CRANBROOK SCHOOL

Student Number

2021

Task 4

Weighting: 15%

Economics

General Instructions

- Working time – 3 hours
- Reading time 5 minutes
- Write using black pen
- NESA approved calculator allowed
- Write your Student number and name on the MC sheet
- Write your Student number (only) on each writing booklet

Total marks:
100

Section I – Multiple Choice
- 20 marks
- Attempt Questions 1–20
- Allow about 35 minutes for this section

Section II – Short answer questions
- 40 marks
- Attempt Questions 21–24
- Allow about 75 minutes for this section

Section III – Extended response questions
- 20 marks
- Attempt either Question 25 or 26
- Allow about 35 minutes for this section

Section IV – Extended response questions
- 20 marks
- Attempt either Question 27 or 28
- Allow about 35 minutes for this section

This page has been left blank intentionally

Section I Multiple Choice

Use the multiple-choice answer sheet

---

1. Which of the following is most likely to occur as a country becomes more economically developed?

(A) Life expectancy decreases
(B) Labour productivity increases
(C) Reliance on foreign aid increases
(D) Agricultural production as a share of GDP increases

2. What are the Reserve Bank of Australia's main objectives in implementing monetary policy?

(A) Price stability and full employment
(B) Price stability and a reduction in national debt
(C) Full employment and an increase in national savings
(D) Full employment and a more equal distribution of income

3. The table shows selected data for an economy.

Year	Real GDP ($bn)	Consumer Price index	Unemployment rate
1	$4000	100	5%
2	$3700	101	7.5%

For Year 2, which policy mix is most appropriate for policy makers focused ONLY on employment outcomes?

(A) Expansionary fiscal policy and expansionary monetary policy
(B) Contractionary fiscal policy and expansionary monetary policy
(C) Expansionary fiscal policy and contractionary monetary policy
(D) Contractionary fiscal policy and contractionary monetary policy

4. All other things being equal, what impact will a decrease in the domestic interest rates have on consumer spending and the household saving rate.

Consumer Spending	Household saving rate
(A) Falls	Falls
(B) Rises	Rises
(C) Falls	Rises
(C) Rises	Falls

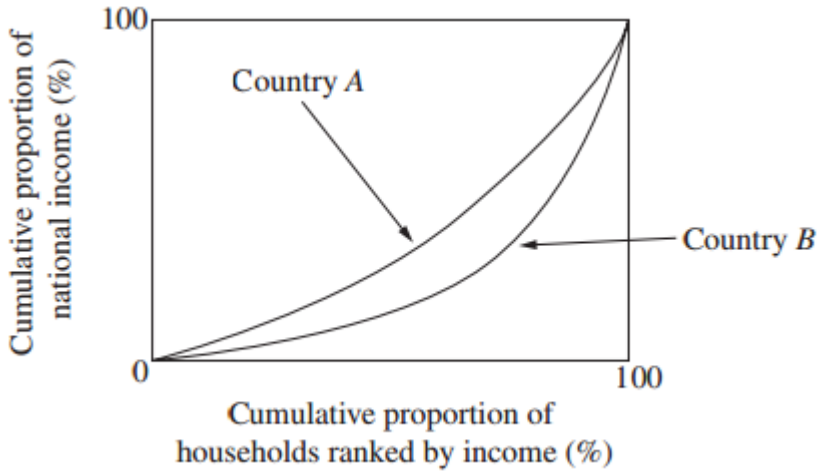
5. The table shows Current Account data for a hypothetical economy with a floating exchange rate.

Components of the Current account	**$ billion**
Exports of goods and services	350
Imports of goods and services	500
Net Primary Income	?
Net Secondary Income	20
Capital Account	60
Financial Account	500

What is the balance on the Net Primary Income account?

(A) A deficit of $430 billion
(B) A surplus of $380 billion
(C) A deficit of $560 billion
(D) A deficit of $380 billion

6. The diagram shows the Lorenz curves for Country A and Country B.



Which of the following statements is most likely to explain the different income distribution in Country A and Country B?

(A) Country A has higher rates of saving than Country B.
(B) Country A has higher GDP per capita than Country B.
(C) Country A has higher social welfare spending than Country B.
(D) Country A has higher incentives for entrepreneurs than Country B.

7. Which of the following is likely to encourage the hidden unemployed to enter the labour force?

(A) A reduction in child-care costs
(B) An increase in the unemployment rate
(C) An increase in marginal income tax rates
(D) A reduction in funding of traineeship programs

8. There is an increase in the Marginal Propensity to Consume (MPC). Which combination of changes in the simple multiplier and equilibrium income is most likely to result?

	Simple Multiplier	Equilibrium Income
(A)	Increases	Increases
(B)	Decreases	Decreases
(C)	Decreases	Increases
(D)	Increases	Decreases

9. The following table shows the volume and price of exports and imports for two years.

	Exports	Exports	Imports	Imports
Year	**Volume**	**Price**	**Volume**	**Price**
Year 1	100	100	100	100
Year 2	105	110	110	105

How have the Terms of Trade and the volume of net exports changed between Year 1 and Year 2?

Terms of Trade	Net exports
(A) Improved	Increased
(B) Deteriorated	Decreased
(C) Deteriorated	Increased
(D) Improved	Decreased

Questions 10 and 11 refers to the following table for the economy of Sampsonland

YEAR	Nominal GDP (billions)	Consumer price index
1	2,000	100
2	2,250	105
3	2,350	108

10. Calculate the real Gross Domestic Product in billions for the economy of Sampsonland for year 2.

(A) $2,350
(B) $2,190
(C) $2,143
(D) $2,176

11. Calculate the percentage change in Nominal GDP between year 2 and year 3.

(A) 4.44 %
(B) 12.5 %
(C) 3.2 %
(D) 14.6 %

12. In 1983 Australia moved from a fixed to a floating exchange rate.

Which of the following has been a disadvantage of the floating exchange rate?

(A) Lower foreign currency reserves
(B) Higher foreign currency reserves
(C) Increased exchange rate volatility
(D) Decreased exchange rate volatility

13. An Australian business sells the rights for an Australian-designed product to be sold overseas. How will this transaction be recorded in Australia's Balance of Payments?

(A) Debit in the capital account
(B) Credit in the capital account
(C) Debit in the financial account
(D) Credit in the financial account

.

14. Which of the following is most likely to be an example of a supply- side improvement in the economy?

(A) An increase in consumer confidence
(B) An increase in factor immobility
(C) An increase in exports
(D) An increase in business innovation

15. An initial increase in government spending of $20 million leads to a final increase in national income of $80 million. What is the value of marginal propensity to consume (MPC)?

(A) 0.25
(B) 0.4
(C) 0.6
(D) 0.75

16. A government has recently decided to increase the age of retirement.

Which of the following are the most likely impacts of this decision on the labour force participation rate and welfare expenditure?

	Impact on the labour force participation rate	Impact on welfare expenditure
(A)	Increase	Decrease
(B)	Decrease	Increase
(C)	Increase	Increase
(D)	Decrease	Decrease

17. The table shows the level of production in Brazil and India of sugar and tea.

	Coffee	**Tea**
Brazil	100	100
India	80	60

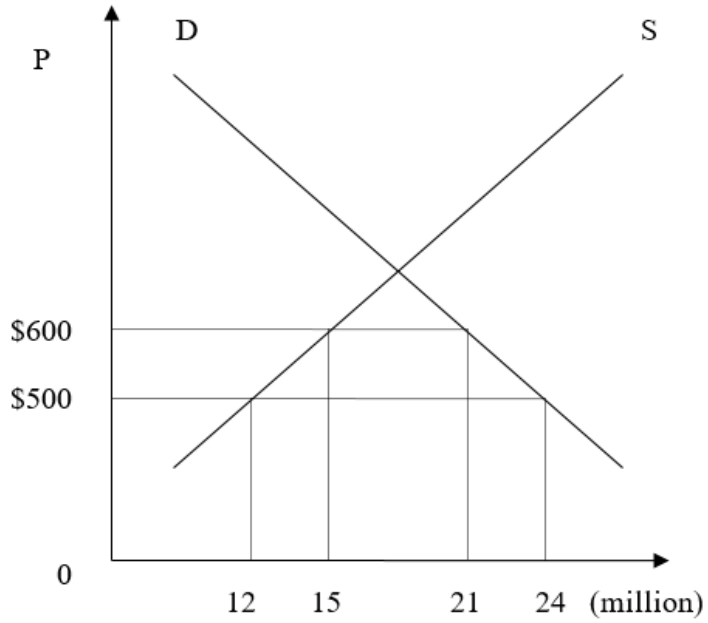
From the table it can be said that:

(A) Brazil has a comparative advantage in producing both coffee and tea
(B) India has an absolute advantage in producing tea whilst Brazil has an absolute advantage in producing coffee
(C) India can produce both coffee and tea at a cheaper price
(D) Brazil has an absolute advantage in producing coffee whilst India has a comparative advantage in producing coffee

18. Which of the following sectors contributes most to Australia's total employment?

(A) Agriculture
(B) Mining
(C) Services
(D) Manufacturing

19. The diagram shows the impact of a tariff on imported fridges. The world price is $500.



What is the effect of implementing a tariff on fridges?

(A) Domestic producers revenue will decline by $6,000m
(B) Domestic producers revenue will increase from zero to $6,000m
(C) Domestic producers revenue will increase from $6,000m to $9,000m
(D) Domestic producers revenue will decline from $9,000m to $6,000m

20 Which of the following is most likely to be a disadvantage of a centralised wage determination system?

(A) Increased income equality
(B) Wage increases cause inflation
(C) Enterprise bargaining determines wage outcomes
(D) Employment contracts can vary from one workplace to another

End of section I

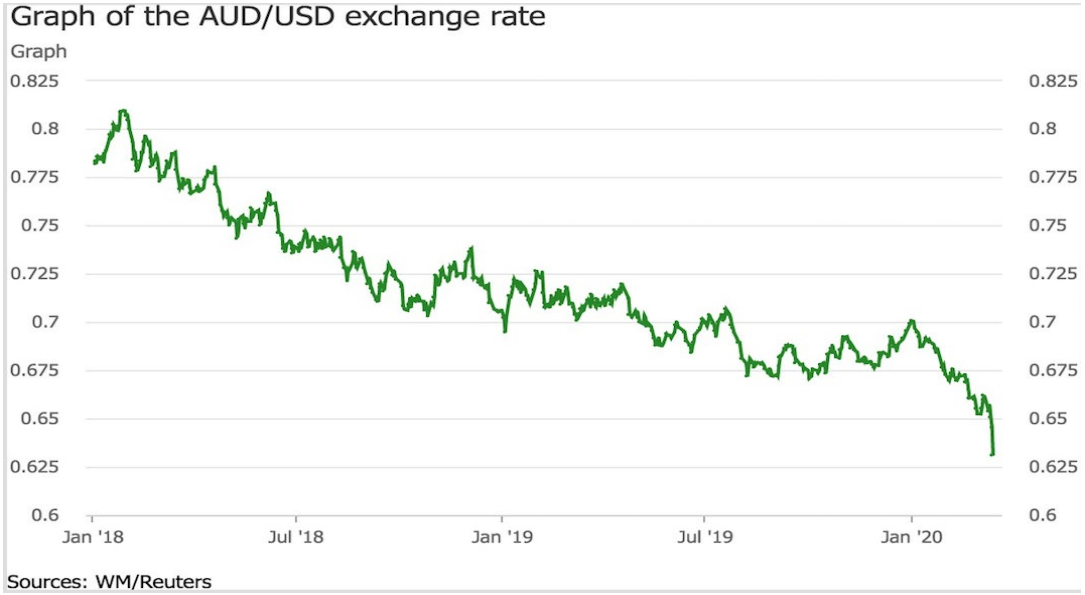
Section II – Short answer questions

20 marks
Attempt Questions 21-24

Answer the questions in the Writing Booklets

Question 21 (10 marks)

Refer to the diagram below to answer question 21 (a)



(a) Outline a reason for the change in the value of the Australian Dollar as shown in the diagram above. **2**

……

……

……

……

……

……

Question 21 continues over page

(b) Discuss ONE advantage and ONE disadvantage of a floating exchange rate. **2**

……

……

……

……

……

……

(c) How does Australia's savings and investment gap affect the foreign exchange market for the Australian dollar? **2**

……

……

……

……

……

……

Question 21 continues over page

(d) Analyse **TWO ways** in which the Reserve Bank of Australia can intervene to affect the value of the Australian dollar. **4**

……

……

……

……

……

……

……

……

……

……

……

……

End of question 21

Question 22 (10 marks)

(a) Outline ONE limitation of labour market policy in Australia. **2**

……

……

……

……

……

……

(b) Outline TWO safety nets in the Australian labour market. **2**

……

……

……

……

……

……

Question 22 continues over the page

(c) Describe TWO characteristics of enterprise agreements. **2**

……

……

……

……

……

……

(d) Discuss ONE cost and ONE benefit of the decentralised labour market system. **4**

……

……

……

……

……

……

……

……

……

……

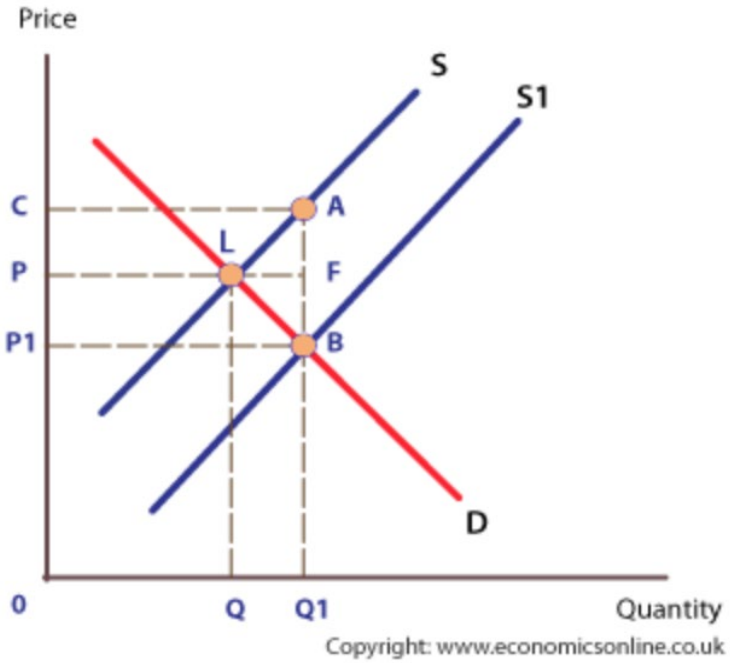
……

……

End of question 22

Question 23 (10 marks)

The diagram below shows the effects of a subsidy.



(a) On the diagram, clearly show the total cost to the government of the subsidy. **1**

(b) Outline ONE disadvantage of a Free Trade Agreement. **2**

……

……

……

……

……

……

Question 23 continues over the page

(c) Describe three characteristics of an emerging economy. **3**

……

……

……

……

……

……

……

……

……

(d) Discuss Australia's involvement in ONE regional trade agreement. **4**

Regional Trade Agreement: _____

……

……

……

……

……

……

……

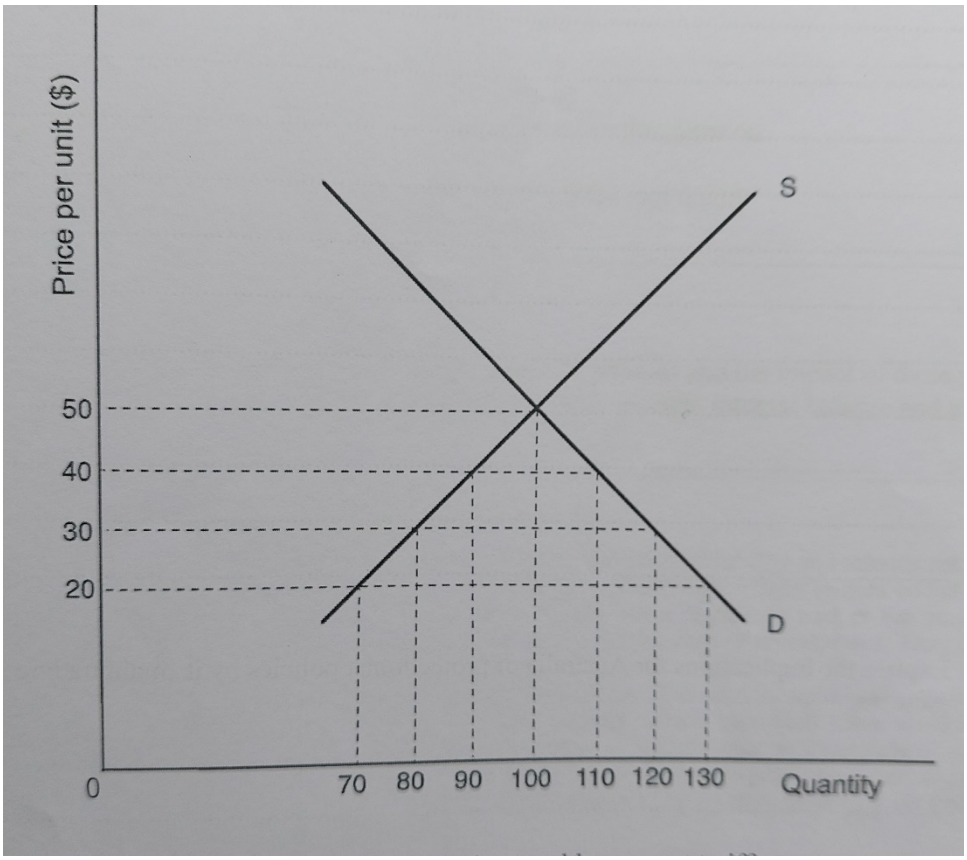
……

……

End of Question 23

Question 24 (10 marks)

The diagram illustrates the domestic market for headphones. The world price is $20.



(a) Indicate on the diagram above, the area that would represent the revenue collected by the government from a tariff of $10. **1**

(b) What quota would be required to maintain domestic production at the same level as a $10 tariff? **1**

……

……

……

Question 24 continues over the page

(c) Compare and contrast the effects of tariffs and subsidies. **4**

……

……

……

……

……

……

……

……

……

……

……

……

Question 24 continues over the page

(d) Explain the implications for Australia of increasing protectionist policies by its main trading partners. **4**

……

……

……

……

……

……

……

……

……

……

……

……

End of Question 24

END OF SECTION II

Section III – Extended response questions
20 marks
Attempt Question 25 OR 26

Answer in the Writing Booklets

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

Question 25 (20 marks)

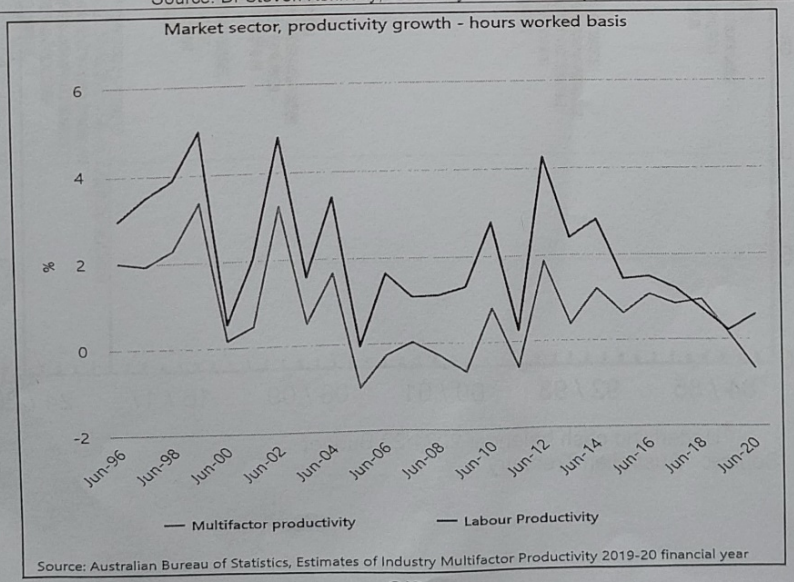
Discuss the rationale behind the use of microeconomics policies and the impact of these policies in pursuing Australia's economic objectives of growth, internal balance and external stability. In your response, refer to the economic information provided.

Emerging from the Crisis: Recovery and Reform
Address to the Australian Business Economists (18 May 2021)

In this Budget, the Government has announced significant additional funding and reforms relating to the provision of mental health, aged care and employment services. These sectors all fall under the umbrella of non-market services. Non-market services are a significant part of the economy, representing around 21 per cent of economic activity and 29 per cent of employment. They play a vital role in improving wellbeing and reducing inequality.

Confidence in the sustainability of government provision of services such as aged care can reduce uncertainty about the cost and availability of care services, which can itself raise welfare and increase economic growth. The Government clearly has a role to play in incentivising greater productivity in these sectors and can do so by applying sound economic principles when designing systems for funding and the provision of services and encouraging innovation among providers to improve the quality and safety of care provided.

Source: Dr Steven Kennedy, Secretary to the Treasury, Australian Government, The Treasury.



Source: Australian Bureau of Statistics, Estimates of Industry Multifactor Productivity 2019-20 financial year

OR

Question 26 (20 marks)

Discuss the effectiveness of the Australian Government's use of fiscal policy in achieving the economic objectives. In your response, refer to the economic information provided.

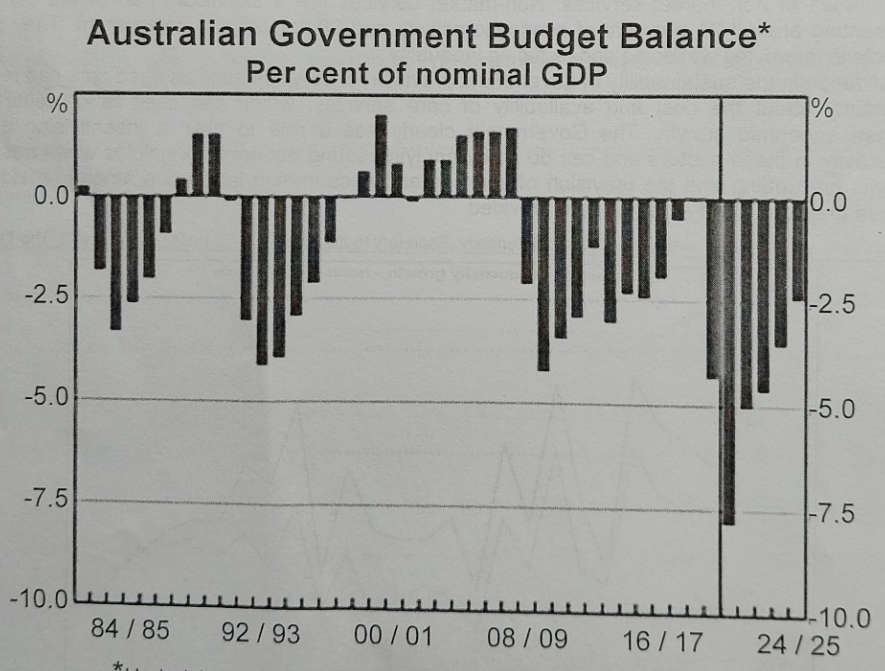
Economic and Fiscal Strategy

The Government's first phase of the Economic and Fiscal Strategy seeks to promote employment growth, business and consumer confidence through discretionary fiscal policy and the operation of automatic stabilisers. The priority of this strategy is to ensure a strong and sustained recovery to drive down the unemployment rate.

Consistent with this strategy since the onset of the COVID-19 pandemic, the Government has provided unprecedented support to households and businesses .....

Before a transition to the second phase of the Strategy, the Government's ambition is for sustainable private sector-led growth to drive unemployment down to pre-pandemic levels or lower. Only once the economic recovery is secured will the Government transition towards the medium term objective of stabilising and reducing debt as a share of GDP.

Source: Australian Government, *Budget Paper No.1*, 2021-22



Section IV – Extended response questions
20 marks
Attempt Question 27 OR 28

Answer in the Writing Booklets

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

Question 27 (20 marks)

Assess the impact of changes in Australia's trade and financial flows on the balance of payments.

OR

Question 28 (20 marks)

Assess the impact of the Australian Government's policies on environmental sustainability.

End of paper