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Student Number

2012

Higher School Certificate  
Trial Examination

# Economics

## General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black or blue pen
- Board-approved calculators may be used
- Write your Centre Number and Student Number at the top of pages 11,13,15,17 and all writing booklets

## Total marks - 100

### Section I – Pages 2-10 20 marks

Attempt Questions 1 - 20  
Allow about 35 minutes for this section

### Section II – Pages 11-18 40 marks

Attempt Questions 21 - 24  
Allow about 1 hour and 15 minutes for this section

### Section III – Pages 19-20 20 marks

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

### Section IV – Page 21 20 marks

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

# KNOX GRAMMAR SCHOOL

## GUIDE TO USE OF THE MULTIPLE CHOICE ANSWER SHEET

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 the correct answer by writing the word **correct** and drawing an arrow as follows.

**correct**  
↕  
A  B  C  D

## Section I

### Multiple Choice Section (20 marks)

Attempt Questions 1-20 (use the answer sheet provided)

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- 1 Which of the following best describes the implementation of macroeconomic policies?
- (A) Monetary Policy is faster to implement than Fiscal Policy, however it takes longer to affect economic activity
  - (B) Fiscal Policy may have political considerations and its implementation is limited to the areas of government expenditure on health and education
  - (C) Monetary Policy is more effective at speeding up an economy rather than slowing down an economy
  - (D) Fiscal Policy is less affected by political constraints than Monetary Policy
- 2 Which of the following are most likely to ease inflationary pressures in the Australian economy?
- (A) A decrease in the size of the budget deficit and greater regulation of product markets
  - (B) Productivity growth in the Australian economy and a depreciation of the Australian dollar
  - (C) An appreciation of the Australian dollar and centralised wage determination
  - (D) An increase in the size of the budget surplus and greater competition in product markets

- 3 The following information is relevant for Question 3 (hypothetical data for Australia):

Year	Consumer Price Index	Terms of Trade Index
1	100	100
2	95	96
3	100	104

Which of the following statements is correct?

- (A) From Year 1 to Year 2, inflation has decreased and there has been a decrease in the volume of exports relative to imports
  - (B) From Year 2 to Year 3, the inflation rate is 5% and Australians can purchase more imports with the same quantity of exports
  - (C) From Year 1 to Year 2, the inflation rate has increased and Australia's terms of trade has deteriorated
  - (D) From Year 2 to Year 3, there is inflation in the economy and Australians can now sell fewer exports in order to pay for the same quantity of imports
- 4 An increase in investment levels of \$60 million has lead to an increase in national income of \$300 million in a hypothetical economy.

What is the value of the Marginal Propensity to Consume (MPC)?

- (A) 0.2
- (B) 0.4
- (C) 0.6
- (D) 0.8

- 5 An industrial dispute between an employer and a group of employees has not been resolved at the enterprise level.

What is the next step in the dispute resolution process?

- (A) Negotiation with the ACTU
  - (B) Conciliation with Fair Work Australia
  - (C) Arbitration at the Federal Court of Australia
  - (D) Arbitration at the Minimum Wage Panel
- 6 Which of the following international organisations promotes global trade liberalisation and attempts to resolve trade disputes?
- (A) United Nations
  - (B) World Trade Organisation
  - (C) International Monetary Fund
  - (D) World Bank
- 7 How would profits earned by an Australian company operating in Vietnam be recorded in Australia's Balance of Payments?
- (A) As a credit on the Net Primary Income account in the current account
  - (B) As a debit on the Net Primary Income account in the current account
  - (C) As a credit on the Financial account
  - (D) As a debit on the Financial account

- 8 The information below is for a hypothetical country:

Country	Gini Coefficient (Income)	HDI
A	0.45	0.90
B	0.30	0.75
C	0.50	0.70

Other things being equal, which statement is correct given the data in the table?

- (A) Country A has higher income inequality and lower literacy levels than Country C
- (B) Country B has lower income inequality and higher life expectancy than Country A
- (C) Country C has higher income inequality and lower GNI/Capita than Country B
- (D) Country B has lower income inequality and higher literacy levels than Country A
- 9 The following table shows selected information for the balance of payments for a country with a floating exchange rate.

Balance of Payments	Billions (\$\$)
Net Services	-12
Net Primary Income	-60
Net Secondary Income	2
Capital and Financial Account	55

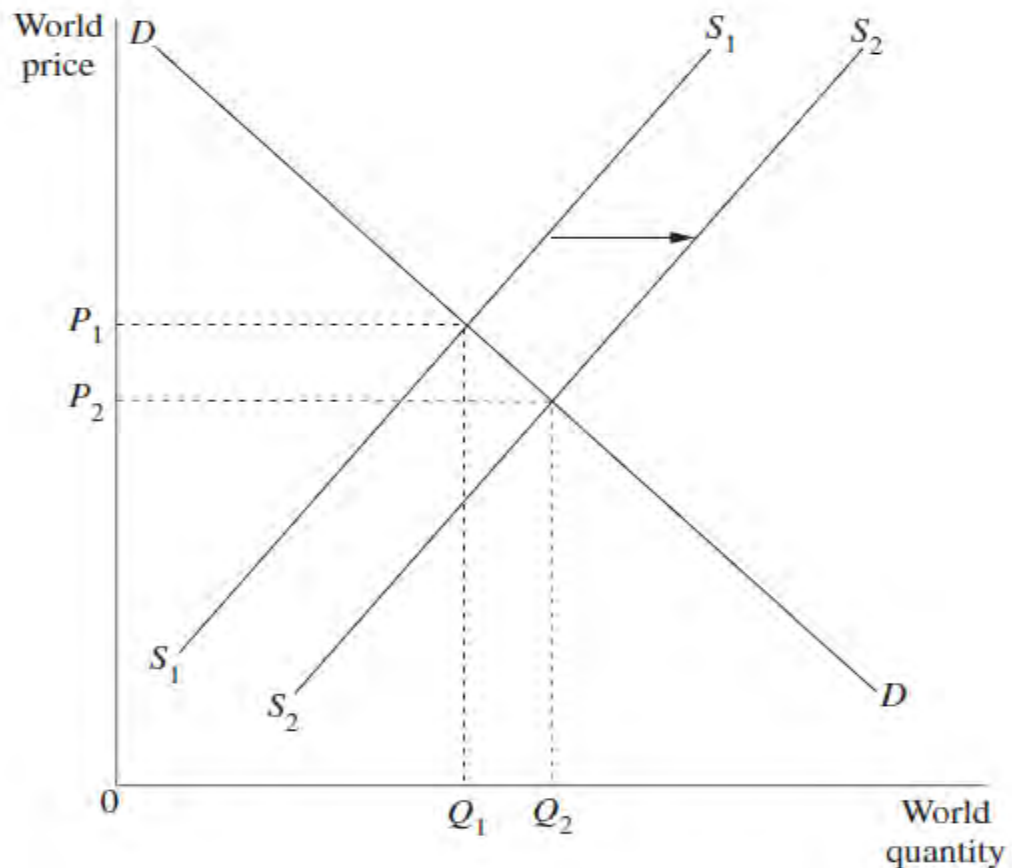
What is the Net Goods balance on the current account?

- (A) -\$20 billion
- (B) \$15 billion
- (C) -\$15 billion
- (D) \$55 billion

- 10** Which of the following is most likely to increase Australia's international competitiveness?
- (A) Structural change and higher interest rates in Australia
  - (B) Lower labour costs and increased spending on infrastructure in Australia
  - (C) Lower inflation in Australia and a reduction in the size of import quotas
  - (D) Productivity growth in Australia and an appreciation of the Australian dollar
- 11** Which of the following methods of financing a budget deficit is most likely to impact Australia's external stability in the short-term?
- (A) Borrowing from the RBA
  - (B) Borrowing from the domestic private sector
  - (C) Borrowing from overseas
  - (D) Selling Government assets domestically
- 12** What would be the most suitable macroeconomic policy responses to address declining economic growth and increasing cyclical unemployment in the Australian economy?
- (A) Buying of government securities by the RBA and decreasing the tax free threshold
  - (B) Selling of government securities by the RBA and cutting the company tax rate
  - (C) Increase in discretionary spending and a tightening of Monetary Policy
  - (D) Increase in the tax free threshold and a decrease in the official cash rate
- 13** A local manufacturer of building products decides to install new and more effective anti-pollution technology in its factories following the introduction of a carbon tax.
- Which of the following outcomes would arise due to this action?
- (A) An increase in private costs and a reduction in negative externalities
  - (B) An increase in private costs and an increase in negative externalities
  - (C) An increase in social costs and an increase in negative externalities
  - (D) An increase in social costs and a reduction in negative externalities

- 14 Which of the following is a likely outcome of the policies of the European Union (EU)?
- (A) The transaction costs involved in currency exchange between many EU member countries have increased
  - (B) The low expenditure on agricultural subsidies allows the EU member countries to spend up to 90% of their budgets on health and education
  - (C) The economic impacts of financial problems in certain EU member countries have spread quickly to other member countries
  - (D) The developing nations selling agricultural produce to European countries have benefited from a larger potential market due to low barriers to trade

15 The following diagram shows the impact of a subsidy for a domestic market.



Which of the following statement is most correct?

- (A) The size of the subsidy is equivalent to the difference between price  $P_1$  and  $P_2$
- (B) The economy will experience an increase in labour and capital productivity
- (C) There will be upward pressure on domestic prices for the subsidised product
- (D) Countries with competing products may experience decreased export income



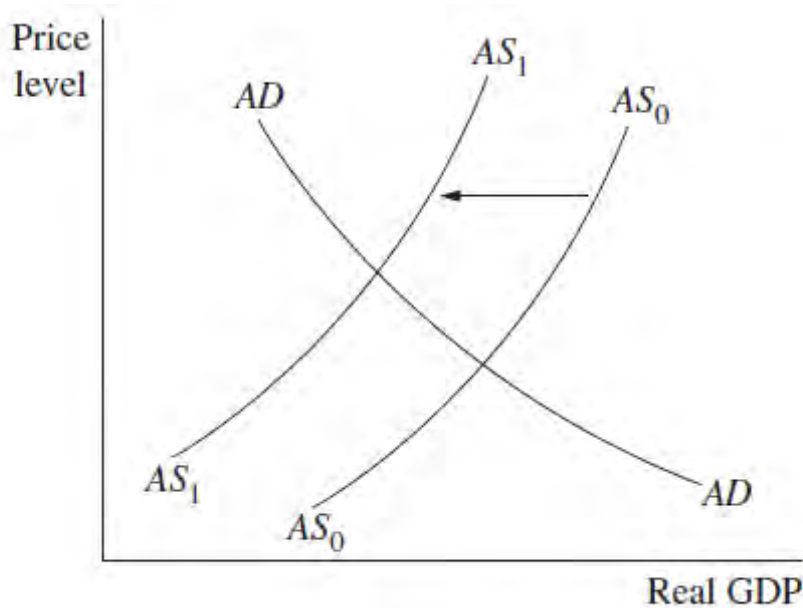
- 16 The following table refers to economic data for a hypothetical economy:

Component	\$\$ Billions
Exports	105
Taxation	180
Government expenditure	160
Investment	170
Imports	110
Savings	150

What would be the implications for this economy?

- (A) There will be a decrease in economic activity and there is a trade deficit
  - (B) There will no change in economic activity and trade is in surplus
  - (C) There will be an increase in economic activity and there is a budget deficit
  - (D) The economy is in equilibrium and there is a budget surplus
- 17 Which of the following is a potential advantage of a decentralised wage determination system?
- (A) An increased average propensity to consume
  - (B) An increase in underemployment
  - (C) Increased growth in labour productivity
  - (D) Increased capital widening

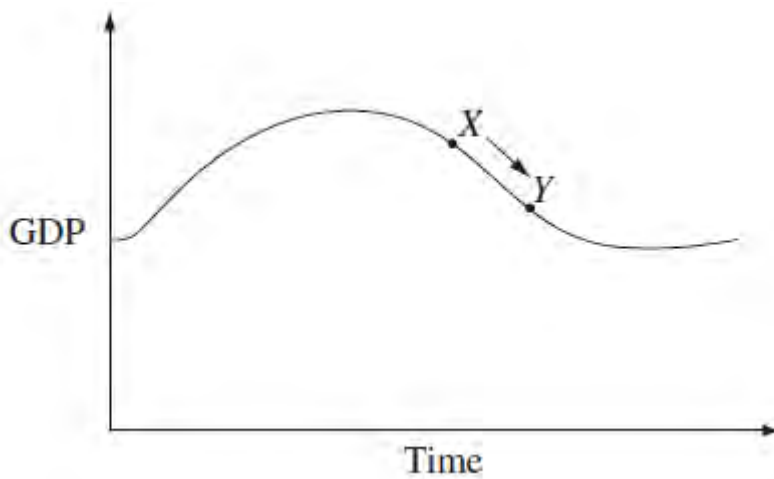
- 18 The diagram shows aggregate demand and aggregate supply curves for a nation.



Other things being equal, which of the following will shift the aggregate supply to the left from AS<sub>0</sub> to AS<sub>1</sub>?

- (A) Lower tax rates
  - (B) Decreased interest rates
  - (C) Cancellation of the annual skilled migrant intake
  - (D) Appreciation of the Australian dollar
- 19 Which of the following could be regarded as the most effective at decreasing structural unemployment?
- (A) Increased access to education and training for the unemployed
  - (B) Technological innovation in the manufacturing industry
  - (C) A reduction in trade barriers in the clothing industry
  - (D) A sustained upturn in the business cycle

20 The business cycle shows that the Australian economy has moved from Point X to Y.



Which policy mix is most appropriate for this economy?

- (A) The Federal Government reduces the size of their Budget surplus and the RBA sells repurchase agreements
- (B) The Federal Government increases the size of the Budget deficit and the RBA buys repurchase agreements
- (C) The Federal Government increases spending on aged care and the RBA sells repurchase agreements
- (D) The Federal Government reduces the monetary size of unemployment benefits and the RBA decreases the official cash rate

**End of Section I**

Student Number: .....

**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

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**Question 21 (10 marks)**

**Marks**

(a) Why is microeconomic policy used by the Federal Government?

**2**

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(b) To what extent has labour market reform affected income distribution in the Australian economy?

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**Student Number:** .....

**Question 22 (10 marks)**

**Marks**

(a) The table shows Gross Domestic Product (GDP) data for a hypothetical economy:

Year	Nominal GDP	Consumer Price Index (CPI)
1	\$5600	100
2	\$6000	110
3	\$6500	125

Calculate and give ONE reason for the trend in Real GDP for this economy from Year 1 to Year 3? (show working). **2**

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(b) Briefly explain the impact of increasing economic growth rates on ONE measurement of Australia's external stability? **2**

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(c) Using the multiplier concept, outline the impact of an increase in Federal Government spending on the level of economic activity in the economy. **2**

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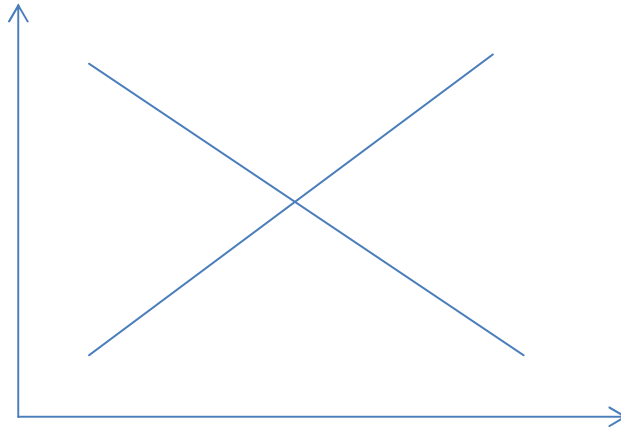
**Student Number:** .....

**Question 23 (10 marks)**

**Marks**

- (a) In the space below, draw a fully labelled demand and supply diagram showing a hypothetical country that has fixed their currency below the market rate.

**1**



*Quantity of Currency*

- (b) With reference to the diagram above, how would the central bank of a country fix their currency below the market rate?

**2**

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- (c) Assuming a flexible exchange rate, outline ONE cause of an increase in the supply of Australian dollars.

**2**

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**Student Number:** .....

**Question 24 (10 marks)**

**Marks**

(a) Describe the impact of ONE trend in global trade flows on a regional business cycle. **2**

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(b) Why has the G20 become more influential in the global economy? **2**

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(c) Outline TWO reasons for the differences in economic development between nations. **2**

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**Question 24 (continued)**

**Marks**

(d) Using examples from at least ONE country other than Australia, explain the impact of continuing world economic development on the natural environment.

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**End of Section II**

### 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.

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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
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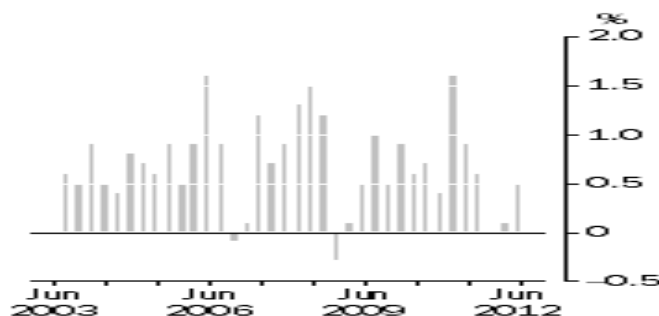
#### Question 25 (20 marks)

Evaluate the effectiveness of macroeconomic policies in addressing unemployment and inflation in the Australian economy. In your response you should refer to the information provided.

“The 1970s and 1980s stagflation era made economists aware that there will not always be a trade-off between unemployment and inflation in the long-term. Unfortunately, what also became clear is that these economic indicators can both be high at the same time. In more recent times, particularly in the late 90s and early 2000s, the low inflation and unemployment rates have encouraged policy makers to believe that these objectives can be achieved simultaneously. Inflation targeting and a focus on sustainable growth have assisted this process. Yet, in the lead-up to the GFC the more usual short-run trade-off between unemployment and inflation occurred, with a 33 year low in the unemployment rate of 3.9% (early 2008) being accompanied by higher inflation. Various factors, including capacity constraints and the international business cycle can limit the effectiveness of macroeconomic measures”.

*Dr Amelia Thomas, Economics Group Think, 2012.*

Headline Inflation – CPI Trends (Source – ABS)



## Section III

OR

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

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

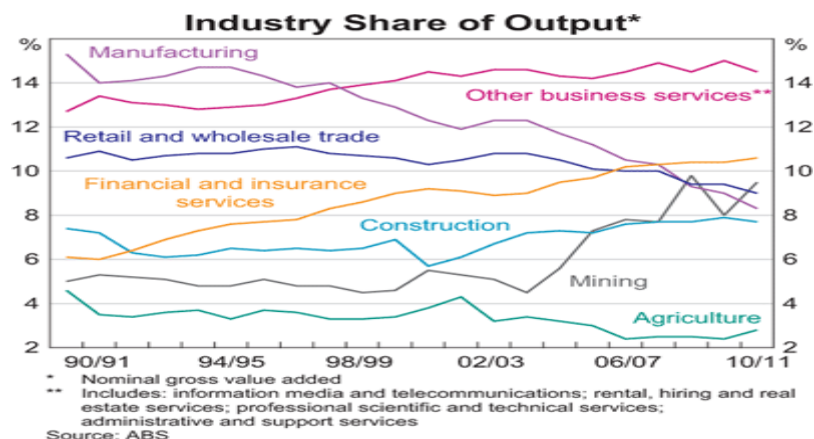
### Question 26 (20 marks)

Evaluate the implications of Australia's trade policies for households, firms and the Federal Government in the Australian economy. In your response you should refer to the information provided.

“A Productivity Commission study showed that Australia's trade liberalisation policies increased GDP by 3.4% between 1998 and 2008 and increased family income on average by \$3,900 per year. This microeconomic reform has led to multiple effects on individual industries and sectors. The manufacturing sector has been transformed, with structural change markedly improving the quality of the finished products in the Passenger Motor Vehicle (PMV) and Textiles, Clothing and Footwear (TCF) industries. However, the increasingly globalised world has meant that the international competition in the PMV and TCF industries have developed competitive advantages in relation to costs of production. The associated short-term pain in reallocating resources from less efficient industries, including manufacturing, lead to increased structural unemployment and government expenditure on unemployment benefits and structural adjustment policies. Despite all this, the longer term benefits completely outweigh the costs”.

*Dr Amelia Thomas, Economics Group Think, 2012.*

Employment by Industry – Source (RBA)



## **Section IV**

**20 marks**

**Attempt 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**

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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 information, terms, concepts, relationships and theory
  - present a sustained, logical and cohesive response
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### **Question 27 (20 marks)**

Examine the effects of globalisation on the quality of life and the distribution of income and wealth in the global economy.

**OR**

### **Question 28 (20 marks)**

Examine the impact of recent trends in the global economy on the size and composition of Australia's balance of payments.

**End of Paper**



## Trial Examination Marking Criteria 2012

# HSC Economics

### Section I – Multiple Choice

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

**Section II**

**Question 21**

(a) Why is microeconomic policy used by the Federal Government?

Marking Criteria	Marks
Displays a clear understanding of the reasons why microeconomic policy is used by the Federal Government.	<b>2</b>
Basic understanding of the reasons.	<b>1</b>

**Answers could include:**

- To improve the productive capacity of the economy.
- To reallocate resources to the most efficient industries.
- To increase the productivity and international competitiveness of the Australian economy.
- To decrease inflationary pressures in the economy (particularly cost-inflation).

(b) To what extent has labour market reform affected income distribution in the Australian economy?

Marking Criteria	Marks
Provides a clear judgement of the extent to which labour market reform has affected income distribution in the Australian economy.	3
Provides a sound judgement.	2
Provides a limited judgement.	1

**Answers could include:**

Labour market reform, in recent decades, has lead to a mainly decentralised and deregulated labour market. As a result, income inequality has increased due to the different rewards for skills and experience in the Australian economy. The gini- coefficient has increased from 0.22 in 1993 to 0.334 in 2010 (with the advent of a dual labour market). Students could also consider more recent reforms (e.g. Fair Work Act 2009) and their potential impact on income inequality.



**Student Number .....**

**Question 21c)**

How do microeconomic policies lead to structural change in the Australian economy?

<b>Marking Criteria</b>	<b>Marks</b>
Provides a clear understanding of how microeconomic policies lead to structural change in the Australian economy.	5
Provides a sound understanding.	4
Provides a basic understanding.	3
Provides a limited understanding or sketches in general terms.	2
Recognises and names one or more microeconomic policies or examples of resultant structural change.	1

**Answers could include:**

The process by which microeconomic policies can lead to structural change (i.e. changes in the composition of production, employment, consumption and investment in the economy). Examples, such as trade liberalisation and deregulation of industries, could help to illustrate how resources are reallocated in the economy. Structural change could be both negative (structural unemployment) and positive (increase in quality of production and employment). The types of efficiencies could be considered (e.g. dynamic, technical, allocative) in the structural change process. Increases in the quality and/or quantity of the factors of product within or between industries could denote structural change.

Student Number .....

**Question 22 (10 marks)**

(a) Account for the trend in Real GDP for this economy from Year 1 to Year 3? (show working).

Marking Criteria	Marks
Calculates that there has been a decrease in Real GDP from Year 1 to Year 3 (Yr 1: \$5600, Yr 2: \$5454, Yr 3: \$5200) AND provides at least ONE clear reason for the decrease.	2
Calculates that there has been a decrease in Real GDP from Year 1 to Year 3 (Yr 1: \$5600, Yr 2: \$5454, Yr 3: \$5200) AND provides incorrect reasoning.	1

**Answers could include:**

$$\text{Real GDP} = \text{Nominal GDP} / \text{CPI} \times 100/1$$

There may have been high inflation if the economy is nearing its full capacity (and NAIRU). Hence the increase in nominal GDP is exceeded by the increase in CPI.

(b) Briefly explain the impact of increasing economic growth rates on ONE measurement of Australia's external stability?

Marking Criteria	Marks
Provides a clear cause-effect between increasing economic growth rates and ONE measurement of Australia's external stability.	3
Provides a sound cause-effect.	2
Provides a limited cause-effect OR clear sketches in general terms of the impact on ONE measurement of Australia's external stability.	1

**Answers could include:**

Increasing economic growth rates could lead to increased net foreign liabilities as a percentage of GDP, an increased current account deficit as a percentage of GDP, increased international competitiveness (if growth is accompanied by technical and dynamic efficiencies).

**Question 22 (10 marks)**

(c) Using the multiplier concept, outline the impact of an increase in Federal Government spending on the level of economic activity in the economy.

Marking Criteria	Marks
Provides a clear sketch in general terms of the impact of an increase in Federal Government spending on the level of the economic activity in the economy, with use of the multiplier concept.	2
Provides a basic sketch in general terms, using the multiplier concept OR Provides a clear sketch in general terms without using the multiplier concept.	1

**Answers could include:**

An injection of Government spending will lead to a proportionately greater increase in the level of economic activity. This will occur as the initial expenditure will lead to successive rounds of spending and saving, the size of which is dependent on the MPC. The cumulative impact of these rounds of spending will lead to a larger impact on economic activity. An example could be used to illustrate the concept and impact more clearly.

(d) Discuss the impact of an increase in the official cash rate by the Reserve Bank of Australia on economic activity and the exchange rate in Australia.

Marking Criteria	Marks
Displays a clear understanding of the points for and/or against the impact of an increase in the official cash rate on economic activity and the exchange rate in Australia.	4
Displays a sound understanding of the points for and/or against the impact on economic activity and the exchange rate (OR clear on ONE and limited on the other issue).	3
Provides a basic understanding of some of the points for and/or against the impact on economic activity or the exchange rate OR sketches in general terms (OR sound on ONE and lists another).	2
Recognises and names an impact on economic activity OR the exchange rate.	1

**Answers could include:**

- Brief inclusion of how the cash rate influences market interest rates (via Domestic Market Operations).
- Impacts on economic activity via transmission channels e.g. consumption (e.g. servicing costs), investment (e.g. cost of capital), cash flow, exchange rate (via net exports).
- Impacts on exchange rate via interest rate differential and inflow and outflow of finance.
- Students could consider impact of exchange changes on economic activity or vice versa.

**Student Number:** .....

**Question 23 (10 marks)**

- (a) In the space below, draw a fully labelled demand and supply diagram showing a hypothetical country that has fixed their currency below the market rate.

Marking Criteria	Marks
Draws an accurate demand and supply diagram showing a fixed currency below the market rate.	1

**Answers must include:**

A line drawn below the equilibrium market rate for the exchange rate (displaying a surplus in the supply of the country's currency).

- (b) With reference to the diagram above, how would the central bank of a country fix their currency below the market rate?

Marking Criteria	Marks
A clear understanding of how the central bank of a country would fix their currency below the market rate.	2
A limited understanding of how OR clearly sketch in general terms.	1

**Answers could include:**

The central bank would need to sell their currency in order to increase the supply of the domestic currency (they would have foreign reserves of currency and gold). As a result, the supply curve will shift to the right (from D to D1) and the dollar will be maintained (or devalued if necessary) below the equilibrium market rate.

- (c) Assuming a flexible exchange rate, outline ONE cause of an increase in the supply of Australian dollars.

Marking Criteria	Marks
A clear sketch in general terms of ONE cause of an increase in the supply of Australian dollars.	2
Recognises and names ONE cause.	1

**Answers could include:**

- An increase in the demand for imports
- An increase in the outflow of financial flows or income flows (e.g. dividends, interest)

**Question 23 (continued)**

(d) Analyse the impacts of a sustained appreciation in the Australian dollar on households and firms in the Australian economy.

<b>Marking Criteria</b>	<b>Marks</b>
Clear ability to <i>identify the components and the relationships between them</i> of the impacts of a sustained appreciation in the Australian dollar on households and firms in the Australian economy.	5
Sound ability to <i>identify the components and the relationships between them</i> (for households and firms).	4
Basic ability to <i>identify the components and the relationship between them</i> (for households and firms).	3
Limited ability to analyse OR a clear sketch in general terms.	2
Recognises and names at least ONE impact on either households or firms.	1

**Answers could include:**

- Impact on households – lower import prices, higher purchasing power, structural unemployment in import-competing and exporting industries,
- Impact on firms – effects of “dutch disease” with hollowing out of manufacturing industries (e.g. PMV and TCF), lower costs of capital goods and hence capital deepening may occur.
- A consideration of positive and negative impacts.

**Student Number:** .....

**Question 24 (10 marks)**

(a) Describe the impact of ONE trend in global trade flows on the regional business cycle.

Marking Criteria	Marks
Clearly provides the features and characteristics of ONE trend in global trade flows on the regional business cycle.	2
Limited provision of the features and characteristics of ONE trend.	1

**Answers could include:**

- General increase in trade flows in recent decades in the Asia-Pacific region has led to trade creation in the region and a greater contribution to gross world product. Post-GFC the regional business cycle has somewhat decoupled from the international business cycle.
- Other regional business cycles e.g. Europe, North America, South America, Africa.

(b) Why has the G20 become more influential in the global economy?

Marking Criteria	Marks
Clear understanding of the reasons why the G20 has become more influential in the global economy. E.g. Post-GFC coordinated approach.	2
Limited understanding of the reasons why.	1

**Answers could include:**

- Emerging nations have become more significant players in the Global economy.

(c) Outline TWO reasons for the differences in economic development between nations.

Marking Criteria	Marks
Clear sketch in general terms of TWO reasons for the differences in economic development between nations.	2
Clear sketch in general terms of ONE reason OR identification of TWO.	1

**Answers could include:**

- *Global financial architecture* – financial market deregulation, FDI and FPI flows.
- *Domestic factors* – factor endowments, climatic conditions, level of corruption and governance, safety versus civil wars, government and central bank policies, level of education.

(d) Using examples from at least ONE country other than Australia, explain the impact of continuing world economic development on the natural environment.

Marking Criteria	Marks
Clear understanding of the cause-effect (and/or how/why) of the impact of continuing world economic development on the natural environment, using examples from at least ONE country other than Australia.	4
Sound understanding of the cause-effect (and/or how/why) of the impact, using examples. OR Clear understanding, with no example used from at least ONE country other than Australia.	3
	<u>27</u>
Basic understanding of the cause-effect (and/or how/why), using examples.	2
Limited understanding of the cause-effect OR sketch in general terms, with no use of example(s).	1

**Answers could include:**

In the short to medium term the continuing world economic development will lead to market failure. In particular, the industrialisation process will target efficiency and profitability over ecological sustainability (less developed nations often have less stringent environmental and compliance laws). Hence, negative externalities will eventuate (e.g. deforestation in Brazil, land degradation and poorer water quality in China). In the long-term, enhanced development could lead to global coordination shifting towards cleaner energy sources (which are renewable).

**Section III - Question 25 (20 marks)**

**Student Number .....**

Evaluate the effectiveness of macroeconomic policies in addressing unemployment and inflation in the Australian economy. In your response you should refer to the information provided.

Marking Criteria	Marks
<ul style="list-style-type: none"> <li>• Synthesises own knowledge and understanding with information provided to develop a sustained, logical and cohesive response</li> <li>• Extensive integration of relevant economic terms, concepts, relationships and theory</li> <li>• Provides a clear, thorough and balanced judgement (based on criteria) about the effectiveness of macroeconomic policies in addressing unemployment and inflation in the Australian economy</li> </ul>	<b>17-20</b>
<ul style="list-style-type: none"> <li>• Synthesises own knowledge and understanding with information provided to develop a logical and cohesive response</li> <li>• Integrates relevant economic terms, concepts, relationships and theory</li> <li>• Provides a sound judgement about the effectiveness of macroeconomic policies in addressing unemployment and inflation in the Australian economy</li> </ul> <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> <li>• Provides a clear, comprehensive and balanced judgements (based on criteria) about the effectiveness of macroeconomic policies in addressing either unemployment OR inflation (with generalised response for the other issue)</li> </ul>	<b>13-16</b>
<ul style="list-style-type: none"> <li>• Uses own knowledge and understanding with information provided to develop a coherent response</li> <li>• Applies economic terms, concepts and relationships</li> <li>• Provides a basic judgement about the effectiveness of macroeconomic policies in addressing unemployment and inflation in the Australian economy</li> </ul> <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> <li>• Provides a sound judgement about the effectiveness of macro policies in addressing either unemployment OR inflation (with limited response for the other issue)</li> </ul>	<b>9-12</b>
<ul style="list-style-type: none"> <li>• Uses information to develop a generalised response</li> <li>• Uses some economic terms, concepts and relationships</li> <li>• States some aspects of the effectiveness of macroeconomic policies in addressing unemployment and inflation</li> </ul> <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> <li>• Provides a basic judgement about the effectiveness of macroeconomic policies in addressing unemployment OR inflation in the Australian economy</li> </ul>	<b>5-8</b>
<ul style="list-style-type: none"> <li>• Presents a limited response</li> <li>• Uses some economic terms and/or concepts</li> <li>• Lists any aspects of how macroeconomic policy affects either unemployment or inflation</li> </ul>	<b>1-4</b>

**Feedback**

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**Answers could include:**

- Macroeconomic policies – brief rationale (demand side policies)
- Fiscal policy – implementation and effects
- Monetary Policy – DMOs and transmission mechanism,
- Inflation targeting (formally since 1996 2-3% over the course of the business cycle)
- Types and causes of inflation
- Types and cause of unemployment (particularly cyclical unemployment)
- Full employment (NAIRU)
- Trade-offs (SRPC and LRPC)
- Short-term and long-term
- Limitations of Fiscal and Monetary Policy (including inability to address cost inflation)
- Recent trends in unemployment, inflation and the official cash rate
- Keynesian counter-cyclical policies and Monetarism
- AD/AS analysis and Income-Expenditure Analysis

**Section III - Question 26 (20 marks)**

**Student Number .....**

Evaluate the implications of Australia’s trade policies for households, firms and the Federal Government in the Australian economy. In your response you should refer to the information provided.

Marking Criteria	Marks
<ul style="list-style-type: none"> <li>• Synthesises own knowledge and understanding with information provided to develop a sustained, logical and cohesive response</li> <li>• Extensive integration of relevant economic terms, concepts, relationships and theory</li> <li>• Provides a clear, thorough and balanced judgement (based on criteria) about the implications of Australia’s trade policies for households, firms and the Federal Government in the Australian economy</li> </ul>	<b>17-20</b>
<ul style="list-style-type: none"> <li>• Synthesises own knowledge and understanding with information provided to develop a logical and cohesive response</li> <li>• Integrates relevant economic terms, concepts, relationships and theory</li> <li>• Provides a sound judgement about the implications of Australia’s trade policies for households, firms and the Federal Government in the Australian economy</li> </ul> <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> <li>• Provides a clear, comprehensive and balanced judgement (based on criteria) about the implications of Australia’s trade policies for TWO sectors (with a limited response for the other sector)</li> </ul>	<b>13-16</b>
<ul style="list-style-type: none"> <li>• Uses own knowledge and understanding with information provided to develop a coherent response</li> <li>• Applies economic terms, concepts and relationships</li> <li>• Provides a basic judgement about the implications of Australia’s trade policies for households, firms and the Federal Government in the Australian economy</li> </ul> <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> <li>• Provides a sound judgement about the implications of Australia’s trade policies for TWO sectors (with a limited response for the other sector)</li> </ul>	<b>9-12</b>
<ul style="list-style-type: none"> <li>• Uses information to develop a generalised response</li> <li>• Uses some economic terms, concepts and relationships</li> <li>• Sketches in general terms aspects of the impact of Australia’s trade policies on the Australian economy</li> </ul> <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> <li>• Provides a basic judgement about the implications of Australia’s trade policies for TWO sectors (with a poor response or a non-attempt for the other sector)</li> </ul>	<b>5-8</b>
<ul style="list-style-type: none"> <li>• Presents a limited response</li> <li>• Uses some economic terms and/or concepts</li> <li>• Lists any aspects of</li> </ul>	<b>1-4</b>

**Feedback**

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**Answers could include:**

- Trade policy – features of Australia’s trade policy mainly centred around trade liberalisation (e.g. reduction in manufacturing tariffs)
- Net Industry Assistance of \$9.8 billion in 2010/11 (mainly to PMV industry)
- Short-term versus long-term effects
- Positive and negative impacts
- Household implications e.g. higher unemployment in TCF and PMV industries, greater choice and lower prices (lower inflation), increased employment in the long-term
- Firms implications e.g. closure of less efficient firms, rent seeking behaviour, loss of employment in some import-competing and exporting industries (with examples), exploiting comparative advantages in mining and services leading to specialisation and economies of scale, agricultural industry facing high protectionism globally (with lower assistance domestically)
- Government implications e.g. decreased revenue from tariffs, less expenditure on subsidies, long-term high GDP should lead to increased GST, personal income tax and company tax revenue
- Limitations – time lags, political considerations, global factors
- Rent seeking behaviour
- AD/AS diagram with AS shifting to the right

**Section IV - Question 27 (20 marks)**

Examine the effects of globalisation on the quality of life and the distribution of income and wealth in the global economy.

Marking Criteria	Marks
<ul style="list-style-type: none"><li>• Extensive integration of relevant economic terms, concepts, relationships and theories</li><li>• Provides comprehensive economic information in a sustained, logical and cohesive response</li><li>• Provides a clear and comprehensive inquire into the effects of globalisation on the quality of life and the distribution of income and wealth in the global economy</li></ul>	<b>17-20</b>
<ul style="list-style-type: none"><li>• Integrates relevant economic terms, concepts, relationships and theories</li><li>• Provides sound economic information in a logical and cohesive response</li><li>• Provides a sound inquire into the effects of globalisation on the quality of life and the distribution of income and wealth in the global economy</li></ul>	<b>13-16</b>
<ul style="list-style-type: none"><li>• Applies economic terms, concepts and relationships</li><li>• Develops a coherent response</li><li>• Provides a basic inquire into the effects of globalisation on the quality of life and/or the distribution of income and wealth in the global economy</li></ul>	<b>9-12</b>
<ul style="list-style-type: none"><li>• Uses some economic terms, concepts and relationships</li><li>• Develops a generalised response</li><li>• Sketches in general terms some of the effects of globalisation on the quality of life and/or the distribution of income and wealth in the global economy</li></ul>	<b>5-8</b>
<ul style="list-style-type: none"><li>• Presents a limited response</li><li>• Uses some economic terms and/or concepts</li><li>• Lists any aspects of the effects of globalisation on either quality of life or the distribution of income and wealth in the global economy</li></ul>	<b>1-4</b>

**Feedback:**

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**Answers could include:**

- Definition of globalisation and the global economy (with some features)
- Links between globalisation and quality of life and income and wealth distribution in the global economy
- Quality of life definition and indicators e.g. HDI, health, levels of unemployment, education, level of violence, governance, absolute poverty improvements
- Income and wealth distribution defined – income less unequally distributed than wealth (but both worsening across and often within countries in recent decades).
- Measures of income and wealth inequality – gini-coefficient, share of total gross world product

**Section IV - Question 28 (20 marks)**

Examine the impact of recent trends in the global economy on the size and composition of Australia’s balance of payments.

Marking Criteria	Marks
<ul style="list-style-type: none"> <li>• Extensive integration of relevant economic terms, concepts, relationships and theories</li> <li>• Provides comprehensive economic information in a sustained, logical and cohesive response</li> <li>• Provides a clear and comprehensive inquire into the impact of recent trends in the global economy on the size and composition of Australia’s balance of payments</li> </ul>	<b>17-20</b>
<ul style="list-style-type: none"> <li>• Integrates relevant economic terms, concepts, relationships and theories</li> <li>• Provides sound economic information in a logical and cohesive response</li> <li>• Provides a sound inquire into the impact of recent trends in the global economy on the size and composition of Australia’s balance of payments</li> </ul>	<b>13-16</b>
<ul style="list-style-type: none"> <li>• Applies economic terms, concepts and relationships</li> <li>• Develops a coherent response</li> <li>• Provides a basic inquire into the impact of recent trends in the global economy on the size and composition of Australia’s balance of payments</li> </ul>	<b>9-12</b>
<ul style="list-style-type: none"> <li>• Uses some economic terms, concepts and relationships</li> <li>• Develops a generalised response</li> <li>• Sketches in general terms some of the impacts of recent trends in the global economy on the size and/or composition of Australia’s balance of payments</li> </ul>	<b>5-8</b>
<ul style="list-style-type: none"> <li>• Presents a limited response</li> <li>• Uses some economic terms and/or concepts</li> <li>• Lists any aspects of the impacts of global economy trends on Australia’s balance of payments</li> </ul>	<b>1-4</b>

**Feedback:**

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**Answers could include:**

- Definition of the global economy and recent trends that could impact Australia's balance of payments
- Balance of Payments definition (with brief background of the components)
- Cyclical and structural changes in the global economy
- Recent trends in the global economy e.g. regional business cycle, conditions in Europe and North America
- Syllabus issues: Foreign Investment, Foreign borrowing, International Competitiveness and Terms of trade (with links to the global economy and Balance of Payments)
- Trends in the size of key Balance of Payments components (e.g. BOGs, Net Primary Income, Financial Account – FDI, FPI), with links to recent trends in the global economy
- Trends in the composition of the Balance of Payments (e.g. cyclical nature of BOGs, structural nature of Financial Account and links to the Net Primary Income component), with links to recent trends in the global economy