Name: _____

Macquarie Fields High School

2012 Higher School Certificate

Economics

Half-Yearly Examination

Part I

Time allowed: 70 minutes

Section I (20 marks)
Questions 1-20 multiple choice

Section II (30 marks)
Questions 21-23 short responses

Total marks: 50

Section I Multiple choice (20 marks)

1. The table shows selected data for an economy

Balance of Payment items	*$ billion ($bn)*
Exports	300
Imports	380
Net services	-60
Net income	-220
Net current transfers	70

According to the data, which statement is correct for an economy with a floating exchange rate?

(A) There is a deficit of $430bn on the current account

(B) There is a surplus of $430bn on the current account

(C) There is a deficit of $290bn on the capital and financial account

(D) There is a surplus of $290bn on the capital and financial account

2. Which of the following may cause a depreciation of the Australian dollar?

(A) World commodity prices increase

(B) Australia's interest rates increase relative to overseas interest rates

(C) Imports into Australia increase

(D) Foreign investors purchase an Australian firm

3. An economy is a net importer of manufactured goods and a net exporter of commodities.

Which of the following will lead to an improvement in its terms of trade?

(A) The prices for commodities increase relative to prices for manufactured goods on world markets

(B) The prices for manufactured goods increase relative to commodity prices on world markets

(C) The volume of manufactured exports increases relative to the volume of commodity imports

(D) The volume of manufactured exports decreases relative to the volume of commodity imports

4. Which international organisation is focused on granting loans to developing countries to reduce poverty and encourage development?

   (A) World Bank

   (B) World Trade Organisation

   (C) International Monetary Fund

   (D) Organisation for Economic Cooperation and Development

5. What would be the likely impact on an economy if the government increased subsidies to its domestic car industry?

   (A) The domestic price of cars would decrease.

   (B) The market share of domestic producers would decline

   (C) The supply of cars in the domestic market would decrease

   (D) Foreign producers would find it easier to access the domestic market

6. Under a floating exchange rate system, what would be the likely effect of a rise in Australia's inflation rate relative to the average rate of inflation of Australia's major trading partners?

   (A) An increase in the demand for the Australian dollar

   (B) A deterioration in the balance on Australia's current account

   (C) An increase in demand for Australian exports

   (D) An improvement in Australia's net goods

7. Which of the following could be recorded as debit in the current account of the Australian balance of payments?

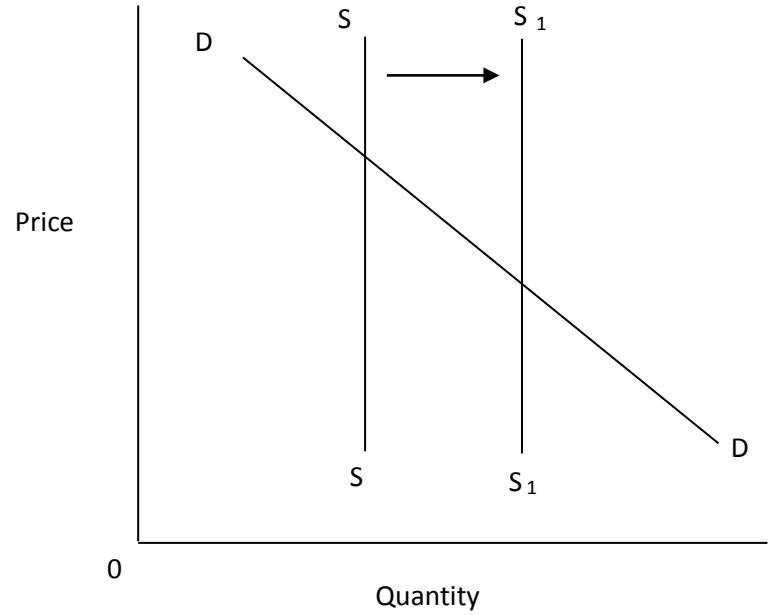
   (A) Expenditure on exports

   (B) Dividends paid to foreign investors

   (C) Interest paid to Australian lenders

   (D) Foreign aid from the Australian government for capital works in Indonesia

8. The diagram shows the impact of a change in the quota for imported cars.



According to the diagram, what are the effects of a movement in the supply curve from SS to S_1S_1?

(A) The quota has decreased and local car producers face more competition

(B) The quota has decreased and local car producers face less competition

(C) The quota has increased and local car producers face more competition

(D) The quota has increased and local car producers face less competition

9. The table shows selected data for an economy.

Real GDP ($bn)	*Net foreign liabilities ($bn)*	*Net foreign debt ($bn)*
1430	850	600

What is the value of net foreign equity as a percentage of real GDP?

(A) 15.6%

(B) 24.5%

(C) 31.1%

(D) 57.9%

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

Currency	*Relative weights*	
	Year 1	*Year 2*
Chinese Renminbi	19.1	22.5
Japanese Yen	17.8	15.2
United States Dollar	14.9	16.3
European Euro	11.5	9.8

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

(A) The implementation of a free trade agreement between Australia and Japan

(B) An increase in the volume of Australia's trade with China

(C) A reduction in goods imported from the United States

(D) An increase in Australia's demand for traded commodities from Europe

11. The table shows selected data for an economy

Year	*Export Price Index*	*Import Price Index*
1	100	100
2	110	102
3	113	108

Which of the following statements about this nation's terms of trade is correct?

(A) Terms of trade improved from Year 1 through to Year 3

(B) Terms of trade deteriorated from Year 1 through to Year 3

(C) Terms of trade deteriorated from Year 1 to Year 2 and then improved from Year 2 to Year 3

(D) Terms of trade improved from Year 1 to Year 2 and then deteriorated from Year 2 to Year 3

12. The table shows the human development index (HDI) values for two countries.

Country	HDI
A	0.3
B	0.9

Which statement is most consistent with the HDI data given?

(A) The level of urbanisation is greater in Country A than Country B

(B) The population growth rate in Country B is higher than in Country A

(C) Economic growth is greater in Country B than in Country A

(D) Economic development is greater in Country B than in Country A

13. Which of the following best defines globalisation?

(A) All countries in the world that produce goods and services

(B) Total output in the global economy

(C) Increasing economic integration of countries

(D) Fluctuations in global economic activity

14. Which of the following best describes Australia's profile as a trading nation?

(A) Commodities importer and manufacturing goods exporter

(B) Commodities and manufacturing goods importer

(C) Commodities and manufacturing goods exporter

(D) Commodities exporter and manufacturing goods importer

15. In which account in Australia's Balance of Payments would reserve assets and portfolion investment transactions be recorded?

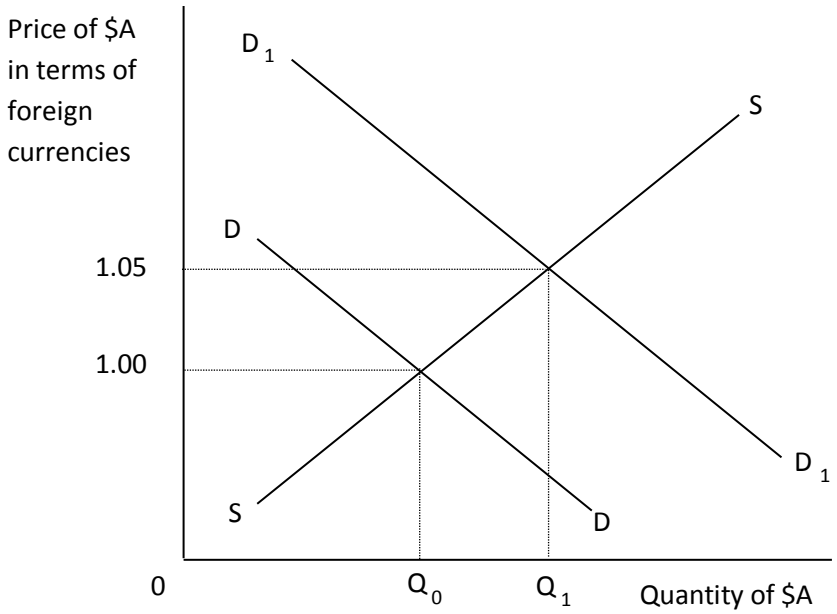
(A) Capital

(B) Current

(C) Financial

(D) Net incomes

16. The diagram shows the demand for and supply of Australian dollars.



Which of the following statements is a likely cause of the movement of the demand curve for Australian dollars from DD to D_1D_1?

(A) More Australian travelling abroad

(B) A deterioration in Australia's Terms of Trade

(C) An increase in Australia's interest rates relative to the rest of the world

(D) The Reserve Bank selling $A on the FOREX market

17. Which of the following is an economic argument for protection

(A) Resources are misallocated

(B) Reduce the risk of dumping of foreign products

(C) Increase levels of productivity in the domestic economy

(D) Reduce prices of foreign goods and services

18. Which statement best illustrates the effects of a subsidy on domestic production

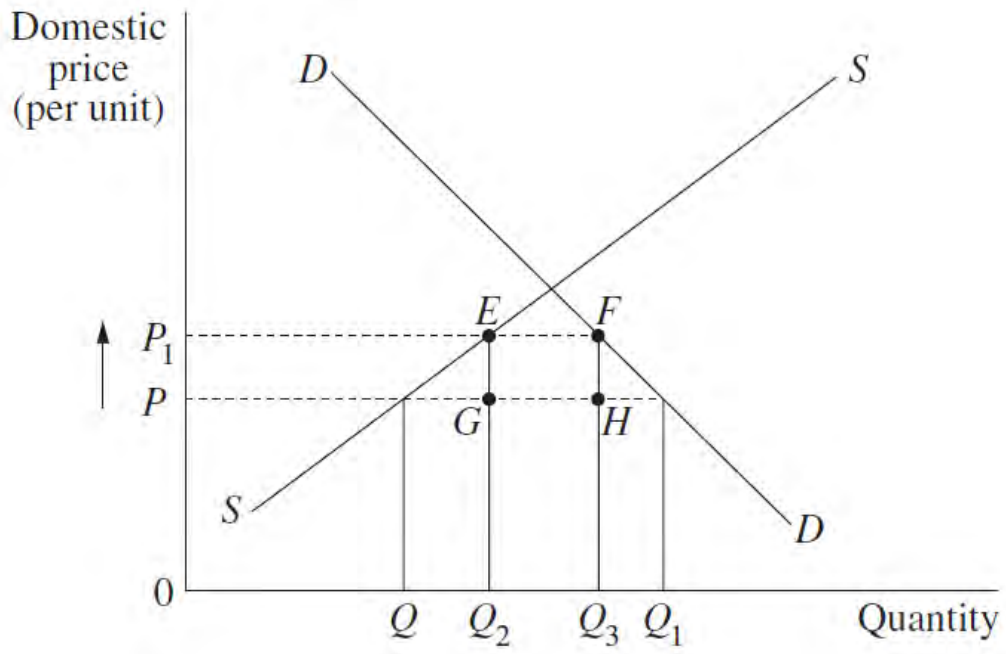
(A) A subsidy decreases the supply of the domestic good and lowers the price

(B) A subsidy decreases the supply of the domestic good and increases the price

(C) A subsidy increases the supply of the domestic good and lowers the price

(D) A subsidy increases the supply of the domestic good and increases the price

19. The graph shows the impact of the introduction of a tariff.



Which of the following describes the impact of introducing this tariff?

(A) Demand for the good increased from Q_3 to Q_1

(B) Government revenue increased by the rectangle EFGH

(C) Domestic firms market share decreased from Q_2 to Q

(D) Resource allocation improved as the demand for the imported products contracted from QQ_1 to Q_2Q_3

20. Which of the following indicates international convergence?

(A) Dismantling of internationally-based trade agreements

(B) Widening gaps between developed and developing economies

(C) Rising interest rates around the globe

(D) Increases in the international mobility of labour

Section II short response (40 marks)

Question 21

a) Briefly outline TWO factors which have strengthened the links between individual economies and the international business cycle. (2 marks)

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b) Distinguish between economic growth and economic development. (2 marks)

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c) Describe the role of ONE international organisation in creating greater economic integration. (2 marks)

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d) Explain ONE development strategy which led to high rates of economic growth in emerging economies. (4 marks)

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Question 22

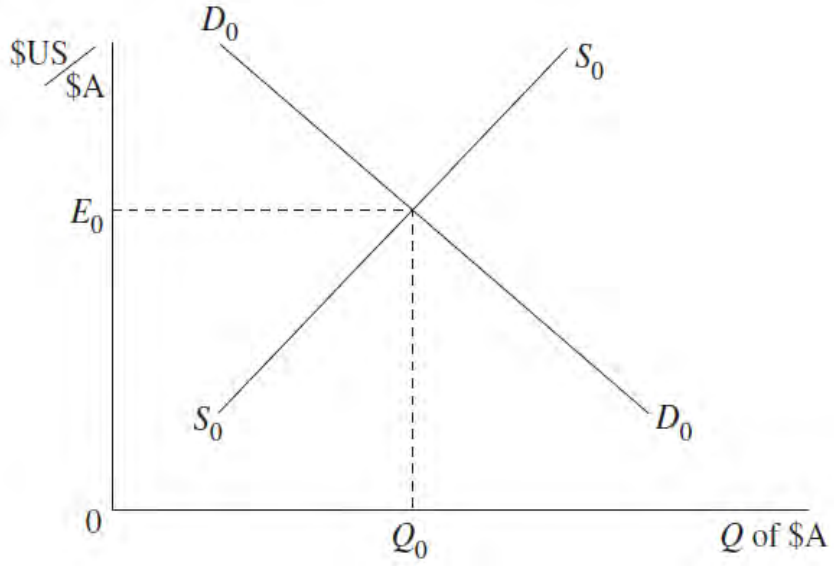
a) What is meant by the term *the promotion of freer trade*? (2 mark)

b) Explain Australia's involvement in ONE bilateral and ONE multilateral agreement. (4 marks)

c) Explain how Australia's free trade policies have impacted on Australian individuals and firms. (4 marks)

Question 23

(a) The graph shows the market for A$ in terms of US$



On the diagram, draw the new equilibrium which results when foreign companies buy shares in Australian companies.
Label the new equilibrium exchange rate and quantity, E_1 and Q_1. (2 Marks)

(b) Analyse how increasing interest rates by the Reserve Bank of Australia may influence the value of the exchange rate and the Balance of Payments. (5 marks)

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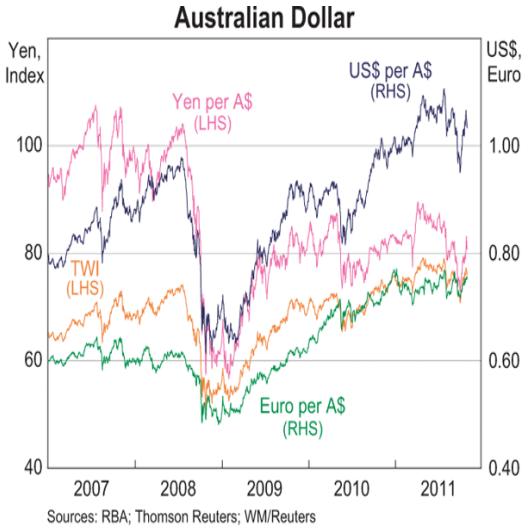
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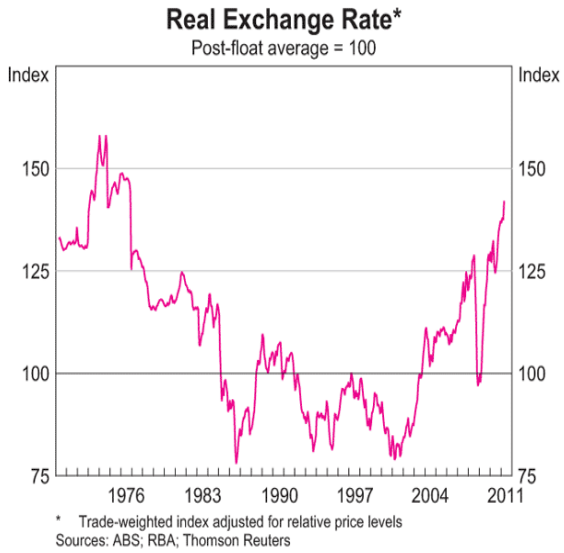
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(c) Using the stimulus briefly explain why TWI is a more accurate measurement of the Australian dollar. (3 marks)

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Time allowed: 50 minutes

Section III extended response (20 marks)

Total marks: 20

Attempt either Question 25 or Question 26

Answer the question in a writing booklet. Extra writing booklets are available.

In your answer you will be assessed on how well you:

- Demonstrate knowledge and understanding relevant to the question
- Use the information provided
- Apply relevant economic terms, concepts, relationships and theory
- Present a sustained, logical and cohesive response

Question25

Analyse recent trends in Australia's persistent current account deficit.

OR

Question 26

Discuss how the exchange rate influences Australia's Balance of Payments and its impact on the Australian economy.

Attempt either Question 25 or Question 26

Answer the question in a writing booklet. Extra writing booklets are available.

In your answer you will be assessed on how well you:

- Demonstrate knowledge and understanding relevant to the question
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Question25

Table 1 Balance of payments, Current account

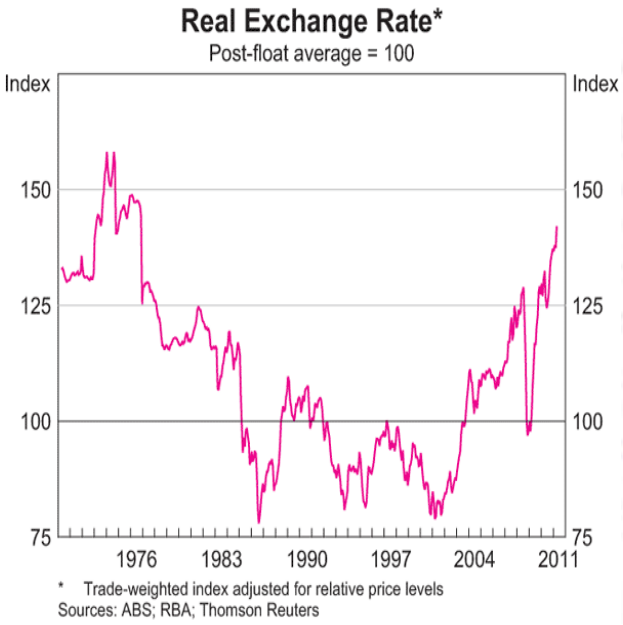
Period	Balance on current account	Balance on goods and services	Goods	Goods credits	Goods debits	Services	Primary income	Secondary income
				ANNUAL ($ MILLION)				
2008–09	**-37,272**	7,353	10,733	231,623	-220,890	-3,380	-44,376	-249
2009–10	**-56,018**	-4,621	-3,244	201,751	-204,995	-1,377	-50,327	-1,070
2010–11	**-33,229**	20,918	27,708	246,975	-219,267	-6,790	-53,613	-534

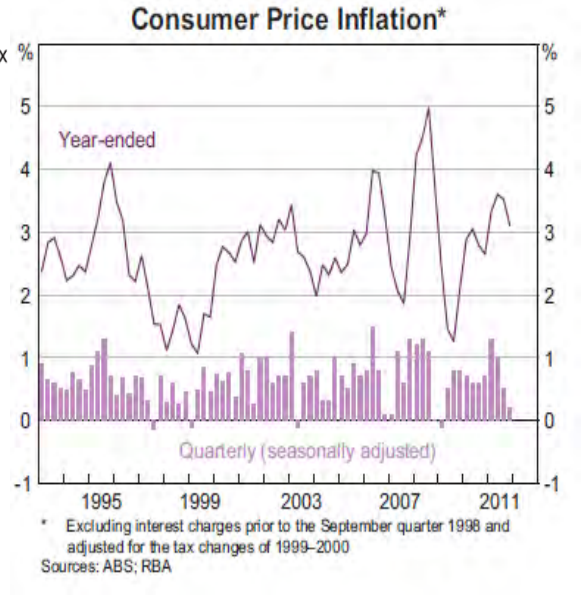
Table 2 Balance of payments, Capital and financial account

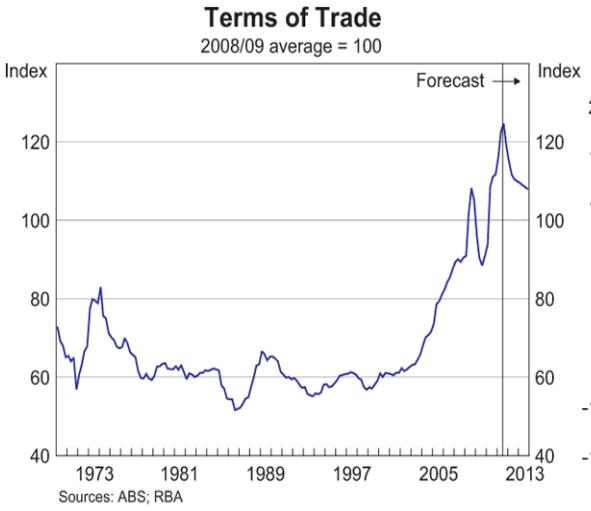
Period	Capital and Financial account	Capital account	Financial account	Direct investment net	Direct investment assets	Direct investment liabilities	Portfolio investment	Financial derivatives	Other investment	Reserve assets	Net errors and ommissions
					ANNUAL ($ MILLION)						
2008–09	38,139	-611	38,750	17,336	-30,999	48,335	48,539	-3,491	-11,738	-11,896	-867
2009–10	54,763	-291	55,054	20,668	-19,387	40,055	70,085	-9,762	-31,866	5,929	1,255
2010–11	33,503	-556	34,059	24,791	-15,053	39,843	33,829	-11,269	-10,093	-3,199	-273

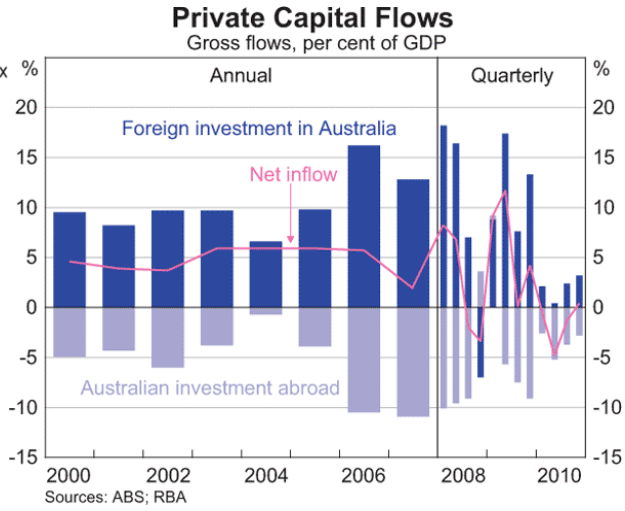
Discuss the economic impacts of Australia's persistent current account deficit.

OR









Question 26

Discuss how the exchange rate influences Australia's Balance of Payment and the Australian economy.

Table 1 Balance of payments, Current account

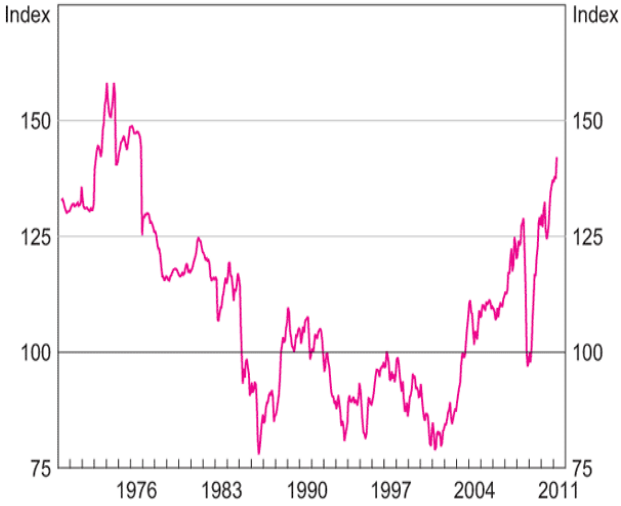
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Real Exchange Rate*

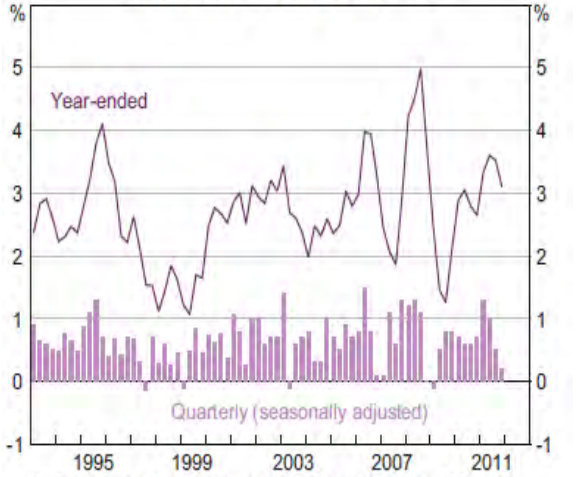
Post-float average = 100



* Trade-weighted index adjusted for relative price levels

Sources: ABS; RBA; Thomson Reuters

Consumer Price Inflation*

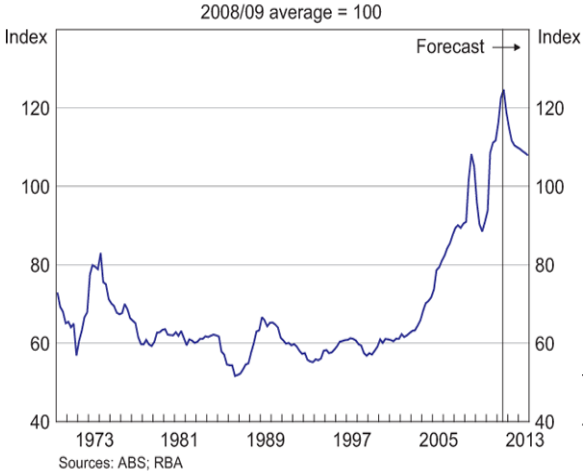


* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000

Sources: ABS; RBA

Terms of Trade

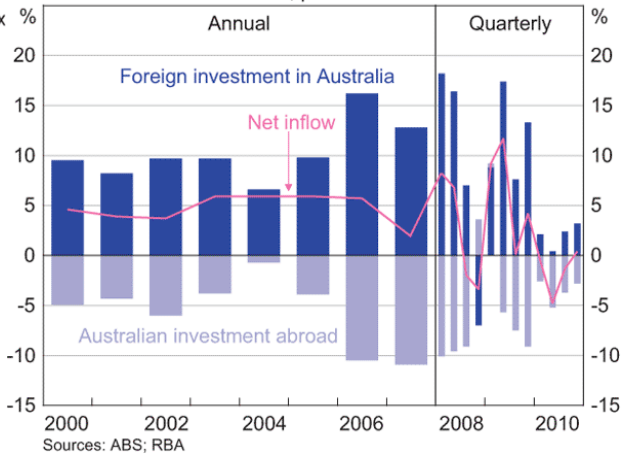
2008/09 average = 100



Sources: ABS; RBA

Private Capital Flows

Gross flows, per cent of GDP



Sources: ABS; RBA