# ECONOMICS

# ATAR course examination 2021

# Marking key

**Section One: Multiple-choice** 24% (24 Marks)

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

**Section Two: Data interpretation/Short answer** **36% (36 Marks)**

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**Question 25** **(12 marks)**

(a)  (i)  What was Australia's highest recorded trade balance over the period 2016 to 2020? (1 mark)

| Description | Marks |
|---|---|
| Approximately 4.6%–4.8% of GDP | 1 |
| Total | 1 |

(ii)  In which year and quarter did Australia record its first current account surplus? (1 mark)

| Description | Marks |
|---|---|
| June Quarter 2019 | 1 |
| Total | 1 |

(b)  Identify the trend in the current account balance from 2018 to 2020 and describe **two** economic reasons for this. (5 marks)

| Description | Marks |
|---|---|
| Identifies an upward trend in the current account balance | 1 |
| Economic reason one: | |
| Describes a reason for the upward trend in the current account balance | 2 |
| Identifies a reason for the upward trend | 1 |
| Subtotal | 2 |
| Economic reason two: | |
| Describes a reason for the upward trend in the current account balance | 2 |
| Identifies a reason for the upward trend | 1 |
| Subtotal | 2 |
| Total | 5 |
| Answer(s) could include:<br><br>• terms of trade improving. Higher prices for exports relative to imports leads to increase in trade balance<br>• demand for commodity exports (e.g. iron ore) increase<br>• decrease in demand for imports as a result of declines in investment and consumption leads to increase in trade balance<br>• increase in net primary income balance due to decrease in foreign investment<br>• increase in commodity prices – iron ore, coal, wheat<br>• depreciation of the AUD during this period. | |
| Accept other relevant answers. | |

**Question 25** (continued)

(c) Explain why a fluctuating current account balance is **not** considered to be of concern to policy makers. (5 marks)

| Description | Marks |
|---|---|
| Explains why a fluctuating current account (CA) balance is not a cause for concern by identifying both cyclical and/or structural factors that cause its movement | 4–5 |
| Describes the factors (cyclical and/or structural) as to why the CA balance may fluctuate | 2–3 |
| Identifies reasons as to why the CA can fluctuate | 1 |
| **Total** | **5** |

Answer(s) could include:

- current account balance reflects the savings – investment gap that can result from cyclical and structural factors; if S>I current account is in surplus; if I>S current account is in deficit
- higher economic growth, therefore increase in GDP, Consumption, Investment, leading to increase in demand for imports
- reflects changes in domestic demand and the global economy
- cyclical factors: growing economy will mean I > S. Reflects confidence by foreign investors in economy. Higher capital inflow – decreasing primary income balance
- structural factors: structural change may require a significant increase in physical and social overhead capital
- past borrowing or sale of assets
- changes in the terms of trade
- trade balance moves with the business cycle.

**Question 26** **(12 marks)**

(a) (i) What was the size of the contraction in GDP in the June quarter of 2020?

(1 mark)

| Description | Marks |
|---|---|
| Contraction of 7% (-7%) (accept a range of 6.9% - 7.2%) | 1 |
| Total | 1 |

(ii) What is the size of the Australian Government's estimated budget deficit in 2020/21? (1 mark)

| Description | Marks |
|---|---|
| 7.8% of GDP, or expressed as a negative. (Allow 7.5–7.9% range) | 1 |
| Total | 1 |

(b) Using the aggregate demand/aggregate supply (AD/AS) model, demonstrate and outline **two** intended effects of the estimated Australian Government budget deficits from 2020/21 onward. (4 marks)

| Description | Marks |
|---|---|
| Model | |
| Correctly labelled AD/AS model | 1 |
| Correctly indicating shift to the right of the AD curve | 1 |
| Subtotal | 2 |
| Outline any of **two** intended effects listed below: | |
| Increase Real GDP<br>Lower unemployment<br>Increase consumption spending<br>Increase business activity/investment<br>Increase inflation<br>Increase in wage growth | 1–2 |
| Subtotal | 2 |
| Total | 4 |

**Question 26** (continued)

(c) Describe **three** reasons why these estimated Australian Government budget deficits may have a limited effect on economic activity. (6 marks)

| Description | Marks |
|---|---|
| For each of the **three** reasons provided (3 x 2 marks each) | |
| Describes a reason why the government budget deficit may have a limited effect on economic activity | 2 |
| Identifies a reason why the government budget deficit may have a limited effect on economic activity | 1 |
| Subtotal | 2 |
| Total | 6 |
| Answer(s) could include:<br><br>• crowding out; may cause increase in interest rates. This may dampen economic growth<br>• inflexibility of budgets – actual versus planned<br>• state government policy may contradict federal government policy<br>• financing of deficit may lead to appreciation of the dollar<br>• increased deficits may cause inflationary pressure, leading to RBA raising interest rates<br>• low business and consumer confidence may prevent spending once payments finish, i.e. temporary nature of much of the government stimulus<br>• low wages growth limiting consumption spending, i.e., consumers may save<br>• the global health pandemic may continue to impact major services industries such as tourism and education. Global demand low. | |

**Question 27** **(12 marks)**

(a) (i) List **one** benefit for Australian exporters from belonging to the RCEP. (1 mark)

| Description | Marks |
|---|---|
| Common set of rules; further access into other sectors, e.g. financial, healthcare and others listed. | 1 |
| Total | 1 |

(ii) According to the article, which **two** countries are currently **not** members of RCEP? (1 mark)

| Description | Marks |
|---|---|
| India and the United States (must list both for 1 mark) | 1 |
| Total | 1 |

(b) Describe **two** arguments for trade liberalisation. (4 marks)

| Description | Marks |
|---|---|
| For **each** argument for trade liberalisation (2 x 2 marks for each) | |
| Describes an argument for trade liberalisation | 2 |
| Identifies an argument for trade liberalisation | 1 |
| Subtotal | 2 |
| Total | 4 |

Answer(s) could include:

- free trade based on comparative advantage can lead to greater efficiency and economic growth
- promotes efficiency
- increases economic growth; improves standard of living; increases incomes and consumption
- lower prices; net increase in jobs; lower costs of production/inputs
- gains to consumers
- gains to producers.

(c) Using a demand and supply model, illustrate and explain the effects on consumers and producers of a country imposing a tariff on an imported good. (6 marks)

| Description | Marks |
|---|---|
| Tariff diagram | |
| A clearly and correctly labelled tariff diagram showing price on y-axis; quantity on x-axis | 1 |
| Tariffs raise the price in the market and raises government revenue. Domestic consumption falls | 1 |
| Subtotal | 2 |
| Effects on consumers | |
| Explains that imposing a tariff will cause; prices to rise; consumption to fall; decreased consumer surplus | 2 |
| Outlines how tariffs increase prices of imports | 1 |
| Subtotal | 2 |
| Effects on producers | |
| Explains that imposing a tariff will cause; price increases; domestic producers to increase production; increased producer surplus | 2 |
| Outlines how domestic producers sell more goods | 1 |
| Subtotal | 2 |
| Total | 6 |

**Section Three: Extended answer** 40% (40 Marks)

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**Question 28** **(20 marks)**

(a) Explain the term 'globalisation' and describe **four** factors that have influenced the extent of globalisation in recent years. (10 marks)

| Description | Marks |
|---|---|
| Explains the term 'globalisation' | 2 |
| Provides a simple definition of term the term 'globalisation' | 1 |
| **Subtotal** | **2** |
| For each of the **four** factors chosen (4 x 2 marks each) | |
| Describes a factor that has influenced the extent of globalisation in recent years | 2 |
| Identifies a factor that has influenced the extent of globalisation in recent years | 1 |
| **Subtotal** | **8** |
| **Total** | **10** |
| Answer(s) could include:<br>• role of WTO, IMF, other global institutions<br>• decline in globalisation in recent times due to a rise in protection, Nationalist politics, e.g. America First<br>• lower transportation costs<br>• significant improvements in communications technologies<br>• rising global wealth changes consumer tastes and preferences<br>• government policies lowering barriers to trade<br>• global trade slowed (deceleration). | |

(b)     Discuss the economic effects of globalisation on the Australian economy.     (10 marks)

| Description | Marks |
|---|---|
| Discusses the economic effects of globalisation on the Australian economy | 9–10 |
| Explains the economic effects of globalisation on the Australian economy | 7–8 |
| Describes the economic effects of globalisation on the Australian economy | 5–6 |
| Outlines the economic effects of globalisation | 3–4 |
| Identifies some effects of globalisation | 1–2 |
| **Total** | **10** |

Answer(s) could include:

Positive:
- increased technical and allocative efficiency
- increased economic growth due to increased export markets
- lower input costs, lower production costs
- reduced inflationary pressures due to cheaper imports; lower import costs
- increased standard of living, greater range and quality of goods and services
- higher rates of employment and wages growth
- managerial ideas, technology and management transfer
- economies of scale
- multi-national corporations and foreign direct investment.

Negative:
- increased structural unemployment in key manufacturing industries
- dependence upon foreign supply chains
- lower effective rates of protection impacts manufacturing businesses
- vulnerability to global crisis.

**Question 29** **(20 marks)**

(a) Using the demand and supply model, illustrate and explain **two** factors that caused this movement in the Australian dollar. (10 marks)

| Description | Marks |
|---|---|
| Appropriate model (2 x 2 marks for illustrating each factor) | |
| Fully labelled exchange rate model, correctly showing either increased demand for AUD, or decreased supply of AUD | 2 |
| Mostly correct model, showing some understanding of increased demand for AUD, or decreased supply of AUD | 1 |
| **Subtotal** | **4** |
| For each factor explaining appreciation of AUD (2 x 3 marks each) | |
| Explains a factor that has caused this movement in the Australian dollar | 3 |
| Describes a factor that has caused this movement in the Australian dollar | 2 |
| Identifies a factor that has caused this movement in the Australian dollar | 1 |
| **Subtotal** | **6** |
| **Total** | **10** |
| Answer(s) could include:<br><br>Factors:<br>• demand for mineral commodities, e.g. high prices for iron ore, gold, coal<br>• strong economic growth in China, increase quantity of exports<br>• foreign investment entering Australia<br>• terms of trade, high prices for mineral commodities<br>• interest rates (differential rising)<br>• lower domestic growth in Australia<br>• declining global interest rates (reducing debt servicing flows). | |
| Note: Students can provide illustrations for two demand-side factors; two supply-side factors; or one of each to achieve full marks. | |

(b) Analyse the effects of this movement in the exchange rate on the Australian business sector. (10 marks)

| Description | Marks |
|---|---|
| Impacts on business sector | |
| Analyses the effects of this movement in the exchange rate on the Australian business sector | 9–10 |
| Explains the effects of this movement in the exchange rate on the Australian business sector | 7–8 |
| Describes the effects of this movement in the exchange rate on the Australian business sector | 5–6 |
| Outlines the effects of this movement in the exchange rate on the Australian business sector | 3–4 |
| Identifies/lists some effects of this movement in the exchange rate on the Australian business sector | 1–2 |
| **Total** | **10** |

Answer(s) could include:

Positives:
• domestic businesses (such as retailers, manufacturers and farmers) gain when they import components/inputs/capital goods – now cheaper with the higher AUD
• lower production costs, therefore higher profits
• Australian businesses that sell imported goods will benefit (retail).

Negatives:
• domestic import-competing firms negatively impacted
• exporters have reduced income (less competitive), depending on demand elasticities, contracts
• decreases foreign investment, e.g. less capital flows into share market and bonds.

Other answers could include:
• size of the effect is determined by:
  ◦ elasticity of demand for Australian produced goods
  ◦ drag effect of exports declining having long term negative impacts on the business sector.

Note: The question does not require candidates to explicitly analyse/identify positive and negative effects. Candidates should not be penalised if answer is not structured this way.

**Question 30** **(20 marks)**

(a) Describe **three** causes of structural change and, using the AD/AS model, explain the relationship between structural change and economic growth. (12 marks)

| Description | Marks |
|---|---|
| Model | |
| Shows a shift to the right for the AS curve | 1−2 |
| Correctly labelled AD/AS diagram | 1 |
| **Subtotal** | **3** |
| For each cause of structural change (3 x 2 marks for each) | |
| Describes a cause of structural change | 2 |
| Identifies a cause of structural change | 1 |
| **Subtotal** | **6** |
| Relationship between EG and SC | |
| Explanation of the co-related or two way relationship between economic growth and structural change | 3 |
| Description of the co-related or two way relationship between economic growth and structural change | 2 |
| Identification of the co-relationship between economic growth and structural change | 1 |
| **Subtotal** | **3** |
| **Total** | **12** |

Answer(s) could include:

Explanation of causes:
- demographics, i.e. aging population/low birth rate in Australia changing consumer preferences, employment types, sustainability concerns
- growth of East Asia as manufacturing hub, decline in developed country process and assembly jobs
- rising demand for Australian services, e.g. education, tourism
- demand for commodities to fuel Asian growth
- rise of robotics, innovation, supply chain efficiencies via technology; disruptive innovation
- government policies, e.g. labour market reform.

Explanation of relationships:
- economic growth increase incomes, changes consumer preferences, hence creates structural change.
- structural change increases economic growth and economic growth increases structural change.

(b)     Explain the term 'productivity' and describe **three** recent Australian Government policies designed to promote productivity.                                               (8 marks)

| Description | Marks |
|---|---|
| Productivity | |
| Explains the term 'productivity' | 2 |
| Provides a simple definition of productivity | 1 |
| **Subtotal** | **2** |
| For each government policy designed to promote productivity (3 x 2 marks each) | |
| Detailed description of a recent policy describing how it promotes productivity | 2 |
| Identifies a recent policy designed to promote productivity | 1 |
| **Subtotal** | **6** |
| **Total** | **8** |
| Answer(s) could include:<br><br>• tax reform<br>• 2018 Personal Income Tax Plan; recent government policies that promote productivity and economic growth; such as labour market reform, taxation reform, trade liberalisation, deregulation and competition policy, investment in infrastructure, education and training, research and innovation<br>• National Infrastructure Plan (2013)<br>• ongoing improvements to transport links, such as train lines in Perth, port facilities in the Pilbara, and continued investment in communications, such as the NBN (technology)<br>• trade reform, e.g. FTAs, RECP. | |

**Question 31** **(20 marks)**

(a) With reference to the transmission mechanism, explain how the Reserve Bank of
Australia uses monetary policy to affect the level of economic activity. (8 marks)

| Description | Marks |
|---|---|
| For each of the **four** channels of transmission (4 x 2 marks each) | |
| Explains how the Reserve Bank uses monetary policy to affect the level of economic activity | 2 |
| Outlines how the Reserve Bank uses monetary policy to affect the level of economic activity | 1 |
| Subtotal | 2 |
| Total | 8 |
| Answer(s) could include:<br><br>• savings – investment channel<br>• cash flow channel<br>• asset value channel<br>• exchange rate channel. | |

(b)     Using the aggregate expenditure model, identify **three** intended effects of the contemporary monetary policy stance on the Australian economy and discuss the factors likely to limit its effectiveness.                                      (12 marks)

| Description | Marks |
|---|---|
| AE model | |
| Correctly labelled AE diagram showing correct axes | 1 |
| Demonstrate a rise in AE bringing about increased output (Y1 to Y2) | 1 |
| Demonstration of deflationary gap and full employment output | 1 |
| **Subtotal** | **3** |
| Intended effects | |
| Identification of intended effect of current RBA stance (x 3) | 1–3 |
| **Subtotal** | **3** |
| Factors limiting effectiveness of MP | |
| Discusses the factors limiting the effectiveness of monetary policy | 5–6 |
| Describes the factors limiting the effectiveness of monetary policy | 3–4 |
| Identifies the factors limiting the effectiveness of monetary policy | 1–2 |
| **Subtotal** | **6** |
| **Total** | **12** |

Answer(s) could include:

Intended effects could include:
• employment creation
• increased growth
• higher inflation.

Factors limiting effectiveness could include:
• low consumer and business confidence
• savings may rise, consumption may fall (households lowering debt)
• factors other than relative interest rate differential may override, causing AUD to appreciate
• alternative regulatory authority action (e.g. APRA – banks to hold more liquidity; action from Banking Royal Commission)
• banks not passing on lower interest rates
• monetary policy is a blunt instrument (can't target industries or states)
•  less effective in a trough
• a higher AUD will result in cheaper imports and a rise in import spending (despite the lower interest rate), reducing the overall impact on AE
• current global recession may be prolonged
• liquidity trap.