Neap

Trial Examination 2022

HSC Year 12 Economics

Solutions and Marking Guidelines

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SECTION I

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 1 C **C** is correct. Receipts are sources of revenue. Tariff payments on imports and company tax represent tax collected from business profit; hence, both are receipts. **A** and **B** are incorrect. GST is a type of taxation that represents government revenue. Welfare spending, defence and infrastructure projects are government expenditures as they represent costs to the Federal Budget. **D** is incorrect. Fringe benefit tax (FBT) is a type of taxation that represents government revenue; however, subsidies are a direct cost to the budget.	Topic 4 Economic Policies and Management: Fiscal policy H1 Bands 2–3
Question 2 B **B** is correct. The Organisation of Economic Co-operation and Development (OECD) is a policy and advice organisation that supports 38 advanced, industrialised economies with policy advice. **A** and **D** are incorrect. These organisations provide support to developing nations only. **C** is incorrect. The World Trade Organization (WTO) provides structure to global trade relationships.	Topic 1 The Global Economy: Trade, financial flows and foreign investment H2 Bands 2–3
Question 3 B **B** is correct. Privatisation is a type of microeconomic reform that aims for technical efficiency. **A** is incorrect. Privatisation increases government revenue and decreases government expenditure, which may lead to contractionary fiscal policy. **C** is incorrect. Privatisation is not a demand-side policy and frequently causes increases in unemployment. **D** is incorrect. Privatisation may not have an impact on export industries.	Topic 4 Economic Policies and Management: Microeconomic policies H6 Bands 3–4
Question 4 C **C** is correct. Division of labour has led to specialisation of labour between nations; hence, individuals have been incentivised to seek higher incomes. **A** is incorrect. Increased (not decreased) global trade is a byproduct of globalisation, which is caused by the international division of labour. **B** is incorrect. The international division of labour has led to increased specialisation in some countries where migration is needed as capital is accumulated and there is a shortage of labour. **D** is incorrect. Increased migration, as a result of the international division of labour, has caused an increase in financial remittances.	Topic 1 The Global Economy: International economic integration H6 Bands 3–4

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 5 B **B** is correct. Free trade lowers the cost of imports, which will make it cheaper for consumers within member nations to purchase imports, thereby increasing their purchasing power. **A** is incorrect. Exports will be diverted from non-member nations. **C** is incorrect. There will be increased export revenue for the country. **D** is incorrect. The reduction in protection will reduce tariff revenue, caused by joining the multilateral, free trade agreement.	Topic 1 The Global Economy: Protection H6 Bands 4–5
Question 6 D $\text{inflation} = \left(\frac{6}{120}\right) \times 100$ $= 5\%$ economic growth = percentage change in real Gross Domestic Product (GDP) between years $\text{real GDP} = \text{nominal GDP} \times \left(\frac{100}{\text{consumer price index (CPI)}}\right)$ $\text{real GDP (Y1)} = 50 \times \left(\frac{100}{120}\right)$ $= \$41.67 \text{ billion}$ $\text{real GDP (Y2)} = 55 \times \left(\frac{100}{126}\right)$ $= \$43.65 \text{ billion}$ $\text{economic growth} = \frac{(43.65 - 41.67)}{41.67} \times 100$ $= 4.75\%$ The rate of economic growth (4.75%) is lower than the rate of inflation (5%).	Topic 3 Economic Issues: Economic growth; inflation H11 Bands 4–5
Question 7 D **D** is correct. A payment to overseas families is a form of remittance, which is classified as an outflow (debit) in the net Secondary Income section of the Current Account. **A**, **B** and **C** are incorrect. The transfer of funds is not a capital flow, inflow (credit) or financial flow.	Topic 2 Australia's Place in the Global Economy: Australia's Balance of Payments H1 Bands 4–5

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 8 C **C** is correct. A decrease in the tax-free threshold would cause lower income earners to pay tax on an increasing proportion of their income, thus increasing income inequality. **A** is incorrect. A decrease in the lowest marginal tax rate would cause the lowest income earners to pay less tax on their income, thus decreasing income inequality. **B** is incorrect. A decrease in a regressive tax, such as GST, would decrease income inequality. **D** is incorrect. A fall in unemployment would decrease income inequality.	Topic 3 Economic Issues: Distribution of income and wealth H6 Bands 3–4
Question 9 A **A** is correct. The deregulation of the labour market is a supply-side policy. It would cause an increase in productivity and, hence, increase *AS*. **B**, **C** and **D** are incorrect. These options are demand-side policies, meaning they would represent shifts in the demand curve.	Topic 4 Economic Policies and Management: Labour market policies H6 Bands 3–4
Question 10 D From Year 1 to Year 2, the increase in national income of \$125 billion was caused by an increase in investment of \$25 billion. As a result, the multiplier (k) must be 5. $k = \frac{1}{\text{marginal propensity to save (MPS)}}$ $5 = \frac{1}{\text{MPS}}$ $\text{MPS} = \frac{1}{5}$ $= 0.2$	Topic 3 Economic Issues: Economic growth H11 Bands 4–5
Question 11 B **B** is correct. Increases in income improve confidence in an economy. **A** and **C** are incorrect. Increased wages increase costs of labour and production. An increased cost of labour may increase unemployment. **D** is incorrect. Increased incomes increase consumption, which includes spending on imported goods and services.	Topic 4 Economic Policies and Management: Labour market policies H6 Bands 3–4
Question 12 A **A** is correct. A decrease in available work hours increases underemployment as underemployment represents those individuals who wish to work more hours than they currently do, which is typical with casual employees. **B**, **C** and **D** are incorrect. These options are not caused by a change in the work hours available to casual employees.	Topic 3 Economic Issues: Unemployment H8 Bands 4–5

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 13 B **B** is correct. An increase in foreign debt would result in higher interest payments heading overseas, which are a debit (outflow) on Primary Income section of the Current Account. **A** is incorrect. Net outflow of interest and higher debt would weaken confidence in the economy's currency. **C** is incorrect. In the short term, trade would not be affected as the dollar would first need to adjust to changes to foreign debt, which would have a flow-on effect to the terms of trade in the long term. **D** is incorrect. An increase in foreign debt is a financial inflow (not outflow).	Topic 2 Australia's Place in the Global Economy: Australia's Balance of Payments H1 Bands 4–5
Question 14 C $\text{terms of trade} = \left(\frac{\text{export price index}}{\text{import price index}}\right) \times 100$ $\text{terms of trade (Y1)} = \left(\frac{140}{110}\right) \times 100$ $= 1.27$ $\text{terms of trade (Y2)} = \left(\frac{144}{120}\right) \times 100$ $= 1.2$ The terms of trade for Year 1 (1.27) is greater than for Year 2 (0.95). Therefore, the terms of trade has deteriorated.	Topic 2 Australia's Place in the Global Economy: Australia's Balance of Payments H11 Bands 3–4
Question 15 D **D** is correct. In decentralised wage negotiations, workers trade off productivity increases for higher incomes under enterprise agreements and contracts. Therefore, productivity growth would be higher than real wage growth. **A** is incorrect. A decrease in income tax does not represent an increase in wages but rather an increase in disposable income. Furthermore, productivity is unlikely to be affected as lower income taxes do not present an incentive to increase efficiency and, therefore, productivity. **B** is incorrect. An increase in the labour force increases the participation rate, potentially putting downward pressure on wage growth and having no effect on productivity. **C** is incorrect. An increase in aggregate demand leads to increased incomes but not increased productivity, which is a supply-side effect.	Topic 4 Economic Policies and Management: Labour market policies H6 Bands 4–5

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 16 A **A** is correct. The trade weighted index is a value of an exchange rate against all an economy's trading partners. The deterioration in the trade weighted index from Year 1 to Year 2 is consistent with the change against the USD, but not the EUR or JPY. This is because, from Year 1 to Year 2, the USD decreased by 0.8, the EUR remained the same and the JPY increased by 3. **B** is incorrect. Exports were more expensive in Japan in Year 2 (78) compared to Year 1 (75). **C** is incorrect. A fall in the exchange rate against the JPY would mean that imports would be more expensive. **D** is incorrect. There is no evidence given to support this conclusion.	Topic 2 Australia's Place in the Global Economy: Exchange rates H11 Bands 4–5
Question 17 D **D** is correct. An increase in price that causes a fall in demand by a less-than-proportional amount is relatively inelastic. **A** is incorrect. Competitiveness will improve for local producers as a tariff increases the market equilibrium price (world price), making the locally produced good relatively cheaper. **B** is incorrect. There is no evidence given to support this conclusion. **C** is incorrect. As tariff rates increase, government revenue will increase.	Topic 1 The Global Economy: Protection H11 Bands 5–6
Question 18 A **A** is correct. Tradeable rights are a market-based policy. **B**, **C** and **D** are incorrect. These are interventionist or regulatory policies, which distort market activity by artificially altering price and, hence, are not market-based.	Topic 4 Economic Policies and Management: National and global context for environmental management H1 Bands 4–5
Question 19 D **D** is correct. At 0.60 USD, demand ($800 million) exceeds supply ($400 million). To eliminate the excess demand to fix the lower price, the government would need to sell $400 million of local currency, which would move the supply curve to the right. **A**, **B** and **C** are incorrect. These option would not create a new equilibrium at 0.60 USD.	Topic 2 Australia's Place in the Global Economy: Exchange rates H1, H11 Bands 5–6

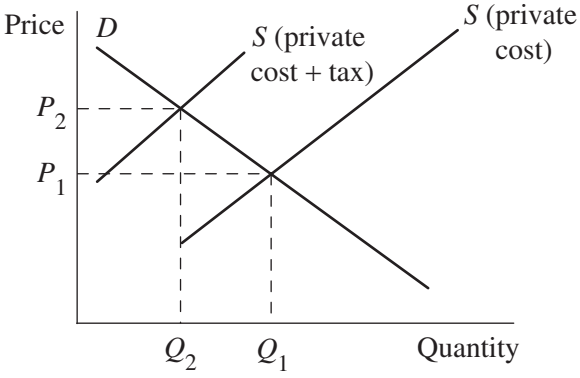
Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 20 B **B** is correct. Taxes, such as excise duty, increase the price of goods with social cost in order to pass the cost of the product on to the consumer. **A** is incorrect. Restricting output of the good would reduce output, which would not pass the cost on to consumers. **C** is incorrect. Allowing increased imports of the good into the economy would not redirect the social cost in any way; it would only increase demand. **D** is incorrect. Increasing GST would affect all goods, not just goods that create externalities.	Topic 3 Economic Issues: Economic growth H7 Bands 4–5

SECTION II

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
Question 21	
(a) Direction of trade refers to the countries that Australia exports to and imports from, whereas composition of trade describes the types of goods and services a nation imports or exports.	Topic 2 Australia's Place in the Global Economy: Value, composition and direction of Australia's trade and financial flows H1 Bands 2–3 • Identifies the characteristics of direction of trade AND composition of trade . . . . . 2 • Identifies the characteristics of direction of trade OR composition of trade 1
(b) *For example:* A fall in global economic growth could have affected the economy's trading partners, consequently decreasing demand for exports and contributing to a decline in net goods from \$6 billion in Year 1 to a loss of \$1 billion in Year 2 in the Current Account. An increase in borrowings could have led to increased interest being paid overseas. This would have increased debits on the Primary Income and caused a deterioration in the Current Account. This is indicated by the increase in debits of the Primary Income from \$12 billion in Year 1 to \$16 billion in Year 2. *Note: Possible responses include change in the exchange rate, fall in global economic growth, increase in domestic economic growth, fall in international competitiveness (increase in wages and inflation), fall in the terms of trade and increase in foreign debt.*	Topic 2 Australia's Place in the Global Economy: Australia's Balance of Payments H1, H11 Bands 3–4 • Explains how TWO relevant changes could have influenced the Current Account balance. AND • Refers to the data . . . . . 4 • Explains how ONE relevant change could have influenced the Current Account balance. AND • Refers to the data . . . . . 3 • Identifies TWO relevant changes that could have influenced the Current Account balance. AND • Refers to the data . . . . . 2 • Identifies ONE relevant change that could have influenced the Current Account balance. OR • Provides some relevant information 1

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
(c) *For example:* An increase in net foreign liabilities can be a consequence of an increase in foreign borrowing (net foreign debt) and/or foreign investment (net foreign equity). An increase in foreign debt must be serviced through increased interest payments. These payments are debits on the Primary Income account and would worsen its balance. An increase in foreign investment in an economy must be serviced through the repayment of profits to overseas investors. These repayments would also increase debits on the Primary Income. Since the Current Account is the sum of net goods, net services, Primary Income and Secondary Income, the Current Account sum of –$18 billion in Year 2 would worsen, representing a larger Current Account Deficit.	Topic 2 Australia's Place in the Global Economy: Australia's Balance of Payments H4 Bands 4–5 • Explains how an increase in net foreign debt AND net foreign equity would affect the Current Account. AND • Refers to the data . . . . . 4 --- • Explains how an increase in net foreign debt OR net foreign equity would affect the Current Account. AND • Refers to the data . . . . . 3 --- • Outlines in general terms how an increase in net foreign debt AND net foreign equity would affect the Current Account. AND • Refers to the data . . . . . 2 --- • Outlines in general terms how an increase in net foreign debt OR net foreign equity would affect the Current Account. OR • Provides some relevant information 1
Question 22	
(a) *For example:* The official cash rate is the interest rate for loanable funds in the overnight money market as manipulated by the Reserve Bank of Australia to change monetary policy settings.	Topic 4 Economic Policies and Management: Monetary policy H1 Bands 2–3 • Explains the term . . . . . 2 --- • Identifies at least ONE relevant characteristic of the term 1

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
(b) *For example:* A change in the cash rate would change interest rates for all borrowers in an economy. For firms, the cost of borrowing funds for expansion will increase as interest rates increase. This will reduce the amount firms invest in the economy. Similarly, when interest rates fall and the cost of borrowing is low, firms have an incentive to borrow funds as the cost of borrowing funds is lower and consumer spending will increase, driving an increase in investment.	Topic 4 Economic Policy and Management: Monetary policy H1 Bands 3–4 • Describes the features of the inverse relationship between interest rates and investment in an economy . . . . . 3 • Outlines some features of the relationship between interest rates and investment in an economy . . . . . 2 • Identifies an inverse relationship between interest rates and investment in an economy OR • Provides some relevant information 1
(c) *For example:* Expansionary monetary policy (or loose monetary policy) requires a reduction in interest rates to stimulate economic activity as households and firms have higher disposable income, which increases both consumption and investment spending in the economy. Lower interest rates encourage investors to move funds to overseas economies where returns are higher, thus moving money out of Australia. Similarly, lower domestic saving rates and higher consumption cause increased demand for imports. Both factors increase supply of the Australian dollar. Expansionary monetary policy can also increase global confidence in the Australian economy, which encourages foreign and domestic investment, especially in export industries.	Topic 4 Economic Policies and Management: Monetary policy H4, H6, H7 Bands 4–5 • Explains in detail how reductions in interest rates affect supply AND demand for the Australian dollar. . . . . 5 • Explains how reductions in interest rates affect supply AND demand for the Australian dollar . . . 4 • Outlines how reductions in interest rates affect supply AND demand for the Australian dollar . . . 3 • Outlines how reductions in interest rates affect supply OR demand for the Australian dollar . . . 2 • Provides some relevant information 1

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
Question 23	
(a) *For example:* A negative externality exists when the production or consumption of a product results in a social cost. Increased pollution is a negative externality as it is the non-profit by-product of increased output and productivity, caused by economic growth in an economy. *Note: Possible responses include increased congestion, land clearance (loss of biodiversity), loss of aesthetics and increased urban temperature from development.*	Topic 3 Economic Issues: Environmental sustainability H1, H3 Bands 2–3 • Identifies ONE relevant negative externality AND links it to economic growth in urban areas . . . . . 2 • Identifies ONE relevant negative externality 1
(b) 	Topic 3 Economic Issues: Environmental sustainability H6 Bands 2–3 • Draws a curve showing a decrease in supply. AND • Identifies the equilibrium accurately . . . . . 2 • Draws a curve showing a decrease in supply 1
(c) *For example:* Public goods are non-excludable, meaning nobody can be kept from consuming them, and non-rival, meaning one person's consumption of a good does not deplete another person's consumption. As public goods are non-excludable (which is not the case with private goods), they can be used and consumed by the entire community, which depletes the goods at a faster rate. This overconsumption can cause renewable resources, such as fisheries or water supplies, to be overused and possibly unavailable to future generations. *Note: Possible responses include free rider problem, tragedy of the commons, lack of regulation and lack of cost to access.*	Topic 3 Economic Issues: Environmental sustainability H7 Bands 4–5 • Explains why public goods are subject to depletion in an economy . . . . . 2 • Provides some relevant information 1

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
(d) *For example:* Lack of enforceability is a cost of international agreements as countries face little to no penalty if the agreement is broken. This occurs because international law has no impact on an individual country's government or policy. Recognising the importance of collective action is a benefit of international agreements. Environmental sustainability can only be achieved through global efforts because issues such as climate change affect all countries. International agreements can influence the environmental policies of many economies, thereby having a larger positive impact on environmental sustainability compared to individualised environmental policy. *Note: Responses may include a wide variety of appropriate costs and benefits. Costs include decline in an individual economy's short-term economic growth and reduction in a country's sovereignty. Benefits may include increase in an individual economy's long-term economic and global growth, and increased global policy cooperation leading to action in other areas of concern.*	Topic 4 Economic Policies and Management: National and global context for environmental management H6 Bands 4–5 • Discusses ONE cost and ONE benefit of international agreements in improving Australia's environmental sustainability . . . . . 4 • Outlines ONE cost and ONE benefit of international agreements in improving Australia's environmental sustainability . . . . . 3 • Outlines ONE cost OR ONE benefit of international agreements in improving Australia's environmental sustainability . . . . . 2 • Provides some relevant information 1
Question 24	
(a) Economic growth is an increase in the volume of output over time, measured by a change in real GDP. Economic development is an improvement in the quality of life of an economy's population, measured by diverse indicators including life expectancy and literacy rates. Hence, economic development measures the sustainability of economic growth in regards to long-term utility and wellbeing, whereas economic growth focuses on short-term output and productivity.	Topic 1 The Global Economy: Globalisation and economic development H1 Bands 2–3 • Identifies characteristics of economic growth AND economic development . . . . . 2 • Identifies characteristics of economic growth OR economic development 1
(b) *For example:* The World Bank actively works with and within developing nations to assist governments in improving quality of life. This assistance may include providing funding or running essential services, such as health care or education; supporting governments with expertise and advice; providing financial assistance from developed nations; and helping economies in times of crisis or natural disasters.	Topic 1 The Global Economy: Trade, financial flows and foreign investment; globalisation and economic development H2 Bands 3–4 • Explains at least TWO roles of the World Bank in supporting developing nations . . . . . 2 • Identifies at least ONE role of the World Bank in supporting developing nations 1

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
(c) *For example:* **Economy:** China China is an emerging economy that has changed significantly due to its interactions with the global economy. The economy has achieved significant economic growth since joining the WTO in 2001 (over 8% in the following decade) and prioritising an 'open door policy' towards foreign investment, financial flows and technology flows. As GDP has risen on the back of export growth, education spending has increased by more than 20% per annum since 2000, increasing literacy levels and economic development in China. However, export growth has been fuelled without environmental controls, and pollution levels in China have been classified as 'hazardous' by the World Health Organization (WHO). Airborne pollutants from factories and power generation represent a negative externality of industrial production and economic growth, and the social cost is increased respiratory illnesses. In 2014, 20 million people were affected by these diseases, which are projected to be the leading cause of death in China by 2030. This represents a decline in life expectancy and economic development due to the negative externality of environmental degradation.	Topic 1 The Global Economy: Globalisation and economic development H4, H5 Bands 4–5 • Demonstrates a specific and detailed understanding of the relevant costs AND benefits of specific global influences on an identified economy . . . . . 5–6 • Demonstrates a detailed understanding of the relevant costs AND benefits of global influences on an identified economy . . . . . 4 • Demonstrates a general understanding of the costs OR benefits of global influences on an identified economy . . . . . 3 • Outlines a cost OR benefit of global influences on an identified economy . . . . . 2 • Identifies a relevant cost OR benefit. OR • Provides some relevant information 1

SECTION III

Question 25 (20 marks)

Trade liberalisation refers to the elimination of artificial and protective trade barriers. Higher rates of domestic and global trade liberalisation allow Australian firms to engage with global markets, which increases economic activity, globalisation and Gross World Product (GWP). Using governmental monitoring, trade liberalisation can effectively increase economic growth as seen in the contemporary microeconomic reform efforts Australia has embarked upon.

Microeconomic policies aim to increase aggregate supply by improving the efficiency and productivity of product and factor markets. Microeconomic policies that Australia has 'had a long history of undertaking […] aimed at realising a more flexible and resilient economy' include a reduction in protectionist policies, an increasing focus on multilateral and bilateral trade agreements, and financial market deregulation. Since the early 1980s, this kind of microeconomic reform became a major long-term economic objective of the Australian Government to 'make sure this slothful, locked-up place finally became an open, competitive economy' (Paul Keating, former Treasurer and Prime Minister of Australia). These domestic and global trade liberalisation policies helped to '[produce] an economy that is better placed to take advantage of emerging opportunities and to weather global economic storms' by increasing Australia's global integration and economic growth.

The main reform Australia experienced in the 1980s, which assisted with overall trade volume, was the reduction in protectionist policies. As a result of this, Australia's trade as a percentage of GDP increased from 12% in the 1980s to 21% in the 2010s. The Australian economy shifted from a manufacturing-based economy to focus on primary goods such as mining – a market in which Australia had a comparative advantage by global standards. A specific policy that saw a decline in trade protection in Australia was the average tariff costs (from 9% in the 1990s to 1.2% in the 2010s). This highlights the positive impact a decline in tariff levels had on the overall trade volume and composition of Australian exports. As seen in the table 'Australia's major trading partners from 2019 to 2020', Australia's largest trading partner during this period was China, accounting for over 30% of our trade in 2020. As the Chinese economy has experienced rapid economic growth over the past decade, demand for Australia's top exports of coal, iron ore and other primary goods have also increased. This growth culminated in the mining boom of 2010–2012, which saw Australia's economic growth reach 3.6%, contributed to largely by the increased demand for primary exports, a decline in unemployment and an increase in wage growth across the economy. Today, the mining industry still accounts for around 7% of Australia's GDP, highlighting the significant impact a reduction in protectionist policies has had on the growth of Australia's economy, due to the increased efficiency, international competitiveness and comparative advantage that the Australian exporting markets have gained.

Free trade agreements are formal agreements between two or more countries with the aim of reducing trade barriers and increasing global trade liberalisation; as identified in the question, 'an integral part of the reform agenda has been the sustained trade liberalisation of trade barriers […] Australia has embarked upon unilateral, bilateral and multilateral trade liberalisation'. Reducing artificial trade barriers bilaterally and globally allows access to more export markets, decreased input and supply costs for firms, and the promotion of closer political relationships between countries. An example of a multilateral trade agreement, which represents 20% of Australia's trade in goods and services, is the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA). All nations involved in the agreement committed to eliminating tariffs on 96% of Australian exports between the regions. This was the largest preferential trade agreement that Australia concluded and represents ranks 6, 8 and 10 of Australia's top trading partners in the table provided, highlighting the effectiveness of domestic global trade liberalisation in increasing trade volume and economic activity. However, one disadvantage of trade agreements is the creation of trade diversion, where preferential trade between member nations undermines trade with other regions. The European Union represents a monetary and trade union that diverts many regions from trading with them. An example of such a policy is the European Union's Common Agricultural Policy, which excludes

regions outside the European Union and, thus, creates trade diversion as other countries struggle to compete with the artificially low export prices for agriculture within the European Union. Hence, domestic and global trade liberalisation is successful in increasing Australia's economic activity as long as it contributes to increased GWP, avoiding trade diversion.

Deregulation is the removal of rules that constrain the operation of market forces with the aim of improving the efficiency of industries. In Australia, 'the floating of the dollar, [and] the deregulation of financial markets' aimed to ensure efficient allocation of capital resources and cost minimisation through the processes of finance and technology. In particular, the floating of the Australian dollar on the foreign exchange markets (Forex) in 1983 allowed demand and supply to determine the price of the dollar, better reflecting consumer sentiment, and increasing long-term competitiveness as it reflected the true value of the dollar according to market forces. This contributed to the Australian dollar becoming the fifth most traded currency on Forex markets. Furthermore, the removal of barriers to foreign banks entering Australia in 1985 allowed for greater competition domestically, with over sixteen foreign banks entering the market. This incentivised Australian banks to increase their efficiency in the long term in order to continue to make profits against new competitors. By combining with the 'corporatisation of government businesses' such as the Commonwealth Bank of Australia, the industry improved its overall efficiency and the cost of capital and finance steadily declined. Therefore, the deregulation of financial markets and floating of the dollar in Australia allowed for greater financial and capital market efficiency. Overall, this assisted in domestic and global trade liberalisation as trade in these markets – and markets that depend upon finance and capital – experienced an improvement in economic activity.

The Australian economy has experienced a wide range of microeconomic reforms 'aimed at realising a more flexible and resilient economy'. The reduction in protectionist policies, the increase in free trade agreements, the deregulation of financial markets and the floating of the dollar have all increased productivity as a result of increased global integration. Hence, domestic and global liberalisation have allowed increased aggregate supply in Australia, contributing to an increase in economic growth.

Syllabus content	Syllabus outcomes
Topic 2 and 4 – Trends in Australia's trade pattern, Australia's policies regarding free trade and protection, Australia's multilateral and bilateral free trade agreements, microeconomic policies	H1, H3, H4, H5, H6, H8, H9, H10

Criteria	Marks
The response is effective in: • synthesising the information provided with previous knowledge and understanding in a sustained, logical and cohesive way • integrating relevant economic terms, concepts, relationships and theories • making a well-informed assessment of the effectiveness of domestic and global trade liberalisation on Australia's level of economic activity.	17–20
The response is competent in: • synthesising the information provided with previous knowledge and understanding in a logical and cohesive way • applying relevant economic terms, concepts, relationships and theories • making some assessment of the effectiveness of domestic and global trade liberalisation on Australia's level of economic activity.	13–16
The response is adequate in: • using the information provided with previous knowledge and understanding in a coherent way. • using relevant economic terms, concepts, relationships and theories. • demonstrating some understanding of the effectiveness of domestic and/or global trade liberalisation on Australia's level of economic activity.	9–12
The response is limited in: • using some elements of the information provided and/or previous knowledge and understanding in a generalised way • using some economic terms • discussing some aspects of domestic and/or global trade liberalisation as well as Australia's level economic activity in general terms.	5–8
The response attempts to: • provide some relevant information in a limited way • use some economic terms.	1–4

Question 26 (20 marks)

Fiscal policy is a macroeconomic policy that allows governments to use spending, taxation and the budget outcome to influence resource allocation, redistribute income and reduce fluctuations in economic activity. Therefore, by providing a 'strong countercyclical fiscal response', the Australian Government can aim to improve short- and long-term economic growth by responding to internal and external influences that cause fluctuations in economic activity.

The Australian economy experienced its first recession in almost thirty years in 2020, indicated by the sharp dip to –7% GDP growth in the graph 'GDP growth'. This was primarily caused by the government-imposed business closures and lockdowns used as preventative measures, following health advice relating to the COVID-19 virus. This restriction on consumption was the main factor in causing the recession, as consumption composes around 60% of Australia's GDP, highlighting the major limitation of growth that the Australian economy faced. The 2021–2022 Federal Budget aimed to support and restore the economy to pre-pandemic levels of growth by adopting an expansionary stance through an increase in spending across the year and providing stimulus to 'private consumption, [which] enabled a faster recovery', as seen in the graph's spike to over 9% GDP growth in 2021.

During the COVID-19 pandemic, consumption dropped significantly and unemployment rose as businesses were forced into closure and consumer confidence fell across the Australian economy. The government response was a policy to '[bolster] household incomes' by providing transfer payments, 'prevent[ing] a larger than otherwise contraction in private consumption'. The JobKeeper Payment scheme consisted of a wage subsidy that gave payments of $1500 to eligible employees, through their employer, for the first six months of the scheme. This policy aimed to stop unemployment from reaching the March 2020 estimate of 15%. The introduction of transfer payments worth over $100 billion to those who had lost working hours due to lockdowns increased consumer confidence and assisted in keeping unemployment levels within a manageable range, peaking at 7.5% and reducing to around 5% one year after implementation. The direct support of consumption supported businesses throughout the pandemic and lifted consumption, resulting in the Australian economy's speedy recovery after the initial lockdown measures were lifted as seen in the sharp recovery of Australia's GDP in the graph with 9% growth in 2021. Hence, an emergency expansionary fiscal policy response to the economic threats that the COVID-19 pandemic brought on was effective in supporting Australia's short-term economic growth by minimising the effect of a sharp contraction in economic growth and high unemployment, 'enabl[ing] a faster recovery'.

Fiscal policy can also implement structural reform policies that aim to increase the overall efficiency of the Australian economy, leading to long-term growth. For example, the 2021–2022 Federal Budget is dedicating an additional $500 million to the JobTrainer Fund, offering an additional 163 000 places and extending the program's duration. JobTrainer supports job seekers (especially young adults) by providing access to free or low-fee training places in areas of skill shortages. By focusing on a group that has unemployment rates four times higher than the national average – in addition to those who are structurally unemployed (that is, those without the required skill set to attain employment) – this policy aims to increase the labour force's productivity and potentially lower the non-accelerating inflation rate of unemployment (NAIRU), which represents a threshold where a further decrease in unemployment would cause inflation, ultimately assisting the economy to reach full employment. This policy addresses recent concerns of decreasing productivity growth of 1.5% compared to 2.2% in the early 2000s and aims to make the long-term change of increased efficiency and capacity of the labour force and higher economic growth.

Conversely, fiscal policy is limited by time lags, global and external influences, and political constraints that may decrease its impact on Australia's economic growth. As the Australian economy is integrated with the international business cycle, financial contagion may negate the benefits of domestic fiscal policies and may require the Australian Government to shift its goals and policy mix in response. For example, when the Global Financial Crisis occurred in 2008–2009, it coincided with the mining boom. This represented an external financial threat to Australia's strong domestic growth. This is seen in the graph as the spike of 5% GDP growth in 2007 compared to the fall in growth to 1–2% across subsequent years. In this case, the Australian Government eased fiscal policy, adopting an expansionary stance to prevent a recession and support economic growth in response to deteriorating global conditions. Furthermore, as the Federal Budget is decided annually, there is an implementation lag between the introduction of new policies by the Australian Government and the time at which the policies have an impact on the economy.

The 2019–20 Federal Budget was initially planned to be in surplus with a contractionary stance; however, the COVID-19 pandemic was a time of crisis, so emergency stimulus was issued and the official budget timeline was pushed back to October instead of May to allow emergency support to be issued first. This highlights the limitation of the usual annual budget timeline in cases where immediate response is necessary. Lastly, fiscal policy faces political constraints as policies with long-term implementation requirements may suffer under the 3-year election cycle. The requirement for bills to be passed in both houses of parliament to become law may delay negotiations and policy implementation further. Thus, fiscal policy is limited in its impact on influencing domestic economic growth due to implementation lag issues, political constraints and the need for emergency response measures to changing global conditions.

Overall, 'fiscal policy has played a key role in supporting economic activity in advanced economies during the COVID-19 pandemic', particularly in Australia, where the government implemented both short- and long-term policies as a 'strong countercyclical fiscal response' to avoid large fluctuations in economic growth in the short term and facilitate growth in the long term. While fiscal policy is limited in the short term due to changing global conditions and limited in the long term due to time lags and political constraints, overall it is successful in its goal of reducing large fluctuations in economic growth, as seen in the GDP fluctuations between 2–5% over much of the time period in the graph, and supporting domestic economic objectives in Australia.

Syllabus content	Syllabus outcomes
Topic 3 and 4 – Economic growth, fiscal policy, limitations of economic policies, policy responses and their effects in dealing with the economic objectives	H1, H4, H5, H6, H8, H9, H10

Criteria	Marks
The response is effective in: • synthesising the provided information with previous knowledge and understanding in a sustained, logical and cohesive way • integrating relevant economic terms, concepts, relationships and theories • making a well-informed assessment of the impact of fiscal policy on Australia's short- and long-term economic growth.	17–20
The response is competent in: • synthesising the provided information with previous knowledge and understanding in a logical and cohesive way • applying relevant economic terms, concepts, relationships and theories • making some assessment about the impact of fiscal policy on Australia's short- and long-term economic growth.	13–16
The response is adequate in: • using the provided information with previous knowledge and understanding in a coherent way • using relevant economic terms, concepts, relationships and theories • demonstrating some understanding of the impact of fiscal policy on Australia's economic growth.	9–12
The response is limited in: • using some elements of the provided information and/or previous knowledge and understanding in a generalised way • using some economic terms • discussing some aspects of fiscal policy as well as Australia's economic growth in general terms.	5–8
The response attempts to: • provide some relevant information in a limited way • use some economic terms.	1–4

SECTION IV

Question 27 (20 marks)

Microeconomic reform aims to increase aggregate supply by improving the efficiency and productivity of producers. Price stability is concerned with ensuring inflation remains sustainable (in the 2–3% target range set by the Reserve Bank of Australia), whereas external stability refers to when Australia is able to meet its international financial obligations, which result from transactions with the rest of the world. Overall, an increase in efficiency caused by microeconomic policy may decrease supply costs and assist in stabilising the goals of price stability and external stability.

The reform of the labour market represents a microeconomic reform policy that affects all industries as labour is a factor market, which is an input for all other markets. Therefore, the decentralisation of the industrial relations system during the 1990s increased efficiency across the Australian economy and improved price stability by decreasing wage-driven inflation. The reform began with the *Workplace Relations Act 1996* (Cwlth), which saw the introduction of an award safety net in combination with certified agreements and workplace agreements. This allowed for enterprise bargaining and individual negotiation of wages beyond a set minimum, incentivising employees to become more productive to increase their wages. This created a link between wage growth and productivity increases, which resulted in an increase in 2.2% labour force productivity growth during this period. The *Fair Work Act 2009* (Cwlth) also increased the efficiency of the industrial relations system by replacing all individual state systems with a single national system for managing the labour market, introducing minimum employment standards and wage rates alongside more comprehensive rules for enterprise agreements and employment contracts for higher income earners, known as the informal industrial relations system. This assisted in lowering Australia's inflation rate from 7% in the 1990s to 2–3% across the 2010s, hence achieving price stability.

In the 1980s, Australia experienced a microeconomic reform that assisted with external stability known as the reduction in protectionist policies. A reduction in protection increases trade liberalisation, which may increase export volume, resulting in a positive balance of goods and services (BOGS) and a decreased Current Account Deficit due to increased export revenue. The decline in protectionist policies in Australia saw Australia's trade as a percentage of GDP increase from 12% in the 1980s to 21% in the 2010s. The Australian economy went from a manufacturing-based economy to focus on primary goods such as mining – a market in which Australia had a comparative advantage by global standards, thus increasing export volume. A specific policy that saw a decline in trade protection in Australia was the decline in average tariff costs from 9% in the 1990s to 1.2% in the 2010s, highlighting the positive impact a decline in tariff levels had on the overall trade volume and composition of Australian exports. Overall, this assisted in the decline of the Current Account Deficit as a percentage of GDP from roughly 4% in the 1980s to 1.5% in the following two decades. Therefore, the microeconomic reform of a decline in protection saw increased international competitiveness of Australia's export base, improving the BOGS and decreasing the Current Account Deficit, thus contributing to external stability.

Monetary policy involves the setting of the cash rate to influence the cost of borrowing and lending for Australian banks in the hope that a lower cash rate is passed onto consumers in the form of lower interest rates or a higher cash rate is passed onto consumers in the form of higher interest rates. A higher or lower interest rate may increase or decrease consumption levels as the cost of finance and capital changes, the disposable income of consumers, and the cost of production for suppliers. Hence, monetary policy is used as a tool by the Reserve Bank of Australia to achieve price stability.

In the 1980s, the Reserve Bank of Australia introduced inflation targeting in the range of 2–3% as a framework for monetary policy. This contributed to the decline in inflation from over 11% in the 1980s to 7% in the 1990s and in the range of 2–3% in the contemporary Australian economy. In addition to assisting inflation, a secondary function of monetary policy is influencing fluctuations in the value of the Australian dollar. As monetary policy influences interest rates, it can alter the interest rate differential between Australia and other major economies. This may incentivise saving in Australia, if Australian interest rates are higher compared to global standards, or disincentivise saving in Australia, if Australian rates are lower compared to global standards. An increase in savings into Australian accounts represents an increase in demand for the Australian dollar, which may lead to an appreciation of the dollar.

Alternatively, an increase in savings into foreign accounts outside of Australia represents an increase in supply of the Australian dollar, possibly leading to a depreciation of the dollar. Hence, the introduction of monetary policy as a framework for managing price stability and influencing the external stability of the Australian dollar highlights the success of microeconomic reforms.

Conversely, microeconomic policy has a long implementation lag as it often takes years of planning and forecasting before introducing a policy change. Furthermore, measuring the success of the policy is difficult as improvements in economic objectives are often observed many years or even decades after the initial policy changes. For example, an improvement in Australia's external stability may also be due to improved global economic management and alignment in recent years, such as the introduction of the G20 in response to the Global Financial Crisis, and the increased support of the International Monetary Fund (IMF) and WTO to manage financial concerns and trade concerns, respectively. Therefore, while domestic microeconomic policy does assist in achieving price stability and external stability in Australia, it is supported by global microeconomic changes beyond the scope of the Australian economy.

Overall, the microeconomic reform policies of the 1980s and 1990s in Australia improved the management of inflation, global trade of goods and services, and the value of the Australian dollar, thereby improving price stability and external stability. The success of these policies has been underpinned by supportive global economic conditions, highlighting the dependency that microeconomic reforms have on external conditions and sound macroeconomic policy management to minimise fluctuations and achieve long-term efficiency and economic growth.

Syllabus content	Syllabus outcomes
Topic 3 and 4 – Inflation, external stability, microeconomic policies, limitations of economic policies, policy responses and their effects in dealing with economic objectives; price stability, external stability	H1, H3, H4, H5, H6, H8, H10

Criteria	Marks
The response is effective in: • integrating relevant economic terms, concepts, relationships and theories in a sustained, logical and cohesive way • demonstrating a comprehensive understanding of the relationship between microeconomic reform and price stability and external stability in the Australian economy • making a well-informed assessment of the effectiveness of microeconomic reform in managing price stability and external stability in the Australian economy.	17–20
The response is competent in: • applying relevant economic terms, concepts, relationships and theories in a logical and cohesive way • demonstrating a sound understanding of the relationship between microeconomic reform, and price stability and external stability in the Australian economy • making a sound assessment of the effectiveness of microeconomic reform in managing price stability and external stability in the Australian economy.	13–16
The response is adequate in: • using relevant economic terms, concepts, relationships and theories in a coherent way • demonstrating some understanding of the effects of microeconomic reform, price stability and external stability in the Australian economy.	9–12
The response is limited in: • using some economic terms in a generalised way • showing some understanding of microeconomic reform and/or price stability and/or external stability in the Australian economy.	5–8
The response attempts to: • use some economic terms in a limited way • discuss some aspects of microeconomic reform and/or price stability and/or external stability in the Australian economy.	1–4

Question 28 (20 marks)

Cyclical factors are those that vary with changing economic activity, whereas structural factors are long-term attributes that belong to a certain economy, such as Australia being a small, open economy. Both factors influence the levels of unemployment and the distribution of income in the Australian economy as the Australian Government can address cyclical factors with macroeconomic policies and structural factors with microeconomic policies to achieve the objectives of full employment and equal distribution of income in the economy.

Unemployment refers to individuals who are willing and able to work, and actively seeking work, but are unable to find employment. This occurs when the total supply of labour is greater than the total demand for labour. Therefore, high rates of unemployment represent excess capacity in the economy, limiting economic growth. Furthermore, a high unemployment rate can lead to an increase in the inequality of income distribution as it increases the polarisation in incomes between the employed and unemployed. High income inequality also limits economic growth as the marginal propensity to consume is lower among higher income earners when compared to lower income earners due to diminishing marginal utility of extra income earned. Hence, the Australian economy must aim for low unemployment and an improved equality in distribution of income to achieve economic growth in the economy.

A cyclical factor that influences both unemployment and income in Australia is the international business cycle. During the COVID-19 pandemic, the international business cycle fell into a recession and caused domestic consumption to drop significantly; unemployment rose as businesses were forced into closure and consumer confidence dropped across the economy. The government predicted unemployment would rise to 15% in March 2020 without government intervention to manage the cyclical, external influence of the pandemic. Furthermore, lower socioeconomic groups were more at risk of income declines as they are often employed in low-skilled industries such as manufacturing, which were most effected by public health restrictions, while many higher income earners had options to work from home. The government responded with the JobKeeper Payment scheme: a wage subsidy that gave payments of $1500 for the first six months of the scheme to eligible at-risk employees through their employer. This policy aimed to stop unemployment from reaching the extremely high estimates and decrease income inequality across the economy. It assisted in keeping unemployment levels within a manageable range, peaking at 7.5% and reducing to around 5% one year after implementation. The direct support of consumption supported businesses throughout the pandemic and lifted consumption, resulting in the fast recovery of the Australian economy after the initial lockdown measures were lifted and GDP growth of 3.4% in 2021. This illustrates the large impact that the cyclical factor of the international business cycle may have had on employment and income in Australia and how macroeconomic policy response may reduce its effect.

A structural factor that influences both unemployment and income in Australia is low population densities. With a low population size and high land area, Australia's population density is comparatively low by world standards, ranking 227th globally. This results in a large geographical spread of cities and urbanised areas, increasing regional unemployment and income equality between higher and lower populated areas. Furthermore, regional areas of Australia are more likely to experience natural disasters such as flooding and bushfires, further disrupting production and increasing unemployment in these areas. For example, during the floods of 2021–2022, the Bowen Basin coalfields – Queensland's primary coal-producing region, which supplies over half of Australia's coal production – had 25% of its mines become inoperable and 60% operating under restrictions. As a region with a small population highly dependent on the coalfields for employment, inoperability also resulted in an increase in unemployment that was higher than the national average. In addition, unemployment tends to be above the national average in remote regions, particularly those regions with high First Nations populations, which is due to, for example, failings of Closing the Gap and poorer health resulting from The Stolen Generation years. The unemployment rate in remote regions is roughly four times the national average. For example, areas of far North Queensland have unemployment rates of more than 40%, compared to the national average of around 5%. These areas also have lower literacy levels and governmental support. The government can implement microeconomic reform policies to address this high unemployment and resultant inequality by providing structural reform, such as education programs for regional areas that specialise in improving literacy in Australia's First Nations communities. This is evident in the Indigenous Skills and

Jobs Advancement Package introduced in the 2021–2022 budget, which aims to provide economic, social and educational outcomes for Australia's First Nations peoples. Therefore, the structural factor of low population densities and high regional inequality contributes to unemployment and inequality in income across the Australian economy.

Both cyclical and structural factors, including the international business cycle and low population density, influence unemployment and income distribution in the Australian economy to varying degrees. This influence can be managed by both microeconomic and macroeconomic policy to achieve the objectives of full employment and lower income inequality, thus contributing to economic growth in Australia.

Syllabus content	Syllabus outcomes
Topic 3 – Unemployment, distribution of income and wealth	H1, H4, H5, H6, H8, H10

Criteria	Marks
The response is effective in: • integrating relevant economic terms, concepts, relationships and theories in a sustained, logical and cohesive way • demonstrating a comprehensive understanding of the relationship between the cyclical and structural factors that influence the level of unemployment and income in the Australian economy • making a well-informed assessment of the effects of cyclical and structural factors that influence unemployment and income in the Australian economy.	17–20
The response is competent in: • applying relevant economic terms, concepts, relationships and theories in a logical and cohesive way • demonstrating a sound understanding of the relationship between the cyclical and structural factors that influence the level of unemployment and income in the Australian economy • making a sound assessment of the effect of cyclical and structural factors that influence unemployment and income in the Australian economy.	13–16
The response is adequate in: • using relevant economic terms, concepts, relationships and theories in a coherent way • demonstrating some understanding of the effects of cyclical and/or structural factors that influence unemployment and income in the Australian economy.	9–12
The response is limited in: • using some economic terms in a generalised way • demonstrating some understanding of the effects of cyclical and/or structural factors that influence unemployment and/or income in the Australian economy.	5–8
The response attempts to: • use some economic terms in a limited way • discuss some aspects of the effects of cyclical and/or structural factors that influence unemployment and/or income in the Australian economy.	1–4