



2011
TRIAL HIGHER SCHOOL CERTIFICATE
Reading Time 5min
Working time 3hrs

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Board-approved calculators may be used

Section 1

Total marks (20)
Attempt Questions 1 – 20
Allow 35 minutes for this section

Section 11

Total marks (40)
Attempt Questions 21 – 24
Allow about 1 hour and 15 minutes for
this section

Section 111

Total marks (20)
Attempt either Question 25 or
Question 26
Allow about 35 minutes for this
section

Section 1V

Total marks (20)
Attempt either Question 27 or
Question 28
Allow about 35 minutes for
this section

STUDENT NUMBER _____

SECTION I

Total marks (20)

Attempt Questions 1 –20

Allow about 35 minutes for this section

Answer the questions on the answer sheet provided

1. What would persistent current account deficits tend to result in under a floating exchange rate?

- A) A currency depreciation and falling foreign debt
- B) A currency appreciation and rising foreign debt
- C) A currency appreciation and falling foreign debt
- D) A currency depreciation and rising foreign debt

The table below is based on the following data for a closed economy

Year	Income	Consumption	Investment	Government
1	2000	1800	500	250
2	3000	2700	500	250
3	4000	3600	500	250

2. What is the value of the marginal propensity to consume and the multiplier?

- A) The MPC is 0.1 and the multiplier is 9
- B) The MPC is 0.9 and the multiplier is 10
- C) The MPC is 0.75 and the multiplier is 4
- D) The MPC is 0.25 and the multiplier is 8

3. What happens when the terms of trade deteriorate?

- A) Exports will buy less imports
- B) Exports will buy more imports
- C) The current account moves into surplus
- D) The current account moves into deficit

4. Which of the following would cause a decrease in the labour force participation rate?

- A) An increase in the school retention rates
- B) A decrease in the number of mothers involved in domestic duties
- C) A decrease in the number of hidden unemployed
- D) An economy moving into a boom

5. Which of the following is included as a credit on the Capital and Financial Account for Australia's balance of payments?

- A) Australian citizens receiving pensions from overseas
- B) Payments for imported goods by Australian importers
- C) Australian investors receiving dividends from overseas
- D) Japanese banks lending money for projects in Australia

6. Which of the following policies would be most effective at increasing aggregate demand?
- A) Increasing interest rates
 - B) Increasing a budget deficit
 - C) Increasing a budget surplus
 - D) Increasing income taxes
7. What effect would the shift of the Lorenz curve have on the Gini-coefficient if it moved further from the line of perfect equality?
- A) The Gini-coefficient would increase and income inequality would rise
 - B) The gini-coefficient would decrease and income inequality would rise
 - C) The gini-coefficient would decrease and income inequality would fall
 - D) The gini-coefficient would increase and income inequality would fall

The table shows the population and labour force information for a nation

Labour Force Data	Number of Persons (million)
Employed persons	9
Unemployed persons	1
Working age population	15
Total Population	20

8. What is the value of the unemployment rate and the participation rate?
- A) Unemployment rate 10% and participation rate 50%
 - B) Unemployment rate 10% and participation rate 66.7%
 - C) Unemployment rate 11.1% and participation rate 60%
 - D) Unemployment rate 11.1% and participation rate 66.7%
9. Which of the following would improve international competitiveness?
- A) Reduced costs of production, increased productivity and a fall in the \$A
 - B) Increased costs of production, increased productivity and a fall in the \$A
 - C) Reduced costs of production, decreased productivity and a fall in the \$A
 - D) Reduced costs of production, increased productivity and a rise in the \$A
10. What happens if Aggregate Supply is less than Aggregate Demand in an economy?
- A) The economy will contract
 - B) The economy will not change
 - C) The economy will expand
 - D) The economy will be producing beyond its capacity

11. Which of the following are indicators of an improvement in the living standards in a developing country?

- A) Increasing GDP per capita, pollution and literacy
- B) Increasing life expectancy, foreign debt and malnutrition
- C) Increasing foreign debt, pollution and malnutrition
- D) Increasing GDP per capita, literacy and life expectancy

12. What is the main contributor to Australia's Current Account Deficit?

- A) Balance on Goods and Services Deficit
- B) Net Primary Income Deficit
- C) Net Secondary Income Deficit
- D) Net Portfolio Investment Deficit

13. Which of the following is an example of discretionary fiscal policy?

- A) Increases in unemployment payments due to a recession
- B) Increases in taxation revenue due to high levels of economic growth
- C) Increasing the excise tax rate on tobacco
- D) A change in the budget outcome from a surplus to a deficit

The following table shows the Consumer Price Index (CPI) for an economy. Use it to answer question 14.

Year	CPI
1	100
2	105
3	110
4	121

14. What is the inflation rate for year 4?

- A) 9%
- B) 10%
- C) 11%
- D) 21%

15. Which of the following indicates a trend towards greater globalisation?

- A) Increases in the volatility of world interest rates
- B) Increases in bi-lateral agreements between nations
- C) Increases in the growth rates of developing economies
- D) Increases in the value of global trade as a proportion of total output

16. What type of investment occurs when a Canadian superannuation fund buys Australian Government Securities?

- A) Portfolio investment
- B) Direct investment
- C) Speculative investment
- D) Capital transfer

17. The following information refers to the table below.

Year	Government Expenditure \$b	Taxation Receipts \$b
1	65	59
2	73	65
3	84	79

What has happened to the government's fiscal stance between the years 2 and 3?

- A) The budget surplus has increased
- B) The budget surplus has decreased
- C) The budget deficit has increased
- D) The budget deficit has decreased

18. When will real income decrease?

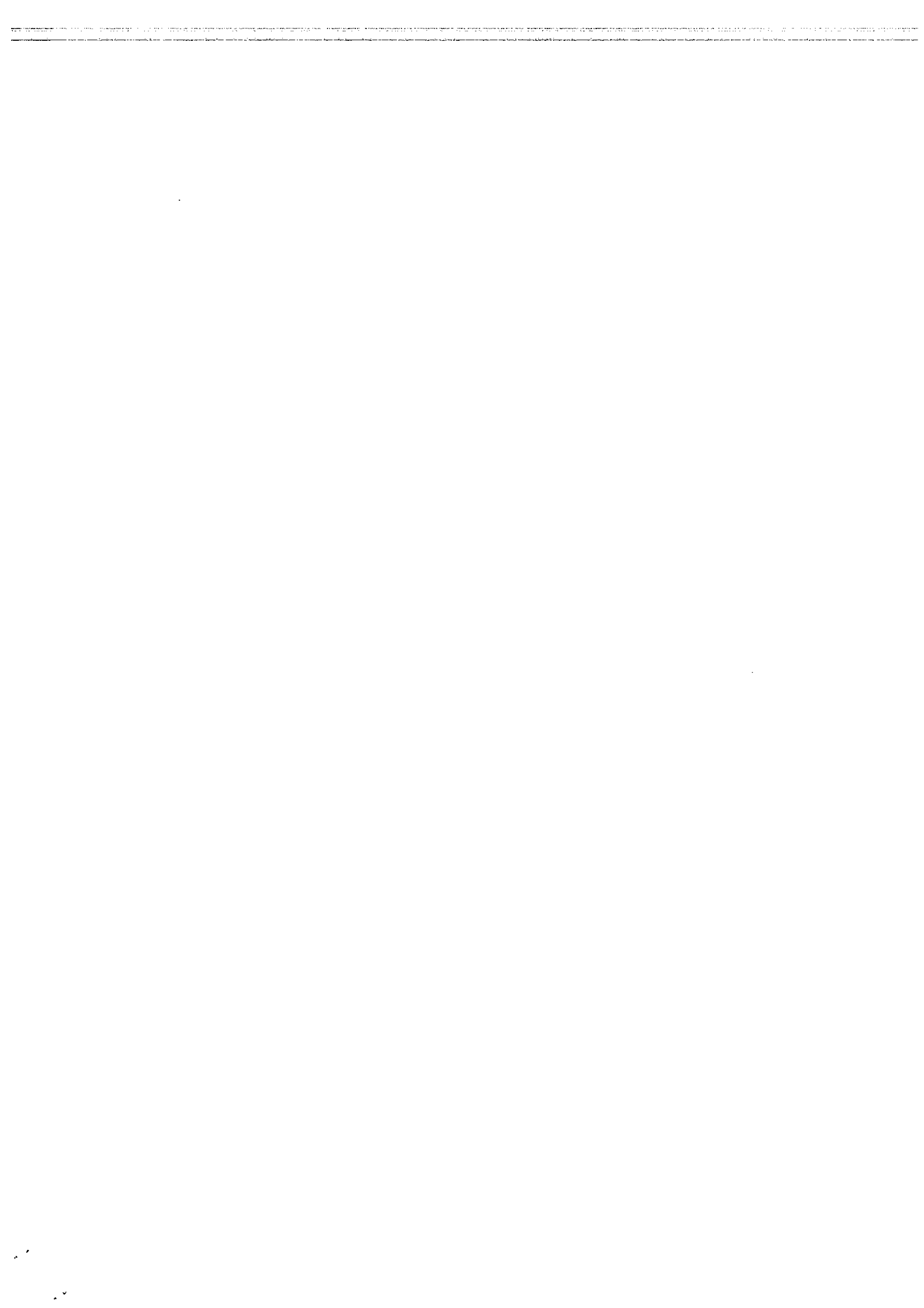
- A) Prices rise slower than productivity
- B) Prices fall slower than consumption
- C) Prices rise faster than money income
- D) Prices fall slower than consumption

19. Which of the following is a possible cause of cost inflation?

- A) Increasing productivity
- B) Depreciating Australian dollar
- C) Labour skill shortages
- D) A rise in the level of consumption spending

20. Which of the following could assist economic growth in developing countries?

- A) A reduction in government spending
- B) A reduction in government services
- C) An increase in the rate of taxation
- D) An increase in capital infrastructure investment

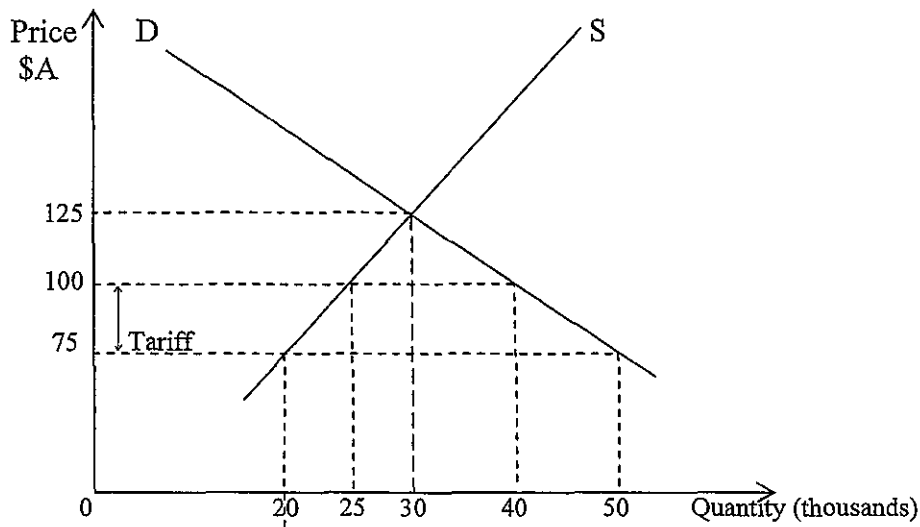


Total marks (40)
Attempt Questions 21 – 24
Allow about 1 hour and 15 minutes for this section

Answer the questions in the spaces provided

Question 21 (10 marks)

The diagram below represents the impact of a tariff on the Australian market for bikes.



- a) Referring to the diagram above identify TWO effects if the tariff was removed. 2

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- b) Described ONE multi-lateral or bi-lateral agreement in which Australia is engaged. 2

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Question 22 (10 marks)

The table below shows the Current Account for a given economy.

Financial Year	Balance on Current Account	Balance on Goods & Services	Net Income Current Transfers	CAD as a % of GDP
1	-18.1	+0.9	-19.0	2.7
2	-21.8	-1.6	-20.2	3.1
3	?	19.7	-22.8	5.7

Using the table and your knowledge:

- a) Calculate the Balance on Current Account for the year 3. 1

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- b) State TWO factors which lead to a deteriorating Current Account. 2

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- c) Describe the impact of a growing CAD on the Capital and Financial Account. 3

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Question 23 (10 marks)

(a) In relation to environmental management what is “intergenerational equity”. 1

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(b) Why are public goods “non excludable” and “non rival”? 2

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(c) Using examples distinguish between “renewable” and “non renewable” resources? 3

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Question 24 (10 marks)

Income share	Unit	1996-97	2000-01	2007-08
Lowest quintile	%	8.0	7.4	7.2
Second quintile	%	12.6	11.9	11.9
Third quintile	%	17.7	17.7	16.6
Fourth quintile	%	23.5	24.3	22.7
Highest quintile	%	38.3	39.2	41.6
All persons	%	100.0	100.0	100.0

(a) What is the income share of the third quintile in 2000-01?

1

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(b) Describe the trend shown by the above table.

2

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(c) Explain the relationship between wealth distribution and income distribution.

3

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Section 111**Total marks (20)****Attempt either Question 25 or Question 26****Allow about 35 minutes for this section.**

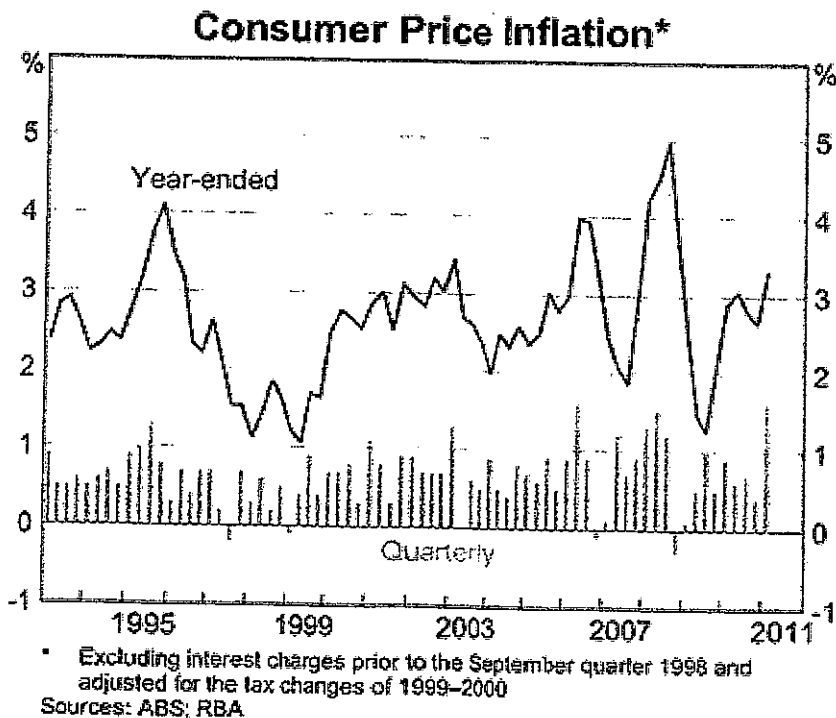
In your answer you will be assessed on how well you:

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

Question 25 (20 marks)

Analyse the effectiveness of government macroeconomic policies in achieving the government's economic goals in recent times. In your response, you should refer to the economic information provided.

The Australian economy continues to perform well and the outlook remains positive. Over the past year the economy has been supported by substantial fiscal and monetary stimulus. This has helped position Australia as one of the strongest economies in the developed world and underpinned solid employment growth, with 353,000 jobs added in the past year expected strong investment, largely associated with the mining boom, continues to underpin the positive growth outlook. (CommSec May 2011)



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)

Analyse the recent factors affecting the demand for, and supply of, Australia's dollar in the foreign exchange market. In your response, you should refer to the economic information provided.

International trade price indices Index			% change	
	Dec 10	Mar 11	qtr	yr
Export prices (XPI)	176.7	185.9	5.2	21.0
Import prices (MPI)	114.6	116.2	1.4	0.2
Terms of trade *	107.8	111.9	3.8	22.1

Sources: ABS, Westpac Economics.

* We've estimated the goods terms of trade for Q1, based on movements in the export and import price indexes.

Westpac Bank 20 April 2011

FOREIGN money is increasingly flowing into Australia to fund government debt, rather than private borrowings by banks.

Reserve Bank assistant governor Guy Debelle yesterday told a workshop in Adelaide that Australian banks, once major borrowers from abroad, were now financing many of their operations from local customer deposits. But offshore capital was still helping to support Australia's current account, by funding governments instead.

"An increase in foreign purchases of Australian government debt and decreased Australian investment abroad offset the decline in net capital inflow to the banking sector," Mr Debelle said.

The government expects net debt to peak at 7.2 per cent of gross domestic product in 2011-12, in the wake of big spending stimulus programs and dwindling revenue through the global financial crisis.

- Siobhan Ryan
- From: *The Australian*
- July 09, 2011

STUDENT NUMBER _____

Section IV

Total marks (20)

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

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)

Discuss the impact of the global economy on Australia's recent trade and financial flows.

OR

Question 28 (20 marks)

Discuss the impacts of the recent trends in the global economy on the economic growth and development of an economy other than Australia.

SECTION I**Total marks (20)****Attempt Questions 1 –20****Allow about 35 minutes for this section**

Select the alternative A, B, C, or D that best answers the question. Fill in the response oval completely

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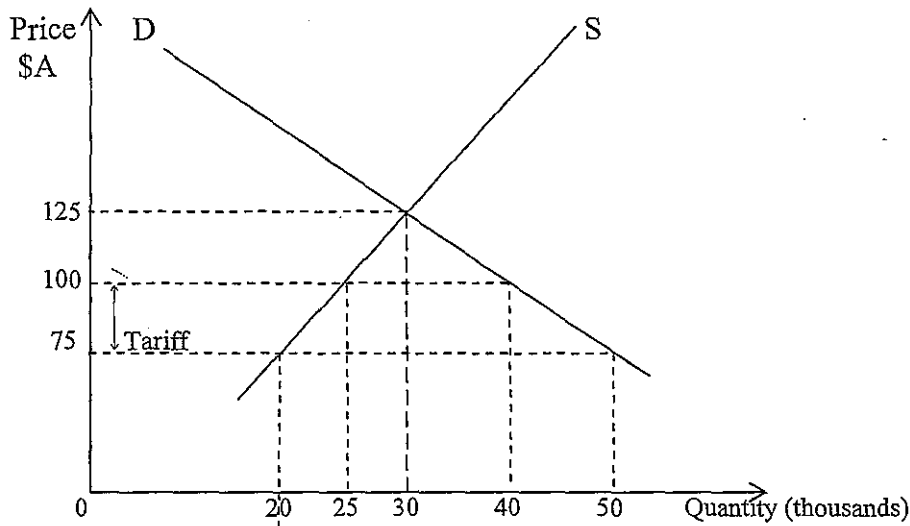
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|-----|-------------------------|-------------------------|-------------------------|-------------------------|
| 1. | A <input type="radio"/> | B <input type="radio"/> | C <input type="radio"/> | D X |
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|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

2011
Trial
Answers

Total marks (40)

Question 21 (10 marks)

The diagram below represents the impact of a tariff on the Australian market for bikes.



- a) Referring to the diagram above identify TWO effects if the tariff was removed. 2

Increase in imported goods 1 mk
Fall in price 1 mk
Fall in domestic production 1 mk
Fall in Government revenue 1 mk (only two results needed)

- b) Describe ONE multi-lateral or bi-lateral agreement in which Australia is engaged. 2

Choose from; AANZFTA, APEC Forum, (multilateral), CERTA, SAFTA, TAFTA, AUSFTA, CHAFTA, (bilateral).

Describes one agreement 2 mk
Identifies one agreement 1 mk

- c) Describe the role of the World Trade Organisation. 2

The WTO is an organisation that implements and advances global trade agreements (1 mk) and resolves trade disputes (1 mk)

Describes accurately the role of the WTO 2 mk
Outlines the role of the WTO 1 mk

d) Discuss the role of the International Monetary Fund.

4

The IMF is an organisation that oversees the stability of the global financial system including stability of exchange rates, exchange rate adjustments and convertibility. The IMF has been criticised for demanding that borrowing governments follow strict contractionary macroeconomic policies that have made matters worse for those economies. However in recent times the IMF has allowed governments, which need to borrow from the IMF, more autonomy over their macroeconomic policies

Discusses the strengths and weaknesses of the IMF in carrying out its role	4 mk
Describes the role of the IMF	3 mk
Identifies the role of the IMF	2 mk
Outlines some aspect of the IMF's role	1 mk

Question 22 (10 marks)

The table below shows the Current Account for a given economy.

Financial Year	Balance on Current Account	Balance on Goods & Services	Net Income Current Transfers	CAD as a % of GDP
1	-18.1	+0.9	-19.0	2.7
2	-21.8	-1.6	-20.2	3.1
3	?	19.7	-22.8	5.7

Using the table and your knowledge:

- a) Calculate the Balance on Current Account for the year 3. 1

- 3.1 1 mk or -42.5

- b) State TWO factors which lead to a deteriorating Current Account. 2

Increasing BOGS deficit, increasing Primary Income deficit, increasing borrowing from overseas, falling international competitiveness, etc

Identifies correctly two factors 2 mk

Identifies correctly one factor 1 mk

- c) Describe the impact of a growing CAD on the Capital and Financial Account. 3

A growing CAD requires a similar increase in the Capital and Financial surplus. This means there has to be an increase in direct and/or portfolio investment (i.e. increase in NFL).

Describes the impact correctly 3 mk

Outlines the impact 2 mk

Identifies some aspect of the impact 1 mk

- d) Explain the relationship between changes in Australia's growth rate and the Current Account Deficit 4

There is a direct relationship between Australia's rate of economic growth and the size of the CAD. When economic growth rate increases consumers will increase their demand for imports. Businesses will increase their demand for imported capital equipment and intermediate goods. Potential X's will be diverted to domestic consumption. This will increase the BOGS deficit which increases the CAD.

Business will also demand more equity and debt funds for expansion and this will increase capital inflow. In turn this will increase the primary income deficit (increased interest and dividends paid to overseas) which will increase the CAD.

When the economic growth slows the demand for imports and overseas loans fall so the CAD also falls.

Explains the relationship 4 mk

Describes the relationship 3 mk

Identifies aspects of the relationship 2 mk

Identifies an aspect 1 mk

Question 23 (10 marks)

- (a) In relation to environmental management what is “intergenerational equity”. 1

Using resources in way that does not limit the quality of life for future generations 1 mk

- (b) Why are public goods “non excludable” and “non rival”? 2

No consumer is excluded from consumption (even if they don't pay) 1 mk

Consumption of the good by one consumer does not reduce quantity of the good available to other consumers 1 mk

- (c) Using examples distinguish between “renewable” and “non renewable” resources? 3

Renewable resources can naturally regenerate eg fish, forests

Non renewable resources have a limited/finite supply eg oil, minerals

Distinguishes the two with correct examples 3 mk

Distinguishes the two without correct examples 2 mk

Correctly identifies one or gives examples of both 1 mk

- (d) Explain one policy the government can use to reduce the incidence of pollution. 4

Policies can include bans (e.g. leaded petrol), taxes (e.g. carbon tax, petrol excise), subsidies for eco-friendly alternatives (e.g. public transport, solar energy)

Explains how the policy reduces pollution 4 mk

Describes the policy and its link to pollution reduction 3 mk

Describes the policy 2 mk

Identifies a policy

Question 24 (10 marks)

Income share	Unit	1996-97	2000-01	2007-08
Lowest quintile	%	8.0	7.4	7.2
Second quintile	%	12.6	11.9	11.9
Third quintile	%	17.7	17.3	16.6
Fourth quintile	%	23.5	24.3	22.7
Highest quintile	%	38.3	39.2	41.6
All persons	%	100.0	100.0	100.0

(a) What is the income share of the third quintile in 2000-01?

1

17.3

(b) Describe the trend shown by the above table.

2

The highest quintile is increasing its share of income 1 mk
Lowest quintile's share is reducing 1 mk

(c) Explain the relationship between wealth distribution and income distribution.

3

Wealth refers to assets such as savings, real estate, businesses, shares etc which generate income. The more wealth the greater the income and the greater the income the more wealth etc (the wealth circle)

Explains the relationship 3 mk
Describes the relationship 2 mk
Identifies some aspect 1 mk

(d) Explain one economic benefit and one social cost of income inequality in the Australian economy.

4

Economic benefits include; incentive to increase education/skills, incentive to work longer/harder, makes the labour force more mobile geographically/occupationally, incentive for entrepreneurs to take risks, creates more savings and investment.

Social costs include; class divisions, poverty.

Explains both 4 mk
Explains one and describes one 3mk
Explains one or outline both 2 mk
Outlines one or identifies both 1 mk

Section IV

Total marks (20)

Question 27 (20 marks)

Discuss the impact of the global economy on Australia's recent trade and financial flows.

Outcomes assessed: H1, H2, H4, H7, H8, H10

MARKING GUIDELINES Criteria	Marks
<ul style="list-style-type: none">• Integrates an extensive and appropriate range of economic terms with relevant concepts, relationships, theories and use of economic data• Demonstrates superior economic analysis in a sustained, logical and well structured response• Provides a clear, comprehensive and balanced understanding of the relationship between changes in the global economy and their impact on Australia's trade and financial flows	17-20
<ul style="list-style-type: none">• Integrates an appropriate range of economic terms with relevant concepts, relationships, theory and use of economic data• Demonstrates a sound economic analysis in a logical and well structured response• Provides a sound understanding of how changes in the global economy impact on Australia's trade and financial flows OR• Provides a clear, comprehensive understanding of the relationship between changes in the global economy and their impact on either Australia's trade flows or financial flows and sketches in general terms the other	13-16
<ul style="list-style-type: none">• Applies appropriate economic terms, concepts and relationships • Develops a coherent response• Sketches in general terms how changes in the global economy impact on Australia's trade and financial flows OR• Provides a sound understanding of the relationship between changes in the global economy and their impact on either Australia's trade flows or financial flows and sketches in general terms the other	9-12
<ul style="list-style-type: none">• Uses some appropriate economic terms, concepts and relationships• Develops a generalised response• Makes reference to some aspects of the relationship between changes in the global economy and their impacts on Australia's trade flows or financial flows	5-8
<ul style="list-style-type: none">• Presents a limited response• Uses some economic terms and/or concepts relating to changes in the global economy and/or Australia's economic trade and financial flows	1-4

Many students wrote rather short general responses that lacked supporting statistical evidence. These essays also were more of a textbook description of changing trade flows from the 1950's to the early 2000's rather than analysing recent impacts (2007-2011).

Many students only sketched the impacts on financial flows. Also payments for X's and M's are not financial flows. Recent changes in the flows of direct investment, portfolio investment, government debt, net foreign liabilities etc needed to be analysed in greater depth.

Better essay focused on recent changes, gave a more balance analysis of both trade and financial flows while supporting the points made with relevant statistics.

Question 28 (20 marks)

Discuss the impacts of the recent trends in the global economy on the economic growth and development of an economy other than Australia.

Outcomes assessed: H1, H7, H9, H10, H12

MARKING GUIDELINES

Criteria	Marks
<input type="checkbox"/> Integrates appropriate economic terms, concepts, issues, relationships and theory <input type="checkbox"/> Synthesises theory with current economic data to develop a logical and well-structured answer that provides analysis of the impact of recent global trends on the economic growth and development of an economy other than Australia. <input type="checkbox"/> Appropriately uses relevant data to support contemporary and comprehensive analysis of the relevant economic issues	17–20
<input type="checkbox"/> Consistently uses appropriate economic terms, concepts, relationships and theory <input type="checkbox"/> Integrates theory with current economic data to develop a logical and well-structured answer that provides analysis of the impact of recent global trends on the economic growth and development of an economy other than Australia <input type="checkbox"/> Uses relevant data to support a well developed argument concerning the relevant economic issues	14–16
<input type="checkbox"/> Uses economic terms, concepts and relationships <input type="checkbox"/> Uses theory and economic data to develop a logical and -structured answer that provides explanation of the impact of recent global trends on the economic growth and development of an economy other than Australia <input type="checkbox"/> Uses knowledge and relevant data to provide descriptive rather than analytical reasoning concerning the relevant economic issues	9–13
<input type="checkbox"/> Uses some economic terms, concepts and relationships <input type="checkbox"/> Uses generalised knowledge to develop an answer concerning the impact of globalization on the recent global trends on the economic growth and development of an economy other than Australia <input type="checkbox"/> Makes minimal use of relevant data and knowledge concerning monetary and fiscal policies.	5–8
<input type="checkbox"/> Uses some appropriate terminology to communicate economic ideas <input type="checkbox"/> Refers to some aspects of the impact of globalization. <input type="checkbox"/> Demonstrates limited knowledge about the relevant economic issues	1–4

In general these essays showed greater preparation and knowledge than did the responses to Q 27. The best essays were detailed and used significant supporting statistics. They also analysed the impacts of recent global changes (e.g. GFC, growth of the Chinese economy) on the economy. These essays also demonstrated an understanding of the effects on both growth and development. Poorer essays were brief and general. Many were mainly a description of the economy with little comment on recent impacts. These essays focused on growth with brief references to development. Few supporting statistics were used.