St Ignatius' College
Riverview

2021

SEMESTER
TWO
HIGHER SCHOOL CERTIFICATE
Assessment Task 4

Economics

General Instructions

- Working time – 2 Hours
- Write using a blue or black pen
- Board-approved calculators may be used

Teachers

MXP
SXC
MEB

Total marks - 65

Section I
45 marks
- Attempt Questions 1-5
- Allow about 1 hour and 10 minutes for this section

Section II
20 marks
- Attempt Questions 6 or 7
- Allow about 50 minutes for this section

2021 HSC ECONOMICS TASK 4

Student Number

Section I

45 marks
Attempt Questions 1 to 5
Allow 1 hour and 10 minutes for this section

Question 1 (10 marks)

The table shows economic information for a hypothetical economy.

Gross Domestic Product	$1,600b	Portfolio Investment	$300b
Loans owed to Australians by foreigners	$250b	Foreign assets owned by Australians	$1,200b
Australian assets owned by foreigners	$1,000b	Loans owed by Australians to foreigners	$1,100b

(a) With reference to the table, calculate net foreign debt as a percentage of GDP. Show all working. **2**

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(b) With reference to the table, calculate net foreign liabilities as a percentage of GDP. Show all working. **2**

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Question 1 continues on page 3.

(c) The table below shows balance of payments data for a hypothetical economy. **2**

Components of the balance of payments	*$ billion*	*Components of the balance of payments*	*$ billion*
Exports of goods and services	150	Net secondary income	-10
Imports of goods and services	120	Financial derivatives	-20
Net primary income	-130	Direct investment	60
Reserve assets	5	Tied aid	-10
		Net errors and omissions	10

With reference to the table, calculate the value of Portfolio Investment.

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(d) Explain recent trends in Australia's net foreign liabilities. **4**

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End of Question 1

Question 2 (10 marks)

(a) The table below refers to a hypothetical economy. **2**

Year	*National Income ($ million)*	*Savings ($ million)*
1	400	160
2	800	320
3	1,200	480

An increase in imports has reduced national income to $1,050 million in Year 4.

All other things being equal, what was the increase in imports?

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(b) The table below refers to a hypothetical economy. **2**

Year	*CPI*	*Nominal GDP ($ billion)*	*Population (million)*	*Terms of trade*
1	100	400	22	130
2	105	460	24	125
3	106	480	25	126

Calculate the rate of growth in real GDP between Year 2 and Year 3.

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Question 2 continues on page 5.

(c) Outline TWO impacts of a tightening of monetary policy on the balance of payments. **2**

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(d) Explain how the Reserve Bank of Australia changes and maintains the cash rate target. **4**

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End of question 2.

Question 3 (10 marks)

(a) Outline the impact on domestic prices and gross domestic product where a government reduces a subsidy paid to domestic producers. **2**

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(b) How can a country have a higher gross national income PPP per person than another country and have a lower value Human Development Index? **2**

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Question 3 continues on page 7.

(c) For an economy other than Australia, assess the influence of globalisation on the economy and the effectiveness of policies in relation to environmental sustainability. **6**

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End of Question 3

Question 4 (10 marks)

(a) Outline the impact on a country's Lorenz curve and gini co-efficient of income distribution where there is a reduction in the top marginal rate of income tax. **2**

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(b) Explain the implications for an economy of using expansionary macroeconomic policy when the unemployment rate is at the NAIRU. **4**

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Question 4 continues on page 9.

(c) Explain one way a government could increase the labour force participation rate in the economy. **2**

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(d) Explain one way a government could decrease the level of underemployment in an economy. **2**

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End of question 4.

Question 5 (5 marks)

(a) How does microeconomic reform impact economic growth and unemployment? **5**

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End of question 5.

Section II

20 marks
Attempt either Question 6 or 7
Allow 50 minutes for this section

Answer the question in the Writing Booklets provided.

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

Question 6 (20 marks)

To what extent are decentralised labour market policies responsible for the persistently low rates of inflation that have been observed in Australia over the last decade?

OR

Question 7 (20 marks)

To what extent has fiscal policy achieved economic growth and environmental sustainability in Australia?

End of Paper

2021 Year 12 Economics
Task 4
Marking Criteria

SECTION I: Short Answer Responses

Question 1 – (10 Marks) (SXC)

(a) With reference to the table, calculate net foreign debt as a percentage of GDP. Show all working.

Criteria	*Marks*
Shows working and correctly calculates NFD and a % of GDP	2
Shows working to calculate NFD.	1

Suggested answer:

NFD = 1,100 - 250
= 850

NFD = 850
GDP 1,600

= 53.1%

(b) With reference to the table, calculate net foreign liabilities as a percentage of GDP. Show all working.

Criteria	*Marks*
Shows working and correctly calculates NFL and a % of GDP	2
Shows working to calculate NFL.	1

Suggested answer:

NFL = NFD + NFE

NFE = 1,000 – 1,200 = -200

NFL = 850 (from a) + -200 = 650

NFL = 650
GDP 1,600

= 40.6%

(c) With reference to the table, calculate the value of Portfolio Investment.

Criteria	*Marks*
Shows working and correctly calculates the value of Portfolio Investment	2
Shows some valid working of the CA and KAFA but arrives at the incorrect value	1

Suggested answer:

Current Account	**Capital and Financial Account**
BOGS 30	Tied Aid -10
NPI -130	Direct Investment 60
NSI - 10	Portfolio Investment **65**
	Financial Derivatives -20
	Reserve Assets 5
	Total KAFA 100
	Net errors and Omissions 10
Total -110	**Total 110**

(d) Outline the causes for recent trends in Australia's net foreign liabilities.

Criteria	*Marks*
Comprehensively sketches in general terms recent trends in Australia's net foreign liabilities (NFD + NFE), with use of statistics.	4
Comprehensively sketches in general terms recent trends in Australia's net foreign liabilities (NFD + NFE).	3
Sketches in general terms recent trends in Australia's net foreign debt / net foreign equity.	2
Identifies some recent trends in net foreign debt / net foreign equity.	1

Suggested answer:

Net foreign liabilities is the aggregate of Australia's net foreign debt and net foreign equity. In recent years, net long-term debt liabilities have risen as foreign investors have increased their holdings of Australian government debt. Meanwhile, net short-term debt liabilities have fallen as businesses (incl. mining sector) have sought to pay down debt. Australia's net foreign debt currently stands at $1.2 trillion. Australia's net foreign equity liabilities have also declined markedly in recent years. Since 2013, Australia has had a net foreign equity asset position – Australian residents own more equity in foreign companies than non-residents own of Australian companies. Australia's net foreign equity at the June quarter was -$301 billion. This can largely be explained by Australia's compulsory superannuation system, which currently has accumulated balances of $3.1 trillion. Because Australia has a

net foreign equity asset position, when the Australian dollar depreciates, the value of foreign currency denominated assets increases in Australian dollar terms, and so our gross foreign assets increase relative to our gross foreign liabilities. This means that, overall, a depreciation of the currency would tend to strengthen Australia's external position and result in a narrowing of the net income deficit. Overall, the trend in Australia's net foreign liabilities has been declining in recent years with the June quarter 2021 figures showing Australia's net foreign liabilities at a 21 year low at 40% of GDP. Whilst long-term debt has increased in recent years, the short-term debt and net foreign equity position has decreased

Question 2 – (10 Marks) (MEB)

(a) With The table below refers to a hypothetical economy.

Year	*National Income ($ million)*	*Savings ($ million)*
1	400	160
2	800	320
3	1,200	480

An increase in imports has reduced national income to $1,050 million in Year 4.

All other things being equal, what was the increase in imports?

Criteria	***Marks***
Correctly calculates the increase in imports	2
Provides some relevant working to calculate the increase in imports	1

Suggested answer:

- Change in M x K = 1200 - 1050
  = reduction of 150

- To find K = 1/MPS
- To find MPS. = change in S/change in Y
  = 160/400
  = 1/4
- K = 1/1/4
  = 2.5

- Solve for M = M x 2.5 = 150
  = 60

Exemplar:

(b) The table below refers to a hypothetical economy.

Year	*CPI*	*Nominal GDP ($ billion)*	*Population (million)*	*Terms of trade*
1	100	400	22	130
2	105	460	24	125
3	106	480	25	126

Calculate economic growth between Year 2 and Year 3.

Criteria	***Marks***
Correctly calculates economic growth between Year 2 and Year 3	2
Provides some relevant working to calculate the economic growth between Year 2 and Year 3	1

Suggested answer:

- To find Real GDP:

Nominal GDP x 100/CPI

- To Find % change in GDP:

Year 2 GDP – Year 3 GDP/Year 3 GDP x 100

Step 1: Find real GDP in Year 2 and Year 3

Year 2
460 x 100/105
= 438.095

Year 3
480 x 100/106
= 452.83

Step 2: Calculate percentage change in real GDP between Year 2 and 3.
452.83 – 438.095/438.095 x 100
= 3.4%

Exemplar:

(c) Outline TWO impacts of a tightening of monetary policy on the balance of payments.

Criteria	*Marks*
Sketches in general terms TWO impacts of a tightening of monetary policy on the balance of payments	2
Sketches in general terms ONE impact of a tightening of monetary policy on the balance of payments	1

Suggested answer:

A tightening of monetary policy will likely increase the exchange rate as overseas investors seek greater returns. This is likely to increase the demand for imports as they are bought in foreign currency and now requires less AUD to purchase any given amount of imports. Exports will become more uncompetitive in the international market and drive down sales. This will have the likely effect of worsening the BOGS component of the current account. This will also see an increase in inflows in portfolio investment as foreigners seek higher returns. This will increase inflows in the financial account of the balance of payments either increasing the surplus or reducing the deficit in the financial account.

(d) Explain how the Reserve Bank of Australia changes and maintains the cash rate target.

Criteria	*Marks*
Demonstrates a clear understanding of how the Reserve Bank of Australia changes and maintains the cash rate target.	4
Demonstrates an understanding of how the Reserve Bank of Australia changes and maintains the cash rate target.	3
Sketches in general terms how the Reserve Bank of Australia changes and maintains the cash rate target.	2
Makes a relevant statement about how the Reserve Bank of Australia changes and maintains the cash rate target.	1

Suggested answer:

To change the cash rate the RBA announces the cash rate target and then sets a policy interest rate corridor which sets the RBA's lending rate in the overnight money market 25 points above the cash rate target and the RBA's deposit rate 25 points below the target. This This means there is no incentive for banks to borrow at interest rates higher than the RBA's lending rate (the ceiling) or to accept a deposit rate lower than the one the RBA offers (the floor) which keeps all transactions between banks within the corridor. Also, due to competitive nature of market inter-bank lending rates will fall below lending rate and inter-bank deposit rates will rise higher than RBA rate. This tends the market toward the target CR.

The RBA can maintain the cash rate within the corridor with open market operations. This allows the RBA to control the supply of funds in the market. To increase the supply of funds to put downward pressure toward the target cash rate the RBA buys repos/CG securities from the banks and credits the ES accounts with cash. To reduce the supply of funds to put upward pressure toward the cash rate, the RBA sells repos/CG securities to banks.

Question 3 (10 marks)

a) Outline the impact on domestic prices and gross domestic product where a government reduces a subsidy paid to domestic producers. **2**

Criteria	*Mark*
Sketches in general terms the impact on domestic prices and GDP	2
Sketches in general terms the impact on domestic prices OR GDP, or identifies both	1

Answers could include:
The reduction of a subsidy paid by a government to domestic producers will impact the quantity of domestic and imported supply to the market, but will not impact the market price. However, the increase in imports will result in a decrease in aggregate demand and therefore a decrease in GDP in the economy.

b)How can a country have a higher gross national income PPP per person than another country and have a lower value Human Development Index? **2**

Criteria	*Mark*
Provides cause and effect as to how a country can have a higher GNI per cap PPP than another country but have a lower HDI	2
Sketches in general terms as to how a country can have a higher GNI per cap PPP than another country but have a lower HDI	1

Answers could include:
The HDI considers GNI per capita PPP, education and life expectancy at birth. A country can have a higher GNI PPP than another country, but can have a lower HDI as a result of having lower outcomes in relation to the other two elements considered by the index (education and life expectancy) than the other economy. This would cause the HDI to be lower than the other economy.

c) For an economy other than Australia, assess the influence of globalisation on the economy and the effectiveness of policies in relation to environmental sustainability.

Criteria	*Mark*
Makes a well informed judgement in relation to the influence of globalisation, and the effectiveness of policies in relation to environmental sustainability	5-6
Makes a well informed judgement in relation to one aspect, and outlines elements of the second aspect of the question	4
Makes a well informed judgement in relation to the influence of globalisation, OR the effectiveness of policies in relation to environmental sustainability	3
Outlines elements of the influence of globalization and environmental policies	2
Outlines elements of the influence of globalization or environmental policies	1

Answers could include:

This question has two elements to be addressed:

- Influence of globalisation on the economy
- Effectiveness of policies in relation to environmental sustainability

For the country selected, the first leg explores how the country has been influenced by globalization, not an assessment of the effectiveness of economic policies of the government which many students interpreted the question as. This requires an engagement with a consideration of the impacts of change in transport, technology and communication, increased trade and financial flows, and the international division and labour and migration on the economy. Impacts on the economy may have been approached through considering key economic variables for economic growth, quality of life, internal and external stability etc.

The second leg requires an engagement with policies (more than one) of the government of the country in relation to the environment and the effectiveness of those policies in relation to environmental sustainability.

Question 4

(a) Outline the impact on a country's Lorenz curve and gini co-efficient of income distribution where there is a reduction in the top marginal rate of income tax.

Criteria	*Mark*
Sketches in general terms the impact on a country's Lorenz curve and gini co-efficient of income distribution where there is a reduction in the top marginal rate of income tax	2
Identifies the impact on a country's Lorenz curve and gini co-efficient of income distribution where there is a reduction in the top marginal rate of income tax	1

Answers could include:
The Lorenz curve would move further away from the 45 degree line of equality, and as a result the gini coefficient of income inequality would increase

(b) Explain the implications for an economy of using expansionary macroeconomic policy when the unemployment rate is at the NAIRIU.

Criteria	*Mark*
Provides cause and effect short term and long term in relation to the implications for the economy	4
Outlines short term and long term implications for the economy	3
Provides cause and effect short term OR long term in relation to the implications for the economy	2
Outlines short term OR long term implications for the economy	1

Answers could include:
The implications are short term, and long term. In the short term, unemployment would decrease, inflation increase and GDP increase as the unemployment rate moves below the NAIRU and unskilled persons would be employed in the labour market. This is a movement along an existing short run Phillips Curve. The increased inflation leads to higher inflationary expectations (as businesses increasingly compete for the skilled workers), and business reduce output levels in response to rising costs and inflation concerns. As a result, the unemployment rate returns to the NAIRU (the long run Phillips curve) at a higher rate of inflation than the starting position. The implications for the economy in the long run is therefore accelerated inflation, where the economy returns to the original unemployment rate (the NAIRU) at a higher inflation rate.

(c) Explain one way a government could increase the labour force participation rate in the economy

Criteria	*Mark*
Provides cause and effect in relation to one way a government could increase the labour force participation rate	2
Sketches in general terms one way a government could increase the labour force participation rate in the economy	1

Answers could include:
A government could increase the labour force participation rate by encouraging hidden unemployed to return to the workforce. This could be achieved by expansionary fiscal policy to increase the rate of economic growth, increasing output, therefore increasing the demand for labour and encouraging discouraged workers to re enter the labour force to seek the now available jobs.

Other answers which evidenced understanding of participation rate and answered question also accepted

(e) Explain one way a government could decrease the level of underemployment in an economy.

Criteria	*Mark*
Provides cause and effect in relation to one way a government could decrease the level of underemployment in an economy	2
Sketches in general terms one way a government could decrease the level of underemployment in an economy	1

Answers could include:
Underemployment is where employed workers desire an increased number of hours. A government could decrease the level of underemployment by providing an incentive to business to increase the proportion of full time roles in their workforce. This would have the effect of making some existing employed workers unemployed, which would in turn reduce the amount of underemployment in the economy.

Other answers which evidenced understanding of underemployment and answered question also accepted

Question 5 – (5 Marks) (MEB)

How does microeconomic reform impact economic growth and unemployment?

Criteria	***Marks***
Demonstrates a clear understanding of how microeconomic reform can impact economic growth and unemployment	5
Demonstrates an understanding of how microeconomic reform can impact economic growth and unemployment	4
Sketches in general terms how microeconomic reform can impact economic growth and unemployment	3
Sketches in general terms how microeconomic reform can impact either economic growth or unemployment	2
Makes a relevant statement about microeconomic reform and economic growth or unemployment	1

Suggested Answer:

Micro policy involves a range of reforms to increase aggregate supply by improving efficiencies and productivity of firms and industries. One way this occurs is by increasing competition faced by firms in the market through such things as the deregulation of industry and removing barriers to free trade. Competition puts pressure on firms to improve production methods to create improved products and reduce prices. In the long run, this increased efficiency increases industry output and therefor increases c economic growth. This increased output in the long run, will also have the effect of reduced unemployment as resources including labour resources are allocated more efficiently throughout the economy. However, in the short run, structural changes in the economy cause short term unemployment as a mis match of labour skills to the jobs market exists. For example, reduction in industry protection for the TCF industry meant less TCF workers were required, initially creating structural unemployment in the sector. It takes time for these workers to retrain and reallocate to more efficient industries in the economy.