

**Examination, 2018**

**Question/Answer Booklet**

ECONOMICS Unit 3 Semester 1, 2018

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**Student Number: In figures**

**In words:**

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**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

2 x Extended Response Answer Booklet

Multiple-choice Answer Sheet

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

Standard items: pens (blue/black preferred), pencils (including coloured), sharpener,

correction fluid/tape, eraser, ruler, highlighters

Special items: non-programmable calculators approved for use in the ATAR examinations

**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**

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| --- | --- | --- | --- | --- | --- |
| Section | Number of questions available | Number of questions to be answered | Suggested working time (minutes) | Marks available | Percentage of examination |
| Section One:  Multiple-choice | 24 | 24 | 30 | 24 | 24 |
| Section Two:  Data interpretation / Short response | 3 | 3 | 70 | 36 | 36 |
| Section Three:  Extended response | 4 | 2 | 80 | 40 | 40 |
|  |  |  |  | **Total:** | 100 |

**Instructions to candidates**

1. 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.

**Section Two**: Write your answers in this Question/Answer booklet.

**Section Three**: Write your answers in the Extended Response Answer booklet. Start each question in a separate booklet.

2. You must be careful to confine your responses to the specific questions asked and to follow any instructions that are specific to a particular question.

3. Supplementary pages for the use of planning/continuing your answer to a question have been 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.

**Section One: Multiple Choice (24 Marks)**

This section has **24** questions. Answer **all** questions on the separate Multiple-choice Sheet.

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.

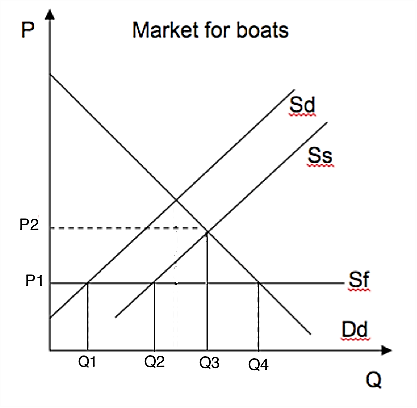
Suggested working time: **30** minutes.

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1. What are the two key economic indicators that economists use to measure the extent of globalisation?
2. GDP per capita and foreign investment flows.
3. Current account balances and comparative advantage.
4. Trade intensity and financial investment flows.
5. Free trade agreements and immigration flows.
6. Other things being equal, Australia’s international competitiveness would be improved by an increase in which of the following?
7. Australian inflation.
8. Investment in Australia’s capital infrastructure.
9. Australian government spending.
10. The value of the Australian dollar.
11. Research has shown that those economies that increase their trade openness over time experience
12. faster rates of economic growth.
13. slower rates of economic growth.
14. more favourable terms of trade.
15. lower trade deficits.
16. Australia put a tariff on all goods imported from overseas to increase the nation’s revenue and employment then
17. the countries total output would definitely increase.
18. workers with jobs in firms replacing imports would earn a higher income.
19. the standard of living within Australia would decrease.
20. the prices of goods imported into Australia would fall.

Question 5 refers to the table below which shows the production possibilities of Korea and Australia in producing cameras and televisions.

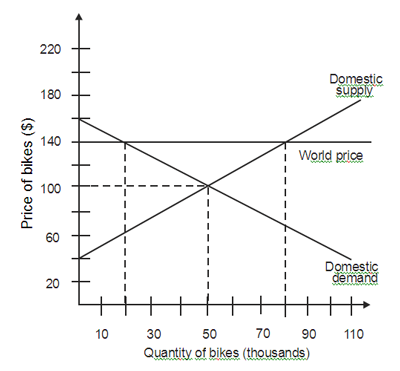
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|  | Cameras (units) | Televisions (units) |
| Korea | 50 | 40 |
| Australia | 10 | 20 |

1. Which of the following statements is correct?
2. Australia should export cameras and import televisions.
3. Australia does not have an absolute advantage in either good and should therefore import both goods.
4. Australia should export televisions and import cameras.
5. An acceptable terms of trade is 1 camera for 1 television.
6. **This question refers to the diagram below that shows the impact of the imposition of a subsidy on the domestic market for boats.

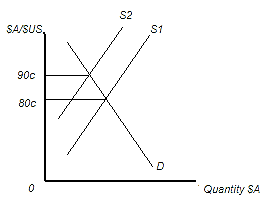
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With a subsidy applied, the market price for boats is \_\_\_\_\_\_\_\_\_\_\_\_\_ and the amount of imports is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

1. P2; Q2Q4
2. P1; Q1Q3
3. P1; Q2Q4
4. P2; Q3Q4
5. Which of the following is a direct source of a country’s comparative advantage?
6. The domestic economic growth rate.
7. Wage rates.
8. Government budget policy.
9. Interest rates.
10. The government pays a subsidy to an industry competing with imports. As a result, consumer surplus \_\_\_\_\_\_\_ , producer surplus \_\_\_\_\_\_\_ and total surplus \_\_\_\_\_\_\_ .
11. does not change, increases, increases
12. decreases, increases, does not change
13. decreases, increases, decreases
14. does not change, increases, decreases
15. Use the diagram below showing the market for bikes.

 In an open economy, how many bikes will this country export?

1. 20,000
2. 50,000
3. 60,000
4. 80,000
5. The main reason for Australia’s relatively low trade intensity ( is:
6. its relatively high level of economic development (high GDP/capita).
7. its relatively small population compared with the major developed economies.
8. its protectionist trade policy stance resulting in a closed economy.
9. its geographic isolation from the large economies of Western Europe.
10. Australia’s most important two-way trade partners are
11. China, South Korea and India.
12. China, Japan and India.
13. China, Japan and USA.
14. Japan, China and South Korea.
15. What indicator measures trade openness of an economy?
16. Terms of Trade Index.
17. Trade Weighted Index.
18. Trade Intensity Ratio.
19. Capital Output Ratio.

1. When an Australian exporter sells software to France and uses the proceeds to buy shares in a French company, Australia exports \_\_\_\_\_\_\_ and there is a capital \_\_\_\_\_\_\_ Australia.
2. increase; outflow from
3. increase; inflow to
4. do not change; inflow to
5. decrease; outflow from
6. The part of the balance of payments that records transactions leading to a change of ownership of commodities, or a flow of income, is known as
7. the capital account.
8. the current account.
9. the balance on merchandise trade.
10. the financial account.
11. In the capital and financial account, the largest category of international transactions is
12. net interest.
13. foreign investment in Australia.
14. government borrowing.
15. exports and imports.
16. Which one of the following would be recorded as a debit in Australia’s balance of payments in the current account?
17. The sale of Australian wool to Italy.
18. An increase in the number of foreign tourists visiting Australia.
19. Interest paid on Australian Government bonds to overseas investors.
20. A Chinese company purchasing a farming property in rural Australia.
21. A decline in Australia’s terms of trade would most likely
22. decrease Australia’s trade balance and increase the value of the Australian dollar.
23. decrease Australia’s trade balance and decrease the value of the Australian dollar.
24. increase Australia’s trade balance and decrease the value of the Australian dollar.
25. increase Australia’s trade balance and increase the value of the Australian dollar.
26. In 2019, if one US dollar buys 1.25 Australian dollars, and in 2020 one Australian dollar buys 0.75 US dollars, which of the following statements is most correct?
27. There is no change in the exchange rate between 2019 and 2020.
28. Australian exports are less expensive for US buyers in 2020 compared to 2019.
29. Goods imported from the US are more expensive for Australian buyers in 2019 compared to 2020.
30. For US investors, Australian assets are more expensive to buy in 2020 compared to 2019.
31. The Trade Weighted Index (TWI) measures
32. the price of Australian exports relative to the price of Australian imports.
33. the total value to Australian exports relative to the total value of Australian imports.
34. Australia’s inflation rate relative to the weighted average of inflation rates of our major trading partners.
35. the value of Australian dollar relative to the value of a basket of currencies of our major trading partners.
36. The movement shown in the model below may have been due to
37. an increase in the domestic interest rate.
38. a downturn in the Australian economy.
39. an increase in Australia’s terms of trade.
40. a decrease in Australia’s national savings.
41. Which of the following is regarded as portfolio investment into Australia?
42. Purchase of 25 per cent of shares in a Japanese firm by an Australian firm.
43. Purchase of 8 per cent shares in a Japanese firm by an Australian firm.
44. Purchase of 8 per cent shares in an Australian firm by a Japanese firm.
45. Purchase of 25 per cent shares in an Australian firm by a Japanese firm.
46. The table below shows hypothetical data for the Australian economy.

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| --- | --- |
| Australian loans outstanding to foreigners ($billions) | 600 |
| Foreigners loans outstanding to Australians ($billions) | 150 |
| Australian assets owned by foreigners ($billions) | 100 |
| Foreign assets owned by Australians ($billions) | 250 |

What is the value of Australia’s Net Foreign Liabilities?

1. $300 billion.
2. $400 billion.
3. $600 billion.
4. $1100 billion.
5. Capital inflows are
6. purchases of domestic goods or services by foreigners
7. purchases of domestic assets by foreigners
8. purchases of foreign goods or services by domestic households or firms
9. purchases of foreign assets by domestic households or firms
10. An increase in Australia’s net foreign liabilities will necessarily result in an increase in
11. Australia’s foreign debt.
12. income debits in the current account.
13. the trade deficit.
14. Australia’s terms of trade.

***End of Section One***

**Section Two: Data interpretation/Short response (36 Marks)**

This section contains **three (3)** questions. Answer **all** questions. Write your answers in the spaces provided.

Supplementary pages for the use of planning/continuing your answer to a question have been 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.

Suggested working time: **70** minutes.

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**Question 25 (12 marks)**

**Trump announces tariffs on steel and aluminium**

“The import restrictions announced by the U.S. President are likely to cause damage not only outside the U.S., but also to the U.S. economy itself, including to its manufacturing and construction sectors, which are major users of aluminium and steel. We are concerned that the measures proposed by the U.S. will, de facto, expand the circumstances where countries use the national-defence rationale to justify broad-based import restrictions. We encourage the U.S and its trading partners to work constructively together to reduce trade barriers and to resolve trade disagreements without resort to such emergency measures.”

(IMF March 2, 2018)

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| (a) | Outline the purpose of a tariff. ( 2 marks ) |
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| (b) | Identify and explain the argument used for protectionist measures discussed in the article. ( 2 marks ) |
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| (c) | Use a model to explain the effects of the tariff on the US steel industry. Show the impact on domestic production, consumption and imports. ( 4 marks ) |
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| (d) | Explain how the proposed tariffs will harm the US economy. ( 4 marks ) |
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**Question 26 (12 marks)**

**Australia’s trade in goods and services ($ million)**





Export Price Index

Import Price Index

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| (a) | (i) In which year (s) did Australia record a trade surplus? | ( 1 mark ) |
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|  | (ii) In which year (s) was there a favourable movement in the terms of trade? | ( 1 mark ) |
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| (b) | Describe and account for the change in the exported services for the years shown in the table. | | ( 2 marks ) |
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| (c) | Explain the relationship between the terms of trade and the trade balance for the years shown in the table | ( 4 marks ) | |
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| (d) | Explain how each of the following would affect Australia’s trade balance:  (i) An increase in business investment. ( 2 marks ) |
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|  | (ii) A sharp depreciation in Australia’s trade weighted index (TWI). ( 2 marks ) | |
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**Question 27 (12 marks)**



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| (a) | (i) What was the value of foreign investment into Australia in 2016-17? | ( 1 mark ) |
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|  | (ii) In which year (s) would the stock of Foreign Direct Investment (FDI) in Australia have fallen? | | | ( 1 mark ) |
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|  | (iii) Which industry accounts for the most Foreign Direct Investment (FDI) into Australia? | | | ( 1 mark ) |
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| (b) | | Explain the main difference between direct and portfolio investment. | | ( 2 marks ) |
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| (c) | | Describe the changes in direct and portfolio investment between 2014-15 and 2016-17 and provide a reason for these changes. | | ( 4 marks ) |
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| (d) | | Outline **two** benefits and **one** cost of Foreign Direct Investment (FDI) to Australia. | | ( 3 marks ) |
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***End of Section Two***

**Section Three: Extended response (40 Marks)**

This section contains **four (4)** questions. Answer **two (2)** question. Write your answers in the Extended Response Answer booklet and number your answers clearly. Start each question in a separate booklet.

Supplementary pages for the use of planning/continuing your answer to a question have been 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.

Suggested working time: 80 minutes.

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

**“**For Australia to maximise the benefits of globalisation, we need to do more than just reduce our trade barriers. We need to equip our economy so that we are internationally competitive. Over the past decade Australia has fallen from 10th to 21st on the Global Competiveness Index, with tax and workplace regulation our biggest weaknesses.”

*Australian Chamber of Commerce and Industry – September 2016*

(a) Discuss the main determinants of international competitiveness. ( 8 marks )

(b) Outline the different ways in which economies are linked and explain the economic benefits of globalisation. ( 12 marks )

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

1. Explain the effects of an exchange rate appreciation on consumers, businesses and foreign investment into Australia. ( 8 marks )
2. Using the demand and supply model, demonstrate the impact of the following factors on Australia’s exchange rate:
3. An increase in Australia’s interest rate differential
4. A decrease in commodity prices
5. An improvement in Australia’s economic performance ( 12 marks )

**Question 30 (20 marks)**

1. Explain what the terms of trade index measures and the factors that may have caused Australia’s terms of trade index to increase in 2016. ( 8 marks )
2. Discuss the likely impact of a rising terms of trade on Australia’s exchange rate, trade balance and the macro-economy. ( 12 marks )

**Question 31 (20 marks)**

1. Explain the concept of net foreign liabilities and distinguish between Australia’s two main foreign liabilities. ( 8 marks )
2. Explain the relationship between foreign liabilities and the Balance of Payments

( 12 marks )

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***End of Questions***

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