



HSC Economics

Sample Trial Paper 3

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. The inability of the price mechanism to provide public goods is an example of which of the following?
 - A) Social costs
 - B) Adverse spill overs
 - C) Market failure
 - D) Negative externalities
2. Which of the following is a possible cause of cost inflation?
 - A) Labour skill shortages
 - B) A decrease in interest rates
 - C) Changes to the Industrial Relations Commission
 - D) A rise in the level of consumption spending
3. What would be the most appropriate macroeconomic policy mix for a country experiencing a recession?
 - A) Lower interest rates and higher income tax rates
 - B) Lower interest rates and lower income tax rates
 - C) Higher interest rates and higher income tax rates
 - D) Higher interest rates and lower income tax rates
4. How would the schools fees paid by an overseas student studying for the HSC in a NSW school be recorded in the Balance of Payments?
 - A) As a services credit
 - B) As a current transfer credit
 - C) As an income credit
 - D) As a capital account credit

5. The table shows selected data for an economy

Balance of Payments	\$ Billions
Exports (goods)	150
Imports (goods)	125
Exports (services)	50
Imports (services)	55
Net income and Transfers	?
Capital and Financial Account Surplus	50

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

- A) \$30 billion surplus
- B) \$70 billion deficit
- C) \$120 billion deficit

D) \$380 billion surplus

6. If the unemployment rate has reached the natural rate of 6% what would be the most appropriate policy response to further reduce unemployment?

- A) Increase the budget deficit
- B) Decrease interest rates
- C) Increase protection for labour intensive industries
- D) Increase expenditure on retraining programs for the unemployed

7. Which of the following statements best explains the function of the World Bank?

- A) To promote trade liberalisation
- B) To promote international financial stability
- C) To facilitate long term development projects in developing countries
- D) To co-ordinate strategies regarding international economic and trade issues

8. Which of the following is a public good?

- A) Street lighting
- B) A public swimming pool
- C) Public transport
- D) A tollway

9. Which of the following increases the level of protection for domestic producers?

- A) Decrease the value of subsidies
- B) Decrease the level of tariffs
- C) Decrease the use of embargos
- D) Decrease the size of quotas on imports

10. Which of the following is an advantage of free trade?

- A) Protection of infant industries
- B) Higher opportunity costs
- C) More efficient allocation of resources
- D) More efficient protection of environmental resources

11. The table shows selected data for two countries, A and B.

Country	Population (Millions)	Working Age Population (millions)	Employed (millions)	Unemployed (Millions)
A	60	35	17.5	2.5
B	45	25	13	2

Which of the following statements is true for either of these two countries?

- A) Country B has a higher participation rate and a higher unemployment rate than country A
- B) Country B has a higher participation rate but a lower unemployment rate than Country A
- C) Country A has a higher participation rate and a higher unemployment rate than country B
- D) Country A has a higher participation rate but a lower unemployment rate than Country B

12. Which of the following is an example of a bilateral trade agreement

- A) WTO
- B) CERTA
- C) IMF
- D) APEC

13. What is the rationale behind microeconomic policy?

- A) It aims to increase aggregate supply and price
- B) It aims to increase aggregate demand and price
- C) It aims to increase aggregate supply and efficiency
- D) It aims to increase aggregate demand and efficiency

14. How would the Reserve bank increase interest rates in the economy?

- A) Buy government securities and so decrease liquidity in money markets
- B) Buy government securities and so increase liquidity in money markets
- C) Sell government securities and so increase liquidity in money markets
- D) Sell government securities and so decrease liquidity in money markets

15. Which of the following is an outcome of the corporatisation of a Public Trading Enterprise?

- A) Allowing competitors to access publicly owned infrastructure
- B) Concessional tax rates for efficient Government businesses
- C) Selling off government owned enterprises
- D) Restructuring government owned enterprises

16. Other things being equal, what would be the likely impact on AUstralia's external stability of a loose/expansionary monetary policy?

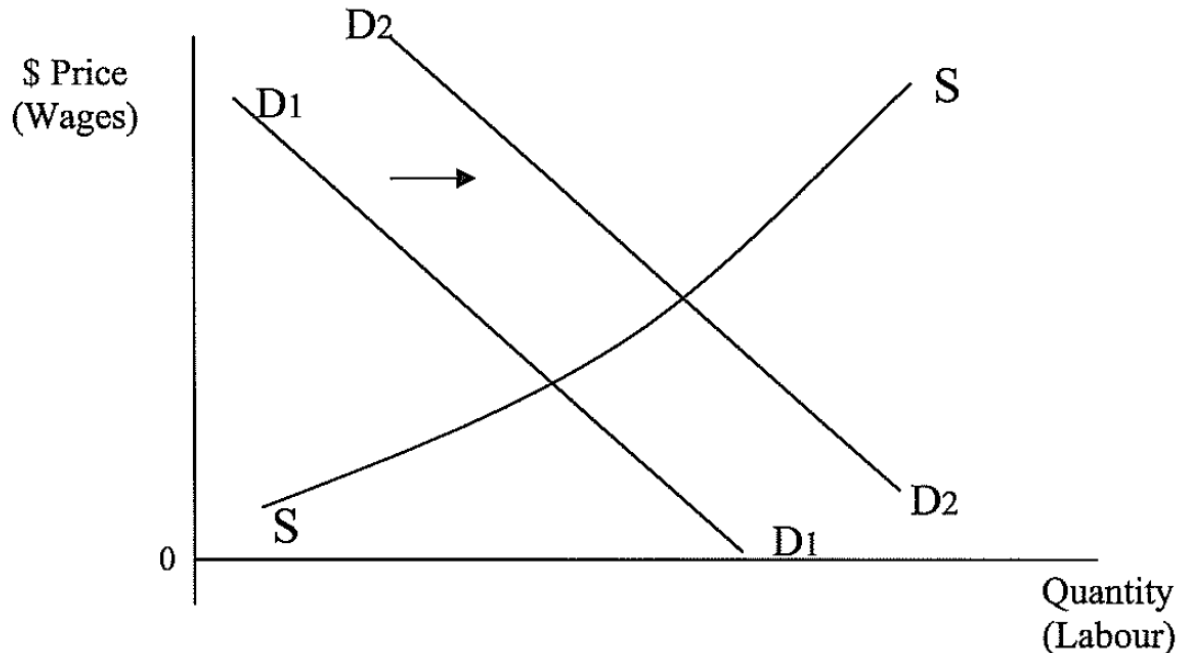
- A) Foreign investors would increase their capital inflow and investments in Australia
- B) Foreign investors would decrease their capital inflow and investments in Australia
- C) Demand for Australia's exports would be boosted as Australia's currency is appreciated
- D) Demand for Australia's exports would be boosted as Australia's currency is depreciated

17. If the government set a price floor for the wheat commodity which is above the equilibrium price, what is the likely impact of this on the economy?

- A) Supply will exceed demand on the market

- B) Demand will exceed supply on the market
- C) Market forces will increase the price
- D) There will be a shortage in the supply of wheat on the market

18. The Aggregate Supply/ Aggregate Demand diagram below shows the movement of Aggregate demand for labour (AD) over time.



Which of the following factors could cause the demand for labour to shift from D1 to D2?

- A) The introduction of government subsidies for apprenticeships
- B) Increased migration to Australia
- C) Increased high school retention rates
- D) Decreased incentives to work longer hours

19. Other things being equal, which of the following government policies would result in a Gini co-efficient moving closer to zero?

- A) The implementation of an energy tax applied to all households?
- B) A decrease in the level of compulsory superannuation payments
- C) An increase in subsidies paid to low income earners for access to medical services
- D) A decrease in the marginal rate of taxation for high income earners

20. What is measured by the trade weighted index?

- A) Relative inflation rates
- B) Exchange rates
- C) The current account deficit
- D) The balance of merchandise trade

Section II: Short Answer (40 marks)

Question 21 (10 marks)

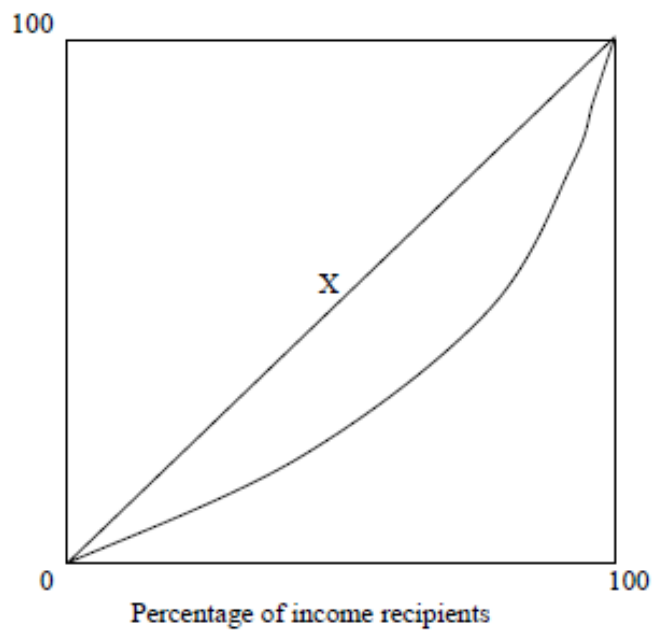
- (a) Define the term monetary policy (2)

- (b) Explain how time lags influence the implementation of monetary policy (2)

- (c) Outline how the Reserve Bank is able to raise the level of interest rates in the Australian economy. (4)

- (d) State TWO ways rising interest rates impact on demand in the economy (2)

Question 22 (10 marks)



(a) What is the line marked X? (1)

(b) What does the Lorenz curve for this nation indicate about its income distribution? (1)

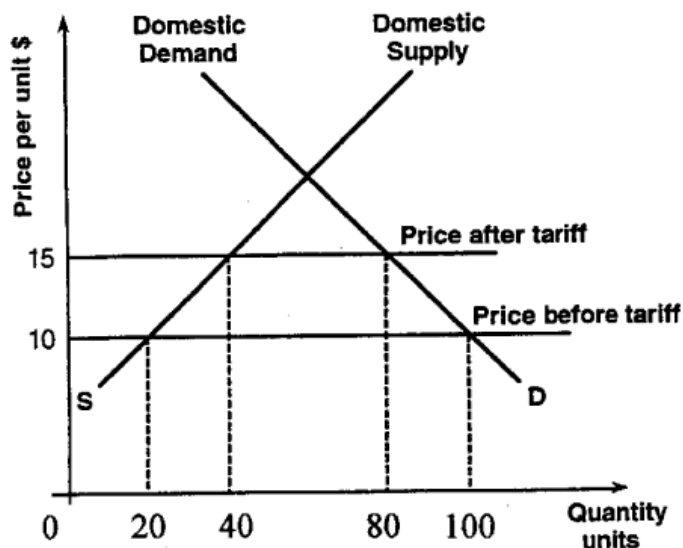
(c) If the Lorenz curve moved towards the left what would have happened to income distribution? (2)

(d) If the Gini coefficient for the nation changed from 0.5 to 0.7 what has happened to the income distribution in this nation? (1)

(e) Describe TWO economic costs of income inequality (4)

Question 23 (10 marks)

The diagram below shows the effect of a government imposing a tariff on a freely trading country that imports to satisfy domestic demand.



- (a) Define the term tariff. (1)

- (b) Use the diagram above the answer the following questions

- i. How much did domestic quantity supplied expand after the tariff was imposed? (1)

- ii. Calculate the total amount of revenue received by the government after the imposition of the tariff. (1)

- (c) Explain a method of protection other than a tariff. (2)

(d) Give an example of an international trade agreement and outline on way it has affected Australian trade. (2)

(e) Outline three reasons used to justify reducing tariff protection in Australia

i.

ii.

iii.

Question 24 (10 marks)

(a) Distinguish between hidden unemployment and underemployment.

(2)

(b) Explain how structural change can lead to an increase in the level of unemployment

(2)

(c) Explain the effect of an increase in the minimum wage on the demand for labour assuming that the increase is above the equilibrium level.

(2)

(d) Explain ONE macroeconomic and ONE microeconomic policy that can be used to reduce the level of unemployment (4)

Section III: Extended Response

Question 25 (20 marks)

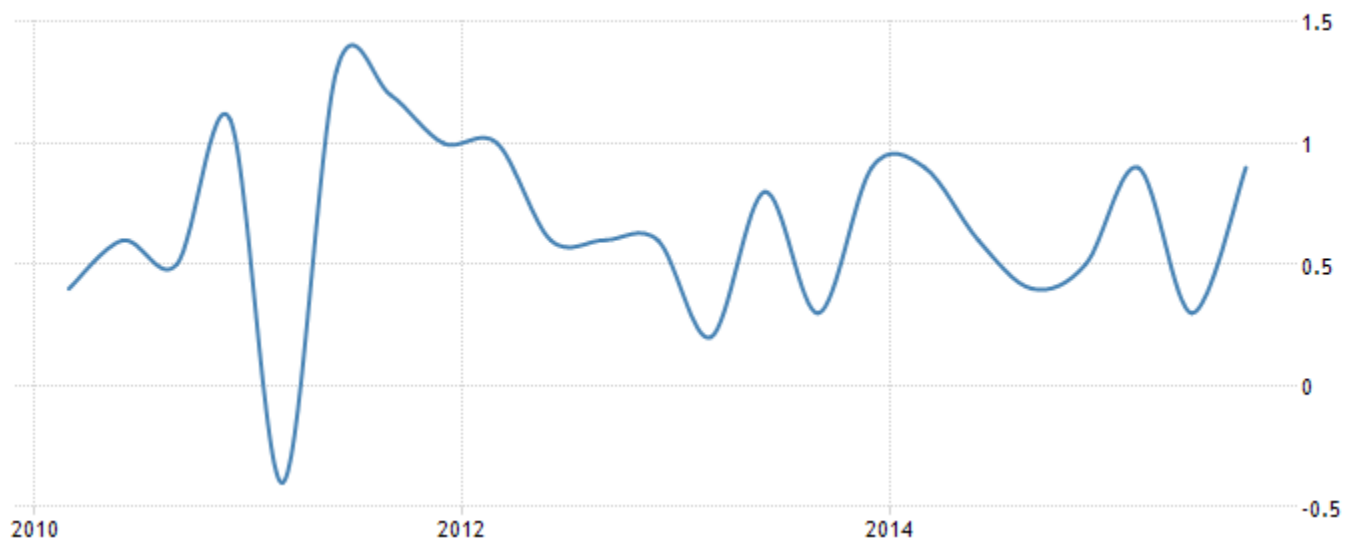
Explain the use of macroeconomic and microeconomic policies by the Australian Government to achieve the objectives of price stability and full employment.

OR

Question 26 (20 marks)

Discuss the arguments for and against achieving a high level of economic growth in Australia.

AUSTRALIA GDP GROWTH RATE



Section IV: Extended Response

Question 27 (20 marks)

Discuss the impact of changes in the global business cycle on Australia's trade and financial flows and balance of payments.

OR

Question 28 (20 marks)

Discuss the causes of a depreciation of the Australian dollar and its impact on the Australian economy.