



2012 HSC Economics '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:

A tariff is a tax on imports, raising the price of imported goods. An import quota is a restriction on the volume of imports allowed.

Answers could include:

- Differences in the government revenue-raising effects of each

Question 21 (b)

Sample answer:

New or infant industries require protection in their early development stages until economies of scale allow them to compete with overseas competition that already have a lower cost base.

Another reason for protection is that without the protection cheaper foreign imports will cause the domestic import-competing business to reduce production or close, leading to employment loss in that industry.

Answers could include:

- Prevention of dumping
- Defence or self-sufficiency argument
- Environmental concerns
- Labour market exploitation
- Retaliation against protection overseas
- Protection of domestic employment

Question 21 (c)***Sample answer:***

Australia has a bilateral free trade agreement with the USA. The agreement benefited Australia by increasing Australia's exports to the USA. As a result there was a reduction in US tariffs on some Australian agricultural exports. An economic cost of this agreement was increased prices for pharmaceuticals in Australia as a result of changes to the Pharmaceuticals Benefits Scheme.

Answers could include:

- Larger increases in US manufactured and services exports to Australia
- Sugar exports not included in the AUSFTA
- Increased access for USA to Australian film and television market

Other possible free-trade agreements:

- WTO
- CERTA (Australia-New Zealand)
- SAFTA (Australia-Singapore)
- CHAFTA (Chile-Australia)
- AANZFTA (ASEAN-Australia-New Zealand)

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

5%

Answers could include:

$$\frac{6}{120}, \frac{1}{20}, 5$$

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

The headline rate of inflation is the CPI rate which includes a wide selection of prices for goods and services reflecting average household spending.

The underlying rate removes the effects of one-off or volatile price movements that may skew the CPI rate. An example is removing the effect of higher banana prices due to adverse growing conditions.

Answers could include:

- Trimmed mean inflation
- Weighted median inflation
- Core inflation
- Basket of goods and services

Question 22 (c)***Sample answer/Answers could include:***

If consumers and producers have an expectation that inflation is rising quickly, they will make decisions to minimise the effects of rising inflation. Consumers could build expected price rises into wage demands. Producers could also build in expected future costs into higher prices. If there is no expectation of rising inflation these groups would not act in this way, reducing the impact on inflation rates.

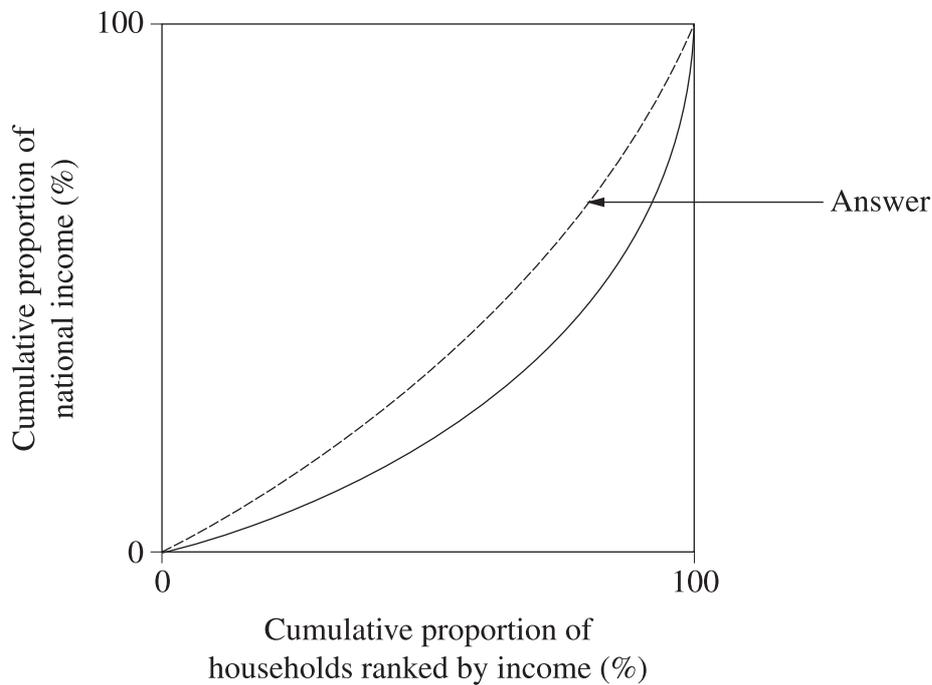
Question 22 (d)***Sample answer:***

High inflation in a country relative to inflation overseas tends to reduce a country's international competitiveness by increasing the price of inputs into the domestic production process (eg labour). In this way, domestically produced final goods become more expensive relative to foreign produced goods. This may lead to an increase in the current account deficit.

Another impact of high domestic inflation is higher domestic interest rates, which will reduce spending and economic activity. This may also result in a currency appreciation, dampening export demand and in the short run cause a further deterioration of the CAD.

Answers could include:

- In the long run, inflation and/or deterioration in the trade balance can lead to fall in the exchange rate which may partly reverse the decline in the competitiveness
- Asset price inflation
- Industrial unrest, rising wages

Question 23 (a)**Sample answer:****Answers could include:**

- New Lorenz Curve can lie anywhere between (or on) the line of perfect equality and the original Lorenz Curve.

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

An economic benefit of greater income inequality is that it rewards workers who increase their education or work skills and hence increase their productivity.

Answers could include:

- Workers work longer hours
- Increase labour mobility
- Risk taking by entrepreneurs
- Higher savings, investment and long-term growth

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

Many females work fewer hours as a result of being employed casually or on a part-time basis. Females are more likely to be employed in a range of occupations (eg nursing) that are not as well paid as male-dominated occupations such as those in the mining sector. Also the glass ceiling effect can make it more difficult for women to achieve promotion and wage increases.

Answers could include:

- Wage relativities
- Childcare
- Attitudes to women in society
- Discrimination
- Unpaid household work, childcare

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

The progressive tax system reduces income inequality because high-income earners are required to pay a higher proportion of their income in taxation relative to low-income earners. Social security payments, such as pensions and unemployment benefits, also reduce income inequality by transferring tax revenue from high to low-income earners.

The provision of public services, such as health and education, also helps to reduce income inequality as those services are available equally to all, regardless of their income.

Answers could include:

- Compulsory superannuation
- Tax concessions on superannuation
- Microeconomic reform – impact on employment
- Poverty trap
- Effective marginal tax rates
- Incentive effects of taxes/transfers
- Automatic stabilisers
- Changes to tax rates and tax thresholds
- Tax-free thresholds
- Taxation of assets (eg capital gains tax)
- Means testing of benefits
- Public good provision

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

Hidden unemployment refers to people who are not counted in official unemployment statistics because they are unemployed and not actively looking for work.

Underemployment refers to currently employed people who would like to work more hours. The underemployed are included in the labour force.

Answers could include:

- Discouraged job seekers
- Casual employment
- Part-time versus full-time

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

Underemployment will increase (decrease) if workers work fewer (longer) hours. There is no change in the number of unemployed. Hence, the unemployment rate will be unchanged.

Answers could include:

- Part-time to full-time work
- Casualisation of the workforce

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

An increase in the school leaving age may result in more young people staying at school and not working or seeking work and therefore not being counted in the labour force or unemployment statistics. This will result in a lower participation and unemployment rate.

Answers could include:

- Working-age population
- Labour force

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

An increase in the minimum wage will only affect the labour market if the minimum wage is above the free market equilibrium wage rate. Given this, an increase in the minimum wage will increase the supply of labour, as more people are encouraged to seek work. However, the demand for labour by firms will decline as workers become 'more expensive' to hire. As a result of the increase in supply and fall in demand, the number of unemployed workers will rise.

Answers could include:

- Labour market demand and supply diagram
- Unemployment rate
- Participation rate

Section III

Question 25

Sample answer/Answers could include:

- Differing global growth rates
- Exchange rate changes (TWI)
- International business cycle
- Impacts on components of BoP
 - Sources of imports and exports
 - Changes in prices of imports/exports
 - Changes in quantities imported/exported of merchandise trade and services
 - Foreign capital to finance domestic investment/FDI
 - Interest rate differentials
- International competitiveness
- Impact of GFC or EU crisis on Australia's CAD
- Structural and cyclical components of BoP
- Debt servicing component
- Savings ratio

Question 26

Sample answer/Answers could include:

- Global growth rates
- Development of emerging economies and their increasing demand for minerals and agricultural commodities
- Trade liberalisation
- Terms of trade
- Technological development – internet
- Rise/fall of service industries, tourism, education
- Appreciation of \$A
- Two speed/patchwork economy
- Mining boom
- Decline in manufacturing
- Structural unemployment
- Productivity changes
- Protection and barriers to trade
- Effects on government revenues and budget outcome

Section IV

Question 27

Answers could include:

- Definition of globalisation
- Effects of globalisation
 - Economic integration and international business cycles
 - Trade liberalisation
 - Trade and financial flows
 - Exchange of technology
 - Factors of production flows including labour and capital
- Benefits of globalisation to economic growth and quality of life
 - Increased use of resources due to technology and management improvements
 - Improved productivity
 - Shifts in production possibility
 - Increase in standard of living and incomes
 - Improvements in health, education and poverty outcomes
 - Environmental sustainability
- Costs of globalisation to economic growth and quality of life
 - Economic integration and impact of economic shocks on economic growth
 - Distribution of income/wealth
 - Overuse of resources
 - Environmental quality
 - Geopolitical instability

Question 28

Answers could include:

Economic objectives

- Economic growth and quality of life
- Full employment
- Price stability
- Environmental sustainability
- Distribution of income
- Conflicting economic objectives

Economic policies (students do not have to discuss all policies)

- Fiscal policy
 - Automatic stabiliser
 - Discretionary budget stimulus
- Monetary policy
 - Changing interest rates/market operations
 - Role of banks in passing on interest rates
- Labour market policy/Income policy
 - Fair Work Australia
 - Decentralisation of the labour market
 - Education and Training programs
- Microeconomic policies
 - Deregulation
 - Competition policies
 - Innovation and industry policies
- Environmental management policies
 - Regulation
 - Market-based policies – the carbon tax

Effectiveness criteria

- Time lags
- Political constraints
- Global influences, business cycles, exchange rates, economic shocks
- Did the policy achieve the objectives?
- Successful implementation
- Policy mix