Methodist Ladies' College
ATAR course examination, Semester 1, 2018

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	
				Total	100	

Instructions to candidates

1.   The rules for the conduct of ATAR course examinations are detailed in the *Year 12 Information Handbook 2018*. 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.

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.

1. What are the two key economic indicators that economists use to measure the extent of globalisation?

   (a) GDP per capita and foreign investment flows.
   (b) Current account balances and comparative advantage.
   (c) Trade intensity and financial investment flows.
   (d) Free trade agreements and current account balances.

2. Other things being equal, Australia's international competitiveness would be improved by an increase in which of the following?

   (a) Australian wholesale price inflation.
   (b) Investment in Australian infrastructure.
   (c) Australian government spending.
   (d) The value of the Australian dollar.

3. Research has shown that those economies that increase their trade openness over time experience

   (a) faster rates of economic growth.
   (b) slower rates of economic growth.
   (c) more favourable terms of trade.
   (d) lower trade deficits.

4. Trade blocs are

   (a) agreements between two countries to construct common tariffs with all other countries.
   (b) agreements to lower or remove tariffs between two or more countries.
   (c) agreements between two countries to block trade with all other countries.
   (d) anti-competitive agreements by multinationals to operate as monopolies in specific regions.

5. The main reason for Australia's relatively low trade intensity is

   (a) Australia's relatively high level of economic development (high GDP/capita).
   (b) Australia's relatively small population compared with the major developed economies.
   (c) Australia's protectionist trade policy stance resulting in a closed economy.
   (d) Australia's geographic isolation from the large economies of Western Europe.

See next page

6. If Australia put a tariff on all goods imported from overseas to increase the nation's revenue and employment then

    (a) the countries total output would definitely increase.
    (b) workers with jobs in firms replacing imports would earn a higher income.
    (c) the standard of living within Australia would decrease.
    (d) the prices of goods imported into Australia would fall.

7. Country A can produce 100 units of Good X in a day and 40 units of Good Y while Country B can produce 50 units of Good X and 20 units of Good Y.

    (a) These countries will not trade since Country A has a comparative advantage in the production of both goods.
    (b) These countries will not trade since the opportunity costs are the same.
    (c) These countries should trade since Country A has a comparative advantage in the production of Good X and Country B has a comparative advantage in the production of Good Y.
    (d) These countries should trade since Country B has a comparative advantage in the production of Good X and Country A has a comparative advantage in the production of Good Y.

8. Australia's two largest export categories are

    (a) resources and services.
    (b) resources and agriculture.
    (c) resources and manufactures.
    (d) resources and mining.

9. When an Australian exporter sells software to France and uses the proceeds to buy shares in a French company, Australian exports _____ and there is a capital _____ Australia.

    (a) increase; outflow from
    (b) increase; inflow to
    (c) do not change; inflow to
    (d) decrease; outflow from

10. A major reason why it is difficult to lower the barriers to free trade is

    (a) the uneven distribution of gains and losses from free trade.
    (b) that total benefits are less than total costs from free trade.
    (c) the loss of jobs without any gain of jobs from free trade.
    (d) the inability to compensate losers from free trade.

11. A subsidy paid to an import-competing domestic industry will

    (a) raise the world price of the product.
    (b) result in lower average living standards for society.
    (c) improve the efficiency of the domestic industry.
    (d) shift the demand curve for the product to the right.

See next page

12. This diagram below shows the market for bikes.
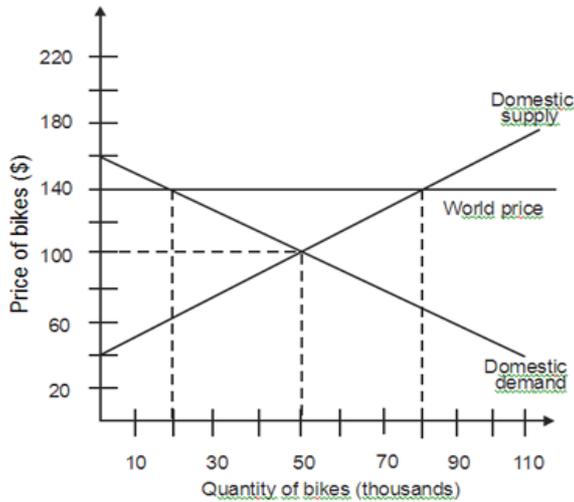
In an open economy, how many bikes will this country export?

(a) 20,000
(b) 50,000
(c) 60,000
(d) 80,000

13. The part of the balance of payments that records transactions leading to a change of ownership of commodities, or a flow of income, is known as

(a) the capital account.
(b) the current account.
(c) the balance on merchandise trade.
(d) the financial account.

14. In the capital and financial account, the largest category of international transactions is

(a) net interest.
(b) Incoming foreign investment.
(c) government borrowing.
(d) exports and imports.

15. Which one of the following would be recorded as a debit in the current account of Australia's balance of payments?

(a) The sale of Australian wool to Italy.
(b) An increase in the number of foreign tourists visiting Australia.
(c) Interest paid on Australian Government bonds to overseas investors.
(d) A Chinese company purchasing a farming property in rural Australia.

See next page

16. The table below shows hypothetical balance of payments data for a country.

	Year 1 (billions)	Year 2 (billions)
Exports of goods	$100	$60
Imports of goods	$110	$70
Net services	–$20	–$30
Net primary income	–$80	–$85
Net secondary income	$10	–$5
Capital account	$20	$30
Financial account	$75	$90

Which of the following statements is true?

(a) The balance of goods and services remains constant from Year 1 to Year 2.
(b) The current account deficit decreases from Year 1 to Year 2.
(c) The capital and financial account surplus decreases from Year 1 to Year 2.
(d) The net errors and omissions are larger in Year 2 than in Year 1.

17. Which of the following must have happened if there has been a movement in Australia's Terms of Trade from 115 to 125?

(a) The price of Australia's exports increased relative to the price of Australia's imports.
(b) The price of Australia's exports increased due to an appreciation in the Australian dollar.
(c) The value of Australia's imports increased relative to the value of Australia's exports.
(d) The value of Australia's imports decreased relative to the value of Australia's exports.

18. Which of the following are reasons why Australian residents supply dollars to the foreign exchange market?

(i) to buy Australian exports
(ii) to buy foreign assets
(iii) to buy foreign goods

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

19. In Year 1, one US dollar buys 1.25 Australian dollars. In Year 2, one Australian dollar buys 0.75 US dollars. Which statement is most correct?

(a) There is no change in the exchange rate between Year 1 and Year 2.
(b) For US investors, Australian assets are more expensive to buy in Year 2 compared to Year 1.
(c) Goods imported from the US are more expensive in Year 1 compared to Year 2.
(d) Australian exports to the US are less expensive in Year 2 compared to Year 1.

See next page

20. Suppose there is a downturn in the economy of a major importer of Australian goods and services. Which of the following is most likely to occur?

    (a) A depreciation of the Australian dollar
    (b) An appreciation of the Australian dollar
    (c) A fall in Australia's terms of trade
    (d) A rise in Australia's terms of trade

21. Which of the following would be expected to occur during a cyclical contraction?

    (i) rising levels of unemployment
    (ii) rising price levels
    (iii) a decrease in new investment
    (iv) falling levels of household debt

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

22. Which of the following would tend to decrease the size of an inflationary gap?

    (a) A decrease in the marginal propensity to consume
    (b) An increase in the level of interest rates
    (c) A decrease in the level of savings
    (d) An increase in the size of the government's budget deficit

23. If the value of the investment multiplier is 5, an autonomous increase in

    (a) consumption of $10 will result in investment increasing by $40.
    (b) investment of $10 will result in income increasing by $60.
    (c) income of $10 will result in investment increasing by $50.
    (d) investment of $10 will result in consumption increasing by $40.

24. Which of the following events is likely to have an effect on aggregate demand that is different from the other three events?

    (a) An increase in the income tax free threshold
    (b) A appreciation of the Australian dollar
    (c) An increase in the terms of trade
    (d) An improvement in business expectations

End of Section One

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)**

Exporters cashing in on Japanese free trade deal
The Australian
2 April 2018

Exporters will extend their competitive edge over international rivals after Tokyo yesterday cut about 640 tariffs under its free trade deal with Canberra, further expanding market access for Australian goods and services.

Since the free trade deal began in January 2015, more than 7700 tariffs have been eliminated with exports of Australian goods to Japan being valued at $45 billion in 2017 — a rise of 24 per cent on 2016.

Yesterday's tariff reductions are the fifth round of cuts since the free trade agreement took effect, with Trade Minister Steve Ciobo hailing the outcome as "great news for Australia" and singling out some goods with "exponential growth" over the last three years.

"Exports of Australian fresh grapes have grown by 4900 per cent, shelled almonds have grown by 1156 per cent and natural honey exports by 288.2 per cent," he said. "These aren't typos — but proof of the benefit of free and open trade".

Other goods to benefit from the free trade agreement include chocolate (exports up 31.4 per cent), mandarins (158.8 per cent), oranges (71.8 per cent), and sugar (140.7 per cent). Almost 96 per cent of eligible products exported by Australian businesses to Japan in 2017 made use of the preferential tariffs created by the trade deal.

The agreement has also helped in education, finance and telecommunications. Services exports to Japan in 2016-17 were worth $2.5 billion, a rise of almost 9 per cent over the previous year.

Mr Ciobo seized on the gains to argue against any retreat to protectionism following the move by the US to slap tariffs on steel and aluminium imports.

a) Explain what a "free trade deal" is. (2 marks)

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See next page

b) Explain two reasons why tariff cuts in Japan are "great news for Australia". (4 marks)

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c) Discuss three reasons why the US has made a "retreat to protectionism". (6 marks)

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Question 26 (12 marks)

Australia's trade in goods and services ($ million)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Exports						
Goods	265,747	248,880	273,820	255,524	244,147	291,598
Services	56,349	57,708	62,502	68,967	75,377	81,642
Total goods & services	322,096	306,588	336,322	324,491	319,524	373,240
Imports						
Goods	256,670	251,327	263,785	268,719	271,476	277,900
Services	69,155	75,173	79,372	80,441	85,645	84,344
Total goods & services	325,825	326,500	343,157	349,160	357,121	362,244

Australia's terms of trade

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Export price index	128.3	116.0	120.1	108.5	100.0	110.8
Import price index	90.0	90.0	96.8	97.6	100.0	96.8
Terms of trade	142.6	129.0	124.1	111.2	100.0	114.5

a) In which year(s) did Australia record a trade surplus? (1 mark)

b) In which year(s) was there a favourable movement in the terms of trade? (1 mark)

c) Describe and account for the change in the services trade balance for the years shown in the table. (3 marks)

d) Explain the relationship between the changes in the export price index and total exports for the years shown in the table. (3 marks)

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e) Explain the relationship between Australia's terms of trade and trade weighted index. (4 marks)

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Question 27

Business Investment*
Share of nominal GDP

* Adjusted for second-hand asset transfers between the private and other sectors

Source: ABS

a) Over the period shown in the graph, in which year did business investment peak as a percentage of GDP and what was that peak? (2 marks)

b) Describe and account for the trend in business investment from 2013 – 2016. (4 marks)

c) With reference to a suitable diagram, explain how the trend described in part b would have affected the Australian economy. (6 marks)

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Diagram

End of Section Two

See next page

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) Discuss the importance of the concept of international competitiveness and explain three key determinants of it. (10 marks)

b) Discuss three costs and three benefits of globalisation for the Australian economy.
(10 marks)

Question 29 **(20 marks)**

a) With reference to suitable diagrams, explain how each of the following factors will affect Australia's exchange rate:

    i. An increase in Australia's interest rate differential
    ii. A decrease in commodity prices
    iii. An improvement in Australia's economic performance (12 marks)

b) Explain the effects of an exchange rate appreciation on consumers, businesses and the government budget balance. (8 marks)

Question 30 **(20 marks)**

Discuss the causes and effects of the changes in Australia's terms of trade since 2012.
(20 marks)

Question 31 **(20 marks)**

a) With reference to suitable diagrams, demonstrate and explain the gains from specialisation and trade. (12 marks)

b) Explain the causes of Australia's persistent current account deficit. (8 marks)

END OF QUESTIONS