

**Economics Year 11 Exam Semester 2, 2020**

**Marking Guide**

**Section 1 (24 marks)**

1 A

2 B

3 A

4 D

5 C

6 B

7 C

8 A

9 C

10 D

11 D

12 B

13 B

14 D

15 C

16 B

17 D

18 B

19 C

20 D

21 B

22 C

23 A

24 A

**Section 2 (36 marks)**

**Question 25 (12 marks) Markets in operation**

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| --- | --- |
| a. dd/ss graph should at least show:  decrease in ss with higher prices (using provided $ data) and fall in quantity purchased –  must draw steep (relatively inelastic) dd curve (as is hinted by data in extract) | 3 marks  1 mark |
| b. show a formula / method (most will use % change, some will use a point of mid-point method assuming a Q drop from 100% to 95%  substitute figures and calculate answer (0.5 using % ch; 0.54 using mid-point method) | 1 mark  1 mark |
| c. Describe what will happen. The intention to help buyers with a lower price is counter productive for those who miss out because there is now a shortage Qd – Qs. Draw a diagram similar to that below.    Note that CS increases from A+B to A+C  PS falls from C+D+E to just E  There is deadweight loss (loss of total surplus or efficiency) of B+D | 1 for base labels  2 for clear labels or shading or CS/PS/DWL areas  1 mark  1 mark  1 mark |

**Question 26 (12 marks)**

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| a. Quarterly growth rate as at March 2011 = -0.2%  Annual growth rate as at March 2011 = 2.4% (+/-) 0.2 | 1 mark  1 mark |
| b. Unemployment rate is 7.6% (left scale allow +/- 0.2%)  Underutilistion rate (sum of unemployment and underemployment rates) is 12 + 7.6 = 19.6% (allow +/- 2%) | 1 mark  1 mark |
| c. Would expect a negative relationship as growth creates demand for resources including labour – so if growth falls, demand for labour falls (cyclical Ue)  The relationship is quite small, apart from 2020  Unemployment change appears to lag the growth trend (lagging indicator) | 1 mark  1 mark  1 mark |
| d. Mention 3 of the points below:   * the loss of potential output (output gap) * opportunity costs (e.g. rise in welfare payments) * tends to shift income distribution away from ‘working class’ – casual part time and manual workers at risk of cyclical Ue * reduces attachment to workforce, especially younger workers i.e. get a start with career, trade etc | 1-2 marks for 3 points |

**Question 27 (12 marks)**

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| --- | --- |
| a. Unemployment rate = 7.4%  Inflation rate = 1.6%  *Read only - very simple* | 2 marks |
| b. The Gini index refers to the degree of income equality / inequality in a country. (No need to get more technical than that)  Gini =0 means a country has equally distributed income (equivalent to a diagonal Lorenz Curve) | 1 mark  1 mark |
| c. Points (describe)   * Growth less than average / ideal around 3.2% (weak / soft) * Inflation very low – 2-3% is objective * Unemployment close to natural rate at 4.5 – 5% until 19-20 * Income distribution slightly worse over the period, so objective not met. | 1 mark  1 mark  1 mark  1 mark |
| d. Reward logic and some reference to table  Pandemic will cut growth and employment because of health closures, job layoffs, lower aggregate consumption and low confidence  May worsen equity, as burden has fallen on lower income, part time etc disproportionally | 1 mark  2 marks  1 marks |

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

Please note: Analytical marking keys in Economics as a social science / written answer subject should be treated with some caution as the writer’s style (order, logic, terminology) always has some influence on conveying understanding and, where required, writing persuasively.

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

(a) Explain the concept of price elasticity of demand and discuss FOUR (4) determinants of the price elasticity of demand for a good or service. (10 marks)

(b) Discuss the significance of price elasticity for consumers, business firms and the government (10 marks)

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| --- | --- |
| a. Clearly define the concept of elasticity  Explain, (not list) FOUR determinants (4 x 2 marks)   * Availability of substitutes – as substitutes increase, elasticity increases * Necessity versus luxury – necessities are less price elastic * Proportion of budget – bigger proportion, demand is more elastic * Do buyers have time to adjust spending patterns – as time increases, so to does elasticity coefficient | 2 marks  2 marks  2 marks  2 marks  2 marks |
| b. Price elasticity means both demand and supply, but most students will concentrate on demand. Don’t give full 10 unless some mention of supply - suggest 8 maximum.  ‘Significance’ means how the concept applies to the workings of ‘real world’ markets, and how these market actors respond to changes in price.  Expect 3-4 illustrations or examples, such as:  Consumers should be aware of marketing teachniques producers use to make goods ‘seem’ more essential in order to reduce their response to price increases.  Retailers should be aware of how elasticity might affect their pricing decisions – e.g. specials on prise inelastic goods will tend to cut revenue received  Producers of goods for which demand is inelastic and supply is elastic may be harmed (revenue fall) if supply expands over time as prices will drop proportionally more than sales (Q increase). This explains decline of many Australian agricultural nmarkets facing competition from ‘new’ producers  Governments should be aware of the incidence (burden) of a tax in determing which goods might be taxed. E.g. the burden of a sales tax on tobacco is, rightly, on consumers for whom tobacco is a necessity | 2 marks  2 marks  2-3 marks per illustration |



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

(a) Distinguish between positive and negative externalities. Using a diagram,

explain how the presence of an externality can influence market efficiency. (12 marks)

(c) Discuss the policy options a government has to correct for the presence of

externalities? (8 marks)

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| --- | --- |
| a. Definition of an externality - market result not being socially optimal   * Negative externalities exist when market action in consumption or production create an external cost (spillover) – market quantity greater than optimal, market price less than optimal. Give example * Positive externalities exist when market action in consumption or production create an external benfit (spillover) – market quantity lower than optimal, market price higher than optimal. – market quantity greater than optimal, market price less than optimal. Give example | 2 marks each |
| Can choose **either** negative or positive externality. See below.    Explanation should include a diagram that shows what was described above (depending on choice) then shows changes from private to social ss or dd curves, change in P and Q, and DWL (necessary to say loss of efficiency).  Some might include changes in CS and PS: | 4 for diagram, divided as  1 for base labels  1 for changing curve an dlabel ‘external ..’  1 for changed P and Q  I for DWL  4 for the explanation about efficiency is lower in the presence of an ext. |
| b. Policy options = taking action reduce production of goods producing negative externalities; or increase consumption of goods having positive externalities. Essentailly this is a tax to force producers to include social (external) cost and make ‘polluters pay’, or a subsidy to encourage buyers to buy goods having external benefits.  No need for another diagram  Government can also use direct controls/ regulations such as speed limits; ban smoking in public; consumer protection; vaccination rules  Could also subsidise polluters to change behaviour  Quotas – limites of production of harnful products  *Note: the instruction ‘discuss’ implies some opinion should be given about whether these options are ‘good’ – perhaps don’t give 6/6 unless answer offesr an opinion e.g. direct controls should be enforceable* | 4-5 for explanation  2 marks  1 mark  1 mark |

**Question 30** **(20 marks)**

(a) Desribe the composition and direction of Australia’s trade with the rest of

the world. (8 marks)

(b) Outline the structure of the current account. (6 marks)

(c) Explain the relationship between the current account and capital and financial account in the balance of payments (6 marks)

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| a. Composition key points – reward interpretation, not just lists (e.g. top 5)   * Tend to export simply transformed commodities STC and import elaborately transformed manufactures (ETM) or primary focus exports, manufactured focus for imports * Business imports more than household imports * Education and personal travel in top exports   Direction key points:   * Asia-Pacific focus * Australia has comparative advantage (no need to use this term) in region for many resources. | 3-4 marks  1-2 marks |
| b. Current account records flows of goods, services and income (primary and secondary) - describe some goods and services, credits and debits  distinguish between primary and secondary income (basically income earned / not earned). | 3-4 marks  2-3 marks |
| c. Illustrate understanding of / define each term  The current and capital/financial accounts offset movements in each other – they are ‘different sides of the same coin’. A deficit in one (say, current account) must be accompanied by a surpus in the other to achieve ‘balance’; in the BoP. In Australia’s case a shortage of surplus funds has created a current account deficit, supported by a financial account surplus. | 1-2 marks  3-4 marks |

**Question 31** **(20 marks)**

(a) Using examples, distinguish between proportional, regressive and proportional

types of taxation (8 marks)

(b) Explain Government’s role in improving equity in the distribution of income in the Australian economy (12 marks)

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| --- | --- |
| b. Proportional tax is where the rate of tax per dollar stays the same as income rises, such as Australian company tax on profits.  Progressive tax claim a higher proporion of tax as income rises, such as income taxe on personal earnings.  Regressive tax is where the rate falls as income rises, such as an excise tax on a product such as tobacco or alcohol  Most will use a diagram with the tax rate on y-axis and income on x-axis  Must have an example of each | 2 marks  2 marks  2 marks  1+1 marks |
| b. Complex answer where logical ideas which link cause (tax system) and effect (equity) should be linked.  Points for discussion:  Must provide a definition of / prove an understanding of equity – fairness – may introduce use horizontal and vertical equity.  Progressive tax helps (has greates impact) to redistribute income from wealthy to poor because wealthy pay a higher rate of tax, which funds welfare payments  If too much emphasis is placed on regressive tax, then the tax system might lead to higher inequity – so sales taxes should not be placed on essentials May be better to rely on direct taxes where buden falls on income earner  Proportional tax has little impact on distributional equity - explain | 3-4 marks  2-3 marks  2-3 marks  1-2 marks |