

**2008 HSC Notes from
the Marking Centre
Economics**

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2008 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 contains comments on candidate responses to the 2008 Higher School Certificate examination, indicating the quality of the responses and highlighting their relative strengths and weaknesses.

This document should be read along with the relevant syllabus, the 2008 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 2008, 5411 candidates presented for the Economics examination.

Section I – Multiple choice

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

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

Section II

General comments

In the short answer section of the examination, candidates were required to answer a range of questions from topic areas such as economic growth, the multiplier, globalisation, economic development, structural change, microeconomic reforms, foreign debt and Australia's Balance of Payments. Some questions were supported by the use of stimulus material which candidates were required to use to assist them in answering the questions.

Question 21

- (a) This question required candidates to calculate the multiplier for an economy given an MPS (Marginal Propensity to Save) of 2.5. Most candidates were able to accurately calculate the multiplier as 4.
- (b) Better responses demonstrated a clear understanding of the multiplier concept and were concise in their application of economic terminology. Some referred to concepts such as MPC, MPS, injections, investment, consumption, spending and income. Candidates were able to achieve full marks in this question where they clearly understood the multiplier process, even if they had limited use of terminology.

Some more general responses were able to score full marks by the application of an appropriate numerical example to illustrate their understanding.

Weaker responses demonstrated a limited understanding of the multiplier concept and were vague in their application of appropriate economic terminology.

- (c) Better responses made a clear statement to indicate the effect of economic growth to which they were referring. There was an explicit link made between the economic growth outcome and the effect. Responses typically referred to the effect of economic growth on standard of living, the environment, inflation or unemployment.

Weaker responses simply stated an effect and/or made no explicit causal link between economic growth and the stated effect.

- (d) Better responses clearly and accurately explained one domestic and one global influence on economic growth and explicitly identified them as domestic or global in their origin. They included a range of economic terms, concepts, data and theory to support their response, providing causal links, thus demonstrating a clear understanding of the directive 'explain'. Responses typically identified domestic influences such as unemployment, inflation, drought, interest rates, exchange rates or microeconomic reform. Global influences included the global financial crisis, exchange rates, the global resources boom or the international business cycle. Some candidates referred to interest rates as a global influence, referring to interest rate differentials in the global economy.

Weaker responses demonstrated a generalised understanding. Some confused domestic and global influences, or included only domestic or global influences. Others included a generalised description of a range of domestic and/or global influences rather than a deeper explanation of one of each.

Question 22

- (a) Many responses stated correctly that Gross World Product referred to the total output or income in all economies, measured over a time period. A common inaccuracy was that the definition did not include a time frame.
- (b) Many responses correctly identified both one positive and one negative impact of globalisation on the environment.

Better responses typically sketched in general terms that negative externalities such as resource depletion or pollution were outcomes of faster economic growth related to globalisation. These responses also recognised the positive impact of closer integration of economies related to pressures to reduce emissions from global agreements such as the Kyoto Protocol.

Weaker responses referred to economic or social impacts rather than environmental impacts. These responses were not awarded a mark.

- (c) Many candidates accurately identified either a positive or negative impact of a Trans National Corporation (TNC) on a country.

Better responses typically provided characteristics and features related to the operation of either one TNC or TNCs generally, on the country chosen. Candidates who chose a developing country such as Brazil or China typically linked the operation of TNCs to inflows of foreign investment and resulting increased employment opportunities, technology transfers and/or economic growth. Some candidates linked TNC operations to negative environmental or social impacts, such as resource depletion or exploitation of the labour force.

Weaker responses typically sketched an impact in general terms, referring simply to TNCs' increasing employment or economic growth. In some cases the response referred to an impact on the TNC rather than the country identified.

- (d) The directive term 'evaluate' required candidates to go beyond a description of a strategy that would influence economic development and its effects on the country.

Better responses typically provided significant depth, relevant economic terms and explanation in order to fully evaluate the strategy identified. These responses often made a balanced judgement about how effective the strategy was on economic development, supporting their assertions with relevant evidence and/or trends, such as changes in HDI, literacy, Gini coefficient or GDP per capita. Again better responses clearly understood that an understanding of the impact on economic development went beyond policies that may lead to economic growth, but would include elements of standard of living, such as health, education, inequality and/or the environment.

The choice of case study country and the strategy chosen were often significant in that those candidates who chose middle income, developing economies, were generally in a better position to fully explain a strategy (often a government policy) and make judgements about its effectiveness on economic development, supported with relevant evidence. Countries such as China, Brazil, Poland, India and Vietnam were typical of those chosen by candidates who were able to fully evaluate the effectiveness of a strategy.

Candidates who chose to evaluate a strategy in a high income economy (such as the US or Germany) typically were able to refer to policies which would influence economic growth

rather than broader measures of development. Candidates who chose smaller, low income economies typically had difficulty in either identifying one strategy or providing evidence to support a judgement of the effectiveness of the strategy. As a result, these responses tended to be more generalised and were weaker responses. Candidates choosing to evaluate more than one strategy also tended to provide more generalised responses.

Question 23

- (a) Better responses provided a correct definition of structural change. However, a large number of candidates provided responses that demonstrated a limited understanding of this concept by describing the effects of structural change rather than providing a correct definition. Weaker responses provided relevant examples of structural change though this was not requested in the question.
- (b) The better responses in this part provided a relevant reason why a government implements microeconomic reform. Many candidates stated the goal of increased efficiency and productivity. Many of these candidates also showed the link between increased productivity with improved international competitiveness and higher economic growth.

Weaker responses gave demand management or stabilising the economy as a reason for microeconomic reform.

- (c) The better responses accurately described a limitation of microeconomic reform by stating the limitation and providing an examination of the characteristics of the limitation. Many candidates included time lags, cost of structural change, structural unemployment and widening of income inequality as valid limitations to microeconomic reform.

Weaker responses tended to state a limitation but did not provide an adequate description of the features or characteristics of that limitation. These responses also described limitations such as microeconomic reform being unsuited to managing demand within the economy or addressing economic problems experienced by the whole economy.

- (d) Better responses gave a description of the changes in their chosen area of deregulation (such as the floating of the Australian dollar and/or the entry of foreign banks, or the movement from centralised to decentralised wage fixing or enterprise bargaining) and then concentrated on examining at least two of the economic effects of these changes.

Weaker responses placed too much emphasis on describing the changes in their chosen area of deregulation and too little on examining the economic effects of those changes. A number of responses referred to the economic effects of deregulation in areas other than in labour or financial markets.

Question 24

- (a) Better responses provided a clear and concise definition of the term *direct foreign investment*. They referred to the fact that direct foreign investment was non-speculative, equity focused, achieved a greater than 10% share or a controlling interest in a firm and usually of a longer term duration.

Weaker responses ignored the significance of the word ‘direct’ in the definition, often confusing it with speculative investment and therefore provided a generalised definition of foreign investment.

- (b) Better responses referred to the data in the table provided. These responses demonstrated effective use of the data through quoting and interpreting the figures and in many cases made calculations using the figures to further strengthen their arguments. Better responses showed a clear and concise understanding of the components of the net incomes account and effectively demonstrated how the net incomes account impacted on the overall balance of the current account.

Weaker responses tended to either refer to the data sparingly or not at all. These responses were more descriptive in nature and whilst they showed some understanding of the components of the net incomes account, they did not establish the connection between the net incomes account and its impact on the current account balance.

- (c) The third part of the question asked candidates to analyse two possible economic consequences of foreign debt for an economy. Better responses articulated two clear and concise economic consequences of foreign debt for an economy using appropriate economic terminology. The consequences of foreign debt for an economy could have been analysed as either being positive or negative, with the vast majority of candidates choosing to answer the question using just negative consequences. Better responses established a strong causal link between the size of the foreign debt and its impact, either positive or negative, on the economy. Examples included such things as debt servicing, credit rating issues, the need for capital stock and the role of foreign capital in supplementing Australia’s poor savings record.

Weaker responses tended to either describe or just list features of foreign debt. Some provided just one consequence. There was little if any attempt to provide a direct link between foreign debt and a possible impact, positive and/or negative, on an economy. These responses used generalised expressions instead of appropriate economic terminology. Weaker responses also confused foreign debt with budget deficits or simply wrote of foreign debt as being the difference between exports and imports.

Section III

Question 25

The stimulus referred to the role of international organisations (WTO and IMF); trading blocs and bilateral and multilateral agreements in promoting globalisation. Candidates could have viewed the role of each group in either a positive or negative light but the majority concentrated on the positive aspects of these groups in promoting globalisation.

Better responses provided an actual discussion of whether or not international organisations (eg WTO, IMF, World Bank) trading blocs (eg ECU, NAFTA) and trade agreements (eg ASEAN, CERTA) promoted globalisation. In arguing points for and/or against they were able to include quite recent material on the efficiency of the Doha Round; cases of IMF funding; development programs of the World Bank; and the implications for member and non-member countries belonging to a trade bloc and/or trade agreement.

Better responses made an evaluation of the significance of these organisations, trading blocs and trade agreements in promoting globalisation. This judgment formed a ‘theme’ that was developed through the whole response with statistical evidence and recent examples used to argue their points. These responses also included comprehensive knowledge of international organisations, trading blocs and agreements, their formation and how they either contributed to, or did not contribute to, promoting globalisation.

Better responses presented a detailed discussion in relation to the achievements and criticisms of international organisations, trading blocs and trade agreements. They dealt adequately with each group and demonstrated an obvious understanding of each role in relation to promoting, or not promoting, globalisation. Finally they provided a clear and concise conclusion which summarised their arguments and addressed the question directly.

Weaker responses did not discuss but were descriptive of the international organisations, trading blocs and agreements. Many restated the stimulus without discussing the role of these groups in promoting globalisation. Their responses were limited to ‘textbook’ knowledge with little relationship to current examples and cases.

Weaker responses did not link these groups to their role in promoting or not promoting globalisation. They provided a general sentence referring to the ‘promotion of globalisation’ without integrating relevant evidence to support their argument. They often outlined features of free trade and/or protection (eg tariffs, quotas, subsidies, etc) and they included several errors of fact.

Question 26

The majority of responses made use of, or referred to, the data provided and generally recognised some of the positive and negative links between these indicators and the appreciation of the \$A.

Better responses made excellent use of the stimulus data provided and integrated it into their discussion. As well, they demonstrated a comprehensive knowledge and understanding of the positive and negative effects of an appreciating \$A on Australia’s internal and external economic stability. Better responses also highlighted the appropriateness and limitations of economic theory and government policies in relation to this topic. Also, these responses supported their argument with reference to Australia’s recent economic performance and the world financial crisis.

Weaker responses were often prepared answers on exchange rates which explained causes of appreciation and depreciation of the \$A. These responses offered a limited or sketchy discussion of the effects of an appreciating \$A and tended to be a general outline of some points relevant to the question. Some overused and/or copied the stimulus material and lacked detail and economic data to support their argument.

Section IV

Question 27

Candidates demonstrated that they knew that the term ‘evaluate’ required them to make a judgement about the success and/or failure of fiscal policy in addressing Australia’s economic objectives.

Better responses made a clear judgement with regard to a range of economic objectives, referring to and distinguishing between internal and external objectives. While it was not necessary to provide a balanced account of all objectives, the better responses did cover comprehensively the objectives listed in the syllabus. These responses integrated these objectives, noting that often they were conflicting and trade-offs had to occur. They developed a range of arguments to support this, combining both economic data and theory. These responses also demonstrated excellent literary skills, supporting their judgements in a sophisticated, sustained and logical manner.

Better responses referred to both the discretionary and non-discretionary components of fiscal policy, emphasising the role of automatic stabilisers as an inbuilt tool which increased the effectiveness of fiscal policy. A range of budget outcomes were explored and the impact of both the multiplier and the MPC were incorporated. These responses identified time constraints and political objectives as limiting factors. In addition, they recognised that other policy options, such as monetary policy and microeconomic reform, were often more successful in achieving Australia’s economic objectives. Another discriminating feature of better responses was the incorporation of the current financial crisis which was related to the government’s proactive stance in releasing part of the budget surplus to lower income families to stimulate economic activity in Australia.

Weaker responses often did not cover a range of objectives and were sketchy in their treatment, making generalised comments. There was little or no reference to current or recent budgets and little attempt to relate budgetary outcomes to economic objectives. Often the weaker responses were brief and confused fiscal policy with monetary policy. These responses did not incorporate data and made no reference to any economic theory.

Question 28

Those candidates who provided a clear judgement of how successful monetary policy was in achieving economic objectives achieved the higher mark ranges.

Better responses evaluated a range of economic objectives. Equal emphasis was not required of all objectives listed in the syllabus, but the ones evaluated were often backed by economic data (contemporary and/or historical), statistics and theory. These responses indicated clear linkages between concepts and/or the distortion of effectiveness when there was a conflict of objectives and could reflect on the relationship between objectives, for example when addressing the effectiveness of monetary policy when dealing with inflation that was not demand driven but rather the result of capacity constraints or the relative ineffectiveness of monetary policy when dealing with external

stability. When evaluating the effect of monetary policy these responses often compared other policy options or a combination of policies such as fiscal policy and microeconomic reform as being more successful in achieving a particular economic objective.

Candidates used a variety of examples to illustrate the connections of monetary policy to objectives and provided economic data to support these relationships. Some looked at advantages/disadvantages of using monetary policy and most provided detail and elaboration of theory. Some answers looked at what monetary policy had achieved and why it was necessary to implement in contemporary settings as well as looking at the conflict of objectives. Better responses gave a clear judgement on the effectiveness of monetary policy. Some evaluated the effectiveness of each objective while others provided an overall view, but they did establish a definite judgement based on their supporting arguments.

Weaker responses often just provided some information about the operation of monetary policy and looked very briefly at one or two economic objectives. Candidates showed an incorrect understanding of monetary policy and often confused interest rates and exchange rates or the Reserve Bank of Australia's (RBA) 'dirtying of the float' with monetary policy influence on the \$A. Some of the weaker responses seemed to be prepared responses on inflation or the operation of monetary policy and did not address the policy's effectiveness.

Economics

2008 HSC Examination Mapping Grid

Question	Marks	Content	Syllabus outcomes
Section I			
1	1	Topic One – development	H1
2	1	Topic Four – monetary policy	H2, H6, H1
3	1	Topic Three – environmental management	H1
4	1	Topic Two – balance of payments	H2, H7, H1
5	1	Topic Two – balance of payments	H11, H1
6	1	Topic One – protection	H6, H1
7	1	Topic Three – unemployment	H1, H7
8	1	Topic Four – labour market	H1, H6
9	1	Topic Four/Two – trade policy – protection	H1, H6, H11
10	1	Topic Two – exchange rates	H1, H7
11	1	Topic Three – income distribution	H1, H11
12	1	Topic Four – Fiscal Policy	H1, H5, H6
13	1	Topic Three – unemployment	H1, H11
14	1	Topic Three – environmental management	H1, H2, H7
15	1	Topic Two – terms of trade	H1, H4, H7
16	1	Topic Four – labour market	H1
17	1	Topic Three – income distribution	H1, H7
18	1	Topic Three/Four – unemployment	H1, H5
19	1	Topic Three – economic growth	H1, H11, H7
20	1	Topic Three – environmental management	H1, H7

Question	Marks	Content	Syllabus outcomes
Section II			
21 (a)	1	Topic Three – economic growth	H1, H11
21 (b)	2	Topic Three – economic growth	H1, H11
21 (c)	2	Topic Three – economic growth	H1
21 (d)	5	Topic Three – economic growth	H1, H4, H9
22 (a)	2	Topic One – gross world product	H1
22 (b)	2	Topic One – globalisation	H1, H4
22 (c)	2	Topic One – translational corporation	H1, H4
22 (d)	4	Topic One – economic development	H1, H4, H5, H8
23 (a)	2	Topic Four – structural change	H1
23 (b)	2	Topic Four – microeconomic reform	H1, H6
23 (c)	2	Topic Four – limitations of microeconomic reform	H1, H7
23 (d)	4	Topic Four – deregulation	H1, H2, H6, H7
24 (a)	2	Topic Two – foreign direct investment	H1
24 (b)	3	Topic Two – balance of payments	H1, H8, H9, H11
24 (c)	5	Topic Two – foreign debt	H1, H7, H8
Section III			
25	20	Topic One – international organizations and trading blocs	H2, H3, H4, H7, H9, H10
26	20	Topic Two – exchange rates	H2, H4, H7, H8, H9, H10
Section IV			
27	20	Topic Four – fiscal policy	H2, H6, H7, H10
28	20	Topic Four – monetary policy	H2, H6, H7, H10



2008 HSC Economics Marking Guidelines

The following marking guidelines were developed by the examination committee for the 2008 HSC examination in Economics, and were used at the marking centre in marking student responses. For each question the marking guidelines are contained in a table showing the criteria associated with each mark or mark range. For some questions, 'Sample Answers' or 'Answers may include' sections are included. These are developed by the examination committee for two purposes. The committee does this:

- (1) as part of the development of the examination paper to ensure the questions will effectively assess students' knowledge and skills, and
- (2) in order to provide some advice to the Supervisor of Marking about the nature and scope of the responses expected of students.

The examination committee develops the marking guidelines concurrently with the examination paper. The 'Sample Answers' or similar advice are not intended to be exemplary or even complete answers or responses. As they are part of the examination committee's 'working document', they may contain typographical errors, omissions, or only some of the possible correct answers.

The information in the marking guidelines is further supplemented as required by the Supervisor of Marking and the senior markers at the marking centre.

A range of different organisations produce booklets of sample answers for HSC examinations, and other notes for students and teachers. The Board of Studies does not attest to the correctness or suitability of the answers, sample responses or explanations provided. Nevertheless, many students and teachers have found such publications to be useful in their preparation for the HSC examinations.

A copy of the Mapping Grid, which maps each question in the examination to course outcomes and content as detailed in the syllabus, is also included.

Section II

Question 21 (a)

Outcomes assessed: H1, H11

MARKING GUIDELINES

Criteria	Marks
• States the value of the multiplier as 4	1

Sample answer:

4

Question 21 (b)

Outcomes assessed: H1, H11

MARKING GUIDELINES

Criteria	Marks
• Clearly provides how the multiplier process can increase national income	2
• Demonstrates a limited understanding of the multiplier	1

Sample answer:

The multiplier process ensures that incomes will ultimately rise by much more than the initial injection, because any injection will create income which will encourage spending thus increasing income and consumption further. (eg $\Delta Y = k \times \Delta I$)

Answers could include:

- equation demonstrating process
- consumption expenditure
- injections
- MPC, MPS
- Limiting sum

Question 21 (c)

Outcomes assessed: H1

MARKING GUIDELINES

Criteria	Marks
• Sketches in general terms ONE effect of economic growth on an economy	2
• Demonstrates a limited understanding of ONE effect of economic growth on an economy	1
OR	
• States ONE correct effect of economic growth on an economy	

Sample answer:

Higher economic growth can create additional employment opportunities. This leads to higher incomes for those who were previously unemployed or underemployed.

Answers could include:

- living standards
- inflation
- external stability
- income distribution
- environmental degradation

Question 21 (d)

Outcomes assessed: H1, H4, H9

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a clear, concise understanding of how ONE domestic and ONE global influence affect Australia's economic growth	4-5
<ul style="list-style-type: none">• Demonstrates some understanding of how ONE domestic and ONE global influence affect Australia's economic growth OR <ul style="list-style-type: none">• Demonstrates a clear and concise understanding of how either ONE domestic or ONE global factor influence affects Australia's economic growth and sketches in general terms the other	3
<ul style="list-style-type: none">• Sketches in general terms either ONE domestic or ONE global influence affecting Australia's economic growth OR <ul style="list-style-type: none">• Sketches in general terms ONE domestic and ONE global influence affecting economic growth without specific reference to Australia	2
<ul style="list-style-type: none">• States a domestic and/or global influence on Australia's economic growth OR <ul style="list-style-type: none">• Lists some changes in Australia's economic growth	1

Sample answer:

Australia has experienced sustained economic growth over the last decade. This increase in GDP can be attributed to both domestic and global influences.

Domestically, the federal government has increased the tax free threshold and has lowered the marginal tax rates across all income levels. This has increased aggregate demand, increased production and has led to a decrease in the unemployment rate.

Globally, Australia has benefited from an increase in world commodity prices that has been driven by greater demand by China and India. This has led to an increase in investment in the mining sector, as profits have increased.

Answers could include:

- changes to exchange rate
- bird flu
- terrorism
- Olympics
- interest rate changes
- fiscal policy
- terms of trade
- business and consumer confidence
- commodity boom
- asset price boom (housing, share prices)
- microeconomic reform/deregulation

Question 22 (a)

Outcomes assessed: H1

MARKING GUIDELINES

Criteria	Marks
• Correctly states what is meant by the term <i>gross world product</i>	2
• Demonstrates a limited understanding of the meaning of the term, <i>gross world product</i>	1

Sample answer:

Gross World Product is the sum of total output by all economies in the world over a period of time.

Answers could include:

- GNP
- GDP

Question 22 (b)

Outcomes assessed: H1, H4

MARKING GUIDELINES

Criteria	Marks
• Sketches in general terms ONE positive and ONE negative impact of globalisation on the environment	2
• Sketches in general terms ONE positive or ONE negative impact of globalisation on the environment OR • Lists ONE positive and ONE negative impact of globalisation on the environment	1

Sample answer:

One positive impact is that globalisation may make it possible for the costs of environment preservation to be shared among all countries.

One negative impact is that globalisation may encourage low-income countries to water-down regulations in order to attract FDI.

Answers could include:

- deforestation
- carbon dioxide emissions
- pollution
- greenhouse effect
- more trade leads to greater consumption of non-renewable fuels
- increased scrutiny of TNCs
- international enforcement
- Kyoto Protocol
- clean technology
- moral persuasion

Question 22 (c)

Outcomes assessed: H1, H4

MARKING GUIDELINES

Criteria	Marks
• Clearly provides characteristics and features of ONE impact of TNCs on a country other than Australia	2
• Sketches in general terms ONE impact of TNCs on a country other than Australia OR • Clearly provides characteristics and features of ONE impact of TNCs	1

Sample answer:

The growth of TNCs in Poland has increased due to its integration into the global economy. TNCs have enabled Poland to attract greater FDI flows which has promoted domestic production and employment and encourages technology transfers to Polish business.

Answers could include:

- low wage levels
- productivity growth
- lower tax rates
- economic growth
- labour laws
- exploitation
- cultural integration

Question 22 (d)

Outcomes assessed: H1, H4, H5, H8

MARKING GUIDELINES

Criteria	Marks
• Makes a clear and concise judgement, using appropriate criteria, of the effectiveness of ONE strategy used to promote economic development in a country other than Australia	4
• Makes a sound judgement, using criteria, of the effectiveness of ONE strategy used to promote economic development in a country other than Australia	3
• Provides characteristics of ONE strategy used to promote economic development in a country other than Australia	2
• States ONE strategy used to promote economic development	1

Sample answer:

In 2004 Poland joined the European Union. This has enabled Poland to gain greater access to high-income consumer markets. In its early years of membership Poland experienced an increase in the growth of exports, an increase in tourism and an increase in economic growth by 5.4%. Economic development improved due to the increased CAP payments that are targeted to food safety, health and environmental standards. However, in gaining EU membership the free movement of labour between member nations may cause a ‘brain drain’ of Poland’s most productive people to other EU nations. Poland is still facing challenges to improve its living standards as it integrates further with the EU.

Answers could include:

- macro and micro economic policy
- taxation reform
- membership WTO
- special economic zones
- improvements in infrastructure
- improvements in human and physical capital
- encouraging domestic savings and investment
- HDI
- standards of living

Question 23 (a)*Outcomes assessed: H1***MARKING GUIDELINES**

Criteria	Marks
• Correctly states what is meant by <i>structural change</i>	2
• Demonstrates a limited understanding of the meaning of <i>structural change</i> AND/OR • Provides a relevant example	1

Sample answer:

Structural change is the process which involves changes to the pattern of production in an economy over a period of time.

Answers could include:

- micro economic reform
- production methods
- automation
- efficiency
- obsolete industries
- productivity

Question 23 (b)*Outcomes assessed: H1, H6***MARKING GUIDELINES**

Criteria	Marks
• Provides a relevant reason(s) why a government might implement microeconomic reform	2
• Demonstrates a limited understanding of why a government may implement microeconomic reform	1

Sample answer:

Governments may implement MER to create a more efficient allocation of resources in factor and product markets. The main goal of MER is to increase productivity.

Answers could include:

- allocative efficiency
- technical efficiency
- dynamic efficiency
- supply side economics
- structural change

Question 23 (c)

Outcomes assessed: H1, H7

MARKING GUIDELINES

Criteria	Marks
• Clearly provides characteristics and features of ONE limitation of micro economic reform	2
• Sketches in general terms ONE limitation of micro economic reform	1

Sample answer:

One limitation of micro economic reform is the time lags involved in implementing the reform and the delay for the effects of the reform to be felt in the economy.

Answers could include:

- structural unemployment
- political constraints
- cost constraints
- global influences
- legislative requirements

Question 23 (d)

Outcomes assessed: H1, H2, H6, H7

MARKING GUIDELINES

Criteria	Marks
• Clearly and concisely inquires into the economic effects of financial OR labour market deregulation in Australia	4
• Inquires into the economic effects of financial OR labour market deregulation in Australia	3
• Sketches in general terms the effects of financial OR labour market deregulation in Australia	2
• Lists the effects of financial OR labour market deregulation in Australia	1

Sample answer:

The deregulation of the financial market involved the floating of the \$A, removal of RBA direct monetary controls over banks and the removal of barriers to foreign banks entering Australia. This resulted in an increase in competition between financial enterprises.

Consumers have a much greater choice in selecting products that suit their needs. In the mortgage and credit card market both consumers and businesses pay lower prices for their access to finance. Overall, the deregulation of the financial market promoted a more innovative, efficient and diverse industry.

Answers could include:

- exchange rates
- entry of foreign banks
- multi-skilling
- enterprise bargaining
- AWAs
- awards
- productivity
- international competitiveness
- wage relativities
- union power
- work choices
- flexibility
- participation rates

Question 24 (a)

Outcomes assessed: H1

MARKING GUIDELINES

Criteria	Marks
• Correctly states what is meant by the term <i>foreign direct investment</i> (FDI)	2
• Demonstrates a limited understanding of the meaning of the term <i>foreign direct investment</i> (FDI)	1

Sample answer:

This refers to buying a foreign company or buying 10% or more of shares in a foreign company, that is, a controlling stake.

Answers could include:

- flow of funds between economies
- long term investment

Question 24 (b)

Outcomes assessed: H1, H8, H9, H11

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none">• With reference to the data demonstrates a clear and concise understanding of how net income affects the current account balance	3
<ul style="list-style-type: none">• With reference to the data sketches in general terms how net income affects the current account balance <p>OR</p> <ul style="list-style-type: none">• Without reference to the data demonstrates a clear and concise understanding of how net income affects the current account balance	2
<ul style="list-style-type: none">• Sketches in general terms how net income affects the current account balance	1

Sample answer:

In 2006–2007, net income represented 79% of the CAD. This is mainly due to the large income debit resulting from the payment of interest on Australia's large foreign debt. The income debit also reflects the large dividend payments made by Australian companies (especially in mining companies) to foreign investors. This creates a CAD which must be financed by debt and equity borrowings which creates a surplus on the capital and financial account.

Answers could include:

- low level of savings
- interest rates
- net foreign equity
- portfolio investment
- profits
- TWCs

Question 24 (c)*Outcomes assessed: H1, H7, H8***MARKING GUIDELINES**

Criteria	Marks
<ul style="list-style-type: none">• Draws out and relates clearly, accurately and concisely TWO possible economic consequences of foreign debt for an economy	4-5
<ul style="list-style-type: none">• Draws out and relates TWO possible economic consequences of foreign debt for an economy OR <ul style="list-style-type: none">• Draws out and relates clearly, accurately and concisely ONE economic consequence of foreign debt for an economy and sketches in general terms the other	3
<ul style="list-style-type: none">• Sketches in general terms TWO economic consequences of foreign debt or an economy OR <ul style="list-style-type: none">• Draws out and relates ONE possible economic consequence of foreign debt for an economy	2
<ul style="list-style-type: none">• Correctly states what is meant by the term foreign debt OR <ul style="list-style-type: none">• List some economic consequences of foreign debt	1

Sample answer:

A high foreign debt can impact negatively on a country's credit rating if international borrowers lose confidence in the country's ability to make payments. This can lead to creditors charging a risk premium (ie, a higher interest rate) on loans made to the country. This increases the cost of repayments and worsens the CAD leading to a "debt trap" scenario which adds further to the country's debt.

Increased foreign debt can increase economic growth by allowing the importing of foreign capital. Australia often needs to import capital as there are low levels of savings domestically. As such, in order to develop infrastructure Australia borrows from overseas. These borrowings can increase Australia's productive capacity, increasing employment and income.

Answers could include:

- external shocks
- benefits of foreign debt
- debt productive capacity
- Pitchford argument
- economic policies
- national savings
- volatility in international markets
- case studies scenarios

Section III

Question 25

Outcomes assessed: H2, H3, H4, H7, H9, H10

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none">• Synthesises own knowledge with information provided to develop a sustained logical and well structured response• Integrates extensive and appropriate range of economic terms with relevant concepts, relationships and theory• Provides clear and comprehensive arguments identifying points for and/or against the influence of international organisations and contemporary trading blocs and agreements in promoting globalisation	17–20
<ul style="list-style-type: none">• Synthesises own knowledge with information provided to develop a logical and well structured response• Integrates appropriate range of economic terms with relevant concepts, relationships and theory• Provides sound arguments, identifying points for and/or against the influence of international organisations and contemporary trading blocs and agreements in promoting globalisation <p>OR</p> <ul style="list-style-type: none">• Clearly and comprehensively identifies points for and/or against the influence of either international organisations OR contemporary trading blocs and agreements in promoting globalisation and sketches in general terms arguments for the other	13–16
<ul style="list-style-type: none">• Uses own knowledge with information provided to develop a coherent response• Applies appropriate economic terms, concepts and relationships• Sketches in general terms arguments identifying points for and/or against the influence of international organisations and contemporary trading blocs and agreements in promoting globalisation	9–12
<ul style="list-style-type: none">• Uses information to develop a generalised response• Uses some appropriate economic terms, concepts and relationships• Sketches in general terms points for and/or against the role of either international organisations or contemporary trading blocs and agreements in promoting globalisation	5–8
<ul style="list-style-type: none">• Presents a limited response• Uses some economic terms and/or concepts• Lists some international organisations and/or trading blocs/agreements	1–4

Question 25 continues on next page

Question 25 (continued)***Answers could include:***

- protectionism
- advantages/disadvantages of free trade
- multilateral, bilateral agreements
- ECU, NAFTA, APEC, CERTa, ASEAN
- WTO, World Bank, IMF
- trade flows
- capital and investment flows
- labour mobility
- technology
- G8
- global integration
- exchange rates
- retaliation
- Uruguay Round, Doha Round
- GATT
- trade liberalisation
- international financial stability
- deregulation
- financial flows
- world GDP
- economic development/growth
- political constraints
- time lags

Question 26*Outcomes assessed: H2, H4, H7, H8, H9, H10***MARKING GUIDELINES**

Criteria	Marks
<ul style="list-style-type: none">• Synthesises own knowledge with the information provided to develop a sustained, logical and well structured response• Integrates extensive and appropriate range of economic terms with relevant concepts, relationships and theory• Provides clear and comprehensive arguments identifying points for and/or against the effects of an appreciation of the Australian dollar on Australia's internal and external stability	17–20
<ul style="list-style-type: none">• Synthesises own knowledge with the information provided to develop a logical and well structured response• Integrates appropriate range of economic terms with relevant concepts, relationships and theory• Provides sound arguments, identifying points for and/or against the effects of an appreciation of the Australian dollar on Australia's internal and external stability <p>OR</p> <ul style="list-style-type: none">• Provides clear and concise arguments identifying points for and/or against the effects of an appreciation of the Australian dollar on either Australia's internal or external stability AND sketches in general terms arguments, identifying points for and/or against the effects of an appreciation of the Australian dollar on the other	13–16
<ul style="list-style-type: none">• Uses own knowledge with information provided to develop a coherent response• Applies appropriate economic terms, concepts and relationships• Sketches in general terms arguments identifying points for and/or against the effects of an appreciation of the Australian dollar on Australia's internal and external stability	9–12
<ul style="list-style-type: none">• Uses information to develop a generalised response• Uses some appropriate economic terms, concepts and relationships• Sketches in general terms, arguments identifying points for and/or against the effects of an appreciation of the Australian dollar on either Australia's internal or external stability	5–8
<ul style="list-style-type: none">• Presents a limited response• Uses some economic terms and/or concepts• Lists some effects of appreciation of the exchange rate on either internal or external stability	1–4

Question 26 continues on next page

Question 26 (continued)***Answers could include:***

- improvement in CAD
- exports and imports
- servicing debt
- foreign investment
- financial flows
- dividend payments
- company profits
- inflation
- unemployment
- international competitiveness
- interest rates
- economic growth
- tax revenue
- net equity
- import competing/export competing industries

Section IV

Question 27

Outcomes assessed: H2, H6, H7, H10

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none"> Develop comprehensive economic arguments in a sustained, logical and well structured response Integrates extensive and appropriate range of economic terms with relevant concepts, relationships, theories and use of economic data Provides a clear judgement based on criteria about the effectiveness of fiscal policy in achieving Australia's economic objectives 	17–20
<ul style="list-style-type: none"> Develops sound economic arguments in a logical and well structured response Integrates appropriate range of economic terms with relevant concepts, relationships, theory and use of economic data Provides a sound judgement of the effectiveness of fiscal policy in achieving Australia's economic objectives 	13–16
<ul style="list-style-type: none"> Develops a coherent response Applies appropriate economic terms, concepts and relationships Sketches in general terms the effectiveness of fiscal policy in achieving Australia's economic objectives 	9–12
<ul style="list-style-type: none"> Develops a generalised response Uses some appropriate economic terms, concepts and relationships Sketches in general terms aspects of fiscal policy and economic objectives 	5–8
<ul style="list-style-type: none"> Presents a limited response Uses some economic terms and/or concepts Lists some economic policies and/or objectives 	1–4

Answers could include:

- government revenue and expenditure
- fiscal surplus/deficit
- expansionary/contractionary stance
- aggregate demand/economic activity
- discretionary and non-discretionary changes
- income tax brackets
- social welfare
- income and wealth inequality
- multiplier
- time lags
- political constraints
- conflicting objectives
- GDP
- Lorenz curve
- equitable distribution income/wealth
- social problems
- welfare organisations
- non-cash benefits
- taxation benefits/ concessions
- superannuation
- unemployment rate
- inflation
- external stability
- environmental protection
- ESD
- Gini coefficient

Question 28

Outcomes assessed: H2, H6, H7, H10

MARKING GUIDELINES

Criteria	Marks
<ul style="list-style-type: none"> • Develops comprehensive economic arguments in a sustained, logical and well structured response • Integrates extensive and appropriate range of economic terms with relevant concepts, relationships, theories and use of economic data • Provides a clear judgement based on criteria about the effectiveness of monetary policy in achieving Australia's economic objectives 	17–20
<ul style="list-style-type: none"> • Develops sound economic arguments in a logical and well structured response • Integrates appropriate range of economic terms with relevant concepts, relationships, theory and use of economic data • Provides a sound judgement of the effectiveness of monetary policy in achieving Australia's economic objectives 	13–16
<ul style="list-style-type: none"> • Develops a coherent response • Applies appropriate economic terms, concepts and relationships • Sketches in general terms the effectiveness of monetary policy in achieving Australia's economic objectives 	9–12
<ul style="list-style-type: none"> • Develop a generalised response • Uses some appropriate economic terms, concepts and relationships • Sketches in general terms aspects of monetary policy and economic objectives 	5–8
<ul style="list-style-type: none"> • Presents a limited response • Uses some economic terms and/or concepts • Lists some economic policies and/or objectives 	1–4

Answers could include:

- | | |
|---|--|
| <ul style="list-style-type: none"> • interest rates • RBA • tightening and loosening monetary policy • aggregate demand/economic activity • GDP • inflationary targeting • transmission mechanism • multiplier • price stability • consumer and investment spending • employment | <ul style="list-style-type: none"> • time lags • political constraints • global constraints • conflicting objectives • CPI • underlining rate, headline rate • distribution of income • environmental protection • ESD • unemployment rate • external stability |
|---|--|