Economics Teachers' Association of Western Australia

Year 12 ATAR Course Examination - Economics 2015

Marking Key

Sections	Questions	Total Marks
Section 1	1 – 24	24
Section 2	25 – 27	36
Sections 3	28 – 31	40

100 marks total

ETAWA

Section 1 (24 marks)

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

Section 2 (36 marks)

Question 25 **(12 marks)**

a i. Around 3.25% (allow +/- 0.25%)	1 mark
a. ii. Growing: consumption **or** net exports Weak: investment **or** government spending	1 mark 1 mark
b. Low interest rates can i increase consumption by reducing cost of borrowing ii increase consumption by increasing asset prices iii increase investment by reducing cost of borrowing iv can increase net exports by reducing exchange rate Note: no effect on G	 1 mark 1 mark 1 mark 1 mark
c. AD/AS Diagram showing economy in equilibrium to left of potential GDP (AD intersects SRAS to the left of the vertical LRAS curve Current stance is expansionary – low interest rates designed to increase AD. This will shift the AD curve to the right & increase real GDP May not be effective given that economy is weak – big fall in mining investment. Business confidence is low so firms may not be willing to borrow despite low interest rates	1 mark 1-2 marks 1-2 marks

Question 26 **(12 marks)**

a. i It is a Reserve Bank of Australia index which provides a measure of price movements in rural and non-rural (resources) commodities. It is dominated by the movement in iron ore & coal prices since these make up most of Australia's exports.	1 mark 1 mark
a. ii 300% (tripling from 40 to 120)	1 mark
a. iii Strong economic growth in China (mining boom)	1 mark
b. There is a strong positive relationship between commodity prices & mining investment – as commodity prices rise, mining investment increases e.g. between 2000-08 & when commodity prices fall, mining investment falls e.g. 2011-15 High commodity prices (e.g. iron ore) increase the profits of mining firms which provides incentive to increase investment	1-2 marks 1 mark
c. Since 2012, mining investment has fallen from around 8% of GDP to 6% in 2014. The fall in investment would have a contractionary effect on the economy must provide **at least two** effects - reducing the growth of real GDP - reducing inflation - increasing unemployment - could mention multiplier effect Use of model – either the AE model or the AD/AS model showing the contractionary effect	1 mark 1 mark 1-2 marks 1 mark

Question 27 **(12 marks)**

a. i. 2011 ii. The goods & services balance increased iii. Fall in the export price index due to fall in commodity prices	1 mark 1 mark 1 mark
b. need to refer to **three** different factors Basically there is a fall in net capital inflow (foreign investment). This could be due to: • the end of the mining boom reducing foreign direct investment, • a fall in the interest rate differential reducing portfolio investment, • a slowing Australian economy reducing the inflow of capital.	1-3 marks
c. i. A fall in the terms of trade should reduce the trade balance (& therefore increase the current account deficit) since export receipts will fall &/or import payments will rise.	1-2 marks
ii. A decrease in rate of economic growth should decrease the current account deficit – a fall in growth will reduce investment reducing capital goods imports. At the same time income will fall reducing consumer spending on imported goods & services which will decrease the CAD.	1-2 marks
iii. A decline in foreign investment will decrease the current account deficit – because less foreign investment will decrease the outflow of interest & profits reducing the primary income deficit	1-2 marks

Section 3 (40 marks)

Question 28 **(20 marks)**

Define productivity – either labour productivity &/or multifactor productivity. Better answers will distinguish between the two. Basically output per unit of input: output/labour. MFP measures the extent of technological change. Define microeconomic reform – govt policies designed to increase productivity & efficiency of the economy Discuss the importance of the two concepts for raising living standards & economic prosperity over time – productivity is the major determinant of living standards over the long term	1-2 marks 1-2 marks 1-2 marks
should discuss up to 3 different examples of microeconomic reform • free trade agreements in lowering trade barriers e.g. KAfta, JAEPA & ChAfta. • government funded infrastructure e,g. roads, transport networks, the NBN • increasing competition in both product & labour markets: removing costly subsidies to specific industries • increased spending on education & training • incentives to promote innovation, research & development	3 x 2 marks
Government's economic objectives - should include discussion of economic growth, full employment, price stability & efficient resource allocation - e.g. micro reform will increase productivity which will increase demand for labour, boosting employment & economic growth; MER reduces costs of production which will reduce inflationary pressures	1-6 marks
Use of AD/AS model to support answer – show AS curve shifting to the right, reducing the price level & increasing real GDP.	1-2 marks

Question 29 **(20 marks)**

a. Changes in the business cycle can affect the government's budget in two ways i. through automatic stabilisers – changes in economic activity affect both T & G. For example, an expansion will automatically increase T through higher income tax, company tax & GST while G will fall due to a decrease in welfare payments – the budget balance will increase during an expansion & fall during a contraction.	1-4 marks
ii. through discretionary policy to help stabilize the economy. For example, during a recession, the government will introduce stimulus measures	1-3 marks
No the government should not always attempt to balance the budget – this would be destabilising. The government should try & balance the budget, over the course of the economic cycle. This means budget deficits when the economy contracts & budget surpluses when the economy expands.	1-3 marks
b. Discuss **at least three** problems associated with persistent budget deficits i. Leads to increased government debt which increases interest payments – significant opportunity cost ii. budget deficits can lead to crowding out – government borrowing 'crowds out' private borrowing & potentially reduces private spending (C & I) iii. persistent budget deficits can adversely affect business & household confidence. iv. Government's credit rating may fall which may lead to higher bond rates	1-5 marks
Students need to discuss both positive & negative aspects to get all 5 marks On its own, a reduction in the budget deficit will have a contractionary effect on the economy – the AD curve shifts to the left, reducing the level of economic activity. However, it is possible that reducing the deficit & lowering government debt could have a positive effect if it boosts the confidence of financial markets, prevents crowding out and improves business sentiment. Private spending could actually increase to offset the fall in G. The deficit may also fall due to automatic stabilisers – if the economy starts to recover, then higher GDP growth will boost government revenue & lower welfare payments without the need for the government to make discretionary cuts to government programs.	1-5 marks

Question 30 **(20 marks)**

a. discussion & explanation - should discuss both the gains from exports & imports correct use of a model showing the gains from trade - could use either a PPF model or the D/S model to show the gains from trade. using the D/S model - need to show that a country gains if it exports to the world market where the world price exceeds the domestic price (comparative advantage). Total production increases more than domestic consumption falls so that economic welfare in terms of total surplus increases. A country can also gain by importing if the world price is less than the domestic price (comparative disadvantage). Total consumption increases more than domestic production falls so that economic welfare in terms of total surplus also rises.	 1-5 marks 1-5 marks
b. Effects of a subsidy the model explanation Use D/S model to show the effect of a subsidy on a domestic industry e.g. the car industry. Need to show the shift of the S curve, the increase in domestic production, the contraction in imports & the cost of the subsidy. Important to note that the subsidy is inefficient – the cost exceeds the gain in producer surplus, resulting in a deadweight loss. Short term effects – domestic car industry & associated industries (e.g. spare parts) contract – rise in structural unemployment Cost saving to government – spending on subsidy can be reallocated to other uses Longer term effects – resources allocated to more efficient areas promoting higher productivity & long term growth	 1-2 marks 1-3 marks 1-2 marks 1 mark 1-2 marks

Question 31 **(20 marks)**

a. Should discuss **at least three** factors for the fall in the $A - can be flexible - up to 8 marks for 3 factors in detail **OR** 4 factors x 2 marks • falling commodity prices (e.g. iron ore & coal) have decreased the demand for $A • slowing Chinese economy has reduced demand for Australia's exports reducing the demand for $A • interest rates in Australia have fallen, reducing the i/r differential, reducing capital inflow into Australia & decreasing the demand for $A • weakness of the Australian economy has reduced foreign investment into Australia • strength of the $US due to improving US economy	1-8 marks
correctly labelled diagram showing a decrease in D($A) causing the exchange rate to fall in value against the $US	1-2 marks
b. Effects of the depreciation Effects on the trade account – depreciation will lower price of Australian exports to overseas buyers & increase the price of imported goods & services to Australian buyers. This will make Australian goods & services more competitive – eventually boosting export income & reducing import payments. This should increase the trade balance over time, however, there may be a lag. Initially the trade balance may decrease if exports/imports are inelastic.	1-5 marks
Other macro effects A depreciation will have an expansionary effect on the economy – the AD curve will shift to the right because net Xs are increasing. At the same time domestic firms that compete with imports become more competitive & increase sales – this should help to increase employment & real GDP	1-3 marks
A depreciation will help to rebalance the economy away from mining & expand other sectors of the economy. In this way, a depreciation will promote structural change.	1 mark
A depreciation is likely to increase inflation since price of imported goods & services will increase causing the CPI to increase	1 mark