



ABBOTSLEIGH

2013

**TRIAL HIGHER SCHOOL
CERTIFICATE**

Economics

General Instructions

- Write your Student Number at the top of this page.
- Board approved calculators can be used.

TOTAL MARKS – 100

WEIGHTING- 35%

**TIME ALLOWED- 3 hours and 5 minutes
reading time**

SECTION I

20 marks

- Attempt Questions 1 – 20
- Use the multiple choice answer sheet provided
- Allow about 35 minutes for this section

SECTION II

40 marks

- Allow about 1 hour 15 minutes for this section
- Attempt Questions 21 -24
- Respond in the spaces provided on the examination paper

SECTION III

20 marks

- Attempt Question 25 **or** 26
- Allow about 35 minutes for this section

SECTION IV

20 marks

- Attempt Question 27 **or** 28
- Allow about 35 minutes for this section

Section I

20 marks

Attempt Questions 1-20

Allow about 35 minutes for this section

Use the Multiple Choice Answer Sheet provided.

Select the alternative A, B, C, or D that best answers the question. Fill in the response oval completely.

Sample $2 + 4 =$ (A) 2 (B) 6 (C) 8 (D) 9

A B C D

If you think you have made a mistake, put a cross through the incorrect answer and fill in the new answer.

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If you have changed your mind and have crossed out what you consider to be the correct answer, then indicate this by writing the word *correct* and drawing an arrow as follows:

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-
- 1 Which of the following is a trading bloc?
- (A) G20
 - (B) WTO
 - (C) EU
 - (D) OECD
- 2 What is an advantage of free trade?
- (A) Countries are able to specialise and produce the goods for which they have a comparative advantage
 - (B) Countries are able to protect their markets using tariffs to support domestic producers
 - (C) Countries are able to ensure they can produce military goods to protect their national interests
 - (D) Countries are able to limit migration and so protect low income workers

- 3 Which statement best describes the difference between the effects of a tariff on imports and subsidies for domestic producers?
- (A) A tariff increases the price of an imported good, while a subsidy decreases the supply of the domestic good
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- 4 Which of the following is the best measure of the economic development of a nation?
- (A) The Gini coefficient
 - (B) The inflation rate
 - (C) The terms of trade
 - (D) The Human Development Index
- 5 Which the following is likely to increase the speed of globalisation?
- (A) An increase in the price of oil
 - (B) A reduction in restrictions to immigration
 - (C) A reduction in R&D spending by IT companies
 - (D) An increase in financial market regulation
- 6 Which of the following best describes Australia's experience with international financial flows over the past 15 years?
- (A) An increase in net foreign debt relative to GDP
 - (B) An increase in net foreign equity relative to GDP
 - (C) A decrease in net foreign debt relative to GDP
 - (D) A decrease in net foreign liabilities relative to GDP

- 7 The table below shows selected data for an economy.

Balance of payments items	\$billion
Goods exports	50
Goods imports	70
Services exports	25
Services imports	15
Net primary income	-30
Net secondary income	-5

According to the data, which of the following statements is correct for a country with a floating exchange rate?

- (A) The country is running a capital and financial account surplus of \$45 billion
 - (B) The country is running a capital and financial account deficit of \$45 billion
 - (C) The country is running a capital and financial account surplus of \$125 billion
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- 8 The table below shows selected data for a hypothetical economy.

Year	Export price index	Import price index
1	100	100
2	105	107
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Which of the following statements is correct for this economy?

- (A) The terms of trade increased over the entire period
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 - (C) The terms of trade increased in Year 2 but fell in Year 3
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- 9 Which of the following would be recorded as a debit item in the Current Account of Australia's Balance of Payments?
- (A) The purchase of shares on the New York Stock Exchange by an Australian company
 - (B) The purchase of shares on the Australian Securities Exchange by an American company
 - (C) The payment of interest on an overseas loan by an Australian company
 - (D) The payment of interest by an American company to an Australian bank

- 10** Which of the following is the most likely consequence of the Reserve Bank of Australia lowering the official cash rate?
- (A) Increased capital outflow and downward pressure of the value of the Australian dollar
 - (B) Increased capital outflow and upward pressure of the value of the Australian dollar
 - (C) Increased capital inflow and downward pressure of the value of the Australian dollar
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- 11** Which of the following is recognised as a bilateral trade agreement between Australia and New Zealand?
- (A) SAFTA
 - (B) CERTA
 - (C) ASEAN
 - (D) OECD
- 12** Which of the following is most likely to reduce Australia's export volumes?
- (A) A contraction in the Chinese economy and an appreciation in Australia's exchange rate
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- 13** Why do economists use PPP adjustments when comparing the output of different economies?
- (A) To adjust for the different exchange rates between countries
 - (B) To adjust for the different unemployment rates between countries
 - (C) To adjust for different asset prices between countries
 - (D) To adjust for different goods and services prices between countries

- 14 An increase in investment by \$10b results in an increase in output by \$40b. What is the marginal propensity to save (MPS)?
- (A) 0.80
 - (B) 0.75
 - (C) 0.25
 - (D) 0.20

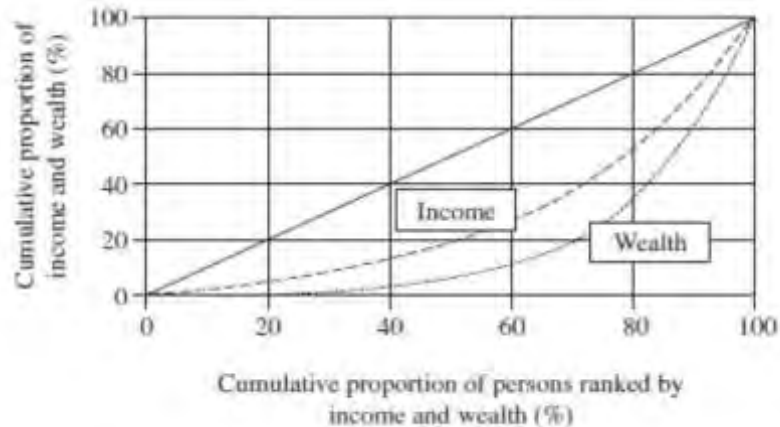
- 15 The table below shows selected data for a hypothetical economy.

Components of National Income	\$billion
Exports	40
Government spending	30
Imports	50
Investment	40
Savings	20
Taxation	20

Based on the information in the table, which of the following statements is correct?

- (A) Injections are greater than withdrawals and the economy is expanding
 - (B) Injections are less than withdrawals and the economy is expanding
 - (C) Injections are greater than withdrawals and the economy is contracting
 - (D) Injections are less than withdrawals and the economy is contracting
- 16 A call-centre operator has been made redundant as her position has been replaced by an automated system. Identify the most appropriate category for her situation.
- (A) Seasonal unemployment
 - (B) Structural unemployment
 - (C) Hidden unemployment
 - (D) Underemployment
- 17 What is the most significant difference between debt and equity finance?
- (A) Equity finance does not need to be repaid
 - (B) Debt finance does not need to be repaid
 - (C) Dividends are payable on debt finance
 - (D) Interest is payable on equity finance

- 18 The diagram below refers to the distribution of income and wealth in a hypothetical economy.



According to this diagram, which of the following statements are correct for this economy?

- (A) Income has a higher Gini coefficient than wealth and the distribution of income is more unequal than the distribution of wealth
 - (B) Wealth has a higher Gini coefficient than income and the distribution of income is more unequal than the distribution of wealth
 - (C) Wealth has a higher Gini coefficient than income and the distribution of income is more equal than the distribution of wealth
 - (D) Income has a higher Gini coefficient than wealth and the distribution of income is more equal than the distribution of wealth
- 19 Which of the following statements best describes a public good?
- (A) A good that is excludable and rival
 - (B) A good that is non-excludable and rival
 - (C) A good that is non-excludable and non-rival
 - (D) A good that is excludable and non-rival
- 20 All other things being equal, what would be the impact of a fall in interest rates on investment and savings?
- (A) Investment will rise and savings will rise
 - (B) Investment will rise and savings will fall
 - (C) Investment will fall and savings will rise
 - (D) Investment will fall and savings will rise

Section II

40 marks

Attempt Questions 21–24

Allow about 1 hour and 15 minutes for this section

Answer the questions in the spaces provided. These spaces provide guidance for the expected length of response.

Extra writing space is provided on pages 15 and 16. If you use this space, clearly indicate what question you are answering.

Question 21 (10 marks)

Even supporters of globalization agree that the benefits of globalization are not without risks—such as those arising from volatile capital movements. The IMF works to help economies manage or reduce these risks, through economic analysis and policy advice and through technical assistance in areas such as macroeconomic policy, financial sector sustainability, and the exchange-rate system.

- *IMF website*

(a) Define Gross World Product (1 mark)

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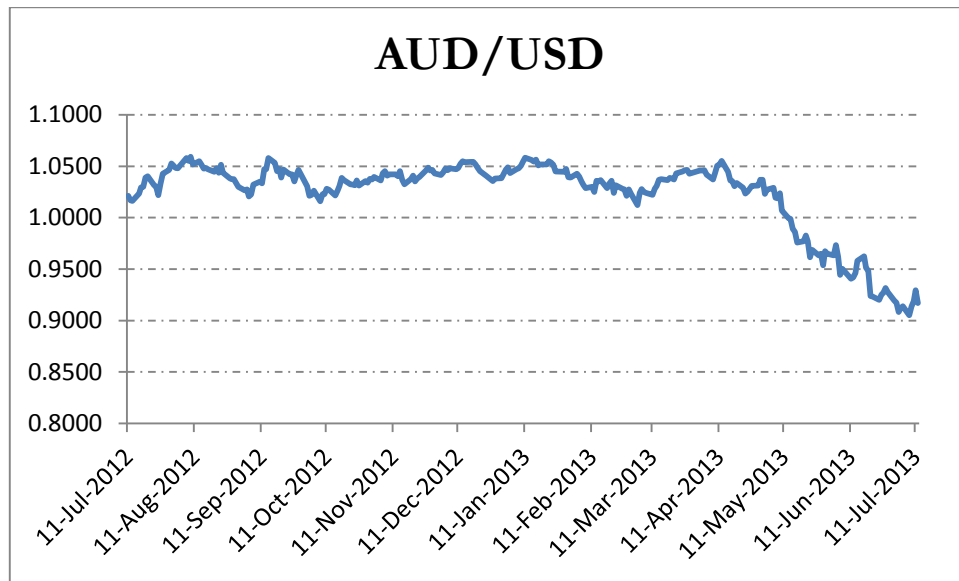
(b) Describe TWO of the drivers of globalisation (2 marks)

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(c) Outline the role of the IMF (2 marks)

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Question 22 (10 marks)



Source: RBA Statistical Tables

(a) Define an exchange rate (1 mark)

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(b) If the AUD/USD exchange rate is 0.92, calculate the USD/AUD exchange rate (1 mark)

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(c) What economic term describes the movement of the AUD/USD exchange rate since the 11th of April, 2013? (1 mark)

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(d) Outline the effect on the prices of Australia's exports and imports from the exchange rate movement you identified in part (c) of this question (2 marks)

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(e) What is the terms of trade? (1 mark)

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(f) Explain how movements in Australia's terms of trade can influence the exchange rate (4 marks)

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Question 23 (10 marks)



(a) Define the term inflation (1 mark)

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(b) If the average inflation rate of Australia's international competitors is 1% in 2013, are Australian exports becoming more or less internationally competitive? (1 mark)

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(c) Distinguish between headline inflation and underlying inflation (2 marks)

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(d) Explain how movements of the Australian dollar since 11th of April 2013 are likely to impact on the inflation rate (3 marks)

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(e) Explain the role of expectations in influencing the inflation rate (3 marks)

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Question 24 (10 marks)



- (a) Describe the difference between the private costs and the social costs of producing a good such as electricity (2 marks)

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- (b) Define what is meant by the term climate change (2 marks)

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- (c) Explain the externalities that are causing the problems associated with climate change (4 marks)

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(d) Outline the free rider problem with respect to managing global issues associated with climate change (2 marks)

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Section III

20 marks

Attempt either Question 25 OR Question 26

Allow about 35 minutes for this section

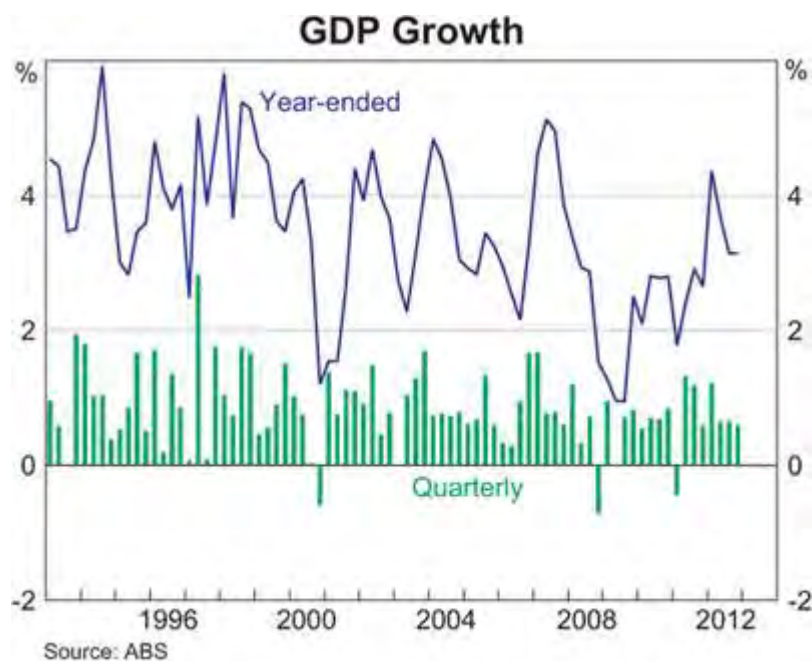
Answer the question in a SEPARATE writing booklet. Extra writing booklets are available.

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

- use your knowledge and economic information provided
- apply economic terms, concepts, relationships and theory
- present a sustained, logical and well-structured answer to the question

Question 25 (20 marks)

Outline the factors affecting Australia's economic growth, and analyse the relationship between economic growth and changes in environmental quality.



Just as an increasing population does not necessarily translate proportionately to increased environment impact, neither does a growing economy. However, there is strong historical evidence that this has been the case and thus will likely continue into the future. As the economy of Australia expands, it is likely that our consumption of resources and production of waste will also increase.

- *State of the Environment 2011 Committee*

OR

Question 26 (20 marks)

Discuss the impact of changes in global trade, investment, finance and labour flows on the global economy.

Multilateral agreement to cut red tape in international trade would dramatically reduce trading costs and add a substantial boost to the global economy, according to new OECD research. The OECD Trade Facilitation Indicators estimate that comprehensive implementation of all measures currently being negotiated in the World Trade Organization's Doha Development Round would reduce total trade costs by 10% in advanced economies and by 13-15.5% in developing countries. Reducing global trade costs by 1% would increase worldwide income by more than USD \$40 billion, most of which would accrue in developing countries, according to the OECD.

– *OECD March 2013*

Section IV

20 marks

Attempt either **Question 27 OR Question 28**

Allow about 35 minutes for this section

Answer the question in a SEPARATE writing booklet. Extra writing booklets are available.

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

- use economic data
 - apply economic terms, concepts, relationships and theory
 - present a sustained, logical and well-structured answer to the question
-

Question 27 (20 marks)

Analyse the impact of protectionist policies on the domestic and global economies.

OR

Question 28 (20 marks)

Discuss the economic implications for Australia's economy of continued current account deficits.

ECONOMICS

**HSC TRIAL EXAMINATION
Multiple Choice Answer Sheet**

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|-----|---|-----------------------|---|-----------------------|---|-----------------------|---|-----------------------|
| 1. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 2. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 3. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 4. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 5. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 6. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 7. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 8. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 9. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 10. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 11. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 12. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 13. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 14. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
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| 17. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 18. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 19. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
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TRIAL HIGHER SCHOOL CERTIFICATE

MARKING GUIDELINES

Economics

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**TIME ALLOWED- 3 hours and 5 minutes
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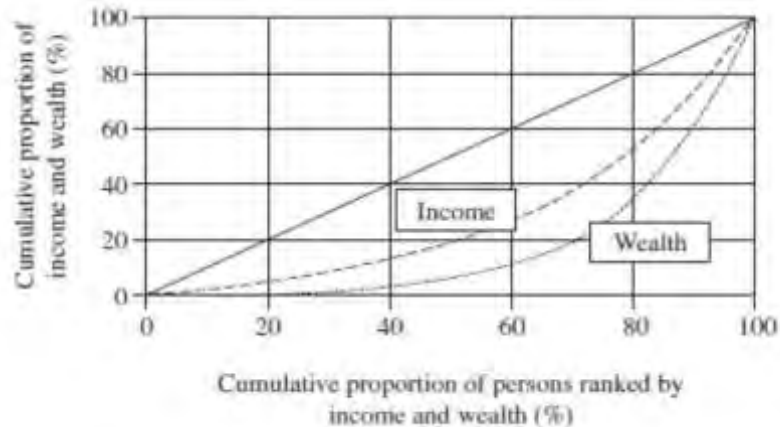
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Section II

40 marks

Attempt Questions 21–24

Allow about 1 hour and 15 minutes for this section

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- *IMF website*

- (a) Define Gross World Product (1 mark) **The total value of all final goods and services produced by the global economy (or all economies) over a given period (OK to say 1 year)**

.....

- (b) Describe TWO of the drivers of globalisation (2 marks) **1 mark each – must include at least a sentence description, not just named. Possible answers include improvements in technology, reduction in trade barriers, increase in MNCs, reduction in barriers to financial flows, increases in FDI, absence of global conflicts**

.....

- (c) Outline the role of the IMF (2 marks) **2 marks for clear answer, 1 for broad. Key idea is that focuses on international financial stability, and to provide short term capital to address balance of payments issues. It is also focused on fostering global growth and economic stability.**

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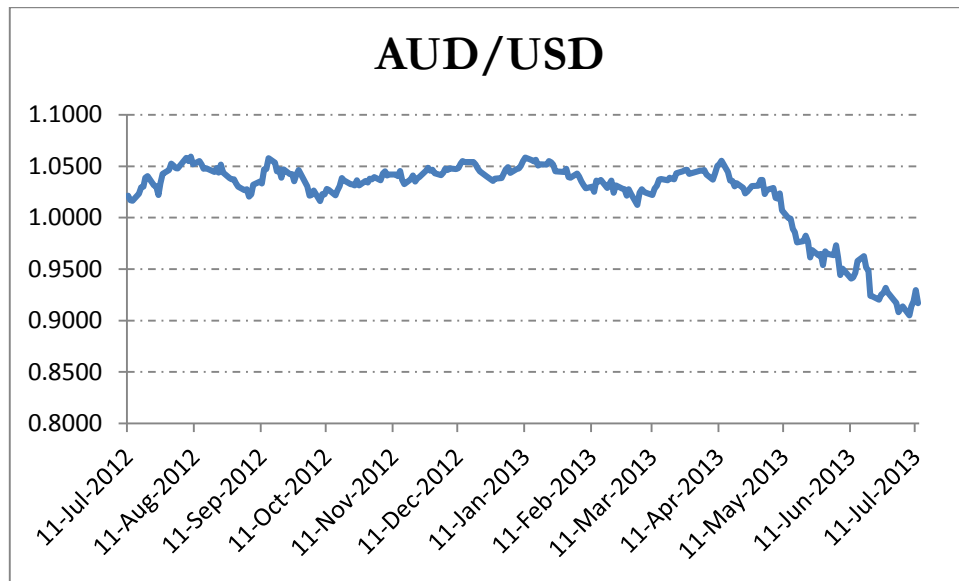
- (d) For an economy other than Australia, analyse the strategies used to promote economic growth and development in this economy (5 marks).

Name of economy:

To get full 5 marks, student needs to describe 2 or 3 strategies, distinguish between growth and development, and explain how the strategies have influenced growth and/or development. Possible answers include the introduction of the Household Responsibility System (agricultural reforms), open door policy and introduction of SEZs, reduction in protection, joining the WTO, taxation reform, fiscal stimulus in response to GFC

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Question 22 (10 marks)



- (a) Define an exchange rate (1 mark) **The price of one currency in terms of another**

- (b) If the AUD/USD exchange rate is 0.92, calculate the USD/AUD exchange rate (1 mark)
=1/0.92 = 1.087

- (c) What economic term describes the movement of the AUD/USD exchange rate since the 11th of April, 2013? (1 mark) **Depreciation**

- (d) Outline the effect on the prices of Australia’s exports and imports from the exchange rate movement you identified in part (c) of this question (2 marks) **1 mark for outlining that it will reduce the price of Australia’s exports for foreign buyers, and 1 mark for outlining that it will increase the price of imports for Australian buyers**

- (e) What is the terms of trade (1 mark) **The price of a country’s exports divided by the price of its imports**

- (f) Explain how movements in Australia’s terms of trade can influence the exchange rate (4 marks) **2 marks for addressing impact of increase in ToT, and 2 marks for addressing impact of decrease. Impacts of increase are that it will tend to increase demand for AUD relative to supply, and therefore lead to an appreciation, and**

vice versa for a fall

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Question 23 (10 marks)



- (a) Define the term inflation (1 mark) **The increase in the general price level over a period of time**
.....
- (b) If the average inflation rate of our international competitors is 1%, are Australian exports becoming more or less internationally competitive? (1 mark) **Less**
.....
- (c) Distinguish between headline inflation and underlying inflation (2 marks) **1 mark for describing headline inflation as simply measured by percentage increase in Consumer Price Index, and 1 mark for describing underlying inflation as adjusting headline inflation for impact of volatile items or one-off changes.**
.....
- (d) Explain how movements of the Australian dollar since 11th of April 2013 are likely to impact on the inflation rate (3 marks) **1 mark for outlining that the movement has been a depreciation, 1 mark for stating that it will influence imported inflation, and 1 mark for outlining that it will lead to an increase in imported inflation as the depreciation will make imported goods more expensive in terms of AUD.**
.....
- (e) Explain the role of expectations in influencing the inflation rate (3 marks) **3 marks for clearly explaining how agent’s expectations of inflation will influence their**

current behaviour and therefore affect actual inflation. If consumers expect inflation to rise they will bargain for higher wages which will then generate cost push (higher prices for firms) and demand pull (higher disposable income for households) inflation. If firms expect higher input prices they will increase their own prices in anticipation, which will generate cost push inflation.

.....

Question 24 (10 marks)



- (a) Describe the difference between the private and social costs of producing a good such as electricity (2 marks) **1 mark for describing private costs as all those incurred by firm to generate electricity, and include wages, capital costs, raw materials (coal, LNG etc) and 1 mark for describing social costs as those costs that are borne by those not involved in electricity generation, such as air pollution, climate change etc**
.....
- (b) Define what is meant by the term climate change (2 marks) **2 marks for clear description as the changes in the Earth’s climate system over long periods of time, and includes such features as rising global temperatures, rising sea levels, more extreme weather events (give at least one example of associated issues to gain full marks)**
.....
- (c) Explain the externality that is causing the problems associated with climate change (4 marks) **1 mark for defining what is meant by the term externality, 1 mark for describing how the marginal social cost of activities such as electricity production and transport is higher than the private cost, 1 mark for explaining that this results in too much of the good being produced, and 1 mark for explaining that this also results in the goods being sold too cheaply (ie student needs to address both price and quantity issues in answer)**
.....
- (d) Outline the free rider problem with respect to managing issues associated with climate change (2 marks) **1 mark for defining what the free rider problem is, and 1 mark for explaining problem of global coordination – that there is an incentive for**

individual countries to underprice carbon to obtain a competitive advantage and defect from any global agreement

.....

Section III

20 marks

Attempt either Question 25 OR Question 26

Allow about 35 minutes for this section

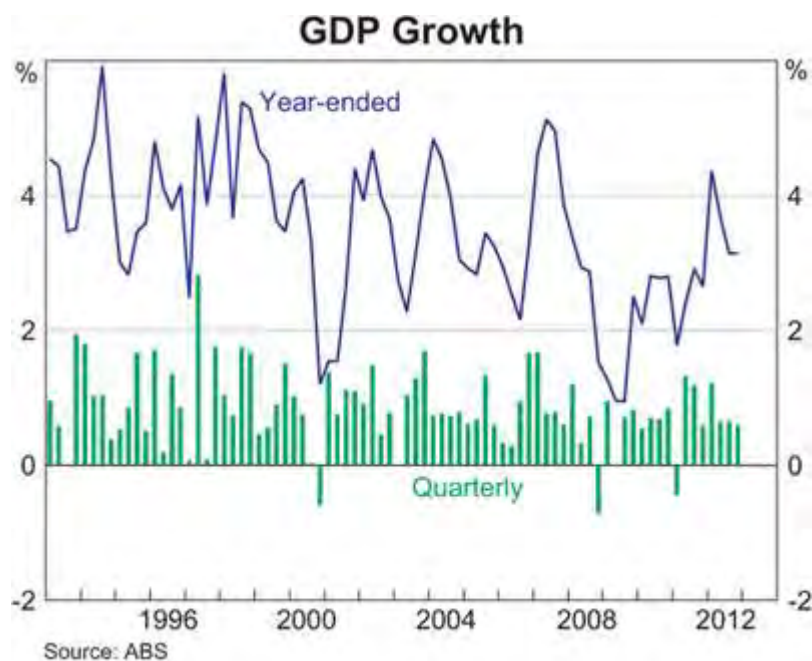
Answer the question in a SEPARATE writing booklet. Extra writing booklets are available.

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

- use your knowledge and economic information provided
- apply economic terms, concepts, relationships and theory
- present a sustained, logical and well-structured answer to the question

Question 25 (20 marks)

Outline the factors affecting Australia's economic growth, and analyse the relationship between economic growth and changes in environmental quality.



Just as an increasing population does not necessarily translate proportionately to increased environment impact, neither does a growing economy. However, there is strong historical evidence that this has been the case and thus will likely continue into the future. As the economy of Australia expands, it is likely that our consumption of resources and production of waste will also increase.

- *State of the Environment 2011 Committee*

Suggested structure for essay:

- Define economic growth
- Explain how growth is measured
- Use AD/AS or circular flow of income model to explain factors underlying growth
 - Define components of AD
- Explain factors underlying growth – in terms of demand and supply side, or domestic vs international
- Describe Australia's recent growth experience with reference to stimulus graph
- Define key features of ecologically sustainable development
- Outline key reasons why market system may lead to environmental issues – externalities, public goods
- Explain how growth may lead to environmental decline (increased resource use, increased waste products) or environmental improvement (increased consumer demand for environmental goods), with reference to stimulus statement
- Provide relevant examples of how growth has led to environmental decline or improvements (international useful, but fundamental story must be about Australia)

OR

Question 26 (20 marks)

Discuss the impact of changes in global trade, investment, finance and labour flows on the global economy.

Multilateral agreement to cut red tape in international trade would dramatically reduce trading costs and add a substantial boost to the global economy, according to new OECD research. The OECD Trade Facilitation Indicators estimate that comprehensive implementation of all measures currently being negotiated in the World Trade Organization's Doha Development Round would reduce total trade costs by 10% in advanced economies and by 13-15.5% in developing countries. Reducing global trade costs by 1% would increase worldwide income by more than USD \$40 billion, most of which would accrue in developing countries, according to the OECD.

– *OECD March 2013*

Suggested structure for essay:

- Define globalisation
- Outline how GWP can be used to estimate size of global economy – better answers would explain how PPP adjustments are necessary to compare different economies
- Outline drivers of globalisation: reductions in trade barriers, technological change, reductions in capital controls, relative political stability, reductions in capital controls, political convergence
- Discuss impact of changes in global trade on global economy
 - Explain why increases in trade can lead to increases in global growth
 - Illustrate with relevant data
 - Refer to stimulus material
 - Outline role of multilateral and bilateral trade agreements
 - Contrast with potential negative outcomes (e.g. domestic job loss, cultural homogenisation)
- Outline impact of changes in global investment on global economy
 - Explain why increases in global investment can lead to increases in global growth
 - Illustrate with relevant data (could refer to China case study examples)
 - Differentiate between investment and financial flows
 - Contrast with potential negative outcomes (e.g. worker exploitation, environmental and taxation arbitrage)
- Outline impact of changes in global financial flows on global economy
 - Explain why increases in global financial flows can lead to increases in global growth
 - Possibly outline role of IMF
 - Illustrate with relevant data (could refer to China case study examples)

- Contrast with potential negative outcomes (e.g. financial contagion, hot money reversals)
- Outline impact of labour movements on global economy
 - Explain why labour movements can lead to increases in global growth
 - Illustrate with relevant data
 - Contrast with potential negative outcomes (e.g. brain drain)

Section IV

20 marks

Attempt either Question 27 OR Question 28

Allow about 35 minutes for this section

Answer the question in a SEPARATE writing booklet. Extra writing booklets are available.

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

- use economic data
 - apply economic terms, concepts, relationships and theory
 - present a sustained, logical and well-structured answer to the question
-

Question 27 (20 marks)

Analyse the impact of protectionist policies on the domestic and global economies.

Suggested structure for essay:

- Define free trade
- Explain basis for free trade
- Outline the reasons for protection (infant industry, dumping, domestic employment and defence) – better responses will be able to provide counter-arguments to these
- Outline methods of protection – tariffs, subsidies, quotas, local content rules and export incentives
- Explain impact of tariff using D/S curves for domestic economy (increased consumer price, increased domestic production and local jobs, revenue raising etc)
 - Illustrate with relevant data
- Explain impact of quota using D/S curves for domestic economy (much the same as above, and can be revenue raising depending on how quotas are allocated)
- Explain impact of subsidies using D/S curves for domestic economy – better students will be able to contrast impact of small vs large economies
 - Illustrate with relevant data
- Explain impact of protection on global economy – potential for retaliation, economic inefficiency, fewer links mean reduced economic costs of conflict
 - Illustrate with relevant data

OR

Question 28 (20 marks)

Discuss the economic implications for Australia's economy of continued current account deficits.

Suggested structure for essay:

- Define structure of Australia's BoP
- Explain links between BoP categories
- Outline trends in Australia's BoP and illustrate with relevant data
- Explain causes of Australia's ongoing CAD
 - From current account side (servicing costs of NFL, international competitiveness, terms of trade)
 - From capital and financial account side (difference between national savings and investment)
- Outline arguments as to why Australia's CAD isn't a problem (consenting adults view)
- Outline arguments as to why Australia's CAD might be a problem