Neap

Trial Examination 2023

HSC Year 12 Economics

Solutions and Marking Guidelines

Neap® Education (Neap) Trial Exams are licensed to be photocopied or placed on the school intranet and used only within the confines of the school purchasing them, for the purpose of examining that school's students only for a period of 12 months from the date of receiving them. They may not be otherwise reproduced or distributed. The copyright of Neap Trial Exams remains with Neap. No Neap Trial Exam or any part thereof is to be issued or passed on by any person to any party inclusive of other schools, non-practising teachers, coaching colleges, tutors, parents, students, publishing agencies or websites without the express written consent of Neap.

Copyright © 2023 Neap Education Pty Ltd ABN 43 634 499 791 Level 1 223 Hawthorn Rd Caulfield North VIC 3161 Tel: (03) 9639 4318 TENEco_SS_2023

SECTION I

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 1 **C** **C** is correct. The World Bank provides financial resources for sustainable economic development and poverty reduction. **A** is incorrect. The World Trade Organization (WTO) determines trade rules and resolves trade disputes. **B** is incorrect. The International Monetary Fund (IMF) provides financial assistance and zero interest loans to countries experiencing short-term crises. **D** is incorrect. The Organisation of Economic Cooperation and Development (OECD) provides policy advice to developed countries.	Topic 1 The Global Economy: Role of international organisations H1, H2 Bands 2–3
Question 2 **B** **B** is correct. Fiscal policy redistributes resources, including income, and stabilises the cyclical fluctuation of the economy to achieve economic growth. **A** is incorrect. Monetary policy's main objectives are price stability and full employment. **C** and **D** are incorrect. External stability is not a major objective of fiscal policy compared to distribution of income and economic growth.	Topic 4 Economic Policies and Management: Fiscal policy H1, H5 Bands 2–3
Question 3 **A** **A** is correct. An increase in inflation would cause export prices to increase, thus decreasing international competitiveness. **B** is incorrect. Protection on international imports may affect domestic competitiveness, but not international competitiveness. **C** is incorrect. Australian government spending may increase aggregate supply and therefore increase international competitiveness. **D** is incorrect. An increase in aggregate supply in Australia may cause a decrease in prices, which may increase international competitiveness.	Topic 3 Economic Issues: Inflation; External stability H4, H5 Bands 3–4
Question 4 **B** **B** is correct. A decrease in the retirement age results in less income tax, which reduces tax revenue, and fewer people within the working age population, which decreases the labour force participation rate. **A** is incorrect. Tax revenue is unlikely to increase when fewer people are working. **C** is incorrect. Tax revenue and the labour force participation rate are unlikely to increase when fewer people are working. **D** is incorrect. The labour force participation rate is unlikely to increase when fewer people are working.	Topic 3 Economic Issues: Unemployment Topic 4 Economic Policies and Management: Fiscal policy H7 Bands 3–4

Copyright © 2023 Neap Education Pty Ltd

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 5 **A** **A** is correct. A decrease in the cash rate will likely lead to a decrease in the domestic interest rate, which may lead to an increase in business investment. **B** is incorrect. A decrease in the cash rate will likely lead to a decrease in the domestic interest rate, which will lead to an increase in property purchases. **C** is incorrect. The domestic currency is unlikely to appreciate when the cash rate decreases, leading to lower inflationary expectations; this is because it is less attractive to save money domestically. **D** is incorrect. A decrease in the cash rate will likely lead to a decrease in the domestic interest rate, which will lead to a decrease in the value of domestic savings.	Topic 4 Economic Policies and Management: Monetary policy H6 Bands 4–5
Question 6 **D** **D** is correct. Direct investment into a domestic firm would be recorded as a credit under the Financial Account. **A** and **C** are incorrect. A debit refers to an outflow, not an inflow, which is represented by investment. **B** is incorrect. The Capital Account records the transfer of ownership where the transferor party does not receive anything in return; this does not encompass investment.	Topic 2 Australia's Place in the Global Economy: Australia's Balance of Payments H1, H8 Bands 4–5
Question 7 **B** **B** is correct. The reduction of an import quota will increase the world price of the product and decrease imports, resulting in an increase in demand and revenue for domestic producers. **A** is incorrect. The reduction of an import quota limits imports, thus decreasing revenue of foreign producers. **C** is incorrect. Domestic producers will produce more of the product, as there is greater demand for the product. **D** is incorrect. The market share of foreign producers will decrease, not increase, due to the reduction of the import quota.	Topic 1 The Global Economy: Protection H6 Bands 4–5

Copyright © 2023 Neap Education Pty Ltd

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 8 **B** **B** is correct. $\text{inflation rate} = \frac{\text{current CPI} - \text{previous CPI}}{\text{previous CPI}} \times 100$ $= \frac{122 - 110}{110} \times 100$ $= 10.9\%$ **A** is incorrect. This calculates the inflation rate incorrectly using the current CPI as the denominator. $\text{inflation rate} = \frac{122 - 110}{122} \times 100$ $= 9.8\%$ **C** is incorrect. This calculates the inflation rate for Year 3. $\text{inflation rate} = \frac{138 - 122}{122} \times 100$ $= 13.1\%$ **D** is incorrect. This calculates the inflation rate using Year 3 and Year 1 as the current CPI and previous CPI, respectively. $\text{inflation rate} = \frac{138 - 110}{110} \times 100$ $= 25.5\%$	Topic 3 Economic Issues: Inflation H11 Bands 4–5
Question 9 **B** **B** is correct. Australia's top export markets are China and Japan, according to the Department of Foreign Affairs and Trade. **A** is incorrect. The United States is Australia's fourth largest export market. **C** is incorrect. The Republic of Korea is Australia's third largest export market. **D** is incorrect. India is Australia's sixth largest export market.	Topic 2 Australia's Place in the Global Economy: Value, composition and direction of Australia's trade and financial flows H8 Bands 3–4
Question 10 **D** **D** is correct. A worker only needs to be legally employed by a company to receive the national minimum wage. **A**, **B** and **C** are incorrect. A worker is not required to be a member of a trade union or covered by an industrial award or individual contract to receive the national minimum wage.	Topic 4 Economic Policies and Management: Labour market policies H1 Bands 3–4

Copyright © 2023 Neap Education Pty Ltd

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 11 **B** **B** is correct and **A** is incorrect. $\frac{\text{Unemployed}}{\text{Labour force}} \times 100$ The labour force refers to the sum of the employed and unemployed persons in an economy. $\text{Year 1} = \frac{200}{(200+1600)} \times 100$ $= 11.1\%$ $\text{Year 2} = \frac{100}{(100+1800)} \times 100$ $= 5.2\%$ Therefore, the unemployment rate has decreased. **C** and **D** are incorrect. The participation rate requires the working age population, not the entire population.	Topic 3 Economic Issues: Unemployment H11 Bands 4–5
Question 12 **C** **C** is correct. Banning imports from a single economy violates the WTO's most-favoured-nation (MFN) principle, which requires the member nations of the WTO to treat other countries equally. **A** and **B** are incorrect. Establishing a bilateral free trade agreement and giving a developing economy special access to a market are exceptions of the MFN principle. **D** is incorrect. The rule of national treatment equality does not apply to customs duty on imported goods.	Topic 1 The Global Economy: Role of international organisations H1, H2 Bands 3–4
Question 13 **B** **B** is correct. The terms of trade is calculated by dividing the price of exports by the price of imports. Hence, the increase in the price of imports relative to exports decreases the terms of trade. **A** is incorrect. An increase in exports relative to imports would increase the terms of trade. **C** and **D** are incorrect. The terms of trade do not deal with the value of exports and imports.	Topic 2 Australia's Place in the Global Economy: Australia's Balance of Payments H11 Bands 4–5

Copyright © 2023 Neap Education Pty Ltd

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 14 **D** **D** is correct. Public goods are characterised by non-rivalry and non-diminishability. The ability to borrow books violates non-rivalry, as one person's use of the good restricts another person's use. **A** is incorrect. Public goods can also be offered by the private sector. **B** is incorrect. The ability to reserve an item doesn't directly rival another person's usage, however, the borrowing of an item does. **C** is incorrect. Public goods can be accessed by all people. A library in a local government area is only accessible to people living within that area.	Topic 3 Economic Issues: Public and private goods H7 Bands 4–5
Question 15 **A** **A** is correct. A downturn in the economy of a major importer would decrease demand for Australian goods and services, which is likely to depreciate the value of the Australian dollar. **B** is incorrect. The expansion in the economy of a major importer would increase demand for Australian goods and services, which is likely to appreciate the Australian dollar. **C** is incorrect. An increase in the Australian cash rate may attract foreign savings into Australia, which is likely to appreciate the Australian dollar. **D** is incorrect. An increase in investment into Australian export markets would increase demand for the Australian dollar, which is likely to appreciate the Australian dollar.	Topic 1 The Global Economy: International economic integration Topic 2 Australia's Place in the Global Economy: Exchange rates H4 Bands 3–4
Question 16 **D** **D** is correct. The Current Account is calculated as the sum of the balance of goods and services (BOGS), net primary income and net secondary income. The BOGS is the sum of net imports and net exports. Hence, the value of the Current Account is $(300 - 100) + (-120) + (-30) = \$50$. The Balance of Payments is the sum of the Current Account, and the Capital and Financial Accounts, which must equal 0. Net errors and omissions offsets this. Hence, the value of net errors and omissions is $50 + -15 + -40 + X = 0$ $X = 5$ **A** is incorrect. Net errors and omissions have a positive balance, not a negative balance. **B** and **C** are incorrect. The Capital Account has a positive balance, not a negative balance.	Topic 2 Australia's Place in the Global Economy: Australia's Balance of Payments H11 Bands 4–5

 Copyright © 2023 Neap Education Pty Ltd

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 17 **D** **D** is correct. An increase in the value of welfare payments is covered by fiscal policy, which is covered by macroeconomic reform. **A** is incorrect. A reduction in tariff levels is a form of deregulation, which is covered by microeconomic reform. **B** is incorrect. The privatisation of a telecommunication firm is an example of the reform of an industry, which is covered by microeconomic reform. **C** is incorrect. National Competition Policy reforms all industries and is covered by microeconomic reform.	Topic 4 Economic Policies and Management: Microeconomic policies H7 Bands 4–5
Question 18 **C** **C** is correct. To calculate the revenue generated, the quantity supplied is subtracted from the quantity demanded at \$15, giving the imported quantity (300 – 200 = 100); this is then multiplied by the tariff amount of \$5 (5 × 100 = \$500). Thus, the revenue generated is \$500. **D** is incorrect. This option multiplies the imported quantity of 100 by the world price of \$10. **B** is incorrect. The imported quantity, not the revenue generated, is 100. **A** is incorrect. To calculate the revenue, the tariff amount must be used in combination with the quantity imported.	Topic 1 The Global Economy: Protection H11 Bands 5–6
Question 19 **B** **B** is correct. The formula for the multiplier is $k = \frac{1}{1 - \text{marginal propensity to consume } (\text{MPC})}$ $2.5 = \frac{1}{1 - \text{MPC}}$ Reciprocating both sides gives 1 – MPC = 0.4 Solving for MPC gives MPC = 0.6 Hence, to calculate consumption for Year 2, the MPC is multiplied by the national income. To this, the autonomous consumption from Year 1 is added, giving 1000 × 0.6 + 100 = 700 Therefore, the value of X is 700. **A** is incorrect. This option doubles the Year 1 consumption. **C** is incorrect. This option is missing the autonomous consumption from Year 1. **D** is incorrect. Consumption is not equivalent to national income.	Topic 3 Economic Issues: Economic growth H11 Bands 5–6

Copyright © 2023 Neap Education Pty Ltd

Answer and explanation	Syllabus content, outcomes and targeted performance bands
Question 20 **B** **B** is correct. The reduced COVID-19 restrictions have caused demand to increase, which is demand-pull inflation. Increased global oil prices has increased the cost of inputs, which is cost-push inflation. **A** is incorrect. Imported inflation may occur, however, as oil is a primary good for many industries, it significantly contributes more to inflation through cost-push inflation. **C** is incorrect. Inflationary expectations and demand-pull inflation describe causes that relate to the reduced COVID-19 restrictions only. **D** is incorrect. Imported inflation and cost-push inflation describe causes that relate to the increase in global oil prices only.	Topic 3 Economic Issues: Inflation H1, H5 Bands 4–5

 Copyright © 2023 Neap Education Pty Ltd

SECTION II

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
Question 21	
(a) Gross World Product (GWP) refers to the total value of goods and services that are produced worldwide over a year. In contrast, Gross Domestic Product (GDP) refers to the total value of goods and services that are produced locally over a year. GWP is measured in USD for consistency, whereas GDP is often measured in the country's local currency.	Topic 1 The Global Economy: Gross World Product H1 Bands 2–3 • Distinguishes between *GWP* and *GDP*. . . . . .2 • Identifies characteristics of *GWP* and *GDP* 1
(b) Two factors driving globalisation include new tools of communication and new actors. In terms of communication, the increase in internet speeds, electronic communication spread and efficient transport methods has led to an increase in connections between people and economies. New actors include international organisations, such as the WTO, who assist in governing interactions between economies, thus promoting cooperation and globalisation.	Topic 1 The Global Economy: Globalisation H4, H3 Bands 3–4 • Explains TWO factors driving globalisation . . . . .4 • Explains ONE factor driving globalization. AND • Sketches in general terms ONE factor driving globalisation . .3 • Outlines ONE factor driving globalisation. OR • Sketches in general terms TWO factors driving globalisation . . . . . .2 • Provides some relevant information 1

Copyright © 2023 Neap Education Pty Ltd

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
(c) Globalisation has caused the increased exposure of domestic economies to the international business cycle. For example, in the event of a global downturn, a domestic economy may experience financial contagion and a domestic economic downturn. On the other hand, globalisation has increased the variety of goods and services available to consumers and businesses, due to the increased international trade.	Topic 1 The Global Economy: Globalisation; the international and regional business cycles H3, H7 Bands 3–4 • Assesses ONE positive impact AND ONE negative impact of globalisation on the global economy . . . . .4 • Outlines ONE positive impact AND ONE negative impact of globalisation on the global economy . . . . .3 • Assesses ONE positive impact OR ONE negative impact of globalisation on the global economy . . . . .2 • Provides some relevant information 1
Question 22	
(a) One limitation of microeconomic policy is the time lag between when the policy is implemented and its effects on the economy. As microeconomic policy targets long-term reforms, changes are often not observed until well beyond the time the policy was implemented.	Topic 4 Economic Policies and Management: Microeconomic policies; Limitations of economic policies H6 Bands 2–3 • Outlines ONE limitation of microeconomic policy . . . . .2 • Provides some relevant information 1

 TENEco_SS_2023 Copyright © 2023 Neap Education Pty Ltd

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
(b) Labour market reform is a type of microeconomic reform that aims to change structural elements of the labour market in the long term. Since the labour market deals with the income of employees, it influences the distribution of income and wealth in Australia. For example, the deregulation of the labour market in Australia leads to an increase in wage and salary flexibility, which incentivises workers to increase their productivity to achieve higher pay; this increases the inequality of income in Australia. Hence, any government reform that deals with the labour market will impact the distribution of income and wealth in Australia.	Topic 3 Economic Issues: Distribution of income and wealth Topic 4 Economic Policies and Management: Microeconomic policies; Labour market policies; Policy responses and their effects in dealing with the economic objectives H1, H7 Bands 5–6 • Explains how labour market reform can influence the objective of equitable distribution of income and wealth . . . . 4 • Outlines how labour market reform can influence the objective of equitable distribution of income and wealth . . . . 3 • Outlines labour market reform OR equitable distribution of income and wealth . . . . 2 • Provides some relevant information 1

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
(c) Reforms such as the recent JobTrainer initiative launched by the Australian Government aim to decrease structural skill shortages in Australia. The initiative does this by subsidising and incentivising the working-age population to train in skills that are in shortage, by supporting their education and providing avenues for traineeships and apprenticeships. Hence, government reforms that focus on education and job pathways can help address Australia's structural problem of skill shortages.	Topic 4 Economic Policies and Management: Labour market policies H6, H9 Bands 4–5 • Demonstrates a comprehensive understanding of ONE government policy used to reform the structure of the Australian labour market . . . . .4 • Demonstrates a sound understanding of ONE government policy used to reform the structure of the Australian labour market . . . . .3 • Outlines ONE government policy used to reform the structure of the Australian labour market . . . . .2 • Identifies ONE government policy used to reform the structure of the Australian labour market. OR • Provides some relevant information 1
Question 23	
(a) *For example:* One disadvantage of free trade is dumping. Dumping occurs when one country produces excess of a product and dumps this in the market of another economy at low cost, with no trade barrier. This can harm domestic firms who cannot compete with the low price of the imported goods.	Topic 1 The Global Economy: Trade, financial flows and foreign investment H6 Bands 2–3 • Outlines ONE disadvantage of free trade for a hypothetical economy . . . . .2 • Provides some relevant information 1

  Copyright © 2023 Neap Education Pty Ltd

	Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
(b)	The International Monetary Fund (IMF) provides financial assistance to countries experiencing short-term financial crises. In contrast, the World Bank provides monetary and knowledge assistance to developing nations to assist with their economic development. Hence, the World Bank's resources are invested for long-term economic reform, while the IMF's resources are invested for short-term financial protection for the global economy.	Topic 1 The Global Economy: Trade, financial flows and foreign investment H1, H5 Bands 3–4 • Explains the difference between the *IMF* and the *World Bank* . . . . 3 • Outlines in general terms the difference between the *IMF* and the *World Bank* . . . . 2 • Outlines in general terms the *IMF* OR the *World Bank*. OR • Provides some relevant information 1
(c)	Bilateral trade agreements are free trade agreements between two economies. Multilateral trade agreements are free trade agreements between more than two economies. In recent years, bilateral trade agreements have been growing in popularity, since multilateral trade agreements have become more difficult to negotiate between many countries, as all countries need to be satisfied with the conditions of an agreement for it to be ratified. For example, the WTO represents a multilateral agreement that has been failing in recent years due to stalled negotiations between the 164 member countries. As a result, countries have turned to bilateral trade agreements for greater speed, flexibility and customisation in their agreements.	Topic 2 Australia's Place in the Global Economy: Free trade and protection H4, H9 Bands 4–5 • Analyses in detail the impact of bilateral and multilateral free trade agreements . . . . 5 • Analyses the impact of bilateral and multilateral free trade agreements. . . . . 4 • Outlines the difference between bilateral and multilateral free trade agreements. 3 • Outlines the difference between bilateral OR multilateral free trade agreements. 2 • Provides some relevant information 1

Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
Question 24	
(a) The Current Account records the non-reversible transactions an economy has with the rest of the world, and thus highlights what is owed. The Current Account is measured as a percentage of GDP as it highlights the relative size of what is owed against GDP and sustainability. For example, a Current Account Deficit of –5% may indicate debt that exceeds a country's economic growth rate, which indicates external instability.	Topic 3 Economic Issues: External stability H1 Bands 2–3 • Explains why the Current Account is measured as a percentage of GDP. . . . . .3 • Outlines why the Current Account is measured as a percentage of GDP. . . . . .2 • Provides some relevant information 1
(b) The Balance of Payments constraint affects the economic growth of the country if the Current Account Deficit is not in equilibrium with the economic growth rate. This indicates that future growth may be limited by the sustainability of overseas borrowing and investor confidence.	Topic 2 Australia's Place in the Global Economy: Australia's Balance of Payments H2 Bands 3–4 • Explains how the Balance of Payments constraint affects economic growth . . . . .3 • Explains the Balance of Payments constraint. . . . . .2 • Provides some relevant information 1

 Copyright © 2023 Neap Education Pty Ltd

	Sample answer	Syllabus content, outcomes, targeted performance bands and marking guide
(c)	Foreign direct investment (FDI) is the investment into and purchase of 10% or more of a foreign company. A cost of FDI is the loss of ownership of the firm, particularly if the company controls a large market share of a primary industry. Moreover, any income earned from the asset must be repaid as profit in the net primary income account of the Current Account, which may have negative implications for the Balance of Payments. A benefit of FDI is that it allows a country to acquire the funds needed for investment expansion, where there may not be enough domestic savings. From this, employment opportunities arise, which contribute to domestic wealth and improved living standards. This may assist Australia's economy in becoming more internationally competitive by improving domestic aggregate supply.	Topic 2 Australia's Place in the Global Economy: Australia's Balance of Payments H4, H7 Bands 4–5 • Demonstrates a specific and detailed understanding of the costs AND benefits of FDI into Australia . . . . 4 • Demonstrates a detailed understanding of the costs AND benefits of FDI into Australia . . . . 3 • Demonstrates a general understanding of the costs OR benefits of FDI into Australia. . . . . 2 • Identifies a relevant cost OR benefit of FDI into Australia. OR • Provides some relevant information 1

SECTION III

Question 25 (20 marks)

Economic growth is the increase in the production of goods and services in an economy, resulting in the ability to satisfy more wants and needs. Economic growth in Australia is limited by the parameters of the environment and its resources. Therefore, Australia should consider the impacts of economic growth on ecological sustainability, specifically, the impacts of pollution and climate change.

Australia avoided a recession for over 27 years, with a major contributor of this growth being the comparative advantage in mining, due to Australia's natural endowment in resources such as coal and iron ore. After the global recession of the Global Financial Crisis (GFC), Australia maintained strong, above OECD-level average growth due to the mining boom of 2003–2011. During this period, Australia's terms of trade reached its highest level of 140 in 2011, mainly due to high primary export levels. This highlights Australia's dependence on resources for economic growth, as in 2011 Australia's mining products increased by 14%, which contributed to national income (Reserve Bank of Australia), but placed Australia as a top emitter of CO_2, as seen in the graph 'Per capita CO_2 emissions (1990–2021)'.

A positive effect of this economic growth is the increased national income Australia receives. The growth in business profits may lead to an increase in real wages, tax income and further investment. More economic activity will increase both the potential for consumption (demand) and supply, raising the overall quality of life and living standards of Australians. This is due to the potential for increased production, disposable incomes, variety, and support from the government by providing more collective wants and welfare. However, this may also lead to an increase in negative externalities as the price mechanism (interaction of demand and supply to determine prices) fails to account for the social costs of production, including environmental degradation.

Due to the Australian economy operating within the constraints of the environment, it is important to reduce pressure on the natural environment to ensure development can continue in the future. Intergenerational equity must be considered when development occurs to ensure that growth is not limited in the future due to overproduction, which causes reduced productive capacities, occurring in the present. This means the preservation of the natural environment is important to consider, as the current rates of economic growth may not be sustainable in the future. According to the United Nations' Intergovernmental Panel on Climate Change (IPCC), if Australia's growth continues at the current rate, GDP will fall by 4.9% by the year 2100 due to environmental degradation. As seen in the graph, Australia is one of the largest emitters of CO_2 per capita. This illustrates Australia's increasing rate of pollution and subsequent degradation of the environment. The pollution caused by Australia's CO_2 emissions has resulted in Australia's temperatures increasing by approximately 1°C in the post-industrial era. If depletion continues at these rates, Australia's environment will no longer be sustainable for both future generations and future economic growth.

Australia has implemented a variety of environmental policies in attempt to meet the emissions reduction targets set by the Kyoto Protocol and the Paris Agreement. These international targets, agreed upon by the majority of nations, set the standard of decreasing global emissions by 26–28% by the year 2030. Australia's policies align with this goal as Australia has reduced emissions by 13% from 1990s levels. In recent years, the Australian Government has implemented funding for renewable energies and ecological sustainable practices. Through the Clean Energy Innovation Fund, the Australian Government has invested $1 billion AUD to ensure renewable energies, such as wind and solar power, are researched, and to find ways to increase the competitiveness of these energies to the levels of non-renewable energies, including fossil fuels. This funding, along with other policies in the Australian Government's Climate Solutions Package, aims to reduce domestic emissions and support international efforts to combat climate change without compromising economic growth. Climate change presents many risks to the growth of the Australian economy, including reduced productive capacity, due to the effects of pollution on physical health; increased droughts and agricultural issues caused by extreme weather; and decreased exports and tourism, which will cause Australia's Current Account Deficit to worsen. Australia's new policies aim to reduce these impacts to the domestic economy and have been more effective compared to the failed policy of the carbon tax in 2012, which drove energy prices up by 10% despite only reducing

 TENEco_SS_2023 Copyright © 2023 Neap Education Pty Ltd

emissions by 1.4%. Australia's new policies have reduced emissions 'to five per cent below 2000 levels' and remain on track to meet the 2030 emissions reduction target.

Although economic growth and environmental policies are seen as contradicting objectives, it is a matter of balance, as growth can only be achieved within the parameters of the environment. Therefore, Australia and the global economy alike must consider the ecological sustainability of their economical choices, because in the long term it will limit the economic capacity for growth of the economy. This capacity constraint is therefore of utmost importance, as current economic growth has the potential to limit the ecological sustainability of the future.

Copyright © 2023 Neap Education Pty Ltd

Syllabus content	Syllabus outcomes
Topic 3 and 4 – Ecological sustainability, Potential conflicts among objectives, National and global context for environmental management, Policy responses and their effects in dealing with economic objectives	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 how economic growth impacts ecological sustainability in the Australian and global economies.	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 how economic growth impacts ecological sustainability in the Australian and global economies.	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 how economic growth impacts ecological sustainability in the Australian and/or global economies.	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 how economic growth impacts ecological sustainability in the Australian and/or global economy in general terms.	5–8
The response attempts to: • provide some relevant information in a limited way • use some economic terms.	1–4

Copyright © 2023 Neap Education Pty Ltd

Question 26 (20 marks)

Trade liberalisation refers to the elimination of artificial and protective trade barriers. Higher trade liberalisation rates domestically and globally allows Australian firms to engage with global markets, increasing economic activity, globalisation and Gross World Product (GWP). With governmental monitoring, trade liberalisation can effectively increase economic growth, as seen within 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. In Australia, this includes a reduction in protectionist policies, increasing focus on multilateral and bilateral trade agreements, and financial market deregulation. Since the early 1980s, this type 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 1994). These policies helped produce an economy that is better placed to take advantage of emerging opportunities and to overcome global economic issues.

As mentioned previously, the main reform Australia experienced in the 1980s that assisted with overall trade volume was the reduction in protectionist policies. As a result, 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 focus on manufacturing to a 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 reduction in average tariff costs from 9% in the 1990s to 1.2% in the 2010s, which highlights the positive impact the reduction had on the overall trade volume and composition of Australian exports. As seen in the table 'Australia's top 10 two-way trading partners 2019–20', Australia's largest trading partner has been China, accounting for 28.8% of Australia's trade. 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 has increased. This growth culminated in the mining boom of 2010–12, which saw Australia's economic growth reach 3.6%. The increased demand for primary exports, the decline in unemployment and the increase in wage growth across the economy were the largest contributors to this growth. Currently, the mining industry still accounts for approximately 7% of Australia's GDP, highlighting the significant impact that the reduction in protectionist policies has had on the growth of Australia's economy, due to the increased efficiency, international competitiveness and comparative advantage our exporting markets gained.

Free trade agreements are formal agreements between two or more countries to reduce trade barriers and increase global trade liberalisation. Australia has embarked upon unilateral, bilateral and multilateral trade liberalisation. Reducing artificial trade barriers bilaterally and globally allows access to greater export markets, decreased input and supply costs for firms, and 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 countries involved in this agreement committed to eliminating tariffs on 96% of Australian exports between the regions. This is the largest preferential trade agreement Australia has concluded. It represents 13% of total trade in the provided table and highlights 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 countries undermines trade with other regions. The European Union (EU) represents a monetary and trade union, which diverts many regions from trading with them. For example, the EU's Common Agricultural Policy, which excludes regions outside the EU, creates trade diversion as other countries struggle to compete with the artificially low export prices for agriculture within the EU. Hence, domestic and global trade liberalisation is successful in increasing Australia's economic activity, provided that it contributes to increased GWP, thus avoiding trade diversion.

Deregulation is the removal of rules that constrain the operation of market forces, in the aim of improving the efficiency of industries. In Australia, 'the floating of the dollar, and deregulation of financial markets' aims 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 market in 1983 allowed demand and supply to determine the price of the dollar, which better represented consumer sentiment and increased long-term competitiveness, as the true value of the dollar was reflected. This has

Copyright © 2023 Neap Education Pty Ltd

contributed to the Australian dollar becoming the fifth most traded currency on foreign exchange market. Therefore, the deregulation of financial markets and the floating of the Australian dollar 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 reliable and resilient economy’. Specifically, the reduction in protectionist policies, increase in free trade agreements, deregulation of financial markets and floating of the dollar have all increased technical and allocative efficiency as a result of the increased global integration. Hence, domestic and global liberalisation have allowed increased aggregate supply in Australia, contributing to an increase in economic growth.

Copyright © 2023 Neap Education Pty Ltd

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 impact of trade liberalisation on economic growth in the Australian and global economies.	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 impact of trade liberalisation on economic growth in the Australian and global economies.	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 impact of trade liberalisation on economic growth in the Australian and/or global economy.	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 the impact of trade liberalisation on economic growth in the Australian and/or global economy in general terms.	5–8
The response attempts to: • provide some relevant information in a limited way • use some economic terms.	1–4

Copyright © 2023 Neap Education Pty Ltd

SECTION IV

Question 27 (20 marks)

Fiscal policy is a government's control of the yearly budget to stabilise fluctuations in economic activity and redistribute resources, including income. Through the collection of tax and spending of government revenue, a government can influence the economic objectives of full employment and equal distribution of income. Therefore, an effective fiscal policy stance may be able to achieve these objectives, along with the overall maintenance and growth of the economy.

The yearly budget may have a contractionary or expansionary outcome. An expansionary outcome is either an increased deficit (increase of government spending), or a decreased surplus (net decrease of government spending). This increases aggregate demand, which increases economic output and growth. A contractionary outcome is either a decreased budget deficit or an increased government surplus, which decreases aggregate demand and contracts economic growth and output. Therefore, fiscal policy, through its discretionary control of the budget, provides a government with control over the output and demand of the economy. Due to labour being a derived demand of consumption, the fiscal policy can encourage full employment and control the distribution of income. Hence, both the discretionary and non-discretionary components of fiscal policy allow a government to effectively deal with full employment and the distribution of income.

The Australian economy experienced its first recession in almost 30 years in 2020, indicated by the sharp dip to –7% GDP growth. This was primarily caused by the government-imposed business closures and lockdowns, following health advice regarding COVID-19. This restriction on consumption was the main factor causing the recession as consumption comprises around 60% of Australia's GDP, which highlights the major limitation on economic growth faced by Australia. The 2021–22 budget aimed to support and restore the economy to pre-pandemic levels of growth by adopting an expansionary stance and providing stimulus to private consumption. This enabled a faster recovery, shown by the strong economic recovery of over 9% GDP growth in 2021.

Unemployment refers to the situation in which an individual seeks work and is able to work but is unable to find employment. During the COVID-19 pandemic, consumption dropped significantly and unemployment rose as businesses were forced into closure and consumer confidence dropped across the Australian economy. The government responded with a policy to bolster household incomes by providing transfer payments, preventing a larger contraction in private consumption. The JobKeeper payment was a wage subsidy that gave payments of $1500 for the first 6 months of the program to eligible employees through their employer. This 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% in 2020 and then decreasing to approximately 5% in 2021. The direct support for businesses throughout the pandemic increased consumption, resulting in a faster recovery of the Australian economy after the initial lockdown measures were lifted, as seen in the 9% growth of Australia's GDP. Hence, the emergency expansionary fiscal policy response to the economic threats of the COVID-19 pandemic was effective in supporting Australia's employment by minimising the effect of a sharp contraction in economic growth and high unemployment, thus enabling a faster economic recovery.

Distribution of income refers to the degree of equality of returns from factors of production. This can be measured by the Lorenz curve and the Gini coefficient. In Australia, the Gini coefficient is 0.34. This indicates a moderate polarisation of income between the population, where 0 is perfect equality and 1 is perfect inequality. Distribution of income is affected by employment, as high unemployment, especially the structurally long-term and hidden unemployment, will cause an increase in low-income earners. This affects the distribution of income, as it widens the gap between the earnings of full-time workers and the lack of income earned by the unemployed. Therefore, when fiscal policy aims to decrease unemployment, it is generally accompanied by minimising the unequal distribution of income. While tax cuts may encourage employment, economists at the Australian National University have determined 'the 2022 budget will favour high-income earners over low-income earners'. This is because the budget will only provide small gains for the lowest 40% of income earners (between $17 and $204) and large gains for higher

 Copyright © 2023 Neap Education Pty Ltd

income earners (between $2625 and $5740). Therefore, while the 2022 budget may improve employment, it may not increase equality of income, due to the lack of additional transfer payments and support for low-income earners.

Overall, the recent budgets have taken measures to maintain full employment in the face of increased global economic instability, however, the planned tax cuts have limited impact on increasing the equality of the distribution of income. For Australia's current state of employment and income, it is clear that fiscal policy has the potential to be effective in achieving full employment and an equal distribution of income.

Copyright © 2023 Neap Education Pty Ltd

Syllabus content	Syllabus outcomes
Topic 3 and 4 – Unemployment, Distribution of income and wealth, Macroeconomic policies, Limitations of economic policies, Policy responses and their effects in dealing with economic objectives; full employment, distribution of income	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 full employment, the distribution of income and fiscal policy in the Australian economy • making a well-informed assessment of the effectiveness of fiscal policy in managing full employment and the distribution of 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 full employment, the distribution of income and fiscal policy in the Australian economy • making a sound assessment of the effectiveness of fiscal policy in managing full employment and the distribution of 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 effectiveness of fiscal policy in managing full employment and/or the distribution of income in the Australian economy.	9–12
The response is limited in: • using some economic terms in a generalised way • showing some understanding of fiscal policy in managing full employment and/or the distribution of income in the Australian economy.	5–8
The response attempts to: • use some economic terms in a limited way • discuss some aspects of fiscal policy in managing full employment and/or the distribution of income in the Australian economy	1–4

 Copyright © 2023 Neap Education Pty Ltd

Question 28 (20 marks)

Inflation is the percentage change in the general level of prices and must be maintained to achieve the economic objective of price stability, which assists in maintaining economic growth. As the global economy has been recovering from the COVID-19 pandemic and has faced increased conflict due to the war in Ukraine, high inflation has become a concern for global and domestic price stability. Monetary policy involves the setting of interest rates by the Reserve Bank of Australia (RBA) to smooth the effects of these fluctuations and achieve price stability.

In Australia, over the first fiscal quarter until March 2022, inflation rose from 3.7% to 5.1%. This is the highest inflation rate Australia has seen in the past ten years and is well outside the inflation target set by the RBA of 2–3%. The main causes of inflation in Australia and globally have been due to events contributing to global economic instability, including the COVID-19 pandemic and conflicts between Russia and Ukraine. The easing of measures taken to combat the COVID-19 pandemic in 2021, including forced business closures and lockdowns, saw a surge in inflation that overtook the initial decline in 2020 when these measures were taken. The surge in inflation can be attributed to the sudden increase in demand once measures were eased, resulting in a global demand-pull inflation. In addition, continued restrictions in countries such as China has meant global supply chains have faced increased delays and costs due to a decrease in supply. This has contributed to global cost-push inflation. For example, the increased cost of construction driven by the high level of demand for building and ongoing shortages of material and labour caused a 13.7% increase in the price of new dwellings in Australia in March 2022. In addition, since Ukraine and Russia hold a considerable portion of global exports in many commodities, the current conflict has resulted in a surge in commodity prices and, in turn, a cost-push inflation that has prolonged the state of high inflation. For example, automotive fuel prices reached a record level in the March quarter of 2022 due to an increase in global oil prices caused by the Russian invasion of Ukraine, paired with the easing of COVID-19 restrictions which strengthened global demand.

The RBA has set an inflation target of 2–3% in order to achieve price stability, which contributes to sustainable economic growth. For consumers, rises in prices due to high inflation can reduce purchasing power and distort spending and investment decisions. On the other hand, producers may have to raise their prices to combat the increase in supply cost. Furthermore, employees may seek larger wages in response to the high inflation, which may force firms to raise prices further or reduce the number of employees. For Australian exporters, the increase in cost for goods and services will reduce domestic international competitiveness, with a possibility of losing comparative advantage. These impacts may severely distort economic activity and decrease economic growth. Hence, the RBA's inflation targeting model is an effective measure in utilising monetary policy to achieve price stability in Australia.

Monetary policy is a form of macroeconomic policy used to stabilise economic activity and hence can be used as a tool to lower inflation and achieve price stability. Monetary policy involves the setting of the cash rate, which is administered by the RBA. The cash rate represents the cost to domestic banks of borrowing funds from the RBA to settle debts between themselves and hence affects the interest rate charged by banks to consumers. A higher interest rate discourages consumption and investment as borrowing becomes more expensive; therefore, the RBA may choose to tighten monetary policy by increasing the cash rate in order to decrease spending and demand-pull inflation. This was seen in the most recent monetary policy decisions to increase the cash rate from a record low of 0.1% in April 2022, to 2.85% in November 2022. Hence, adopting a contractionary monetary policy stance to control high inflation may constrain economic output, due to a decrease in consumption and investment resulting from increasing interest rates.

However, not all government responses may effectively combat the high inflation. For example, attempting to reduce the cost of living may increase demand and thus raise prices and inflation. This was seen recently in government attempts to reduce the cost of fuel by cutting the fuel excise, saving consumers 46 cents per litre. While this policy aims to alleviate living costs, it only increased demand further, undermining the efforts of contractionary monetary policy to constrain demand. Therefore, monetary policy is only effective in managing price stability when other macroeconomic policies, such as fiscal policy, adopt a contractionary stance too.

Global inflation, including that in Australia, has been caused by external shocks to both demand and supply, which has caused a combination of demand-pull and cost-push inflation, leading to price instability. As this presents a risk for macroeconomic stability in Australia, the RBA may choose to adopt contractionary monetary policy to constrain demand, aiming to achieve price stability and sustainable economic growth.

Copyright © 2023 Neap Education Pty Ltd

Syllabus content	Syllabus outcomes
Topic 3 and 4 – Inflation, Macroeconomic policies, Limitations of economic policies, Policy responses and their effects in dealing with economic objectives; price 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 price stability and monetary policy in the Australian economy • making a well-informed assessment of the effectiveness of monetary policy in managing price stability in the Australian economy with reference to recent examples.	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 price stability and monetary policy in the Australian economy • making a sound assessment of the effectiveness of monetary policy in managing price stability in the Australian economy with reference to recent examples.	13–16
The response is adequate in: • using relevant economic terms, concepts, relationships and theories in a coherent way • demonstrating some understanding of the effectiveness of monetary policy in managing price stability in the Australian economy.	9–12
The response is limited in: • using some economic terms in a generalised way • demonstrating some understanding of monetary policy in managing price stability in the Australian economy.	5–8
The response attempts to: • use some economic terms in a limited way • discuss some aspects of monetary policy in managing price stability in the Australian economy.	1–4

 Copyright © 2023 Neap Education Pty Ltd