

**Examination, 2020**

**Question/Answer Booklet**

ECONOMICS Unit 3 Semester 1, 2020

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**Student Number: In figures**

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**Time allowed for this paper**

Reading time before commencing work: ten minutes

Working time for paper: two and a half 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**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Section | Number of questions available | Number of questions to be answered | Suggested working time (minutes) | Marks available |
| Section One:  Multiple-choice | 20 | 20 | 25 | 20 |
| Section Two:  Data interpretation / Short response | 2 | 2 | 45 | 24 |
| Section Three:  Extended response | 3 | 2 | 80 | 40 |
|  |  |  | **Total:** | 84 |

**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 (20 Marks)**

This section has **20** 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: **25** minutes.

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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. 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

3. Which of the following are roles of the World Trade Organisation?

i. promoting free trade

ii. resolving trade disputes

iii. providing a forum for negotiating trade agreements

iv. promoting international financial stability

(a) i and iv

(b) i and iii

(c) i, iii and iv

(d) i, ii and iii

4. Australia’s top two import sources are

(a) China and Japan.

(b) China and Republic of Korea.

(c) China and Thailand.

(d) China and United States.

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

(a) the growth of free trade agreements.

(b) the China-US trade war.

(c) the decrease in world interest rates.

(d) the effect of climate change.

6. 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.

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| 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.

![A close up of a logo

Description automatically generated]()7. 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.

8. 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.

9. An increase in foreign debt would be beneficial for an economy if

(a) the borrowing increases the economy’s productive capacity.

(b) the borrowing increases the level of domestic consumption.

(c) the borrowing is used to pay off previous debt.

(d) the borrowing is used to fund increased social security payments.

10. 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.

11. 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?

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

12. 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.

13. 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.

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

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| *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.

15. 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.

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

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

17. 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.

18. 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.

19. 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.

20. 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: Data interpretation/Short response (24 Marks)**

This section contains **two (2)** 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: **45** minutes.

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**Question 21 (12 marks)**

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*Source: Global Economic Prospects, June 2019.*

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| (a) | Identify the percentage change in Goods Trade in January 2018. | ( 1 mark ) |
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| (b) | Identify the linkage between countries evident in the data. | ( 1 mark ) |
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| (c) | (i) Identify the trend in globalisation from 2018 onwards. | ( 1 mark ) |
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|  | (ii) Describe three economic effects of the trend identified in part (i). | ( 3 marks ) |
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| (e) | During 2018, US and China have entered into a trade war which has impacted the level of world trade. Demonstrate and explain how a tariff harms the importing country and discuss the impact on the exporting country. | ( 6 marks ) |
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**Question 22 (12 marks)**

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



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| (a) | (i) State the formula for calculating the terms of trade index. | ( 1 mark ) |
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| (a) | (ii) Identify the quarter where the terms of trade was at its lowest value. | ( 1 mark ) |
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| (b) | Identify the trend in the terms of trade between September 2017 to September 2019 and explain a possible reason for this change. | ( 2 marks ) |
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| (c) | Explain the impact of the trend described in part (b) on Australia’s Trade Weighted Index. | ( 2 marks ) |
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| (d) | Explain how the current global crisis could 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***

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

This section contains **three (3)** questions. Answer **two (2)** questions. 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 23** **(20 marks)**

1. Describe the patterns in the direction and composition of Australia’s trade and explain the significance of trade to Australia. (10 marks)
2. Explain the gains from trade, with reference to appropriate diagrams. (10 marks)

**Question 24** **(20 marks)**

1. Describe the Trade Weighted Index (TWI) and explain and demonstrate four factors affecting the movement of the TWI. (10 marks)
2. Explain the impact of a movement in the exchange rate on various sectors in the economy. (10 marks)

**Question 25 (20 marks)**

(a) Discuss the concept of foreign investment and the benefits and costs 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)

***End of Questions***

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