



**Methodist Ladies' College  
ATAR course examination, Semester 1, 2017**

**Question/Answer Booklet**

**ECONOMICS  
ATAR Year 12**

Student Name: \_\_\_\_\_

Teacher Name: \_\_\_\_\_

**Time allowed for this paper**

Reading time before commencing work: ten minutes

Working time for paper: three hours

**Materials required/recommended for this paper**

***To be provided by the supervisor***

This Question/Answer booklet

Multiple-choice answer sheet

Number of additional  
answer booklets used  
(if applicable):

***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 total exam	Your mark
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	
<b>Total</b>					100	

## Instructions to candidates

- The rules for the conduct of ATAR course examinations are detailed in the *Year 12 Information Handbook 2017*. 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 answers to the specific questions asked and to follow any instructions that are specific to a particular question.
- 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.

See next 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: 30 minutes.

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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

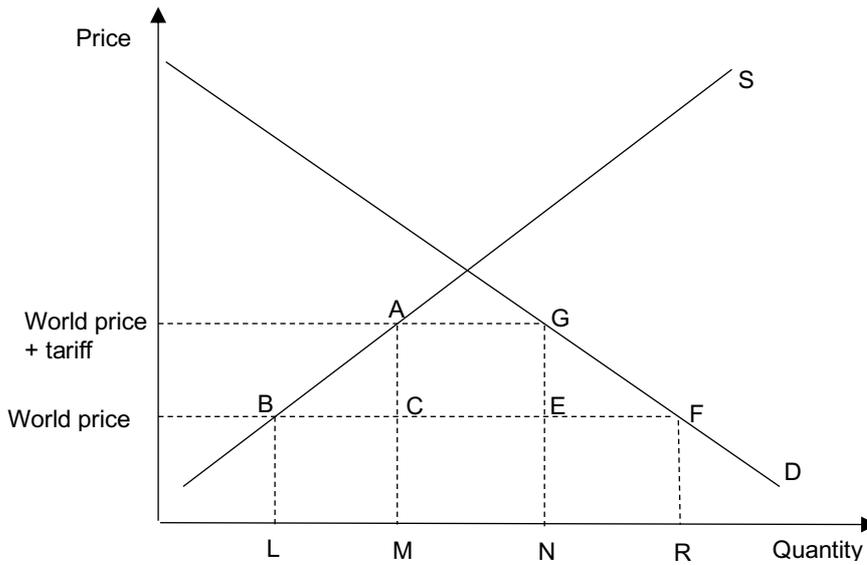
5. A nation will have a comparative advantage in the production of a particular item if that nation is willing and able to sell that item
- at a price lower than the world price
  - at a price equal to the world price
  - at a price higher than the world price
  - at a fixed price regardless of the world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

**See next page**

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

See next page

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

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

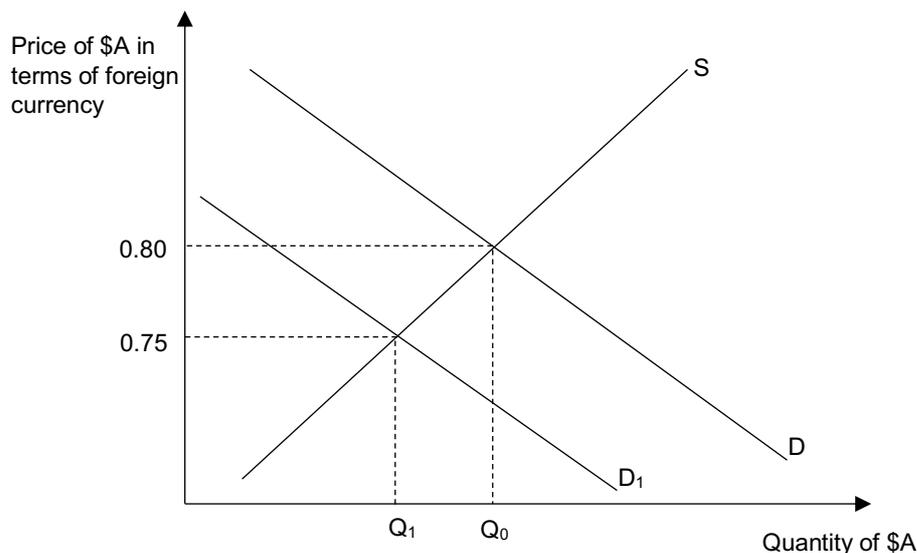
15. This question refers to the table below.

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

What does the table indicate about this economy?

- Import volumes exceeded export volumes in both years
- The terms of trade worsened between Year 1 and Year 2
- The balance of trade improved marginally between Year 1 and Year 2
- Fewer exports were required to pay 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  $D_1$ ?

- Australia's international competitiveness would decrease and capital inflow would be encouraged as domestic assets are less expensive
- Australia's international competitiveness would decrease and capital inflow would be encouraged as domestic assets are more expensive
- Australia's international competitiveness would increase and capital inflow would be encouraged as domestic assets are less expensive
- Australia's international competitiveness would increase and capital inflow would be encouraged as domestic assets are more expensive

See next page

17. Other things being equal, what will be the impact on the Australian economy of a decrease in domestic interest rates?
- Economic activity should increase and the exchange rate should appreciate
  - Economic activity should increase and the exchange rate should depreciate
  - Economic activity should decrease and the exchange rate should appreciate
  - 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 reduction in goods imported to Australia from the UK
  - An increase in the volume of Australia's trade with Japan
  - The implementation of a free trade agreement between Australia and Europe
  - 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
- price and income effects
  - income and substitution effects
  - net exports and interest rate effects
  - substitution and open economy effects
20. The impact of a reduction in world oil prices could be most accurately modelled through
- a decrease in aggregate demand
  - a decrease in aggregate supply
  - a decrease in the price level
  - a decrease in real GDP
21. If  $Y = 200$ ,  $C = 50$ ,  $I = 20$ ,  $G = 40$  and  $M = 30$ , what is the value of exports?
- 60
  - 110
  - 120
  - 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)

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## 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>

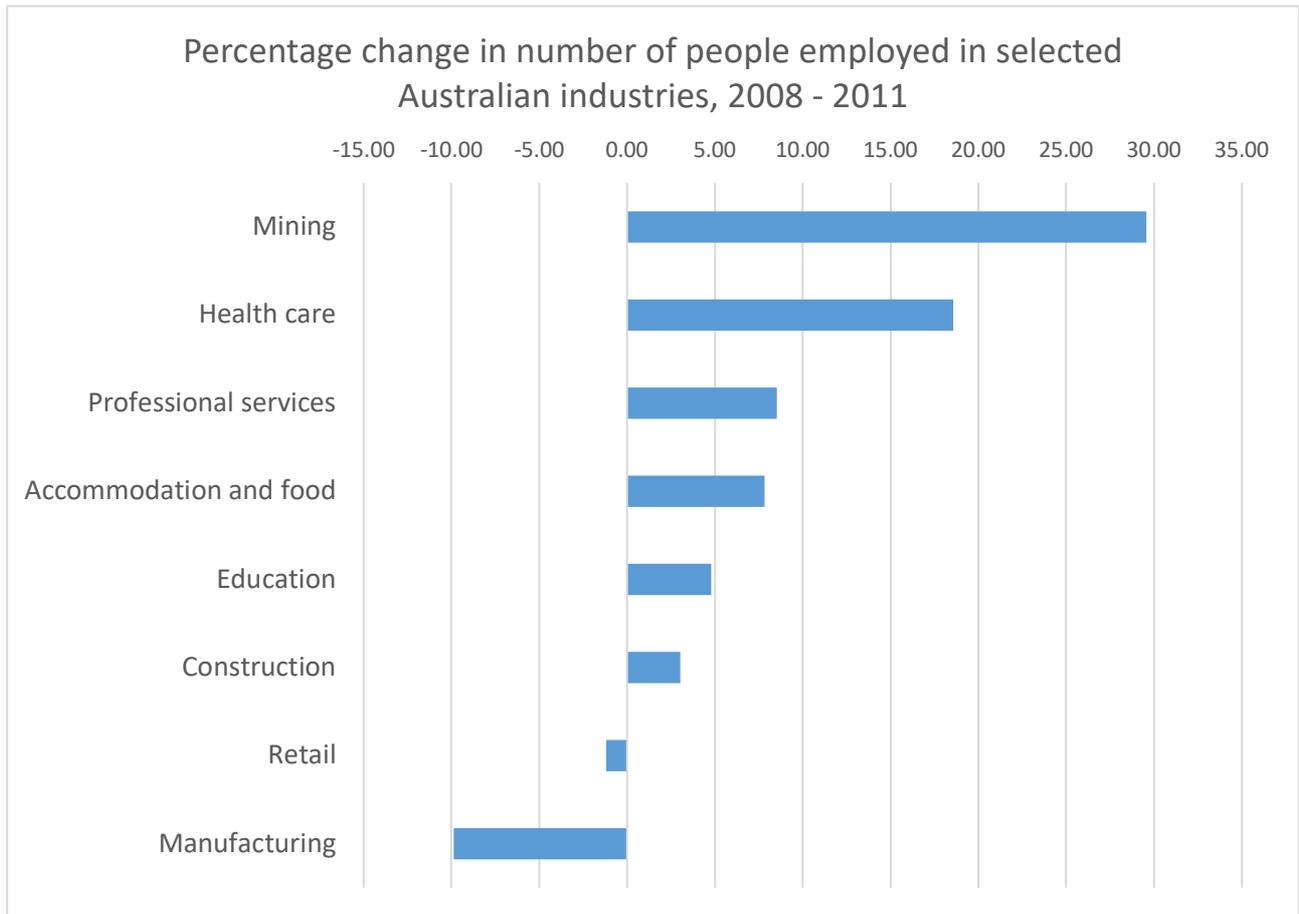
- a) In the space below, draw a demand/supply diagram showing a possible cause of a depreciation in the Australian dollar. (2 marks)

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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)

\_\_\_\_\_

ii) the manufacturing sector change over the period 2008 – 2011? (1 mark)

\_\_\_\_\_

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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.

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.

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**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)

**Question 29****(20 marks)**

- a) Explain the relationships between Australia's terms of trade, balance of payments and exchange rate. (12 marks)
- b) Discuss the relationship between Australia's CAD and the levels of domestic and overseas economic activity. (8 marks)

**Question 30****(20 marks)**

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

**Question 31****(20 marks)**

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

**END OF QUESTIONS**

**See next page**