ECONOMICS Unit 3 and 4 Semester 2, 2021

MARKING KEY

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

|  |  |  |  |
| --- | --- | --- | --- |
| 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)**

|  |  |  |
| --- | --- | --- |
| 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 marks1 – 2 marks per point  |

**Question 26 (12 marks)**

|  |  |  |
| --- | --- | --- |
| 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 mark1 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 mark1 – 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 mark1 mark1 mark1 – 2 marks |

**Question 27 (12 marks)**

|  |  |  |
| --- | --- | --- |
| 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 marks1 – 2 marks |
|  | Recognises a decrease in net foreign debtDiscussion 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 costArgument 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.

|  |  |
| --- | --- |
| 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)

|  |  |
| --- | --- |
| 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)

|  |  |
| --- | --- |
| Description | Marks |
| Define current accountOutlines 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 factorMax 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)

|  |  |
| --- | --- |
| 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/AEDescribes 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)

|  |  |
| --- | --- |
| 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 levelsMust 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)

|  |  |
| --- | --- |
| 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)

|  |  |
| --- | --- |
| 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 |