



**Knox  
Grammar  
School**

**2020**

Higher  
School  
Certificate  
**Trial Examination**

# Economics

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## **General Instructions**

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

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**Total marks:  
100**

### **Section 1 – 20 marks** (pages 2 – 9)

- Attempt questions 1-20
- Allow about 35 minutes for this section

### **Section II – 40 marks** (pages 10 – 18)

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

### **Section III – 20 marks** (pages 19 – 20)

- Attempt question 25 OR 26
- Allow about 35 minutes for this section

### **Section IV – 20 marks** (page 21)

- Attempt question 27 OR 28
- Allow about 35 minutes for this section

## Section I

**20 marks**

**Attempt Questions 1–20**

**Allow about 35 minutes for this section**

Use the multiple-choice answer sheet for Questions 1–20.

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- 1** John is classified by the ABS as frictionally unemployed.
- Which statement about John best matches this classification?
- (A) John has a severe disability
  - (B) John has given up looking for work
  - (C) John is in-between jobs in the short term
  - (D) John is unemployed as a result of a recession
- 2** A government privatises a public asset to make it more efficient.
- What type of policy has this government utilized?
- (A) Fiscal
  - (B) Labour market
  - (C) Macroeconomic
  - (D) Microeconomic
- 3** Which of the following methods are used by the RBA to determine the rate of underlying inflation?
- (A) Trimmed mean and weighted median
  - (B) Weighted median and aggregated mean
  - (C) Aggregated mean and 50<sup>th</sup> percentile
  - (D) 50<sup>th</sup> percentile and trimmed mean

- 4 Businesses in an economy are able to improve profitability by adopting a strategy that uses the lowest average costs.

To which type of efficiency does this refer?

- (A) Allocative
  - (B) Dynamic
  - (C) Technical
  - (D) Temporal
- 5 A disadvantage of regional multilateral trade agreements is that:
- (A) they incur higher costs.
  - (B) they ignore the most favoured nation principles of the WTO.
  - (C) they divert trade from more efficient producers who are non-members.
  - (D) they provide protectionist measures for members who are able to increase exports.

- 6 The table shows economic information for a hypothetical economy.

Year	Export Price Index	Import Price Index
1	140	125
2	145	?

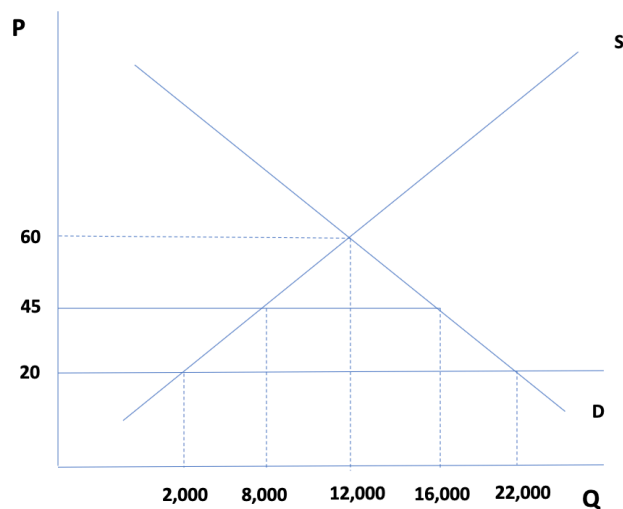
The Terms of Trade for this economy improves by 4 index points.

What is the Import Price Index for Year 2?

- (A) 121
  - (B) 125
  - (C) 129
  - (D) 130
- 7 In general, how has globalisation affected quality of life and rates of inflation throughout the global economy?

	<i>Quality of life</i>	<i>Rates of inflation</i>
(A)	Increased	Increased
(B)	Decreased	Increased
(C)	Increased	Decreased
(D)	Decreased	Decreased

8 The diagram refers to the market for toasters in a hypothetical economy



The world price for toasters is \$20. The government in this economy have decided to abolish the tariff of \$25.

Which of the following statements about the effect on domestic producers and the government is correct?

- (A) Domestic producer revenue falls by \$150,000 and government revenue falls to \$0
- (B) Domestic producer revenue falls by \$150,000 and government revenue falls by \$200,000
- (C) Domestic producer revenue falls by \$320,000 and government revenue falls to \$0
- (D) Domestic producer revenue falls by \$320,000 and government revenue falls by \$120,000

9 In a hypothetical economy with unequal distribution of income, workers are encouraged to improve their education and skills and are willing to sacrifice leisure time for additional income.

How would this effect be classified?

- (A) Social cost of inequality
- (B) Economic cost of inequality
- (C) Social benefit of inequality
- (D) Economic benefit of inequality

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

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

- 11 Which of the following limitations are typically associated with monetary policy?

- (A) Impact lags and implementation lags
- (B) Implementation lags and political constraints
- (C) Political constraints and global influences
- (D) Global influences and impact lags

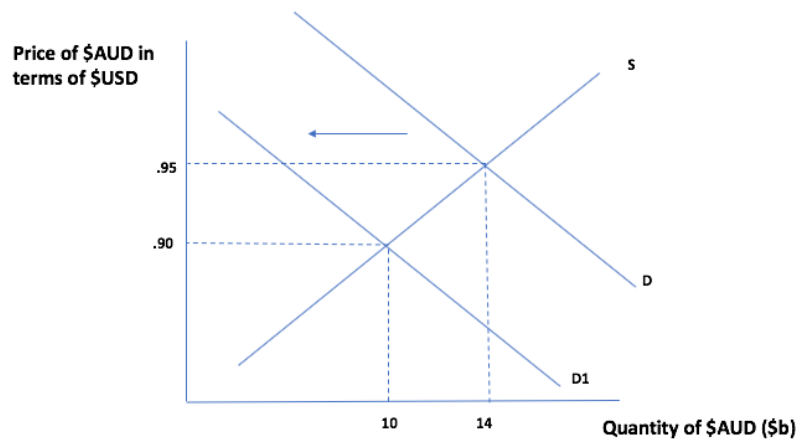
- 12 The table below shows Consumer Price Index data for an economy.

<i>Year</i>	<i>CPI</i>
1	150
2	170
3	190
4	210

What is the change in the rate of inflation between Year 3 and Year 4?

- (A) - 5.26%%
- (B) - 1.23%
- (C) 10.53%
- (D) 20%

13 The diagram below shows the demand and supply for the Australian dollar.



Which of the following actions may have led to the change in the graph above?

- (A) The sale of foreign exchange by the Reserve Bank of Australia
- (B) A decrease in the purchase of Australian farms by foreign companies
- (C) An increase in foreign loans by Australian banks to businesses overseas
- (D) A decrease in the dividend returns from companies listed on the ASX to foreigners

14 The RBA decides to increase their interest rates corridor from 0.25% either side of the target cash rate to 0.4% either side of the target cash rate.

All other things being equal, which of the following statements is true?

- (A) Banks have less incentive to leave money in their Exchange Settlement Accounts
- (B) Banks have more incentive to leave money in their Exchange Settlement Accounts
- (C) Banks have less incentive to move money from their Exchange Settlement Accounts into the cash market.
- (D) There has been no change to the incentive of banks to leave money in their Exchange Settlement Accounts

15 The diagram below shows balance of payments information for an economy.

<i>BOP item</i>	<i>Value (\$bn)</i>
Exports	200
Imports	150
Interest debits	200
Interest credits	100
Dividend debits	50
Dividend credits	150
Capital and Financial Account	200

What is the value of the Secondary Income component of the Balance of Payments?

- (A) \$1,050 bn
  - (B) \$650 bn
  - (C) - \$150 bn
  - (D) - \$250bn
- 16 Which of the following is an example of a micro economic reform policy that is discretionary and expansionary?
- (A) An increase in protection
  - (B) An increase in the tax-free threshold
  - (C) Reduced competition in the public sector
  - (D) An increase in unemployment expenditure due to recession

17 The table below shows information for a hypothetical economy.

	\$ billion
Net Foreign Debt	60
Consumption	150
Trade balance	-50
Net foreign liabilities	100
Government expenditure	450
Investment	200
Savings	70

What is the value of Net Foreign Equity as a % of GDP?

- (A) 4.8%
- (B) 5.3%
- (C) 5.9%
- (D) 21.3%

18 The table below shows selected data for a hypothetical economy

	Year 1	Year 2
Real GDP	\$540b	
Nominal GDP		\$580b
CPI	100	105

What is the rate of growth in Real GDP from Year 1 to Year 2?

- (A) 2.29%
- (B) 5.52%
- (C) 7.22%
- (D) 7.41%

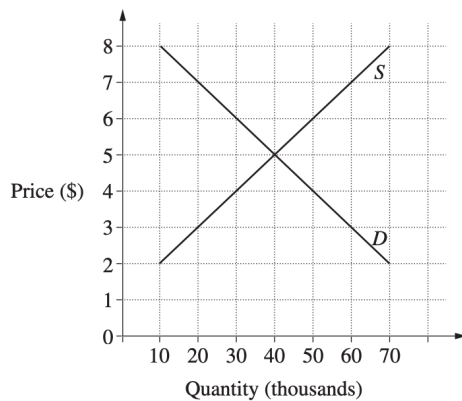
- 19 The table shows data for national income (Y) and investment (I) in \$ billion for a hypothetical economy

<i>Year</i>	<i>Y</i>	<i>I</i>
1	100	0
2	190	60
3	280	120

All other things being equal, what is marginal propensity to consume in this economy?

- (A) 0.33  
 (B) 0.66  
 (C) 0.8  
 (D) 1.5
- 20 Use the diagram below to answer Q20

The diagram shows the domestic demand and domestic supply for a particular good within an economy. The world price is \$3.



The government is looking to impose a subsidy that would have the same effect on imports as a \$2 tariff.

What is the total government expenditure on the subsidy?

- (A) \$0  
 (B) \$120,000  
 (C) \$160,000  
 (D) \$240,000

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Student Number

**Section II**

**40 marks**

**Attempt Questions 21–24**

**Allow about 75 minutes for this section**

**Question 21** (10 marks)

(a) Define Real Gross Domestic Product.

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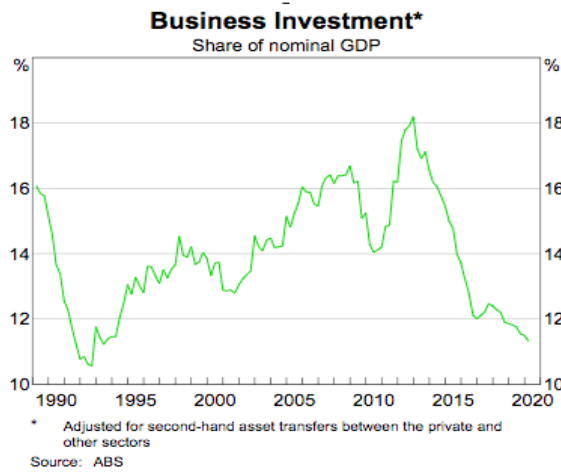
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(b)

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Explain the trends in business investment in Australia since 2002.

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**Question 22** (10 marks)

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Student Number

- (a) Contrast the value of trade and the value of investment between Australia and China. **2**

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- (b) **4**



Explain TWO reasons for the increase in Australian exports since 2016.

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**Question 22 cont...**

(e) Account for recent trends in Australia's Net Foreign Liabilities.

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**End of Question 22**

**Question 23** (10 marks)

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Student Number

- (a) Why are Award agreements considered a safety net in the Australian economy? **2**

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- (b) According to the Centre for Future Work, only 13% of private sector employees are covered by enterprise agreements, half the number six years ago. **4**

Propose possible implications of this for the Australian economy.

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**Question 23 cont...**

- (c) Examine TWO policy approaches used to enhance ecologically sustainable development in the Australian economy. **4**

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**End of Question 23**

**Question 24** (10 marks)

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Student Number

(a) Explain how globalisation has impacted the structure of industry in Australia **4**

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Question 24 continues on the next page.



## Section III

**20 marks**

**Attempt either Question 25 or Question 26**

**Allow about 35 minutes for this section**

Use the question in a writing booklet. Extra writing booklets are available.

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

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

### Question 25 (20 marks)

Analyse the effectiveness of economic policies in reducing unemployment in the Australian economy. In your response, refer to the economic information provided.

*Unemployment Rate Australia: 2008-2020.*



SOURCE: TRADINGECONOMICS.COM | AUSTRALIAN BUREAU OF STATISTICS

Although Australia's youth unemployment rate has fallen in recent years to the current level of 11.8 per cent, the figure still represents a significant underutilisation of this cohort. Additionally, this figure does not take into account the growing rate of underemployment, a trend that also disproportionately affects young people who often work in sectors with the highest rates of workforce casualisation such as service industries.

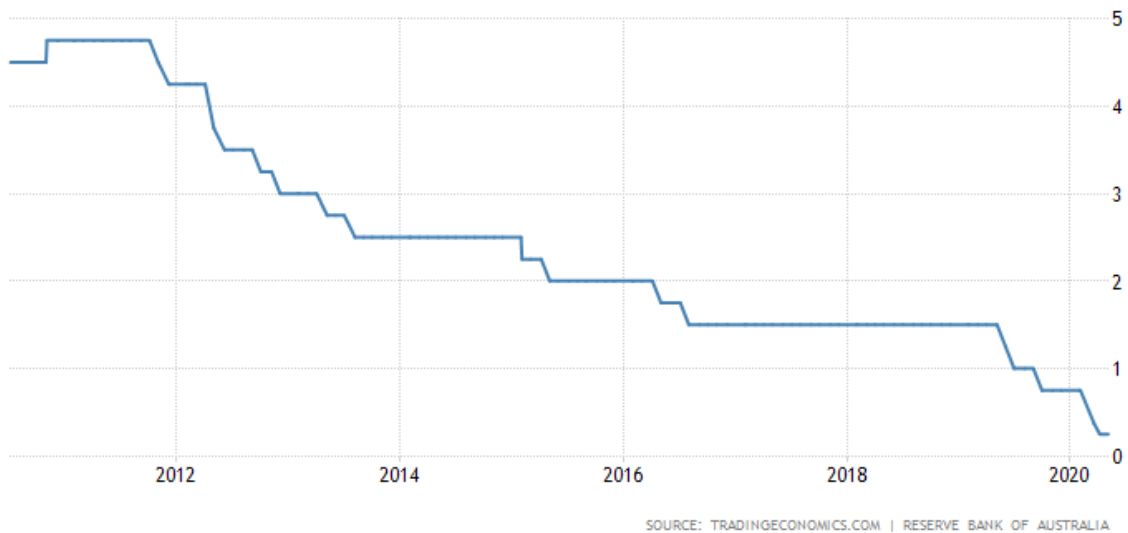
*PWC, March 2018.*

OR

**Question 26 (20 marks)**

To what extent has Monetary Policy been successful in achieving economic objectives since 2011. In your response, refer to the economic information provided.

*Cash Rate Australia: 2010-2020*



With interest rates at record lows, Dr Lowe said the economy would require government support for some time. "It's going to be very important to keep the fiscal support going," he said. "It's very important that we do not withdraw fiscal stimulus too early." The central bank has taken official interest rates to a record low 0.25 per cent, bought more than \$50 billion in state government bonds and extended up to \$90 billion to banks to pass on to small and medium-sized businesses.

SMH, 28/05/2020

## **Section IV**

**20 marks**

**Attempt either Question 27 or Question 28**

**Allow about 35 minutes for this section**

Use the question in a writing booklet. Extra writing booklets are available.

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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 terms, concepts, relationships and theory
  - present a sustained, logical and cohesive response
- 

### **Question 27 (20 marks)**

Analyse the causes and effects on the Australian economy of a depreciation in the value of the Australian dollar.

**OR**

### **Question 28 (20 marks)**

Analyse reasons for trends in the size and composition of Australia's Current Account.

**End of paper**





**KNOX GRAMMAR SCHOOL**

**2020**  
HSC TRIAL  
EXAMINATION

# Economics: marking criteria

## Section I

Multiple Choice (20 marks)

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

## Section II

### Question 21 (10 marks)

#### Question 21 (10 marks)

Q	Suggested Answer & Criteria										
21(a) )	<p><b>Define Real Gross Domestic Product</b></p> <table border="1"> <thead> <tr> <th>Criteria</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>● Comprehensive definition (3 elements)</td> <td>2</td> </tr> <tr> <td>● Provides one or two elements of the definition</td> <td>1</td> </tr> </tbody> </table> <p><b>Suggested answer:</b> The total value of (i) all goods and services produced in an economy, (ii) over a period of time, (iii) adjusted for changes in price levels or the rate of inflation. Must have all 3 for 2 marks.</p> <p><b>Markers Comment:</b> Most students had all three components. Some students are over complicating GDP (being the value of G&amp;S produced)</p> <p>(a) Define Real Gross Domestic Product. <span style="float: right;">2</span></p> <p><i>Real GDP is the total amount of goods &amp; services produced by an economy over a given period of time, taking into account the effects of inflation.</i> <span style="float: right; font-size: 2em;">2</span></p>	Criteria	Marks	● Comprehensive definition (3 elements)	2	● Provides one or two elements of the definition	1				
Criteria	Marks										
● Comprehensive definition (3 elements)	2										
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21(b) )	<p><b>Explain the trends in business investment in Australia since 2002.</b></p> <table border="1"> <thead> <tr> <th>Criteria</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>● Provides detailed cause and effect of TWO trends in business investment in Australia since 2002</td> <td>4</td> </tr> <tr> <td>● Provides detailed cause and effect of ONE trend in business investment in Australia since 2002 AND outlines ONE or more other trends OR outlines THREE or more trends</td> <td>3</td> </tr> <tr> <td>● Provides detailed cause and effect of ONE trend in business investment in Australia since 2002 OR outlines TWO trends</td> <td>2</td> </tr> <tr> <td>● Outlines ONE trend in business investment in Australia since 2002 OR makes a relevant statement</td> <td>1</td> </tr> </tbody> </table> <p><b>Suggested answer:</b></p> <ul style="list-style-type: none"> <li>- Lack of domestic savings in Australia saw increased foreign investment during mining booms due to fund the construction of mines</li> <li>- Fall in non-mining investment post 2012 (less construction) has been substantially greater than the increase in non-mining investment. Non-Mining investment tends to be less capital intensive (e. services)</li> <li>- Compulsory superannuation has progressively narrowed the savings/investment gap as more domestic savings has reduced the need for</li> </ul>	Criteria	Marks	● Provides detailed cause and effect of TWO trends in business investment in Australia since 2002	4	● Provides detailed cause and effect of ONE trend in business investment in Australia since 2002 AND outlines ONE or more other trends OR outlines THREE or more trends	3	● Provides detailed cause and effect of ONE trend in business investment in Australia since 2002 OR outlines TWO trends	2	● Outlines ONE trend in business investment in Australia since 2002 OR makes a relevant statement	1
Criteria	Marks										
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● Provides detailed cause and effect of ONE trend in business investment in Australia since 2002 OR outlines TWO trends	2										
● Outlines ONE trend in business investment in Australia since 2002 OR makes a relevant statement	1										

	<p>foreign investment (as shown by NFE moving into an asset position around 2012/13)</p> <ul style="list-style-type: none"><li>- GFC – saw both less domestic investment and less foreign investment due to lower liquidity levels and business and consumer sentiment</li><li>- Most recent falls (2020) a result of depressed economic conditions globally due the impact of the CV pandemic. hence little opportunity and lower sentiment as well</li></ul> <p><b>Markers Comments:</b></p> <ul style="list-style-type: none"><li>- Generally satisfactory. Students lost marks for not having at least two clear trends containing both a cause and an effect. Some students were making up stats – use the stats in the stimulus!! Also, make it clear when you are starting to explain a different trend. Some students just ‘rambled’ and gave a potted history of investment without enough explanation.</li></ul>
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Explain the trends in business investment in Australia since 2002.

A significant increase in business investment from 2002 to 2013 is largely caused by the resource boom to which saw heavy investment into the mining industry to improve productivity and fund capital deepening in order to fulfill the industrial demand from China. This increase in investment resulted in Business investment rise to 18% of GDP in 2013. Moreover, the reduction of business investment from 2013 to 2018 can largely be attributed to the transition away from labour intensive industries and into services. Service industries generally have released capital and as a result this has been significant decreases within business<sup>2</sup> investment to 12% in 2015.

U. Good

21(c)  
)

*Explain how the automatic stabilisers are likely to have impacted the level of economic activity in Australia since March 2020.*

Criteria	Marks
● Provides detailed cause and effect of BOTH discretionary elements – taxation and expenditure – using both theory and contemporary	4
● Provides detailed cause and effect of BOTH discretionary elements – taxation and expenditure – but does not use both theory and contemporary.	3
● Provides detailed cause and effect of ONE discretionary element using both theory and contemporary	2
● Makes a relevant statement with regard to automatic stabilisers	1

**Suggested answer:**

- Economic consequences of the CV pandemic has seen a sharp fall in economic activity. The automatic stabilisers act in a counter-cyclical manner to increase AD or to dampen the fall in AD. This is done by both increasing expenditure and decreasing tax.
- Welfare payments rise (Jobseeker (Newstart + Supplement), Jobkeeper), Ue rate of 7.5% in July 2020 hence increase activity (AD)
- Taxation receipts fall (personal income, company, GST) hence less leakages also stimulating AD

**Markers Comments**

- The words ‘in Australia’ mean that you must have some contemporary. A lot of students just gave a theoretical response which could apply to any economy at any time.
- A number of students simply described what the automatic stabilisers are without linking them to economic growth – that is they act in a counter cyclical manner. Using the words ‘leakages and injections’ helps.
- Avoid absolute statements such as ‘progressive tax will cause economic activity to fall’. Be more nuanced eg. progressive tax will ‘moderate’ or ‘regulate’ or ‘dampen’ – try and get the idea across that economic activity will be as high (or low) as it otherwise would be.
- Some students seem to answer the question ‘how do the automatic stabilisers redistribute income or reduce inequality’ – keep the emphasis on economic activity

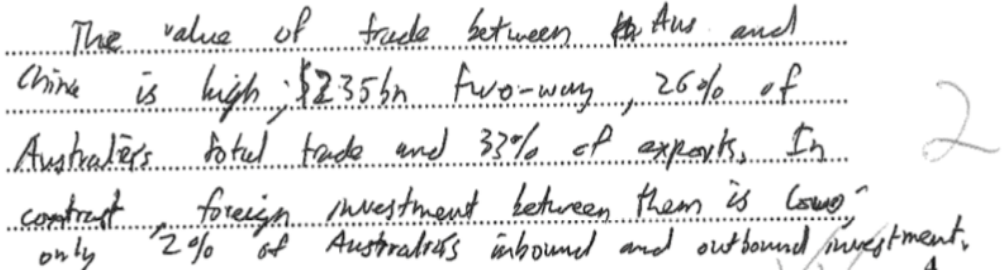
(c) Explain how automatic stabilisers impact the level of economic activity in Australia.

4

The automatic stabilisers refer to ~~the~~ Fiscal Policies Non-discretionary spending through taxation receipts and unemployment benefits expenditure. These two features are counter cyclical in nature. When the economy is expanding, there is increased demand for goods and services, which cause businesses to require more factors of production, particularly labour, which causes unemployment to decrease and employment to increase. This results in incomes increasing for consumers, and profits increasing from businesses. This results in more tax for the government through mainly income tax, <sup>corporate profit</sup> tax and GST (consumption tax) and less expenditure for the government through unemployment benefits as less people are unemployed. Thus, as taxation is a leakage and government expenditure a injection, the automatic stabilisers cause leakages > injections, <sup>(not so sure)</sup> thus ~~not~~ causing the economy to ~~expand~~ expansion to be less great. The opposite happens when the economy contracts, which can be seen currently where employment benefits of job keepers (not the actual people but number of people on it) has resulted in \$70 billion being injected into the economy.

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**Question 22 (10 marks)**

Q	Suggested Answer & Criteria											
22(a) )	<p data-bbox="288 300 1394 356"><b>Contrast the value of trade and the value of investment between Australia and China.</b></p> <table border="1" data-bbox="288 362 1394 495"> <thead> <tr> <th data-bbox="288 362 1230 418">Criteria</th> <th data-bbox="1230 362 1394 418">Marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="288 418 1230 456">● Provides a clear contrast using at least one example or evidence</td> <td data-bbox="1230 418 1394 456">2</td> </tr> <tr> <td data-bbox="288 456 1230 495">● Provides a contrast without using an example or evidence</td> <td data-bbox="1230 456 1394 495">1</td> </tr> </tbody> </table> <p data-bbox="288 533 1394 566"><b>Suggested answer:</b></p> <ul data-bbox="341 566 1394 748" style="list-style-type: none"> <li>- The value of two way trade is very significant (exports approx. 33%; imports approx. 19%; two-way trade) and China is Australia’s largest trading partner. In contrast, the level of investment is a lot less significant with China accounting for less than 2% of total inbound investment.</li> <li>- Must be able to use an example for 2 marks.</li> </ul> <p data-bbox="288 786 1394 819"><b>Markers comments:</b></p> <ul data-bbox="341 819 1394 965" style="list-style-type: none"> <li>- A number of students missed the word ‘between’ and just noted that Australia has less trade and investment than China. This is not surprising given the relative size of each country. One mark was awarded if this comparison was done well given accurate statistics.</li> </ul> <p data-bbox="320 1003 1394 1077">(a) Contrast the value of trade and the value of investment between Australia and China. <span style="float: right;">2</span></p> <p data-bbox="384 1084 1394 1361">  </p>		Criteria	Marks	● Provides a clear contrast using at least one example or evidence	2	● Provides a contrast without using an example or evidence	1				
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22(b) )	<p data-bbox="288 1391 1394 1424"><b>Explain TWO reasons for the increase in Australian exports since 2016.</b></p> <table border="1" data-bbox="288 1485 1394 1805"> <thead> <tr> <th data-bbox="288 1485 1230 1541">Criteria</th> <th data-bbox="1230 1485 1394 1541">Marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="288 1541 1230 1615">● Provides detailed cause and effect of TWO reasons for the increase in Australian exports since 2016</td> <td data-bbox="1230 1541 1394 1615">4</td> </tr> <tr> <td data-bbox="288 1615 1230 1688">● Provides detailed cause and effect of ONE reason for the increase in Australian exports since 2016 AND outlines ONE other reason</td> <td data-bbox="1230 1615 1394 1688">3</td> </tr> <tr> <td data-bbox="288 1688 1230 1762">● Provides detailed cause and effect of ONE for the increase in Australian exports since 2016 OR outlines TWO reasons</td> <td data-bbox="1230 1688 1394 1762">2</td> </tr> <tr> <td data-bbox="288 1762 1230 1805">● Makes a relevant statement with regard to Australian exports</td> <td data-bbox="1230 1762 1394 1805">1</td> </tr> </tbody> </table> <p data-bbox="288 1872 1394 1906"><b>Suggested:</b></p> <ul data-bbox="341 1906 1394 2011" style="list-style-type: none"> <li>- AUD has remained low at around US 70c – thus making exports more internationally competitive.</li> <li>- Strong increases in services sector – particularly the visitor economy which</li> </ul>		Criteria	Marks	● Provides detailed cause and effect of TWO reasons for the increase in Australian exports since 2016	4	● Provides detailed cause and effect of ONE reason for the increase in Australian exports since 2016 AND outlines ONE other reason	3	● Provides detailed cause and effect of ONE for the increase in Australian exports since 2016 OR outlines TWO reasons	2	● Makes a relevant statement with regard to Australian exports	1
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● Makes a relevant statement with regard to Australian exports	1											

includes tourism and tertiary education

- On the back of higher commodity prices (especially iron ore). Terms of trade has increased from 70 to 100.
- Bilateral agreements including CHAFTA and JAFTA- less agriculture protection and provisions for encouraging more services.
- Growing middle classes in China and India wanting more goods and services including food and education from Australia

### Markers Comments

- Must show two very clear 'cause and effect'
- Because the answer asks for 'TWO' – make it easy for the marker – even include the numbers 1 and 2, or include two dot points. At the very least, start a new line and say 'secondly'.
- In any question involving the trade or financial flows, always include VCD in your thought process. It can help generate ideas and help recall economic data.
- A number of students simply name dropped the word 'inelastic demand'. If you are going to do this, always say it in reference to a price increase and not in isolation.

Explain TWO reasons for the increase in Australian exports since 2016.

Since 2016, exports have increased due to the mining production phase taking advantage of high commodity prices and terms of trade<sup>(as)</sup> as well as overseas demand, hence increasing exports sold. Also, the low AUD, ~~supply~~ of around 68%-79% over the period has made exports more internationally competitive as they are cheaper for overseas buyers, increasing demand for them and hence increasing exports.

(c)

Account for trends in Australia's Net Foreign Liabilities since 2010.

Criteria

Marks

<ul style="list-style-type: none"> <li>● Accounts for TWO or more trends in NFL since 2010 (clearly showing the impact of that trend on the value of NFL)</li> </ul>	4
<ul style="list-style-type: none"> <li>● Accounts for TWO or more trends in NFL since 2010 (without clearly showing the impact of that trend on the value of NFL)</li> </ul>	3
<ul style="list-style-type: none"> <li>● Accounts for ONE trends in NFL since 2010 (clearly showing the impact of that trend on the value of NFL)</li> </ul>	2
<ul style="list-style-type: none"> <li>● Makes a relevant statement with regard to Australia's NFL</li> </ul>	1

**Suggested:**

- NFL had remained at around 50%-55% of GDP, but this has reduced significantly over the past year or so as NFE (asset) has reached 15% of GDP making NFL only 45% of GDP in March 2020.
- NFE has moved into a significant net asset position – one reason being compulsory superannuation and investments made overseas to spread risk
- Debt has become more preferred than equity as firms and investors take advantage of globally low interest rates.
- Increased government borrowing via bond issuance to fund high budget deficits
- Move from short term to long term debt as lenders and financial markets have become more prudent since the GFC
- Revaluation effect – the depreciation of the AUD is actually improving our NFL position because the increase in the value of outbound investment/equity is larger than the increase in inbound loans/debt because these loans are largely hedged or in AUD.

**Markers Comments:**

- Better responses included 'accurate' statistics.
- Some students did not distinguish between NFD and NFE
- Better responses started with an overall statement of the NFL trends in recent times before going into the components (NFD and NFE)
- Many students just described something (eg. more super invested overseas without explicitly saying how it actually impacts NFL. You need to state the obvious.

Question 22 cont...

- (e) Account for recent trends in Australia's Net Foreign Liabilities.

There are a variety. The Net Foreign Liabilities (NFL) is comprised of two major components, being Net Foreign Equity (NFE) and Net Foreign Debt (NFD).

Net Foreign Debt has stayed at roughly 55-60% of GDP since the deregulation of the financial sector, due to our saving investment gap. However, following GFC, short term debt has diminished and it is mostly comprised of all long term debt, as lenders have become more prudent. NFE, for the same reason has however, has recently shifted into an asset position due to compulsory superannuations being required to diversify outside of Australia, as and because there has not been replacement for the significant mining investment during the MIB's. As such, NFE is resting at a historically 45% of GDP.

**Question 23 (10 marks)**

Q	Suggested Answer & Criteria
23(a)	<p><b>Why are Award agreements considered a safety net for employees in the Australian labour market? (on enterprise agreements)</b></p> <p><b>Suggested:</b> Award agreements are industry wide agreements that form the minimum standards for employment in an industry. When employees sign an enterprise agreement, it is compared with the Award (the BOOT is applied) for the industry and employees can be no worse off than if they were working under the Award. Therefore, because the Award serves as the minimum standards and is used to reference enterprise agreements, it serves as a safety net; employees cannot work for conditions that fall below the Award.</p> <p><b>Criteria:</b> 2 marks: Clearly explains why the Award serves as a safety net in the Australian labour market 1 mark: Sketches in general terms Award agreements or the safety net</p> <p><b>Marker Comments</b> <b>For 2 marks:</b></p> <ul style="list-style-type: none"> <li>- Define awards as minimum standards for an industry (not just in general) (1 mark) +</li> <li>- Either – reference enterprise agreements and compare with the BOOT (hence a safety net in comparison) OR</li> <li>- Explain that they can save workers from exploitation by employers (hence a safety net) OR that the idea of a safety net means no worker in an industry can be paid or have conditions below the award agreement</li> </ul> <p>(a) Why are Award agreements considered a safety net in the Australian economy? <span style="float: right;">2</span></p> <p>Award agreements are a safety net as they form part of the centralised framework that proposes a set of working standards and pay conditions that are applicable to an entire industry. As such, they serve as a safety net where employees working conditions cannot be worse than the award agreement and any enterprise agreement must pass the BOOT 'better off overall test', must be better the same or better in every aspect. ✓</p>

23(b)  
)

*According to the Centre for Future Work, only 13% of private sector employees are covered by enterprise agreements, half the number six years ago.*

*Propose possible implications of this for the Australian economy.*

**Suggested:**

- inefficiency (equity vs efficiency) – more employees now on Award agreements that are centrally negotiated and lack flexibility hence potentially less efficient. Wage outcomes less linked to productivity.
- potentially lower wages in the economy as Awards are the safety net and minimum standard for industry whereas EA's usually see employees better off
- inflationary impacts could ensure as minimum wage decisions tend to flow directly through to Awards
- unemployment if individual wage increases rise with min wage increases and serve as a disincentive to employ
- potentially increased union membership as more workers tied directly to Awards.

**Criteria:**

4 marks: Demonstrates a clear and comprehensive understanding of possible economic implications of fewer employees on EA's.

3 marks: Demonstrates an understanding of possible economic implications of fewer employees on EA's

2 marks: Sketches in general terms possible economic implications of fewer employees on EA's

1 mark: Makes a relevant statement about awards or EA's.

**Markers comments:**

This question is derived from the dis/advantages of centralized and decentralized wage determination methods.

- In this question, it was important to recognize that most employees who have been moved off EA's have been moved to Award agreements (service sector employees) NOT to individual contracts.
- Students who gave a correct impact and then followed with an economic outcome from that implication typically got 3 marks – they didn't give two direct implications!
- Students who focused just on individual contracts could get 2 marks if they made relevant analysis linked to CLCs.
- The idea of inequality is difficult. If more people go back to Awards, there is a bigger gap to those on CLCs hence it increases. However, a lesser argument is that there may be more equality as more people are on similar awards...this got 1 mark from 2 if it was one of your arguments.
- The following responses are incorrect and will not be considered further;
  - Casualisation
  - Less bargaining power (there is more when represented by a union linked to an award)
  - Deflationary pressures (be careful with the word deflation)
  - Increased industrial disputes – not necessarily
  - Increase in the gigi industry ??

Note: if you made a relevant statement about awards or EAs you got 1 mark.

Propose possible implications of this for the Australian economy.

A decline in enterprise agreements could possibly lead to greater income inequality as fewer individuals are on EA's with more individuals on Awards. As such a greater number of Australians are on the industry minimums, with fewer at the top earning a greater, bargained upon salary. As such, income inequality may further. In addition, with less EA's, less employment contracts ~~are connected~~ have wages and productivity decline. As a result, there is a lack of motivating force, productivity may decline, further exacerbating our pre-existing low productivity of <sup>-1-</sup> -0.2%.

23(c)  
)

**Examine TWO separate policy approaches used to enhance ecologically sustainable development in the Australian economy.**

**Suggested:**

- Regulations (eg: light bulb act, quality fuels act, EPB Act)
- Market-based policies (eg: carbon tax, solar subsidy scheme)
- Targets (eg: renewable energy target, emissions reduction fund)
- International agreements (eg: Montreal protocol, Paris Climate change agreement)

**Criteria:**

4 marks: Demonstrates a clear and comprehensive understanding of separate policy approaches used to enhance ecologically sustainable development in the Australian economy

3 marks: Demonstrates an understanding of separate policy approaches used to enhance ecologically sustainable development in the Australian economy

2 marks: Sketches in general terms policy approaches used to enhance ecologically sustainable development in the Australian economy

1 mark: Makes a relevant statement about environmental policy or environmental sustainability.

**Markers comments:**

- Many students failed to examine two SEPARATE policy approaches such as regulations and market-based policies, instead choosing to examine for example, a tax and a subsidy. If the student named the approach & did a good job on each they got 3 marks. If the approach was not named – 2 marks.
- Naming the approach matters – you must identify the approach and then give relevant examples (& name them ie: market based policy – Carbon tax)
- Linking to ESD is important – demonstrating an understanding of this concept is important in your answers.

\* Ecologically sustainable development refers to a level of economic growth which is compatible with the long term preservation of the environment.  
Question 23 cont...

- (c) Examine TWO separate policy approaches used to enhance ecologically sustainable development in the Australian economy.

4  
4  
\* ① Market Based Policies: MBPs are used to meet specific targets such as the renewable energy target (RET) and Emissions Reduction Target (ERT) which has been implemented by the Australian government to achieve ecologically sustainable development. As such, in order to achieve the RET, subsidies were provided to Australian small scale solar (households) which led to a 44% increase in solar panel overall production and "wildly exceeded expectations" per PM Scott Morrison. As such, this encourages ecologically sustainable development as the MBP is aimed at reducing Australia's carbon footprint.

② Regulations & Legislations: Both can be imposed in order to require a certain amount of something such as the Road Quality Standards Act 2000, banning lead in fuel, to reduce pollution related to driving. As well as prohibiting End of Question 23 Actions, such as the light bulb Act 2002, which banned the use of CFL's in light bulbs and resulted in a 50% decrease in CFL's in 10 years. As such this aims at regulating the behavior of Australians to ensure society is conducive of ecologically sustainable development.



**Question 24** (10 marks)

<b>Q</b>	<b>Suggested Answer &amp; Criteria</b>
24(a)	<p><i><b>Explain how globalisation has impacted the structure of industry in Australia</b></i></p> <p><b>Suggested</b></p> <ul style="list-style-type: none"> <li>- <b>Students need to be able to show an understanding of globalisation and the driver/event (cause) and the impact that this has had on the industry structure in Australia.</b></li> <li>- decreased protection/increased trade flows – collapse of PMV, Manufacturing in aus and movement to services. <b>General increase in mining originally (global commodity boom)</b></li> <li>- Increased free trade FT/CHAFTA - move to services</li> <li>- Increased technology flows - move to services</li> <li>- Increased financial flows, move from manufacturing to mining originally (both mining booms)</li> </ul> <p><b>Criteria:</b>            4 marks: Demonstrates a clear and comprehensive understanding of how globalisation has impacted the structure of industry in Australia            3 marks: Demonstrates an understanding of how globalisation has impacted the structure of industry in Australia            2 marks: Sketches in general terms how globalisation has impacted the structure of industry in Australia            1 mark: Makes a relevant statement about globalisation or structure of industry</p>

	<p>(a) Explain how globalisation has impacted the structure of industry in Australia. 4</p> <p>Globalisation, through increased economic integration due to higher trade flows, financial flows and the international division of labour, has caused <del>the</del> higher allocative efficiency, favouring efficient industries and <del>causing</del> with a comparative advantage and shifting away from inefficient industries. <del>For</del> For example, increased foreign investment in mining (ex from 2001-2017) was motivated by the potential for trade caused mining industries to prosper, exporting more and increasing in employment. Conversely, exposure to international competition due to imports and the international division of labour caused the passenger motor vehicle to cease, in 2017 causing the unemployment of 30,000 workers, <del>who</del> <del>then</del> many of whom then shifted to service industries which have risen 20% in terms of employment in the last four years. Hence, globalisation induced a shift from the passenger motor vehicle industry to efficient ones like mining and services.</p>
24b)	<p><b>With reference to BOTH Australia AND one other economy, compare the influence of globalisation on economic growth.</b></p> <p><b>Suggested:</b> Influences of globalisation include:</p> <ul style="list-style-type: none"> <li>- Trade flows</li> <li>- Financial flows</li> <li>- FDI &amp; TNCs</li> <li>- Labour migration</li> <li>- Tech, transport and communication</li> </ul> <p>Eco growth refers to % changes in real GDP over a period of time whilst development refers to living standards and indicators such as health, education and GNI p/cap.</p> <p><b>Criteria:</b>  <b>6 marks:</b> Demonstrates a clear and comprehensive understanding comparing how an influence/s of globalisation has impacted both Australia AND one other economy's economic growth  <b>5 marks:</b> Demonstrates an understanding comparing how an influence/s of globalisation has impacted both Australia and one other economy's economic growth  <b>4 marks:</b> Demonstrates some understanding of how an influence of globalisation has impacted both Australia and one other economy's economic growth with some attempt at comparison  <b>3 marks:</b> Demonstrates a clear and comprehensive understanding of how an influence of globalisation has impacted Australia OR one other economy's economic growth OR</p>

provides characteristics/feature of globalisation and economic growth in Australia & one other economy

**2 marks:** Sketches in general terms aspects of globalisation and economic growth in Australia & one other economy

**1 mark:** Makes a relevant statement about globalisation and or economic growth in Australia &/or one other economy

(b) With reference to BOTH Australia AND one other economy, compare the influence of globalisation on economic growth.

6

Globalisation refers to the increased economic integration of economies & is characterised by increased flows of trade, finance, international div. of labour, communication technologies, FDI & TNCs. China has been significantly impacted by both increased trade & financial flows, specifically FDI. The ↑ in trade came about as they responded to globalisation & opened the economy in 1979. Since then, ↑ trade volumes have created a rise in export sales (of manufactured goods) to \$2,500b from \$150b in 1990 - a 16x increase. This has positively impacted economic growth in China, which has averaged 9.8% since 1990 & X contribute 18.4% of this. Additionally, financial flows mainly in the form of FDI have seen globalisation impact China. Again, the open door policy & encouragement of FDI in the 80/90s led to a rise in these flows. FDI has ↑ by \$70b in the last decade alone and has been used to establish production facilities, taking advantage of cheap resources. As such, it has led to an ↑ in economic growth, peaking at 14% in 2007 although falling to a more modest 6.8% in the last few years. Like China, Australia has been positively impacted by trade & financial flows, key features of globalisation. Australia has responded to globalisation by joining the WTO in 1995 & engaging in free trade agreements. This has opened up many new markets, specifically in Asia and trade as a % of GDP has ↑ from 16% in 1990 to 22% today. More recently the ↑ in X, especially in commodities has led to a trade surplus, making a 1% contribution to GDP in June 2020. This has, in part, contributed to 28 years of consecutive economic growth since 1990. Likewise, financial flows have increased globally & Australia has taken advantage of these flows to expand domestic productive capacity. Flows of FDI have averaged 4.7% of GDP since 1998, & have enabled the mining boom to occur as well ↑ employment. The contribution to GDP has been significant & during times of high inflows from global sources even grew to reach 5% in 2008 & 4.8% in 2012. Thus, both economies have been recently impacted by globalisation via trade & financial flows, & both have contributed to periods of strong economic growth, albeit at a higher rate in China. Both economies, being open economies have also suffered from contagion effects (2008 GFC & pandemic) & both saw growth drop by over 3% as a result of global financial weakness.

End of Question 24



### Section III

#### Question 25 (20 marks)

Analyse the effectiveness of economic policies in reducing unemployment in the Australian economy. In your response, refer to the economic information provided.

Criteria	Marks
<ul style="list-style-type: none"><li>• Demonstrates a clear and comprehensive understanding of the effectiveness of economic policies in reducing unemployment in the Australian economy.</li><li>• Synthesises own knowledge and understanding with the information provided, to develop a sustained, logical and cohesive response.</li><li>• Integrates relevant economic terms, concepts, relationships and theory</li></ul>	17–20
<ul style="list-style-type: none"><li>• Demonstrates sound understanding of the effectiveness of economic policies in reducing unemployment in the Australian economy.</li><li>• Synthesises own knowledge and understanding with the information provided, to develop a logical and cohesive response.</li><li>• Applies relevant economic terms, concepts, relationships and theory</li></ul>	13–16
<ul style="list-style-type: none"><li>• Demonstrates understanding of the role of economic policies in reducing unemployment in the Australian economy.</li><li>• Uses own knowledge and understanding with the information provided, to develop a cohesive response.</li><li>• Uses relevant economic terms, concepts, relationships and theory</li></ul>	9–12
<ul style="list-style-type: none"><li>• Identifies aspects of economic policies and unemployment in the Australian economy.</li><li>• Develops a generalised response</li><li>• Uses some economic terms and concepts</li></ul>	5–8
<ul style="list-style-type: none"><li>• Lists some aspects of policy and/or unemployment</li><li>• Presents a limited response</li><li>• Uses some economic terms and concepts</li></ul>	1–4

*Answers may include:*

Background:

- Definition of unemployment
- Types of unemployment
- Problem of underemployment/utilization in the economy
- Current trends

Fiscal Policy

- Recent contractionary FP up until Covid period – not working to reduce Ue but focused on return to surplus hence ineffective
- Some spending was useful such as the \$100b infrastructure program, defence spending and submarine building, tax reductions and low income tax offsets – all of this is designed to enhance C or employment directly hence should have a positive effect

- Recent Covid period – very effective in terms of slowing the rise in Ue. Job Keeper – kept employees connected to employers and lowered the rate to 7.4% for July, better than the effective rate thought to be over 10%. Job Seeker increased payments to those unemployed and increased capacity to consume – link to AD and derived demand.
- Significant stimulus \$80b and the effectiveness of this.
- Also associated with implementation time lags and can be affected by global & political influences

#### Monetary Policy

- Aim has been to stimulate C+I through the savings and investment channel and the cash flow channel. This ultimately stimulates AD and as a result of derived demand creates lower levels of unemployment.
- Cash rate has fallen from 4.25% in 2011 to 1.5% in 2016 and then .75% in 2019 and now at .25%. They haven't had the effect they have desired largely due to low wage growth, high household debts as well as the traditional limitations such as impact time lags.
- More recently the RBA have resorted to unconventional MP providing forward guidance and leveraging market liquidity buying approximately \$50bn worth of bonds to maintain low borrowing rates below 1%.
- Whilst this has supported the market and economic growth to an extent, the main tool to combat Ue recently has been FP.
- Also associated with impact time lags and can be affected by global influences

#### Labour Market Policy/Programs

- Decentralised LM policy from the 1990's aimed to promote flexibility for employers and efficiency in the workplace. Was utilized to improve labour productivity linking wages to output. When linked to rising capital investment, it was successful and served as an incentive to increase employment – mining booms especially.
- The flexibility helped avoid higher Ue in the GFC – workers went part time etc.
- The safety nets and min wage may serve as a disincentive to employ although we are seeing more employees drifting back to awards – may be linked to rise in service sectors in the economy?
- Other programs have attempted to reduce Ue as well, such as:  
The Path program – youth unemployment (incentives to employers)  
JobActive – matching frictionally unemployed with jobs  
The Growth Fund – designed to help reskill manufacturing workers

### Terminology relevant to the essay

Monetary policy	Fiscal policy	Microeconomic policy
Aggregate demand	Aggregate supply	Structural Ue
Cyclical Ue	Frictional Ue	Underemployment
Underutilisation	Impact lag	Low wage growth
Household debt	Decentralization	Deregulation
Derived demand	Consumption	Investment
Expansionary	Contractionary	Flexibility
Efficiency	Path program	Youth Ue
Jobactive	Unconventional	Labour productivity
Cash rates	Job Keeper	Job Seeker
Stagnation		

**Question 26 (20 marks)**

**To what extent has Monetary Policy been successful in achieving economic objectives since 2011. In your response, refer to the economic information provided.**

Criteria	Marks
<ul style="list-style-type: none"> <li>• Demonstrates clear and comprehensive understanding of the extent to which Monetary Policy been successful in achieving economic objectives since 2011.</li> <li>• Synthesises own knowledge and understanding with the information provided, to develop a sustained, logical and cohesive response.</li> <li>• Integrates relevant economic terms, concepts, relationships and theory</li> </ul>	17–20
<ul style="list-style-type: none"> <li>• Demonstrates sound understanding of the extent to which Monetary Policy been successful in achieving economic objectives since 2011.</li> <li>• Synthesises own knowledge and understanding with the information provided, to develop a logical and cohesive response.</li> <li>• Applies relevant economic terms, concepts, relationships and theory</li> </ul>	13–16
<ul style="list-style-type: none"> <li>• Demonstrates some understanding of the extent to which Monetary Policy been successful in achieving economic objectives since 2011.</li> <li>• Uses own knowledge and understanding with the information provided, to develop a cohesive response.</li> <li>• Uses relevant economic terms, concepts, relationships and theory</li> </ul>	9–12
<ul style="list-style-type: none"> <li>• Sketches in general terms monetary policy and economic objectives since 2011</li> <li>• Develops a generalised response</li> <li>• Uses some economic terms and concepts</li> </ul>	5–8
<ul style="list-style-type: none"> <li>• Lists some aspects of monetary policy and/or economic objectives</li> <li>• Presents a limited response</li> <li>• Uses some economic terms and concepts</li> </ul>	1–4

***Answers may include:***

The extent to which MP has been effective differs at different points in time in the economy. Often the internal objectives are achieved as result of external factors such as commodity prices and export values. However, the falling cash rate has certainly contributed to improved international competitiveness and has helped price elastic exports such as tourism, education and agriculture. On the other hand, FP has done much of the heavy lifting during Covid and has halted a much higher level of Ue. Additionally, MP effectiveness has diminished as it has fallen lower and ongoing stagnation along with low wage growth, underemployment, household debts and issues of impact time lags continue to reduce its effectiveness.

**Background:**

- Definition of monetary policy
- Interest rate corridors, money supply, DMO, goals of the RBA,

- Econ objectives – eco growth, full employment at NAIRU, inflation in the target band 2-3%. Prosperity of the Australian people.
- Graphs / AD/AS
- Current trends

## MIB II

- Growth largely a result of investment and demand for minerals from China
- MP actually counter cyclical aiming to reduce inflation which reached 3.6% in 2011 and unemployment was close to the NAIRU at 5% for much of this period.
- Hence, managed sustainable growth which was above 3% by the end of 2011 and reached 4.5% in 2012.
- Largely successful in achieving goals in hand with FP and the investment driven by the rising Chinese economy.

## 2013-2016

- Mining investment fell away significantly and the RBA hoped that non-mining investment would reinvigorate the economy.
- In response to this, the RBA reduced the cash rate 11 times to a record low of 1.5% by Aug 2016.
- Aim has been to stimulate C+I through the savings and investment channel and the cash flow channel. This ultimately stimulates AD and as a result of derived demand creates lower levels of unemployment.
- Inflation during this period was between 2-3% reaching 3% in 2014 but was below 2% for 2015 and 2016.
- The RBA's main focus was boosting AD and Ue and hopefully returning inflation within the band.
- This didn't the effect they have desired largely due to low wage growth, high household debts as well as the traditional limitations such as impact time lags. Underemployment (in the vicinity of 8%) was a contributor to the low wage growth and continued to hamper the efforts of the RBA to accelerate growth.
- However, the lower cash rate did help the AUD readjust from a high of US\$1.10 early in 2013 to a low of 69c in 2016. This helped export sectors with elastic products such as the service sector become more internationally competitive and led to an increase in exports of education (increased from \$17b to \$28b during this period Dept of Ed and training) and tourism in particular (could also discuss agriculture here)
- This also helped create a surplus in the BOGS and and a stark improvement in the CAD. Note; indirect effects here!

## 2016-2019

- Cash rate remained at 1.5% to continue to support the economy.
- Growth remained in the 2% range although in 2018 went above 3%. Unemployment didn't shift greatly and was largely in the mid 5% range although fell close to 5% in late 2018.
- The cash rate continued to be limited in its effect due to ongoing limitations around wages and debt.
- The dollar also slipped higher during this period (to .80c) and wasn't as internationally competitive, this was largely due to interest rate differentials reversing between here and the USA where the cash rate had increased to 2.5%.
- The economy largely remained stagnant and FP wasn't helping as the Morrison government eyed off a surplus and budgeted for a \$7b surplus in the 2019/20 financial year. This further reduced the effectiveness of MP during the period.

## 2019-20

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

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

- Strong rise in commodity prices helping (increased ToT) leading to ongoing surplus in BOGS and contributing strongly to eco growth – this supports MP but isn't a result of it.
- Covid 2020.
- RBA recognize that conventional policy may not be effective. They reduce cash rate to .25% and implement forward guidance with the cash rate (no rise unless things improve) – 25 basis point target for yield on 3 year bonds – Term funding facility to banks to maintain liquidity \$90b – modification of I rate corridor to 10 basis points to provide some return for ESA's
- Effective?? Yes to a degree. A lot of certainty provided in unprecedented times, liquidity solid and signs of growth in certain sectors of the economy and states. But, Ue at 7.4% and effectively much higher (this has largely been led by an \$80b Fiscal stimulus)
- Larger forces at play in the economy creating falling growth of .3% for the March quarter and expected to increase further in June with fall of 10% in the first half.
- Largely impossible to arrest these developments as a result of the forced lockdown but both FP and MP working together and have been helped by commodity prices and the ongoing positive effects of the ToT and export prices. Whilst X have fallen by 3%, imports are down 6.2% hence having a positive effect.

### Terminology relevant to the essay

Counter-cyclical	Blunt instrument	Time lags
Impact time lags	Interest rate corridor	DMO
Aggregate demand	Macroeconomic policy	Reserve bank
Real GDP	Underemployment	Underutilization
Transmission mechanism	Savings and investment channel	External stability
Low wage growth	High household debt	Consumer sentiment
Business sentiment	Stagnant	Contractionary
Expansionary	Quantitative easing	Unconventional MP
Consumption	Investment	Secular stagnation

## Section IV

### Question 27 (20 marks)

**Analyse the causes and effects on the Australian economy of a depreciation in the value of the Australian dollar.**

Criteria	Marks
<ul style="list-style-type: none"> <li>• Demonstrates a clear and comprehensive understanding of the causes and effects on the Australian economy of a depreciation in the value of the Australian dollar.</li> <li>• Integrates relevant economic terms, concepts, relationships and theory</li> <li>• Provides a sustained, logical and cohesive response</li> </ul>	17–20
<ul style="list-style-type: none"> <li>• Applies relevant economic terms, concepts, relationships and theory</li> <li>• Provides a logical and cohesive response</li> <li>• Demonstrates a clear and comprehensive understanding of the causes OR effects on the Australian economy of a depreciation in the value of the Australian dollar and sketches the other</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>• Demonstrates a sound understanding of the causes and effects on the Australian economy of a depreciation in the value of the Australian dollar and sketches the other</li> </ul>	13–16
<ul style="list-style-type: none"> <li>• Uses economic terms and concepts and shows some relationships</li> <li>• Develops a coherent response</li> <li>• Sketches the causes and effects on the Australian economy of a depreciation in the value of the Australian dollar.</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>• Demonstrates a sound understanding of the causes or effects of a depreciation and sketches some aspect of the other</li> </ul>	9–12
<ul style="list-style-type: none"> <li>• Uses some economic terms and concepts</li> <li>• Develops a generalised response</li> <li>• Sketches some aspects of causes/effects of a depreciation of the Australian dollar</li> </ul>	5–8
<ul style="list-style-type: none"> <li>• Uses basic economic terms and concepts</li> <li>• Presents a limited response</li> <li>• Lists some aspects of a depreciation of the Australian dollar</li> </ul>	1–4

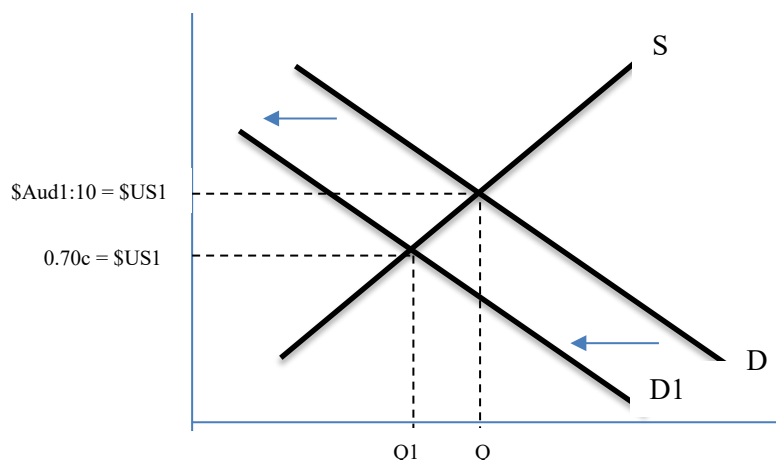
**Answers may include:**

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

**Introduction:** Define exchange rates TWI and Bilateral, floating exchange rate, importance for international competitiveness, A depreciation of the AUD refers to the value of the AUD falling against another currency.

## Background:

### Depreciation of the \$Aud 2011 - 2020



2011 = \$1:10 = \$US1 (highest ever) \* Lowest ever 48c = \$US1 April 2001  
2016 = 60c = \$US1  
2020 - March, 55c = \$US1  
2020 - August, 72c = \$US1

TWI = 45 index 2001 was the lowest and the highest was 85 in 2011.

- Diagram showing a depreciation though an increase in the supply of the \$Aud is also valid, so long as it is explained and justified.

## Causes

- Terms of Trade, Relative interest rates or Interest Differential, Economic growth rate/ Expectations/ Confidence

## Terms of Trade

- This is derived from the Index of Export Prices over the Index of Import Prices. It is calculated as the ratio of export prices to import prices. If this index increases, it implies that Australia is receiving relatively more for its exports; if it decreases then Australia is receiving relatively less.
- Between 2012 - 2016 Demand for exports and imports e.g. Resource and energy exports accounted for almost 60% of Australia's total export earnings last financial year.
- 19/20 at A\$81.5 billion followed by coal at A\$57.2 billion a liquefied natural gas at \$52.1 billion.
- Commodities & associated movements in terms of trade: large demand for iron ore driven by China 2009-2012 was reduced as China's growth reduced with the end of the fiscal stimulus which came after the GFC. Also the supply of Iron ore on world markets increased due to MIB2 and Brazilian mines, in AUS lowered the price of iron ore (from \$180 a tonne to \$40) and our ToT (138 to 89), therefore there was less demand for the \$Aud, contributing to the depreciation 2012 from \$1.10 to \$0.60c).
- However, recently an increased demand from China has seen our ToT rising (88 to 102) contributing to the recent appreciation, Currently= 72C

## Interest rate differential:

- Interest rate relativities between economies:(financial flows)\_RBA started lowering the OCR in 2012 from 4.25% to 1.5% in 2016 A contributing factor to the depreciation from 2012-2016. OCR came down to USA/ UK Euro of 1%
- 2018/19 Pre COVID Aus 0.75%, USA 1.5%, UK 1%  
Now 0.25% higher than USA / Europe, but very little real differential.

### **Relative economic growth rates / Expectations/ Confidence / Speculation**

- Relative economic growth rates between economies: China growth slowing between 2012 and 2016 reducing the demand and price for our exports. This has been reversed in recent years as more fiscal stimulus in China has led to increased demand for steel and hence iron ore, coal and LNG
- Less demand as a 'safe haven' currency. AAA currency when there was the Euro crisis, \$Aud became a safe haven 2012.

## **Effects**

### **Positive Effects**

Importance of depreciation of the \$Aud and services and agricultural products which are price elastic exports as opposed to iron ore, coal and LNG which are price inelastic. Demand for labour is derived and the growth of export markets should result in increased employment in the Australian economy. Industries such as Australian-based education and tourism could benefit.

- *Increases international competitiveness* of exports: more competitive export prices will allow exporting industries to expand, creating employment
- Importance of this in transition phase as we move away from mining and towards services (services exports increased by 21% from 2012-2016) . Increases unemployment in export industries services employment (increased by 4.4%) and should increase growth rate (exports contribute 21% to growth)
- depreciation can attract investment into the country (as assets and inputs are cheaper) allowing for increased job opportunities
- *Current Account Surplus Improvement of BOGS in LT*: in the short term, a depreciation will decrease the amount received for our exports and worsen the CAD. However, in the long term, after increasing our international competitiveness the volume of exports should increase, improving our trade position.
- Slight J CURVE effect notices in the CAD prior to 2016 - Recently BOGs in surplus. CAS 0.9% of GDP.
- Increase in interest servicing costs on foreign denominated debt – increase net outflow on net primary income and increase size of the CAD. Valuation effect. High amount of debt at the moment.
- *International Education*: 2012 – 340,000, 2016 = 447,057, 2020 = 637, 000  
12 – 16 = 31.5%, 12 – 20 = 80% increase, (annual growth rate of 3.8%), supports 250,000 jobs 2019. Worth more than \$40bn to Australian economy
- *Tourism up from 5.8M in 2011 to 9.4 million tourists* in 2019 an 2.4% increase from 2018, when 9.2 million tourists visited Australia from overseas. Employs nearly 1 million people or 8% of total employment as a result tourism now employs almost 1 million people – or 1 in 13 of Australia's workforce. The rapid growth of the tourism sector across all states and territories means it is close to overtaking the manufacturing sector in terms of total jobs created.

- Greater reliance on exports means Australian producers typically face strong competitive pressure, as output prices are largely determined on global markets.
- Export intensity varies across commodities – around 98% for wool and cotton, 71% for wheat, 76% for beef, 41% for dairy and 18% for horticultural products, over the three years to 2016–17.
- Agr = 33% of X go to China 2019/20

### **Negative effects**

- Australian industries relying on imported components face higher prices for the imported goods. This could result in increased costs of production for the domestic industries and a reduction in employment growth across these industries
- Decreased purchasing power of consumers: imports become more expensive, could lead to imported/cost push inflation increasing the cost to consumers in the domestic economy. Especially because we import a lot of high cost consumer durables and business inputs. However, with the emergence in international retail competition and low wage growth we have not seen inflation be significantly impacted from 2012- 2016.
- Increase in interest servicing costs on foreign denominated debt – increase net outflow on net primary income and increase size of the CAD. Valuation effect. High amount of debt at the moment.

### **Conclusion**

The causes and effects of the depreciation of the \$Aud numerous. However, due to the narrow export base of Australian exports, the Terms of Trade, in particular the fall in commodity prices between 2012 – 2016, and the reduction in interest rate differentials between Australia and other major economies had a profound impact on the value of the \$Aud and the subsequent effects on different sectors in the Australian economy. The long-term impact of the Australian and global recession on the value of the \$Aud, has yet to be determined.

**Question 28** (20 marks)

Analyse reasons for trends in the size and composition of Australia's Current Account.

Criteria	Marks
<ul style="list-style-type: none"> <li>• Demonstrates a clear and comprehensive understanding of the reasons for trends in the size and composition of Australia's Current Account.</li> <li>• Integrates relevant economic terms, concepts, relationships and theory</li> <li>• Provides a sustained, logical and cohesive response</li> </ul>	17–20
<ul style="list-style-type: none"> <li>• Demonstrates a clear and comprehensive understanding of the reasons for trends in the size and composition of Australia's Current Account.</li> <li>• Applies relevant economic terms, concepts, relationships and theory</li> <li>• Provides a logical and cohesive response</li> </ul>	13–16
<ul style="list-style-type: none"> <li>• Sketches the reasons for trends in the size and composition of Australia's Current Account.</li> <li>• Uses economic terms, concepts, relationships and theory</li> <li>• Develops a coherent response</li> </ul>	9–12
<ul style="list-style-type: none"> <li>• Sketches some reasons for trends in the size and composition of Australia's Current Account.</li> <li>• Uses some economic terms and concepts</li> <li>• Develops a generalised response</li> </ul>	5–8
<ul style="list-style-type: none"> <li>• Lists trends in size and/or composition of the current account</li> <li>• Uses some economic terms and concepts</li> <li>• Presents a limited response</li> </ul>	1–4

**Answers May Include:**

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

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

**Background:**

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

Trade and Income flows should be considered.

Statistic could include :

Current:

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

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

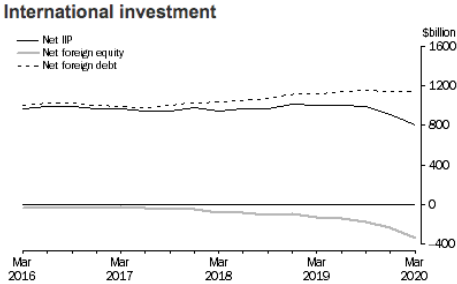
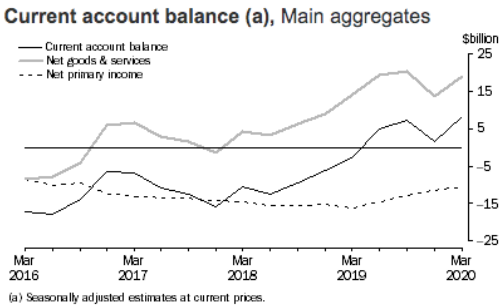
**Trends:**

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

Primary Income deficit rose from 2011 -2016 ( MRBII) then declines through until 2020. However always remains in deficit.

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

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



**Body**

**Reasons for Trends:**

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

**BOGS**

International competitiveness affecting export industries and import competing industries

Factors which impact international competitiveness include:

- the Australian inflation rate compared to other economies
- the rate of wage growth compared to other economies
- changes in productivity in Australian business
- changes in the level of domestic interest rates compared to other economies
- changes in the exchange rate
- changes in Australia's protection policies
- changes in protection policies of other economies

Terms of Trade

Generally speaking, because Australia's exports are dominated by commodity exports in relation to which Australia is a price taker.

If the terms of trade improves this will result in an increase in export revenue, and a deterioration in the terms of trade will result in a decrease in export revenue.

The terms of trade is a key indicator for Australia's export earnings, and generally the value of the Australian dollar will track movements in the terms of trade.

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

## NET PRIMARY INCOME

### Persistent NPI deficit

Australia is a net capital importer (net borrower from the rest of the world) because of the savings investment gap .

With

- a small population and
- low household savings rates
- our domestic saving pool is insufficient for large investment needs (mining, resources, infrastructure)
- resulting in a savings investment gap which is filled by borrowing from overseas sources (i.e. increase NFD and NFL, therefore high NPI)

NPI flows generated by debt and equity investment in and out of Australia:

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

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

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

## CURRENT CAS

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

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

	<b>Trade flows (X, M)</b>	<b>Financial flows (Debt, Equity)</b>
<b>Structural factor</b>	<ul style="list-style-type: none"> <li>• High labour rates in Australia make manufacturing less internationally competitive increasing imports</li> <li>• Abundant natural resources of high quality combined with high labour rates result in narrow export base (few types of goods - increases volatility)</li> <li>• Quality labour force, tourism locations and educational institutions attract visitors and students</li> </ul>	<ul style="list-style-type: none"> <li>• Australia's savings investment gap means we are a net capital importer, leading to high inbound capital flows and high outbound interest and dividend flows</li> <li>• Quality agriculture and mining assets and educated labour force are attractive to foreign investment</li> </ul>
<b>Cyclical factor</b>	<ul style="list-style-type: none"> <li>• China growth rate has very significant impact on commodity prices and export values</li> <li>• Global growth rate impacts export markets</li> <li>• Exchange rate impacts non mining exports and imports (tourism, education, agriculture, manufacturing)</li> <li>• Domestic and global weather events impact agriculture exports and imports</li> <li>• Domestic growth, wage growth and unemployment rates impact imports</li> </ul>	<ul style="list-style-type: none"> <li>• Domestic and global interest rates</li> <li>• Exchange rates, appreciation reduces attractiveness for foreigners purchasing Australian assets</li> <li>• Domestic and global growth rates increase investment opportunities and need for loan funds</li> <li>• Domestic and global inflation rates</li> </ul>