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Marking Criteria

The EBE Book of Economic Questions for HSC Students

Acknowledgement:

Most of these marking criteria were produced by students at the University of Sydney undertaking the B Ed or M Teach degree in 2009.

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Should you find errors or omissions, please contact us through the website.

TOPIC 1: THE GLOBAL ECONOMY

QUESTION 1

Question 1 (a)

Criteria	Marks
• Provides a clear and concise definition of the term global economy	2
• Demonstrates a limited understanding of the term global economy	1

Answers could include:

- Interaction of economic activity across countries
- Increasing link between economies; international integration

Question 1 (b)

Criteria	Marks
• Demonstrates a clear and concise understanding of ONE factor contributing to globalisation	2
• Demonstrates a limited understanding of ONE factor contributing to globalisation	1

Answers could include:

- Technology
- Communication
- Financial capital
- Trade relations

Question 1 (c)

Criteria	Marks
• Provides points for and against ONE influence of the international business cycle on developing countries	2
• Sketches ONE influence of the international business cycle on developing countries	1

Answers could include:

- Trade
- Investment
- Finance and technology
- International division of labour

Question 1 (d)

Criteria	Marks
• Demonstrates a clear and concise understanding of the advantages of increasing economic interdependence between nations	4
• Demonstrates an understanding of the advantages of increasing economic interdependence between nations	3
• Sketches in general terms the advantages of increasing economic interdependence between nations	2
• Lists some of the advantages of increasing economic interdependence between nations	1

Answers could include:

- Increased GDP and GWP
- Potential for improved quality of life (economic development)
- Technology transfer

QUESTION 2

Question 2 (a)

Criteria	Marks
• Correctly states the meaning of globalisation.	2
• Demonstrates a limited understanding of the meaning of the term globalisation.	1

Answers could include:

- The process by which the world becomes a single marketplace
- Global integration

Question 2 (b)

Criteria	Marks
• Demonstrates a balanced, clear and concise understanding of the economic reasons for differences in the standard of living between developing economies and high income economies. • Refers to TWO specific examples	4
• Demonstrates a relevant and general understanding of the economic reasons for differences in the standard of living between developing economies and high income economies. • Refers to at least ONE specific example	3
• Demonstrates a concise understanding of factors that have affected the standard of living for developing economies and high income economies. OR • Sketches in general terms factors that have affected the standards of living in developing economies and high income economies.	2
• Provides some measures of the standard of living for either developing economies or high income economies.	1

Answers could include:

- Human resources
- Capital
- Technology
- Export industries
- Institutional factors

Question 2 (c)

Criteria	Marks
• Demonstrates a clear, concise and balanced understanding of the influence of rapidly growing economies on global trade.	4
• Demonstrates an understanding of the influence of rapidly growing economies on global trade.	3
• Sketches in general terms the influence of rapidly growing economies on global trade. OR • Demonstrates a limited understanding of the influence of rapidly growing economies on global trade.	2
• Lists examples of the influence of rapidly growing economies on global trade.	1

Answers could include:

- Reduction in levels of domestic protection
- Increasing number of trade blocs and agreements
- Liberalised environment has enabled transnational corporations to develop and expand into new markets

QUESTION 3

Question 3 (a)

Criteria	Marks
• Correctly states the meaning of the term international business cycle with reference to the characteristics of the phases in the business cycle	2
• Demonstrates a limited understanding of the term international business cycle	1

Question 3 (b)

Criteria	Marks
• Correctly identifies TWO characteristics of an upswing in the international business cycle	2
• Correctly identifies ONE characteristic of an upswing in the international business cycle	1

Answers could include:

- Increasing GWP
- Falling levels of unemployment in the global economy
- Rising prices, especially key commodities such as oil
- Rising interest rates in key economies
- Increasing cost of global finance

Question 3 (c)

Criteria	Marks
• Provides characteristics and features of ONE possible effect of a downturn in international investment on economic growth in the global economy	2
• Provides a limited description of ONE characteristic of an upswing in the international business cycle	1

Answers could include:

- Falling GWP

Question 3 (d)

Criteria	Marks
• Demonstrates a clear, concise understanding of the economic effects of a recession in a high income economy on its trading partners.	4
• Demonstrates some understanding of the economic effects of a recession in a high income economy on its trading partners	3
• Sketches in general terms the economic effects of a recession in a high income economy on its trading partners	2
• States an economic effect of a recession in a high income economy on its trading partners.	1

Answers could include:

- Reduced demand for exports of the trading partners
- Reduced levels of capital inflow from high income economy to its trading partner

QUESTION 4

Question 4 (a)

Criteria	Marks
• Correctly states the meaning of foreign exchange markets	2
• Demonstrates a limited understanding of the meaning of foreign exchange markets	1

Answers could include:

- Market in which currencies are traded

Question 4 (b)

Criteria	Marks
• Sketches in general terms the role of TWO main participants in foreign exchange markets	4
• Sketches in general terms the role of ONE main participants in foreign exchange markets and lists another main participant in foreign exchange markets	3
• Sketches in general terms the role of ONE main participant in foreign exchange markets OR • Lists TWO main participants in foreign exchange markets with limited description	2
• Lists ONE main participant in foreign exchange markets with limited description	1

Answers could include:

- Exporters
- Importers
- Foreign investors (DFI and portfolio investment)
- Speculative participants

Question 4 (c)

Criteria	Marks
• Demonstrates a clear and concise understanding of how a downturn in the US business cycle would influence the economies of developing countries	4
• Demonstrates an understanding of how a downturn in the US business cycle would influence the economies of developing countries	3
• Demonstrates some understanding of how a downturn in the US business cycle would influence the economies of developing countries	2
• Sketches an aspect of how a downturn in the US business cycle would influence the economies of developing countries	1

Answers could include:

- Synchronicity in the global business cycle
- US demand for imports from developing countries (trade)
- US foreign investment levels
- US speculative participation in foreign exchange markets
- US foreign aid

QUESTION 5

Question 5 (a)

Criteria	Marks
• Correctly states what is meant by the term protection	2
• Demonstrates a limited understanding of the meaning of the term protection	1

Answers could include:

- Government policies that provide an artificial advantage to domestic producers over their competitors

Question 5 (b)

Criteria	Marks
• Provides a clear and concise judgment about the extent to which the development of bilateral trading agreements influences global free trade	4
• Makes a judgment about the extent to which the development of bilateral trading agreements influences global free trade	3
• Describes the development of bilateral trading agreements.	2
• Sketches in general terms bilateral trading agreements	1

Answers could include:

- The meaning of bilateral agreements
- Examples of bilateral agreements in the global economy
- Influences of bilateral agreements on the size, direction, value and composition of trade between nations

Question 5 (c)

Criteria	Marks
• Provides points for and/or against protectionist policies • Provides a clear and concise discussion of TWO effects of protectionist policies on the global economy.	4
• Provides points for and/or against protectionist policies Provides a clear discussion of TWO effects of protectionist policies on the global economy.	3
Provides a clear discussion of ONE effect of protectionist policies on the global economy.	2
• Correctly identifies TWO effects	1

Answers could include:

- Reduced GWP
- Examples of bilateral agreements in the global economy
- Inequality of access to markets for developing economies
- Limited growth in world trade

QUESTION 6

Question 6 (a)

Criteria	Marks
• Correctly states what is meant by the term <i>tariff</i>	2
• Demonstrates a limited understanding of the meaning of the term, <i>tariff</i>	1

Answers could include:

- A tax imposed by a government on an imported good to increase the price of the import and improve the competitiveness of import-competing industries

Question 6 (b)

Criteria	Marks
• States the value of the domestic market price as \$25 per unit	1

Question 6 (c)

Criteria	Marks
• States the value of the amount of government revenue raised from the tariff as \$100	1

Answers could include:

Government revenue is calculated quantity of imports multiplied by the value of the tariff. That is, $(40 - 20) \times (25 - 20)$ or $20 \times 5 = 100$

Question 6 (d)

Criteria	Marks
• States the quantity of imports before the imposition of the tariff as 40	1

Question 6 (e)

Criteria	Marks
• Sketches in general terms ONE means of protection other than tariffs	2
• Demonstrates a limited understanding of ONE mean of protection other than tariffs	1

Answers could include:

- Quota
- Subsidy
- Voluntary export restraint
- Local content rules
- Export incentives

Question 6 (f)

Criteria	Marks
Sketches in general terms THREE reasons for protection	3
Sketches in general terms TWO reasons for protection	2
Sketches in general terms ONE reason for protection	1

Answers could include:

- Infant industry argument
- Domestic employment
- Dumping
- Defence

QUESTION 7

Question 7 (a)

Criteria	Marks
• States why international organisations usually recommend free trade to their members.	2
• Demonstrates limited understanding as to why international organisations usually recommend free trade to their members.	1

Answers could include:

- Benefits of free trade
- Increased GWP/GDP in the long run
- Increased domestic employment in the long run

Question 7 (b)

Criteria	Marks
• Provides a range of clear and concise reasons as to why countries maintain barriers despite the policies of international organisations	4
• Provides clear and concise reasons as to why countries maintain barriers despite the policies of international organisations	3
• Provides reasons as to why countries maintain barriers despite the policies of international organisations	2
• Sketches in general terms why countries maintain barriers despite the policies of international organisations	1

Answers could include:

- Reasons for protection
- Short run negative consequences of reduced protection
- Domestic political pressures

Question 7 (c)

Criteria	Marks
• Provides positive and negative aspects of the role of ONE international organisation the global economy	4
• Provides positive and/or negative aspects of the role of ONE international organisation the global economy	3
• Provides aspects of the role of ONE international organisation the global economy	2
• Sketches in general terms aspects of the role of ONE international organisation the global economy	1

Answers could include:

- WTO
- IMF
- World Bank

QUESTION 8

Question 8 (a)

Criteria	Marks
<ul style="list-style-type: none">• Sketches in general terms TWO economic indicators of globalisation.	2
<ul style="list-style-type: none">• Sketches in general terms ONE economic indicator of globalisation OR <ul style="list-style-type: none">• Identifies TWO economic indicator of globalization.	1

Answers may include:

- Trade
- Finance
- Investment
- Labour
- Synchronicity in the global business cycle

Question 8 (b)

Criteria	Marks
<ul style="list-style-type: none">• Clearly provides characteristics of the influence the WTO has in the global economy.	3
<ul style="list-style-type: none">• Sketches in general terms the influence the WTO has in the global economy.	2
<ul style="list-style-type: none">• States ONE correct effect of the WTO on the global economy	1

Answers could include:

- Involvement in trade negotiations
- Hosts rounds of talks with a view to creating global policy
- Hears trade disputes between nations
- Reference to specific rounds of talks, such as the Uruguay or Doha rounds

Question 8 (c)

Criteria	Marks
<ul style="list-style-type: none">• Provides a clear and concise understanding of the effect of globalisation on the distribution of global wealth.	4–5
<ul style="list-style-type: none">• Provides a clear understanding of the effect of globalisation on the distribution of global wealth.	3
<ul style="list-style-type: none">• Sketches in general terms the effect of globalisation on the distribution of global wealth.	2
<ul style="list-style-type: none">• Lists some effects of the distribution of wealth	1

Answers could include:

- Global poverty
- Distribution of assets by nation or nation type
- Millennium Goals
- Range of HDIs by nation or nation type

QUESTION 9

Question 9 (a)

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates a clear and concise understanding the role of the World Bank 	2
<ul style="list-style-type: none"> • Sketches in general terms the role of the World Bank 	1

Answers could include:

- A global organisation that assists poorer countries in the global economy with economic development through low interest loans

Question 9 (b)

Criteria	Marks
<ul style="list-style-type: none"> • Provides TWO clear and concise positive and/or negative influences of the International Monetary Fund 	4
<ul style="list-style-type: none"> • Provides TWO clear influences of the International Monetary Fund 	3
<ul style="list-style-type: none"> • Sketches in general terms TWO influences of the International Monetary Fund <p>OR</p> <ul style="list-style-type: none"> • Provides ONE clear and concise positive and/or negative influences of the International Monetary Fund 	2
<ul style="list-style-type: none"> • Sketches in general terms ONE influence of the International Monetary Fund 	1

Answers could include:

- Provision of emergency funding to member countries
- Intervention in regional and global financial crises
 - Asian Financial Crisis of 1997-08
 - Global Financial Crisis of 2008-09
- Policy reform agendas

Question 9 (c)

Criteria	Marks
<ul style="list-style-type: none"> • Accounts for a range of reasons for the difficulties associated with the latest round of trade liberalisation discussions 	4
<ul style="list-style-type: none"> • Accounts for reasons for the difficulties associated with the latest round of trade liberalisation discussions 	3
<ul style="list-style-type: none"> • States reasons for the difficulties associated with the latest round of trade liberalisation discussions 	2
<ul style="list-style-type: none"> • States at least one reason for the difficulties associated with the latest round of trade liberalisation discussions 	1

Answers could include:

- Protection of agriculture by high income economies such as the US and the EU
- Unequal power relationships in the global economy'
- Unfair trading practices by developed nations, such as dumping
- Political and economic power of developed nations over developing nations

QUESTION 10

Question 10 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly defines a quality of life indicator	1

Answers could include:

- A measure of economic development

Question 10 (b)

Criteria	Marks
<ul style="list-style-type: none">• Sketches in general terms one quality of life indicator and its features.	2
<ul style="list-style-type: none">• Lists one quality of life indicator	1

Answers could include:

- Human Development Index (HDI)

Question 10 (c)

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a clear and concise understanding of why a quality of life indicator is a better overall indicator of economic development than the level of GDP.	3
<ul style="list-style-type: none">• Demonstrates a general understanding of why a quality of life indicator is a better overall indicator of economic development than the level of GDP.	2
<ul style="list-style-type: none">• Sketches in general terms why a quality of life indicator is a better overall indicator of economic development than the level of GDP	1

Answers could include:

- GDP measures growth not development
- Distinctions between economic growth and economic development
- Reference to a range of quality of life indicators
- Better descriptors of quality of life
- Reference to the indicators measured by the HDI
- Income inequality as an important indicator not included in the HDI

Question 10 (d)

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a balanced, clear and concise understanding of how international organizations can assist the development of a developing economy.	4
<ul style="list-style-type: none">• Demonstrates a relevant and general understanding of how international organizations can assist the development of a developing economy.	3
<ul style="list-style-type: none">• Sketches in general terms how international organizations can assist the development of a developing economy	2
<ul style="list-style-type: none">• lists some factors of how international organizations can assist the development of a developing economy	1

Answers could include:

- World Bank
- IMF
- WTO
- Other organisations, including the UN, G7, G8, G20, OPEC

QUESTION 11

Question 11 (a)

Criteria	Marks
<ul style="list-style-type: none">Provides a detailed and accurate definition of the term transnational corporations	2
<ul style="list-style-type: none">Provides a limited definition of the term transnational corporations and gives an example	1

Answers could include:

- Global corporations that dominate world production
- Operations in at least two countries

Question 11 (b)

Criteria	Marks
<ul style="list-style-type: none">Provides a detailed description of how TNCs contribute to global investment	3
<ul style="list-style-type: none">Provides a satisfactory description of how TNCs contribute to global investment	2
<ul style="list-style-type: none">Provides a limited description of how TNCs contribute to global investment	1

Answers could include:

- Transfer pricing
- Subsidiaries and parent companies
- Technology transfer
- Direct and portfolio investment
- Capital accumulation

Question 11 (c)

Criteria	Marks
<ul style="list-style-type: none">Provides a clear and concise assessment of the potential impact on the environment of continuing world economic development	4-5
<ul style="list-style-type: none">Provides a clear assessment of the potential impact on the environment of continuing world economic development	3
<ul style="list-style-type: none">Provides an assessment of the potential impact on the environment of continuing world economic development	2
<ul style="list-style-type: none">Sketches in general terms an impact on the environment of continuing world economic development	1

Answer may include:

- Decline in environmental quality
- Global warming

- Pollution
- Destruction of natural environments
- Depletion of renewable and non-renewable resources
- Specific country examples

QUESTION 12

Question 12 (a)

Criteria	Mark
<ul style="list-style-type: none">States one example of a free trade agreement	1

Answers could include:

- APEC
- ASEAN
- NAFTA
- EU
- ANZCERTA

Question 12 (b)

Criteria	Mark
<ul style="list-style-type: none">Make an informed judgement on the effect of ONE bilateral free trade agreement on the Australian economy.	4
<ul style="list-style-type: none">Make a judgement on the effect of ONE bilateral free trade agreement on the Australian economy.	3
<ul style="list-style-type: none">Describes the effect of ONE bilateral free trade agreement on the Australian economy.	2
<ul style="list-style-type: none">Sketches an effect of ONE bilateral free trade agreement on the Australian economy.	1

Answers could include:

- ANZCEERTA
- Australia-US FTA
- Australia-Thailand FTA

Question 12(c)

Criteria	Mark
<ul style="list-style-type: none">Draws out and relates clearly, accurately and concisely the conflicts between trading blocs and the aim of WTO	4-5
<ul style="list-style-type: none">Draws out and relates possible conflicts between trading blocs and the aims of WTO	3
<ul style="list-style-type: none">Sketches in general terms the conflict between trading blocs and the aims of the WTO	2
<ul style="list-style-type: none">List some conflict between trading blocs and the aims of WTO	1

Answers could include:

- Globalisation vs regionalisation
- Domestic costs and benefits vs global costs and benefits
- Domestic and global pressure groups

QUESTION 13

Question 13 (a)

Criteria	Marks
• Correctly states the meaning of international convergence	2
• Demonstrates a limited understanding of the meaning of international convergence	1

Answers could include:

- International integration
- Economies in the global economy becoming more similar

Question 13 (b)

Criteria	Marks
• Correctly identifies and provides points for and/or against • Provides TWO reasons for domestic Australian businesses locating their operations offshore	4
• Provides TWO reasons for domestic Australian businesses locating their operations offshore	3
• Provides ONE reason for domestic Australian businesses locating their operations offshore OR • Sketches in general terms TWO reasons for domestic Australian businesses locating their operations offshore	2
• Sketches in general terms ONE reason for domestic Australian businesses locating their operations offshore	1

Answers could include:

- Reduced costs/improved technical efficiency
- Cheaper labour costs
- Relaxed restrictions in relation to labour, environment, taxation policy

Question 13 (c)

Criteria	Marks
• Makes a critical judgement about the potential impact of global warming on primary exports and the exchange rate in developing economies.	4
• Makes a judgment about the potential impact of global warming on primary exports and the exchange rate in developing economies.	3
• Describes the extent to which global warming impacts on primary exports and the exchange rate in developing economies.	2
• Sketches in general terms the potential impact of global warming on primary exports and the exchange rate in developing economies.	1

Answers could include:

- Reduced agricultural output
- Implications for the terms of trade
- Implications for demand for and supply of the currency of reduced exports

QUESTION 14

Question 14 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly defines what is meant by the terms economic growth and economic development• Notes the difference between them	2
<ul style="list-style-type: none">• Correctly defines what is meant by the terms economic growth and/or economic development	1

Answers could include:

- Economic growth is a measure of the output, income and expenditure of an economy where as economic development refers to the quality of life of the population

Question 14 (b)

Criteria	Marks
Sketches in general terms THREE differences between developing economies and high income countries	3
Sketches in general terms TWO differences between developing economies and high income countries	2
Sketches in general terms ONE difference between developing economies and high income countries	1

Answers could include:

- Level of GDP
- GDP per capita
- Level of DFI
- Political stability/instability
- Economic structure: inputs and outputs
- Differences in exports and imports
- Differing level of resource quality and quantity

Question 14 (c)

Criteria	Marks
Draws out and clearly assesses the impact of economic growth on the distribution of income in an economy other than Australia and names country	4-5
Draws out and describes the impact of economic growth on the distribution of income in an economy other than Australia and names country	3
Sketches in general terms the impact of economic growth on the distribution of income in an economy other than Australia and names the country	2
Lists the impact of economic growth on the distribution of income in an economy other than Australia	1

Answers could include:

- Identification of a country
- Gini coefficient data for selected country
- GDP data for the selected country
- Economic dualism

QUESTION 15

Question 15 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly identifies TWO impacts of globalisation.	2
<ul style="list-style-type: none">• Identifies at least ONE impact of globalisation.	1

Answers could include:

- Increased global integration
- Increased trade, investment, financial flows, movement of labour resources throughout the global economy
- Increased GWP
- Reduced protection
- Increased regionalization and the growth of contemporary trading bloc agreements and international organisations

Question 15 (a)

Criteria	Marks
<ul style="list-style-type: none">• Relates the impact of globalisation on economic development and quality of life of an economy other than Australia.	4
<ul style="list-style-type: none">• Describes the effects of a tightening of monetary policy, providing a general understanding of the implications for the level of economic activity in Australia	3
<ul style="list-style-type: none">• Sketches in general terms the impact of globalisation on economic development and quality of life of an economy other than Australia.	2
<ul style="list-style-type: none">• Lists at least one impact of globalisation on economic development and quality of life.	1

Answers could include:

- Country named
- Impacts on GDP in the country
- Impacts on the HDI in the country

Question 15 (c)

Criteria	Marks
<ul style="list-style-type: none">• Clearly and concisely inquires into TWO strategies used by this economy to promote economic growth and development.	4
<ul style="list-style-type: none">• Inquires into TWO strategies used by this economy to promote economic growth and development.	3
<ul style="list-style-type: none">• Clearly and concisely inquires into ONE strategy used by this economy to promote economic growth and development <p>OR</p> <ul style="list-style-type: none">• Sketches in general terms TWO strategies used by this economy to promote economic growth and development.	2
<ul style="list-style-type: none">• Lists TWO strategies used by this economy to promote economic growth and development.	1

Answers could include:

- Savings and debt policies
- Technology based strategies
- Trade based strategies
- Population control
- Education and training
- Enterprise based strategies

TOPIC 2: AUSTRALIA'S PLACE IN THE GLOBAL ECONOMY

QUESTION 1

Question 1(a)

Criteria	Marks
• Correctly identifies TWO of Australia's major trading partners	2
• Identifies at least ONE of Australia's major trading partners	1

Answers could include: China; Japan

Question 1 (b)

Criteria	Marks
• Provides a clear and concise description of changes in the direction of Australian's trade in recent years	4
• Provides a clear description of changes in the direction of Australian's trade in recent years	3
• Provides a general description of changes in the direction of Australian's trade in recent years	2
• Provides a limited description of changes in the direction of Australia's trade in recent years	1

Answers could include:

- Growth of China, Japan, Korea and other Asian countries in the latter part of the 20th Century as major trading partners.
- Decrease in the importance of European countries and other Commonwealth countries.

Question 1 (c)

Criteria	Marks
• Provides a clear and concise description of trends in Australia's financial flows in recent years	4
• Provides a clear description of trends in Australian's financial flows in recent years	3
• Provides a general description of trends in Australian's financial flows in recent years	2
• Provides a limited description of trends in Australian's financial flows in recent years	1

Answers could include:

- Increased substantially after the floating of the Australian dollar in 1983
- Australia is a net capital importer
- Direct and portfolio investment
- Savings-investment gap
- Over \$1.7 trillion invested in the Australian economy from overseas in 2009
- Australians also invest overseas, with more than \$1 trillion in 2009 invested overseas by Australian

QUESTION 2

Question 2 (a)

Criteria	Marks
<ul style="list-style-type: none">• Sketches in general terms the recent trends in the value of Australia's trade	2
<ul style="list-style-type: none">• Demonstrates a limited understanding of recent trends in the value of Australia's trade OR <ul style="list-style-type: none">• States ONE trend in the value of Australia's trade	1

Answers could include:

- Increases in exports and imports in 2008-09
- BOGS in surplus of \$5.8bn in 2008-09

Question 2 (b)

Criteria	Marks
<ul style="list-style-type: none">• Clearly and concisely inquires into the composition of Australia's trade in recent years.	4
<ul style="list-style-type: none">• Inquires into the composition of Australia's trade in recent years.	3
<ul style="list-style-type: none">• Sketches in general terms the composition of Australia's trade in recent years.	2
<ul style="list-style-type: none">• Lists at least one change in the composition of Australia's trade in recent years.	1

Answers could include:

- Growth in the export of minerals due to demand by China.
- Growth in the export of services such as education.
- Increase in the manufactured consumer imports and capital goods.

Question 2 (c)

Criteria	Marks
<ul style="list-style-type: none">• Clearly provides characteristics of recent trends in the value, composition and direction of Australia's financial flows.	4
<ul style="list-style-type: none">• Sketches in general terms the characteristics of recent trends in the value, composition and direction of Australia's financial flows.	3
<ul style="list-style-type: none">• Lists characteristics of recent trends in the value, composition and direction of Australia's financial flows.	2
<ul style="list-style-type: none">• Demonstrates a limited understanding of the characteristics of recent trends in the value, composition and direction of Australia's financial flows OR <ul style="list-style-type: none">• States ONE trend of the value, composition and direction of Australia's financial flows	1

Answers could include:

- Overall increase in the value of financial flows into and out of Australia
- Increase in both direct and portfolio investment as well as foreign loans and derivatives
- Composition in 2007-08 as expresses as a % of total foreign investment: Direct investment in 23% out 32%; Portfolio I in 57% out 40%; other investments in 13% out 15%; financial derivatives in 6% out 9%. (all figures approximate)
- Direction: main sources are the USA, Britain, Japan, Hong Kong, China and Singapore. Australia's investment goes to China, North America and Europe

QUESTION 3

Question 3 (a)

Criteria	Marks
• Correctly states the meaning of <i>Balance of Payments</i> .	2
• Demonstrates a limited understanding of the meaning of the term <i>Balance of Payments</i> .	1

Answers could include:

- A systematic record of Australia's financial transactions with the rest of the world

Question 3 (b)

Criteria	Marks
• Sketches in general terms the effect of Capital and Financial Account of a decrease in net services.	2
• Demonstrates a limited understanding of the effect of Capital and Financial Account of a decrease in net services.	1

Answers could include:

A decrease in net services occurs when there is a fall in service exports relative to service imports. *Ceteris paribus*, this will lead to an increase in the CAD and therefore an increase in the size of the capital and financial account surplus.

Question 3 (c)

Criteria	Marks
• Clearly and concisely describes the impact on the Current Account from an improvement in the Terms of Trade.	2
• Sketches in general terms the impact on the Current Account of an improvement in the Terms of Trade.	1

Answers could include:

An improvement in the TOT occurs when the price of our exports improves relative to the price we pay for our imports. All other things being equal, this will lead to a decrease in the BOGS deficit or an increase in the BOGS surplus, and a decrease in the CAD.

Question 3 (d)

Criteria	Marks
• Identifies ONE policy that the Australian government could implement, providing a clear and concise understanding of the implications for reducing the Current Account Deficit.	4
• Identifies ONE policy that the Australian government could implement, providing a general understanding of the implications for reducing the Current Account Deficit.	3
• Demonstrates a limited understanding of the effects of a policy for reducing the Current Account Deficit.	2
• Correctly defines a policy for reducing the Current Account Deficit.	1

Answers could include:

- Tightening in macropolicy to reduce consumption and investment and thus the cyclical component of the CAD
- Micro reforms to improve efficiency and international competitiveness
- Fiscal balance

QUESTION 4

Question 4 (a)

Criteria	Marks
• Correctly states what is meant by the term Current Account Deficit (CAD).	2
• Demonstrates a limited understanding of the meaning of the term Current Account Deficit (CAD).	1

A CAD occurs where there is a negative balance on the Current Account of a nation's Balance of Payments when the BOGS, net income and net transfers are added together.

Question 4 (b)

Criteria	Marks
• Provides a range of characteristics and features of recent trends in Australia's CAD.	4
• Provides characteristics and features of recent trends in Australia's CAD.	3
• Sketches in general terms some characteristics and features of trends in Australia's CAD.	2
• Lists some characteristics and features of trends in Australia's CAD.	1

Answers could include:

- Decrease in the CAD
- Due to cyclical factors
- Currently around -\$38bn
- BOGS surplus
- Structural component and the net income balance

Question 4 (c)

Criteria	Marks
• Demonstrates a clear, concise and balanced understanding by providing two appropriate reasons for Australia's persistent CAD.	4
• Demonstrates a clear understanding of two reasons for Australia's persistent CAD.	3
• Sketches in general terms two reasons for Australia's persistent CAD.	2
• Sketches in general terms one reason for Australia's persistent CAD	1

Answers could include an explanation of TWO of the following:

- BOGS deficits
- Net income deficit
- S-I gap
- High level of foreign investment (net foreign equity)
- Foreign borrowing (net foreign debt)

QUESTION 5

Question 5 (a)

Criteria	Marks
• Correctly states what is meant by the term terms of trade	2
• Demonstrates a limited understanding of the meaning of the term, terms of trade	1

Answers could include:

- Measure of the relative price movements of an economy's exports and imports
- Calculated by export price index/import price index x 100

Question 5 (b)

Criteria	Marks
• Provides a range of essential characteristics and features of recent trends in Australia's Terms of Trade	3
• Provides two essential characteristics and features of recent trends in Australia's Terms of Trade	2
• Provides one essential characteristic and feature of recent trends in Australia's Terms of Trade OR • Lists two essential characteristics of recent trends in Australia's Terms of Trade	1

Answers could include:

- Long term TOT difficulties
- Improvements in the TOT due to the global resources boom
- Deterioration in the TOT due to the global financial crisis

Question 5 (c)

Criteria	Marks
• Identifies the effects of changes in Australia's terms of trade, providing a clear and concise understanding of the implications for the Australian Balance of Payments	4–5
• Identifies the effects of changes in Australia's terms of trade providing a general understanding of the implications for the Australian Balance of Payments	3
• Demonstrates a limited understanding of the effects of changes in Australia's terms of trade and the Australian Balance of Payment	2
• Lists some effects of changes in Australia's terms of trade OR • Correctly defines the Australian Balance of Payment	1

Answers could include:

- The TOT is an index indicating the price of exports relative to the price of imports.
- The TOT affects the BOGS. An improvement in the TOT suggests that the price of our exports has improved relative to the price of our imports. Therefore it is likely to improve the BOGS. By contrast, a deterioration will likely worsen the BOGS due to increased import prices or falling export prices.
- It also affects the CAD because a change in the BOGS will increase or decrease the CAD, all other things being equal. Because the BOP accounts must balance, the Balance on the Capital and Financial Account will also be affected.

- Finally, it may impact on the level of net income because a change in the level of the Kafa surplus may change the level of capital inflow and thus repayments on debt and equity.

QUESTION 6

Question 6 (a)

Criteria	Mark
• Sketches ONE factor that can lead to the deterioration in the Balance on goods and services	2
• States ONE factor that can lead to deterioration in the Balance on Goods and Services	1

Answers could include one of the following:

- Fall in demand for Australia's exports due to falling demand from our trading partners
- Increase in demand for Australia's imports due to stronger economic growth

Question 6 (b)

Criteria	Marks
• Provides a clear and concise explanation of how Australia could experience an increasing Current Account Deficit while simultaneously experiencing record Terms of Trade.	3
• Provides a limited explanation of how Australia could experience an increasing Current Account Deficit while simultaneously experiencing record Terms of Trade.	2
• States how Australia could experience an increasing Current Account Deficit while simultaneously experiencing record Terms of Trade.	1

Answers could include:

- Current account made up of BOGS, net income and net transfers
- TOT impacts directly on the BOGS
- BOGS outlook may improve, but CAD can increase if net Y and/or net transfers increases by a greater amount than the decrease in the BOGS
- May also be because prices of M and X change, but so does the volume, so the BOGS may still increase with an improvement in the TOT

Question 6 (c)

Criteria	Mark
• Make an informed judgement on the significance of Australia's Current Account Deficit	4-5
• Make a judgement on the significance of Australia's Current Account Deficit	4
• Describes the significance of Australia's Current Account Deficit	3
• Sketches the significance of Australia's Current Account Deficit	2

Answers could include:

- Australia has experienced an ongoing CAD averaging 4.5% of GDP since the early 1990s. Whilst the CAD is currently around 3% of GDP due to cyclical factors, it has exceeded 7%.
- An ongoing CAD may be of significance to the economy because of the link with net foreign debt. The structural component of the BOP means that the ongoing CAD builds foreign debt as we borrow money to repay the deficit. This borrowing leads to an increase in the net income deficit, ceteris paribus. This is known as the debt trap.
- However, some economists view the CAD as relatively insignificant because they believe that it is driven by the Kafa surplus with Australia being an economy that attracts high levels of foreign investment and borrowing. Also, as the debt is owed by individual banks and businesses who make borrowing decisions based on their capacity to repay their debt, it is viewed as less of a problem than it once was.

QUESTION 7

Question 7 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly notes the difference between foreign debt and foreign equity	2
<ul style="list-style-type: none">• Makes a partial distinction between foreign debt and foreign equity• Correctly states the meaning of either foreign debt or foreign equity	1

Answers could include:

- Foreign debt is outstanding loans by Australian residents to overseas sources whereas foreign equity refers to the value of assets in foreign ownership

Question 7 (b)

Criteria	Marks
<ul style="list-style-type: none">• Provides relevant, clear, concise and balanced reasons for recent trends in Australia's foreign liabilities	4
<ul style="list-style-type: none">• Provides relevant reasons for recent trends in Australia's foreign liabilities	3
<ul style="list-style-type: none">• Sketches in general terms a reason for recent trends in Australia's foreign liabilities	2
<ul style="list-style-type: none">• Identifies recent trends in Australia's foreign liabilities	1

Answers could include:

- Trend is for an increase in foreign liabilities
- Increase in net foreign debt
- Increase in net foreign equity

Question 7 (c)

Criteria	Marks
<ul style="list-style-type: none">• Provides relevant, clear and concise arguments for and against the recent changes in Australia's foreign liabilities on the Balance of Payments	4
<ul style="list-style-type: none">• Provides arguments for and against the recent changes in Australia's foreign liabilities on the Balance of Payments	3
<ul style="list-style-type: none">• Provides general arguments for and/or against the recent changes in Australia's foreign liabilities on the Balance of Payments <p>OR</p> <ul style="list-style-type: none">• Sketches in general terms arguments for and against the recent changes in Australia's foreign liabilities on the Balance of Payments	2
<ul style="list-style-type: none">• Lists information for and/or against the recent changes in Australia's foreign liabilities on the Balance of Payments <p>OR</p> <ul style="list-style-type: none">• Sketches in general terms an argument for or against the recent changes in Australia's foreign liabilities on the Balance of Payments	1

Answers could include:

- Increase in net foreign debt and equity increases the financial account surplus and thus the Balance on Capital and Financial Account
- Increase in the net income component of the CAD
- Increase in the CAD

QUESTION 8

Question 8 (a)

Criteria	Marks
• Correctly states the meaning of the term international competitiveness	2
• Demonstrates a limited understanding of the term international competitiveness	1

Answers could include:

- Competitiveness of Australia's exports in global markets

Question 8 (b)

Criteria	Marks
• Demonstrates an understanding of global interdependence and provides ONE example of structural change in the Australian economy	3
• Demonstrates some understanding of global interdependence and provides ONE example of structural change in the Australian economy	2
• Demonstrates a limited understanding of global interdependence and provides one or no examples of structural change in the Australian economy	1

Answers could include:

- Global interdependence and integration through globalisation
- Changes in the pattern of global production through increased specialisation
- Absolute, comparative and competitive advantage
- Reduced protection

Question 8 (c)

Criteria	Marks
• Draws out and relates clearly, accurately and concisely demonstrates an understanding of the relationship between international competitiveness and structural change in the Australian economy.	4-5
• Draws out and demonstrates a sound understanding of the relationship between international competitiveness and structural change in the Australian economy.	3
• Draws out and demonstrates a partial understanding of the relationship between international competitiveness and structural change in the Australian economy.	2
• Correctly states what is meant by international competitiveness OR • Correctly states what is meant by structural change	1

Answers could include:

- Allocative, technical and dynamic efficiency
- Changes in the pattern of production as indicated through trade, output and employment
- Changes in domestic and global protection

QUESTION 9

Question 9 (a)

Criteria	Marks
• Provides a clear and concise definition of the term exchange rate	2
• Provides a limited definition of the term exchange rate	1

Answers could include:

- The value of one currency in terms of another

Question 9 (b)

4

Criteria	Marks
• Clearly and concisely provides TWO factors which may cause the demand curve for the Australian dollar (\$A) to move from DD to D_1D_1	4
• Provides TWO factors which may cause the demand curve for the Australian dollar (\$A) to move from DD to D_1D_1	3
• Clearly and concisely provides ONE factor which may cause the demand curve for the Australian dollar (\$A) to move from DD to D_1D_1	2
• Or	
• Provides a sketch of TWO factors	
• Provides a sketch of at least ONE factor	1

Answers could include:

- Decrease in demand may be caused by any TWO of the following:
 - Relative decrease in domestic interest rates
 - Decrease in demand for Australia's exports
 - Expectations of a currency depreciation by overseas investors
 - Decrease in perceived investment opportunities in Australia by overseas investors
 - Decrease in Australia's international competitiveness
 - Decrease in economic growth in Australia's trading partners

Question 9 (c)

Criteria	Marks
• Provides a clear and concise analysis of TWO effects of a depreciation in the Australian dollar on the Australian economy	4
• Provides a clear analysis of TWO effects of a depreciation in the Australian dollar on the	3

Australian economy	
<ul style="list-style-type: none"> Provides a clear and concise analysis of ONE effect of a depreciation in the Australian dollar on the Australian economy 	2
<ul style="list-style-type: none"> Provides a sketch of at least ONE effect of a depreciation in the Australian dollar on the Australian economy 	1

Answers could include and TWO of the following:

- Reduced purchasing power for Australian consumers
- Increased debt servicing costs
- Valuation effect
- Increased cost of imports, and imported inflation
- Improved international competitiveness
- Increased production in import-competing industries
- Falling imports
- Increasing exports

QUESTION 10

Question 10 (a)

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a clear and concise understanding of the meaning of an appreciation in the exchange rate	2
<ul style="list-style-type: none">• Demonstrates some understanding of the meaning of an appreciation in the exchange rate	1

Answers could include:

- An increase in the value of one currency relative to another

Question 10 (b)

Criteria	Marks
<ul style="list-style-type: none">• Sketches in general terms or provides a detailed description of two factors affecting the supply of Australian dollars	4
<ul style="list-style-type: none">• Sketches in general terms one of the factors affecting the supply of Australian dollars and lists another factor affecting the supply of Australian dollars	3
<ul style="list-style-type: none">• Sketches in general terms or provides a detailed description of one of the factors affecting the supply of Australian dollars <p>OR</p> <ul style="list-style-type: none">• Lists two factors affecting the supply of Australian dollars	2
<ul style="list-style-type: none">• Lists one factor affecting the supply of Australian dollars	1

Answers could include any TWO of the following:

- Sellers of the Australian dollar
- Level of international investment by Australians overseas
- Level of domestic interest rates relative to those overseas
- Speculators expecting the value of the AUD to fall
- Domestic demand for imports
- Level of domestic inflation

Question 10 (c)

Criteria	Marks
<ul style="list-style-type: none">• Clearly and concisely inquires into the role of the Reserve Bank of Australia in determining the value of the Australian dollar	4
<ul style="list-style-type: none">• Inquires into the economic effects of the role of the Reserve Bank of Australia in determining the value of the Australian dollar	3
<ul style="list-style-type: none">• Sketches in general terms the role of the Reserve Bank of Australia in determining the value of the Australian dollar	2
<ul style="list-style-type: none">• Lists the effects of the role of the Reserve Bank of Australia in determining the value of the Australian dollar	1

Answers could include:

- Floating exchange rate determined by market forces
- Direct intervention through dirtying the float
- Indirect intervention through changes to domestic interest rate settings

QUESTION 11

Question 11 (a)

Criteria	Marks
• Correctly states what is meant by Trade Weighted Index	2
• Demonstrates a limited understanding of the meaning of Trade Weighted Index	1

Answers could include:

- Measure of the Australian currency relative to a weighted basket of currencies. Weights are determined by the relative importance of the nation as a trading partner with Australia

Question 11 (b)

Criteria	Marks
• Correctly identifies THREE possible systems for determining exchange rates.	3
• Identifies at least TWO possible systems for determining exchange rates.	2
• Identifies at least ONE possible system for determining exchange rates.	1

Answers could include:

- Fixed exchange rate
- Managed exchange rate
- Floating/flexible exchange rate

Question 11 (c)

Criteria	Marks
• Identifies the effect of fluctuations in the exchange rate of the Australian dollar on the Australian economy. • Provides a clear and concise understanding	4–5
• Identifies the effects of fluctuations in the exchange rate of the Australian dollar on the Australian economy.	3
• Demonstrates a limited understanding of the effects of fluctuations in the exchange rate of the Australian dollar on the Australian economy.	2
• Lists some effects of fluctuations in the exchange rate of the Australian dollar on the Australian economy. OR • Correctly defines fluctuations in exchange rates.	1

Answers could include:

- Effects of an appreciation and a depreciation on
 - International competitiveness
 - Exports and imports
 - Capital in/outflow
 - Inflation and employment
 - Value of the net foreign debt
 - The debt servicing ratio
 - Likelihood of RBA intervention

QUESTION 12

Question 12 (a)

Criteria	Marks
• Correctly states what is meant by the term free trade	2
• Demonstrates a limited understanding of the meaning of the term free trade	1

Answers could include:

- International trade without government intervention
- No artificial barriers to trade between nations

Question 12 (b)

Criteria	Marks
• Draws out clearly, accurately and concisely TWO of the Australian government's policies in relation to free trade and protection	4
• Draws out TWO of the Australian government's policies in relation to free trade and protection	3
• Sketches in general terms ONE/TWO of the Australian government's policies in relation to free trade and protection	2
• Correctly states ONE of the Australian government's policies in relation to free trade and protection	1

Answers could include:

- Microeconomic reform to improve international competitiveness
- Reduced protection for Australian industries

Question 12 (c)

Criteria	Marks
• Clearly and concisely analyses TWO implications for Australia of protectionist policies of other countries	4
• Inquires into TWO implications for Australia of protectionist policies of other countries	3
• Sketches in general terms TWO implications for Australia of protectionist policies of other countries	2
• Lists at least ONE implication for Australia of protectionist policies of other countries	1

Answers could include any TWO of the following:

- Reduced international competitiveness for our agricultural industries
- Global barriers to services costs Australia around \$2bn per year
- Higher world prices
- Increased prices of imported subsidised goods
- Reduced GDP due to falling levels of exports
- Pressure domestically for increased protection in retaliation

QUESTION 13

Question 13 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly states TWO benefits of free trade.	2
<ul style="list-style-type: none">• Correctly states ONE benefit of free trade.	1

Answers could include any TWO of the following:

- Increased specialisation
- Increased productivity
- Increased competitiveness and lower prices
- Incentive to innovate

Question 13 (b)

Criteria	Marks
<ul style="list-style-type: none">• Sketches in general terms TWO methods the government can protect Australia's industries from foreign competitors	4
<ul style="list-style-type: none">• Sketches in general terms ONE methods the government can protect Australia's industries from foreign competitors and states and lists ONE method	3
<ul style="list-style-type: none">• Lists TWO methods the government can protect Australia's industries from foreign competitors	2
<ul style="list-style-type: none">• States ONE methods the government can protect Australia's industries from foreign competitors	1

Answers could include any TWO of the following:

- Tariffs
- Subsidies
- Quotas
- Local content rules
- Voluntary export restraints
- Export incentives

Question 13 (c)

Criteria	Marks
<ul style="list-style-type: none">• Provides characteristics and features of TWO problems associated with a reduction in Australia's level of protection	4
<ul style="list-style-type: none">• Provides characteristics and features of ONE problem associated with a reduction in Australia's level of protection and• Sketches in general ONE problem associated with a reduction in Australia's level of protection	3
<ul style="list-style-type: none">• Provides characteristics and features of ONE problem associated with a reduction in Australia's level of protection OR <ul style="list-style-type: none">• Sketches in general TWO problems associated with a reduction in Australia's level of protection	2
<ul style="list-style-type: none">• Sketches in general ONE problem associated with a reduction in Australia's level of protection	1

Answers could include at TWO of the following:

- Lack of prevention against dumping
- Increased unemployment in the short run
- Difficulty for new businesses in entering established markets
- Lack of self-sufficiency

QUESTION 14

Question 14 (a)

Criteria	Mark
<ul style="list-style-type: none"> Sketches in general terms ONE advantage of reducing levels of protection on domestic industries. 	2
<ul style="list-style-type: none"> Demonstrates a limited understanding of ONE advantage of reducing levels of protection on domestic industries. 	1
OR	
<ul style="list-style-type: none"> States ONE advantage of reducing levels of protection on domestic industries. 	

Answers could include any ONE of the following:

- Increased specialisation; improved allocative efficiency; economies of scale; increased international competitiveness, increased standard of living, increased real incomes

Question 14 (b)

Criteria	Mark
<ul style="list-style-type: none"> Identifies TWO effects of the hypothetical closure of a large car manufacturing plant in Australia, and provides clear and concise arguments as to how these impacts on the Australian economy. 	4
<ul style="list-style-type: none"> Identifies TWO effects of the hypothetical closure of a large car manufacturing plant in Australia and make general arguments as to how these impacts on the Australian economy. 	3
<ul style="list-style-type: none"> Identifies ONE effects of the hypothetical closure of a large car manufacturing plant in Australia and provides clear and concise arguments as to how these impacts on the Australian economy. 	2
<ul style="list-style-type: none"> Identifies two effects of the hypothetical closure of a large car manufacturing plant in Australia. 	1
OR	
<ul style="list-style-type: none"> Sketches in general terms one effect on the Australian economy of the hypothetical closure of a large car manufacturing plant in Australia 	

Answers could include:

- Increased structural unemployment in the short run
- Reduced GDP in the short run

Question 14 (c)

Criteria	Mark
<ul style="list-style-type: none"> Demonstrates a balanced, clear and concise understanding of how the ongoing protection of the passenger motor vehicles (PMV) industry is linked to the issue of conflicting economic policy objectives. 	4
<ul style="list-style-type: none"> Demonstrates a relevant and general understanding of how the ongoing protection of the passenger motor vehicles (PMV) industry is linked to the issue of conflicting economic policy objectives. 	3
<ul style="list-style-type: none"> Demonstrates a limited understanding of the ongoing protection of the passenger motor vehicles (PMV) industry and its link to economic policy objectives. 	2
<ul style="list-style-type: none"> Provides some details of ongoing protection of the passenger motor vehicles (PMV) industry. 	1

Answers could include:

- Short term costs versus long term benefits
- Conflict between the goal of maintaining low unemployment and low inflation

QUESTION 15

Question 15 (a)

Criteria	Marks
<ul style="list-style-type: none">Sketches in general terms the impact of changes in the world price of oil from P_w to P_w1 on Australia's Current Account	2
<ul style="list-style-type: none">Lists at least one impact of changes in the world price of oil from P_w to P_w1 on Australia's Current Account	1

Answers could include:

- Increase in the world price of oil
- Increase in the price paid for oil imports and received for oil exports

Question 15(b)

Criteria	Marks
<ul style="list-style-type: none">Identifies one effect of the change in oil costs on Australian businessesProvides clear and concise arguments as to the effect on Australian business	3
<ul style="list-style-type: none">Identifies one effect of the change in oil costs on Australian businessProvides general arguments as to the effect on Australian business	2
<ul style="list-style-type: none">Sketches in general terms a change in oil costs on Australian business	1

Answers could include:

- Increased cost of production: transport costs and other input costs increasing
- Increased prices to consumers
- Reduced real incomes for consumers
- Falling domestic demand for producers and falling incomes

Question 15 (c)

Criteria	Marks
<ul style="list-style-type: none">Identifies the effects of continued global interdependence, providing a clear and concise understanding of the implications for the structure of industry in Australia	4-5
<ul style="list-style-type: none">Identifies the effects of continued global interdependence, providing a general understanding of the implications for the structure of industry in Australia	3
<ul style="list-style-type: none">Demonstrates a limited understanding of the effects of continued global interdependence	2
<ul style="list-style-type: none">Lists some effects of global interdependence OR • Correctly defines the structure of industry in Australia	1

Answers could include:

- Continued reduced protection and implications for PMV and TCF industries and continued decline of manufacturing industries in Australia
- Implications for industries in Australia with a competitive advantage, such as agriculture, tourism, education, mining industries

- Ongoing growth of contemporary trading bloc agreements on Australian industries

TOPIC 3: ECONOMIC ISSUES IN AUSTRALIA'S ECONOMY

QUESTION 1

Question 1 (a)

Criteria	Marks
<ul style="list-style-type: none"> • Recognise and name the components of aggregate demand 	1

Answers could include:

- Consumption, investment, government spending and net exports.

Question 1 (b)

Criteria	Marks
<ul style="list-style-type: none"> • States the value of the multiplier as 2.5 	1

Question 1 (c)

Criteria	Marks
<ul style="list-style-type: none"> • Correctly notes the difference between injections and withdrawals in the circular flow of income 	2
<ul style="list-style-type: none"> • Notes some difference between injections and withdrawals in the circular flow of income OR <ul style="list-style-type: none"> • Correctly defines either injections or withdrawals in the circular flow of income 	1

Answers could include:

- Injections are additions to the circular flow resulting from consumer spending eg investment, government expenditure and export expenditure.
- Withdrawals are leakages from the circular flow not resulting in expenditure eg taxation, saving and import spending.
- The main difference is that injections cause the level of the economy to increase and withdrawals cause it to decrease..

Question 1 (d)

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates a clear understanding of how changes in real gross domestic product are measured 	2
<ul style="list-style-type: none"> • Sketches in general terms how changes in real gross domestic product are measured 	1

Answers could include:

- Real GDP measures the total value of production in an economy in one year after taking into account inflation. This eliminates the effect of price increases on the measurement of growth.

Question 1 (e)

Criteria	Marks
<ul style="list-style-type: none"> • Identifies the recent trends in the Australian business cycle, providing a clear and concise understanding of the implications 	4
<ul style="list-style-type: none"> • Identifies the recent trends in the Australian business cycle, providing a general understanding of the implications 	3
<ul style="list-style-type: none"> • Demonstrates a limited understanding of the recent trends in the Australian business cycle 	2
<ul style="list-style-type: none"> • Lists some recent trends in the Australian business cycle OR <ul style="list-style-type: none"> • Correctly defines the business cycle 	1

Answers could include:

- The Australian business cycle has experienced a downswing in recent years due to the global financial crisis.

- The implications of that for the economy are slower economic growth, rising unemployment, falling house prices, decreased taxation collection.

QUESTION 2

Question 2 (a)

Criteria	Marks
• Correctly states the meaning of aggregate demand.	2
• Sketches the meaning of aggregate demand in general terms.	1

Answers could include:

- Aggregate demand refers to the total demand for goods and services in an economy over a period of time, usually one year.

Question 2 (b)

Criteria	Marks
• States the formula of the multiplier as $k=1/MPS$ or $k=1/1-MPC$	1

Question 2 (c)

Criteria	Marks
• Provides a clear and concise explanation of the effect of fluctuations of the multiplier on the level of economic activity in the Australian economy	3
Provides a sketch of the effect of fluctuations of the multiplier on the level of economic activity in the Australian economy	2
• Refers to the effect of the multiplier on the level of economic activity in the Australian economy.	1

Answers could include:

- An increase in spending by consumers results in an increase in income elsewhere in the economy.
- The income is passed on to other households that spend some and save some.
- The higher the level of spending in an economy, the higher will be the multiplier effect and the smaller the MPS.
- Multiplier also operates in reverse.

Question 2 (d)

Criteria	Marks
• Identifies the effects of poor allocative, technical and dynamic efficiency, providing a clear and concise understanding of the implications on economic growth.	4
• Identifies the effects of poor allocative, technical and dynamic efficiency, providing a general understanding of the implications on economic growth	3
• Demonstrates a limited understanding of the effects of poor allocative, technical and dynamic efficiency on economic growth	2
• Lists some effects of poor allocative, technical and/or dynamic efficiency OR • Correctly defines economic growth.	1

Answers could include:

- Poor allocative efficiency results in wasted resources.
- Poor technical efficiency results in higher production costs wastage.
- Poor dynamic efficiency results in a firm not getting the most out of resources because they are not investing in research and development.
- The effect on economic growth is to slow it down. The economy is operating inside its production possibility frontier.

QUESTION 3

Question 3 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly notes the difference between economic growth and economic development	2
<ul style="list-style-type: none">• Notes some difference between economic growth and economic development OR <ul style="list-style-type: none">• Correctly defines either economic growth OR economic development	1

Answers could include:

Question 3 (b)

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a clear, concise understanding of how allocative efficiency can lead to improved economic growth	4
<ul style="list-style-type: none">• Demonstrates some understanding of how allocative efficiency can lead to improved economic growth	3
<ul style="list-style-type: none">• Sketches in general terms how allocative efficiency can lead to improved economic growth	2
<ul style="list-style-type: none">• Lists some ways allocative efficiency can lead to improved economic growth	1

Answers could include:

- Allocative efficiency refers to a situation where there is no wastage of resources.
- The economy is flexible and resources such as investment and employment can move to more productive activities.
- When this occurs the economy is operating on its production possibility frontier and economic growth is maximised.

Question 3 (c)

Criteria	Marks
<ul style="list-style-type: none">• Identifies TWO sources of economic growth in Australia in recent years, providing a clear and concise understanding of how the sources contributed to economic growth	4
<ul style="list-style-type: none">• Identifies TWO sources of economic growth in Australia in recent years, providing a general understanding of how the sources contributed to economic growth	3
<ul style="list-style-type: none">• Demonstrates TWO sources of economic growth in Australia in recent years OR <ul style="list-style-type: none">• Identifies ONE source of economic growth in Australia in recent years, providing a clear and concise understanding of how the source contributed to economic growth	2
<ul style="list-style-type: none">• Lists some sources of economic growth in Australia in recent years	1

Answers could include:

- One possible source of economic growth is increased population growth either due to a higher birth rate or migration.
- The implications for an economy is the need to educate and train the increased population and ensure a match of skills with productive needs.
- Increased pressure on the environment, especially in urban and coastal areas may be a problem
- Another source of economic growth is increased investment in capital.
- Unfortunately Australia imports much of the plant and equipment needed for production which can worsen our balance of payments.

QUESTION 4

Question 4 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly states what is meant by the term <i>unemployment rate</i>	2
<ul style="list-style-type: none">• Demonstrates a limited understanding of the meaning of the term <i>unemployment rate</i>• OR• Correctly defines unemployment rate	1

Answers could include:

- The number of people officially unemployed as a proportion of the labour force

Question 4 (b)

Criteria	Marks
<ul style="list-style-type: none">• Clearly and concisely outlines the recent trends in the Australian unemployment rate, distinguishing between cyclical and structural components.	3
<ul style="list-style-type: none">• Sketches in general terms the recent trends in the Australian unemployment rate, distinguishing between cyclical and structural components.	2
<ul style="list-style-type: none">• Makes some reference to trends in Australian unemployment rates <p>OR</p> <p>Defines cyclical or structural unemployment</p>	1

Answers could include:

- Increasing rate of unemployment due to the Global Financial Crisis, but not as high as was anticipated
- Cyclical increase due to the downturn in the global economy as opposed to an increase in structural unemployment that is caused by a mismatch between job opportunities and the skills of the unemployed

Question 4 (c)

Criteria	Mark
<ul style="list-style-type: none">• Clearly and concisely identifies the reasons for recent trends in unemployment in Australia and provides points either for or against.	4-5
<ul style="list-style-type: none">• Identifies reasons for recent trends in unemployment in Australia and provides points for or against	3
<ul style="list-style-type: none">• Identifies reasons for recent trends in unemployment in Australia	2
<ul style="list-style-type: none">• Sketches in general terms reasons the recent trends in unemployment in Australia <p>OR</p> <ul style="list-style-type: none">• Defines unemployment	1

Answers could include:

- Global financial crisis
- Expansionary Macroeconomic policies that have reduced the peak in the unemployment rate

QUESTION 5

Question 5 (a)

Criteria	Marks
• Provides a clear and concise definition of the term <i>labour force</i>	2
• Provides a limited definition of the term <i>labour force</i>	1

Answers could include:

- Includes both employed and unemployed persons of working age.
- Employed persons include all persons aged 15 years and over who, during the reference week:
 - worked for one hour or more for pay, profit, commission or payment in kind in a job or business, or on a farm (comprising employees, employers and own account workers); or
 - worked for one hour or more without pay in a family business or on a farm (i.e. contributing family workers); or
 - were employees who had a job but were not at work and were:
 - away from work for less than four weeks up to the end of the reference week; or
 - away from work for more than four weeks up to the end of the reference week and received pay for some or all of the four week period to the end of the reference week; or
 - away from work as a standard work or shift arrangement; or
 - on strike or locked out; or
 - on workers' compensation and expected to return to their job; or
 - were employers or own account workers, who had a job, business or farm, but were not at work.

Question 5 (b)

2

Criteria	Marks
• Correctly identifies the types of unemployment included in the measurement of the natural rate of unemployment	2
• Identifies some of the types of unemployment included in the measurement of the natural rate of unemployment	1

Answers could include:

- Frictional and structural
- Excludes cyclical unemployment

Question 5 (c)

2

Criteria	Marks
• Indicates the main features of ONE cost of unemployment	2
• States ONE economic cost of unemployment	1

Answers could include:

- Loss of production and decreased aggregate demand.
- Loss of profits for firms and taxation for governments.

- Increased government spending on social security.
- Deskilling of the workforce.

Question 5 (d)

Criteria	Marks
<ul style="list-style-type: none"> • Provides a clear and concise outline of TWO government policies that could be used to reduce the rate of unemployment 	4
<ul style="list-style-type: none"> • Provides a clear outline of TWO government policies that could be used to reduce the rate of unemployment 	3
<ul style="list-style-type: none"> • Provides a clear outline of ONE government policy that could be used to reduce the rate of unemployment 	4
<ul style="list-style-type: none"> • Provides a sketch of at least ONE government policy that could be used to reduce the rate of unemployment 	1

Answers could include:

- Expansionary macroeconomic policies to reduce cyclical unemployment
 - Fiscal expansion
 - Reduced interest rates
- Microeconomic reform to reduce unemployment in the long run through improved efficiency
- Labour market reform to improve the productivity and efficiency of labour, and therefore increase the demand for labour

QUESTION 6

Question 6 (a)

Criteria	Marks
• Correctly states the meaning of the term participation rate	2
• Demonstrates a limited understanding of the term participation rate	1

Answers could include:

- The percentage of people of working age who are actually in the labour force.
- It is calculated using the formula; $LFPR = \frac{\text{number employed} + \text{unemployed}}{\text{population of working age}} \times 100$

Question 6 (b)

Criteria	Marks
• Provides a thorough, clear and concise explanation of how a skills shortage could influence the Australian economy	4
• Provides a clear and concise explanation of how a skills shortage could influence the Australian economy	3
• Provides a limited explanation of how a skills shortage could influence the Australian economy	2
• States how a skills shortage could influence the Australian economy	1

Answers could include:

- Leads to structural unemployment where the skills demanded do not match the skills of the available labour.
- Will lead to increased price of labour for those workers with the required skills.
- This will result in increased costs of production and inflation.
- Real GDP may fall.

Question 6 (c)

Criteria	Marks
• Clearly and concisely inquires into the impact of an aging population on the rate of economic growth in the Australian economy.	4
• Inquires into the impact of an aging population on the rate of economic growth in the Australian economy.	3
• Sketches in general terms the impact of an aging population on the rate of economic growth in the Australian economy.	2
• Lists the impact of an aging population on the rate of economic growth in the Australian economy.	1

Answers could include:

- Increased demand for government supported pensions, health services and travel.
- Increased demand for workers in aged care and associated health services.
- Increased pressure on the smaller workforce to fund services for the aged through their taxation.

- Loss of productive capacity in the economy and the need for increased capital.

QUESTION 7

Question 7 (a)

Criteria	Marks
• Clearly provides an explanation of how the Australian Bureau of Statistics measure inflation	2
• Demonstrates a limited understanding of how the Australian Bureau of Statistics measure inflation	1

Answers could include:

- Consumer Price Index (CPI)
- Calculated quarterly.
- Measures changes in the price of a basket of goods and services considered of most importance in the expenditure of Australian metropolitan households..
- Goods and services are weighted according to importance.

Question 7 (b)

Criteria	Marks
• Correctly states the meaning of the term <i>imported inflation</i>	2
• Demonstrates a limited understanding of the term <i>imported inflation</i>	1

Answers could include;

- An example of cost inflation.
- It occurs when rising import prices cause an increase in the average level of prices in the economy.
- Can be due to inflation in other countries or a depreciation of the currency, which makes imports more expensive.

Question 7 (c)

Criteria	Marks
• Indicates the main features of recent trends in inflation in Australia	2
• Lists the recent trends in inflation in Australia	1

Answers could include:

- Falling inflation rates due to decline in demand inflation with the Global Financial Crisis

Question 7 (d)

Criteria	Marks
• Provides clear and comprehensive points for and against the effects of inflation on economic growth and income distribution in the Australian economy	4
• Provides points for and against the effects of inflation on economic growth and income distribution in the Australian economy	3
• Sketches in general terms the effects of inflation on economic growth and income distribution in the Australian economy	2
• Lists an effect(s) of inflation on economic growth and/or income distribution	1

Answers could include;

- Negative effects of inflation include:
 - the decrease in the purchasing power as a given amount of money will now buy fewer goods and services.
 - Creates uncertainty and lack of confidence in the economy, resulting in a decrease in business investment, causing a decline in economic activity.
 - Australian exports and import competing businesses face greater competition as our goods are more expensive.
 - Reduced international confidence in the economy which may result in less foreign investment which will dampen economic activity.
 - Savers will find that inflation will erode the value of the interest earned on their savings.
- Positive effects may include:
 - Borrowers will have the real value of their loan repayments reduced due to inflation.
 - People with assets will see the value of their assets increase.
- The effect on income distribution will be that people on fixed income such as pensions and those who are not in a good bargaining position to secure wage rises will be worse off. Whereas those who have assets as investments will be better off.

QUESTION 8

Question 8 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly states the meaning of inflation as an increase in the average level of prices over time	2
<ul style="list-style-type: none">• Correctly states an aspect of the meaning of inflation.	1

Question 8 (b)

Criteria	Marks
<ul style="list-style-type: none">• . Correctly and clearly distinguishes between the terms <i>demand inflation</i> and <i>cost inflation</i>.	4
<ul style="list-style-type: none">• . Distinguishes between the terms <i>demand inflation</i> and <i>cost inflation</i>.	3
<ul style="list-style-type: none">• Sketches in general terms the difference between <i>demand inflation</i> and <i>cost inflation</i>	2
<ul style="list-style-type: none">• . Notes some difference between difference between <i>demand inflation</i> and <i>cost inflation</i>.	1
OR	
<ul style="list-style-type: none">• Defines <i>demand inflation</i> or <i>cost inflation</i>.	

Answers could include:

- Demand inflation arises due to excess demand over supply for goods and services pulls prices up as buyers compete for a limited supply.
- Cost inflation occurs when cost of production increase forcing businesses to raise their prices so profits are not eroded.
- Cost inflation is due to rising costs of production while demand inflation is due to higher consumer demand.

Question 8 (c)

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a clear and concise understanding of the relationship between inflationary expectations and the rate of inflation in Australia.	4
<ul style="list-style-type: none">• Demonstrates an understanding of the relationship between inflationary expectations and the rate of inflation in Australia	3
<ul style="list-style-type: none">• Sketches in general terms the meaning of inflationary expectations with some references to the way it could influence the rate of inflation in Australia.	2
<ul style="list-style-type: none">• Defines inflationary expectations and/or rate of inflation.	1

Answers could include:

- Inflationary expectations are what businesses and individuals believe will happen to inflation in the future.
- The expectations influences their behaviour and the expectations end up translating into actually occurring.
- For example if a consumer is expecting prices to rise they may purchase goods now, this may result in increased demand which may cause demand pull inflation.

QUESTION 9

Question 9 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly states the meaning of the term external stability	2
<ul style="list-style-type: none">• Demonstrates a limited understanding of the meaning of the term external stability	1

Answers could include:

- Goal of government policy
- Promotes sustainability in Australia's external accounts
- Indicated by the Current Account Deficit. Net foreign debt and movements in the exchange rate

Question 9 (b)

Criteria	Marks
<ul style="list-style-type: none">• Provides a clear and concise outline of the following TWO components of foreign liabilities: (i) net foreign debt and (ii) net foreign equity	4
<ul style="list-style-type: none">• Provides an outline of the following TWO components of foreign liabilities: (i) net foreign debt and (ii) net foreign equity	3
<ul style="list-style-type: none">• Provides some understanding of net foreign debt and net foreign equity• OR• Provides a clear and concise outline of either net foreign debt or net foreign equity	2
<ul style="list-style-type: none">• Lists aspects of net foreign debt and/or net foreign equity.	1

Answers could include;

- Net foreign debt measures Australia's external stability and is the amount of money owed by Australians to overseas lenders after the money owed to Australians by foreign borrowers has been deducted.
- Net foreign equity is ownership of Australian businesses minus Australian ownership of foreign businesses.

Question 9 (c)

Criteria	Marks
<ul style="list-style-type: none">• Provides a clear and concise explanation of the relationship between the exchange rate and Australia's external stability	4
<ul style="list-style-type: none">• Provides a clear explanation of the relationship between the exchange rate and Australia's external stability	3
<ul style="list-style-type: none">• Provides a general explanation of the relationship between the exchange rate and Australia's external stability	2
<ul style="list-style-type: none">• Provides a limited explanation of the relationship between the exchange rate and Australia's external stability	1

Answers could include:

- Fluctuations in the value of \$A have an impact on our external stability as the \$A influences the competitiveness of Australian exports.
- A depreciating \$A makes Australian exports more attractive as it costs less to convert foreign currencies into \$A.
- A lower \$A makes imports more expensive, thus favouring Australian producers.
- However a higher \$A makes servicing the CAD easier.

QUESTION 10

Question 10 (a)

Criteria	Marks
• Correctly states what is meant by the term <i>debt servicing ratio</i>	2
• Demonstrates a limited understanding of the meaning of the term <i>debt servicing ratio</i>	1

Answers could include:

- Proportion of export revenue required to repay the foreign debt
- Indicated sustainability of the level of foreign debt

Question 10 (b)

Criteria	Marks
• Demonstrates a clear and concise understanding of recent trends in Australia's net foreign liabilities	2
• Demonstrates a limited understanding of recent trends in Australia's net foreign liabilities	1

Answers could include:

- Comprised of net foreign debt and net foreign equity
- Total financial obligations

Question 10 (c)

Criteria	Marks
• Demonstrates a clear, concise understanding and explanation of the relationship between net foreign liabilities and the balance of payments	3
• Sketches in general terms the relationship between net foreign liabilities and the balance of payments	2
• Briefly states the relationship between net foreign liabilities and the balance of payments	1

Answers could include:

- Net foreign liabilities include net foreign debt plus net foreign equity.
- Interest payments on net foreign debt are recorded in the current account.
- Dividend payments on net foreign equity are recorded in the capital account.

Question 10 (d)

Criteria	Marks
Demonstrates a clear and concise understanding of the difference between debt and equity funding of Australia's current account deficit.	3
Sketches in general terms, the difference between debt and equity funding of Australia's current account deficit.	2
Demonstrates some understanding of the need to finance a current account deficit.	1

Answers could include:

- Equity financing as represented by foreign direct investment and foreign portfolio investment
- Debt financing as represented by borrowing from overseas sources

QUESTION 11

Question 11 (a)

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a clear understanding of what the Lorenz Curve shows	2
<ul style="list-style-type: none">• Demonstrates some understanding of what the Lorenz Curve shows.	1

Answers could include;

The Lorenz Curve shows how income is unevenly distributed within and between countries. The greater the distance from the line of equality, the greater the degree of inequality in a country

Question 11 (b)

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a clear understanding of what the Gini coefficient measures and how it is calculated.	2
<ul style="list-style-type: none">• Demonstrates some understanding of what the Gini coefficient measures and how it is calculated.	1

Answers could include:

The Gini coefficient is calculated using the formula $A/A+B$ where A represents the area between the line of equality and the Lorenz Curve for an economy, and area B represents the area outside the Lorenz Curve. If the two areas are equal the Gini coefficient will be zero indicating perfect equality. The closer the Gini coefficient is to 1, the greater the degree of inequality in that economy.

Question 11 (c)

Criteria	Marks
<ul style="list-style-type: none">• Correctly states a clear and valid reason for the Lorenz Curve moving from point A to point B.	2
<ul style="list-style-type: none">• Shows some understanding of an economy's Lorenz Curve shifting closer to the line of equality.	1

Answers could include:

The Lorenz Curve has shifted closer to the line of equality indicating a more even distribution of income. This could have been the result of government policies such as progressive income tax system, wages policy and/or improved social security system or the economy experiencing higher economic growth and higher employment.

Question 11 (d)

Criteria	Marks
<ul style="list-style-type: none">• Identifies the extent of inequality of wealth in Australia and provides clear and concise reasons for the inequality of wealth in the Australian economy.	4
<ul style="list-style-type: none">• Identifies the extent of inequality of wealth in Australia and provides reasons for the inequality of wealth in the Australian economy.	3
<ul style="list-style-type: none">• Provides some understanding of the reasons for the inequality of wealth in the Australian economy.	2
<ul style="list-style-type: none">• Lists aspects of the extent of inequality of wealth in Australia	1

OR

- Lists on reason for inequality of wealth in Australia

Answers could refer to:

- Lack of death duties in Australia
- Different tax treatment of PAYG and Businesses.
- High home ownership in Australia
- Compulsory superannuation
- High rate of indigenous and youth unemployment, especially in rural areas.

QUESTION 12

Question 1 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly identifies one social cost of inequality of income	1

Answer could include:

- Poverty
- Class division
- Poor health
- Substance abuse
- Increased crime

Question 1 (b)

Criteria	Marks
<ul style="list-style-type: none">• Correctly sketches the main features of one economic benefit of inequality of income.	2
<ul style="list-style-type: none">• Lists one economic benefit of inequality of income.	1

Answer could include:

- Encouraged to increase education and skills level
- Increased mobility of labour

Question 11 (c)

Criteria	Marks
<ul style="list-style-type: none">• Correctly sketches the main features of THREE reasons for inequality of income distribution in Australia	3
<ul style="list-style-type: none">• Correctly sketches the main features of TWO reasons for inequality of income distribution in Australia• OR• Correctly sketches the main features of ONE reason for inequality of income distribution in Australia and lists TWO others.	2
<ul style="list-style-type: none">• Correctly sketches the main features of ONE reason for inequality of income distribution in Australia	1

Answer could include:

- Ageing population
- Casualisation of work
- GST

Question 11 (d)

Criteria	Marks
<ul style="list-style-type: none"> • Clearly explains TWO government policies designed to reduce inequality in the distribution of income and makes a judgment as to their success. 	4
<ul style="list-style-type: none"> • Clearly sketches the main features of TWO government policies designed to reduce inequality in the distribution of income, and makes a judgment as to their success. 	3
<ul style="list-style-type: none"> • Demonstrates some understanding of TWO government policies designed to reduce income inequality and attempts to make a judgment. OR • Clearly explains ONE government policy designed to reduce inequality in the distribution of income and makes a judgment as to their success. 	2
<ul style="list-style-type: none"> • Sketches in general terms ONE government policy designed to reduce inequality in the distribution of income OR • List TWO government policies designed to reduce inequality in the distribution of income 	1

Answers could include reference to:

- Taxation system
- Social Welfare system
- Public education

QUESTION 13

Question 13 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly identifies a non-renewable resource	1

Answers could include:

- Coal, petroleum, natural gas, nuclear power

Question 13 (b)

Criteria	Marks
<ul style="list-style-type: none">• Correctly states the meaning of the term <i>ecologically sustainable development</i>	2
<ul style="list-style-type: none">• Sketches in general terms the meaning of <i>ecologically sustainable development</i>	1

Answers could include;

ESD refers to economic activity which uses resources in a way that satisfies present needs and wants but also conserves them for use by future generations.

Question 13 (c)

Criteria	Marks
<ul style="list-style-type: none">• Provides characteristics and features of ONE possible conflict between the objectives of ecologically sustainable development and economic growth.	2
<ul style="list-style-type: none">• Sketches in general terms ONE possible conflict between the objectives of ecologically sustainable development and economic growth	1

Answers could include:

- Increased economic growth will result in higher demand for resources as demand for goods and services grows, leading to possible depletion which will impact on their availability for future generations.

Question 13 (d)

Criteria	Marks
<ul style="list-style-type: none">• Accurately and concisely draws out the components of an economic policy used by the government to manage the depletion of non-renewable resources and explains the implications of this policy on the economy.	4-5
<ul style="list-style-type: none">• Describes the components of an economic policy used by the government to manage the depletion of non-renewable resources and explains the implications of this policy on the economy.	3
<ul style="list-style-type: none">• Sketches in general terms an economic policy used by the government to manage the depletion of non-renewable resources.	2
<ul style="list-style-type: none">• States an economic policy used by the government to manage the depletion of non-renewable resources.	1

Answers could include:

- Resource rent tax on non-renewable resources
 - Price reflects the scarcity of the resource
 - Restricts supply by shifting the supply curve to the left

- Subsidise use of renewable resources such as wind and solar power

QUESTION 14

Question 14 (a)

Criteria	Marks
• Clearly explains the meaning of the term <i>externality</i>	2
• Demonstrates limited understanding of the term <i>externality</i>	1

Answers could include:

Externalities refer to the unintentional side effects of an economic activity, for example, the replacement of overhead power lines with underground lines has a positive externality for residents who enjoy a nicer and safer environment.

Question 14 (b)

Criteria	Marks
• Clearly explains how the market fails to protect the environment and refers to both private and social costs and the diagram.	4
• Clearly sketches in general terms how the market fails to protect the environment and refers to both private and social costs and the diagram.	3
• Demonstrates some understanding of how the market fails to protect the environment but may fail to refer to the diagram or both private and social costs.	2
• Defines private or social costs.	1

Answers could include:

- Businesses calculate market price based on the cost of inputs, estimated sales and profit margin. These costs are called private costs and in the diagram would result in price OP being charged for the product. Such a costing method results in the market failing to take into account the cost on the environment of production.
- Private cost do not take into account the costs of externalities or environmental costs.
- If these were taken into account in the diagram, the price charged would be higher at OP1
- and less would be demanded at that price.

Question 14 (c)

Criteria	Marks
• Clearly explains how economic policy can preserve the natural environment and refers to relevant policies to illustrate how.	4
• Clearly sketches in general terms the relationship between economic policy and the preservation of the natural environment.	3
• Demonstrates some understanding of relationship between economic policy and the preservation of the natural environment.	2
• States an example of an economic policy designed to preserve the natural environment.	1

Answers could include:

- Refers to a specific example
- Use of taxes
- Bans
- Market based responses to increase the cost of goods and services that damage the natural environment
- Increase price to consumers to reduce demand and therefore production and environmental degradation

QUESTION 15

Question 1 (a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly defines what is meant by the terms <i>public goods</i> and <i>private goods</i>• Notes the difference between them	2
<ul style="list-style-type: none">• Correctly defines what is meant by the terms <i>public goods</i> and <i>private goods</i>	1

Answers could include:

- Public goods are those for which each person's consumption of the good does not impact upon others nor prevent them from using the good. Private goods are for the use of the owner of the good and the consumption of a private good results in another person being unable to use that good. An example of a public good is air and an example of a private good is a motor vehicle.
- The differences between public and private goods is that Public goods are non-exclusive ie anyone can use them, unlike private goods. Public goods are non-transferable ie unlike private goods it is difficult to transfer ownership. Public goods are also non-enforceable as ownership cannot be proven.

Question 15 (b)

Criteria	Marks
<ul style="list-style-type: none">• Clearly explains the relationship between public goods, free riders and market failure.	4
<ul style="list-style-type: none">• Clearly sketches in general terms the relationship between public goods, free riders and market failure.	3
<ul style="list-style-type: none">• Demonstrates some understanding of the relationship between public goods, free riders and market failure.	2
<ul style="list-style-type: none">• Gives an example of a public good and free rider.	1

Answers could include:

- Public goods those for which each person's consumption of the good does not impact upon others nor prevent them from using the good, for example the air we breathe.
- Free riders are consumers who are able to use the public good without having to pay for it.
- Market failure occurs because public goods are unpriced, over-used and abused because their use cannot be restricted nor can we assign a price to their use because we can not assign or enforce private property rights to public goods. Consumers believe public goods are free goods for their use but these free riders do not take responsibility for the preservation of the public goods, hence market failure.

Question 15 (c)

Criteria	Marks
<ul style="list-style-type: none">• Clearly explains how TWO different policy instruments could be used to control pollution.	4
<ul style="list-style-type: none">• Clearly sketches in general terms how TWO different policy instruments could be used to control pollution.	3
<ul style="list-style-type: none">• Demonstrates some understanding of TWO different policy instruments used to control pollution. OR	2
<ul style="list-style-type: none">• Clearly explains how ONE policy instrument could be used to control pollution	
<ul style="list-style-type: none">• Lists one or two economic policy instruments used to control pollution.	1

TOPIC 4: ECONOMIC POLICIES AND MANAGEMENT

QUESTION 1

Question 1 (a)

Criteria	Marks
• Clearly defines the term economic objective	2
• Demonstrates a limited understanding of the term economic objective	1

Answers could include:

- Goals of the government
- Economic growth, internal balance, external balance

Question 1 (b)

Criteria	Marks
• Clearly and concisely sketches TWO current economic objectives of the government	4
• Sketches TWO current economic objectives of the government	3
• Clearly and concisely sketches ONE current economic objectives of the government	2
• Sketches ONE current economic objective of the government OR • States TWO current economic objectives of the government	1

Answers could include:

- Sustainable economic growth
- Low and steady inflation
- Low level of unemployment
- Equity in the distribution of income
- Internal balance
- External balance
- Environmental sustainability

Question 1 (c)

Criteria	Marks
• Demonstrates a clear and concise understanding of microeconomic and macroeconomic policy • Clearly distinguishes between the terms	4
• Demonstrates a clear and concise understanding of microeconomic and macroeconomic policy	3
• Demonstrates an understanding of microeconomic and macroeconomic policy	2
• Demonstrates an understanding of microeconomic or macroeconomic	1

Answers could include:

- Definition of macroeconomic policy
- Definition of microeconomic policy
- Examples of macro and micro policies
- Examples of current policy settings in the economy

QUESTION 2

Question 2 (a)

Criteria	Marks
• Sketches the importance of the environment as a goal of government	2
• Demonstrates a limited understanding of the environment as a goal of government	1

Answers could include:

- Ecologically sustainable development
- Climate change, or other specific examples

Question 2 (b)

Criteria	Marks
• Demonstrates a balanced, clear and concise understanding of the possible impact of climate change initiatives on economic growth	4
• Demonstrates a clear understanding of the possible impact of climate change initiatives on economic growth	3
• Demonstrates an understanding of the possible impact of climate change initiatives on economic growth	2
OR	
• Sketches in general terms the possible impact of climate change initiatives on economic growth.	
• Provides some a limited discussion of the possible impact of climate change initiatives on economic growth	1

Answers could include:

- Reduced GDP
- Impact of higher energy prices on output
- Impact of lower employment on GDP
- Impact of higher export prices on GDP
- Impacts on consumption and investment
- Impacts on government revenue

Question 2 (c)

Criteria	Marks
• Demonstrates a clear and concise understanding of ONE policy response to environmental management	4
• Makes a judgment about the policy	
• Demonstrates a clear understanding of ONE policy response to environmental management	3
• Makes a judgment about the policy.	
• Demonstrates some understanding of ONE policy response to environmental management	2
• Refers to ONE policy response to environmental management.	1

Answers could include:

- Carbon emissions trading scheme
- Tradable water permits
- Fines for pollution
- Parking meters to manage congestion and encourage public transport use

QUESTION 3

Question 3 (a)

Criteria	Marks
• Accurately calculates the budget outcomes as -\$20,000	1

Question 3 (b)

Criteria	Marks
• Correctly sketches TWO components of the budget that have determined the outcome	2
• Correctly sketches ONE components of the budget that have determined the outcome	1

Answers could include:

- Decline in tax revenue from households and/or companies
- Increased expenditure on welfare payments, health and/or infrastructure

Question 3 (c)

Criteria	Marks
• Accurately puts forward TWO possible reasons for the budget outcome	2
• Accurately puts forward ONE possible reasons for the budget outcome	1

Answers could include:

- Decrease in GDP/economic growth
- Increase in unemployment

Question 3 (d)

Criteria	Marks
• Demonstrates a clear, concise understanding of the possible effects of this budget on the level of economic activity	4-5
• Demonstrates an understanding of the possible effects of this budget on the level of economic activity	3
• Sketches in general terms the possible effects of this budget on the level of economic activity	2
• States an economic effect of this budget on the level of economic activity	1

Answers could include:

- Expansionary stance
 - Non-discretionary/cyclical outcome
 - Discretionary/structural outcome
- Positive effects
 - Increase in GDP due to expansionary stance
 - Improvements in health and infrastructure due to increased discretionary spending
 - Reduced unemployment
 - Improved equity in income distribution
- Negative effects
 - Budget deficit
 - Implications of funding of the budget deficit
 - Implications for interest rates and inflation

QUESTION 4

Question 4 (a)

Criteria	Marks
<ul style="list-style-type: none"> Accurately states ONE method of financing a budget 	1

Answers may include:

- Printing money
- Borrow domestically
- Borrow overseas

Question 4 (b)

Criteria	Marks
<ul style="list-style-type: none"> Correctly notes the difference between fiscal and monetary policy 	2
<ul style="list-style-type: none"> Notes some difference between fiscal and monetary policy OR <ul style="list-style-type: none"> Correctly defines either fiscal and monetary policy 	1

Answers could include:

- Definition of fiscal policy
- Definition of monetary policy
- Distinguished by implementation, focus, lags

Question 4 (c)

Criteria	Marks
<ul style="list-style-type: none"> Correctly states a macroeconomic objective Clearly and concisely states why fiscal policy can be used to achieve the goal 	2
<ul style="list-style-type: none"> Correctly states a macroeconomic objective Refers to why fiscal policy can be used to achieve the goal 	1

Answers could include:

- Goal for Economic growth, unemployment, inflation, income distribution, external stability or environmental sustainability

Question 4 (d)

Criteria	Marks
<ul style="list-style-type: none"> Demonstrates a balanced, clear and concise understanding of the effects of recent fiscal policy on economic activity in Australia 	4-5
<ul style="list-style-type: none"> Demonstrates a clear understanding of the effects of recent fiscal policy on economic activity in Australia 	3
<ul style="list-style-type: none"> Demonstrates an understanding of the effects of recent fiscal policy on economic activity in Australia OR <ul style="list-style-type: none"> Sketches in general terms the effects of recent fiscal policy on economic activity in Australia 	2
<ul style="list-style-type: none"> Provides some a limited discussion of the effects of recent fiscal policy on economic activity in Australia 	1

Answers could include:

- Expansionary policy due to GFC
- Reduced unemployment peak
- Increased GDP

- Avoided recession, technically
- Countercyclical policy

QUESTION 5

Question 5 (a)

Criteria	Marks
• Correctly states what is meant by the term fiscal policy	2
• Demonstrates a limited understanding of the meaning of the term fiscal policy	1

Answers could include:

- Macroeconomic policy
- Governments use of revenues and expenditure measures
- Influences the level of economic activity, allocation of resources, distribution of income
- Instrument is the federal budget

Question 5 (b)

Criteria	Marks
• Correctly notes the difference between the structural and cyclical component of the budget	2
• Notes some difference between the structural and cyclical component of the budget OR • Correctly defines either the structural and cyclical component of the budget	1

Answers could include:

- Definition of the structural component of the budget
- Definition of cyclical component of the budget

Question 5 (c)

Criteria	Marks
• Correctly states ONE measure that a government can take to achieve a contractionary fiscal stance	2
• Demonstrates a limited understanding of the meaning of a contractionary fiscal stance	1

Answers could include:

- Increase the fiscal surplus
- Reduce the size of the budget deficit

Question 5 (d)

Criteria	Marks
• Demonstrates a clear and concise understanding of the impact of an ageing population on fiscal policy	4
• Demonstrates a clear understanding of the impact of an ageing population on fiscal policy	3
• Demonstrates an understanding of the impact of an ageing population on fiscal policy	2
• Demonstrates a limited understanding of the impact of an ageing population on fiscal policy	1

Answers could include:

- Revenue effects, such as reduced tax receipts
- Expenditure effects, such as increased cost of pensions and services for the aged

QUESTION 6

Question 6 (a)

Criteria	Marks
• Correctly defines the term domestic market operations	2
• Demonstrates a limited understanding of the meaning of the term domestic market operations	1

Answers could include:

- Action by the RBA
- Buys/sells commonwealth government securities to influence the supply and the cost of money in the short term money market
- Influences the cash rate and thereby other interest rates across the economy

Question 6 (b)

Criteria	Marks
• Demonstrates a clear and concise understanding of the impact changes in monetary policy on the exchange rate	4
• Demonstrates a clear understanding of the impact of changes in monetary policy on the exchange rate	3
Demonstrates an understanding of the impact of changes in monetary policy on the exchange rate	2
• Demonstrates a limited understanding of the impact of changes in monetary policy on the exchange rate	1

Answers could include:

- Effects of increases and decreases in interest rates on the exchange rate
- Capital inflow effects
- Implications for exports, imports and economic growth

Question 6 (c)

Criteria	Marks
• Demonstrates a clear and concise understanding of the impact of a change in interest rates on economic activity	4
• Demonstrates a clear understanding of the impact of a change in interest rates on economic activity	3
Demonstrates an understanding of the impact of a change in interest rates on economic activity	2
• Demonstrates a limited understanding of the impact of a change in interest rates on economic activity	1

Answers could include:

- Implications for consumption, investment, government spending, and X-M
- Exchange rate implications
- Inflationary expectations and economic growth

QUESTION 7

Question 7 (a)

Criteria	Marks
<ul style="list-style-type: none">Correctly identifies the cash rate, or interest rates as the main instrument of monetary policy	1

Question 7 (b)

Criteria	Marks
<ul style="list-style-type: none">Sketches the effect of a decrease in the cash rate on the level of economic activity	2
<ul style="list-style-type: none">Demonstrates limited understanding of the link between monetary policy and economic activity	1

Answers could include:

- Expansionary monetary policy
- Increases the level of consumption and investment, thus increasing the level of GDP

Question 7 (c)

Criteria	Marks
<ul style="list-style-type: none">Demonstrates a clear and concise understanding of the limitations of monetary policyProvides positive and negative implications of the use of monetary policy	3
<ul style="list-style-type: none">Demonstrates a clear understanding of the limitations of monetary policy	2
<ul style="list-style-type: none">Demonstrates a limited understanding of the limitations of monetary policy	1

Answers could include:

- Time lags
- Political constraints
- Global factors

Question 7 (d)

Criteria	Marks
<ul style="list-style-type: none">Clearly states the goal of monetary policyDemonstrates a clear and concise understanding of recent changes in monetary policy and the reasons for them	4
<ul style="list-style-type: none">States the goal of monetary policyDemonstrates a clear understanding of recent changes in monetary policy and the reasons for them	3
<ul style="list-style-type: none">Demonstrates some understanding of recent changes in monetary policy and the reasons for them	2
<ul style="list-style-type: none">Demonstrates some understanding of recent changes in monetary policy	1

Answers could include:

- Expansionary policy due to the GFC
- Inflation low and steady goal of the RBA
- Expansionary policy to increase GDP and reduce unemployment

QUESTION 8

Question 8 (a)

Criteria	Marks
<ul style="list-style-type: none">Clearly states the meaning of monetary policy	2
<ul style="list-style-type: none">Demonstrates a limited understanding of monetary policy	1

Answers could include:

- Macroeconomic policy
- Influences the price and availability of money in the economy
- Administered by the RBA through changes in interest rates

Question 8 (b)

Criteria	Marks
<ul style="list-style-type: none">Clearly and concisely explains the purpose of monetary policy in Australia	4
<ul style="list-style-type: none">Clearly explains the purpose of monetary policy in Australia	3
<ul style="list-style-type: none">Sketches in the purpose of monetary policy in Australia	2
<ul style="list-style-type: none">Demonstrates a limited understanding of the purpose of monetary policy in Australia	1

Answers could include:

- Keep inflation low and steady
- Adjust interest rates as required
- The RBA Charter
- Macroeconomic policy and demand side management
- The role of monetary policy in the policy mix

Question 8 (c)

Criteria	Marks
<ul style="list-style-type: none">Provides a clear and concise sketch of the role of the RBA in implementing monetary policy	4
<ul style="list-style-type: none">Provides a clear sketch of the role of the RBA in implementing monetary policy	3
<ul style="list-style-type: none">Provides a sketch of the role of the RBA in implementing monetary policy	2
<ul style="list-style-type: none">Refers to the role of the RBA in implementing monetary policy	1

Answers could include:

- Monitor the money supply
- Adjust interest rates as required
- Open market operations
- Transmission mechanism for monetary policy

QUESTION 9

Question 9 (a)

Criteria	Marks
• Clearly and accurately defines the term microeconomic policy	2
• Demonstrates some understanding of microeconomic policy	1

Answers could include:

- Policies aimed at individual firms or industries
- Designed to improve efficiency and competitiveness

Question 9 (b)

Criteria	Marks
• Provides a clear and concise rationale for microeconomic policy	2
• Provides a rationale for microeconomic policy	1

Answers could include:

- Management of aggregate supply in the economy
- Increase in aggregate supply and non-inflationary growth

Question 9 (c)

Criteria	Marks
<ul style="list-style-type: none"> • Accurately identifies an objective of microeconomic policy • Provides a clear and concise sketch of recent government policy to achieve this objective 	3
<ul style="list-style-type: none"> • Accurately identifies an objective of microeconomic policy • Sketches recent government policy to achieve this objective 	2
<ul style="list-style-type: none"> • Refers to a recent microeconomic policy 	1

Answers could include:

- Structural change
- Increased employment in the long run
- Non-inflationary growth
- Increased competitiveness
- Efficiency improvements- allocative, technical and dynamic
- Trade policy, industry policy, labour market policy, competition policy, tax reform, deregulation, privatisation

Question 9 (d)

Criteria	Marks
• Demonstrates a clear and concise understanding of the function of the ACCC	3
• Demonstrates an understanding of the function of the ACCC	2
• Demonstrates a limited understanding of the function of the ACCC	1

Answers could include:

- Corporate 'watchdog'

- Acts on behalf of consumers

QUESTION 10

Question 10 (a)

Criteria	Marks
• Provides a clear and concise definition of structural change	2
• Provides a limited definition of structural change	1

Answers could include:

- Process whereby the pattern of production in an economy alters
- New industries emerge and older ones may decline or disappear

Question 10 (b)

Criteria	Marks
• Sketches in general terms ONE effect of microeconomic policies on an individual factor market	2
• Sketches in general terms ONE effect of microeconomic policies	1

Answers could include:

- Reform under Fair work Australia and its impact on the labour market

Question 10 (c)

Criteria	Marks
• Demonstrates a clear and concise understanding of the relationship between microeconomic reform and the CAD	3
• Makes a judgment	
• Demonstrates an understanding of the relationship between microeconomic reform and the CAD	2
• Sketches in general terms the relationship between microeconomic reform and the CAD	1

Answers could include:

- International competitiveness
- Reforms to trade and industry policy
- Terms of trade
- Cyclical vs structural causes and effects

Question 10 (d)

Criteria	Marks
• Demonstrates a balanced, clear and concise understanding of the impact of deregulation of the PMV industry	4
• Demonstrates a relevant and general understanding of the impact of deregulation of the PMV industry	3
• Sketches in general terms the impact of deregulation of the PMV industry	2
• Lists at least one impact of deregulation of the PMV industry	1

Answers could include:

- Description of the process of deregulation of the PMV industry
- Current policy and level of protection of the PMV industry

- Short run and long run implications of deregulation in the PMV industry

QUESTION 11

Question 11 (a)

Criteria	Marks
• Sketches TWO policies used by the Australian Government to promote trade	2
• Sketches ONE policy used by the Australian Government to promote trade	1

Answer may include:

- Reduced protection
- Bilateral trade agreements
- Multilateral trade agreements
- Microeconomic reform to improve competitiveness
- Maintenance of low inflation

Question 11 (b)

Criteria	Marks
• Provides a clear, concise and valid argument to support tariffs on the PMV and TCF industries in Australia	4
• Provides a valid argument to support tariffs on the PMV and TCF industries in Australia	3
• Provides an argument to support tariffs on the PMV and TCF industries in Australia	2
• Refers to the tariffs on the PMV and TCF industries in Australia	1

Answers could include:

- Maintenance of domestic employment in manufacturing
- Maintain diversity in manufacturing in Australia
- Support for local communities, especially in Victoria and South Australia

Question 11 (c)

Criteria	Marks
• Provides a clear and concise understanding of the impact of subsidies on trade policy	4
• Distinguishes between state and national policies	
• Provides a clear understanding of the impact of subsidies on trade policy	3
• Provides an understanding of the impact of subsidies on trade policy	2
• Provides a limited understanding of the impact of subsidies on trade policy	1

Answer may include:

- Definition of a subsidy
- Diagram to illustrate the impact of a subsidy

- Examples of subsidies paid by State governments
- National vs state policy settings

QUESTION 12

Question 12 (a)

Criteria	Mark
<ul style="list-style-type: none"> Clearly and concisely defines prices and incomes policy 	2
<ul style="list-style-type: none"> Provides a limited definition of prices and incomes policy 	1

Answers could include:

- Macroeconomic policy designed to influence the pay of Australian workers and the price of goods and services

Question 12 (b)

Criteria	Mark
<ul style="list-style-type: none"> Demonstrates a clear and concise understanding of the nature of prices and incomes policies Provides a range of circumstances in which a government might implement a prices and incomes policy 	4
<ul style="list-style-type: none"> Demonstrates an understanding of the nature of prices and incomes policies Provides a range of circumstances in which a government might implement a prices and incomes policy 	3
<ul style="list-style-type: none"> Demonstrates some understanding of the nature of prices and incomes policies Provides an example a of circumstance in which a government might implement a prices and incomes policy 	2
<ul style="list-style-type: none"> Demonstrates a limited understanding of the nature of prices and incomes policies 	1

Answers could include:

- Desire to control wages growth nationally
- Restore comparative wage justice
- Mechanism to solve industrial disputes
- Improve relations between employees and employers

Question 12(c)

Criteria	Mark
<ul style="list-style-type: none"> Demonstrates a clear and concise understating of ONE advantage and ONE disadvantage of a centralised incomes policy 	4
<ul style="list-style-type: none"> Demonstrates a clear understating of ONE advantage and ONE disadvantage of a centralised incomes policy 	3
<ul style="list-style-type: none"> Demonstrates a clear understating of ONE advantage or ONE disadvantage of a centralised incomes policy <p>OR</p> <ul style="list-style-type: none"> Demonstrates a general understating of ONE advantage and ONE disadvantage of a centralised incomes policy 	2
<ul style="list-style-type: none"> Demonstrates a general understating of ONE advantage or ONE disadvantage of a centralised incomes policy 	1

Answers could include:

Advantages:

- Comparative wage justice
- Certainty for wage earners
- Reduced industrial disputation
- Flexible tool for government policy makers

Disadvantages:

- Institutionalised inflation
- Ignores the importance of productivity
- Real wage overhang
- Ambit claims from unions
- Wage price spiral
- Reduced international competitiveness

QUESTION 13

Question 13 (a)

Criteria	Marks
• Provides a clear and concise definition of workplace relations	2
• Demonstrates a limited understanding of the meaning of workplace relations	1

Answers could include:

- Microeconomic labour market policies designed to improve the efficiency of the labour market

Question 13 (b)

Criteria	Marks
• Demonstrates a clear and concise understanding of the characteristics of the current workplace relations framework in Australia	4
• Demonstrates a clear understanding of the characteristics of the current workplace relations framework in Australia	3
Demonstrates an understanding of the characteristics of the current workplace relations framework in Australia	2
• Sketches in general terms the characteristics of the current workplace relations framework in Australia	1

Answers could include:

- Fair Work Australia
- Safety net
- Unfair dismissal
- BOOT
- Office of the Fair Work Ombudsman
- Federal Court
- National Employment Standards
- Single, Multi and Greenfield agreements
- No individual contracts

Question 13 (c)

Criteria	Marks
• Demonstrates a clear and concise understanding of the purpose of the safety net in Australia's workplace relations framework	4
• Demonstrates a clear understanding of the purpose of the safety net in Australia's workplace relations framework	3
• Demonstrates an understanding of the purpose of the safety net in Australia's workplace relations framework.	2
• Sketches in general terms the purpose of the safety net in Australia's workplace relations framework.	1

Answers could include:

Safety net

- new modern awards (industry or occupation based awards)
- 10 National Employment Standards (applies 2010)
- Including living standards and equal pay for equal work in the criteria for award wage increases

QUESTION 14

Question 14 (a)

Criteria	Marks
• Correctly defines the term time lag	2
• Provides a limited definition of the term time lag	1

Answers could include:

- Delays in recognition, implementation or impact of policies
- Impacts on the effectiveness of policies in improving economic outcomes

Question 14 (b)

Criteria	Marks
• Correctly states TWO limitations of the implementation of government policies other than time lags	2
• Correctly states ONE limitations of the implementation of government policies other than time lags	1

Answers could include:

- Political factors
- Global factors

Question 14 (c)

Criteria	Marks
• Makes a judgment about the effectiveness of current fiscal policy in Australia in managing economic growth	3
• Sketches in general terms the effectiveness of current fiscal policy in Australia in managing economic growth	2
• Sketches in general terms the effectiveness of current fiscal policy in Australia	1

Answers could include:

- Recent economic growth data for Australia
- Recent budget data for Australia
- Aggregate demand and aggregate supply models

Question 14 (d)

Criteria	Marks
• Makes a judgment about the effectiveness of current monetary policy in Australia in managing unemployment	3
• Sketches in general terms the effectiveness of current monetary policy in Australia in managing unemployment	2
• Sketches in general terms the effectiveness of current monetary policy in Australia	1

Answers could include:

- Recent un/employment data for Australia
- Recent interest rate data for Australia

- Aggregate demand and aggregate supply models
- Transmission mechanism for monetary policy

QUESTION 15

Question 15 (a)

Criteria	Marks
• Sketches the meaning of the full employment objective accurately	2
• Demonstrates a limited understanding of the full employment objective	1

Answers could include:

- Natural rate of unemployment or NAIRU
- Level of unemployment when cyclical unemployment is zero

Question 15 (b)

Criteria	Marks
• Puts forward an appropriate policy response to achieve full employment	2
• Puts forward a policy response to achieve full employment	1

Answers could include:

Policies to increase demand for labour (short run)

- Expansionary fiscal policy
- Expansionary monetary policy

Policies to increase the demand for labour (long run)

- Labour market reform
- Other microeconomic reforms to improve efficiency

Question 15 (c)

Criteria	Marks
• Demonstrates a clear and concise understanding of the current policy in Australia to achieve the inflation objective	3
• Demonstrates an understanding of the current policy in Australia to achieve the inflation objective	2
• Sketches in general terms the current policy in Australia to achieve the inflation objective	1

Answers could include:

- Low and steady inflation as the goal
- 2-3 % target for inflation
- Fiscal consolidation
- Interest rate movements and monetary policy response
- Microeconomic reform, including labour market reform

Question 15 (d)

Criteria	Marks
• Makes a judgment about the effectiveness of macroeconomic and microeconomic policies in achieving economic growth	3
• Makes a judgment about the effectiveness of macroeconomic and microeconomic policies	2
• Sketches in general terms the effectiveness of macroeconomic and microeconomic policies	1

Answers could include:

- The policy mix

- Aggregate demand and aggregate supply
- Current macro and micro setting effectiveness

Bibliography:

Writers of these guidelines have referred to the following texts in preparing suggested answers:

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Riley, T. (2009). *Year 12 Economics 2010*. Sydney: Tim Riley Publications.