



SAMPLE ASSESSMENT TASKS

ECONOMICS
ATAR YEAR 12

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Sample assessment task

Economics – ATAR Year 12

Task 1 – Unit 3

Assessment type: Data interpretation/Short answer

10 Multiple-choice

2 Data interpretation/Short answers

Conditions

Time for the task: 40 minutes

In class under test conditions

Task weighting

7.5% of the school mark for this pair of units

Multiple-choice

(10 marks)

1. Globalisation has been largely facilitated by
 - a) cheaper and slower transportation.
 - b) an increased number of trade barriers.
 - c) poor economic management.
 - d) more innovative information technology.
2. Which of the following organisation encourages global monetary co-operation and facilitates trade between member nations?
 - a) The World Bank
 - b) World Trade Organisation
 - c) International Monetary Fund
 - d) European Union
3. Which of the following is **not** a reason why some nations might be moving away from globalisation?
 - a) the failure for multi-national corporations to support displaced workers
 - b) the falling political popularity of trade liberalisation policies amongst the voting public due to slower domestic economic growth rates
 - c) the protectionist rhetoric from US President Donald Trump at the expense of better trade agreements
 - d) the United Kingdom's Brexit referendum decision to leave the European Union
4. One of the key benefits of trade liberalisation includes
 - a) the ability of businesses to achieve economies of scale due to increases in real unit labour costs.
 - b) the reduction of global output to focus on the production of those goods that nations have a comparative advantage in producing.
 - c) increased employment in export competing industries.
 - d) lower prices and a resulted rise in real incomes.

5. Global trade is largely made up of
 - a) service exports.
 - b) manufacturing.
 - c) agriculture.
 - d) oil.
6. The three nations that are the world's largest exporters include
 - a) China, USA and Germany.
 - b) USA, China and South Korea.
 - c) China, India and Japan.
 - d) United Kingdom, USA and China.
7. Australia's trade intensity in recent years has
 - a) increased as a proportion of Gross Domestic Product
 - b) decreased as a percentage of Gross Domestic Product
 - c) become less important to the national economy due to increased diversification in manufacturing
 - d) shifted largely back to the European Union due to a slowdown in Chinese economic growth
8. Which of the following would increase Australia's international competitiveness?
 - a) an increase in inflation in Australia
 - b) an increase in productivity
 - c) an increase in trade protection
 - d) an upward movement in Australia's wage index
9. Free trade agreements can benefit Australian consumers when
 - a) an existing tariff on imported cars is lowered.
 - b) a higher percentage of goods are now exported to overseas destinations.
 - c) subsidies are placed on Australian products to assist the manufacturing process.
 - d) a quota is implemented on how much Australia can import.
10. Which of the following is **not** normally an effect of economic globalisation?
 - a) Economic growth is usually increased by greater efficiency and larger export volumes.
 - b) Inflation is increased.
 - c) The product range for consumers may be increased.
 - d) Governments need to consider the effects of their policies on the reaction of global traders and markets, and the impact on the inflation rate since these considerations affect our international competitiveness.

Data interpretation/Short answer**(23 marks)****Question 1****(13 marks)**

Read the following article from *The Economist* entitled 'Slowbalisation – The steam has gone out of globalisation' and answer the following questions.

Due to copyright reasons this excerpt from The Economist article cannot be reproduced in the online version of this document but can be viewed at <https://www.economist.com/leaders/2019/01/24/the-steam-has-gone-out-of-globalisation>

- a) According to the article, what period of time is known as the 'golden age of globalisation'?

_____ (1 mark)

- b) Describe what was occurring with commerce and trade during this period intime? (1 mark)

- c) Outline **two** main arguments for globalisation. (4 marks)

- d) With reference to the article, describe what has happened to globalisation in recent years. (3 marks)

- e) There is a new populist movement against globalisation. Suggest reasons for this with specific reference to **two** arguments against globalisation. (4 marks)

Question 2

(10 marks)

Read the following article from the Department of Foreign Affairs and Trade titled ChAFTA outcomes at a glance.

China is Australia's largest trading partner. Trade and investment with China is central to Australia's future prosperity. In 2017, China bought \$116 billion of Australian exports, more than a quarter of Australia's total exports to the world; China is our top overseas market for agriculture, resources and services. Chinese investment in Australia reached \$65 billion by the end of 2017.

The China-Australia Free Trade Agreement (ChAFTA), which entered into force on 20 December 2015, has built on Australia's large and successful commercial relationship with China, by securing markets and providing Australians with even better access to China across a range of our key business interests, including goods, services and investment.

On full implementation of ChAFTA, almost all of Australia's goods exports to China will enjoy duty-free entry. China buys more of Australia's agricultural produce than any other country. In 2017, this market was worth around \$13 billion to Australian farmers and the broader agricultural sector. ChAFTA provides Australia with an advantage over our major agricultural competitors, including the United States, Canada and the European Union. It also counters the advantages Chile and New Zealand have enjoyed through their FTAs with China.

In agriculture, ChAFTA eliminated remaining tariffs on Australian barley on 20 December 2015, and will see a rapid tariff reduction on other agriculture exports, including seafood, sheep meat and a variety of horticulture. Other key agriculture outcomes include:

- Dairy: tariffs up to 20 per cent are being eliminated by 1 January 2026
- Beef: tariffs of 12 to 25 per cent are being eliminated by 1 January 2024
- Wine: tariffs of 14 to 20 per cent are being eliminated by 1 January 2019
- Wool: a new Australia-only duty-free quota (which commenced on 1 January 2016), in addition to continued access to China's WTO wool quota.

China is by far Australia's largest market for resources and energy products. In 2017, Australia exported over \$85 billion worth of resources, energy and manufactured products to China. On full implementation of ChAFTA (1 January 2029), virtually all of Australia's resources, energy and manufacturing exports will enjoy duty-free entry into China.

[Department of Foreign Affairs and Trade. (n.d.). *ChAFTA outcomes at a glance*. Retrieved August, 2019, from <https://dfat.gov.au/trade/agreements/in-force/chafta/fact-sheets/Pages/chafta-outcomes-at-a-glance.aspx>
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- a) Identify when Australia entered its free trade agreement with China. (1 mark)

- b) Which market/s is China the largest purchaser of Australian exports? (1 mark)

- c) Outline **one** advantage and **one** disadvantage of bi-lateral agreements. (4 marks)

- d) What effects does a free trade agreement such as ChAFTA have on Australia's trade balance?
Provide a reason for these effects. (4 marks)

Marking key for sample assessment task 1– Unit 3

Multiple-choice

Question	Answer
1	D
2	B
3	C
4	D
5	B
6	A
7	A
8	B
9	A
10	B

Data interpretation/Short answer: Question 1

- a) According to the article, what period of time is known as the ‘golden age of globalisation’?

Description	Marks
1990–2010	1
Total	/1
Answer	
1990–2010	

- b) Describe what was occurring with commerce and trade during this period in time? (1 mark)

Description	Marks
One mark for each feature of trade during this time period including:	
Lower transportation costs	1
Lower telecommunication costs	1
Reduction in import taxes	1
Increase in MNCs and increased availability of goods and services	
Total	/1
Answer	
Trade increased (i.e. transportation costs fell, telecommunications costs fell, tariffs were cut and access to finance improved)	
Businesses set up around the world, and consumers had greater choice	

- c) Outline **two** main arguments for globalisation.

Description	Marks
For each argument:	
Explains in detail an argument for globalisation	1–2
Total	/4
Answer	
Arguments for globalisation include:	
<ul style="list-style-type: none"> • access to a wider variety of goods and services • increase in employment • higher wages overall • increases competition and efficiency • reduces global poverty • increases economic growth • increases overall living standards 	

- d) With reference to the article, describe what has happened to globalisation in recent years.

Description	Marks
One mark for each feature of trade during this time period including:	
Transportation costs	1
Increasing competition for MNCs	1
Increased trade in services	1
Total	/3
Answer	
Transportation costs have stopped falling	
Multinational firms have found that expansion is expensive	
Local producers are tough competition	
Trade in services has increased	
Chinese manufacturers have become more self-sufficient and are importing less from overseas	

- e) There is a new populist movement against globalisation. Suggest reasons for this with specific reference to **two** arguments against globalisation.

Description	Marks
For each argument:	
Explains in detail an argument for globalisation	1–2
Total	/4
Answer	
Arguments against globalisation include:	
<ul style="list-style-type: none"> lowers wages for low skilled workers higher unemployment for low skilled workers increases the use of child labour destroys local culture increases poverty in some regions unfair for LDCs increases environmental degradation 	

Data interpretation/Short answer: Question 2

- a) Identify when Australia entered its free trade agreement with China.

Description	Marks
1990–2010	1
Total	/1
Answer	
1990–2010	

- b) Which market/s is China the largest purchaser of Australian exports?

Description	Marks
One mark for any of the following markets including:	
Agriculture	1
Resources	1
Services	1
Total	/1
Answer	
Agriculture, Resources and Services	

- c) Outline **one** advantage and **one** disadvantage of bi-lateral agreements.

Description	Marks
For each argument:	
Explains in detail an argument for entering a bi-lateral agreement	1–2
Explains in detail an argument against entering a bi-lateral agreement	1–2
Total	/4
Answer	
Arguments for and against bi-lateral include:	
<ul style="list-style-type: none"> • increases trade between two nations by lowering or removing trade barriers • can be quicker and easier to negotiate when compared to a multi-lateral agreement • can cause trade diversion, rather than trade creation • creates a trade bloc for those nations outside the agreement 	

- d) What effects does a free trade agreement such as ChAFTA have on Australia's trade balance?
Provide a reason for these effects.

Description	Marks
One mark for each effect on Australia's trade balance including:	
Increases the volume of exports overseas (increasing credits in trade balance)	1
Increases the volume of imports from overseas (increasing debits in trade balance)	1
Potential for increased FDI as a result of increased sales between both nations	1
Overall increase in Australia's Trade intensity as a % of GDP	1
Total	/4
Answer	
Increases the volume of exports overseas (increasing credits in trade balance)	
Increases the volume of imports from overseas (increasing debits in trade balance)	
Potential for increased FDI as a result of increased sales between both nations	
Overall increase in Australia's Trade intensity as a % of GDP	

Sample assessment task

Economics – ATAR Year 12

Task 2 – Unit 3

Assessment type: Extended answer

Conditions

Time for the task: 45 minutes

Seen essay sat in class under test conditions

Task weighting

7.5% of the school mark for this pair of units

Extended answer

(20 marks)

A nation's trade performance is largely influenced by its international competitiveness.

- a) Explain **four** factors that can influence a nation's international competitiveness. (10 marks)
- b) Demonstrate and explain the gains from specialisation and trade using a suitable economic model, making specific reference to the economic data below. (10 marks)

	Cars	Trucks
Country A (in millions)	8	16
Country B (in millions)	20	20

Marking key for sample assessment task 2 – Unit 3

- (a) Explain **four** factors that can influence a nation's international competitiveness.

Description	Marks
Defines international competitiveness	2
For each factor (4 in total):	
Explains in detail a key determinant of international competitiveness	1–2
Total	/10
Answer	
<p>The OECD describes international competitiveness as 'the degree to which a country can produce goods and services for an overseas market while increasing the real incomes of its population over time'.</p> <p>[OECD (1992). Adapted definition of the international competitiveness. <i>Technology and the economy: The key relationships</i>. Paris: OECD.]</p> <p>Australia's international competitiveness influences our trade intensity, levels of output, employment and income. Declining competitiveness means that it is more difficult for local producers to find buyers in overseas markets. Competitiveness impacts on a nation's standard of living. International competitiveness can impact on national income. The different factors that influence the competitiveness of a country's goods and services include:</p> <ol style="list-style-type: none"> 1. inflation relative to the nation's trading partners 2. movements in a country's exchange rate 3. the cost of labour (real wages) compared to major trading partners 4. changes in labour productivity (increases in technology or improvements in education and training) 	

- b) Demonstrate and explain the gains from specialisation and trade using a suitable economic model, making specific reference to the economic data below.

Description	Marks
Defines the principle of absolute advantage	1
Defines the principle of comparative advantage	1
Outlines the four key assumptions of the model of absolute and comparative advantage	2
Explains the principle of opportunity cost using the production possibilities for both nations	1–2
Demonstrates gains from trade using the available economic data – before/after specialisation and after trade	1–2
Explains using a PPF the gains from trade for both nations	1–2
Total	/10
Answer	

There are two types of cost advantage; absolute advantage and comparative advantage.

Comparative advantage relates to how much productive or cost efficient one country is than another.

Absolute advantage means being more productive or cost-efficient than another country.

For example, there are only two countries producing two goods – cars and trucks.

Using all its resources, country A can produce 8 million cars or 16 million trucks, and country B can produce 20 million cars or 20 million trucks.

In this case, country B has the absolute advantage in producing both products, but it has a comparative advantage in trucks because it is relatively better at producing them. Country B is 3.5 times better at producing trucks, and only 1.17 times better at producing cars.

Country B should specialise in producing trucks, leaving Country A to produce cars.

If countries apply the principle of comparative advantage, combined output will be increased in comparison with the output that would be produced, if the two countries tried to become self-sufficient and allocate resources towards production of both goods.

Using this example, if countries A and B allocate resources evenly to both goods combined output is: Cars = 4 + 14 = 18; Trucks = 8 + 6 = 14, therefore, world output is 32 million units.

Before specialisation

	Cars	Trucks
Country A	4	8
Country B	14	6
Total	18	14

It is being able to produce goods by using fewer resources, at a lower opportunity cost that gives countries a comparative advantage.

Full specialisation

	Cars	Trucks
Country A	0	20
Country B	20	0
Total	20	20

Having a comparative advantage in X, Country A sacrifices less of Y than Country B. In terms of two countries producing two goods, different PPF gradients mean different opportunity costs ratios, and hence specialisation and trade will increase world output (from 34 million units to 40 million units).

After trade

	Cars	Trucks
Country A	5	9
Country B	15	7
Total	20	20

[Concept from: Ricardo, D. *On the principles of political economy and taxation* [Principle of comparative advantage]. (1817). London, England: John Murray, Albemarle Street.]

Sample assessment task

Economics – ATAR Year 12

Task 3 – Unit 3

Assessment type: Data interpretation/Short answer**Conditions**

Time for the task: 40 minutes

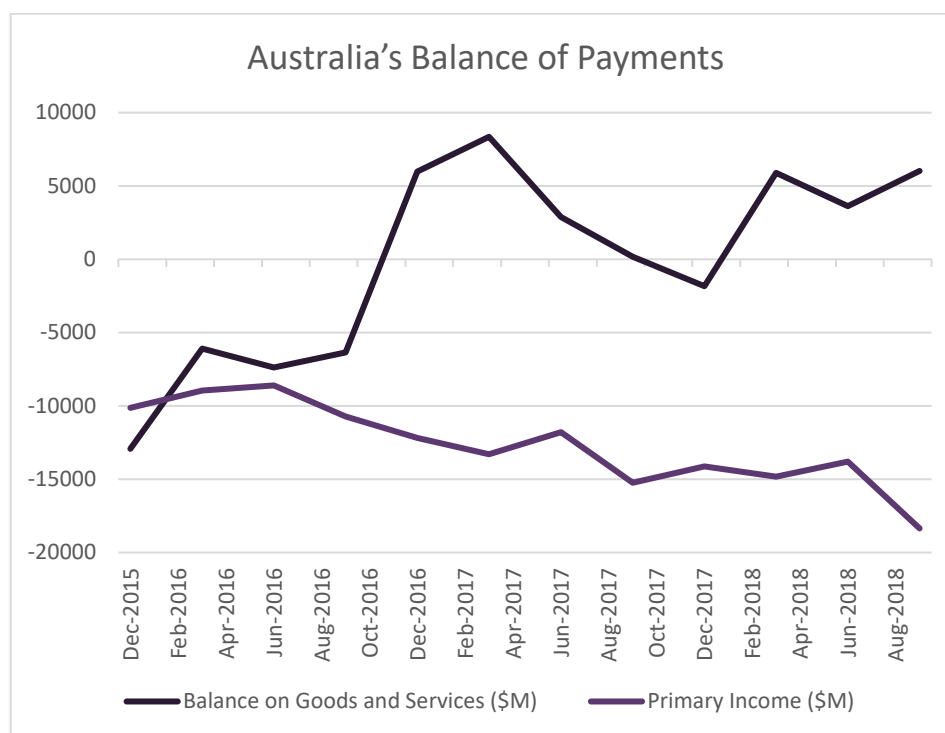
In class under test conditions

Task weighting

7.5% of the school mark for this pair of units

Data interpretation/Short answer**(20 marks)**

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



[Data source: Australian Bureau of Statistics. (2019). Current account balance.

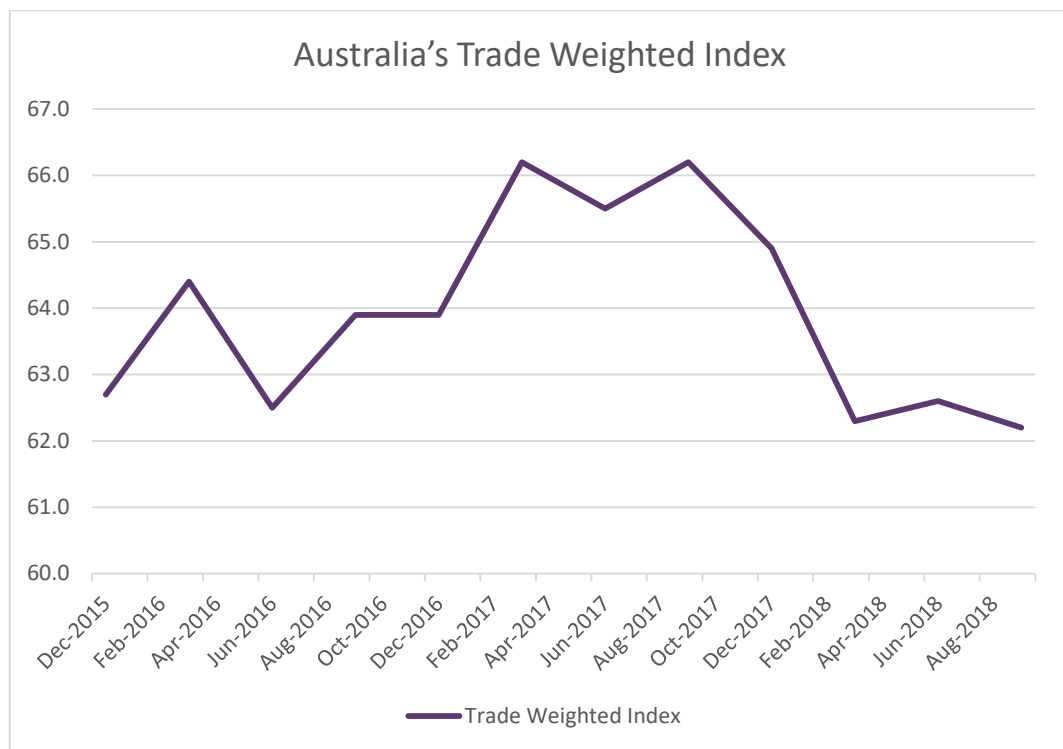
Retrieved August, 2019, from <https://www.abs.gov.au/ausstats/abs@.nsf/mf/5302.0>Used under [Creative Commons Attribution 4.0 International](https://creativecommons.org/licenses/by/4.0/) licence.]

1. Identify the year that had the largest monthly trade surplus? (1 mark)

2. What was the value of the trade balance in December 2017? (1 mark)

3. What effect does an increase in Chinese economic growth have on the goods and services balance? Provide a reason for this effect. Looking at the graph, when might this surge in growth occurred? (3 marks)

Refer to the following graph showing the movement in Australia's exchange rate.



[Data source: Australian Bureau of Statistics. (2019). 5368.0 International trade in goods and services, Australia: Trade weighted index. Retrieved August, 2019, from https://search.abs.gov.au/s/search.html?query=Trade+weighted+Index&collection=abs&form=simple&profile=default&start_rank=11
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4. In September 2017, Australia's Trade Weighted Index was equal to 66.2. By September 2018, the index was 62.2. Explain the effect this movement in the Australian dollar is likely to have had on Australia's trade balance. (3 marks)

5. 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)

6. Describe the trend in Australia's primary income balance between December 2015 and August 2018. Provide two reasons for this trend. (3 marks)

-
- This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Questions 1 & 3: Graph data source: Australian Bureau of Statistics. Used under Creative Commons Attribution 4.0 Australia licence.

Marking key for sample assessment task 3 – Unit 3

1. Identify the year that had the largest monthly trade surplus?

Description	Marks
Correctly identifies the year the trade balance recorded its highest surplus	1
Total	/1
Answer	
2017 (trade balance is the goods and services balance)	

2. What was the value of the trade balance in December 2017?

Description	Marks
Correctly identifies the value of the trade balance in December 2017	1
Total	/1
Answer	
\$1.838 billion deficit	

3. What effect does an increase in Chinese economic growth have on the goods and services balance? Provide a reason for this effect. Looking at the graph, when might this surge in growth occurred?

Description	Marks
Correctly identifies the effect an increase in Chinese economic growth on the goods and services balance	1
Provides a valid reason for this effect	1
2016–2017	1
Total	/3
Answer	
An increase in Chinese economic growth causes an increase in the goods and services balance	
An increase in the economic growth of Australia's major trading partners will cause a rise in demand for Australian exports resulting in an increase in the goods and services balance	
Identifying a time period on the graph where the trade balance spikes upwards (i.e. late 2016–2017)	

4. In September 2017, Australia's Trade Weighted Index (TWI) was equal to 66.2. By September 2018, the index was 62.2. Explain the effect this movement in the Australian dollar 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 TWI	1
Provides an explanation for the effect of the change in the TWI on the trade balance	1–2
Total	/3
Answer	
The TWI decreased, which normally increases the trade balance (decrease the trade deficit or increase the trade surplus)	
A fall in the TWI due to a currency depreciation reduces prices of exports and increases prices of imports. This results in an increase in net exports which increases the trade balance	

5. What is recorded in the primary income balance 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	

6. Describe the trend in Australia's primary income balance between December 2015 and August 2018. 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 increased from -\$10.2 billion in September 2015 to around -\$18.352 billion in September 2018	
Reason 1: This could have been due to a decrease of foreign investment by Australian firms overseas or an increase in foreign investment into Australia which would reduce income payments	
Reason 2: The economy showed signs of recovery which increases the outflow of profits to foreign investors	

7. Discuss the likely effect of the trade balance in September 2018 on Australia's economic growth and the Federal Government Budget Balance.

Description	Marks
Correctly identifies the trade balance situation in September 2018	2
Correctly identifies the link between the trade balance and economic growth	1–2
Explains the link between the trade balance and the budget balance	1–2
Total	/6
Answer	
Trade balance is surplus in September 2018	
Contribution of net exports will increase the rate of economic growth	
Exporting firms will increase profits and employment contributing to economic growth	
Higher exporting firm profits will mean greater company tax receipts and higher employment will mean more income tax receipts	
The Budget should move to a smaller deficit/or small surplus and possibly another small surplus in 2019–20	

Sample assessment task

Economics – ATAR Year 12

Task 4 – Unit 3

Assessment type: Extended answer

Conditions

Time for the task: 45 minutes

In class under test conditions

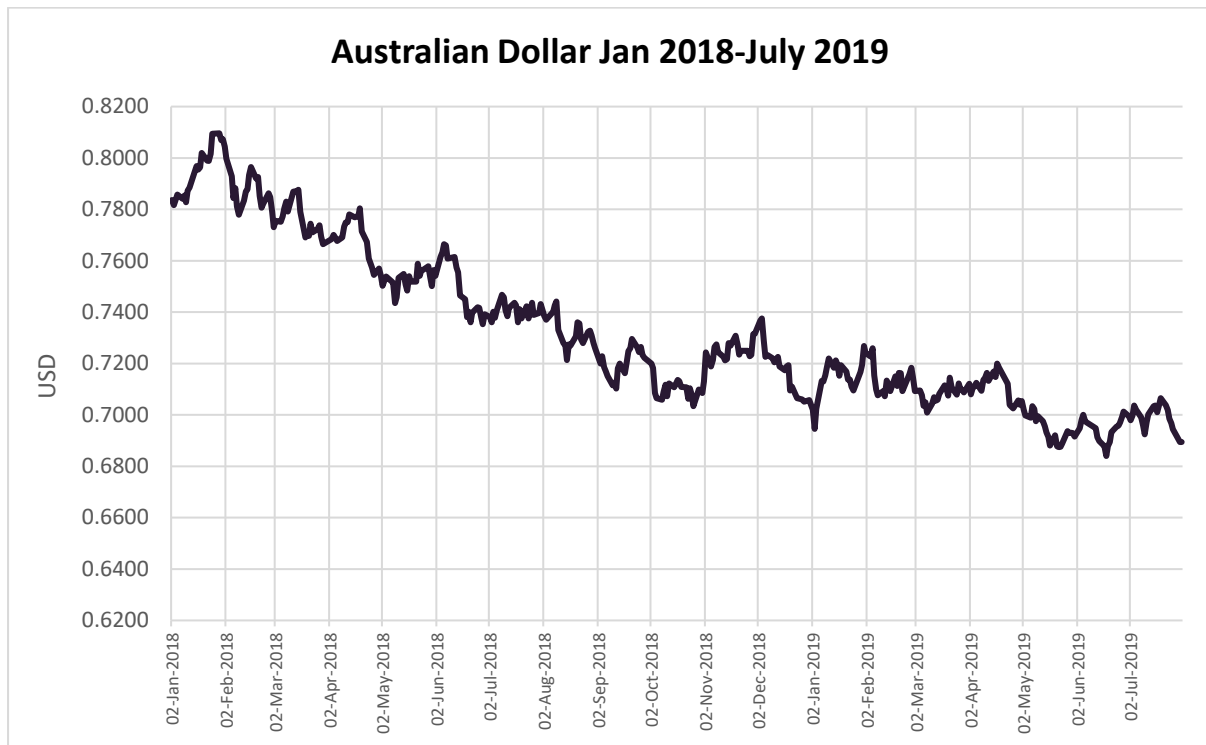
Task weighting

7.5% of the school mark for this pair of units

Extended answer

(20 marks)

In January 2018, the Australian dollar was worth 81, US cents. It depreciated to a low of 70, US cents in May 2019.



[Reserve Bank of Australia. (2019). AUS/USD exchange rates data. Retrieved August, 2019, from <https://www.rba.gov.au/statistics/frequency/exchange-rates.html>]

- Explain and demonstrate how the value of the Australian dollar is determined and describe **four (4)** possible causes of the depreciation of the Australian dollar between January 2009 and April 2010. Use a diagram to illustrate your answer. (12 marks)
- Explain the likely effects of this depreciation of the Australian dollar on Australia's Balance of Payments. (8 marks)

Marking key for sample assessment task 4 – Unit 3

- a) Explain and demonstrate how the value of the Australian dollar is determined and describe **four (4)** possible causes of the depreciation of the Australian dollar between January 2009 and April 2010. Use a diagram to illustrate your answer.

Description	Marks
Defines exchange rate	1
Explain and demonstrate how the value of the Australian dollar is determined	1–5
Use demand/supply model to demonstrate how the \$A is determined	1–2
Explains four possible causes of a currency depreciation	1–4
Total	/12

Answer

An exchange rate is the value of one nation's currency in terms of another nation's currency

The foreign exchange market is the market in which currencies of different countries are bought and sold

The demand for currencies is derived from the demand for a country's exports, and from speculators looking to make a profit on changes in currency values

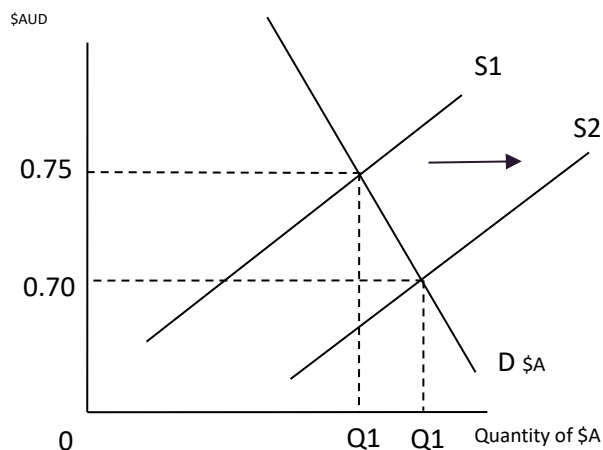
The supply of a currency is determined by the domestic demand for imports from abroad. The more it imports the greater the supply of Australian dollars onto the foreign exchange market

A depreciation can be caused by either of the following:

A decrease in demand for the currency (i.e. an increase in the demand for our exports, decrease in FDI into Australia, decrease in income receipts from overseas)

An increase in supply for the currency (i.e. an increase in the purchase of imports, increase in foreign investment from Australian businesses) – Shown below

FOREIGN EXCHANGE MARKET



Explains the **four** possible causes of a currency depreciation including:

1. A reduction in Interest rates – lower interest rates discourages foreign investment (money flows) and demand for currency. This causes a depreciation
2. Slow economic growth – low levels of economic growth will tend to cause a depreciation in the currency, this is because markets expect lower interest rates – resulting in lower demand for the Australian dollar
3. Inflation – higher inflation makes exports less competitive and reduces demand for currency. This causes a depreciation
4. Speculation – falling confidence in the economy/currency
5. A large trade deficit on the current account is more likely to cause a depreciation in the value of the currency because money is leaving the economy to buy imports

- b) Explain the likely effects of this depreciation of the Australian dollar on Australia's Balance of Payments.

Description	Marks
Defines depreciation of the currency	1
Defines Balance of Payments	1
Outlines the likely effects	1–3
Explains the impact of these effects on the Balance of Payments	1–3
Total	/8
Answer	
<p>A depreciation of the Australian dollar is a decrease in the value of one currency in terms of another currency.</p> <p>This results in each Australian dollar buying less foreign currency (i.e. its value has diminished). If you are buying an item that is priced in foreign currency it will now cost you more in Australian dollars than before</p> <p>Define Australia's Balance of Payments – a systematic record of all international transactions made between Australia and other countries</p> <p>Structure of the Balance of Payments includes three parts:</p> <ol style="list-style-type: none"> 1. the current account – measures international trade, net income on investments, and direct payments 2. the financial account – includes changes in international ownership of assets, and; 3. the capital account – includes any other transactions that don't influence Australia's GDP <p>The exchange rate is an important mechanism for helping the Australian economy adjust to large economic events. A free floating exchange rate allows for an auto adjustment in the Balance of Payments</p> <p>Effects of an exchange rate depreciation</p> <p>When the Australian dollar depreciates:</p> <ul style="list-style-type: none"> • Australian-produced G and S are less expensive compared to overseas produced G and S • the price of M increases relative to X, which will tend to decrease the value of net exports (exports less imports) • this will increase the size of the current account deficit • a fall in the Australian dollar increases the volume of exports and reduce the volume of imports • will tend to increase net exports and reduce the current account deficit – offset <p>Timing of these two effects will differ (J-curve)</p> <p>Two effects</p> <ol style="list-style-type: none"> 1. Direct effect of an exchange rate depreciation occurs immediately 2. Indirect effects on export and import volumes typically occur with a lag (J-curve) <p>J curve – A fall in the Australian Dollar will reduce the value of net exports. Over time, there will be a response in export and import volumes, and the fall in the Australian Dollar is likely to increase the value of net exports over time</p> <p>A fall in the Australian dollar will tend to reduce the value of Australia's net foreign liabilities</p> <p>A depreciation in the Australian dollar will impact on the net income deficit in two ways:</p> <ol style="list-style-type: none"> 1. increase the income that Australians receive on foreign assets – the returns on investment assets are now of higher value in terms of Australian dollars – net income outflow will fall – current account deficit will be reduced; 2. increase the cost to Australian residents of servicing foreign debt – the amount of Australian dollars needed to pay the interest owed on the debt has risen 	

Sample assessment task

Economics – ATAR Year 12

Task 6 – Unit 4

Assessment type: Data interpretation/Short answer**Conditions**

Time for the task: 40 minutes

In class under test conditions

Task weighting

7.5% of the school mark for this pair of units

Data interpretation/Short answer**(12 marks)**

Refer to the following economic data for Australia. These are March quarter 2019 figures unless otherwise stated.

Table 1: Australia's Economic Indicators 2019

	Economic Indicator	March 2019	Previous Year
Labour Force	Unemployment	5.0%	5.5%
	Employment Growth	2.4%	3.1%
Prices	Inflation	1.3%	1.9%
	Wage Price Index (Dec 2018)	2.3%	2.1%
Economic Growth	Real GDP (Dec 2018)	2.3%	2.4%
Monetary Policy	Cash Rate (Apr 2019)	1.5%	1.5%
International Accounts	Trade Weighted Index (26 th Apr)	60.4	62.2
	Current Account Deficit (\$bill)	40.7	46.2
	Current Account Deficit (% GDP)	2.1	2.6
	Foreign Debt (% GDP)	57.1%	56.1%

[Data source: Australian Bureau of Statistics. (2019). Key Economic Indicators, Summary.

Retrieved August, 2019, from <https://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/1345.0?opendocument>

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Table 2: Components of Aggregate Demand 2018

Aggregate Demand	\$Billions	% of Total	% Change over 12 months
Household Consumption	1105	59%	1.7%
Government Demand	417	24%	1.4%
Business Investment	225	13%	0.4%
Dwelling Construction	99	6%	-0.1%
Inventories	1	0%	-0.2%
Exports	345	20%	0.9%
Imports	-393	-23%	1.1%
Gross Domestic Product (GDP)	1709	100%	3%

[Data source: Australian Bureau of Statistics. (2019). Australian National Accounts: National Income, Expenditure and Product

Retrieved August, 2019, from <https://www.abs.gov.au/ausstats/abs@.nsf/mf/5206.0>

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- a) What was the annual economic growth rate for Australia to the March Quarter 2019? (1 mark)

- b) Which category of aggregate expenditure recorded the largest increase? (1 mark)

- c) Draw a Keynesian Aggregate Expenditure model to show the position of the economy in March 2019. Label the axes and draw the 45 degree line and AE lines. Is the economy operating below, at, or above macroeconomic equilibrium? Provide reasons for your answer. (5 marks)

Model

- d) Given the state of the economy in March 2019, 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 Keynesian Aggregate Expenditure model in your response. (5 marks)

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Model

Marking key for sample assessment task 6 – Unit 4

- a) What was the annual economic growth rate for Australia to the March Quarter 2019?

Description	Marks
Correctly identifies the annual growth rate for the economy to the March quarter 2019	1
Total	/1
Answer	
2.3%	

- b) 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	
Household Consumption	

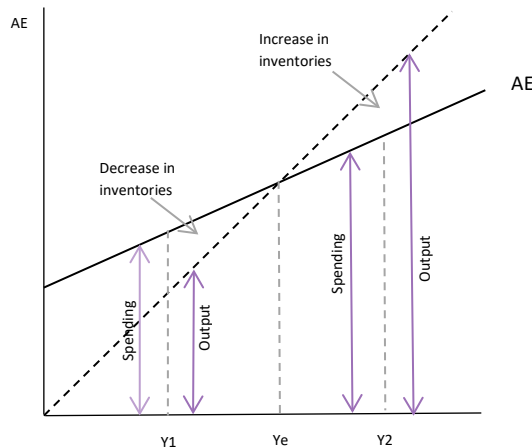
- c) Draw a Keynesian Aggregate Expenditure model to show the position of the economy in March 2019. Label the axes and draw the 45 degree line and AE lines. Is the economy operating below, at, or above macroeconomic equilibrium? Provide reasons for your answer.

Description	Marks
Correctly labels the axes of the model	1
Correctly draws and labels the AE, 45 degree line and set of axes	1
Identifies where the economy is operating in March 2019	1
Provides two valid reasons for the position of the economy in March 2019	1–2
Total	/5

Answer

Vertical axis – Aggregate Expenditure (AE); horizontal axis – Real GDP, Income (Y), Output (O)

Two lines: AE, 45 degree line and AE2



The economy is operating below potential GDP – deflationary gap. Possible reasons include:

- real GDP is growing at 2.3% which is below the growth rate of potential GDP (3.25%)
- falling inventories (-0.2%)
- unemployment rate of 5.0% (down from 5.5% – showing signs of economic recovery), however, still above the natural rate
- inflation is low (1.3%) which indicates there is excess capacity in the economy and is relatively weak

- d) Given the state of the economy in March 2019, 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 Keynesian Aggregate Expenditure model in your response.

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 Keynesian AE model	1
Total	/5

Answer

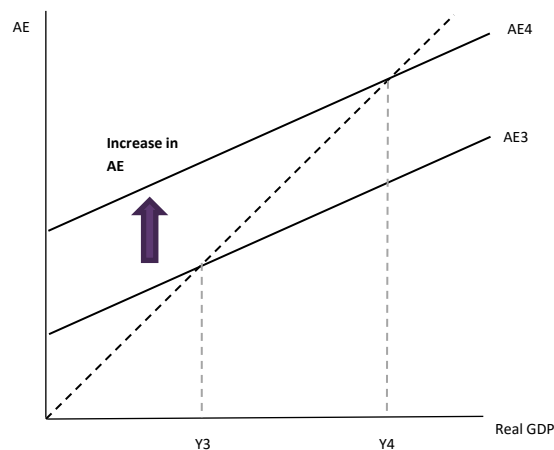
The RBA would adopt an expansionary stance

The RBA would reduce the cash rate (or leave cash rate at historical lows) which would cause other interest rates to fall or remain very low

Lower interest rates would stimulate consumption and investment by reducing borrowing costs and increasing asset prices. Aggregate Expenditure would increase as a result

The AE curve would shift upward from AE3 to AE4, increasing real GDP (from $Y_3 \rightarrow Y_4$), increasing expenditure, the price level and reducing unemployment in the longer term

Cyclical Expansion



Sample assessment task

Economics – ATAR Year 12

Task 7 – 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

Extended answer

(20 marks)

- a) With reference to contemporary economic information and data, discuss the extent to which the Australian Government has achieved its economic objectives in 2018–2019. (10 marks)
- b) With the aid of separate AD/AS diagrams, explain the likely effects of each of the following events on the Australian economy.
 - i) A sharp decrease in both production and export quantities as Chinese economic growth continues to fall since January 2018.
 - ii) The impact on Australian businesses following the Australian Government Budget 2019–20 announcement to provide transport infrastructure investment of \$100 billion with new road and rail projects over the next decade. (10 marks)

Marking key for sample assessment task 7 – Unit 4

- a) With reference to contemporary economic information and data, discuss the extent to which the Australian Government has achieved its economic objectives in 2018–2019.

Description	Marks
Price stability – including statement of correct objective and discussion of the extent of achievement using current economic data	1–2
Economic growth – including statement of correct objective and discussion of the extent of achievement using current economic data	1–2
Full employment – including statement of correct objective and discussion of the extent of achievement using current economic data	1–2
Other economic objectives – efficient resource allocation, equitable income distribution	1–2
Impact of exogenous events that may have influences on the government's ability to meet its economic objectives.	1–2
Total	/10
Answer	
Answers could include but are not limited to the following Objectives:	
<ul style="list-style-type: none"> price stability (2–3% change in CPI on average over the course of the business cycle) and current result; below the RBA target range and continued concern about deflation (underlying inflation currently at 1.3% in March 2019) sustainable economic growth (3–4% growth in real GDP); currently below trend growth – quarterly variation full employment: currently just above the target range; evidence of some cyclical; concern about level of hidden unemployment and underemployment that indicate the 'real' level is even greater equitable allocation of income/efficient resource allocation; lack of productivity policy development and below trend economic growth limiting achievement extent and possible factors influencing attaining potential growth, such as low levels of investment, consumer and business sentiment, political instability with a looming Federal Election in 2019 	

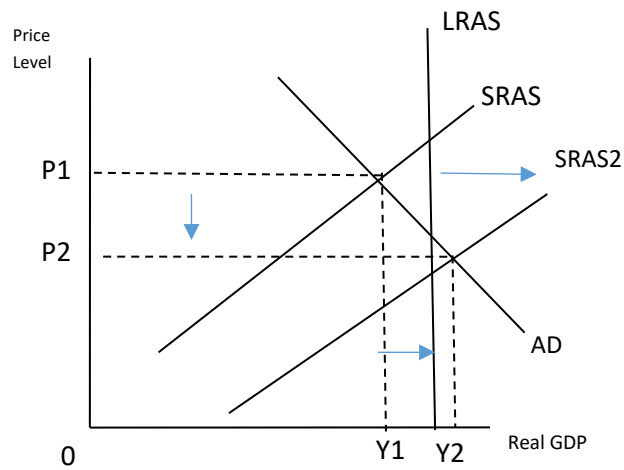
- b) With the aid of separate AD/AS diagrams, explain the likely effects of each of the following events on the Australian economy.
- A sharp decrease in both production and export quantities as Chinese economic growth continues to fall since January 2018.
 - The impact on Australian businesses following the Australian Government Budget 2019–20 announcement to provide transport infrastructure investment of \$100 billion with new road and rail projects over the next decade.

Description	Marks
Decline in Chinese economic growth	
Explains in detail the contractionary impact on the economy (due to falling net exports and investment), discussing a range of economic indicators, i.e. growth, inflation, unemployment, trade balance, exchange rate, terms of trade	2–3
Explains the contractionary impact, discussing some economic indicators	1
Subtotal	3
AD/AS model	
Provides a correctly-drawn and fully-labelled diagram showing the AD curve shifting to the left resulting in a fall in real GDP and less price pressure. The diagram links to the description	2
Provides a diagram showing the correct shift in the AD curve. The diagram is not fully-labelled or linked explicitly to the description	1
Subtotal	2
Increase in transport infrastructure investment spending	

Explains in detail the expansionary impact on the economy (due to decreasing costs), discussing a range of economic indicators, i.e. sustainable growth, lower inflation, unemployment, trade balance, international competitiveness	2–3
Explains the expansionary impact, discussing some economic indicators	1
Subtotal	3
AD/AS model	
Provides a correctly-drawn and fully-labelled diagram showing the AS curve shifting to the right resulting in an increase in real GDP without significant price pressure. The diagram links to the description	2
Provides a diagram showing the correct shift in the AS curve. The diagram is not fully-labelled or linked explicitly to the description	1
Subtotal	2
Total	/10
Answer	
<p>i) A fall in Chinese Economic growth would reduce production, incomes and export volumes for the Australian economy. A contraction occurs when growth in real GDP falls below trend or when real GDP declines below potential GDP. 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. The AD demand would shift to the left (AD1 – AD2) – the short run equilibrium would be to the left of the LRAS curve</p> <p>Diagram for (i)</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</p>	

- ii) A positive impact on aggregate supply – an increase in SRAS can cause a business cycle expansion. 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 right – the short run equilibrium would move to the right towards the LRAS curve as the economy reaches full capacity

Diagram for (ii)



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

Sample assessment task

Economics – ATAR Year 12

Task 8 – Unit 4

Assessment type: Extended answer (Investigation)

Conditions

Part 1: Take home research component

Time for the task: 3 weeks

Part 2: Follow up validation

Time for the task: 40 minutes

In class under test conditions

Task weighting

7.5% of the school mark for this pair of units

Part 1: Research component

(20 marks)

Your task is to analyse this year's Federal Budget and cover all of the areas listed below. Each area should be clearly identified and numbered with the use of headings.

- a) A description of the **state of the Australian economy** at present. Discuss various indicators such as; unemployment, CAD, inflation, economic growth, the cash rate, general interest rates, exchange rates etc. (5 marks)
- b) A description of the main **components of the budget**, both in expenditure and revenue. (i.e. A table of information with \$ figures is useful, but you need to explain in a few paragraphs the main elements or features.) (5 marks)
- c) A **comparison of this year's budget to previous budgets (the last three years)**. Is the budget in surplus or deficit? Has the surplus or deficit increased or decreased? Suggest reasons for the change from last year's position to this year. (5 marks)
- d) An assessment of the **main strengths and weaknesses** of the budget and fiscal policy in general. Various groups will have commented on aspects of the budget, e.g. industry groups, welfare groups, the Opposition etc. (Opinions must be justified and supported with facts where possible.) (5 marks)

Part 2: In-class validation

(20 marks)

- a) With reference to the business cycle and key economic indicators, outline the main **economic issues** that the Australian economy currently experiences or may encounter in the future. (10 marks)
- b) Assume you are the Treasurer for the Federal Government.
Explain your budget strategy by outlining the recommendations you would make, if you were in the position of Treasurer. Discuss any changes to government spending/revenue, the size of the deficit/surplus you would run and justify why you would make these recommendations. (10 marks)

Total 40 marks

Marking key for sample assessment task 8 – Unit 4

- (a) A description of the **state of the Australian economy** at present. Discuss various indicators such as; unemployment, CAD, inflation, economic growth, the cash rate, general interest rates, exchange rates etc.

Description	Marks
Selects appropriate print and electronic media sources of economic information and data on Australia's economic policy and management	1
Identifies and organises relevant information within sources	1
Identifies trends and relationships in economic information and data regarding Australia's economic policy and management	1
Interprets changes in economic data, including prices, unemployment, economic growth, the labour force and productivity	1–2
Total	/5

- (b) A description of the main **components of the budget**, both in expenditure and revenue. (i.e. A table of information with \$ figures is useful, but you need to explain in a few paragraphs the main elements or features.)

Description	Marks
Applies appropriate methods of recording and organising macroeconomic information, including spreadsheets, graphs and tables	1–3
Identifies and organises relevant information within sources	1–2
Total	/5

- (c) A **comparison of this year's budget to previous budgets (the last three years)**. Is the budget in surplus or deficit? Has the surplus or deficit increased or decreased? Suggest reasons for the change from last year's position to this year.

Description	Marks
Identifies trends and relationships in economic information and data regarding Australia's economic policy and management	1–2
Uses economic information and data to make predictions on Australia's economic policy and management	1–3
Total	/5

- (d) An assessment of the **main strengths and weaknesses** of the budget and fiscal policy in general. Various groups will have commented on aspects of the budget, e.g. industry groups, welfare groups, the Opposition etc. (Opinions must be justified and supported with facts where possible.)

Description	Marks
Selects and uses appropriate terminology	1
Selects and uses appropriate formats when communicating economic understandings	1
Provides an assessment of the strengths and weaknesses of the budget and fiscal policy	1–3
Total	/5

Part 2: In-class validation**(20 marks)**

- (a) With reference to the business cycle and key economic indicators, outline the main **economic issues** that the Australian economy currently experiences or may encounter in the future.

Description	Marks
Defines the concept of the business cycle	1
Identifies the key characteristics (indicators) of phases within the business cycle	1–2
Describes the relationship between the business cycle and economic indicators	1–3
Interprets changes in economic data, including prices, unemployment, economic growth, the labour force and productivity	1–4
Total	/10

- (b) Explain your own budget strategy by outlining recommendations you would you make, if you were in the position of Treasurer. Discuss any changes to government spending/revenue, the size of the deficit/surplus you would run and justify why you would make these recommendations.

Description	Marks
Identifies the different budget outcomes, i.e. balanced, surplus and deficit budgets	1–2
Outlines methods of financing a budget deficit and the uses of a budget surplus	1–2
Applies problem-solving, critical thinking and decision-making strategies to achieve outcomes which may be predictable and contestable by nature	1–2
Uses economic information and data to make predictions on Australia's economic policy and management	1–2
Impact of different fiscal policy stances on the level of economic activity	1–2
Total	/10

Sample assessment task

Economics – ATAR Year 12

Task 9 – Unit 4

Assessment type: Data interpretation/Short answer

Conditions

Time for the task: 50 minutes

In class under test conditions

Task weighting

7.5% of the school mark for this pair of units

Data interpretation/Short answer

(12 marks)

Read the following speech extract from Phillip Lowe, Reserve Bank of Australia (RBA) Governor and answer the questions that follow.

Today's Reduction in the Cash Rate

June 4th 2019

Earlier today the Reserve Bank Board decided to lower the cash rate by a quarter of a percentage point to 1¼ per cent. This decision comes after more than 2½ years in which we have held the cash rate steady. The last change was back in August 2016. At its core, today's decision was taken to support employment growth and to provide greater confidence that inflation will be consistent with the medium-term target.

I want to emphasise that the decision is not in response to a deterioration in our economic outlook. The economic outlook remains reasonable, with the main downside risk being the international trade disputes, which have intensified recently. The Australian economy is still expected to strengthen later this year, supported by the low level of interest rates, a pick-up in growth in household disposable income, ongoing investment in infrastructure and a brighter outlook for the resources sector. So today's decision does not reflect a weaker outlook. Rather it reflects the fact that, even with the expected pick-up in growth, the Australian economy is likely to have spare capacity for a while yet. Today's easing of monetary policy will help us make further inroads into that spare capacity. It will assist with faster progress on reducing unemployment and will help achieve more assured progress towards the inflation target. So that is our rationale.

Why move now, after holding steady for so long? The first is that inflation pressures are subdued and they are likely to remain so. And the second and related conclusion is that there is still significant spare capacity in the Australian labour market. The most recent batch of data has provided further evidence in support of both conclusions. The March quarter CPI was low and it was below expectations, as was the previous reading on inflation. In addition, the wage data for the March quarter confirmed that wages growth remains subdued, although it has picked up from a year ago. And the recent labour market report also confirmed that strong employment growth is not making material inroads into spare capacity in the labour market. The Board judged that the accumulation of this further evidence meant that it was now appropriate to adjust monetary policy.

[Reserve Bank of Australia. (2019). *Today's reduction in the cash rate* [Excerpt from the RBA Governor Phillip Lowe speech]. Retrieved August, 2019, from <https://rba.gov.au/speeches/2019/sp-gov-2019-06-04.html>]

Questions

- a) Explain the concept of the 'cash rate'. (2 marks)
- b) With reference to economic information and data, discuss the circumstances under which the RBA may change the cash rate. (5 marks)
- c) With the aid of AD/AS diagrams, explain the likely impact of the recent cash rate change on the Australian economy. (5 marks)

Marking key for sample assessment – Unit 4 – Task 9

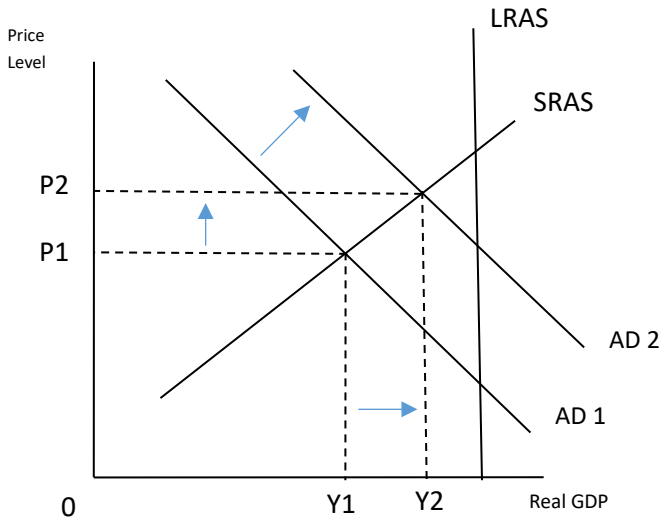
- a) Explain the concept of the 'cash rate'. (2 marks)

Description	Marks
Provides a definition of the cash rate and describes the influence that it has on market interest rates	2
Provides a definition of the cash rate	1
Total	/2
Answer	
The cash rate is the interest rate on overnight loans in the money market. The RBA changes the cash rate which indirectly affects interest rates and the level of spending in the economy	

- b) With reference to economic information and data, discuss the circumstances under which the RBA may change the cash rate. (5 marks)

Description	Marks
Monetary Policy – Circumstances where the RBA changes the cash rate	
Explains in detail the circumstances where the RBA changes the cash rate with reference to the objectives of monetary policy – stability of the currency, maintenance of full employment and economic prosperity and welfare	1–2
Explains that MP is implemented with a medium-term outlook in mind – expectations about the future	1
Subtotal	3
Reasoning, interpretation and analysis – Reference to economic information and data – identifies and organises relevant information within sources	
Using the data makes reference to two reasons why this latest change in the cash rate may have occurred	2
Using the data makes reference to one reason why this latest change in the cash rate may have occurred	1
Subtotal	2
Total	/5
Answer	
<p>The Reserve Bank Board decided to lower the cash rate by a quarter of a percentage point to 1.25%. This is the first time in 2.5 years</p> <p>The decision was taken to support employment growth and to provide greater confidence that inflation will be consistent with the medium-term target of 2–3%. Currently:</p> <ul style="list-style-type: none"> inflation pressures are subdued there is spare capacity in the Australian labour market <p>The Reserve Bank decreases the cash rate when the economy contracts, unemployment increases and inflation falls. This is when inflation is below the target range (<2%), the economy is growing below the long run average rate of growth (<3%), actual GDP is below potential GDP, unemployment is above the natural rate (>5%) or the economy has suffered an AD shock</p> <p>The Reserve Bank increases the cash rate when the economy expands too fast and inflation rises above the target range of 2–3%</p>	

- c) With the aid of AD/AS diagrams, explain the likely impact of the recent cash rate change on the Australian economy. (5 marks)

Description	Marks
Reduction in the cash rate	
Explains in detail the expansionary impact on the economy (due to increased consumption spending and investment by individuals and businesses), discussing a range of economic indicators, i.e. growth, inflation, unemployment, trade balance, exchange rate, terms of trade	1–2
Explains the contractionary impact, discussing some economic indicators	1
Subtotal	3
Reasoning, interpretation and analysis – Using the AD/AS Model to analyse the RBA's policy stance	
Provides a correctly-drawn and fully-labelled diagram showing the AD curve shifting to the right resulting in a rise in real GDP and an increase in price pressure over time. The diagram links to the description	2
Provides a diagram showing the correct shift in the AD curve. The diagram is not fully-labelled or linked explicitly to the description	1
Subtotal	2
Total	/5
Answer	
<p>An expansion occurs when growth in real GDP increases above trend or when real GDP increases towards potential GDP</p> <p>A diagram to show the AD, SRAS and LRAS curves intersecting at potential GDP</p> <p>A positive AD shock – an increase in AD can cause a business cycle expansion. The AD demand curve would shift to the right from AD1 to AD2 – the short run equilibrium would move towards the right in line with the LRAS curve from Y1 to Yp</p> <p>Diagram for reduction in the cash rate</p>  <p>In the case of the AD increase, real GDP and the price level (inflation) would rise (P1 to P2) and unemployment would fall</p>	