2024 ASSESSMENT REPORT
ECONOMICS (ECN315116)

Section A – Criterion 1

Question 1

This question required candidates to explain the role of government in a mixed market economy as well as look at how market failure is addressed. Generally, responses to the first part of the question were brief. Candidates who took time to define mixed market economy and the role of government in regulating businesses, providing public goods and services, redistributing income, correcting market failures, etc. were rewarded with strong marks. Using examples to describe how taxes are applied to goods with negative externalities (increasing price and thus decreasing demand), how government intervenes with regulations to stop the negative effects of market power (price gouging, collusion etc.), and how a progressive tax system aims to redistribute income from higher to lower income households to reduce income inequality were popular and rewarded with strong marks.

Question 2

This was a popular question with stronger responses stipulating the greater/less than proportional response in demand to a price change for elastic/inelastic goods. Factors influencing price elasticity of demand such as: necessity vs. luxury, availability of substitutes, proportion of income spent, addictiveness or habit forming, etc. were rewarded. Graphs of demand, although not required, showed candidates' understanding of how a price change can result in different changes in quantity demanded. Responses that included some level of detail in explaining the significance of price elasticity of demand to business decision making were rewarded. The preference of businesses to inelastic goods allowing an increase in price and resulting in an increase in revenue, or wariness of increasing prices on elastic goods (resulting in reduced revenue) could have been included. Some candidates based their response around the total revenue method; this was acceptable.

Question 3

Stronger responses linked the three parts of this question together: the economic problem, the concept of opportunity cost, and the Production Possibilities Frontier (PPF). An annotated PPF was the clearest way to show an understanding of opportunity cost with a practical example (capital vs. consumer goods, guns vs. butter, apples vs. oranges, etc.). Opportunity cost is the next best alternative want foregone. Candidates are reminded to read the question thoroughly; some candidates gave clear explanation of the concepts but neglected to draw a PPF diagram which was a requirement of the question, resulting in a loss of marks.

Question 4

This was a popular question with strong responses illustrating the Business Cycle with correct annotations and clear, concise explanations of each phase. Most responses linked the impact of at least two different phases (expansion and contraction, or upturn and downturn) on unemployment, inflation and economic activities. The phases of the business (or economic) cycle can be described by various terms, although specific terms for these phases are not included in the course document. Higher marks were awarded to those who defined the concept (e.g. the fluctuations in the level of economic growth due to either domestic or international factors), described the process (e.g. during a boom, the increasing level of consumption and investment, and rising income levels usually lead to higher levels of inflation), and some responses included the Phillips Curve, showing the inverse relationship between the unemployment and inflation rate.

Question 5

Stronger responses answered this question with three major parts: explaining the fiscal policy (as a macroeconomic policy that influences resource allocation, redistribution of income and smoothing out the fluctuations of the business cycle through government spending and taxation), explaining the automatic stabilisers and describing the two correct examples. Automatic stabilisers can be defined as those changes in the level of government revenue and expenditure that occur as a result of changes in the level of economic activity, i.e. unemployment benefits (transfer payments) and the progressive income tax system. Higher marks were awarded to responses that explained fiscal policy as a demand management tool, correctly linking it to the different components of Aggregate Demand (consumption, investment, government expenditure, net exports), the counter-cyclical role of automatic stabilisers, and the influence of non-discretionary changes in the level of economic activities on budget outcomes.

Question 6

This question required candidates to define the unemployment rate and the participation rate, and in doing so compare and explain the difference between the two, i.e. the unemployment rate measures the percentage within the labour force who are currently without a job, while the participation rate measures the percentage of Australians who are in the labour force. Responses that concisely defined the working age population, labour force and unemployment were awarded with strong marks. Candidates could answer either the impact of unemployment or the decrease in participation rate on output. Both situations should have a negative impact on output, as they relate to the underutilisation of resources in the labour force. Stronger responses incorporated the relationship between labour (as a factor of production) and the total productive capacity of an economy in the long term, e.g. the increase of structural unemployment and government expenditure on transfer payments.

Question 7

Better answers to this question identified foreign debt as the total value of outstanding loans by foreigners to Australia. Some papers discussed this in net terms, recognising that Australians may also lend overseas. As the course document does not specify details about foreign investment, answers that discussed the purchase of assets such as shares or property, funding of capital in

new or established businesses were accepted, with no expectation for students to differentiate between portfolio or direct investment. Most students had more to say on the benefits of investment than debt. Responses that discussed debt as a consequence of foreign loans used for investment purposes were accepted. While a variety of responses was possible, most students successfully discussed the idea of the investment gap whereby Australian savings historically have not been sufficient to finance all the investment opportunities, with benefits such as jobs, higher incomes and tax revenue all flowing on from this foreign investment.

Question 8

This question directly relates to the course document, with students being expected to know some of Australia's major exports. This should include goods/commodities (such as iron ore and coal) and services (such as education). Details such as dollar values or percentages of total exports were not required. 'Direction' refers to our major trading partners, and should include mention of both exports and imports, with multiple Asian nations being listed amongst these. There were several acceptable angles to take on the significance of Australia's trade with Asia, such as complementarity (Australia produces raw materials, many Asian economies need these and supply Australia with manufactured goods), proximity and a growing population with rising incomes. Candidates are reminded to answer all parts of the questions for the best opportunity to maximise marks.

Question 9

Tariffs were a more popular choice than subsidies, possibly due to the added complexity of drawing a subsidy diagram. Stronger responses recognised additional differences beyond simple definitions—tariffs are a tax on imports, while subsidies are payments made to domestic businesses. These responses detailed how each measure would affect import-competing businesses and exporters, and whether they would generate government revenue or require spending. For full marks, a subsidy diagram needed to incorporate the world price, but partial marks were awarded for diagrams showing a fall in price and a rise in equilibrium quantity. Partial marks were awarded if a diagram was omitted, as the question explicitly required one.

Section B – Criterion 2

Question 10

This question was generally well attempted, with stronger responses demonstrating a thorough understanding of all parts. High-achieving students in part (a) provided a clear definition of a perfectly inelastic good, supported by precise examples such as life-saving medications, and included well-drawn diagrams to illustrate the concept. Relatively inelastic demand was also accepted.

In part (b), most responses correctly identified bananas as having inelastic demand. Stronger answers explicitly showed their total outlay calculations, effectively linking these to the conclusion. This demonstrated a solid grasp of how price changes impact total revenue for inelastic goods.

For part (c), responses were accepted if students accurately identified the curves for watermelon (flatter) and chocolate (steeper) without further explanation. This allowed markers to focus on the candidates' ability to distinguish between different elasticity curves visually.

Question 11

This question produced a variety of responses, with stronger answers demonstrating a clear understanding of opportunity cost and PPF.

In part (a), high-performing students correctly illustrated the shift of the PPF due to the introduction of new technology in the manufactured goods sector. These responses explicitly outlined the impact of technological advancements, emphasising the sector-specific nature of the change. Weaker responses often failed to identify that the shift was limited to the manufactured goods sector or provided only generic explanations of PPF shifts.

Parts (b) and (c) were generally well-answered. Most candidates accurately labelled the points of inefficient resource allocation and impossibility of production on the PPF diagram.

Part (d) saw a mix of responses. Markers accepted calculations of opportunity cost or unit opportunity cost. Some students discussed how this shift could lead to healthier diets due to increased availability of agricultural goods, potentially causing food prices to decrease while manufactured goods became more expensive. Markers also credited responses that examined the trade-offs between consumer and capital goods, reflecting on the broader economic consequences of resource reallocation.

Question 12

This question presented a challenge for many students, with a clear distinction between stronger and weaker responses.

In part (a), weaker responses failed to recognise that a change in the price of the good itself results in a movement along the demand curve, rather than a shift of the curve. Stronger responses demonstrated a solid understanding of basic supply and demand theory by correctly explaining how a price change leads to a surplus, noting the impact on quantity demanded and supplied at the new price level.

In part (b) supply increases and the supply curve shifts right and, similarly, in part (c) demand increases and the demand curve shifts right. These parts were well answered and most students accurately depicted these shifts with stronger responses providing clear explanations.

Part (d) saw a range of responses, with stronger answers highlighting the benefits of increased education on the labour force, such as improved skill levels, reduced structural unemployment, and overall economic growth. These responses also discussed the broader impact on living standards, showing an understanding of how investments in education can drive long-term positive changes in the economy. Various acceptable responses were credited, including those that emphasised the role of education in enhancing productivity and fostering higher employment rates.

Question 13

Most students selected a correct period of slowing economic growth (many students selected 2019-2020 when growth was negative). Some candidates used the inflation level and/or cash rate to suggest a reason for this trend and some students used real-world reasons, such as COVID. Better responses made a connection between an event and the impact this had on aggregate demand and therefore economic growth and inflation. Better answers also referred to 'slowing GDP growth rate' rather than 'slowing GDP'.

Stronger candidates used the terms 'contractionary', 'neutral' or 'expansionary' in their response and evaluated the effectiveness of the RBA's stance rather than simply quoting figures from the table. Candidates that mentioned the 'time lag' were rewarded. Students should read the question carefully, as some students did not talk about inflation but talked about GDP growth or interest rates

This was a more difficult question, as GDP is still growing just at a slower rate, therefore, the aggregate demand (AD) curve shifts out to the right; this is the only option which supports an increase in inflation and low but positive economic growth during this period. Partial marks were given to students with alternative responses. Many students missed part c) altogether with very few receiving full marks. It is recommended that students learn to differentiate between a falling growth rate and negative economic growth.

Question 14

This question highlighted the need for students to have firm grasp of both the formulas for calculating unemployment rates but also an understanding of the key concepts represented by these formulae. Better answers included the formula, showed their working and appropriately used rounding conventions (one or two decimal places accepted) (i) = 3.9%, (ii) 3.5% (iii) 66.6% Numerical answers must also include units (% in this case) for full marks.

A common issue with part b) of this question may have been prevented with a more careful reading, as several students discussed unemployment trend rather than underemployment. An analysis of the trends rather than simply pulling figures from table was required for full marks. It is important that answers reflect an understanding that underemployment is when people are working less than full time but would like to work more rather than all casual or part-time workers.

Question 15

In parts a) and b) students should pay careful attention to the units given in the schedule. In this case, millions of dollars. Failure to grasp this resulted in some errors.

- Part a) AD = C+I+G+(X-M) =$581,000 million.
- Part b) $581,007 million.
- For part c) students that demonstrated a clear understanding of the relationship between income, expenditure and output in the circular flow model were rewarded. For full marks students were required to mention equilibrium and talk about firms paying out income via factors of production. Diagrams were helpful in fully answering this question.

Question 16

While many answers successfully calculated comparative advantage, there were stronger and weaker responses. Higher marks were awarded to those who made it clear that the comparison of opportunity costs was between each economy for the same good (e.g. Economy Y's opportunity cost for trucks is 2 EVs, which is lower than Economy X's opportunity cost of 3 EVs). Part a) (ii) Economy X = Trucks and (ii) Economy Y = EVs. Many compared the cost of making trucks with the cost of making EVs which did not demonstrate a full understanding of the key concept. A clear layout of the calculations helped demonstrate candidates' ability to apply mathematical techniques to analyse economic information.

Question 17

To achieve high marks a clearly annotated graph with a summary outlining the impacts of a quota was required as specified in part a). An evaluation of these impacts formed the basis of parts b) and c). The most common (and most easily explained) method to explain a quota is that used in the HSC textbook; however, if a student successfully used the 'kinked' supply curve method this was also accepted, but many students who attempted this made some errors. Some students used a vertical supply curve to indicate that a quota was in place, confusing a trade quota with the type of quota covered in Unit 1 (for example limits on fishing or carbon emissions), which were awarded partial marks.

Question 18

Requirements for this question included correctly identifying that there was surplus in the net goods and services account and a deficit in the net primary income account as well as discussing broad changes in each. Many students overcomplicated part a) by looking for correlation and/or causation and did not address the intent of this part. Strong responses gave short but accurate explanations of the three accounts in the chart but there were several responses in which it was clear that students were unfamiliar with the concepts. A range of benefits and risks associated with a current account surplus were accepted, with reduced dependence on foreign investors and risks of a currency appreciation being the most common.

Section C – Criterion 3 and 4

Question 19

This was the easier of the two questions in Part 1 of Section C and saw the vast majority of responses. Generally, more successful students demonstrated a sound knowledge of the content matter with a rich economic vocabulary and utilised graphs or relevant examples to highlight their knowledge.

High-performing students showed a sound understanding of the content applying complex economic terminology. However, not all students demonstrated this, as many resorted to using bullet points. Successful students often illustrated their points with well-labelled graphs.

Question 19A – Criterion 3

Most responses said that the current Fiscal Policy Stance was expansionary. The question then wanted an evaluation of the costs and benefits of tax cuts. To do this, better answers explained the different expansionary components of fiscal policy, e.g. Tax Cuts, which enable an increase in disposable income for households. This then leads to Increased Spending Consumption (C) and aggregate demand, which enables businesses to expand production. Sophisticated answers incorporated the stimulus e.g. Energy Bill Relief and Rent Assistance, which supported the vast majority of Australians. or investment in renewable hydrogen, critical mineral processing, and direct investments in solar panels.

Evaluation of Costs: most responses said that tax cuts can lead to a reduction in government revenue, potentially resulting in a decreased budget surplus or an increased deficit. Better answers mentioned that with the reduced government revenue, the government's ability to sustain spending on public services and infrastructure may be diminished in the long term. More sophisticated answers added that the government may need to borrow more to sustain spending, and this could mean increasing national debt and future interest obligations (crowding out of the market).

Evaluation of Benefits: tax cuts boosting consumer consumption (C), aggregate demand and stimulating economic growth (GDP). Additionally, government and business investments in renewable energy projects, such as solar panels and hydrogen, help reduce carbon emissions and promote environmental sustainability. Better responses mentioned that these investments also create job opportunities, supporting economic growth and reducing unemployment. Stronger answers said energy bill relief and rent assistance for low-income households alleviate cost-of-living pressures, improving social equity and economic stability.

Question 19B – Criterion 3

Microeconomic reform, (supply-side policy) refers to policies that are aimed at individual markets to improve productivity of producers e.g. competition policies, which increase aggregate supply (AS) (curve shifts to the right) leading to lower prices and increased output.

Many students struggled to address the environmental concerns and practical limitations and answered the question more broadly. Some accepted responses included:

Environmental Concerns

- Carbon Emissions Reduction: While microeconomic reforms can lead to a reduction in carbon emissions by promoting renewable energy sources, the transition period may still involve reliance on fossil fuels and take a long time until the renewable infrastructure is fully operational and emissions fall.
- Resource use and waste could still be considerable as the production and disposal of renewable energy technologies, such as solar panels and wind turbines, can have negative environmental consequences.
- Biodiversity Impact: green energy e.g. wind turbines still affect local ecosystems and wildlife e.g. bird migration.

Practical Limitations

- Issues such as energy storage, grid integration, and efficiency need to be addressed to ensure a reliable energy supply.
- Time and cost of the renewable projects planned in the infrastructure development
- (Structural) unemployment: Shifting resources from traditional energy sectors to renewables can lead to job losses in fossil fuel industries
- Legislative and Regulatory Challenges associated with the implementation of a new green energy industry.

Question 19C – Criterion 3

The purpose of an automatic stabiliser is to minimise economic fluctuations. A progressive tax system, where tax rates increase with higher income levels, acts as an automatic stabiliser because it is a non-discretionary fiscal policy. During economic growth, higher incomes lead to higher tax payments (because people's salaries are now in a higher tax bracket), which reduces disposable income and helps prevent overheating. Conversely, during recessions, lower incomes result in lower tax payments, leaving more disposable income to stimulate demand. This automatic adjustment helps to moderate economic fluctuations without the need for discretionary/deliberate policy intervention.

Question 19D – Criterion 4

This question asked for impacts of tax cuts and microeconomic reforms. Most responses explained the impact of tax cuts; however, many omitted microeconomic reforms. Better answers had separate paragraphs for individuals and businesses.

For individuals, tax cuts increase disposable income, leading to higher consumption (C) stimulating aggregate demand. Some students incorrectly stated that individuals' marginal propensity to consume (MPC) would increase with more disposable income. Another common error was the assumption that corporate taxes would decrease, which is unlikely as the corporate tax rate remains unchanged in the stimulus. However, tax cuts would affect sole traders and partnerships if businesses had that legal form.

Many answers did not refer to the multiplier effect. Stronger answers utilised the multiplier data from the article. Some students used abbreviations that were difficult to understand, such as "MR."

For businesses, the increased demand for goods resulting from higher consumer spending can lead to increased production, higher demand for employment, and other factors of production, potentially causing wage increases and therefore increased income for households (in the longer term), though there are inflationary risks. Businesses may also invest (I) in new projects, technologies, and expansion, leading to higher productivity and economic growth (GDP). Stronger answers said lower taxes can increase after-tax profits for sole traders and partnerships, providing more resources for reinvestment or distribution to shareholders.

Question 19E – Criterion 4

Several responses focused only on the tax cuts, despite the stimulus providing several other measures. The additional stimulus measures included energy bill relief, grants for rare earth mineral processing, investment in solar panels and rent assistance.

Sophisticated answers were able to show potential risks of these cost-of-living measures in their evaluation, such as mentioning the types of inflation. Diagrams were useful; however, when students use diagrams, they should be clearly labelled and show the direction in which the new curve moves. For example, if AS increases, label the original AS(1) and the new curve AS(2), and insert an arrow showing the direction of the shift.

The strongest answers noted that to mitigate these risks, the government has structured these payments as non-cash benefits, aiming to make these measures non-inflationary.

Question 19F – Criterion 4

A range of solutions were accepted, including welfare payment, price ceilings, microeconomic policy and subsidies. Best responses mentioned Expansionary Monetary Policy and explained it using rich vocabulary. By reducing interest rates, the cost of borrowing decreases for both individuals and businesses. This makes loans for mortgages, personal expenses, and business investments more affordable, freeing up disposable income for households. This additional income can be used for consumption, savings, or investment, thereby improving living standards. Better answers said that businesses are more likely to invest in new projects, expand operations and this can also lead to increased economic activity in the longer term. More detailed answers said that people are discouraged to save, as the returns on savings accounts and other interest-bearing investments decrease.

Question 20

This question was, by a large margin, the more popular of the Unit Two options. Coming towards the end of a long exam, it was pleasing to see that most students had managed their time well and wrote sufficiently detailed answers to demonstrate their understanding of the issues. While students should endeavour to incorporate information from the stimulus when appropriate, this was not always possible for all questions, and students did not lose marks if their use of the article was limited.

Question 20A – Criterion 3

Responses that “evaluated” costs and benefits of inflation in one paragraph and then reduced household spending in a separate paragraph were effective. Better “Evaluate” responses incorporated potential counterarguments and used this to come to a reasoned conclusion. Inflation and reduced household spending have both costs and benefits. On the cost side, households face reduced disposable income as they struggle with increased prices and high interest rates, limiting their ability to spend on non-essential items. This can lead to significant debt servicing issues and increased financial stress. Rising living costs may force households to seek alternative employment or ways to reduce expenses, such as shifting debt providers or cutting back on discretionary spending negatively impacting economic growth. Sophisticated answers used evidence from the stimulus that GDP per capital fell.

On the benefit side, increased inflation can attract higher interest rates, and this enhances the return for both domestic and international investors, potentially boosting investment in the economy and increasing the value of the AUD.

Question 20B – Criterion 3

This was a difficult question for many students who were not prepared for a social justice and practical limitations type question. Better answers had two separate paragraphs and attended to the issues separately. From a social justice perspective, increased borrowing costs can widen the income gap, increasing relative inequality. High-income earners are better equipped to handle higher interest rates (they earn more on savings), whereas welfare recipients and lower-income individuals struggle more, as it is harder for them to manage household debt, save, invest, and enter home ownership. Consequently, their economic mobility and ability to build wealth are limited. Higher borrowing costs can restrict access to education and training opportunities, further limiting employment prospects and perpetuating cycles of poverty.

In terms of practical limitations, the impact of monetary policy changes, such as increased interest rates, takes time to affect consumers. There are also challenges associated with adapting legal documentation and other agreements, such as fixed-rate loans, to reflect the changed interest rates. Implementing new policies often requires updates to banking systems and technology infrastructure. The RBA banks must manage the increased workload associated with monitoring and enforcing new monetary policies. Certain sectors, such as construction and real estate, are particularly sensitive to changes in interest rates.

Question 20C – Criterion 3

Some responses used a diagram to illustrate growth, which, although not essential to the question, helped some to explain the link between concepts. Most students were able to state that as the economy grows, demand for goods and services often rises, which can lead to higher prices. Consequently, when price increases are sustained, demand-pull inflation can occur. More sophisticated answers said that if inflation rises too quickly, it can erode purchasing power, reduce the value of the AUD, and weaken economic growth. Thus, while economic growth can lead to higher prices and inflation, unchecked inflation can have negative effects on the economy.

Question 20D – Criterion 4

Evaluate the potential implications of an interest rate cut on individuals and business owners. Better responses broke the answer into 2 sections; individuals and businesses and considered economic and social implications.

Individuals: lower borrowing costs reduce monthly payments on variable-rate loans and mortgages, increasing disposable income and stimulating consumer demand. Lower interest rates also make saving less attractive, further encouraging spending and boosting consumption. More in-depth answers mentioned the devaluation of the AUD. Other potential impacts include improved standards of living and potential increases in asset prices (house prices rise).

For businesses, reduced borrowing costs make financing new projects, expanding operations, and investing in technology cheaper, enhancing productivity and growth. Lower interest expenses can increase after-tax profits, improving cash flow and allowing more funds for operational expenses,

expansion, or wages. Increased consumer spending boosts demand for products and services, potentially raising sales and revenue. More complex answers mentioned that lower rates can also intensify market competition, driving innovation and efficiency. However, there are risks of inflationary pressures and increased inequality, with some sectors benefiting more than others.

Question 20E – Criterion 4

This was a complex question, and better answers utilised a diagram of the circular flow model for explanation. Some students incorporated data from the stimulus. Most responses indicated that migration increases the population, resulting in higher consumption, which in turn boosts production and raises the overall level of income. Additionally, decreased imports lead to higher income levels as leakages diminish. While the circular flow model does not directly address inflation, it was noted that if increased spending surpasses business capacity to produce, prices tend to rise more rapidly, leading to inflation. More detailed answers effectively explained this by describing the components, providing reasons (Why and How) and provided examples.

Question 20F – Criterion 4

Generally, this question was well answered. Most students referred to fiscal policy, some mentioned microeconomics policy, some mentioned subsidies and free trade; however, they did not explain them sufficiently. The strongest responses mentioned expansionary fiscal policy, involving increasing government spending (e.g. infrastructure, subsidies, and public spending on hospitals) and/or reducing taxes to stimulate economic activity by boosting aggregate demand, consumption, and investment, as well as job creation. Some students used a diagram to support their explanation.

Question 21

Question 21A – Criterion 3

The question required students to evaluate the costs and benefits of free trade for individuals and Australian businesses. Many students did well in this question and stronger answers were able to clearly outline costs and benefits. For individuals, costs might include structural unemployment as non-competitive domestic industries close as a result of liberalised imports (such as the Australia car manufacturing industry) whereas benefits are a wider range of choice of (imported) goods and services frequently at price points below that of domestic productive capacity. For Business, benefits are seen clearly in the free and liberal exchange of goods and services which allow countries which have comparative advantage in different areas of production allows to trade freely and maximise efficiency and return on investment as a result of specialisation, further Australian business, in the absence of trade restrictions can grow and operate on a global scale and reduce unit costs as a result of enhanced productivity. Costs to business include the exposure of infant or strategic industries to global competition as well as distortions to international trade if third party countries export to Australia at below the cost of production and/or with significant level of government support.

Question 21B – Criterion 3

The question asked students to critically analyse the implications of 'the EU imposing strict quotas and high tariffs on Australian Agricultural imports. Students benefited in their answers if they explained what a tariff and a quota are as well as providing (correctly labelled) illustrations of them. The imposition of trade restrictions for Australian imports into the EU would take a variety of forms. Firstly, because tariffs are taxes imposed on imported goods, this would result in higher prices being paid by EU consumers for Australian agricultural imports. This might disproportionately impact lower-income EU consumers as well as adding additional costs for EU businesses reliant on Australian agricultural products. Clearly the distortion of free trade by trade protectionist measures such as tariffs and quotas places Australian agricultural producers worse off and impacts their profitability. In this case not only will EU consumers and businesses substitute out of Australia agricultural goods, but, further, Australia producers will seek to gain market share in other international markets where trade protectionist measures, such as those suggested by the EU, are not in place. A stronger answer analysed these points in some depth.

Question 21C – Criterion 3

A very straightforward and unambiguous question, Students needed to explain the benefits of Free Trade Agreements (FTA) to Australia's trade. A range of possible answers were accepted. Stronger students' responses would have addressed and explained the following arguments. Firstly, FTA's contribute to greater economic activity and job creation in Australia, and deliver stronger economic returns to business and as a result to government revenue through taxation. Secondly, stronger students discussed that FTA's benefit trade in services as well as goods, and as such our Tourism and educational sectors are significant beneficiaries of FTA's. Thirdly FTA's benefit Australia by giving Australian consumers and business improved access to a wider range of competitively priced goods and services as well as new technologies. Other areas which stronger answers discussed include the potential for higher levels of direct foreign investment into Australia as well as higher levels of trust and economic integration with our trading partners, including Australian investment into those partner countries which can contribute to the economic growth of less-developed economies. A number of more sustained answers commented on the geopolitical advantages of FTA's as developing trust and understanding between countries, and thus minimising potential for misunderstanding or future conflict.

Question 21D – Criterion 4

Great answers for this part discussed Australia's over reliance on different Asian nations while weaker responses only discussed China's tariff on Australian wine and barley. Students were rewarded for discussing multiple risks including regional downturns, conflict in the South China Sea and future US tariffs on China. Many stronger responses considered both import and export sides of trade. For the 'benefits' part of the question many students tended to focus only on the EU while stronger students discussed additional trade partners outside of Europe. Discussion of the benefits of diversification was rewarded, with better answers going beyond blanket statements about the benefits of this, such as new product export markets and greater supply chain resilience.

Question 21E – Criterion 4

Some explanation of the impacts of tariffs was required. A tariff diagram often improved this discussion but was not required for full marks. A wide range of social justice impacts was accepted, including issues affecting the country imposing tariffs (e.g. higher prices, bigger impact on those with low incomes), as well as social impacts on countries subjected to tariffs (e.g. tariffs may be a tool to reduce worker exploitation or environmental impacts). Students also needed to address all parts of the question by including practical limitations. Examples included retaliatory tariffs, inflationary impacts, entrenching inefficiency within domestic industry.

Question 21F – Criterion 4

This question asked for implications for government, so at least two implications were expected for full marks, but candidates were not required to go into great detail on these as the allocation for the question was only 4.5 marks. Students should remember to tailor their responses to the mark allocation, as some wrote excellent responses that may have come at the expense of answers elsewhere in the paper. Some repetition of previously discussed issues such as inflation, inefficiency and worsening relations between nations was acceptable.

Question 22

This question was far less popular than question 21, with less than 20% of candidates attempting it. This question required both a detailed knowledge of the balance of payments, exchange rates, foreign investment and debt and the relationships between these can be complicated and dependent on the specific situation. Due to this complexity markers accepted a range of responses. It is helpful for students to state their assumptions when addressing questions on these topics; for example, the impact on a depreciating dollar on foreign debt will depend on which currency the debt is denominated. See below for additional detail and examples.

Question 22A – Criterion 3

Better answers took note of the word ‘significant’ in the question and tailored their response based on this. Higher marks were awarded to responses that used examples, such as the impacts on tourism, which is both an export and import industry from an Australian perspective. Tourism is a particularly good example because Australian tourism businesses lose out from fewer inbound visitors and more Australians travelling overseas. This question was worth 10 marks, requiring detailed explanation along the lines of foreigners needing to exchange more of their currency to buy the same quantity of Australian goods or services, or in the case of imports, Australians being able to buy the same quantity of foreign goods with fewer Australian dollars. Some stronger responses noted the difference between exporters losing sales due to Australian goods being less competitively priced in foreign currency terms, whereas miners who might be paid in other currencies receive fewer Australia dollars when they exchange this from foreign currencies, but this level of detail was not required for full marks.

Question 22B – Criterion 3

A wide range of student responses were given credit for this question. Better answers looked at both the winners and losers resulting from significant currency fluctuations. Social justice implications included job losses for exporting businesses, such as tourism from a stronger AUD, to

cheaper goods and services reducing living costs in the case of a depreciation. Environmental implications included positive (a higher AUD reduces the cost of imported solar panels and electric vehicles) and negative (increased consumption and travel overseas, contributing to higher emissions. Some responses discussed how floating exchange rates can act like a buffer, with the currency typically depreciating during a downturn/recession which helps boost net exports and reduces the severity of any slowdown in the economy.

Question 22C – Criterion 3

The stimulus was used in better answers to this question. If prices of commodities like iron ore and coal rise, foreign buyers will need to exchange more of their own currency to import the same quantity of goods, increasing demand for the Australian dollar and hence appreciating it. This means that both the volume and price have an impact on the value of exports. Some students made the mistake of discussing how higher commodity prices would reduce demand for commodities, thereby reducing exports and depreciating the AUD. The error here was not realising that the high price is an indicator of high demand or constrained supply. Partial marks were awarded for students who followed this line of reasoning.

Question 22D – Criterion 4

All reasonable attempts to evaluate a range of impacts of a depreciating Australian Dollar on foreign debt were given credit according to their number, depth and accuracy. Markers focussed less on differentiation between short-term and long-term impacts and more on a range of impacts. These included higher repayments in AUD terms if loans were in foreign currency, ways in which a depreciation affected the net income account, changes in the behaviour of foreign investors and how a lower dollar would boost net exports. Better answers explained how this would affect foreign debt; for example, ‘a depreciation will increase net exports, which will move the current account towards a surplus. If the current account is in a surplus this implies that Australia is a net lender to the rest of the world, which will offset some of the existing foreign debt resulting in lower net debt’.

Question 22E – Criterion 4

As there are multiple possibilities for students to discuss, a range of answers were accepted. These include the impact of an appreciating currency on net exports and the impact on the net primary income account. Alternative answers were accepted if they demonstrated an understanding of the current account; for example ‘the Australian dollar may be appreciating due to high demand for the AUD resulting from an increase in foreign investment. This will result in an increase in foreign debt and rise in outflows on the net primary income account’.

Question 22F – Criterion 4

Many students referred to the stimulus which included detail on differences in monetary policy stances. Better answers recognised that this difference could come about due to changes in Australian interest rates and/or changes in interest rates in other countries. Answers which discussed changes in the attractiveness of Australia as a destination for investment and how this affects demand and/or supply of the AUD were sufficient for full marks, with no need to differentiate between direct and portfolio investment.