

# MARKING KEY

DRAFT

## Economics Stage 2: Marking key

### SECTION ONE—MULTIPLE-CHOICE

Question	Correct response
1.	A
2.	C
3.	D
4.	B
5.	C
6.	A
7.	C
8.	C
9.	C
10.	B
11.	C
12.	C
13.	D
14.	D
15.	D
16.	C
17.	D
18.	C
19.	B
20.	C
21.	D
22.	D
23.	C
24.	B
25.	A
26.	B
27.	C
28.	B
29.	A
30.	C

[1 mark each]

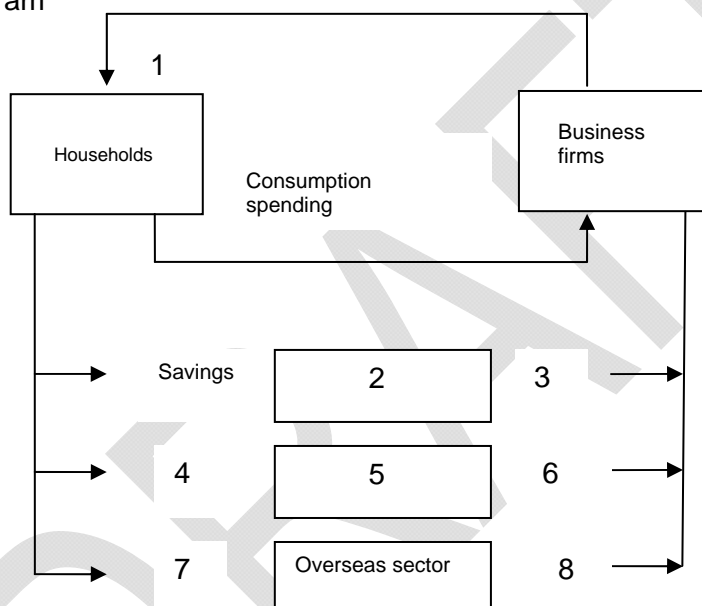
**30 marks**

## SECTION TWO—DATA INTERPRETATION AND SHORT ANSWER

### Question 1(a)

Description	Marks
<ul style="list-style-type: none"> <li>Income (1)</li> <li>Financial/capital sector (2)</li> <li>Investment spending (3)</li> <li>Taxation (4)</li> <li>Government sector (5)</li> <li>Government spending (6)</li> <li>Imports (7)</li> <li>Exports (8)</li> </ul>	Any four for one mark
<b>Total</b>	<b>2 marks</b>

Diagram



### Question 1(b)

Description	Marks
<ul style="list-style-type: none"> <li>Leakages withdraw funds from the Circular Flow Model (CFM) and include savings, taxation and imports. Leakages reduce the level of income in the CFM.</li> </ul>	1 mark
<ul style="list-style-type: none"> <li>Injections are additions to funds in the CFM and include investment, government spending and exports. Injections increase the level of income in the CFM.</li> </ul>	1 mark
<ul style="list-style-type: none"> <li>Equilibrium is a state of balance in the CFM from which there is no tendency to change and it occurs when leakages equal injections, that is <math>S + T + M = I + G + X</math>.</li> </ul>	1 mark
<b>Total</b>	<b>3 marks</b>

### Question 1(c)

Description	Marks
<ul style="list-style-type: none"><li>• Equilibrium occurs when leakages equal injections. If injections increase to become greater than leakages this will mean that total spending has increased. This will cause total output to increase to match the increase in spending. The demand for resources (derived demand) including labour (employment) will rise.</li></ul>	2 marks
<ul style="list-style-type: none"><li>• Stock or inventories that business firms hold will fall.</li></ul>	1 mark
<ul style="list-style-type: none"><li>• Increases in household income leads to higher consumption spending as well as higher leakages (according to the MPC). The economy will go through a series of adjustments until spending again matches output and leakages equal injections.</li></ul>	1–2 marks
<b>Total</b>	<b>5 marks</b>

### Question 2(a)

Description	Marks
<ul style="list-style-type: none"><li>• (i) The equilibrium price of a block of land is \$200 000</li></ul>	1 mark
<ul style="list-style-type: none"><li>• (ii) The revenue raised by the government is <math>40 \times \\$200\,000 = \\$8\,000\,000</math></li></ul>	1 mark
<b>Total</b>	<b>2 marks</b>

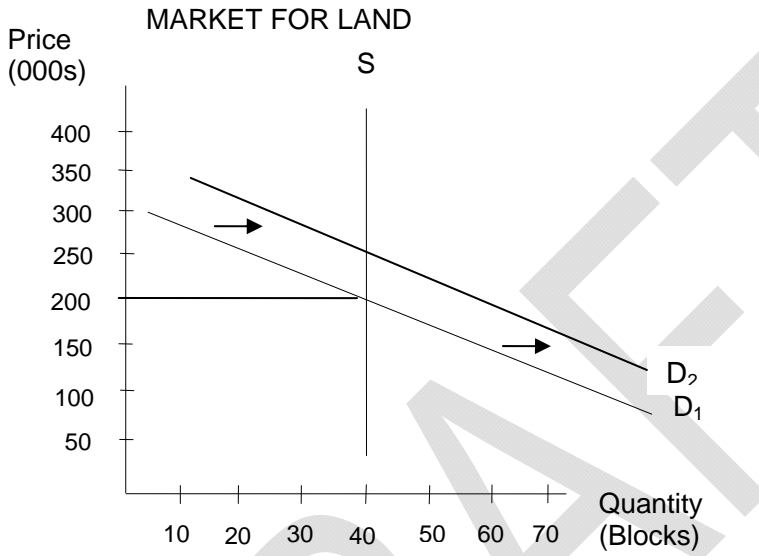
### Question 2(b)

Description	Marks
<ul style="list-style-type: none"> <li>If the government charged a price of \$150 000 it would be below the equilibrium price. Demand would exceed supply and there would be a shortage.</li> </ul> <p>Diagram</p> <p>(Assume: 40 blocks on offer in this land sale)</p>	<p>2 marks</p> <p>1 mark</p>
<b>Total</b>	<b>3 marks</b>

### Question 2(c)

Description	Marks
<ul style="list-style-type: none"> <li>The price elasticity of demand in this market is elastic, that is, a change in price causes a proportionately larger change in quantity demanded.</li> <li>When the price changes from \$200 000 to \$150 000, quantity demanded increases from 40 000 to 70 000. Total revenue increases from \$8 000 000 to \$10 050 000. As total revenue has increased this indicates the demand is elastic.</li> </ul>	<p>1–2 marks</p> <p>1–2 marks</p>
<b>Total</b>	<b>4 marks</b>

**Question 2 (d)**

Description	Marks
<p>• Increased labour migration increases the population in WA—a factor affecting demand. Combined with the additional payment of \$2000 by the state government adding to the federal government grant, the demand for land will increase. This will move the demand curve to the right. The supply of land is fixed and therefore the price of land will increase. The price of land will be more expensive in the future.</p> <p>Diagram</p>  <p>(Assume: 40 blocks on offer in this land sale)</p>	<p>1–4 marks</p> <p>1-2 marks</p>
<b>Total</b>	<b>6 marks</b>

### Question 3(a)

Description	Marks
<ul style="list-style-type: none"><li>(i) The unemployment rate is <math display="block">\frac{545.6}{10390.3} \times 100 = 5.25\%</math></li><li>(ii) The participation rate is <math display="block">\frac{10605.3}{16441.4} \times 100 = 64.5\%</math></li></ul>	1 mark  1 mark
<b>Total</b>	<b>2 marks</b>

### Question 3(b)

Description	Marks
<ul style="list-style-type: none"><li>The unemployment rate has fallen from 5.8% in 2003-04 to 5.1% in 2005-06 while the labour force participation rate has risen from 63.5 in 2004-04 to 64.5 in 2005-06.</li><li>The Australian economy has been experiencing strong economic growth during this time period. More jobs are being created reducing the unemployment rate. The participation rate is increasing as more people of working age are joining the workforce to take advantage of the job opportunities being created.</li></ul>	1 mark  1–2 marks
<b>Total</b>	<b>3 marks</b>

### Question 3(c)

Description	Marks
<ul style="list-style-type: none"><li>A period of strong, sustained economic growth is compatible with full employment. Full employment is where all those who want a job have one. The economy is at the natural rate of unemployment.</li><li>As the economy expands more resources are required to produce goods and services and employment levels rise. Cyclical unemployment falls. There may be some structural unemployment in the short-term as a result of changes in the structure of the economy but retraining should overcome this in the longer term.</li><li>Reward students who explain that as a result of economic growth and full employment there could be inflationary pressures in the economy—demand pull—too much money chasing too few goods.</li></ul>	1–2 marks  1–3 marks
<b>Total</b>	<b>5 marks</b>



**Question 4(a)**

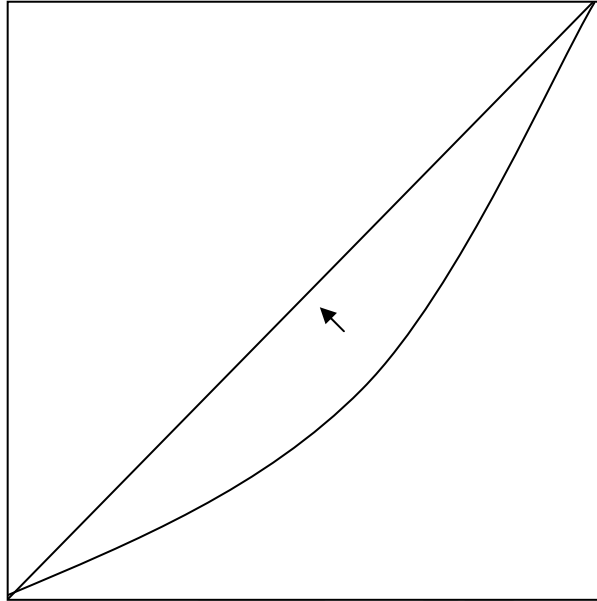
Description	Marks
<ul style="list-style-type: none"> <li>(i) The percentage of revenue collected from income taxation is \$119.560 million divided by the total taxation revenue of \$247 billion multiplied by 100. That is 48.4% (allow 47–49%).</li> </ul>	1 mark
<ul style="list-style-type: none"> <li>(ii) A transfer payment could be one of the following: Youth Allowance, Austudy, Abstudy, Newstart Allowance (unemployment benefit), age pension, health care card, baby bonus, carer allowance.</li> </ul>	1 mark
<b>Total</b>	<b>2 marks</b>

**Question 4(b)**

Description	Marks
<ul style="list-style-type: none"> <li>Progressive taxation - the rate of tax rises as the level of income rises. Example: personal income tax.</li> </ul>	1 mark
<ul style="list-style-type: none"> <li>Regressive taxation - the rate of tax falls as the level of income rises. Example: excise tax or customs duty (some students may refer to GST as being regressive—allow this, even though not in chart).</li> </ul>	1 mark
<ul style="list-style-type: none"> <li>Proportional taxation - the rate of tax remains constant as the level of income rises. Example: company tax.</li> </ul>	1 mark
<b>Total</b>	<b>3 marks</b>

Question 4(c)	Marks
<ul style="list-style-type: none"> <li>A drop in the marginal tax rate for the top income earners who earn over \$150 000 from 45 cents to 41 cents will worsen the distribution of income. This is because those who can afford to pay more are now paying a lesser proportion of their income to tax.</li> </ul>	1–2 marks
<p>A welfare reform which raises the unemployment benefit will improve the distribution of income in favour of those on lower incomes. This is because income is being redistributed towards the lower income earners.</p>	1–2 marks
<b>Total</b>	<b>4 marks</b>

**Question 4(d)**

Description	Marks
<ul style="list-style-type: none"> <li>Australia's progressive income tax system will work to reduce the level of inequality in the distribution of income. This can be demonstrated on the Lorenz curve. The extent of the bow in the actual distribution of income reduces so that it moves closer to the line of absolute equality, represented by the 45 degree line.</li> </ul>  <p>Cumulative proportion of income %</p> <p>Cumulative proportion of persons ranked according to income %</p>	<p>1–4 marks</p> <p>1–2 marks</p>
<b>Total</b>	<b>6 marks</b>

## SECTION THREE—SECTIONALISED LONG ANSWER

### Question 5(a)

Description	Marks
<ul style="list-style-type: none"> <li>Market failure occurs when the market forces of demand and supply lead to an under production or over production of a particular good or service. It is not at the optimal level of production from society's point of view.</li> </ul>	1-2 marks
<b>Total</b>	<b>2 marks</b>

### Question 5(b)

Description	Marks
<p>Price</p> <p>External cost</p> <p><math>S_s</math></p> <p><math>S_p</math></p> <p><math>P_o</math></p> <p><math>P_e</math></p> <p><math>Q_o</math></p> <p><math>Q_e</math></p> <p><math>Q</math> Output</p> <p>D</p>	1-5 marks (deduct half a mark for each error)
<b>Total</b>	<b>5 marks</b>

### Question 5(c)

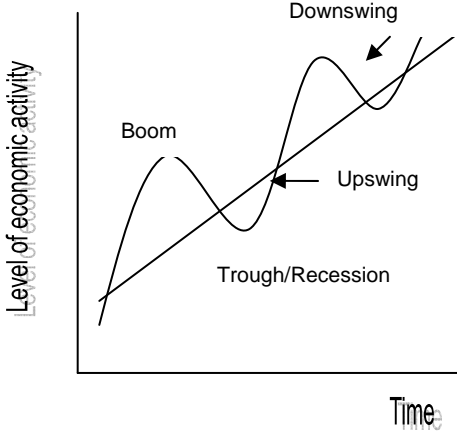
Description	Marks
<ul style="list-style-type: none"> <li>An externality occurs because the price mechanism fails to account for all of the costs associated with the production of a good or service. The market doesn't take into account the social costs of production such as air pollution; it only values the private costs</li> </ul>	1 mark
<ul style="list-style-type: none"> <li>Referring to the graph in 5(b) <math>P_e</math> is the market equilibrium price for m/v. At this price <math>S_p</math> is the supply curve for m/v and incorporates only the private costs of producers. <math>S_s</math> would be the supply curve if both the private and social costs were taken into account. The difference between the private costs and social costs is the externality.</li> </ul>	1 mark
<ul style="list-style-type: none"> <li>At the market equilibrium price the level of output of motor vehicles is <math>Q_e</math> whereas the optimal level of output for society is <math>Q_o</math> i.e. where demand equals social costs.</li> </ul>	1 mark
<ul style="list-style-type: none"> <li>The market is overproducing motor vehicles that create the negative externality—air pollution.</li> </ul>	1 mark
<ul style="list-style-type: none"> <li>If business firms were required to take into account both</li> </ul>	1 mark

private and social costs the price of m/v would be higher at $P_0$ and the level of output lower at $Q_0$	
<b>Total</b>	<b>5 marks</b>

**Question 5(d)**

Description	Marks
<ul style="list-style-type: none"> <li>• <b>Subsidies</b> are an example of a carrot approach to correcting market failure. They could be applied in the case of a positive externality to encourage firms to increase production—examples are vaccinations, education.</li> </ul>	1-4 marks
<ul style="list-style-type: none"> <li>• A <b>tax</b> could be regarded as a stick approach discouraging the production of a good or service that results in negative externalities. Taxes force firms to internalise the cost of production and account for the social cost—examples are taxes on alcohol, cigarettes and petrol.</li> </ul>	1-4 marks
<ul style="list-style-type: none"> <li>• <b>Assigning property rights</b> is a way of internalising an externality. It permits the private use of a resource. Property rights give the producer the incentive to manage the resource for the future because the producer will have a vested interest in maintaining the stocks of that resource—an example is a fishing licenses.</li> </ul>	1-4 marks
<ul style="list-style-type: none"> <li>• <b>Regulating</b> the use of common resources is a command and control policy. The government applies legislation regulating the use of the environment. Laws can be passed banning the use of environmentally damaging products or requiring environmental controls to be added to goods which generate harmful emissions—examples are emission controls on motor vehicles, banning of certain pesticides.</li> </ul>	1-4 marks
<ul style="list-style-type: none"> <li>• Providing <b>public goods</b> and services corrects for market failure in providing goods and services not adequately produced by the market. Public goods are non-rival in consumption and non-excludable so there is no incentive for the private sector to produce them—examples are defence, street lighting and policing.</li> </ul>	1-4 marks
Reward students who use correctly labelled diagrams where appropriate.	Candidates to have written on <b>any two</b> of the these: 3 marks for the explanation 1 mark for relevant examples
<b>Total</b>	<b>8 marks</b>

### Question 6(a)

Description	Marks
<ul style="list-style-type: none"> <li>The business cycle refers to the regular oscillations in the level of economic activity. Cyclical in nature. Phases: boom/peak, downswing, trough/recession, upswing</li> </ul> 	<p>1–2 marks</p> <p>1–2 marks</p>
<b>Total</b>	<b>4 marks</b>

### Question 6(b)

Description	Marks
<ul style="list-style-type: none"> <li>The characteristics of phases:            Boom: high levels of consumption, high level of imports, rising prices (inflationary pressure), low unemployment, interest rates rising, increasing real GDP.</li> </ul> <p>Contraction: rising unemployment, falling real GDP, falling levels of investment, easing pressure on prices, lower level of imports, reduced consumer and business confidence.</p> <p>Better students may explain the difference between contraction/recession.</p>	<p>1–4 marks</p> <p>1–4 marks</p>
<b>Total</b>	<b>8 marks</b>

**Question 6(c)**

<b>Description</b>	<b>Marks</b>
<ul style="list-style-type: none"><li>Economic indicators: data which informs about the performance of the economy.</li></ul>	1–2 marks
Leading indicators change before changes in the level of economic activity become apparent—they predict trends.	1 mark
Examples include: the share market, consumer confidence, business expectations and housing approvals.	1 mark
Coincident indicators change in line with the level of economic activity.	1 mark
Examples include retail sales, the CPI and spending such as new vehicle registrations.	1 mark
Lagging indicators change after a trend becomes apparent in the level of economic activity.	1 mark
Examples include: household debt levels and the unemployment rate.	1 mark
<b>Total</b>	<b>8 marks</b>

**Exam question mapping to course content**

DRAFT

DRAFT



# Sample external written examination

## Stage 2

### Mapping questions to content

Question No.	2AECO				3AECO			
	Markets and prices	Business firms and markets	Market efficiency and equity	Market failure and government policies	Macro-economic activity	Macro-economic concepts and issues	The governments role	Macro-economic performance
<b>Section One: Multiple-choice</b>								
1	✓							
2	✓							
3	✓							
4				✓				
5				✓				
6				✓				
7				✓				
8		✓						
9			✓					
10			✓					
11	✓							
12	✓							
13	✓							
14				✓				
15	✓							
16				✓				
17				✓				
18						✓		
19						✓		
20						✓		
21							✓	
22						✓		
23						✓		
24								✓
25							✓	
26							✓	
27								✓
28								✓
29						✓		
30						✓		
<b>Section Two: Data interpretation and short written response</b>								
1					✓			
2	✓			✓				
3						✓		✓
4							✓	
<b>Section Three: Sectionalised long answer</b>								
5	✓			✓				
6						✓		✓