



**Knox
Grammar
School**

2025 HIGHER SCHOOL CERTIFICATE TRIAL EXAMINATION

Economics

General Instructions

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

**Total marks:
100**

Section 1 – 20 marks

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

Section II – 40 marks

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

Section III – 20 marks

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

Section IV – 20 marks

- 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

- 1 Which of the following multilateral trade agreements is Australia a member of?
 - (A) European Union (EU)
 - (B) Association of Southeast Asian Nations (ASEAN)
 - (C) Regional Comprehensive Economic Partnership (RCEP)
 - (D) Japan Australia Economic Partnership Agreement (JAEPA)

- 2 Which of the following is indicated by the Human Development Index (HDI)?
 - (A) Inequality within advanced economies is increasing
 - (B) Economic growth rates are highest in emerging economies
 - (C) Absolute poverty levels are reducing in all types of economies
 - (D) The average life expectancy at birth for OECD countries exceeds 80 years

- 3 A country's Terms of Trade is 100 in Year 1. Over the next year the export price index decreases by 10% and the import price index decreases by 25%.

By what percentage has the country's terms of trade changed between Year 1 and Year 2?
 - (A) -15%
 - (B) -20%
 - (C) 15%
 - (D) 20%

- 4 Which of the following does not reflect a shift towards a more centralised labour market in Australia?
- (A) Victorian government legislates for workers to be allowed to work from home two days a week
 - (B) Management at Woolworths introduces new metrics to determine pay for all workers in their distribution centres
 - (C) Federal government legislates that workers have a ‘right to disconnect’ outside of contracted work hours
 - (D) Employers are required to collect data of all recruitment and promotions broken down by gender
- 5 Australia’s labour productivity has declined since Q1 of 2022. Which of the following has most likely contributed to this trend?
- (A) An increase in household consumption following tax cuts
 - (B) A fall in the unemployment rate to near full employment levels
 - (C) A surge in business investment leading to higher capital deepening
 - (D) A significant increase in employment in government-funded service sectors
- 6 The table below relates to a hypothetical economy.

Marginal propensity to save (MPS)	Average propensity to consume (APC)	National income (Year 1)
0.8	0.50	\$500 million

Government spending is increased by \$60 million.

All else being equal, what will be the new equilibrium level of income in Year 2 because of this?

- (A) \$300 million
- (B) \$575 million
- (C) \$620 million
- (D) \$800 million

7 The table shows population and employment data for a hypothetical economy.

Year	Participation Rate	Employed people (million)	Unemployed people (million)
1	60%	13.65	0.45
2	65%	14.27	0.53

What is the Working age population in Year 1?

- (A) 14.8 million
 - (B) 22.8 million
 - (C) 23.3 million
 - (D) 23.5 million
- 8 Which of the following is a private cost associated with building a toll road?
- (A) Increased travel times on nearby local roads
 - (B) Having to respond to community concerns during construction
 - (C) Reduced biodiversity due to land clearing
 - (D) Higher greenhouse gas emissions from increased traffic
- 9 Following a sharp slowdown in economic growth, the Australian Government announces a one-off \$1,000 ‘cost-of-living’ payment to all low-income households, while at the same time a fall in company profits leads to lower company tax revenue.

Which of the following best describes these two developments?

- (A) Both are examples of discretionary fiscal policy that is counter-cyclical
- (B) The payment is discretionary and counter-cyclical; the tax revenue fall is non-discretionary and counter-cyclical
- (C) The payment is non-discretionary and counter-cyclical; the tax revenue fall is discretionary and counter-cyclical
- (D) The payment is discretionary and pro-cyclical; the tax revenue fall is non-discretionary and counter-cyclical

- 10 Which of the following is an economic impact on an economy where the non-accelerating inflation rate of unemployment (NAIRU) is higher than the unemployment rate?
- (A) The economy is in recession and structural unemployment exists
 - (B) The economy is at full employment and cyclical unemployment exists
 - (C) Economic policies are largely ineffective against international business cycles
 - (D) The economy is operating above full capacity and putting upward pressure on inflation

- 11 The Australian government has decided to finance its budget deficit by issuing government bonds to the Reserve Bank of Australia.

All other things being equal, what is the most likely impact on the Australian economy?

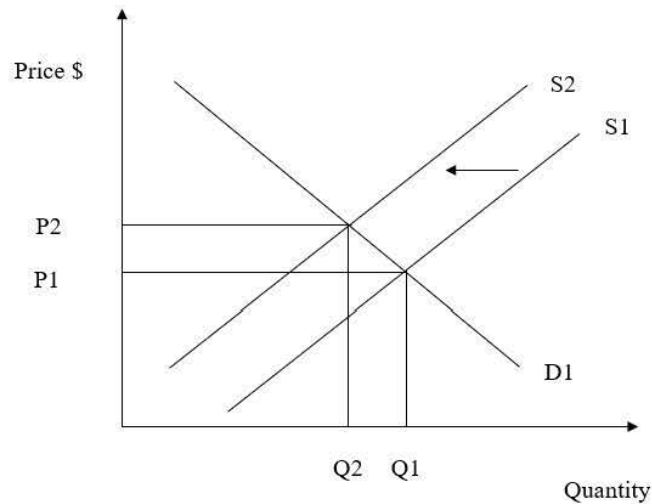
- (A) The rate of inflation will increase
 - (B) Net foreign debt will increase
 - (C) The size of the net foreign debt will decrease
 - (D) The domestic money supply will remain unchanged
- 12 A hypothetical economy introduces laws prohibiting conduct that reduces competition.
- Which of the following best describes the most likely economic impact of this law?
- (A) Aggregate demand shifts to the left, reducing prices and output
 - (B) Aggregate demand shifts to the right, increasing prices and output
 - (C) Aggregate supply shifts to the left, increasing prices and reducing output
 - (D) Aggregate supply shifts to the right, reducing prices and increasing output

- 13 An Australian firm acquires the intellectual property rights from an Italian firm to distribute software in Australia. It borrows funds from a Korean Bank to finance the acquisition.

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

	<i>Acquisition from the Italian firm</i>	<i>Payment of interest on the loan</i>
(A)	Debit in Financial Account	Debit in Net Primary Income
(B)	Credit in Capital Account	Credit in Net Secondary Income
(C)	Debit in Capital Account	Debit in Net Primary Income
(D)	Debit in Balance of Goods and Services	Credit in Financial Account

- 14 The diagram below shows the market for the Australian Dollar (AUD).



All other things being equal, which of the following could have caused the shift from S1 to S2?

- (A) Reduced outbound investments by Australian fund managers
- (B) Increased speculation that the AUD is undervalued
- (C) Increased speculation that the AUD is overvalued
- (D) Increased exports of Australian coal to India

- 15 What combination of changes to the tax-free threshold and award wages would cause an economy's Lorenz Curve to shift to the left?

	<i>Tax-Free Threshold</i>	<i>Award Wages</i>
(A)	Increase	Increase
(B)	Increase	Decrease
(C)	Decrease	Increase
(D)	Decrease	Decrease

- 16 The table below shows data for a country which has a floating exchange rate.

<i>Year</i>	<i>Balance of payments outcome</i>
1	\$4 billion current account surplus
2	\$6 billion capital and financial surplus

Which of the following is most likely to have occurred in this country between Year 1 and Year 2?

- (A) An improvement in the terms of trade and a depreciation of the currency
 (B) An appreciation of the currency and decreased direct investment inflows
 (C) A deterioration in the terms of trade and increased direct investment inflows
 (D) A decrease in economic growth and increased portfolio investment outflows
- 17 Refer to the table below.

Year	AUD/USD	TWI
2023	0.71	62
2024	0.68	65

Which of the following is the most likely explanation for the changes in the AUD/USD and the TWI between 2023 and 2024?

- (A) China unexpectedly devalues the yuan to boost exports to global markets
 (B) The US Federal Reserve cuts interest rates in response to slowing growth
 (C) Global demand for Australia's major commodities declines
 (D) Australian consumers increase spending on imported goods

- 18 The table shows data for the government of a hypothetical economy.

<i>Year</i>	<i>Taxation (\$m)</i>	<i>Government spending (\$m)</i>
Year 1	155	167
Year 2	159	168

What was the government's fiscal stance in Year 2?

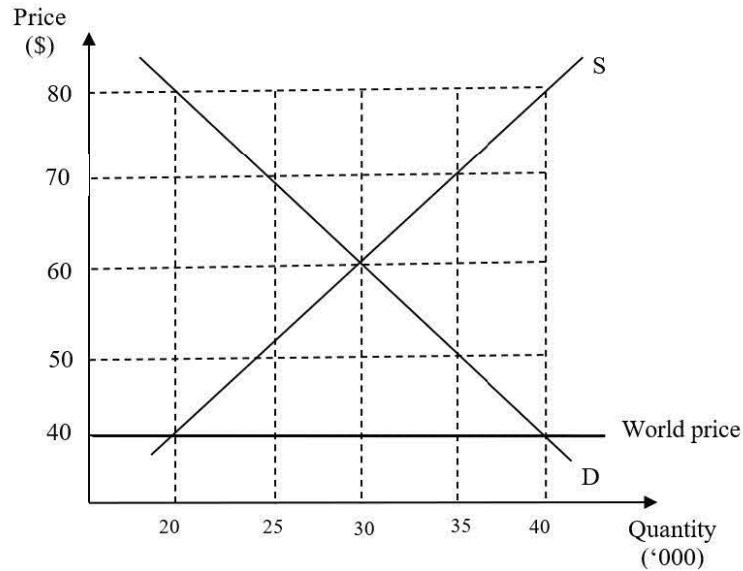
- (A) Deficit
 - (B) Surplus
 - (C) Contractionary
 - (D) Expansionary
- 19 The table shows selected data for a hypothetical economy, Country X.

Loans owed by foreign borrowers to Country X	\$250 billion
Loans owed by Country X to foreign lenders	\$200 billion
Country X assets owned by foreigners	\$300 billion
Net foreign liabilities for Country X	\$100 billion

What is the amount of foreign assets owned by Country X?

- (A) \$50 billion
- (B) \$150 billion
- (C) \$350 billion
- (D) \$450 billion

- 20 The graph shows the demand and supply for cherries in Country X at the world price of \$40.



Country X currently imposes a tariff which allows for 10,000 imports. The government is considering replacing the tariff with a per unit subsidy which will increase local producer revenue by \$350,000.

All else being equal, what will be the impact on the budget outcome?

- (A) No change
- (B) \$1,200,000 worse
- (C) \$1,300,000 worse
- (D) \$1,700,000 worse

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Section II

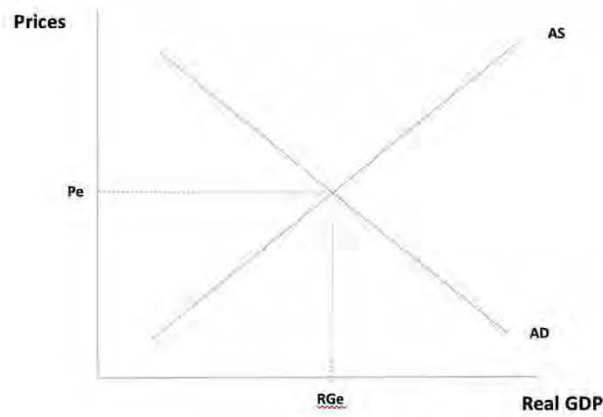
40 marks

Attempt Questions 21–24

Allow about 1 hour and 15 minutes for this section

Question 21 (10 marks)

- (a) On the diagram below, draw the effect of successful microeconomic reform. **1**



- (b) Examine ONE structural change in the Australian economy resulting from microeconomic reform. **3**

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Question 21 continues on next page

Question 21 (continued)

- (c) Analyse how microeconomic policy has affected external stability in the Australian economy.

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Question 22 (10 marks)

- (a) Distinguish between the Terms of Trade and the Trade Weighted Index. **2**

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- (b) The Reserve Bank of Australia (RBA) believes the value of the Australian dollar (AUD) is too high due to excessive speculation. Explain TWO ways the RBA could influence the value of the AUD. **3**

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Question 22 continues on next page

Question 22 (continued)

- (c) Analyse how recent changes in Australia's balance of payments have impacted the value of the Australian dollar. **5**

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End of Question 22

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Question 23 (10 marks)

- (a) Identify TWO distinguishing characteristics of an advanced economy. **2**

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- (b) What is the economic rationale for free trade? **2**

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- (c) Why are subsidies considered to be a form of protection? **2**

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Question 23 continues on next page

Question 23 (continued)

- (d) Assess the impact of international labour migration on different types of economies. 4

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Question 24 (10 marks)

- (a) Identify ONE type of unemployment that exists above the Non-Accelerating Inflation Rate of Unemployment. **1**

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- (b) Describe ONE economic benefit of inequality. **2**

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- (c) Briefly explain how higher unemployment levels can affect wage growth and income inequality. **3**

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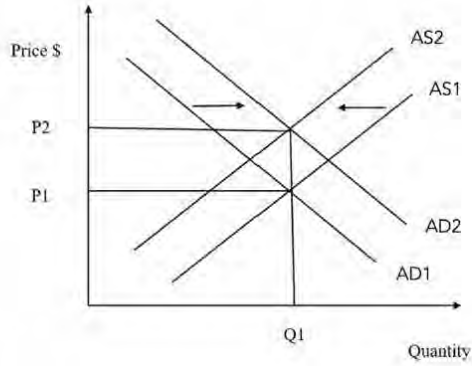
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Question 24 (continued)

- (d) Use the graph below to answer the following question in relation to a hypothetical economy. **4**



Outline TWO factors that may have contributed to the increase in prices shown in the graph.

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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 in the Section III Writing Booklet. Extra writing booklets are available.

Your answer will be assessed on how well you:

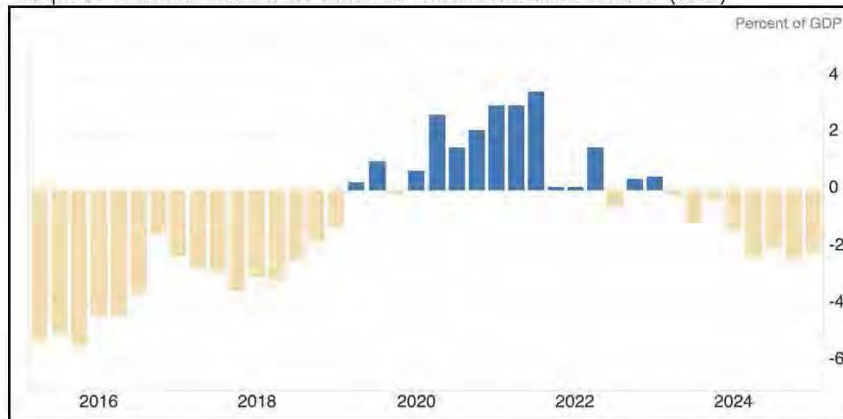
- demonstrate knowledge and understanding relevant to the question
 - use the information provided
 - apply relevant economic terms, concepts, relationships and theory
 - present a sustained, logical and cohesive response
-

Please turn over

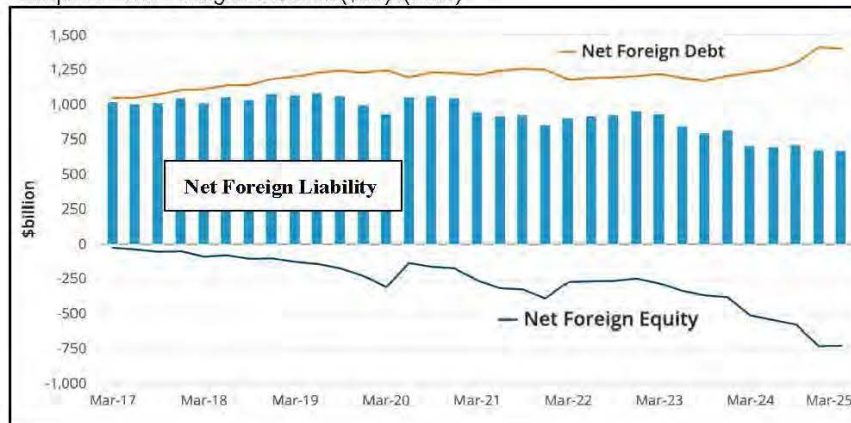
Question 25 (20 marks)

Analyse recent trends in Australia's trade and financial flows. In your answer, refer to the information provided.

Graph 1 – Current Account to Percent of Gross Domestic Product. (ABS)



Graph 2 – Net Foreign Liabilities (\$bn). (ABS)



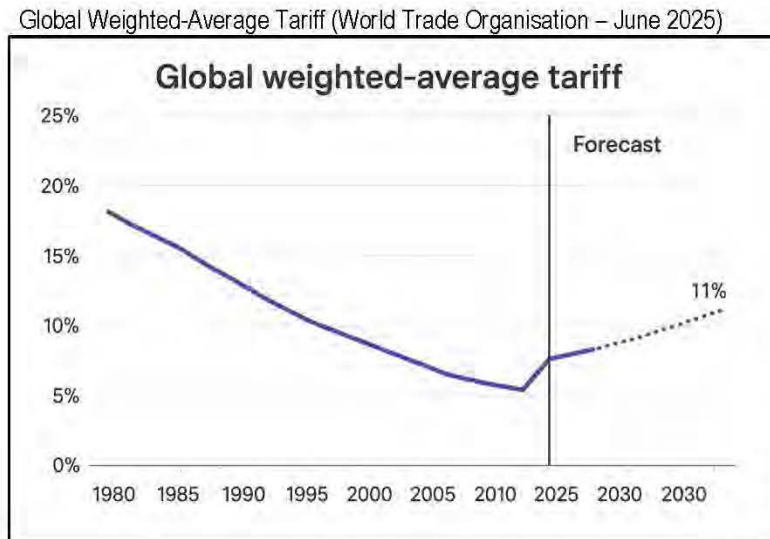
“Latest figures indicate a moderation in the pace of Australia’s export expansion, especially within some major commodity sectors, coinciding with evolving conditions in global markets. Concurrently, there has been a marked rise in Australian investment flows abroad, suggesting a strategic shift towards diversifying international financial interests. These developments present potential risks to domestic economic performance, influencing employment levels and output growth, as well as to Australia’s external position, with possible effects on the balance of payments and currency fluctuations.”

- Economic Review, Australian Treasury, August 2025

OR

Question 26 (20 marks)

Analyse the impacts of global free trade and protection policies on the global economy. In your answer, refer to the information provided.



Increased protectionist measures across the globe threaten to erode the significant gains achieved from decades of progress towards free trade. Agricultural barriers — which disproportionately affect developing nations — appear more entrenched than ever.”

- OECD, *Global Trade Report*, July 2025

End of Section III

Section IV

20 marks

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer the question in the Section IV Writing Booklet. Extra writing booklets are available.

Your answer will be assessed on how well you:

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

Question 27 (20 marks)

Evaluate the effectiveness of the Reserve Bank of Australia's monetary policy in achieving its economic objectives.

OR

Question 28 (20 marks)

Evaluate the effectiveness of Australia's environmental management policies in addressing environmental issues.

End of Paper



KNOX GRAMMAR SCHOOL

2025
HSC TRIAL
EXAMINATION

Economics: marking criteria

Section I

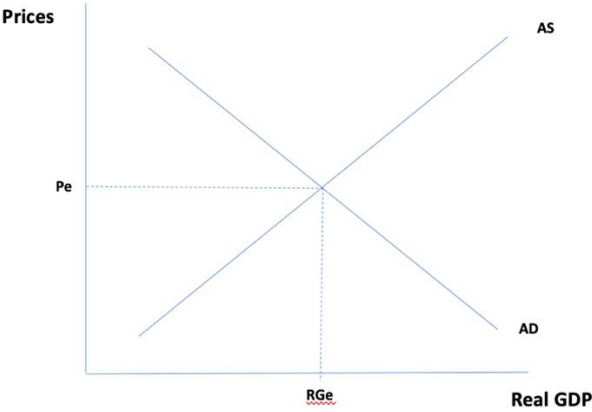
Multiple Choice (20 marks)

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

Section II - Suggested Answers & Criteria

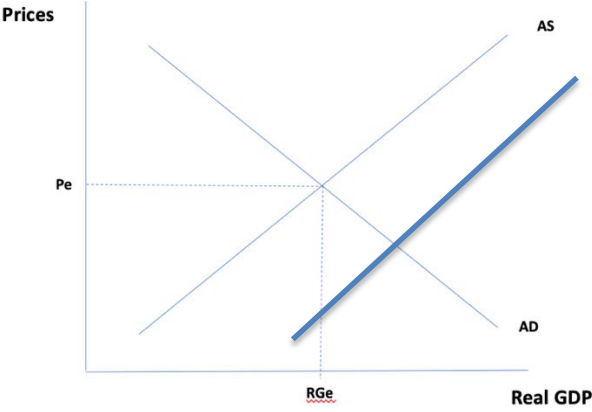
Question 21

21(a) On the diagram below, draw the effect of successful microeconomic reform.



Criteria	Marks
<ul style="list-style-type: none"> • Draws a line to the right of the existing AS curve 	1

Sample answer:



Note: Every student got this correct.

21(b) Examine ONE structural change in the Australian economy resulting from microeconomic reform.

Criteria	Marks
- Clearly identifies a specific structural change resulting from a microeconomic reform and provides a detailed explanation of how the reform caused the change. Demonstrates clear economic understanding and uses relevant terminology.	3
- Identifies a structural change resulting from a microeconomic reform and provides some explanation of the link between the reform and the change. May lack depth or detail in the causal link.	2
- Identifies a reform or structural change but with little or no explanation of the relationship between them. Response may be vague or generalised.	1

Answers could include:

Must identify a microeconomic reform and link that to the resulting structural change.

1. Industry Composition Changes

- Shift from manufacturing towards services (especially finance, education, and health)
- Expansion of export-oriented sectors (e.g., mining, education, tourism)

2. Labour Market Structure

- Increased labour force participation (including women and older workers)
- More flexible employment arrangements (e.g., casualisation, part-time work)
- Greater productivity and skills due to workplace reforms and training incentives

3. Trade Patterns

- Increased trade openness due to tariff reductions and free trade agreements
- Diversification of export markets (shift from Europe/US to Asia)
- Rise in services exports (e.g., education, health, tourism)

4. Competition and Market Structure

- Increased competition in previously protected sectors (e.g., airlines, telecommunications, energy)
- Privatisation of government enterprises (e.g., Qantas, Telstra, Commonwealth Bank) leading to more market-based pricing and innovation

5. Environmental and Energy Mix

- Shift towards renewable energy generation due to market reforms and policy changes
- Closure of older coal-fired power plants as a result of competitive pressures

Suggested Responses:

The reduction of tariffs on manufactured goods since the 1980s has led to a structural shift in Australia's industry composition from manufacturing towards services. Lower tariffs exposed domestic producers to greater international competition, leading many manufacturing firms to downsize or close. Resources, including labour and capital, were reallocated towards more internationally competitive sectors such as mining, education, and tourism. This has increased the share of services in GDP and employment, reflecting a long-term change in the economy's structure.

(3 marks)

The reduction of tariffs on manufactured goods has caused Australia to move away from manufacturing towards services. This is because manufacturing firms faced more competition from imports, so other industries like mining and tourism grew.

(2 marks)

Tariff cuts have changed Australia's economy.

(1 mark)

Markers Comments

Overall, reasonably well done. Responses not receiving full marks was due to one or more of the following:

- not clear enough on what was the relevant microeconomic reform
- Not enough detail on what was the structural change
- Didn't link the two adequately

Exemplar Response

(b) Examine ONE structural change in the Australian economy resulting from microeconomic reform. 3 3

As a result of microeconomic reform to Australia's trade policy, with the removal of tariffs from an average rate of 36% in 1960s to now 1% has resulted in a structural shift away from manufacturing. As a result of inefficient manufacturing industries being replaced, these resources were reallocated to the more efficient mining and services industry where Australia possesses a comparative advantage. Now service sector comprises of 80% of total employment in Australia.

Question 21 continues on next page

21(c) Analyse how microeconomic policy has affected external stability in the Australian economy.

Criteria	Marks
- Provides a detailed analysis linking specific microeconomic policies to their impacts on external stability. Clearly explains the mechanisms by which these policies influence key indicators (e.g., CAD, NFD, terms of trade, exchange rate). Uses relevant examples/data and correct economic terminology. Shows clear cause-and-effect relationships.	6
- Analyses the relationship between microeconomic policy and external stability with mostly clear explanations and examples. Minor lapses in depth or detail. Economic terminology is mostly accurate.	5
- Demonstrates some analysis of the link between microeconomic policy and external stability. Provides examples but with limited depth or explanation of mechanisms. May have some errors or be descriptive in parts.	4
- Describes microeconomic policy and/or external stability but makes only limited connections between them. Mostly descriptive with minimal analysis. Few or no examples.	3
- Identifies aspects of microeconomic policy or external stability with little or no link between them. Lacks analysis and detail.	2
- Makes a vague or general statement about microeconomic policy or external stability with no meaningful link.	1

Answers could include:

Definition of external stability and how it is measured (Current Account, NFL/NFD, International Competitiveness, TOT, AUD). Micro policies should be linked to these measurements.

Micro Policy	Link to External Stability
Trade Liberalisation - Tariff reductions on manufactured imports. Entering FTA's	Increases competition, improves efficiency and resource allocation to industries where Australia has a comparative advantage, lowering production costs. Enhances international competitiveness, boosting export volumes which can narrow the CAD.
Deregulation of the financial sector <ul style="list-style-type: none"> - Foreign Banks - Compulsory Super - Floating AUD 	Attracts foreign capital inflows to unlock productive capacity (eg. mining). Higher CAD in the short term, with increase foreign liabilities; Longer term – higher exports and improved Current Account. Compulsory super – addresses saving and investment gap. Increased outbound investment

	creating a NFE asset and lower NFL as a % of GDP
National Competition Policy	Promotes efficiency and productivity in key industries (e.g., transport, utilities), lowering prices and increasing export competitiveness, which can improve the trade balance and support a sustainable CAD.
Energy market reform / Enviro	Transition to renewable energy. Short term transition costs which increase costs and reduce IC. Reducing and eliminating major source of export revenue – coal and gas – key to recent strong balance of trade and CAS. Medium to long term on external stability may depend on ability to find replacement export revenue streams.
Labour market reform (e.g., enterprise bargaining, wage flexibility)	Improves productivity and cost competitiveness, helping exporters maintain market share, supporting stronger export income and reducing pressure on the CAD.

Suggested Response:

Trade liberalisation, such as tariff reductions on manufactured imports, has increased competition and improved efficiency by reallocating resources to industries where Australia has a comparative advantage, such as mining and agriculture. This has lowered production costs and enhanced international competitiveness, boosting export volumes and reducing reliance on imports. Over time, this has contributed to an improvement in the trade balance, helping to narrow the CAD and support external stability.

Deregulation of the financial sector, including the granting of foreign bank licences, has attracted foreign capital inflows that unlocked productive capacity in key export sectors, such as mining. While this increased the CAD in the short term and raised foreign liabilities, the resulting boost in export capacity has improved the current account balance in the longer term. The introduction of compulsory superannuation has also addressed Australia's savings–investment gap by increasing national savings. In addition, greater outbound investment has created net foreign equity assets, reducing net foreign liabilities as a percentage of GDP, thereby improving Australia's external stability.

(6 marks)

Why is this a 6?

- Specific policies: Trade liberalisation; financial deregulation (foreign bank licences, compulsory super). Avoid vague “reforms.”
- Causal links: Show policy → effect on CAD, NFD/NFE, savings–investment; short- vs long-term impacts.
- Terminology: Use syllabus concepts: comparative advantage, resource allocation, net foreign liabilities/equity, current account balance.
- Balanced coverage: Address trade balance, foreign liabilities, national savings— not just one indicator.
- Structure: Paragraph per policy; cause → mechanism → effect; logical flow.

- Analytical depth: Explain pathways; include positive/negative impacts; short term v long term, go beyond description.

Trade liberalisation has increased competition and improved efficiency, lowering production costs and making Australian exports more competitive. This can increase export volumes and improve the trade balance. Deregulation of the financial sector has attracted foreign capital inflows, boosting investment in export industries. Compulsory superannuation has increased national savings, helping reduce foreign liabilities over time.

(4 marks)

Why is this a 4?

- Identifies policies and gives some link to external stability.
- Lacks detail on mechanisms (e.g., comparative advantage, savings–investment gap).
- Less specific on short-term vs long-term effects and data/examples.

Tariff cuts make exports more competitive and financial deregulation increases investment. Both help the economy trade more and reduce debt.

(2 marks)

Why is this a 2?

- Very general and vague.
- Limited explanation and minimal economic terminology.
- Weak causal links to external stability.

Markers Comments:

Better responses started by defining external stability and providing key ways it is measured. While not wrong to say ‘meet international obligations’, better responses started by referencing the Current Account and NFL/NFD as a % of GDP.

This made it easier and more logical to explicitly link you chosen MER to one of these measures. Most students chose ‘trade policy’ and linked to BOGS, and financial deregulation (including compulsory super) and linked to NFL/NFD/NFE.

There were differences in detail. Make sure you list all ‘stepping stones’. For example, an increase in exports improves the BOGS which reduces the CA deficit which improves external stability.

Choosing ‘floating of AUD’ is OK, but some responses got too long winded and generic. Students choosing ‘labour market reforms’ often fell into trap of saying that this ‘increases productivity and therefore external stability’ without saying how.

Some responses were not ‘recent’ enough and were stuck in the 90’s or MIB. Try and let the examiner know what is happening now regarding external stability. For example, increasing financial inflows in the past, has seen higher exports today.

Exemplar Response:

Question 21 (continued)

- (c) Analyse how microeconomic policy has affected external stability in the Australian economy.

6

Microeconomic policy has had a ^{mixed} ~~mostly positive~~ impact on Australia's external stability. Firstly, microeconomic reform of trade liberalisation began with the Whitlam government's 25% tariff cut in 1974, and most recently some 500 'unnecessary tariffs' removed. This culminated in Australia's current ^{average tariff} ~~tariff~~ rate of 0.8% - directly lowering import prices. Additionally, the signing of 14 bilateral, and 3 multilateral free trade agreements saw increased demand and therefore prices for Australian exports. These factors culminated in the current Balance of Goods and Services surplus, ^{of 5% in 2022} which created a Current Account Surplus from 2019-23, and its current low deficit of -1.9% of

6

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End of Question 21

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c) GDP. As the CA deficit is a key measure of External stability, with Australia's currently being well below the IMF's limit of -4% of GDP as sustainable, this greatly increased external stability. However, financial reform saw 16 foreign banks (up over 40) be given licences to lend in Australia alongside less regulation surrounding borrowing. However, this micro reform resulted in increases in Australia's NET foreign debt to 80% of GDP as firms and households borrow from overseas banks, decreasing external stability as NFD as a % of GDP is another key measure. Thus, microeconomic reform has had a mixed impact on Australia's external stability.

Question 22

22(a) Distinguish between the Terms of Trade and the Trade Weighted Index.

Criteria	Marks
• Correctly defines both TOT and TWI and clearly distinguishes between them.	2
• Provides a correct definition of either TOT or TWI (or gives a general idea of both without distinction).	1

Answers could include:

1. Clear definition of both terms

- Terms of Trade: The ratio of the price of a country's exports to the price of its imports.
- Trade Weighted Index: An index measuring the value of a country's currency against a basket of foreign currencies, weighted according to the importance of each trading partner.

2. Identification of the difference

- TOT focuses on export and import prices, reflecting the purchasing power of exports.
- TWI focuses on exchange rates, reflecting currency strength relative to trading partners.

Suggested Response:

Terms of Trade (TOT) measures the ratio of export prices to import prices, showing the purchasing power of exports. The Trade Weighted Index (TWI) measures the value of the Australian dollar against a basket of foreign currencies weighted by trade, showing currency strength. TOT focuses on prices, while TWI focuses on exchange rates.

(2 marks - clearly defines both terms and distinguishes between them)

Terms of Trade measures export prices relative to import prices, and the Trade Weighted Index measures the value of the Australian dollar against other currencies.

(1 mark - basic definition without a clear distinction)

Markers Comments:

Marks lost because:

- TOT - Not referencing 'prices'
- TWI – too vague. Need some reference to being weighted or compared to currencies of 'trading partners' or 'based on trade flows'. Cant just say 'weighted against other countries'.

Exemplar Response:

Question 22 (10 marks)

(a) Distinguish between the Terms of Trade and the Trade Weighted Index.

2

Terms of trade refers to the price of an economy's exports relative to the price of an economy's imports. Whereas the trade weighted index is a measurement of a country's currency ~~value~~ calculated against a basket of currencies, weighted to the significance to the trade of the economy ~~being measured~~.

- 22(b) The Reserve Bank of Australia (RBA) believes the value of the Australian dollar (AUD) is too high due to excessive speculation. Explain TWO ways the RBA could influence the value of the AUD.

Criteria	Marks
<ul style="list-style-type: none"> Correctly identifies two ways the RBA could influence the AUD and explains how each will lower its value 	3
<ul style="list-style-type: none"> Either identifies two methods without fully explaining how they lower the AUD, or explains one method clearly including how it lowers the AUD. 	2
<ul style="list-style-type: none"> Correctly identifies one method the RBA could use and states it lowers the AUD. 	1

Answers could include:

- Direct intervention: Selling AUD in the foreign exchange market increases supply, which lowers its value.
- Indirect intervention: Lowering interest rates reduces foreign investment inflows, decreasing demand for the AUD and lowering its value.
- Verbal intervention ('Jawboning'): Public statements that the AUD is overvalued can reduce market demand for the AUD, lowering its value.

Suggested Response:

The RBA could use direct intervention by selling Australian dollars in the foreign exchange market, increasing supply and lowering the value of the AUD. It could also use indirect intervention by lowering interest rates, which reduces foreign investment inflows, decreasing demand for the AUD and lowering its value.

(3 marks)

Why is this a 3?

- Identifies **two methods** (direct and indirect)
- Explains **how each lowers the AUD**
- Uses the specified terminology.

The RBA could intervene directly by buying or selling foreign currency in the market, or indirectly by changing interest rates to affect investment flows and the demand and supply of the AUD.

(2 marks)

Why is this a 2?

- Identifies two methods (direct and indirect)
- Does not explain how each lowers the AUD

Markers Comments:

Done well.

We recommend that you respond with:

1. 'direct intervention' (sell AUD/buy FC on FX market – dirty float) and
2. 'indirect intervention' (lower the OCR, less inflows, less demand for AUD).

Surprising number went with 'Buying CGS and increase supply of AUD / QE' and even 'Jawboning'. Both accepted if done properly.

Marks lost because the 'how' was just too vague, or response was just talked about how the RBA can change the AUD generally (and not lower it).

Exemplar Response:

(b) The Reserve Bank of Australia (RBA) believes the value of the Australian dollar (AUD) is too high due to excessive speculation. Explain TWO ways the RBA could influence the value of the AUD. 3

The RBA could 'dirty' the float through intervention in the Foreign exchange market, selling ^{large amounts of} AUD, thus increasing the supply of AUD leading to a depreciation. Furthermore, the RBA could reduce interest rates, resulting in a worsened interest rate differential compared to the rest of the world. This results in returns for international savers in Australian banks becoming less, thus these savers will remove funds from Australian banks, ~~the~~ and supply AUD to the Forex market in order to invest overseas, thus causing a depreciation of the AUD.

22(c) Analyse how recent changes in Australia’s balance of payments have impacted the value of the Australian dollar.

Criteria	Marks
<ul style="list-style-type: none"> Comprehensive analysis: Identifies multiple recent changes in Australia’s balance of payments and explains how each has influenced the AUD, showing clear causal links and using economic terminology. 	5
<ul style="list-style-type: none"> Detailed analysis: Identifies at least two changes and explains how they affect the AUD, but may not fully address all causal links and/or lacks precision and terminology 	4
<ul style="list-style-type: none"> Partial analysis: Identifies two changes and provides some explanation of their impact on the AUD, but explanation is incomplete or lacks clarity 	3
<ul style="list-style-type: none"> Limited explanation: Identifies one change in the balance of payments and attempts to explain its impact on the AUD in very basic terms 	2
<ul style="list-style-type: none"> Basic identification: Mentions a change in the balance of payments or the AUD without explaining the relationship 	1

Answers could include:

Should start with specific events which have an impact on the BOP and then explain the impact on the AUD.

Event	Impact on BOP	Impact on AUD
High commodity prices/TOT/exports	Increases BOGS and current account surplus	Increases demand/buy AUD → AUD appreciates
Increased outbound investment	Higher capital outflows in the financial account	Increases supply/sell AUD → AUD depreciates
Reduced demand from China	Decreases BOGS and increases current account deficit	Reduces demand/buy AUD → AUD depreciates
Rising imports	Decreases BOGS and increases current account deficit	Increases supply/sell AUD → AUD depreciates
Stronger service exports	Increases BOGS and current account surplus	Increases demand/buy AUD → AUD appreciates
Dividend payments overseas	Increases NPI deficit and current account deficit	Increases supply/sell AUD → AUD depreciates

Suggested Response:

Recent changes in Australia’s balance of payments have influenced the value of the AUD. **High commodity exports** have increased BOGS which moved into surplus in 2016. The current account moved to a surplus in 2019. This increased the demand for the AUD and putting upward pressure on its value. At the same time, **increased outbound investment** due to compulsory superannuation has led to higher capital outflows, increasing supply of the AUD and putting downward pressure on its value. Finally, **dividend payments overseas** by Australian resource companies have caused outflows in the income account, increasing supply and further contributing to

downward pressure on the AUD. Overall, these changes demonstrate how both current and financial account movements interact to influence the AUD.

(5 marks)

Why is this a 5?

- Identifies three relevant events which have impacted/changed the BOP
- Explains impact on AUD for each
- Shows clear causal links

High commodity exports have increased the current account surplus, and more demand for the AUD causes an appreciation. Increased outbound investment increases the supply of the AUD and putting downward pressure on it.

(3 marks)

Why is this a 3?

- Identifies two relevant events
- Provides some explanation of how each affects the BOP and the AUD
- Less detailed or less explicitly linked than a full 5-mark response, but shows partial analysis.

Markers Comments:

Overall, reasonably well done.

Marks were lost because of:

- long descriptions on the BOGS without adequate links to the AUD
- Getting 'cause' and effect' a bit mixed. That is, would start with the AUD and then say what the impact on the BOP was
- Not being explicit enough on the mechanics/theory of what causes a change in the value of the AUD (always refer to buy/demand and sell/supply)

Better responses had a balance between CA/BOGS and FA/NPI

Some students tried too hard to link to actual movements in the AUD. This isn't necessarily a bad thing, but sometimes it weakened the response. Better to pick specific events, link it to the impact on the BOP and then say how that will impact the AUD. OK, to keep it theoretical at a transactional level. Better to make an overall statement along the lines of 'on balance' or 'the net overall effect of the AUD'

Exemplar Response:

Recent changes in Australia's BOP have led to a small depreciation of the AUD, with a longer period of stability between \$0.30 US and \$0.65 US.

(c) Analyse how recent changes in Australia's balance of payments have impacted the value of the Australian dollar. 5

One recent change in Australia's balance of payments (BOP) has been a weakening of the Balance of Goods and Services (BOGS) surplus, falling from 5% of GDP in 2022 to 1% today. This resulted from a fall in the Terms of Trade ($\frac{\text{export prices}}{\text{import prices}}$) from 144 (2022) to 119. Consequently, there was less demand in the forex market for the AUD as less exports were purchased, subsequently resulting in a depreciation of the AUD from highs of \$0.70 US in 2022 to \$0.65 US today. Another change to Australia's BOP has been increasing debts in the financial account as superannuation funds (recently increased to 12% of income) increasingly invest overseas. Consequently, this has increased the supply of the AUD as it is sold to purchase foreign currencies to invest in foreign markets. This puts downwards pressure on the value of the AUD, further contributing to its slight recent decline. However, as ~~interest~~ ^{dividends} ~~increase~~ increasingly report on these investments, it created a ~~larger~~ ^{smaller} Net Primary Income deficit, contrastingly putting upwards pressure on the value of the AUD, contributing to its recent overall stability.

Question 23

23(a) Identify TWO distinguishing characteristics of an advanced economy.

Criteria	Marks
• Identifies two distinct features of advanced economies that set them apart from other types of economies	2
• Identifies one distinct feature of advanced economies that set them apart from other types of economies	1

Answers could include:

High income levels – High GDP or GNI per capita and standard of living compared to developing and emerging economies.

Diversified industrial base – Economies driven by a large and productive service sector and advanced manufacturing, rather than reliance on primary commodities and low-cost manufacturing.

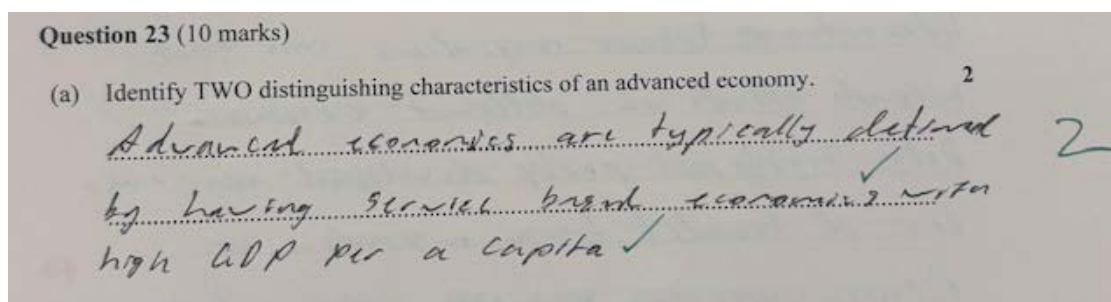
Suggested Response:

1. High income per capita
2. Large service sector
3. Higher HDI
4. Sustainable levels of EG
5. Low birth rates
6. Reducing CO2 emissions

Markers Comments:

Most students got two marks.

Exemplar Response:



23(b) What is the economic rationale for free trade?

Criteria	Marks
<ul style="list-style-type: none">Clearly states the economic rationale (e.g., allows countries to specialise based on comparative advantage, leading to more efficient resource allocation and higher output and ability to trade surplus) and links it to increased economic welfare or gains from trade.	2
<ul style="list-style-type: none">States the rationale in general terms (e.g., “It increases efficiency” or “It benefits all countries”) without mentioning comparative advantage or without explaining how free trade leads to those benefits.	1

Answers could include:

- Based on the principle of **comparative advantage**, where countries produce goods and services they can make at lower opportunity cost.
- Specialisation increases efficiency and total world output.
- Leads to better allocation of resources globally.
- Increases consumer choice and access to goods and services at lower prices.
- Ability to produce more than domestic need and trade the surplus
- Enhances competition and innovation.

Suggested Response:

Free trade allows countries to specialise according to comparative advantage and trade their surplus output for goods they produce less efficiently, improving resource allocation and raising economic welfare.

(2 marks)

Free trade lets countries obtain goods they cannot produce themselves or can only produce at a higher cost.

(1 mark)

Markers Comments:

Those not getting two marks either didn't quite have enough metalanguage, or didn't include a final 'point' of free trade such as higher GWP, living standards etc

Exemplar Response:

(b) What is the economic rationale for free trade?

2

Free trade results in increasing global competition as protection such as tariffs are removed. Consequently, it ~~uses~~ employs Ricardian theories of comparative advantage, which allows each nation to specialize in regions where they hold a comparative advantage, achieving economies of scale and exporting the excess whilst importing what they lack. ✓

2

2

23(c) Why are subsidies considered to be a form of protection?

Criteria	Marks
<ul style="list-style-type: none">Clearly identifies that subsidies reduce production costs for domestic producers, enabling them to sell at lower prices, and explains that this gives them an artificial competitive advantage over imports.	2
<ul style="list-style-type: none">States that subsidies help or support domestic producers, but does not clearly link this to reduced competition from imports or an artificial advantage.	1

Answers could include:

- Subsidies are payments from the government to domestic producers
- Subsidies lower production costs for domestic producers.
- This allows domestic goods to be sold at lower prices (or produce more at the 'world price')
- The lower prices make domestic goods more competitive against imports.
- Creates an artificial advantage for domestic producers compared to foreign competitors.
- Discourages imports by making local goods more attractive.

Suggested Response:

Subsidies lower domestic producers' costs, allowing them to sell goods at lower prices, which gives them an artificial competitive advantage over imports and protects them from foreign competition.

(2 marks)

Subsidies help local producers compete with imports.

(1 mark)

Markers Comments:

Mark lost due to lack of detail on saying how a subsidy is a form of protection (eg. lower production costs). Need to also reference the overseas producers/competition.

Exemplar Response:

(c) Why are subsidies considered to be a form of protection?

Subsidies are financial assistance to domestic firms.
This is a form of protection since domestic firms
are artificially provided an advantage to enable
to lower their costs of their products, thereby consumers
more inclined to buy their products rather than foreign
goods, reducing the competitiveness of foreign exporting firms.

23(d) Assess the impact of international labour migration on different types of economies.

Criteria	Marks
<ul style="list-style-type: none"> Clearly assesses (makes a judgment on) the impact of international labour migration across advanced, emerging, and developing economies. Integrates multiple impacts (positive and negative) to demonstrate clear cause-and-effect links and uses relevant economic terminology 	4
<ul style="list-style-type: none"> Explains impacts for at least two types of economies with some assessment. Covers both positive and negative effects but with less detail or balance and less relevant economic terminology 	3
<ul style="list-style-type: none"> Describes some impacts for at least one or two economy types. Assessment is minimal or absent. Limited reference to specific terms and relevant economic terminology. 	2
<ul style="list-style-type: none"> Identifies at least one relevant impact of international labour migration without elaboration or assessment. 	1

Answers could include:

Advanced economies

- Gain skilled workers from developing nations → “brain gain”
- Fill skill shortages, boost productivity, stimulates innovation and aids upward wealth cycle
- Cultural diversity can improve global business links
- Potential social integration challenges

Emerging economies

- Receive lower-skilled migrant labour from developing nations → boosts industrial output and construction sectors
- Outflow of skilled workers to advanced economies → partial brain drain
- May gain from return migration with skills/knowledge transfer

Developing economies

- Brain drain: loss of most talented/educated citizens to advanced economies → exacerbates skill shortages and slows growth
- Large numbers of low-skilled workers migrate to emerging economies
- Remittances: inflow of foreign currency can raise household incomes, reduce poverty, and stimulate demand
- Risk of poverty traps

Suggested Response:

International labour migration has differing impacts across economies. **Advanced economies** often benefit from a “brain gain” as skilled workers from developing countries fill labour shortages, raising productivity and innovation. **Emerging economies** attract low-skilled migrants from developing countries, boosting output in labour-intensive industries, but can also lose skilled workers to advanced nations. **Developing economies** face the negative effects of brain drain, which can deepen

poverty traps, but benefit from remittances that increase household incomes and foreign exchange earnings. Overall, while migration can redistribute skills and income, it often widens the development gap unless mitigated by policies encouraging return migration and skills transfer.

(4 marks)

Advanced economies gain skilled migrants, boosting productivity. Developing economies lose talent through brain drain but receive remittances, which can reduce poverty.

(2 marks)

Markers Comments:

Overall, this question was very well done. Marks were lost when the response was a bit descriptive and did not sufficiently assess the impact of migration on the different types of economies. This should have been done using concepts like aggregate supply, productive capacity, living standards etc.

Responses also needed to be balanced at least in terms of impacts on advanced and developing. Some responses ignored emerging – but this did not automatically mean the loss of a mark.

Always include ‘remittances’ paid back to home country (usually from advanced to developing/emerging). This always looks good to examiners. Again, failure to mention did not mean a mark was lost, but it can be a tie breaker if oscillating between marks.

Some students got caught up in the ‘international division of labour’. If you are going to talk about TNC’s and exploitation, you must link to migration. Some students saw it as a China case study (domestic migration doesn’t equal international migration).

Exemplar Response:

- (d) Assess the impact of international labour migration on different types of economies.

~~The~~ International labour migration has had a ^{negative} ~~positive~~ impact on ^{developing and emerging} ~~advanced~~ economies. ✓
Specifically, migration has seen a 'brain drain' occur in these economies, as the smartest and most efficient workers internationally migrate to advanced economies which may offer them higher wages. ✓
Thus, the developing and emerging economies are left with a less efficient workforce, lowering aggregate supply and increasing prices. However, a small benefit is that remittances are often sent back by the workers, a credit in the Net Secondary Income account. ✓

4



more writing!

Additional writing space

d) However, for advanced economies, international labour migration has had a positive impact. This is because they instead undergo a 'brain gain' where they gain more intelligent and productive workers, having the opposite impact than the 'brain drain'. Also, the increasing population from high migration to advanced economies increases total consumption as the workers spend their wages, increasing total aggregate demand and economic growth.

Question 24

24(a) Identify ONE type of unemployment that exists above the Non-Accelerating Inflation Rate of Unemployment.

Criteria	Marks
● Identifies cyclical unemployment	1

Answers could include: Cyclical unemployment

Suggested Response: Cyclical unemployment

Markers Comments:

Exemplar Response:

24(b) Describe ONE economic benefit of inequality.

Criteria	Marks
• Clearly identifies a benefit of income inequality and describes with reference to the benefit to economic activity, incentives, or efficiency	2
• Identifies a benefit of income inequality, inadequate description	1

Answers could include:

- Provides **incentives for innovation and effort** (people work harder or take risks to earn more).
- Encourages **entrepreneurship** and investment.
- Leads to **more efficient allocation of resources** as rewards signal where labour or capital is most productive.
- Promotes **economic growth** through increased production and innovation.

Suggested Response:

Income inequality provides incentives for individuals to work harder, innovate, and take entrepreneurial risks, because higher effort or successful investment can lead to greater rewards. This encourages productivity and economic growth.

(2 marks)

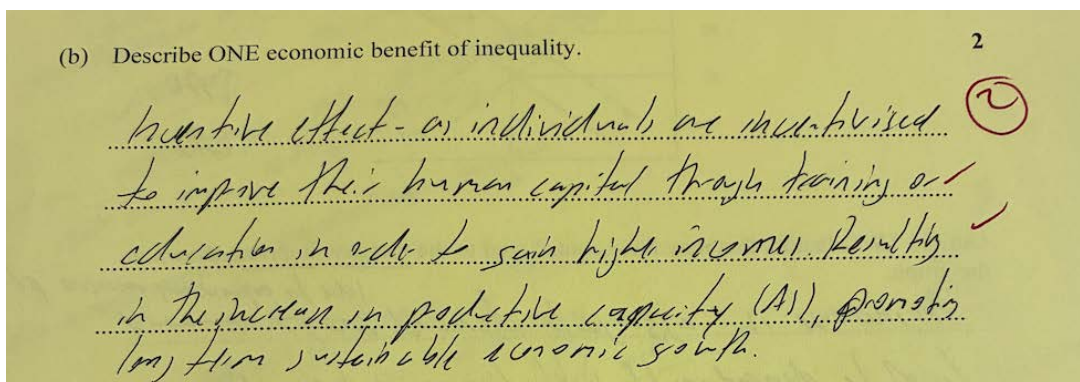
Income inequality motivates people to try harder to earn more money.

(1 mark)

Markers Comments:

Most students answered this well. Some students were only able to identify the benefit and couldn't show in their answer the link to inequality and/or provide more depth. In general, if a question is worth 2 marks you do need to provide an extra level of depth in your answer that's more than just 1 sentence or identifying.

Exemplar Response:



24(c) Briefly explain how higher unemployment levels can affect wage growth and income inequality.

Criteria	Marks
<ul style="list-style-type: none"> Clearly explains the relationship between higher unemployment levels and both wage growth and income inequality, linking cause and effect logically with relevant economic reasoning. 	3
<ul style="list-style-type: none"> Explains part of the relationship between higher unemployment levels and either wage growth or income inequality, but not both, or covers both only briefly. Causal links are present but incomplete 	2
<ul style="list-style-type: none"> Makes a basic, relevant statement about the link between higher unemployment levels and either wage growth or income inequality, with little or no economic reasoning 	1

Answers could include:

- Higher unemployment increases the supply of labour relative to demand, reducing workers' bargaining power.
- Weaker bargaining power slows or suppresses wage growth.
- Lower wage growth particularly affects low-skilled or casual workers, widening the income gap.
- Those who remain employed may see little wage growth, while unemployed individuals have no wage income at all, increasing inequality.
- Long-term unemployment can reduce skills and employability, leading to persistent wage disparities.
- Higher unemployment can increase reliance on government welfare, which may not fully offset lost income, contributing to inequality.

Suggested Response:

Higher unemployment increases the supply of labour and the amount of 'spare capacity' in the labour market. This reduces worker bargaining power and the pressure employers may feel to raise wages. Low-income workers are most affected, experiencing slower wage growth, while high-income earners are less impacted. This, together with more people moving onto welfare (Ue benefits) leads to greater income inequality.

(3 marks)

Why 3 marks?

- It addresses both outcome variables — wage growth and income inequality — in relation to higher unemployment.
- It uses logical economic reasoning (labour supply increase → spare capacity → reduced bargaining power → slower wage growth, especially for low-income workers).
- It explicitly links the change in unemployment to a distributional impact (greater income inequality due to welfare reliance and wage impacts).
- The explanation is clear, coherent, and covers cause-and-effect chains.

Higher unemployment means more people are competing for jobs, which can slow wage growth.
(2 marks)

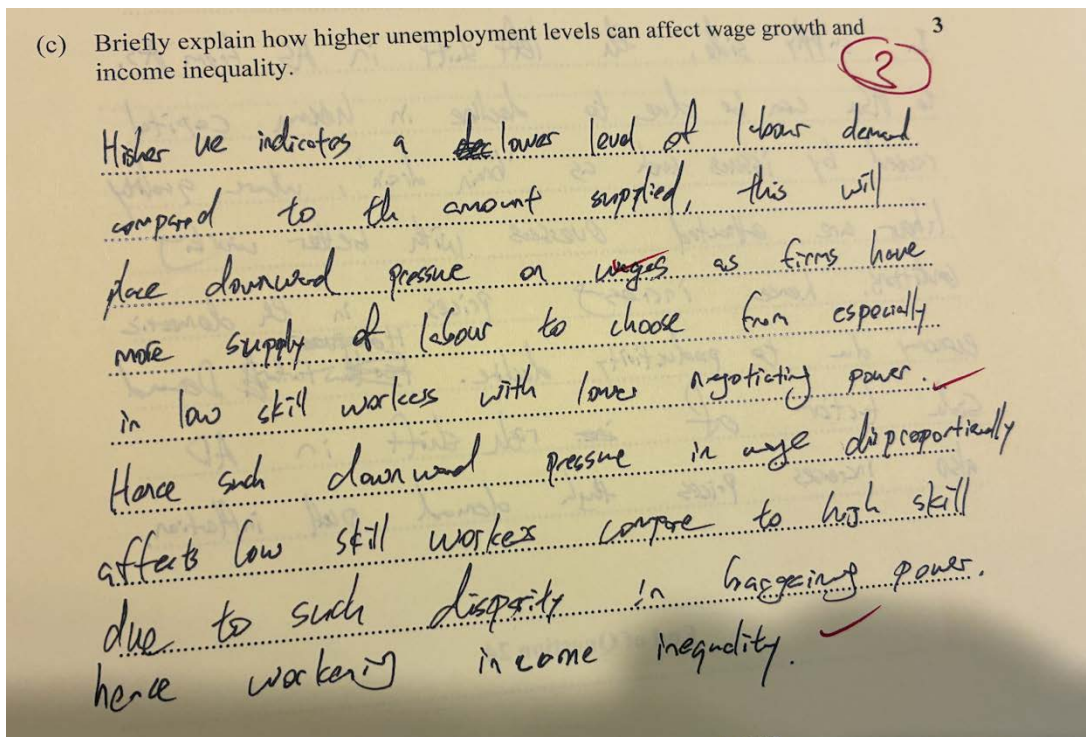
Why 2 marks?

- It correctly identifies a causal link between one variable (higher unemployment) and one of the other variables (wage growth).
- It shows some economic reasoning — recognising that more competition for jobs puts downward pressure on wages.
- It is incomplete (doesn't address income inequality) but still goes beyond a basic, stand-alone statement like “Unemployment makes wages lower”, which would be 1 mark.

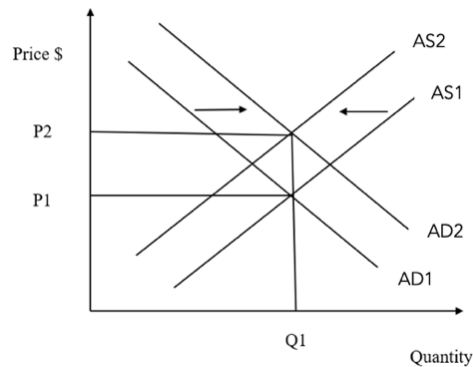
Markers Comments:

Exemplar Response:

Students who did well in this question were able to clearly make the link between higher unemployment and increased supply of labour. From there, they were able to link this well to wage growth and inequality. If students skipped this step, it made it harder to explain and draw out a logical answer. Important to note that you shouldn't rush one answer and give more weight to the other section of the question. Needed to show equally care to both aspects of the question as marks were awarded for both inequality and wage growth. Some just left inequality to the end with 1 sentence which wasn't enough.



24(d) Use the graph below to answer the following question in relation to a hypothetical economy.



Outline TWO factors that may have contributed to the increase in prices shown in the graph.

Criteria	Marks
<ul style="list-style-type: none"> Correctly identifies two distinct factors (one relating to the AD increase, one to the AS decrease) and clearly outlines how each factor contributes to higher prices, using accurate economic reasoning. 	4
<ul style="list-style-type: none"> Correctly identifies two factors but outlines only one in detail or outlines both but with less developed economic reasoning. 	3
<ul style="list-style-type: none"> Correctly identifies one factor with a clear outline, or identifies two factors but outlines them in a very limited or general way 	2
<ul style="list-style-type: none"> Identifies one relevant factor but provides minimal or no explanation of its effect on prices 	1

Answers could include:

Demand-pull inflation factors (AD↑):

- Strong economic growth increasing consumer spending on goods and services.
- Expansionary fiscal policy such as tax cuts or increased government spending.
- Lower interest rates stimulating borrowing and investment.
- Increase in exports due to a lower exchange rate or stronger global demand.

Cost-push inflation factors (AS↓):

- Rising input costs such as wages, raw materials, energy or tariffs.
- Depreciation of the exchange rate increasing the price of imports (imported inflation).
- Supply chain disruptions (e.g., natural disasters, Covid, transport bottlenecks).
- Government regulations or taxes increasing production costs.

Suggested Response:

One factor contributing to higher prices is **strong economic growth** leading to increased consumer spending. This shifts aggregate demand to the right, creating

demand-pull inflation as firms raise prices in response to higher demand for goods and services.

Another factor is a **rise in production costs**, such as higher wages or fuel prices, which shifts aggregate supply to the left. This creates **cost-push inflation**, as firms pass on increased costs to consumers in the form of higher prices.

(4 marks)

Why 4 marks?

- Two distinct factors identified — one from AD (demand-pull) and one from AS (cost-push).
- Both factors clearly linked to the price increase shown in the diagram.
- Accurate economic reasoning explaining the cause-and-effect for each shift.
- Correct use of economic terms (“demand-pull inflation” and “cost-push inflation”) showing syllabus knowledge.

Higher consumer spending increases demand for goods and services, pushing prices up. Rising fuel costs also make goods more expensive.

(2 marks)

Why 2 marks?

- Two relevant factors mentioned (consumer spending and rising fuel costs).
- Explanations are brief — limited cause-and-effect reasoning and no reference to AD/AS shifts.
- No clear economic terminology such as “demand-pull” or “cost-push inflation.”
- Links to the diagram are weak, making the outline incomplete

Markers Comments:

Most students were able to identify a factor that shifted AD outward and/or AS inward. However, many students missed the link to either demand pull or cost push inflation. Students had to explicitly state that as a result of a certain factor, demand pull or cost push inflation would occur, therefore raising prices. A lot of students also missed the link to prices all together which is just a technical area of improvement for the HSC. For example, they would write a brilliant answer as to why AD shifted outward but then just leave it there and not link back to the question which was impact on prices, not why did AD shift.

Exemplar Response:

Outline TWO factors that may have contributed to the increase in prices shown in the graph.

- ① An increase in $AD_1 \rightarrow AD_2$ has contributed to demand-pull inflation. This could have been influenced by loosening interest rates/monetary policy, allowing for consumption and investment to rise via the walkdown, wealth and savings/investment channel. $(C + I + G + (X - M))$ leading to demand-pull inflation towards $P_1 \rightarrow P_2$.
- ② A decrease in $AS_1 \rightarrow AS_2$ causes cost-push inflation, possibly exhibited by a reduction in input productivity, such as labour, increasing the cost of labour and contributing to $P_1 \rightarrow P_2$ inflation.

End of Question 24

Section III

Question 25 (20 marks)

Analyse recent trends in Australia’s trade and financial flows. In your answer, refer to the information provided.

Criteria	Marks
<ul style="list-style-type: none"> ● Demonstrates a clear and comprehensive analysis of recent trends in Australia’s trade and financial flows ● Synthesises own knowledge and understanding with the information provided, to develop a sustained, logical and cohesive response ● Integrates relevant economic terms, concepts, relationships and theory 	17–20
<ul style="list-style-type: none"> ● Demonstrates sound analysis of recent trends in Australia’s trade and financial flows ● Synthesises own knowledge and understanding with the information provided, to develop a logical and cohesive response ● Applies relevant economic terms, concepts, relationships and theory 	13–16
<ul style="list-style-type: none"> ● Demonstrates some analysis of recent trends in Australia’s trade and financial flows ● Uses own knowledge and understanding with the information provided, to develop a cohesive response ● Uses relevant economic terms, concepts, relationships and theory 	9–12
<ul style="list-style-type: none"> ● Sketches in general terms Australia’s trade and financial flows ● Develops a generalised response ● Uses some economic terms and concepts 	5–8
<ul style="list-style-type: none"> ● Lists some aspects of Australia’s trade and financial flows ● Presents a limited response ● Uses some economic terms and concepts 	1–4

Answers could include:

Relevant definitions – types of trade and financial flows

Stimulus references

No prescribed structure, but must be “sustained, logical and cohesive”. One suggested structure is to identify a trend and then analyse that trend by reference to its causes and effects.

Recent trade flow trends could include:

- Increased Goods Exports (medium term)

- Decreased Goods Exports (short term)
- Increased imports
- Increase in service exports
- Impact of covid

Recent financial flow trends include:

- Increased outbound equity investment
- Inbound and outbound debt/loans
- Inbound and outbound income flows – dividends and interest

For each selected trend, students should indicate what has caused or is causing the trend and what are the implications or effect of the trend. The implications could be referenced to the impact on:

- Balance of Payments
- Value of the AUD
- NFL/NFD/NFE
- External Stability
- Internal issues/objectives – eg. economic growth, inflation, unemployment

For example (1):

- Trend
 - o Recent fall in exports
- Cause
 - o Softer demand from China for commodities such as iron ore
 - o Lower TOT
- Implications
 - o BOP – reduced BOGS causing Current Account to move back into deficit
 - o AUD – less demand for AUD causing downward pressure
 - o External Stability – worsens
 - o Internal objectives – Economic growth – less X means less AD/EG. Could increase Unemployment as labour is a ‘derived demand’

For example (2):

- Trend
 - o Continued outbound financial flows (equity – portfolio investments)
- Cause
 - o Increased savings pool due to compulsory superannuation
 - o Fund managers seeking to diversify and invest in offshore markets, especially the USA
- Implications
 - o BOP – debits in Financial Account
 - o NFL – the NFE ‘asset’ continues to increase and reduce the NFL as a % of GDP
 - o AUD – selling AUD, increasing supply causing downward pressure
 - o External Stability – mixed
 - o Savings pool continues to increase, but opportunity cost of investing overseas rather than Australia

Marker Feedback:

Students generally did a great job in discussing Australia's trade and financial flows. The best answers analysed, not only the reasons for changes in our T&F flows, but also the implications for the economy. Many students structured their answer in terms of value, composition and direction of trade flows – this worked well and enabled a response that had enough content (depth) and also enabled them to examine historic and recent trends. Students that used economic terminology such as creation and diversion and gave contemporary examples including the recent US tariffs, the Chinese Covid tariffs, narrow export base, increased IC and the links to broader economic objectives beyond the BOP scored well. The financial flow section was generally divided into debt/equity (FDI and portfolio) flows. Most students explored the historic savings – investment gap we have had and discussed the accumulation of foreign debt as a result. The best students again, went beyond the impact on BOP and external stability. They also considered the fact that, whilst increasing, this debt has actually fallen as a % of GDP. Most went on to discuss the NFE and the changes to NFE, why they have occurred and what it means for Australia...again, they noted effects on NFL, NPI and also discussed the impacts on growth, per capita income etc.

Question 26 (20 marks)

Analyse the impacts of global free trade and protection policies on the global economy. In your answer, refer to the information provided.

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a clear and comprehensive analysis the impacts of global free trade and protection policies on the global economy• Synthesises own knowledge and understanding with the information provided, to develop a sustained, logical and cohesive response• Integrates relevant economic terms, concepts, relationships and theory	17–20
<ul style="list-style-type: none">• Demonstrates sound analysis the impacts of global free trade and protection policies on the global economy• Synthesises own knowledge and understanding with the information provided, to develop a logical and cohesive response.• Applies relevant economic terms, concepts, relationships and theory	13–16
<ul style="list-style-type: none">• Demonstrates some analysis the impacts of global free trade and protection policies on the global economy• Uses own knowledge and understanding with the information provided, to develop a cohesive response.• Uses relevant economic terms, concepts, relationships and theory	9–12
<ul style="list-style-type: none">• Sketches in general terms the impacts of global free trade and protection policies on the global economy• Develops a generalised response• Uses some economic terms and concepts	5–8
<ul style="list-style-type: none">• Lists some aspects of global free trade and protection policies• Presents a limited response• Uses some economic terms and concepts	1–4

Answers could include:

Relevant definitions – free trade, protection

Stimulus integration

No prescribed structure, but must be “sustained, logical and cohesive”. One suggested structure is to first analyse the impact of the longer-term movement towards more free trade, and then to analyse the impacts of remaining (and increasing?) protection.

As this is a ‘protection’ essay, reasons for protection and methods of protection should be mentioned. Better responses will also include a tariff and/or subsidy diagram.

Global free trade:

- Basis of free trade – comparative advantage, specialisation
- WTO – including impact of China joining in 2001
- Free trade agreements – Multilateral, trade creation
- Implications (including statistics):
 - o Increases in GWP, reductions in average global tariffs (later must be referenced – stimulus)
 - o Link economic growth to economic development (HDI, poverty reductions)

Protection:

- Reasons for protection:
 - o Self Sufficiency/Defence
 - o Infant Industries
 - o Domestic employment
 - o Dumping
 - o Ethical/Environmental
- Methods of protection
 - o Tariffs
 - o Subsidies
 - o Quotas, Local content rules
- Multilateral free trade agreements (trade diversion for non-members)
 - o EU
 - o NAFTA (USMCA)
 - o RCEP
- Could use these agreements to provide analysis of the economic impact of protection methods – likely to only include tariffs and subsidies
 - o Prices
 - o Domestic production
 - o Imports
- Services – natural barriers
- Agriculture – highly protected industry. Stimulus reference to developing nations such as Sub-Saharan Africa
- Recent increases in protection
 - o Stimulus reference
 - o Covid, GFC, anti-globalisation sentiment, self-sufficiency and ‘economic sovereignty’
 - o USA Trump Administration’s increase use of tariffs – consideration of potential impact on global economy

Marker Feedback:

Most students were able to answer this question relatively effectively. Most chose to split FT from protection and this structure worked well. The better responses examined the theoretical benefits of FT, the historic changes, the role of WTO and FTA's. The best answers took a more global view and went beyond Australian focused examples. They tended to differentiate between types of economies, they recognised that there have been downsides for advanced economies and they discussed wider economic implications (inflation, employment, GWP and development). The key here was to make clear LINKS between FT and economic outcomes in the global economy. The protection section saw most students look at tariffs and subsidies. They did a good job with theory and examples and were able to incorporate a generous stimulus effectively. The best again examined the wider economic implications as well as the reasons for recent increases in protection. The best responses included other types of protection, providing examples and hence, giving depth to their response by being comprehensive in the discussion of protection.

Section IV

Question 27 (20 Marks)

Evaluate the effectiveness of the Reserve Bank of Australia's monetary policy in achieving its economic objectives.

Criteria	Marks
<ul style="list-style-type: none">● Provides a sustained, logical and cohesive response that integrates relevant economic terms, concepts, relationships and theory● Demonstrates a clear and comprehensive evaluation of the effectiveness of the Reserve Bank of Australia's monetary policy in achieving its economic objectives● Develops an informed analysis of reason for these impacts	17-20
<ul style="list-style-type: none">● Provides a logical and cohesive response that applies relevant economic terms, concepts, relationships and theory● Demonstrates a sound evaluation of the effectiveness of the Reserve Bank of Australia's monetary policy in achieving its economic objectives● Develops some analysis of reason for these impacts	13-16
<ul style="list-style-type: none">● Provides a coherent response that uses relevant economic terms, concepts, relationships and theory● Demonstrates some evaluation of the effectiveness of the Reserve Bank of Australia's monetary policy in achieving its economic objectives● Demonstrates some understanding of reason for these impacts	9-12
<ul style="list-style-type: none">● Provides a generalised response that uses some economic terms and/or concepts● Demonstrates some understanding of the Reserve Bank of Australia's monetary policy	5-8
<ul style="list-style-type: none">● Provides a limited response that uses some economic terms or concepts● Identifies some aspects of the Reserve Bank of Australia's monetary policy	1-4

Answers could include:

Evaluation – make a judgement regarding effectiveness

Overview of Monetary policy (MP) – RBA, macro policy, counter cyclical,

Relevant Definitions –economic objectives, Aggregate Demand

What are the RBA's economic objectives?

- The RBA charter has ‘economic prosperity’, price stability (PS) and full employment (FE) as core objectives. In practice, focus has been on price stability since early 1990’s
- In 2024, price stability and full employment formally became “dual and equally weighted” objectives
- Price stability 2 - 3%; full employment approx. 4.0 - 4.5% (NAIRU/Full employment)

Implementation of MP – not mandatory – but could reference interest rate corridor and target rate.

Achieving the dual objectives of PS and FE is dependent on the RBA’s ability influence aggregate demand (AD) or the level of economic activity by changing interest rates. This is known as the ‘transmission mechanism’ and is normally done in a counter-cyclical manner

Expansionary stances (decrease interest rates). Contractionary stances (increase interest rates).

The transmission mechanism can impact all components of AD (sectors) of an economy via several ‘channels’. Students should show theoretical understanding of how the transmission works.

- Consumption (Household/Individual)
- Investment (Firms/Business)
- Government Expenditure (Government)
- Exports less Imports (External)
- Cashflow channel
- Savings/Investment channel
- Asset price channel
- Exchange rate channel

An evaluation requires students to show how MP has been used by the RBA. This could include:

- Covid response - highly expansionary
 - o conventional methods – OCR reduced to 0.1%
 - o Unconventional methods – additional liquidity - quantitative easing, term funding facility
 - o Evaluation? Economic performance better than otherwise? Too much? Contributed to high inflation?
- Post covid – highly contractionary
 - o 13 increases to 4.35%
 - o Evaluation? Inflation back to target. Ue is low and in NAIRU range.
 - o Economic growth remains low – reason for 3 drops in 2025 to 3.6%

Responses must include an evaluation/assessment and provide reasons/statistics to support

Marker Feedback:

Almost all responses were able to recognise the RBA's main economic objectives of price stability, full employment and stable economic activity, and show some understanding of the RBA's use of IR corridors and/or DMO in implementing the OCR. This was quite pleasing.

Better responses also explored macroeconomic and counter-cyclical theory with use of well-constructed and referenced ADAS diagram(s), often as part of a background paragraph.

Most students could describe how changes to the OCR impacts components of AD and in turn the RBA's economic objectives, however better responses were also able to explain the underlying theory in more detail by employing relevant transmission channel concepts.

Too many responses tried to evaluate the government's broader economic objectives of distribution of income/wealth and external stability. These are not RBA objectives and were best explored as a limitation or additional benefit in addressing its 3 core objectives.

What differentiated the higher marks from the remainder was a detailed evaluation of the RBA's effectiveness, supported with relevant contemporary data and examples. This was best done by evaluating against recent time periods. For example, during Covid the RBA's primary objective was eco stability and full employment, while it shifted its focus to price stability in the more recent post-Covid period.

Question 28 (20 Marks)

Evaluate the effectiveness of Australia’s environmental management policies in addressing environmental issues.

Criteria	Marks
<ul style="list-style-type: none"> ● Provides a sustained, logical and cohesive response that integrates relevant economic terms, concepts, relationships and theory ● Demonstrates a clear and comprehensive evaluation of the effectiveness of Australia’s environmental management policies in addressing environmental issues ● Develops an informed analysis of reason for these effects 	17-20
<ul style="list-style-type: none"> ● Provides a logical and cohesive response that applies relevant economic terms, concepts, relationships and theory ● Demonstrates a sound evaluation of the effectiveness of Australia’s environmental management policies in addressing environmental issues ● Develops some analysis of reason for these effects 	13-16
<ul style="list-style-type: none"> ● Provides a coherent response that uses relevant economic terms, concepts, relationships and theory ● Demonstrates some evaluation of the effectiveness of Australia’s environmental management policies in addressing environmental issues ● Demonstrates some understanding of reason for these effects 	9-12
<ul style="list-style-type: none"> ● Provides a generalised response that uses some economic terms and/or concepts ● Demonstrates some understanding of Australia’s environmental management policies and/or environmental issues 	5-8
<ul style="list-style-type: none"> ● Provides a limited response that uses some economic terms or concepts ● Identifies some aspects of Australia’s environmental management policies or environmental issues 	1-4

Answers could include:

Evaluation – make a judgement regarding effectiveness

Relevant Definitions

- Environmental sustainability / ecologically sustainable development
- private and social costs and benefits – externalities, market failure
- public and private goods – free riders

Environmental management policies

- international agreements

- targets
- market-based policies
- regulations

Environmental issues:

- preservation of natural environments
- pollution, climate change
- depletion of renewable and non-renewable resources.

No mandatory structure.

- One option would be to structure by the three environmental issues.
- Another would be to focus on arguably the most significant environmental issue of Climate Change. This would likely entail consideration of renewable and non-renewable resources. Students taking this option should still consider 'preservation of natural environments' within the essay.

Preservation of Natural Environment

- Flora and Fauna
- Examples: Great Barrier Reef, soil erosion, inland river systems, extreme weather events, plastic bags etc
- Legislation; Environmental Protection and Biodiversity Conservation Act 1999, Single Use Plastic Bags Act (2021) NSW etc

Climate change /Pollution,

- International Agreements
 - o Paris 2016
 - o Assessment – ads and disads
- Targets
 - o Emissions Reduction Targets – 2020, 2030 (43% below 2005), 2050 (net zero)
 - o Renewable Energy Target – 2020, 2030 (82%)
 - o Assessment – ads and disads
- Market Based Policies
 - o Focus of Australia's policies are incentives ('carrot', rather than 'stick')
 - o Should include economic theory of subsidies/private benefits and draw a subsidy diagram showing impact on P and Q.
 - o Contemporary policies
 - Future Made in Australia Fund
 - Renewable Energy Target Scheme
 - small scale – households 'solar rebate scheme'
 - large scale – energy producers – incentives to close coal fired power stations and build renewable powered (solar, wind, hydro)
 - National Reconstruction Fund
 - o Advisable to also include use of disincentives (indirect taxes/social costs) and draw an indirect tax diagram showing impact on P and Q.
 - o Carbon Tax – 2012-14, \$23/t, limited by political constraints
 - o Evaluation of MBP could be based on achievement of projected targets. Is debate about effectiveness. Made difficult due to costs and delays in building new distribution network. Political constraints due to issues regarding wind and solar including land clearing. Australia's ability to influence climate

change limited by global factor of 99% of emissions coming from outside Australia

- Regulations
 - o Government laws to mandate or prohibit
 - o Examples include Light Bulb Act (2007), Fuel Quality Standards Act (2000), Environmental Protection & Biodiversity Conservation Act (1999) and Plastic Reductions Act 2021
 - o Links can be made to Climate change and/or preservation of natural environments (including assessment)

Marker Feedback:

Most responses were able to display a good understanding the four main environmental management policy tools (IAs, Targets, Regulations and Market-Based Policies) and make some evaluation of their effectiveness. Better responses also provided a range of limitations each policy often faced.

Examining policies that address the environmental issue of climate change provided straight forward examples for targets and market-based policies. As the question asked for environmental issues, students needed to evaluate policies beyond climate change. Better responses highlighted a range of environmental issues in their introduction and explored regulations and IA's that targeted some of these issues.

Responses that incorporated relevant economic theory also attracted higher marks. This may have included market failure theory as part of a background paragraph, and integration of well-constructed tax and/or subsidy diagrams.



KNOX GRAMMAR SCHOOL

2025
HSC TRIAL
EXAMINATION

Economics: marking criteria

Section I

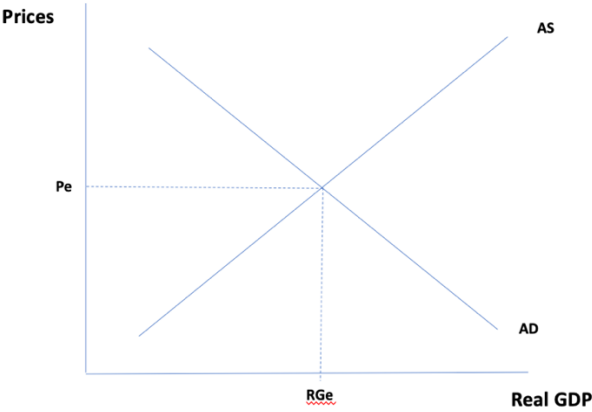
Multiple Choice (20 marks)

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

Section II - Suggested Answers & Criteria

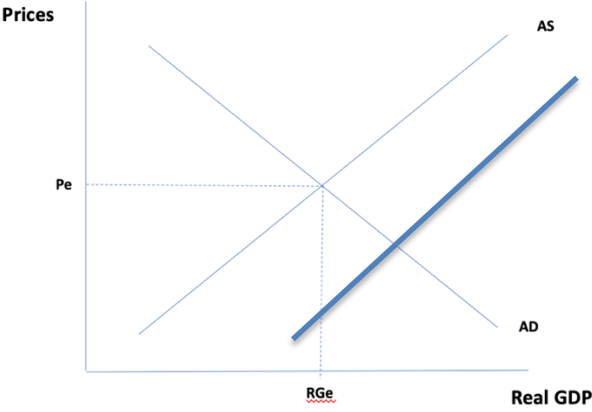
Question 21

21(a) On the diagram below, draw the effect of successful microeconomic reform.



Criteria	Marks
<ul style="list-style-type: none"> • Draws a line to the right of the existing AS curve 	1

Sample answer:



Note: Every student got this correct.

21(b) Examine ONE structural change in the Australian economy resulting from microeconomic reform.

Criteria	Marks
- Clearly identifies a specific structural change resulting from a microeconomic reform and provides a detailed explanation of how the reform caused the change. Demonstrates clear economic understanding and uses relevant terminology.	3
- Identifies a structural change resulting from a microeconomic reform and provides some explanation of the link between the reform and the change. May lack depth or detail in the causal link.	2
- Identifies a reform or structural change but with little or no explanation of the relationship between them. Response may be vague or generalised.	1

Answers could include:

Must identify a microeconomic reform and link that to the resulting structural change.

1. Industry Composition Changes

- Shift from manufacturing towards services (especially finance, education, and health)
- Expansion of export-oriented sectors (e.g., mining, education, tourism)

2. Labour Market Structure

- Increased labour force participation (including women and older workers)
- More flexible employment arrangements (e.g., casualisation, part-time work)
- Greater productivity and skills due to workplace reforms and training incentives

3. Trade Patterns

- Increased trade openness due to tariff reductions and free trade agreements
- Diversification of export markets (shift from Europe/US to Asia)
- Rise in services exports (e.g., education, health, tourism)

4. Competition and Market Structure

- Increased competition in previously protected sectors (e.g., airlines, telecommunications, energy)
- Privatisation of government enterprises (e.g., Qantas, Telstra, Commonwealth Bank) leading to more market-based pricing and innovation

5. Environmental and Energy Mix

- Shift towards renewable energy generation due to market reforms and policy changes
- Closure of older coal-fired power plants as a result of competitive pressures

Suggested Responses:

The reduction of tariffs on manufactured goods since the 1980s has led to a structural shift in Australia's industry composition from manufacturing towards services. Lower tariffs exposed domestic producers to greater international competition, leading many manufacturing firms to downsize or close. Resources, including labour and capital, were reallocated towards more internationally competitive sectors such as mining, education, and tourism. This has increased the share of services in GDP and employment, reflecting a long-term change in the economy's structure.

(3 marks)

The reduction of tariffs on manufactured goods has caused Australia to move away from manufacturing towards services. This is because manufacturing firms faced more competition from imports, so other industries like mining and tourism grew.

(2 marks)

Tariff cuts have changed Australia's economy.

(1 mark)

Markers Comments

Overall, reasonably well done. Responses not receiving full marks was due to one or more of the following:

- not clear enough on what was the relevant microeconomic reform
- Not enough detail on what was the structural change
- Didn't link the two adequately

Exemplar Response

(b) Examine ONE structural change in the Australian economy resulting from microeconomic reform. 3 3

As a result of microeconomic reform to Australia's trade policy, with the removal of tariffs from an average rate of 36% in 1960s to now 1% has resulted in a structural shift away from manufacturing. As a result of inefficient manufacturing industries being replaced, these resources were reallocated to the more efficient mining and services industry where Australia possesses a comparative advantage. Now service sector comprises of 80% of total employment in Australia.

Question 21 continues on next page

1

21(c) Analyse how microeconomic policy has affected external stability in the Australian economy.

Criteria	Marks
- Provides a detailed analysis linking specific microeconomic policies to their impacts on external stability. Clearly explains the mechanisms by which these policies influence key indicators (e.g., CAD, NFD, terms of trade, exchange rate). Uses relevant examples/data and correct economic terminology. Shows clear cause-and-effect relationships.	6
- Analyses the relationship between microeconomic policy and external stability with mostly clear explanations and examples. Minor lapses in depth or detail. Economic terminology is mostly accurate.	5
- Demonstrates some analysis of the link between microeconomic policy and external stability. Provides examples but with limited depth or explanation of mechanisms. May have some errors or be descriptive in parts.	4
- Describes microeconomic policy and/or external stability but makes only limited connections between them. Mostly descriptive with minimal analysis. Few or no examples.	3
- Identifies aspects of microeconomic policy or external stability with little or no link between them. Lacks analysis and detail.	2
- Makes a vague or general statement about microeconomic policy or external stability with no meaningful link.	1

Answers could include:

Definition of external stability and how it is measured (Current Account, NFL/NFD, International Competitiveness, TOT, AUD). Micro policies should be linked to these measurements.

Micro Policy	Link to External Stability
Trade Liberalisation - Tariff reductions on manufactured imports. Entering FTA's	Increases competition, improves efficiency and resource allocation to industries where Australia has a comparative advantage, lowering production costs. Enhances international competitiveness, boosting export volumes which can narrow the CAD.
Deregulation of the financial sector <ul style="list-style-type: none"> - Foreign Banks - Compulsory Super - Floating AUD 	Attracts foreign capital inflows to unlock productive capacity (eg. mining). Higher CAD in the short term, with increase foreign liabilities; Longer term – higher exports and improved Current Account. Compulsory super – addresses saving and investment gap. Increased outbound investment

	creating a NFE asset and lower NFL as a % of GDP
National Competition Policy	Promotes efficiency and productivity in key industries (e.g., transport, utilities), lowering prices and increasing export competitiveness, which can improve the trade balance and support a sustainable CAD.
Energy market reform / Enviro	Transition to renewable energy. Short term transition costs which increase costs and reduce IC. Reducing and eliminating major source of export revenue – coal and gas – key to recent strong balance of trade and CAS. Medium to long term on external stability may depend on ability to find replacement export revenue streams.
Labour market reform (e.g., enterprise bargaining, wage flexibility)	Improves productivity and cost competitiveness, helping exporters maintain market share, supporting stronger export income and reducing pressure on the CAD.

Suggested Response:

Trade liberalisation, such as tariff reductions on manufactured imports, has increased competition and improved efficiency by reallocating resources to industries where Australia has a comparative advantage, such as mining and agriculture. This has lowered production costs and enhanced international competitiveness, boosting export volumes and reducing reliance on imports. Over time, this has contributed to an improvement in the trade balance, helping to narrow the CAD and support external stability.

Deregulation of the financial sector, including the granting of foreign bank licences, has attracted foreign capital inflows that unlocked productive capacity in key export sectors, such as mining. While this increased the CAD in the short term and raised foreign liabilities, the resulting boost in export capacity has improved the current account balance in the longer term. The introduction of compulsory superannuation has also addressed Australia's savings–investment gap by increasing national savings. In addition, greater outbound investment has created net foreign equity assets, reducing net foreign liabilities as a percentage of GDP, thereby improving Australia's external stability.

(6 marks)

Why is this a 6?

- Specific policies: Trade liberalisation; financial deregulation (foreign bank licences, compulsory super). Avoid vague “reforms.”
- Causal links: Show policy → effect on CAD, NFD/NFE, savings–investment; short- vs long-term impacts.
- Terminology: Use syllabus concepts: comparative advantage, resource allocation, net foreign liabilities/equity, current account balance.
- Balanced coverage: Address trade balance, foreign liabilities, national savings— not just one indicator.
- Structure: Paragraph per policy; cause → mechanism → effect; logical flow.

- Analytical depth: Explain pathways; include positive/negative impacts; short term v long term, go beyond description.

Trade liberalisation has increased competition and improved efficiency, lowering production costs and making Australian exports more competitive. This can increase export volumes and improve the trade balance. Deregulation of the financial sector has attracted foreign capital inflows, boosting investment in export industries. Compulsory superannuation has increased national savings, helping reduce foreign liabilities over time.

(4 marks)

Why is this a 4?

- Identifies policies and gives some link to external stability.
- Lacks detail on mechanisms (e.g., comparative advantage, savings–investment gap).
- Less specific on short-term vs long-term effects and data/examples.

Tariff cuts make exports more competitive and financial deregulation increases investment. Both help the economy trade more and reduce debt.

(2 marks)

Why is this a 2?

- Very general and vague.
- Limited explanation and minimal economic terminology.
- Weak causal links to external stability.

Markers Comments:

Better responses started by defining external stability and providing key ways it is measured. While not wrong to say ‘meet international obligations’, better responses started by referencing the Current Account and NFL/NFD as a % of GDP.

This made it easier and more logical to explicitly link you chosen MER to one of these measures. Most students chose ‘trade policy’ and linked to BOGS, and financial deregulation (including compulsory super) and linked to NFL/NFD/NFE.

There were differences in detail. Make sure you list all ‘stepping stones’. For example, an increase in exports improves the BOGS which reduces the CA deficit which improves external stability.

Choosing ‘floating of AUD’ is OK, but some responses got too long winded and generic. Students choosing ‘labour market reforms’ often fell into trap of saying that this ‘increases productivity and therefore external stability’ without saying how.

Some responses were not ‘recent’ enough and were stuck in the 90’s or MIB. Try and let the examiner know what is happening now regarding external stability. For example, increasing financial inflows in the past, has seen higher exports today.

Exemplar Response:

Question 21 (continued)

- (c) Analyse how microeconomic policy has affected external stability in the Australian economy.

6

Microeconomic policy has had a ^{mixed} ~~mostly positive~~ impact on Australia's external stability. Firstly, microeconomic reforms of trade liberalisation began with the Whitlam government's 25% tariff cut in 1974, and most recently saw 500 'unnecessary tariffs' removed. This culminated in Australia's current ^{average tariff} ~~tariff~~ rate of 0.8% - directly lowering import prices. Additionally, the signing of 14 bilateral, and 3 multilateral free trade agreements saw increased demand and therefore prices for Australian exports. These factors culminated in the current Balance of Goods and Services surplus, ^{of 5% in 2022} which created a Current Account Surplus from 2019-23, and its current low deficit of -1.9% of

6

more writing space →

End of Question 21

Additional writing space

c) GDP. As the CA deficit is a key measure of external stability, with Australia's currently being well below the IMF's limit of -4% of GDP as sustainable, this greatly increased external stability. However, financial reform saw 16 foreign banks (went over 40) be given licences to lend in Australia alongside less regulation surrounding borrowing. However, this micro reform resulted in increases in Australia's NET foreign debt to 80% of GDP as firms and households borrow from overseas banks, decreasing external stability as NFD as a % of GDP is another key measure. Thus, microeconomic reform has had a mixed impact on Australia's external stability.

Question 22

22(a) Distinguish between the Terms of Trade and the Trade Weighted Index.

Criteria	Marks
• Correctly defines both TOT and TWI and clearly distinguishes between them.	2
• Provides a correct definition of either TOT or TWI (or gives a general idea of both without distinction).	1

Answers could include:

1. Clear definition of both terms

- Terms of Trade: The ratio of the price of a country's exports to the price of its imports.
- Trade Weighted Index: An index measuring the value of a country's currency against a basket of foreign currencies, weighted according to the importance of each trading partner.

2. Identification of the difference

- TOT focuses on export and import prices, reflecting the purchasing power of exports.
- TWI focuses on exchange rates, reflecting currency strength relative to trading partners.

Suggested Response:

Terms of Trade (TOT) measures the ratio of export prices to import prices, showing the purchasing power of exports. The Trade Weighted Index (TWI) measures the value of the Australian dollar against a basket of foreign currencies weighted by trade, showing currency strength. TOT focuses on prices, while TWI focuses on exchange rates.

(2 marks - clearly defines both terms and distinguishes between them)

Terms of Trade measures export prices relative to import prices, and the Trade Weighted Index measures the value of the Australian dollar against other currencies.

(1 mark - basic definition without a clear distinction)

Markers Comments:

Marks lost because:

- TOT - Not referencing 'prices'
- TWI – too vague. Need some reference to being weighted or compared to currencies of 'trading partners' or 'based on trade flows'. Cant just say 'weighted against other countries'.

Exemplar Response:

Question 22 (10 marks)

- (a) Distinguish between the Terms of Trade and the Trade Weighted Index.

2

Terms of trade refers to the price of an economy's exports relative to the price of an economy's imports. Whereas the trade weighted index is a measurement of a country's currency movements calculated against a basket of currencies, weighted to the significance to the trade of the economy being measured.

- 22(b) The Reserve Bank of Australia (RBA) believes the value of the Australian dollar (AUD) is too high due to excessive speculation. Explain TWO ways the RBA could influence the value of the AUD.

Criteria	Marks
<ul style="list-style-type: none"> Correctly identifies two ways the RBA could influence the AUD and explains how each will lower its value 	3
<ul style="list-style-type: none"> Either identifies two methods without fully explaining how they lower the AUD, or explains one method clearly including how it lowers the AUD. 	2
<ul style="list-style-type: none"> Correctly identifies one method the RBA could use and states it lowers the AUD. 	1

Answers could include:

- Direct intervention: Selling AUD in the foreign exchange market increases supply, which lowers its value.
- Indirect intervention: Lowering interest rates reduces foreign investment inflows, decreasing demand for the AUD and lowering its value.
- Verbal intervention ('Jawboning'): Public statements that the AUD is overvalued can reduce market demand for the AUD, lowering its value.

Suggested Response:

The RBA could use direct intervention by selling Australian dollars in the foreign exchange market, increasing supply and lowering the value of the AUD. It could also use indirect intervention by lowering interest rates, which reduces foreign investment inflows, decreasing demand for the AUD and lowering its value.

(3 marks)

Why is this a 3?

- Identifies **two methods** (direct and indirect)
- Explains **how each lowers the AUD**
- Uses the specified terminology.

The RBA could intervene directly by buying or selling foreign currency in the market, or indirectly by changing interest rates to affect investment flows and the demand and supply of the AUD.

(2 marks)

Why is this a 2?

- Identifies two methods (direct and indirect)
- Does not explain how each lowers the AUD

Markers Comments:

Done well.

We recommend that you respond with:

1. 'direct intervention' (sell AUD/buy FC on FX market – dirty float) and
2. 'indirect intervention' (lower the OCR, less inflows, less demand for AUD).

Surprising number went with 'Buying CGS and increase supply of AUD / QE' and even 'Jawboning'. Both accepted if done properly.

Marks lost because the 'how' was just too vague, or response was just talked about how the RBA can change the AUD generally (and not lower it).

Exemplar Response:

(b) The Reserve Bank of Australia (RBA) believes the value of the Australian dollar (AUD) is too high due to excessive speculation. Explain TWO ways the RBA could influence the value of the AUD. 3

The RBA could 'dirty' the float through intervention in the Foreign exchange market, selling ^{large amounts of} AUD, thus increasing the supply of AUD leading to a depreciation. Furthermore, the RBA could reduce interest rates, resulting in a worsened interest rate differential compared to the rest of the world. This results in returns for international savers in Australian banks becoming less, thus these savers will remove funds from Australian banks, ~~and~~ supply AUD to the Forex market in order to invest overseas, thus causing a depreciation of the AUD.

22(c) Analyse how recent changes in Australia’s balance of payments have impacted the value of the Australian dollar.

Criteria	Marks
<ul style="list-style-type: none"> Comprehensive analysis: Identifies multiple recent changes in Australia’s balance of payments and explains how each has influenced the AUD, showing clear causal links and using economic terminology. 	5
<ul style="list-style-type: none"> Detailed analysis: Identifies at least two changes and explains how they affect the AUD, but may not fully address all causal links and/or lacks precision and terminology 	4
<ul style="list-style-type: none"> Partial analysis: Identifies two changes and provides some explanation of their impact on the AUD, but explanation is incomplete or lacks clarity 	3
<ul style="list-style-type: none"> Limited explanation: Identifies one change in the balance of payments and attempts to explain its impact on the AUD in very basic terms 	2
<ul style="list-style-type: none"> Basic identification: Mentions a change in the balance of payments or the AUD without explaining the relationship 	1

Answers could include:

Should start with specific events which have an impact on the BOP and then explain the impact on the AUD.

Event	Impact on BOP	Impact on AUD
High commodity prices/TOT/exports	Increases BOGS and current account surplus	Increases demand/buy AUD → AUD appreciates
Increased outbound investment	Higher capital outflows in the financial account	Increases supply/sell AUD → AUD depreciates
Reduced demand from China	Decreases BOGS and increases current account deficit	Reduces demand/buy AUD → AUD depreciates
Rising imports	Decreases BOGS and increases current account deficit	Increases supply/sell AUD → AUD depreciates
Stronger service exports	Increases BOGS and current account surplus	Increases demand/buy AUD → AUD appreciates
Dividend payments overseas	Increases NPI deficit and current account deficit	Increases supply/sell AUD → AUD depreciates

Suggested Response:

Recent changes in Australia’s balance of payments have influenced the value of the AUD. **High commodity exports** have increased BOGS which moved into surplus in 2016. The current account moved to a surplus in 2019. This increased the demand for the AUD and putting upward pressure on its value. At the same time, **increased outbound investment** due to compulsory superannuation has led to higher capital outflows, increasing supply of the AUD and putting downward pressure on its value. Finally, **dividend payments overseas** by Australian resource companies have caused outflows in the income account, increasing supply and further contributing to

downward pressure on the AUD. Overall, these changes demonstrate how both current and financial account movements interact to influence the AUD.

(5 marks)

Why is this a 5?

- Identifies three relevant events which have impacted/changed the BOP
- Explains impact on AUD for each
- Shows clear causal links

High commodity exports have increased the current account surplus, and more demand for the AUD causes an appreciation. Increased outbound investment increases the supply of the AUD and putting downward pressure on it.

(3 marks)

Why is this a 3?

- Identifies two relevant events
- Provides some explanation of how each affects the BOP and the AUD
- Less detailed or less explicitly linked than a full 5-mark response, but shows partial analysis.

Markers Comments:

Overall, reasonably well done.

Marks were lost because of:

- long descriptions on the BOGS without adequate links to the AUD
- Getting 'cause' and effect' a bit mixed. That is, would start with the AUD and then say what the impact on the BOP was
- Not being explicit enough on the mechanics/theory of what causes a change in the value of the AUD (always refer to buy/demand and sell/supply)

Better responses had a balance between CA/BOGS and FA/NPI

Some students tried too hard to link to actual movements in the AUD. This isn't necessarily a bad thing, but sometimes it weakened the response. Better to pick specific events, link it to the impact on the BOP and then say how that will impact the AUD. OK, to keep it theoretical at a transactional level. Better to make an overall statement along the lines of 'on balance' or 'the net overall effect of the AUD'

Exemplar Response:

Recent changes in Australia's BOP have led to a small depreciation of the AUD, with a longer period of stability between \$0.30 US and \$0.65 US.

Question 22 (continued) (c) Analyse how recent changes in Australia's balance of payments have impacted the value of the Australian dollar. 5

One recent change in Australia's balance of payments (BOP) has been a weakening of the Balance of Goods and Services (BOGS) surplus, falling from 5% of GDP in 2022 to 1% today. This resulted from a fall in the Terms of Trade ($\frac{\text{export prices}}{\text{import prices}}$) from 144 (2022) to 119. ^{alongside weaker demand} Constantly, there was less demand in the forex market for the AUD as less exports were purchased, ^{and at a lower price} subsequently resulting in a depreciation of the AUD from highs of \$0.70 US in 2022 to \$0.65 US today. Another change to Australia's BOP has been increasing debits in the financial account as superannuation funds (recently increased to 12% of income) increasingly invest overseas. Consequently, this has increased the supply of the AUD as it is sold to purchase foreign currencies to invest in foreign markets. This puts downwards pressure on the value of the AUD, further contributing to its slight recent decline. However, as ~~interest~~ ^{dividends} ~~increase~~ increasingly repaid on these investments, it created a ~~larger~~ ^{smaller} Net Primary Income deficit, contrastingly putting upwards pressure on the value of the AUD, contributing to its recent overall stability.

Question 23

23(a) Identify TWO distinguishing characteristics of an advanced economy.

Criteria	Marks
• Identifies two distinct features of advanced economies that set them apart from other types of economies	2
• Identifies one distinct feature of advanced economies that set them apart from other types of economies	1

Answers could include:

High income levels – High GDP or GNI per capita and standard of living compared to developing and emerging economies.

Diversified industrial base – Economies driven by a large and productive service sector and advanced manufacturing, rather than reliance on primary commodities and low-cost manufacturing.

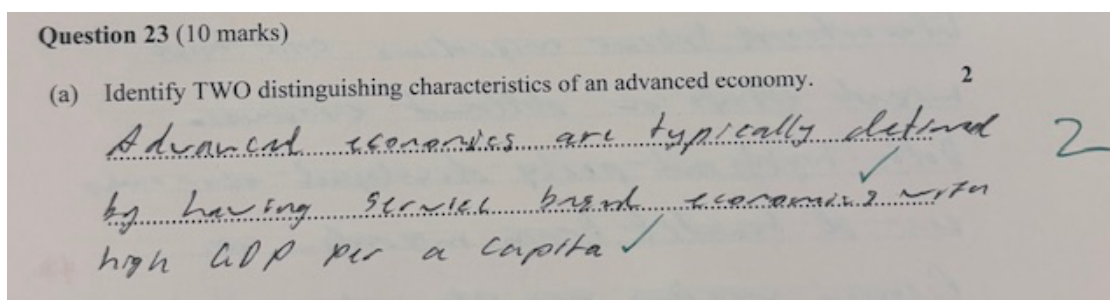
Suggested Response:

1. High income per capita
2. Large service sector
3. Higher HDI
4. Sustainable levels of EG
5. Low birth rates
6. Reducing CO2 emissions

Markers Comments:

Most students got two marks.

Exemplar Response:



23(b) What is the economic rationale for free trade?

Criteria	Marks
<ul style="list-style-type: none">Clearly states the economic rationale (e.g., allows countries to specialise based on comparative advantage, leading to more efficient resource allocation and higher output and ability to trade surplus) and links it to increased economic welfare or gains from trade.	2
<ul style="list-style-type: none">States the rationale in general terms (e.g., “It increases efficiency” or “It benefits all countries”) without mentioning comparative advantage or without explaining how free trade leads to those benefits.	1

Answers could include:

- Based on the principle of **comparative advantage**, where countries produce goods and services they can make at lower opportunity cost.
- Specialisation increases efficiency and total world output.
- Leads to better allocation of resources globally.
- Increases consumer choice and access to goods and services at lower prices.
- Ability to produce more than domestic need and trade the surplus
- Enhances competition and innovation.

Suggested Response:

Free trade allows countries to specialise according to comparative advantage and trade their surplus output for goods they produce less efficiently, improving resource allocation and raising economic welfare.

(2 marks)

Free trade lets countries obtain goods they cannot produce themselves or can only produce at a higher cost.

(1 mark)

Markers Comments:

Those not getting two marks either didn't quite have enough metalanguage, or didn't include a final 'point' of free trade such as higher GWP, living standards etc

Exemplar Response:

(b) What is the economic rationale for free trade?

2

Free trade results in increasing global competition as protection such as tariffs are removed. Consequently, it ~~uses~~ employs Ricardian theories of comparative advantage, which allows each nation to specialize in regions where they hold a comparative advantage, achieving economies of scale and exporting the excess whilst importing what they lack. ✓

2

2

23(c) Why are subsidies considered to be a form of protection?

Criteria	Marks
<ul style="list-style-type: none">Clearly identifies that subsidies reduce production costs for domestic producers, enabling them to sell at lower prices, and explains that this gives them an artificial competitive advantage over imports.	2
<ul style="list-style-type: none">States that subsidies help or support domestic producers, but does not clearly link this to reduced competition from imports or an artificial advantage.	1

Answers could include:

- Subsidies are payments from the government to domestic producers
- Subsidies lower production costs for domestic producers.
- This allows domestic goods to be sold at lower prices (or produce more at the ‘world price’)
- The lower prices make domestic goods more competitive against imports.
- Creates an artificial advantage for domestic producers compared to foreign competitors.
- Discourages imports by making local goods more attractive.

Suggested Response:

Subsidies lower domestic producers’ costs, allowing them to sell goods at lower prices, which gives them an artificial competitive advantage over imports and protects them from foreign competition.

(2 marks)

Subsidies help local producers compete with imports.

(1 mark)

Markers Comments:

Mark lost due to lack of detail on saying how a subsidy is a form of protection (eg. lower production costs). Need to also reference the overseas producers/competition.

Exemplar Response:

(c) Why are subsidies considered to be a form of protection?

Subsidies are financial assistance to domestic firms.
This is a form of protection since domestic firms
are artificially provided an advantage to enable
to lower their costs of their products, thereby consumers
more inclined to buy their products rather than foreign
goods, reducing the competitiveness of foreign exporting firms.

23(d) Assess the impact of international labour migration on different types of economies.

Criteria	Marks
<ul style="list-style-type: none"> Clearly assesses (makes a judgment on) the impact of international labour migration across advanced, emerging, and developing economies. Integrates multiple impacts (positive and negative) to demonstrate clear cause-and-effect links and uses relevant economic terminology 	4
<ul style="list-style-type: none"> Explains impacts for at least two types of economies with some assessment. Covers both positive and negative effects but with less detail or balance and less relevant economic terminology 	3
<ul style="list-style-type: none"> Describes some impacts for at least one or two economy types. Assessment is minimal or absent. Limited reference to specific terms and relevant economic terminology. 	2
<ul style="list-style-type: none"> Identifies at least one relevant impact of international labour migration without elaboration or assessment. 	1

Answers could include:

Advanced economies

- Gain skilled workers from developing nations → “brain gain”
- Fill skill shortages, boost productivity, stimulates innovation and aids upward wealth cycle
- Cultural diversity can improve global business links
- Potential social integration challenges

Emerging economies

- Receive lower-skilled migrant labour from developing nations → boosts industrial output and construction sectors
- Outflow of skilled workers to advanced economies → partial brain drain
- May gain from return migration with skills/knowledge transfer

Developing economies

- Brain drain: loss of most talented/educated citizens to advanced economies → exacerbates skill shortages and slows growth
- Large numbers of low-skilled workers migrate to emerging economies
- Remittances: inflow of foreign currency can raise household incomes, reduce poverty, and stimulate demand
- Risk of poverty traps

Suggested Response:

International labour migration has differing impacts across economies. **Advanced economies** often benefit from a “brain gain” as skilled workers from developing countries fill labour shortages, raising productivity and innovation. **Emerging economies** attract low-skilled migrants from developing countries, boosting output in labour-intensive industries, but can also lose skilled workers to advanced nations. **Developing economies** face the negative effects of brain drain, which can deepen

poverty traps, but benefit from remittances that increase household incomes and foreign exchange earnings. Overall, while migration can redistribute skills and income, it often widens the development gap unless mitigated by policies encouraging return migration and skills transfer.

(4 marks)

Advanced economies gain skilled migrants, boosting productivity. Developing economies lose talent through brain drain but receive remittances, which can reduce poverty.

(2 marks)

Markers Comments:

Overall, this question was very well done. Marks were lost when the response was a bit descriptive and did not sufficiently assess the impact of migration on the different types of economies. This should have been done using concepts like aggregate supply, productive capacity, living standards etc.

Responses also needed to be balanced at least in terms of impacts on advanced and developing. Some responses ignored emerging – but this did not automatically mean the loss of a mark.

Always include ‘remittances’ paid back to home country (usually from advanced to developing/emerging). This always looks good to examiners. Again, failure to mention did not mean a mark was lost, but it can be a tie breaker if oscillating between marks.

Some students got caught up in the ‘international division of labour’. If you are going to talk about TNC’s and exploitation, you must link to migration. Some students saw it as a China case study (domestic migration doesn’t equal international migration).

Exemplar Response:

- (d) Assess the impact of international labour migration on different types of economies.

~~the~~ International labour migration has had a ^{negative} ~~positive~~ impact on ^{developing and emerging} ~~advanced~~ economies. ✓

Specifically, migration has seen a 'brain drain' occur in these economies, as the smartest and most efficient workers internationally migrate to advanced economies which may offer them higher wages. ✓

Thus, the developing and emerging economies are left with a less efficient workforce, lowering aggregate supply and increasing prices. However, a small benefit is that remittances are often sent back by the workers, a credit in the Net Secondary Income account. ✓

→
more writing!

4

Additional writing space

d) However, for advanced economies, ~~the~~ international labour migration has had a positive impact. This is because they instead undergo a 'brain gain' where they gain more intelligent and productive workers, having the opposite impact than the 'brain drain'. Also, the increasing population from high migration^{of labour} to advanced economies increases total consumption as the workers spend their wages, increasing total aggregate demand and economic growth.

Question 24

24(a) Identify ONE type of unemployment that exists above the Non-Accelerating Inflation Rate of Unemployment.

Criteria	Marks
● Identifies cyclical unemployment	1

Answers could include: Cyclical unemployment

Suggested Response: Cyclical unemployment

Markers Comments:

Exemplar Response:

24(b) Describe ONE economic benefit of inequality.

Criteria	Marks
• Clearly identifies a benefit of income inequality and describes with reference to the benefit to economic activity, incentives, or efficiency	2
• Identifies a benefit of income inequality, inadequate description	1

Answers could include:

- Provides **incentives for innovation and effort** (people work harder or take risks to earn more).
- Encourages **entrepreneurship** and investment.
- Leads to **more efficient allocation of resources** as rewards signal where labour or capital is most productive.
- Promotes **economic growth** through increased production and innovation.

Suggested Response:

Income inequality provides incentives for individuals to work harder, innovate, and take entrepreneurial risks, because higher effort or successful investment can lead to greater rewards. This encourages productivity and economic growth.

(2 marks)

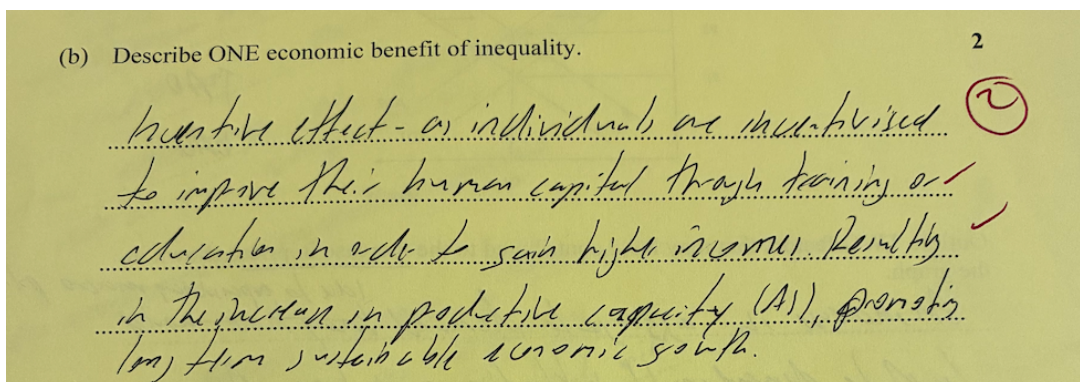
Income inequality motivates people to try harder to earn more money.

(1 mark)

Markers Comments:

Most students answered this well. Some students were only able to identify the benefit and couldn't show in their answer the link to inequality and/or provide more depth. In general, if a question is worth 2 marks you do need to provide an extra level of depth in your answer that's more than just 1 sentence or identifying.

Exemplar Response:



24(c) Briefly explain how higher unemployment levels can affect wage growth and income inequality.

Criteria	Marks
<ul style="list-style-type: none"> Clearly explains the relationship between higher unemployment levels and both wage growth and income inequality, linking cause and effect logically with relevant economic reasoning. 	3
<ul style="list-style-type: none"> Explains part of the relationship between higher unemployment levels and either wage growth or income inequality, but not both, or covers both only briefly. Causal links are present but incomplete 	2
<ul style="list-style-type: none"> Makes a basic, relevant statement about the link between higher unemployment levels and either wage growth or income inequality, with little or no economic reasoning 	1

Answers could include:

- Higher unemployment increases the supply of labour relative to demand, reducing workers' bargaining power.
- Weaker bargaining power slows or suppresses wage growth.
- Lower wage growth particularly affects low-skilled or casual workers, widening the income gap.
- Those who remain employed may see little wage growth, while unemployed individuals have no wage income at all, increasing inequality.
- Long-term unemployment can reduce skills and employability, leading to persistent wage disparities.
- Higher unemployment can increase reliance on government welfare, which may not fully offset lost income, contributing to inequality.

Suggested Response:

Higher unemployment increases the supply of labour and the amount of 'spare capacity' in the labour market. This reduces worker bargaining power and the pressure employers may feel to raise wages. Low-income workers are most affected, experiencing slower wage growth, while high-income earners are less impacted. This, together with more people moving onto welfare (Ue benefits) leads to greater income inequality.

(3 marks)

Why 3 marks?

- It addresses both outcome variables — wage growth and income inequality — in relation to higher unemployment.
- It uses logical economic reasoning (labour supply increase → spare capacity → reduced bargaining power → slower wage growth, especially for low-income workers).
- It explicitly links the change in unemployment to a distributional impact (greater income inequality due to welfare reliance and wage impacts).
- The explanation is clear, coherent, and covers cause-and-effect chains.

Higher unemployment means more people are competing for jobs, which can slow wage growth.
(2 marks)

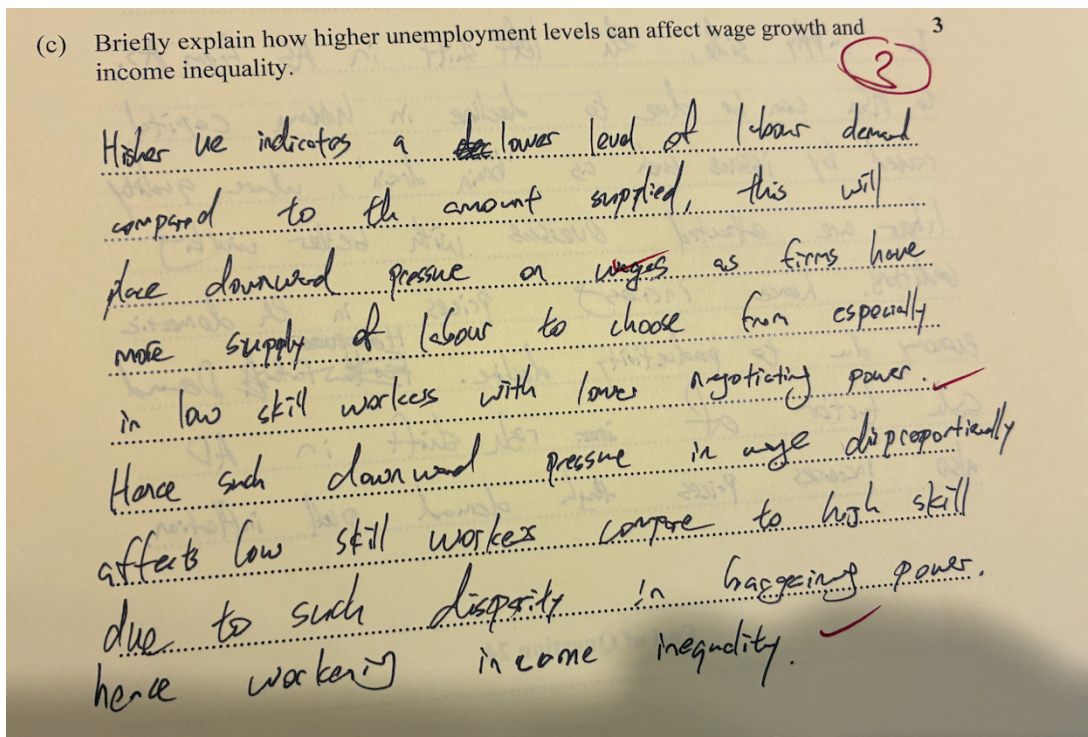
Why 2 marks?

- It correctly identifies a causal link between one variable (higher unemployment) and one of the other variables (wage growth).
- It shows some economic reasoning — recognising that more competition for jobs puts downward pressure on wages.
- It is incomplete (doesn't address income inequality) but still goes beyond a basic, stand-alone statement like “Unemployment makes wages lower”, which would be 1 mark.

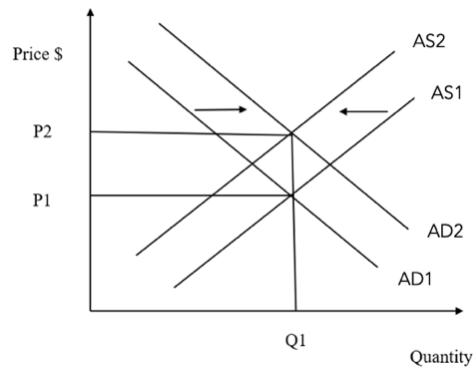
Markers Comments:

Exemplar Response:

Students who did well in this question were able to clearly make the link between higher unemployment and increased supply of labour. From there, they were able to link this well to wage growth and inequality. If students skipped this step, it made it harder to explain and draw out a logical answer. Important to note that you shouldn't rush one answer and give more weight to the other section of the question. Needed to show equally care to both aspects of the question as marks were awarded for both inequality and wage growth. Some just left inequality to the end with 1 sentence which wasn't enough.



24(d) Use the graph below to answer the following question in relation to a hypothetical economy.



Outline TWO factors that may have contributed to the increase in prices shown in the graph.

Criteria	Marks
<ul style="list-style-type: none"> Correctly identifies two distinct factors (one relating to the AD increase, one to the AS decrease) and clearly outlines how each factor contributes to higher prices, using accurate economic reasoning. 	4
<ul style="list-style-type: none"> Correctly identifies two factors but outlines only one in detail or outlines both but with less developed economic reasoning. 	3
<ul style="list-style-type: none"> Correctly identifies one factor with a clear outline, or identifies two factors but outlines them in a very limited or general way 	2
<ul style="list-style-type: none"> Identifies one relevant factor but provides minimal or no explanation of its effect on prices 	1

Answers could include:

Demand-pull inflation factors (AD↑):

- Strong economic growth increasing consumer spending on goods and services.
- Expansionary fiscal policy such as tax cuts or increased government spending.
- Lower interest rates stimulating borrowing and investment.
- Increase in exports due to a lower exchange rate or stronger global demand.

Cost-push inflation factors (AS↓):

- Rising input costs such as wages, raw materials, energy or tariffs.
- Depreciation of the exchange rate increasing the price of imports (imported inflation).
- Supply chain disruptions (e.g., natural disasters, Covid, transport bottlenecks).
- Government regulations or taxes increasing production costs.

Suggested Response:

One factor contributing to higher prices is **strong economic growth** leading to increased consumer spending. This shifts aggregate demand to the right, creating

demand-pull inflation as firms raise prices in response to higher demand for goods and services.

Another factor is a **rise in production costs**, such as higher wages or fuel prices, which shifts aggregate supply to the left. This creates **cost-push inflation**, as firms pass on increased costs to consumers in the form of higher prices.

(4 marks)

Why 4 marks?

- Two distinct factors identified — one from AD (demand-pull) and one from AS (cost-push).
- Both factors clearly linked to the price increase shown in the diagram.
- Accurate economic reasoning explaining the cause-and-effect for each shift.
- Correct use of economic terms (“demand-pull inflation” and “cost-push inflation”) showing syllabus knowledge.

Higher consumer spending increases demand for goods and services, pushing prices up. Rising fuel costs also make goods more expensive.

(2 marks)

Why 2 marks?

- Two relevant factors mentioned (consumer spending and rising fuel costs).
- Explanations are brief — limited cause-and-effect reasoning and no reference to AD/AS shifts.
- No clear economic terminology such as “demand-pull” or “cost-push inflation.”
- Links to the diagram are weak, making the outline incomplete

Markers Comments:

Most students were able to identify a factor that shifted AD outward and/or AS inward. However, many students missed the link to either demand pull or cost push inflation. Students had to explicitly state that as a result of a certain factor, demand pull or cost push inflation would occur, therefore raising prices. A lot of students also missed the link to prices all together which is just a technical area of improvement for the HSC. For example, they would write a brilliant answer as to why AD shifted outward but then just leave it there and not link back to the question which was impact on prices, not why did AD shift.

Exemplar Response:

Outline TWO factors that may have contributed to the increase in prices shown in the graph.

- ① An increase in $AD_1 \rightarrow AD_2$ has contributed to demand-pull inflation. This could have been influenced by loosening interest rates/monetary policy, allowing for consumption and investment to rise via the windfall, wealth and savings/investment channel $(C + I + G + (X - M))$ leading to demand-pull inflation towards $P_1 \rightarrow P_2$.
- ② A decrease in $AS_1 \rightarrow AS_2$ causes cost-push inflation, possibly exhibited by a reduction in input productivity, such as labour, increasing the cost of labour and contributing to $P_1 \rightarrow P_2$ inflation.

End of Question 24

Section III

Question 25 (20 marks)

Analyse recent trends in Australia’s trade and financial flows. In your answer, refer to the information provided.

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates a clear and comprehensive analysis of recent trends in Australia’s trade and financial flows • Synthesises own knowledge and understanding with the information provided, to develop a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theory 	17–20
<ul style="list-style-type: none"> • Demonstrates sound analysis of recent trends in Australia’s trade and financial flows • Synthesises own knowledge and understanding with the information provided, to develop a logical and cohesive response • Applies relevant economic terms, concepts, relationships and theory 	13–16
<ul style="list-style-type: none"> • Demonstrates some analysis of recent trends in Australia’s trade and financial flows • Uses own knowledge and understanding with the information provided, to develop a cohesive response • Uses relevant economic terms, concepts, relationships and theory 	9–12
<ul style="list-style-type: none"> • Sketches in general terms Australia’s trade and financial flows • Develops a generalised response • Uses some economic terms and concepts 	5–8
<ul style="list-style-type: none"> • Lists some aspects of Australia’s trade and financial flows • Presents a limited response • Uses some economic terms and concepts 	1–4

Answers could include:

Relevant definitions – types of trade and financial flows

Stimulus references

No prescribed structure, but must be “sustained, logical and cohesive”. One suggested structure is to identify a trend and then analyse that trend by reference to its causes and effects.

Recent trade flow trends could include:

- Increased Goods Exports (medium term)

- Decreased Goods Exports (short term)
- Increased imports
- Increase in service exports
- Impact of covid

Recent financial flow trends include:

- Increased outbound equity investment
- Inbound and outbound debt/loans
- Inbound and outbound income flows – dividends and interest

For each selected trend, students should indicate what has caused or is causing the trend and what are the implications or effect of the trend. The implications could be referenced to the impact on:

- Balance of Payments
- Value of the AUD
- NFL/NFD/NFE
- External Stability
- Internal issues/objectives – eg. economic growth, inflation, unemployment

For example (1):

- Trend
 - o Recent fall in exports
- Cause
 - o Softer demand from China for commodities such as iron ore
 - o Lower TOT
- Implications
 - o BOP – reduced BOGS causing Current Account to move back into deficit
 - o AUD – less demand for AUD causing downward pressure
 - o External Stability – worsens
 - o Internal objectives – Economic growth – less X means less AD/EG. Could increase Unemployment as labour is a ‘derived demand’

For example (2):

- Trend
 - o Continued outbound financial flows (equity – portfolio investments)
- Cause
 - o Increased savings pool due to compulsory superannuation
 - o Fund managers seeking to diversify and invest in offshore markets, especially the USA
- Implications
 - o BOP – debits in Financial Account
 - o NFL – the NFE ‘asset’ continues to increase and reduce the NFL as a % of GDP
 - o AUD – selling AUD, increasing supply causing downward pressure
 - o External Stability – mixed
 - o Savings pool continues to increase, but opportunity cost of investing overseas rather than Australia

Marker Feedback:

Students generally did a great job in discussing Australia's trade and financial flows. The best answers analysed, not only the reasons for changes in our T&F flows, but also the implications for the economy. Many students structured their answer in terms of value, composition and direction of trade flows – this worked well and enabled a response that had enough content (depth) and also enabled them to examine historic and recent trends. Students that used economic terminology such as creation and diversion and gave contemporary examples including the recent US tariffs, the Chinese Covid tariffs, narrow export base, increased IC and the links to broader economic objectives beyond the BOP scored well. The financial flow section was generally divided into debt/equity (FDI and portfolio) flows. Most students explored the historic savings – investment gap we have had and discussed the accumulation of foreign debt as a result. The best students again, went beyond the impact on BOP and external stability. They also considered the fact that, whilst increasing, this debt has actually fallen as a % of GDP. Most went on to discuss the NFE and the changes to NFE, why they have occurred and what it means for Australia...again, they noted effects on NFL, NPI and also discussed the impacts on growth, per capita income etc.

Question 26 (20 marks)

Analyse the impacts of global free trade and protection policies on the global economy. In your answer, refer to the information provided.

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a clear and comprehensive analysis the impacts of global free trade and protection policies on the global economy• Synthesises own knowledge and understanding with the information provided, to develop a sustained, logical and cohesive response• Integrates relevant economic terms, concepts, relationships and theory	17–20
<ul style="list-style-type: none">• Demonstrates sound analysis the impacts of global free trade and protection policies on the global economy• Synthesises own knowledge and understanding with the information provided, to develop a logical and cohesive response.• Applies relevant economic terms, concepts, relationships and theory	13–16
<ul style="list-style-type: none">• Demonstrates some analysis the impacts of global free trade and protection policies on the global economy• Uses own knowledge and understanding with the information provided, to develop a cohesive response.• Uses relevant economic terms, concepts, relationships and theory	9–12
<ul style="list-style-type: none">• Sketches in general terms the impacts of global free trade and protection policies on the global economy• Develops a generalised response• Uses some economic terms and concepts	5–8
<ul style="list-style-type: none">• Lists some aspects of global free trade and protection policies• Presents a limited response• Uses some economic terms and concepts	1–4

Answers could include:

Relevant definitions – free trade, protection

Stimulus integration

No prescribed structure, but must be “sustained, logical and cohesive”. One suggested structure is to first analyse the impact of the longer-term movement towards more free trade, and then to analyse the impacts of remaining (and increasing?) protection.

As this is a ‘protection’ essay, reasons for protection and methods of protection should be mentioned. Better responses will also include a tariff and/or subsidy diagram.

Global free trade:

- Basis of free trade – comparative advantage, specialisation
- WTO – including impact of China joining in 2001
- Free trade agreements – Multilateral, trade creation
- Implications (including statistics):
 - o Increases in GWP, reductions in average global tariffs (later must be referenced – stimulus)
 - o Link economic growth to economic development (HDI, poverty reductions)

Protection:

- Reasons for protection:
 - o Self Sufficiency/Defence
 - o Infant Industries
 - o Domestic employment
 - o Dumping
 - o Ethical/Environmental
- Methods of protection
 - o Tariffs
 - o Subsidies
 - o Quotas, Local content rules
- Multilateral free trade agreements (trade diversion for non-members)
 - o EU
 - o NAFTA (USMCA)
 - o RCEP
- Could use these agreements to provide analysis of the economic impact of protection methods – likely to only include tariffs and subsidies
 - o Prices
 - o Domestic production
 - o Imports
- Services – natural barriers
- Agriculture – highly protected industry. Stimulus reference to developing nations such as Sub-Saharan Africa
- Recent increases in protection
 - o Stimulus reference
 - o Covid, GFC, anti-globalisation sentiment, self-sufficiency and ‘economic sovereignty’
 - o USA Trump Administration’s increase use of tariffs – consideration of potential impact on global economy

Marker Feedback:

Most students were able to answer this question relatively effectively. Most chose to split FT from protection and this structure worked well. The better responses examined the theoretical benefits of FT, the historic changes, the role of WTO and FTA's. The best answers took a more global view and went beyond Australian focused examples. They tended to differentiate between types of economies, they recognised that there have been downsides for advanced economies and they discussed wider economic implications (inflation, employment, GWP and development). The key here was to make clear LINKS between FT and economic outcomes in the global economy. The protection section saw most students look at tariffs and subsidies. They did a good job with theory and examples and were able to incorporate a generous stimulus effectively. The best again examined the wider economic implications as well as the reasons for recent increases in protection. The best responses included other types of protection, providing examples and hence, giving depth to their response by being comprehensive in the discussion of protection.

Section IV

Question 27 (20 Marks)

Evaluate the effectiveness of the Reserve Bank of Australia's monetary policy in achieving its economic objectives.

Criteria	Marks
<ul style="list-style-type: none">● Provides a sustained, logical and cohesive response that integrates relevant economic terms, concepts, relationships and theory● Demonstrates a clear and comprehensive evaluation of the effectiveness of the Reserve Bank of Australia's monetary policy in achieving its economic objectives● Develops an informed analysis of reason for these impacts	17-20
<ul style="list-style-type: none">● Provides a logical and cohesive response that applies relevant economic terms, concepts, relationships and theory● Demonstrates a sound evaluation of the effectiveness of the Reserve Bank of Australia's monetary policy in achieving its economic objectives● Develops some analysis of reason for these impacts	13-16
<ul style="list-style-type: none">● Provides a coherent response that uses relevant economic terms, concepts, relationships and theory● Demonstrates some evaluation of the effectiveness of the Reserve Bank of Australia's monetary policy in achieving its economic objectives● Demonstrates some understanding of reason for these impacts	9-12
<ul style="list-style-type: none">● Provides a generalised response that uses some economic terms and/or concepts● Demonstrates some understanding of the Reserve Bank of Australia's monetary policy	5-8
<ul style="list-style-type: none">● Provides a limited response that uses some economic terms or concepts● Identifies some aspects of the Reserve Bank of Australia's monetary policy	1-4

Answers could include:

Evaluation – make a judgement regarding effectiveness

Overview of Monetary policy (MP) – RBA, macro policy, counter cyclical,

Relevant Definitions –economic objectives, Aggregate Demand

What are the RBA's economic objectives?

- The RBA charter has ‘economic prosperity’, price stability (PS) and full employment (FE) as core objectives. In practice, focus has been on price stability since early 1990’s
- In 2024, price stability and full employment formally became “dual and equally weighted” objectives
- Price stability 2 - 3%; full employment approx. 4.0 - 4.5% (NAIRU/Full employment)

Implementation of MP – not mandatory – but could reference interest rate corridor and target rate.

Achieving the dual objectives of PS and FE is dependent on the RBA’s ability influence aggregate demand (AD) or the level of economic activity by changing interest rates. This is known as the ‘transmission mechanism’ and is normally done in a counter-cyclical manner

Expansionary stances (decrease interest rates). Contractionary stances (increase interest rates).

The transmission mechanism can impact all components of AD (sectors) of an economy via several ‘channels’. Students should show theoretical understanding of how the transmission works.

- Consumption (Household/Individual)
- Investment (Firms/Business)
- Government Expenditure (Government)
- Exports less Imports (External)
- Cashflow channel
- Savings/Investment channel
- Asset price channel
- Exchange rate channel

An evaluation requires students to show how MP has been used by the RBA. This could include:

- Covid response - highly expansionary
 - o conventional methods – OCR reduced to 0.1%
 - o Unconventional methods – additional liquidity - quantitative easing, term funding facility
 - o Evaluation? Economic performance better than otherwise? Too much? Contributed to high inflation?
- Post covid – highly contractionary
 - o 13 increases to 4.35%
 - o Evaluation? Inflation back to target. Ue is low and in NAIRU range.
 - o Economic growth remains low – reason for 3 drops in 2025 to 3.6%

Responses must include an evaluation/assessment and provide reasons/statistics to support

Marker Feedback:

Almost all responses were able to recognise the RBA's main economic objectives of price stability, full employment and stable economic activity, and show some understanding of the RBA's use of IR corridors and/or DMO in implementing the OCR. This was quite pleasing.

Better responses also explored macroeconomic and counter-cyclical theory with use of well-constructed and referenced ADAS diagram(s), often as part of a background paragraph.

Most students could describe how changes to the OCR impacts components of AD and in turn the RBA's economic objectives, however better responses were also able to explain the underlying theory in more detail by employing relevant transmission channel concepts.

Too many responses tried to evaluate the government's broader economic objectives of distribution of income/wealth and external stability. These are not RBA objectives and were best explored as a limitation or additional benefit in addressing its 3 core objectives.

What differentiated the higher marks from the remainder was a detailed evaluation of the RBA's effectiveness, supported with relevant contemporary data and examples. This was best done by evaluating against recent time periods. For example, during Covid the RBA's primary objective was eco stability and full employment, while it shifted its focus to price stability in the more recent post-Covid period.

Question 28 (20 Marks)

Evaluate the effectiveness of Australia’s environmental management policies in addressing environmental issues.

Criteria	Marks
<ul style="list-style-type: none"> ● Provides a sustained, logical and cohesive response that integrates relevant economic terms, concepts, relationships and theory ● Demonstrates a clear and comprehensive evaluation of the effectiveness of Australia’s environmental management policies in addressing environmental issues ● Develops an informed analysis of reason for these effects 	17-20
<ul style="list-style-type: none"> ● Provides a logical and cohesive response that applies relevant economic terms, concepts, relationships and theory ● Demonstrates a sound evaluation of the effectiveness of Australia’s environmental management policies in addressing environmental issues ● Develops some analysis of reason for these effects 	13-16
<ul style="list-style-type: none"> ● Provides a coherent response that uses relevant economic terms, concepts, relationships and theory ● Demonstrates some evaluation of the effectiveness of Australia’s environmental management policies in addressing environmental issues ● Demonstrates some understanding of reason for these effects 	9-12
<ul style="list-style-type: none"> ● Provides a generalised response that uses some economic terms and/or concepts ● Demonstrates some understanding of Australia’s environmental management policies and/or environmental issues 	5-8
<ul style="list-style-type: none"> ● Provides a limited response that uses some economic terms or concepts ● Identifies some aspects of Australia’s environmental management policies or environmental issues 	1-4

Answers could include:

Evaluation – make a judgement regarding effectiveness

Relevant Definitions

- Environmental sustainability / ecologically sustainable development
- private and social costs and benefits – externalities, market failure
- public and private goods – free riders

Environmental management policies

- international agreements

- targets
- market-based policies
- regulations

Environmental issues:

- preservation of natural environments
- pollution, climate change
- depletion of renewable and non-renewable resources.

No mandatory structure.

- One option would be to structure by the three environmental issues.
- Another would be to focus on arguably the most significant environmental issue of Climate Change. This would likely entail consideration of renewable and non-renewable resources. Students taking this option should still consider 'preservation of natural environments' within the essay.

Preservation of Natural Environment

- Flora and Fauna
- Examples: Great Barrier Reef, soil erosion, inland river systems, extreme weather events, plastic bags etc
- Legislation; Environmental Protection and Biodiversity Conservation Act 1999, Single Use Plastic Bags Act (2021) NSW etc

Climate change /Pollution,

- International Agreements
 - o Paris 2016
 - o Assessment – ads and disads
- Targets
 - o Emissions Reduction Targets – 2020, 2030 (43% below 2005), 2050 (net zero)
 - o Renewable Energy Target – 2020, 2030 (82%)
 - o Assessment – ads and disads
- Market Based Policies
 - o Focus of Australia's policies are incentives ('carrot', rather than 'stick')
 - o Should include economic theory of subsidies/private benefits and draw a subsidy diagram showing impact on P and Q.
 - o Contemporary policies
 - Future Made in Australia Fund
 - Renewable Energy Target Scheme
 - small scale – households 'solar rebate scheme'
 - large scale – energy producers – incentives to close coal fired power stations and build renewable powered (solar, wind, hydro)
 - National Reconstruction Fund
 - o Advisable to also include use of disincentives (indirect taxes/social costs) and draw an indirect tax diagram showing impact on P and Q.
 - o Carbon Tax – 2012-14, \$23/t, limited by political constraints
 - o Evaluation of MBP could be based on achievement of projected targets. Is debate about effectiveness. Made difficult due to costs and delays in building new distribution network. Political constraints due to issues regarding wind and solar including land clearing. Australia's ability to influence climate

change limited by global factor of 99% of emissions coming from outside Australia

- Regulations
 - o Government laws to mandate or prohibit
 - o Examples include Light Bulb Act (2007), Fuel Quality Standards Act (2000), Environmental Protection & Biodiversity Conservation Act (1999) and Plastic Reductions Act 2021
 - o Links can be made to Climate change and/or preservation of natural environments (including assessment)

Marker Feedback:

Most responses were able to display a good understanding the four main environmental management policy tools (IAs, Targets, Regulations and Market-Based Policies) and make some evaluation of their effectiveness. Better responses also provided a range of limitations each policy often faced.

Examining policies that address the environmental issue of climate change provided straight forward examples for targets and market-based policies. As the question asked for environmental issues, students needed to evaluate policies beyond climate change. Better responses highlighted a range of environmental issues in their introduction and explored regulations and IA's that targeted some of these issues.

Responses that incorporated relevant economic theory also attracted higher marks. This may have included market failure theory as part of a background paragraph, and integration of well-constructed tax and/or subsidy diagrams.