

External Assessment 2021

# ECONOMICS

ECN315116

Section **A**

Pages 16

Questions 9

**Reading time:** 15 minutes – you may begin writing during this time

**Suggested working time:** 45 minutes

## Instructions

- Answer **six (6)** questions in total, **two (2)** questions from each of the following:
  - **Unit 1** – An Introduction to Economics
  - **Unit 2** – Economic Management
  - **Unit 3** – Australia and the Global Economy.
- Answer **all** parts within a question.
- Write your answers in the spaces provided in this exam paper. You are encouraged to include diagrams where relevant.
- Each question is worth 6 marks ( $6 \times 6 = 36$  marks in total for **Section A**).
- This examination is 3 hours in length. It is suggested that you spend **approximately 45 minutes** in total answering the questions in this booklet.
- All answers must be written in **English**.
- You **must** make sure your answers address:
  - Criterion 1 describe and apply economic terms, concepts, theories and ideas.
  - Criterion 5 communicate economic ideas and information.

Marks	
C1	36
C5	A+ to z rating

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# Guide to Exam Structure

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		Questions available	How many questions to answer	Suggested working time	Marks available
Section	<b>A</b>	9	6	45 minutes	36 and A+ to z rating
Section	<b>B</b>	9	6	45 minutes	36 and A+ to z rating
Section	<b>C</b>	4	2	1 hour 30 and minutes	72 and A+ to z rating
	<b>Total</b>	<b>22</b>	<b>14</b>	<b>180 minutes (3 hours)</b>	<b>144 + alpha</b>

- Answer **six (6)** questions in total. **Two (2)** questions from each of the following:
    - **Unit 1** - An Introduction to Economics
    - **Unit 2** - Economic Management
    - **Unit 3** - Australia and the Global Economy.
  - Answer **all** parts within a question.
  - Write your answers in the spaces provided in this exam paper. You are encouraged to include **diagrams** where relevant.
  - It is suggested that you spend approximately **45 minutes** on this section.
  - This section assesses **Criteria 1** and **5**.
- 

## Unit 1 – An introduction to Economics

- **Answer two (2) questions** from this unit – include **diagrams** where relevant.

### Question 1

If left to operate freely, a market economy may produce insufficient quantities of some products and undesirable quantities of other products. Explain, using one example in each case, how governments may react to each of these circumstances in Australia's modified market economy.

6 marks

### Question 2

What is meant by a product being price inelastic in demand?

Describe **two (2)** characteristics of a product that make it likely to have inelastic demand and give an example in each case.

6 marks

### Question 3

Identify and briefly describe the three sectors in the five-sector circular flow model that generate leakages from the circular flow of income.

Describe the leakage in each case.

6 marks





## Unit 2 – Economic Management

- **Answer two (2) questions** from this unit – include **diagrams** where relevant.

### Question 4

Explain the concept of “fiscal stance”. Distinguish between expansionary and contractionary stance, giving an example in each case.

6 marks

### Question 5

Explain, giving relevant examples, why “full employment” does not mean zero unemployment.

6 marks

### Question 6

What is an “automatic stabiliser”? Explain the operation of **two (2)** automatic stabilisers in slowing economic conditions.

6 marks





## Unit 3 – Australia and the Global Economy

- **Answer two (2) questions** from this unit – include **diagrams** where relevant.

### Question 7

Explain why the principle of comparative advantage is the basis for free trade between economies. Give **two (2)** reasons why a government may choose to interfere to restrain free trade.

6 marks

### Question 8

Australia has a “floating” exchange rate. Explain the meaning of a floating exchange rate. Describe **two (2)** factors (events) that may cause an appreciation of the Australian exchange rate.

6 marks

### Question 9

What is meant by globalisation? Identify **two (2)** aspects of globalisation and briefly assess their contribution to free trade.

6 marks





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End of Section A

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External Assessment 2021

# ECONOMICS

ECN315116

Section **B**

Pages 16

Questions 9

**Suggested working time:** 45 minutes

## Instructions

- Answer **six (6)** questions in total, **two (2)** questions from each of the following:
  - **Unit 1** – An Introduction to Economics
  - **Unit 2** – Economic Management
  - **Unit 3** – Australia and the Global Economy.
- Answer **all** parts within a question.
- Write your answers in the spaces provided in this exam paper. You are encouraged to include diagrams where relevant.
- Each question is worth 6 marks (6 x 6 = 36 marks in total for **Section B**).
- This examination is 3 hours in length. It is suggested that you spend **approximately 45 minutes** in total answering the questions in this booklet.
- All answers must be written in **English**.
- You **must** make sure your answers address:
  - Criterion 2 apply economic models and mathematical techniques to analyse economic data and information.
  - Criterion 5 communicate economic ideas and information.

Marks	
C2	36
C5	A+ to z rating

# Guide to Exam Structure

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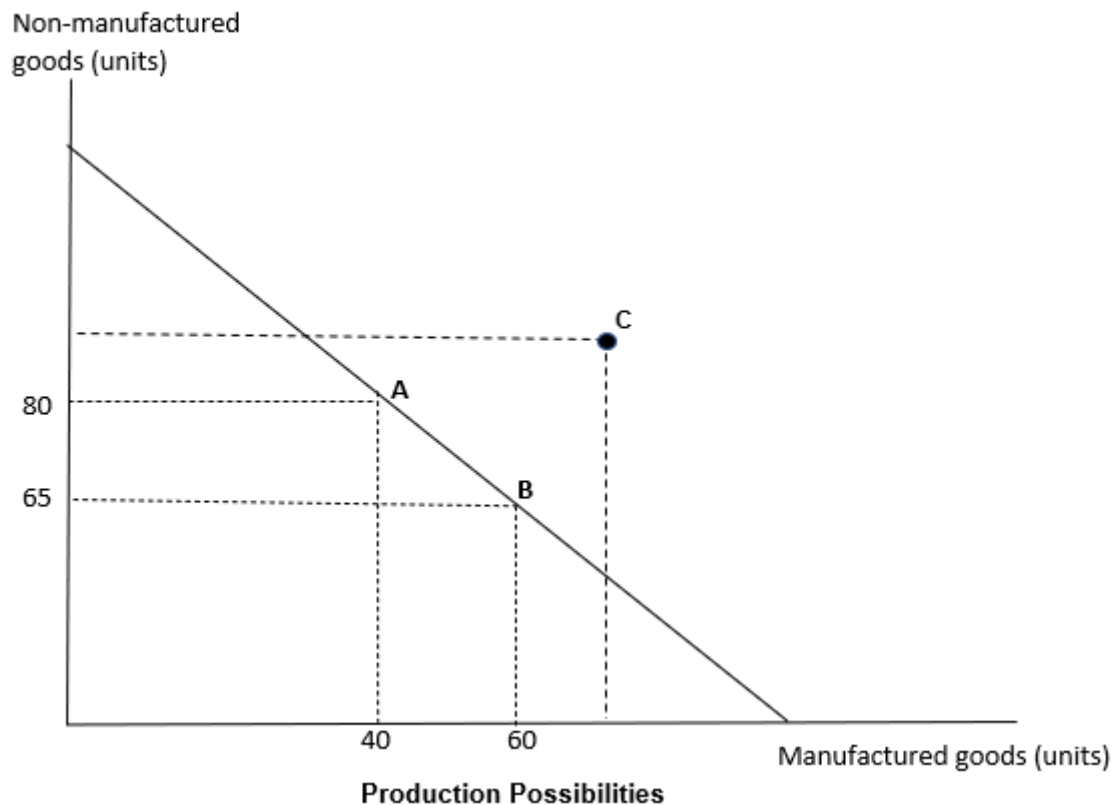
	Questions available	How many questions to answer	Suggested working time	Marks available
Section A	9	6	45 minutes	36 and A+ to z rating
Section B	9	6	45 minutes	36 and A+ to z rating
Section C	4	2	1 hour 30 and minutes	72 and A+ to z rating
<b>Total</b>	<b>22</b>	<b>14</b>	<b>180 minutes (3 hours)</b>	<b>144 + alpha</b>

- Answer **six (6)** questions in total. **Two (2)** questions from each of the following:
  - **Unit 1** – An Introduction to Economics
  - **Unit 2** – Economic Management
  - **Unit 3** – Australia and the Global Economy.
- Answer **all** parts within a question.
- Write your answers in the spaces provided in this exam paper. You are encouraged to include **diagrams** where relevant.
- It is suggested that you spend approximately **45 minutes** on this section.
- This section assesses **Criteria 2** and **5**.

## Unit 1 – An introduction to Economics

- Answer **two (2)** questions from this unit – include **diagrams** where relevant.

### Question 10



Above is the production possibility frontier for an economy showing the maximum quantity of manufactured and non-manufactured goods possible if all resources are utilised.

- i. What is the opportunity cost of manufactured goods if production moves from point A to point B on the frontier?
- ii. Explain **two (2)** ways that this economy could reach production levels represented by point C.

6 marks

**Unit 1 continues**

**Unit 1 continued****Question 11**

The following table relates to the market quantity of carrots demanded at each price level.

Price \$/ kg.	Quantity demanded (,000 tonnes)	
1.10	1 900	
1.20	1 800	
1.30	1 700	
1.40	1 600	
1.50	1 500	
1.60	1 400	
1.70	1 300	
1.80	1 200	
1.90	1 100	
2.00	1 000	

- i. Identify the range of prices over which demand is elastic.
- ii. Identify the range of prices over which demand is inelastic.
- iii. Explain why it is important for suppliers of carrots to understand the concept of elasticity.

6 marks

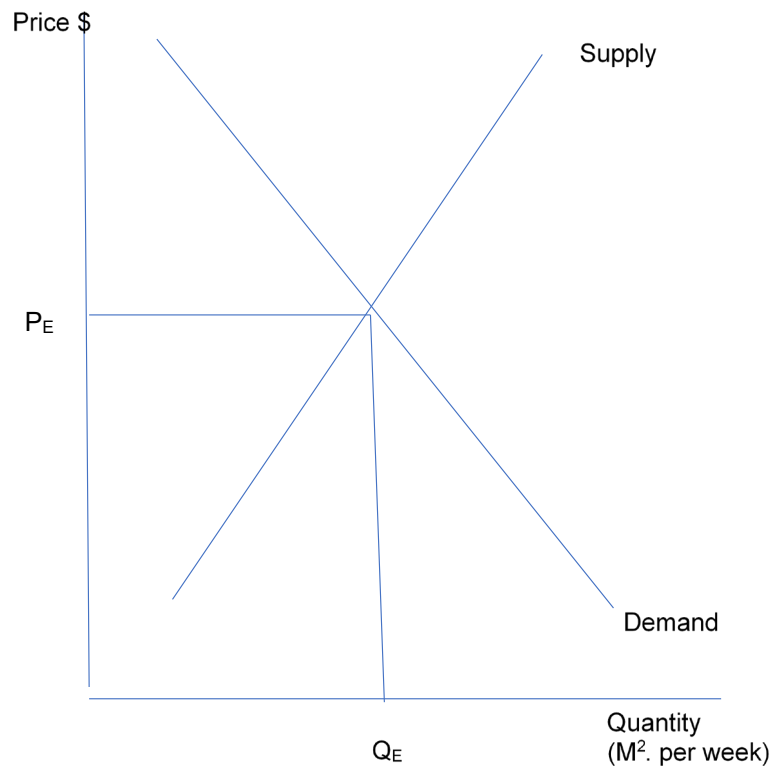
## Unit 1 continued

### Question 12

Show and explain the effect on equilibrium price and quantity of the following events in the competitive firewood market.

- i. An unpredicted and prolonged period of cold weather.
- ii. An increase in royalties (tax) paid to the government by firewood suppliers.
- iii. Increased public condemnation of firewood as a carbon emitter.

6 marks



**Supply and demand for firewood**





## Unit 2 – Economic Management

- Answer two (2) questions from this unit – include **diagrams** where relevant.

### Question 13

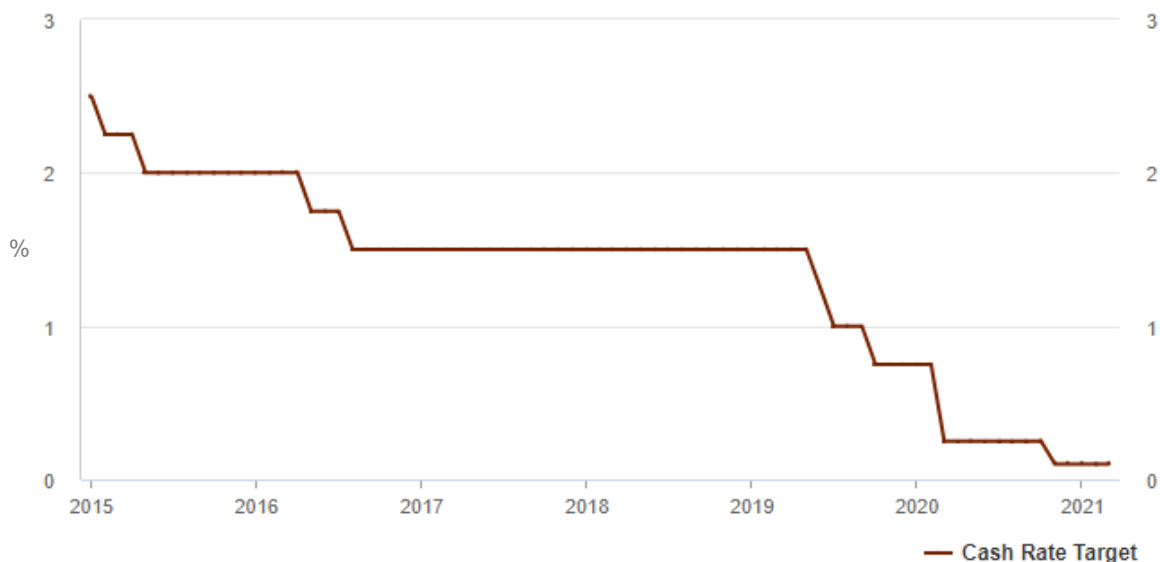
The following data relates to annual expenditures for 2020 in a fictional economy.

	\$m.
Investment	67 000
Imports	26 000
Household consumption	180 000
Exports	33 000
Government expenditure	43 000
Taxation receipts	15 000

- Calculate the value of GDP for this economy for 2020.
- Use your knowledge of the circular flow of income to explain why the level of production can be measured by both expenditure and income.

6 marks

### Question 14



Source: RBA

The above graph records the movement in the Reserve Bank of Australia's (RBA) cash rate target.

- Comment on the trend of the cash rate target over the past 5 years.
- Explain whether this trend would be regarded as contractionary or expansionary.

6 marks

Unit 2 continues

## Unit 2 continued

### Question 15

The following data relates to a mythical economy.

	Real GDP \$b	Consumer Price Index
2017	3 210	100
2018	3 460	105
2019	3 720	109
2020	3 918	114
2021	4 171	121

- i. Calculate the rate of inflation for 2021.
- ii. Calculate the rate of economic growth for 2021.
- iii. Why would the RBA be concerned by the data in 2021 if this table was the actual situation in Australia?

6 marks

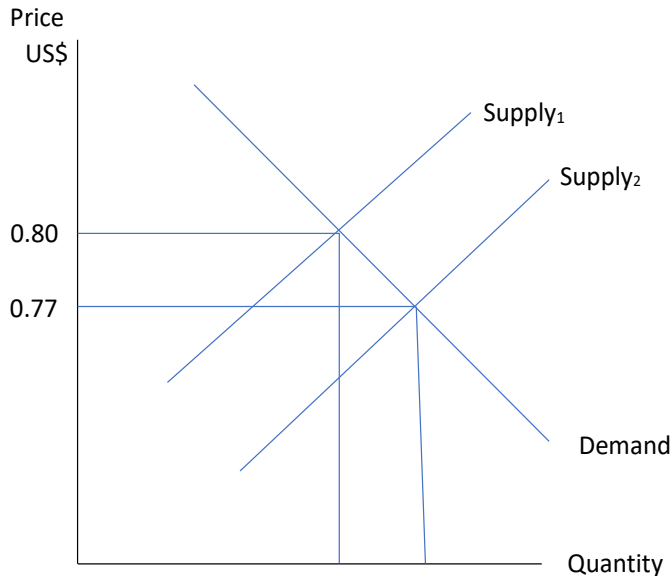




# Unit 3 – Australia and the Global Economy

- Answer two (2) questions from this unit – include **diagrams** where relevant.

## Question 16



**Supply and Demand for A\$**

The diagram above relates to the supply and demand for the Australian dollar (A\$) in terms of the United States dollar (US\$), and shows depreciation of the A\$ against the US\$ due to an increase in supply of the A\$.

Explain **two (2)** reasons why an increase in supply and consequent depreciation may have occurred.

6 marks

## Question 17

	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019	Dec. 2020
Net Foreign Equity (\$m.)	37927	50780	100350	225418	218129
Net Foreign Debt (\$m.)	1008292	1039504	1127466	1159824	1165347

The above table shows data relating to foreign equity and debt in Australia for the five years to December 2020.

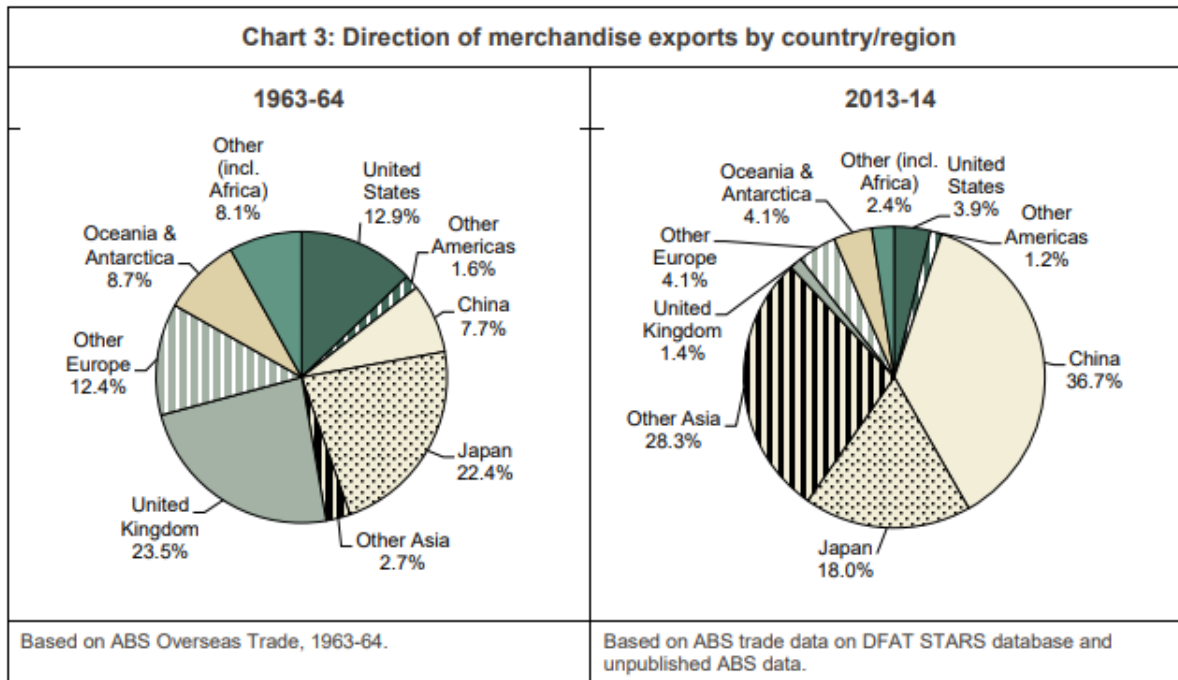
- Distinguish between net foreign equity and net foreign debt.
- Identify the trend for both equity and debt.
- Briefly explain **two (2)** consequences that may arise from these trends.

6 marks

**Unit 3 continues**

Unit 3 continued

Question 18



Source: *fifty-years-of-Australias-trade.pdf* (dfat.gov.au)

Over the second half of the twentieth century the direction of Australian Trade altered.

- i. Explain the meaning of “direction of trade”.
- ii. From the above charts relating to merchandise exports, comment on **two (2)** significant changes to the direction of trade experienced over that period.

6 marks







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External Assessment 2021

# ECONOMICS

ECN315116

Section **C**

Pages 24

Questions 4

**Suggested working time:** 90 minutes

## Instructions

- Answer **two (2)** questions in total:
  - **either** Question 19 **or** 20
  - and**
  - **either** Question 21 **or** 22
- Answer **all** parts within a question.
- Write your answers in the spaces provided in this exam paper. You are encouraged to include diagrams where relevant.
- Each question is worth 36 marks, 72 marks in total for **Section C**.
- This examination is 3 hours in length. It is suggested that you spend **approximately 1 hour and 30 minutes** in total answering the questions in this booklet.
- All answers must be written in **English**.
- You **must** make sure your answers address:
  - Criterion 3 describe and analyse problems arising from economic issues and events.
  - Criterion 4 describe and analyse economic solutions and make recommendations for future economic action.
  - Criterion 5 communicate economic ideas and information.

Marks		
Q 19 or 20	Q 21 or 22	
C3	C3	36
C4	C4	36
C5	C5	A+ to z rating

# Guide to Exam Structure

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	Questions available	How many questions to answer	Suggested working time	Marks available
Section <b>A</b>	9	6	45 minutes	36 and A+ to z rating
Section <b>B</b>	9	6	45 minutes	36 and A+ to z rating
Section <b>C</b>	4	2	1 hour 30 and minutes	72 and A+ to z rating
<b>Total</b>	<b>22</b>	<b>14</b>	<b>180 minutes (3 hours)</b>	<b>144 + alpha</b>

- Answer **two (2)** questions in total.
  - **All parts of either** Question 19 **or** 20  
**and**
  - **All parts of either** Question 21 **or** 22
- Write your answers in the spaces provided in this exam paper. You are encouraged to include **diagrams** where relevant.
- It is suggested that you spend approximately **90 minutes** on this section.
- This section assesses **Criteria 3, 4 and 5**.
- You are expected to use the stimulus material **AND** the economics you have studied this year in your answers.

## Question 19

### Interest rates not the right “tool” to address runaway house prices, Reserve Bank says

By business reporter Gareth Hutchens

Guy Debelle says the RBA (Reserve Bank of Australia) recognises that rising housing prices are a worry in the community but monetary policy is not the appropriate tool to address the problem, because it is designed to encourage employment and inflation.

It means the RBA will not be tempted to lift interest rates to try to cool Australia's runaway property prices, regardless of community concerns about unaffordable housing.

Dr Debelle, the RBA deputy governor, said the emergency stimulus measures the RBA had been using to support economic activity through the recession had clearly supported employment and economic growth.

However, he acknowledged that rising house prices can affect the distribution of wealth in a negative way and give rise to heightened concerns in the community.

"That is certainly an issue that needs to be considered, and there are a number of tools that can be used to address the issue," he said.

"But I do not think that monetary policy is one of those tools.

"Monetary policy is focused on supporting the economic recovery and achieving its goals in terms of employment and inflation.

"It is important to remember that unemployment would definitely be materially higher without the monetary stimulus.

"Unemployment clearly has large and persistent consequences."

Dr Debelle said that participation in the labour market had "remarkably" increased to a record high.

But the outcomes for wages and inflation were nowhere near as good.

The RBA Board is prepared to undertake further bond purchases to assist with progress towards the goals of full employment and inflation," he said.

"The Board will not increase the cash rate until actual inflation is sustainably within the target band of 2 to 3 per cent," he said.

"For that to occur, we will need to see further significant gains in employment and a lower unemployment rate.

*Posted 6 May 2021, updated 7 May 2021*

Adapted and edited from: *Interest rates not the right 'tool' to address runaway house prices, Reserve Bank says - ABC News*

**Question 19 continues**

### Question 19 continued

These questions assess **Criterion 3**.

- a) “Monetary policy is focussed on supporting the economic recovery and achieving its goals in terms of employment and inflation.” Identify the inflation and employment goals and analyse the link between the level of employment, wages growth and inflation.
- 8 marks
- b) Why is monetary policy, which is “designed to address unemployment and inflation”, not the “appropriate tool” to address increasing housing prices?
- 6 marks
- c) Identify **two (2)** of the “large and persistent” consequences of unemployment and evaluate the impact of unemployment upon individuals.
- 4 marks

These questions assess **Criterion 4**.

- d) Explain how monetary policy is intended to influence economic growth, and in particular its role in influencing the level of aggregate demand and hence employment and inflation.
- 8 marks
- e) Analyse the positive and negative social justice implications (pros and cons) of the policies required for the RBA to bring inflation consistently to within the 2–3% target range.
- 6 marks
- f) The RBA deputy governor suggests that there are a number of tools (apart from the stimulatory measures taken by the RBA) available to address the issue of “runaway property prices”. Identify, describe and make a recommendation on **one (1)** long term and **one (1)** short term measure available to governments to address housing prices.
- 4 marks

## Question 20

### Stimulus 1

The Reserve Bank Board continues to reiterate that “It will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range”. Given the starting point, there’s certainly some upside room before we need to worry.

That said, there is no doubt that the economy, and labour market particularly, is recovering faster than expected. If that continues, and unemployment falls to the low 4s faster than expected, then wage growth is likely to pick up earlier than anticipated, and policymakers may need to respond earlier than currently indicated.

If that happens, it’s not such a bad “worst case” outcome. An economy running hot, generating real wage growth for the first time in years, will push inflation higher but we know how to deal with inflation that’s too high.

We’ve seen in the past decade or so that monetary policy has not been very good at dealing with low inflation.

In fact, rising inflation would give the Central Banks the ability to raise rates off the floor where they are now, and that builds a buffer for the future. And that is surely preferable to the alternative, where the recovery stalls and policy makers must again respond to weak demand and too low inflation.

Adapted and edited from: [\*What’s all this talk about inflation? | EY Australia\*](#)

### Stimulus 2

#### **Budget deficits may sound like a bad thing, but they can help keep a struggling country afloat**

By business reporter [Gareth Hutchens](#)

Because the word "deficit" sounds bad, a budget deficit might sound like a bad thing.

But a budget deficit is what's making those stimulus payments possible. It's allowing you to buy food. To pay rent. It's keeping pensions flowing. And businesses open.

Is that a bad thing? Absolutely not.

In one sense, a budget "deficit" is simply an accounting term that describes a situation in which the Federal Government is spending more money into the community than it's collecting in revenue (from taxes and other receipts) in a particular period.

A budget "surplus" describes the opposite situation — it's when a government collects more in revenue than it spends into the community.

But budget deficits are also extremely important tools of macro-economic management.

Why? Because they can stimulate the economy (by boosting the wealth of private sector businesses and households), while surpluses can slow the economy down (by taking spending power away from businesses and households).

And remember this: federal budget deficits are far more common than surpluses, for good reason.

Adapted and edited from: *Budget deficits may sound like a bad thing, but they can help keep a struggling country afloat - ABC News*

**Question 20 continues**

## Question 20 continued

These questions assess **Criterion 3**.

- a) Identify and explain the costs and benefits associated with an economy that is “recovering faster than expected” and “running hot”.  
8 marks
- b) Describe how inflation can be regarded as being “too low”, and the economic situation associated with such low inflation.  
6 marks
- c) Analyse the social justice implications of persistent very low inflation rates on individuals and groups in society such as retirees and low wage earners.  
4 marks

This part assesses **Criterion 4**.

- d) Explain how a significant budget deficit stimulates the economy and consequently addresses low inflation.  
8 marks
- e) Identify and explain **two (2)** advantages of using fiscal policy to address low inflation.  
6 marks
- f) What are the practical limitations associated with fiscal policy which involves significant and sustained budget deficits?  
4 marks













- **Answer all parts** of **either** Question 21 **or** 22.
- Write your answers in the spaces provided in this exam paper. You are encouraged to include **diagrams** where relevant

## Question 21

### Stimulus 1

#### **Australia records biggest monthly trade surplus ever as household spending drives growth**

Australia recorded the biggest monthly trade surplus in history as the economy continued to rack up records in a marked rebound from last year's deep recession.

The Australian Bureau of Statistics said the trade balance of goods and services was a record \$10.1bn in January and was up more than \$3bn compared with December.

This was the result of a 6% jump in exports, while imports declined 2%.

Economists had forecast a surplus of around \$6bn based on preliminary data released last month, with export earnings rising on higher commodity prices, in particular those for iron ore on strong demand from China.

Adapted and edited from: [www.theguardian.com/business/2021/mar/04/australia-records-biggest-monthly-trade-surplus-ever-as-household-spending-drives-growth](http://www.theguardian.com/business/2021/mar/04/australia-records-biggest-monthly-trade-surplus-ever-as-household-spending-drives-growth)

### Stimulus 2

Australia's primary and secondary income balance has been in deficit for many decades – that is Australian residents have paid more income to non-residents than they have received from non-residents.

The “financial investments” component of the primary income balance has historically driven the majority of the net income deficit. This has reflected the fact that the stock of Australian liabilities held by foreign investors exceeds the stock of foreign assets held by Australian residents. Therefore, Australians must pay more interest to the rest of world on these liabilities than it receives on its assets from abroad.

In recent years, Australia's mining sector has been a large component of Australia's net income outflows, as this sector has a high degree of foreign ownership. This results in part of the income earned by these companies being paid to foreign owners in the form of dividends

The Australian economy has generally been the net recipient of capital inflows from the rest of the world for more than a century. In other words, the savings of the domestic economy have been supplemented with savings from abroad in order to fund the relatively high level of investment in the economy.

As a result... Australia has accumulated a net liability (borrowing) position with the rest of the world. However, the composition of these net foreign liabilities changes over time – for example since 2013 Australian residents own more equity (value of shares) in foreign companies than non-residents own in Australian companies.

Adapted and edited from: [Reserve bank of Australia Trends in Australia's Balance of Payments](#)

**Question 21 continues**

## Question 21 continued

These questions assess **Criterion 3**.

- a) The Australian economy is experiencing a surplus in the trade balance of goods and services and a continuing deficit in the primary and secondary income balance.

Explain, using appropriate examples, how each of these situations has arisen.

8 marks

- b) Identify and discuss **two (2)** issues for the Australian economy arising from the significant interruption to international trade in the last 18 months.

6 marks

- c) What is **one (1)** cost and **one (1)** benefit of the high level of foreign investment in the Australian mining industry?

4 marks

These questions assess **Criterion 4**.

- d) While the level of foreign liabilities (both foreign debt and foreign investment) may be criticised, there is a point of view that holds such liabilities to be beneficial to Australia. Explain this point of view.

8 marks

- e) Discuss:

- i. a social justice issue arising from the high level of foreign debt
- ii. an environmental issue that may arise with Australian investments overseas.

6 marks

- f) Explain the importance of the “savings of the domestic economy” in relation to the level of foreign capital flowing into Australia.

4 marks

## Question 22

### Australian dollar tipped to hit 80 US cents

The Australian dollar is expected to keep rising as long as China's hunger for steel remains insatiable and the US struggles to control its health crisis.

Generally, it is great for online shoppers, especially if they are buying from US online stores.

But it is not as positive for Australian exporters...nor would the predictions be greeted enthusiastically by the nation's tourism industry.

However, AMP Capital's chief economist Shane Oliver said: "It doesn't matter as much as it used to".

"As the Aussie dollar goes up, it normally would encourage Australians to go on an overseas holiday. At the moment you can't really do that, so that's not really an issue."

The surge in iron ore sales to China has occurred despite Beijing's worsening relationship with Australia.

In November, the RBA cut interest rates to a fresh record low of 0.1 per cent to weaken the currency and stimulate the economy.

The central bank also pledged to buy \$100 billion of longer-term government bonds (which mature in five to 10 years) to pump more cash into the system.

It is a stimulus measure called quantitative easing (QE) or "money printing" (figuratively speaking).

Despite its best efforts, the Aussie dollar has continued to strengthen.

"The RBA may try to slow down that process, but it won't be able to stop it."

"Driving our forecasts for a stronger Australian dollar is our expectation for more US dollar weakness, as the US current account deficit widens further," CBA currency strategist Kim Mundy said.

She acknowledged high commodity prices, especially iron ore, are a "more important driver" of the Aussie dollar rally.

Adapted and edited from: *By business reporter David Chau*

[www.abc.net.au/news/2020-12-23/australian-dollar-forecast-to-surge-due-to-covid-recovery-steel/13008130](http://www.abc.net.au/news/2020-12-23/australian-dollar-forecast-to-surge-due-to-covid-recovery-steel/13008130)

**Question 22 continues**

## Question 22 continued

These questions assess **Criterion 3**.

- a) Identify and explain the economic issues associated with an **appreciating** Australian dollar. 8 marks
- b) Explain how high commodity prices are an "... important driver of currency appreciation" in Australia. 6 marks
- c) Analyse the social justice implications for Australian citizens of an appreciating Australian dollar. 4 marks

These questions assess **Criterion 4**.

- d)
- i. Explain how the cutting of interest rates may cause a **depreciation** of the Australian dollar
  - ii. Evaluate the impacts on Australian importers and exporters should RBA actions result in a depreciation of the currency. 8 marks
- e) Identify and explain **two (2)** likely effects of a depreciating Australian dollar on the Balance of Payments current account. 6 marks
- f) Suggest **one (1)** course of action, not related to the exchange rate, which the Australian government may take to achieve one of the likely outcomes of a depreciation in the currency. 4 marks













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End of Section C



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