



# HSC Economics

Sample Trial Paper 5

## 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. Which of the following best describes the difference between monetary policy and fiscal policy**

- A) Monetary policy is quicker to implement but has a longer time lag than fiscal policy
- B) Monetary policy is slower to implement but has a longer time lag than fiscal policy
- C) Monetary policy is slower to implement but has a shorter time lag than fiscal policy
- D) Monetary policy is quicker to implement but has a shorter time lag than fiscal policy

**2. Other things being equal, what would improve an economy's terms of trade?**

- A) An increase in export prices and a decrease in import prices
- B) A decrease in export prices and an increase in import prices
- C) An increase in the volume of exports and a decrease in the volume of imports
- D) A decrease in the volume of exports and an increase in the volume of imports

**3. Which of the following could cause a decrease in hidden unemployment?**

- A) An increase in the general level of unemployment
- B) An increase in the level of cyclical unemployment
- C) An increase in the number of discouraged workers
- D) An increase in the labour force participation rate

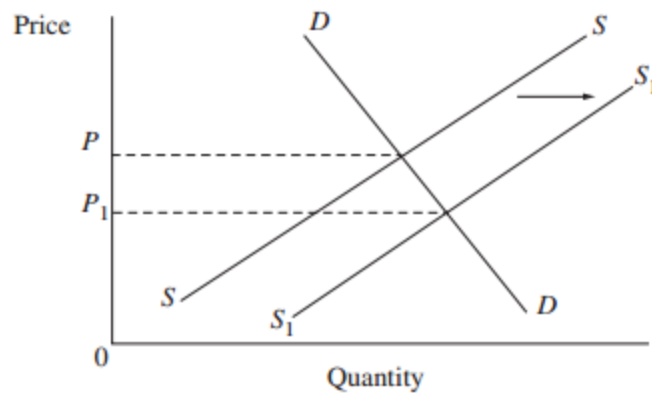
**4. Which of the following is a feature of a fully decentralised wage determination system?**

- A) Compulsory unionism
- B) Wage increases tied to inflation
- C) Increased role of industrial tribunals
- D) Negotiated workplace agreements

**5. What is the likely impact of a decrease in the general level of tariffs in Australia?**

- A) Greater advantages for Australian producers in Australian markets
- B) Reduced advantages for Australian producers in overseas markets
- C) Greater advantages for overseas producers in Australian markets
- D) Reduced advantages for overseas producers in overseas markets

**6. The diagram shows the impact of microeconomic reforms on the Australian car industry**



Which of the following could explain the shift in the supply curve from S to S1?

- A) A decrease in the price of cars
- B) An increase in technical efficiency
- C) An increase in car industry regulation
- D) A decrease in the supply of cars

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

Year	Import Price Index	Export Price Index
1	110	100
2	112	110

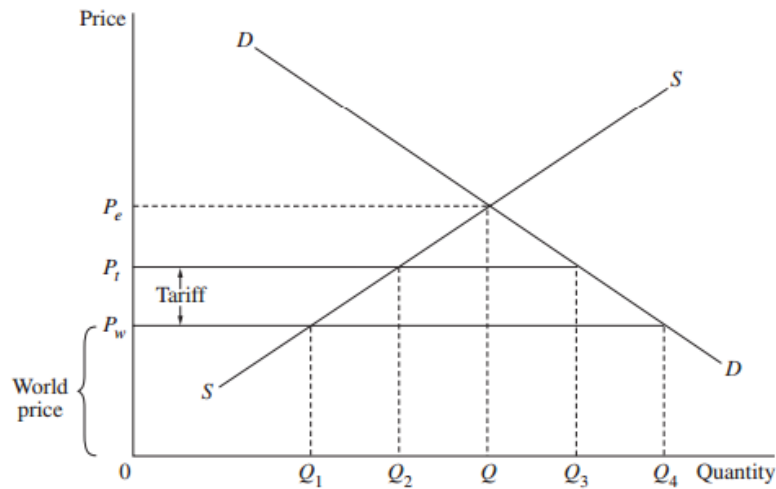
What does the table indicate about this economy?

- 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.

8. What is an advantage of free trade?

- A) Nations are free to take measures to protect all domestic industries
- B) Nations attempt to become self-sufficient to satisfy domestic wants
- C) Nations are able to specialise and as a result produce more output
- D) Nations can prevent cheap imports being dumped on domestic markets

9. The diagram illustrates the effect of a tariff



Which of the following represents the effect of this tariff on the economy?

- A) The domestic price would increase to the equilibrium price ( $0P_e$ )
- B) Domestic production would increase from  $0Q_1$  to  $0Q_2$ .
- C) Import volumes would increase from  $0Q_2$  to  $0Q_3$
- D) Government revenue would be equal to the world price ( $0P_w$ ).

10. Which of the following could be a cause of demand inflation?

- A) An increase in the cost of labour
- B) An increase in domestic interest rates
- C) An increase in the level of consumer spending
- D) An increase in import prices, resulting from a depreciating dollar

11. Which of the following is an example of a reform in a factor market?

- A) Introduction of a quota on imported items
- B) Expansion of government welfare programs
- C) Removal of minimum wage levels for specific industries
- D) Implementation of quality control testing for finished goods

12. Which of the following is a feature of a safety net in wage determination?

- A) It is a part of all enterprise agreements
- B) It is included in certified agreements as negotiated by unions
- C) It protects employers against wage increases which exceed productivity
- D) It reduces the inequality of wages and income between skilled and unskilled workers.

13. 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 equities in an overseas company
- C) Dividend payments from an overseas company to Australian shareholders
- D) The purchase of equities in an Australian company by an overseas company

**14. Which of the following is a feature of the natural rate of unemployment?**

- A) It varies inversely with the inflation rate
- B) It increases during times of economic downturn
- C) It occurs when the rate of cyclical unemployment is zero
- D) It is the total of frictional and seasonal unemployment rates.

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

Balance of Payments items	\$ billion (\$bn)
Exports	300
Imports	340
Net services	-60
Net income	-100
Net current transfers	80

**According to the information in the table, which of the following statements is correct?**

- A) There is a deficit of \$280bn on the capital and financial account
- B) There is a deficit of \$200bn on the current account
- C) There is a surplus of \$40bn on merchandise trade
- D) There is a surplus of \$120bn on the capital and financial account.

**16. 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.

**17. If the Consumer Price Index for Year 1 is 180 and for Year 2 is 198, what is the inflation rate Year 2?**

- A) 10%
- B) 18%
- C) 80%
- D) 98%

**18. Why does the market system generally fail to produce public goods?**

- A) The Government controls the prices and distribution of public goods
- B) The benefits of public goods cannot be restricted to those who purchase them
- C) Public goods tend to be those goods that are privatised by the Government
- D) Consumers do not have adequate purchasing power to buy public goods.

**19. Which measure could be implemented by a government attempting to improve environmental management?**

- A) A reduction in the cost of petrol production
- B) An increase in tax concessions for using solar energy
- C) An increase in incentives for coal production
- D) The replacement of renewable resources by non-renewable resources

**20. What is the most common measure of economic growth?**

- A) Changes in nominal Gross Domestic Product per person
- B) Net foreign debt as a percentage of Gross Domestic Product
- C) Changes in real Gross Domestic Product per annum
- D) The distribution of Gross Domestic Product among the population

## Section II: Short Answer (40 marks)

### Question 21 (10 marks)

- (a) Outline ONE method that nations can use to protect domestic industries. (1)

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- (b) Discuss TWO reasons why nations might protect their domestic industries. (2)

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- (c) Describe TWO economic effects that the protection of domestic industries has on global trade. (2)

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- (d) Analyse the economic benefits and costs to Australia associated with increased free trade (5)

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**Question 22 (10 marks)**

(a) State an example of a government policy designed to promote microeconomic reform in Australia (1)

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(b) State ONE reasons why governments implement policies of microeconomic reform (1)

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(c) Explain how microeconomic policy can bring about structural change in Australia. (4)

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(d) Explain TWO problems associated with microeconomic reform in Australia. (4)

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**Question 23 (10 marks)**

(a) What is the difference between the headline rate and underlying rate of CPI inflation? (2)

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(b) How might inflationary expectations affect inflation? (2)

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(c) Explain the relationship between inflation and unemployment. (2)

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(d) Explain TWO negative consequences on the domestic economy if domestic inflation is high relative to inflation in other countries. (4)

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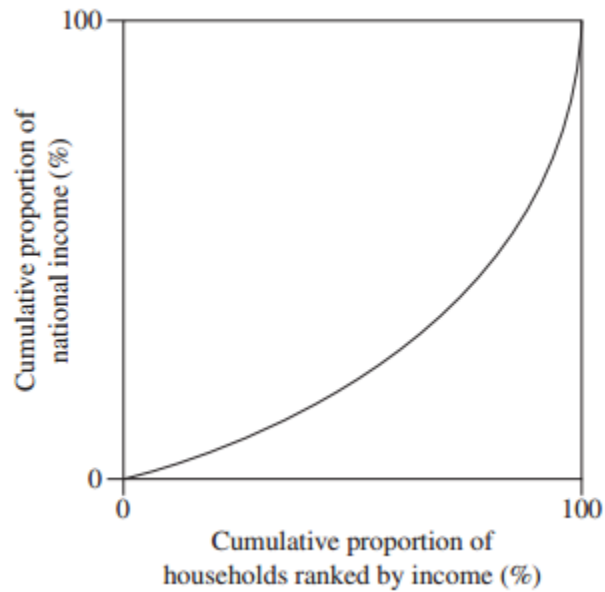
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**Question 24 (10 marks)**

(a) The diagram shows the Lorenz Curve for an economy

(1)



On the diagram, draw another Lorenz Curve that represents a LESS equal distribution of income for this economy.

(b) Outline ONE economic and ONE social cost of income inequality.

(2)

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(c) Why are average weekly earnings for males higher than average weekly earnings for females? (3)

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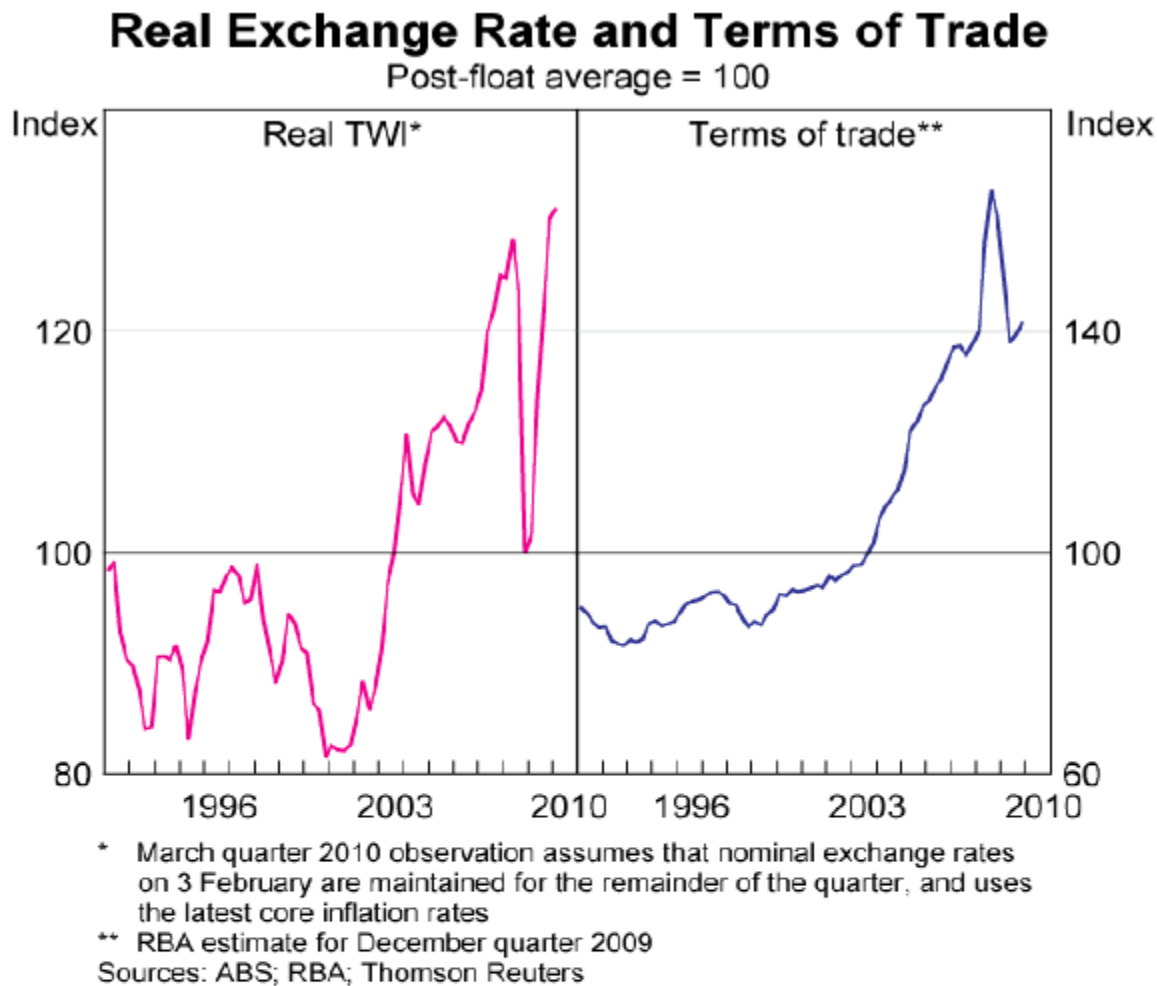
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(4)

### Section III: Extended Response

#### Question 25 (20 marks)

Analyse the impact of the fluctuations in Australia's exchange rate on the economic performance of the Australian economy.



The Australian dollar has moved through a wide range, in part reflecting large portfolio adjustments by global investors. However, the movement in the exchange rate has once again proven to be an important means of assisting the Australian economy adjust to changes in the global economic environment. As on earlier occasions, the economy has proven to be resilient to these swings.

**Guy Debelle**  
Assistant Governor of the RBA

OR

### Question 26 (20 marks)

Analyse Australia's monetary policy stance since 2008 and its effectiveness in managing the Australian economy.

The Reserve Bank runs an independent monetary policy, managing demand by using its control over the official cash rate to influence borrowing and spending.

It adopted an inflation target as its nominal anchor, and its success in achieving that target got inflation expectations back under control.

Ross Gittins SMH



## **Section IV: Extended Response**

### **Question 27 (20 marks)**

Discuss the reasons why some countries and trading blocs protect their domestic industries and the benefits of the World Trade Organisation promoting free trade in the global economy.

**OR**

### **Question 28 (20 marks)**

Explain how globalisation has led to variations in the standard of living and contrasts in the level of development between nations that make up the global economy.