SYDNEY TECHNICAL HIGH SCHOOL

HSC ECONOMICS 2013

ASSESSMENT TWO

RESEARCH AND STIMULUS TASK

NAME_____   TEACHER_____

INSTRUCTIONS

DO THIS FIRST: WRITE YOUR NAME ABOVE AND WRITE YOUR CANDIDATE NUMBER ON EVERY PAGE		
TIME: 5 MINUTES READING, 60 MINUTES WRITING		
		MARKS AWARDED
PART A: STIMULUS BASED SHORT ANSWER QUESTIONS	10 MARKS	
PART B: STIMULUS BASED SHORT ANSWER QUESTIONS	10 MARKS	
PART C: RESEARCH RESPONSE	10 MARKS	
	TOTAL	

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PART A: THE BALANCE OF PAYMENTS

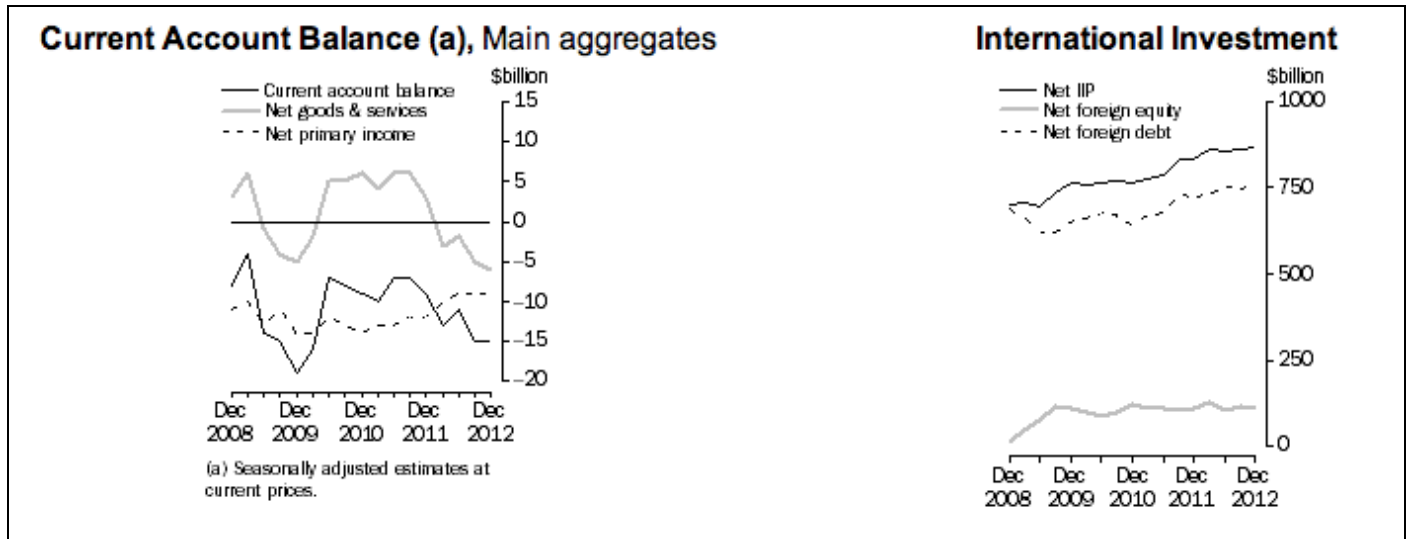**The table below shows selected data for a hypothetical economy with a floating exchange rate**

Balance of payments items	$ billion
Exports	800
Imports	840
Net services	-370
Net primary income	-415
Net seconday income	185
Capital account	130
Reserve assets	-120

1. Calculate the value of the current account for this economy?   **(1 mark)**

_____

2. Calculate the value of the financial account for this economy   **(1 mark)**

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3. Describe the impact of an increase in the terms of trade on the balance of payments   **(2 marks)**

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Figure 1: Current Account and International Investment

Current Account Balance (a), Main aggregates

— Current account balance
— Net goods & services
--- Net primary income

$billion

(a) Seasonally adjusted estimates at current prices.

International Investment

— Net IIP
— Net foreign equity
--- Net foreign debt

$billion

Source: ABS

4. With reference to Figure 3, describe the relationship between foreign investment and net primary income   (2 marks)

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5. Discuss the theoretical impact of an appreciation of a country's currency on exports and imports

(4 marks)

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PART B: FREE TRADE & PROTECTION

The following diagram shows the effect of a subsidy on the Australian market for passenger motor vehicles.

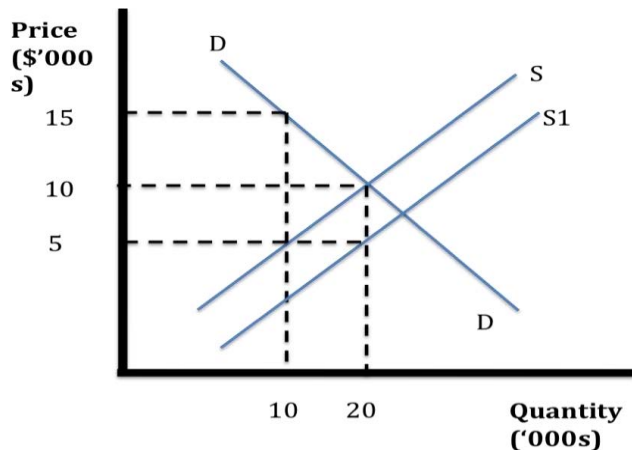**Figure 2: The market for passender motor vehicles**

1. Calculate cost of the subsidy to the government budget?   (1 mark)

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2. Outline TWO reasons why Australian governments continue to provide subsidies to automotive manufacturers   (2 marks)

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3. Describe ONE economic benefit and ONE economic cost of a reduction global protectionist policies on the Australian economy **(3 marks)**

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4. Using examples, discuss the impact of regional trade agreements on developing economies (4 marks)

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PART C: RESEARCH ON THE IMPACT OF CHANGES IN THE GLOBAL ECONOMY ON AUSTRALIA'S TRADE & FINANCIAL FLOWS AND STRUCTURE OF INDUSTRY

In your answer you will be assessed on how well you:

- Use your research knowledge and the information provided
- Apply economic terms, concepts, relationships and theory
- Present a sustained logical and cohesive response to the question

With reference to Figures 3 & 4 and you own research knowledge answer the extended response question below (use the separate exam booklet provided for your answer).

Figure 3:

Industry Share of Output*

* Nominal gross value added
** Includes: information media and telecommunications; rental, hiring and real estate services; professional scientific and technical services; administrative and support services
Source: ABS

Figure 4: Selected data on Australia's trade:

Country/region	Annual exports (%)					Annual imports (%)				
	1964-65	1984-85	2004-05	2010-11	2011-12	1964-65	1984-85	2004-05	2010-11	2011-12
Japan	16.6	26.9	19.7	19.1	19.4	n/a	22.7	11.5	7.8	8.5
China/Hong Kong	7.6	6.4	12.4	27.7	30.2	n/a	3.6	14.1	19.7	18.6
South Korea	0.2	3.9	7.7	9.2	8.3	n/a	1.6	3.3	3.3	3.8
ASEAN	4.3	7.5	11.8	10.1	10.0	n/a	5.7	16.8	18.4	18.2
New Zealand	6.3	5.2	7.2	3.1	2.9	n/a	3.8	3.6	3.4	3.1
European Union	35.0	13.0	11.0	7.3	7.5	n/a	21.6	23.5	18.0	17.7
USA	12.4	11.6	7.5	3.7	3.7	n/a	22.1	14.2	10.8	11.5
Rest of world	17.6	25.5	22.7	19.9	18.0	n/a	18.9	13.0	18.5	18.7
Source: ABS Cat. 5368.0										

Figure 4.2 – Australia's merchandise trade shares by country/region

Extended response question: Examine the reasons for changes in the composition and direction of Australia's trade, and explain the impact of these changes on structural change in Australia.

ANSWERS

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	TOTAL	

PART A: THE BALANCE OF PAYMENTS

The table below shows selected data for a hypothetical economy with a floating exchange rate

Balance of payments items	$ billion
Exports	800
Imports	(−) 840
Net services	-370
Net primary income	-415
Net seconday income	185
Capital account	130
Reserve assets	-120

CAD − 640

KFA = 640
KA −130
510

1. Calculate the value of the current account for this economy? (1 mark)

½ lost in not deficit or $640 billion deficit

2. Calculate the value of the financial account for this economy (1 mark)

$510 billion surplus

3. Describe the impact of an increase in the terms of trade on the balance of payments (2 marks)

↑ TOT means ↑X prices relative to M prices
Impact ↑X ⟶ improvement in BOGS
& therefore improvement in CAD

/ mark − correct description of ↑ in TOT
/ mark − correct explaination of impact on
BOGS + CAD.

Note ° Still thinking TOT will
effect demand,

3

Figure 1: Current Account and International Investment
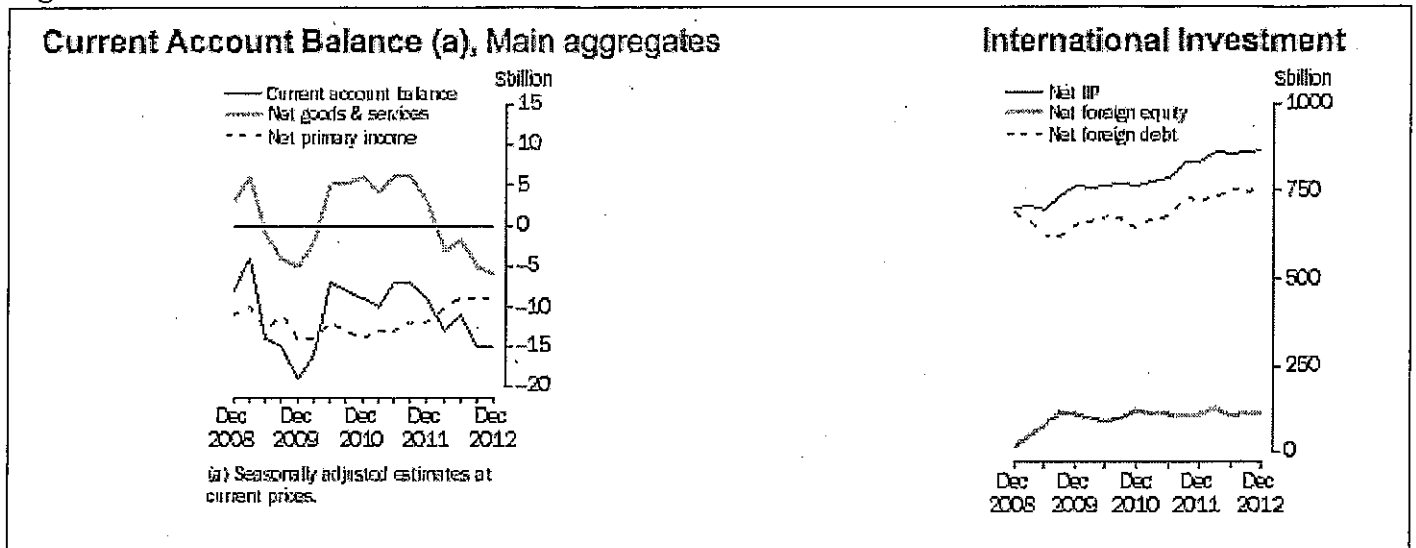
Source: ABS

4. With reference to Figure 1, describe the relationship between foreign investment and net primary income (2 marks)

Foreign investors require a return on their investment (e.g interest + dividends) As shown above, rising foreign investment (debt + equity) should result in ↑ primary income debits in the current account. Other factors (exchange rates, interest rates also influence primary income) such that the movements are not always correlated.

Describe relationship + refer to diagrams   (2)

Describe relationship only   (1)

o Don't use decrease when refering to PYA getting larger.
o Refering only to foreign ~~investment~~ equity not debt.

5. Discuss the theoretical impact of an appreciation of a country's currency on exports and imports

(4 marks)

Exports

↑ $A ⟶ ↑ need for ↑ $A price for producer
(or ↑ relative cost in foreign currencies)
⟶ therefore less competitive X's
↓ demand & lower X revenues in $A

Imports ⟶ less $A needed to purchase same qty of Ms
⟶ ↑ demand by consumers as they substitute domestic for Ms
⟶ ↓ domestic supply of import competing goods (some producers unprofitable)

Discussing of cause + effect for both X + M   4
Identify 1 + fully discuss other   3
Identify both   2
Identify 1   1

5

PART B: FREE TRADE & PROTECTION

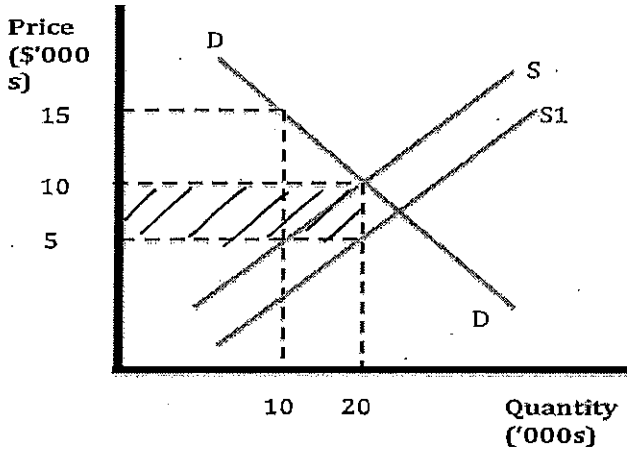The following diagram shows the effect of a subsidy on the Australian market for passenger motor vehicles.

Figure 2: The market for passender motor vehicles

1. Calculate cost of the subsidy to the government budget? (1 mark)

$5 \times 20 = 100$ $\$ 100,000,000$.

2. Outline TWO reasons why Australian governments continue to provide subsidies to automotive manufacturers   *more direct*   · (2 marks)

① ↑ domestic employment ② explain ·

② ↑ innovation/technology in inefficient industries ;
explain

Retaliation/matching foreign country subsidies

+ infant industry argument | gave self sufficiency argument

These can be linked to political reasons but politics alone not sufficient

Outline 2 (2)
Identify 2 · (1)

not competitive but giving cost comparison reason

6

3. Describe ONE economic benefit and ONE economic cost of a reduction global protectionist policies on the Australian economy (3 marks)

Benefits

| Describe both (3) |
| Identify 1 + describe 1 (2) |
| Identify 2 (1) |

Costs dumping

↑ export competitiveness

↑ GDP (x revenue)

↑ resource allocation efficiency

↑ global competit + lower costs/prices

↑ structural unemployment

↑ speed of structural change
→ expose inefficient industries

↑ TNCs → less local firms + profits

↓ environmental damage —

4. Using examples, discuss the impact of regional trade agreements on developing economies (4 marks)

x EU , NAFTA , ASEAN/AANZ FTA , APEC/TPP

x Countries excluded from FTAs difficult to compete + take advantage of comparative adv. + specialisation .

x Trade diverted within member countries

x International organisations

x Countries with agreement benefit from increased trade (e.g. developing countries in ASEAN , eastern european countries in EA , Mexico in NAFTA)
+ larger market (economies of scale)
+ lower consumer/business costs

2 marks for Reg agreement that is positive + benefit explained

2 marks for agreement that is negative + effect explained

7

PART C: RESEARCH ON THE IMPACT OF CHANGES IN THE GLOBAL ECONOMY ON AUSTRALIA'S TRADE & FINANCIAL FLOWS AND STRUCTURE OF INDUSTRY

In your answer you will be assessed on how well you:

- Use your research knowledge and the information provided
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- Present a sustained logical and cohesive response to the question

With reference to Figures 3 & 4 and you own research knowledge answer the extended response question below (use the separate exam booklet provided for your answer).
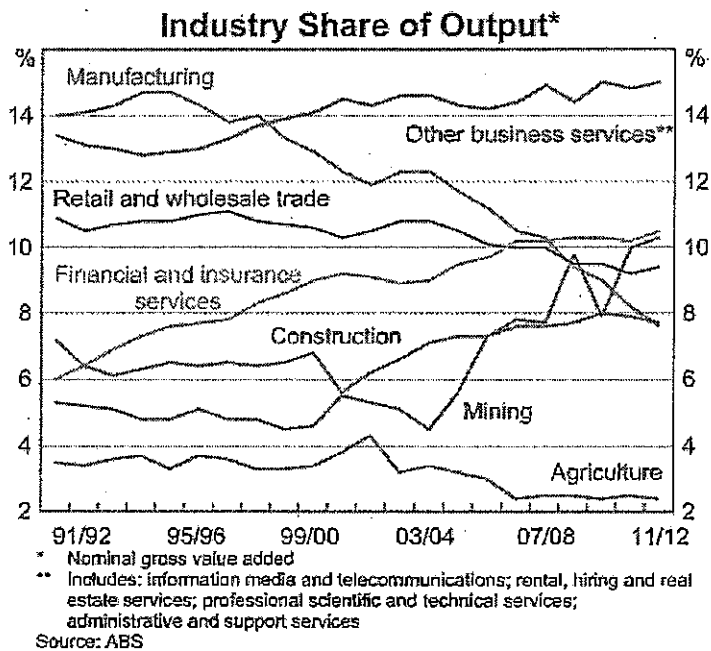
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Industry Share of Output*

* Nominal gross value added
** Includes: information media and telecommunications; rental, hiring and real estate services; professional scientific and technical services; administrative and support services
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Source: ABS Cat. 5368.0										

Figure 4.2 – Australia's merchandise trade shares by country/region

Extended response question: Examine the reasons for changes in the composition and direction of Australia's trade, and explain the impact of these changes on structural change in Australia.

Question *'Discuss the impact of changes in the global economy on Australia's balance of payments. In your response you should refer to the information provided above and your own research knowledge.'*

Criteria	Marks
• Synthesises own knowledge and understanding, with the information provided, to develop a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theory • Demonstrates a clear and comprehensive understanding of the relationship between changes in the global economy and Australia's Balance of Payments and the implications of these changes.	17–20
• Synthesises own knowledge and understanding, with the information provided, to develop a logical and cohesive response. • Applies relevant economic terms, concepts, relationships and theory • Provides a clear understanding of the relationship between changes in the global economy and Australia's Balance of Payments.	13–16
• Uses own knowledge and understanding with the information provided to develop a coherent response • Uses relevant economic terms and concepts and shows some relationships • Sketches in general terms some effects of changes in the global economy on Australia's Balance of Payments.	9–12
• Develops a generalised response • Uses some economic terms and concepts • States some effects of changes in the global economy on Australia's Balance of Payments.	5-8
• Presents a limited response • Uses some economic terms or concepts • Lists features of the global economy or Australia's Balance of Payments.	1-4

Answers may include:

- Definition of balance of payments and globalisation
- Globalisation drivers: trade liberalisation, financial deregulation, technology & transport
- BOP trends: BOGS surplus, CAD 2-4% of GDP

Impacts on BOP
- Cyclical / structural factors

BOGS
- Global growth rates – GFC, EU, China
- Emerging economies demand for minerals
- Commodity prices improvement since 2003
- Changes in prices of imports/exports
- Changes in quantities imported/exported of merchandise trade and services
- Service exports (education and tourism)
- Appreciation / depreciation of $A
- International division of labour & international competitiveness
- Trade blocs (EU, NATFA)

Net Primary Income
- Servicing costs of increased FDI and Portfolio Investment
- Reduced global interest rates post GFC

CAD improvement – since 2003

Financial Account
- Global financial deregulation
- Source of savings for investment (especially mining)
- AAA 'safe haven' for government debt
- Speculators
- Relative interest rates
- US, UK, Japan quantitative easing/money-printing (attracts portfolio investment to Australia)

Feedback

	Mastered	Developed	Developing	Needs attention
Definitions				
Clear and logical structure				
Balance between parts of the question				
Clear, unemotional language?				
Points answer the question asked				
One point per paragraph				
Paragraph structure (short, PEEL)				
Addresses most important points				
Depth of explanation of points				
Examples – evidence of research				
Statistics – evidence of research				
Theory (including diagrams)				

Comments