

2002 HIGHER SCHOOL CERTIFICATE EXAMINATION
Economics

Section II (continued)

Marks

Question 24 (10 marks)

The following information refers to inflation.

The Consumer Price Index (CPI) increased by 0.9 per cent in the December quarter, after rising by 0.3% in the September quarter, to be 3.1% higher over 2001. . . .

However, the outlook for the medium term determinants of inflation has not changed substantially in the light of recent data. Wage and labour cost growth remain contained and are likely to continue to be so given the prevailing weakness in the labour market. The stability of the exchange rate over the past year, combined with downward pressure on world prices from the subdued global economy, suggests that there will be little inflationary pressure from import prices in the medium term.

Adapted from Reserve Bank, *Statement on Monetary Policy*,
February 2002

Material used with permission of the Reserve Bank of Australia

(a) Define the term *inflation*.

2

when ~~costs~~ things go up a price
of goods and wages

(b) Outline TWO causes of inflation.

2

less employed so more people are
earning more money raising inflation

the value of the Australian dollar goes up
making imports cheaper for consumers
to buy

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Question 24 (continued)

(c) Outline TWO negative effects of inflation on an economy.

2

more expensive products giving
people less money to spend on
luxury goods ↓ standard of living
more ~~unity~~ inequality in wages
making rich richer and poor poorer

(d) Explain TWO government economic policies that could reduce the rate of inflation in an economy.

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End of Question 24