



HSC

ECONOMICS
WORKBOOK

GARY LIANG

HSC Economics Workbook by **Gary Liang** (2023 Edition)

ISBN: 9798849893228

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Dedication

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Introduction

This workbook contains multiple choice, short answer and extended response questions organised by topic. It is designed for the student to easily revise any sections of the Year 12 Economics syllabus. The questions are based on the Year 12 Economics Syllabus as mandated by the NSW Education Standards Authority.

The following topics are covered:

- The Global Economy (20 multiple choice questions, 5 short answer questions, 5 extended response questions)
- Australia's Place in the Global Economy (20 multiple choice questions, 5 short answer questions, 5 extended response questions)
- Economic Issues (30 multiple choice questions, 6 short answer questions, 6 extended response questions)
- Economic Policies and Management (30 multiple choice questions, 6 short answer questions, 6 extended response questions)

The book also contains **worked solutions with full explanations** for all multiple choice and short response questions.

Have a suggestion to improve the workbook? Send me an email at gary@glnotes.com.

Gary Liang

Glossary of directive terms

Account

Account for: state reasons for, report on.

Give an account of: narrate a series of events or transactions

Analyse

Identify components and the relationship between them; draw out and relate implications

Apply

Use, utilise, employ in a particular situation

Appreciate

Make a judgement about the value of

Assess

Make a judgement of value, quality, outcomes, results or size

Calculate

Ascertain/determine from given facts, figures or information

Clarify

Make clear or plain

Classify

Arrange or include in classes/categories

Compare

Show how things are similar or different

Construct

Make; build; put together items or arguments

Contrast

Show how things are different or opposite

Critically (analyse/evaluate)

Add a degree or level of accuracy depth, knowledge and understanding, logic, questioning, reflection and quality to (analyse/evaluate)

Deduce

Draw conclusions

Define

State meaning and identify essential qualities

Demonstrate

Show by example

Describe

Provide characteristics and features

Discuss

Identify issues and provide points for and/or against

Distinguish

Recognise or note/indicate as being distinct or different from; to note differences between

Evaluate

Make a judgement based on criteria; determine the value of

Examine

Inquire into

Explain

Relate cause and effect; make the relationships between things evident; provide why and/or how

Extract

Choose relevant and/or appropriate details

Extrapolate

Infer from what is known

Identify

Recognise and name

Interpret

Draw meaning from

Investigate

Plan, inquire into and draw conclusions about

Justify

Support an argument or conclusion

Outline

Sketch in general terms; indicate the main features of

Predict

Suggest what may happen based on available information

Propose

Put forward (for example a point of view, idea, argument, suggestion) for consideration or action

Recall

Present remembered ideas, facts or experiences

Recommend

Provide reasons in favour

Recount

Retell a series of events

Summarise

Express, concisely, the relevant details

Synthesise

Putting together various elements to make a whole

Guide to directive terms

Analyse

Identify components and the relationship between them; draw out and relate implications

Introduction

- Identify the problem and its components

Body

- Identify components
- Identify the relationship between these components
- Explain the links between these components
- Draw out implications (effects of the effects)
- Keywords:
 - For example...
 - ... leading to...
 - ... causing...
 - This causes...
 - These are related ...
 - This leads to...
 - This means...
 - The effect of this is...
 - The implication of this is...

Conclusion

- Summarise overall relationships and implications
- Keywords:
 - Thus...
 - Hence...
 - Consequently...
 - Therefore...
 - Overall...

Assess

Make a judgement of value, quality, outcomes, results or size

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Discuss

Identify issues and give points for and/or against

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Evaluate

Make a judgement based on criteria

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Explain

Relate cause and effect; make the relationships between things evident; provide why and/or how

[Redacted content]

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Topic 2 – Australia's Place in the Global Economy

Multiple Choice

Question 1

The table shows selected data for an economy:

<i>Item</i>	<i>(\$ billion)</i>
Exports	300
Imports	?
Net primary income	-400
Net secondary income	40
Capital account	200
Financial account	410

Under a floating exchange rate, what is the value of imports in this economy?

- (A) 550 billion
- (B) 640 billion
- (C) 700 billion
- (D) None of the above

Question 2

What would most likely cause Australia's balance of goods and services deficit to become larger?

- (A) Tightening of Australia's macroeconomic policies
- (B) Increase in interest rates of major trading partners
- (C) Decrease in Australia's inflation rate
- (D) Improved transport infrastructure

Question 3

Given the data below for a hypothetical economy, in which year were the most exports required to pay for the same volume of imports?

<i>Year</i>	<i>Export price index</i>	<i>Import price index</i>
1	100	110
2	105	112
3	107	120
4	120	121

- (A) Year 1
- (B) Year 2
- (C) Year 3
- (D) Year 4

Question 4

Which of the following would be recorded as a debit in the current account of Australia's Balance of Payments?

- (A) Salary paid to Australian citizens working in Switzerland
- (B) Interest paid to Australian lenders
- (C) Unconditional foreign aid from the Australian government to a developing country following a typhoon
- (D) An Australian company expressing interest in purchasing a large shipment of imports from China

Short Response

Question 21 Australia's Trade and Financial Flows

- (a) Compare direct investment and portfolio investment. **2**

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- (b) Describe and briefly justify the trends in the composition and direction of Australia's trade. **3**

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Question 1

The table shows selected data for an economy:

<i>Item</i>	<i>(\$ billion)</i>
Exports	300
Imports	?
Net primary income	-400
Net secondary income	40
Capital account	200
Financial account	410

Under a floating exchange rate, what is the value of imports in this economy?

- (A) 550 billion
- (B) 640 billion
- (C) 700 billion
- (D) None of the above

We know that under a floating exchange, $CA + KAFA = 0$. Hence,

$$\begin{aligned}
 X - M + NPY + NSY + KA + FA &= 0 \\
 300 - M - 400 + 40 + 200 + 410 &= 0 \\
 M &= 550
 \end{aligned}$$

Question 2

What would most likely cause Australia’s balance of goods and services deficit to become larger?

- (A) Tightening of Australia’s macroeconomic policies
- (B) Increase in interest rates of major trading partners**
- (C) Decrease in Australia’s inflation rate
- (D) Improved transport infrastructure

An increase in interest rates of major trading partners means that their economies are slowed down and hence demand less Australian exports, thus reducing $X - M$.

It is not (A) because tightening macroeconomic policies leads to less import spending, which makes the trade balance more positive. It is not (C) because a decrease in inflation rate does not have a significant effect on the trade balance (one could argue that it improves international competitiveness as prices are lower, which increases exports). It is not (D) because improved transport infrastructure increases the ability of Australia to export more.

Question 3

Given the data below for a hypothetical economy, in which year were the most exports required to pay for the same volume of imports?

<i>Year</i>	<i>Export price index</i>	<i>Import price index</i>
1	100	110
2	105	112
3	107	120
4	120	121

- (A) Year 1
- (B) Year 2
- (C) Year 3**
- (D) Year 4

Most exports are required to pay for the same volume of imports when the Terms of Trade is lowest. If we calculate the Terms of Trade for each year (Export Price Index / Import Price Index), we see that Year 3 has the lowest Terms of Trade.

Question 4

Which of the following would be recorded as a debit in the current account of Australia's Balance of Payments?

- (A) Salary paid to Australian citizens working in Switzerland
- (B) Interest paid to Australian lenders
- (C) Unconditional foreign aid from the Australian government to a developing country following a typhoon**
- (D) An Australian company expressing interest in purchasing a large shipment of imports from China

A debit in the current account means that money is flowing out of the Australian economy, which eliminates (A) and (B). (D) can't be the answer because 'expressing interest' does not involve any money transfer. Hence, (C) is the answer because outbound unconditional aid is recorded on the current account.

Question 5

A family from the United States visit Australia and pay to climb the Sydney Harbour Bridge. How is this recorded on the Australian Balance of Payments?

- (A) A debit in the current account
- (B) A credit in the current account**
- (C) A debit in the capital and financial account
- (D) A credit in the capital and financial account

This transaction is a money inflow, in the goods and services account (tourism is an export). Hence it must be (B).

Short Response

Question 21 Australia’s Trade and Financial Flows

- (a) Compare direct investment and portfolio investment. 2
- **Direct investment involves buying an asset with the intention to have managerial control, typically a 10% stake or over.**
 - **Portfolio investment refers to investment in equity or debt securities, without the intention of managerial control.**
- (b) Describe and briefly justify the trends in the composition and direction of Australia’s trade. 3
- **Primary industries have been a major component of Australia’s exports.**
 - **Traditionally, exports were mainly in the agricultural industry, but this has reduced due to fluctuations in world prices and international protection.**
 - **Instead, mining exports have increased, due to growth in emerging economies like China. Other large export categories include education and travel. Large import categories include travel, refined petroleum and passenger motor vehicles.**
 - **In the 1950’s, Australia mainly traded with the UK and Europe. But the UK joined the EU in 1973 and they imposed trading barriers against Australia.**
 - **In the 1960’s, Japan became a major buyer of Australian exports. Japan was growing rapidly and Australia quickly satisfied their demand for exports.**
 - **More recently, there has been a move towards China, South Korea and ASEAN countries. China is now Australia’s biggest trade partner.**

(c) Explain the benefits and costs of foreign investment in a developing country. **5**

- **One advantage is that transfer of technology and management skills to the new country. Foreign direct investment typically leads to managers bringing in resources to maximise profit in that country. This acts to improve the efficiency of other firms in country.**
- **Another advantage is that this investment leads to the production of more output, increasing economic growth. This output is produced by labour, thus improving employment as well.**
- **One disadvantage is cost of servicing debt and equity overseas. Due to the investment into the country, interest or dividend payments need to be made to the owner of the asset. This has a negative effect on external stability and may create a more negative current account deficit on the Balance of Payments.**
- **Another disadvantage is environmental degradation. Typically, developing countries do not have strict environmental laws. Transnational corporations (TNC's) may exploit this and this leads to environmental problems such as increased emissions, destruction of local flora and fauna and leakage of dangerous chemicals.**
- **Other advantages include: Improved infrastructure and economic development, increased skills and education. Other disadvantages include: destruction of local small businesses, exploitation of relaxed taxation and labour laws.**