



METHODIST
LADIES'
COLLEGE

ECONOMICS

ATAR Year 12

Marking key

1. Which of the following statements about linkages between the Australian and American economies is incorrect?
 - a) The USA is among Australia's top five two-way trading partners
 - b) The USA is Australia's largest source of foreign investment
 - c) The USA is a key destination for Australia's meat exports
 - d) The USA and Australia are members of the Trans Pacific Partnership**

2. Which of the following recent developments is considered to be a threat to continued growth in the volume of world merchandise trade?
 - i. More volatile commodity prices
 - ii. Rising protectionist sentiment in the USA
 - iii. Recent preferences for bilateral free trade agreements
 - iv. Forecasts of rising interest rates in developed nations
 - a) i and ii
 - b) ii and iii**
 - c) iii and iv
 - d) i and iv

3. Which of the following would increase Australia's international competitiveness?
 - a) An increase in Australian tariffs
 - b) An increase in Australian wage rates
 - c) A decrease in inflation in Australia**
 - d) A decrease in imports to Australia

4. From an economist's perspective, a disadvantage of globalisation is that it results in
 - a) multinational corporations operating in locations where labour costs are lowest
 - b) increased exposure to the global business cycle**
 - c) governments competing in global financial markets to finance budget deficits
 - d) harmonisation of consumer trends around the globe

5. A nation will have a comparative advantage in the production of a particular item if that nation is willing and able to sell that item
- a) **at a price lower than the world price**
 - b) at a price equal to the world price
 - c) at a price higher than the world price
 - d) at a fixed price regardless of the world price

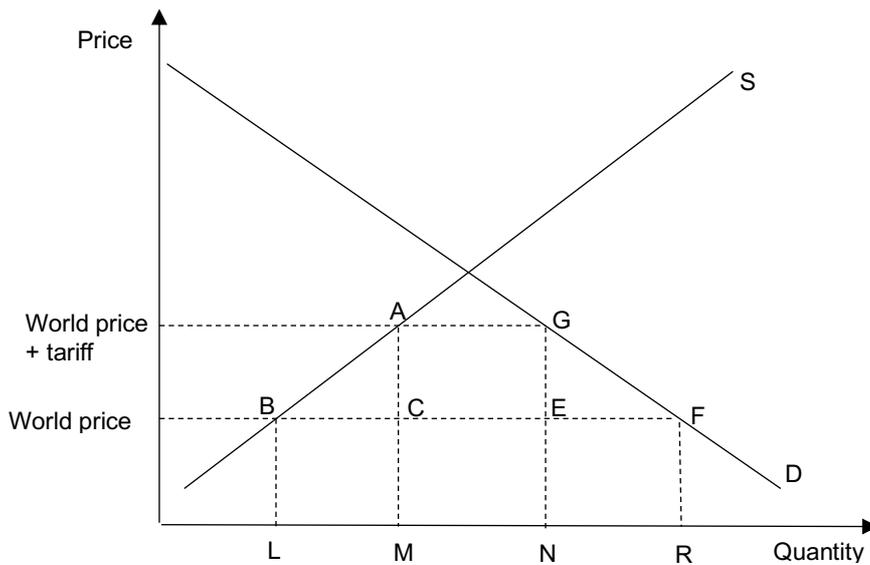
6. This question refers to the table below, which shows the labour hours required to produce two items in two countries.

Country \ Product	Coils	Spokes
Coatesland	3	2
Friedonia	10	8

Which of the following statements is correct?

- a) Coatesland has an absolute advantage in producing coils
 - b) Coatesland has a comparative advantage in producing spokes**
 - c) Friedonia has a comparative advantage in producing spokes
 - d) Friedonia has a comparative advantage in both coils and spokes
7. Most economists prefer multilateral free trade agreements to bilateral ones because
- a) multilateral agreements lead to regionalisation of trade
 - b) bilateral agreements lead to trade diversion**
 - c) multilateral agreements lead to structural unemployment
 - d) bilateral agreements lead to higher wage pressures
8. Which of the following describes a role of the World Trade Organisation (WTO)?
- a) It promotes international financial stability
 - b) It regulates investment in productive infrastructure
 - c) It advocates protectionist policies for developing countries
 - d) It monitors developments in world trade**
9. Which of the following is an example of a trade bloc?
- a) World Trade Organisation
 - b) American agricultural subsidies
 - c) Great Wall of China
 - d) European Union**
10. Which of the following is a likely effect of a subsidy?
- a) The price of exported items will rise
 - b) Resource allocation will be more efficient
 - c) The supply from local producers will increase**
 - d) Inflation will increase due to more expensive imports

11. The diagram below illustrates the impact of a tariff.
Which of the following areas would represent government revenue raised from this tariff?



- a) BLRF
b) ACEG
 c) AMNG
 d) ABFG
12. Which of the following is recorded as a debit item in the current account of the Australian balance of payments?
- a) **Australian financial aid to developing countries**
 b) The purchase by Australians of shares in an overseas company
 c) Dividend payments from an overseas company to Australian shareholders
 d) The purchase of shares in an Australian company by an overseas company

13. The table below shows selected data for an economy.

Balance of Payments item	\$b
Exports	400
Imports	460
Net services	-50
Net primary income	-110
Net secondary income	70

According to the data, which statement is correct for an economy with a floating exchange rate?

- a) **There is a surplus of \$150b on the capital and financial account**
 b) There is a deficit of \$150b on the capital and financial account
 c) There is a surplus of \$290b on the current account
 d) There is a deficit of \$290b on the current account

14. Australia's persistent current account deficit is not considered to be a problem because

- a) it is mainly the result of government budget deficits
- b) it is mainly caused by high demand for domestic investment**
- c) the low interest rate differential makes it easy to repay borrowings
- d) it will automatically fall as the level of economic activity rises

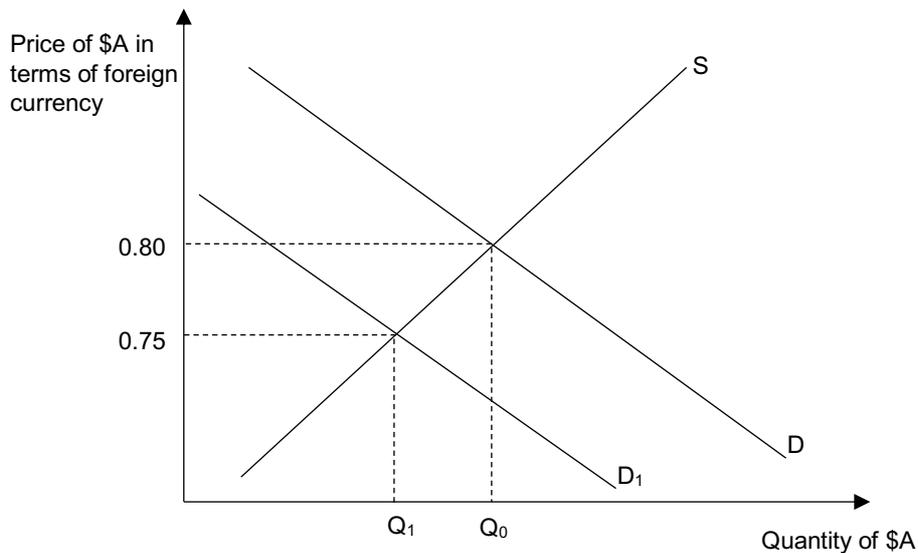
15. This question refers to the table below.

Year	Export price index	Import price index
1	100	110
2	110	112

What does the table indicate about this economy?

- a) Import volumes exceeded export volumes in both years
- b) The terms of trade worsened between Year 1 and Year 2
- c) The balance of trade improved marginally between Year 1 and Year 2
- d) Fewer exports were required to pay for the same volume of imports in Year 2**

16. The diagram shows the demand for and supply of Australian dollars.



Other things being equal, what would be the effects of a movement of the demand curve for Australian dollars from D to D_1 ?

- a) Australia's international competitiveness would decrease and capital inflow would be encouraged as domestic assets are less expensive
- b) Australia's international competitiveness would decrease and capital inflow would be encouraged as domestic assets are more expensive
- c) Australia's international competitiveness would increase and capital inflow would be encouraged as domestic assets are less expensive**
- d) Australia's international competitiveness would increase and capital inflow would be encouraged as domestic assets are more expensive

17. Other things being equal, what will be the impact on the Australian economy of a decrease in domestic interest rates?
- a) Economic activity should increase and the exchange rate should appreciate
 - b) Economic activity should increase and the exchange rate should depreciate**
 - c) Economic activity should decrease and the exchange rate should appreciate
 - d) Economic activity should decrease and the exchange rate should depreciate

18. The table below shows the weights allocated to selected currencies when calculating Australia's Trade Weighted Index (TWI) for two years.

Currency	Weights	
	Year 1	Year 2
Japanese Yen	18.7	16.1
US Dollar	15.8	17.2
European Euro	12.4	10.7
UK Pound Sterling	5.3	7.0

Which of the following is a possible explanation for the changing weights of these currencies from Year 1 to Year 2?

- a) A reduction in goods imported to Australia from the UK
 - b) An increase in the volume of Australia's trade with Japan
 - c) The implementation of a free trade agreement between Australia and Europe
 - d) An increase in Australia's demand for traded commodities from the United States**
19. The slope of the aggregate demand curve is a result of
- a) price and income effects
 - b) income and substitution effects
 - c) net exports and interest rate effects**
 - d) substitution and open economy effects
20. The impact of a reduction in world oil prices could be most accurately modelled through
- a) a decrease in aggregate demand
 - b) a decrease in aggregate supply
 - c) a decrease in the price level**
 - d) a decrease in real GDP
21. If $Y = 200$, $C = 50$, $I = 20$, $G = 40$ and $M = 30$, what is the value of exports?
- a) 60
 - b) 110
 - c) 120**
 - d) 140

22. If real output exceeds expenditure,

- a) inventories will fall
- b) inventories will rise**
- c) inventories will remain unchanged
- d) aggregate expenditure will rise

23. At the peak phase of the business cycle, which of the following is most likely to occur?

- a) A fall in the current account deficit due to high levels of domestic production
- b) An increase in the level of inventories due to high levels of output
- c) An increase in the marginal propensity to consume**
- d) An increase in the size of budget deficits due to higher wage costs in the public sector

24. Assuming there are no taxes or imports, what will be the initial increase in consumption resulting from an increase in disposable income of \$20 billion in an economy with a marginal propensity to consume of 0.75?

- a) \$5b
- b) \$15b**
- c) \$25b
- d) \$80b

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.

Additional working space pages at the end of this Question/Answer booklet are for planning or continuing an answer. If you use these pages, indicate at the original answer, the page number it is planned/continued on and write the question number being planned/continued on the additional working space page.

Suggested working time: 70 minutes.

Question 25**(12 marks)****An Australia that can say no to China**

The Economist
6 April 2017

If there's anything worse than running a huge trade deficit with China, it is, to judge by Australia's incessant fretting, running a huge surplus. Australia's was A\$22bn (\$17bn) last year—1.3% of GDP. China's industrial revolution has long been fuelled by coal from Queensland and iron ore from Western Australia. But China wants ever more from Oz. Education, for instance: nearly 160,000 Chinese are studying in Australia. Food and drink is the next boom. Annual exports of beef will soon exceed A\$1bn. Restaurants in Beijing and Shanghai can't get enough Australian lobster. And sales of Australian wine to China were nearly A\$500m in 2016, and growing by 50% a year.

So what are Australians worried about? Their country has escaped recession for an astonishing 25 years, thanks chiefly to Chinese demand. And Australia never had a big manufacturing sector to be hollowed out by Chinese competition. Yet nervousness is growing that Australia is somehow beholden to China, a feeling exacerbated by China's testy reaction whenever Australia does anything that displeases it.

- a) List four Australian exports that, according to the article, are in growing demand in China. (2 marks)

1 mark for two items	
Education Beef Lobster Wine (don't accept "food and drink")	1 – 2 marks

- b) Explain two reasons why Australians might be concerned about the “huge surplus” of trade with China. (4 marks)

Risk of economic slowdown in China – would lead to slower growth in Australia	1 – 2 marks
Feelings of being “beholden” to China (political factors) which could lead to a reduction in Australia’s ability to pursue independent economic policy	1 – 2 marks
Australian manufacturing being “hollowed out” leading to structural UE	1 – 2 marks

- c) With reference to a suitable diagram, explain three benefits for Australia of trade with China. (6 marks)

Diagram: D&S showing benefits of exports or imports, AE showing increasing AE or AD/AS showing increasing AD	1 – 2 marks
Benefits may include: <ul style="list-style-type: none"> • increased growth as a result of increased export earnings • higher total surplus from trade • job opportunities • access to broader markets (can achieve economies of scale) • access to cheaper capital equipment (lower cost-push inflation) 	1 – 4 marks

Question 26

(12 marks)

AUD to USD Chart

10 Apr 2017 02:00 UTC - 10 May 2017 02:12 UTC



<http://www.xe.com/currencycharts/?from=AUD&to=USD&view=1M>

- a) In the space below, draw a demand/supply diagram showing a possible cause of a depreciation in the Australian dollar. (2 marks)

Draws a supply/demand diagram labelled fully	1 mark
Shows the movement that will cause a depreciation	1 mark

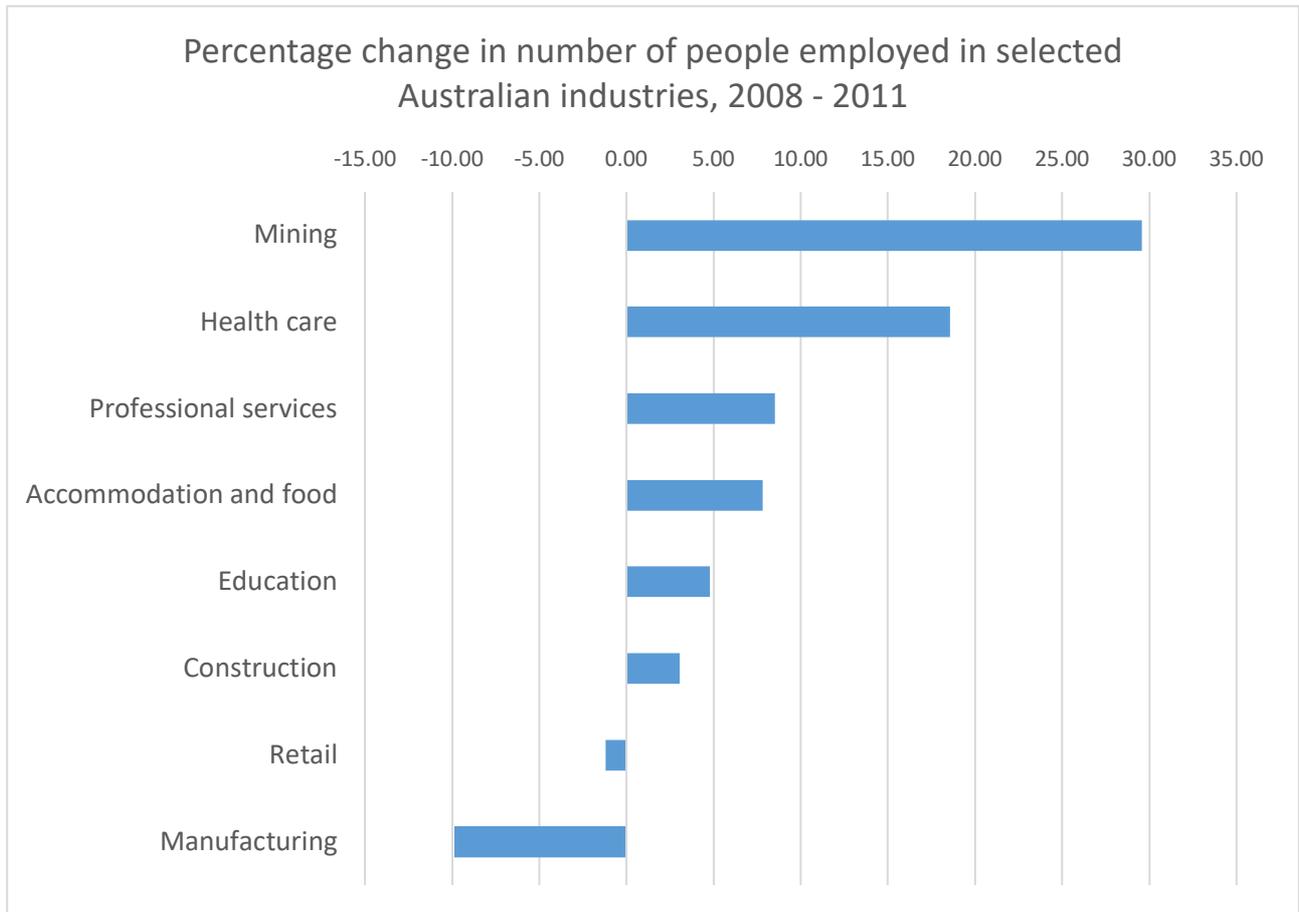
- b) Explain two reasons for the trend in the value of the AUD over the period covered in the graph provided. (4 marks)

Falling commodity prices	2 marks
Interest rate differential – rising interest rates in US, low interest rates in Aus	2 marks

- c) With reference to a Keynesian expenditure diagram, assess the impacts of a depreciation in the Australian dollar on the Australian economy. (6 marks)

Draws an AE diagram labelled fully	1 mark
Uses the diagram to show the impact of a depreciation in the AUD	1 mark
Increase in international competitiveness (exporters win and importers lose) Job creation (lower unemployment) Demand pull and cost push inflation pressures (link to higher AD and higher costs of imports) Increased AE / AD	1 - 4 marks

Question 27



ABS Cat No 6291.0.55.003

Date	Australia's terms of trade
September quarter 2008	118.6
September quarter 2011	134.9

a) According to the data, by what percentage did employment in

i) the resources sector change over the period 2008 – 2011? (1 mark)

29% (28% is acceptable; must write "%")	1 mark
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ii) the manufacturing sector change over the period 2008 – 2011? (1 mark)

-9%, -9.5% or -10%; must have negative and %)	1 mark
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- b) Account for the changes in resources and manufacturing employment identified in part a. (4 marks)

Increase in the terms of trade and appreciation	1 – 2 marks
Creation of new jobs as mining firms' revenue rises	1 mark
Job losses in manufacturing due to lower international competitiveness	1 mark

- c) Explain the challenges for government economic policy arising from the changes in resources and manufacturing employment over the period 2008 – 2011. (6 marks)

Structural change	1 mark
Expansion in WA & Qld (mining states) while rest of economy struggled	1 – 2 marks
Mining states need contractionary policy while rest needs expansionary	1 – 3 marks

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.

Additional working space pages at the end of this Question/Answer booklet are for planning or continuing an answer. If you use these pages, indicate at the original answer, the page number it is planned/continued on and write the question number being planned/continued on the additional working space page.

Suggested working time: 80 minutes.

Question 28**(20 marks)**

Evaluate the factors facilitating Australia's involvement in globalisation, and the effects this is having on Australian consumers, firms and the government. (20 marks)

Define globalisation, state extent of globalisation	1 – 2 marks
Factors facilitating – must link to Australia (any 4, 2 marks each): <ul style="list-style-type: none"> • technological developments making trade faster, cheaper, easier • containerisation • trade liberalisation • relative international stability • financial market deregulation • development of international organisations 	1 – 8 marks
Effects on consumers <ul style="list-style-type: none"> • higher standard of living through access to wider variety of goods and services, access to larger quantity of goods and services, cheaper imports • job creation leading to higher incomes • job losses for low-skilled workers 	1 – 3 marks
Effects on firms <ul style="list-style-type: none"> • increased competition • access to wider markets (take advantage of economies of scale) 	1 – 3 marks
Effects on government <ul style="list-style-type: none"> • policy challenges caused by job losses • increased vulnerability to international business cycle • destabilising influence of international capital flows • govt policy constrained by the need to maintain investor confidence • difficulty of regulating multinational firms 	1 – 3 marks
Overall evaluation of effects of globalisation	1 – 2 marks

**Max 10 marks for the effects section, but can be flexible about this is divided between consumers, firms and govt

Question 29**(20 marks)**

- a) Explain the relationships between Australia's terms of trade, balance of payments and exchange rate. (12 marks)

Defines Terms of Trade, Balance of Payments and Exchange Rates	1 – 3 marks
Changes in ToT cause changes in exchange rate	1 – 3 marks
Changes in ToT causes changes in BoP (need to mention both current and cap&fin account)	1 – 3 marks
Changes in exchange rates caused by changes in international financial flows that are recorded in the BoP	1 – 3 marks
Changes in the exchange rate cause changes in the BoP	1 – 3 marks

- b) Discuss the relationship between Australia's CAD and the levels of domestic and overseas economic activity. (8 marks)

Define CAD and what is included	2 marks
Link an increasing CAD with rising economic activity including: <ul style="list-style-type: none"> Increased foreign investment leading to primary income debits Rising inflation (demand pull & cost push) Increasing AD Rising production and decreasing unemployment Increased demand for luxury items and capital items Overseas domestic activity increases demand for exports (not necessarily effecting capital inflow) 	1- 6 marks

Question 30**(20 marks)**

- a) Demonstrate and explain the gains from specialisation and trade. (10 marks)

Model: gains from exports & imports, comparative advantage, AE or AD/AS	1 – 2 marks
Explanation of chosen model	1 – 6 marks
General benefits of trade <ul style="list-style-type: none"> access to wider variety / greater quantity of goods & services job creation 	1 – 2 marks

- b) Explain three reasons why several contemporary politicians have been calling for a return to protectionism, and assess the validity of these arguments. (10 marks)

Define protection	1 mark
Explain 3 reasons (2 marks), e.g. <ul style="list-style-type: none"> infant industries strategic industries burden sharing recognition of externalities dumping stability 	1 – 6 marks
Assess validity of arguments	1 – 3 marks

Question 31**(20 marks)**

- a) Using an appropriate diagram, discuss the factors that can increase the level of consumption expenditure. (8 marks)

Define consumption	1 mark
Draws a consumption or AE diagram labelled fully Uses the diagram to show a rise in consumption or AE	1 mark
Factors leading to an increase in Consumption Students should discuss 4 factors in detail or at least six more briefly for full marks. Possible factors include: <ul style="list-style-type: none"> • Disposable income • Falling Interest rates • Future expectations / consumer confidence • Rising household wealth • Falling income tax rates • Availability of credit • Any other relevant and correct factor 	1 – 6 marks

- b) With reference to an appropriate model, demonstrate and explain the impact of a decrease in investment expenditure on the Australian economy. What determines the size of this effect? (12 marks)

Define investment	1 mark
Draws an AE diagram labelled fully Uses the diagram to show a fall in AE	1 mark
Effects on the economy including changes in: <ul style="list-style-type: none"> • Inflation • Unemployment • Economic growth (must relate to the diagram)	1 – 4 marks
Factors determining the size of the effect: decrease in investment (change in autonomous spending) and multiplier effect, value of MPC/MPS	1 – 2 marks
Multiplier effect of changes in autonomous spending (reverse)	1 – 4 marks