



2014
TRIAL HIGHER SCHOOL CERTIFICATE

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Board-approved calculators may be used
- **Write your student number (below) on your answer booklets for Sections III and IV and additional writing paper used.**
- **Do not write your name on any exam papers other than your attendance slip.**

Section I

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

Section II

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

Section III

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

Section IV

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

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STUDENT NUMBER _____

SECTION I

Total marks (20)

Attempt Questions 1 –20

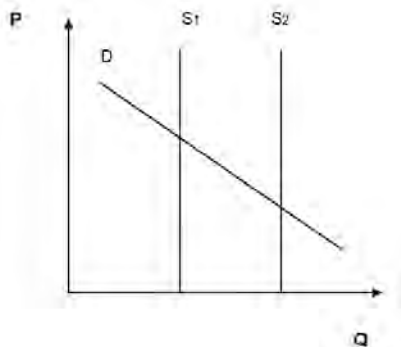
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Answer the questions on the answer sheet provided

- 1 Which of the following is a role of the World Trade Organisation (WTO)?
 - (A) Facilitating bilateral trade agreements
 - (B) Lowering levels of poverty by financing loans to developing economies
 - (C) Expanding the growth of trading blocs
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- 3 The diagram shows the effect of a quota on the domestic demand for an imported product.



If the quota is moved from S_1 to S_2 , what is the change in the level of protection of the domestic economy and the price of the product?

	<i>Level of protection</i>	<i>Domestic price</i>
(A)	Increases	Rises
(B)	Decreases	Falls
(C)	Increases	Falls
(D)	Decreases	Rises

- 4 Which statement best describes the difference between the effects of a tariff on imports and a subsidy on domestic producers?
 - (A) A tariff increases the price of the imported good and the subsidy may decrease the supply of the domestic good.
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- 5 Which of the following is NOT a short-term cost of reducing tariff protection?
 - (A) Loss of government revenue
 - (B) Structural unemployment
 - (C) Worsening trade balance
 - (D) Rising inflation

- 6 Which are two indicators used to calculate the Human Development Index (HDI)?
 - (A) Gross Domestic Product (GDP) and literacy rates
 - (B) Income per capita and life expectancy
 - (C) Infant mortality and Gross Domestic Product (GDP)
 - (D) Income per capita and literacy rates

- 7 Which of the following best describes the trend in Australia's financial flows?
 - (A) Portfolio investment inflows exceed direct investment inflows
 - (B) Direct investment outflows exceed direct investment inflows
 - (C) Direct investment inflows exceed portfolio investment inflows
 - (D) Portfolio investment outflows exceed portfolio investment inflows

8 The table below shows selected data for an economy:

Real GDP(\$bn)	Net foreign liabilities(\$bn)	Net foreign debt(\$bn)
\$1140	790	560

What is the value of net foreign equity as a percentage of Real GDP?

- (A) 22.2%
- (B) 49.2%
- (C) 20.2%
- (D) 18.2%

9 The table below illustrates a hypothetical economy with a flexible exchange rate

Item	\$billion (\$bn)
Balance on Goods and Services	-8
Net Secondary Income	?
Net Primary Income	-12
Capital Account	15
Financial Account	8

What is the balance on Net Secondary Income for this economy?

- (A) -\$3bn
- (B) \$3bn
- (C) \$23bn
- (D) -\$23bn

10 An Australian investor buys \$4 million of shares in a Apple Inc, a large US based company.

Where would this transaction be recorded in the Australian Balance of Payments?

(A)	Direct Income debits	Capital Account
(B)	Direct Income credits	Financial Account
(C)	Portfolio Investment credits	Capital Account
(D)	Portfolio Investment debits	Financial Account

11 What are the most likely impacts of the depreciation of the Australian dollar?

	Advantages	Disadvantages
(A)	Improves international competitiveness	Inflationary pressures
(B)	Deflationary pressures	Increases servicing costs
(C)	Inflationary pressures	Increases servicing costs
(D)	Erodes international competitiveness	Inflationary pressures

12 Which of the following is the most likely cause of a deterioration in Australia's terms of trade?

- (A) A fall in the price of imported capital goods into Australia
- (B) An appreciation of the Australian dollar
- (C) A reduction in the volume of Australia's commodity exports
- (D) A decrease in the price of Australia's educational exports

13 If there is an increase in the Marginal Propensity to Consume (MPC).

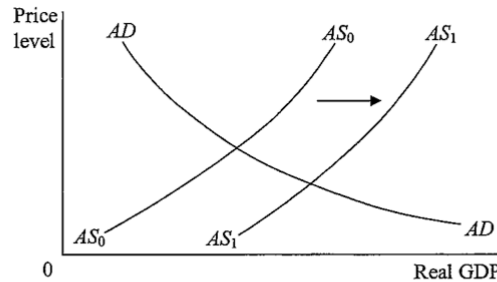
Which combination of changes in the simple multiplier and equilibrium income is most likely to result?

	Simple multiplier	Equilibrium income
(A)	Increases	Increases
(B)	Decreases	Decreases
(C)	Decreases	Increases
(D)	Increases	Decreases

14 If $Y=300$, $I=30$, $G=60$, $X=170$ and $M=30$, what is the value of consumption and the balance of goods and services?

	Consumption	Balance of Goods and Services
(A)	50	-\$140
(B)	70	\$140
(C)	30	\$30
(D)	20	-\$30

15 The following diagram shows aggregate demand and aggregate supply curves for an economy



All other things being equal (*ceteris paribus*) which of the following is most likely to shift the aggregate supply curve from AS_0 to AS_1 ?

- (A) An increase in inflationary expectations
- (B) A decrease in real unit labour costs
- (C) A decrease in the level of national income
- (D) A decrease in domestic consumption

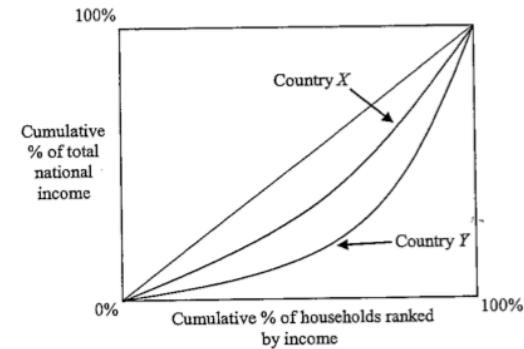
16 The table shows selected data for an economy.

Year	Unemployment Rate	Consumer Price Index	Foreign Debt as a % of GDP
1	5.5%	125	38.2%
2	5.3%	129	45.5%
3	4.9%	137	52.2%

Given the changes in the data from Year 1 to Year 3, what can be concluded about the changes in this economy?

- (A) Economic growth has been positive and external stability has deteriorated
- (B) Inflation has increased and external stability has improved
- (C) External stability has deteriorated and economic growth has been negative
- (D) Economic growth has been positive and inflation has fallen

17 The following diagram shows the Lorenze curve for two different countries, X and Y, at different stages of development.



Which of the following statements best describes the distribution of income in Country X compared to Country Y?

- (A) Country X has a less equitable distribution of income and a higher Gini co-efficient than Country Y.
- (B) Country X has the same distribution of income but a lower Gini co-efficient than Country Y.
- (C) Country X has the same distribution of income but a higher Gini co-efficient than Country Y.
- (D) Country X has a more equitable distribution of income and a lower Gini co-efficient than Country Y.

18 Which of the following is an appropriate characteristic and government policy response to a downturn in the international business cycle?

Characteristic of a downturn in the Business Cycle	Government Policy used to combat a downturn in the Business Cycle
(A) Increase in unemployment	Tight monetary policy and an expansionary fiscal policy
(B) Decrease in economic growth	Tight monetary policy and a contracting fiscal policy
(C) Decrease in foreign investment	Loose monetary policy and contracting fiscal policy
(D) Lower tax revenue	Loose monetary policy and expansionary fiscal policy

- 19 What would be the most likely effects of the Reserve Bank of Australia purchasing government securities on the Australian economy?

	<i>Money supply</i>	<i>Cash rate</i>	<i>Effect on domestic spending</i>
(A)	Decrease liquidity	Decrease the cash rate	Decrease spending
(B)	Decrease liquidity	Increase the cash rate	Decrease Spending
(C)	Increase liquidity	Decrease the cash rate	Increase Spending
(D)	Increase liquidity	Increase the cash rate	Decrease Spending

- 20 Which statement best describes the operation of monetary policy in comparison to the operation of fiscal policy?

- (A) Monetary policy is slower to implement and less effective in controlling inflation.
- (B) Monetary policy is faster to implement but more effective in controlling inflation.
- (C) Fiscal policy is slower to implement but more effective in controlling inflation.
- (D) Fiscal policy is faster to implement but less effective in controlling inflation.

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Section III

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)

Assess the impact of changes in the global economy on Australia's trade and financial flows. Explain the impact of this on Australia's economic performance. In your response, you should refer to the economic information provided.

"The commodity price boom is over but in terms of investment in Australia the boom continues,"
[former Resources Minister Martin Ferguson]

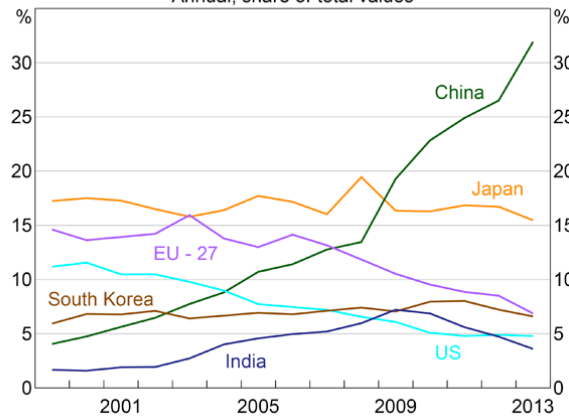
Fuelled by Chinese-led demand for coal, iron ore and other resources, Australia's economy was one of the very few in the developed world to sail through the global financial crisis without sliding into recession.

The resources boom fuelled what has been dubbed a two-speed economy, which has pumped up the Australian dollar and exacerbated the pain felt in manufacturing sectors and retail in Australia's most populous states.

Extracted from article on theguardian.com/au

Exports by Destination

Annual, share of total values



Source: ABS

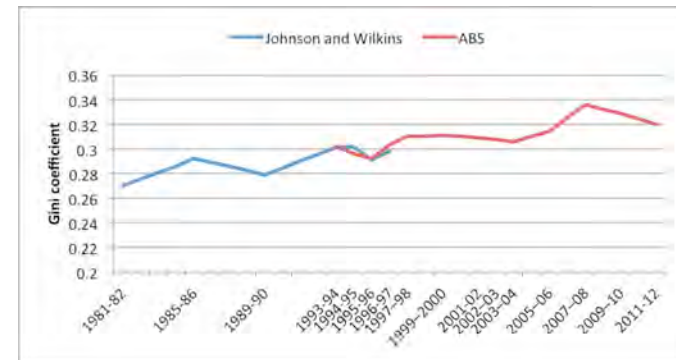
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- demonstrate knowledge and understanding relevant to the question
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Question 26 (20 marks)

Account for trends in inequality in the distribution of income and wealth, both between all households and between particular groups, within Australia. In your response, you should refer to the economic information provided.



"The ABS points out that...the cumulative picture is of an upward trend, punctuated with periods in which inequality has fallen. Whether the most recent fall continues or is reversed remains to be seen."

Source: theconversation.com

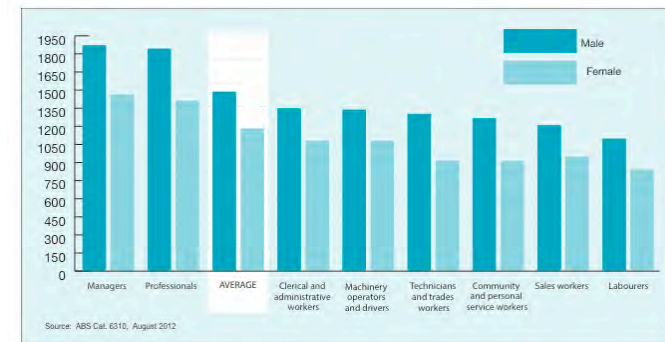


Figure 11.11 – Mean gross weekly earned income by occupation and gender, 2012

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

1. A B C D
2. A B C D
3. A B C D
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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
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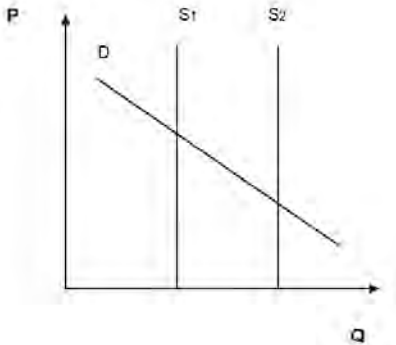
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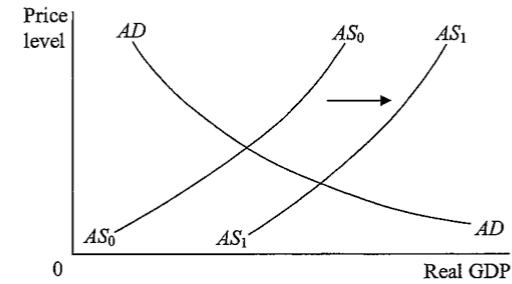
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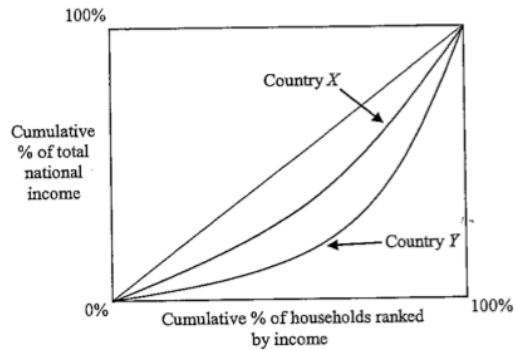
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Section II

40 marks Attempt Questions 21–24

Answer the questions in the spaces provided.

Allow about 1 hour and 15 minutes for this section

Question 21 (10 marks)

(a) Define the term *emerging economy*

2

Criteria	Marks
• Correctly defines an emerging economy	2
• Provides a limited definition of an emerging economy	1

Answers may include:

- *An emerging economy is characterised by rapid, sustained economic growth and structural change*

(b) Explain TWO reasons for differences in economic development between nations

4

Criteria	Marks
• Sketches in general terms TWO factors contributing to differences between nations	4
• Sketches in general terms ONE factor contributing to differences between nations and demonstrates a limited understanding of ONE factor contributing to differences between nations	3
• Sketches in general terms ONE factor contributing to differences between nations	2
OR	
• Demonstrates a limited understanding of TWO factors contributing to differences between nations	1
• Demonstrates a limited understanding of ONE factor contributing to differences between nations	

Answers may include:

Factors contributing to differences between advanced and developing economies could include:

- *Natural resource endowment*
- *Human capital*
- *Levels of technology*
- *Infrastructure*
- *Trade agreements*
- *Financial and investment flows*
- *International labour flows*
- *Foreign aid*
- *Governance*
- *Political stability*

Question 22 continues over the page

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(c) Using examples for an economy other than Australia, explain the impact of globalisation on trade flows, and investment and transnational corporations

4

Criteria	Marks
• Demonstrates a clear and comprehensive understanding of changes in the global economy and their impact on trade, investment & TNCs	4
• Demonstrates a sound understanding of the changes in the global economy and their impact on trade, investment & TNCs	3
• Sketches in general terms the impacts of changes in the global economy and their impact on trade, investment & TNCs	2
• Lists some impacts of changes in the global economy and/or their impact on trade, investment & TNCs	1

Answers may include (for China)

Changes in the global economy:

- Trade liberalisation
- Financial deregulation
- Technology, transport and communications
- International division of labour

Impact on China's trade flows:

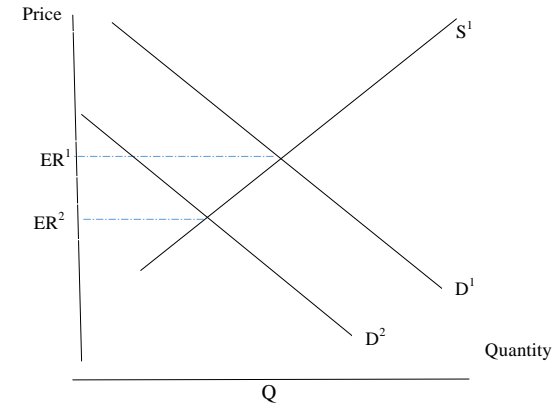
- Access to global market for exports
- International competitiveness, specialisation in manufacturing
- Imports and import competition
- Dramatic increase in trade flows since 1980

Impact on investment & TNCs

- SEZs allow foreign investment
- Access to technology and modern production techniques
- Increased productivity
- Dramatic increase in foreign investment and TNCs since 1980s

Question 22 (10 marks)

The following graph shows the supply and demand for the currency in a hypothetical economy, with a floating exchange rate.



a) On the diagram draw a curve that results if there is a decrease in foreign investment into the domestic economy.

Label the new equilibrium exchange rate ER^2

1

Criteria	Mark
• Correctly states a decrease in demand and labels the new equilibrium correctly	1
• States or labels one correctly	0.5

Relevant answers could include:

- A decrease in demand due to inflow of money being reduced. The new equilibrium needs to be labelled correctly – ER^2

b) Describe the difference between a bilateral exchange rate and the trade weighted index

2

Criteria	Marks
• Clearly discusses the difference between a Trade weighted index and a bilateral exchange rate	2
• Briefly discusses the difference or does one correctly	1

Relevant answers could include:

- A trade weighted index is a measure of a basket of currencies of a countries major trading partners weighted according to trade importance.
- A bilateral exchange rate measures one countries currency I relation to another.

Question 22 continues over the page

Question 22 (continued)

- c Outline how the change in the value of the Australian Dollar relative to the US Dollar may impact the price of exports, price of imports and international competitiveness. 2

Criteria	Marks
<ul style="list-style-type: none"> Sketches in general terms how the appreciation of the Australian dollar may impact on the price of exports and imports and international competitiveness 	2
<ul style="list-style-type: none"> Sketches in general terms how the appreciation of the Australian dollar may impact on TWO but not three of the following: price of exports and imports and international competitiveness 	1

Answers could include: An appreciation of the Australian dollar is likely to have the following effects:

- The price of exports in foreign currency terms will rise and cause exports to be less competitive in world markets.
- The price of imports will fall in domestic currency terms and make domestically produced goods less competitive in relation to imports.

An appreciation of the Australian dollar will have a contractionary effect on the economy as international competitiveness is reduced since export prices rise and import prices fall. This will reduce the competitiveness of both exporters and import competing industries.

- d) Analyse the impact of changes in the components of the balance of payments on the value of the Australian Dollar. 5

Criteria	Marks
<ul style="list-style-type: none"> Correctly identifies the impact of changes in the components of the balance of payments on the value of the Australian dollar Clearly draws out the relationship between changes in the components of the balance of payments on the value of the Australian dollar 	5
<ul style="list-style-type: none"> Correctly identifies the impact of some changes in the components of the balance of payments on the value of the Australian dollar Generally draws out the relationship between some changes in the components of the balance of payments on the value of the Australian dollar 	4
<ul style="list-style-type: none"> Identifies the impact of some changes in the components of the balance of payments on the value of the Australian dollar 	3
<ul style="list-style-type: none"> States but does not analyse the impact of some changes in the components of the balance of payments on the value of the Australian dollar 	2
<ul style="list-style-type: none"> Makes a limited response in relation to the impact of a change in a component of the balance of payments on the value of the Australian dollar 	1

Answers could include: The balance of payments is a record of all transactions between Australian residents and residents in the rest of the world. It consists of the current account (which records transactions of a current nature) and the capital and financial account (which records transactions of a capital and financial nature in the longer term).

In the current account the main components are the goods and services balance and the net primary income balance. If the goods and services balance is in surplus, with export income exceeding import spending, this will lead to increased demand for the Australian dollar and an appreciation. Alternatively, if the goods and services balance is in deficit with import spending exceeding export income, the exchange rate will depreciate. Between 2010 and 2013 the goods and services balance was in surplus helping to increase the demand for the Australian dollar. However, this surplus has fallen in the last two years and led to a larger current account deficit and a depreciation of the exchange rate.

The net primary income balance in Australia's balance of payments is usually in deficit and reflects the cost of servicing Australia's external borrowings of debt and equity liabilities through payments of interest, profit and dividends. The larger this deficit, the larger the current account deficit, and this can put downward pressure on the exchange rate causing a depreciation of the exchange rate. In 2010–11 the Australian dollar reached US\$1.05 as the terms of trade remained high and the current account deficit was -\$34.3b, representing -2.4% of GDP. In contrast, as the current account deficit reached -\$47.6b or -3.2% of GDP in 2012–13 the Australian dollar traded lower at US\$0.89.

The exchange rate can also be influenced by changes in the capital and financial account in the balance of payments. The financial account is the main component and consists of direct, portfolio and other investment, financial derivatives and Reserve Assets held by the Reserve Bank. Australia records a surplus in the capital and financial account to offset the deficit in the current account of the balance of payments under a floating exchange mechanism. Most of this surplus is sourced from net direct and portfolio investment into Australia because of the positive interest rate differential with the rest of the world and the high returns that foreign investors can earn in the resources sector and other domestic industries.

Higher domestic interest rates and a positive environment for foreign investment can underpin a high demand for the Australian dollar and cause it to appreciate. This tended to be a factor (together with the high terms of trade) that caused the Australian dollar to appreciate during the resources boom between 2003 and 2007 and again as resource exports resumed to China in 2010 after the Global Financial Crisis in 2008.

Question 23 (10 marks)

a) Define market failure and give an example.

2

Criteria	Marks
• Correctly defines market failure and gives an example	2

Answers may include:

- Market failure is where the market and the price mechanism fail to allocate resources efficiently
- Examples – the natural environment – any examples

b) Outline the economic consequences of the depletion of renewable and non-renewable resources

Criteria	Marks
• Clearly and concisely identifies what resource depletion is and sketches the consequences in terms of future living standards and constrained economic growth	3
• Sketches in general terms the impact on future living standards or economic growth	2
• Identifies an economic impact	1

Answers may include:

- Intergenerational equity
- Future production
- Employment
- Income
- Aggregate supply

(c) Explain the conflict between economic growth and each of the government's objectives of environmental sustainability and distribution of income.

Criteria	Marks
• Clearly relates the cause and effect relationship between growth and BOTH environment and inequality	5
• Relates cause & effect for EITHER inequality & environment and sketches in general terms the other	4
• Sketches in general terms for BOTH environment and inequality	3
• Identifies conflicts for BOTH	2
• Identifies a conflict	1

Answers may include:

- Market failure
- Externalities
- Public goods, free riders
- Skilled vs unskilled
- Wealth generating income

Question 24 (10 marks)

a) Define structural unemployment

Criteria	Marks
• Correctly defines structural unemployment	1

Discussion can include:

- This is a mismatch between the labour skills of employees and the jobs being offered.
- Can also occur due to Micro economic reforms and changes to the structure of the workplace.

b) (b) (2 marks)

Outcomes Assessed: H4,H1

Targeted Performance Bands: 3-4

(b) 1

Criteria	Marks
• Correctly calculates the unemployment rate for years 2 and 3	1
• Correctly calculates the unemployment rate of one year correctly	0.5

Discussion can include:

- Formula – $\frac{\text{unemployed}}{\text{Labour force}} \times 100$
- Year 2 - $\frac{120,000}{720,000} \times 100 = 16.67\%$
- Year 3 - $\frac{160,000}{765,000} \times 100 = 20.91\%$

(b) 2 (1 mark)

Criteria	Marks
• Correctly calculates the participation rate for years 2 and 3	1
• Correctly calculates the participation rate of one year correctly	0.5

Discussion can include:

- Formula – $\frac{\text{labour force}}{\text{Working age pop.n}} \times 100$
- Year 2 - $\frac{720,000}{1,100,000} \times 100 = 65.45\%$
- Year 3 - $\frac{765,000}{1,150,000} \times 100 = 66.52\%$

b)3 (2 marks)

Criteria	Marks
• With reference to the table outlines ONE cause of the change in the participation rate from Year 2 to Year	2
• With no reference to the table outlines ONE cause of the change in the participation rate from Year 2 to Year OR lists one cause for the change.	1

Relevant answers could include:

- Increase in economic activity
- Increase in confidence by business owners
- Increase in migration or school leavers

Question 24 continues over page

- c) Explain the relationship between unemployment and inflation in the short and the long run 5

(c) (5 marks)

Outcomes Assessed: H4,H6

Targeted Performance Bands: 5-6

Criteria	Marks
• Explains in detail the relationship between unemployment and inflation with reference to the short run and the long run Phillips curve	5
• Describes the relationship between unemployment and inflation with reference to the short run and the long run Phillips curve	3-4
• Identifies one relationship between the two aspects	1-2

Relevant answers could include:

- An inverse relationship exists in the short run – this is shown by the short run Phillips Curve – and explanation needs to be done using examples where necessary
- In the long run – a trade off doesn't occur due to inflationary expectations. The economy reverts back to the NAIRU .

Note: reference to Philip's Curve not required if adequate discussion of causes for short term relationship (derived demand, demand pull & cost push) and long run (NAIRU & inflationary expectations) is covered. Simply identifying and describing the relationship shown in the Phillips Curve's without cause & effect discussion is not answering this question

Section III

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)

Assess the impact of changes in the global economy on Australia's trade and financial flows. Explain the impact of this on Australia's economic performance. In your response, you should refer to the economic information provided.

"The commodity price boom is over but in terms of investment in Australia the boom continues,"
[former Resources Minister Martin Ferguson]

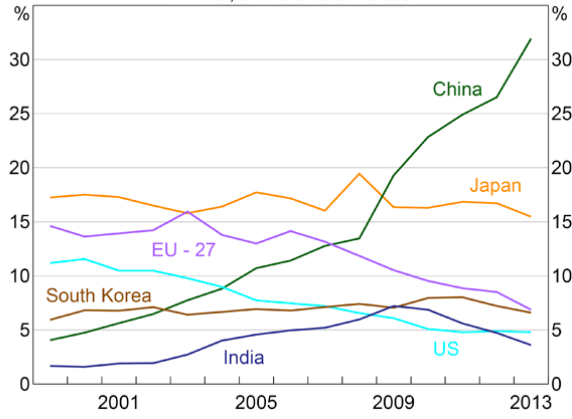
Fuelled by Chinese-led demand for coal, iron ore and other resources, Australia's economy was one of the very few in the developed world to sail through the global financial crisis without sliding into recession.

The resources boom fuelled what has been dubbed a two-speed economy, which has pumped up the Australian dollar and exacerbated the pain felt in manufacturing sectors and retail in Australia's most populous states.

Extracted from article on theguardian.com/au

Exports by Destination

Annual, share of total values



Source: ABS

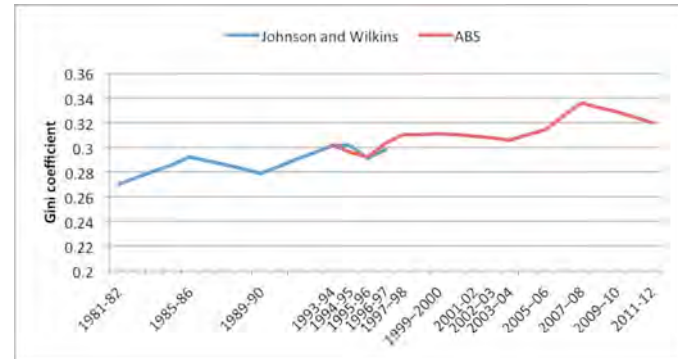
OR

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)

Account for trends in inequality in the distribution of income and wealth, both between all households and between particular groups, within Australia. In your response, you should refer to the economic information provided.



"The ABS points out that...the cumulative picture is of an upward trend, punctuated with periods in which inequality has fallen. Whether the most recent fall continues or is reversed remains to be seen."

Source: theconversation.com

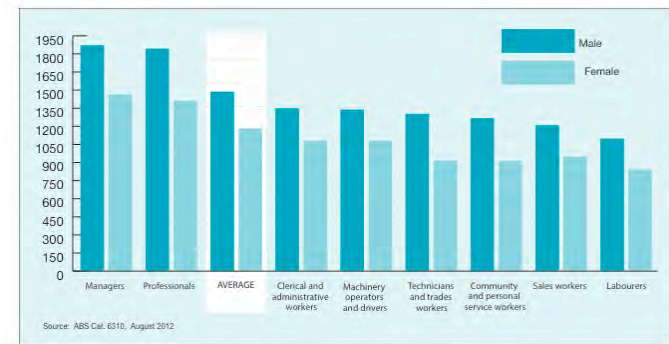


Figure 11.11 - Mean gross weekly earned income by occupation and gender, 2012

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

Question 27 (20 marks)

Evaluate the effectiveness of fiscal policy in Australia.

OR

Question 28 (20 marks)

Evaluate the effectiveness of monetary policy in Australia.

Q25 Assess the impact of changes in the global economy on Australia's trade and financial flows. Explain the impact of this on Australia's economic performance. In your response, you should refer to the economic information provided.

Criteria	Marks
<ul style="list-style-type: none"> • Synthesises own knowledge and understanding, with the information provided, to develop a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theory • Clearly and comprehensively examines the effects of globalisation on trade and financial flows • Clearly and comprehensively relates the effects these changes to economic performance 	17-20
<ul style="list-style-type: none"> • Synthesises own knowledge and understanding, with the information provided, to develop a logical and cohesive response. • Applies relevant economic terms, concepts, relationships and theory • Demonstrates a sound examination of the effects of globalisation on trade and financial flows • Demonstrates a sound understanding of the effects these changes on economic performance 	13-16
<ul style="list-style-type: none"> • Uses own knowledge and understanding with the information provided to develop a coherent response • Uses relevant economic terms and concepts and shows some relationships • Sketches in general terms the effects of globalisation on trade and financial flows • Sketches in general terms the effects of these changes on economic performance 	9-12
<ul style="list-style-type: none"> • Develops a generalised response • Uses some economic terms and concepts • States some aspects of the effects of changes in trade and financial flows • States some aspects of Australia's economic performance 	5-8
<ul style="list-style-type: none"> • Presents a limited response • Uses some economic terms or concepts • Lists any effects of changes in trade and financial flows and/or Australia's economic performance 	1-4

Answers could include:

- *Definitions: globalisation, trade flow, financial flows, economic performance*
- *Trends: trade flows, financial flows, economic indicators*
- *Changes in global economy*
 - *Trade liberalisation*
 - *Financial deregulation*
 - *Global commodities boom*
 - *Industrialisation of China, Emerging Economies*
 - *International division of labour*
- *Impact on trade and financial flows*
 - *Export composition, volume, direction*
 - *Import composition, volume, direction*
 - *Terms of Trade (X price, M price)*
 - *Financial flows, access to capital*
 - *Interest rate differentials*
 - *\$A*
 - *Speculators*
- *Economic performance*
 - *Economic growth*
 - *AD, X, M*
 - *AS, comparative adv, resource allocation, productivity*
 - *AD/AS diagram*
 - *Dutch disease / two speed*
 - *International business cycle*
- *Unemployment*
 - *Derived demand (cyclical)*
 - *Structural (\$A)*
- *Inflation*
 - *Imported inflation*
 - *Demand inflation (pre GFC)*
 - *Input costs (cost push)*
- *Ext. stability (foreign liabilities, CAD)*
 - *BOGS*
 - *Servicing costs*
- *Distribution of income*
- *Environment*

Q27 Evaluate the effectiveness of Fiscal Policy in Australia

Q26 Account for trends in inequality in the distribution of income and wealth, both between all households and between particular groups, within Australia. In your response, you should refer to the economic information provided.

Criteria	Marks
<ul style="list-style-type: none"> Synthesises own knowledge and understanding, with the information provided, to develop a sustained, logical and cohesive response Integrates relevant economic terms, concepts, relationships and theory Clearly and comprehensively examines the reasons for trends and dimensions of inequality 	17-20
<ul style="list-style-type: none"> Synthesises own knowledge and understanding, with the information provided, to develop a logical and cohesive response. Applies relevant economic terms, concepts, relationships and theory Demonstrates a sound examination the trends and dimensions of inequality 	13-16
<ul style="list-style-type: none"> Uses own knowledge and understanding with the information provided to develop a coherent response Uses relevant economic terms and concepts and shows some relationships Sketches in general terms the trends and dimensions of inequality 	9-12
<ul style="list-style-type: none"> Develops a generalised response Uses some economic terms and concepts States some aspects of inequality 	5-8
<ul style="list-style-type: none"> Presents a limited response Uses some economic terms or concepts Lists any reasons for inequality 	1-4

Answers may include

- Definitions: distribution of income and wealth, income, wealth
- Trends: gini coefficient, quintiles, affected groups
- Lorenze curve & gini coefficient explanation
- Growth benefits uneven
 - Owners of factors of production
 - Skilled/educated labour demand
 - Existing wealth
- Wealth generates income (savings and property)
 - Property prices
 - Share, superannuation
- Occupation
 - Supply & demand for skills
- Employment/unemployment
- Structural change (mining & financial services, State vs State, skilled vs unskilled, rural vs urban)
- Gender
 - Discrimination
 - Family duties, cultural reasons
- Age
 - Youth unemployment
 - Experience, education
- Ethnic background
 - Discrimination
 - Education
 - Language barriers
- Family structure
 - Part-time work
 - Family duties
- Policy factors
 - Progressive income tax
 - Indirect taxes (GST, fuel excise)
 - Tax benefits for wealthy (investment property, super, capital gains)
 - Welfare payments
 - 2014 budget changes
- Aging population

MARKING GUIDELINES	Marks
<ul style="list-style-type: none"> Integrates an extensive and appropriate range of economic terms with relevant concepts, relationships and theories Demonstrates superior economic analysis in a sustained, logical and cohesive response Provides a clear, comprehensive and balanced judgment on the effectiveness of government fiscal policy 	17-20
<ul style="list-style-type: none"> Integrates an appropriate range of economic terms with relevant concepts, relationships and theory Demonstrates a sound economic analysis in a logical and cohesive response Provides a sound understanding of the effectiveness of government fiscal policy 	13-16
<ul style="list-style-type: none"> Applies appropriate economic terms, concepts and relationships Develops a coherent response Sketches in general terms the effectiveness of government fiscal policy 	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 government fiscal policy 	5-8
<ul style="list-style-type: none"> Presents a limited response Uses some economic terms and/or concepts relating to the Australian economy 	1-4

Answers may include

- Definitions of fiscal policy, government objectives
- Role of fiscal policy
- Stabilisation of economic activity, Countercyclical
- Trends: fiscal policy
 - 2000s contractionary
 - GFC expansionary
 - post GFC fiscal consolidation/contractionary
 - Current contractionary
- Trends: economic growth, unemployment, inflation
- Expansionary
- Contractionary
- Deficit, surplus
- Automatic stabilisers
- Fiscal stimulus
- Government spending
- Taxation
- $G \text{ in AD} = C + I + G + (X-M)$
- AS/AD diagram
- Y/E diagram
- Multiplier
- Derived demand for labour
- Limitations
- AS/limits of macro policy
- Inflation
- NAIRU
- Other limitations
 - Crowding out
 - Misallocation of resources /inefficiencies
 - Time lags
 - Political constraints
 - Debt/AAA rating

Q28 Evaluate the effectiveness of Monetary Policy in Australia

MARKING GUIDELINES	Marks
<ul style="list-style-type: none"> Integrates an extensive and appropriate range of economic terms with relevant concepts, relationships and theories Demonstrates superior economic analysis in a sustained, logical and cohesive response Provides a clear, comprehensive and balanced judgment on the effectiveness of government monetary 	17-20
<ul style="list-style-type: none"> Integrates an appropriate range of economic terms with relevant concepts, relationships and theory Demonstrates a sound economic analysis in a logical and cohesive response Provides a sound understanding of the effectiveness of monetary policy 	13-16
<ul style="list-style-type: none"> Applies appropriate economic terms, concepts and relationships Develops a coherent response Sketches in general terms the effectiveness of government monetary policy 	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 government monetary policy 	5-8
<ul style="list-style-type: none"> Presents a limited response Uses some economic terms and/or concepts relating to the Australian economy 	1-4

Answers may include

- Definitions of monetary policy
- Trends: monetary policy stance
 - 2003-2008 contractionary (mining boom 1)
 - 2008-9 GFC loosening → expansionary
 - post GFC tightening (mining boom 2)
 - loosening → expansionary since 2011 (China & commodity prices slowdown, Europe)
 - unchanged for 12mths
- Trends: economic growth, inflation unemployment
- Role of monetary policy
- Inflation target 2-3%
- Countercyclical
- Expansionary, Contractionary
- Tightening, Loosening
- Transmission mechanism
- $AD = C + I + G + (X - M)$
- $Y = C + S$
- Borrowing and saving
- Effect on consumption
- Effect on investment
- Keynesian Y/E diagram
- AS/AD diagram
- Effect on exchange rate
- Demand pull inflation
- Phillips curve
- Inflationary expectations
- Derived demand for labour
- NAIRU
- Limits: time lags, blunt instrument, ability to stimulate activity, 0% limit

STUDENT NUMBER _____

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

- A B C D
- A B C D
- A B C D
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