2003 HSC Notes from
the Marking Centre
Economics

Contents

2003 HSC NOTES FROM THE MARKING CENTRE
ECONOMICS

Introduction

This document has been produced for the teachers and candidates of the Stage 6 course in Economics. It provides comments with regard to responses to the 2003 Higher School Certificate Examination, indicating the quality of candidate responses and highlighting the relative strengths and weaknesses of the candidature in each section and each question.

It is essential for this document to be read in conjunction with the Economics syllabus, the 2003 Higher School Certificate Examination, the Marking Guidelines and other support documents which have been developed by the Board of Studies to assist in the teaching and learning of Economics.

In 2003, approximately 5167 candidates presented for the Economics examination. The examination contained questions from a range of HSC topic areas and provided ample scope for students to demonstrate their knowledge, understanding and skills in relation to the HSC course outcomes.

Section I – Multiple Choice

Question	Correct Response
1	C
2	C
3	C
4	A
5	D
6	B
7	B
8	D
9	D
10	A

Question	Correct Response
11	A
12	A
13	B
14	C
15	D
16	A
17	B
18	B
19	C
20	D

Section II – Short-answer questions

General comments

This section of the paper included questions that assessed candidates' knowledge and skills in relation to several course outcomes, including application of mathematical concepts (H11), understanding of economic terms and concepts (H1) and the application of terms, concepts and theories (H8). Responses generally indicated that the different demands of the key words such as *explain*, *outline*, *identify*, and *define* are well understood by the majority of candidates. There was evidence to suggest however that some candidates did not take time to fully interpret the data and stimulus material provided before answering the questions. This was particularly the case for Question 24, part (c).

Question 21

Most candidates answered the first two sections of the question well but were less able to correctly answer parts (c) and (d) of the question which focused on the Trade Weighted Index (TWI). Better responses included a succinct and correct definition of the term 'exchange rate' and in (b) identified two different possible reasons for the appreciation in the value of the Australian dollar illustrated in the table, eg an increase in the demand for Australian exports and an increase in purchase of shares in Australian companies by overseas investors. In the better responses to part (c), candidates commonly explained the Trade Weighted Index in terms of a basket of currencies. In part (d) better responses referred to the depreciation of the Australian dollar against major trading partners and included a clear explanation of the impact on two or more components of the Balance of Payments. Better responses also included the use of correct terminology to refer to the different accounts in the Balance of Payments and different items within the accounts.

Weaker responses frequently demonstrated confusion between the Trade Weighted Index and the terms of trade. They failed to demonstrate correct understanding of causes or impacts of changes in the value of the exchange rate, and did not refer to the components of the Balance of Payments.

Question 22

Candidates were generally able to calculate the level of real GDP for year 2 as $400 million and many responses illustrated the correct application of the formula:

Real GDP (year *x*) = Money GDP (year *x*) x 100/CPI (year *x*), where 100 is the CPI for Year 1 which in this question was the base year.

Responses that were not correct for part (a) commonly showed a number of incorrect mathematical operations and demonstrated lack of knowledge of the correct formula. Better responses to part (b) made reference to the concept of real GDP and a time period in the definition of economic growth.

Weaker responses failed to explain the ways in which an increase in productivity contributes to economic growth, stating simplistically that a link existed between the two. Better responses were more detailed in explaining the links between productivity, economic efficiency, real income and economic growth. In part (d), detailed explanations of how business firms and government could benefit from economic growth were provided in the better responses. Benefits to business firms included increased sales and profits, while benefits to government included taxation revenue and the capacity to improve welfare and other infrastructure.

Question 23

Candidates were generally able to correctly calculate the balance on the financial account as $17.7 billion although some candidates incorrectly included a negative sign. A range of factors that could increase a nation's Current Account Deficit were outlined in part (b), with better responses often referring correctly to the specific component of the Current Account that would be impacted upon, eg balance on goods and services or net income. In part (c) better responses demonstrated a clear understanding of the items that constitute net income in the Current Account, and the items that are recorded in the capital and financial account. Examples were used to explain that loans from overseas and the interest on those loans were recorded in different accounts. Other examples used to illustrate the relationship included overseas investment and dividend payments. Weaker responses in this part commonly provided general information about the Current Account Deficit and did not answer the question. In part (d) better responses detailed three or four specific effects of a sustained increase in the Current Account Deficit on the economy including, for example, the concept of debt servicing, constraints on future growth, negative impact on investor confidence, exchange rate depreciation and the potential for contractionary government policy adjustments.

Question 24

Candidates generally were able to outline one advantage and one disadvantage of using monetary policy to manage the economy. The relative ease of implementation was commonly identified as an advantage of monetary policy, while the time lag issue was commonly identified as a disadvantage. Parts (b) and (c) challenged candidates, with weaker responses failing to demonstrate an understanding of the way in which the Reserve Bank influences the cash rate through market operations in the short-term money market. Better responses demonstrated a sound understanding of these operations and the way in which changes in the cash rate influence other interest rates. Weaker responses to part (c) confused the demand and supply of cash with the demand and supply of Australian dollars, indicating some misreading of the question and the diagram. Better responses to this part provided clear explanations of the effects of a fall in the cash rate on both economic and activity and the exchange rate. These tended to be treated separately. Better responses were able to explain the links between the fall in the cash rate, increases in investment and consumption expenditure, and the resulting increase in output, employment and income. These candidates also explained that the decline in the general level of interest rates would reduce levels of investment from overseas and lead to a depreciation of the exchange rate.

Sections III and IV – General Comments

The general standard of responses to the questions in Sections III and IV indicated that candidates were well-prepared in relation to the Economics assessment rubrics which require them to apply economic terms, concepts, relationships and theory, to present sustained, logical and well-structured answers, and where appropriate to use economic data or the stimulus information provided.

Better responses generally indicated that these candidates were able to make links and connections *across* the four HSC Topics, rather than seeing each topic as being separate. This was particularly evident in the better responses to Question 27.

As in previous years there was evidence of some candidates presenting responses that were pre-prepared and which in some cases did not meet the full requirements of the question. Similarly some candidates appeared to overlook or ignore the specific economic terminology used in the

questions, such as 'economic and social problems' in Question 25, 'the *rate* of inflation' in Question 26, or 'economic performance' in Question 27.

Section III

General comments

It should be noted that the assessment rubric requires that candidates 'use (…) the economic information provided'. The stimulus material is selected in order to raise particular issues or suggest a particular area of investigation or focus within the question. Better responses tended to use the stimulus material effectively, making specific reference to it where appropriate throughout their responses.

Question 25

Candidates generally demonstrated a sound understanding of unemployment in their responses. However, in many cases responses focused on the *types* of unemployment rather than a discussion of the *causes* as required by the question.

Better responses featured a comprehensive and detailed discussion of the causes of unemployment, applying economic theory to illustrate the discussion where appropriate, eg demand and supply of labour. The impact of globalisation and labour market reforms were included in the analysis in better responses. Concepts such as the natural rate of unemployment, full employment, microeconomic reform and the international business cycle were integrated into the discussion and illustrated with diagrams. Economic statistics on unemployment in the Australian economy were incorporated into the better responses to indicate both the relative significance of different causes and to quantify aspects of the impact. Economic and social problems created by unemployment in the Australian economy were discussed in detail in the better responses, including the problems associated with long-term unemployment as suggested by the stimulus. In this part of the question, weaker responses tended to offer general and often lengthy descriptive information on the social problems caused by unemployment, with scant treatment of the economic problems.

The impact of unemployment on government budgets, particularly in relation to welfare spending and social security payments was discussed in better responses. These responses also included reference to the unemployment levels for different groups in the Australian economy and in some cases provided economic data on the age distribution of the unemployed in Australia and the relative unemployment rates for skilled versus unskilled workers, and for particular groups.

It is worth noting that the question specifically stated 'with reference to the Australian economy' and that weaker responses tended to neglect this context and write about unemployment generally.

Question 26

This question was generally well-answered by candidates, evidenced by the comprehensive and detailed nature of the discussion and the overall quality of the responses. Most candidates were able to discuss the various causes of inflation in terms of demand inflation, cost inflation, imported inflation and the role of inflationary expectations. The discussion of the policies available to the Australian Government to control the rate of inflation was, in better responses, linked to the causes. Better responses demonstrated a sound knowledge of macroeconomic policies to stabilise demand

in the case of demand-pull inflation, and the role of microeconomic policies in addressing cost, efficiency and supply issues.

Better responses included appropriate diagrams and reference to economic theory eg simple multiplier analysis, statistics and contemporary examples from the Australian economy. The limitations of the various policies in dealing with inflation, both in the short run and the long run, were also included in the discussion. These candidates also used the stimulus material effectively to discuss imported inflation and the impact of the exchange rate depreciation.

Weaker responses provided a single-sentence definition of a small number of causes of inflation but failed to discuss the related issues. These responses also were limited in the discussion of policy options, commonly referring to fiscal and monetary policy only briefly.

Section IV

Question 27

The majority of candidates chose this question and were generally well-prepared on various features of globalisation.

Most candidates were able to explain globalisation as a process, and use their knowledge of the Australian economy, or a case study of an economy other than Australia, to explain the impact of globalisation on economic performance. Better responses were able to effectively link the process of globalisation to economic performance, addressing a range of indicators such as employment, economic growth, external balance, trade, investment and the quality of life. They were able to use current data to support their answers and illustrate their arguments, eg annual growth in exports or foreign investment for the selected economy.

Better responses discussed government macroeconomic and microeconomic policy responses, either to show how governments responded to globalisation or how the pressures of globalisation forced adjustments to policy settings. The negative impacts of globalisation, eg on the quality of life, the environment or the distribution of income and wealth were also included in the more comprehensive explanations. The assessment rubric was well used by candidates who were able to demonstrate application of various economic terms, concepts, relationships and theory in their responses.

Weaker responses failed to link globalisation with economic performance, and featured general and sometimes brief descriptions of globalisation and its effects. These responses described the impact of globalisation on trade, its direction and composition, and on trading blocs, but failed to link these changes with external balance indicators such as the current account deficit, foreign debt, and fluctuations in exchange rates. These responses often confused economic performance and economic development.

Where responses were based on an economy other than Australia, it was apparent that better responses were based on economies where the impact of globalisation was more evident, eg China, Brazil, or Vietnam. In addition to these economies, many candidates chose to base their responses on Ireland, South Korea and Indonesia. The appropriateness of the chosen case study for this part of the course needs to be given careful consideration.

Question 28

Whilst this question was not as popular as Question 27, candidates who selected the question were generally knowledgeable about current labour market policies and recent labour market reforms. Better responses demonstrated a detailed understanding of Certified Agreements, Australian Workplace Agreements and the role of the Australian Industrial Relations Commission, and made reference to the shift from a centralised to a decentralised system of wage determination. Terms such as cost-push inflation and the wage-price spiral were used to illustrate the declining competitiveness of Australia in the 1980s as a context for changes in the direction of labour market policies.

Better responses provided a detailed explanation of the links between labour market policies, structural change and microeconomic reform in the Australian economy. Relevant statistics were used to illustrate changes in economic growth, unemployment, inflation, productivity and international competitiveness. Better responses also demonstrated an understanding of the global context of structural reform of the labour market, referring also to policies concerning training and education.

Responses generally demonstrated an understanding of the failures of the system in areas such as equity in the distribution of income, and the impact of industrial disputation in the bargaining period. Better responses utilised Gini coefficient analysis to illustrate the explanation of impact on income distribution.

Weaker responses failed to communicate a clear and correct understanding of the current industrial relations system and tended to discuss policies other than labour market policies, eg monetary and fiscal policy, or unemployment.

Economics

2003 HSC Examination Mapping Grid

Question	Marks	Content	Syllabus outcomes
1	1	International competitiveness	H1, H4, H7
2	1	Effect of subsidy	H1, H2, H4, H7
3	1	AWAS	H1, H2, H6, H7
4	1	Real GDP	H1, H6, H7, H8
5	1	Natural Rate Unemployment	H1, H7, H8
6	1	Business Cycle	H1, H2, H6, H7, H8
7	1	External stability	H1, H4, H8
8	1	Equilibrium income	H1, H8, H11
9	1	Aggregate Demand	H1, H8, H11
10	1	Budget Deficit	H1, H2, H7, H8
11	1	Depreciation	H1, H2, H5, H7
12	1	CPI Inflation	H1, H8, H11
13	1	Public/private goods	H1, H2, H7, H8
14	1	Multiplier	H1, H8, H11
15	1	Terms of Trade	H1, H8, H11
16	1	Balance of Payments	H1, H4, H8
17	1	Participation Rate	H1, H4, H7, H8, H11
18	1	Tariffs	H1, H4, H8, H11
19	1	Free Trade	H1, H4, H5
20	1	WTO	H1
21 (a)	2	Definition of Exchange Rate	H1
21 (b)	2	Appreciation of Exchange Rate	H1, H8
21 (c)	2	Measurement of relative exchange rates–individual currencies and TWI	H1, H8
21 (d)	4	Impact on economy of decline in TWI	H4, H7, H8

Question	Marks	Content	Syllabus outcomes
22 (a)	1	Calculate Real GDP	H11
22 (b)	2	Define economic growth	H1
22 (c)	3	Relationship between productivity and economic growth	H1, H2
22 (d)	4	Benefits of economic growth to businesses and government	H2, H7
23 (a)	1	Calculates value of financial account	H1, H11
23 (b)	2	Factors contributing to Current Account Deficit	H1, H4
23 (c)	3	Links between Capital and Financial Account and Net Income	H1, H8
23 (d)	4	Impact of Current Account Deficit on Economy	H1, H7, H8
24 (a)	2	Advantages and disadvantages of monetary policy	H1, H2, H5
24 (b)	4	Impact of changes in interest rates on economic activity and exchange rates	H1, H5, H6
24 (c)	4	Reserve Bank influencing changes in interest rates	H1, H2, H5, H6
25	20	Unemployment	H1, H7, H9, H10
26	20	Inflation	H1, H7, H9, H10
27	20	Globalisation	H1, H4, H5, H7
28	20	Labour market	H1, H5, H6, H7

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2003 HSC Economics
Marking Guidelines

Question 21 (a)
Outcomes assessed: H1

MARKING GUIDELINES

Criteria	Marks
• Correctly states the meaning and identifies the essential characteristics of the term 'exchange rate'	2
• Provides a partially correct meaning and characteristics of the term 'exchange rate'	1

Question 21 (b)
Outcomes assessed: H1, H8

MARKING GUIDELINES

Criteria	Marks
• Correctly recognises and names TWO possible reasons for the movement in the exchange rate from Year 1 to Year 2	2
• Correctly recognises and names ONE possible reason for the movement in the exchange rate from Year 1 to Year 2	1

Question 21 (c)

Outcomes assessed: H1, H8

MARKING GUIDELINES

Criteria	Marks
• Makes evident a reason for the exchange rate moving in the opposite direction to the Trade Weighted Index	2
• Demonstrates a limited understanding for the exchange rate moving in the opposite direction to the Trade Weighted Index	1

Question 21 (d)

Outcomes assessed: H4, H7, H8

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear and concise understanding of the relationship between the decline in the Trade Weighted Index between Year 3 and Year 4 and subsequent changes in Australia's Balance of Payments	4
• Demonstrates an understanding of the relationship between the decline in the Trade Weighted Index between Year 3 and Year 4 and subsequent changes in Australia's Balance of Payments	3
• Identifies the relationship between the decline in the Trade Weighted Index between Year 3 and Year 4 and changes in Australia's Balance of Payments	2
• States the decline in the Trade Weighted Index between Year 3 and Year 4 and makes limited reference to the impact of this decline on Australia's Balance of Payments	1

Question 22 (a)

Outcomes assessed: H11

MARKING GUIDELINES

Criteria	Marks
• Correctly calculates the real GDP for this economy as $400m (or simply 400)	1

Question 22 (b)

Outcomes assessed: H1

MARKING GUIDELINES

Criteria	Marks
• Correctly states the meaning and identifies the essential characteristics (including time period) of economic growth	2
• Provides a partially correct meaning and characteristics of economic growth	1

Question 22 (c)

Outcomes assessed: H1, H2

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear understanding of the relationship between an increase in productivity and the contribution it makes to economic growth	3
• Demonstrates an understanding of the relationship between an increase in productivity and the contribution it makes to economic growth	2
• Describes productivity and/or economic growth	1

Question 22 (d)

Outcomes assessed: H2, H7

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear and concise understanding of the relationship between economic growth and its derived benefits to business firms and government	4
• Demonstrates an understanding of the relationship between economic growth and its benefits to business firms and government	3
• Identifies the relationship between economic growth and its benefits to business firms and/or government	2
• Mentions economic growth and its benefits to business firms and/or government	1

Question 23 (a)

Outcomes assessed: H1, H11

MARKING GUIDELINES

Criteria	Marks
• Correctly calculates the balance on Financial Account to be 17.7bn, 17.7, +17.7 or $17.7	1

Question 23 (b)

Outcomes assessed: H1, H4

MARKING GUIDELINES

Criteria	Marks
• Correctly sketches in general terms and indicates the main features of TWO factors that could increase a Current Account deficit	2
• Correctly sketches in general terms and indicates the main features of ONE factor that could increase a Current Account deficit OR • Identifies TWO factors contributing to a Current Account deficit	1

Question 23 (c)

Outcomes assessed: H1, H8

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear understanding of the relationship between the Capital and Financial Account and Net Income in the Current Account	3
• Demonstrates an understanding of the relationship between the Capital and Financial Account and the Net Income in the Current Account	2
• States the relationship between the Capital and Financial Account and Net Income in the Current Account	1

Question 23 (d)
Outcomes assessed: H1, H7, H8

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear and concise understanding of how a sustained increase in the Current Account deficit could affect an economy	4
• Demonstrates an understanding of how a sustained increase in the Current Account deficit could affect an economy	3
• Describes how a sustained increase in the Current Account deficit could affect an economy	2
• Mentions a possible effect/s of an increase in the Current Account deficit on an economy	1

Question 24 (a)
Outcomes assessed: H1, H2, H5

MARKING GUIDELINES

Criteria	Marks
• Correctly sketches in general terms one advantage and one disadvantage of using monetary policy to manage the economy	2
• Correctly sketches in general terms either one advantage or one disadvantage of using monetary policy to manage the economy	1

Question 24 (b)
Outcomes assessed: H1, H5, H6

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear and concise understanding of how the Reserve Bank influences changes in the level of interest rates in the Australian economy	4
• Demonstrates an understanding of how the Reserve Bank influences changes in the level of interest rates in the Australian economy	3
• Identifies how the Reserve Bank influences changes in the level of interest rates in the Australian Economy	2
• Mentions the role of the Reserve Bank in influencing changes in the level of interest rates in the Australian economy	1

Question 24 (c)

Outcomes assessed: H1, H2, H5, H6

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear and concise understanding of how the movement in the cash rate from $0r_1$ to $0r_2$ affects the level of economic activity and the exchange rate	4
• Demonstrates an understanding of how the movement in the cash rate from $0r_1$ to $0r_2$ affects the level of economic activity and the exchange rate	3
• Identifies how the movement in the cash rate from $0r_1$ to $0r_2$ affects the level of economic activity and/or the exchange rate	2
• Mentions the movement in the cash rate from $0r_1$ to $0r_2$ and the effect on the level of economic activity and/or exchange rate	1

Question 25

Outcomes assessed: H1, H7, H9, H10

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear and concise understanding of the issues relating to the causes of unemployment and provides detailed information on the economic and social problems created by unemployment • Integrates appropriate economic terms, relevant concepts, relationships and theory • Synthesises own information with the information provided to develop a sustained, logical and well-structured response	17–20
• Demonstrates an understanding of the causes of unemployment and provides relevant information on the economic and social problems created by unemployment • Consistently uses appropriate economic terms, relevant concepts, relationships and theory • Uses own information and the information provided to develop a logical and well-structured response	13–16
• Describes the causes of unemployment and provides some relevant information on the economic and social problems created by unemployment • Uses appropriate economic terms, concepts and relationships • Uses own information and the information provided to develop a coherent response	9–12
• Outlines the causes of unemployment and provides limited information on the economic and social problems created by unemployment • Uses some appropriate economic terms, concepts and relationships • Uses information to develop a generalised response	5–8
• Lists the causes of unemployment and provides little if any information on the economic and social problems created by unemployment • Uses some economic terms and/or concepts • Presents a limited response	1–4

Question 26

Outcomes assessed: H1, H7, H9, H10

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear and concise understanding of the issues relating to the causes of inflation and provides detailed information on the policies available to the Australian government to control the rate of inflation • Integrates appropriate economic terms, relevant concepts, relationships and theory • Synthesises own information with the information provided to develop a sustained, logical and well-structured response	17–20
• Demonstrates an understanding of the causes of inflation and provides relevant information on the policies available to the Australian government to control the rate of inflation • Consistently uses appropriate economic terms, relevant concepts, relationships and theory • Uses own information and the information provided to develop a logical and well-structured response	13–16
• Describes the causes of inflation and provides some relevant information on the policies available to the Australian government to control the rate of inflation • Uses appropriate economic terms, concepts and relationships • Uses own information and the information provided to develop a coherent response	9–12
• Outlines the causes of inflation and provides limited information on the policies available to the Australian government to control the rate of inflation • Uses some appropriate economic terms, concepts and relationships • Uses information to develop a generalised response	5–8
• Lists the causes of inflation and provides little if any information on the policies available to the Australian government to control inflation • Uses some economic terms and/or concepts • Presents a limited response	1–4

Question 27

Outcomes assessed: H1, H4, H5, H7

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear and concise understanding of the impact of globalisation on the economic performance of the Australian economy or an economy other than Australia • Integrates appropriate economic terms, relevant concepts, relationships and theory • Synthesises economic data and other information to develop a sustained, logical and well-structured response	17–20
• Demonstrates an understanding of the impact of globalisation on the economic performance of the Australian economy or an economy other than Australia • Consistently uses appropriate economic terms, relevant concepts, relationships and theory • Uses economic data and other information to develop a logical and well-structured response	13–16
• Describes the impact of globalisation on the economic performance of the Australian economy or an economy other than Australia • Uses appropriate economic terms, concepts and relationships • Uses some economic data and other information to develop a coherent response	9–12
• Outlines the impact of globalisation on some aspects of economic performance of the Australian economy or an economy other than Australia • Uses some appropriate economic terms, concepts and relationships • Uses some economic information to develop a generalised response	5–8
• Mentions aspects of globalisation and/or economic performance of the Australian economy or an economy other than Australia • Uses some economic terms and/or concepts • Presents a limited response	1–4

Question 28

Outcomes assessed: H1, H5, H6, H7

MARKING GUIDELINES

Criteria	Marks
• Demonstrates a clear and concise understanding of the contribution of current labour market policies to the management of the Australian economy • Integrates appropriate economic terms, relevant concepts, relationships and theory • Synthesises economic data and other information to develop a sustained, logical and well-structured response	17–20
• Demonstrates an understanding of the contribution of current labour market policies to the management of the Australian economy • Consistently uses appropriate economic terms, relevant concepts, relationships and theory • Uses economic data and other information to develop a logical and well-structured response	13–16
• Describes the contribution of current labour market policies to the management of the Australian economy • Uses appropriate economic terms, concepts and relationships • Uses some economic data and other information to develop a coherent response	9–12
• Outlines the contribution of the current labour market policies to the management of the Australian economy • Uses some appropriate economic terms, concepts and relationships • Uses some economic information to develop a generalised response	5–8
• Mentions labour market policies. May or may not refer to their contribution to the management of the Australian economy • Uses some economic terms and/or concepts • Presents a limited response	1–4