**YEAR 12 SEMESTER 2 EXAMINATION MARKING GUIDE**

**Section 1: Multiple Choice (24 marks)**

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

**Section 2: Data interpretation/Short Answer**

**Question 25**

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| Question | Description | Marks |
| A(i) | Bushfires and COVID-19 pandemic (both required) | 1 |
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| A(ii) | Government spending | 1 |
|  |  |  |
| A(iii) | -0.85% to -1.0% | 1 |
|  |  |  |
| B | Reference to data: Consumption (-0.2%) and investment (about -0.85%) have both fallen  States effectiveness: Not very effective  Refers to current cash rate: All time low of 0.25%  Brief explanation: Low confidence levels  Any valid discussion. Must refer to data in response. | 1-4 |
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| C | Refer to data (Net exports have risen by about 1% due to fall in imports)  Diagram: Correctly drawn and labelled  Discussion should include:   * Explanation of diagram * Multiplier effect | 1-5 |

**Question 26**

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| Question | Description | Marks |
| A | Any year from 2014 onwards | 1 |
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| B | The Australian dollar fell 11.2 per cent | 1 |
|  |  |  |
| C | 40% of GDP | 1 |
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| D | Define foreign debt: Foreign investment accumulated through borrowing  Define foreign equity: Foreign investment accumulated through the sale of assets  Cost of foreign debt can include:   * Debt trap * Income servicing costs – can reduce standard of living   Cost of foreign equity can include:   * Increased vulnerability to external shocks * Increased foreign ownership can distort resource allocation   Any valid reasoning. | 1-4 |
|  |  |  |
| E | Trend:   * Net foreign liabilities have fallen from about 60% in 2017 to 40% in 2020 * Net equity has been decreasing   Explain impacts:   * Impact on financial account – Decreased investment inflows/ Increased investment outflows * Impact on income account – Decreased income servicing costs/Increased income receipts   + Decreased income deficit, so smaller current account deficit/larger current account surplus   + Correspondingly, financial account surplus would be smaller   Answer should refer to both the current account and the financial account for full marks | 1-5 |

**Question 27**

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| Question | Description | Marks |
| A | 0.4% | 1 |
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| B | Labour productivity | 1 |
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| C | Define capital deepening: Refers to the improvements in the quality of capital used  Explain importance, e.g.:   * Improves the efficiency of production (speed can increase)   Any valid response | 1-2 |
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| D | Any valid responses, including:   * Decreased growth in multifactor productivity * Slow wage growth discouraging improvements in skill * Slowdown in improvements in technology   At least 2 reasons should be provided | 1-3 |
|  |  |  |
| E | Explain how structural change can cause economic growth, e.g.:   * Structural change can lead to improvements in productivity due to greater efficiency   Explain how economic growth can cause structural change   * Economic growth can cause a change in the pattern of output due to specialisation * Economic growth can cause a change in consumer demand due to increased income levels   Any valid discussion | 1-5 |

**Section 3: Extended Responses**

**Question 28**

1. Demonstrate and discuss the impact of tariffs and subsidies on trade and market efficiency.

(10 marks)

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| --- | --- |
| Description | Marks |
| Explain tariffs   * Define * Diagram – correctly drawn * Explain diagram   + Link to CS, PS, DWL   + Change in price and quantity | 1-5 |
| Explain subsidies   * Define * Diagram – correctly drawn * Explain diagram   + Link to CS, PS, DWL   + Change in price and quantity | 1-5 |

1. Using an appropriate model, explain the economic arguments for trade liberalisation in Australia. (10 marks)

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| --- | --- |
| Description | Marks |
| Define trade liberalisation | 1 |
| Application of models (D-S model)  Explanation of arguments, can include:   * Benefits of trade (demonstrated on diagram) * Benefits of lowering tariffs * Benefits of specialisation and trade (reference to PPF)   Need 2-3 arguments | 1-9 |

**Question 29**

1. Discuss the concept of an exchange rate and demonstrate and explain factors influencing the value of the Australian Dollar. (8 marks)

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| Description | Marks |
| Define exchange rate | 1 |
| Explanation of factors with reference to appropriate diagrams  Factors include:   * Commodity prices * World economic growth * Domestic economic growth * Relative inflation rates   Diagrams must be applied and correctly drawn for full marks | 1-7 |

1. Australia’s terms of trade has increased from 86 index points in the July quarter of 2017 to 98.3 index points in the July quarter of 2020. Explain the likely economic effects of this movement in terms of trade on the exchange rate, balance of trade and the macroeconomy. (12 marks)

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| Description | Marks |
| Define terms of trade, identify that it is a favourable movement | 1 |
| Explanation of impacts on exchange rate, including:   * Appreciation due to increased demand for AUD | 1-2 |
| Explanation of impacts on balance of trade   * Export prices have risen relative to import prices * Given the inelastic nature of our exports, this means export revenue has increased * Balance of trade will become more positive | 1-3 |
| Explanation of impacts on the macroeconomy   * Greater export revenue 🡪 Higher national income 🡪 Economic growth * Demand pull inflation due to higher levels of demand * Exporter can produce more, utilising more resources 🡪 lower unemployment rates | 1-6 |

**Question 30**

1. Discuss three potential causes of structural change in the Australian economy. (8 marks)

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| --- | --- |
| Description | Marks |
| Definition of structural change | 1 |
| Any 3 valid causes discussed in detail, e.g.:   * Growth in Asian economies 🡪 increasing demand for resources 🡪 growth in mining sector * Economic growth 🡪 Rising incomes 🡪 Increased demand for services * Globalisation 🡪 Increasing trade and specialisation 🡪 Change in pattern of industry output * Technological advancements 🡪 Changing pattern of output 🡪 Increasing demand for skilled workers   Comments: | 1-7 |

1. Demonstrate and explain the relationship between improvements in productivity and the macroeconomic objectives. (12 marks)

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| Description | Marks |
| Define productivity | 1 |
| Define macroeconomic objectives with target ranges | 1-3 |
| Diagram (correctly drawn and labelled)   * Improvement in productivity means AS will shift to the right | 1-2 |
| Relation to the objectives (with reference to the diagram where appropriate):   * Increased economic growth – Helps to achieve sustainable economic growth * Lower inflationary pressure – Helps to support objective of price stability * increasing employment opportunities – Helps to achieve full employment and equitable distribution of income * Achievement of equitable distribution of income can be subjective as structural change can benefit skilled workers but disadvantage lower-skilled workers * Increased productivity aids the objective of efficient allocation of resources as resources are used in a more optimal manner   Any valid discussion. All five objectives need to be defined and referenced for full marks.  Comments: | 1-6 |

**Question 31 (20 marks)**

Using the AD/AS model, discuss the current fiscal policy stance of the Government with reference to the business cycle and evaluate its effectiveness in achieving the government’s economic objectives.

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| Description | Marks |
| Define fiscal policy | 1 |
| Diagram (AD curve must intersect in the Keynesian range) | 1-2 |
| Identify current economic conditions and link to business cycle   * Include reference to data * Can identify downturn or trough   Describe current fiscal policy stance: Expansionary  Examples of the government measures being applied, e.g.   * Jobkeeper * COVID supplement * Free childcare * COVID payment to welfare recipients (2\*$750) * Homebuilder | 1-7 |
| Define government economic objectives | 1-3 |
| Evaluation of effectiveness – Any valid discussion, e.g.:   * Directly increases AD so will help to increase economic growth * Increases demand-pull inflation * Helps to lower unemployment rate * However unemployment rates are still high * Can improve equitable income distribution * Can ensure that resources are still being employed   Should have clear evaluation of the effectiveness of FP.  Comments: | 1-7 |