



Western Australian Certificate of Education Examination, 2014

Question/Answer Booklet

ECONOMICS

Stage 3

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 for paper: 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):

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 WACE 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 notes or other items of a non-personal nature in the examination room. 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 exam
Section One: Multiple-choice	24	24	35	24	24
Section Two: Data interpretation/ Short response	3	3	65	36	36
Section Three: Extended response	4	2	80	40	40
Total					100

Instructions to candidates

- The rules for the conduct of Western Australian external examinations are detailed in the *Year 12 Information Handbook 2014*. Sitting this examination implies that you agree to abide by these rules.
- 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.

- 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.
- Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.
 - Planning: If you use the spare pages for planning, indicate this clearly at the top of the page.
 - Continuing an answer: If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question that you are continuing to answer at the top of the 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: 35 minutes.

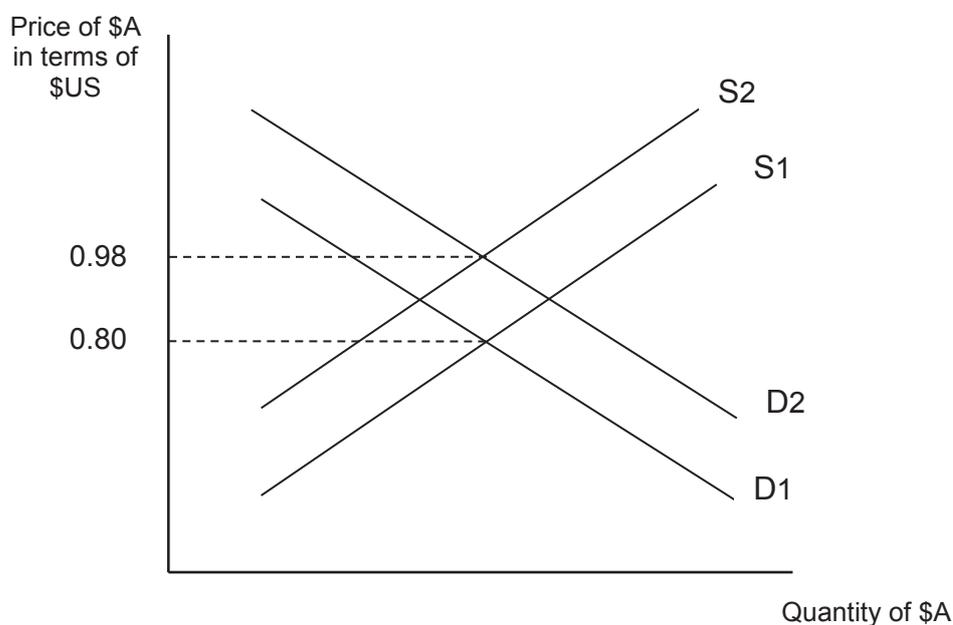
1. Which of the following is likely to improve Australia's competitiveness in the global economy?
- (a) increased spending on transport infrastructure in Australia
 - (b) an appreciation of the Australian dollar
 - (c) deflation in the major countries in the European Union
 - (d) a change in the industrial relations system in Australia toward more centralised wage determination

2. This question refers to the table below which shows the production possibilities in Australia and Japan for two products, cars and rice.

	Cars		Rice
Australia	40	or	50
Japan	60	or	60

- On the basis of this data, which of the following statements is correct?
- (a) Australia has an absolute advantage in producing rice.
 - (b) Japan has a comparative advantage in producing rice.
 - (c) Specialisation is not beneficial in this case and Japan should produce both products.
 - (d) Australia has a comparative advantage in producing rice.
3. If there was an overall decrease in the level of tariff protection in Australia, which of the following would **not** be likely to occur over the long term?
- (a) increased employment in the economy
 - (b) lower costs and increased profit levels for Australian exporters
 - (c) an increase in the flow of resources to Australian import competing firms
 - (d) a more efficient allocation of resources in the Australian economy

4. Which of the following statements relating to Australia's current composition of trade is correct?
- The USA has become the largest source of Australian imports.
 - Education is Australia's largest services export.
 - Rural exports have increased in importance over time.
 - Freight services is the largest service import for Australia.
5. A fall in the level of Australia's current account deficit is likely to be associated with a
- high rate of domestic economic growth.
 - fall in the level of national savings.
 - change in the federal budget balance from deficit to surplus.
 - fall in commodity export prices.
6. This question refers to the diagram below.



Assuming a floating exchange rate, which of the following may have caused the value of the Australian dollar to change from \$US0.80 to \$US0.98?

- an increase in Australian interest rates and a decrease in imports into Australia
- an increase in Australian interest rates and an increase in imports into Australia
- a decrease in the interest rate differential between Australia and the United States
- a decrease in Australian interest rates and an increase in the prices of Australian exports

7. Which of the following is likely to increase the level of Australia's foreign debt in the short term?
- (a) an appreciation of the Australian dollar
 - (b) a fall in the proportion of income saved by households
 - (c) an increase in the Australian Government's budget surplus
 - (d) a fall in the current account deficit

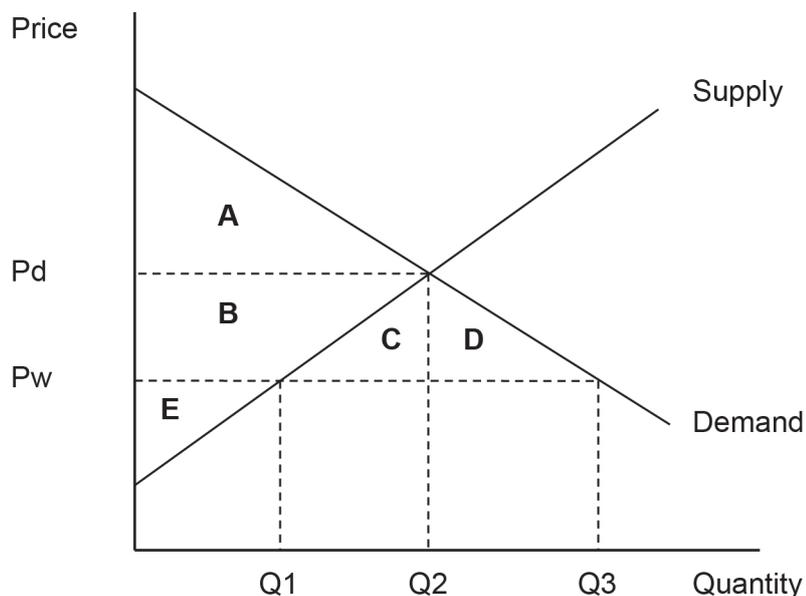
8. The table below shows the balance on current account figures for a nation.

	\$b
Exports of goods	275
Imports of goods	265
Service credits	7
Service debits	6
Incomes – primary	-56
Incomes – secondary	6

Which of the following statements is correct?

- (a) The balance on goods and services is –\$11b.
 - (b) The goods balance is –\$10b.
 - (c) The current account is in surplus by \$39b.
 - (d) The current account is in deficit by \$39b.
9. Which of the following statements about the Australian economy during 2013 is true?
- (a) the value of net debt increased and the currency depreciated
 - (b) the value of net debt decreased and the currency depreciated
 - (c) the value of net debt decreased and the currency appreciated
 - (d) the value of net debt increased and the currency appreciated
10. When the value of the Australian dollar increases this benefits
- (a) exporters of Australian made cars.
 - (b) Australians investing overseas.
 - (c) farmers and rural regions that rely on export markets.
 - (d) foreign investors wanting to buy Australian assets.

11. This question refers to the diagram below that shows the demand and supply for dairy products in Australia (P_d = domestic price of dairy products, P_w = world price of dairy products).



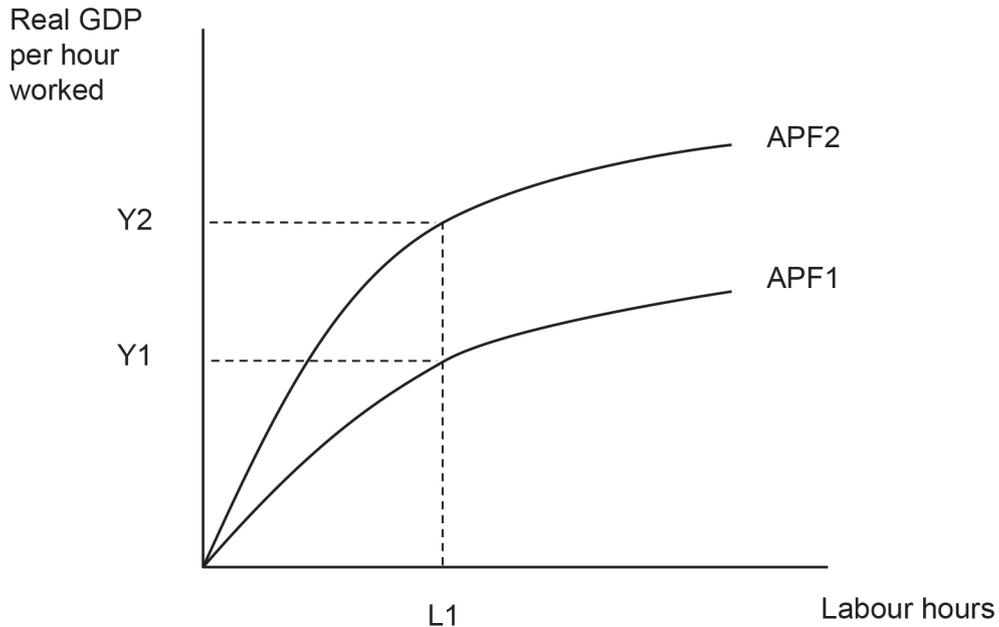
On the basis of the information provided in this diagram we can conclude that

- (a) Australia has a comparative advantage in dairy products.
 (b) under free trade the level of imports would be Q_2 .
 (c) the net gain from free trade is represented by the area $C + D$.
 (d) there is no net gain from free trade as consumer gains are balanced by domestic producer losses.
12. A subsidy could **best** be described as a
- (a) quantitative restriction that enables domestic production to gain a greater share of the local market.
 (b) price based form of protection that provides an increase in government revenue.
 (c) form of protection that increases government expenditure and therefore is likely to be reviewed regularly.
 (d) form of protection that reduces the cost of production for domestic producers and is a source of revenue for the government.

13. Which combination of the following factors is **most** likely to increase the level of aggregate expenditure?
- (i) an increase in interest rates
 - (ii) an increase in asset prices
 - (iii) a depreciation of the Australian dollar
 - (iv) a decrease in the size of the Australian government's deficit
- (a) (i) and (ii)
 - (b) (ii) and (iii)
 - (c) (i) and (iv)
 - (d) (ii) and (iv)
14. If the Western Australian government decided to build a \$1 billion football stadium and the marginal propensity to consume (MPC) for the State economy is 0.8, then the level of income will
- (a) remain unchanged.
 - (b) increase by \$800 million.
 - (c) increase by \$1 billion.
 - (d) increase by \$5 billion.
15. Which of the following factors is **most** likely to increase the size of a federal budget surplus?
- (a) a fall in iron ore and coal prices
 - (b) a depreciation of the Australian dollar
 - (c) a slowdown in world economic growth
 - (d) an increase in the proportion of the population above the retirement age
16. Monetary policy is said to suffer from a relatively long effect or impact lag. This refers to the fact that
- (a) it takes time for changes in the cash rate to change aggregate expenditure.
 - (b) changes in the cash rate can only be made at the monthly RBA Board meetings.
 - (c) the RBA Board will only make changes to the cash rate after trends in the economy have become evident.
 - (d) the publishing of economic statistics often lags behind real trends in the economy.
17. One weakness of fiscal policy compared with monetary policy is that fiscal policy
- (a) tends to be relatively ineffective in a recession due to low levels of business and consumer confidence.
 - (b) is often counteracted by the operation of automatic stabilisers.
 - (c) suffers from a relatively long recognition lag.
 - (d) may be subject to political constraints.

18. Which event listed below is likely to cause the largest short-term increase in aggregate expenditure?
- (a) an income tax cut of \$10 billion
 - (b) a \$10 billion increase in government spending
 - (c) an increase in the cash rate to attract additional foreign investment funds into Australia
 - (d) tariff cuts to increase the competitiveness of the Australian economy
19. During the last decade, productivity growth in Australia has fallen below the rates achieved in the 1990s. Possible explanations for this trend could include
- (i) long time lags between initial investment and mineral projects coming into production.
 - (ii) an increased proportion of Australian students completing tertiary studies.
 - (iii) natural disasters such as floods and droughts.
 - (iv) less flexibility within the Australian labour market.
- (a) (i)
 - (b) (ii)
 - (c) (i), (iii) and (iv)
 - (d) (i), (ii), (iii) and (iv)
20. Allocative efficiency can **best** be defined as the ability of an economy to
- (a) move resources between industries in response to changing patterns of consumer demand.
 - (b) achieve maximum output from a given quantity of resources.
 - (c) use resources with the least opportunity cost.
 - (d) produce a given level of output with the lowest level of unemployment.
21. Which of the following occur(s) during a cyclical upturn (expansion)?
- (i) falling levels of unemployment
 - (ii) rising price levels
 - (iii) an increase in new investment
 - (iv) rising levels of household debt
- (a) (i), (ii) and (iii)
 - (b) (i), (ii) and (iv)
 - (c) (i), (iii) and (iv)
 - (d) (i), (ii), (iii) and (iv)
22. Which of the following is **most** likely to reduce the current account deficit in the short run?
- (a) increased diversification of export industries
 - (b) greater restrictions on foreign investment
 - (c) increased regulation of the financial sector
 - (d) decreased protection of domestic industries

23. An appropriate fiscal policy to overcome a deflationary gap is to
- (a) reduce the level of aggregate demand by a budget deficit.
 - (b) raise the level of aggregate demand by a budget surplus.
 - (c) reduce the level of aggregate demand by a budget surplus.
 - (d) raise the level of aggregate demand by a budget deficit.
24. This question refers to the diagram below.



The movement of the aggregate production function (APF) from APF1 to APF2 is **most** likely to reflect

- (a) technical changes, innovations and/or reforms.
- (b) diminishing marginal returns to labour.
- (c) an acceleration of the rate of economic growth.
- (d) an increase in the number of workers employed.

End of Section One

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.

Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.

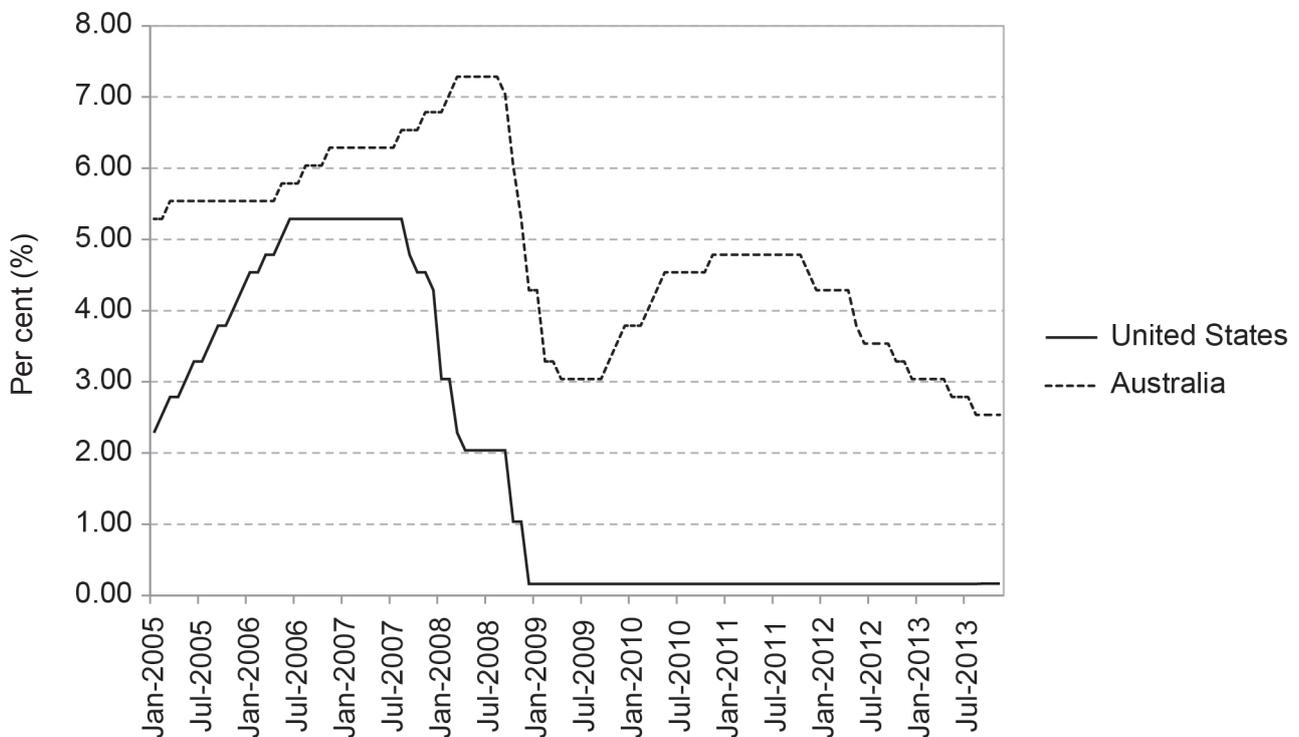
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- Continuing an answer: If you need to use the space to continue an answer, indicate in the original answer space where the answer is continued, i.e. give the page number. Fill in the number of the question that you are continuing to answer at the top of the page.

Suggested working time: 65 minutes.

Question 25

(12 marks)

Official interest rates for Australia and the United States



(a) (i) What was the interest rate differential between Australia and the United States in March 2007? (1 mark)

(ii) Judging by the graph above, what phase of the business cycle was Australia in during early 2010? (1 mark)

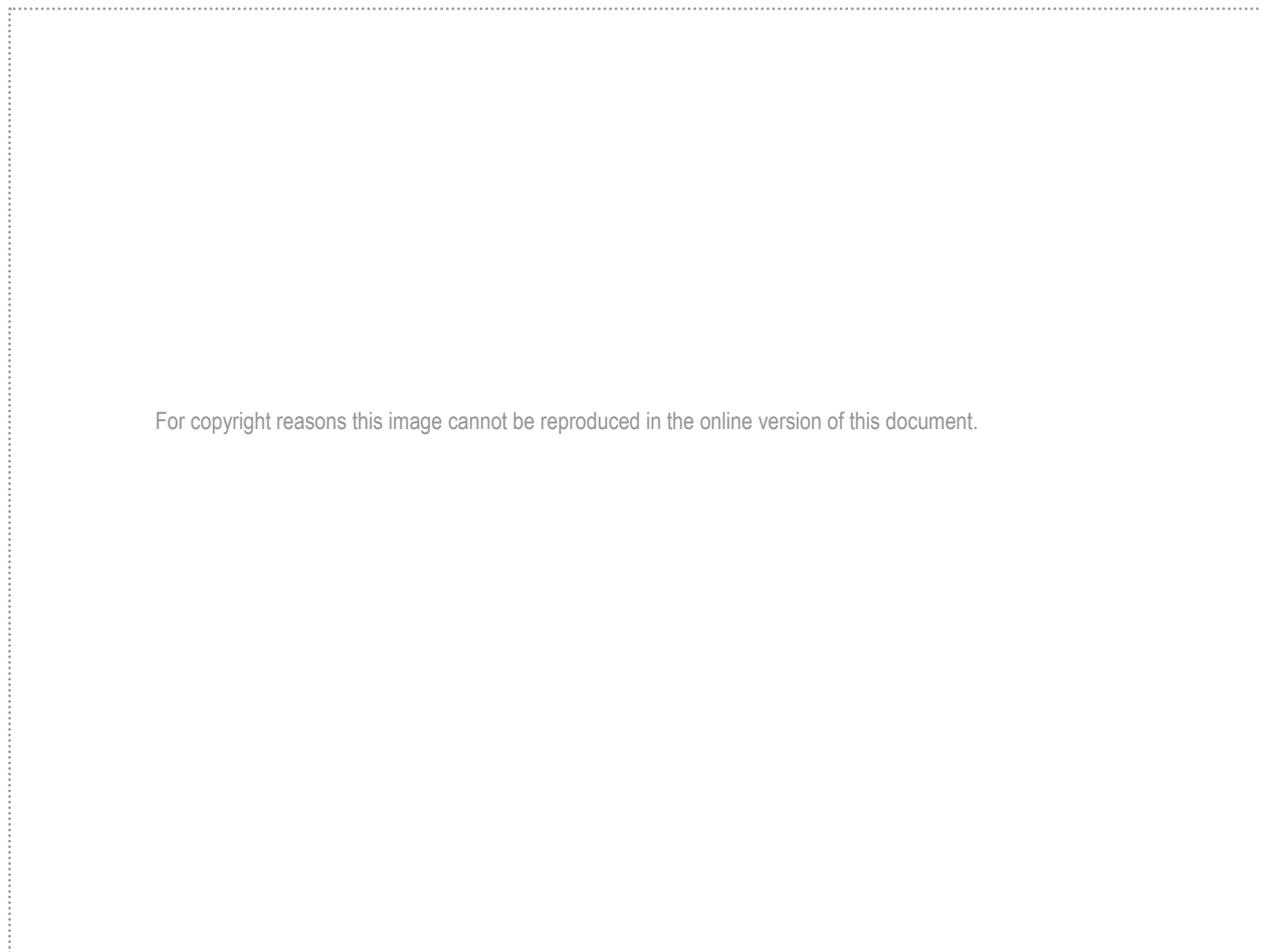
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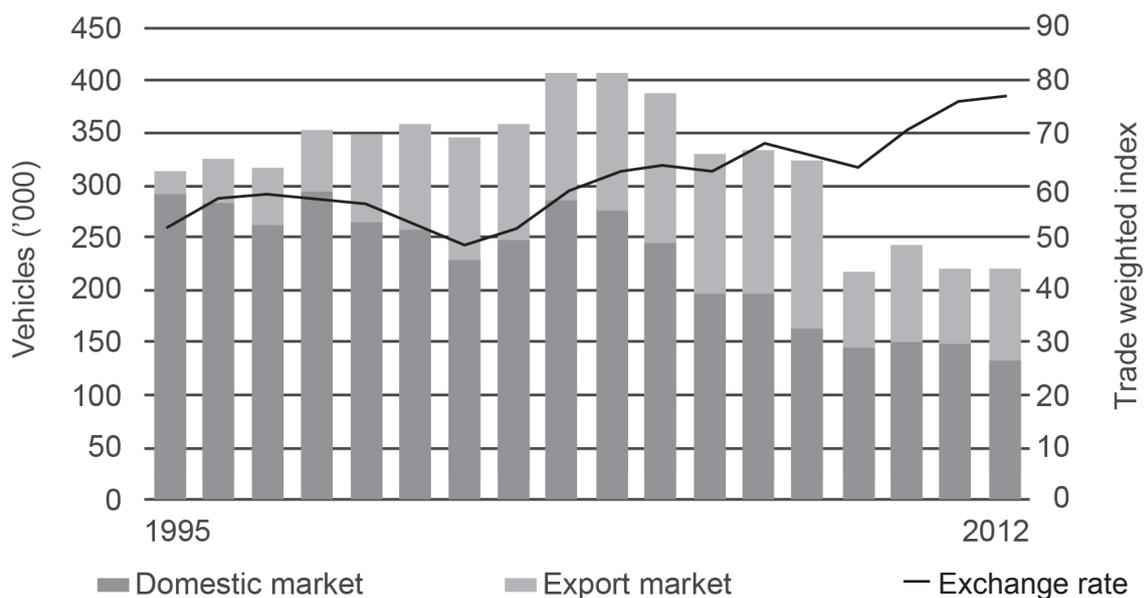
Question 26

(12 marks)

The article and graph below refer to motor vehicle production in Australia.



Motor vehicles produced in Australia for the domestic and export markets, and the trade weighted exchange rate 1995 to 2012



See next page

- (a) (i) Did the author conclude that the competitiveness of Australian car manufacturers increased or decreased as protection levels were reduced? (1 mark)

- (ii) According to the article what is **one** significant problem faced by Holden and SPC Ardmona? (1 mark)

- (b) Refer to the graph to explain the impact of changes in the exchange rate on Australian vehicle production between 2007 and 2012. (4 marks)

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See next page

Question 27

(12 marks)

The data below refers to a hypothetical economy.

Indicator	Real GDP	Unemployment rate	Consumer price index (CPI)	Current account deficit	Business investment
Unit	\$b	% of labour force	Year 1 = 100	% of GDP	% of GDP
Year 1	456	5.6	100	4.5	15.2
Year 2	472	5.5	104.5	6	17.1
Year 3	482	5.2	106.8	3.8	17.5
Year 4	484	7.5	107.4	2.7	18.2

- (a) (i) In which year(s) did the economy record its highest rate of economic growth and what was the level of economic growth in that year(s)? (2 marks)

Year(s): _____

Growth rate: _____

- (ii) What was the rate of inflation in Year 3? (1 mark)

- (b) With reference to the business cycle, describe the performance of the economy over the four year period. (4 marks)

Section Three: Extended response**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.

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Suggested working time: 80 minutes.

Question 28 **(20 marks)**

- (a) Define foreign investment and describe its benefits for Australia. (12 marks)
- (b) How would a large increase in foreign investment affect Australia's balance of payments? (8 marks)

Question 29 **(20 marks)**

- (a) Using an appropriate diagram, discuss the factors that can increase the level of consumption expenditure. (8 marks)
- (b) Use an appropriate model to demonstrate and explain the impact of a decrease in investment expenditure on the Australian economy. What determines the size of this effect? (12 marks)

Question 30 **(20 marks)**

The terms of trade in Australia decreased from 90.4 index points in the second quarter of 2013 to 87.4 index points in the third quarter of 2013.

- (a) Explain the significance of the terms of trade for the balance on goods and services. (8 marks)
- (b) Explain the likely economic effects of this movement in the terms of trade on consumers, businesses and the macroeconomy. (12 marks)

Question 31 **(20 marks)**

Describe the current state of the Australian economy and using an appropriate model, explain how macroeconomic policy is being used to help achieve the government's macroeconomic policy objectives.

End of questions

ACKNOWLEDGEMENTS

Section Two

Question 25

Data source: Reserve Bank of Australia. (n.d.). *Statistical tables* (F1 Interest rates and yields – money market – daily). Sydney: Reserve Bank of Australia. Retrieved March, 2014, from www.rba.gov.au/statistics/tables/index.html#interest-rates

Data source: Reserve Bank of Australia. (n.d.). *Statistical tables* (F13 International official interest rates). Sydney: Reserve Bank of Australia. Retrieved March, 2014, from www.rba.gov.au/statistics/tables/index.html#interest-rates

Question 26

Mitchell, A. (2013, December 27). Holden, SPC are just the start. *Australian Financial Review*, p. 24.

Graph adapted from: Motor vehicles produced in Australia for the domestic and export markets, and the trade weighted exchange rate 1995 to 2012. In Productivity Commission. (2013, December). *Australia's automotive manufacturing industry: Productivity Commission preliminary findings report*. Melbourne: Productivity Commission, p. 40.

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