

ECONOMICS PRACTICE HSC EXAMINATION

SECTION I

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

SECTION II

Question 21

- (a)** Structural change refers to the process by which the pattern of production in an economy is altered over time, and certain products, processes of production and even industries disappear, while others emerge.
- (b)** An answer to this question may include any two of the following examples:
- Deregulation of the labour market under the WorkChoices package of 2006 or the Workplace Relations Act of 1996
 - Trade liberalisation through progressive reductions in tariffs and participation in multilateral and bilateral trade agreements
 - Tax reform through the introduction of the GST in 1999
 - Introduction of National Competition Policy in 1995
 - Deregulation of the financial sector in 1983
 - Privatisation of government business enterprises such as Telstra
 - Corporatisation of government business enterprises such as Australia Post
- (c)** Microeconomic reform aims to increase allocative efficiency by removing price distortions in order to shift resources to the most efficient producers. It aims to improve technical efficiency by adopting more efficient production methods to lower production costs. Microeconomic reform also aims to increase dynamic efficiency so the economy can shift resources between industries more rapidly in response to changing demand.
- (d)** Microeconomic reform aims to improve efficiency in production, increasing aggregate supply. As a result, the economy can grow at a higher rate for a longer time before inflationary pressures emerge. A higher rate of sustainable economic growth reduces cyclical unemployment because it increases the economy's demand for labour. However, microeconomic reform incurs short-term structural unemployment where structural change eliminates certain industries and processes of production.

Question 22

- (a) An answer to this question may include any two of the following trends:
- Australia's foreign liabilities have more than doubled since the mid-1990s.
 - Growth in Australia's foreign liabilities accelerated between 1999-2000 and 2004-05.
 - An increasing proportion of Australia's net foreign liabilities are drawn from net foreign equity rather than net foreign debt.
- (b) An exchange rate appreciation will reduce the Australian dollar value of any foreign debt which is denominated in foreign currencies. This will reduce the size of foreign debt and hence foreign liabilities. However this valuation effect only applies to about half of Australia's foreign debt. Australia's foreign equity tends to be denominated in Australian dollars. Thus foreign liabilities should decrease slightly. A sustained appreciation will worsen the current account deficit, with reduced export competitiveness, and increased imports. This deficit must be funded by a surplus on the capital and financial account, adding to foreign liabilities.
- (c) An increase in net foreign liabilities worsens the current account deficit. Net foreign liabilities incur servicing costs, in the form of interest in return for debt and profit in return for equity. These servicing payments are recorded as outflows in the net incomes component of the current account, worsening the CAD. An increased CAD creates a need for yet more foreign liabilities, possibly creating a cycle of debt in extreme situations, known as the debt-trap.

Question 23

- (a) One environmental issue is dry land salinity, where agricultural land suffers from salty deposits. It is both an economic and an environmental issue because it represents a loss of productive resources and incurs costs in regenerating saline land.
- (b) During periods of economic growth, environmental degradation can occur through market failure. As environmental goods occur naturally, there is nobody to compensate for their use, leading to their potential exploitation in pursuit of growth. However, economic growth can assist environmental management as it provides an increase in income, which may be spent on environmental projects without the opportunity cost this would otherwise incur.
- (c) Increased investment flows have meant some economies may maintain low environmental standards in order to attract investment by TNCs. This leads to environmental degradation, particularly in rapidly-growing newly industrialised economies. However, TNCs may also introduce more environmentally-friendly production methods through technology transfer. Globalisation also enables cooperation to protect the environment, such as the inclusion of environmental-protection clauses in trade agreements.

Question 24

- (a)** An answer to this question may include any two of the following:
- Australia's distribution of income is unequal, with the highest quintile receiving five times the income of the lowest quintile.
 - Every quintile but the highest income group experienced a decline in its share of income between 1995-96 and 2002-03.
 - Australia's distribution of income is unequal in terms of gender, with females earning two-thirds the male income on average.
 - A great disparity in family income levels exists, with single-parent families receiving the lowest income of any family type.
 - Migrants from a non-English speaking background tend to receive significantly lower incomes than English-speaking migrants.
 - Indigenous Australians' incomes lag behind non-indigenous Australians by approximately 40 per cent.
 - Inequality in income distribution exists between states, with the ACT, NSW and Victoria exceeding the average national income.
- (b)** An answer to this question may include any two of the following:
- Monetary policy impacts on income distribution as high income earners tend to be savers while low income earners borrow. An increase in interest rates will worsen inequality as returns to savings grow while borrowers' debt-servicing payments increase.
 - Fiscal policy can influence income distribution through discretionary budget changes. An increase in marginal tax rates and an increase in transfer payments would ease inequality through redistributing income towards low income earners.
 - A decentralised labour market policy based on enterprise bargaining could worsen inequality, as high-skill, high income employees have greater bargaining power in wage negotiations than low-skill, low income employees.
 - Trade liberalisation policies may worsen inequality through increasing structural unemployment in import-competing industries. Those without a job rely on transfer payments which tend to be lower than wages.
 - A regressive taxation policy, such as the introduction of a goods and services tax, will worsen inequality because the tax will consume a larger proportion of the disposable income of low income earners than high income earners.
- (c)** An unequal distribution may increase productivity through encouraging individuals to work harder and increase their skills in order to improve their living standards. However, inequality may require increased government expenditure on transfer payments to low-income earners. Income inequality can also create social division between income groups, particularly where conspicuous consumption exists. It may also create a poverty cycle where individuals' access to employment and economic opportunities deteriorate.