Government of **Western Australia**
School Curriculum and Standards Authority

ATAR course examination, 2020

Question/Answer booklet

ECONOMICS

Place one of your candidate identification labels in this box.

Ensure the label is straight and within the lines of this box.

WA student number: In figures

In words

Number of additional answer booklets used (if applicable):

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

To be provided by the candidate

Standard items: pens (blue/black preferred), pencils (including coloured), sharpener, correction fluid/tape, eraser, ruler, highlighters

Special items: up to three calculators, which do not have the capacity to create or store programmes or text, are permitted in this ATAR course 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.

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Ref: 20-023

ECO

2021/3828
Web version of 2020/60237

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 external examinations are detailed in the *Year 12 Information Handbook 2020: Part II Examinations*. Sitting this examination implies that you agree to abide by these rules.

2. Write your answers in this Question/Answer booklet preferably using a blue/black pen. Do not use erasable or gel pens.

3. 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. Do not use erasable or gel pens. 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.

4. 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.

5. Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

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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. Do not use erasable or gel pens. 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.

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1. Which of the following policies would be **most** likely to support economic growth in a developing nation?

   (a) increased government control of key industries and resources
   (b) government policies aimed at national self-sufficiency
   (c) tariffs on imports to support local industries
   (d) greater integration into the world economy

2. Australia's international competitiveness would improve if

   (a) the nation's trade intensity was reduced.
   (b) wage costs rose faster than productivity.
   (c) the Trade Weighted Index rose.
   (d) industry subsidies and tariffs were further reduced.

3. A nation's comparative advantage is determined **mostly** by

   (a) bilateral and multilateral free trade agreements.
   (b) its available resources and technology.
   (c) its trading partners.
   (d) transport costs and level of trade intensity.

4. The table below shows the production of beef and corn in two countries.

	Beef		**Corn**
Country A	5000	or	5000
Country B	2000	or	4000

   Based on the information in the table, what is the opportunity cost of Country B producing one extra unit of corn?

   (a) 1 unit of beef
   (b) 2 units of beef
   (c) 0.5 units of beef
   (d) 1 unit of corn

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5. An increase in the use of tariffs and subsidies in a country is likely to

(a) decrease imports, increase exports and improve market efficiency.
(b) increase imports, decrease exports and reduce market efficiency.
(c) decrease both imports and exports and reduce market efficiency.
(d) increase both imports and exports and increase market efficiency.

6. Which of the following is **not** a possible argument for supporting the implementation of trade restrictions by a nation?

(a) retaliation
(b) specialisation
(c) protection against cheaper foreign labour
(d) promotion of economic diversification

7. During the last decade, the main structural reason for Australia's persistent current account deficit was

(a) the interest rate differential between Australia and the United States.
(b) Australian investment in a rapidly-expanding Chinese economy.
(c) weak commodity prices for key Australian exports, such as coal and iron ore.
(d) interest and dividend payments in the primary income category.

8. When a country receives foreign direct investment its

(a) capital account will change.
(b) financial account will change.
(c) current account will change.
(d) domestic account will change.

9. If Australia's terms of trade increase, which of the following **must** be true as a result?

(a) Australia can import fewer real goods for a unit of its exports.
(b) Australia can import more real goods for a unit of its exports.
(c) The index of export prices has decreased.
(d) The index of import prices has increased.

10. An appreciation of the Australian dollar will **most** likely occur if there is

(a) a fall in domestic interest rates.
(b) an increase in demand for imports.
(c) a rise in the global price of iron ore.
(d) a large decrease in domestic investment expenditure.

11. Foreign debt can become a cause for concern if

(a) global interest rates rise.
(b) the majority of the debt is the result of borrowing by the private sector.
(c) interest rates fall, causing the servicing costs of debt to change.
(d) the debt was used for infrastructure spending.

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12. When Australia records a surplus on its capital and financial account

(a) capital machinery used to produce other goods has usually been imported from overseas.
(b) Australian investment overseas has been greater than foreign investment in Australia.
(c) Australian holdings of foreign assets have not increased as much as foreign holdings of Australian assets.
(d) equity has been the preferred form of foreign investment rather than debt.

13. Which of the following would be likely to reduce inflationary pressure in an economy?

(a) an increase in productivity
(b) a depreciation of the exchange rate
(c) aggregate demand rising faster than aggregate supply
(d) an increase in tariffs on imported goods

14. The factor that **most** affects household spending and household saving is

(a) taxation.
(b) interest rates.
(c) exchange rates.
(d) income.

15. An increase in household savings will be **most** likely to cause which of the following?

(a) an increase in national income
(b) an increase in consumption
(c) a decrease in national income
(d) a decrease in unemployment

16. The table below shows the level of consumption at different levels of income.

Income	Consumption
120	90
140	105
160	120

Using the data in the table, which of the following is correct? The marginal propensity to consume is

(a) 0.75 and the multiplier is 4.
(b) 0.5 and the multiplier is 2.
(c) 0.75 and the multiplier is 1.33.
(d) 0.4 and the multiplier is 2.5.

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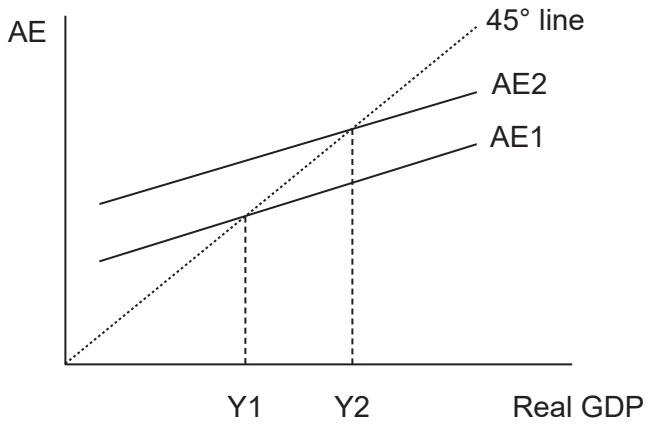
17. If the marginal propensity to consume is 0.8, an increase in investment of $100bn would cause income to

(a) rise by $100bn.
(b) rise by $500bn.
(c) fall by $80bn.
(d) fall by $20bn.

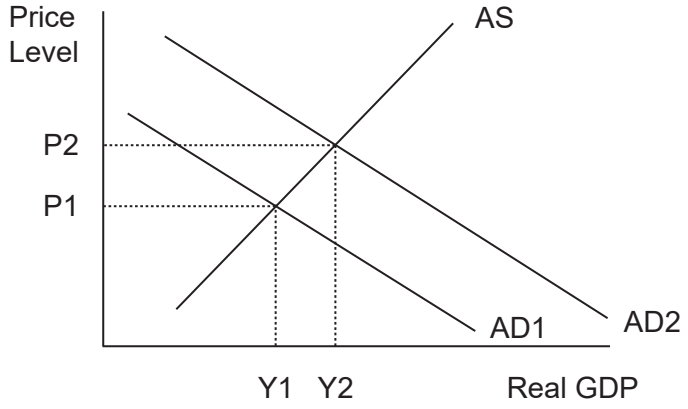
18. This question refers to the aggregate expenditure (AE) model shown below.



In the AE model, the level of income will rise when spending is

(a) equal to output.
(b) greater than output
(c) less than output.
(d) equal to aggregate expenditure.

19. Which of the following would be **most** likely to have caused the shift in aggregate demand (AD) shown in the diagram below?



(a) a rise in interest rates
(b) a rise in the price level
(c) a decrease in income taxes
(d) a fall in share prices

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20. Which of the following statements **best** explains a deflationary gap?

(a) the amount by which aggregate expenditure needs to reduce to eliminate inflationary pressure
(b) the additional amount of spending required to raise GDP to the full employment level
(c) the difference between aggregate demand and aggregate supply at equilibrium
(d) the amount by which actual real GDP exceeds potential GDP

21. Which of the following is an example of a counter-cyclical demand-management policy?

(a) an increase in transfer payments during a boom
(b) a decrease in the cash rate during a boom
(c) an increase in tax rates during a recession
(d) an increase in infrastructure spending during a recession

22. Time lags slow down the economic management process. A recognition lag refers to the time taken to

(a) identify that the economic data are changing.
(b) decide on an appropriate policy plan.
(c) affect the level of economic activity after a policy change.
(d) implement an appropriate counter-cyclical policy.

23. An increase in the cash rate by the Reserve Bank of Australia is **most** likely to cause

(a) a decrease in the level of business investment.
(b) an increase in the level of household spending on durable goods.
(c) a rise in the inflation rate.
(d) a fall in the unemployment rate.

24. Which of the following statements **most** accurately describes the impact of bushfires and drought on the 2019–2020 Commonwealth budget?

(a) There was a planned budget surplus but the outcome was a budget deficit.
(b) There was a planned budget deficit but the outcome was a budget surplus.
(c) The actual budget surplus was larger than the planned budget surplus.
(d) The actual budget deficit was larger than the planned budget deficit.

End of Section One

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

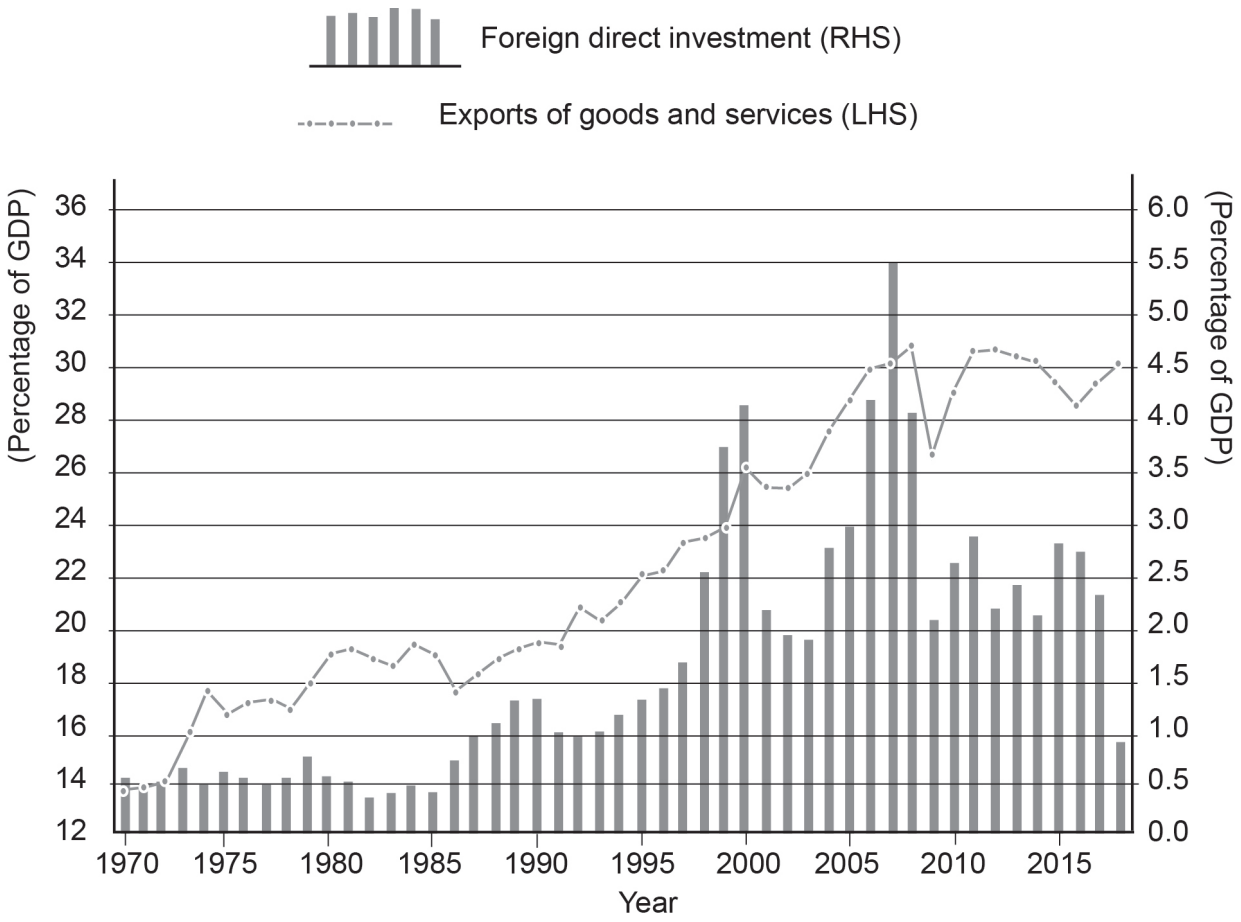
This section contains **three** questions. Answer **all** questions. Write your answers in the spaces provided.

Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

Suggested working time: 70 minutes.

Question 25 **(12 marks)**

This question refers to the graph below which shows changes in global exports and global foreign direct investment flows, and the table on page 9, which shows the industry shares of economic activity over time in Australia.



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Australian Industry Shares of Economic Activity (%)				
	Agriculture	**Mining**	**Manufacturing**	**Services**
Output				
1960s	13	2	26	59
1980s	6	6	19	70
2000s	3	7	12	78
Employment				
1960s	10	1	26	63
1980s	6	1	17	75
2000s	4	1	11	84
Exports				
1960s	62	15	9	14
1980s	33	38	10	18
2000s	18	42	17	23

(a) (i) To the nearest percentage point (of GDP) by how much did global exports of goods and services increase between 1970 and 2018? (1 mark)

(ii) In what year did global foreign direct investment peak? (1 mark)

(iii) In which industry sector were most Australians employed in the 2000s? (1 mark)

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Question 25 (continued)

(b) With reference to the graph, describe the changing rate of globalisation since 2000, and outline **two** reasons for this change. (4 marks)

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(c) With reference to the data, explain the economic effects of globalisation on the Australian economy. (5 marks)

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Question 26 **(12 marks)**

This question refers to the graph below, which shows the value of the Australian dollar.

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(a) (i) Identify the value of the trade weighted index (TWI) at the start of 2019. (1 mark)

(ii) If an Australian tourist had exchanged 100 Australian dollars for United States (US) dollars in 2001, how much would they have received? (1 mark)

(iii) In terms of the exchange rate, what would have been the best year for an Australian tourist to visit the United States? (1 mark)

(b) Identify **two** reasons why there is a difference between the change in the TWI value and the US dollar value of the Australian dollar. (2 marks)

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(c) Describe the trend in the value of the Australian dollar since 2011 and outline **two** factors that have contributed to this trend. (3 marks)

(d) Explain **two** likely effects on Australian households and **two** likely effects on firms of the movement in the value of the Australian dollar since 2011. (4 marks)

Households

One:

Two:

Firms

One:

Two:

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Question 27 **(12 marks)**

This question refers to the edited extract below, which is from an article written by Michael Roddan and published in *The Australian* on October 26, 2019.

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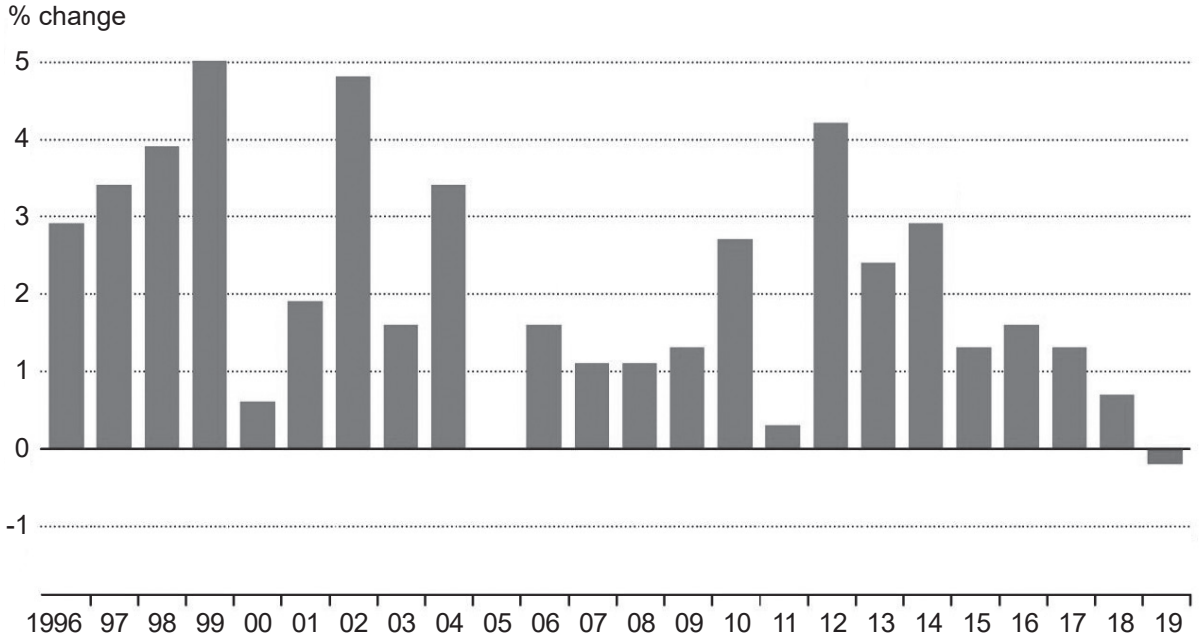
LABOUR PRODUCTIVITY – HOURS WORKED



Source: ABS

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(a) (i) Define the term 'labour productivity'. (1 mark)

(ii) What was Australia's average labour productivity growth rate over the last five years? (1 mark)

(iii) Which year in the graph had the highest rate of productivity growth? (1 mark)

(b) Explain **two** ways each of the following policy options, identified in the article, would assist in improving Australia's productivity rate. (4 marks)

Increased skills and training investment

One:

Two:

Increased investment in technology by firms

One:

Two:

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Question 27 (continued)

(c) Using the aggregate demand and aggregate supply (AD/AS) model, demonstrate and explain the relationship between productivity improvement and economic growth and how such improvement is likely to impact on the growth of income/wages. (5 marks)

Model

End of Section Two

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

This section contains **four** questions. Answer **two** questions. Write your answers in the lined pages provided and number your answers clearly.

Supplementary pages for planning/continuing your answers to questions are provided at the end of this Question/Answer booklet. If you use these pages to continue an answer, indicate at the original answer where the answer is continued, i.e. give the page number.

Suggested working time: 80 minutes.

Question 28 **(20 marks)**

(a) Describe the structure of Australia's balance of payments with reference to the two major accounts and their relationship, the categories in each account and examples of typical transactions recorded in each of them. (12 marks)

(b) In 2019, Australia recorded the first current account surplus in 44 years. Explain **two** factors that contributed to this significant change in the balance on the current account. (8 marks)

Question 29 **(20 marks)**

Using the demand and supply model, demonstrate and explain the short- and long-term effects of a reduction in tariffs and subsidies on a trade-protected economy. (20 marks)

Question 30 **(20 marks)**

(a) Use the aggregate demand and aggregate supply (AD/AS) model to demonstrate and explain the characteristics of the boom phase of the business cycle. (10 marks)

(b) Discuss how an economic boom influences the Australian Government's economic objectives of sustainable economic growth, low unemployment and a more equitable distribution of income. (10 marks)

Question 31 **(20 marks)**

(a) Explain why and how both monetary policy and fiscal policy have been used to influence the Australian economy in 2020. Use an aggregate expenditure (AE) model to support your answer. (12 marks)

(b) Discuss the factors likely to influence the effectiveness of each of these policies. (8 marks)

End of questions

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Supplementary page

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Supplementary page

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ACKNOWLEDGEMENTS

Question 10

Adapted from: Gillespie, A. (2016). Chapter 27, multiple-choice questions (Question 9). *Foundations of economics* (4th ed.). Oxford: Oxford University Press.

Question 25

Graph adapted from:
The World Bank Group. (n.d.). *Exports of goods and services (% of GDP)* [Graph]. Retrieved April, 2020, from https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS
Used under a Creative Commons Attribution 4.0 International (CC BY 4.0) licence.

The World Bank Group. (n.d.). *Foreign direct investment, net outflows (% of GDP)* [Graph]. Retrieved April, 2020, from https://data.worldbank.org/indicator/BM.KLT.DINV.WD.GD.ZS?end=2018&start=1970&view=chart
Used under a Creative Commons Attribution 4.0 International (CC BY 4.0) licence.

Table data from: Reserve Bank of Australia. (2010). *Table 1: Industry shares of activity*. Retrieved April, 2020, from https://www.rba.gov.au/publications/bulletin/2010/sep/1.html

Question 26

Graph adapted from: Reserve Bank of Australia. (2019). *Graph 1: Australian dollar*. Retrieved April, 2020, from https://www.rba.gov.au/mkt-operations/ex-rate-rba-role-fx-mkt.html

Question 27

Extract adapted from: Roddan, M. (2019). *Calls for reform become urgent as economy flags*. Retrieved April, 2020, from https://www.theaustralian.com.au/nation/politics/calls-for-reform-become-urgent-as-economy-flags/news-story/b574c4fe1bf27945d9b6f0956f808cc8

Adapted from: The Australian. (2019). *Labour productivity - hours worked* [Graph]. Retrieved April, 2020, from https://www.theaustralian.com.au/nation/politics/calls-for-reform-become-urgent-as-economy-flags/news-story/b574c4fe1bf27945d9b6f0956f808cc8

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