

ECONOMICS Unit 3 Semester 1, 2019

MARKING KEY

**Section One: Multiple Choice (24 Marks)**

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

***End of Section One***

**Section Two: Data interpretation/Short response (36 Marks)**

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**Question 25 (12 marks)**

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| (a) | 1/0.7015 = $**1.43 US**  (Must have US and $ to get mark.) | 1 mark |
| (b) | **speculation** or **profit booking move** | 1 mark |
| (c) | Identification of a relevant factor and explanation of how that factor causes an appreciation of the AUD.  Diagram shows an increase in demand or decrease in supply of the AUD depending on the factor and is explained.  Factors discussed could be:   * Interest rate differential * Commodity prices * Any other reasonable answer | 2 marks  2 marks |
| (d) | Identifies the overall impact: Exports become relatively more expensive in the global market  Discusses at least three sectors and the affect of appreciation on each.  Answers could include:   * Mining sector (iron ore, coal): Due to inelasticity of demand and supply, this sector remains predominantly unaffected OR as most sales are in USD, volume will be affected however profits will fall when money is converted to AUD * Services (tourism, education): Price elastic, appreciation will make these services less attractive/competitive and there will be a decrease in value of the sector * Manufacturing: Price elastic, appreciation will make these products less competitive and there will be a decrease in value of the sector * Agriculture: Demand is price elastic and therefore sector will become less competitive | 1 mark  1 -2 marks for each sector, dependant on depth of discussion |

**Question 26 (12 marks)**

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| (a) (i) | 500 000 tonnes | 1 mark |
| (ii) | Mining, Education and Agriculture (Must identify 2 sectors) | 1 mark |
| (b) | Correctly draws and explains the Tariff Diagram including:   * Decrease in price * Increase in consumer surplus * Decrease in producer surplus * Decrease in government revenue   Overall increase in efficiency of economy (due to drop in deadweight loss) – expansionary impact on the Indonesian economy | 3 marks  1 mark |
| (c) | Defines and distinguishes between free trade agreements and trade blocs  Discusses benefits and costs of FTAs and trade blocs. Answer could include:   * Increases trade between signatories * Consumers gain due to an increased variety of goods/services and cheaper prices * Producers gain due to access to a broader market * Provides a barrier to trade with those who are not signatories/part of the trading bloc * Can cause misallocation of resources | 1 – 2 marks  1 – 2 marks for each benefit/cost dependant on depth of answer |

**Question 27 (12 marks)**

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| (a) (i) | Australia’s foreign obligations to the rest of the world. | 1 mark |
| (ii) | **$15 820 m deficit**.  (to get mark must have millions or m, $ and deficit or -) | 1 mark |
| (b) | Briefly explains two costs of foreign direct investment. Answers could include:   * Loss of economic sovereignty * Outflow of profits and dividends * Bad behaviour of MNCs * Any other reasonable cost   Briefly explains two benefits of foreign direct investment. Answers could include:   * Closes the Investment-Savings gap * Triggers a multiplier process * Encourages technology transfer * Raises government revenue * Drives productivity growth * Promotes exports * Any other reasonable benefit | 1 mark per cost (maximum of 2 marks)  1 mark per benefit (maximum of 2 marks) |
| (c) | Identifies the relationship as causal/direct ie foreign liabilities is the cause of the CAD  Explains the relationship in detail. Should discuss:   * I/S gap creates reliance on foreign investment * Liability is paid out of the primary income account, creating structural deficit   Uses data to support argument | 1 mark  1 – 4 marks Dependant on depth of response  1 mark |

**Section Three: Extended response (40 Marks)**

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

Describe the factors facilitating globalisation, and explain the economic effects of globalisation on the Australian economy.

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| Defines globalisation  Economic integration of national economies and, as a consequence, a reduction in the economic signification of national borders. | 1 mark |
| Discusses at least **four** factors facilitating globalisation.  Factors could include:   * United Nations organisations, GATT, International Monetary Fund and World Bank * Government policy changes * Advance on transport technologies * Increased communications * Changes to patterns of trade * Multinational corporations * Any other reasonable factor | 1 – 2 marks per factor dependant on depth |
| Explains the positive and negative economic effects of globalisation. Must discuss at least five effects.  Answers could include:   * Positive effects   + A more efficient use of resources leading to higher growth and material living standards   + Higher tax revenue available for spending on public and merit goods   + Lower inflation   + Higher levels of employment   + Access to foreign investment   + Economic cooperation   + Multiculturalisam   + Any other reasonable factor * Negative effects   + Loss of national and economic sovereignty   + The gains are not shared evenly   + Structural change   + Opportunities for exploitation   + Any other reasonable factor | 1 – 2 marks per effect dependant on depth |

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

1. With the use of appropriate diagrams, discuss the arguments for trade liberalisation.

( 10 marks )

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| Defines trade liberalisation.  Removal or reduction in barriers of trade between countries. | 1 mark |
| Discusses arguments for trade liberalisation.  Answers could include:   * Static gains creating more efficient allocation of resources * Dynamic Gains:   + Greater levels of competition   + Opportunities for economies of scale   + Bigger choice of products   + Improved international relations   + Lower administrative costs * Any other reasonable argument   Uses a diagram to show these effects. Must explain diagram  Diagram used could be reduction in tariff, gains from trade diagram (exports and/or imports) or PPF showing consumption beyond curve | 1 – 2 marks for each argument dependant on depth of discussion  1 - 2 marks per diagram |

1. Discuss the significance of trade to the Australian economy and the recent trends in Australia’s direction and composition of trade. (10 marks)

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| Discusses the signification of trade in Australia with links specifically to the Australia economy.  e.g. Volume of trade as % of GDP | 1 -3 marks |
| Discusses recent trends in Australia’s direction of trade.  Identifies the top 5 two way trading partners for Australia. Discusses how this has changed in the last ten years.  Answers could include:   * Importance of Asian economies * Rise of India as an important trading partner * China as an important trading partner * Implications of EU * China/USA trade war * Any other reasonable discussion | 1 -4 marks |
| Discusses recent trends in Australia’s composition of trade.  Identifies the top 5 Imports and Exports into Australia. Discusses how this has changed in the last ten years.  Answers could include:   * Commodities * Rise of services * Import of manufactured goods * Renewable sources of energy * Any other reasonable discussion | 1 – 4 marks |

**Question 30 (20 marks)**

1. Explain what the terms of trade index measures and discuss the impact of an unfavourable movement on Australia’s exchange rate, trade balance and the macroeconomy. ( 10 marks )

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| Definition of Terms of trade index and explanation of what it measures | 1 -2 marks |
| Effect of the unfavourable movement on the exchange rate | 1 -2 marks |
| Effect of the unfavourable movement on the trade balance | 1 mark |
| Effect of the unfavourable movement on the macroeconomy, must include employment, economic growth, inflation and investment | 1 – 6 marks |

1. Discuss the changes in Australia’s terms of trade since 2012 and describe three factors that affect Australia’s terms of trade. ( 10 marks )

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| Identifies and discusses the changes in Australia’s terms of trade since 2012   * Unfavourable shift from 2012 to 2016 * Favourable change from 2016 | 1 – 4 marks |
| Describes three factors that affect Australia’s terms of trade | 1 -2 marks per factor dependant on depth |

**Question 31 (20 marks)**

In April 2019, iron ore prices reached a five year high of $96.65 US a tonne.

Discuss the impact of this movement on Australia’s terms of trade, balance of payments, exchange rate and consequently, the impact on the Australian economy.

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| Identifies that iron ore is the top Australian export. | 1 mark |
| Discusses impact on Australia’s terms of trade:   * Increase in export price index, favourable shift | 1 – 2 mark |
| Discusses impact on balance of payments:   * Ceteris paribus, trade balance will increase * If it causes an appreciation of the AUD, elastic exports become less competitive, potentially decreasing the trade balance | 1 – 2 marks |
| Discusses impact on exchange rate:   * Increase in price will mean foreigners purchasing iron ore will need to increase there purchasing of AUD to pay the greater amount, therefore increasing demand for AUD and appreciating AUD. Could draw diagram to illustrate this | 1 – 2 marks |
| Discusses impact on the marcoeconomy:   * Appreciation of AUD will lead to less competitive exports, could decrease export revenue and contract the economy * Appreciation of the AUD will lead to cheaper imports:   + Increasing purchasing power and increasing standard of living   + Decreasing cost of inputs for those domestic producers using imports in their production processes   + May decrease employment in import competing industries   + Decreases cost push inflation * May increase investment into the mining industry and therefore production and employment is this area. | 1 -2 marks for each point |