



STUDENT NUMBER _____

Economics

2017 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 would be described as a transfer payment?
 - A Government salaries paid to public servants
 - B Dividends paid to BHP Billiton shareholders
 - C Interest payments on bank deposits
 - D Newstart allowance payments

2. Heavily polluted beaches would cause which of the following changes to the demand for burgers at the Beach Hamburger Shop located nearby?
 - A A shift in the demand curve to the right
 - B A shift in the demand curve to the left
 - C A contraction along the demand curve
 - D An expansion along the demand curve

3. Australia provides Indonesia with \$2 million to build a bridge. How would this be recorded in Australia's Balance of Payments?
 - A A credit in Net Secondary Income Account
 - B A credit in the Capital Account
 - C A credit in Net Secondary Income Account
 - D A debit in the Capital Account

4. The use of cost-reducing technology, such as new capital, would increase which of the following?
 - A Technical efficiency
 - B Productive efficiency
 - C Allocative efficiency
 - D Dynamic efficiency

5. Amendments made to the Competition and Consumer Act 2010 to further regulate the misuse of market power would come under which of the following policies?
- A Fiscal policy
- B Monetary policy
- C Microeconomic reform
- D Macroeconomic reform
6. Which of the following would cause an inward shift of Australia's Lorenz Curve?
- A Relaxing eligibility requirements for the youth allowance
- B A decrease in the tax-free threshold
- C A decrease in the highest income tax rate
- D An increase in the fuel excise
7. Table 1 shows the characteristics of Economy A and Economy B. The governments of both increase spending by \$5000. Which economy will experience the greatest change in national income and by how much?

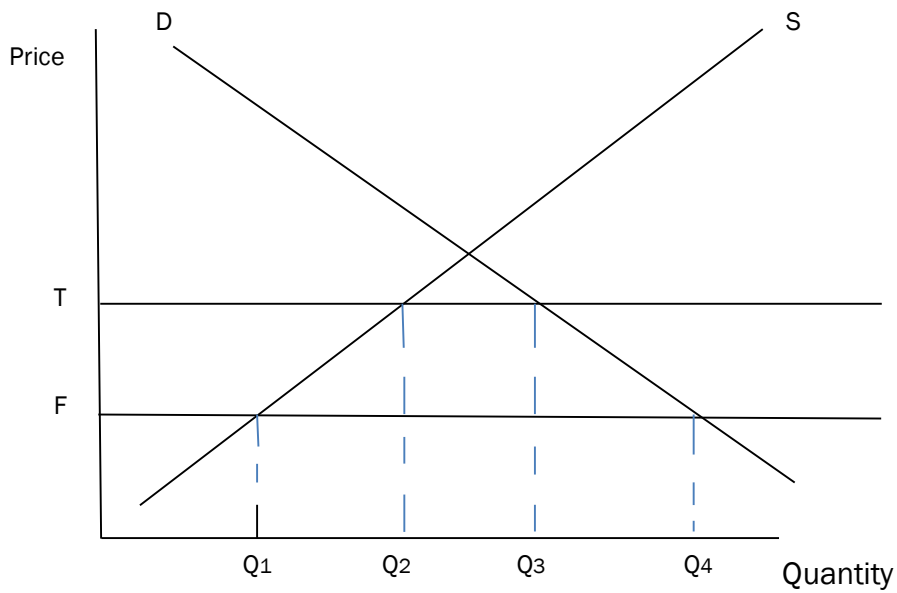
Table 1		
	Economy A	Economy B
APS	0.1	0.2
MPS	0.2	0.4
MPC	0.8	0.6

A	Economy A	change is \$25 000
B	Economy A	change is \$7 143
C	Economy B	change is \$12 500
D	Economy B	change is \$8 333

8. Which of the following policies is most effective at reducing cost-push inflation?
- A Reducing the rate of GST
- B Reducing income tax rates
- C Increasing labour market reform
- D Decreasing government spending

9. The following diagram shows the effect of a tariff.

T = tariff price
F = free trade price



What effect does the imposition of the tariff have on domestic supply?

- A Domestic supply falls from Q1Q4 to Q2Q3
- B Domestic supply rises from Q1 to Q2
- C Domestic supply is Q1 to Q4
- D Domestic supply falls from the tariff price to the free trade price

10. Under a floating exchange rate system, the following balances are recorded for an economy.

	\$A million
Exports	75
Imports	55
Net Services	-30
Net Primary and Secondary Income Credits	50
Net Primary and Secondary Income Debits	60
Capital Account	10

What is the value of the Financial Account for this economy?

- A \$10
- B \$20m
- C \$240m
- D \$90m

11. The table below shows the value of the \$AUS against both the \$US and the Yen over a two month period.

	Month 1	Month 2
\$US	0.99	1.03
Yen	100	100

Which of the following could have caused the change in the \$AUS over the two months?

- A More Australian lamb sold in America
 - B Higher levels of portfolio investment by Japanese investors
 - C Higher inflation in Australia compared to America
 - D The demand for Australian coal from Japan has increased
12. Which of the following agreements does not include Australia?
- A CERTA
 - B NAFTA
 - C WTO
 - D OECD
13. Which of the following is a trend of globalisation?
- A A fall in global portfolio investment
 - B A fall in trade flows between developed economies
 - C A fall in barriers to labour mobility
 - D A fall in currency speculation
14. Which of the following is likely to reduce inequality in the global distribution of income?
- A An increase in agricultural subsidies in the EU
 - B An increase in bilateral trade agreements between developed nations
 - C An increase in global interest rates
 - D An increase in multi-lateral trade agreements involving developing nations

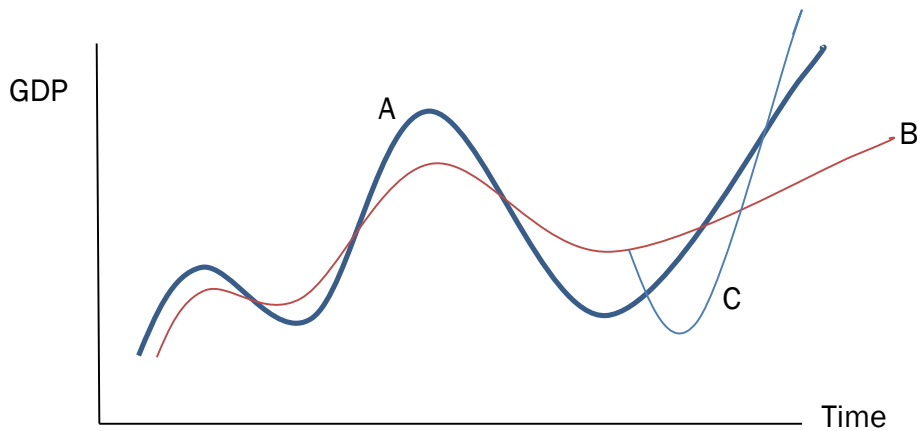
15. Which of the following government policy settings would lead to an increase in the level of ecological sustainable development in an economy?

A	A decrease in the carbon tax	A decrease in income tax rates
B	An increase in coal subsidies	A decrease in fuel excise
C	An increase in the carbon tax	An increase in use of coal for energy
D	An increase in fuel excise	An increase in subsidies for renewable energy

16. Which of the following is a characteristic of a centralised approach to wage determination?

- A Individual contracts between employees and employers
- B Wage increases linked to productivity increases
- C The use of common law contracts
- D Tribunals setting wage increases

17. The following graph shows a business cycle for a hypothetical economy.



Which of the business cycle graphs (lines) shows successful implementation of both macroeconomic and microeconomic policies?

- A A
- B B
- C C
- D Both A and C

18. Which of the following is an appropriate policy response to the effects of a downturn in the international business cycle on the Australian economy?

	Effect	Policy Response
A	Decreased economic growth	Contractionary monetary policy
B	Increased unemployment	Increased fiscal stimulus
C	Lower tax revenue	Decrease import quotas
D	Decreased foreign investment	Increase company tax rate

19. The following data shows budget outcomes and GDP figures for a hypothetical economy for two consecutive years.

Budget Outcomes		GDP	
Year 1	Year 2	Year 1	Year 2
\$40 billion	\$26 Billion	\$1 200 billion	\$ 1 300 billion

Which of the following statements explains the government's fiscal policy stance?

- A Expansionary due to increasing economic activity
- B Expansionary due to decreasing economic activity
- C Contractionary due to increasing economic activity
- D Contractionary due to decreasing economic activity
20. Which of the following are characteristics of a newly industrialised economy?
- A High GDP per capita, consistent economic growth and established export markets
- B High rates of economic growth, low GDP per capita and lack of domestic infrastructure
- C Low rates of economic growth, low GDP per capita and lack of domestic infrastructure
- D Privatisation of government-owned industries, fluctuating levels of economic growth and unstable political system

**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) Explain why CO₂ emissions are an example of market failure. **2**

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- (b) Discuss the constraints facing the Australian Government in trying to achieve its clean energy target. **4**

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- (c) Discuss policies used to achieve ecological sustainable development in an economy other than Australia. **4**

Name of economy

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(c) Describe how the International Monetary Fund and the World Bank have accelerated global economic development. 4

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Question 23 (10 marks)

Student Number:.....

The following table shows data for a hypothetical economy.

Year	Employed	Unemployed	Working age population
1	12 000 000	1 500 000	22 000 000
2	12 500 000	1 600 000	25 000 000

(a) Calculate the rate of unemployment in Year 2. **1**

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(b) Calculate the participation rate in Year 2. **1**

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(c) Explain how the participation rate can be influenced by the business cycle. **2**

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(d) Explain the economic link between the NAIRU and the rate of inflation. **2**

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Question 24 (10 marks)

Student Number:.....

The following table shows hypothetical data for an economy

	Export Price Index	Import Price Index
Year 1	105	104
Year 2	112	109

- (a) Define the Terms of Trade and calculate the Terms of Trade for Year 2. **2**

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- (b) Discuss the impact of a rising Terms of Trade on the Current Account. **4**

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(c) Discuss the economic issues that could arise with deteriorating external stability. 4

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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:

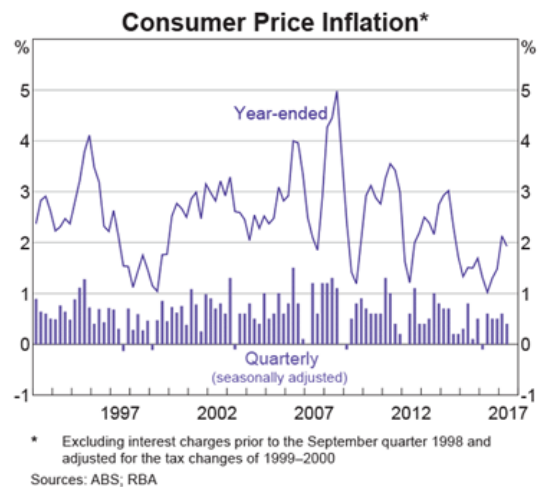
- Use your knowledge and the economic information provided
- Apply economic terms, concepts, relationships and theory
- Present a sustained, logical and well-structured answer to the question

Question 25 (20 marks)

Analyse the impact of monetary policy on economic growth and internal balance in the Australian economy.

Wage growth remains subdued ... as does core inflation. The forecast is for the economy to grow at an annual rate of around 3 per cent. Business conditions have improved and capacity utilisation has increased. Some pick-up in non-mining business investment is expected. The current high level of residential construction is forecast to be maintained for some time, before gradually easing. One source of uncertainty for the domestic economy is the outlook for consumption.

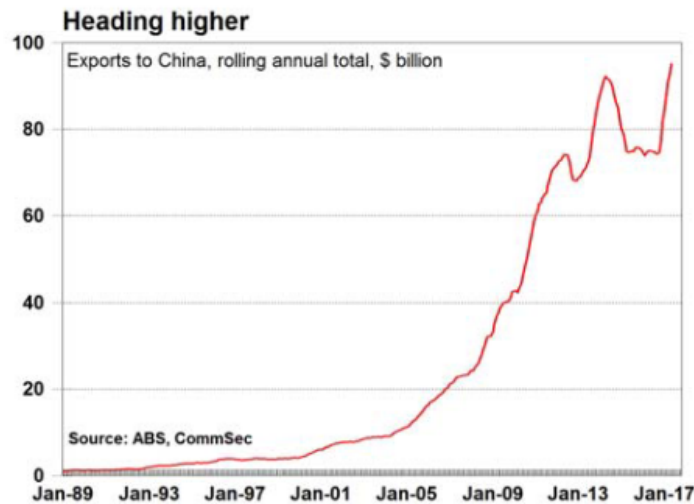
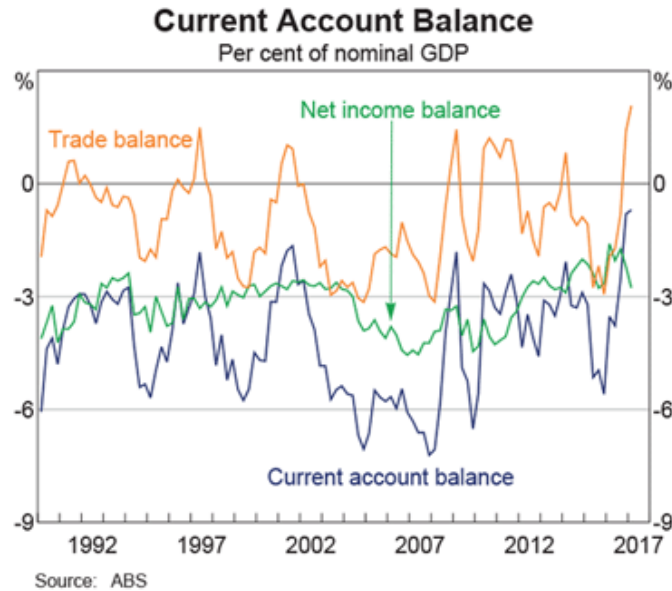
Philip Lowe Aug 2017



OR

Question 26 (20 marks)

Analyse the impact of recent changes in the global economy on Australia's Balance of Payments. In your response, you should refer to the economic information provided.



Looking forward it is likely that the large trade surpluses should continue and provide a lift in national income over the coming year. In fact, Australia's rolling annual trade surplus was the biggest in five years in May. Encouragingly capital goods imports – a proxy for business investment – are up almost 12 per cent on the year. The Reserve Bank would be comforted about the perceived lift in business spending.

Savanth Sebastian, Senior Economist, CommSec Jul '17

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
-

Question 27 (20 marks)

Assess the impacts of microeconomic reform policies on the Australian economy in recent years.

OR

Question 28 (20 marks)

Analyse how fiscal policy impacts on the level of economic activity in the Australian 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 C D

- | | | | | |
|-----|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| 1. | A | B | C | <input checked="" type="radio"/> D |
| 2. | A | <input checked="" type="radio"/> B | C | D |
| 3. | A | B | C | <input checked="" type="radio"/> D |
| 4. | <input checked="" type="radio"/> A | B | C | D |
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| 14. | A | B | C | <input checked="" type="radio"/> D |
| 15. | A | B | C | <input checked="" type="radio"/> D |
| 16. | A | B | C | <input checked="" type="radio"/> D |
| 17. | A | B | <input checked="" type="radio"/> C | D |
| 18. | A | <input checked="" type="radio"/> B | C | D |
| 19. | <input checked="" type="radio"/> A | B | C | D |
| 20. | A | <input checked="" type="radio"/> B | C | D |

Marking guidelines & feedback

Question 21

a) Explain why CO₂ emissions are an example of market failure.

2	Demonstrates a sound understanding of why CO ₂ emissions are market failure
1	Makes a relevant statement about market failure &/or CO ₂ emissions

CO₂ emissions are considered market failure because the cost of producing CO₂ is not reflected in the price of goods. This is considered an indirect cost of production.

b) Discuss the constraints facing the Australian Government in trying to achieve its renewable energy target.

4	Demonstrates a comprehensive understanding of the constraints facing the Aust govt Identifies an issue related to the renewable energy target
3	Demonstrates a sound understanding of the constraints facing the Aust govt
2	Sketches in general terms the constraints facing the Aust govt
1	Identifies an issue related to the renewable energy target

Answers should include reference to the importance of coal industry economically (exports), socially (employment and income) and politically (voters); the cost of renewables; employment, particularly in regional areas; business lobby groups particularly from mining companies.

c) Discuss policies used to achieve ecological sustainable development in an economy other than Australia.

4	Demonstrates a comprehensive understanding of the policies used to achieve ecological sustainable development in an economy other than Australia.
3	Demonstrates a sound understanding of the policies
2	Sketches in general terms the policies
1	Identifies an issue related to sustainable development in an economy

Question 22

a) Outline one economic effect of a subsidy.

2	Correctly outlines one effect
1	Makes a relevant statement to an effect

Answers include:

- Domestic producers supply a greater quantity
- It leads to a misallocation of resources
- They impose direct costs on the gov't's budget

b) Assess the benefits for Australia of entering into bilateral trade agreements.

4	Demonstrates a comprehensive understanding of the benefits
3	Demonstrates a sound understanding of the benefits
2	Sketches in general terms the benefits
1	Identifies an issue related to bilateral agreements

Answers include:

- A country can target specific trade partners which benefit their export base
- Increase in export sales
- Import prices would fall from those countries if tariffs removed
- The process is faster than a mutli-national deal

c) Describe how the International Monetary Fund and the World Bank have accelerated global economic development.

4	Demonstrates a comprehensive understanding of the differences between IMF and WB
3	Demonstrates a sound understanding of the differences between IMF and WB
2	Sketches in general terms the differences
1	Makes a correct statement about the IMF or WB

WB has enhanced development and structural change in developing and transitioning economies by pursuing a free market approach. It encourages fiscal responsibility and sustainable development through carbon trading funds, conservation and clean water and sanitation initiatives. It spends on malaria treatments and HIV/AIDS programs.

IMF roles include lending to solve CAD problems (international lender of last resort), implement structural adjustment policies such as deregulation & privatisation, maintaining international financial stability in times of crisis, and lastly encouraging free movement of finance and capital throughout world markets
This has the benefit of bringing more economic activity to developing countries and therefore boosting their level of eco growth and development. But it is second-hand.

Question 23

a) Calculate the rate of unemployment in Year 2.

1	Correctly calculates an u/e rate of 11.35%
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$1.6m / (12.5m + 1.6m) \times 100/1 = 11.35\%$

b) Calculate the participation rate in Year 2

1	Correctly calculates a participation rate of 56.4%
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= Labour force / Working age population
= 14.1m / 25m

c) Explain how the participation rate can be influenced by the business cycle.

2	Accurately explains how the participation rate (not the u/e rate) can be influenced by the business cycle
1	States how the participation rate can be influenced by the business cycle

Answers should include:

- Poor economic conditions (downturn / recession) lead to workers getting disheartened with job prospects and leaving the workforce. Fall in participation rate.
- Strong economic conditions (upswing / boom) create conditions that bring workers out of not searching for work, ie. Wages reach a level they want to offer their work for. Increase in participation rate.

d) Explain the economic link between the NAIRU and the rate of inflation

2	Clearly explains the link between NAIRU and inflation
1	States a link between the NAIRU and inflation

Answer could include:

- When the unemployment rate falls below the NAIRU then inflation rises. This is because at this level of u/e no structural employment exists. Therefore to lower it further will cause inflation to occur; most likely cost-push inflation as higher wages would result from a labour shortage.

e) Explain how the concepts of equity and efficiency are addressed by various aspects of Australia's current industrial relations system.

4	Demonstrates a comprehensive understanding of equity and efficiency in the IR system
3	Demonstrates a sound understanding of equity and efficiency in the IR system
2	Sketches in general terms the concepts of equity and efficiency / Aust's IR system
1	Makes a correct statement about equity / efficiency / IR system

Equity = fairness for all ; Efficiency = Minimal waste of resources

Answer could include:

- Current modern award system created efficiency as it reduced the number of awards from over 1000 to just 122 modern awards. Easier to manage.
- Negotiation in MEAs and awards : fairness for all parties as it is an agreement
- Negotiation allows for contracts to reward those with higher skills plus Days lost to disputes have dramatically fallen since the introduction of the FWA

- FWC gives equity as all those in similar jobs receive the same compensation but also equal rights before tribunal if in dispute. BOOT test ensures workers are no worse off

Question 24

- (a) Define the Terms of Trade and calculate the Terms of Trade for Year 2. 2

2	Correctly defines TOT and calculates the TOT for year 2
1	Does one of the above

The TOT measures the relative movements in the prices of imports and exports over a period of time.

$$\text{TOT} = \text{Export price index} / \text{Import price index} \times 100$$

$$112 / 109 \times 100 = 102.8$$

- (b) Discuss the impact of a rising Terms of Trade on the Current Account. 4

4	Comprehensively discusses the impacts on the CA of a rising ToT
3	Explains the impacts on the CA of a rising ToT
2	Describes the impacts on the CA of a rising ToT
1	Lists one impact

Sample answer:

- The ToT is an indicator of Australia's trade performance.
- An improvement in the ToT means that a given volume of exports can buy more imports than previously
- Unless there is a significant increase in export volumes compared to import volumes, then this would lead to an improvement on the BOGS and a decrease in the CAD
- High volumes of commodities are driving Australia's ToT improvement. If there was to be a correction in prices there would be a sharp rise in the CAD due to commodity revenue being such a large proportion of export revenue (56%).
- However, because a high ToT reflects an increase in demand for Aust exports, there will be an appreciation of the \$A meaning exports become less internationally competitive thus worsening the BOGS and current account.

- (c) Discuss the economic issues that could arise with deteriorating external stability. 4

4	Comprehensively discusses the issues that could arise with deteriorating external stability
3	Explains the issues that could arise with deteriorating external stability
2	Describes the issues that could arise with deteriorating external stability
1	Lists some issues that could arise

Answers could include:

- 'Capital flight' where foreign investors withdraw their investments due to uncertainty of repayment or success of investment

- This can also lead to a sharp depreciation of the \$A, affecting the ToT, import prices, revenues & loan repayments (valuation effect)
- Downgrading of AAA credit rating, leading to higher interest rates on borrowing and increased servicing costs on debt
- Less likelihood of attracting new investors, meaning that business investments or activity may need to be put on hold (eg. New mine)
- Reduced economic growth due to less business investment, lower disposable incomes and therefore consumption.

Section III

Question 25

Analyse the impact of monetary policy on economic growth and internal balance in the Australian economy.

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> • Extensive integration of relevant terms, concepts, relationships and theories. • Provides a clear and comprehensive analysis of the impacts of monetary policy on economic growth and internal balance • Synthesises own knowledge and understanding with the information provided to develop a sustained, logical and cohesive response
13-16	<ul style="list-style-type: none"> • Integrates relevant terms, concepts, relationships and theories • Provides a sound analysis of the impacts of monetary policy on economic growth and internal balance • Synthesises own knowledge and understanding with the information provided to develop a sustained, logical and cohesive response
9-12	<ul style="list-style-type: none"> • Applies relevant terms, concepts, relationships and theories • Sketches in general terms the impacts of monetary policy on economic growth and internal balance • Uses own knowledge and understanding with the information provided to develop a sustained, logical and cohesive response
5-8	<ul style="list-style-type: none"> • Uses some appropriate terms, concepts and relationships • States some aspects of the impacts of monetary policy on economic growth and internal balance • Develops a generalised response
1-4	<ul style="list-style-type: none"> • Uses some economic terms and/or concepts that relate to monetary policy and/or growth and internal balance • Presents a limited response

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Mark:.....

Signed.....

Marker's Comments qu 25

Analyse the impact of Monetary Policy on economic growth and internal balance.

Candidates still begin their essays without defining key terms ie MP and internal balance. Some definitions were incorrect.

MP is RBA action designed to influence the availability and price (cost) of credit. Its main objectives are price stability, maintenance of full employment and economic prosperity and welfare for all Australians.

Internal balance is a state in which a country maintains full employment and price level stability (ie inflation within the target range). Many responses were unable to explain internal balance correctly and some confused it with external balance.

The better responses explained the difference between expansionary and contractionary MP and how this theoretically impacted on growth, employment and inflation. They also covered the process of DMO. The better essays were able to state that the cash rate is at a record low of 1.5% but, also, that the cash rate has been at record low levels for the past 3 years. So, MP has been very expansionary.

Economic growth is generally achieved by increasing levels of AD (C+I+G+(X-M)). Consumption accounted for 58% of AD in 2016 so is the main source of growth. Business investment accounted for 22 % of AD. Government deficit is decreasing but some noteworthy infrastructure projects announced such as the second airport. The trade balance is in surplus and has been for 12 months.

The better responses were able to analyse the impact of MP on these components (both theoretical and in reality). You needed to show understanding that even though MP setting is expansionary and has been for many years, it has not been as effective as it has in previous expansionary settings in achieving sustainable levels of economic growth. Sustainable growth is a level that will create enough new jobs for an increasing labour force without rampant inflation. It is generally accepted that 3-4% growth per year is sustainable.

So, the impact of MP on growth, employment and inflation has generally been positive. The economy is entering its 26 consecutive year of growth, inflation has averaged 2.5% since targeting was introduced in '92 and u/e is 5.5% which is about the long term average. However, the economy has definitely been underperforming over the last few years. Growth 1.7% (yr ending Jun '17) and has been averaging around 2% since 2013. This is not sustainable growth.

Why then is u/e at 5.5%? Why isn't it increasing as the labour force increases? The reasons include an increase in underemployment, currently around 8%. The underutilisation rate (u/e + underemployed) is 13.5 %. Businesses are still uncertain about the future and have been reluctant to undertake large scale investments despite company profits recovering over the last two years. Consumer confidence stats show fluctuating levels but no extended periods of increasing or above average confidence.

Inflation is currently 2%, at the bottom end of the target range. It has been below the target range since 2014. So, this is a result of all the factors just mentioned. There are simply not enough demand pull and cost push factors in play at present. Low wages growth (1.9%) is a result of this uncertainty and adds to lack of confidence.

To add to all this, there has been a property boom in Sydney and Melb with record house prices over an extended period. The loose MP has encouraged people and investors to purchase property. However, Aust'n household debt is now 125% of GDP. This is an alarming figure. What happens when interest rates increase? There is very limited capacity for loose MP to encourage further borrowing and spending because households are up to their eyeballs in debt. Income is being used to pay off debt, not to accumulate more. Average credit card debt is at its lowest level in 10 years.

Combine all this with current uncertainty about the US economy and Nth Korea and you start to understand why the economy is not growing at a higher rate.

All these factors have combined to reduce the effectiveness of MP to the point where a further cut of the cash rate will not change the situation. All the RBA can do is set policy that will encourage spending and investment and hope that eventually conditions start to improve.

Question 26

Analyse the impact of recent changes in the global economy on Australia’s balance of payments

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> • Synthesises own knowledge and understanding, with information provided, to develop a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theory • Demonstrates a clear and comprehensive analysis of the relationship between changes in the global economy and Aust’s BOP
13-16	<ul style="list-style-type: none"> • Synthesises own knowledge and understanding, with information provided, to develop a logical and cohesive response • Applies relevant economic terms, concepts, relationships and theory • Demonstrates a clear understanding of the relationship between changes in the global economy and Aust’s BOP
9-12	<ul style="list-style-type: none"> • Uses own knowledge and understanding, with information provided, to develop a coherent response • Uses relevant economic terms and concepts and shows some relationships • Sketches in general terms some effects of changes in the global economy and Aust’s BOP
5-8	<ul style="list-style-type: none"> • Develops a generalised response • Uses some economic terms and concepts • States some effects of changes in the global economy and Aust’s BOP
1-4	<ul style="list-style-type: none"> • Presents a limited response • Uses some economic terms • Lists features of the global economy or Aust’s BOP

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Mark:.....

Signed.....

Analyse the impact of recent changes in the global economy on Australia's balance of payments.

Very few answered this qu but it was pretty simple when you had a think about it.

The opening paragraphs should have included a definition of BOP and reference to Aust's ongoing CAD and savings / investment gap. Aust has had a trade surplus every month since Nov 2016. In the 12 months to May '17 the surplus was \$9.4 Billion. Aust has a trade surplus with China of \$34 B (May '17). Aust's exports to India grew 46% over 16/17 totalling \$14Billion. There has been a 23% increase in cereal exports over 16/17. CAD is now only <2% of GDP which is a huge improvement from 4.7% in 2015.

These are the main changes in the global economy:

- Global and regional business cycle. China is still growing at 6% and there is a rural export boom (beef and wheat). SE Asia continues to grow and positively impact BOGS. The global cycle remains subdued but is showing signs of improvement, particularly in the US where there is talk from the Fed reserve about raising the official rate.
- Brexit/EU
- Global official interest rates; US 1.25%, Japan -0.1%, EU 0%, Britain 0.25%. The Aust cash rate is still higher and this does support the \$AUS, albeit less than previous years.
- Election of Trump
- \$AUS. The trade surplus has meant that there is support the \$AUS and this is keeping the rate in the high US\$0.70s. Even though the majority of export contracts are determined in \$US, when Aust companies bring this money back to Aust, they must convert back into \$AUS. The more this occurs, the stronger the currency.
- Commodity prices/TOT. There has been a recovery in process as seen by the improvement in the TOT. The TOT rose by 6.6% in the Mar quarter 17 to 109.7, the highest it has been in 3 years.
- Increase in service exports (tourism and education) which grew by 7% over 2016/17 and now account for 23% of total exports.
- GFC – not really contemporary anymore
- Mining/Commodities boom – not really contemporary anymore

Question 27

Assess the impacts of microeconomic reform policies on the Australian economy in recent years

Mark Range	Criteria
17-20	<ul style="list-style-type: none"> • Extensive integration of relevant terms, concepts, relationships and theories. • Provides a clear and comprehensive analysis of the impacts of MER on the Aust'n economy • Synthesises own knowledge and understanding with the information provided to develop a sustained, logical and cohesive response
13-16	<ul style="list-style-type: none"> • Integrates relevant terms, concepts, relationships and theories • Provides a sound analysis of the impacts of MER on the Aust'n economy • Synthesises own knowledge and understanding with the information provided to develop a sustained, logical and cohesive response
9-12	<ul style="list-style-type: none"> • Applies relevant terms, concepts, relationships and theories • Sketches in general terms the impacts of MER on the Aust'n economy • Uses own knowledge and understanding with the information provided to develop a sustained, logical and cohesive response
5-8	<ul style="list-style-type: none"> • Uses some appropriate terms, concepts and relationships • States some aspects of the impacts of MER on the Aust'n economy • Develops a generalised response
1-4	<ul style="list-style-type: none"> • Uses some economic terms and/or concepts that relate to MER • Presents a limited response

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Mark:.....

Signed.....

Marker's comments qu 27

Assess the impacts of microeconomic reform policies on the Australian economy in recent years

Micro policies are actions or interventions of the govt directed towards an industry. They are known as supply side policies because they aim to improve AS by increasing productivity or addressing positive and negative externalities. Productivity is output per unit of input. Improving productivity will reduce business costs of production and increase supply which will then increase GDP without inflationary pressures. MER has a time lag of up to 20 years.

Draw diagram showing an increase in AS

Impacts of policies include:

- Changes to the structure of the economy. Since 1980, there has been a significant decrease in the % of GDP produced by manufacturing (15% to 7%), services have increased (58% to 64%) and mining has increased (6% to 10%). These changes have occurred due to a number of reasons such as decreasing tariffs and subsidies.
- Factor market reform.
 - Capital (money/financial deregulation) reform has decreased operating costs, improved competition and led to innovation and a widening of the product/service range. However, the banking sector remains highly concentrated and profit driven. No doubt services have improved but could it be better? Yes.
 - Labour reform has seen massive improvements to the workplace. Strike days down from 4 million per year in late 1980s to less than 20 000 today. Wage rises linked to productivity improvements. Enterprise bargaining and modern awards established. Labour productivity growth 1.9% per yr above OECD av of 1.3%.
- Trade liberalisation has occurred from decreases in tariffs (down from average level of 35% in the 1970s to average level of 5% today). Large subsidies also cut eg motor vehicle industry. Australian consumers now have greater choice at cheaper prices. More allocative efficiency.
- Product market reform has occurred in aviation, telecommunications, the waterfront (ports), national rail and electricity. Productivity has increased across these industries. Not all have been success stories. The rapid increase in electricity prices in recent years has been an unfavourable result.
- Tax reform has seen the introduction of more indirect taxes such as GST, capital gains and FBT. Compulsory super introduced in '92 and personal and company tax rates have been reduced. Generally, the tax system is fairer now as a result.
- National competition policy implemented after the Hilmer report in 1993 led to the National Competition Reform Act (95). ACCC created to protect consumer rights and encourage competition amongst firms. Australian Competition and Consumer Act (2010)

Despite the obvious worsening in some markets, the benefits of MER far outweigh the costs. Perhaps the biggest success has been the ability of the RBA to maintain inflation at an average of 2.5% since 1993. According to Access Economics, MER has directly increased GDP by 10.8%, increased annual average income by \$2400 and reduced u/e by 2.4%. Aust was ranked 10th on the World Competitive Index in 2004 but has since dropped back to 21st as less MER policies have been implemented.

Aust could be suffering from MER exhaustion as people become more suspicious of reform as the outcomes of some markets have seen prices rise eg electricity, road tolls and airport parking.

Analyse how fiscal policy impacts on the level of economic activity in the Australian economy.

Mark Range	Criteria
17-20	<ul style="list-style-type: none">• Extensive integration of relevant terms, concepts, relationships and theories.• Provides a clear and comprehensive analysis of the impacts of fiscal policy on economic activity• Synthesises own knowledge and understanding with the information provided to develop a sustained, logical and cohesive response
13-16	<ul style="list-style-type: none">• Integrates relevant terms, concepts, relationships and theories• Provides a sound analysis of the impacts of fiscal policy on economic activity• Synthesises own knowledge and understanding with the information provided to develop a sustained, logical and cohesive response
9-12	<ul style="list-style-type: none">• Applies relevant terms, concepts, relationships and theories• Sketches in general terms the impacts of fiscal policy on economic activity• Uses own knowledge and understanding with the information provided to develop a sustained, logical and cohesive response
5-8	<ul style="list-style-type: none">• Uses some appropriate terms, concepts and relationships• States some aspects of the impacts of fiscal on economic activity• Develops a generalised response
1-4	<ul style="list-style-type: none">• Uses some economic terms and/or concepts that relate to fiscal policy and/or economic activity• Presents a limited response

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Mark:.....

Signed.....

Marker's comments qu 28

Analyse how fiscal policy impacts on the level of economic activity in the Australian economy.

Fiscal Policy is a macro policy in which the Fed Govt plans a budget to manage fluctuations in the level of econ act, change resource allocation and change income distribution in the economy. All 3 elements will impact on econ act in the economy.

Explain the different budget outcomes; surplus, deficit and balanced. Show contemporary understanding by outlining recent outcomes. 2017/18 outcome is estimated to be -\$29.3 Billion (deficit).

Explain contractionary and expansionary stances. 2017/18 stance is mildly contractionary. The deficit is 1.6% of GDP. Explain how the budget stance has changed leading up to the GFC and afterwards.

Automatic stabilisers impact on econ activity. U/E benefits and the progressive income tax system.

Econ act is production that will lead to an increase in GDP. Increasing GDP will come about by increasing the components of aggregate demand. Draw an increase in AD diagram. Explain how an increase in govt spending will lead to an increase in GDP via the multiplier effect.

The major spending programs from the 17/18 budget are:

- 12 new submarines \$50 b
- NBN \$40 b
- 72 new F-35 aircraft \$17 b
- Melb to Bris inland rail link \$8 b
- Second Syd airport \$5 b

These are distinct from normal spending on health, education and welfare because they are major infrastructure/employment projects (except the F-35) that will lead to increases in econ act via the multiplier effect.

There hasn't been the same emphasis on spending cuts except tightening access to Newstart.

The biggest change to taxation was an increase in the medicare levy from 2 to 2.5%.

The better responses also assessed the impact of FP on econ act during the GFC. Mention should have been made that in 2007 Aust's public debt was nil. This gave the govt more great flexibility when FP was used to keep Aust from recession. EG cash payments and schools building program.

Remember that the qu asked you to assess FP, so your answers had to include reference to how successful or not FP has been. It was very successful during the GFC because it could be implemented immediately with little time lag. Since then, FP has not been used in the same way. The govt has tried to reduce the deficit (with varying degrees of success). Aust govt debt is now 24% of GDP - not high by global standards but as high as it's ever been. The new infrastructure projects will impact on econ act but MP is still seen as the macro tool with more influence at the moment.