

2018 YEAR 12 ECONOMICS ASSESSMENT 2

**Pattern of Trade, Balance of Payments**  Weight (10% )

MARKING KEY

**Section 1: Multiple Choice** **6 Marks**

|  |  |
| --- | --- |
| 1 | Which of the following best represents an argument for protectionism? |
|  | c | Protects infant industries until they can compete internationally. |

|  |  |
| --- | --- |
| 2 | Which of the following statements relating to Australia’s pattern of trade is correct? |
|  | c | Australia’s major service export is education. |

|  |  |
| --- | --- |
| 3 | Governments have facilitated globalisation by |
|  | b | reducing restrictions on international businesses. |

|  |  |
| --- | --- |
| 4 | The purchasing of shares in an Australian company by an overseas resident would be recorded in Australia’s balance of payments as a  |
|  | a | credit in the financial account. |

|  |  |
| --- | --- |
| 5 | The current account balance is equal to |
|  | c | net goods + net services + net income. |

|  |  |
| --- | --- |
| 6 | Given the figures in Table 1, calculate the balance on the Capital and Financial Account in $ billion |
|  | c | 10 |

**Section 2: Short Answer/Data Interpretation 18 marks**

Question 7 (12 marks)

1. Identify when, if at all, the Net Goods and Services account was in surplus. (1 mark)

From Sept 2016 to Sept 2017, Jan 2018 onwards. (must identify all for mark, can have a quarter variation in dates)

1. Describe the relationship between the net primary income account and the current account deficit. (2 marks)

1 mark: identifies that the net primary income account is the cause of the current account deficit

1-2 mark: due to the Investment/Savings gap

1. Identify and explain factors affecting the net goods and services account over the time period shown in the graph. (4 marks)

Identifies at least two factors affecting the net goods and services account during this time with direct reference to the graph

Explains how the factors affect net goods and services, must use graph (maximum 3 marks without graph reference)

Possible answers:

* From 2014 to 2015 (beginning of 2016), there was a decrease in the trade balance predominantly due to a decrease in demand for commodities, which decreased price of commodities one of our major exports. This was combined with a fall in economic growth from our key trading partners.
1. With reference to the Australian economy, evaluate the view that the current account deficit is a sign of weakness within the economy. (5 marks)

1 mark: Outlines the argument for CAD being a sign of weakness

1 mark: Outlines argument for CAD not being a sign of weakness in the economy

1-3 marks: Comes to a determination as to whether it is or is not a weakness with reference to the Australian economy and economic analysis.

Question 8 (6 marks)

The bank observed that the recent rally in coal and iron ore prices had lifted the terms of trade - the prices Australia receives for its exports relative to what it pays for imports - for the first time in two-and-a-half years during the June quarter, with further gains expected in the September quarter.

That prompted the bank to tentatively call the bottom of Australia's commodity price bust.

The bank observed that coking coal contracts for the December quarter have settled at $US200 a tonne, which is more than double the September quarter benchmark price of $US92.50.

Coking coal prices are now up an astonishing 200 per cent from the early 2016 low, while thermal coal for power stations has more than doubled from its trough.

Iron ore spot prices have risen 40 per cent since the previous statement on monetary policy, and are now 77 per cent of their late-2015 bottom.

The bank also observed that the steep fall in mining investment over the past few years appears to be slowing and might be close to a trough.

Adapted from: https://www.abc.net.au/news/2016-11-04/reserve-bank-statement-on-monetary-policy/7995146

1. Identify the factors affecting Australia’s terms of trade, as described in the excerpt. (1 mark)

Increase in iron ore and coal prices which have impacted the export price index.

1. Describe the relationship between the terms of trade and the current account balance. (2 marks)

Terms of trade measures the proportional change of export price index to import price index. The current account balance measures the value of exports and imports. As a result, when there is a favourable shift in the ToT then, ceteris paribus, the current account balance will increase.

1. Describe the impact of an improvement in the terms of trade on the wider economy. (3 marks)

Impact is favourable

Identifies and describes at least two impacts. Possible discussion:

* Increase in export prices would mean an increase in export revenues which will have a multiplier effect (optional) on the national income/GDP/economic growth.
* Demand pull inflation
* Imports cheaper, decrease costs of production therefore increase in economic growth and lower inflationary pressures.

End of Assessment