ECONOMICS - Semester 1, 2021 - Marking Key

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

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

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

**Question 25 (12 marks)**

|  |  |  |
| --- | --- | --- |
| (a) | 0.23 – 1.17 % of GDP | 1 mark |
| (b) | Any valid disadvantage, could include:- prevents trade between countries without a FTA. | 1 mark |
| (c) | Identifies China as Australia’s top two way trading partner and provides one valid economic point on the Australia – China trade relationship. Could Include:* China consumes high quantities of Australian exports such as iron ore, coal etc
 | 1 – 2 marks |
| (d) | Identifies an economic argument, explains the argument and then evaluates it. Valid arguments: favourable trade balance or increased domestic employment | 1 – 3 marks |
| (e) | Should include the following points:* defines tariff
* identifies a decrease in price due to removal of tariff
* correctly drawn and explained diagram
* discusses and accounts for rise in consumption including increase in imports, impact on consumer surplus, producer surplus and overall total surplus
* overall decrease in DWL due to efficient allocation of resources.
 | 1 – 5 marks |

**Comments:**

**Question 26 (12 marks)**

|  |  |  |
| --- | --- | --- |
| (a) (i) | $49,364m (number can be positive or identified as surplus) | 1 mark |
| (a) (ii) | Provides one valid factor, for eg:* increase in commodity prices which will increase export value (ceteris paribus)
 | 1 mark |
| (b) | Key points in discussion:* Australia has a savings-investment gap that requires an inflow of foreign investment.
* Foreign investment flows in and out of Australia are recorded on the Financial account.
* These create income flows which are recorded in primary income account.
* Due to the S-I Gap, the primary income account is always in deficit.

For full marks must link discussion to data. For eg, the capital and financial deficit means that there is a decrease in the stock of foreign liabilities and therefore there will also be a fall in the primary income deficit.  | 1 – 4 marks |
| (c) | Defines foreign direct investmentOutlines trends in foreign direct investment over the last ten years, should include:* Stock of foreign direct investment has increased over the last ten years and is much less volatile than portfolio investment.

Identifies and discusses two benefits of foreign direct investment. (Maximum two marks per benefit). Could include:* Helps to fund S-I gap, allowing Australia to have a high rate of investment
* Enables Australia to have higher real incomes and higher living standards
* Increases employment and economic growth
* Enabled the development of Australia’s mining and energy sector
* Enhances productivity growth through capital deepening
* Encourages competition and increased innovation through new technologies
 | 1 – 2 marks1 – 4 marks |

**Comments:**

**Question 27 (12 marks)**

|  |  |  |
| --- | --- | --- |
| a (i) | A$296 billion | 1 mark |
| a (ii) | A strong bounce back from the pandemic, especially in China | 1 mark |
| b | State and explain the impacts, 1-2 marks each* Exchange rate appreciation
* Increased foreign investment into Australia due to the strength in the mining industry
* Favourable movement in the terms of trade
 | 1-6 marks |
| c | Discusses one valid advantage and one valid disadvantage, 1-2 marks for eachPossible advantages:* Economic growth globally can translate to increased economic growth domestically
* Producers are able to sell to a larger market beyond the domestic market

Possible disadvantages:* Increased vulnerability to global shocks, like in the case of the pandemic
* Globalised supply chains mean that there are more avenues for disruptions

Answers need to be careful to relate to globalisation, not just trade | 1-4 marks |

**Comments:**

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

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

1. Explain the determinants of international competitiveness. (8 marks)

|  |  |
| --- | --- |
| Description | Marks |
| Identifies and explains each determinant. Explanation needs to include how the determinants impacts international competitiveness. 1 - 2 marks per determinant* Changes in relative inflation rates
* Changes in exchange rates
* Changes in labour productivity (Relative per unit labour costs)
* Changes in relative wage level
 | 1-8 |

**Comments:**

1. Outline the significance of trade to Australia and explain, using appropriate models, the gains from trade. (12 marks)

|  |  |
| --- | --- |
| Description | Marks |
| Significance:* Relatively high level of trade
* Small population – Limited production base: Reliant on foreign-made goods to fill the gap
* Resource rich – Need to import manufactured goods
 | 1-4 |
| Explanation of gains from trade:* Demand and supply model, both gains for imports and exports
* Gains to consumers:
	+ Imports: Can increase quantity of consumption at lower prices 🡪 increased consumer surplus
	+ Increased standard of living
* Gains to producers:
	+ Exports: Can sell to a larger market 🡪 Greater income 🡪 Increased production and output
	+ Reduces unemployment levels
* Dynamic gains:
	+ Long terms increases in productivity
	+ Can increase competitiveness in the long term as firms develop their comparative advantage
 | 1 - 10 |

**Comments:**

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

The Australian trade-weighted index moved from 68 to 72.3 from Dec 2020 to March 2021.

1. Define the trade-weighted index and explain three factors that would have caused this change. (10 marks)

|  |  |
| --- | --- |
| Description | Marks |
| Description of TWI* Value of Australian dollar against a basket of Australia’s top trading partners, weighted for the significance of trade with them
* Reflect the value of the exchange rate
 | 1-2 |
| Identify that it is an appreciation | 1 |
| Explanation of factors with relation to appropriate diagrams (demand/supply model)Factors, e.g.: (2m each)* 1. Commodity prices
	2. Economic growth of trading partners
	3. Interest rate differential
	4. Level of foreign investment

Need to relate to diagram(s) for full marks | 1-7 |

1. Explain the impact of this change on the sectors within the Australian economy.

 (10 marks)

|  |  |
| --- | --- |
| Description | Marks |
| Below is a guideline, may also split by export industry, import industry, import- competing, import-reliant |
| Mining: Limited impact as the sector is price inelastic for demand and prices are set in USD | 1-2 |
| Agriculture/Rural: limited impact as even though demand is price elastic, supply is price inelastic and so will have limited ability to change supply to reflect the decrease in demand due to the currency appreciation | 1-2 |
| Services: Appreciation makes exports less competitive* Decreased level of exports
* Increase in level of imports
* Import-competing industries lose out
* Import reliant industries will gain
 | 1-3 |
| Manufacturing: Appreciation makes exports less competitive* Decreased level of exports
* Increase in level of imports
* Import-competing industries lose out
* Export reliant industries will gain
 | 1-3 |

**Comments:**

**Question 30 (20 marks)**

(a) Describe the recent trends in the current account balance and account for these trends. (12 marks)

|  |  |
| --- | --- |
| Description | Marks |
| Defines current account | 1 |
| Trends: * Historically in deficit, but has experienced a movement to surplus over the last 2/3 years
* Balance on goods and services has been improving
* Primary income account still in deficit
* Primary income account is the main contributor to the historical CAD

Need to identify that the current account balance is influenced by both the balance on goods and services and the primary income balance  | 1-4 |
| Reasons for the trends, can include:* Increasing commodity prices
* Increased demand from China as part of pandemic recovery
* Decreased imports due to decreased domestic economic growth
* Decreased income payments due to increased foreign equity assets
* Reliance on foreign investment generates income servicing which results in a consistent primary income deficit [S-I gap]

Discussion needs to clearly link the factor causing the trends to the current account outcome. Depth of discussion will be rewarded.  | 1-8 |

(b) Explain the concept of foreign liabilities and the relationship between the current account and foreign liabilities. (8 marks)

|  |  |
| --- | --- |
| Description | Marks |
| Define:* Foreign liabilities
* Foreign assets
* Foreign equity
* Foreign debt

Identify that foreign liabilities are generated by foreign equity and foreign debt | 1-4 |
| Relationship between current account and foreign liabilitiesIdentify that foreign liabilities require income servicing.* Foreign debt generates interest repayments
* Foreign equity requires dividend payments

Recorded on current account as income debits  | 1-4 |

**Comments:**