



2012
TRIAL
HIGHER SCHOOL
CERTIFICATE

Economics

Staff Involved:

- JLD
- JMM*
- JMT

PM THURSDAY 2ND AUGUST

65 copies

Section A – Multiple Choice

Choose the best response and fill in the response oval completely

Start Here →

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| 1. | 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"/> |
| 2. | 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"/> |
| 3. | 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"/> |
| 4. | 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"/> |
| 5. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> | 15. | 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"/> | 16. | 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"/> | 17. | 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"/> | 18. | 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"/> | 19. | 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"/> | 20. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |

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2012 TRIAL HIGHER SCHOOL CERTIFICATE

Economics

Staff Involved:

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55 copies

PM THURSDAY 2ND AUGUST

General Instructions

- Reading time - 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Write your Student Number on all answer pages
- 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 3 - 7

20 marks

- Attempt Questions 1 – 20
- Answer these questions on the multiple choice answer sheet provided
- Allow 35 minutes for this section

Section II

Pages 9 - 16

40 marks

- Attempt Questions 21 - 24
- Answer this question in the spaces provided on the paper
- Allow 1 hour and 15 minutes for this section

Section III

Pages 17 - 18

20 marks

- Attempt either Question 25 or Question 26
- Answer this question on the paper provided
- Allow 35 minutes for this section

Section IV

Page 19

20 marks

- Attempt either Question 27 or Question 28
- Answer this question on the paper provided
- Allow 35 minutes for this section

Section I – Multiple Choice

Total marks (20)

Attempt questions 1 – 20

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
↙

Section I

20 marks

Attempt Questions 1 - 20

Allow about 35 minutes for this section

Use the multiple-choice answer sheet for Questions 1 - 20.

1. What is the best indicator of inflation faced by households?
 - (A) Consumer price index
 - (B) Human development index
 - (C) Trade weighted index
 - (D) Real unit labour costs index

2. Which institution is responsible for developing and enforcing competition policy?
 - (A) The Commonwealth Treasury
 - (B) The Ministry for Small Business
 - (C) The Australian Competition and Consumer Commission
 - (D) The Australian Prudential Regulation Authority

3. Assume that the rate of inflation has fallen from 4% p.a. in 2011 to 2.5% p.a. in 2012. Which of the statements is true?
 - (A) Prices are stable
 - (B) Prices are falling
 - (C) Prices are increasing
 - (D) Unemployment is falling

4. Assume that the European Union decides to lower the quota for imports for beef. What would be the effects of this lower quota?
 - (A) increased European prices for beef
 - (B) increased world prices for beef
 - (C) increased export revenue for Australian beef exporters
 - (D) lower incomes for European beef producers

5. From one unit of resources Australia can produce 100 jumpers or 200 cans of soup. From one unit of resources New Zealand can produce 50 jumpers or 120 cans of soup. Which of the following statements is true?
- (A) Australia has both absolute and comparative advantages in the production of both jumpers and cans of soup.
 - (B) Australia should produce cans of soup and New Zealand should produce jumpers.
 - (C) Australian has an absolute and comparative advantage in producing jumpers.
 - (D) Australia has an absolute advantage and New Zealand has a comparative advantage in producing cans of soup
6. 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
7. In Year 1 GDP is \$400 and the CPI is 110. In Year 2 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 contracted in real terms and the inflation rate is 21%pa.
 - (D) The economy has contracted in real terms and the inflation rate is 10%pa.
8. What have been the long term effects of reduced protection for Australian consumers and business?
- (A) Increased consumer utility, higher prices, structural change
 - (B) Decreased consumer utility, higher prices, structural unemployment
 - (C) Decreased consumer utility, lower prices, decreased productive efficiency
 - (D) Increased consumer utility, structural unemployment, increased productive efficiency
9. How could the Australian Government fund a budget deficit?
- (A) Decrease spending
 - (B) Borrow from the private sector
 - (C) Increase exports
 - (D) Increase taxation

10. 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

Use the following table to answer Question 11.

Year	Marginal Propensity to Save
1	0.6
2	0.5
3	0.2

11. What does the table indicate?
- (A) The multiplier is decreasing from Year 1 to Year 3.
 - (B) The multiplier is increasing from Year 1 to Year 3.
 - (C) The multiplier is 0.4 in Year 1, 0.5 in Year 2 and 0.8 in Year 3
 - (D) The marginal propensity to consume is falling from Year 1 to Year 3.
12. Which of the following is the most likely consequence of a deflationary gap?
- (A) Cyclical Unemployment.
 - (B) Structural Unemployment.
 - (C) Seasonal Unemployment.
 - (D) Hard Core Unemployment.
13. Which of the following policies would most likely improve income distribution?
- (A) Decreasing the income tax free threshold.
 - (B) Increasing tariffs.
 - (C) Decreasing the Goods and Services Tax
 - (D) Decreasing the means testing of social welfare.

14. Which international organisation is responsible for making loans to countries experiencing short term balance of payments problems?
- (A) International Monetary Fund
 - (B) World Bank
 - (C) International Finance Corporation.
 - (D) International Bank for Reconstruction & Development
15. If a government decides to impose trade protection, which form of protection do economists prefer countries use to reduce imports?
- (A) Quotas because they do not affect consumer prices.
 - (B) Subsidies because they reduce consumer prices.
 - (C) Health regulations because they do not affect resource allocation.
 - (D) Tariffs because they do affect resource allocation.
16. If Australian demand for Chinese smart phones is price inelastic and the Australian dollar depreciates against the Chinese yuan, what will occur?
- (A) Australians will spend more Australian dollars buying more smart phones.
 - (B) Australians will spend more Australian dollars buying less smart phones
 - (C) Australians will spend less Australian dollars buying less smart phones.
 - (D) Australians will spend less Australian dollars buying less smart phones.
17. Assume that the MPC is 0.5 and there is a deflationary gap of \$100 billion. What should the government do to close the deflationary gap?
- (A) The government should increase taxes by \$100 billion.
 - (B) The government should increase taxes by \$50 billion.
 - (C) The government should increase spending by \$50 billion.
 - (D) The government should increase spending by \$100 billion.
18. Which of the following is an example of both contractionary and discretionary fiscal policy?
- (A) The government decreases the tax free threshold from \$18,000 to \$6,000.
 - (B) The government's tax revenue increases due to stronger than expected consumption.
 - (C) The government's spending decreases due to unexpectedly high employment.
 - (D) The government increases infrastructure spending in depressed regions

Study the following table to answer Question 19.

Year	Import Price Index	Export Price Index
2011	100	90
2012	90	85

- 19.** What has happened from Year 1 to Year 2?
- (A) The deficit on the balance of goods and services has decreased.
 - (B) The terms of trade have deteriorated.
 - (C) The terms of trade have improved.
 - (D) The current account balance has improved.
- 20.** Which of the following is a characteristic of a public good?
- (A) Public goods are priced according to the government's social welfare policy
 - (B) Public goods are funded by a public-private investment partnership
 - (C) Public goods access is impossible or virtually impossible to restrict
 - (D) Public goods are supplied by public companies listed on the stock market.

End of Section I

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Section II – Short Answer

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.

Question 21 (10 marks)

2011 HDI Ranks

Rank (n = 187)	Country
1	Norway
2	Australia
3	Netherlands
94	Tunisia
95	Jordan
96	Algeria
185	Burundi
186	Niger
187	Congo

Source: <http://hdr.undp.org/en/statistics/>

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

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- (b) Outline the relationship between economic growth and economic development. **2**

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Question 21 continues on page 10

Question 21 (continued)

- (c) Describe ONE economic impact of globalisation on an economy other than Australia. **3**

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- (d) Explain the effects of ONE policy on economic development in an economy other than Australia. **4**

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End of Question 21

Question 22 (10 marks)

Structural change is, of course, something that is not new. Over the past half a century, one of the most obvious changes has been the growth of the services sector, which accounted for a steadily increasing share of both output and employment. In 1960, for example, a little over 50% of the workforce in Australia was employed in the services sector. Today, the figure is over 75%.

Source: Philip Lowe, Deputy Governor of the RBA, 7 March 2012

- (a) Define structural change. **1**

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- (b) Outline ONE cause of structural change. **2**

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- (c) Describe ONE negative effect of structural change. **3**

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Question 22 continues on page 12

Question 22 (continued)

- (d) Explain ONE Australian government policy intended to encourage structural change. **4**

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End of Question 22

Question 23 (10 marks)

Use the following table on Australian budget outcomes to answer Question 23.

	Actual	Estimates		Projections		
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	\$b	\$b	\$b	\$b	\$b	\$b
Receipts(a)	302.0	330.0	368.8	392.5	413.6	438.4
Per cent of GDP	21.6	22.3	23.8	24.0	24.0	24.2
Payments(b)	346.1	371.3	364.2	387.3	404.9	427.3
Per cent of GDP	24.7	25.1	23.5	23.7	23.5	23.6
Future Fund earnings	3.7	3.0	3.0	3.2	3.4	3.7
Underlying cash balance(c)	-47.7	-44.4	1.5	2.0	5.3	7.5
Per cent of GDP	-3.4	-3.0	0.1	0.1	0.3	0.4
Revenue(a)	309.9	336.4	376.1	402.2	424.8	449.6
Per cent of GDP	22.1	22.8	24.2	24.6	24.7	24.8
Expenses	356.1	373.7	376.3	398.5	416.4	439.0
Per cent of GDP	25.4	25.3	24.3	24.4	24.2	24.2
Net operating balance	-46.2	-37.3	-0.2	3.7	8.4	10.5
Net capital investment	5.3	4.7	-2.7	1.0	1.4	1.1
Fiscal balance	-51.5	-42.0	2.5	2.6	7.0	9.5
Per cent of GDP	-3.7	-2.8	0.2	0.2	0.4	0.5
<i>Memorandum item:</i>						
Headline cash balance	-51.1	-48.4	-8.7	-6.8	-0.1	2.0

Source: *www.budget.gov.au*

- (a) What is the estimated fiscal balance for 2012-13 as a per cent of GDP? 1

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- (b) Outline the proposed stance for fiscal policy from 2010-11 to 2012-13. 2

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Question 23 continues on page 14

Question 23 (continued)

- (c) Describe ONE microeconomic component of the budget. **3**

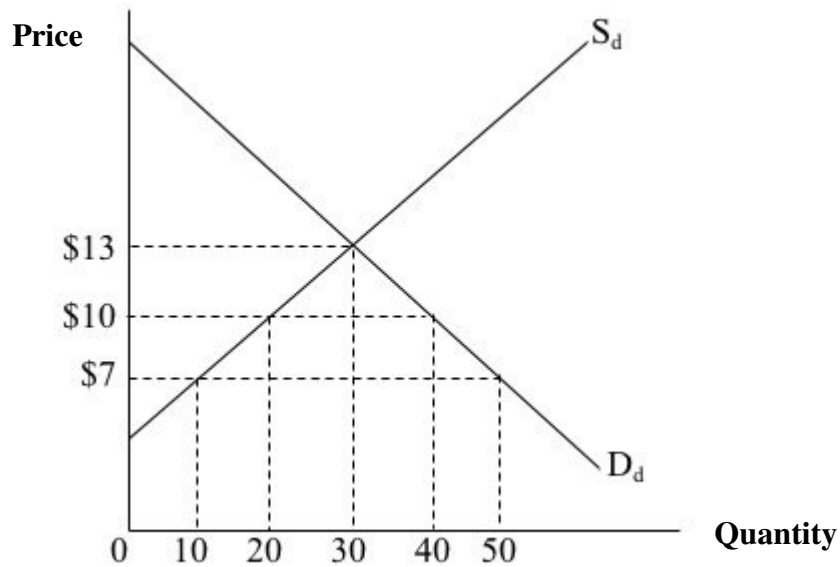
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- (d) Explain the effects of a budget surplus on economic growth. **4**

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End of Question 23

Question 24 (10 marks)



- (a) Prior to the tariff being imposed the price is \$7. Using the above diagram, calculate the sales revenue of foreign producers after a \$3 tariff is imposed. **1**

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- (b) Outline how the \$3 tariff affects domestic demand and output. **2**

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- (c) Discuss how a tariff for one Australian industry affects the international competitiveness of other Australian industries that do not tariff protection. **3**

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Question 24 (10 marks)

- (d) Explain how protection can result in a loss of economic efficiency both domestically and globally.

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End of Question 24
End of Section II

Section III – Stimulus Essay

20 marks

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section

Answer the question on the paper provided.

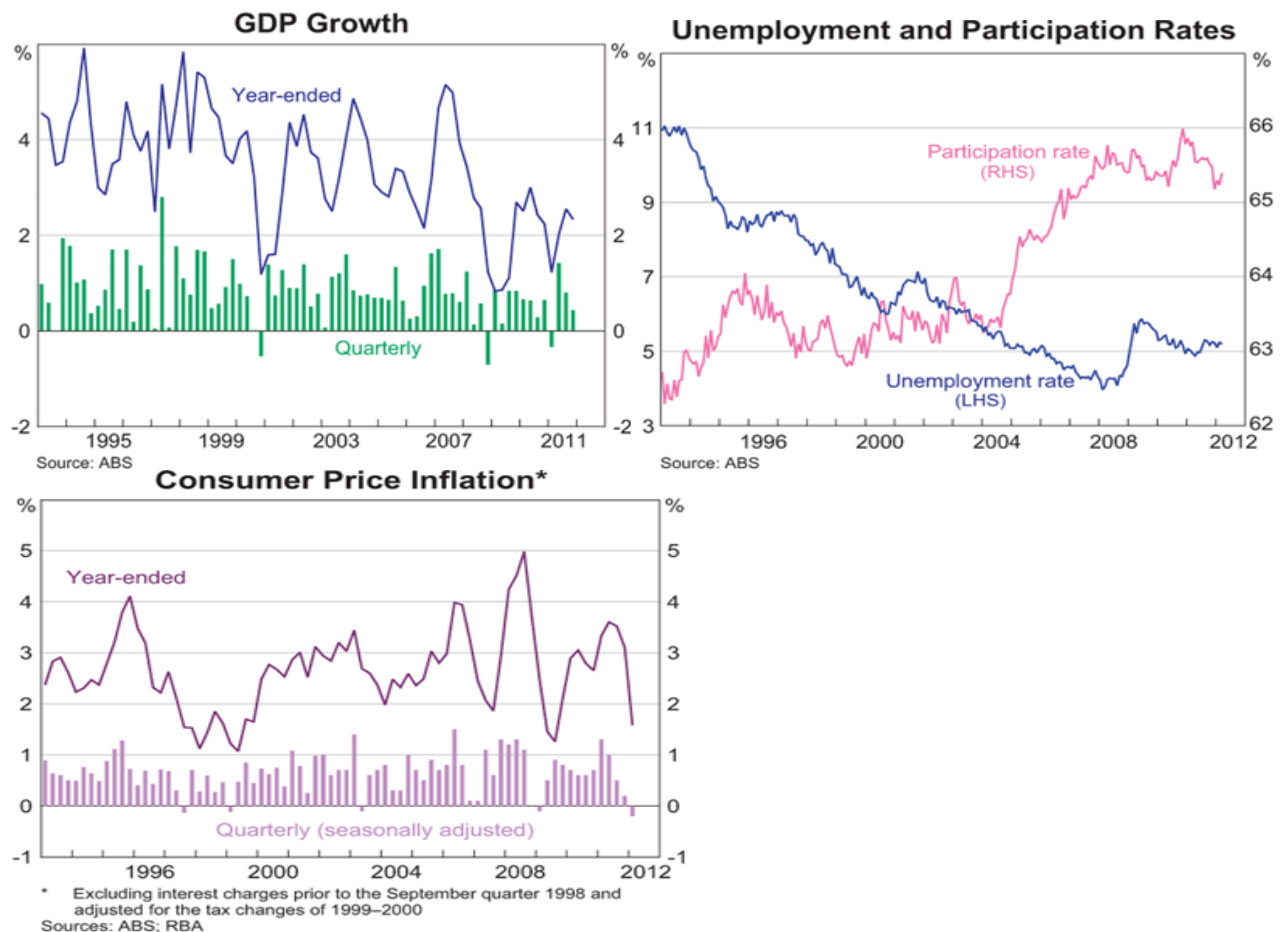
In your answer you will be assessed on how well you:

- 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

Question 25 (20 marks)

Evaluate the effectiveness of interest rates in reducing Australia's rates of unemployment and inflation.

Most information on the Australian economy continues to suggest growth close to trend overall, with differences between sectors and considerable structural change. Labour market conditions softened during 2011 and the unemployment rate increased slightly mid year, though it has been steady over recent months. CPI inflation has declined as expected and will fall further over the next quarter or two. Over the coming one to two years, and abstracting from the effects of the carbon price, the Bank expects inflation to be in the 2-3 per cent range due to expected productivity growth due to structural change. *Reserve Bank of Australia, March 2012*



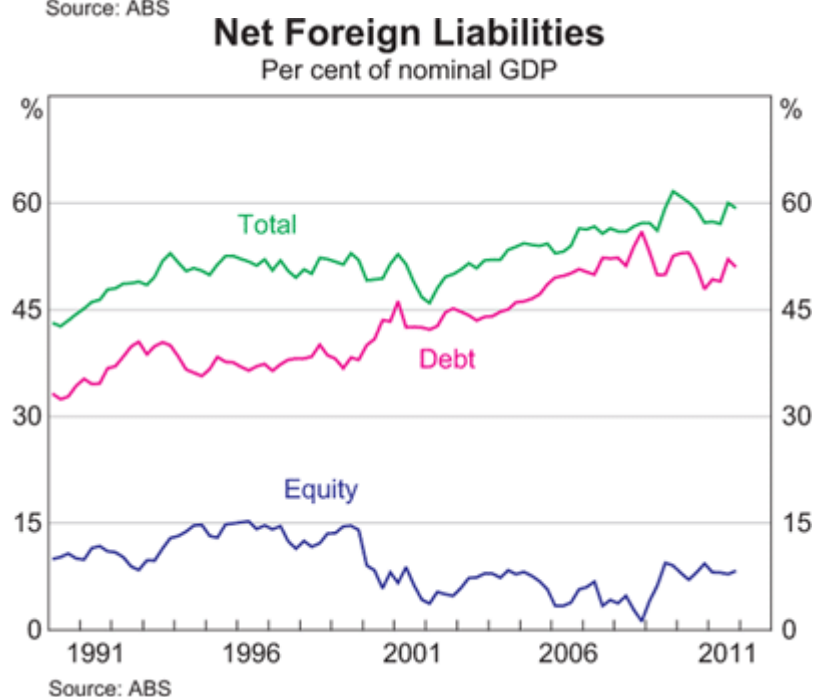
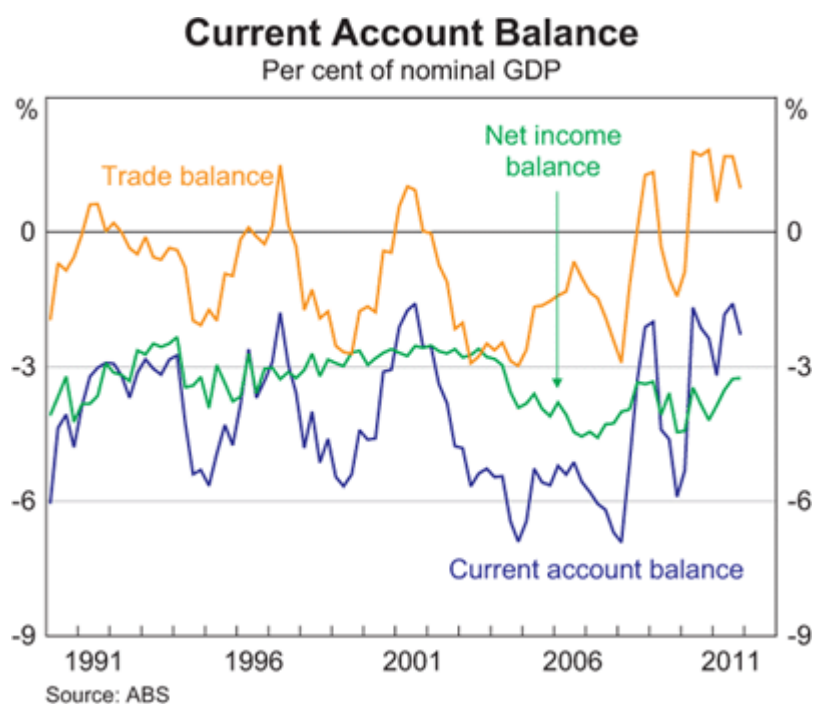
OR

Question 26

Analyse the effects of a sustained increase in a current account deficit on the Australian economy.

Current account deficits are not always and everywhere a bad thing. They reflect the net outcome of a raft of savings and investment decisions taken by households, businesses and government across the whole economy. The current account position is a symptom not the cause. The capital (or financial) account, which is the mirror of the current account, is the net of a large array of gross capital flows. Many have concerns about global imbalances down to a concern about the 'return journey'. Lenders of capital expect to receive the money they have lent back with interest.

Source: Guy Debelle, Assistant Governor, RBA, 8 July, 2011



End of Section III

Section IV Essay

20 Marks

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer this question on the paper provided

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

- demonstrate knowledge and understanding relevant to the question
 - apply relevant economic information, terms, concepts, relationships and theory
 - present a sustained, logical and well-structured answer to the question
-

EITHER

Question 27 (20 marks)

Explain the role of international organisations and agreements in facilitating trade, financial flows and foreign investment.

OR

Question 28 (20 marks)

Explain the impact of a sustained increase in the exchange rate for the Australian dollar on the Australian economy.

End of Paper



ECONOMICS - Marking Criteria

Section I – Multiple Choice

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

Section II – Short Answer

Question 21 – 10 marks

Syllabus Outcomes tested – H1, H3, H4, H5, H8, H9, H10

2011 HDI Ranks

Rank (n = 187)	Country
1	Norway
2	Australia
3	Netherlands
94	Tunisia
95	Jordan
96	Algeria
185	Burundi
186	Niger
187	Congo

Source: <http://hdr.undp.org/en/statistics/>

Criteria	Mark
<p>a) What is the human development index?</p> <p>A measure of the quality of life OR an index based on education, income, health and life expectancy</p>	1
No or inappropriate response	0
<p>b) Outline the relationship between economic growth and economic development.</p> <p>Correctly defines both economic growth and development and makes the link between the two. Economic growth is a necessary but not sufficient prerequisite for economic development. Economic growth, a quantitative measure, provides the resources for improving the quality of life.</p>	2
Correctly defines one or both the above concepts without establishing a significant link between the two.	1
No or inappropriate response	0

Question 21 Continued

Criteria	Mark
<p>c) Describe ONE economic impact of globalisation on an economy other than Australia.</p> <p>1 mark: nominates the impact (e.g. increased incomes, lower environmental quality, contagion, increased employment, increased income inequality, increased urbanisation, etc).</p> <p>2 marks: provides 2 or more features of the impact OR establishes the causative connection between globalisation and the impact</p>	3
<p>2 marks: nominates the impact and only 1 feature</p> <p>1 mark: nominates the impact OR 1 feature</p>	1-2
No or inappropriate response.	0
<p>d) Explain the effects of ONE policy on economic development in an economy other than Australia.</p> <p>1 mark: nominates the policy</p> <p>3 marks: establishes the causative links between the policy and improved economic development</p>	4
<p>2 marks: establishes a causative link between the policy and improved economic growth OR sketches the causative links between the policy and economic development</p> <p>1 mark: nominates the policy</p>	1-3
No or inappropriate response	0

Question 22 – 10 marks

Syllabus Outcomes tested – H1, H2, H3, H4, H5, H7, H8, H9, H10

Structural change is, of course, something that is not new. Over the past half a century, one of the most obvious changes has been the growth of the services sector, which accounted for a steadily increasing share of both output and employment. In 1960, for example, a little over 50% of the workforce in Australia was employed in the services sector. Today, the figure is over 75%.

Source: Philip Lowe, Deputy Governor of the RBA, 7 March 2012

Criteria	Mark
a) Define structural change. Correctly defines structural change - a change in resource allocation or the pattern of production in an economy	1
No or inappropriate response.	0
b) Outline ONE cause of structural change. 2 marks: Sketches either a government induced policy OR a market induced demand conditions (or an example) OR a change in supply conditions (or an example) that leads to a change in resource allocation	2
1 mark: Weak or vague link established between the cause and resource reallocation OR only states a cause	1
No or inappropriate response.	0
c) Describe ONE negative effect of structural change. 1 mark: Nominates the effect (e.g. structural unemployment, increased income inequality) 2 marks: Nominates 2 features of the negative consequence (loss of income, skills, etc)	3
1 mark: Nominates the effect (e.g. structural unemployment, increased income inequality) 1 mark: Nominates 1 feature of the negative consequence (loss of income, skills, etc)	1-2
No or inappropriate response.	0
d) Explain ONE Australian government policy intended to encourage structural change. 1 mark: Names and outlines features of the policy the policy (e.g. reduced tariffs, reduced protection, free trade agreements, reduced regulation of FDI, mining tax, carbon tax, etc) 3 marks: Establishes the links between the policy and adjustments (actual or intended) to resource allocation	3-4
Brief reference to policy or brief structural change	1-2
No or inappropriate response.	0

Question 23 – 10 marks

Syllabus Outcomes tested – H1, H2, H6, H8, H9, H10

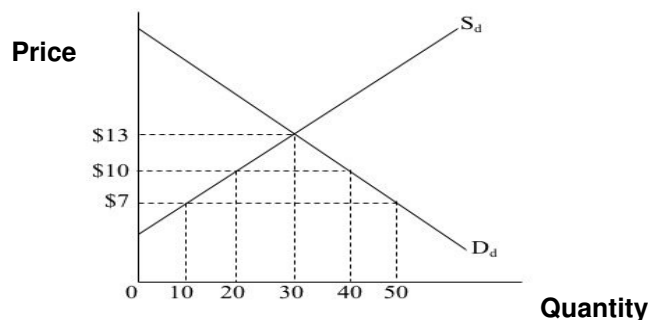
	Actual	Estimates		Projections		
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	\$b	\$b	\$b	\$b	\$b	\$b
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Per cent of GDP	24.7	25.1	23.5	23.7	23.5	23.6
Future Fund earnings	3.7	3.0	3.0	3.2	3.4	3.7
Underlying cash balance(c)	-47.7	-44.4	1.5	2.0	5.3	7.5
Per cent of GDP	-3.4	-3.0	0.1	0.1	0.3	0.4
Revenue(a)	309.9	336.4	376.1	402.2	424.8	449.6
Per cent of GDP	22.1	22.8	24.2	24.6	24.7	24.8
Expenses	356.1	373.7	376.3	398.5	416.4	439.0
Per cent of GDP	25.4	25.3	24.3	24.4	24.2	24.2
Net operating balance	-46.2	-37.3	-0.2	3.7	8.4	10.5
Net capital investment	5.3	4.7	-2.7	1.0	1.4	1.1
Fiscal balance	-51.5	-42.0	2.5	2.6	7.0	9.5
Per cent of GDP	-3.7	-2.8	0.2	0.2	0.4	0.5
<i>Memorandum item:</i>						
Headline cash balance	-51.1	-48.4	-8.7	-6.8	-0.1	2.0

Criteria	Mark
a) What is the estimated fiscal balance for 2012-13 as a per cent of GDP? Correctly identifies fiscal balance as 0.2% of GDP.	1
No or inappropriate response	0
b) Outline the proposed stance for fiscal policy from 2010-11 to 2012-13. 2 marks - Correctly identifies the budget stance and use data to support statement. ie: a contractionary stance given the reduction in projected Budget deficit of \$-47.7 billion to a surplus of \$1.5 billion. Other evidence could include receipts are growing faster than payments.	
Either identifies the contractionary budget stance or uses data to make general statements about the budget outcome ie - surplus	1
No or inappropriate response	0
c) Describe ONE microeconomic component of the budget. Correctly provides characteristics and features of a budget initiative that reallocates resources or redistributes incomes. Supports answer with an example.	3
Makes general statements about initiatives in budgets that can reallocate resources or redistribute incomes and may not use an example.	1-2
No or inappropriate response.	0

Criteria	Mark
<p>d) Explain the effects of a budget surplus on economic growth.</p> <p>1 mark - Correctly communicates understanding of a budget surplus.</p> <p>3 marks – Correctly communicates the components of aggregate demand and outlines the effects of the budget surplus on levels of government expenditure, aggregate demand, rate of GDP growth, including references to the action of the multiplier. Makes the link between increasing taxation and lower levels of consumption and investment and the associated decrease in aggregate demand, rate of economic growth. May make reference to recent Australian fiscal policy trends.</p>	3-4
<p>May communicate understanding of a budget surplus or make the general relationship between budget outcome and economic growth known.</p>	1-2
<p>No or inappropriate response.</p>	0

Question 24 – 10 marks

Syllabus Outcomes tested – H1, H2, H3, H4, H6, H7, H8, H9, H10



Criteria	Mark
<p>a) Prior to the tariff being imposed the price is \$7. Using the above diagram, calculate the sales revenue of foreign producers after a \$3 tariff is imposed.</p> <p>Correctly identifies imports after the tariff as 20, multiplied by the sale price per unit makes total revenue for $\\$7 \times 20 = \\140</p>	1
No or inappropriate response	0
<p>b) Outline how the \$3 tariff affects domestic demand and output.</p> <p>1 mark each for affects on domestic demand and domestic supply. Tariff increases the domestic sales price from \$7 to \$10 per unit. This decreases domestic demand from 50 to 40 units. Domestic supply increases from 10 to 20 units.</p>	2
Outlines only one affect on domestic demand or supply.	1
No or inappropriate response	0
<p>c) Discuss how a tariff for one Australian industry affects the international competitiveness of other Australian industries that do not receive tariff protection.</p> <p>Communicates the affect of a tariff on resource allocation and the relative cost of resources. ie: industries receiving tariff protection can absorb increases in cost of resources more readily than those industries not receiving tariff protection. This places cost pressures on these unprotected industries which may require increases in price thus leading to declines in international competition. Or Resource may be attracted to industries receiving protection and other industries may need to pay more for resources to attract them. This may also lead to increases in cost and hence price, further eroding international competitiveness. Or Non-protected industries may suffer retaliation from overseas producers limiting their access to markets or by having to endure tariffs on their exported products, limiting their international competitiveness.</p>	3
Makes reference to resource allocation but may not address this issue of international competitiveness.	1-2
No or inappropriate response	0

Criteria	Mark
<p>d) Explain how protection can result in a loss of economic efficiency both domestically and globally.</p> <p>Response demonstrates a good understanding of the term economic efficiency – the relationship between inputs, costs, outputs to maximise consumer and producer utility. Response may focus on a variety of types of efficiency – productive (technical efficiency) referring to the production at least LRAC; allocative efficiency – resources are allocated based on their marginal cost and lowest opportunity cost and that match consumer preferences for goods and services; dynamic efficiency – capacity to change in response to changes in consumer preferences or other market pressures.</p> <p>Response demonstrates how protection (tariffs/subsidies etc) can distort the pattern of production to produce decreased levels of productive (higher LRAC of production), allocative (higher MC and opportunity cost), or dynamic efficiency (misallocation of resources and lack of incentive to innovate) for domestic producers.</p> <p>Response considers the importance of specialisation and comparative advantage in creating a globally efficient allocation of resources.</p> <p>Response may focus on the effects of protection on one type of efficiency in <i>detail</i>, or consider many types of efficiency more generally.</p>	<p>3-4</p>
Some consideration of the above	1-2
Inappropriate or no response	0

SECTION III: STIMULUS BASED ESSAY

Student No: _____

Question 25**Evaluate the effectiveness of interest rates in reducing Australia's rates of unemployment and inflation.****Syllabus Outcomes tested – H1, H2, H3, H4, H5, H6, H7, H8, H9, H10, H11**

Required knowledge, understanding and skills	Mark
<ul style="list-style-type: none"> Communicates a detailed understanding of domestic market operations and the movement in the cash rate. Makes an informed judgement of the effectiveness of using interest rates to reduce rates of unemployment and inflation. Interprets and synthesises stimulus material and own knowledge effectively into response Integrates extensive and relevant economic terms, concepts, relationships and theory Presents a sustained, logical and cohesive response 	17 – 20
<ul style="list-style-type: none"> Communicates an understanding of domestic market operations and the movement in the cash rate. Makes a judgement of the effectiveness of using interest rates to reduce rates of unemployment and inflation. Interprets and synthesises some stimulus material and own knowledge into response Integrates some relevant economic terms, concepts, relationships and theory Presents a logical and cohesive response 	13 – 16
<ul style="list-style-type: none"> Communicates some understanding of domestic market operations and the movement in the cash rate. Communicates how interest rates can reduce rates of unemployment and/or inflation. Demonstrates some understanding and incorporates limited stimulus material into the response Applies some economic terms, concepts and relationships Presents a coherent response 	9 – 12
<ul style="list-style-type: none"> Makes general statements about interest rates, unemployment or inflation Incorporates little stimulus material into the response Uses some economic terms and concepts Presents a limited response 	5 – 8
<ul style="list-style-type: none"> Makes general reference to interest rates Incorporate no stimulus material into response Uses few economic terms and concepts Presents a brief and limited response 	1 – 4
	/20

Possible content could include –

- clear definitions of interest rates, inflation (demand pull and cost push) and unemployment (cyclical and structural)
- explanation of the DMO process – ES accounts, ES funds, CGS, cash rate
- tightening MP to increase interest rates, loosening MP to reduce interest rates
- possible use of the business cycle to explain the different interest rate settings in boom and recession times
- use of the KTM to demonstrate how a change in interest rates can influence levels of consumer demand, business investment, aggregate demand and economic growth.
- use a deflationary gap diagram to illustrate the effects of changes in interest rates, AD on levels of cyclical unemployment
- use an inflationary gap diagram to illustrate the effects of changes in interest rates on levels of demand pull inflation
- refer to the limitations of interest rate policy in controlling inflation – time lags, overseas borrowing cost increases, presence of cost push inflation.
- refer to the limitations of interest rate policy in controlling unemployment – the ability to generate economic growth and therefore a derived demand for labour based on the two speed economy in Australia, the liquidity trap, levels of excess capacity, stock levels, expectations of profit, existence of structural unemployment
- use of the Phillips curve to demonstrate the trade-off between achieving levels of inflation and unemployment. Reference to the NAIRU.
- data from the Australian economy used to support answers

SECTION III: STIMULUS BASED ESSAY

Student No: _____

Question 26**Analyse the effects of a sustained increase in a current account deficit on the Australian economy.****Syllabus Outcomes tested – H1, H2, H3, H4, H7, H8, H9, H10, H11**

Required knowledge, understanding and skills	Mark
<ul style="list-style-type: none"> • Provides a clear understanding of the causes of a sustained increase in the CAD • Relates in detail the implications of a sustained increase in the CAD for the Australian economy • Interprets and synthesises stimulus material and own knowledge effectively into response. • Integrates extensive and relevant economic terms, concepts, relationships and theory. • Presents a sustained, logical and cohesive response. 	17 – 20
<ul style="list-style-type: none"> • Provides an understanding of the causes of a sustained increase in the CAD • Relates the implications of a sustained increase in the CAD for the Australian economy. • Interprets and synthesises some stimulus material and own knowledge into response. • Integrates some relevant economic terms, concepts, relationships and theory. • Presents a logical and cohesive response. 	13 - 16
<ul style="list-style-type: none"> • Demonstrates some understanding of the implications of a sustained increase in the CAD on the Australian economy. • Incorporates limited stimulus material into the response. • Applies some economic terms, concepts and relationships • Presents a coherent response 	9 – 12
<ul style="list-style-type: none"> • Brief reference to the implications of a sustained increase in the CAD on the Australian economy. • Incorporates little stimulus material into the response. • Uses some economic terms and concepts. • Presents a limited response. 	5 – 8
<ul style="list-style-type: none"> • Makes general statements about the current account deficit in Australia. • Incorporates no stimulus material into response. • Uses few economic terms and concepts. • Presents a brief and limited response. 	1 - 4
	/20

Possible content could include –**TERMINOLOGY**

May include: balance of payments, BOGS, primary income, secondary income, current account, capital account, financial account, net foreign liabilities, foreign debt, and foreign investment.

CAUSES of CAD

- growth of foreign borrowings during the 1980's
- higher public sector borrowing requirement.
- reduced international competitiveness in the 1980's
- savings / investment gap increase, lead to more borrowing.
- globalisation / reduction of protective barriers and increases in domestic demand.
- a number of cyclical factors leading to a deterioration of the CAD

EFFECTS of increased CAD on Australian economy

- persistent CADs financed by foreign debt
- increased exposure to external shocks
- increased susceptibility to exchange rate fluctuations.
- implementation of MER to promote increased efficiency.
- possible use of monetary policy to slow the growth of imports.
- possible restraint on economic growth over time.
- Differentiation should be made between the longer term effects a sustained increase in the CAD as opposed to shorter term cyclical fluctuations of the CAD.

SECTION IV: EXTENDED RESPONSE

STUDENT No: _____

QUESTION 27 –**Explain the role of international organisations and agreements in facilitating trade, financial flows and foreign investment.****Syllabus outcomes tested – H1, H3, H4, H6, H7, H8, H9, H10**

Required knowledge, understanding and skills	Mark
<ul style="list-style-type: none"> Clearly relates the role of international organisations and agreements to the facilitation of trade, financial flows and foreign investment. Response is supported by numerous examples of international organisations and trading blocs. Statements are well supported by economic data. Integrates extensive and relevant economic theory, terms, concepts and relationships. Presents a sustained, logical and cohesive response. 	17 – 20
<ul style="list-style-type: none"> Relates the role of international organisations and agreements to the facilitation of trade, financial flows and foreign investment. Response is supported by examples of international organisations and trading blocs. Statements are well supported by some economic data. Integrates relevant economic theory, terms, concepts and relationships. Presents a logical and cohesive response. 	13 - 16
<ul style="list-style-type: none"> Provides the characteristics of international organisations and agreements AND the trends of trade, financial flows and foreign investment. Response is supported by examples of international organisations AND / OR trading blocs. Statements are supported by some economic data. Applies some economic terms, concepts and relationships. Presents a logical response. 	9 - 12
<ul style="list-style-type: none"> Provides the characteristics of international organisations and agreements OR aspects of trade, financial flows and foreign investment. Statements are supported by little economic data. Applies little economic terms, concepts and relationships. Presents a limited response. 	5 - 8
<ul style="list-style-type: none"> Makes general reference to international organisations and agreements AND / OR trade, financial flows and foreign investment. Statements are supported by little economic data. Applies few economic terms and concepts. Presents a brief and disjointed response. 	1 - 4
	/20

Possible content could include –

- Agreements – NAFTA, EU, APEC, CERTA, AUSFTA – and their role in free trade.
- Organisations – WTO, IMF, World Bank – and their role in free trade.
- Globalisation (movement of G & S, investment, finance, labour and MNCs). Provision of relevant statistics.
- Globalisation leading to a reduction in protection in most economies, therefore leading to liberalisation of above.
- Key terms and concepts may include: specialisation, efficient allocation resources, absolute & comparative advantage, competition, innovation, improved access, protection, infant industries, structural change, trade blocs and economic indicators.

QUESTION 28 –

Explain the impact of a sustained increase in the exchange rate for the Australian dollar on the Australian economy.

Syllabus outcomes tested – H1, H2, H3, H4, H7, H8, H9, H10, H11

Required knowledge, understanding and skills	Mark
<ul style="list-style-type: none"> • Demonstrates a thorough understanding of the causes of a sustained appreciation in the AUD. • Communicates a detailed understanding of multiple impacts of a sustained appreciation of the AUD on the Australian economy. • Statements are well supported by relevant economic data. • Integrates extensive and relevant economic theory, terms, concepts, and relationships. • Presents a sustained, logical and cohesive response. 	17 – 20
<ul style="list-style-type: none"> • Demonstrates an understanding of the causes of a sustained appreciation in the AUD. • Communicates an understanding of some impacts of a sustained appreciation of the AUD on the Australian economy. • Statements are supported by relevant economic data. • Integrates economic theory, terms, concepts, and relationships. • Presents a logical and cohesive response. 	13 - 16
<ul style="list-style-type: none"> • Communicates some understanding of the impacts of an appreciation of the AUD on the Australian economy. • Statements are supported by some economic data. • Some use of economic terms, concepts and relationships. • Presents a cohesive response. 	9 - 12
<ul style="list-style-type: none"> • Communicates general references to the effects of an appreciation of the AUD • Statements are supported by little economic data. • May use some economic terms, concepts and relationships. • Presents a limited response. 	5 - 8
<ul style="list-style-type: none"> • Makes brief reference to exchange rates • Statements are generally not supported by economic data. • Presents a brief and disjointed response. 	1 - 4
	/20

Possible content could include –

- Outline of (flexible) exchange rates, as well as current values of the AUD.
- **FACTORS INFLUENCING AUD:**
 - Increased demand for Aust G & S / increased demand for imports due to lower cost.
 - Increased O/S demand for Aust assets leading to a capital inflow / increased demand for O/S assets.
 - Changes in global and domestic growth which lead to changes in relative inflation rates.
 - Interest rate differentials leading to exchange rate expectations.
- **EFFECTS OF A SUSTAINED APPRECIATION:**
 - * Higher order responses will need to distinguish between short term and long term effects due to the SUSTAINED appreciation and various causes.*
 - Changes in export revenue and import expenditure (movement of the ToT).
 - A change in the level of interest (and repayments) for the overseas currency component of foreign liabilities.
 - Improvements in the standard of living due to lower levels of domestic inflation.
 - Increased levels of capital inflow will lead to higher levels of ‘reward’ in the future and the possibility of increased borrowing from overseas.
 - Reducing the competitiveness of export and import-competing industries leading to possible increases in unemployment and an eventual reallocation of resources.