ECONOMICS Unit 3 Semester 1, 2022

**MARKING KEY**

**Section One: Multiple Choice (20 Marks)**

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

**Section Two: Data interpretation/Short response (24 Marks)**

**Question 21 (12 marks)**

|  |  |  |
| --- | --- | --- |
| (a) | 17.5% to 18% of GDP | 1 mark |
| (b) (i) | Lowest opportunity cost | 1 mark |
|  (ii) | Any two sources of comparative advantage in the Agricultural industry, briefly described. Could include:* Natural endowments
* Capital intensity (capital/labour ratio)
* Any other reasonable source
 | 1 – 2 marks |
| (c) | Correctly identifies trend. Increase in trade balanceProvides two reasons for the trend. Could include:* Increase in commodity prices
* Decrease in imports due to contraction of domestic economy/covid/consumer uncertainty/producer uncertainty
 | 1 mark1 – 2 marks |
| (d) | Correctly defines Australian TWI.Correctly draws TWI Diagram showing increase in demand and decrease in supply. Explains the impact of an increasing trade balance on the TWI:* Increase in demand due to rise in exports
* Decrease in supply due to fall in imports
* Resulting in an appreciation (or increase) of the TWI
 | 1 mark1 – 2 marks1 – 2 marks |

**Question 22 (12 marks)**

|  |  |  |
| --- | --- | --- |
| (a) (i) | (957.2 – 809.4) / 957.2 x 100 = **- or decrease of 15.44%** | 1 mark |
|  (ii) | Any reasonable explanation. * Significant outflow of equity investment (395.5 – 229.6) even though debt increased lead to overall decrease in net position
 | 1 mark |
|  (iii) | Describes two effects of a decrease in NII. Could include* Increase in income inflows on current account
* Decrease in income outflows on current account
* Appreciation of currency
* Contractionary impact on the economy
 | 1 – 2 marks |
| (b) | Defines both foreign assets and foreign liabilities and differentiates between them.  | 1 -2 marks |
| (c) | Explains the relationship between the current account and foreign liabilities. Should include:* Foreign liabilities in the form of equity and debt are serviced on the income account
* Decrease in FL improves income acc as recorded in the current account
* When S>I then we will have lower FL and a current account surplus
* When S<I then we will have higher FL and a current account deficit
 | 1 – 5 marks |

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

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

1. Outline the significance of trade to Australia and describe the patterns and trends in Australia’s direction and composition of trade.

|  |  |
| --- | --- |
| **Description**  | **Marks** |
| **Significance of Trade to Australia** |
| Outlines the significance of trade to Australia | 2 |  |
| States the significance of trade to Australia | 1 |  |
| **Patterns and trends in Australia’s direction of trade** |
| Describes the patterns and trends in Australia’s direction of trade, including our top 5 two way trading partners | 2 |  |
| Identifies the patterns and trends in Australia’s direction of trade | 1 |  |
| **Patterns and trends in Australia’s composition of trade** |
| Describes the patterns and trends in Australia’s composition of trade (exports and imports), including our current top 5 exports and imports | 3 – 4 |  |
| Identifies the patterns and trends in Australia’s composition of trade | 1 - 2 |  |
|  | **8 marks** |  |

1. Demonstrate and explain how tariffs and subsidies effect the Australian economy.

|  |  |
| --- | --- |
| **Description**  | **Marks** |
| **Models** |
| **Two (2)** correctly labelled demand and supply diagrams [**tariff and subsidy**]. | 1-4 |  |
| **Explanation** |
| **Definition:** Tariffs and Subsidies | 1 -2  |  |
| **Effects of a Tariff****Eg.*** Increase in price for consumer, fall in consumer surplus
* Artificial price advantage for producer, greater market share and increase in producer surplus
* Government tax
* Deadweight loss
 | 1-3 |  |
| **Effects of a Subsidy****Eg.*** Increase in supply due to subsidisation of production costs
* Increase in market share by domestic producers and increased benefit in form of PW + S, leading to increase in producer surplus
* Government cost
* Deadweight loss
 | 1-3 |  |
|  | **12 marks** |  |

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

1. Using examples of international transactions, describe the structure of the current account of Australia’s balance of payments. (8 marks)

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| --- | --- |
| **Description**  | **Marks** |
| **Current Account** |
| Describes correctly all categories of the Current Account. | 4-5 |  |
| Describes most of the categories of the Current Account. | 2-3 |  |
| Limited description of the Current Account. | 1 |  |
| **Credit and Debit entry examples** |
| Includes a range of appropriate examples in relation to credit and debit entries | 2 |  |
| Uses limited examples | 1 |  |
| **Reference to Australian economy** |
| Makes reference to characteristics of Australia’s current account (Trade and Income balance) | 1 |  |
|  | **8 marks** |  |

1. Describe the concept of terms of trade and discuss the significance of a movement in Australia’s terms of trade on consumers, businesses and the macroeconomy.

 (12 marks)

|  |  |
| --- | --- |
| **Description**  | **Marks** |
| **Terms of trade** |
| Description of terms of trade – must include definition and formula | 1 -2 |  |
| **Consumers (+/-)** |
| Detailed discussion involving significance for consumers | 2 |  |
| Limited discussion involving significance consumers | 1 |
| **Businesses (+/-)** |
| Detailed discussion involving significance for businesses | 2-3 |  |
| Limited discussion involving significance businesses | 1 |
| **Macroeconomy (+/-)** |
| Detailed discussion involving significance for macroeconomy | 2-3 |  |
| Limited discussion involving significance for macroeconomy | 1 |
| **Note:** Must reference Australia’s economy | 1-2 |  |
|  | **12 marks** |  |
| **Responses could include:****Significance for consumers*** imports purchased

**Significance for producers*** Impact on Australia specific sectors

**Significance for macroeconomy*** change in AD
* economic growth (real GDP)
* general prices (inflation)
* Employment
* Living standards

**Others*** on trade balance
* Appreciation/depreciation – link to outcome

**Impact on any valid area**  |

**Question 30 (20 marks)**

(a) Using a demand and supply model and appropriate examples, illustrate and explain how the exchange rate value of the Australian dollar is determined under a freely floating system. (10 marks)

|  |  |
| --- | --- |
| **Description**  | **Marks** |
| **Models** |
| **Two (2)** correctly labelled demand and supply diagrams [**an appreciation** **and depreciation**] showing the correct shift in demand and/or supply. | 1-3 |  |
| **Explanation** |
| **Definition:** Floating exchange rate system | 1 |  |
| **Demand factors:** **Eg.*** Exports of goods and services
* Receipts of income from overseas; and
* Capital inflow (foreign investment into Australia)
* etc
 | 1-3 |  |
| **Supply factors**:**Eg.*** Imports of goods and services;
* Payments of income to overseas; and
* Capital outflow
* Etc.
 | 1-3 |  |
| **Note:** Must relate changes in demand and/or supply to impact on exchange rate value |  |  |
|  | **10 marks** |  |

(b) Discuss the impact of a movement in the exchange rate on consumers, producers and the Australian economy. (10 marks)

|  |  |
| --- | --- |
| **Description**  | **Marks** |
| **Consumers (+/- impact)** |
| Detailed discussion involving impact on consumers | 2 |  |
| Limited discussion involving impact on consumers | 1 |
| **Producers (+/- impact)** |
| Detailed discussion involving impact on producers | 3-4 |  |
| Limited discussion involving impact on producers | 1-2 |
| **Economy (+/- impact)** |
| Detailed discussion involving impact on the economy | 3-4 |  |
| Limited discussion involving impact on the economy | 1-2 |
|  | **10 marks** |  |
| **Responses could include:****Impact on consumers*** Impact on prices (imported goods, overseas travel)

**Impact on producers*** competitive advantage – price of exports in foreign currency
* resources shift to traded goods sector – exporting and import competing firms
* producer payment for imported capital items or raw materials
* price of imports in AUD

**Impact on economy*** economic growth (real GDP)
* general prices (inflation)
* Employment
* Living standards

**Others*** Trade balance and CA outcome
* On foreign debt

**Impact on any valid area**  |