



ECONOMICS SEMESTER 2 EXAMINATION

Student Number: in figures

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In words:

Time allowed for this paper

Reading time before commencing work: ten minutes

Working time for paper: three (3) 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 materials. If you have any unauthorised material with you, hand it to the supervisor **before** reading any further.

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 response	3	3	70	36	36
Section Three: Extended response	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.

Section One: Multiple Choice

(24 Marks)

This section has **24** questions. Answer **all** questions on the separate Multiple-choice Sheet.

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: **30** minutes.

1. Other things being equal, Australia's international competitiveness would be improved by an increase in which of the following?
 - a) Australian inflation
 - b) Aggregate supply in Australia
 - c) Australian government spending on family benefits.
 - d) The value of the Australian dollar

2. Which of the following is (are) likely to benefit the export performance of an economy?
 - i. Increase in trade openness of an economy.
 - ii. Increase in foreign investment.
 - iii. A decrease in the value of a country's currency relative to another country's currency.
 - iv. An increase in tariffs on imports.
 - a) i, ii and iii.
 - b) ii and iv.
 - c) i and iii.
 - d) i, ii and iii and iv.

3. Which of the following is true about Australia's import pattern?
 - a) Share of personal travel and passenger motor vehicles has risen.
 - b) Share of agricultural imports has risen.
 - c) Share of imports from Asia has decreased.
 - d) Japan continues to be Australia's most important source for imports.

4. The question refers to the table below, which shows the number of hours required to produce one unit of a particular good in two countries.

	Wine	Cheese
Country A	8	16
Country B	32	20

In relation to the table above, which of the following statements is correct?

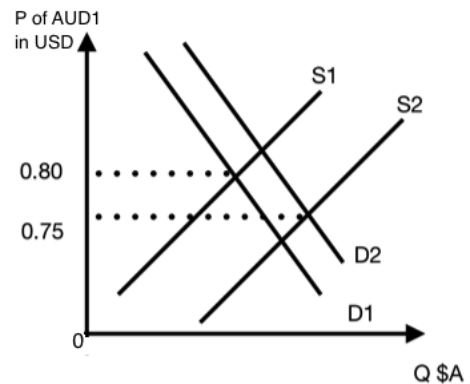
- a) Country A has a comparative advantage in cheese making.
 - b) Country A has a comparative advantage in wine making.
 - c) Country B only has an absolute advantage in wine making.
 - d) Country B has an absolute advantage in both wine and cheese making.
5. An Australian investor purchases 25% equity (shares) in a company in Indonesia and receives quarterly dividend payments. These dividends are recorded in the Balance of Payments as:
- a) credit in the financial account and a debit in the income account respectively.
 - b) debit in the financial account and a debit in the income account respectively.
 - c) credit in the financial account and a credit in the income account respectively.
 - d) debit in the financial account and a credit in the income account respectively.
6. All other things being equal, which of the following is most likely to cause a decrease in Australia's current account deficit?
- a) A decrease in national savings
 - b) An increase in the Government's budget deficit
 - c) A decrease in interest rates
 - d) A decrease in national investment
7. Assume Australia was considering imposing a tariff on solar panels imported from China. Which of the following groups would gain from this tariff?
- i. Australian consumers of solar panels
 - ii. Australian producers of solar panels
 - iii. Chinese producers of solar panels
- a) i only.
 - b) i and ii only.
 - c) ii only.
 - d) i and iii only.

8. Which of the following is likely to occur if there is a considerable improvement in Australia's Terms of Trade Index?

- The trade balance increases, the federal budget balance increases and the Australian dollar appreciates.
- The trade balance decreases, the federal budget balance increases and the Australian dollar appreciates.
- The trade balance increases, the federal budget balance increases and the Australian dollar depreciates.
- The trade balance decreases, the federal budget balance increases and the Australian dollar depreciates.

9. Assuming a floating exchange rate system, which of the following would have caused the value of Australian dollar to change from 0.80c USD to 0.75c USD?

- An increase in terms of trade and an increase in economic growth rate in Australia.
- A decrease in interest rate differential and a decrease in imports into Australia.
- An increase in interest rate in Australia and a decrease in imports into Australia.
- An increase in China's growth rate and a decrease in economic growth in Australia.



10. If the Australian interest rate differential rises, then the supply of Australian dollars _____ and the demand for Australian dollars _____.

- increases; increases
- increases; decreases
- decreases; increases
- decreases; decreases

11. If foreign investment in Australia decreases and Australia's overseas assets increases, then

- a) Australia's net foreign liabilities will increase and net income balance will decrease.
- b) Australia's net foreign liabilities will decrease and net income balance will decrease.
- c) Australia's net foreign liabilities will decrease and net income balance will increase.
- d) Australia's net foreign liabilities will increase and net income balance will increase.

12. Which of the following statements is correct?

- a) Both foreign investment and foreign debt lead to an increase in foreign ownership of Australian assets.
- b) An increase in foreign investment in Australia increases the current account deficit but an increase in foreign debt is likely to decrease the current account deficit.
- c) An increase in foreign investment in Australia increases the nation's capital stock.
- d) Most of the foreign direct investment in Australia is in its export sectors.

13. Which of the following are the likely features of an economy with a strong recovery?

- i. Increase in hours worked
 - ii. High demand-pull inflation
 - iii. An increase in vacancy rates in commercial buildings
 - iv. Increase in import of goods and services
- a) i, ii and iii.
 - b) i, ii and iv.
 - c) i, ii, iii and iv.
 - d) i, iii and iv.

14. Which one of the following components of aggregate expenditure is the most unstable?
- a) Private investment expenditure
 - b) Private consumption expenditure
 - c) Government investment expenditure
 - d) Government consumption expenditure
15. If the marginal propensity to consume is very close to zero, then the multiplier
- a) is very close to zero.
 - b) is very close to one.
 - c) is very large.
 - d) cannot be calculated.
16. An income tax cut _____ aggregate demand and _____ aggregate supply.
- a) increases; increases
 - b) increases; decreases
 - c) decreases; increases
 - d) decreases; decreases
17. If Government increases its spending on transport infrastructure then:
- a) aggregate demand and aggregate supply will increase and the change in price level will be indeterminate.
 - b) aggregate demand and aggregate supply will increase and the change in price level will increase.
 - c) aggregate demand will increase and the long run aggregate supply will remain the same and there will be no change in the price level.
 - d) aggregate demand will decrease and aggregate supply will increase and the change in price level will be indeterminate.
18. The cyclical deficit is the portion of the budget deficit
- a) that is the result of nondiscretionary federal spending.
 - b) that would exist if the economy were at full employment.
 - c) that is the result of discretionary federal spending.
 - d) created by fluctuations in real GDP.

19. When comparing a \$10 billion increase in government expenditure to a \$10 billion decrease in tax revenue, the effect of the increase in government expenditure on aggregate demand
- a) is less than the effect of the tax decrease.
 - b) is equal to the effect of the tax decrease.
 - c) is greater than the effect of the tax decrease.
 - d) will depend on the marginal propensity to consume.
20. If the government increases taxes by \$10m and simultaneously increases government spending by \$8m, then overall:
- a) Unemployment levels in the economy will rise.
 - b) there will be no change in level of real GDP.
 - c) the unemployment levels in the economy will fall.
 - d) there will be a decrease in the level of real GDP.
21. If the AE curve intersects the 45° line at a level of real GDP that exceeds potential (full employment) GDP, then the appropriate monetary policy is one that _____ the cash rate and _____ aggregate demand.
- a) raises; increases
 - b) raises; decreases
 - c) lowers; increases
 - d) lowers; decreases
22. The Reserve Bank raises the cash rate. Which of the following changes occurs most rapidly?
- a) The AUD exchange rate rises.
 - b) Consumption expenditure decreases.
 - c) Real GDP growth decreases.
 - d) Inflation rate decreases.

23. Which of the following is most likely to slow positive structural change in an economy?

- a) Government spending on National Broadband Network.
- b) Increase in trade openness as a result of free trade agreements.
- c) An increase in interest rates (cash rate) in the economy.
- d) Increase in global supply chains.

24. Which one of the following is likely to decrease productivity?

- a) labour skills training
- b) innovation in work practices
- c) investment in physical capital
- d) increasing industry subsidies

End of Section 1

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

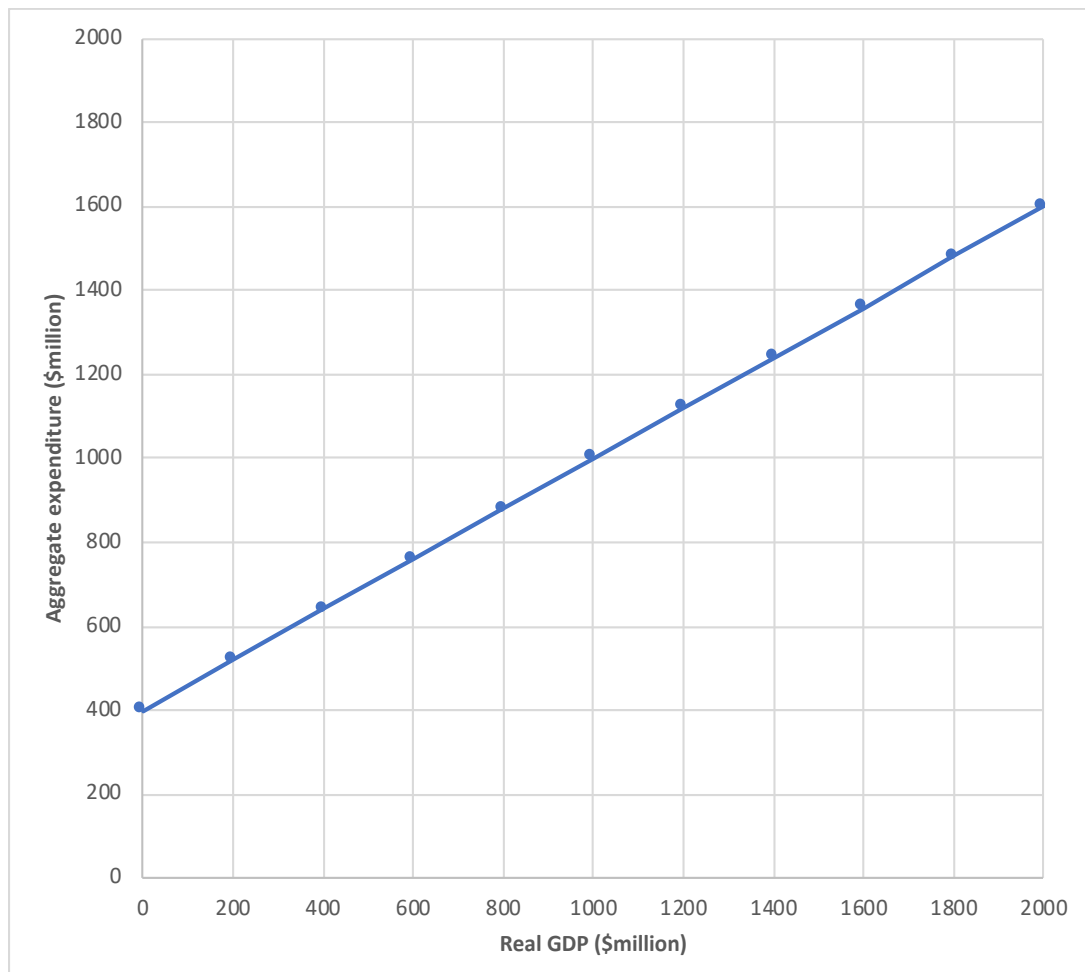
This section contains **three (3)** questions. Answer **all** questions. Write your answers in the spaces provided.

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(s) that you are continuing to answer at the top of the page.

Suggested working time: **70** minutes.

Question 25**(12 marks)**

Refer to the Aggregate Expenditure (AE) model below:



(a) (i) What is the level of autonomous expenditure? (1 mark)

(ii) What is the equilibrium level of real GDP? (1 mark)

(b) Calculate the value of the marginal propensity to consume (mpc) and the value of the multiplier. (2 marks)

(c) If the level of real GDP was \$1400 billion, explain the process by which the economy would reach equilibrium. (3 marks)

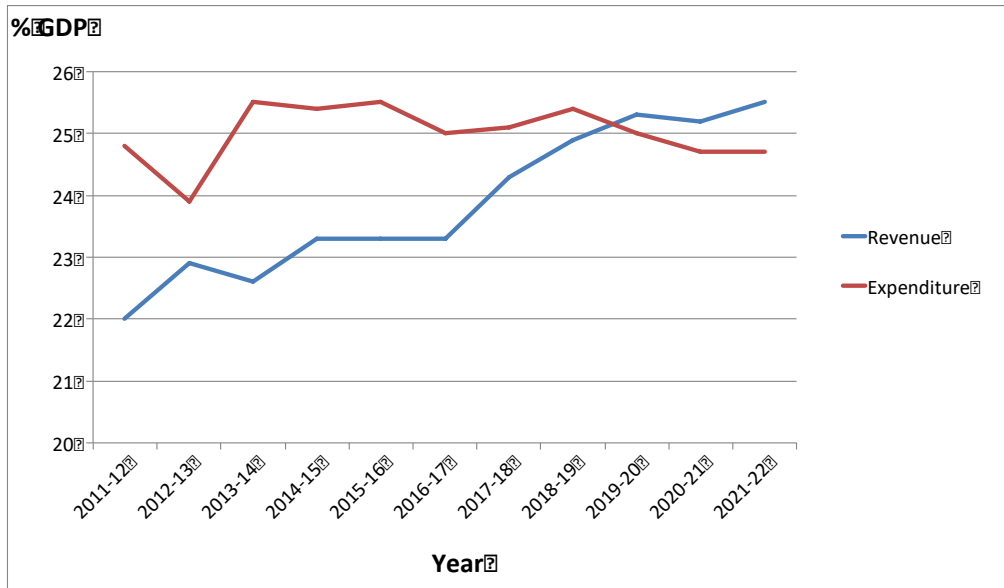
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Question 26

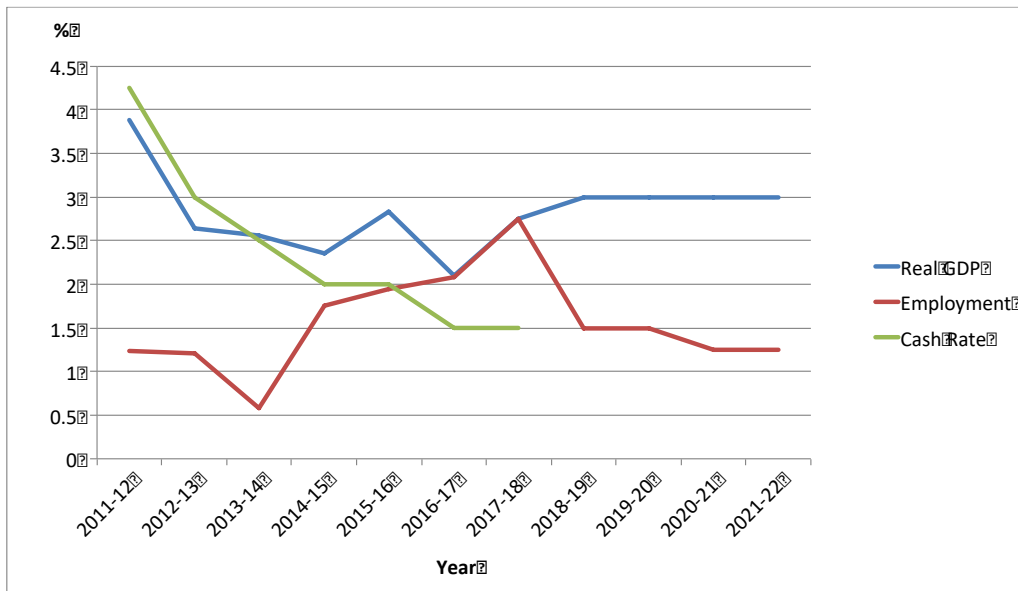
(12 marks)

Refer to the graph given below and answer the questions that follow.

Budget Outcome as a percentage of GDP



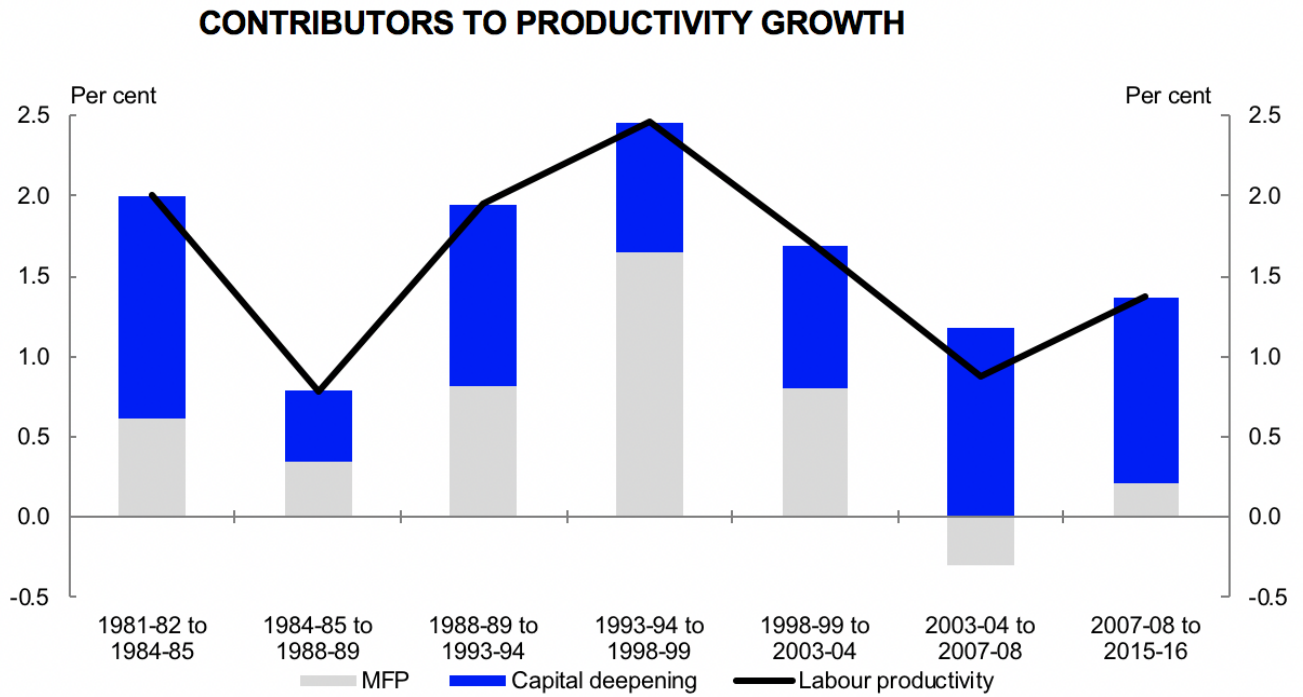
Employment growth (%), GDP growth (%) and Cash Rate (%)



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Question 27**(12 marks)**

Refer to the graph given below and answer the questions that follow.



Source: <https://treasury.gov.au/publication/p2017-t213722c/>

(a) What has been the most important contributor to productivity growth in recent years? (1 mark)

(b) Identify how labour productivity for the economy is measured. (1 mark)

(c) Explain the difference between labour productivity and multi-factor productivity. (2 marks)

(d) Discuss one policy the government could use to promote capital deepening. (2 marks)

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

This section contains **four (4)** questions. Answer **two (2)** question.

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

- Planning: If you use the spare 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)**

The latest escalation of the ongoing tariff war promises to impact on international trade exchanges to the tune of \$130 billion per year across a broad range of economic sectors, including metals, drugs, motor vehicles, electronic components, industrial machinery and foods.

- (a) Explain four factors that can affect Australia's international competitiveness. (8 marks)
- (b) Discuss the likely short and long run impacts of the ongoing tariff war on trade. (12 marks)

Question 29**(20 Marks)**

Over the past 12 months, the Australian dollar has depreciated from 80US cents to 76US cents.

- (a) Explain four factors that may have caused the \$A depreciation. (8 marks)
- (b) Discuss the effect of this movement in the exchange rate on the Balance of Payments and various sectors within the economy. (12 marks)

Question 30**(20 marks)**

Over the past 12 months, new investment in the amount of \$10 billion has taken place in the mining sector. This has mainly occurred in oil and lithium.

- (a) Describe two factors affecting consumption expenditure and two factors affecting investment expenditure. (8 marks)
- (b) Using a relevant model, explain the impact of this increase on the Australian economy. (12 marks)

Question 31**(20 marks)**

Evaluate the effectiveness of contemporary fiscal and monetary policy in achieving Australia's economic objectives. (20 marks)

End of Questions

