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

ATAR course examination, 2017

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.

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.

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Ref: 17-023

ECO

2018/1392
Web version of 2017/63452

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 2017*. 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. Supplementary pages for the use of planning/continuing your answer to a question have been 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. 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. The three nations that are the world's largest exporters are

   (a) China, India and Japan.
   (b) China, Russia and USA.
   (c) China, USA and Germany.
   (d) China, Brazil and South Korea.

2. Which of the following accounts for the largest proportion of world trade by value?

   (a) agriculture
   (b) fuels and mining
   (c) services
   (d) manufactured goods

3. The international competitiveness of a nation would decline if

   (a) the local currency depreciated.
   (b) the capital to labour ratio rose.
   (c) real unit labour costs rose.
   (d) the local price level fell relative to its trading partners.

4. Governments have facilitated globalisation by

   (a) encouraging democracy.
   (b) reducing restrictions on international businesses.
   (c) encouraging people to buy domestic production only.
   (d) introducing subsidies.

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5. This question refers to the table below, which shows the production of wheat and wool in two countries.

	Wheat		Wool
Country A	650	or	400
Country B	600	or	200

Country B has

(a) a comparative advantage in wheat production.
(b) a comparative advantage in wool production.
(c) an absolute advantage in wool production.
(d) a comparative advantage in the production of both wheat and wool.

6. Which of the following is an argument **against** trade liberalisation?

(a) it creates structural unemployment
(b) the opportunity cost of local production will increase
(c) it lowers living standards for local consumers
(d) it may result in domestic producers developing economies of scale

7. Which of the following factors contributes to Australia's relatively low trade intensity?

(a) low transport costs caused by geographical proximity to Asia
(b) membership of several trading blocs
(c) a large domestic market with strong competition
(d) a reliance on primary sector exports

8. This question refers to the table below, which shows Australian current account data.

	Sept. quarter 2016 $m	Dec. quarter 2016 $m
Balance on goods and services	–3538	4667
Net income	–6663	–8520
Balance on current account	–10 201	–3853

On the basis of the data in the table, what is **most** likely to have been the cause of the change in the balance on current account over the time shown?

(a) lower interest payments on Australia's foreign debt
(b) an improvement in the terms of trade
(c) a decline in foreign investment
(d) an appreciation of the Australian dollar

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9. If Australia recorded a current account surplus

(a) there would be a reduced need for foreign investment.
(b) net foreign liabilities would begin increasing rapidly.
(c) Australian residents would need to sell more assets to overseas residents.
(d) the capital account must record a deficit.

10. Assume the following exchange rate: $1 AUD = $0.70 USD. What will be the cost in AUD of an imported American aircraft valued at $1.5 million USD? (Round your answer to the nearest $100 000.)

(a) $1.1 million
(b) $1.5 million
(c) $2.1 million
(d) $2.5 million

11. Which of the following statements regarding Australia's net foreign liabilities is correct?

(a) Foreign equity is preferred to foreign debt because it is more flexible.
(b) Australia's net foreign liabilities are decreasing over time.
(c) Foreign debt does not require an income payment.
(d) Most of Australia's net foreign liabilities are in the form of net foreign debt.

12. Foreign investment is a benefit to the Australian economy because it

(a) increases the level of net foreign liabilities.
(b) allows Australia to make up the shortfall in domestic savings.
(c) reduces interest payments in the income category of the current account.
(d) leads to a depreciation in the currency.

13. If the gross domestic product of a nation rose from $1300 billion to $1350 billion over the course of a year, the annual rate of growth (rounded to one decimal place) would be

(a) 3.5%.
(b) 3.8%.
(c) 5.0%.
(d) 5.5%.

14. Which of the following **most** likely occurs during a downturn in the business cycle?

(i) rising levels of unemployment
(ii) reduced tax receipts
(iii) a decrease in new investment

(a) (i) and (ii) only
(b) (i) and (iii) only
(c) (ii) and (iii) only
(d) (i), (ii) and (iii)

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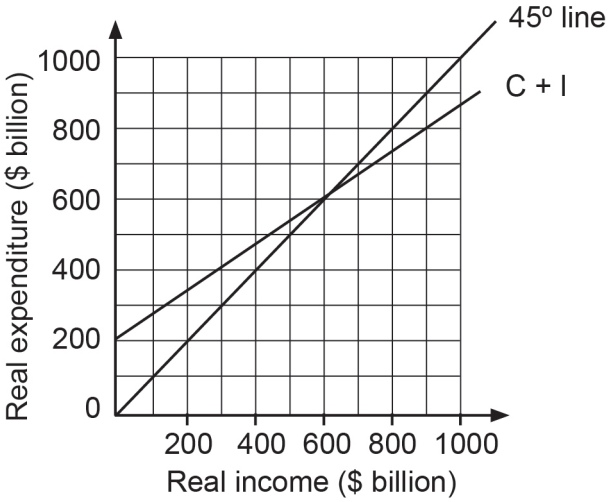
15. Which of the following is the **largest** component of consumption spending?

(a) non-durable expenditure
(b) expenditure on durable goods
(c) expenditure on essential and discretionary services
(d) expenditure on welfare payments

16. Interest rates and the level of investment expenditure are negatively related because as rates rise

(a) the price of borrowed money and the opportunity cost of that money also rise.
(b) firms are more likely to invest due to negative expectations.
(c) the prospective return on investment must be less than the rate of interest.
(d) investment automatically falls because of lower business confidence.

17. Refer to the diagram below to answer the following question.



If autonomous consumption was to decrease by $100 billion, equilibrium real output would be

(a) $100 billion.
(b) $300 billion.
(c) $500 billion.
(d) $700 billion.

18. Which of the following statements explains the slope of the aggregate demand curve?

(a) Increases in the general price level will cause a reduction in spending in the economy.
(b) Increases in spending reduce output, forcing the general level of prices to rise.
(c) Decreases in the general price level will cause a reduction in spending in the economy.
(d) Increases in the general price level will cause interest rates to fall, encouraging greater spending.

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19. The time lag between the implementation of monetary policy and changes in the economy is known as the

(a) recognition lag.
(b) decision-making lag.
(c) implementation lag.
(d) effect lag.

20. Which of the following is an example of a discretionary fiscal policy?

(a) an increase in company tax revenue due to high profit levels
(b) an increase in welfare spending because of higher unemployment
(c) an increase in spending on infrastructure during a recession
(d) a decrease in personal income tax receipts during a recession

21. 'Crowding out' **best** refers to the action of

(a) governments selling bonds and interest rates rising as a consequence.
(b) governments buying bonds and driving up inflation rates.
(c) financial institutions dominating the private household borrowing sector.
(d) the Reserve Bank decreasing the cash rate and aggregate expenditure declining.

22. The effect of a contractionary monetary policy stance on aggregate demand can result in a

(a) higher level of economic growth.
(b) smaller budget deficit.
(c) rise in the inflation rate.
(d) rise in welfare payments.

23. Which of the following is an effect of structural change in the Australian economy?

(a) decreased rates of automation in the manufacturing sector
(b) decreased employment in the agricultural sector
(c) decreased demand for skilled workers
(d) decreased employment in the services sector

24. Economic policies designed to improve productivity and efficiency usually reduce inflationary pressure by

(a) slowing aggregate demand because consumption levels fall.
(b) reducing the impact of imported inflation.
(c) easing cost pressure on domestic production.
(d) increasing society's inflationary expectations.

End of Section One

See next page

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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.

Supplementary pages for the use of planning/continuing your answer to a question have been 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 edited extract below, which is from an article written by Tony Makin and published in *The Australian* on January 12, 2017.

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(a) (i) At what rate did global trade increase by in 2016? (1 mark)

(ii) Identify **one** reason for the 'investment crash in advanced economies'. (1 mark)

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(iii) What is the role of the World Trade Organisation (WTO)? (1 mark)

(b) Use the aggregate expenditure (AE) model to demonstrate and explain the impact of falling investment on real gross domestic product (GDP) in an economy. (4 marks)

Model

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Question 25 (continued)

(c) Explain how the operation of **one** type of 'restrictive international trade measure' (protection) reduces market efficiency. Draw an appropriate model to support your explanation. (5 marks)

Model

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Question 26 **(12 marks)**

The table below shows terms of trade data for the Australian economy.

	Export price index	Import price index	Terms of trade index
March quarter 2016	72.9	104.5	69.8
June quarter 2016	73.9	103.5	71.4
September quarter 2016	76.5	102.5	74.6
December quarter 2016	86.0	102.7	

(a) (i) Calculate the terms of trade for the December quarter 2016. (1 mark)

(ii) What does the terms of trade index measure? (1 mark)

(iii) In what quarter of 2016 did the average price of imports increase? (1 mark)

(b) Describe the trend in Australia's terms of trade evident in the table and identify **two** possible economic reasons for this trend. (3 marks)

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Question 26 (continued)

(c) Describe the likely effect of the movement in the terms of trade, shown in the table on the previous page, on the following: (6 marks)

Exchange rate: _____

Trade balance: _____

Inflation rate: _____

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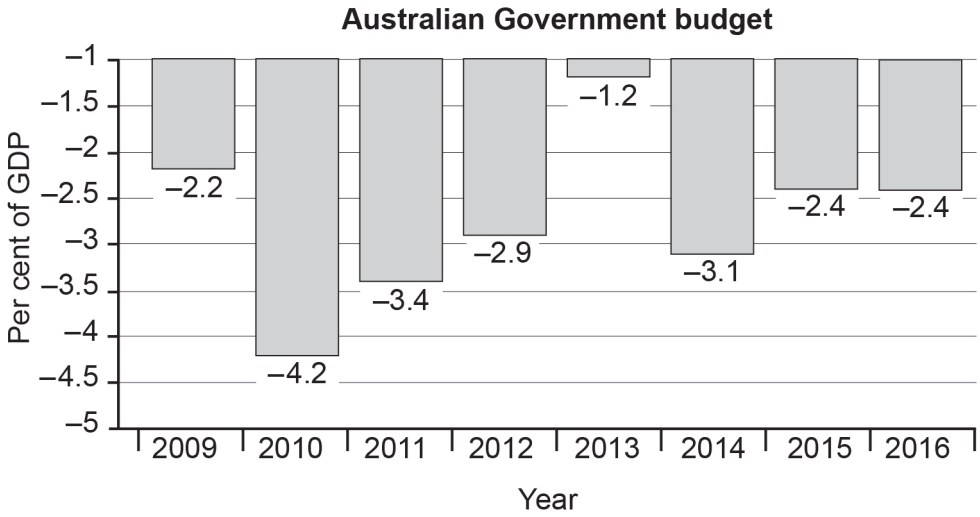
Question 27 **(12 marks)**

This question refers to the extract and graph below that show Australian Government budget data.

Australia recorded a government budget deficit equal to 2.40% of the country's gross domestic product (GDP) in 2016. The government budget in Australia averaged –0.94% of GDP from 1979 until 2016, reaching an all-time high of +2.00% of GDP in 2000 and a record low of –4.20% of GDP in 2010.



(a) (i) What is meant by the phrase 'government budget deficit'? (1 mark)

(ii) Identify the year with the largest budget deficit. (1 mark)

(iii) Between which **two** years was the budget most contractionary? (1 mark)

(b) Identify **three** methods the government could use to finance a budget deficit. (3 marks)

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Question 27 (continued)

(c) Discuss the likely impact on the level of economic activity of the Australian Government's fiscal policy stance from 2014 to 2016. (6 marks)

End of Section Two

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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.

Supplementary pages for the use of planning/continuing your answer to a question have been 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 accounts. Include examples of international transactions that would occur in each category. (8 marks)

(b) Discuss the structural and cyclical reasons for recent (the last ten years) trends in Australia's current account. (12 marks)

Question 29 **(20 marks)**

From February 2016 to February 2017, the Australian trade weighted index (TWI) changed from 61.30 to 65.70.

(a) Explain how the trade weighted index is calculated and, using a diagram(s), demonstrate and describe **two** causes of this change. (10 marks)

(b) Discuss the likely effect of this movement in the trade weighted index on the Australian economy. (10 marks)

Question 30 **(20 marks)**

(a) Discuss the extent to which the Australian Government has achieved its economic objectives in 2016–2017. (10 marks)

(b) Using the aggregate demand and aggregate supply (AD/AS) model, demonstrate and explain the likely impact on the Australian economy of each of the following events:
(i) a Chinese economic recession
(ii) a sustained rise in Australian labour productivity. (10 marks)

Question 31 **(20 marks)**

In February 2014, the Reserve Bank of Australia (RBA) cash rate was 2.50%. In February 2017, it was 1.50%.

(a) Explain how the transmission mechanism would operate to affect the level of economic activity because of this monetary policy stance. (12 marks)

(b) Describe **two** strengths and **two** weaknesses of monetary policy. (8 marks)

End of questions

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Question number: _____

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Supplementary page

Question number: _____

Supplementary page

Question number: _____

Supplementary page

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Supplementary page

Question number: _____

ACKNOWLEDGEMENTS

Question 8 Data source: Australian Bureau of Statistics (ABS). (2016, December). *5302.0 – Balance and payments and international investment position*. Retrieved February, 2017, from www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5302.0Main+Features1Dec%202016?OpenDocument

Question 25 Adapted from: Makin, T. (2017, January 12). Post-GFC trade slowdown indicative of a global malaise. *The Australian*. Retrieved January, 2017, from www.theaustralian.com.au/opinion/postgfc-trade-slowdown-indicative-of-a-global-malaise/news-story/1fa81a54d38f77f8178a43451270c060

Question 26 Data source: Australian Bureau of Statistics (ABS). (2016, December). *6457.0 – International trade price indexes*. Retrieved June, 2017, from www.abs.gov.au/ausstats/abs@.nsf/mf/6457.0

Question 27 Text and graph from: Trading Economics. (n.d.). *Australia government budget 1979–2017*. Retrieved July, 2017, from www.tradingeconomics.com/australia/government-budget

Question 29 Data source: Reserve Bank of Australia (RBA). (n.d.). *Exchange rates* [Statistical table]. Retrieved February, 2017, from www.rba.gov.au/statistics/historical-data.html#exchange-rates

Question 31 Data source: Reserve bank of Australia (RBA). (n.d.). *Cash rate* [Statistical table]. Retrieved February, 2017, from www.rba.gov.au/statistics/cash-rate/

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