

**Examination, 2021**

**Question/Answer Booklet**

ECONOMICS Unit 3 and 4 Semester 2, 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

Multiple-choice Answer Sheet

2 x Extended Response Answer Booklet

***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 | 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. 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 booklets provided. 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 Answer 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 are likely outcomes for participating countries of a move towards freer trade?

 i. a greater product choice

 ii. a more equal distribution of income

 iii. Greater international specialisation

 iv. Higher standards of living

(a) i and iii

(b) iii and iv

(c) i, ii and iv

(d) i, iii and iv

2. Which of the following was **least** affected by the global health crisis of 2020-21?

(a) Trade in goods

(b) Trade in services

(c) Labour mobility

(d) Immigration

3. Australia’s international competitiveness would decline if

(a) the nation’s trade intensity was increased.

(b) wage costs rose faster than productivity.

(c) the trade weighted index fell.

(d) industry subsidies and tariffs were reduced.

4. Which of the following statements are true?

i. When the world price of a good is lower than the price that balances domestic supply and demand, a country gains from exporting the good.

ii. Compared to a no-trade situation, imports make consumers better off.

iii. Tariffs raise the domestic price of imported goods.

(a) i and ii

(b) ii and iii

(c) i and iii

(d) i, ii and iii

5. The table below shows the production of food and clothing for Australia and Japan. Which of the following options correctly interprets the information in the table?

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|  | **Australia** | **Japan** |
| **Food**  | 500 | 250 |
| **Clothing** | 500 | 420 |

(a) Australia has a comparative advantage in clothing production.

(b) Japan has an absolute advantage in food production.

(c) Japan has a comparative advantage in clothing production.

(d) Japan has no comparative advantage.

6. An increase in Australia’s current account balance is **most** likely to occur when

(a) Australia’s economic growth rate increases.

(b) the import price index rises.

(c) the Australian dollar appreciates.

(d) the export price index rises.

7. What is **least** likely to change an economy’s terms of trade?

(a) Its level of labour productivity

(b) Its rate of inflation

(c) The maintenance of a stable foreign exchange rate

(d) The occurrence of random supply shocks

8. The figures below relate to a hypothetical economy:

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|  | **Year 1($bn)** | **Year 2 ($bn)** |
| **Exports** | 1300 | 1200 |
| **Imports** | 1000 | 1100 |
| **Service credits** | 600 | 800 |
| **Service debits** | 500 | 500 |
| **Net income** | -300 | -400 |

Which of the following options correctly relates to the change from Year 1 to Year 2?

(a) There was a depreciation of the Australian dollar.

(b) The savings-investment gap increased.

(c) Cost of freight has decreased.

(d) Domestic economic growth has decreased.

9. What is likely to happen if there is an appreciation in a country’s currency?

(a) A fall in the foreign currency price of its exports.

(b) A rise in the domestic currency price of its imports.

(c) A rise in the volume of its imports.

(d) A rise in the domestic price level.

10. Australia pays interest on its foreign debt. How will this economic transaction be recorded in Australia’s Balance of Payments?

i. Credit in the current account

ii. Debit in the current account

iii. Credit in the financial account

iv. Debit in the financial account

(a) i only

(b) ii only

(c) i and iv

(d) ii and iii

11. According to the consumption function, as a household's disposable income increases, its autonomous expenditure \_\_\_\_\_\_\_\_ and its induced expenditure \_\_\_\_\_\_\_\_.

(a) increases; does not change

(b) decreases; does not change

(c) does not change; increases by a smaller amount than the increase in income

(d) increases; increases by a smaller amount than the increase in income

12. If nominal interest rates rise from 7% to 9%, while domestic inflation rises from 1% to 5%, this could be expected to cause:

(a) Increased levels of foreign investment resulting in an appreciation of the currency.

(b) Increased levels of foreign investment resulting in a depreciation of the currency.

(c) Decreased levels of foreign investment resulting in a depreciation of the currency.

(d) Decreased levels of foreign investment resulting in an appreciation of the currency.

13. During 2021, the Australian economy experienced rising output, rising inflation, rising incomes and falling unemployment. These conditions best describe a business cycle

(a) expansion.

(b) peak.

(c) contraction.

(d) trough.

14. An Australian citizen buys a factory in the United States. This is an example of

(a) a decrease in Australia’s foreign assets.

(b) an increase in Australia’s foreign liabilities.

(c) foreign portfolio investment.

(d) foreign direct investment.

15. A $15 billion increase in investment leads equilibrium income to increase from $700 billion to $737.5 billion. The MPC must equal

(a) 2.5.

(b) 1.5.

(c) 0.6.

(d) 0.4.

16. Which of the following are the largest expenditure and revenue categories respectively in the Australian federal budget?

(a) Education, company tax

(b) Social security and welfare, income tax

(c) Health, goods and services tax (GST)

(d) Defence, social security

17. If the Reserve Bank raises the cash rate, eventually the

(a) aggregate supply curve shifts leftward, decreasing real GDP and increasing the price level.

(b) aggregate demand shifts rightward, increasing real GDP and the price level.

(c) aggregate demand shifts leftward, decreasing real GDP and the price level.

(d) aggregate supply curve shifts rightward, decreasing real GDP and increasing the price level.



18. The change in the diagram from AS to AS1 could be caused by:

(a) energy prices fall.

(b) productivity increases.

(c) the capital stock increases.

(d) input prices increase.

19. The longest economic policy lag for monetary policy is the

(a) effect lag.

(b) recognition lag.

(c) decision lag.

(d) implementation lag.

20. Suppose the government is considering cutting taxes by $20 billion or increasing government spending on goods and services by $20 billion. Then

(a) both policies would increase aggregate demand by the same amount.

(b) both policies would increase aggregate demand but the tax cut has a smaller effect.

(c) both policies would increase aggregate demand but the increase in government spending has a smaller effect.

(d) the tax cut would decrease aggregate demand and the increase in government spending would increase aggregate demand.

21. Labor productivity refers to the quantity of goods and services that can be produced

(a) by the entire labor force.

(b) in the entire economy in one year.

(c) by one worker or by one hour of work.

(d) by all employed workers.

22. What two factors are the keys to determining labour productivity?

(a) The business cycle and the growth rate of real GDP

(b) The growth rate of real GDP and the interest rate

(c) The average level of education of the workforce and the price level

(d) Technology and the quantity of capital per hour worked

23. Recent structural change in Australia has been driven by:

(a) changes in the level of business investment.

(b) more flexible work arrangements.

(c) longer life expectancies.

(d) increasing proportion of part-time workers.

24. Structural change can often have the impact of:

i. Structural unemployment

ii. Lower economic growth

iii. Increasing foreign investment

iv. Increasing agricultural exports

(a) i and ii

(b) i and iii

(c) i and iv

(d) i only

***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)**

**Exporters told International Freight Assistance Mechanism subsidy to continue until mid-2022**

The federal government will extend until June next year a subsidy that helps exporters deliver fresh food to countries around the world.

Trade Minister Dan Tehan said an additional $260 million would be contributed to the International Freight Assistance Mechanism (IFAM), which was due to end in the middle of 2021. The latest funding announcement brings the government's contribution to the scheme to more than $1 billion over the life of the program.

"Our government's support for Australian producers has ensured they have maintained their reputation as high-quality, reliable suppliers," Mr Tehan said. "Australia is a trading nation and trade and trade creates jobs, drives innovation, and underpins our economic growth.”

The IFAM was introduced in April last year when Australia closed its borders, restricting the number of flights in and out of the country. Almost overnight, flights dropped by more than 90 per cent. Farmers and exporters who had relied on passenger flights to deliver fresh produce into overseas markets lost access to their customers and had damage bills that ran into the millions. "The program has [also] been critical to ensuring the flow of vital imports, such as medical supplies and other essential items, as Australia continues its economic recovery," Mr Tehan said.

Mr Tehan said the IFAM remained a temporary, emergency measure.

The IFAM has proved popular with exporters who claim they could not afford to send produce overseas otherwise. The Export Council of Australia had previously called on the government to continue the program.

Adapted from: <https://www.abc.net.au/news/2021-08-27/air-freight-help-extended-through-to-mid-2022/100411256>

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| (a) | State the value of the government contributions to the International Freight Assistance Mechanism (IFAM). | ( 1 mark ) |
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| (b) | Outline one reason the Australian government has offered the International Freight Assistance Mechanism (IFAM).  | ( 1 mark ) |
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| (c) | Discuss whether Australia joining the ASEAN trade bloc would improve Australia’s trade.  | ( 4 marks ) |
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| (d) | With the use of an appropriate diagram, discuss whether the subsidy should remain as an emergency measure or be continued beyond June next year. | ( 6 marks ) |
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**Question 26 (12 marks)**

**Australian Government Budget Balance**

As a result of the government’s substantial economic stimulus, the economy is recovering strongly from its first recession in almost 30 years, growing at its fastest pace on record over the latter half of 2020. In the 2021-22 Budget the Government is continuing to provide support to Australian households and businesses to drive the unemployment rate down. Key measures include:

* $7.8 billion to extend tax relief to low- and middle-income earners
* $20.7 billion in tax relief for businesses
* $15.2 billion in new commitments to infrastructure projects across Australia.

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| **Financial Year** | **Planned Budget Outcome $b** | **Actual Budget Outcome $b** | **Real GDP** | **Unemployment rate %** |
| 2018‑19 | -14.5 | -0.7 | 2.25 | 5.0 |
| 2019‑20 | 7.1 | -85.3 | -0.2 | 6.9 |
| 2020‑21 | -161 |  | 1.25 | 5.5 |
| 2021‑22 | -106.6 |  | 4.25 | 5.0 |
| 2022‑23 | -99.3 |  | 2.5 | 4.7 |

*Source: Statement 1, Budget Overview 2021-21.*

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| (a) | Define recession. | ( 1 mark ) |
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| (b) | Calculate the difference between the planned budget outcome and the actual budget outcome for 2019 – 2020. | ( 1 mark ) |
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| (c) | State the main method used by the Australian Government to fund the budget deficit and outline one disadvantage associated with this method. | ( 2 marks ) |
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| (d) | Explain why the planned budget outcome for 2019 – 2020 was different to the actual budget outcome. | ( 3 marks ) |
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| (e) | Using an appropriate model, explain the impact of the tax relief for income earners and business on the macroeconomy. | ( 5 marks ) |
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**Question 27 (12 marks)**

**Table 1; Current account, main aggregates**

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| **Quarter** | **Current account balance ($b)** | **Net goods & services ($b)** | **Net primary income ($b)** | **Net Foreign Debt ($b)** | **Trade Weighted Index (AUD)** |
| **Mar – 19** | -3.0 | 13.4 | -15.9 | 1,174.5 |  |
| **Mar – 20** | 7.0 | 17.8 | -10.5 | 1,179.6 | 56.1 |
| **Mar – 21** | 18.3 | 24.8 | -6.0 | 1,138.9 | 63.9 |

Source: <https://www.abs.gov.au/media-centre/media-releases/australias-current-account-surplus-hits-record-high-183b>

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| (a) | Calculate the change in net goods and services from March 2020 to March 2021. | ( 1 mark ) |
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| (b) | Define net primary income. | ( 1 mark ) |
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| (c) | Explain the impact of the change in the Australian exchange rate from March 2020 to March 2021 on the:1. Balance on goods and services
 | ( 4 marks ) |
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| (d) | With reference to the data, discuss the benefits and costs of current levels of foreign debt.  | ( 6 marks ) |
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***End of Section Two***

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

This section contains **four (4)** questions. Answer **two (2)** questions. Write your answers in the Extended Response Answer booklets 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)**

Explain the patterns and trends in the composition and direction of Australian trade and evaluate the economic arguments for and against trade liberalisation.

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

1. Discuss and account for the recent trends in Australia’s terms of trade and the implications of these trends for Australia. (12 marks)
2. Discuss the factors that have contributed to the recent trends in Australia’s Current Account balance. (8 marks)

**Question 30 (20 marks)**

*The main drivers of growth in the June 2021 quarter were private investment (which added 0.9 percentage points to the quarterly result) and household consumption (which added 0.7 percentage points).*

1. Discuss four factors that could cause the change in consumption and/or investment in the June 2021 quarter. Explain how these changes could impact the Australian economy. (12 marks)
2. Use the aggregate expenditure model to explain how macroeconomic equilibrium is determined if spending does not equal output. (8 marks)

**Question 31 (20 marks)**

1. Use the AD/AS model to explain the relationship between productivity and the macroeconomic objectives of the Australian government. (8 marks)

(b) Explain how monetary policy works to affect the level of economic activity and discuss its current effectiveness. (12 marks)

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***End of Questions***

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