



STUDENT NUMBER _____

Economics

2016 Trial HSC Examination

General Instructions

- Reading time – 5 minutes
- Working time – 3 Hours
- Write using black or blue pen
- Board approved calculators may be used
- Write your **student number** where indicated
- **Do not remove this paper from the examination room**

Section I – 20 marks

- Attempt Questions 1-20
Use the answer sheet provided

Section II – 40 marks

- Attempt Questions 21-24
Complete on the examination paper

Section III – 20 marks

- Attempt one question from questions 25 OR 26

Section IV – 20 marks

- Attempt one question from questions 27 OR 28

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Section I
Multiple Choice
20 marks

Attempt Questions 1-20.

Use the multiple choice answer sheet provided.

Allow 20 minutes for this section.

1. Which of the following best describes the process of globalisation?
- A Increased growth in world output
 - B Increased self-sufficiency of individual economies
 - C Increased economic integration between different economies
 - D Increased dependence by many countries on international trade

2. The table below shows selected data for the economy of Kearnsland.

Balance of Payments	\$Billion
Net Goods	-15.8
Net Services	0.7
Net Primary Income	-37.5
Net Secondary Income	0.4
Net Direct Investment	-74.1

What is the balance on the Current Account?

- A \$54.0bn
 - B \$-36.8bn
 - C \$-52.2bn
 - D \$-126.3bn
3. How would the purchase of a Japanese fishing rod be recorded in the balance of payments?
- A Debit in the Capital and Financial Account
 - B Debit in the Current Account
 - C Credit in the Current Account
 - D Credit in the Capital and Financial Account

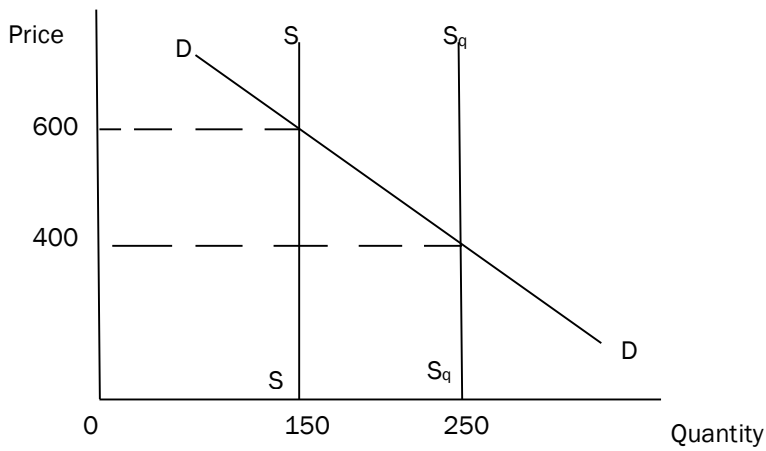
4. The table below shows selected data for the economy of Clarkia.

	Export Price Index	Import price Index
Yr 1	100	100
Yr 2	110	105
Yr 3	121	120

What has happened in this economy between Yr 2 and Yr 3?

- A It experienced a current account surplus because exports grew faster than imports
- B Its terms of trade improved
- C It experienced a current account deficit because imports grew faster than exports
- D Its terms of trade deteriorated

5. The diagram below shows the domestic market for a good for a good that has an import quota applied, where S_q is the supply curve with after the imposition of the quota.



Which of the following statements is correct?

- A The total value of imported goods is \$40,000
- B The total value of imported goods is \$90,000
- C The total value of imported goods is \$100,000
- D The total value of imported goods is \$150,000

6. A country has an absolute advantage in the production of a good when it can do which of the following?
- A Produce a good more expensively than another country
 - B Produce a good with a lower opportunity cost than another country
 - C Produce a good with a higher opportunity cost than another country
 - D Produce more of a good than another country
7. Which of the following is a characteristic of a developing country?
- A Political stability
 - B A narrow export base
 - C Low infant mortality rates
 - D High per capita incomes
8. Which of the following is a bilateral trade agreement?
- A ASEAN
 - B CERTA
 - C NAFTA
 - D APEC

9. The table shows selected information for the currency of Kalisland.

	Yr 1	Yr 2
\$US	0.96	0.75
TWI	73.4	54.6

What could have been the effect on inbound tourism and the average price of imports between Yr 1 and Yr 2, *ceteris paribus*?

A	An increase in inbound tourism	Rising import prices
B	A decrease in inbound tourism	Falling import prices
C	An increase in inbound tourism	Falling import prices
D	A decrease in inbound tourism	Rising import prices

10. What is the likely effect on the Australian dollar of an increase in the cash rate if global interest rates remain unchanged?
- A A depreciation because of capital inflow
 - B A depreciation because of capital outflow
 - C An appreciation because of capital outflow
 - D An appreciation because of capital inflow
11. Which of the following economic objectives can be best achieved simultaneously with an increase in employment?
- A Economic Growth
 - B Environmental stability
 - C Price Stability
 - D External Balance
12. The following table shows the Consumer Price Index (CPI) for an economy.

Year	CPI
1	100
2	103.9
3	108.4
4	111.5

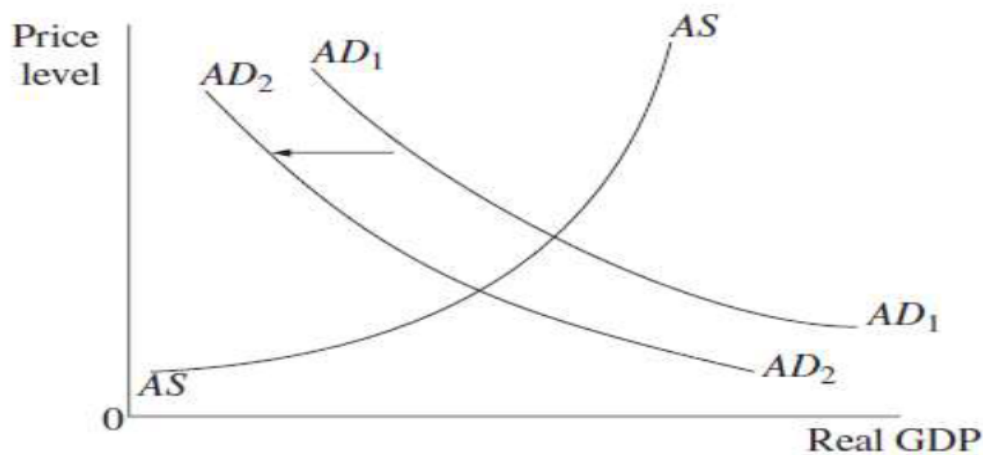
What is the inflation rate for Year 4?

- A 11.5%
- B 2.9%
- C 4.0%
- D 3.5%

13. Which of the following combination of changes to the Gini-coefficient and the Lorenz Curve illustrate a movement towards a more equitable distribution of income?

	Gini-coefficient	Movement of the Lorenz Curve
A	Decrease	Left
B	Increase	Left
C	Decrease	Right
D	Increase	Right

14. The following diagram shows Aggregate Demand and Aggregate Supply curves for an economy.



Which of the following is most likely to cause a shift in the aggregate demand curve from AD_1 to AD_2 ?

- A An increase in business investment
- B A decrease in general prices in the economy
- C An increase in the savings rate
- D A decrease in personal income tax

15. Which action by the Reserve Bank of Australia would most likely stimulate the economy in an economic downturn?

	Decision regarding Government securities	Market that will be affected
A	Sell	Cash
B	Buy	Cash
C	Sell	Foreign Exchange
D	Buy	Foreign Exchange

16. The following information is for a hypothetical economy.

MPS	Increase in Government spending
0.25	\$25 Billion

Using the information provided in the table above, what is the size of the multiplier and change in national income?

	Multiplier	Change in national income
A	1.5	\$37.5 billion
B	4	\$50 billion
C	2	\$33.25 billion
D	4	\$100 billion

17. The table below displays selected data for an economy:

	Year 1	Year 2
Cash rate	5.5%	7.0%
Budget outcome	+ \$20 billion	+ \$32 billion

Given the policy stances of the government, which macroeconomic objectives would the government most likely be attempting to achieve in Year 2?

- A To reduce the rates of unemployment and inflation
- B To reduce the inflation rate and rate of economic growth
- C To reduce the inflation rate and increase the rate of economic growth
- D To reduce the rate of unemployment and increase the rate of economic growth

18. Which of the following is a merit good?

- A Iron ore
- B Opera
- C Cigarettes
- D Digital music downloads

19. Which of the following is an automatic stabiliser that will fall as an economy heads into a downswing?

- A Infrastructure spending
- B Unemployment benefit outlays
- C Defence spending
- D Income tax receipts

20. The table below displays selected data for an economy:

	Year 1	Year 2
Full-time employed persons	1 150 000	1 230 000
Part-time employed persons	420 000	500 000
Unemployed Persons	190 000	210 000
Working age population	2 900 000	3 100 000

Based on the data in the table, what is the change in the labour force participation rate between Year 1 and Year 2?

- A 3.1%
- B 1.89%
- C 2.3%
- D 1.7%

End of
Section I

Section II
Short answer response
40 marks

Student Number:.....

Attempt all questions in the spaces provided

Question 21 (10 marks).

- (a) Define globalisation. **2**

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- (b) Describe TWO changes to the global economy as a consequence of globalisation. **2**

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- (c) Distinguish between bilateral and multilateral international agreements. **2**

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(d) Describe the role of the World Trade Organisation (WTO) in influencing the global economy.

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Question 22 (10 marks)

Student Number:.....

- (a) Identify ONE factor that could lead to a deterioration in Australia's balance on goods and services. **1**

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- (b) Distinguish between foreign debt and foreign equity. **4**

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Question 23 (10 marks)

Student Number:.....

- (a) Other than labour market policy, identify an example of a microeconomic policy used in Australia. **1**

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- (b) What is the difference between an award and an enterprise agreement? **2**

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- (c) Explain how ONE microeconomic policy may influence the level of structural unemployment **3**

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(d) Explain how TWO government policies have affected the distribution of income in Australia

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Question 24 (10 marks)

Student Number:.....

(a) Using an example, define the term negative externality

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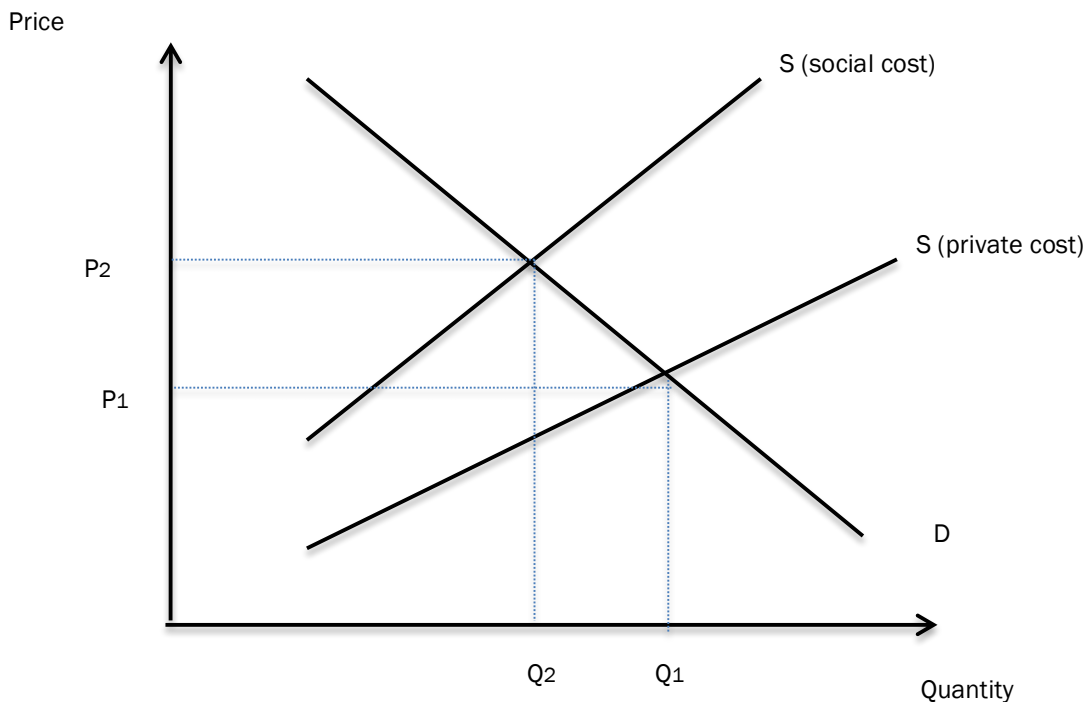
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The following diagram is for a good produced in the Australian economy.



(b) With reference to the diagram, explain the concept of market failure

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(c) Explain how regulation and market-based policies be used to manage the natural environment?

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End of Section II

Section III
Extended Response
20 marks

Attempt either Question 25 **OR** Question 26

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

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

- Use your knowledge and the economic information provided
 - Apply economic terms, concepts, relationships and theory
 - Present a sustained, logical and well-structured answer to the question
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Question 25 (20 marks)

Analyse the role of macroeconomic policies in influencing the levels of economic growth and unemployment in the Australian economy. In your answer refer to the economic information provided.

Official Interest Rates (Source: RBA)



Variability in Australia's economic growth rate during the last decade was slightly lower than in the period 1996-2006 and much lower than in the preceding two decades. Most importantly, Australia has continued to avoid major downturns. As a result Australia's unemployment rate has been lower and less variable over the past 10 years than in the preceding three decades.

(Source: Sydney Morning Herald, 13 August 2016)

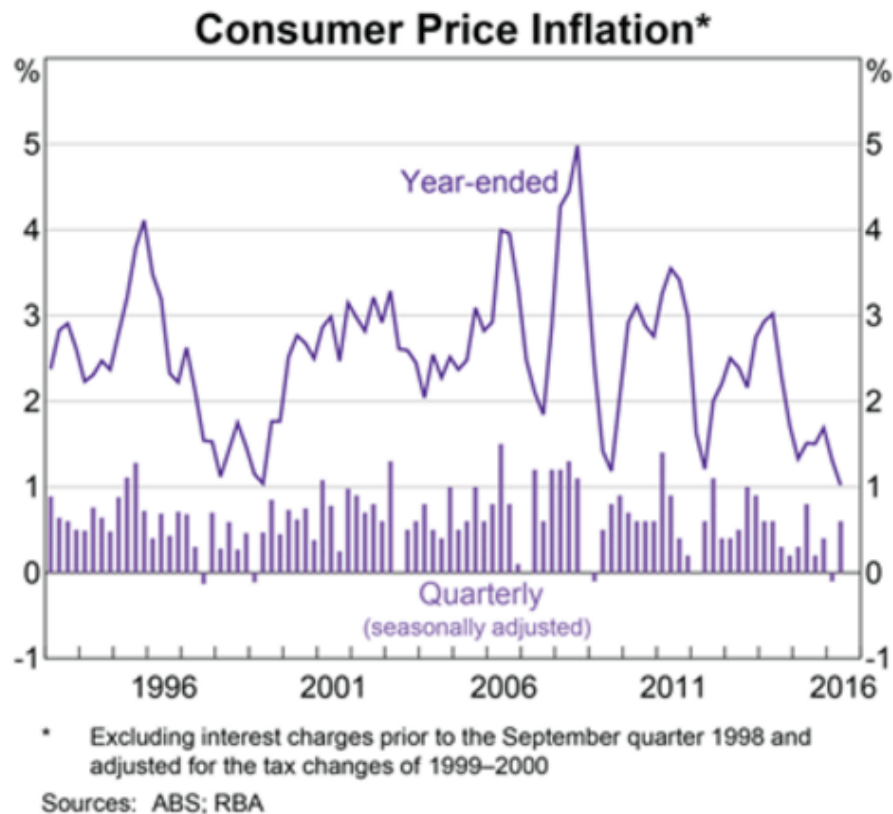
OR

Question 26 (20 marks)

Analyse how microeconomic reform and labour market policies can influence the Australian economy in the short and long term. In your response, you should refer to the economic information provided.

Ultimately, productivity growth is heavily reliant on decisions made by businesses. But policy decisions can also make a difference. Here, there is no shortage of ideas. They cover strengthened competition policy, better provision and pricing of transportation infrastructure, developing a strong innovation culture, creating strong incentives for entrepreneurship and hard work, and investing in high-quality education. The task we collectively face, then, is to identify the right specific policies in each of these areas and then find ways of implementing them. Clearly, this is not an easy task, but neither is it an impossible one.

(Source: Phillip Lowe, Deputy Governor RBA, 2016)



End of section III

Section IV
Extended Response
20 marks

Attempt either Question 27 **OR** Question 28

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

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

- Use economic data
 - Apply economic terms, concepts, relationships and theory
 - Present a sustained, logical and well-structured answer to the question
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Question 27 (20 marks)

Discuss how an economy other than Australia's interactions with the global economy has contributed to changes in its levels of economic growth and economic development.

OR

Question 28 (20 marks)

Discuss the effects of changing levels of domestic and global protection on Australia's economy.

End of paper

Circle the most correct answer to each question below

Example: Which of the following is the most correct spelling of the term *Economics*?

- A Economsic
- B Economicsbro
- C Ecomonics
- D Economics

A

B

C

D

-
- | | | | | |
|-----|---|---|---|---|
| 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 |

Circle the most correct answer to each question below

Example: Which of the following is the most correct spelling of the term *Economics*?

- A Economsic
- B Economicsbro
- C Ecomonics
- D Economics

A

B

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- | | | | | |
|-----|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| 1. | A | B | <input checked="" type="radio"/> C | D |
| 2. | A | B | <input checked="" type="radio"/> C | D |
| 3. | A | B | <input checked="" type="radio"/> C | D |
| 4. | A | B | C | <input checked="" type="radio"/> D |
| 5. | <input checked="" type="radio"/> A | B | C | D |
| 6. | A | B | C | <input checked="" type="radio"/> D |
| 7. | A | <input checked="" type="radio"/> B | C | D |
| 8. | A | <input checked="" type="radio"/> B | C | D |
| 9. | <input checked="" type="radio"/> A | B | C | D |
| 10. | A | B | C | <input checked="" type="radio"/> D |
| 11. | <input checked="" type="radio"/> A | B | C | D |
| 12. | A | <input checked="" type="radio"/> B | C | D |
| 13. | <input checked="" type="radio"/> A | B | C | D |
| 14. | A | B | <input checked="" type="radio"/> C | D |
| 15. | A | <input checked="" type="radio"/> B | C | D |
| 16. | <input checked="" type="radio"/> A | B | C | D |
| 17. | A | <input checked="" type="radio"/> B | C | D |
| 18. | <input checked="" type="radio"/> A | B | C | D |
| 19. | A | B | C | <input checked="" type="radio"/> D |
| 20. | A | <input checked="" type="radio"/> B | C | D |

Marking guidelines & feedback

Question 21

a) Define globalisation

2	Demonstrates a sound understanding of globalisation
1	Makes a relevant statement about globalisation

The increased integration between countries and the increased impact of international influences on all aspects of life and economic activity.

b) Describe two changes to the global economy as a result of globalisation

2	Clearly describes two changes
1	Describes one change

Increased levels of econ growth and development, trade, growth of TNCs, income inequality, environmental degradation and protection, increased role and influence of financial markets and influence of the international business cycle.

c) Distinguish between bilateral and multi-lateral trade agreements

2	Demonstrates a sound understanding of the difference
1	Makes a relevant statement

Bilateral between two countries

d) Describe the role of the WTO in influencing the global economy

4	Demonstrates a comprehensive understanding of the wto
3	Demonstrates a sound understanding of the wto
2	Sketches in general terms the role of the wto
1	Makes a relevant statement about the WTO

Settle trade dispute between member nations
Implement and advance global trade agreements
Promote trade liberalisation

Question 22

a) Identify one factor which could lead to a deterioration in Aust's BOGS.

1	Identifies one factor
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Decrease in the TOT, increase in foreign investment, appreciation of \$AUS and more

b) Distinguish between foreign debt and foreign equity.

4	Demonstrates a comprehensive understanding of the difference
3	Demonstrates a sound understanding of the difference
2	Identifies some features of either foreign debt and foreign equity
1	Identifies one features of either foreign debt and foreign equity

Foreign debt is the total stocks of loans owed by Australians to foreigners.

Foreign equity is the total value of assets in Aust owned by foreigners. EG land, shares and companies. Net foreign equity is minus the total value of assets owned by Australians.

c) Analyse the impacts of Aust's CAD on external stability

5	Demonstrates a comprehensive understanding of the impacts
4	Demonstrates a sound understanding of the impacts
3	Sketches in general terms the impacts/implications
2	Identifies some basic features of the CAD
1	Makes a relevant statement about the CAD

- Growth of foreign liabilities
- Increased servicing costs
- Exchange rate volatility
- Constraint on future economic growth
- Loss of investor confidence
- Contractionary economic policy

Question 23

- a) Other than labour market policy, identify an example of microeconomic policy used in Aust.

1	Correctly identifies a policy
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Deregulation of financial sector, competition policy, tariff reduction and more

- b) What is the difference between an award and an enterprise agreement?

2	Correctly outlines the difference
1	Makes a correct statement

Awards are a minimum set of pay and work conditions set by Fair Work Australia that are specific to a workplace or industry. They provide a safety net. An enterprise agreement is an agreement negotiated between an employer and employees for above award conditions.

- c) Explain how one microeconomic policy may influence the level of structural u/e

3	Clearly explains how one micro policy influences struct u/e
2	Sketches in general terms how one micro policy influences struct u/e
1	Makes a relevant statement

Micro reform usually causes structural change in the economy. It results in some jobs/industries declining or disappearing altogether. However, this is usually a short term impact because the reform will lead to greater efficiency in markets and the creation of new jobs. Eg tariff reduction and car industry

- c) Explain how two govt policies have affected the distribution of income in Aust.

4	Demonstrates a comprehensive understanding of two policies
3	Demonstrates a sound understanding of two policies
2	Describes two policies in general terms
1	Identifies a policy or makes a relevant statement

Fiscal policy – social welfare, progressive income tax

Monetary policy – cash rate and interest rates impact on those who rely on savings such as retirees

Question 24

a) Using an example, define the term negative externality

2	Correctly defines with an eg
1	Provides an eg or correctly defines

An unintended negative outcome of an economic activity whose cost is not reflected in the operation of the price mechanism.

b) With reference to the diagram, explain the concept of market failure

3	Clearly explains the concept of market failure by referring directly to the diagram
2	May not refer to diagram but clearly explains market failure
1	Makes a relevant statement

Market failure is any situation where the allocation of resources by a free market is not efficient. The diagram shows allocative inefficiency because the consumer is not paying an efficient price. Externalities are a cause/result of market failure. In diagram the social cost of production is higher than the private cost. This means that consumption of the good creates a cost to society not borne out by the price of the good. Needed to refer to curves.

c) Explain how regulation and market based policies can be used to manage the natural environment.

5	Demonstrates a comprehensive understanding of how regulation and market based policies can be used
4	Demonstrates a sound understanding of how regulation and market based policies can be used
3	Sketches in general terms how regulation and market based policies can be used
2	Identifies some features of regulation and market based policies
1	Identifies a feature

Regulations and market based policies help insure that all social costs and benefits are incorporated in the market price of the good and hence that production and consumption decisions reflect those social costs and benefits. In turn, this more accurately reflects consumption and production on the environment which is more likely to encourage better environmental outcomes. Eg Regulations include **bans** such as the use of leaded fuel from 2002, the use of incandescent light bulbs and chlorofluorocarbons in aerosols. Regulations also include restrictions on use such as fishing and Murray/Darling water quotas. Market based policies include subsidies to encourage merit goods eg solar panels, taxes such as the carbon tax to restrict negative externalities by reducing consumption and a carbon credits trading scheme

Section III

Question 25

Analyse the use of macroeconomic policy to achieve the objectives of external stability and economic growth in the Australian economy. In your response refer to the information below.

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> • Develops a sustained, logical and well-structured answer that demonstrates superior economic understanding • Provides a comprehensive analysis of the impacts of the current macroeconomic policy mix on econ growth & external stability in Australia • Integrates appropriate economic terms, concepts, and theory • Synthesises economic data to develop an effective response
13-16	<ul style="list-style-type: none"> • Develops a logical and well-structured answer that demonstrates sound economic understanding • Explains a range of impacts of the current macroeconomic policy mix on econ growth & external stability in Australia • Incorporates some appropriate economic terms, concepts, and theory • Incorporates economic data to develop an effective response
9-12	<ul style="list-style-type: none"> • Develops a structured answer that demonstrates a general economic knowledge • Describes, in general terms, the impact of the current macroeconomic policy mix on econ growth & external stability in Australia • Uses some appropriate economic terms, concepts, and theory • Includes some economic data to develop an effective response
5-8	<ul style="list-style-type: none"> • Develops an answer that demonstrates some economic understanding • Refers to some possible impacts of the current macroeconomic policy mix on econ growth & external stability in Australia • Uses limited appropriate economic terms, concepts, and theory • May include some economic data in the response
1-4	<ul style="list-style-type: none"> • Develops an answer that might refer to monetary policy and economic growth • Shows little understanding of the macroeconomic policy mix and economic indicators • Makes little use of appropriate economic terms, concepts, and theory • Makes little use of economic data in the response

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Mark:.....

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Question 26

Discuss the effects of microeconomic reform on the Australian economy. In your response refer to the economic information provided below.

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> • Develops a sustained, logical and well-structured answer that demonstrates superior economic understanding • Provides a comprehensive discussion of the effects of current microeconomic policies on economic objectives in Australia. • Integrates appropriate economic terms, concepts, and theory • Synthesises economic data to develop an effective response
13-16	<ul style="list-style-type: none"> • Develops a logical and well-structured answer that demonstrates sound economic understanding • Explains a range of impacts of the current microeconomic policies on economic objectives in Australia • Incorporates some appropriate economic terms, concepts, and theory • Incorporates economic data to develop an effective response
9-12	<ul style="list-style-type: none"> • Develops a structured answer that demonstrates a general economic knowledge • Describes, in general terms, the impact of the current microeconomic policies on economic objectives in Australia • Uses some appropriate economic terms, concepts, and theory • Includes some economic data to develop an effective response
5-8	<ul style="list-style-type: none"> • Develops an answer that demonstrates some economic understanding • Refers to some possible impacts of the current microeconomic policies on economic objectives in Australia • Uses limited appropriate economic terms, concepts, and theory • May include some economic data in the response
1-4	<ul style="list-style-type: none"> • Develops an answer that might refer to labour market policy and economic objectives • Shows little understanding of micro policy and economic indicators • Makes little use of appropriate economic terms, concepts, and theory • Makes little use of economic data in the response

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Mark:.....

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Question 27

For an economy other than Australia, analyse the global factors that have contributed to changes in its economic performance.

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> • Develops a sustained, logical and well-structured answer that demonstrates superior economic understanding • Provides a comprehensive analysis of the impacts of the global factors that have contributed to changes in its economic performance. • Integrates appropriate economic terms, concepts, and theory • Synthesises economic data to develop an effective response
13-16	<ul style="list-style-type: none"> • Develops a logical and well-structured answer that demonstrates sound economic understanding • Explains a range of impacts of the global factors that have contributed to changes in its economic performance. • Incorporates some appropriate economic terms, concepts, and theory • Incorporates economic data to develop an effective response
9-12	<ul style="list-style-type: none"> • Develops a structured answer that demonstrates a general economic knowledge • Describes, in general terms, the impact of the global factors that have contributed to changes in its economic performance. • Uses some appropriate economic terms, concepts, and theory • Includes some economic data to develop an effective response
5-8	<ul style="list-style-type: none"> • Develops an answer that demonstrates some economic understanding • Refers to some possible impacts of the global factors that have contributed to changes in its economic performance. • Uses limited appropriate economic terms, concepts, and theory • May include some economic data in the response
1-4	<ul style="list-style-type: none"> • Develops an answer that might refer to monetary policy and economic growth • Shows little understanding of the global factors that have contributed to changes in its economic performance. • Makes little use of appropriate economic terms, concepts, and theory • Makes little use of economic data in the response

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Discuss the effects of government policies on the level of income inequality in Australia.

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> • Develops a sustained, logical and well-structured answer that demonstrates superior economic understanding • Provides a comprehensive discussion of the effects of government policies on the level of income inequality in Australia • Integrates appropriate economic terms, concepts, and theory • Synthesises economic data to develop an effective response
13-16	<ul style="list-style-type: none"> • Develops a logical and well-structured answer that demonstrates sound economic understanding • Explains a range of the effects of government policies on the level of income inequality in Australia • Incorporates some appropriate economic terms, concepts, and theory • Incorporates economic data to develop an effective response
9-12	<ul style="list-style-type: none"> • Develops a structured answer that demonstrates a general economic knowledge • Describes, in general terms, the effects of government policies on the level of income inequality in Australia • Uses some appropriate economic terms, concepts, and theory • Includes some economic data to develop an effective response
5-8	<ul style="list-style-type: none"> • Develops an answer that demonstrates some economic understanding • Refers to some possible effects of government policies on the level of income inequality in Australia • Uses limited appropriate economic terms, concepts, and theory • May include some economic data in the response
1-4	<ul style="list-style-type: none"> • Develops an answer that might refer to labour market policy and economic objectives • Shows little understanding of government policies or the level of income inequality in Australia • Makes little use of appropriate economic terms, concepts, and theory • Makes little use of economic data in the response

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Mark:.....

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Marker's Comments 12 Econ Trial HSC 2014

Qu 27

Evaluate the effectiveness of strategies used to achieve economic development in an economy other than Australia.

Obviously this question required the knowledge of a case study of an economy other than Australia. The majority of candidates wrote about Brazil, Indonesia and China. Without going through the specific strategies of each country there were some common areas that you needed to refer to.

Economic development refers to the welfare of the people of a nation. It is more than just economic growth which is an increase in the value of production over time eg GDP. Economic growth may provide a distorted view of the welfare of the people because it doesn't indicate how the benefits of growth are being shared amongst the population. Development, on the other hand, can be measured by a host of indicators both economic and social, and these provide a clearer picture on the quality of life of the people in a country. Countries have used a range of policies to achieve growth and development.

You should have indicated the type of economic system or economy your country represented ie advanced, developing, emerging or transition. The indicators that you needed to cover were:

- GDP and GDP/capita
- HDI
- Gini coefficient
- % of workforce in agriculture
- % of population living in urban areas
- Environmental indicators such as deforestation and water availability / quality

When quoting indicators it is important that comparisons are made with previous years so meaningful conclusions can be drawn. Just listing one indicator for one year doesn't provide a good enough picture.

However, the main part of your response needed to centre on the effectiveness of policies used. Specific knowledge had to be shown of government policies used to achieve both growth and development. **Evaluation** then had to be given on how successful these policies have been. This is where knowledge of indicators was essential because they should have been used to back up your evaluation. Remember that evaluation includes advantages and disadvantages to stakeholders (ie people in that country) in the short run and long run.

Question 28

Evaluate the impact of free trade agreements and protection policies on the quality of life in Australia.

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> • Develops a sustained, logical and well-structured answer that demonstrates superior economic understanding • Provides a comprehensive evaluation of the impact of free trade agreements and protection policies on the quality of life in Australia • Integrates appropriate economic terms, concepts, and theory • Synthesises economic data to develop an effective response
13-16	<ul style="list-style-type: none"> • Develops a logical and well-structured answer that demonstrates sound economic understanding • Explains a range of impacts of trade and protection policies on the quality of life in Australia • Incorporates some appropriate economic terms, concepts, and theory • Incorporates economic data to develop an effective response
9-12	<ul style="list-style-type: none"> • Develops a structured answer that demonstrates a general economic knowledge • Describes, in general terms, the impact of trade and protectionist policies and their impacts on quality of life in Australia • Uses some appropriate economic terms, concepts, and theory • Includes some economic data to develop an effective response
5-8	<ul style="list-style-type: none"> • Develops an answer that demonstrates some economic understanding • Refers to some possible impacts of trade and protectionist policies on the Australian economy. • Uses limited appropriate economic terms, concepts, and theory • May include some economic data in the response
1-4	<ul style="list-style-type: none"> • Develops an answer that might refer to labour market policy and economic objectives • Shows little understanding of trade and protectionist policies and their impacts on the Australian economy • Makes little use of appropriate economic terms, concepts, and theory • Makes little use of economic data in the response

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Mark:.....

Signed.....

Marker's Comments 12 Econ Trial HSC 2014

Qu 28

Evaluate the impact of free trade agreements and protection policies on the quality of life in Australia.

Free trade (FT) is a situation where there are no artificial barriers to trade imposed by governments for the purpose of protecting domestic producers from foreign competition. A FT agreement is an agreement between two or more nations to reduce or remove barriers to trade. The push towards free trade is not a recent phenomenon. The member nations of the WTO (and GATT before it) have been setting FT targets since 1995. A pivotal date was the Doha meeting in 2001 when specific targets were set to reduce tariff levels in developed countries. However, few targets have been met and the WTO progress on this matter has basically stalled. This has seen focus turn to bilateral and geographic trade deals. Australia is a signatory to a number of bilateral and regional or multilateral agreements. The bilateral agreements are with NZ, Singapore, Thailand, USA, Chile, Malaysia, Japan and South Korea. The term free trade agreement is misleading because the only true FT agreement Australia has is with NZ. The others are preferential agreements where Australia has been granted favoured nation status which means that the tariffs levied on Australian exports are lower than for other countries. The multilateral agreements that Australia is a signatory to are ASEAN and APEC.

In order to evaluate the impact of protection and FT agreements you needed to look at the reasons for protection in the first place. These include:

- Protection of infant industries
- Employment
- Protection against dumping
- To reduce a CAD deficit
- Self-reliance

The different types of protection include tariffs, quotas and subsidies. The better responses were able to illustrate the impact of these on the price of a good.

Australia has been one of the more progressive countries when it comes to embracing FT. Tariff levels have been progressively lowered in Aust for decades to the point now where they only average about 2 – 5%. This has seen structural adjustment in the economy with some industries declining and even disappearing eg manufacturing and clothing. Short term structural u/e has and will result in those industries exposed to cheaper foreign competition. This may lead to long term u/e if reskilling is required.

Subsidies are also declining or gone altogether eg Australian car industry.

Other disadvantages on reducing protection include less govt revenue and increased govt spending on structural adjustment programs.

The advantages of reducing protection include lower input costs for business, cheaper goods and services, increased job opportunities, more efficient allocation of resources and increased incomes.

From Australia's point of view, the reduction in protection and signing of FT agreements will lead to a more efficient economy and increased access to export markets. Australia's production possibility curve will move outwards. This will see income levels across the country increase. When this happens the following occurs:

Increased incomes → increased savings → increased investment → growth → lower u/e → more equitable distribution of income → higher standards of living.

Question 25 - Markers Comments

Question 25: Analyse the use of macroeconomic policy to achieve the objectives of external stability and economic growth in the Australian economy. In your response refer to information below.

Definitions: Macroeconomic policy, Economic Growth and External Stability

1. Macroeconomic Policy: is the the use of fiscal policy and monetary policy to achieve economic objectives.
2. Economic Growth : Refers to increase in volume of goods and services produced in an economy in a year,

measured by annual rate of change in Real GDP - Economic objective:Target= 3-4% of GDP This enables the economy to steady growth and reduce UE and low inflation.

3. External Stability: It refers to the capacity of the Australian economy to withstand external economic shocks. Ensures that imbalances in Australia's economic relationship with the globe does not hinder Australia achieving domestic economic objectives.

External Stability Economic Objective include: CAD as a % of GDP < 5% Stable \$AUD - avoiding volatility Sustainable Net Foreign Debt - 10-below 15% debt servicing ratio

There are potential conflicts between Economic Growth and External Stability Economic growth leads to increased consumption, Leads to Increased imports, Worsening CAD through BOGS Downward pressure on Eco growth through reduce interest rates to improve external stability

A. Fiscal Policy:

Impacts of Fiscal Policy in achieving objectives in Economic Growth

- Can achievesustainableeconomicgrowththroughincreasesGovernmentspending.Influenceson Government Spending and Taxation (G)
- Governmentspendingisverycountercyclical.Boomverysmall.If inrecessiongovernmentwillhavealarge stimulus package. Implemented by the federal budget can be both discretionary and non discretionary.
- Couldusethebusinesscycle **Impacts of Fiscal Policy in achieving objectives in External Stability**
 1. Cyclical factors Economic Growth - domestic and global impacts the BOGS.
 2. Structural Factor - Savings and CAD Crowding out effect- when budget draws from national savings it reduces supply on savings, increasing interest rates and making private sector investment more expensive and difficult It forces business to go overseas to borrow funds to meet investment needs - increasing our net foreign debt - worsen external stability. Pitchford thesis says that external stability not a concern due to most debt being private debt.

B. Monetary Policy:

Impacts of Monetary Policy in achieving objectives in Economic Growth

The level of Interest rates - influences consumption and investment. Interest rates influence the cost of borrowing and the return on saving. Consequently, if interest rates are high, you save more, and spend less. Alternatively, if interest rates are low, you spend more, save less

Transmission mechanism - refers to the process by which monetary policy impacts upon the economy.
Transmission mechanism steps:

1. Change interest rate - 2. Change on cost of borrowing - 3. Change in cost of servicing loans - 4. Influence value of \$AUD - 5. Influences AD in economy - 6. Influences demand for money (due to changes in cost of borrowing + increase servicing cost)

Time lags of between 6-18 months for this process to occur once monetary policy has changed.

Impacts of Monetary Policy in achieving objectives in External Stability

The change in the cash rate and interest rate changes the interest rate differential. Interest rate differential is the difference in global and domestic interest rates. Positive interest rate differential make AUS attractive investment option for foreign investors. Foreign investors get better return on investment - increases investment in Australia, leading to higher demand \$AUD.

As the \$AUD changes this influences the BOGS and therefore the current account. Pitchford thesis says that external stability not a concern due to most of it being private debt.

Therefore if there was an increase in the cash rate: It increases interest rate differential, increases foreign investment in Australia, which increases demand for AUD,

which appreciates AUD. This increase in foreign investment worsens our CAD.

General Feedback.

1. Too many students wrote about Fiscal policy, Monetary Policy, External Stability and Economic Growth in general without answering the actual question. I.e. not analysing the IMPACTS of Macroeconomic policy on Economic Growth and External Stability.
2. Definitions of key terms needed to be more precise throughout your response.
3. The stimulus must be included throughout your response.
4. At least one Economic Model was needed.
5. There was a general need to use more Economic statistics and current data throughout your response.
6. Some responses had really poor handwriting. Make sure you RESPECT THE MARKER.
7. Introductions need to be better written. Make sure you provide any necessary definitions and make some broad general comments about your answer.
8. Watch your paragraphs/structure. Structure your paragraph around a particular point and make sure they are not too long. Also leave a line between your paragraphs

Question 26 Markers Comments

Question 26: Discuss the effects of microeconomic reform on the Australian Economy. In your response refer to the economic information below.

Definition:

Microeconomic Reform (MER) involves government measures to increase economic efficiency, either in a technical, allocative or adaptive (dynamic) way. It involves initiatives that target individual markets or industries.

Effects of Microeconomic Reform

I. Individual Industries

- Telecommunications(eg,privatisationofTelstra,deregulationofmarket)
- Transport(eg,ports,roads,railssystem,airportprivatisation)
- Banking(deregulation(eg,introductionofforeignbanks),reductioninRBAassetrequirements,flexibleuseof interest rates)
- Carindustry(eg,tariffcuts,industryplan)
- Textile,clothingandfootwear(eg,tariffcuts,industryplan)
- Energy(corporatisation,competition)

2. Effects of Microeconomic Reform on Individual product and factor markets (Microeconomic Policies) **Tariff reform**

Since the 1980s, the government has been reducing the level of protection on Australian industries to promote import competition, increase efficiency and the level of exports. The average tariff levels have now been reduced to around 5%, which is very low by world standards. **Taxation reforms** The New Taxation System (GST) was introduced on 1 July 2000. The main features of the New Taxation System are: **Financial Deregulation** Deregulation involves the removal of restrictions that affect the efficient allocation of resources and operation of markets. The key measures in financial deregulation included the: ! use of market operations by the Reserve Bank to conduct monetary policy ! floating of the Australian dollar in December 1983 ! the entry of sixteen new foreign banks to increase competition. **Labour market reforms** Labour market reforms have been taking place since the 1980s, when a series of Prices and Incomes Accords between the Federal Government and the Australian Council of Trade Unions (ACTU) was introduced to reduce industrial disputation and determine wage and non-wage outcomes. **Reforms to public trading enterprises (Government Business Enterprises)** •

Corporatisation of Public Trading Enterprises. This involves operating government business as if they are a private business. •

Privatisation of a Public Trading Enterprise. This involves selling off public trading enterprise to become a private enterprise. The view is that that private industry can run these businesses more efficiently.

3. Effects of Microeconomic Reform on the Australian Economy

Economic Growth (22 years of successive growth)

o increase in capacity (better resources, better use of resources) o reduces inflation and CAD constraint of economic growth o directly and indirectly stimulates demand

Unemployment

o rise in short run structural unemployment (structural change, downsizing of industry) o labour mobility (education and skills training) a vital factor o some direct employment opportunities (on infrastructure developments) o longer term generation of extra demand in the economy

External balance

o increase in price competitiveness (lower costs of production) o increase in non-price competitiveness (better labour practices, more efficient transportation) o added competitive advantage (better exports, better production of import substitutes)

Inflation control

o increased efficiency reduces costs of production o new wage fixing processes reduce unit wage costs o extra competition, increase in supply

Distribution of incomes

o structural change - some gain as other lose out o consequences for structural unemployment

4. Limitations of microeconomic reform

1. Time lags - once a policy decision has been taken its effects on the economy are spread over a period of time. MER policies may not be felt until the long term. 2. Political Constraints - Short term focus of political parties –

3. Global Factors: global factors can influence microeconomic reform through: - changes in the international business cycle & international organisations such as WTO & G8 can directly influence domestic macro & micro policies