

Name: \_\_\_\_\_

# CREST

## HSC Economics

Exam Program  
Week 1

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 Crest Economics

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## Exam Program (EP1)

**Working Time: 180 minutes**

### Multiple Choice (20 marks)

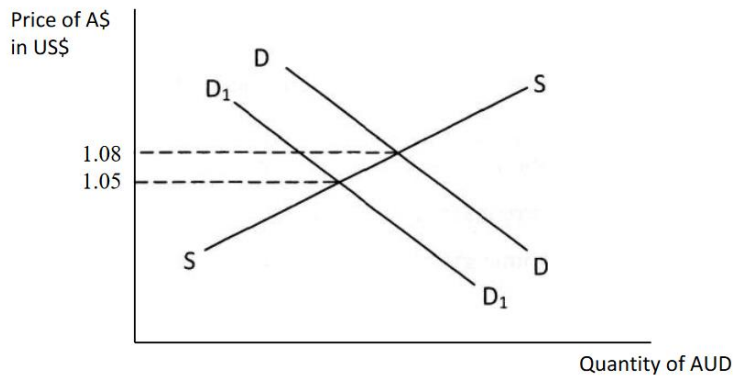
- 1) Which of the following measures the changes in export prices to import prices in an economy?
  - a) The trade weighted index
  - b) The terms of trade
  - c) New exports
  - d) Merchandise trade
  
- 2) Which of the following will cause a fall in an economy's natural rate of unemployment?
  - a) An increase in immigration
  - b) Government funded training programs for long term unemployed persons
  - c) An increase in economic growth
  - d) An increase in inflation
  
- 3) The table shows employment data for an economy. Which of the following has occurred in this economy between Year 1 and Year 2?

Year	Population of working age (millions)	Unemployed persons (millions)	Employed persons (million)
1	50	10	30
2	60	10	30

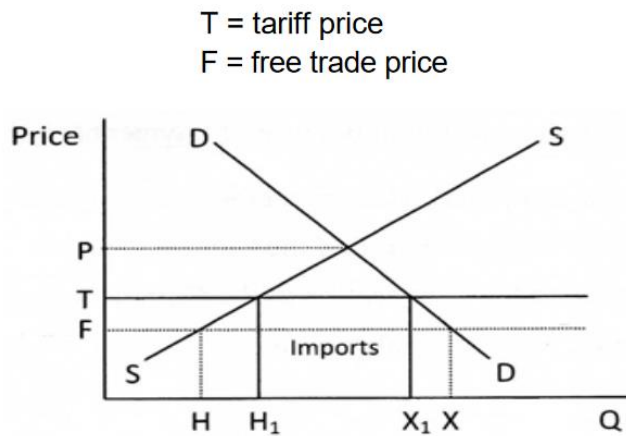
- a) The unemployment rate has decreased
- b) The labour force has increased
- c) The labour force participation rate has decreased
- d) The unemployment rate has increased

- 4) Which of the following is a cyclical factor that results in an improvement in the current account?
- a) A decrease in import spending following an increase in unemployment
  - b) A fall in the domestic savings rate
  - c) A reliance on foreign investment for business expansion
  - d) A fall in global commodity prices
- 5) Why would the Reserve Bank of Australia most likely offer second-hand government securities for sale?
- a) To increase consumer spending
  - b) To reduce demand-pull inflation
  - c) To increase the value of the Australian Dollar
  - d) To reduce the foreign debt
- 6) Where would the payment by British Petroleum in the UK to BHP Billiton in Australia for new gas leases appear in the Australian Balance of Payments?
- a) A debit in the Capital and Financial Account
  - b) A debit in the Primary Income section of the Current Account
  - c) A debit in the Goods and Services section of the Current Account
  - d) A credit in the Capital and Financial Account

- 7) The following diagram shows the foreign exchange market for Australian dollars. Which of the following could have caused the fall in the value of the Australian dollar?



- a) Lower global commodity demand
  - b) Higher interest rates in Australia
  - c) Positive expectations about the Australian dollar
  - d) Reserve Bank purchases of Australian dollars in the foreign exchange market
- 8) The following diagram shows the effect of a tariff. What effect does the imposition of the tariff have on domestic supply?



- a) Domestic supply falls from HX to H<sub>1</sub>X<sub>1</sub>
- b) Domestic supply rises from the free trade price to the tariff price
- c) Domestic supply is HX
- d) Domestic supply rises from H to H<sub>1</sub>

- 9) Which of the following is an example of discretionary fiscal policy?
- a) Changes in taxation rates by the government in its budget
  - b) Increases in welfare payments due to poor economic growth
  - c) Decreases in taxation revenue due to strong economic growth
  - d) A change in the budget outcome from a deficit to surplus
- 10) Which of the following international organisations lends funds to developing countries for economic development?
- a) The World Bank
  - b) The International Monetary Fund (IMF)
  - c) The Group of Seven (G7)
  - d) The Asia Pacific Economic Co-operation forum (APEC)
- 11) Which of the following statements regarding microeconomic policy is correct?
- a) National Competition Policy has had an important impact on labour reforms
  - b) Factor market reforms focus on increasing aggregate demand in an economy
  - c) Product market reforms include deregulation of financial and labour markets
  - d) Certain types of microeconomic reform represent both product and factor market reform
- 12) The Australian government considered removing a quota that requires commercial television stations to broadcast 55% of local content. What would be the effect of the removal of the quota on the Australian television industry?
- a) Less efficiency and innovation
  - b) Less work for Australian actors
  - c) Australian networks would lose profits
  - d) More work for Australian actors as industry would become more competitive

13) The body established in 1995 that now monitors the Australian Consumer Law is:

- a) ASIC
- b) RBA
- c) ACCC
- d) ASEAN

14) A government moves from a budget deficit of \$40b to a deficit of \$20b. What is the overall effect of this change on economic activity?

- a) The budget will not affect economic activity
- b) The budget will increase economic activity
- c) The budget will decrease economic activity
- d) The budget will have a balanced effect on economic activity

15) Which of the following represents an example of governments using market-based policies to address an environmental issue?

- a) Government placing a tax on environmentally damaging pollutants
- b) Government enforcing minimum environmental standards on fuel quality
- c) Government enforcing a ban on certain types of leaded petrol in the market
- d) Government ensuring an environmental impact statement is produced by developers

16) Which of the following is likely to reduce hidden unemployment?

- a) An increase in consumer and business confidence
- b) A decrease in the Average Propensity to Consume (APC)
- c) An increase in the level of frictional unemployment
- d) An increase in the level of cyclical unemployment

- 17) Which of the following is a feature of Australia's decentralised wage determination system?
- a) The use of minimum wage standards and greater flexibility in determining wage agreements
  - b) The implementation of National Employment Standards and regulated wage fixing agreements
  - c) The complete removal of government organisations in the dispute resolution process and the promotion of enterprise agreements
  - d) Compulsory grievance procedure resolutions and individual wage agreements
- 18) If the headline rate of inflation in Australia has been under 1% for some time, what action is the RBA most likely to take, other things being equal?
- a) Nothing as inflation is under control and therefore a neutral stance is most suitable
  - b) Expand the economy by (indirectly) encouraging a higher exchange rate
  - c) Adopt an expansionary stance by raising the cash rate via domestic market operations
  - d) Buy second-hand Commonwealth Government securities from registered banks
- 19) Which of the following is NOT a major reason for differences in economic development between nations?
- a) Factor endowments
  - b) Level of corruption
  - c) Levels of protection
  - d) Population of a country

20) The following information is for a hypothetical economy. If Real GDP in Year 3 was \$800 billion, what was the value of the nominal (money) GDP and the rate of inflation for Year 3?

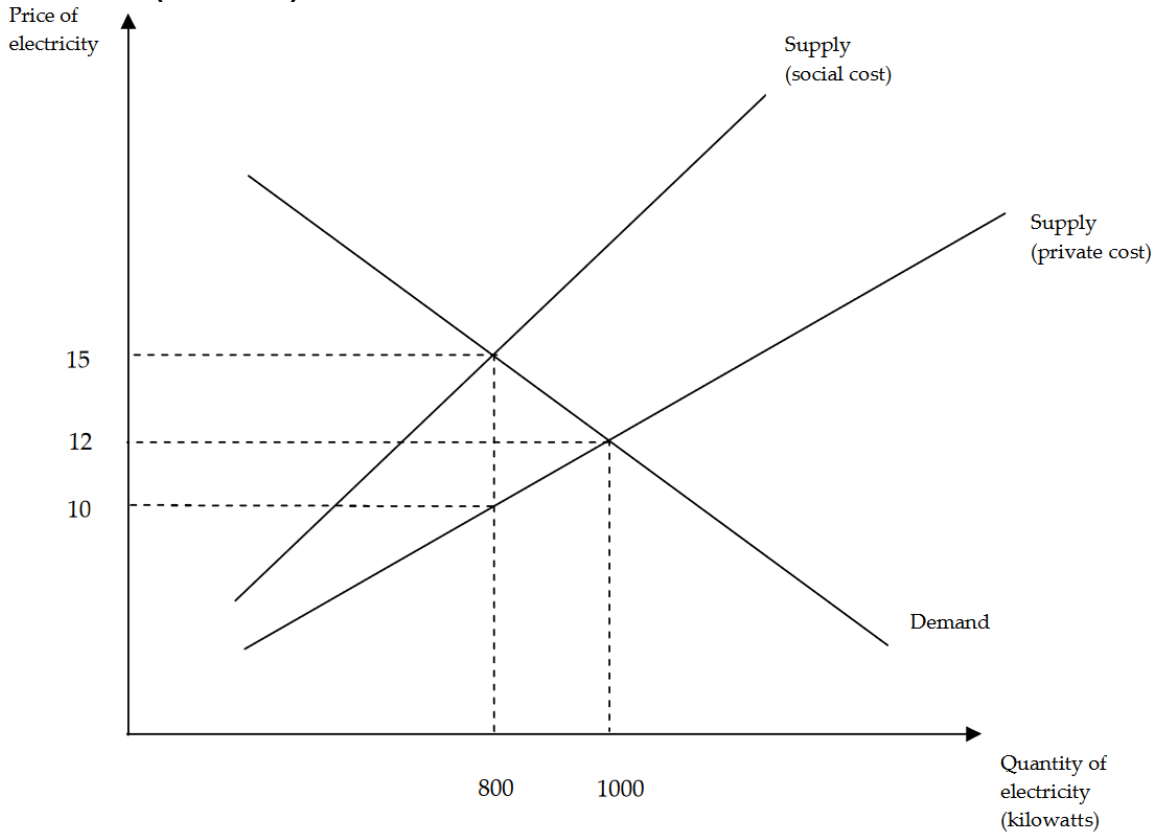
Year	Nominal GDP (\$Bn)	Consumer Price Index (CPI)
1	500	100
2	600	110
3	?	120

- a) \$667 billion and 10%
- b) \$667 billion and 9.1%
- c) \$960 billion and 10%
- d) \$960 billion and 9.1%



**Short Answer (40 marks)**

**Question 21 (10 marks)**



21. (a) Define the term 'externality' and outline an example. (2)

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21. (b) Explain why the social cost curve is above the private cost curve on the diagram. (2)

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21. (c) A carbon tax has been proposed to ensure that the socially-optimal quantity of electricity is traded. Calculate the value of the government's revenue from the carbon tax. (Show all working). (2)

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21. (d) Discuss the impacts of a carbon tax on the Australian economy. (4)

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## Question 22 (10 marks)

22. (a) What does *external stability* measure? (1)

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22. (b) Define the term *net foreign debt*. (1)

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The table depicts data for an economy:

Year	Net Foreign Equity (\$m)	Net Foreign Liabilities (\$m)	Gross Domestic Product (\$m)
Year 1	110,000	854,000	1,293,000
Year 2	113,500	877,000	1,317,000

22. (c) Using information from the table, calculate *net foreign debt* as a percentage of GDP in Year 2. (1)

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22. (d) Explain the relationship between the Current Account Deficit (CAD) and the cost of servicing net foreign debt. (3)

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22. (e) Explain how macroeconomic policies could be used to improve Australia's external stability position. (4)

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**Question 23 (10 marks)**

23. (a) Outline the rationale of microeconomic policy. (2)

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23. (b) Explain ONE way in which fiscal policy has affected income distribution in recent years. (2)

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23. (c) Describe ONE limitation of monetary policy in achieving Australia's economic objectives. (2)

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23. (d) Analyse TWO potential conflicts among Australia's economic objectives. (4)

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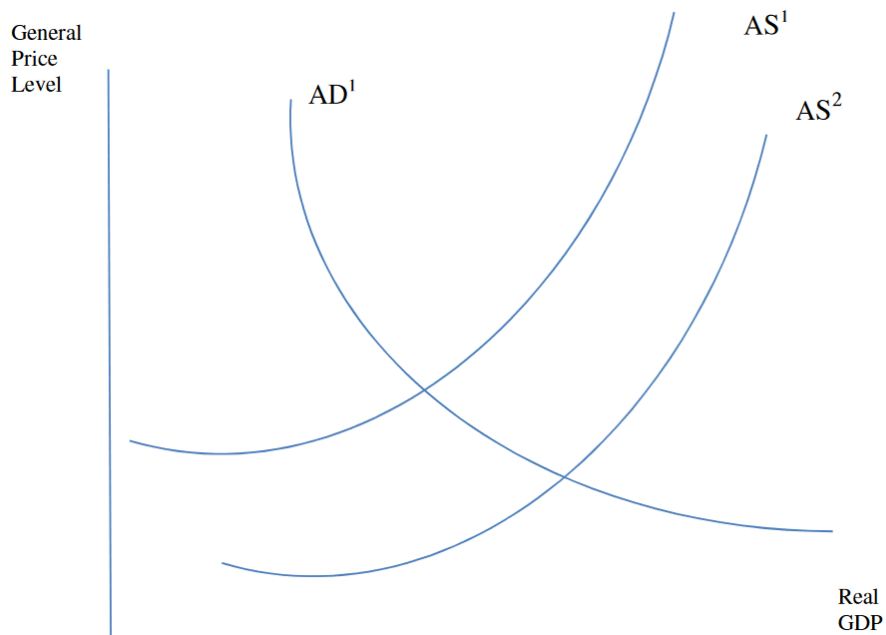
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## Question 24 (10 marks)



24. (a) What does the term *real* refer to, when used to describe GDP? (1)

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24. (b) Describe the components of aggregate demand in an economy. (2)

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24. (c) Describe ONE government policy that could cause the movement from  $AS^1$  to  $AS^2$ . (2)

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24. (d) Explain how structural changes in the Australian economy can result from microeconomic reform. (5)

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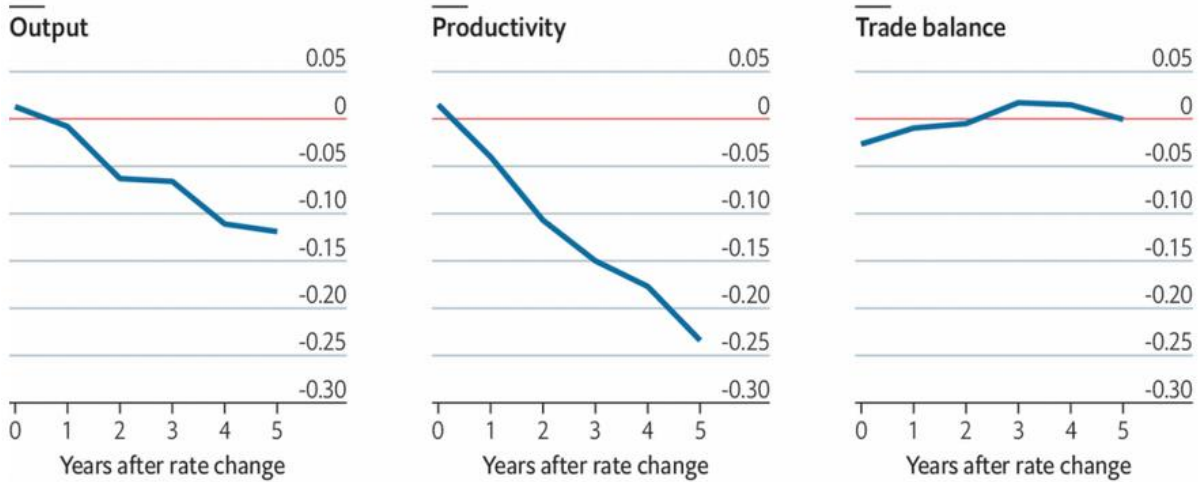


## Question 25 (20 marks)

Assess the impact of protectionism upon the Australian economy. In your response, refer to the economic information provided.

### Withdrawal symptoms

% change following a one percentage point increase in tariff rate



Source: "Macroeconomic Consequences of Tariffs" by D. Furceri, S. A. Hannan, J. D. Ostry, A. K. Rose 2018, National Bureau of Economic Research

The Economist



“Protectionism is costly. It’s costly to the country that implements the protectionism and it’s costly to everyone else”

Phillip Lowe, RBA Governor.  
 7 March 2018.

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**Question 26 (20 marks)**

**Discuss the influence of globalisation on an economy other than Australia and evaluate the strategies used in this economy to promote economic growth and development.**

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