STUDENT NUMBER:	
TEACHER:	

BAULKHAM HILLS HIGH SCHOOL

HIGHER SCHOOL CERTIFICATE

2024 **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 in the spaces provided

Total marks: 100

Section I – 20 marks (pages 2–8)

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

Section II – 40 marks (pages 9–20)

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

Section III – 20 marks (pages 22–23)

- Attempt Question 25 or Question 26
- Allow about 35 minutes for this section

Section IV – 20 marks (page 24)

- Attempt Question 27 or Question 28
- Allow about 35 minutes for this section

Questions	Marks
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.

---

1 A hypothetical economy has an increase in outflows of returns to foreign investors.

How is this recorded in the balance of payments?

A. A credit in the portfolio account in the capital and financial account
B. A debit in the portfolio account in the capital and financial account
C. A credit in the net primary income account in the current account
D. A debit in the net primary income account in the current account

2 Which of the following statements is true of Australia's trade flows with the rest of the world?

A. Services have become the largest category of exports
B. Minerals and metals have become the largest category imports
C. Manufacturing has become a smaller category of exports
D. Rural products have become a smaller category of exports

3 Which of the following is likely to cause a decrease in structural unemployment?

A. Decreased aggregate demand
B. Increased employee training
C. Increased value of transfer payments
D. Decreased number of people moving between jobs

4 An economy is experiencing low levels of savings and high dependency on agricultural exports.

Which of the following economies demonstrate these characteristics?

A. Advanced
B. Emerging
C. Developing
D. Transitional

5 The table shows selected labour force data for a hypothetical economy.

	Number of people (million)
Part-time employed	4
Full-time employed	20
Unemployed	6
Population aged 15 and over	40

What is the labour force participation rate?

A. 80%

B. 75%

C. 65%

D. 60%

6 A government funds the building of a lighthouse in a coastal city.

Which of the following statements best describes why it is a public good?

A. It is funded by the government

B. It excludes access to light from ships who do not pay a fee

C. One ship's use of the light reduces the light for other ships

D. It can be enjoyed at the same standard by many ships at the same time

7 If the Reserve Bank of Australia adjusts the interest rate corridor to increase the cash rate target, which of the following would most likely take place?

	Investment levels	*Asset values*
A.	Decreased	Decreased
B.	Decreased	Increased
C.	Increased	Increased
D.	Increased	Decreased

8 How could the Australian government fund its budget deficit without increasing domestic interest rates?

A. Increase taxation

B. Issue bonds to foreign lenders in return for foreign currencies

C. Sell Commonwealth Government Securities in the domestic financial market

D. Buy Commonwealth Government Securities from the Reserve Bank of Australia

9 The Australian dollar was previously trading at $USD 0.80 and is now at $USD 0.60.

Which row of the table best explains the cause of this change in Australia's exchange rate?

	Demand for $A	*Supply of $A*
A.	Global interest rates decrease compared to Australia's	Increase in the purchase of imports
B.	The RBA decreases the cash rate	Australian investors purchase more overseas assets
C.	The RBA increases the cash rate	The RBA increases its purchase of foreign exchange
D.	Global interest rates increased compared to Australia's	Australian investors purchase less overseas assets

10 The table shows hypothetical data for Australia's balance of payments.

Components	*$ billion*
Current account	476
Capital account	–102
Direct investment	31
Portfolio investment	–77
Financial derivatives	?
Other investments	–12
Reserve assets	3
Net errors and omissions	–89

What is the value of the financial account and financial derivatives?

	Financial account	*Financial derivatives*
A.	–$374 billion	–$230 billion
B.	–$374 billion	$722 billion
C.	–$476 billion	–$230 billion
D.	–$476 billion	$230 billion

11 The following table shows selected economic data for a hypothetical economy.

Year	*Export Price Index*	*Import Price Index*
1	100	100
2	88	110

Which of the following statements is correct?

A. The terms of trade was 80 in Year 2, meaning the economy could finance less imports with the given volume of exports

B. The terms of trade was 88 in Year 2, meaning the economy could finance more imports with the given volume of exports

C. The terms of trade was 110 in Year 2, meaning the economy could finance more imports with the given volume of exports

D. The terms of trade was 88 in Year 2, meaning the economy could finance less imports with the given volume of exports

12 The table shows growth data for a hypothetical economy.

Year	*Nominal GDP ($ million)*	*Real GDP ($ million)*
1	5 000	4 500
2	5 500	4 800

What is the economic growth rate between Year 1 and Year 2?

A. 0.1%

B. 6.25%

C. 6.6%

D. 10%

13 Which part of the Federal Budget directly affects automatic stabilisers?

A. Budget outcome

B. Cyclical component

C. Structural component

D. Discretionary component

14 How can globalisation lead to an improvement in economic development in the world economy?

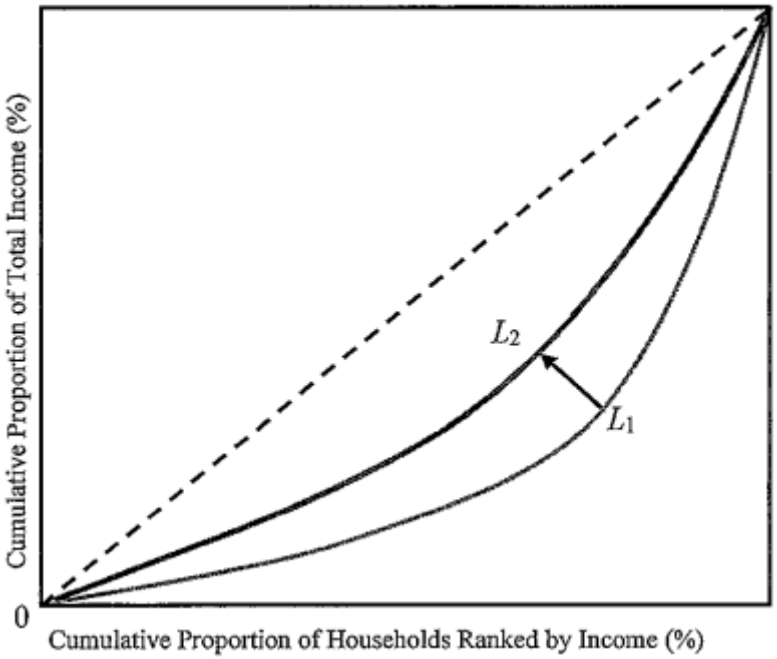
A. Increase rates of economic growth and productivity

B. Increase trade and foreign investments

C. Increase real incomes and living standards

D. Increase financial contagion and exchange rate volatility

15 The following diagram shows the distribution of income in an economy over two years.



What combination of changes to the highest marginal tax rate and Award wages would have caused this shift in the Lorenz Curve from Year 1 to Year 2?

	Highest marginal tax rate	*Award wages*
A.	Increase	Increase
B.	Decrease	Increase
C.	Increase	Decrease
D.	Decrease	Decrease

16 Which of the following is NOT a feature of the National Competition Policy?

A. Competitive neutrality

B. Regulation to restrict competition

C. Limiting anti-competitive behaviour of firms

D. Reformation of public monopolies to facilitate competition

17 Which of the following is an economic impact in an economy where the non-accelerating inflation rate of unemployment (NAIRU) is higher than the unemployment rate?

A. The economy is in recession and structural unemployment exists

B. The economy is at full employment and cyclical unemployment exists

C. Economic policies are largely ineffective against international business cycle shocks

D. The economy is operating above full capacity and putting upward pressure on inflation

18 The table shows CPI data for an economy with an annual inflation rate of 2.5%.

Expenditure group	*Weighting factor in CPI (%)*	*CPI by expenditure group (base year = 100)*
Education	30	105
Food	20	95
Health	10	100
Housing	40	?

By what percentage did housing prices change?

A. –1.25%

B. 1%

C. 2.5%

D. 5%

19 If the Australian economy is operating at a point of $100 million below equilibrium, then restoring macroeconomic equilibrium will require

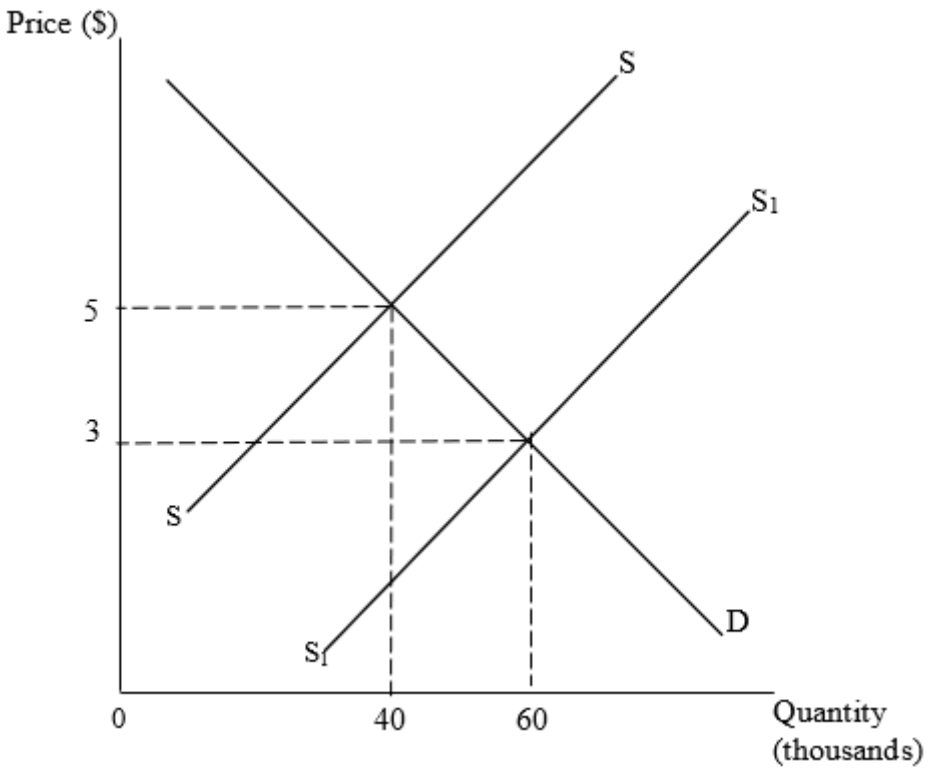
A. an increase in government spending of $20 million if the marginal propensity to save is equal to 0.4.

B. a decrease in government spending of $20 million if the marginal propensity to save is equal to 0.4.

C. an increase in government spending of $20 million if the marginal propensity to save is equal to 0.2.

D. a decrease in government spending of $20 million if the marginal propensity to save is equal to 0.2.

20 The diagram below shows the demand and supply curve for a good.



The world price is $3. The government is considering replacing its subsidy (S1) with a quota of 40 000.

How will this affect domestic production?

A. Increase domestic production by 20 000

B. Increase domestic production by 40 000

C. Decrease domestic production by 20 000

D. Decrease domestic production by 40 000

End of Section I

STUDENT NUMBER:	
TEACHER:	

2024 **TRIAL HSC EXAMINATION**

Economics

Section II Answer Booklet

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

Instructions

- Write your Student Number and teacher's name at the top of this page.
- Answer the question in the spaces provided. These spaces provide guidance for the expected length of your response.
- Extra writing space is provided on pages 18–20.
  If you use this space, clearly indicate which question you are answering.

Please turn over

Question 21 (10 marks)

(a) Identify TWO reasons why the Australian government implemented policies to reduce protection. **1**

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(b) Outline the features of ONE of Australia's bilateral free trade agreements. **2**

Bilateral Agreement: ……...

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(c) Explain the benefits of Australia's multilateral agreements on the Australian economy. **3**

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Question 21 continues on page 13

(d) Explain the implications of rising global trade protectionism on the Australian economy. **4**

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End of Question 21

Question 22 (10 marks)

(a) Outline the effect on economic growth if the multiplier increased. **2**

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(b) Outline the main sources of economic growth in Australia. **2**

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(c) Explain how increases in aggregate supply can increase economic growth. **2**

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Question 22 continues on page 15

(d) Explain how the Australian government uses counter cyclical policies to smooth out fluctuations in the business cycle. **4**

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End of Question 22

Question 23 (10 marks)

(a) Define *ecological sustainable development*. **1**

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(b) Outline how TWO environmental issues impact the Australian economy. **3**

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Question 23 continues on page 17

(c) Assess Australia's use of targets and international agreements to manage climate change. **6**

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End of Question 23

Question 24 (10 marks)

(a) Distinguish between *headline* and *underlying inflation*. **2**

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(b) Outline ONE advantage and ONE disadvantage of using CPI as a measure of inflation. **2**

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(c) Explain TWO main causes for Australia's recent high inflation. **2**

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Question 24 continues on page 19

(d) Discuss the limitations of using monetary policy to address price stability. **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.

Section II extra writing space

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

Section II extra writing space

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

2024 **TRIAL HSC EXAMINATION**

Economics

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. Extra writing booklets are 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

Please turn over

Question 25 (20 marks)

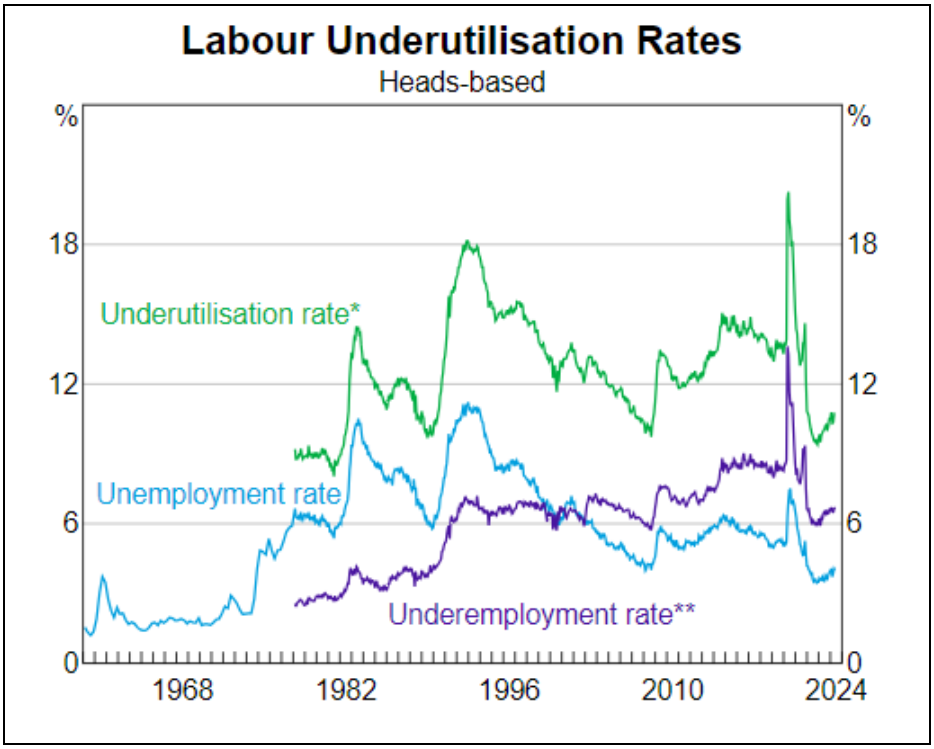
Assess the Australian government's use of microeconomic reforms in managing full employment and distribution of income.

> The balance of labour demand and supply consistent with full employment depends on structural features of the markets for labour, goods and services. For example, search and matching frictions lower the level of full employment. These structural features can change over time. Government policies can influence both structural features of markets and labour supply decisions, and so influence the level of full employment.
>
> Periods of unemployment can reduce workers' earnings for several years afterwards and long spells can lead to skills atrophy, or cause workers to leave the labour force altogether, eroding the level of full employment that can be sustained (Borland 2020). …policy may also be able to limit the extent of these so-called 'hysteresis' or 'scarring effects' on workers who lose their jobs….

RBA Bulletin April 2024

> The distribution of market income became more unequal in Australia in the 1990s and 2000s compared to the 1980s (especially in the low and middle incomes), but targeted and means tested welfare assistance which have offset some of the rise in the inequality of the distribution of market income in the 2000s. Income tax cuts in *The New Tax System* in 2000 and in all budgets between 2001 and 2012 and in 2018-21 helped to reduce the tax burden on most income groups, but especially low and middle income earners.

Riley Textbook 2024



Source: ABS / RBA

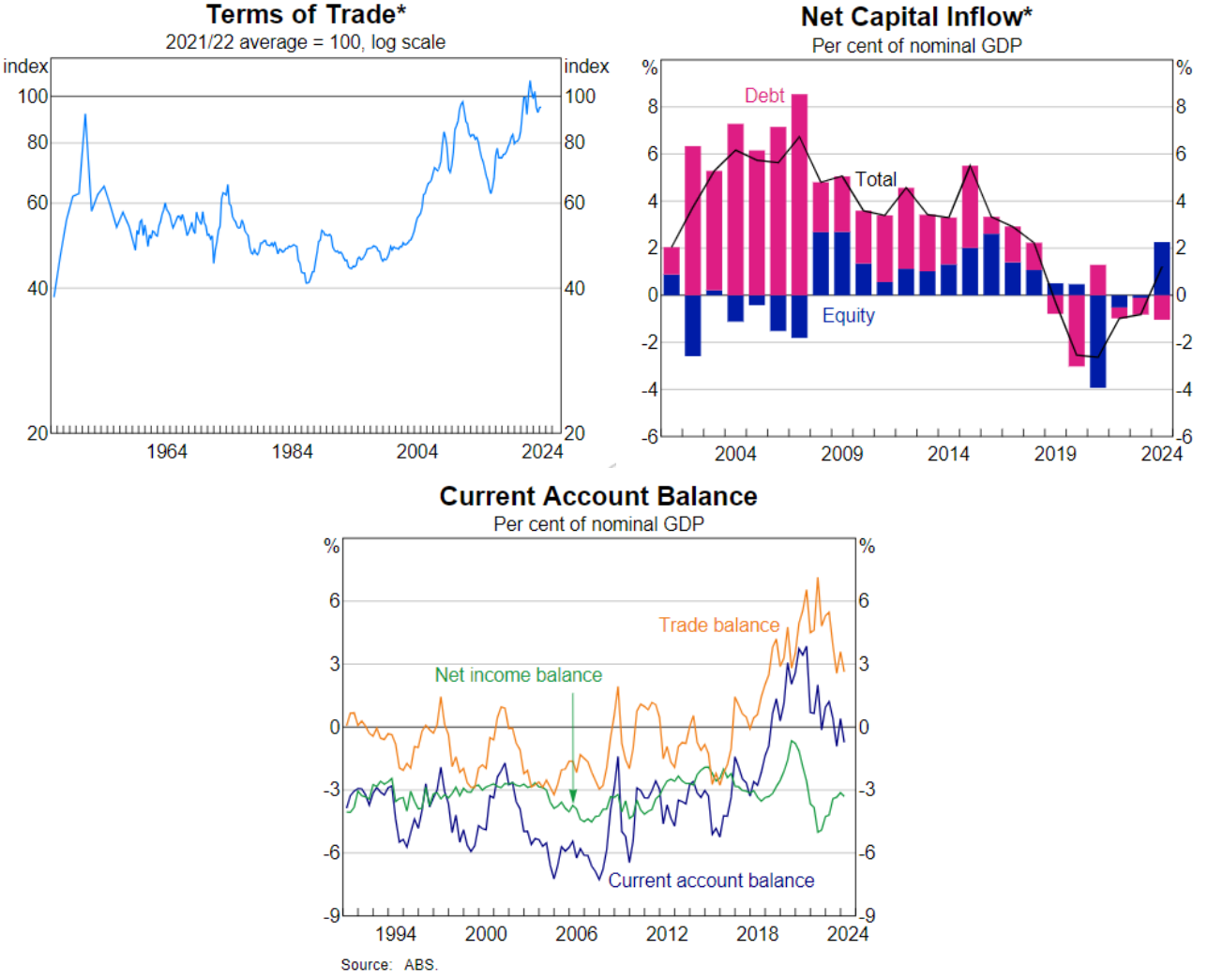
OR

Question 26 (20 marks)

Assess the impacts of recent changes to international competitiveness, terms of trade, international borrowing and foreign investment on Australia's current account.

> Australia rose to 13th from 19th place out of 67 nations for competitiveness, according to the Swiss-based IMD World Competitiveness Yearbook 2024. It was Australia's highest ranking in 13 years. The improved ranking is the result of Australia's stronger business and government investment, population growth and budget positions. Australia's stable economy, transparent regulations and global business ties provide a secure and thriving environment for investors.

Source: Austrade June 2024



** Latest year includes data for the year to date.*

Source: ABS / RBA

Please turn over

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. Extra writing booklets are 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, relationship and theory
- present a sustained, logical and cohesive response

Question 27 (20 marks)

Discuss why economies may use different exchange rate systems.

OR

Question 28 (20 marks)

Discuss the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives.

End of paper

STUDENT NUMBER:	
TEACHER:	

BAULKHAM HILLS HIGH SCHOOL

HIGHER SCHOOL CERTIFICATE

2024 TRIAL HSC EXAMINATION

Economics

Section I – Answer Sheet

20 marks

Attempt Questions 1–20

Allow about 35 minutes for this section

Select the alternative A, B, C or D that best answers the question. Fill in the response oval completely.

Sample: 2 + 4 = ? **(A) 2** **(B) 6** **(C) 8** **(D) 9**

A○ B● C○ D○

If you think you have made a mistake, put across through the incorrect answer and fill in the new answer.

A○ B⊗ C○ D○

If you change your mind and have crossed out what you consider to be the correct answer, then indicate this by writing the word *correct* and drawing an arrow as follows:

correct ↙

A⊗ B⊗ C○ D○

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

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.

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

1 A hypothetical economy has an increase in outflows of returns to foreign investors.

How is this recorded in the balance of payments?

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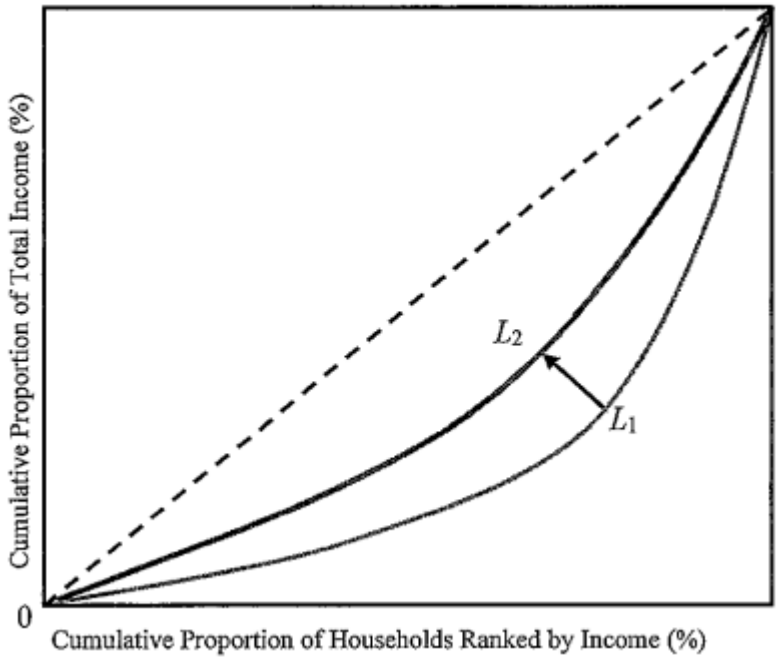
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Expenditure group	*Weighting factor in CPI (%)*	*CPI by expenditure group (base year = 100)*	*Answer*
Education	30	105	*5 x 30/100 = 1.5%*
Food	20	95	*-5 x 20/100 = -1%*
Health	10	100	*=0*
Housing	40	? 105	*5 x 40/100= 2%*
		Inflation rate	*2.5%*

By what percentage did housing prices change?

A. –1.25%

B. 1%

C. 2.5%

D. 5%

19 If the Australian economy is operating at a point of $100 million below equilibrium, then restoring macroeconomic equilibrium will require

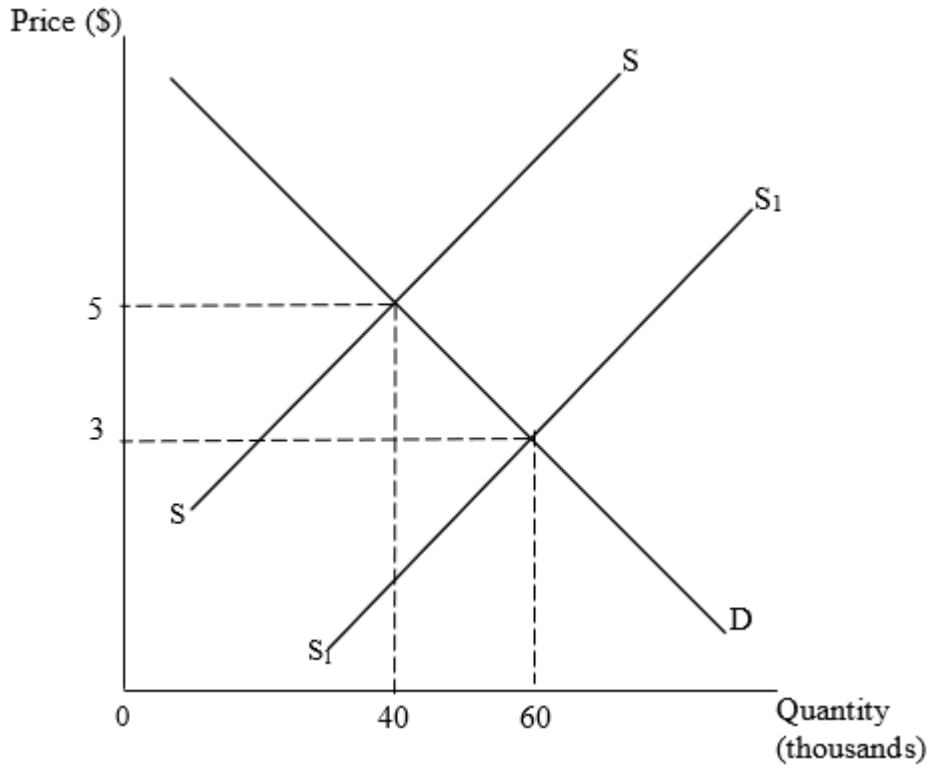
A. an increase in government spending of $20 million if the marginal propensity to save is equal to 0.4.

B. a decrease in government spending of $20 million if the marginal propensity to save is equal to 0.4.

C. an increase in government spending of $20 million if the marginal propensity to save is equal to 0.2.

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The world price is $3. The government is considering replacing its subsidy (S1) with a quota of 40 000.

How will this affect domestic production?

A. Increase domestic production by 20 000

B. Increase domestic production by 40 000

C. Decrease domestic production by 20 000

D. Decrease domestic production by 40 000

End of Section I

Question 21 (10 marks)

- Identify TWO reasons why the Australian government implemented policies to reduce protection. **1**

Criteria	Marks
• Correctly identifies TWO reasons why the Australian government implemented policies to reduce protection.	1

Answers could include:

For reasons promoting free trade, which include:

-make domestic industries more internationally competitive by exposing them to competition from imports

-encourage resources to move away from inefficient industries to more efficient industries

-give consumers and business access to goods and services available in global market at the lowest possible prices

-promote structural change in the economy, with LT domestic firms being able to produce and supply globally

Comments

- Although the directive term is "**identify"**, students are still required to write a valid reason ie do something to achieve something.
- Remember to clearly indicate TWO -#1 and

Success criteria

- Correctly provides two reasons for the Australian government reducing protection

Question 21 (10 marks)

(a) Identify TWO reasons why the Australian government implemented policies to reduce protection. (1)

① to increase the efficiency of domestic firms as they are exposed to greater international competition forcing resources to be reallocated to more efficient firms. ② to increase ~~econom~~ consumer choice by allowing for greater imports at lower prices.

- Outline the features of ONE of Australia's bilateral free trade agreements. **2**

Criteria	Marks
• Sketches in general terms the features of ONE of Australia's bilateral free trade agreements	2
• Provides some relevant information about ONE of Australia's bilateral free trade agreements	1

Comments

- It is expected that the expanded title is given and then referred to by the acronym eg **Australia-India Economic Cooperation and Trade Agreement (ECTA)**
- The features must be **distinguishable** from other bilateral agreements- avoid generalised statements that could apply to any bilateral agreement.
- Better responses included specific data eg Eliminated tariffs on over 85% of Australian exports to India and locked them in at zero. This includes key exports such as wool, lamb, barley, oats, fresh rock lobsters, cosmetics and many metallic ores, critical minerals, non-ferrous metals and titanium dioxide.

Success criteria

- Correctly identifies a bilateral agreement of which Australia is part.
- Correctly provides unique features of that bilateral free trade agreement- includes specific products and/or timeline for elimination

(b) Outline the features of ONE of Australia's bilateral free trade agreements. 2

Bilateral Agreement: China-Australia Free Trade Agreement (ChAFTA)

ChAFTA involves the removal of tariffs on Australia's exports such as the 80% reduction in tariffs on barley and 60% reduction on wine, as well as 5% reduction on tariffs of china's white goods. Moreover, the agreement aims for exports entering Australia and China to be 99.9% duties free.

b) Explain the benefits of Australia's multilateral agreements on the Australian economy. **3**

Criteria	Marks
• Provides a comprehensive explanation of the benefits of Australia's multilateral agreements on the Australian economy	3
• Provides some explanation of the benefits of Australia's multilateral agreements on the Australian economy	2
• Provides some relevant information on the benefits of Australia's multilateral agreement/s	1

Answers could include

-Agreements such as APEC, AANZFTA, were beneficial in promoting free trade against the formation of trade blocs such as EU and NAFTA

-**Benefits for individuals**

- consumers gain access to wider variety of goods at lower prices

-Individuals-Job opportunities increased in internationally competitive industries with higher wages

Benefits for Firms

-Lower tariffs provided lower input costs for firms

-Efficient X competing firms restructure operations to compete on a global stage and receive higher profits.

-Multilateral agreements such as GATT and WTO-Promoted free trade more quickly removing protection against agricultural subsidies and providing greater access to global agricultural markets - providing greater income for Australian agricultural industries.

-Led to significant decreases in average tariff levels and scaling down of agricultural subsidies in the EU and USA, promoting higher income for our Australian agriculture farmers' exports of beef, sugar, wine

Benefits for Government

Sustainable economic growth and higher incomes should raise govt revenue

Other economic benefits

-lower input and capital helps to keep inflation low

-newer agreements facilitate faster trade and financial flows as well as environmental benefits

Comments

- Better answers structured their response to address benefits to consumers/ individuals, Firms, Government and Objectives (EG, Inflation, U/E)
- Better answers provided an example of Australia's multilateral agreements and the benefits gained from it.

Success criteria

- ☐ Correctly identifies a benefit of multilateral agreements to Australian consumers, firms and Government/objectives.
- ☐ Makes a clear link between the agreement (cause) and its effect on either Australian consumers, firms or Govt
- ☐ Correctly provides an example of a multilateral agreement is a member of..

..have vast consumer base within the Indian economy, and must increase its export volumes and revenue, by trading in agricultural goods

(c) Explain the benefits of Australia's multilateral agreements on the Australian economy. (3)

Australia's multilateral agreements facilitate free trade thus allowing consumers to enjoy lower prices of goods imported due to reduced protection as seen in the KPFC reduction of 90% of tariffs while also increasing the variety of goods available for consumption. Firms benefit with greater output for ex multinationally competitive firms as they are able to access larger export bases as seen through the AFCATA which provides Australia's firms with access to emerging South-East Asian economies allowing them to increase exports by $345 billion in 2019. Governments benefits from increased trade through MTAs as they can reduce spending on protection such as subsidies allowing it to be reallocated elsewhere or used to fund deficit. Economic growth increases

Question 21 continues on page 13

CONTINUED

VG 18

Creates trade rather than diverts trade → ↑X for Aust firms

Access to cheaper inputs (m) that ↓costs for Aust firms → ↑profit

10–

21 c) as increased trade allows for greater exports without tariffs as well as FDI flows further increasing AD as AD = C+I+G+(X-M). This was seen in the ASEAN where Australia increased financial flows by $221 billion. Unemployment decreases in the long term due to MTAs as production increases while inflation also decreases due to access to cheaper imports reducing both cost-push and imported inflation.

c) Explain the implications of rising global trade protectionism on the Australian economy. **4**

Criteria	Marks

• Provides a comprehensive explanation of the implications of rising global trade protectionism on the Australian economy.	4
• Provides a sound explanation of the implications of rising global trade protectionism on the Australian economy.	3
• Demonstrates some understanding of the impacts of rising global trade protectionism on the Australian economy.	2
• Provides some relevant information on rising global trade protectionism in Australian	1

Answers could include:

In ST, decreases our international competitive or restricts access to the market – implication for X firms in LT to become more productive or seek access into other markets. Implications for Govt to seek and diversify trading partners through FTA and providing assistance thru Austrade.

Trade diversion: With rising protectionism, we see a return of trade barriers. The effect of this is that Australian X competing businesses seek alternate markets or outlets for their products. In open international markets, the outcome is rarely the destruction of export industries. Most of the time, trade flows adjust around the barrier. For example when China banned imports of Australian coal in mid-2020, Chinese utilities had to turn to Russian and Indonesian suppliers instead. This, in turn, took Russian and Indonesian coal off the market, creating demand gaps in India, Japan, and South Korea—which Australia's stranded coal was able to fill. What's more, the global energy crunch has pushed up the price of coal, leading Australian coal producers' export earnings to rise this year—not exactly the effect China had in mind. The result of decoupling for one of Australia's core industries was therefore just a game of musical chairs.

Comments

- Most students explained the impacts of rising global trade protectionism but did not **identify the implications on individuals, firms or government and its objectives**. Change wording and clearly state *"The implications of this on individuals is that ....."* Implications can be phrased as those in the ST or LT
- Many students mentioned the subsidies in the EU, USA. But these are not current- nor are they rising. We would be expecting rising protectionism stemming from Covid pandemic or recent slowing global growth. eg trade wars etc

Question 22 (10 marks)

(a) Outline the effect on economic growth if the multiplier increased. **2**

Criteria	Marks
• Clearly sketches in general terms the effect on economic growth if the multiplier increased	2
• Sketches in general terms the effect on economic growth if the multiplier increased OR • Makes general statement about the multiplier and economic growth	1

Suggested answer:

The multiplier is the greater than proportional increase in national income resulting from an increase in aggregate demand. Therefore, if the multiplier increased, the level of national income will increase by a greater than proportional amount.

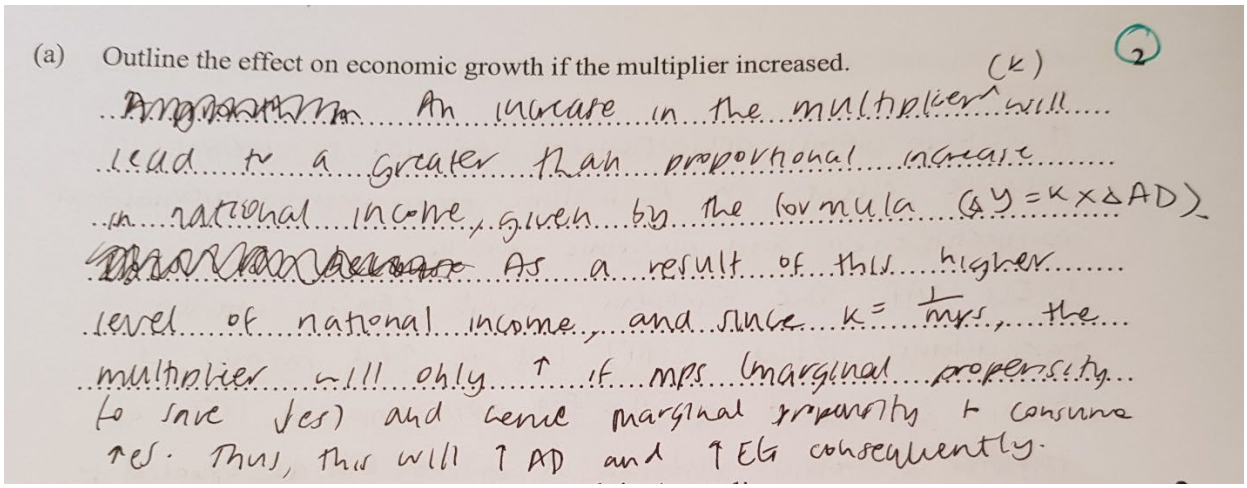
Comments

- Make sure you answer the question clearly.
- Many students did state that economic growth would increase if the multiplier increased, but not by a greater than proportional amount
- Most students understood this
- Mark range: 0-2
- Average mark: 1.7/2

Success criteria

- Clearly stated than economic growth would increase by a greater than proportional amount

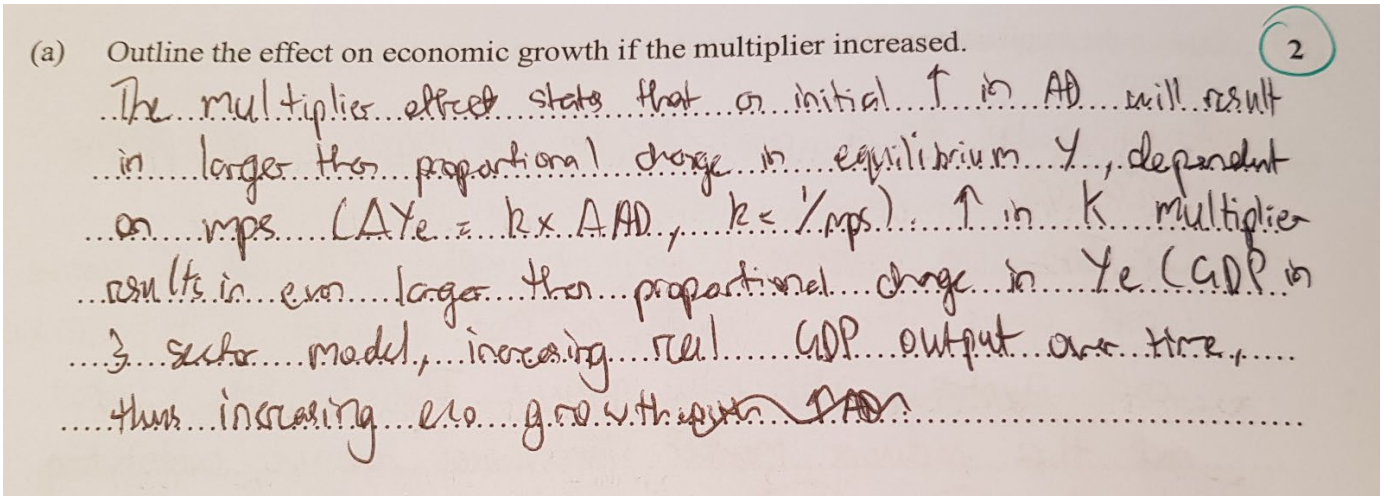
Student sample 1



(a) Outline the effect on economic growth if the multiplier increased. (K) 2

An increase in the multiplier will lead to a greater than proportional increase in national income, given by the formula ($\Delta Y = K \times \Delta AD$). As a result of this higher level of national income, and since $K = \frac{1}{mps}$, the multiplier will only ↑ if mps (marginal propensity to save ↓es) and hence marginal propensity to consume ↑es. Thus, this will ↑ AD and ↑ EG consequently.

Student sample 2



(a) Outline the effect on economic growth if the multiplier increased. 2

The multiplier effect states that an initial ↑ in AD will result in larger than proportional change in equilibrium Y., dependent on mps ($\Delta Ye = k \times \Delta AD$, $k = 1/mps$.) ↑ in k multiplier results in even larger than proportional change in Ye (GDP in 3 sector model, increasing real GDP output over time, thus increasing eco. growth ~~over~~ AD

(b) Outline the main sources of economic growth in Australia. **2**

Criteria	Marks
• Sketches in general terms the main sources of economic growth in Australia	2
• Sketches in general terms a source of economic growth in Australia OR • Makes general statements about economic growth and/identifies a source of economic growth in Australia	1

Answer could include:

- Demand for Australian exports, including mining and services
- Improved ToT, due to high commodity prices
- RBA loose MP (prior to 2022)
- Govt expansionary FP
- Post Covid recovery
- High population growth rates
- High asset prices (eg property) – wealth effect
- High AD – C+I+G+(X-M)
- Productivity of labour

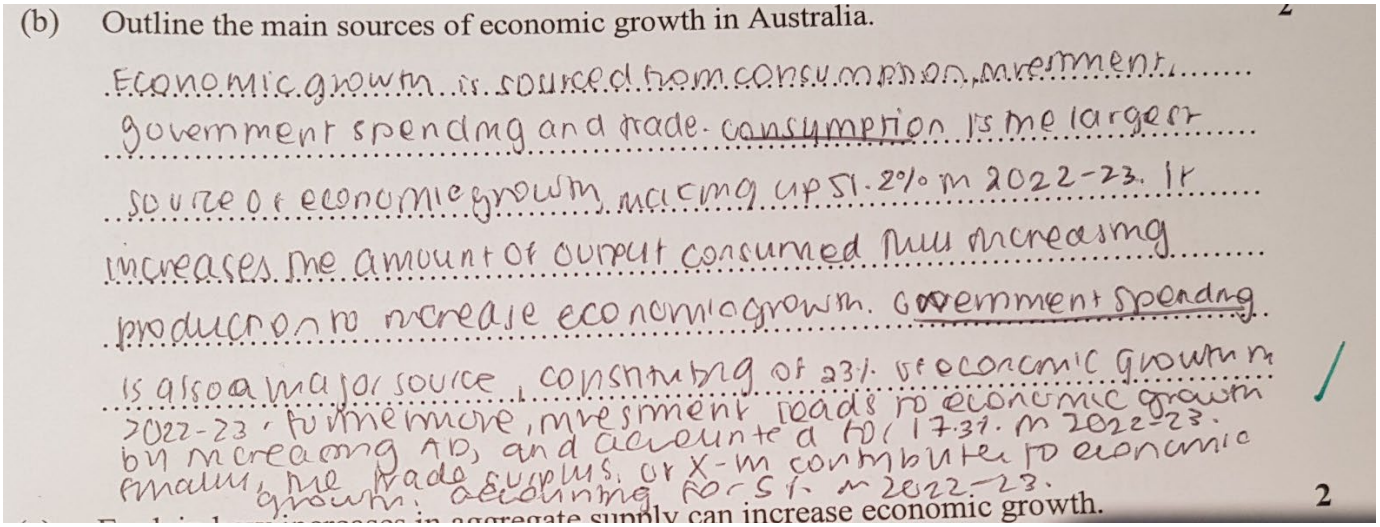
Comments

- Question asked for the main sources of economic growth, for 2 marks, was looking for at least 2 sources
- You needed to more than just list them (identify) you needed to outline them
- Most students did this question well
- Mark range: 1-2
- Average mark: 1.9/2

Success criteria

- Clearly sketched at least 2 main sources of economic growth in Australia

Student sample 1



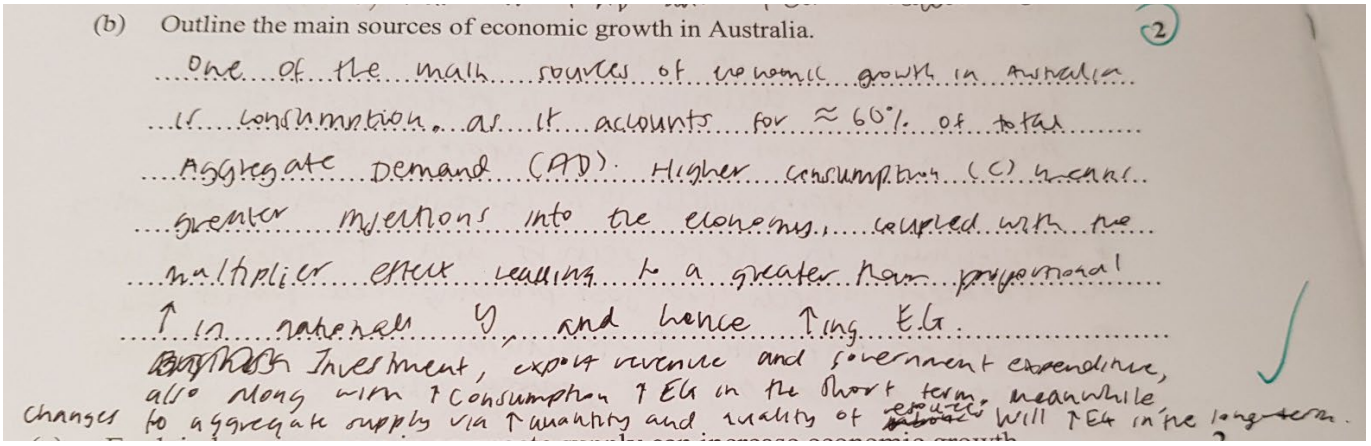
(b) Outline the main sources of economic growth in Australia.

Economic growth is sourced from consumption, investment, government spending and trade. consumption is the largest source of economic growth, making up 51.2% in 2022-23. It increases the amount of output consumed thus increasing production to increase economic growth. Government spending is also a major source, consisting of 23% of economic growth in 2022-23. furthermore, investment leads to economic growth by increasing AD, and accounted for 17.3% in 2022-23. finally, the trade surplus, or X-M contributes to economic growth, accounting for 5% in 2022-23.

Expansionary increases in aggregate supply can increase economic growth.

2

Student sample 2



(b) Outline the main sources of economic growth in Australia.

One of the main sources of economic growth in Australia is consumption, as it accounts for ≈ 60% of total Aggregate Demand (AD). Higher consumption (C) leads to greater injections into the economy, coupled with the multiplier effect leading to a greater than proportional ↑ in national Y, and hence ↑ing E/L

Investment, export revenue and government expenditure, also along with ↑consumption ↑E/L in the short term, meanwhile changes to aggregate supply via ↑quantity and quality of resource will ↑E/L in the long term.

2

(c) Explain how increases in aggregate supply can increase economic growth. **2**

Criteria	Marks
• Clearly explains how increases in aggregate supply can increase economic growth	2
• Explains how increases in aggregate supply can increase economic growth OR • Makes general statements about economic growth/aggregate supply	1

Answer could include:

- Improvements/more efficient use of factors of production → ↑ AS of G&S as costs of production ↓
- Lowers inflationary pressures, thus allowing more sustainable EG
- Productivity
- Infrastructure improvements
- More flexible labour market
- Microeconomic reform

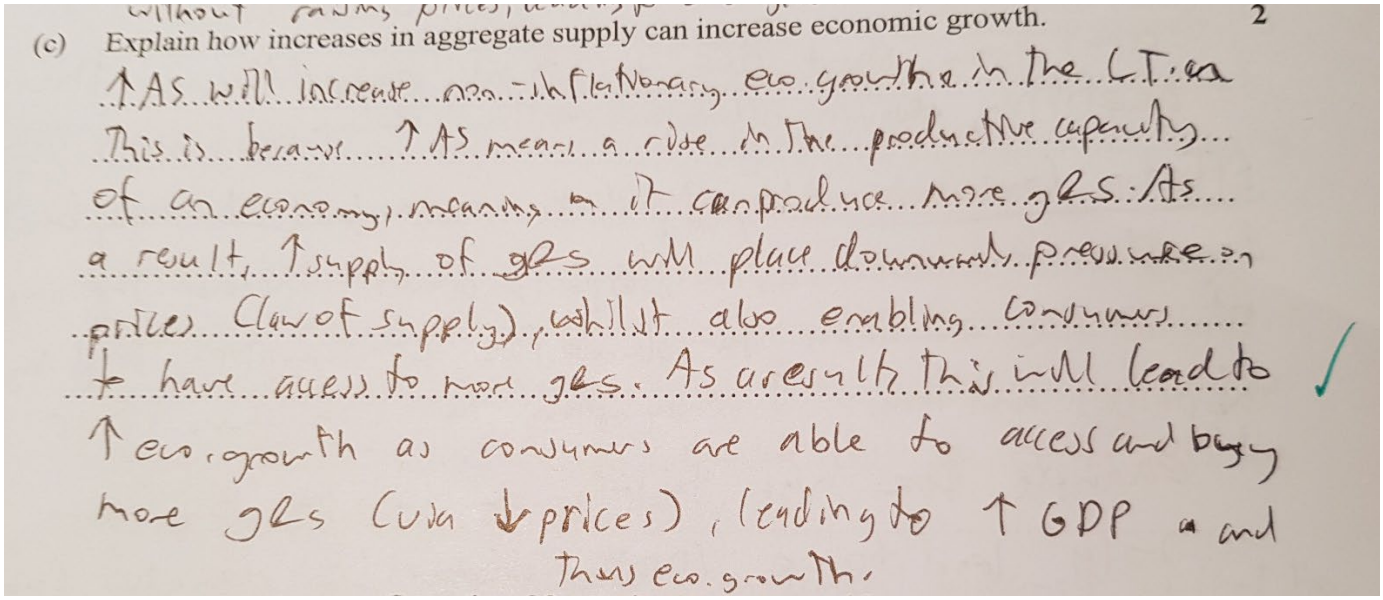
Comments

- Question asked you to explain how increases in aggregate supply can increase economic growth – so you needed to show HOW increases in AS can lead to EG – show the link between the two.
- You needed to more than just state that increases in AS can increase EG – you needed to explain how it does it
- Most students did this question well, but some responses not as clear or explained well
- Mark range: 0-2
- Average mark: 1.6/2

Success criteria

- Clearly explained how increases in aggregate supply can increase economic growth

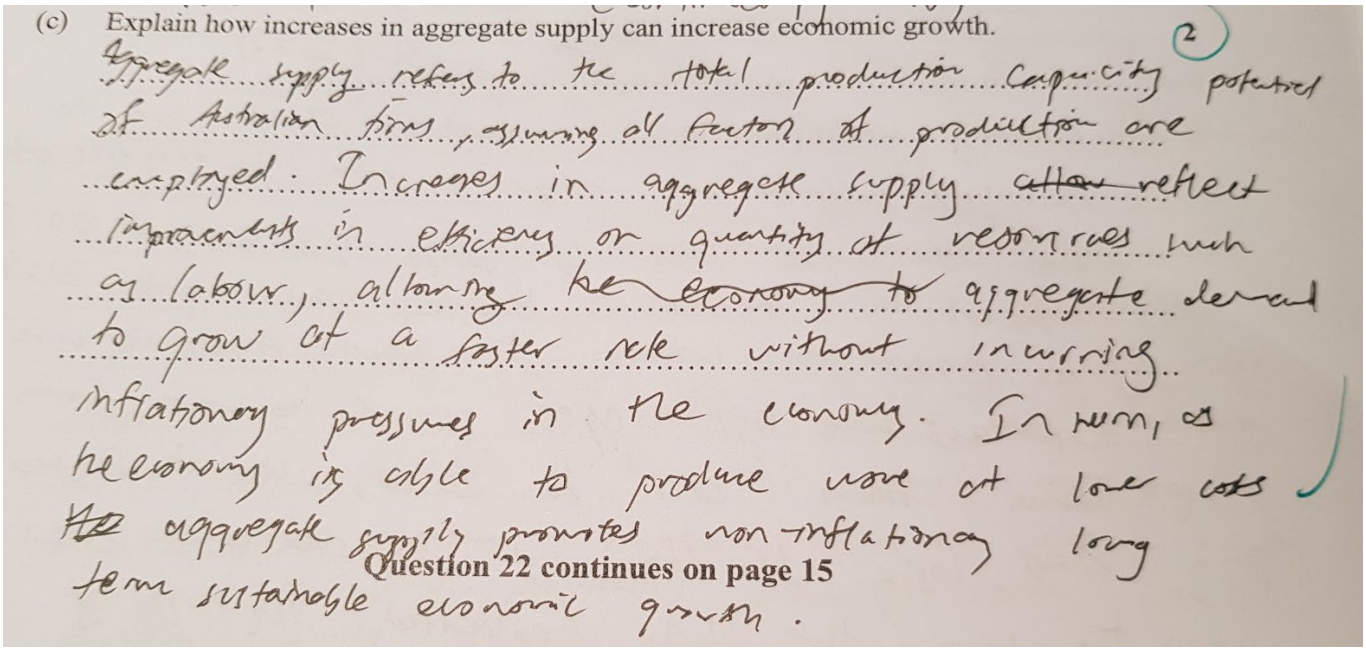
Student sample 1



(c) Explain how increases in aggregate supply can increase economic growth. 2

↑AS will increase non-inflationary eco. growth in the L.T. as This is because ↑AS means a rise in the productive capacity of an economy, meaning it can produce more g&s. As a result, ↑supply of g&s will place downward pressure on prices (Law of supply), whilst also enabling consumers to have access to more g&s. As a result this will lead to ↑eco. growth as consumers are able to access and buy more g&s (via ↓prices), leading to ↑GDP and thus eco. growth.

Student sample 2



(c) Explain how increases in aggregate supply can increase economic growth. 2

Aggregate supply refers to the total production capacity potential of Australian firms, assuming all factors of production are employed. Increases in aggregate supply allow reflect improvements in efficiency or quantity of resources such as labour, allowing the economy to aggregate demand to grow at a faster rate without incurring inflationary pressures in the economy. In turn, as the economy is able to produce more at lower costs the aggregate supply promotes non-inflationary long term sustainable economic growth.

Question 22 continues on page 15

(d) Explain how the Australian government uses counter cyclical policies to smooth out fluctuations in the business cycle. **4**

Criteria	Marks
• Provides a comprehensive explanation of how the Australian Government uses counter cyclical policies to smooth out fluctuations in the business cycle	4
• Provides a sound explanation of how the Australian Government uses counter cyclical policies to smooth out fluctuations in the business cycle	3
• Provides a comprehensive explanation of how the Australian Government uses ONE counter cyclical policy to smooth out fluctuations in the business cycle OR • Demonstrates some understanding of how the Australian Government smooths out fluctuations in the business cycle	2
• Makes general statements about government policies/business cycle	1

Answer could include:

- Fiscal Policy – budget stance, budget outcome, discretionary/non-discretionary spending, automatic stabilisers, taxation (progressive) and spending
- Monetary Policy – stance, cash rate, PIRC, DMO
- Competing stances between 2 macro policies
- Business cycle – boom, bust, upswing, downswing
- AD = C++G+ (X-M)
- Demand Side
- Inflation
- Disposable income
- Unemployment

Comments

- Question asked you to explain how the Australian Government uses counter cyclical policies to smooth out fluctuations in the business cycle – so you needed to show HOW Government Policies (plural) can smooth out the fluctuations in the business cycle.
- Needed to include both MP and FP (remember MP is Govt policy conducted by the RBA on behalf of the Govt) – many students just covered FP….needed policies (plural)
- You needed to more than just state that FP or MP smooths out the fluctuations you needed to explain how it does it.
- Needed to cover both upswings and downswings
- Many students did not understand that needed 2 policies or used 2 parts of FP – but this is still one policy (all part of FP)
- This is a four-mark question – make sure you write enough to ensure you provide enough detail, some responses are too short/brief
- Mark range: 1-4
- Average mark: 2.6/4

Success criteria

- Clearly explained how the Australian Government uses TWO counter cyclical policies to smooth out fluctuations in the business cycle

Student sample 1

(d) Explain how the Australian government uses counter cyclical policies to smooth out fluctuations in the business cycle. (4)

The Australian government uses both discretionary and non-discretionary policies to smooth fluctuations in the business cycle by facilitating AD and redistributing income. Discretionary (macro) policies such as monetary and fiscal policy are able to smooth out fluctuations in the business cycle by facilitating demand. During a downswing, monetary policy enters an expansionary stance, in which the RBA lowers the cash rate, causing banks to lower their interest rates in order to remain competitive. This makes it cheaper for firms and households to take out loans, encouraging spending in the economy. During an upswing, the RBA will increase the cash rate instead, causing banks to raise interest rates to maintain a profit margin, discouraging spending due to high loan prices. Similarly, fiscal policy will decrease tax rates during a downswing, allowing firms and households to retain a larger portion of their income as disposeable income, increasing spending. During an upswing, tax rates will increase in order to reduce disposeable income, decreasing spending in the economy. Non-discretionary automatic stabilisers are also used through progressive tax brackets and welfare payments. During a downswing, u/e increases as firms stop hiring due to low demand for labour, causing an increase in welfare payments to increase disposeable income to facilitate spending. During an upswing, firms and individuals earn higher profits due to increased demand, causing them to pay a higher average tax rate due to the progressive tax system. This limits their increase in disposeable income, limiting spending in the economy. Hence the Australian government uses discretionary and non-discretionary policies to smooth out fluctuations by facilitating spending during a downswing and limiting spending in an upswing.

End of Question 22

Student sample 2

(d) Explain how the Australian government uses counter cyclical policies to smooth out fluctuations in the business cycle. 4

(1) Fiscal Policy (FP): FP is used to smooth out fluctuations in the business cycle through automatic stabilisers of progressive income tax system (PITT) and unemployment (ule.) benefits. This is because an upswing in the business cycle leads to individuals moving into higher tax brackets due to ↑ing growth in output, a process known as "bracket creep". As a result, governments will see ↑es in ↑ taxation revenue (T) from the PITT. Additionally, higher EG means ↑ output and hence ↓ed rates of cyclical ule. (as labour is a derived demand). The result is lower government expenditure (G) on unemployment benefits. This combination of ↓G and ↑T will help smooth out the upswing (due to higher leakages and lower injections). The opposite will hold true in a downswing, with ↓T and ↑G due to ↑ unemployment; both cases representing smoothing of upswings and downswings in the business cycle.

End of Question 22

(2) During high EG, the RBA will announce a higher cash rate and a shift upwards of the policy interest rate corridor (PIRC). This will ↑ interest rates, hence ↑ing the cost of borrowing and making consumption and investment less attractive as a result of this. This directly lower AD, as AD = C + I + G + (X - M), hence reducing the effect of the upswing in ↑ing inflationary pressures and smoothing out the fluctuation, with the opposite holding true in times of a downswing.

Student sample 3

(d) Explain how the Australian government uses counter cyclical policies to smooth out fluctuations in the business cycle. (4)

The Australian govt uses counter cyclical polices – Fiscal and Moretary Policy, the two macroeconomic polcies, to smooth out the BS cycle. The Fiscal Policy involves the discretionary and non-discretionary spending and taxation of the Federal Budget, and this contractionary FP (↓spending, ↑taxation) is often used during peaks or booms in the BS cycle to counter the rapidly increasing eco growth and prevent rising inflation as well as a possible resulting recession. Expansionary FP is used during contractions and recessions to increase govt spending and cut down on taxation, in order to inject funds into the economy and stimulate eco activity and spending, this countering the trough in the BS cycle. Furthermore, the FP also involves automatic stabilisers that are: progressive taxation and welfare payments that also work to distribute income to lower income earners and support them in surviving living costs as well as economic crises.

The Moretary Policy (MP) is the use of changing the cash rate target (RBA), which is the **End of Question 22** rate at which banks borrow and lend at in the overnight money market, and the cash rate is charged through the interest rate corridor, which then flows on to change interest rates in the economy, which are usually above the cash rate to maintain the banks' profit. Expansionary MP involves ↓cash rate target, which leads to ↓interest rates (IR), this promoting spending, as saving produces less returns, stimulating the economy during downturns and recessions to counter the BS cycle. The opposite is achieved as contractionary MP ↑IR, leading to ↑savings and ↓spending, entering a peak or boom in the BS cycle. Thus the use of counter cyclical polices such as FP & MP helps the govt to smooth out fluctuations in the BS cycle.

Question 22 (total)

Mark Range: 4-10

Average mark: 7.8/10

Question 23

(a) Define ecological sustainable development.

Criteria	Mark
• Correctly defines ecological sustainable development	1

Answers may include:

- Development that meets the needs of the current generation without reducing the ability of future generations to meet their needs
- Conserving and enhancing the community's resources so that ecological processes and quality of life are maintained

(a) Define *ecological sustainable development.* **1**

It is the preservation and of the environment to ~~ensure sustainable~~ ensure it remains a sustainable & viable source of ~~for~~ resources for future generations

(a) Define *ecological sustainable development.* **1**

This refers to the ~~enhancement~~ preservation and enhancement of a Communities resources so that ecological processes are maintained and QOL is preserved, govened by the principle of intergenerational equity & precautionary principle.

(b) Outline how TWO environmental issues impact the Australian economy.

Criteria	Mark
• Sketches in general terms how TWO environmental issues impact the Australian economy	3
• Sketches in general terms how ONE environmental issue impacts the Australian economy	2
• Provides some relevant information	1

Marker's comments:

- Many students focused on environmental issues only and did not outline how the issue impacted the Australian economy

Answers may include:

- Preserving natural environments
    - Restricting development and investment in environmentally sensitive areas/setting aside land and water areas to protecting native flora and fauna: eg limited exploration and production of LNG in the Great Australian Bight, establishment of marine reserves in Queensland and Western Australia – restricts exports by primary industries
    - Requirements to restore areas that have been logged or mined – eg coal mines in the Hunter Valley; logging sites in Oberon. Export industries face higher cost of production due to higher compliance costs and lower international competitiveness
    - Limiting water use in agriculture and mining to maintain wetlands and river quality eg Murray-Darling River basin
    - Economic growth heavily dependant on use and exploitation of natural environments such as agriculture and mining – these will be limited to preserve natural environments; attract less investment into these sectors

- Pollution
    - Australia faces water pollution from industry, agriculture and mining – agricultural runoff creates blue-green algae bloom in the Great Barrier Reef; Crown of Thorn Starfish due to water pollution has overrun areas of GBR – loss of tourism; fall in fishing productivity
    - $3b spent as part of federal Budget to manage GBR since 2014
    - Air pollution from urbanisation, manufacturing and use of fossil fuels for energy generation – reducing fossil fuel generation in Hunter Valley and La Trobe Valley – regional structural unemployment
    - Indirect costs due to health problems caused by increased pollution; increased absenteeism and loss of work productivity; increased government health expenditure as part of Fiscal Policy

- Climate change
    - Increased natural disasters - prolongs effects of droughts, increased intensity of floods and storms, increased heatwaves, less snowfall
    - Acute effects especially on agricultural sector and commodities exports; reduced demand for tourism
    - Higher costs of production as raw supply may be affected by prolonged droughts, regular floods; may cause higher cost push inflation
    - Compliance costs passed on to consumers

- Depletion of renewable and non-renewable resources
    - Australian exports highly reliant on finite reserves of commodities – oil production peaked in 2000;
    - Increased soil salinity and land clearing has increased soil depletion and reduce agricultural exports
    - Extraction and depletion of non-renewables leads to lower export revenue and lower standards of living

- Firms may have to extract resources from previously untouched sensitive environments, which negatively affects preservation of these natural sources eg LNG exploration in the Great Australian Bight

(b) Outline how TWO environmental issues impact the Australian economy. **3**

1. Increased levels of CO_2 emissions has resulted in climate change that has influenced adverse weather events such as increased drought risk and bushfire occurance, which significantly impacts the key agricultural sector of the Aus economy which accounts for 12% of Aus X. Drought risk presents agricultural producers from efficient production, reducing output that lowers X levels, lowering Ay and eco growth

2. Unsustainable usage of natural resources such as commodities threatens the prospects of the Aus economy which remains heavily dependant on its domestic mining industry. Depletion of commodities will lead to mining companies becoming increasingly obsolete and as mining accounts for 36% of Aus X, the value of X will decrease, threatening Ay and thus eco growth

3

Question 23 continues on page 17

(c) Assess Australia's use of targets and international agreements to manage climate change.

Criteria	Mark
• Makes a comprehensive judgement on Australia's use of targets AND international agreements to manage climate change.	6
• Makes a comprehensive judgement on Australia's use of targets AND makes a sound judgement of international agreements to manage climate change OR • Makes a sound judgement on Australia's use of targets AND makes a comprehensive judgement on international agreements to manage climate change	5
• Makes a sound judgement on Australia's use of targets AND international agreements to manage climate change.	4
• Makes a sound judgement on Australia's use of targets AND makes some judgement of international agreements to manage climate change OR • Makes some judgement on Australia's use of targets AND makes a sound judgement on international agreements to manage climate change	3
• Provides limited judgement on Australia's use of targets and international agreements to manage climate change.	2
• Provides some relevant information	1

Marker's comments:

- Still need to focus on question directive – Assess: make a judgement of value, quality, outcomes, results or size. This should be explicit as a topic sentence and throughout response
- Requires specific examples, statistics or trends to assess – many students had generic targets or international agreements

Answers may include:

- Targets such as:
    - Renewable Energy Target
    - Emissions Reduction Target
    - Net Zero Target by 2050
    - Renewable Energy Grid
    - Reduce greenhouse gas emissions to 43% below 2005 levels

- International agreements such as:
    - Kyoto Protocol – 2008
    - Paris Agreement – 2016
    - Glasgow COP26 - 2021

- Effectiveness
    - On the whole, targets and international agreements have only been moderate or limited in effectively managing climate change due to:
        - Targets are unlikely to be met or those targets that have been met are insufficient to significantly alter climate change – comparison of targets versus achieved goals
        - Current emissions targets are too conservative and timeline to achieve these targets are not ambitious enough; for ambitious targets, these are unlikely to be implemented due to political constraints, special interest groups and short election cycle which means that targets have been altered which reduced the effectiveness in combating climate change
            - Eg Aus is a larger exporter of energy (coal) and commodities which makes Aus a large emitter of CO_2 emissions per capita but Mineral Councils of Australia is a major lobby group/special interest group

        - Eg similarly Australia also relies heavily on agriculture and forestry as major economic activities and is significantly represented by the Farmer's Federation as well as the Nationals Party. Identify reduction of emissions targets over time
    - No integrated, cohesive market based mechanism to address climate change, which means targets and international agreements cannot be effectively implemented into the domestic market – reference to repealed Carbon Tax versus current framework eg SafeGuard Mechanism and focus on voluntary market participation (Direct Action; Emission Reduction Fund)
    - Targets under international commitments such as Nationally Determined Contributions (NDCs) in the Paris Agreement are required but not legally binding or enforceable. Since international agreements cannot be enforced and there is little incentive for countries to actually commit to meeting their targets

    -

(c) Assess Australia's use of targets and international agreements to manage climate change. 6

Australia has set targets to manage climate change such as net zero by 2050 and to reduce carbon emission by 26% from 2005 → 2030. However despite claims of reduction of 26% infact the majority of the claimed reduction is through credit from not logging down trees & ~~claiming~~ not an actual decrease in emmison which in reality only fell by 2.5% which is very far off the target set by the government and Aus is unlikely going to reach these goals. Aus has also signed into international agreements such as Paris (2016) however these international agreements are non-binding and more a pledge therefore impossible to reinforce and as a result australia has seen minimal improvements towards their net zero targets. Although in efforts of includes Future made in Australia, set to provide 20bn in support over next decade, in renewable and low carbon energy sources such as green hydrogen. However these are only market based policies used to incentivise firms and businesses to internalise externalities and shift to renewable energy sources. Therefore these non-binding targets and lack of government & regulations to significantly reduce emmis has led to minimal action to manage climate change.

End of Question 23

The lack of commitment to these international agreements & targets was also seen as the carbon tax introduced by the ALP Gillard government which decreased carbon emmisions of top 400 worst offenders was revoked despite reductions in carbon produced by 7%, on the claims of ~~cost~~ high cost for consumers and firms. Therefore, these targets are reflective in preventing political and union lobying in minimising the efforts made against manging climate change.

6

Question 23 (continued) * Continued at back

(c) Assess Australia's use of targets and international agreements to manage climate change. **6**

Targets: Australia's usage of targets has been moderately effective in managing the issue of climate change, however faces crucial limitations. For example, the renewable energy target set to make renewable resources account for 20% of energy by 2020 has successfully promoted ↓ usage of harmful fossil fuels such as coal to power Australian households, with these fuels emitting high levels of CO_2 emissions, which worsen climate change. The effectiveness of this target has been seen via the closure of coal-powered Generators in the Hunter Valley, thus increasing levels of renewable energy, which positively impacts the reduction of climate change via ↓ emissions. However, targets such as these are limited as they are often only aspirational, and lack proper enforcement mechanisms such as financial implications for the achievement of the target. For example, the target for Aus to reach net zero emissions by 2050 has not been effective in actually reducing emissions in relation to climate change due to a lack of enforcement such as through fines on firms. Hence, targets have only been moderately effective in addressing climate change by affecting levels of CO_2 emissions

Int-Agreements: Despite this, Aus participation in int. agreements has been mostly effective in **End of Question 23** aiding the prevention of climate change. For example, the 2015 Paris accord which Aus participated in proved to be effective in enabling ↓ CO_2 emissions via ↑ global transparency and access to technology, and know-how relating to strategies to address climate change. However, this has been limited by political constraints on the agreement, with the US leaving the agreement in 2019, leading to ↓ confidence and participation in the agreement. In turn, this limits its effectiveness in enabling Aus to access global strategies to address climate change, thus limiting its effectiveness

Question 24 (10 marks)

(a) Distinguish between *headline* and *underlying inflation*. **2**

Criteria	Marks
• Clearly notes the differences between headline and underlying inflation	2
• Makes general statements about headline and/or underlying inflation	1

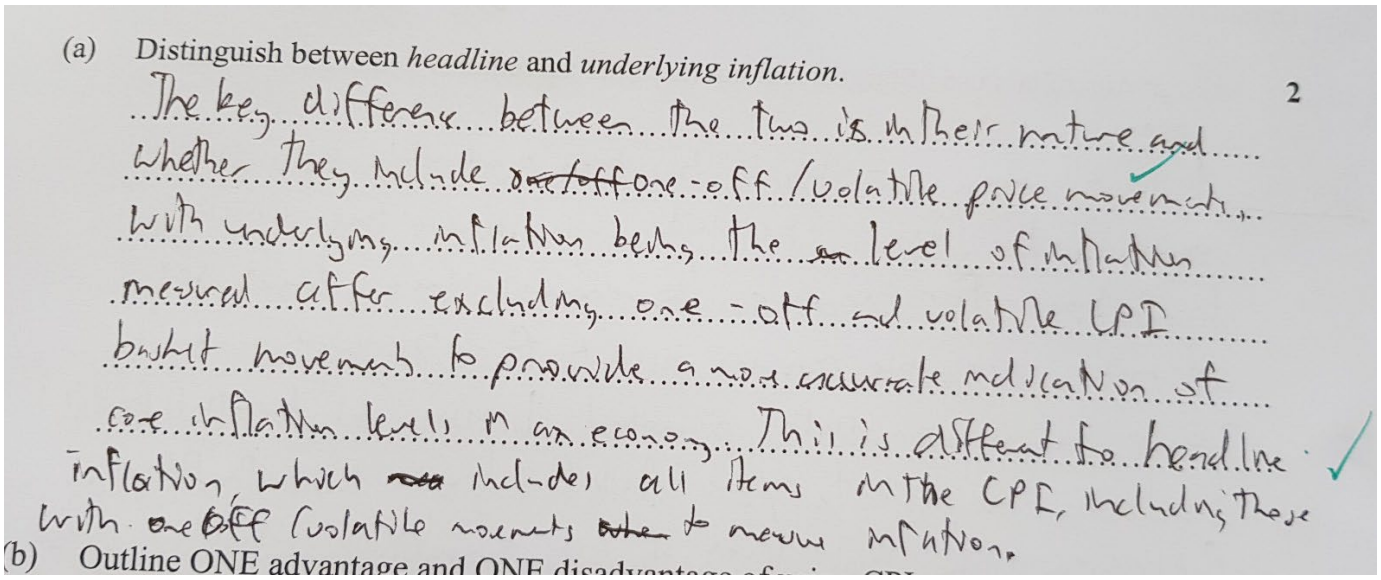
Suggested answer:
The headline rate of inflation is an increase in the level of prices of the goods and services that households buy. It is measured as the rate of change of those prices. The most well-known indicator of inflation is the Consumer Price Index (CPI), which measures the percentage change in the price of a basket of goods and services consumed by households.

On the other hand, underlying' inflation exclude items that have particularly large price changes (either frequently or in a given period). Large price changes can often be due to temporary factors, which are sometimes unrelated to broad conditions in the economy. Due to this, underlying inflation is considered a more accurate measure of inflation.

Comments
- Make sure you answer the question clearly – ie, you note the difference between the two.
- Some students got them around the wrong way – make sure you revise/update your study notes
- Most students understood this, however some students did not answer question or did not attempt the question
- Mark range: 0-2
- Average mark: 1.6/2

Success criteria
- Clearly notes the differences between headline and underlying inflation

Student sample 1

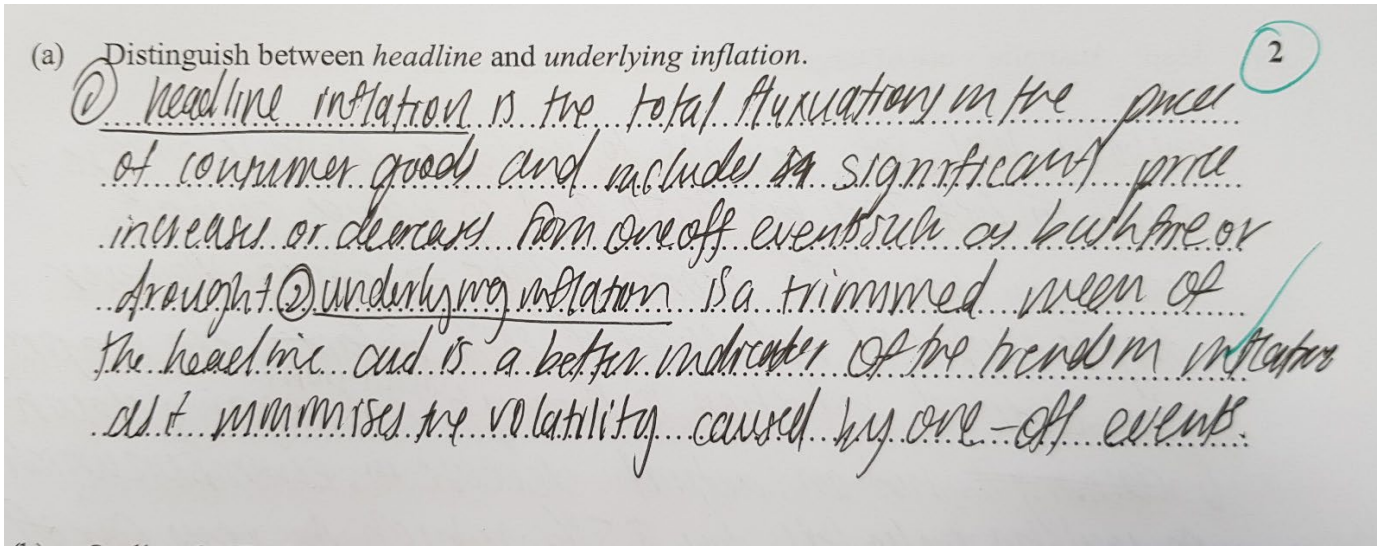


(a) Distinguish between *headline* and *underlying inflation*. 2

The key difference between the two is in their nature and whether they include ~~one off~~ one-off / volatile price movements. With underlying inflation being the ~~an~~ level of inflation measured after excluding one-off and volatile CPI basket movements to provide a more accurate indication of core inflation level in an economy. This is different to headline inflation, which ~~does~~ includes all items in the CPI, including these with ~~one off~~ one-off / volatile movements ~~other~~ to measure inflation. ✓

(b) Outline ONE advantage and ONE disadvantage of ...

Student sample 2



(a) Distinguish between *headline* and *underlying inflation*. 2

① headline inflation is the total fluctuations in the prices of consumer goods and includes a significant price increase or decrease from one off events such as bushfire or drought ② underlying inflation is a trimmed mean of the headline and is a better indicator of the trend inflation as it minimises the volatility caused by one-off events.

(b) Outline ONE advantage and ONE disadvantage of using CPI as a measure of inflation. **2**

Criteria	Marks
• Sketches in general terms ONE advantage and ONE disadvantage of using the CPI as a measure of inflation	2
• Sketches in general terms ONE advantage or ONE disadvantage of using the CPI as a measure of inflation and makes a general statement about the other OR • Makes general statements about the CPI	1

Answer could include:

Advantages

- Widely accepted as a measure of inflation
- Compiled by ABS – Govt Dept therefore Official (reliable?)
- Weighting given bases on Household Expenditure survey, that is how significant they are to household spending
- The "basket of good" does get updated
- Relatively easy to calculate

Disadvantages

- The basket of goods does not include all G&S
- Does not include mortgage interest rate changes, consumer credit charges or property/land
- Does not account for volatile price changes – need to look at underlying inflation
- Only looks at data from the 8 major Australian cities – not all parts of Australia (regional/rural)
- CPI is not an indicator of the price level – only measures the rate of price changes in the economy, but not the price level
- 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
- Quality changes are not taken into account - The quality of items in the basket can vary and new products can be introduced, with varying prices changes
- Substitution bias is not considered - affected by 'substitution bias'. This is because the CPI does not adjust for changes in household spending patterns very often
- New Products are not included - It can often take some time until the ABS includes them in the CPI basket
- Cost of living is not represented accurately - 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.

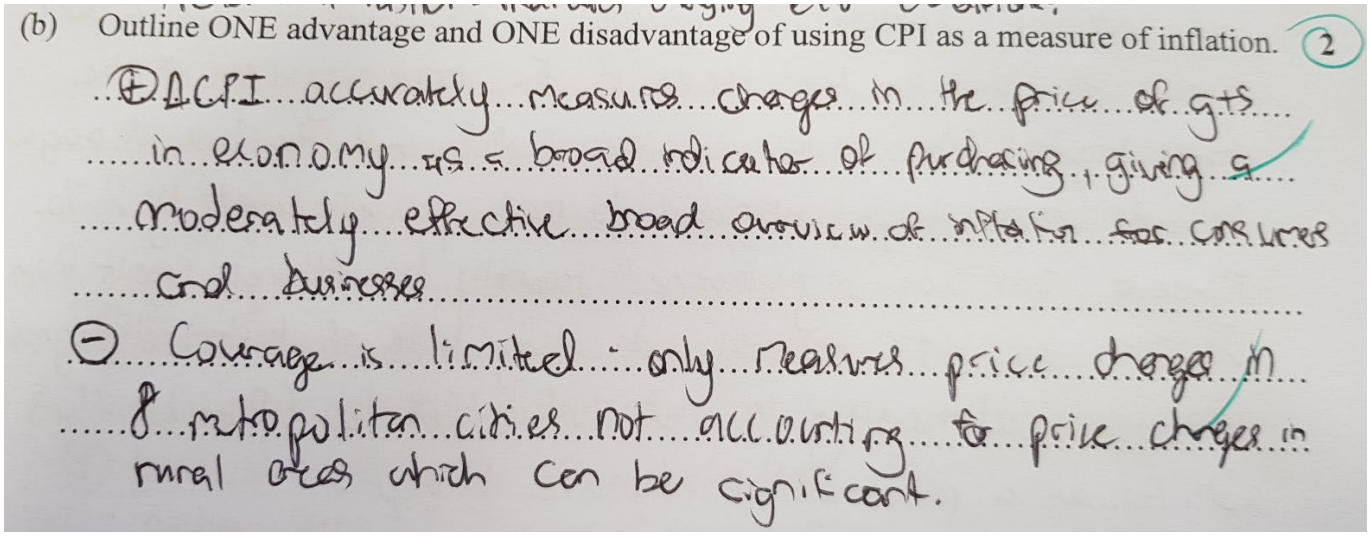
Comments

- Some students forgot to give both advantage and disadvantage – make sure you read the question
- You needed to more than just list them (identify) you needed to outline them
- Vast majority of students did this question well, however some left this question blank
- Mark range: 1-2
- Average mark: 1.7/2

Success criteria

- ☐ Clearly sketched ONE advantage and ONE disadvantage of using the CPI as a measure of inflation

Student sample 1

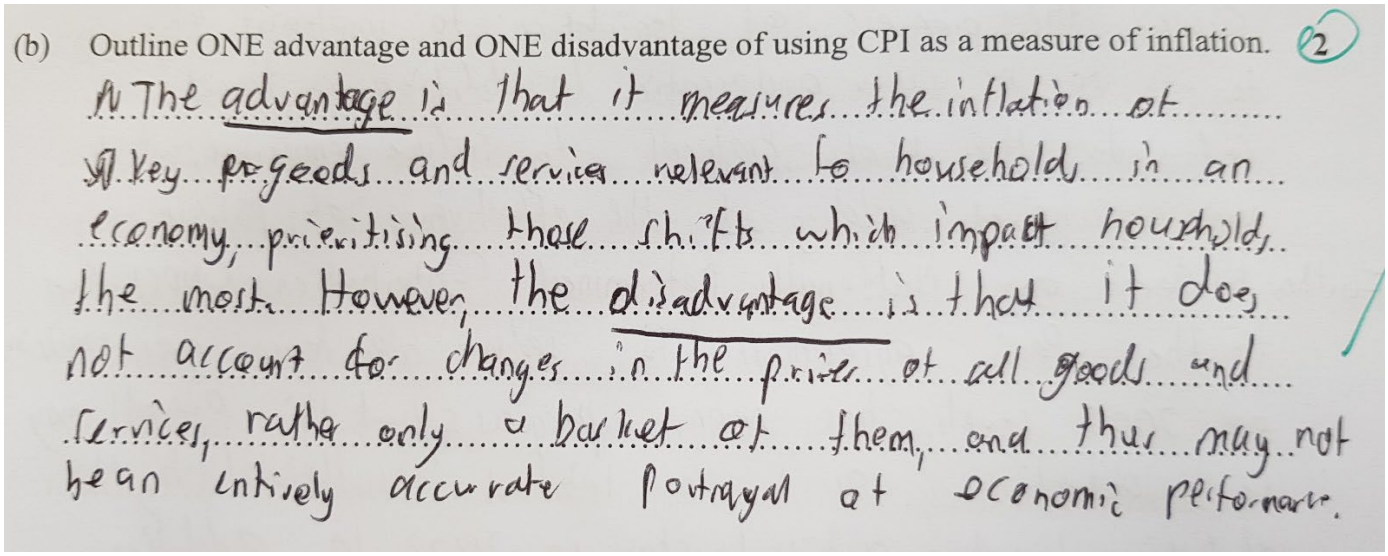


(b) Outline ONE advantage and ONE disadvantage of using CPI as a measure of inflation. 2

⊕ CPI accurately measures changes in the price of g+s in economy as a broad indicator of purchasing, giving a moderately effective broad overview of inflation for consumers and businesses

⊖ Coverage is limited only measures price changes in metropolitan cities not accounting for price changes in rural areas which can be significant.

Student sample 2



(b) Outline ONE advantage and ONE disadvantage of using CPI as a measure of inflation. 2

The advantage is that it measures the inflation of key goods and service relevant to household in an economy, prioritising those shifts which impact hourshold, the most. However, the disadvantage is that it does not account for changes in the price of all goods and services, rather only a basket of them, and thus may not be an entirely accurate portrayal of economic performance.

(c) Explain TWO main causes for Australia's recent high inflation. **2**

Criteria	Marks
• Clearly explains TWO main causes for Australia's recent high inflation	2
• Explains TWO main causes for Australia's recent high inflation OR • Makes general statements about inflation	1

Answer could include:

- Cost push
- Demand pull
- Imported inflation
- Inflation expectations
- Increased cost for services– eg high demand for services (rents, education, medical and hospital)
- Post covid recovery – wages saved during covid lockdowns being spent – v shaped recovery
- High AD in Australia, exceeding supply (but is slowly closing)
- Increased Govt and household spending – Govt handouts/expansionary FP/tax cuts/energy rebate
- Tight labour market – wages growth
- Global supply chain issues – less but still evident
- High commodity prices
- Rising rental, energy, insurance and other costs
- Global instability – war in Ukraine, tensions in middle east and China/Taiwan – increase energy costs
- AUD exchange rate fluctuations

Comments

- Question asked you to explain TWO main causes for Australia's recent high inflation – so you needed to show HOW two of the factors above has contributed to Australia's high inflation
- You needed to more than just state that it led to an higher inflation – you needed to explain how it does it
- Most students did this question well, but some responses not as clear or explained well
- Mark range: 1-2
- Average mark: 1.7/2

Success criteria

- ☐ Clearly explained TWO main causes for Australia's recent high inflation

Student sample 1

(c) Explain TWO main causes for Australia's recent high inflation. 2

(1) Australia's high inflation can be attributed to the rising costs of fuel as a result of the geopolitical tensions of the Russia - Ukraine war, where fuel prices increased due to supply chain shortages, from 150 ¢/L to almost 200 ¢/L.

(2) Australia's recent high inflation can also be attributed to ↑ rates of migration following the pandemic, seen in the expansion of migration placements in AUS under the 2023-24 and 2024-25 Budget. This influx in migrants will ↑ demand-pull inflation due to more Australians competing for scarce housing, hence causing ↑ in housing prices and the cost-of living will seem attributed to this.

Question 24 continues on page 19

Student sample 2

(c) Explain TWO main causes for Australia's recent high inflation. 2

1. Demand pull inflation has been high as a result of high savings levels during COVID that are now being spent. The savings ratio in COVID 2020 was around 27%, well above standard levels, and has resulted in AD being significantly higher than AS as it is now being spent, leading to higher demand pull inflation, but it is expected surplus savings are expected to run out by the end of the year.

2. Cost push inflation has been high as a result of high labour costs ~~and oil prices~~. Labour accounts for 60% of the costs of a business and, following National minimum wage and award wage hikes, has increased contributing to higher cost push inflation as firms pass on higher costs as higher prices.

Question 24 continues on page 19

(d) Discuss the limitations of using monetary policy to address price stability. **4**

Criteria	Marks
• Clearly identifies the issues and provide points for and against the limitations of using monetary policy to address price stability	4
• Identifies the issues and provide points for and/or against the limitations of using monetary policy to address price stability	3
• Identifies the issues and provide points for or against the limitations of using monetary policy to address price stability OR • Demonstrates some understanding of use of monetary policy to address price stability	2
• Makes general statements about monetary policy/price stability	1

Answer could include:

Price stability refers to keeping inflation at an acceptable level – inflation target is 2-3%

Advantages

- Short term implementation time lag
- Independence of RBA in making decisions/less political constraints (but less so in light of recent Fed Govt decisions and current RBA Review)
- Better at slowing down economy than increasing economic activity
- Can reduce demand pull inflationary pressures
- Inflation target has been largely successful

Disadvantages

- Impact time lag – 6-18 months
- Conflicting objectives
- Conflicting with FP
- Only demand side, may need MEP for supply side
- Blunt instrument – mortgage stress
- External shocks – eg war in Ukraine, Covid, supply chain issues – imported inflation
- Use of unconventional MP
- Cash rate effectiveness when near zero

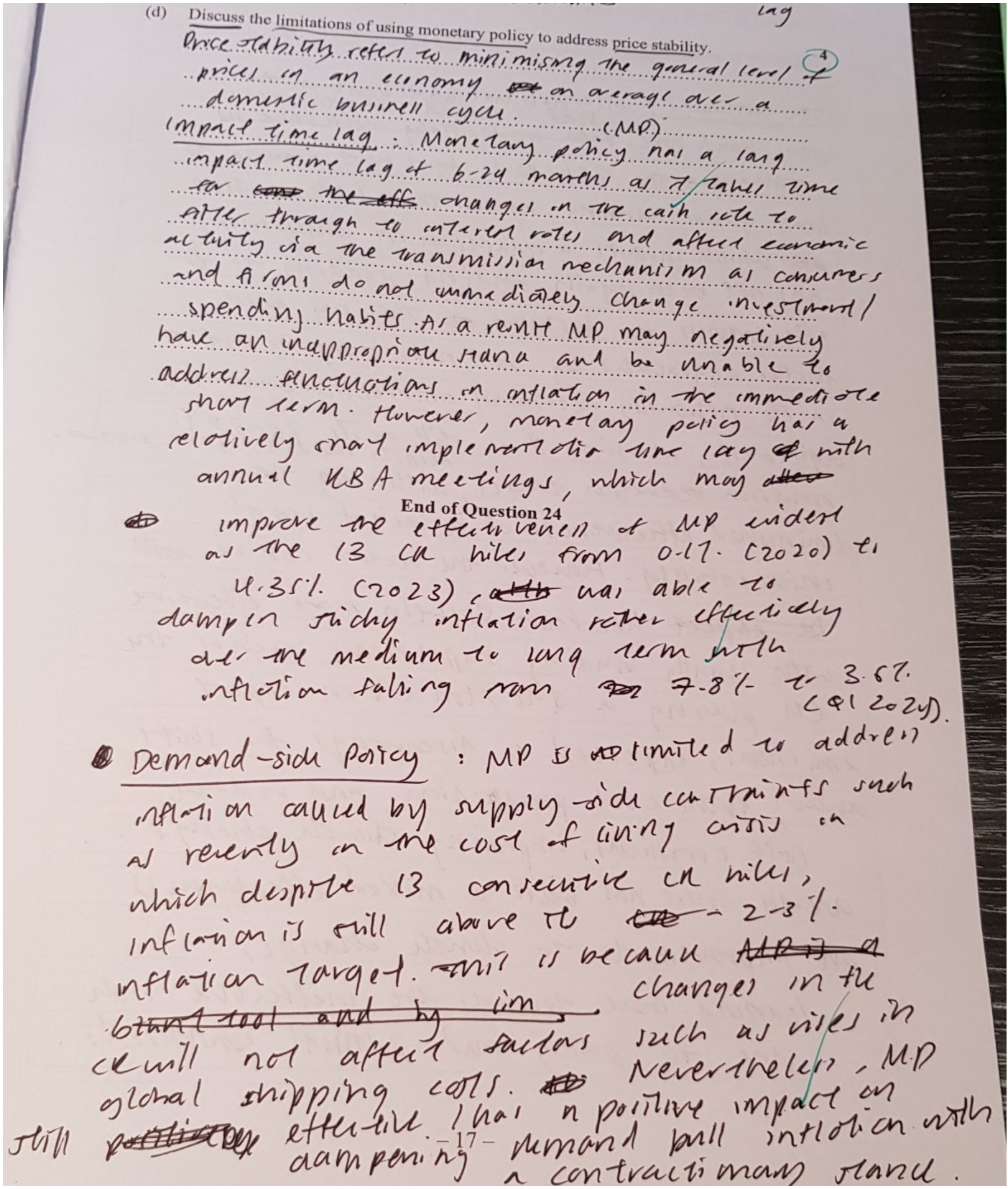
Comments

- Question asked you to discuss the limitations of using monetary policy to address price stability - so you needed to know what price stability is and show how good or bad monetary policy is in achieving price stability
- Remember Discuss – Positives and negatives, both needed for full marks
- This is a four-mark question – make sure you write enough to ensure you provide enough detail, some responses are too short/brief
- Some students did not even attempt this question
- Mark range: 0-4
- Average mark: 3.1/4

Success criteria

- ☐ Clearly discussed the limitations of using monetary policy to address price stability

Student sample 1



(d) Discuss the limitations of using monetary policy to address price stability.

Price stability refers to minimising the general level of prices in an economy on average over a domestic business cycle. (MP)

Impact time lag : Monetary policy has a long impact time lag of 6-24 months as it takes time for changes in the cash rate to filter through to interest rates and affect economic activity via the transmission mechanism as consumers and firms do not immediately change investment/spending habits. As a result MP may negatively have an inappropriate stance and be unable to address fluctuations in inflation in the immediate short term. However, monetary policy has a relatively short implementation time lag with annual RBA meetings, which may improve the effectiveness of MP evident as the 13 CR hikes from 0.1%. (2020) to 4.35%. (2023), was able to dampen sticky inflation rates effectively over the medium to long term with inflation falling from 7.8% to 3.6% (Q1 2024).

End of Question 24

Demand-side policy : MP is limited to address inflation caused by supply-side constraints such as recently on the cost of living crisis in which despite 13 consecutive CR hikes, inflation is still above the 2-3% inflation target. This is because changes in the CR will not affect factors such as rises in global shipping costs. Nevertheless, MP still has a positive impact on effective dampening demand pull inflation with a contractionary stance.

Student sample 2

(d) Discuss the limitations of using monetary policy to address price stability. (4)

MP is limited in achieving price stability (2-3% inflation) as it cannot directly address the supply side of the economy due to it being a demand-management tool. As a result, it is highly limited in reducing levels of cost inflation. This limits its ability to achieve price stability. This has been seen recently, with cost inflation due to covid-19 supply chain disruptions leading to persistent high inflation of 7.8% in the July 2022 and 7.0% currently, which MP has been mostly unsuccessful in reducing with its 1/x cash rate hikes since 2020. Nonetheless, MP has been able to achieve price stability to a limited extent by reducing levels of AD in economy. Inflation forecast to fall to 2.3% by 2025.

Another limitation of MP is that it faces long impact time lags, thus limiting its effect on price stability in the LT. Indeed, This is because of the time taken for cash rate changes to transfer through the economy, and for consumers & firms to change behaviours. Thus creating an impact time lag of 6-18 months to affect price stability. This has been seen most recently, with 1% cash rate only having an effect in reducing inflation now, despite the cash rate being raised since 2020. Thus limiting MP in achieving price stability.

End of Question 24

Question 24 (total)

Mark Range: 2-10

Average mark: 8.1/10

Question 25 (20 marks)

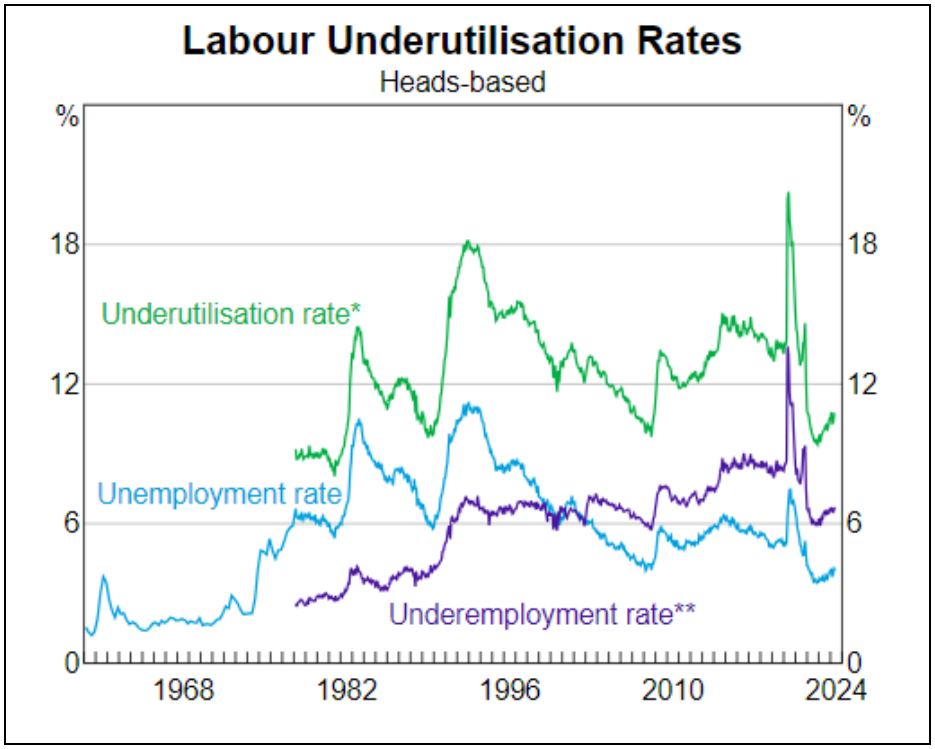
Assess the Australian government's use of microeconomic reforms in managing full employment and distribution of income.

> The balance of labour demand and supply consistent with full employment depends on structural features of the markets for labour, goods and services. For example, search and matching frictions lower the level of full employment. These structural features can change over time. Government policies can influence both structural features of markets and labour supply decisions, and so influence the level of full employment.
>
> Periods of unemployment can reduce workers' earnings for several years afterwards and long spells can lead to skills atrophy, or cause workers to leave the labour force altogether, eroding the level of full employment that can be sustained (Borland 2020). …policy may also be able to limit the extent of these so-called 'hysteresis' or 'scarring effects' on workers who lose their jobs….

RBA Bulletin April 2024

> The distribution of market income became more unequal in Australia in the 1990s and 2000s compared to the 1980s (especially in the low and middle incomes), but targeted and means tested welfare assistance which have offset some of the rise in the inequality of the distribution of market income in the 2000s. Income tax cuts in *The New Tax System* in 2000 and in all budgets between 2001 and 2012 and in 2018-21 helped to reduce the tax burden on most income groups, but especially low and middle income earners.

Riley Textbook 2024



Source: ABS / RBA

Assess the Australian government's use of microeconomic reforms in managing full employment and distribution of income.

CRITERIA	MARK
• Provides a sustained, logical and cohesive response using the information available that integrates relevant economic terms, concepts, relationships and theory • Demonstrates a clear and comprehensive understanding of the Australian Government's use of microeconomic reforms in managing full employment and distribution of income • Makes a well-informed judgement about the Australian Government's use of microeconomic reforms in managing full employment and distribution of income	17 - 20
• Provides a logical and cohesive response using the information available that applies relevant economic terms, concepts, relationships and theory • Demonstrates a sound understanding of the Australian Government's use of microeconomic reforms in managing full employment and distribution of income • Makes some judgement about the Australian Government's use of microeconomic reforms in managing full employment and distribution of income	13 - 16
• Provides a coherent response that uses economic terms, concepts, relationships and theory • Demonstrates some understanding of the Australian Government's use of microeconomic reforms in managing full employment and distribution of income	9 - 12
• Provides a generalised response that uses some economic terms • Demonstrates some understanding microeconomic reforms, full employment and/or distribution of income	5 - 8
• Presents a limited response that uses some economic terms • Identifies aspects of microeconomic reform, full employment or distribution of income	1 - 4

Success criteria:

o I have engaged with the question, stimulus and the directive term throughout my response

o I have clearly and comprehensively assessed the Australian Government's use of microeconomic reforms in managing full employment and distribution of income

o I have written clearly and legibly throughout my response

o I have written a sustained, logical and cohesive response, including relevant economic terms, concepts, relationships, theories and examples

o I have PEELed my paragraphs throughout my response

o Any diagrams I have included were clearly drawn, fully labelled, explained and relevant to the question

Answer could include:

- *Define and explain key terms – eg microeconomic policies/reforms, full employment, NAIRU, distribution of income, income inequality etc*
- *Conflicts among economic objectives*
    - *Price stability (inflation) and full employment*
    - *Full employment (and EG) external balance (stability)/ CA/BoPs*
- *Long term – political constraints/long time lag*
- *Productivity and increase in capacity*
- *Efficiencies – allocative, technical and dynamic*
- *Unless MER are used – can be inflationary (peak of business cycle)*
- *Supply side*
- *Hysteresis*
- *Okun's Law*
- *Full employment/Underemployment*
- *Gini coefficient*
- *Wage Dispersion*
- *Casualisation of the workforce*
- *Unemployment – structural, frictional, hidden*
- *Gender pay gap*

- *Labour market reforms*
    - *Reduce the NAIRU*
    - *Improving skills*
    - *Increasing workplace participation/LFPR*
    - *Decentralisation – Fair Work Act (2009)*
        - *Pay linked to increase in productivity*
        - *Bargaining power*
    - *Modern Awards / Enterprise Agreements*
    - *Minimum wage – Annual Wage Review*
    - *National Employment Standards / BOOT*
    - *Education, training and employment programs*
    - *non wage outcomes*

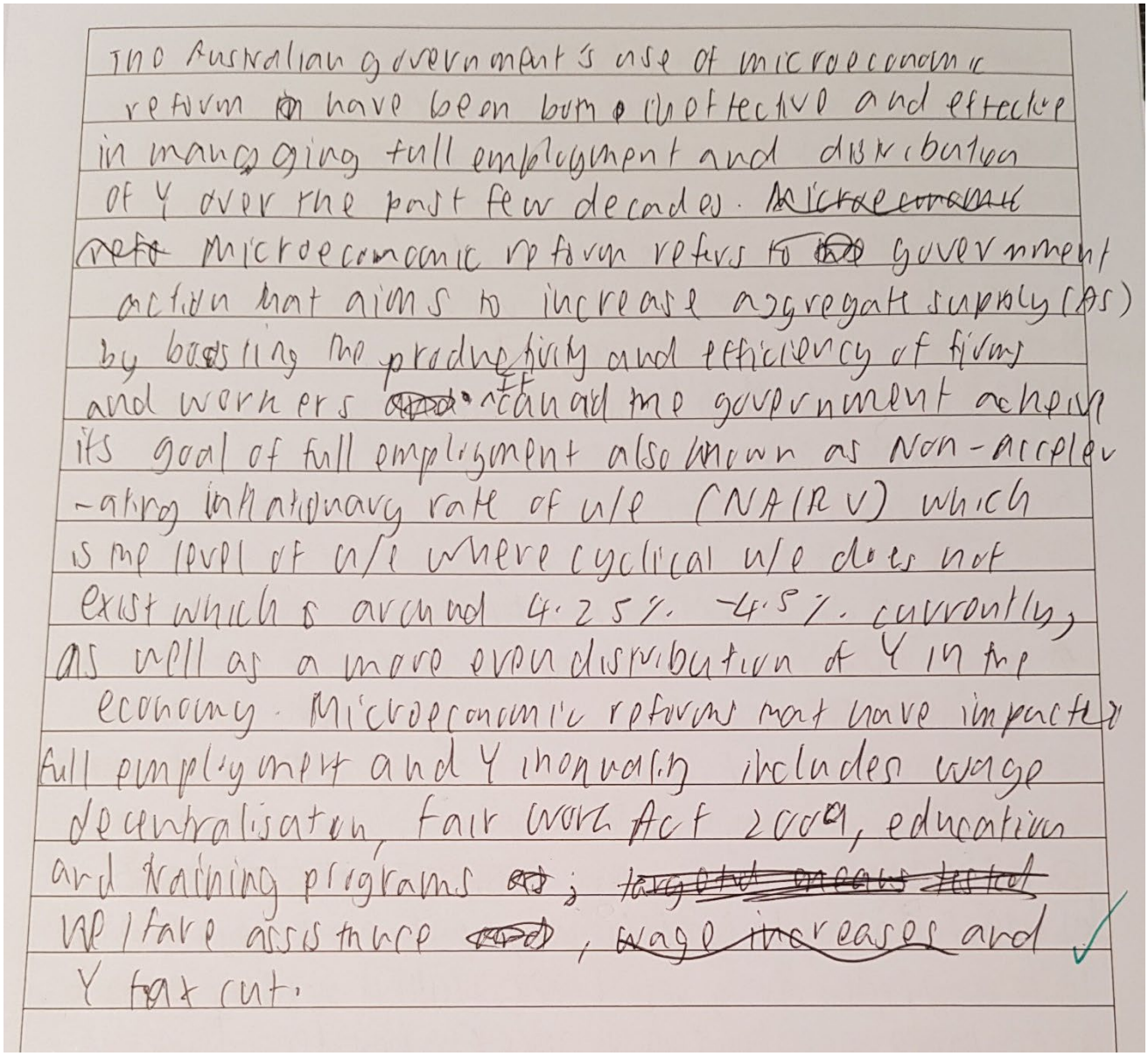
- *Other MER/MEPs*
    - *Deregulation of markets*
    - *New infrastructure – reducing bottlenecks*
    - *Taxation reform – stage 3 tax cuts*
    - *Reform of factor/product markets*
    - *National Competition Policy*
    - *Welfare reforms*
        - *Jobmaker*
        - *Paid parental leave*
        - *Child Care subsidies*
        - *Carers' leave*
    - *Skilled migration programs*
    - *Progressive taxation system*
        - *Personal Income Tax Plan*
            - *Revised stage3 tax cuts*
    - *Financial deregulation*
    - *Trade liberalisation*

- *Graphs could include:*
    - *AD and AS*
    - *Phillips curve – SR and LR*
    - *Supply and Demand for labour*

Marker's comments

- 55% of students attempted this question
- Mark range 10-20
- Average Mark 14.9/20
- ASSESS: make a judgement about the use of microeconomic reforms in managing full employment and distribution of income and support with data
- Need to cover wide range of microeconomic policies and ensure you assess how effective they were in both managing full employment and distribution of income
    - many responses stated that MERs were effective, not effective or somewhat effective in managing full employment/income distribution – but don't explain the MER or give evidence to support their statements
    - you need to make a judgement throughout your response – ideally for every MER you covered
    - not all MERs were 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 ….." as shown by the …..(insert data)
- Make sure you do the basics – explain key concepts, provide clear definitions, PEEL, use data/examples throughout.
- You all needed to make reference to all of the stimulus provided – happily, this was evidenced throughout many of your responses
- When using graphs in your response – you must explain it not just say "as shown in graph" or "refer to figure 1"
- In your intro – address question in full. I should be able to ascertain what question is based on your introduction
- Plan your time to ensure you finish your response – some not finished
- 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
- 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 – some responses less than 3 pages

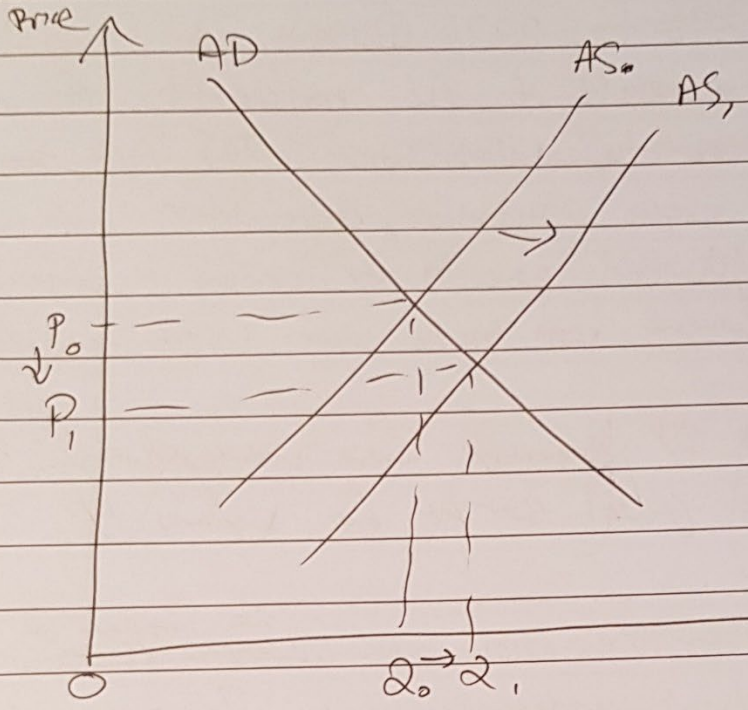
Student sample paragraph 1:



The Australian government's use of microeconomic reform have been both effective and effective in managing full employment and distribution of Y over the past few decades. ~~Microeconomic~~ ~~refo~~ microeconomic reform refers to government action that aims to increase aggregate supply (AS) by boosting the productivity and efficiency of firms and workers. It can aid the government achieve its goal of full employment also known as Non-accelerating inflationary rate of u/e (NAIRU) which is the level of u/e where cyclical u/e does not exist which is around 4.25%-4.5%. currently, as well as a more even distribution of Y in the economy. Microeconomic reforms that have impacted full employment and Y income includes wage decentralisation, fair work Act 2009, education and training programs; ~~targeted means tested~~ welfare assistance, ~~wage increases~~ and Y tax cut.

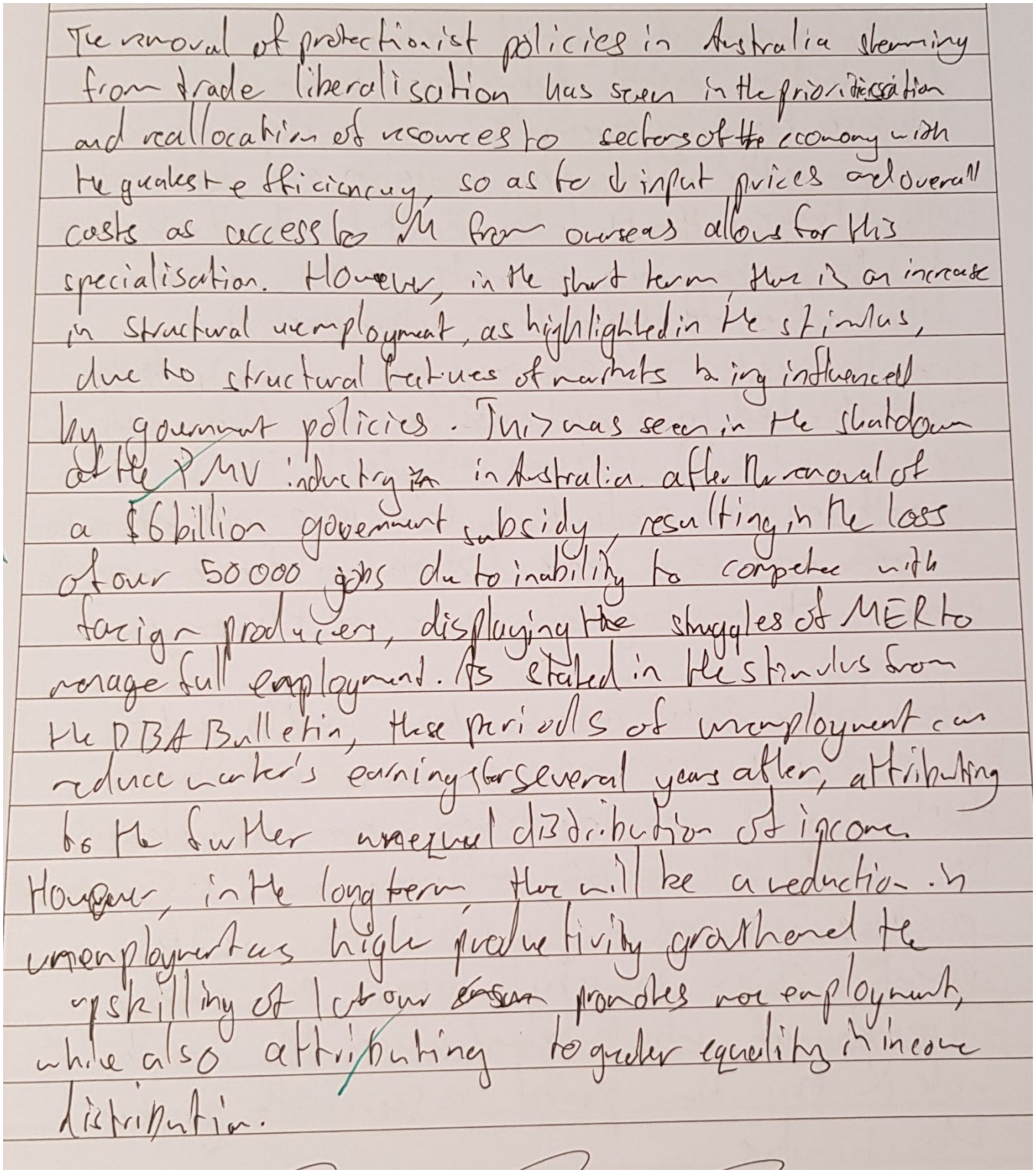
Student sample paragraph 2:

compared to 0.4% p.a over the 1980s. In turn, this has promoted improved aggregate supply due to ↑ quality of labour reflecting in the AD/AS model in Fig 1, whereby



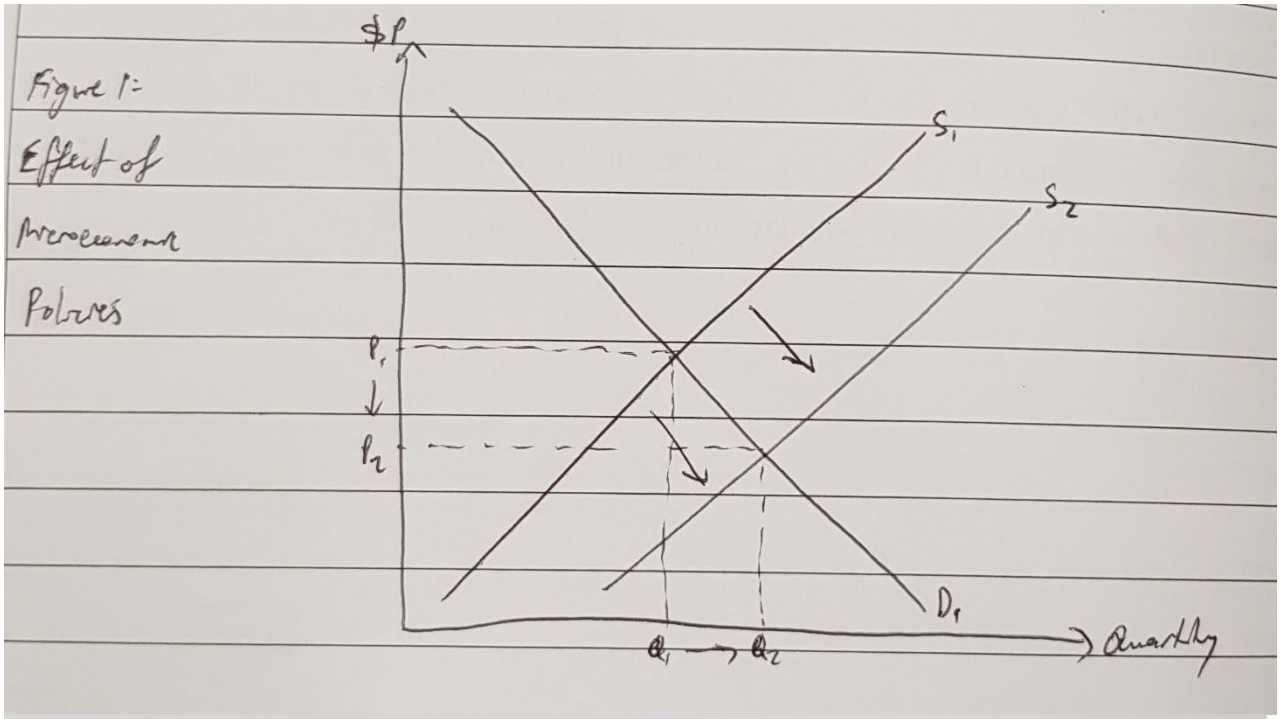
the increase in aggregate supply from AS to AS₁ has promoted non-inflationary economic growth with inflation ↓ from P_0 to P_1 while real GDP expands from Q_0 to Q_1. In turn, this reduced capacity constraints in the Australian economy, putting downward pressure on the NAIRU, reflecting the effective achievement of full employment

Student sample paragraph 3:



The removal of protectionist policies in Australia stemming from trade liberalisation has seen in the prioritisation and reallocation of resources to sectors of the economy with the greatest efficiency, so as to ↓ input prices and overall costs as access to M from overseas allows for this specialisation. However, in the short term there is an increase in structural unemployment, as highlighted in the stimulus, due to structural features of markets being influenced by government policies. This was seen in the shutdown of the PMV industry in Australia after the removal of a $6 billion government subsidy, resulting in the loss of over 50 000 jobs due to inability to compete with foreign producers, displaying the struggles of MER to manage full employment. As stated in the stimulus from the DBA Bulletin, these periods of unemployment can reduce worker's earning for several years after, attributing to the further unequal distribution of income. However, in the long term there will be a reduction in unemployment as high productivity gradually the upskilling of labour provides new employment, while also attributing to greater equality in income distribution.

Student sample paragraph 4:



As seen in Figure 1, macroeconomic policies work to shift the supply curve to the right resulting in a reduction of price but increase in quantity. This is due to ↑supply of ~~labour~~ ~~goods~~ factors of production ($Q_1 \rightarrow Q_2$) as well as ↑productivity, thus ↑output with same level of input over a period of time. Therefore, it is cheaper to produce the same level of output due to decreased input, as seen by the shift of P_1 ↓ P_2 ✓

Student sample paragraph 5:

Full employment refers to the objective of targeting a rate of u/e at the non-accelerating inflation rate of u/e (NAIRU) representing a state where there is no cyclical u/e, and in particular ~~on top of this~~ ~~putting~~ downward pressure on ~~the~~ NAIRU through ~~AAGR~~ ~~=~~ MER. The distribution of Y in the Australian ~~economy~~ economy refers to how Y derived ~~is~~ from the ~~individual~~ production process is distributed amongst members, ~~the~~ measured by the GINI coefficient (where ↑ GINI reflects ↑ inequality in distribution of Y).

Student sample paragraph 6:

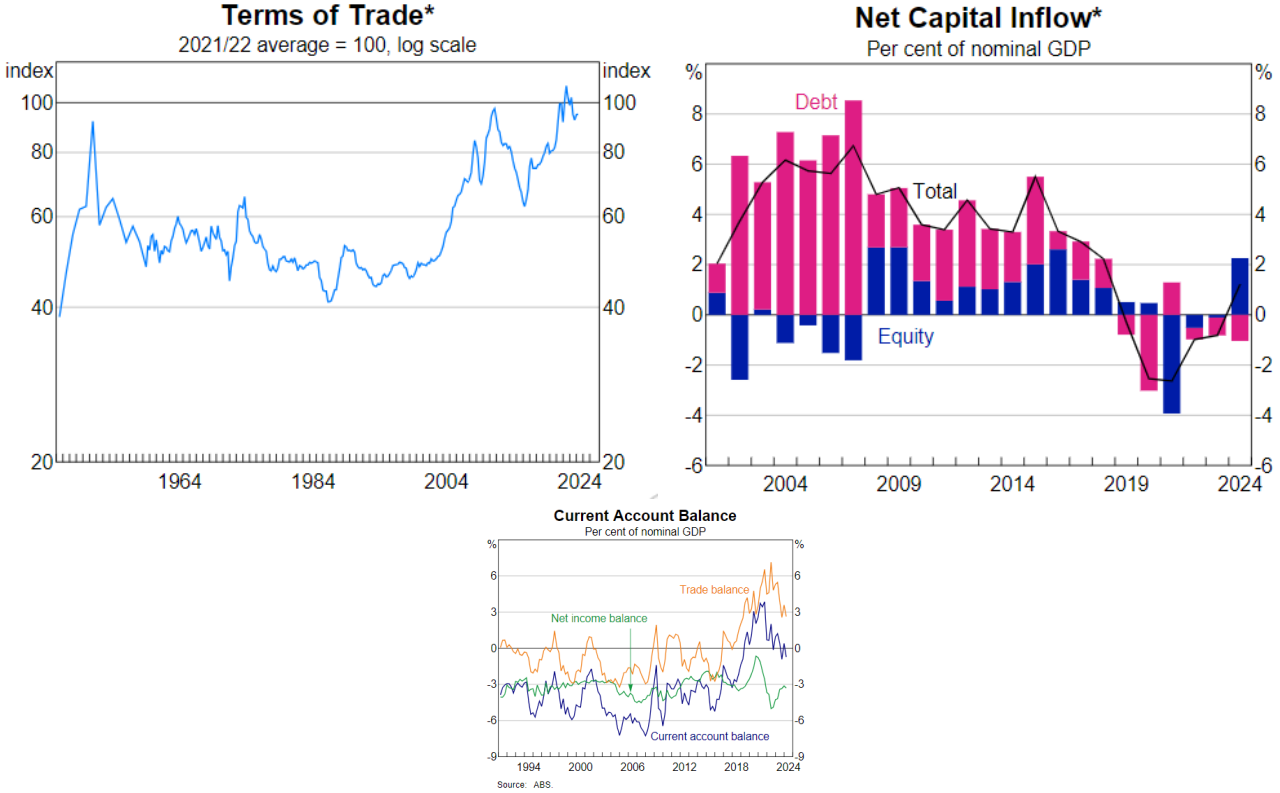
OR

Question 26 (20 marks)

Assess the impacts of recent changes to international competitiveness, terms of trade, international borrowing and foreign investment on Australia's current account.

> Australia rose to 13th from 19th place out of 67 nations for competitiveness, according to the Swiss-based IMD World Competitiveness Yearbook 2024. It was Australia's highest ranking in 13 years. The improved ranking is the result of Australia's stronger business and government investment, population growth and budget positions. Australia's stable economy, transparent regulations and global business ties provide a secure and thriving environment for investors.

Source: Austrade June 2024



** Latest year includes data for the year to date.*

Source: ABS / RBA

Criteria	Marks
• 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 impacts of recent changes to international competitiveness, terms of trade, international borrowing and foreign investment on Australia's current account • Makes a well-informed judgement about the impacts of recent changes to international competitiveness, terms of trade, international borrowing and foreign investment on Australia's current account	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 impacts of recent changes to international competitiveness, terms of trade, international borrowing and foreign investment on Australia's current account • Makes some judgement about the impacts of recent changes to international competitiveness, terms of trade, international borrowing and foreign investment on Australia's current account	13-16
• Uses own knowledge and understanding with the information provided to develop a cohesive response • Uses relevant economic terms, concepts, relationships and theory • Demonstrates some understanding of the impacts of recent changes to international competitiveness, terms of trade, international borrowing and foreign investment on Australia's current account	9-12
• Presents a generalised response • Uses some economic terms and concepts • Identifies some understanding of recent changes to international competitiveness, terms of trade, international borrowing and foreign investment on Australia's current account	5-8
• Provides a limited response • Uses some economic terms and concepts • Identifies some aspects of Australia's international competitiveness, terms of trade, international borrowing and foreign investment or Australia's current account	1-4

Answers could include

- Cyclical factors which affect our international competitiveness, terms of trade, international borrowing and foreign investment are the major causes of the current account shifting from a deficit to a surplus.
    - ToT- increased global supply of commodity exports, increase and then reduced growth in the demand of Australia's commodity exports, the slow down, recovery and slowdown in the IBC, increased global protection

- NFD- reduced and increased saving investment gap (provision of RBA finance for banks, increased and decreased HH savings ratio), decrease and increase in domestic growth and business confidence, changing interest rates (from low to high)
- Financial flows- increased investment into Australia as a result of depreciation of the AUD and increased IC, increased superannuation outflows -net capital exporter, volatility – Pandemic / economic crisis. Government stimulus, interest rate differentials

- The impacts of recent changes to **international competitiveness**, on Australia's current account
  - Increased IC due to depreciation of the exchange rate- **J curve effect** has had a significant impact on improving the trade balance surplus which has led to increasing the value and size of the Current account and contributing to its historic consecutive surpluses. Depreciation of AUD below US$0.70 (Real TWI ave just below 70) since 2019 due to lower world growth, commodity prices, the terms of trade and cuts to the cash rate by RBA
  - Increased IC encouraging investment- refer to Austrade quote, encouraging debt and equity inflows which continues to corollary the Net Primary income deficit (structural component). The returns on equity and servicing costs vary due to a number of other factors such as interest rates and IBC and domestic growth.

- The impacts of recent changes to the **terms of trade** on Australia's current account
  - Recent changes in the terms of trade, which is the ratio of export prices to import prices, has had the biggest historic impact the current account. As export prices rose relative to import prices, Australia's terms of trade improved dramatically, leading to our highest export revenues and our largest surplus in the current account.
  - Rising terms of trade from 2016 -2023 have led to increases in X income in the CA due to higher prices of mineral exports. This reduced the goods deficit and led to significant surpluses in net goods. This led to current account surpluses between 2019-20 and 2022-23.
  - Compared to other countries, it has increased by almost two and a half times, or 146 per cent since the turn of the century. "No other developed country, even other commodity producers, has had anything like Australia's terms of trade boom,"
  - the terms of trade has again jumped in the last three years, during a resurgent boom in the price of iron ore, coal and gas.The commodity price surge has been fuelled by the war between energy-rich Russia and Ukraine, strong Chinese demand and global supply shortages.
  - The huge spike in the terms of trade began in 2021 in the final Coalition term and has continued under Labor.The budget boost has been turbocharged by a weak Australian dollar. Commodity exports are priced in US dollars, meaning an even bigger windfall with the currency at US65¢, compared to above $US1 in 2011.
  - The largest decrease in the current account surplus in June 2023 was directly attributed a significant unfavourable movement in the ToT with fall in prices for Australia's key export commodities, partly offset by a drop in the net primary income deficit. Australia's terms of trade fell 7.9 per cent, the largest fall since June quarter 2009.The CAS fell by $4.8 billion to $7.7 billion (seasonally adjusted, current prices) in the June quarter 2023.
  - Despite falling commodity prices for the June quarter 2023, prices remained high over the 2022-23 financial year. This was a contributing factor in the CA remaining in surplus over that period.
- The impacts of recent changes to **international borrowing** on Australia's current account

    - Increased international borrowing has lead to a higher current account deficit as Australia borrows more from overseas to finance domestic investments. This has, historically put pressure on the current account balance, particularly if the borrowed funds are not used effectively to boost productivity and export competitiveness.
    - A major factor that reduced international borrowing since 2020 was the Reserve Bank's $200 billion term funding facility (TFF). These three-year loans provided the country's banks with a plentiful supply of cheap funding, allowing them to drastically scale back their debt raisings in offshore capital markets.
    - Decreased investment needs for non-finance businesses (reduced debt). Private sector debt fell from $1029bn to $962.7bn
    - Interest rates shifting from all time lows to highs. Increasing significantly servicing costs. Business deleveraging – ie using equity and retaining profits rather than borrowing and paying off debt. Cost of debt servicing doubled in 2022-2023 from %18bn to $33bn in net terms as IR on debt in both AUD and foreign currency rose sharply.
- The impacts of recent changes to **foreign investment** on Australia's current account
    - Inflows of foreign investment (debt or equity) can have mixed impacts on the current account. While foreign investment can finance domestic investments and boost economic growth, it can also lead to repatriation of profits and dividends, which traditionally widened the current account deficit but in more recent case reduced the size of the CAS
    - More recently outflows of equity via superannuation funds investment overseas. Also resource companies in Australia have been distributing large dividends as benefits of high commodity prices is reflected in strong mining profits
    - Whilst historically Aust experiences net FDI inflows, in 2022 it experienced large net FDI outflows (3.2% of GDP) driven by asset purchases abroad by Australian residents. Other investment outflows were also large (2.1% of GDP).
    - In 2022 the CAS declined from 3% of GDP in 2021 to 1.2% of GDP in 2022 as returns of profits and dividends (NPI) rose significantly.
- **judgements** of Australia's international competitiveness and terms of trade and international borrowing and foreign investment on the *value, size and outcome* Australia's current account.
    - Clearly ToT and IC played a most significant impact on Australia's current account (largest size and outcome -Surplus) by creating the largest recorded BOGSS.
    - Clearly recent changes in Australia's international borrowing and foreign investment changes playing a significant impact on Australia's current account (largest size and outcome -Surplus) thru their role in reducing net NPI
    - Improvements in Australia's current account and historic surpluses between 2018 and 2023 were primarily driven by the higher ToT (improved Trade Balance) and the decrease in investment needs for non-finance businesses (reduced debt).

Sample paragraph

- *A recent increase in Australia's international competitiveness, driven by factors such as the country's stable economy, transparent regulations, and strong global business connections, has the potential to enhance export opportunities and reduce reliance on imports. This positive development could lead to a surplus in the current account as exports outpace imports. According to the latest ranking in the IMD World Competitiveness Yearbook 2024, Australia has improved its international competitiveness ranking from 19th to 13th out of 67 nations. This improvement can be attributed to Australia's increased business and government investments, population growth, and favourable budget positions. As a result, there is optimism for a positive impact on the current account balance. However, the full benefits of this enhanced competitiveness and investment attractiveness may take time to materialise, particularly as investments transition from the implementation to production phase. Therefore, while the current account is expected to see improvements in the medium to long term, the full value added to the current account may be realised over a longer time*

horizon. Monitoring these trends and their effects on the current account balance will be crucial in assessing the overall impact of Australia's improved international competitiveness on the economy.

Comments

- Better answers incorporated theory paragraphs on the structure of and relationships in the CA. Don't forget to incorporate basic theory.
- Please ensure you write clearly and legibly- it is apparent that some students are not sure of data and will deliberately write it unclearly to hide the fact that they do not know their data
- When writing take care with abbreviations and avoid writing short hands notes – ie refer to IC only after you have written International Competitiveness (IC)
- Ensure when you are measuring changes in the size of the CA that you refer to % change as % of GDP
- When making a judgement about the impact of recent changes on the CA you must use evidence (data) to support it. (Otherwise, it remains as an unsupported statement!!!)
- Start your PEEL paragraph (P/TS) with a judgment ie
    - Its value -how much did it contribute to the CA changing?
    - It size- impact on the changing size of the CA
    - Its outcome- the changing status of the CAD to a CAS and back to a CAD

  - NB When making a judgement it doesn't have to be a clear-cut decision, you can put it on a relative scale. The most significant factor/ A contributing factor/ a minor factor; OR Had the greatest impact/ had some impact/ had little impact

  - After your **P** (judgement) you should then **E**laborate and provided **E**vidence (data)

- You must use the stimulus material. Ensure it is clear when you are referring directly from the stimulus eg use quotation marks and clearly identify the data source " from the Austrade Source …". I have heard that markers have been told 5 references to stimulus should be evident.
- When ***recent*** appears in questions generally we are talking in the last 5 years. But be guided by the question and trends. In this case the trend of the CA moving into a sustained surplus since 2018 and current position return to surplus.

NB

- Assess:

Meaning: "Assess" typically involves making a judgement, forming an opinion, or providing an overall evaluation of a topic or issue. It often requires students to consider various aspects or criteria and make a reasoned judgement about the significance, value, or effectiveness of something.
Focus: The focus of an "assess" task is on determining the value, quality, results, size, importance, strengths, weaknesses, or outcomes of a specific topic or argument.
Approach: When asked to "assess," students are expected to analyse and weigh different factors, consider implications, and provide a comprehensive judgement based on evidence and reasoning.

-Evaluate:

Meaning: "Evaluate" goes a step further than "assess" and involves a more in-depth analysis, comparison, and critical examination of different perspectives or arguments. It requires students to assess the strengths and weaknesses of each viewpoint and draw conclusions based on a thorough evaluation.
Focus: The focus of an "evaluate" task is on critically analysing, comparing, and synthesising information to arrive at a well-supported judgement or conclusion.

Approach: When asked to "evaluate," students are expected to critically examine the evidence, consider alternative viewpoints, assess the validity of arguments, and provide a well-rounded judgement based on a comprehensive analysis.
In summary, while both "assess" and "evaluate" tasks involve making judgements or forming opinions, "evaluate" tasks typically require a deeper level of critical analysis, comparison, and evaluation of multiple perspectives or arguments. Students should pay attention to the specific verbs used in the question prompts to understand the level of analysis and depth of evaluation expected in their responses.

Section IV

Question 27 (20 marks)

Discuss why economies may use different exchange rate systems.

CRITERIA	MARK
• Synthesises own knowledge and understanding to develop a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theory • Demonstrates a clear and comprehensive understanding of the reasons why economies may choose different exchange rate systems	17 - 20
• Synthesises own knowledge and understanding to develop a logical and cohesive response • Applies relevant economic terms, concepts, relationships and theory • Demonstrates a sound understanding of the reasons why economies may choose different exchange rate systems	13 - 16
• Uses own knowledge and understanding to develop a coherent response • Uses relevant economic terms, concepts, relationships and theory • Sketches the reasons why economies may choose different exchange rate systems	9 - 12
• Presents a generalised response • Uses some economic terms and concepts • Sketches some aspects of the reasons why economies may choose different exchange rate systems	5 - 8
• Presents a limited response • Uses some economic terms and concepts • Lists some reasons why economies may choose different exchange rate systems	1 - 4

Success criteria:

o I have engaged with the question and the directive term throughout my response

o I have clearly and comprehensively discussed why economies may use different exchange rate systems

o I have written clearly and legibly throughout my response

o I have written a sustained, logical and cohesive response, including relevant economic terms, concepts, relationships, theories and examples

o I have PEELed my paragraphs throughout my response

o Any diagrams I have included were clearly drawn, fully labelled, explained and relevant to the question

o I will use the feedback to improve my future responses

Answer could include:

- *Define and explain key terms – eg exchange rates, foreign exchange markets, floating system, fixed rate system and flexible peg system*
- *Appreciation*
- *Depreciation*
- *TWI*
- *Bilateral exchange rates*
- *Globalisation*
- *Business Cycle*
- *Floating exchange system – automatic stabiliser (external shocks, booms/bust)*
- *Balance of payments*
- *Valuation effect*
- *Australia*
    - *Pre 1976 Fixed exchange rate*
    - *1976-1983 Managed Flexible Peg*
    - *1983 floating exchange rate*
- *Dirtying the float*
- *Currency union*
- *Imported inflation*
- *Demand for and supply of currency*
    - *Size of financial flows*
    - *Expectations*
    - *Demand for X*
- *Speculation*

- *Fixed exchange rate*
    - *Govt officially set the exchange rate*
    - *Buys and sells currency to keep ER at the fixed rate*
    - *Needs sufficient currency (including foreign currency) reserves*
    - *Advantages*
        - *Fixed rate - stability*
        - *Easy for decision making*
        - *Lower volatility*
        - *Low exchange rate risk/improved trade confidence*
        - *Stable ER encourages foreign investment*
    - *Disadvantages*
        - *Increases speculation*
        - *Not reflective of economic situation*
        - *Requires central bank to hold reserves of domestic and foreign currency*
        - *Lacks flexibility*
        - *Loss of MP autonomy*
        - *BOPs issues – must be maintained by other means (eg FP)*

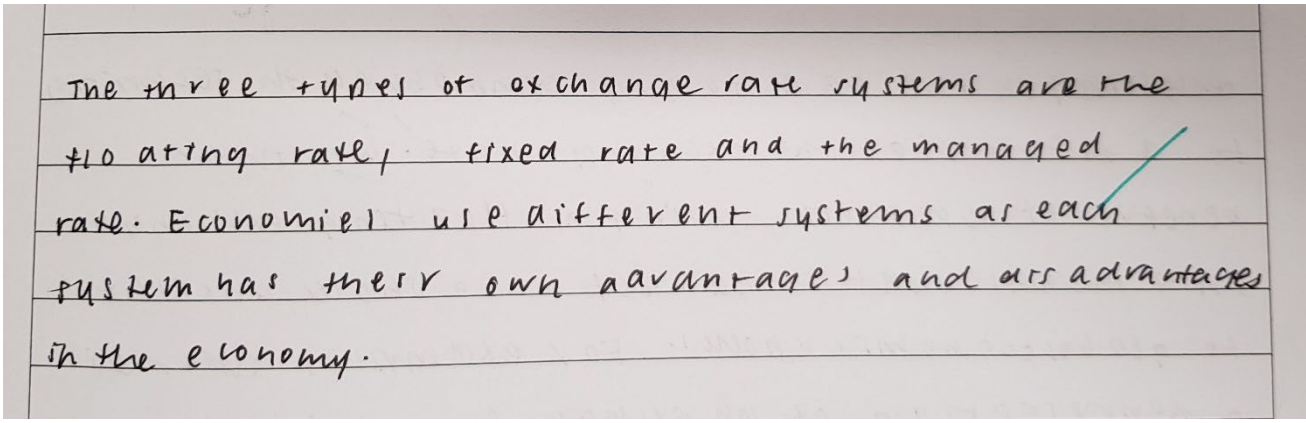
- *Managed Flexible Peg*
    - *Peg the value of the currency (usually every day)*
    - *Advantages*
        - *More flexible than fully fixed*
        - *Relatively stable/less volatility*
        - *Less exchange rate risk*
        - *Less speculation*
    - *Disadvantages*
        - *can still allow for official rate to slip away from what would exist under floating ER*

- *Floating Exchange rate*
    - *Value of the currency is determined by the forces of market demand and supply in the forex market*
    - *Advantages*
        - *No need for large reserves*
        - *Monetary policy autonomy – can conduct MP without being constrained by ER considerations*
        - *Shock Absorption: Free-floating exchange rates allow countries to absorb external economic shocks more effectively*
        - *Least speculative*
        - *Trade Balance Adjustment: A floating exchange rate can help correct trade imbalances over time.*
    - *Disadvantages*
        - *Day to day uncertainty*
        - *Highly volatile*
        - *Higher exchange rate risk*
        - *Can be more inflationary due to fluctuations*

- *Graphs could include:*
    - *Appreciation/depreciation graphs*
    - *J-curve*

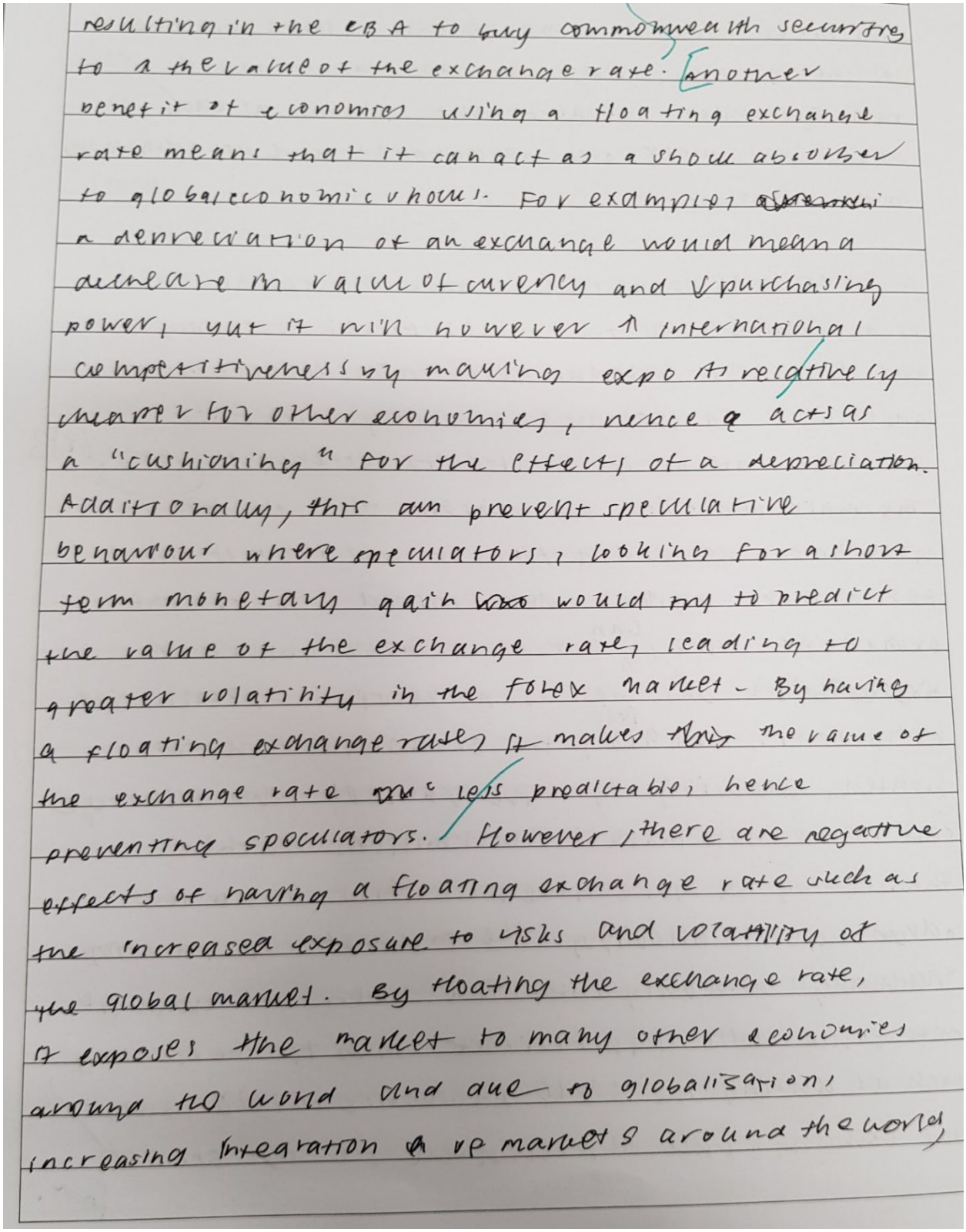
Marker's comments

- 14% of students attempted this question
- Mark range 11-16
- Average Mark 13/20
- Discuss: Identify issues and provide points for and/or against
- Need to all of the 3 main exchange rate systems and discuss the benefits and costs of each
- You also need to provide real world examples
- 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"
- Some responses only discussed the floating exchange system – not the other 2
- Make sure the intro is complete – ie address question in full. I should be able to ascertain what question is based on your introduction
- 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
- This is not Business Studies, so do not write in business report format….no dot points, headings no sub headings
- Make sure you provide sufficient detail in your response to maximise your marks – some essays not comprehensive
- **Student sample paragraph 1: Intro**
-



-

Student sample paragraph 2:



resulting in the CBA to buy commonwealth securities to a the value of the exchange rate. Another benefit of economies using a floating exchange rate means that it can act as a shock absorber to global economic shocks. For example, a depreciation of an exchange would mean a decrease in value of currency and ↓purchasing power, yet it will however ↑ international competitiveness by making exports relatively cheaper for other economies, hence it acts as a "cushioning" for the effects of a depreciation. Additionally, this can prevent speculative behaviour where speculators, looking for a short term monetary gain would try to predict the value of the exchange rate, leading to greater volatility in the forex market. By having a floating exchange rate, it makes the value of the exchange rate more less predictable, hence preventing speculators. However, there are negative effects of having a floating exchange rate such as the increased exposure to risks and volatility of the global market. By floating the exchange rate, it exposes the market to many other economies around the world and due to globalisation, increasing integration of up markets around the world,

OR

Question 28 (20 marks)

Discuss the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives.

Q28 Discuss the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives.

Criteria	Marks
• Integrates relevant economic terms, concepts, relationships and theories	17 – 20

• Provides a sustained, logical and cohesive response • Demonstrates a clear and comprehensive understanding of the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives. • Develops comprehensive arguments about the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives	
• Applies relevant economic terms, concepts, relationships and theories • Provides a logical and cohesive response • Demonstrates a sound understanding of the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives • Provides some arguments about the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives	13 – 16
• Uses economic terms and concepts and shows some relationships Develops a coherent response • Sketches in general terms the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives • Sketches some arguments about the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives	9 – 12
• Uses some economic terms and concepts • Develops a generalised response • States some aspects of Australian government's policies to manage environmental sustainability and its other objectives	5 – 8
Uses some economic terms or concepts Presents a limited response Lists some features of Australian government policies	1 – 4

Marker's comments:

- Effectiveness of directive term (discuss) was limited by breadth and detail of environmental policies. Micro policy responses need specific examples
- Carbon Tax is still ok to use but HSC marking centre would like students to move to more recent examples – SafeGuard Mechanism partly fills in this role
- Many responses identified issues but provided general points for and/or against. Lacked specific links to conflict with other objectives
- Some students focused on macroeconomic policy (MP and FP) as government policy for environmental sustainability

Answers may include:

- Policies to manage environmental sustainability
    - Targets
        - Reduce emissions of 43% below 2005 levels by 2030
        - Net zero emissions by 2050 – hydrogen generation; carbon capture and sequestration project
        - Renewable Energy Target
        - Powering Australia Plan
    - Regulations
        - Climate Change Act – reduce emissions of 43% below 2005 levels by 2030; Net zero emissions by 2050
        - Biodiversity Conservation Act
    - Market based policies
        - Carbon Tax 2012 – old
        - Safe Guard Mechanism

        - Future Made in Australia – investment into green technology
    - International agreements
        - Kyoto Protocol
        - Paris Agreement
        - Glasgow COP26
- Internal stability
    - Full employment
        - ST structural unemployment; regional unemployment – transition from carbon based economy to non-carbon based will require reducing number of coal based powerplants especially in the Hunter Valley and La Trobe Valley → creates regional unemployment as power generation is a major employment in these regions
        - LT: potentially creates employment in the 'green economy' to offset job loses in the carbon economy
    - Economic growth
        - ST: may lead to slower EG as economy transitions away from non-renewables, higher structural unemployment and higher energy prices; Aus exports may be less IC to countries that still use carbon based energy
        - LT: transition towards renewables may create new green energy jobs; lower price for energy; Australia less reliant on imports of volatile fuels; Aus may become exporter of hydrogen, lithium
    - Price stability
        - Transition towards green energy has led to higher prices due to supply constraints in electricity generation, insufficient economies of scale in green technology, investment and efficiencies – cost push inflation
        - But investment into green energy may lead to lower energy prices and less reliant on foreign energy imports that are volatile
- Distribution of income and wealth
    - Closure of fossil fuel reliant industries creates regional areas reliant on welfare and other transfer payments
- External stability
    - Aus heavily reliant on commodities exports – costs of production, compliance and extraction may increase leading to lower IC, affecting export revenue
    - European Carbon Based Adjustment Mechanism (Green Import Tax) may target Australian exports if Aus government cannot meet its international target commitments
    - Potentially higher foreign debt and foreign investment needed in order to fund green energy projects, may affect aspects of Balance of Payments especially Current Account and Financial Account

Introduction

The Australian government has faced a variety of conflicts between environmental sustainability, and price stability, economic growth, external stability, and unemployment in its implementation of policies to manage the environments with generally negative / short term but positive long term effects.

Environmental sustainability refers to the government pursuit of sustainable level of economic activity in the short term, without compromise on the needs of future generations. With the implementation of policies in the past such as the Carbon Tax, and the Emissions Reductions fund have lead to conflicts between price stability and economic growth. However, recent budgetary policies in line with global enviro targets of net Zero by 2050 and elimination of coal power by 2040 have had significant negative impacts on economic growth, external stability and economic growth, ultimately the conflicting objectives of environmental sustainability and economic growth in the long term having negative impacts in the short term.

Policy examples

Net Zero by 2050. To do this, the recent budget has pledged to cover 20,000 additional apprenticeship spots in construction and clean energy production workers, to facilitate the growth renewables energy industry. There is also a $50mn investment in growth training for these workers in the production of hydrogen ~~power~~ power ~~etc~~, with ↑ subsidies to the hydrogen power industry with the $2/kg of hydrogen produced beg implemented by the government. This effectively attracts labour to this industry in high demand, which may increase frictional unemployment, as well as a short term increase in structural unemployment with the shift away from the non-renewable sector, which currently accounts for ~50% of Aus's X base. However, research has found that ~~skills~~ mining has transferrable skills to clean energy production, thus the ST negative impact of ↑ structural unemployment is outweighed by the long term ↑ in employment opportunities in Aus's future area of comparative advantage. Similarly, Aus's inward investment may ↓ in the ST due to the shift away from non-renewable sources of energy, thus ~~worse~~ ~~Deficit~~ ↓ Aus's NFLs and thus improve our external stability. However in the long term, as the promising ↑ growth and comparative advantage

non-renewable industry attract less investment → ↓ employment

Commodities is highly automated

→ plus less reliance on ~~volatile~~ overseas fuel price

of Australias clean energy industry is expected to ~~have~~ attract a greater volume of inward financial flows due to Australia becoming more economically resilient by diversifying its export base to renewable energy sources, which are currently in ↑ demand, with demand only expected to ↑ further in the future. This would attract ↑ inward financial flows in the future, thus worsening Australia's external stability or NFLs in the future.

However, ~~decreased~~ despite structural change ↓ growth outcomes in the ST due to pursuit of environmental sustainability, this should lead to a long term ↑ in eco growth. With the 2024-25 Federal Budget committing $9.1Bn over 4 years to the expansion of Green Minerals discovery as well as hydrogen power & clean energy industry through commercialisation of liquid fuels, etc. This is forecast to ease structural change and a ST ↑ in business cost, thus ↓ output. However, with export led growth thus diversifying Aus export base, eco growth is expected to ↑ from 0.5% avg (past 2 years) to ~ 2-4% by 2026, thus the pursuit of enviro sustainability, ~~should~~ despite being in conflict with eco growth in the ST, should have positive effects on both objectives in the long term.

Section II Marking Criteria

23 (a) Define ecological sustainable development.

Criteria	Mark
• Correctly defines ecological sustainable development	1

Answers may include:

- Development that meets the needs of the current generation without reducing the ability of future generations to meet their needs
- Conserving and enhancing the community's resources so that ecological processes and quality of life are maintained

(a) Define *ecological sustainable development.* **1**

It is the preservation and of the environment to ~~ensure sustainable~~ ensure it remains a sustainable & viable source of ~~for~~ resources for future generations

(a) Define *ecological sustainable development.* **1**

This refers to the ~~ensure~~ preservation and enhancement of a Community resources so that ecological processes are maintained and QOL is preserved, governed by the principle of intergenerational equity & precautionary principle.

(b) Outline how TWO environmental issues impact the Australian economy.

Criteria	Mark
• Sketches in general terms how TWO environmental issues impact the Australian economy	3
• Sketches in general terms how ONE environmental issue impacts the Australian economy	2
• Provides some relevant information	1

Marker's comments:

- Many students focused on environmental issues only and did not outline how the issue impacted the Australian economy

Answers may include:

- Preserving natural environments
    - Restricting development and investment in environmentally sensitive areas/setting aside land and water areas to protecting native flora and fauna: eg limited exploration and production of LNG in the Great Australian Bight, establishment of marine reserves in Queensland and Western Australia – restricts exports by primary industries
    - Requirements to restore areas that have been logged or mined – eg coal mines in the Hunter Valley; logging sites in Oberon. Export industries face higher cost of production due to higher compliance costs and lower international competitiveness
    - Limiting water use in agriculture and mining to maintain wetlands and river quality eg Murray-Darling River basin
    - Economic growth heavily dependant on use and exploitation of natural environments such as agriculture and mining – these will be limited to preserve natural environments; attract less investment into these sectors

- Pollution
    - Australia faces water pollution from industry, agriculture and mining – agricultural runoff creates blue-green algae bloom in the Great Barrier Reef; Crown of Thorn Starfish due to water pollution has overrun areas of GBR – loss of tourism; fall in fishing productivity
    - $3b spent as part of federal Budget to manage GBR since 2014
    - Air pollution from urbanisation, manufacturing and use of fossil fuels for energy generation – reducing fossil fuel generation in Hunter Valley and La Trobe Valley – regional structural unemployment
    - Indirect costs due to health problems caused by increased pollution; increased absenteeism and loss of work productivity; increased government health expenditure as part of Fiscal Policy

- Climate change
    - Increased natural disasters - prolongs effects of droughts, increased intensity of floods and storms, increased heatwaves, less snowfall
    - Acute effects especially on agricultural sector and commodities exports; reduced demand for tourism
    - Higher costs of production as raw supply may be affected by prolonged droughts, regular floods; may cause higher cost push inflation
    - Compliance costs passed on to consumers

- Depletion of renewable and non-renewable resources
    - Australian exports highly reliant on finite reserves of commodities – oil production peaked in 2000;
    - Increased soil salinity and land clearing has increased soil depletion and reduce agricultural exports
    - Extraction and depletion of non-renewables leads to lower export revenue and lower standards of living

- Firms may have to extract resources from previously untouched sensitive environments, which negatively affects preservation of these natural sources eg LNG exploration in the Great Australian Bight

(b) Outline how TWO environmental issues impact the Australian economy. **3**

1. Increased levels of CO_2 emissions has resulted in climate change that has influenced adverse weather events such as increased drought risk and bushfire occurance, which significantly impacts the key agricultural sector of the Aus economy which accounts for 12% of Aus X. Drought risk presents agricultural producers from efficient production, reducing output that lowers X levels, lowering Ay and eco growth

2. Unsustainable usage of natural resources such as commodities threatens the prospects of the Aus economy which remains heavily dependant on its domestic mining industry. Depletion of commodities will lead to mining companies becoming increasingly obsolete and as mining accounts for 36% of Aus X, the value of X will decrease, threatening Ay and thus eco growth

3

Question 23 continues on page 17

(c) Assess Australia's use of targets and international agreements to manage climate change.

Criteria	Mark
• Makes a comprehensive judgement on Australia's use of targets AND international agreements to manage climate change.	6
• Makes a comprehensive judgement on Australia's use of targets AND makes a sound judgement of international agreements to manage climate change OR • Makes a sound judgement on Australia's use of targets AND makes a comprehensive judgement on international agreements to manage climate change	5
• Makes a sound judgement on Australia's use of targets AND international agreements to manage climate change.	4
• Makes a sound judgement on Australia's use of targets AND makes some judgement of international agreements to manage climate change OR • Makes some judgement on Australia's use of targets AND makes a sound judgement on international agreements to manage climate change	3
• Provides limited judgement on Australia's use of targets and international agreements to manage climate change.	2
• Provides some relevant information	1

Marker's comments:

- Still need to focus on question directive – Assess: make a judgement of value, quality, outcomes, results or size. This should be explicit as a topic sentence and throughout response
- Requires specific examples, statistics or trends to assess – many students had generic targets or international agreements

Answers may include:

- Targets such as:
    - Renewable Energy Target
    - Emissions Reduction Target
    - Net Zero Target by 2050
    - Renewable Energy Grid
    - Reduce greenhouse gas emissions to 43% below 2005 levels

- International agreements such as:
    - Kyoto Protocol – 2008
    - Paris Agreement – 2016
    - Glasgow COP26 - 2021

- Effectiveness
    - On the whole, targets and international agreements have only been moderate or limited in effectively managing climate change due to:
        - Targets are unlikely to be met or those targets that have been met are insufficient to significantly alter climate change – comparison of targets versus achieved goals
        - Current emissions targets are too conservative and timeline to achieve these targets are not ambitious enough; for ambitious targets, these are unlikely to be implemented due to political constraints, special interest groups and short election cycle which means that targets have been altered which reduced the effectiveness in combating climate change
            - Eg Aus is a larger exporter of energy (coal) and commodities which makes Aus a large emitter of CO_2 emissions per capita but Mineral Councils of Australia is a major lobby group/special interest group

        - Eg similarly Australia also relies heavily on agriculture and forestry as major economic activities and is significantly represented by the Farmer's Federation as well as the Nationals Party. Identify reduction of emissions targets over time
    - No integrated, cohesive market based mechanism to address climate change, which means targets and international agreements cannot be effectively implemented into the domestic market – reference to repealed Carbon Tax versus current framework eg SafeGuard Mechanism and focus on voluntary market participation (Direct Action; Emission Reduction Fund)
    - Targets under international commitments such as Nationally Determined Contributions (NDCs) in the Paris Agreement are required but not legally binding or enforceable. Since international agreements cannot be enforced and there is little incentive for countries to actually commit to meeting their targets

    -

(c) Assess Australia's use of targets and international agreements to manage climate change. 6

Australia has set targets to manage climate change such as net zero by 2050 and to reduce carbon emission by 26% from 2005 → 2030. However despite claims of reduction of 26% infact the majority of the claimed reduction is through credit from not logging down trees & ~~claiming~~ not an actual decrease in emmison which in reality only fell by 2.5% which is very far off the target set by the government and Aus is unlikely going to reach these goals. Aus has also signed into international agreements such as Paris (2016) however these international agreements are non-binding and more a pledge therefore impossible to reinforce and as a result australia has seen minimal improvements towards their net zero targets. Although in efforts of includes Future made in Australia, set to provide 20bn in support over next decade, in renewable and low carbon energy sources such as green hydrogen. However these are only market based policies used to incentivise firms and businesses to internalise externalities and shift to renewable energy sources. Therefore these non-binding targets and lack of government & regulations to significantly reduce emmis has led to minimal action to manage climate change.

End of Question 23

The lack of commitment to these international agreements & targets was also seen as the carbon tax introduced by the ALP Gillard government which decreased carbon emmisions of top 400 worst offenders was revoked despite reductions in carbon produced by 7%, on the claims of ~~cost~~ high cost for consumers and firms. Therefore, these targets are reflective in preventing political and union lobying in minimising the efforts made against manging climate change.

6

Question 23 (continued) * Continued at back

(c) Assess Australia's use of targets and international agreements to manage climate change. **6**

Targets: Australia's usage of targets has been moderately effective in managing the issue of climate change, however faces crucial limitations. For example, the renewable energy target set to make renewable resources account for 20% of energy by 2020 has successfully promoted ↓ usage of harmful fossil fuels such as coal to power Australian households, with these fuels emitting high levels of CO_2 emissions, which worsen climate change. The effectiveness of this target has been seen via the closure of coal-powered Generators in the Hunter Valley, thus increasing levels of renewable energy, which positively impacts the reduction of climate change via ↓ emissions. However, targets such as these are limited as they are often only aspirational, and lack proper enforcement mechanisms such as financial implications for the achievement of the target. For example, the target for Aus to reach net zero emissions by 2050 has not been effective in actually reducing emissions in relation to climate change due to a lack of enforcement such as through fines on firms. Hence, targets have only been moderately effective in addressing climate change by affecting levels of CO_2 emissions

Int-Agreements: Despite this, Aus participation in int. agreements has been mostly effective in **End of Question 23** aiding the prevention of climate change. For example, the 2015 Paris accord which Aus participated in proved to be effective in enabling ↓ CO_2 emissions via ↑ global transparency and access to technology, and know-how relating to strategies to address climate change. However, this has been limited by political constraints on the agreement, with the US leaving the agreement in 2019, leading to ↓ confidence and participation in the agreement. In turn, this limits its effectiveness in enabling Aus to access global strategies to address climate change, thus limiting its effectiveness

Section IV

Question 27 (20 marks)

Discuss why economies may use different exchange rate systems.

CRITERIA	MARK
• Synthesises own knowledge and understanding to develop a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theory • Demonstrates a clear and comprehensive understanding of the reasons why economies may choose different exchange rate systems	17 - 20
• Synthesises own knowledge and understanding to develop a logical and cohesive response • Applies relevant economic terms, concepts, relationships and theory • Demonstrates a sound understanding of the reasons why economies may choose different exchange rate systems	13 - 16
• Uses own knowledge and understanding to develop a coherent response • Uses relevant economic terms, concepts, relationships and theory • Sketches the reasons why economies may choose different exchange rate systems	9 - 12
• Presents a generalised response • Uses some economic terms and concepts • Sketches some aspects of the reasons why economies may choose different exchange rate systems	5 - 8
• Presents a limited response • Uses some economic terms and concepts • Lists some reasons why economies may choose different exchange rate systems	1 - 4

Success criteria:

o I have engaged with the question and the directive term throughout my response

o I have clearly and comprehensively discussed why economies may use different exchange rate systems

o I have written clearly and legibly throughout my response

o I have written a sustained, logical and cohesive response, including relevant economic terms, concepts, relationships, theories and examples

o I have PEELed my paragraphs throughout my response

o Any diagrams I have included were clearly drawn, fully labelled, explained and relevant to the question

o I will use the feedback to improve my future responses

Answer could include:

- *Define and explain key terms – eg exchange rates, foreign exchange markets, floating system, fixed rate system and flexible peg system*
- *Appreciation*
- *Depreciation*
- *TWI*
- *Bilateral exchange rates*
- *Globalisation*
- *Business Cycle*
- *Floating exchange system – automatic stabiliser (external shocks, booms/bust)*
- *Balance of payments*
- *Valuation effect*
- *Australia*
    - *Pre 1976 Fixed exchange rate*
    - *1976-1983 Managed Flexible Peg*
    - *1983 floating exchange rate*
- *Dirtying the float*
- *Currency union*
- *Imported inflation*
- *Demand for and supply of currency*
    - *Size of financial flows*
    - *Expectations*
    - *Demand for X*
- *Speculation*

- *Fixed exchange rate*
    - *Govt officially set the exchange rate*
    - *Buys and sells currency to keep ER at the fixed rate*
    - *Needs sufficient currency (including foreign currency) reserves*
    - *Advantages*
        - *Fixed rate - stability*
        - *Easy for decision making*
        - *Lower volatility*
        - *Low exchange rate risk/improved trade confidence*
        - *Stable ER encourages foreign investment*
    - *Disadvantages*
        - *Increases speculation*
        - *Not reflective of economic situation*
        - *Requires central bank to hold reserves of domestic and foreign currency*
        - *Lacks flexibility*
        - *Loss of MP autonomy*
        - *BOPs issues – must be maintained by other means (eg FP)*

- *Managed Flexible Peg*
    - *Peg the value of the currency (usually every day)*
    - *Advantages*
        - *More flexible than fully fixed*
        - *Relatively stable/less volatility*
        - *Less exchange rate risk*
        - *Less speculation*
    - *Disadvantages*
        - *can still allow for official rate to slip away from what would exist under floating ER*

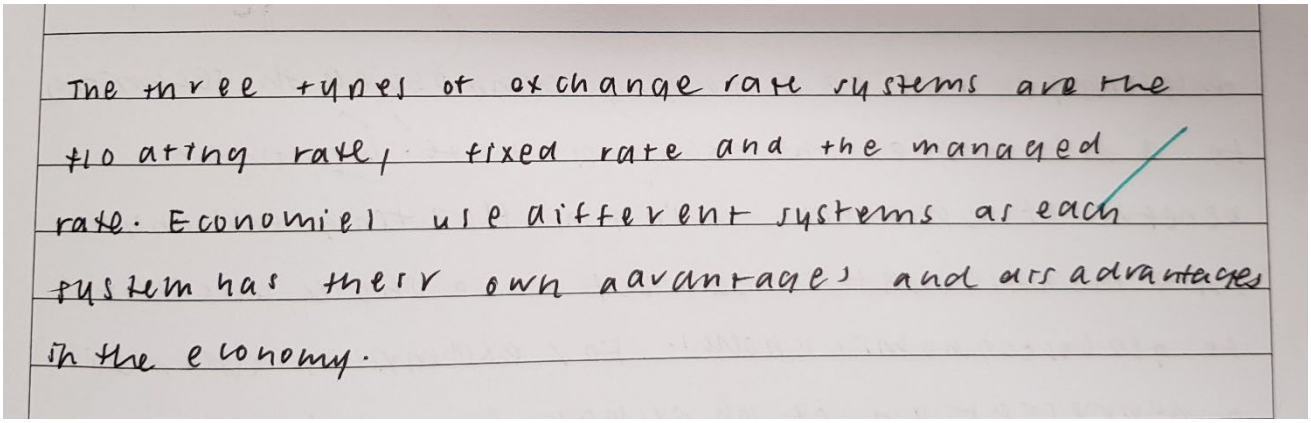
- *Floating Exchange rate*
    - *Value of the currency is determined by the forces of market demand and supply in the forex market*
    - *Advantages*
        - *No need for large reserves*
        - *Monetary policy autonomy – can conduct MP without being constrained by ER considerations*
        - *Shock Absorption: Free-floating exchange rates allow countries to absorb external economic shocks more effectively*
        - *Least speculative*
        - *Trade Balance Adjustment: A floating exchange rate can help correct trade imbalances over time.*
    - *Disadvantages*
        - *Day to day uncertainty*
        - *Highly volatile*
        - *Higher exchange rate risk*
        - *Can be more inflationary due to fluctuations*

- *Graphs could include:*
    - *Appreciation/depreciation graphs*
    - *J-curve*

Marker's comments

- 14% of students attempted this question
- Mark range 11-16
- Average Mark 13/20
- Discuss: Identify issues and provide points for and/or against
- Need to all of the 3 main exchange rate systems and discuss the benefits and costs of each
- You also need to provide real world examples
- 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"
- Some responses only discussed the floating exchange system – not the other 2
- Make sure the intro is complete – ie address question in full. I should be able to ascertain what question is based on your introduction
- 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
- This is not Business Studies, so do not write in business report format….no dot points, headings no sub headings
- Make sure you provide sufficient detail in your response to maximise your marks – some essays not comprehensive

Student sample paragraph 1: Intro



The three types of exchange rate systems are the floating rate, fixed rate and the managed rate. Economies use different systems as each system has their own advantages and disadvantages in the economy.

Section III

Q28 Discuss the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives.

Criteria	Marks
• Integrates relevant economic terms, concepts, relationships and theories • Provides a sustained, logical and cohesive response • Demonstrates a clear and comprehensive understanding of the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives. • Develops comprehensive arguments about the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives	17 – 20
• Applies relevant economic terms, concepts, relationships and theories • Provides a logical and cohesive response • Demonstrates a sound understanding of the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives • Provides some arguments about the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives	13 – 16
• Uses economic terms and concepts and shows some relationships Develops a coherent response • Sketches in general terms the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives • Sketches some arguments about the potential conflicts between the Australian government's policies to manage environmental sustainability and its other objectives	9 – 12
• Uses some economic terms and concepts • Develops a generalised response • States some aspects of Australian government's policies to manage environmental sustainability and its other objectives	5 – 8
Uses some economic terms or concepts Presents a limited response Lists some features of Australian government policies	1 – 4

Marker's comments:

- Effectiveness of directive term (discuss) was limited by breadth and detail of environmental policies. Micro policy responses need specific examples
- Carbon Tax is still ok to use but HSC marking centre would like students to move to more recent examples – SafeGuard Mechanism partly fills in this role
- Many responses identified issues but provided general points for and/or against. Lacked specific links to conflict with other objectives
- Some students focused on macroeconomic policy (MP and FP) as government policy for environmental sustainability

Answers may include:

- Policies to manage environmental sustainability
    - Targets
        - Reduce emissions of 43% below 2005 levels by 2030
        - Net zero emissions by 2050 – hydrogen generation; carbon capture and sequestration project
        - Renewable Energy Target
        - Powering Australia Plan

    - Regulations
        - Climate Change Act – reduce emissions of 43% below 2005 levels by 2030; Net zero emissions by 2050
        - Biodiversity Conservation Act
    - Market based policies
        - Carbon Tax 2012 – old
        - Safe Guard Mechanism
        - Future Made in Australia – investment into green technology
    - International agreements
        - Kyoto Protocol
        - Paris Agreement
        - Glasgow COP26
- Internal stability
    - Full employment
        - ST structural unemployment; regional unemployment – transition from carbon based economy to non-carbon based will require reducing number of coal based powerplants especially in the Hunter Valley and La Trobe Valley → creates regional unemployment as power generation is a major employment in these regions
        - LT: potentially creates employment in the 'green economy' to offset job loses in the carbon economy
    - Economic growth
        - ST: may lead to slower EG as economy transitions away from non-renewables, higher structural unemployment and higher energy prices; Aus exports may be less IC to countries that still use carbon based energy
        - LT: transition towards renewables may create new green energy jobs; lower price for energy; Australia less reliant on imports of volatile fuels; Aus may become exporter of hydrogen, lithium
    - Price stability
        - Transition towards green energy has led to higher prices due to supply constraints in electricity generation, insufficient economies of scale in green technology, investment and efficiencies – cost push inflation
        - But investment into green energy may lead to lower energy prices and less reliant on foreign energy imports that are volatile
- Distribution of income and wealth
    - Closure of fossil fuel reliant industries creates regional areas reliant on welfare and other transfer payments
- External stability
    - Aus heavily reliant on commodities exports – costs of production, compliance and extraction may increase leading to lower IC, affecting export revenue
    - European Carbon Based Adjustment Mechanism (Green Import Tax) may target Australian exports if Aus government cannot meet its international target commitments
    - Potentially higher foreign debt and foreign investment needed in order to fund green energy projects, may affect aspects of Balance of Payments especially Current Account and Financial Account

Introduction

The Australian government has faced a variety of conflicts between environmental sustainability, and price stability, economic growth, external stability, and unemployment in its implementation of policies to manage the environment with generally negative / short term but positive long term effect. ✓

Environmental sustainability refers to the government's pursuit of sustainable level of economic activity in the short term, without compromise on the needs of future generations. With the implementation of policies in the past such as the Carbon Tax, and the Emissions Reductions fund have lead to conflicts between price stability and economic growth. However, recent budgetary policies in line with global enviro targets of net Zero by 2050 and elimination of coal power by 2040 have had significant negative impacts on economic growth, external stability and economic growth, ultimately in conflicts objectives of environmental sustainability and economic growth in the long term having negative impacts in the short term.

Policy examples

Net Zero by 2050. To do this, the recent budget has pledged to cover 20,000 additional apprenticeship spots in construction and clean energy production workers, to facilitate the growth renewables energy industry. There is also a $50Mn investment in growth training for these workers in the production of hydrogen ~~power~~ power ~~etc~~, with ↑ subsidies to the hydrogen power industry with the $2/kg of hydrogen produced beg implemented by the government. This effectively attracts labour to this industry in high demand, which may increase ~~these~~ non-renewable industries attract. less investment → to employment frictional unemployment, as well as a short term increase in structural unemployment with the shift away from the non-renewable sector, which currently accounts for ~50% of Aus's X base. However, research has found that ~~skills~~ mining has transferrable skills to clean energy production, thus the ST negative impact of ↑ structural unemployment is outweighed by the long term ↑ in employment opportunities in Aus's future area of comparative advantage. Similarly, Aus's inward investment may ↓ in the ST due to the shift away from non-renewable sources of energy, thus ~~worse~~ ~~impact~~ ↓ Aus's NFLs and thus improve our external stability. However in the long term, as the promising ↑ growth and comparative advantage

Commodities is highly automated

→ plus less reliance on ~~volatile~~ overseas fuel price

of Australias clean energy industry is expected to ~~have~~ attract a greater volume of inward financial flows due to Australia becoming more economically resilient by diversifying its export base to renewable energy sources, which are currently in ↑ demand, with demand only expected to ↑ further in the future. This would attract ↑ inward financial flows in the future, thus worsening Australia's external stability or NFLs in the future.

However, ~~decreased~~ despite structural change ↓ growth outcomes in the ST due to pursuit of environmental sustainability, this should lead to a long term ↑ in eco growth. With the 2024-25 Federal Budget committing $9.1Bn over 4 years to the expansion of Green Minerals discovery as well as hydrogen power & clean energy industry (through commercialisation of liquid fuels, etc) this is forecast to ~~case~~ cause structural change and a ST ↑ in business cost, thus ↓ output. However, with export led growth thus diversifying Aus's export base, eco growth is expected to ↑ from 0.5% avg (past 2 years) to ~2-4% by 2026, thus the pursuit of enviro sustainability, ~~stability~~ despite being in conflict with eco growth in the ST, should have positive effects on both objectives in the long term.