

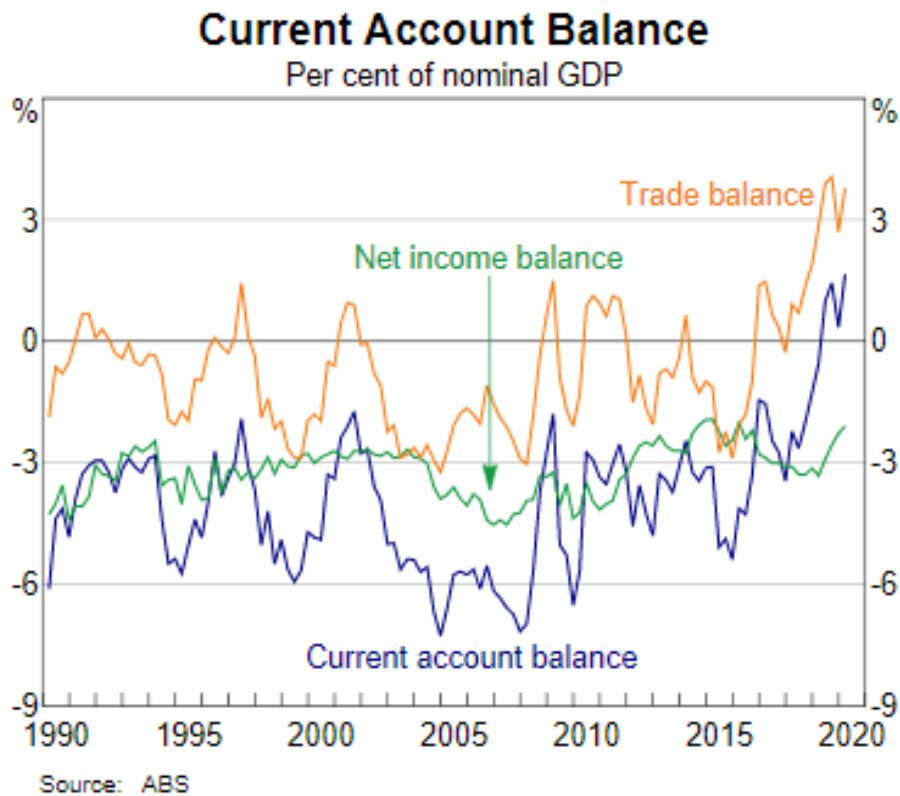


# **Student Economic Forum**

August 2020

Student Activity

## Question A – Balance of Payments and Foreign Liabilities



Examine the graph above and answer the following questions:

1. Why does Australia normally record a current account deficit? Distinguish between the cyclical and structural factors affecting Australia's current account balance.
2. Identify and discuss the reasons for the change in Australia's current account balance over the past two years.
3. Define foreign debt. Explain the relationship between Australia's current account deficit and its level of foreign debt.

## Question B – Exchange Rates

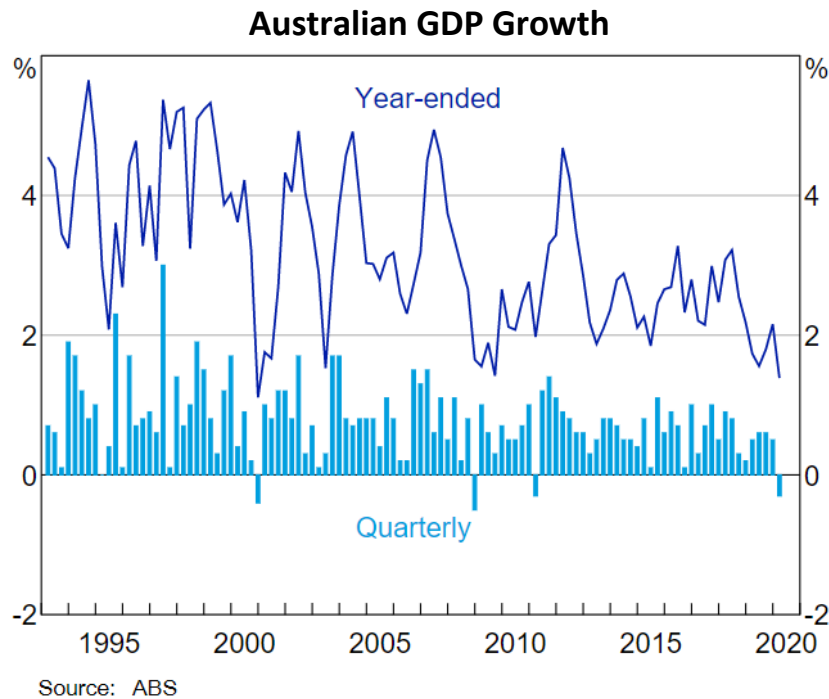
### AUD/USD Exchange Rate



**Examine the graph above and answer the following questions:**

1. Explain how the floating exchange rate system operates and what are the advantages of a floating exchange rate system?
2. Is it better to have a high exchange rate or a low exchange rate?
3. Identify and discuss the key factors driving the volatility of the Australian dollar throughout 2020.

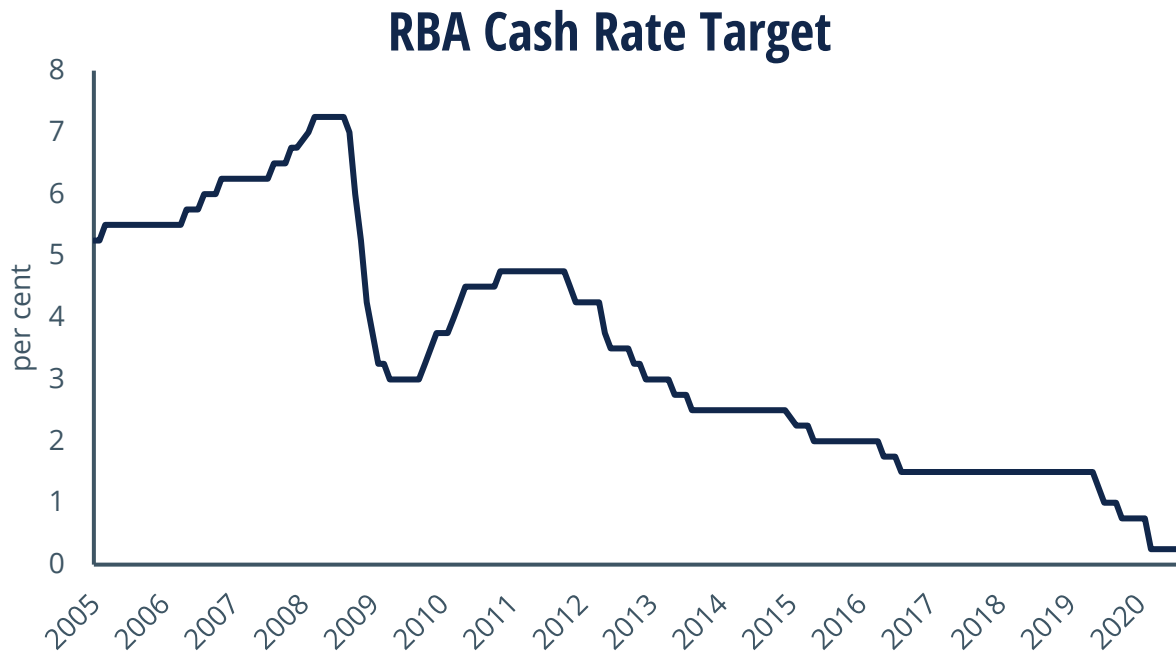
## Question C – Current State of the Australian Economy



Examine the graph above and answer the following questions:

1. What are the key factors that determine economic growth and outline some of the factors affecting Australia's GDP growth in 2019-20?
2. Why is the state of the housing market an important macroeconomic influence? How do changes in house prices affect GDP?
3. In response to the economic damage associated with the COVID-19 pandemic, the Australian Government has committed an unprecedented ~\$172 billion in stimulus measures. How will these measures influence the level of economic activity? In your response, make sure to identify the strengths and weaknesses of fiscal policy.

## Question D – Monetary Policy

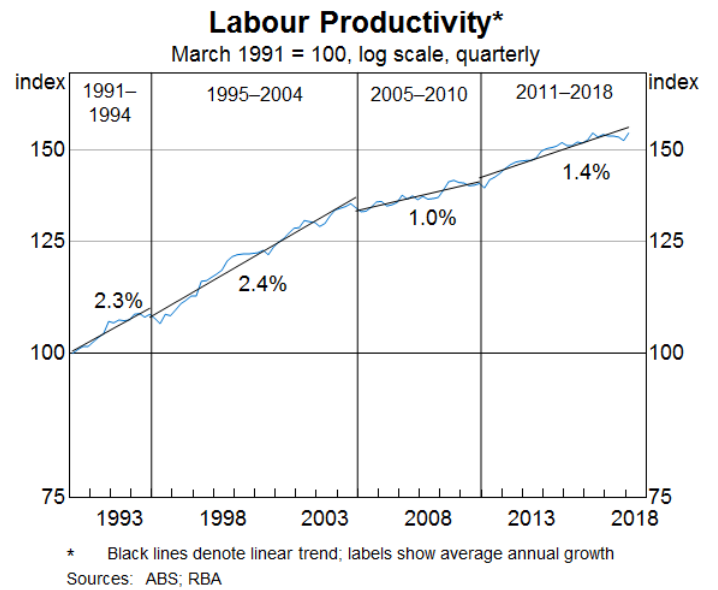
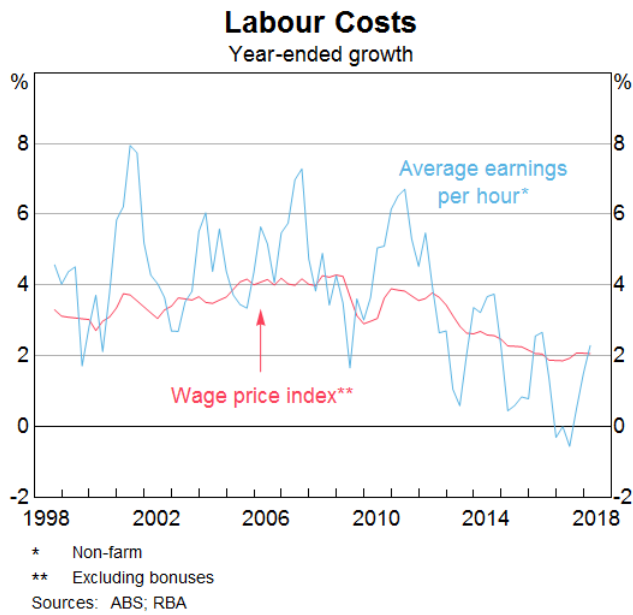


Source: CCIWA

**Examine the graph above and answer the following questions:**

1. What is the current cash rate? What is the RBA's current monetary policy stance?
2. What are some of the strengths and weaknesses of monetary policy?
3. How does monetary policy affect the level of economic activity? In your response, make sure to refer to the transmission mechanism.

## Question E – Wages and Productivity

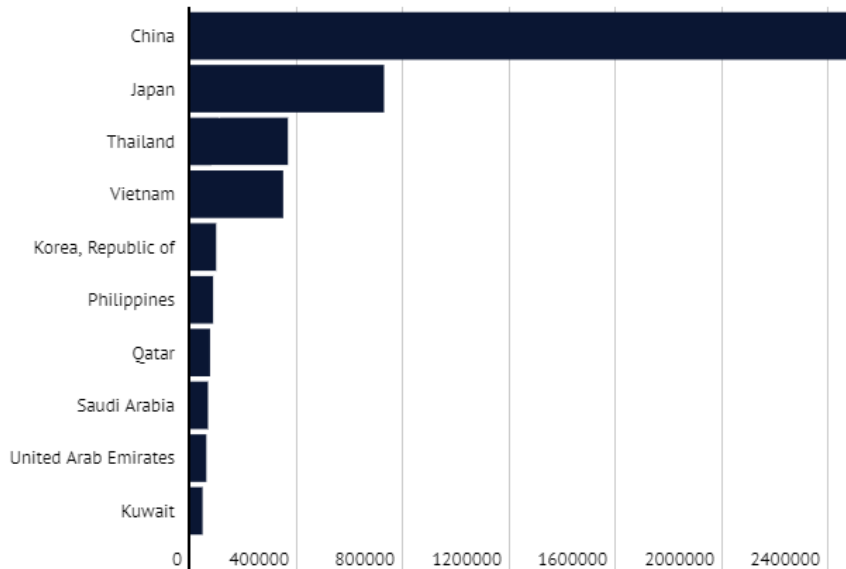


The charts above were presented during a speech titled 'Productivity, Wages and Prosperity' by Dr Philip Lowe, Governor of the Reserve Bank of Australia, on 13 June 2018.

1. What is labour productivity?
  
2. Explain two factors that increase labour productivity.
  
3. Explain how a substantial increase in wages growth without growth in productivity can be a potential threat to the Australian economy?

## Question F – Trade Disputes

Top 10 markets for Australian barley

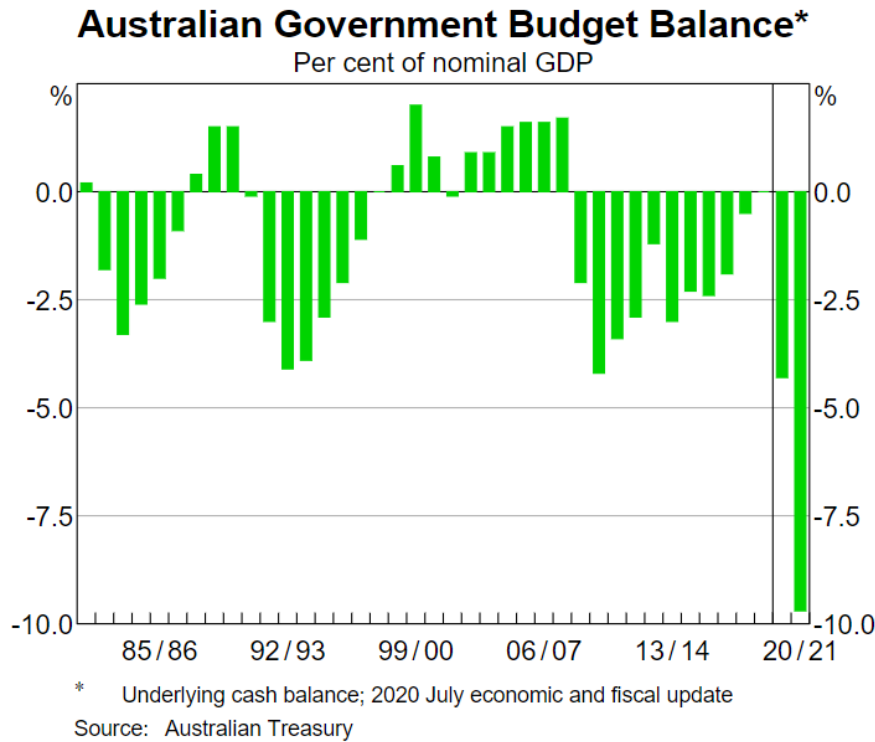


Source: Australian Export Grains Innovation Centre

**China has recently imposed tariffs worth 80 per cent on all barley grain imported from Australia. This decision effectively blocks Australian farmers from exporting barley to China - their biggest market.**

1. Why do countries trade and what are the potential benefits?
2. What are the differences between a subsidy and a tariff? Using the below article, why does Australia provide tax subsidies to barley producers and why did China impose recent tariffs? <https://www.smh.com.au/national/carefully-laid-trap-why-is-china-imposing-tariffs-on-our-barley-and-what-s-a-tariff-20200519-p54uf7.html>
3. Identify the winners and losers of China's tariffs on Australian barley exports. You may make reference to the producers and consumers of both countries.

## Question G: Fiscal Policy



**The 2020 July Economic and Fiscal Update provided insight into the impact of COVID-19 on the Commonwealth Budget. The underlying cash balance is forecast to be a deficit of \$184.5 billion (9.7% of GDP) in 2020-21.**

1. Describe different methods of financing a budget deficit. If you were advising the Commonwealth Treasurer, Josh Frydenberg, what approach(es) would you recommend?
2. Before COVID-19, the underlying cash balance was expected to be a surplus in 2019-20. What are the benefits of recording budget surpluses? Are there costs?
3. What are some of the strengths and weaknesses of fiscal policy compared with monetary policy?