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

ATAR course examination, 2018

Question/Answer booklet

ECONOMICS

Student number: In figures

In words

Number of additional
answer booklets used
(if applicable):

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

Materials required/recommended for this paper
To be provided by the supervisor
This Question/Answer booklet
Multiple-choice answer sheet

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 this examination

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 material. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

Ref: 18-023

ECO

Structure of this paper

Section	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage of examination
Section One Multiple-choice	24	24	30	24	24
Section Two Data interpretation/ Short answer	3	3	70	36	36
Section Three Extended answer	4	2	80	40	40
				Total	100

Instructions to candidates

1.   The rules for the conduct of the Western Australian external examinations are detailed in the *Year 12 Information Handbook 2018*. Sitting this examination implies that you agree to abide by these rules.

2.   Write your answers in this Question/Answer booklet preferably using a blue/black pen. Do not use erasable or gel pens.

3.   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. Do not use erasable or gel pens. 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.

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

5.   Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

DO NOT WRITE IN THIS AREA AS IT WILL BE CUT OFF

**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. Do not use erasable or gel pens. 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: 30 minutes.

1. Which of the following is a feature of recent trends in global trade?

    (a) The global financial crisis increased the rate of growth in world trade.
    (b) India has become the world's largest exporter.
    (c) Global supply chains have become more integrated.
    (d) Services are now worth more than merchandise in world trade.

2. A significant rise in living standards would be likely if a nation

    (a) increased trade protection for local producers.
    (b) reduced the level of foreign investment to avoid a build-up of foreign debt.
    (c) reduced trade barriers, regardless of what other nations did.
    (d) promoted greater self-sufficiency to reduce the cost of imports.

3. This question is based on the graph below, which shows the production possibilities in Australia and Japan for beef and corn.
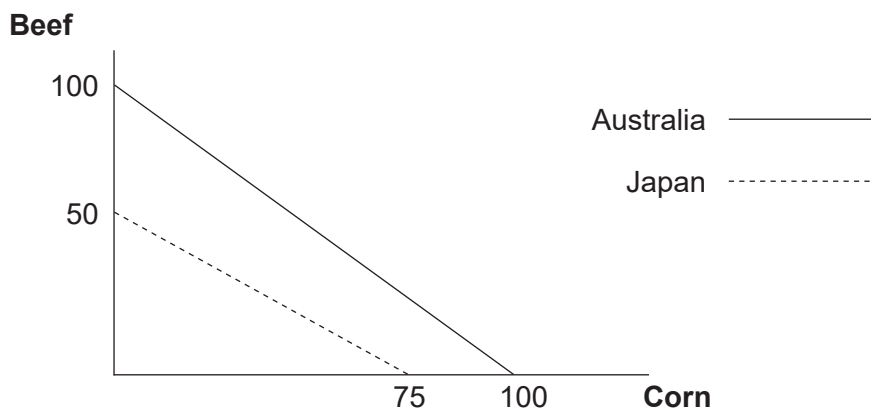

    Which of the following statements is correct?

    (a) Australia has a comparative advantage in both products.
    (b) Japan has a comparative advantage in corn.
    (c) Australia would not benefit from trade with Japan.
    (d) The opportunity cost of producing 1 unit of beef in Japan is 0.75 units of corn.

4. If a country has an absolute advantage over another country in the production of a good, it

    (a) can produce more output of that good at a lower opportunity cost.
    (b) can produce more output from a given quantity of inputs.
    (c) can use more resources to produce a given quantity of outputs.
    (d) must have a comparative advantage as well.

5. A likely effect of the imposition of tariffs on steel imports by the United States is

    (a) lower costs for American consumers when they purchase domestically-produced goods.
    (b) greater international competitiveness of the American steel industry.
    (c) a net increase in employment in American manufacturing industries.
    (d) reduced exports for other American producers, who face higher costs.

6. What would be the effect on the quantity consumed and the price in the domestic market if this economy opened up to world trade?

    Pw represents the world price. Pe represents the domestic price.
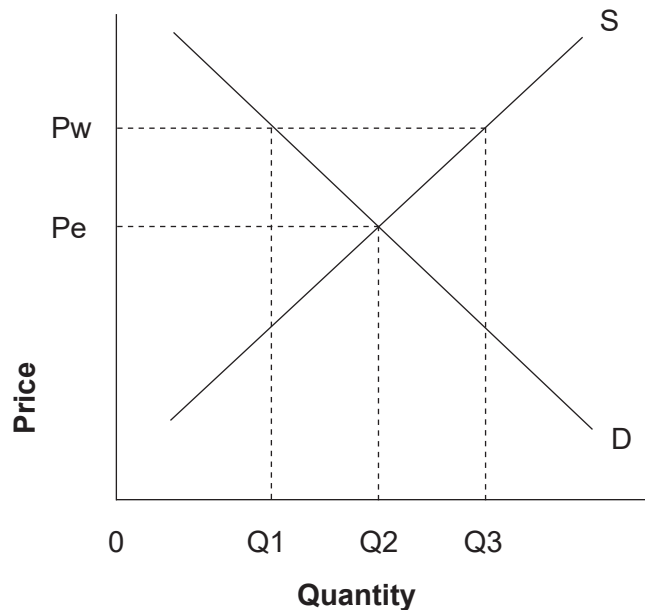
    (a) Consumption would fall from Q2 to Q1 and the price would rise from Pe to Pw.
    (b) Consumption would rise from Q1 to Q3 and the price would be constant at Pw.
    (c) Consumption would fall from Q3 to Q2 and the price would fall from Pw to Pe.
    (d) Consumption would not change from Q1 and the price would remain at Pe.

7. Which of the following statements relating to Australia's pattern of trade is correct?

    (a) Australia is the largest agricultural exporter in the world.
    (b) Clothing and footwear is the main import category.
    (c) Australia's major service export is education.
    (d) The value of primary goods exports is less than manufactured goods exports.

See next page

8.   The purchasing of shares in an Australian company by an overseas resident would be recorded in Australia's balance of payments as a

    (a)   credit in the financial account.
    (b)   credit in the net income account.
    (c)   debit in the transfers account.
    (d)   credit in the capital account.

9.   In 2011, Australia's terms of trade peaked at 136.6. Early in 2016, the index had fallen to 87.9 and then recovered to stand at 115.1 in January 2018. The main reason for these changes has been

    (a)   volatility in the price paid for merchandise imports from Asian manufacturers.
    (b)   the changing supply and demand for agricultural exports.
    (c)   variation in the value of the Australian dollar.
    (d)   changes in the level of demand for the commodities that Australia exports.

10.   The exchange rate determines

    (a)   how many Australian dollars must be paid by the exporter to give the foreign importer the sum asked for the goods.
    (b)   how many goods the foreign exporter receives from the domestic importer.
    (c)   the extent of changes in the terms of trade.
    (d)   how many Australian dollars must be paid by the importer to give the foreign exporter the sum asked for the goods.

11.   In 2018, the United States official interest rate rose above the Reserve Bank of Australia's cash rate for the first time in 18 years. This would **most** likely cause

    (a)   an appreciation of the Australian dollar.
    (b)   a decline in the value of merchandise trade between the two nations.
    (c)   an increase in foreign investment into Australia.
    (d)   a depreciation of the Australian dollar.

12.   Which of the following is likely to decrease the level of Australia's foreign debt in the long term?

    (a)   a cyclical increase in the government's budget deficit
    (b)   an increase in the domestic savings rate
    (c)   a depreciation of the Australian dollar
    (d)   an increase in the level of consumption

13.   During the downswing phase of the business cycle, which of the following pairs of events would **most** likely occur?

    (a)   lower levels of confidence and a higher savings rate
    (b)   higher levels of cyclical unemployment and relatively high levels of borrowing
    (c)   low levels of cyclical unemployment and higher labour force participation
    (d)   declining interest rates and increasing business investment levels

See next page

14. The contemporary Australian economy has been characterised by which of the following economic trends?

    (i)   an increasing current account deficit
    (ii)   below-average economic growth
    (iii)   high inflation
    (iv)   weak consumer confidence

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

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

Year	CPI	CAD as % of GDP
2015	107.2	2.5
2016	109.8	2.9
2017	113.9	4.0

    From the information in the table above, which of the following is **most** likely to have occurred in 2017?

    (a)   an increase in business investment
    (b)   a reduction in interest rates
    (c)   a rise in the unemployment rate
    (d)   a cyclical increase in the budget deficit

16. The contribution of net exports to aggregate expenditure is likely to fall when the

    (a)   terms of trade rises.
    (b)   overseas economic growth rate rises.
    (c)   domestic economic growth rate rises.
    (d)   value of the Australian dollar falls.

17. An increase in the level of investment in an economy, with a marginal propensity to consume of 0.8, leads to a total increase in national income of $350 million. What was the value of the change in investment?

    (a) $35 million
    (b) $70 million
    (c) $120 million
    (d) $280 million

18. This question relates to the graph below.
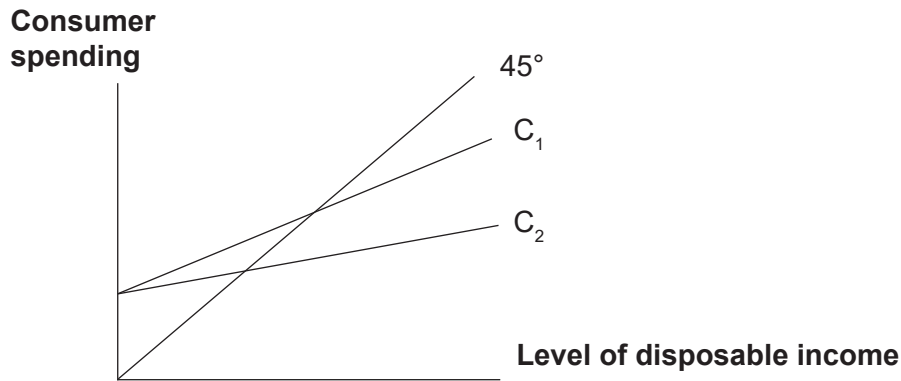
The change in the slope of the consumption function from C_1 to C_2 represents

(a) a decrease in the marginal propensity to save.
(b) an increase in the marginal propensity to consume.
(c) an increase in the size of the multiplier.
(d) a decrease in the size of the multiplier.

19. All other things being equal, which of the following events would cause an economy's aggregate supply curve to shift to the left?

(a) an increase in wage rates
(b) an increase in imports
(c) an increase in exports
(d) an increase in labour productivity

20. Which of the following is likely to occur if aggregate demand grows at a faster rate than aggregate supply in an economy close to full capacity?

(a) There will be no change in the output or price levels.
(b) The output level and the price level will both increase at the same rate.
(c) The price level will rise at a quicker rate than the output level.
(d) The output level will rise at a quicker rate than the price level.

21. Which of the following are the largest expenditure and revenue categories respectively in the Australian federal budget?

(a) education and company tax
(b) social security and welfare and income tax
(c) health and the goods and services tax (GST)
(d) defence and social security

See next page

22.   If the Australian economy is experiencing high unemployment and an inflation rate that is below the Reserve Bank of Australia's target, it is **most** likely to implement

(a)   expansionary fiscal and monetary policies.
(b)   contractionary fiscal and monetary policies.
(c)   expansionary fiscal policy and contractionary monetary policy.
(d)   contractionary fiscal policy and expansionary monetary policy.

23.   The cash rate, used as the main tool of monetary policy, is determined by the

(a)   buying and selling of cash bonds on the share market.
(b)   interaction of the Reserve Bank of Australia (RBA) with the Commonwealth Government.
(c)   demand and supply of overnight funds between financial institutions and the RBA.
(d)   demand and supply of loanable funds by firms, households and the government in the money market.

24.   One strength of fiscal policy compared with monetary policy is that fiscal policy

(a)   will have a shorter effect lag.
(b)   is less likely to target individual sectors of the economy.
(c)   is more effective in an economy operating at close to full capacity.
(d)   is set independently by the Reserve Bank of Australia.

End of Section One

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

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

Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

Suggested working time: 70 minutes.

Question 25   **(12 marks)**

This question refers to the edited extract below, which is from an article written by Giovanni Di Lieto and David Treisman in *The Conversation* on July 12, 2017.

For copyright reasons this extract cannot be reproduced in the online version of this document, but may be viewed at
https://theconversation.com/three-charts-on-g20-countries-stealth-trade-protectionism-80678

(a)   (i)   Identify the difference in value between Australian imports from the United States (US) and Australian exports to the US.   **(1 mark)**

Question 25 (continued)

    (ii)   Describe how an 'import quota' operates as a form of trade protection.   (1 mark)

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    (iii)   State the aim of a 'bilateral trade agreement'.   (1 mark)

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(b)   Use the demand and supply model, and evidence from the article, to explain and demonstrate how Australian consumers benefit from trade liberalisation.   (4 marks)

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Model

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(c)   Explain how the operation of a subsidy reduces market efficiency. Draw an appropriate
      model to support your answer.   (5 marks)

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Model

Question 26 (12 marks)

This question refers to the table below, which shows Australia's balance of payments and international investment position.

	Sep Qtr 2015 $m	Sep Qtr 2017 $m
Balance on the current account (seasonally adjusted)	−19 699	−9 125
Balance on goods and services (seasonally adjusted)	−7 438	3 056
Net primary income	−10 054	−11 968

Net foreign liability	922 771	
Net foreign equity	−70 989	−30 850
Net foreign debt	993 760	989 699

(a) (i) Calculate Australia's net foreign liability for the September Quarter 2017. (1 mark)

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(ii) Identify the category in the table that explains the change in the current account balance. (1 mark)

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(b) With reference to the table, identify and explain the structural reason for Australia's current account deficit. (3 marks)

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(c) Distinguish between foreign debt and foreign equity and, with reference to the table, suggest **one** possible reason for the difference in their **net** totals. (3 marks)

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(d) Evaluate the claim that the level of foreign debt in Australia is too high. (4 marks)

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Question 27 (12 marks)

This question refers to the extract and graph from the Productivity Commission shown below.

The recent trend in income per capita — effectively the contents of people's wallets — is far below that in the decades that preceded it. Part of this is due to the decline in the terms of trade. But in the decade from 1988, strong growth in disposable incomes without higher terms of trade was possible because multifactor productivity contributed to high growth.

Whilst the trend in Australia's labour productivity since 2007 has not deviated much from the average historical rate over the past 40 years, this has almost entirely reflected the contribution of one production factor — more physical capital. The dividend known as multifactor productivity (MFP), has fallen away since 2002.

Australia's long-run productivity trends
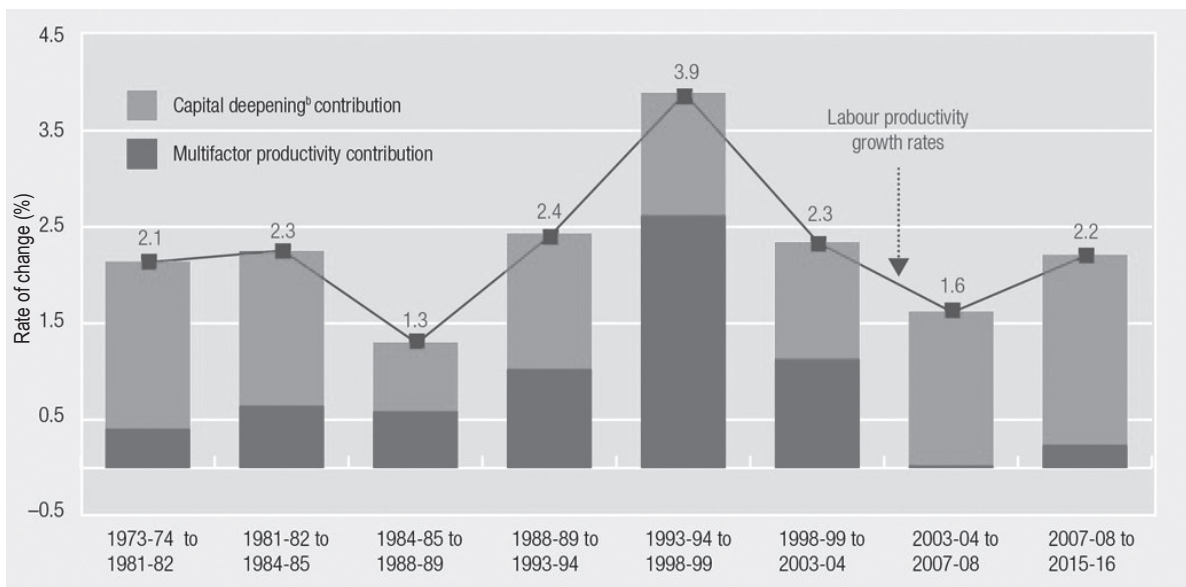
(a) (i) Identify the five-year time period in which Australia experienced the fastest annual change in labour productivity. (1 mark)

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(ii) What was the contribution of capital deepening to the total productivity rate in the last time period on the graph (2007–08 to 2015–16)? (1 mark)

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(iii) Apart from productivity, what is the other main influence on income per capita according to the extract? (1 mark)

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See next page

(b)   Distinguish between 'labour productivity' and 'multifactor productivity'.   (2 marks)

(c)   Outline **two** government policies that may have contributed to the improvement in labour productivity from 2007–08 to 2015–16.   (2 marks)

See next page

Question 27 (continued)

(d)   Using the aggregate demand and aggregate supply (AD/AS) model, demonstrate and
explain how an improvement in productivity can assist the government in achieving
economic growth, low inflation and full employment.   (5 marks)

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End of Section Two

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

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

Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

Suggested working time: 80 minutes.

Question 28 **(20 marks)**

In 2018, United States (US) President Donald Trump announced a range of trade protection measures. His arguments for this action were to improve US national security, stop importers 'dumping' products in the US market, increase US employment, and reduce the US trade deficit.

(a)   Evaluate the economic validity of the President's arguments for trade protection.

(12 marks)

(b)   Unlike the US, Australia regularly records a trade surplus. Explain the reasons for this trade surplus, with reference to the direction and composition of Australia's trade.

(8 marks)

Question 29 **(20 marks)**

(a)   Explain and demonstrate, using the demand and supply model, **two** factors that have caused fluctuations in the value of the Australian dollar over the last decade.   (10 marks)

(b)   Analyse the likely effects of a large depreciation of the value of the Australian dollar on consumers, producers and the macroeconomy.   (10 marks)

Question 30 **(20 marks)**

(a)   Explain and demonstrate, using an aggregate expenditure (AE) model, how an economy would move towards macroeconomic equilibrium if output was greater than spending.

(8 marks)

(b)   Describe the main characteristics of the trough phase of the business cycle and explain why this phase is unlikely to last indefinitely.   (12 marks)

Question 31 **(20 marks)**

The Australian Government's planned budget outcome for 2017–18 was a deficit of −1.6% of GDP. The mid-year budget update revised the budget outcome to −1.3% of GDP. The underlying cash balance had improved by $9.3 billion.

Account for the difference in the budget outcomes and explain the likely government fiscal policy stance if the economy reached a level beyond that required for full employment. Use an aggregate demand and aggregate supply (AD/AS) model to support your answer.

End of questions

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Supplementary page

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