

Year 11 Economics

Topic Test 5 – Financial Markets

General Instructions

- Exam consists of two sections – Both Sections must be completed
- Do NOT open the exam booklet until instructed to
- Use black or blue pen only
- Calculators may be used
- All Answers must be written on the exam paper

Reading Time: 5 Minutes

Working Time: 75 Minutes

Section I – Short Answer Questions (40 marks)

Section II – Extended Response (15 marks)

Total Marks = /55

Percentage = /100%

Exam Rank = /

Overall Rank = /

Comments:

Section I – Short Answer Questions (40 marks)

1) Determine the main sources of savings in the economy (3 marks)

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2) Determine the main reasons Governments borrow money? (2 marks)

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3) Distinguish the difference between primary and secondary markets (4 marks)

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4) What is the main purpose of the FOREX? (3 marks)

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5) What is meant by the speculative motive? (2 marks)

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6) Describe the key roles of the Reserve Bank of Australia (4 marks)

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7) Explain how financial innovations have improved the efficiency and advancement of the financial system (3 marks)

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8) Explain why assets that have less liquidity are subject to higher interest rates? (4 marks)

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9) In reference to financial aggregates measured by the RBA, What are the components that make up M3? (3 marks)

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10) Explain the implementation of a “tightening of monetary policy” and its overall effect on economic activity (5 marks)

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11) Outline three factors that may influence the level of interest rates (3 marks)

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12) Evaluate the impact of Investment and Debt on the share market (4 marks)

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Extended Response (15 marks)

Discuss the roles and functions of the three main financial regulators in Australia; and analyse their importance in the regulation of Australian financial markets.

Planning Space

You are encouraged to use the planning space below and the stimulus provided on page 6 to help you with your answer.

NB: This page will not be marked

STIMULUS

Media Report

An Australian public company, Biron Apparel Limited, based in Melbourne, has pleaded guilty in the Melbourne Magistrates Court to three counts of failing to lodge financial reports with ASIC and two counts of failing to hold annual general meetings. The charges relate to the financial years ending 2007, 2008 and 2009. The company was convicted and fined \$5,000.

The failure to lodge financial reports and hold meetings, restricts shareholder knowledge of the company's financial position, future prospects and viability. The charges were brought by ASIC as part of a campaign to take action against companies who fail to comply with their reporting and shareholder obligations under the Corporations Act.

Source: www.asic.gov.au

Australian Prudential Regulation Authority – Quarterly Bank Performance Statistics

- Net interest income of banks for the twelve months to 31 December 2009 was \$54.4 billion. The four major banks accounted for 84.3 per cent (\$45.9 billion) of this figure.
- Fee and commission of banks for the twelve months to 31 December 2009 was \$20.1 billion. The four major banks accounted for 78.0 per cent (\$15.6 billion).
- Total operating income of banks for the twelve months to 31 December 2009 was \$90.2 billion. The four major banks accounted for 72.2 per cent (\$65.2 billion) of this figure.
- Total assets of banks as at 31 December 2009 were \$3,089.5 billion, a decrease of 5.7 per cent over the year.

Source: www.apra.gov.au

The Australian dollar closed higher on Friday in response to a statement of monetary policy from the central bank, showing a largely unchanged forecast for low inflation and strong growth. The Reserve Bank of Australia's (RBA) quarterly statement of monetary policy said it expected the Australian economy to have grown by three per cent over the year to June 2010, while the inflation forecast was largely unchanged from its May statement.

Source: Sydney Morning Herald 2010

