



# **ECONOMICS**

## **ATAR course examination 2016**

### **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	A
2	C
3	B
4	D
5	C
6	A
7	B
8	D
9	C
10	B
11	C
12	D
13	C
14	B
15	B
16	D
17	B
18	D
19	A
20	C
21	A
22	D
23	C
24	A

## Section Two: Data interpretation/Short answer

36% (36 Marks)

## Question 25

(12 marks)

- (a) (i) What was the percentage of services in Australia's exports of goods and services in the period 2014–2015? (1 mark)

Description	Marks
nearly 20%	1
<b>Total</b>	<b>1</b>

- (ii) What are the main services exports for Australia? (1 mark)

Description	Marks
education and tourism/personal travel	1
<b>Total</b>	<b>1</b>

- (b) Explain the impacts on Australia's services exports resulting from contemporary changes in the exchange rate. Use an AD/AS model to support your explanation. (4 marks)

Description	Marks
depreciation in the AUD	1
will increase services exports making them more competitive (lower-priced)	1
the increase in services exports will increase AD – shift the AD curve to the right	1
correct AD/AS diagram	1
<b>Total</b>	<b>4</b>

- (c) The article on page 8 refers to *improving competitiveness* as a reason for the increase in Australia's exports of services. Outline **three** determinants of international competitiveness that may have improved Australia's services exports. (6 marks)

Description	Marks
Any three determinants (2 marks each)	
depreciation of the \$A – reduces prices of exports	1-2
fall in inflation/wages – reduces costs	1-2
increased productivity – reduces costs	1-2
<b>Total</b>	<b>6</b>
<b>Determinants:</b>	
<ul style="list-style-type: none"> <li>• depreciation of \$A</li> <li>• lower inflation</li> <li>• increased productivity/efficiency/technology</li> <li>• forming trade agreements/blocs</li> <li>• fall in relative wage levels</li> </ul>	

## Question 26

(12 marks)

Use the information in the table to answer the following questions.

- (a) (i) What was the inflation rate in the year 2014–2015? (1 mark)

Description	Marks
1.5%	1
<b>Total</b>	<b>1</b>

- (ii) What is the relationship between Real GDP and the Wage Price Index from 2014–2015 to 2016–2017? (1 mark)

Description	Marks
direct/positive relationship/they both increase/wages rise as the economy grows.	1
<b>Total</b>	<b>1</b>

- (b) From the table above, what phase of the business cycle is Australia experiencing between 2014 and 2017? Justify your answer. (4 marks)

Description	Marks
candidates could state that the phase of the business cycle is experiencing an <i>upswing</i> or <i>contraction</i> so long as they justify their choice with reference to any three of the data series.	1
Any three of the following justifications:– refer to the data	
<ul style="list-style-type: none"> <li>• change in economic growth</li> <li>• change in unemployment</li> <li>• change in inflation</li> <li>• change in wage index</li> </ul>	1–3
<b>Total</b>	<b>4</b>

- (c) Describe how changes in any **three** components of aggregate demand (AD) may have affected the level of economic growth in the Australian economy since 2013. (6 marks)

Description	Marks
For each component:	
Describes a component of aggregate demand, including some reference to factors that have caused components to change.	1-2
<b>Total</b>	<b>6</b>
Changes in the components could be positive or negative.	
Any three of the following components of AD with reference to factors:	
Consumption	
<ul style="list-style-type: none"> <li>• reduction in consumption due to low consumer confidence</li> </ul>	
Investment	
<ul style="list-style-type: none"> <li>• non-mining investment (housing construction) subdued; mining investment on the decline as a result of lower commodity prices and the slowdown of China</li> </ul>	
Government spending	
<ul style="list-style-type: none"> <li>• fiscal consolidation by government</li> </ul>	
Service exports	
<ul style="list-style-type: none"> <li>• lower \$A may increase exports</li> </ul>	

## Question 27

(12 marks)

- (a) Draw the aggregate expenditure (AE) model, indicating clearly the equilibrium point. (2 marks)

Description	Marks
Draws a correctly labelled AE model that shows clearly the macroeconomic equilibrium.	1-2
<b>Total</b>	<b>2</b>

- (b) List **four** main factors that affect consumption expenditure. (4 marks)

Description	Marks
Any four of:	
<ul style="list-style-type: none"> <li>• household disposable incomes</li> <li>• household wealth</li> <li>• interest rates</li> <li>• availability of credit</li> <li>• consumer expectations</li> <li>• government policy e.g. taxing, spending</li> <li>• exchange rate</li> </ul>	1-4
<b>Total</b>	<b>4</b>

- (c) Describe **four** effects on an economy of a decrease in investment. Draw an appropriate model to support your description. (6 marks)

Description	Marks
Draws an appropriate (labelled) model.	1-2
<b>Subtotal</b>	<b>2</b>
Either one of the following models: The AD/AS model showing leftward shift in AD <b>or</b> AE diagram showing downward shift in AE curve.	
Describes any four effects:	
<ul style="list-style-type: none"> <li>• decline in Real GDP/output</li> <li>• fall in employment, loss of jobs</li> <li>• fall in price level</li> <li>• negative multiplier effect</li> <li>• decline in CAD</li> </ul>	1-4
<b>Subtotal</b>	<b>4</b>
<b>Total</b>	<b>6</b>

## Question 28

(20 marks)

(a) Discuss the influence of **one** trade organisation and **one** bloc on world trade. (10 marks)

Description	Marks
Describes one trade organisation in detail.	1-2
<b>Sub-total</b>	<b>2</b>
Discusses in detail the influence of the named trade organisation on world trade.	3
Outlines the influence of the trade organisation on world trade.	2
States a fact about world trade.	1
<b>Sub-total</b>	<b>3</b>
<p>Examples of trade organisations:</p> <ul style="list-style-type: none"> <li>• WTO</li> <li>• IMF</li> </ul> <p>Influence of trade organisations on world trade:</p> <ul style="list-style-type: none"> <li>• effective in enforcing trade rules and mediating between countries (WTO)</li> <li>• freeing up some trade for smaller countries (WTO)</li> <li>• resolve disputes e.g. dumping</li> <li>• 'most favoured nation principle'</li> <li>• multilateral approach</li> <li>• ensuring stability in financial markets and assisting in the freeing up of movements in world finance and capital (IMF)</li> </ul>	
Discusses one bloc in detail.	1-2
<b>Sub-total</b>	<b>2</b>
Discusses in detail the influence of the named bloc on world trade.	3
Outlines the influence of the bloc on world trade.	2
States a fact about blocs.	1
<b>Sub-total</b>	<b>3</b>
<p>Examples of blocs:</p> <ul style="list-style-type: none"> <li>• EU</li> <li>• TPP</li> <li>• NAFTA</li> <li>• ASEAN</li> </ul> <p>Influences of blocs on world trade:</p> <ul style="list-style-type: none"> <li>• promoted regionalisation rather than free trade</li> <li>• larger blocs such as the EU and NAFTA have increased protectionism especially in agriculture</li> <li>• greater cooperation and openness to globalisation and a stepping stone to freer trade first regionally.</li> <li>• trade creation/trade diversion</li> </ul>	
<b>Total</b>	<b>10</b>

- (b) Explain **four** arguments for trade liberalisation. Draw an appropriate model to support your explanation. (10 marks)

Description	Marks
For each argument:	
explains in detail an argument for trade liberalisation	1-2
<b>Sub-total</b>	<b>8</b>
Draws model correctly	1-2
<b>Sub-total</b>	<b>2</b>
<b>Total</b>	<b>10</b>
Examples of models: <ul style="list-style-type: none"> <li>• demand and supply model – gains from imports/exports; tariffs/subsidy diagram</li> <li>• production possibility frontier model</li> </ul> Arguments for trade liberalisation: <ul style="list-style-type: none"> <li>• strong link between economic growth and international trade</li> <li>• improved living standards</li> <li>• access to a wider variety of goods and services</li> <li>• more productive outward looking economy with higher incomes and more employment opportunities</li> <li>• specialisation based on comparative advantage</li> <li>• increased competition leading to more efficient use of resources</li> <li>• gains to consumers – lower prices; greater variety</li> <li>• gains to domestic exporters – increased trade opportunities</li> </ul>	

**Question 29**

**(20 marks)**

- (a) Explain the meaning of Foreign Direct Investment (FDI) and foreign debt, and discuss the recent trends in Australia’s FDI and foreign debt. (10 marks)

Description	Marks
Explains Foreign Direct Investment (FDI) by defining and providing example	1-3
<b>Sub-total</b>	<b>3</b>
Explains foreign debt by defining and providing example	1-3
<b>Sub-total</b>	<b>3</b>
Discusses recent trends in Australia’s FDI. <ul style="list-style-type: none"> <li>• increase/decrease associated with mining boom/end of boom</li> </ul>	1-2
<b>Subtotal</b>	<b>2</b>
Discusses recent trends in Australia’s foreign debt. <ul style="list-style-type: none"> <li>• growth in foreign debt over time to around 60% GDP</li> <li>• most foreign debt is private, while public debt has increased since the GFC due to budget deficits</li> </ul>	1-2
<b>Sub-total</b>	<b>2</b>
<b>Total</b>	<b>10</b>

- (b) Discuss the main benefits and costs to the Australian economy of Foreign Direct Investment and foreign debt? (10 marks)

Description	Marks
FDI benefits: <ul style="list-style-type: none"> <li>fills I-S gap</li> <li>increases domestic output</li> <li>can create import-competing firms/more diverse firms</li> <li>brings innovation, new technology, new management practices, global marketing linkages</li> <li>promotes productivity</li> <li>increases exports</li> </ul>	1-3
FDI costs: <ul style="list-style-type: none"> <li>loss of control of firms/industries</li> <li>repayments overseas add to current account deficit (profits)</li> <li>not all FDI goes to productive activities</li> </ul>	1-2
Foreign debt benefits: <ul style="list-style-type: none"> <li>fills I-S gap</li> <li>if used for investment rather than consumption, then increase in economic growth</li> <li>low interest rates so servicing costs low.</li> </ul>	1-3
Foreign debt costs: <ul style="list-style-type: none"> <li>ratings agencies may be concerned</li> <li>problems if global interest rates rise/\$A falls</li> <li>problems if debt/GDP ratio rises</li> <li>problems if global economies fall into recession</li> <li>may cause \$A depreciation, leading to higher import costs/lower standard of living.</li> </ul>	1-2
<b>Total</b>	<b>10</b>

**Question 30**

**(20 marks)**

- (a) Use the aggregate demand, aggregate supply (AD/AS) model to explain the relationship between economic growth and structural change in an economy. (10 marks)

Description	Marks
Explains economic growth.	1-2
Explains structural change.	1-3
<b>Sub-total</b>	<b>5</b>
Explains the relationship between economic growth and structural change in an economy.	1-3
<b>Subtotal</b>	<b>3</b>
Uses the AD/AS model to explain the relationship.	1-2
<b>Sub-total</b>	<b>2</b>
<b>Total</b>	<b>10</b>
AD/AS model is correctly drawn and used to explain the impact on economic growth i.e. shifting SRAS curve to the right, increased GDP, increased employment, lowering inflation, rising living standards. Must also show LRAS shifting to the right.	
Can be two way process: E.G. generally leads to structural change while structural change can also promote E.G. Need to explain links with appropriate examples	



- (b) Explain **five** policies available to the Australian government that could improve productivity in the economy. (10 marks)

Description	Marks
For each policy:	
Explains the policy in relation to the meaning of productivity (labour/multifactor productivity)	1-2
<b>Total</b>	<b>10</b>
Policy options: <ul style="list-style-type: none"> <li>• labour market and workplace relations</li> <li>• taxation reform e.g. tax breaks for start-up companies</li> <li>• trade liberalisation (FTAs)</li> <li>• infrastructure policies e.g. National building fund, and the National Broadband Network (NBN)</li> <li>• education and training policy</li> <li>• research, science, technology (IT) and innovation</li> <li>• deregulation and competition policy.</li> </ul>	

**Question 31**

**(20 marks)**

- (a) Describe **four** economic objectives of the Australian Government and assess the extent to which these objectives complement each other. (10 marks)

Description	Marks
For each objective:	
Describes <b>four</b> economic objectives.	1-4
<b>Sub-total</b>	<b>4</b>
Candidates must select three pairs of objectives. For each pair they must assess whether the pair is complementary or conflicting	1-2
<b>Sub-total</b>	<b>6</b>
<b>Total</b>	<b>10</b>
Economic objectives must include: <ul style="list-style-type: none"> <li>• full employment (low unemployment)</li> <li>• price stability (low inflation)</li> <li>• sustainable economic growth.</li> <li>• income equality</li> <li>• efficiency in resource allocation.</li> </ul> Conflicts/compatibilities in pursuing objectives: <ul style="list-style-type: none"> <li>• full employment and economic growth are compatible</li> <li>• full employment and price stability are not.</li> <li>• price stability and growth are compatible.</li> <li>• efficient resource allocation and economic growth are compatible.</li> </ul>	

- (b) To what extent have contemporary monetary and fiscal policies affected the economic policy objectives of the Australian Government? (10 marks)

Description	Marks
Define monetary policy	1
Current monetary policy setting:	
Very expansionary – RBA has cut the cash rate to a record low of 1.5%	1–2
Comments on effectiveness of monetary policy in achieving economic objectives i.e. low interest rates will help to bring down \$A. Low interest rates may not lead to increased consumption, investment, given that the economy is weaker. Objectives may not be achieved.	1–2
<b>Subtotal</b>	<b>5</b>
Define fiscal policy	1
Gradually reducing budget deficit/budget repair	1–2
Comments on effectiveness of fiscal policy on achieving economic objectives e.g. budget repair may boost business confidence; focus is on 'jobs, growth and innovation'.	1–2
<b>Subtotal</b>	<b>5</b>
<b>Total</b>	<b>10</b>

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