Essential Insight Exam Guide

Economics

Year 12 WACE
Western Australian Curriculum

2025 Edition

Nicholas Paul

Essential Insight Exam Guide
Economics
Year 12 WACE

Link: https://eibooks.com.au/wace **Resource Hub** • Subscribe for future updates. • Contact details for any queries or feedback. • Relevant WACE subject information. • University scholarship information. • Other useful information.	

Key Features of the Essential Insight Exam Guides

- Contains the past five years of WACE exam questions from 2023 to 2019, categorised based on the most up to date SCSA syllabus reviews.
- Significantly reduced overall cost compared to alternative book options.
- Future editions will be released with the most up to date WACE exams.
- Students can review chapters, specific questions or solutions at any given time throughout the course.
- Students can refer to relevant chapters to complete during class or for private study to prepare for topic tests or exams.
- Teachers can use these eBooks as a great reference point for lesson planning, developing internal assessments or when preparing class activities to ensure alignment with exam level questions.
- Mark allocation included to guide student time management.
- Fully worked answers from the WACE marking guide are included for feedback.
- Increase student confidence and enable high achievement.

How to Use Essential Insight Exam Guides

Purchase of these eBook PDFs allows your students access to previous WACE exam questions, arranged by syllabus topics and answers from the marking guide. Revision for WACE assessments or exams becomes much more straightforward. Students can review chapters, specific questions or solutions at any given time throughout the course. Students can be referred to relevant chapters to complete during class or privately to prepare for topic tests or exams. These textbooks also act as a great reference for teachers regarding lesson planning, developing internal assessments or when preparing class activities to ensure alignment with exam level questions.

Books available in this series

Mathematics	Science	Humanities and Social Sciences
• Mathematics Applications • Mathematics Methods • Mathematics Specialist	• Biology • Chemistry • Human Biology • Physics • Psychology	• Accounting and Finance • Economics • Geography

Acknowledgements
School Curriculum and Standards Authority. (2019-2023). ATAR Examinations and Marking Keys. The School Curriculum and Standards Authority does not endorse this publication or product.
.

Contents

Unit 3 – Australia and the global economy **5**
Unit 3 – Australia's international trade **5**
Section 1 5
Section 2 6
Section 3 6
Marking Guide – Section 1 13
Marking Guide – Section 2 14
Marking Guide – Section 3 14
Unit 3 – Free trade and protection **16**
Section 1 16
Section 2 24
Section 3 29
Marking Guide – Section 1 50
Marking Guide – Section 2 58
Marking Guide – Section 3 63
Unit 3 – Balance of payments **70**
Section 1 70
Section 2 72
Section 3 76
Marking Guide – Section 1 97
Marking Guide – Section 2 99
Marking Guide – Section 3 103
Unit 3 – Terms of trade **110**
Section 1 110
Section 2 111
Section 3 113
Marking Guide – Section 1 121
Marking Guide – Section 2 122
Marking Guide – Section 3 124
Unit 3 – Exchange rates **126**
Section 1 126
Section 2 128
Section 3 136
Marking Guide – Section 1 143
Marking Guide – Section 2 145
Marking Guide – Section 3 152
Unit 3 – Foreign investment **154**
Section 1 154
Section 2 156
Section 3 159
Marking Guide – Section 1 166
Marking Guide – Section 2 168
Marking Guide – Section 3 171
Unit 4 – Macroeconomic theory and economic policy **173**
Unit 4 – Australia's macroeconomic performance and the business cycle **173**
Section 1 173
Section 2 176
Section 3 179
Marking Guide – Section 1 187
Marking Guide – Section 2 190
Marking Guide – Section 3 192
Unit 4 – The aggregate expenditure model **194**
Section 1 194
Section 2 197
Section 3 197
Marking Guide – Section 1 218
Marking Guide – Section 2 221
Marking Guide – Section 3 221
Unit 4 – The aggregate demand and aggregate supply models **228**
Section 1 228
Section 2 230

Section 3 235
Marking Guide – Section 1 242
Marking Guide – Section 2 244
Marking Guide – Section 3 250
Unit 4 – Fiscal policy 253
Section 1 253
Section 2 256
Section 3 259
Marking Guide – Section 1 275
Marking Guide – Section 2 278
Marking Guide – Section 3 280
Unit 4 – Monetary policy 284
Section 1 284
Section 2 286
Section 3 286
Marking Guide – Section 1 300
Marking Guide – Section 2 302
Marking Guide – Section 3 302
Unit 4 – Labour productivity 306
Section 1 306
Section 2 307
Section 3 313
Marking Guide – Section 1 320
Marking Guide – Section 2 321
Marking Guide – Section 3 327

Notes	• Many questions reference multiple syllabus topics within the same question. Questions that reference multiple topics have been categorised based on the primary focus topic of the question. • Some question material has not been released by SCSA due to copyright restrictions and are not able to be included in this exam guide. This has been flagged in the relevant questions in the exam guide. Teachers may still be able to locate many of these sources and provide these to students by following the links at the end of the original SCSA exams on the SCSA website.

Unit 3 – Australia and the global economy

Unit 3 – Australia's international trade

Section 1

2023 Section 1 Question 3 **Australia's international trade**	An economic effect of globalisation in Australia has been (a) an appreciation of the Australian dollar. (b) increased inflation. (c) increased cyclical unemployment. (d) the lowering of trade barriers.

2023 Section 1 Question 9 **Australia's international trade**	Australia's top five two-way trading partners in 2022 were (a) China, USA, United Kingdom, South Korea, Japan. (b) China, Japan, South Korea, USA, Singapore. (c) Japan, China, United Kingdom, USA, South Korea. (d) China, Japan, South Korea, India, USA.

2022 Section 1 Question 4 **Australia's international trade**	Which of the following statements regarding the composition and direction of Australian trade is correct? (a) Australia's largest two-way trading partner is the European Union. (b) There has been a recent shift in the direction of Australia's trade toward Asia over the last ten years. (c) Coal is Australia's largest export commodity. (d) Since 2020, tourism has been Australia's largest import category.

2021 Section 1 Question 4 **Australia's international trade**	As a percentage of GDP, Australia's total imports plus total exports, is approximately (a) 75%. (b) 45%. (c) 25%. (d) 5%.

2019 Section 1 Question 22 **Australia's international trade**	Which of the following statements regarding the changing importance of economic sector output in Australia over time is correct? (a) The output share of both services and agriculture has risen. (b) The output share of services has risen but that of manufacturing has declined. (c) The output share of both manufacturing and mining has risen. (d) The output share of services has declined but that of mining has risen.

Section 2

There have been no questions on this topic for this section in the exams of recent years.

Section 3

2021 Section 3 Question 28 **Australia's international trade**	(a) Explain the term 'globalisation' and describe four factors that have influenced the extent of globalisation in recent years. (10 marks) (b) Discuss the economic effects of globalisation on the Australian economy. (10 marks)

Marking Guide – Section 1

2023 Section 1 Question 3 Australia's international trade	An economic effect of globalisation in Australia has been (a) an appreciation of the Australian dollar. (b) increased inflation. (c) increased cyclical unemployment. **(d) the lowering of trade barriers. – Answer**

2023 Section 1 Question 9 Australia's international trade	Australia's top five two-way trading partners in 2022 were (a) China, USA, United Kingdom, South Korea, Japan. **(b) China, Japan, South Korea, USA, Singapore. – Answer** (c) Japan, China, United Kingdom, USA, South Korea. (d) China, Japan, South Korea, India, USA.

2022 Section 1 Question 4 Australia's international trade	Which of the following statements regarding the composition and direction of Australian trade is correct? (a) Australia's largest two-way trading partner is the European Union. **(b) There has been a recent shift in the direction of Australia's trade toward Asia over the last ten years. – Answer** (c) Coal is Australia's largest export commodity. (d) Since 2020, tourism has been Australia's largest import category.

2021 Section 1 Question 4 Australia's international trade	As a percentage of GDP, Australia's total imports plus total exports, is approximately (a) 75%. **(b) 45%. – Answer** (c) 25%. (d) 5%.

2019 Section 1 Question 22 Australia's international trade	Which of the following statements regarding the changing importance of economic sector output in Australia over time is correct? (a) The output share of both services and agriculture has risen. **(b) The output share of services has risen but that of manufacturing has declined.** (c) The output share of both manufacturing and mining has risen. (d) The output share of services has declined but that of mining has risen.

Marking Guide – Section 2

There have been no questions on this topic for this section in the exams of recent years.

Marking Guide – Section 3

2021 Section 3 Question 28

Australia's international trade

(a) Explain the term 'globalisation' and describe four factors that have influenced the extent of globalisation in recent years. (10 marks)

Description	Marks
Explains the term 'globalisation'	2
Provides a simple definition of term the term 'globalisation'	1
Subtotal	**2**
For each of the **four** factors chosen (4 x 2 marks each)	
Describes a factor that has influenced the extent of globalisation in recent years	2
Identifies a factor that has influenced the extent of globalisation in recent years	1
Subtotal	**8**
Total	**10**

Answer(s) could include:

- role of WTO, IMF, other global institutions
- decline in globalisation in recent times due to a rise in protection, Nationalist politics, e.g. America First
- lower transportation costs
- significant improvements in communications technologies
- rising global wealth changes consumer tastes and preferences
- government policies lowering barriers to trade
- global trade slowed (deceleration).

(b) Discuss the economic effects of globalisation on the Australian economy. (10 marks)

Description	Marks
Discusses the economic effects of globalisation on the Australian economy	9–10
Explains the economic effects of globalisation on the Australian economy	7–8
Describes the economic effects of globalisation on the Australian economy	5–6
Outlines the economic effects of globalisation	3–4
Identifies some effects of globalisation	1–2
Total	**10**

Answer(s) could include:

Positive:
- increased technical and allocative efficiency
- increased economic growth due to increased export markets
- lower input costs, lower production costs
- reduced inflationary pressures due to cheaper imports; lower import costs
- increased standard of living, greater range and quality of goods and services
- higher rates of employment and wages growth
- managerial ideas, technology and management transfer
- economies of scale
- multi-national corporations and foreign direct investment.

Negative:
- increased structural unemployment in key manufacturing industries
- dependence upon foreign supply chains
- lower effective rates of protection impacts manufacturing businesses
- vulnerability to global crisis.

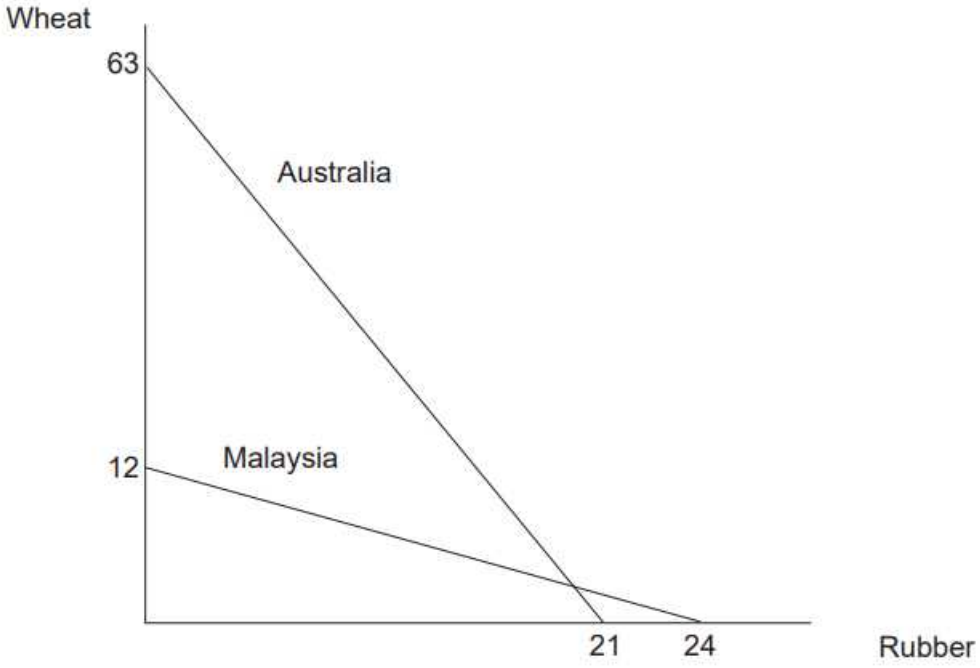
Unit 3 – Free trade and protection

Section 1

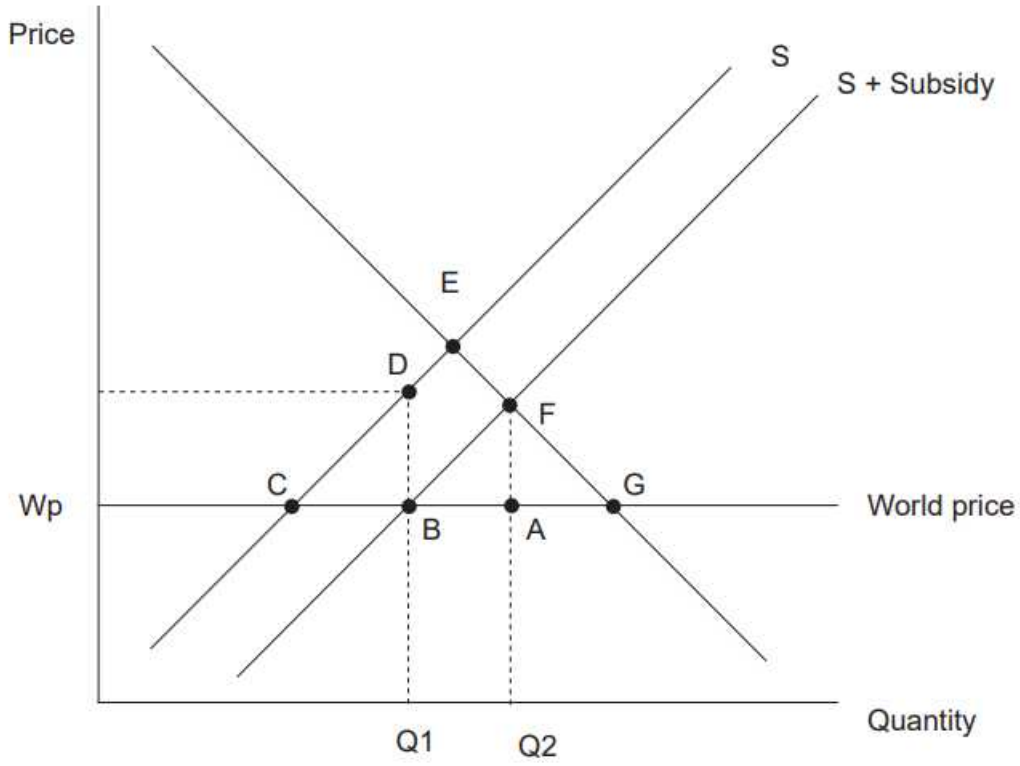
2023 Section 1 Question 1 **Free trade and protection**	Which of the following factors has facilitated growth in the value of Australia's exports in recent years? (a) decreased production costs of manufactured goods (b) an appreciation of the Australian dollar (c) trade liberalisation (d) increased trade barriers

2023 Section 1 Question 2 **Free trade and protection**	Australia's international competitiveness will rise when (a) the value of the Australian dollar appreciates. (b) the domestic inflation rate is higher than that of our major trading partners. (c) labour productivity increases. (d) domestic real wage rates increase.

2023 Section 1 Question 4 **Free trade and protection**	Which of the following statements about trade intensity is correct? (a) a high trade intensity ratio leads to increased dependence on foreign investment (b) Australia's trade intensity is low in comparison to China and the USA (c) it measures the total value of imports and exports as a percentage of GDP (d) it indicates the impact of barriers to trade on the Australian economy

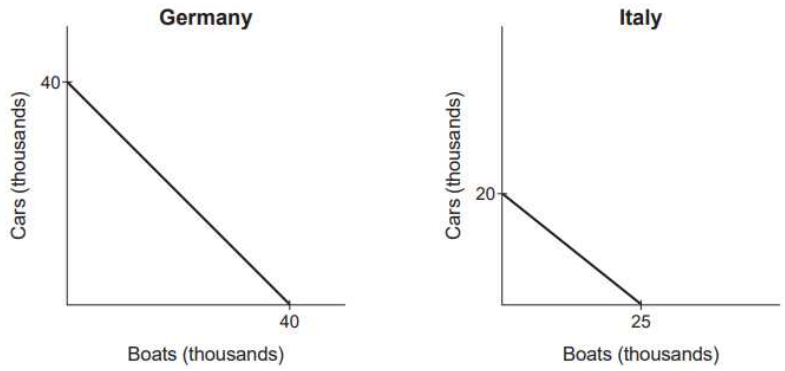
2023 Section 1 Questions 5-6 **Free trade and protection**	Questions 5 and 6 refer to the production possibility frontier (PPF) model below for Australia and Malaysia for wheat and rubber.  According to the model, (a) Australia has an absolute advantage in wheat and a comparative advantage in rubber. (b) Malaysia has an absolute and comparative advantage in the production of rubber. (c) Australia has an absolute advantage in the production of wheat and rubber. (d) Malaysia has an absolute advantage in rubber and a comparative advantage in wheat. The terms of trade that would allow both countries to engage in international trade is (a) Australia receives one unit of rubber for one unit of wheat. (b) Malaysia receives 0.5 units of wheat for one unit of rubber. (c) Australia receives two units of rubber for one unit of wheat. (d) Malaysia receives 0.5 units of wheat for two units of rubber.

2023 Section 1 Question 7 **Free trade and protection**	The imposition of a tariff on food imported into Australia will result in (a) lower domestic food prices and greater choice of food options in Australia. (b) a reallocation of resources towards more competitive unprotected industries. (c) an increase in domestic food production and rising employment levels in this sector. (d) a decrease in government revenue.

2023 **Section 1** **Question 8** **Free trade and protection**	This question refers to the diagram below, which shows the demand and supply for solar energy panels in Australia and the effects of a subsidy on the domestic market.  The deadweight loss created by the subsidy is equal to the area (a) ABF. (b) BCD. (c) BDEF. (d) BFG.

2022 **Section 1** **Question 1** **Free trade and protection**	Australia experiences improved international competitiveness when there is (a) a higher domestic inflation rate than its trading partners. (b) an appreciation of the Australian dollar. (c) an improvement in labour productivity. (d) higher domestic real wages growth than its trading partners.

2022 **Section 1** **Question 2** **Free trade and protection**	Which of the following factors facilitate globalisation? (i) trade liberalisation (ii) improvement in transport and communication services (iii) growth and expansion of multinational corporations (iv) increased tariff protection for domestic firms (a) (i), (ii) and (iv) (b) (ii) and (iii) only (c) (ii) and (iv) only (d) (i), (ii) and (iii)

2022 Section 1 Question 3 **Free trade and protection**	The following graphs represent the production possibilities for Germany and Italy, and two products: cars and boats.  According to the above graphs, which of the following statements is correct? (a) Italy has a comparative advantage in producing boats. (b) Italy has an absolute advantage in producing boats. (c) Germany has a comparative advantage in producing boats. (d) Both countries should produce an equal combination of cars and boats.

2022 Section 1 Question 22 **Free trade and protection**	Which of the following causes of structural change can be attributed directly to government policy? (a) changes in consumer preferences (b) lower levels of tariff protection (c) higher levels of GDP per capita (d) changes in mining technology

2021 Section 1 Question 1 **Free trade and protection**	The largest category of world merchandise exports is (a) fuels and mining products. (b) agricultural products. (c) education and tourism services. (d) manufactured products.

2021 Section 1 Question 2 **Free trade and protection**	One of the economic effects of globalisation is that it (a) creates jobs in the short term through structural change. (b) eliminates the principle of comparative advantage. (c) places downward pressure on the domestic price level. (d) reduces volatility in global financial markets.

2021 Section 1 Question 5

Free trade and protection

The table below shows the production possibilities of coal and iron ore in two countries.

	Coal (tonnes)		Iron ore (tonnes)
Country A	50	or	100
Country B	80	or	320

According to the above table, country

(a) B has a comparative advantage in producing coal.
(b) A has an absolute advantage in producing iron ore.
(c) B has a comparative advantage in producing iron ore.
(d) A has a comparative advantage in producing iron ore.

2021 Section 1 Question 6

Free trade and protection

A subsidy is

(a) direct payment to producers by government to reduce the market price of a good or service.
(b) direct payment to producers on an imported good or service to reduce the cost of imports.
(c) tax imposed on an exported good or service to reduce the cost of exports.
(d) direct payment to producers by government to reduce the costs of domestic production.

2020 Section 1 Question 1

Free trade and protection

Which of the following policies would be **most** likely to support economic growth in a developing nation?

(a) increased government control of key industries and resources
(b) government policies aimed at national self-sufficiency
(c) tariffs on imports to support local industries
(d) greater integration into the world economy

2020 Section 1 Question 2

Free trade and protection

Australia's international competitiveness would improve if

(a) the nation's trade intensity was reduced.
(b) wage costs rose faster than productivity.
(c) the Trade Weighted Index rose.
(d) industry subsidies and tariffs were further reduced.

2020 Section 1 Question 3

Free trade and protection

A nation's comparative advantage is determined **mostly** by

(a) bilateral and multilateral free trade agreements.
(b) its available resources and technology.
(c) its trading partners.
(d) transport costs and level of trade intensity.

2020 Section 1 Question 4

Free trade and protection

The table below shows the production of beef and corn in two countries.

	Beef		Corn
Country A	5000	or	5000
Country B	2000	or	4000

Based on the information in the table, what is the opportunity cost of Country B producing one extra unit of corn?

(a) 1 unit of beef
(b) 2 units of beef
(c) 0.5 units of beef
(d) 1 unit of corn

2020 Section 1 Question 5 **Free trade and protection**	An increase in the use of tariffs and subsidies in a country is likely to (a) decrease imports, increase exports and improve market efficiency. (b) increase imports, decrease exports and reduce market efficiency. (c) decrease both imports and exports and reduce market efficiency. (d) increase both imports and exports and increase market efficiency.

2020 Section 1 Question 6 **Free trade and protection**	Which of the following is **not** a possible argument for supporting the implementation of trade restrictions by a nation? (a) retaliation (b) specialisation (c) protection against cheaper foreign labour (d) promotion of economic diversification

2019 Section 1 Question 1 **Free trade and protection**	One valid argument against globalisation is that it may (a) increase living standards in countries that reduce trade barriers. (b) lead to high rates of domestic inflation because of higher import prices. (c) cause volatile capital flows that can lead to economic instability. (d) shift national resources to industries with a comparative disadvantage.

2019 Section 1 Question 2 **Free trade and protection**	Which of the following statements **most** accurately reflects recent trends in the process of globalisation? (a) The displacement of workers in developed countries has led to greater use of trade protection measures. (b) The pace of growth in international trade and financial flows has continued to accelerate. (c) The success of the World Trade Organisation's latest multilateral trade agreement has supported global integration. (d) Transport costs have risen and this has reduced the international flow of tourists and migrants.

2019 Section 1 Question 3

Free trade and protection

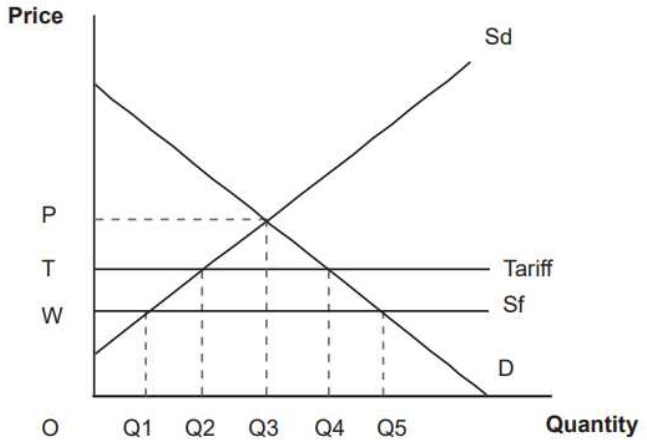
This question refers to the table below, which shows the number of labour hours required to produce one unit of a particular product in two countries.

Product	Country X	Country Y
Scooters	18	24
Bicycles	6	30

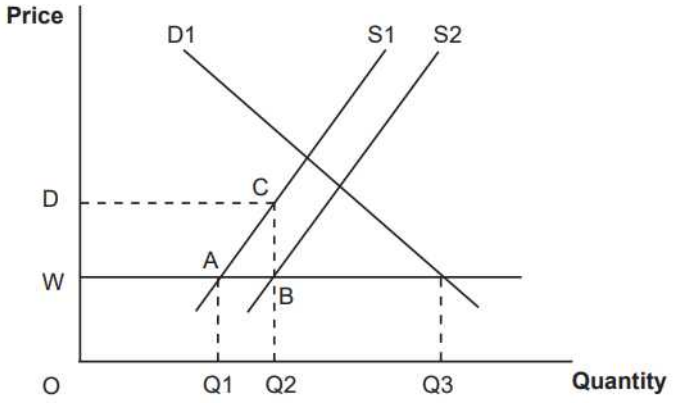
In relation to the table above, which of the following statements is correct?

(a) Country Y has an absolute advantage in both scooter and bicycle production.
(b) Country Y has a comparative advantage in bicycle production.
(c) Country X has a comparative advantage in scooter production.
(d) Country X has a comparative advantage in bicycle production.

2019 Section 1 Question 4 **Free trade and protection**	An argument against regional trade agreements that underpin blocs such as the European Union and the Association of Southeast Asian Nations is that they can (a) be harder to negotiate compared with World Trade Organisation multilateral agreements. (b) divert trade from a low-cost producer outside the trade agreement to a higher-cost producer within the trade agreement. (c) increase the trade intensity of member countries. (d) divert trade from high-cost producers within the trade agreement to lower-cost producers outside the trade agreement.

2019 Section 1 Question 5 **Free trade and protection**	This question is based on the diagram below, which shows the demand and supply for trucks in Australia and the effect of a tariff. (OP = domestic price before imports were allowed to enter the market, OW = world price, Sd = domestic supply, D = domestic demand, Sf = foreign supply.)  The imposition of a tariff by the Australian Government on imported trucks would (a) decrease the price from OP to OT and the demand would expand from OQ3 to OQ4. (b) increase the price from OW to OT and the demand would contract from OQ4 to OQ3. (c) not affect the price but reduce the quantity of imports. (d) increase the price from OW to OT and expand local supply from OQ1 to OQ2.

2019 Section 1 Question 6 **Free trade and protection**	Which of the following organisations has the responsibility for overseeing the international monetary system and eliminating exchange restrictions that hinder free trade? (a) The World Bank (b) The World Trade Organisation (c) The International Monetary Fund (d) The International Currency and Exchange Organisation

2019 Section 1 Question 7 **Free trade and protection**	This question is based on the diagram below, which shows the domestic demand and supply for a product in a market that is open to international competition.  Complete the following sentence by selecting one of the alternatives. If the world price is OW and a government subsidy shifts the domestic supply from S1 to S2, then imports will be ..... and the deadweight loss in the market will be area ..... (a) Q2 – Q3, DCAW. (b) Q1 – Q3, CBA. (c) Q1 – Q3, DCBW. (d) Q2 – Q3, CBA.

2019 Section 1 Question 23 **Free trade and protection**	Which one of the following is **not** an example of an improvement in economic efficiency? (a) increasing the quantity of inputs available (b) making more cost-effective use of inputs (c) increasing the adaptability of inputs (d) moving inputs to their most productive use

Section 2

2022 Section 2 Question 25 Free trade and protection	This question refers to the edited extract below, which is from an article by James Fell and published on 15 February 2022.

Australia's Future Agricultural Trade Advantage

Australia's first Free Trade Agreement (FTA), with New Zealand, entered into force in 1983. Australia has since concluded 14 FTAs between 2003 and 2020. Three-quarters of Australia's agricultural trade in 2020–21 was destined for Australia's FTA partners.

In some agreements, the agreed outcomes are sufficient to allow Australian exports to maintain their competitiveness in the partner market. This is evident in the case of Australian cheese exports to Japan. The negotiated outcomes for cheese in the Japan-Australia Economic Partnership Agreement (JAEPA), which entered into force in 2015, did not result in an increase in cheese exports. Between 2016 and 2020, a number of international competitors also achieved market access wins in Japan. However, Australia's improved access to a larger quota with lower tariffs helped maintain the competitiveness of Australia's cheese exports to Japan.

Shifts in power will reshape relationships, as global competitors pursue their economic interests. This means that Australian exporters could face risks and uncertainty, highlighting the importance of cementing and enhancing the global rules-based trading system.

To this end, moves to shore up certainty and predictability in the global trading system are important. This includes not only maintenance of global trading norms, but reform of World Trade Organization (WTO) rules on trade and domestic support limiting or reducing the adverse effects of competitors' agricultural subsidies.

(a) (i) Identify a form of protection referred to in the article. (1 mark)

_____

_____

(ii) With reference to the article, identify the proportion of Australia's agricultural exports that were exported to its FTA partners in 2020–2021. (1 mark)

_____

_____

(b) Describe **two** ways in which organisations such as the World Trade Organization (WTO) can influence world trade. (4 marks)

One: _____

_____

_____

_____

Two:

(c) Using an appropriate model, illustrate and explain the effects of a subsidy on domestic production, imports and market efficiency. (6 marks)

Model

2021 Section 2 Question 27 **Free trade and protection**	This question refers to the edited extract below, which is from an article by Matthew Doran and published on 15 November, 2020. **Australia signs Regional Comprehensive Economic Partnership, the world's largest trade deal.** The largest trade deal in history has been signed, with 15 countries including Australia agreeing to the trade deal covering 30 per cent of the global economy. Leaders agreed to the terms on the Regional Comprehensive Economic Partnership (RCEP) at the Association of South-East Asian Nations (ASEAN) summit in Bangkok last year. The countries involved are Australia, China, Japan, South Korea, New Zealand and the 10 members of ASEAN, including Indonesia and Vietnam. Senator Birmingham said, "The real benefits are two-fold – one is our farmers and exporters, will get a more common set of rules across all nations. The other is our services export industry will get new access across financial, banking, aged care, health care, education and other service industries, such as the provision of architectural, engineering or planning services." The focus of RCEP is on standardising trade rules across countries, making it easier for people to do business. India has been negotiating during the eight years of talks, before pulling out last year. "That diminishes some of the value for Australia, as India would've been the one RCEP partner with whom we did not previously have any type of free trade agreement," Senator Birmingham said. "However, the value of RCEP is still there." The deal also does not include the United States, despite the country having US$2 trillion (A$2.7 trillion) in trade with the countries which are involved. (a) (i) List **one** benefit for Australian exporters from belonging to the RCEP. (1 mark) (ii) According to the article, which two countries are currently not members of RCEP? (1 mark) (b) Describe **two** arguments for trade liberalisation. (4 marks) One: Two:

(c) Using a demand and supply model, illustrate and explain the effects on consumers and producers of a country imposing a tariff on an imported good. (6 marks)

Consumers:

Producers:

Model

Section 3

2023 Section 3 Question 28 **Free trade and protection**	'The Australia-United Kingdom free trade agreement (A-UKFTA), signed virtually on 17 December 2021, is a gold standard trade agreement that represents a once in a generation deal for Australia and a historic movement in our relationship with the United Kingdom'. (a) Outline the concept of free trade agreements and describe **three** arguments for trade liberalisation. (8 marks) (b) Using demand and supply models, demonstrate and explain how consumers and producers benefit from specialisation and trade. (12 marks)

2020 Section 3 Question 29 **Free trade and protection**	Using the demand and supply model, demonstrate and explain the short- and long-term effects of a reduction in tariffs and subsidies on a trade-protected economy. (20 marks)

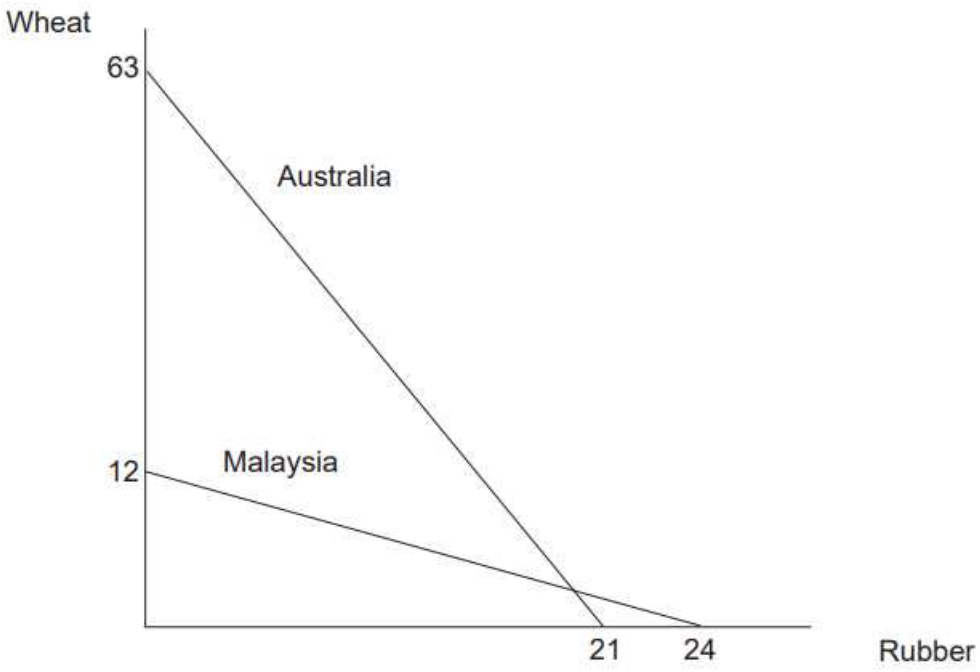
2019 Section 3 Question 28 **Free trade and protection**	(a) Explain and demonstrate, using an economic model, how a nation can gain from specialisation and trade. (12 marks) (b) Explain the main determinants of Australia's international competitiveness and describe **two** ways in which competitiveness can be improved over the long term. (8 marks)

Marking Guide – Section 1

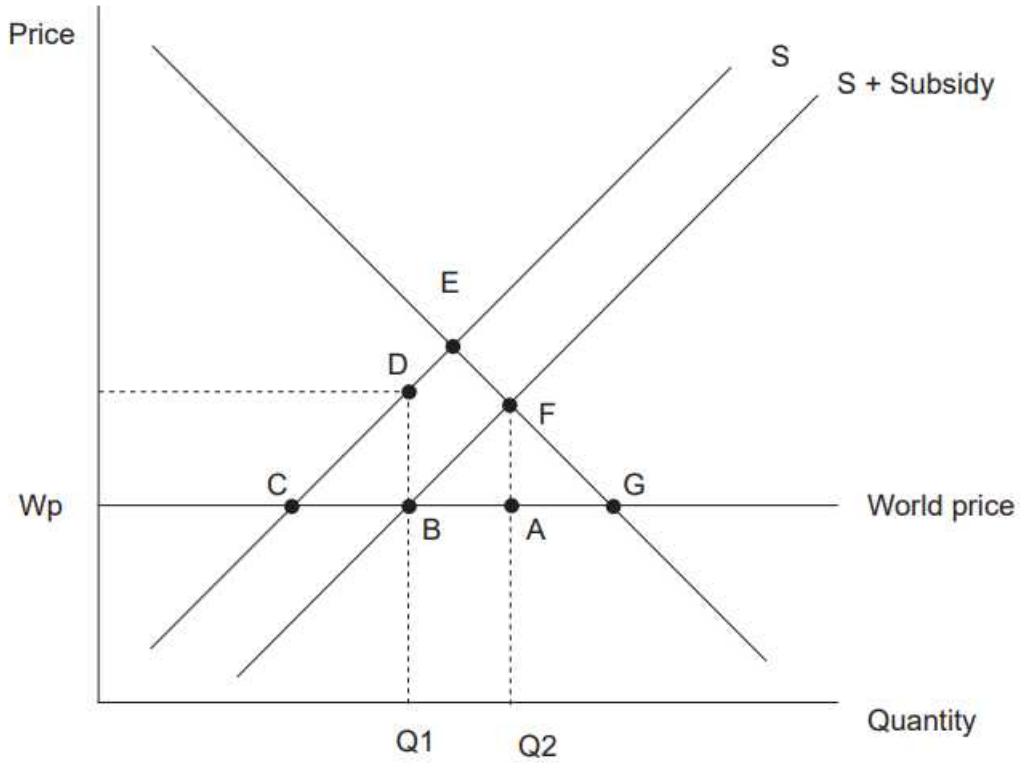
2023 Section 1 Question 1 **Free trade and protection**	Which of the following factors has facilitated growth in the value of Australia's exports in recent years? (a) decreased production costs of manufactured goods (b) an appreciation of the Australian dollar **(c) trade liberalisation – Answer** (d) increased trade barriers

2023 Section 1 Question 2 **Free trade and protection**	Australia's international competitiveness will rise when (a) the value of the Australian dollar appreciates. (b) the domestic inflation rate is higher than that of our major trading partners. **(c) labour productivity increases. – Answer** (d) domestic real wage rates increase.

2023 Section 1 Question 4 **Free trade and protection**	Which of the following statements about trade intensity is correct? (a) a high trade intensity ratio leads to increased dependence on foreign investment (b) Australia's trade intensity is low in comparison to China and the USA **(c) it measures the total value of imports and exports as a percentage of GDP – Answer** (d) it indicates the impact of barriers to trade on the Australian economy

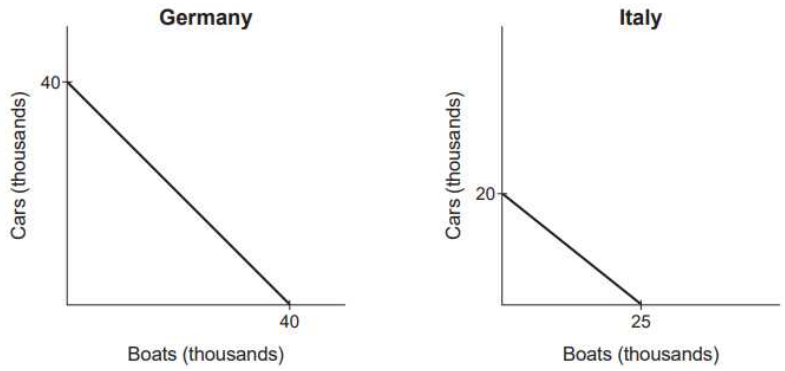
2023 Section 1 Questions 5-6 **Free trade and protection**	Questions 5 and 6 refer to the production possibility frontier (PPF) model below for Australia and Malaysia for wheat and rubber.  According to the model, (a) Australia has an absolute advantage in wheat and a comparative advantage in rubber. **(b) Malaysia has an absolute and comparative advantage in the production of rubber. – Answer** (c) Australia has an absolute advantage in the production of wheat and rubber. (d) Malaysia has an absolute advantage in rubber and a comparative advantage in wheat. The terms of trade that would allow both countries to engage in international trade is **(a) Australia receives one unit of rubber for one unit of wheat. – Answer** (b) Malaysia receives 0.5 units of wheat for one unit of rubber. (c) Australia receives two units of rubber for one unit of wheat. (d) Malaysia receives 0.5 units of wheat for two units of rubber.

2023 Section 1 Question 7 **Free trade and protection**	The imposition of a tariff on food imported into Australia will result in (a) lower domestic food prices and greater choice of food options in Australia. (b) a reallocation of resources towards more competitive unprotected industries. **(c) an increase in domestic food production and rising employment levels in this sector. – Answer** (d) a decrease in government revenue.

2023 **Section 1** **Question 8** **Free trade and protection**	This question refers to the diagram below, which shows the demand and supply for solar energy panels in Australia and the effects of a subsidy on the domestic market.  The deadweight loss created by the subsidy is equal to the area (a) ABF. **(b) BCD. – Answer** (c) BDEF. (d) BFG.

2022 **Section 1** **Question 1** **Free trade and protection**	Australia experiences improved international competitiveness when there is (a) a higher domestic inflation rate than its trading partners. (b) an appreciation of the Australian dollar. **(c) an improvement in labour productivity. – Answer** (d) higher domestic real wages growth than its trading partners.

2022 **Section 1** **Question 2** **Free trade and protection**	Which of the following factors facilitate globalisation? (i) trade liberalisation (ii) improvement in transport and communication services (iii) growth and expansion of multinational corporations (iv) increased tariff protection for domestic firms (a) (i), (ii) and (iv) (b) (ii) and (iii) only (c) (ii) and (iv) only **(d) (i), (ii) and (iii) – Answer**

2022 Section 1 Question 3 **Free trade and protection**	The following graphs represent the production possibilities for Germany and Italy, and two products: cars and boats.  According to the above graphs, which of the following statements is correct? **(a) Italy has a comparative advantage in producing boats. – Answer** (b) Italy has an absolute advantage in producing boats. (c) Germany has a comparative advantage in producing boats. (d) Both countries should produce an equal combination of cars and boats.

2022 Section 1 Question 22 **Free trade and protection**	Which of the following causes of structural change can be attributed directly to government policy? (a) changes in consumer preferences **(b) lower levels of tariff protection – Answer** (c) higher levels of GDP per capita (d) changes in mining technology

2021 Section 1 Question 1 **Free trade and protection**	The largest category of world merchandise exports is (a) fuels and mining products. (b) agricultural products. (c) education and tourism services. **(d) manufactured products. – Answer**

2021 Section 1 Question 2 **Free trade and protection**	One of the economic effects of globalisation is that it (a) creates jobs in the short term through structural change. (b) eliminates the principle of comparative advantage. **(c) places downward pressure on the domestic price level. – Answer** (d) reduces volatility in global financial markets.

2021 Section 1 Question 5

Free trade and protection

The table below shows the production possibilities of coal and iron ore in two countries.

	Coal (tonnes)		Iron ore (tonnes)
Country A	50	or	100
Country B	80	or	320

According to the above table, country

(a) B has a comparative advantage in producing coal.
(b) A has an absolute advantage in producing iron ore.
(c) B has a comparative advantage in producing iron ore. – Answer
(d) A has a comparative advantage in producing iron ore.

2021 Section 1 Question 6

Free trade and protection

A subsidy is

(a) direct payment to producers by government to reduce the market price of a good or service.
(b) direct payment to producers on an imported good or service to reduce the cost of imports.
(c) tax imposed on an exported good or service to reduce the cost of exports.
(d) direct payment to producers by government to reduce the costs of domestic production. – Answer

2020 Section 1 Question 1

Free trade and protection

Which of the following policies would be **most** likely to support economic growth in a developing nation?

(a) increased government control of key industries and resources
(b) government policies aimed at national self-sufficiency
(c) tariffs on imports to support local industries
(d) greater integration into the world economy – Answer

2020 Section 1 Question 2

Free trade and protection

Australia's international competitiveness would improve if

(a) the nation's trade intensity was reduced.
(b) wage costs rose faster than productivity.
(c) the Trade Weighted Index rose.
(d) industry subsidies and tariffs were further reduced. – Answer

2020 Section 1 Question 3

Free trade and protection

A nation's comparative advantage is determined **mostly** by

(a) bilateral and multilateral free trade agreements.
(b) its available resources and technology. – Answer
(c) its trading partners.
(d) transport costs and level of trade intensity.

2020 Section 1 Question 4

Free trade and protection

The table below shows the production of beef and corn in two countries.

	Beef		Corn
Country A	5000	or	5000
Country B	2000	or	4000

Based on the information in the table, what is the opportunity cost of Country B producing one extra unit of corn?

(a) 1 unit of beef
(b) 2 units of beef
(c) 0.5 units of beef – Answer
(d) 1 unit of corn

2020 Section 1 Question 5 **Free trade and protection**	An increase in the use of tariffs and subsidies in a country is likely to (a) decrease imports, increase exports and improve market efficiency. (b) increase imports, decrease exports and reduce market efficiency. **(c) decrease both imports and exports and reduce market efficiency. – Answer** (d) increase both imports and exports and increase market efficiency.

2020 Section 1 Question 6 **Free trade and protection**	Which of the following is **not** a possible argument for supporting the implementation of trade restrictions by a nation? (a) retaliation **(b) specialisation – Answer** (c) protection against cheaper foreign labour (d) promotion of economic diversification

2019 Section 1 Question 1 **Free trade and protection**	One valid argument against globalisation is that it may (a) increase living standards in countries that reduce trade barriers. (b) lead to high rates of domestic inflation because of higher import prices. **(c) cause volatile capital flows that can lead to economic instability. – Answer** (d) shift national resources to industries with a comparative disadvantage.

2019 Section 1 Question 2 **Free trade and protection**	Which of the following statements **most** accurately reflects recent trends in the process of globalisation? **(a) The displacement of workers in developed countries has led to greater use of trade protection measures. – Answer** (b) The pace of growth in international trade and financial flows has continued to accelerate. (c) The success of the World Trade Organisation's latest multilateral trade agreement has supported global integration. (d) Transport costs have risen and this has reduced the international flow of tourists and migrants.

2019 Section 1 Question 3

Free trade and protection

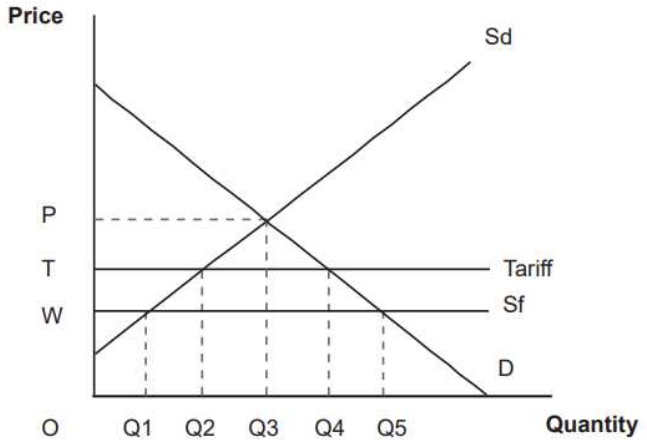
This question refers to the table below, which shows the number of labour hours required to produce one unit of a particular product in two countries.

Product	Country X	Country Y
Scooters	18	24
Bicycles	6	30

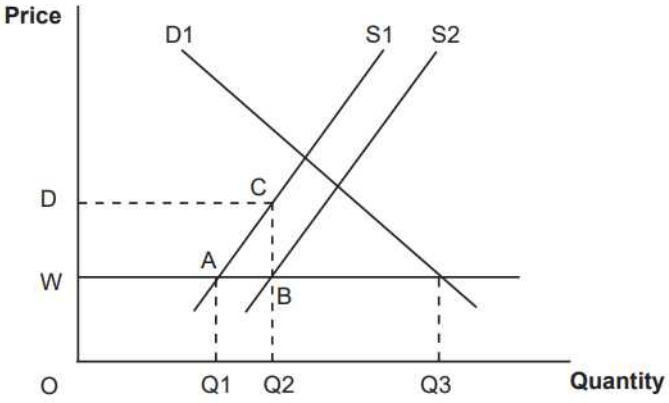
In relation to the table above, which of the following statements is correct?

(a) Country Y has an absolute advantage in both scooter and bicycle production.
(b) Country Y has a comparative advantage in bicycle production.
(c) Country X has a comparative advantage in scooter production.
(d) Country X has a comparative advantage in bicycle production. – Answer

2019 Section 1 Question 4 **Free trade and protection**	An argument against regional trade agreements that underpin blocs such as the European Union and the Association of Southeast Asian Nations is that they can (a) be harder to negotiate compared with World Trade Organisation multilateral agreements. **(b) divert trade from a low-cost producer outside the trade agreement to a higher-cost producer within the trade agreement. – Answer** (c) increase the trade intensity of member countries. (d) divert trade from high-cost producers within the trade agreement to lower-cost producers outside the trade agreement.

2019 Section 1 Question 5 **Free trade and protection**	This question is based on the diagram below, which shows the demand and supply for trucks in Australia and the effect of a tariff. (OP = domestic price before imports were allowed to enter the market, OW = world price, Sd = domestic supply, D = domestic demand, Sf = foreign supply.)  The imposition of a tariff by the Australian Government on imported trucks would (a) decrease the price from OP to OT and the demand would expand from OQ3 to OQ4. (b) increase the price from OW to OT and the demand would contract from OQ4 to OQ3. (c) not affect the price but reduce the quantity of imports. **(d) increase the price from OW to OT and expand local supply from OQ1 to OQ2. – Answer**

2019 Section 1 Question 6 **Free trade and protection**	Which of the following organisations has the responsibility for overseeing the international monetary system and eliminating exchange restrictions that hinder free trade? (a) The World Bank (b) The World Trade Organisation **(c) The International Monetary Fund – Answer** (d) The International Currency and Exchange Organisation

2019 Section 1 Question 7 **Free trade and protection**	This question is based on the diagram below, which shows the domestic demand and supply for a product in a market that is open to international competition.  Complete the following sentence by selecting one of the alternatives. If the world price is OW and a government subsidy shifts the domestic supply from S1 to S2, then imports will be ..... and the deadweight loss in the market will be area ..... (a) Q2 – Q3, DCAW. (b) Q1 – Q3, CBA. (c) Q1 – Q3, DCBW. **(d) Q2 – Q3, CBA. – Answer**

2019 Section 1 Question 23 **Free trade and protection**	Which one of the following is **not** an example of an improvement in economic efficiency? **(a) increasing the quantity of inputs available – Answer** (b) making more cost-effective use of inputs (c) increasing the adaptability of inputs (d) moving inputs to their most productive use

2022 Section 2 Question 25

Free trade and protection

This question refers to the edited extract below, which is from an article by James Fell and published on 15 February 2022.

Australia's Future Agricultural Trade Advantage

Australia's first Free Trade Agreement (FTA), with New Zealand, entered into force in 1983. Australia has since concluded 14 FTAs between 2003 and 2020. Three-quarters of Australia's agricultural trade in 2020–21 was destined for Australia's FTA partners.

In some agreements, the agreed outcomes are sufficient to allow Australian exports to maintain their competitiveness in the partner market. This is evident in the case of Australian cheese exports to Japan. The negotiated outcomes for cheese in the Japan-Australia Economic Partnership Agreement (JAEPA), which entered into force in 2015, did not result in an increase in cheese exports. Between 2016 and 2020, a number of international competitors also achieved market access wins in Japan. However, Australia's improved access to a larger quota with lower tariffs helped maintain the competitiveness of Australia's cheese exports to Japan.

Shifts in power will reshape relationships, as global competitors pursue their economic interests. This means that Australian exporters could face risks and uncertainty, highlighting the importance of cementing and enhancing the global rules-based trading system.

To this end, moves to shore up certainty and predictability in the global trading system are important. This includes not only maintenance of global trading norms, but reform of World Trade Organization (WTO) rules on trade and domestic support limiting or reducing the adverse effects of competitors' agricultural subsidies.

(a) (i) Identify a form of protection referred to in the article. (1 mark)

Description	Marks
quota or tariffs or subsidies	1
Total	**1**

(ii) With reference to the article, identify the proportion of Australia's agricultural exports that were exported to its FTA partners in 2020–2021. (1 mark)

Description	Marks
three-quarters/75%	1
Total	**1**

(b) Describe **two** ways in which organisations such as the World Trade Organization (WTO) can influence world trade. (4 marks)

Description	Marks
For each of the two ways (2 x 2 marks)	
Describes a way an organisation can influence world trade.	2
States a fact about the role of an organisation.	1
Total	**4**

Answers could include:

- elimination of trade obstacles/impediments, e.g. tariffs, subsidies, quotas
- promotes multilateral trade, promotes free trade in goods, services, intellectual property, e-commerce
- disputes resolution, arbitration, appeals, complaints, etc.
- building trade capacity in developing countries.

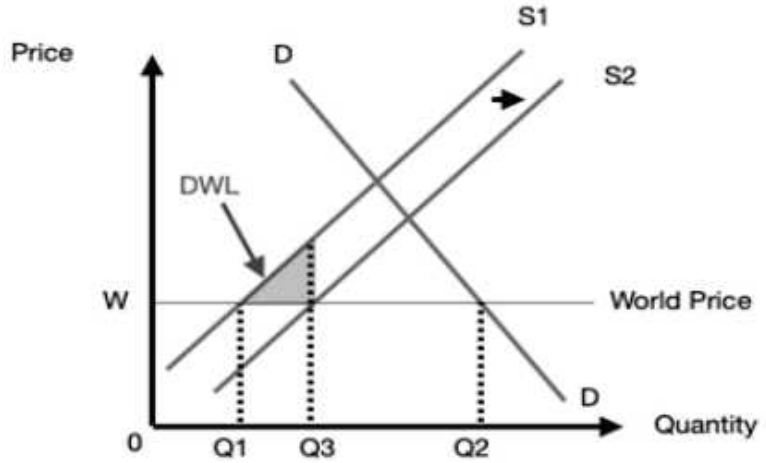
Accept other relevant answers.

(c) Using an appropriate model, illustrate and explain the effects of a subsidy on domestic production, imports and market efficiency. (6 marks)

Description	Marks
Explanation	
Explains the effect of a subsidy on domestic production, imports and market efficiency with reference to the model.	4
Describes the effect of a subsidy on domestic production, imports and market efficiency with reference to the model.	3
Outlines how a subsidy increases domestic production and reduces imports. There is some attempt to reference to the model.	2
Identifies that a subsidy reduces imports with no specific reference to the model.	1
Subtotal	**4**
Model	
Correctly labelled and detailed supply and demand model.	2
Demonstrates a partly correct model showing shifting supply curve to right and an increase in domestic supply.	1
Subtotal	**2**
Total	**6**

Answers could include:

- domestic demand and price remain the same
- imports decrease. Considers how a subsidy results in a decrease in market efficiency as the cost of the subsidy exceeds the gain to domestic producers and includes a clear reference to the model
- subsidies reduce costs of production for domestic producers, who then increase their supply at expense of importers
- however, a subsidy, reduces market efficiency as the cost of the subsidy is greater than the gain to domestic producers, resulting in a DWL to society.



Model must show:

- world price and clearly illustrates the supply curve shifting to the right; an increase in domestic supply; a decrease in imports; price remaining same
- dead weight loss (DWL)/lost economic efficiency.

2021 Section 2 Question 27 Free trade and protection	This question refers to the edited extract below, which is from an article by Matthew Doran and published on 15 November, 2020.

Australia signs Regional Comprehensive Economic Partnership, the world's largest trade deal.

The largest trade deal in history has been signed, with 15 countries including Australia agreeing to the trade deal covering 30 per cent of the global economy. Leaders agreed to the terms on the Regional Comprehensive Economic Partnership (RCEP) at the Association of South-East Asian Nations (ASEAN) summit in Bangkok last year. The countries involved are Australia, China, Japan, South Korea, New Zealand and the 10 members of ASEAN, including Indonesia and Vietnam.

Senator Birmingham said, "The real benefits are two-fold – one is our farmers and exporters, will get a more common set of rules across all nations. The other is our services export industry will get new access across financial, banking, aged care, health care, education and other service industries, such as the provision of architectural, engineering or planning services."

The focus of RCEP is on standardising trade rules across countries, making it easier for people to do business. India has been negotiating during the eight years of talks, before pulling out last year. "That diminishes some of the value for Australia, as India would've been the one RCEP partner with whom we did not previously have any type of free trade agreement," Senator Birmingham said. "However, the value of RCEP is still there." The deal also does not include the United States, despite the country having US$2 trillion (A$2.7 trillion) in trade with the countries which are involved.

(a) (i) List **one** benefit for Australian exporters from belonging to the RCEP. (1 mark)

Description	Marks
Common set of rules; further access into other sectors, e.g. financial, healthcare and others listed.	1
Total	**1**

(ii) According to the article, which two countries are currently not members of RCEP? (1 mark)

Description	Marks
India and the United States (must list both for 1 mark)	1
Total	**1**

(b) Describe **two** arguments for trade liberalisation. (4 marks)

Description	Marks
For **each** argument for trade liberalisation (2 x 2 marks for each)	
Describes an argument for trade liberalisation	2
Identifies an argument for trade liberalisation	1
Subtotal	**2**
Total	**4**

Answer(s) could include:

- free trade based on comparative advantage can lead to greater efficiency and economic growth
- promotes efficiency
- increases economic growth; improves standard of living; increases incomes and consumption
- lower prices; net increase in jobs; lower costs of production/inputs
- gains to consumers
- gains to producers.

(c) Using a demand and supply model, illustrate and explain the effects on consumers and producers of a country imposing a tariff on an imported good. (6 marks)

Description	Marks
Tariff diagram	
A clearly and correctly labelled tariff diagram showing price on y-axis; quantity on x-axis	1
Tariffs raise the price in the market and raises government revenue. Domestic consumption falls	1
Subtotal	**2**
Effects on consumers	
Explains that imposing a tariff will cause; prices to rise; consumption to fall; decreased consumer surplus	2
Outlines how tariffs increase prices of imports	1
Subtotal	**2**
Effects on producers	
Explains that imposing a tariff will cause; price increases; domestic producers to increase production; increased producer surplus	2
Outlines how domestic producers sell more goods	1
Subtotal	**2**
Total	**6**

2023 Section 3 Question 28

Free trade and protection

'The Australia-United Kingdom free trade agreement (A-UKFTA), signed virtually on 17 December 2021, is a gold standard trade agreement that represents a once in a generation deal for Australia and a historic movement in our relationship with the United Kingdom'.

(a) Outline the concept of free trade agreements and describe **three** arguments for trade liberalisation. (8 marks)

Description	Marks
Concept of free trade agreements	
Outlines the concept of free trade agreements	2
States a fact about free trade agreements	1
Subtotal	**2**
For each argument for trade liberalisation (3 x 2 marks)	
Describes the argument for trade liberalisation	2
States an argument for trade liberalisation	1
Subtotal	**6**
Total	**8**

Answers could include:

Concept of free trade agreements:
- a free trade agreement is an international treaty between two or more economies that reduces or eliminates certain barriers to trade in goods and services, as well as investment
- bilateral trade agreements (between two countries) versus regional/multilateral (small group of neighbouring countries/many countries and sectors).

Arguments for trade liberalisation:
- increased economic activity leading to increased incomes and living standards
- improved efficiency through greater competition results in efficient allocation of resources
- greater employment leading to higher incomes and living standards
- easier access to foreign markets through lower tariffs
- wider range of goods and services at lower prices due to specialisation, resulting in economies of scale
- transfer of knowledge, ideas and technology.

Accept other relevant answers.

(b) Using demand and supply models, demonstrate and explain how consumers and producers benefit from specialisation and trade. (12 marks)

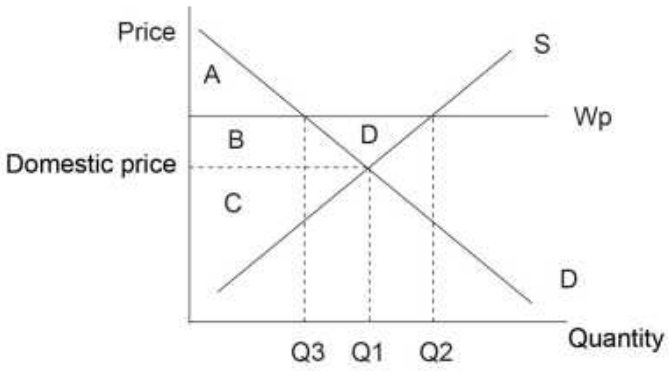
Description	Marks
Consumers	
Explains how consumers benefit from lower prices of imports due to specialisation and trade. Specific reference to the 'Gains from Imports' model and an explanation of the changing consumer and producer surpluses	4
Describes how consumers benefit from specialisation and trade. Some reference to the model and reference to changing consumer and producer surpluses	3
Outlines how consumers benefit from specialisation and trade with limited reference to the model	2
States that consumers benefit from greater choice and lower prices	1
Subtotal	**4**
Producers	
Explains how producers benefit from higher prices of exports due to specialisation and trade. Specific reference to the 'Gains from exports' model and an explanation of the changing consumer and producer surpluses	4
Describes how producers benefit from specialisation and trade. Some reference to the model and reference to changing consumer and producer surplus	3
Outlines how producers benefit from specialisation and trade with limited reference to the model	2
States that producers benefit from higher prices	1
Subtotal	**4**
Model 1: Gains from exports	
Fully labelled model showing the gains from exports. The changes in consumer and producer surplus is shown	2
Partially labelled model showing the gains from exports	1
Subtotal	**2**
Model 2: Gains from imports	
Fully labelled model showing the gains from imports. The changes in consumer and producer surplus is shown	2
Partially labelled model showing the gains from imports	1
Subtotal	**2**
Total	**12**

Answers could include:

Producers:

- exporting enables producers to reach a larger market (Q1 to Q2)
- producers are able to sell more product at a higher price (Wp)
- a larger market enables economies of scale and an increase in productivity
- exporting increases producer surplus (B + C + D)
- despite a decrease in consumer surplus, total surplus will increase through exporting (Area D)
- net gain in welfare
- decrease in production costs for producers who import raw materials.

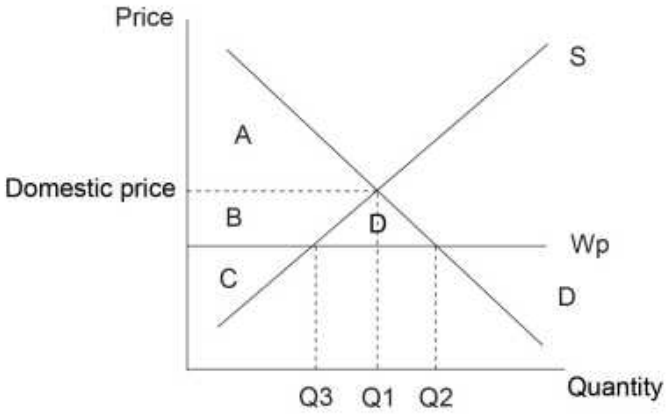
Gains from exports:



Consumers:

- gain from cheaper import prices (WP is lower than domestic equilibrium)
- consumption will increase (Q1–Q2)
- expands a country's consumption possibilities through importing
- consumer surplus increases (A + B + D)
- despite a decrease in producer surplus, total surplus will increase through imports
- net gain in welfare (Area D)
- greater range of goods at a lower price for consumers
- higher real incomes
- higher standards of living.

Gains from imports:



Accept other relevant answers.

2020 Section 3 Question 29 Free trade and protection	Using the demand and supply model, demonstrate and explain the short- and long-term effects of a reduction in tariffs and subsidies on a trade-protected economy. (20 marks)

Description	Marks
Tariff diagram	
Fully labelled and correct diagram showing the effect of an elimination of a tariff on price, changes in quantity demanded, quantity supplied by local producers, quantity supplied by importers, and government revenue	3
Generally correct and mostly labelled diagram showing effects on demand, supply and the government	2
Some elements of a D/S diagram showing a reduction in price and change in quantity as a tariff is removed	1
Subtotal	**3**
Tariff explanation and short-term effects	
Detailed explanation that includes reference to diagram and changes to price, government revenue, local demand, local producer supply and importer supply	3
Explanation that includes some reference to the diagram and most changes to local market	2
Description of some effects in the market	1
Subtotal	**3**
Subsidy diagram	
Fully labelled and correct diagram showing the effect of an elimination of a subsidy on quantity demanded, quantity supplied by local producers and quantity supplied by importers, and government expenditure	3
Generally correct and mostly labelled diagram showing effects on demand, supply and the government as a subsidy is removed	2
Some elements of a D/S diagram showing the change in quantity as a subsidy is removed	1
Subtotal	**3**
Subsidy explanation and short-term effect	
Detailed explanation that includes reference to diagram and changes to government expenditure, local demand, local producer supply and importer supply	3
Explanation that includes some reference to the diagram and most changes to local market	2
Description of some effects in the market	1
Subtotal	**3**
Long-term effects	
Detailed explanation of a range of the longer term effects of removing trade protection	7–8
Explanation of a range of the longer term effects of removing trade protection	5–6
Description of a number of longer term effects of removing trade restrictions	3–4
Outline of some longer term effects	1–2
Subtotal	**8**
Total	**20**

Answer(s) could include:

Tariff diagram:
- price – Y axis, quantity – X axis
- tariff originally set to raise price in market and raise government revenue eliminated
- domestic supply falls, imported supply rises
- domestic consumption expands.

Tariff explanation and short-term effects:
- reduction in price for consumers and expansion in domestic consumption
- switches consumption from domestic producers to imports
- decrease the cost for domestic producers if an imported capital item
- domestic suppliers sell less for less
- possible reduction of government revenue from tariff
- reference to DWL and market effects (CS, PS, TS).

Subsidy diagram:
- price – Y axis, quantity – X axis
- supply curve shifts to the left for domestic suppliers (decrease)
- increased gap between local supply and local demand
- price remains at world price
- domestic consumption is unchanged.

Subsidy explanation and short-term effects:
- increased domestic costs as subsidy removed
- lower competitiveness against imports
- decreased domestic production
- imports increase
- reduction of Government subsidy cost.
- reference to DWL and market effects (CS, PS, TS).

Longer term effects of tariff elimination:
- reduction in retaliatory tariffs
- less Government revenue for spending in other areas
- increase in economic output and employment through increased free trade
- structural change in the economy as resources such as labour shift from uncompetitive trade exposed industries to competitive industries
- higher national income.

Longer term effects of subsidy elimination:
- efficient producers are advantaged
- decreased burden on the tax payer
- promotes innovation in the economy
- government expenditure can be re-allocated to more effective areas of social need.

Note: short-term effect relates to changes on model whereas long-term effects relate to broader impacts on the economy.

2019 Section 3 Question 28 Free trade and protection	(a) Explain and demonstrate, using an economic model, how a nation can gain from specialisation and trade. (12 marks)

Description	Marks
Explanation	
Explains an economic model (i.e. absolute and comparative advantage and the PPF, demand and supply model). Includes gains from both exports and imports	5–6
Describes an economic model, showing how a nation can gain from specialisation and trade	3–4
Outlines some features of an economic model, showing how a nation can gain from trade	1–2
Subtotal	**6**
Model	
Detailed model clearly demonstrating gains from specialisation and trade	5–6
Mostly correct model showing how a nation can gain from trade	3–4
Some features of an appropriate model	1–2
Subtotal	**6**
Total	**12**

Answer(s) could include:

Model and explanation:

- theory of comparative advantage and calculation of opportunity costs to determine production possibilities before trade, after specialisation and after trade. Graphical representation to show consumption outside the initial PPF

or

- the demand and supply model demonstrating a country with a comparative advantage and domestic price below world price and gain in total welfare when opening up to trade at higher price. Demonstration of a comparative disadvantage with domestic price above world price and gain in total welfare when opening up to world trade at the lower price.

(b) Explain the main determinants of Australia's international competitiveness and describe **two** ways in which competitiveness can be improved over the long term. (8 marks)

Description	Marks
Main determinants	
Explains the main determinants with a clear link to international competitiveness	4
Describes the main determinants of international competitiveness	3
Outlines some determinants of international competitiveness	2
Identifies one or more determinants	1
Subtotal	**4**
For each of **two** ways of improving competitiveness over the long term	
Describes a way that competitiveness can be improved over the long term	2
Outlines a way that competitiveness can be improved over the long term	1
Subtotal	**4**
Total	**8**

Answer(s) could include:

Main determinants:
- real unit labour costs reduced (measures wages relative to productivity)
- lower inflation level keeping prices low relative to trading partners
- exchange rate changes – affects prices paid for imports and exports
- changes to labour productivity.

Long term improvements:
- infrastructure investments reducing production costs
- investment in technology, education and training improving efficiency of labour
- efficient labour markets that can respond to changes
- efficient financial markets that can make capital available
- government efficiency – regulatory framework is not onerous on businesses.

Unit 3 – Balance of payments

Section 1

2023 Section 1 Question 10 **Balance of payments**	Qantas purchased three Airbus A380 aircraft from France that required an overseas loan. The loan and the purchase of the aircraft would be recorded in the balance of payments as a (a) credit in the financial account and a credit in the current account. (b) debit in the financial account and a credit in the current account. (c) debit in the financial account and a debit in the current account. (d) credit in the financial account and a debit in the current account.

2022 Section 1 Question 5 **Balance of payments**	Which of the following would be recorded as a credit in Australia's current account? (a) A New Zealand citizen buys a holiday home in Perth. (b) A New Zealand company invests in an Australian mine. (c) An Australian company sells wine to New Zealand. (d) An Australian mining company pays dividends to its New Zealand shareholders.

2022 Section 1 Question 6 **Balance of payments**	A financial account surplus would result in (a) a decrease in Australia's net foreign liabilities. (b) an increase in Australia's net foreign liabilities. (c) an increase in Australia's holding of foreign assets. (d) a reduction in inward foreign investment into Australia.

2022 Section 1 Question 7 **Balance of payments**	Since 2019, a main cyclical reason for Australia's current account outcome is (a) high commodity prices. (b) a savings-investment gap. (c) increased net foreign investment. (d) an increase in Australia's net foreign liabilities.

2022 Section 1 Question 8 **Balance of payments**	In relation to the recent trends in Australia's current account, which of the following is correct? The (a) current account balance has moved from deficit to surplus. (b) current account balance has moved from surplus to deficit. (c) trade balance has moved from surplus to deficit. (d) net income balance has been highly volatile.

2020 Section 1 Question 7 **Balance of payments**	During the last decade, the main structural reason for Australia's persistent current account deficit was (a) the interest rate differential between Australia and the United States. (b) Australian investment in a rapidly-expanding Chinese economy. (c) weak commodity prices for key Australian exports, such as coal and iron ore. (d) interest and dividend payments in the primary income category.

2020 Section 1 Question 12 **Balance of payments**	When Australia records a surplus on its capital and financial account (a) capital machinery used to produce other goods has usually been imported from overseas. (b) Australian investment overseas has been greater than foreign investment in Australia. (c) Australian holdings of foreign assets have not increased as much as foreign holdings of Australian assets. (d) equity has been the preferred form of foreign investment rather than debt.

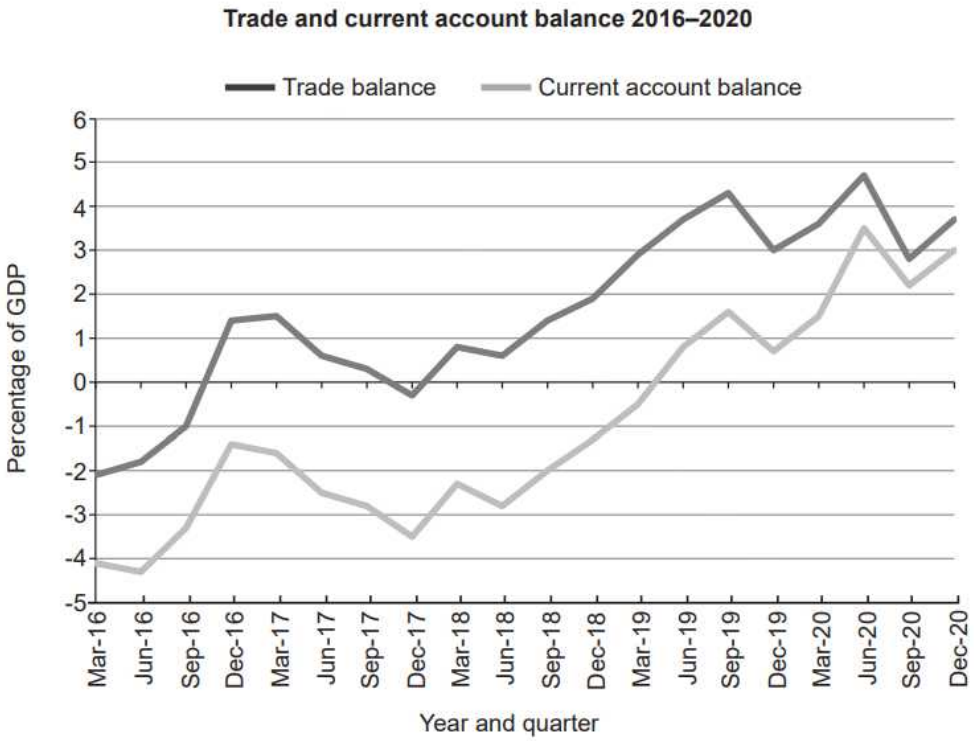
2020 Section 1 Question 15 **Balance of payments**	An increase in household savings will be **most** likely to cause which of the following? (a) an increase in national income (b) an increase in consumption (c) a decrease in national income (d) a decrease in unemployment

2019 Section 1 Question 8 **Balance of payments**	This question refers to the table below, which shows selected economic data for a hypothetical economy. **Balance of payments categories** — **$ billion** Export of goods — 340 Import of goods — 316 Export of services — 58 Import of services — 61 Net income — –164 According to the information in the table, which of the following statements is correct? (a) The balance on goods and services is $27 billion. (b) The goods balance is $340 billion. (c) The current account deficit is $164 billion. (d) The current account deficit is $143 billion.

2019 Section 1 Question 9 **Balance of payments**	An increase in the current account deficit would **most** likely be of concern if it was due to (a) rising investment in an economy undergoing structural change. (b) rising inflation levels affecting international competitiveness. (c) a higher rate of economic growth boosting demand for imports. (d) excessive domestic savings compared with investment requirements.

Section 2

2021 Section 2 Question 25 **Balance of payments**	This question refers to the graph below which shows Australia's balance of payments data.



(a) (i) What was Australia's highest recorded trade balance over the period 2016 to 2020? (1 mark)

_____

(ii) In which year and quarter did Australia record its first current account surplus? (1 mark)

_____

(b) Identify the trend in the current account balance from 2018 to 2020 and describe **two** economic reasons for this. (5 marks)

Trend: _____

One: _____

_____

_____

_____

_____

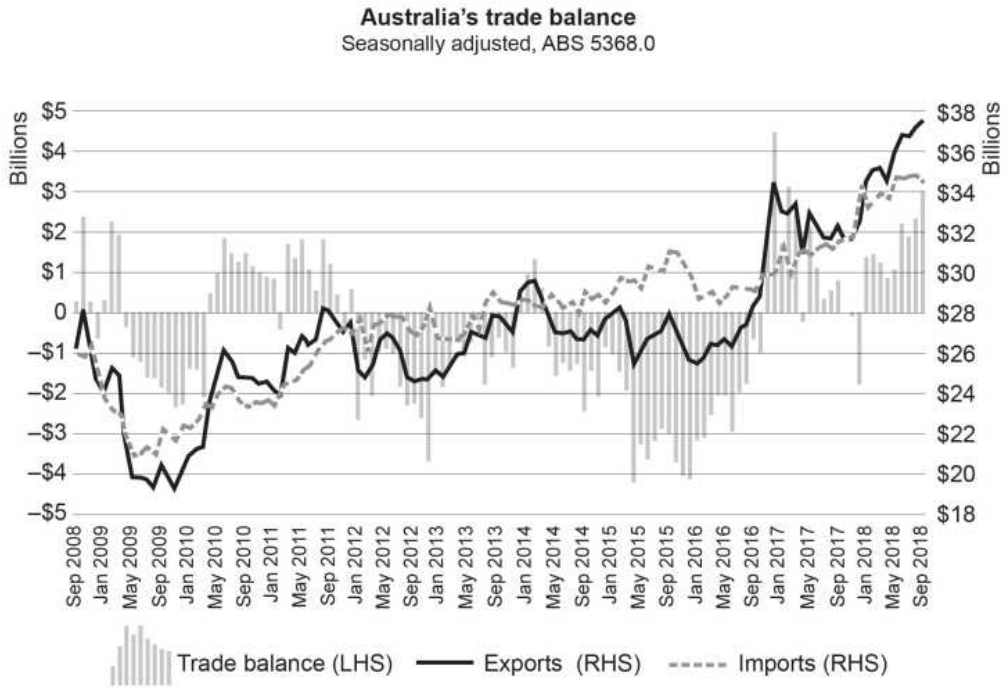
_____

Two:

(c) Explain why a fluctuating current account balance is not considered to be of concern to policy makers. (5 marks)

2019 Section 2 Question 25 **Balance of payments**	This question refers to the graph below, which shows Australia's trade balance.

This question refers to the graph below, which shows Australia's trade balance.



(a) (i) Identify the year that had the largest monthly trade deficit. (1 mark)

(ii) Identify the value of the trade balance in September 2018. (1 mark)

(iii) Identify the value of Australian exports in September 2015. (1 mark)

(b) Identify the trend in the trade balance over the three years up to September 2018 and state **two** possible reasons for this trend. (3 marks)

(c) Discuss the likely effect of the trade balance in 2018 on the following: (6 marks)

Current account balance:

Economic growth:

Federal Government budget outcome:

Section 3

2023 Section 3 Question 29 **Balance of payments**	Since 2019, Australia has persistently achieved current account surpluses in the Balance of Payments. (a) Outline the concept of the current account balance and describe **four** cyclical reasons for the current account surpluses since 2019. (10 marks) (b) Using a demand and supply model, demonstrate and explain the impact of falling commodity prices on the value of the Australian dollar (AUD) and explain the impact of this change on Australian consumers. (10 marks)

2020 Section 3 Question 28 **Balance of payments**	(a) Describe the structure of Australia's balance of payments with reference to the two major accounts and their relationship, the categories in each account and examples of typical transactions recorded in each of them. (12 marks) (b) In 2019, Australia recorded the first current account surplus in 44 years. Explain **two** factors that contributed to this significant change in the balance on the current account. (8 marks)

2019 Section 3 Question 29 **Balance of payments**	(a) Explain the relationship between Australia's current account outcome and its foreign liabilities. (8 marks) (b) Describe and account for the recent trends in Australia's level of foreign debt and discuss the impact this has had on the Australian economy. (12 marks)

Marking Guide – Section 1

2023 Section 1 Question 10 **Balance of payments**	Qantas purchased three Airbus A380 aircraft from France that required an overseas loan. The loan and the purchase of the aircraft would be recorded in the balance of payments as a (a) credit in the financial account and a credit in the current account. (b) debit in the financial account and a credit in the current account. (c) debit in the financial account and a debit in the current account. **(d) credit in the financial account and a debit in the current account. – Answer**

2022 Section 1 Question 5 **Balance of payments**	Which of the following would be recorded as a credit in Australia's current account? (a) A New Zealand citizen buys a holiday home in Perth. (b) A New Zealand company invests in an Australian mine. **(c) An Australian company sells wine to New Zealand. – Answer** (d) An Australian mining company pays dividends to its New Zealand shareholders.

2022 Section 1 Question 6 **Balance of payments**	A financial account surplus would result in (a) a decrease in Australia's net foreign liabilities. **(b) an increase in Australia's net foreign liabilities. – Answer** (c) an increase in Australia's holding of foreign assets. (d) a reduction in inward foreign investment into Australia.

2022 Section 1 Question 7 **Balance of payments**	Since 2019, a main cyclical reason for Australia's current account outcome is **(a) high commodity prices. – Answer** (b) a savings-investment gap. (c) increased net foreign investment. (d) an increase in Australia's net foreign liabilities.

2022 Section 1 Question 8 **Balance of payments**	In relation to the recent trends in Australia's current account, which of the following is correct? The **(a) current account balance has moved from deficit to surplus. – Answer** (b) current account balance has moved from surplus to deficit. (c) trade balance has moved from surplus to deficit. (d) net income balance has been highly volatile.

2020 Section 1 Question 7 **Balance of payments**	During the last decade, the main structural reason for Australia's persistent current account deficit was (a) the interest rate differential between Australia and the United States. (b) Australian investment in a rapidly-expanding Chinese economy. (c) weak commodity prices for key Australian exports, such as coal and iron ore. **(d) interest and dividend payments in the primary income category. – Answer**

2020 Section 1 Question 12 **Balance of payments**	When Australia records a surplus on its capital and financial account (a) capital machinery used to produce other goods has usually been imported from overseas. (b) Australian investment overseas has been greater than foreign investment in Australia. **(c) Australian holdings of foreign assets have not increased as much as foreign holdings of Australian assets. – Answer** (d) equity has been the preferred form of foreign investment rather than debt.

2020 Section 1 Question 15 **Balance of payments**	An increase in household savings will be **most** likely to cause which of the following? (a) an increase in national income (b) an increase in consumption **(c) a decrease in national income – Answer** (d) a decrease in unemployment

2019 Section 1 Question 8 **Balance of payments**	This question refers to the table below, which shows selected economic data for a hypothetical economy. **Balance of payments categories** — **$ billion** Export of goods — 340 Import of goods — 316 Export of services — 58 Import of services — 61 Net income — –164 According to the information in the table, which of the following statements is correct? (a) The balance on goods and services is $27 billion. (b) The goods balance is $340 billion. (c) The current account deficit is $164 billion. **(d) The current account deficit is $143 billion. – Answer**

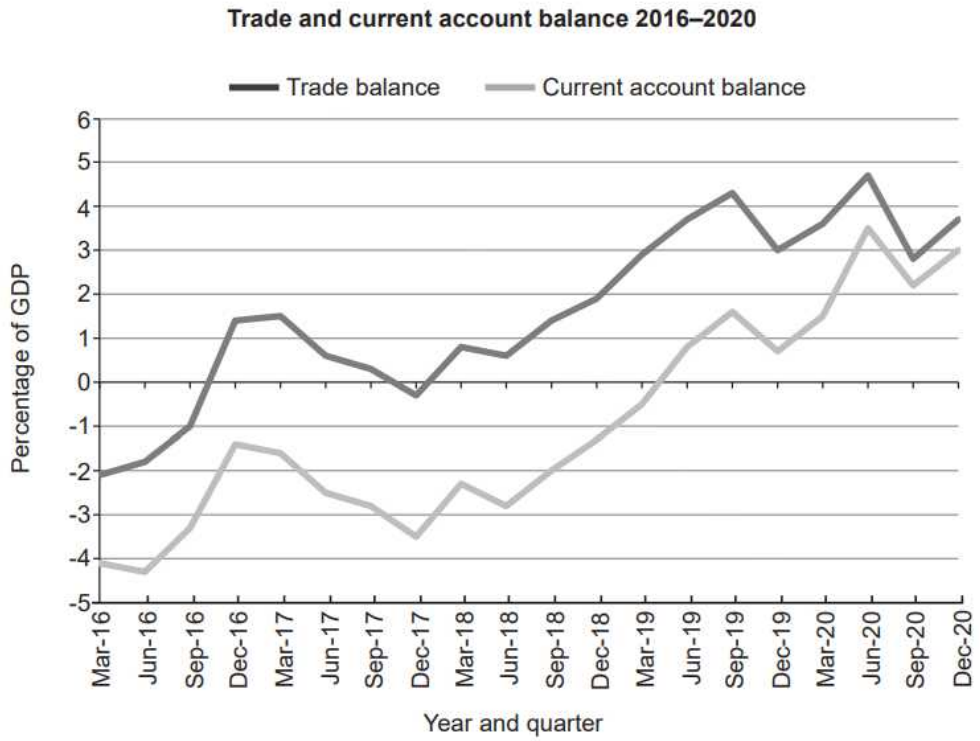
2019 Section 1 Question 9 **Balance of payments**	An increase in the current account deficit would **most** likely be of concern if it was due to (a) rising investment in an economy undergoing structural change. **(b) rising inflation levels affecting international competitiveness. – Answer** (c) a higher rate of economic growth boosting demand for imports. (d) excessive domestic savings compared with investment requirements.

Marking Guide – Section 2

2021 Section 2 Question 25

Balance of payments

This question refers to the graph below which shows Australia's balance of payments data.



(a) (i) What was Australia's highest recorded trade balance over the period 2016 to 2020? (1 mark)

Description	Marks
Approximately 4.6%–4.8% of GDP	1
Total	**1**

(ii) In which year and quarter did Australia record its first current account surplus? (1 mark)

Description	Marks
June Quarter 2019	1
Total	**1**

(b) Identify the trend in the current account balance from 2018 to 2020 and describe **two** economic reasons for this. (5 marks)

Description	Marks
Identifies an upward trend in the current account balance	1
Economic reason one:	
Describes a reason for the upward trend in the current account balance	2
Identifies a reason for the upward trend	1
Subtotal	**2**
Economic reason two:	
Describes a reason for the upward trend in the current account balance	2
Identifies a reason for the upward trend	1
Subtotal	**2**
Total	**5**

Answer(s) could include:

- terms of trade improving. Higher prices for exports relative to imports leads to increase in trade balance
- demand for commodity exports (e.g. iron ore) increase
- decrease in demand for imports as a result of declines in investment and consumption leads to increase in trade balance
- increase in net primary income balance due to decrease in foreign investment
- increase in commodity prices – iron ore, coal, wheat
- depreciation of the AUD during this period.

Accept other relevant answers.

(c) Explain why a fluctuating current account balance is not considered to be of concern to policy makers. (5 marks)

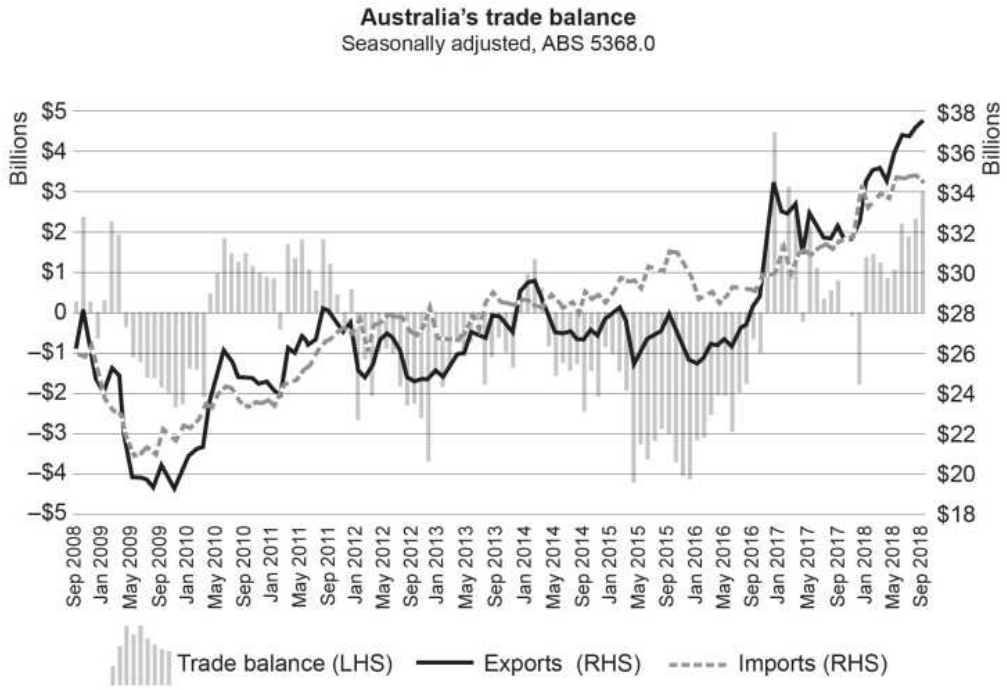
Description	Marks
Explains why a fluctuating current account (CA) balance is not a cause for concern by identifying both cyclical and/or structural factors that cause its movement	4–5
Describes the factors (cyclical and/or structural) as to why the CA balance may fluctuate	2–3
Identifies reasons as to why the CA can fluctuate	1
Total	**5**

Answer(s) could include:

- current account balance reflects the savings – investment gap that can result from cyclical and structural factors; if S>I current account is in surplus; if I>S current account is in deficit
- higher economic growth, therefore increase in GDP, Consumption, Investment, leading to increase in demand for imports
- reflects changes in domestic demand and the global economy
- cyclical factors: growing economy will mean I > S. Reflects confidence by foreign investors in economy. Higher capital inflow – decreasing primary income balance
- structural factors: structural change may require a significant increase in physical and social overhead capital
- past borrowing or sale of assets
- changes in the terms of trade
- trade balance moves with the business cycle.

2019 Section 2 Question 25 Balance of payments	This question refers to the graph below, which shows Australia's trade balance.

This question refers to the graph below, which shows Australia's trade balance.



(a) (i) Identify the year that had the largest monthly trade deficit. (1 mark)

Description	Marks
2015	1
Total	**1**

(ii) Identify the value of the trade balance in September 2018. (1 mark)

Description	Marks
$3 billion	1
Total	**1**

(iii) Identify the value of Australian exports in September 2015. (1 mark)

Description	Marks
Accept answers in the range $27–$28.1 billion	1
Total	**1**

(b) Identify the trend in the trade balance over the three years up to September 2018 and state **two** possible reasons for this trend. (3 marks)

Description	Marks
Identification	
The trade balance has moved from deficit to surplus	1
Subtotal	**1**
For each of **two** reasons	
States a possible reason for the trend	1
Subtotal	**2**
Total	**3**
Answer(s) could include: Possible reasons for the trend: • rising commodity prices increasing value of exports • production phase resulting from mining investment has increased volume of exports • production of LNG for exports begins reaching large volumes • increasing diversification of export base as services such as tourism and education become more important • depreciation of the currency has made Australian exports more attractive to foreigners.	
Accept other relevant answers.	

(c) Discuss the likely effect of the trade balance in 2018 on the following: (6 marks)

Description	Marks
Current account balance	
The balance on goods and services is a large positive	1
The deficit balance on the current account should get smaller	1
Subtotal	**2**
Economic growth	
Contribution of net exports will increase the economic growth rate	1
Exporting firms will increase profits and employment contributing to economic growth (reward, multiplier effects)	1
Subtotal	**2**
Federal Government budget outcome	
The budget should move to a smaller deficit and possibly a surplus in 2019–20	1
Higher exporting firm profits will mean greater company tax receipts and/or higher employment will mean more income tax receipts	1
Subtotal	**2**
Total	**6**

2023 Section 3 Question 29

Balance of payments

Since 2019, Australia has persistently achieved current account surpluses in the Balance of Payments.

(a) Outline the concept of the current account balance and describe **four** cyclical reasons for the current account surpluses since 2019. (10 marks)

Description	Marks
Concept of current account balance	
Outlines the concept of the current account balance	2
States a fact about the current account balance	1
Subtotal	**2**
For each reason (4 x 2 marks)	
Describes a cyclical reason for Australia's current account surpluses since 2019	2
States a cyclical reason for Australia's current account surpluses since 2019	1
Subtotal	**8**
Total	**10**

Answers could include:

Concept of current account balance:

- the current account records transactions between Australian residents and non-residents in three categories – goods, services and income
- both structural and cyclical reasons for the current account balance
- the trade balance is relatively volatile and influenced by Australia's business cycle and the world business cycle.

Reasons:

- domestic business cycle – lower domestic growth will lead to a decrease in imports, increasing the trade balance
- world business cycle – higher economic growth in trading partners increases demand for Australian exports, thus increasing the value of exports and hence the trade balance
- exchange rate – a lower exchange rate can reduce demand for imports and make exports more attractive in global markets, thus increasing the trade balance
- commodity prices/terms of trade – rising commodity prices boost exports thus increasing the current account balance
- relative inflation – comparatively lower rates of inflation can lead to an increase in demand for Australian exports
- income balance – a contraction in economic activity will decrease company profits and decrease income flows (dividends), leading to an increase in the current account balance.

Accept other relevant answers.

(b) Using a demand and supply model, demonstrate and explain the impact of falling commodity prices on the value of the Australian dollar (AUD) and explain the impact of this change on Australian consumers. (10 marks)

Description	Marks
Impact of falling commodity prices on the AUD	
Explains the impact of falling commodity prices on the value of the AUD. Explains how the exchange rate model demonstrates the impact	4
Describes that falling commodity prices will impact the value of the AUD. Describes how the exchange rate model demonstrates the impact	3
Outlines that falling commodity prices will impact the value of the AUD with little or no reference/application to the model	2
States that falling commodity prices will impact on the value of the AUD with no specific reference/application to the model	1
Subtotal	**4**
Model	
Fully labelled exchange rate model showing a decrease in demand resulting in a depreciation	2
Partially labelled exchange rate model showing a decrease in demand of the AUD resulting in a depreciation	1
Subtotal	**2**
Impact on consumers	
Explains how a depreciation of the AUD will impact consumers	4
Describes that a depreciation of the AUD will impact consumers	3
Outlines that a depreciation of the AUD will impact consumers	2
States that a depreciation of the AUD will impact consumers	1
Subtotal	**4**
Total	**10**

Answers could include:

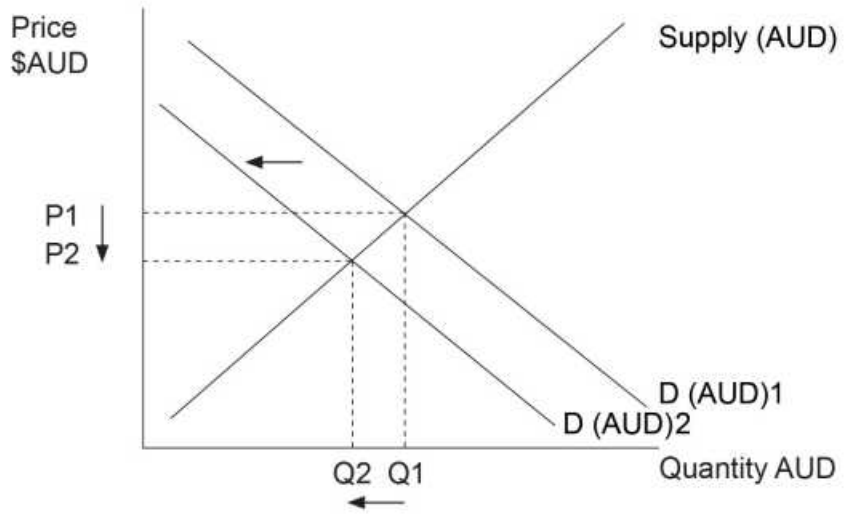
Impact of falling commodity prices on the AUD:

- falling commodity prices will mean that foreign countries will require less of their currency in exchange for the AUD
- the decrease demand for the AUD which will shift the demand curve to the left
- this results in a lower value of AUD and less quantity demanded (diagram must be referred to in the response).

Influence on consumers:

- a depreciation of the AUD due to fall in commodity prices will increase the costs of imports such as cars, petrol and household appliances for consumers thus increasing the consumer price index
- this will decrease disposable income as consumers will be faced with higher prices thus increasing the cost of living and reducing standards of living
- Australian consumers must pay more for overseas travel

Model:



Accept other relevant answers.

2020 Section 3 Question 28 Balance of payments	(a) Describe the structure of Australia's balance of payments with reference to the two major accounts and their relationship, the categories in each account and examples of typical transactions recorded in each of them. (12 marks)

Description	Marks
Defining Concepts	
Correct description of Balance of Payments and two major accounts	2
Some attempt to describe the major features of the Balance of Payments	1
Subtotal	**2**
Two major accounts and their relationship	
Detailed description of the two major accounts and clear understanding of their relationship	4–5
Description of the two major accounts and showing an understanding of a link between the two	2–3
Outline of one or both accounts	1
Subtotal	**5**
Categories and transactions	
Detailed description of all the categories in each account and typical transactions that occur in each category	4–5
Description of most categories in the two major accounts and mostly correct transactions typical for each	2–3
Outline of some of the categories and/or some transactions	1
Subtotal	**5**
Total	**12**

Answer(s) could include:

Two major accounts:
- definition of the Balance of Payments
- definition of Current Account and Capital and Financial Account.

Relationship:
- every transaction in Balance of Payments has two entries – credits and debits
- the Current Account and the Capital and Financial Account always sum to zero (plus net errors and omissions)
- an increase in foreign investment will increase the surplus on the Financial Account but will also increase servicing costs recorded in the income section of the Current Account which will go into greater deficit.

Categories and transactions:
- Current Account: goods, services and income categories
- Capital Account: capital transfers, acquisition/disposal of non-produced non-financial assets
- Financial Account: direct and portfolio investment, financial derivatives, other investment and reserve assets
- credit or debit transactions typical of Australian international transactions for each category.

(b) In 2019, Australia recorded the first current account surplus in 44 years. Explain **two** factors that contributed to this significant change in the balance on the current account. (8 marks)

Description	Marks
Current account surplus	
Description of what a current account surplus means with reference to the accounts	2
Some understanding of the meaning of a current account surplus	1
Subtotal	**2**
Terms of trade (ToT)	
Explanation of how the ToT has contributed to the current account surplus	3
Description of link between the ToT and the current account surplus	2
Outline of a link between the ToT and the current account surplus	1
Subtotal	**3**
Another factor	
Explanation of how another relevant factor has contributed to the current account surplus	3
Description of the link between another relevant factor and the current account surplus	2
Outline of a link between a factor and the current account surplus	1
Subtotal	**3**
Total	**8**

Answer(s) could include:

Current account surplus:

- the value of the nation's exports and income received from overseas is greater than the value of imports and the income payments made to overseas residents
- Australia usually records a CAD because of the large net income deficit which are payments required from the financial capital invested in Australia to bridge the savings-investment gap
- this is the first CAS in over four decades as we recorded a significant trade surplus which exceeded the net income deficit.

Terms of trade (ToT):

- the favourable movement in the ToT has been caused by higher export prices of our main commodity exports – iron ore, coal, LNG
- the consequence has been a dramatic improvement in the trade balance (higher prices of exports) which has led to an overall current account surplus.

Volume of exports and imports:

- weak consumer spending in Australia has reduced spending on imports
- the quantity of exports being sold has increased dramatically as a result of the mining and energy investment boom
- the changes in quantity of both exports and imports is feeding into record trade balances and producing the CAS
- depreciation of Australian dollar increased exports and reduced imports.

Reduced income payments:

- reduced interest payments due to low global interest rates
- reduced inflow of foreign financial capital as the mining boom moves from expansion to production phase and this means reduced income payments to overseas residents
- decline in investment and increase in savings
- Australian investment overseas is seeing an increase in income payments received by Australian residents.

Note: reference to trade and income balance required to address the concept of 'significant change'.

2019 Section 3 Question 29 Balance of payments	(a) Explain the relationship between Australia's current account outcome and its foreign liabilities. (8 marks)

Description	Marks
Explains the relationship between Australia's current account outcome and its foreign liabilities	7–8
Describes the main features of the relationship between Australia's current account outcome and its foreign liabilities	5–6
Outlines the links between Australia's current account outcome and its foreign liabilities	3–4
Identifies some relationship between Australia's current account outcome and its foreign liabilities	1–2
Total	**8**

Answer(s) could include:

Current account:
- definition of the current account and identifies the deficit outcome for Australia
- identifies the income section as the structural reason for the current account deficit
- describes the transactions involving interest, profit and dividends that are recorded in the incomes section of the current account
- explains the income transactions as a consequence of foreign investment flows.

Foreign liabilities:
- Australia's foreign liabilities are greater than its foreign assets which means that foreign investment into Australia is greater than foreign investment out of Australia
- Australia, as a consequence, has a net foreign liability
- most of the inflow of foreign investment is in the form of borrowing
- the servicing cost of foreign liabilities is recorded in the income section of the current account.

(b) Describe and account for the recent trends in Australia's level of foreign debt and discuss the impact this has had on the Australian economy. (12 marks)

Description	Marks
Recent trends	
Describes recent trends in Australia's level of foreign debt	2
Identifies a recent trend in Australia's level of foreign debt	1
Subtotal	**2**
Account for the recent trends	
Accounts for recent trends	2
Identifies a reason for recent trends	1
Subtotal	**2**
Impact on the economy	
Detailed discussion of the impact of private and public foreign debt with references to relevant recent features of the Australian economy	7–8
Discusses the impact of private and public foreign debt and some links to the Australian economy	5–6
Explains a range of impacts of foreign debt on an economy	3–4
Identifies some impacts of foreign debt	1–2
Subtotal	**8**
Total	**12**

Answer(s) could include:

Recent trends:
- foreign debt has increased over the last 10 years from approximately 50% of GDP to 64% of GDP
- net foreign debt is equivalent to just over $1000 billion dollars
- approximately 75% of foreign debt is private; the rest is owed by the government.

Account for recent trends:
- when Australia records a CAD, foreign debt or foreign equity increases. Currently all of Australia's foreign liabilities are in the form of foreign debt because recently Australia has had a net equity asset position
- as a consequence of the GFC and the end of the mining boom, government budget deficits have occurred for the last 10 years. This has increased public debt as the government has to borrow to fund the deficit.

Impact on the economy:
- when Australia records a CAD, foreign debt or foreign equity increases. Currently all of Australia's foreign liabilities are in the form of foreign debt because Australia now owns more assets overseas than foreigners own in Australia
- interest burden from the debt has actually been declining due to low global interest rates and increased Australian export income
- the foreign debt build-up was used mostly to fund massive expansion of Australian capital-intensive mining industry
- this increase in investment has led to an increase in the value of exports
- Australia's net worth measured by its assets (i.e. capital, resources, financial assets owned overseas) has increased much faster than the level of foreign debt. Per capita wealth has also increased in the last 10 years
- the build-up of public debt has led to increased interest payments and this money has been diverted away from expenditure on government services. However, the size of the budget deficit has been reducing in the last few years and government net public debt is due to peak in the next few years
- other negative effects of foreign debt (i.e. credit rating)
- overall, the foreign debt has successfully been used to produce higher rates of economic growth and a higher level of investment.

Unit 3 – Terms of trade

Section 1

2021 Section 1 Question 7 **Terms of trade**	In recent years, which of the following factors has had the largest effect on Australia's terms of trade? (a) the price of Australian commodity exports (b) the supply of Australian commodity exports (c) the price of Australian commodity imports (d) the value of the Australian dollar

2020 Section 1 Question 9 **Terms of trade**	If Australia's terms of trade increase, which of the following **must** be true as a result? (a) Australia can import fewer real goods for a unit of its exports. (b) Australia can import more real goods for a unit of its exports. (c) The index of export prices has decreased. (d) The index of import prices has increased.

2019 Section 1 Question 10 **Terms of trade**	This question refers to the table below. Year | Export price index | Import price index 1 | 100 | 100 2 | 90 | 80 3 | 80 | 75 For this economy in Year 3 the (a) total value of exports is greater than the total value of imports. (b) terms of trade have deteriorated from the previous year. (c) terms of trade have not changed from the previous year. (d) average price of exports is lower than the average price of imports.

2019 Section 1 Question 11 **Terms of trade**	Which of the following **most** likely explains the recent movements in Australia's terms of trade? (a) changes in commodity prices caused by shifts in global commodity demand and supply (b) changes in the value of the Australian dollar caused by Chinese industrialisation (c) changes in Chinese and American trade policies (d) changes in the value of Australian exports and imports caused by the Australian business cycle

Section 2

2023 Section 2 Question 25

Terms of trade

This question refers to the table below, which shows Australia's terms of trade data from 2016 to 2022.

Year	Export price index (2011 = 100)	Import price index (2011 = 100)	Terms of trade index
2016	91.2	103.3	88.2
2017	91.1	103.5	88
2018	98.9	110.3	89.6
2019	111.5	113.2	98.4
2020	108.3	109.2	99.1
2021	138	112.1	123.1
2022	182.3	131.5	

(a) (i) Calculate Australia's terms of trade index for 2022. (1 mark)

(ii) Identify the year in which Australia's terms of trade experienced its most favourable movement. (1 mark)

(b) Outline **two** reasons for the trend in the terms of trade index since 2018. (4 marks)

One:

Two:

(c) Explain **two** impacts on Australia's economic activity of the change in the terms of trade index since 2018. (6 marks)

One:

	Two:

Section 3

2022 Section 3 Question 28 **Terms of trade**	(a) Explain the meaning of the 'terms of trade' and describe **four** factors that may influence Australia's terms of trade. (10 marks) (b) Describe the contemporary trend in Australia's terms of trade and explain **four** impacts of this trend on the level of economic activity. (10 marks)

Marking Guide – Section 1

2021 Section 1 Question 7 **Terms of trade**	In recent years, which of the following factors has had the largest effect on Australia's terms of trade? **(a) the price of Australian commodity exports – Answer** (b) the supply of Australian commodity exports (c) the price of Australian commodity imports (d) the value of the Australian dollar

2020 Section 1 Question 9 **Terms of trade**	If Australia's terms of trade increase, which of the following **must** be true as a result? (a) Australia can import fewer real goods for a unit of its exports. **(b) Australia can import more real goods for a unit of its exports. – Answer** (c) The index of export prices has decreased. (d) The index of import prices has increased.

2019 Section 1 Question 10 **Terms of trade**	This question refers to the table below. Year | Export price index | Import price index 1 | 100 | 100 2 | 90 | 80 3 | 80 | 75 For this economy in Year 3 the (a) total value of exports is greater than the total value of imports. **(b) terms of trade have deteriorated from the previous year. – Answer** (c) terms of trade have not changed from the previous year. (d) average price of exports is lower than the average price of imports.

2019 Section 1 Question 11 **Terms of trade**	Which of the following **most** likely explains the recent movements in Australia's terms of trade? **(a) changes in commodity prices caused by shifts in global commodity demand and supply – Answer** (b) changes in the value of the Australian dollar caused by Chinese industrialisation (c) changes in Chinese and American trade policies (d) changes in the value of Australian exports and imports caused by the Australian business cycle

Marking Guide – Section 2

2023 Section 2 Question 25

Terms of trade

This question refers to the table below, which shows Australia's terms of trade data from 2016 to 2022.

Year	Export price index (2011 = 100)	Import price index (2011 = 100)	Terms of trade index
2016	91.2	103.3	88.2
2017	91.1	103.5	88
2018	98.9	110.3	89.6
2019	111.5	113.2	98.4
2020	108.3	109.2	99.1
2021	138	112.1	123.1
2022	182.3	131.5	

(a) (i) Calculate Australia's terms of trade index for 2022. (1 mark)

Description	Marks
138.6	1
Total	**1**

(ii) Identify the year in which Australia's terms of trade experienced its most favourable movement. (1 mark)

Description	Marks
2021	1
Total	**1**

(b) Outline **two** reasons for the trend in the terms of trade index since 2018. (4 marks)

Description	Marks
For each reason (2 x 2 marks)	
Outlines the reason for the trend in the terms of trade index since 2018	2
States a reason for the trend in the terms of trade index since 2018	1
Total	**4**
Answers could include: • increased price for our commodities due to increased demand from China • impact of exogenous events globally • a reduction in supply has seen large spikes in energy and food prices – both of which make up a large share of Australia's exports.	
Accept other relevant answers.	

(c) Explain **two** impacts on Australia's economic activity of the change in the terms of trade index since 2018. (6 marks)

Description	Marks
For each impact on economic activity (3 x 2 marks)	
Explains the impact on Australia's economic activity of the change in the terms of trade index since 2018	3
Outlines the impact on Australia's economic activity of the change in the terms of trade index since 2018	2
States an impact on Australia's economic activity of the change in the terms of trade index since 2018	1
Subtotal	**6**

Answers could include:

- an increase in the terms of trade will increase Australia's exports leading to an increase in GDP (positive multiplier effect)
- a higher terms of trade may lead to an appreciation of the AUD creating a two speed economy
- business cycle is stimulated through an increase in aggregate demand
- GDP/national income and higher standard of living
- greater employment opportunities may lead to an increase in wages
- trade balance may increase due to higher exports
- increased investment in the mining sector.

Accept other relevant answers.

Marking Guide – Section 3

2022 Section 3 Question 28

Terms of trade

(a) Explain the meaning of the 'terms of trade' and describe four factors that may influence Australia's terms of trade. (10 marks)

Description	Marks
Explanation	
Explains the meaning of terms of trade.	2
Outlines the formula for the terms of trade.	1
Subtotal	**2**
For each of the four factors (4 x 2 marks)	
Describes the factor influencing the terms of trade.	2
Outlines the factor influencing the terms of trade.	1
Subtotal	**8**
Total	**10**

Answers could include:

Explanation of terms of trade:

- an index calculated by dividing the export price index by the import price index, multiplying by 100
- it reflects the relative movements, up and down, in the prices of exports and imports, e.g. favourable and unfavourable
- equation used instead of a written explanation for meaning of terms of trade

Factors influencing the terms of trade:

Export Price Index (XPI)

- commodity prices, e.g., rising mineral commodity prices may lead to a favourable term of trade by increasing the XPI
- changing demand conditions for major commodities, e.g., increase in global economic growth (e.g., China's demand for Australian iron ore)
- changing supply conditions for major commodities, e.g., exogenous global events, Brazil (iron ore).

Import Price Index (MPI)

- changing supply conditions for major commodities, e.g., oil prices
- relative inflation rates in different countries when compared to Australia
- improvements in technology
- price of manufactured goods from major trading partners (i.e., China)
- changes in transportation costs (i.e. freight).

Accept other relevant answers.

(b) Describe the contemporary trend in Australia's terms of trade and explain four impacts of this trend on the level of economic activity. (10 marks)

Description	Marks
Contemporary trend in terms of trade	
Describes contemporary trend.	2
Identifies contemporary trend.	1
Subtotal	**2**
For each of the four impacts on economic activity (4 x 2 marks)	
Explains how the favourable trend influences the level of economic activity.	2
Outlines how the favourable trend influences economic activity.	1
Subtotal	**8**
Total	**10**

Answers could include:

Description:
- contemporary, i.e. the last three years, the trend has been strongly favourable after period of unfavourable terms of trade
- favourable with some years recording an Index exceeding 120 – terms of trade reached record high of 131 in 2022

Impacts:
- rising mineral commodity prices (iron ore) has led to greater profits, dividends, etc. from higher export revenue
- greater government revenue
- greater employment opportunities – increased wages
- increased current account balance – if competitiveness is maintained
- increased investment in mining sector
- AUD appreciates creating a two-speed economy
- CPI (inflation) rises
- increased standard of living as same volume of exports will purchase a greater volume of imports.

Accept other relevant answers.

Unit 3 – Exchange rates

Section 1

2022 Section 1 Question 9 **Exchange rates**	The top four currencies by weight in Australia's trade weighted index (TWI) are (a) Chinese yuan, Japanese yen, United States dollar and Singapore dollar. (b) United States dollar, Chinese yuan, Japanese yen and United Kingdom pound sterling. (c) Chinese yuan, United States dollar, Japanese yen and European euro. (d) United States dollar, Japanese yen, Chinese yuan and South Korean won.

2022 Section 1 Question 10 **Exchange rates**	An Australian consumer imported a car from the United States and paid AU$40 000. If the USD/AUD exchange rate was USD 1 = AUD 1.43, the approximate price of this car in USD was (a) $57 000. (b) $48 000. (c) $32 000. (d) $28 000.

2021 Section 1 Question 8 **Exchange rates**	Which of the following statements about the trade weighted index (TWI) are correct? I. it is used to measure the value of the A$ against a basket of currencies II. it reflects global economic conditions III. there are currently 10 currencies in the Australian TWI IV. it gives the highest weighting to Australia's largest trading partner (a) I, II and III. (b) I, II and IV. (c) II, III and IV. (d) I, III and IV.

2021 Section 1 Question 9 **Exchange rates**	Given the exchange rate of AUD 1 = EURO 0.65, what is the approximate cost of a 2500 EURO European holiday in AUD? (a) $3846 (b) $3125 (c) $1625 (d) $6250

2021 Section 1 Question 12 **Exchange rates**	Which of the following factors is not a determinant of the value of the Australian dollar? (a) balance of payments (b) activities of currency speculators (c) Reserve Bank of Australia intervention (d) relative inflation rates

2021 Section 1 Question 22 **Exchange rates**	A strength of monetary policy is that it (a) can have an impact on the exchange rate. (b) can be targeted to specific sectors of the economy. (c) is more effective in a recession than fiscal policy. (d) is the only policy that can control inflation.

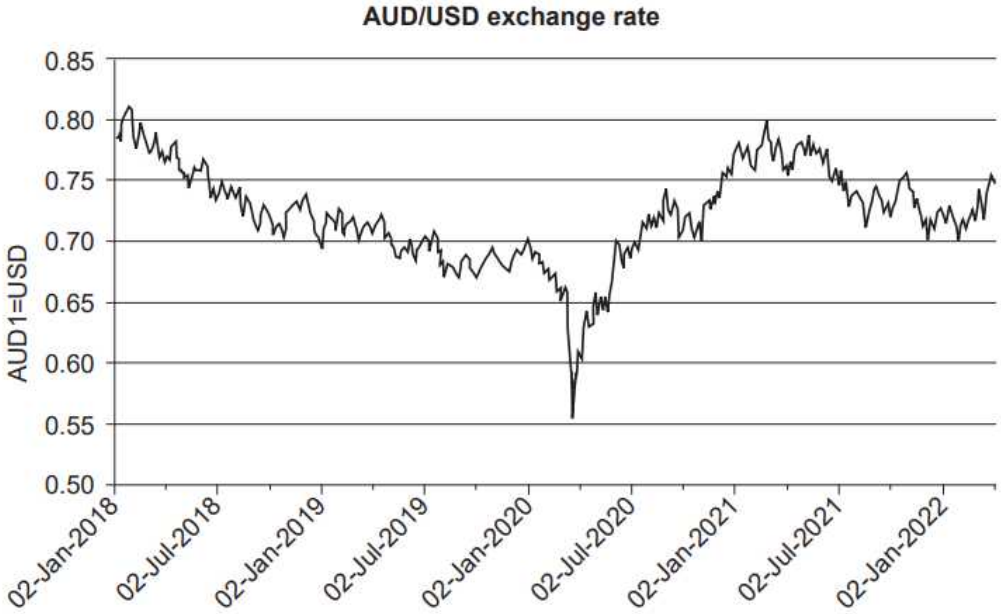
2020 Section 1 Question 10 **Exchange rates**	An appreciation of the Australian dollar will **most** likely occur if there is (a) a fall in domestic interest rates. (b) an increase in demand for imports. (c) a rise in the global price of iron ore. (d) a large decrease in domestic investment expenditure.

2019 Section 1 Question 12 **Exchange rates**	An appreciation of the Australian dollar would be **most** beneficial for (a) domestic importers of European cars. (b) foreigners wanting to invest in Australia. (c) domestic exporters of a price elastic commodity. (d) domestic investors wanting to purchase Australian assets.

2019 Section 1 Question 18 **Exchange rates**	Which method of financing a budget deficit will **most** likely lead to an appreciation of the Australian dollar? (a) borrowing from the Reserve Bank of Australia (b) purchasing government bonds from the Australian public (c) borrowing from overseas countries (d) raising finances through crowd funding platforms

Section 2

2022 Section 2 Question 26 **Exchange rates**	This question refers to the graph below which shows the exchange rate between the Australian dollar (AUD) and the United States dollar (USD).



(a) (i) Identify how much the AUD depreciated from its peak in January 2018 to its lowest point in 2020. (1 mark)

(ii) Calculate the approximate percentage change in the exchange rate from its lowest level in 2020 to its peak in 2021. (1 mark)

(b) Outline **two** possible causes of the depreciation of the AUD in 2021. (4 marks)

One:

Two:

(c) Using the aggregate demand/aggregate supply (AD/AS) model, explain how a depreciation of the AUD is likely to affect consumers **and** the business sector of the Australian economy. (6 marks)

Model

2020 Section 2 Question 26 **Exchange rates**	This question refers to the graph below, which shows the value of the Australian dollar. ***Copyright restrictions prohibit the release of this SCSA exam material.*** (a) (i) Identify the value of the trade weighted index (TWI) at the start of 2019. (1 mark) (ii) If an Australian tourist had exchanged 100 Australian dollars for United States (US) dollars in 2001, how much would they have received? (1 mark) (iii) In terms of the exchange rate, what would have been the best year for an Australian tourist to visit the United States? (1 mark)

(b) Identify **two** reasons why there is a difference between the change in the TWI value and the US dollar value of the Australian dollar. (2 marks)

(c) Describe the trend in the value of the Australian dollar since 2011 and outline **two** factors that have contributed to this trend. (3 marks)

	(d) Explain **two** likely effects on Australian households and two likely effects on firms of the movement in the value of the Australian dollar since 2011. (4 marks) Households One: Two: Firms One: Two:

2019 Section 2 Question 26 **Exchange rates**	This question refers to the edited extract below, taken from an article by James Hall that appeared online on 8 February 2019.

Interest rate cut will see Aussie dollar fall well below 70 US cents, economists say

The local dollar has been slammed following the Reserve Bank of Australia's (RBA) announcement a rate cut was likely.

The Australian dollar is on track for its worst one-day fall in nearly two years following Reserve Bank boss Philip Lowe's comments a rate cut was likely with growing concerns over the local economy.

The Aussie dollar fell 1.35 US cents in the 24 hours between midday yesterday and today. It was buying 71.03 US cents at noon today and economists say it will crash well below 70 US cents if the rate is cut.

Macro Business Fund chief strategist David Llewellyn-Smith said the Aussie dollar would be worth 65 US cents by the end of the year.

'The likelihood is that they will have to cut because house prices nearly always draw the broader economy into weakness, and they're falling very fast in Sydney and in Melbourne and are now falling in all major capitals. We think they'll have to cut twice and that's going to put a lot of downwards pressure on the Aussie dollar.'

AMP Capital chief economist Shane Oliver agrees the RBA will have to cut rates twice this year, but he says strong commodity prices will ensure a slide isn't as dramatic as Mr Llewellyn-Smith predicts.

Dr Oliver told news.com.au the expected US rate hike would compound the weakness of the Australian currency.

'If our interest rates have been falling below those in the US, then that just makes it less attractive to park your money in Australian dollars versus US dollars', he said.

'And that will put more downwards pressure on the Aussie, pushing it into the 60s.'

(a) (i) Identify the reason given in the extract for the fall in the value of the Australian dollar. (1 mark)

(ii) Identify the factor mentioned in the extract that may limit the extent of any fall in the value of the Australian dollar. (1 mark)

(b) Using the exchange rate at noon on 8 February 2019, calculate how many Australian dollars would be required to purchase an American product valued at US $220. (1 mark)

(c) Discuss, with reference to aggregate expenditure, why falling house prices 'nearly always draw the broader economy into weakness'. (4 marks)

(d) Use an appropriate model to demonstrate and explain how a simultaneous reduction in Australian interest rates and an increase in interest rates in the United States would affect the value of the Australian dollar. (5 marks)

Model

Section 3

2021 Section 3 Question 29 **Exchange rates**	The value of the Australian dollar has risen from $0.57US in March 2020 to $0.77US in April 2021. (a) Using the demand and supply model, illustrate and explain **two** factors that caused this movement in the Australian dollar. (10 marks) (b) Analyse the effects of this movement in the exchange rate on the Australian business sector. (10 marks)

Marking Guide – Section 1

2022 Section 1 Question 9 **Exchange rates**	The top four currencies by weight in Australia's trade weighted index (TWI) are (a) Chinese yuan, Japanese yen, United States dollar and Singapore dollar. (b) United States dollar, Chinese yuan, Japanese yen and United Kingdom pound sterling. **(c) Chinese yuan, United States dollar, Japanese yen and European euro. – Answer** (d) United States dollar, Japanese yen, Chinese yuan and South Korean won.

2022 Section 1 Question 10 **Exchange rates**	An Australian consumer imported a car from the United States and paid AU$40 000. If the USD/AUD exchange rate was USD 1 = AUD 1.43, the approximate price of this car in USD was (a) $57 000. (b) $48 000. (c) $32 000. **(d) $28 000. – Answer**

2021 Section 1 Question 8 **Exchange rates**	Which of the following statements about the trade weighted index (TWI) are correct? I. it is used to measure the value of the A$ against a basket of currencies II. it reflects global economic conditions III. there are currently 10 currencies in the Australian TWI IV. it gives the highest weighting to Australia's largest trading partner (a) I, II and III. **(b) I, II and IV. – Answer** (c) II, III and IV. (d) I, III and IV.

2021 Section 1 Question 9 **Exchange rates**	Given the exchange rate of AUD 1 = EURO 0.65, what is the approximate cost of a 2500 EURO European holiday in AUD? **(a) $3846 – Answer** (b) $3125 (c) $1625 (d) $6250

2021 Section 1 Question 12 **Exchange rates**	Which of the following factors is not a determinant of the value of the Australian dollar? **(a) balance of payments – Answer** (b) activities of currency speculators (c) Reserve Bank of Australia intervention (d) relative inflation rates

2021 Section 1 Question 22 **Exchange rates**	A strength of monetary policy is that it **(a) can have an impact on the exchange rate. – Answer** (b) can be targeted to specific sectors of the economy. (c) is more effective in a recession than fiscal policy. (d) is the only policy that can control inflation.

2020 Section 1 Question 10 **Exchange rates**	An appreciation of the Australian dollar will **most** likely occur if there is (a) a fall in domestic interest rates. (b) an increase in demand for imports. **(c) a rise in the global price of iron ore. – Answer** (d) a large decrease in domestic investment expenditure.

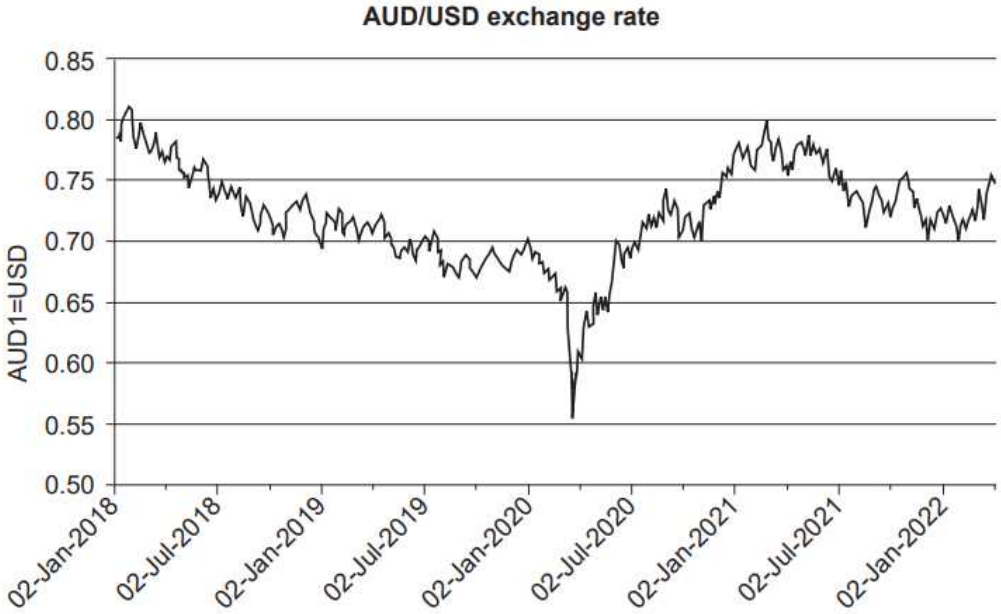
2019 Section 1 Question 12 **Exchange rates**	An appreciation of the Australian dollar would be **most** beneficial for **(a) domestic importers of European cars. – Answer** (b) foreigners wanting to invest in Australia. (c) domestic exporters of a price elastic commodity. (d) domestic investors wanting to purchase Australian assets.

2019 Section 1 Question 18 **Exchange rates**	Which method of financing a budget deficit will **most** likely lead to an appreciation of the Australian dollar? (a) borrowing from the Reserve Bank of Australia (b) purchasing government bonds from the Australian public **(c) borrowing from overseas countries – Answer** (d) raising finances through crowd funding platforms

2022 Section 2 Question 26

Exchange rates

This question refers to the graph below which shows the exchange rate between the Australian dollar (AUD) and the United States dollar (USD).



(a) (i) Identify how much the AUD depreciated from its peak in January 2018 to its lowest point in 2020. (1 mark)

Description	Marks
0.25 or 0.26 acceptable or approximately 30–32%.	1
Total	**1**

(ii) Calculate the approximate percentage change in the exchange rate from its lowest level in 2020 to its peak in 2021. (1 mark)

Description	Marks
Approximately 43%–45%	1
Total	**1**

(b) Outline **two** possible causes of the depreciation of the AUD in 2021. (4 marks)

Description	Marks
For each of the two causes (2 x 2 marks)	
Outlines a possible cause of the depreciation of the AUD in 2021.	2
Identifies a possible cause of the depreciation of the AUD in 2021.	1
Total	**4**

Answers could include:

- falling interest rate differential relative to other countries
- decreased foreign investment into Australia
- decreased confidence in Australian economy by foreign investors
- falling terms of trade
- rising domestic inflation
- closed borders; services exports impacted such as tourism, education.
- slow global economic growth (i.e. China)
- strengthening (appreciation) of the $US.

Accept other relevant answers.

(c) Using the aggregate demand/aggregate supply (AD/AS) model, explain how a depreciation of the AUD is likely to affect consumers **and** the business sector of the Australian economy. (6 marks)

Description	Marks
Consumers	
Explains with reference to the model (rightward shift of AD) how a depreciation of the AUD is likely to affect consumers in the Australian economy.	2
Outlines how depreciation of the AUD is likely to affect consumers in the Australian economy.	1
Subtotal	**2**
Business sector	
Explains with reference to the model (leftward shift of AS) how a depreciation of the AUD is likely to affect the business sector of the Australian economy.	2
Outline how depreciation of the AUD is likely to affect the business sector of the Australian economy.	1
Subtotal	**2**
Model	
Detailed AD/AS model showing a rightward shift in AD and leftward shift in AS curve.	2
Mostly correct model showing a rightward shift in AD.	1
Subtotal	**2**
Total	**6**

Answers could include:

Consumers

- prices of imported goods and services increase
- domestically produced goods are more attractive to consumers causing imports to fall
- domestic production to rise - AD shifts to the right.

Business sector

- imported imports (capital) become more expensive causing an increase in costs of production
- higher production costs will result in a leftward shift in the AS curve.
- increased international competitiveness due to lower export prices leading to a greater volume of exports – AD shifts to the right.

Model must show:

- a rightward shift in the AD curve, increasing real gross domestic product (RGDP) and increasing the price level
- leftward shift in the AS curve due to increased costs of imported inputs.

Accept other relevant answers.

2020 Section 2 Question 26

Exchange rates

This question refers to the graph below, which shows the value of the Australian dollar.

Copyright restrictions prohibit the release of this SCSA exam material.

(a) (i) Identify the value of the trade weighted index (TWI) at the start of 2019. (1 mark)

Description	Marks
60 (60–62 acceptable)	1
Total	**1**

(ii) If an Australian tourist had exchanged 100 Australian dollars for United States (US) dollars in 2001, how much would they have received? (1 mark)

Description	Marks
US$48–52	1
Total	**1**

(iii) In terms of the exchange rate, what would have been the best year for an Australian tourist to visit the United States? (1 mark)

Description	Marks
2011 or 2012	1
Total	**1**

(b) Identify **two** reasons why there is a difference between the change in the TWI value and the US dollar value of the Australian dollar. (2 marks)

Description	Marks
The US dollar value of the Australian dollar only reflects transactions denominated in US dollar so it is likely to be more volatile as it is one currency	1
The Trade Weighted Index is the value of the Australian dollar against a basket of currencies weighted by their trade importance to Australia. This means movements in the value of the Australian dollar will be moderated	1
Total	**2**

(c) Describe the trend in the value of the Australian dollar since 2011 and outline **two** factors that have contributed to this trend. (3 marks)

Description	Marks
Trend	
The Australian dollar has depreciated	1
Subtotal	**1**
Factors	
Two factors outlined relating to a depreciating currency	2
One factor outlined relating to a depreciating currency	1
Subtotal	**2**
Total	**3**

Answer(s) could include:

- lower interest rates in Australia relative to the US
- stronger economic growth in the US attracting financial capital
- less demand for financial investment in Australia as mining boom moved from expansion to production phase
- slowing economic growth rate in China leading to lower commodity prices
- decreasing terms of trade
- slower world economic growth.

(d) Explain **two** likely effects on Australian households and two likely effects on firms of the movement in the value of the Australian dollar since 2011. (4 marks)

Description	Marks
Households	
Explains two effects on households	2
Explains one effect on households	1
Subtotal	**2**
Firms	
Explains two effects on firms	2
Explains one effect on firms	1
Subtotal	**2**
Total	**4**

Answer(s) could include:

Households:

- households will be disadvantaged because they pay higher prices for imported goods such as cars and whitegoods
- households will be disadvantaged because they pay higher prices for overseas travel
- households will be able to take advantage of greater employment and higher wages in the traded goods and services sector
- imported inflationary pressure reducing real income and lowering living standards.

Firms:

- depreciation will advantage exporting firms as prices for overseas customers fall
- import-competing local producers will benefit as imports become more expensive
- firms in the travel and education sector will be advantaged because these services are cheaper for overseas residents
- the boost to national income from net exports may create greater spending in the local economy boosting domestic firms' profits
- firms who require capital imports or raw materials will have to pay more.

2019 Section 2 Question 26

Exchange rates

This question refers to the edited extract below, taken from an article by James Hall that appeared online on 8 February 2019.

Interest rate cut will see Aussie dollar fall well below 70 US cents, economists say

The local dollar has been slammed following the Reserve Bank of Australia's (RBA) announcement a rate cut was likely.

The Australian dollar is on track for its worst one-day fall in nearly two years following Reserve Bank boss Philip Lowe's comments a rate cut was likely with growing concerns over the local economy.

The Aussie dollar fell 1.35 US cents in the 24 hours between midday yesterday and today. It was buying 71.03 US cents at noon today and economists say it will crash well below 70 US cents if the rate is cut.

Macro Business Fund chief strategist David Llewellyn-Smith said the Aussie dollar would be worth 65 US cents by the end of the year.

'The likelihood is that they will have to cut because house prices nearly always draw the broader economy into weakness, and they're falling very fast in Sydney and in Melbourne and are now falling in all major capitals. We think they'll have to cut twice and that's going to put a lot of downwards pressure on the Aussie dollar.'

AMP Capital chief economist Shane Oliver agrees the RBA will have to cut rates twice this year, but he says strong commodity prices will ensure a slide isn't as dramatic as Mr Llewellyn-Smith predicts.

Dr Oliver told news.com.au the expected US rate hike would compound the weakness of the Australian currency.

'If our interest rates have been falling below those in the US, then that just makes it less attractive to park your money in Australian dollars versus US dollars', he said.

'And that will put more downwards pressure on the Aussie, pushing it into the 60s.'

(a) (i) Identify the reason given in the extract for the fall in the value of the Australian dollar. (1 mark)

Description	Marks
RBA's announcement that a rate cut was likely	1
Total	**1**

(ii) Identify the factor mentioned in the extract that may limit the extent of any fall in the value of the Australian dollar. (1 mark)

Description	Marks
Strong commodity prices	1
Total	**1**

(b) Using the exchange rate at noon on 8 February 2019, calculate how many Australian dollars would be required to purchase an American product valued at US $220. (1 mark)

Description	Marks
AUD $309.73	1
Total	**1**

(c) Discuss, with reference to aggregate expenditure, why falling house prices 'nearly always draw the broader economy into weakness'. (4 marks)

Description	Marks
Houses are key household assets and falling prices reduce the stock of wealth of households	1
Households will respond to the loss of wealth by reducing consumption and increasing saving and this will reduce aggregate expenditure	1
Falling household and business confidence will lead to decrease in investment	1
Decreased aggregate expenditure leads to a fall in economic activity (i.e. multiplier effects)	1
Total	**4**

(d) Use an appropriate model to demonstrate and explain how a simultaneous reduction in Australian interest rates and an increase in interest rates in the United States would affect the value of the Australian dollar. (5 marks)

Description	Marks
Explanation	
A reduction in Australian interest rates would reduce capital inflow into Australia decreasing demand for the Australian dollar	1
An increase in the United States' interest rates would increase capital outflow from Australia and therefore an increase in supply of the Australian dollar	1
Reference to shifts in the diagram and conclusion of significant depreciation of the Australian dollar	1
Subtotal	**3**
Model	
Correctly labelled diagram (i.e. vertical scale: Australian dollar in United States' dollars, horizontal scale: quantity, demand and supply curves labelled)	1
Demand curve shift to the left, supply curve shifts to the right and new lower equilibrium identified	1
Subtotal	**2**
Total	**5**

Marking Guide – Section 3

2021 Section 3 Question 29

Exchange rates

The value of the Australian dollar has risen from $0.57US in March 2020 to $0.77US in April 2021.

(a) Using the demand and supply model, illustrate and explain **two** factors that caused this movement in the Australian dollar. (10 marks)

Description	Marks
Appropriate model (2 x 2 marks for illustrating each factor)	
Fully labelled exchange rate model, correctly showing either increased demand for AUD, or decreased supply of AUD	2
Mostly correct model, showing some understanding of increased demand for AUD, or decreased supply of AUD	1
Subtotal	**4**
For each factor explaining appreciation of AUD (2 x 3 marks each)	
Explains a factor that has caused this movement in the Australian dollar	3
Describes a factor that has caused this movement in the Australian dollar	2
Identifies a factor that has caused this movement in the Australian dollar	1
Subtotal	**6**
Total	**10**

Answer(s) could include:

Factors:

- demand for mineral commodities, e.g. high prices for iron ore, gold, coal
- strong economic growth in China, increase quantity of exports
- foreign investment entering Australia
- terms of trade, high prices for mineral commodities
- interest rates (differential rising)
- lower domestic growth in Australia
- declining global interest rates (reducing debt servicing flows).

Note: Students can provide illustrations for two demand-side factors; two supply-side factors; or one of each to achieve full marks.

(b) Analyse the effects of this movement in the exchange rate on the Australian business sector. (10 marks)

Description	Marks
Impacts on business sector	
Analyses the effects of this movement in the exchange rate on the Australian business sector	9–10
Explains the effects of this movement in the exchange rate on the Australian business sector	7–8
Describes the effects of this movement in the exchange rate on the Australian business sector	5–6
Outlines the effects of this movement in the exchange rate on the Australian business sector	3–4
Identifies/lists some effects of this movement in the exchange rate on the Australian business sector	1–2
Total	**10**

Answer(s) could include:

Positives:
- domestic businesses (such as retailers, manufacturers and farmers) gain when they import components/inputs/capital goods – now cheaper with the higher AUD
- lower production costs, therefore higher profits
- Australian businesses that sell imported goods will benefit (retail).

Negatives:
- domestic import-competing firms negatively impacted
- exporters have reduced income (less competitive), depending on demand elasticities, contracts
- decreases foreign investment, e.g. less capital flows into share market and bonds.

Other answers could include:
- size of the effect is determined by:
  - elasticity of demand for Australian produced goods
  - drag effect of exports declining having long term negative impacts on the business sector.

Note: The question does not require candidates to explicitly analyse/identify positive and negative effects. Candidates should not be penalised if answer is not structured this way.

Unit 3 – Foreign investment

Section 1

2023 Section 1 Question 11 **Foreign investment**	Foreign liabilities increase when (a) Australian firms borrow from overseas financial institutions. (b) Australian firms engage in direct investment abroad. (c) Australian firms engage in portfolio investment abroad. (d) the Australian dollar (AUD) appreciates.

2023 Section 1 Question 12 **Foreign investment**	Which of the following statements about foreign direct investment (FDI) into Australia are correct? I. FDI brings new technology that increases the efficiency of Australian firms II. FDI contributes to improved infrastructure III. FDI contributes to Australia's financial account surplus IV. FDI reduces employment resulting in decreased taxation revenue (a) I and II only (b) I, II and III (c) I and IV only (d) I, III and IV

2021 Section 1 Question 10 **Foreign investment**	Australia's total net foreign liability is (a) public sector debt plus foreign ownership of Australian assets. (b) total foreign investment in Australia plus repatriation of profits. (c) foreign debt plus total foreign investment in Australia. (d) net foreign debt liabilities plus net foreign equity liabilities.

2022 Section 1 Question 12 **Foreign investment**	Which of the following statements about Australia's foreign debt are correct? I. High foreign debt levels can cause a downgrade in Australia's credit rating. II. Government debt is the largest component of Australia's foreign debt. III. A depreciation of the Australian dollar causes an increase in debt service costs. IV. High foreign debt can lead to higher per capita income in Australia. (a) I, II and III. (b) I and IV only. (c) II, III and IV. (d) I, III and IV.

2021 Section 1 Question 11 **Foreign investment**	An increase in direct foreign investment in Australian agriculture would be recorded in Australia's balance of payments as a credit in the (a) current account. (b) capital account. (c) financial account. (d) national savings account.

2020 Section 1 Question 8 **Foreign investment**	When a country receives foreign direct investment its (a) capital account will change. (b) financial account will change. (c) current account will change. (d) domestic account will change.

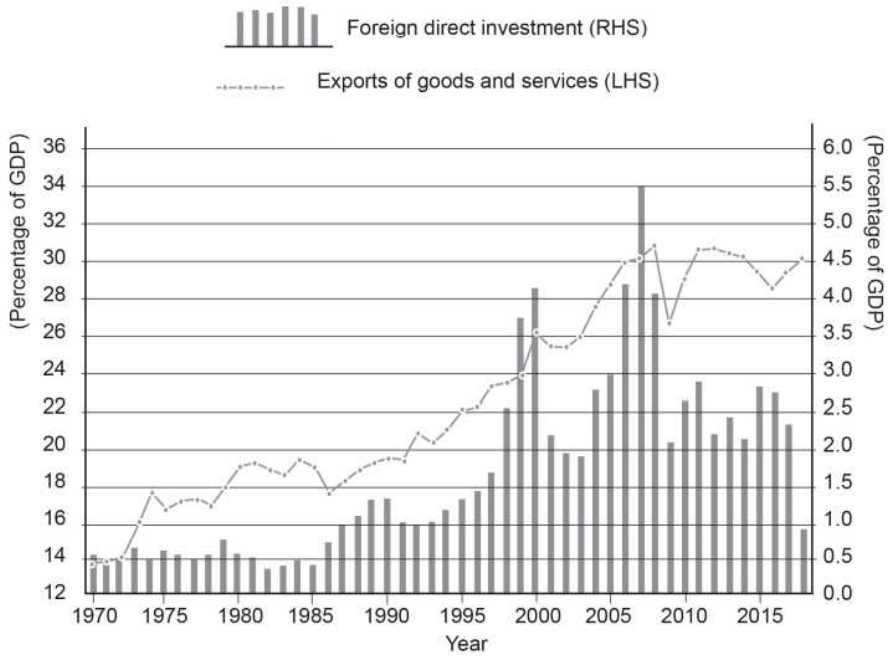
2020 Section 1 Question 11 **Foreign investment**	Foreign debt can become a cause for concern if (a) global interest rates rise. (b) the majority of the debt is the result of borrowing by the private sector. (c) interest rates fall, causing the servicing costs of debt to change. (d) the debt was used for infrastructure spending.

Section 2

2020 Section 2 Question 25

Foreign investment

This question refers to the graph below which shows changes in global exports and global foreign direct investment flows, and the table on page 9, which shows the industry shares of economic activity over time in Australia.



Australian Industry Shares of Economic Activity (%)				
	Agriculture	**Mining**	**Manufacturing**	**Services**
Output				
1960s	13	2	26	59
1980s	6	6	19	70
2000s	3	7	12	78
Employment				
1960s	10	1	26	63
1980s	6	1	17	75
2000s	4	1	11	84
Exports				
1960s	62	15	9	14
1980s	33	38	10	18
2000s	18	42	17	23

(a) (i) To the nearest percentage point (of GDP) by how much did global exports of goods and services increase between 1970 and 2018? (1 mark)

(ii) In what year did global foreign direct investment peak? (1 mark)

(iii) In which industry sector were most Australians employed in the 2000s? (1 mark)

(b) With reference to the graph, describe the changing rate of globalisation since 2000, and outline two reasons for this change. (4 marks)

(c) With reference to the data, explain the economic effects of globalisation on the Australian economy. (5 marks)

Section 3

2022 Section 3 Question 29 **Foreign investment**	(a) Describe the concept of 'foreign liabilities' and explain the influence of foreign liabilities on Australia's current account. (8 marks) (b) Discuss three ways in which foreign investment has affected the Australian economy in recent years. (12 marks)

Marking Guide – Section 1

2023 Section 1 Question 11 **Foreign investment**	Foreign liabilities increase when **(a) Australian firms borrow from overseas financial institutions. – Answer** (b) Australian firms engage in direct investment abroad. (c) Australian firms engage in portfolio investment abroad. (d) the Australian dollar (AUD) appreciates.

2023 Section 1 Question 12 **Foreign investment**	Which of the following statements about foreign direct investment (FDI) into Australia are correct? I. FDI brings new technology that increases the efficiency of Australian firms II. FDI contributes to improved infrastructure III. FDI contributes to Australia's financial account surplus IV. FDI reduces employment resulting in decreased taxation revenue (a) I and II only **(b) I, II and III – Answer** (c) I and IV only (d) I, III and IV

2021 Section 1 Question 10 **Foreign investment**	Australia's total net foreign liability is (a) public sector debt plus foreign ownership of Australian assets. (b) total foreign investment in Australia plus repatriation of profits. (c) foreign debt plus total foreign investment in Australia. **(d) net foreign debt liabilities plus net foreign equity liabilities. – Answer**

2022 Section 1 Question 12 **Foreign investment**	Which of the following statements about Australia's foreign debt are correct? I. High foreign debt levels can cause a downgrade in Australia's credit rating. II. Government debt is the largest component of Australia's foreign debt. III. A depreciation of the Australian dollar causes an increase in debt service costs. IV. High foreign debt can lead to higher per capita income in Australia. (a) I, II and III. **(b) I and IV only. – Answer** (c) II, III and IV. **(d) I, III and IV. – Answer** **SCSA Marking Key states both b and d are correct.**

2021 Section 1 Question 11 **Foreign investment**	An increase in direct foreign investment in Australian agriculture would be recorded in Australia's balance of payments as a credit in the (a) current account. (b) capital account. **(c) financial account. – Answer** (d) national savings account.

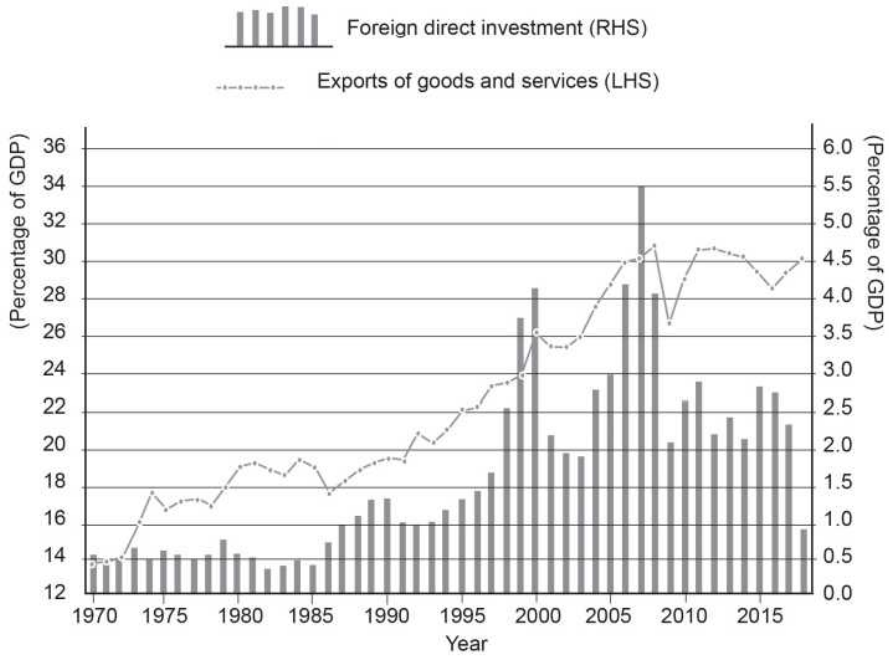
2020 Section 1 Question 8 **Foreign investment**	When a country receives foreign direct investment its (a) capital account will change. **(b) financial account will change. – Answer** (c) current account will change. (d) domestic account will change.

2020 Section 1 Question 11 **Foreign investment**	Foreign debt can become a cause for concern if **(a) global interest rates rise. – Answer** (b) the majority of the debt is the result of borrowing by the private sector. (c) interest rates fall, causing the servicing costs of debt to change. (d) the debt was used for infrastructure spending.

2020 Section 2 Question 25

Foreign investment

This question refers to the graph below which shows changes in global exports and global foreign direct investment flows, and the table on page 9, which shows the industry shares of economic activity over time in Australia.



Australian Industry Shares of Economic Activity (%)				
	Agriculture	**Mining**	**Manufacturing**	**Services**
Output				
1960s	13	2	26	59
1980s	6	6	19	70
2000s	3	7	12	78
Employment				
1960s	10	1	26	63
1980s	6	1	17	75
2000s	4	1	11	84
Exports				
1960s	62	15	9	14
1980s	33	38	10	18
2000s	18	42	17	23

(a) (i) To the nearest percentage point (of GDP) by how much did global exports of goods and services increase between 1970 and 2018? (1 mark)

Description	Marks
16 or 17 per cent	1
Total	**1**

(ii) In what year did global foreign direct investment peak? (1 mark)

Description	Marks
2007	1
Total	**1**

(iii) In which industry sector were most Australians employed in the 2000s? (1 mark)

Description	Marks
Services	1
Total	**1**

(b) With reference to the graph, describe the changing rate of globalisation since 2000, and outline two reasons for this change. (4 marks)

Description	Marks
Description	
Describes difference in growth rate between first decade and second decade using data from the graph; pre/post GFC	2
Description of an aspect of globalisation growth using data from the graph	1
Subtotal	**2**
Outline changes	
Two outlines linked to the changing growth rate	2
One outline linked to the changing growth rate	1
Subtotal	**2**
Total	**4**

Answer(s) could include:

Description

- in the 2000s the pace of growth of exports/GDP increased, FDI was more variable but peaked in 2007
- in the 2010s exports have stabilised at around 30% of GDP and FDI has also become more stable around 2.5% of GDP.

Outline changes

- rapid Chinese industrialisation in the first decade of the 21st Century contributed to strong growth of exports and FDI flows
- GFC saw exports and FDI collapse and have stabilised in the last decade
- increased protectionism around the world during the last decade.

Accept other relevant answers.

(c) With reference to the data, explain the economic effects of globalisation on the Australian economy. (5 marks)

Description	Marks
Relationship in data	
Detailed explanation of the relationship between globalisation and the Australian economy using evidence from the data	5
Explanation of globalisation and how it has effected the Australian economy with appropriate reference to the data	4
Description of changes to the Australian economy as a result of globalisation with connection to the data	3
Outline of link between globalisation and the Australian economy	2
Some understanding of economic change or globalisation	1
Total	**5**

Answer(s) could include:

- globalisation refers to the opening up of international borders to the flow of trade, investment, immigration, information and technology
- globalisation has contributed to structural change in the Australian economy
- structural change involves changes in the distribution of output, income and expenditure across industries over time
- Asian demand for minerals to support industrialisation contributed to growth of mining sector
- decline (% terms) in agriculture reflects growth of other industries and increased supply of agriculture around the world
- growth of services exports reflects increasing middle class of East Asian societies demanding education, health, tourism and financial services
- decline of manufacturing as a share of output and employment but increased share of exports reflects use of capital machinery and impact of technology and niche manufacturing/participation in global supply chains
- reduction in tariffs and subsidies for trade exposed industries has led to the decline in share of output for manufacturing
- high prices for mineral commodities attracted resources to mining sector and the higher value currency hollowed out Australian industry 'Dutch disease'.

Marking Guide – Section 3

2022 Section 3 Question 29

Foreign investment

(a) Describe the concept of 'foreign liabilities' and explain the influence of foreign liabilities on Australia's current account. (8 marks)

Description	Marks
Definition of foreign liabilities	
Defines the concept of foreign liabilities	1
Foreign liability – foreign debt	
Describes debt as the stock of foreign borrowing where Australian residents (public and private) have borrowed from the rest of the world	2
States a fact about debt as a type of foreign liability.	1
Subtotal	**2**
Foreign liability – foreign equity	
Describes equity as the stock of Australian assets owned by foreign residents	2
States a fact about equity as a type of foreign liability.	1
Subtotal	**2**
Influence on the current account	
Explains how a change in foreign liabilities changes the income account balance.	3
Describes how foreign liabilities are serviced through the primary income account in the current account (interest and dividend repayments).	2
Identifies that inward foreign liabilities are serviced through primary income outflows in the current account.	1
Subtotal	**3**
Total	**8**

Answers could include:

Definition of foreign liabilities:

Foreign liability – foreign debt:
- the stock of foreign borrowing where Australian residents (public and private) have borrowed from the rest of the world
- most of Australia's net foreign debt consists of private debt, incurred by companies with the profit motive in mind and has been beneficial in raising living standards.
- Government bonds issued to foreign residents and the borrowing by Australian firms from overseas institutions are examples of Australian foreign debt
- foreign debt comprises of 63% of foreign investment
- foreign debt accounts for all of Australia's net foreign liabilities
- most of Australia's foreign debt is private (approximately 74%).

Foreign liability – foreign equity:
- the stock of Australian assets owned by foreign residents
- there is a distinction between direct and portfolio investment with a clear description and example of each
- equity involves the selling of assets (shares of companies, resources) to overseas residents
- equity comprises a small proportion of foreign investment
- foreign direct investment is when a foreign investor acquires more than 10% of an Australian company resulting in a significant influence over that enterprise and is thus associated with either ownership/control of the asset.

Influence on the current account:
- the Australian current account records income flows associated with foreign liabilities. Often, the large primary income deficits in the current account are associated with the servicing costs linked to these foreign liabilities

Accept other relevant answers.

(b) Discuss three ways in which foreign investment has affected the Australian economy in recent years. (12 marks)

Description	Marks
For each of the three ways (3 x 4 marks)	
Discusses how foreign investment affects the Australian economy.	4
Explains how foreign investment affects the Australian economy.	3
Outlines how foreign investment affects the Australian economy.	2
States a fact about how foreign investment affects the Australian economy.	1
Total	**12**

Answers could include:

Savings-Investment Gap
- Foreign investment supplements domestic savings (I-S Gap)
- Australia normally runs a CAD because I>S to offset the Current account surplus

Mining Sector
- foreign investment into industries such as mining has generated growth in new mining infrastructure, employment, and export revenue for Australia
- technology transfer, management, marketing, other knowledge transfers
- has allowed new high-capital industries to be established
- higher foreign ownership

Balance of payments
- Foreign investment is recorded in the primary income account of the current account
- costs of servicing debt.

Macroeconomy

- Increasing economic growth
- Increasing employment
- increased government revenue via taxes, royalties, etc. have funded government infrastructure, welfare expenditure etc.
- multiplier effect from productive investment, increasing GDP
- improvements in productivity and efficiency.

Note: 'Recent' is the last 10 years.

Accept other relevant answers.

Unit 4 – Macroeconomic theory and economic policy

Unit 4 – Australia's macroeconomic performance and the business cycle

Section 1

2023 Section 1 Question 13 **Australia's macro-economic performance and the business cycle**	Low inflation, rising unemployment and high savings rates are characteristics of which phase of the business cycle? (a) contraction (b) trough (c) expansion (d) boom

2023 Section 1 Question 14 **Australia's macro-economic performance and the business cycle**	_____ are a leading indicator of economic activity, while _____ are considered to be a lagging indicator. (a) Share prices; unemployment rates (b) Building approvals; retail sales (c) Bankruptcies; job advertisements (d) New business start-ups; motor vehicle sales

2023 Section 1 Question 19 **Australia's macro-economic performance and the business cycle**	Time lags can slow down the economic response of policy initiatives and can be categorised as having either inside or outside lags. The difference between the two is inside lags refer to (a) effect lags while outside lags refer to implementation and recognition lags. (b) recognition and implementation lags while outside lags refer to effect lags. (c) recognition and effect lags while outside lags refer to implementation lags. (d) implementation and effect lags while outside lags refer to recognition lags.

2023 Section 1 Question 23 **Australia's macro-economic performance and the business cycle**	Which of the following is **most** likely to contribute to growth in Australia's renewable energy market? (a) a fall in incomes of Australia's closest trading partners (b) increased trade protection for the renewable energy industry (c) government funding to increase innovation and productivity in the energy sector (d) allowing cheaper renewable energy products from overseas

2023 Section 1 Question 24 Australia's macro-economic performance and the business cycle	A reason for the decline in productivity growth levels in Australia over the last 10 years is (a) faster than expected rates of technical progress and innovation. (b) rising rates of economic growth. (c) increased capital deepening. (d) increased globalisation, causing structural change.

2022 Section 1 Question 13 Australia's macro-economic performance and the business cycle	Which of the following factors are both characteristics of an economic recovery? (a) relatively high levels of consumption and high domestic interest rates (b) contractionary monetary policy and expansionary fiscal policy (c) low levels of consumer confidence and high levels of cyclical unemployment (d) increased capital investment and improving levels of business confidence

2022 Section 1 Question 14 Australia's macro-economic performance and the business cycle	An example of a leading economic indicator signaling a recovery is (a) an increase in new employment vacancies. (b) an increase in consumer debt. (c) maximum capacity utilisation. (d) high levels of inflation.

2021 Section 1 Question 19 Australia's macro-economic performance and the business cycle	During a recession, which of the following is an example of an automatic stabiliser? (a) a reduction in personal income tax rates (b) a reduction in the goods and services tax (GST) rate (c) a decrease in income tax revenue (d) an increase in infrastructure spending

2021 Section 1 Question 23 Australia's macro-economic performance and the business cycle	Which of the following is **not** a cause of structural change? (a) a change in consumer tastes (b) an increase in GDP per capita (c) an increase in innovation by firms (d) a subsidy to domestic firms

2020 Section 1 Question 21 **Australia's macro-economic performance and the business cycle**	Which of the following is an example of a counter-cyclical demand-management policy? (a) an increase in transfer payments during a boom (b) a decrease in the cash rate during a boom (c) an increase in tax rates during a recession (d) an increase in infrastructure spending during a recession

2020 Section 1 Question 22 **Australia's macro-economic performance and the business cycle**	Time lags slow down the economic management process. A recognition lag refers to the time taken to (a) identify that the economic data are changing. (b) decide on an appropriate policy plan. (c) affect the level of economic activity after a policy change. (d) implement an appropriate counter-cyclical policy.

Section 2

2022 Section 2 Question 27

Australia's macro-economic performance and the business cycle

The economic indicators in the table below refer to a hypothetical economy.

	2020	2021	2022
Change in real GDP	1.2%	1.4%	1.8%
Consumer price index	3%	4%	1.9%
Unemployment rate	7.5%	5.5%	5.1%
Balance on goods and services	$60bn	$80bn	$120bn
Net income balance	$20bn	–$25bn	–$30bn
Cash rate	0.5%	0.25%	0.25%

(a) (i) Identify the phase of the business cycle the economy experienced between 2020 and 2022. (1 mark)

(ii) Calculate the current account balance for 2022. (1 mark)

(b) Describe two possible causes of the phase of the business cycle identified in part (a)(i) above. (4 marks)

One:

Two:

Assume that the economic indicators for 2022 shown in the table on page 14 applied to the Australian economy.

(c) Using the aggregate expenditure (AE) model, demonstrate the likely stance the Reserve Bank of Australia would adopt in order to influence economic activity, and explain the impact of this stance. (6 marks)

Model

Section 3

2020 Section 3 Question 30 **Australia's macro-economic performance and the business cycle**	(a) Use the aggregate demand and aggregate supply (AD/AS) model to demonstrate and explain the characteristics of the boom phase of the business cycle. (10 marks) (b) Discuss how an economic boom influences the Australian Government's economic objectives of sustainable economic growth, low unemployment and a more equitable distribution of income. (10 marks)

Marking Guide – Section 1

2023 Section 1 Question 13 **Australia's macro-economic performance and the business cycle**	Low inflation, rising unemployment and high savings rates are characteristics of which phase of the business cycle? **(a) contraction – Answer** **(b) trough – Answer** (c) expansion (d) boom **Note: The answer is a and b.**

2023 Section 1 Question 14 **Australia's macro-economic performance and the business cycle**	_____ are a leading indicator of economic activity, while _____ are considered to be a lagging indicator. **(a) Share prices; unemployment rates – Answer** (b) Building approvals; retail sales (c) Bankruptcies; job advertisements (d) New business start-ups; motor vehicle sales

2023 Section 1 Question 19 **Australia's macro-economic performance and the business cycle**	Time lags can slow down the economic response of policy initiatives and can be categorised as having either inside or outside lags. The difference between the two is inside lags refer to (a) effect lags while outside lags refer to implementation and recognition lags. **(b) recognition and implementation lags while outside lags refer to effect lags. – Answer** (c) recognition and effect lags while outside lags refer to implementation lags. (d) implementation and effect lags while outside lags refer to recognition lags.

2023 Section 1 Question 23 **Australia's macro-economic performance and the business cycle**	Which of the following is **most** likely to contribute to growth in Australia's renewable energy market? (a) a fall in incomes of Australia's closest trading partners (b) increased trade protection for the renewable energy industry **(c) government funding to increase innovation and productivity in the energy sector – Answer** (d) allowing cheaper renewable energy products from overseas

2023 Section 1 Question 24 **Australia's macro-economic performance and the business cycle**	A reason for the decline in productivity growth levels in Australia over the last 10 years is (a) faster than expected rates of technical progress and innovation. (b) rising rates of economic growth. (c) increased capital deepening. **(d) increased globalisation, causing structural change. – Answer**

2022 Section 1 Question 13 **Australia's macro-economic performance and the business cycle**	Which of the following factors are both characteristics of an economic recovery? (a) relatively high levels of consumption and high domestic interest rates (b) contractionary monetary policy and expansionary fiscal policy (c) low levels of consumer confidence and high levels of cyclical unemployment **(d) increased capital investment and improving levels of business confidence – Answer**

2022 Section 1 Question 14 **Australia's macro-economic performance and the business cycle**	An example of a leading economic indicator signaling a recovery is **(a) an increase in new employment vacancies. – Answer** (b) an increase in consumer debt. (c) maximum capacity utilisation. (d) high levels of inflation.

2021 Section 1 Question 19 **Australia's macro-economic performance and the business cycle**	During a recession, which of the following is an example of an automatic stabiliser? (a) a reduction in personal income tax rates (b) a reduction in the goods and services tax (GST) rate **(c) a decrease in income tax revenue – Answer** (d) an increase in infrastructure spending

2021 Section 1 Question 23 **Australia's macro-economic performance and the business cycle**	Which of the following is **not** a cause of structural change? (a) a change in consumer tastes **(b) an increase in GDP per capita – Answer** (c) an increase in innovation by firms (d) a subsidy to domestic firms

2020 Section 1 Question 21 **Australia's macro-economic performance and the business cycle**	Which of the following is an example of a counter-cyclical demand-management policy? (a) an increase in transfer payments during a boom (b) a decrease in the cash rate during a boom (c) an increase in tax rates during a recession **(d) an increase in infrastructure spending during a recession – Answer**

2020 Section 1 Question 22 **Australia's macro-economic performance and the business cycle**	Time lags slow down the economic management process. A recognition lag refers to the time taken to **(a) identify that the economic data are changing. – Answer** (b) decide on an appropriate policy plan. (c) affect the level of economic activity after a policy change. (d) implement an appropriate counter-cyclical policy.

Marking Guide – Section 2

2022 Section 2 Question 27

Australia's macro-economic performance and the business cycle

The economic indicators in the table below refer to a hypothetical economy.

	2020	2021	2022
Change in real GDP	1.2%	1.4%	1.8%
Consumer price index	3%	4%	1.9%
Unemployment rate	7.5%	5.5%	5.1%
Balance on goods and services	$60bn	$80bn	$120bn
Net income balance	$20bn	–$25bn	–$30bn
Cash rate	0.5%	0.25%	0.25%

(a) (i) Identify the phase of the business cycle the economy experienced between 2020 and 2022. (1 mark)

Description	Marks
expansionary/expansion phase/upswing/recovery	1
Total	**1**
Accept other relevant answers.	

(ii) Calculate the current account balance for 2022. (1 mark)

Description	Marks
$90bn	1
Total	**1**

(b) Describe two possible causes of the phase of the business cycle identified in part (a)(i) above. (4 marks)

Description	Marks
For each of the two causes (2 x 2 marks)	
Describes a possible cause of the expansion between 2020 and 2022.	2
Identifies a possible cause of the expansion between 2020 and 2022.	1
Total	**4**

Answers could include:

Note: the reason must be referenced to the data for 2 marks for each cause.

- increased net exports
- lower unemployment leading to higher household income and higher consumer spending
- increased AD: government, consumer, investment spending, increased exports.
- expansionary monetary and fiscal policies.

Assume that the economic indicators for 2022 shown in the table on page 14 applied to the Australian economy.

(c) Using the aggregate expenditure (AE) model, demonstrate the likely stance the Reserve Bank of Australia would adopt in order to influence economic activity, and explain the impact of this stance. (6 marks)

Description	Marks
Explanation (must include multiplier for full marks)	
Explains, with reference to the model, how the RBA would use monetary policy to influence economic activity.	4
Describes how the RBA would use monetary policy with some reference to the transmission mechanism and the model.	3
Outlines how monetary policy influences economic activity through the transmission mechanism.	2
States that the RBA would adopt expansionary monetary stance and lowers the cash rate.	1
Subtotal	**4**
Model	
Correctly labelled AE model clearly demonstrating upward shift in AE curve.	2
Mostly correct model showing an upward shift in AE curve.	1
Subtotal	**2**
Total	**6**

Answers could include:

- RBA would use expansionary monetary policy and lower the cash stance to stimulate economic activity
- The lower cash rate will stimulate economic activity via the transmission mechanism.
- This will increase GDP, lower unemployment, increase consumption and investment spending and lower AUD, causing increase in exports
- There is consideration of the multiplier and a clear reference to the model.

Note: the impact of expansionary monetary policy may be ineffective in a recession (slow periods of economic growth).

Marking Guide – Section 3

2020 Section 3 Question 30

Australia's macro-economic performance and the business cycle

(a) Use the aggregate demand and aggregate supply (AD/AS) model to demonstrate and explain the characteristics of the boom phase of the business cycle. (10 marks)

Description	Marks
AD/AS Model	
Fully labelled and correct AD/AS or LRAS – SRAS/AD model demonstrating an inflationary gap	3
Mostly correct model	2
Some aspects on an AD/AS model	1
Subtotal	**3**
Explanation	
Explanation of an economic boom referring to many characteristics/indicators	6–7
Description of an economic boom referring to the main characteristics/indicators	4–5
Description of an economic boom referring to some indicators	2–3
Outline of one or two indicators relevant to an economic boom	1
Subtotal	**7**
Total	**10**

Answer(s) could include:

AD/AS Model:
- price on Y axis, real GDP on X axis
- intersection of SRAS and AD at a point beyond LRAS (vertical line) level (identification of expansionary gap)
- aggregate demand curve located in the classical range of AD/AS models.

Characteristics of boom phase:
- economy operating beyond sustainable GDP growth rate
- low levels of cyclical unemployment
- higher participation rate
- higher inflation and wages
- increase in businesses profits and confidence
- increase in consumer confidence and purchasing of durables
- rising share prices
- less government welfare spending
- higher interest rates due to demand for credit and monetary policy
- greater spending on imports.

Note: Minimum of four characteristics for full marks.

(b) Discuss how an economic boom influences the Australian Government's economic objectives of sustainable economic growth, low unemployment and a more equitable distribution of income. (10 marks)

Description	Marks
Sustainable economic growth	
Discussion of the difficulty in sustaining economic growth in an economic boom	4
Explanation of difficulty in sustaining economic growth in an economic boom	3
Description of the link between an economic boom and the upper turning point of a business cycle	2
Outline of link between an economic boom and economic growth	1
Subtotal	**4**
Low unemployment	
Discussion of the effect of an economic boom on unemployment	4
Explanation of the effect of an economic boom on unemployment	3
Description of the effect of an economic boom on unemployment	2
Outline of link between an economic boom and unemployment	1
Subtotal	**4**
More equitable distribution of income	
Discussion of relationship between an economic boom and a more equitable distribution of income	2
Description of the relationship between an economic boom and a more equitable distribution of income	1
Subtotal	**2**
Total	**10**

Answer(s) could include:

Sustainable economic growth:
- sustainable economic growth will allow a long term increase in living standards
- above trend economic growth rate will occur in an economic boom
- economy will reach maximum capacity and bottlenecks will begin to occur
- product and resource market prices will rise causing inflation
- high interest rates from the demand for credit and contractionary MP will discourage borrowing
- consumer and business confidence will fall and the economic growth will decline (often very quickly).

Low unemployment:
- strong economic growth in a boom will increase demand for labour
- cyclical unemployment will fall
- structural unemployment will rise as the boom shifts resources such as labour to the most profitable sectors
- high cost of labour in a boom may lead to capital for labour substitution
- frictional unemployment will rise as workers will be more willing to shift jobs in the search for wage/income increases.

More equitable distribution of income:
- a more equitable distribution of income will occur in a boom as labour is in greater demand
- booms however can benefit some sectors more and upskilling workers to transition in a changing economy takes time
- equity will depend on the effectiveness of the Government's tax and transfer system
- in general economic booms improve equity as 'a rising tide floats all boats' or as Prime Minister Howard once said: 'The best form of welfare is a job'.

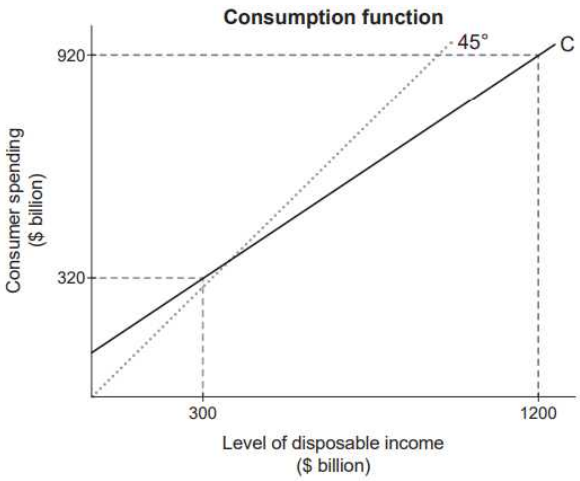
Unit 4 – The aggregate expenditure model

Section 1

2023 Section 1 Question 15 **The aggregate expenditure model**	According to the aggregate expenditure (AE) model, when the level of income is below equilibrium, then the inventory levels of firms are (a) rising, which causes production to decrease. (b) falling, which causes production to decrease. (c) rising, which causes production to increase. (d) falling, which causes production to increase.

2023 Section 1 Question 16 **The aggregate expenditure model**	The strength of the multiplier is determined by (a) the impact of interest rates on the level of disposable income. (b) the proportion of extra income spent within the economy. (c) the level of business and consumer confidence. (d) global economic conditions.

2023 Section 1 Question 17 **The aggregate expenditure model**	If the Australian economy is operating at a point of $100 million below equilibrium, then restoring macroeconomic equilibrium will require (a) an increase in government spending of $20 million if the marginal propensity to save is equal to 0.4. (b) a decrease in government spending of $20 million if the marginal propensity to save is equal to 0.4. (c) an increase in government spending of $20 million if the marginal propensity to save is equal to 0.2. (d) a decrease in government spending of $20 million if the marginal propensity to save is equal to 0.2.

2022 Section 1 Question 15 **The aggregate expenditure model**	Refer to the diagram below to complete Question 15.  Using the data above, the marginal propensity to save (MPS) and the multiplier are approximately (a) 0.66 and 1.5 respectively. (b) 0.33 and 3 respectively. (c) 0.66 and 3 respectively. (d) 0.33 and 1.5 respectively.

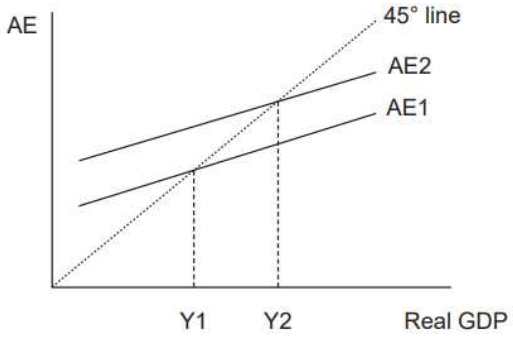
2022 Section 1 Question 16 **The aggregate expenditure model**	In the Keynesian aggregate expenditure model, macroeconomic equilibrium occurs when (a) the balance of payments sums to zero. (b) government expenditure equals government revenue. (c) inventory levels are constant. (d) aggregate demand exceeds aggregate supply.

2021 Section 1 Question 13 **The aggregate expenditure model**	Assuming an economy's real GDP is currently $1000bn and the marginal propensity to consume (MPC) is 0.75, an increase in government spending of $50bn will result in a new equilibrium level of spending equal to (a) $1100bn. (b) $1150bn. (c) $1200bn. (d) $1250bn.

2021 Section 1 Question 14 **The aggregate expenditure model**	In the aggregate expenditure (AE) model, the AE line is most likely to shift downward when the (a) Reserve Bank of Australia lowers the cash rate. (b) level of business investment decreases due to reduced confidence. (c) current account of Australia is in deficit. (d) level of imports of goods and services falls.

2020 Section 1 Question 16 **The aggregate expenditure model**	The table below shows the level of consumption at different levels of income. Income / Consumption 120 / 90 140 / 105 160 / 120 Using the data in the table, which of the following is correct? The marginal propensity to consume is (a) 0.75 and the multiplier is 4. (b) 0.5 and the multiplier is 2. (c) 0.75 and the multiplier is 1.33. (d) 0.4 and the multiplier is 2.5.

2020 Section 1 Question 17 **The aggregate expenditure model**	If the marginal propensity to consume is 0.8, an increase in investment of $100bn would cause income to (a) rise by $100bn. (b) rise by $500bn. (c) fall by $80bn. (d) fall by $20bn.

2020 Section 1 Question 18 **The aggregate expenditure model**	This question refers to the aggregate expenditure (AE) model shown below.  In the AE model, the level of income will rise when spending is (a) equal to output. (b) greater than output (c) less than output. (d) equal to aggregate expenditure.

2020 Section 1 Question 20 **The aggregate expenditure model**	Which of the following statements **best** explains a deflationary gap? (a) the amount by which aggregate expenditure needs to reduce to eliminate inflationary pressure (b) the additional amount of spending required to raise GDP to the full employment level (c) the difference between aggregate demand and aggregate supply at equilibrium (d) the amount by which actual real GDP exceeds potential GDP

2019 Section 1 Question 14 **The aggregate expenditure model**	Which of the following would cause a decrease in the value of the multiplier? (a) the government increases income tax rates (b) investment spending declines (c) the terms of trade falls (d) the marginal propensity to save decreases

2019 Section 1 Question 15 **The aggregate expenditure model**	Which of the following statements about the consumption function is correct? (a) As disposable income rises, the marginal propensity to consume falls. (b) As disposable income rises, the marginal propensity to consume rises. (c) As disposable income rises, the marginal propensity to consume does not change. (d) As disposable income rises, the marginal propensity to save rises.

Section 2

There have been no questions on this topic for this section in the exams of recent years.

Section 3

2023 Section 3 Question 30 **The aggregate expenditure model**	(a) Outline the concept of monetary policy and describe **three** circumstances under which the Reserve Bank of Australia (RBA) may change the cash rate to achieve its macroeconomic objectives. (8 marks) (b) Using an aggregate expenditure (AE) model, analyse the impact of rising interest rates on output and expenditure in the Australian economy. (12 marks)

2020 Section 3 Question 31 **The aggregate expenditure model**	(a) Explain why and how both monetary policy and fiscal policy have been used to influence the Australian economy in 2020. Use an aggregate expenditure (AE) model to support your answer. (12 marks) (b) Discuss the factors likely to influence the effectiveness of each of these policies. (8 marks)

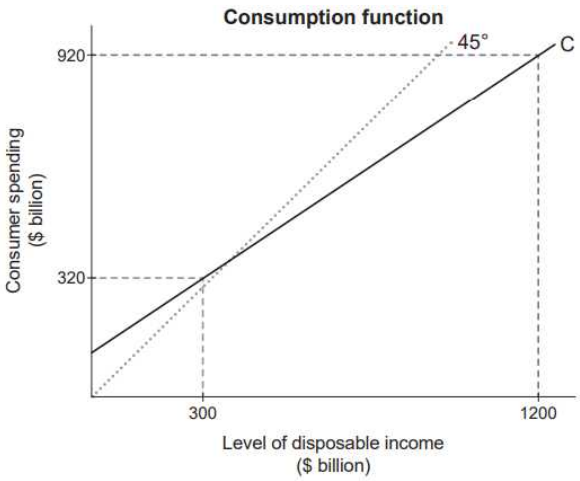
2019 Section 3 Question 30 **The aggregate expenditure model**	In recent years, Western Australia has experienced the rapid expansion of new mining and energy industries such as lithium and liquefied natural gas (LNG) and increased investment by new firms that could earn the nation hundreds of billions of dollars in exports. (a) Discuss the importance of investment to the Australian economy and explain the factors that can influence the total amount of investment spending in Australia. (10 marks) (b) Use the aggregate expenditure model and the multiplier process to demonstrate and explain the likely effect of the increased mining and energy investment on the Australian economy. (10 marks)

Marking Guide – Section 1

2023 Section 1 Question 15 **The aggregate expenditure model**	According to the aggregate expenditure (AE) model, when the level of income is below equilibrium, then the inventory levels of firms are (a) rising, which causes production to decrease. (b) falling, which causes production to decrease. (c) rising, which causes production to increase. **(d) falling, which causes production to increase. – Answer**

2023 Section 1 Question 16 **The aggregate expenditure model**	The strength of the multiplier is determined by (a) the impact of interest rates on the level of disposable income. **(b) the proportion of extra income spent within the economy. – Answer** (c) the level of business and consumer confidence. (d) global economic conditions.

2023 Section 1 Question 17 **The aggregate expenditure model**	If the Australian economy is operating at a point of $100 million below equilibrium, then restoring macroeconomic equilibrium will require (a) an increase in government spending of $20 million if the marginal propensity to save is equal to 0.4. (b) a decrease in government spending of $20 million if the marginal propensity to save is equal to 0.4. **(c) an increase in government spending of $20 million if the marginal propensity to save is equal to 0.2. – Answer** (d) a decrease in government spending of $20 million if the marginal propensity to save is equal to 0.2.

2022 Section 1 Question 15 **The aggregate expenditure model**	Refer to the diagram below to complete Question 15.  Using the data above, the marginal propensity to save (MPS) and the multiplier are approximately (a) 0.66 and 1.5 respectively. **(b) 0.33 and 3 respectively. – Answer** (c) 0.66 and 3 respectively. (d) 0.33 and 1.5 respectively.

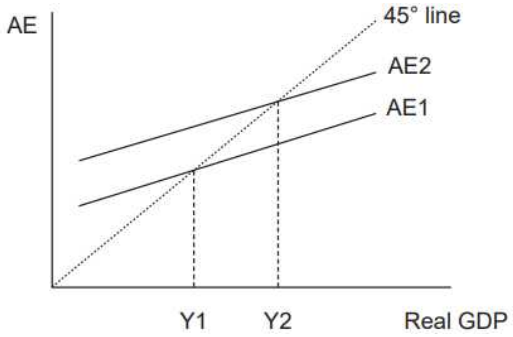
2022 Section 1 Question 16 **The aggregate expenditure model**	In the Keynesian aggregate expenditure model, macroeconomic equilibrium occurs when (a) the balance of payments sums to zero. (b) government expenditure equals government revenue. **(c) inventory levels are constant. – Answer** (d) aggregate demand exceeds aggregate supply.

2021 Section 1 Question 13 **The aggregate expenditure model**	Assuming an economy's real GDP is currently $1000bn and the marginal propensity to consume (MPC) is 0.75, an increase in government spending of $50bn will result in a new equilibrium level of spending equal to (a) $1100bn. (b) $1150bn. **(c) $1200bn. – Answer** (d) $1250bn.

2021 Section 1 Question 14 **The aggregate expenditure model**	In the aggregate expenditure (AE) model, the AE line is most likely to shift downward when the (a) Reserve Bank of Australia lowers the cash rate. **(b) level of business investment decreases due to reduced confidence. – Answer** (c) current account of Australia is in deficit. (d) level of imports of goods and services falls.

2020 Section 1 Question 16 **The aggregate expenditure model**	The table below shows the level of consumption at different levels of income. | Income	Consumption
---	---
120	90
140	105
160	120 | Using the data in the table, which of the following is correct? The marginal propensity to consume is **(a) 0.75 and the multiplier is 4. – Answer** (b) 0.5 and the multiplier is 2. (c) 0.75 and the multiplier is 1.33. (d) 0.4 and the multiplier is 2.5.

2020 Section 1 Question 17 **The aggregate expenditure model**	If the marginal propensity to consume is 0.8, an increase in investment of $100bn would cause income to (a) rise by $100bn. **(b) rise by $500bn. – Answer** (c) fall by $80bn. (d) fall by $20bn.

2020 Section 1 Question 18 **The aggregate expenditure model**	This question refers to the aggregate expenditure (AE) model shown below.  In the AE model, the level of income will rise when spending is (a) equal to output. **(b) greater than output – Answer** (c) less than output. (d) equal to aggregate expenditure.

2020 Section 1 Question 20 **The aggregate expenditure model**	Which of the following statements **best** explains a deflationary gap? (a) the amount by which aggregate expenditure needs to reduce to eliminate inflationary pressure **(b) the additional amount of spending required to raise GDP to the full employment level – Answer** (c) the difference between aggregate demand and aggregate supply at equilibrium (d) the amount by which actual real GDP exceeds potential GDP

2019 Section 1 Question 14 **The aggregate expenditure model**	Which of the following would cause a decrease in the value of the multiplier? **(a) the government increases income tax rates – Answer** (b) investment spending declines (c) the terms of trade falls (d) the marginal propensity to save decreases

2019 Section 1 Question 15 **The aggregate expenditure model**	Which of the following statements about the consumption function is correct? (a) As disposable income rises, the marginal propensity to consume falls. (b) As disposable income rises, the marginal propensity to consume rises. **(c) As disposable income rises, the marginal propensity to consume does not change. – Answer** (d) As disposable income rises, the marginal propensity to save rises.

Marking Guide – Section 2

There have been no questions on this topic for this section in the exams of recent years.

Marking Guide – Section 3

2023 Section 3 Question 30

The aggregate expenditure model

(a) Outline the concept of monetary policy and describe **three** circumstances under which the Reserve Bank of Australia (RBA) may change the cash rate to achieve its macroeconomic objectives. (8 marks)

Description	Marks
Concept of monetary policy	
Outlines the concept of monetary policy	2
States a fact about monetary policy	1
Subtotal	**2**
Circumstances of changing the cash rate (3 x 2 marks)	
Describes the circumstance under which the RBA may change the cash rate to achieve its macroeconomic objectives	2
Identifies a circumstance under which the RBA may change the cash rate to achieve its macroeconomic objectives	1
Subtotal	**6**
Total	**8**

Answers could include:

Concept of monetary policy:

- monetary policy refers to action taken by the Reserve Bank of Australia to affect monetary and financial conditions within the economy with the aim of achieving low inflation (price stability), full employment and sustainable economic growth
- monetary policy changes are announced in terms of a target for the cash rate.

Circumstances of changing the cash rate:

- to increase or decrease inflation, above or below the target rate of 2–3%; the RBA will either increase or decrease interest rates
- to decrease unemployment by decreasing interest rates, leading to increased investment, increasing output and more jobs
- to increase economic growth by stimulating consumption expenditure to increase demand for credit during a downswing or trough.

Accept other relevant answers.

(b) Using an aggregate expenditure (AE) model, analyse the impact of rising interest rates on output and expenditure in the Australian economy. (12 marks)

Description	Marks
Analyses the impact of rising interest rates on output and expenditure in the Australian economy	9-10
Explains the impact of rising interest rates on output and expenditure in the Australian economy	7-8
Describes the impact of rising interest rates on output and expenditure in the Australian economy	5-6
Outlines the impact of rising interest rates on output and expenditure in the Australian economy	3-4
States that rising interest rates would negatively influence output and expenditure in the Australian economy	1-2
Subtotal	**10**
Model	
Fully labelled AE model showing a decrease (downward shift) in the AE curve	2
Partially labelled model showing a decrease (downward shift) in the AE curve	1
Subtotal	**2**
Total	**12**

Answers could include:

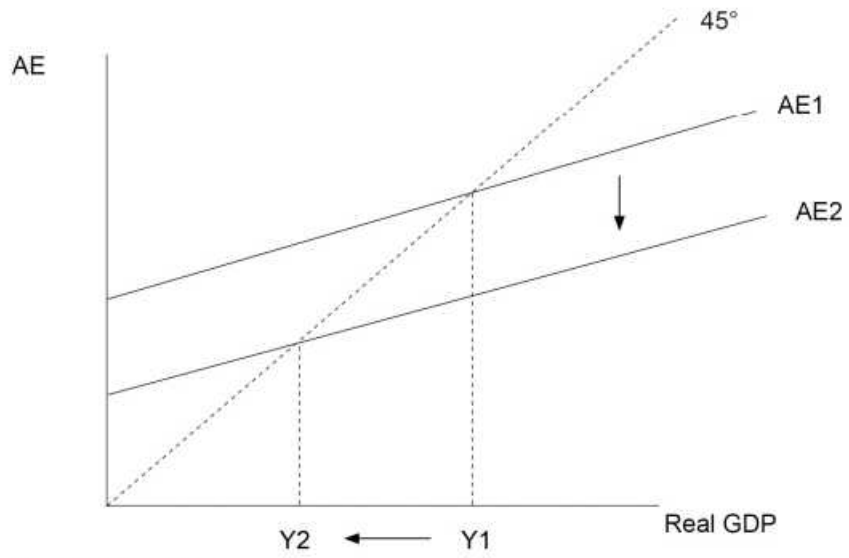
Impact on output:

- firms respond to lower consumption and investment by decreasing output. This in turn leads to lower rates of economic growth and higher rates of unemployment
- a decrease in AE will have a multiplier effect causing output to fall by a larger proportion
- a decrease in AE results in a downward movement along the 45° line as firms respond to lower levels of expenditure (Y1 → Y2)
- when aggregate expenditure is less than output, inventories will increase
- less research and development leading to less innovation, thus impacting efficiency and output.

Impact on expenditure:

- an increase in interest rates will decrease the cash flow of households and firms with loans and mortgages leading to a decrease in consumption and investment, thus resulting in a downward shift of the AE curve to a new macroeconomic equilibrium
- an increase in interest rates will increase the cost of borrowing for households and firms decreasing C and I
- there is greater incentive for households to save due to higher interest rates earned
- an increase in interest rates will decrease asset prices which will decrease wealth resulting in a fall in consumption
- increase in interest rates may lead to an appreciation of the AUD will decrease net exports leading to a decrease in AE.

Model:



Accept other relevant answers.

2020 Section 3 Question 31 The aggregate expenditure model	(a) Explain why and how both monetary policy and fiscal policy have been used to influence the Australian economy in 2020. Use an aggregate expenditure (AE) model to support your answer. (12 marks)

Description	Marks
Australian economy in 2020	
Explanation of the state of the Australian economy in 2020	3
Description of the Australian economy in 2020	2
Some awareness of the Australian economy in 2020	1
Subtotal	**3**
Monetary Policy	
Explanation of the use of monetary policy and its relevance to the economic circumstances	3
Description of monetary policy setting/changes connected to the economic circumstances	2
Some awareness of how monetary policy has been used this year	1
Subtotal	**3**
Fiscal Policy	
Explanation of the use of fiscal policy and its relevance to the economic circumstances	3
Description of fiscal policy setting/changes connected to the economic circumstances	2
Some awareness of how fiscal policy has been used this year	1
Subtotal	**3**
Economic model	
Fully labelled and correct AE model demonstrating a deflationary gap and impact of expansionary policy settings	3
Mostly correct model demonstrating impact of expansionary policy settings	2
Some aspects on an AE model	1
Subtotal	**3**
Total	**12**

Answer(s) could include:
Australian economy:

- reference to severe contraction (recession) and nature of demand and supply shock from exogenous factors particularly the coronavirus
- main economic indicators and how they have changed over the year: GDP growth, unemployment, inflation, investment, exchange rate, consumer spending etc.
- reference to industries hardest hit by contraction
- global financial crises and uncertainty
- effect of slowdown of global economic growth on local economy.

Monetary policy:

- reduction in cash rate by RBA and market interest rates - expansionary
- intended effect on consumption, investment and exchange rate via transmission mechanism
- aim to support aggregate spending and create employment
- role of multiplier effect.

Fiscal policy:

- range of significant stimulus payments to households and government policy support for businesses during time of collapsing consumer spending
- reduction in government revenue and increase in expenditure
- movement to a significant budget deficit from planned budget surplus
- role of multiplier effect..

AE model:

- 45 degree line, AE on vertical axis, Real GDP on horizontal axis
- parallel AE lines demonstrating impact of recession and policy effect
- increase in equilibrium real GDP to reduce deflationary gap.

(b) Discuss the factors likely to influence the effectiveness of each of these policies. (8 marks)

Description	Marks
Discussion in detail several factors and reasons for their influence on effectiveness of policies	7–8
Explanation of several factors and their influence on effectiveness of policies	5–6
Description of a few factors and their link to effectiveness of policies	3–4
Identification of a factor and its influence	1–2
Total	**8**

Answer(s) could include:

Monetary policy:

- overall effectiveness is likely to be poor; no guaranteed increase in aggregate spending such as, cost of borrowing and asset prices channels
- interest rates were already very low, further reductions likely to have limited impact due to low consumer and business confidence
- household debt is high making it more likely households will seek to retire debt rather than borrow
- depreciation of Australian dollar will have increased net exports despite a significant fall in world growth
- significant effect time lag.

Fiscal policy:

- more effective because government spending can increase aggregate spending directly
- government expenditure multiplier likely to be low because of low MPC
- government reluctant to go into too much debt given experience post-GFC
- other criticisms relevant to success of policies implemented in 2020.

A number of factors effect both policies, i.e. multiplier effect, expectation, and crowding out effects.

Note: at least two factors in detail per policy for full marks.

2019 Section 3 Question 30

The aggregate expenditure model

In recent years, Western Australia has experienced the rapid expansion of new mining and energy industries such as lithium and liquefied natural gas (LNG) and increased investment by new firms that could earn the nation hundreds of billions of dollars in exports.

(a) Discuss the importance of investment to the Australian economy and explain the factors that can influence the total amount of investment spending in Australia. (10 marks)

Description	Marks
Discussion of the importance of investment	
Definition of investment; percentage of aggregate expenditure	1
Reference to volatility, major factor driving the business cycle, nature of Australian industry and capital requirements	1
Subtotal	**2**
Explanation of factors	
Detailed explanation of the main factors that can influence the total amount of investment spending and how they can affect the level of investment as a component of aggregate expenditure	7–8
Explains the main factors that can influence the total amount of investment spending and a clear link made to variation in investment level	5–6
Describes the main factors that can influence the total amount of investment spending	4–5
Limited description of some factors influencing investment	2–3
Identification of a few factors that can affect investment	1
Subtotal	**8**
Total	**10**

Answer(s) could include:

Discussion of the importance of investment:

- investment is expenditure on capital goods that will be used to produce final goods and services in the future
- investment in national accounts includes business investment, private housing investment, inventories
- 16–26% of aggregate expenditure
- essential in driving turning points at top and bottom of business cycle
- Australia has a large investment savings gap because of the nature of capital-intensive export industries.

Explanation of the factors that can influence the total amount of investment spending in Australia:

- business expectations – a poor outlook may result in firms 'running down' their capital equipment and investment level decreases. An increase would occur if there is an improvement in confidence
- interest rates – the inverse relationship between lower real rates of interest and higher investment spending: investment demand curve
- profitability – high expectations of profit encourages the purchase of new capital and higher profits will result in more being retained by firms for investment
- government policy incentives (i.e. subsidies, tax allowances), infrastructure investments (i.e. roads, communications)
- macro and microeconomic environment – stability means confidence in regulatory environment and encourages long-term, large-scale investment and microeconomic reform. This assists with business confidence and lowers regulation freeing funds for investment
- other factors – changes in the level of output (e.g. technological changes) and cost of inputs (e.g. wages growth) can induce firm and industry level investment changes.

(b) Use the aggregate expenditure model and the multiplier process to demonstrate and explain the likely effect of the increased mining and energy investment on the Australian economy. (10 marks)

Description	Marks
Explanation	
Detailed explanation of effect of increased investment on the economy with the multiplier concept used to explain outcome	6–7
Explains the effect of increased investment on the economy with some use of the multiplier concept	4–5
Describes the changes in the economy due to increased investment	2–3
Identifies some changes in the economy	1
Subtotal	**7**
Model	
Fully labelled aggregate expenditure model correctly showing more than proportional increase in Real GDP/income compared to increase in investment	3
Mostly correct aggregate expenditure model showing changes in aggregate expenditure and increase in real GDP/income	2
Outlines aggregate expenditure model with change in aggregate expenditure curve and effect on real GDP/income	1
Subtotal	**3**
Total	**10**

Answer(s) could include:

Explanation:

- use of example showing mathematical change to income using MPC and MPS and the multiplier (k) as a result of increased investment
- explanation of a change in the equilibrium level of income/real GDP due to the increase in investment spending using the multiplier effect – where one person's spending generates another person's income
- autonomous investment creates additional income for individuals who supply goods, services and labour to the company responsible for the initial investment. This income is spent on other goods and services – consumables and durables
- firms will increase demand for resources (including labour) as they increase aggregate output
- output will rise along with aggregate expenditure (at a pace in keeping with the consumption function and the slope of aggregate expenditure line)
- the initial mining and energy investment are reinforced and multiplied in subsequent periods in the circular flow of income
- a new equilibrium at a higher level of income/real GDP is established with a more than proportional increase in real GDP/income compared to increase in investment.

Model:

- vertical axis: aggregate expenditure, horizontal axis: real GDP/income
- 45-degree line represents macroeconomic equilibrium
- rise in aggregate expenditure line increasing equilibrium from Y1 to Y2
- horizontal increase in Y greater than vertical increase in aggregate expenditure.

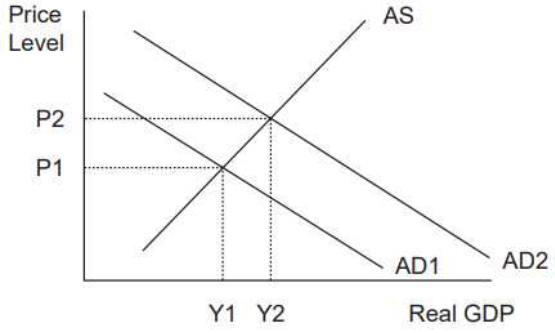
Unit 4 – The aggregate demand and aggregate supply models

Section 1

2023 Section 1 Question 18 **The aggregate demand and aggregate supply models**	According to the aggregate demand/aggregate supply (AD/AS) model, a fall in a nation's productivity level will shift the (a) aggregate supply (AS) curve to the right. (b) aggregate supply (AS) curve to the left. (c) aggregate demand (AD) curve to the right. (d) aggregate demand (AD) curve to the left.

2021 Section 1 Question 15 **The aggregate demand and aggregate supply models**	An increase in real wages will (a) shift the aggregate supply (AS) curve to the right. (b) shift the AS curve to the left. (c) increase real GDP and create jobs. (d) reduce the price level.

2021 Section 1 Question 16 **The aggregate demand and aggregate supply models**	If Australians buy goods from India, (a) Australia's aggregate demand (AD) curve will shift to the right. (b) India's AD curve will shift to the right. (c) Australia's aggregate supply (AS) curve will shift to the right. (d) India's AS curve will shift to the right.

2020 Section 1 Question 19 **The aggregate demand and aggregate supply models**	Which of the following would be **most** likely to have caused the shift in aggregate demand (AD) shown in the diagram below?  (a) a rise in interest rates (b) a rise in the price level (c) a decrease in income taxes (d) a fall in share prices

2019 Section 1 Question 16 **The aggregate demand and aggregate supply models**	Which of the following is **most** likely to reflect government policy designed to improve labour productivity? (a) The aggregate supply curve shifts to the left. (b) The aggregate demand curve shifts to the left. (c) The aggregate supply curve shifts to the right. (d) The aggregate demand curve shifts to the right.

2023 Section 2 Question 27 The aggregate demand and aggregate supply models	This question refers to the edited extracts below from two separate articles by the Macquarie Group and the Commonwealth Bank respectively, published on 26 October 2022. **Extract 1: A budget that reflects the times** The Albanese Government has delivered a cautious budget, consistent with the need to keep fiscal expenditure expansionary but with the intention of limiting any additional inflationary pressures. Treasury is now forecasting a more difficult outlook for the Australian economy. It expects GDP growth to decline to only 1.5% in 2023/24, unemployment to rise by 0.75% and for inflation to remain at higher levels throughout the next three years. The primary focus of the budget is to address cost of living pressures. Despite higher tax revenues (which total $A144.6 bn over the four years to 2025/26), the government has opted to hold on to some of the savings and pursue family-oriented policies that align with the RBA's goal of bringing inflation back down to its target 2–3% range. Against a backdrop where economic growth is slowing, but where the fiscal position remains strong, the budget prioritises four key areas with targeted spending addressing: 1) the cost of living (tax cuts and social security); 2) parental and childcare support; 3) infrastructure; and 4) health, education, and community services. Companies that are exposed to the housing sector also stand to gain due to the government's ambitious goal of building around 200,000 affordable homes per year for the next 5 years starting in mid-2024. **Extract 2: Federal Budget 'resetting for an uncertain future': CBA economists** The federal government's 2022/23 Budget — the first handed down by Treasurer Jim Chalmers — includes measures to address childcare and parental leave, housing and sustainability. 'For 2022/23 the Budget deficit is now forecast at $A36.9 bn, 1.5 per cent of GDP, but little has changed from the 2021/22 budget deficit of $A32 bn, 1.4 per cent of GDP. As such, this represents little change in the overall fiscal position from 2021/22 to 2022/23'. The report's authors also write: 'The Government has downgraded the outlook for global [economic] growth (from 3.2 per cent in 2022 to 2.1 per cent in 2023*). The Budget notes that, "high inflation is sapping momentum and global growth is slowing by more than expected, with some major economies stalling or contracting. Higher global interest rates have increased the risk of recession across all major advanced economies, and the outlook for China has weakened." We very much agree.' (a) (i) State the forecast growth rate for the Australian economy for 2023/2024. (1 mark) (ii) State the value of the Australian Government's expected budget deficit for 2022/2023. (1 mark)

(b) With reference to **three** pieces of evidence from the extracts, identify and account for the fiscal stance of the 2022/2023 Federal Budget. (4 marks)

(c) Using an aggregate demand/aggregate supply (AD/AS) model, describe how the Government uses discretionary fiscal policy spending on infrastructure projects to achieve long-run price stability and economic growth in the Australian economy. (6 marks)

Model

2019 Section 2 Question 27

The aggregate demand and aggregate supply models

This question refers to the data in the table below for a hypothetical economy.

Indicator	Year 1	Year 2	Year 3	Year 4	Year 5
Real GDP ($bn)	530	534	553	562	560
Unemployment rate (% of labour force)	6.2	6.3	6.0	5.5	5.5
Consumer Price Index	100	101.0	105.2	107.3	107.1
Current account deficit (% of GDP)	3.5	4.1	5.6	5.4	2.5
Business investment (% of GDP)	10.0	15.6	17.8	15.2	7.5

(a) (i) Calculate the real economic growth rate in Year 3. (1 mark)

(ii) Identify the indicator in the table that is lagging. (1 mark)

(iii) Identify the year which had the highest rate of inflation. (1 mark)

(b) With reference to Year 3 in the table on page 15, explain how **one** economic objective conflicts with the objective of economic growth and how **one** other economic objective complements the objective of economic growth. (4 marks)

Conflicting economic objective:

Complementary economic objective:

(c) Describe and demonstrate, using the aggregate demand and aggregate supply (AD/AS) model, the performance of the economy from Year 4 to Year 5 in the table on page 15. (5 marks)

Model

Section 3

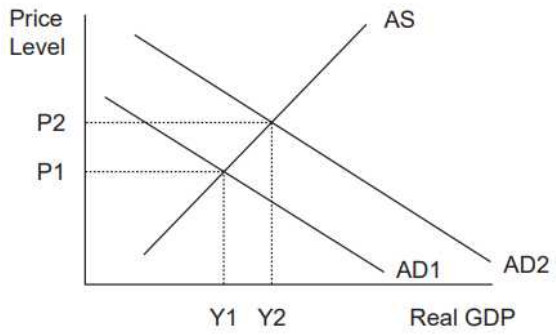
2023 Section 3 Question 31 **The aggregate demand and aggregate supply models**	(a) Define 'structural change' and explain **three** recent causes of structural change in the Australian economy. (10 marks) (b) Using an aggregate demand/aggregate supply (AD/AS) model, describe **two** positive and two negative effects of structural change on economic growth and employment in the Australian economy. (10 marks)

Marking Guide – Section 1

2023 Section 1 Question 18 **The aggregate demand and aggregate supply models**	According to the aggregate demand/aggregate supply (AD/AS) model, a fall in a nation's productivity level will shift the (a) aggregate supply (AS) curve to the right. **(b) aggregate supply (AS) curve to the left. – Answer** (c) aggregate demand (AD) curve to the right. (d) aggregate demand (AD) curve to the left.

2021 Section 1 Question 15 **The aggregate demand and aggregate supply models**	An increase in real wages will (a) shift the aggregate supply (AS) curve to the right. **(b) shift the AS curve to the left. – Answer** **(c) increase real GDP and create jobs. – Answer** (d) reduce the price level. **SCSA Marking Key states both b and c are correct.**

2021 Section 1 Question 16 **The aggregate demand and aggregate supply models**	If Australians buy goods from India, (a) Australia's aggregate demand (AD) curve will shift to the right. **(b) India's AD curve will shift to the right. – Answer** (c) Australia's aggregate supply (AS) curve will shift to the right. (d) India's AS curve will shift to the right.

2020 Section 1 Question 19 **The aggregate demand and aggregate supply models**	Which of the following would be **most** likely to have caused the shift in aggregate demand (AD) shown in the diagram below?  (a) a rise in interest rates (b) a rise in the price level **(c) a decrease in income taxes – Answer** (d) a fall in share prices

2019 Section 1 Question 16 **The aggregate demand and aggregate supply models**	Which of the following is **most** likely to reflect government policy designed to improve labour productivity? (a) The aggregate supply curve shifts to the left. (b) The aggregate demand curve shifts to the left. **(c) The aggregate supply curve shifts to the right. – Answer** (d) The aggregate demand curve shifts to the right.

2023 Section 2 Question 27

The aggregate demand and aggregate supply models

This question refers to the edited extracts below from two separate articles by the Macquarie Group and the Commonwealth Bank respectively, published on 26 October 2022.

Extract 1: A budget that reflects the times

The Albanese Government has delivered a cautious budget, consistent with the need to keep fiscal expenditure expansionary but with the intention of limiting any additional inflationary pressures.

Treasury is now forecasting a more difficult outlook for the Australian economy. It expects GDP growth to decline to only 1.5% in 2023/24, unemployment to rise by 0.75% and for inflation to remain at higher levels throughout the next three years.

The primary focus of the budget is to address cost of living pressures. Despite higher tax revenues (which total $A144.6 bn over the four years to 2025/26), the government has opted to hold on to some of the savings and pursue family-oriented policies that align with the RBA's goal of bringing inflation back down to its target 2–3% range.

Against a backdrop where economic growth is slowing, but where the fiscal position remains strong, the budget prioritises four key areas with targeted spending addressing: 1) the cost of living (tax cuts and social security); 2) parental and childcare support; 3) infrastructure; and 4) health, education, and community services. Companies that are exposed to the housing sector also stand to gain due to the government's ambitious goal of building around 200,000 affordable homes per year for the next 5 years starting in mid-2024.

Extract 2: Federal Budget 'resetting for an uncertain future': CBA economists

The federal government's 2022/23 Budget — the first handed down by Treasurer Jim Chalmers — includes measures to address childcare and parental leave, housing and sustainability.

'For 2022/23 the Budget deficit is now forecast at $A36.9 bn, 1.5 per cent of GDP, but little has changed from the 2021/22 budget deficit of $A32 bn, 1.4 per cent of GDP. As such, this represents little change in the overall fiscal position from 2021/22 to 2022/23'.

The report's authors also write: 'The Government has downgraded the outlook for global [economic] growth (from 3.2 per cent in 2022 to 2.1 per cent in 2023*). The Budget notes that, "high inflation is sapping momentum and global growth is slowing by more than expected, with some major economies stalling or contracting. Higher global interest rates have increased the risk of recession across all major advanced economies, and the outlook for China has weakened." We very much agree.'

(a) (i) State the forecast growth rate for the Australian economy for 2023/2024. (1 mark)

Description	Marks
1.5 (per cent)	1
Total	**1**

(ii) State the value of the Australian Government's expected budget deficit for 2022/2023. (1 mark)

Description	Marks
$36.9bn	1
Total	**1**

(b) With reference to **three** pieces of evidence from the extracts, identify and account for the fiscal stance of the 2022/2023 Federal Budget. (4 marks)

Description	Marks
Identification	
Identifies the fiscal stance as expansionary	1
Subtotal	**1**
Accounts for each piece of evidence (3 x 1 mark)	
Accounts for the fiscal stance with specific reference to a piece of evidence from the extracts	1
Subtotal	**3**
Total	**4**

Answers could include:

- expansionary fiscal stance leads to increased budget deficit
- increased budget deficit suggests an increase in spending to maintain economic growth, however spending is targeted to reduce inflationary pressure
- tax cuts and social security
- increased spending on parental and childcare support, infrastructure, health, education, and housing affordability
- economy is slowing and GDP is slowing

Accept other relevant answers.

Note: stance is expansionary.

(c) Using an aggregate demand/aggregate supply (AD/AS) model, describe how the Government uses discretionary fiscal policy spending on infrastructure projects to achieve long-run price stability and economic growth in the Australian economy. (6 marks)

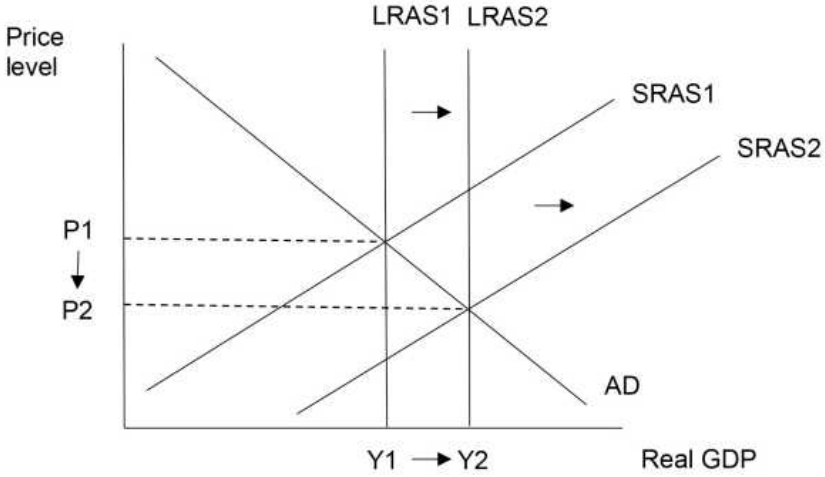
Description	Marks
long-run price stability	
Describes how the Government uses discretionary fiscal policy spending on infrastructure projects to achieve long-run price stability in the Australian economy	2
States how the Government discretionary fiscal policy spending on infrastructure projects to achieve long-run price stability in the Australian economy	1
Subtotal	**2**
economic growth	
Describes how the Government uses discretionary fiscal policy spending on infrastructure projects to achieve economic growth in the Australian economy	2
States how the Government uses discretionary fiscal policy spending on infrastructure projects to achieve economic growth in the Australian economy	1
Subtotal	**2**
Model	
Fully labelled AD/AS model showing an increase (shift right) of the AS curve	2
Partially correctly labelled AD/AS model showing an increase (shift right) of the AS curve	1
Subtotal	**2**
Total	**6**

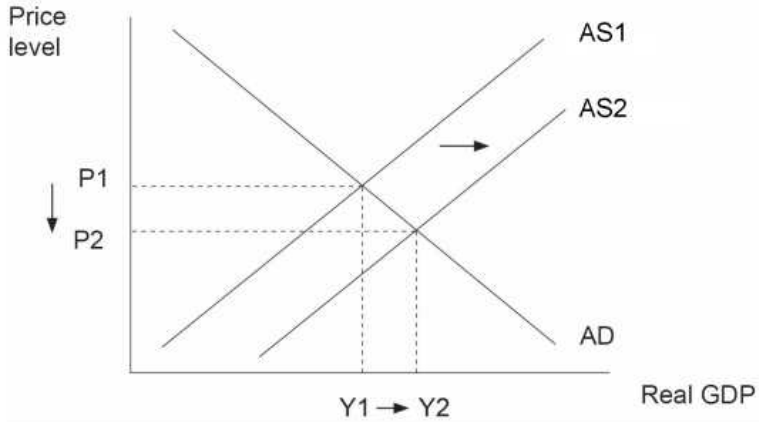
Answers could include:

- price stability – government expenditure on infrastructure will cause a rightward shift in AS causing increase in employment and reduce inflation
- economic growth – increased spending on infrastructure and housing will create employment in those areas of the economy leading to economic growth
- the capital stock of the economy will grow as new housing and social infrastructure grows, thus creating increased income and output throughout the economy.

Model:

- an increase in AS due to increased infrastructure can be demonstrated with an outward shift of the AS curve to create a new (higher) level of income/output (Yfe/Y1–Y2), thus increasing employment and economic growth
- this results in a decrease in the price level from P1 to P2, thus reducing inflationary pressure.





Accept other relevant answers.

2019 Section 2 Question 27

The aggregate demand and aggregate supply models

This question refers to the data in the table below for a hypothetical economy.

Indicator	Year 1	Year 2	Year 3	Year 4	Year 5
Real GDP ($bn)	530	534	553	562	560
Unemployment rate (% of labour force)	6.2	6.3	6.0	5.5	5.5
Consumer Price Index	100	101.0	105.2	107.3	107.1
Current account deficit (% of GDP)	3.5	4.1	5.6	5.4	2.5
Business investment (% of GDP)	10.0	15.6	17.8	15.2	7.5

(a) (i) Calculate the real economic growth rate in Year 3. (1 mark)

Description	Marks
3.56% or 3.6%	1
Total	**1**

(ii) Identify the indicator in the table that is lagging. (1 mark)

Description	Marks
Unemployment rate	1
Total	**1**

(iii) Identify the year which had the highest rate of inflation. (1 mark)

Description	Marks
Year 3	1
Total	**1**

(b) With reference to Year 3 in the table on page 15, explain how **one** economic objective conflicts with the objective of economic growth and how **one** other economic objective complements the objective of economic growth. (4 marks)

Description	Marks
Conflicting economic objective	
In Year 3 the economy is growing at over 3% but the inflation rate is over 4% so the objective of price stability is undermined	1
Strong growth leads to demand pull inflation as the economy approaches capacity	1
Subtotal	**2**
Complementary economic objective	
In Year 3 the economy is growing at over 3% and this has led to a fall in the unemployment rate from 6.3% to 6.0% moving the economy closer to full employment	1
Economic growth increases the demand for labour, reducing cyclical unemployment	1
Subtotal	**2**
Total	**4**

(c) Describe and demonstrate, using the aggregate demand and aggregate supply (AD/AS) model, the performance of the economy from Year 4 to Year 5 in the table on page 15. (5 marks)

Description	Marks
Description	
Identifies the business cycle stage	1
Describes the change in the indicators	1
Links the change in the indicators to the changes in the economy	1
Subtotal	**3**
Model	
AD/AS model showing AD intersecting the SRAS to the left of the LRAS and a resulting contractionary gap or AD/AS model showing AD intersecting the curved AS line in the Keynesian range below the full employment level of output	1
Correctly labelled diagram (i.e. vertical scale: price, horizontal scale: Real GDP, AD and AS labelled, level of Y below potential Y)	1
Subtotal	**2**
Total	**5**

Answer(s) could include:

- the economy is in a contraction/recession as Real GDP has declined from $562 billion to $560 billion (negative growth)
- unemployment (5.5%) has stopped falling as the demand for labour begins to slow
- deflation is being experienced as prices have fallen due to a lack of demand
- the CAD has dramatically decreased (5.4% to 2.5%) because there is less spending on imports/reduced inflow of foreign investment
- the weakening demand conditions have caused firms to slash their investment spending (15.2% to 7.5%).

Marking Guide – Section 3

2023 Section 3 Question 31

The aggregate demand and aggregate supply models

(a) Define 'structural change' and explain **three** recent causes of structural change in the Australian economy. (10 marks)

Description	Marks
Defines structural change	1
Subtotal	**1**
For each cause (3 x 3 marks)	
Explains a cause of structural change in the Australian economy	3
Outlines a cause of structural change in the Australian economy	2
Identifies a cause of structural change in the Australian economy	1
Subtotal	**9**
Total	**10**

Answers could include:

Definition:

- structural change is the change in distribution of output, income and employment in the economy over time.

Causes:

- aging population of Australian workers/low birth rate in Australia leading to changing consumer preferences
- rising demand for Australian services such as education, tourism and hospitality
- rapid economic growth in Australia's trading partners impacting mining and commodity-based industries
- disruptive innovation – information and communications technology (ICT), robotics thus improving supply chains
- concerns for environmental sustainability and climate change resulting in changes in resource access and availability
- globalisation, competitiveness and efficiency
- increased spending on vocational education and training (VET)
- government policies such as labour market reform.

Accept other relevant answers.

(b) Using an aggregate demand/aggregate supply (AD/AS) model, describe **two** positive and two negative effects of structural change on economic growth and employment in the Australian economy. (10 marks)

Description	Marks
For each positive effect (2 x 2 marks)	
Describes the positive impact of structural change on growth and employment in the Australian economy	2
Identifies a positive impact of structural change on growth and employment in the Australian economy	1
Subtotal	**4**
For each negative effect (2 x 2 marks)	
Describes the negative impact of structural change on growth and employment in the Australian economy	2
Identifies a negative impact of structural change on growth and employment in the Australian economy	1
Subtotal	**4**
Model	
Fully labelled AD/AS model showing an increase (shift right) of the AS curve	2
Partially correctly labelled AD/AS model showing an increase (shift right) of the AS curve	1
Subtotal	**2**
Total	**10**

Answers could include:

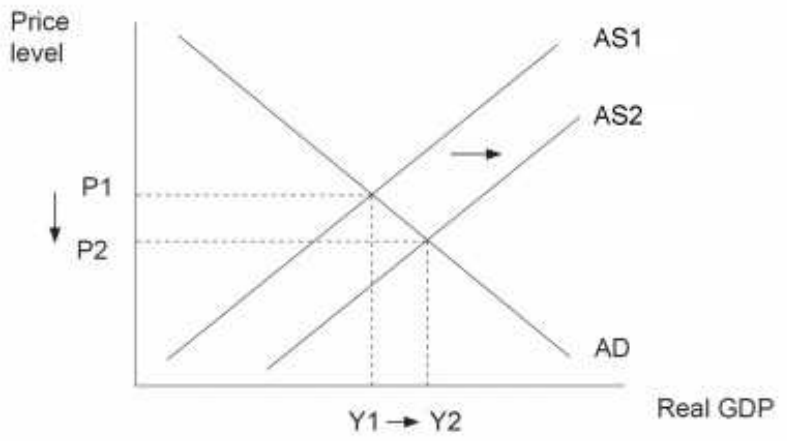
Positive effects:

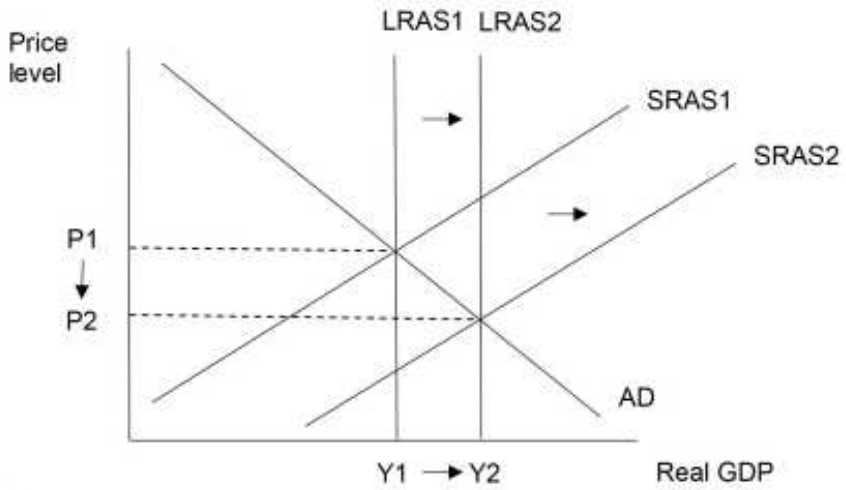
- changing patterns of supply and demand bring opportunities such as finding new inputs and employing and training new workers
- trade in services has increased resulting in an increased demand for skilled workers
- greater concentration of resources in areas of comparative advantage
- economic growth increases resulting in increased incomes and standard of living
- structural change can drive increased domestic investment leading to increased productivity and competitiveness.

Negative effects:

- industries such as manufacturing have gone into decline causing structural unemployment
- increased economic dependence on the global economy making Australia more exposed to external shocks
- rapid growth in one sector (i.e. mining) attracts labour while leading to labour shortages in other sectors
- the distribution of wealth becomes less balanced when growth is unbalanced.

Models:





Accept other relevant answers.

Unit 4 – Fiscal policy

Section 1

2023 Section 1 Question 20 **Fiscal policy**	Which of the following are incompatible economic objectives? (a) economic growth and equitable distribution of income (b) price stability and efficient allocation of resources (c) economic growth and full employment (d) efficient allocation of resources and economic growth

2023 Section 1 Question 21 **Fiscal policy**	When an actual budget deficit exceeds the planned budget deficit, this may be due to (a) a change in government resulting in a change in fiscal policy objectives. (b) economic growth exceeding expectations, resulting in greater tax revenue. (c) an improvement in the terms of trade index, resulting in greater tax revenue. (d) increases in the unemployment rate, resulting in greater welfare spending.

2022 Section 1 Question 11 **Fiscal policy**	Australia's foreign debt represents mainly the extent to which (a) foreign residents own Australian assets. (b) Australia owns foreign assets. (c) Australia owes the rest of the world. (d) Australian companies borrow from overseas.

2022 Section 1 Question 18 **Fiscal policy**	If the Australian Government's budget is currently in deficit, which of the following could increase this deficit? I. an increase in government infrastructure spending II. an increase in mining company profits III. a decrease in taxation rates for middle-income earners IV. a decrease in the unemployment rate (a) I and II only. (b) I, II and III. (c) I and III only. (d) II, III, and IV.

2021 Section 1 Question 3 **Fiscal policy**	Australia's international competitiveness will most likely increase if (a) the Australian dollar appreciates relative to our trading partners' currencies. (b) the Australian Government spends more on ports and railroads. (c) Australian workers' wages increase faster than their productivity. (d) Gross Domestic Product (GDP) growth is higher in Australia than in other countries.

2021 Section 1 Question 17 **Fiscal policy**	Australia's economic objective of price stability is most compatible with the (a) balanced budget objective. (b) equitable distribution of income objective. (c) sustainable economic growth objective. (d) efficient resource allocation objective.

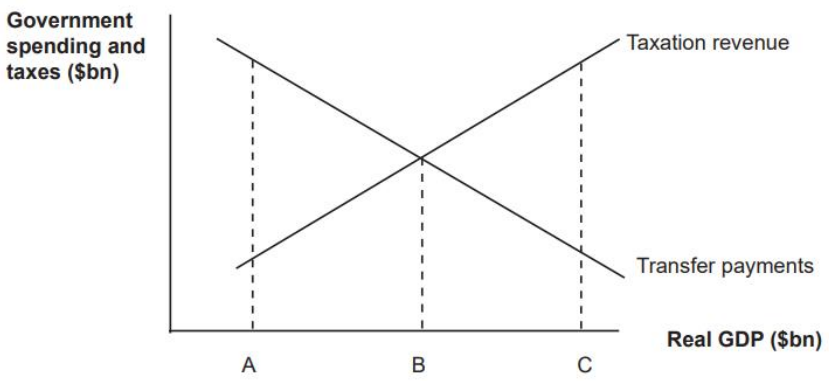
2021 Section 1 Question 18 **Fiscal policy**	One of the weaknesses of fiscal policy is that it (a) has significant implementation delays. (b) requires approval from the Reserve Bank of Australia (RBA). (c) has limited impacts on consumer spending. (d) cannot be directed to specific sectors of the economy.

2021 Section 1 Question 20 **Fiscal policy**	If the Australian Government's budget is currently in deficit, spending more than it raises in taxes may (a) lead to a budget surplus. (b) cause a balanced budget. (c) create an increase in government savings. (d) lead to an increase in government borrowing.

2021 Section 1 Question 21 **Fiscal policy**	If the Australian Government is operating a budget surplus, it is **most** likely that (a) unemployment is high, inflation is low and retail sales are weak. (b) retail sales are strong, inflation is high and the unemployment rate is high. (c) retail sales are weak, inflation is low and GDP growth is high. (d) interest rates are high, unemployment is low and the trade balance is in deficit.

2020 Section 1 Question 14 **Fiscal policy**	The factor that **most** affects household spending and household saving is (a) taxation. (b) interest rates. (c) exchange rates. (d) income.

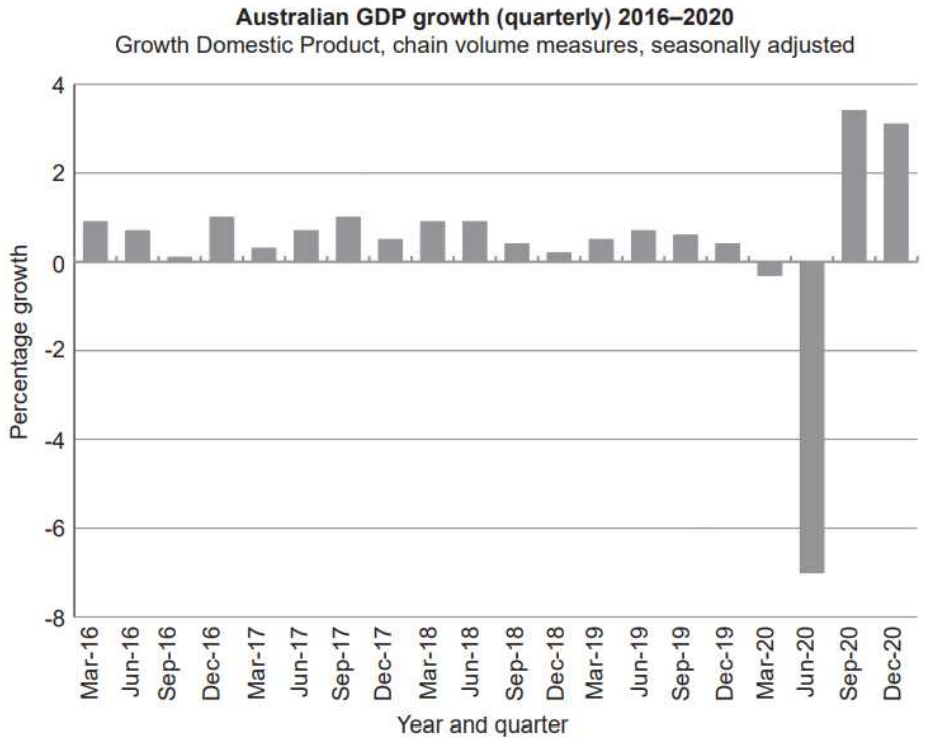
2020 Section 1 Question 24 **Fiscal policy**	Which of the following statements **most** accurately describes the impact of bushfires and drought on the 2019–2020 Commonwealth budget? (a) There was a planned budget surplus but the outcome was a budget deficit. (b) There was a planned budget deficit but the outcome was a budget surplus. (c) The actual budget surplus was larger than the planned budget surplus. (d) The actual budget deficit was larger than the planned budget deficit.

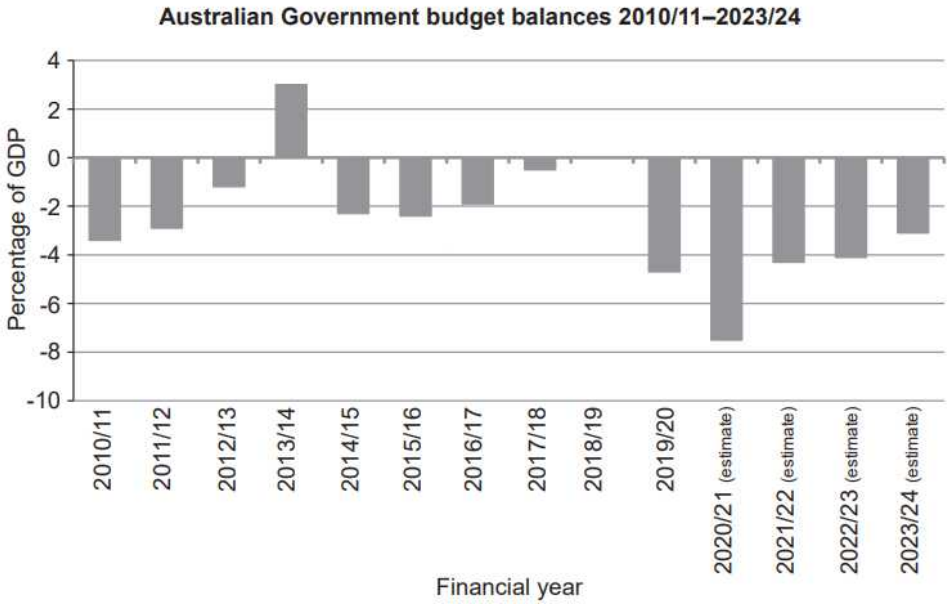
2019 Section 1 Question 17 **Fiscal policy**	The diagram below shows the effect of automatic stabilisers on budget outcomes.  An economic recession would be reflected in a movement between which two points? (a) B to A (b) B to C (c) A to B (d) A to C

2019 Section 1 Question 19 **Fiscal policy**	Which of the following most accurately describes the Australian government budget outcomes over the past three years? (a) increasing budget deficits (b) decreasing budget surpluses (c) increasing budget surpluses (d) decreasing budget deficits

Section 2

2021 Section 2 Question 26 **Fiscal policy**	This question refers to the two graphs below, which show Australia's GDP growth (quarterly) and the Australian Government's budget balance (annual).





(a) (i) What was the size of the contraction in GDP in the June quarter of 2020? (1 mark)

(ii) What is the size of the Australian Government's estimated budget deficit in 2020/21? (1 mark)

(b) Using the aggregate demand/aggregate supply (AD/AS) model, demonstrate and outline **two** intended effects of the estimated Australian Government budget deficits from 2020/21 onward. (4 marks)

Model

(c) Describe three reasons why these estimated Australian Government budget deficits may have a limited effect on economic activity. (6 marks)

One:

Two:

Three:

Section 3

2022 Section 3 Question 30 **Fiscal policy**	(a) Outline the economic policy objectives of the Australian Government and describe the extent to which these may conflict with or complement each other. (10 marks) (b) Outline the two methods used to measure productivity and, using an aggregate demand/aggregate supply (AD/AS) model, illustrate and explain the impact of productivity growth on the achievement of any three economic objectives. (10 marks)

2022 Section 3 Question 31 **Fiscal policy**	(a) Explain the meaning of a 'budget deficit' and describe three methods the Australian Government can use to finance a budget deficit. (8 marks) (b) Using the aggregate expenditure (AE) model, explain the short and long-term implications of the contemporary fiscal policy measures adopted by the Australian Government. (12 marks)

Marking Guide – Section 1

2023 Section 1 Question 20 **Fiscal policy**	Which of the following are incompatible economic objectives? **(a) economic growth and equitable distribution of income – Answer** (b) price stability and efficient allocation of resources (c) economic growth and full employment (d) efficient allocation of resources and economic growth

2023 Section 1 Question 21 **Fiscal policy**	When an actual budget deficit exceeds the planned budget deficit, this may be due to (a) a change in government resulting in a change in fiscal policy objectives. (b) economic growth exceeding expectations, resulting in greater tax revenue. (c) an improvement in the terms of trade index, resulting in greater tax revenue. **(d) increases in the unemployment rate, resulting in greater welfare spending. – Answer**

2022 Section 1 Question 11 **Fiscal policy**	Australia's foreign debt represents mainly the extent to which (a) foreign residents own Australian assets. (b) Australia owns foreign assets. **(c) Australia owes the rest of the world. – Answer** (d) Australian companies borrow from overseas.

2022 Section 1 Question 18 **Fiscal policy**	If the Australian Government's budget is currently in deficit, which of the following could increase this deficit? I. an increase in government infrastructure spending II. an increase in mining company profits III. a decrease in taxation rates for middle-income earners IV. a decrease in the unemployment rate (a) I and II only. (b) I, II and III. **(c) I and III only. – Answer** (d) II, III, and IV.

2021 Section 1 Question 3 **Fiscal policy**	Australia's international competitiveness will most likely increase if (a) the Australian dollar appreciates relative to our trading partners' currencies. **(b) the Australian Government spends more on ports and railroads. – Answer** (c) Australian workers' wages increase faster than their productivity. (d) Gross Domestic Product (GDP) growth is higher in Australia than in other countries.

2021 Section 1 Question 17 **Fiscal policy**	Australia's economic objective of price stability is most compatible with the (a) balanced budget objective. (b) equitable distribution of income objective. **(c) sustainable economic growth objective. – Answer** (d) efficient resource allocation objective.

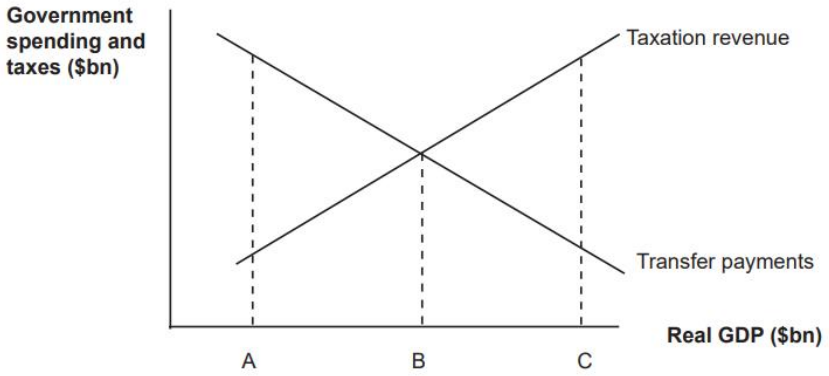
2021 Section 1 Question 18 **Fiscal policy**	One of the weaknesses of fiscal policy is that it **(a) has significant implementation delays. – Answer** (b) requires approval from the Reserve Bank of Australia (RBA). (c) has limited impacts on consumer spending. (d) cannot be directed to specific sectors of the economy.

2021 Section 1 Question 20 **Fiscal policy**	If the Australian Government's budget is currently in deficit, spending more than it raises in taxes may (a) lead to a budget surplus. (b) cause a balanced budget. (c) create an increase in government savings. **(d) lead to an increase in government borrowing. – Answer**

2021 Section 1 Question 21 **Fiscal policy**	If the Australian Government is operating a budget surplus, it is **most** likely that (a) unemployment is high, inflation is low and retail sales are weak. (b) retail sales are strong, inflation is high and the unemployment rate is high. (c) retail sales are weak, inflation is low and GDP growth is high. **(d) interest rates are high, unemployment is low and the trade balance is in deficit. – Answer**

2020 Section 1 Question 14 **Fiscal policy**	The factor that **most** affects household spending and household saving is (a) taxation. (b) interest rates. (c) exchange rates. **(d) income. – Answer**

2020 Section 1 Question 24 **Fiscal policy**	Which of the following statements **most** accurately describes the impact of bushfires and drought on the 2019–2020 Commonwealth budget? **(a) There was a planned budget surplus but the outcome was a budget deficit. – Answer** (b) There was a planned budget deficit but the outcome was a budget surplus. (c) The actual budget surplus was larger than the planned budget surplus. (d) The actual budget deficit was larger than the planned budget deficit.

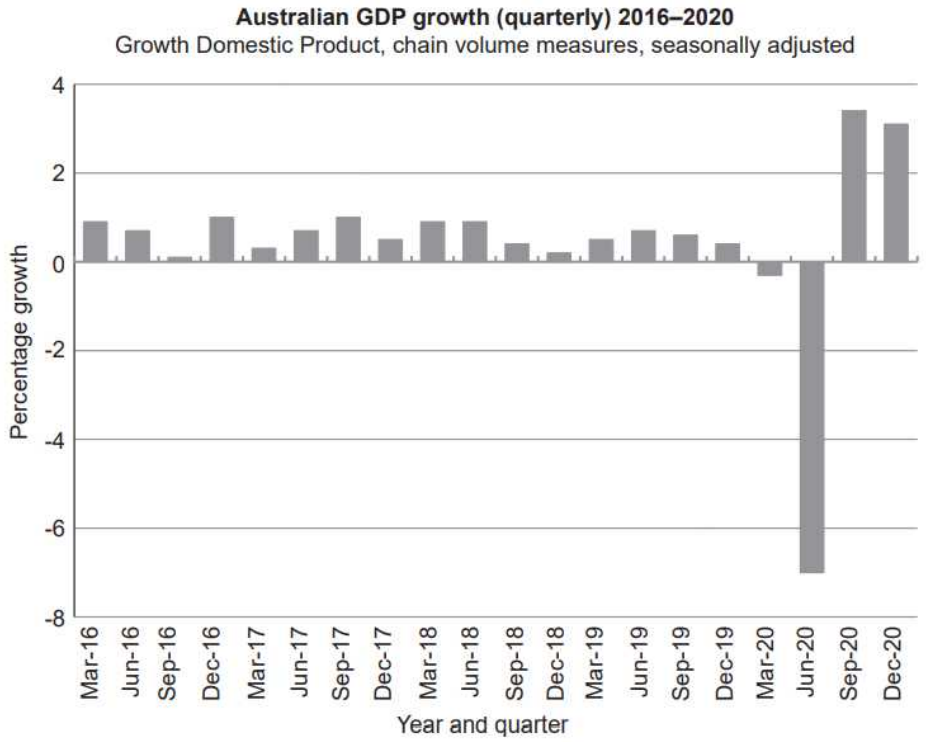
2019 Section 1 Question 17 **Fiscal policy**	The diagram below shows the effect of automatic stabilisers on budget outcomes.  An economic recession would be reflected in a movement between which two points? **(a) B to A – Answer** (b) B to C (c) A to B (d) A to C

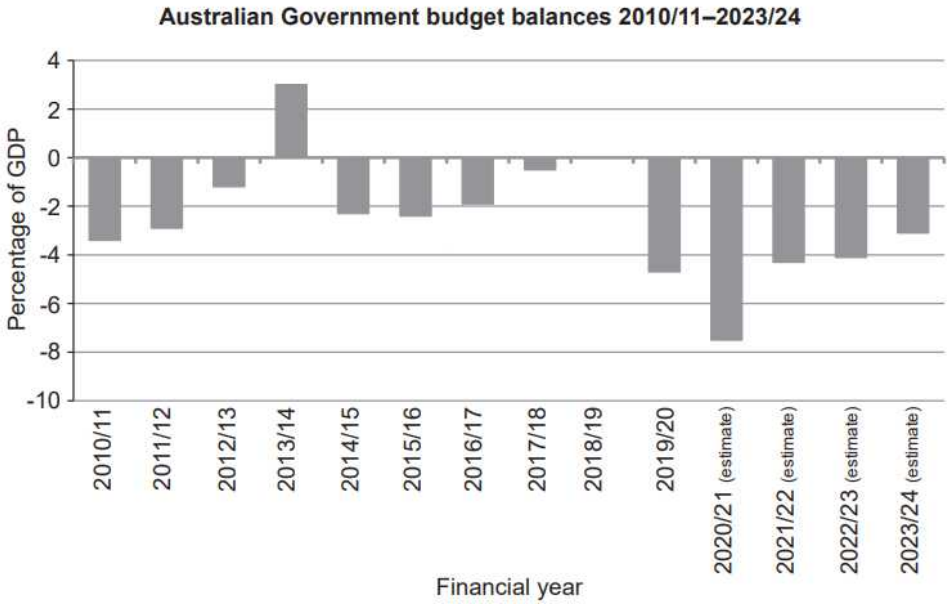
2019 Section 1 Question 19 **Fiscal policy**	Which of the following most accurately describes the Australian government budget outcomes over the past three years? (a) increasing budget deficits (b) decreasing budget surpluses (c) increasing budget surpluses **(d) decreasing budget deficits – Answer**

2021 Section 2 Question 26

Fiscal policy

This question refers to the two graphs below, which show Australia's GDP growth (quarterly) and the Australian Government's budget balance (annual).





(a) (i) What was the size of the contraction in GDP in the June quarter of 2020? (1 mark)

Description	Marks
Contraction of 7% (-7%) (accept a range of 6.9% - 7.2%)	1
Total	**1**

(ii) What is the size of the Australian Government's estimated budget deficit in 2020/21? (1 mark)

Description	Marks
7.8% of GDP, or expressed as a negative. (Allow 7.5–7.9% range)	1
Total	**1**

(b) Using the aggregate demand/aggregate supply (AD/AS) model, demonstrate and outline **two** intended effects of the estimated Australian Government budget deficits from 2020/21 onward. (4 marks)

Description	Marks
Model	
Correctly labelled AD/AS model	1
Correctly indicating shift to the right of the AD curve	1
Subtotal	**2**
Outline any of **two** intended effects listed below:	
Increase Real GDP Lower unemployment Increase consumption spending Increase business activity/investment Increase inflation Increase in wage growth	1–2
Subtotal	**2**
Total	**4**

(c) Describe three reasons why these estimated Australian Government budget deficits may have a limited effect on economic activity. (6 marks)

Description	Marks
For each of the **three** reasons provided (3 x 2 marks each)	
Describes a reason why the government budget deficit may have a limited effect on economic activity	2
Identifies a reason why the government budget deficit may have a limited effect on economic activity	1
Subtotal	**2**
Total	**6**

Answer(s) could include:

- crowding out; may cause increase in interest rates. This may dampen economic growth
- inflexibility of budgets – actual versus planned
- state government policy may contradict federal government policy
- financing of deficit may lead to appreciation of the dollar
- increased deficits may cause inflationary pressure, leading to RBA raising interest rates
- low business and consumer confidence may prevent spending once payments finish, i.e. temporary nature of much of the government stimulus
- low wages growth limiting consumption spending, i.e., consumers may save
- the global health pandemic may continue to impact major services industries such as tourism and education. Global demand low.

Marking Guide – Section 3

2022 Section 3 Question 30

Fiscal policy

(a) Outline the economic policy objectives of the Australian Government and describe the extent to which these may conflict with or complement each other. (10 marks)

Description	Marks
For each of the government economic policy objectives (5 x 2 marks)	
Describes the extent to which the government economic policy objective compliments or conflicts with other objectives.	2
Outlines the government economic policy objective.	1
Total	**10**

Answers could include:

Economic policy objectives
- price stability
- full employment
- sustainable economic growth
- equitable distribution of income
- efficient allocation of resources.

Complementary objectives
- full employment and economic growth – expanding the economy requires the employment of more resources, including labour. This complements economic growth
- efficient allocation of resources and economic growth – as the economy expands, resources become scarcer and are used more intensively and efficiently.

Conflicting objectives
- price stability and economic growth – expanding the economy will increase competition for resources, increasing the cost of resources to meet additional demand
- and equitable distribution of income could reduce economic growth through increase in welfare payments
- equitable distribution of income - gains from economic growth are likely to benefit specific groups at a cost of others
- full employment and price stability – typically, during periods of full employment inflation is generally high. Inflammatory policies are often used during periods of full employment and counteract demand-pull inflation with higher cash rates or lower fiscal spending. As a result of lower aggregate demand, higher unemployment can be expected.

Accept other relevant answers.

(b) Outline the two methods used to measure productivity and, using an aggregate demand/aggregate supply (AD/AS) model, illustrate and explain the impact of productivity growth on the achievement of any three economic objectives. (10 marks)

Description	Marks
Methods used to measure productivity	
Outlines labour productivity.	1
Outlines multifactor productivity (MFP).	1
Subtotal	**2**
For each of the three impacts on economic objectives (3 x 2 marks)	
Explains the impact of productivity on any three economic objectives. There is consideration of both positive and negative impacts.	2
Outlines how productivity may impact on any three economic objectives.	1
Subtotal	**6**
Model	
Detailed AD/AS model shows **both** short run and long run shift in AD and AS.	2
Mostly correct model showing a rightward shift in either AD or AS curve.	1
Subtotal	**2**
Total	**10**

Answers could include:

Methods:
- labour productivity equals GDP per worker
- multifactor productivity equals output divided by all inputs – the growth in output caused by the growth in inputs.

Impacts:
- increased productivity decreases costs of production thereby achieving price stability
- increased productivity leads to increased economic growth, rising standard of living.
- higher wages from increased productivity can impact on standard of living and equitable distribution of income
- increased productivity may have negative impacts on employment in the short run. In the long-run, productivity increases incomes, leading to an increase in jobs, lowering unemployment
- increased productivity will result in higher government revenue which can be used to improve income distribution.

The model should show:
- a rightward shift in the AD curve
- a rightward shift in the AS curve;

Note: a rightward shift in the long run aggregate supply (LRAS) curve could be shown.

Accept other relevant answers.

2022 Section 3 Question 31 Fiscal policy	(a) Explain the meaning of a 'budget deficit' and describe three methods the Australian Government can use to finance a budget deficit. (8 marks)

Description	Marks
Explanation	
Explains a budget deficit is expansionary.	2
Defines budget deficit.	1
Subtotal	**2**
For each of three methods (3 x 2 marks)	
Describes the method the government uses to finance budget deficits.	2
Identifies a method the government uses to finance budget deficits.	1
Subtotal	**6**
Total	**8**

Answers could include:

Meaning of 'budget deficit':
- government spending is greater than government revenue
- a deficit implies an expansionary stance.

Methods:
- borrowing domestically by issuing bonds to private sector
- borrowing from the overseas sector - by issuing bonds
- borrow from the RBA - this means printing money
- selling government assets – provide an example e.g. government land.

(b) Using the aggregate expenditure (AE) model, explain the short and long-term implications of the contemporary fiscal policy measures adopted by the Australian Government. (12 marks)

Description	Marks
Short-term implications	
Explains the short-term implications that expansionary fiscal policy will have on the level of economic activity in Australia.	5–6
Describes the short-term implications that expansionary fiscal policy will have on the level of economic activity in Australia.	3–4
Outlines the short-term implications that expansionary fiscal policy will have on the level of economic activity in Australia.	1–2
Subtotal	**6**
Long-term implications	
Explanation of at least two long-term implications that expansionary fiscal policy will have on the level of economic activity in Australia.	3–4
Description of at least two long-term implications that expansionary fiscal policy will have on the level of economic activity in Australia.	2
Limited reference to the long-term implications that expansionary fiscal policy will have on the level of economic activity in Australia.	1
Subtotal	**4**
Model	
Correctly labelled AE model showing upward shift in AE.	2
Mostly correct model showing upward shift in AE.	1
Subtotal	**2**
Total	**12**

Answers could include:

Short-term
- growth in GDP i.e. an increase in output – expands economy
- fall in unemployment – growth in jobs
- inflationary pressure – may increase price level/cost of living/CPI
- multiplier effect – increased government spending causes even greater increase in economic growth.
- borrowing from overseas can lead to currency appreciation.

Long-term
- selling bonds leads to crowding out and the upward pressure on interest rate
- increase in government debt – falling credit rating resulting in a negative impact on consumption and investment
- opportunity costs of interest payments on debt – implications for future economic growth prospects
- increased government spending on infrastructure leading to long term economic growth.

Model should include:
- expansionary fiscal policy with an upward shift in AE curve.

Accept other relevant answers.

Unit 4 – Monetary policy

Section 1

2023 Section 1 Question 22 **Monetary policy**	In 2022/2023, the monetary policy stance adopted by the Reserve Bank of Australia (RBA) was due to (a) a slowdown in world economic growth and low domestic wage growth. (b) inflationary pressure due to increasing costs of production and supply chain disruptions. (c) the decreased cost of borrowing funds, impacting investment and spending. (d) the decreased disposable incomes of households and firms.

2022 Section 1 Question 17 **Monetary policy**	In relation to the aggregate demand/aggregate supply (AD/AS) model, which of the following will shift the AD curve to the left? An increase in (a) Australian exports to China. (b) the cash rate. (c) business confidence. (d) disposable income.

2022 Section 1 Question 19 **Monetary policy**	Fiscal policy has a long decision lag compared with monetary policy because (a) economic indicators may be out of date when policy makers analyse data. (b) government proposals must normally be agreed to by both Houses of Parliament. (c) decisions impact household spending and business behaviour with a lag. (d) budgetary decisions require approval from the Reserve Bank of Australia (RBA).

2022 Section 1 Question 20 **Monetary policy**	Assume the Australian economy is experiencing the following economic conditions: • inflation = 2.0% • economic growth = 1.5% • unemployment = 6.5%. On the basis of the data, the Reserve Bank of Australia (RBA) would most likely (a) leave the cash rate unchanged as price stability is its main objective. (b) increase the cash rate to reduce the level of aggregate demand. (c) sell government bonds to the public to increase liquidity in the financial sector. (d) reduce the cash rate to increase the level of aggregate demand.

2022 Section 1 Question 21 **Monetary policy**	A weakness of monetary policy compared with fiscal policy is that it (a) tends to be relatively ineffective during a recession. (b) has a long implementation lag. (c) can have a powerful effect on the level of spending in the economy. (d) is not effective in controlling high levels of inflation.

2020 Section 1 Question 13 **Monetary policy**	Which of the following would be likely to reduce inflationary pressure in an economy? (a) an increase in productivity (b) a depreciation of the exchange rate (c) aggregate demand rising faster than aggregate supply (d) an increase in tariffs on imported goods

2020 **Section 1** **Question 23** **Monetary policy**	An increase in the cash rate by the Reserve Bank of Australia is **most** likely to cause (a) a decrease in the level of business investment. (b) an increase in the level of household spending on durable goods. (c) a rise in the inflation rate. (d) a fall in the unemployment rate.

2019 **Section 1** **Question 13** **Monetary policy**	All other things being equal, real interest rates and planned investment have a (a) positive relationship. (b) proportional relationship. (c) negative relationship. (d) nominal relationship.

2019 **Section 1** **Question 20** **Monetary policy**	Which of the following are reasons for the Reserve Bank of Australia to have a medium-term inflation targeting strategy? (i) Inflation creates certainty as it discourages non-productive investment. (ii) Inflation leads to higher nominal interest rates, which may reduce spending. (iii) Inflation increases the international competitiveness of exporters. (iv) Inflation redistributes income and can increase inequality. (a) (i) and (ii) (b) (ii) and (iii) (c) (iii) and (iv) (d) (ii) and (iv)

2019 **Section 1** **Question 21** **Monetary policy**	The Reserve Bank of Australia would **most** likely implement contractionary monetary policy if (a) potential GDP was above actual GDP. (b) unemployment was below the natural rate of unemployment. (c) the economy was affected by a negative aggregate demand shock. (d) inflation crept above 2%.

Section 2

There have been no questions on this topic for this section in the exams of recent years.

Section 3

2021 Section 3 Question 31 **Monetary policy**	(a) With reference to the transmission mechanism, explain how the Reserve Bank of Australia uses monetary policy to affect the level of economic activity. (8 marks) (b) Using the aggregate expenditure model, identify **three** intended effects of the contemporary monetary policy stance on the Australian economy and discuss the factors likely to limit its effectiveness. (12 marks)

2019 Section 3 Question 31 **Monetary policy**	Discuss the contemporary monetary policy setting of the Reserve Bank of Australia with reference to the business cycle, the intended effects on key economic sectors and its effectiveness in influencing aggregate demand. (20 marks)

Marking Guide – Section 1

2023 Section 1 Question 22 **Monetary policy**	In 2022/2023, the monetary policy stance adopted by the Reserve Bank of Australia (RBA) was due to (a) a slowdown in world economic growth and low domestic wage growth. **(b) inflationary pressure due to increasing costs of production and supply chain disruptions. – Answer** (c) the decreased cost of borrowing funds, impacting investment and spending. (d) the decreased disposable incomes of households and firms.

2022 Section 1 Question 17 **Monetary policy**	In relation to the aggregate demand/aggregate supply (AD/AS) model, which of the following will shift the AD curve to the left? An increase in (a) Australian exports to China. **(b) the cash rate. – Answer** (c) business confidence. (d) disposable income.

2022 Section 1 Question 19 **Monetary policy**	Fiscal policy has a long decision lag compared with monetary policy because (a) economic indicators may be out of date when policy makers analyse data. **(b) government proposals must normally be agreed to by both Houses of Parliament. – Answer** (c) decisions impact household spending and business behaviour with a lag. (d) budgetary decisions require approval from the Reserve Bank of Australia (RBA).

2022 Section 1 Question 20 **Monetary policy**	Assume the Australian economy is experiencing the following economic conditions: • inflation = 2.0% • economic growth = 1.5% • unemployment = 6.5%. On the basis of the data, the Reserve Bank of Australia (RBA) would most likely (a) leave the cash rate unchanged as price stability is its main objective. (b) increase the cash rate to reduce the level of aggregate demand. (c) sell government bonds to the public to increase liquidity in the financial sector. **(d) reduce the cash rate to increase the level of aggregate demand. – Answer**

2022 Section 1 Question 21 **Monetary policy**	A weakness of monetary policy compared with fiscal policy is that it **(a) tends to be relatively ineffective during a recession. – Answer** (b) has a long implementation lag. (c) can have a powerful effect on the level of spending in the economy. (d) is not effective in controlling high levels of inflation.

2020 Section 1 Question 13 **Monetary policy**	Which of the following would be likely to reduce inflationary pressure in an economy? **(a) an increase in productivity – Answer** (b) a depreciation of the exchange rate (c) aggregate demand rising faster than aggregate supply (d) an increase in tariffs on imported goods

2020 **Section 1** **Question** **23** **Monetary policy**	An increase in the cash rate by the Reserve Bank of Australia is **most** likely to cause **(a) a decrease in the level of business investment. – Answer** (b) an increase in the level of household spending on durable goods. (c) a rise in the inflation rate. (d) a fall in the unemployment rate.

2019 **Section 1** **Question** **13** **Monetary policy**	All other things being equal, real interest rates and planned investment have a (a) positive relationship. (b) proportional relationship. **(c) negative relationship. – Answer** (d) nominal relationship.

2019 **Section 1** **Question** **20** **Monetary policy**	Which of the following are reasons for the Reserve Bank of Australia to have a medium-term inflation targeting strategy? (i) Inflation creates certainty as it discourages non-productive investment. (ii) Inflation leads to higher nominal interest rates, which may reduce spending. (iii) Inflation increases the international competitiveness of exporters. (iv) Inflation redistributes income and can increase inequality. (a) (i) and (ii) (b) (ii) and (iii) (c) (iii) and (iv) **(d) (ii) and (iv) – Answer**

2019 **Section 1** **Question** **21** **Monetary policy**	The Reserve Bank of Australia would **most** likely implement contractionary monetary policy if (a) potential GDP was above actual GDP. **(b) unemployment was below the natural rate of unemployment. – Answer** (c) the economy was affected by a negative aggregate demand shock. (d) inflation crept above 2%.

Marking Guide – Section 2

There have been no questions on this topic for this section in the exams of recent years.

Marking Guide – Section 3

2021 Section 3 Question 31

Monetary policy

(a) With reference to the transmission mechanism, explain how the Reserve Bank of Australia uses monetary policy to affect the level of economic activity. (8 marks)

Description	Marks
For each of the **four** channels of transmission (4 x 2 marks each)	
Explains how the Reserve Bank uses monetary policy to affect the level of economic activity	2
Outlines how the Reserve Bank uses monetary policy to affect the level of economic activity	1
Subtotal	**2**
Total	**8**

Answer(s) could include:

- savings – investment channel
- cash flow channel
- asset value channel
- exchange rate channel.

(b) Using the aggregate expenditure model, identify **three** intended effects of the contemporary monetary policy stance on the Australian economy and discuss the factors likely to limit its effectiveness. (12 marks)

Description	Marks
AE model	
Correctly labelled AE diagram showing correct axes	1
Demonstrate a rise in AE bringing about increased output (Y1 to Y2)	1
Demonstration of deflationary gap and full employment output	1
Subtotal	**3**
Intended effects	
Identification of intended effect of current RBA stance (x 3)	1–3
Subtotal	**3**
Factors limiting effectiveness of MP	
Discusses the factors limiting the effectiveness of monetary policy	5–6
Describes the factors limiting the effectiveness of monetary policy	3–4
Identifies the factors limiting the effectiveness of monetary policy	1–2
Subtotal	**6**
Total	**12**

Answer(s) could include:

Intended effects could include:
- employment creation
- increased growth
- higher inflation.

Factors limiting effectiveness could include:
- low consumer and business confidence
- savings may rise, consumption may fall (households lowering debt)
- factors other than relative interest rate differential may override, causing AUD to appreciate
- alternative regulatory authority action (e.g. APRA – banks to hold more liquidity; action from Banking Royal Commission)
- banks not passing on lower interest rates
- monetary policy is a blunt instrument (can't target industries or states)
- less effective in a trough
- a higher AUD will result in cheaper imports and a rise in import spending (despite the lower interest rate), reducing the overall impact on AE
- current global recession may be prolonged
- liquidity trap.

2019 Section 3 Question 31 Monetary policy	Discuss the contemporary monetary policy setting of the Reserve Bank of Australia with reference to the business cycle, the intended effects on key economic sectors and its effectiveness in influencing aggregate demand. (20 marks)

Description	Marks
Contemporary monetary policy	
Discusses the contemporary monetary policy setting and the current state of the economy using a variety of indicators/evidence	5–6
Describes contemporary monetary policy setting with reference to the state of the economy	3–4
Outlines monetary policy setting with some link to the state of the economy	2
Identifies the contemporary cash rate	1
Subtotal	**6**
Intended effects	
Discusses intended impact of contemporary monetary policy setting on households, firms and net exports via borrowing costs, cash flow, asset prices and the exchange rate. Clear link to intended change in aggregate demand/real GDP	7–8
Describes how the contemporary monetary policy setting influences consumption, investment and net exports via several features of the transmission mechanism	5–6
Outlines the impact on economy's major sectors and resulting change in aggregate demand from monetary policy setting	3–4
Identifies some changes in economic sectors due to monetary policy setting	1–2
Subtotal	**8**
Effectiveness	
Discusses effectiveness of monetary policy in influencing aggregate demand and clear assessment of its contemporary effectiveness	5–6
Describes several strengths and weaknesses of monetary policy and some link to contemporary impact	3–4
Outlines several strengths and weaknesses of monetary policy	2
Identifies a strength and/or weakness of monetary policy	1
Subtotal	**6**
Total	**20**

Answer(s) could include:

Contemporary monetary policy setting:
- identification of contemporary cash rate settings
- below trend economic growth (i.e. less than 3%)
- weak consumer and business sentiment/confidence
- supporting structural change from mining to housing sector
- falling house prices
- stimulate employment opportunities
- overseas economic uncertainty (e.g. China's economic growth, Brexit, United States trade policy)
- monetary policy setting compensating for fiscal policy focus on medium-term structural balance.

Intended influence on economic sectors (transmission mechanism):
Households:
- lower interest rate results in increased consumption
- reduced incentive to save
- reduction in servicing costs for existing loans
- reduced opportunity cost of borrowing
- lower rates should promote rising asset prices over time.

Firms:
- reduction in cost of borrowing so firms encouraged to invest
- improvement in firm's cash flow because most firms are net borrowers
- investment demand curve.

Net exports:
- reduction in interest rate differential makes Australia a less attractive destination for foreign investment
- reduction in capital inflow decreases demand for the Australian dollar – Australian dollar falls
- increased international competitiveness of Australian producers.

Overall impact of loose monetary policy setting is to support aggregate demand and economic growth.

Effectiveness (of monetary policy):
- stabilising housing prices
- stimulate economic activity by promoting consumption
- reducing debt exposure for consumers and firms
- depreciating the Australian dollar and improving competitiveness
- monetary policy has short decision and implementation lag but long effect lag
- monetary policy is politically neutral and affects most sectors of the economy
- monetary policy is weak in periods of low growth as low interest rates may be outweighed by negative sentiment and expectations – 'you can lead a horse to water, but you can't make it drink'
- contemporary settings have seen historically low cash rates to support transition from mining boom
- monetary policy is a blunt instrument so applied to all States and industries regardless of individual economic performance
- low cash rate has encouraged excessive borrowing and rapid rise in housing prices in Eastern State capitals.

Unit 4 – Labour productivity

Section 1

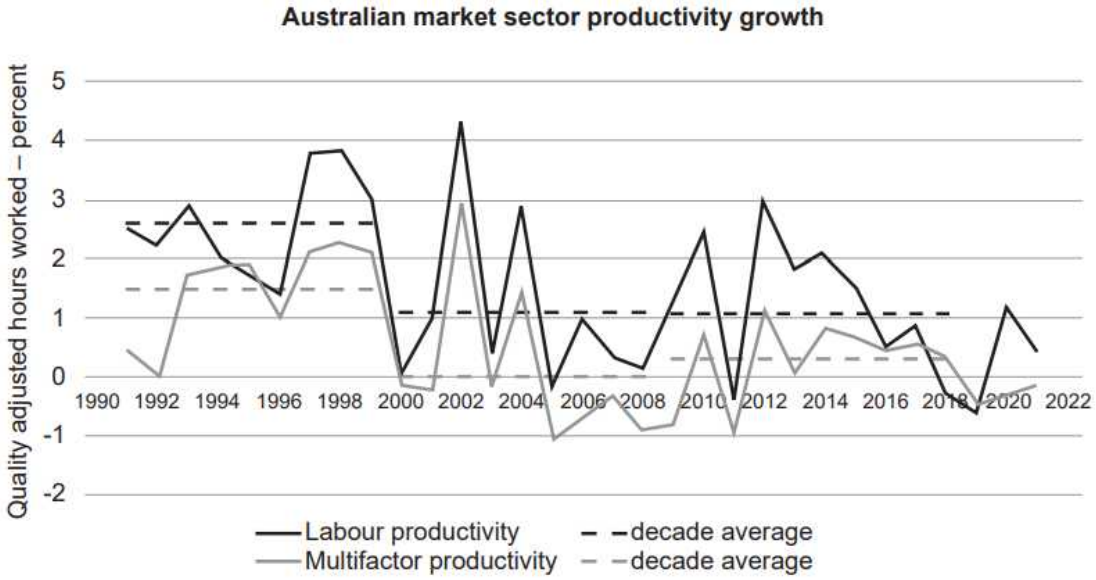
2022 **Section 1** **Question 24** **Labour productivity**	Which of the following outlines a difference between labour productivity and multifactor productivity? (a) Multifactor productivity is easier to measure than labour productivity. (b) New capital equipment will only increase multifactor productivity. (c) Labour productivity is more closely related to workers' wages than multifactor productivity. (d) Only multifactor productivity improves with technology.

2022 **Section 1** **Question 23** **Labour productivity**	Multifactor productivity **best** refers to the (a) increase in human capital from migration. (b) growth in output produced using a given amount of inputs. (c) improvements only in human resource practices. (d) increases in competition from the entry of new firms.

2021 **Section 1** **Question 24** **Labour productivity**	Which of the following statements about employment across various sectors in Australia is correct? (a) Services as a percentage of employment has increased. (b) Mining and agriculture as a percentage of employment has increased. (c) Manufacturing and agriculture as a percentage of employment has increased. (d) Employment in mining and manufacturing is growing at a slower rate than agriculture.

2019 **Section 1** **Question 24** **Labour productivity**	Which one of the following is **most** likely to occur as a result of productivity growth in an economy? (a) rising price levels (b) rising structural unemployment (c) falling output levels (d) falling economic growth

Section 2

2023 Section 2 Question 26 Labour productivity	This question refers to an adapted submission to the Productivity Commission produced by the Australian Chamber of Commerce and Industry and published in March 2022 and the graph below, which shows Market Sector Productivity Growth in Australia from 1991–2021. **Productivity Commission Review of Australia's Productivity Performance and International Competitiveness.** Internationally comparable indicators of productivity are useful for assessing a country's economic performance and competitiveness. Australia's relatively low productivity growth, particularly in recent times, places it as only a middle ranking country in terms of productivity. Australia's labour productivity ranks 16th in the OECD, at US$61.50, measured on a GDP per hours worked basis. While this is slightly above the OECD average of US$58.90, Australia ranks behind most comparable nations, including France, the United States, Germany and the United Kingdom. Similarly, Australia's multifactor productivity growth of 7.4% over the past two decades was below the OECD average of 8.8% and lagged behind the productivity growth of many comparable countries. Some of the reasons why Australia's productivity growth rates and hence competitiveness is declining include lower levels of business investment, low investment in research and development (R&D), slow uptake of digital technology and skill and labour shortages.  (a) (i) According to the extract, identify one possible reason for Australia's declining productivity and competitiveness. (1 mark) (ii) State the trend in labour productivity growth between 2018 and 2021. (1 mark)

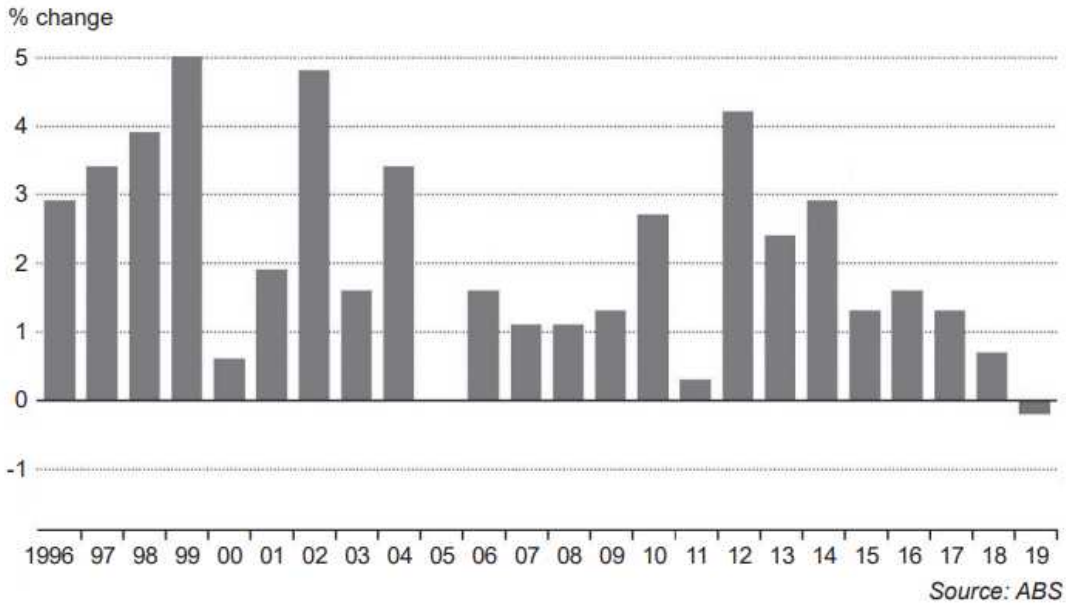
(b) Other than labour productivity, outline two factors that influence Australia's international competitiveness. (4 marks)

One:

Two:

(c) Using an aggregate demand/aggregate supply (AD/AS) model, explain the impact of 'lower levels of business investment' on the level of economic activity in Australia. (6 marks)

Model

2020 Section 2 Question 27 **Labour productivity**	This question refers to the edited extract below, which is from an article written by Michael Roddan and published in The Australian on October 26, 2019. ***Copyright restrictions prohibit the release of this SCSA exam material.*** **LABOUR PRODUCTIVITY – HOURS WORKED**  (a) (i) Define the term 'labour productivity'. (1 mark) (ii) What was Australia's average labour productivity growth rate over the last five years? (1 mark) (iii) Which year in the graph had the highest rate of productivity growth? (1 mark) (b) Explain **two** ways each of the following policy options, identified in the article, would assist in improving Australia's productivity rate. (4 marks) Increased skills and training investment One: Two:

Increased investment in technology by firms

One:

Two:

(c) Using the aggregate demand and aggregate supply (AD/AS) model, demonstrate and explain the relationship between productivity improvement and economic growth and how such improvement is likely to impact on the growth of income/wages. (5 marks)

	Model

Section 3

2021 Section 3 Question 30 **Labour productivity**	(a) Describe **three** causes of structural change and, using the AD/AS model, explain the relationship between structural change and economic growth. (12 marks) (b) Explain the term 'productivity' and describe **three** recent Australian Government policies designed to promote productivity. (8 marks)

Marking Guide – Section 1

2022 Section 1 Question 24 Labour productivity	Which of the following outlines a difference between labour productivity and multifactor productivity? (a) Multifactor productivity is easier to measure than labour productivity. (b) New capital equipment will only increase multifactor productivity. **(c) Labour productivity is more closely related to workers' wages than multifactor productivity. – Answer** (d) Only multifactor productivity improves with technology.

2022 Section 1 Question 23 Labour productivity	Multifactor productivity **best** refers to the (a) increase in human capital from migration. **(b) growth in output produced using a given amount of inputs. – Answer** (c) improvements only in human resource practices. (d) increases in competition from the entry of new firms.

2021 Section 1 Question 24 Labour productivity	Which of the following statements about employment across various sectors in Australia is correct? **(a) Services as a percentage of employment has increased. – Answer** (b) Mining and agriculture as a percentage of employment has increased. (c) Manufacturing and agriculture as a percentage of employment has increased. (d) Employment in mining and manufacturing is growing at a slower rate than agriculture.

2019 Section 1 Question 24 Labour productivity	Which one of the following is **most** likely to occur as a result of productivity growth in an economy? (a) rising price levels **(b) rising structural unemployment – Answer** (c) falling output levels (d) falling economic growth

2023 Section 2 Question 26

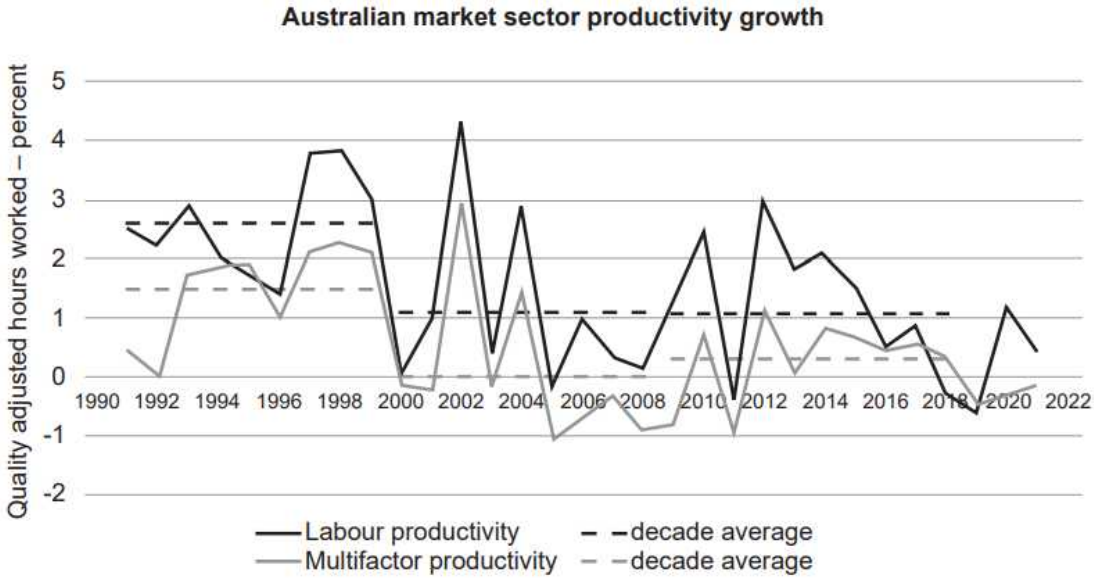
Labour productivity

This question refers to an adapted submission to the Productivity Commission produced by the Australian Chamber of Commerce and Industry and published in March 2022 and the graph below, which shows Market Sector Productivity Growth in Australia from 1991–2021.

Productivity Commission Review of Australia's Productivity Performance and International Competitiveness.

Internationally comparable indicators of productivity are useful for assessing a country's economic performance and competitiveness. Australia's relatively low productivity growth, particularly in recent times, places it as only a middle ranking country in terms of productivity. Australia's labour productivity ranks 16th in the OECD, at US$61.50, measured on a GDP per hours worked basis. While this is slightly above the OECD average of US$58.90, Australia ranks behind most comparable nations, including France, the United States, Germany and the United Kingdom. Similarly, Australia's multifactor productivity growth of 7.4% over the past two decades was below the OECD average of 8.8% and lagged behind the productivity growth of many comparable countries.

Some of the reasons why Australia's productivity growth rates and hence competitiveness is declining include lower levels of business investment, low investment in research and development (R&D), slow uptake of digital technology and skill and labour shortages.



(a) (i) According to the extract, identify one possible reason for Australia's declining productivity and competitiveness. (1 mark)

Description	Marks
Any one of	
• low levels of business investment • low investment in research and development (R&D) • slow uptake of digital technology • skill and labour shortages.	1
Total	**1**

(ii) State the trend in labour productivity growth between 2018 and 2021. (1 mark)

Description	Marks
increasing	1
Total	**1**

(b) Other than labour productivity, outline two factors that influence Australia's international competitiveness. (4 marks)

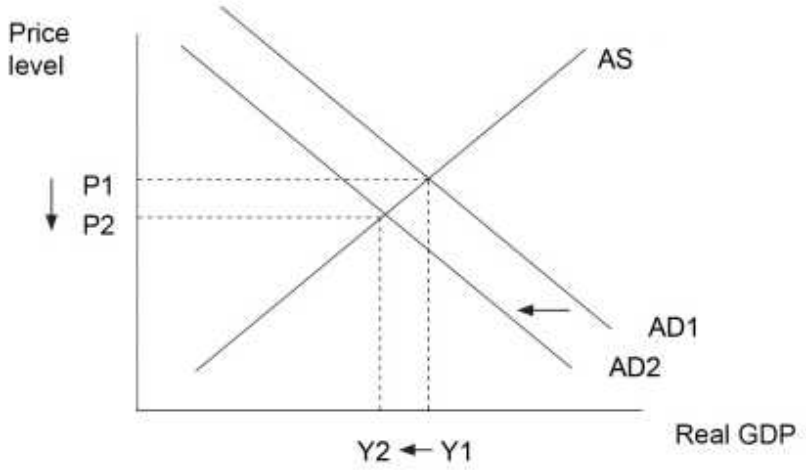
Description	Marks
For each factor which influences Australia's international competitiveness (2 x 2 marks)	
Outlines the factor influencing international competitiveness	2
Identifies a factor influencing international competitiveness	1
Total	**4**
Answers could include: • differences in relative input costs such as labour (i.e. wages) • differences in relative inflation level keeping prices low relative to trading partners • exchange rate changes – affects prices paid for imports and exports • changes in trade barriers.	
Accept other relevant answers.	

(c) Using an aggregate demand/aggregate supply (AD/AS) model, explain the impact of 'lower levels of business investment' on the level of economic activity in Australia. (6 marks)

Description	Marks
Explanation	
Explains the impact of lower levels of business investment on the level of economic activity in Australia with reference to the multiplier. Specific reference to the shift in the AD curve in the AD/AS model	4
Describes the impact of lower levels of business investment on the level of economic activity in Australia. Some reference to the shift in the AD curve in the AD/AS model	3
Outlines the impact of lower levels of business investment on economic activity in Australia. Limited reference to the shift in the AD curve in the constructed AD/AS model	2
States a fact about lower levels of business investment on economic activity in Australia	1
Subtotal	**4**
Model	
Fully labelled AD/AS model showing a decrease in AD (shift left)	2
Partially correctly labelled AD/AS model showing a decrease in AD	1
Subtotal	**2**
Total	**6**

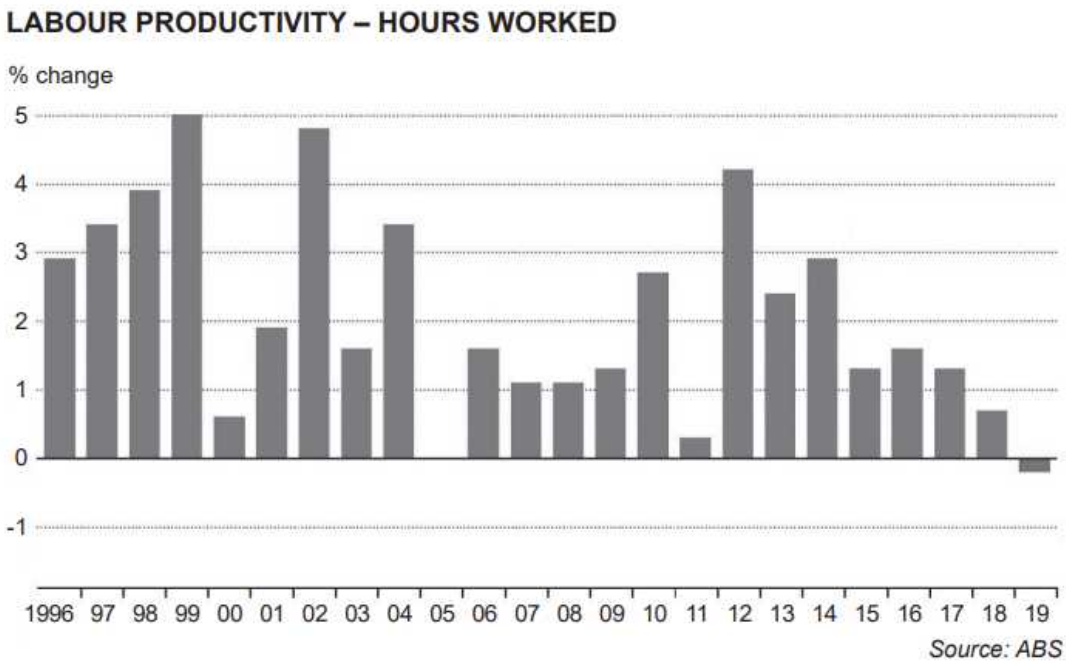
Answers could include:

- investment is a component of AD and thus falling business investment will have a negative impact on AD thus shifting the AD curve to the left and reducing income, output and expenditure
- a decrease in the price level and an increase in employment
- negative multiplier effect throughout the economy
- lower levels of income will reduce standards of living
- investment adds to the stock of capital, and the quantity of capital available to an economy is a crucial determinant of its productivity
- lower levels of business investment can result in capital equipment becoming obsolete or run down, thus decreasing efficiency and reducing international competitiveness.



2020 Section 2 Question 27 Labour productivity	This question refers to the edited extract below, which is from an article written by Michael Roddan and published in The Australian on October 26, 2019.

Copyright restrictions prohibit the release of this SCSA exam material.



(a) (i) Define the term 'labour productivity'. (1 mark)

Description	Marks
Labour productivity is total output divided by total hours worked	1
Total	**1**

(ii) What was Australia's average labour productivity growth rate over the last five years? (1 mark)

Description	Marks
0.7%	1
Total	**1**

(iii) Which year in the graph had the highest rate of productivity growth? (1 mark)

Description	Marks
1999	1
Total	**1**

(b) Explain **two** ways each of the following policy options, identified in the article, would assist in improving Australia's productivity rate. (4 marks)

Description	Marks
Increased skills and training investment	
Explains two ways relating to skills and training and productivity	2
Explains one way relating to skills and training and productivity	1
Subtotal	**2**
Increased investment in technology by firms	
Explains two ways relating to investment in technology and productivity	2
Explains one way relating to investment in technology and productivity	1
Subtotal	**2**
Total	**4**

Answer(s) could include:

Increased skills and training investment:

- this will develop worker's skills and efficiency and improve human capital
- examples are the ability to use capital equipment, to implement innovative process and production changes
- firms with a more highly trained workforce are likely to respond to changes in the market, technology and competition in a more agile manner.

Increased investment in technology by firms:

- more capital that is of better quality will improve output per hour for each worker
- allows local firms to be efficient and competitive in the global economy and compete with imports
- technology can lead to product and process innovations and improve multifactor productivity (MFP).

(c) Using the aggregate demand and aggregate supply (AD/AS) model, demonstrate and explain the relationship between productivity improvement and economic growth and how such improvement is likely to impact on the growth of income/wages. (5 marks)

Description	Marks
AD/AS model	
Correctly labelled diagram showing rightward shift in LRAS/SRAS or AS curve and increase in Y	2
Mostly correct diagram with some understanding of shift in supply curve evident	1
Subtotal	**2**
Relationship between productivity improvement and economic growth	
Explains the link between productivity and economic growth	2
Outlines the link between productivity and economic growth	1
Subtotal	**2**
Impact of productivity improvement on income/wage growth	
One point states the impact of productivity improvement on income/wage growth	1
Subtotal	**1**
Total	**5**

Answer(s) could include:

AD/AS model:
- price level on Y-axis, Real GDP on X-axis
- shift to the right of LRAS and SRAS or classical three stage AS curve
- increase in Real GDP to the right (new intersection point)
- AD may shift to the right as well due to rising incomes (not needed for full marks).

Relationship between productivity improvement and economic growth:
- reference to diagram and increase in Y in explanation
- more productive use of resources increases the potential real output of the economy
- rising real incomes will also increase AD increasing economic growth.

Impact of productivity improvement on income/wage growth:
- the most important determinant of wage/income growth is an increase in output per worker
- rising productivity leading to a competitive advantage will result in firms hiring more workers and rising incomes/wages.

2021 Section 3 Question 30

Labour productivity

(a) Describe **three** causes of structural change and, using the AD/AS model, explain the relationship between structural change and economic growth. (12 marks)

Description	Marks
Model	
Shows a shift to the right for the AS curve	1–2
Correctly labelled AD/AS diagram	1
Subtotal	**3**
For each cause of structural change (3 x 2 marks for each)	
Describes a cause of structural change	2
Identifies a cause of structural change	1
Subtotal	**6**
Relationship between EG and SC	
Explanation of the co-related or two way relationship between economic growth and structural change	3
Description of the co-related or two way relationship between economic growth and structural change	2
Identification of the co-relationship between economic growth and structural change	1
Subtotal	**3**
Total	**12**

Answer(s) could include:

Explanation of causes:

- demographics, i.e. aging population/low birth rate in Australia changing consumer preferences, employment types, sustainability concerns
- growth of East Asia as manufacturing hub, decline in developed country process and assembly jobs
- rising demand for Australian services, e.g. education, tourism
- demand for commodities to fuel Asian growth
- rise of robotics, innovation, supply chain efficiencies via technology; disruptive innovation
- government policies, e.g. labour market reform.

Explanation of relationships:

- economic growth increase incomes, changes consumer preferences, hence creates structural change.
- structural change increases economic growth and economic growth increases structural change.

(b) Explain the term 'productivity' and describe **three** recent Australian Government policies designed to promote productivity. (8 marks)

Description	Marks
Productivity	
Explains the term 'productivity'	2
Provides a simple definition of productivity	1
Subtotal	**2**
For each government policy designed to promote productivity (3 x 2 marks each)	
Detailed description of a recent policy describing how it promotes productivity	2
Identifies a recent policy designed to promote productivity	1
Subtotal	**6**
Total	**8**

Answer(s) could include:

- tax reform
- 2018 Personal Income Tax Plan; recent government policies that promote productivity and economic growth; such as labour market reform, taxation reform, trade liberalisation, deregulation and competition policy, investment in infrastructure, education and training, research and innovation
- National Infrastructure Plan (2013)
- ongoing improvements to transport links, such as train lines in Perth, port facilities in the Pilbara, and continued investment in communications, such as the NBN (technology)
- trade reform, e.g. FTAs, RECP.