Economics Teachers' Association of Western Australia

YEAR 12 ATAR Course Examination
Question/Answer Booklet

ECONOMICS Unit 3 Semester 1, 2022

Student Name: _____

Student number: | | | | | | | | | |

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

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.

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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	3	2	80	40	40
				Total	100

Instructions to candidates

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

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. 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.

3. 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.

4. 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 1: 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

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1. The World Trade Organisation

   (a) is an affiliate of the World Bank.
   (b) is an organisation created to oversee regional trade agreements.
   (c) was established to resolve trade disputes among member nations.
   (d) provides low interest loans to member nations to help develop their export industries.

2. In the current world economy, rising trade protectionism tends to

   (a) speed up the formation of global supply chains.
   (b) raise the productivity for the importing country.
   (c) reduce jobs and profits in the protected industries.
   (d) increase prices and reduce trade.

3. International trade enables an economy to _____.

   (a) specialise in the production of essential goods and services
   (b) exploit gains from specialisation
   (c) achieve an equitable distribution of wealth
   (d) always specialise in the production of capital-intensive goods

4. Globalisation is the process by which domestic firms become involved in international markets. What encourages globalisation?

   (a) Controls on foreign exchange
   (b) Immigration restrictions
   (c) Increasing tariffs
   (d) Widespread use of the internet

5. In which of the following circumstances could the International Monetary Fund (IMF) be called in to assist a country?

   (a) A trade dispute
   (b) A financial crisis
   (c) A foreign investment dispute
   (d) An infrastructure funding shortage

6. Which of the following is the situation in which a nation shifts its international trade from nations outside a regional trade bloc to nations within the bloc?

(a) Trade diversion
(b) Trade deflection
(c) Trade resilience
(d) Trade creation

7. What is a disadvantage of increasing international specialisation?

(a) Consumers pay higher prices for goods and services reducing their welfare.
(b) Domestic firms may experience rising costs as they pay more for imports.
(c) Domestic firms may be uncompetitive leading to structural unemployment.
(d) Resources may be used less efficiently as domestic firms face less competition.

8. Consider the opportunity costs of producing goods X and Y that are listed for the four individuals below. Which person has a comparative advantage in producing good Y?

Individual	**Opportunity Cost**
Andrea	2 units of good X to produce 1 unit of good Y
Mandy	3 units of good X to produce 1 unit of good Y
Nick	4 units of good Y to produce 1 unit of good X
Sunila	5 units of good Y to produce 1 unit of good X

(a) Andrea
(b) Mandy
(c) Nick
(d) Sunila

9. The table below shows the maximum hourly production rates for either computers or bicycles using all available resources. If these two countries trade then

Product	Japan	Australia
Computers	8	2
Bicycles	6	4

(a) Australia should import computers and Japan should import bicycles.
(b) Japan should import computers and Australia should import bicycles.
(c) Japan should export bicycles and Australia should export computers.
(d) Australia should import both goods from Japan.

10. The argument that tariffs should be imposed when a foreign government provides financial assistance to its producers is

(a) a national defense argument.
(b) the infant industry argument.
(c) the dumping argument.
(d) to counter foreign subsidies.

11. Restricting imports usually leads to

    (a) a country producing beyond its production possibilities frontier.
    (b) a country consuming beyond its production possibilities frontier.
    (c) a reduction in exports and employment.
    (d) a higher per capita level of real consumption.

12. Australia provides foreign aid to build schools in a developing country. This will be entered in Australia's Balance of Payments as a

    (a) debit in the capital account.
    (b) secondary income debit.
    (c) debit in the financial account.
    (d) primary income debit.

13. The opening of Australia's borders has resulted in an increase in spending by tourists visiting Australia. How would this be recorded in Australia's current account?

    (a) An increase in services exported
    (b) A decrease in services exported
    (c) An increase in services imported
    (d) A decrease in services imported

14. Which change will decrease a current account surplus in the balance of payments?

    (a) A decrease in the value of imports.
    (b) A decrease in domestic economic activity.
    (c) A decrease in primary income receipts.
    (d) A decrease in net foreign debt.

15. If Australia records a financial account deficit, this would mean that

    (a) Australia's net foreign liabilities would increase.
    (b) Australia's net foreign liabilities would decrease.
    (c) there would be a net inflow of portfolio investment.
    (d) there would be a net outflow of direct investment.

16. The average price of a country's exports increased by 5% and the average price of its imports increased by 10%. What can definitely be concluded from this information?

    (a) Its balance of trade will increase.
    (b) Its balance of trade will decrease.
    (c) Its terms of trade have increased.
    (d) Its terms of trade have decreased.

17. What does the table below indicate about this economy?

Year	Export price index	Import price index
1	100	110
2	110	112

(a) Import volumes exceeded export volumes in both years.
(b) Fewer exports were required to pay for the same volume of imports in Year 2.
(c) The terms of trade deteriorated between Year 1 and Year 2.
(d) The balance of trade improved marginally between Year 1 and Year 2.

18. The table shows the relative weights allocated to the currency of Australia's major trading partners.

Currency	Relative weights	
	Year 1	Year 2
Japanese Yen	18.7	16.1
United States Dollar	15.8	17.2
European Euro	12.4	10.7
UK Pound Sterling	5.3	7.0

Which of the following is a possible explanation for the movement in the relative weights of the currencies of Australia's trading partners?

(a) A reduction in goods imported to Australia from the UK
(b) An increase in the volume of Australia's trade with Japan
(c) The implementation of a free trade agreement between Australia and Europe
(d) An increase in Australia's demand for traded commodities from the United States

19. Every transaction concerning the importation of goods into Australia constitutes a

(a) supply of foreign currencies and a demand for Australian dollars.
(b) supply of foreign currency with no effect on the market for the Australian dollar.
(c) demand for foreign currencies and a supply of Australian dollars.
(d) demand for Australian dollars with no effect on markets for foreign currencies.

20. An Australian car dealer agrees an import price of US$25 000 for a Japanese car at the current rate of exchange. The Australian dollar then appreciates by 10% against the Japanese yen. What will be the new import price paid for the Japanese car?

(a) AUD$20,000
(b) AUD$22,500
(c) AUD$25,000
(d) AUD$27,500

21. A country with a floating exchange rate experiences a large surplus on the current account of its balance of payments. What is likely to decrease as a consequence?

    (a) The value of the country's currency
    (b) Australian investment abroad
    (c) The prices of imports into the country
    (d) The export price index

22. An appreciation in the Australian dollar against the world's major currencies will most likely

    (a) lead to job losses in the Australian tourism industry.
    (b) assist Australian exporters to sell their products in overseas markets.
    (c) cause the Reserve Bank of Australia to raise interest rates.
    (d) produce an increase in Australia's rate of inflation.

23. Which of the following types of foreign investment is most likely to lead to an increase in Australia's trade balance?

    (a) Direct investment
    (b) Portfolio investment
    (c) Financial derivatives
    (d) Reserve assets

24. The two economies that account for most foreign investment in Australia are

    (a) The United States and China.
    (b) The United States and the United Kingdom.
    (c) The United States and Japan.
    (d) The United States and Belgium.

End of Section One

See next page

YEAR 12 ATAR ECONOMICS

SECTION 1: Multiple Choice Answer Sheet

Student Name: _____

Student number:

SECTION 1: MULTIPLE CHOICE

(Either place a cross over the correct answer or shade in the correct answer)

1	A	B	C	D
2	A	B	C	D
3	A	B	C	D
4	A	B	C	D
5	A	B	C	D
6	A	B	C	D
7	A	B	C	D
8	A	B	C	D
9	A	B	C	D
10	A	B	C	D
11	A	B	C	D
12	A	B	C	D

13	A	B	C	D
14	A	B	C	D
15	A	B	C	D
16	A	B	C	D
17	A	B	C	D
18	A	B	C	D
19	A	B	C	D
20	A	B	C	D
21	A	B	C	D
22	A	B	C	D
23	A	B	C	D
24	A	B	C	D

See next page

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.

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 following edited extract and tables from a United Nations Conference on Trade and Development (UNCTAD) report published in 2021.

The world's largest free trade agreement

On 1 January 2022, the Regional Comprehensive Economic Partnership (RCEP) entered into force. This free trade agreement includes 15 East Asian and Pacific Nations: Australia, Brunei Darussalam, Cambodia, China, Indonesia, Japan, the Republic of Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand and Viet Nam. The RCEP will become the largest trade agreement in the world – almost one third of the world's GDP. The agreement will eliminate 90 per cent of tariffs within the bloc which will boost intraregional exports. This is the result of two forces associated with trade liberalisation – trade creation and trade diversion. *(Source: UNCTAD 2021)*

Export changes for RCEP members due to tariff concessions ($USbn)			
Sector	Overall effects	Trade diversion	Trade creation
Manufacturing	29	18	11
Agriculture	10	6	4
Natural resources	3	2	1

Average applied tariffs on intra-RCEP trade 2020				
Country	Overall %	Agriculture %	Manufacturing %	Natural resources %
Australia	0.0	0.0	0.0	0.0
China	2.8	6.7	3.1	0.3
Japan	1.7	10.2	1.2	0.0
Rep. of Korea	4.8	44.7	3.1	0.4

(a) i Determine the expected increase in trade ($USbn) as a result of the RCEP tariff concessions. (1 mark)

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ii State which of Australia's top four trading partners is **not** a member of the RCEP. (1 mark)

(b) State which economy is the most protected and which economy is the most open. (2 marks)

Most protected: _____

Most open: _____

(c) Identify the sector which benefits the most from the RCEP and the sector which benefits the least and provide an explanation for your answers. (4 marks)

_____

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(d) Explain how reducing tariffs can result in both trade creation and trade diversion. (4 marks)

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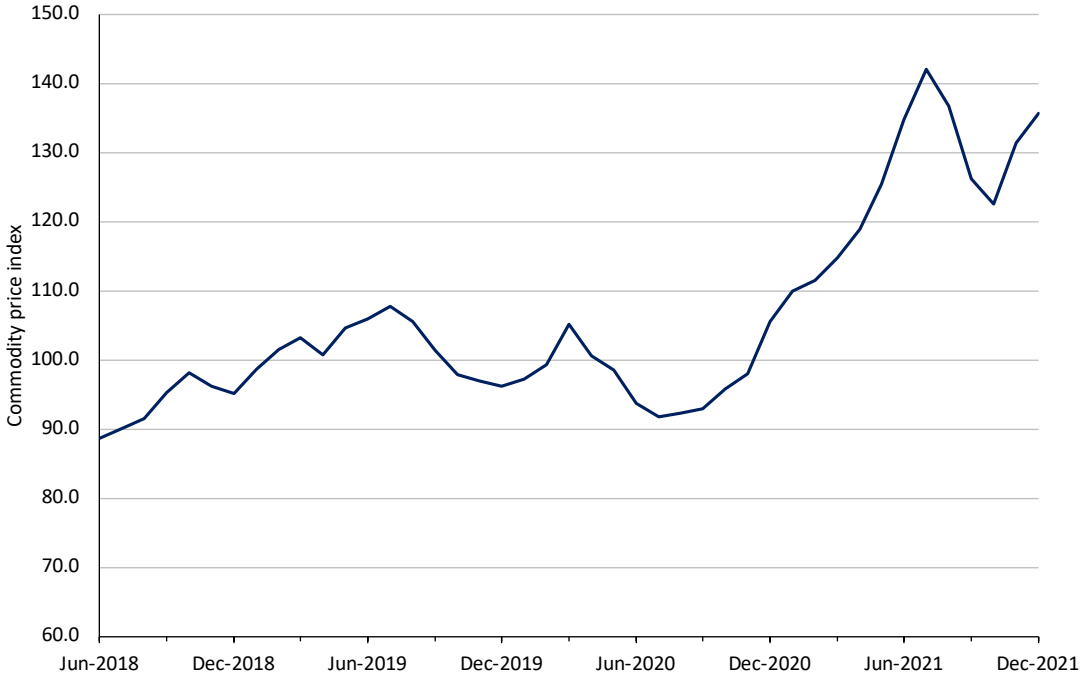
Question 26 **(12 marks)**

This question refers to the graph below showing Australia's commodity price index.



Source: RBA

(a) i. Identify the commodity that has the greatest weight in Australia's commodity price index. (1 mark)

ii. If the commodity price index was 105 in December 2020, calculate the percentage increase to December 2021. (1 mark)

(b) Explain how a rise in the commodity price index could increase both the export price index and the import price index. (3 marks)

(c) Use an exchange rate model to illustrate and outline the effect of the change in the commodity price index during December 2020 - December 2021 on the value of the Australian dollar.

(3 marks)

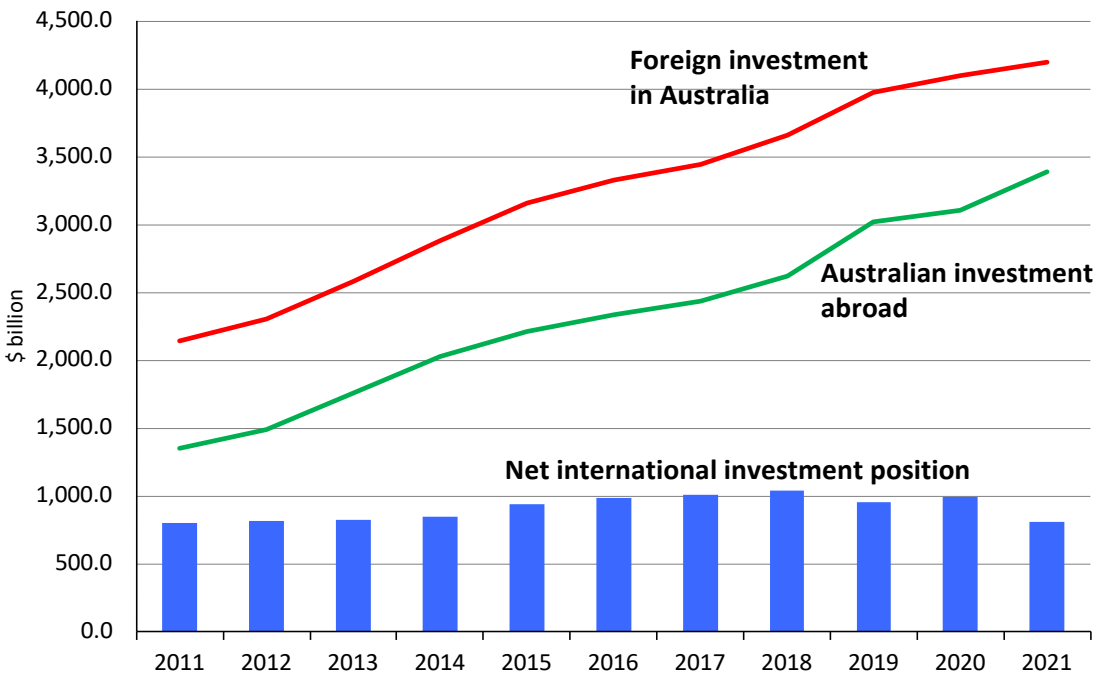
Model

(d) Outline **three** effects of the change in Australia's terms of trade since December 2020.

(4 marks)

Question 27 **(12 marks)**

This question refers to the graph below showing Australia's international investment position.



Source: ABS

(a) For 2021, estimate the value of

i. Australia's total foreign assets _____ (1 mark)

ii Australia's total foreign liabilities _____ (1 mark)

iii Australia's net foreign liabilities _____ (1 mark)

(b) Identify the **two** main types of foreign investment in Australia. (2 marks)

_____

_____

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_____

(c) Account for the change in Australia's net international investment position since 2018. (3 marks)

(d) Explain **two** effects of a decrease in Australia's net foreign liabilities. (4 marks)

End of Section Two

Section Three: Extended response 40% (40 Marks)

This section contains **three (3)** questions. Answer **two (2)** 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 recent years the pace of globalisation has slowed as many countries have reverted to a more protectionist stance.

(a) Define trade liberalisation and discuss **three** arguments that are often used against trade liberalisation. (11 marks)

(b) Use an appropriate model to evaluate the argument that protection can 'save domestic jobs'. (9 marks)

Question 29 **(20 marks)**

Australia has recorded eleven consecutive current account surpluses since June 2019.

(a) Discuss **four** cyclical factors that have contributed to the increase in Australia's current account balance. (12 marks)

(b) Explain how the increase in Australia's current account balance is related to changes in Australia's saving-investment gap. (8 marks)

Question 30 **(20 marks)**

(a) Explain how different transactions in the current account, the financial account and the capital account can affect the demand for and supply of the Australian dollar (12 marks)

(b) Use a demand/supply model to illustrate and explain the effect of rising world interest rates on the value of the Australian dollar. (8 marks)

End of Questions

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

Question number: _____

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Supplementary page

Question number: _____

Supplementary page

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