



Western Australian Certificate of Education ATAR course examination, 2016

Question/Answer booklet

ECONOMICS

Please place your student identification label in this box

Student number: In figures

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In words

Time allowed for this paper

Reading time before commencing work: ten minutes
Working time: three hours

Materials required/recommended for this paper

To be provided by the supervisor

This Question/Answer booklet
Multiple-choice answer sheet

Number of additional answer booklets used (if applicable):	<input type="text"/>
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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

1. The rules for the conduct of the Western Australian Certificate of Education ATAR course examinations are detailed in the *Year 12 Information Handbook 2016*. Sitting this examination implies that you agree to abide by these rules.

2. 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.

3. 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.
4. Additional working space pages at the end of this Question/Answer booklet are for planning or continuing an answer. If you use these pages, indicate at the original answer, the page number it is planned/continued on and write the question number being planned/continued on the additional working space page.

Section One: 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. 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. A depreciation of the Australian dollar will **most** likely result in
- (a) an increase in import prices in terms of the Australian dollar.
 - (b) a decline in exports of goods and services.
 - (c) making it harder for Australian firms to compete with imports.
 - (d) a fall in domestic prices.
2. Suppose the production possibilities of Australia and China are as follows:

	Australia	China
Iron ore	3000 tonnes	3500 tonnes
Rice	600 tonnes	2100 tonnes

- Which of the following statements is correct?
- (a) Australia has an absolute advantage in producing iron ore.
 - (b) Australia has a comparative advantage in producing rice.
 - (c) China has a comparative advantage in producing rice.
 - (d) Australia has an absolute advantage in producing both commodities.
3. If over a period of six months the value of the Australian dollar appreciates from \$US0.69 to \$US0.75, then, all things being equal, the **most** likely consequence will be
- (a) an increased competitiveness of Australia's exports to Japan.
 - (b) a decrease in inflationary pressures in Australia.
 - (c) more expensive imports from Japan.
 - (d) an increase in demand for Australia's exports to Japan.
4. Australia's recent current account deficit is **not** a problem because
- (a) it is mostly Australian Government debt.
 - (b) it is mostly used for nonproductive consumption by Australians.
 - (c) Australia has a freely floating currency, which will eliminate the deficit.
 - (d) it can be invested in export industries.

See next page

5. The infant industry argument for protection
- (a) only applies to industries that have high wages.
 - (b) can be derived from the application of the law of comparative advantage in the short term.
 - (c) is applicable to industries in which more growth is expected to occur but need support from the government to survive the initial set-up phase.
 - (d) only applies to industries that operate at a small scale.
6. A consistently positive component of Australia's balance of payments has been
- (a) net portfolio investment.
 - (b) net primary income.
 - (c) balance on goods and services.
 - (d) the current account balance.
7. The largest component of Australia's foreign debt is
- (a) interest repayments to overseas lenders.
 - (b) borrowing by the private sector.
 - (c) borrowing by the government.
 - (d) payments for imports of goods and services.
8. A factor **not** facilitating the process of globalisation would be
- (a) the reduction of tariffs in some manufacturing industries.
 - (b) an improvement in telecommunications technology.
 - (c) more free trade agreements.
 - (d) an increase in rates of taxation paid by multinational firms.
9. The main reason for the recent decline in Australia's terms of trade is the
- (a) decrease in the quantity of goods exported.
 - (b) increase in the quantity of goods exported.
 - (c) decrease in the price of goods exported.
 - (d) increase in the price of goods exported.
10. One advantage of the imposition of a subsidy is that it results in
- (a) an increase in consumer surplus.
 - (b) an increase in producer surplus.
 - (c) an increase in total surplus for the economy.
 - (d) more efficient resource allocation in the economy.

11. Globalisation has resulted in
- (a) an increase in Australian trade surpluses.
 - (b) an increase in global trade barriers.
 - (c) a decline in global extreme poverty.
 - (d) a decline in Australian productivity.
12. In relation to Australia's Trade Weighted Index (TWI), which of the following is correct?
- (a) The TWI is comprised only of the currencies of China, Japan and the United States.
 - (b) The TWI is based only upon Australia's merchandise goods trade.
 - (c) The TWI is based only upon Australia's services trade.
 - (d) The TWI weights its currencies according to the volume of trade between Australia and its trading partners.
13. The current account balance is equal to
- (a) net goods + net services + net income + net current transfers.
 - (b) net goods + net services + net income + direct investment.
 - (c) net goods + net services + net income.
 - (d) net goods + net services.
14. Which of the following are likely to be experienced during an upswing in the business cycle?
- (a) rising unemployment and rising inflation
 - (b) rising inflation and rising economic growth
 - (c) rising economic growth and falling consumption
 - (d) rising inflation and falling consumption
15. Assuming there are no taxes or imports, what will be the initial increase in consumption resulting from an increase in disposable income of \$20 billion in an economy with a marginal propensity to consume of 0.75?
- (a) \$5bn
 - (b) \$15bn
 - (c) \$25bn
 - (d) \$80bn
16. Which of the following would shift the aggregate demand curve outward?
- (a) an increase in taxation
 - (b) a rise in the price level
 - (c) an increase in the interest rate level
 - (d) an increase in net exports

17. An improvement in technology will shift the
- (a) short-run and the long-run aggregate supply curves leftward.
 - (b) short-run and the long-run aggregate supply curves rightward.
 - (c) short-run aggregate supply curve rightward, but the long-run aggregate supply curve will remain unchanged.
 - (d) long-run aggregate supply curve rightward, but the short-run aggregate supply curve will remain unchanged.
18. Which of the following is a strength of fiscal policy?
- (a) recognition lags
 - (b) implementation lags
 - (c) political constraints
 - (d) effectiveness in recessions
19. The table below shows the consumer price index for a hypothetical economy.

Year	CPI
2013	122
2014	124
2015	128

- From the table, what is the rate of inflation for 2015?
- (a) 3.2%
 - (b) 3.5%
 - (c) 3.7%
 - (d) 4.0%
20. An increase in the rate of income tax is an example of
- (a) expansionary fiscal policy.
 - (b) automatic fiscal policy.
 - (c) discretionary fiscal policy.
 - (d) redistributive fiscal policy.
21. Which of the following is **least** likely to increase productivity?
- (a) increased manufacturing protection
 - (b) investment in physical capital
 - (c) investment in human capital
 - (d) innovative production methods

22. One of the strengths of monetary policy is that it
- (a) can be directed to influence a specific sector of the economy.
 - (b) has immediate impacts on the economy.
 - (c) is very effective in stimulating the economy.
 - (d) can influence the exchange rate.
23. The transmission mechanism affects the
- (a) rate of trade liberalisation.
 - (b) rate of taxation.
 - (c) level of household wealth.
 - (d) level of labour productivity.
24. Which of the following would be considered a discretionary fiscal policy?
- (a) a cut in income taxes during a recession
 - (b) an increase in money supply during a recession
 - (c) an increase in company tax receipts during a boom
 - (d) a decrease in unemployment benefit payments during a boom

End of Section One

See next page

Section Two: Data interpretation/Short answer**36% (36 Marks)**

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

Additional working space pages at the end of this Question/Answer booklet are for planning or continuing an answer. If you use these pages, indicate at the original answer, the page number it is planned/continued on and write the question number being planned/continued on the additional working space page.

Suggested working time: 70 minutes.

Question 25**(12 marks)****Services exports of increasing importance to the economy**

27 November 2015

After more than a decade of exports fuelled by the commodity super-cycle, the services sector has grown rapidly to become a key driver of Australia's export performance.

A new report titled 'Australia's Exports of Services: A High-Level Primer' prepared by Mark Thirlwell, Austrade Chief Economist, explains the change and the significant contribution the sector provides.

Thirlwell said that, while resources will continue to play an important part in Australia's overall export profile, improving competitiveness and strong external demand have encouraged a marked increase in both the value and volume of exports of services.

'In 2014–15, service exports were up 9.3 per cent over the year in value terms, with volumes up 7.5 per cent and prices up 1.8 per cent – the strongest annual growth in both value and volume terms since 2006–07', said Thirlwell.

'For the first time in six years, net service exports contributed more to Australia's GDP growth than iron ore exports. The performance of exports of tourism and education services has been particularly strong', added Thirlwell.

The latest annual ABS data has valued Australia's exports of services at almost \$63 billion in 2014–15. The total value of exports of goods and services was worth almost \$319 billion, with services accounting for nearly 20 per cent of all exports.

- (a) (i) What was the percentage of services in Australia's exports of goods and services in the period 2014–2015? (1 mark)

- (ii) What are the main services exports for Australia? (1 mark)

See next page

- (b) Explain the impacts on Australia's services exports resulting from contemporary changes in the exchange rate. Use an aggregate demand, aggregate supply (AD/AS) model to support your explanation. (4 marks)

AD/AS model

Question 25 (continued)

- (c) The article on page 8 refers to *improving competitiveness* as a reason for the increase in Australia's exports of services. Outline **three** determinants of international competitiveness that may have improved Australia's services exports. (6 marks)

One: _____

Two: _____

Three: _____

Question 26

(12 marks)

The table below shows the actual and forecast changes for several economic variables as a percentage for the Australian economy from 2013–2014 to 2016–2017.

	2013–2014 outcome %	2014–2015 outcome %	2015–2016 forecast %	2016–2017 forecast %
Real GDP	3.2	2.2	2.5	2.75
Employment Growth	1	1.5	2	1.75
Unemployment Rate	5.7	6	6	6
Consumer Price Index	3	1.5	2	2.25
Wage Price Index	2.6	2.3	2.5	2.75

Use the information in the table to answer the following questions.

- (a) (i) What was the inflation rate in the year 2014–2015? (1 mark)

- (ii) What is the relationship between Real GDP and the Wage Price Index from 2014–2015 to 2016–2017? (1 mark)

- (b) From the table above, what phase of the business cycle is Australia experiencing between 2014 and 2017? Justify your answer. (4 marks)

See next page

Question 26 (continued)

- (c) Describe how changes in any **three** components of aggregate demand (AD) may have affected the level of economic growth in the Australian economy since 2013. (6 marks)

One: _____

Two: _____

Three: _____

Question 27

(12 marks)

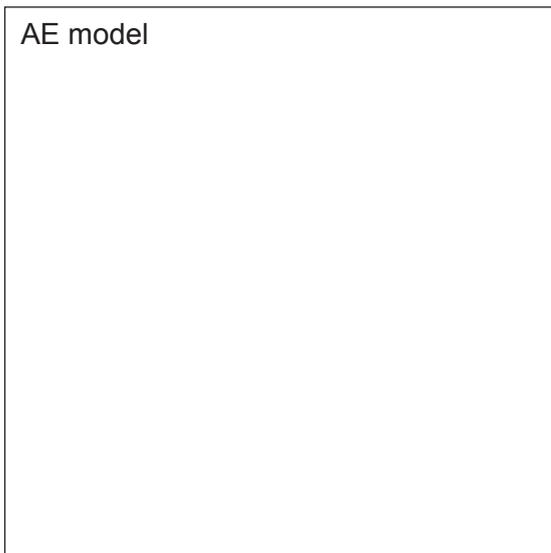
Read the following text and answer the questions that follow.

The aggregate expenditure model

The aggregate expenditure (AE) model, also known as the Keynesian aggregate expenditure model, is used by economists to understand the macroeconomic changes in the economy over the phases of the business cycle. The AE model also helps with the understanding of macroeconomic equilibrium in the economy.

- (a) Draw the aggregate expenditure (AE) model, indicating clearly the equilibrium point. (2 marks)

AE model



- (b) List **four** main factors that affect consumption expenditure. (4 marks)

One: _____

Two: _____

Three: _____

Four: _____

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See next page

Section Three: Extended answer**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.

Additional working space pages at the end of this Question/Answer booklet are for planning or continuing an answer. If you use these pages, indicate at the original answer, the page number it is planned/continued on and write the question number being planned/continued on the additional working space page.

Suggested working time: 80 minutes.

Question 28 (20 marks)

- (a) Discuss the influence of **one** trade organisation and **one** bloc on world trade. (10 marks)
- (b) Explain **four** arguments for trade liberalisation. Draw an appropriate model to support your explanation. (10 marks)

Question 29 (20 marks)

- (a) Explain the meaning of Foreign Direct Investment (FDI) and foreign debt, and discuss the recent trends in Australia's FDI and foreign debt. (10 marks)
- (b) Discuss the main benefits and costs to the Australian economy of Foreign Direct Investment and foreign debt. (10 marks)

Question 30 (20 marks)

- (a) Use the aggregate demand, aggregate supply (AD/AS) model to explain the relationship between economic growth and structural change in an economy. (10 marks)
- (b) Explain **five** policies available to the Australian Government to promote productivity in the economy. (10 marks)

Question 31 (20 marks)

- (a) Describe **four** economic objectives of the Australian Government and assess the extent to which these objectives complement each other. (10 marks)
- (b) To what extent have contemporary monetary and fiscal policies affected the economic policy objectives of the Australian Government? (10 marks)

End of questions

ACKNOWLEDGEMENTS

- Question 25** Text from: Austrade. (2015). *Services exports of increasing importance to the economy*. Retrieved May, 2016, from www.austrade.gov.au/news/latest-from-austrade/2015/services-exports-of-increasing-importance-to-the-economy
- Question 26** Table adapted from: Commonwealth of Australia. (2016). *Part 1: Overview (continued): Updated economic outlook*. Retrieved May, 2016, from www.budget.gov.au/2015-16/content/myefo/html/01_part_1-02.htm

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