



NSW Education Standards Authority

**2019** HIGHER SCHOOL CERTIFICATE EXAMINATION

# Economics

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**General  
Instructions**

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black pen
- Calculators approved by NESA may be used

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**Total marks:  
100**

**Section I – 20 marks** (pages 2–8)

- Attempt Questions 1–20
- Allow about 35 minutes for this section

**Section II – 40 marks** (pages 9–20)

- Attempt Questions 21–24
- Allow about 1 hour and 15 minutes for this section

**Section III – 20 marks** (pages 21–23)

- Attempt either Question 25 or Question 26
- Allow about 35 minutes for this section

**Section IV – 20 marks** (page 24)

- Attempt either Question 27 or Question 28
- Allow about 35 minutes for this section

## Section I

**20 marks**

**Attempt Questions 1–20**

**Allow about 35 minutes for this section**

Use the multiple-choice answer sheet for Questions 1–20.

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- 1** 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
  
- 2** The G20 is best described as

  - A. a trading bloc.
  - B. a regional free-trade agreement involving Australia.
  - C. a monetary union that has adopted a common currency.
  - D. a government forum for coordination of economic policies.
  
- 3** Which of the following describes a benefit of an appreciation of the Australian dollar to the Australian economy?

  - A. Increased trade deficit
  - B. Decreased import volume
  - C. Decreased foreign debt repayments
  - D. Increased international competitiveness
  
- 4** Which policy in Australia is least likely to be influenced by political constraints?

  - A. Fiscal
  - B. Monetary
  - C. Labour market
  - D. Microeconomic

- 5 Which of the following is most likely to be the cause of a rise in the participation rate?
- A. More people are retiring earlier
  - B. More parents are returning to the workforce
  - C. More unemployed people are joining the defence force
  - D. More students are choosing to continue with further education
- 6 If there is an increase in interest rates, which of the following is most likely to happen?
- A. Economic growth will decrease and consumer spending will decrease.
  - B. The money supply will increase and the rate of inflation will decrease.
  - C. Business investment will increase and consumer spending will decrease.
  - D. Unemployment will decrease and the rate of economic growth will decrease.
- 7 Which of the following is NOT a reason for low wage growth in an economy?
- A. Low inflation
  - B. Low unemployment
  - C. Low economic growth
  - D. Low productivity growth
- 8 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

- 9 The table shows hypothetical data for an economy.

<i>S</i>	<i>G</i>	<i>M</i>	<i>T</i>	<i>I</i>	<i>X</i>
200	400	350	300	350	250

Which row of the table is correct for this economy?

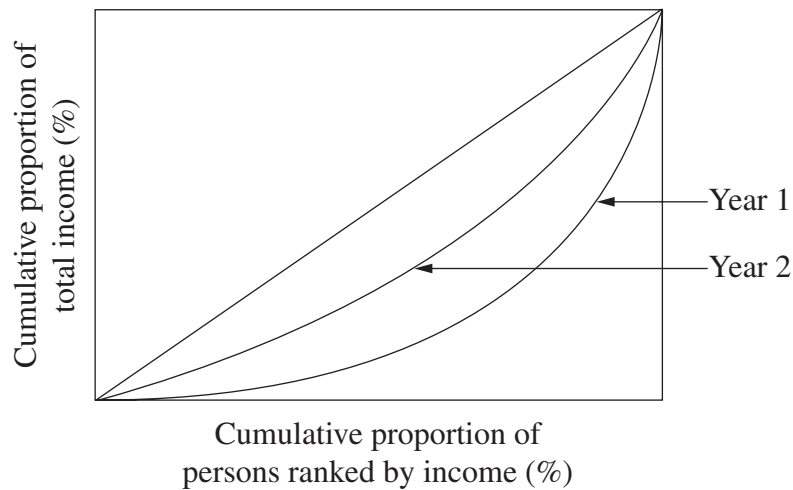
	<i>Trade balance</i>	<i>Economic growth</i>
A.	Surplus	Positive
B.	Surplus	Negative
C.	Deficit	Positive
D.	Deficit	Negative

- 10 The central bank of a hypothetical economy reduces the cash rate.

All other things being equal, what is the likely effect of this action?

- A. A decrease in consumer expenditure
- B. An increase in the rate of unemployment
- C. An appreciation of the economy's exchange rate
- D. An increase in the price of assets in the economy

- 11 The following diagram shows the level of income in an economy over two years.



What changes in the top marginal rate of tax and the goods and services tax (GST) would have caused this shift in the Lorenz curve from Year 1 to Year 2?

	<i>Top marginal rate of tax</i>	<i>Goods and services tax (GST)</i>
A.	Increase	Increase
B.	Increase	Decrease
C.	Decrease	Increase
D.	Decrease	Decrease

- 12 The table shows information for a hypothetical economy.

CAD	\$50 billion
Net foreign debt	\$900 billion
Net foreign equity	\$100 billion
GDP	\$1800 billion

What is the Net Foreign Liabilities for this economy as a percentage of GDP?

- A. 2.8%
- B. 44.4%
- C. 50.0%
- D. 55.6%

13 Inflation in a hypothetical economy has decreased from 3% in Year 1 to 2% in Year 2.

Based on this information, which statement is true?

- A. Prices are increasing on average.
- B. Prices are decreasing on average.
- C. Unemployment is at the non-accelerating inflation rate of unemployment (NAIRU).
- D. Unemployment is below the non-accelerating inflation rate of unemployment (NAIRU).

14 The following information is for a hypothetical economy.

Working age population	10 000 000
Full-time employed	4 000 000
Participation rate	50%
Unemployment rate	10%

How many people are employed part time in this economy?

- A. 500 000
- B. 1 000 000
- C. 4 000 000
- D. 4 500 000

15 The table shows data for national income ( $Y$ ) and savings ( $S$ ) in \$ billion for a hypothetical economy.

<i>Year</i>	<i>Y</i>	<i>S</i>
1	250	50
2	450	100

All other things being equal, what is the new equilibrium level of income ( $Y$ ) in Year 3 if investment increases by \$35 billion?

- A. \$497 billion
- B. \$590 billion
- C. \$600 billion
- D. \$650 billion

- 16 Which of the following is an example of a fiscal policy that is both contractionary and discretionary?
- A. Decreased tax-free threshold
  - B. Increased infrastructure spending in rural regions
  - C. Increased spending due to unexpectedly higher unemployment
  - D. Decreased unemployment expenditure due to higher than forecasted economic growth
- 17 The Australian government provides financial aid to build a road in a neighbouring country. Residents in Australia receive pension payments from overseas.

How will these debit and credit transactions be recorded in Australia's balance of payments?

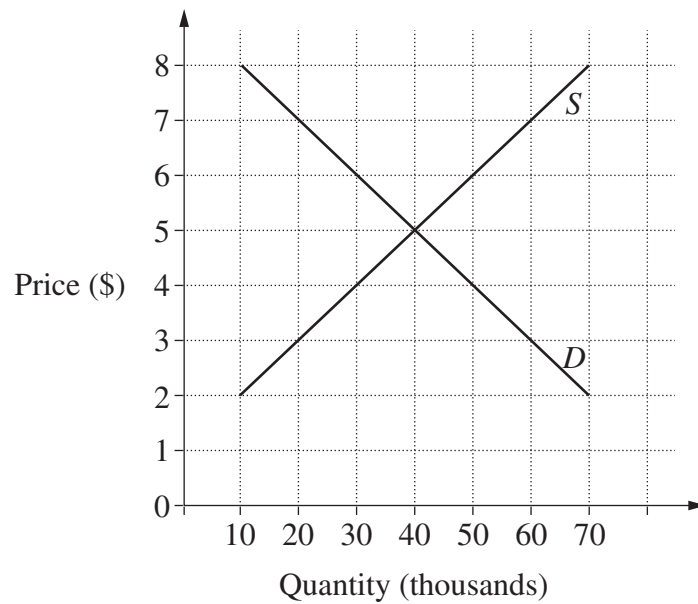
	<i>Debit</i>	<i>Credit</i>
A.	Secondary income	Primary income
B.	Capital account	Primary income
C.	Capital account	Secondary income
D.	Secondary income	Secondary income

- 18 Which combination of factors is most likely to result in an increase in Australia's Trade Weighted Index?

	<i>Terms of trade</i>	<i>Global interest rates relative to Australian interest rates</i>
A.	Increase	Increase
B.	Increase	Decrease
C.	Decrease	Increase
D.	Decrease	Decrease

Use the diagram to answer Questions 19 and 20.

The diagram shows the domestic demand and supply for a particular good within an economy. The world price is \$3.



- 19** The government is considering imposing a tariff that would have the same impact on domestic production as an import quota of 20 000 items.

What is the total tariff revenue that will be generated?

- A. \$0
- B. \$10 000
- C. \$20 000
- D. \$40 000

- 20** Assume the government decides to only use subsidies as a form of protection.

What is the subsidy per unit that would result in no imports?

- A. \$0
- B. \$2
- C. \$3
- D. \$4



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Centre Number

## Economics

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Student Number

### Section II Answer Booklet

40 marks

Attempt Questions 21–24

Allow about 1 hour and 15 minutes for this section

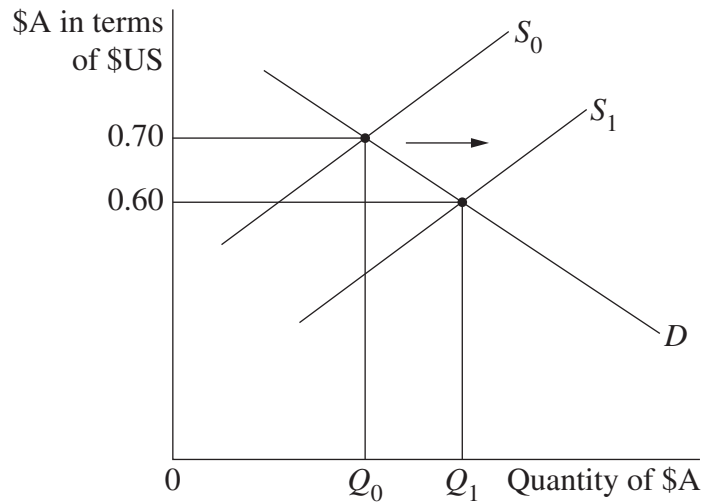
#### Instructions

- Write your Centre Number and Student Number at the top of this page.
- Answer the questions in the spaces provided. These spaces provide guidance for the expected length of response.
- Extra writing space is provided at the back of this booklet. If you use this space, clearly indicate which question you are answering.

Please turn over

**Question 21** (10 marks)

The diagram shows movements in the Australian dollar against the US dollar.



- (a) Outline a reason for the change in supply of the Australian dollar as shown in the diagram. 2

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- (b) Explain why Australia's exchange rate against the US dollar might NOT move in the same direction as Australia's Trade Weighted Index. 3

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**Question 21 continues on page 11**

Question 21 (continued)

(c) Explain the effects of a depreciating Australian dollar on accounts within the Balance of Payments.

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**End of Question 21**

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**Question 22** (10 marks)

- (a) Outline the relationship between economic growth and economic development. **2**

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- (b) Examine TWO reasons for the difference in living standards between nations. **4**

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**Question 22 continues on page 13**

Do NOT write in this area.

Question 22 (continued)

- (c) Assess the effectiveness of ONE strategy used to promote economic development in a country other than Australia.

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Selected country .....

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**End of Question 22**

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**Question 23** (10 marks)

- (a) Outline a cost that may be associated with achieving ecologically sustainable development. **2**

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- (b) Why may a public beach NOT be considered a public good? **2**

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- (c) How does market failure create negative externalities? **2**

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**Question 23 continues on page 15**

Do NOT write in this area.

Question 23 (continued)

- (d) Explain how market-based policies can be used to preserve the natural environment.

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**End of Question 23**

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**Question 24** (10 marks)

Use the table to answer parts (a) and (b).

The following information refers to a hypothetical economy.

<i>Year</i>	<i>Real GDP</i> (\$ billion)	<i>Consumer price index</i> (CPI)	<i>Unemployment rate</i> (% workforce)	<i>Current account balance</i> (as a % of real GDP)
1	1000	100	8.9	-4
2	1100	110	6.2	-4.5
3	1220	132	3.5	-5.5

(a) Calculate the inflation rate in Year 3.

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(b) Justify an appropriate monetary policy stance for this economy. Support your answer with reference to the economic indicators provided.

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Monetary policy stance .....
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**Question 24 continues on page 17**

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Question 24 (continued)

- (c) Explain the limitations of using monetary policy for economic management of the Australian economy.

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**End of Question 24**

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**Section II extra writing space**

**If you use this space, clearly indicate which question you are answering.**



**Do NOT write in this area.**



**Section II extra writing space**

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## Economics

### Section III

**20 marks**

**Attempt either Question 25 or Question 26**

**Allow about 35 minutes for this section**

Answer the question in the Sections III and IV Writing Booklet. Extra writing booklets are available.

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Your answer will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question
  - use the information provided
  - apply relevant economic terms, concepts, relationships and theory
  - present a sustained, logical and cohesive response
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**Question 25** (20 marks)

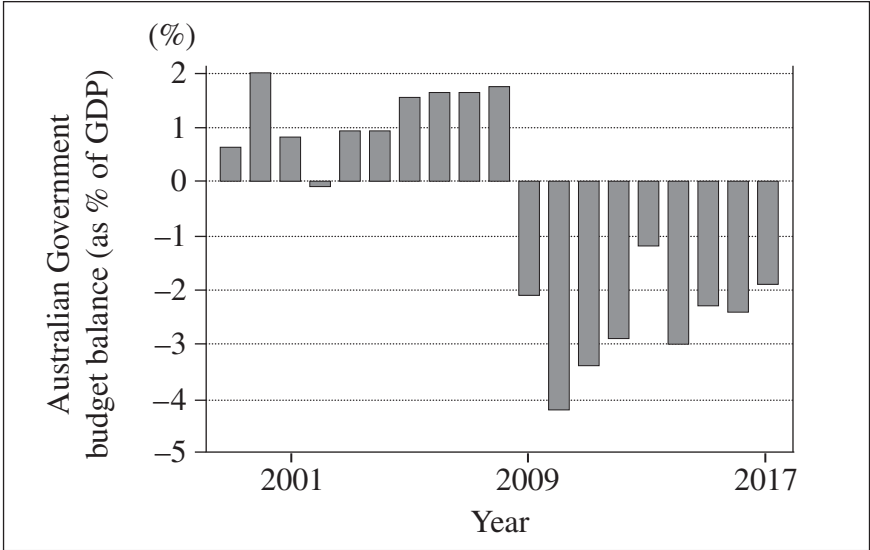
**Please turn over**

**Question 25** (20 marks)

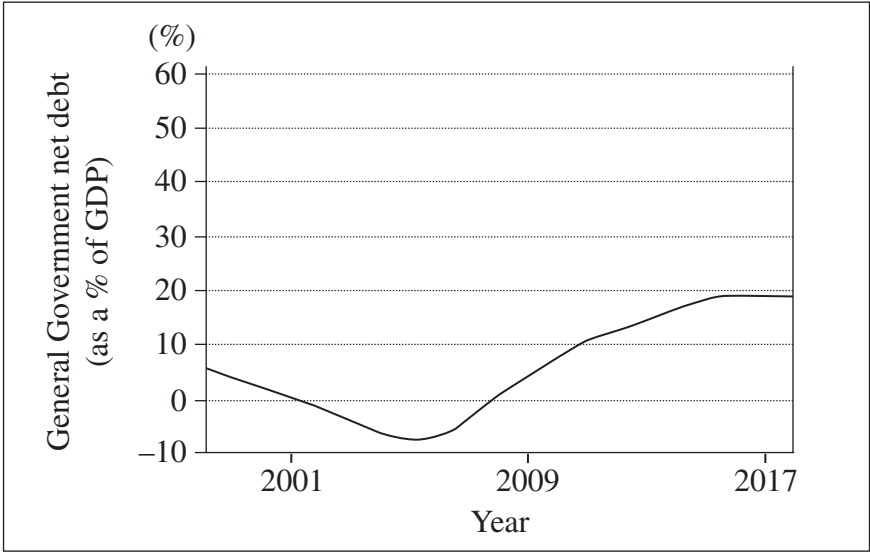
Discuss the effects of sustained budget deficits on economic growth and external stability in the Australian economy. In your response, refer to the economic information provided.

Since 2008, the policies implemented in response to the GFC have encouraged greater economic activity. This has resulted in public and private sector borrowing to fund investment, consumption and imports which have contributed to Australia's uninterrupted economic growth. Over the same period, Australia has experienced record high asset prices and household debt, net foreign debt in excess of \$1 trillion and the lowest rates of household savings since December 2007.

**Australian Government budget balance**



**General Government net debt**

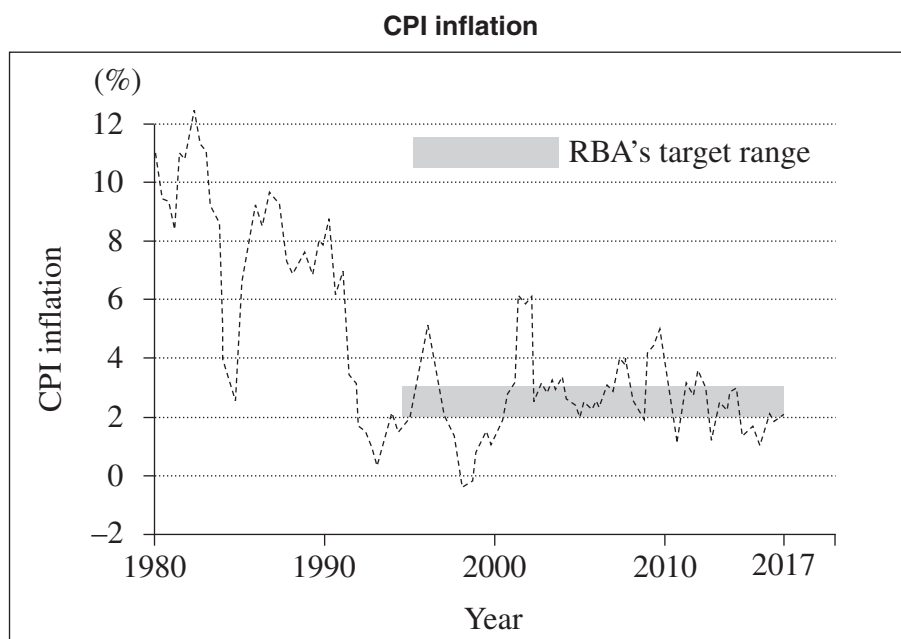
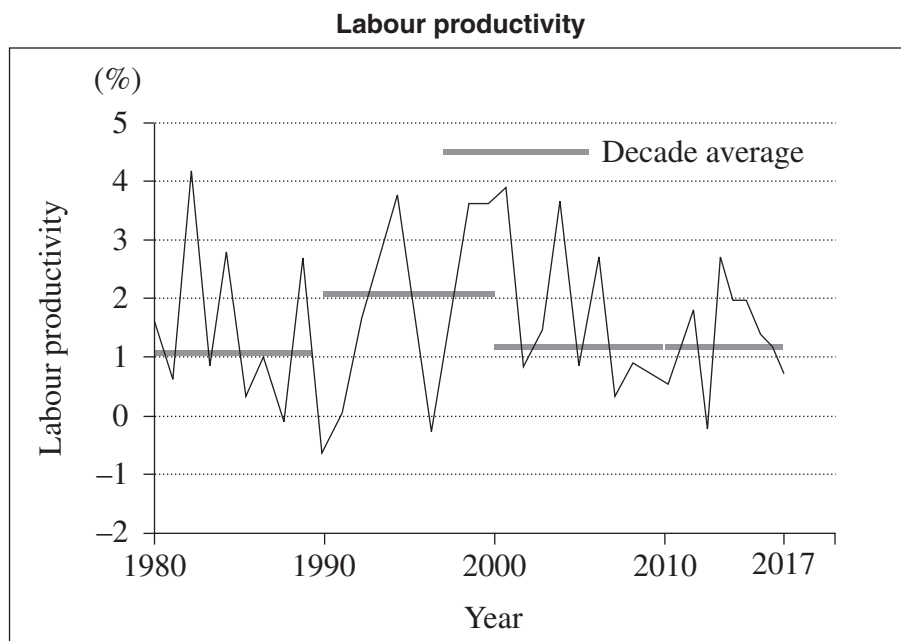


**OR**

**Question 26** (20 marks)

Discuss the effects of microeconomic policies on employment and inflation in the Australian economy. In your response, refer to the economic information provided.

The economic reforms undertaken in Australia have opened markets to increased competition and have transformed a relatively closed and regulated economy into one that is more efficient, flexible and open. This has reduced the size and number of industries supported by large ongoing subsidies and high tariffs, notably in manufacturing.



**Please turn over**

## **Section IV**

**20 marks**

**Attempt either Question 27 or Question 28**

**Allow about 35 minutes for this section**

Answer the question in the Sections III and IV Writing Booklet. Extra writing booklets are available.

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Your answer will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question
  - apply relevant economic information, terms, concepts, relationships and theory
  - present a sustained, logical and cohesive response
- 

### **Question 27 (20 marks)**

Explain the causes and effects of unequal distribution of income and wealth in Australia.

**OR**

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

Explain the effects of protectionist policies on both the Australian and the global economy.

**End of paper**