

SYDNEY TECHNICAL HIGH SCHOOL



**2013
TRIAL HIGHER SCHOOL CERTIFICATE**

Economics

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Board-approved calculators may be used
- Write your student number (below) on your answer booklets for Sections III and IV and additional writing paper used.
- Do not write your name on any exam papers other than your attendance slip.

Section I

Total marks (20)
Attempt Questions 1 – 20
Allow 35 minutes for this section

Section II

Total marks (40)
Attempt Questions 21 – 24
Allow about 1 hour and 15 minutes for this section

Section III

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

Section IV

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

STUDENT NUMBER _____

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SECTION I

Total marks (20)

Attempt Questions 1 –20

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Answer the questions on the answer sheet provided

1. Fiscal policy refers to which of the following?
 - (A) The government's redistributive tax policy
 - (B) The action of the Reserve Bank to stabilise the economy
 - (C) The government's regulation of non-banking financial intermediaries
 - (D) Expenditure and taxing policies used by the government to fine tune the economy

2. When economists refer to 'tight' monetary policy, they mean that the RBA is taking actions that will have which of the following implications?
 - (A) Decrease the cash rate and increase the money supply
 - (B) Decrease the cash rate and decrease the money supply
 - (C) Increase the cash rate and increase the money supply
 - (D) Increase the cash rate and decrease the money supply

3. Which of the following is a multilateral trade agreement?
 - (A) NAFTA
 - (B) CERTA
 - (C) AUSFTA
 - (D) NATO

4. The Human Development Index uses which of the following to create a measure of development?
 - (A) Tax rates, Congestion, life expectancy at birth
 - (B) Life expectancy at birth, literacy and education attainment, inflation rate
 - (C) Per capita income, net migration figures, death rate, literacy information
 - (D) Per capita income, literacy and education attainment, life expectancy at birth

5. The costs to the individual resulting from unemployment include
 - (A) The financial loss resulting from lost income.
 - (B) A loss of output associated with unemployed resources.
 - (C) Falling government tax revenue as the unemployed pay less tax.
 - (D) Underutilised resources which results in a loss of income for others.

6. Which of the following affects inflation?
- (A) An increase in productivity
 - (B) Excess capacity
 - (C) Full employment
 - (D) Improved technology
7. What factor would help improve the unemployment rate when an economy has reached its natural rate of unemployment?
- (A) Improvements in the terms of trade
 - (B) Reduction in interest rates
 - (C) An increasing budget deficit
 - (D) Structural change in the economy
8. The following question refers to the table below.

<i>Year</i>	<i>CPI Index</i>
<i>1</i>	100
<i>2</i>	140
<i>3</i>	154

What is the inflation rate for *Year 3*?

- (A) 10%
 - (B) 14%
 - (C) 40%
 - (D) 54%
9. If the Lorenz Curve moved closer to the line of absolute equality, what effect would it have on the Gini coefficient and the level of income inequality?

<i>Gini Coefficient</i>	<i>Income Inequality</i>
(A) Increase	Increase
(B) Decrease	Increase
(C) Decrease	Decrease
(D) Increase	Decrease

10. The table below is based on the following data for a closed economy.

<i>Y</i>	<i>C</i>	<i>I</i>	<i>G</i>
400	350	50	25
500	425	50	25
600	500	50	25
700	575	50	25

What are the equilibrium level of income and the value of the multiplier?

	<i>Income</i>	<i>Multiplier</i>
(A)	\$400	5
(B)	\$500	4
(C)	\$600	4
(D)	\$700	5

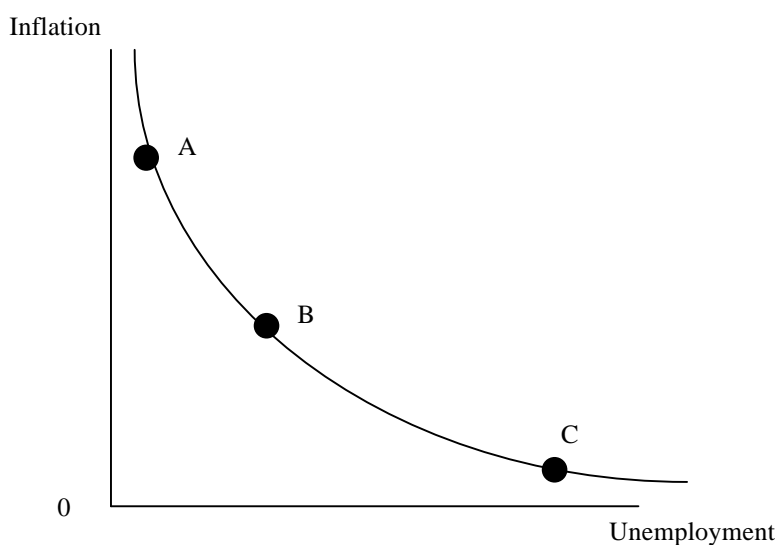
11. Which of the following would be a consequence of a sustained fall in the savings ratio for an economy?

- (A) An increase in the level of new foreign liabilities
- (B) A decrease in the servicing costs of net foreign debt
- (C) A decrease in capital inflow
- (D) A fall in aggregate demand

Question 12 and 13 refer to the following table

	Computers	Fridges
UK	300	100
China	150	75

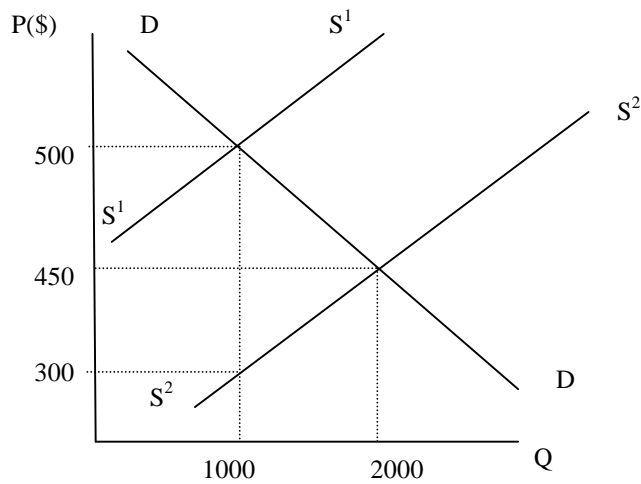
12. When is a country said to have a comparative advantage over its competitors?
- (A) When it can produce a good using smaller quantities of resources than that of another country
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 - (C) When it can produce a good with a lower opportunity cost than another country
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13. Which of the following statements is most correct?
- (A) China has a comparative advantage in the production of computers
 - (B) China has an absolute advantage in the production of fridges
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14. The following diagram shows the relationship between unemployment and inflation in an economy.



Which of the following describes the state of this economy?

- (A) At point C the economy is in recession
- (B) At point C the economy will be experiencing cost-push inflation.
- (C) Point A indicates the natural rate of unemployment
- (D) At point B the economy is experiencing high taxation

15. The following diagram shows the imposition of a subsidy in a market.



What is the amount of the subsidy paid by the government to the producer per unit of output?

- (A) \$300
- (B) \$200
- (C) \$150
- (D) \$50

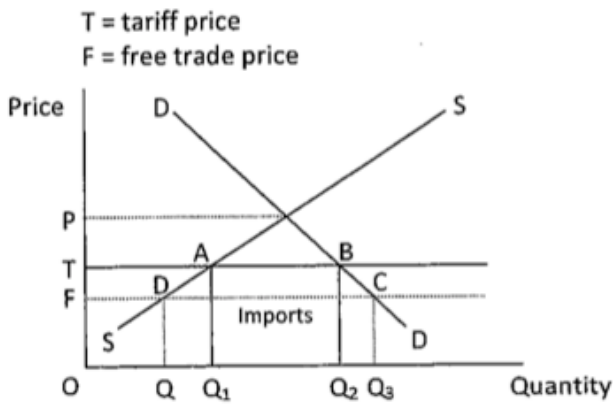
16. The table below shows selected data for the Australian economy.

<i>Year</i>	<i>Exchange rate</i>	<i>Export Price Index</i>	<i>Import Price Index</i>
Year 1	\$US/\$A 0.98	185	116
Year 2	\$US\$A 1.04	187	119

According to the data, which statement is correct between Year 1 and Year 2?

- (A) International competitiveness has improved and the terms of trade have improved.
- (B) International competitiveness has improved and the terms of trade have deteriorated.
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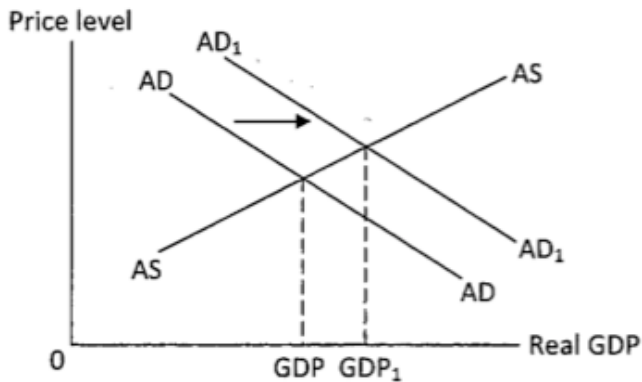
17. The following diagram shows the effect of a tariff on an imported good.



What effect does the imposition of the tariff have on the domestic market?

- (A) Expenditure on imports falls from QDCQ₃ to Q₁ABQ₂.
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- (D) The government raises tariff revenue of OTBQ₂.

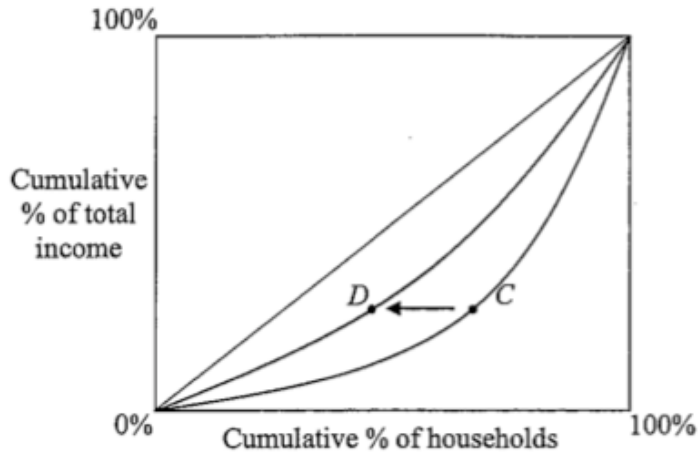
18. The following diagram shows aggregate demand and supply curves for an economy.



All other things being equal, which of the following changes in government economic policy could have caused the aggregate demand curve to shift from AD to AD₁?

- (A) Lower interest rates and increased government expenditure
- (B) Higher interest rates and increased government expenditure
- (C) Lower interest rates and reduced government expenditure
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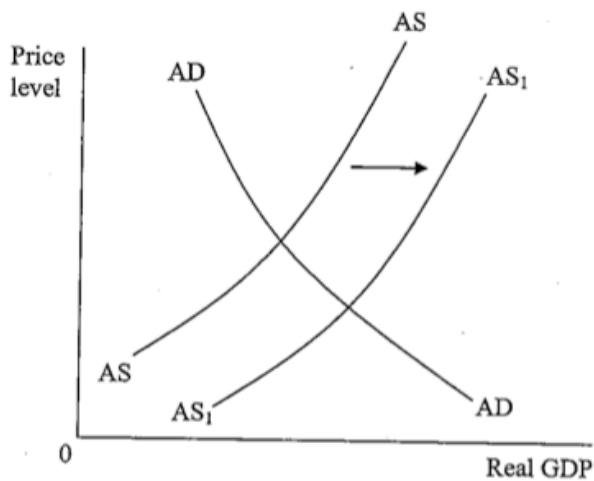
19. The diagram shows the movement of a Lorenz curve from C to D for an economy after the use of government taxation and welfare policies.



Which of the following statements may account for the movement of the Lorenz curve from C to D?

- (A) Regressive taxation and lower welfare spending has led to increased income inequality.
- (B) Regressive taxation and higher welfare spending has led to increased income equality.
- (C) Progressive taxation and targeted welfare spending has reduced income inequality.
- (D) Progressive taxation and targeted welfare spending has increased income inequality.

20. The following diagram shows the movement in the aggregate supply curve from AS to AS₁ for an economy.



Which of the following factors could have caused the shift of the aggregate supply curve from AS to AS₁?

- (A) The use of expansionary monetary policy by the government
- (B) The use of a budget deficit by the government
- (C) An improvement in the productivity of labour and capital
- (D) An increase in spending on investment by business

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Section II

40 marks Attempt Questions 21–24

**Answer the questions in the spaces provided.
Allow about 1 hour and 15 minutes for this section**

Question 21 (10 marks)

Use the data in the table to answer the questions below.

Australian economy forecasts			
	Actual	Actual	Forecast
	2009-10	2010-11	2011-12
(Percentage change unless otherwise indicated)			
Household consumption	2.1	3.1	3.25
Total business investment	-4.7	5.6	18
Private Sector final demand	0.7	3.3	6
Public (Government) final demand	7.1	3.4	1.5
Exports of goods and services	5.5	0.2	4
Imports of goods and services	5.3	10.4	12.5
Real gross domestic product	2.3	2	3
Terms of trade	-4.8	20.6	3.25
Current account balance (% GDP)	-4.3	-2.4	-3
Unemployment rate (per cent)	5.2	4.9	5.25
Consumer price index	3.1	3.6	1.25

(a) Define the *terms of trade* and outline its influence on the value of net exports 2

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(b) Explain why government spending was far higher in 2009-10 than it was in 2011-12. 2

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(c) The current account deficit is not just determined by flows of goods and services. Outline the TWO other segments of the current account that impact upon its final result.

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(d) Unemployment was projected to grow in 2011-12. Outline one macroeconomic policy that could be used to reduce unemployment and explain the consequences for ONE of the government's other economic objectives this policy might have.

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Question 23 (10 marks)

(a) What does *external stability* measure?

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(b) Define the term *net foreign debt*

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(c) The table shows economic data for an economy.

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<i>Year</i>	<i>Net Foreign Equity (\$m)</i>	<i>Net Foreign Liabilities (\$m)</i>	<i>Gross Domestic Product (\$m)</i>
Year 1	110,000	854,000	1,293,000
Year 2	113,500	877,000	1,317,000

Using information from the table, calculate the *net foreign debt* as a percentage of Gross Domestic Product in Year 2.

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(d) Explain the relationship between the Current Account Deficit (CAD) and the servicing cost of net foreign debt?

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Question 24 (10 marks)

"Globalisation and trade liberalisation have long been suspected of not only impacting the size of an economy's income, but also its distribution, and the results of this study support the theory that it has disproportionately benefited top income earners".

Timothy Neal, 'Rising Top Income Shares', *Economic Record* March 2013 p.96.

(a) Define Trade Liberalisation.

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(b) Explain how globalisation and trade liberalisation may lead to greater global income inequality?

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(c) Discuss whether the strengthening of protectionist policies would be a suitable solution to global inequality.

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(d) Using an example of ONE trade agreement involving Australia, outline ONE positive and ONE negative effect of free trade agreements on global trade

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Section III

Total marks (20)

Attempt either Question 25 or Question 26

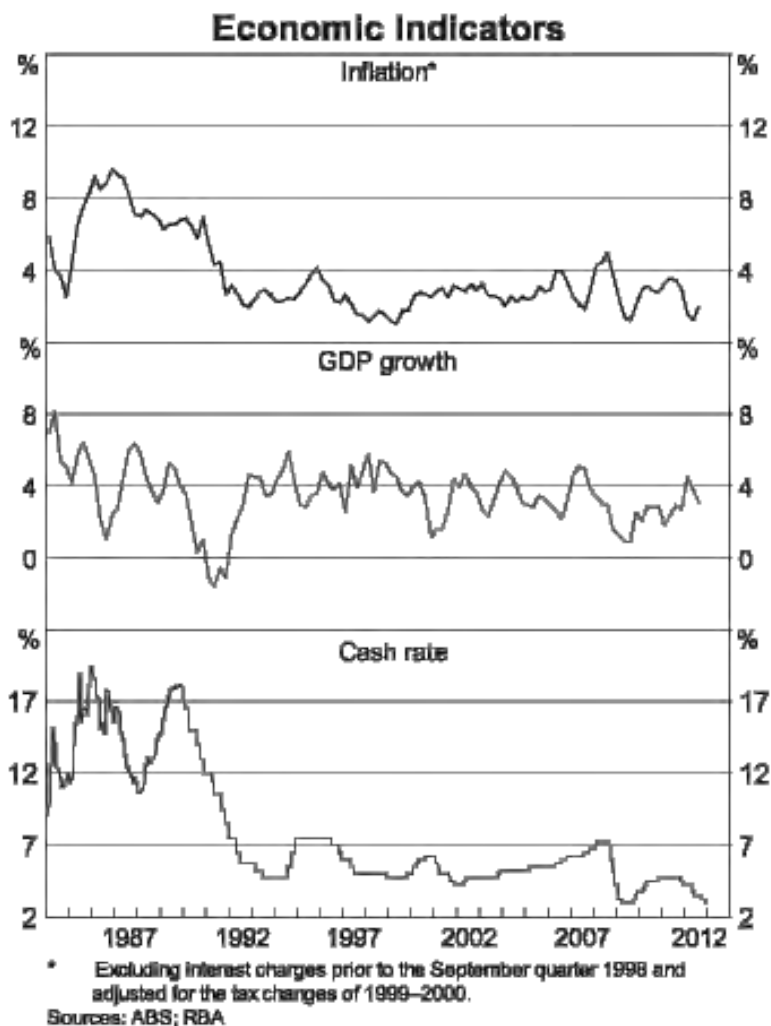
Allow about 35 minutes for this section.

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

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

Question 25 (20 marks)

Analyse the effectiveness of a budget surplus and an expansionary monetary policy in Australia's current economic climate. In your response you should refer to the economic information provided.



Generally the message is that the labour market, whilst it is OK, is softening and therefore unemployment is starting to go up.

A Creighton and L Wilson
The Australian, Jan 17, 2013

The Federal Government is putting added pressure on the economy via its fixation on achieving a budget surplus within the next year. Certainly this is one factor that the Reserve Bank needs to take into account ...

CommSec's Craig James,
Friday Jan 25, 2013

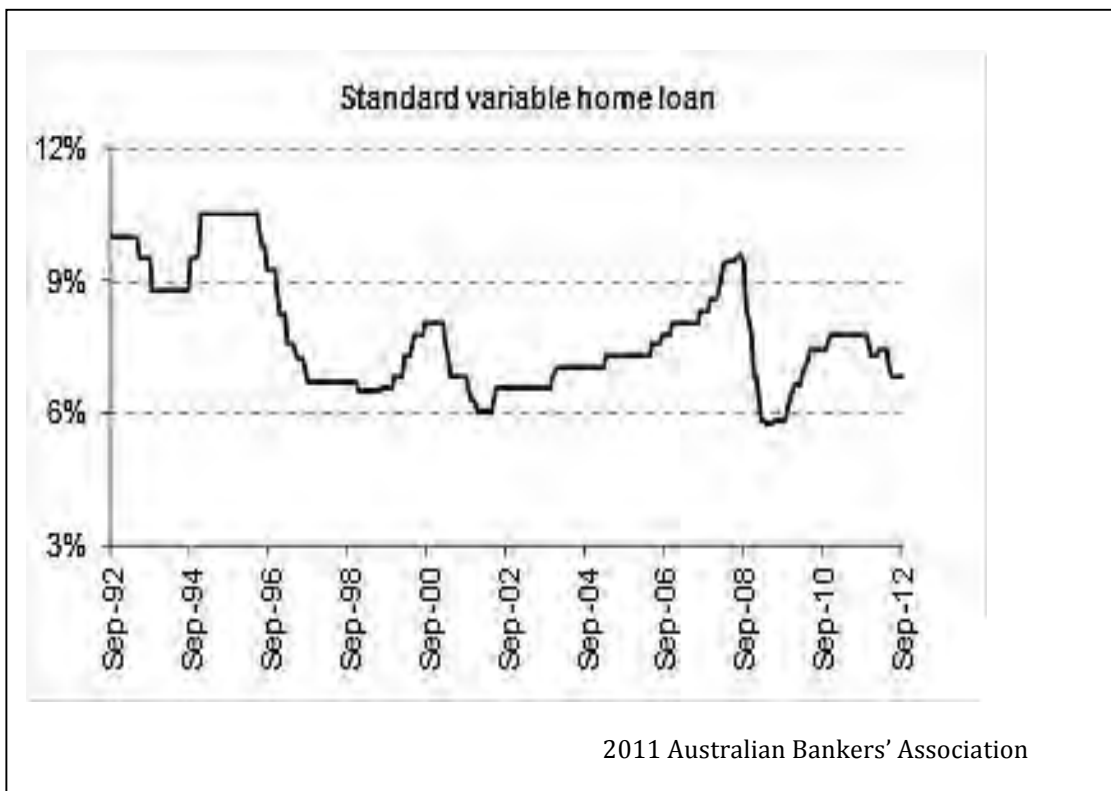
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-

Question 26 (20 marks)

Analyse the impact of changes in interest rates upon the level of economic activity in the Australian economy. In your response, you should refer to the economic information provided.



There are lags and different parts of the economy respond differently, but lower interest rates are still effective in providing a boost to the overall economy.

RBA Deputy Governor,
Philip Lowe
3rd Dec 2012

It is worrying that despite recent rate cuts by the Reserve Bank, manufacturing and construction industries continue to report weak performance and declining business sentiment...

online business reporter,
[Michael Janda](#)
Tue Jan 22, 2013

Section IV

Total marks (20)

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

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

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

Question 27 (20 marks)

Discuss the main factors that can cause changes in the value of Australia's exchange rate AND the impact of exchange rate movements on the Australian economy over the past decade.

OR

Question 28 (20 marks)

Discuss the effects of changes in global trade and investment on the Australian economy.

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SECTION I**Total marks (20)****Attempt Questions 1 –20****Allow about 35 minutes for this section**

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

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



**2013
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|-----|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| 1. | A <input type="radio"/> | B <input type="radio"/> | C <input type="radio"/> | D <input checked="" type="radio"/> |
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| 3. | A <input checked="" type="radio"/> | B <input type="radio"/> | C <input type="radio"/> | D <input type="radio"/> |
| 4. | A <input type="radio"/> | B <input type="radio"/> | C <input type="radio"/> | D <input checked="" type="radio"/> |
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| 6. | A <input type="radio"/> | B <input type="radio"/> | C <input checked="" type="radio"/> | D <input type="radio"/> |
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| 9. | A <input type="radio"/> | B <input type="radio"/> | C <input checked="" type="radio"/> | D <input type="radio"/> |
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| 11. | A <input checked="" type="radio"/> | B <input type="radio"/> | C <input type="radio"/> | D <input type="radio"/> |
| 12. | A <input type="radio"/> | B <input type="radio"/> | C <input checked="" type="radio"/> | D <input type="radio"/> |
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| (D) | \$700 | 5 |

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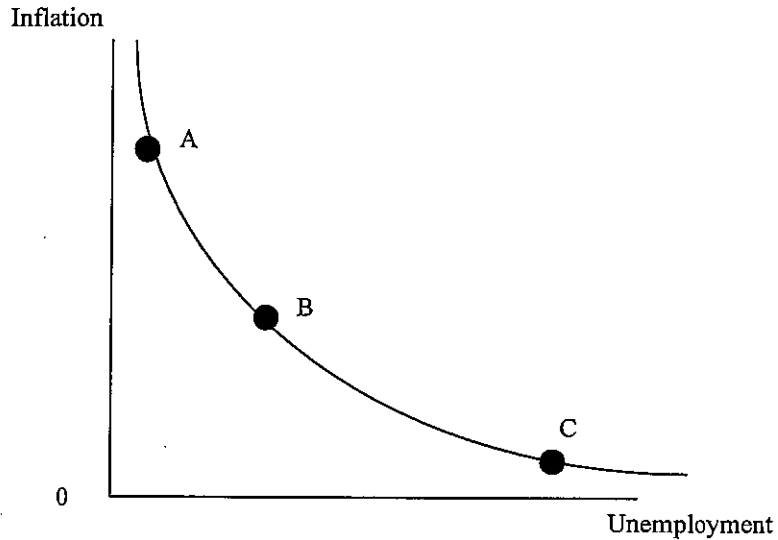
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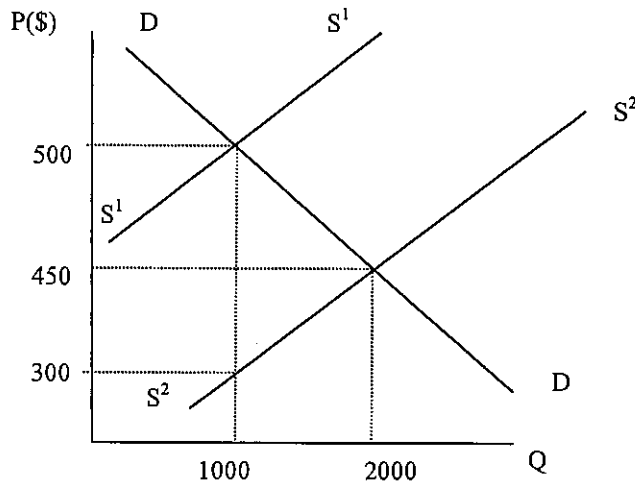
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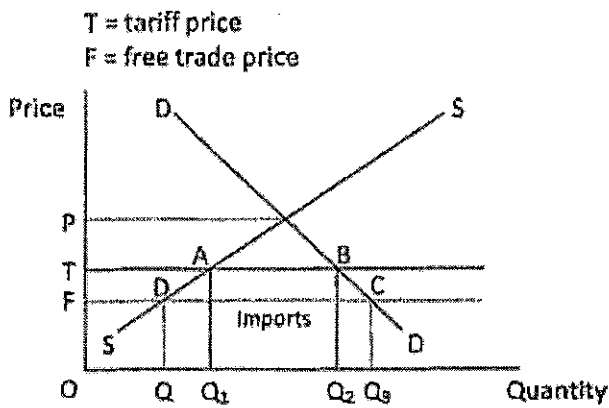
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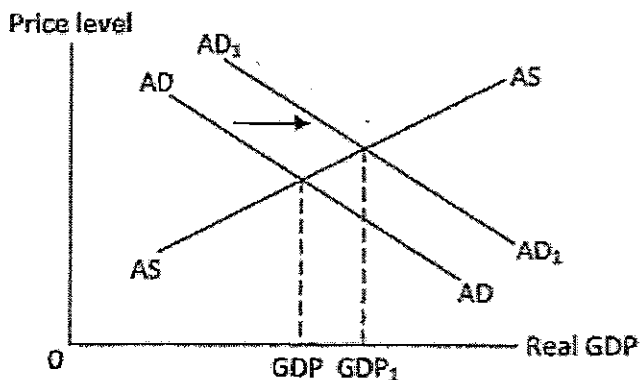
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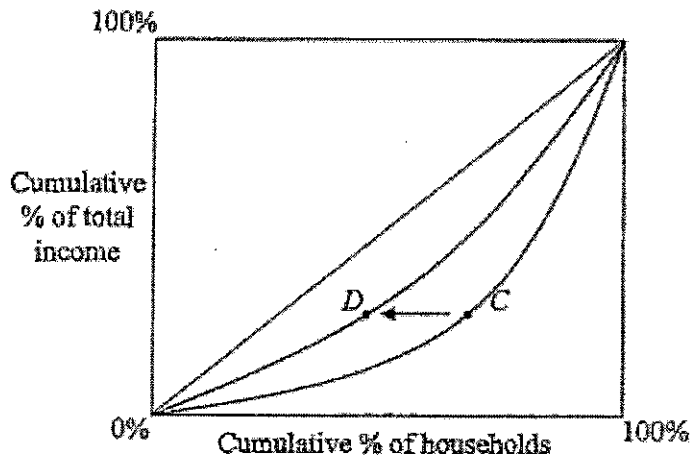
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- (C) Lower interest rates and reduced government expenditure
- (D) Higher interest rates and reduced government expenditure.

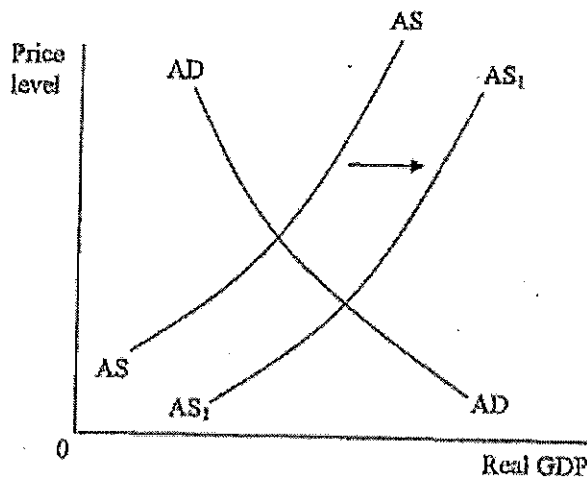
19. The diagram shows the movement of a Lorenz curve from C to D for an economy after the use of government taxation and welfare policies.



Which of the following statements may account for the movement of the Lorenz curve from C to D?

- (A) Regressive taxation and lower welfare spending has led to increased income inequality.
- (B) Regressive taxation and higher welfare spending has led to increased income equality.
- (C) Progressive taxation and targeted welfare spending has reduced income inequality.
- (D) Progressive taxation and targeted welfare spending has increased income inequality.

20. The following diagram shows the movement in the aggregate supply curve from AS to AS₁ for an economy.



Which of the following factors could have caused the shift of the aggregate supply curve from AS to AS₁?

- (A) The use of expansionary monetary policy by the government
- (B) The use of a budget deficit by the government
- (C) An improvement in the productivity of labour and capital
- (D) An increase in spending on investment by business

Section II

40 marks Attempt Questions 21–24

Answer the questions in the spaces provided.
Allow about 1 hour and 15 minutes for this section

Question 21 (10 marks)

Use the data in the table to answer the questions below.

Australian economy forecasts			
	Actual	Actual	Forecast
	2009-10	2010-11	2011-12
(Percentage change unless otherwise indicated)			
Household consumption	2.1	3.1	3.25
Total business investment	-4.7	5.6	18
Private Sector final demand	0.7	3.3	6
Public (Government) final demand	7.1	3.4	1.5
Exports of goods and services	5.5	0.2	4
Imports of goods and services	5.3	10.4	12.5
Real gross domestic product	2.3	2	3
Terms of trade	-4.8	20.6	3.25
Current account balance (% GDP)	-4.3	-2.4	-3
Unemployment rate (per cent)	5.2	4.9	5.25
Consumer price index	3.1	3.6	1.25

(a) Define the *terms of trade* and outline its influence on the value of net exports

2

21 (a) Criteria	H1	Marks
• Terms of Trade clearly defined and explained	impact on x-m	2
• Terms of trade identified	defined	1

Sample answer

* The Terms of Trade measures the relative movements in the prices of an economy's imports and exports. It is the export price index divided by the import price index multiplied by 100. The significant increase in our terms of trade in 2010-11 means that we can afford more imports with our relatively improved export prices. Thus the same volume of exports can now buy more imports. → ↑ value net exports

(b) Explain why government spending was far higher in 2009-10 than it was in 2011-12.

2

21 (b) Criteria	H5, H10	Marks
• The relationship between private sector final demand and public (government) final demand clearly explained		2
• General recognition of the implementation of fiscal policy		1

Sample answer

* Government spending was highly expansionary in 2009-10 to offset the low private sector (C + I) demand. As private expenditures increased, and the economy recovered, the government could scale back its expenditures (and benefit from higher tax revenues).

(c) The current account deficit is not just determined by flows of goods and services. Outline the TWO other segments of the current account that impact upon its final result. 2

21 (c) Criteria	H1	Marks
<ul style="list-style-type: none"> Clearly explains the factor income (earnings on foreign investments minus payments made to foreign investors) and cash transfers components of the current account 		2
<ul style="list-style-type: none"> Recognizes, and gives at least one example, of a component of the current account other than the balance of trade 		1

Sample answer

* The Current Account is the sum of the balance of trade (exports minus imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid).

(d) Unemployment was projected to grow in 2011-12. Outline one macroeconomic policy that could be used to reduce unemployment and explain the consequences for ONE of the government's other economic objectives this policy might have. 4

21 (d) Criteria	H5, H7	Mark
<ul style="list-style-type: none"> Outlines either monetary or fiscal expansion and explains a possible consequence relevant to the policy selected (such as inflationary pressures or increases in government debt) in a detailed way 		4
<ul style="list-style-type: none"> Outlines clearly either monetary or fiscal expansion but only outlines one possible consequence in an elementary way 		3
<ul style="list-style-type: none"> Outlines either monetary or fiscal policy but does not relate it to the specified economic circumstance and outlines one consequence in a rudimentary way 		2
<ul style="list-style-type: none"> Either correctly outlines a macroeconomic policy or a policy consequence 		1

Sample answer

- The rise in unemployment, particularly if regarded as a continuing trend, could lead to further expansionary fiscal stimulus (through increases in government spending and/or tax cuts) or expansionary monetary policy via reductions in the Reserve Bank's cash rate. These measures would stimulate aggregate spending and hence the demand for labour to meet the increased demand for goods and services. Some possible consequences might be a rise in inflation, if the economy was near capacity constraints, an increase in government debt levels and potential crowding-out effects.

Question 22 (10 marks)

Answer the following questions with reference to an economy you have studied other than Australia

Name of economy: *China*

(a) Examine TWO influences of globalisation on the economy you have chosen

5

Part A

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates a clear and concise sketch of TWO influences of globalisation on an economy other than Australia ▪ Provides examples and evidence 	4-5
<ul style="list-style-type: none"> • Demonstrates a clear sketch of TWO influences of globalisation on an economy other than Australia OR • Demonstrates a clear and concise sketch of ONE influences of globalisation on an economy other than Australia and a sketch of a second influence • Provides examples and evidence 	3
<ul style="list-style-type: none"> • Demonstrates a clear and concise sketch of ONE influence of globalisation on an economy other than Australia OR • Demonstrates some understanding of TWO influences of globalisation on an economy other than Australia 	2
<ul style="list-style-type: none"> • Demonstrates some understanding of ONE influence of globalisation on an economy other than Australia OR • Provides a limited response 	1

Answers could include:

- Global trade in goods and services
- Global financial flows
- Investment and TNCs
- Technology, transport and communication
- International division of labour and migration
- International and/or regional business cycle
- International organisations, trade blocs, monetary unions or free trade agreements
- Protection in the global economy
- Global environmental sustainability

Sample answer

Globalisation is the integration of national economies and the impact of international influences on all aspects of life and economic activity.

1. Trade

China's trade with the rest of the world has increased from 10% of GDP in 1978 to 30% in 2010. The income generated from increased export inflows has increased aggregate demand and therefore economic growth per capita and therefore economic development and living standards.

2. Investment & TNCs

The relaxation of restrictions on trade and and encouragement of Foreign Direct Investment (FDI) has accelerated China's transformation from a rural to industrial economy. FDI inflows, particularly by Transnational Corporations into the Special Economic Zones have increased aggregate demand (and therefore economic growth) as well as increasing productivity through the transfer of technology, use of capital goods and modern production techniques.

(b) Evaluate the effectiveness of ONE strategy that has been used to promote economic development in the economy you have selected

Part B

Criteria	Marks
<ul style="list-style-type: none"> Provides a clear and concise response Makes a judgement about the effectiveness of ONE strategy used to promote economic development in an economy other than Australia 	4-5
<ul style="list-style-type: none"> Provides a clear response Makes a judgement about the effectiveness of ONE strategy used to promote economic development in an economy other than Australia 	3
<ul style="list-style-type: none"> Provides a sketch of ONE strategy used to promote economic development in an economy other than Australia <p>OR</p> <ul style="list-style-type: none"> Provides characteristics and features of ONE strategy used to promote economic development in an economy other than Australia 	2
<ul style="list-style-type: none"> Refers to at least ONE strategy used to promote economic development in an economy other than Australia 	1

Answers could include:

- Definition of economic development
- Identification of a strategy used to enhance economic development in the selected economy
- Evidence as to the effectiveness of the strategy, including impacts on real GDP per capita, the HDI, quality of life in the selected economy

Sample answer

Economic development is a broad measure of welfare of a nation that includes indicators of health, education and environmental quality as well as material living standards.

Two key reforms have lead to a dramatic increase in China's economic development in the past 3 decades:

1. Agricultural reforms

Under the centrally planned system government specified quantity produced and prices paid to farmers. 1978 farmers secretly began trading excess on the black market Deng Xiaoping adopted dual track system allowing villages / communes to legally sell excess production. By 1993 central planning was obsolete, market forces determined distribution and allocation of resources.

The incentive of additional income increased productivity and lead to dramatic increases in agricultural production and therefore GDP. Increased productivity also freed up resources for other forms of production in rural areas (eg. light manufacturing) which further increased income and living standards.

OR

2. Open door policy / special economic zones (SEZs)

China opened a number of SEZs in coastal regions in the late 1970s, early 1980s to foreign investment in export focused industries. Infrastructure provision, tax incentives and cheap labour attracted many TNCs to set up manufacturing facilities, giving the Chinese economy access to technology and economies of scale in production. Export income and investment added directly to aggregate demand and therefore economic growth.

A common measure of economic development is the Human Development Index (HDI), China's HDI has improved from 0.404 (1980) to 0.699 (2012) equating to a 73% improvement in just over three decades as a result of integration with the global economy and policies such as those outlined above. The increase in HDI has been the result of sustained economic growth (8-10% for three decades), increasing GDP per capita and allowing government spending on health, education and social infrastructure.

Others: trade reform, tax reform, SB reforms
banking etc. - 12 -

Question 23 (10 marks)

(a) What does *external stability* measure? 1

Question 23(a) Outcomes assessed: HI

Criteria	Marks
<ul style="list-style-type: none"> Clearly states what external stability measures 	1

Answers could include: The ability of a nation in the long-term to meet its financial obligations deriving from its trade with the rest of the world

(b) Define the term *net foreign debt* 1

Question 23(b) Outcomes assessed: HI

Criteria	Marks
<ul style="list-style-type: none"> Correctly defines the meaning of the term <i>net foreign debt</i> 	1

Answers could include: A country's gross foreign debt (private and public sector overseas debt borrowings) minus Australian financial assets held overseas

(c) The table shows economic data for an economy. 1

Year	Net Foreign Equity (\$m)	Net Foreign Liabilities (\$m)	Gross Domestic Product (\$m)
Year 1	110,000	854,000	1,293,000
Year 2	113,500	877,000	1,317,000

Using information from the table, calculate the *net foreign debt* as a percentage of Gross Domestic Product in Year 2.

Question 23(c) Outcomes assessed: HI, H11

Criteria
<ul style="list-style-type: none"> Calculates correctly the net foreign debt as a percentage of GDP in Year 2

Answers could include:

Net Foreign Equity + Net Foreign Debt = Net Foreign Liabilities
Therefore Net Foreign Debt = Net Foreign Liabilities - Net Foreign Equity

$$\begin{aligned}
 & [(Net\ Foreign\ Liabilities - Net\ Foreign\ Equity) / Gross\ Domestic\ Product] \times 100\% \\
 & = [(\$877,000m - \$113,500m) / \$1,317,000m] \times 100\% \\
 & = [\$763,500m / \$1,317,000m] \times 100\% \\
 & = 0.579 \times 100\% \\
 & = 57.9\%
 \end{aligned}$$

(d) Explain the relationship between the Current Account Deficit (CAD) and the servicing cost of net foreign debt? 3

Question 23(d) Outcomes assessed: HI, H5, H8

Criteria	Marks
<ul style="list-style-type: none"> Demonstrates a clear understanding of the relationship between the Current Account Deficit and the servicing cost of net foreign debt 	3
<ul style="list-style-type: none"> Sketches in general terms an understanding of the relationship between the Current Account Deficit and the servicing cost of net foreign debt 	2
<ul style="list-style-type: none"> Provides a limited understanding of the relationship between the Current Account Deficit and the servicing cost of net foreign debt 	1

Answers could include: The current account deficit is the outstanding debits on the current account of the balance of payments. The deficit on the current account is funded by foreign liabilities (foreign debt and foreign equity borrowings). The net balance of foreign debt requires interest payments to service the debt. The interest paid is recorded as a debit on the net primary income account of the current account. This causes the deficit on the current account to further increase. If the current account deficit continues to grow the amount of foreign debt grows and servicing costs increase. This could lead to a cycle of increased foreign debt borrowings to finance interest payments on previous borrowings.

(e) Explain how *macroeconomic* policies could be used to improve Australia's external stability position.

4

Question 23(e) Outcomes assessed: H1, H6

Criteria	Marks
<ul style="list-style-type: none"> Clearly identifies and demonstrates how ONE ² macroeconomic policy AND ONE ² microeconomic policy could be used to improve Australia's external stability position 	4
<ul style="list-style-type: none"> Clearly identifies and demonstrates how ONE ² macroeconomic policy OR ONE ² microeconomic policy could be used to improve Australia's external stability position 	3
<ul style="list-style-type: none"> Sketches in general terms ONE ² macroeconomic policy OR ONE ² microeconomic policy 	2
<ul style="list-style-type: none"> Clearly identifies how ONE ² macroeconomic policy OR ONE ² microeconomic policy could be used to improve Australia's external stability position 	2
<ul style="list-style-type: none"> Sketches in general terms how ONE ² macroeconomic policy and ONE ² microeconomic policy could be used to improve Australia's external stability position 	1
<ul style="list-style-type: none"> States an effect of an economic policy on external stability 	1

Answers could include: Students should include in their response a section on macroeconomic policy and a section on microeconomic reform. In the macroeconomic policy section students may select to respond from a monetary or fiscal perspective.

Macroeconomic policy:

- ① **Monetary policy** – The Reserve Bank of Australia can adopt a contractionary stance and increase the cash rate. This will lead to a decrease in aggregate demand, including expenditure on imports. Lower import expenditure will improve the goods balance on the current account contributing to a lower current account deficit. This will improve Australia's external stability position.
- ② **Fiscal policy** – The Federal government can adopt a contractionary stance by budgeting for a surplus, where government revenue exceeds government expenditure in the budget. Reducing government borrowings can directly reduce the call on foreign borrowings and help to reduce the net foreign debt. This in turn improves Australia's external stability position. The consecutive budget surpluses of the Australian government from 1998 to 2007 enabled the government to boost public and national savings and therefore reduced its dependency on foreign borrowings (or foreign saving) as well as domestic saving.

Microeconomic reform:

- Microeconomic reform improves the efficiency of firms in product and factor markets. The reforms aim to increase aggregate supply by increasing output and decreasing the price of goods and services. Microeconomic reform is targeted at export and domestic import-competing industries. Examples of microeconomic reform measures include tariff reforms, labour market reforms and policies outlined in the National Competition Policy. These reforms have assisted Australian businesses to become more competitive in the global market place. Improvements in the international competitiveness of export and domestic import-competing firms improves the balance on goods in the current account through increased exports, and ultimately improves Australia's external stability position.

Question 24 (10 marks)

"Globalisation and trade liberalisation have long been suspected of not only impacting the size of an economy's income, but also its distribution, and the results of this study support the theory that it has disproportionately benefited top income earners".

Timothy Neal, 'Rising Top Income Shares', *Economic Record* March 2013 p.96.

(a) Define Trade Liberalisation. 1

24 (a) Criteria	H1	Marks
Clearly defines trade liberalisation		1

Sample answer

- Trade liberalisation encompasses the opening up of an economy to global markets through the lowering of tariffs and the removal of quotas, and the removal of restrictions on capital flows, and the freeing up of the exchange rate.

(b) Explain how globalisation and trade liberalisation may lead to greater global income inequality? 3

24 (b) Criteria	H3, H4	Marks
Many of the effects of globalisation and trade liberalisation on global income inequality are outlined accurately in the answer.		3
At least two effects of globalisation and trade liberalisation on global income inequality are outlined accurately in the answer.		2
At least one effect of globalisation and trade liberalisation on global income inequality is outlined accurately in the answer.		1

- A fifth of the world's population earns just 2 per cent of global income and inequality is higher in the OECD nations than it was 20 years ago. Top income shares have been rising sharply in developed countries. Globalisation associated with the deregulation of labour, financial and trade markets appear to have had serious side effects on the level of equity in the global economy. The declining strength of trade unions, global financial instability associated with the deregulation of financial markets, the reductions in top marginal tax rates and company tax rates to enhance international competitiveness and the increased economic openness all seem related to the rise in global inequality.

(c) Discuss whether the strengthening of protectionist policies would be a suitable solution to global inequality. 3

24 (c) Criteria	H4, H5, H7	Marks
An accurate discussion about the relationship between trade restrictions and global inequality		3
Outlines correctly a number of connections between trade restrictions and global inequality		2
Some limited observations about the impact of trade restrictions on global inequality		1

Sample answer

- While it can reasonably be argued that actions need to be taken to reduce global inequality, reinstating a system of all-round trade protection is not generally seen as a viable option. Returning to the protectionist past, with high levels of tariffs and quotas, fixed exchange rates and currency restrictions, and tight controls on capital flows are as likely to reduce the benefits of globalisation along with some of its unintended consequences. It would prevent countries from attaining the mutual benefits of trade, the transfer of modern technology and information, and the mobility of international resources generally. In other words, the costs would probably outweigh the benefits. Certainly imposing restrictions on the import of goods and services from developing countries like China and India would severely hamper rising incomes in the world's two most heavily populated countries. While there may be a case for a degree of selective trade intervention, there are other more appropriate ways to tackle global inequality.

(d) Using an example of ONE trade agreement involving Australia, outline ONE positive and ONE negative effect of free trade agreements on global trade

3

Criteria	Marks
• Sketches in general terms ONE positive and ONE negative impact of free agreements on global trade and clearly relates these to an agreement involving Australia	3
• Identifies ONE positive and ONE negative impact of free trade agreements on global trade and relates these to	2
• Identifies ONE positive and/or ONE negative impact and/or a free trade agreement involving Australia	1

Answers can include:

- Encouraging trade between members
- Comparative advantage and specialisation
- Greater world output and living standards
- Trade diversion
- Structural unemployment
- Infant industries
- Externalities
- Lack of diversity in production / self sufficiency
- CAD issues
- AANZFTA (ASEAN NZ), CERTA (ANZ), AUSFTA (USA), Chile, Singapore, Thailand, Malaysia

Section III

Total marks (20)

Attempt either Question 25 or Question 26

Allow about 35 minutes for this section.

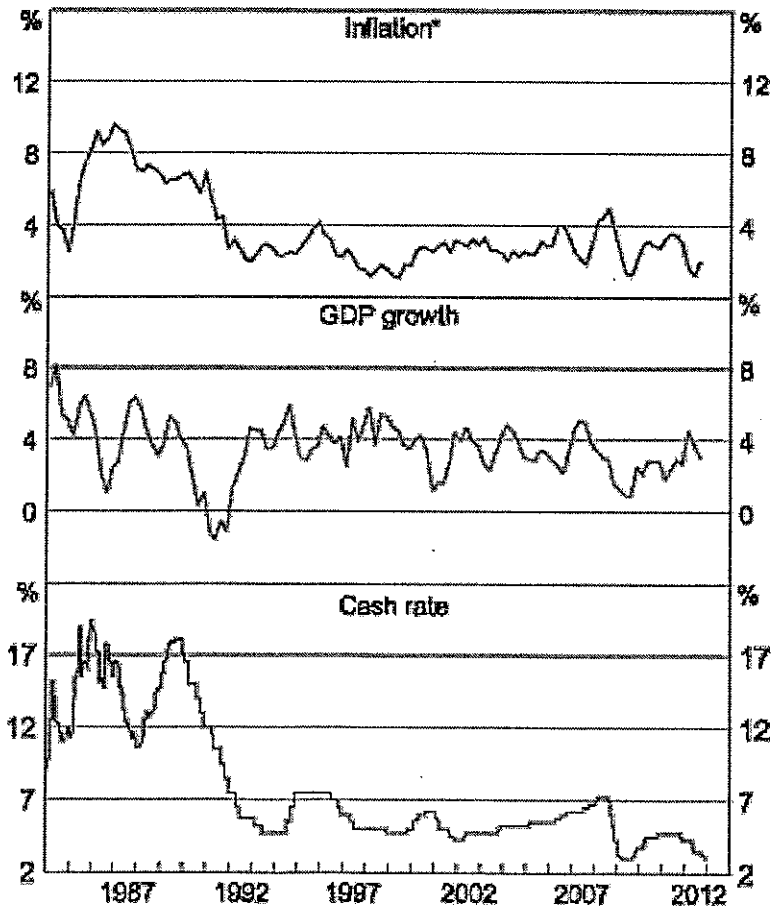
In your answer you will be assessed on how well you:

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

Question 25 (20 marks)

Analyse the effectiveness of a budget surplus and an expansionary monetary policy in Australia's current economic climate. In your response you should refer to the economic information provided.

Economic Indicators



* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000.

Sources: ABS; RBA

Generally the message is that the labour market, whilst it is OK, is softening and therefore unemployment is starting to go up.

A Creighton and L Wilson
The Australian, Jan 17, 2013

The Federal Government is putting added pressure on the economy via its fixation on achieving a budget surplus within the next year. Certainly this is one factor that the Reserve Bank needs to take into account ...

CommSec's Craig James,
Friday Jan 25, 2013

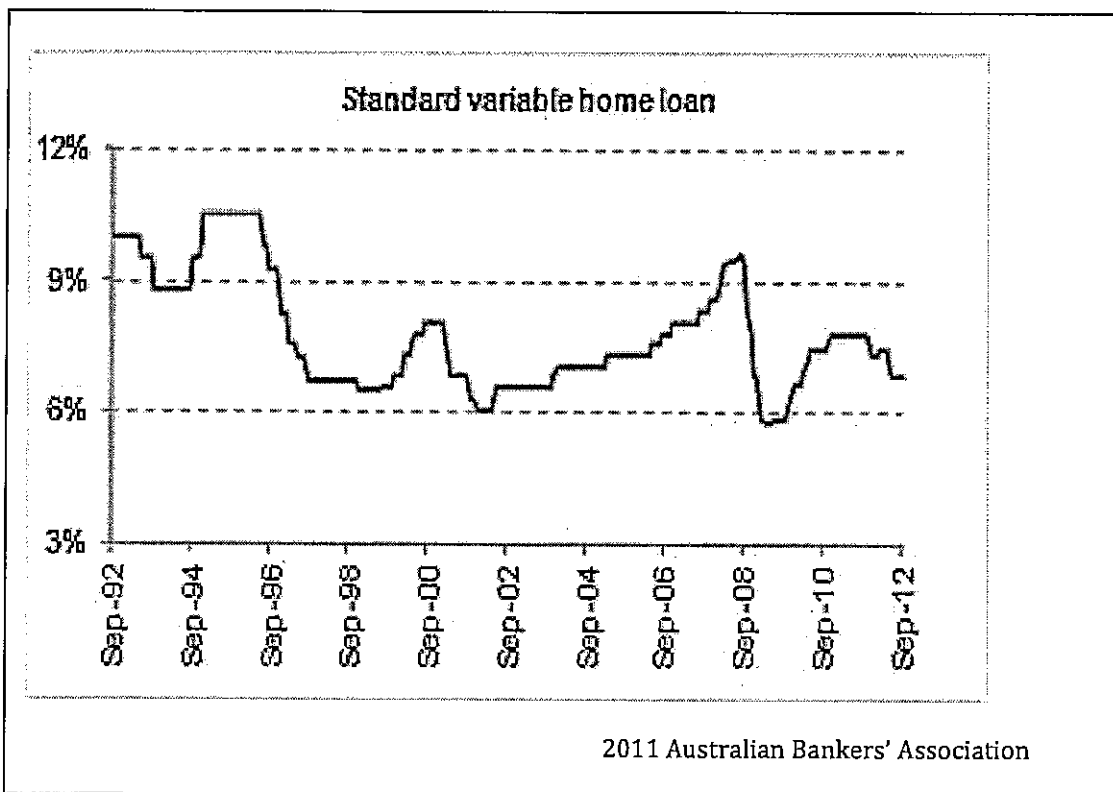
OR

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

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

Question 26 (20 marks)

Analyse the impact of changes in interest rates upon the level of economic activity in the Australian economy. In your response, you should refer to the economic information provided.



There are lags and different parts of the economy respond differently, but lower interest rates are still effective in providing a boost to the overall economy.

RBA Deputy Governor,
Philip Lowe
3rd Dec 2012

It is worrying that despite recent rate cuts by the Reserve Bank, manufacturing and construction industries continue to report weak performance and declining business sentiment...

online business reporter,
Michael Janda
Tue Jan 22, 2013

Question 25 (20 marks)

Outcomes Assessed: H1, H2, H5, H6, H7, H9, H10

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none">▪ Demonstrates a clear and concise analysis, showing knowledge and understanding of the effectiveness of a budget surplus and an expansionary monetary policy as it relates to the current economic climate▪ Integrates appropriate economic terms, relevant concepts, relationships and theory▪ Synthesises own information with the information provided to develop a sustained, logical and cohesive response	17-20
<ul style="list-style-type: none">▪ Demonstrates clear knowledge and understanding of the effectiveness of a budget surplus and an expansionary monetary policy as it relates to the current economic climate▪ Consistently uses appropriate economic terms, relevant concepts, relationships and theory▪ Uses own information and the information provided to develop a logical and cohesive response	13-16
<ul style="list-style-type: none">▪ Describes, with some understanding, aspects of a budget surplus and an expansionary monetary policy relevant to economic conditions▪ Uses appropriate economic terms, concepts and relationships▪ Uses own information and the information provided to develop a coherent response	9-12
<ul style="list-style-type: none">▪ Outlines some of the issues relating to a budget and monetary policy▪ Uses some appropriate economic terms, concepts and relationships▪ Uses information to develop a generalised response	5-8
<ul style="list-style-type: none">▪ Makes some mention of budgets and monetary policy▪ Uses some economic terms and/or concepts▪ Presents a limited response	1-4

Answers could include:

- The impact of a budget surplus and an expansionary monetary policy in general
- Overview of the current economic climate
- Fiscal policy involves altering the level of government spending and revenue in order to achieve the government's economic objectives. It is a major tool in the Federal Budget.
- Budget surplus occurs when the level of government spending is less than the level of revenue. These tend to have a contractionary impact on the level of economic activity.
- Monetary policy is macroeconomic policy that aims to influence the supply and cost of money in an economy.
- Expansionary monetary policy occurs when there exists low levels of demand, low inflation and increasing unemployment
- Highlight the contradiction and inherent difficulty in implementing these two strategies
- The inability for both policy objectives to be achieved

Question 26 (20 marks)

Outcomes Assessed: H1, H2, H5, H6, H7, H9, H10

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none">▪ Demonstrates a clear and concise analysis, showing knowledge and understanding of the impact of interest rate changes on the level of economic activity upon the Australian economy▪ Integrates appropriate economic terms, relevant concepts, relationships and theory▪ Synthesises own information with the information provided to develop a sustained, logical and cohesive response	17-20
<ul style="list-style-type: none">▪ Demonstrates clear knowledge and understanding of the impact of the impact of interest rate changes on the level of economic activity upon the Australian economy▪ Consistently uses appropriate economic terms, relevant concepts, relationships and theory▪ Uses own information and the information provided to develop a logical and cohesive response	13-16
<ul style="list-style-type: none">▪ Provides a description of key changes of the impact of interest rate changes on the level of economic activity upon the Australian economy▪ Uses appropriate economic terms, concepts and relationships▪ Uses own information and the information provided to develop a coherent response	9-12
<ul style="list-style-type: none">▪ Outlines some effects of changes in interest rates upon the level of economic activity▪ Uses some appropriate economic terms, concepts and relationships▪ Uses information to develop a generalised response	5-8
<ul style="list-style-type: none">▪ Makes some mention of interest rates and economic activity▪ Uses some economic terms and/or concepts▪ Presents a limited response	1-4

Answers could include:

- Interest rates as the price of money, cost of borrowing, the return on savings...
- Monetary policy as macroeconomic policy that aims to influence the supply and cost of money in an economy
- The mechanism by which interest rates are changed
- The reasons why the RBA will change interest rates
- Analysis of the effect of interest rate increases on the level of economic activity – transmission mechanism
- Discussion of the impact of decreases of interest rates on economic activity
- Relating the present monetary policy in Australia
- The limitations of interest rate as an economic tool eg. time lag, blunt instrument

Section IV

Total marks (20)

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

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

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

Question 27 (20 marks)

Discuss the main factors that can cause changes in the value of Australia's exchange rate AND the impact of exchange rate movements on the Australian economy over the past decade.

OR

Question 28 (20 marks)

Discuss the effects of changes in global trade and investment on the Australian economy.

Question (20 marks)

Outcomes Assessed: H1, H3, H4, H7, H8, H10

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none"> ▪ Discusses, clearly and concisely, the changes in the exchange rate over the past 24 months and insightfully discusses the effects of these changes ▪ Integrates appropriate economic terms, relevant concepts, relationships and theory ▪ Synthesises own information with the information provided to develop a sustained, logical and cohesive response 	17-20
<ul style="list-style-type: none"> ▪ Discusses clearly the changes in the exchange rate over the past 24 months and clearly describes the effects of these changes ▪ Consistently uses appropriate economic terms, relevant concepts, relationships and theory ▪ Uses own information and the information provided to develop a logical and cohesive response 	13-16
<ul style="list-style-type: none"> ▪ Describes the changes in the exchange rate and outlines the effects of these changes ▪ Uses appropriate economic terms, concepts and relationships ▪ Uses own information and the information provided to develop a coherent response 	9-12
<ul style="list-style-type: none"> ▪ Outlines some changes in the exchange rate and mentions limited effects of these changes ▪ Uses some appropriate economic terms, concepts and relationships ▪ Uses information to develop a generalised response 	5-8
<ul style="list-style-type: none"> ▪ Outlines some aspects of exchange rates ▪ Uses some economic terms and/or concepts ▪ Presents a limited response 	1-4

Answers could include:

- Exchange rate is the price of one currency in terms of another. It is the amount of one currency that can be bought by a unit of another currency at any one time
- Description of the changes in the last 2 years of the Australian exchange rate, emphasising the increase in the value of the Australian dollar
- The factors that influence the increase in the Australian dollar eg. increasing demand for resources, relative weakness of other key currencies, speculators see Australia as a safe haven, relatively high interest rates
- Effects of the changes could include: impact on local industry (loss of international competitiveness), cheaper imports, impacts on inflation rate, improvements in standard of living, foreign debt and CAD, balance on goods and services and the terms of trade

Section IV – 20 marks

Question 28

Outcomes Assessed: H1, H2, H4, H7, H8, H10

Targeted Performance Bands: 4-5

Discuss the effects of changes in global trade and investment on the Australian economy.

Criteria	Marks
<ul style="list-style-type: none"> Extensive integration of relevant terms, concepts, relationships and theories Provides comprehensive economic information in a sustained, logical and cohesive response Provides clear and comprehensive analysis of the effects of changes in global trade and investment on the Australian economy. 	17-20
<ul style="list-style-type: none"> Integrates relevant terms, concepts, relationships and theories Provides sound economic information in a sustained, logical and cohesive response Provides sound analysis of the effects of changes in global trade and investment on the Australian economy. 	13-16
<ul style="list-style-type: none"> Applies relevant terms, concepts, relationships and theories Develops a coherent response Sketches in general terms the effects of changes in global trade and investment on the Australian economy. 	9-12
<ul style="list-style-type: none"> Uses some appropriate economic terms, concepts and relationships Develops a generalised response States some aspects of the impacts of the effects of changes in global trade and investment on the Australian economy. 	5-8
<ul style="list-style-type: none"> Uses few economic terms, concepts and relationships Presents a limited response Uses some economic terms and/or concepts that relate to global trade and investment. 	1-4

Answers could include

- Definition of trade
- Overview of trade related indicators and causes of globalisation

Trade trends

- Export direction from Europe to Asia
- Import direction from USA/Europe to China/ASEAN
- Export composition – increased minerals, declining share of manufacturing & agriculture
- Rise of service exports (education and tourism)
- Import composition – increased manufacturing (ETMs) and services

Causes

- Global growth rates
- Development of emerging economies and their increasing demand for minerals and agricultural commodities
- International division of labour
- Technological development – internet
- Trade liberalisation / FTAs
- Trade blocs (EU, NATFA)

Effects

- Mining boom
- Terms of trade
- Exports
- Investment
- Economic growth
- Appreciation of \$A
- Inflation
- Firms, Individuals, Government
- Two speed/patchwork economy
- Structural change
- Decline in manufacturing
- Rise/fall of service industries, tourism, education
- Structural unemployment
- Imports: variety and cost → living standards
- Effects on government revenues and budget outcome
- Government objective: growth, inflation, u/e, ext. stab.