**Economics Semester 2 - Examination, 2018**

**Marking Key**

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

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

***End of Section 1***

**Economics Semester 2 - Examination, 2018**

**Marking Key**

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

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**Question 25 (12 marks)**

|  |  |
| --- | --- |
| a. i. $400 milliona. ii. $1000 million | 1 mark1 mark |
| b. mpc = 0.6 (change in C/change in real GDP = ) multiplier = 1/ (1- mpc) = 1/0.4 = 2.5 | 1 mark1 mark |
| c. If real GDP = $1400, then AE would equal $1240 – i.e. AE < GDPThis would cause an increase in inventories since spending is less than production. This would send a signal to firms to decrease production. As production falls, the economy moves down the AE line towards equilibrium at $1000, where spending matches production & there is no unplanned change to inventories. | 1 mark1-2 marks |
| d. A depreciation would lead to an increase in net exports since X prices would fall & import prices would rise. This would lead to an increase in aggregate expenditure (AE = C + I + G + NX).The AE curve would shift up, causing the equilibrium level of real GDP to increase. There would be a multiplier effect – real GDP would increase by more than the increase in net exports.Show change in the AE line & real GDP on the graph | 1 mark1 mark1 mark1 mark1 mark |

**Question 26 (12 marks)**

|  |  |
| --- | --- |
| a. i. 2019/20a. ii. 2.75% | 1 mark1 mark |
| b. Factors that could cause the budget outcome to be different than forecast:- Change in economic activity, mentions automatic stabilisers- External Shock/economic shock with example- Changes in exchange rates or terms of trade- any other reasonable suggestion | 1 -2 marksExplain 2 further factors for 1 mark each |
| c. Outline RBA objectivesStates current level of inflation (2.1%, +/- 0.1%) as measure of whether RBA is achieving their objectivesRecognises that monetary policy is anticipatory and RBA will implement contractionary policy in line with medium term expected conditionsEvaluation of likelihood: Either argument with justification in reference to current world and domestic economic conditions. | 1 mark1 mark1 - 2 marks1 -2 marks |

**Question 27 (12 marks)**

|  |  |
| --- | --- |
| a. Capital Deepening | 1 mark |
| b. Output per unit of labour (or labour hours) | 1 mark |
| c. Defines multifactor productivityIdentifies the difference between labour and multifactor productivity | 1 mark1 mark |
| d. Govt needs to increase capital per worker. This could be done by increasing govt spending on infrastructure, transport, communications etc. Any other reasonable suggestion. | 1 -2 marks |
| e. * Model AD/AS model – showing an increase in both SRAS and LRAS – correctly labelled
* Impact on Eg- non-inflationary growth as it is improving the ability to increase output from the same resources
* Price stability – right shift of the AS
* Full employment – may not be there if the increase in productivity is from technological change
* Efficiency in resource use increases
 | 1 – 2 marks1 -2 marks1 mark1 mark |

***End of Section 2***

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

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Question 28 (20 Marks)**

1. Explain four factors that can affect Australia’s international competitiveness.

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Definition of international competitiveness: Degree to which a country can produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term. Factors affecting Australia’s international competitiveness:* Economic performance: domestic economy, international trade, inflation & unemployment
* Government efficiency: public finance, fiscal policy, business legislation, institutional framework
* Business efficiency: productivity, labour market, finance, management practices
* Infrastructure: basic infrastructure, technological infrastructure, health, education
* Any other reasonable driver of international competitiveness
 | Explains 4 factors in detail for 1 -2 marks each factor. |
| **Total** | **8m** |

1. Discuss the likely short and long run impacts of the ongoing tariff war on trade.

|  |  |
| --- | --- |
| **Description** | **Marks** |
| * Define trade
* Define tariff + reason for imposing it
* Model for tariff + explanation
* Impacts
* Short run – may lead to expansion of the economy as domestic production increases and jobs in the protected industry increase
* Long – run – contraction as cost of producing goods increase
* Retaliation – lead to contraction of export sector – shift AD to the left – unemployment increases
* Trade diversion – as trading partners look for alternatives in other countries – WA may benefit (read article – link at the end of the document)
* Uncertainty
* Decrease in foreign investment and labour movements as well.
* Decrease in global trade due to decrease of imports and hence of exports.
* Increase in prices of consumer goods and capital goods - inflation
* Examples- steel industries – Must have at least one example
 | 122Any 3 impacts with explanation = 6m1 |
| **Total** | **12m** |

**Question 29 (20 Marks)**

1. Explain four factors that may have caused the $A depreciation.

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Explains that a depreciation can be caused by a decrease in demand for the $A and/or an increase in supply for the $A. Four factors explained:* Slowdown in world growth, decrease in demand for our exports and $A
* Increase in interest rates overseas leading to an outflow of capital from Australian residents to foreign residents causing an increase in supply of $A
* Increase in domestic growth leading to an increase in demand for imports and therefore an increase in supply of $A
* Decrease in foreign investment due to the interest rate differential falling causing a decrease in demand for the $A
* Unfavourable movement in the terms of trade
* Any other reasonable factor
 | Explains 4 factors in detail for 1 -2 marks each factor. |
| **Total** | **8m** |

1. Discuss the effect of this movement in the exchange rate on the Balance of Payments and various sectors within the economy.

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Define balance of paymentsExplains the effects of a depreciation on:* Exports: more internationally competitive, may increase demand for elastic goods/services such as tourism and education.
* Imports: more expensive and will decrease demand for imported goods/services.
* Income: debt servicing will increase

Impact on various sectors:* Export industries: May see an increase in income in elastic goods/ service industries eg tourism, education, manufacturing
* Industries that have imported goods as part of production process, see costs increase and therefore profits decrease
* Mining and Agricultural industries may see increased revenue if goods are priced in foreign dollars
* Any other reasonable answer
 | 1 mark1 -2 marks1 – 2 marks1 -2 marksExplains impacts on three sectors for 1 -2 marks each (maximum 5 marks) |
| **Total** | **12m** |

**Question 30 (20 marks)**

*Over the past 12 months, new investment in the amount of $10 billion has taken place in the mining sector. This has mainly occurred in oil and lithium.*

1. Using a relevant model, explain the impact of this increase on the Australian economy.

|  |  |
| --- | --- |
| Define Investment | 1 mark |
| Identify that new investment is component of AE and will increase AE. | 1 mark |
| Draw AE model illustrating increase in AE (figures not required)Must be fully labelled – if axes not labelled correctly – no marks. | 1 - 2 marks |
| Explain multiplier effect and impact of increase AE on Y | 1 - 2 marks |
| Impact on Unemployment | 1 - 2 marks |
| Impact on Price Stability | 1 - 2 marks |
| Impact on Economic Growth  | 1 - 2 marks |

1. Describe two factors affecting consumption expenditure and two factors affecting investment expenditure. (8 marks)

|  |  |
| --- | --- |
| Any two factors affecting consumption expenditure:* Income
* Cost of credit
* Confidence / expectations
* Government policy

1 mark for describing factor, 1 mark explanation / example | 1 -4 marks |
| Any two factors affecting investment expenditure* Interest rates
* Expectations
* Government policy

1 mark for describing factor, 1 mark explanation / example | 1 – 4 marks |

**Question 31 (20 marks)**

Evaluate the effectiveness of contemporary fiscal and monetary policy in achieving Australia’s economic objectives. (20 marks)

|  |  |
| --- | --- |
| Define fiscal policy | 1 |
| Define monetary policy | 1 |
| Correctly identify that current budget is a deficit and will have expansionary effect (can be either expansionary or contractionary stance) | 1 |
| Correctly give current cash rate as 1.5% and identify this as expansionary. | 1 |
| Correctly defines all five economic objectives with targets where appropriate:* Sustainable economic growth
* Price stability
* Full employment
* Efficient allocation of resources
* Equitable distribution of income
 | 1 -5 marks |
| Strengths of fiscal and monetary policy* Any relevant strengths, up to 2 marks for detailed discussion
* Examples:
	+ Fiscal policy can target certain areas of the economy
	+ Monetary policy is not influenced by political concerns
	+ Monetary policy can be quickly implemented
	+ Any other reasonable strength

Weaknesses of fiscal and monetary policy* Any relevant weaknesses, up to 2 marks for detailed discussion
* Examples:
	+ Fiscal and monetary policy appear to be working against each other
	+ Monetary policy is a blunt instrument
	+ Monetary policy is not effective in a downturn
	+ Policy lags
	+ Any other reasonable weakness
 | 1 – 4 marks1 – 4 marks |
| Evaluates the effectiveness of contemporary fiscal and monetary policy | 1 – 3 marks |
|  | 20 marks |

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**End of Questions**