



Economics Teachers' Association of Western Australia

Year 12 Semester Unit 3 Exam 2023 – Marking Guide

SECTION 1 (24 marks)

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

Question 25 (12 marks)

(a) After China, identify Australia's 2nd and 3rd largest export partners.

Description	Mark
2 nd : Japan	1
3 rd : Korea	1
Total	2

(b) Outline **three** benefits of a trade agreement with India.

Outline any THREE benefits	Mark
Increased exports (Australian exporters benefit)	1
Increased imports (Australian consumers benefit)	1
Reduced cost of imported inputs (Australian producers benefit)	1
Increased economic efficiency (improved resource allocation)	1
Total	3
Accept other relevant benefits: <ul style="list-style-type: none"> Increased employment due to increase in economic activity Increase in real GDP raising living standards Increased government revenue due to increase in economic activity cheaper consumer and capital goods and increased variety increased foreign investment between the two countries 	

(c) i. Refer to the model to identify the effect on domestic consumption, domestic production and imports of removing the tariff.

Description	Mark
Domestic consumption increases from OP to OR	1
Domestic production decreases from ON to OM	1
Imports increase from NP to MR	1
Total	3

(c) ii. Illustrate and explain the effect of removing the tariff on economic efficiency – refer to the changes in both consumer and producer surplus.

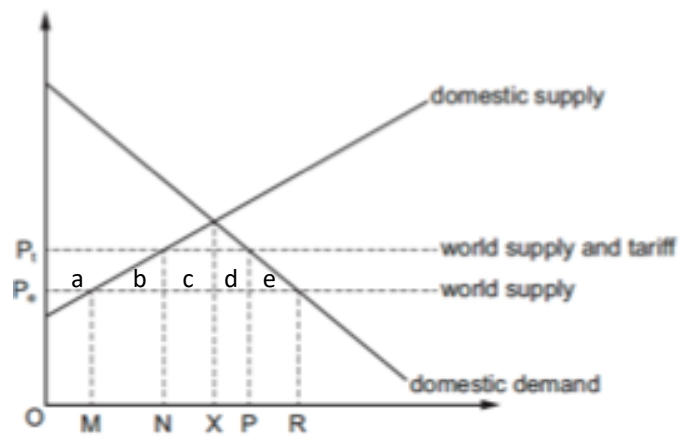
Explanation	Mark
Marks awarded for explanation the following points:	
Consumer surplus will increase – refer to diagram (a+b+c+d+e)	1
Producer surplus will decrease – refer to diagram (a)	1
The deadweight loss of the tariff is removed	1
There is a net increase in total surplus (area B and area E)	1
Total	4

Students should either label or shade the changes in CS & PS

CS increases by $a+b+c+d+e$

PS decreases by a

TS increases by $b+e$



Question 26 (12 marks)

(a) i Identify the quarter Australia record a trade deficit.

Identifies	Mark
Australia did not record a trade deficit	1
Total	1

(a) ii Calculate the value of Australia's net foreign liabilities in Dec 2022:

Calculation	Mark
\$856.7 billion	1
Total	1

(b) Identify the trend in the trade balance between Dec 2020 and Dec 2022 and explain **two** reasons for this trend.

Explanation	Mark
Identifies the trend using data	
The trade balance increased	1
Subtotal	1
Explanation of two reasons for the trend (2x2)	
Explains each reason	2
States a reason	1
Subtotal	4
Total	5
<p>Answers could include: Trade balance increased from \$20 billion to \$40 billion.</p> <p>Reasons for increase in trade balance could include:</p> <ul style="list-style-type: none"> • Rise in terms of trade caused by rise in commodity prices. Increases export earnings and thereby the trade balance. • High overseas growth – vaccine led recovery – increase in EGR in USA, China, Japan leading to increased demand for exports – trade balance increased • Depreciation of AUD – increased export competitiveness, increasing export incomes and trade balance • Decrease in domestic EGR (until late 2021) – saw the decline in import spending and thereby an increase in trade balance. <p>Or any other relevant point</p>	

- (c) Explain how a decrease in Australia's net foreign liabilities could impact the current account balance.

Description	Mark
Reason for the decrease in net foreign liabilities	
Explains a reason for the decrease in net foreign liabilities	2
States a reason	1
Sub-total	2
Explains the relationship	
Explains how a decrease in net foreign liabilities would increase the current through both income account and trade account	3
Describes how a decrease in net foreign liabilities would increase CAB through either income account or trade account	2
Outlines the impact on the current account	1
Total	5
<p>Reasons for a decrease in net foreign liabilities could include:</p> <ul style="list-style-type: none"> - Increase in positive S-I gap (decrease in I-S gap) due to Investment decreasing and rising saving - Increase in Foreign investment from Australia (Australian Investment abroad) due to interest rate differential favouring other countries, increase in foreign assets - Lower Foreign investment into Australia due to high inflation /lower profit expectation, decrease in foreign liabilities. <p>Impact on the Current account:</p> <ul style="list-style-type: none"> - Lower income payments as foreign liabilities decreases – increases current account balance - Higher income earnings through higher foreign assets – increases current account balance - Lower import payments as lower FI into Australia lowers the level of economic activity and hence the demand for imports – increases current account balance <p>Or any other relevant point.</p>	

Question 27 (12 marks)

(a) i) and ii) Determine the lowest value and the highest value of the AUD/USD exchange rate:

Identifies	Mark
i. Lowest value = \$US0.623 (+/- 0.001)	1
ii. Highest value = \$US0.715 (+/- 0.001)	1
Total	2

iii. Calculate the percentage change in the AUD/USD between these values

Identifies	Mark
15%	1
Total	1

iv. Identify a reason for the change in the AUD/USD between Oct 2022 and Feb 2023.

Identifies	Mark
Increased commodity prices	1
Total	1

(b) Identify the time period on the graph when the Australian TWI decreased but the AUD appreciated against the USD. Explain how this could happen.

Description	Mark
Time period	
Between last week of November 2022 and first week of December 2022 Can be approx. with dates (anywhere between 25/11/22 and 6/12/22)	1
Explanation	
Explains that the TWI could fall even though the AUD/USD is appreciating if other currencies such as the Chinese yuan, Japanese yen & Euro were to depreciate	2
Identifies that the TWI is a group of currencies of Aust's main trading partners	1
Sub-total	2
Total	3

(c) The AUD depreciated during February-March 2023 despite high commodity prices. Using demand and supply model, illustrate and explain what might have caused this movement in the value of the Australian dollar.

Description	Mark
Explanation	
During this period, Australia's i/r differential was falling (esp. against the US)	1
This would have decreased capital inflow into Australia decreasing the D(\$A) OR This would have increased capital outflow from Australia increasing the S(\$A)	1-2
Sub-total	3
Model	
Correctly labelled exchange rate mode showing D(\$A) & S(\$A)	1
Draw either a decrease in D(\$A) or an increase in S(\$A) to illustrate a depreciation	1
Sub-total	2
Total	5

SECTION 3 (40 marks)

Question 28 (20 marks)

- (a) Explain the concept of globalisation and discuss the role of the World Trade Organisation (WTO) in facilitating globalisation. (8 marks)

Description	Mark
Concept of globalisation – 4 marks	
Explains the concept	3-4
Describes the concept	2
Defines the concept	1
Sub-total	4
Role of the WTO in facilitating globalisation	
Discusses the role of the WTO	4
Explains the role of the WTO	3
Describes the role of the WTO	2
States a fact about the WTO	1
Sub-total	4
Total	8
<p>Answers may include:</p> <p>Globalisation – 4 marks</p> <ul style="list-style-type: none"> the growing interdependence of the world's economies brought about by cross-border trade in goods and services, flows of investment, people, and information. Improvements in transport, technology & communication have enabled globalisation to flourish Globalisation is the opposite to protectionism <p>Role of the WTO – 4 marks</p> <ul style="list-style-type: none"> Describes the WTO - an international body that determines international trade rules The overall objective of the WTO is to help its members use trade as a means to raise living standards It facilitates globalisation by enforcing rules for international trade; providing a forum for negotiating and monitoring trade liberalisation & by resolving trade disputes The WTO promotes freer world trade through multilateral trade agreements designed to reduce or remove trade restrictions 'Most favoured nation' principle 'National treatment' principle 	

(b) Discuss **three** negative and **three** positive effects of globalisation.

(12 marks)

Description	Mark
Negative effects (3 x 2 marks)	
Discusses a negative effect	2
States a negative effect	1
Subtotal	6
Positive effects (3 x 2 marks)	
Discusses a positive effect	2
States a positive effect	1
Subtotal	6
Total	12
<p>Answers could include:</p> <p>Positive effects</p> <ul style="list-style-type: none"> • Increased trade boosting both exports & imports • Increased economic growth resulting in higher real income & living standards • World poverty has been reduced • Promotes innovation and increased competition • Enabled greater labour mobility • Promoted global cooperation • Expansion of more efficient industries <p>Negative effects</p> <ul style="list-style-type: none"> • Contraction of inefficient industries • Decrease in diversification narrowing Australia's export base • Increased structural unemployment • Increased interdependence makes economies vulnerable to supply chain disruptions • Economic shocks such as financial crises &/or pandemics can be transferred between economies • Can increase environmental problems such as increased carbon emissions; loss of biodiversity 	

Question 29 (20 marks)

(a) Explain the concept of the terms of trade and how each of the following events would affect Australia's terms of trade:

- An increase in global oil prices
- A global recession
- A global drought

(12 marks)

Description	Mark
The terms of trade – 3 marks	
Explains the concept with reference to both export and import prices	3
Describes the concept using the formula	2
Defines the concept	1
Subtotal	3
An increase in global oil prices – 3 marks	
Explains the effect	1-2
States the effect on the terms of trade	1
Subtotal	3
A global recession – 3 marks	
Explains the effect	1-2
States the effect on the terms of trade	1
Subtotal	3
A global drought – 3 marks	
Explains the effect	1-2
States the effect on the terms of trade	1
Subtotal	3
Total	12
<p>Answers should include:</p> <p>The terms of trade</p> <ul style="list-style-type: none"> • Defines the terms of trade • Uses the formula with an example • Describes both the export and import price index <p>An increase in global oil prices</p> <ul style="list-style-type: none"> • Oil (petrol) is a major import for Australia • Aust's import price index will increase • The terms of trade will decrease <p>A global recession</p> <ul style="list-style-type: none"> • This will decrease global demand for commodities such as iron ore, coal & natural gas • Australia is a major exporter of commodities • Aust's export price index will decrease causing the terms of trade to decrease <p>A global drought</p> <ul style="list-style-type: none"> • This will increase the prices of agricultural commodities • Australia is a major exporter of agricultural commodities • Aust's export price index will increase causing the terms of trade to increase 	

- (b) Discuss two positive and two negative effects of a rise in Australia's terms of trade. (8 marks)

Discussion	Mark
For each positive effect – 2 x 2 marks	
Discusses a positive effect	2
States a positive effect	1
Subtotal	4
For each negative effect – 2 x 2 marks	
Discusses a negative effect	2
States a negative effect	1
Subtotal	4
Total	8
<p>Answers could include:</p> <p>Positive effects</p> <ul style="list-style-type: none"> • An increase in national income (real GDP) because net exports have increased • Increase in employment resulting from multiplier effects • Increase in living standards due to increased purchasing power • Increase in government tax revenue <p>Negative effects</p> <ul style="list-style-type: none"> • The AUD will appreciate – this may decrease exports of services (tourism; education) • Inflation may increase due to increased real GDP • May result in a two-speed economy 	

Question 30 (20 marks)

- (a) Explain why Australia has a net foreign liability position and distinguish between Australia's two main types of foreign liability. (8 marks)

Description	Mark
Net foreign liability position – 4 marks	
Explains why Australia has a net foreign liability position	3-4
Describes Australia's net foreign liability position	2
Defines the concept of net foreign liability	1
Subtotal	4
Foreign debt – 3 marks	
Describes foreign debt with use of a suitable example	2
Defines foreign debt	1
Subtotal	2
Foreign equity – 3 marks	
Describes foreign equity with use of a suitable example	2
Defines foreign equity	1
Subtotal	2
Total	8

Answers should include:

Why Australia has a net foreign liability position

- Net foreign liabilities = foreign liabilities – foreign assets
- Foreign liabilities is the stock (accumulation) of foreign investment into Australia
- Foreign assets is the stock (accumulation) of Australian investment overseas
- Aust has historically relied on the inflow of foreign investment because of our negative S – I gap ($I > S$)
- Aust's net foreign liabilities is around \$860bn (Dec 2022)

Foreign debt

- Foreign debt is the amount borrowed from non-residents by residents (both government & private) of Australia
- Aust's net foreign debt is equal to approx. \$1660 billion
- The private (business) sector accounts for most of Aust's net foreign debt (70%) while the government sector accounts for around 30%.
- Firms in Aust prefer to borrow rather than sell assets since it provides greater flexibility

Foreign equity

- Foreign equity is the extent to which foreign residents own Australian assets.
- This occurs when foreign residents invest (purchase) Aust real estate, purchase Aust shares (direct or portfolio investment), invest in infrastructure projects
- Australia's net foreign equity is approx. -\$300bn
- This means that Australian does not have a foreign equity liability – in fact it is now a foreign equity asset (Aust owns more overseas assets than the world owns of our assets)

(b) Discuss **three** effects of foreign direct investment into Australia on each of the following:

- Australia's macroeconomy
- The balance of payments

(12 marks)

Description	Mark
For each effect on the macroeconomy (x3)	
Discusses the effect	2
Outlines one effect	1
Sub-total	6
For each effect on the balance of payments (x3)	
Discusses the effects on either the financial and current account	2
Outlines the effect	1
Sub-total	6
Total	12
<p>Answers should include:</p> <p>Effects on the macroeconomy (discusses at least three)</p> <ul style="list-style-type: none"> • can supplement domestic investment and result in an increase in real GDP (higher economic growth) • can increase employment • has helped to fill Aust's investment-savings gap • has contributed to improvements in technology & management skills – increasing labour productivity- increasing GDP (supply side) • Foreign investment will usually appreciate the AUD – this can have a negative effect on the exporting sector, but a positive effect on the importing sector • will increase govt tax revenue, increasing the budget balance <p>Effects on the balance of payments</p> <ul style="list-style-type: none"> • foreign direct investment is recorded in the financial account of the balance of payments • an inflow of foreign direct investment will increase the financial account balance • the servicing costs are recorded in the income section of the current account • the income payments associated with an inflow of foreign direct investment are dividends (foreign equity) and interest (foreign debt) • will result in a decrease in the income balance which will decrease the current account balance • FDI into Australia – increases demand for AUD – Appreciating the AUD –causing exports to decrease and imports to rise leading to a decrease in BOGS and CAB. • FDI flows into mining and other export sectors will expand the export sector and a potential increase in export income (BOGS). • Can increase imports of both capital and consumer goods – decreasing BOGS and CAB 	