

**Methodist Ladies' College
ATAR course examination, Semester 1, 2018**

Marking key

**ECONOMICS
ATAR Year 12**

Section One: Multiple-choice**24% (24 Marks)**

1	C
2	B
3	A
4	B
5	D
6	C
7	B
8	A
9	A
10	A
11	B
12	C
13	B
14	B
15	C
16	D
17	A
18	C
19	D
20	A
21	C
22	B
23	D
24	B

Question 25

(12 marks)

Exporters cashing in on Japanese free trade deal

The Australian
2 April 2018

Exporters will extend their competitive edge over international rivals after Tokyo yesterday cut about 640 tariffs under its free trade deal with Canberra, further expanding market access for Australian goods and services.

Since the free trade deal began in January 2015, more than 7700 tariffs have been eliminated with exports of Australian goods to Japan being valued at \$45 billion in 2017 — a rise of 24 per cent on 2016.

Yesterday’s tariff reductions are the fifth round of cuts since the free trade agreement took effect, with Trade Minister Steve Ciobo hailing the outcome as “great news for Australia” and singling out some goods with “exponential growth” over the last three years.

“Exports of Australian fresh grapes have grown by 4900 per cent, shelled almonds have grown by 1156 per cent and natural honey exports by 288.2 per cent,” he said. “These aren’t typos — but proof of the benefit of free and open trade”.

Other goods to benefit from the free trade agreement include chocolate (exports up 31.4 per cent), mandarins (158.8 per cent), oranges (71.8 per cent), and sugar (140.7 per cent). Almost 96 per cent of eligible products exported by Australian businesses to Japan in 2017 made use of the preferential tariffs created by the trade deal.

The agreement has also helped in education, finance and telecommunications. Services exports to Japan in 2016-17 were worth \$2.5 billion, a rise of almost 9 per cent over the previous year.

Mr Ciobo seized on the gains to argue against any retreat to protectionism following the move by the US to slap tariffs on steel and aluminium imports.

- a) Explain what a “free trade deal” is. (2 marks)

An international treaty in which the member countries agree to cooperate to reduce barriers to trade.	2 marks
(only 1 mark if the response suggests that <i>all</i> protection is removed)	

- b) Explain two reasons why tariff cuts in Japan are “great news for Australia”. (4 marks)

2 marks for each reason, explained. Possible reasons include: <ul style="list-style-type: none">• Greater market access for Australian exporters• Job creation as exporters expand• Economic growth as exporters expand• Greater efficiency	2 marks each
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- c) Discuss three reasons why the US has made a “retreat to protectionism”. (6 marks)

2 marks for each reason, explained. Possible reasons include: <ul style="list-style-type: none"> • Boost jobs in threatened industries • Strategic/sensitive industries • Infant industries • Burden sharing 	2 marks each
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Question 26

(12 marks)

- a) In which year(s) did Australia record a trade surplus? (1 mark)

2016-17	1 mark
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- b) In which year(s) was there a favourable movement in the terms of trade? (1 mark)

2016-17	1 mark
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- c) Describe and account for the change in the services trade balance for the years shown in the table. (3 marks)

Services deficit has fallen from around \$13b in 2011-12 to less than \$3b in 2016-17	1 mark
Significant depreciation of the AUD caused a large increase in education and tourism exports	1 – 2 marks

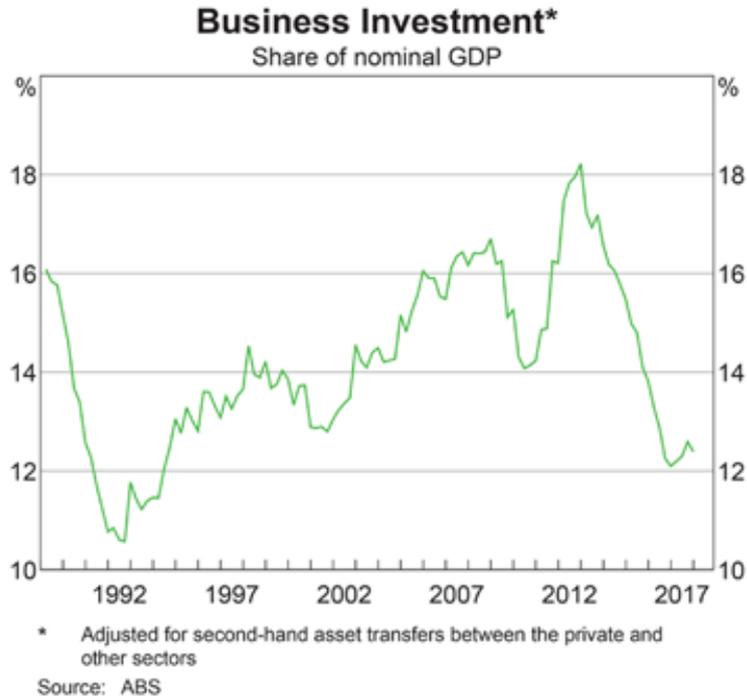
- d) Explain the relationship between the changes in the export price index and total exports for the years shown in the table. (3 marks)

Direct/positive link between XPI and the value of total exports	1 mark
Data: when XPI fell (2012-13, 2014-15 & 2015-16), the value of exports fell and when the XPI rose (2013-14 & 2016-17) the value of exports increased.	1 mark
Reason: a rise in the XPI increases the value of a given quantity of exports	1 mark

- e) Explain the relationship between Australia’s terms of trade and trade weighted index. (4 marks)

Changes in the ToT cause changes in the TWI	1 – 2 marks
Explanation: link to changes in demand or supply of the AUD	1 – 2 marks

Question 27



- a) In which year did business investment peak as a percentage of GDP, and what was that peak? (2 marks)

2013	1 mark
18.1 – 18.2%	1 mark

- b) Describe and account for the trend in business investment from 2013 – 2016. (4 marks)

Falling from 18.1% of GDP in 2013 to 12.1% in 2016 (must refer to data)	1 mark
Falling economic activity due to transition from the ToT boom – lower profits, lower confidence leading to lower investment	1 – 2 marks
High rates of investment in mining tapered off as commodity prices softened	1 – 2 marks

- c) With reference to a suitable diagram, explain how the trend described in part b would have affected the Australian economy. (6 marks)

AE diagram showing negative multiplier (AD/AS just showing a decrease in demand could get 1 mark)	1 – 2 marks
Falling AE leads to lower growth	1 – 2 marks
Higher unemployment as firms revise production plans downwards	1 – 2 marks
Lower inflation as demand softens and higher UE reduces pressure on wages	1 – 2 marks

Section Three: Extended answer

40% (40 Marks)

Question 28

(20 marks)

- a) Discuss the importance of the concept of international competitiveness and explain three key determinants of it. (10 marks)

Define competitiveness – ability to compete effectively in international markets	1 mark
Importance of competitiveness: need at least 2 valid reasons, e.g. <ul style="list-style-type: none"> • Higher per capita income • Higher living standards • Job creation 	1 – 3 marks
Determinants – 3 points, 2 marks each. Possible points include: <ul style="list-style-type: none"> • Productivity – higher productivity reduces costs, which improves competitiveness • Exchange rate – depreciation boosts competitiveness of exporters and domestic import competing firms • Relative inflation • High rates of investment • Unit labour costs 	1 – 6 marks

- b) Discuss three costs and three benefits of globalisation for the Australian economy. (10 marks)

Define globalisation	1 mark
Costs include (must refer to Australia): <ul style="list-style-type: none"> • Structural unemployment • Increased vulnerability to global business cycle • Loss of policy independence • Loss of some industries 	1 – 2 marks each
Benefits include (must refer to Australia); <ul style="list-style-type: none"> • Greater efficiency • Job creation in competitive industries • Higher living standards 	1 – 2 marks each

Question 29

(20 marks)

- a) With reference to suitable diagrams, explain how each of the following factors will affect Australia's exchange rate:
- i. An increase in Australia's interest rate differential
 - ii. A decrease in commodity prices
 - iii. An improvement in Australia's economic performance
- (12 marks)

4 marks for each scenario: 1 mark for the model, 3 marks for the explanation. <ol style="list-style-type: none"> i. Interest rates in Aust have increased relative to overseas so Aust is a more attractive destination for foreign investment. Demand for AUD increases, causing an appreciation. 	1 – 4 marks
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ii. Decreases the value of Australia's commodity exports, decreasing demand for AUD and causing a depreciation.	1 – 4 marks
iii. Increased spending on imports (increases supply of AUD) but may also have increased capital inflow as interest rates rise (increasing demand for AUD). Overall effect is ambiguous.	1 – 4 marks (must refer to both effects)

- b) Explain the effects of an exchange rate appreciation on consumers, businesses and the government budget balance. (8 marks)

Consumers – benefit since import prices fall	1 – 2 marks
Businesses: <ul style="list-style-type: none"> • Exporters lose as competitiveness falls • Importers gain (as do those who import capital equipment) 	1 – 4 marks
Budget balance falls as tax revenue falls (may also see spending increases to prop up the economy)	1 – 2 marks

Question 30

(20 marks)

- Discuss the causes and effects of the changes in Australia's terms of trade since 2012. (20 marks)

Definition of terms of trade, including equation and explanation	1 – 2 marks
Identification of trends: 2012 – 2015 (approx): ToT fell significantly 2016 – 2017: rose again as commodity prices recovered partially (may also mention fall in 2017-18)	1 – 2 marks
Causes: <ul style="list-style-type: none"> • Collapse of commodity prices reducing the XPI • Explain why commodity prices fell – link to softening demand from China and stronger supply 	1 – 6 marks
Effects of unfavourable movement: (need at least 4; up to 2 marks each) <ul style="list-style-type: none"> • Decrease in trade balance and increase in CAD (explain why) • Depreciation of the AUD (explain why) • AD decreases due to lower net exports • Lower growth and demand-pull inflation • Cost push inflation is uncertain • Higher UE • Decrease in national income (less imports can be purchased reducing living standards) • Investment and employment falls in the resource sectors due to decreased revenue 	1 – 8 marks
Effects of recent favourable movement	1 – 2 marks

Question 31**(20 marks)**

- a) With reference to suitable diagrams, demonstrate and explain the gains from specialisation and trade. (12 marks)

Diagrams showing gains from exports and imports	1 – 3 marks
Gains from exports explanation	1 – 3 marks
Gains from imports explanation	1 – 3 marks
General gains from specialisation & trade	1 – 3 marks

Must explain qty changes

- b) Explain the causes of Australia's persistent current account deficit. (8 marks)

Define CAD	1 mark
Structural causes: Investment-savings gap (resource rich, capital starved) Reliance on inflows of foreign investment	1 – 3 marks
Cyclical causes: Increased activity in Australia leads to higher capital & consumer imports May have falling competitiveness as a result of rising inflation May have rising interest rate differential leading to increased capital inflow	1 – 4 marks

Balance of trade is often positive