

## MULTIPLE CHOICE

- |      |       |       |       |
|------|-------|-------|-------|
| 1. B | 6. D  | 11. D | 16. A |
| 2. D | 7. C  | 12. B | 17. D |
| 3. C | 8. A  | 13. A | 18. A |
| 4. A | 9. B  | 14. C | 19. A |
| 5. C | 10. B | 15. C | 20. C |

## SHORT ANSWER QUESTIONS

### Question 1

- (a) Productivity refers to the quantity of goods and services an economy can produce with a given amount of inputs such as capital and labour.
- (b) An answer to this question may include any two of the following:
- Increasing the use of efficient labour saving technology in the process of production.
  - Linking wage increases with productivity improvements in the wage determination process.
  - Increasing competition within an industry to encourage firms to become more efficient.
  - Removing protectionist trade barriers that prevent foreign firms from competing with domestic producers.
- (c) An increase in productivity is an important source of growth because it means that the economy produces greater output from the same quantity of inputs. As a result, aggregate supply increases. Because of the increase in aggregate supply, inflationary pressures remain low despite economic growth, meaning productivity increases allow for economic growth that can be sustained into the long term.
- (d) Productivity growth allows for lower costs because resources are being used efficiently. As a result, Australian firms improve their international competitiveness through keeping prices low. As export revenues increase, the balance on goods and services component of the CAD improves. An improved CAD will ease Australia's dependence on foreign financial inflows, keeping Australia's foreign liabilities under control. A more productive Australian economy will also maintain overseas investor confidence, leading to a more stable exchange rate.

**Question 2**

- (a) An answer to this question could include any TWO of the following policies:
- National Competition Policy 1995
  - Labour market reform under the Workplace Relations Act of 1996 and WorkChoices in 2006
  - Further deregulation of the financial sector following Wallis Report of 1997
  - Privatisation of Public Trading Enterprises including Qantas and Telstra
  - Corporatisation of Public Trading Enterprises such as Australia Post
  - Reductions in tariffs across most industries to a general tariff level of below 5 per cent
  - Taxation reform, including the introduction of the GST in 2000
- (b) Some individuals will suffer from microeconomic reform in the short-term through job losses. People may become structurally unemployed when the businesses that employ them close because they cannot compete. As a result, these individuals will experience a fall in their living standards. Those businesses that close bear the greatest costs of microeconomic reform, but all firms may experience some short-term costs in the loss of market share or in the cost of transition to newer, more efficient methods of production.
- (c) In the long term, microeconomic reform increases an economy's rate of sustainable economic growth. As a result, individuals' income and living standards will increase. More individuals will gain employment as job opportunities arise in efficient industries. As consumers, individuals will benefit from access to a broader range of goods at lower prices as aggregate supply increases. Firms will benefit from cheaper inputs into production, while more efficient production processes will increase in business profits.

**Question 3**

- (a) Multilateral agreements are formed between a large number of countries throughout the world with the aim of reducing trade protection between members. Bilateral agreements are formed between two countries, affecting their trade policies towards one another.
- (b) An answer to this question may include any two of the following:
- Bilateral agreements may be easier to negotiate because fewer parties are involved, allowing for quicker progress towards a completed agreement.
  - A bilateral agreement can better reflect the interests of the two countries, allowing each country to seek concessions in industries that matter most to its trading patterns and to maintain protection in politically sensitive industries.
  - Smaller nations may find they have more bargaining power at the bilateral level than at the multilateral level where large, advanced economies dominate.
- (c) Trade liberalisation on a global level enables exporters to gain access to overseas markets, allowing for economies of scale in production and greater export revenues. Trade liberalisation on a domestic level benefits exporters because they can access resources that were once directed to inefficient import-competing firms. It also allows exporters access to cheaper imported inputs to production.
- (d) In the short run, consumers may purchase cheaper imports in place of domestic goods, leading to a deterioration in the balance on goods and services component of the current account. In the long run, efficient Australian exporters will gain access to new markets overseas. As domestic producers increase the quantity and quality of their products, demand for imports may fall. As a result, the current account balance may improve.