



OFFICE OF TASMANIAN  
ASSESSMENT, STANDARDS  
& CERTIFICATION

Tasmanian Certificate of Education  
External Assessment 2017

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# ECONOMICS

## (ECN315116)

### SECTION A

Time: 45 minutes

Pages:	12
Questions:	9

#### Candidate Instructions

1. You **MUST** make sure that your responses to the questions in this examination paper will show your achievement in the criteria being assessed.
2. You **MUST** answer **SIX** questions from this section. **TWO** questions from each of the following:
  - **Unit 1 – An Introduction to Economics**
  - **Unit 2 – Economic Management**
  - **Unit 3 – Australia and the Global Economy**
3. You must write **concise** and **clear** answers for each of the questions you have chosen.
4. You are encouraged to include diagrams, where relevant.
5. Answers must be written in the spaces provided on the examination paper.
6. Each question is worth 6 marks. (6 x 6 = 36 marks)
7. You should make sure you answer all parts within each question so that the criterion can be assessed.
8. This examination is 3 hours in length. It is recommended that you spend approximately 45 minutes in total answering the questions in this booklet.
9. All written responses must be in English.

On the basis of your performance in this examination, the examiners will provide results on each of the following criteria taken from the course document:

**Criterion 1** Describe and apply economic terms, concepts, theories and ideas.

**Criterion 5** Communicate economic ideas and information.

## UNIT 1 – AN INTRODUCTION TO ECONOMICS

You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams, where relevant.

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### Question 1

Using examples, distinguish between the **FOUR** types of economic resources. Explain the income flow associated with **TWO** types of resources. (6 marks)

### Question 2

Explain **TWO** determinants affecting demand and **TWO** determinants affecting supply in a product market. (6 marks)

### Question 3

Explain the circular flow model and the relationship between the **FIVE** sectors in the Australian economy. Use **ONE** example to explain a leakage from, and **ONE** example to explain an injection into the circular flow. (6 marks)





## UNIT 2 – ECONOMIC MANAGEMENT

You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams, where relevant.

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### Question 4

Outline each phase of the business cycle. Explain the characteristics of **TWO** phases of the business cycle. (6 marks)

### Question 5

With reference to **TWO** examples, describe the role of government in a modified market economy. (6 marks)

### Question 6

Explain the differences between expansionary fiscal policy **and** expansionary monetary policy. (6 marks)

Question Number:

*(In the box write the number of the question you are answering)*

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## UNIT 3 – AUSTRALIA AND THE GLOBAL ECONOMY

You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams, where relevant.

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### Question 7

Using at least **TWO** examples, explain how trade agreements with other countries or trading blocs influence Australia's trade. (6 marks)

### Question 8

Explain the concept of comparative advantage. Use **ONE** example to explain how Australia might benefit from a comparative advantage in trade with another country or trading bloc? (6 marks)

### Question 9

Describe the difference between an appreciation **and** depreciation of the exchange rate. Explain the likely impact of an appreciation of the Australian dollar on the balance of trade. (6 marks)



Question Number:

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# ECONOMICS

## (ECN315116)

### SECTION B

Time: 45 minutes

Pages:	20
Questions:	9

#### Candidate Instructions

1. You **MUST** make sure that your responses to the questions in this examination paper will show your achievement in the criteria being assessed.
2. You **MUST** answer **SIX** questions from this section. **TWO** questions from each of the following:
  - **Unit 1 – An Introduction to Economics**
  - **Unit 2 – Economic Management**
  - **Unit 3 – Australia and the Global Economy**
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4. You are encouraged to include diagrams, where relevant.
5. Answers must be written in the spaces provided on the examination paper.
6. Each question is worth 6 marks. (6 x 6 = 36 marks)
7. You should make sure you answer all parts within each question so that the criterion can be assessed.
8. This examination is 3 hours in length. It is recommended that you spend approximately 45 minutes in total answering the questions in this booklet.
9. All written responses must be in English.

On the basis of your performance in this examination, the examiners will provide results on each of the following criteria taken from the course document:

**Criterion 2** Apply economic models and mathematical techniques to analyse economic data and information.

**Criterion 5** Communicate economic ideas and information.

## UNIT 1 – AN INTRODUCTION TO ECONOMICS

You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams, where relevant.

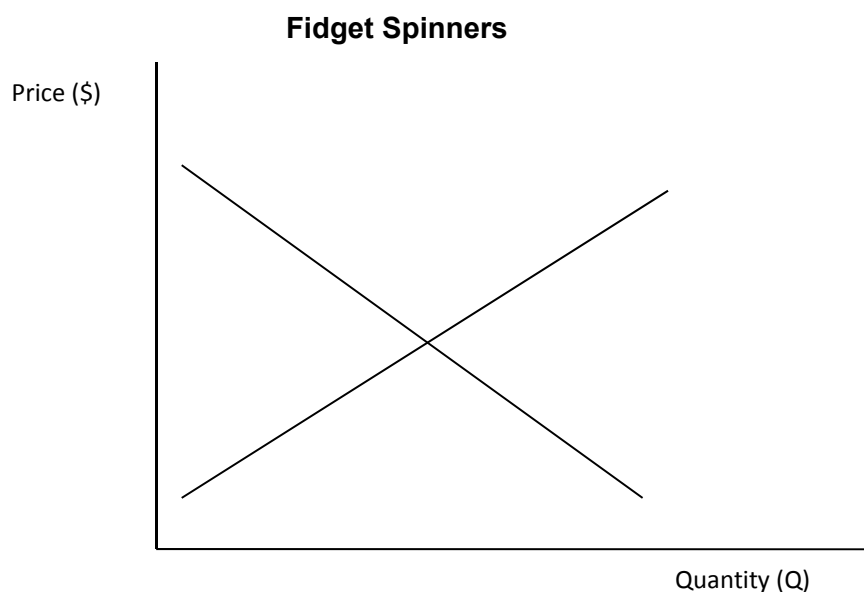
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### Question 10

Explain, using a fully labelled diagram, how an increase in the popularity of fidget spinners would cause changes to the market equilibrium price and quantity.

Using the fidget spinner example above, explain whether this has resulted in a shift in demand and/or supply.

Explain whether this has resulted in a movement along the demand and/or supply curve. (6 marks)



**Question 10 continues.**



**Question 11**

The table below shows anticipated quantity demanded for sausage rolls per week at different prices in the central business district of Launceston.

Calculate the price elasticity of demand for sausage rolls as price changes from \$2.00 to \$2.50 and when price changes from \$2.50 to \$3.00.

Describe the price elasticity of demand when price changes from \$3.00 to \$3.50.

(6 marks)

Price (\$)	Quantity Demanded
2.00	1000
2.50	1500
3.00	2000
3.50	2500
4.00	3000

**Question 11 continues.**



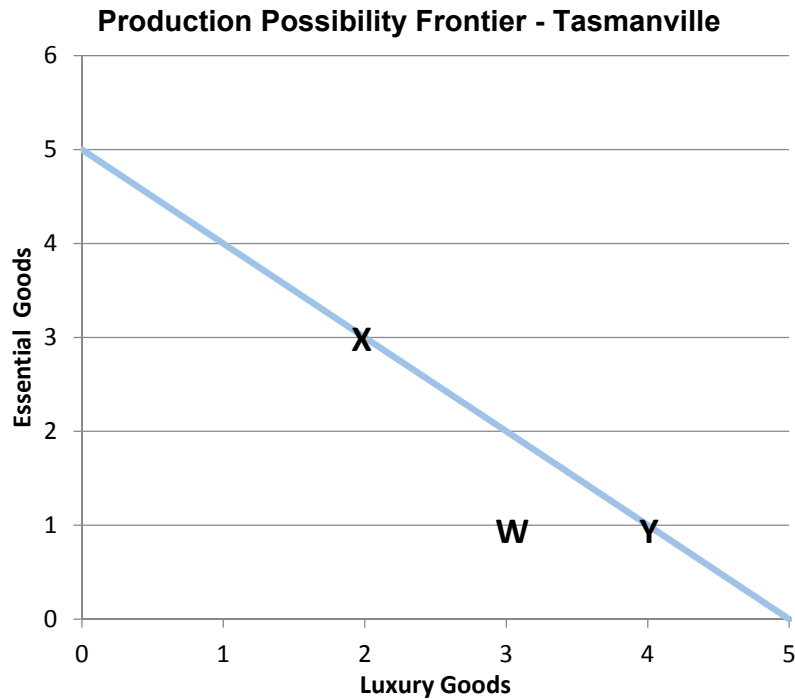


### Question 12

With reference to the model below, explain choices and possible trade-offs that exist for the country of Tasmanville.

Calculate the opportunity cost of moving from Point X to point Y. Show your calculation fully and clearly.

Describe what conclusions can be drawn about Tasmanville's productivity if production occurs at point W. (6 marks)



**Question 12 continues.**



## UNIT 2 – ECONOMIC MANAGEMENT

You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams, where relevant.

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### Question 13

The data table below represents statistics relating to the Australian Labour Market in 2017 and 2014.

Labour Statistic	Number (thousands) May 2017	Number (thousands) May 2014
Working age population	20 040	19 079
Total labour force	12 946	12 325
Number of persons unemployed	712	717
Number of persons employed	12 234	11 608

(Source: <https://tradingeconomics.com/australia/labor-force-participation-rate>)

Calculate the labour force participation rate as of May 2017.

Calculate the unemployment rate as of May 2017.

Describe what conclusion can be drawn from changes to the unemployment rate from May 2014 to May 2017. (6 marks)

**Question 13 continues.**

**Question 13 (continued)**

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**Question 14**

**Output Growth and Inflation Forecasts**

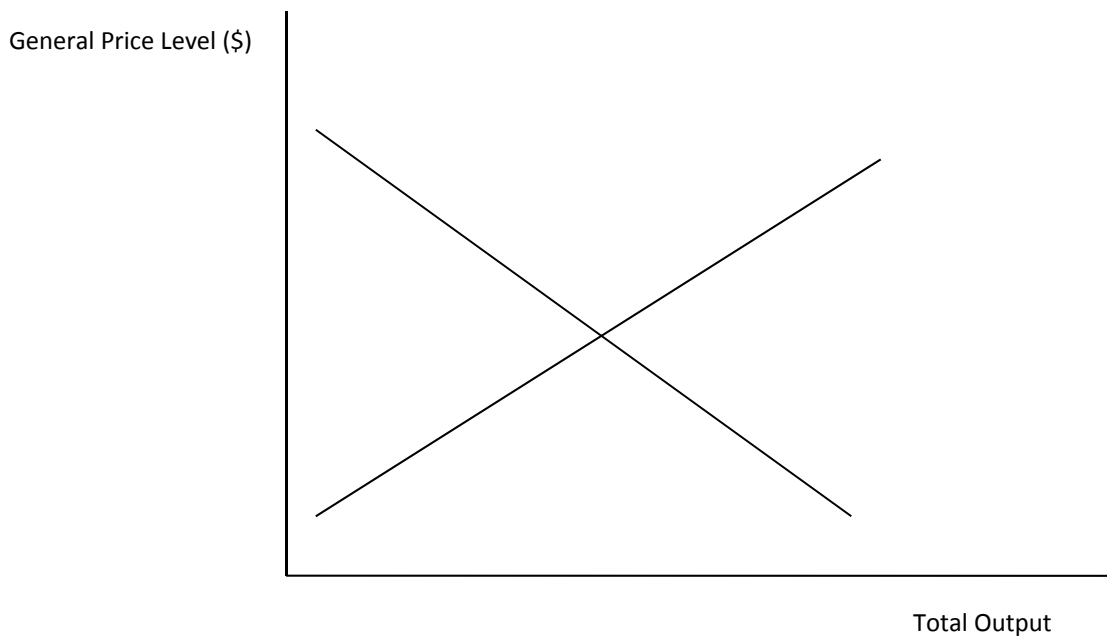
	Year-ended					
	Dec 2016	Jun 2017	Dec 2017	Jun 2018	Dec 2018	Jun 2019
GDP growth	2.4	1½–2½	2½–3½	2¾–3¾	2¾–3¾	2¾–3¾
Unemployment rate <sup>(b)</sup>	5.7	5¾	5–6	5–6	5–6	5–6
CPI inflation	1.5	2	1½–2½	1½–2½	1½–2½	2–3
Underlying inflation	1½	1¾	1½–2½	1½–2½	1½–2½	2–3

(Source: ABS and RBA)

Using a fully labelled aggregate demand (AD) and aggregate supply (AS) diagram, model the impact that predicted changes in the GDP growth rate between June 2017 and June 2019 will have on inflation.

With reference to the table and diagram, explain what the Reserve Bank of Australia (RBA) predicts will happen to GDP growth and consumer price index (CPI) inflation between June 2017 and June 2019. (6 marks)

**Aggregate Demand/Aggregate Supply – Australian Economy**

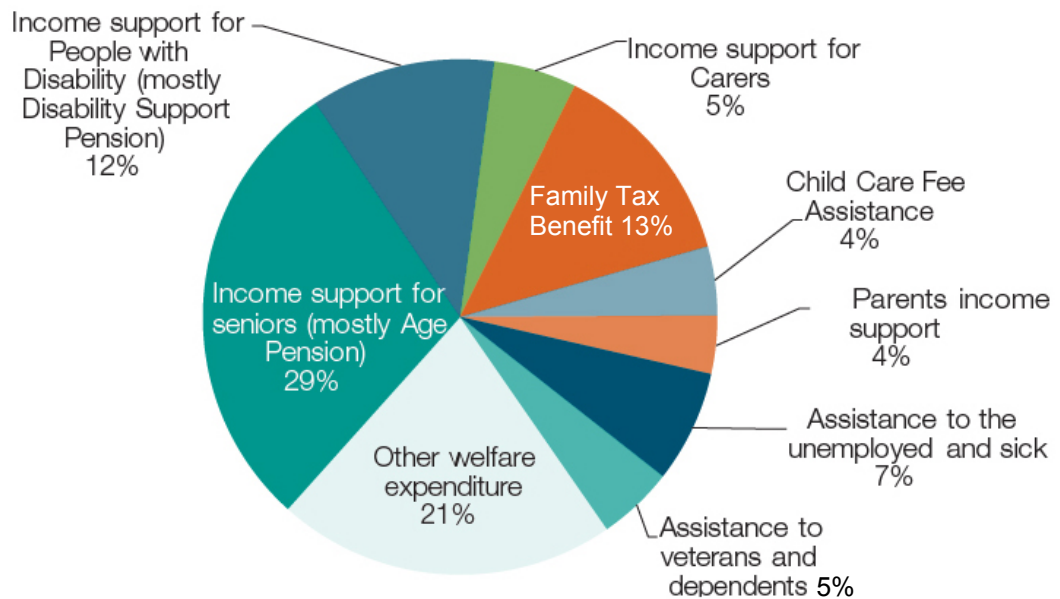




Question 15

**Total Social Security and Welfare expenditure**

**Total (2014=15): \$146 billion**



(Source: [http://www.budget.gov.au/2014-15/content/glossy/welfare/download/Social\\_Services.pdf](http://www.budget.gov.au/2014-15/content/glossy/welfare/download/Social_Services.pdf))

Use the information from the above chart regarding welfare payments in Australia during 2014-15 to answer the questions below.

Identify and calculate the amount of welfare expenditure of the **TWO** categories that receive the largest percentage of the \$146 billion in welfare payments within Australia in 2014-15.

Evaluate how the spending of 29% of total welfare payments on income support for seniors might influence the level of economic activity in Australia. (6 marks)

**Question 15 continues**



**(Question 15 continued)**

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## UNIT 3 – AUSTRALIA AND THE GLOBAL ECONOMY

You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams, where relevant.

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### Question 16

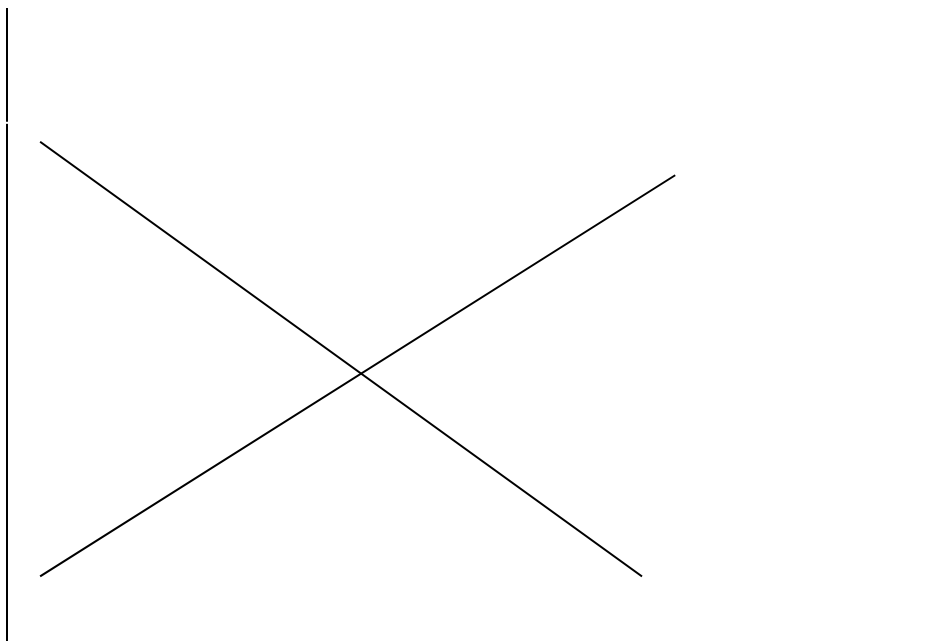
A recent hypothetical change in Japanese trade policy has resulted in Japan introducing a quota to reduce the imports of Australian beef to Japan.

On the diagram below, show the likely effect of the quota on Australian beef exports to Japan.

Explain how a quota on Australian beef could affect Australian beef producers and consumers.

(6 marks)

### Effect of an Import Quota



**Question 16 continues.**



## Question 17

### Australia's Top Exports and Imports – November 2015

	\$ billion (2014-2015)	% Growth
<b>Exports</b>		
Iron ore and concentrates	\$54.4	↓ 27.1
Coal	\$37.9	↓ 5.2
Education services	\$18.1	↑ 14.5
Natural gas	\$16.9	↑ 3.7
Personal travel	\$14.6	↑ 3.9
<b>Imports</b>		
Personal travel	\$24.1	↓ 4.7
Passenger motor vehicles	\$18.7	↑ 4.9
Refined petroleum	\$18.1	↓ 5.8
Crude petroleum	\$14.7	↓ 31.9
Telecom equipment and parts	\$11.0	↑ 21.8

(Source: <http://dfat.gov.au/about-us/publications/trade-investment/business-envoy/html/november-2015/index.html>)

Using data from the table above, analyse how Australia's structure of trade with regards to exports and imports is changing.

State **ONE** reason for the 27.1% decrease in iron ore and concentrates exports. Explain why this reason may have caused this decrease.

State **ONE** reason for the 4.9% increase in passenger motor vehicle imports. Explain why this reason may have caused this increase.

(6 marks)



### Question 18

The table below shows the value of the Australian Dollar (AUD) relative to the British Pound (GBP) and the United States Dollar (USD) in December of the last four years, along with a prediction for the end of 2017.

Year	\$1 AUD - £GBP	\$1 AUD - \$USD
December 2013	0.54	0.89
December 2014	0.52	0.82
December 2015	0.49	0.73
December 2016	0.59	0.72
December 2017 (predicted)	0.61	0.82

(Source: <http://aud.fx-exchange.com>)

(Source: <https://longforecast.com>)

Describe the trend in the value of the Australian dollar relative to the US dollar and Great Britain pound over the last four years.

Explain the implications of the predicted appreciation of the AUD in 2017 on Australia's foreign debt.

(6 marks)

**Question 18 continues.**





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# ECONOMICS

## (ECN315116)

### SECTION C

Time: 45 minutes

Pages:	20
Questions:	2

#### Candidate Instructions

1. You **MUST** make sure that your responses to the questions in this examination paper will show your achievement in the criteria being assessed.
2. You **MUST** answer **ALL PARTS** of **EITHER** Question 19 **OR** Question 20.
3. You must write **concise** and **clear** answers for each of the questions you have chosen.
4. You are encouraged to include diagrams, where relevant.
5. Answers must be written in the spaces provided on the examination paper.
6. Each question is worth 36 marks. (6 x 6 = 36 marks)
7. You should make sure you answer all parts within each question so that the criterion can be assessed.
8. This examination is 3 hours in length. It is recommended that you spend approximately 45 minutes in total answering the questions in this booklet.
9. All written responses must be in English.

On the basis of your performance in this examination, the examiners will provide results on each of the following criteria taken from the course document:

**Criterion 3** Describe and analyse problems arising from economic issues and events.

**Criterion 5** Communicate economic ideas and information.

## Question 19

Carefully examine the extract below.

### **Income inequality, the new handbrake on growth**

The gap between rich and poor in Australia should be formally tracked by the nation's prime economic review body, the Productivity Commission, according to a Labor senator who has drafted legislation to bring it about.

The proposal would ensure that any negative impacts on the poor arising from government policies are specifically measured and taken into account in the program design.

A five-yearly inequality report would also be mandated to map the location of wealth disparity in Australia, where currently, the richest three people hold as much wealth as the poorest three million. New South Wales Labor senator Jenny McAllister, called the widening gulf between rich and poor in most countries, 'the challenge of our times'. 'Inequality is at a near 75-year high. More equal societies have less crime, are healthier, and have higher levels of trust and civic participation,' she said.

She said the provision of a five-yearly inequality report, would assess where inequality is deepest in our regions and our cities, and 'whether government policies are making the situation better or worse'.

'It seems clear that Australians want us to address inequality. When surveyed, almost three-quarters agreed that 'differences in income are too high'.' Economists increasingly acknowledge that unequal wealth distribution is itself a drag on economic growth and a growing risk factor for political stability and the investment outlook.

If the Productivity Commission is serious about economic growth, sustainable economic growth, then it should take the impact of policy change on income distribution, very seriously. If you ignore inequality, you get less economic growth.

(Source: adapted from - <http://www.smh.com.au/federal-politics/political-news/income-inequality-the-new-handbrake-on-growth-20170612-gwp5la.html>)

**Question 19 continues.**

**Question 19 (continued)**

- (a) Explain the factors that contribute to growing income inequality causing a 'widening gulf between rich and poor.' (6 marks)
- (b) '... The richest three people hold as much wealth as the poorest three million.'  
Discuss whether this level of income inequality is a significant concern for the Federal Government. (6 marks)
- (c) Evaluate the impact of growing income inequality on individuals and the Government. (6 marks)
- (d) How could a 'five year inequality report' to 'map the location of wealth disparity', inform Government economic decision making in Australia? (6 marks)
- (e) Analyse the economic impact of growing income inequality within Australia. (6 marks)
- (f) Critically analyse the impacts in terms of social justice and practical limitations of growing income inequality in Australia. (6 marks)

## Section C (continued)

### Question 20

Carefully examine the extract below.

#### **Many of us are living the myth of lower inflation**

If you're a healthy, non-smoking woman who frequently buys shoes, wine and computer games, your purchasing power has gone through the roof over the past decade. The prices of the goods and services you tend to consume have fallen particularly sharply. Women's shoes and clothes are down 14 per cent since 2007 (much more than men's).

On the other hand, if you're a younger, lower income, renting sports fan, still paying for university, the owner of a sick pet and you don't mind the odd cigarette and a beer, you must be fed up with the talk of low inflation. The costs of all of these items have risen at a much faster rate than the consumer price index.

Australia's official inflation rate, which has hovered between 1 and 2 per cent a year for the past few years, is trotted out as evidence of low inflation. But the figure has little relationship with anyone's actual budgeting experience.

Luxuries have fallen in price, more or less, while those of many essentials, which tend to make up a bigger share of poorer households' budgets have increased. Purchases that can be put off, such as cars (down 12 per cent), have been falling, while university fees (up 53 per cent) have tended to surge. The price of holidays has grown only half as fast as the consumer price index (CPI) since 2007 (overseas stays even more slowly). But electricity has shot up 114 per cent, water bills and gas prices about 90 per cent and medical services 84 per cent. Household rental prices are up 46 per cent.

Government is to blame for much of the spiralling prices of essentials, which hit poorer workers harder. Some regulations choke off more efficient suppliers, pushing up costs (think childcare and energy).

The bottom line is aggregation of prices can be misleading and 'low inflation' is a mistake. Even measured inflation would be much higher were it not for the deluge of cheap Chinese goods.

(Source: <http://www.theaustralian.com.au/opinion/many-of-us-are-living-the-myth-of-lower-inflation/news-story/20c783e028924f05359a91309d639d44>)

**Question 20 continues.**

**Question 20 (continued)**

- (a) Using examples from the extract, explain the impact of current rates of inflation on the material standard of living on lower income earners in Australia. (6 marks)
- (b) Using examples from the extract, explain the impact of current rates of inflation on the material standard of living on higher income earners in Australia. (6 marks)
- (c) Analyse the possible causes of higher price levels in the household rental market where prices '... are up 46%'. (6 marks)
- (d) Explain the benefits to individuals and businesses of a stable low rate of inflation. (6 marks)
- (e) Critically analyse possible benefits of a rise in the consumer price index (CPI) on the Australian economy. (6 marks)
- (f) Consider the following quote from the extract ... 'electricity has shot up 114 per cent, water bills and gas prices about 90 per cent and medical services 84 per cent.'

Critically analyse the implications of high levels of inflation in the energy and health sectors in terms of social justice and environmental concerns. (6 marks)

Question Number:

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# ECONOMICS

## (ECN315116)

### SECTION D

Time: 45 minutes

Pages:	20
Questions:	2

#### Candidate Instructions

1. You **MUST** make sure that your responses to the questions in this examination paper will show your achievement in the criteria being assessed.
1. You **MUST** answer **ALL PARTS** of **EITHER** Question 21 **OR** Question 22.
2. You must write **concise** and **clear** answers for each of the questions you have chosen.
3. You are encouraged to include diagrams, where relevant.
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**Criterion 4** Describe and analyse economic solutions and make recommendations for future economic action.

**Criterion 5** Communicate economic ideas and information.

## Question 21

Carefully examine the extract below.

### This ex-RBA board member says the 'time is coming' for rate hikes in Australia

The Reserve Bank of Australia (RBA) has developed a reputation in recent years that it's a 'half-glass-full' central bank. In a sea of negative commentary about the outlook for the Australian economy, it has retained an optimistic view on where the economy is heading.

Just look at the bank's most recent economic forecasts offered in its May statement on monetary policy underlining that point.

**Table – Output Growth and Inflation Forecasts (percent)**

	Year-ended					
	Dec 2016	Jun 2017	Dec 2017	Jun 2018	Dec 2018	Jun 2019
GDP growth	2.4	1½–2½	2½–3½	2¾–3¾	2¾–3¾	2¾–3¾
Unemployment rate <sup>(b)</sup>	5.7	5¾	5–6	5–6	5–6	5–6
CPI inflation	1.5	2	1½–2½	1½–2½	1½–2½	2–3
Underlying inflation	1½	1¾	1½–2½	1½–2½	1½–2½	2–3

The question markets, businesses and households will be asking is, should the RBA be proven correct, what will it mean on the outlook for domestic interest rates? According to ex-RBA board member John Edwards, it means that interest rates will not only increase, they'll go up a lot. 'If inflation does indeed return to 2.5%, as the Bank now expects, if growth does indeed return to 3% 'within a few years', if the world economy is indeed picking up, then a policy rate of 1.5% is too low,' he wrote.

While unlikely, eight rate hikes would see variable mortgage rates lift back to 7% or higher. There's already plenty of concern over the outlook for household consumption given high debt levels, elevated underemployment and low income growth. It's highly debatable whether higher borrowing costs will help to reverse these trends.

When the next tightening cycle eventually begins, the RBA would want to be fairly certain that the economy can withstand tighter conditions caused by higher borrowing costs and Australian dollar. It's certain that when that moment comes, the RBA will want to be very confident that its forecasts are coming to fruition, as Edwards concluded in his piece. 'If household spending weakens, if the long expected firming of non-mining business investment is further delayed, if the Australian dollar strengthens, if employment growth is persistently weak, then the trajectory of rate rises will be less steep and the pace less rapid.'

Time will tell as to whether the RBA or 'glass-half-empty' crowd will be proven right.

(Source: <https://www.businessinsider.com.au/this-ex-rba-board-member-says-the-time-is-coming-for-rate-hikes-in-australia-2017-6#kuwi8jWZKGAVtOHx.99>)

**Question 21 continues.**

**Question 21 (continued)**

- (a) Explain the potential economic problems that could be caused by an inflation rate returning to 2.5% and if economic growth does indeed return to 3%. (6 marks)
- (b) Analyse the impact of an interest rate hike on household expenditure and underemployment in the Australian economy. (6 marks)
- (c) 'The RBA would want to be fairly certain that the economy can withstand tighter conditions'.  
What economic indicators could be used to assess whether the Australian economy could withstand a decision to increase interest rates? (6 marks)
- (d) Critically analyse the challenges and practical limitations of the Australian Government implementing contractionary monetary policy. (6 marks)
- (e) Assess an alternative solution to an interest rate rise that the government could implement to ensure stable economic growth and a stable rate of inflation. (6 marks)
- (f) Critically analyse potential short-term and long-term impacts of an interest rate rise on the Australian dollar. (6 marks)

**Section D (continued)**

**Question 22**

Carefully examine the extracts below.

**Australia has \$1 trillion foreign debt. Should we be worried?**

When you consider how many people worry about the federal government's debt, it's surprising how rarely we hear about the nation's bigger *foreign* debt. That's equivalent to 60 per cent of the nation's annual income (gross domestic product). But how did we rack up so much debt?

Our imports usually exceed our exports, giving us a trade deficit. This deficit has to be funded (paid for) either by borrowing from foreigners or by having them make 'equity' (ownership) investments in Australian businesses or properties. Of course, when we borrow from foreigners, we have to pay interest on our debts. And when foreigners own Australian businesses, they're entitled to receive dividends.

We've been running trade deficits for so long, and racking up so much net debt to foreigners, that the net income deficit each quarter is much bigger than our trade deficit. But while ever we have *any* deficit on the current account, our foreign debt will grow, and it already exceeds \$1 trillion in deficit.

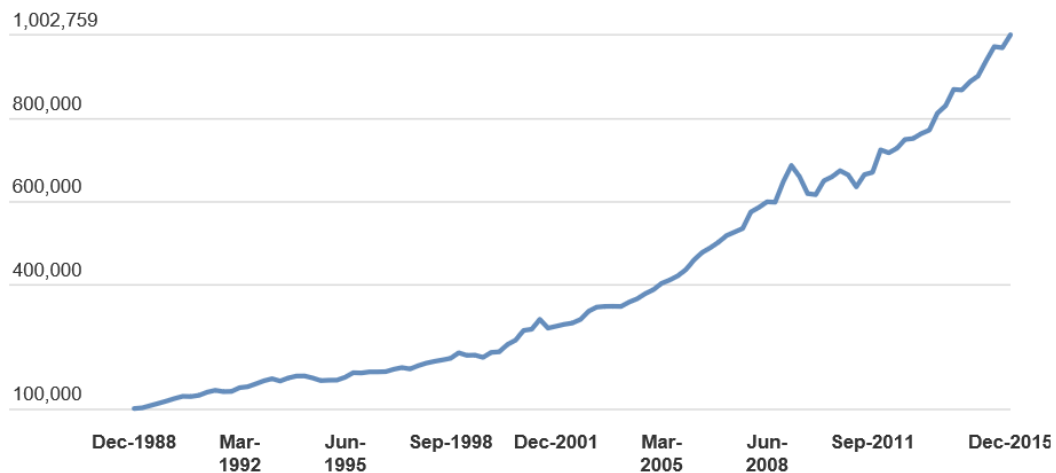
The proof that such a massive debt *doesn't* mean we're 'living beyond our means' is, first, that the nation - households, businesses and governments combined - saves a high proportion of its income rather than spending it on consumption.

Everything the nation saves each year is used to fund new investment in houses, business structures and equipment, and infrastructure. This investment is further proof we're not living beyond our means. In fact, the nation invests *more* each year than we save.

(Source: <http://www.smh.com.au/business/the-economy/australias-1-trillion-foreign-debt-level-should-worry-us-all-20170407-gvfsq.html>)

**Net foreign debt breaks through the \$1 trillion**

Australia net foreign debt (\$ million) since the ABS started the series in the December quarter, 1998



(Source: [http://www.abc.net.au/news/2016-03-01/australias-net-foreign-debt-tips-over-\\$1-trillion/7210622](http://www.abc.net.au/news/2016-03-01/australias-net-foreign-debt-tips-over-$1-trillion/7210622))

**Question 22 continues.**



**Question 22 (continued)**

- (a) Explain **TWO** different factors that could contribute to Australia having a level of foreign debt in excess of \$1 trillion. (6 marks)
- (b) Analyse the costs and benefits to the Australian economy of servicing and sustaining its current level of foreign debt. (6 marks)
- (c) Evaluate **TWO** potential policy actions the Australian government could take to reduce its foreign debt. (6 marks)
- (d) Evaluate the short-term and long-term impact that a depreciating Australian Dollar could have on Australia's foreign debt. (6 marks)
- (e) Critically analyse the potential social justice implications of the Australian Government running a budget surplus in order to significantly reduce Australia's foreign debt. (6 marks)
- (f) Should the Australian government implement a policy aimed at reducing Australia's foreign debt? Justify your recommendation. (6 marks)

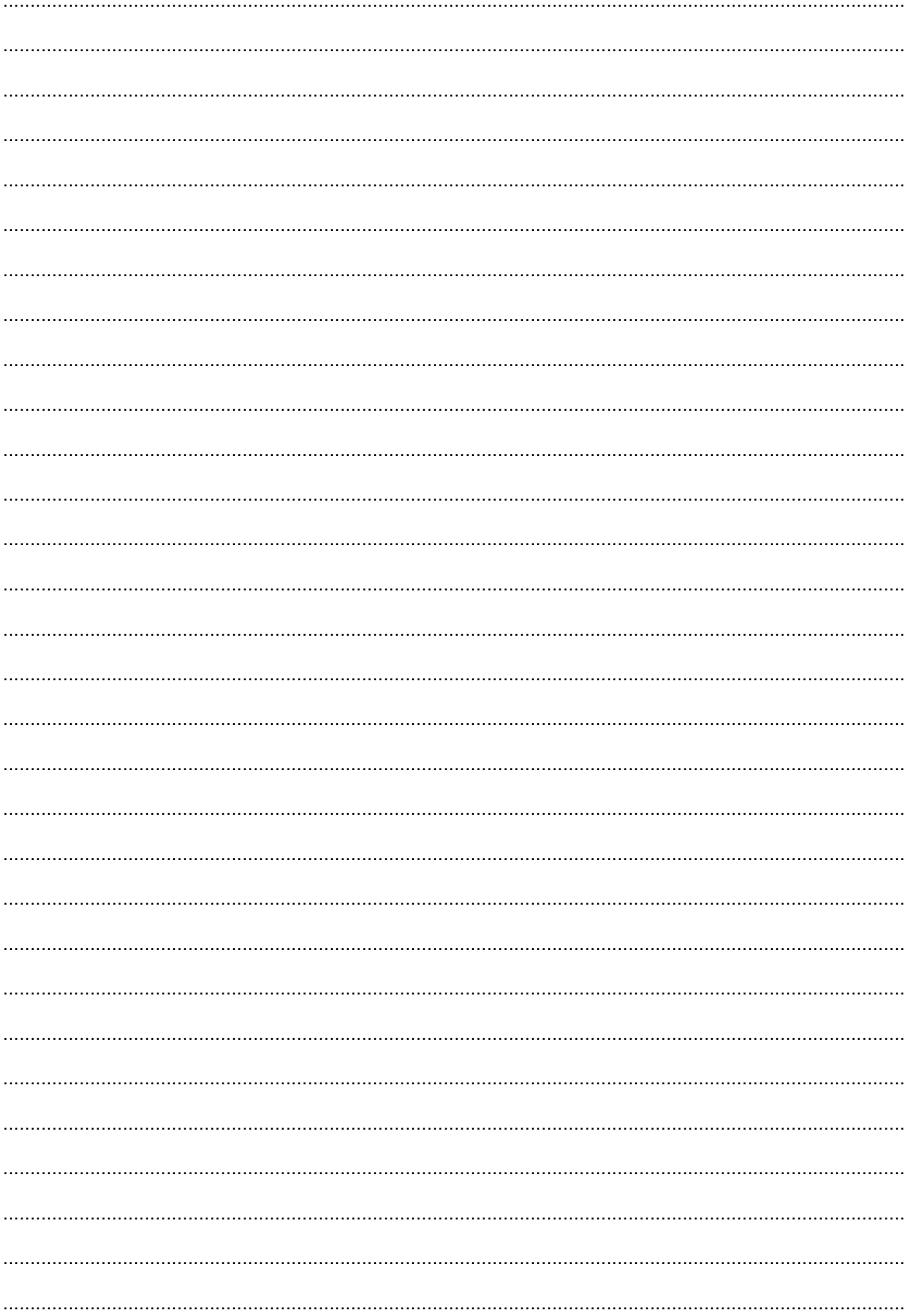


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