STUDENT NUMBER:	
TEACHER:	

BAULKHAM HILLS HIGH SCHOOL

HIGHER SCHOOL CERTIFICATE

2023 **TRIAL HSC EXAMINATION**

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black pen
- Calculators approved by NESA may be used
- Write your student number and teacher's name on the multiple choice answer sheet

Total marks: 100

Section I - 20 marks (pages 2-10)
- Attempt Questions 1 – 20
- Allow 35 minutes for this section

Section II - 40 marks (pages 11-22)
- Attempt Questions 21- 24
- Allow about 1 hour and 15 minutes for this section

Section III - 20 marks (pages 24-25)
- Attempt either Question 25 or Question 26
- Allow about 35 minutes for this section

Section IV - 20 marks (page 27)
- Attempt either Question 27 or Question 28
- Allow about 35 minutes for this section

Question	Mark
Multiple Choice Q1-20	/ 20
Short Answer Q21	/ 10
Short Answer Q22	/ 10
Short Answer Q23	/ 10
Short Answer Q24	/ 10
Extended Response Q25 OR Q26	/ 20
Extended Response Q27 OR Q28	/ 20
TOTAL	**/ 100**

Section I

20 marks
Attempt Questions 1 – 20
Allow about 35 minutes for this section

Use the multiple choice answer sheet for Questions 1-20

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1. What is a disadvantage of free trade?

   A. Integration in the international business cycle makes countries vulnerable due to specialisation.
   B. Standards of living will fall as countries will face lower prices of goods and services from countries that are more efficient.
   C. Infant industries will have access to new technology and capital.
   D. Free trade forces innovation which improves efficiency in the production process.

2. The table shows life expectancy at birth, adult educational attainment and net foreign debt data for a hypothetical country.

Life expectancy at birth	*Adult educational attainment*	*Export revenue*	*Import expenditure*
40	5 years	$100 million	$90 million

   Based on the data in the table, what should the World Bank implement to best improve the economic development of the hypothetical country?

   A. Provide university scholarships for students to study overseas.
   B. Provide loans to stabilise the country's currency.
   C. Pay off the deficit in the balance of goods and services.
   D. Provide funds to pay for childhood vaccination programs.

3. How has the recent COVID-19 pandemic affected Australia's composition of exports?

   A. Australia's share of manufactured exports has increased and continues to increase.
   B. Australia's share of service exports has declined but is increasing.
   C. Australia's share of agricultural exports increased but has stagnated.
   D. Australia's share of mineral exports has declined and continues to decline.

4. The table shows the Balance of Payments data for a hypothetical economy with a floating exchange rate.

Balance of Payments Item	*$ Billions*
Exports of goods and services	55
Imports of goods and services	50
Net Primary Income	?
Net Secondary Income	-5
Capital Account	10
Financial Account	15
Net Errors and Omissions	5

What is the balance on net primary income for this economy?

A. -$30 billion

B. $0 billion

C. $5 billion

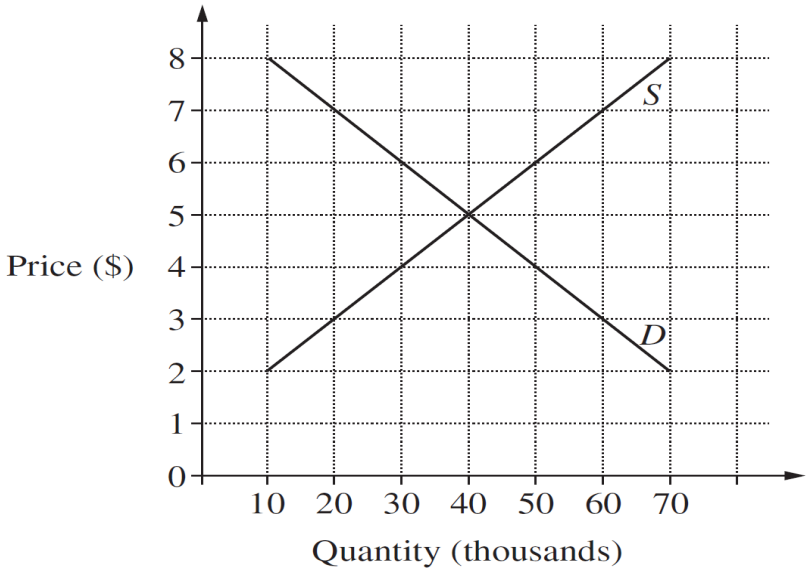
D. $30 billion

5. A mining company has been fined by the Australian Federal Government for leaking wastewater into a protected wetland that provides nesting sites for many native bird species.

Which of the following environmental issue would most likely impact environmental sustainability and what environmental management policy was involved?

	Environmental issue	*Method of environmental management*
A.	Pollution	Market based policies
B.	Depletion of renewable and non-renewable resources	Market based policies
C.	Preservation of the natural environment	Regulations
D.	Climate change	Regulations

6. The diagram shows the demand and supply for cheese within an economy.
The world price is $2.



The government has recently changed its tariff on cheese. Current imports are 20,000 units but the change is expected to add another 20,000 units.

What is the likely effect of this change?

	Effect on domestic producers' revenue	*Effect on domestic consumers*
A.	There is a new revenue of $10,000	Demand expands along the demand curve from 50,000 units to 60,000 units as price falls by $1
B.	There is a new revenue of $60,000	Demand curve shifts to the right from 50,000 units to 60,000 units as price falls by $1
C.	Revenue decreases by $10,000	Demand expands from 50,000 units to 60,000 units as price drops from $4 to $3
D.	Revenue decreases by $60,000	Demand expands along the demand curve due to lower price from $4 to $3

7. The following table shows data for the labour market of a hypothetical economy.

	Year 1	*Year 2*
Working age population	2,100,000	2,400,000
Part-time employed persons	550,000	620,000
Full-time employed persons	350,000	300,000
Unemployed persons	400,000	500,000

Based on the data in the table, which of the following statements is correct between Year 1 and Year 2?

	Unemployment Rate	*Labour force participation rate*
A.	Increased	Increased
B.	Increased	Decreased
C.	Decreased	Increased
D.	Decreased	Decreased

8. The table shows exchange rate movements between the Australian dollar and the New Zealand Dollar.

Year	*Australian dollar AUD*	*New Zealand dollar NZD*
2022	1.00	0.70
2023	1.56	1.00

All other things being equal, which of the following statements is most correct?

A. New Zealand investors will be discouraged to buy Australian assets which will be more expensive in 2023 compared to 2022.
B. New Zealand consumers will find that Australian products are more expensive in 2023 compared to 2022.
C. Australian exports will be less competitive in New Zealand in 2023 compared to 2022.
D. An Australian tourist in New Zealand will find prices more expensive in 2023 compared to when they last visited in 2022.

9. Which of the following policy changes would have the shortest implementation time lag?

A. Contractionary monetary policy
B. Deregulation of the telecommunications industry
C. Expansionary fiscal policy
D. Removal of agricultural tariffs between China and Australia

10. The table shows data for a hypothetical economy over two years.

Year	*Export Price Index*	*Import Price Index*	*Trade Weighted Index*
1	98	100	65
2	103	103	70

What is the effect of the changes from Year 1 to Year 2 on the terms of trade and international competitiveness for this hypothetical economy?

	Terms of trade	*International Competitiveness*
A.	Improved	Decreased
B.	Deteriorated	Increased
C.	No change	Decreased
D.	Improved	Increased

11. The table shows current account data for a hypothetical economy with a floating exchange rate.

Net foreign liabilities component	*$ billions*
Loans owed by foreigners to Australians	300
Foreign assets owned by Australians	200
Australian assets owned by foreigners	500
Loans owed by Australians to foreigners	700

What is the value of Australia's net foreign liabilities?

A. $100 billion
B. $ 400 billion
C. $700 billion
D. $1700 billion

12. The following table shows data for a hypothetical economy.

Year	*Nominal GDP $millions*	*CPI*
1	1250	100
2	1400	112
3	1350	104

What is the most likely impact and cause on the government's expenditure in Year 3?

	Expenditure	*Cause*
A.	Decreases	Economic growth decreases due to fall in nominal GDP from Year 2 to Year 3.
B.	Increases	Derived demand for labour falls due to lower economic growth from Year 2 to Year 3.
C.	Decreases	Employment increases due to higher economic growth from Year 2 to Year 3.
D.	Increases	Unemployment increases due to a fall in real GDP from Year 2 to Year 3.

13. The following diagram shows the equilibrium level of national income in the three-sector model.

Year	*National Income (Y) $ millions*	*Consumption (C) $ millions*
1	3000	150
2	3250	250
3	3750	350

What is the increase in autonomous investment if national income in Year 3 was $3750 million?

A. $500 million
B. $300 million
C. $2250 million
D. $1950 million

14. The NSW government has increased the refund from 10c to 15c for each plastic bottle returned to designated recycling depots.

Which of the following best describes the outcome that will result from this decision?

A. A positive externality and an increase in social costs.
B. A negative externality and an increase in social costs.
C. A positive externality and an increase in social benefits.
D. A negative externality and an increase in social benefits.

15. The table shows data for a hypothetical economy.

Year	*Headline inflation*	*Underlying inflation*	*Population growth*
1	2.0%	1.5%	0.2%
2	1.2%	1.5%	0.2%

Assume the difference between headline and underlying inflation was caused by a sudden change in global oil production.

Which of the following change in global oil production results in the difference between the headline and underlying inflation?

A. Increase in global oil production.
B. Decrease in global oil production.
C. No change in global oil production.
D. Increased sanctions on Russia's oil exports.

16. What is a benefit of a Modern Award for an employer?

A. Industrial conflict is reduced as employees are required to be better off overall than an existing enterprise agreement.
B. Employers do not have to participate in the industrial relations system, allowing firms to focus on their productivity.
C. Individual flexibility agreements can be negotiated to suit the needs of the employer and an employee in a specific firm.
D. There are more than 4300 awards, allowing employers to choose the award that best fits the needs of the firm.

17. What is a disadvantage of a country being a member of a monetary union?

A. Lower trade due to increased trade diversion amongst member countries.
B. Loss of competitiveness due to exchange rate inflexibility for individual members.
C. Economic policies are largely ineffective against international business cycle shocks.
D. Member countries will have to fix their currencies to the monetary union's exchange rate.

18. The Reserve Bank of Australia is concerned about the rapid appreciation of the Australian dollar.

All other things being equal, which of the following actions by the Reserve Bank of Australia is likely to be the most effective?

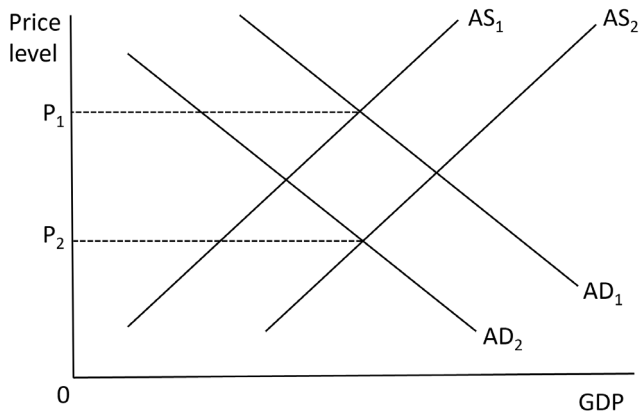
	Intervention in the foreign exchange market	*Monetary policy decision*
A.	Buy Australian dollars	Increase cash rate
B.	Sell Australian dollars	Increase cash rate
C.	Buy Australian dollars	Decrease cash rate
D.	Sell Australian dollars	Decrease cash rate

19. An Australian shipbuilding firm buys the design for a nuclear submarine from an American defence firm.

How would this transaction be recorded on Australia's Balance of Payments?

A. Capital Account credit
B. Capital Account debit
C. Financial Account credit
D. Financial Account debit

20. The following diagram shows the aggregate demand curves for a hypothetical economy.



Which of the following policy actions could have caused the change in the price level from P_1 to P_2?

A. The government increased the qualifications needed by skilled migrants to migrate to Australia as a response to the national skills shortage.
B. The RBA tightened monetary policy in order to attempt to reduce inflationary expectations in domestic factor markets.
C. The government increased subsidies to Australian pharmaceutical companies as a response to global supply chain constraints.
D. The government increased transfer payments to unemployed households as a response to prices falling from P_1 to P_2.

End of Section I

Section II

40 Marks
Attempt Questions 21-24
Allow about 1 hour and 15 minutes for this section

Instructions

- Answer the questions in the spaces provided. These spaces provide guidance for the expected length of your response.
- Extra writing space is provided on pages 20-22.
  If you use this space, clearly indicate which question you are answering.

Please turn over

Question 21 (10 marks)

(a) Define *headline* inflation. **1**

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(b) Outline why the Reserve Bank of Australia prefers to examine underlying inflation rather than headline inflation. **2**

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(c) Briefly explain ONE limitation of using the Consumer Price Index as a measure of inflation in the Australian economy. **3**

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Question 21 continues on page 13

(d) Using examples, explain the causes for the recent increase in headline inflation in Australia. **4**

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End of Question 21

Question 22 (10 marks)

(a) Distinguish between *factor markets* and *product markets*. **2**

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(b) Explain how Competition Policy can improve efficiency in ONE factor market and ONE product market. **4**

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Question 22 continues on page 15

(c) To what extent is the Australian government limited in its ability to effectively implement microeconomic reforms? **4**

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End of Question 22

Question 23 (10 marks)

(a) Define *Gross World Product*. **1**

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(b) Outline ONE contribution of Transnational Corporations to globalisation. **1**

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(c) Briefly explain how ONE international organisation responded to recent changes in the international business cycle. **3**

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Question 23 continues on page 17

(d) For an economy other than Australia, discuss the impact of globalisation on the distribution of income and quality of life. **5**

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End of Question 23

Question 24 (10 marks)

(a) Outline the main characteristics of an *enterprise agreement*. **2**

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(b) Explain ONE advantage and ONE disadvantage of a decentralised system of determining employment contracts. **4**

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Question 24 continues on page 19

(c) How can education and training contribute towards achieving sustainable economic growth? **4**

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End of Question 24

Section II extra writing space

If you use this space, clearly indicate which question you are answering.

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Section III

20 Marks
Attempt either Question 25 or Question 26
Allow about 35 minutes for this section

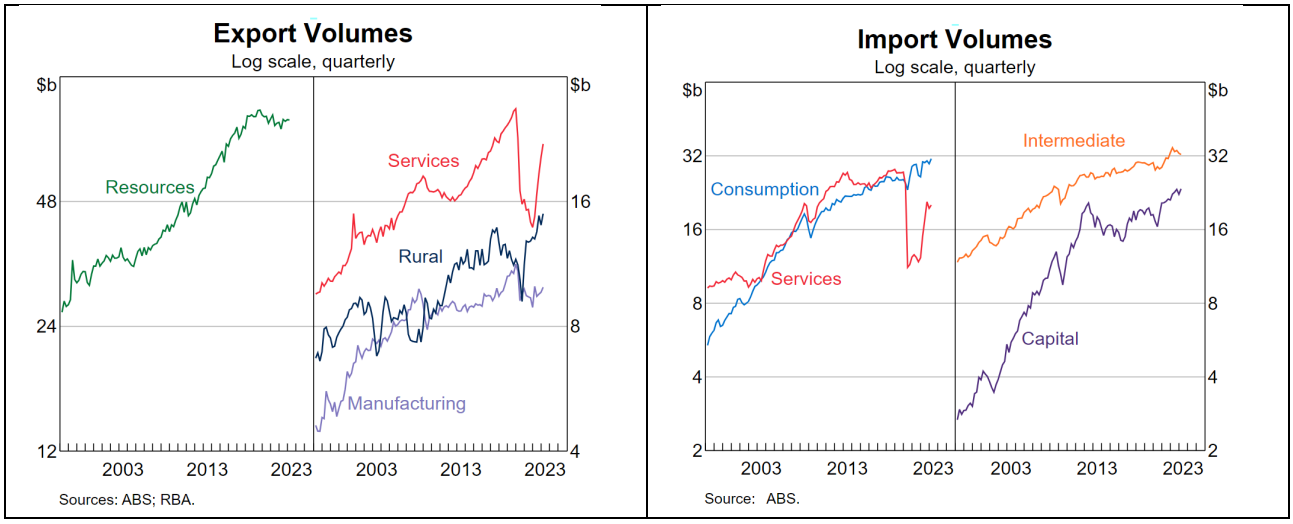
Answer the question in the Section III writing booklet provided. Extra paper is available. Clearly state the question attempted and complete your Student Number and teacher's name.

Your answer will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question
- use the information provided
- apply relevant economic terms, concepts, relationships and theory
- present a sustained, logical and cohesive response

Question 25 (20 marks)

Analyse the impact of Australia's free trade and protection policies on structural change in the Australian economy. In your response, refer to the economic information provided.



Free trade agreements promote stronger trade and commercial ties between participating countries and open up opportunities for Australian exporters and investors to expand their business into key markets. They are particularly beneficial when they remove barriers in highly protected markets or enable Australian exporters to gain a foothold in new or expanding markets. By facilitating access to these markets, free trade agreements provide significant commercial benefits to Australia's exporters and in turn, wider economic benefits to all Australians.

Department of Foreign Affairs and Trade, 2023

OR

Question 26 (20 marks)

Analyse the impact of Australia's environmental management policies in achieving environmental sustainability. In your response, refer to the information provided.

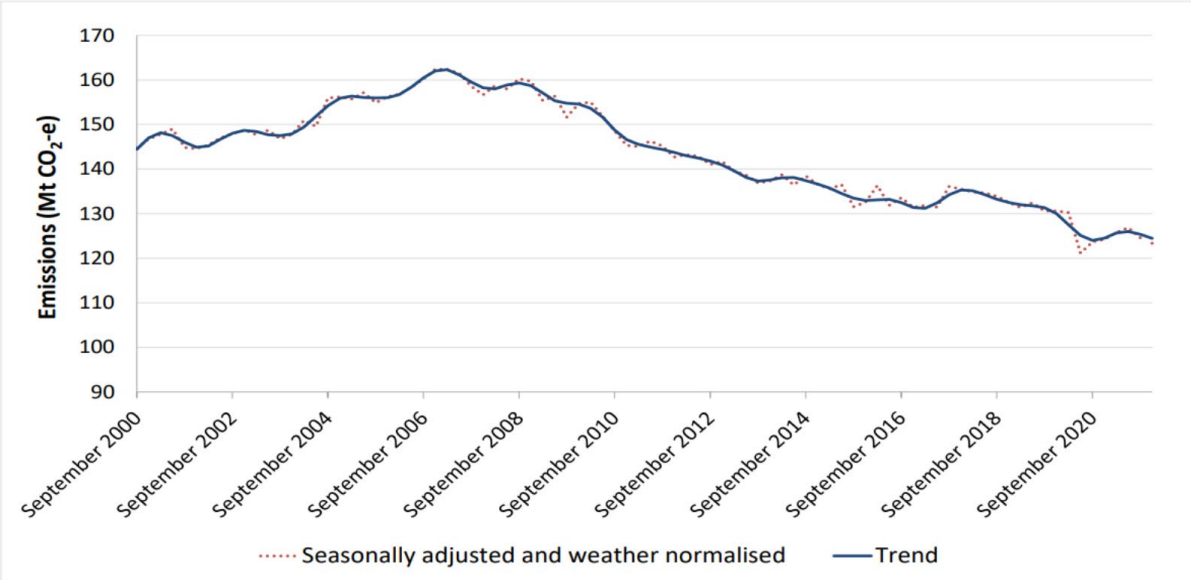
Enhanced emissions reduction commitments made by countries in the lead up to and during the COP26 meeting in Glasgow were a positive step for action to prevent climate change. For the first time, global ambition, including net zero targets, has put the world on track to warming of less than 2°C.

Climate Change Authority, November 2022

From 2020 to 2030, most of the decline in emissions is projected to come from the electricity sector due to strong uptake of renewables supported by federal, state and territory policies. This decline is partially offset by increases in transport and agriculture as activity returns to previous levels after COVID-19 restrictions.

Department of Climate Change, Energy, the Environment and Water, 2022

Figure P1: Emissions[3,4], by quarter, September 2000 to September 2021 (including preliminary December 2021)



Source: Department of Industry, Science, Energy and Resources

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Section IV

20 Marks
Attempt either Question 27 or Question 28
Allow about 35 minutes for this section

Answer the question in the Section IV writing booklet provided. Extra paper is available. Clearly state the question attempted and complete your Student Number and teacher's name.

Your answer will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question
- apply relevant economic information, terms, concepts, relationships and theory
- present a sustained, logical and cohesive response

Question 27 (20 marks)

Discuss the effectiveness of macroeconomic policies in achieving full employment in the Australian economy.

OR

Question 28 (20 marks)

Discuss how the size and composition of Australia's Balance of Payments has affected external stability in the Australian economy.

End of paper

2023 Economics Trial Exam Marking Criteria

Multiple Choice

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

Question 21 (10 marks)

a) Define *headline* inflation. **1**

Criteria	Marks
• Correctly defines headline inflation	1

Comments

- Ensure you learn textbook definitions.
- Avoid using the term that you have been asked to define in your definition eg "headline inflation is inflation which…"
- Care is needed with the expression – "… inflation that takes into account one off and volatile price changes" is incorrect. Instead write … It <u>includes all prices changes</u> including one offs and volatile movements

Success criteria

- ☐ Includes that it is a measure of the change in the prices of goods and services
- ☐ Includes that it is measured using the CPI- as a percentage change in prices

Exemplar

Headline, or "official", inflation rate refers to the sustained rate in the general level of prices in an economy as measured by the percentage change in the Consumer Price Index (CPI).

b) Outline why the Reserve Bank of Australia prefers to examine underlying inflation rather than headline inflation. **2**

Criteria	Marks
• Sketches in general terms the reasons why the Reserve Bank of Australia prefers to examine underlying inflation rather than headline inflation	2
• Sketches in general terms a reason for why the Reserve Bank of Australia prefers to examine underlying inflation rather than headline inflation OR • Provides some relevant information about RBA examining either underlying or headline	1

Comments

- Simple straight forward -for most
- Again, confusion with expression- "it doesn't take into account one off and volatile price changes" incorrect. Rather write "one off and volatile price changes are taken into account and removed"

Success criteria

- Identifies RBA is interested in looking at the indication of ongoing price pressures in the economy to determine Monetary policy setting.
- Headline inflation includes some goods and services whose price is highly volatile.
- Headline inflation includes some goods and services whose prices increase because of one off factors.
- These can be misleading, not giving the real ongoing trends in the movement of prices.
- The underlying or core inflation rate removes the effects of one off or volatile price movements (removing the 15% of items in CPI with largest price increases and the 15% with the smallest price decreases and identifying the weighted mean)
- As a result, measures of underlying inflation tend to be less variable than headline inflation and a better indicator to measure inflation and adjust Monetary Policy settings

Exemplar

The RBA prefers to examine the underlying rate of inflation where items that have particularly large price changes (either frequently or in a given period) are excluded. Large price changes can often be due to temporary factors which are sometimes unrelated to broad conditions in the economy. e.g. supply disruptions because of unusual weather, It also excludes one policy changes e.g. changes in tax regulations- introduction of GST
The RBA is more concerned about price changes for a broad range of items that may indicate a shift in economic conditions. The Reserve Bank may decide to respond to this by changing cash rate target.

c) Briefly explain ONE limitation of using the Consumer Price Index as a measure of inflation in the Australian economy. **3**

Criteria	**Marks**
• Provides a comprehensive explanation of ONE limitation of using the Consumer Price Index as a measure of inflation in the Australian economy.	3
• Provides some explanation of ONE limitation of using the Consumer Price Index as a measure of inflation in the Australian economy.	2
• Provides some relevant information on a limitation of using the Consumer Price Index	1

Comments

- This should have been a simple straight forward question! Very poorly done by nearly everyone!!!!!!
- You need to ensure you revise thoroughly- it is covered in your booklet!

Answers could include:-

1. **CPI is not an indicator of the price level.**

- The CPI measures the rate of price changes in the economy, but not the price level eg cost of bread or milk

2. **Coverage is limited**

- CPI excludes changes in mortgage interest rates, consumer credit charges.
- Does not include property prices or land prices.
- It does not measure price changes in regional, rural or remote areas.
- The CPI also does not take into account the differences in spending patterns between individual households. Households are very different, and some may spend a lot more on a certain item than others.

3. **Quality changes are not taken into account**

- The CPI intends to only calculate pure price changes. This means the CPI should ignore price changes that result from variations in the quality of items. The quality of items in the basket can vary and new products can be introduced.

4. **Substitution bias is not considered**

- The CPI is affected by 'substitution bias'. This is because the CPI does not adjust for changes in household spending patterns very often (as identifying such changes for all households is a major undertaking)

5. **New Products are not included.**

- The CPI does not include new products as soon as they appear on the market. It can often take some time until the ABS includes them in the CPI basket.

6. **Cost of living is not represented accurately**

- The CPI is often used to measure changes in the cost of living, but it is not an ideal indicator of this. While the CPI measures price changes, cost-of-living inflation is the change in spending by households required to maintain a given standard of living.

https://www.rba.gov.au/education/resources/explainers/pdf/inflation-and-its-measurement.pdf

Success criteria

- ☐ Identified a limitation of using CPI- a general area. (#1-5)
- ☐ Stated what the limitation was and how/ why it was a limitation.
- ☐ Provided an example.

Exemplar

A limitation of using the CPI as a measure of inflation is that it is limited in coverage, not accurately representing all Australian consumer purchases The baskets of goods only measures price changes in the metropolitan areas of Australia's eight capital cities (where around two thirds of Australian households live). It does not measure price changes in regional, rural or remote areas where prices changes can be quite significant.

d) Using examples, explain the causes for the recent increase in headline inflation in Australia.

4

Criteria	Marks
• Provides a comprehensive explanation of the recent increase in headline inflation in Australia.	4
• Provides a sound explanation of the recent increase in headline inflation in Australia.	3
• Demonstrates some understanding of factors that have contributed to the recent increase in headline inflation	2
• Provides some relevant information on the causes of recent inflation in Australia	1

Comment

Most student responses identified the causes of the recent increases of inflation.

Poor responses did not explain- the link or effect it (the cause) had on the headline inflation rate and use examples.

Success criteria

- ☐ Answers firstly needed to identify what caused the recent increases in the headline inflation.ie.

- Identify the recent headline rate-Australia's headline inflation, 7.8% for the year to December (the highest level since 1990) or quarterly inflation was up by 1.9%. for year to December
- Identify the current drivers of the steep rise in:-
- the increased cost of new dwellings (Housing), up 17.8%;
- domestic holidays, travel and accommodation, (Recreation and culture) up 19.8%;
- and (automotive) fuel costs (Transport), up 13.2%.
- Rents increasing (Housing)
- Gas and electricity price increases
  Previous quarters
- Furniture prices (furnishings, household equipment and services)
- Food prices (Food and non-alcoholic beverages)
- Identified the reason for these increases in these areas (above)

Suggested answers

- Increased costs and disruptions in Supply chain -Shipping costs surged by 400% because many ships were taken out of service increasing prices of furniture vehicles whitegoods-imported goods
- Russia's invasion of Ukraine has put additional upward pressure on prices of oil and gas and many food items.
- A "profit price spiral" has seen increased company profits, not workers' wages, being the culprit for Australia's inflation issues. OECD research has found that "a significant part of the unit profits contribution has stemmed from profits in the energy and agriculture sectors, well above their share of the overall economy, but there have also been increases in profit contributions in manufacturing and services".
- The cost of building a new house – the largest component of the CPI basket – is increasing at its fastest rate in more than a decade due to a boom in construction activity and record inflation in building material prices. Labour shortages in the house construction industry, leading to rises in labour costs, the continuation of material shortages due to global supply chain constraints- shortage of inputs and shipping and port availability, increase in migration levels
- Increases in labour costs account for just 18% of the inflation.

Exemplar

Question 21 (continued)

(d) Using examples, explain the causes for the recent increase in headline inflation in Australia. 4

Headline Inflation refers to the overall increase of the consumer price index (CPI). A prevalently used good in Australia is fuel, having an ~~sig~~ roughly 8% weighting on the CPI (Transport) Following Russia's invasion of Ukraine in early 2022, sanctions were put on Russian oil X, and as such there was a 20% ↓ in global oil/fuel supply. This has led to a significant increase of fuel prices, increasing ~12% in the last year, and thus ↑ the CPI significantly. Furthermore, Ukraine is one of the world's largest X of produce, such as wheat, barley and other ag. products. Following the invasion, there has been ↓ X by Ukraine, resulting in over 30 countries banning agricultural X, such as India which previously X ~10m tonnes of wheat a year. As such, global food prices are 120% ↑ than their average price in 2014-2019, and with food having a ~25% stake in the CPI, this has sig ↑ the rate of headline inflation.

End of Question 21

Furthermore, the re-opening of borders has allowed for greater influx of foreign workers, resulting in a housing shortage/rental shortages. With housing having a majority stake in the CPI, the 20% ↑ in rent has seen a larger increase in the CPI.

Question 22

(a) Distinguish between *factor markets* and *product markets.* **2**

Criteria	Marks
• Recognises the difference between a factor market and product market • Provides examples	2
• Provides two definitions	1

Comment

- Avoid just writing two definitions and even writing "*whereas"* between your two definitions.
- Better responses wrote "The key difference is …"

Exemplar

A factor market is where the factors of production are bought and sold. Factors of production include labour, capital (physical and financial resources), land, and entrepreneurship. A product market is where finished goods and services are bought and sold by consumers or businesses. This is the market where final products are exchanged for money.

The key difference being the transaction in each of the two markets. In the factor market, individuals, businesses, and governments buy and sell these factors of production to create goods and services. Whereas in the product market, consumers and businesses purchase goods and services for their consumption or use.

OR

The key difference being the focus in each of the two markets. The focus of the factor market is on the inputs that contribute to the production process rather than the end products themselves. Whereas in the product market it focuses on the final output of the production process, i.e., the goods and services that are intended for direct consumption or use.

(b) Explain how Competition Policy can improve efficiency in ONE factor market and ONE product market. **4**

Criteria	Marks
• Provides an explanation of how Competition Policy can improve efficiency in ONE factor market and ONE product market. • Provides a specific example to illustrate the cause and effect in both	4
• Provides an explanation of how Competition Policy can improve efficiency in ONE factor market OR ONE product market AND • Provides a specific example to illustrate the cause and effect in one part AND • Provides some explanation how Competition Policy can improve efficiency in ONE factor market OR ONE product market.	3
• Provides an explanation of how Competition Policy can improve efficiency in ONE factor market OR ONE product market AND • Provides a specific example to illustrate the cause and effect in one part OR • Demonstrates some understanding of how Competition Policy can improve efficiency in ONE factor market and ONE product market.	2
• Provides some relevant information on a specific Competition Policy used to improve efficiency in ONE factor market OR ONE product market.	1

Comments

- Another very poorly attempted question
- Responses showed a massive lack of knowledge on National Competition Policy
- Most answers incorrectly identified examples of deregulation.

Background

The National Competition Policy signed in 1995, proceeded from 1997-98 and concluded in 2005-06. All governments, including the Australian Government, undertook to implement a series of reforms. These included;-

- Reviews and extension of existing anti-competitive legislation, and reduction in competition restrictions. All governments extended the Trade Practices Act which prohibits anticompetitive behaviour (such as the abuse of market power and market-fixing) to all businesses – previously most government owned and some private businesses were exempt
- introducing **competitive neutrality** so that government owned businesses have no advantage over their privately-owned competitors because of their public ownership
  e.g., electricity, gas, water, and rail and road transport
- developing a National Access Regime to enable businesses to use 'nationally significant' infrastructure (like airports, electricity cables, gas pipelines and railway lines) which are owned by government and other businesses
- Governments removed regulatory functions from government businesses and reviewed the merits of separating monopoly elements before privatising their public monopolies or introducing competition. EG Telstra
- consideration being given to extending price monitoring to all government businesses that have a market monopoly
- specific 'related reforms' to increase competition in key infrastructure services of the economy on which businesses rely – such as the gas, electricity and road transport sectors, where there were pre-existing reform commitments
- specific 'related reforms' designed to better manage Australia's water resources to promote efficient use of water and to achieve improved environmental outcomes, where there were pre-existing reform commitments
- the implementation of national standards in accord with agreed guidelines and principles and advice from the Office of Regulation Review.

(c) To what extent is the Australian government limited in its ability to effectively implement microeconomic reforms? **4**

Criteria	**Marks**
• Provides judgments on the Australian government ability to effectively implement microeconomic reforms- both sides • Provides examples to support their judgment	4
• Provides a judgment on the Australian government limited ability to effectively implement microeconomic reforms • Provides examples to support their judgment	3
• Demonstrates some understanding of the factors that limit the Australian government's ability to effectively implement microeconomic reforms. OR • Provides a judgment on the Australian government limited ability to effectively implement microeconomic reforms with limited supporting evidence or knowledge of factors	2
• Provides some relevant information on the Australian Government's in/effective implementation of MER	1

Comments

- To what extent- requires you to **make a judgement** about whether or not the Government is able to effectively implement economic reforms

Marking criteria

- judgements are made within the response. often and as part of **P**EE**L**
- Both sides of the argument are shown
- Specific content knowledge is shown- Implementation lags and political considerations, conflicting objectives (structural adjustment and UE)
- Examples used to support the judgements.

Answers could include:-

- Political considerations- various including-political backlash and re election issues- read p 372-374 textbook
- Interest groups and lobby groups- p374
- Complex Regulatory Environment
- Bureaucratic Inertia
- Lack of Evaluation and Feedback Mechanisms

Exemplars

The Australian government's ability to effectively implement microreforms can be influenced by several factors. Microreforms refer to specific policy changes aimed at improving efficiency, productivity, and effectiveness within particular sectors of the economy. While the Australian government has the authority to initiate and implement such reforms, there are several limitations that can impact their success.

Political Considerations: Microreforms can often face political resistance, particularly if they involve unpopular decisions or have the potential to negatively impact certain groups. Politicians may be hesitant to pursue reforms that could lead to short-term political backlash or jeopardize their re-election prospects. An example of this was seen as Scott Morison failed to pursue key IR reforms, such as wage theft legislation, as promised in his election campaign due to intransigent opposition from unions, Labor and the Greens and crossbenchers and the first poll showing his loss of lead

Interest Groups and Lobbying: Various interest groups and industry stakeholders might resist microreforms that threaten their vested interests or challenge the status quo. These groups can exert significant pressure on policymakers, making it difficult to implement reforms that go against their interests. These include Trade Unions and Employer Associations and Energy
government to go much further and produce a serious climate and energy policy, including cuts to funding and create a federal anti-corruption agency with real teeth.

Complex Regulatory Environment: Australia's regulatory landscape can be complex and fragmented, which can hinder the implementation of microreforms. Coordinating efforts across different levels of government and various regulatory bodies can lead to delays and complications. E.G. -in the 2005 NCP water reform, state and territory governments had made considerable progress in improving water resource management, but identified failures by some jurisdictions to sufficiently progress reform in relation to interstate water trading, water planning and addressing overallocated systems. Lack of Constitutional rights

Bureaucratic Inertia: Government agencies responsible for implementing microreforms may encounter resistance to change within their own ranks. Bureaucratic inertia and resistance to adopting new approaches can slow down the reform process.

Lack of Public Support: Public support and understanding are crucial for the successful implementation of reforms. If the public does not understand or support the proposed changes, it can lead to pushback and even protests, making it difficult for the government to proceed. For example Mr Morrison ruled out attempts at tax reform, pushing ahead with some uncontroversial reforms of

the state-federal system of training and vocational education and recommendations of the royal commission into aged care in the budget.

Short Political Cycles: The relatively short electoral cycles in Australia can lead to a focus on short-term gains rather than the long-term benefits that microreforms often provide. Politicians might prioritize policies with immediate voter appeal over more complex and gradual reform efforts.

Budget Constraints: Microreforms may require financial resources for implementation, which can be limited by budget constraints. Prioritizing and funding reform initiatives within existing budgetary limitations can be a challenge.

Coordination and Implementation Challenges: Microreforms often involve multiple stakeholders, agencies, and departments. Coordinating their efforts and ensuring smooth implementation across different parts of the government can be challenging.

Evaluation and Feedback Mechanisms: Effective reform requires ongoing monitoring, evaluation, and adjustment based on feedback and outcomes. If proper evaluation mechanisms are not in place, the government may struggle to determine the success and impact of microreforms.

Global and Economic Factors: External factors, such as global economic conditions, international trade dynamics, and technological advancements, can also impact the effectiveness of microreforms. Changes beyond the government's control can influence the outcomes of reform efforts.

Overall, while the Australian government has the authority to implement microreforms, these limitations highlight the complexities and challenges involved in their successful execution. Overcoming these obstacles often requires careful planning, stakeholder engagement, effective communication, and a long-term perspective on policy goals.

Additional notes

- Australia has not been able to develop an institutional structure which promotes efficient provision of urban transport infrastructure, including roads, rail track, ports and airports. With several of these, externalities are important, and private enterprises will not take account of these. Roads are very difficult to price, and so government provision is the norm. Allocation of road funding is not particularly efficient. Major rail investments attract political attention, and high-profile projects such as new rail links or types of trains are given priority over better though less newsworthy investments, such as track upgrading. It remains difficult to get an efficient balance between road and rail. Airport investments, such as those in Sydney, create well-known externalities, and the location of additional capacity is an emotive issue.
- Limited ability to make legislation over States resources, education-schools hospitals and water due to limited sovereignty- Division of powers Section51 Constitution

Question 23

a) Define *Gross World Product*.

Criteria	Mark
• Correctly states the meaning of Gross World Product	1

Answers can include:

- Define - state meaning and identify essential qualities
- The sum of total output of goods and services by all economies in the world over a period of time.

Marker's comments:

- Most students provided the correct definition
- Majority of incorrect answers failed to mention period of time
- Better responses used a concise textbook definition

Student examples:

(a) Define *Gross World Product*. **1**

Gross World Product refers to the sum of good and services produced in the global economy over a period of time. ✓

(a) Define *Gross World Product*. **1**

(Gross) world product is the sum of the all output of all ~~the~~ economies in the world in one year. ✓

b) Outline ONE contribution of Transnational Corporations to globalisation.

Criteria	Mark
• Sketches in general terms ONE contribution of TNCs to globalisation	1

Answers can include:

- Outline - sketch in general terms; indicate the main features of
- Source of investment including foreign direct investment from developed to developing and emerging economies
- Provides demand for funds for financial flows throughout the world
- Facilitates increased trade in goods and services through export of goods and services
- Contributes towards development and spread of technology, transport and communication – facilitated use of containerisation, improvement in communication networks; development of transport infrastructure such as ports, railways and roadways
- Facilitates international division of labour - TNCs attracted to lower cost labour in developing and emerging economies; migration of skilled labour to employment opportunities provided by TNCs

Marker's comments

- Most students demonstrated a good understanding of contribution of TNCs to globalisation
- But focus on the question directive as it is only 1 mark; need to be concise with your outline, (some students wrote 6+ lines) + wrote more than 1 contribution

(b) Outline ONE contribution of Transnational Corporations to globalisation. **1**

Transnational corporations (TNCs) allow for the spread of technology and innovation throughout individual economies, thus promoting increased development and growth globally.

(b) Outline ONE contribution of Transnational Corporations to globalisation. **1**

TNCs establish corporations in various economies in the world through vertical specialisation, increasing TRADE flows between global economies which stimulates

c) Briefly explain how ONE international organisation responded to recent changes in the international business cycle.

Criteria	Mark
• Demonstrates clear causes and effects of how one international organisation responded to recent changes in the international business cycle	3
• Shows some causes and effects of how one international organisation responded to recent changes in the international business cycle	2
• Sketches causes or effects of how one international organisation responded to recent changes in the international business cycle	1

Answers can include:

- Explain **-** relate cause and effect; make the relationships between things evident; provide why and/or how
- Possible recent changes in the international business cycle:
    - COVID led downturn and global recession – transmission of external shocks to domestic economies
    - Increase in public debt in both developed, emerging and developing economies due to expansionary fiscal policies
    - Free trade and open trade policies were restricted in favour of Increased protectionism amongst countries during and post COVID
    - Trade tensions between major trading countries such as China and the US; Chinese trade sanctions against Aus
    - High levels of global inflation
    - Global supply chain constraints
    - Effects of the Russian invasion of Ukraine on commodity/energy supply

- International organisations:
    - WTO: override patent rights for COVID-19 vaccines; mediation and arbitration of trade disputes between members; promotion of multilateral and bilateral free trade
    - IMF: established Short term Liquidity Line to provide one off and interest free loans for developing and emerging economies; $650b relief package to assist developing economies vaccinate populations and pay foreign debt; relief packages to countries experiencing destabilised economies eg Ukraine; provide policy and technical advice on policies to tackle global inflation
    - World Bank: committed $157bn for over 100 countries to obtain vaccines, strengthen health systems and reduce foreign debt repayments; provided $47bn in credit support for developing countries that private funds would not lend to at the start of COVID; $100 billion of debt relief to 37 countries by 2022
    - United Nations: delivered and coordinated health response to COVID for developing economies; technical advice and development of policies to help recover from COVID
    - OECD: provide forecasts and policy advice to member countries; analysis of effectiveness of members' policies

Marker's comments

- Focus on the syllabus for international organisations – a number of students used G20 (government economic forum)
- Focus on the directive term – many students dropped at least 1 mark here due to describing the response of the international organisation rather than focusing on the causes and effects
- Recent changes in the IBC should be within the last 10 years; preferably within 5 years; HSC marking is becoming more stringent on this
- Stronger responses provided specific programs conducted by the international organisation which was linked to a specific change in the IBC

(c) Briefly explain how ONE international organisation responded to recent changes in the international business cycle. 3

The International Monetary Fund (IMF) aims to promote economic stability and growth through it focus on removing restriction in the FOREX market. ~~This is the market where supply and demand interacts to~~ the IMF has responsible for implementing a "rescue package" during the COVID-19 pandemic, to support developing countries during a period in which many nations were experiencing A recession in the international business cycle. The IMF successfully

3

Question 23 continues on page 17

provided $650 billion to allow for developing countries to obtain access to emergency funds in the form of one-off payments and interest free loans to pay off debt during the pandemic and afford PPE and vaccines. Thus, the IMF effectively supported economic development and growth in vulnerable nations that were not able to support their economies amidst a recession in the IBC.

(c) Briefly explain how ONE international organisation responded to recent changes in the international business cycle. 3

During COVID-19, world growth plummeted from 2.1% in December 2019 to −3.1% in June 2020 in the height of the pandemic. This change was due to business closures, border closures and lockdowns that ↓ consumption and investment and ↓ AD (since AD = C+I+G+X−M). As a result, the ~~International Monetary Fund (IMF) provided~~ World Bank provided technical and monetary assistance to developing countries, including strategies for vaccine implementation and industry support. As a result, the global economy recovered and growth increased to 6% in Nov 2021.

3

Question 23 continues on page 17

(c) Briefly explain how ONE international organisation responded to recent changes in the global cycle of international business cycle. 3

The International Monetary Fund has responded to changes in the IBC recently due to the economic downturn faced in 2020 which left many developing economies in large amounts of debt. In response, the IMF established the Short term liquidity line, offering over $ loans worth of billions to no interest loans to developing economies to ease their BOP constraints, allowing them to spend on vaccination programs which aid allowation them to promote recovery, mitigating the IBC downturn.

Question 23 continues on page 17

d) For an economy other than Australia, discuss the impact of globalisation on the distribution of income and quality of life.

Criteria	Mark
• Clearly identifies and provides comprehensive points for and against the impact of globalisation on the distribution of income and quality of life for an economy other than Aus • Integrates relevant examples, data or trends	5
• Identifies and provides comprehensive points for or against the impact of globalisation on income OR quality of life and demonstrates a sound understanding of the other for an economy other than Aus • Uses relevant examples, data or trends	4
• Identifies and provides sound points for or against the impact of globalisation on income OR quality of life and sketches an understanding of the other for an economy other than Aus • Provides sound examples, data or trends	3
• Identifies and sketches general points for or against the impact of globalisation on income and quality of life on an economy other than Aus • Provides limited examples	2
• Makes a relevant statement about globalisation and distribution of income or quality of life	1

Answers can include:

- Discuss - identify issues and provide points for and/or against
- Globalisation was encouraged through government policies such as Doi Moi reforms; investment and trade policies; state sector reforms; agriculture and land policies – developed Vietnam into a stronger agricultural exporter and integrated into global manufacturing supply chain
- Aspects of globalisation related to Vietnam such as trade in goods and services, financial flows, investment and transnational corporations, technology, transport and communication, international division of labour, migration; integration into the regional and international business cycles
- Impacts on distribution of income could include:
    - Positive impacts
        - Integration via international trade – increased demand for Vietnamese labour in manufacturing and tourism sectors has increased income in these sectors , attracts labour from lower income rural areas to urban areas
        - Potential for access to higher incomes from TNCs has incentivised both the Vietnamese government and individual households to seek better education and training outcomes → improved productivity and efficiency of labour attracts TNCs, leads to increased employment opportunities and potentially higher income
        - Government policies that encouraged TNCs to establish export processing and development zones such as Ho Chi Minh City, Hanoi and Da Nang attracted higher income jobs – provides Viet gov with increased taxation revenue to transfer into social welfare and social capital expenditure.
        - Decreasing relative poverty levels – division of labour and gov agricultural policies allowed surplus cheap but relatively skilled labour to migrate especially from rural areas. This increased income levels esp as minimum wage has started to increase
        - Income inequality has grown relatively little over the past 20 years – average income of bottom 20 percentile has grown by 9%
        - Improvement in education, health and income levels
    - Negative impacts
        - Wage dispersion - rural vs urban workers; formal economy workers vs informal economy workers; high technology/elaborately transformed manufacturing vs simply transformed manufacturing esp rural workers and informal economy workers earn well below the minimum wage
        - Potential for Vietnam to fall into middle income trap – may increasingly attract TNCs that provide jobs, but without increasing productivity and therefore without improving the lives of the people further

        - Also while minimum wage has increased, Viet gov needs to balance increase in minimum wage with international competitiveness against China and other similar competitors in order to attract FDI from TNCs
        - Increased wealth inequality as a result of income inequality

- Impacts on quality of life
    - Positive impacts
        - Integration into regional business cycle and IBC + membership into WTO and pursue of FTAs (both bilateral and multilateral) provides Vietnamese consumers with increased access to goods and services; also increased access to improved incomes
        - In order to attract TNCs, Viet gov increased infrastructure spending esp transport and communications; education and health services – benefits both domestic and international firms as well as individuals who now have improved access to these services .
        - Vietnam gains membership to World Bank and Asian Development Bank – access to programs and funding on education, health and infrastructure projects
        - Migration of labour to urban areas increased access to higher quality goods and services

    - Negative impacts
        - Environmental issues due to lower government regulations – deforestation to clear industrial parks/zones; increased air and water pollution; decreased health
        - Urban overpopulation and increase in population density due to rural – urban migration – insufficient services, higher cost of living, free riders, insufficient public and merit goods
        - Despite increased economic growth and development brought about by globalisation workers in the informal economy has not improved their quality of life
        - Minority groups such as the Hmong and rural population have not benefitted from economic opportunities
        - Digital divide is deepening between rural and urban workers with urban Vietnamese gaining access to increased information and services

(d) For an economy other than Australia, discuss the impact of globalisation on the distribution of income and quality of life. **5**

Globalisation in Vietnam encouraged increased foreign direct investment into VN's manufacturing sector with FDI being $32bn in 2019. This growth in the manufacturing sector as well the privatisation of VN's agricultural sector, which has increased its productivity and competitiveness, making Vietnam the 4th world's 4th biggest rice exporter contributed to an increase of the minimum wage to a range of 132 - 190 VSD, and increased income per capita (GNI) to $8150 VSD. As a result, this has increased the incomes of individuals, allowing them to satisfy more needs and wants, and thus increasing quality of life. However this increase in minimum wage is unevenly distributed as rural households still have considerably lower wages than urban households → 9.1% of child labourers in the agricultural sector are in fact underpaid. Further more globalisation has led to T'ed deforestation as TNC's require land for manufacturing to build and expand manufacturing industries. However this has led to a 20% decrease in tree cover from 2001-2021. Despite boosting the effiency + productivity of firms it has reduced the quality of life through increased air pollution with an 864m increase in carbon pollution.

5

End of Question 23

Overall, globalisation has had a positive impact

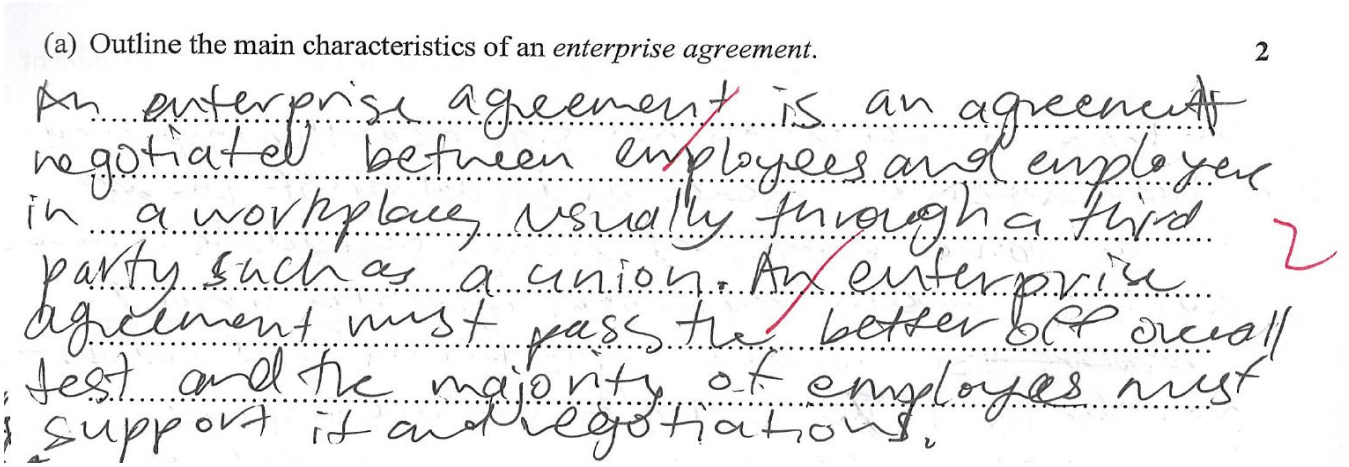
Question 24

a) Outline the main characteristics of an *enterprise agreement*.

Criteria	Mark
• Clearly indicates the main features of an enterprise agreement	2
• Indicates limited features of an enterprise agreement	1

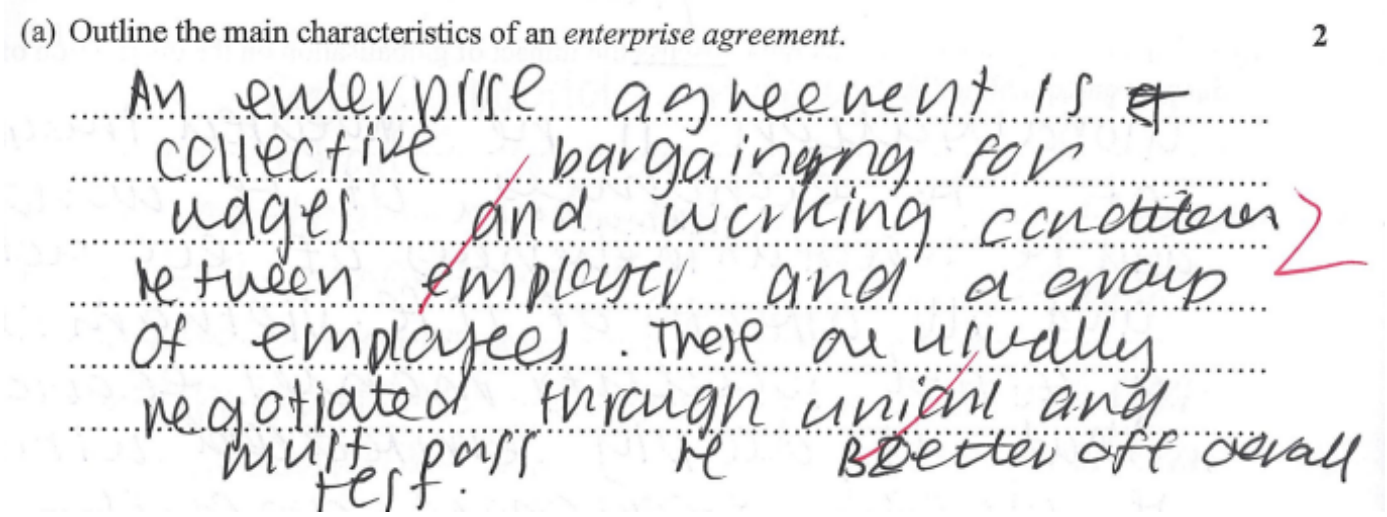
Answers can include:

- Outline - sketch in general terms; indicate the main features of
- Comply with National Employment Standards and dispute resolution procedures
- Pass Better Off Overall Test including for Individual Flexibility Agreements
- Negotiated between an employer and employees (can include union) at the enterprise level or multi-enterprise level
- Covers a period of up to 4 years



(a) Outline the main characteristics of an *enterprise agreement*. 2

An enterprise agreement is an agreement negotiated between employees and employer in a workplace, usually through a third party such as a union. An enterprise agreement must pass the better off overall test and the majority of employees must support it and negotiations.



(a) Outline the main characteristics of an *enterprise agreement*. 2

An enterprise agreement is a collective bargaining for wages and working conditions between employer and a group of employees. These are usually negotiated through union and must pass the better off overall test.

b) Explain ONE advantage and ONE disadvantage of a decentralised system of determining employment contracts.

Criteria	Mark
• Comprehensively relates the effect of one advantage and one disadvantage of a decentralised system of determining employment contracts	4
• Comprehensively relates the effect of either an advantage or disadvantage of a decentralised system of determining employment contracts and provides sound points of the other	3
• Provides sound characteristics of either an advantage or disadvantage of a decentralised system of determining employment contracts and sketches in general terms of the other	2
• Sketches in general terms the advantages and disadvantages of a decentralised system of determining employment contracts	1

Answers can include:

- Explain - relate cause and effect; make the relationships between things evident; provide why and/or how
- Advantages
    - More efficient allocation of resources in response to structural change within the industry or economy
    - Promotes greater productivity; may contribute towards lower cost push inflation
    - Promotes greater wage flexibility to adjust to external shocks
    - Flexibility between employees and employers to reflect individual firms or industries
    - Productivity and efficiency linked to wage growth – employees incentivised to improve their skills and education
    - Easier to negotiate within the firm rather than across industries; employees and employers have a direct input in the negotiation process
    - Wages increase faster in more efficient or in demand industries leading to improved allocation of labour

- Disadvantages
    - Leads to greater wage inequality – higher wage dispersion as workers doing same job in different industries may be paid differently
    - Power imbalance between employees and employers especially for lower skilled employees
    - Workers with higher skills or in higher demand industries have higher bargaining power
    - National Employment Standards and Minimum wage only guarantee the minimum levels of wages and conditions esp for lower skilled workers/workers in low demand industries
    - May lead to increased industrial disputes leading to loss in productivity
    - Enforcement of wage entitlements becomes more difficult leading to underpayment and lower working conditions
    - Makes it more difficult for governments to implement labour market policies such as retraining, skilling and adopting new technologies in response to structural change or skills shortages as these are up to firms to adopt.
    - Also difficult for governments to directly control wage growth in response to changes in inflation or business cycle – relies on fiscal and monetary policy instead

(b) Explain ONE advantage and ONE disadvantage of a decentralised system of determining employment contracts. 4 pt

① ADV: It promotes increased productivity, efficiency and competition in the labour market due to increased knowledge by individuals that their effort will be rewarded in the form of higher wages. This simultaneously promotes an efficient allocation of resources, to ensure maximum output is produced with given input. This is reflected through labour productivity being 1.1% on average throughout the 2000s.

② DISADV: the ability of an individual when determining employment contracts is limited in the bargaining power of workers and their ability to negotiate for higher wages and working conditions. This is a significant impediment on low-skilled and vulnerable workers, who have little bargaining power with employers to determine employment contracts;

Question 24 continues on page 19

(b) Explain ONE advantage and ONE disadvantage of a decentralised system of determining employment contracts. 4

(A) A decentralised system of wage determination reduces government control and encarages free mechanism determination of wages.

(D) An advantage of a decentralised system is the ~~increase~~ link of wage increases to productivity, where employees wages can increase if there is productivity increase. This encouraged innovation and incentive to upskill which increase overall productivity and quality of workforce. This was seen in the mining boom where the wages of employees in the mining sector was able to increase without affecting other sectors.

Question 24 continues on page 19

(E) A disadvantage of a decentralised system is the increase in inequality. This may occur due to wage discrimination where individuals who are doing same work in different industries get paid different. This means it increases inequality as individuals with lower ~~pay~~ or who are not part of unions have lower bargaining power and do not keep wage levels -

(b) Explain ONE advantage and ONE disadvantage of a decentralised system of determining employment contracts. 4

ADVANTAGE : Increased Productivity

Decentralised wage determination system allows for employees to bargain and negotiate agreements and wage levels based on productivity of labour. Hence average growth can be achieved simultaneously at the expense of increased productivity through increased output. Hence decentralised wage systems incentivise employees to improve efficiency in work place.

DISADVANTAGE : WAGE-PRICE SPIRAL

Decentralised wage determination restricts governments from determining wages. During times of high inflationary pressure, employees demand greater wages to cover for fall in real wages. This however leads to wage price inflation, as growth in wage only stimulates more consumption and thus more inflation in the economy. Hence if the system was centralised, govts could restrict wages to minimise wage price spiral.

4

Question 24 continues on page 19

c) How can education and training contribute towards achieving sustainable economic growth?

Criteria	Mark
• Comprehensively explains how both education and training contributes towards achieving sustainable economic growth • Integrates relevant examples	4
• Comprehensively explains how either education or training contributes towards sustainable economic growth and provides a sound explanation of the other • Uses relevant examples	3
• Provides a sound explanation of how either education or training achieves sustainable economic growth and provides a limited explanation of the other • Provides sound examples	2
• Provides a limited explanation of how training and education achieves sustainable economic growth • Provides limited examples	1

Answers can include:

- How can - relate cause and effect; make the relationships between things evident; provide why and/or how
- Sustainable eco growth – long term increases in real GDP and living standards
- Education and training examples such as:
    - 2022 - Establishment of Jobs and Skills Australia – long term planning of skills training and re-training and identification of skills shortages
    - 2022 – lower fee and prices of STEM, teaching, health services and agricultural university degrees to reduce skills shortages + aim for 40% of 25-34 year olds to have uni degree
    - Secondary education - increase school retention – aims to address youth unemployment + improving employability skills of youth
    - Early childhood places have been expanded to improve educational attainment and standards
    - Extension of $1b JobTrainer fund 22/23 Budget – free or low fee training in digital skills and upskilling in shortages eg aged care; low fee apprenticeships programs for youth
    - Reskilling programs for older workers
    - 2020 - National Skills Commission – aims to improve vocational education and training. Focus on vocational education being responsive to structural changes in the labour market
    - Youth PaTH jobs program – skills training, internships and wage subsidies (2017)

- Contribution towards achieving sustainable economic growth can include:
    - Economy is more productive and adaptive if it has a higher quality and more dynamic education and training system
    - Addresses long term structural issues in the economy such as skills and labour shortages
    - Reduces mismatches of skills and labour in the economy to reduce structural and long term unemployment
    - Allows for more effective utilisation of labour esp youth and older workers
    - Improves long term allocation of resources especially planning for future capabilities and future industries
    - Focuses on dynamic and allocative efficiencies of labour
    - May reduce reliance on social welfare – reallocates resources into other sectors of the economy that may contribute towards EG
    - Improvements in economic development such as improved educational attainment and incomes contributes to sustainable EG

(c) How can education and training contribute towards achieving sustainable economic growth?

4

Education and training is a microeconomic reform that improves the quality of human capital, enabling greater aggregate supply (AS) in the long term (LT) so that economic growth (EG) is not constrained by AS shortages. Education increases the skills of a workforce and enables economies to shift towards more high value production goods, such as Vietnam's 20% government budget spent on education as it aims to shift towards elaborately transformed manufactures. Training is essential in addressing structural issues of AS shortages in certain sectors that would otherwise limit EG. This is seen through AUS's ~~Job Trainer~~ $2bn Job Trainer program as it provides interest free education & skills training to 300,000 youth. Furthermore, 30% of the jobs are

4

End of Question 24

in sectors currently experiencing AS shortages, such as IT and aged care. Therefore, these education and training initiatives address structural issues in the workforce, and Job Trainer has led to a record youth unemployment low of around 9%. This signifies greater EG in the LT as workforce has more skills & resulting in greater output. By addressing structural AS shortages, education & training help achieve sustainable LT EG.

(c) How can education and training contribute towards achieving sustainable economic growth? 4

Education and training programs are an effective measure in achieving sustainable economic growth (EG). It enable individuals to gain access to skills and education to further increase the efficiency and productivity of firms, thus promoting increased revenue and growth within firms and contributing to EG. This is reflected through the implementation by the Government in the 2023-24 federal budget of the 5 yr National Skills Agreement, enabling increased access to TAFE and vocational training, and consequently enabling an increase in technical and allocative efficiency of workers to promote sustainable economic growth. Furthermore, the implementation of 300,000 new TAFE places in the 2023-24 budgets an effective measure when increasing the adaptability of workers to changing economic conditions, and government-induced and market-induced changes that disrupt the factor market. Hence, this prevents the potential for hysteresis and for short-term cyclical unemployment to turn into long-term structural unemployment. Hence, this prevents against high levels of UE to reduce reliance on social welfare payments, which is a direct cut on the Gov and runs efficiently, achieve sustainable economic growth.

4

End of Question 24

Question 25 Analyse the impact of Australia's free trade and protection policies on structural change in the Australian economy.

Analyse

Identify components and the relationship between them; draw out and relate implications

Criteria	Marks
• Synthesises own knowledge and understanding with the informationprovided, to develop a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theories • Integrates relevant aspects from the stimulus as well as other relevant examples, data, trends or diagrams • Draws out and demonstrates a clear and comprehensive understanding of the impacts of Australia's free trade and protection policies on structural change in the Australian economy	17–20
• Synthesises own knowledge and understanding with the informational provided, to develop a logical and cohesive response • Applies relevant economic terms, concepts, relationships and theories • Applies relevant aspects from the stimulus as well as other relevant examples, data, trends or diagrams • Draws out and demonstrates a sound understanding of the impacts of Australia's free trade and protection policies on structural change in the Australian economy	13–16
• Uses own knowledge and understanding with the information provided, to develop a coherent response • Uses relevant economic terms, concepts, relationships and theories • Describes relevant examples, data, trends or diagrams • Identifies and describes the impacts of Australia's free trade and protection policies on structural change in the Australian economy	9–12
• Presents a generalised response • Uses limited economic terms and concepts • Refers to some examples, data, trends or diagrams • Identifies aspects of Australian free trade and protection policies or structural change in the Australian economy	5–8
• Presents a limited response • Uses some economic terms and concepts • Uses an example, data, trend or diagram • Lists some aspects of Australian free trade and protection policies OR structural change	1–4

Marker's comments:

- A number of responses focused heavily on other countries' protectionist policies eg EU's CAP and USMCA/NAFTA rather than Aus' free trade and protection policies. Acceptable only if linked to Aus' response in free trade and protection + impact on structural change
- A link needed to be made between examples of free trade agreements and how these affected structural change
- Weaker responses focused on methods of protecting the economy through subsidies, tariffs and quotas rather than the impact on structural change

Answers could include:

- Australia's free trade and protection policies
  - Australia's policies regarding protection
    - Gradual decline in average tariff levels – average tariffs 0f approx. 5% or less
    - Phasing out of non-tariff barriers and direct assistance – esp quotas and subsidies
    - Existing protections include:
      - Export Market Development Grants
      - Use of anti-dumping measures
      - Tariffs remain eg on new cars and bans on imported cars

  - Free trade policies is promoted through multilateral and bilateral agreements including:
    - Multilateral agreements could include:
    - Global multilateral agreements
      - WTO – Doha Round → Nairobi Package 2015
      - GATT (previous)
    - Regional multilateral agreements such as:
      - AANZFTA (2010)
      - Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (2018)
      - Pacific Agreement on Closer Economic Relations Plus (2020)
      - Regional Comprehensive Economic Partnership (2022)

    - Bilateral agreements such as:

ANZCERTA	Singapore-Australia (SAFTA)	Australia-United States (AUSFTA)
Thailand-Australia (TAFTA)	Australia-Chile (ACl-FTA)	Malaysia-Australia (MAFTA)
Korea-Australia (KAFTA)	Japan-Australia (JAEPA)	China-Australia (ChAFTA)
Australia-United Kingdom Free Trade Agreement (A-UKFTA)	Indonesia- Australia Comprehensive Economic Partnership Agreement	Australia-India Economic Cooperation and Trade Agreement (ECTA)
Peru-Australia (PAFTA)		

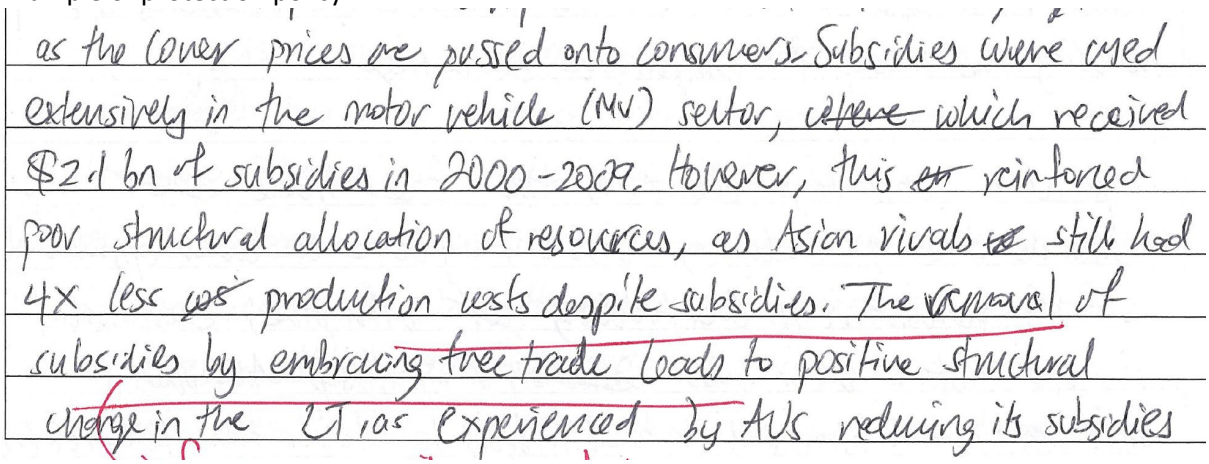
Aspects of structural change (need to link free trade agreements and protection policies to some of the following):

- Changes in Aus economic structure of production, employment and level of technological progress as economic development takes place through allocation of factors of production to more efficient industries in the ST and LT
- Diversification of Australia's export base:
  - Expansion of sectors:
    - Commodities
    - Agriculture
    - Services: tourism, education, financial and legal services, engineering
    - Elaborately transformed manufactures
  - But contraction in:
    - Simply transformed manufactures such as TCF and PMV
    - Effect on regional areas associated with these industries

- Diversification of Australia's export destinations – less reliance on China
- Changes to Aus BoP and external stability – impact of changes in export and import volumes

- The implications of structural change on Aus economy (ST&LT)
    - Import competing firms lose market share or may go out of business
        - Decline of manufacturing in Aus – PMV; TCF
    - Increase in structural unemployment as inefficient firms or industries close esp lower skilled workers/lack occupational mobility
    - Increased access to greater variety of goods at lower prices
    - Removing tariffs reduce gov revenue
    - Increased capital inflows into Aus – flows into productive investment and fills in savings-investment gap
    - Increase in government expenditure on support programs for individuals affected by structural change
    - Resources allocated to more efficient and internationally competitive firms – increased derived demand for labour in sunrise industries rather than sunset industries
    - Lower cost of inputs into Aus lowers costs of production for firms – goods are more competitive
    - Trade creation between members – increases opportunities for Australian exporters to enter markets they might have been excluded from → diversifies Aus export destination; reduces exposure to regional business cycles eg Chinese downturn or Chinese protectionism
    - Helps to improve external stability – increased export volumes improve BOGS and CAD/CAS
    - Efficient firms are able to compete internationally eg:
        - Services sector – tourism, tertiary education, finance, legal, engineering
        - Agriculture
        - Commodities sector
    - Higher standards of living in the LT
    - Economy is better able to respond to changes in the IBC or to trade disputes – MIB I & II; Rebalancing Period; trade dispute between China and Aus & China and US
    - LT allocative and dynamic efficiency
    - And limitations of free trade and protection policies
        - Politically unpopular in reducing protection in certain industries
        - Subjected to changes in government policy
        - Effects are seen gradually over the LT – benefits may be overlooked
        - FTA may create trade diversions
        - Multilateral FTA take a long time to negotiate
        - WTO Doha Round stalled

Example of protection policy


as the lower prices are passed onto consumers. Subsidies were used extensively in the motor vehicle (MV) sector, ~~where~~ which received $2.1 bn of subsidies in 2000-2009. However, this ~~as~~ reinforced poor structural allocation of resources, as Asian rivals ~~as~~ still had 4x less ~~as~~ production costs despite subsidies. The removal of subsidies by embracing free trade leads to positive structural change in the LT as experienced by AUS reducing its subsidies

for agriculture. They were high in the 1970's, but now only 2% of farmer income comes from subsidies in AUS. This has weeded out inefficient firms, and forced firms to adopt productive technology in their farms, or which increases dynamic ~~and allow~~ efficiency. Similarly, AUS's privatisation of its farming ~~re~~ of wool resulted in a 36% increase in output and a 19% increase in employment for the sector over 25 years, as there were ~~&~~ very few government ~~of~~ subsidies, which forced structural change for farmers to become more competitive. The

However, AUS free trade and relaxation of protection initially involves a ST rise in ~~structural~~ UE, as inefficient firms are forced out of business due to increased foreign competition, seen by the loss of 50,000 jobs in 2015 due to reduced motor vehicle subsidies, leading to a 5→6.5% ~~&~~ UE change. This requires greater government expenditure in the ST to retrain workers and prevent hysteresis, which is a problematic structural change that leads to underutilisation and depreciation of ~~them~~ LT unemployed workers. Despite these ST ~~struct~~ detrimental structural changes, free trade enables LT structural benefits.

Example of free trade agreement as a part of free trade policy

Free trade agreements remove barriers ~~of to~~ to trade and protection, often leading to the increased specialisation of economies. Australia has 22 FTA's in operation, each of these FTA's leading to an increase in Australia's commodities. Due to large natural deposits of coal, gas and iron, Australia has a comparative advantage in these areas. ~~Many~~ Many of these trade agreements are with emerging economies who particularly benefit from these materials for manufacturing. For example, ~~China~~ the Chinese-Australian FTA has lead to China becoming a consumer of 38% of Australian exports, majority of which are minerals and agriculture. China is Australia's ~~number~~ 1 trading partner, and this has lead to the reluctance of the Australian economy to shift away from these profitable exports due to the high demand for commodities for them. This high demand,

Section III

Question 26 (20 marks)

Analyse the impact of Australia's environmental management policies in achieving environmental sustainability. In your response, refer to the information provided.

CRITERIA	MARK
• Synthesises own knowledge and understanding with the information provided, to develop a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theory • Demonstrates a clear and comprehensive understanding of the implications of Australia's environmental management policies in achieving environmental sustainability	17-20
• Synthesises own knowledge and understanding with the information provided to develop a logical and cohesive response • Applies relevant economic terms, concepts, relationships and theory • Demonstrates a sound understanding of the implication of Australia's environmental management policies in achieving environmental sustainability	13-16
• Uses own knowledge and understanding with the information provided to develop a coherent response • Uses relevant economic terms, concepts, relationships and theory • Sketches in general terms the implications of Australia's environmental management policies in achieving environmental sustainability	9 - 12
• Provides a generalised response • Uses some economic terms and concepts • Sketches some aspects of Australia's environmental management policies	5-8

• **Presents a limited response** • **Uses some economic terms and concepts** • **Lists some aspects of Australia's environmental management policies**	**1-4**

Answer could include:

- *Define and explain key terms – eg Environmental sustainability, climate change, market failure etc*
- *Co2 emissions – Australian emissions compared to world/other economies*
- *Market failure/social costs*
- *Environmental policies*
    - *Renewable Energy Target*
    - *National Energy Guarantee*
    - *Net zero emissions target - by 2050*
    - *Australian Renewable Energy Agency*
    - *Clean Energy Initiative*
    - *Direct Action Plan*
    - *Safeguard Mechanism*
- *Regulations*
    - *Fuel Quality Standards Act 2000*
    - *Environmental Protection and Biodiversity Conservation Act 1999*
    - *Australia Climate Change Authority*
    - *Climate Bill 2022*
- *Market based policies*
    - *Carbon tax/ETS*
    - *Murray Darling Basin Plan*
    - *Emissions Reduction Fund/Climate Solutions Fund*
    - *Taxation, subsidies etc*
- *International Agreements/Conferences*
    - *Montreal Protocol*
    - *Kyoto Protocol*
    - *Paris Agreement*
    - *COP26 2021, COP27 2022*

- *Implications could include:*
    - *Political limitations/conflicting objectives and costs*
    - *Global emissions – other economies actions*
    - *Reducing Australia's international competitiveness*
    - *Competitive advantage of coal/gas exports (approx. 60% of X) threatened, need to expand export base*
    - *Increasing costs – electricity/gas for consumers and firms*
    - *Costs to governments/firms/consumers for transition to renewables*
    - *Loss of arable farmland to solar farms and wind farms*
    - *Impact on inflation/economic growth/employment/investment etc*
    - *Resource allocation – from non renewable to renewables*

Graphs could include:

- *Negative externality/social costs graphs*
- *Subsidies*
- *Kuznets Curve*

Marker's comments

- **62% of students attempted this question**
- **Mark range 10-20**
- **Average Mark 15.3/20**
- **Analyse: Identify components and the relationship between them; draw out and relate implications**
- **Need to cover wide range of policies (but not all listed above), and ensure you analyse (implications of the policies)**
- **Make sure you do the basics – explain key concepts, provide clear definitions, PEEL, use data/examples throughout. Must also make reference to the stimulus in your response**
- **When using graphs in your response – you must explain it not just say "as shown in graph" or "refer to figure 1"**
- **Question is not just about climate change – although important to environmental sustainability, you should ensure that your response includes other aspects – eg biodiversity, flora and fauna etc**
- **Many responses gave details of policies and discussed them (gave positives and negatives), but failed to analyse – ie draw out implications**
- **Plan your time to ensure you finish your response**
- **Writing – some writing was difficult to read – we can only mark what we can read**
- **Do not write outside the lines – use a new page/extra booklet as needed**
- **Don't use pencil - ever!**

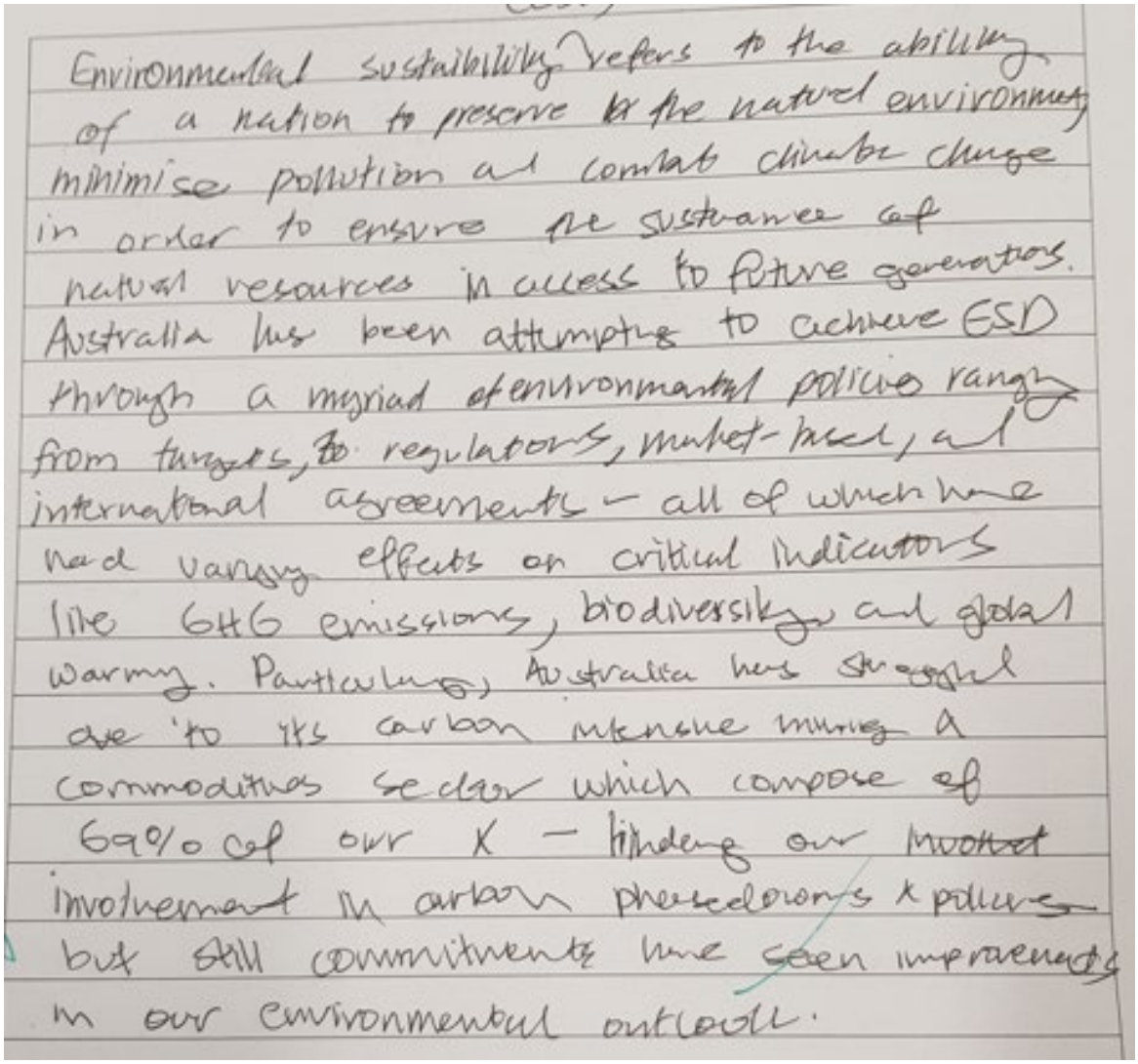
Better Responses:

- **Engaged with the question and the directive term. This question asks you to ANALYSE the IMPACT of Australia's environmental management policies in achieving ENVIRONMENTAL SUSTAINABILTY**
- **Need to know what ANALYSE (include implications) and what environmental sustainability means**
- **Analysed a broad range of policies – not all good or bad, some mixed results so use words like "however", "but", "on the other hand…", "although this….." and noted implications of the policies…."despite the positive impacts, it has led to increased costs….."**
    - **Didn't focus just on policies that related to climate change, but policies that address other issues in the environment – air quality/pollution, water quality, flora and fauna**
- **Explained how the policies worked, their costs and outcomes**
- **incorporated the stimulus in the response and included a range of data, evidence, examples throughout the response (other than the stimulus)**
- **Integrated relevant graphs to support their response – fully labelled and explained and visible**

- **PEELed paragraphs**

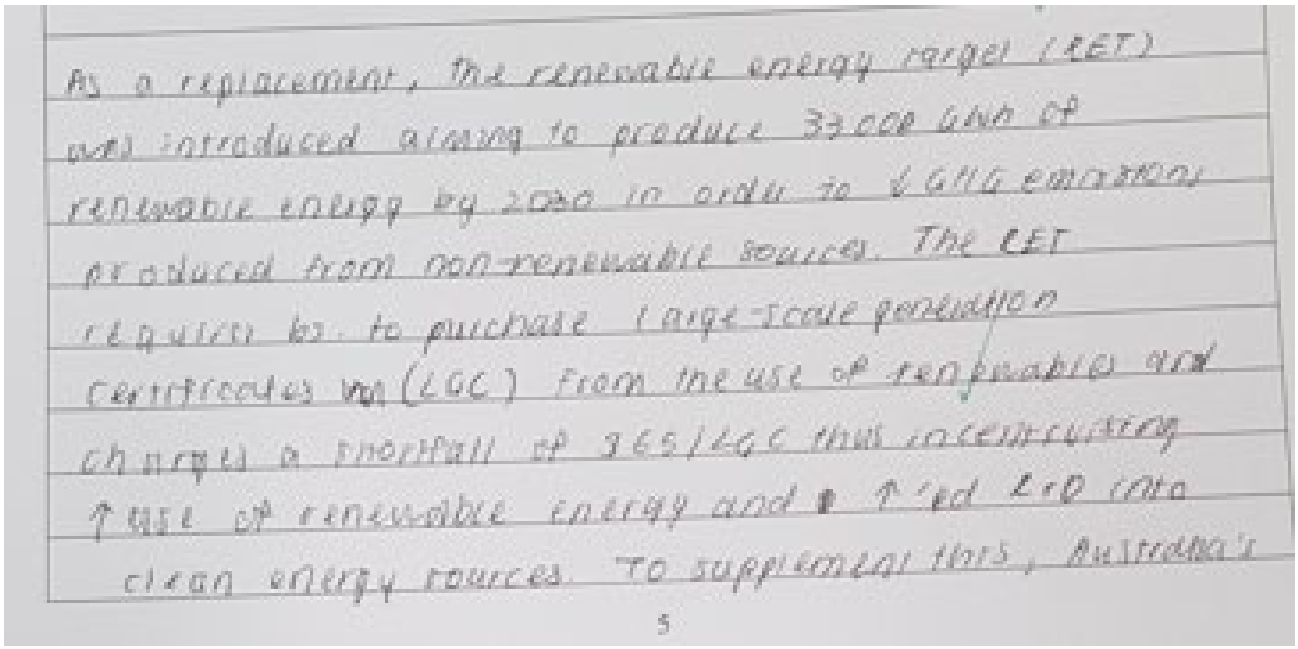
Weaker responses:

- **Did not effectively engage with the question and directive term**
- **Allocated too much time on what policies were, but not analysed them (ie what implications do they have)**
- **Only mentioned or outlined (sketched in general terms) policies**
- **Limited number of environmental management policies included**
- **Limited analysis – implications not evident – and did not provide examples, data, evidence to support, limited use of stimulus or not evident that was used**
- **Did not explain concepts clearly**
- **Graphs just "dumped" into response – not fully labelled, nor referred to or explained**
- **Student sample paragraph 1:**



Environmental sustainability refers to the ability of a nation to preserve the natural environment, minimise pollution and combat climate change in order to ensure the sustenance of natural resources in access to future generations. Australia has been attempting to achieve ESD through a myriad of environmental policies ranging from targets, to regulations, market-based, and international agreements – all of which have had various effects on critical indicators like GHG emissions, biodiversity and global warming. Particularly, Australia has struggled due to its carbon intensive mining & commodities sector which compose of 69% of our X – hindering our modest involvement in carbon abatement initiatives & policies but still commitments have seen improvements in our environmental outlook.

- **Student sample paragraph 2:**



As a replacement, the renewable energy target (RET) was introduced aiming to produce 33000 GWh of renewable energy by 2030 in order to ↓ GHG emissions produced from non-renewable sources. The RET requires LRs to purchase Large-Scale Generation Certificates (LGC) from the use of renewables and charges a shortfall of $65/LGC thus incentivising ↑ use of renewable energy and ↑ led LCD into clean energy sources. To supplement this, Australia's

5

Renewable Energy administrator (RREAA) has provided ~$36b in subsidies to aid the production of clean energy infrastructure, allowing for an expansion in RE and thus lower prices, making renewable energy (RE) a more attractive alternative. It is estimated that securing 1 provided, an extra $3.33bn is given by the private sector amounting with total investment at $7.78bn. This has driven a doubling of energy RE produced as a total proportion to 32%. In the last 5yrs as well as aiding the creation of 50 000 jobs. However, the penetration of this program differs greatly between states with rates of 77% in TAS but below 30% in NSW + QLD. Additionally, it is estimated that to reach this target, an extra 90m solar panels and wind turbines will need to be in place which has become hugely difficult as inflation has led to a 30-40% rise in the cost of these projects which take an average of 7 yrs to complete. This is reflected in a slow fall of carbon emissions by a ton in the last 5yrs and the impact of the RET in achieving environmental sustainability is dependent on the attainment of the target.

Section IV

Question 27 (20 marks)

Discuss the effectiveness of macroeconomic policies in achieving full employment in the Australian economy.

CRITERIA	MARK
• Provides a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theory • Demonstrates a clear and comprehensive understanding of the effectiveness of macroeconomic policies on achieving full employment in the Australian economy	17 - 20
• Provides a logical and cohesive response • Applies relevant economic terms, concepts, relationships and theory • Demonstrates a sound understanding of the effectiveness of macroeconomic policies on achieving full employment in the Australian economy	13 - 16
• Provides a coherent response • Uses economic terms, concepts, relationships and theory • Sketches in general terms the effectiveness of macroeconomic policies on achieving full employment in the Australian economy	9 - 12
• Presents a generalised response • Uses some economic terms and concepts • Sketches some aspects of the effectiveness of macroeconomic policies on achieving full employment in the Australian economy	5 - 8
• Provides a limited response • Uses some economic terms and concepts • Lists some aspects of macroeconomic policy and/or full employment	1 - 4

Answer could include:

- *Define and explain key terms – eg macroeconomic policies, fiscal policy, monetary policy, full employment, NAIRU etc*
- *Conflicts among economic objectives*
  - *Price stability (inflation) and full employment*
  - *Full employment (and EG) external balance (stability)/ CA/BoPs*
- *Competing stances between MP and FP*
- *Okun's Law*
- *Full employment*
  - *Economy working at full capacity, should lead to maximising EG*
  - *Improved standards of living*
  - *Unless MER are used – can be inflationary (peak of business cycle)*
  - *Supply side not covered – may need MER*
- *Monetary Policy*
  - *One of the objectives of MP – maintenance of full employment in Australia*
  - *focus on price stability goal (ie inflation)*
  - *MP Stance - contractionary*
  - *Recent MP/Unconventional MP*
  - *Conflicting objectives*
  - *Impact time lag 6-18months*
  - *Political constraits/involvement*
  - *Global influences*

- *Fiscal Policy*
  - *FP Stance – current budget mildly expansionary*
  - *Discretionary/non discretionary*
  - *Automatic stabilisers*
  - *Child care subsidies*
  - *Jobkeeper/Jobseeker/Jobmaker*
  - *Skills and Training*
  - *Underemployment*
  - *Youth unemployment*
  - *Political constraints*
  - *Increased govt spending*
    - *increased govt debt*
    - *Impact on fiscal consolidation*
    - *Crowding out effect*
  - *Global influences – Covid, Russian invasion of Ukraine etc*

- *Graphs could include:*
  - *Phillips curve – SR and LR*
  - *Business cycle*
  - *PIRC*

Marker's comments

- 83% of students attempted this question
- Mark range 6-18
- Average Mark 14.1/20
- Discuss: Identify issues and provide points for and/or against
- Need to cover wide range of policies, both FP and MP, and ensure you discuss how effective they were in achieving full employment. Some students only wrote about FP….need to cover both Macro Policies
- Make sure you do the basics – explain key concepts, provide clear definitions, PEEL, use data/examples throughout.
- When using graphs in your response – you must explain it not just say "as shown in graph" or "refer to figure 1"
- Many responses stated that FP or MP was effective, not effective or somewhat effective in achieving full employment – but don't define or explain what full employment is…so how can you know if you don't explain what full employment even means???
- In your intro – address question in full. I should be able to ascertain what question is based on your introduction
- Many responses gave details of policies and just stated they achieved full employment – you need to provide data to support
- Plan your time to ensure you finish your response
- Writing – some writing was difficult to read – we can only mark what we can read
- Do not write outside the lines – use a new page/extra booklet as needed
- Don't use pencil - ever!
- This is not Business Studies, so do not write in business report format….no dot points, headings nor subheadings
- Make sure you provide sufficient detail in your response to maximise your marks
- Be careful when using arrows to indicate increase or decrease – can make it difficult to follow if overused

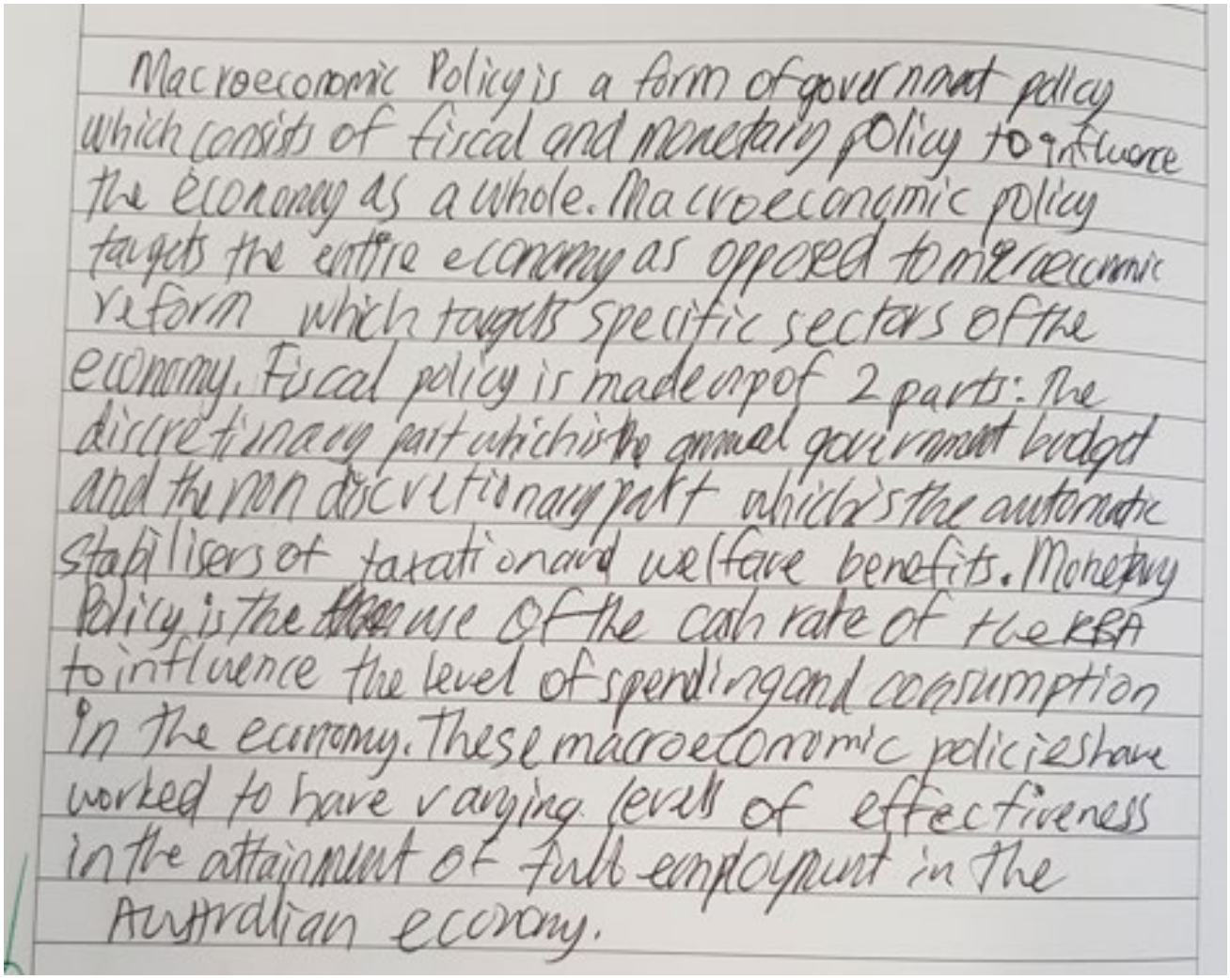
Better Responses:

- Engaged with the question and the directive term. This question asks you to DISCUSS the EFFECTIVENESS of MACROECONOMIC POLICIES in achieving FULL EMPLOYMENT
    - So you needed to cover both Monetary Policy and Fiscal Policy and provide a discussion on how effective they are in achieving full employment
    - This requires you to be able to explain what full employment is
- Discussion on the effectiveness was supported by specific policies and data
- A broad range of policies were discussed - not all effective, some mixed results so use words like "however", "but", "on the other hand…", "although this….." and …."despite the some positive effects, it has led to increased costs….."
- Explained how the policies worked, their costs and outcomes (the result)
- Used a range of data, evidence, examples throughout the response
- Integrated relevant graphs to support their response – fully labelled and explained and visible

- PEELed paragraphs
- Made reference for the need for MER

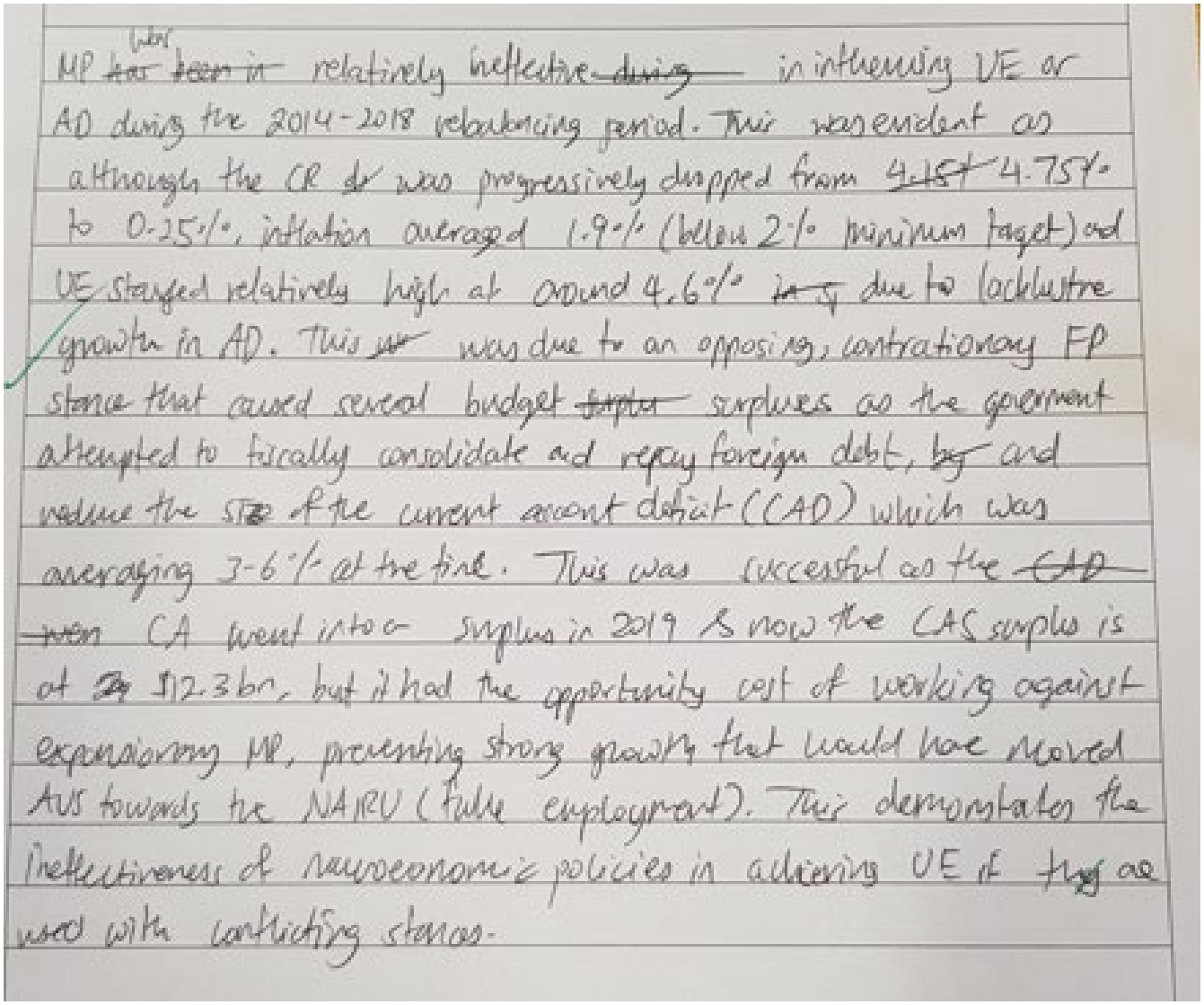
Weaker responses:
- Did not effectively engage with the question and directive term
- Did not address both macroeconomic policies/or limited discussion
- Only mentioned or outlined (sketched in general terms) policies
- Limited number of policies included (ie lacked specific MP and FP policies)
- Did not provide examples, data, evidence to support response
- Did not explain concepts clearly
- Graphs just “dumped” into response – not fully labelled, nor referred to or explained

Student sample paragraph 1:



Macroeconomic Policy is a form of government policy which consists of fiscal and monetary policy to influence the economy as a whole. Macroeconomic policy targets the entire economy as opposed to microeconomic reform which targets specific sectors of the economy. Fiscal policy is made up of 2 parts: The discretionary part which is the annual government budget and the non discretionary part which is the automatic stabilisers of taxation and welfare benefits. Monetary Policy is the use of the cash rate of the RBA to influence the level of spending and consumption in the economy. These macroeconomic policies have worked to have varying levels of effectiveness in the attainment of full employment in the Australian economy.

Student sample paragraph 2:



MP has been relatively ineffective during in influencing UE or AD during the 2014-2018 rebalancing period. This was evident as although the CR dr was progressively dropped from 4.75% to 0.25%, inflation averaged 1.9% (below 2% minimum target) and UE stayed relatively high at around 4.6% in 5 due to lacklustre growth in AD. This was due to an opposing, contractionary FP stance that caused several budget surplus as the government attempted to fiscally consolidate and repay foreign debt, and reduce the size of the current account deficit (CAD) which was averaging 3-6% at the time. This was successful as the CAD now CA went into a surplus in 2019 & now the CAS surplus is at $12.3bn, but it had the opportunity cost of working against expansionary MP, preventing strong growth that would have moved AUS towards the NAIRU (full employment). This demonstrates the ineffectiveness of neoeconomic policies in achieving UE if they are used with conflicting stances.

Question 28

Discuss how the size and composition of Australia's Balance of Payments has affected Australia's external stability.

CRITERIA	MARK
• Provides a sustained, logical and cohesive response that integrates relevant economic terms, concepts, relationships and theory. • Demonstrates a clear and comprehensive understanding of the how the size and composition of Australia's Balance of Payments has affected Australia's external stability. • Makes well-informed discussion about the effects of size and composition of Australia's Balance of Payments on Australia's external stability.	17-20
• Provides a logical and cohesive response that applies relevant economic terms, concepts, relationships and theory. • Demonstrates a sound understanding of how the size and composition of Australia's Balance of Payments has affected Australia's external stability. • Makes some discussion about the effects of size and composition of Australia's Balance of Payments on Australia's external stability.	13-16
• Provides a coherent response that uses some relevant economic terms, concepts, relationships and theory. • Demonstrates some understanding of how Australia's Balance of Payments has affected Australia's external stability.	9 - 12
• Provides a generalised response that uses some economic terms. • Demonstrates some understanding of Australia's Balance of Payments	5-8
• Provides a limited response that uses some economic terms. • Provides some aspects of Australia's Balance of Payments OR Australia's external stability.	1-4

Comment

- Not many students attempted this question. (9 in total)
- It was a difficult question and responses were generally quite poor.
- Better responses structured their response to answer the question- with focus on the size and composition of accounts and, in theory, the effect on external stability and then provided the discussion- that in reality Australia's external stability, for various reasons, has not been adversely affected by the changes. This was the discussion!
- Poor responses were **generalised** responses. Although they were comprehensive, they were just a "dump" of knowledge and did not directly engage with the question. They mainly looked at trends in the BoP.
- Poor responses made token statements eg "this adversely effected external stability"
- Poor responses failed to make TS which directly linked to the question. Making their response general in nature

Answers could include:

- Definition of BoP, Current Account,KAFA and external stability
- Components of the Current Account (Trade balance, and Net incomes balance)
- Components of the KAFA
- Components (measures) of external stability -Current Account, Net Foreign Liability Debt/Equity), Terms of Trade, exchange rate
- <u>Size of CAD</u>
  - identifies periods of CAD as % of GDP being over "accepted levels" as a basis of being unsustainable
  -large deficits, sustained increases imbalance causing concern over external stability – loss of confidence, major structural reformse. (see notes below).
  - surpluses reduce external imbalances - enough exports income to finance imports expenditure-
- Discussion- size of deficit is not a concern ,sustainable over long term, trade balance not the issue . others argue it puts Australia at risk of not being able to finance liabilities
- <u>Composition of CAD</u>
- - identifies periods of acceptable and non-acceptable debt servicing ratio. Effect on Ex/Stab
- - trade imbalance or structural imbalance (saving investment gap) and rising level of debt and equity
- Discussion-FI and loans are increasing productive capacity, which adds to capacity to services FL, "consenting adults" thesis (Pitchford Thesis), increased commodity exports revenues have an important role in strengthening confidence in the stability of Aus external imbalances.
- <u>Size of KAFA</u>
  -identifies periods of acceptable and unacceptable debt ratio or NFL as % of GDP or or NFD as % of GDP
  -Increase in credits of FDI and Portfolio Investment Large capital inflows of debt and equity, increase imbalance high foreign debt sustainability problem
- Discussion- debt trap scenario and imbalance on NPI and CAD, reduced credit rating. Aust. Avoided debt sustainability problem- low interest rates, hedging, denominating debt in AUD, rising export revenue

- Composition of KAFA
  - Public sector debt to private sector debt reduces external instability
  - Use examples of periods with acceptable and non sustainable levels of NFL as % of GDP
  - Growth of NFE mixed effects on external stability
  - Recently Banks reducing level of borrowing from overseas- higher domestic saving reducing NFL and reducing risk =promoting greater Ex/Stab
- Discussion
  -Positives and negatives of debt
  -NFE more volatile than debt- effecting volatility in exchange rate movements, market valuations and investor sentiment, servicing costs strain on external accounts (NPI/ CAD) but servicing costs less concern than debt only if profit is gained unlike debt paid regardless.
- Higher imbalances on CAD or KAFA is more vulnerable to adverse eco development o/s
- Reduced concern over external stability relates to Australia's improved med term export prospects, CAS and increased household savings. More addressed by long term policy settings which reduce risk of external shocks. While maintaining large external imbalance than most advanced economies Aust has still maintained the confidence of foreign investors

Some notes to think about

SIZE -Current Account - CAD as % of GDP- significant effect, in theory, on external stability

○ Historically Australia has had a Current Account deficit since 1980 averaging -4.5% of GDP

-1980's Australia ran really large CAD-

-Australia ran its largest CAD of -78.9 ($bn) in 2007-2008 which was -6.7% of GDP

This had adverse effects on our external stability. Many economists believed that this was unsustainable and that this would cause imbalances where over the long term our payments for imports of goods and services, as well as other income payments could not be met with our receipts for exports of goods and services , as well as other income receipts.

Many economists were also concerned that CAD's could dampen foreign investors' willingness to finance our CADs, due to falling confidence that liabilities will be serviced at face value in the long run. In other words, foreign liabilities must ultimately be serviced by a net flow of goods and services (trade balance) to foreign creditors. This transfer represents the real resource cost of foreign borrowing.

Large CAD are unstainable as they require a substantial rise in output relative to spending, which may be difficult to achieve. They may also cause high volatility in the exchange rate with depreciations imposing losses on foreign investors if liabilities are denominated in AUD.

● Current Account surplus on Australia's external stability

○ since 2019 the Current Account has gone into a surplus recorded and recording +3.5% of GDP in 2019-20

○ In 2022 Q4, Australia's Current Account surged to $14.1bn - the largest surplus since Q1 2019.

Effects on balance of payment - positive - Current Account surplus results in BOP surplus overturns historic pattern of persistent Current Account deficits and Capital and Financial Account surpluses

○ Current Account surplus will increase Australia's external stability

- there is enough exports income to finance imports expenditure,

- it reduces the need for foreign borrowing to finance Current Account deficit - also reduces Australia's foreign debt and net foreign liabilities as percentage of GDP. This would increase Australia' external stability.

- Current Account surpluses reduce the investment saving gap and need for foreign investment to fund projects in Australia - this reduces outflow from net primary incomes which contribute to Current Account deficits and prevent rising foreign ownership of Australian assets.

● Composition of Current account

The widening of the CAD since the early 1980s is explained by a turnaround in the net borrowing between public and private sector. The CAD was driven mainly by borrowing from the government from the mid-1970s to the mid-1990s, but this sector has been generally a net lender since the late 1990s. As a result the CAD has been largely driven by private sector net borrowing since the mid-1990s.

Exemplar- Discussion

-Although external instability could result in negative effects such as a debt cycle and a threatened credit rating, the Pitchford thesis suggests that the persistent CAD may have neutral or positive effects on the economy.

-In light of the concerns about external imbalances caused by the size and composition of the CAD it is important to bear in mind that current account imbalances are not inherently problematic. Whether deficits, regardless of size or composition, are optimal depends on whether the underlying decisions on investment and saving are optimal ie CADs consistent with achieving a path of consumption over time that maximises the wellbeing of Australians and presents no issue for future investments.

-Against that criterion, Australia's large CADs , and the prospect that these could continue for some time, do not appear to be a cause for concern. Increased external borrowing is financing investment, mainly in the resources sector, that is likely to yield high rates of return and will expand export supply capacity. In these circumstances we could expect external borrowing to raise the wellbeing of Australians and to be readily serviced. Although net foreign liabilities are likely to grow significantly as a share of GDP, the size of the trade balance adjustment needed to ensure long-run sustainability appears readily achievable.

-Reliance on external borrowing — particularly short-term borrowing — does entail risks; particularly, in the event of disruption to global financial markets. Nevertheless, the fact that Australia has come through the demanding stress test posed by the global financial crisis provides grounds for confidence that the risks are manageable.