**ETAWA Year 11 ATAR 2016**

**Marking Guide**

**Section 1 (24 marks)**

1 A

2 B

3 D

4 D

5 B

6 C

7 C

8 B

9 A

10 B

11 D

12 C

13 A

14 A

15 C

16 B

17 A

18 C

19 D

20 C

21 D

22 A

23 B

24 D

**Section 2 (36 marks)**

**Question 25 (12 marks)**

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| a i P.E.D. = % change in Q / %change in P  = 12.6/18 = 0.7  ii D is inelastic  Any one reason: few substitutes; narrowly defined; addictive | 1 mark  1 mark  1 mark |
| b. The tax will cause a decrease in S (refer to diagram) - Draw a new S curve (St)  Show the price paid by buyers (p2) & the price received by sellers (p3) – half mark each  Show the size of the tax (p2p3) & the decrease in quantity sold (q2) – half mark each | 1 mark  1 mark  1 mark |
| c. The incidence of the tax will be on consumers (see below)  Reason – because D is more inelastic compared to supply  Consumer pays p1p2; Seller pays p1p3 | 1 mark  1 mark  1 mark |
| d. The deadweight loss refers to the decrease in total surplus because the tax has reduced quantity.  This tax would decrease the consumption of a good that imposes large social costs on society, so in this sense it is a good tax since it would increase total surplus. | 1 mark  1-2 marks |

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**Question 26 (12 marks)**

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| a. i. 2007 or 2008.  The U rate (approx. 4%) is below the natural rate (5%)  ii. The U rate increased from around 4% to approx.. 6%  The GFC caused the economy to contract | 1 mark  1 mark  1 mark  1 mark |
| b. U rate = No. unemployed / labour force x 100  Part. rate = labour force / working age pop. X 100 | 1 mark  1 mark |
| c. There is normally a negative relationship between the U rate & the part. rate – as U increases, the part. rate decreases.  When the economy contracts, the unemployment rate increases which reduces the incentive for people to enter the labour force & the part. rate will therefore fall | 1 mark  1 mark |
| d. After 2012, employment growth fell to below 2% and was actually zero during 2014.  The U rate rose from around 5% in 2012 to over 6% (6.2%) in 2015.  The end of the mining boom (slowdown in China) caused a contraction in the economy. Fall in economic growth reduces employment growth which causes the U rate to increase. | 1 mark  1 mark  1-2 marks |

**Question 27 (12 marks)**

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| a. Coincident indicator: new car sales  Leading indicator: share price index | 1 mark  1 mark |
| b. Trough: 2009.  Lowest GDP growth rate - economy then recovers in 2010  Peak: 2012  Highest growth rate – economy then slows | 1 mark  1 mark  1 mark  1 mark |
| c. As unemployment falls, labour shortage causes wages to rise which increases the inflation rate  In 2009, high U (5.8) rate & low inflation rate (1.4).  In 2010 & 2011, U falls & inflation rate increases. Also 2015. (need 2 separate years) | 1 mark  1-2 marks |
| d. Economic growth – NO. Growth rate of 2.1 is below the objective of 3-3½ % growth in real GDP  Full employment – NO. The U rate of 6.1% is above the natural rate of 5%  Price stability (low inflation) – arguably YES but some may argue that it is below target range of 2-3% so NO (accept either) | 1 mark  1 mark  1 mark |

**Section 3 (40 marks)**

**Answer TWO questions**

**Question 28 (20 marks)**

a. What do economists mean by ‘market equilibrium’? What do economists mean by a ‘shortage’? By a ‘surplus’? Explain how the price mechanism clears shortages and surpluses. (10 marks)

b. Use the demand/supply model to explain each of the following:

i. Hepatitis scare in frozen berries causes price of fresh berries to rise.

ii. The worldwide demand for large screen LCD televisions continues to increase annually and yet the prices of these televisions continues to fall.

(10 marks)

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| a. Meaning of equilibrium – Qd = Qs, market is in balance, perhaps draw diagram to illustrate  Meaning of shortage: Qd > Qs due to price < equilibrium  Meaning of surplus: Qs > Qd due to price > equilibrium  D/S diagram showing price above equilibrium resulting in a surplus (excess supply) – sellers will bid price down to clear the surplus. As price falls, Qd will increase & Qs will decrease  D/S diagram showing price below equilibrium resulting in a shortage (excess demand) – buyers will bid price up to clear the shortage. As price rises, Qd will decrease & Qs will increase | 1-2 marks  1-2 marks  1-2 marks  1-2 marks  1-2 marks |
| b. 5 marks for each  i. This will cause an increase in demand for fresh berries.  Fresh berries and frozen berries being close substitutes.  Diagram showing market for fresh berries - increase in D \*D curve shifts to right), causing price & qty of fresh berries to increase  ii. There is an increase in demand for large screen TVs & at the same time there is an increase in supply due to improved technology reducing costs.  The key is that the increase in S is much greater than the increase in D which causes equilibrium price to fall – must show this on the diagram. | 1 mark  1 mark  1-3 marks  1-2 marks for explanation  1-3 marks for diagram |

**Question 29 (20 marks)**

Explain the role of the government in a modified market economy. Refer to each of the following:

i. the regulation of business enterprises

ii. the provision of goods and services

iii. redistributing income

iv. stabilising the business cycle

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| Basically 5 marks to explain each role  For each need to explain meaning of role (2 marks) & then provide 3 examples (3 marks) |  |
| i. Regulation of business enterprises  There is a need for govt regulation to ensure safety & security across many industries from food to health to construction. For example regulation of hospitality, air travel, financial services (ASIC) to protect the interests of society. ACCC monitors anti-competitive business practices to promote competition | 1-5 marks |
| ii. Provision of goods & services  Need to discuss the provision of essential services such as water, electricity – considered natural monopolies.  The provision of public goods – nonrival & nonexcludable such as roads, police services, street lights  The provision of merit or socially desirable goods such as art galleries, museums etc  The provision of goods that create positive externalities such as public health, public education & public transport | 1-5 marks |
| iii. Redistributing income  This is about improving equity – redistributing income from the ‘rich’ to the ‘poor’. The govt’s role is to provide a safety net for low income & less fortunate members of society.  Redistributing income is achieved through the govt’s tax system & social security system. The main tax in Australia is personal income tax which is progressive; large part of govt expenditure is on social welfare – payments to low income groups. | 1-5 marks |
| iv. stabilizing the business cycle  Define the business cycle. Govt plays a role in minimizing the fluctuations in economic activity – preventing the economy from becoming ‘overheated’ and from falling into recession. Periods of high unemployment & high inflation impose costs on society | 1-5 marks |

**Question 30 (20 marks)**

Economic growth in China has decreased in recent years. Explain how and why this would have affected Australia’s business cycle including the effects on the components of aggregate expenditure and on key economic indicators such as unemployment, inflation and the current account balance. (20 marks)

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| Importance of China to Australia’s business cycle – China is Australia’s main trading partner so a contraction in China will have a negative effect on Australia’s business cycle – the economy would contract, production, employment & income would fall. | 1-4 marks |
| Effects on components of aggregate expenditure  AE = C + I + G + NX  Aust’s exports to China would fall – reducing net Xs  National income would fall & unemployment would rise which would reduce consumption expenditure  Business investment would contract – esp. in the mining sector  Govt expenditure is likely to increase because of the rise in unemployment  Net result would be a decrease in the level of AE | Basically 2 marks for a discussion of each of the components (4) of AE  4 x 2 marks = 8 marks  2 marks |
| Effects on unemployment, inflation & the current account balance  Unemployment would increase (cyclical) due to the contraction in economic activity  ’The inflation (demand) rate would fall as the economy slowed  The current account balance would fall (CAD would rise) since exports would fall reducing the trade balance | 2 marks for each  3 x 2 = 6 marks |

**Question 31 (20 marks)**

a. Distinguish between public goods and common resources. Provide examples of each and explain why they cause markets to fail. (10 marks)

b. What are externalities? Why do they occur? Provide an example of a negative externality and use a model to explain why the market fails and how the government may resolve the problem. (10 marks)

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| a. 5 marks to discuss public goods & 5 marks for common resources  Public goods – goods that are nonrival in consumption & nonexcludable (explain what this means)  Any Two examples: e.g. national defence; national park  Public goods suffer from the ‘free rider; effect – people can consume them without paying (nonexcludable)  Common resources - goods that are rival in consumption & nonexcludable (explain what this means)  Any Two examples: fish in the ocean, endangered wildlife; congested roads  Common resources suffer from the tragedy of the commons – they are depleted because they are rival & they have no price e.g. depletion of the world’s fish stocks | 1-2 marks    1 mark  1-2 marks  1-2 marks  1 mark  1-2 marks |
| b. Define externalities – positive & negative  They occur because property rights are not clearly assigned e.g. no one owns the environment  Negative externality (such as pollution) – diagram showing divergence of private (Sp) & social cost (Ss); efficient qty < market qty, the market overproduces which creates a deadweight loss  Govt policy to internalize the externality could be through a tax – set tax = external cost or through regulation to reduce the qty to the efficient level. | 1-2 marks  1 mark  1-4 marks  1-3 marks |