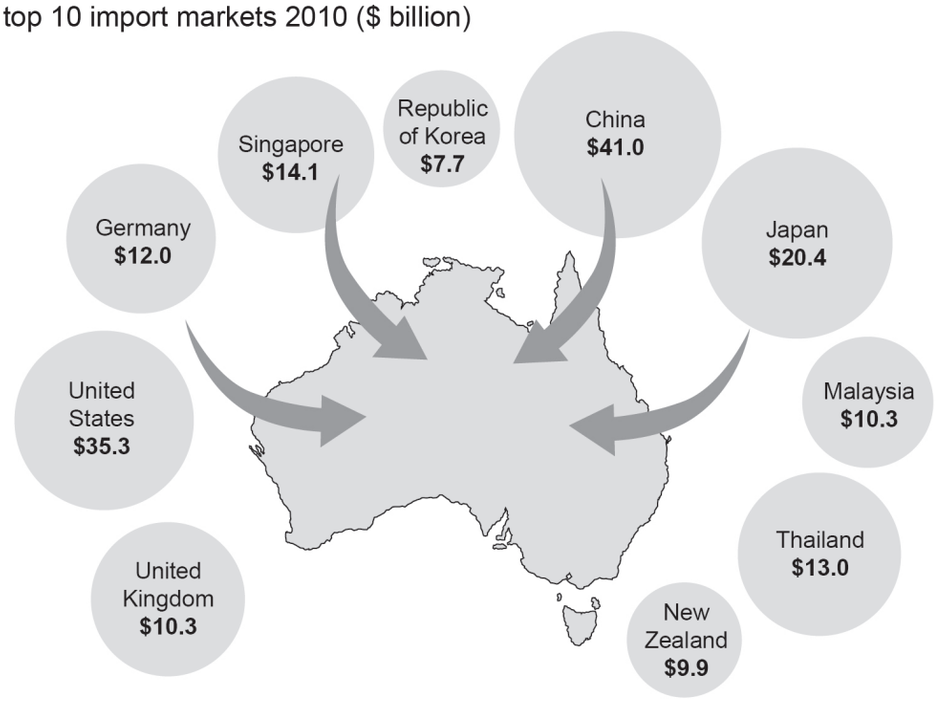
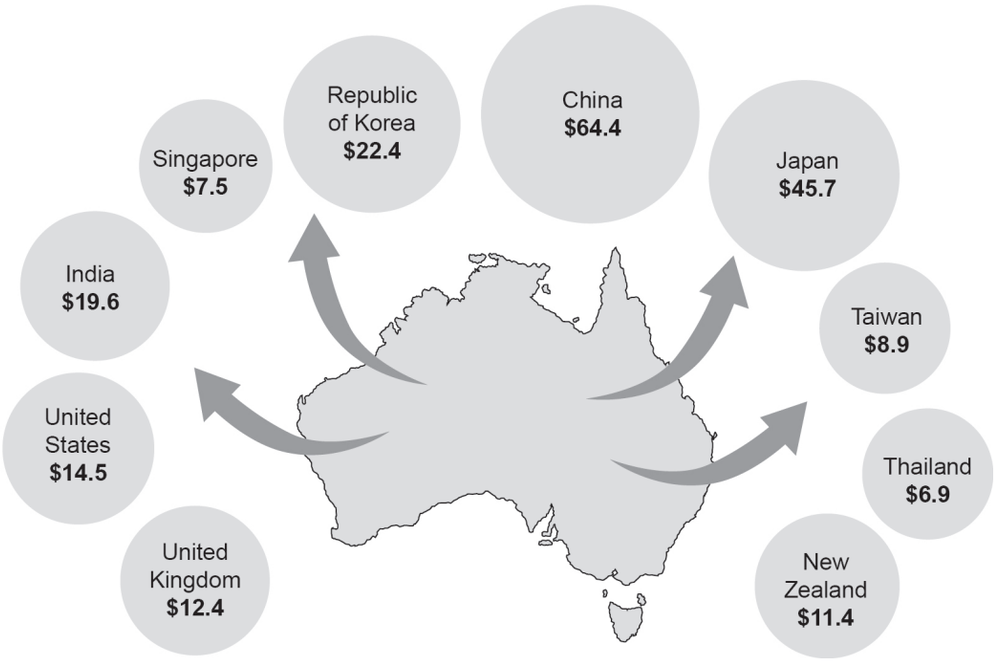
Question 26 **(12 marks)**

Australia's trading partners, 2010

Australia's top 10 import markets 2010 ($ billion)



Australia's top 10 export markets 2010 ($ billion)



(a) (i) Which country is Australia's third largest trading partner? (1 mark)

(ii) With which of the countries listed in both the top 10 import markets and top 10 export markets does Australia have a trade deficit? (1 mark)

(b) Describe the factors that have contributed to Australia being a major exporter to China. (4 marks)

Question 26 (continued)

(c) Describe the advantages to Australia of the increased linkages among the countries in the Asia-Pacific region in recent decades. (6 marks)

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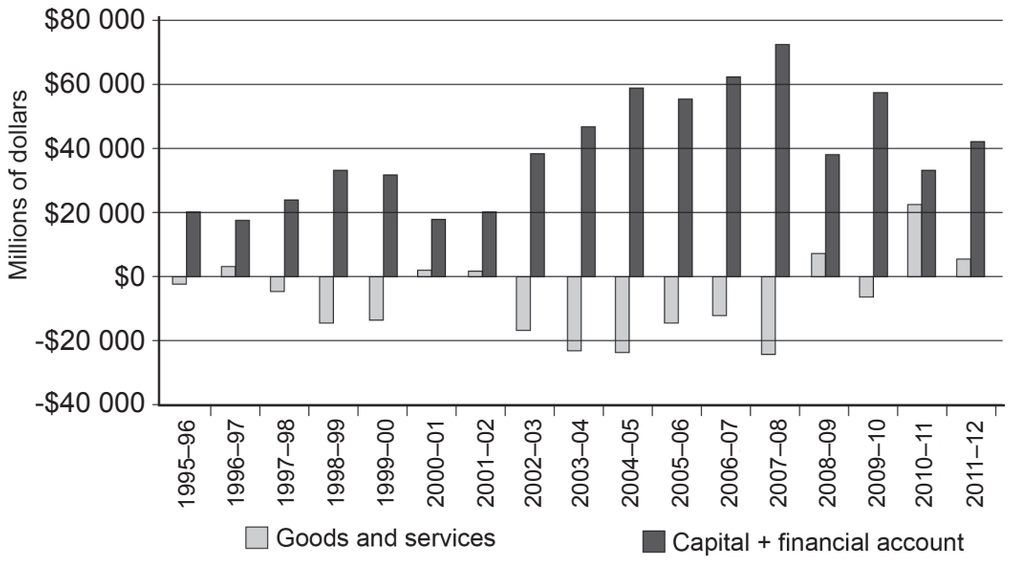
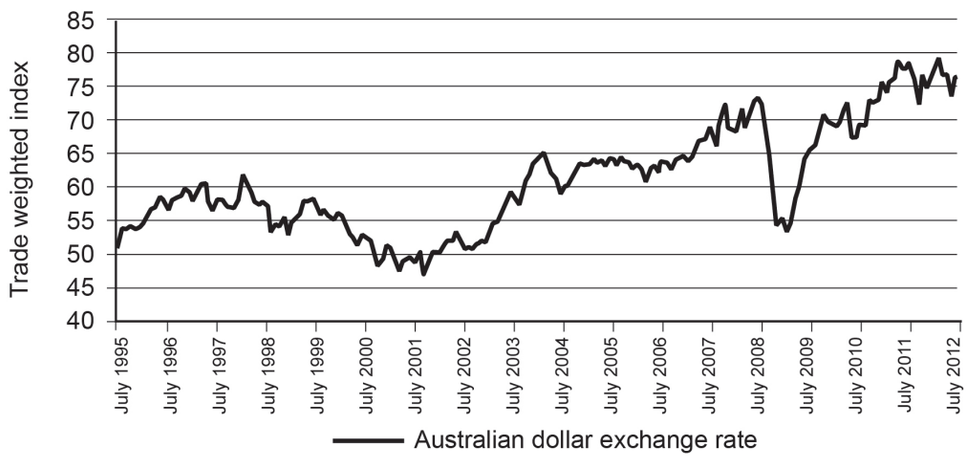
Question 27 **(12 marks)**

Australia's balance of payments and exchange rate, 1995 to 2012





(a) (i) What was the value of Australia's current account balance in 2006–07? (1 mark)

(ii) In 2010–11, both the goods and services balance and the capital + financial account balance were positive. Given that the balance of payments sums to zero, explain how this could occur. (2 marks)

(b) Describe and explain the relationship between the change in net capital inflow and the change in the exchange rate from 2000–01 to 2006–07. (4 marks)

Question 27 (continued)

(c) Explain how changes in domestic interest rates affect the goods and services balance.
(5 marks)

End of Section Two

Section Three: Extended response **40% (40 Marks)**

This section contains **four (4)** questions. Answer **two (2)** questions. Write your answers in the lined pages provided and number your answers clearly.

Pages are included at the end of this booklet for planning and writing your answer.

- Planning: If you use the pages for planning, indicate this clearly at the top of the page.
- Answering the question: In the pages provided indicate clearly the number of the question you are answering.

Suggested working time: 80 minutes.

Question 28 **(20 marks)**

(a) From early 2012 to mid 2013, the Australian dollar was strong against most other major currencies. Using examples, describe the impact this had on the Australian economy. (10 marks)

(b) Explain why the value of the Australian dollar remained relatively strong in the second half of 2012, a period that saw a significant fall in commodity prices. (10 marks)

Question 29 **(20 marks)**

Discuss the causes and effects of Australia's persistent current account deficit.

Question 30 **(20 marks)**

In 2010–11 and 2011–12, the Australian Government ran budget deficits of $54.5 billion and $47.5 billion respectively. In 2012–13, the Government ran another budget deficit of $43.4 billion. Furthermore, in July 2010, the cash rate was 4.5%, and since then has been lowered to 2.5% as of August 2013.

(a) Describe the economic conditions in Australia that led to these policy stances. (8 marks)

(b) Using a diagram/s, show how these policies can help the Government achieve its internal economic objectives. (12 marks)

Question 31 **(20 marks)**

Describe the causes of the business cycle and the effects of the boom phase of the business cycle on the Australian Government budget outcome, business investment and imports and exports.

End of questions

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Additional working space

Additional working space

ACKNOWLEDGEMENTS

Section Two

Question 25

Data source: Decomposition of trend productivity growth (Table 1). In D'Arcy, P., & Gustafsson, L. (2012, June). Australia's productivity performance and real incomes. *Reserve Bank of Australia Bulletin*, pp. 23–35. Retrieved February 20, 2013, from www.rba.gov.au/publications/bulletin/2012/jun/pdf/bu-0612-3.pdf

Question 26

Images adapted from: Department of Foreign Affairs and Trade. [n.d.). *Trade at a glance 2011.* Barton, ACT: Department of Foreign Affairs and Trade, pp. 6–9. Retrieved March 4, 2013, from www.dfat.gov.au/publications/trade/trade-at-a-glance-2011.pdf
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Question 27

Data source: Reserve Bank of Australia. (n.d.). *Statistical tables* (H1 Balance of payments – Current account). Sydney: Reserve Bank of Australia. Retrieved March 4, 2013, from www.rba.gov.au/statistics/tables/index.html#balance_payments

Data source: Reserve Bank of Australia. (n.d.). *Statistical tables* (H2 Balance of payments – Financial account). Sydney: Reserve Bank of Australia. Retrieved March 4, 2013, from www.rba.gov.au/statistics/tables/index.html#balance_payments

Data source: Reserve Bank of Australia. (n.d.). *Statistical tables* (F11 – Exchange rates – Monthly). Sydney: Reserve Bank of Australia. Retrieved March 4, 2013, from www.rba.gov.au/statistics/tables/index.html#exchange_rates

Section Three

Question 30

Data source: Coorey, P. (2013, August 3). Labor's go-for-broke election. *AFR Weekend,* pp. 1, 4.

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