

MARKING KEY

DRAFT

ECONOMICS Stage 3: Marking key

SECTION ONE—MULTIPLE-CHOICE

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

(1 mark each)

SECTION TWO: DATA INTERPRETATION AND SHORT WRITTEN RESPONSE

Question 1(a)

Description	Marks
<ul style="list-style-type: none"> Correctly defines terms of trade. 	2 marks
Total	2 marks

Question 1(b)

Description	Marks
<ul style="list-style-type: none"> Identifies that the increase in export prices is the major factor. 	1 mark
<ul style="list-style-type: none"> Refers to data to support this. 	1 mark
<ul style="list-style-type: none"> Relates discussion to current situation of high prices for mineral exports due to rapid growth in countries such as China and lower prices for some manufactured imports. 	1–2 marks
Total	4 marks

Question 1(c)

Description	Marks
<ul style="list-style-type: none"> Improvement in terms of trade may be associated with an improved balance on current account. Increased export earnings increases aggregate expenditure leading to higher economic growth and contributing to higher living standards. 	1 mark
<ul style="list-style-type: none"> An improvement in Australia's terms of trade could be expected to lead to higher economic growth. With higher commodity prices, Australia's export income could be expected to rise, which increases aggregate expenditure output and incomes. 	1 mark
<ul style="list-style-type: none"> Balance on current account will improve due to an improvement in net goods. 	1 mark
<ul style="list-style-type: none"> However, there are other factors which will influence whether an improvement in the terms of trade will improve the trade balance i.e. volumes of exports and imports sold and bought; Australia's exchange rate; domestic demand for imports. 	1–2 marks
<ul style="list-style-type: none"> Improved terms of trade will increase living standards through increased GDP and higher real incomes. 	1 mark
Total	6 marks

Question 2(a)

Description	Marks
<ul style="list-style-type: none"> Balance on goods and services is –\$20Bn 	1 mark
<ul style="list-style-type: none"> Balance on current account is –\$30Bn 	1 mark
Total	2 marks

Question 2(b)

Description	Marks
<ul style="list-style-type: none"> A relationship exists between the current account and the capital and financial account—a change in the current account will automatically be matched by a change in the capital and financial account. 	1–2 marks

Description	Marks
<ul style="list-style-type: none"> Under a floating exchange rate system every purchase of \$A is matched by a sale of \$A so the sum of the debit transactions in the balance of payments will be the same as the sum of the credit transactions therefore the balance of payments sums to zero. 	1–2 marks
Total	4 marks

Question 2(c)

Description	Marks
<ul style="list-style-type: none"> A rise in interest rates reduces the level of total spending including import spending. 	1–2 marks
<ul style="list-style-type: none"> A rise in domestic interest rates impacts on the exchange rate—causing an appreciation. 	1–2 marks
<ul style="list-style-type: none"> An appreciation makes exports more expensive for overseas buyers of Aust exports of goods and services. Imported goods and services are cheaper in terms of \$A. The level of domestic interest rates compared to those overseas may affect the level of capital inflow and hence the capital and financial account as foreign investment into Australia becomes more attractive due to the higher returns. 	1–2 marks
Total	6 marks

Question 3(a)

Description	Marks
<ul style="list-style-type: none"> (i) Between \$7 and \$8 billion 	1 mark
<ul style="list-style-type: none"> (ii) contractionary 	1 mark
Total	2 marks

Question 3(b)

Description	Marks
<ul style="list-style-type: none"> deficits in the 1990s indicate a recession/trough 	1 mark
<ul style="list-style-type: none"> running decreasing budget deficits moving to budget surpluses indicates a movement into the upswing/recovery phase 	1 mark
<ul style="list-style-type: none"> ongoing surpluses from 2002-03 indicate a boom 	1 mark
<ul style="list-style-type: none"> discusses the cyclical and structural elements of relationship between the budget outcome and the phase of the business cycle 	1 mark
Total	4 marks

Question 3(c)

Description	Marks
<ul style="list-style-type: none">• Could use a variety of models e.g. Keynesian AE model or AD/AS model. Some students may include the business cycle diagram and discuss how fluctuations are dampened by government discretionary fiscal policy actions. Fully labelled diagrams are essential.	1–2 marks
<ul style="list-style-type: none">• Need to discuss impact of government running budget deficit i.e. $G > T$. Good students would also refer to the multiplier process especially when using the Keynesian AE model. Key is to illustrate and explain how an increase in government spending causes the level of income and output to rise when the AE curve shifts upwards i.e. closing the deflationary gap.	1–2 marks
<ul style="list-style-type: none">• AD/AS model can also show impact of AD curve shifting to the right indicating that prices may rise (inflationary) and the level of real output increases. Cause/effect relationships important.	1–2 marks
Total	6 marks

SECTION THREE: EXTENDED WRITING

Question 4

Description	Marks
<ul style="list-style-type: none"> Definition of protection—policies that restrict the free movement of goods, services and investment funds. Examples of protection including tariffs, subsidies and quotas supported with some relevant examples. 	1–2 marks
<ul style="list-style-type: none"> Reduced barriers to the free movement of goods and services and investment funds have a range of potential impacts. Link to the stimulus material to support some of the general benefits and costs. 	1–3 marks
<ul style="list-style-type: none"> Effects on the Australian economy both costs and benefits. The impacts include <ul style="list-style-type: none"> more efficient resource allocation structural unemployment lower prices and increased range for consumers technology transfer foreign control expanded productive capacity for the economy. 	1–12 marks (1–3 marks per explanation of any four of these)
<ul style="list-style-type: none"> Tariff reform in Australia linked to MER. The aim has been to encourage Australian producers to become more internationally competitive. Examples of industries where tariff reform has occurred e.g. motor vehicle manufacturing, textile clothing and footwear. 	1–3 marks
Total	20 marks

Question 5

Description	Marks
<ul style="list-style-type: none"> Definition of exchange rates. Current exchange rate for \$A to \$US. 	1–2 marks
<ul style="list-style-type: none"> Demand and supply model to show equilibrium price of \$A and a shift in the demand curve to show an appreciation. 	3–4 marks
<ul style="list-style-type: none"> Outline the causes of an increase in demand for the Australian dollar e.g. demand for Australian exports, interest rate differentials, economic growth rates for our trading partners, speculation. Relates these causes to current developments in the Australian economy. 	3–4 marks
<ul style="list-style-type: none"> Outline the positive and negative impacts on the Australian economy of a sustained appreciation of the Australian dollar. Discussion of areas affected could include: <ul style="list-style-type: none"> exports imports import competing firms inflation, foreign debt interest rates, economic growth and employment). 	1–10 marks (1–2 marks for each aspect discussed. Should include five of these for full marks)
Total	20 marks

Question 6(a)

Description	Marks
<ul style="list-style-type: none"> Definition of investment —expenditure on new capital equipment which will be used to produce final goods and services in the future—examples. 	1–2 marks
<ul style="list-style-type: none"> Investment is volatile, accounting for 15-20% of AE. Main factors include: interest rates, expectations, profits and government policy. Each one should be briefly explained. Interest rates factor should include discussion of risk vs return, opportunity cost and good answer would include an investment demand curve. 	1–3 marks
Total	5 marks

Question 6(b)

Description	Marks
<ul style="list-style-type: none"> MPC (marginal propensity to consume) refers to the change in consumption caused by a change in income. 	1 mark
<ul style="list-style-type: none"> The slope of the MPC curve changes (becomes steeper) and consumption rises for a given level of income. The size of MPC is important because it determines the size of the multiplier and in turn the level of economic activity. 	1–2 marks
<ul style="list-style-type: none"> Stating the formula with a worked example is important. Good students would show slope of AE changing. 	1–2 marks
Total	5 marks

Question 6(c)

Description	Marks
<ul style="list-style-type: none"> Discussion of the multiplier concept is the key to high marks in this question. Definition—changes in the level of spending determine the level of income, output and expenditure. Definition of investment and examples needed. 	1–2 marks
<ul style="list-style-type: none"> Fluctuations in investment are linked to the business cycle and are very volatile. Formula for the multiplier should be stated. Calculation with worked example needed. 	1–2 marks
<ul style="list-style-type: none"> Important to discuss and illustrate (drawing the Keynesian AE diagram) how a change in investment will cause a proportionally greater change in the level of economic activity. The stage of the business cycle however can have an impact on the extent to which a change in investment affects the level of economic activity. In a recession an increase in investment would have a large impact on income and output but in a boom any increase in investment is likely to have a minimal impact on output but instead would increase the rate of inflation. 	1–6 marks
Total	10 marks

Question 7

Description	Marks
<ul style="list-style-type: none">• Examples of both macroeconomic and microeconomic policies. Discuss the current economic climate and the impact it would have on the various policy settings. This would include reference to current key economic statistics e.g. UE rate, inflation rate, growth rate etc.	1–5 marks
<ul style="list-style-type: none">• Explain and justify why the federal government is running a budget surplus, why the RBA is on a tightening stance with regards to interest rates and the intended impact of these policies.	1–5 marks
<ul style="list-style-type: none">• Reference to the data in the table to further support their response and note that the objectives of government changes (or the focus of government) changes over time. In particular the state of the business cycle has a major impact on the priority government places on the four objectives stated in the question.	1–5 marks
<ul style="list-style-type: none">• Discussion of the aim and specific examples of ongoing microeconomic reform policy is needed. Mention of recent and ongoing reform in the labour market with AWAs, unfair dismissal laws etc. should also be included.	1–5 marks
Total	20 marks

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Exam question mapping to course content

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Sample external written examination

Stage 3

Mapping questions to content

Question No.	3AECO			3BECO				
	Global markets	Free trade and protection	Australia and the global economy	Macro-economic theory	Economic policy objectives	Fiscal policy	Monetary policy	Micro economic reform
Section One: Multiple choice								
1					✓			
2			✓					
3			✓					
4		✓						
5		✓						
6			✓					
7	✓							
8		✓						
9			✓					
10		✓						
11			✓					
12			✓					
13						✓		
14					✓			
15				✓			✓	
16								✓
17							✓	
18					✓			
19								✓
20						✓	✓	
21							✓	
22						✓		
23				✓				
24						✓		
Section Two: Data interpretation								
1			✓	✓				
2			✓					
3				✓		✓		
Section Three: Extended writing								
4	✓	✓	✓					
5	✓		✓	✓				
6				✓				
7				✓	✓	✓	✓	✓