ECONOMICS Unit 3 Semester 1, 2020 Marking Key

**Section One: Multiple Choice (20 Marks)**

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

**Section Two: Data interpretation/Short response (24 Marks)**

**Question 21 (12 marks)**

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| a | 4.5% | 1 mark |
| b | Trade | 1 mark |
| c. i | Decrease | 1 mark |
| c. ii | Explain any three economic effects | 1 mark per effect |
| e | Accurately draws, labels and explains the impact of a tariff diagram.  Identifies and explains the impact of the tariff on the importing country.  Identifies and explains the impact of the tariff on the exporting country. | 1 – 2 marks  1 -2 marks  1 -2 marks |

**Question 22 (12 marks)**

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| --- | --- | --- |
| a. i. | Export Price Index/Import Price Index x 100 | 1 mark |
| ii. | March 2016 | 1 mark |
| b | Identifies the trend as favourable.  Provides a reason for this change such as an increase of commodity prices which increases export price index. Must link reason to shifting either the export price index or the import price index. | 1 mark  1 mark |
| c | A favourable movement in the terms of trade would cause, ceteris parabus, an appreciation of the TWI. This is due to price of exports rising comparative to import prices and therefore increasing demand for Australian currency or decreasing supply. | 1 - 2 marks |
| d | Identifies current global crisis as Covid\_19.  Identifies and explains a change in terms of trade due to covid. Any reasonable explanation.  Identifies and discusses two effects of the change in terms of trade on the Australian economy. | 1 - 2 marks  1 -2 marks per effect |

Marker’s Notes: Use of terminology is key here – appreciating for exchange rates; improving/favourable shifts for Terms of trade. Increasing is not good enough.

Whenever discussing terms of trade, you have to make it clear that the change comes from an impact on either export or import prices – not value.

Export competing industries is not a thing!

Key issue: Actually explaining reasons in part b.

**Section Three: Extended response (40 Marks)**

**Question 23** **(20 marks)**

1. Describe the patterns in the direction and composition of Australia’s trade and explain the significance of trade to Australia. (10 marks)

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| Identifies and describes the direction and composition of Australia’s trade.  May discuss changing patterns of trade for Australia over time. | 1 – 6 marks |
| Explains the significance of trade in Australia. Could include:   * Small population * Trade intensity * Comparative Advantage in resources, disadvantage in manufacturing * Economic growth/employment opportunities due to trade * Role of trade agreements/blocs * Any other reasonable discussion | 1 -5 marks |

1. Explain the gains from trade, with reference to appropriate diagrams. (10 marks)

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| Uses the Gains from trade model to show benefits from trade. Must identify how an increase in total surplus is gained through both exports and imports. | 1 -4 marks per model including detailed explanation |
| Explains benefits from trade. Discussion should include:   * Specialisation * Economies of scale * Comparative advantage | 1 -4 marks |

**Marker’s Note:**

- Part a

Patterns of trade: some not discussing services.

A lot not putting enough time and effort in to the second part of the question ‘explain the significance of trade to Australia’. Lots of people discussing benefits of trade rather than significance, this is a different question.

* Part b

Split of dynamic and static gains was a very good way to structure your answer.

Static (use diagram) and dynamic (discussion)

Students forgetting to discuss what an increase in surplus or welfare actually means for economy.

**Question 24** **(20 marks)**

1. Describe the Trade Weighted Index (TWI) and explain and demonstrate four factors affecting the movement of the TWI. (10 marks)

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| Definition and description of Trade Weighted Index | 1-2 marks |
| With reference to a correct diagram, explains any valid factors, e.g.   * Economic growth of trading partners * Domestic economic growth * Commodity prices * Terms of trade   Every factor should refer to a diagram in the analysis | 1-2 marks each factor |

Markers notes: Inflation needs to be discussed as relative inflation and then the impact on international competitiveness. Remember to refer to diagrams in discussion. Diagrams can be drawn separately.

1. Explain the impact of a movement in the exchange rate on various sectors in the economy. (10 marks)

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| --- | --- |
| Explain the impact on various sectors with reference to income and employment levels  Can discuss either appreciation or depreciation of AUD  Valid discussion is awarded   * Marks awarded for household sector and financial sector/foreign investment   Notes: Definition for exchange rate is needed |  |
| Mining sector   * An appreciation of the exchange rate would have minimal impact * Inelastic price elasticity of demand * Decreased cost of capital | 1-2 marks |
| Agricultural/rural sector   * An appreciation reduces the competitiveness of our exports * Total revenue would fall due to elastic demand * Supply is inelastic | 1-2 marks |
| Services sector   * An appreciation of the exchange rate makes exports less competitive * Total revenue would fall due to elastic demand * Import-competing sectors would lose out as imports are now comparatively cheaper * Service sector would see lower revenue as a whole and therefore lower levels of employment | 1-3 marks |
| Manufacturing sector   * An appreciation would reduce the competitiveness of exports * Total revenue would fall due to elastic demand * Import-reliant industries would benefit from lower costs of production | 1-3 marks |

**Question 25 (20 marks)**

(a) Discuss the concept of foreign investment and the benefits and costs of foreign direct investment to the Australian economy. (12 marks)

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| Define concept of foreign investment | 1 -2 marks |
| Discusses the benefits of FDI. Could include:   * Closes I-S gap * Expands productive capacity of economy * Brings new technology and management techniques * May increase capital/labour ratio * Any other reasonable argument | 1 – 6 marks |
| Discusses the costs of FDI. Could include:   * Foreign ownership and lack of control * Profits flowing overseas ie foreign liability * Any other reasonable argument | 1 – 4 marks |
|  |  |

(b) Explain the relationship between foreign investment, the balance of payments and foreign liabilities. (8 marks)

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| --- | --- |
| Define balance of payments | 1 mark |
| Define foreign liabilities | 1 mark |
| Explains the relationship with reference to:   * Inflow of foreign investment due to I-S gaps recorded in CF Account * Creates foreign liabilities * Servicing of foreign liabilities recorded on primary income account, persistent deficit (structural cause) * Impact on current account balance * Outflow of foreign investment ie foreign assets also to be discussed. | 1 – 6 marks |