



# **ECONOMICS**

## **ATAR course examination 2023**

### **Marking key**

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

## Section One: Multiple-choice

24% (24 Marks)

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

## Section Two: Data interpretation/Short answer

36% (36 Marks)

## Question 25

(12 marks)

- (a) (i) Calculate Australia's terms of trade index for 2022. (1 mark)

Description	Marks
138.6	1
<b>Total</b>	<b>1</b>

- (ii) Identify the year in which Australia's terms of trade experienced its most favourable movement. (1 mark)

Description	Marks
2021	1
<b>Total</b>	<b>1</b>

- (b) Outline
- two**
- reasons for the trend in the terms of trade index since 2018. (4 marks)

Description	Marks
For each reason (2 x 2 marks)	
Outlines the reason for the trend in the terms of trade index since 2018	2
States a reason for the trend in the terms of trade index since 2018	1
<b>Total</b>	<b>4</b>
Answers could include:	
<ul style="list-style-type: none"> <li>• increased price for our commodities due to increased demand from China</li> <li>• impact of exogenous events globally</li> <li>• a reduction in supply has seen large spikes in energy and food prices – both of which make up a large share of Australia's exports.</li> </ul>	
Accept other relevant answers.	

- (c) Explain
- two**
- impacts on Australia's economic activity of the change in the terms of trade index since 2018. (6 marks)

Description	Marks
For each impact on economic activity (3 x 2 marks)	
Explains the impact on Australia's economic activity of the change in the terms of trade index since 2018	3
Outlines the impact on Australia's economic activity of the change in the terms of trade index since 2018	2
States an impact on Australia's economic activity of the change in the terms of trade index since 2018	1
<b>Subtotal</b>	<b>6</b>
Answers could include:	
<ul style="list-style-type: none"> <li>• an increase in the terms of trade will increase Australia's exports leading to an increase in GDP (positive multiplier effect)</li> <li>• a higher terms of trade may lead to an appreciation of the AUD creating a two speed economy</li> <li>• business cycle is stimulated through an increase in aggregate demand</li> <li>• GDP/national income and higher standard of living</li> <li>• greater employment opportunities may lead to an increase in wages</li> <li>• trade balance may increase due to higher exports</li> <li>• increased investment in the mining sector.</li> </ul>	
Accept other relevant answers.	

## Question 26

(12 marks)

- (a) (i) According to the extract, identify **one** possible reason for Australia's declining productivity and competitiveness. (1 mark)

Description	Marks
Any one of	
<ul style="list-style-type: none"> <li>• low levels of business investment</li> <li>• low investment in research and development (R&amp;D)</li> <li>• slow uptake of digital technology</li> <li>• skill and labour shortages.</li> </ul>	1
<b>Total</b>	<b>1</b>

- (ii) State the trend in labour productivity growth between 2018 and 2021. (1 mark)

Description	Marks
increasing	1
<b>Total</b>	<b>1</b>

- (b) Other than labour productivity, outline **two** factors which influence Australia's international competitiveness. (4 marks)

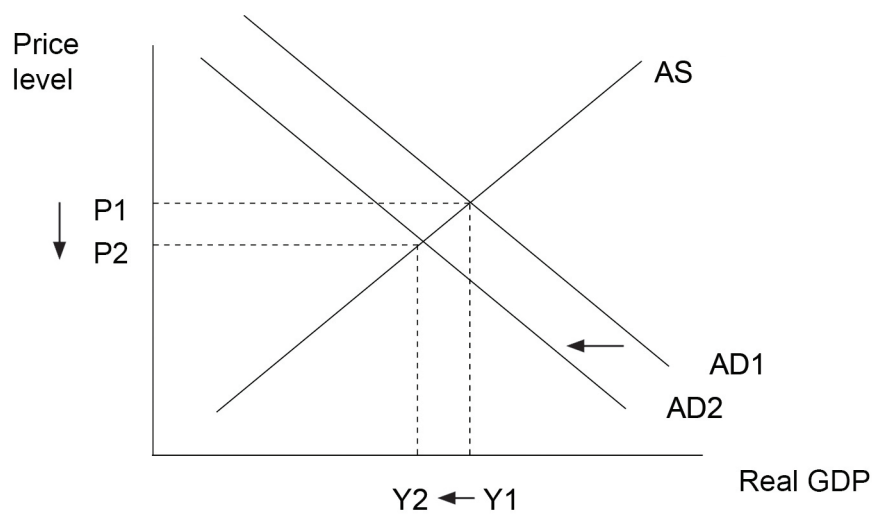
Description	Marks
For each factor which influences Australia's international competitiveness (2 x 2 marks)	
Outlines the factor influencing international competitiveness	2
Identifies a factor influencing international competitiveness	1
<b>Total</b>	<b>4</b>
Answers could include: <ul style="list-style-type: none"> <li>• differences in relative input costs such as labour (i.e. wages)</li> <li>• differences in relative inflation level keeping prices low relative to trading partners</li> <li>• exchange rate changes – affects prices paid for imports and exports</li> <li>• changes in trade barriers.</li> </ul>	
Accept other relevant answers.	

(c) Using an aggregate demand/aggregate supply (AD/AS) model, explain the impact of 'lower levels of business investment' on the level of economic activity in Australia. (6 marks)

Description	Marks
<b>Explanation</b>	
Explains the impact of lower levels of business investment on the level of economic activity in Australia with reference to the multiplier. Specific reference to the shift in the AD curve in the AD/AS model	4
Describes the impact of lower levels of business investment on the level of economic activity in Australia. Some reference to the shift in the AD curve in the AD/AS model	3
Outlines the impact of lower levels of business investment on economic activity in Australia. Limited reference to the shift in the AD curve in the constructed AD/AS model	2
States a fact about lower levels of business investment on economic activity in Australia	1
<b>Subtotal</b>	<b>4</b>
<b>Model</b>	
Fully labelled AD/AS model showing a decrease in AD (shift left)	2
Partially correctly labelled AD/AS model showing a decrease in AD	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>6</b>

Answers could include:

- investment is a component of AD and thus falling business investment will have a negative impact on AD thus shifting the AD curve to the left and reducing income, output and expenditure
- a decrease in the price level and an increase in employment
- negative multiplier effect throughout the economy
- lower levels of income will reduce standards of living
- investment adds to the stock of capital, and the quantity of capital available to an economy is a crucial determinant of its productivity
- lower levels of business investment can result in capital equipment becoming obsolete or run down, thus decreasing efficiency and reducing international competitiveness.



## Question 27

(12 marks)

- (a) (i) State the forecast growth rate for the Australian economy for 2023/2024. (1 mark)

Description	Marks
1.5 (per cent)	1
<b>Total</b>	<b>1</b>

- (ii) State the value of the Australian Government's expected budget deficit for 2022/2023. (1 mark)

Description	Marks
\$36.9bn	1
<b>Total</b>	<b>1</b>

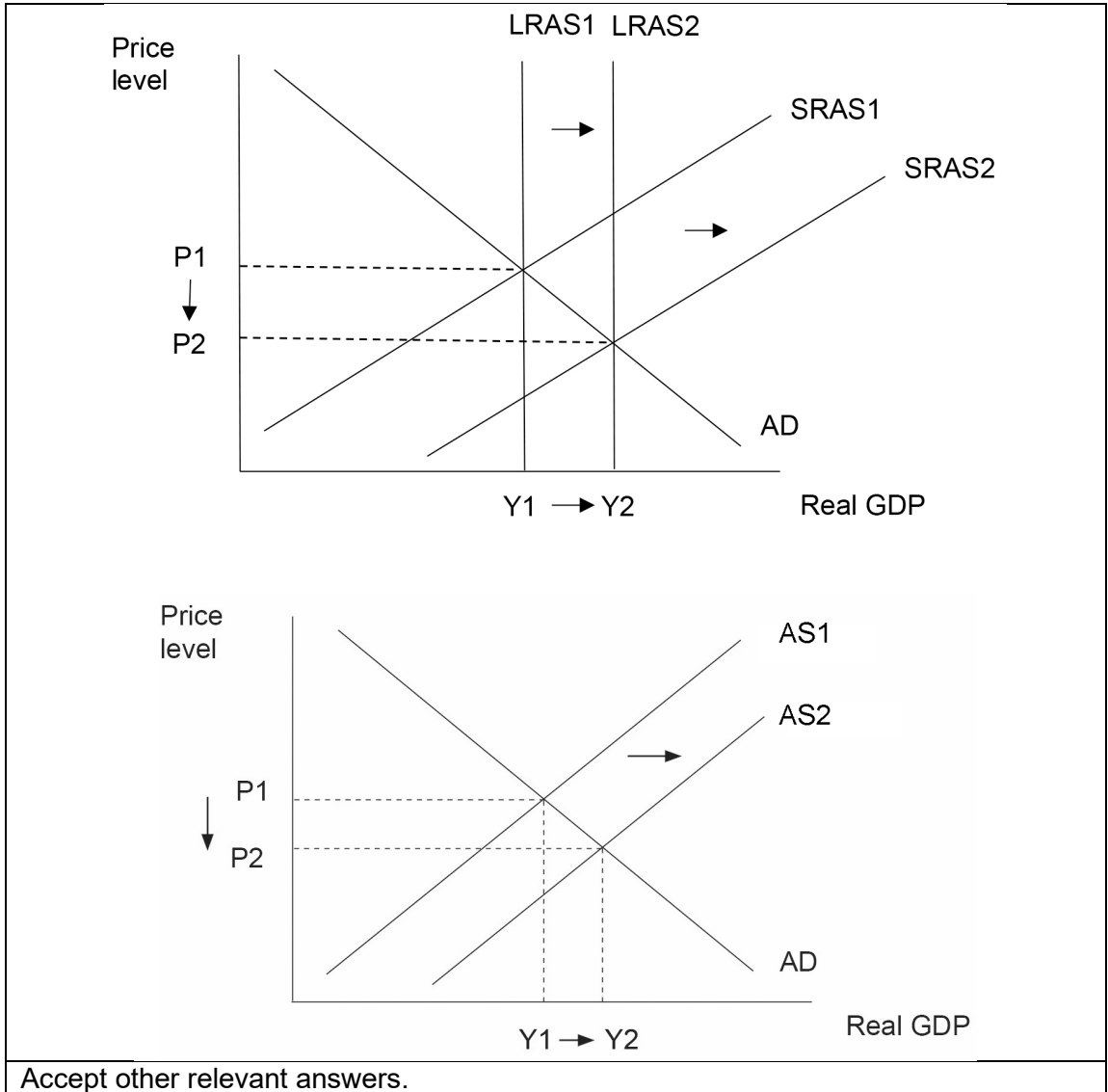
- (b) With reference to **three** pieces of evidence from the extracts, identify and account for the fiscal stance of the 2022/2023 Federal Budget. (4 marks)

Description	Marks
<b>Identification</b>	
Identifies the fiscal stance as expansionary	1
<b>Subtotal</b>	<b>1</b>
<b>Accounts for each piece of evidence (3 x 1 mark)</b>	
Accounts for the fiscal stance with specific reference to a piece of evidence from the extracts	1
<b>Subtotal</b>	<b>3</b>
<b>Total</b>	<b>4</b>
<p>Answers could include:</p> <ul style="list-style-type: none"> <li>expansionary fiscal stance leads to increased budget deficit</li> <li>increased budget deficit suggests an increase in spending to maintain economic growth, however spending is targeted to reduce inflationary pressure</li> <li>tax cuts and social security</li> <li>increased spending on parental and childcare support, infrastructure, health, education, and housing affordability</li> <li>economy is slowing and GDP is slowing</li> </ul>	
Accept other relevant answers.	
Note: stance is expansionary.	

- (c) Using an aggregate demand/aggregate supply (AD/AS) model, describe how the Government uses discretionary fiscal policy spending on infrastructure projects to achieve long-run price stability and economic growth in the Australian economy. (6 marks)

Description	Marks
<b>long-run price stability</b>	
Describes how the Government uses discretionary fiscal policy spending on infrastructure projects to achieve long-run price stability in the Australian economy	2
States how the Government discretionary fiscal policy spending on infrastructure projects to achieve long-run price stability in the Australian economy	1
<b>Subtotal</b>	<b>2</b>
<b>economic growth</b>	
Describes how the Government uses discretionary fiscal policy spending on infrastructure projects to achieve economic growth in the Australian economy	2
States how the Government uses discretionary fiscal policy spending on infrastructure projects to achieve economic growth in the Australian economy	1
<b>Subtotal</b>	<b>2</b>
<b>Model</b>	
Fully labelled AD/AS model showing an increase (shift right) of the AS curve	2
Partially correctly labelled AD/AS model showing an increase (shift right) of the AS curve	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>6</b>
<p>Answers could include:</p> <ul style="list-style-type: none"> <li>price stability – government expenditure on infrastructure will cause a rightward shift in AS causing increase in employment and reduce inflation</li> <li>economic growth – increased spending on infrastructure and housing will create employment in those areas of the economy leading to economic growth</li> <li>the capital stock of the economy will grow as new housing and social infrastructure grows, thus creating increased income and output throughout the economy.</li> </ul> <p>Model:</p> <ul style="list-style-type: none"> <li>an increase in AS due to increased infrastructure can be demonstrated with an outward shift of the AS curve to create a new (higher) level of income/output (<math>Y_2/Y_1</math>), thus increasing employment and economic growth</li> <li>this results in a decrease in the price level from <math>P_1</math> to <math>P_2</math>, thus reducing inflationary pressure.</li> </ul>	

Question 27 (continued)



Accept other relevant answers.



## Section Three: Extended answer

40% (40 Marks)

## Question 28

(20 marks)

- (a) Outline the concept of free trade agreements and describe **three** arguments for trade liberalisation. (8 marks)

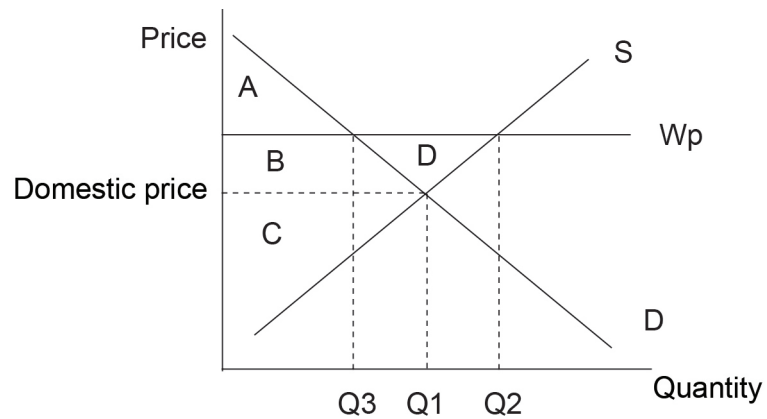
Description	Marks
<b>Concept of free trade agreements</b>	
Outlines the concept of free trade agreements	2
States a fact about free trade agreements	1
<b>Subtotal</b>	<b>2</b>
<b>For each argument for trade liberalisation (3 x 2 marks)</b>	
Describes the argument for trade liberalisation	2
States an argument for trade liberalisation	1
<b>Subtotal</b>	<b>6</b>
<b>Total</b>	<b>8</b>
<p>Answers could include:</p> <p>Concept of free trade agreements:</p> <ul style="list-style-type: none"> <li>• a free trade agreement is an international treaty between two or more economies that reduces or eliminates certain barriers to trade in goods and services, as well as investment</li> <li>• bilateral trade agreements (between two countries) versus regional/multilateral (small group of neighbouring countries/many countries and sectors).</li> </ul> <p>Arguments for trade liberalisation:</p> <ul style="list-style-type: none"> <li>• increased economic activity leading to increased incomes and living standards</li> <li>• improved efficiency through greater competition results in efficient allocation of resources</li> <li>• greater employment leading to higher incomes and living standards</li> <li>• easier access to foreign markets through lower tariffs</li> <li>• wider range of goods and services at lower prices due to specialisation, resulting in economies of scale</li> <li>• transfer of knowledge, ideas and technology.</li> </ul> <p>Accept other relevant answers.</p>	

## Question 28 (continued)

- (b) Using demand and supply models, demonstrate and explain how consumers and producers benefit from specialisation and trade. (12 marks)

Description	Marks
<b>Consumers</b>	
Explains how consumers benefit from lower prices of imports due to specialisation and trade. Specific reference to the 'Gains from Imports' model and an explanation of the changing consumer and producer surpluses	4
Describes how consumers benefit from specialisation and trade. Some reference to the model and reference to changing consumer and producer surpluses	3
Outlines how consumers benefit from specialisation and trade with limited reference to the model	2
States that consumers benefit from greater choice and lower prices	1
<b>Subtotal</b>	<b>4</b>
<b>Producers</b>	
Explains how producers benefit from higher prices of exports due to specialisation and trade. Specific reference to the 'Gains from exports' model and an explanation of the changing consumer and producer surpluses	4
Describes how producers benefit from specialisation and trade. Some reference to the model and reference to changing consumer and producer surplus	3
Outlines how producers benefit from specialisation and trade with limited reference to the model	2
States that producers benefit from higher prices	1
<b>Subtotal</b>	<b>4</b>
<b>Model 1: Gains from exports</b>	
Fully labelled model showing the gains from exports. The changes in consumer and producer surplus is shown	2
Partially labelled model showing the gains from exports	1
<b>Subtotal</b>	<b>2</b>
<b>Model 2: Gains from imports</b>	
Fully labelled model showing the gains from imports. The changes in consumer and producer surplus is shown	2
Partially labelled model showing the gains from imports	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>12</b>
<p>Answers could include:</p> <p>Producers:</p> <ul style="list-style-type: none"> <li>exporting enables producers to reach a larger market (Q1 to Q2)</li> <li>producers are able to sell more product at a higher price (Wp)</li> <li>a larger market enables economies of scale and an increase in productivity</li> <li>exporting increases producer surplus (B + C + D)</li> <li>despite a decrease in consumer surplus, total surplus will increase through exporting (Area D)</li> <li>net gain in welfare</li> <li>decrease in production costs for producers who import raw materials.</li> </ul>	

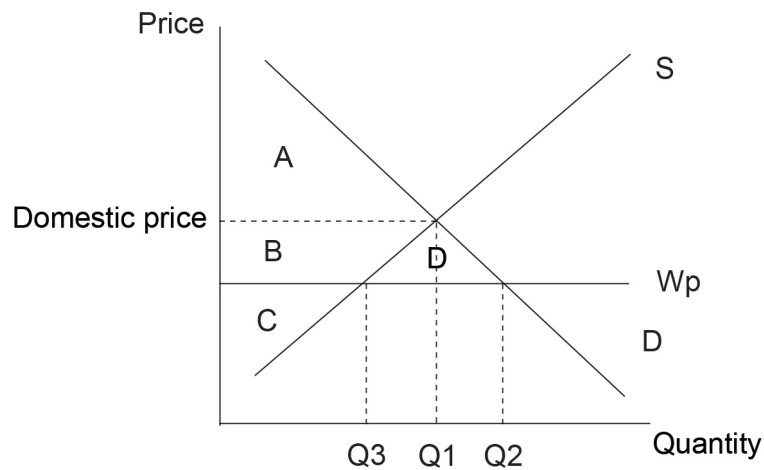
Gains from exports:



Consumers:

- gain from cheaper import prices (WP is lower than domestic equilibrium)
- consumption will increase (Q1–Q2)
- expands a country’s consumption possibilities through importing
- consumer surplus increases (A + B + D)
- despite a decrease in producer surplus, total surplus will increase through imports
- net gain in welfare (Area D)
- greater range of goods at a lower price for consumers
- higher real incomes
- higher standards of living.

Gains from imports:



Accept other relevant answers.

## Question 29

(20 marks)

- (a) Outline the concept of the current account balance and describe **four** cyclical reasons for the current account surpluses since 2019. (10 marks)

Description	Marks
Concept of current account balance	
Outlines the concept of the current account balance	2
States a fact about the current account balance	1
<b>Subtotal</b>	<b>2</b>
For each reason (4 x 2 marks)	
Describes a cyclical reason for Australia's current account surpluses since 2019	2
States a cyclical reason for Australia's current account surpluses since 2019	1
<b>Subtotal</b>	<b>8</b>
<b>Total</b>	<b>10</b>
<p>Answers could include:</p> <p>Concept of current account balance:</p> <ul style="list-style-type: none"> <li>the current account records transactions between Australian residents and non-residents in three categories – goods, services and income</li> <li>both structural and cyclical reasons for the current account balance</li> <li>the trade balance is relatively volatile and influenced by Australia's business cycle and the world business cycle.</li> </ul> <p>Reasons:</p> <ul style="list-style-type: none"> <li>domestic business cycle – lower domestic growth will lead to a decrease in imports, increasing the trade balance</li> <li>world business cycle – higher economic growth in trading partners increases demand for Australian exports, thus increasing the value of exports and hence the trade balance</li> <li>exchange rate – a lower exchange rate can reduce demand for imports and make exports more attractive in global markets, thus increasing the trade balance</li> <li>commodity prices/terms of trade – rising commodity prices boost exports thus increasing the current account balance</li> <li>relative inflation – comparatively lower rates of inflation can lead to an increase in demand for Australian exports</li> <li>income balance – a contraction in economic activity will decrease company profits and decrease income flows (dividends), leading to an increase in the current account balance.</li> </ul>	
Accept other relevant answers.	

- (b) Using a demand and supply model, demonstrate and explain the impact of falling commodity prices on the value of the Australian dollar (AUD) and explain the impact of this change on Australian consumers. (10 marks)

Description	Marks
<b>Impact of falling commodity prices on the AUD</b>	
Explains the impact of falling commodity prices on the value of the AUD. Explains how the exchange rate model demonstrates the impact	4
Describes that falling commodity prices will impact the value of the AUD. Describes how the exchange rate model demonstrates the impact	3
Outlines that falling commodity prices will impact the value of the AUD with little or no reference/application to the model	2
States that falling commodity prices will impact on the value of the AUD with no specific reference/application to the model	1
<b>Subtotal</b>	<b>4</b>
<b>Model</b>	
Fully labelled exchange rate model showing a decrease in demand resulting in a depreciation	2
Partially labelled exchange rate model showing a decrease in demand of the AUD resulting in a depreciation	1
<b>Subtotal</b>	<b>2</b>
<b>Impact on consumers</b>	
Explains how a depreciation of the AUD will impact consumers	4
Describes that a depreciation of the AUD will impact consumers	3
Outlines that a depreciation of the AUD will impact consumers	2
States that a depreciation of the AUD will impact consumers	1
<b>Subtotal</b>	<b>4</b>
<b>Total</b>	<b>10</b>

Question 29 (continued)

Answers could include:

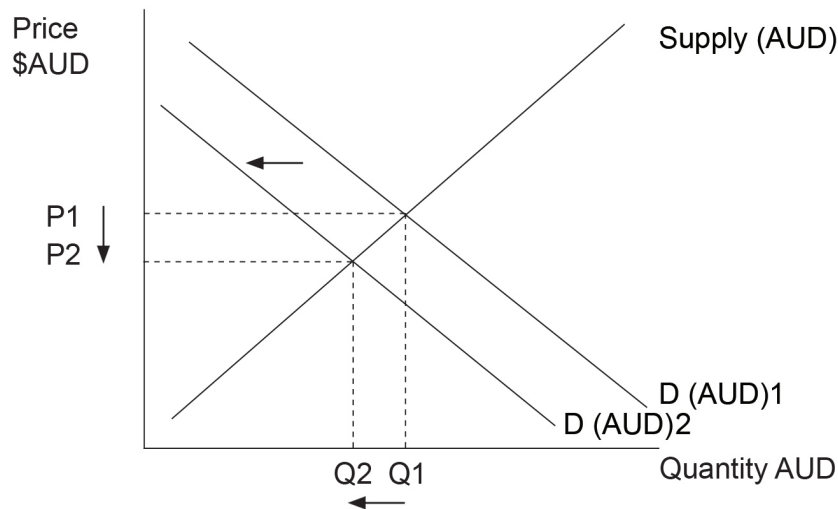
Impact of falling commodity prices on the AUD:

- falling commodity prices will mean that foreign countries will require less of their currency in exchange for the AUD
- the decrease demand for the AUD which will shift the demand curve to the left
- this results in a lower value of AUD and less quantity demanded (diagram must be referred to in the response).

Influence on consumers:

- a depreciation of the AUD due to fall in commodity prices will increase the costs of imports such as cars, petrol and household appliances for consumers thus increasing the consumer price index
- this will decrease disposable income as consumers will be faced with higher prices thus increasing the cost of living and reducing standards of living
- Australian consumers must pay more for overseas travel

Model:



Accept other relevant answers.

## Question 30

(20 marks)

- (a) Outline the concept of monetary policy and describe **three** circumstances under which the Reserve Bank of Australia (RBA) may change the cash rate to achieve its macroeconomic objectives. (8 marks)

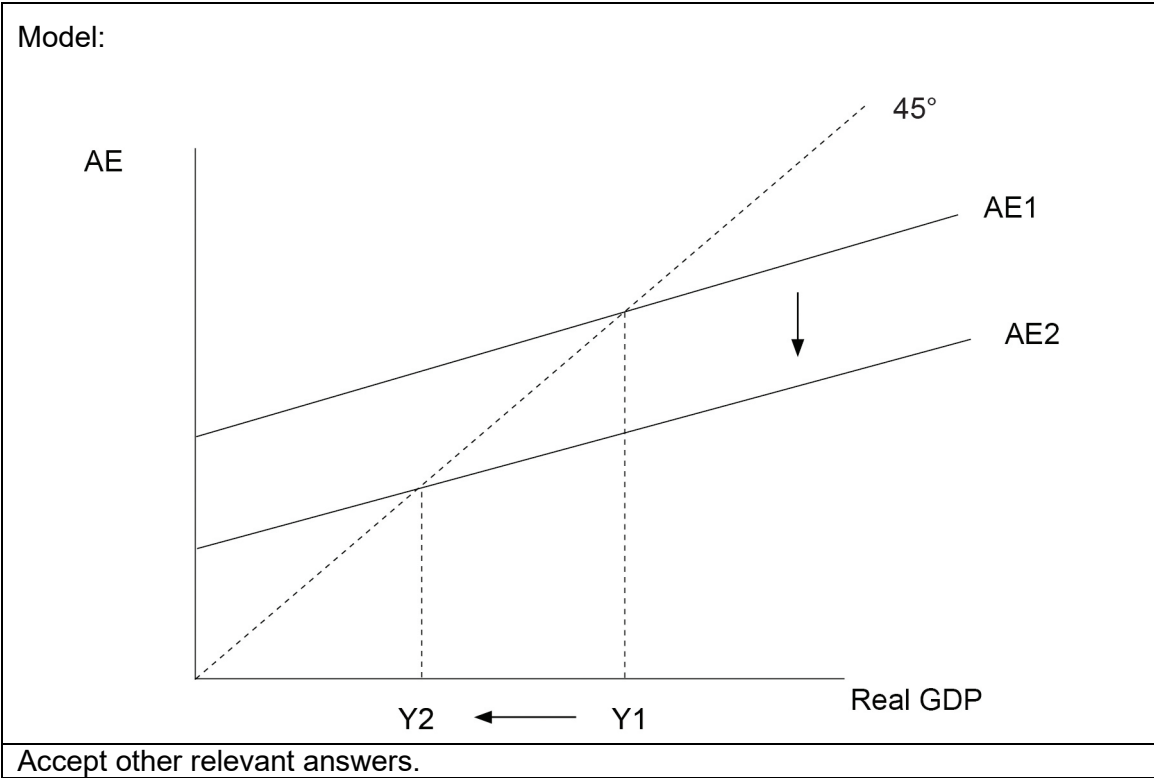
Description	Marks
<b>Concept of monetary policy</b>	
Outlines the concept of monetary policy	2
States a fact about monetary policy	1
<b>Subtotal</b>	<b>2</b>
<b>Circumstances of changing the cash rate (3 x 2 marks)</b>	
Describes the circumstance under which the RBA may change the cash rate to achieve its macroeconomic objectives	2
Identifies a circumstance under which the RBA may change the cash rate to achieve its macroeconomic objectives	1
<b>Subtotal</b>	<b>6</b>
<b>Total</b>	<b>8</b>
<p>Answers could include:</p> <p>Concept of monetary policy:</p> <ul style="list-style-type: none"> <li>monetary policy refers to action taken by the Reserve Bank of Australia to affect monetary and financial conditions within the economy with the aim of achieving low inflation (price stability), full employment and sustainable economic growth</li> <li>monetary policy changes are announced in terms of a target for the cash rate.</li> </ul> <p>Circumstances of changing the cash rate:</p> <ul style="list-style-type: none"> <li>to increase or decrease inflation, above or below the target rate of 2–3%; the RBA will either increase or decrease interest rates</li> <li>to decrease unemployment by decreasing interest rates, leading to increased investment, increasing output and more jobs</li> <li>to increase economic growth by stimulating consumption expenditure to increase demand for credit during a downswing or trough.</li> </ul>	
Accept other relevant answers.	

## Question 30 (continued)

- (b) Using an aggregate expenditure (AE) model, analyse the impact of rising interest rates on output and expenditure in the Australian economy. (12 marks)

Description	Marks
Analyses the impact of rising interest rates on output and expenditure in the Australian economy	9-10
Explains the impact of rising interest rates on output and expenditure in the Australian economy	7-8
Describes the impact of rising interest rates on output and expenditure in the Australian economy	5-6
Outlines the impact of rising interest rates on output and expenditure in the Australian economy	3-4
States that rising interest rates would negatively influence output and expenditure in the Australian economy	1-2
<b>Subtotal</b>	<b>10</b>
<b>Model</b>	
Fully labelled AE model showing a decrease (downward shift) in the AE curve	2
Partially labelled model showing a decrease (downward shift) in the AE curve	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>12</b>
<p>Answers could include:</p> <p>Impact on output:</p> <ul style="list-style-type: none"> <li>• firms respond to lower consumption and investment by decreasing output. This in turn leads to lower rates of economic growth and higher rates of unemployment</li> <li>• a decrease in AE will have a multiplier effect causing output to fall by a larger proportion</li> <li>• a decrease in AE results in a downward movement along the 45° line as firms respond to lower levels of expenditure (Y1 → Y2)</li> <li>• when aggregate expenditure is less than output, inventories will increase</li> <li>• less research and development leading to less innovation, thus impacting efficiency and output.</li> </ul> <p>Impact on expenditure:</p> <ul style="list-style-type: none"> <li>• an increase in interest rates will decrease the cash flow of households and firms with loans and mortgages leading to a decrease in consumption and investment, thus resulting in a downward shift of the AE curve to a new macroeconomic equilibrium</li> <li>• an increase in interest rates will increase the cost of borrowing for households and firms decreasing C and I</li> <li>• there is greater incentive for households to save due to higher interest rates earned</li> <li>• an increase in interest rates will decrease asset prices which will decrease wealth resulting in a fall in consumption</li> <li>• increase in interest rates may lead to an appreciation of the AUD will decrease net exports leading to a decrease in AE.</li> </ul>	





## Question 31

(20 marks)

- (a) Define 'structural change' and explain **three** recent causes of structural change in the Australian economy. (10 marks)

Description	Marks
Defines structural change	1
<b>Subtotal</b>	<b>1</b>
<b>For each cause (3 x 3 marks)</b>	
Explains a cause of structural change in the Australian economy	3
Outlines a cause of structural change in the Australian economy	2
Identifies a cause of structural change in the Australian economy	1
<b>Subtotal</b>	<b>9</b>
<b>Total</b>	<b>10</b>
<p>Answers could include:</p> <p>Definition:</p> <ul style="list-style-type: none"> <li>structural change is the change in distribution of output, income and employment in the economy over time.</li> </ul> <p>Causes:</p> <ul style="list-style-type: none"> <li>aging population of Australian workers/low birth rate in Australia leading to changing consumer preferences</li> <li>rising demand for Australian services such as education, tourism and hospitality</li> <li>rapid economic growth in Australia's trading partners impacting mining and commodity-based industries</li> <li>disruptive innovation – information and communications technology (ICT), robotics thus improving supply chains</li> <li>concerns for environmental sustainability and climate change resulting in changes in resource access and availability</li> <li>globalisation, competitiveness and efficiency</li> <li>increased spending on vocational education and training (VET)</li> <li>government policies such as labour market reform.</li> </ul> <p>Accept other relevant answers.</p>	

- (b) Using an aggregate demand/aggregate supply (AD/AS) model, describe **two** positive and **two** negative effects of structural change on economic growth and employment in the Australian economy. (10 marks)

Description	Marks
<b>For each positive effect (2 x 2 marks)</b>	
Describes the positive impact of structural change on growth and employment in the Australian economy	2
Identifies a positive impact of structural change on growth and employment in the Australian economy	1
<b>Subtotal</b>	<b>4</b>
<b>For each negative effect (2 x 2 marks)</b>	
Describes the negative impact of structural change on growth and employment in the Australian economy	2
Identifies a negative impact of structural change on growth and employment in the Australian economy	1
<b>Subtotal</b>	<b>4</b>
<b>Model</b>	
Fully labelled AD/AS model showing an increase (shift right) of the AS curve	2
Partially correctly labelled AD/AS model showing an increase (shift right) of the AS curve	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>10</b>

Question 31 (continued)

Answers could include:

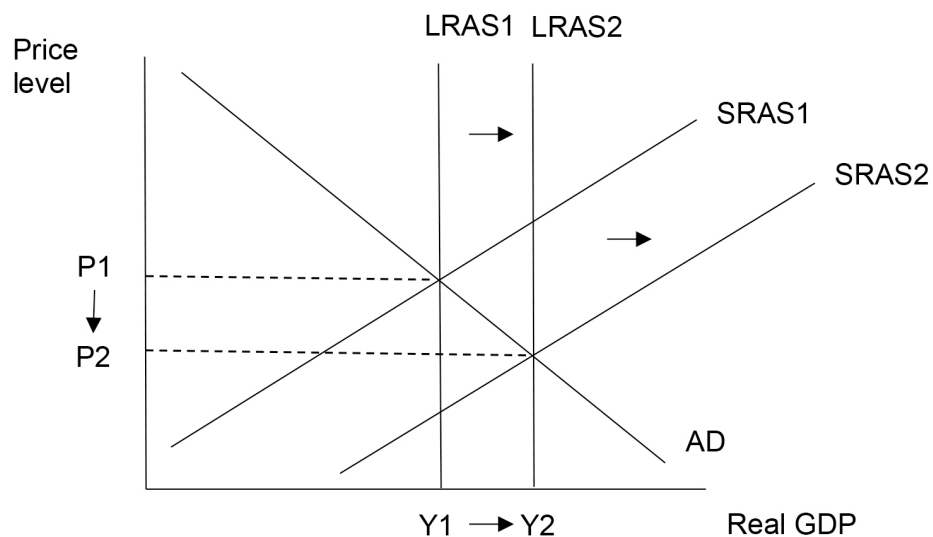
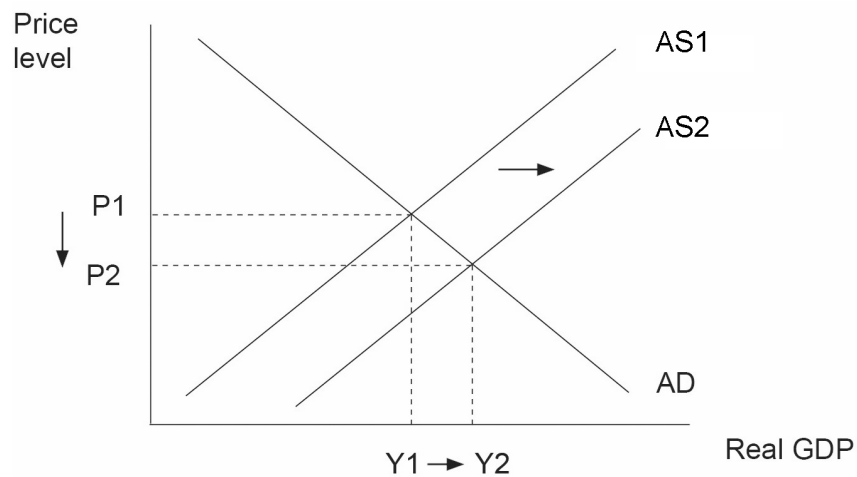
Positive effects:

- changing patterns of supply and demand bring opportunities such as finding new inputs and employing and training new workers
- trade in services has increased resulting in an increased demand for skilled workers
- greater concentration of resources in areas of comparative advantage
- economic growth increases resulting in increased incomes and standard of living
- structural change can drive increased domestic investment leading to increased productivity and competitiveness.

Negative effects:

- industries such as manufacturing have gone into decline causing structural unemployment
- increased economic dependence on the global economy making Australia more exposed to external shocks
- rapid growth in one sector (i.e. mining) attracts labour while leading to labour shortages in other sectors
- the distribution of wealth becomes less balanced when growth is unbalanced.

Models:



Accept other relevant answers.

## ACKNOWLEDGEMENTS

**Question 25(b)** Dot point 3: Oxford Economics. (2023, May 23). *Terms of Trade Will Lift Income but Challenge Australian Households*. Retrieved August, 2023, from <https://www.oxfordeconomics.com/resource/terms-of-trade-will-lift-income-but-challenge-australian-households/>

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