2023 ASSESSMENT REPORT
ECONOMICS (ECN315116)

Section A

Question 1

Cost benefit analysis (CBA) is a technique designed to determine whether a project should go ahead, i.e., do the benefits outweigh the costs? It not only includes private monetary costs but also externalities and non-monetary costs. It may consider economic, social, cultural, environmental costs, etc.

To complete a CBA:

- All costs and benefits are identified (current and future).
- A monetary value is assigned to each cost and benefit (this leads to many differences of opinion).
- If total benefits > total costs project should occur. May go ahead with regulation/conditions to mitigate some costs.

Examples could include mining in the Tarkine, AFL stadium on the wharf, cable car on Mount Wellington.

Question 2

A mixed economy is an economic system where the decisions made about production and distribution are made by a combination of market forces and government decisions (intervention). On the other hand, in a planned economy production, investment, prices and incomes are determined centrally by the government.

In a planned economy the government would make decisions around what and how to produce. In a mixed market, economy decisions about what and how to produce are made by buyers and sellers, factoring in the availability and cost of resources, consumer sovereignty, competition and government incentives and disincentives (which may include subsidies, taxes and regulation).

Answers which focused on all four questions were not given extra credit.

Question 3

Market failure occurs when the price mechanism takes into account private benefits and costs of production to consumers and producers, but it fails to take into account indirect costs such as damage to the environment. This often produces an outcome that is unacceptable to society.

There are four types of market failure:

- that associated with the provision of goods and services and common resources
- abuse of market power
- income inequality
- externalities (positive and negative).

Services is difficult and quality of life/standard of living may be impacted.

Positive externalities are unintended social benefits of market forces. In terms of market failure, positive externalities may refer to benefits for third parties not directly involved in the relevant transaction. Merit goods, those not produced in sufficient quantities by the private sector, include positive externalities not fully enjoyed by consumers e.g., health and education.

Stronger answers discussed the importance of government intervention for market failure.

Question 4

Sustainable economic growth occurs when there is a sustained increase in a country's productive capacity over time, commonly measured in gross domestic product (GDP). Sustainable economic growth aims to balance objectives of inflation, growth, unemployment and external balance.

Longer-term goals of sustainable growth involve international competitiveness, workforce participation and productivity, equitable income and wealth distribution, and environmental outcomes. It is important to measure more than GDP figures when assessing the welfare of a population. Real GDP (which accounts for inflation) is also not sufficient, as it does not account for some of the goals of sustainable economic growth (e.g., environment) or concerns around the general welfare (and wellbeing) of a population. Economic development is a broad measure of welfare in a nation and includes indicators of health, education and environmental quality as well as material living standards. Quality of life indicators include health standards, education levels, domestic work, damage to the environment and inequalities in income distribution. They may also include cost of living considerations. Students were not expected to cover all of these areas for full marks.

Question 5

Inflation is the sustained increase in the general level of prices over a period of time, often a quarter or year. This is commonly measured by the percentage change in the consumer price index (CPI).

Demand pull inflation occurs when aggregate demand or spending is growing while the economy is nearing its supply capacity, so that higher demand leads to higher process rather than more output; for example, increased demand for food, fuel, housing, etc.

Cost push inflation occurs when there is an increase in production costs that producers pass on in the form of higher prices, thus raising the rate of inflation; for example, oil price increases, wage price increases.

Overall, demand pull inflation is consumer (demand) driven, while cost push inflation is producer (supply) driven, increasing in prices.

Stronger answers used clearly labelled diagrams.

Question 6

Macroeconomics policies such as government budgets, changes in interest rates (fiscal and monetary policy) have a major impact on the overall level of economic activity and tend to influence aggregate demand in the economy.

Microeconomic policies involve specific measures to improve the operation of firms, industries and markets. These policies tend to influence the aggregate supply of the economy – that is, improving the productive capacity and efficiency so that the overall level of supply may be increased, and are often referred to as supply side economics.

A combination of macroeconomic and microeconomic policies is most often used by government to best achieve their economic objectives.

Most students correctly used Monetary or Fiscal policy as examples of macroeconomic Policy and specific microeconomic policies such as deregulation.

Question 7

The balance of payments (BOP) is the record of transactions between Australia and the rest of the world during a given period, including the current account and the capital and financial account. It is the most important economic indicator of the relationship between Australia and the global economy. It summarises all transactions, trade and financial flows, in (credits) and out (debits) of the Australian economy.

The current account is the part of the BOP that shows the receipts and payments for trade in goods and services, transfer payments and income flowed between Australia and the rest of the world in a given time period. Transactions are non-reversible.

The capital and financial account records the borrowing and lending, sales and purchases of assets between Australia and the rest of the world. Transactions are reversible, e.g., borrowing being repaid, assets sold again. A clear relationship exists where the Current Account and the Capital and Financial Account balance. When one is in deficit, the other is in surplus.

Question 8

A floating exchange rate is when the value of an economy's currency is determined by the forces of demand and supply in foreign exchange markets. The below diagram is a market equilibrium diagram for value of the Australian dollar in terms of the US dollar.

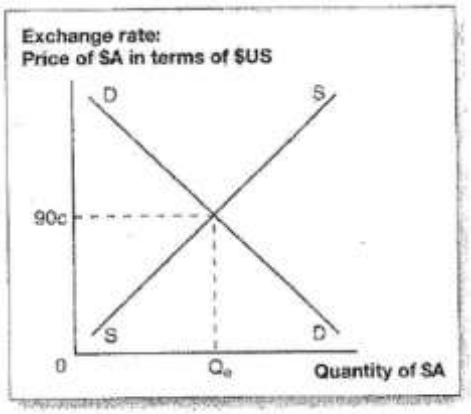

Figure 5.1 – Exchange rate determination under a floating exchange rate system

Appreciation of the $A may be caused by an increase in demand for $A (e.g., due to increased demand for exports, increased foreign investment) or a decrease in supply of $A (e.g., due to increased domestic demand for imports).

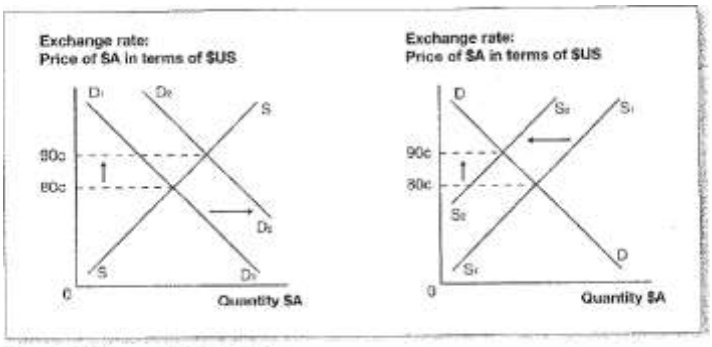

Figure 5.2 – An appreciation of the $A

Depreciation of the $A may be a result of a decreased in demand for $A (e.g. due to a deterioration in investment opportunities in Australia or international competitiveness) or an increase supply of $A.

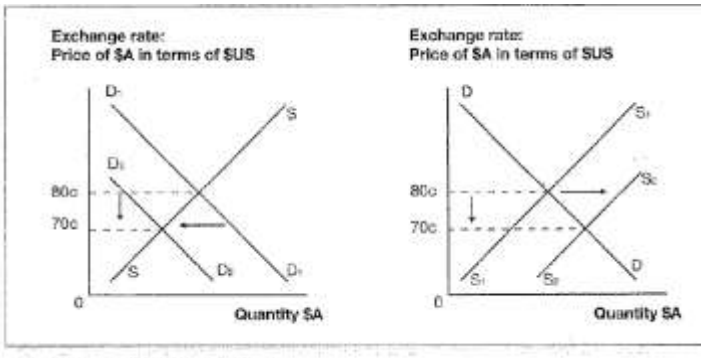

Figure 5.3 – A depreciation of the $A

Question 9

Australia's major exports include mineral resources (such as iron, coal, gold, aluminium and copper), natural gas, crude petroleum, beef, education (international students) and tourism.

Many of our export markets are in Asia, including China, Japan and India. Australia also has important export partners in the United States and United Kingdom.

Trade is important to Australia for many reasons. It allows consumers and businesses to obtain goods and services they cannot produce themselves; for example, a technology company may need software developed outside of Australia to improve theory own business. As well, innovation and economies of scale offered by trade may increase efficiency and reduce production costs. Increases in choices for consumers, increased employment and economic growth may also leads to higher living standards. Only two examples were needed.

It could also include:

- efficient allocation of resources due to comparative advantage
- specialisation (increased production)
- international competitiveness improving domestic production.

Section B

General Points about Section B

- Full and clear annotation of graphs is essential for strong marks in Section B.
- Both written explanations and graph annotation contribute to the Criterion 5 mark.
- Students should read the questions carefully and address all parts of the question.
- Special attention should be paid to the titles of graphs.
- Graphs relating to supply and demand may appear in all three parts of this section, but graphs for a market, Aggregate Supply (AS)/Aggregate Demand (AD) and international trade each have distinct features.

Question 10

a. Most students successfully plotted a Production Possibilities Frontier from the table provided but there were a significant number of papers with errors. Stronger responses included:
    - units on both axes
    - the points (A, B, C etc) plotted on the graph
    - a line connecting these points.

b. Only short, clear responses were required, describing the opportunity cost of gaining an additional 50,000 units of consumption goods as the loss of 30 capital goods. This could be done by simply reading off the graph and using simple arithmetic (i.e., 180 – 150 = 30) Some students used alternative methods to calculate opportunity costs, and if this was done correctly full marks were given, but several mistakes were made (such as not noticing that consumption goods were in

thousands). Better responses also recognised that because capital goods are a factor of production, less of them will result in lower levels of growth in the future.

c. In addition to clearly marking up the graph correctly, a range of student responses were accepted for this part of the question, with a common observation being that the point was below the production possibility frontier (PPF) and thus implied that resources were not being utilised.

Question 11

a. A preference for landlords to place investment properties on the short-term rental market will result in a decrease in supply on the long-term rental market. Several students read the word 'preference' and treated this as a demand factor, while others drew a graph of the short-term rental market instead of the long-term one as detailed in the question. Better responses clearly labelled the graph and discussed the impact on both market price and quantity.

b. Students that demonstrated the impact of a price ceiling on the graph by showing how this would result in a greater level of demand than supply (a shortage), along with a brief explanation were rewarded. Several students treated this as a change in supply or demand, with partial marks given for this.

Question 12

a. Answers that made an effort to describe elasticity (as per the question) were rewarded. An example of a description could be: "As total revenue rises when the price rises, this is inelastic demand, indicating that consumers are less sensitive to price changes". While some reference to the total revenue (or outlay) method was expected, responses that used alternative methods to calculate elasticity were accepted, however some students incorrectly applied these methods.

b. Stronger responses made a connection between an increased tax on petrol and the demand for electric cars. This may have been as simple as stating that higher petrol taxes raised running costs for petrol cars, which will increase demand for substitute goods such as electric cars. Students were required at minimum to identify that demand would increase/shift right, and this would raise both the equilibrium price and the quantity.

Question 13

a. Better responses separately discussed the period of expansionary monetary policy and later increases in the cash rate in order to address changing economic circumstances. Possible discussion points included recognising that low interest rates have contributed to getting inflation up from its below-target level, but have not yet had the desired impact on reducing inflation after June 2022. Another valid point made by several students was the observation that monetary policy has a lagging impact on inflation, so an immediate return to target should not be expected. Discussion of the transmission effect was not expected in this answer.

b. This was a very simple question that most students addressed well. The most common quarters chosen were March 2022 and March 2023. Approximate values (below 0.5%, around 0.1%) were perfectly acceptable. Some students did not read the question and cited periods prior to December 2021.

Question 14

a. Most students successfully marked up the graph as an increase in aggregate supply, with most also explaining the impacts on inflation (falling) and output (rising). Several students confused macroeconomic equilibrium with market equilibrium and used language more appropriate to discussion of a market than the whole economy. Some students discussed a specific market (housing) rather than the macroeconomic situation.

b. Many students correctly explained the intent of an interest rate rise (to reduce inflationary pressures) and connected this to the situation in the graph, where inflation was falling without central bank intervention to conclude that this would reduce the likelihood of further rate hikes.

Question 15

Students are reminded that no formula sheet is provided in the Economics exam, and these must be learned. It is also advisable to write these formulas down so partial marks can be given to students if they have incorrectly performed arithmetic but have shown that they know the formula required, as it is difficult to award any marks to incorrect answers with no evidence of working. Students should also pay attention to any details in the table of data, in this case the number of employed was expressed in terms of millions of people, while unemployed were expressed in thousands, requiring an adjustment to be made in calculations. It was not difficult to obtain full marks for this question.

a. Several students made fundamental errors on this part. These included incorrectly calculating the labour force or using the working age population instead of the labour force. Answers to either one (3.7%) or two (3.68%) decimal places were accepted.

b. Most students correctly calculated the inflation rate as 5.2%, with 5.15% also accepted.

c. Problems with item a) were mirrored in this question as students needed to correctly identify the size of the labour force. Some students clearly did not know how to do this.

d. A wide range of responses was accepted for this question, a basic understanding of real gross domestic profit (GDP) was rewarded but no explanation of nominal GDP was required.

Question 16

a. Most attempts at this question successfully recognised that a higher cash rate would make Australia a more attractive investment destination for foreigners, resulting in increased demand, a higher value for the Australian dollar with a higher equilibrium quantity. Correct annotation was also required for this part of the question.

b. Again, most students explained that an appreciation of the Australian dollar would require foreign importers to exchange more of their currency for the same goods/services, thus reducing demand for Australian exports.

Question 17

a. Correct annotation of the graph in this question was important. Students who drew a parallel line above the world price (but below or at equilibrium price) and demonstrated the change in supply and demand (and therefore the change in imports) were well rewarded. Several students incorrectly treated the tariff as a decrease in supply.

b. Most students correctly explained the impacts on consumers (more expensive petrol), businesses (great for local producers, increased costs for businesses in general), the government (increased revenue) and overseas producers (less exports to Australia).

Question 18

a. Stronger responses to this question identified that the net primary income balance was in deficit for the entire period, but that this deficit narrowed to begin with before widening out to a larger deficit. It was not necessary to give a detailed description of the net primary income account, but a simple description (e.g., returns on foreign investment) helped to demonstrate that candidates understood the context.

b. Better answers discussed how a widening of the net primary income deficit would, on its own, contribute to a falling current account surplus or a worsening current account deficit, but that in this 4-year period this had not happened due to an offsetting surplus on the net goods and services account, thus demonstrating that the current account is comprised of both. Knowledge of the net secondary income account was not required, and there was no need to discuss the capital and financial accounts.

Section C

Question 19

Criterion 3

a. Students generally addressed this question to a suitable standard by identifying a number of costs to individuals and businesses potentially also using the stimulus. Stronger responses delineated more of these to a higher standard and with more articulation and precision of language. The mechanisms by which high inflation imposes these costs were also correctly described in stronger responses. Some of the most common costs being evaluated were:

- Individuals: Increased costs of living, reduction in standards of living/material and general welfare, reduced purchasing power, low-income earners disproportionately impacted, value of savings eroded, reduction in spending, decrease in real wages, price signals distorting decision making, loss of consumer confidence, resulting monetary policy rate rises increasing debt burdens and reducing disposable income, reduction in employment in medium/long term.
- Businesses: Increase costs of inputs/factors of production, reduction in sales/revenues, operational costs pushed to consumers, increased wage requirements and resulting labour reductions, resulting monetary policy rate rises increasing existing debt burdens, increased cost of borrowing delaying or reducing investment decisions – long term productivity/profitability implications. Reduction in international competitiveness for import competing industries.

Note that an explanation of a few of these points were rewarded with good marks.

b. Most students were able to identify that these goals are conflicting and inversely related and responses varied between: (i) business cycle stages being utilised to highlight high levels of growth/AD leading to low levels of unemployment but increasing inflationary pressures during a peak with the inverse occurring during a trough; or (ii) separate discussions about how each goal and factors that influence their achievement.

- In the first style, students inferred that the question wanted discussion around challenges of achieving both goals simultaneously. This was appropriate but not necessary for full marks – the stronger responses started at either peak or trough and described the relationship between levels of unemployment and growth/AD, the mechanisms (higher or lower income levels), the rationale for those levels of income (demand for labour, as a result of AD/income levels), discussion of inflationary pressures resulting from economic conditions (demand-pull/cost-push), language such as full employment, tight/loose labour market, cyclical unemployment, non-accelerating inflation rate of unemployed (NAIRU), capacity, above Reserve Bank of Australia (RBA) target band 2-3%, was included to make the necessary link between unemployment and price stability as challenging goals to achieve together. Stronger responses then included macroeconomic policy theory used to achieve one goal – cash rate up/down, and or budget surplus/deficit – automatic stabilisers, taxation, discretionary spending – followed by a detailed discussion of the inverse effect on unemployment and inflationary pressures with mechanisms described. Though students could achieve full marks without this, some stronger responses included the role of microeconomic policy in productivity and reducing supply side constraints on reducing inflationary pressures that can make achieving both goals challenging during peaks but recognised these are long term solutions.

- In the second style, stronger responses described the goals of both low unemployment and low and stable inflation separately. Unemployment and Inflation goals were identified and used well later when describing the economic impacts of policy decisions to achieve one goal that led to conditions in achieving the other goal. Strong responses ensured there were causal links between policies/conditions and their impact on the economic goal. This was then coherently utilised to discuss the challenge of achieving each goal individually. In this response style it was common for students to discuss factors other than inflation or unemployment when discussing the challenges in achieving the other. For example, when discussing challenges for achieving low unemployment common points included: interest rates, AD and AS, business confidence, technological changes, microeconomic policy (education levels demographics, labour market regulations), global conditions, fiscal stance, increasing labour force participation rates, decreasing unemployment beyond cyclical unemployment. For price stability common points included: Growth AD and AS, global conditions, production costs, government policy (cash rate, fiscal tools), exchange rates, productivity, consumer confidence, price expectations, technology, supply side shocks.

c. For social justice, strong responses may have included some of the following: reducing income equality, reducing poverty, reducing hardship, increasing quality of life/material and general welfare, reducing impact of cost-of-living increases. For practical limitations the most common responses included: impact on businesses' costs of production, resulting unemployment concerns, wage-price spirals/further inflationary pressures, regional disparities.

   The strongest responses provided more specificity to their point or evaluated their points in relations to pros and cons. For example, responses that identified low-income or fixed income earners as beneficiaries of increased material and general welfare/reduced hardship to cover basic living expenses were stronger than those specifying all Australians from the social justice perspective.

Criterion 4

d. This was mostly answered to a good standard, although many students simply listed costs to individuals and businesses without offering further evaluation. Better responses identified positive impacts of a higher cash rate for those with savings, extended their discussion on businesses to the impact of an appreciating Australian Dollar (AUD) on exports, or clearly identified how the impacts on businesses and individuals were often an example of cause-and-effect; a number of students also identified that while a contractionary monetary stance has exacerbated cost-of-living pressures, particularly for low-income earners, not taking action against inflation would cause more pain for these groups in the long-term.

   Many students wasted time detailing the process by which the RBA influences the economy through the cash rate, which overlapped with item f). However, answers that opened by briefly linking the higher cash rate to its intended reduction in C and I were appropriate.

   Students should be mindful of the different marks allocated to questions and to structure their answers accordingly – many responses for e) (and even f) were longer than the answers for d), despite it being worth the most points.

e. Most students correctly identified that the government could adopt a contractionary fiscal policy stance to address high rates of inflation. A number of students differentiated between discretionary and non-discretionary measures and correctly linked a reduction in Government expenditure and an increase in taxation to the appropriate components of Aggregate Demand.

   Quite a few students offered microeconomic policy solutions, either by identifying the long-term positive impacts of increasing AS, or by suggesting changes to the minimum wage or imposing price ceilings on essential goods to alleviate the impacts of high inflation. As the question explicitly called for a macroeconomic policy, only partial marks were awarded for these answers. Other students identified fiscal policy as an alternative solution but then argued for increased government spending to support individuals and businesses meet the higher costs of living without recognising that this would contradict the RBA's efforts.

   Disadvantages of a contractionary fiscal stance included:

   - the impacts on various sectors and social groups of reduced government spending
   - the political unpopularity of higher taxation and its potential to disincentivise workers
   - broader social justice issues linked to taxation, with some answers addressing this by calling for increased taxes on high-income earners or proposing an inheritance tax
   - the time lag of fiscal policy meaning that the impact of these measures might take effect at the wrong time in the business cycle, thus leading to significant unemployment and a possible recession.

f. It was pleasing to see most students differentiate between the cash rate and interest rates. Better answers identified the incentive to save as well as the increased servicing costs of borrowing. A number of students explicitly linked their discussion to the transmission mechanism; while this was not required for full marks, students did benefit from detailing some of the different channels. Many students appropriately demonstrated the impact of reduced C and I through an AD/AS diagram.

Question 20

Criterion 3

a. The 22-23 federal budget was projected to achieve a surplus, indicating a contractionary stance in the economy. This outcome is attributed to reduced unemployment, leading to a decline in welfare spending by G and increased personal income tax and Goods and Services Tax (GST) revenues alongside higher-than-budgeted company tax revenue.

   While some responses acknowledged the budget surplus, some failed to mention the contractionary stance. Better responses recognised that the budget incorporated both contractionary and expansionary elements.

   Social Justice: Contractionary measures adversely impact social justice by increasing inequality, particularly affecting marginalised communities. Reduced welfare payments due to budget constraints exacerbate disparities, impacting vulnerable populations most. National Disability Insurance Scheme (NDIS) could face setbacks, hindering support for individuals with disabilities. Unemployment may increase, disproportionately affecting the most vulnerable and straining social

services. Potential cuts in government spending on education and healthcare further deepen socio-economic inequalities, perpetuating systemic injustices.

Practical limitations: Contractionary impacts on practical limitations ideas include time lags between implementing policy and results flowing through to the economy, politically unpopular policy, difficulties with having policy approved through government. Government debt means that cash flow is reduced by interest payments, which can limit future spending capacity. GST raising is unpopular, impacts on AUD and trade.

Some students spent too much time focusing on contractionary fiscal policy and omitted the social justice and practical limitations part of the question.

b. Costs to business: difficult to recruit employees because few people are looking for work, higher wage costs as they need to offer incentives to attract staff, need to advertise (cost), need to train (cost)

Benefits to business: Increased consumption expenditure increases demand, increased output and potentially profit.

Costs to government: inflationary pressure (demand pull and cost push if there are supply constraints) Labour shortages, looking to make up with migration, Supply chain issues.

Benefits to government: Increased tax revenue base, higher revenues collected, higher GST collection because of increased consumption. If there is an economic upturn, then more business activity means that there is likely more business profit from which to collect taxation. But increased labour costs can impact profitability. Reduced welfare spending.

Some responses misread the question and confused low unemployment to mean low employment.

Better responses discerned between cyclical and structural unemployment, differentiating impacts on businesses and government. They also distinguished the costs and benefits to both businesses and the government separately.

c. A range of responses was accepted here, including increased cyclical unemployment, possibility of greater inequality, leading to the need for government paid welfare payments. Businesses experiences reduced demand, leading to lower output and a fall in their use of Factors of Production. Increased unemployment has a range of issues, including reduced standards of living, slowing growth is often associated with a lack of consumer and business confidence. Pressure on government to spend (on welfare).

Better responses included a broad range of costs and did not just focus on one issue. Some responses said the optimum target growth range is 2-3%, which is incorrect.

Criterion 4

d. Effective responses highlighted that the Reserve Bank of Australia (RBA) governs expansionary monetary policy, resulting in reduced interest rates. The mechanisms at play, such as the cash flow channel, saving-investment channel, exchange rate channel, and asset channel, could be highlighted. Some responses noted that interest rates are a blunt instrument, with considerable time lags before its full impact on the economy is realised.

   While monetary policy is the preferred solution, the question's ambiguity led to the acceptance of taxation as an answer.

   Better answers explained both strengths and weaknesses of employing expansionary monetary policy to ensure economic recovery. Strong answers included diverse perspectives, rather than simply stating an overview of loosening monetary policy.

e. A good understanding of microeconomic policy, explaining the key features of microeconomic policy was needed. Better answers mentioned that microeconomic policy is designed to improve the efficiency of product or factor markets and is usually targeted at specific industries. It results in increases to AS, where prices fall, output rises, however it takes longer for results of the policy to unfold. A diagram showing an increase in AS was useful but was not essential.

   Better answers included an example to support the objectives of microeconomic policy e.g.: reduce red tape, deregulation, increased use of technology, subsidies, competition policy, education, training, labour market policies.

f. GST is a value-added tax levied on the supply of goods and services at each stage of the production and distribution chain. Very few students knew this as GST is not explicitly mentioned in the syllabus.

   - Impact on individuals: Higher prices, Regressive taxation leading to greater inequality.
   - Impact on government: Increased revenue collected. GST is politically unappealing.
   - Many students said that GST reduces personal income, which is not accurate, as GST is a consumption tax. It is added to the price of the good, leading to higher prices.

Question 21

Criterion 3

a. This question required students to explain the 'benefits' of exporting large quantities of commodities, in particular coal and natural gas. Students who emphasised the overall significance of exports to the economy received credit. However, both this portion and the subsequent section were specifically centered around mining, particularly coal and natural gas. So, it was important to have that as central parts of the answer. The question also required students to divide their answer into the benefits for individuals, business and government. Benefits that could be discussed included:

   - The benefits for individuals stemmed from employment opportunities in the respective industries, and the impact of this both economically and socially.

- All else being equal, increased exports may lead to increased demand for the Australian currency, resulting in cheaper imports for both individuals and business.
- Coal and natural gas mining businesses benefit from increased demand, flowing onto increased production, expansion of operations, employment of resources, increased sales revenue and increased profits.
- Governments benefited from increased royalties, increased income tax, less welfare payments due to increased employment, and the opportunity for improved budget outcomes. Some students also discussed increased economic growth due to the increase in exports and the consequent benefits of the multiplier effects throughout the economy.

b. This question required students to evaluate the 'costs' to Australia of increased coal and natural gas exports. Better answers evaluated the economic, environmental and social costs. Costs that could be discussed included:

- The negative externalities created by the production, transport and processing of coal and natural gas. Either directly impacting Australia or indirectly through the global impact of increased carbon production.
- The focus on coal and natural gas production is an example of the narrow export base of the Australian economy, making the economy prone to currency fluctuations and encouraging a less dynamic economy.
- The future of the coal and gas industry should have been discussed as the global economy moves towards low carbon production, and the consequent impacts of this on the Australian economy.
- Increased export demand will result in increased aggregate demand and this may have inflationary effects.
- An appreciation of the currency will make some exports less internationally price competitive.

c. This question asked for students to discuss the 'impact' on business of Free Trade Agreements with the United Kingdom (U.K) and the European Union (E.U). It is important for students to note the 'impacts' can be both negative and positive.

Weaker answers just discussed the benefits of increased access to U.K. and European markets for business and the increased range of imports and more competitively priced imports for individuals and business. However, free trade agreements have a range of benefits and costs, and better answers incorporated these into their answers, such as:

- Benefits could include greater exports, employment, economic growth, importing business benefit, cheaper imports of capital equipment.
- Costs could include local businesses failing, unemployment in uncompetitive industries, increased imports, more competition.

Criterion 4

d. This was a straightforward question and required students to evaluate the costs and benefits of globalisation for individuals and business.

Weaker answers might have focused on the costs and not the benefits, and vice versa. Some students also did not link their evaluation to both individuals and businesses.

Better answers focused on the benefits and costs of globalisation more broadly, not just increased global trade in goods and services.

There was some repetition of student responses from item c) and this was acceptable given the overlap between the questions.

e. This question asked students to 'analyse' a government policy to promote trade in industries other than mining. A key word in the question is 'analyse'. Most students suggested the government introduce subsidies. This required an explanation of how a subsidy would increase trade, as well as examining the impacts on the economy of a subsidy.

   Weaker answers focussed on providing subsidies for industries such as automotive and clothing. These were not good examples, as the Australian government had previously abolished subsidies for these industries due to lack of international competitiveness. However, suggesting subsidies as a policy is not incorrect, as long as an appropriate industry was used.

   Good examples were future-oriented industries such as renewable energy technologies or production of "green' energy", where the Australian government is currently providing various forms of financial support.

   Better answers suggested policies such as microeconomic reforms (skills and training, labour market, competition policy,…) to assist in increasing supply in service industries where Australia is more likely to be internationally competitive.

f. Students needed to be able to integrate into their answers a knowledge of the composition of the Current Account (CA) as part of the Balance of Payments. Many students only talked about the 'Net Goods and Services' component of the Current Account. Some students also confused the term 'surplus' with a Budget surplus. Benefits of a Current Account surplus that could have been detailed are:

   - Net income flows into the economy acting as an injection into the circular flow.
   - Less reliance on foreign liabilities that have been previously required to finance CA deficits.
   - The economy becoming a "net lender", which in turn will increase inflows of income into the Net Primary Income Account, having a positive impact on the Current Account.
   - The net inflows of funds in the Current Account will have a positive impact on the currency which reduces import prices and also reduces Australian Dollar repayments of debt and servicing costs.
   - Students could have also discussed overcoming the problems of a Current Account Deficit (CAD) – volatility of the currency, loss of investor confidence, the opportunity costs of servicing costs of foreign liabilities, and so on.

Question 22

Criterion 3

a. This question required students to evaluate the impacts of protectionism and how a shift away from globalisation would impact social justice and environmental concerns. Elements that could be discussed included:

- The impact on low-income earners when goods and services become more expensive.
- Gains and losses in different industries as related to levels of unemployment.
- Potential inflationary impacts due to higher prices for imported products
- A decrease in pollution and negative environmental outputs associated with decreased transportation
- Reduces production being outsourced to countries with low environmental standards and poor employment standards
- An environmental cost could be less cooperation on global issues such as climate change.

b. This question required students to evaluate the impact on individuals and business of an appreciating Australian dollar. Impacts that could be discussed included:

- Cheaper imports can increase the standard of living for many.
- Job losses may result from this.
- Domestic travel may decrease due to international travel becoming more affordable.
- Businesses may lose a share of the international market.
- Production costs might decrease.
- It would become harder for businesses to compete again imported products as they have decreased in price.

c. This question asked for students to identify and explain one likely effect of a depreciating Australian dollar on the Balance of Payments current account.

- The balance of trade is likely to be affected with the volume of exports likely to increase and the volume of imports likely to decrease.
- Net incomes will also be affected with the deficit likely to get bigger as loans in foreign currency will cost more to service – the level of protection afforded to Australia when borrowing in $AUD is not always provided when foreign currency is concerned. More and more $AUD will be required to maintain this account.

Criterion 4

d. This asked students to explain the point of view that Australia was in a positive position by having a relatively high level of foreign liabilities (net foreign debt and net foreign investment). Points that could have been included in this explanation included:

- If foreign investment resulted in higher production and generates income, the benefits are greater than the costs.

- Essentially, the increased finances provided from foreign debt provides the opportunity for increased consumption and investment within the economy. This would not be the case should these additional funds not be available.
- Marks were also awarded for the recognition of technologies, business practices and training and development that may arrive with foreign companies, as well as expanded international markets.

e. This question asked students to evaluate the benefits to the Australian economy of China reopening including decreasing trade barriers on specified Australian exports. Points that could be included were:

- Australian exports, particularly to China, would most likely increase. An increase in demand for Australian goods would result. Students were able to successfully make this point by referring to examples of beef, barley, wine and seafood in the Australian economy.
- The flow on effect was also often recognised – that of increases in employment, output and exports.
- Governments would also be the beneficiary of this increased economic output and activity
- The decrease of trade barriers would most likely lead to an increased and improved access to goods produced by China – this is in turn could lead to an easing of inflationary pressures.

f. Students were asked to suggest one course of action that could be implemented to strengthen a depreciating Australian dollar. Courses of actions that could be included were:

- The increasing of demand or the decreasing of supply.
- Methods to increase demand for the dollar could include the RBA increasing the cash rate and the stimulation of export growth.
- Students were rewarded for including a fully and appropriately labelled diagram to illustrate their point.