

Economics

ATAR Examination 2021

Good Answer Guide

The Good Answer Guide aims to ensure that students and teachers:

- are aware of the structure of an Economics examination
- are familiar with the Economic Skills in the ATAR syllabus
- are confident in their ability to use the economic skills in responding to assessment tasks
- are confident in unpacking questions to ensure they can respond as required.

This Good Answer Guide provides candidate responses for each written question from the Economics ATAR Course Examination of 2021 (i.e. all Section Two: Data interpretation/Short answer and Section Three: Extended answer questions).

Teachers and students can access the answers to Section One: Multiple-choice from the School Curriculum and Standards Authority (the Authority) website at: <https://senior-secondary.scsa.wa.edu.au/syllabus-and-support-materials/humanities-and-social-sciences/economics>

The 2021 examination paper, marking key and summary examination report for candidates are also available.

This Guide provides the responses from two or three top-performing candidates for each question in Sections Two and Three, other than Part (a) in Section Two where only one response is provided as the question typically requires a calculation or a very short response. The responses have been left in the candidates' original handwriting for authenticity, and to demonstrate the length of responses and the inclusion of diagrams or economic models without any adjustments.

Contents

Part A: Introduction

Section	Page
Introduction	3
Multiple choice questions	4
Data interpretation/ Short answer questions	5-8
Extended answer questions	9-17

Part B: Annotated Student Responses

Section Two

Data interpretation/Short answers

Questions	Pages
25 part a	18
25 part b	19-21
25 part c	22-24
26 part a	25
26 part b	26-27
26 part c	28-29
27 part a	30-31
27 part b	32-33
27 part c	33-34

Section Three

Extended answers

Questions	Pages
Extended answer questions	35
28 part a	36
28 part b	42
29 part a	49
29 part b	53
30 part a	57
30 part b	65
31 part a	70
31 part b	74

Part A: Introduction

All students enrolled in the Economics ATAR Year 12 course are required to sit the ATAR course examination. The examination is based on a representative sampling of the content for Unit 3 and Unit 4. The ATAR Economics examination is three hours long with an additional ten minutes for reading time.

Structure of the Economics ATAR examination

The ATAR economics examination has three sections. School assessments should mirror the same structure so that students are used to the format and can practice timing and other examination techniques.

The examination structure typically consists of:

Section	Number of questions	Working time	% examination
Section 1: Multiple choice	24	30 minutes	24%
Section 2: Data Interpretation/ Short answer	3	70 minutes	36%
Section 3: Extended answer	2	80 minutes	40%

Students should not underestimate the relevance or importance of any section.

Each assesses a student's level of Economic knowledge, understanding, analysis, and awareness of contemporary and recent economic conditions and skills.

What are the Economic Skills?

Reasoning, interpretation and analysis

The skills of reasoning, interpretation and analysis in economics requires the student to:

- identify and organise relevant information within sources
- identify trends and relationships in economic information and data
- use economic information and data to make predictions
- apply mathematical techniques relevant to the course context
- use microeconomics or macroeconomics models to analyse economic relationships
- apply economic reasoning to analyse issues and events
- use evidence found in economic information and data to justify a conclusion.

Communication

The skill of communication in economics requires the student to:

- select and use appropriate terminology
- select and use appropriate formats when communicating economic understandings
- use economic models to convey economic theory and reasoning.

A complete list of economics skills is in the syllabus available on the Economics course page on the Authority's website.

<https://senior-secondary.scsa.wa.edu.au/syllabus-and-support-materials/humanities-and-social-sciences/economics>



Multiple-choice questions

Multiple choice questions are pitched at varying degrees of difficulty.

There are 24 multiple choice questions in total, with 12 questions related to content from Unit 3 and 12 questions related to content from Unit 4.

Multiple choice questions should not be underestimated. They account for 24% of the examination and are more than just ‘recall’ questions. This section often includes data interpretation and analysis questions.

Therefore students should take their time to unpack these questions to ensure that they understand the question and select the appropriate response.

Some steps students should apply when attempting multiple choice questions are:

- Read the question, and underline key terms
- Identify the topic and what is being asked
- For data questions, highlight inputs and the calculation that is asked for
- Read the options, eliminating those that are least likely first
- Select your answer, then check it back to the question

Some, multiple choice questions like Q9 and Q10 in 2021, test relatively ‘low order’ tasks such as definitions and calculations. Others test more abstract parts of the course by asking students to apply economic concepts to determine an outcome or result of an event. For example, Question 10 in 2020 asked which of four events would ‘most likely’ result from the Australian Government operating a budget surplus.

Many students prefer to tackle Section 1 first, for two reasons. Questions sometimes refer to concepts which come up again in Sections 2 and 3. For example, Question 23 in the 2021 examination paper, provides three (3) causes of structural change that you would use to answer question 30a. Another example is Question 2, which asks for the economic effects of globalisation and is also referred to in Question 28b)

Sometimes a solution to a question which you aren’t sure of is prompted by something you write later in the exam. For example, a written response to question 31b) on the effectiveness of monetary policy may assist a student to answer Question 22 which highlights the strengths and weaknesses of monetary policy.

Some suggestions:

- read the stem of the question, and all distractors, carefully;
- eliminate choices that you know are wrong (not always possible);
- for data questions, highlight inputs and the calculation that is asked for; and
- select your answer, then check that it makes sense after the stem.

Data interpretation/Short answer question

Answer the questions in the space provided in the examination paper. Try not to exceed that space. Some short-answer questions will test a student's memory (factual questions), while others will test your ability to apply concepts (interpretive questions). The answer may require one word, a phrase, a sentence or a paragraph. Part (a) usually refers to a table, graph, economic model or excerpt from an article, and thus tests your 'economic skills'. For example, Question 25a (i) in the 2021 paper requires careful reading of a balance of payments graph, and part (ii) of the same question requires a small calculation.

Parts (b), (c), and (d) require short, direct answers, the extent of the response suggested by

- the amount of space allowed for the response, and
- the number of marks (weighting) of the question.

Understanding, interpreting and applying information in tables

Tables are commonly found in economics to organise and arrange data so that it can be more easily understood. They have been used as stimulus in extended response questions in the ATAR examination. It is a critical skill to be able to understand, interpret and apply the data that is presented in the table in your response.

This is an effective three step process to incorporate information from the table in your response.

- **Understanding the table**

Determine how the table is set up. The title of the table will inform you of what the table is representing and the column and row headings will tell you what variables are being used and the units of measurement.

- **Interpreting the table**

It is now necessary to look for trends in the data and draw conclusions from the patterns that you identify.

- **Applying your interpretations in your response**

The information you have gained now needs to be incorporated as supporting evidence for the appropriate main points in your extended response.



Student Activity 1 - Understanding, interpreting and applying information in tables

Using the following macroeconomic data, apply all three steps to understanding, interpreting and applying information in tables. You will need to first develop a plan for your response using the planning scaffold.

Table 1: Trends in Australia's Aggregate Expenditure 2020-2021

Aggregate Demand	\$ Billions Dec Qtr. 2021	% of Total	% Change YoY Dec 2020	% Change YoY Dec 2021
Household Consumption	282	54	-2.7	4.0
Government Demand	135	26	6.3	5.4
Business Investment	57	11	-5.1	8.8
Dwelling Construction	26	5	0.6	5.3
Inventories Change	0	0	-	-
Exports	115	22	-11.7	-2.6
(less) Imports	99	19	-9.6	1.0
GDP	521.9	100	-1.1	4.2

Source: Australian Bureau of Statistics 5206.

Questions

1. What information does the table present?

2. What trends or patterns can be identified in the data?

3. Identify the main contributors to economic growth that took place in the Australian economy over the time period.

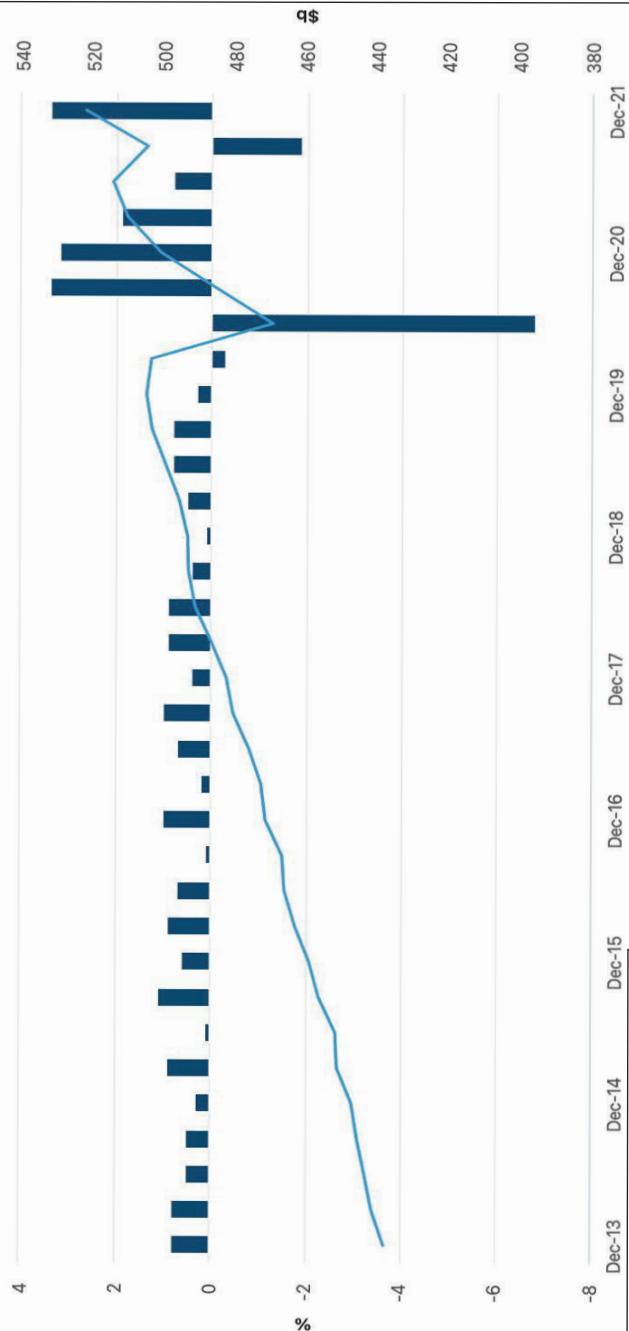
Student Activity 2 - Reading and interpreting graphs

READING AND INTERPRETING A GRAPH

Identifying the important elements of a graph

Title – The purpose is to summarise what the graph is about (e.g. Gross Domestic Product)

Gross domestic product, chain volume measures, seasonally adjusted



X axis – Check the time intervals
(e.g. December figures each year)

● Quarterly growth (LHS) — Levels (RHS)

Source: Australian Bureau of Statistics. Australian National Accounts: National Income, Expenditure and Product December 2021

Source – The source notes tell the reader where data were accessed. Source notes are useful if the viewer wants to find the data for themselves. The source for this chart is the Australian Bureau of Statistics (ABS).

Y axis (LHS) –

- Increment – amount the scale increases by – (e.g. 2%)

- Range of values (e.g. -8% to 4%)

- Units (how the indicator is being measured) e.g. % scale

shows the Y-axis shows different values on the left- and right-hand sides.

The Y-axis runs along the vertical edges of the chart. This chart

shows the Y-axis shows different values on the left- and right-hand sides.

Y axis (RHS) – check

- Units (how the indicator is being measured) e.g. \$bn
- Scale – range of values (e.g. \$380 billion to \$540 billion)
- Increment – amount the scale increases by – (e.g. \$20 billion)

Legend – Indicates how each set of data is represented in the graph
e.g. Line refers to GDP levels and the bars refer to quarterly growth

Refer to the graph presented and answer these questions:

1. Identify which axis refers to the value of GDP. _____
 2. Identify the value of GDP in September 2020. _____
 3. Identify which axis refers to the growth rate? _____
 4. Identify the growth rate for Australia in March 2021? _____
 5. Describe what the word 'trend' means in the context of reading and interpreting graphs.
-

6. Identify the trend in Australia's GDP from September 2017 to September 2019.
-

7. Identify the trend in growth rate from June 2020 to September 2020?
-

8. A quarter refers to _____

9. List the four quarters in the context of interpreting economic data and information.

- _____
- _____
- _____
- _____

10. Identify the change in Australia's growth rate between the June and September quarter 2020.
-

11. Identify which quarter the growth rate was the highest _____

12. Identify the rate of growth when it was at its highest _____

13. Identify which quarter the growth rate was the lowest _____

14. Identify the rate of growth when it was at its lowest _____

Extended answer questions

This resource has been designed to develop the skills required to write effective extended responses in Economics.

Students will learn:

- the language features of economic writing
- how to structure extended responses depending on the directive of the question
- to develop an extended response plan
- to understand, interpret and apply information from tables in their responses

The literacy skills that are developed with these resources will prepare students to confidently meet the ATAR extended response guidelines. In an answer students will be assessed on how well they:

- use knowledge and the economic information provided
- apply economic terms, concepts, relationships and theory
- present a sustained, logical and well-structured answer to the question

There are a number of features and conventions that students need to adhere to when writing extended responses in economics.

Extended answers allow students to demonstrate their knowledge and understanding because they are intended to explain or describe something.

For example, Question 28a in the 2021 paper asks candidates to describe four factors that have influenced the extent of globalisation in recent years.

Question 30a asks candidates to describe three causes of structural change, using the aggregate demand aggregate supply (AD/AS) model.

Often, part (b) of a question asks you to solve a problem – such as Question 31b from 2021, which devotes seventy five percent of the question's marks to the limited effectiveness of the intended impact of the contemporary monetary policy stance.



Steps when answering an extended answer response

For the 2022 ATAR examination, students will be required to choose one question from the Unit 3 content (either Question 28 or Question 29) and to choose one question from the Unit 4 content (either Question 30 or Question 31).

- Carefully read both questions before choosing the one you prefer.
- Once selected, reread the question, **circle or underline the behavioural term(s)** in the question (such as describe, explain or discuss). Underline any key words, and then annotate the question by devoting a few lines to jot down:
 - the key points you want to make in your answer. This could include:
 - key discussion points; and
 - statistics, examples, definitions, models.
 - Plan the extended answer response – separate the ‘thinking’ from the ‘doing’.
 - Begin writing. There is no one approach that can be used to structure your response. However, using a model consistently can help keep your response to the point and reduce repetition.
 - After each paragraph, check back to your plan and the question – are you on topic and answering the question?
 - Review and edit - good answers are those that are easy for markers to read, so try to practice one essay per week in Year 12 to develop your writing skills (such as clarity and sequencing). By the way, as you can see from the answers in the rest of this booklet, neat well-spaced writing is easy to read and helps you to demonstrate your knowledge and understanding to the marker
 - One framework that can help is a writing scaffold such as **DPEEL**.

Define	Define the key concept. Sometimes, a definition is appropriate, such as in Question 30b of the 2021 paper, where a definition of productivity would be an appropriate way to start an answer because the question lends itself to an explanation of the term.
Point	Statement response to question
Explain	Elaborate on your point, provide either cause and effect or factual points
Evidence	Provide an economic model, statistics or examples to demonstrate or support your point. Make sure you explain them and link them to the question and your point. Three of the four essays in 2021 ask directly for the application of an economic model, however, it is a good idea to use one (where appropriate), even if it has not been asked for, because economic models help you to demonstrate your understanding to markers. Refer to relevant examples and recent economic events where appropriate – perhaps you know that the most recent value of the Australian dollar is now \$0.74US (Question 29 in 2021), or that the current cash rate is 0.1% (Question 31). Do you know what the inflation and unemployment rates have been over the last couple of years? What’s happening to the rate of economic growth?
Link	Conclude, briefly, your response to the question

Understanding the key words and directional terms in the question

It's crucial to follow the instructions in the question - the word 'explain' has a specific meaning that is quite different to 'describe'.

- Topic keywords specify the topic that is being addressed;
- Aspect keywords specify the particular parts of the topic to be considered; and
- Directive keywords specify what you are being asked to do.

The information above provides a very generic outline of the main functions of the three structural components of a response.

To effectively answer a question, the structure of the response changes depending on the directive key word utilised in the question (see glossary of key words for a list of directive key words).

Available at: https://seniorsecondary.scsa.wa.edu.au/syllabus_and_support_materials/humanities_and_social_sciences/economics

The type of behavioural term used within a question indicates the structure to the response. Below are a list of verbs that are commonly used in the Economics ATAR examination.

Term	Definition
Define:	State meaning and identify essential qualities
List:	Provide a series of related words that are arranged in order, one after the other
Outline:	Sketch in general terms; indicate the main features of
State:	Express the main points of an idea or topic, perhaps in the manner of 'describe' (see above)
Identify:	Recognise and name
Describe:	Provide characteristics and features
Demonstrate:	Show by example (using an economic model)
Summarise:	Express, concisely, the relevant details
Explain:	Relate cause and effect; make the relationships between things evident;
Account for:	State reasons for, report on.
Analyse:	Identify components and the relationship between them; draw out and relate implications
Discuss:	Identify issues and provide points for and/or against
Distinguish:	Recognise or note/indicate as being distinct or different from; note differences between
Evaluate:	To ascertain the value or amount of; appraise carefully
Examine:	Inquire into



In Section 3 of the 2021 examination paper, students were asked to 'describe', 'explain', 'discuss', 'illustrate', 'analyse' economic concepts, issues and events. It is important that students have a good understanding of each directive key word and can apply a scaffold for structuring their response.

'Discuss' means you're required to note some points for and against a proposition, such as in Questions 28b and 20b of the 2021 paper.

In Question 30b, note that you have been asked to 'describe' three recent Australian Government policies designed to promote productivity by providing the characteristics and features of each policy.

In Question 30a, you have been asked to 'explain' how the RBA uses monetary policy to affect the level of economic activity by showing how each of the four channels of the transmission mechanism impacts of macroeconomic activity.

Developing an extended response plan

The easiest way to start a plan is to first brainstorm all the points relevant to the topic and to identify the keywords. Once you have done this, you can order your response. The information in your answer needs to be structured according to the directive key word and the perspective you are taking.

- Refer to the scaffold for the appropriate key word. Analyse the structure in relation to the extended response question and the relevant points you have listed.
- Form the argument that you are going to take.
- Organise the relevant points in a logical sequential order by identifying the main and supporting points in relation to the appropriate structure.
- Each main point forms a paragraph in the body of your response.

You should then ensure that you have sufficient evidence to support your arguments. Match relevant and analytical details to your structured points. This will provide support to your argument. This can include graphs, tables, statistics and economic models.

Example: Developing an extended response plan

Links to the syllabus:

Unit 4 The business cycle

characteristics of the phases, and causes, of the business cycle

Sample Question:

Describe the main characteristics of each phase of the business cycle.

<u>Keywords:</u>	<u>Notes</u>
• BOOM (Time period: 2005 - 2008)	<ul style="list-style-type: none"> - Defn: A period when general level of economic activity is above average - Characteristics: <ul style="list-style-type: none"> i) Consumption Expenditure ↑ (durable goods +) ii) Consumer Sentiment ↑ iii) Profit share of GDP ↑ iv) Little excess capacity ↓ v) Cyclical Unemployment ↓ vi) Participation Rate ↑ vii) Inflationary Pressure viii) Imports ↑
• RECESSION (Time period: 1991)	<ul style="list-style-type: none"> - Defn: A significant decline in activity across the economy, lasting more than two periods. - Characteristics: <ul style="list-style-type: none"> i) Consumption ↓ ii) Investment ↓ iii) Un (cyclical) ↓ iv) Output ↓ v) Tax Revenue ↓ vi) GDP ↓ - Economic growth ↓ vii) Income ↓ viii) Ir ↑ ix) M ↓, BOGS ↑, CAD ↓ x) Profits ↓ - savings ↓
• THROUGH (Time Period: 2008 - 2009)	<ul style="list-style-type: none"> - Defn: The end of an economy's period of declining business activity and transition to expansion. - Characteristics: <ul style="list-style-type: none"> i) Unemployment ↑ ii) Ir & ↑ iii) Inflation ↑ iv) Max. idle capacity achieved. v) Lowest level of D } factor ↑ vi) Lowest level of D } product ↑ vii) Company Profits ↑ viii) Growth ↓ ix) Productivity ↑
• UPSWING (Time Period: 2009 - 2010)	<ul style="list-style-type: none"> - Defn: The period of increasing business activity signalling the end of a recession. - Characteristics: <ul style="list-style-type: none"> i) Consumption ↑ ii) GDP ↑ iii) Production ↑ iv) Multipliers ↑ v) Demand for factors of production ↑ vi) Output ↑ vii) Income ↑ viii) Unemployment ↓ ix) Idle capacity ↓



Extended answer response structure

The basic structure of an extended answer response has three main components, an introduction, body and a conclusion. Read the extended response options carefully during reading time. Think about them in the background while completing the rest of the paper.

Spend time planning your extended response and write a thoughtful, enticing and accurate introduction.

The function of the **introduction** is to serve as a 'map' of the extended response, outlining to your reader the main argument and points which you develop in your essay. First impressions count and your introduction serves that purpose. The student needs to introduce to the marker what they are going to say in their extended response. The student needs to demonstrate that they can answer the question, that they have good knowledge of contemporary and recent economic events and that they can use economic terms and concepts.

The function of the **body** of an extended answer is to fully develop the argument outlined in the introduction.

Each paragraph within the body of the response elaborates on one major point in the development of the overall argument (although some points may consist of a number of sub-points, each of which will need a paragraph).

The main point in each paragraph needs to be clearly stated in the form of a topic sentence, which is then supported with evidence. In an economics extended response, evidence relates to what is currently occurring in the Australian and global economy or what trends have been evident over a number of years.

The main point in each paragraph will outline some economic theory supported by reference to current policy, relevant and accurate statistics and an understanding of what is currently happening in the economy. At times, it may also be prudent to use diagrams or economic models in the body of the extended response. It is important that the economic model used is accurate, fully labelled and relevant to the question.

The **conclusion** summarises the main points presented in the body of the response and explicitly links these back to the introduction and the extended response question.

Paragraph structure

Paragraphs are structured like micro extended responses, with three similar components:

- Topic sentence: outlines the main idea that will be presented in the paragraph.
- Supporting sentences: elaborate and provide evidence and examples to support the main idea (including economic models, information and data)
- Concluding sentence: summarises the main idea of the paragraph, relates it to the main argument and leads the reader to the topic of the next paragraph.

The three paragraph components outlined above is shown in the following annotated example:

Annotations

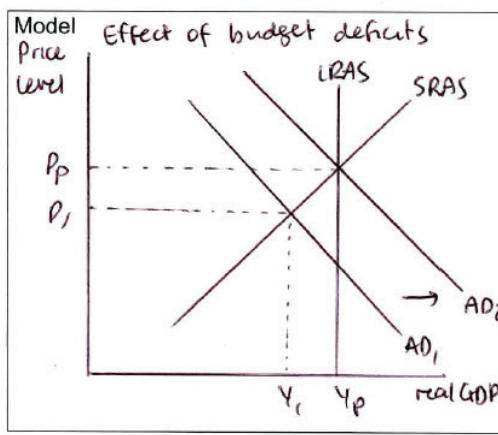
The Australian Government uses fiscal policy to control aggregate demand (AD) within the economy to smooth the fluctuations of the business cycle. In 2020, the COVID pandemic caused Australia to enter its first recession in decades. In response the Government implemented many discretionary measures such as tax offsets and subsidies such as JobKeeper to businesses.

~~As a result of the recession, the Australian Government has five objectives, which it aims to achieve through fiscal policy. Thus, one intended effect of the budget deficit was to pull economic growth~~

– Outlines why the government uses fiscal policy (budget deficit)

– provides an example of an intended effect of a budget deficit

– uses a model to support the response



back up to the target rate of approximately 3-3.5% per annum after the 2020 recession. The gap (contractionary gap) created by the pandemic, Y_1, Y_p represents the lost output of the economy as equilibrium demand and supply is below optimal which led to deflationary pressure (P_1 below P_p)



Unpacking the examination question

The type of behavioural term (verbs) used within a question indicates the structure to the response. Below are a series of scaffolds for verbs that are commonly used in the Economics ATAR examination.

Scaffold for explain

The word ‘explain’ is commonly used in many economics extended answer questions. When a student is asked to explain, they are being asked to “– relate cause and effect; make the relationships between things evident” (School Curriculum and Standards Authority, 2021). To be able to explain, student should be able to provide the following structure in their response.

1. Topic to be explained
 - Statement of topic
 - Preview of causes and effects

2. Causes and effect
 - Cause - Topic sentence at the beginning of each point on causes followed by explanation and examples to illustrate the link to the cause.
 - Effect - Topic sentence at the beginning of each point on effects followed by explanation and examples to illustrate the link to the cause.
 - Cause/Effect - Topic sentence that shows the direct link between the cause and effect.
 - Examples essential to further show the link.

3. Relationship
 - Use linking words between each point (such as: therefore, thus, as a result, leading to), to illustrate the relationship.
 - Causes and effects
 - Relationship - Why and / or how causes relate to effects. The why and/or how can be illustrated within the previous paragraphs or separately at the end.

Scaffold for analyse

The word ‘analyse’ is commonly used in many economics extended answer questions.

When a student is asked to analyse, they are being asked to “identify components and the relationships between them; draw out and relate implications” (School Curriculum and Standards Authority, 2021).

These are the different elements you need to determine:

1. Process: How does something work or function?
2. Impact: How does it affect other components?
3. Purpose: What is its significance?

Therefore, you need to identify the different components, relate them with one another and determine their impact/effect and significance. To be able to analyse, student should be able to provide the following scaffolds to structure their response.

- | | | |
|--|----|--|
| <ul style="list-style-type: none"> • Component • Component • Component • Relationship between the components | OR | <ul style="list-style-type: none"> Outline of an implication Outline of an implication Outline of an implication Relationship between the implications |
|--|----|--|

Scaffold for assess

The directive word 'assess' is also commonly used in many economics extended answer questions. When a student is asked to assess, they are being asked to "make a judgment of value, quality, outcomes, results or size" (School Curriculum and Standards Authority, 2021).

To be able to assess, student should be able to provide the following scaffolds to structure their response.

- Describe all the pros (advantages)
- Describe all the cons (disadvantages)
- Make a judgment - this judgment could be regarding the outcome, result (desired outcome), value (usefulness) or quality (effectiveness) of an economic action, policy or event.

Scaffold for discuss

The directive word 'discuss' is also commonly used in many economics extended answer questions. When a student is asked to assess, they are being asked to "identify issues and provide points for and/or against" (School Curriculum and Standards Authority, 2021).

- Discuss requires you to go into detail about the different reasons that support or undermine an argument.
- You need to use your logic and reasoning skills to determine which perspective is more convincing and use evidence to support both sides of the argument.
- Attempt to have an equal amount of reasons for each side of the argument. Also, ensure that you provide enough detail and insight for every reason.
- Remember, this is all about demonstrating your knowledge about the different perspectives on the topic.
- Find examples for every reason for and against the argument.

Scaffold for evaluate

Evaluate is an effectiveness term. So this means that you need to:

- include the characteristics and features or the purpose and function
- use examples - provide details about the concept including its characteristics, features, impacts and effects.
- make a judgment by commenting on the value, effectiveness, quality or worth related to the issue/event or topic.

You also need to go into quite a bit of detail and illustrate your skills and knowledge. So, attempt to draw connections between different ideas as well and determine why something may have more or less value.

Activity:

1. In pairs, have students compare and contrast the 'assess' and 'analyse' scaffolds. How are they different?
2. Describe the differences in the terms 'explain' and 'discuss' when responding to an economic issue or event.
3. Identify the difference/s in the terms 'assess' and 'evaluate' when responding to an economic issue or event.

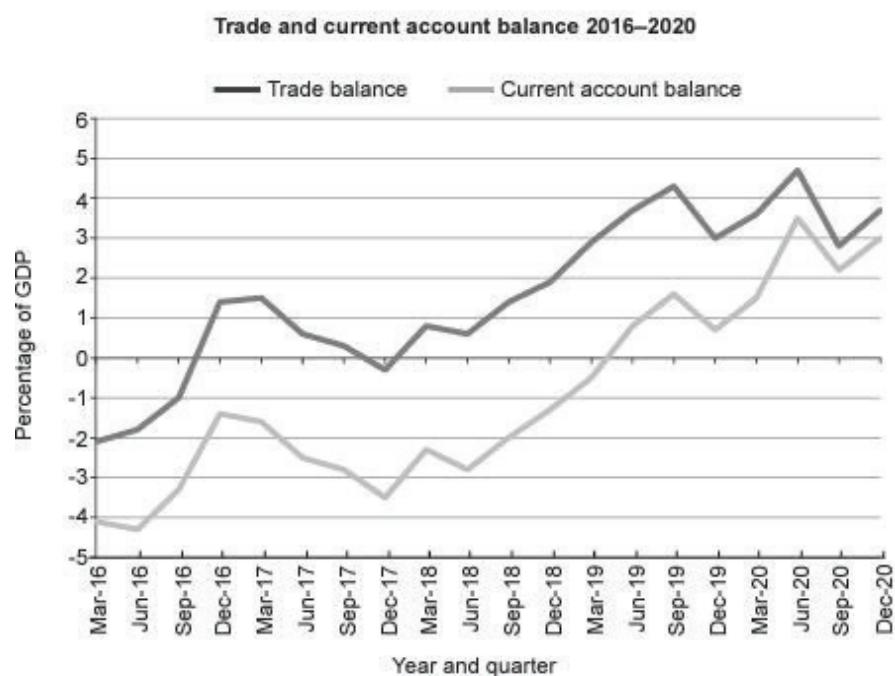


Part B: Annotated Student Responses

Section Two: Data interpretation/short answer

**Question
25
part a**

This question refers to the graph below which shows Australia's balance of payments data.



- (a) (i) What was Australia's highest recorded trade balance over the period 2016 to 2020? (1 mark)

Answer: **Approximately 4.6%–4.8% of GDP**

- (ii) In which year and quarter did Australia record its first current account surplus? (1 mark)

Answer: **June Quarter 2019**

25 b

Identify the trend in the current account balance from 2018 to 2020 and describe two economic reasons for this. (5 marks)

Trend: The Current Account Balance is increasing.

One: The recent closing of the savings-investment gap means Australia requires less foreign investment to fund its investment needs. This reduces the debit transactions on the primary income account in relation to servicing this ~~debt~~ investment.

Two: Strong commodity prices during this time also increased the value of credit transactions on the trade balance, as export revenue increased. This helped push the account into a surplus.

Uses a correct verb to identify the upward trend in the current account balance.

Accurately and clearly describes the link between changes in the savings-investment gap and the current account balance.

Correctly describes the link between commodity prices, changes in export value and the current account balance.



25 b

Identify the trend in the current account balance from 2018 to 2020 and describe two economic reasons for this. (5 marks)

Trend: There has been an increase in the current account balance (surplus)

* Increase
in
credit
entries

One: One reason for the increase in the balance has been strong terms of trade. Rapid industrialisation in China has increased demand for Australia's commodity exports, boosting commodity prices. This has increased the export price index and hence the terms of trade. Higher prices for commodity exports is translated into higher value in the goods balance of the current account.

Two: Another reason has been Australia's decreased reliance on foreign investment. In recent years Australia has experienced a decrease in our investment-savings gap, this has decreased demand for foreign investment. Foreign investment is associated with large servicing costs (interest, dividends) overseas. Hence decrease in foreign investment has decreased debit entries in the primary income account, increasing the CA balance.

Uses a correct verb to identify the upward trend in the current account balance

Accurately and clearly describes the link between the terms of trade and the current account balance.

Provides depth to the response by citing a reason for the rising terms of trade.

Correctly describes the relationship between the savings-investment gap, foreign investment flows and the current account balance.

25 b

Identify the trend in the current account balance from 2018 to 2020 and describe two economic reasons for this. (5 marks)

Trend: Current account balance has been increasing

One: The record trade balances from rising commodity prices. As the majority of Australia's exports are inelastic primary commodities, the increase in demand, particularly from China for these exports has led to a large rise in price. Therefore the value of our exports has increased, thus increasing the trade balance.

Two: Income payments to overseas have decreased, and the income balance has increased, due to Australia's ~~becoming~~ ^{continuing shift} ~~or related~~ low interest rates. ^{decreasing the attraction of Aus' financial capital.} Therefore there has been a net outflow of financial capital out of Australia, which has thus decreased the necessary interest or dividend or remittance of profit payments, thus decreasing the deficit in the income balance and increasing the ~~balance~~ in the current account.

Uses a correct verb to identify the upward trend in the current account balance.

Correctly describes the interrelationship between commodity prices and the current account balance. Adds depth to the response by describing the inelastic nature of primary commodities and the reason for commodity prices rising.

Correctly describes the complex link between the savings-investment gap, foreign investment flows and the income balance. Provides additional reason for the changes in the income balance.



25 c

Explain why a fluctuating current account balance is not considered to be of concern to policy makers. (5 marks)

Neither a current account surplus nor a current account deficit are problematic, both bring benefits. The deficit implies Australia is experiencing strong economic growth, so it is able to afford^{more} imports and thus result in higher debit transactions. It also implies Australia is receiving larger foreign investment payments, to close the S-T gap. A surplus however implies Australia's exports are strong, leading to higher revenue and thus economic growth. It also shows that Australia is less reliant on imports. Thus, neither are a concern.

Uses appropriate terminology.

Relates the cause and effect of at least two cyclical/and or structural factors or movements in the current account balance.

Provides a balanced analysis of factors causing a current account deficit and a current account surplus.

25 c

Explain why a fluctuating current account balance is not considered to be of concern to policy makers. (5 marks)

The current account records transactions between Australian residents and non-residents in regards to trade in goods and services and income flows. A current account deficit is not considered 'bad' as long as it is used to fuel future economic activity. Fluctuations in the current account relate to changes in Australia's demand for foreign investment and foreign investment is not a concern because it helps the Australian economy expand and increase its productive capacity. Fluctuations are also not a cause for concern because it represents cyclical changes in demand for imports and exports depending upon world economic growth and domestic economic growth, which is to be expected.

(25c) In a similar way, changes in the current account do not give a clear indication of real GDP (economic growth) and the productive capacity of the economy. In this way, a current account deficit and surplus can both lead to increases in the standard of living. Another reason is that exports and imports both bring gains to the economy. Therefore a current account deficit caused by increased imports is not necessarily bad and is not a cause for concern. In this way, neither a surplus or deficit should be considered favourable.

Uses appropriate terminology.

Relates the cause and effect of at least two cyclical/and or structural factors or movements in the current account balance.

Provides a balanced analysis of factors causing a current account deficit and a current account surplus.



25 c

Explain why a fluctuating current account balance is not considered to be of concern to policy makers. (5 marks)

policy makers. A current account surplus or deficit should not be ~~concerned~~ marks) contained or either positive or negative.

↖ The current account balance represents the savings - investment gap, which then determines how much foreign investment is needed to close this gap or not, as in recent years. Policy makers are not concerned with a fluctuating balance as, a deficit only indicates that Australia must draw on foreign savings in order to supplement her domestic savings; this allows the economy to achieve a higher rate of economic growth a real income than would otherwise be possible. Likewise, a current account surplus simply means Australia's savings exceed her domestic investment, and that we will export our savings by lending to other nations, which will deliver us with interest payments, or lower public debt, respectively. Moreover, the fluctuations are largely due to the cyclical nature of the trade balance, due to short-term factors such as business cycles; this does not concern policy makers, as both exports and imports deliver positive returns.

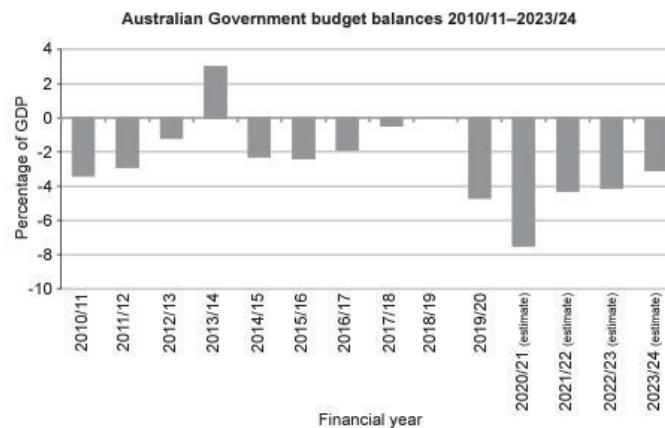
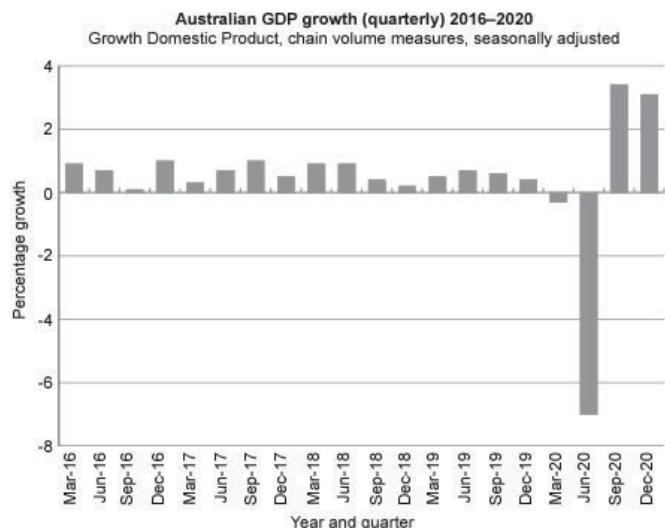
Identifies at least two cyclical and structural factors that cause movement in the current account balance.

Explains the current account position is not of concern to policy makers.

Provides a balanced analysis of factors causing a current account deficit and a current account surplus and the effects on the macroeconomy.

Question 26 part a

This question refers to the two graphs below, which show Australia's GDP growth (quarterly) and the Australian Government's budget balance (annual).



- (a) (i) Identify the value of the trade weighted index (TWI) at the start of 2019. (1 mark)

Answer: A range of 60 - 62 would be acceptable

- (ii) If an Australian tourist had exchanged 100 Australian dollars for United States (US) dollars in 2001, how much would they have received? (1 mark)

Answer: Range USD 48 - 52

- (iii) In terms of the exchange rate, what would have been the best year for an Australian tourist to visit the United States? (1 mark)

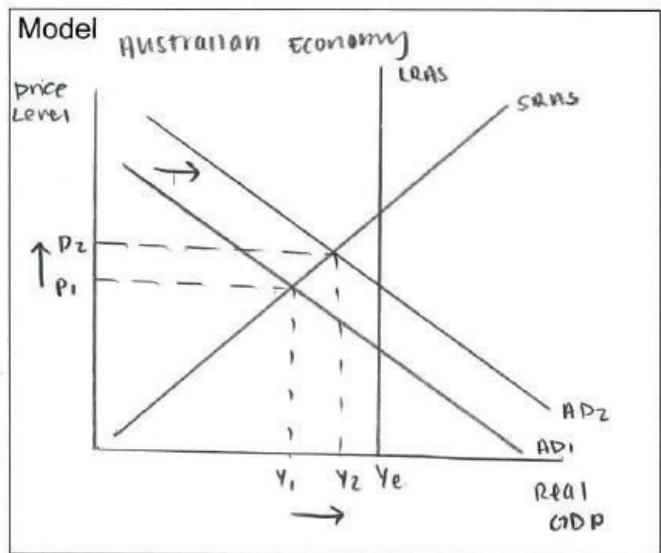
Answer: 2011 or 2012



26 b

Using the aggregate demand/aggregate supply (AD/AS) model, demonstrate and outline two intended effects of the estimated Australian Government budget deficits from 2020/21 onward. (4 marks)

The purpose of the budget deficits is to have an expansionary effect on the economy as Australia recovers from the economic downturn caused by the covid-19 pandemic and bushfires of 2020. ^{-eg growth in Jun 2020} These policies work by increasing levels of consumption, investment, government spending and net exports to move ^{the} AD curve (real now) rightwards, pushing output [↑] closer to potential GDP. The deficits cause an increase in output from $Y_1 \rightarrow Y_2$ where Y_2 is closer to potential GDP Y_e .



Uses a correctly labelled model showing the economy in a contractionary gap and Aggregate Demand shifting to the right.

The deficits are also intended to increase employment. Higher output and aggregate demand tend itself to a higher demand for labor - as output approaches potential GDP (output at full employment) employment rises too.

Communicates reasons for the Aggregate Demand shifting and succinctly indicates the effects on output and employment making accurate reference to the model.

26 b

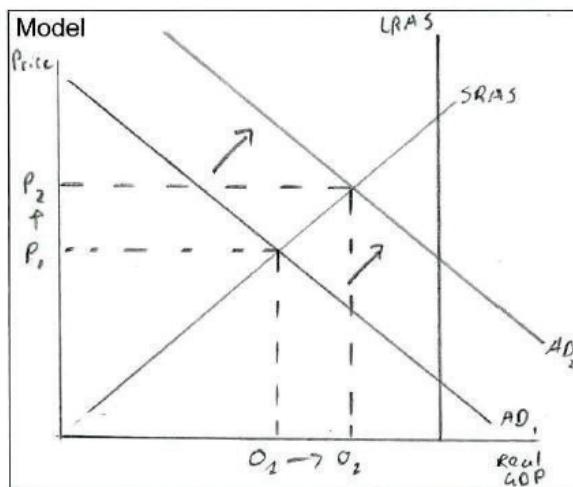
Using the aggregate demand/aggregate supply (AD/AS) model, demonstrate and outline two intended effects of the estimated Australian Government budget deficits from 2020/21 onward. (4 marks)

Provides a coherent and logical explanation of how budget deficits operate to stimulate the economy, with use of relevant examples

Uses a correctly labelled model showing the economy in a contractionary gap and the Aggregate Demand curve shifting right.

Provides a logical and well-reasoned outline of the macroeconomic effects of increased economic growth and increased employment making accurate reference to the economic model.

These heavily expansionary government deficits have been used to firstly, stimulate and increase economic growth / GDP growth, and to secondly increase employment levels / decrease cyclical unemployment. This expansionary fiscal policy has been used to pump money into the economy in attempt to stimulate ~~AD~~ Aggregate demand. As we can see from the graph/model below, the Aus economy is currently in a recession (contractionary gap) therefore through the use of budget deficits (expansionary fiscal policy) there will be decreases in tax rates, furthermore increasing levels of disposable income for Households and Firms, there will also be increases in G_1 and G_2 expenditure on projects such as new infrastructure or roads. This deficit therefore increases consumer and producer confidence and disposable income, therefore shifting AD to the right from AD_1 to AD_2 . This causes an increase in GDP, us Output shifts from O_1 to O_2 , O_2 therefore increasing Economic growth, and also increases employment; due to increased AD, producers must increase production to keep up with increasing levels of AD, this therefore increases demand for labour, furthermore increasing employment levels.



Economics Teachers' Association of Western Australia

26 c

Describe three reasons why these estimated Australian Government budget deficits may have a limited effect on economic activity. (6 marks)

One: Low consumer confidence hinders effects of the deficit on consumption – consumption is more dependent on confidence^{in the future of the economy} opposed to lower taxes and lower interest rates.

Two: Lockdowns hinder productive capacity of firms. Employees, despite spending on jobkeeper and jobseeker initiatives cannot produce the same output^{with available resources} at home opposed to available resources in the workplace.

Three: Limitations to tourism and immigration^{due to the pandemic} mean Australia's largest service exports of education and tourism are depleted – hindering use in the net exports in the economy. So lower injections and lower levels of activity.

Uses correct terminology.

Applies knowledge from the current context to describe why the budget may have limited effect on economic activity and provides an accurate discussion of relevant macroeconomic indicators.

26 c

Describe three reasons why these estimated Australian Government budget deficits may have a limited effect on economic activity. (6 marks)

One: Due to COVID-19, Household and Business confidence levels are extremely low due to unforeseen possible events such as a world lockdown. Therefore even with a decrease in taxation or increase in Government expenditure consumer and producer confidence levels may be too low to increase Aggregate expenditure, therefore, limited effect on economic activity would occur.

Two: ~~Households with high levels of household debt may~~ These consistent government deficits must be funded through primarily selling bonds to overseas investors, this however, increases demand for the AUD, therefore causing an appreciation which has a contractionary effect, creating a policy paradox and therefore causing limited effect on economic activity.

Another way of financing these consistent and substantial budget deficits, is by selling bonds domestically. However, this creates competition between the private and the public sector, ~~so~~ therefore causing the public sector to increase interest rates to attract more liquid funds. This however has a contractionary effect, as there is more ~~incentive~~ incentive to save, therefore this also creates a policy paradox, meaning that limited increase in economic activity will occur.

Describes the complex relationship between the current reasons (e.g. AUD, bonds) and the limiting effect on economic activity and provides an accurate discussion of relevant economic indicators.

Correctly describes how 'crowding out' occurs and its effect on the economy.



Economics Teachers' Association of
Western Australia

Question
27
part a

This question refers to the edited extract below, which is from an article by Matthew Doran and published on 15 November, 2020.

Australia signs Regional Comprehensive Economic Partnership, the world's largest trade deal.

The largest trade deal in history has been signed, with 15 countries including Australia agreeing to the trade deal covering 30 per cent of the global economy. Leaders agreed to the terms on the Regional Comprehensive Economic Partnership (RCEP) at the Association of South-East Asian Nations (ASEAN) summit in Bangkok last year. The countries involved are Australia, China, Japan, South Korea, New Zealand and the 10 members of ASEAN, including Indonesia and Vietnam.

Senator Birmingham said, "The real benefits are two-fold – one is our farmers and exporters, will get a more common set of rules across all nations. The other is our services export industry will get new access across financial, banking, aged care, health care, education and other service industries, such as the provision of architectural, engineering or planning services."

The focus of RCEP is on standardising trade rules across countries, making it easier for people to do business. India has been negotiating during the eight years of talks, before pulling out last year. "That diminishes some of the value for Australia, as India would've been the one RCEP partner with whom we did not previously have any type of free trade agreement," Senator Birmingham said. "However, the value of RCEP is still there." The deal also does not include the United States, despite the country having US\$2 trillion (A\$2.7 trillion) in trade with the countries which are involved.

- (a) (i) List one benefit for Australian exporters from belonging to the RCEP. (1 mark)

**Answer: Common set of rules; further access into other sectors,
e.g. financial, healthcare and others listed.**

- (ii) According to the article, which two countries are currently not members of RCEP?
(1 mark)

Answer: India and United States

27 b

Describe two arguments for trade liberalisation.

(4 marks)

One: Trade liberalisation allows economies to operate outside of their PPF, and consume a greater variety of goods and services at a decreased price, so the standard of living will increase, as total welfare will rise.

Two: Expose to competition though ~~free~~ trade liberalisation will increase productivity, or areas where we have a comparative advantage, we export, and import in areas where we have a comparative disadvantage; thus we will become more productive ^{see next page} as resources will be better allocated.

Provides a theoretically correct description of how trade liberalisation raises the standard of living and improves productivity.

Communicates with sufficient depth of explanation and accurate links to economic indicators.



Economics Teachers' Association of
Western Australia

27 b

Describe two arguments for trade liberalisation.

(4 marks)

One: Trade liberalisation allows access to a wider variety of imports of goods and services as there are reduced trade barriers between countries.

Consumers can purchase imports at a lower price and better quality than what can be produced domestically.

Two: Trade liberalisation increases economic growth and living standards. Free trade increases the demand for exports so exporters have increased income which they can spend in the economy, hence increasing economic growth and living standards.

See next page

Provides a theoretically correct description of how trade liberalisation benefits consumers and increases economic growth and living standards.

Communicates with sufficient depth of explanation and accurate links to economic indicators.

27 c

Using a demand and supply model, illustrate and explain the effects on consumers and producers of a country imposing a tariff on an imported good. (6 marks)

Correctly communicates the effects of a tariff on price and quantity and links these effects to changes in consumer and producer surplus.

Uses a correctly labelled economic model showing the effects of imposing a tariff including the deadweight loss.

Accurately references labelled areas of the economic model to explain the effects on consumers and producers.

Consumers: Prior to the imposition of the tariff, consumer surplus was areas 1, 2, 3, 4, 5, 6; consumers were enjoying a decreased price and increased variety of goods and services. However, the imposition of the tariff decreased the ~~value~~ of imports from Q_2 , 4, 5, 6 to Q_1 , and consumer surplus has decreased from $Q_2 \rightarrow Q_1$, thus consumers lose $\frac{\text{consumer surplus}}{Q_2 \rightarrow Q_1}$.

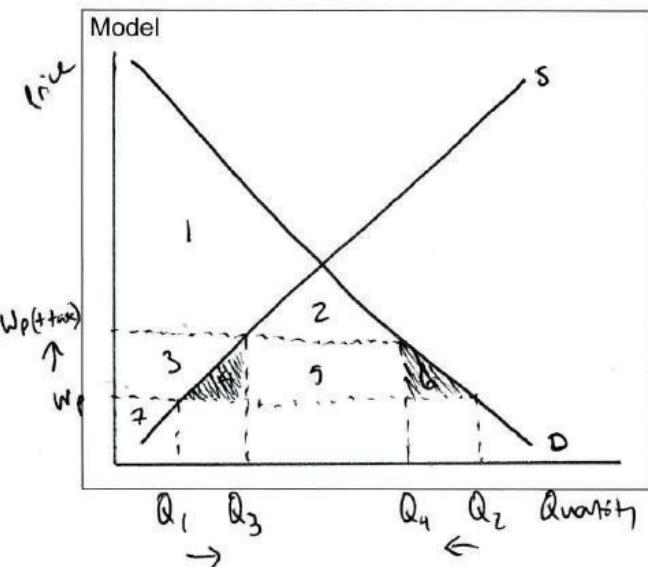
Producers: Prior to the tariff, producer surplus was only area 7, while after, producers gain only area 3.

The imposition of the tariff provides deadweight producer surplus of the good with a

price advantage over the foreign good because more foreign goods, and thus production exports from $Q_1 \rightarrow Q_3$. However, the gain to producer and the government, areas 3 and 5 respectively, is less than the loss to consumer surplus. Thus a dead weight loss is formed, represented by areas 4 and 6.

End of Section Two

Hence, total welfare decreases in society. (Consumers lose more than producers and the government gains).

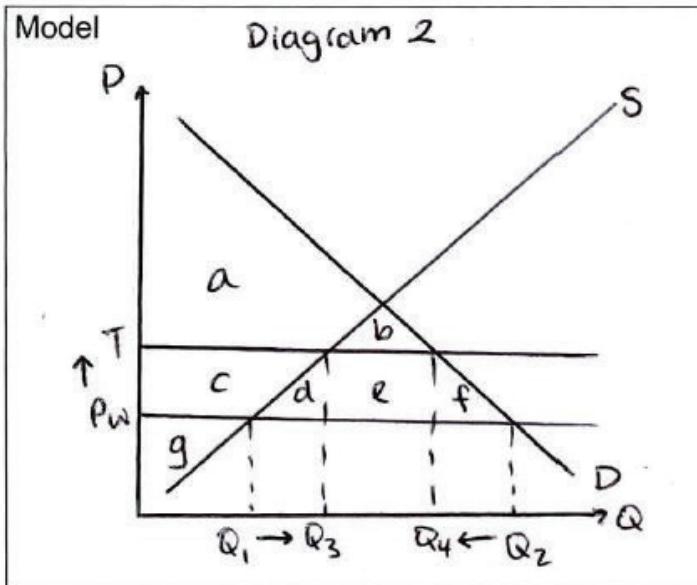


27 c

Using a demand and supply model, illustrate and explain the effects on consumers and producers of a country imposing a tariff on an imported good. (6 marks)

Consumers: when a tariff is imposed, the price of the good increases from P_w to T . This decreases consumer surplus from ^{area} 'abc def' to ^{area} 'ab'. Domestic consumption of the good decreases from Q_2 to Q_4 . Consumers now pay a higher price for the good, so the tariff disadvantages consumers.

Producers: when a tariff is imposed, which increases the price from P_w to T , domestic producers' revenue increases from $P_w \times Q_1$ to $T \times Q_3$. Domestic production increases from Q_1 to Q_3 .



Producer surplus increases from area g to area cg . The tariff benefits domestic producers as they receive higher revenue for the good.

Uses a correctly labelled tariff model. Accurately references the labelled areas of the economic model to explain the effects on consumers and producers.

Communicates the effects of a tariff on price and quantity and links these effects to changes in consumer and producer surplus.

Section Three: Extended Answer Questions

Question 28

- a) Explain the term 'globalisation' and describe four factors that have influenced the extent of globalisation in recent years. (10 marks)
- b) Discuss the economic effects of globalisation on the Australian economy. (10 marks)

Question 29

The value of the Australian dollar has risen from \$0.57US in March 2020 to \$0.77US in April 2021.

- a) Using the demand and supply model, illustrate and explain two factors that caused this movement in the Australian dollar. (10 marks)
- b) Analyse the effects of this movement in the exchange rate on the Australian business sector. (10 marks)

Question 30

- a) Describe three causes of structural change and, using the AD/AS model, explain the relationship between structural change and economic growth. (12 marks)
- b) Explain the term 'productivity' and describe three recent Australian Government policies designed to promote productivity. (8 marks)

Question 31

- a) With reference to the transmission mechanism, explain how the Reserve Bank of Australia uses monetary policy to affect the level of economic activity. (8 marks)
- b) Using the aggregate expenditure model, identify three intended effects of the contemporary monetary policy stance on the Australian economy and discuss the factors likely to limit its effectiveness. (12 marks)



28 a

Explain the term globalisation and describe four factors that have influenced the extent of globalisation in recent years. (10 marks)

Globalisation is defined as the free movement of goods, services, investment, ideas and people across nations. It implies the opening up of international borders to the flow of trade, investment, migration, and tourism. Globalisation has risen exponentially in the last century, and continues to further integrate economies. Factors that have significantly contributed to recent growth in globalisation include greater trade liberalisation facilitated by free trade agreements (FTAs), the growth of multi-national corporations, and the growth of transport technologies. However, the rate of globalisation has ^{comparatively} slowed in recent years, largely due to the rise in populist politics and nationalism.

Defines the term 'globalisation' correctly and provides a clear outline of the factors that have influenced globalisation in recent (the last ten) years.

The first factor that has influenced the rate of globalisation positively is the negotiation of greater bilateral and multilateral free trade agreements. Free trade agreements liberalise trade between nations and thus facilitate globalisation. For example, the China-Australia FTA signed in 2015 increased trade between Australia and our largest trading partner. The work of regional trading blocs in recent years has also significantly contributed to liberalising trade. For example, ASEAN, composed Asian-Pacific nations have recently negotiated the Regional Comprehensive Economic

Clearly identifies and defines the factor (trade agreements) and applies contemporary examples to illustrate the impact of trade agreements on globalisation.

Partnership (RCEP), the largest trade agreement in history with 15 nation as signatories, including Australia. The free trade between nations within FTAs increase the extent of globalisation, however, it has also marginally inhibited globalisation, as members of a trading bloc are ~~are~~ incentivised to impose trade barriers on nations outside of the bloc, which hems globalisation.

Provides a comment on the current restrictive stance of some trading nations and its subsequent impact on the extent of globalisation.

Another factor influencing the extent of globalisation in recent years is the growth of multinational corporations (MNCs). These companies have subsidiaries in multiple nations and commonly ~~as~~ supply chains which integrate economies. The growing prominence of MNCs such as Tesla, Amazon and Costco have increased the intra company trade and trade between nations. ~~With this~~ the growing influence of these companies increased the mobility of ~~the~~ labour, thus increasing work-related migration and globalisation.

Provides a detailed outline, using contemporary examples, of the influence of multinational corporations and growth of supply chains on different aspects of globalisation such as the movement of labour.

~~This~~ The growth of transport technologies has ~~not~~ improved the rate of economic growth. As ~~less~~ trade in merchandise dominates trade, the need for better containerization and transport technologies has grown. Improvements in shipping technology has consequently had a positive impact on the rate of globalisation. However, This has been especially important for geographically,

Provides a detailed explanation of the influence of improvements in transportation between trading nations and comments on related environmental concerns.



isolated nations such as Australia. However, the growth in new technology for transport has also stagnated in recent years as less ~~new~~ opportunities exist to dramatically improve pre-existing technology. As well as this, the movement towards being environmentally-conscious has impeded large transport developments, and the recent pandemic has effectively halted the influence of transport technologies in enhancing globalisation.

Communicates in a coherent manner incorporating a logical structure and appropriate economic terminology.

A key factor that has drastically declined the rate of globalisation in recent years is the rise in populist populism in power countries such as the US. The rise in populism arising from a nationalistic desire for self-sufficiency and economic dominance has ~~impeded~~ increased protectionist policies such as tariffs and subsidies. For example, in the US - China trade war, ~~the~~ tariffs were implemented on Chinese and US imports, and the US also banned the use of certain Chinese technologies, such as Huawei's 5G network. This has effectively reversed many achievements of globalisation and started a trend towards non-imposing trade barriers and being less economically integrated.

Demonstrates a strong understanding of the current political tensions between major trading countries and hence its negative influence on the level of globalisation.

28 a

Explain the term globalisation and describe four factors that have influenced the extent of globalisation in recent years. (10 marks)

Globalisation refers to the opening up of international borders to the flow of trade, immigration, investment, information and technology. Globalisation refers to an increased interconnectedness between countries. When the world becomes more globalised there will be increased reliance on other countries as imports and exports will increase. It is important to note that we live in an increasingly globalised world which can be seen as trade as a percentage of GDP has increased from 31% in 1990 to 46% in 2019.

Defines the term 'globalisation' correctly and uses data to establish the importance of trade in the globalisation process.

One factor facilitating globalisation has been advancements in technology and communication. Advances in technology has resulted in the 'death of distance'. Transport costs and travel time has been cut dramatically and this has meant exchange of goods and services between countries has become easier. Advancements in the internet in recent times has also made it easier to buy goods online increasing trade between countries. The internet has also allowed communication between businesses in other countries and allowed supply chains to become more dispersed.

Clearly identifies and defines the factor (advancements in technology and communication) and explains the different ways this factor has supported aspects of globalisation.

Another factor facilitating globalisation has been growth of multinational and transnational firms. A multinational firm is one in which has its head quarters in one country and subsidiaries in other countries. Multinational firms alone account for one quarter of

Provides a detailed explanation, using contemporary examples, of the role of multinationals in promoting trade and an increase in supply chains.



GDP. Examples include Apple, Nike and Microsoft. Australian examples include BHP and Rio Tinto. These firms are established in other countries through foreign direct investment; this is when a firm obtains more than 10% ownership in a foreign enterprise. The growth of multinational firms have meant supply chains have become more integrated because it has become easier to access products in ones own home market. This has significantly increased the extent of globalisation in recent years.

Provides a detailed explanation, using contemporary examples, of the role of multinationals in promoting trade and an increase in supply chains.

Another factor that has influenced globalisation has been trade liberalisation and the role of global institutions. Trade liberalisation refers to the removing or reducing of any barriers which limit trade in goods and services. Global institutions regulated and established by the United Nations have assisted in this. For example, the World Trade Organisation (WTO) plays an important role in ensuring trade flows as smoothly, freely and predictably as possible. It does this through negotiating trade agreements and settling trade disputes. The WTO also works to reduce barriers to trade by encouraging free trade agreement. In a similar way, the International Monetary Fund (IMF) plays a role in ensuring financial stability and this has also assisted in encouraging globalisation in recent years. When barriers to trade are removed, exports and imports become more attractive as consumers are able to access lower prices and this will increase volumes of trade and increase a countries trade.

Provides a detailed outline of how trade liberalisation and world organisations have been instrumental in creating strong global links.

intensity which will reflect increased globalisation.

In a similar way, greater competition between countries has also assisted in increasing globalisation in recent years. When barriers to trade are removed this creates incentive to innovate and invest to make the product be produced for the lowest possible cost. In order for this to be achieved, supply chains must become dispersed across many countries. A country will produce the particular part of the good in which it has a comparative advantage. This will mean it becomes more common that parts of a product are produced in different countries and this means supply chains are more integrated. This has been an important driver of increased globalisation in recent years.

Provides a detailed explanation, using contemporary examples, of the role of multinationals in promoting trade and an increase in supply chains.

Communicates in a coherent manner incorporating a logical structure and appropriate economic terminology.



28 b

Discuss the economic effects of globalisation on the Australian economy.
(10 marks)

Globalisation is defined as the free movement of goods and services, investment, ideas and people between nations. Globalisation has introduced a number of benefits to the Australian economy, and but without also a few costs. The ^{economic} benefits for the Australian economy include, greater allocative efficiency, productivity, economic growth, employment and income. However, the economic effects on Australia has also included some harms such as causing structural change, death of certain industries and ~~some~~ environmental harms.

When globalisation facilitates greater trade between nations and the penetration of international markets, the domestic industries have to respond to greater competition. This ~~forces competitive sectors~~ gives an advantage to competitive sectors of the economy whilst harming those which are not. Notably, greater competition forces resources to be diverted to internationally competitive industries at the expense of those industries which are not competitive. This creates the benefit of creating dynamic gains such as greater allocative efficiency. In Australia, this has looked like the exponential growth of the mining sector. This structural

~~On the other hand~~ As globalisation brought greater foreign investment into this sector, it was able to expand and invest in capital deepening which increased the productivity of the mining sector in Australia. However, these benefits of free trade also had costs to the Australian economy, such as the decline of the manufacturing sector and the death of the passenger vehicle industry. However, this was a short term cost of ~~structural~~ structural change, and eventually those who became structurally unemployed were able to find employment in more efficient industries and receive higher pay.

When an economy can trade, its imports and exports will contribute to greater economic growth. For example, ~~the~~ the value of Australia's total exports and imports make up ~ 25% of its GDP. Net exports (exports minus imports) is a key component of aggregate demand ^(AD) and aggregate expenditure ^(AE). Greater net exports contribute to greater output in exporting industries and hence the Australian economy. Increases in ~~AD~~ ~~AE~~ will cause real GDP to increase, increasing income and employment throughout the economy. This increased the ~~the~~ standard of living.

Presents a strong discussion of benefits and the corresponding costs of free trade and specialisation.

Integrates a current example from the Australian economy and effectively analyses the conflicting impacts of globalisation using a clear structure and appropriate economic terminology.

Explains the complex relationship between free trade, allocative and dynamic efficiency, and unemployment.

Provides a detailed elaboration of the effects of increased exports and imports on the Australian economy.

Uses accurate information from an Australian context to support the discussion.



of consumers.

Furthermore, access to imports has allowed Australian consumers to cheaper goods and services, with a greater variety. This increases their material standard of living and real purchasing power. For example, in Australia, households and out-bound tourism is our biggest import, and consumers also import passenger motor vehicles significantly (now at a cheaper cost due to as aforementioned the death of the domestic car industry). Access to cheaper imports also has the positive economic effect of reducing cost-push inflationary pressure, as producers can access cheaper imported inputs, thus lowering their cost of production.

Provides a detailed elaboration of the effects of increased exports and imports on the Australian economy.
Uses accurate information from an Australian context to support the discussion.

However, a faster rate of globalisation has undoubtedly harmed the environment, as the expansion of production drives greater environmental resource use. In Australia, the mining and energy industries have caused immense environmental damage such as pollution and deforestation. This causes market failure in the Australian economy, and is thus causing allocative inefficiency. Whilst globalisation has harmed the environment, its integration of economies has allowed for

Applies a wide range of complex economic concepts to discuss the positive and negative impacts on the environment due to increased interconnectedness.

greater spread of innovative technologies and ideas to mitigate this impact. For example, Australia's current trajectory of adopting more ~~of~~ environmentally-conscious energy production, such as wind mills and solar panels, could not have occurred without the fast transfer of technologies and ideas ^{caused} by globalisation, and the pressure from other nations due to the interconnectedness of economies caused by greater globalisation.

Whilst there have been tremendous short term cost of globalisation ~~as well as~~ for the Australian economy, the benefits of the economic effects appear to outweigh them in the long term. ~~which~~ Globalisation has additionally exacerbated global problems such as climate change, however without the ~~the~~ interconnections created by globalisation, it would be impossible to coordinate a cohesive response towards ~~these~~ ^{global} issues.

Applies a wide range of complex economic concepts to discuss the positive and negative impacts on the environment due to increased interconnectedness.



28 b

Discuss the economic effects of globalisation on the Australian economy.
(10 marks)

Globalisation has meant increased trade flows. Australia is motivated to export goods in which it has a comparative advantage through the incentive of a higher world price. At the same time, Australia has been incentivised to import goods in which it has a comparative disadvantage through the motivation of a lower world price. In this way, producers gain from increased output and employment and consumers gain from lower prices. This has enabled Australia to increase both its production and consumption as we have become more globalised. Engaging in trade has permitted increased specialisation, economies of scale, higher real incomes and increased productivity. These increased trade flows can be reflected by Australia's increased trade intensity.

Provides a well-defined outline about the positive impact of exports and imports on the Australian economy using appropriate economic terminology.

Another impact of globalisation has been increased income, GDP and employment. As Australia specialises in goods in which it has a comparative advantage it attracts resources towards these sectors. Employment in these sectors will increase and this will result in higher real incomes. It should also be noted, globalisation allows a person to be employed by a foreign firm while still living in their place of residence because the Internet has facilitated this. This has also contributed to increased domestic employment. As employment increases this will increase economic growth and assist in increasing living standards.

Provides further elaboration by discussing the impact of trade on GDP and employment.

Another effect of globalisation has been increased foreign investment flows. Globalisation has meant it is more attractive for business to establish business operations or acquire business assets overseas. A business may do this for the purpose of tax advantages, to lower costs of production or to expand their business to a foreign place of residence. This is achieved through foreign direct investment and has meant financial flows between countries have increased in recent years. Foreign investment plays an important role in developing a country's economy. For Australia, foreign direct investment and portfolio investment have both been important in allowing us to expand our mining sector and increase the productive capacity of the economy.

Explains a related effect of increased foreign investment on the Australian economy by using appropriate examples.

Globalisation has also effected the Australian economy through structural changes. Structural change refers to changes in the distribution of income, output and employment overtime. This has been seen in the Australian economy through the closure of the car industry but increase in the importance of our servicing sector. Australia is incentivised to direct production towards areas in which it has a comparative advantage and these sectors will expand while sectors in which we have a comparative disadvantage will decline. In the short-term, this has created structural unemployment in Australia's manufacturing sector. However, in the long-term this has presented the Australian economy with more

Provides a detailed discussion about the impact of globalisation on structural change.

Explains, using relevant and contemporary examples from the Australian economy, the short-term and long-term impacts of globalisation on the Australian economy.



Question number: _____

28 b) employment opportunities as we direct our production towards productive sectors which have a comparative advantage.

Communicates in a coherent manner incorporating a logical structure and examples.

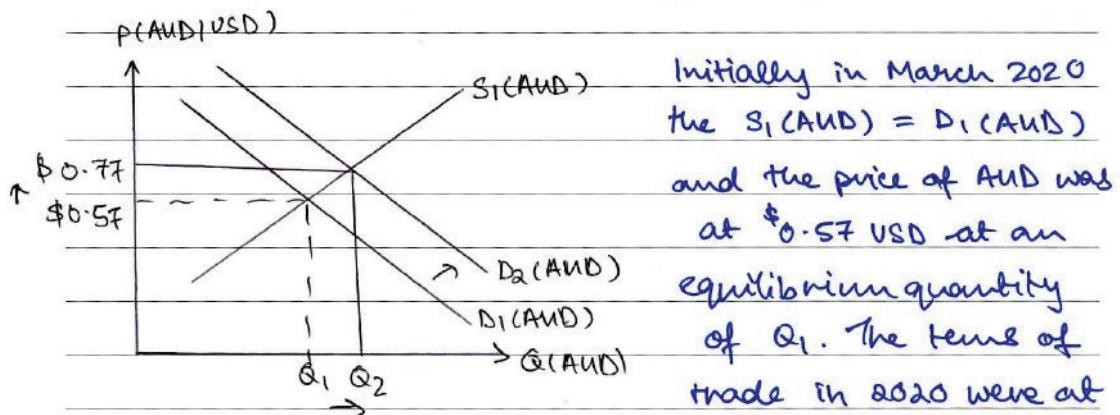
Another effect of globalisation has been increased efficiency and productivity. As trade barriers have decreased this has meant domestic producers must compete with lower prices on the world market. In order to do so, producers innovate and invest in production which helps to lower costs of production in the long-term. This increased productivity has meant resources are allocated to their most efficient uses. Resources that were allocated to inefficient sectors, such as Australia's manufacturing sector, are being directed towards more efficient sectors.

Demonstrates a strong understanding of complex relationships between globalisation and other related economic concepts like innovation and productivity.

29a

Using the demand and supply model, illustrate and explain two factors that caused this movement in the Australian dollar. (10 marks)

- a) The exchange rate is a measure of the price of AUD in terms of foreign currency such as USD. Recently there has been an appreciation due to increasing terms of trade and recovering ^{global conditions} foreign investment.



Initially in March 2020 the $S_1(\text{AUD}) = D_1(\text{AUD})$ and the price of AUD was at \$0.57 USD at an equilibrium quantity of Q_1 . The terms of trade in 2020 were at 98. However it has increased to 128 in 2021 driven by increasing commodity prices. The volumes of commodity such as iron ore exports are price inelastic. Hence countries such as China have increased their demand for AUD to continue consumption of Australia's increasingly expensive exports. They need to convert more of Chinese currency into AUD to continue importing iron ore. Since demand for AUD has increased, the demand curve has shifted right from $D_1(\text{AUD})$ to $D_2(\text{AUD})$. The $S_1(\text{AUD})$ now equals $D_2(\text{AUD})$ and equilibrium quantity has increased from Q_1 to Q_2 .

The increased demand for AUD has led to an appreciation from \$0.57 USD to \$0.77 USD.

Defines the term 'exchange rate' correctly and outlines the recent trend in the value of the Australian dollar.

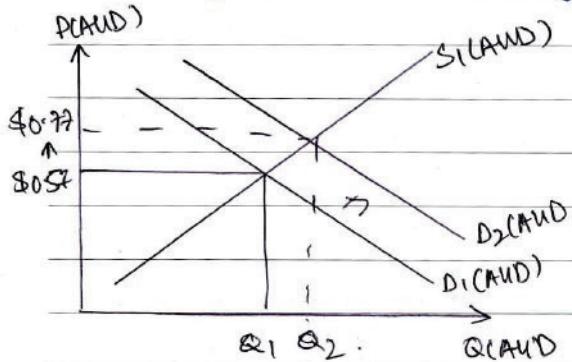
Uses a fully labelled exchange rate model, correctly showing the increased demand resulting from increased terms of trade, leading to appreciation of the AUD.

Provides a detailed explanation, using contemporary economic data, of how an increased demand for commodity leads to increased commodity prices and the subsequent appreciation of the AUD.

Uses appropriate economic terminology.



Another factor is recovering global conditions.



In March 2020 the $S_1(\text{AUD}) = D_1(\text{AUD})$ and the price of AUD was at \$0.57 at an equilibrium quantity of Q_1 . The pandemic was at its

worst during this time period and globally spending on goods and services was reduced. Australia's trading partners such as USA were experiencing low overall employment and incomes. The lower incomes reduced American's purchasing power and willingness to import Australian exports. With less income to consume, their demand for Australian ^{US} exports was low. However the economy introduced massive expansionary fiscal policy raising all incomes _{global}.

The recovering conditions allowed the demand for Australian exports to once again increase. When Americans received greater incomes, they increased spending on Australian exports, increasing the demand for AUD. This shifted the demand curve right from $D_1(\text{AUD})$ to $D_2(\text{AUD})$ allowing the equilibrium quantity to increase from Q_1 to Q_2 . The increased demand allowed price of AUD to appreciate from \$0.57 to \$0.77 USD in 2021.

Uses a fully labelled exchange rate model, correctly showing the increased demand resulting from stimulated global economic activity increasing demand for Australian exports.

Uses appropriate economic terminology and references the economic model accurately.

Integrates current economic developments in the world economy and correctly applies a range of economic concepts to explain the positive relationship between the level of the world economic growth rate and the demand for the AUD.

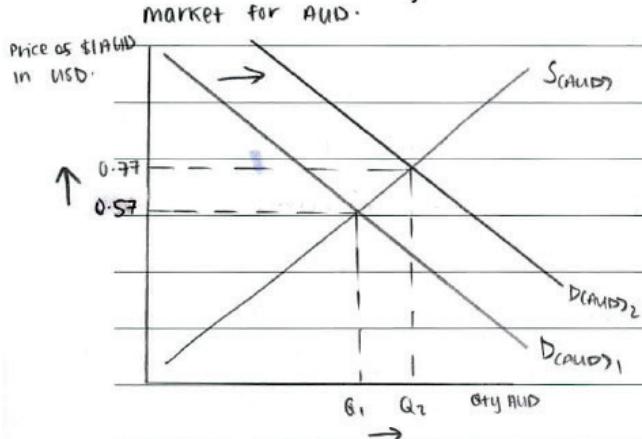
29a

Using the demand and supply model, illustrate and explain two factors that caused this movement in the Australian dollar. (10 marks)

a) The exchange rate refers to the value of a country's currency in terms of a foreign currency. The Australian exchange rate, in terms of US dollar (USD), has risen from \$0.57 USD to \$0.77 USD between March 2020 and April 2021. This rise in AUD value is known as an appreciation. Australia's exchange rate is a floating exchange rate meaning the value of the AUD is determined by market forces of supply and demand.

The following factors describe such movement:

i) Rise in commodity prices.



Between 2020 and 2021, the commodity price index has been rising. Since Australia's exports are majority commodities (iron ore, coal, natural gas) - commodity prices determine the prices of our exports. As our exports then, rise in prices, foreign residents require more AUD to pay for them. - so there is an increase in the quantity demanded of AUD.

This shifts the demand curve rightwards, and causes an increase in the value of \$1 AUD in terms of USD - from 0.57 to 0.77.

ii) The second factor is an increase in economic activity in China as they recover from the impact of COVID-19 during 2020.

China is Australia's major trading partner and they rely on Australia's commodities to facilitate their growing economy. Due to lockdowns, economic activity halted in 2020, but as China recovers, there

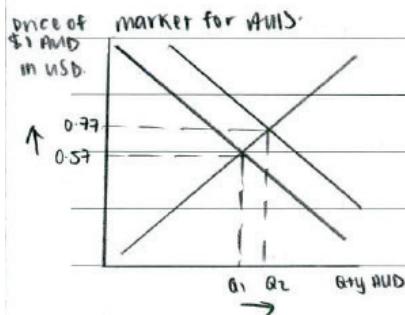
Defines the term 'exchange rate' correctly and outlines the recent trend in the value of the AUD. Provides a clear statement about the floating exchange rate system that determines the value of the Australian dollar.

Uses a fully labelled exchange rate model, correctly showing the increased demand resulting from the increased terms of trade, leading to an appreciation of AUD.

Provides a detailed explanation, using contemporary economic data, of how an increased demand for commodities leads to increased commodity prices and the subsequent appreciation of the AUD.

Uses appropriate economic terminology and references the economic model accurately.

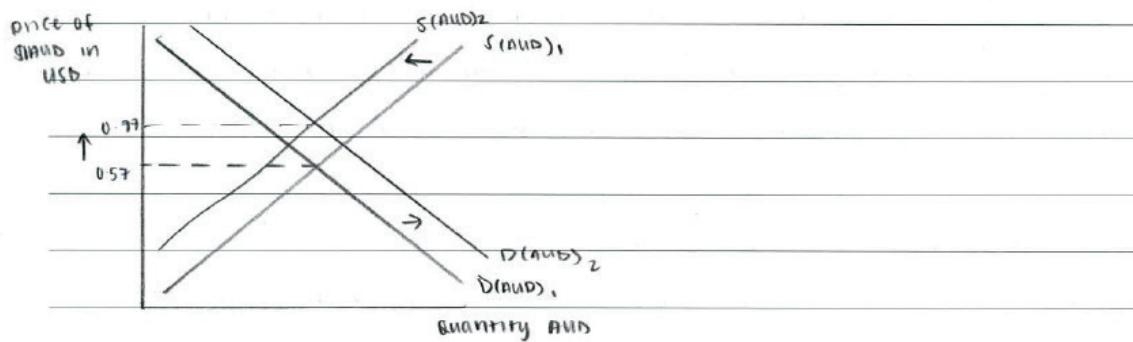




and their economic activity rises — there is an increase in demand for our commodities, our exports. This leads to an increase in demand for AUD ^(D curves shift right) in order for China to buy our exports, resulting in a rise in the value of AUD ^{from} from 0.57 to 0.77.

Uses a fully labelled exchange rate model and references the model correctly to explain the increased demand for the AUD because of China's recovery and hence an increased demand for Australian goods.

It is important to note that although Australia's interest differential is a key factor influencing the exchange rate — it is not the cause of the recent appreciation — as Australia's cash rate has fallen to 0.1% opposed to the USA's 0.25%. ^{during the period of 2020-2021} If our rates were higher than the USN's there would be an increase in demand for AUD as investing in Australia is attractive and a decrease in supply of AUD — as Australians would invest domestically. This results in a two-fold rise in the value of AUD.
If the interest rate differential rose (it didn't during this period):



Uses a fully labelled exchange rate model, to explain the dual impact of interest rate differential on demand for and supply of the AUD.

Demonstrates a correct understanding of the current world economic situation.

Uses appropriate economic terminology references the economic model accurately.

29b

Analyse the effects of this movement in the exchange rate on the Australian business sector. (10 marks)

An appreciation in AUD is when the price of AUD has increased in terms of foreign currency. This occurred from \$0.72 USD to \$0.75 USD currently.

An appreciation of AUD increases the price of Australian exports such as wheat. The prices of Australian wheat increases relative to competing producer's exports such as American wheat. The increased relative cost of Australian export decreases foreign consumer demand for Australian exports as there are cheaper alternatives (US) and the high cost is unattractive. This decreases the demand for Australian exports as they are less internationally competitive. The wheat producers in Australia will earn less exporting revenue which means fewer business profits and greater business collapses.

Some businesses are able to thrive off of the high AUD such as Rio Tinto whose export volumes are quite inelastic due to persistent demand from China. Hence their growth remains stable however the businesses in travel and educational services are negatively impacted. These services are internationally import and export competing industries hence the high AUD makes their exports more expensive and less internationally competitive. They face lower demand for their exports hence lower growth and employment. This leads to a 2 speed economy as growth is unbalanced between businesses.

Defines the term 'appreciation' and provides current data reflecting the current appreciation of AUD.

Integrates a relevant example reflecting the Australian economy (wheat) and identifies and draws out the relationship between a strong AUD and the demand for Australian wheat in comparison to demand for US wheat.

Draws implication about the contrary effect of a high AUD on an inelastic good market (iron) and is able to establish the differing impact of a high AUD on varied businesses.



Many Australian firms use manufacturing inputs to produce their exports and products. Due to Australia's relatively small manufacturing sector, these imports ~~these~~ ^{relative} inputs are normally imported. For instance, Rio Tinto imports machinery and equipment from overseas to produce iron ore. When AUD is appreciated, the price of these imports has decreased as Rio Tinto needs less AUD to purchase them. This reduces the production costs for businesses such as Rio Tinto allowing them to earn greater profits.

Identifies, and uses a relevant example, to draw out the relation between a strong AUD and the reduced costs of intermediate and capital imports for the businesses.

Another impact is that the appreciated dollar leads to lower levels of ^{for businesses} foreign debt. Often businesses will borrow from overseas in the form of capital to expand their output. When borrowing their levels of interest repayments to be paid overseas to service this debt increases. However, with a higher AUD, the cost of these repayments is reduced as less AUD is needed for businesses to service the debt accumulated from past borrowings allowing them to pay off interest ~~up~~ quicker.

Provides a detailed analysis of the valuation effect of a high dollar.

Explains complex interrelationships between a range of economic concepts.

Communicates in a coherent manner incorporating a logical structure, appropriate economic terminology and examples.

29b

Analyse the effects of this movement in the exchange rate on the Australian business sector. (10 marks)

b) The appreciation of the Australian dollar has the following

effects on the Australian business sector:

Australian exporters: Exporters of inelastic goods such as commodities, benefit from the appreciation. Their exports become higher in price in the international market - but because quantity demanded falls less than the rise in price, the revenue received from exports increases. Exporters of elastic goods however, are hurt by an appreciation - as their exports become more expensive and less attractive to buy in or the international market. Quantity demanded overseas falls by more than the rise in price resulting in a reduction of revenue. Overall - an appreciation causes exports to be less competitive in the international market as our exports become more expensive.

Applies and explains a range of complex economic concepts of elasticity and total revenue, to illustrate the relation between a strong AUD and inelastic exports and elastic exports.

Domestic producers: Domestic producers competing with imported products are hurt by an appreciation. Imports become less expensive for domestic consumers (imports become more competitive) and consumption of competing domestic goods decreases - resulting in a fall in revenue and profit. ^{however,} Domestic producers also benefit from an appreciation as it reduces input costs if their inputs are derived from overseas. This allows producers to increase output per input.

Draws an implication about the contrary effect of a high AUD on domestic producers.

white good retailers: firms which sell white goods (fridges, stoves) like Harvey Norman will benefit as ~~perish~~ white goods tend to be imported. The cost of importing them decreases - which increases these retailers profits. employment: An appreciation has a contractionary effect on the economy as the increase in imports causes net exports to decrease and hence (as net

Integrates a relevant example reflecting the impact on businesses.



exports is part of Aggregate Expenditure - CISP), economic growth decreases. There is a decrease in domestic Aggregate demand which leads to lower levels of labor demanded so unemployment rises and firms need to let go of workers.

Reduced export volumes mean lower inflows of money, so hence a lower national income, and falling wages in the business sector.

Creates a strong inference about the high AUD and its subsequent impact on employment and hence the need for businesses to adjust employment to protect their profits.

30 a

Describe three causes of structural change and, using the AD/AS model, explain the relationship between structural change and economic growth.
(12 marks)

Structural change is the shift in the production and distribution patterns within an economy over time. In Australia, this has been seen with the rise of the mining sector (to encompass 60% of merchandise trade), and the subsequent decline of the manufacturing sector.

Defines the term 'structural change' correctly and provides an example of structural change.

The first cause of structural change is changing demographics. This refers to changes in the age, ethnicity and gender of the population. Changes in these factors will lead to shifting demand towards goods and services that can provide for these demographics, increasing the profits of these firms and allowing them to expand - shifting resources towards them. An example is the aged care recent expansion of the aged care sector, with jobs such as aged care assistants forecasted to have strong growth, due to the increasing average age of the Australian population.

Provides a detailed description of the impact of demographic changes and the corresponding structural change.

Integrates contemporary Australian economy context to illustrate the rise of the age-related service sectors.



Another cause is the changing preferences of consumers. Over time consumers will change their consumption patterns to better align with modern societal attitudes - leading to them casting "dollar votes" to signal these preferences. Those industries consumers prefer will expand, whilst due to higher profit, whilst those consumers turn away from will contract - changing production patterns. For example, recent climate events like Cop 26 has brought the concept of sustainability to the forefront of the consumer psyche - shifting consumption patterns to more sustainable industries.

hastily, technological changes can lead to structural change. When available technology increases, some industries can use this technology to employ more efficient production methods or use it to attract consumers. This will attract resources to this industry. Other industries however may not be able to adapt to changing technology,

Provides a detailed description of the impact of changes in consumer preferences, and the corresponding structural change.

Integrates the contemporary Australian economy context to illustrate the rise of sustainable sectors.

Provides a detailed description of the impact of changes in technology, and the corresponding structural change.

Integrates the contemporary Australian economy context to illustrate the rise online streaming platforms.

and will contract. An example is the rise of streaming services such as Netflix, leading to the decline of other industries unable to keep up like Blockbuster.

Economic growth is the increasing ability of an economy to satisfy the material wants of its members.

Economic growth and structural change have a positive correlation.

When economic growth increases, like recently with economic growth at 9.6% in November, then the

incomes of those in the economy increased due to reduced unemployment and higher wages. This increased income results in consumers shifting demand towards more ~~expres~~ goods and services which are able to improve their standard of living.

Thus they cast "dollar votes", leading to some industries receiving higher profits. These industries grow and expand due to these increased profits, shifting productive resources towards them. An example is the service industry, which has

Uses a range of economic concepts and appropriate terminology to explain the co-related (two way) relationship between economic growth and structural change.

Identifies a positive relationship between structural change and economic growth.

Provides a detailed cause and effect relationship between increased income and demand for (and hence growth of) the services sector.

Uses data and makes inferences of the impact of this structural change.

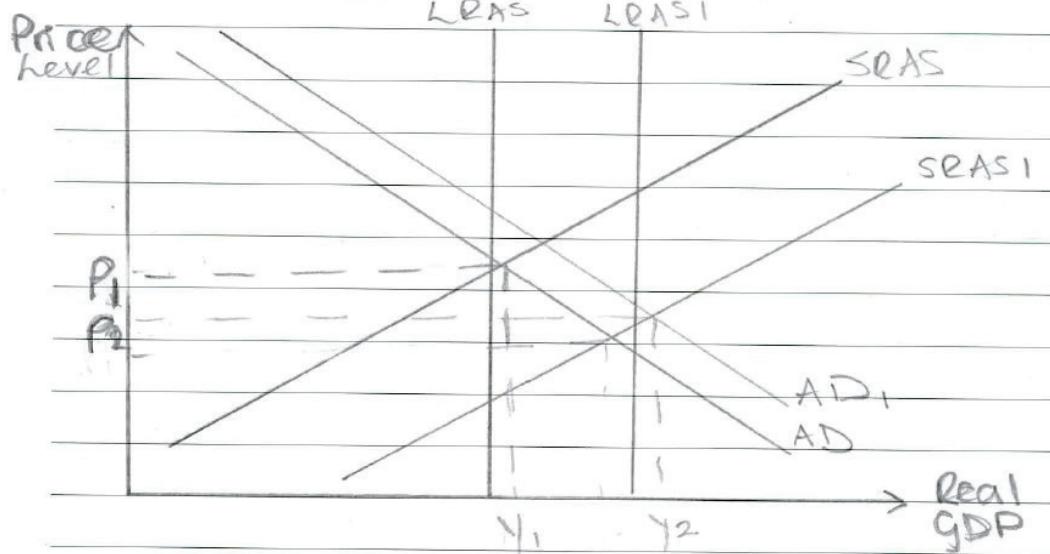


been increasing over time in importance due to economic growth - rising by 30% in importance in Australia over the last few decades. More specifically, tourism has been increasing in importance due to higher incomes - becoming Australia's 2nd highest service export and greatest import pre pandemic. However, industries that demand shifts away from begin to decline. This is because they receive lower profits and thus are unable to invest and expand. For example, this changes the production and distribution patterns in the Australian economy.

Structural change also causes economic growth. This is because allocative efficiency increases, increasing the output and production in the economy. This generates greater national income, and thus higher levels of economic growth. Below is a diagram highlighting this relationship.

Provides a statement about the positive impact of structural change on the level of economic growth.

Question number: Australian Economy



Uses a fully labelled AD/AS model to illustrate with an example, the two-way relationship as shown by the right shift of AD, SRAS and LRAS and the subsequent impact on efficiency and national income.

In the above diagram of the Australian Economy, structural change over time has resulted in the decline of the agricultural sector (25% of all jobs) and the rise of the service industry. This has increased allocative efficiency and thus productivity, ~~shifted~~ increasing both long run Aggregate Supply and Short run Aggregate Supply. Thus LRAS - LRAS₁, and SRAS - SRAS₁. Over time, aggregate demand has also generally expanded from AD - AD₁. This has resulted in an increase of Real GDP, from Y₁ - Y₂. Increased Real GDP means higher economic growth.

Uses appropriate economic terminology and references the model accurately.



30 a

Describe three causes of structural change and, using the AD/AS model, explain the relationship between structural change and economic growth.
(12 marks)

Structural Change refers to changes in the distribution of output, e.g. employment and exports in an economy, over a period of time. There are many factors influencing and causing structural change however, 3 main ones are globalisation, demographic changes and Environmental considerations. These 3 factors all effect structural change in their own way.

Defines the term 'structural change' correctly and outlines the three main reasons for structural change.

Globalisation refers to the opening up of international borders, to flows of trade, investment, ideas, information and technology. There has been a consistent increase in the extent of globalisation through increases in trade, communication technology, supply chains and many other factors, however, Globalisation has lead to, primarily, a huge increase in trade (for example 1 in 5 Aus jobs are linked to trade) This has meant that countries produce and export goods and services that they have a comparative advantage in, and import goods and services that they have a comparative disadvantage in. For example, Australia exports commodities and imports manufactured goods. This increase in global trade has caused a shift in Australian resources such as capital, labour and investment, to areas of our comparative advantage. For example, Australia's car manufacturing industry has collapsed whilst our commodities / iron ore industry has grown exponentially. This increase in globalisation and therefore trade has therefore caused structural change.

Provides a detailed description of the impact of globalisation, increased trade, and the corresponding structural change.

Integrates the contemporary Australian economy context.

Another cause for structural change is demographic changes. In Australia we have an aging population, meaning our population is getting older and will have relatively more elderly people than younger people. This therefore causes the need for the production of more hospitals and nursing homes to accommodate for our aging population. This requires resources to be shifted towards the building of these hospitals and care homes which therefore causes structural change.

Provides a detailed description of the impact of demographic changes and the corresponding structural change.

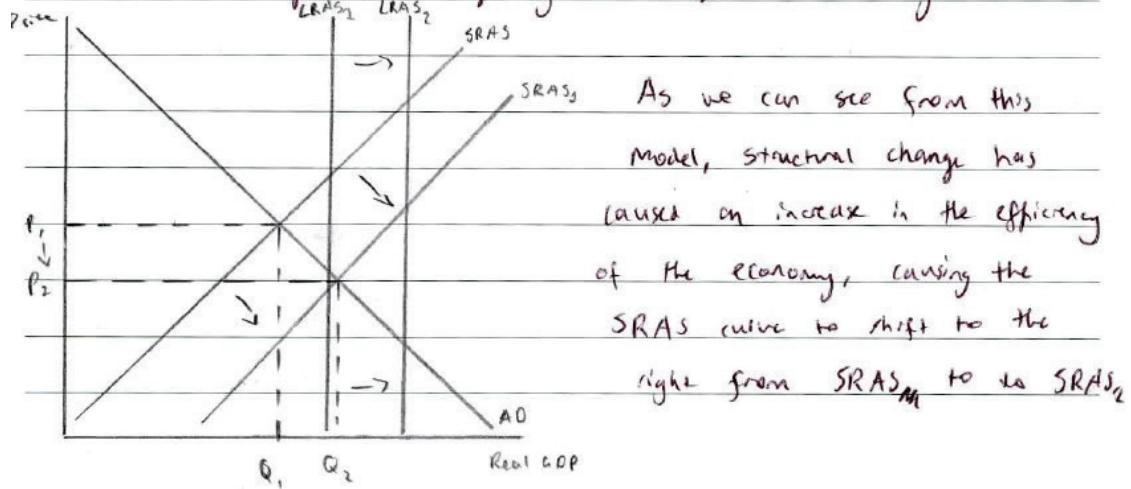
Integrates the contemporary Australian economy context to illustrate the rise of age-related service sectors

Another cause of structural change is increasing environmental awareness and considerations for environmental problems such as global warming and pollution. This increase in concerns, causes resources to be shifted from pollutive companies or production methods such as coal and fossil fuels, to more sustainable production methods through solar power and wind power. This therefore causes a shift in resources and employment, furthermore causing structural change to occur.

Provides a detailed description of the impact of globalisation, increased trade, and the corresponding structural change.

Integrates the contemporary Australian economy context.

^{positive}
There is a two way relationship between structural change and economic growth. Economic growth, results in higher levels of national income and therefore higher levels of disposable income, this therefore triggers a change in spending patterns, perhaps through an increase in spending on durable and luxury goods, this therefore causes a shift in resources of output and employment to occur, causing structural change. Also, structural change, leads to a more efficient allocation and use of resources due to factors such as ⁱⁿ increases in productive technology and ~~extensive~~ focus on areas of comparative advantage. This increase in efficiency of allocations of resources therefore leads to an increase in productive capacity and causes economic growth.



As we can see from this model, structural change has caused an increase in the efficiency of the economy, causing the SRAS curve to shift to the right from $SRAS_M$ to $SRAS_S$.

Uses a fully labelled AD/AS model, to demonstrate the right shift of SRAS and LRAS, because of improved efficiency caused by structural change.

Uses appropriate economic terminology and references the economic model accurately.



and the LRAS curve has shifted to the right, from LRAS₁, to LRAS₂. This rightward shift has occurred because structural change has occurred due to increases in technology, globalisation and trade and environmental concerns, have increased Australia's overall productivity, by shifting SRAS to the right and has increased Australia's potential supply because of this increase in the productivity of resources (land, labour, capital and enterprise). Due to these shifts, we can see that Real GDP has shifted/increased from Q₁ to Q₂, therefore reinforcing the positive relationship between Economic growth and Structural change. (this shift from Q₁ to Q₂) represents Australia's growth in GDP and therefore increase in economic growth.

Uses the economic model to summarise the impact of the three causes of structural change and hence economic growth.

30 b

Explain the term productivity and describe three recent Australian Government policies designed to promote productivity. (8 marks)

Productivity is the efficiency by which firms and the economy as a whole convert productive resources into goods and services. It is measured using labour productivity, or output divided by ^{total} hours worked. Capital deepening can be used to increase productivity, and is the increase in the quantity or quality of capital. Additionally, Multi factor Productivity can also increase productivity, and includes changes in innovation, education of human capital and managerial expertise. Over the last 10 years, productivity in Australia has increased by 1.1% - higher than most OECDs. on average per annum.

Correctly defines 'productivity' and describes the two ways productivity is measured i.e., labour productivity and multi-factor productivity.

Tax reform policies increase productivity. This is because by decreasing the tax firms and consumers have to pay, this increases their disposable income.



and thus promotes investment in capital. This results in capital deepening, and can improve productive efficiency - and thus output per hours worked. Recently, the simplification of the "Pay as You Go" tax system has reduced ~~the~~ the tax many have to pay, increasing productivity.

Provides a detailed explanation linking tax reform policies facilitating capital investment and hence improving productivity and economic growth.

Trade liberalisation policies also improve productivity. This is because ~~the~~ domestic firms now need to compete on international markets, increasing their competition. This increased competition means they need to adopt more efficient methods of production, through increased innovation ~~and~~, to allow them to compete. These more efficient production methods mean more output can be produced per unit time, increasing productivity.

An example is Australia's recent PACER (Pacific Agreement of Economic Relations) agreement on December 2020, opening it up to 12 Indo Pacific

Provides a detailed explanation linking globalisation to increased world competition and hence improving productivity, innovation and economic growth. Integrates an example of PACER.

by increasing
productivity
+
output

Nations for free or lowered barriers to trade.

hastily, the government can adopt education ~~methodism~~ policies. Increased education ~~inspects~~ increases the knowledge and skills of the ~~productive~~ ~~for~~ human capital.

This allows them to adopt more efficient methods of production, increasing output per hours worked. It also increases their know how on the use of capital resources. This increases productivity. The recent government initiative for school leavers to join STEM careers is an example of this, as they wish to reduce participation in the "less" productive arts and humanities.

Provides a detailed explanation, using an example, of improvements in education facilitating better techniques and hence increased productivity. Provides an example.



30 b

Explain the term productivity and describe three recent Australian Government policies designed to promote productivity. (8 marks)

b) Productivity is defined as the efficiency that a given set of inputs, are converted into outputs. Productivity is a crucial principle and factor, in determining the economic growth and performance of a nation. It improves Allocative, Technical and dynamic efficiency, furthermore having extreme positive effects on countries. This is why Australia has implemented 3 main policies in attempt to increase national productivity.

Correctly defines 'productivity' and outlines the importance of productivity for an economy.

The infrastructure policy refers to when the government increase the production of infrastructure (capital goods) that will assist firms in increasing their productivity. An example of this is Building numerous stations, for the step by step production / extraction of iron ore. These buildings of these stations helps to increase productivity through favourable conditions and even the supply of relevant tools. Therefore the infrastructure policy promotes productivity. These favourable conditions created through the infrastructure policy, allow firms/businesses to work more efficiently and therefore increase productivity.

Provides a detailed explanation linking improvements in infrastructure facilitating production processes and hence improving productivity and economic growth.

Another policy designed to promote productivity is the competition / deregulation policy. This policy is designed to increase competition between competing firms, causing each firm to operate in the most productive way, to lower prices and become more competitive in relation to their competitors. An example of this is when the government put no restrictions on taxi licenses, so that competition between Uber, taxi and other transport services would be increased. This ~~was~~ policy was effective, causing all companies to become more productive in the highly competitive conditions.

Provides a detailed explanation linking deregulation to increased competition and economic growth.
Integrates an example of deregulation in the taxi industry.

Another policy is the training and education policy. This refers to the government ~~falling~~ ^{time and money} spending ~~the~~ ^{on} training and education of workers. An example of this would be if a farm worker had to do a week course on how to use tools and harvest most effectively. This training and education would therefore increase the efficiency of the production of Outputs given a set number of inputs, and furthermore promotes productivity.

Provides a detailed explanation, using an example, of improvements in education facilitating better techniques and hence increased productivity.



31 a

With reference to the transmission mechanism, explain how the Reserve Bank of Australia uses monetary policy to affect the level of economic activity. (12 marks)

a) Monetary policy refers to actions taken by the RBA to meet their objectives of: promoting the economic welfare and prosperity of ~~another~~ the people of Australia, maintaining price levels, and promoting full employment. The most common tool the RBA uses is the overnight cash rate. ~~The RBA uses open market operations~~ The overnight cash rate is the rate of interest on loanable funds in the money market.

The RBA uses open market operations to ~~not~~ change the cash rate, which is ~~then~~ passed on by ~~banks~~ then affects interest rates as set by the banks. ~~for example~~

For example, if the RBA lowered the cash rate, as they have done in recent times, interest rates across the economy would be reduced. Then, through the transmission mechanism and the four channels, ~~these interest rates~~ lower interest rates will aim to stimulate the level of economic activity.

Firstly, in the savings-investment channel, lower interest rates ~~will decrease the return on investment~~ disincentive saving, as households receive a lower rate of return on their deposits. This encourages spending in the economy, which is conducive to economic growth. Lower interest rates also decrease the interest repayment on investment, which changes the risk-reward factors firms, making firms more likely to take out loans to invest, as the cost of money is reduced. Higher investment is increasing aggregate demand and creating economic growth.

Defines 'monetary policy' and 'cash rate' correctly.
Establishes a link between changes in cash rate to changes in aggregate demand through the transmission mechanism.

Uses appropriate economic terminology and supportive data to explain in detail how low interest rates support the borrowing channel (consumption and investment) through different ways.

Secondly, through the cash flow channel, households pay lower interest repayments on their loans, such as mortgages, and increasing their real purchasing power. Business debt repayments will also be reduced, increasing business profitability and incentivizing investment.

Uses appropriate economic terminology and an example to explain how low interest rates increase the cash flow which in turn stimulates spending.

Thirdly, through the asset prices and wealth channel, ~~higher~~ lower interest rates stimulate demand and spending on assets, since they may appreciate in value whereas money is accruing ~~to~~ practically no interest in savings accounts. This pushes up asset prices, ~~and~~ increasing the collateral on loans, and perceived wealth of households. If households feel wealthier, they ~~will~~ are more likely to spend money, and banks will be more likely to provide loans due to higher collateral. Therefore spending in the economy increases.

Uses appropriate economic terminology and supportive data to explain how low interest rates increase the value of assets (wealth effect) which in turn stimulates spending.

Finally, through the overseas channel. ~~As~~ Lower interest rates reduce foreign investors into Australia, depreciating ~~the~~ the currency, and having an expansionary impact. The depreciation will make Australia more internationally competitive, and increase export revenue national income, and stimulate economic growth.

Uses appropriate economic terminology to explain a cause and effect relationship between low interest rates and low AUD and hence an increase in the level of economic activity.

Through the transmission mechanism, due to greater spending, investment, and international competitiveness, lower interest rates (through monetary policy) can stimulate economic growth.

The same applies for higher interest rates as well, except everything is reversed.



31 a

With reference to the transmission mechanism, explain how the Reserve Bank of Australia uses monetary policy to affect the level of economic activity. (12 marks)

a) Monetary Policy refers to decisions made by the RBA to control the interest rates in the overnight money market between banks. This will then influence interest rates which are used to manipulate aggregate demand (AD) in the economy.

The interest rate in the overnight money market is known as the cash rate.

The cash rate is currently at an all time low of 0.1% in order to lower interest rates and therefore stimulate increased AD in the economy.

Monetary Policy can influence AD by via the transmission mechanism and its four channels.

Defines 'monetary policy' and 'cash rate' correctly.

Establishes a link between changes in the cash rate to changes in aggregate demand through the transmission mechanism.

Identifies the current cash rate.

Savings and Investment Channel.

This refers to savings and investment decisions made by consumers and firms which will then impact AD. If the cash rate is low, like it currently is, this will reduce interest rates meaning that the cost of borrowing becomes cheaper and return on savings is lowered. This encourages consumers to borrow money and spend it on goods and services, ~~etc~~ as their consumption increases.

It also means that for firms, investments become more profitable as the projected return will be larger than saving money. This causes both consumption and investment to increase, which are components of AD so will cause AD to increase therefore increasing the level of economic activity.

Uses appropriate economic terminology and supportive data to explain in detail how low interest rates support the borrowing channel (consumption and investment) through different ways.

Cash Flow Channel

This refers to cash flows available to consumers and firms. If cash rate is low, as it is currently, this will cause interest rates to decrease. For consumers, this means that money owed to interest bearing deposits such as loans or mortgages decreases, allowing them to have increased cash flows to increase their consumption. As most firms are net borrowers, a decrease in interest rates will mean they

Uses appropriate economic terminology and examples of consumers and firm to explain how low interest rates increase the cash flow which in turn stimulates spending.

owe less back on that loan than previously so have increased cash flows for business investment. Therefore the increase in consumption and investment will increase AD, which will increase level of economic activity.

Asset/Wealth Channel

This refers to the value of assets and therefore wealth that consumers and firms own and have access to. As 2+1f the cash rate is low, as it is currently, this will lower interest rates and therefore demand for assets ~~as~~ (such as shares or houses) will increase as people shift money from savings into assets. This will raise the price of those assets due to demand pull inflation. As asset prices have risen, owners of assets will have increased wealth which leads to increased confidence and therefore increased consumption and investment, which lead to increased AD, which will increase the level of economic activity.

Uses appropriate economic terminology and related economic concepts to explain how low interest rates increases the value of assets (wealth effect) which in turn stimulates spending.

Exchange Rate Channel

This refers to how interest rates can manipulate exchange rates to have an effect on AD, through net exports. If the cash rate is low, as it is now, this will result in lower interest rates. This will increase the interest rate differential between Australia and the rest of the world such that Australian interest rates are lower. This will lead to increased capital outflows and decreased capital inflows which will cause a depreciation in the Australian dollar. This means that imports are now more expensive in foreign AUD terms while exports are cheaper in foreign currency terms. This leads to decreased values of imports and increased values of exports which will cause an increase in net exports (NX). As NX is a component of AD, this will cause an increase in AD, which will have an effect of increasing the level of economic activity.

Uses appropriate economic terminology to explain a cause and effect relationship between low interest rates and low AUD and hence an increase in the level of economic activity.



31 b

Using the aggregate expenditure model, identify three intended effects of the contemporary monetary policy stance on the Australian economy and discuss the factors likely to limit its effectiveness. (12 marks)

Question number:

b) Currently, the RBA has adopted an ~~contractionary~~^{expansionary} monetary policy stance. In 2020 March, the cash rate was lowered from 0.75 to 0.5, and then again from 0.5 to 0.25. Later in November 2020, the RBA further lowered the cash rate from 0.25 to 0.1, which is a record low for the Australian economy.

Uses correct statistics to identify the current expansionary stance of monetary policy.

The record low cash rate reflects an expansionary monetary policy stance, which is appropriate given the 2020-21 recession and shock to aggregate demand following the COVID-19 pandemic.

The intended effects of record low interest rates are to stimulate economic growth; however this can be broken down into three ~~smarter~~ objectives that all help to achieve a higher rate of economic growth, which are higher consumption, higher investment, and reduced unemployment.

Provides a detailed explanation of how a decrease in interest rates will create the intended effect of economic growth through increased investment, increased consumption, and reduced unemployment.

Low interest rates, in theory, ~~to~~ reduce the cost of borrowing and reduce debt repayments for ~~households~~[#] households. The dual effect is a disincentive to deposit money in savings accounts, due to increasingly low rates of return, and instead to spend it in the economy. The lower debt repayments increases the ~~real~~² purchasing power of demand households' real purchasing power, which intends to further increase consumption. Consumption is the largest component of aggregate expenditure, and so ~~less~~ expansionary monetary intent to increase ~~the~~ consumption, and thus aggregate expenditure. This will be shown in the model later.

Secondly, the ~~intended~~ expanding monetary policy ~~intends~~ to increase investment spending, in order to increase aggregate demand and aggregate supply. Lower interest rates reduce the ~~\$~~ opportunity cost of ~~taking~~ taking out a loan, as the cost of borrowing money is reduced. Higher ~~\$~~ investment directly increases aggregate expenditure. ~~More important~~

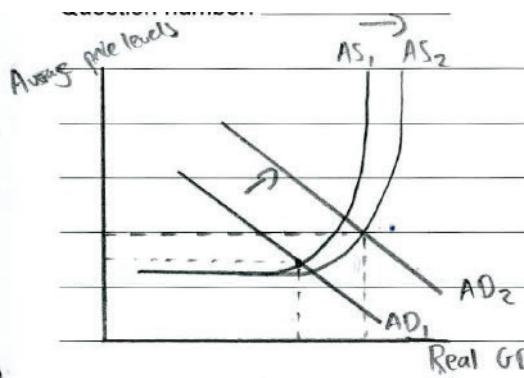
Applies a range of economic concepts to explain the complex interrelationship between lower interest rates and the intended impact of increased investment and hence increased aggregate demand and aggregate supply.

Investment is defined as spending on capital goods to assist in production. Therefore increased investment increases the capital-labour ratio and ~~is a form of~~ is referred to as capital deepening. ~~This increases~~ Increased capital equipment per ~~worker~~ worker alongside better technology to be used in production processes, increases productivity, ~~and~~ as the real output per worker increases. Therefore the productive capacity of the economy increases, output increases, and so aggregate supply in the economy will increase. So, lower interest rates increase productivity, and investment, increasing aggregate supply, aggregate demand and economic growth. This will be shown diagrammatically later.

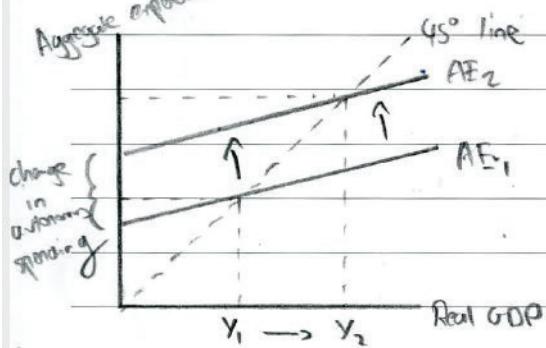
Finally the third intended effect is reduced unemployment. If economic growth is increasing and firms are becoming more productive, there ~~will~~ will be an ~~increase in~~ decrease in unemployment due to derived demand. Increased investment requires more labour to expand, and increased demand for goods and services increases the ~~real~~ derived demand for labour, decreasing unemployment.

Provides a detailed explanation of how a decrease in interest rates will achieve the macro-objective of decreased unemployment.





This model shows how supply and demand both increase, ~~at~~ at a higher equilibrium price and income. I included this model because an aggregate expenditure model could not show the shift in supply.



All points on the 45° line reflect macroeconomic equilibrium. When investment and consumption increase, aggregate expenditure rises from AE₁ to AE₂ at a higher equilibrium income.

Uses a correct fully labelled Aggregate Expenditure (AE) model to demonstrate the rise in AE and the positive multiplier effect because of an expansionary monetary policy.

AE is defined as $C + I + G + (X - M)$, which is why aggregate expenditure increases. The initial increase in investment and consumption will have a multiplier effect on the economy since "one man's spending is another man's income" so the actual increase in aggregate expenditure is much larger than the autonomous increase. The National income moves from Y_1 to Y_2 at a higher level of Real GDP. This closer pushes the ~~real~~ actual GDP towards potential GDP, decreasing the deflationary gap and ~~increasing~~ decreasing unemployment, since unemployment and economic growth are complementary indicators.

There are several factors likely to limit the effectiveness of monetary policy.

Firstly, monetary policy is less effective in a recession or trough. Since Australian economic growth has been reduced recently, business confidence and consumer confidence have been low. The COVID-19 brings a large degree of uncertainty surrounding future economic conditions, availability of global supply chains and potential snap-lockdowns. These despite low interest rates, the uncertainty and low confidence will have a larger effect on consumption and investment, and therefore the low interest rates will be less effective.

This phenomenon is occurring globally and is known as a liquidity trap.

Secondly, there is a lag effect for monetary policy, which can be up to 1.5 years. This is because shifting the cash rate affects the economy indirectly and so it takes longer for business and consumers to respond.

Thirdly, rates of interest rates are a blunt instrument, and cannot be targeted at specific sectors of the economy, such as tourism, which needs it most.

There are currently large levels of debt in the private sector, with ~~foreign debt~~ net foreign debt rising from 51% of GDP to 59% in 2020. Therefore households and firms are more concerned about their real wealth and

Identifies and reflects on the issue of low consumer and business confidence and other weaknesses that limits the effectiveness of monetary policy.

Uses contemporary knowledge and appropriate economic terminology in the explanation.

Demonstrates an understanding of some of the current issues in the economy that limits the effectiveness of monetary policy.



economic welfare and are less likely to ~~pay~~ increase their spending or investment with large debts debts yet to be paid off.

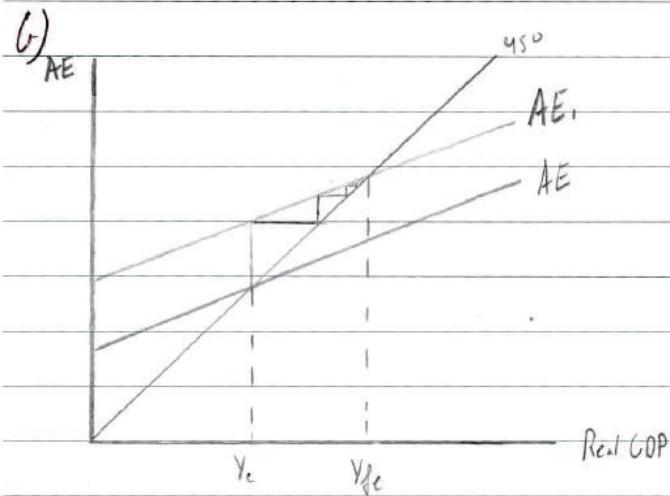
Thirdly, ~~as~~ there has been a decline in birth and death rates over recent years, rendering ~~the~~ the morning the Australian economy contains a ~~lower~~ ^{higher} proportion of unproductive productive workers. These people are often cited as baby-boomers, and are net savers. Therefore, they will be more reluctant to spend, & reducing the intended increase in aggregate expenditure.

Again, due to slow economic growth and uncertainty, the households savings ratio has increased, which increases marginal propensity to save, and reduces the effect of the multiplier on the economy, reducing the intended increase in aggregate expenditure.

Finally, a relatively high exchange rate decreases our international competitiveness and further reduces economic growth, meaning increased spending less likely.

31 b

Using the aggregate expenditure model, identify three intended effects of the contemporary monetary policy stance on the Australian economy and discuss the factors likely to limit its effectiveness. (12 marks)



Uses correct statistics to identify the current expansionary stance of monetary policy.

The contemporary monetary policy stance set by the RBA is highly expansionary. This is evident as the cash rate is currently at an all time low of 0.1%. This will cause low interest rates in the economy which is hoped to stimulate AD to rise and thus expand the economy. In the diagram, AE (same as AD) is shown to increase from AE to AE₁, representing an expanding economy.

One intended effect of this policy stance is the multiplier effect. ~~This is~~ The multiplier explains how an initial increase in autonomous expenditure can have a multiplied effect on income in the economy. This is shown on the model through the lines connecting AE to AE₁. It works on the principle that 'one persons spending is another persons income'. It is calculated by $\text{multiplier} = \frac{1}{1-MPC} = MRS$. So due to the initial increase in autonomous consumption caused by expansionary fiscal policy, a certain proportion of that is spent on consumption. That consumption is another persons income and they will spend the same proportion of their income on further consumption, which is another persons income. This effect flows on through the economy such that it results in a much larger increase in income than the initial increase in autonomous expenditure, which is highly expansionary.

Uses a correct fully labelled Aggregate Expenditure (AE) model to demonstrate the rise in AE and the intended impact to create a positive multiplier effect because of an expansionary monetary policy stance.



A second intended effect of expansionary monetary policy is increased employment. As a decreased cash rate causes decreased interest rates which will increase AD, this means that there is greater demand in the economy, especially for durables and luxury goods and disposable incomes have risen. This will result in decreased inventories of firms meaning they will increase their production and so will increase demand for labour which allows for greater levels of employment in the economy. This is shown as output increases from Y_1 to Y_2 , the full employment level of output.

A third intended effect is increased ~~income~~ national income. This will come about due to the multiplier effect as the ~~income~~ initial increase in AE causes a multiplied effect on income. Income also rises as employment levels have increased so more people are earning money. The rise in income is shown through equilibrium level of income rising from Y_1 to Y_2 , the full employment level of output, when incomes will have increased.

One factor likely to limit the effectiveness of monetary policy is that it is a blunt policy instrument. This means that it targets all areas of the economy equally and cannot specifically target certain groups that would make a non significant impact to AD. This also means that it unfairly targets some areas of the economy such as retirees superannuation funds, where when lower interest rates mean their superannuation is ~~not~~ not increasing in value as much as before. A second factor likely to limit the effectiveness of monetary policy is that it is not as effective in recessions. This is because confidence (of both consumers and firms) is very low in recessions, so even prompting consumers and firms to increase spending through decreased interest rates is not very effective. This is mainly due to the high level of business confidence that impacts business investment.

A third factor likely to limit the effectiveness of monetary policy is that it relies on

Provides a detailed explanation of how a decrease in interest rates will create the intended effect of increased national income through increased investment, increased consumption and reduced unemployment.

Uses examples to reflect on the varied and contrary impact of low interest rates on retiree incomes limiting the effectiveness of the monetary policy stance.

Identifies and reflects on the issue of low consumer and business confidence that limits the effectiveness of monetary policy.

Uses contemporary knowledge and appropriate economic terminology in the explanation.

banks passing on the changes to the cash rate or changes to bank interest rates. This does not always happen to the extent the RBA would like and this will limit the effectiveness of monetary policy as interest rates are the main tool to manipulate AD using monetary policy and if they do not change, then it is unlikely that AD will either.

Demonstrates an understanding of some of the current issues (reluctance of commercial banks to pass on the rate cut) in the economy that limits the effectiveness of monetary policy.

