

**Semester 1 Examination, 2021**

**Question/Answer booklet**

**ECONOMICS**

**ATAR Year 12**

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

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 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. Which international organisation is responsible for maintaining financial stability in global financial markets?

(a) World Bank

(b) World Trade Organisation

(c) Asia–Pacific Economic Cooperation

(d) International Monetary Fund

2. What would reduce the volume of international trade in the world economy?

(a) A German bank providing a loan to a Nigerian company.

(b) A Japanese car manufacturer establishing a factory in the Czech Republic.

(c) The Canadian government introducing quotas on Malaysian electronics products.

(d) The Swedish government granting aid to Somalia.

3. A country changes to a policy of self-sufficiency in agriculture, instead of relying on world trade. What is likely to happen in the country as a result?

(a) Agricultural prices will rise.

(b) Farm output will fall.

(c) More farmers will be unemployed.

(d)More food will be imported.

4. Which of the following countries has the highest trade to GDP ratio?

(a) United States

(b) Japan

(c) China

(d) Australia

5. Which of the following was affected most by the Covid-19 pandemic?

(a) Global trade in goods

(b) Global trade in services

(c) Global trade in finance

(d) Global trade in technology

6. The opportunity cost of producing one car in Germany is 20 tonnes of wheat, while the opportunity cost of producing one car in Canada is 12 tonnes of wheat. The two countries can gain from trade if the terms of trade are

(a) greater than 20 tonnes of wheat per car.

(b) less than 12 tonnes of wheat per car.

(c) greater than 12 tonnes of wheat per car, less than 20 tonnes of wheat per car, and Germany produces wheat.

(d) greater than 12 tonnes of wheat per car, less than 20 tonnes of wheat per car, and Germany produces cars.

7. Which of the following is not a basis for trade between two countries?

(a) Different skill levels of the labour forces

(b) One nation’s absolute advantage

(c) Economies of scale

(d) Different capital stocks

8. The imposition of a tariff would cause which one of the following?

(a) A decrease in the price of imports and a rise in the demand for imports.

(b) An increase in the price of imports and a rise in the demand for imports.

(c) A decrease in the price of imports and a rise in the demand for import-competing domestic goods.

(d) An increase in the price of imports and a rise in the demand for import-competing domestic goods.

9. What is a potential disadvantage of increased specialisation by a country?

(a) It becomes more reliant on imports to meet its needs.

(b) It reduces the potential for international trade.

(c) It results in access to a greater variety of goods for consumers.

(d) It results in lower costs for home produced goods.

10. An economy with a long history of extensive barriers to trade decides to switch to totally free trade. What is most likely to increase in the short term?

(a) Consumer surplus

(b) Government revenue

(c) Inflationary pressure

(d) Profits of all domestic companies

11. Which of the following is not a reason for Australia’s increased trade intensity?

(a) Australia’s participation in bilateral trade agreements

(b) Australia’s policy of trade liberalisation

(c) Australia’s stable trade weighted index

(d) The emergence of China as Australia’s main trading partner

12. Australia sells iron ore to China. How will this transaction be recorded in Australia’s Balance of Payments (using the double entry accounting system)?

i. Debit in the current account

ii. Credit in the current account

iii. Debit in the financial account

iv. Credit in the financial account

(a) i only

(b) ii only

(c) i and iv

(d) ii and iii

13. The graph below shows the value of a country’s exports and imports over five years.

![Chart, bar chart, histogram

Description automatically generated]()

Between which two years did the country have an increase in the value of imports and an increase in its balance of trade in goods?

(a) 1 and 2

(b) 2 and 3

(c) 3 and 4

(d) 4 and 5

14. Which change will **not** increase a surplus on the current account of the balance of payments of a country?

(a) A decrease in the value of imports.

(b) An increase in domestic inflation rates.

(c) A decrease in primary income outflows.

(d) An increase in the amount of development aid received.

15. When a country records successive capital and financial account deficits, then its

(a) net foreign debt must decrease.

(b) net foreign liabilities will decrease.

(c) net foreign assets will decrease.

(d) investment must have increased relative to its savings.

16. In which situation will a country’s terms of trade become less favourable?

(a) The prices of its imports rise by more than the prices of its exports.

(b) The total value of external payments rises by more than the total value of external receipts.

(c) The value of its imports rises by more than the value of its exports.

(d) The volume of its imports rises by more than the volume of its exports.

17. A country’s terms of trade increased from the base year value of 100 to 120 in the following year. What changes in export prices and import prices would have caused this?

|  |  |  |
| --- | --- | --- |
|  | Export prices | Import prices |
| (a) | Decreased 10% | Increased 10% |
| (b) | Increased 10% | Decreased 10% |
| (c) | Increased 20% | Unchanged |
| (d) | Unchanged | Decreased 20% |

18. The table shows data for a hypothetical economy.

|  |  |  |  |
| --- | --- | --- | --- |
| *Year* | *Export price index* | *Import price index* | *Trade weighted index* |
| *1* | *100* | *100* | *60* |
| *2* | *110* | *105* | *65* |

What is the effect of the changes from Year 1 to Year 2 on the terms of trade and international competitiveness of this economy?

(a) The terms of trade decreased and international competitiveness increased.

(b) The terms of trade decreased and international competitiveness decreased.

(c) The terms of trade increased and international competitiveness increased.

(d) The terms of trade increased and international competitiveness decreased.

19. The table shows exchange rate movements for the Australian economy and United States economy. All other things being equal, which of the following best accounts for the fluctuation of the exchange rate between Year 1 and Year 2?

|  |  |  |
| --- | --- | --- |
| *Year* | *Australian dollar* | *US dollar* |
| *1* | *1* | *0.9* |
| *2* | *0.9* | *1* |

(a) There has been a depreciation of the AUD caused by an upturn in the international business cycle.

(b) There has been a depreciation of the AUD caused by a downturn in domestic economic activity.

(c) There has been a depreciation of the USD caused by an increase in Australia’s cash rate relative to the US cash rate.

(d) There has been a depreciation of the USD caused by a decrease in the deficit of the current account of the US balance of payments.

20. Which of the following would increase New Zealand exports to Australia?

(i) An appreciation of the Australian dollar against the NZ dollar.

(ii) An appreciation of the New Zealand dollar against the Australian dollar.

(iii) An increase in real income in New Zealand.

(iv) An increase in real income in Australia.

(a) (i) and (ii)

(b) (ii) and (iii)

(c) (ii) and (iv)

(d) (i) and (iv)

21. An economy with a floating exchange rate experiences an increased deficit on the current account of the balance of payments. What will result from this?

(a) An increase in government debt.

(b) An increase in its foreign currency reserves.

(c) An increase in the supply of its currency on the foreign exchange market.

(d) An increase in the demand for its currency on the foreign exchange market.

22. If Australia’s foreign equity assets exceed its foreign equity liabilities, this means that

(a) Australia has invested less overseas than foreigners have invested in Australia.

(b) Australia has invested more overseas than foreigners have invested in Australia.

(c) the Australian Government has increased its borrowings from overseas to fund budget deficits.

(d) the Australian Government has decreased its borrowings from overseas to fund budget deficits.

23. An increase in foreign direct investment into the Australian economy may be a benefit because it

(a) allows for a transfer of technology.

(b) decreases the level of net foreign liabilities.

(c) increases interest income in Australia’s current account.

(d) leads to an appreciation in the currency.

24. A decrease in Australia’s net foreign debt must mean that

(a) the AUD will appreciate.

(b) interest payments will decrease.

(c) the current account balance will decrease.

(d) the net income deficit will increase.

**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 following extract and data concerning global trade.

**SOURCE 1: The effect of COVID-19 on world trade**

*The onset and spread of Covid-19 brought about a dramatic fall in international trade flows. The volume of world trade declined by 18 per cent in May 2020 compared to the same month in 2019. It is important to remember that variations in the volume of trade flows tend to be more volatile than fluctuations in real GDP. The impact of the Covid-19 pandemic on trade volumes goes beyond the sharp contraction in economic growth and demand experienced as a result of the Covid-19 outbreak. It includes the disruptions experienced in transport links and supply chains as governments introduced severe restrictions in an effort to slow the virus’ spread. Such restrictions include the closing down of ports and borders, as well as delays in customs processing. Likewise, the adoption of trade barriers by numerous countries, particularly concerning export restrictions on medical supplies and food products, has served to further depress trade volumes. The impact of the Covid-19 outbreak has been particularly pronounced in the trade of services across the globe. The travel and tourism sectors have been especially affected as flights have been grounded, hotels have been closed and travel restrictions have been implemented throughout the world.*

*(Source: UNCTAD Trade & Development Report 2020)*



**SOURCE 2: Global Trade in Goods and Services**

*Source: WTO*



**SOURCE 3: Global merchandise trade growth during COVID-19**

(a) (i) Using Source 2, determine the percentage change in both goods trade and services trade due to the pandemic.

Goods trade: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (1 mark)

Service trade: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (1 mark)

(ii) Outline **one** reason why services trade contracted more than goods trade. (1 mark)

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(b) Using Source 3, describe and account for the change in trade for office machinery during COVID-19. (2 marks)

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(c) With reference to Source 1, outline **three** reasons why the COVID-19 pandemic had

such a dramatic effect on global trade. (3 marks)

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(d) An economic crisis such as a pandemic can highlight the disadvantages of a globalised world. Discuss any **two** disadvantages. (4 marks)

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**Question 26 (12 marks)**

This question refers to the graph below showing Australia’s current account.



(a) i. In which quarter and year did Australia last record a trade deficit? (1 mark)

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(ii) Determine the value of the current account balance for the Dec quarter 2020.

(1 mark)

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(b) Explain the change in both the trade balance and the primary income balance since June 2018.

(i) Trade balance: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (2 marks)

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(ii) Primary income balance: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (2 marks)

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(c) Explain the effect each of the following would have on Australia’s current account surplus:

(i) An increase in commodity prices. (2 marks)

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(ii) An increase in domestic economic activity. (2 marks)

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(iii) An increase in net capital outflow. (2 marks)

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**Question 27 (12 marks)**

This question refers to the extract below.

**Australia’s trade with China**

Trade with China is crucial. In 2020, the Australian coronavirus recession would have been deeper if it were not for surging exports into China. There were concerns when China imposed a tariff on Australian barley in May 2020. The Australian Government is appealing this decision with the World Trade Organisation (WTO). China also imposed a ban on Australia's coal shipments, tariffs on the wine industry, and restrictions on goods like timber, lobsters and beef. Despite these trade sanctions, Australia sold a lot more goods to China in December. The latest trade data from the ABS show that Australia recorded its fourth-largest trade surplus ever in December. Australia managed to divert its coal and barley shipments to other countries like Japan and India while exports of metalliferous ores to China actually rose 25 per cent in December.

*(Source: adapted from ABC News 25/1/2021)*

(a) i. Identify Australia’s largest export to China. (1 mark)

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ii. Outline the role of the WTO. (2 marks)

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(b) Evaluate the main argument used by China to restrict imports of Australian wine and barley. (3 marks)

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(c) Use a model to explain how a tariff on Australian wine harms both the Australian economy and the Chinese 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 main factors that affect the demand for and the supply of the Australian dollar (AUD) and use a model to demonstrate and explain an exchange rate appreciation. (12 marks)

(b) Discuss both the positive and negative effects of an exchange rate appreciation on the Australian economy. (8 marks)

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

(a) Using examples, distinguish between Australia’s foreign assets and foreign liabilities.

(8 marks)

(b) Explain **two** factors that may lead to an increase in foreign investment into the

Australian economy and discuss the effects this would have on the economy. (12 marks)

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**Question 30 (20 marks)**

(a) Using the demand and supply model, demonstrate and explain the gains from trade to both consumers and producers. (12 marks)

(b) Explain **three** arguments against trade liberalisation. (8 marks)

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**End of questions**

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