**ETAWA Year 11 ATAR 2018**

**Marking Guide**

**Section 1 (24 marks)**

1 C

2 D

3 A

4 A

5 D

6 C

7 B

8 A

9 B

10 B

11 D

12 A

13 C

14 C

15 D

16 D

17 B

18 B

19 D

20 C

21 C

22 B

23 D

24 A

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**Section 2 (36 marks)**

**Question 25 (12 marks)**

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| a. i. 2016: -$37597million (deficit)  2017: $10923million (surplus)  ii. 2017  iii. Iron ore  iv. China | 1 mark  1 mark  1 mark  1 mark  1 mark |
| b. No, because the current account balance comprises the trade balance & the income balance. The income balance is usually a large deficit which results in the current account being in deficit. | 1-2 marks |
| c. Large increase in exports - possible reasons include increased sales to China, Japan etc; higher prices for exports increasing their value | 1-2 marks |
| d. The increase in net exports acts as an injection into the economy, increasing aggregate expenditure  This will increase GDP & national income  It will increase employment, reduce unemployment & increase inflation | 1 mark  1 mark  1 mark |

**Question 26 (12 marks)**

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| a. Private cost – negative effect on a person’s health  External cost – medical cost imposed on the government (taxpayers) | 1 mark  1 mark |
| b. D/S diagram showing decrease in supply – equilibrium price increases & qty decreases. Refer to diagram below:  Price paid by buyers is p2  Price received by sellers is p3  New qty is q2 | 1-2 marks  1-2 marks |
| c. The tax incidence is likely to fall on consumers since demand for high sugar drinks is likely to be inelastic – consumers will be addicted to sugar; relatively inexpensive. In the diagram below, consumers pay p1p2 of the tax; producers pay p1p3.  If D is inelastic, then there will be a relatively small decrease in quantity. | 1-2 marks  1 mark |
| d. A tax imposed on a good normally reduces market efficiency because it reduces consumer & producer surplus, creating a deadweight loss (DWL).  However, in this case, because high sugar drinks are associated with large external costs, the tax will actually improve market efficiency because it will help to reduce consumption. | 1 mark  1-2 marks |

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**Question 27 (12 marks)**

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| a. The U rate has decreased from around 6.1% to around 5.5%  Key reason would be that the economy is growing faster, employment is increasing which is reducing the U rate. | 1 mark  1 mark |
| b. Given that the economy is expanding, then the inflation would be expected to increase, as well as the participation rate | 1-2 marks |
| c. The underemployment rate is the number of underemployed workers expressed as a percentage of the labour force. An underemployed worker is an employed person who wants more hours of work than they currently have (part-time workers who want to work full-time).  The unemployment rate can fall while the underemployment rate rises if employment growth is in part-time work rather than full-time work. | 1-2 marks  1-2 marks |
| d. Full employment occurs when the economy is at the ‘natural rate’ of unemployment – when cyclical unemployment is zero. The natural rate of U for Australia is believed to be around 5%  Full employment is important because it means everyone who wants a job can find employment. Employment is the main source of income for households. Full employment is synonymous with economic growth. Unemployment imposes significant economic & social costs on the economy. | 1-2 marks  1-2 marks |

**Section 3 (40 marks) – Answer TWO questions**

**Question 28 (20 marks)**

a. Using examples, explain both the law of demand and the law of supply. (8 marks)

b. Distinguish between a price ceiling and a price floor. Provide a reason for why these price controls may be used in a market and use a diagram to show the effects of each. (12 marks)

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| a. **Law of demand** – 4 marks  State the law of demand – negative relationship between P & Qty.  Appropriate example  Draw a diagram showing a downward sloping D curve  Reasons for the law of demand – explain the substitution effect & the income effect  **Law of supply** – 4 marks  State the law of supply – positive relationship between P & Qty  Appropriate example  Draw a diagram showing an upward sloping S curve  Reasons for the law of supply – explain the substitution effect & the income effect | 1 mark  1 mark  1 mark  1 mark  1 mark  1 mark  1 mark  1 mark |
| b. **Price ceiling** – 6 marks  A price ceiling is a maximum price that is set below the equilibrium price. It causes a shortage because qty demanded > qty supplied. It is used to keep prices low & help low income groups e.g. often used in rental markets. However it is inefficient since it reduces total surplus.  Correctly labelled diagram  **Price floor** – 6 marks  A price floor is a minimum price that is set above the equilibrium price. It causes a surplus because qty demanded < qty supplied. It is used to keep prices high to help increase incomes for prducers e.g. often used in agricultural markets. However it is inefficient since it reduces total surplus.  Correctly labelled diagram | 1-3 marks  1-3 marks  1-3 marks  1-3 marks |

**Question 29 (20 marks)**

(a) Distinguish between the concepts of consumer and producer surplus, and, with the aid of a demand/supply model, explain the concept of market efficiency. (8 marks)

(b) For each of the following types of market failure, explain why the market fails and how government policy could be used to improve market efficiency:

* market power
* negative externality
* common resources (12 marks)

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| a. Define consumer surplus – difference between the maximum price a consumer is willing to pay & the actual price  Define producer surplus - – difference between the minimum price a producer is willing to receive & the actual price  Define market efficiency – when total surplus (sum of CS + PS) is maximized or when net benefits (TB – TC) are maximized.  D/S diagram showing equilibrium & CS & PS | 1-2 marks  1-2 marks  1-2 marks  1-2 marks |
| b. FOUR (4) marks for each type of market failure – perhaps 2 marks for meaning, 1 mark for why market fails & 1 mark for policy  i. Market power – define monopoly, give example, discuss how monopoly restricts output & increases price compared to a competitive market; govt could use price regulation  ii. negative externality – when production or consumption creates an external cost e.g. a firm polluting the environment. Market fails because there is overproduction. Govt policy could be to use a tax  iiii. common resources – goods that are rival & nonexcludable, e.g. fish in the ocean, endangered species, congested roads; the market fails because these goods/resources are overconsumed – the tragedy of the commons | 1-4 marks  1-4 marks  1-4 marks |

**Question 30 (20 marks)**

(a) Explain the meaning and measurement of economic growth and describe Australia’s recent economic performance. (10 marks)

(b) Discuss the main benefits and costs of economic growth. (10 marks)

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| a. Meaning of economic growth – 3 marks  An increase in the productive capacity of the economy. Can be shown as a shift of the economy’s PPF curve outwards (diagram). Economic growth means increased production, increased employment, enables higher living standards  Measurement of economic growth – 3 marks  Usually measure as an increase in real GDP. Need to define gross domestic product – the value of final goods & services. Made up of C + I + G + NX. The most accurate measurement of growth is real GDP. It removes the effects of inflation  Recent performance (up to 10 years) – 4 marks  Key point to mention would be the end of the mining boom in 2012. Prior to 2012, economy in strong expansion. After 2012, economy much weaker, growing below trend at between 2-3%. In 2018, growth rate increased from around 2.5% to currently 3%. The unemployment rate has gradually fallen to around 5.4%.  Perhaps mention importance of China to Aust’s growth performance | 1-3 marks  1-3 marks  1-4 marks |
| b. Perhaps allocate more marks (6) to benefits than costs (4) since easier to identify benefits – can be flexible  **Benefits** of growth – 6 marks  Discuss up to 4 benefits  Higher standard of living (measured by increases in real GDP/capita); increased employment opportunities; Better quality goods & services; Improvements in technology; Increased/improved govt services such as health & education; Increased leisure time  **Costs** of growth – 4 marks  Discuss up to 3 costs  Environmental costs – increased pollution; Resource depletion; Increased congestion; Income inequality may increase; Structural change may increase structural unemployment | 1-6 marks  1-4 marks |

**Question 31 (20 marks)**

(a) Draw a diagram of the business cycle and describe the characteristics of each phase. (8 marks)

(b) Outline the four components of aggregate expenditure and describe what happens to each component during a business cycle contraction. (12 marks)

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| a. See below - Diagram with correctly labelled axes showing phases & trend growth line.  Expansion – production, employment, spending (C & I) are all on the rise, unemployment falling, inflation increasing  Peak – this is the upper turning point, U stops falling, inflation reaches peak, GDP growth plateaus  Contraction – production, employment, spending (C & I) are all declining, unemployment rising, inflation falling  Trough – this is the lower turning point, U stops rising, I stops falling. | 1-2 marks    1-2 marks  1 mark  1-2 marks  1 mark |
| b. Allocate 3 marks for each of the FOUR components  i. **Consumption** – spending by households on goods & services e.g. food, clothing, petrol (nondurable goods), furniture, mobile phones, ipads, cars (durable goods). During a contraction spending on durable goods falls but spending on non-durable tgoods & essential services (electricity, rent) tends to remain stable.  ii. **Investment** – spending by firms on capital goods such as machinery, equipment & construction (also includes new housing). During a contraction, I spending will fall because profits & sales are declining.  iii. **Government Spending** – spending by government on goods & services, infrastructure & welfare. During a contraction, G usually increases due to rising unemployment (welfare payments) plus govt may introduce stimulus package  iv. **Net exports** – exports less imports. During a contraction, national income falls which reduces spending on imports – this will increase net exports. Exports are determined by foreign demand. | 1-3 marks  1-3 marks  1-3 marks  1-3 marks |

**Business Cycle**

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