

**Examination, 2021**

**Question/Answer Booklet**

ECONOMICS Unit 3 Semester 1, 2021

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**Student Number: In figures**

**In words:**

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**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

2 x Extended Response 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 the ATAR 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 material. 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 |
| Section One:  Multiple-choice | 24 | 24 | 30 | 24 |
| Section Two:  Data interpretation / Short response | 3 | 3 | 70 | 36 |
| Section Three:  Extended response | 3 | 2 | 80 | 40 |
|  |  |  | **Total:** | 100 |

**Instructions to candidates**

1. 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.

**Section Two**: Write your answers in this Question/Answer booklet.

**Section Three**: Write your answers in the Extended Response Answer booklet. Start each question in a separate booklet.

2. 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.

3. Supplementary pages for the use of planning/continuing your answer to a question have been 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.

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1. What would reduce the volume of international trade in the world economy?

1. A German bank providing a loan to a Nigerian company.
2. A Japanese car manufacturer establishing a factory in the Czech Republic.
3. The Canadian government introducing quotas on Malaysian electronics products.
4. The Swedish government granting aid to Somalia.

2. A country changes to a policy of self-sufficiency in agriculture, instead of relying on world trade. What is most likely to happen as a result of this policy?

1. Agricultural prices will rise.
2. Farm output will fall.
3. More farmers will be unemployed.
4. More food will be imported.

3. The international competitiveness of a nation would decline if

1. the local currency depreciated.
2. real unit labour costs rose.
3. the capital to labour ratio rose.
4. the local price level fell relative to its trading partners.

4. The opportunity cost of producing one car in Germany is 20 tonnes of wheat, while the opportunity cost of producing one car in Canada is 12 tonnes of wheat. The two countries can gain from trade if the terms of trade are

1. greater than 20 tonnes of wheat per car.
2. less than 12 tonnes of wheat per car.
3. greater than 12 tonnes of wheat per car, less than 20 tonnes of wheat per car, and Germany produces cars.
4. greater than 12 tonnes of wheat per car, less than 20 tonnes of wheat per car, and Germany produces wheat.

5. Suppose the production possibilities of Australia and China are as follows:

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| --- | --- | --- |
|  | **Australia** | **China** |
| **Iron ore** | 3000 tonnes | 3500 tonnes |
| **Rice** | 600 tonnes | 2100 tonnes |

Which of the following statements is correct?

1. Australia has an absolute advantage in producing iron ore.
2. Australia has a comparative advantage in producing rice.
3. China has a comparative advantage in producing rice.
4. Australia has an absolute advantage in producing both commodities.

6. If a nation imports a good that can be domestically produced, what happens to the quantity consumed of the good and why?

1. The quantity consumed decreases because the market price increases
2. The quantity consumed increases because the market price decreases
3. The quantity consumed remains constant because the price is unchanged
4. The quantity consumed increases because the market price increases

7. The imposition of a tariff would cause which one of the following?

1. A decrease in the price of imports and a rise in the demand for imports.
2. An increase in the price of imports and a rise in the demand for imports.
3. A decrease in the price of imports and a rise in the demand for import-competing domestic goods.
4. An increase in the price of imports and a rise in the demand for import-competing domestic goods.

8. Which of the following is an argument against trade liberalisation?

1. It creates structural unemployment.
2. The opportunity cost of local production will increase.
3. It lowers living standards for local consumers.
4. It may result in domestic producers developing economies of scale.

9. Australia sells iron ore to China. How will this transaction be recorded in Australia’s Balance of Payments (using the double entry accounting system)?

1. Debit in the current account
2. Credit in the current account
3. Debit in the financial account
4. Credit in the financial account
5. i only
6. ii only
7. i and iv
8. ii and iii

10. If in a given year foreign investment into a country was $500 billion and the country's investment abroad was $600 billion, which of the following statements is true?

1. The country has net borrowing of $100 billion.
2. The country has a current account deficit of $100 billion.
3. The country has a current account deficit of $1,100 billion.
4. The country has a financial account deficit of $100 billion.

11. Which change will decrease a current account surplus of a country?

1. A decrease in the value of imports.
2. An increase in domestic inflation rates.
3. A decrease in primary income outflows.
4. An increase in the amount of development aid received.

12. All other things being equal, which of the following is most likely to cause an improvement in Australia’s current account balance?

1. A decrease in national savings
2. An increase in the Government’s budget deficit
3. A decrease in interest rates
4. A decrease in national investment

13. In which situation will a country’s terms of trade become less favourable?

1. The prices of its imports rise by more than the prices of its exports.
2. The total value of external payments rises by more than the total value of external receipts.
3. The value of its imports rises by more than the value of its exports.
4. The volume of its imports rises by more than the volume of its exports.

14. The table shows data for a hypothetical economy.

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| --- | --- | --- | --- |
| **Year** | **Export price index** | **Import price index** | **Trade weighted index** |
| **1** | 100 | 100 | 60 |
| **2** | 110 | 105 | 65 |

What is the effect of the changes from Year 1 to Year 2 on the terms of trade and international competitiveness of this economy?

1. The terms of trade decreased and international competitiveness increased.
2. The terms of trade decreased and international competitiveness decreased.
3. The terms of trade increased and international competitiveness increased.
4. The terms of trade increased and international competitiveness decreased.

15. The table shows exchange rate movements for the Australian economy and United States economy. All other things being equal, which of the following best accounts for the fluctuation of the exchange rate between Year 1 and Year 2?

|  |  |  |
| --- | --- | --- |
| **Year** | **Australian dollar** | **US dollar** |
| **1** | 1 | 0.9 |
| **2** | 0.9 | 1 |

1. There has been a depreciation of the AUD caused by an upturn in the international business cycle.
2. There has been a depreciation of the AUD caused by a downturn in domestic economic activity.
3. There has been a depreciation of the USD caused by an increase in Australia’s cash rate relative to the US cash rate.
4. There has been a depreciation of the USD caused by a decrease in the deficit of the current account of the US balance of payments.

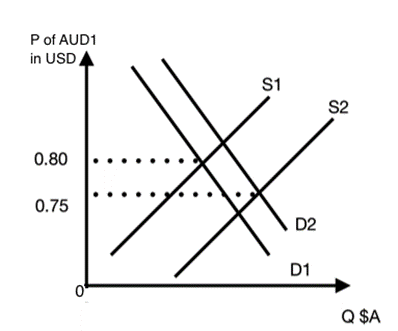
16. Between January 2021 and May 2021, the value of the Australian dollar appreciated. Which of the following might result from this movement?

1. An increase in direct foreign investment
2. A decrease in the price of imported component parts
3. A decrease in Australian living standards
4. An increase in the demand for Australian exports

17. Which of the following is (are) likely to benefit the export performance of an economy?

1. Increase in trade openness of an economy.
2. Increase in foreign debt.
3. A decrease in the value of a country’s currency relative to another country’s currency.
4. An increase in tariffs on imports.
5. i and iii.
6. ii and iv.
7. i, ii and iii.
8. i, ii, iii and iv.

18. Refer to the diagram below.



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?

1. An increase in terms of trade and an increase in economic growth in Australia.
2. A decrease in interest rate differential and a decrease in imports into Australia.
3. An increase in interest rate in Australia and a decrease in imports into Australia.
4. An increase in China’s growth rate and a decrease in economic growth in Australia.

19. Which of the following would increase New Zealand exports to Australia?

1. An appreciation of the Australian dollar against the NZ dollar.
2. An appreciation of the New Zealand dollar against the Australian dollar.
3. An increase in real income in New Zealand.
4. An increase in real income in Australia.
5. i and ii
6. i and iv
7. ii and iii
8. ii and iii

20. Which of the following statements is correct?

1. Both foreign investment and foreign debt lead to an increase in foreign ownership of Australian assets.
2. 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.
3. The preferred method to finance Australia’s current account deficit is through foreign investment.
4. Most of the foreign direct investment in Australia is in its export sectors.

21. Which of the following statements regarding Australia’s net foreign liabilities is correct?

1. Foreign equity is preferred to foreign debt because it is more flexible.
2. Australia’s net foreign liabilities are decreasing over time.
3. Most of Australia’s net foreign liabilities are in the form of net foreign debt.
4. Foreign debt does not require an income payment.

22. If Australia’s foreign equity assets exceed its foreign equity liabilities, this means that

1. Australia has invested less overseas than foreigners have invested in Australia
2. Australia has invested more overseas than foreigners have invested in Australia.
3. the Australian Government has increased its borrowings from overseas to fund budget deficits.
4. the Australian Government has decreased its borrowings from overseas to fund budget deficits.

23. An increase in foreign direct investment into the Australian economy may be a benefit because it

1. allows for a transfer of technology.
2. decreases the level of net foreign liabilities.
3. increases interest income in Australia’s current account.
4. leads to an appreciation in the currency.

24. Which of the following is likely to increase the level of Australia’s foreign debt in the short term?

1. An appreciation of the Australian dollar
2. A fall in the proportion of income saved by households
3. An increase in the Australian Government budget surplus
4. A fall in the current account deficit

***End of Section One***

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

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

Supplementary pages for the use of planning/continuing your answer to a question have been 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.

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**Question 25 (12 marks)**

This question refers to the edited extract below, which is from an article written by Melissa Conley Tyler in the Financial Review on January 26, 2021.

**Prospects for an Australia–India trade deal**

Negotiations on the Australia–India Comprehensive Economic Cooperation Agreement (CECA) are set to restart after being suspended in 2015.

The original joint feasibility study found significant tariff and non-tariff barriers to goods and services trade. It assessed the potential welfare gains of an agreement as between 0.15–1.1 per cent of GDP for India and 0.23–1.17 per cent of GDP for Australia.

Past negotiations have been hampered by India’s suspicion toward trade. Trade is often framed in terms of winning or losing, so India’s trade deficit of around AU$15 billion (US$12 billion) means that trade is seen as heavily skewed in Australia’s favour, with different levels of development preventing a level playing field. Trade agreements with ASEAN, South Korea and Japan have worsened India’s trade deficit.

The restart of negotiations is partly motivated by concerns about China and due to India and Australia elevating their relationship to a Comprehensive Strategic Partnership at the Leaders’ Virtual Summit in June 2020.

But India’s decision to pull out of RCEP suggests that concerns remain about trade deficits and unemployment, with industry and traders’ bodies playing a blocking role. Only 5–25 per cent of India’s international trade is covered by agreements compared to 70 per cent for Australia.

On the Australian side, the government is under pressure to promote diversification of exports markets because of China’s restrictions on exports worth at least AU$20 billion (US$15.4 billion).

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| (a) | State the potential welfare gains to Australia of a trade agreement with India. | |
|  | (1mark) |

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| (b) | Identify one disadvantage of entering into a free trade agreement. (1 mark) |
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| (c) | Outline the significance of the Australia-China trade relationship. (2 marks) |
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| (c) | Evaluate one economic argument India has used in the past to justify minimising trade. (3 marks) |
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| (e) | Demonstrate and explain how a removal of tariffs on imports from India will benefit the Australian economy. (5 marks) |
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**Question 26 (12 marks)**

This question refers to the table below, which shows selected data from Australia’s Balance of Payments from 2016 to 2020.

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|  | **2016** | **2017** | **2018** | **2019** | **2020** |
| **CURRENT ACCOUNT** |  |  |  |  |  |
| **Trade Balance** | -14059 | 9096 | 22482 | 67521 | 73248 |
| **Primary Income** | -40317 | -54569 | -61891 | -54828 | -22522 |
| **Secondary Income** | -1043 | -1646 | -825 | -1041 | -1362 |
| **CAPITAL AND FINANCIAL ACCOUNT** |  |  |  |  |  |
| **Capital Account** | -816 | -499 | -491 | -796 | -1096 |
| **Financial Account** | 54712 | 55173 | 47820 | -8191 | -42559 |
| **Direct investment** | 62009 | 50715 | 81210 | 43095 | 15947 |
| **Portfolio investment** | 38714 | 31624 | -14191 | -48275 | -31130 |

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| (a) | (i) Calculate the current account balance for 2020. (1 mark) |
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|  | (ii) Outline one factor that has caused a change in Australia’s trade balance from 2016 to 2020. (1 mark) |
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| (b) | With reference to the data, explain the relationship between the primary income account and the financial account in Australia. (4 marks) |
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| (c) | Explain the recent trends in foreign direct investment in Australia and discuss two benefits. (6 marks) |
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**Question 27 (12 marks)**

This question refers to the edited extract below, which is from an article written by James Thornhill in Bloomberg on March 28, 2021.

**Iron Ore Set to Drive Australia’s Resources Earnings to Record**

The global economic recovery is set to drive Australia’s resources earnings to an all-time high this financial year, led by number one export iron ore, while rapid growth in the production of battery minerals will see them challenge coal in importance in coming years.

A strong bounce back from the pandemic, especially in China, is forecast to lift Australia’s resources and energy exports to A$296 billion in the year ending June 30, according to a quarterly report from the government.

“The outlook for Australia’s resources and energy exports has strengthened since our last report, supported by the global economic recovery and associated government stimulus measures,” the Department of Industry, Science, Energy and Resources, said in a media release. Production constraints elsewhere in the world had seen prices for many commodities gain momentum in the early part of 2021, the department said.

REPORT HIGHLIGHTS

• Prices for iron ore, which account for nearly half of Australia’s resources revenue, are seen averaging $110 per ton in 2021.

• The department revised up its forecast for LNG earnings this year by A$1.5 billion after an especially cold northern hemisphere winter led to higher demand and prices.

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| (a) | (i) | Identify the value of Australia’s resource exports in the year ending June 30.  (1 mark) |
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|  | (ii) | State one reason contributing to the increase in price for commodities in early 2021. (1 mark) |
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| (b) | Explain the effect of the increase in commodity prices on the following. (6 marks) |
|  | 1. Exchange rate |
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|  | 1. Foreign investment |
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1. Terms of trade

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| (c) | An economic crisis such as a pandemic highlights the implications of a globalised world. Discuss one disadvantage and one advantage of globalisation (4 marks ) |
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***End of Section Two***

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

This section contains **three (3)** questions. Answer **two (2)** questions. Write your answers in the Extended Response Answer booklet and number your answers clearly. Start each question in a separate booklet.

Supplementary pages for the use of planning/continuing your answer to a question have been 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)**

1. Explain the determinants of international competitiveness. (8 marks)
2. Outline the significance of trade to Australia and explain, using appropriate models, the gains from trade. (12 marks)

**Question 29** **(20 marks)**

The Australian trade-weighted index moved from 68 to 72.3 from Dec 2020 to March 2021.

1. Define the trade-weighted index and explain three factors that would have caused this change. (10 marks)
2. Explain the impact of this change on the sectors within the Australian economy.

(10 marks)

**Question 30 (20 marks)**

(a) Describe the recent trends in the current account balance and account for these trends. (12 marks)

(b) Explain the concept of foreign liabilities and the relationship between the current account and foreign liabilities. (8 marks)

***End of Questions***

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| Supplementary page  Question number: \_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
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