



# **ECONOMICS**

## **ATAR course examination 2020**

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

## Section Two: Data interpretation/Short answer

36% (36 Marks)

## Question 25

(12 marks)

- (a) (i) To the nearest percentage point (of GDP) by how much did global exports of goods and services increase between 1970 and 2018? (1 mark)

Description	Marks
16 or 17 per cent	1
<b>Total</b>	<b>1</b>

- (ii) In what year did global foreign direct investment net outflow peak? (1 mark)

Description	Marks
2007	1
<b>Total</b>	<b>1</b>

- (iii) In which industry sector were most Australians employed in the 2000s? (1 mark)

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

- (b) With reference to the graph, describe the changing rate of globalisation since 2000, and outline **two** reasons for this change. (4 marks)

Description	Marks
Description	
Describes difference in growth rate between first decade and second decade using data from the graph; pre/post GFC	2
Description of an aspect of globalisation growth using data from the graph	1
<b>Subtotal</b>	<b>2</b>
Outline changes	
Two outlines linked to the changing growth rate	2
One outline linked to the changing growth rate	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>4</b>
Answer(s) could include:	
Description	
<ul style="list-style-type: none"> <li>in the 2000s the pace of growth of exports/GDP increased, FDI was more variable but peaked in 2007</li> <li>in the 2010s exports have stabilised at around 30% of GDP and FDI has also become more stable around 2.5% of GDP.</li> </ul>	
Outline changes	
<ul style="list-style-type: none"> <li>rapid Chinese industrialisation in the first decade of the 21<sup>st</sup> Century contributed to strong growth of exports and FDI flows</li> <li>GFC saw exports and FDI collapse and have stabilised in the last decade</li> <li>increased protectionism around the world during the last decade.</li> </ul>	
Accept other relevant answers.	

**Question 25** (continued)

- (c) With reference to the data, explain the economic effects of globalisation on the Australian economy. (5 marks)

Description	Marks
<b>Relationship in data</b>	
Detailed explanation of the relationship between globalisation and the Australian economy using evidence from the data	5
Explanation of globalisation and how it has effected the Australian economy with appropriate reference to the data	4
Description of changes to the Australian economy as a result of globalisation with connection to the data	3
Outline of link between globalisation and the Australian economy	2
Some understanding of economic change or globalisation	1
<b>Total</b>	<b>5</b>
<p>Answer(s) could include:</p> <ul style="list-style-type: none"> <li>• globalisation refers to the opening up of international borders to the flow of trade, investment, immigration, information and technology</li> <li>• globalisation has contributed to structural change in the Australian economy</li> <li>• structural change involves changes in the distribution of output, income and expenditure across industries over time</li> <li>• Asian demand for minerals to support industrialisation contributed to growth of mining sector</li> <li>• decline (% terms) in agriculture reflects growth of other industries and increased supply of agriculture around the world</li> <li>• growth of services exports reflects increasing middle class of East Asian societies demanding education, health, tourism and financial services</li> <li>• decline of manufacturing as a share of output and employment but increased share of exports reflects use of capital machinery and impact of technology and niche manufacturing/participation in global supply chains</li> <li>• reduction in tariffs and subsidies for trade exposed industries has led to the decline in share of output for manufacturing</li> <li>• high prices for mineral commodities attracted resources to mining sector and the higher value currency hollowed out Australian industry 'Dutch disease'.</li> </ul>	

## Question 26

(12 marks)

- (a) (i) Identify the value of the Trade Weighted Index (TWI) at the start of 2019.(1 mark)

Description	Marks
60 (60–62 acceptable)	1
<b>Total</b>	<b>1</b>

- (ii) If an Australian tourist had exchanged 100 Australian dollars for United States (US) dollars in 2001, how much would they have received? (1 mark)

Description	Marks
US\$48–52	1
<b>Total</b>	<b>1</b>

- (iii) In terms of the exchange rate, what would have been the best year for an Australian tourist to visit the United States? (1 mark)

Description	Marks
2011 or 2012	1
<b>Total</b>	<b>1</b>

- (b) Identify
- two**
- reasons why there is a difference between the change in the TWI value and the US dollar value of the Australian dollar. (2 marks)

Description	Marks
The US dollar value of the Australian dollar only reflects transactions denominated in US dollar so it is likely to be more volatile as it is one currency	1
The Trade Weighted Index is the value of the Australian dollar against a basket of currencies weighted by their trade importance to Australia. This means movements in the value of the Australian dollar will be moderated	1
<b>Total</b>	<b>2</b>

- (c) Describe the trend in the value of the Australian dollar since 2011 and outline
- two**
- factors that have contributed to this trend. (3 marks)

Description	Marks
<b>Trend</b>	
The Australian dollar has depreciated	1
<b>Subtotal</b>	<b>1</b>
<b>Factors</b>	
Two factors outlined relating to a depreciating currency	2
One factor outlined relating to a depreciating currency	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>3</b>
Answer(s) could include: <ul style="list-style-type: none"> <li>• lower interest rates in Australia relative to the US</li> <li>• stronger economic growth in the US attracting financial capital</li> <li>• less demand for financial investment in Australia as mining boom moved from expansion to production phase</li> <li>• slowing economic growth rate in China leading to lower commodity prices</li> <li>• decreasing terms of trade</li> <li>• slower world economic growth.</li> </ul>	

## Question 26 (continued)

- (d) Explain **two** likely effects on Australian households and **two** likely effects on firms of the movement in the value of the Australian dollar since 2011. (4 marks)

Description	Marks
<b>Households</b>	
Explains two effects on households	2
Explains one effect on households	1
<b>Subtotal</b>	<b>2</b>
<b>Firms</b>	
Explains two effects on firms	2
Explains one effect on firms	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>4</b>
<p>Answer(s) could include:</p> <p>Households:</p> <ul style="list-style-type: none"> <li>households will be disadvantaged because they pay higher prices for imported goods such as cars and whitegoods</li> <li>households will be disadvantaged because they pay higher prices for overseas travel</li> <li>households will be able to take advantage of greater employment and higher wages in the traded goods and services sector</li> <li>imported inflationary pressure reducing real income and lowering living standards.</li> </ul> <p>Firms:</p> <ul style="list-style-type: none"> <li>depreciation will advantage exporting firms as prices for overseas customers fall</li> <li>import-competing local producers will benefit as imports become more expensive</li> <li>firms in the travel and education sector will be advantaged because these services are cheaper for overseas residents</li> <li>the boost to national income from net exports may create greater spending in the local economy boosting domestic firms' profits</li> <li>firms who require capital imports or raw materials will have to pay more.</li> </ul>	

## Question 27

(12 marks)

- (a) (i) Define the term 'labour productivity'. (1 mark)

Description	Marks
Labour productivity is total output divided by total hours worked	1
<b>Total</b>	<b>1</b>

- (ii) What was Australia's average labour productivity growth rate over the last five years? (1 mark)

Description	Marks
0.7%	1
<b>Total</b>	<b>1</b>

- (iii) Which year in the graph had the highest rate of productivity growth? (1 mark)

Description	Marks
1999	1
<b>Total</b>	<b>1</b>

- (b) Explain **two** ways each of the following policy options, identified in the article, would assist in improving Australia's rate of productivity. (4 marks)

Description	Marks
<b>Increased skills and training investment</b>	
Explains two ways relating to skills and training and productivity	2
Explains one way relating to skills and training and productivity	1
<b>Subtotal</b>	<b>2</b>
<b>Increased investment in technology by firms</b>	
Explains two ways relating to investment in technology and productivity	2
Explains one way relating to investment in technology and productivity	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>4</b>
Answer(s) could include:	
Increased skills and training investment:	
<ul style="list-style-type: none"> <li>this will develop worker's skills and efficiency and improve human capital</li> <li>examples are the ability to use capital equipment, to implement innovative process and production changes</li> <li>firms with a more highly trained workforce are likely to respond to changes in the market, technology and competition in a more agile manner.</li> </ul>	
Increased investment in technology by firms:	
<ul style="list-style-type: none"> <li>more capital that is of better quality will improve output per hour for each worker</li> <li>allows local firms to be efficient and competitive in the global economy and compete with imports</li> <li>technology can lead to product and process innovations and improve multifactor productivity (MFP).</li> </ul>	

## Question 27 (continued)

- (c) Using the aggregate demand and aggregate supply (AD/AS) model, demonstrate and explain the relationship between productivity improvement and economic growth and how such improvement is likely to impact on the growth of income/wages. (5 marks)

Description	Marks
<b>AD/AS model</b>	
Correctly labelled diagram showing rightward shift in LRAS/SRAS or AS curve and increase in Y	2
Mostly correct diagram with some understanding of shift in supply curve evident	1
<b>Subtotal</b>	<b>2</b>
<b>Relationship between productivity improvement and economic growth</b>	
Explains the link between productivity and economic growth	2
Outlines the link between productivity and economic growth	1
<b>Subtotal</b>	<b>2</b>
<b>Impact of productivity improvement on income/wage growth</b>	
One point states the impact of productivity improvement on income/wage growth	1
<b>Subtotal</b>	<b>1</b>
<b>Total</b>	<b>5</b>
<p>Answer(s) could include:</p> <p>AD/AS model:</p> <ul style="list-style-type: none"> <li>price level on Y-axis, Real GDP on X-axis</li> <li>shift to the right of LRAS and SRAS or classical three stage AS curve</li> <li>increase in Real GDP to the right (new intersection point)</li> <li>AD may shift to the right as well due to rising incomes (not needed for full marks).</li> </ul> <p>Relationship between productivity improvement and economic growth:</p> <ul style="list-style-type: none"> <li>reference to diagram and increase in Y in explanation</li> <li>more productive use of resources increases the potential real output of the economy</li> <li>rising real incomes will also increase AD increasing economic growth.</li> </ul> <p>Impact of productivity improvement on income/wage growth:</p> <ul style="list-style-type: none"> <li>the most important determinant of wage/income growth is an increase in output per worker</li> <li>rising productivity leading to a competitive advantage will result in firms hiring more workers and rising incomes/wages.</li> </ul>	

## Section Three: Extended answer

40% (40 Marks)

## Question 28

(20 marks)

- (a) Describe the structure of Australia's Balance of Payments with reference to the two major accounts and their relationship, the categories in each account and examples of typical transactions recorded in each of them. (12 marks)

Description	Marks
<b>Defining Concepts</b>	
Correct description of Balance of Payments and two major accounts	2
Some attempt to describe the major features of the Balance of Payments	1
<b>Subtotal</b>	<b>2</b>
<b>Two major accounts and their relationship</b>	
Detailed description of the two major accounts and clear understanding of their relationship	4–5
Description of the two major accounts and showing an understanding of a link between the two	2–3
Outline of one or both accounts	1
<b>Subtotal</b>	<b>5</b>
<b>Categories and transactions</b>	
Detailed description of all the categories in each account and typical transactions that occur in each category	4–5
Description of most categories in the two major accounts and mostly correct transactions typical for each	2–3
Outline of some of the categories and/or some transactions	1
<b>Subtotal</b>	<b>5</b>
<b>Total</b>	<b>12</b>
<p>Answer(s) could include:</p> <p>Two major accounts:</p> <ul style="list-style-type: none"> <li>• definition of the Balance of Payments</li> <li>• definition of Current Account and Capital and Financial Account.</li> </ul> <p>Relationship:</p> <ul style="list-style-type: none"> <li>• every transaction in Balance of Payments has two entries – credits and debits</li> <li>• the Current Account and the Capital and Financial Account always sum to zero (plus net errors and omissions)</li> <li>• an increase in foreign investment will increase the surplus on the Financial Account but will also increase servicing costs recorded in the income section of the Current Account which will go into greater deficit.</li> </ul> <p>Categories and transactions:</p> <ul style="list-style-type: none"> <li>• Current Account: goods, services and income categories</li> <li>• Capital Account: capital transfers, acquisition/disposal of non-produced non-financial assets</li> <li>• Financial Account: direct and portfolio investment, financial derivatives, other investment and reserve assets</li> <li>• credit or debit transactions typical of Australian international transactions for each category.</li> </ul>	

## Question 28 (continued)

- (b) In 2019, Australia recorded the first current account surplus in 44 years. Explain **two** factors that contributed to this significant change in the balance on the current account. (8 marks)

Description	Marks
<b>Current account surplus</b>	
Description of what a current account surplus means with reference to the accounts	2
Some understanding of the meaning of a current account surplus	1
<b>Subtotal</b>	<b>2</b>
<b>Terms of trade (ToT)</b>	
Explanation of how the ToT has contributed to the current account surplus	3
Description of link between the ToT and the current account surplus	2
Outline of a link between the ToT and the current account surplus	1
<b>Subtotal</b>	<b>3</b>
<b>Another factor</b>	
Explanation of how another relevant factor has contributed to the current account surplus	3
Description of the link between another relevant factor and the current account surplus	2
Outline of a link between a factor and the current account surplus	1
<b>Subtotal</b>	<b>3</b>
<b>Total</b>	<b>8</b>
<p>Answer(s) could include:</p> <p>Current account surplus:</p> <ul style="list-style-type: none"> <li>the value of the nation's exports and income received from overseas is greater than the value of imports and the income payments made to overseas residents</li> <li>Australia usually records a CAD because of the large net income deficit which are payments required from the financial capital invested in Australia to bridge the savings-investment gap</li> <li>this is the first CAS in over four decades as we recorded a significant trade surplus which exceeded the net income deficit.</li> </ul> <p>Terms of trade (ToT):</p> <ul style="list-style-type: none"> <li>the favourable movement in the ToT has been caused by higher export prices of our main commodity exports – iron ore, coal, LNG</li> <li>the consequence has been a dramatic improvement in the trade balance (higher prices of exports) which has led to an overall current account surplus.</li> </ul> <p>Volume of exports and imports:</p> <ul style="list-style-type: none"> <li>weak consumer spending in Australia has reduced spending on imports</li> <li>the quantity of exports being sold has increased dramatically as a result of the mining and energy investment boom</li> <li>the changes in quantity of both exports and imports is feeding into record trade balances and producing the CAS</li> <li>depreciation of Australian dollar increased exports and reduced imports.</li> </ul> <p>Reduced income payments:</p> <ul style="list-style-type: none"> <li>reduced interest payments due to low global interest rates</li> <li>reduced inflow of foreign financial capital as the mining boom moves from expansion to production phase and this means reduced income payments to overseas residents</li> <li>decline in investment and increase in savings</li> <li>Australian investment overseas is seeing an increase in income payments received by Australian residents.</li> </ul> <p>Note: reference to trade and income balance required to address the concept of 'significant change'.</p>	

## Question 29

(20 marks)

Using the demand and supply model, demonstrate and explain the short- and long-term effects of a reduction in tariffs and subsidies on a trade-protected economy. (20 marks)

Description	Marks
<b>Tariff diagram</b>	
Fully labelled and correct diagram showing the effect of an elimination of a tariff on price, changes in quantity demanded, quantity supplied by local producers, quantity supplied by importers, and government revenue	3
Generally correct and mostly labelled diagram showing effects on demand, supply and the government	2
Some elements of a D/S diagram showing a reduction in price and change in quantity as a tariff is removed	1
<b>Subtotal</b>	<b>3</b>
<b>Tariff explanation and short-term effects</b>	
Detailed explanation that includes reference to diagram and changes to price, government revenue, local demand, local producer supply and importer supply	3
Explanation that includes some reference to the diagram and most changes to local market	2
Description of some effects in the market	1
<b>Subtotal</b>	<b>3</b>
<b>Subsidy diagram</b>	
Fully labelled and correct diagram showing the effect of an elimination of a subsidy on quantity demanded, quantity supplied by local producers and quantity supplied by importers, and government expenditure	3
Generally correct and mostly labelled diagram showing effects on demand, supply and the government as a subsidy is removed	2
Some elements of a D/S diagram showing the change in quantity as a subsidy is removed	1
<b>Subtotal</b>	<b>3</b>
<b>Subsidy explanation and short-term effect</b>	
Detailed explanation that includes reference to diagram and changes to government expenditure, local demand, local producer supply and importer supply	3
Explanation that includes some reference to the diagram and most changes to local market	2
Description of some effects in the market	1
<b>Subtotal</b>	<b>3</b>
<b>Long-term effects</b>	
Detailed explanation of a range of the longer term effects of removing trade protection	7–8
Explanation of a range of the longer term effects of removing trade protection	5–6
Description of a number of longer term effects of removing trade restrictions	3–4
Outline of some longer term effects	1–2
<b>Subtotal</b>	<b>8</b>
<b>Total</b>	<b>20</b>

**Question 29** (continued)

Answer(s) could include:

Tariff diagram:

- price – Y axis, quantity – X axis
- tariff originally set to raise price in market and raise government revenue eliminated
- domestic supply falls, imported supply rises
- domestic consumption expands.

Tariff explanation and short-term effects:

- reduction in price for consumers and expansion in domestic consumption
- switches consumption from domestic producers to imports
- decrease the cost for domestic producers if an imported capital item
- domestic suppliers sell less for less
- possible reduction of government revenue from tariff
- reference to DWL and market effects (CS, PS, TS).

Subsidy diagram:

- price – Y axis, quantity – X axis
- supply curve shifts to the left for domestic suppliers (decrease)
- increased gap between local supply and local demand
- price remains at world price
- domestic consumption is unchanged.

Subsidy explanation and short-term effects:

- increased domestic costs as subsidy removed
- lower competitiveness against imports
- decreased domestic production
- imports increase
- reduction of Government subsidy cost.
- reference to DWL and market effects (CS, PS, TS).

Longer term effects of tariff elimination:

- reduction in retaliatory tariffs
- less Government revenue for spending in other areas
- increase in economic output and employment through increased free trade
- structural change in the economy as resources such as labour shift from uncompetitive trade exposed industries to competitive industries
- higher national income.

Longer term effects of subsidy elimination:

- efficient producers are advantaged
- decreased burden on the tax payer
- promotes innovation in the economy
- government expenditure can be re-allocated to more effective areas of social need.

Note: short-term effect relates to changes on model whereas long-term effects relate to broader impacts on the economy.

## Question 30

(20 marks)

- (a) Use the aggregate demand and aggregate supply (AD/AS) model to demonstrate and explain the characteristics of the boom phase of the business cycle. (10 marks)

Description	Marks
<b>AD/AS Model</b>	
Fully labelled and correct AD/AS or LRAS – SRAS/AD model demonstrating an inflationary gap	3
Mostly correct model	2
Some aspects on an AD/AS model	1
<b>Subtotal</b>	<b>3</b>
<b>Explanation</b>	
Explanation of an economic boom referring to many characteristics/indicators	6–7
Description of an economic boom referring to the main characteristics/indicators	4–5
Description of an economic boom referring to some indicators	2–3
Outline of one or two indicators relevant to an economic boom	1
<b>Subtotal</b>	<b>7</b>
<b>Total</b>	<b>10</b>
<p>Answer(s) could include:</p> <p>AD/AS Model:</p> <ul style="list-style-type: none"> <li>price on Y axis, real GDP on X axis</li> <li>intersection of SRAS and AD at a point beyond LRAS (vertical line) level (identification of expansionary gap)</li> <li>aggregate demand curve located in the classical range of AD/AS models.</li> </ul> <p>Characteristics of boom phase:</p> <ul style="list-style-type: none"> <li>economy operating beyond sustainable GDP growth rate</li> <li>low levels of cyclical unemployment</li> <li>higher participation rate</li> <li>higher inflation and wages</li> <li>increase in businesses profits and confidence</li> <li>increase in consumer confidence and purchasing of durables</li> <li>rising share prices</li> <li>less government welfare spending</li> <li>higher interest rates due to demand for credit and monetary policy</li> <li>greater spending on imports.</li> </ul> <p>Note: Minimum of four characteristics for full marks.</p>	

## Question 30 (continued)

- (b) Discuss how an economic boom influences the Australian Government's economic objectives of sustainable economic growth, low unemployment and a more equitable distribution of income. (10 marks)

Description	Marks
<b>Sustainable economic growth</b>	
Discussion of the difficulty in sustaining economic growth in an economic boom	4
Explanation of difficulty in sustaining economic growth in an economic boom	3
Description of the link between an economic boom and the upper turning point of a business cycle	2
Outline of link between an economic boom and economic growth	1
<b>Subtotal</b>	<b>4</b>
<b>Low unemployment</b>	
Discussion of the effect of an economic boom on unemployment	4
Explanation of the effect of an economic boom on unemployment	3
Description of the effect of an economic boom on unemployment	2
Outline of link between an economic boom and unemployment	1
<b>Subtotal</b>	<b>4</b>
<b>More equitable distribution of income</b>	
Discussion of relationship between an economic boom and a more equitable distribution of income	2
Description of the relationship between an economic boom and a more equitable distribution of income	1
<b>Subtotal</b>	<b>2</b>
<b>Total</b>	<b>10</b>
<p>Answer(s) could include:</p> <p><b>Sustainable economic growth:</b></p> <ul style="list-style-type: none"> <li>sustainable economic growth will allow a long term increase in living standards</li> <li>above trend economic growth rate will occur in an economic boom</li> <li>economy will reach maximum capacity and bottlenecks will begin to occur</li> <li>product and resource market prices will rise causing inflation</li> <li>high interest rates from the demand for credit and contractionary MP will discourage borrowing</li> <li>consumer and business confidence will fall and the economic growth will decline (often very quickly).</li> </ul> <p><b>Low unemployment:</b></p> <ul style="list-style-type: none"> <li>strong economic growth in a boom will increase demand for labour</li> <li>cyclical unemployment will fall</li> <li>structural unemployment will rise as the boom shifts resources such as labour to the most profitable sectors</li> <li>high cost of labour in a boom may lead to capital for labour substitution</li> <li>frictional unemployment will rise as workers will be more willing to shift jobs in the search for wage/income increases.</li> </ul> <p><b>More equitable distribution of income:</b></p> <ul style="list-style-type: none"> <li>a more equitable distribution of income will occur in a boom as labour is in greater demand</li> <li>booms however can benefit some sectors more and upskilling workers to transition in a changing economy takes time</li> <li>equity will depend on the effectiveness of the Government's tax and transfer system</li> <li>in general economic booms improve equity as 'a rising tide floats all boats' or as Prime Minister Howard once said: 'The best form of welfare is a job'.</li> </ul>	

## Question 31

(20 marks)

- (a) Explain why and how both monetary policy and fiscal policy have been used to influence the Australian economy in 2020. Use an aggregate expenditure (AE) model to support your answer. (12 marks)

Description	Marks
<b>Australian economy in 2020</b>	
Explanation of the state of the Australian economy in 2020	3
Description of the Australian economy in 2020	2
Some awareness of the Australian economy in 2020	1
<b>Subtotal</b>	<b>3</b>
<b>Monetary Policy</b>	
Explanation of the use of monetary policy and its relevance to the economic circumstances	3
Description of monetary policy setting/changes connected to the economic circumstances	2
Some awareness of how monetary policy has been used this year	1
<b>Subtotal</b>	<b>3</b>
<b>Fiscal Policy</b>	
Explanation of the use of fiscal policy and its relevance to the economic circumstances	3
Description of fiscal policy setting/changes connected to the economic circumstances	2
Some awareness of how fiscal policy has been used this year	1
<b>Subtotal</b>	<b>3</b>
<b>Economic model</b>	
Fully labelled and correct AE model demonstrating a deflationary gap and impact of expansionary policy settings	3
Mostly correct model demonstrating impact of expansionary policy settings	2
Some aspects on an AE model	1
<b>Subtotal</b>	<b>3</b>
<b>Total</b>	<b>12</b>
<p>Answer(s) could include:</p> <p>Australian economy:</p> <ul style="list-style-type: none"> <li>reference to severe contraction (recession) and nature of demand and supply shock from exogenous factors particularly the coronavirus</li> <li>main economic indicators and how they have changed over the year: GDP growth, unemployment, inflation, investment, exchange rate, consumer spending etc.</li> <li>reference to industries hardest hit by contraction</li> <li>global financial crises and uncertainty</li> <li>effect of slowdown of global economic growth on local economy.</li> </ul> <p>Monetary policy:</p> <ul style="list-style-type: none"> <li>reduction in cash rate by RBA and market interest rates - expansionary</li> <li>intended effect on consumption, investment and exchange rate via transmission mechanism</li> <li>aim to support aggregate spending and create employment</li> <li>role of multiplier effect.</li> </ul> <p>Fiscal policy:</p> <ul style="list-style-type: none"> <li>range of significant stimulus payments to households and government policy support for businesses during time of collapsing consumer spending</li> <li>reduction in government revenue and increase in expenditure</li> <li>movement to a significant budget deficit from planned budget surplus</li> <li>role of multiplier effect..</li> </ul>	

Question 31 (continued)

<p>AE model:</p> <ul style="list-style-type: none"> <li>• 45 degree line, AE on vertical axis, Real GDP on horizontal axis</li> <li>• parallel AE lines demonstrating impact of recession and policy effect</li> <li>• increase in equilibrium real GDP to reduce deflationary gap.</li> </ul>
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(b) Discuss the factors likely to influence the effectiveness of each of these policies. (8 marks)

Description	Marks
Discussion in detail several factors and reasons for their influence on effectiveness of policies	7–8
Explanation of several factors and their influence on effectiveness of policies	5–6
Description of a few factors and their link to effectiveness of policies	3–4
Identification of a factor and its influence	1–2
<b>Total</b>	<b>8</b>
<p>Answer(s) could include:</p> <p>Monetary policy:</p> <ul style="list-style-type: none"> <li>• overall effectiveness is likely to be poor; no guaranteed increase in aggregate spending such as, cost of borrowing and asset prices channels</li> <li>• interest rates were already very low, further reductions likely to have limited impact due to low consumer and business confidence</li> <li>• household debt is high making it more likely households will seek to retire debt rather than borrow</li> <li>• depreciation of Australian dollar will have increased net exports despite a significant fall in world growth</li> <li>• significant effect time lag.</li> </ul> <p>Fiscal policy:</p> <ul style="list-style-type: none"> <li>• more effective because government spending can increase aggregate spending directly</li> <li>• government expenditure multiplier likely to be low because of low MPC</li> <li>• government reluctant to go into too much debt given experience post-GFC</li> <li>• other criticisms relevant to success of policies implemented in 2020.</li> </ul> <p>A number of factors effect both policies, i.e. multiplier effect, expectation, and crowding out effects.</p> <p>Note: at least two factors in detail per policy for full marks.</p>	

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