



**Knox  
Grammar  
School**

**2022**

Higher  
School  
Certificate  
**Trial Examination**

# Economics

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## **General Instructions**

- Reading time – 5 minutes
- Working time – 180 minutes
- Write using black pen
- NESA approved calculators may be used

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**Total marks:  
100**

### **Section 1 – 20 marks**

- Attempt questions 1-20
- Allow about 35 minutes for this section

### **Section II – 40 marks**

- Attempt questions 21-24
- Allow about 75 minutes for this section

### **Section III – 20 marks**

- Attempt question 25 OR 26
- Allow about 35 minutes for this section

### **Section IV – 20 marks**

- Attempt question 27 OR 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 monetary union?
- (A) European Union
  - (B) World Trade Organisation
  - (C) Asia Pacific Economic Cooperation
  - (D) United States, Mexico, Canada Agreement
- 2** An award agreement is:
- (A) not legal or binding.
  - (B) recognising productivity in a company.
  - (C) a bonus payment structure based on employee performance.
  - (D) a safety net of minimum wages and conditions in an industry.
- 3** A hypothetical country has just joined a multilateral trade agreement.
- What is an advantage for this country?
- (A) Currency stability
  - (B) A singular currency
  - (C) Increased defence protection
  - (D) Increased specialisation and economies of scale
- 4** Which of the following is an example of a regulation for the management of the environment?
- (A) An emission reduction goal
  - (B) A law that prohibits use of plastic bags
  - (C) An international treaty to which Australia is a signatory
  - (D) A tax imposed on firms that emit carbon in their production process

- 5 Mary has a high paying job in the USA and sends 60% of her income each month to her parents in Sydney.

How will this transaction be initially recorded in Australia's Balance of Payments?

- (A) Debit in the Net Primary Income account
- (B) Debit in the Net Secondary Income account
- (C) Credit in the Net Primary Income account
- (D) Credit in the Net Secondary Income account

- 6 The table below provides information about three hypothetical economies.

Country	HDI	GNI Per Capita	Gini Coefficient
A	0.61	\$10,000	0.46
B	0.46	\$960	0.61
C	0.82	\$30,000	0.32

Which statement about the classification of these economies is correct?

- (A) Country A is an advanced economy
- (B) Country B is a developing economy
- (C) Country C is an emerging economy
- (D) Country A and C are both advanced economies

- 7 Which of the following is an example of an automatic stabiliser?

- (A) An increase in marginal tax rates
- (B) An increase in infrastructure expenditure
- (C) A reduction in income tax payments during a recession
- (D) A reduction in the fortnightly unemployment benefit rate

- 8 In which of the following situations would the International Monetary Fund be most likely to provide a loan?
- (A) A business in a developing economy wants to construct a hospital that will raise sufficient revenue to repay the loan
  - (B) The government of a developing economy wants to construct a hospital that will raise sufficient revenue to repay the loan
  - (C) A business in an emerging economy is unable to repay its existing debts to international lenders
  - (D) A government in an emerging economy is unable to repay its existing debts to international lenders
- 9 A hypothetical economy presents the following balance of payments data.

<i>Balance of Payments components</i>	<i>\$ billion</i>
Financial Account	100
Net Primary Income	-85
Capital Account	30
Net Secondary Income	-20
Net Goods	20
Net Services	?

What is the value of Net Services in this economy?

- (A) -\$55b
  - (B) -\$45b
  - (C) -\$15b
  - (D) \$25b
- 10 Which of the following is most likely to occur if the Australian government uses a budget surplus to reduce its level of public sector debt?
- (A) Increased interest rates
  - (B) Decreased net foreign debt
  - (C) Increased domestic money supply
  - (D) Appreciation of the Australian Dollar

- 11 To manage liquidity in Exchange Settlement Accounts, which of the following actions would the RBA take in response to the cash rate moving above its overnight target?
- (A) Shift the Interest Rate Corridor lower
  - (B) Shift the Interest Rate Corridor higher
  - (C) Sell Commonwealth Government Securities
  - (D) Buy Commonwealth Government Securities

12 The table shows hypothetical data presented by an economy.

Year	Domestic cash rate	Average global cash rate
1	2%	2%
2	2.5%	4%

What is the likely impact of the change from Year 1 to 2 on supply and value of the domestic currency (AUD)?

- (A) A decrease in supply in forex markets and a depreciation
  - (B) An increase in supply in forex markets and a depreciation
  - (C) A decrease in supply in forex markets and an appreciation
  - (D) An increase in supply in forex markets and an appreciation
- 13 The following table shows Consumer Price Index (CPI) data by expenditure for an economy

Expenditure Group	Weighting Factor in CPI (%)	CPI by expenditure (base year = 100)
Education	4	106
Food	16	105
Housing	23	106
Transport	11	112

Which group contributed more to the inflation rate?

- (A) Education
- (B) Food
- (C) Housing
- (D) Transport

- 14 Under which economic circumstances might a government want to reduce the size of a budget surplus from one year to the next?
- (A) Falling unemployment and rising inflation
  - (B) Rising inflation and falling economic growth
  - (C) Falling economic growth and rising unemployment
  - (D) Rising unemployment and rising economic growth

15 The data below shows data for a hypothetical economy.

Year	National Income (\$m)	Consumption (\$m)	Saving (\$m)
1	200	40	160
2	400	80	320
3	600	120	480

What will be the change (to the nearest unit) in National Income in Year 4 if there is an increase in Government spending of \$50m?

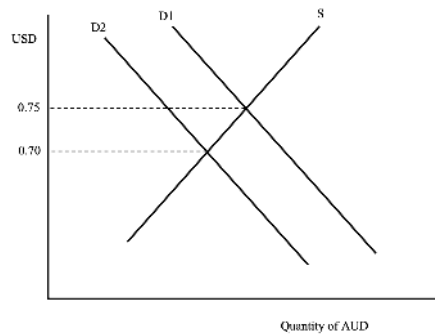
- (A) \$63m
  - (B) \$250m
  - (C) \$663m
  - (D) \$850m
- 16 The table below represents nominal data from a hypothetical economy:

<i>Year</i>	<i>C</i>	<i>I</i>	<i>G</i>	<i>X</i>	<i>M</i>	<i>CPI</i>
1	100	80	400	890	670	100
2	90	70	700	600	680	110

What is the real growth rate for this economy in Year 2?

- (A) -11%
- (B) -2.5%
- (C) 2.5%
- (D) 11%

17 A hypothetical economy provides the following graph showing AUD/USD



Which of the following may have led to the change in the above graph?

- (A) An increase in interest rates in the United States
- (B) A decrease in the RBA's purchase of foreign assets
- (C) A decrease in exports from Australia to the United States
- (D) A decrease in imports from the United States to Australia

18 Which combined economic scenarios below would most likely worsen Australia's terms of trade

- (A) A decrease in imports of tourism and lower car prices
- (B) An increase in imports of tourism and lower car prices
- (C) A rise in mineral prices and increased manufacturing costs in China
- (D) A fall in mineral prices and increased manufacturing costs in China

19 The table below shows data for a hypothetical economy.

Year	Real GDP growth rate	Unemployment rate
1	3%	4%
2	3.5%	4%

Assume the non-accelerating inflation rate of unemployment (NAIRU) for this economy is 4%.

Which of the following describes conditions in the economy that may have led to these changes?

- (A) Increase in aggregate supply leading to decreased technical efficiencies
- (B) Decrease in aggregate supply leading to increased dynamic efficiency
- (C) Higher aggregate demand and a decrease in underemployment
- (D) Higher aggregate demand and a fall in cyclical unemployment

20 The table below shows hypothetical data for the Australian economy.

Australian total loans to foreigners	\$250 bn
Australian total borrowing from foreigners	\$500 bn
Australian net foreign liabilities	\$600 bn
Australian total investment overseas	\$100 bn

Based on the table above, which statement about Australia's net foreign liabilities is correct?

- (A) Total investment into Australia is \$450 bn
- (B) Total investment into Australia is \$250 bn
- (C) Net foreign equity is -\$250 bn
- (D) Net foreign equity is \$150 bn

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Student Number

**Section II**

**40 marks**

**Attempt Questions 21–24**

**Allow about 75 minutes for this section**

**Question 21 (10 marks)**

- (a) Sydney’s newest football stadium will be opened in 2022. **2**  
Outline ONE reason why this stadium may not be considered to be a public good.

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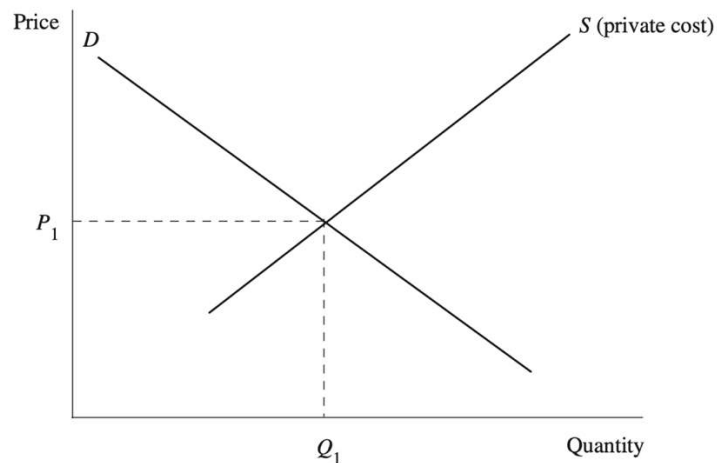
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- (b) The diagram below shows the demand and supply curve for disposable plastic bags.



A government wishes to reduce the impact of disposable plastic bags on the environment by placing a tax on their production.

On the diagram, illustrate the effect this tax will have on the price and quantity of disposable plastic bags. **2**



**Question 22** (10 marks)

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Student Number

- (a) Outline the relationship between trade and Gross Domestic Product. **2**

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- (b) Discuss how an appreciation of the Australian dollar might affect the Current Account. **4**

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(c) Explain the impact of trade liberalisation on:

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Individuals:.....  
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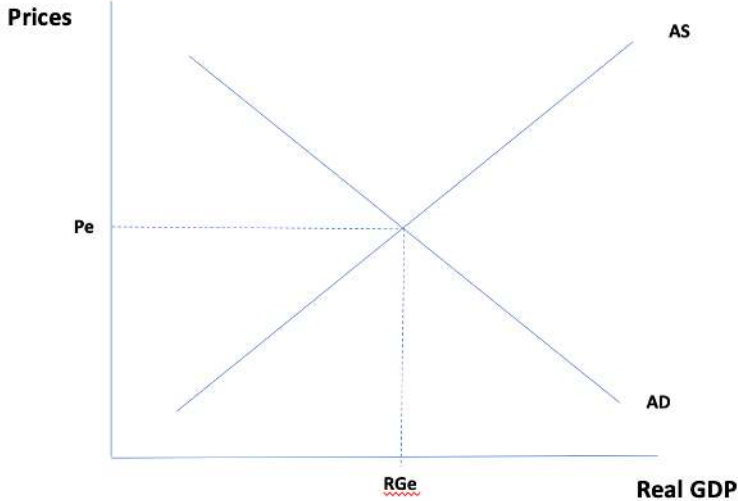
**End of Question 22**

**Question 23** (10 marks)

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Student Number

- (a) On the diagram below, draw and fully label the effect of an economy experiencing falling productivity levels. 2



- (b) How could rising economic growth conflict with TWO other economic objectives? 4

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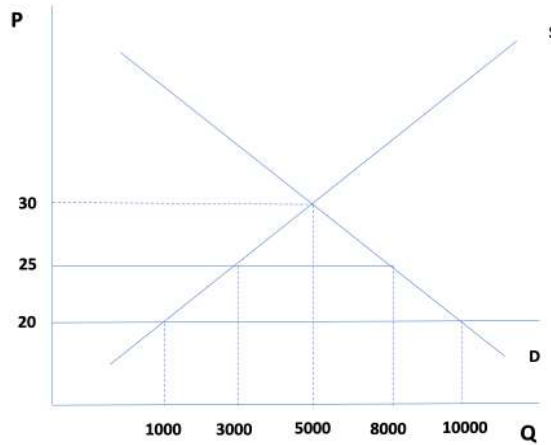


**Question 24** (10 marks)

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Student Number

A government chooses to protect its domestic wheat industry by placing a tariff of \$5 on all imported wheat. The world price is \$20.



- (a) If the government decided to use an import quota instead, what would be the amount of the quota to have the same impact as the tariff? **1**

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- (b) If the government decided to use a subsidy instead, what would be the value of the per unit subsidy to have the same impact on domestic production as the tariff? **1**

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- (c) Analyse ONE short-term and ONE long-term impact of this decision to protect the wheat industry with the tariff. 4

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- (d) Explain TWO reasons why economies could record differing Human Development Index (HDI) indicators. 4

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**End of Question 24**

## Section III

**20 marks**

**Attempt either Question 25 or Question 26**

**Allow about 35 minutes for this section**

Answer the question in a writing booklet. Extra writing booklets are available.

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In your answer you 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)

Explain the impacts of macroeconomic policy on the economic objective of full employment. In your response, refer to the economic information provided.



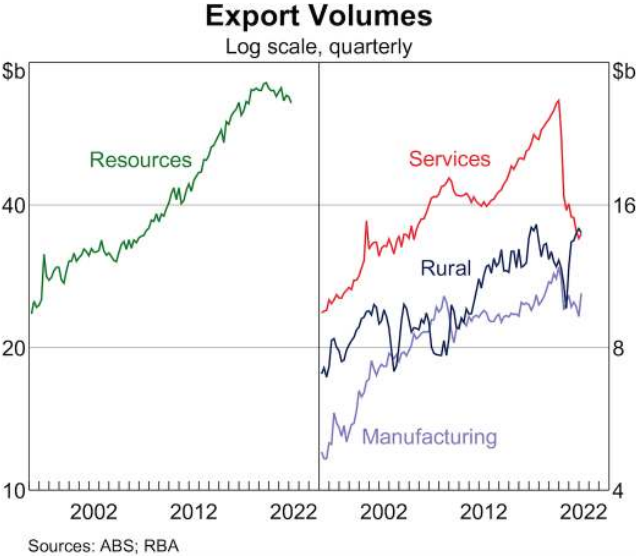
Various government policies are also aimed at reducing frictional and structural unemployment. Across the whole Australian economy in May 2022, there was an estimated 480,100 vacant positions – which is a record high. This highlights the possible extent of frictional and structural unemployment.

*Matthews, B., Economics Topic Papers, 2022*

**OR**

**Question 26** (20 marks)

Explain the causes of changes in trade and financial flows and their effect on Australia’s balance of payments. In your response, refer to the economic information provided.



Developments in the trade balance have been the main driver of the change in the current account. After being in deficit for most of the previous four decades, the trade balance increased to its highest level on record at around 7 per cent of nominal GDP in the September quarter of 2021. This shift in the trade balance was primarily driven by the end of the mining boom – specifically the move from the investment phase to the production phase. The relative price of exports also rose over that time.

*RBA Bulletin, March, 2022*

## **Section IV**

**20 marks**

**Attempt either Question 27 or Question 28**

**Allow about 35 minutes for this section**

Answer the question in a writing booklet. Extra writing booklets are available.

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In your answer you will be assessed on how well you:

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

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

Analyse structural changes in the Australian economy resulting from microeconomic policies.

**OR**

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

Analyse the causes and effects of inflation in the Australian economy.

**End of paper**