ATAR course sample examination

Question/Answer booklet

ECONOMICS

Place one of your candidate identification labels in this box.

Ensure the label is straight and within the lines of this box.

WA student number: In figures

In words

Number of additional
answer booklets used
(if applicable):

Time allowed for this paper
Reading time before commencing work: ten minutes
Working time: 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 (including coloured), sharpener, correction fluid/tape, eraser, ruler, highlighters

Special items: up to three calculators, which do not have the capacity to create or store programmes or text, are permitted in this ATAR course 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.

ECO

Structure of this paper

Section	Number of questions available	Number of questions to be answered	Suggested working time (minutes)	Marks available	Percentage of examination
Section One Multiple-choice	20	20	30	20	20
Section Two Data interpretation	4	4	90	50	50
Section Three Extended answer Part A: Unit 3	2	1	30	15	15
Part B: Unit 4	2	1	30	15	15
				Total	100

Instructions to candidates

1. The rules for the conduct of the Western Australian external examinations are detailed in the *Year 12 Information Handbook: Part II Examinations*. Sitting this examination implies that you agree to abide by these rules.

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

   Section Three: Consists of two parts, each with two questions. You must answer one question from each part. Tick the box next to each question you are answering. Write your answers in this Question/Answer booklet preferably using a blue/black pen. Do not use erasable or gel pens.

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.

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Section One: Multiple-choice 20% (20 Marks)

This section has **20** 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. Do not use erasable or gel pens. 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. A multinational company (MNC) has factories in multiple countries. Which one of the following is a reason why a MNC would take the production of their product overseas?

   (a) enable increased trade between countries
   (b) to promote migration of workers
   (c) to reduce business investment
   (d) because of the high costs of transporting finished products

2. Australia's second largest export destination is

   (a) China.
   (b) Japan.
   (c) Singapore.
   (d) Indonesia.

3. The table below shows the number of labour hours required to produce one unit of cars and motorcycles in two countries.

	Cars	Motorcycles
Country A	18	6
Country B	24	30

   Which of the following statements is true?

   (a) Country B has an absolute advantage in both cars and motorcycles.
   (b) Country B has a comparative advantage in the production of motorcycles.
   (c) Country B has an absolute advantage in the production of cars.
   (d) Country A has a comparative advantage in the production of motorcycles.

4. The diagram below shows the Australian market for a good traded by Australia where Pw is the world price and Pe is the equilibrium domestic price.
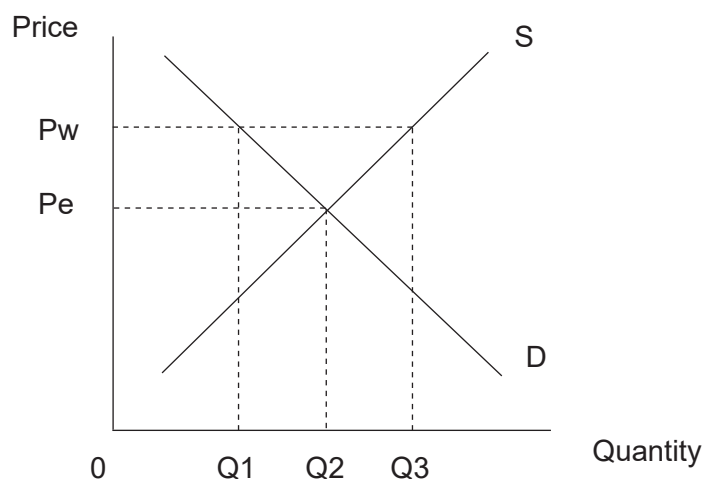
According to the diagram, Australia will

(a) produce at Q3 and consume at Q1.
(b) produce at Q1 and export between Q2–Q3.
(c) consume at Q3 and export between Q1–Q3.
(d) consume at Q3 and produce at Q2.

5. Which one of the following statements is **not** a benefit of trade liberalisation?

(a) increasing real incomes
(b) an increase in the quality and variety of goods and services for consumers
(c) lower prices for inputs benefiting domestic producers
(d) increased diversification of locally produced goods

6. The purchase of shares by a foreign resident in an Australian company would be recorded in Australia's balance of payments as a credit in the

(a) capital account.
(b) net income account.
(c) financial account.
(d) current account.

7. In which of the following years did Australia **first** record a current account surplus?

(a) 2018
(b) 2019
(c) 2020
(d) 2021

See next page

Question 8 refers to the table below.

|	Year 1	Year 2	Year 3
Export price index	100	90	80
Import price index	100	80	75

8.　Which one of the following is true for Year 3? The

　　(a)　average price of exports was lower than the average price of imports.
　　(b)　terms of trade has fallen from Year 2 to Year 3.
　　(c)　terms of trade has not changed compared to Year 2.
　　(d)　total volume of exports is greater than the total volume of imports.

9.　The effect of a falling terms of trade movement would be

　　(a)　a likely depreciation of the currency of the economy.
　　(b)　an increase in value of the economy's trade balance.
　　(c)　an increase in the national income of the economy.
　　(d)　a decrease in the level of unemployment in the economy.

10.　Given the following exchange rate: $1 AUD = $0.70 USD. What will be the cost in AUD of importing an American car valued at $60 000 USD? (Round your answer to the nearest $100.)

　　(a)　$85 900
　　(b)　$85 700
　　(c)　$42 200
　　(d)　$42 000

11.　Which one of the following are most likely to be experienced by an economy during a boom phase of the business cycle? Increasing

　　(a)　inflation and increasing wages growth.
　　(b)　inflation and decreasing consumer spending.
　　(c)　unemployment and increasing inflation.
　　(d)　economic growth and decreasing consumer spending.

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Question 12 refers to the diagram below.
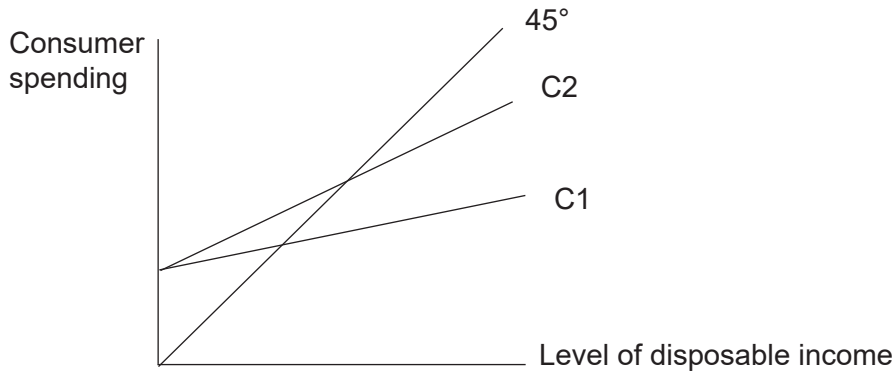
12. What does the change in the slope of the consumption function from C1 to C2 represent?

   (a) An increase in the size of the multiplier.
   (b) A decrease in the size of the multiplier.
   (c) An increase in the marginal propensity to save.
   (d) A decrease in the size of the marginal propensity to consume.

Question 13 refers to the diagram below.
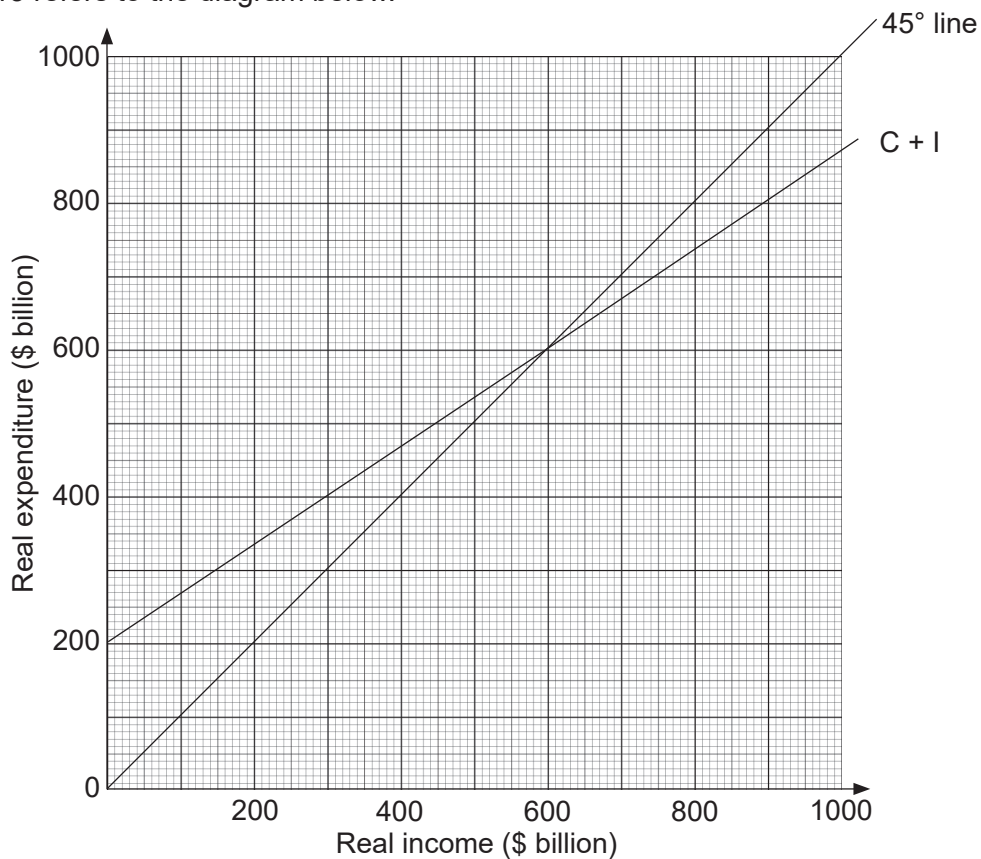
13. If autonomous consumption was to increase by $100 billion, equilibrium real output would change by approximately

   (a) $100 billion.
   (b) $300 billion.
   (c) $600 billion.
   (d) $900 billion.

See next page

14. The aggregate demand curve has a negative slope due to the wealth effect, international competitiveness effect and the

    (a) income effect.
    (b) output effect.
    (c) inflation rate effect.
    (d) interest rate effect.

15. A fall in real wages will

    (a) shift the aggregate demand curve to the right.
    (b) shift the short-run aggregate supply curve to the left.
    (c) decrease economic growth.
    (d) increase the price level in the short-term.

16. A rise in the terms of trade will shift the

    (a) short-run aggregate supply curve to the left.
    (b) short-run aggregate supply curve to the right.
    (c) aggregate demand curve to the left.
    (d) aggregate demand curve to the right.

17. An improvement in technology will shift the

    (a) aggregate demand curve to the right, but short-run aggregate supply curve to the left.
    (b) short-run aggregate supply curve to the left, but long-run aggregate supply curve to the right.
    (c) short-run aggregate supply curve to the right and aggregate demand curve to the left.
    (d) short-run aggregate demand curve and long-run aggregate supply curve to the right.

18. Which one of the following would be considered an example of discretionary fiscal policy?

    (a) A decline in unemployment benefit payments during an upswing.
    (b) An increase in welfare spending during periods of high unemployment.
    (c) An increase in infrastructure spending during a downswing.
    (d) A decrease in company tax revenue due to lower profit levels.

19. One strength of fiscal policy compared to monetary policy is that it

    (a) has a much shorter effect lag.
    (b) is less likely able to target specific sectors of the economy.
    (c) is set independently by the Reserve Bank of Australia.
    (d) is more effective in an economy operating close to full capacity.

See next page

Question 20 refers to the diagram below.
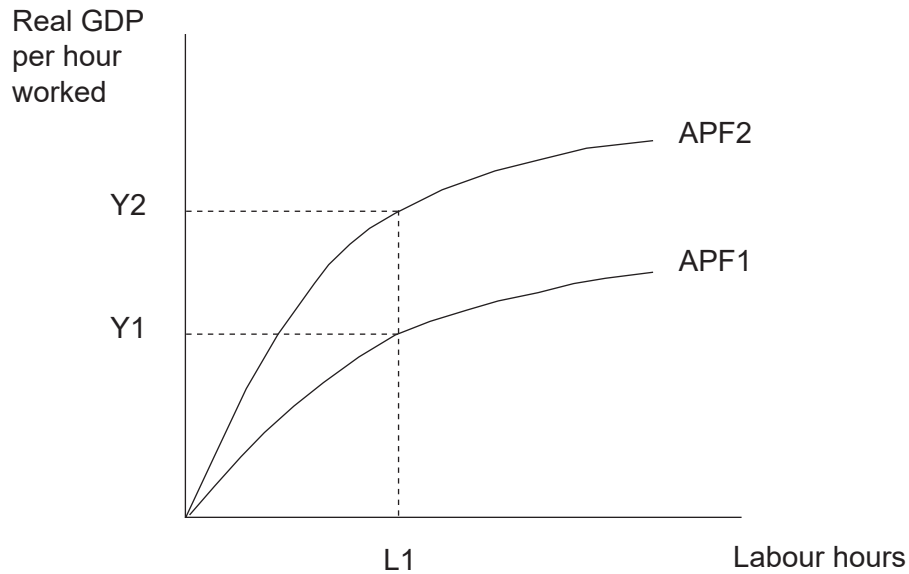
20. The movement of aggregate production function (APF) from APF1 to APF2 is **most** likely to reflect

   (a) an increase in the number of workers employed.
   (b) diminishing marginal returns to labour.
   (c) technical changes, innovations or labour reforms.
   (d) an increasing rate of economic growth.

End of Section One

See next page

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Section Two: Data interpretation 50% (50 Marks)

This section contains **four** questions. Answer **all** questions. Write your answers in the spaces provided.

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.

Suggested working time: 90 minutes.

Question 21 **(13 marks)**

Read the article below and answer the questions that follow.

Australia–India Economic Cooperation and Trade Agreement has benefits for Australian goods exporters.

The Australia–India Economic Cooperation and Trade Agreement (AI–ECTA) places Australian goods exporters in prime position to capitalise on India's enormous and growing market. The AI–ECTA offers access to the large Indian market of nearly one and a half billion consumers.

A key negotiating objective of AI–ECTA has been achieved with the agreement offering improved access for agricultural and industrial products in a market that had largely been closed off due to high tariffs on Australian exports.

AI–ECTA will support goods exporters by eliminating and reducing tariffs and removing red tape that slows trade down.

Australia exported $19.3 billion worth of goods to India in 2021, representing 4.2 per cent of Australia's total exports.

Key outcomes
- Immediate elimination of tariffs on 85 per cent of exports worth almost $12.6 billion of Australia's dutiable exports to India over the period 2018–20. In addition, elimination or reduction of tariffs over 3, 5, 7 or 10 years for an additional 5 per cent.
- Immediate elimination of tariffs on goods such as sheep meat, wool, fresh rock lobsters, certain metallic ores such as manganese, copper and zirconium, coal, alumina, titanium dioxide, certain critical minerals and certain non-ferrous metals.

(a)   (i)   Define the term 'tariff'. (1 mark)

_____

_____

(ii)   Identify the type of trade agreement mentioned in the article. (1 mark)

_____

_____

(iii)   Identify the total value of Australian exports during 2021. (1 mark)

_____

_____

(b)   Describe **two** reasons why trade is important to the Australian economy. (4 marks)

One: _____

_____

_____

_____

Two: _____

_____

_____

_____

Question 21 (continued)

(c)   Using the demand and supply model, describe **two** effects of the removal of the tariff on exports to India for Australian consumers and producers.   (6 marks)

One: _____

_____

_____

_____

_____

_____

Two: _____

_____

Model

Question 22 **(12 marks)**

The table below shows some economic data for a hypothetical economy.

Economic data for a hypothetical economy		
	December 2021 ($m)	**December 2022 ($m)**
Gross Domestic Product	2 633 339	2 974 137
Balance on goods and services	-10 282	20 062
Current account balance	-20 265	7 945
Net foreign equity	-105 550	-178 354
Net foreign debt	991 504	1 164 342

(a) (i) Calculate net foreign liabilities for December 2021. (1 mark)

_____

_____

(ii) Calculate net income for December 2021. (1 mark)

_____

_____

(iii) Calculate the net foreign liabilities as a percentage of Gross Domestic Product (GDP) for 2022, and identify whether this has increased or decreased over the period shown in the table. (2 marks)

_____

_____

_____

_____

(b) Identify **two** possible reasons for the change in the current account balance between December 2021 and December 2022. (2 marks)

One: _____

_____

Two: _____

_____

See next page

Question 22 (continued)

(c)   Explain the likely effect of the trade balance in December 2021 on the following:

(6 marks)

Economic growth: _____

_____

_____

_____

_____

_____

Federal Government budget outcome: _____

_____

_____

_____

_____

_____

Question 23 **(13 marks)**

Read the article below and answer the questions that follow.

Statement by Philip Lowe, Governor of the Reserve Bank of Australia: Monetary Policy Decision
1 November 2022

At its meeting today, the Board decided to increase the cash rate target by 25 basis points to 2.85 per cent. It also increased the interest rate on Exchange Settlement balances by 25 basis points to 2.75 per cent.

As is the case in most countries, inflation in Australia is too high. Over the year to September, the CPI inflation rate was 7.3 per cent, the highest it has been in more than three decades. Global factors explain much of this high inflation, but strong domestic demand relative to the ability of the economy to meet that demand is also playing a role. Returning inflation to the 2 to 3 per cent target requires a more sustainable balance between demand and supply.

A further increase in inflation is expected over the months ahead, with inflation now forecast to peak at around 8 per cent later this year. Inflation is then expected to decline next year due to the ongoing resolution of global supply-side problems, recent declines in some commodity prices and slower growth in demand. Medium-term inflation expectations remain well anchored, and it is important that this remains the case. The Bank's central forecast is for CPI inflation to be around 4.75 per cent over 2023 and a little above 3 per cent over 2024.

The Australian economy is continuing to grow solidly and national income is being boosted by a record level of the terms of trade. Economic growth is expected to moderate over the year ahead as the global economy slows, the bounce-back in spending on services runs its course, and growth in household consumption slows due to tighter financial conditions. The Bank's central forecast for GDP growth has been revised down a little, with growth of around 3 per cent expected this year and 1.5 per cent in 2023 and 2024.

The labour market remains very tight, with many firms having difficulty hiring workers. The unemployment rate was steady at 3.5 per cent in September, around the lowest rate in almost 50 years. Job vacancies and job ads are both at very high levels, although employment growth has slowed over recent months as spare capacity in the labour market has been absorbed. The central forecast is for the unemployment rate to remain around its current level over the months ahead, but to increase gradually to a little above 4 per cent in 2024 as economic growth slows.

(a) (i) Identify the cash rate target in October 2022. (1 mark)

_____

_____

(ii) State Australia's inflation target. (1 mark)

_____

_____

See next page

Question 23 (continued)

(b)   Identify **one** global factor and **one** domestic factor which have led to the decision to increase the cash rate.   (2 marks)

Global factor: _____

_____

Domestic factor: _____

_____

(c)   Distinguish between conventional and unconventional monetary policy using a relevant example.   (3 marks)

_____

_____

_____

_____

_____

_____

(d)   Using the Aggregate Expenditure model, describe **two** effects of the November monetary policy stance on the level of economic activity in Australia.   (6 marks)

One: _____

_____

_____

_____

_____

_____

Two: _____

_____

_____

Model

Question 24 **(12 marks)**

This question refers to the graph below, which shows the Australian Government's annual budget balance as at November 2022.

Australian Government Annual Budget Balance
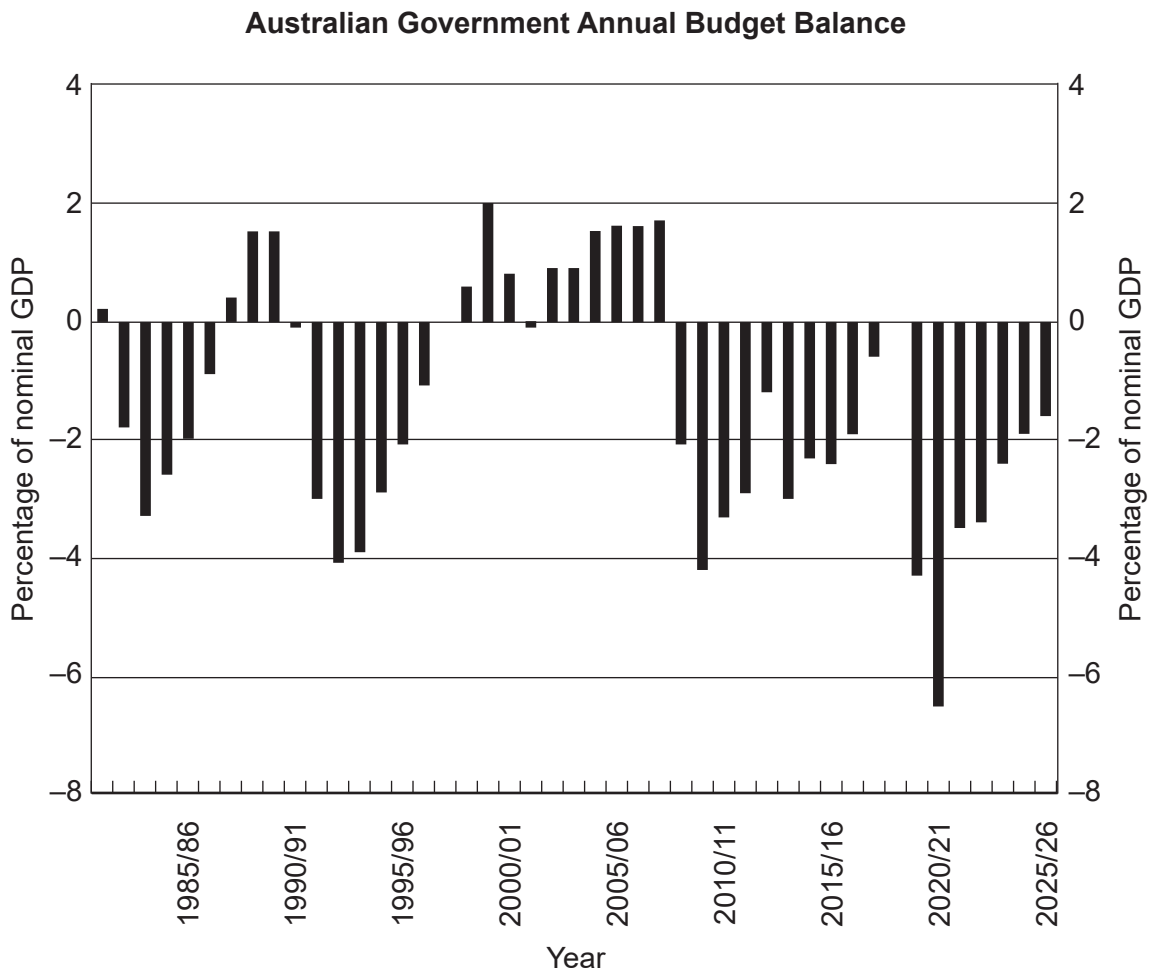
(a) (i) Define the concept of a balanced budget. (1 mark)

_____

_____

(ii) State the financial year that the Australian Government last recorded a balanced budget. (1 mark)

_____

_____

(iii) State the size of the Australian Government's estimated budget balance in 2022/23. (1 mark)

_____

_____

See next page

(b) Outline **three** methods the Australian Government could use to finance a budget deficit.

(3 marks)

One: _____

_____

Two: _____

_____

Three: _____

_____

(c) Using the Aggregate Demand/Aggregate Supply model, demonstrate and describe **two** intended effects of the estimated Australian Government budget deficits beyond 2020/21.

(6 marks)

One: _____

_____

_____

_____

_____

_____

Two: _____

_____

_____ | Model

_____

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End of Section Two

See next page

Section Three: Extended answer   **30% (30 Marks)**

Section Three consists of **two** parts, Part A: Unit 3 and Part B: Unit 4.

Part A: Unit 3 consists of Questions 25 and 26. Part B: Unit 4 consists of Questions 27 and 28. Answer **one** question from Part A: Unit 3 and **one** question from Part B: Unit 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.

Suggested working time: 60 minutes.

Part A: Unit 3   **15% (15 Marks)**

Choose **either** Question 25 **or** Question 26.

Indicate the question you will answer by ticking the box next to the question. Write your answer on pages 21–25. When you have completed Part A: Unit 3, turn to page 26.

Suggested working time: 30 minutes.

☐   **Question 25**   **(15 marks)**

Explain the reasons why governments use protectionist policies and the impact that these policies have on the economy.

In your response include:
- a definition of protection
- **two** arguments for trade protection
- the impact of a subsidy on market efficiency and the macroeconomy
- an appropriate economic model to demonstrate the impact of a subsidy on market efficiency and the macroeconomy.

or

☐   **Question 26**   **(15 marks)**

From February 2021 to September 2022, the Australian dollar decreased from $0.79 US to $0.67 US.

Explain **two** factors that have caused this movement in the Australian dollar and the effects of this movement on sectors of the economy.

In your response include:
- the definition of exchange rate
- **one** demand factor and **one** supply factor that have caused this currency movement
- the effects of this currency movement on businesses and the macroeconomy
- **both** a demand and a supply model to demonstrate the movement in the Australian dollar.

See next page

Question number: _____

See next page

Part B: Unit 4 15% (15 Marks)

Choose **either** Question 27 **or** Question 28.

Indicate the question you will answer by ticking the box next to the question. Write your answer on the pages provided.

Suggested working time: 30 minutes.

☐ **Question 27** **(15 marks)**

Using the Aggregate Expenditure model, explain the concept of macroeconomic equilibrium and how a change in investment spending can change the equilibrium level of income and output in the economy.

or

☐ **Question 28** **(15 marks)**

Describe the role of Government in facilitating improvements in labour productivity which have a series of flow-on effects for consumers, businesses and the macroeconomy.

In your response include:
- a definition of labour productivity and a relevant example
- **three** Government policies designed to influence labour productivity in the Australian economy
- **two** effects of an increase in labour productivity on an economy
- an appropriate economic model.

End of questions

Question number: _____

Supplementary page

Question number: _____

Supplementary page

Question number: _____

Supplementary page

Question number: _____

Supplementary page

Supplementary page

Question number: _____

ACKNOWLEDGEMENTS