

# Economics

**Total marks – 100**

## **General Instructions**

- Reading time – 5 minutes
- Working time – 3 hours
- Write using black or blue pen
- Board approved calculators may be used
- Write your student number and/or name at the top of every page

## **Section I – Pages 2–8**

**20 marks**

Attempt Questions 1–20  
Allow about 35 minutes for this section

## **Section II – Pages 9–16**

**40 marks**

Attempt Questions 21–24  
Allow about 1 hour and 15 minutes for this section

## **Section III – Pages 17–18**

**20 marks**

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

## **Section IV – Page 19**

**20 marks**

Attempt EITHER Question 27 or Question 28  
Allow about 35 minutes for this section

**This paper MUST NOT be removed from the examination room**

STUDENT NUMBER/NAME: .....

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**Section I**  
**20 marks**  
**Attempt Questions 1–20**  
**Allow about 35 minutes for this section**

Select the alternative A, B, C or D that best answers the question and indicate your choice with a cross (X) in the appropriate space on the grid below.

|    | A | B | C | D |
|----|---|---|---|---|
| 1  |   |   |   |   |
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| 19 |   |   |   |   |
| 20 |   |   |   |   |

- 1 What would be the effect on the Australian economy if all of its major trading partners experienced recessions?
- (A) Higher economic growth and higher export volumes
  - (B) Higher economic growth and lower export volumes
  - (C) Lower economic growth and lower export volumes
  - (D) Lower economic growth and higher export volumes

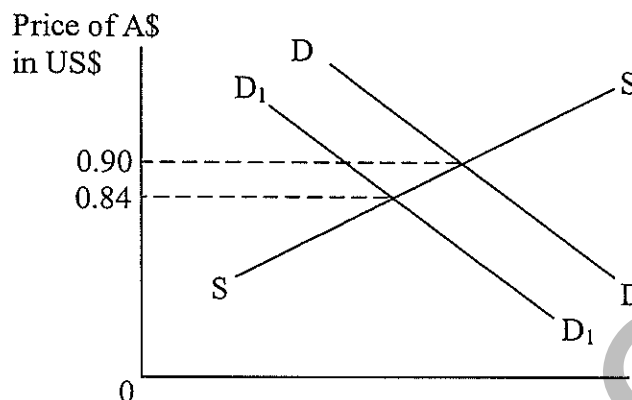
- 2 The table shows selected data for an economy.

| Population of Working Age | Full-time Employed | Part-time Employed | Unemployed |
|---------------------------|--------------------|--------------------|------------|
| 20 million                | 10 million         | 2 million          | 1 million  |

Which of the following statements is correct?

- (A) The participation rate in the economy is 60%.
  - (B) The participation rate in the economy is 65%.
  - (C) The unemployment rate in the economy is 10%.
  - (D) The unemployment rate in the economy is 5%.
- 3 What is the likely impact of Japan increasing its quota on the importation of Australian beef?
- (A) Australian beef farmers will gain increased access to Japanese beef markets.
  - (B) Japanese beef farmers will gain increased protection from Australian beef imports.
  - (C) There will be an increase in employment opportunities in the Japanese beef industry.
  - (D) There will be a decrease in employment opportunities in the Australian beef industry.
- 4 A private good has which of the following characteristics?
- (A) Excludable and non-rival in consumption
  - (B) Rival in consumption and non-excludable
  - (C) Non-rival in consumption and non-excludable
  - (D) Rival in consumption and excludable

- 5 The following diagram shows the demand and supply for Australian dollars in the foreign exchange market.



Which of the following could have caused the recent depreciation in value of the Australian dollar?

- (A) An increase in Australian interest rates due to the threat of inflation
  - (B) An increase in Australian exports due to China's rapid growth
  - (C) A decrease in commodity imports as Australia's growth slows
  - (D) A decrease in foreign investment in Australia due to the European debt crisis
- 6 Which of the following groups would benefit most during an inflationary period?
- (A) Import competing firms
  - (B) Export competing firms
  - (C) Fixed income earners
  - (D) Workers with limited wage power
- 7 What is one means of financing a budget deficit?
- (A) Reducing the level of government outlays
  - (B) Increasing the level of personal income tax
  - (C) Increasing the level of infrastructure investment
  - (D) Borrowing from the public

- 8 What combination of macroeconomic policies could the Australian government use to reduce inflation?
- (A) Raise cash rates and budget for a surplus
  - (B) Raise cash rates and budget for a deficit
  - (C) Lower cash rates and budget for a deficit
  - (D) Lower cash rates and budget for a surplus

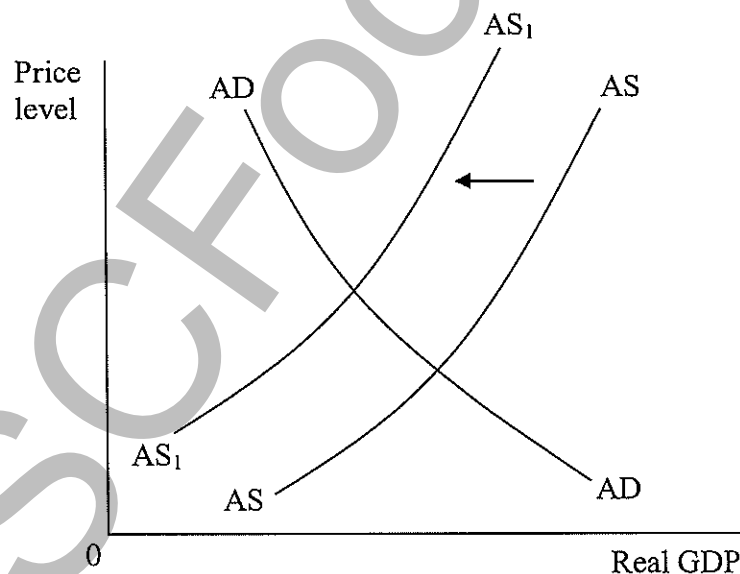
- 9 The following table shows balance of payments data for an economy with a floating exchange rate.

|                               |              |
|-------------------------------|--------------|
| Balance of goods and services | \$10 billion |
| Net transfers                 | \$2 billion  |
| Net income                    | ?            |
| Capital account               | \$10 billion |
| Financial account             | \$15 billion |

What is the value of net income for this economy?

- (A) -\$20 billion
  - (B) -\$37 billion
  - (C) \$12 billion
  - (D) \$30 billion
- 10 What is the equilibrium level of income if  $C = 150 + 0.8Y$  and  $I = 50$ ?
- (A) 150
  - (B) 250
  - (C) 500
  - (D) 1000

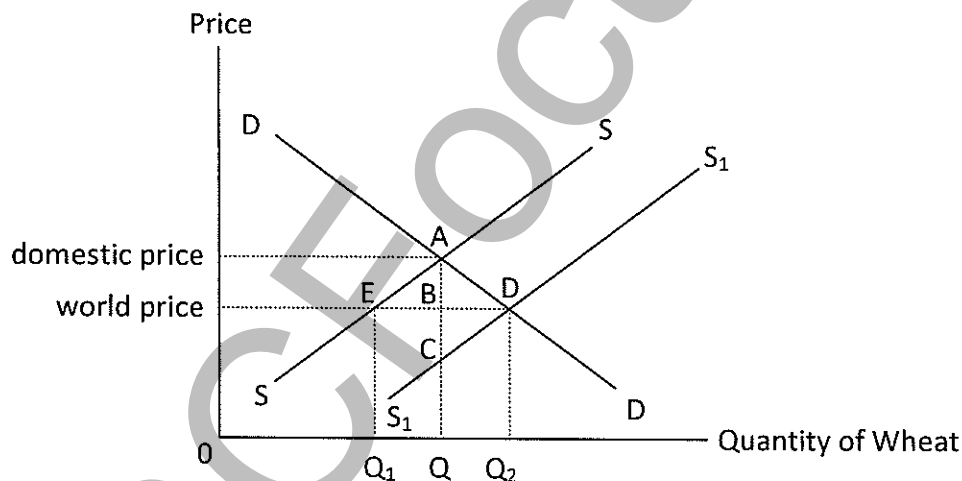
- 11 Which of the following combinations of economic policies might lead to a change in the Gini co-efficient from 0.311 to 0.302?
- (A) A decrease in unemployment benefits and a decrease in the marginal taxation rate for low income earners
  - (B) A decrease in unemployment benefits and an increase in the marginal taxation rate for low income earners
  - (C) An increase in unemployment benefits and an increase in the marginal taxation rate for low income earners
  - (D) An increase in unemployment benefits and a decrease in the marginal taxation rate for low income earners
- 12 What is the role of the International Monetary Fund (IMF)?
- (A) To promote stability in the global financial system
  - (B) To provide development assistance to developing countries
  - (C) To encourage multilateral trade talks
  - (D) To reduce the level of fluctuation in global currencies
- 13 The following diagram shows the aggregate demand and aggregate supply curves for the Australian economy.



Which of the following changes in government economic policy could cause a shift of the aggregate supply curve from AS to AS<sub>1</sub>?

- (A) Income tax cuts for low income earners
- (B) A decrease in the rate of GST from 10% to 7.5%
- (C) A new Resource Super Profits Tax on the mining industry
- (D) Higher official interest rates

- 14 Which of the following factors could cause an increase in the size of current account deficit?
- (A) A decrease in capital inflow into Australia
  - (B) A decrease in the official cash rate in Australia
  - (C) An increase in the dividends paid to foreign investors
  - (D) An increase in the number of overseas students studying in Australia
- 15 Which of the following would be a consequence of an increase in real Gross Domestic Product?
- (A) An increase in consumption and an increase in taxation revenue
  - (B) A decrease in consumption and an increase in government spending
  - (C) An increase in imports and a decrease in taxation revenue
  - (D) A decrease in exports and an increase in government spending
- 16 The following diagram shows the effect of a subsidy paid to domestic producers of wheat in a hypothetical economy.



What is the size and impact of the subsidy on domestic wheat production?

- (A) The subsidy is AB and supply falls from  $Q_2$  to  $Q_1$ .
- (B) The subsidy is AC and supply increases from  $Q_1$  to  $Q_2$ .
- (C) The subsidy is ED and supply increases from  $Q_1$  to  $Q$ .
- (D) The subsidy is BC and supply falls from  $Q$  to  $Q_1$ .

- 17 Qantas increases its market share in the world airline industry with a record profit.

How would this be recorded in Australia's balance of payments?

- (A) As a debit on the Australian current account
- (B) As a credit on the Australian current account
- (C) As a credit on the Australian capital and financial account
- (D) As a debit on the Australian capital and financial account

- 18 The following table shows export and import price indexes for a hypothetical economy.

| Year | Export Price Index | Import Price Index |
|------|--------------------|--------------------|
| 1    | 105                | 110                |
| 2    | 110                | 120                |

What is the value of the terms of trade in Year 2 and its implication for the economy?

- (A) 95.5, and the economy can buy more imports with a given volume of exports
- (B) 95.5, and the economy can buy less imports with a given volume of exports
- (C) 91.6, and the economy can buy less imports with a given volume of exports
- (D) 91.6, and the economy can buy more imports with a given volume of exports

- 19 The table shows selected data for an economy.

|                       | Year 1         | Year 2         |
|-----------------------|----------------|----------------|
| <b>Cash rate</b>      | 5.5%           | 7.0%           |
| <b>Budget outcome</b> | + \$20 billion | + \$32 billion |

Which policy objectives would the government be attempting to achieve in Year 2?

- (A) To reduce the rates of unemployment and inflation
- (B) To reduce the inflation rate and rate of economic growth
- (C) To reduce the inflation rate and increase the rate of economic growth
- (D) To reduce the rate of unemployment and increase the rate of economic growth

- 20 Which of the following could cause an increase in the rate of structural unemployment?

- (A) A deficiency in the level of aggregate demand
- (B) An increased rate of technological change in industry
- (C) A recession in the global economy
- (D) Increased dependency of the unemployed on welfare payments

**Section II****40 marks****Attempt Questions 21–24****Allow about 1 hour and 15 minutes for this section**

Answer the questions in the spaces provided.

**Question 21 (10 marks)****Marks**

- (a) Define the term
- economic growth*
- .

**1**

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- (b) The table below shows the change in real GDP for an economy between Year 1 and Year 2.

| Year | Real GDP      |
|------|---------------|
| 1    | \$490,000,000 |
| 2    | \$510,000,000 |

- (i) Using the data in the table, calculate the annual rate of economic growth in Year 2.

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- (ii) Briefly discuss TWO possible reasons for the change in the annual rate of economic growth from Year 1 to Year 2.

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**Question 21 continues on the next page**

Question 21 (continued)

### Marks

- (c) Describe TWO benefits of economic growth for the Australian economy.

2

- (d) Examine the role of microeconomic reform in promoting long term economic growth in Australia.

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**End of Question 21**

**Question 22** (10 marks)**Marks**

- (a) Distinguish between the terms
- income*
- and
- wealth*
- .

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- (b) The table shows Gini co-efficient data for Australia.

| Year | Gini co-efficient (pre-tax) | Gini co-efficient (after tax) |
|------|-----------------------------|-------------------------------|
| 1980 | 0.278                       | 0.201                         |
| 1985 | 0.302                       | 0.207                         |
| 1990 | 0.338                       | 0.254                         |
| 1995 | 0.359                       | 0.283                         |
| 2000 | 0.383                       | 0.279                         |

Adapted from Leigh, A. (2004), Australian National University, September

Using data from the table, identify TWO features of the trend in the distribution of income in Australia between 1980 and 2000.

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- (c) Describe TWO factors contributing to inequality in the distribution of income in Australia.

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**Question 22 continues on the next page**

Question 22 (continued)

Marks

- (d) Explain how TWO government policies have affected the distribution of income in Australia.

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End of Question 22

**Question 23 (10 marks)**

**Marks**

- (a) Define the term *ecologically sustainable development*.

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- (b) Distinguish between *private* goods and *public* goods.

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- (c) Discuss TWO causes of market failure that can arise in the allocation of environmental resources.

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**Question 23 continues on the next page**

Question 23 (continued)

Marks

- (d) Explain why pollution of the environment is a negative externality AND outline TWO policies the government could introduce to reduce the incidence of pollution.

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End of Question 23

**Question 24** (10 marks)**Marks**

- (a) Distinguish between the terms
- economic growth*
- and
- economic development*
- .

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- (b) The following table shows data on income per capita and growth in real GDP for low, middle and high income countries in 2007.

|                                                                                     | Income Per Capita (2007) | Growth in real GDP (2007) |
|-------------------------------------------------------------------------------------|--------------------------|---------------------------|
| <b>Low income countries</b>                                                         | US\$574                  | 6.4%                      |
| <b>Middle income countries</b>                                                      | US\$2,910                | 8.2%                      |
| <b>High income countries</b>                                                        | \$US37,570               | 2.5%                      |
| Source: World Bank (2009), <i>World Development Indicators 2009</i> , Washington DC |                          |                           |

Using data from the table compare living standards between low, middle and high income countries.

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- (c) Describe TWO reasons for the differences in living standards of low and middle income countries compared to high income countries.

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Question 24 continues on the next page

Question 24 (continued)

**Marks**

- (d) With reference to a country other than Australia explain TWO policies used by this country's government to promote economic growth and development.

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**End of Question 24**

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

Answer the question on your own paper or in a writing booklet, if provided. Start the question on a new page.

Expected length of response is *approximately* 800 words or six written pages.

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)**

Discuss the impact of the federal government's use of fiscal policy on aggregate demand and unemployment in the Australian economy.

In your answer, you should refer to the economic information provided.

"Australia has emerged from the global recession ahead of the pack, recording the best economic performance of any advanced economy in 2009.

In a year in which the global economy endured an unprecedented decline in GDP in the post-war era, the Australian economy grew by 1.4 per cent, whereas advanced economies collectively contracted by 3.2 per cent."

Source: Commonwealth of Australia (2010), *Budget Overview*, May

|                      | <b>Treasury Economic Forecasts – Australia</b> |                |
|----------------------|------------------------------------------------|----------------|
|                      | <i>2009–10</i>                                 | <i>2010–11</i> |
| Real GDP             | 2%                                             | 3.25%          |
| Employment           | 2.5%                                           | 2.25%          |
| Unemployment Rate    | 5.25%                                          | 5%             |
| Consumer Price Index | 3.25%                                          | 2.5%           |
| Nominal GDP          | 2.75%                                          | 8.5%           |

Source: Commonwealth of Australia (2010), Budget Paper No. 1.

**OR****Please turn over**

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)

Discuss the Reserve Bank's use of monetary policy in achieving the economic objectives of internal balance and economic growth in Australia.

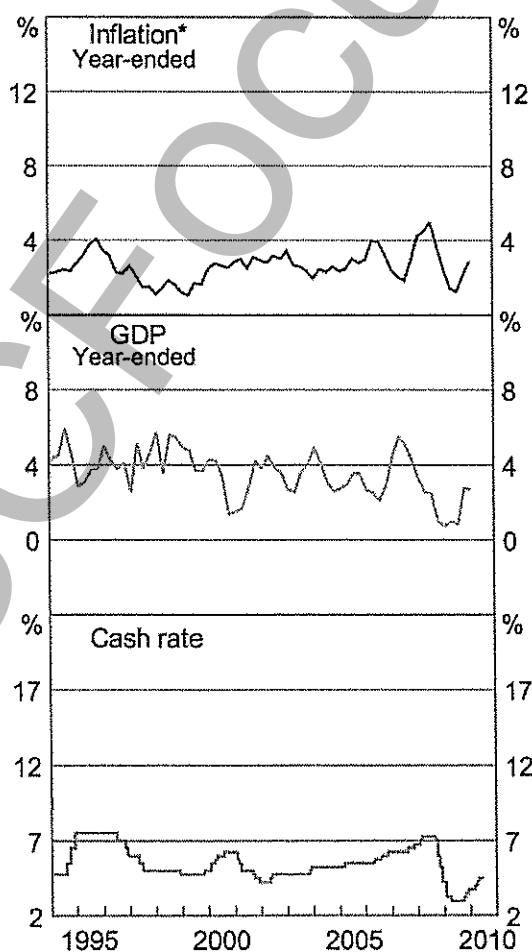
In your answer, you should refer to the economic information provided.

"With the risk of serious economic contraction in Australia having passed some time ago, the Board has been adjusting the cash rate towards levels that would be consistent with interest rates to borrowers being close to the average experience over the past decade or more. The Board expects that, as a result of today's decision, rates for most borrowers will be around average levels. This represents a significant adjustment from the very expansionary settings reached a year ago.

The Board will continue to assess prospects for demand and inflation, and set monetary policy as needed to achieve an average inflation rate of 2–3 per cent over time."

Source: Statement by Glenn Stevens, Governor of the Reserve Bank, May 4<sup>th</sup> 2010

**Australia Economic Indicators**



Source: Australian Bureau of Statistics and the Reserve Bank of Australia.

## Section IV

20 marks

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer the question on your own paper or in a writing booklet, if provided. Start the question on a new page.

Expected length of response is *approximately* 800 words or six written pages.

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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 impact of changes in the global business cycle on Australia's trade and financial flows and the balance of payments.

OR

### Question 28 (20 marks)

Discuss the causes of an appreciation of the Australian dollar, and the impacts on the Australian economy of a sustained appreciation of the Australian currency.

**End of paper**

**NSW INDEPENDENT TRIAL EXAMS – 2010**  
**ECONOMICS TRIAL HSC EXAMINATION**  
**MARKING GUIDELINES**

**Section I**

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

**Section II**

**Question 21(a)** *Outcomes assessed: H1*

| Criteria                                                          | Marks |
|-------------------------------------------------------------------|-------|
| • Correctly states the meaning of the term <i>economic growth</i> | 1     |
| • Incorrect meaning of the term <i>economic growth</i>            | 0     |

*Answers could include:* Economic growth refers to the extent to which an economy increases its real output of goods and services over a period of time (an increase in real GDP). This results in an increase in an economy's productive capacity as measured by a rising level of real GDP over time.

**Question 21(b)(i)** *Outcomes assessed: H1, H8*

| Criteria                                                                 | Marks |
|--------------------------------------------------------------------------|-------|
| • Correctly calculates the value of the rate of economic growth as 4.08% | 1     |
| • Incorrectly calculates the value of the rate of economic growth        | 0     |

*Answers could include:*

Annual Rate of Economic  
Growth in Year 2

$$\begin{aligned}
 &= \frac{\text{Real GDP in Year 2} - \text{Real GDP in Year 1}}{\text{Real GDP in Year 1}} \times \frac{100}{1} \\
 &= \frac{\$510,000,000 - \$490,000,000}{\$490,000,000} \times \frac{100}{1} \\
 &= \frac{\$20,000,000}{\$490,000,000} \times \frac{100}{1} \\
 &= 4.08\%
 \end{aligned}$$

**Question 21(b)(ii)** *Outcomes assessed: H1*

| Criteria                                                                                                | Marks |
|---------------------------------------------------------------------------------------------------------|-------|
| • Provides TWO possible reasons for the change in the rate of economic growth between Year 1 and Year 2 | 2     |
| • Provides only ONE reason for the change in the rate of economic growth between Year 1 and Year 2      | 1     |
| OR                                                                                                      |       |
| • Identifies rather than briefly discusses TWO reasons                                                  |       |

*Answers could include:*

- An increased level of business investment in an economy will lead to an increase in the productive capacity of an economy.
- An increase in the rate of productivity (e.g. labour, capital or multifactor productivity) will increase the rate of growth of real output in an economy over time as resources are being used more efficiently.
- The use of new technology will also lead to an increase in the productive capacity of an economy.
- An increased level of government spending on goods and services and/or infrastructure could lead to a higher rate of economic growth.
- An increased level of household consumption expenditure could raise the rate of economic growth.
- An increased level of export income could increase private spending and raise the rate of economic growth.

**Question 21(c) Outcomes assessed: H1, H7**

| Criteria                                                                        | Marks |
|---------------------------------------------------------------------------------|-------|
| • Provides characteristics and features of TWO benefits of economic growth      | 2     |
| • Provides characteristics and features of ONE benefit of economic growth<br>OR | 1     |
| • Identifies TWO benefits of economic growth rather than describes TWO benefits |       |

*Answers could include:*

- An increase in employment opportunities for the workforce (based on the derived demand for labour). This may lead to an expansion in part-time and full-time employment and a reduction in the number of unemployed persons in the workforce
- An increase in the material wellbeing of the nation – this will lead to an increase in living standards through rising per capita incomes and increased purchasing power
- An increase in taxation revenue to the government which may be spent on increased welfare spending to alleviate poverty and improve the equality of the distribution of income
- An increase in the rate of technological progress as new methods and processes of production are used to raise productivity
- An increase in an economy's capacity to export goods and services to overseas markets and generate foreign exchange which can be used to purchase more imports
- A final benefit of economic growth is that higher incomes can lead to an acceleration in business investment and higher saving rates for households

**Question 21(d) Outcomes assessed: H1, H6**

| Criteria                                                                                                         | Marks |
|------------------------------------------------------------------------------------------------------------------|-------|
| • Inquires into the role of microeconomic reform in promoting long term economic growth in Australia             | 3 – 4 |
| • Sketches in general terms the role of microeconomic reform in promoting long term economic growth in Australia | 1 – 2 |

*Answers could include:* Microeconomic reform (MER) involves a range of reforms/policies to improve resource allocation and productivity across a number of sectors of the Australian economy and particular industries. It involves the strengthening of competition and incentives to increase productivity and efficiency in various industries and markets. Examples of MER in Australia include competition policy, tariff reform, taxation reform, labour market reform and reform in transport and communications industries. Other reforms include the deregulation of certain industries such as the financial sector, domestic aviation and telecommunications to make them more competitive and efficient. A final area of major reform has been the improvement in efficiency of Public Trading Enterprises through the policies of deregulation, commercialisation and privatisation.

The main effect of MER is to shift the long run aggregate supply curve of the Australian economy to the right, which represents an expansion in long term productive capacity. If MER is successful, more output (i.e. real goods and services) can be produced with the same level of inputs. As a result, real GDP increases (economic growth) and the price level will fall over the long run. This helps to sustain economic growth because as output increases in real terms there is no accompanying rise in the level of inflation. Successful microeconomic reforms help to promote economic growth, employment, exports and rising standards of living in the community through higher incomes and lower prices.

**Question 22(a) Outcomes assessed: H1, H8**

| Criteria                                                                                | Marks |
|-----------------------------------------------------------------------------------------|-------|
| • Clearly recognises the difference between the terms <i>income</i> and <i>wealth</i> . | 2     |
| • States the meaning of either income OR wealth<br>OR                                   | 1     |
| • Demonstrates limited understanding of income and wealth                               |       |

*Answers could include:* Income refers to the earnings of a person from contributing to production and includes wages, rent, interest and profit. Personal income can also be in the form of transfer payments from the government such as pensions, job search allowances and other forms of welfare assistance.

*Question 22(a) continues on the next page*

*Question 22(a) continued*

Wealth, on the other hand, refers to a person's net value of assets such as real estate, cash deposits, shares, superannuation, government bonds, cars and consumer goods.

Income is a flow concept in economics where earnings are received from various sources through periodic payment while wealth is a stock concept which accumulates or builds up over time.

**Question 22(b)** *Outcomes assessed: H1, H8*

| Criteria                                                                                                                                                                                                                                                                                                                                                                  | Marks |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Correctly recognises the general increase in both pre tax and after tax income inequality between 1980 and 2000 as indicated by changes in the Gini co-efficient data in the table                                                                                                                                                                                        | 2     |
| <ul style="list-style-type: none"><li>Correctly recognises the general increase in either pre tax or after tax income inequality between 1980 and 2000 as indicated by changes in the Gini co-efficient</li></ul> OR <ul style="list-style-type: none"><li>Makes only a general statement about increased income inequality in income distribution in Australia</li></ul> | 1     |

*Answers could include:* Students need to indicate that the Gini co-efficient is used as a measure of the degree of income inequality with a co-efficient of 0 indicating perfect equality in income distribution and a co-efficient value of 1 indicating perfect inequality.

According to the pre tax Gini co-efficient data, the general level of income inequality has continued to increase over the two decades with the pre tax Gini co-efficient increasing from 0.278 in 1980 to 0.383 in 2000. Similarly, when the after tax Gini co-efficient is used income inequality continues to rise between 1980 and 1995. However, the Gini co-efficient does decline over the last five years of the period (from 0.283 to 0.279 between 1995 and 2000) indicating some degree of success on the part of the Australian government in reducing income inequality through the tax-transfer system.

**Question 22(c)** *Outcomes assessed: H1, H7*

| Criteria                                                                                                                                                                                                                                                                                                                                                      | Marks |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Provides the characteristics and features of TWO factors contributing to inequality in the distribution of income in Australia.                                                                                                                                                                                                                               | 2     |
| <ul style="list-style-type: none"><li>Provides the characteristics and features of ONE factor contributing to inequality in the distribution of income in Australia</li></ul> OR <ul style="list-style-type: none"><li>List TWO factors contributing to inequality in the distribution of income in Australia rather than describing these factors.</li></ul> | 1     |

*Answers could include:* Any TWO of the following factors could be used in a student's response:

- Dispersion in earnings from market income that arises from the varying levels of education, qualifications, skills and experience possessed by people in the labour force. There is a wide disparity in wages because of these factors as well as the varying ability of different workers to bargain for higher wages e.g. workers in strong trade unions have strong bargaining power. Decreased rates of unionisation, particularly in manufacturing and service industries, have contributed to a higher incidence of low paid work and higher levels of wage inequality among Australian workers. On average, there tends to be a substantial gap between the more highly educated workers who have gained tertiary qualifications compared to less qualified workers. Increased levels of tertiary study have been evident in most professions which has tended to increase the levels of earnings of more highly educated workers compared to unskilled workers.
- The duration and incidence of unemployment can affect the distribution of income since high levels of unemployment lead to lower incomes for the unemployed and their families. Unemployed workers may have to rely on government transfer payments for income support and their incomes will be lower than the average income in the community.

*Question 22(c) continues on the next page*

*Question 22(c) continued*

- Discrimination in the workforce may occur because of a person's ethnicity, race, religion or gender. Persons discriminated against in the workforce may not be hired by employers and hence receive lower wages than someone with the same qualifications and experience, or even unemployment as a consequence. On average, immigrants earn less than comparably qualified native born Australians.
- Dependence on welfare payments for income support may occur for disadvantaged groups in society such as migrants and Indigenous Australians. This dependence may lead to the formation of poverty traps where the incentive to seek paid employment is lowered by high effective marginal rates of taxation. This means that extra market income that is earned can lead to less social benefits being received in the form of pensions or other allowances.
- There is a common presumption that globalisation has exacerbated income inequality. It is sometimes suggested that in developed countries like Australia, which has abundant skilled labour, that a reduction in the relative price of unskilled labour intensive goods caused by more liberal trade with less developed countries (LDC's) has to some degree lowered the relative return to unskilled labour. Hence increased trade with countries such as China and India has to some degree, widened the distribution of earnings between higher skilled and unskilled workers.

**Question 22(d)** *Outcomes assessed: H1, H2, H6, H8*

| Criteria                                                                                                                                                                                                                                                                                                                                                                               | Marks |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| <ul style="list-style-type: none"><li>• Demonstrates a clear, concise and balanced understanding of how TWO different government policies have affected the distribution of income in Australia</li></ul>                                                                                                                                                                              | 4     |
| <ul style="list-style-type: none"><li>• Demonstrates a sound understanding of how TWO different government policies have affected the distribution of income in Australia</li></ul> OR <ul style="list-style-type: none"><li>• Demonstrates a clear and concise understanding of how TWO different government policies have affected the distribution of income in Australia</li></ul> | 3     |
| <ul style="list-style-type: none"><li>• Sketches in general terms how TWO different government policies have affected the distribution of income in Australia</li></ul> OR <ul style="list-style-type: none"><li>• Demonstrates a sound understanding of how ONE different government policy has affected the distribution of income in Australia</li></ul>                            | 2     |
| <ul style="list-style-type: none"><li>• Sketches in general terms how ONE government policy has affected the distribution of income in Australia</li></ul> OR <ul style="list-style-type: none"><li>• Lists effects of government policies on the distribution of income in Australia</li></ul>                                                                                        | 1     |

*Answers could include:* Any TWO of the following economic measures could be explained as policies that have affected the distribution of income in Australia.

- Australia's system of progressive taxation of personal income requires each person to pay a higher percentage of their gross income in tax as they earn more. This progressive tax can provide the revenue base from which the government can fund transfer payments such as pensions, job search allowances and other unemployment benefits as well as family benefits. This will enable the government to redistribute income from high income earners to low income earners. This tax is structured so that lower rates of taxation are applied to low levels of income with a tax free threshold being allowed to the lowest of income earners. For example, the Australian personal income tax system now allows all income earners to receive up to \$6,000 annually before they have to pay any income tax.
- The tax base has been broadened to include other taxes on income and wealth rather than just depend on personal income tax as a source of revenue. Company owners are made to pay corporate income tax (at a rate of 30%) on the profits made by their enterprises. A fringe benefits tax regime was also introduced in the mid 1980s and applied where benefits are paid to workers in the form of company cars, expensive holidays and expense accounts.
- Transfer payments in the form of pensions, job search allowances and family benefits have been used to provide income support for targeted groups such as single parents, large single income families, the unemployed and the disabled. These groups generally receive the lowest incomes in any economy and this type of income support helps to raise the household income received by the least fortunate members of society.

*Question 22(d) continues on the next page*

Question 22(d) continued

- Provision has also been made by the government through the social wage to establish a safety net of minimum wages and working conditions to be applied across various occupations and industries. In countries like Australia this has been achieved through the award wage system where an award wage sets out the rates of pay, leave entitlements and other benefits a worker is to be afforded by his or her employer. The award wage system has been used to provide a minimum level of income and working conditions for workers with low skills and low bargaining power in the labour market. For example, in June 2010 Fair Work Australia (FWA), the Federal Government's new industrial relations institution, increased minimum award rates by 4.8% (\$26 a week). This increase for low paid workers was expected to benefit around 1.4 million Australians.
- Other elements have been incorporated into the social wage such as government spending on public health, education, housing, transport and community services. This provides a broader coverage for the support given through the social welfare safety net, particularly for families where the welfare of dependent children is at stake. This assistance is administered through subsidised goods and services such as public health and medical services, public housing, public transport and public education. For example, in the 2008 Commonwealth Budget, the government introduced a housing affordability package designed to make it easier for families to buy their first home and boost the supply of affordable housing for rent and purchase.

Question 23(a) Outcomes assessed: H1

| Criteria                                                                                | Marks |
|-----------------------------------------------------------------------------------------|-------|
| • Correctly defines the meaning of the term <i>ecologically sustainable development</i> | 1     |

*Answers could include:* Ecologically sustainable development refers to the use of natural resources by the present generation that does not compromise the ability of future generations to use these same resources. It involves using resources for economic activities in the present without depleting, polluting or extinguishing these resources for use in the future.

Question 23(b) Outcomes assessed: H1

| Criteria                                                                                             | Marks |
|------------------------------------------------------------------------------------------------------|-------|
| • Correctly indicates the difference between private goods and public goods                          | 2     |
| • States the meaning of a private good or public good but does not distinguish between the two terms | 1     |

*Answers could include:* Private goods are traded in markets and are characterised by being both rival and excludable in consumption. Public goods, in contrast, are non-rival and non-excludable in consumption since one person's consumption does not preclude someone else's and non-paying users cannot be prevented from consuming the public good.

Question 23(c) Outcomes assessed: H1, H2, H7

| Criteria                                                                                                 | Marks |
|----------------------------------------------------------------------------------------------------------|-------|
| • Discusses TWO causes of market failure that can arise in the allocation of environmental resources     | 3     |
| • Discusses only ONE cause of market failure that can arise in the allocation of environmental resources | 1 – 2 |

*Answers could include:* Market failure can arise in the allocation of environmental resources if:

- negative externalities arise in private production such as the incidence of pollution of the environment;
- a system of well defined property rights is absent. This may lead to environmental resources being over exploited, polluted or made extinct;
- there are non-paying users or free riders who are unwilling to contribute to the provision of the resources through payment of market prices or government taxes or charges.

Other causes of market failure in the provision of environmental resources include the failure to acknowledge non-use, option, bequest and intergenerational values for the use of such resources.

**Question 23(d)** Outcomes assessed: H1, H2, H5, H7

| Criteria                                                                                                                                                                                   | Marks |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| • Relates the causes of pollution to its impact as a negative externality on the environment and sketches in general terms TWO government policies to reduce the incidence of pollution    | 3 – 4 |
| • Relates the causes of pollution to its impact as a negative externality on the environment and sketches in general terms only ONE government policy to reduce the incidence of pollution | 1 – 2 |

*Answers could include:* Pollution of the environment (such as impurities in the air, water, sea, rivers and land) is considered to be a negative externality since it is the unintended negative outcome on the environment of a private production activity. Pollution is a negative externality since it imposes a social cost on the community as a whole, such as the impurities in the environment and the cost of reducing or removing such impurities.

The causes of pollution may include the illegal dumping of waste; non-use of pollution control devices; or the absence of government regulations to control polluting activities. A number of policies could be used by a government to reduce the incidence of pollution and these include the following:

- The imposition of fines on polluters and charges for the disposal of pollutant material in waste facilities
- The use of a corrective tax on polluting activities with the revenue gained by the government used to reduce the impact of pollution on the community
- The use of a system of tradable emission permits and an emissions trading scheme to internalise the cost of pollution on polluting firms
- The use of environmental standards and legislation governing pollution levels which is enforced by a government authority with the power to impose fines and sanctions on polluting firms
- Policies such as tax incentives and selective government spending measures to encourage the use of recycling and renewable and non-polluting energies

**Question 24(a)** Outcomes assessed: H1

| Criteria                                                                                       | Marks |
|------------------------------------------------------------------------------------------------|-------|
| Correctly indicates the difference between economic growth and economic development            | 2     |
| Correctly indicates the meaning of economic growth or economic development, but not both terms | 1     |

*Answers could include:* Economic growth refers to the increased productive capacity of an economy through higher real GDP or output over time. Economic development is more of a qualitative process involving improvements in an economy's economic and social infrastructure over time, which can lead to higher standards of living and enhanced levels of human development through access to better education and health care.

**Question 24(b)** Outcomes assessed: H1, H3, H4, H7, H9, H11

| Criteria                                                                                                                                            | Marks |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Uses data from the table to correctly show the differences in living standards between low, middle and high income countries.                       | 2     |
| States the differences in living standards between low, middle and high income countries but does not use data from the table to support the answer | 1     |

*Answers could include:* The data in the table from the World Bank (2009) shows that low income countries had an average income per capita of US\$574 in 2007, compared to US\$2,910 in middle income countries and \$US37,570 for high income countries. This meant that living standards were significantly lower in low and middle income countries compared to high income countries. However low income countries (6.4%) and middle income countries (8.2%) sustained higher rates of economic growth than high income countries (2.5%) in 2007.

**Question 24(c)** Outcomes assessed: H1, H3, H4, H7

| Criteria                                                                                                                                         | Marks |
|--------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Describes correctly TWO reasons for the differences in living standards of low and middle income countries compared to high income countries     | 2     |
| Describes correctly only ONE reason for the differences in living standards of low and middle income countries compared to high income countries | 1     |

*Question 24(c) continues on the next page*

*Question 24(c) continued*

*Answers could include:* A number of economic factors, as well as social and political factors, can be advanced as reasons for the relatively low living standards in low and middle income countries compared to high income countries:

- Low levels of per capita income result in widespread poverty and the inability to raise levels of saving and investment.
- A lack of infrastructure and capital formation in low and middle income countries, retard economic growth and the ability to raise living standards.
- Low and middle income countries may have low levels of productivity and technological progress compared to high income countries which can impede growth and rising living standards.
- Low and middle income countries may experience political instability and high levels of corruption in government institutions which reduces the effectiveness of government policy in raising living standards through the provision of welfare and infrastructure.
- Low and middle income countries may experience difficulties in increasing their exports and earning foreign exchange in international trade which can limit improvements in living standards.
- Compared to high income countries, low and middle income countries may have high population growth rates and dependency ratios which increases demands on government services and prevents the raising of living standards.

**Question 24(d)** *Outcomes assessed: H1, H2, H3, H4, H5, H7*

| Criteria                                                                                                                                               | Marks |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| With reference to a country other than Australia, correctly explains TWO policies used by its government to promote economic growth and development    | 3 – 4 |
| With reference to a country other than Australia, correctly explains only ONE policy used by its government to promote economic growth and development | 1 – 2 |

*Answers could include:* Students could use a variety of case studies of countries from Asia, Africa, Europe, the Americas and the Pacific or Oceania to explain two policies used by its government to promote economic growth and development. China is a well known and documented case of a country which has raised its rate of economic growth and development, resulting in substantial improvements in living standards. Some of the main policies used by the Chinese government to promote economic growth and development include the following:

- The Chinese government began an 'open door' policy in 1980 to encourage foreign direct investment in its Special Economic Zones (SEZs). These SEZs became major hubs for manufacturing and the export of goods to major global markets. This policy increased China's international trade and the accumulation of foreign exchange reserves as well as creating employment for urban workers.
- The Chinese government reformed the agricultural sector through the de-collectivisation of the commune system and its replacement with private production and a system of markets. This resulted in increased productivity and output and a more efficient farm sector. It also allowed the movement of surplus labour from rural regions to urban areas where employment opportunities in manufacturing were more abundant and higher paid.
- The Chinese government has used a policy of increased spending on public infrastructure to increase the efficiency of the private sector and to improve living standards. This includes the construction of new roads, railways, ports, factories, shopping complexes, housing apartment blocks and urban commercial and residential buildings.

### Section III

#### Question 25 Outcomes assessed: H1, H2, H5, H6, H8, H10

| Criteria                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Marks   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| <ul style="list-style-type: none"><li>Integrates appropriate economic terms, relevant concepts, relationships and theory</li><li>Synthesises own knowledge with the information provided to develop a sustained, logical and well-structured response</li><li>Provides clear and comprehensive arguments identifying points for and/or against the impact of the federal government's use of fiscal policy on aggregate demand and unemployment in the Australian economy</li></ul> | 17 – 20 |
| <ul style="list-style-type: none"><li>Consistently applies appropriate economic terms, relevant concepts, relationships and theory</li><li>Uses own knowledge and the information provided to develop a logical and well-structured response</li><li>Provides sound arguments identifying points for and/or against the impact of the federal government's use of fiscal policy on aggregate demand and unemployment in the Australian economy</li></ul>                            | 13 – 16 |
| <ul style="list-style-type: none"><li>Applies appropriate economic terms, concepts and relationships and theory</li><li>Uses own knowledge and the information provided to develop a coherent response</li><li>Sketches in general terms arguments identifying points for and/or against the impact of the federal government's use of fiscal policy on aggregate demand and unemployment in the Australian economy</li></ul>                                                       | 9 – 12  |
| <ul style="list-style-type: none"><li>Uses some appropriate economic terms, concepts and relationships</li><li>Uses information to develop a generalised response</li><li>Sketches in general terms some points on the impact of the federal government's use of fiscal policy on aggregate demand and unemployment in the Australian economy</li></ul>                                                                                                                             | 5 – 8   |
| <ul style="list-style-type: none"><li>Lists some aspects of fiscal policy</li><li>Uses some economic terms and/or concepts</li><li>Presents a limited response</li></ul>                                                                                                                                                                                                                                                                                                            | 1 – 4   |

#### Essay plan:

In the introduction of the essay it is important to define fiscal policy and establish the recent context of the use of fiscal policy: its role in stimulating aggregate demand and minimising the level of unemployment following the onset of the global economic crisis and the relatively fragile global economic recovery now being experienced should be clearly established. The concepts of aggregate demand ( $C + I + G + X - M$ ) and unemployment should also be accurately defined in the essay's introduction.

Fiscal policy is the control of government expenditure and revenue instruments in the pursuit of economic, social and political goals. Fiscal policy is concerned with the finances of the government and represents a significant method of influencing macroeconomic variables and hence the performance of the economy. In the more recent context, the focus of fiscal policy seems to have shifted away from the short term objective of supporting the Australian economy during the deepest global recession since the Great Depression and towards the withdrawal of stimulus to avoid the build up of inflationary pressures during recovery. The budget deficit is still viewed as an inevitable consequence of the global recession and necessary to cushion the impact on employment.

The Government's fiscal stimulus program started with income support and then moved into infrastructure development – what are officially called long term nation building projects. These economic stimulus measures included a strong focus on direct government investment designed to stimulate economic activity and support employment. Clearly, a balance needs to be struck between the desire for responsible fiscal management that protects the economy against current economic uncertainties and the imperative of maintaining budget programs that will sustain prosperity in the future. The data from Budget Paper No 1 (2010) indicate that real GDP growth is expected to be 2% in 2009–10, slightly higher than the 1.4% growth recorded during the period of the GFC in 2008–09. Similarly the unemployment rate is forecast to fall from 5.25% in 2009–10 to 5% by 2010–11 as private demand replaces public demand as the main driver of growth. This is significantly lower than the peak in the unemployment rate of 5.8% as the height of the GFC.

*Question 25 continues on the next page*

*Question 25 continued*

It is important that reference is also made to the 2010 Commonwealth Budget where the budget deficit is projected to decline to -\$39.6b (2.8% of GDP) in 2010–11 as taxation revenue rises and government spending on stimulus measures is gradually withdrawn from the economy. The government's fiscal strategy is to achieve a small budget surplus of \$2b by 2012–13. This represents a fiscal consolidation strategy in moving from a period of temporary budget deficits during the GFC when taxation revenue fell sharply and discretionary government spending rose strongly to support aggregate demand.

The Keynesian view of the role of fiscal policy is that this manipulation of aggregate demand by the authorities in order to stabilise the business cycle is appropriate. This is termed activating discretionary fiscal policy and means for example, that the government should respond to unacceptably high unemployment levels by temporarily supplementing private sector demand with increases in its own expenditure so as to reflate the economy. This countercyclical role for fiscal policy will require large deficits in recessionary times which will be offset by surpluses (following reduced government spending and increased taxation revenue) when higher levels of economic activity return. This has recently been the case with Australian fiscal policy where it has been appropriately stimulatory with deficits being run during times of economic slowdown or recession (e.g. during 2008 and 2009) but a return to surplus is anticipated as soon as economic recovery is underway.

The Keynesian deflationary gap model or the aggregate demand/aggregate supply model could be used to demonstrate how deficiencies in the level of aggregate demand can lead to increases in the level of unemployment in the theoretical context. Inadequate levels of aggregate demand ( $AD = C + I + G + X - M$ ) are a major contributor to rising levels of unemployment. Cyclical changes in domestic and international economic activity may lead to changes in the demand of labour. As the demand for labour is derived from the demand for final output, any decline in aggregate demand may lead to a rise in unemployment. For example, in late 1989 unemployment was at a ten year low at just 6%. During the following two years the economy entered a recession and then a very subdued economic recovery. As a consequence, by the end of 1992, Australia's unemployment rate had risen to 11%, a new post-war high. More recently, following the global economic downturn during 2008–09 Australia's unemployment rate rose from 4.2% in early 2008 to 5.9% in July of 2009.

Policies to reduce unemployment can be grouped into two broad categories: those designed to alleviate cyclical unemployment and those suitable for alleviating structural unemployment. With regards to cyclical unemployment, monetary and fiscal policies have been the traditional weapons against cyclical downturns in the economy and the increasing levels of unemployment that accompany periods of slower economic activity. Fiscal stimulus (expansionary fiscal policy) and the easing of monetary policy have the potential to stimulate aggregate demand leading to increased output of goods and services in the economy. Given that the demand for labour is derived from the demand for goods and services that it is used to produce, higher levels of output will require increased levels of employment which should lead to a lowering of the level of unemployment.

Reference could be made to the recent global economic crises during 2008–09 when the global economy plummeted into recession and Australia faced its own economic downturn. Some economic commentators were suggesting that up to 500,000 Australian jobs could be lost during 2009–10. The Australian government was quick to take decisive action and move fiscal policy into stimulatory mode through a number of initiatives including the \$10.4b Economic Security Strategy and the \$42b Nation Building and Jobs Plan. Along with the 2009 Budget (fiscal deficit of \$53b or 4.5% of GDP) these measures were crucial in preventing the unemployment rate from rising above 5.9% during the depths of the global downturn. It must also be acknowledged that during this period the stance of monetary policy was also eased with the cash rate being lowered through six separate adjustments between September 2008 and April 2009 from 7.25% to 3%. In other words, the countercyclical role of fiscal policy was supported by stimulatory monetary policy.

Fiscal policy has played its part in the gradual reduction in unemployment that took place in the Australian labour market over the past two decades. The medium term focus of these policy initiatives had incorporated numerous micro incentives designed to encourage the appropriate responses from the unemployed and from prospective employers. These policy initiatives have included:

- The creation of a publicly funded private sector job network

*Question 25 continues on the next page*

*Question 25 continued*

- Mutual obligation initiatives whereby in return for unemployment benefits, the unemployed are required to actively seek employment; to either engage in training and/or education to improve their 'job readiness' skills
- Limited employment subsidies provided to employers to encourage the hiring of long term unemployed
- The removal of financial disincentives that discourage people from accepting work offers. These disincentives arise from people on welfare support facing very high effective marginal tax rates if they return to employment.

It is important that the discussion of the role of fiscal policy in stimulating aggregate demand and reducing unemployment is tempered by some detailed analysis of the arguments against the use of expansionary fiscal policy. In the conventional sense, when devising fiscal policy, government authorities will attempt to avoid large and persistent budget deficits. Sustained budget deficits can be harmful because they reduce national saving, which in turn reduces investment in capital goods – an important source of long run economic growth. This broader context for setting fiscal policy centres on the concept of 'economic responsibility'. According to the 2009–10 Budget Statements the government is committed to returning the budget to surplus as soon as the economy recovers. A strong budget surplus is viewed as advantageous for exerting downward pressure on inflation and securing the economy against economic uncertainties.

Some commentators have expressed concern over the likelihood of excessive fiscal stimulus triggering excessive demand pressures within the economy and encouraging the re-emergence of asset and credit bubbles. Generally speaking, there exists considerable uncertainty on the part of economic policy makers over the capacity for fiscal policy to be used as an effective tool for stabilisation. Fiscal expansion is linked with higher interest rates which displace or crowd out private investment. The extent of this crowding out effect remains contentious. Nevertheless, expansionary monetary policy serves to reduce interest rates while expansionary fiscal policy increases interest rates due to the increase in money demand caused by higher levels of income.

Another perceived disadvantage of fiscal policy involves the relatively lengthy decision lags and action lags (compared to monetary policy decisions) associated with its implementation. Major monetary policy actions can be undertaken by the RBA almost as soon as a decision has been made, meaning that the decision lag for monetary policy is short and the action lag practically zero. On the other hand, fiscal policy actions are less rapid. Once the need for fiscal policy action had been recognised, the government has to prepare legislation in order for that action to be put into effect. This is usually a lengthy process requiring the legislation to be approved by both houses of Parliament before it can be applied. If the policy initiative involves changes in tax rates, it may be some time before the change in the tax rates takes place i.e. there is a substantial action lag. For example, the introduction of the GST in Australia in July 2000 took over a year to pass both houses of Parliament and take effect.

As fiscal policy takes considerably longer than monetary policy to move through the phases of recognition to decision and eventual implementation, it tends to be considered less useful for stabilisation. Subsequently, fiscal policy is used relatively infrequently in a discretionary capacity to stabilise the economy, despite the ability of the fiscal instruments (particularly changes in government spending which act directly on aggregate demand) to impact on income and expenditure more rapidly than monetary policy decisions. This was clearly evident with the Australian government's fiscal stimulus packages implemented during 2008–09. For example, the \$10.4b Economic Security Strategy is now viewed as having played a key role in preventing the Australian economy from reaching a technical recession over the turbulent 2008–10 period.

The main issue lays with the desire to 'fine tune' the economy or use policy actions to respond to small and more frequent disturbances to the economy. The delays associated with the recognition, decision and eventual implementation of fiscal policy decisions make it inappropriate for fine tuning except in the context of automatic stabilisers, which are in effect, fine tuning all the time. It is the presence and impact of automatic stabilisers (i.e. taxes and transfer payments in particular) which enable fiscal policy to exert a stabilising force on economic activity despite its relative inflexibility compared with monetary policy. Automatic stabilisers such as income taxes and unemployment benefits respond automatically to expenditure and output gaps in the economy.

*Question 25 continues on the next page*

*Question 25 continued*

When GDP declines, income tax collections fall due to the fall in household taxable income while unemployment and other welfare benefits rise. These changes in government spending and tax collections are automatic i.e. they require no explicit action by the government. They serve to increase the level of planned spending during recessions and reduce it during expansions without the delays associated with the legislative procedures that accompany the budget process.

Automatic stabilisers, which by nature and design are intended to cushion the effects of changes in the level of economic activity, have attracted criticism by some economists for their potentially destabilising impact. It is argued that the most important automatic stabiliser, income tax, which stabilises the economy by reducing the multiplier effects of any disturbance to aggregate demand, cannot be carried too far without also having undesirable side effects on the overall performance of the economy. For example, if marginal tax rates are set too high, it is possible for disincentive effects on the desire to work and invest in the economy to lead to an excessive slowing of the level of the GDP growth. The essay should finish with a brief concluding statement where a departing comment about the main findings of the essay is made.

**Question 26** *Outcomes assessed: H1, H5, H6, H8, H10*

| Criteria                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Marks   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| <ul style="list-style-type: none"><li>Provides a clear, comprehensive arguments identifying points for and/or against the Reserve Bank's use of monetary policy in achieving the economic objectives of internal balance and economic growth</li><li>Integrates an extensive and appropriate range of economic terms with relevant concepts, relationships and theory</li><li>Synthesises own knowledge with the economic information provided to develop a sustained, logical and cohesive response</li></ul> | 17 – 20 |
| <ul style="list-style-type: none"><li>Provides sound arguments identifying points for and/or against the Reserve Bank's use of monetary policy in achieving the economic objectives of internal balance and economic growth</li><li>Integrates an appropriate range of economic terms, relevant concepts, relationships and theory</li><li>Uses own knowledge and the information provided to develop a logical and cohesive response</li></ul>                                                                | 13 – 16 |
| <ul style="list-style-type: none"><li>Sketches in general terms arguments identifying points for and/or against the Reserve Bank's use of monetary policy in achieving the economic objectives of internal balance and economic growth</li><li>Applies appropriate economic terms, concepts and relationships</li><li>Uses own knowledge and the information provided to develop a cohesive response</li></ul>                                                                                                 | 9 – 12  |
| <ul style="list-style-type: none"><li>Sketches in general terms how monetary policy is used by the Reserve Bank in achieving the economic objectives of internal balance or economic growth</li><li>Uses some appropriate economic terms, concepts and relationships</li><li>Uses the economic information provided to develop a generalised response</li></ul>                                                                                                                                                | 5 – 8   |
| <ul style="list-style-type: none"><li>Lists aspects of how monetary policy impacts on internal balance and economic growth</li><li>Uses some economic terms and/or concepts</li><li>Presents a limited response</li></ul>                                                                                                                                                                                                                                                                                      | 1 – 4   |

**Essay plan:**

Monetary policy is the instrument of macroeconomic policy that is concerned with influencing the cost and availability of money and credit in the Australian economy. The Reserve Bank of Australia is charged with the responsibility for the operation of monetary policy, and the details of the operations are contained in the "Statement on the Conduct of Monetary Policy". The implementation of monetary policy combined with fiscal policy and microeconomic reform are used to achieve the Australian government's economic objectives of internal balance (i.e. price stability and full employment) and economic growth.

*Question 26 continues on the next page*

The Reserve Bank principally implements monetary policy in the short term money market. An easing of monetary policy (i.e. an expansionary stance) involves the Reserve Bank purchasing existing Commonwealth Government Securities (CGS) and Repurchase Agreements (RPAs). This increases funds in the cash market and puts downward pressure on the official cash rate. On the other hand a tightening of monetary policy (i.e. a contractionary stance) involves the Reserve Bank selling Commonwealth Government Securities and Repurchase Agreements to commercial banks in the cash market. This puts upward pressure on the official cash rate.

By changing the stance of monetary policy the Reserve Bank attempts to influence domestic interest rates, the general level of economic activity, prices and the exchange rate through the monetary transmission mechanism. Through this process the Reserve Bank strives to fulfil the objectives of the Reserve Bank's Charter. The fundamental objectives in the Charter are:

- Price stability; "keeping CPI inflation between 2 and 3 per cent, on average, over the cycle";
- Full employment – based on achieving the non-accelerating inflation rate of unemployment (NAIRU); and
- Economic growth, which is sustainable over the cycle at 3%–4%.

Monetary policy was the main macroeconomic policy tool used in Australia in the six years (2002–2008) prior to the start of the global financial crisis. From May 2002 until March 2008 the cash rate changed from 4.5% to 7.25%. The contractionary stance of monetary policy was used to address underlying inflation which had moved outside the Reserve Bank's 2%–3% target in 2007–2008. This policy stance also addressed capacity constraints in the Australian economy. The capacity constraints were manifest in the labour market, with shortages of skilled that arose as the economy approached full employment. In 2007–2008 the unemployment rate stood at 4.2%, a thirty year low. As a consequence wages growth averaged 4% per annum and this together with the growth in aggregate demand added to ongoing inflation pressures in the Australian economy.

A deterioration in global financial markets was unravelling in the world economy in the second half of 2008. This impacted on Australia during 2008–2009. Australia's unemployment rate increased to 5.8% and economic growth began contracting. The Reserve Bank used monetary policy counter cyclically by adopting an expansionary policy stance, reducing the cash rate from 7.25% in September 2008 to 3.0% by April 2009. However, due to the extent of the downturn and the concern that monetary policy would not be effective on its own to lift aggregate demand and support employment, the federal government implemented a range of expansionary fiscal strategies to boost domestic growth and employment. This included tax cuts and increased expenditure on stimulus payments to households and new infrastructure projects. In addition the Australian government introduced a Deposit Guarantee Scheme to protect bank deposits and new measures to guarantee wholesale funding and the supply of credit to commercial banks.

Due to the effectiveness of the policy mix adopted by the government during the global financial crisis (GFC), as well as other contributing factors, including the strength of the Chinese economy and the strong demand for Australian resources, the domestic economy, whilst experiencing a downturn, escaped a recession. As a consequence, economic conditions in 2009 were stronger than expected, and these conditions have continued through to the early part of 2010.

Consequently, the March quarter 2010 Consumer Price Index (CPI) registered a 0.9% increase. This added to the annual rate of inflation of 2.9%. With the inflation rate close to the upper limit of the Reserve Bank's target band of 2%–3%, the Reserve Bank adopted a contractionary stance and lifted the cash rate by 25 basis points to 4.25%. The cash rate was further increased in May 2010 by another 25 basis points to 4.50%. The Reserve Bank Board now believes that the cash rate is "consistent with interest rates to borrowers being close to the average experience over the past decade or more." Inflation for the rest of 2010 is expected to be consistent with the Reserve Bank's target of 2%–3% average CPI inflation over the economic cycle.

The more favourable economic conditions in 2009 and the expansionary stances of monetary and fiscal policy have supported the growth in employment in the Australian economy throughout 2009 and into the early part of 2010. However, since January, employment growth has been modest. While unemployment has fallen to 5.2%, there is still some concern about underemployment figures (those in the workforce who would like to work more hours, including those who would like to switch from part-time to full-time employment).

*Question 26 continues on the next page*

*Question 26 continued*

*(Students may refer to the Phillip's Curve analysis in relation to achieving internal balance).*

Economic growth is a major objective of the Australian government. The Australian economy has recorded positive economic growth since the early part of the 1990s. Between 2003 and 2008 GDP growth averaged around 4% p.a. During this time the setting of monetary policy by the Reserve Bank changed in line with the overall objective of maintaining sustainable economic growth in a low inflationary environment. The contractionary stance adopted by the Reserve Bank meant the cash rate was raised from 4.5% in 2002 to 7.25% by March 2008 in order to dampen domestic demand during the period of a rising terms of trade associated with the global resources boom.

During the recent economic downturn in Australia, the expansionary stance of monetary policy (as well as fiscal policy) have contributed to Australia's economic recovery and GDP growth in 2009–10 is expected to be 2.25% and 3.5% in 2010–11. However current figures indicate that growth across the household, business, farm and trade sectors is variable.

The use of monetary policy by the Reserve Bank to achieve internal balance and economic growth has been the preferred macroeconomic tool up until the global financial crisis began to impact on Australia. This has been because of the overall effectiveness of monetary policy in achieving the short to medium economic objectives of the Australian government.

However there are two limitations in the use of monetary policy for macroeconomic stabilisation:

- Time lags exist in the implementation phase of monetary policy; and
- Problems relate to monetary policy being less effective in promoting aggregate demand during a downturn than in reducing the growth of aggregate demand during a period of excessive growth and inflation.

This is why the federal government in late 2008 implemented a range of fiscal measures to address declining economic activity in the Australian economy caused by the impact of the Global Financial Crisis.

With the worst of the global downturn over, the performance and outlook across some sectors in the Australia economy are positive. With fiscal stimulus being wound back, the role of monetary policy may regain its pre-GFC status as the dominant macroeconomic policy instrument to address internal balance and economic growth.

#### **Section IV**

**Question 27** Outcomes assessed: H1, H2, H3, H4, H6, H7, H8, H9, H10

| Criteria                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Marks   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| <ul style="list-style-type: none"><li>• Sketches in general terms the impact of changes in the global business cycle on Australia's trade and financial flows and balance of payments</li><li>• Demonstrates a clear and concise understanding of the impact of changes in the global business cycle on Australia's trade and financial flows and balance of payments</li><li>• Integrates an extensive range of appropriate economic concepts, relationships and theory</li><li>• Synthesises economic data and other information to develop a sustained, logical and well-structured response</li></ul> | 17 – 20 |
| <ul style="list-style-type: none"><li>• Sketches in general terms the impact of changes in the global business cycle on Australia's trade and financial flows and balance of payments</li><li>• Demonstrates an understanding of the impact of changes in the global business cycle on Australia's trade and financial flows and balance of payments</li><li>• Consistently applies appropriate economic concepts, relationships and theory</li><li>• Uses economic data and other information to develop a logical and well-structured response</li></ul>                                                | 13 – 16 |

*Question 27 continues on the next page*

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <ul style="list-style-type: none"> <li>• Sketches in general terms some impact of changes in the global business cycle on Australia's trade and financial flows and balance of payments</li> <li>• Provides some understanding of the impact of changes in the global business cycle on Australia's trade and financial flows and balance of payments</li> <li>• Applies appropriate economic concepts and relationships</li> <li>• Uses some economic data and other information to develop a coherent response</li> </ul>       | 9 – 12 |
| <ul style="list-style-type: none"> <li>• Sketches in general terms a limited response on the impact of changes in the global business cycle on Australia's trade and financial flows and balance of payments</li> <li>• Provides characteristics and features of the impact of changes in the global business cycle on Australia's trade and financial flows and balance of payments</li> <li>• Uses some appropriate economic terms and concepts</li> <li>• Uses some economic data to develop a generalised response</li> </ul> | 5 – 8  |
| <ul style="list-style-type: none"> <li>• Lists some of the effects of changes in the global business cycle on Australia's trade and financial flows and balance of payments</li> <li>• Sketches in general terms an impact of changes in the global business cycle on Australia's trade and financial flows and balance of payments</li> <li>• Uses some economic terms and concepts</li> <li>• Presents a limited response</li> </ul>                                                                                            | 1 – 4  |

**Essay plan:**

The global business cycle refers to changes in world output or global GDP over time. Like the business cycles of individual economies, the global business cycle tends to move through four distinct phases or stages known as expansion or upswing, peak or boom, followed by downswing or contraction, and finally trough or recession. The main contributors to global economic activity are the USA, the European Union, the economies of Asia (including Japan, the NIEs, China and India) and other small and medium size industrialised and emerging economies.

Changes in the global business cycle are transmitted to individual economies and regional economies through changes in demand and output as well as trade and financial flows. In the period between 2003 and 2008 the global economy grew by an average of 4% in real terms and the world experienced a resources boom characterised by a strong demand for commodities and rising commodity prices.

However in late 2008 and throughout 2009 the global economy experienced a Global Financial Crisis (GFC) and eventual recession, with advanced economies contracting by an average -2.7% and the world economy contracting by -0.6%. This global contraction necessitated the use of expansionary macroeconomic policies by major economies to support demand, output and employment.

In 2010 the global economy is expected to recover and achieve growth of around 4%, although financial restructuring in the USA and the sovereign debt crisis in Europe are detracting from confidence and preventing a swift economic recovery. These problems have led to a second round of financial turbulence and volatility in asset prices including shares, bond yields and business credit.

Changes in the global business cycle can impact on Australia's economic performance in three main ways:

1. Changes in global output will affect the demand for Australia's exports and influence its balance of payments and exchange rate;
2. Changes in global trade flows such as exports and imports of goods and services will affect Australia's balance of payments, exchange rate and rate of domestic economic growth; and
3. Changes in global financial flows can impact on Australia's rate of economic growth, its balance of payments and exchange rate.

Changes in the global business cycle can also influence trends in the conduct of Australian macroeconomic policy. For example, if external real or financial shocks are transmitted to Australia they may require an adjustment of macroeconomic policy settings. The most recent example of this was the expansionary stance of both monetary and fiscal policies adopted by the Australian government during the Global Financial Crisis in 2008–09 to support aggregate demand and employment in the Australian economy. In late 2009 and early 2010 the settings of policy were tightened as recovery commenced and concerns over higher inflation led the Reserve Bank to tighten monetary policy and the government to begin its deficit exit strategy.

*Question 27 continues on the next page*

*Question 27 continued*

Prior to the GFC, Australia enjoyed the stimulus provided to the domestic economy from the global resources boom which commenced in 2003 and ended in late 2008. During this period the demand for raw materials and capital from fast growing economies like China and India accelerated to support their rapid economic expansion. This upturn in commodity demand led to rising commodity prices and higher than average world growth of 5% between 2005 and 2007.

At the same time, growth in the USA was strong and the EU and Japan also sustained average rates of growth. The impact of this positive change in the global business cycle on Australia was very significant:

- The rise in global commodity prices led to a substantial rise in Australia's terms of trade, which is a measure of the relative prices Australia receives for its exports and pays for its imports. The terms of trade peaked at around 120 in early 2008, an increase of 60% from the levels experienced in the early 1990s. This reflected higher prices for iron ore, coal, gold, copper, nickel and other metals. The rise in the terms of trade provided significant stimulus to the Australian economy through rising incomes including wages, rent, interest and profit returns to the factors of production. It also led to an increase in business investment particularly in the mining industry and a reallocation of labour and capital resources to the mining and resources sector.
- In terms of financial flows, the resources boom period was characterised by strong growth in both foreign direct and portfolio investment in Australia as foreign investors sought to buy financial interests in Australian resource and mining companies, and shares and other securities on the ASX whose prices rose as company profits increased.
- The demand for Australian dollars also rose during the resources boom period, reaching a peak of US\$0.98 in May 2008 as foreign investors sought to invest in the Australian dollar as it continued to appreciate because of the rising terms of trade and commodity prices.
- The impact of the resources boom on Australia's balance of payments was record growth in mineral exports and substantial growth in the surplus on financial account because of the large inflow of foreign investment. For example, the value of exports grew from \$169,514m in 2006–07 to \$182,818m in 2007–08 and to \$231,727m in 2008–09. This partly reflected increased export volumes, but mainly an increase in export prices because of higher global commodity prices. Mining exports grew by 40% during the resources boom and accounted for 48.8% of goods and services exports in 2008–09.

The total stock of foreign investment in Australia was \$1,682,071m in 2007–08, consisting mainly of direct investment (\$391,596m) and portfolio investment (\$978,424m). The growth in foreign direct and portfolio investment was pronounced between 2006 and 2008 and led to a much larger surplus in the financial account of the balance payments. Whilst export income also grew in the current account, so too did import expenditure, as domestic growth remained high between 2006 and 2008, leading to a rise in imports and a deficit in the goods balance.

The global business cycle went into the downswing phase in late 2008 as the crisis in the US housing market reduced US growth to 0.4%. The EU was affected through a decline in demand for its exports and the transmission of the financial crisis in the US to the European financial system. In addition, growth slowed in China to around 9% and the world economy recorded only 3% growth in 2008. As the GFC worsened in 2009 the world economy went into recession, contracting by -0.6%, with larger contractions in the US (-2.4%), the EU (-4.1%) and Japan (-5.2%). However Australia's major trading partners only contracted by -0.1% and this helped to support Australia's economic growth and trade and financial flows in 2009.

Australia's close trading links with China and other East Asian newly industrialised countries helped to support export earnings, which grew from \$182,818m in 2007–08 to \$231,728 in 2008–09. At the same time, the slower growth in real GDP of 1.3% in Australia helped to reduce import spending and this together with faster growth in exports resulted in a surplus of \$8,214m in the goods balance in 2008–09. The current account deficit fell significantly in 2008–09 to -\$38,447m (-3.2% of GDP) from -\$72,504m (-6.4% of GDP) in 2007–08 as a result of lower import demand and a lower net income deficit (mainly because of lower world interest rates).

*Question 27 continues on the next page*

*Question 27 continued*

The impact of the GFC on Australia's financial flows included lower inflows of direct foreign investment and widespread selling of the Australian dollar as investor sentiment turned negative and there was a withdrawal of funds from the foreign exchange market. The Australian dollar reached lows of around US\$0.65 in late 2008 but subsequently recovered in 2009 and 2010 to around US\$0.85, resulting in a widening current account deficit to -4.74% of GDP in 2009–10.

The main threats to continuing global economic recovery are the speed and extent to which the global financial system is repaired, and the risk of sovereign debt default in Europe is reduced through governments cutting their budget deficits and levels of public debt. However these structural problems have led to continuing uncertainty and volatility in world financial markets and undermined consumer and business confidence. However Australia is in a strategically sound economic position to gain from its trade and investment links with China and the other fast growing economies in East Asia which were not affected to the same extent as the USA and EU by the GFC. Australia is therefore less exposed (but not immune) to further negative developments in the US and EU economies as 70% of its trade is with the Asia Pacific region and Australia's financial system is well regulated and has proven resilient in the face of external shocks like the GFC.

**Question 28** Outcomes assessed: H1, H3, H4, H7, H8, H10, H11

| Criteria                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Marks   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| <ul style="list-style-type: none"><li>• Sketches in general terms a range of causes of an appreciation of the Australian dollar</li><li>• Demonstrates a clear and concise argument which expresses positive and negative impacts on the Australian economy of a sustained appreciation of the Australian currency</li><li>• Integrates an extensive range of appropriate economic concepts, relationships and theory</li><li>• Synthesises economic data and other information to develop a sustained, logical and well-structured response</li></ul> | 17 – 20 |
| <ul style="list-style-type: none"><li>• Sketches in general terms some of the causes of an appreciation of the Australian dollar</li><li>• Demonstrates an understanding which expresses positive and/or negative impacts on the Australian economy of a sustained appreciation of the Australian currency</li><li>• Consistently applies appropriate economic concepts, relationships and theory</li><li>• Uses economic data and other information to develop a logical and well-structured response</li></ul>                                       | 13 – 16 |
| <ul style="list-style-type: none"><li>• Sketches in general terms some of the causes of an appreciation of the Australian dollar</li><li>• Provides some understanding which expresses positive or negative impacts on the Australian economy of a sustained appreciation of the Australian currency</li><li>• Applies appropriate economic concepts and relationships</li><li>• Uses some economic data and other information to develop a coherent response</li></ul>                                                                                | 9 – 12  |
| <ul style="list-style-type: none"><li>• Sketches in general terms a limited number of causes of an appreciation of the Australian dollar</li><li>• Provides characteristics and features of the impact on the Australian economy of an appreciation of the Australian currency</li><li>• Uses some economic terms and concepts</li><li>• Uses some economic data to develop a generalised response</li></ul>                                                                                                                                           | 5 – 8   |
| <ul style="list-style-type: none"><li>• Lists some of the causes of an appreciation of the Australian dollar</li><li>• Sketches in general terms an impact/s on the Australian economy of an appreciation of the Australian currency</li><li>• Uses some economic terms and concepts</li><li>• Presents a limited response</li></ul>                                                                                                                                                                                                                   | 1 – 4   |

*Question 28 continues on the next page*

**Essay plan:**

An appreciation of the Australian dollar refers to a sustained rise in the value or purchasing power of the currency relative to other major world currencies. The immediate impact of an appreciation of the Australian dollar is to reduce Australia's international competitiveness by making Australian exports more expensive in world markets, and at the same time, imports become cheaper, making domestic competing goods more expensive.

Students should explain the two main causes of an appreciation of the Australia dollar being sourced from an increase in the demand for the currency or a decrease in the supply of the currency. They should also link these changes in demand and supply to transactions in the balance of payments which are impacted upon by both domestic and international factors. Some of the possible causes of an increase in the demand for the Australian dollar in the foreign exchange market are the following:

- Increased sales of Australian exports of both goods and services. The increased foreign demand for exports could be caused by a rise in the rate of global economic growth as economies such as China and India demand more resources from Australia.
- Higher global commodity prices and a rising terms of trade associated with strong global growth will tend to increase the demand for Australian dollars, since Australia is a major commodity exporter to the world market.
- Repatriation of income (such as rent, dividends and profits) from overseas could increase income credits in the balance of payments and lead to an increased demand for Australian dollars in the foreign exchange market.
- Expansion of Australian public and private sector borrowing from overseas could increase the total amount of debt borrowings from the rest of the world. These funds would represent credits in the financial account of the balance of payments and lead to an increase in the demand for Australian dollars.
- Increased Reserve Bank purchases of Australian dollars in the foreign exchange market would lead to an increase in the demand for Australian dollars.
- Increased foreign investment in Australia could increase the demand for Australian dollars.

Better student responses should include a diagram showing an increase in demand for the Australian dollar and provide a detailed explanation of how this could lead to an appreciation of the exchange rate.

Some of the possible causes of a decrease in the supply of Australian dollars in the foreign exchange market are the following:

- Decreased purchases of imports of both goods and services from overseas could shift the supply of Australian dollars to the left in the foreign exchange market and lead to an appreciation of the exchange rate. This could be caused by a lower rate of economic growth in Australia which leads to less import demand.
- A decrease in the repatriation of income from overseas which may reduce income credits in the current account relative to income debits and increase the size of an existing current account deficit.
- Decreased overseas investment by Australians (both direct and portfolio) will reduce capital outflow to the rest of the world and shift the supply of Australian dollars to the left.
- Decreased borrowing from Australia by overseas interests will reduce the amount of capital flowing out of Australia and shift the supply of Australian dollars to the left.
- Decreased Reserve Bank sales of Australian dollars in the foreign exchange market will shift the supply of Australian dollars to the left in the foreign exchange market.

Better student responses should include a diagram showing a decrease in the supply of Australian dollars and provide a detailed explanation of how this could lead to an appreciation of the exchange rate. Students should also mention both domestic and international factors that facilitate the above balance of payments movements such as the relative strength of domestic and world growth, relative interest rates, foreign investment sentiment and Reserve Bank transactions in the foreign exchange market.

*Question 28 continues on the next page*

*Question 28 continued*

The discussion of the impacts on the Australian economy of a sustained appreciation of the Australian currency, could include the following:

- An appreciation of the exchange rate will lead to a loss of Australia's international competitiveness. This occurs because the foreign price of exports of goods and services rises making them more expensive relative to foreign goods and services. In addition, the domestic price of imports will fall and Australian goods and services that compete with imports will be relatively more expensive and therefore less competitive.
- Related to the loss of international competitiveness is that the rate of structural change may increase due to the appreciation, as some export industries contract because of their lack of competitiveness. This could lead to a rise in unemployment in some export industries as resources (including labour and capital) flow out of these industries into more competitive industries e.g. from manufacturing and services to mining.
- An appreciation of the exchange rate will tend to have a dampening effect on domestic inflation since import prices will fall. With imported goods and services making up around 30% of the CPI, an appreciation will help to reduce the domestic rate of inflation.
- In the longer term an appreciation which results in lower import prices will encourage more spending on imported goods and services. An example would be an increase in the number and frequency of Australian tourists travelling overseas because of their enhanced purchasing power. Conversely the high value of the Australian dollar due to an appreciation would discourage overseas tourism to Australia and reduce export income.
- In the longer term an appreciation will lead to lower export income (through the effects on competitiveness) and higher import spending (through the effects on competitiveness). This could lead to a higher current account deficit in the Australian balance of payments.
- A sustained appreciation of the Australian dollar will reduce the foreign currency component of Australia's net foreign debt and help to reduce the debt servicing cost (i.e. interest payments as a percentage of export income) of Australia's net foreign debt.
- An appreciation tends to have a contractionary effect on economic activity and this could lead to more expansionary settings of macroeconomic policy through cuts to official interest rates by the Reserve Bank to encourage growth and put downward pressure on the exchange rate to restore international competitiveness.

Between 2002 and mid-2008 the Australian dollar appreciated by around 30% against major currencies. This was due to strong demand for Australian commodity exports driven by the resources boom. This had the effect of increasing Australia's terms of trade and provided a significant stimulus to the economy through growth in aggregate demand.

The resources boom also encouraged a large surge in direct and portfolio investment in Australia to capture the gains from increased resource prices in Australian mining companies. The Reserve Bank raised interest rates in this period to contain inflation but the high interest rate structure also encouraged the inflow of foreign capital, helping to support the exchange rate. However manufactured and service exports experienced an erosion in their competitiveness due to the high exchange rate in this period.

**NSW INDEPENDENT TRIAL EXAMS – 2010  
ECONOMICS TRIAL HSC EXAMINATION  
MAPPING GRID**

| Question | Outcome(s) assessed | Question  | Outcome(s) assessed                   |
|----------|---------------------|-----------|---------------------------------------|
| 1        | H1, H4, H7          | 21(a)     | H1                                    |
| 2        | H1, H11             | 21(b)(i)  | H1, H8                                |
| 3        | H1, H7              | 21(b)(ii) | H1                                    |
| 4        | H1, H4, H7          | 21(c)     | H1, H7                                |
| 5        | H1, H4, H9, H11     | 21(d)     | H1, H6                                |
| 6        | H1, H7              | 22(a)     | H1, H8                                |
| 7        | H1, H7              | 22(b)     | H1, H8                                |
| 8        | H1, H5              | 22(c)     | H1, H7                                |
| 9        | H1, H11             | 22(d)     | H1, H2, H6, H8                        |
| 10       | H1, H11             | 23(a)     | H1                                    |
| 11       | H1, H7              | 23(b)     | H1                                    |
| 12       | H1, H2              | 23(c)     | H1, H2, H7                            |
| 13       | H1, H6, H9          | 23(d)     | H1, H2, H5, H7                        |
| 14       | H1, H4              | 24(a)     | H1                                    |
| 15       | H1, H7              | 24(b)     | H1, H3, H4, H7, H9, H11               |
| 16       | H1, H7, H11         | 24(c)     | H1, H3, H4, H7                        |
| 17       | H1, H11             | 24(d)     | H1, H2, H3, H4, H5, H7                |
| 18       | H1, H11             | 25        | H1, H2, H5, H6, H8, H10               |
| 19       | H1, H8              | 26        | H1, H5, H6, H8, H10                   |
| 20       | H1, H7              | 27        | H1, H2, H3, H4, H6, H7, H8<br>H9, H10 |
|          |                     | 28        | H1, H3, H4, H7, H8, H10,<br>H11       |

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