



SAMPLE ASSESSMENT TASKS

ECONOMICS
ATAR YEAR 12

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Sample assessment task

Economics – ATAR Year 12

Task 1 – Unit 3 – Australia's international trade and Free trade and protection

Assessment type:	Data interpretation/Short answer
Conditions:	Total marks: 35 marks Time for the task: 55 minutes In class under test conditions
Task weighting:	10% of the school mark for this pair of units

Section One: Multiple-choice

(10 marks)

- Which of the following statements is true regarding Australia's trade?
 - Exports account for around 50% of Australia's GDP.
 - Around three quarters of Australian workers are directly involved in trade-related activities.
 - Australia's trade intensity has increased significantly over time to just over 50% in 2022.
 - Australia's exports are dominated by the services sector.
- Australia's top two-way trading partners in 2022 were
 - China, Republic of Korea and United States.
 - United States, China and Japan.
 - China, Japan and Republic of Korea.
 - Japan, Republic of Korea and India.
- Which of the following statements best describes Australia's composition of trade?
 - Australia's top service import is education.
 - Australia's largest import category is consumption goods.
 - Australia's top five exports are dominated by trade in services.
 - Australia's largest export category is minerals and fuels.
- A country is said to have a comparative advantage in the production of a good or service if it
 - can produce the good or service at a higher opportunity cost than another country with the same resources.
 - can produce the good or service at a lower opportunity cost than another country with the same resources.
 - can produce a higher quantity of the good or service than another country with the same resources.
 - can produce the same quantity of the good or service with a lower amount of inputs.

5. The table below shows the production of barley and computers for two countries.

	Country Y		Country X
Barley	4500	or	8000
Computers	3000	or	6000

Based on the information in the table above, which of the following statements is correct?

- (a) Country Y has an absolute advantage in the production of both products.
 - (b) Country Y has a comparative advantage in the production of barley.
 - (c) Country X has a comparative advantage in the production of barley.
 - (d) Both countries would benefit if they trade 1 unit of barley for 1 computer.
6. Which of the following is **not** a benefit from specialisation and trade?
- (a) a less diversified production base
 - (b) reallocation of resources from inefficient industries to efficient industries
 - (c) increased employment in export industries
 - (d) greater variety of goods and services available to consumers
7. A subsidy provided to an import competing industries will
- (a) increase producer surplus, increase consumer surplus and increase market efficiency.
 - (b) increase producer surplus and decrease market efficiency.
 - (c) lower the price paid by consumers and increase the quantity consumed.
 - (d) lower the price received by producers and increase the quantity sold.
8. If a country imports televisions at the world price, the economy will benefit because
- (a) domestic television producers can increase their production levels to match the increase in domestic demand.
 - (b) employment will increase the domestic television industry, increasing national income.
 - (c) consumer surplus will increase by more than the increase in producer surplus.
 - (d) consumer surplus will increase by more than the decrease in producer surplus.
9. Which of the following statements best describes the infant industry argument for protection?
- (a) New industries need the assistance of artificial trade barriers so they can develop a comparative advantage over time and achieve economies of scale to compete with foreign producers.
 - (b) Industries that produce baby products need to be protected in order to diversify the industry production base in the economy.
 - (c) Start-up industries are more important than well-established industries, so they need to be protected from strong domestic competitors.
 - (d) Newly established industries are not able to compete with foreign producers in countries where wage rates are lower.

10. A quota operates as a form of protection as it
- (a) increases the price of imports so consumers divert their consumption patterns towards domestic producers.
 - (b) is a payment made by the government to domestic producers to allow them to increase their quantity supplied.
 - (c) places a limit on the quantity of goods or services that can be imported into the country.
 - (d) is a tax imposed on foreign produced goods and services.

Section Two: Data interpretation/Short answer**(25 marks)**

This section contains **two** questions. Answer **all** questions. Write your answers in the spaces provided.

Question 11**(12 marks)**

This question refers to the edited extract below, which is from a joint media release from the Minister for Trade and Tourism, Senator the Hon Don Farrell, and the Prime Minister of Australia, Anthony Albanese MP, published on 4 May 2023.

Historic trade deal with the United Kingdom

During his visit to the United Kingdom, Prime Minister Anthony Albanese announced 31 May as the date of entry into force of the Australia-United Kingdom Free Trade Agreement (A-UKFTA).

The gold-standard trade agreement will deliver unprecedented benefits to Australian businesses and create new well-paying jobs. With the entry into force of this comprehensive agreement, there will be no tariffs on over 99 per cent of Australian goods exports to the UK, opening up new export opportunities, including for the agriculture sector. This includes Australian exports of wine, short- and medium-grain rice, honey, nuts, and manufactured products such as auto parts, electrical equipment, and cosmetic products. For some agricultural products like beef, sheep meat, dairy and sugar, Australia will have access to expanding tariff quota volumes – within 10 years these tariff quotas will be eliminated completely.

Savings of approximately \$200 million a year will be made as tariffs on imports from the UK are eliminated. After five years, all UK imports will enter Australia duty free, helping ease cost-of-living pressures for households and input costs for Australian business.

The FTA also provides a framework for professional bodies to agree to streamline licensing processes to facilitate the movement of qualified professionals between Australia and the UK. This outcome will help address the skills shortage in Australia.

Within two years of entry into force, Australians will be able to apply for working holidays in the UK to the age of 35, up from 30, and stay for a maximum of three years instead of two.

[Minister for Trade and Tourism and Special Minister of State. (n.d.). *Historic trade deal with the United Kingdom*. Retrieved May, 2023, from <https://www.trademinister.gov.au/minister/don-farrell/media-release/historic-trade-deal-united-kingdom>]

- (a) Outline the type of free trade agreement that has come into force between Australia and the United Kingdom. **(2 marks)**

- (b) Describe **two** ways in which Australian households will be impacted from the A-UKFTA. (4 marks)

One: _____

Two: _____

- (c) Use a demand and supply model and evidence from the media release to explain how the A-UKFTA will benefit Australian businesses. (6 marks)

Model

[illegible]

Question 12**(13 marks)**

This question refers to the edited extract below, which is from a joint media release from the former Minister for Foreign Affairs, Senator the Hon Marise Payne, with the former Prime Minister of Australia, Scott Morrison MP and Minister for Trade, Tourism and Investment, Dan Tehan MP published on 31 March 2022.

Australia to impose tariff increases on all imports from Russia

The Australian Government is taking further action to increase the economic costs to Russia following its illegal invasion of Ukraine, supported by Belarus, by applying an additional tariff of 35 per cent for all imports from Russia and Belarus. On 1 April 2022, Australia will issue a formal notification withdrawing entitlement to the Most-Favoured-Nation (MFN) tariff treatment and applying an additional tariff of 35 per cent to all imports from Russia and Belarus. This will take effect from 25 April 2022.

This action follows Australia's joint statement, with other like-minded members of the World Trade Organisation, strongly condemning Russia's actions and committing to take all actions we consider necessary, as WTO members, to protect our essential security interests.

We continue to work with partners to impose the maximum costs on Russia, through targeted sanctions on individuals and entities, the prohibition (ban) of energy, oil and gas products from Russia, and a ban on exports of alumina and aluminium ores (including bauxite) to Russia. Our sanctions on Russia make up the largest ever imposition of sanctions by Australia against any single country. A prohibition on imports of oil and other energy products will also commence on 25 April.

We strongly support similar action by our international partners to revoke MFN trading arrangements with Russia and Belarus, consistent with their national processes. We will continue to work closely with our partners to ensure Russia is held to account for its actions.

[Minister for Foreign Affairs and Minister for Women. (n.d.) *Australia to impose tariff increases on all imports from Russia*. Retrieved June, 2023, from <https://www.foreignminister.gov.au/minister/marise-payne/media-release/australia-impose-tariff-increases-all-imports-russia#:~:text=On%201%20April%202022%2C%20Australia,imports%20from%20Russia%20and%20Belarus.>]

(a) (i) Identify **one** trade sanction that has been imposed on Russia by the Australian Government.

(1 mark)

(ii) Outline the argument used by the Australian Government to impose trade sanctions on Russia and Belarus.

(1 mark)

(b) Describe the role of the World Trade Organisation (WTO).

(2 marks)

(c) Explain the likely impact of increased protection on Russian imports on Australian consumers and producers.

(4 marks)

Consumers: _____

Producers: _____

- (5 marks)

Model

Marking key for Sample Assessment Task 1 – Unit 3

Section One: Multiple-choice

(10 marks)

Answer	Marks
1. C	1
2. B	1
3. D	1
4. B	1
5. B	1
6. A	1
7. B	1
8. D	1
9. A	1
10. C	1
Total	10

Section Two: Data interpretation/Short answer

(25 marks)

Question 11

(12 marks)

- (a) Outline the type of free trade agreement that has come into force between Australia and the United Kingdom. (2 marks)

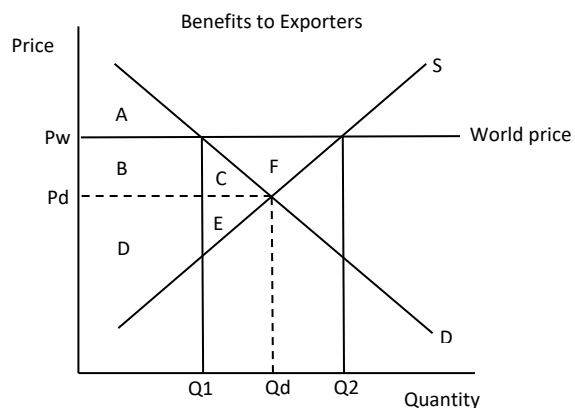
Description	Marks
Outlines the type of free trade agreement between Australia and the UK	2
Identifies the type of free trade agreement between Australia and the UK	1
Total	2
Answers could include	
Identification of A-UKFTA as a bilateral trade agreement. Outlines meaning of a bilateral FTA: <ul style="list-style-type: none"> Agreement between two countries to reduce and/or remove barriers to trade with an aim to increase the flow of goods and services between the countries. 	

- (b) Describe **two** ways in which Australian households will be impacted from the A-UKFTA. (4 marks)

Description	Marks
For each impact (x2)	
Describes the impact on Australian households (consumers)	2
Identifies an impact on Australian households (consumers)	1
Total	4
Answers could include	
Benefits to Australian households: <ul style="list-style-type: none"> Tariffs on imports from the UK are being progressively eliminated and all UK imports to Australia will be duty free after five years, reducing costs of imports for households, helping to ease cost of living pressure and increasing disposable income. The FTA will open up access to new markets. Households will benefit from more access to a greater variety of goods and services from the UK at lower prices, increasing material standard of living. More Australians will be eligible to travel and work in the UK as the age has increased from 30 to 35 for working holiday visa applications, and they will be able to stay longer as the visa length is extended to three years instead of two, exposing more Australians to new cultures. 	

- (c) Use a demand and supply model and evidence from the media release to explain how the A-UKFTA will benefit Australian businesses. (6 marks)

Description	Marks
Explanation	
Explains the benefits of the A-UKFTA to Australian businesses with reference to the media release and model	4
Describes the benefits of the A-UKFTA to Australian businesses with reference to the media release and model	3
Outlines the benefits of the A-UKFTA to Australian businesses, with some attempt to reference the media release and/or model	2
Identifies a benefit to Australian businesses with no specific reference to the media release and/or model	1
Subtotal	4
Model	
Draws a correctly labelled and detailed demand and supply model showing the gains from exports	2
Draws a partly correct demand and supply model, containing mostly accurate labels	1
Subtotal	2
Total	6
Answers could include	
Benefits to Australian businesses – exporters: <ul style="list-style-type: none"> Australian goods exporters benefit from the free trade deal as there will be no tariffs on 99% of goods exports to the UK, opening up new export opportunities and greater access to new markets. Agricultural producers particularly benefit as exports of wine, short-medium grain rice, honey and nuts will increase as they're tariff free. Exporters of other agriculture produce, such as beef, sheep meat, dairy and sugar, will experience an increase in their volume of exports due to expanding tariff quota volumes. Producers of manufactured goods, such as auto parts, electrical equipment and cosmetic products, will have an increase in sales due to removal of tariffs. Employment and income will increase in export industries as firms demand more labour to increase output. Benefits to Australian businesses that import inputs: <ul style="list-style-type: none"> After five years, all UK imports to Australia will be duty free, which will reduce costs of production for Australian businesses who import capital and intermediate goods from the UK. Reference to model (with focus on benefits to producers): <ul style="list-style-type: none"> Australian producers will produce at the higher world price (P_w). Domestic qty demanded will fall to Q_1 and domestic qty supplied will rise to Q_2, creating surplus of $Q_1 - Q_2$ which Australian producers will export to overseas. Producer surplus will increase from areas D+E (if the market operated at domestic equilibrium (P_d, Q_d)) to areas B+C+F+D+E as they receive a higher price (P_w) and sell a higher qty (Q_2). 	

Model:

Accept other relevant answers

Question 12

(13 marks)

(a) (i) Identify **one** trade sanction that has been imposed on Russia by the Australian Government.

(1 mark)

Description	Marks
Identifies one trade sanction imposed by the Australian Government	1
Total	1
Answers could include	
<ul style="list-style-type: none"> • Withdrawal of MFN status and additional tariff of 35% imposed on all imports • Prohibition/Embargo on energy, oil and gas imports from Russia • Ban on exports of alumina and aluminium ores (including bauxite) to Russia 	

(ii) Outline the argument used by the Australian Government to impose trade sanctions on Russia and Belarus.

(1 mark)

Description	Marks
Outlines the argument for imposition of trade sanctions	1
Total	1
Answers could include	
<ul style="list-style-type: none"> • Wartime/National Defence argument – Australian Government strongly condemns invasion of Ukraine by Russia and is imposing sanctions to protect security interests. 	

(b) Describe the role of the World Trade Organisation (WTO).

(2 marks)

Description	Marks
Describes the role of the WTO	2
States an objective of the WTO	1
Total	2
Answers could include	
<ul style="list-style-type: none"> • The WTO is an international body of 164 members established in 1995 that deals with trade rules between nations. • It enforces rules for international trade, promotes freer trade flows by encouraging trade liberalisation and provides a forum for negotiating free trade agreements and resolving trade disputes. • WTO advocates for trade to occur without discrimination and operates under two key principles: <ul style="list-style-type: none"> ▪ Most Favoured Nation (MFN) status – all countries must be treated equally and benefits provided to one should be extended to all. ▪ National Treatment – foreign produced goods and services should be treated the same as domestically produced goods and services. 	

(c) Explain the likely impact of increased protection on Russian imports on Australian consumers and producers.

(4 marks)

Description	Marks
For each impact (one on consumers and one on producers)	
Explains a relevant impact	2
Outlines a relevant impact	1
Total	4

Answers could include**Impact on consumers**

- Ban on energy, oil and gas imports may increase energy costs for consumers which will decrease real income.
- Producers facing higher costs of production due to higher energy costs may pass this on to consumers through higher prices for domestically produced goods and services, decreasing real income of consumers.
- Imposition of additional tariff of 35% on all imports from Russia will increase the price of imports for consumers and reduce their quantity consumed, decreasing consumer surplus.
- Decreases the quantity of imports consumed for consumers which may decrease the variety of goods and services consumers have access to.

Impact on producers

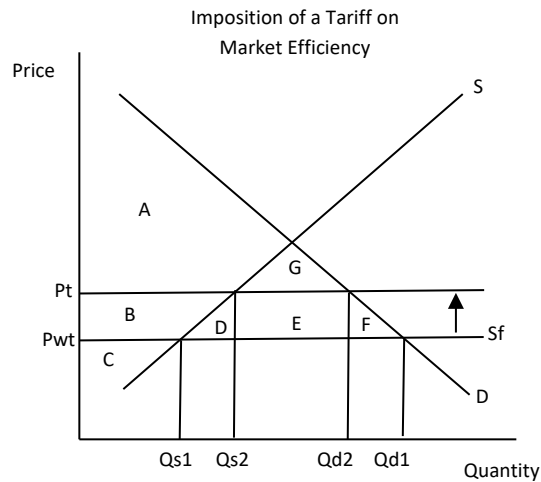
- Producers in protected industry will benefit as they can increase output at the higher price, increasing employment and income in this industry.
- Producers who import oil and energy products will experience higher costs due to the ban and may face higher costs of production.
- Exporters of alumina and aluminium ores (including bauxite) may experience a decrease in sales and income due to the ban on these goods to Russia. This will decrease output and employment in these industries in the short term while producers establish access to new markets.

- (d) Using an appropriate model, illustrate and explain the effect of increasing tariffs on Russian imports on market efficiency in Australia. (5 marks)

Description	Marks
Explanation	
Explains the impact on market efficiency in Australia with reference to the model.	3
Describes the impact on market efficiency in Australia with reference to the model.	2
Identifies that market efficiency decreases as a result on the increase in tariffs on imports, with some attempt to reference the model.	1
Subtotal	3
Model	
Draws a correctly labelled and detailed demand and supply model showing the imposition of a tariff	2
Draws a partly correct demand and supply model, containing mostly accurate labels	1
Subtotal	2
Total	5

Answers could include**Explanation**

- Imposition of tariff will increase the price from P_{wt} to P_t , qty demanded domestically will fall from Q_{d1} to Q_{d2} and qty supplied domestically will increase from Q_{s1} to Q_{s2} .
- Consumer surplus will decrease from areas $A+B+D+E+F+G$ to areas $A+G$ as they're paying a higher price and consuming a lower quantity.
- Producer surplus will increase from area C to areas $B+C$ in the protected industry as they receive a higher price and sell a higher quantity.
- Market efficiency will decrease as the loss to the consumers is greater than the benefit to producers, resulting in a deadweight loss represented by areas D and F .

Model

Sample assessment task

Economics – ATAR Year 12

Task 2 – Unit 3 – Balance of Payments and Terms of Trade

Assessment type:	Extended answer
Conditions:	Time for the task: 40 minutes In class under test conditions
Task weighting:	10% of the school mark for this pair of units

Choose **either** Question 1 **or** Question 2.

Indicate the question you will answer by ticking the box next to the question. Write your answer on the pages provided.

☐ **Question 1** **(15 marks)**

Explain the structure of Australia's current account and explain how the following events would influence the current account balance:

- (i) a decrease in the terms of trade due to a fall in commodity prices
- (ii) a decrease in national savings.

In your response, include:

- the definition of the balance of payments
- the two main balances in the current account, with examples of international transactions in each category
- the effect of a decrease in the terms of trade due to a fall in commodity prices on the current account balance
- the effect of a decrease in national savings on the current account balance with reference to the savings/investment gap.

or

☐ **Question 2** **(15 marks)**

Australia's terms of trade increased from an index of 98 in the March quarter 2020 to an index of 139 in the March quarter 2023.

Explain the concept of the terms of trade and discuss the effects of this movement in Australia's terms of trade on Australian exporters and the macroeconomy.

In your response, include:

- the concept of the terms of trade
- the effect of the terms of trade movement on exporters
- the effect of the terms of trade movement on the current account balance
- the effect of the terms of trade movement on inflation and economic growth

Marking key for sample assessment task 2 – Unit 3

Question 1

(15 marks)

Explain the structure of Australia's current account and explain how the following events would influence the current account balance:

- (i) a decrease in the terms of trade due to a fall in commodity prices
- (ii) a decrease in national savings.

Description	Marks
Balance of payments	
Defines the concept of the balance of payments	1
Subtotal	1
Explains the trade balance in the current account	
Explains how the trade balance is calculated and describes the transactions recorded in the trade balance, with appropriate examples of credit and debit transactions	3
Describes most of the transactions recorded in the trade balance with some examples of transactions	2
Identifies some aspects of transactions recorded in the trade balance	1
Subtotal	3
Explains the income balance in the current account	
Explains how the income balance is calculated and describes the transactions recorded in the income balance, with appropriate examples of credit and debit transactions	3
Describes most of the transactions recorded in the income balance with some examples of transactions	2
Identifies some aspects of transactions recorded in the income balance	1
Subtotal	3
Terms of Trade (TOT)	
Defines the concept of the TOT	1
Subtotal	1
Explains effect of a decrease in commodity prices and TOT on the current account balance (CAB)	
Explains the effect of a decrease in commodity prices on the CAB	3
Outlines the effect of a decrease in commodity prices on the CAB	2
Identifies the effect of a decrease in commodity prices on the CAB	1
Subtotal	3
Savings/investment gap and the CAB	
Outlines link between savings/investment gap and the CAB	1
Subtotal	1
Explains effect of a decrease in national savings on the CAB	1
Explains the effect of a decrease in national savings on the CAB	3
Outlines the effect of a decrease in national savings on the CAB	2
Identifies the effect of a decrease in national savings on the CAB	1
Subtotal	3
Total	15

Description	Marks
Answers could include	
Definition of balance of payments <ul style="list-style-type: none"> A systematic record of all transactions between the residents of one country, Australia, and residents of the rest of the world. 	
Trade balance <ul style="list-style-type: none"> Trade balance records all transactions involving exports and imports of goods and services. Imports are recorded as debits and exports are recorded as credits. Australia's main goods exports are minerals and agricultural goods, such as iron ore, coal, gas and beef, and main goods imports are mostly manufactured goods (capital and intermediate goods as well as consumer goods), such as personal motor vehicles, telecom equipment and parts and computers. Trade balance is equal to the sum of net goods (X-M of trade in goods) and net services (X-M of trade in services) or the total of all exports in goods and services minus the total of all imports in goods and services. In goods, an example of a credit transaction is the export of iron ore to China and an example of a debit transaction is the import of clothing from Malaysia. In services, an example of a credit transaction is an Indian student studying in Australia (export of education) and a debit transaction in services is the import of freight transport from Japan. 	
Explanation of income balance <ul style="list-style-type: none"> Income balance is the sum of net primary income and net secondary income. Primary income is the largest of the two and records transactions involving compensation of employees (wages and salaries), investment income (profits and dividends associated with equity foreign investment and interest payments associated with foreign borrowing). Secondary income records transactions in which real or financial resources are provided but nothing of economic value is received in return, such as translation of foreign aid, gifts and donations. In primary income, an example of a credit transaction would be the receipt of dividends paid to an Australian investor on shares owned in a German manufacturing company and a debit transaction would be the payment of interest by an Australian resident to a foreign bank. In secondary income, an example of a credit transaction would be the receipt of a gift provided to an Australian resident from a foreign resident and an example of a debit transaction would be foreign aid provided from the Australian Government to Papua New Guinea following a natural disaster. 	
Definition of terms of trade (TOT) <ul style="list-style-type: none"> The TOT measures the relative price movements of exports and imports or the quantity of imports that can be obtained from a given volume of exports. 	
Explanation of a fall in the TOT on the current account balance (CAB) <ul style="list-style-type: none"> Decrease in the TOT means that export prices have fallen relative to import prices. Australia's TOT is mainly driven by changes in export prices. A fall in export prices, such as from a fall in commodity prices, will result in exporters receiving less income, which will decrease credits in the trade balance. A fall in credits will decrease the trade balance and decrease the CAB. 	
Explanation of a fall in national savings on the CAB <ul style="list-style-type: none"> A country's CAB is the difference between national investment and national savings. If $S > I$, there will be a current account surplus and if $I > S$ there will be a current account deficit. If national savings were to fall relative to investment, there would be less inflow of foreign investment into Australia (such as through a decrease in borrowing from overseas and/or a decrease in the sale of domestic assets to foreign residents). A fall in capital inflow will decrease servicing costs owed to foreign investors (i.e. less profit, interest and/or dividend payments owed), which will decrease income debit payments in primary income. Less debits will decrease the net income deficit (or increase the net income balance) and increase the CAB. 	
Accept other relevant answers	

Question 2**(15 marks)**

Australia's terms of trade increased from an index of 98 in the March quarter 2020 to an index of 139 in the March quarter 2023.

Explain the concept of the terms of trade and discuss the effects of this movement in Australia's terms of trade on Australian exporters and the macroeconomy.

Description	Marks
Concept of terms of trade (TOT)	
Explains the concept of the TOT	3
Describes the concept of the TOT	2
Makes a statement about the concept of the TOT	1
Subtotal	3
Explains effect of TOT movement on Australian exporters	
Discusses the effect of a rise in the TOT on Australian exporters	3
Explains the effects of a rise in the TOT on Australian exporters	2
Outlines an effect of a rise in the TOT on Australian exporters	1
Subtotal	3
Explains effect of TOT movement on current account balance (CAB)	
Explains the effect of an increase in the TOT on the CAB referring to both export and import prices	4
Explains the effect of an increase in the TOT on the CAB referring to export or import prices	3
Describes the effect of an increase in the TOT on the CAB	2
Identifies the effect of an increase in the TOT on the CAB	1
Subtotal	4
Explains effect of TOT movement on inflation and economic growth	
Explains the effect of an increase in the TOT on inflation and economic growth	4-5
Describes the effect of an increase in the TOT on inflation and economic growth	2-3
Identifies the effect of an increase in the TOT on inflation and economic growth	1
Subtotal	5
Total	15
Answers could include	
Concept of the TOT <ul style="list-style-type: none"> The TOT measures the relative price movements of exports and imports or the quantity of imports that can be obtained from a given volume of exports. The TOT is an index number calculated by dividing the export price index (XPI) by the import price index (MPI) and multiplying by 100. The figure is then compared to base year or previous year to determine whether the TOT has increased (favourable movement) or decreased (unfavourable movement). Example – if the XPI is 98 and the MPI is 92, then the TOT would be 106 $[(98/92) \times 100]$. If the previous year recorded a TOT index of 104 this would be a favourable movement. Explanation of a rise in the TOT on Australian exporters <ul style="list-style-type: none"> If the rise in the TOT is due to a rise in commodity prices and thus, export prices, this will boost the income received by exporters of resources. Investment will likely flow towards the resources sector, which will lead to an increase in output, employment and income. Exporters of services may suffer, however, as the rise in the TOT will lead to an appreciation of the AUD which will decrease the competitiveness of this sector, leading to a fall in output and employment in these industries (e.g. tourism). 	

Explanation of a rise in the TOT on the current account balance

- A rise in the TOT means that export prices have risen relative to import prices.
- Australia's TOT is mainly driven by changes in export prices. A rise in export prices, such as from a rise in commodity prices, will result in exporters receiving more income, which will increase credits in the trade balance.
- If the rise in the TOT is caused by a fall in import prices, then less debits will be recorded in the trade balance as Australians will be paying less for imports.
- The combined effect of an increase in credits and/or decrease in debits will increase the trade balance and current account balance.

Explanation of a rise in the TOT on inflation and economic growth

- A rise in the TOT will result in an increased in export income (and/or a fall in import payments) which will increase the value of net exports (NX).
- Domestic investment (I) will likely increase in the resources sector to capitalise on the potential increase in future profit expectations.
- As national income rises due to higher levels of export income received, households will receive more income which will increase consumption spending (C).
- As C, I and NX are components of aggregate demand, an increase in each of these will lead to an increase in AD.
- Rise in AD will increase both economic growth and demand-pull inflation.

Accept other relevant answers

Sample assessment task

Economics – ATAR Year 12

Task 6 – Unit 4 – The aggregate demand and aggregate supply model and Fiscal Policy

Assessment type:	Data interpretation/Short answer
Conditions:	Total marks: 35 marks Time for the task: 55 minutes In class under test conditions
Task weighting:	10% of the school mark for this pair of units

Section One: Multiple-choice

(10 marks)

1. Which of the following events would cause a leftward shift of the aggregate demand curve?
 - (a) an increase in the stock of household wealth
 - (b) an increase in the government budget deficit
 - (c) an appreciation of the Australian dollar
 - (d) a depreciation of the Australian dollar
2. An increase in the stock of physical capital in the economy will most likely lead to
 - (a) a rightward shift of both the long-run and short-run aggregate supply curves and an increase in price level.
 - (b) a rightward shift of both the long-run and short-run aggregate supply curves and a decrease in price level.
 - (c) a rightward shift of both the long-run and short-run aggregate supply curves and a decrease in real GDP.
 - (d) a leftward shift of both the long-run and short-run aggregate supply curves and a decrease in real GDP.
3. A decrease in short-run aggregate supply is caused by which of the following factors?
 - (i) an increase in the minimum wage
 - (ii) a fall in oil prices
 - (iii) an increase in the size of the labour force
 - (iv) a drought affecting agricultural production
 - (a) (i) and (ii)
 - (b) (i) and (iii)
 - (c) (i), (iii) and (iv)
 - (d) (i) and (iv)

4. Which of the following is **not** a reason for the negative relationship between aggregate demand and price level?
- (a) As price level rises, the purchasing power of household income falls.
 - (b) A rise in the price level relative to overseas will reduce net exports.
 - (c) An increase in price level puts upward pressure on interest rates, which lowers consumption and investment spending.
 - (d) As price level rises, interest rates rise, which increases consumption and investment spending.
5. Refer to the hypothetical data below for this question.

	Year 1	Year 2
Real GDP	2.5%	3%
Unemployment Rate	6.4%	5%
Inflation Rate	1.3%	1.9%

- The change the economic indicators in the above table can be explained by which of the following changes in aggregate demand and aggregate supply?
- (a) aggregate demand increasing faster than an increase in short-run aggregate supply
 - (b) short-run aggregate supply increasing faster than an increase in aggregate demand
 - (c) an increase in the long-run aggregate supply and aggregate demand remains the same
 - (d) an increase in short-run aggregate supply and a decrease in aggregate demand
6. Assume an economy was operating below potential GDP and above the natural rate of unemployment. Which of the following discretionary fiscal policy changes would help the government achieve the macroeconomic objectives?
- (a) a decrease in spending on infrastructure and an increase in income tax rates
 - (b) an increase in spending on infrastructure projects and increasing the income tax free threshold
 - (c) lowering the childcare subsidy payments received by households
 - (d) increasing the company tax rate for firms and decreasing spending on public transport networks
7. An increase in economic growth will _____ welfare payments, _____ tax revenue and the government budget balance will _____.
- (a) increase; decrease; increase
 - (b) increase; decrease; decrease
 - (c) decrease; increase; increase
 - (d) decrease; increase; decrease

8. Which of the following economic shocks would result in Australia's actual budget outcome being higher than the planned budget outcome?
- (a) a commodity prices boom
 - (b) a natural disaster destroying crop plantations and agricultural output
 - (c) an increase in stimulus spending in response to a global pandemic
 - (d) a sudden increase in global oil prices
9. A strength of fiscal policy is that
- (a) it is very flexible and can be changed regularly.
 - (b) it can be influenced by a political bias.
 - (c) its policy measures affects all households and firms equally.
 - (d) it is effective in a recession.
10. A potential consequence of funding a government budget deficit by selling government bonds to the domestic market can lead to
- (a) an appreciation of the exchange rate which can lead to a decrease in net exports.
 - (b) an increase in domestic interest rates which can lead to crowding out of domestic investment.
 - (c) an increase in the money supply, which can lead to an increase in inflation.
 - (d) an increase in government sector foreign debt.

Section Two: Data interpretation/Short answer**(25 marks)**

This section contains **two** questions. Answer **all** questions. Write your answers in the spaces provided.

Question 11**(13 marks)**

This question refers to the edited article extract below, published by the Australian Trade and Investment Commission on 9 May 2023.

How global energy prices are affecting the price of Australian farm inputs

High global energy prices and disruptions to global supply chains led to sharp rises in farm input costs, including fertiliser and diesel, in 2021 and 2022. International energy prices have been falling since mid-2022. However, the cost of fertiliser and fuel remain higher than long-term averages for Australian farmers.

Fertiliser and fuel purchases are a significant part of farm cash costs, particularly for cropping farms (see below table). Crop production is typically more energy-intensive because it requires more fertiliser. It is also more mechanised (machines that need diesel) than livestock farming.

Fertiliser and fuel costs as a percentage of total farm cash costs, 2020–21 to 2022–23

Commodity	2020–21	2021–22	2022–23 forecast
Beef	8%	8.3%	9.8%
Cropping	24%	27.7%	34%
Sheep	11.5%	12.2%	16.2%

Source: ABARES 2023

[Australian Trade and Investment Commission. (n.d.). *Insight – How global energy prices are affecting the price of Australian*

- (a) Identify the commodity which has seen the largest increase in fertiliser and fuel costs as a percentage of total farm cash costs from 2020–21 to 2022–23 and describe a reason for this change. (3 marks)

(b) Explain **two** factors that shift the aggregate demand curve. (4 marks)

One: _____

Two: _____

(c) Using an AD/AS model, demonstrate and explain the impact of the change in the price of farm inputs on the Australian economy. (6 marks)

Model	_____

Question 12

(12 marks)

Australian Government Budget Position

	2021–22 Actual	2022–23 Estimate	2023–24 Estimate
Receipts (\$b)	584.4	635.6	668.1
Payments (\$b)	616.3	631.4	682.1
Underlying cash balance (\$b)	-31.9	4.2	
Real GDP (%)	3.7	3.25	1.5
Consumer price index (%)	6.1	6	3.25
Unemployment rate (%)	3.8	3.5	4.5

[Commonwealth of Australia (2023). *Federal Budget 2023-24*. Retrieved July 2023, from https://budget.gov.au/content/overview/download/budget_overview-20230511.pdf]

(a) (i) Define the concept of fiscal policy.

(1 mark)

(ii) Calculate the estimated underlying cash balance for the year 2023–24.

(1 mark)

(b) Explain **two** weaknesses of fiscal policy.

(4 marks)

One: _____

Two: _____

Marking key for sample assessment task 6 – Unit 4

Section One: Multiple-choice

(10 marks)

	Answer	Marks
1.	C	1
2.	B	1
3.	D	1
4.	D	1
5.	A	1
6.	B	1
7.	C	1
8.	A	1
9.	D	1
10.	B	1
Total		10

Section Two: Data interpretation/Short answer

(25 marks)

Question 11

(13 marks)

- (a) Identify the commodity which has seen the largest increase in fertiliser and fuel costs as a percentage of total farm cash costs from 2020–21 to 2022–23 and describe a reason for this change. (3 marks)

Description	Marks
Commodity	
Identifies the commodity with largest increase in input costs referring to data	1
Reason for increase in cost	
Describes a reason for the increase in input costs	2
Outlines a reason for the increase in input costs	1
Total	3
Answers could include	
Commodity with largest increase in input costs	
<ul style="list-style-type: none"> Cropping has seen largest increase in fertiliser and fuel costs as a percentage of total farm cash costs, increasing by 10% from 2020–21 to 2022–23. 	
Reason	
<ul style="list-style-type: none"> High global energy prices and disruptions to global supply chains led to sharp rises in farm input costs, including fertiliser and diesel. Largest impact on cropping because crop production is more energy intensive because it requires more fertiliser, and it is also more mechanised (machines that need diesel). 	

- (b) Explain **two** factors that shift the aggregate demand curve. (4 marks)

Description	Marks
For each factor (x2)	
Explains a factor that shifts the aggregate demand curve	2
Outlines a factor that shifts the aggregate demand curve	1
Total	4

Answers could include

Any factor that increases or decreases a component of aggregate demand leading to a shift of the AD curve:

- Consumption
- Investment
- Government spending
- Net exports

Example: an increase in household wealth as a result of rising share prices will increase consumption spending and, therefore, increase aggregate demand, shifting the AD curve to the right.

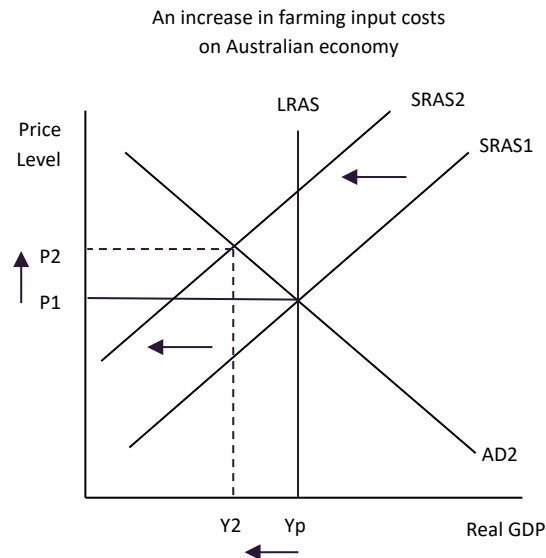
Accept other relevant answers

- (c) Using an AD/AS model, demonstrate and explain the impact of the change in the price of farm inputs on the Australian economy. (6 marks)

Description	Marks
Explanation	
Explains the impact on the Australian economy with reference to the model	4
Describes the impact on the Australian economy with reference to the model	3
Outlines the impact on the Australian economy, with some attempt to reference the model	2
Identifies an impact on the Australian economy, with no specific reference to the model	1
Subtotal	4
Model	
Draws a correctly labelled aggregate demand and aggregate supply model showing the decrease in SRAS, increase in price level and decrease in real GDP	2
Draws a partly correct aggregate demand and aggregate supply model, showing the decrease in SRAS	1
Subtotal	2
Total	6

Answers could include**Explanation**

- The increase in fertiliser and diesel costs has increased farm input costs, increasing costs of production for farmers, particularly in cropping production.
- A rise in costs of production decreases SRAS, shifting the curve to the left.
- Results in an increase in price level driven by cost-push inflationary pressures.
- Real GDP falls and output falls. As output falls, farmers reduce demand for resources, decreasing employment and income.
- Economy experiences stagflation (contracting economy accompanied by rising inflation).

Model

Accept other relevant answers

Question 12**(12 marks)**

(a) (i) Define the concept of fiscal policy.

(1 mark)

Description	Marks
Defines concept of fiscal policy	1
Total	1

Answers could include

- Fiscal policy refers to the changes in government spending and taxation to influence the level of economic activity in order for the government to achieve the macroeconomic objectives.

Accept other relevant answers

(ii) Calculate the estimated underlying cash balance for the year 2023–24.

(1 mark)

Description	Marks
Calculates underlying cash balance for 2023–24 as -\$14b	1
Total	1

(b) Explain **two** weaknesses of fiscal policy.

(4 marks)

Description	Marks
For each weakness (x2)	
Explains a weakness of fiscal policy	2
Outlines a weakness of fiscal policy	1
Total	4
Answers could include	
<ul style="list-style-type: none"> Political bias surrounding changes to discretionary fiscal policy measures particularly around election time. Long decision/implementation lag. Fiscal Policy is inflexible – federal budget handed down once a year. Unintended impact on private sector – funding budget deficits through selling government bonds to domestic market can crowd out and dampen private sector investment. 	
Accept other relevant answers	

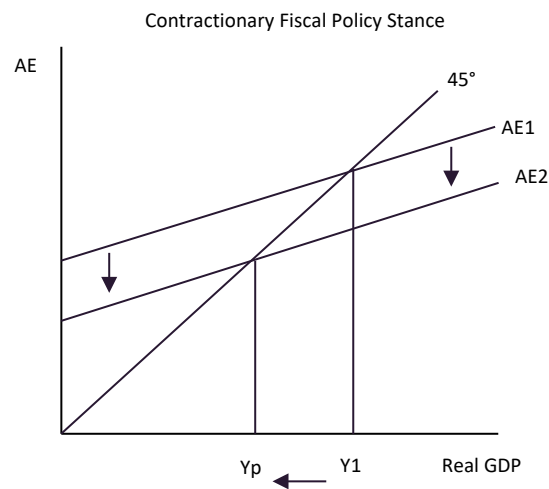
(c) Using an aggregate expenditure (AE) model, demonstrate and explain the impact of the fiscal policy stance from 2021–22 to 2022–23 on the level of economic activity.

(6 marks)

Description	Marks
Explanation	
Explains the impact of the fiscal policy stance on the level of economic activity with reference to the data and model	4
Describes the impact of the fiscal policy stance on the level of economic activity with reference to the data and model	3
Outlines the impact of the fiscal policy stance on the level of economic activity, with some attempt to reference the data and/or model	2
Identifies an impact of the fiscal policy stance on the level of economic activity, with no specific reference to the data or model	1
Subtotal	4
Model	
Draws a correctly labelled AE model showing a shift downwards of the AE line and decrease in real GDP	2
Draws a partly correct AE model showing a shift downwards of the AE line	1
Subtotal	2
Total	6

Answers could include**Explanation**

- In 2021-22 GDP was slightly above target range at 3.7%, inflation above target at 6.1% and unemployment was below the natural rate of unemployment at 3.8%, indicating the economy was operating in an expansionary gap (at Y1)
- Fiscal Policy stance from 2021–22 to 2022–23 is contractionary as the underlying cash balance has increased from -\$31.9b to \$4.2b. The increase in the budget balance was caused by receipts rising faster than the increase in payments.
- Net withdrawals from the economy due to the budget surplus causes a decrease in AE, shifting AE line downwards.
- As AE falls, at original equilibrium (Y1) inventories rise and firms decrease production and demand for labour. UE rise and households receive less income triggering a fall in consumption.
- Real GDP falls from Y1 to Yp and income decreases at a multiplied effect.
- Contractionary effect of the budget is estimated to lower GDP to 3.25% in 2022–23, which should help reduce inflationary pressures in the economy.

Model

Accept other relevant answers

Sample assessment task

Economics – ATAR Year 12

Task 7 – Unit 4 – Monetary Policy

Assessment type:	Extended answer
Conditions	Time for the task: 40 minutes In class under test conditions
Task weighting	10% of the school mark for this pair of units

Respond to the question below by writing your answer on the pages provided.

Question **(15 marks)**

From April 2022 to April 2023 the cash rate in Australia rose from 0.10% to 3.60%.

Discuss the concept of monetary policy, including conventional and unconventional monetary policy, and use an aggregate demand and aggregate supply (AD/AS) model to demonstrate and explain the impact of Australia's monetary policy stance over the last three years on the level of economic activity.

In your response, include:

- the definition of monetary policy
- the difference between conventional and unconventional monetary policy using examples
- an AD/AS model to demonstrate the impact of the monetary policy stance on the level of economic activity
- the impact of the monetary policy stance over the last three years on the level of economic activity through three channels of the transmission mechanism.

Marking key for sample assessment task 7 – Unit 4

Question

(15 marks)

From April 2022 to April 2023 the cash rate in Australia rose from 0.10% to 3.60%.

Discuss the concept of monetary policy, including conventional and unconventional monetary policy, and use an aggregate demand and aggregate supply (AD/AS) model to demonstrate and explain the impact of Australia's monetary policy stance over the last three years on the level of economic activity.

Description	Marks
Monetary policy	
Defines the concept of monetary policy	1
Subtotal	1
Conventional Monetary Policy	
Outlines meaning of conventional monetary policy	1
Subtotal	1
Unconventional monetary policy	
Explains the meaning of unconventional monetary policy, including the use of examples	3
Outlines meaning of unconventional monetary policy with reference to an example	2
Makes a statement about unconventional monetary policy	1
Subtotal	3
Monetary policy stance	
Describes the stance as contractionary	2
Identifies the stance as contractionary	1
Subtotal	2
Explains effect on economic activity through transmission mechanism	
For each channel (x3)	
Explains the effect on the level of economic activity through the transmission mechanism channel	2
Outlines some information of the effect on the level of economic activity through the transmission mechanism channel	1
Subtotal	6
Model	
Draws a correctly labelled aggregate demand (AD) and aggregate supply (AS) model showing a decrease in AD, lower price level and lower real GDP	2
Draws a mostly correct aggregate demand (AD) and aggregate supply (AS) model showing a leftward shift of AD curve	1
Subtotal	2
Total	15
Answers could include	
Definition of monetary policy	
<ul style="list-style-type: none"> Monetary policy refers to the changes the Reserve Bank of Australia (RBA) makes to the cash rate to influence the level of aggregate demand, employment and inflation in the economy. 	
Conventional monetary policy	
<ul style="list-style-type: none"> Conventional monetary policy is the main tool used by the RBA to influence aggregate demand and achieve its goals of price stability and full employment. It is when the RBA makes changes to the cash 	

rate (interest rate on short term loans in the overnight money market) which affects market interest rates in the economy, on housing and business loans for example. This change to interest rates then affects the level of economic activity through the transmission mechanism.

Unconventional monetary policy

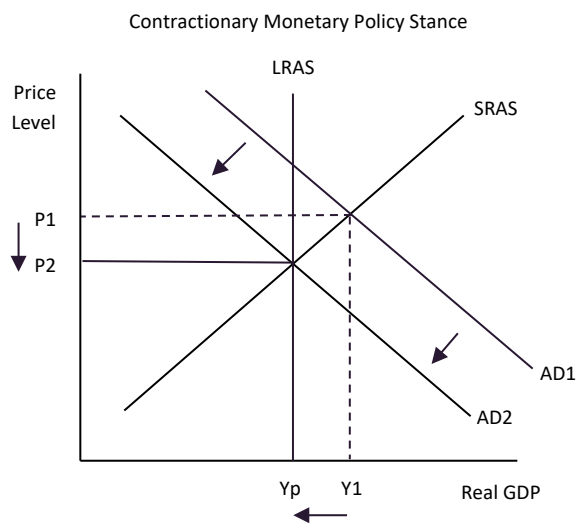
- Unconventional monetary policy refers to tools used by the RBA other than changes to the cash rate to influence the level of aggregate demand.
- Unconventional monetary policy measures were used in 2020 in response to the COVID pandemic economic shock in addition to the conventional policy of lowering the cash rate.
- Forward guidance used where the RBA provided communication on future pathway of monetary policy and a commitment to low interest rates – in 2020 the RBA committed to not increasing the cash rate until inflation returned to target and there was evidence of wage growth.
- Quantitative easing – when the RBA buys assets such as government bonds in the secondary market from financial institutions to keep interest rates low by increasing the money supply and thus support the economy through the same channels as the cash rate. From March – Sept 2020 the RBA announced they would purchase \$63b worth of three-year bonds.
- Term funding facility – a \$90b term funding facility was introduced in which banks could borrow funds from at a low rate of interest (0.25% initially but then reduced to 0.1%) for three years, which could be loaned out to support households and businesses.
- Other unconventional monetary policy measures that could be used include implementing a negative interest rate; however, this would encourage savers to withdraw money from financial institutions which would counteract the desired effect of supporting banks to supply credit.

Monetary policy stance

- Increase in cash rate from 0.1% to 3.60% indicates a contractionary stance.
- Market interest rates will fall and aggregate demand will decrease from AD1 to AD2, leading to a fall in Real GDP (from Y_1 to Y_p), output, employment and price level (from P_1 to P_2).

Effect on economic activity

- Savings and investment channel – an increase in market interest rates, increases return on savings and increases cost of borrowing. More incentive to save will lead to a decrease in consumption spending by households. Borrowing will decrease and new investment purchases will decrease (both consumption (C) and investment (I) decrease).
- Cash flow channel – households and firms who have existing loans will see an increase in interest repayments and thus will have less income and profit retained to spend on consumption and investment purchases, decreasing C and I.
- Assets Prices / Wealth channel – as interest rates rise borrowing falls, thus there is less demand for housing and property prices fall. Investors also move excess funds from the share market into interest bearing accounts to take advantage of higher return on savings accounts, reducing share prices. The fall in property and share prices decrease the wealth of households which leads to a decrease in consumption.
- Exchange Rate channel – a rise in interest rates in Australia relative to overseas will increase capital inflow (as overseas investors are attracted to a higher rate of return), increasing demand for the AUD. At same time, Australian investors may decrease capital outflow, decreasing supply of the AUD. AUD appreciates which decreases the value of net exports (exports fall as more expensive and imports rise as they're cheaper).
- Fall in C, I and NX will decrease AD. Multiplier effect on income as AD decreases.

Model

Accept other relevant answers

Acknowledgements

Sample assessment task 1 – Unit 3

- Question 11:** Department of Foreign Affairs and Trade. (2023). *Historic Trade Deal with the United Kingdom* [Media Release]. Retrieved August, 2023 from <https://www.trademinister.gov.au/minister/don-farrell/media-release/historic-trade-deal-united-kingdom>
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- Question 12:** Department of Foreign Affairs and Trade. (2023). *Australia to Impose Tariff Increases on all Imports From Russia* [Media release]. Retrieved August, 2023, from <https://www.foreignminister.gov.au/minister/marise-payne/media-release/australia-impose-tariff-increases-all-imports-russia#:~:text=On%201%20April%202022%2C%20Australia,imports%20from%20Russia%20and%20Belarus>
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Marking Key

- Question 11 (c):** Adapted from: Department of Foreign Affairs and Trade. (2023). *Historic Trade Deal with the United Kingdom* [Media Release]. Retrieved August, 2023 from <https://www.trademinister.gov.au/minister/don-farrell/media-release/historic-trade-deal-united-kingdom>
Used Under a Creative Commons 4.0 International licence.
- Question 12 (a) (i):** Adapted from: Department of Foreign Affairs and Trade. (2023). *Australia to Impose Tariff Increases on all Imports From Russia* [Media release]. Retrieved August, 2023, from <https://www.foreignminister.gov.au/minister/marise-payne/media-release/australia-impose-tariff-increases-all-imports-russia#:~:text=On%201%20April%202022%2C%20Australia,imports%20from%20Russia%20and%20Belarus>
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Sample assessment task 6 – Unit 4

- Question 2:** Information from: AmosWEB. (n.d.). *Aggregate Market Shocks*. Retrieved August, 2023, from http://www.amosweb.com/cgi-bin/awb_nav.pl?c=dsp&k=aggregate+market+shocks&s=wpd
- Question 11:** Australian Trade and Investment Commission. (2023). *Insight – How Global Energy Prices are Affecting the Price of Australian Farm Inputs*. Retrieved August, 2023, from <https://www.austrade.gov.au/news/insights/insight-how-global-energy-prices-are-affecting-the-price-of-australian-farm-inputs>
- Question 12** Commonwealth of Australia. (2023). *Budget 2023-24: Stronger Foundations for a Better Future*. Retrieved August, 2023, from

https://budget.gov.au/content/overview/download/budget_overview-20230511.pdf

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