



B O A R D O F S T U D I E S
NEW SOUTH WALES

2011 Economics HSC Examination 'Sample Answers'

When examination committees develop questions for the examination, they may write 'sample answers' or, in the case of some questions, 'answers could include'. The committees do this to ensure that the questions will effectively assess students' knowledge and skills.

This material is also provided to the Supervisor of Marking, to give some guidance about the nature and scope of the responses the committee expected students would produce. How sample answers are used at marking centres varies. Sample answers may be used extensively and even modified at the marking centre OR they may be considered only briefly at the beginning of marking. In a few cases, the sample answers may not be used at all at marking.

The Board publishes this information to assist in understanding how the marking guidelines were implemented.

The 'sample answers' or similar advice contained in this document 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.

Section II

Question 21 (a)

Sample answer:

The role of the World Trade Organisation is to promote global trade by encouraging member countries to reduce barriers to trade.

Answers could include:

- Make multilateral and bilateral trade agreements
- Resolve trade disputes
- Reduction/removal of protection, tariffs, subsidies, quotas, etc

Question 21 (b)

Sample answer:

One main disadvantage of bilateral trade agreements relates to the possibility of trade diversion. While encouraging trade between member countries, bilateral trade agreements discourage trade between members and the rest of the world. In this way, bilateral agreements may not add to total world trade and may not even be beneficial to the member countries.

Answers could include:

- Global free trade
- Multilateral trade agreements
- Example of trade agreements
- Costs of implementing trade agreements
- Stumbling block to free trade

Question 21 (c)

Sample answer:

The Asian Financial Crisis (AFC) of 1997 severely affected the Indonesian economy. Foreign investors lost confidence in Asian economies, which resulted in capital flight from Indonesia.

In response to the AFC, the Indonesian Government sought an International Monetary Fund (IMF) bail-out. As a condition of this assistance, the Indonesian Government was required to increase fiscal discipline and raise interest rates (to 80%). Long-term structural reforms were also undertaken including: floating the exchange rate, trade liberalisation and establishing an independent central bank.

In the short term, these policy responses reduced economic activity further. The economy contracted by 13%, the number of Indonesians living in poverty doubled and, as the exchange rate depreciated, inflation rose to 75%.

However, the long-term structural reforms undertaken after the AFC have helped the country maintain strong economic growth over the past decade, including during the Global Financial Crisis (GFC).

Answers could include:

- Fiscal policy
- Monetary policy
- Microeconomic policies
- Limitations of economic policies
- Labour market policies
- Economic growth and quality of life
- Full employment
- Price stability
- External stability
- Distribution of income
- Political stability and corruption
- Booms and recessions

Question 22 (a) (i)**Sample answer:**

–\$35 billion

Answers could include:

- Deficit increased by \$35 billion
- Deficit increased by 44%

Question 22 (a) (ii)**Sample answer:**

The net income component of the deficit increased from –\$50 billion to –\$60 billion. A possible cause for this may have been higher interest repayments on foreign debt due to higher global interest rates.

Answers could include:

- Depreciation of exchange rate for this country, which resulted in higher debt-servicing costs
- Increases in profits attributable to foreign investors (dividend payments increased)

Question 22 (a) (iii)**Sample answer:**

Imports increased by \$75 billion. A possible cause of this is growth in domestic economic activity that resulted in increased consumer spending and business investment, which led to an increased demand for imports.

Answers could include:

- Appreciation of the currency, which increases the volume of imports
- Depreciation of the currency, which increases the cost of imports (value increases)
- Reduction in protection, eg tariffs

Question 22 (b)***Sample answer:***

Two causes of Australia's high current account deficit (CAD) are a low national savings rate and the high level of investment in the Australian economy. This results in a gap between domestic savings and investment.

For example, Australia's mining industry has large infrastructure requirements, which are largely met by importing capital goods and mining services. This increases the deficit in the Goods and Services component of the current account. At the same time, Australian firms must borrow to finance this capital investment. Interest repayments on these borrowings contribute to a deficit in the Net Income component of the current account.

Answers could include:

- Narrow export base
- International competitiveness
- High net foreign liabilities
- High economic growth rate

Question 23 (a)***Sample answer:***

66.7%

Answers could include:

$\frac{10}{15}$, $\frac{2}{3}$, 66.66%, 66.67%, 67%

Question 23 (b)***Sample answer:***

While awards stipulate minimum wages and working conditions for an industry or occupation, enterprise agreements set out wages and conditions negotiated with a particular employer.

Answers could include:

- Workplace agreements
- Centralised wage determination
- Award safety net
- Enterprise bargaining

Question 23 (c)***Sample answer:***

Technological change and rapid changes in consumer demand lead to a mismatch of the skills possessed by workers and those demanded by employers. Hence, structural unemployment is likely to rise. The government can address this mismatch of skills in the labour market by increasing investment in worker education and training.

Answers could include:

- Government legislation, such as the *Fair Work Act 2009*
- Industry policy
- Increased flexibility in wage-setting
- Global competition
- Geographical mobility of labour
- Occupational mobility of labour
- Decline of some industries

Question 23 (d)***Sample answer:***

An advantage of a decentralised system is greater flexibility in wages. This flexibility means that wages are more closely linked to the productivity of individual workers.

In turn, this means a more efficient allocation of labour, which is positive for economic growth. Demand by firms for labour is likely to be higher and the rate of structural unemployment lower.

Since wage increases reflect productivity, there will be less pressure on inflation.

Answers could include:

- Incentives for training
- Lower inflation expectations
- Increased workforce participation
- Government incomes policy (lack of)
- Lower cost inflation
- Lower rate of unemployment

Question 24 (a)***Sample answer:***

A public good is a product or service that is non-excludable and non-rival, and usually (although not always) provided by government.

Answers could include:

- 'Free riding'
- Private good
- Under-provision by private sector
- Examples of public goods

Question 24 (b)***Sample answer:***

Production may generate pollution, which damages the environment. If producers are not required to bear the social cost of environmental damage resulting from their activities, then the level of output and the resulting level of pollution will be excessive.

Answers could include:

- Negative externalities
- Social/private costs diagram

Question 24 (c)***Sample answer:***

Regulations are laws enacted by governments that govern economic behaviour. Regulations may prohibit or limit activities that damage the environment. In Australia for example, there is a ban on the sale of leaded petrol in order to eliminate the negative externalities associated with the pollution caused by the use of leaded fuels. Similarly, Federal Government legislation introduced new standards for lighting, which is aimed at reducing energy consumption.

Market-based environmental management policies are those that use financial incentives and disincentives to influence economic behaviour. Market-based policies aim to internalise negative externalities associated with production activities (such as pollution), so that price and production levels better reflect both social costs as well as private costs. A typical market-based policy is to impose a tax on the output of the polluting industry (such as coal). The tax approximates the social costs, resulting in a higher market price. The aim of the tax is to create an incentive to reduce overall consumption and production, thereby reducing the negative externality associated with production.

Answers could include:

- Environmental protection legislation
- Environmental impact assessment
- Subsidies
- Setting environmental targets
- Emissions trading schemes
- Carbon tax

Section III

Question 25

Answers could include:

- Economic growth rates
- Progressive income taxation
- Unemployment benefits
- Welfare payments
- Company taxation
- Business cycle
- Discretionary and non-discretionary changes in fiscal policy
- Surplus and deficit budgets
- Automatic stabilisers
- Expansionary and contractionary stance
- GFC
- Fiscal stimulus
- Income inequality
- Gini coefficient
- Booms and recessions
- Inflationary pressures
- Counter-cyclical policy
- Fiscal outcome
- Underlying cash outcome
- Headline cash outcome
- Multiplier
- Aggregate demand
- Changes in consumption and investment

Question 26

Answers could include:

- Cash rate
- Domestic Market Operations
- Consumer Price Index (CPI)
- Demand-pull inflation
- Cost-push inflation
- Aggregate demand
- Full employment

- Target inflation rate
- Sustained level of economic growth
- Reserve Bank of Australia (RBA)
- Exchange rate changes
- Money supply
- Short-term money market
- Exchange Settlement Accounts
- Secondhand Commonwealth Government Securities
- Transmission mechanism
- Multiplier
- Interest rates
- Time lag
- Expansionary, contractionary and neutral stance
- Inflationary expectations
- Wages growth
- External forces
- Cyclical unemployment

Section IV

Question 27

Answers could include:

- Supply side economics
- Environmental targets
- Allocative technical and dynamic efficiency
- Structural change
- Deregulation, financial sector, agricultural industries
- National Competition Policy
- Reforms to public trading enterprises
- Privatisation
- Corporatisation
- Economic growth
- Living standards
- Labour market reforms
- Productivity growth
- Lower unemployment in the long term
- COAG reform agenda
- Long-term benefits

- Short-term costs
- External balance
- Australian Competition and Consumer Commission (ACCC)
- International competitiveness
- Lower costs of production

Question 28***Answers could include:***

- Relative levels of interest rates in the domestic and global economy
- Global commodity prices
- Levels of trade and investment
- Inflation rates
- Current account balances
- Terms of trade
- Currency speculation
- Exchange rate intervention by the RBA
- Appreciations
- Depreciations
- Trade weight index
- Competitiveness of Australian industry