

**Year 12 Semester Unit 3 Exam 2023 – Marking Guide**

**SECTION 1 (24 marks)**

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

**Question 25 (12 marks)**

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

|  |  |
| --- | --- |
| **Description** | **Mark** |
| 2nd: Japan | 1 |
| 3rd: Korea | 1 |
| **Total** | **2** |

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

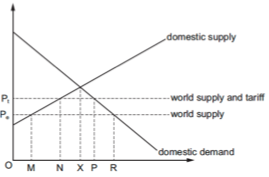
|  |  |
| --- | --- |
| **Outline any THREE benefits** | **Mark** |
| Increased exports (Australian exporters benefit) | 1 |
| Increased imports (Australian consumers benefit) | 1 |
| Reduced cost of imported inputs (Australian producers benefit) | 1 |
| Increased economic efficiency (improved resource allocation) | 1 |
| **Total** | **3** |
| Accept other relevant benefits:   * Increased employment due to increase in economic activity * Increase in real GDP raising living standards * Increased government revenue due to increase in economic activity * cheaper consumer and capital goods and increased variety * increased foreign investment between the two countries | |

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

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

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

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



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

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

PS decreases by a

a b c d e

TS increases by b+e

**Question 26 (12 marks)**

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

|  |  |
| --- | --- |
| **Identifies** | **Mark** |
| Australia did not record a trade deficit | 1 |
| **Total** | **1** |

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

|  |  |
| --- | --- |
| **Calculation** | **Mark** |
| $856.7 billion | 1 |
| **Total** | **1** |

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

|  |  |
| --- | --- |
| **Explanation** | **Mark** |
| Identifies the trend using data |  |
| The trade balance increased | 1 |
| **Subtotal** | **1** |
| Explanation of two reasons for the trend (2x2) |  |
| Explains each reason | 2 |
| States a reason | 1 |
| **Subtotal** | **4** |
| **Total** | **5** |
| Answers could include:  Trade balance increased from $20 billion to $40 billion.  Reasons for increase in trade balance could include:   * Rise in terms of trade caused by rise in commodity prices. Increases export earnings and thereby the trade balance. * High overseas growth – vaccine led recovery – increase in EGR in USA, China, Japan leading to increased demand for exports – trade balance increased * Depreciation of AUD – increased export competitiveness, increasing export incomes and trade balance * Decrease in domestic EGR (until late 2021) – saw the decline in import spending and thereby an increase in trade balance.   Or any other relevant point |  |

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

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Reason for the decrease in net foreign liabilities |  |
| Explains a reason for the decrease in net foreign liabilities | 2 |
| States a reason | 1 |
| **Sub-total** | **2** |
| Explains the relationship |  |
| Explains how a decrease in net foreign liabilities would increase the current through **both** income account and trade account | 3 |
| Describes how a decrease in net foreign liabilities would increase CAB through either income account **or** trade account | 2 |
| Outlines the impact on the current account | 1 |
| **Total** | **5** |
| Reasons for a decrease in net foreign liabilities could include:   * Increase in positive S-I gap (decrease in I-S gap) due to Investment decreasing and rising saving * Increase in Foreign investment from Australia (Australian Investment abroad) due to interest rate differential favouring other countries, increase in foreign assets * Lower Foreign investment into Australia due to high inflation /lower profit expectation, decrease in foreign liabilities.   Impact on the Current account:   * Lower income payments as foreign liabilities decreases – increases current account balance * Higher income earnings through higher foreign assets – increases current account balance * Lower import payments as lower FI into Australia lowers the level of economic activity and hence the demand for imports – increases current account balance   Or any other relevant point. |  |

**Question 27 (12 marks)**

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

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

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

|  |  |
| --- | --- |
| **Identifies** | **Mark** |
| 15% | 1 |
| **Total** | **1** |

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

|  |  |
| --- | --- |
| **Identifies** | **Mark** |
| Increased commodity prices | 1 |
| **Total** | **1** |

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

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

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

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

**SECTION 3 (40 marks)**

**Question 28** **(20 marks)**

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

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| --- | --- |
| **Description** | **Mark** |
| Concept of globalisation – 4 marks |  |
| Explains the concept | 3-4 |
| Describes the concept | 2 |
| Defines the concept | 1 |
| **Sub-total** | **4** |
| Role of the WTO in facilitating globalisation |  |
| Discusses the role of the WTO | 4 |
| Explains the role of the WTO | 3 |
| Describes the role of the WTO | 2 |
| States a fact about the WTO | 1 |
| **Sub-total** | **4** |
| **Total** | **8** |
| Answers may include:  Globalisation – 4 marks   * the growing interdependence of the world's economies brought about by cross-border trade in goods and services, flows of investment, people, and information. * Improvements in transport, technology & communication have enabled globalisation to flourish * Globalisation is the opposite to protectionism | |
| Role of the WTO – 4 marks   * Describes the WTO - an international body that determines international trade rules * The overall objective of the WTO is to help its members use trade as a means to raise living standards * It facilitates globalisation by enforcing rules for international trade; providing a forum for negotiating and monitoring trade liberalisation & by resolving trade disputes * The WTO promotes freer world trade through multilateral trade agreements designed to reduce or remove trade restrictions * ‘Most favoured nation’ principle * ‘National treatment’ principle | |

(b) Discuss **three** negative and **three** positive effects of globalisation. (12 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| Negative effects (3 x 2 marks) |  |
| Discusses a negative effect | 2 |
| States a negative effect | 1 |
| **Subtotal** | **6** |
| Positive effects (3 x 2 marks) |  |
| Discusses a positive effect | 2 |
| States a positive effect | 1 |
| **Subtotal** | **6** |
| **Total** | **12** |
| Answers could include:  Positive effects   * Increased trade boosting both exports & imports * Increased economic growth resulting in higher real income & living standards * World poverty has been reduced * Promotes innovation and increased competition * Enabled greater labour mobility * Promoted global cooperation * Expansion of more efficient industries   Negative effects   * Contraction of inefficient industries * Decrease in diversification narrowing Australia’s export base * Increased structural unemployment * Increased interdependence makes economies vulnerable to supply chain disruptions * Economic shocks such as financial crises &/or pandemics can be transferred between economies * Can increase environmental problems such as increased carbon emissions; loss of biodiversity | |

**Question 29** **(20 marks)**

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

* An increase in global oil prices
* A global recession
* A global drought (12 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| The terms of trade – 3 marks |  |
| Explains the concept with reference to both export and import prices | 3 |
| Describes the concept using the formula | 2 |
| Defines the concept | 1 |
| **Subtotal** | **3** |
| An increase in global oil prices – 3 marks |  |
| Explains the effect | 1-2 |
| States the effect on the terms of trade | 1 |
| **Subtotal** | **3** |
| A global recession – 3 marks |  |
| Explains the effect | 1-2 |
| States the effect on the terms of trade | 1 |
| **Subtotal** | **3** |
| A global drought – 3 marks |  |
| Explains the effect | 1-2 |
| States the effect on the terms of trade | 1 |
| **Subtotal** | **3** |
| **Total** | **12** |
| Answers should include:  The terms of trade   * Defines the terms of trade * Uses the formula with an example * Describes both the export and import price index   An increase in global oil prices   * Oil (petrol) is a major import for Australia * Aust’s import price index will increase * The terms of trade will decrease   A global recession   * This will decrease global demand for commodities such as iron ore, coal & natural gas * Australia is a major exporter of commodities * Aust’s export price index will decrease causing the terms of trade to decrease   A global drought   * This will increase the prices of agricultural commodities * Australia is a major exporter of agricultural commodities * Aust’s export price index will increase causing the terms of trade to increase | |

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

|  |  |
| --- | --- |
| **Discussion** | **Mark** |
| For each positive effect – 2 x 2 marks |  |
| Discusses a positive effect | 2 |
| States a positive effect | 1 |
| **Subtotal** | **4** |
| For each negative effect – 2 x 2 marks |  |
| Discusses a negative effect | 2 |
| States a negative effect | 1 |
| **Subtotal** | **4** |
| **Total** | **8** |
| Answers could include:  Positive effects   * An increase in national income (real GDP) because net exports have increased * Increase in employment resulting from multiplier effects * Increase in living standards due to increased purchasing power * Increase in government tax revenue   Negative effects   * The AUD will appreciate – this may decrease exports of services (tourism; education) * Inflation may increase due to increased real GDP * May result in a two-speed economy | |

**Question 30** **(20 marks)**

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

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| --- | --- |
| **Description** | **Mark** |
| Net foreign liability position – 4 marks |  |
| Explains why Australia has a net foreign liability position | 3-4 |
| Describes Australia’s net foreign liability position | 2 |
| Defines the concept of net foreign liability | 1 |
| **Subtotal** | **4** |
| Foreign debt – 3 marks |  |
| Describes foreign debt with use of a suitable example | 2 |
| Defines foreign debt | 1 |
| **Subtotal** | **2** |
| Foreign equity – 3 marks |  |
| Describes foreign equity with use of a suitable example | 2 |
| Defines foreign equity | 1 |
| **Subtotal** | **2** |
| **Total** | **8** |
| Answers should include:  Why Australia has a net foreign liability position   * Net foreign liabilities = foreign liabilities – foreign assets * Foreign liabilities is the stock (accumulation) of foreign investment into Australia * Foreign assets is the stock (accumulation) of Australian investment overseas * Aust has historically relied on the inflow of foreign investment because of our negative S – I gap (I > S) * Aust’s net foreign liabilities is around $860bn (Dec 2022)   Foreign debt   * Foreign debt is the amount borrowed from non-residents by residents (both government & private) of Australia * Aust’s net foreign debt is equal to approx. $1660 billion * The private (business) sector accounts for most of Aust’s net foreign debt (70%) while the government sector accounts for around 30%. * Firms in Aust prefer to borrow rather than sell assets since it provides greater flexibility   Foreign equity   * Foreign equity is the extent to which foreign residents own Australian assets. * This occurs when foreign residents invest (purchase) Aust real estate, purchase Aust shares (direct or portfolio investment), invest in infrastructure projects * Australia's net foreign equity is approx. -$300bn * This means that Australian does not have a foreign equity liability – in fact it is now a foreign equity asset (Aust owns more overseas assets than the world owns of our assets) | |

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

* Australia’s macroeconomy
* The balance of payments

(12 marks)

|  |  |
| --- | --- |
| **Description** | **Mark** |
| For each effect on the macroeconomy (x3) |  |
| Discusses the effect | 2 |
| Outlines one effect | 1 |
| **Sub-total** | **6** |
| For each effect on the balance of payments (x3) |  |
| Discusses the effects on either the financial and current account | 2 |
| Outlines the effect | 1 |
| **Sub-total** | **6** |
| **Total** | **12** |
| Answers should include:  Effects on the macroeconomy (discusses at least three)   * can supplement domestic investment and result in an increase in real GDP (higher economic growth) * can increase employment * has helped to fill Aust’s investment-savings gap * has contributed to improvements in technology & management skills – increasing labour productivity- increasing GDP (supply side) * Foreign investment will usually appreciate the AUD – this can have a negative effect on the exporting sector, but a positive effect on the importing sector * will increase govt tax revenue, increasing the budget balance   Effects on the balance of payments   * foreign direct investment is recorded in the financial account of the balance of payments * an inflow of foreign direct investment will increase the financial account balance * the servicing costs are recorded in the income section of the current account * the income payments associated with an inflow of foreign direct investment are dividends (foreign equity) and interest (foreign debt) * will result in a decrease in the income balance which will decrease the current account balance * FDI into Australia – increases demand for AUD – Appreciating the AUD –causing exports to decrease and imports to rise leading to a decrease in BOGS and CAB. * FDI flows into mining and other export sectors will expand the export sector and a potential increase in export income (BOGS). * Can increase imports of both capital and consumer goods – decreasing BOGS and CAB | |