**MARKING KEY: Year 12 ATAR Economics Sem 1 Unit 3 Examination (2023)**

**Name:**

**Section One: Multiple Choice (24 Marks)**

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

**Section Two: Data interpretation/Short response (36 Marks)**

**Question 25 (12 marks)**

|  |  |  |  |
| --- | --- | --- | --- |
| a (i) | What percentage of Australia’s imports from India will now be tariff free? | | |
| **Description** | | | **Marks** |
| * 96 | | | **1** |
| (ii) | | What percentage of Australia’s exports to India will now be tariff free? | |
| **Description** | | | **Marks** |
| * 85 | | | **1** |
| (b) | Outline four (4) benefits to Australia of a Trade Agreement with India. | | |
| **Description** | | | **Marks** |
| **Outline 4 benefits of free trade for Australia – (1m ea.)**   * Higher growth / output / mat. SoL * Increased employment * Greater variety of goods and services (imports)- improvement in SoL * Lower prices - lower cost of imports, lower cost of production, minimises cost-push inflation * *Any other relevant benefit described*   ***\*Must relate to Australia for full marks*** | | | **4** |
| (c) | Using an appropriate model, explain the effect of removing a tariff on economic efficiency. | | |
| **Description** | | | **Marks** |
| **Diagram (Tariff): 2m**   * Fully labelled and accurate   **Explanation: 4m**   * Impact on Price and Quantity **(1m)** * Impact on consumer and producer surplus - highlights change to total surplus / total welfare **(1m)** * DWL eliminated - efficiency achieved (**2m)**   ***\*****Diagrams (framework) must be explained* ***NOT merely described***  ***\*****A theoretically correct answer that* ***only states/describes what is in the diagram*** *can only be awarded a maximum of 4m.* | | | **6** |
| **Total** | | |  |

**Question 26 (12 marks)**

|  |  |  |
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| a (i) | Identify the quarter which recorded the lowest trade balance. | |
| **Description** | | **Marks** |
| September Quarter 2020 or Sep 2020 | | **1** |
| (ii) | Calculate the value of Australia’s net foreign liabilities in Dec 2022. | |
| **Description** | | **Marks** |
| **$**856.7**billion ($1162.8b - $306.1b)** | | **1** |
| (b) | Identify the trend in the trade balance between Dec 2020 and Dec 2022 and explain two reasons for this trend. | |
| **Description** | | **Marks** |
| **Trend:** Rising or increasing **(1m)**  **Explanation: Any 2 reasons (4m)**   * Business cycle (RoW) – rising demand for exports due to opening of borders post covid * Commodity prices – increasing export value relative to imports expenditure (due to post covid increase in demand for price inelastic commodity exports) * Or any relevant reason explained | | **5** |
| (c) | Explain the structural and cyclical reasons for the movement in the Current Account between Dec 2020 and Jun 2022. | |
| **Description** | | **Marks** |
| **Movement in current account:** **(1m)**   * Rising surplus (Dec 2020 to Sep 2021) * Falling surplus (Sep 2021 to Jun 2022) * OR overall falling surplus   **Explanation:** 2 to 3 structural/cyclical factors influencing CA movement **(1-3m)**  ***Structural:***   * S-I gap - rising inflow of foreign investment (liabilities)– rising payments from Pr. Inc. acc.   **Cyclical:**   * Opening of borders – rising net exports (trade bal.) * Rising foreign interest rates – outflows affecting primary income balance * Any valid factor affecting CA within stated period   **Discriminator: (1m)**   * *Movement in CA influenced by movement in primary income balance overwhelming change in Trade balance.*   *\*Must include* ***both*** *structural and cyclical factors*  *\* Must link explanation to current account* | | **5** |
| **Total** | |  |

**Question 27 (12 marks)**

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| --- | --- | --- |
| (a) | What is the value of the Trade Weighted Index on 8 March 2023? | (1 mark) |
|  | **Description** | **Marks** |
|  | 60.50 | 1 |
|  | **Total** | **1** |

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| (b) | Explain why there could be a difference in the movement of the TWI and the AUD / USD exchange rate. | (2 marks) |
|  | **Description** | **Marks** |
|  | Describes a reason for a difference in movement in AUD and TWI | 2 |
|  | Provides a reason without explanation | 1 |
|  | **Total** | **2** |
|  | **Answers could include:**  The TWI provides a measure of whether the AUD is rising or falling on average against the currencies of Australia’s trading partners.   * If AUD was rising against USD but TWI was falling this could be due to weakness of USD and not related to Australia’s trading partners * If Australia’s TWI increase, this shows Australia is getting stronger against its main trading partners which can be different to its movement against a singular currency for different reasons. * TWI is subject to less pronounced swings due to being a basket of currencies than against a bilateral exchange rate and one could be moving when the other isn’t.   Any reasonable explanation |  |

|  |  |  |
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| (c) | Identify the movement in the value of the Australian dollar from 8 Feb 2023 to 8 March 2023 and explain a possible cause for this change. | (3 Marks) |
|  | **Description** | **Marks** |
|  | **Movement:** depreciation  Identify decrease in demand or increase in supply of AUD  Provide an explanation for movement | 1  1  1 |
|  | **Total** | **3** |
|  | **Explanation for movement could include:**   * Fall in commodity prices due to fall in demand for commodities as global economy slows / trading partners decrease demand for AUD. * Increase in interest rate differential leading to increase in supply of AUD or fall in demand for AUD as funds moved offshore. * Fall in demand for AUD exports leading to decrease in demand for AUD. * Increase in demand for imports as they become cheaper in AUD terms leading to increase in supply of AUD.   Note: change of demand / supply of AUD can be linked to explanation |  |

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| --- | --- | --- |
| (d) | Discuss the impact of the change in the value of the Australian dollar from 8 Oct 2022 to 8 Feb 2023 on three (3) sectors of the economy. | (6 marks) |
|  | **Description** | **Marks** |
|  | **For each of the three sectors described (3 x 2 marks)** |  |
|  | Describes the effect on the sector | **2** |
|  | Identifies the sector and states an effect | **1** |
|  | Note: effect must relate to appreciation as this is the movement. Effect related to depreciation cannot be accepted |  |
|  | **Total** | **6** |
|  | **Answers could include:**  Sectors are: agricultural; commodities (minerals and energy); services; manufacturing   * Commodities – no impact on export of commodities as these are inelastic in both demand and supply, even if the price rises in foreign dollar terms due to appreciation this will not affect demand for commodities. * Manufacturing – exports will be affected as these are price elastic, therefore will become less competitive, imports become relatively less expensive so import competing sectors are less competitive – industry using imports in production process could become more competitive as production costs fall. * Services – tourism and education exports become less competitive, import competing operators become less competitive – imports of services will increase – could lead to increased unemployment in this sector. * Agriculture – demand elastic; supply inelastic; appreciation could lead to fall in demand for agricultural products as agricultural exports become less competitive. Supply would not change and as a result of decreased demand could lead to decrease in revenue for this sector. | |

**Total: / 36**

**Question 28**

1. **Outline the concept of globalisation and the role of the WTO and discuss three (3) economic effects of globalisation. (8 marks)**

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| **Description** | **Marks** | |
| **Concept of Globalisation** | | |
| **Outlines** concept of globalisation- must include definition **AND** brief outline of idea.   * **Definition**: **freer** movement of goods/services, investment and people. * implies lowering of barriers, opening up of international borders to the flow of trade, workers, tourists and investment. | **1** |  |
| **Role of the WTO** | | |
| **Outlines** any **ONE** role of the World Trade Organisation (WTO)   * provides a forum for members to negotiate trade rules and agreements * provides dispute resolution * monitors and reviews domestic trade policies of Members * helps developing country members comply with WTO rules (and realise the benefits of membership). | **1** |  |
| **Economic effects of globalisation – 3 effects discussed** | | |
| **Discusses** the economic effects of globalisation. (**developed/undeveloped**)   * must provide opposing view (eg. at least one opposing effect - positive vs negative) | **5-6** |  |
| **Explains/Describes/Outlines/identifies** (states) economic effects. | **1-4** |  |
| **Total:** |  |  |
| **Answer(s) could include:**  **Positive:**   * increased productive and allocative efficiency * increased economic growth due to increased export markets * lower input costs lead to lower production costs * reduced inflationary pressures due to cheaper imports; lower import costs * greater range and quality of goods and services - increased standard of living, * higher rates of employment and wages growth * managerial ideas, technology and management transfer * economies of scale * foreign direct investment gains   **Negative:**   * increased structural unemployment in key manufacturing industries * dependence upon foreign supply chains * lower effective rates of protection impacting manufacturing businesses * vulnerability to global crisis. | | |

1. **Evaluate four (4) arguments for protection. (12 marks)**

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| --- | --- |
| **Description** | **Marks** |
| **Evaluation of arguments for protection - For each argument:** | |
| **Evaluates** arguments for protection. (developed/undeveloped)   * Must provide counter argument for evaluative discussion. | **3** |
| **Explains** argument for protection and/or **no evaluation** | **2** |
| **Describes/Outlines/identifies** argument for protection | **1** |
| **Argument ONE (1)** |  |
| **Argument TWO (2)** |  |
| **Argument THREE (3)** |  |
| **Argument FOUR (4)** |  |
| \****Definition or description of protectionism needed for full mark*** | |
| **Total:** |  |
| **Arguments for protection:**   * Infant industry * Anti-dumping * Protection of domestic employment * National security * Favourable balance of trade * Any appropriate argument | |

**Name: Total: / 20**

**Question 29**

1. **Distinguish between the two main types of foreign liability and explain why Australia has a net foreign liability position (8 marks)**

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| --- | --- |
| **Description** | **Marks** |
| **Definition of foreign liability** | |
| **Defines** concept of liability - brief outline of idea – concept of Australia’s obligations.   * **Debt** – foreign debt in form of loans, repayment of interest. * **Equity** – foreign equity – ownership of Australian assets, repayment of dividends | 3 marks |
| **Net foreign liability position** | |
| * Identifies that Australia records a greater inflow of investment funds than outflow of funds. | 1 mark |
| * All of Australia’s obligations are in the form of debt * Australia has a net negative equity position (that is that Australia’s ownership of foreign assets exceeds the equity position of foreigners in Australia * Companies prefer debt over the sale of equity * May note that overall position is 45% of GDP (Approx) * Explanation can include:   + Due to S < I gap | 1 - 4 marks |
| **Total:** |  |

1. **Discuss the costs and benefits of foreign investment into Australia. (12 marks)**

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| --- | --- | --- |
| **Description** | **Marks** | |
| **Explanation of foreign investment** | | |
| Description of foreign investment   * Portfolio and direct (for example) | | **2** |
| **Two marks for each cost / benefit:** | | |
| **Discusses** costs and benefits. (developed/undeveloped)   * Must provide discussion. | **2 - 3** | |
| **Identifies** cost / benefit and outlines this for - **with no discussion**  If identification with no outline, mark cannot be awarded (1/2 mark for each identification) | **1** | |
| **Total:** | **/ 12** | |
| **Benefits can include:**   * Expands productive capacity of economy. Potential growth * Closers savings – investment gap * Promotes economic growth * Increases infrastructure * Development of industries and resources * Finances the deficit on the current account **/ this depends on trade balance** * Direct investment can bring new technologies and management expertise, thus increasing the efficiency of the economy and aiding long term growth * New subsidiaries can increase employment * Contributes to increased taxation revenue for government * Increases standard of living   **Costs can include:**   * Loss of control if equity investment * Interest payments are largest item in income category of current account * Portfolio investment can be speculative and therefore destabilising | | |

**Name: Total: / 20**