ECONOMICS Unit 3 and 4 Semester 2, 2021

MARKING KEY

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

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

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

**Question 25 (12 marks)**

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| a. | $1 billion (Need to have dollar sign and units) | 1 mark |
| b. | Any valid reason from article, e.g.:   1. Support farmers and exporters who relied on passenger flights to deliver fresh produce 2. Ensure flows of vital imports 3. Support trade flows in Australia | 1 mark |
| c. | Discussion - any valid points e.g.   1. Reduces trade barriers and increases flow of trade 2. Made up of trading partners 3. Implements trade barriers against countries outside of the bloc – May not be able to trade as much with more efficient producers (Redirection of trade)   At least 2 detailed points needed | 1 – 2 marks per point |
| d. | Diagram:   * Correctly drawn and labelled * Correctly identifies impact of subsidy and refers to diagram in discussion   Discussion, e.g.   * Producers are more able to sell to overseas and have greater revenue streams. * Reduces cost of COVID pandemic * When borders reopen and flights resume, the subsidy will not be as necessary   At least 2 detailed points needed | 1 – 2 marks  1 – 2 marks per point |

**Question 26 (12 marks)**

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| a. | Two consecutive quarters of negative economic growth. | 1 mark |
| b. | 7.1 + 85.3 = $92.4b | 1 mark |
| c. | The main method the govt finances its budget deficit is through borrowing - by selling govt bonds to either domestic residents or non-residents.  One valid disadvantage provided:   * Crowding out * Debt increases * Any other reasonable disadvantage | 1 mark  1 mark |
| d. | There was an unexpected downturn due to COVID (shock to the economy)  Due to operation of automatic stabilisers, there was a fall in taxation revenue and rise in government spending on welfare spending  In addition, the Government increased its discretionary spending in the form of higher welfare payments through jobkeepers/jobseekers policy. | 1 mark  1 – 2 marks |
| e. | Tax relief on income earners will increase consumption expenditure as income earners have more disposable income, causing an increase in AD/AE.  Tax relief on businesses will increase investment expenditure as businesses have more retained profits to spend income, causing an increase in AD/AE.  Correctly labelled diagram showing rightward shift of the AD curve/upward shift of AE.  Discusses the impact on the macroeconomy including increase in GDP, demand-pull inflationary pressure and a fall in unemployment. | 1 mark  1 mark  1 mark  1 – 2 marks |

**Question 27 (12 marks)**

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| a. | Increase, $7b | 1 mark |
| b. | records the income from Australian investment abroad less income earnt by overseas residents from investment in Australia. | 1 mark |
| c. | 1. **Balance on goods and services**  * Increase in price of exports in foreign currency will decrease exports; * Decrease in price of imports in Australian currency will increase imports * Net goods and services will fall  1. **Primary income balance**  * decreases cost to Australian residents servicing a foreign debt denominated in foreign currency. decreases returns Australian residents receive on their foreign assets.   ***\*Change in exchange rate must be stated for full marks.*** | 1 – 2 marks  1 – 2 marks |
|  | Recognises a decrease in net foreign debt  Discussion can include any three points, e.g.:   * Can have a positive effect on credit rating * Reduces income repayments required * Suggests lower levels of foreign investment * Lack of access to technological know-how and managerial skills improve efficiency * Might reduce employment, standard of living * Reduces foreign control of investments   Need to discuss at least one benefit and one cost  Argument needs to include reference to data for full marks | 1 – 2 marks per point |

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

**Question 28 (20 marks)**

Explain the patterns and trends in the composition and direction of Australian trade and evaluate the economic arguments for and against trade liberalisation.

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| Description | Marks |
| Explains the direction of Australian trade with reference to our top 5 trading partner.  Should include:   * Focus on Asia – Pacific region * Top trading partners: China, Japan, US, UK, South Korea * Share of trade to Europe has fallen * Geographically, Australia is part of the Asia Pacific * Reference to comparative advantage | 1 – 3 marks |
| Explains the composition of Australian trade. Must discuss both imports and exports.  Should include:   * Exports - Significant increase in mineral and energy exports – over half of all exports * Decline in importance of rural exports * Strong comparative advantage in resources sector * Services exports – education top 4 * Imports - Most imported goods are manufactured goods, particularly intermediate goods - fuels and processed industrial goods | 1 – 5 marks |
| Defines trade liberalisation | 1 mark |
| Evaluates the economic arguments for and against trade. For full marks must provide some evaluation in analysis.  Arguments against trade liberalisation could include:   * Anti-dumping argument * Infant industry argument * Diversification argument * National security argument * Increased employment argument * Cheap foreign labour argument * Favourable balance of trade argument   Arguments for trade liberalisation could include:   * Increases real income and living standards * Increases efficiency through greater competition * Increases productivity through efficient resource allocation * Consumers gain through lower prices, greater variety and quality of goods * Exporters gain through higher prices and increased market access * Domestic producers gain through lower input prices * Enables greater specialization and economies of scale * Openness to trade and investment is a major catalyst for economic growth | 1 – 12 marks |

**Question 29 (20 marks)**

1. Discuss and account for the recent trends in Australia’s terms of trade and the implications of these trends for Australia.

(12 marks)

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| Description | Marks |
| Defines terms of trade, XPI and MPI | 1 – 2 marks |
| Outlines the recent trend as favourable or an improvement of ToT | 1 mark |
| Discusses factors causing the favourable trend:   * Increasing commodity prices * Low AUD   Need explanation for 3 marks | 1 – 3 marks |
| Discusses the effects of a favourable movement of the ToT.  Could discuss:   * Increase in trade balance * Increase in national income * AD increases * Rise in living standards * Investment and employment increases in the resources sector * AUD appreciates * Inflation rises | 1 – 2 marks per effect |

1. Discuss the factors that have contributed to the recent trends in Australia’s Current Account balance.

(8 marks)

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| Description | Marks |
| Define current account  Outlines the recent trends in current account balance – increasing balance, movement from a deficit to surplus in 2019. | 1 – 2 marks |
| Discusses factors that have contributed to the current account balance   * Increasing commodity prices * Moderate AUD * improving terms of trade * Low interest rates * Lower income payments to overseas due to lower foreign investment * Any other valid factor | 1 – 2 marks per factor  Max 6 marks |

**Question 30 (20 marks)**

*The main drivers of growth in the June 2021 quarter were private investment (which added 0.9 percentage points to the quarterly result) and household consumption (which added 0.7 percentage points).*

1. Explain two factors affecting Consumption and two factors affecting Investment Expenditure and describe how the changes to consumption and investment in June 2021 could impact the Australian economy. (12 marks)

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| Description | Marks |
| Defines consumption and investment expenditure (must include definitions for full marks) | 1 – 2 marks |
| Four factors affecting consumption and/or investment correctly discussed. Could include:   * Consumption   + Disposable income   + Interest rates   + Expectations   + Availability of credit   + Stock of wealth * Investment   + Business expectations   + Interest rates   + Level of past profits   + Government policies | 1 – 2 marks per factor  (maximum 8 marks) |
| Identifies that there is an increase in AD/AE  Describes the impact of the increase in C and I on the Australian economy. Could include:   * Increase in real GDP * Increase in demand pull inflationary pressure * Increase in employment   Can include reference to multiplier | 1 – 4 marks |

1. Use the aggregate expenditure model to explain how macroeconomic equilibrium is determined if spending does not equal output. (8 marks)

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| Description | Marks |
| Explains the concept of macroeconomic equilibrium within the model.   * Planned expenditure equals total output | 1 mark |
| Correctly labelled and drawn AE model showing equilibrium and disequilibrium   * Indicates difference between spending and output | 1 – 2 marks |
| Correctly explains the process of reaching equilibrium from disequilibrium.  Must include reference to inventory levels  Must discuss both spending > output and output > spending | 1 – 5 marks |

**Question 31 (20 marks)**

1. Use the AD / AS model to explain the relationship between productivity and the macroeconomic objectives of the Australian government.

(8 marks)

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| Description | Marks |
| Defines productivity and the macroeconomic objectives (price stability, sustainable economic growth and full employment) of the Australian Govt | 1 – 4 marks |
| Correctly labels and draws AD/AS model showing increase in AS | 1 – 2 marks |
| Explains the relationship between an increase in productivity and the attainment of the macroeconomic objectives:   * Key point: Increase in productivity enables economic growth without inflationary pressure * Provides new opportunities for employment (may create short term structural unemployment) | 1 – 3 marks |

(b) Explain how monetary policy works to affect the level of economic activity and discuss its current effectiveness.

(12 marks)

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| Description | Marks |
| Defines monetary policy | 1 mark |
| Explains the transmission mechanism with reference to all four channels and the impact on expenditure.   * Change in the cash rate which causes a change in interest rates across the economy * Change in interest rates affects the economy through:   + Savings investment channel   + Cash flow channel   + Assets/wealth channel   + Exchange rate channel * This impacts consumption/investment/net exports which causes a shift in AE or AD. | 1 – 8 marks |
| Discusses current effectiveness, can refer to:   * Long impact lag * Low consumer/producer confidence * Historically low cash rate already in place, real cash rate is negative | 1 – 4 marks |