



2012 ECONOMICS

**FOR OFFICE
USE ONLY**

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**ATTACH SACE REGISTRATION NUMBER LABEL
TO THIS BOX**

Thursday 8 November: 1.30 p.m.

Time: 2 hours

Pages: 11
Questions: 6

Examination material: one 11-page question booklet
one 8-page script book
one SACE registration number label

Approved dictionaries may be used.

Instructions to Students

1. You will have 10 minutes to read the paper. You must not write in your question booklet or script book during this reading time but you may make notes on the scribbling paper provided.
2. This paper is in two parts:
Part A (Questions 1 to 3)
Answer **all parts** of Questions 1 to 3 in the spaces provided in this question booklet.
Part B (Questions 4 to 6)
Answer **one** essay question from this part. Write your answer in the separate script book.
3. The allocation of marks is as follows:
Part A 45 marks
Part B 20 marks
Total 65 marks
4. Attach your SACE registration number label to the box at the top of this page. Copy the information from your SACE registration number label into the box on the front cover of your script book.
5. At the end of the examination, place your script book inside the back cover of this question booklet.

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PART A (Questions 1 to 3)

(45 marks)

Answer **all** parts of Questions 1 to 3.

Write your answers in the spaces provided for each question. The allocation of marks is shown in brackets at the end of each part of each question.

1. Refer to the following article.

The Dominance of State-owned Firms in China Raises Concerns

Before China started its transition from a planned economy, all firms were owned by the state. State ownership is now declining but in 2012 state-owned firms are still responsible for approximately 45% of China's real gross domestic product (GDP). State-owned firms dominate banking, energy, and infrastructure industries, creating a large number of monopolies.

Some economists argue that the pace of China's future economic growth may slow rapidly unless state-owned firms, which are inefficient and lack entrepreneurship, are made to operate on commercial lines. In addition, moving away from a monopoly towards an oligopoly in some industries may bring more benefits than costs.

Internationally, there are claims that China is protecting its domestic industries. In China, state-owned firms are required to purchase locally wherever possible. They also receive low-cost loans from state-owned banks, and more efficient firms pay a subsidy to less efficient firms. Some countries are pressuring Chinese leaders to sign a trade agreement that will ensure that state-owned firms operate on a commercial basis when involved in international trade.

(a) Describe *one* economic problem that China may experience during its transition from a planned economy.

_____ (1 mark)

(b) Which *one* of the following best describes an economic system that uses the market to allocate resources? Tick the appropriate box.

- | | | |
|--|--------------------------|----------|
| It allows all consumers an equal influence on output | <input type="checkbox"/> | |
| It ensures that resources are allocated on the basis of need | <input type="checkbox"/> | |
| It uses relative prices to determine the composition of output | <input type="checkbox"/> | |
| It ensures that consumers can get the goods they want | <input type="checkbox"/> | (1 mark) |

(c) State *one* method of calculating GDP.

_____ (1 mark)

(h) Using the information in the article on page 3, present arguments for and against China signing the proposed trade agreement.

(i) For: _____

_____ (2 marks)

(i) Against: _____

_____ (2 marks)

2. Refer to the following article.

The Rising Price of Petrol Threatens to Reduce Global Economic Growth

The fast-rising price of petrol is threatening to reduce global economic growth, and increased tensions in some oil-producing countries have raised the threat of a major disruption in global oil supplies. Producers of goods and services face higher production and distribution costs. A higher petrol price forces consumers to change their expenditure on other items, such as restaurant meals, hairdressing, and family holidays. The price elasticity of both supply and demand for petrol is likely to be relatively inelastic.

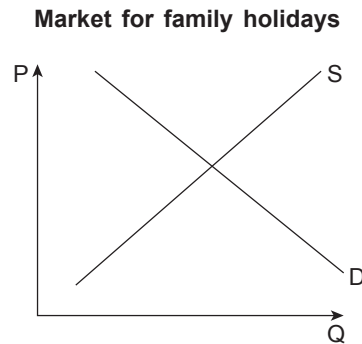
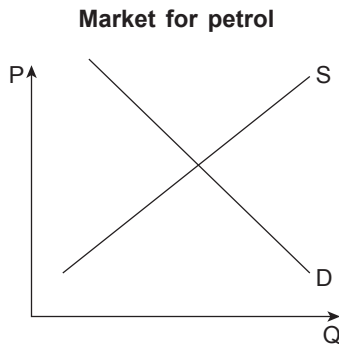
(a) (i) Define the term 'price elasticity of supply'.

_____ (1 mark)

(ii) State *one* reason why the price elasticity of supply for petrol is likely to be relatively inelastic.

_____ (1 mark)

(b) Using the information in the article above, show on *each* diagram the effect of the change in market conditions for petrol on the price and quantity traded in the following markets:



(2 marks)

(c) Which *one* of the following best explains why the price elasticity of demand for petrol is likely to be inelastic? Tick the appropriate box.

Close substitutes are not available

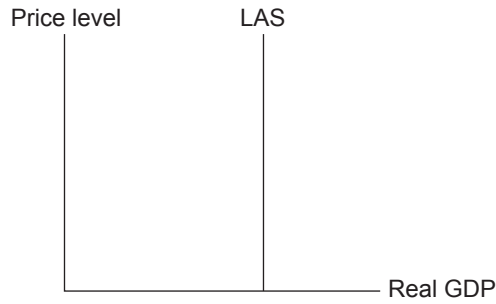
A small proportion of income is spent on petrol

The supply of petrol is price inelastic

Petrol production is close to capacity

(1 mark)

- (d) (i) By completing the aggregate demand – aggregate supply diagram below, show the impact of a higher petrol price on an economy that is in recession.



(1 mark)

- (ii) With reference to the diagram you completed in part (d)(i), state the likely impact of a higher petrol price on:

- (1) inflation. _____
 (2) economic growth. _____
 (3) employment. _____

(3 marks)

- (iii) With reference to the diagram you completed in part (d)(i):

- (1) identify *one* macroeconomic policy that may be *effective* in this economy, and explain why it may be effective.

Policy: _____

Explanation: _____

_____ (2 marks)

- (2) identify *one* macroeconomic policy that may be *ineffective* in this economy, and explain why it may be ineffective.

Policy: _____

Explanation: _____

_____ (2 marks)

3. Refer to the table below.

<i>Statistic</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Consumer Spending (% change)	-3.3	1.3	2.5
Investment (% change)	-15.4	3.5	5.5
Savings (% change)	-3.5	-4.7	-8.3
Exports (% change)	-10.1	5.3	6.5
Imports (% change)	-11.9	8.0	12.5
Real GDP (% change)	-4.9	2.7	3.4
World Economic Growth (% change)	-0.8	3.5	4.5
Current Account Balance (as a % of GDP)	-1.7	-3.4	-7.8
Unemployment Rate	4.9	5.3	4.8
Exchange Rate (US\$, annual average)	1.62	1.55	1.40

(a) State which phase of the business cycle this economy is in between 2010 and 2012.

_____ (1 mark)

(b) Explain *one* factor that may cause a change in investment in an economy.

_____ (2 marks)

(c) Name *one* component of aggregate demand that is not shown in the table above.

_____ (1 mark)

(d) Using evidence from the table above, explain *one* possible reason for the change in exports in this economy between 2010 and 2012.

_____ (2 marks)

(g) (i) Name *one* indicator of external balance that is not shown in the table on page 8.

_____ (1 mark)

(ii) The macroeconomic objective of external balance has not been achieved in this economy between 2010 and 2012. Outline *two* economic policies that may be used to help achieve external balance.

Policy 1: _____

_____ (2 marks)

Policy 2: _____

_____ (2 marks)

(iii) Explain how a policy that is used to achieve external balance may lead to a conflict in the achievement of other macroeconomic objectives.

_____ (2 marks)

PART B (Questions 4 to 6)

(20 marks)

Answer **one** essay question from Questions 4 to 6.

Whenever appropriate, you should supplement your answer with suitable diagrams.

Write your answer in the separate script book provided. Write the number of the question you choose in the appropriate box on the front cover of the script book.

4. 'The growth of international trade and capital mobility has both positive and negative effects on a country's internal economy.'

Evaluate this statement with reference to examples. (20 marks)

5. 'Monetary policy is more effective than fiscal policy in achieving the macroeconomic objectives of full employment and price stability.'

Evaluate this statement with reference to examples. (20 marks)

6. 'Full employment is the most important macroeconomic objective because of the effects of high unemployment on the economy and the individual.'

Evaluate this statement with reference to examples. (20 marks)