

**Semester 1 Examination, 2020**

**Question/Answer booklet**

**ECONOMICS**

**ATAR Year 12**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Student Number: In figures |  |  |  |  |  |  |  |  |  |  |

In words

**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

***To be provided by the candidate***

Standard items: pens (blue/black preferred), pencils (included 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 exam |
| Section One:  Multiple-choice | 24 | 24 | 30 | 24 | 24 |
| Section Two:  Short Answer | 3 | 3 | 70 | 36 | 36 |
| Section Three:  Extended Answer | 3 | 2 | 80 | 40 | 40 |
|  |  |  |  | **Total** | 100 |

**Instructions to candidates**

1. The rules for the conduct of Western Australian Certificate of Education ATAR course examinations are detailed in the *Year 12 Information Handbook 2019.* Sitting this examination implies that you agree to abide by these rules.

2. Write your answers in this Question/Answer booklet preferably using a blue/black pen. Do not use erasable or gel pens.

3. 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.

4.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.

5. Supplementary pages for planning/continuing your answers to questions are 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.

**MARK ALLOCATION/MARKS AWARDED**

|  |  |  |
| --- | --- | --- |
| **SECTION** | **QUESTIONS** | **MARKS** |
| **1. Multiple Choice** | **Attempt all 24**  **questions** | **/**24 |
| **2. Short Answer**  **(Data Interpretation)** | **Answer all 3**  **questions** | **36 marks** |
|  | Qu. 25 | /12 |
| Qu. 26 | /12 |
| Qu. 27 | /12 |
| **3. Extended Answer**  **(Essay)** | **Answer only**  **2 questions** | **40 marks** |
| You must write the number  of the essay you attempted  in the spaces opposite. | Qu \_\_\_\_\_\_\_ | /20 |
| Qu \_\_\_\_\_\_\_ | /20 |
| **TOTAL** |  | **/100** |

**Teacher’s Comment:**

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**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.

1. The international competitiveness of a nation would improve if

(a) its currency appreciated.

(b) labour productivity decreased.

(c) real unit labour costs decreased.

(d) its rate of inflation increased relative to that of its trading partners.

2. The two leading countries in world trade are

(a) China and Japan.

(b) China and the United States.

(c) China and India.

(d) The United States and Germany.

3. The most important category in world trade is

(a) agriculture.

(b) mining.

(c) manufacturing.

(d) services.

4. Which of the following is a feature of globalisation?

(a) International division of labour

(b) Higher levels of trade protection

(c) Greater inefficiencies in global markets

(d) Decreased levels of economic integration

5. Which pair of sectors contribute most to Australia’s export income?

(a) Mining and Services

(b) Mining and Agriculture

(c) Services and Agriculture

(d) Services and Manufacturing

6. Australia usually records a trade surplus with which pair of countries?

(a) China and the United States

(b) China and Japan

(c) Japan and Germany

(d) The United States and the Republic of Korea

7. One factor that has helped slow the pace of globalisation has been

(a) the growth of free trade agreements.

(b) the effect of climate change.

(c) the decrease in world interest rates.

(d) the China-US trade war.

8. This question refers to the table below, which shows the number of labour hours required to produce one unit of a particular product in two countries.

|  |  |  |
| --- | --- | --- |
| Product | Country X | Country Y |
| Computer | 75 | 60 |
| Smartphone | 60 | 50 |

In relation to the table above, which of the following statements is correct?

(a) Country X has an absolute advantage in both computer and smartphone production.

(b) Country X has a comparative advantage in smartphone production.

(c) Country Y has a comparative advantage in smartphone production.

(d) Country X has a comparative advantage in computer production.

9. The graphs show the production possibilities for commodities X and Y in two countries M and N.

What will be the effect of an agreement between countries M and N to exchange the commodities at a rate of 1Y for 3X?

(a) Country M will lose, because a unit of Y will now cost 3X instead of 2X.

(b)Only country N will gain, because N can produce more of both commodities than M.

(c) Country N will lose, because a unit of X will now cost 0.33Y instead of 0.25Y.

(d) Both countries will gain, because their consumption possibilities will increase.

10. Which of the following is **not** a reason that free trade stimulates economic growth?

(a) Free trade encourages a more rapid spread of technology.

(b) Industries have larger markets resulting in economies of scale.

(c) Free trade keeps domestic prices high, enabling firms to make higher profits.

(d) Imports of capital goods boost labour productivity.

11. When a country imports a good, the \_\_\_\_\_\_\_\_ to consumers is \_\_\_\_\_\_\_\_ the \_\_\_\_\_\_\_\_ to producers.

(a) loss; larger than; gain

(b) loss; smaller than; gain

(c) gain; smaller than; loss

(d) gain; larger than; loss

12. When will the imposition of a tariff by a country on the goods and services of its major trading partners reduce the country’s expenditure on imports?

(a) When the income elasticity of demand for imports is greater than 1.

(b) When the price elasticity of demand for imports is greater than 1.

(c) When the price elasticity of demand for imports is less than 1.

(d)When the price elasticity of supply of imports is greater than 1.

13. When protection is encouraged to protect a growing domestic industry, which of the following arguments is being used?

(a) The save domestic jobs argument

(b) The national security argument

(c) The anti-dumping argument

(d) The infant-industry argument

14. Which item is **not** included in the current account of a country’s balance of payments?

(a) exports of services

(b) interest on foreign loans

(c) the inflow of foreign capital

(d) profits from foreign investments

15. An economy has a surplus on the current account of its balance of payments. Under which of the following circumstances is the economy most likely to experience a decrease in its current account surplus?

|  |  |  |
| --- | --- | --- |
|  | *Growth in the world economy* | *Domestic*  *inflation* |
| (a) | Falling | Rising |
| (b) | Falling | Falling |
| (c) | Rising | Rising |
| (d) | Rising | Falling |

16. When a Swiss company purchases an Australian company for $50 million, in the balance of payments the value of that transaction is recorded in the

(a) income account.

(b) current account.

(c) financial account.

(d) investment account.

17. In September 2019, Australia recorded a financial account deficit. The reason for this was

(a) foreign investment into Australia was less than Australian investment abroad.

(b) Australia’s exports of goods and services exceeded its imports.

(c) Australia recorded a net income deficit.

(d) Australia’s net foreign debt decreased.

18. Refer to the table. In which year was there a favourable movement in the terms of trade?

|  |  |  |
| --- | --- | --- |
| *Year* | *Export Price*  *Index* | *Import Price*  *Index* |
| 1 | 100 | 105 |
| 2 | 107 | 115 |
| 3 | 115 | 118 |
| 4 | 119 | 124 |

(a) Year 2

(b) Year 3

(c) Year 4

(d) None – each year was unfavourable.

19. When the exchange rate between the Australian dollar and the Euro changes from 0.63 Euros per dollar to 0.60 Euros per dollar, then the

(a) Australian trade weighted index must have appreciated.

(b) Australian dollar has appreciated against the Euro.

(c) Australian dollar has depreciated against the Euro.

(d) Australian trade weighted index must have depreciated.

20. Which combination of factors is most likely to result in an increase in Australia’s Trade Weighted Index?

|  |  |  |
| --- | --- | --- |
|  | *Terms of trade* | *Australian interest rates*  *relative to global interest*  *rates* |
| (a) | Increase | Increase |
| (b) | Increase | Decrease |
| (c) | Decrease | Increase |
| (d) | Decrease | Decrease |

21. Which of the following would cause the supply curve for $AUD to increase?

(a) Decreased demand for foreign imports by Australians

(b) Decreased demand for Australian assets by foreigners

(c) Increased demand for Australian exports by foreigners

(d) Increased demand for foreign assets by Australians

22. Australia’s net foreign debt exceeds its net foreign liabilities because

(a) Australia’s net foreign equity has become larger than its net foreign debt.

(b) Australia borrows more funds from overseas than it lends.

(c) Australia records a financial account surplus.

(d) Australia now has a net foreign equity asset position.

23. Which of the following is likely to reduce Australia's net foreign debt?

(a) A decrease in Australia’s investment-savings gap

(b) An increase in domestic investment

(c) An increase in net foreign liabilities

(d) An increase in the level of foreign investment into Australia

24. Which of the following would increase Australia’s foreign assets?

(a)   An Australian investor sells some of their US shares

(b)   An Australian firm buys a German government bond

(c)   A Chinese investor buys an Australian government bond

(d)   A US investor builds a factory in Australia

**End of Section One**

**Section Two: Short Answer (Data Interpretation) 36% (36 Marks)**

This section has **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)**

This question refers to the edited extract below, taken from the Reserve Bank’s Statement on Monetary Policy dated February 2020.

**The Australian dollar is around its lowest level in some time**

*The Australian dollar is around its lowest level since 2009, having depreciated by around 6 per cent since late 2018 on a trade-weighted (TWI) basis. The depreciation over the past year or so is consistent with the noticeable decline in Australia's interest rate differentials, as government bond yields in Australia declined by more than those in major advanced economies, while commodity prices were a little lower overall. More recently, the Australian dollar depreciated alongside falls in commodity prices as concerns increased about the effect of the coronavirus on the Chinese economy.*

(a) Identify two reasons to explain the depreciation of the Australian dollar. (2 mark)

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(b) Explain how the coronavirus crisis would affect world commodity prices. (2 marks)

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(c) Choose one of the reasons provided in (a), and using a model of the Australian

dollar, explain and illustrate why the Australian dollar depreciated. (4 marks)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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(d) Explain the effects of a depreciation on the household and business sectors. (4 marks)

Household sector: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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Business sector: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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**Question 26 (12 marks)**

This question refers to the table below, which shows Australia’s balance of payments and international investment position.

|  |  |  |
| --- | --- | --- |
|  | Sept 2015 $m | Sept 2019 $m |
| Trade balance | -9284 | 21065 |
| Current account balance | -20215 | 7855 |
| Net foreign debt | 990506 | 1163343 |
| Net foreign equity | -104550 | -187354 |
| GDP (annual) | 1633359 | 1974128 |

(a) i. For the Sept quarter 2019, calculate:

Net income \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (1 mark)

Net foreign liabilities \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (1 mark)

ii. State whether net foreign liabilities as a per cent of GDP increased or decreased over the period shown in the table. (1 mark)

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(b) Describe and account for the change in net foreign equity that has occurred over the period shown in the table. (2 marks)

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(c) Identify the change in Australia’s current account balance between

Sept 2015 - Sept 2019 and describe three cyclical reasons for this change. (4 marks)

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(d) Discuss the significance of the change in Australia’s current account balance from

a deficit to a surplus. (3 marks)

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*Source: World Bank*

**Question 27 (12 marks)**

This question refers to the graph below, which shows Australia’s export and import

price indices.



(a) i. Calculate the terms of trade for September 2019 (show your working). (1 mark)

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(a) ii. Identify the quarter when the terms of trade was at its lowest value. (1 mark)

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(a) iii. Identify two quarters in which the terms of trade equalled 100. (1 mark)

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(b) Describe and explain the trend in the terms of trade between Sept 2017 – Sept 2019.

(3 marks)

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(c) Explain how the current global crisis would affect Australia’s terms of trade and discuss two effects of this change on the Australian economy. (6 marks)

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**End of Section Two**

*Source: RBA*

**Section Three: Extended Answer (Essay) 40% (40 Marks)**

This section contains **three (3)** 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.

**Question 28 (20 marks)**

(a) Discuss the factors that have facilitated the process of globalisation and the reasons for the contemporary or current slowdown in world trade. (12 marks)

(b) Evaluate the economic effects of globalisation. (8 marks)

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

(a) Use a demand/supply model to explain and demonstrate the operation of a tariff and a subsidy as forms of protection. (12 marks)

(b) Compare the effects of a tariff and a subsidy on market efficiency. (8 marks)

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**Question 30 (20 marks)**

(a) Discuss the concept of foreign investment and the benefits of foreign direct investment to the Australian economy. (12 marks)

(b) Explain the relationship between foreign investment, the balance of payments and foreign liabilities. (8 marks)

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**End of questions**

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