



HSC Economics

Sample Trial Paper 1

General Instructions

- Reading time – 5 minutes
- Working time – 3 hrs
- Write using black or blue pen

Total Marks – 100
Attempt ALL questions

Section I: Multiple Choice

20 marks

Attempt Questions 1 – 20

Section II: Short Answers

40 marks

Attempt Questions 21-24

Section III: Extended Response

20 marks

Attempt Question 25 OR Question 26

Section III: Extended Response

20 marks

Attempt Question 27 OR Question 28

Section I: Multiple Choice

1. What is the likely impact of Japan increasing its quota on the importation of Australian beef?

- A) Australian beef farmers will gain increased access to Japanese beef markets
- B) Japanese beef farmers will gain increased protection from Australian beef imports
- C) There will be an increase in employment opportunities in the Japanese beef industry
- D) There will be a decrease in employment opportunities in the Australian beef industry

2. What indicators are used to calculate the Human Development Index (HDI)?

- A) Population growth, per capita GDP, life expectancy
- B) Population growth, infant mortality rate, malnutrition
- C) Life expectancy, educational attainment, per capita GDP
- D) Current account balance, infant mortality rate, educational attainment

3. A private good has which of the following characteristics?

- A) Excludable and non-rival in consumption
- B) Rival in consumption and non-excludable
- C) Non-rival in consumption and non-excludable
- D) Rival in consumption and excludable

4. What combination of macroeconomic policies could the Australian government use to reduce inflation

- A) Raise cash rates and budget for a surplus
- B) Raise cash rates and budget for a deficit
- C) Lower cash rates and budget for a deficit
- D) Lower cash rates and budget for a surplus

5. The table shows selected data for an economy

Real GDP (\$bn)	Net foreign liabilities (\$bn)	Net foreign debt (\$bn)
1120	780	550

What is the value of net foreign equity as a percentage of GDP?

- A) 20.5%
- B) 30.3%
- C) 49.1%
- D) 69.6%

6. What is the most likely impact of an appreciation of the Australian dollar?

- A) Lower import prices and an increase in net foreign debts
- B) Higher export prices and a deterioration of the terms of trade
- C) An improvement in the current account deficit and an increase inflation

D) A decrease in capital inflows and a decline in international competitiveness

7. The table shows the Gini coefficient for Country A and Country B over three years

Year	Country A	Country B
1	0.40	0.90
2	0.60	0.75
3	0.65	0.70

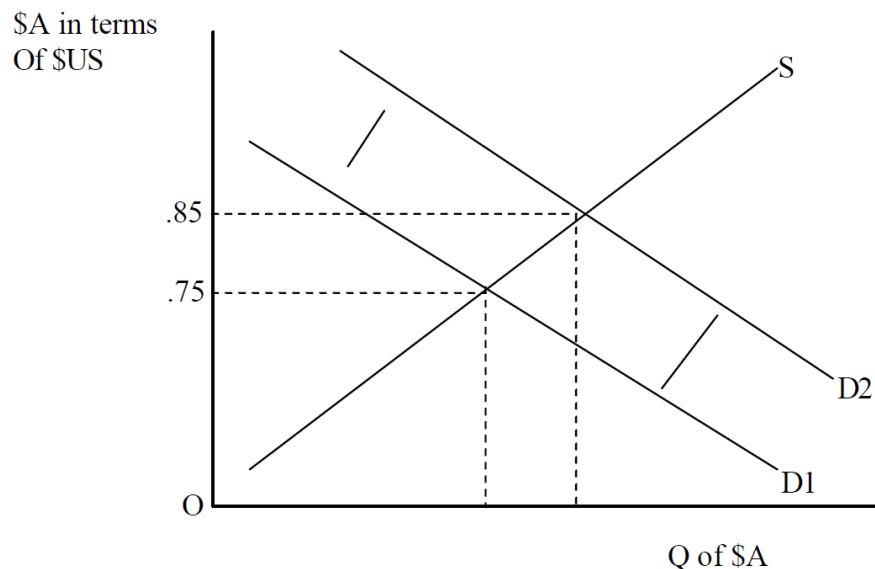
Which statement is correct given the data in the table?

- A) The Lorenz curve for Country A is moving closer to the line of equality
- B) The Lorenz curve for Country B is moving away from the line of equality
- C) The Lorenz curve for Country A is further away from the line of equality than the Lorenz curve for Country B
- D) The Lorenz curve for Country B is further away from the line of equality than the Lorenz curve for Country A

8. Which factors limit the effectiveness of economic policy implementation?

- A) Time lags, political constraints and global influences
- B) High inflation, increased unemployment and exchange rate volatility
- C) The economic policies of our major trading partners
- D) Global terrorism and the policy formation lag

9. Examine the following supply and demand for the \$A



What would be the effect on the Australian economy as a result of the \$A moving from 0.75 to 0.85

- A) Australian exports would become more internationally competitive
- B) Australia's terms of trade would improve
- C) Capital inflow from foreign investors would increase

D) Imports into Australia would become cheaper

10. What is meant by “purchasing power parity”?

- A) What people in different countries are able to buy with their given incomes
- A) Where exchange rates are adjusted to equalise the prices of identical goods and services in different countries so that comparisons of living standards can be made
- B) Refers to the erosion of people’s real income in different countries due to rising prices or inflation
- C) The idea of redistributing incomes more equally so that the buying capacity of consumers is increased in a particular country

11. Examine the following balance of payments data for a hypothetical economy:

	\$ bn
Net goods balance	-25.4
Net services balance	-1.9
Net income	?
Net transfers	-1.2
Balance on capital and financial account	26.3

- A) -2.2
- B) -28.5
- C) 2.2
- D) -26.3

12. Which of the following economic indicators would be characteristic of an economy in a recession

- A) High unemployment, high interest rates and high consumption expenditure
- B) High unemployment, high investment levels and high consumption expenditure
- C) High unemployment, falling consumption expenditure and increasing tax revenue
- D) High unemployment, falling imports and falling consumption expenditure

13. Which of the following best describes the main role of the International Monetary Fund?

- A) To promote trade between nations
- B) To provide finance and technical assistance to developing countries
- C) To lend funds to countries with balance of payment difficulties
- D) To facilitate the global transfer of foreign exchange

14. Which one of the following is an example of structural unemployment?

- E) The skills of the unemployed do not match the skills required in available jobs.
- F) There is a time lapse between entering the workforce and gaining employment.
- G) There is a rise in the rate of unemployment as the rate of inflation falls.
- H) The unemployed no longer seek work because of a fall in the job market.

15. The following table shows data for income and consumption in a closed economy.

Disposable income \$m	Consumption \$m
50	50
100	90
150	130
200	170
250	210

What is the value of the marginal propensity to consume (MPC) and the simple multiplier?

- A) The MPC is 0.1 and the multiplier is 10
- B) The MPC is 0.6 and the multiplier is 2.5
- C) The MPC is 0.8 and the multiplier is 5
- D) The MPC is 0.9 and the multiplier is 10

16. Which of the following is an example of microeconomic reform?

- A) The Australian government guaranteeing bank deposits
- B) The introduction of a carbon trading emissions trading scheme
- C) Government fiscal stimulus packages
- D) Selling government bonds to fund a budget deficit

17. Which of the following will be reduced as a result of lower rates of inflation?

- A) The level of investment
- B) The level of real income
- C) Uncertainty in the economy
- D) The purchasing power of money

18. Which type of unemployment is best reduced by the use of expansionary monetary and fiscal policies?

- A) Frictional unemployment
- B) Cyclical unemployment
- C) Structural unemployment
- D) Seasonal unemployment

19. What would be the likely effect of a decrease in the highest marginal rate of taxation?

- A) An increase in government revenue
- B) An increase in income inequality
- C) A decrease in real wages
- D) A decrease in consumption expenditure

20. Which of the following is NOT an economy argument used to justify tariff protection?

- A) The protection of defence industries
- B) Protection against the dumping of cheap imports
- C) The protection of employment during a recession
- D) The protection of infant industries

**Section II: Short Answer
(40 marks)**

Question 21 (10 marks)

Year	Nominal GDP	CPI
1	1500	100
2	1800	104
3	2100	109
4	2050	110

(a) Define the term 'economic growth' (1)

(b) Calculate the growth of real GDP in year 3 (1)

(c) Outline any TWO sources of economic growth for an economy (2)

(d) Explain ONE positive and ONE negative impact of economic growth on an economy (2)

(e) Discuss any two government policies that would promote economic growth in an economy (4)

Question 22 (10 marks)

(a) What is the principle of ecological sustainable development? (1)

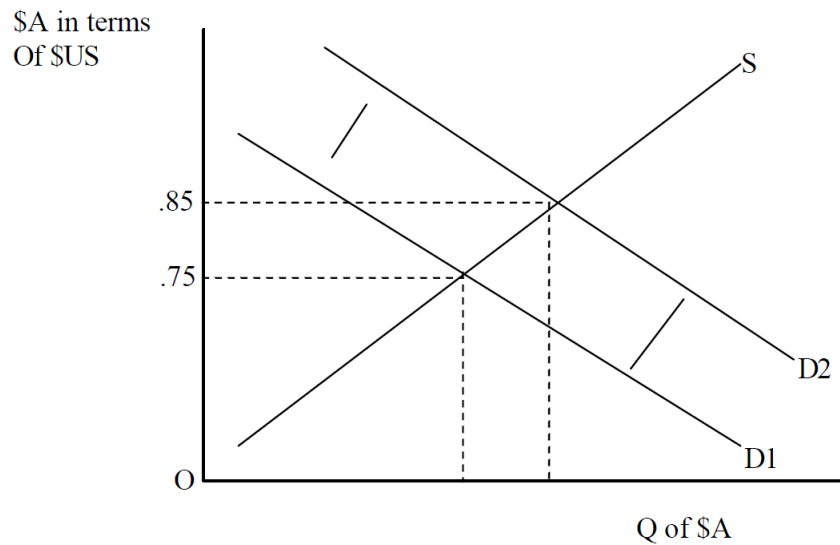
(b) Distinguish between private and public goods? (2)

(c) Why is market failure an important consideration when attaining ecological sustainable development? (2)

(d) Discuss the effectiveness of government policy responses to help achieve ecological sustainable development (5)

Question 23 (10 marks)

Study the following diagram which refers to Australia's exchange rate.



(a) Define the term 'floating exchange rate'

(1)

(b) Explain ONE reason why it is more accurate for the \$A to be compared to the TWI instead of the \$US

(1)

(c) Identify TWO possible factors causing the \$A to appreciate from \$US 0.75 to \$US 0/60

(2)

(d) Briefly explain two ways that the RBA could intervene in the foreign exchange to influence the exchange rate?

(e) Discuss two economic benefits and two economic costs from an appreciation? (4)

Question 24 (10 marks)

	1999-2000	2000-2001	2007-2008
	\$millions	\$millions	\$millions
Goods			
Exports (Credits)	97 655	120 302	182 816
Imports (Debits)	-110 610	-120 120	-205 089
Net Goods			
Services			
Credits	28 317	32 796	51 019
Debits	-29 713	-31 769	-50 254
Net Services			
Balance on goods and services			
Net income	-19 346	-19 750	-48 780
Current transfers	218	45	-344
Balance on current Account	-33 479	-18 496	-70 632

(a) What is the balance of payments?

(2)

(b) Calculate the balance on goods and services for 2007-2008

(2)

(c) Identify the trend in the balance on current account and account for this change

(2)

(d) Outline the constraints of persistent current account deficits on the performance of the Australian economy (4)

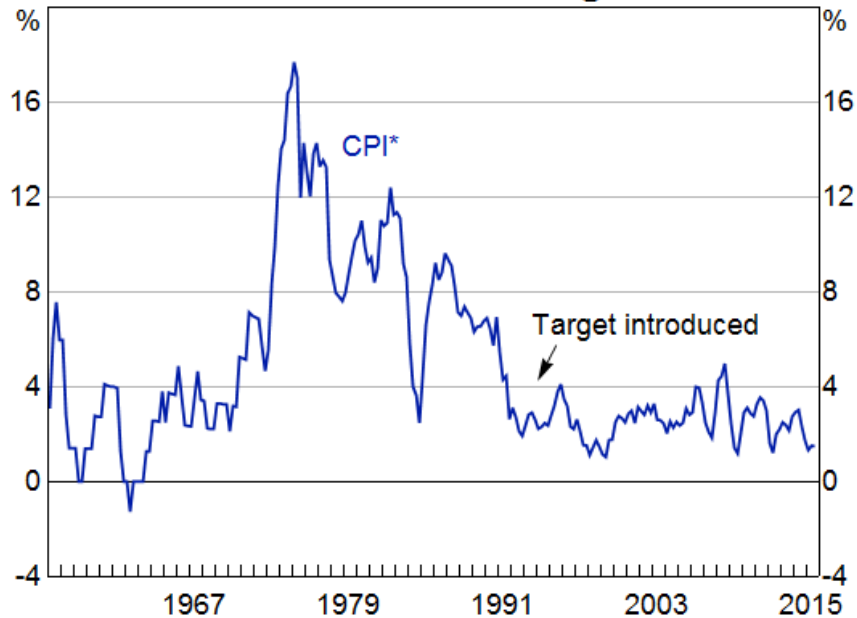
Section III: Extended Response

Answer Question 25 or Question 26.

Question 25 (20 marks)

Discuss the causes and consequences of high inflation in the Australian economy.

Inflation over the Long Run



* Excludes interest charges prior to September quarter 1998 and adjusted for the tax changes of 1999 – 2000

Sources: ABS; RBA

The Governor and the Treasurer have agreed that the appropriate target for monetary policy in Australia is to achieve an inflation rate of 2–3 per cent, on average, over the cycle. This is a rate of inflation sufficiently low that it does not materially distort economic decisions in the community. Seeking to achieve this rate, on average, provides discipline for monetary policy decision-making, and serves as an anchor for private-sector inflation expectations.

Question 26 (20 marks)

Discuss the impact of the current stance of fiscal policy on the performance of the Australian economy. Refer to the information provided in your response.

The Government remains committed to returning the budget to surplus as soon as possible. Despite iron ore prices nearly halving since the last Budget and a write-down of \$52 billion in tax receipts, the budget position is projected to improve each and every year over the forward estimates. The deficit will narrow from \$35.1 billion (2.1 per cent of GDP) in 2015-16 to \$6.9 billion in 2018-19 (0.4 per cent of GDP).

	Actual	Estimates			Projections	
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	\$b	\$b	\$b	\$b	\$b	\$b
Receipts	360.3	377.3	398.0	422.5	453.6	488.2
Per cent of GDP	22.8	23.5	24.0	24.2	24.7	25.2
Payments (a)	406.4	415.0	429.8	444.9	464.3	491.1
Per cent of GDP	25.7	25.9	25.9	25.5	25.3	25.3
Net Future Fund earnings	2.3	3.4	3.3	3.4	3.7	4.0
Underlying cash balance(b)	-48.5	-41.1	-35.1	-25.8	-14.4	-6.9
Per cent of GDP	-3.1	-2.6	-2.1	-1.5	-0.8	-0.4
Revenue	373.9	384.1	405.4	433.4	466.2	501.3
Per cent of GDP	23.6	23.9	24.5	24.8	25.4	25.9
Expenses	413.8	420.3	434.5	452.7	471.8	499.4
Per cent of GDP	26.2	26.2	26.2	25.9	25.7	25.8
Net operating balance	-39.9	-36.2	-29.1	-19.2	-5.6	1.9
Net capital investment	3.8	3.1	3.9	4.2	3.6	5.1
Fiscal balance	-43.7	-39.4	-33.0	-23.4	-9.2	-3.2
Per cent of GDP	-2.8	-2.5	-2.0	-1.3	-0.5	-0.2
<i>Memorandum item:</i>						
Headline cash balance	-52.5	-43.2	-44.8	-43.9	-24.7	-17.3

(a) Equivalent to cash payments for operating activities, purchases of non-financial assets and net acquisition of assets under finance leases.

(b) Excludes net Future Fund earnings

Section IV: Extended Response

Question 27 (20 marks)

For an economy other than Australia, discuss the strategies used to promote both economic growth and development.

OR

Question 28 (20 marks)

Discuss the role of government in attempting to achieve environmental sustainability in Australia.