ATAR course examination, 2019

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: 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 external examinations are detailed in the *Year 12 Information Handbook 2019*. 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.

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.

1.   One valid argument against globalisation is that it may

(a)   increase living standards in countries that reduce trade barriers.
(b)   lead to high rates of domestic inflation because of higher import prices.
(c)   cause volatile capital flows that can lead to economic instability.
(d)   shift national resources to industries with a comparative disadvantage.

2.   Which of the following statements **most** accurately reflects recent trends in the process of globalisation?

(a)   The displacement of workers in developed countries has led to greater use of trade protection measures.
(b)   The pace of growth in international trade and financial flows has continued to accelerate.
(c)   The success of the World Trade Organisation's latest multilateral trade agreement has supported global integration.
(d)   Transport costs have risen and this has reduced the international flow of tourists and migrants.

3.   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.

Product	Country X	Country Y
Scooters	18	24
Bicycles	6	30

In relation to the table above, which of the following statements is correct?

(a)   Country Y has an absolute advantage in both scooter and bicycle production.
(b)   Country Y has a comparative advantage in bicycle production.
(c)   Country X has a comparative advantage in scooter production.
(d)   Country X has a comparative advantage in bicycle production.

4. An argument against regional trade agreements that underpin blocs such as the European Union and the Association of Southeast Asian Nations is that they can

(a) be harder to negotiate compared with World Trade Organisation multilateral agreements.
(b) divert trade from a low-cost producer outside the trade agreement to a higher-cost producer within the trade agreement.
(c) increase the trade intensity of member countries.
(d) divert trade from high-cost producers within the trade agreement to lower-cost producers outside the trade agreement.

5. This question is based on the diagram below, which shows the demand and supply for trucks in Australia and the effect of a tariff. (OP = domestic price before imports were allowed to enter the market, OW = world price, Sd = domestic supply, D = domestic demand, Sf = foreign supply.)
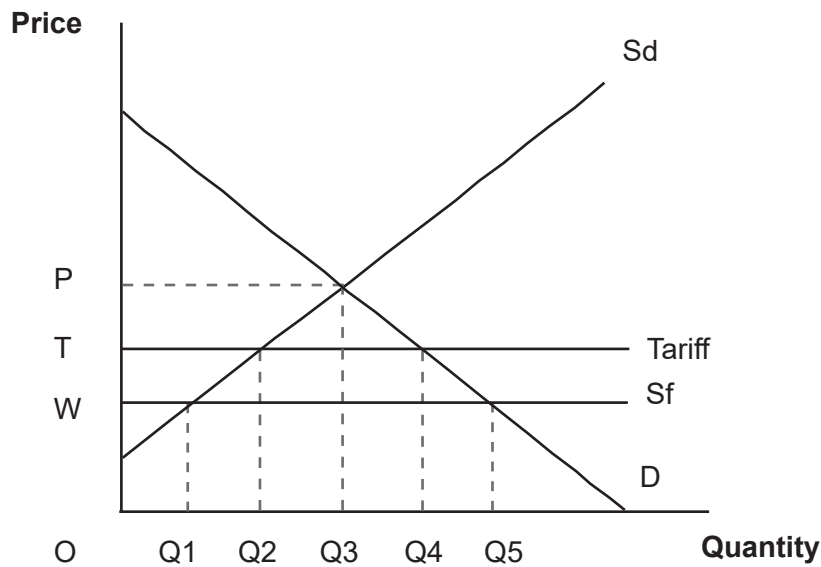
The imposition of a tariff by the Australian Government on imported trucks would

(a) decrease the price from OP to OT and the demand would expand from OQ3 to OQ4.
(b) increase the price from OW to OT and the demand would contract from OQ4 to OQ3.
(c) not affect the price but reduce the quantity of imports.
(d) increase the price from OW to OT and expand local supply from OQ1 to OQ2.

6. Which of the following organisations has the responsibility for overseeing the international monetary system and eliminating exchange restrictions that hinder free trade?

(a) The World Bank
(b) The World Trade Organisation
(c) The International Monetary Fund
(d) The International Currency and Exchange Organisation

7. This question is based on the diagram below, which shows the domestic demand and supply for a product in a market that is open to international competition.
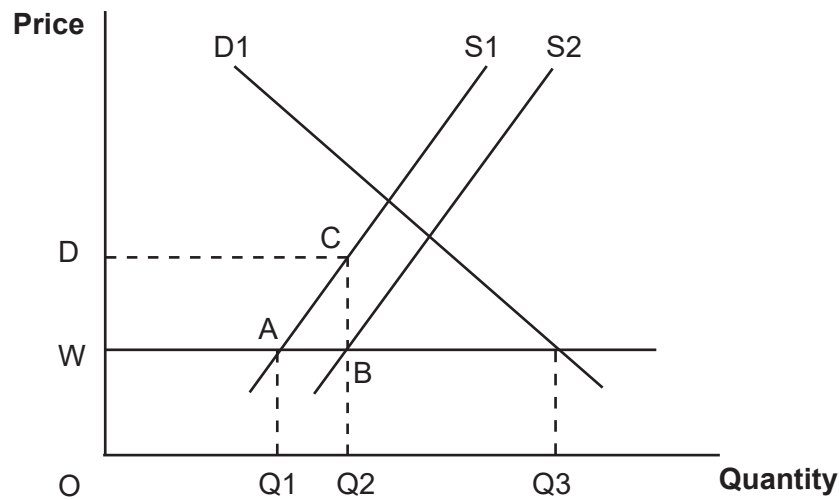
Complete the following sentence by selecting one of the alternatives.

If the world price is OW and a government subsidy shifts the domestic supply from S1 to S2, then imports will be .... and the deadweight loss in the market will be area ....

(a) Q2 – Q3, DCAW.
(b) Q1 – Q3, CBA.
(c) Q1 – Q3, DCBW.
(d) Q2 – Q3, CBA.

8. This question refers to the table below, which shows selected economic data for a hypothetical economy.

Balance of payments categories	$ billion
Export of goods	340
Import of goods	316
Export of services	58
Import of services	61
Net income	−164

According to the information in the table, which of the following statements is correct?

(a) The balance on goods and services is $27 billion.
(b) The goods balance is $340 billion.
(c) The current account deficit is $164 billion.
(d) The current account deficit is $143 billion.

9. An increase in the current account deficit would **most** likely be of concern if it was due to

(a) rising investment in an economy undergoing structural change.
(b) rising inflation levels affecting international competitiveness.
(c) a higher rate of economic growth boosting demand for imports.
(d) excessive domestic savings compared with investment requirements.

See next page

10. This question refers to the table below.

| Year	Export price index	Import price index
1	100	100
2	90	80
3	80	75

For this economy in Year 3 the

(a) total value of exports is greater than the total value of imports.
(b) terms of trade have deteriorated from the previous year.
(c) terms of trade have not changed from the previous year.
(d) average price of exports is lower than the average price of imports.

11. Which of the following **most** likely explains the recent movements in Australia's terms of trade?

(a) changes in commodity prices caused by shifts in global commodity demand and supply
(b) changes in the value of the Australian dollar caused by Chinese industrialisation
(c) changes in Chinese and American trade policies
(d) changes in the value of Australian exports and imports caused by the Australian business cycle

12. An appreciation of the Australian dollar would be **most** beneficial for

(a) domestic importers of European cars.
(b) foreigners wanting to invest in Australia.
(c) domestic exporters of a price elastic commodity.
(d) domestic investors wanting to purchase Australian assets.

13. All other things being equal, real interest rates and planned investment have a

(a) positive relationship.
(b) proportional relationship.
(c) negative relationship.
(d) nominal relationship.

14. Which of the following would cause a decrease in the value of the multiplier?

(a) the government increases income tax rates
(b) investment spending declines
(c) the terms of trade falls
(d) the marginal propensity to save decreases

15. Which of the following statements about the consumption function is correct?

(a) As disposable income rises, the marginal propensity to consume falls.
(b) As disposable income rises, the marginal propensity to consume rises.
(c) As disposable income rises, the marginal propensity to consume does not change.
(d) As disposable income rises, the marginal propensity to save rises.

See next page

16. Which of the following is **most** likely to reflect government policy designed to improve labour productivity?

(a) The aggregate supply curve shifts to the left.
(b) The aggregate demand curve shifts to the left.
(c) The aggregate supply curve shifts to the right.
(d) The aggregate demand curve shifts to the right.

17. The diagram below shows the effect of automatic stabilisers on budget outcomes.
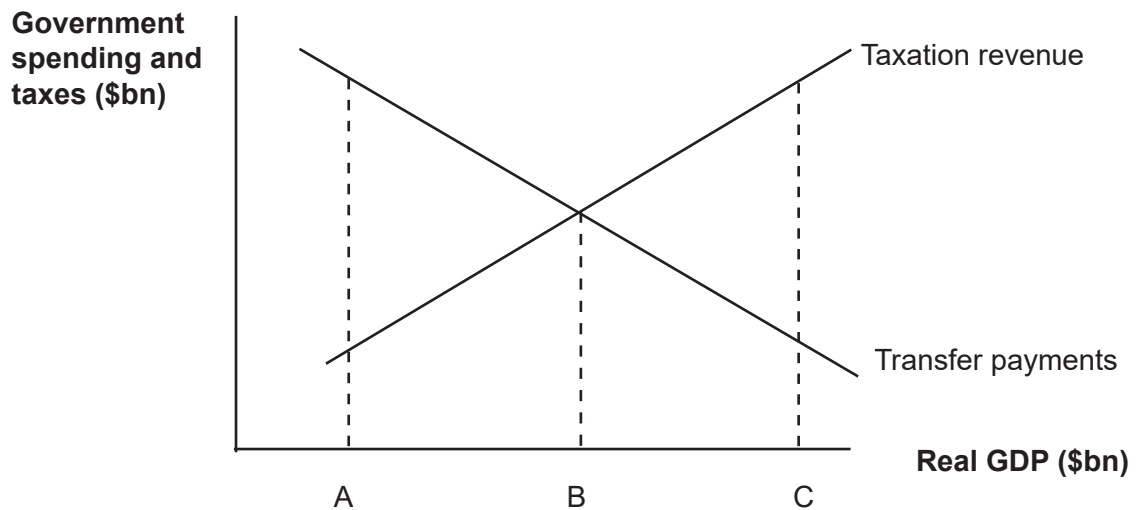
An economic recession would be reflected in a movement between which two points?

(a) B to A
(b) B to C
(c) A to B
(d) A to C

18. Which method of financing a budget deficit will **most** likely lead to an appreciation of the Australian dollar?

(a) borrowing from the Reserve Bank of Australia
(b) purchasing government bonds from the Australian public
(c) borrowing from overseas countries
(d) raising finances through crowd funding platforms

19. Which of the following **most** accurately describes the Australian government budget outcomes over the past three years?

(a) increasing budget deficits
(b) decreasing budget surpluses
(c) increasing budget surpluses
(d) decreasing budget deficits

See next page

20. Which of the following are reasons for the Reserve Bank of Australia to have a medium-term inflation targeting strategy?

    (i)   Inflation creates certainty as it discourages non-productive investment.
    (ii)   Inflation leads to higher nominal interest rates, which may reduce spending.
    (iii) Inflation increases the international competitiveness of exporters.
    (iv)   Inflation redistributes income and can increase inequality.

    (a)   (i) and (ii)
    (b)   (ii) and (iii)
    (c)   (iii) and (iv)
    (d)   (ii) and (iv)

21. The Reserve Bank of Australia would **most** likely implement contractionary monetary policy if

    (a)   potential GDP was above actual GDP.
    (b)   unemployment was below the natural rate of unemployment.
    (c)   the economy was affected by a negative aggregate demand shock.
    (d)   inflation crept above 2%.

22. Which of the following statements regarding the changing importance of economic sector output in Australia over time is correct?

    (a)   The output share of both services and agriculture has risen.
    (b)   The output share of services has risen but that of manufacturing has declined.
    (c)   The output share of both manufacturing and mining has risen.
    (d)   The output share of services has declined but that of mining has risen.

23. Which one of the following is **not** an example of an improvement in economic efficiency?

    (a)   increasing the quantity of inputs available
    (b)   making more cost-effective use of inputs
    (c)   increasing the adaptability of inputs
    (d)   moving inputs to their most productive use

24. Which one of the following is **most** likely to occur as a result of productivity growth in an economy?

    (a)   rising price levels
    (b)   rising structural unemployment
    (c)   falling output levels
    (d)   falling economic growth

End of Section One

See next page

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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.
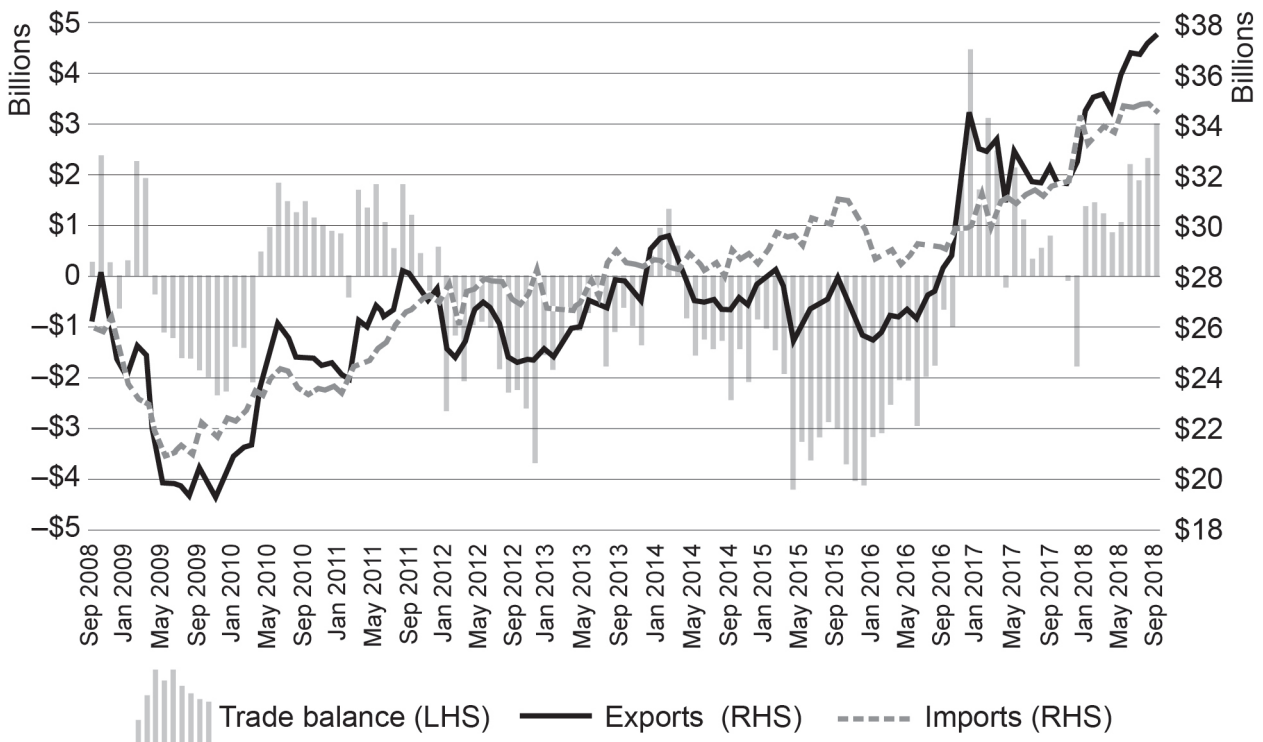
Suggested working time: 70 minutes.

Question 25 **(12 marks)**

This question refers to the graph below, which shows Australia's trade balance.

Australia's trade balance
Seasonally adjusted, ABS 5368.0

(a) (i) Identify the year that had the largest monthly trade deficit. (1 mark)

_____

(ii) Identify the value of the trade balance in September 2018. (1 mark)

_____

(iii) Identify the value of Australian exports in September 2015. (1 mark)

_____

See next page

(b)   Identify the trend in the trade balance over the three years up to September 2018 and state **two** possible reasons for this trend.   (3 marks)

_____

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(c)   Discuss the likely effect of the trade balance in 2018 on the following: (6 marks)

current account balance: _____

_____

_____

_____

economic growth: _____

_____

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_____

Federal Government budget outcome: _____

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See next page

Question 26 **(12 marks)**

This question refers to the edited extract below, taken from an article by James Hall that appeared online on 8 February 2019.

Interest rate cut will see Aussie dollar fall well below 70 US cents, economists say

The local dollar has been slammed following the Reserve Bank of Australia's (RBA) announcement a rate cut was likely.

The Australian dollar is on track for its worst one-day fall in nearly two years following Reserve Bank boss Philip Lowe's comments a rate cut was likely with growing concerns over the local economy.

The Aussie dollar fell 1.35 US cents in the 24 hours between midday yesterday and today. It was buying 71.03 US cents at noon today and economists say it will crash well below 70 US cents if the rate is cut.

Macro Business Fund chief strategist David Llewellyn-Smith said the Aussie dollar would be worth 65 US cents by the end of the year.

'The likelihood is that they will have to cut because house prices nearly always draw the broader economy into weakness, and they're falling very fast in Sydney and in Melbourne and are now falling in all major capitals. We think they'll have to cut twice and that's going to put a lot of downwards pressure on the Aussie dollar.'

AMP Capital chief economist Shane Oliver agrees the RBA will have to cut rates twice this year, but he says strong commodity prices will ensure a slide isn't as dramatic as Mr Llewellyn-Smith predicts.

Dr Oliver told news.com.au the expected US rate hike would compound the weakness of the Australian currency.

'If our interest rates have been falling below those in the US, then that just makes it less attractive to park your money in Australian dollars versus US dollars', he said.

'And that will put more downwards pressure on the Aussie, pushing it into the 60s.'

(a)   (i)   Identify the reason given in the extract for the fall in the value of the Australian dollar. (1 mark)

_____

(ii)   Identify the factor mentioned in the extract that may limit the extent of any fall in the value of the Australian dollar. (1 mark)

_____

See next page

(b)   Using the exchange rate at noon on 8 February 2019, calculate how many Australian dollars would be required to purchase an American product valued at US $220.   (1 mark)

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(c)   Discuss, with reference to aggregate expenditure, why falling house prices 'nearly always draw the broader economy into weakness'.   (4 marks)

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Question 26 (continued)

(d)   Use an appropriate model to demonstrate and explain how a simultaneous reduction
        in Australian interest rates and an increase in interest rates in the United States would
        affect the value of the Australian dollar.   (5 marks)

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Model

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Question 27   **(12 marks)**

This question refers to the data in the table below for a hypothetical economy.

Indicator	Year 1	Year 2	Year 3	Year 4	Year 5
Real GDP ($bn)	530	534	553	562	560
Unemployment rate (% of labour force)	6.2	6.3	6.0	5.5	5.5
Consumer Price Index	100	101.0	105.2	107.3	107.1
Current account deficit (% of GDP)	3.5	4.1	5.6	5.4	2.5
Business investment (% of GDP)	10.0	15.6	17.8	15.2	7.5

(a)   (i)   Calculate the real economic growth rate in Year 3.   (1 mark)

_____

        (ii)   Identify the indicator in the table that is lagging.   (1 mark)

_____

        (iii)   Identify the year which had the highest rate of inflation.   (1 mark)

_____

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Question 27 (continued)

(b)   With reference to Year 3 in the table on page 15, explain how **one** economic objective conflicts with the objective of economic growth and how **one** other economic objective complements the objective of economic growth.   (4 marks)

Conflicting economic objective: _____

_____

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Complementary economic objective: _____

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(c) Describe and demonstrate, using the aggregate demand and aggregate supply (AD/AS) model, the performance of the economy from Year 4 to Year 5 in the table on page 15.

(5 marks)

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Model

End of Section Two

See next page

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) Explain and demonstrate, using an economic model, how a nation can gain from specialisation and trade. (12 marks)

(b) Explain the main determinants of Australia's international competitiveness and describe **two** ways in which competitiveness can be improved over the long term. (8 marks)

Question 29 **(20 marks)**

(a) Explain the relationship between Australia's current account outcome and its foreign liabilities. (8 marks)

(b) Describe and account for the recent trends in Australia's level of foreign debt and discuss the impact this has had on the Australian economy. (12 marks)

Question 30 **(20 marks)**

In recent years, Western Australia has experienced the rapid expansion of new mining and energy industries such as lithium and liquefied natural gas (LNG) and increased investment by new firms that could earn the nation hundreds of billions of dollars in exports.

(a) Discuss the importance of investment to the Australian economy and explain the factors that can influence the total amount of investment spending in Australia. (10 marks)

(b) Use the aggregate expenditure model and the multiplier process to demonstrate and explain the likely effect of the increased mining and energy investment on the Australian economy. (10 marks)

Question 31 **(20 marks)**

Discuss the contemporary monetary policy setting of the Reserve Bank of Australia with reference to the business cycle, the intended effects on key economic sectors and its effectiveness in influencing aggregate demand.

End of questions

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ACKNOWLEDGEMENTS