



# Barker College

**2010  
YEAR 12  
TRIAL EXAMINATION  
TERM 3**

# Economics

AM FRIDAY 13<sup>TH</sup> AUGUST

55 copies

## Section A – Multiple Choice Answer Sheet

Choose the best response and fill in the response oval completely

1.	(A)	(B)	(C)	(D)
2.	(A)	(B)	(C)	(D)
3.	(A)	(B)	(C)	(D)
4.	(A)	(B)	(C)	(D)
5.	(A)	(B)	(C)	(D)
6.	(A)	(B)	(C)	(D)
7.	(A)	(B)	(C)	(D)
8.	(A)	(B)	(C)	(D)
9.	(A)	(B)	(C)	(D)
10.	(A)	(B)	(C)	(D)

11.	(A)	(B)	(C)	(D)
12.	(A)	(B)	(C)	(D)
13.	(A)	(B)	(C)	(D)
14.	(A)	(B)	(C)	(D)
15.	(A)	(B)	(C)	(D)
16.	(A)	(B)	(C)	(D)
17.	(A)	(B)	(C)	(D)
18.	(A)	(B)	(C)	(D)
19.	(A)	(B)	(C)	(D)
20.	(A)	(B)	(C)	(D)

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Barker College

Student Number: .....

**2010  
YEAR 12  
TRIAL EXAMINATION  
TERM 3**

# Economics

Staff Involved:

AM FRIDAY 13<sup>TH</sup> AUGUST

- JLD
- JMM\*
- JMT

55 copies

## General Instructions

- Working time – 3 hours
- Write using blue or black pen
- Hand in the paper in **FOUR** separate bundles:
  1. Section I
  2. Section II Short Answer
  3. Section III Stimulus Essay
  4. Section IV Essay

Total marks (100)

**Section I** Pages 2 - 8

20 marks

- Attempt Questions 1 – 20
- Answer these questions on the multiple-choice answer sheet provided
- Allow 36 minutes for this section

**Section II** Pages 9 – 14

40 marks

- Attempt Questions 21 to 24
- Answer this question in the spaces provided on the paper
- Allow 72 minutes for this section

**Section III** Pages 15 - 16

20 marks

- Attempt ONE Question - Question 25  
OR Question 26
- Answer this question on the paper provided
- Allow 36 minutes for this section

**Section IV** Page 17

20 marks

- Attempt ONE Question – Question 27  
OR Question 28
- Answer this question on the paper provided
- Allow 36 minutes for this section

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**Section I – Multiple Choice**

**Total marks (20)**

**Attempt Questions 1 – 20**

**Use the multiple-choice answer sheet**

**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.**

(A)      (B)      (C)      (D)

**If you change 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.**

(A)      (B)      (C)      (D)

*correct*  
↙

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1. What is the best measure of inflation?
  - (A) Human development index
  - (B) Consumer price index
  - (C) Trade weighted index
  - (D) Real unit labour costs index
  
2. What is the effect of reducing a subsidy to domestic producers of car tyres?
  - (A) Domestic resources will be reallocated.
  - (B) Income will be redistributed towards domestic tyre producers.
  - (C) The market share of domestic producers will increase
  - (D) Seasonal unemployment will increase.
  
3. Which of the following is likely to cause an increase in unemployment?
  - (A) An increase in aggregate demand
  - (B) An increase in government spending
  - (C) A decrease in income taxation
  - (D) A decrease in import prices
  
4. In Year 1, money or nominal GDP is \$400 and the CPI is 110. In Year 2, money or nominal GDP is \$450 and the CPI is 121. Which of the following statements is true?
  - (A) The economy has grown in real terms and the inflation rate is 10% pa.
  - (B) The economy has grown in real terms and the inflation rate is 11% pa.
  - (C) The economy has grown in real terms and the inflation rate is 21% pa.
  - (D) The economy has contracted in real terms and the inflation rate is 11% pa.
  
5. How would an English pension paid to an Australian resident be recorded in Australia's balance of payments?
  - (A) A credit on the Financial Account.
  - (B) A credit on the Capital Account.
  - (C) A credit on the Net Income Account.
  - (D) A credit on Other Transfers.

6. How could the Australian Government use the budget to redistribute income in favour of low income earners?
- (A) Decrease interest rates
  - (B) Increase the tax free threshold
  - (C) Lower the low income tax offset
  - (D) Reduce all marginal rates of tax by 4% of income

7. Assume that  $C = 100 + 0.75Y$  and  $I = 200$ . What is the equilibrium level of national income?
- (A) 300
  - (B) 375
  - (C) 1200
  - (D) 1375

8. Use the following table to answer Question 8.

Year	Multiplier
1	2.0
2	3.5
3	6.0

What does the table indicate?

- (A) The MPC is increasing from Year 1 to Year 3.
  - (B) The MPC is increasing from Year 1 to Year 3.
  - (C) The MPC and the MPS are increasing from Year 1 to Year 3.
  - (D) The MPC and the MPS are decreasing from Year 1 to Year 3.
9. The inflation rate in an economy has fallen from 4% pa in 2008 to 2.5% pa in 2009. Which of the statements is true?
- (A) Prices are stable
  - (B) Prices are falling
  - (C) Prices are increasing
  - (D) Unemployment is falling

- 10.** Which of the following is the consequence of a deflationary gap?
- (A) Cyclical Unemployment.
  - (B) Structural Unemployment.
  - (C) Seasonal Unemployment.
  - (D) Hard Core Unemployment.
- 11.** Which of the following is likely to cause an appreciation of the Australian dollar?
- (A) The RBA increasing foreign reserves.
  - (B) The RBA decreasing official interest rates.
  - (C) A fall in commodity prices.
  - (D) Increased labour productivity in Australia.
- 12.** Which of the following is a consequence of increased globalisation?
- (A) Increased absolute poverty in newly industrialised countries.
  - (B) Decreased flows of finance between countries.
  - (C) Decreased levels of international interdependence.
  - (D) Increased greenhouse gases from international transport.
- 13.** What is the effect of marginal social cost being greater than marginal private cost at current levels of GDP?
- (A) Increased inflation.
  - (B) Negative externalities.
  - (C) Lower national income.
  - (D) Increased market prices.

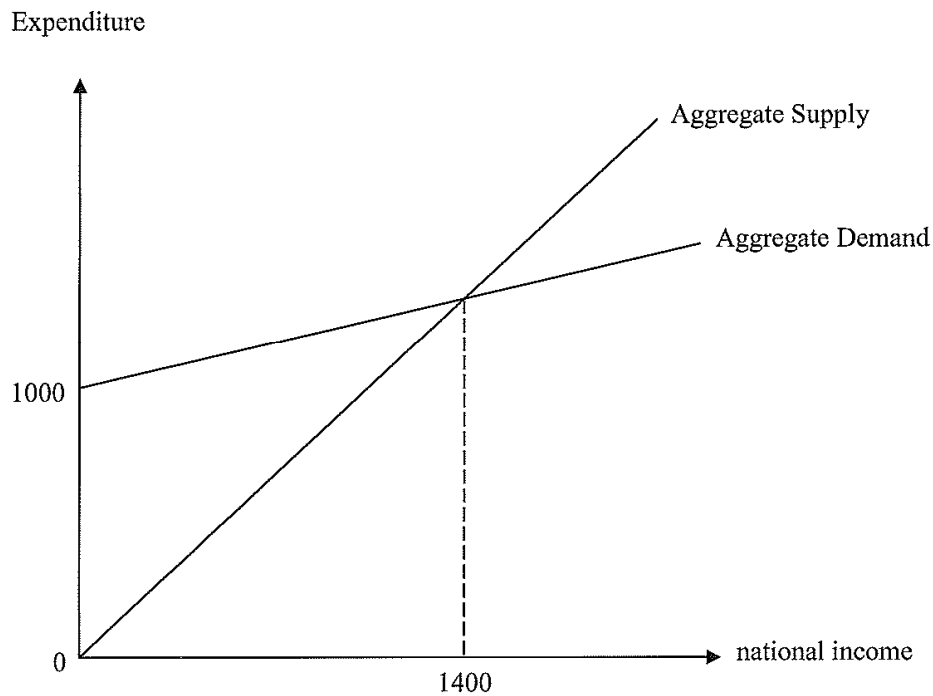


Use the table below indicating statistics for a hypothetical economy with a floated exchange rate to answer Question 14.

<b>Consumption</b>	<b>Saving</b>	<b>Government Spending</b>	<b>Taxation</b>	<b>Imports</b>	<b>Investment</b>	<b>Exports</b>
600	200	250	200	300	100	250

14. Which of the following is true for this economy?
- (A) The economy is in equilibrium and has a budget deficit.
  - (B) The economy will expand and has a current account deficit.
  - (C) The economy will contract and has a budget deficit.
  - (D) The economy has current account deficit and budget surplus.
15. How would the increased cigarette tax affect after tax income distribution?
- (A) Redistribute wealth from rich households to poor
  - (B) Redistribute wealth from poor households to rich
  - (C) Redistribute wealth from high income earners to low income earners
  - (D) Redistribute income from low income earners to high income earners
16. What is the likely effect of increasing economic growth in Australia?
- (A) Increased levels of demand-pull inflation.
  - (B) Decreased levels of household consumption.
  - (C) Decreased levels of cost-push inflation.
  - (D) Increased levels of cyclical unemployment.

Study the diagram and answer Question 17.



17. What is the level of expenditure when this economy is in equilibrium?
- (A) 400
  - (B) 1000
  - (C) 1400
  - (D) 2400
18. What is the effect of the RBA selling short-term securities in the overnight money market?
- (A) The price and yields of short-term securities would decrease.
  - (B) The price of the short-term security would increase and the yield would decrease.
  - (C) The price of the short-term security would decrease and the yield would increase.
  - (D) The price and yields of short-term securities would increase.
19. Which of the following would be considered a *transfer payment*?
- (A) The unemployment benefit.
  - (B) The price paid for milk.
  - (C) The wage paid to labour.
  - (D) The rent paid for land.

20. Refer to the table to answer Question 20.

	<b>Import Price Index</b>	<b>Export Price Index</b>
Year 1	110	100
Year 2	125	115

Which of the following statements is true?

- (A) The terms of trade have remained unchanged.
- (B) The terms of trade have improved.
- (C) The balance on goods and services has improved.
- (D) The balance on goods and services remains unchanged.

**End of Section I**

**Section II – Short Answer**

**Total marks (40)**

**Questions 21 to 24 are compulsory**

Answer this question in the spaces provided on the paper

**Question 21 (10 marks)**

- (a) What is the *human development index*? **1**

.....  
.....

- (b) Distinguish between *economic growth* and *economic development*. **2**

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- (c) Outline **ONE** economic impact of globalisation on a country other than Australia. **3**

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**Question 21 continues on page 10**







**Question 23** (10 marks)

(a) What does the Gini Coefficient measure? **1**

.....  
.....

(b) Distinguish between income and wealth. **2**

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(c) Describe how expanding the application of the Goods and Services Tax to include all food items is likely to affect the distribution of income. **3**

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**Question 23 continues on page 14**





Question 24 (10 marks)

(a) What is a budget deficit? 1

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(b) Distinguish between **TWO** different methods of financing a budget deficit. 2

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.....

(c) Outline how an increase in the tax free threshold would affect government revenue. 2

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Question 24 continues on page 16



## Section III – Stimulus Essay

Total marks (20)

Answer either Question 25 OR 26 on the paper provided

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

- demonstrate knowledge and understanding relevant to the question
- use the information provided
- apply relevant economic terms, concepts, relationships and theory
- present a sustained, logical and cohesive response

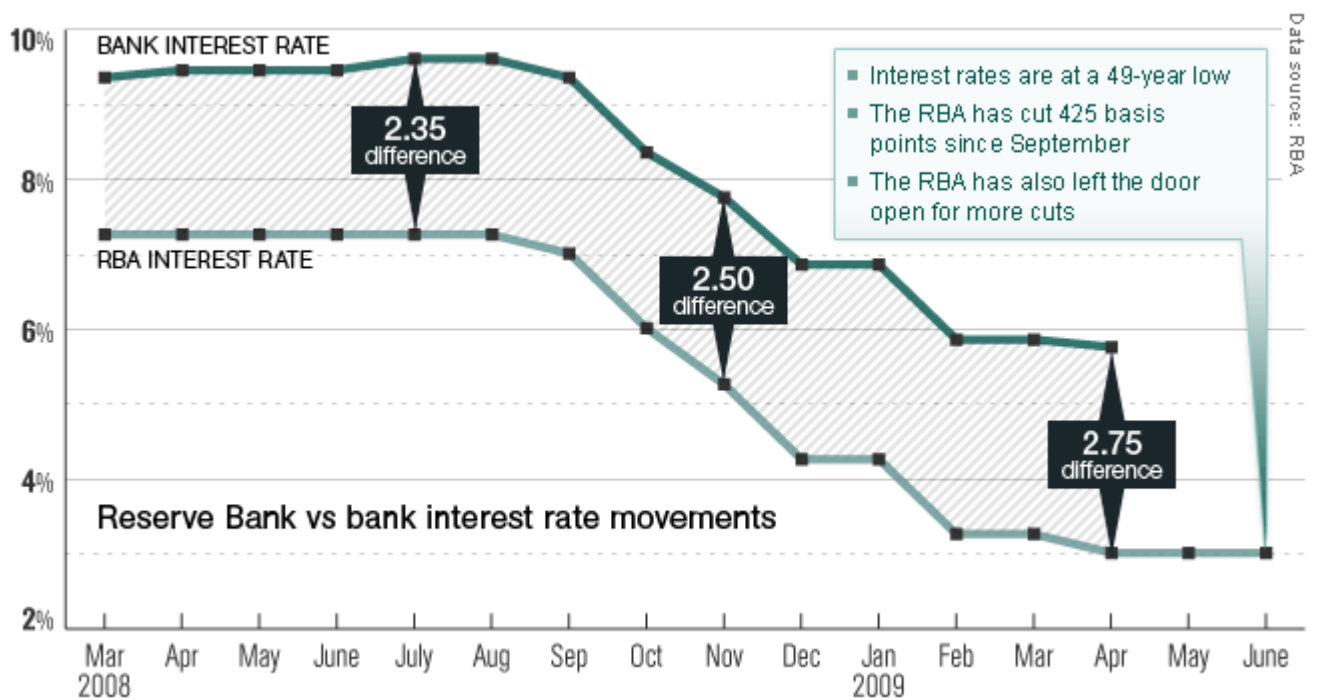
### EITHER

#### Question 25 (20 marks)

Discuss the effectiveness of monetary policy in managing the Australian economy.

The changes in interest rates affect economic activity, with much longer lags, because it takes time for individuals and businesses to adjust their behaviour. Interest rates affect economic activity via a number of mechanisms. They can affect savings and investment behaviour, the spending behaviour of households, the supply of credit, asset prices and the exchange rate, all of which affect the level of aggregate demand. The ways in which monetary policy affects the economy are far from mechanical in their operation. In aggregate, however, a general negative association between interest rates and aggregate demand growth is clear.

Adapted from the *Reserve Bank of Australia* website



OR

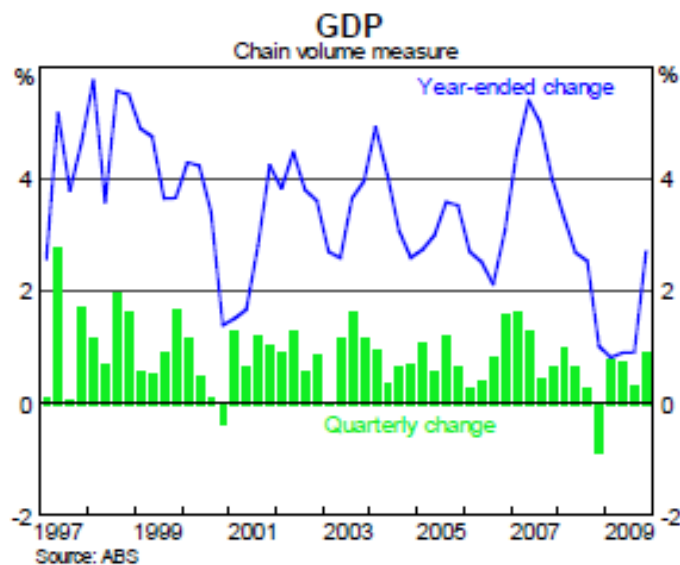
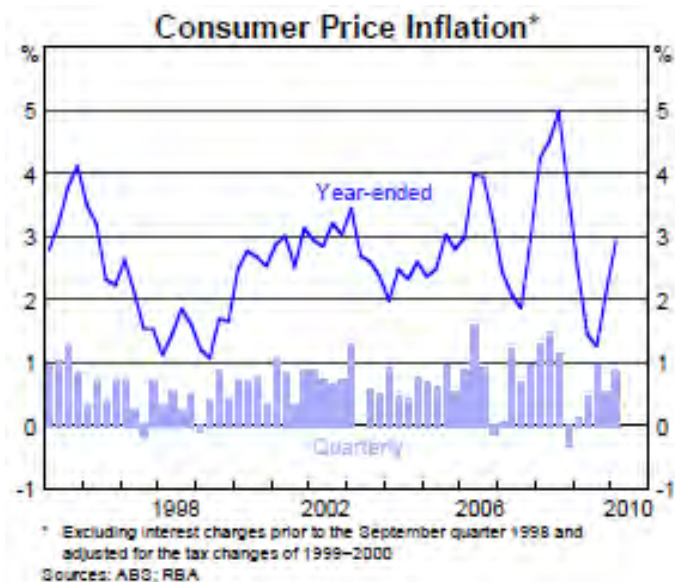
### Section III – continued

#### Question 26 (20 marks)

Discuss the impact of a sustained increase in the rate of economic growth on inflation and unemployment in Australia.

The Australian economy has performed better than anybody expected through the global downturn, growing by 1.2 per cent in the 2008-09 financial year. The labour market has also shown remarkable resilience, with the unemployment rate falling in the months of November, December and January, after hovering around 5 ¾ per cent since early 2009. Last month's unemployment rate of 5.3 per cent is lower than any major advanced economy, with the exception of Japan.

David Gruen, Executive Director of Macroeconomic Group, RBA, *The Economic Outlook and Challenges for the Australian Economy*, Address to the American Chamber of Commerce, 19 February, 2010.



End of Section III

## **Section IV Essay**

**Total marks (20)**

**Answer either Question 27 OR 28 on the paper provided**

**Answer this question on the paper provided**

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

- demonstrate knowledge and understanding relevant to the question
  - apply relevant economic terms, concepts, relationships and theory
  - present a sustained, logical and cohesive response
- 

**EITHER**

**Question 27** (20 marks)

Explain the role of fiscal policy in stabilising the economy and allocating resources.

**OR**

**Question 28** (20 marks)

Explain the causes and effects of a current account deficit on the Australian economy.

**End of Section IV**

**End of Paper**



## ECONOMICS - Marking Criteria

### Section I – Multiple Choice

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
<b>B</b>	<b>A</b>	<b>D</b>	<b>A</b>	<b>D</b>	<b>B</b>	<b>C</b>	<b>B</b>	<b>C</b>	<b>A</b>
<b>11</b>	<b>12</b>	<b>13</b>	<b>14</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>18</b>	<b>19</b>	<b>20</b>
<b>D</b>	<b>D</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>A</b>	<b>C</b>	<b>C</b>	<b>A</b>	<b>B</b>

### Section II – Short Answer

#### Question 21 – 10 marks

Syllabus Outcomes tested – H1, H3, H4, H5, H7, H8, H10

Criteria	Mark
<b>a) What is the <i>human development index</i>?</b> A measure of the quality of life	1
No or inappropriate response	0
<b>b) Distinguish between <i>economic growth</i> and <i>economic development</i></b> 1 mark for each correct definition. Makes the difference between these terms known. Economic growth – a quantitative measure of income and productive capacity. Economic development – a qualitative measure of the standard of living.	2
One correct definition of two brief attempts.	1
No or inappropriate response	0
<b>c) Outline ONE economic impact of globalisation on a country other than Australia.</b> Sketches in general terms. Response demonstrates an understanding of globalisation – the global movement of goods, resources, investment, labour, communications, technology, etc. A country is clearly stated. The response makes a connection between a characteristic of globalisation and features of the selected economy such as employment levels, inflation, economic growth, economic development, income distribution, environmental sustainability. Examples include – removal of protection generating greater levels of trade, employment, income and standard of living. Impacts can be positive and negative.	3
Response makes a limited connection between aspects of globalisation and economic conditions in a chosen country.	2
General or no statements about globalisation. Response may focus on economic development rather than economic growth. Country may not be specified.	1
No or inappropriate response.	0

Question 21 Continued –

Criteria	Mark
d) <b>Identify and explain the effects of ONE economic policy on development in a country other than Australia.</b> Recognises and names <i>one economic</i> policy in a country other than Australia. Response provides basic description of the policy and how it has been implemented Then the response <i>relates</i> the effects of this policy on economic development ie: makes comments on the quality of life in the chosen country. Eg: health, poverty levels, literacy/education, life expectancy, infant mortality or other indicator of quality of life.	3-4
May identify the basic characteristics of a policy and its implementation but may focus on economic growth rather than economic development outcomes. Response may be general and outlines not explains or not specific to one country	1-2
No or inappropriate response	0



## Question 22 – 10 marks

Syllabus Outcomes tested – H1, H2, H7, H8, H9, H10, H11

Population	Population aged 15 years +	Employed	Unemployed	Long-term Unemployed
24 million	20 million	12 million	3 million	1 million

Criteria	Mark
<p>a) <b>Calculate the rate of unemployment.</b>            Working not required.  <math>3/15 \times 100 = 20\%</math>            1 mark for correctly calculating 20%</p>	1
No or inappropriate response.	0
<p>b) <b>Calculate the participation rate.</b>            Working not required.  <math>15/20 \times 100 = 75\%</math>            1 mark for correctly calculating 75%</p>	1
No or inappropriate response.	0
<p>c) <b>Describe ONE economic and ONE social consequence of an increase in long-term unemployment.</b>            2 marks for <i>economic</i> consequence and 2 for <i>social</i> consequence. Clear distinction between the economic and social consequences required for full marks  <b>Economic consequences</b> could include – opportunity cost of unemployed resources, lost productive capacity; loss of labour force skills; unfavourable redistribution of income; financial cost to governments for unemployment benefits and social security payments and the associated opportunity cost of these funds.  <b>Social consequences</b> could include – enhanced levels of poverty; psychological consequences; social dislocation and possible increases in substance abuse, domestic violence and crime levels.</p>	3-4
Good response to one of social or economic consequences.	2
General response to both economic and social consequences	1
General statements about unemployment.	1
No or inappropriate response.	0
<p>d) <b>Explain the effects of an increase in the productivity of capital on the level of unemployment.</b>  <b>Two possible effects</b>  <b>Effect 1</b> – As the productivity of capital increases there is a decrease in the relative cost of capital. Capital is substituted for labour leading to a decrease in the demand for labour causing increased unemployment.  <b>Effect 2</b> - As the productivity of capital increases there is a decrease in the relative cost of capital. Capital is substituted for labour leading to a decrease in the demand for labour causing increased unemployment, however, the increased demand for capital generates a derived demand for labour decreasing the rate of unemployment.. This demands a degree of structural change.            Both effects should be referred to for full marks. One effect could be briefly referred to .</p>	3-4
Limited explanation tending to outline of the effects or general references to capital and unemployment levels	1-2
No or inappropriate response.	0

**Question 23 – 10 marks**

Syllabus Outcomes tested – H1, H2, H5, H6, H7, H8, H10, H11

Criteria	Mark
<b>a) What does the Gini Coefficient measure?</b> The distribution of income or wealth	1
No or inappropriate response	0
<b>b) Distinguish between income and wealth</b> 1 mark for each correct definition <b>Income</b> – flow of funds generated from the sale of the factors of production (resources) <b>Wealth</b> – a stock of accumulated income which produce assets, these may generate further income.	2
One correct definition or general statements about income and wealth.	1
No or inappropriate response	0
<b>c) Describe how expanding the application of the Goods and Services Tax to include all food items is likely to affect the distribution of income.</b> Three points for three marks – the effects are clearly identified. GST is defined as a regressive tax, not currently levied on essentials such as food, education, health etc. An expansion of the tax to food would generate a redistribution of income from low to higher income earners as they spend a greater proportion of their income on essentials such as food. It may also be seen as an increase in tax on low income earners.	3
General comments about the GST and only loose relationships to the distribution of income.	1 – 2
No or inappropriate response.	0
<b>d) Explain ONE economic and ONE social consequence of increasing levels of income inequality.</b> 2 marks for economic consequences and 2 marks for social consequences. <b>Economics consequences</b> – loss of consumer utility; redistribution of income to higher income earners; increased government expenditure on social welfare payments. <b>Social consequences</b> – increased levels of poverty and possible increases in crime, substance abuse, family violence.	3- 4
Addresses only one of economic or social consequences.	1-2
General comments about both economic and social comments	1-2
No or inappropriate response.	0

**Question 24 – 10 marks**

Syllabus Outcomes tested – H1, H5, H6, H8, H10

Criteria	Mark
<b>a) What is a budget deficit?</b> Government revenue is less than government expenditure	1
No or inappropriate response	0
<b>b) Distinguish between TWO different methods of financing a budget deficit.</b> Borrowing money – debt financing Monetary financing – printing money	2
One accurate definition.	1
No or inappropriate response	0
<b>c) Outline how an increase in the tax free threshold would affect government revenue.</b> Response could include – A definition of the tax free threshold – the amount of income on which no tax is paid. Relates that an increase in the threshold will decrease the tax paid by all income earners, leading to a reduction in government tax revenue. Possible increase in consumption, and GST revenue, as a result of higher disposable incomes.	2
Correct definition or general comments about government revenue.	1
No or inappropriate response	0
<b>d) Explain the relationship between economic growth and the budget balance.</b> 2 possible effects. Students must explain both effects – discretionary policy and automatic stabilizers for full marks. <b>Effect 1 – the budget affects economic growth</b> Response may refer to the actions of discretionary fiscal policy. Acknowledges the contribution of government expenditure to aggregate demand, links the budget outcome to level of total aggregate demand in the economy, use Keynesian income and expenditure analysis to and the operation of the multiplier; may use examples to demonstrate the changes to G or T and the resultant effect on AD and economic growth. <b>Effect 2 – Economic growth affects the Budget</b> Response refers to the operation of the automatic stabilizers. responses refers to the changes in G and T at different stages in the economic cycle and the resultant effect on the Budget balance ie: recession – less T and more G leads to smaller surplus, larger deficit; boom – greater T and less G leads to a smaller deficit or larger surplus.	4-5
Refers to only one effect or general outline of both effects using less terminology and theory.	2-3
General, inappropriate or no response	0-1

**Question 25**

**Discuss the effectiveness of monetary policy in managing the Australian economy.**

**Syllabus Outcomes tested – H1, H2, H5, H6, H7, H8, H9, H10, H12**

<b>Required knowledge, understanding and skills</b>	<b>Mark</b>
<ul style="list-style-type: none"> <li>• Clearly states the objectives of economic management in Australia.</li> <li>• Provides why and how monetary policy is being used to achieve economic objectives in Australia.</li> <li>• Response explains the limitations of monetary policy in achieving economic objectives</li> <li>• Interprets and incorporates stimulus material effectively into the response</li> <li>• Confidently and concisely applies economic terms, concepts, relationships and theory</li> <li>• Presents a sustained, logical and well structured response</li> </ul>	<b>17 – 20</b>
<ul style="list-style-type: none"> <li>• Refers to the objectives of economic management in Australia.</li> <li>• Provides why and/or how monetary policy is being used to achieve economic objectives in Australia.</li> <li>• General reference to the limitations of monetary policy</li> <li>• Incorporates some stimulus material into the response</li> <li>• Applies some economic terms, concepts, relationships and theory</li> <li>• Presents a well structured response</li> </ul>	<b>13 – 16</b>
<ul style="list-style-type: none"> <li>• Refers to some objectives of economic management in Australia.</li> <li>• Makes general statements about monetary policy and its uses</li> <li>• Incorporates little stimulus material into the response</li> <li>• Applies some economic terms, concepts, relationships and theory</li> <li>• Presents a structured response</li> </ul>	<b>9 – 12</b>
<ul style="list-style-type: none"> <li>• Makes general statements about monetary policy</li> <li>• Incorporates little stimulus material into the response</li> <li>• Applies some economic terms, concepts, relationships and theory</li> <li>• Presents a limited response</li> </ul>	<b>5 – 8</b>
<ul style="list-style-type: none"> <li>• Makes reference to economic policy</li> <li>• Incorporate no stimulus material into response</li> <li>• Presents a disjointed and limited response</li> </ul>	<b>1 – 4</b>
	<b>/20</b>

**Possible content could include –**

- The goals of economic management – economic growth, unemployment, inflation (internal stability), income distribution, external stability and ESD.
- The causes of economic growth, inflation, unemployment.
- The relationship between inflation, economic growth, employment and other economic variables.
- The role of monetary policy in achieving sustainable economic growth with inflation between 2-3% across the economic cycle.
- The implementation of monetary policy – the DMO process.
- The KTM – the transmission of a change in the cash rate, through the finance markets and into the product and factor markets using the Keynesian AD/AS diagram.
- The limitations of monetary policy – time lags, insensitivity ie: all interest rates are changed, trade-offs associated with economic growth and employment objectives.
- Recent policy stance – RBA loosening policy in the response to the GFC and the recent tightening of policy to control demand pull inflation, refers to the need for a policy mix to reach multiple economic objectives.
- Dates and data to support statements eg: cash rate, inflation, economic growth, unemployment, exchange rate

**Question 26**

**Discuss the impact of a sustained increase in the rate of economic growth on inflation and unemployment in Australia.**

**Syllabus Outcomes tested – H1, H2, H7, H8, H9, H10**

<b>Required knowledge, understanding and skills</b>	<b>Mark</b>
<ul style="list-style-type: none"> <li>• Clearly defines and demonstrates relationships between economic growth, inflation and unemployment</li> <li>• Identifies the macro and micro causes of sustained economic growth</li> <li>• Comprehensively demonstrates the positive and negative effects of economic growth on inflation and unemployment</li> <li>• Interprets and incorporates stimulus material effectively into the response</li> <li>• Confidently and concisely applies economic terms, concepts, relationships and theory</li> <li>• Presents a sustained, logical and well structured response</li> </ul>	<b>17 – 20</b>
<ul style="list-style-type: none"> <li>• Defines the concepts of economic growth, inflation and unemployment but is unable to fully demonstrate their relationship</li> <li>• Identifies the causes of economic growth</li> <li>• Demonstrates positive and/or negative effects of economic growth on inflation and unemployment</li> <li>• Incorporates stimulus material into the response</li> <li>• Applies a range of economic terms, concepts, relationships and theory</li> <li>• Presents a well structured response</li> </ul>	<b>13 - 16</b>
<ul style="list-style-type: none"> <li>• Briefly defines the concepts of economic growth, inflation and unemployment</li> <li>• Demonstrates some understanding of the relationship between economic growth, inflation and unemployment</li> <li>• Outlines some positive and/or negative effects of economic growth on inflation and unemployment</li> <li>• Incorporates some stimulus material into the response</li> <li>• Applies some economic terms, concepts, relationships and theory</li> <li>• Presents a structured response</li> </ul>	<b>9 – 12</b>
<ul style="list-style-type: none"> <li>• Makes brief reference to economic growth and other economic objectives.</li> <li>• Incorporates little stimulus material into the response</li> <li>• Applies few economic terms, concepts, relationships and theory</li> <li>• Presents a limited response</li> </ul>	<b>5 – 8</b>
<ul style="list-style-type: none"> <li>• Makes reference to economic growth</li> <li>• Incorporate no stimulus material into response</li> <li>• Presents a disjointed and limited response</li> </ul>	<b>1 - 4</b>
	<b>/20</b>

**Possible content could include –**

- Clear definitions of the economic objectives – economic growth, inflation and unemployment.
- Detailed explanation of how *sustained* economic growth is achieved – components of aggregate demand,  $AD = C + I + G + (X - M)$  and the multiplier process, private and public sector contributions to economic growth, internal and external contributions to economic growth.
- Microeconomic sources of growth – enhanced economic efficiency, productivity causes shifts in AS.
- Detailed illustrations of the relationship between economic growth, inflation and unemployment. I.e: components of aggregate demand, derived demand for labour. The use of AD/AS analysis to demonstrate the multiplier, changes in national expenditure and income, inflationary and deflationary gaps, the Phillips curve, Okun's Law
- The importance of low inflationary growth, illustrated by outward shifts in the AS curve.
- The role of macro and micro policy in achieving a balance between economic growth, inflation and unemployment.
- Dates and data from the Australian experience to illustrate trends.

**QUESTION 27 –**

**Explain the role of fiscal policy in stabilising the economy and allocating resources.**

**Syllabus outcomes tested - H1, H2, H3, H4, H5, H6, H7, H8, H10**

<b>Required knowledge, understanding and skills</b>	<b>Mark</b>
<ul style="list-style-type: none"> <li>• Provides a clear &amp; comprehensive understanding of the relationship between the Federal government's policy mix and its impact on stabilising the economy and the allocation of resources in the economy</li> <li>• Statements are well supported by economic data</li> <li>• Confidently and concisely applies economic terms, concepts, relationships and theory</li> <li>• Presents a sustained, logical and well structured response</li> </ul>	<b>17 – 20</b>
<ul style="list-style-type: none"> <li>• Provides a sound understanding of the relationship between the Federal government's use of Fiscal policy and its impact on stabilising the economy and the allocation of resources in the economy</li> <li>• Statements are supported by some economic data</li> <li>• Applies economic terms, concepts, relationships and theory</li> <li>• Presents a well structured response</li> </ul>	<b>13 - 16</b>
<ul style="list-style-type: none"> <li>• Demonstrates some understanding of the Federal government's use of Fiscal policy and its impact on stabilising the economy AND / OR the allocation of resources in the economy</li> <li>• Statements are supported by some economic data</li> <li>• Applies some economic terms, concepts, relationships and theory</li> <li>• Presents a structured response</li> </ul>	<b>9 - 12</b>
<ul style="list-style-type: none"> <li>• Sketches in general terms how the Federal government use of Fiscal policy AND / OR its impact on stabilising the economy</li> <li>• Statements are supported by little economic data</li> <li>• Applies little economic terms, concepts, relationships and theory</li> <li>• Presents a limited response</li> </ul>	<b>5 - 8</b>
<ul style="list-style-type: none"> <li>• Uses some economic terms AND / OR concepts relating to the use of Fiscal policy</li> <li>• Statements are not supported by economic data</li> <li>• Presents a disjointed and inadequate response</li> </ul>	<b>1 - 4</b>
	<b>/20</b>

**Possible content could include –**

- Macro Policy [FP (main focus) & MP] and Micro Policy
- Australia's economic objectives [Eco Gth (main focus), Full Employment, Price Stability & Ext Stability]
- The Federal Government budget (expend / revenue, outcomes, stances, recent trends)
- Difference between the cyclical and structural components of the budget outcome
- Automatic stabilisers vs. Targeted expenditure
- Funding budget deficits and Using budget surpluses

<b>STABILISING THE ECONOMY</b>	<b>RESOURCE ALLOCATION</b>
<ul style="list-style-type: none"> <li>- Overall taxation system</li> <li>- Infrastructure vs. Gov't Exp vs. Transfers</li> <li>- Focus on economic growth</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>- Overall taxation system</li> <li>- Environmental initiatives</li> <li>- Income redistribution</li> <li>-</li> </ul>

**QUESTION 28 –****Explain the causes and effects of a current account deficit on the Australian economy.****Syllabus outcomes tested - H1, H2, H3, H4, H5, H6, H7, H8, H10**

<b>Required knowledge, understanding and skills</b>	<b>Mark</b>
<ul style="list-style-type: none"> <li>• Relates in detail the causes of the CAD</li> <li>• Provides a clear and comprehensive understanding of the relationship of Australia's CAD and its impact on achieving all of Australia's economic objectives</li> <li>• Statements well supported by economic data</li> <li>• Confidently and concisely applies economic terms, concepts, relationships and theory</li> <li>• Presents a sustained, logical and well structured response</li> </ul>	<b>17 – 20</b>
<ul style="list-style-type: none"> <li>• Relates the causes of the CAD</li> <li>• Provides a sound understanding of the relationship of Australia's CAD and its impact on achieving most of Australia's economic objectives</li> <li>• Statements are supported by some economic data</li> <li>• Applies economic terms, concepts, relationships and theory</li> <li>• Presents a well structured response</li> </ul>	<b>13 - 16</b>
<ul style="list-style-type: none"> <li>• Brief mention of the causes of the CAD</li> <li>• Demonstrates some understanding of the relationship of Australia's CAD and its impact on achieving a limited number of Australia's economic objectives</li> <li>• Statements are supported by some economic data</li> <li>• Applies some economic terms, concepts, relationships and theory</li> <li>• Presents a structured response</li> </ul>	<b>9 - 12</b>
<ul style="list-style-type: none"> <li>• Sketches in general terms aspects regarding Australia's CAD AND / OR the achievement of a limited number of Australia's economic objectives</li> <li>• Statements are supported by little economic data</li> <li>• Applies little economic terms, concepts, relationships and theory</li> <li>• Presents a limited response</li> </ul>	<b>5 - 8</b>
<ul style="list-style-type: none"> <li>• Uses some economic terms relating to Australia's CAD AND / OR Australia's economic objectives</li> <li>• Statements are not supported by economic data</li> <li>• Presents a disjointed and inadequate response</li> </ul>	<b>1 - 4</b>
	<b>/20</b>

**Possible content could include –**

- Balance of Payments (CAD, KFAS) + External Stability (CAD, NFL, Ex Rate)
- Aust's economic objectives (stable economic growth, ↓ U/E, ↓inflation, external stability)
- Structure of the CAD & KFAS, as well as links between the components
- Recent trends and figures of the CAD + measurement of the CAD and Terms of Trade
- Cyclical and Structural reasons for the CAD
- CAD and NFD cycle - sustainability (possible inclusion of the Pitchford thesis)

<b>CAUSES =</b>	<b>EFFECTS =</b>
<ul style="list-style-type: none"> <li>- Growth of foreign borrowings during the 1980's</li> <li>- Higher public sector borrowing requirement</li> <li>- Reduced international competitiveness in 1980's</li> <li>- Saving / Investment gap increasing → borrowing</li> <li>- Reduction of protective barriers + ↑ dom demand</li> </ul>	<ul style="list-style-type: none"> <li>- Persistent CAD's financed by foreign debt</li> <li>- Increased exposure to external shocks</li> <li>- Increased susceptibility to Ex Rate fluctuations</li> <li>- Implementation of MER to promote efficiency</li> <li>- Possible use of MP to slow growth of imports</li> </ul>