Economics Teachers' Association of Western Australia

YEAR 12 ATAR Course Examination 2015
Question/Answer Booklet

ECONOMICS

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 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 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.

Important note to teachers
This examination is **not** based on the current Economics syllabus. **Before** using any question check that it maps to the current syllabus available on the SCSA website.

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. 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.

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. 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.

See next page

Section 1: Multiple Choice 24% (24 Marks)

This section has 24 questions. Answer all questions on the separate Multiple-choice Answer Sheet provided. Use only a blue or black pen. 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. Globalization is defined as the process of countries becoming _____ open to foreign trade and _____ open to foreign investment.

   A. more; less
   B. more; more
   C. less; more
   D. less; less

2. Which of the following statements about free trade agreements is correct?

   A. They reduce trade between member countries.
   B. They treat member and non-member countries in the same way.
   C. They can divert trade from efficient non-member countries to inefficient member countries.
   D. They prevent member countries entering into bilateral free trade agreements with non-members.

3. All other things being equal, which of the following is most likely to cause an increase in Australia's current account deficit?

   A. A decrease in national savings
   B. A decrease in Australian overseas aid
   C. An increase in the Federal Government's budget surplus
   D. An increase in the number of overseas students studying in Australia

4. Which of the following is most likely to increase Australia's international competitiveness?

   A. Structural change and higher interest rates in Australia
   B. Lower labour costs and improved infrastructure in Australia
   C. Lower inflation in Australia and increased subsidies to domestic producers
   D. Productivity growth in Australia and appreciation of the Australian dollar

5. In which of these situations are the net foreign liabilities of an economy most likely to increase?

   A. A current account deficit and a currency appreciation
   B. A current account deficit and a currency depreciation
   C. A current account surplus and a currency appreciation
   D. A current account surplus and a currency depreciation

See next page

6. Which of the following combinations is most likely to reduce Australia's import volumes?

   A. The Australian dollar depreciates and there is a contraction in the Australian economy.
   B. The Australian dollar appreciates and there is a contraction in the Australian economy.
   C. The Australian dollar depreciates and there is an expansion in the Australian economy.
   D. The Australian dollar appreciates and there is an expansion in the Australian economy.

7. What is the most likely impact of an appreciation of the Australian dollar?

   A. Lower import prices and an increase in net foreign debt
   B. Higher export prices and a deterioration of the terms of trade
   C. A decrease in the current account deficit and an increase in inflation
   D. A decrease in capital inflows and a decline in international competitiveness

8. A decrease in Australia's terms of trade will

   A. increase national income and increase the trade balance.
   B. increase national income and decrease the trade balance.
   C. decrease national income and increase the trade balance.
   D. decrease national income and decrease the trade balance.

9. Ozland opens its doors to trade with Barland. Barland has a comparative advantage in the production of machinery. Hence, once trade occurs Ozland's consumers will buy _____ machinery and pay _____ before.

   A. more; a higher price than
   B. less; a higher price than
   C. more; a lower price than
   D. less; a lower price than

10. When a nation exports a good or service at the world price, the nation's consumer surplus _____, its producer surplus _____, and its total surplus _____.

    A. increases; decreases; increases
    B. increases; decreases; decreases
    C. decreases; increases; decreases
    D. decreases; increases; increases

11. What is an effective counter argument against the view that international trade should be restricted to protect domestic jobs?

    A. A more effective policy would be to support the industry with subsidies.
    B. The more diversified the economy, the more stable it is.
    C. Free trade in "green" industries will increase jobs.
    D. Free trade increases the number of jobs in which workers earn higher incomes.

See next page

12. During 2015, the Reserve Bank stated that it would prefer to see the Australian dollar _____ in order to help _____ the economy.

A. higher; expand
B. higher; contract
C. lower; expand
D. lower; contract

13. Which of the following methods of financing an expansionary fiscal policy will be more likely to result in higher inflation?

A. Borrowing from the Reserve Bank
B. Selling government assets
C. Issuing government securities for sale in the domestic market
D. Issuing government securities for sale to foreign investors in a foreign currency

14. Refer to the data below:

Year	Consumption	GDP
1	360	500
2	396	560

An increase in investment increased GDP by $100 million in Year 3. All other things being equal, what was the increase in investment?

A. $20 million
B. $40 million
C. $60 million
D. $100 million

15. In the Keynesian expenditure model, if aggregate expenditure is less than output, how will the economy reach equilibrium?

A. Inventories will rise, and output and employment will decline.
B. Inventories will rise, and output and employment will rise.
C. Inventories will decline, and output and employment will decline.
D. Inventories will decline, and output and employment will rise.

16. Which of the following is most likely to shift both the aggregate demand and aggregate supply curves to the right?

A. An increase in investment and an increase in input prices.
B. A decrease in the budget deficit and a decrease in the cost of labour
C. An increase in the productivity of labour and a decrease in interest rates
D. An increase in the budget surplus and an increase in the cost of raw materials

17. Which of the following is true about the Reserve Bank and its ability to prevent recessions? The Reserve Bank

A. does not try to eliminate recessions, but instead focuses on preventing inflation.
B. can fine tune the economy and realistically hope to keep the economy from experiencing recessions.
C. cannot realistically fine tune the economy, but seeks to keep recessions shorter and milder than they would otherwise be.
D. cannot realistically fine tune the economy and has little to no effect on the magnitude and length of recessions.

18. Suppose the Reserve Bank raises the cash rate. Put the following changes in order in which they occur, starting with the changes that take place almost immediately and ending with the changes that may occur up to two years afterwards:
    i. Short-term interest rates rise.
    ii. Unemployment rate rises.
    iii. Inflation rate decreases.
    iv. Aggregate demand decreases.

    A. i – ii – iii – iv
    B. iv – iii – ii – i
    C. i – iii – iv – ii
    D. i – iv – iii – ii

19. Assume average wages in the national economy have increased by 5 per cent per annum and average labour productivity has increased by 2 per cent per annum. Which one of the following is the most likely outcome of these increases?

    A. An increase in real wages and a rise in the operating profits of Australian businesses.
    B. An improvement in equity in income distribution as a result of the likelihood of declining unemployment.
    C. An increase in inflationary pressures, reducing the price competitiveness of Australian exports and import-competing goods.
    D. A significant increase in business confidence levels, resulting in much higher levels of investment by business owners in new capital.

20. Suppose the government increased spending by $100 billion and raised taxes by $100 billion to keep the budget balanced. What will happen to real equilibrium GDP?

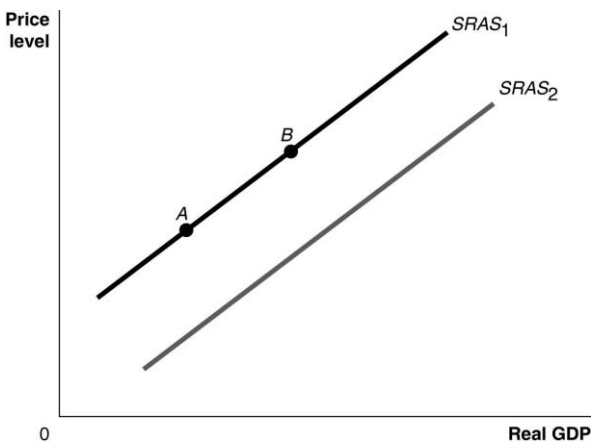
    A. Real equilibrium GDP will fall.
    B. Real equilibrium GDP will rise.
    C. There will be no change in real equilibrium GDP.
    D. Real equilibrium GDP will initially rise, but then fall below its previous equilibrium value.

21. Suppose real GDP is $1560 Billion and potential GDP is $1600 Billion. To move the economy back to potential GDP, the government should

    A. increase government spending by $40 billion.
    B. increase government spending by less than $40 billion.
    C. increase government spending by more than $40 billion.
    D. reduce taxes by $40 billion.

22. *Refer to the Figure opposite*. Ceteris paribus, an increase in the capital stock would be represented by a movement from

    A. *SRAS*1 to *SRAS*2.
    B. *SRAS*2 to *SRAS*1.
    C. point *A* to point *B*.
    D. point *B* to point *A*.



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23. The automatic budget surpluses and budget deficits that occur in the government budget over the business cycle

A. destabilise the economy.
B. stabilise the economy.
C. decrease potential GDP.
D. increase potential GDP.

24. A reason for the policy of microeconomic reform in Australia is to

A. decrease Australia's reliance on foreign capital.
B. allow governments to have more control over resource allocation.
C. protect Australian industries from foreign competition.
D. make Australian industries more internationally competitive.

End of Section 1

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Section 2: Data interpretation/Short response 36% (36 Marks)

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

Suggested working time: 65 minutes.

Question 25 **(12 marks)**

Statement by Glenn Stevens, Governor: Monetary Policy Decision (June 2, 2015)

At its meeting today, the Board decided to leave the cash rate unchanged at 2.0 per cent.

The global economy is expanding at a moderate pace, but some key commodity prices are much lower than a year ago. This trend appears largely to reflect increased supply, including from Australia.
Australia's terms of trade are falling nonetheless.

In Australia, the available information suggests the economy has continued to grow, but at a rate somewhat below its longer-term average. Household spending has improved, including a large rise in dwelling construction, and exports are rising. But a key drag on private demand is weakness in business capital expenditure in both the mining and non-mining sectors and this is likely to persist over the coming year. Public spending is also scheduled to be subdued. Overall, the economy is likely to be operating with a degree of spare capacity for some time yet. With very slow growth in labour costs, inflation is forecast to remain consistent with the target over the next one to two years, even with a lower exchange rate.

In such circumstances, monetary policy needs to be accommodative. Low interest rates are acting to support borrowing and spending. Dwelling prices continue to rise strongly in Sydney, though trends have been more varied in a number of other cities. The Bank is working with other regulators to assess and contain risks that may arise from the housing market. In other asset markets, prices for equities and commercial property have been supported by lower long-term interest rates.

The Australian dollar has declined noticeably against a rising US dollar over the past year, though less so against a basket of currencies. Further depreciation seems both likely and necessary, particularly given the significant declines in key commodity prices.

Source: Media Release, Reserve Bank of Australia

a. i What is considered to be the long term average growth of the Australian economy?

(1 mark)

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ii. Identify **one** category of aggregate expenditure that is growing and **one** category that is relatively weak. (2 marks)

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b. Explain how low interest rates can affect the categories of aggregate demand.

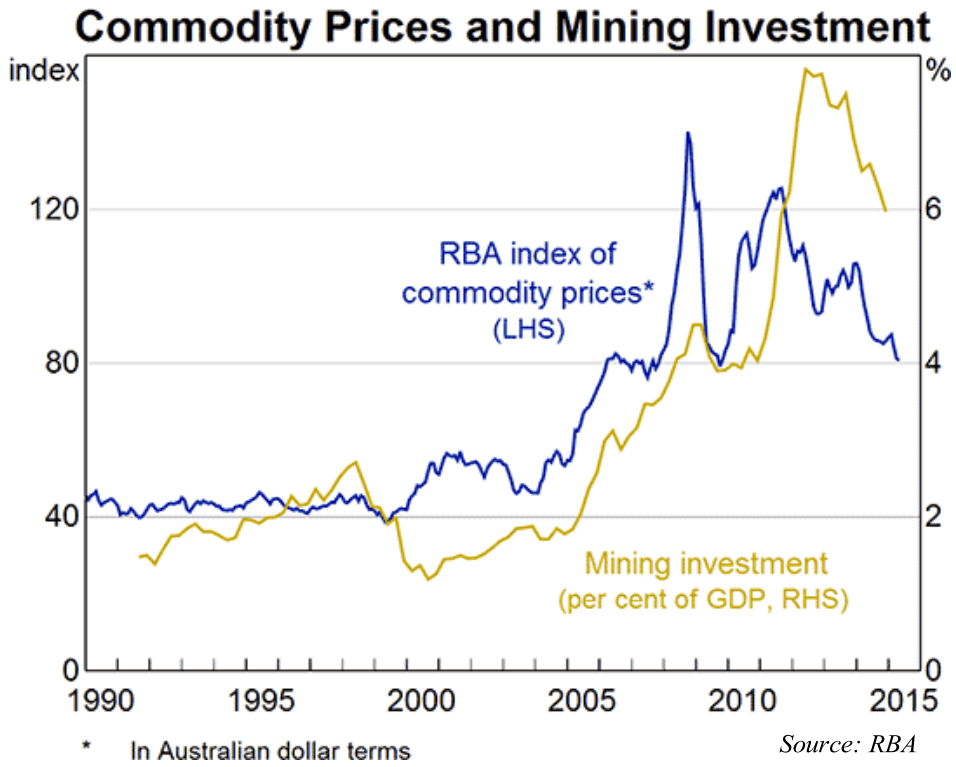
(4 marks)

See next page

c. Use the AD/AS model to explain the Reserve Bank's current monetary policy stance. How effective is monetary policy in this circumstance? (5 marks)

See next page

Question 26 **(12 marks)**



a. i. What does the RBA index of commodity prices measure? (2 marks)

ii. Between 1999 and 2011, the RBA index of commodity prices increased by _____% (1 mark)

ii. Provide a reason for this increase. (1 mark)

See next page

b. Explain the relationship between commodity prices and mining investment. (3 marks)

See next page

c. Describe the trend in mining investment since 2012. Explain the impact this trend would have on the economy. Include a model in your answer. (5 marks)

See next page

Question 27 **(12 marks)**

	Balance of Payments (per cent of GDP)				Terms of Trade	Real GDP
Year	**Goods & Services**	**Primary Income**	**Current Account**	**Financial Account**	**Index**	**Annual % change**
June 2010	-1.0	-3.9	-5.0	4.9	103.7	2.1
June 2011	1.0	-4.0	-3.1	3.2	116.1	2.6
June 2012	-0.1	-3.0	-3.3	3.4	105.7	3.8
June 2013	-1.2	-2.5	-3.9	3.9	99.6	2.1
June 2014	-0.5	-2.5	-3.1	3.1	92.3	2.8

a. i In which year did Australia record a trade surplus? _____ (1 mark)

ii What caused the current account deficit to fall in 2014? (1 mark)

iii What caused the terms of trade to fall after 2011? (1 mark)

b. What factors could explain the decline in the financial account balance since 2010? (3 marks)

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c. Explain how each of the following would affect the current account balance:

i. A fall in the terms of trade (2 marks)

ii. A decrease in the rate of economic growth (2 marks)

iii. A decline in foreign investment into Australia (2 marks)

End of Section 2

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Section 3: 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.

Suggested working time: 80 minutes.

Question 28 **(20 marks)**

Explain why productivity and microeconomic reform are important concepts in determining Australia's economic prosperity. Discuss examples of microeconomic reform in Australia in the past decade and explain how microeconomic reform can help to achieve the government's economic objectives. (20 marks)

Question 29 **(20 marks)**

a. Explain how changes in the business cycle affect the government's budget. Should the government always attempt to balance its budget? (10 marks)

b. The Australian government is trying to reduce its budget deficit. Discuss the problems that a persistent budget deficit can have for the economy. If the government succeeds in reducing its deficit, will this have a positive or negative effect on the economy? (10 marks)

Question 30 **(20 marks)**

a. Using an appropriate model, demonstrate how a country can gain from specialisation and trade. (10 marks)

b. The Australian government has decided to end government subsidies to the Australian motor vehicle industry. Use a model to show the effects of a subsidy and discuss the short term and long term effects of this decision on the economy. (10 marks)

Question 31 **(20 marks)**

Between March 2014 and March 2015, the Australian dollar has fallen from $0.92US to $0.76US.

a. Use an exchange rate model to explain why the currency has fallen. (10 marks)

b. Explain the effects this significant depreciation will have on the economy. (10 marks)

End of Questions

Question number: _____

Question number: _____

Question number: _____ (cont.)

Question number: _____ (cont.)

Question number: _____ (cont.)

Question number: _____ (cont.)