Fort Street
High School

2021

HIGHER
SCHOOL
CERTIFICATE
TRIAL EXAMINATION

Economics

Part B – online examination component

General Instructions

- Reading time – 0 minutes
- Working time – 90 minutes
- Write using black pen
- NESA approved calculators may be used

Total marks: 50

Section 1 – 30 marks (pages 2–10)

- Attempt Questions 1–8
- Allow about 45 minutes for this section

Section 2 – 20 marks (pages 11–12)

- Attempt either Question 9 or Question 10
- Allow about 45 minutes for this section

Economics

Section 1

30 marks

Attempt Questions 1–8

Allow about 45 minutes for this section

Answer the questions in the spaces provided. These spaces provide guidance for the expected length of response.

If you use extra writing paper, clearly indicate which question you are answering.

Please turn over

Question 1 (3 marks)

The table shows hypothetical data for the Australian economy

Year	*Import Price Index*	*Export Price Index*
1	100	100
2	107	103
3	115	113

(a) Calculate the terms of trade for Australia in Year 3. **1**

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(b) Explain how the change in the terms of trade from Year 2 to Year 3 is likely to affect Australia's Current Account in the Balance of Payments **2**

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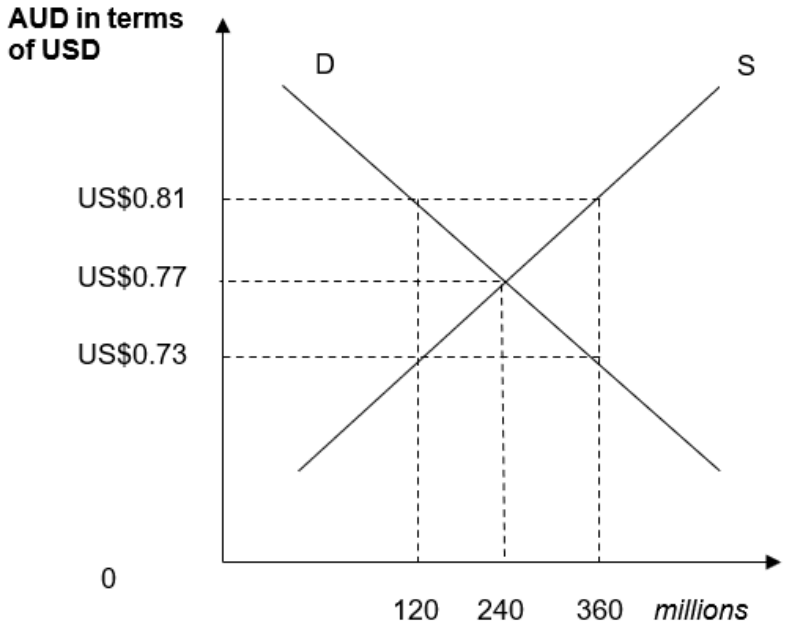
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Question 2 (3 marks)

The diagram shows the demand for, and supply of, Australian dollars (AUD)



(a) Australians increase their investment into the US sharemarket. **1**

Draw the changes to the demand and supply for Australian dollars on the exchange rate diagram (or draw a new diagram to show the changes) to show the effects of this new investment.

(b) Australia's central bank chooses to intervene in the foreign exchange market to fix a price for the Australian dollar at US$0.73. **2**

What actions would the Reserve Bank of Australia be required to undertake to fix the price of US$0.73?

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Question 3 (4 marks)

The economy of Country X experiences an increase in national income of $28 billion as a result of an injection of $7 billion in additional spending by the government to offset a downturn in economic activity.

(a) Calculate the fiscal multiplier for this economy. **1**

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(b) Explain how the government could more directly target the additional spending in ways that would increase the multiplier effect on the economy to enhance the effectiveness of its fiscal response to the downturn **3**

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Question 4 (3 marks)

The table shows selected data for two hypothetical countries.

Country	*Economic growth (decade-average*	*GNI per capita*	*Human Development Index*
X	6.8%	$8068	0.61
Y	7.1%	$7654	0.63

(a) Identify the type of economy for Country X **1**

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(b) Explain why Country Y has a higher Human Development Index score than Country X, despite a lower income per capita **2**

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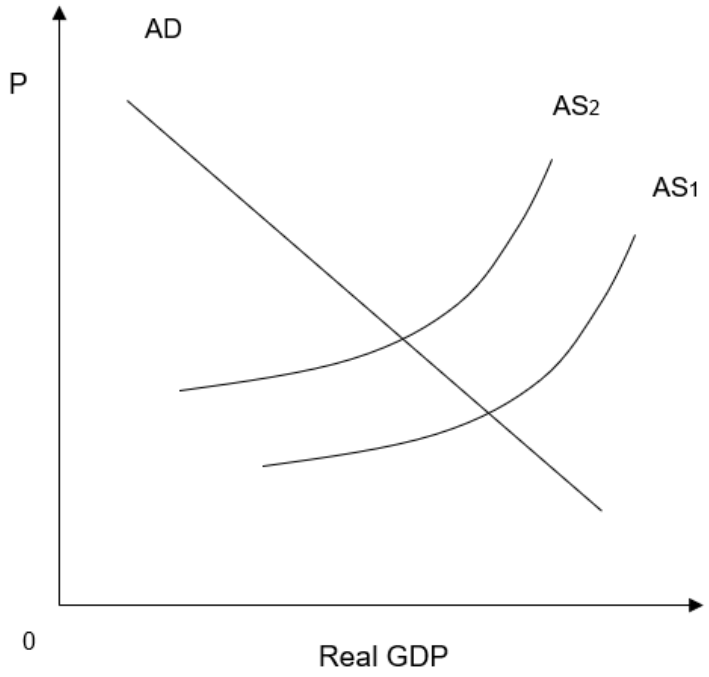
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Question 5 (4 marks)

The diagram shows the aggregate demand and supply for an economy.



(a) Outline ONE possible cause of the change in aggregate supply for the economy **2**

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(b) Explain why dentists might benefit more than cleaners, as employees, from further decentralisation of wage determination in Australia **2**

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Question 6 (2 marks)

The table shows balance of payments data for an economy with a floating exchange rate.

Balance of payments item	*$ billion*
Financial account	31
Net primary income	19
Capital account	?
?	- 7
Net export goods	- 25
Net export services	34

(a) Calculate the value of the capital account **1**

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(b) Identify the missing balance of payments item **1**

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Question 7 (6 marks)

The table shows economic information for three hypothetical economies with flexible exchange rates.

Country	*Exports ($bn)*	*Imports ($bn)*	*GDP ($bn)*
X	48	62	242
Y	89	36	284
Z	22	26	77

(a) Identify the country that is potentially most vulnerable to a global recession. Justify your choice. **3**

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(b) Country Y decides to impose a quota on imports to protect domestic employment in a particular industry. Explain why this action might lead to an overall decrease in domestic employment in the country over time. **3**

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Question 8 (5 marks)

The table shows economic information for a hypothetical economy with a flexible exchange rate.

Data	*2019*	*2020*
Headline inflation rate	2.3%	2.7%
Underlying inflation rate	1.8%	1.7%
Real GDP	$809bn	$838bn
Full-time employees	8.6m	8.7m
Part-time employees	3.1m	4.4m
Unemployment rate	5.2%	4.1%

(a) With reference to the table, calculate the economic growth rate in 2020. **1**

Show all working

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(b) With reference to the table, calculate the size of the labour force in 2019. **2**

Show all working

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(c) Explain why underlying inflation has remained relatively stable despite the significant fall in the unemployment rate **2**

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Section 2

20 marks
Attempt either Question 9 or Question 10
Allow about 45 minutes for this section

Answer the question in the Section 2 Writing Booklet or any lined paper.
Write your student number on the top of each page.

Your answer will be assessed on how well you:

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

Please turn over

Question 9 (20 marks)

Discuss an appropriate economic policy mix to address a simultaneous rise in unemployment and inflation.

OR

Question 10 (20 marks)

Evaluate the effectiveness of fiscal policy to redistribute income and achieve external stability

End of paper

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2021 HIGHER SCHOOL CERTIFICATE
TRIAL EXAMINATION

Economics

MARKING GUIDE AND MAPPING

Section 1

Question 1 (a)

Criteria	Marks
● Correctly calculates the terms of trade	1

Sample answer:
98.3

Answers could include:
- 98.26

Question 1 (b)

Criteria	Marks
● Demonstrates a clear understanding of how the change in the terms of trade from Year 2 to Year 3 is likely to affect Australia's Current Account in the Balance of Payments	2
● Sketches in general terms how the change in the terms of trade from Year 2 to Year 3 is likely to affect Australia's Current Account in the Balance of Payments	1

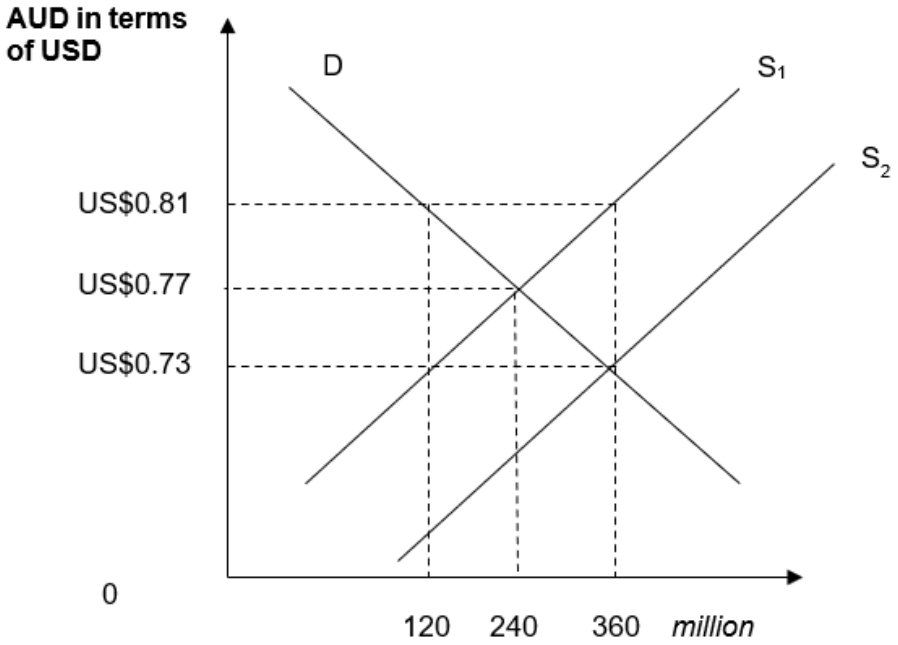
Sample answer:
The favourable change in Australia's terms of trade from Year 2 to Year 3, ceteris paribus, should result in an improvement in the balance on goods and services, and subsequently the current account, as Australia will receive greater net income for the same volume of trade due to improved prices of exports relative to imports.

Answers could include:
- Improvement in terms of trade
- Higher export prices relative to import prices

Question 2 (a)

Criteria	Marks
● Correctly draws the changes to demand and supply of AUD	1

Sample answer:



Answers could include:
- Increase in supply
- Supply curve shifts to the right

Question 2 (b)

Criteria	Marks
● Demonstrates a clear understanding of the actions that the Reserve Bank of Australia would be required to undertake to fix the price of the Australian dollar at US$0.73	2
● Sketches in general terms the actions that the Reserve Bank of Australia would be required to undertake to fix the price of the Australian dollar at US$0.73	1

Sample answer:
The RBA would be required to enter the foreign exchange market to sell $240 million worth of AUD.

Answers could include:
- RBA would buy the USD equivalent of $240m AUD

Question 3 (a)

Criteria	Marks
● Correctly calculates the fiscal multiplier	1

Sample answer:
4 (28/7)

Question 3 (b)

Criteria	Marks
● Demonstrates a clear understanding of how the government could more directly target the additional spending in ways that would increase the multiplier effect on the economy to enhance the effectiveness of its fiscal response to the downturn	3
● Sketches in general terms how the government could more directly target the additional spending in ways that would increase the multiplier effect on the economy to enhance the effectiveness of its fiscal response to the downturn	2
● Makes a relevant statement about the effectiveness of fiscal policy	1

Sample answer:
The government could direct the additional spending towards payments to households with lower incomes to increase the multiplier effect of the stimulus, as they would spend a higher proportion of the extra monies due to their higher MPC. Furthermore, the fiscal injections could be targeted towards labour-intensive projects, which would result in greater employment and thus higher spending in the economy, increasing the multiplier effect of stimulus and improving the overall effectiveness of the fiscal measures.

Answers could include:
- Shovel-ready projects

Question 4 (a)

Criteria	Marks
● Correctly identifies the economy	1

Sample answer:
Emerging economy

Question 4 (b)

Criteria	Marks
● Demonstrates a clear understanding of why Country Y has a higher Human Development Index score than Country X, despite a lower income per capita	2
● Sketches in general terms why Country Y has a higher Human Development Index score than Country X, despite a lower income per capita	1

Sample answer:
Country Y has a higher Human Development Index (HDI) score than Country X, despite a lower income per capita, because its government has redistributed income more effectively towards spending on health and education, which are the other two dimensions of the HDI, leading to a higher life expectancy at birth and mean years of schooling.

Answers could include:
- More effective tax-transfer system
- Superior medical and/or education system

Question 5 (a)

Criteria	Marks
● Sketches in general terms ONE possible cause of the decrease in aggregate supply for the economy	2
● Makes a relevant statement about aggregate supply	1

Sample answer:
A possible cause of the decrease in aggregate supply could be a fall in labour productivity.

Answers could include:
- Fall in technical, allocative and/or dynamic efficiency
- Input shortages
- Fall in the participation rate
- Capacity constraints
- Rise in wages

➲ If response identified the direction incorrectly but sketched in general terms the reason why it was an increase, it was awarded 1 mark

Question 5 (b)

Criteria	Marks
● Demonstrates a clear understanding of why dentists might benefit more than cleaners, as employees, from further decentralisation of wage determination in Australia	2
● Sketches in general terms why dentists might benefit more than cleaners, as employees, from further decentralisation of wage determination in Australia	1

Sample answer:
Greater decentralisation of the wage determination system would involve more enterprise bargaining where employers and employees directly negotiate pay and working conditions. Under such a system, employees with more specialised and prized skills, such as dentists, have greater bargaining power than low-skilled workers such as cleaners, hence the extended use of enterprise bargaining in the economy might benefit dentists more than cleaners because they are in an advantageous position for negotiating wages.

Answers could include:
- Skills disparity
- Enterprise Agreements
- Common-law contracts

Question 6 (a)

Criteria	Marks
● Correctly calculates the value of the capital account	1

Sample answer:
- 52

Question 6 (b)

Criteria	Marks
● Correctly identifies the missing balance of payments item	1

Sample answer:
Secondary income

Question 7 (a)

Criteria	Marks
● Demonstrates a clear understanding of why the identified country is potentially most vulnerable to a global recession	3
● Sketches in general terms why the identified country is potentially most vulnerable to a global recession	2
● Makes a relevant statement about vulnerability to a global recession	1

Sample answer:
Country Z's total trade as a proportion of GDP is the highest of each of the three countries, which indicates that it is more integrated into the global economy than the other states and thus more susceptible to a downturn in the international business cycle.

Answers could include:
- Country Z has a trade intensity of 62.3%
- Country Y has an export intensity of 31.3%

❖ Country X is the only country that cannot be accepted as a valid answer

Question 7 (b)

Criteria	Marks
● Demonstrates a clear understanding of why imposing a quota on imports to protect domestic employment in a particular industry might lead to an overall decrease in domestic employment in the country over time.	3
● Sketches in general terms why imposing a quota on imports to protect domestic employment in a particular industry might lead to an overall decrease in domestic employment in the country over time.	2
● Makes a relevant statement about quotas and/or their impact on employment	1

Sample answer:
An import quota could maintain employment levels in the protected domestic industries, at least in the short-term, but would likely lead to lower employment levels economy-wide in the longer-term due to the negative impact on efficiency. Firms in the industries protected by quotas will face lower competitive pressures which will drive less innovation and result in stagnating technical efficiency, which reduces overall allocative efficiency of resource use in the domestic economy as resources are attracted to the less efficient protected industry from other more efficient industries. Production levels in these other industries will decline due to shortages and higher prices for inputs. Economic growth will fall below the output potential of the economy, thus creating less employment than without the import quota.

Answers could include:
- Comparative advantage
- International competition

Question 8 (a)

Criteria	Marks
● Correctly calculates the economic growth rate in 2020	1

Sample answer:
3.6% (838-809/809 x 100)

Question 8 (b)

Criteria	Marks
● Correctly calculates the size of the labour force in 2019	2
● Provides some relevant working to calculate the labour force	1

Sample answer:
12.3 million (11.7 x 100/94.8)

Answers could include:
- 12.34 million

Question 8 (c)

Criteria	Marks
● Demonstrates a clear understanding of why underlying inflation has remained relatively stable despite the significant fall in the unemployment rate	2
● Sketches in general terms why underlying inflation has remained relatively stable despite the significant fall in the unemployment rate	1

Sample answer:
The underlying inflation rate remained relatively stable despite the significant fall in the unemployment rate from 5.2% to 4.1% because of the rise in employment, which was almost exclusively part-time in nature. This means that there was a substantial amount of spare capacity in the labour market. Because many of these newly employed are willing and able to work longer hours, this alleviates potential pressure on wage inflation.

Answers could include:
- Underemployment
- Underutilisation
- NAIRU

Section 2

Question 9

Discuss an appropriate economic policy mix to address a simultaneous rise in unemployment and inflation.

Criteria	Marks
● Provides a sustained, logical and cohesive response ● Integrates relevant economic terms, concepts, relationships and theories ● Demonstrates a clear and comprehensive understanding of an appropriate economic policy mix to address a simultaneous rise in unemployment and inflation	17–20
● Provides a logical and cohesive response ● Applies relevant economic terms, concepts, relationships and theories ● Demonstrates a clear understanding of an appropriate economic policy mix to address a simultaneous rise in unemployment and inflation OR ● Demonstrates a clear and comprehensive understanding of an appropriate economic policy mix to address a rise in unemployment OR inflation	13–16
● Provides a coherent response ● Uses relevant economic terms, concepts, relationships and theories ● Demonstrates some understanding of an appropriate economic policy mix to address a simultaneous rise in unemployment and inflation OR ● Demonstrates a clear understanding of an appropriate economic policy mix to address a rise in unemployment OR inflation	9–12
● Provides a generalised response ● Uses some economic terms and concepts ● Demonstrates some understanding of economic policy and unemployment and/or inflation	5–8
● Provides a limited response ● Uses some economic terms or concepts ● Lists some aspects of economic policy and/or unemployment and/or inflation	1–4

Answers could include:

- Fiscal policy
  - targeted spending (e.g. labour-intensive)
  - infrastructure
  - education
- Monetary policy
- Microeconomic policy
  - competition policy
  - deregulation
  - liberalisation
  - labour market reform
  - skills training
- Stagflation
- Inflation
  - Demand
  - Cost
- Unemployment
  - Cyclical
  - Structural
- NAIRU
- Limitation of economic policies
  - macroeconomic policy ineffective with structural issues
  - microeconomic policy lags

Question 10

Evaluate the effectiveness of fiscal policy to redistribute income and achieve external stability

Criteria	Marks
● Provides a sustained, logical and cohesive response ● Integrates relevant economic terms, concepts, relationships and theories ● Demonstrates a clear and comprehensive understanding of the effectiveness of fiscal policy to redistribute income and achieve external stability	17–20
● Provides a logical and cohesive response ● Applies relevant economic terms, concepts, relationships and theories ● Demonstrates a clear understanding of the effectiveness of fiscal policy to redistribute income and achieve external stability OR ● Demonstrates a clear and comprehensive understanding of the effectiveness of fiscal policy to redistribute income OR achieve external stability	13–16
● Provides a coherent response ● Uses relevant economic terms, concepts, relationships and theories ● Demonstrates some understanding of the effectiveness of fiscal policy to redistribute income and achieve external stability OR Demonstrates a clear understanding of the effectiveness of fiscal policy to redistribute income OR achieve external stability	9–12
● Provides a generalised response ● Uses some economic terms and concepts ● Demonstrates some understanding of fiscal policy and/or redistribution of income and/or external stability	5–8
● Provides a limited response ● Uses some economic terms or concepts ● Lists some aspects of fiscal policy and/or redistribution of income and/or external stability	1–4

Answers could include:

- Fiscal policy
  - definition
  - taxation and government spending
  - budget outcomes (surplus, deficit, balanced)
  - fiscal stances (expansionary, contractionary)
  - non-discretionary fiscal policy (e.g. automatic stabiliser)
  - discretionary fiscal policy (e.g. new Budget measures)
  - limitations
- Redistribution of income
  - definition
  - taxation (e.g. progressive taxation)
  - government spending (e.g. unemployment benefits)
  - Gini coefficient (pre-tax and post-tax)
  -
- External stability
  - definition
  - measures (e.g. CAD/GDP)
  - budget outcomes
  - public debt
  - Twin-deficits Hypothesis
  - Pitchford Thesis
  - savings-investment gap
  - superannuation
  - incentives to save