



Economics Teachers' Association of Western Australia

YEAR 12 ATAR Course Examination Question/Answer Booklet

ECONOMICS Semester 2, 2022

Student Name: _____

Student number:

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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
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.

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

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

- 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.
- 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.

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. 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. What is the most likely disadvantage of international specialisation?
 - (a) Decreased levels of global output
 - (b) Increased average production costs
 - (c) Increased productivity levels
 - (d) Overdependence on other economies

2. A multinational company (MNC) has factories in more than one country. What is not a reason why the company might decide to produce internationally?
 - (a) The availability of raw materials
 - (b) The high costs of transporting finished products
 - (c) To ensure that wage rates are equal in all factories
 - (d) To serve the local markets more easily

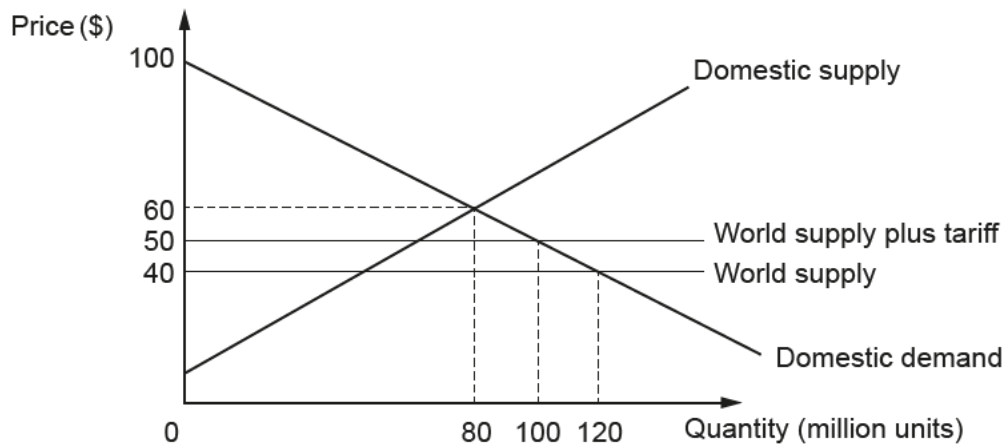
3. In which of the following cases is the international competitiveness of domestic producers most likely to improve?
 - (a) A decrease in domestic wage rates combined with an increase in labour productivity abroad
 - (b) An appreciation of the exchange rate and a decrease in domestic wage rates
 - (c) An exchange rate depreciation combined with an increase in wage rates abroad
 - (d) An increase in domestic labour productivity accompanied by an increase in domestic wage rates

4. An economy has a surplus on the current account of its balance of payments. Under which of the following circumstances is the economy most likely to experience a reduction in its current account surplus?

	Growth in the world economy	Domestic inflation	Domestic productivity
(a)	Falling	Rising	Falling
(b)	Falling	Falling	Falling
(c)	Rising	Falling	Falling
(d)	Rising	Rising	Rising

See next page

5. China accounts for approximately _____ per cent of Australia’s two-way trade.
- (a) 20
 - (b) 30
 - (c) 50
 - (d) 70
6. The diagram below shows the effects on a hypothetical market of a tariff on imports.



Which combination of values is correct?

	Consumer surplus under free trade	Consumer surplus after the tariff
(a)	\$7200m	\$5000m
(b)	\$3200m	\$2500m
(c)	\$3600m	\$2500m
(d)	\$1600m	\$1200m

7. A country experiences a decline in its exports and its imports. Which of the following is most likely to have caused these changes?
- (a) A decrease in the country’s exchange rate
 - (b) A decrease in the extent to which the country specialises
 - (c) An increase in both incomes at home and abroad
 - (d) An increase in trade liberalisation policies adopted at home and abroad
8. Currently Australia’s level of savings is greater than its level of investment. If investment were to increase relative to savings, then Australia’s current account balance would
- (a) decrease.
 - (b) increase.
 - (c) record a surplus.
 - (d) record a deficit.

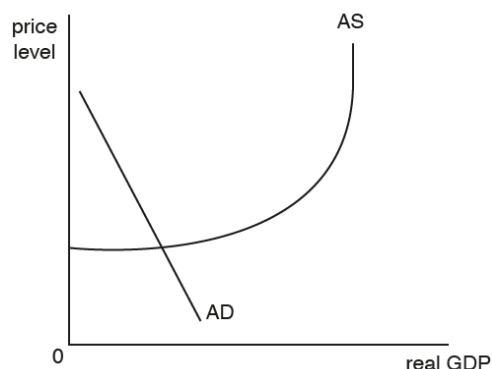
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9. What are the most likely effects of an appreciation of the Japanese yen against the AUD?
- (a) Fewer Japanese tourists visit Australia and an increase in the volume of exports from Japan into Australia
 - (b) More Japanese tourists visit Australia and an increase in the volume of exports from Japan into Australia
 - (c) Fewer Japanese tourists visit Australia and an increase in the volume of imports into Japan from Australia
 - (d) More Japanese tourists visit Australia and an increase in the volume of imports into Japan from Australia
10. There is a rise in the AUD exchange rate. Which of the following would cause the greatest decrease in Australia's trade balance?
- (a) A high level of domestic unemployment
 - (b) A high price elasticity of demand for imports
 - (c) A low price elasticity of demand for exports
 - (d) A low rate of domestic inflation
11. Which of the following commodities have the greatest weights in Australia's commodity price index?
- (a) LNG and crude oil
 - (b) Coal and crude oil
 - (c) Iron ore and coal
 - (d) Iron ore and LNG
12. An increase in Australia's foreign assets (*ceteris paribus*) will cause
- (a) Australia's net foreign debt to fall.
 - (b) Australia's net foreign debt to rise.
 - (c) Australia's net foreign liabilities to rise.
 - (d) Australia's net foreign liabilities to fall.
13. If the government increases its spending on pensions, which category of GDP will increase?
- (a) Consumption
 - (b) Investment
 - (c) Government
 - (d) Net exports
14. Which one of the following would be regarded as a supply-side shock for the Australian economy?
- (a) An economic downturn in the US economy affecting Australian exports.
 - (b) A rise in interest rates discouraging borrowing.
 - (c) Rising oil and gas prices increasing the costs of Australian firms.
 - (d) A rise in tax rates imposed on household incomes.

See next page

15. The marginal propensity to consume (MPC) in an economy is 0.5. If the MPC increases by 20% the new value of its multiplier will be
- (a) 2.0
 - (b) 2.5
 - (c) 5.0
 - (d) 10.0
16. A government raises income tax rates for very high wage earners and spends all of the extra revenue raised on higher welfare benefits. The result is a reduction in income inequality and a fall in the rate of economic growth. This is most likely to
- (a) show a potential conflict between macroeconomic policy objectives.
 - (b) lead to a reduction in government borrowing and national debt.
 - (c) result in an improvement in incentives to work.
 - (d) show the use of a contractionary fiscal policy.
17. Assume that the MPC is equal to 0.7. If government spending increased by \$10 billion and taxes increased by \$10 billion, other things being equal, the equilibrium level of output will
- (a) not change.
 - (b) increase by \$0.7 billion.
 - (c) increase by \$7 billion.
 - (d) increase by \$10 billion.

18. Refer to the model opposite. If the cash rate in the economy is 0.1%, which policy would be most appropriate?
- (a) Expansionary fiscal policy
 - (b) Contractionary monetary policy
 - (c) Expansionary monetary policy
 - (d) Supply side policy



19. Which combination of changes will be most likely to strengthen the operation of automatic stabilisers during a boom?

	Income tax rates	Unemployment benefit rates
(a)	decrease	decrease
(b)	decrease	increase
(c)	increase	decrease
(d)	increase	increase

See next page

20. An expansionary monetary policy has been implemented. Which one of the following combinations of macroeconomic changes is most likely to happen?
- (a) A fall in the price of imports and increased demand for bank loans
 - (b) A rise in consumption and an increase in house prices
 - (c) An increase in employment and a rise in government borrowing
 - (d) An increase in retail sales and a rise in the savings ratio
21. The Reserve Bank Board has to assess inflationary pressures when deciding on the level of the cash rate. Which one of the following pieces of information is most likely to persuade the Board to raise the cash rate?
- (a) A fall in the number of job vacancies advertised
 - (b) GDP growth rate below the trend rate
 - (c) Surveys showing that many firms have spare capacity
 - (d) Statistics showing an increase in bank lending to households
22. An economy is experiencing economic growth accompanied by falling unemployment. This is due to rising aggregate demand following the introduction of an expansionary fiscal policy. Which one of the following is most likely to help the economy avoid rising inflation?
- (a) A fall in the exchange rate and falling productivity
 - (b) A fall in the exchange rate and rising productivity
 - (c) A rise in the exchange rate and rising productivity
 - (d) A rise in the exchange rate and falling productivity
23. Which of the following is likely to lead to an increase in labour productivity?
- (a) An increase in government investment in healthcare
 - (b) A business cycle expansion
 - (c) The Reserve Bank adopts an expansionary monetary policy
 - (d) An increase in labour force participation
24. An example of structural change occurring during the Covid pandemic was
- (a) the government increasing its spending on welfare.
 - (b) consumption spending shifting from domestic retail to online shopping.
 - (c) firms decreasing investment spending on new construction.
 - (d) households increasing their savings and reducing spending on imports.
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End of Section One

See next page

YEAR 12 ATAR ECONOMICS

SECTION 1: Multiple Choice Answer Sheet

Student Name: _____

Student number:

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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.

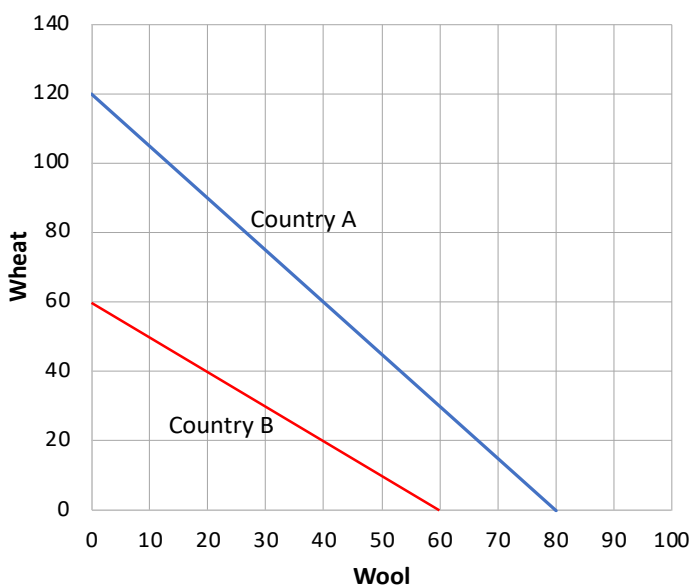
Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

Suggested working time: 70 minutes.

Question 25

(12 marks)

(a) The diagram below shows the PPFs for countries A and B producing wheat and wool.



i. Determine which country has the comparative advantage in each good:

Wheat: _____

Wool: _____ (2 marks)

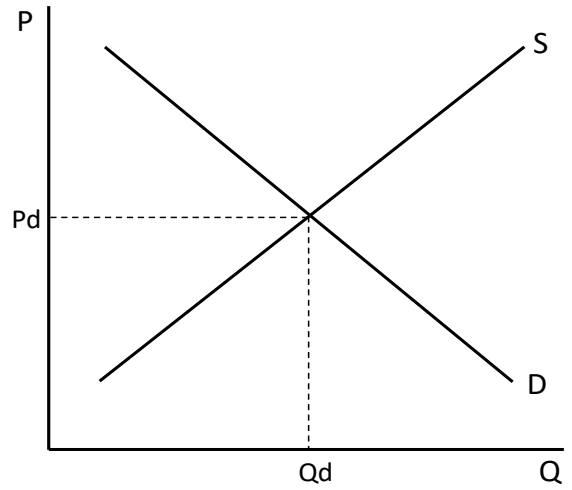
ii. If after specialisation, 1 wheat trades for 0.8 wool, draw and label each countries consumption possibilities frontier on the diagram.

Note: A consumption possibilities frontier represents the different amounts of two different products that a country can consume after specialisation and trade.

(2 marks)

(b) Use the demand/supply model below to demonstrate and explain how imports can result in an increase in economic welfare. (4 marks)

See next page



- (c) Explain how a subsidy paid to an import competing industry would affect consumer surplus, producer surplus and overall market efficiency. (4 marks)

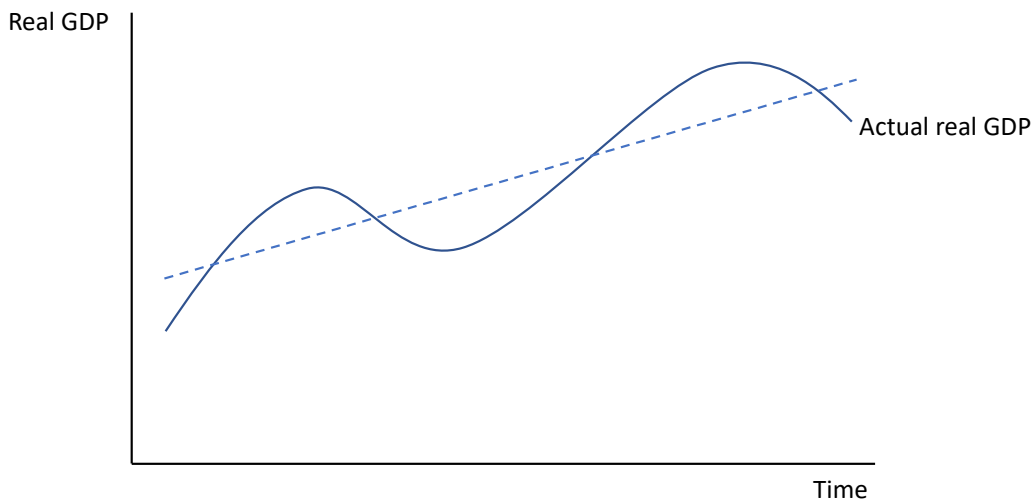
Question 26

(12 marks)

This question refers to the table below showing a comparison of various economic indicators for the Australian economy for June 2020 and June 2022.

<i>Indicator</i>	<i>June 2020</i>	<i>June 2022</i>	<i>Indicator</i>	<i>June 2020</i>	<i>June 2022</i>
<i>Cash rate target</i>	<i>0.25%</i>	<i>0.85%</i>	<i>Unemployment rate (monthly)</i>	<i>7.4%</i>	<i>3.9%</i>
<i>GDP growth (annual)</i>	<i>-6.0%</i>	<i>3.3%</i>	<i>Employment growth (annual)</i>	<i>-3.9%</i>	<i>2.9%</i>
<i>Inflation (annual)</i>	<i>-0.3%</i>	<i>5.1%</i>	<i>Median house price (\$'000)</i>	<i>820</i>	<i>1069</i>

(a) i State the meaning of the dotted line in the business cycle diagram. (1 mark)



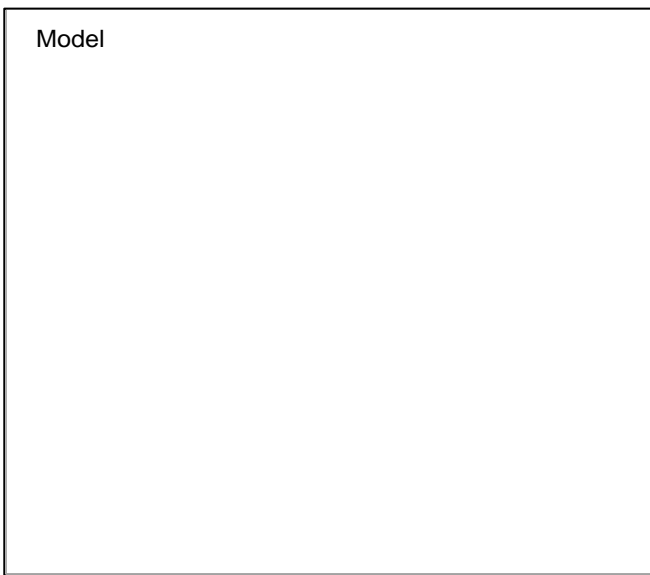
(a) ii On the diagram, show the position of the economy for the **two** time periods – label point A for June 2020 and point B for June 2022. (2 marks)

(b) Refer to **two** economic indicators to explain your choice for point B. (4 marks)

Indicator 1: _____

Indicator 2: _____

(c) Use the aggregate expenditure (AE) model to explain the effect of the change in house prices between June 2020 to June 2022 on the economy. (5 marks)



Question 27

(12 marks)

This question refers to the monetary policy decision by the Reserve Bank, June 2022.

At its meeting today, the Board decided to increase the cash rate target by 50 basis points. Inflation in Australia has increased significantly. Global factors account for much of this increase in inflation. But domestic factors are playing a role too, with capacity constraints in some sectors and the tight labour market contributing to the upward pressure on prices. Today's increase in interest rates will assist with the return of inflation to target over time.

The Australian economy is resilient, growing by 3.3 per cent over the year. Macroeconomic policy settings are supportive of growth and national income is being boosted by higher commodity prices. The terms of trade are at a record high. The labour market is also strong. Employment has grown significantly and the unemployment rate is the lowest rate in almost 50 years.

Today's increase in interest rates is a further step in the withdrawal of the extraordinary monetary support that was put in place to help the Australian economy during the pandemic. The Board is committed to doing what is necessary to ensure that inflation in Australia returns to target over time. (RBA media release)

- (a) To what extent has the Reserve Bank achieved its economic objectives? (3 marks)

- (b) Use the aggregate demand/aggregate supply (AD/AS) model to illustrate and explain the effect of **one** demand and **one** supply factor on Australia's inflation rate. (4 marks)

Model

(c) Explain how **two** channels of the monetary policy transmission mechanism could return inflation to its target range. (5 marks)

End of Section Two

Section Three: Extended response 40% (40 Marks)

Section Three consists of **two** parts, Part A: Unit 3 and Part B: Unit 4.

Part A: Unit 3 consists of Questions 28 and 29.

Part B: Unit 4 consists of Questions 30 and 31.

Answer **one** question from Part A: Unit 3 and **one** question from Part B: Unit 4. 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.

Part A: Unit 3 20% (20 Marks)

Choose **either** Question 28 **or** Question 29.

Indicate the question you will answer by ticking the box next to the question. Write your answer on pages 16-19. **When you have completed Part A: Unit 3, turn to page 20.**

Suggested working time: 40 minutes.

Question 28**(20 marks)**

- (a) Use a demand/supply model to explain how an increase in Australia's terms of trade will affect Australia's trade weighted index. (8 marks)
- (b) Explain **three** effects of a rise in both the trade weighted index and the terms of trade index on the Australian economy. (12 marks)

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

- (a) Outline the trend in Australia's current account balance since 2019 and explain **four** reasons for this trend. (10 marks)
- (b) Explain the concept of foreign direct investment and describe **two** benefits and **two** costs of an increase in foreign direct investment into the Australian economy. (10 marks)
-

See next page

Question number: _____

Lined area for writing answers, consisting of approximately 25 horizontal lines.

Part B: Unit 4 20% (20 Marks)

Choose **either** Question 30 **or** Question 31.

Indicate the question you will answer by ticking the box next to the question. Write your answer on pages 21-24.

Suggested working time: 40 minutes.

Question 30**(20 marks)**

Between 2019-20 and 2021-22, the government recorded budget deficits of \$85 billion, \$134 billion and \$80 billion.

- (a) Explain **three** reasons for these record budget deficits and describe why the Government's budget deficit is expected to fall significantly by 2025-26. (8 marks)
- (b) Discuss **three** strengths and **three** weaknesses of using fiscal policy to stabilise the business cycle. (12 marks)

OR**Question 31****(20 marks)**

- (a) Discuss the meaning and importance of the marginal propensity to consume. Use the aggregate expenditure model to explain the effects of an increase in the marginal propensity to consume on the equilibrium level of income. (8 marks)
- (b) Use the aggregate demand/aggregate supply (AD/AS) model to illustrate and explain the impact of each of the following events on the Australian economy.
- An increase in government investment.
 - A decrease in the working age population.
 - A depreciation of the AUD

(12 marks)

End of Questions

Supplementary page

Question number: _____

Lined area for writing the answer.

