

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 2015*. 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. The three leading destinations, in order of importance, for Australia's merchandise exports are
 - (a) China, Japan, and Republic of Korea.
 - (b) China, United States, and European Union.
 - (c) United States, China, and Japan.
 - (d) China, Japan, and European Union.

2. Portfolio investment can **best** be described as
 - (a) foreign sale of Australian bonds and shares that gives less than 10% control to the foreign investor.
 - (b) foreign investment in Australian companies or assets that gives less than 10% control to the foreign investor.
 - (c) foreign investment in Australian companies or assets that gives more than 10% control to the foreign investor.
 - (d) foreign purchases of Australian bonds and shares that give more than 10% control to the foreign investor.

3. Which of the following factors has helped Australia to increase its trade over recent years?
 - (a) the growth in Australian manufacturing
 - (b) the growth in protective measures such as tariffs
 - (c) the decline in transport costs
 - (d) the decline in trading blocs

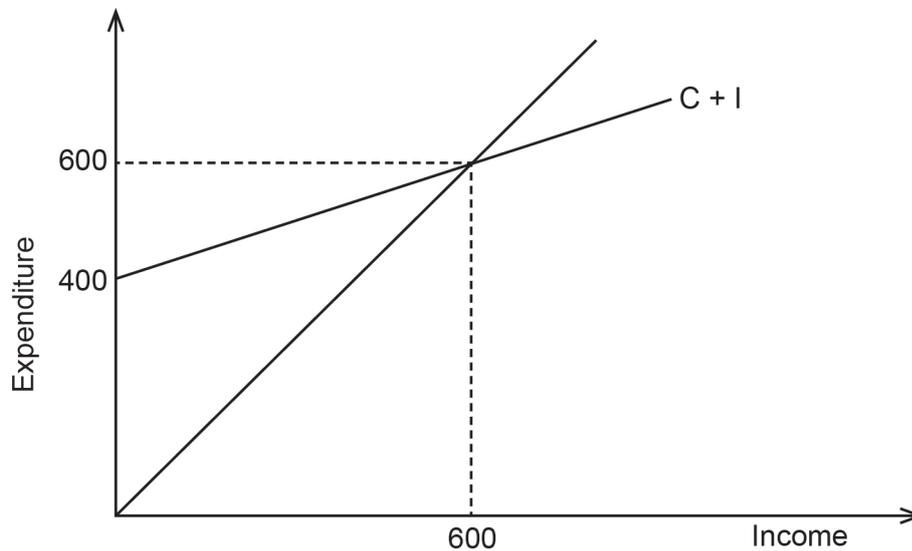
4. Australia's current account deficit as a percentage of GDP is approximately
 - (a) 3%.
 - (b) -3%.
 - (c) 5%.
 - (d) -5%.

5. Which of the following factors is **not** a determinant of exchange rates?
- (a) expectations of currency speculators
 - (b) relative inflation rates
 - (c) relative interest rates
 - (d) balance of payments
6. This question refers to the table below, which shows the number of labour hours required to produce one unit of a particular product in two countries.

	Surfboards	Skateboards
Country A	6	12
Country B	24	16

- In relation to the table above, which of the following statements is correct?
- (a) Country A has a comparative advantage in skateboard making.
 - (b) Country A has a comparative advantage in surfboard making.
 - (c) Country B only has an absolute advantage in surfboard making.
 - (d) Country B has an absolute advantage in both surfboard and skateboard making.
7. If a country has a capital and financial account surplus, then it must also have a
- (a) deficit on its merchandise trade balance.
 - (b) surplus on its merchandise trade balance.
 - (c) deficit on its current account balance.
 - (d) surplus on its current account balance.
8. If Australia's net capital outflow is negative, then Australia's
- (a) domestic savings are greater than domestic investments.
 - (b) investment overseas is greater than foreign investment in Australia.
 - (c) domestic investment is greater than national savings.
 - (d) current account balance must be in surplus.
9. Australia's international competitiveness will be increased if
- (a) multilateral free trade agreements are implemented.
 - (b) wages in Australia rise faster than productivity.
 - (c) the value of the Australian dollar rises relative to other currencies.
 - (d) economic growth in Australia is faster than that in other OECD countries.
10. One difference between foreign debt and foreign equity is that
- (a) foreign debt results in overseas ownership of Australian assets.
 - (b) foreign equity results in higher leakages of interest payments.
 - (c) foreign debt reduces uncertainty about required repayments.
 - (d) foreign equity reduces the competitiveness of the Australian economy.

11. Which of the following would cause Australia's foreign liabilities to fall?
- (a) an increase in household spending
 - (b) a decrease in household saving
 - (c) an increase in the current account deficit
 - (d) a decrease in the federal budget deficit
12. During the global financial crisis of 2008–09, Australia's net foreign debt as a percentage of GDP
- (a) rose, as investors became more risk averse.
 - (b) fell, as investors became more risk averse.
 - (c) rose, as China's economic growth rate rose.
 - (d) fell, as China's economic growth rate rose.
13. This question relates to the diagram below.



- If autonomous expenditure were to increase by \$50, equilibrium real output would be
- (a) \$650.
 - (b) \$675.
 - (c) \$800.
 - (d) \$850.
14. Which of the following statements is **most** likely true when Australia is experiencing a severe recession?
- (a) The rate of foreign capital inflow rises as Australian firms become more profitable.
 - (b) The capital account surplus falls as Australians purchase more imports.
 - (c) The effectiveness of monetary policy is reduced as consumers become more pessimistic.
 - (d) The ratio of export prices to import prices falls as the Australian inflation rate rises.

15. What would be the **most** likely effect on the Australian economy of a reduction in iron ore prices?
- (a) increase in aggregate demand
 - (b) decrease in aggregate demand
 - (c) increase in aggregate supply
 - (d) decrease in aggregate supply
16. The slope of the aggregate demand curve is a result of
- (a) income and substitution effects.
 - (b) substitution and open economy effects.
 - (c) price and interest rate effects.
 - (d) income and interest rate effects.
17. The marginal propensity to consume refers to the
- (a) proportion of any change in income that is spent on consumption.
 - (b) level of consumption as a proportion of total income.
 - (c) change in consumption as a result of higher interest rates.
 - (d) additional consumption spending on imported goods.
18. Which of the following factors will result in a shift of the aggregate supply curve to the right?
- (a) an increase in oil prices
 - (b) an increase in disposable income
 - (c) an increase in foreign investment
 - (d) an increase in current expenditure by the Commonwealth Government
19. If real output exceeds expenditure,
- (a) inventories will fall.
 - (b) inventories will rise.
 - (c) inventories will remain unchanged.
 - (d) aggregate expenditure will rise.
20. Contractionary monetary policy is **most** likely to cause
- (a) a higher level of economic growth.
 - (b) a lower budget deficit.
 - (c) a lower value of \$A.
 - (d) an increase in welfare payments.

21. Suppose over time aggregate demand grows at a faster rate than aggregate supply. Which of the following is **most** likely to occur?
- (a) Output will increase; price level will remain constant.
 - (b) Both the price level and output will stay the same.
 - (c) Both the price level and output will decrease.
 - (d) Both the price level and output will increase.
22. Assume that the government increases its spending by \$15 billion. If the marginal propensity to consume is 0.7, what will be the total increase in income?
- (a) \$10.5 billion
 - (b) \$15 billion
 - (c) \$45 billion
 - (d) \$50 billion
23. Which combination of events **best** explains why the actual Commonwealth Budget deficit may be larger than the planned budget deficit?
- (i) an unexpected fall in the terms of trade
 - (ii) an unexpected increase in company tax receipts from improved retail sales figures
 - (iii) a devastating tropical cyclone in northern Australia requiring government assistance
 - (iv) an unexpected increase in job creation
- (a) i and iii
 - (b) ii and iii
 - (c) i, ii and iv
 - (d) i, ii and iii
24. A government budget deficit will
- (a) increase the demand for loanable funds, increasing interest rates.
 - (b) decrease the demand for loanable funds, decreasing interest rates.
 - (c) increase the demand for loanable funds, decreasing interest rates.
 - (d) decrease the demand for loanable funds, increasing interest rates.

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.

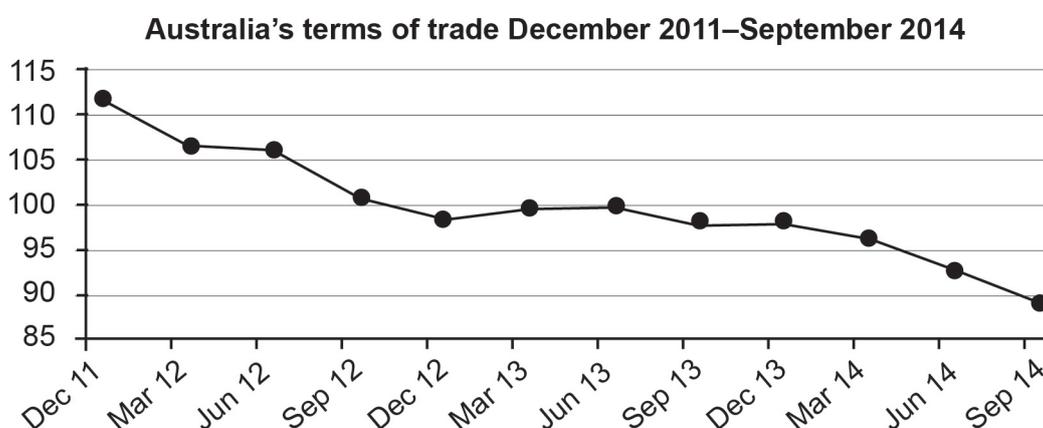
Spare pages are included at the end of this booklet. They can be used for planning your responses and/or as additional space if required to continue an answer.

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Suggested working time: 65 minutes.

Question 25

(12 marks)



Estimated impact on the budget balance of a 1% decrease in nominal GDP due to a change in the terms of trade

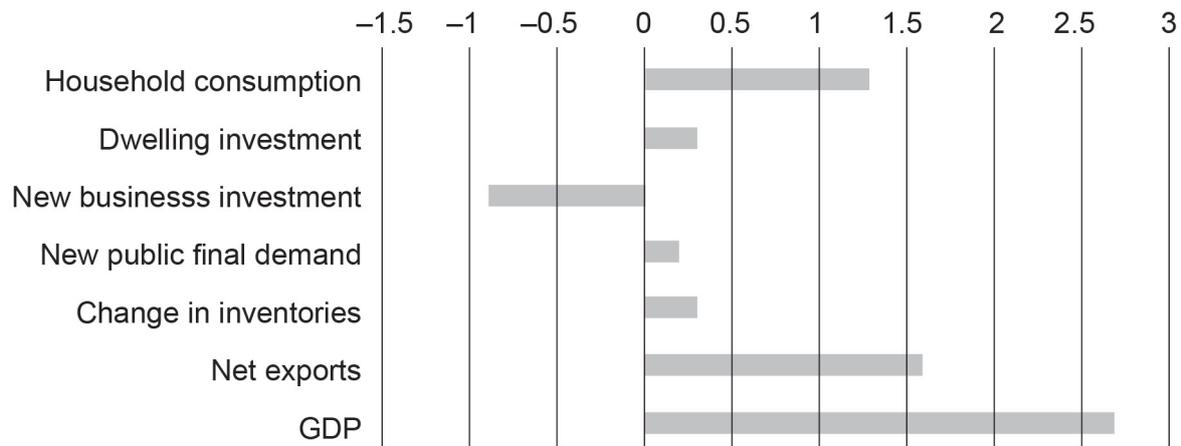
	2014–15 \$b	2015–16 \$b
Receipts		
Individuals' and other taxes (income)	-0.6	-1.6
Company tax	-1.8	-3.1
Goods and services tax	-0.1	-0.3
Excise and customs duty	0.0	-0.1
Other taxes	-0.1	-0.1
Total receipts	-2.6	-5.2
Payments		
Income support	-0.1	-0.2
Other payments	0.0	0.1
Goods and services tax	0.1	0.3
Total payments	0.0	0.2
Public debt interest	0.0	-0.2
Underlying cash balance impact	-2.6	-5.4

See next page

Question 26

(12 marks)

Composition of GDP growth over the year to September 2014 (per cent)



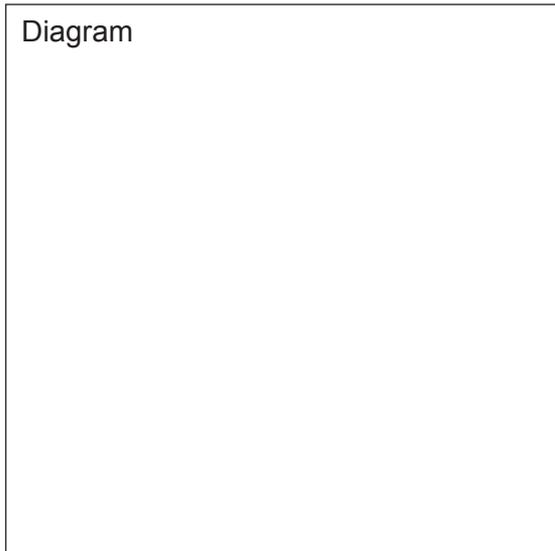
(a) (i) What was Australia's rate of economic growth in the year to September 2014? (1 mark)

(ii) How many percentage points did new business investment contribute to Australia's GDP growth in the year to September 2014? (1 mark)

Question 26 (continued)

- (b) Using an appropriate diagram, explain how the movement in new business investment would have affected Australia's macro-economic performance. (4 marks)

Diagram



Question 27

(12 marks)

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- (a) (i) According to the article, how many years of negotiation has it taken for the China-Australia free trade agreement to be finalised? (1 mark)

- (ii) With reference to the article, with which other countries has Australia recently negotiated a free trade agreement? (1 mark)

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

This section contains **four (4)** questions. Answer **two (2)** questions. Write your answers on the lined pages provided and number your answers clearly.

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Suggested working time: 80 minutes.

Question 28**(20 marks)**

From January 2013 to January 2015, the Australian dollar depreciated against some of its major trading partners.

- (a) Using an appropriate diagram, outline the factors that may have caused this movement in Australia's exchange rate. (8 marks)
- (b) Discuss the effects of this movement in the exchange rate on international trade, businesses and Australia's macro economy. (12 marks)

Question 29**(20 marks)**

'At its meeting today, the Board decided to lower the cash rate by 25 basis points to 2.25 per cent, effective 4 February 2015.'

Glenn Stevens, Governor of the Reserve Bank of Australia.

- (a) Discuss the process by which this change in the cash rate may lead to changes in aggregate demand. (10 marks)
- (b) Explain, using an appropriate diagram, why the Reserve Bank of Australia adopted this monetary policy stance and the impact this stance may be expected to have on the Australian economy. (10 marks)

Question 30**(20 marks)**

- (a) Explain the methods the Commonwealth Government can use to finance a budget deficit. (8 marks)
- (b) Demonstrate and explain the short- and long-term impact that a budget deficit would have on the level of economic activity. (12 marks)

Question 31**(20 marks)**

Describe the factors facilitating globalisation, and explain the economic effects of globalisation on the Australian economy. (20 marks)

End of questions

ACKNOWLEDGEMENTS

Section Two

Question 25 Data source: Trading Economics. (n.d.). *Australia terms of trade* [Graph]. Retrieved January, 2015, from www.tradingeconomics.com/australia/terms-of-trade

Data source: Australian Bureau of Statistics. (n.d.). *Australia terms of trade* [Graph]. Retrieved January, 2015, from www.tradingeconomics.com/australia/terms-of-trade

Question 26 Data source: Australian Bureau of Statistics. (2014, December 3). *Australian National Accounts: National income, expenditure and product, September 2014*. Retrieved January 3, 2015, from www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/5EB481DC6E1B31BCCA257DFD000D4380?opendocument

Question 27 Adapted extract from: Tingle, L. (2014, November 21). *Winning over the Xi Dynasty*. Australian Financial Review, pp. 36–37.

Section Three

Question 28 Data source: Reserve Bank of Australia. (n.d.). *Exchange rates*. Retrieved March, 2015, from www.rba.gov.au/statistics/historical-data.html#exchange-rates

Question 29 Stevens, G. (2015, February 3). *Statement by Glenn Stevens, Governor: Monetary policy decision* [Quote]. Retrieved March, 2015, from www.rba.gov.au/media-releases/2015/mr-15-01.html

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