

Student Number:

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2019 YEAR 12 ECONOMICS ASSESSMENT 2

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

**Time Allowed: 45 minutes**

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

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| 1 | Which of the following best represents an argument for protectionism? |
|  | a | Greater access to goods and services. |
|  | b | Allows greater competitiveness within the economy. |
|  | c | Protects infant industries until they can compete internationally. |
|  | d | Protects trade relations between countries. |

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| 2 | Which of the following statements relating to Australia’s pattern of trade is correct? |
|  | a | Australia is the largest agricultural exporter in the world. |
|  | b | Clothing and footwear is the main import category. |
|  | c | Australia’s major service export is education. |
|  | d | The value of primary goods exports is less than manufactured goods exports. |

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| 3 | Governments have facilitated globalisation by |
|  | a | encouraging democracy. |
|  | b | reducing restrictions on international businesses. |
|  | c | encouraging people to buy domestic production only. |
|  | d | introducing subsidies. |

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| 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. |
|  | b | credit in the net income account. |
|  | c | debit in the transfers account. |
|  | d | credit in the capital account. |

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| 5 | The current account balance is equal to |
|  | a | net goods + net services + net income + net current transfers. |
|  | b | net goods + net services + net income + direct investment. |
|  | c | net goods + net services + net income. |
|  | d | net goods + net services. |

Table 1

|  |  |
| --- | --- |
| **Category** | **$ billion** |
| Export Goods | 220 |
| Import Goods | 200 |
| Net Services | 5 |
| Net Income | - 35 |
| Capital Transfers | 3 |
| Direct Investment | 27 |
| Portfolio Investment | 30 |

|  |  |
| --- | --- |
| 6 | Given the figures in Table 1, calculate the balance on the Capital and Financial Account in $ billion |
|  | a | 60 |
|  | b | - 60 |
|  | c | 10 |
|  | d | - 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)

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

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

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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)

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Question 8 (6 marks)

Note: Article from November 2016

The RBA 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)

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

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

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End of Assessment