



NSW Education Standards Authority

2020 HIGHER SCHOOL CERTIFICATE EXAMINATION

Economics

**General
Instructions**

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

**Total marks:
100**

Section I – 20 marks (pages 2–9)

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

Section II – 40 marks (pages 13–24)

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

Section III – 20 marks (pages 25–27)

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

Section IV – 20 marks (page 28)

- 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.

- 1** Which of the following identifies two economic objectives of monetary policy?

 - A. Price stability and full employment
 - B. Economic growth and external stability
 - C. Price stability and distribution of income
 - D. Economic growth and environmental sustainability

- 2** Which international organisation is responsible for maintaining financial stability in global financial markets?

 - A. World Bank
 - B. World Trade Organisation
 - C. International Monetary Fund
 - D. Asia–Pacific Economic Cooperation

- 3** Which of the following is most likely to be a feature of a decentralised wage determination system?

 - A. Increased income equality
 - B. Wage increases are linked to inflation
 - C. Government policy determines wage outcomes
 - D. Employment contracts can vary from one workplace to another

- 4** A developing economy is most likely to be characterised by

 - A. low productivity and low population growth.
 - B. low employment and low infant mortality rate.
 - C. inadequate access to education and underprovision of public goods.
 - D. inadequate access to health care and GDP dominated by the provision of services.

- 5 A country imposes a quota on wheat imports. Assume that it does not allow any imports of wheat beyond the quota.

Which of the following is most likely to occur if this country decides to reduce this quota on wheat imports?

- A. Increased wheat prices within the country
- B. Increased export revenue for foreign wheat exporters
- C. Decreased income for wheat producers within the country
- D. Decreased government revenue from the change in the volume of imports

- 6 The table represents data for a hypothetical economy.

<i>Year</i>	<i>Import price index</i>	<i>Export price index</i>
1	125	100
2	160	80

Which of the following shows the value of the terms of trade index in Year 2 and the terms of trade trend from Year 1 to Year 2?

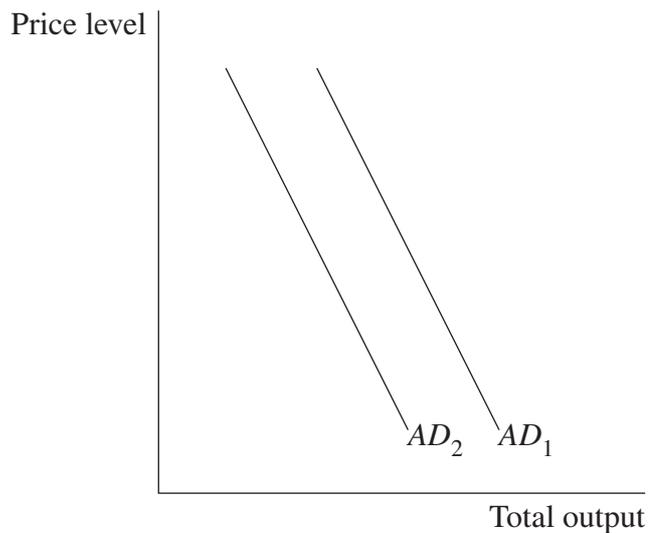
	<i>Terms of trade index</i>	<i>Terms of trade trend</i>
A.	50	Increased
B.	50	Decreased
C.	200	Increased
D.	200	Decreased

- 7 A foreign business purchases the rights to sell an Australian-designed product overseas.

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

- A. Debit in the capital account
- B. Credit in the capital account
- C. Debit in the financial account
- D. Credit in the financial account

- 8 Which of the following is likely to cause a decrease in the labour force participation rate?
- A. A decrease in the rate of unemployment
 - B. A decrease in the number of discouraged workers
 - C. An increase in the level of hidden unemployment
 - D. An increase in the value of transfer payments made to the unemployed
- 9 The following diagram shows two aggregate demand curves for a hypothetical economy.



All other things being equal, the shift from AD_1 to AD_2 is most likely to have been caused by an increase in

- A. the income tax-free threshold.
- B. business investment in training programs.
- C. the cash rate of the hypothetical economy.
- D. employment in the economy of a major trading partner.

- 10 The table shows hypothetical data for the Australian economy over a two-year period.

	<i>Year 1</i>	<i>Year 2</i>
Consumer price index (CPI)	100	103
Employed persons ('000)	1800	2000
Unemployed persons ('000)	200	125
Population ('000)	2008	2095

Which row of the table below best accounts for the changes in CPI and unemployment rate from Year 1 to Year 2?

	<i>Reason for change in CPI</i>	<i>Reason for change in unemployment rate</i>
A.	Reduction in the cash rate	Removal of government initiatives for education and training
B.	Appreciation of the Australian dollar	Increase in domestic investment
C.	Increase in import tariffs	Global economic downturn
D.	Increase in consumer confidence	An appreciation in the currency of a major trading partner

- 11 A central bank's monetary policy stance results in a depreciation of the economy's exchange rate.

All other things being equal, which of the following best identifies the stance and a possible effect on the economy of the depreciation in the exchange rate?

	<i>Monetary policy stance</i>	<i>Effect on economy</i>
A.	Expansionary	Increase in the level of foreign direct investment by domestic businesses
B.	Expansionary	Increase in the cost of international borrowing
C.	Contractionary	Increase in the number of service-based exports
D.	Contractionary	Increase in the balance on the net primary income account

12 The table shows data for a hypothetical economy.

<i>Year</i>	<i>Real GDP growth rate</i>	<i>Unemployment rate</i>
1	2.10%	5.20%
2	2.90%	5.20%

Assume the economy is operating at the non-accelerating inflation rate of unemployment (NAIRU).

Which of the following describes the most likely relationship between the changes in the economy's real GDP growth rate and level of unemployment?

- A. Lower aggregate supply leading to a reduction in dynamic efficiencies
- B. Lower aggregate supply accompanied by a decrease in technical efficiencies
- C. Higher aggregate demand accompanied by a decrease in underemployment
- D. Higher aggregate demand leading to a reduction in structural unemployment

13 A domestic economy has experienced a decline in its net foreign liabilities as a percentage of Gross Domestic Product (GDP).

Which of the following is most likely to have increased, contributing to this decline?

- A. Debt servicing costs
- B. Exchange rate volatility
- C. Foreign investment into the domestic economy
- D. Returns on international investments by domestic businesses

14 Under a floating exchange rate, the capital and financial account for an economy in Year 1 is \$10.6 bn surplus. In Year 2 the current account balance is in a \$3.5 bn surplus.

Which of the following represents the outcome of the capital and financial account in Year 2 and the change in size of this account from Year 1 to Year 2?

	<i>Outcome of capital and financial account in Year 2</i>	<i>Change in size (\$bn)</i>
A.	Deficit	7.1
B.	Deficit	14.1
C.	Surplus	7.1
D.	Surplus	14.1

- 15 An economy has a headline inflation rate of 2.3% while its underlying inflation rate is 2.6%.

Which factor could best account for this?

- A. Increased minimum wage
- B. Short-term oversupply of petrol
- C. Reduced supply of fruit due to drought
- D. Increased demand for the domestic currency

- 16 The table shows data for a hypothetical economy.

<i>Year</i>	<i>Nominal GDP (\$bn)</i>	<i>Consumer price index (CPI)</i>
1	400	100
2	420	105

All other things being equal, which statement is most likely to be true for this economy?

- A. Real GDP remains unchanged due to a decrease in global economic activity.
 - B. Nominal GDP has increased due to an appreciation of the economy's exchange rate.
 - C. Nominal GDP has increased due to a decrease in the tariff applied to imported products.
 - D. Real GDP remains unchanged due to increases in the cost of production for businesses.
- 17 An initial increase in government spending of \$10 million leads to a final increase in national income of \$25 million.

What is the value of marginal propensity to consume (MPC)?

- A. 0.25
- B. 0.4
- C. 0.6
- D. 0.75

- 18 At equilibrium, when there is no international trade, an economy consumes 30 000 kg of cotton.

The government opens the economy to trade and introduces a tariff of \$5 per kg on cotton, resulting in imports of 10 000 kg and a total consumption of 35 000 kg of cotton. The world price for cotton is \$20 per kg.

What is the change in the domestic production of cotton and in government revenue?

	<i>Change in domestic production</i>	<i>Change in government revenue</i>
A.	Decreased by 5 000 kg	Increased by \$50 000
B.	Decreased by 5 000 kg	Increased by \$200 000
C.	Decreased by 10 000 kg	Increased by \$50 000
D.	Decreased by 10 000 kg	Increased by \$200 000

- 19 The table shows exchange rate movements for the Australian economy and United States economy.

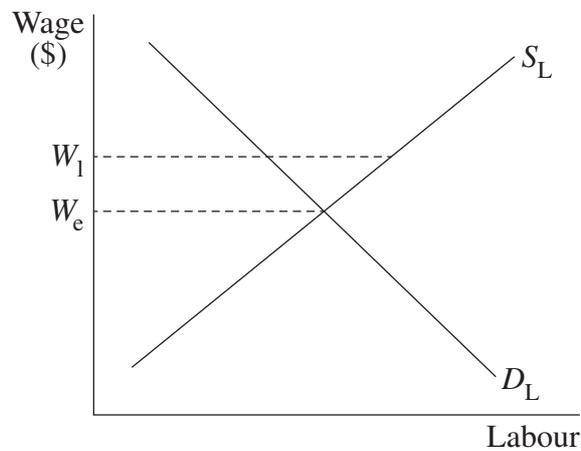
<i>Year</i>	<i>Australian dollar (AUD)</i>	<i>US dollar (USD)</i>
1	1	0.9
2	0.9	1

All other things being equal, which of the following best accounts for the fluctuation of the exchange rate between Year 1 and Year 2?

- A. There has been a depreciation of the AUD caused by an upturn in the international business cycle.
- B. There has been a depreciation of the AUD caused by a downturn in domestic economic activity.
- C. There has been a depreciation of the USD caused by an increase in Australia's cash rate relative to the US cash rate.
- D. There has been a depreciation of the USD caused by a decrease in the deficit of the net income component of the US balance of payments.

20 The diagram shows the demand and supply curves of labour for a hypothetical economy.

The government of this economy has introduced a minimum wage (W_1) set above the equilibrium wage rate (W_e).



The introduction of this minimum wage has an impact on the Lorenz curve of this economy.

The most likely impact on the Lorenz curve will be a shift

- A. inwards as all employees receive a higher wage.
- B. inwards as there is an increase in the level of employment.
- C. outwards as all employees receive a higher wage.
- D. outwards as there is an increase in the level of unemployment.

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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 (11 marks)

- (a) The table shows economic information for a hypothetical economy. 2

<i>Year</i>	<i>Gini coefficient</i>	<i>Human development index</i>
1	0.87	0.35
2	0.74	0.36

With reference to the given data, outline ONE possible reason for the change in the distribution of income from Year 1 to Year 2 for this economy.

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- (b) A developing economy has entered into a multilateral free trade agreement with advanced economies. 2

Outline ONE disadvantage to the developing economy of entering into this trade agreement.

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- (c) Describe ONE way in which the World Bank helps promote economic development in developing economies. 3

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Question 21 continues on page 15

Question 21 (continued)

- (d) Economic growth does not always lead to an improvement in economic development.

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Explain TWO factors that could cause this.

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End of Question 21

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Question 22 (9 marks)

- (a) Distinguish between *structural unemployment* and *cyclical unemployment*. **2**

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- (b) Describe how ONE government policy has been used to address a skills shortage in the Australian labour market. **3**

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Question 22 continues on page 17

Do NOT write in this area.

Question 22 (continued)

- (c) Explain how a decrease in aggregate demand can lead to underemployment of labour in an economy.

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End of Question 22

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Question 23 (9 marks)

- (a) Outline ONE reason for the protection of domestic industries.

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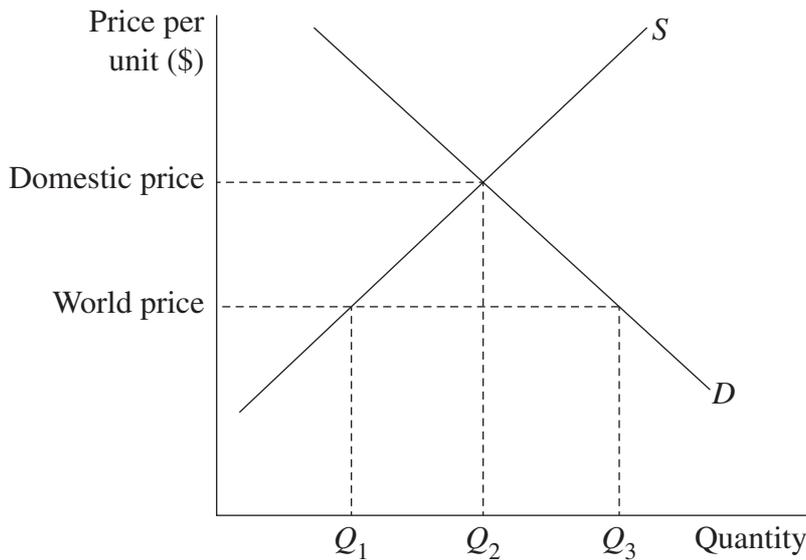
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- (b) A government wants to protect the sugar industry by introducing a subsidy.

1

The diagram below shows the market before the introduction of the subsidy.

On the diagram, draw the curve to show the effect of a subsidy with imports equal to zero.



Question 23 continues on page 19

Do NOT write in this area.

Question 24 (11 marks)

- (a) Describe the relationship between microeconomic reform and aggregate supply. **3**

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- (b) With reference to a specific product market, explain how ONE microeconomic reform has led to increased efficiencies. **4**

Product market:

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Question 24 continues on page 21

Do NOT write in this area.

Question 24 (continued)

- (c) Explain how microeconomic reform in the labour market can lead to a lowering of cost inflation in Australia.

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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.

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.

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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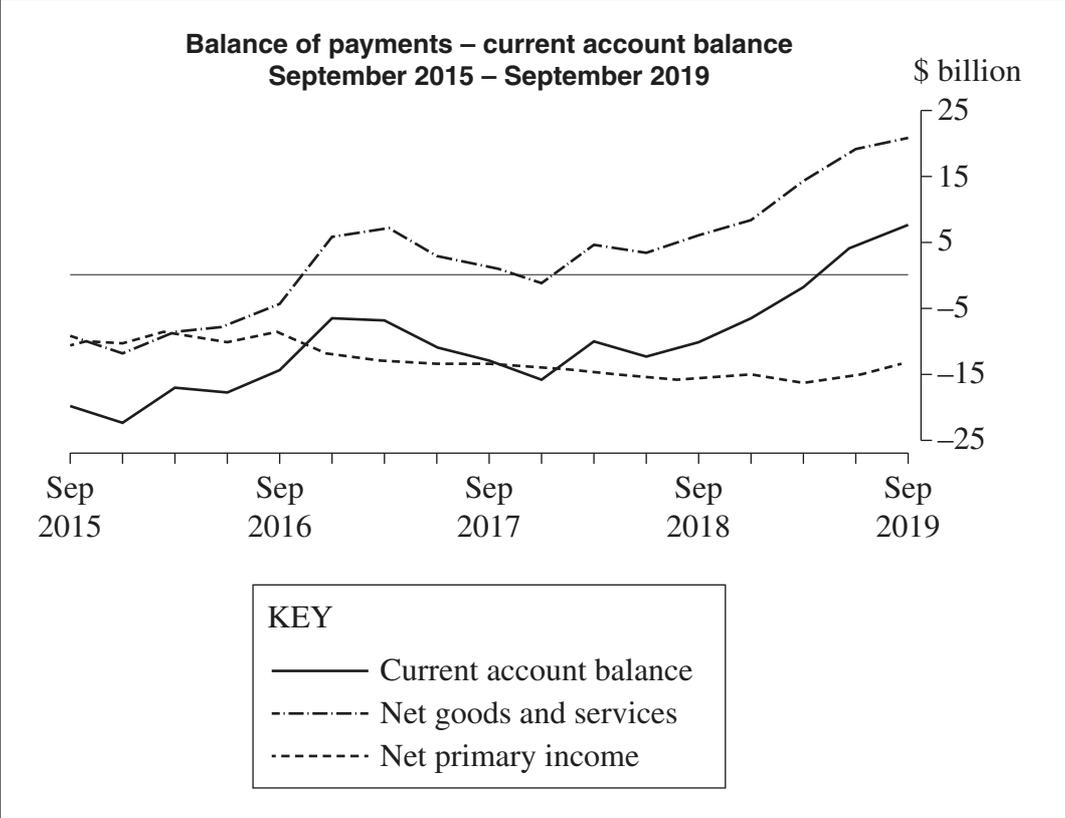
Please turn over

Question 25 (20 marks)

Assess the impact of exchange rate fluctuations on the external stability of the Australian economy. In your response, refer to the information provided.

The fall in the value of the Australian dollar, taking it down to levels that counteract Australia’s relatively high cost levels, is very positive for sectors that compete internationally, including manufacturing, tourism, higher education, agriculture and mining.

UN Climate Change Summit 2019
 Source: <https://www.un.org/en/climatechange/2019-climate-action-summit>
 With courtesy of Dr. Shane Oliver



Australian Bureau of Statistics
 © Commonwealth of Australia

OR

Question 26 (20 marks)

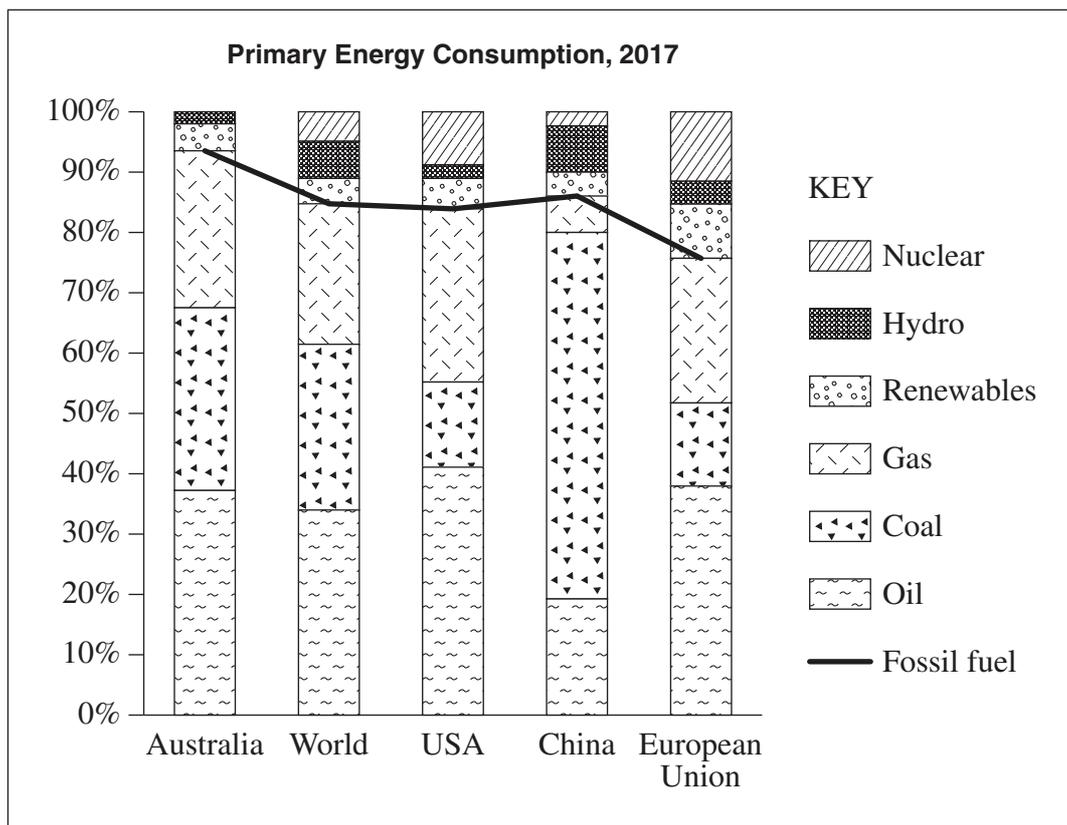
Assess the effectiveness of government economic policies and international agreements in the management of the environment in Australia. In your response, refer to the information provided.

With global emissions reaching record levels and showing no sign of peaking, the UN ... called upon all leaders to come to ... the Climate Action Summit with concrete, realistic plans to enhance their nationally determined contributions by 2020, in line with reducing greenhouse gas emissions by 45 per cent over the next decade ...

[At the Summit] ... there was also widespread concern that the world is presently way off course to meet the global target, as emissions continue to increase, and global temperatures rise.

UN Climate Action Summit, 2019

<https://www.un.org/en/climatechange/2019-climate-action-summit>



Courtesy of AMP Capital

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.

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)

Assess the effectiveness of macroeconomic policies in achieving economic growth and full employment in the Australian economy.

OR

Question 28 (20 marks)

To what extent do limitations of economic policies affect the achievement of economic growth and a more equal distribution of income in the Australian economy?

End of paper