



SAMPLE ASSESSMENT TASKS

ECONOMICS
ATAR YEAR 12

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Sample assessment task

Economics – ATAR Year 12

Task 3 – Unit 3

Assessment type: Data interpretation/Short answer

Conditions

Time for the task: 40 minutes

In-class under test conditions

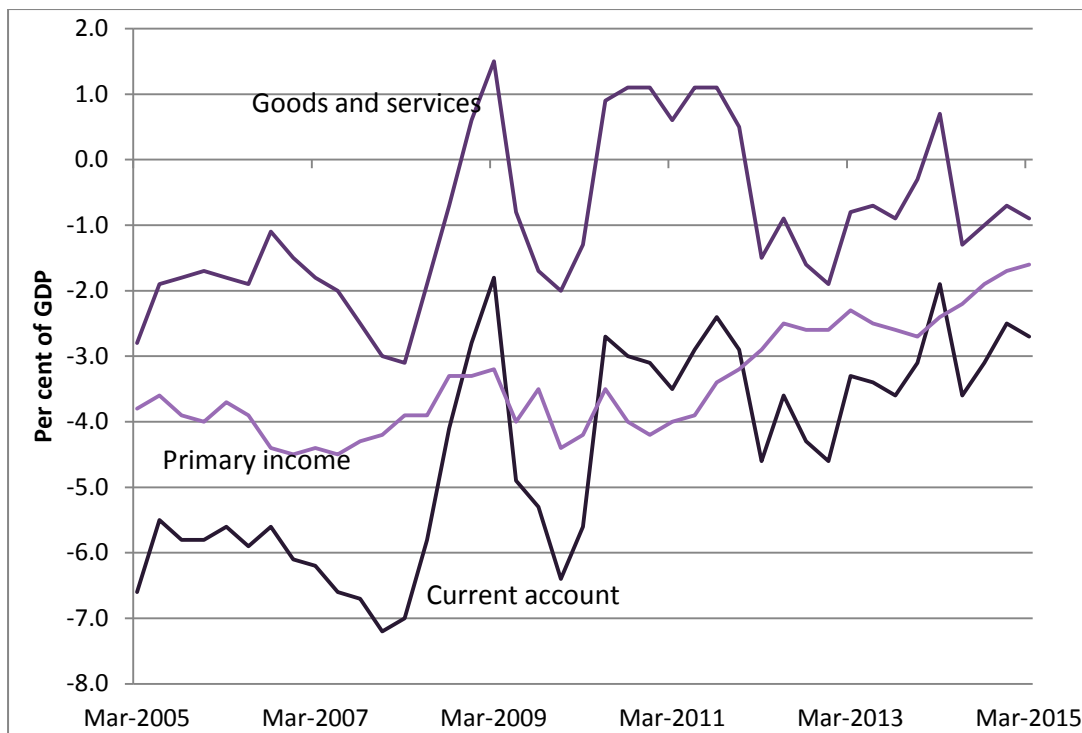
Task weighting

5% of the school mark for this pair of units

Data interpretation/Short answer

(15 marks)

Refer to the following graph showing Australia's current account in the balance of payments.



1. In what year did the trade balance record its highest surplus?

(1 mark)

2. What effect did the global financial crisis of 2008–09 have on the goods and services balance? Provide a reason for this effect. (2 marks)

3. At the beginning of 2013, the Australian dollar was equal to \$1.04US. By March 2015, it was equal to \$0.76US. Explain the effect this is likely to have had on Australia’s trade balance. (3 marks)

4. What is recorded in the primary income balance in the current account? Explain why Australia's primary income balance is always in deficit. (3 marks)

5. Describe the trend in Australia's primary income balance between March 2011 and March 2015. Provide two reasons for this trend. (3 marks)

6. Since 2012, investment in Australia, especially in the mining sector, has been falling. Explain how this could account for the change in Australia’s current account balance since 2012.

(3 marks)

ACKNOWLEDGEMENTS

Question 1 Graph data source: Australian Bureau of Statistics. Used under Creative Commons Attribution 2.5 Australia licence.

Marking key for sample assessment task 3 – Unit 3

1. In what year did the trade balance record its highest surplus?

Description	Marks
Correctly identifies the year the trade balance recorded its highest surplus	1
Total	/1
Answer	
2009 (trade balance is the goods and services balance)	

2. What effect did the global financial crisis of 2008–09 have on the goods and services balance? Provide a reason for this effect.

Description	Marks
Correctly identifies the effect of the global financial crisis of 2008–09 on the goods and services balance	1
Provides a valid reason for this effect	1
Total	/2
Answer	
The GFC caused an increase in the goods and services balance	
The GFC caused a decrease in real income which decreased imports	

3. At the beginning of 2013, the Australian dollar was equal to \$1.04US. By March 2015, it was equal to \$0.76US. Explain the effect this is likely to have had on Australia's trade balance.

Description	Marks
Correctly identifies the effect on the trade balance from the change in the value of the \$A	1
Provides an explanation for the effect of the change in the value of the \$A on the trade balance	1–2
Total	/3
Answer	
The \$A depreciated, which normally increases the trade balance (decrease the trade deficit or increase the trade surplus)	
A depreciation reduces prices of exports and increases prices of imports. This increases net exports which increases the trade balance.	

4. What is recorded in the primary income account in the current account? Explain why Australia's primary income balance is always in deficit.

Description	Marks
Correctly identifies the type of transaction recorded in the primary income account	1
Provides an explanation for why Australia's primary income balance is always in deficit	1–2
Total	/3
Answer	
Primary income refers to income flows associated with foreign investment: interest, dividends and profits	
The primary income balance is always in deficit because Australia relies on capital inflow (foreign investment). The servicing costs associated with foreign investment include interest payments on foreign borrowing and dividends and profits.	

5. Describe the trend in Australia's primary income balance between March 2011 and March 2015. Provide two reasons for this trend.

Description	Marks
Describes the trend in Australia's primary income balance	1
Identifies two reasons for the trend in the primary income balance	1–2 (one mark for each reason)
Total	/3
Answer	
The primary income deficit decreased from 4% of GDP in March 2011 to around 1.6% in March 2015.	
Reason 1: This could have been due to a decline in foreign investment into Australia which would reduce income payments.	
Reason 2: The economy contracted which reduced the outflow of profits to foreign investors.	

6. Since 2012, investment in Australia, especially in the mining sector, has been falling. Explain how this could account for the change in Australia's current account balance since 2012.

Description	Marks
Correctly identifies the change in the current account deficit	1
Correctly identifies the link between the CAD and savings and investment	1
Explains the link between a fall in investment and the CAD	1
Total	/3
Answer	
The current account deficit decreased from around 4.5% of GDP at the end of 2012 to around 2.5% in March 2015.	
The CAD equals the difference between total investment and total saving.	
The fall in investment reduces the imports of capital goods and reduces GDP which decreases spending on imports which improves the trade balance.	

Sample assessment task

Economics – ATAR Year 12

Task 10 – Unit 4

Assessment type: Data interpretation/Short answer

Conditions

Time for the task: 40 minutes

In class under test conditions

Task weighting

5% of the school mark for this pair of units

Data interpretation/Short answer

(15 marks)

Refer to the following economic data for Australia.

Mar 2014 – Mar 2015	% change
Real GDP	2.3
Consumption	2.6
Investment	-3.4
Government	-0.6
Exports	8.1
Imports	3.3
Terms of trade	-11.4
Real domestic income	-0.2

March 2015	Rate
Unemployment	6.1%
Inflation	1.3%

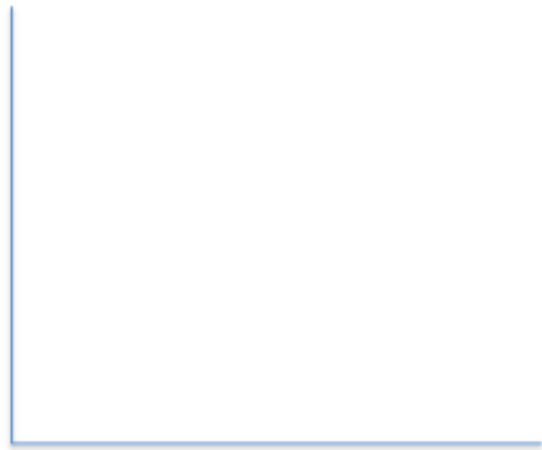
1. What was the annual economic growth rate for Australia to the March quarter 2015? (1 mark)

2. Which category of aggregate expenditure recorded the largest decrease? (1 mark)

3. Which category of aggregate expenditure recorded the largest increase? (1 mark)

4. Explain how there could be such a large difference between the growth in real GDP and the growth in real domestic income? (2 marks)

5. Draw an AD/AS model to show the position of the economy in March 2015. Label the axes and draw the AD, the SRAS and the LRAS curves. Is the economy operating below, at, or above potential GDP? Provide reasons for your answer. (5 marks)



6. Given the state of the economy in March 2015, what monetary policy stance should the Reserve Bank have adopted? Explain what would happen to interest rates and how this would help to achieve the Reserve Bank's economic objectives. Refer to the model in Question 5. (5 marks)

Marking key for sample assessment task 10 – Unit 4

1. What was the annual economic growth rate for Australia to the March quarter 2015?

Description	Marks
Correctly identifies the annual growth rate for the economy to the March quarter 2015	1
Total	/1
Answer	
2.3%	

2. Which category of aggregate expenditure recorded the largest decrease?

Description	Marks
Correctly identifies the category of aggregate expenditure that recorded the largest decrease	1
Total	/1
Answer	
Investment	

3. Which category of aggregate expenditure recorded the largest increase?

Description	Marks
Correctly identifies the category of aggregate expenditure that recorded the largest increase	1
Total	/1
Answer	
Net exports	

4. Explain how there could be such a large difference between the growth in real GDP and the growth in real domestic income?

Description	Marks
Correctly identifies the reason for the difference between the growth in real GDP and the growth in real domestic income	1
Refers to the data in the table	1
Total	/2
Answer	
Real domestic income adjusts GDP for a change in the terms of trade. Because the terms of trade declined significantly, the growth in real domestic income was negative.	

5. Draw an AD/AS model to show the position of the economy in March 2015. Label the axes and draw the AD, the SRAS and the LRAS curves. Is the economy operating below, at, or above potential GDP? Provide reasons for your answer.

Description	Marks
Correctly labels the axes of the model	1
Correctly draws and labels the AD, SRAS and LRAS curves	1
Identifies where the economy is operating in March 2015	1
Provides two valid reasons for the position of the economy in March 2015	1–2
Total	/5
Answer	
Vertical axis – the price level; horizontal axis – real GDP	
Three curves: AD, SRAS and LRAS	
The economy is operating in short run equilibrium below potential GDP – the AD and SRAS curves intersect to the left of the LRAS curve. Possible reasons include:	
<ul style="list-style-type: none"> • real GDP is growing at 2.3% which is below the growth rate of potential GDP (3.25%) • unemployment rate of 6.1% is above the natural rate • inflation rate is low which indicates the economy is relatively weak. 	

6. Given the state of the economy in March 2015, what monetary policy stance should the Reserve Bank have adopted? Explain what would happen to interest rates and how this would help to achieve the Reserve Bank's economic objectives. Refer to the model in Question 5.

Description	Marks
Correctly identifies the monetary policy stance the Reserve Bank should adopt	1
Explains how interest rates would be adjusted with this monetary policy stance	1
Explains the effect of the change in interest rates on aggregate expenditure	1–2
Correctly illustrates the effect using the AD/AS model	1
Total	/5
Answer	
The RBA would adopt an expansionary stance.	
The RBA would reduce the cash rate which would cause other interest rates to fall.	
A cut in interest rates would stimulate consumption and investment by reducing borrowing costs and increasing asset prices. Aggregate demand would increase as a result.	
The AD curve would shift to the right, increasing real GDP, increasing the price level and reducing unemployment.	

Sample assessment task

Economics – ATAR Year 12

Task 11 – Unit 4

Assessment type: Extended answer

Conditions

Time for the task: 45 minutes

In class under test conditions

Task weighting

7.5% of the school mark for this pair of units

Macroeconomics focuses on the causes and effects of the business cycle and how economic policy can help to smooth out fluctuations in the business cycle.

- (a) Use the AD/AS model to explain what factors can cause a business cycle contraction. Include in your discussion both demand and supply side factors. Explain what happens to real GDP, inflation and unemployment. (10 marks)

- (b) Explain the role of monetary policy in countering a business cycle contraction. Discuss the transmission mechanism for monetary policy and the effectiveness of monetary policy during an economic downturn. (10 marks)

Marking key for sample assessment task 11– Unit 4

- (a) Use the AD/AS model to explain what factors can cause a business cycle contraction. Include in your discussion both demand and supply side factors. Explain what happens to real GDP, inflation and unemployment.

Description	Marks
Defines a business cycle contraction	1
Uses the AD/AS model to show an economy in long run equilibrium	1
Explains how a decrease in AD can cause a business cycle contraction and illustrates this on the model	1–3
Explains how a decrease in SRAS can cause a business cycle contraction and illustrates this on the model	1–3
Explains the effects of a contraction on real GDP, unemployment and inflation	1–2
Total	/10
Answer	
<p>A contraction occurs when growth in real GDP falls below trend or when real GDP declines below potential GDP.</p> <p>A diagram to show the AD, SRAS and LRAS curves intersecting at potential GDP.</p> <p>A negative AD shock – a decrease in AD can cause a business cycle contraction. This could be due to a decline in investment; for example, the end of a mining boom, a stock market or housing market crash, or a global financial crisis. The AD demand would shift to the left – the short run equilibrium would be to the left of the LRAS curve.</p> <p>A negative AS shock – a decrease in SRAS can cause a business cycle contraction. This could be due to an increase in the world price of oil or a natural disaster such as a flood. The SRAS curve would shift to the left – the short run equilibrium would be to the left of the LRAS curve.</p> <p>In the case of the AD shock, real GDP and the price level (inflation) would fall and unemployment would increase above the natural rate. In the case of the AS shock, real GDP would fall while the price level (inflation) would increase (cost inflation) and unemployment would increase above the natural rate.</p>	

- (b) Explain the role of monetary policy in countering a business cycle contraction. Discuss the transmission mechanism for monetary policy and the effectiveness of monetary policy during an economic downturn.

Description	Marks
Correctly identifies the role of monetary policy	1–2
Explains the transmission mechanism for monetary policy	1–5
Discusses the effectiveness of monetary policy in an economic downturn	1–3
Total	/10
Answer	
<p>The RBA would adopt an expansionary stance – lowering the cash rate in order to reduce interest rates in the economy.</p> <p>The transmission mechanism refers to the way a change in interest rates is transmitted to changes in economic activity. A cut in interest rates will increase private spending through a number of channels:</p> <ul style="list-style-type: none"> • reducing the cost of borrowing which will increase consumption and investment • increasing asset prices (housing and shares) which will stimulate private spending • depreciating the exchange rate which will increase net exports. Expansionary monetary policy will increase AD and shift the AD curve to the right, increasing real GDP and reducing the unemployment rate. <p>Monetary policy is not effective in countering an AS shock. Monetary policy is less effective during a contraction than during an expansion. Reducing interest rates may not have the desired effect if business and household confidence are very low. Monetary policy is subject to a very long effect lag – it may take up to 18 months for a cut in interest rates to take effect. A more direct stimulus may be required; for example, through the use of fiscal policy to ‘kick start’ the economy.</p>	