Knox Grammar School

2021

Higher School Certificate
Trial Examination

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 180 minutes
- Write using black pen
- NESA approved calculators may be used

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 – 11)
- Attempt questions 21-24
- Allow about 75 minutes for this section

Section III – 20 marks (pages 12 – 13)
- Attempt question 25 OR 26
- Allow about 35 minutes for this section

Section IV – 20 marks (page 14)
- Attempt question 27 OR 28
- 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.

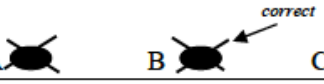
Sample 2 + 4 = (A) 2 (B) 6 (C) 8 (D) 9

A ○ B ● C ○ D ○

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

A ● B ⊗ C ○ D ○

If you have changed 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:



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 Which statement about Australian trade since 1980 is correct?

(A) Australian exports have been diverted from Europe to Asia

(B) Australian exports have been diverted from Asia to Europe

(C) Mining has decreased as a percentage of Australian exports

(D) Manufacturing has increased as a percentage of Australian exports

2 Which Australian economic policy typically has a monthly implementation lag?

(A) Fiscal

(B) Labour market

(C) Microeconomic

(D) Monetary

3 Which international organisations are most focused on enhancing global economic development?

(A) The World Trade Organisation and the International Monetary Fund

(B) The International Monetary Fund and the United Nations

(C) The United Nations and the World Bank

(D) The World Bank and the OECD

4 A group of well-established toy manufacturers appeal to the Australian Government for subsidy assistance.

On what grounds might the toy manufacturers make this appeal?

(A) Self-sufficiency

(B) Local content rules

(C) Domestic employment

(D) Infant industry argument

5 Between Year 1 and Year 2, the terms of trade in an economy changes from 110 to 120.

Which scenario would have caused this?

(A) A decrease in the price of imports relative to the price of exports

(B) A decrease in the price of exports relative to the price of imports

(C) An increase in the volume of imports relative to the volume of exports

(D) An increase in the volume of exports relative to the volume of imports

6 What might cause the crowding out effect in domestic financial markets?

(A) If the government sell assets to fund a deficit

(B) If the government use a surplus to fund a deficit

(C) If the Central Bank print money and lend it to the government

(D) If the government issue bonds in the domestic market to fund a deficit

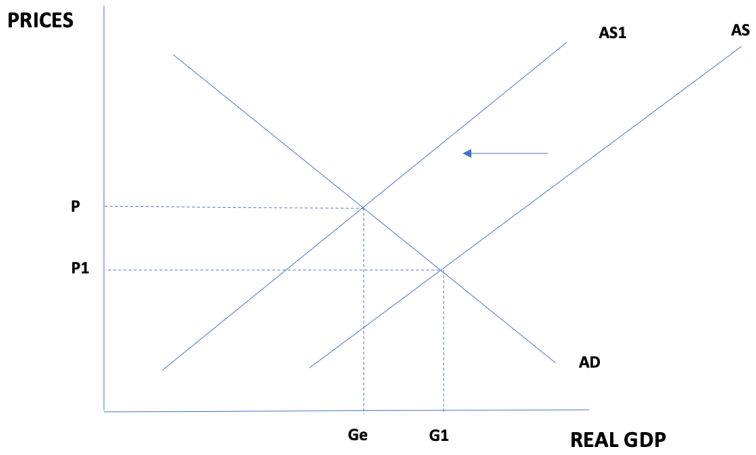
7 The table refers to labour market data in a hypothetical economy.

Labour force data	*Year 1 (million)*	*Year 2 (million)*
Employed	40	45
Population	120	125
Population aged 15+	80	85
Unemployed	4	5

Which row describes the change to the unemployment rate and the participation rate in this economy?

	Unemployment rate	***Participation rate***
(A)	Increased	Increased
(B)	Decreased	Increased
(C)	Increased	Decreased
(D)	Decreased	Decreased

8 The diagram below shows aggregate demand and aggregate supply in a hypothetical economy.



What may have caused the change in the diagram above?

(A) A fall in the cash rate

(B) An increase in privatisation

(C) A fall in government spending

(D) An increase in product market regulation

9 Which of the following is an advantage and a disadvantage of the international division of labour?

	Advantage	***Disadvantage***
(A)	Downward pressure on global inflation	Job loss in developing economies
(B)	Increased allocative efficiency	Exploitation of labour
(C)	Rising wages in advanced economies	Structural unemployment
(D)	Specialisation of labour	Upward pressure on global inflation

10 Which of the following are both characteristics of, and reasons for differences between developing and advanced economies?

	Developing economies	***Advanced economies***
(A)	High levels of savings	Low per capita incomes
(B)	Low per capita incomes	Strong financial systems
(C)	Strong financial systems	Well established infrastructure
(D)	Well established infrastructure	High levels of savings

11 A foreign investor is paid dividends by an Australian firm listed on the ASX.

Where would this transaction be recorded as a debit?

(A) The Capital Account

(B) Primary Income in the Current Account

(C) Portfolio Investment in the Financial Account

(D) The Balance of Goods and Services in the Current Account

12 Assume that Australia signs a free trade agreement with Canada.

Which of the following implications is likely to result?

(A) Reduced quality of life for consumers in both economies

(B) Reduced revenue for Canadian firms that compete with Australian producers

(C) Reduced company taxation revenue for the Canadian government in the long term

(D) Reduced sales in Australia for Canadian export firms that compete with firms in other economies

13 The table shows actual revenue and expenditure values for a hypothetical economy.

Item	*Value ($bn)*
Company Tax Receipts	300
Health expenditure	200
Income Tax Receipts	500
Sale of Government assets	100
Welfare payments	200
Goods and Services Tax	200
Education	150
Defence	250

What is the value of the underlying cash balance in this economy?

(A) Balance of $0 billion

(B) Surplus of $100 billion

(C) Surplus of $200 billion

(D) Surplus of $300 billion

14 The table shows data for a hypothetical economy.

Year	*Nominal GDP ($bn)*	*CPI ($bn)*
1	700	100
2	740	X
3	Y	110

In Year 2, Real GDP is $718bn. In Year 3, Real GDP is $720bn.

What are the values of X and Y?

(A) X is 105.7 and Y is 814

(B) X is 105 and Y is 780

(C) X is 103 and Y is 792

(D) X is 40 and Y is 710

15 The current value of net foreign debt in Australia is higher than the value of net foreign liabilities.

Which statement explains this relationship?

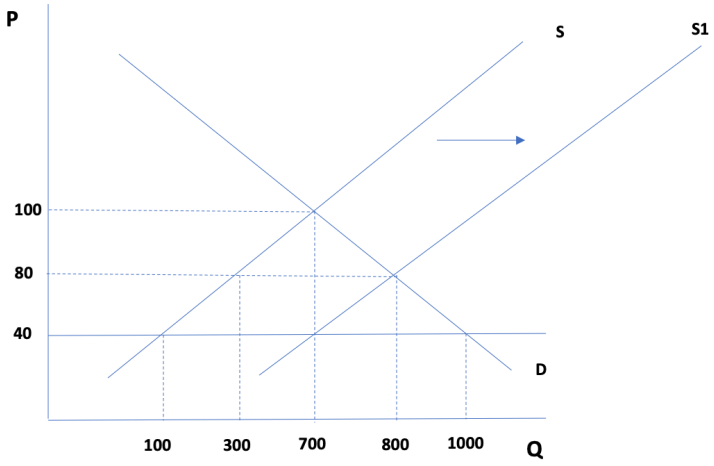
(A) Net foreign equity debits are greater than credits

(B) Net portfolio investment credits are greater than debits

(C) Net foreign debt has risen faster than domestic debt

(D) Short term debt has been rising as a proportion of GDP

The diagram below shows the effect of a subsidy on toasters in a hypothetical economy where the world price is $40. Use the diagram below to answer Questions 16 and 17.



16 What is the cost of the subsidy to the government?

(A) $2,000

(B) $6,000

(C) $36,000

(D) $42,000

17 Which statement describes the effect of this subsidy on consumers?

(A) Consumers will now purchase 300 imports and pay $80 for a toaster

(B) Consumers will now purchase 900 imports and pay $40 for a toaster

(C) Consumers will purchase 600 more domestic toasters and pay the same amount

(D) Consumers will purchase 100 more domestic toasters and pay a lower price per toaster

18 Which action of the Reserve Bank of Australia would be likely to lower the value of the multiplier?

(A) Increase quantitative easing

(B) Upward shift in the interest rate corridor

(C) Purchase Australian Dollars in the foreign exchange market

(D) Purchase repossessed Commonwealth Government Securities

The table below shows selected data for a hypothetical economy and can be used to answer Questions 19 and 20.

Year	National Income ($b)	Consumption	Savings
1	100	70	30
2	200	110	90
3	300	150	150

19 What is the value of the multiplier in this economy?

(A) 0.3

(B) 0.7

(C) 1.66

(D) 2

20 In Year 4, the Government of this economy are going to increase expenditure by $50 billion. They are hoping to increase national income to $550 billion.

Assuming all other things remain equal, what would the MPC in this economy need to be to achieve this goal?

(A) 0.2

(B) 0.8

(C) 1.5

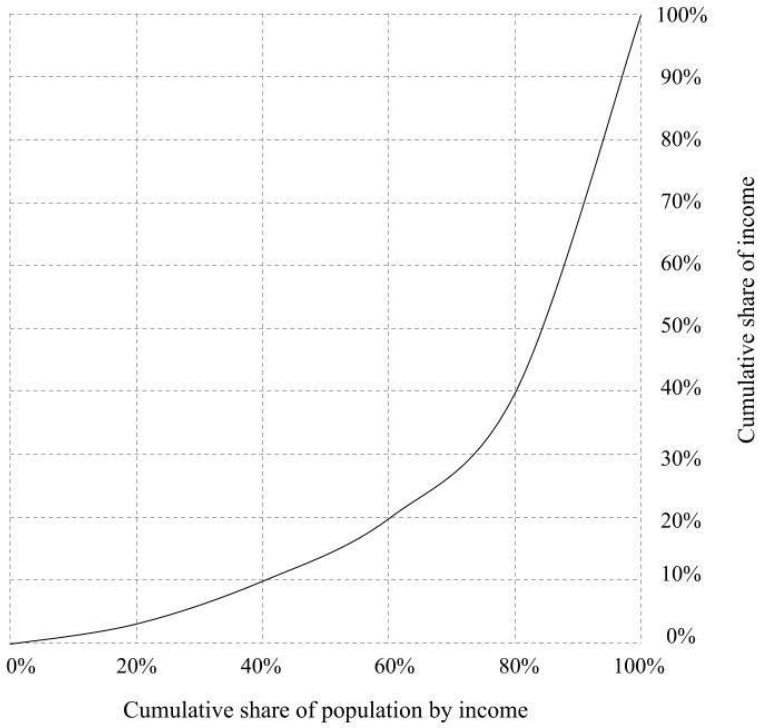
(D) 5

Section II

40 marks
Attempt Questions 21–24
Allow about 75 minutes for this section

Question 21 (10 marks)

The diagram shows a Lorenz curve for a hypothetical economy with total income of $500 billion.



(a) Based on the diagram, how much more (in dollars) do the highest earning 40% of the population earn than the lowest earning 40% of the population? (show working) **2**

(b) How would an increase in the Goods and Services Tax in Australia contribute to income inequality? **3**

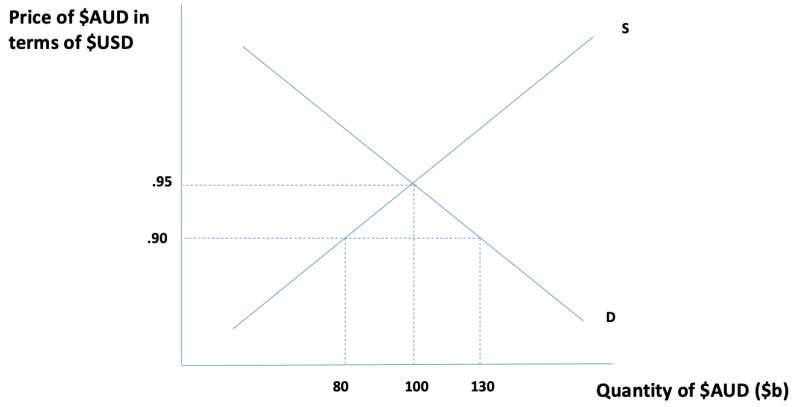
(c) Employer groups in Australian argue that a rise in the minimum wage will have negative effects on the economy. **5**

Discuss possible economic implications of increasing the current minimum wage by 4% in the Australian economy.

End of Question 21

Question 22 (10 marks)

The diagram below shows a fixed exchange rate in a hypothetical economy.



(a) Use the diagram above to explain how the Reserve Bank could fix the exchange rate at US .90c **3**

(b) Distinguish between a managed exchange rate and a floating exchange rate **3**

(c) Despite ongoing fluctuations, Australia's terms of trade has been at least 40 index points above the level it was in 2000. **4**

Explain possible reasons for this improvement.

End of Question 22

Question 23 (10 marks)

(a) Why do free riders justify the need for public goods? **2**

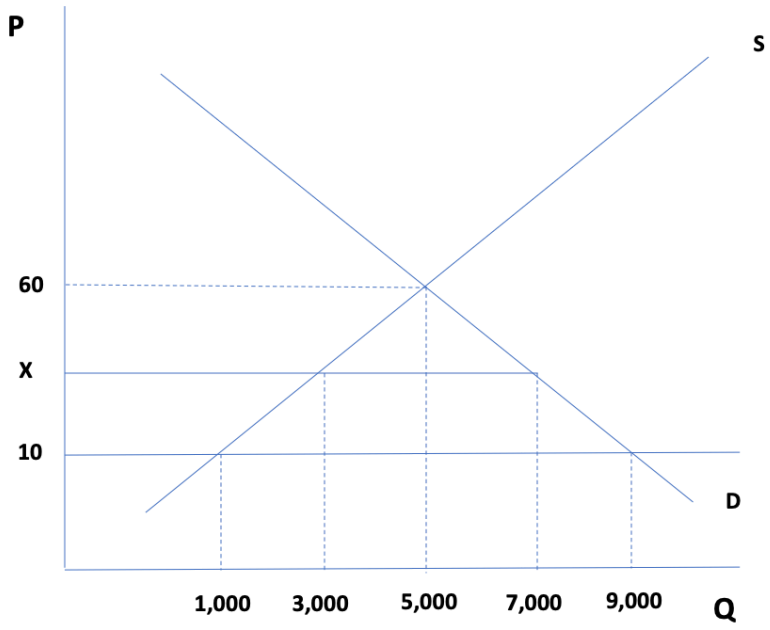
(b) Using examples, analyse the effects of international agreements on environmental sustainability in Australia. **4**

(c) Discuss the economic arguments relating to the reduction of non-renewable energy sources in Australia. **4**

End of Question 23

Question 24 (10 marks)

The diagram shows the effect of a tariff on a hypothetical economy.



(a) The government earn $60,000 tax revenue from this tariff. **2**

What is the size of the tariff and the value of X in the diagram?

(b) Explain the economic arguments against the use of tariffs in the global economy. **4**

(c) Discuss the trade implications for a nation who chose to leave a trading bloc. **4**

End of Question 24

Section III

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

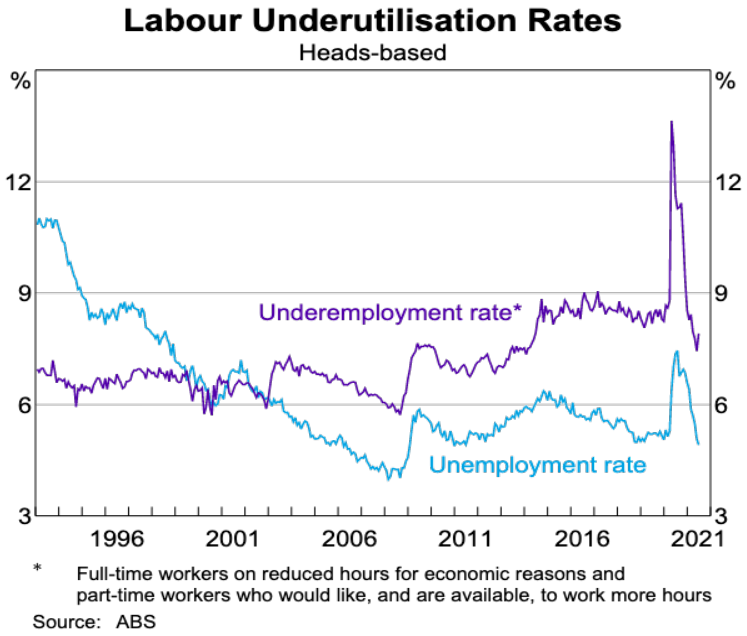
Answer the question in the writing booklet provided.

In your answer you will be assessed on how well you:

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

Question 25 (20 marks)

How effective have labour market policies been in reducing unemployment in the Australian economy? In your response, refer to the economic information provided.



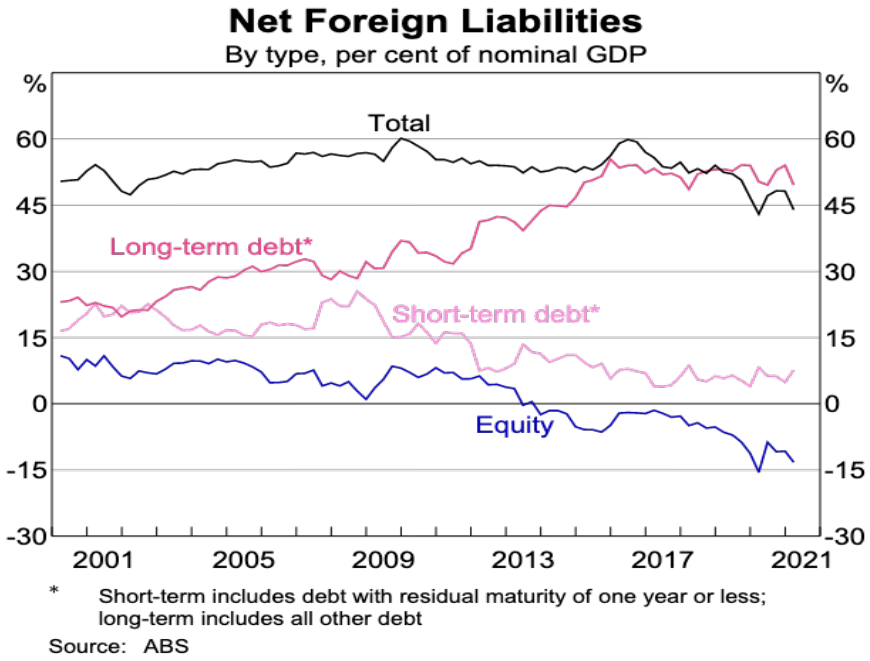
The RBA found that "overall employment losses would have been twice as large over the first half of 2020 without JobKeeper."The report further stated that "JobKeeper played an important role in cushioning the decline in employment over the first half of 2020."For the six months to the end of September, around $70 billion in JobKeeper payments were made to around 900,000 businesses supporting more than 3.5 million jobs.

Ministers.treasury.gov.au 23/11/2020

OR

Question 26 (20 marks)

Analyse the causes and effects of a current account surplus in the Australian economy. In your response, refer to the economic information provided.



Eight current account surpluses have come over the past two years, linked to the improvement in the BOGS. Bank of America's Tony Morriss, said that far from being merely a positive statistic, this had real benefits for Australia's economy now and into the future. "We have moved into a structural current account surplus in the last couple of years and, in the last national accounts data, that current account surplus reached 3.1 per cent of GDP, we're actually in a position now where we can recycle some of those export earnings domestically or, you can see with the growth in superannuation funds as well, some of those investments are recycled overseas to gain further income for the economy."

ABC News, 01/07/2021

Section IV

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

Answer the question in the writing booklet provided.

In your answer you will be assessed on how well you:

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

Question 27 (20 marks)

Discuss the effectiveness of recent approaches to monetary policy in achieving the objectives of the RBA in the Australian economy.

OR

Question 28 (20 marks)

Discuss the effects of globalisation on economic growth and development in the global economy.

End of paper



KNOX GRAMMAR SCHOOL

HSC TRIAL EXAMINATION

Economics: marking criteria

Section I

Multiple Choice (20 marks)

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

Section II
Question 21 (10 marks)

<table>
<tr><th>Q</th><th>Suggested Answer & Criteria</th></tr>
<tr><td>21a</td><td>

Based on the diagram, how much more (in dollars) do the highest earning 40% of the population earn than the lowest earning 40% of the population? (show working)

<table>
<tr><th>Criteria</th><th>Marks</th></tr>
<tr><td>● Interprets the diagram and calculates the difference accurately with working</td><td>2</td></tr>
<tr><td>● Shows some understanding in relation to the question</td><td>1</td></tr>
</table>

Sample answer:
The bottom 40% earn 10% income = $50b. The top 40% earn 80% income = $400b. The difference therefore is $350b more.

</td></tr>
<tr><td>21b</td><td>

How would an increase in the Goods and Services Tax in Australia contribute to income inequality?

<table>
<tr><th>Criteria</th><th>Marks</th></tr>
<tr><td>● Provides detailed cause and effect as to why an increase in the Goods and Services Tax in Australia creates income inequality.</td><td>3</td></tr>
<tr><td>● Sketches in general terms the Goods and Services Tax in Australia and income inequality</td><td>2</td></tr>
<tr><td>● Makes a relevant statement in relation to GST or inequality</td><td>1</td></tr>
</table>

Sample answer:
- The GST is a regressive tax that taxes all consumers 10% on purchases in the economy. As such, an increase in the tax would place an even higher burden as a percentage of income, on lower income earners than on higher income earners. Because of this, income inequality is made worse as low-income earners are taxed a higher % of income on purchases than high income earners.

</td></tr>
</table>

21c

Discuss possible economic implications of increasing the current minimum wage by 4% in the Australian economy.

Criteria	Marks
• Provides comprehensive and relevant positive and negative economic implications of increasing the current minimum wage by 4% in the Australian economy.	5
• Provides positive and negative economic implications of increasing the current minimum wage by 4% in the Australian economy.	4
• Provides a positive OR negative economic implication of increasing the current minimum wage by 4% in the Australian economy and sketches in general terms the alternative	3
• Sketches in general terms economic implications of increasing the current minimum wage by 4% in the Australian economy OR provides a positive OR negative economic implication of increasing the current minimum wage by 4%	2
• Makes a relevant statement about the minimum wage in Australia	1

Sample answer:
If the current minimum wage were to increase by 4% in the Australian economy this would have some positive implications which may include:

- Improving equality by providing a wage rise above the rate of inflation for low income earners
- Placing pressure on wages in other industries linked to Awards (typically low income) to increase – therefore more income equality
- Increased wage pressure which would assist consumption as wage growth is below 1%

Negative implications may include:

- This may be unaffordable to some businesses and they may not be able to sustain their business due to cost pressures
- It does create cost push inflationary pressure which is seen as a bad thing by some economists

Question 22 (10 marks)

Q	Suggested Answer & Criteria
22(a)	***Use the diagram above to explain how the Reserve Bank could fix the exchange rate at US .90c***

Criteria	Marks
• Explains how the Reserve Bank could fix the exchange rate at US .90c using figures from the diagram in the question	3
• Sketches in general terms how the RBA could fix the exchange rate	2
• Makes a relevant statement about fixed exchange rates	1

Sample answer:

- In order to fix the exchange rate below the equilibrium price of US95c at US90c the RBA would need to recognize the gap between demand and supply in the forex market. Because the price is lower than equilibrium, there is pressure on the rate to increase. To fix it at 90 the RBA need to purchase foreign currency and with AUD to increase supply. They would need to supply the equivalent of $50b AUD to artificially keep the dollar at US90c. OR
- The RBA could increase the supply of AUD in the forex market from the current equilibrium of $100bn to $130bn by purchasing foreign currency with AUD thus forcing downward pressure on the currency to keep equilibrium at US 90c.

22(b) ***Distinguish between a managed exchange rate and a floating exchange rate***

Criteria	Marks
● Makes clear the difference between a managed and a floating exchange rate	3
● Sketches in general terms a managed and a floating exchange rate	2
● Makes a relevant statement managed or floating exchange rates	1

Sample answer:

A managed exchange rate occurs when the central bank actively interfere in the forex market to maintain the currency within a given tolerance band and the rate is typically announced to the market each day. This is different to a floating exchange rate where the forces of supply and demand determine the exchange rate and there is no announcement nor is there typically, any direct intervention by the central bank.

(c) **Despite ongoing fluctuations, Australia's terms of trade has been at least 40 index points above the level it was in 200.**
Explain possible reasons for this improvement

Criteria	Marks
● Provides detailed and accurate reasons for the improvement in Australia's terms of trade since 2017	4
● Provides ONE detailed and accurate reason for the improvement in Australia's terms of trade since 2017 and sketches in general terms another	3

	● Provides ONE detailed and accurate reason for the improvement in Australia's terms of trade since 2017 OR sketches in general terms reasons for improvement in the terms of trade	2
	● Makes a relevant statement about the terms of trade	1

Sample answer:
Accurate and relevant reasons for the improvement in the terms of trade in Australia since 2017 could include:

- Improved iron ore (mineral & gas as well) prices resulting from the increased demand for iron ore by China and accompanied by decreased supply from Brazil
- Lower import prices (consumer goods and intermediate) linked to more efficient production processes and international division of labour.
- Increased demand for services putting upward pressure on prices of tourism and education

Question 23 (10 marks)

<table>
<tr><th>Q</th><th>Suggested Answer & Criteria</th></tr>
<tr><td>23(a)</td><td>

Why do free riders justify the need for public goods?

<table>
<tr><th>Criteria</th><th>Marks</th></tr>
<tr><td>● Interprets the diagram and calculates the difference accurately with working</td><td>2</td></tr>
<tr><td>● Shows some understanding in relation to the question</td><td>1</td></tr>
</table>

Sample answer:
Free riders are able to benefit from a good or service without paying for it, thus representing a form of market failure. Because free riders exist, firms are unwilling to provide goods and services as the profit incentive does not exist. As such, the government will typically provide these goods as public goods as they can use taxes to provision them without requiring a profit or revenue stream.

</td></tr>
<tr><td>23(b)</td><td>

Using examples, analyse the effects of international agreements on environmental sustainability in Australia.

<table>
<tr><th>Criteria</th><th>Marks</th></tr>
<tr><td>● Demonstrates a thorough understanding (using examples) of the way in which international agreements effect environmental sustainability in Australia</td><td>4</td></tr>
<tr><td>● Demonstrates a sound understanding (using example/s) of the way in which international agreements effect environmental sustainability in Australia</td><td>3</td></tr>
<tr><td>● Demonstrates some understanding of the way in which international agreements effect environmental sustainability in Australia. May reference an example</td><td>2</td></tr>
<tr><td>● Makes a relevant statement about international agreements or environmental sustainability</td><td>1</td></tr>
</table>

Sample answer:
The UN Paris Climate Change Agreement is an international agreement where 196 countries agreed to limit global warming to below 2 deg above pre industrial levels. This agreement directly influenced Australia as the government set targets (26-28% reduction in GG emissions below 2005 levels by 2030) whereby the economy could meet its commitment to Paris. Thus, the international agreement provided guidance in the setting of internal environmental targets in Australia which have since been achieved in the short term, helping improve environmental sustainability.
OR/AND
The Paris Agreement also requires countries to consider upward revisions of their targets every 5 years. Despite pressure from other countries such as the US who have increased their targets, Australia has not yet increased its original target. This could result in lower improvements in environmental sustainability in Australia than other countries. This shows that the effectiveness of IA's can be diminished by domestic political constraints.
OR/AND
Another international agreement related to the environment was the Montreal Protocol which agreed to reduce CFCs in the atmosphere and help repair the ozone layer. Australia was a signatory to this agreement and have reduced imports of CFCs from 1200 m/tonnes in 2010 to 2.5 in 2020 with a phase out in 2030, hence, improving environmental sustainability in Australia

</td></tr>
</table>

23(c) ***Discuss the economic arguments relating to the reduction of non-renewable energy sources in Australia.***

Criteria	Marks
● Provides positive and negative economic arguments relating to the reduction of non-renewable energy sources in Australia.	4
● Provides a positive OR negative economic arguments relating to the reduction of non-renewable energy sources in Australia and sketches in general terms the alternative	3
● Sketches in general terms economic arguments relating to the reduction of non-renewable energy sources in Australia OR provides a positive OR negative economic argument relating to the reduction of non-renewable energy sources in Australia	2
● Makes a relevant statement about non-renewable energy	1

Sample answer:
Economic arguments in favour:

- Increased environmental sustainability via reduced carbon emissions from the use of coal to produce energy
- Less likely that economies such as Europe will impose environmental tariffs ('carbon tariffs') on Australian exports hence maintaining international competitiveness
- Lower negative externalities associated with the use of non-renewables to produce energy
- Increased investment in renewable energy and surety to the market

Economic arguments against:

- Short term structural adjustments in the energy sector and the likelihood of structural unemployment, especially in regional centres like the Hunter Valley
- Potentially reduced efficiency as the technology of renewables takes time to carry similar power loads and possible loss of power in certain situations.
- Some non-renewable energy sources (such as LNG) produce less emissions than others (eg. coal). It may make economic sense to use 'better' non-renewable sources whilst transitioning to renewable

Question 24 (10 marks)

<table>
<tr><th>Q</th><th>Suggested Answer & Criteria</th></tr>
<tr><td>24(a)</td><td>

What is the size of the tariff and the value of X in the diagram?

<table>
<tr><th>Criteria</th><th>Marks</th></tr>
<tr><td>● Correctly identifies the size of the tariff and the value of X</td><td>4</td></tr>
<tr><td>● Correctly identifies EITHER the size of the tariff OR the value of X OR provides correct working but incorrect answers</td><td>3</td></tr>
</table>

Sample answer:

- As the government earn $60,000 revenue and there are 4,000 imports into this economy, the size of the tariff 1s $15 (15x4000 = 60000) and X is 25 (10+15).

</td></tr>
<tr><td>24b)</td><td>

Explain the economic arguments against the use of tariffs in the global economy.

<table>
<tr><th>Criteria</th><th>Marks</th></tr>
<tr><td>● Provides detailed and accurate economic arguments against the use of tariffs in the global economy</td><td>4</td></tr>
<tr><td>● Provides ONE detailed and accurate economic argument against the use of tariffs in the global economy and sketches in general terms another</td><td>3</td></tr>
<tr><td>● Provides ONE detailed and accurate economic argument against the use of tariffs in the global economy OR sketches in general terms arguments against the use of tariffs in the global economy</td><td>2</td></tr>
<tr><td>● Makes a relevant statement about tariffs in the global economy</td><td>1</td></tr>
</table>

Sample answer:

Tariffs are an artificial barrier to trade that distort market prices. Thus, they create an unfair advantage for domestic producers who are competing against foreign imported product. Economically, the arguments against are:

- Misallocation of resources to potentially inefficient producers in domestic economies
- Inflationary pressures created in the domestic market by the tariff
- Reduced choice and quality of life for domestic consumers who face higher prices.
- Reduced global output due to misallocation of resources to less efficient producers.

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</table>

24c

Discuss the trade implications for a nation who chose to leave a trading bloc.

Criteria	Marks
● Provides detailed and accurate implications for and against a nation who chose to leave a trading bloc	4
● Provides ONE detailed and accurate implication for or against a nation who chose to leave a trading bloc and sketches in general terms an alternative	3
● Provides ONE detailed and accurate implication for or against a nation who chose to leave a trading bloc OR sketches in general terms an trade implications for a nation who chose to leave a trading bloc	2
● Makes a relevant statement about the trade or trading blocs.	1

Sample answer:

Negative implications for the a nation that chose to leave a trading bloc include:

- No longer part of a free trade area which has reduced prices and enabled access to markets.
- Could possibly suffer increased price of imports and loss of revenue for exporters. Hence lower trade volumes overall.
- They may suffer trade diversion now as their exports are no longer as competitive in the former trade bloc and are subject to common tariffs. Hence, reduction of trade export revenues

Positive implications for the a nation leaving a trading bloc include:

- They may seek to enter new free trade agreements with other economies and gain access to other markets and also allow access to cheaper goods into their own market. So, more imports from economies that have comparative advantages and increased export revenues/volumes to those they can sign FTAs with. Thus, trade creation by the signing of other FTAs.

Section III

Question 25 (20 marks)

How effective have recent labour market policies been in achieving full employment in the Australian economy. In your response, refer to the economic information provided.

Criteria	Marks
• Demonstrates a clear and comprehensive understanding of the effectiveness of recent labour market policies been in achieving full employment in the Australian economy. • 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	17–20
• Demonstrates sound understanding of the effectiveness of recent labour market policies been in achieving full employment in the Australian economy. • Synthesises own knowledge and understanding with the information provided, to develop a logical and cohesive response. • Applies relevant economic terms, concepts, relationships and theory	13–16
• Demonstrates some understanding of the effect of labour market policies utilised in the Australian economy. • Uses own knowledge and understanding with the information provided, to develop a cohesive response. • Uses relevant economic terms, concepts, relationships and theory	9–12
• Sketches in general terms labour market policies utilised in the Australian economy. • Develops a generalised response • Uses some economic terms and concepts	5–8
• Lists some aspects of labour market policies • Presents a limited response • Uses some economic terms and concepts	1–4

Answers may include:

Background/Intro:

- Definition of full employment and NAIRU
- Problem of underemployment/utilization in the economy
- Define/identify labour market programs
- Current trends

<u>Historical Context</u>

- Decentralised LM policy from the 1990's aimed to promote flexibility for employers and efficiency in the workplace. Was utilized to improve labour productivity linking wages to output. When linked to rising capital investment, it was successful and served as an incentive to increase employment – mining booms especially.

- The flexibility helped avoid higher Ue in the GFC – workers went part time etc.
- The safety nets and min wage may serve as a disincentive to employ although we are seeing more employees drifting back to awards – may be linked to rise in service sectors in the economy?

Jobkeeper/Seeker

- Recent Covid period – very effective in terms of slowing the rise in Ue. Job Keeper – kept employees connected to employers and lowered the rate to 7.4% for July, better than the effective rate thought to be over 10%. Job Seeker increased payments to those unemployed and increased capacity to consume – link to AD and derived demand.
- More recent lockdowns, similar approach and extended support to businesses and individuals with up to $100,000 a week available to NSW business and individuals up to $750 a week.
- Also associated with implementation time lags and can be affected by global & political influences
- This labour market policy was highly effective in keeping unemployment lower and most recent Ue figure of 4.9% is evidence of the impact (combined with tighter labour market due to a lack of immigration and few people looking for work)

Jobmaker

- Jobmaker hiring program: focus on those aged 16-35 years whereby business receive a subsidy (hiring credit) for eligible employees that are hired between May20 and Oct 21.
- Only 521 jobs have been created by the $4 billion scheme in its first six weeks, just 0.1 per cent of the 450,000 Treasury predicted would be supported by the program in the 12 months to October.
- Applications opened at the start of February for jobs starting before October 6, meaning an average of 37,500 roles would need to be signed up each month to meet the government's targets.
- The lacklustre uptake has raised concerns that JobMaker – announced in the federal budget to support jobs when JobKeeper ends – is failing to deliver, with just $800,000 paid out to businesses so far.

The Path program – youth unemployment (incentives to employers) – effectiveness & link to full employment. Aim to address the higher than average youth unemployment levels
JobActive – matching frictionally unemployed with jobs
The Growth Fund – designed to help reskill manufacturing workers – aimed to address structural Ue associated with the decline in manufacturing industries esp in PMV

Question 26 (20 marks)

Discuss the effectiveness of recent approaches to monetary policy in achieving the objectives of the RBA in the Australian economy. **.**

Criteria	Marks
• Demonstrates clear and comprehensive understanding of the causes and effects of a current account surplus in the Australian economy. • 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	17–20
• Demonstrates sound understanding of the causes and effects of a current account surplus in the Australian economy. • Synthesises own knowledge and understanding with the information provided, to develop a logical and cohesive response. • Applies relevant economic terms, concepts, relationships and theory	13–16
• Demonstrates some understanding of the the causes and effects of a current account surplus in the Australian economy. • Uses own knowledge and understanding with the information provided, to develop a cohesive response. • Uses relevant economic terms, concepts, relationships and theory	9–12
• Sketches in general terms aspects of the current account surplus in the Australian economy. • Develops a generalised response • Uses some economic terms and concepts	5–8
• Lists some aspects of the current account • Presents a limited response • Uses some economic terms and concepts	1–4

Answers may include:

Background**:**

- Definition of current account
- Explanation of the c/a in the BOP
- Identify components of the current account
- Link to KAFA

Reason 1 – Terms of trade improvement since 2016 creating growth in the BOGS

- Reduced supply of iron ore form Brazil – upward pressure on iron prices effectively tripling in last 18 months
- Little increase in import prices except for more volatile items such as fuel
- Index has increased over 45 points since start of 2016

- Improved trade balance (BOGS) $72b in 2020, $50b in 2019 has led to large cyclical improvement in the BOGS hence improving the nature of the current account leading towards surplus

Reason 2 – Depreciation of dollar leading to more IC in services and growth in the BOGS

- Dollar fell from 1.10 to US69C by 2016. This made Aus exports more competitive and saw significant growth in the service sector (evidence) which contributed to the improvement in the BOGS and the current account

Reason 3 – Lower global interest rates leading to a fall in the negative net primary income component of the current a/c

- Low global interest rates have reduced the NPY to approximately -1.2% of GDP
- Because rates have fallen, interest repayments are lower and this reduces debits in the NPY component of the c/a

Reason 4 – Increased credtis from investment earnings overseas leading to a fall in the negative net primary income component of the current a/c

- There has been negatvive net foreign equity since 2013, currently over $160b. This has led to increased income from foreign sources, reported as credtis in the NPY component of the c/a. Hence, reducing the deficit in the NPY and contributing to an improvement in the c/a – leading to a surplus

Effects could include:

- Higher export revenues and likely to see increased employment in exporting industries (use education and tourism as examples)
- Increased ownership of foreign assets and increased foreign income payments into the economy
- Reduction in the debt accumulation cycle and the stabilizing or lowering of NFD and interest rapyments.
- May be associated with a fall in the

Section IV

Question 27 (20 marks)

Discuss the effectiveness of recent approaches to monetary policy in achieving the objectives of the RBA in the Australian economy**.**

Criteria	Marks
• Demonstrates a clear and comprehensive understanding, discussing (for/against) effectiveness of recent approaches to monetary policy in achieving the objectives of the RBA in the Australian economy. • Integrates relevant economic terms, concepts, relationships and theory • Provides a sustained, logical and cohesive response	17–20
• Demonstrates a sound understanding of the effectiveness of recent approaches to monetary policy in achieving the objectives of the RBA in the Australian economy. • Applies relevant economic terms, concepts, relationships and theory • Provides a logical and cohesive response	13–16
• Sketches in general terms recent approaches to monetary policy in achieving the objectives of the RBA in the Australian economy. • Uses economic terms and concepts and shows some relationships • Develops a coherent response	9–12
• Sketches in general terms some approaches to monetary policy • Uses some economic terms and concepts • Develops a generalised response	5–8
• Lists something relevant about monetary policy • Uses basic economic terms and concepts • Presents a limited response	1–4

Background

- Definition
- Macroeconomic policy
- Objectives of the RBA
    - Price stability (2-3% CPI)
    - Maintain full employment (4-4.5% u/e)
    - Economic prosperity and welfare (3-4% GDP)
- Aggregate demand
- Focus on C+I
- AD/AS Graph to demonstrate effects

Recent Monetary policy

- 3 cash rate cuts in 2019 as the economy continued to stagnate. Both FP and MP worked in opposite directions, one contractionary, the other expansionary…the same

ongoing issues reduced effectiveness of MP. Declining consumer and firm confidence hampering efforts of the RBA.

- Strong rise in commodity prices helping (increased ToT) leading to ongoing surplus in BOGS and contributing strongly to eco growth – this supports MP but isn't a result of it.
- Eco growth in 2019 remained below 2%. Consumption steady at 54.5% GDP.

Covid 2020.

i. Conventional MP

- Cash rate cut to .1% and the corridor from 0% - .35%
- C fell in June qrtr to 50% gdp now at 52%
- Investment risen by 4.2 and 6.3% last 2 qrtrs after being negative previously – reflects the Fiscal initiatives to allow asset write offs – hard to say what the effect of MP has been?
- Supported the aggressive expansionary stance of FP
- **Economy still suffered a fall**

ii. Unconventional MP

- RBA recognized that conventional policy may not be effective. They reduce cash rate to .25% and implement forward guidance with the cash rate (no rise unless things improve) – 25 basis point target for yield on 3 year bonds – Term funding facility to banks to maintain liquidity $90b – modification of I rate corridor to 10 basis points to provide some return for ESA's
- Effective?? Yes to a degree. A lot of certainty provided in unprecedented times, liquidity solid and signs of growth in certain sectors of the economy and states. But, Ue at 7.4% and effectively much higher (this has largely been led by an $80b Fiscal stimulus)
- Larger forces at play in the economy creating falling growth of .3% for the March quarter and expected to increase further in June with fall of 10% in the first half.
- Largely impossible to arrest these developments as a result of the forced lockdown but both FP and MP working together and have been helped by commodity prices and the ongoing positive effects of the ToT and export prices. Whilst X have fallen by 3%, imports are down 6.2% hence having a positive effect.
- Exchange Rate Channel – MP stance has led to "the Australian dollar being as much as 5 per cent lower than otherwise" (RBA Feb '21), further supporting record trade surplus and EG
- Wealth Channel – Encourage consumption by home owners, however creating rapid growth in real estate (and other asset) prices widening wealth inequality [Syd price stat]. 'Asset price bubbles' coupled with very high HH debt [stat], leave *us* vulnerable to further economic shocks and the eventual return of interest rates to a more neutral position

Terminology relevant to the essay

Counter-cyclical	Blunt instrument	Time lags
Impact time lags	Interest rate corridor	DMO
Aggregate demand	Macroeconomic policy	Reserve bank
Real GDP	Underemployment	Underutilization
Transmission mechanism	S-I channel	External stability
Low wage growth	High household debt	Consumer sentiment

Business sentiment	Stagnant	Contractionary
Expansionary	Quantitative easing	Unconventional MP
Consumption	Investment	Secular stagnation
Wealth Channel	*Exchange Rate Chanel*	*Cashflow Channel*

Section IV

Question 28 (20 marks)

Discuss the effects of globalisation on economic growth and development in the global economy.

Criteria	Marks
• Demonstrates a clear and comprehensive understanding of the effects of globalisation on economic growth and development in the global economy. • Integrates relevant economic terms, concepts, relationships and theory • Provides a sustained, logical and cohesive response	17–20
• Demonstrates a sound understanding of the effects of globalisation on economic growth and development in the global economy • Applies relevant economic terms, concepts, relationships and theory • Provides a logical and cohesive response	13–16
• Sketches in general terms the effects of globalisation on economic growth and development in the global economy. • Uses economic terms and concepts and shows some relationships • Develops a coherent response	9–12
• Sketches some effects of globalisation on economic growth and development in the global economy • Uses some economic terms and concepts • Develops a generalised response	5–8
• Lists some effects of globalisation • Uses basic economic terms and concepts • Presents a limited response	1–4

Answers may include:

Background
- Definition of globalisation
- Differentiate
- Aggregate demand
- Focus on C+I
- AD/AS Graph to demonstrate effects
-

Recent Monetary policy

Question 28 (20 marks)
Analyse reasons for trends in the size and composition of Australia's Current Account.

Criteria	Marks
• Demonstrates a clear and comprehensive understanding of the reasons for trends in the size and composition of Australia's Current Account. • Integrates relevant economic terms, concepts, relationships and theory • Provides a sustained, logical and cohesive response	17–20
• Demonstrates a clear and comprehensive understanding of the reasons for trends in the size and composition of Australia's Current Account. • Applies relevant economic terms, concepts, relationships and theory • Provides a logical and cohesive response	13–16
• Sketches the reasons for trends in the size and composition of Australia's Current Account. • Uses economic terms, concepts, relationships and theory • Develops a coherent response	9–12
• Sketches some reasons for trends in the size and composition of Australia's Current Account. • Uses some economic terms and concepts • Develops a generalised response	5–8
• Lists trends in size and/or composition of the current account • Uses some economic terms and concepts • Presents a limited response	1–4

Answers May Include:

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

Introduction: Define Balance of Payments, Balance on Current Account, Components of Current account particularly BOGS and Net Primary Income Account. Structural and cyclical factors impacting CA outcomes (both size and composition). Net foreign Liabilities connection to CA.

Background:
Some context, using statistics, of Australia's Current Account position and trends.

Trade and Income flows should be considered.
Statistic could include :

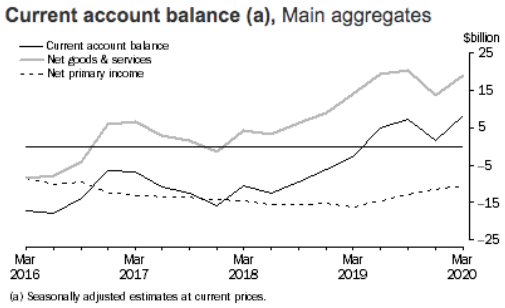
Current:
The current account surplus, seasonally adjusted, rose $6,673m to $8,395m in the March quarter 2020, as COVID-19 effects impacted international trade. **The balance on goods and services surplus rose $5,628m to $19,188m.** COVID seen increased export revenues with high iron ore prices lifting Terms of Trade. Subdued imports and service exports

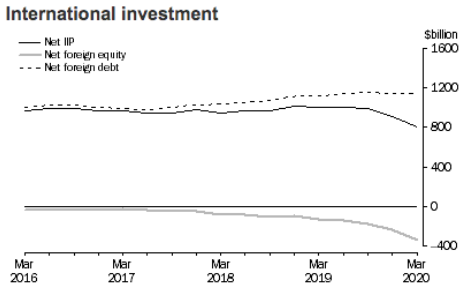
The primary income deficit fell $822m to $10,612m reflected by **Improving International investment position.** Australia's net IIP liability position was $808.1b at 31 March 2020, a decrease of $101.4b on the revised 31 December 2019 position of $909.5b. Australia's net foreign debt liability position increased $3.8b to $1,146.3b. **Australia's net foreign equity asset position increased $105.3b to $338.3b at 31 March 2020.**

Trends:
BOGS generally in surplus since 2016, large surpluses since 2017/18, reflecting strong export demand for resources and services. Also lower import demand for capital and consumption goods.

Primary Income deficit rose from 2011 -2016 (MRBII) then declines through until 2020. However always remains in deficit.
Net debt and equity changes that give rise to change in income flows.
Most inbound investment portfolio 65% (debt mainly) serviced by interest and dividends. Hasn't changed much since 2011. Income outflows heavily influenced by low global interest rates
Most outbound investment is portfolio and has increased as Australia now has positive net foreign equity position. 2011 - 52 % of outbound investment portfolio, 2020 - 60%.
Net foreign equity in surplus since 2016 -2017

Overall CAS since 2019, preceded by persistent CAD, reflecting cyclical nature of BOGS, and structural net income deficit. Statistics should reflect these trends in the diagrams below.





Body

Reasons for Trends:

An analysis of some of these factors in relation to Australia's recent experience

BOGS
International competitiveness affecting export industries and import competing industries

Factors which impact international competitiveness include:
• the Australian inflation rate compared to other economies
• the rate of wage growth compared to other economies
• changes in productivity in Australian business
• changes in the level of domestic interest rates compared to other economies
• changes in the exchange rate
• changes in Australia's protection policies
• changes in protection policies of other economies

Terms of Trade

Generally speaking, because Australia's exports are dominated by commodity exports in relation to which Australia is a price taker.
If the terms of trade improves this will result in an increase in export revenue, and a deterioration in the terms of trade will result in a decrease in export revenue.
The terms of trade is a key indicator for Australia's export earnings, and generally the value of the Australian dollar will track movements in the terms of trade.

Need to use these as reasons for our BOGS trends as outlined in background.

NET PRIMARY INCOME

Persistent NPI deficit

Australia is a net capital importer (net borrower from the rest of the world) because of the savings investment gap .
With
• a small population and
• low household savings rates
• our domestic saving pool is insufficient for large investment needs (mining, resources, infrastructure)
• resulting in a savings investment gap which is filled by borrowing from overseas sources (i.e. increase NFD and NFL, therefore high NPI)
NPI flows generated by debt and equity investment in and out of Australia:

Value of foreign debt (loans) significantly increased as a result of financial deregulation, and increased capital demands to support the mining investment booms and to part fund fiscal deficits.

Value of equity (ownership) significantly inbound increased as a result of globalisation, and outbound increased as a result of increased superannuation investment pool

- Largest proportion of **inbound foreign investment** is portfolio investment
- Largest proportion **of outbound foreign investment** is direct investment

CURRENT CAS

- The major contributor to the current account surplus in the June 2019 quarter balance of payments was an increase in the BOGS as a result of increased commodity prices as a result of supply disruption in Brazilian iron ore mines. A record trade surplus of $19.8 billion turned the current account to a surplus of$5.8 billion as a result of booming iron ore and coal exports. At the same time as exports grew, imports fell 1.5% with a 2.9% fall in consumption goods.
- This is unlikely to be sustained once commodity prices return to normal levels.

Alternatively, students may adopt a cyclical/structural approach to factors giving rise to recent trends in the Current Account

	Trade flows (X, M)	Financial flows (Debt, Equity)
Structural factor	• High labour rates in Australia make manufacturing less internationally competitive increasing imports • Abundant natural resources of high quality combined with high labour rates result in narrow export base (few types of goods - increases volatility) • Quality labour force, tourism locations and educational institutions attract visitors and students	• Australia's savings investment gap means we are a net capital importer, leading to high inbound capital flows and high outbound interest and dividend flows • Quality agriculture and mining assets and educated labour force are attractive to foreign investment
Cyclical factor	• China growth rate has very significant impact on commodity prices and export values • Global growth rate impacts export markets • Exchange rate impacts non mining exports and imports (tourism, education, agriculture, manufacturing) • Domestic and global weather events impact agriculture exports and imports • Domestic growth, wage growth and unemployment rates impact imports	• Domestic and global interest rates • Exchange rates, appreciation reduces attractiveness for foreigners purchasing Australian assets • Domestic and global growth rates increase investment opportunities and need for loan funds • Domestic and global inflation rates