2011 Economics GA 3: Examination

GENERAL COMMENTS

Most students attempted all parts of the 2011 Economics examination, thus giving themselves the best opportunity to score the most marks.

It was clear that students had worked diligently to keep up with current economic events in Australia and internationally. This meant that they were able to apply theory to recent economic developments and use examples drawn from recent contexts to illustrate and evidence their understanding of economics. A number of students were also able to use their understanding related to recent economic developments to demonstrate knowledge of a range of key economics relationships, such as between the achievement of economic goals and the application of economic policies.

Students showed good understanding of how monetary policy may be used to stimulate economic growth, with most students able to discuss how lowering the cash interest rate is likely to have an expansionary impact on the economy.

However, there were a number of areas related to the study design key knowledge and key skills that appear to require further attention. One of the key skills listed in the study design is that students are able to interpret and analyse statistical and graphical data. A key requirement of such a skill is that students are able to read graphs and describe trends. A number of students struggled with this requirement when answering Section B, Question 1a. Students should practise reading graphs and charts and describing trends. Students should note that a trend is a general direction over time, not a year-by-year or month-by-month account. The trend may be described by noting, via a straight line, the general direction from point x to point y. The general direction may usually be described as upwards, rising, downwards or falling. With reference to Question 1a., students were asked to describe the trend in the real value of the Australian dollar between 2009 and 2011. If you were to draw a straight line between 2009 and 2011, the general direction or trend is upwards. Then to complete the description it is important to include reference to the data. Students are advised to note the units on the graph or chart, realising in this case that it was an index number. So the answer should have read that the general direction or trend is upwards in the real value of the Australian dollar between 2009 (when the index was approximately 73) to 2011 (when the index was approximately 102).

Key knowledge requiring further attention related, in particular, to Outcome 1 in Unit 3. Students struggled with key knowledge related to the role of relative prices in the allocation of resources, sources of market failure and reasons for government intervention in the market.

Students need to be reminded that they must use pen to answer all questions in Section B. This is clearly stated in the instructions on the examination paper. If students wish to write more in an answer than line spaces provide, they should use extra space either below the lines or at the back of the examination booklet. If students use the back of the booklet, they must clearly indicate that they have done this so that assessors are directed to where they have continued an answer.

The majority of students used economic terms and concepts accurately and confidently. For example, very sound definitions were provided for strong and sustainable economic growth, external stability and equity in income distribution. However, there were examples where students misused key terms (for example, using 'parody' instead of 'parity') or were unable to accurately define a concept such as relative scarcity, price mechanism or microeconomic reform policy.

Section A – Multiple-choice questions

The table below indicates the percentage of students who chose each option. The correct answer is indicated by shading.

Question	% A	% B	% C	% D
1	12	4	10	74
2	87	5	3	5
3	20	13	17	51
4	6	7	80	8
5	26	17	7	50
6	31	10	14	45
7	8	5	73	14
8	72	16	9	3

Question	% A	% B	% C	% D
9	82	12	3	3
10	3	75	16	6
11	2	87	11	0
12	3	2	93	3
13	24	45	17	14
14	7	32	11	49
15	84	5	4	7

Section B – Written responses

Note: Student responses reproduced herein have not been corrected for grammar, spelling or factual information.

For each question, an outline answer (or answers) is provided. In some cases the answer given is not the only answer that could have been awarded marks.

Question 1a.

Marks	0	1	2	Average
%	5	45	50	**1.5**

While most students were able to read the graph, a number were not able to describe the trend using the statistical information provided. There was some evidence that students did not know what the Trade Weighted Index (TWI) measured because they referred to the US dollar or to percentage changes. Some trend descriptions did not relate to the specified period given in the question – between 2009 and 2011.

Question 1b.

Marks	0	1	2	3	4	Average
%	16	15	25	17	27	**2.3**

The majority of students answered this question satisfactorily. Most students understood current factors influencing an appreciation of the Australian dollar. The sorts of factors outlined included:

- demand for Australian dollars is high, due to strong demand for mineral exports. Australia is an exporter of minerals and commodities. Commodity prices have remained at relatively high levels due to strong economic growth in major trading partner economies such as China and India. If demand for Australia's exports is high, then overseas countries must exchange their currency into Australian dollars to pay for these commodities. Thus high demand for the Australian dollar leads to an appreciation
- strong terms of trade results in higher net export values, which increases the demand for and value of the Australian dollar
- the underlying strength of the Australian economy compared to many other economies has led to relatively high domestic interest rates. This widens the interest rate differential existing between Australia and other economies, which attracts capital inflow and pushes up the demand for Australian dollars.

Students should note that an important step in demonstrating their knowledge is to state how the identified factor is likely to affect the demand (or supply) of the Australian dollar, thus causing the appreciation of the Australian dollar.

Question 1c.

Marks	0	1	2	3	4	5	6	Average
%	19	15	15	13	15	13	9	**2.7**

1ci.

There were a number of incorrect or incomplete answers provided to this question. Many students failed to define the economic goal of strong and sustainable economic growth and as a result a number of answers failed to refer to how the appreciation in the Australian dollar might affect the production of goods and services. This was a key expectation in answering the question. Students are tending not to fully develop their economics relationship explanations and linkages; for example, jumping too quickly from a decrease in aggregate demand into a decrease in economic growth. Students might have said that the appreciation means that exports become more expensive; this is likely to lead to a reduction in export demand which leads to a fall in aggregate demand, leading to a fall in production and therefore economic growth.

1cii.
This part of the question was not as well done as Question 1ci. Students appeared to struggle with an explanation of how an appreciation might impact inflation. The most successful answers explained that an appreciation means imports become relatively cheaper and therefore for business the costs of imported components and parts is reduced, thus reducing cost inflationary impacts. So in this way an appreciation may assist in achieving low inflation.

Question 2a.

Marks	0	1	2	Average
%	16	14	71	1.6

Overall, this was a well-answered question. However, it was concerning that a noticeable number of students confused the budget deficit/surplus with a trade deficit/surplus, the Current Account Deficit (CAD) or Net Foreign Debt (NFD).

Question 2b.

Marks	0	1	2	3	4	Average
%	29	24	23	16	9	1.5

This question was not well answered, with many students seeming to struggle with what the question was asking. Many students interpreted the question as asking ‘how’ to get the budget back into surplus rather than ‘why’.
A significant number of students simply stated that returning the budget to a surplus outcome would improve Australia’s external stability but did not explain the link in detail.

Successful answers discussed:

- that there is a stated budgetary policy objective, which is to balance the budget in the medium term
- the need to move the budget back to surplus in order to take pressure off interest rates so that the public sector is not competing to borrow money
- the need to maintain confidence in the management of the Australian economy, thus maintaining international investor confidence.

Question 2c.

Marks	0	1	2	3	4	5	6	Average
%	13	9	13	16	19	17	14	3.3

Most students understood the requirements of this question but often struggled to present a sufficiently detailed response in order to score full marks. Students were required to discuss two government policy actions that might be implemented to move the budget back to surplus. The two key ways would be to raise government revenue such as by increasing tax rates and/or by introducing new taxes, or to lower government expenditure such as by reducing defence expenditure or subjecting more welfare payments to means tests, therefore decreasing the amount of welfare outlays.

A number of students found this question difficult. They discussed policy actions that would increase a deficit or reduce a surplus, with many students suggesting that the government needed to spend more in order to get the budget back to surplus. This did not specifically answer the question nor demonstrate clear thinking although it was appreciated by assessors that students might have been thinking about how to get the budget back into surplus in the longer term. These students argued that improving aggregate supply through, for example, increased spending on infrastructure or training programs, might increase revenue (more people working so higher levels of income tax in the medium to long term) and reduce spending (more people working so fewer welfare payments in the medium to long term). However, students who responded in this way needed to make it clear that these actions would initially increase the deficit and that the push back into surplus would likely be in the medium to long term.

Question 2d.

Marks	0	1	2	3	4	Average
%	4	12	24	29	31	2.7

There were some very sound responses to this question. However, there were also a number of weaker answers, which suggests that students need to pay more attention to understanding the factors that affect changes in aggregate demand and aggregate supply. Many students only argued the microeconomic effect of floods on individual markets, rather than the aggregate effect. Most talked about the market for bananas, which showed they were focused on issues related to natural disasters rather than demonstrating understanding of the aggregate effects related to the floods. Other weaker answers used supply side factors when answering the aggregate demand part of the question, and many struggled to identify factors that might affect aggregate supply. When discussing the effect on aggregate supply, students should discuss how the factor is likely to influence the ability and willingness of suppliers to supply, so in the case of the floods, crops (for example, vegetables and fruit) and infrastructure (for example, mines and roads) were destroyed, which meant the ability of producers to supply was severely affected.

Question 2e.

Marks	0	1	2	3	4	5	6	Average
%	5	13	17	21	22	15	8	3.2

In a question that requires a number of points to be discussed students are advised to carefully plan their response. For example, most students seemed to want to discuss the long-term impact without thinking of the short-term impact. The most successful answers were able to discuss the short-term and long-term implications of their chosen policy on both strong and sustainable economic growth and equity in income distribution. Most students seemed to handle the likely impact on growth better than equity; however, it was important that answers were balanced and paid equal attention to the question requirements – effects on strong and sustainable economic growth and equity in income distribution.

Most students chose the carbon tax but focused either on the short term **or** the long term, with very few discussing both. When referring to the long-term effects, it seemed that some students did not understand why the carbon tax is likely to promote long-term economic prosperity. The role of relative prices is important, and students could have explained why the effects of climate change need to be mitigated in order to avoid future extreme weather that might destroy infrastructure and productive land.

A number of students discussed the impact on economic growth without thinking about how the carbon tax affects equity in income distribution. Very few answers were able to discuss how the carbon tax might have a negative impact on equity.

Students who selected the flood levy often focused on the effect of the spending of the levy rather than the effect of the implementation of such a levy on economic growth and equity.

Question 3a.

Marks	0	1	2	3	Average
%	6	13	36	46	2.2

This question was generally very well handled by students. The majority correctly identified the household savings ratio as their piece of evidence, were able to explain why this showed why consumers were becoming more cautious and provided data from the graph to support their explanations.

Question 3b.

Marks	0	1	2	3	Average
%	10	17	36	37	2

This question was handled well. The majority of students were able to accurately select a likely effect on the economy if consumers are cautious and spending less. The most successful answers were able to provide all the links and relationships such as if consumers are cautious, this may mean they spend less and save more, leading to less private consumption expenditure (C), thus reducing aggregate demand. A fall in aggregate demand is likely to mean slower rates of economic growth.

Question 3c.

Marks	0	1	2	3	4	Average
%	10	16	36	26	13	2.2

This question required students to acknowledge that the cautious consumer suggests consumers are spending less, which implies that there is less likelihood of demand inflationary pressures. If inflationary pressures are contained (the primary goal of the Reserve Bank of Australia [RBA]), the RBA may turn their attention to the other goals in their charter – economic growth and full employment. If lower levels of private consumption expenditure C (as a result of the cautious consumer spending less and/or saving more) are negatively affecting the achievement of strong and sustainable economic growth and full employment, then the RBA may lower the cash interest rate and move to an expansionary setting in order to try to encourage spending, demand and growth.

Question 4a.

Marks	0	1	2	Average
%	24	27	49	1.3

Some students struggled with this question. It is important for students to know key economic terms and concepts. High-scoring answers were able to explain that relative scarcity is about there being limited resources (land, labour, capital and enterprise) in relation to satisfying society's unlimited wants.

Question 4b.

Marks	0	1	2	3	4	Average
%	18	22	27	19	13	1.9

Many students struggled to provide an explanation of the role of the price mechanism in allocating resources in a competitive market. The key to answering this type of question successfully is to understand the role of relative prices in competitive markets and how they act as signals to influence the behaviour of consumers and producers.

Question 4ci–ii.

Marks	0	1	2	3	4	Average
%	42	15	15	15	13	1.4

This question was not well answered. It appeared that students did not read the question carefully enough and therefore did not understand the question. This question was about explaining the reason for government intervention in competitive market economies in order to redistribute income so that all members of society have access to sufficient income to purchase goods and services that enable them to have a 'dignified' standard of living. In 4ci. students might have explained that some in society do not have factors of production to sell (because they may be sick, incapacitated, elderly, unemployed) so the government steps in by providing transfer income. In 4cii. students could talk about a range of policies the government uses to achieve the redistribution of income, such as through the implementation of progressive rates of income tax or through the provision of a range of welfare payments or through policies such as the provision of education and training. A significant number of students thought this question related to issues of market failure and therefore did not score any marks.

Question 4d.

Marks	0	1	2	3	4	5	6	Average
%	23	9	12	13	16	16	11	2.8

Most students were able to identify and explain the operation of a microeconomic reform policy (MER). Most used trade liberalisation as their example, a few used labour market reform and a very small number used deregulation or competition policy. There were a number of excellent answers that used the deregulation of the dairy industry as their example.

A noticeable number of students claimed immigration policy as a microeconomic reform policy; however, this is not an example of MER and these students could not be awarded any marks for their answer.

Students' understanding of the impact of reducing tariff barriers on pressures to improve efficiency was fairly limited; answers lacked sufficient explanation of why/how reducing tariff barriers and freeing up trade might improve aggregate supply in the medium to long term.

When discussing the impact on external stability, many students did not explain the law of comparative advantage and how resources are reallocated to areas where productivity is higher and cost structures are lower. Students seemed to think that if Australian producers get better at producing everything, this will automatically mean Australia sells more exports. This suggests that more attention needs to be paid to developing students' understanding of how microeconomic reform policies might improve aggregate supply, economic growth and external stability.