Government of **Western Australia**
School Curriculum and Standards Authority

ECONOMICS

ATAR course sample examination

Marking key

Marking keys are an explicit statement about what the examining panel expect of candidates when they respond to particular examination items. They help ensure a consistent interpretation of the criteria that guide the awarding of marks.

Section One: Multiple-choice **20% (20 Marks)**

Question	Answer
1	d
2	b
3	d
4	a
5	d
6	c
7	b
8	b
9	a
10	b
11	a
12	a
13	b
14	d
15	c
16	d
17	d
18	c
19	a
20	c

Section Two: Data interpretation **50% (50 Marks)**

Question 21 **(13 marks)**

(a) (i) Define the term ‘tariff’. (1 mark)

Description	Marks
a tax on imported goods	1
Total	**1**

(ii) Identify the type of trade agreement mentioned in the article. (1 mark)

Description	Marks
bilateral	1
Total	**1**

(iii) Identify the total value of Australian exports during 2021. (1 mark)

Description	Marks
$459.2 billion (19.3/4.2*100 = 459.2)	1
Total	**1**

(b) Describe **two** reasons why trade is important to the Australian economy. (4 marks)

Description	Marks
For each reason (2 x 2 marks)	
Describes a reason why trade is important to the Australian economy	2
Identifies a reason why trade is important to the Australian economy	1
Total	**4**
Answers could include: • trade (exports and imports) is a large part of Australia’s GDP (increases economic growth) • increase real incomes • increased employment opportunities due to increased production for a global market • increased living standards for consumers due to access to a variety of goods and services at lower prices (due to increased competition).	
Accept other relevant answers.	

Question 21 (continued)

(c) Using the demand and supply model, describe **two** effects of the removal of the tariff on exports to India for Australian consumers and producers. (6 marks)

Description	Marks
Demand and supply model	
Detailed and correctly labelled model clearly showing how domestic producers would benefit from trade (gains from reduced imports)	2
Some features of an appropriate model	1
Subtotal	**2**
For each effect (2 x 2 marks)	
Describes the effects of the removal of the tariff on exports to India for Australian consumers and producers.	2
Identifies an effect of the removal of the tariff on exports to India for Australian consumers and producers.	1
Subtotal	**4**
Total	**6**

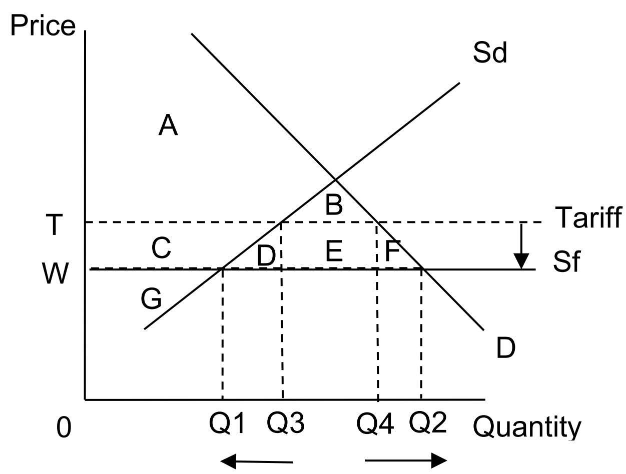
Answers could include:

Consumers:
- results in a lower price and an increase in quantity demanded; increase in consumer surplus (consumer surplus increases from A+B to A+B+C+D+E+F)
- increase in quantity of goods available from Q4 to Q2.

Producers:
- domestic producers – are protected as consumption switches away from domestic consumption to export; domestic producers reduce their output from Q3 to Q1; decrease in producer surplus (from C+G to G only once the tariff is removed)
- other domestic producers (exporters) could benefit as the tariff may decrease their costs of production.

Other effects:
- government – loss of tax revenue (area E)
- increase in market efficiency as deadweight loss is removed. This results in a net welfare gain to society (D+F) as resource allocation is now more efficient.

Demand and supply model for the removal of the tariff



Accept other relevant answers.

Question 22 **(12 marks)**

(a) (i) Calculate net foreign liabilities for December 2021. (1 mark)

Description	Marks
NFL for 2022 NFD + NFE = 991 504 + (-105 550) = $885 954	1
Total	**1**

(ii) Calculate net income for December 2021. (1 mark)

Description	Marks
Net income = CAB – BOGS = -20 265 – (-10 282) =-$-9983	1
Total	**1**

(iii) Calculate the net foreign liabilities as a percentage of Gross Domestic Product (GDP) for 2022, and identify whether this has increased or decreased over the period shown in the table. (2 marks)

Description	Marks
NFL for 2022 (NFL = NFD + NFE) 1 164 342 + (-178 354) = $985 988	1
Net foreign liabilities as a % GDP has decreased. NFL in 2022 is $985 988 (33.1% GDP) a decrease from 33.6% in 2021	1
Total	**2**

(b) Identify **two** possible reasons for the change in the current account balance between December 2021 and December 2022. (2 marks)

Description	Marks
For each reason (2 x 1 mark)	
Identifies a reason to show why the current account balance has increased.	1
Total	**2**
Answers could include: • growth in the volume of exports due to increased overseas demand • increase in prices of exports e.g. increase in commodity prices • depreciation of currency increasing net exports • fall in consumption and investment which could lower the demand for imports.	
Accept other relevant answers.	

Question 22 (continued)

(c) Explain the likely effect of the trade balance in December 2021 on the following: (6 marks)

Description	Marks
Economic growth	
Explains how the deficit in the trade balance can result in a decrease in economic growth.	3
Outlines how the deficit in the trade balance can result in a decrease in economic growth.	2
Identifies that the trade balance has an impact on economic growth.	1
Subtotal	**3**
Federal Government budget outcome	
Explains how the deficit in the trade balance can result in a decrease in the Federal Government budget outcome.	3
Outlines how the deficit in the trade balance can result in a decrease in the Federal Government budget outcome.	2
Identifies an effect between the trade balance and the Federal Government budget outcome.	1
Subtotal	**3**
Total	**6**

Answers could include:

Economic growth
- the trade balance is 'net exports' which is a component of Gross Domestic Product (GDP)
- since the trade balance is negative, net exports is negative
- this will reduce GDP and reduce the rate of economic growth.

Federal Government budget outcome
- the trade balance is negative, implying less exports and/or more imports
- less exports results in lower profits for businesses and hence less company taxation revenue collected by the Government
- increase imports is a leakage of funds to other countries reducing the overall size of the economy, reducing future income, output and expenditure
- reduced tax revenue from lower profits and incomes results in lower Government revenue and the budget balance will decrease, ceteris paribus.

Question 23 **(13 marks)**

(a) (i) Identify the cash rate target in October 2022. (1 mark)

Description	Marks
2.6%	1
Total	**1**

(ii) State Australia's inflation target. (1 mark)

Description	Marks
2–3%	1
Total	**1**

(b) Identify **one** global factor and **one** domestic factor which have led to the decision to increase the cash rate. (2 marks)

Description	Marks
Identifies a global factor.	1
Identifies a domestic factor.	1
Total	**2**
Answers could include: • global factor –supply chain disruptions • domestic factor – high inflation, strong demand, tight labour market, capacity constraints.	

(c) Distinguish between conventional and unconventional monetary policy using a relevant example. (3 marks)

Description	Marks
Distinguishes between conventional and unconventional monetary policy using a relevant example.	3
States a fact about conventional and unconventional monetary policy.	2
States a fact about conventional or unconventional monetary policy.	1
Total	**3**
Answers could include: Conventional monetary policy: • involves central banks changing their policy interest rate – to achieve their economic objectives • the policy interest rate influences other interest rates in the economy (such as interest rates for housing loans or business loans, and interest rates on savings accounts). Unconventional monetary policy: • occurs when tools other than changing a policy interest rate are used • examples include forward guidance, asset purchases (quantitative easing) and negative interest rates.	

Question 23 (continued)

(d) Using the Aggregate Expenditure model, describe **two** effects of the November monetary policy stance on the level of economic activity in Australia. (6 marks)

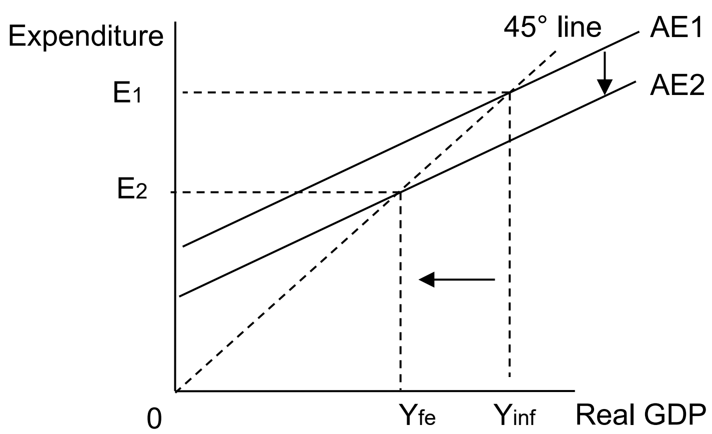
Description	Marks
Aggregate Expenditure (AE) model	
Detailed and correctly labelled AE model clearly showing a decrease in the AE line and a resulting decrease in real output.	2
Some features of an appropriate model.	1
Subtotal	**2**
For each effect of the November monetary policy stance (2 x 2 marks)	
Describes an effect of the November monetary policy stance.	2
Outlines an effect of the November monetary policy stance.	1
Subtotal	**4**
Total	**6**

Answers could include:

- low consumer and business confidence
- savings may rise, consumption may fall (households intent to reduce debt) leading to reduced AE
- factors other than relative interest rate differential may override, causing Australian dollar (AUD) to appreciate
- alternative regulatory authority action (e.g. APRA – banks to hold more liquidity; action from Banking Royal Commission)
- banks passing on higher interest rates
- monetary policy is a blunt instrument (cannot target industries or states)
- less effective in a trough
- a higher AUD will result in cheaper imports and a rise in import spending (as interest rates rise), reducing the overall impact on AE
- current global recession may be prolonged.

Aggregate expenditure model demonstrating how a decrease in investment spending reduces the equilibrium level of income and output in an economy.

Aggregate Expenditure model – contraction



Accept other relevant answers.

Question 24 **(12 marks)**

(a) (i) Define the concept of a balanced budget. (1 mark)

Description	Marks
when government revenue and expenditure are equal	1
Total	**1**

(ii) State the financial year that the Australian Government last recorded a balanced budget. (1 mark)

Description	Marks
2018–2019	1
Total	**1**

(iii) State the size of the Australian Government's estimated budget balance in 2022/23. (1 mark)

Description	Marks
–3.5% of nominal GDP (accept a range of –3.4 to –3.6)	1
Total	**1**

(b) Outline **three** methods the government could use to finance a budget deficit. (3 marks)

Description	Marks
For each method used to finance a budget (3 x 1 mark)	
Outlines a method to finance a budget deficit.	1
Total	**3**
Answers could include: • selling government bonds • borrowing from the central bank • borrowing from overseas.	
Accept other relevant answers.	

Question 24 (continued)

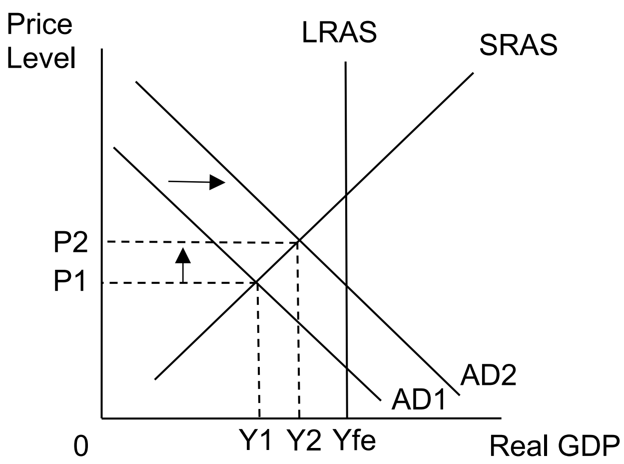
(c) Using the Aggregate Demand/Aggregate Supply model, demonstrate and describe **two** intended effects of the estimated Australian Government budget deficits beyond 2020/21. (6 marks)

Description	Marks
Aggregate Demand/Aggregate Supply (AD/AS) model	
Detailed and correctly labelled AD/AS model clearly showing a shift of the right of the AD curve.	2
Some features of an appropriate model.	1
Subtotal	**2**
For each effect of the estimated Australian Government budget deficits beyond 2020/21 (2 x 2 marks)	
Describes an effect.	2
Outlines an each effect.	1
Subtotal	**4**
Total	**6**

Answers could include:

- increase in economic growth
- lower unemployment
- increase consumption spending
- increase business activity or investment
- increase in price level
- increase in wage growth.

Diagram for an increase in aggregate demand



Section Three: Extended answer **30% (30 Marks)**

Part A: Unit 3 **15% (15 Marks)**

Question 25 **(15 marks)**

Explain the reasons why governments use protectionist policies and the impact that these policies have on the economy.

In your response include:
- a definition of protection
- **two** arguments for trade protection
- the impact of a subsidy on market efficiency and the macroeconomy
- an appropriate economic model to demonstrate the impact of a subsidy on market efficiency and the macroeconomy.

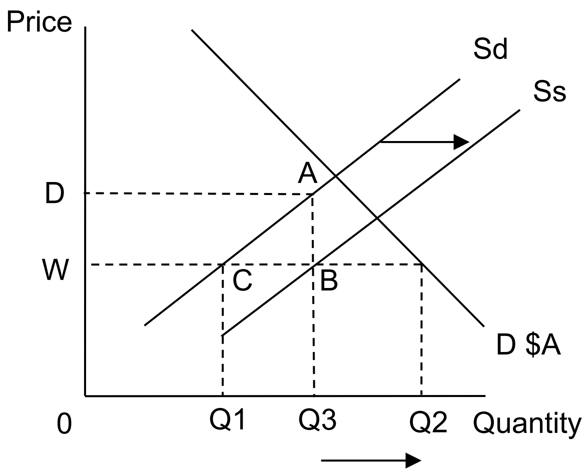
Description	Marks
Protection	
Defines protection	1
Subtotal	**1**
For each argument as to why governments use trade protection policies (2 x 3 marks)	
Explains the argument for trade protection policies.	3
Outlines the argument for trade protection policies.	2
States a trade protection policy/reason for a trade protection policy.	1
Subtotal	**6**
Explains the impact of a subsidy on market efficiency	
Explains the impact of a subsidy on market efficiency.	3
Outlines the impact of a subsidy on market efficiency.	2
States an impact on market efficiency.	1
Subtotal	**3**
Explains the impact of a subsidy on the macroeconomy	
Explains the impact of a subsidy on the macroeconomy.	3
Outlines the impact of a subsidy on the macroeconomy.	2
States an impact on the macroeconomy.	1
Subtotal	**3**
Model	
Detailed and correctly labelled demand/supply model clearly showing the impact of a subsidy.	2
Some features of model showing the impact of a subsidy.	1
Subtotal	**2**
Total	**15**
Answers may include: Protection refers to a Government action designed to protect and give the domestic producer/industry an artificial advantage over a foreign producer/industry. The arguments for governments using protectionist policies: • anti-dumping • infant industry • diversification • national defence • increased employment opportunities • cheap foreign labour • favourable balance of trade • source of government revenue • safeguard domestic employment.	

Question 25 (continued)

The impact of a subsidy on market efficiency:
- price does not change
- quantity of imports decreases (Q3 to Q2)
- consumer surplus does not change
- producer surplus increases (DACW)
- deadweight loss occurs causing a fall in market efficiency (Area ABC) where the cost of the subsidy (DABW) exceeds the increase in producer surplus (DACW).

The impact of a subsidy on the macroeconomy:
- increase in domestic output (from Q1–Q3)
- higher domestic employment in protected industries
- reduces incentives for firms to cut costs and impacts on efficient allocation of resource allocation (may reduce productivity).

Model for introducing a subsidy



Accept other relevant answers.

Question 26 **(15 marks)**

Explain **two** factors that have caused this movement in the Australian dollar and the effect of this movement on sectors of the economy.

In your response include:
- the definition of exchange rate
- **one** demand factor and **one** supply factor that have caused this currency movement
- the effects of this currency movement on businesses and the macroeconomy
- **both** a demand and a supply model to demonstrate the movement in the Australian dollar.

Description	Marks
Definition of exchange rate	
States the definition of exchange rate.	1
Subtotal	**1**
For each of the demand factor and the supply factor causing the movement in the Australian dollar (2 x 2 marks)	
Outlines how that factor has caused the AUD to depreciate.	2
States how that factor has caused the AUD to depreciate.	1
Subtotal	**4**
Effects of currency movement (depreciation) on businesses	
Explains the effect of currency movement (depreciation) on businesses.	3
Outlines the effect of currency movement on businesses.	2
States an effect of currency movement on businesses.	1
Subtotal	**3**
Effects of currency movement (depreciation) on the macroeconomy	
Explains the effect of currency movement (depreciation) on the macroeconomy.	3
Outlines the effect of currency movement on the macroeconomy.	2
States an effect of depreciation on the macroeconomy.	1
Subtotal	**3**
Demand/supply model (2 x 2 marks)	
Correctly labelled demand/supply model showing the demand curve shifting left resulting in depreciation.	2
Some attempt at a demand/supply model to shift the demand curve to the left.	1
Subtotal	**2**
Correctly labelled demand/supply model showing the supply curve shifting right resulting in depreciation.	2
Some attempt at a demand/supply model to shift the supply curve to the right.	1
Subtotal	**2**
Total	**15**

Answers may include:

Exchange rate is the relative price of the Australian dollar expressed in terms of another country's currency (determined by supply and demand).

Demand factors causing movement in the Australian dollar:
- when demand is high, prices rise and currency appreciates in value
- lower demand for Australian commodities results in lower prices, fall in dollar value
- lower economic growth in China, decreasing quantity of exports/lower demand, fall in dollar
- lower terms of trade
- lower interest rates
- higher domestic growth.

Supply factors causing movement in the Australian dollar:
- demand for imports i.e. foreign goods by Australian residents
- foreign investment leaving Australia
- higher global interest rates (increasing the debt servicing flows).

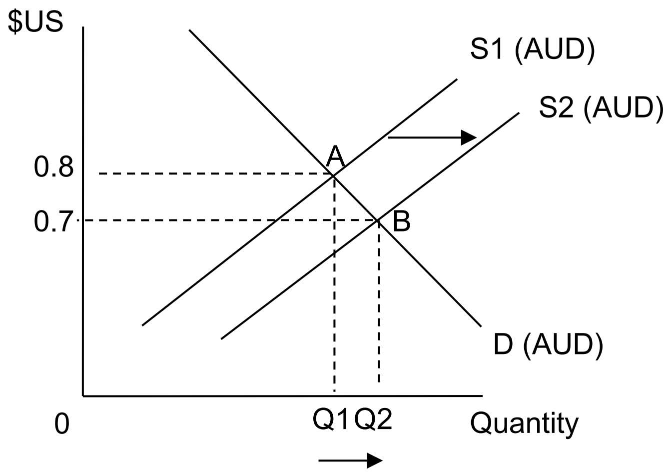
Question 26 (continued)

Effects of the movement (depreciation) on businesses:
- competitive advantage – price of exports in foreign currency falls
- resources shift to traded goods sector – exporting and import competing firms
- businesses also pay more for imported capital items or raw materials
- price of imports in Australian dollar (AUD) rises so higher production costs if producers are dependent on imported inputs will result in lower profits
- businesses that sell imports will be disadvantaged.

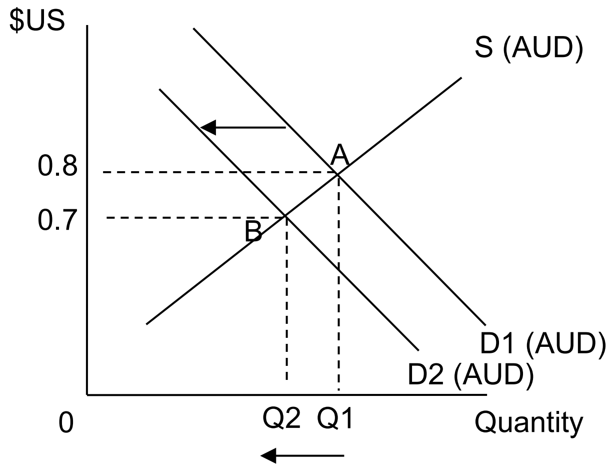
Effects of the movement (depreciation) on the macroeconomy:
- depreciation may cause inflationary pressure as higher priced imports feed into the Consumer Price Index (CPI)
- trade balance should improve along with currency account deficit (CAD)
- an increase in net exports will boost national income and spending in the economy
- may cause an increase in foreign debt if denominated in other currency
- depreciating currency may assist an economy recover from an economic slowdown or negative external shock.

Demand/supply models demonstrating a depreciation in the currency:

Increasing supply for Australian dollar causing a depreciation



Decreasing demand for Australian dollar causing a depreciation



Accept other relevant answers.

Part B: Unit 4 **15% (15 Marks)**

Question 27 **(15 marks)**

Using the Aggregate Expenditure model, explain the concept of macroeconomic equilibrium and how a change in investment spending can change the equilibrium level of income and output in the economy.

Description	Marks
Aggregate Expenditure (AE) model	
Correctly labelled AE model showing the concept of macroeconomic equilibrium (including the labelling of changes in inventories).	3
Mostly correct AE model that is fully labelled showing equilibrium income/output.	2
Some attempt at an AE model (including 45 degree line).	1
Subtotal	**3**
Explanation of the concept of macroeconomic equilibrium	
Explains macroeconomic equilibrium and the role of inventories at points above and below equilibrium output.	4
Explains macroeconomic equilibrium and the role of inventories at a point above or below equilibrium output.	3
Description of macroeconomic equilibrium.	2
Outline of macroeconomic equilibrium.	1
Subtotal	**4**
Explanation of a change in investment spending on the equilibrium level of income and output in the economy	
Explains how an increase and decrease in investment spending will increase and decrease the equilibrium level of income and output in the economy.	7–8
Describes how an increase or decrease in investment spending will increase or decrease the equilibrium level of income and output in the economy.	5–6
Outlines how a rise or fall in investment spending increases or decreases the equilibrium level of income and output in the economy.	3–4
States how a rise or fall in investment spending impacts on the equilibrium level of income and output in the economy.	1–2
Subtotal	**8**
Total	**15**

Answers may include:

Explanation of the concept of macroeconomic equilibrium:

- inventories will increase
- reduced demand for resources as aggregate output decreases
- output will fall along with AE (although at a reduced pace due to slope of AE line)
- a new equilibrium at a lower level of income/real Gross Domestic Product (GDP) is established

Explanation of disequilibrium where output is less than spending

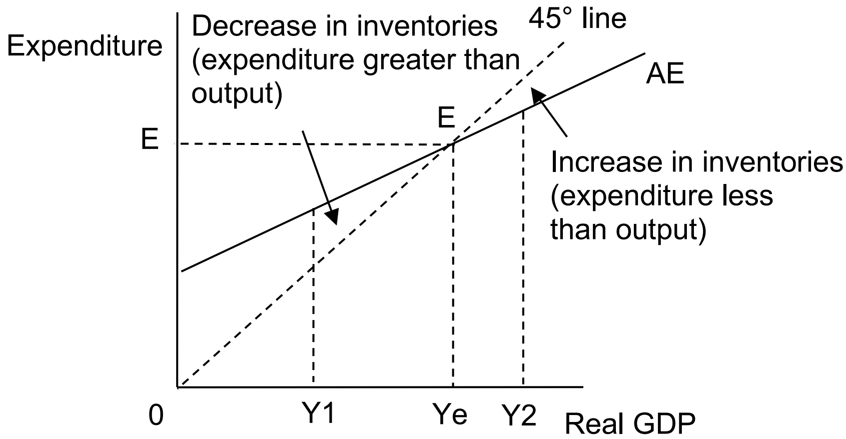
- inventories will decrease
- firms will increase demand for labour as they increase production
- aggregate output will rise along with AE (although at a reduced pace due to slope of AE line)
- a new equilibrium at a higher level of income/real GDP is established.

Question 27 (continued)

Explanation of a change in investment spending:

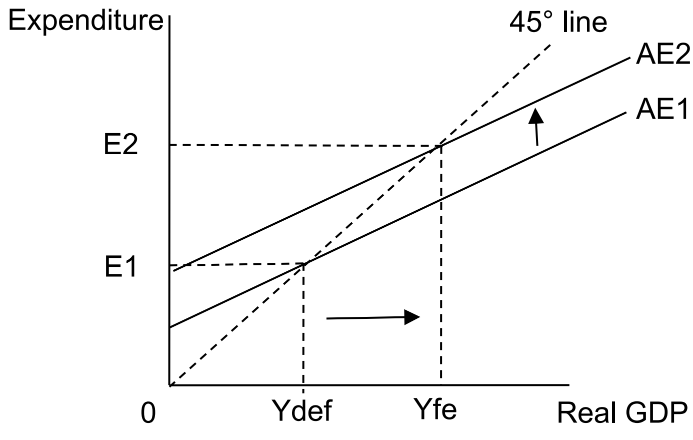
- investment increases productive capacity leading to increased level of output, employment and income
- multiplier effect: spending by an individual leads to another person's income multiplying when investment increases, aggregate income increases by a multiple of that investment
- $K = \Delta Y / \Delta I$ or $\Delta Y = K \times \Delta I$ where k is the value of the multiplier, Y is income and I represents investment
- the multiplier can work in reverse – a reduction in investment spending can have a negative multiplier effect on the equilibrium level of income and output.

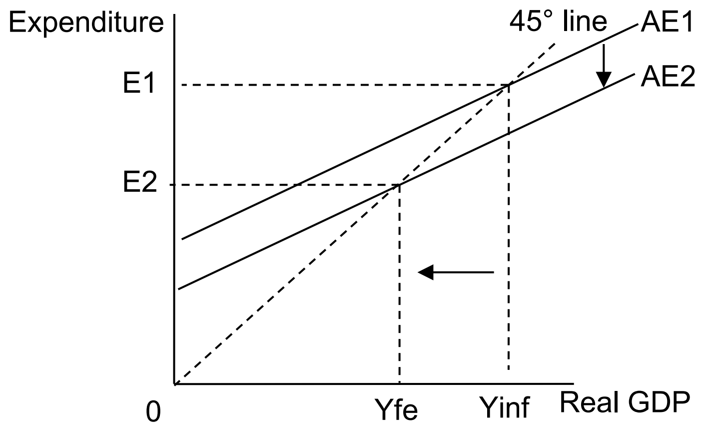
Macroeconomic equilibrium



Aggregate Expenditure model demonstrating how an increase in investment spending increases the equilibrium level of income and output in an economy.

Aggregate Expenditure model – Expansion



Aggregate expenditure model demonstrating how a decrease in investment spending reduces the equilibrium level of income and output in an economy. **Aggregate Expenditure model – Contraction** 
Accept other relevant answers.

Question 28 **(15 marks)**

Describe the role of Government in facilitating improvements in labour productivity which have a series of flow-on effects for consumers, businesses and the macroeconomy.

In your response include:
- a definition of labour productivity and a relevant example
- **three** Government policies designed to influence labour productivity in the Australian economy
- **two** effects of an increase in labour productivity on an economy
- an appropriate economic model.

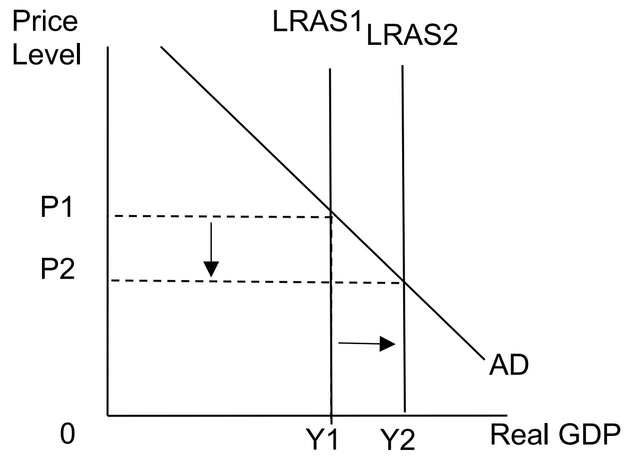
Description	Marks
Definition of labour productivity and a relevant example	
Defines labour productivity.	1
Gives an example of labour productivity.	1
Subtotal	**2**
For each Government policy designed to influence labour productivity in the Australian economy (3 x 2 marks)	
Describes a government policy which can influence labour productivity.	2
Outlines one government policy which can influence labour productivity.	1
Subtotal	**6**
For each effect of an increase in labour productivity on an economy (2 x 2 marks)	
Description of the effects of an increase in labour productivity.	2
Outline of the effects of an increase in labour productivity.	1
Subtotal	**4**
Model	
Correctly labelled Aggregate Demand/Aggregate Supply (AD/AS) model showing a shift in the AS long-run curve to the right due to an increase in labour productivity.	3
Mostly correct AD/AS model to show a shift of the AS long-run to the right.	2
Some attempt at an AD/AS model to show an increase in labour productivity.	1
Subtotal	**3**
Total	**15**

Answers could include:

Description: Labour productivity can be defined as total output divided by total hours worked.
Examples: employing new machinery, upskilling workers, advances in technology.

Government policies:
- labour market and workplace relations (quality of management)
- taxation reform e.g. tax breaks for start-up companies
- trade liberalisation (FTAs) leading to increase competition
- infrastructure policies that increase the amount of capital per worker e.g. National building fund, National Broadband Network (NBN)
- education and training policy
- research, science, technology (IT) and innovation
- deregulation and competition policy
- funding or incentives for increasing technology and human or physical capital.

Effects:
- more productive use of resources increases the potential real output of the economy
- reduced inflationary pressure – price level falls
- rising real incomes will also increase AD increasing economic growth
- rising productivity leading to a competitive advantage will result in firms hiring more workers and rising incomes/wages
- reference to diagram and increase in output in explanation.

AD/AS model demonstrating the impact of an increase in labour productivity on the macroeconomy. **Diagram for an increase in long-run aggregate supply** 
Accept other relevant answers.

ACKNOWLEDGEMENTS

Question 23(c) Adapted from source: Reserve Bank of Australia. (n.d.). *Unconventional Monetary Policy*. Retrieved November, 2022, from https://www.rba.gov.au/education/resources/explainers/unconventional-monetary-policy.html
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