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| Description: LowResASC MonoPos Vertical | ALL SAINTS’ COLLEGEEwing Avenue, Bull Creek, Western Australia |
| Year 12 ATAR Economics – Semester 1, 2021 Examination - SOLUTIONS |

**Section One: Multiple Choice Section (Ave 15.6/24 = 64.9%) 24% (24 marks)**

**1d 2c 3a 4d 5b 6c 7b 8d 9a 10a 11c 12d**

**13c 14b 15b 16a 17c 18d 19c 20d 21c 22b 23a 24b**



**General comments (exam ave 58.6%)**

* MC section general well done
* Data Qu 25 – a) finding % change from graph poor. d) disadvs of globalisation could be better explained.
* Data Qu 26 – BOP…often not well understood. Work through solutions. Part c) effect on CAS needs attention. Domestic activity affects imports!
* Data Qu 27 – Trade liberalisation. Part b) China has used the “anti-dumping” argument against Aust. Part C must be able to draw an accurate tariff diagram and discuss it (write about the changes)…
* Essay Qu 28 a) factors affecting D/S $A not well explained. Demand (X of g&s, income receipts and capital inflow). Supply (M’s of g&s, income payments and capital outflow). Then specific events like foreign investment, commodity prices and relative interest rates. Must draw 2 diagrams showing increase in D (shift right) and decrease in S (shift left). Both cause a depreciation. Part B not enough effects discussed – need 3 positive and 3 negative effects! Most students discussed only a few.
* Essay Qu 29 – least popular question…on foreign investment. Part a) foreign assets are would we “own” overseas and foreign liabilities are what we “owe”. Can includes areas like companies, shares, property and loans. Recording in the BOP (financial account and current account (income section) as debits and credits. Part b) FI in Aust affected by higher int rates, higher commodity prices, Aust economic growth, infrastructure project. Had to describe 2. Effects in part B needed 4 (2 marks each).
* Essay Qu 30 on trade/trade liberalisation. Gains from export and import diagrams essential. Many students drew just one diagram, the wrong diagram or an incorrect diagram. MUST REFER TO DIAGRAMS, price movement, changes in quantity and should mention changes in consumer and producer surplus. Part b) arguments should be text book based not generalisation. Arguments could include anti-dumping, infant industry, diversification and national security (others include inc employment, cheap foreign labour, favourable BOP – but these are not particularly valid…)

**Section Two: Data Interpretation/Short response 36% (36 marks)**

**Question 25 (Ave 7.5/12 = 62.6%) (12 marks)**

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| **Description** | **Marks** |
| a. i Goods trade decreased by around 33% (accept between 30-35%) Services trade decreased by around 17% (accept between 15-20%)ii Restrictions on travel/tourism which is the largest traded service | 111 |
| **Total** | **3** |

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| **Description** | **Marks** |
| b. Trade in office machinery increased by 10%Reason: many people had to work from home which increased sales of computers/laptops & other technology goods | 11 |
| **Total** | **2** |

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| **Description** | **Marks** |
| c. 1. Sharp contraction in economic growth & demand2. Disruptions in transport links & supply chains3. The adoption of trade barriers | 111 |
| **Total** | **3** |

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| **Description** | **Marks** |
| d. Disadvantages (any TWO: 4 marks):1. An economic shock (e.g. a pandemic) is transmitted more easily from one economy to the other2. Globalisation increases interdependence – a disruption in global supply chains may lead to increased shortages & higher prices3. Greater structural change which results in higher structural unemployment4. Decreased living standards as some goods and services unavailable during a pandemic5. Falling economic growth as imported production inputs unavailable. Replaced with higher priced local substitutes instead 🡪 cost push inflation |  22 |
| **Total** | **4** |

**Question 26 (Ave 6.3/12 = 52.3%) (12 marks)**

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| **Description** | **Marks** |
| a. i. Dec qtr 2017ii. $14.5 billion (accept +/- 0.3) | 11 |
| **Total** | **2** |

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| **Description** | **Marks** |
| b. i. The trade balance (surplus) has increased from around $3bn to $18bn. The main reason for this is higher commodity prices (esp iron ore).Other reason: depreciation of the AUD has increased net Xs. ii. The primary income balance has increased (income deficit decreased) from around -$16 bn to -$3 bn. This has been due to less net capital inflow which has reduced income payments & increased income receipts from increased Aust investment abroad. | 1111 |
| **Total** | **4** |

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| **Description** | **Marks** |
| c. i. An increase in commodity prices would increase the export price index which would (c.p.) increase the terms of trade. Export receipts would increase, increasing the trade balance which would increase the current account surplus. ii. An increase in domestic economic activity would decrease the trade balance since imports (both consumer & capital goods) would increase. This would therefore decrease the current account surplus. iii. An increase in net capital outflow would increase the financial account deficit. There would be a fall in income payments and an increase in income receipts (dividends &/or interest) resulting in an increase in the income balance which would result in a greater current account surplus. |  1-21-21-2 |
| **Total** | **6** |

**Question 27 (Ave 6.4/12 = 53.7%) (12 marks)**

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| **Description** | **Marks** |
| a. i. Iron oreii. The role of the WTO is to encourage trade liberalisation through the removal/reduction of trade barriers & to settle trade disputes between countries. | 11-2 |
| **Total** | **3** |

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| **Description** | **Marks** |
| b. The main argument China used was the ‘dumping’ argument.Dumping occurs when a country (or business) exports a product at a price that is lower in the foreign importing market than the price in the exporter's domestic market in order to increase market share.Evaluate – dumping is very difficult to prove since lower prices may reflect greater efficiency | 111 |
| **Total** | **3** |

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| **Description** | **Marks** |
| c. Correctly labelled model showing a tariff applied on the Chinese wine industry.Effect on Australian economy – wine producers who export to China are disadvantaged since they lose sales in the Chinese market. Refer to model to show reduction in wine imports.Effect on Chinese economy – wine consumers in China are now disadvantaged because they now pay more for wine & consume less.Refer to model to show higher price & reduced consumption. |  1-21111 |
| **Total** | **6** |

**Section Three: Extended Response 40% (40 marks)**

**Question 28 (Ave 11.3/20 = 54.5%) (20 marks)**

(a) Discuss the main factors that affect the demand for and the supply of the Australian dollar (AUD) and use a model to demonstrate and explain an exchange rate appreciation.

 (12 marks)

(b) Discuss both the positive and negative effects of an exchange rate appreciation on the Australian economy. (8 marks)

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| **Description** | **Marks** |
| (a) Discussion of any **3 factors affecting D(AUD)** (mainly related to credits in the BoP) – **3 marks**. 1) Foreign demand for Aust goods & services – e.g. exports of iron ore, coal, wheat, foreign students, foreign tourists2) Foreign investment (capital inflow) into Australia3) Commodity prices – Aust’s main exports are resources so an increase in commodity prices will increase the D(AUD)4) Relative interest rates (int rate differential) – changes in relative i/rs can affect the flow of portfolio investment into Aust affecting the D(AUD)Discussion of any **3 factors affecting S(AUD)** (mainly related to debits in the BoP) – **3 marks**. 1) Aust Demand for foreign goods & services – e.g. imports of cars, computers, Aust tourists travelling abroad 2) Foreign investment (capital outflow) from Australia3) Relative interest rates (int rate differential) – changes in relative i/rs can affect the flow of portfolio investment from Aust affecting the S(AUD)4) Aust’s business cycle – strongly correlated with spending on imports**Model & explanation** – **6 marks**Correctly labelled model showing  i. Equilibrium exchange rate where D(AUD) & S(AUD) intersectii. Correctly labelled axes: Price of 1AUD & Qty of AUDiii. Show both an increase in D(AUD) and a decrease in S(AUD) resulting in an appreciationExplanation of how an appreciation would occur referring to both an increase in D(AUD) and/or a decrease in S(AUD) with one or two examples |   1111111111-3 |
| **Total** | **12** |

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| **Description** | **Marks** |
| (b) **Positive Effects** of an appreciation – discussion of THREE effects (1-4 marks)i. Consumers will benefit from a fall in the price of imported goods & servicesii. Aust tourists traveling overseas will benefit from a stronger AUDiii. Businesses selling imports will benefit (JB Hifi, Harvey Norman) because imported goods will now be cheaperiv. Businesses that purchase imported inputs e.g. computers, motor vehicles will benefit from lower costsv. Lower costs will reduce inflation rate**Negative Effects** of an appreciation – discussion of THREE effects (1-4 marks)i. Exporting businesses will be disadvantaged because their goods & services will become more expensive to foreign buyersii. Domestic industries that compete with imports will be negatively affectediii. An appreciation will overall have a contractionary effect on the economy because net Xs will fall reducing economic activity |  1111111-2  |
| **Total** | **8** |

**Question 29 (Ave 11.3/20 = 56.3%) (20 marks)**

(a) Using examples distinguish between Australia’s foreign assets and foreign liabilities.

 (8 marks)

(b) Explain **two** factors that may lead to an increase in foreign investment into the Australian economy and the effects this would have on the economy. (12 marks)

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| **Description** | **Marks** |
| a) Foreign assets * Meaning – the outflow of Australian investment to overseas economies adds to the stock or level of Australia’s foreign assets. An asset is something you own.
* Examples: These may be in the form of foreign shares, foreign property, fixed business assets or loans to foreign residents.
* Aust’s foreign assets have increased significantly over recent years due to Aust superannuation funds investing overseas.
* Foreign assets will earn income to Aust residents & be recorded as a credit in the current account.

Foreign liabilities * Meaning – the inflow of foreign investment into Australia adds to the stock or level of Australia’s foreign liabilities. A liability is something you owe.
* Foreign liabilities are categorised as foreign equity (shares, property) and foreign debt (loans).
* Aust’s foreign liabilities exceed our foreign assets which means that Aust has a net foreign liability.

This has resulted in an income deficit in the current account due to income payments (dividends & interest) flowing to foreign investors. |    11111111 |
| **Total** | **8** |

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| **Description** | **Marks** |
| b) Any TWO factors that attract Foreign Inv. into Australia – (4 marks)1) Higher interest rates (i/rs) in Aust relative to overseas (increase in Aust’s i/r differential) – this will attract foreign portfolio investment into the Aust economy chasing a higher rate of return2) High commodity prices/high profitability in mining sector – most foreign direct investment is in Aust’s mining industry so an increase in commodity prices/profitability of mining sector will attract foreign investment3) Strong economic growth in the Aust economy – will boost the Aust sharemarket attracting foreign investment 4) Infrastructure projects – either public or private such as transport, major construction will attract foreign investment **Effects** on the economy – discuss any FOUR factors for 8 marksForeign investment into Australia helps to close the I – S gap and funds between 10-20% of Australia’s investment needsForeign investment in the form of direct investment can boost economic activity, increasing employment & GDPForeign direct investment can increase labour productivity through access to improved technology & management practicesHigher levels of foreign investment may result in higher foreign ownership & increased income payments increasing the income deficit & reducing the current account balanceIncreased for. Investment will appreciate the AUD (c.p.) which can have a contractionary effect on the economy by reducing net Xs. |  1-21-2Up to 2 marks for each factorNeed some discussion |
| **Total** | **12** |

**Question 30 (Ave 11.5/20 = 58.0%) (20 marks)**

(a) Using the demand and supply model, demonstrate and explain the gains from trade to both consumers and producers. (12 marks)

(b) Evaluate **three** arguments against trade liberalisation. (8 marks)

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| **Description** | **Marks** |
| (a) 1) Gains from trade to consumers: 1-6 marks **1-3 marks** for correctly labelled modelAppropriate model is the D/S model showing a closed economy opening to imports – the world price is below the domestic equilibrium price (Pw < Pe)Model should show the lower world price, increase in Qd, decrease in Qs and resulting imports.**1-3 marks** for explanationExplanation needs to cover increase in consumer surplus, decrease in producer surplus but overall a net gain in total surplus2) Gains from trade to producers: 1-6 marks**1-3 marks** for correctly labelled modelAppropriate model is the D/S model showing a closed economy opening to exports – the world price is above the domestic equilibrium price (Pw > Pe)Model should show the higher world price, decrease in Qd, increase in Qs and resulting exports.**1-3 marks** for explanationExplanation needs to cover increase in producer surplus, decrease in consumer surplus but overall a net gain in total surplus |   1-31-31-31-3  |
| **Total** | **12** |

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| **Description** | **Marks** |
| (b) THREE arguments against trade liberalisationNote: if students simply list arguments for protection with no reference to trade liberalisation then max. 3-4 marks. Meaning of trade liberalisation: 1-2 marksTrade liberalisation refers to the removal and/or reduction in trade barriers such as tariffs, quotas & subsidies in order to promote free trade1) The **diversification** argument –the argument is that trade liberalisation may lead to reliance on just a few key industries so there is an argument for a more diversified economy to avoid potential disruption if demand collapses for a specific industry sector (‘placing all your eggs in the one basket’)2) **National defence/strategic industries** argument – the argument is that a country should not be dependent on the supply of essential/strategic goods/services from another country in case of conflict with that country 3) **Other** arguments – countries may try to reduce the degree of structural change that can result from opening their economies to free trade e.g. efficiency of Chinese manufacturing has forced the contraction/closure of many industries; preserving culturally important sectors & trying to reduce income inequality that may occur due to free trade | 1-21-21-21-2  |
| **Total** | **8** |