Economics Teachers' Association of Western Australia

Year 12 Economics Exam Semester 1 2022

Marking Guide

Section 1 (24 marks)

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

Question 25 **(12 marks)**

(a) i Determine the expected increase in trade ($USbn) as a result of the RCEP tariff concessions. (1 mark)

Description	Mark
Expected increase in trade	
$US 42 billion	1

ii State which of Australia's top four trading partners is **not** a member of the RCEP. (1 mark)

Description	Mark
Not a member of the RCEP	
United States	1

(b) State which economy is the most protected and which economy is the most open. (2 marks)

Description	Mark
Most protected	
Republic of Korea	1
Most open	
Australia	1
Total	**2**

(c) Identify and the sector which benefits the most from the RCEP and the sector which benefits the least and provide an explanation for your answers. (4 marks)

Description	Mark
Identifies the sector	
Manufacturing benefits the most	1
Natural resources benefits the least	1
Explains the benefit	
Most global trade is in manufacturing & so reducing tariffs in this sector will generate the greatest benefits	1
Natural resource sector has very low tariffs already so minimal gain	1
Total	**4**

(d) Describe how reducing tariffs can result in both trade creation and trade diversion. (4 marks)

Description	Mark
Trade Creation	
Lowering tariffs would stimulate new trade between member countries, i.e. increasing imports and exports for each economy	1-2
Trade Diversion	
Lowering tariffs within RCEP would redirect trade away from non-members where tariffs are relatively higher to members which still creates a net gain	1-2
Total	**4**

Question 26 **(12 marks)**

(a) i. Identify the commodity that has the greatest weight in Australia's commodity price index.
(1 mark)

Description	Mark
Iron ore	1

ii. If the commodity price index was 105 in December 2020, calculate the percentage increase to December 2021. (1 mark)

Description	Mark
Increase from 105 to 136 – this is a 30% increase Accept answers 29%-31%	1

(b) Explain how a rise in the commodity price index could increase both the export price index and the import price index. (3 marks)

Description	Mark
Explains how a rise in the commodity price index could increase both the export price index and the import price index.	3
Describes that that a rise in commodity prices would increase the export price index since commodities comprise over 60% of Australia's exports such as iron ore, coal, natural gas, gold.	2
Identifies that a rise in commodity prices would increase the export price index	1
Answers could include: A rise in commodity prices would increase the export price index since commodities comprise over 60% of Australia's exports such as iron ore, coal, natural gas, gold. A rise in commodity prices could also increase the import price index if the price of oil rises given that oil/petrol is a major import for Australia.	
Total	**3**

(c) Use an exchange rate model to illustrate and outline the effect of the change in the commodity price index during December 2020 - December 2021 on the value of the Australian dollar.

(3 marks)

Description	Mark
Model	
Shift of the D(AUD) to the right causing the AUD to appreciate	2
Correctly labelled model showing the D/S of the AUD	1
Sub-total	**2**
Outline the effect	
A rise in commodity prices increases the value of Australia's exports which increases the demand for AUD.	1
Total	**3**

(d) Outline **three** effects of the change in Australia's terms of trade since December 2020. (4 marks)

Description	**Mark**
Outlines the change	
Rise in the terms of trade due to a ride in the export price index	1
Sub-total	**1**
Outlines the effects (x3)	
Outline an effect of an increase in the terms of trade (x3)	1
Sub-total	**3**
Answers could include: A rise in the export price index will, ceteris paribus, increase the terms of trade. The ToT = XPI/MPI x 100. A rise in the terms of trade will: • increase the trade balance (& the current account balance). • increase real GDP, given the increase in net exports. • increases living standards by boosting real income • will appreciate the currency making imports relatively cheaper	
Total	**4**

Question 27 **(12 marks)**

(a) For 2021, estimate the value of

i. Australia's total foreign assets (1 mark)

Description	**Mark**
Approximately $3,400 billion	1

ii Australia's total foreign liabilities (1 mark)

Description	**Mark**
Approximately $4.200 billion	1

iii Australia's net foreign liabilities (1 mark)

Description	**Mark**
Approximately $800 billion	1

(b) Identify the **two** main types of foreign investment in Australia. (2 marks)

Description	**Mark**
For each of the **two** main types of foreign investment (x2)	
Identifies direct & portfolio investment	1
Answers could include any of the following: • Direct: when a foreign firm establishes a new business or acquires 10% or more of an Australian enterprise, and so has some control over its operations. • Portfolio: refers to the purchase of securities (e.g. shares or bonds) that do not offer the investor any control over the operation of the enterprise (< 10% ownership).	1
Total	**2**

(c) Account for the change in Australia's net international investment position since 2018. (3 marks)

Description	Mark
Australia's net international investment position	
Accounts for the change in Australia's net international investment position	3
Outlines a reason for the change in Australia's net international investment position	2
Identifies the change in Australia's net international investment position	1
Answers could include any of the following: Identifies the change: Australia's net international investment position (net foreign liabilities) has declined from around $1,000 billion in 2018 to around $800 billion in 2021. Accounts for the change: • The reason is that Australia's foreign assets have been growing faster than our foreign liabilities. • This is due to Australia recording current account surpluses (financial account deficits) which means that less foreign investment is flowing into Australia. At the same time, more Australian investment has been flowing abroad.	
Total	**3**

(d) Explain **two** effects of a decrease in Australia's net foreign liabilities. (4 marks)

Description	Mark
For each effect (x2)	
Explains the effect of a decrease in Australia's net foreign liabilities	2
Describes the effect of a decrease in Australia's net foreign liabilities	1
Answers could include any of the following: A decrease in net foreign liabilities means that net foreign investment into Australia is falling. This can have a negative effect on GDP/employment growth if the fall is due to a decrease in foreign direct investment. This will result in less transfer of technology & managerial expertise. A fall in net foreign liabilities may mean that the level of Australia's net foreign debt will decline which will reduce interest payments & thereby reduce the income deficit in the current account. A fall in net foreign liabilities is due to Australia's foreign assets increasing will increase income receipts in terms of dividends and interest payments increasing Australia's national income.	
Total	**4**

Question 28 (20 marks)

(a) Define trade liberalisation and discuss three arguments that are often used against trade liberalisation. (11 marks)

Description	Mark
Define trade liberalisation	
A detailed definition of trade liberalisation	2
A simple definition of trade liberalisation	1
Subtotal	**2**
Arguments against trade liberalisation	
Discusses an argument against trade liberalisation with a supporting example	3
Explains of an argument against trade liberalisation	2
Outlines an argument against trade liberalisation	1
Subtotal	**9**
Total	**11**

Note – this is not simply discussing 3 arguments for protection.

Answers should include:

Demonstrates understanding of trade liberalisation

Trade liberalisation refers to the removal and/or reduction in trade barriers such as tariffs, quotas & subsidies in order to promote free trade

Effects of trade liberalisation:

Trade liberalisation may lead to specialisation in just a few industries, increasing dependence/reliance on other economies for certain types of goods & services, which may be of strategic importance. This is the diversification argument, not placing 'all your eggs in the one basket'.

Trade liberalisation may result in structural change causing certain sectors in the economy such as manufacturing to decline due to greater competition from imports & increasing structural unemployment.

Trade liberalisation may expose a country to national defence issues – the argument is that a country should not be dependent on the supply of essential/strategic goods/services from another country in case of conflict with that country

Other arguments – trade liberalisation may lead to the loss of culturally important sectors; trade liberalisation may lead to income inequality in the short term.

(b) Using an appropriate model, evaluate the argument that protection can 'save domestic jobs'. (9 marks)

Description	Mark
Model	
Correctly labelled tariff diagram showing D & S curves; tariff line above the world price line. Effect of tariff on domestic production (increases), on domestic consumption (decreases) and on imports (decrease).	4
Correctly labelled tariff diagram showing D & S curves; domestic production increases and imports decrease.	3
Correctly labelled tariff diagram showing D & S curves; tariff line above the world price line.	2
Correctly labelled model showing demand and supply curves	1
Sub-total	**4**
Evaluation	
Evaluates the argument that protection does not save domestic jobs with supporting evidence	5
Discusses that protection does not save other domestic jobs with supporting evidence	4
Explains how protection will lead to an increase in domestic production and therefore an increase in employment within the protected industry	3
Describes how protection will lead to an increase in domestic production within the protected industry	2
Identifies that protection with preserve employment in the protected industry	1
Total	**5**
Answers may include: With reference to the model, a tariff will lead to an increase in domestic production and therefore an increase in employment within the protected industry (sector). However, the tariff will increase costs for other producers and therefore lead to a decrease in output in other sectors which will reduce employment. The argument, therefore, that tariffs can save domestic jobs is fallacious – there will be a net decrease in jobs.	

Question 29 **(20 marks)**

Australia has recorded eleven consecutive current account surpluses since June 2019.

(a) Discuss **four** cyclical factors that have contributed to the increase in Australia's current account balance. (12 marks)

Description	Mark
For each cyclical factor that impact the trade balance (x4) the student:	
Discusses a cyclical factor that have contributed to the increase in Australia's current account balance	3
Explains a cyclical factor that have contributed to the increase in Australia's current account balance	2
Identifies a cyclical factor that has changed the current account balance	1
Sub-total	**3**
Total	**12**
Answers may include: Cyclical factors that impact the trade balance: • High commodity prices (iron ore, coal, gold, natural gas) increased the value of Australia's exports increasing both the trade balance & the current account balance • During 2020, the COVID pandemic caused consumption spending to fall dramatically which decreased import spending, esp. on services such as overseas tourism, increasing both the trade balance & the current account balance • Since 2019, investment spending declined due to low business confidence & low economic growth. This decreased imports of machinery & capital good (e.g. motor vehicles, computers) resulting in an increase in both the trade balance & the current account balance • During 2019-2020, the AUD depreciated which boosted net exports by making Australian goods/services cheaper to overseas buyers and making imported goods/services more expensive to Australian consumers.	

(b) Explain how the increase in Australia's current account balance is related to changes in Australia's saving-investment gap. (8 marks)

Description	Mark
Marks awarded for the following points in explanation:	
The current account balance is equal to the difference between a country's saving and its investment: CAB = S - I	1
If S > I, then the current account will be in surplus	1
If I > S, then the current account will be in deficit	1
Since June 2019, Australia's savings have increased relative to investment, creating a positive S – I gap and a current account surplus.	1
Savings have risen because consumption has fallen. Economic growth has fallen during this time (pandemic) forcing the economy into recession in 2020. Increased uncertainty will reduce spending & increase saving. Investment has fallen due to falling economic growth reducing firms' sales & profits.	1-2
Given that S now exceeds I, Australia does not need to rely on an inflow of foreign investment to fill the gap. With less foreign investment, income payments fall which increases the income balance in the current account. Higher savings has also led to an increase in Australia investment abroad, increasing Australia's overseas assets and boosting increases income receipts.	1-2

Question 30 **(20 marks)**

(a) Explain how different transactions in the current account, the financial account and the capital account can affect the demand for and supply of the Australian dollar. (12 marks)

Description	Mark
Transactions in the current account:	
Transactions involving the export of goods/services & income receipts will affect the demand for AUD – e.g. an increase in iron ore exports will increase demand of (AUD); an increase in dividends from foreign companies will increase demand of (AUD).	1-3
Transactions involving the import of goods/services & income payments will affect the supply of AUD – e.g. an increase in car imports will increase S(AUD); an increase in interest payments to foreign residents will increase supply of (AUD).	1-3
Sub-total	**6**
Transactions in the financial account:	
Transactions involving foreign investment into Australia such as an increase in foreign direct investment into the mining sector or an increase in borrowing from overseas residents will increase the demand of (AUD).	1-2
Transactions involving foreign investment from Australia to overseas such as an increase in portfolio investment into foreign share markets or Australian super funds purchasing overseas assets will increase the supply of (AUD).	1-2
Sub-total	**4**
Transactions in the capital account:	
Transactions involving foreign aid such as Australia providing aid to another country to construct schools will increase the supply of (AUD).	1-2
Sub-total	**2**
Total	**12**

(b) Use a demand/supply model to illustrate and explain the effect of rising world interest rates on the value of the Australian dollar. (8 marks)

Description	Mark
Model	
Correctly labelled model showing demand & supply of AUD, a shift of the D(AUD) to the left showing a depreciation in the AUD and a shift to the right of the S(AUD) also showing a depreciation in the AUD	4
Correctly labelled model showing demand & supply of AUD and a shift of the D(AUD) to the left showing a depreciation in the AUD.	3
Correctly labelled model showing demand & supply of AUD.	2
Partially correct labelled model showing demand and supply curves	1
Sub-total	**4**
Explanation	
Rising world interest rates relative to Australian interest rates will decrease Australia's interest rate differential - less capital inflow into the Australian economy	1-2
Australia's speculative investment will flow out of Australia to other economies	1-2
Sub-total	**4**
Total	**8**

Answers may include:

Rising world interest rates relative to Australian interest rates will decrease Australia's interest rate differential. Interest rates affect the flow of 'hot' (speculative) money between economies i.e. high interest rates attract portfolio investment. So if interest rates rise overseas, there will be less capital inflow into the Australian economy reducing the demand for AUD (shift the demand of AUD to the left) causing the AUD to depreciate.

At the same time, Australia's speculative investment will flow out of Australia to other economies chasing the higher rate of return. This will increase the supply of AUD (shift the supply of AUD to the right) causing the AUD to depreciate.