ECONOMICS Unit 3 Semester 1, 2022

**MARKING KEY**

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

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

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

**Question 21 (12 marks)**

|  |  |  |
| --- | --- | --- |
| (a) | 17.5% to 18% of GDP | 1 mark |
| (b) (i) | Lowest opportunity cost | 1 mark |
| (ii) | Any two sources of comparative advantage in the Agricultural industry, briefly described. Could include:   * Natural endowments * Capital intensity (capital/labour ratio) * Any other reasonable source | 1 – 2 marks |
| (c) | Correctly identifies trend. Increase in trade balance  Provides two reasons for the trend. Could include:   * Increase in commodity prices * Decrease in imports due to contraction of domestic economy/covid/consumer uncertainty/producer uncertainty | 1 mark  1 – 2 marks |
| (d) | Correctly defines Australian TWI.  Correctly draws TWI Diagram showing increase in demand and decrease in supply.  Explains the impact of an increasing trade balance on the TWI:   * Increase in demand due to rise in exports * Decrease in supply due to fall in imports * Resulting in an appreciation (or increase) of the TWI | 1 mark  1 – 2 marks  1 – 2 marks |

**Question 22 (12 marks)**

|  |  |  |
| --- | --- | --- |
| (a) (i) | (957.2 – 809.4) / 957.2 x 100 = **- or decrease of 15.44%** | 1 mark |
| (ii) | Any reasonable explanation.   * Significant outflow of equity investment (395.5 – 229.6) even though debt increased lead to overall decrease in net position | 1 mark |
| (iii) | Describes two effects of a decrease in NII. Could include   * Increase in income inflows on current account * Decrease in income outflows on current account * Appreciation of currency * Contractionary impact on the economy | 1 – 2 marks |
| (b) | Defines both foreign assets and foreign liabilities and differentiates between them. | 1 -2 marks |
| (c) | Explains the relationship between the current account and foreign liabilities. Should include:   * Foreign liabilities in the form of equity and debt are serviced on the income account * Decrease in FL improves income acc as recorded in the current account * When S>I then we will have lower FL and a current account surplus * When S<I then we will have higher FL and a current account deficit | 1 – 5 marks |

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

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

1. Outline the significance of trade to Australia and describe the patterns and trends in Australia’s direction and composition of trade.

|  |  |  |
| --- | --- | --- |
| **Description** | **Marks** | |
| **Significance of Trade to Australia** | | |
| Outlines the significance of trade to Australia | 2 |  |
| States the significance of trade to Australia | 1 |  |
| **Patterns and trends in Australia’s direction of trade** | | |
| Describes the patterns and trends in Australia’s direction of trade, including our top 5 two way trading partners | 2 |  |
| Identifies the patterns and trends in Australia’s direction of trade | 1 |  |
| **Patterns and trends in Australia’s composition of trade** | | |
| Describes the patterns and trends in Australia’s composition of trade (exports and imports), including our current top 5 exports and imports | 3 – 4 |  |
| Identifies the patterns and trends in Australia’s composition of trade | 1 - 2 |  |
|  | **8 marks** |  |

1. Demonstrate and explain how tariffs and subsidies effect the Australian economy.

|  |  |  |
| --- | --- | --- |
| **Description** | **Marks** | |
| **Models** | | |
| **Two (2)** correctly labelled demand and supply diagrams [**tariff and subsidy**]. | 1-4 |  |
| **Explanation** | | |
| **Definition:** Tariffs and Subsidies | 1 -2 |  |
| **Effects of a Tariff**  **Eg.**   * Increase in price for consumer, fall in consumer surplus * Artificial price advantage for producer, greater market share and increase in producer surplus * Government tax * Deadweight loss | 1-3 |  |
| **Effects of a Subsidy**  **Eg.**   * Increase in supply due to subsidisation of production costs * Increase in market share by domestic producers and increased benefit in form of PW + S, leading to increase in producer surplus * Government cost * Deadweight loss | 1-3 |  |
|  | **12 marks** |  |

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

1. Using examples of international transactions, describe the structure of the current account of Australia’s balance of payments. (8 marks)

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| --- | --- | --- |
| **Description** | **Marks** | |
| **Current Account** | | |
| Describes correctly all categories of the Current Account. | 4-5 |  |
| Describes most of the categories of the Current Account. | 2-3 |  |
| Limited description of the Current Account. | 1 |  |
| **Credit and Debit entry examples** | | |
| Includes a range of appropriate examples in relation to credit and debit entries | 2 |  |
| Uses limited examples | 1 |  |
| **Reference to Australian economy** | | |
| Makes reference to characteristics of Australia’s current account (Trade and Income balance) | 1 |  |
|  | **8 marks** |  |

1. Describe the concept of terms of trade and discuss the significance of a movement in Australia’s terms of trade on consumers, businesses and the macroeconomy.

(12 marks)

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| **Description** | **Marks** | |
| **Terms of trade** | | |
| Description of terms of trade – must include definition and formula | 1 -2 |  |
| **Consumers (+/-)** | | |
| Detailed discussion involving significance for consumers | 2 |  |
| Limited discussion involving significance consumers | 1 |
| **Businesses (+/-)** | | |
| Detailed discussion involving significance for businesses | 2-3 |  |
| Limited discussion involving significance businesses | 1 |
| **Macroeconomy (+/-)** | | |
| Detailed discussion involving significance for macroeconomy | 2-3 |  |
| Limited discussion involving significance for macroeconomy | 1 |
| **Note:** Must reference Australia’s economy | 1-2 |  |
|  | **12 marks** |  |
| **Responses could include:**  **Significance for consumers**   * imports purchased   **Significance for producers**   * Impact on Australia specific sectors   **Significance for macroeconomy**   * change in AD * economic growth (real GDP) * general prices (inflation) * Employment * Living standards   **Others**   * on trade balance * Appreciation/depreciation – link to outcome   **Impact on any valid area** | | |

**Question 30 (20 marks)**

(a) Using a demand and supply model and appropriate examples, illustrate and explain how the exchange rate value of the Australian dollar is determined under a freely floating system. (10 marks)

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| **Description** | **Marks** | |
| **Models** | | |
| **Two (2)** correctly labelled demand and supply diagrams [**an appreciation**  **and depreciation**] showing the correct shift in demand and/or supply. | 1-3 |  |
| **Explanation** | | |
| **Definition:** Floating exchange rate system | 1 |  |
| **Demand factors:**  **Eg.**   * Exports of goods and services * Receipts of income from overseas; and * Capital inflow (foreign investment into Australia) * etc | 1-3 |  |
| **Supply factors**:  **Eg.**   * Imports of goods and services; * Payments of income to overseas; and * Capital outflow * Etc. | 1-3 |  |
| **Note:** Must relate changes in demand and/or supply to impact on exchange rate value |  |  |
|  | **10 marks** |  |

(b) Discuss the impact of a movement in the exchange rate on consumers, producers and the Australian economy. (10 marks)

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| --- | --- | --- |
| **Description** | **Marks** | |
| **Consumers (+/- impact)** | | |
| Detailed discussion involving impact on consumers | 2 |  |
| Limited discussion involving impact on consumers | 1 |
| **Producers (+/- impact)** | | |
| Detailed discussion involving impact on producers | 3-4 |  |
| Limited discussion involving impact on producers | 1-2 |
| **Economy (+/- impact)** | | |
| Detailed discussion involving impact on the economy | 3-4 |  |
| Limited discussion involving impact on the economy | 1-2 |
|  | **10 marks** |  |
| **Responses could include:**  **Impact on consumers**   * Impact on prices (imported goods, overseas travel)   **Impact on producers**   * competitive advantage – price of exports in foreign currency * resources shift to traded goods sector – exporting and import competing firms * producer payment for imported capital items or raw materials * price of imports in AUD   **Impact on economy**   * economic growth (real GDP) * general prices (inflation) * Employment * Living standards   **Others**   * Trade balance and CA outcome * On foreign debt   **Impact on any valid area** | | |