

External Assessment 2024

# ECONOMICS

ECN315116

## Section **A**

Pages: 16

Questions: 9

**Preparation time for this exam:** 15 minutes

**Suggested working time:** 45 minutes

### Instructions:

- There are **three (3) parts** to this section:
  - **Part 1 - Unit 1** – answer **two (2)** questions from this part
  - **Part 2 - Unit 2** – answer **two (2)** questions from this part
  - **Part 3 - Unit 3** – answer **two (2)** questions from this part.
- Answer **all** items 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 7.5 marks ( $6 \times 7.5 = 45$  marks in total for **Section A**).
- The exam is **three (3) hours** in length. The suggested working time is provided in the instructions for each part.
- All answers must be written in **English**.
- You **must** make sure your answers address the listed criteria.

Marker use	
C1	/ 45
C5	/ Alpha

Blank Page

# Guide to Exam Structure

---

		Parts	Questions available	Questions to answer	Suggested working time	Marks available
Section <b>A</b>	Part 1	3	2	15 minutes	15 marks and A+ to z rating	
	Part 2	3	2	15 minutes	15 marks and A+ to z rating	
	Part 3	3	2	15 minutes	15 marks and A+ to z rating	
Section <b>B</b>	Part 1	3	2	15 minutes	15 marks and A+ to z rating	
	Part 2	3	2	15 minutes	15 marks and A+ to z rating	
	Part 3	3	2	15 minutes	15 marks and A+ to z rating	
Section <b>C</b>	Part 1	2	1	45 minutes	45 marks and A+ to z rating	
	Part 2	2	1	45 minutes	45 marks and A+ to z rating	
<b>Totals</b>		<b>22</b>	<b>14</b>	<b>180 minutes (3 hours)</b>	<b>180 marks and A+ to z rating</b>	

## Criteria

---

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.

# Part 1

---

- Answer **two (2)** questions from **Unit 1 – An Introduction to Economics**.
  - Write your answers in the spaces provided in this exam paper. You are encouraged to include **diagrams** where relevant.
  - This part is worth 15 marks. The suggested working time you should spend on this part is **approximately 15 minutes**.
  - This part assesses **Criteria 1 and 5**.
- 

## Unit 1 – An Introduction to Economics

### Question 1

Explain the role of government in a mixed market economy. Describe, using **two (2)** examples, how government policy can address market failure. For each example include the aim of the government intervention and how this is achieved. (7.5 marks)

### Question 2

Distinguish between products which are price inelastic and those which are price elastic, giving an example of each. Explain the significance of price elasticity of demand to business when making decisions. (7.5 marks)

### Question 3

Explain the relationship between the economic problem and opportunity cost. Use a production possibilities frontier diagram to illustrate and explain the concept of opportunity cost.

(7.5 marks)





Exam continues over the page

**Blank Page**

# Part 2

---

- Answer **two (2)** questions from **Unit 2** – Economic Management.
  - Write your answers in the spaces provided in this exam paper. You are encouraged to include **diagrams** where relevant.
  - This part is worth 15 marks. The suggested working time you should spend on this part is **approximately 15 minutes**.
  - This part assesses **Criteria 1** and **5**.
- 

## Unit 2 – Economic Management

### Question 4

Explain the business cycle including its phases. Outline what is likely to be happening in relation to (1) inflation, (2) unemployment and (3) economic growth in each phase of the cycle.

Provide an annotated diagram of the business cycle to assist with your explanation.

(7.5 marks)

### Question 5

Define fiscal policy as a tool of demand management. Explain the role of automatic stabilisers using **two (2)** examples.

(7.5 marks)

### Question 6

Distinguish between the unemployment rate and the participation rate. Explain how output is impacted if there is an increase in unemployment or a decrease in the participation rate.

(7.5 marks)





Exam continues over the page

**Blank Page**

# Part 3

---

- Answer **two (2)** questions from **Unit 3** – Australia and the Global Economy.
  - Write your answers in the spaces provided in this exam paper. You are encouraged to include **diagrams** where relevant.
  - This part is worth 15 marks. The suggested working time you should spend on this part is **approximately 15 minutes**.
  - This part assesses **Criteria 1** and **5**.
- 

## Unit 3 – Australia and the Global Economy

### Question 7

Distinguish between foreign debt and foreign investment. How can foreign debt and foreign investment benefit the Australian economy?

(7.5 marks)

### Question 8

Explain the current composition of Australia's major exports, the direction of our export market and the significance of our trade relationship with Asia.

(7.5 marks)

### Question 9

Briefly explain the difference between tariffs and subsidies as forms of trade protection. For **one (1)** of the following, a tariff **or** a subsidy, draw a market equilibrium diagram and use it to explain the consequences of this protection on price and quantity.

(7.5 marks)





End of Section A

**Blank Page**



TASMANIAN  
ASSESSMENT, STANDARDS  
& CERTIFICATION

---

This exam paper and any materials associated with this exam  
(including answer booklets, cover sheets, rough note paper, or information sheets)  
remain the property of Tasmanian Assessment, Standards and Certification.

External Assessment 2024

# ECONOMICS

ECN315116

## Section **B**

Pages: 32

Questions: 9

**Suggested working time:** 45 minutes

### Instructions:

- There are **three (3) parts** to this section:
  - Part 1 - Unit 1** – answer **two (2)** questions from this part
  - Part 2 - Unit 2** – answer **two (2)** questions from this part
  - Part 3 - Unit 3** – answer **two (2)** questions from this part.
- Answer **all** items 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 7.5 marks ( $6 \times 7.5 = 45$  marks in total for **Section B**).
- The exam is **three (3) hours** in length. The suggested working time is provided in the instructions for each part.
- All answers must be written in **English**.
- You **must** make sure your answers address the listed criteria.

Marker use	
C2	/ 45
C5	/ Alpha

# Guide to Exam Structure

---

		Parts	Questions available	Questions to answer	Suggested working time	Marks available
Section A	Part 1	3	2	15 minutes	15 marks and A+ to z rating	
	Part 2	3	2	15 minutes	15 marks and A+ to z rating	
	Part 3	3	2	15 minutes	15 marks and A+ to z rating	
Section B	Part 1	3	2	15 minutes	15 marks and A+ to z rating	
	Part 2	3	2	15 minutes	15 marks and A+ to z rating	
	Part 3	3	2	15 minutes	15 marks and A+ to z rating	
Section C	Part 1	2	1	45 minutes	45 marks and A+ to z rating	
	Part 2	2	1	45 minutes	45 marks and A+ to z rating	
<b>Totals</b>		<b>22</b>	<b>14</b>	<b>180 minutes (3 hours)</b>	<b>180 marks and A+ to z rating</b>	

## Criteria

---

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.

# Part 1

---

- Answer **two (2)** questions from **Unit 1** – An Introduction to Economics.
  - Answer **all** items within a question.
  - Write your answers in the spaces provided in this exam paper. You are encouraged to include **diagrams** where relevant.
  - This part is worth 15 marks and it is suggested that you spend **approximately 15 minutes** on this part.
  - This part assesses **Criteria 2** and **5**.
- 

## Unit 1 – An Introduction to Economics

### Question 10

- a) Draw and label a diagram of a perfectly inelastic demand curve on the graph in Figure 1. What does this mean? Give an example of a perfectly inelastic good in your answer.
- b) The graph in Figure 2 shows the demand curve for bananas.
- Calculate the amount of revenue the seller would receive if the price is set at \$3/kg.
  - Calculate the amount of revenue the seller would receive if the price is set at \$5/kg.
  - From the results you calculated, using the total outlay method, is the demand for bananas elastic or inelastic, in this range of prices? How do you know?
- c) Suppose the price elasticity of demand for watermelon was higher than the price elasticity of demand for chocolate. Annotate and label the graph in Figure 3 (page 5) to show which curve represents watermelon and which curve represents chocolate.

(7.5 marks)

**Question 10 continues**

a)

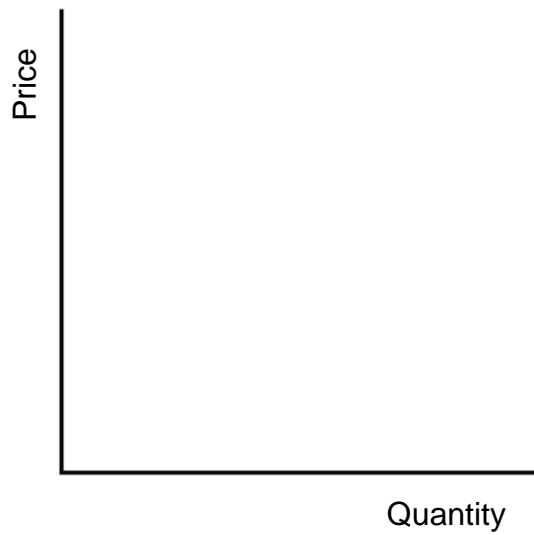


Figure 1: Graph for annotation of answer to Question 10 a).

.....

.....

.....

.....

b)



Figure 2: Graph showing the demand curve for bananas.

.....

.....

.....

.....

.....

Question 10 b) continues

Question 10 b) continued

Marker use

.....

.....

.....

.....

c)

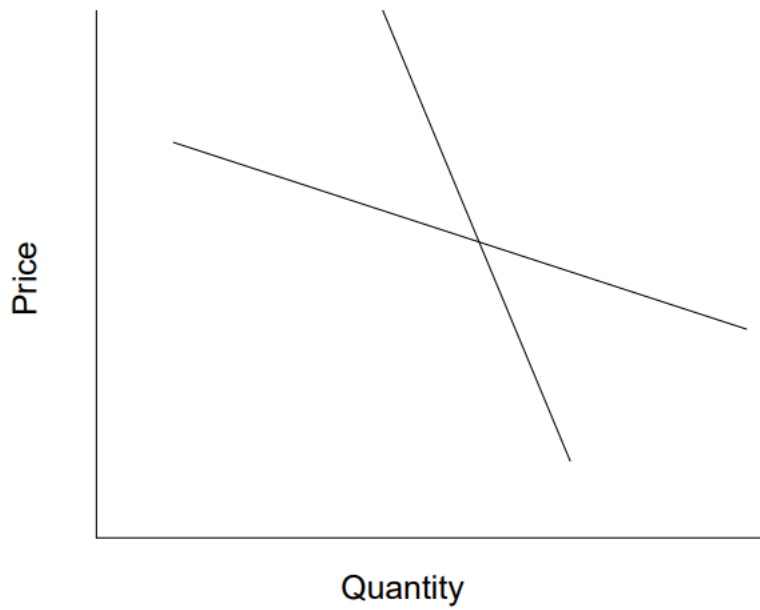


Figure 3: Curves on graph showing price elasticity demand for watermelon and chocolate.

.....

.....

## Question 11

Figure 4 shows the production possibility frontier for an economy showing the maximum quantity of manufactured and agricultural goods that can be provided if all resources are utilised.

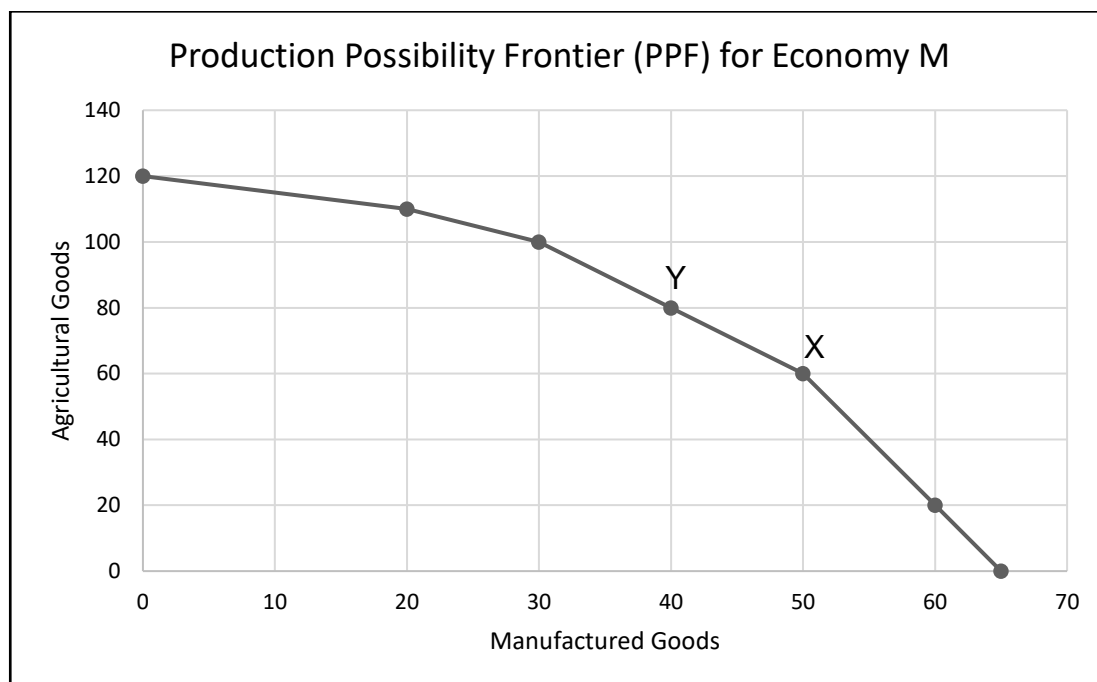
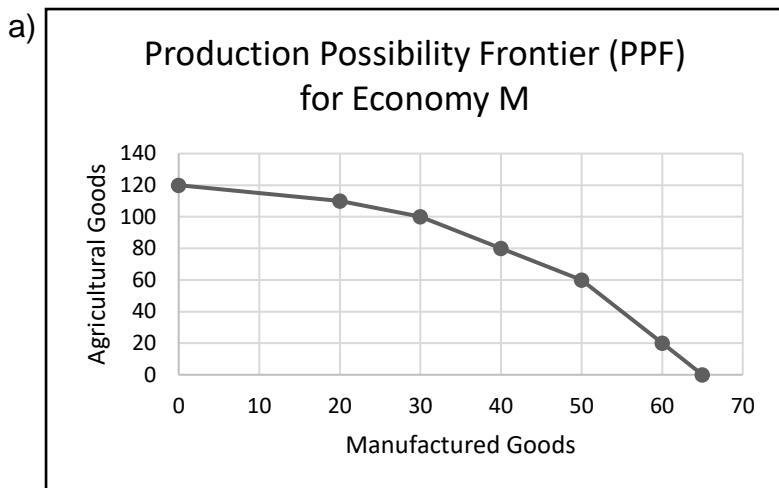


Figure 4: Graph showing production possibility frontier for Economy M.

- Outline the impact of new technology in the manufactured goods sector on the production possibilities of this economy, and illustrate the change in the PPF on the graph labelled a) (page 7).
- Draw a point on the production possibility frontier graph labelled b) (page 7) at which production is inefficient. Label it A.
- Draw a point on the production possibility frontier graph labelled c) (page 7) at which production is not possible. Label it B.
- Explain a scenario which would allow production at point B (from question c above).
  - Using the graph in Figure 4, determine the opportunity cost for the economy of moving production from point X to Y.
  - How might this trade-off impact the economy?

(7.5 marks)

Question 11 continues



.....

.....

.....

.....

.....

.....

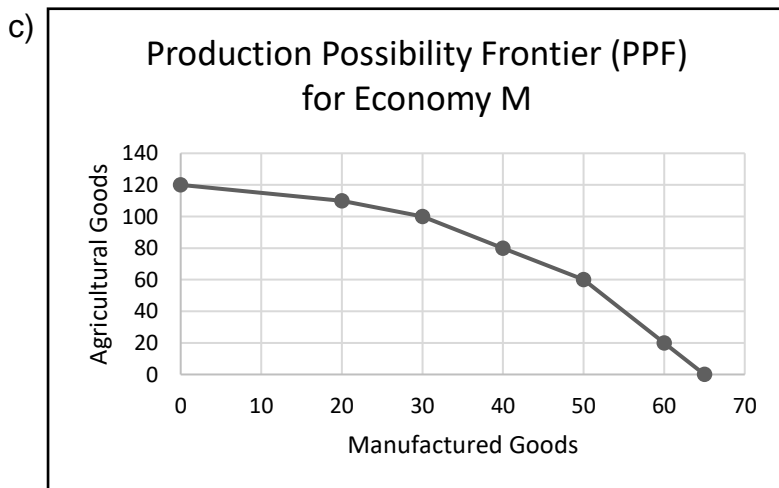
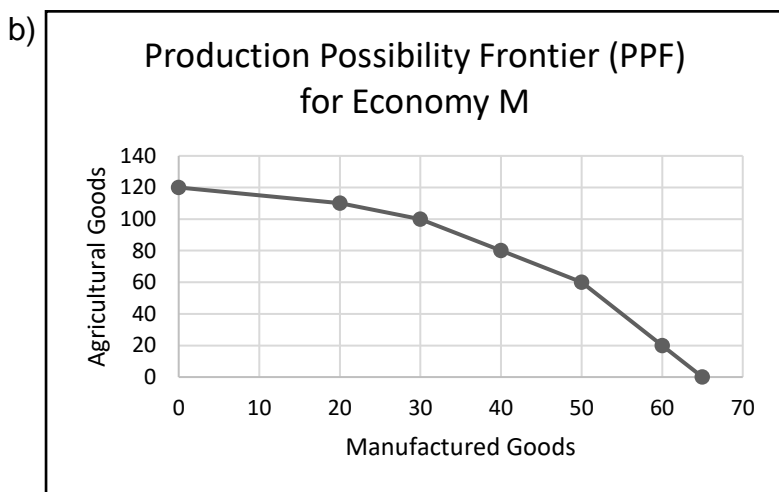
.....

.....

.....

.....

.....





Exam continues over the page

**Blank Page**

Question 12

Market for Higher Education (university degree level qualifications) in Australia

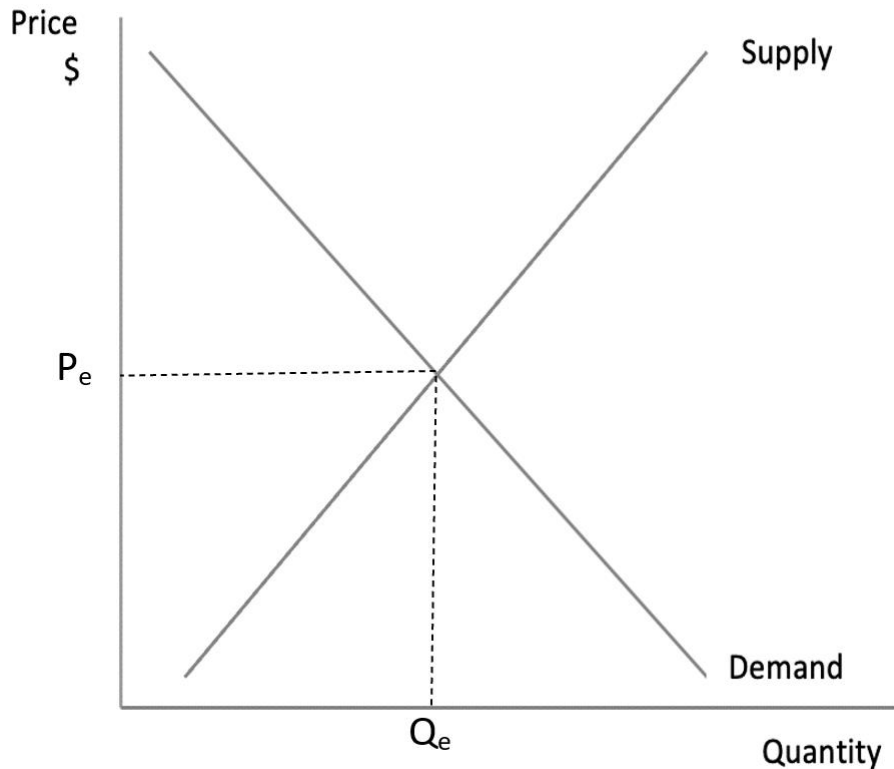


Figure 5: Diagram showing market for higher education (university degree level qualifications) in Australia.

Using the diagrams provided on pages 11 and 12, illustrate and describe the impact on the market of the following events.

- a) A 20% increase in the price of degrees.
- b) The government provides additional funding to universities to improve access to higher education.
- c) A government initiative to develop Australia's future human capital publicises the annual wage growth of those with a university degree (at 4.3%) compared to those without a degree (at 2.5%).
- d) Why may the government wish to increase Australia's available human capital?

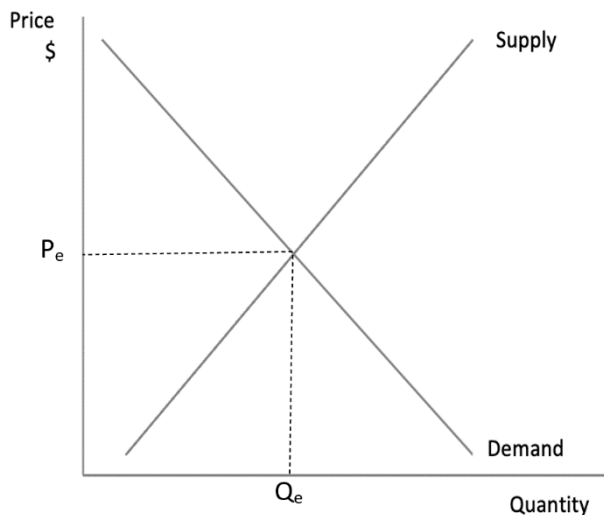
(7.5 marks)

Question 12 continues

**Question 12 continued**

Marker use

a) A 20% increase in the price of degrees.



.....

.....

.....

.....

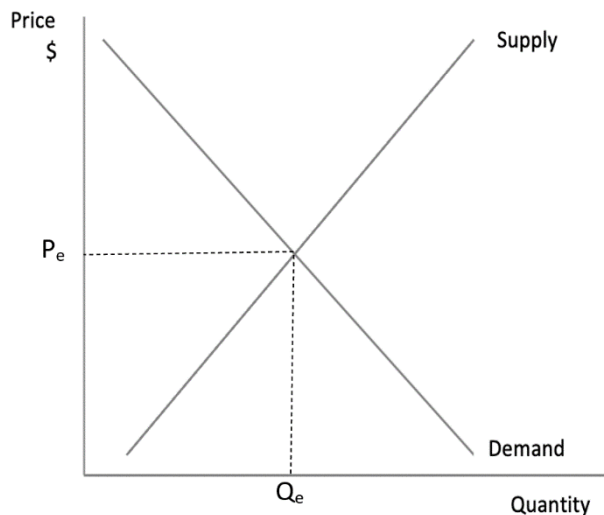
.....

.....

.....

.....

b) The government provides additional funding to universities to improve access to higher education.



.....

.....

.....

.....

.....

.....

.....

.....

**Question 12 continues**



Exam continues over the page

**Blank Page**

# Part 2

---

- Answer **two (2)** questions from **Unit 2 – Economic Management**.
  - Answer **all** items within a question.
  - Write your answers in the spaces provided in this exam paper. You are encouraged to include **diagrams** where relevant.
  - This part is worth 15 marks and it is suggested that you spend **approximately 15 minutes** on this part.
  - This part assesses **Criteria 2** and **5**.
- 

## Unit 2 – Economic Management

### Question 13

Table 1 shows the Gross Domestic Product (GDP) growth rate, inflation rate and cash rate from 2019–2024.

#### Australian Economic Data

Year ending	GDP growth rate (%)	Inflation rate (%)	Cash rate (%)
2019	1.82	1.59	0.75
2020	-2.13	0.91	0.1
2021	5.55	2.82	0.1
2022	3.81	6.61	3.1
2023	2.06	5.6	4.35
2024 (forecast)	1.46	3.53	-

*Table 1*

Data from <https://www.statista.com/> and <https://tradingeconomics.com/>

Use the information from Table 1 to answer the questions below:

- Identify **one (1)** period of slowing GDP growth during 2019 to 2024 and suggest a possible reason for this.
- Evaluate whether the RBA monetary stance has had the desired impact on the level of the inflation rate within Australia between 2019 and 2023.
- Using the diagram in Figure 6 (page 16), illustrate the GDP growth rate from 2021 to 2022 and its impact on macroeconomic equilibrium. Label the diagram and explain the changes.

(7.5 marks)

**Question 13 continues**

a).....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

b).....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

Question 13 continues

c)

Australian Economic Growth

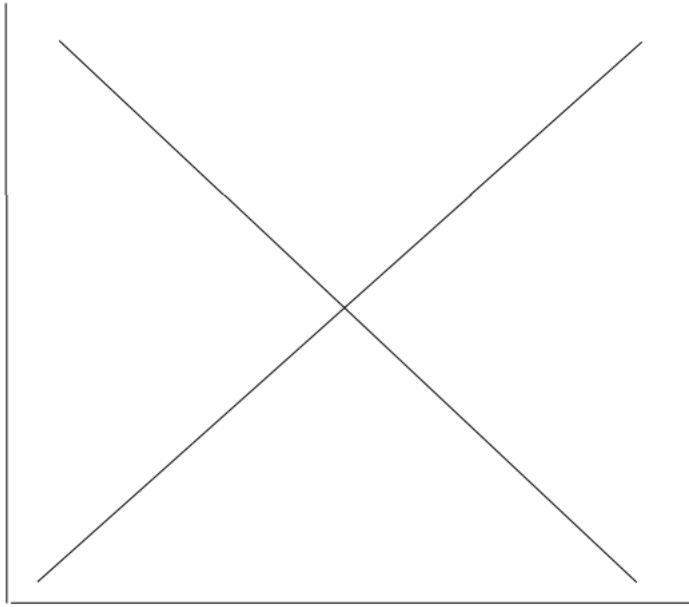


Figure 6: Diagram of macroeconomic equilibrium in Australia to sketch your answer to Question 13 c).

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Exam continues over the page

**Blank Page**

**Question 14****Labour Market Data – Australia**

	Employed	Unemployed	Working-age population	Underemployment rate (%)		
				Total	Male	Female
March 2023	13 883 100	508 500	21 641 503	6.3	5.0	7.6
February 2024	14 231 300	575 100	22 198 500	6.6	5.5	7.8
March 2024	14 259 800	573 000	22 271 471	6.5	5.5	7.5

*Table 2*

- a) Using the data in Table 2, calculate the following:
- Unemployment rate for March 2024.
  - Unemployment rate for March 2023.
  - Labour force participation rate for February 2024.
- b) Briefly explain the trends in underemployment rate.

(7.5 marks)

**Question 14 continues**





### Question 15

The data in Table 3 relates to annual expenditures for 2023 in a fictional economy, Tasmazia.

	\$m
Household consumption	360 000
Government spending	82 000
Exports	70 000
Imports	57 000
Taxation receipts	33 000
Investment	126 000

*Table 3*

- Calculate the value of GDP for this economy in 2023.
- Calculate the new GDP for 2023 if an additional \$7 million is spent by international students on education.
- Use your knowledge of the circular flow of income to explain why the level of production can be measured by both expenditure and income.

(7.5 marks)

**Question 15 continues**





# Part 3

---

- Answer **two (2)** questions from **Unit 3** – Australia and the Global Economy.
  - Answer **all** items within a question.
  - Write your answers in the spaces provided in this exam paper. You are encouraged to include **diagrams** where relevant.
  - This part is worth 15 marks and it is suggested that you spend **approximately 15 minutes** on this part.
  - This part assesses **Criteria 2** and **5**.
- 

## Unit 3 – Australia and the Global Economy

### Question 16

If Economy X allocates all resources to the production of trucks, it can produce 3 million trucks. If all its resources are allocated to producing electric vehicles, it can produce 9 million electric vehicles.

If Economy Y allocates all resources to producing trucks, it can produce 4 million trucks. If all its resources are allocated to producing electric vehicles it can produce 8 million electric vehicles.

<b>Economy</b>	<b>Trucks (million)</b>	<b>Electric Vehicles (million)</b>
X	3	9
Y	4	8

*Table 4*

- a) Calculate (showing your working out) whether:
- Economy X has a comparative advantage and if so, in which product.
  - Economy Y has a comparative advantage and if so, in which product.
- b) Briefly describe how both economies may benefit from specialisation and trade in trucks and electric vehicles (no further calculation needed).

(7.5 marks)

**Question 16 continues**

a) i.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

a) ii. ....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

b) .....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

**Question 17**

A hypothetical plan has been proposed by the Federal Government to impose a quota on foreign cheese and curd-making businesses that export cheese products to Australia.

- a) On the diagram in Figure 7, show the likely effect of a quota from the Federal Government to foreign cheese producers. Describe the effect on consumer demand (quantity), price, domestic producer's supply, and the quantity imported.
- b) Explain how the quota would affect Australian (domestic) producers of cheese products.
- c) Explain how a quota to support Australian (domestic) cheese makers' production could potentially affect the Australian government and consumers.

(7.5 marks)

a)

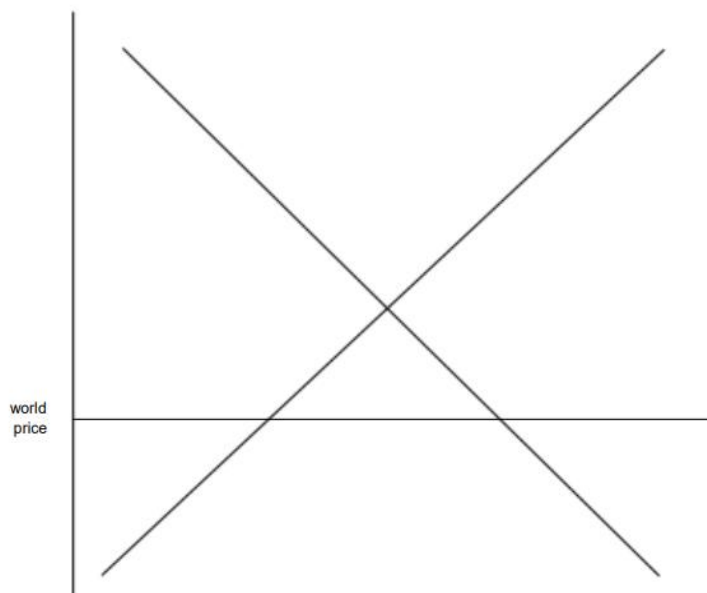


Figure 7: Diagram to sketch answer to Question 17 a).

.....

.....

.....

.....

.....

.....

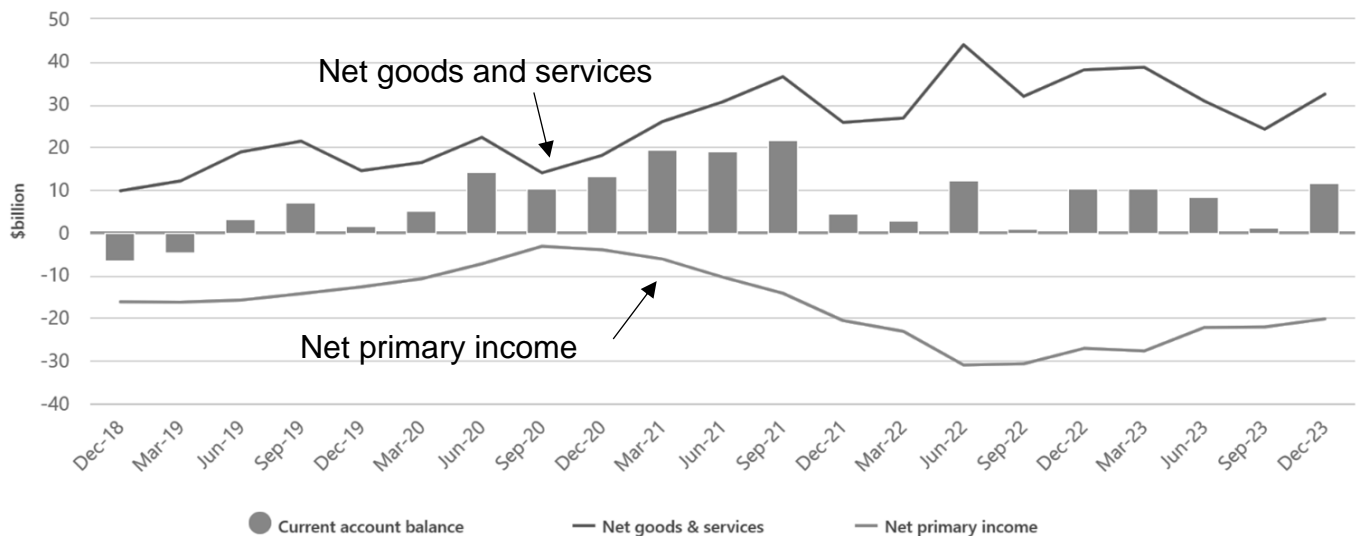
**Question 17 continues**

b).....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

c).....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....

## Question 18

Current account balance (a), main aggregates



(a) seasonally adjusted estimates at current prices

Source: <https://www.abs.gov.au/media-centre/media-releases/australia-records-current-account-surplus-118b>

Figure 8: Graph of current account balance Australia (December 18 – December 23).

- Using the graph in Figure 8, comment on the trend of net primary income and net goods and services from December 2018 to December 2023.
- Explain each of the components of the graph: current account balance, net goods and services and net primary income.
- Australia's current account balance increased by \$10.5 billion to a surplus of \$11.8 billion (seasonally adjusted, current prices) in the December quarter of 2023, according to the Australian Bureau of Statistics (ABS).

Explain **one (1)** benefit and **one (1)** risk to the Australian economy of a current account surplus.

(7.5 marks)

Question 18 continues





End of Section B

**Blank Page**



TASMANIAN  
ASSESSMENT, STANDARDS  
& CERTIFICATION

---

This exam paper and any materials associated with this exam  
(including answer booklets, cover sheets, rough note paper, or information sheets)  
remain the property of Tasmanian Assessment, Standards and Certification.

External Assessment 2024

# ECONOMICS

ECN315116

## Section **C**

Pages: 16

Questions: 4

Answer Booklets: 2

**Suggested working time:** 90 minutes

### Instructions:

- There are **two (2) parts** to this section:
  - Part 1 - Unit 1** – answer **one (1)** question from this part
  - Part 2 - Unit 2** – answer **one (1)** question from this part.
- Answer **all** items within a question.
- Write your answer to each question in a **separate answer booklet**. You are encouraged to include diagrams where relevant.
- Each question is worth 45 marks ( $2 \times 45 = 90$  marks in total for **Section C**).
- The exam is **three (3) hours** in length. The suggested working time is provided in the instructions for each part.
- All answers must be written in **English**.
- You **must** make sure your answers address the listed criteria.

Marker use			
	Q 19 or 20	Q 21 or 22	
C3			45
C4			45
C5			Alpha

Blank Page

# Guide to Exam Structure

---

	Parts	Questions available	Questions to answer	Suggested working time	Marks available
Section <b>A</b>	Part 1	3	2	15 minutes	15 marks and A+ to z rating
	Part 2	3	2	15 minutes	15 marks and A+ to z rating
	Part 3	3	2	15 minutes	15 marks and A+ to z rating
Section <b>B</b>	Part 1	3	2	15 minutes	15 marks and A+ to z rating
	Part 2	3	2	15 minutes	15 marks and A+ to z rating
	Part 3	3	2	15 minutes	15 marks and A+ to z rating
Section <b>C</b>	Part 1	2	1	45 minutes	45 marks and A+ to z rating
	Part 2	2	1	45 minutes	45 marks and A+ to z rating
<b>Totals</b>		<b>22</b>	<b>14</b>	<b>180 minutes (3 hours)</b>	<b>180 marks and A+ to z rating</b>

## Criteria

---

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.

# Part 1

---

- Answer **one (1)** question, **either** Question 19 **or** Question 20.
  - Answer **all** items within a question.
  - Write your answers in a **separate answer booklet**. You are encouraged to include **diagrams** where relevant.
  - This part is worth 45 marks. The suggested working time you should spend on this part is **approximately 45 minutes**.
  - This part 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 Stimulus

### Stage three tax cuts will have a ‘negligible’ effect on inflation

The forthcoming stage three tax cuts will have a negligible effect on inflation, according to new research from JP Morgan that addresses one of the key criticisms of the controversial package. “We recognise the temptation to regard these looming changes as inflationary; however, empirical evidence suggests the impact should be marginal,” JP Morgan economist Tom Kennedy said on Friday. The controversial package, which will come into effect on July 1, will abolish the 32.5 per cent and 37 per cent brackets, and introduce a single 30 per cent rate for incomes between \$45,000 and \$200,000.

The tax cut comes as households endure one of the most challenging financial environments in decades. Real household disposable incomes have fallen for eight consecutive quarters back to 2015 levels as a result of high inflation, rapidly rising interest rates and a record federal government income tax take.

Mr Kennedy estimated the tax cuts would boost after-tax household income by about 0.8 per cent of nominal GDP. “Multipliers relating to saving [and] spending dynamics are hard to gauge, but given these tax changes are, at this stage, permanent, we expect the disposable income boost will offer timely support to household consumption in an environment of elevated debt servicing costs and ongoing cost of living pressures,” he said. The top 20 per cent of income earners in Australia consume about 60¢ in each additional dollar they earn and save the remaining 40¢, Mr Kennedy found. The bottom 20 per cent of earners, who will largely not benefit from the tax cuts, spend more than 100¢ of each additional dollar they earn.

**Question 19 stimulus continues**

## Question 19 stimulus continued

Critics of stage three say the package is unaffordable, inflationary, and skewed towards the wealthy. People earning more than \$200,000 will receive a tax cut of \$9075, while a person earning less than \$45,000 will receive nothing. This largely reflects the fact people on lower incomes pay very little income tax to begin with.

JP Morgan expects inflation, currently at 4.3 per cent, to be in the mid-3s by the end of the year, with a return to the Reserve Bank of Australia's 2 to 3 per cent target band unlikely to occur before mid-2025.

*Adapted from: <https://www.afr.com/policy/economy/stage-three-tax-cuts-will-have-a-negligible-effect-on-inflation-20240112-p5ewth>*

*Article written by Michael Read (Financial Review) Published on Jan 12, 2024.*

### **The government is getting back into business with microeconomic reforms aimed at environmental concerns.**

In total, the federal government has allocated \$22.7 billion over the next decade to economic reforms around the environment, the bulk of which will be directed towards tax incentives for renewable hydrogen and critical minerals processing. But it also plans to make direct investments. In March the government extended support, including grants, to two critical minerals operations, producing rare earth minerals including lithium (used in batteries for phones and electric vehicles, etc.) and has recently talked up investment in solar panels.

After decades of privatisation and shrinking government, the shift back to direct investment in industry, targeted though it may be at a renewable energy future, is a radical shift.

When it comes to cost-of-living relief, the long-anticipated energy bill relief (\$75 a quarter for four quarters paid direct to energy providers, rather than consumers) has been directed to all households rather than just those most in need. That comes at a hefty price tag of \$3.5 billion. Combine that with \$1.9 billion for rent assistance to 1 million households, further raising concerns over federal spending adding to inflation.

*Adapted from: <https://www.abc.net.au/news/2024-05-14/verrender-business-budget-analysis/103847180>*

*Article by Ian Verrender (ABC) Published on 14 May 2024.*

### Question 19 continues

These items assess **Criteria 3** and **5**.

- a) Outline the current fiscal policy stance and evaluate the costs and benefits of tax cuts.  
(10 marks)
- b) Critically analyse the implications of microeconomic reforms targeting the renewable energy sector in terms of environmental concerns and practical limitations.  
(8 marks)
- c) Explain the progressive tax system as an automatic stabiliser.  
(4.5 marks)

These items assess **Criteria 4** and **5**.

- d) Explain the potential impact on individuals and businesses of tax cuts and micro-economic reforms. Consider the multiplier effect and individual's tendency to save and spend.  
(10 marks)
- e) Evaluate measures in the federal budget aimed at relieving cost-of-living pressures while keeping inflation low.  
(8 marks)
- f) Explain **one (1)** alternative economic solution to reduce the standard of living pressures.  
(4.5 marks)

## Question 20 stimulus

### **Australia economy slows to a crawl, underscoring case for rate cuts**

Australia's economy grew very slowly in the December quarter as stagnant household incomes brought consumer spending to a standstill, reinforcing market bets that the next move in interest rates will be down. The slowdown confirmed high borrowing costs were working all too well to curb demand, prompting treasurer Jim Chalmers to declare that the balance of risks in the economy is shifting from inflation to growth.

Data from the Australian Bureau of Statistics showed real gross domestic product (GDP) rose 0.2% in the fourth quarter, under forecasts of 0.3%. That compared with an upwardly revised 0.3% expansion in the prior quarter. Annual growth slowed to 1.5%, down from 2.1% the previous quarter and the lowest since early 2021, when the economy was emerging from a pandemic-driven recession.

In a telling sign of the softness in domestic demand, household spending did not add to economic growth at all in the fourth quarter, as a 0.7% rise in spending on essentials was offset by a 0.9% fall in discretionary spending. ABS data showed households are spending more on electricity, rent, food and health while cutting back on hotels, cafes and restaurants as well as things like new vehicle purchases and clothing and footwear.

"Australian consumers are suffering from higher interest rates and cost of living pressures, while the rate of housing investment remains in the doldrums," said Deloitte Access Economist Stephen Smith.

"There is simply not enough demand in the Australian economy to justify the RBA's claim about 'homegrown' inflation... Monetary policy needs to shift away from containing inflation to stimulating economic growth."

The RBA has raised interest rates by 425 basis points since May 2022 to curb inflation and has not ruled out another rise due to persistently high services price pressures, even as headline inflation has retreated to two-year lows. The central bank had expected the economy to slow to an annual 1.5% by the end of the last year and to 1.3% by mid-2024.

Growth in Australia has been supported by record immigration, but on a per capita basis, GDP fell 0.3% for the December quarter, shrinking for three straight quarters in the longest declining streak since 1982. Net trade was a big driver of growth, with a pull-back in imports - thanks to Australians spending less money overseas—adding 0.7 percentage points to fourth-quarter GDP growth.

**Question 20 stimulus continues**

## Question 20 stimulus continued

"Addressing inflation is still our primary concern, but these numbers show that the balance of risks in our economy are shifting from inflation to growth," said Treasurer Jim Chalmers at a briefing. "If you look at these quarterly figures, if you look at the way inflation is coming down in welcome and encouraging ways, we need to respond to that," said Chalmers.

Analysts expect the economy will continue to slow down in the months ahead before picking up in the second half of the year. Markets are pricing the first rate cut from the RBA to come late in 2024. "That means 2024 will be a tale of two halves. The first defined by lingering cost-of-living pressures and the second half by relief in the form of tax and rate cuts," said Harry Murphy, an Economist with Moody's Analytics.

*Adapted from: <https://www.reuters.com/world/asia-pacific/australia-economy-grows-meagre-02-q4-spending-sputters-2024-03-06/>*

*Article written by Stella Qiu (Reuters, Asia Pacific)*

These items assess **Criteria 3** and **5**.

- a) Evaluate the costs and/or benefits of inflation and reduced household spending.  
(10 marks)
- b) Critically analyse the implications of a higher cost of borrowing for social justice and practical limitations.  
(8 marks)
- c) Explain the relationship between economic growth, prices and inflation.  
(4.5 marks)

These items assess **Criteria 4** and **5**.

- d) Evaluate the potential implications of an interest rate cut on individuals and business owners.  
(10 marks)
- e) Using the circular flow of income explain how an increase in population (immigration) and decrease in imports may have contributed to economic growth and inflationary pressures.  
(8 marks)
- f) Explain **one (1)** economic solution, other than cutting interest rates, that could help the economy recover from slowing economic growth.  
(4.5 marks)

# Part 2

---

- Answer **one (1)** question, **either** Question 21 **or** Question 22.
  - Answer **all** items within a question.
  - Write your answers in a **separate answer booklet**. You are encouraged to include **diagrams** where relevant.
  - This part is worth 45 marks. The suggested working time you should spend on this part is **approximately 45 minutes**.
  - This part 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 21 stimulus

### **Australian producers to keep prosecco, feta and parmesan as European Union trade deal stalls**

The EU is a massive, high-income trading bloc of 445 million people and is one of the few markets with whom Australia currently has no free trade deal. As a result, the EU imposes strict quotas and high tariffs on Australian agricultural imports which trade negotiators have been trying to remove or, at the very least, substantially reduce.

In a statement, EU Ambassador to Australia, Gabriele Visentin, "regretted" the lack of progress, saying "there was optimism that a deal was within reach". "Our negotiating teams made good progress over the recent weeks," the Ambassador said. "The European Commission stands ready to continue negotiations."

Five years after talks began, Australian farmers say the existing offer is a "dud", arguing it barely improves market access for sugar, red meat and dairy and would, in fact, impose conditions or European-mandated restrictions on local farming practices.

The other major sticking point has been EU demands for Australia to give up naming rights to hundreds of products – including prosecco, parmesan and feta – to protect so-called "geographical indications".

Talks have been deadlocked since July when Australia's Trade Minister walked away from negotiations empty-handed, though there was hope that European negotiators would come back with an improved offer.

**Question 21 stimulus continues**

## Question 21 stimulus continued

However, the European side had "not budged significantly" since then and frustrations remain around the EU's notoriously protectionist market for agriculture. "They have not been prepared to put on the table a significantly better offer than what they've offered before," he said, and so negotiations have stalled yet again.

"It should be clear though to the EU from today's events that the federal government isn't willing to sacrifice Aussie farmers just to get the deal done."

As free-trade talks between Australia and the EU stall, local food and drink producers fear the government might be forced to give up naming rights to hundreds of products to secure a deal.

The Shadow Trade Minister said it was "disappointing" that negotiations had fallen over but acknowledged "the offer for agriculture, particularly beef, sheep and sugar, was not good enough". "The EU offer on geographical indicators would have also been too restrictive, particularly for products like parmesan, feta and prosecco," he said.

As part of the agreement, the EU has been pushing for greater access to Australia's vast critical minerals, and for the abolition of the \$1 billion Luxury Car Tax, which would benefit Australian consumers.

The two sides agree a trade deal would help both markets diversify away from China, which slapped eye-watering tariffs on Australian imports during the height of the COVID-19 pandemic. The federal government has been gradually restoring trade ties with Beijing since coming to power and it is hoped the Prime Minister's upcoming trip to China will see a further relaxation of sanctions.

*Adapted from: <https://www.abc.net.au/news/2023-10-30/eu-trade-deal-doomed/103038192>*

*Article by Jane Norman (ABC). Published Monday 30 October 2023.*

## Question 21 continued

These items assess **Criteria 3** and **5**.

- a) Evaluate the costs and/or benefits of free trade for individuals and Australian businesses.  
(10 marks)
- b) Critically analyse the implications of 'the EU imposing strict quotas and high tariffs on Australian agricultural imports'.  
(8 marks)
- c) Explain the benefits of free trade agreements to Australia's trade.  
(4.5 marks)

These items assess **Criteria 4** and **5**.

- d) Explain the costs of an over reliance on Asia for trade, and the benefits of developing new trade partners, such as with the EU.  
(10 marks)
- e) Critically evaluate the use of tariffs as a trade protection in terms of social justice and practical limitations.  
(8 marks)
- f) Explain the implications for government of trade protection policies.  
(4.5 marks)

## Question 22 stimulus

### **The Australian dollar is showing some strength, and that could be good news for travellers**

For a relatively small, open economy, Australia's currency is heavily traded. In fact, it's one of the world's most traded, so it's known to be pushed and pulled on global currency markets daily.

Curiously though, the Australian dollar has hovered around 66 US cents or above for well over a month now. Recently it even pushed to a six-month high, trading as high as 67.8 US cents.

The Australian dollar is known as a commodities currency. This means that if someone offshore wants to buy copper, coal or iron ore from the nation's miners, they need to buy Australian dollars to do it. Demand for all these commodities has been resilient in recent months – particularly iron ore. Treasury's forecasts assumed a price of \$US60/tonne but it pushed up towards \$US120/tonne earlier this year and it's now close to \$US110/tonne.

There were fears China's property market collapse would wipe out demand for iron ore but instead, it's held up – particularly thanks to the Chinese government's economic stimulus measures. In short, demand for Australia's commodities has held up, and therefore so has the dollar.

A second driver of the Australian dollar is the difference between interest rates in Australia and other parts of the world. Australia's central bank – the Reserve Bank – was relatively late to tighten monetary policy and it seems it will be a similar story on the path to easing policy. While other central banks, including the US Federal Reserve, have clearly signalled their intentions to cut interest rates, the Reserve Bank is not yet able to do so. This is because various measures of inflation are still above the Reserve Bank's target band of between 2 and 3 per cent.

While the price increases of many goods are falling, and some are being discounted, the cost of services – including rent – remain elevated. The latest National Australia Bank business survey shows some promise of costs falling for businesses, which would be promising as far as the outlook for inflation is concerned.

However, the bank says the data is still too unclear to make a definitive call on whether inflation is easing. There's little confidence Australia's battle with inflation has been won. It means there remains the "possibility", as many economists have put it, that the Reserve Bank will be forced to raise interest rates either next month or later in the year. At the very least, the Reserve Bank is unlikely to cut its cash rate target until November.

At the same time, for example, there's growing expectation the US Federal Reserve may decide to cut its Federal Funds Rate as early as September.

**Question 22 stimulus continues**

## Question 22 stimulus continued

This would make Australia a relatively attractive place for international investors – who are comparing the return (or interest rate) they can earn on their money in the US versus Australia – to park their cash.

In short, because Australia's interest rates are expected to remain relatively high, demand for its currency is strong. "It is probable the Australian dollar will [be] slightly stronger over the next six months," independent analyst Evan Lucas says. "We have the possibility of interest rates [in Australia] going higher still."

BetaShares chief economist David Bassanese sees the dollar above 70 US cents into next year. "So I've been anticipating the Aussie [dollar] to break above the 70 cents [mark against the US dollar] over the next 6 to 12 months on the view the US will cut interest rates more aggressively than we will be able to," he said.

*Adapted from <https://www.abc.net.au/news/2024-07-10/australian-dollar-influence-on-inflation-and-overseas-travel/104075044>*

*Article by David Taylor (ABC). Published on Wednesday 10 July 2024.*

These items assess **Criteria 3** and **5**.

- a) Evaluate the impacts of a significant appreciation of the AU\$ on Australian importers and exporters.  
(10 marks)
- b) Critically analyse the role and importance of the exchange rate in terms of social justice and the environment in Australia.  
(8 marks)
- c) Explain how commodity prices may be a driver of currency appreciation in Australia.  
(4.5 marks)

These items assess **Criteria 4** and **5**.

- d) Evaluate the short-term and long-term impact that a depreciating Australian Dollar could have on Australia's foreign debt.  
(10 marks)
- e) Identify and explain **two (2)** likely effects of an appreciating Australian dollar on the Balance of Payments current account.  
(8 marks)
- f) Explain how the difference between monetary policy stance (interest rates) in Australia and one of its trading partners may impact the value of the AU\$.  
(4.5 marks)

End of Section C

**Blank Page**

Blank Page



TASMANIAN  
ASSESSMENT, STANDARDS  
& CERTIFICATION

---

This exam paper and any materials associated with this exam  
(including answer booklets, cover sheets, rough note paper, or information sheets)  
remain the property of Tasmanian Assessment, Standards and Certification.