



2020 Trial HSC Economics Marking Guidelines

Section I

Multiple-choice Answer Key

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

Section II

Question 21 (10 marks)

(a) (2 marks)

Criteria	Mark
• Distinguishes between the structural and cyclical components of fiscal policy	2
• Defines the terms cyclical and structural unemployment	1

Sample answer:

The difference between structural and cyclical components of fiscal policy is that the structural component of fiscal policy is deliberate spending by the government and deliberate tax collection by the government. This is opposed to the cyclical component which is non deliberate/non-discretionary and impacts the level of spending and taxation in the economy. This is in the form of automatic stabilisers.

(b) (2 marks)

Criteria	Mark
• Outlines the role of fiscal policy in evenly distributing income in an economy	2
• Sketches the role of fiscal policy in evenly distributing income in an economy	1

Sample answer:

Fiscal Policy has two major components that lead to a more even distribution of Income in Australia. Firstly, Australia makes use of a progressive tax system which impacts higher income earners at a higher rate than lower income earners. Secondly, much of the revenue earned from the progressive tax system is redistributed to lower income earners through transfer payments. By issuing free schooling, healthcare, pensions and other forms of transfer payments, the government uses fiscal policy to create a more even distribution of income in society.

Answers could include:

- Automatic stabilisers
- Cyclical is non-discretionary
- Increase equality
- Progressive tax
- Transfer payments

(c) (2 marks)

Criteria	Mark
Describes TWO possible effects on resource allocation of a transition to budget surplus within the Australian economy	2
Sketches, in general terms ONE possible effect on resource allocation of a transition to budget surplus within the Australian economy	1

Sample answer:

If the government chooses to return to a budget surplus, it could have many effects on resource allocation. A return to surplus will generally lead to a fall in production levels in the economy as it is a contractionary stance. This may mean that less resources are used in general. As well as this, the government may remove funding from Government Business Enterprises, therefore reducing the resources used to provide public goods.

Answers could include:

- increased business tax reducing production levels
- increased income tax causing lower consumption levels and/or greater equality
- decreased welfare spending reallocating resources away from low income earners
- decreased funding for GBE's, reducing provision of public goods
- contractionary stance reducing overall economic activity

(d) (4 marks)

Criteria	Mark
Clearly explains the impact on interest rates through using TWO methods of financing a budget deficit	4
Sketches in general terms the impact on interest rates through using TWO methods of financing a budget deficit	2-3
Identifies an impact on interest rates through using ONE method of financing a budget deficit	1

Sample answer:

Two methods of financing a budget deficit are borrowing from the Reserve Bank or borrowing from the private sector. Borrowing from the RBA involves the RBA creating an increase in the money supply through printing more money and the government uses this money to fund the deficit. This excess money increases liquidity and hence reduces interest. Borrowing from the private sector involves "selling" new Commonwealth Government securities to the private sector. Borrowing from the private sector does not directly impact interest rates. However, it may increase interest rates indirectly. This is because of increased competition for limited funds available in the domestic market. In contrast, borrowing from the RBA may have inflationary consequences due to the additional money supply in the domestic economy. This could lead to increased interest rates as the RBA seeks to maintain the inflation target.

Answers could include:

- Tender system
- Borrow overseas
- Print more money / supply
- Surplus or shortage of liquidity
- Link to cash rate

Question 22 (10 marks)

(a) (2 marks)

Criteria	Mark
• Clearly states the meaning of <i>external stability</i>	2
• Identifies components of <i>external stability</i>	1

Sample answer:

External Stability is an aim of government policy that seeks to promote sustainability on the external accounts. This is so Australia can service its foreign liabilities in the medium to long run and avoid currency volatility.

(b) (2 marks)

Criteria	Mark
• Clearly outlines the impact of low interest rates on Australia's external stability	2
• Identifies the impact of low interest rates on Australia's external stability	1

Sample answer:

Australia's recent low interest rate of 1% has directly led to the external balance, as low interest rates have resulted in less foreign investment into Australia, thus reducing the inflows in financial account of KAFA and consequently reducing the outflows in dividends and profits in CA. This means that less investment reduced the NPY outflows. Low interest rates mean that more Australians borrow domestically thus reducing the financial account inflows in the form of loans from overseas and this means the interest repayments in CA outflows have fallen dramatically thus reducing the outflows in NPY and hence resulted in CAS. Our interest rate has been well below 1% for a long time*.

(*please note this figure will need updating)

Answers could include:

- Reduction in foreign inward investment
- Reduction in outward income repayments
- Reduction in Financial Account inflows
- Reduce the deficit in NPY
- First CAS
- Now KAFA deficit

(c) (6 marks)

Criteria	Mark
Clearly examines the main contributors of Australia's external stability in 2020	5-6
- States the main contributors of Australia's external stability in 2020 - OR - Clearly examines ONE contributor of Australia's external stability in 2020	3-4
Sketches in general terms the contributors of Australia's external stability in 2020	1-2

Sample answer:

Australia has achieved its first CAS in 44 years sitting at ____ This is due to TWO main cyclical contributors, the depreciating AUD leading to increasing international competitiveness, increasing exports and reducing the amount of imports purchased. Thus, improving the trade and goods balance. BOGS currently sits at ____

The second key cyclical contributor to Australia achieving an external balance is the low interest rates leading to less investment into Australia and hence less incomes being paid out reducing the size of NPY deficit. In addition, low interest means there are less loans coming from overseas and hence less interest being paid out reducing the deficit in NPY.

Moreover, on the structural side there has been changes to superannuation taxation and this has promoted Australians investing overseas and hence increasing portfolio investment and hence increasing dividends into Australia hence reducing the deficit in NPY.

Answers could include:

- Depreciating dollar (cyclical) improving international competitiveness and BOGS
- Low interest (cyclical) reducing inward foreign investment reducing credit in financial account and hence reducing debits in NPY therefore lead to CAS

Question 23 (10 marks)

(a) (2 marks)

Criteria	Mark
• State the meaning of the term <i>economic development</i>	2
• Identifies factors contributing to <i>economic development</i>	1

Sample answer:

Economic development refers to the social development of an economy, thus promoting the quality of life of citizens. It is measured by HDI and PPP to name a few. The most used by the IMF is the HDI which incorporates literacy rates, life expectancy and GDP per capita.

(b) (2 marks)

Criteria	Mark
• Describes ONE domestic influence contributing to the differences between nations due to the process of globalisation	2
• Identifies ONE influence contributing to the differences between nations due to the process of globalisation	1

Sample answer:

There are many domestic factors contributing to differences between nations. One that has impacted Australia is natural resources. Australia is an economy with an abundance of natural resources, both in mining and agriculture. This wealth will always prove beneficial if managed correctly as trade is always an option. Australia has relied heavily on the mining sector to navigate the international business cycle.

Answers could include:

- Natural resources
- Entrepreneurial culture
- Access to technology
- Labour laws and skills

(c) (6 marks)

Criteria	Mark
Clearly explains how trade flows and financial flows have promoted growth in an economy other than Australia	5-6
- Clearly explains how trade flows OR financial flows have promoted growth in an economy other than Australia OR - Outlines how trade flows and financial flows have promoted growth in an economy other than Australia	3-4
Identifies how trade flows OR financial flows have promoted growth in an economy other than Australia	1-2

Sample answer:

China has seen major inroads in relation to economic growth hovering at 6%, this is meeting the level set by the IMF for China to achieve. This is on the back of many policies including the OBOR which has promoted trade and investment through the middle east, Europe and Asia, the open door policy following the WTO stance and promoting trade liberalisation and the SEZ finding a clear path of foreign investment both inward and outward. These policies have seen moderate to high success in China and have helped assert their role as the regions greatest trading partner. There has been many issues surrounding the China US trade tensions, but China is managing to navigate its role as a fair trading partner to Australia and their Belt traders.

Answers could include:

- OBOR
- SEZ
- Open Door policy
- Economic growth, GDP rates
- China US trade tensions

Question 24 (10 marks)

(a) (2 marks)

Criteria	Mark
• State the meaning of the term <i>trade weighted index</i>	2
• Identifies factors influencing the TWI	1

Sample answer:

The trade weighted index is a multilateral measure of exchange rate as it is compiled as a weighted average of exchange rates of the home currency compared to the foreign currencies. It is weighted by the amount the economies trade with each other. The US dollar is weighted highly in relation to the Australian dollar as they are a main trading partner.

(b) (2 marks)

Criteria	Mark
• Clearly outlines TWO factors affecting the supply of Australian dollars	2
• States ONE factor affecting the supply of Australian dollars	1

Sample answer:

The supply of Australian dollars is affected by the people selling AUD; they are debtors on the BOP. Importers supply Australian dollars, those travelling overseas supply Australian dollars, those Australians investing overseas are supplying AUD. This has the effect of depreciating the dollar as it leads to more AUD being available the excess supply depreciates their value.

Answers could include:

- Imports
- Australians investing o/s
- Australian travel overseas
- Debtors on BOP

(c) (2 marks)

Criteria	Mark
• Explains why a floating exchange rate is necessary for the Balance of Payments to function effectively	2
• Identifies features necessary for the balance of payments to be achieved	1

Sample answer:

The floating exchange rate is essential to achieve a balance in the BOP, as those supplying the dollar are essentially creditors, those demanding the dollar are debtors, together they allow the BOP to balance out.

Answers could include:

- Demand the AUD= debtors on BOP
- Supply the AUD = creditors
- Creditors=debtors
- CAD= KAFA+net errors and omissions

(d) (4 marks)

Criteria	Mark
Discusses TWO positive and TWO negative effects of a depreciation of the Australian dollar on the Australian economy	4
Sketches ONE positive and ONE negative effect of a depreciation of the Australian dollar on the Australian economy	2-3
Identifies ONE positive OR ONE negative effect of a depreciation of the Australian dollar on the Australian economy	1

Sample answer:

TWO positive effects of a depreciating AUD is that it has improved our international competitiveness and ultimately lead to external balance by increasing the trade surplus and leading to the first CAS in 44 yrs. Another positive implication of the depreciation of the dollar is the valuation effect the foreign currency held in the financial component of BOP means that we have increased value held.

A negative implication is that it will cost more Australian dollars to service the debt, thus it can increase debt for future generations. Another negative is it erodes choice by making imports too expensive, leading to lower standards of living.

*Answers could include:**Positive effects:*

- Foreign investors will find it less expensive to invest in Australia, leading to greater financial inflows
- Australian owned foreign assets will rise in value in Australian dollar terms due to the valuation effect
- The Net Primary Income component of the Current Account would improve due to an increased Australian dollar value of income earned on Australian owned foreign investments
- Lower import spending and greater export revenue will increase Australia's growth rate
- Imports will be more expensive, discouraging import spending and improving Australia's balance of goods and services
- Australia's international competitiveness will improve due to Australian exports being cheaper in foreign currency terms

Negative effects:

- Australian consumers suffer reduced purchasing power - they can buy fewer overseas goods with the same quantity of Australian currency
- Servicing costs on foreign debt increases as it costs more Australian dollars to purchase the foreign currency needed to service the debt
- The total value of foreign debt in Australian dollar terms will rise due to the valuation effect
- Inflationary pressures in Australia will increase due to a rise in imported inflation, as imports become more expensive for Australian consumers

Question 25 (20 marks)

Criteria	Marks
• Synthesises own knowledge and understanding with the information provided, to develop a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theories • Demonstrates a clear and comprehensive understanding of the causes and effects of economic growth on the Australian economy	17-20
• Examines own knowledge and understanding with the information provided, to develop a logical and cohesive response • Applies relevant economic terms, concepts, relationships and theories • Demonstrates a sound understanding of the causes and effects of economic growth on the Australian economy	13-16
• Uses own knowledge and understanding to develop a coherent response • Uses relevant economic terms, concepts, relationships and theories • Demonstrates some understanding of the causes and effects of economic growth on the Australian economy	9-12
• Develops a generalised response • Uses some economic terms and concepts • Identifies aspects of the causes OR effects of economic growth on the Australian economy	5-8
• Presents a limited response • Uses some economic terms and concepts • Lists some aspects of economic growth	1-4

Answers could include:

- Sources of economic growth (C+I+G+X-M)
- Effects of growth on Australian economy
- Increasing consumption increases eco activity
- Reduces unemployment
- Increases choice and quality of life
- Increase investment
- Increases long term economic activity
- Increase infrastructure
- Increase standard of living
- Uneven distribution of income
- Increase external instability
- Increase inflation

Question 26 (20 marks)

Criteria	Marks
• Synthesises own knowledge and understanding with the information provided, to develop a sustained, logical and cohesive response • Integrates relevant economic terms, concepts, relationships and theories • Demonstrates clear and comprehensive understanding of the causes and effects of inflation on the Australian economy	17-20
• Examines own knowledge and understanding with the information provided, to develop a logical and cohesive response • Applies relevant economic terms, concepts, relationships and theories • Demonstrates a sound understanding of the causes and effects of inflation on the Australian economy	13-16
• Uses own knowledge and understanding to develop a coherent response • Uses relevant economic terms, concepts, relationships and theories • Demonstrates some understanding of the causes and effects of inflation on the Australian economy	9-12
• Develops a generalised response • Uses some economic terms and concepts • Identifies aspects of either the causes OR effects of inflation on the Australian economy	5-8
• Presents a limited response • Uses some economic terms and concepts • Lists some aspects on inflation	1-4

Answers could include:

- Define inflation
- Measure CPI trends
- Causes, cost push, demand pull, inflationary expectation, import inflation
- Effects on economic growth –complement
- Effect on unemployment- inverse Phillip curve
- Effect on inequality
- Effect on external stability

Question 27 (20 marks)

Criteria	Marks
- Integrates relevant economic terms, concepts, relationships and theories - Provides a sustained, logical and cohesive response - Demonstrates a clear and comprehensive judgment on the effectiveness of microeconomic policies on promoting TWO economic objectives in the Australian economy	17-20
- Applies relevant economic terms, concepts, relationships and theories - Provides a logical and cohesive response - Demonstrates a sound judgment on the effectiveness of microeconomic policies on promoting TWO economic objectives in the Australian economy	13-16
- Uses economic terms and concepts and shows some relationships - Develops a coherent response - Sketches in general terms the effectiveness of microeconomic policies on promoting TWO economic objectives in the Australian economy	9-12
- Uses some economic terms and concepts - Develops a generalised response - States some aspects of microeconomic policies on promoting at least one economic objective in the Australian economy	5-8
- Uses some economic terms or concepts - Presents a limited response - Lists some features of microeconomic policies in Australia or in general	1-4

Answers could include:

- Define microeconomic policy
- Outline the rational of efficiencies (allocative, dynamic and technical)
- Increase aggregate supply
- Economic growth
- Price stability
- Full employment
- Distribution of income
- Ecological sustainability
- External stability

Question 28 (20 marks)

Criteria	Marks
- Integrates relevant economic terms, concepts, relationships and theories - Provides a sustained, logical and cohesive response - Demonstrates a clear and comprehensive judgment of the effectiveness of monetary policy on promoting TWO economic objectives in the Australian economy	17-20
- Applies relevant economic terms, concepts, relationships and theories - Provides a logical and cohesive response - Demonstrates a sound judgment of the effectiveness of monetary policy on promoting TWO economic objectives in the Australian economy	13-16
- Uses economic terms and concepts and shows some relationships - Develops a coherent response - Sketches in general terms the effectiveness of monetary policy on promoting TWO economic objectives in the Australian economy	9-12
- Uses some economic terms and concepts - Develops a generalised response - States some aspects of the effectiveness of monetary policy on promoting at least one economic objective in the Australian economy	5-8
- Uses some economic terms or concepts - Presents a limited response - Lists some features of monetary policy generalised or on the Australian economy	1-4

Answers could include:

- Define monetary policy
- Trends in Australia- loose, low interest
- Impact of monetary policy on TWO objectives ONLY
- Economic growth
- Price stability
- Full employment
- External Stability

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Mapping Grid

Exam Section	Question	Marks	Content	Syllabus outcomes
Section I Multiple Choice	1	1	Policy	
	2	1	Organisation	
	3	1	Globalisation	
	4	1	Exchange rates	
	5	1	Fiscal Policy	
	6	1	Balance of payment	
	7	1	Micro policy	
	8	1	External stability	H1H3 H4 H5
	9	1	Income inequality	H1 H7 H8
	10	1	policy	H1 H2 H4
	11	1	Economic growth	H1 H4 H8
	12	1	Global economy	H1 H2 H5
	13	1	Ecological sustainable development	H2 H5 H6
	14	1	Protection	H1 H2 H4 H8
	15	1	Protection	H1 H6 H8
	16	1	Income inequality	H2 H4 H5 H6
	17	1	LFPR	H1 H4
	18	1	BOP	H1 H2 H5
	19	1	Policies	H2 H5 H6 H8
	20	1	Labour Market	H1 H2 H5 H6
Section II Short answers	21	10	Fiscal policy	H1, H2, H3, H4, H6, H10
	22	10	External stability	H1, H2, H3, H4, H6, H10
	23	10	Globalisation	H1, H2, H5, H6, H8, H10
	24	10	Exchange rates and BOP	H1, H2, H5, H6, H7, H8
Section III Stimulus responses	25	20	Economic growth (cause and effect)	H2, H3, H4, H5, H8, H9, H10
	26	20	Inflation (cause and effect)	H2, H3, H4, H5, H8, H9, H10
Section IV Extended responses	27	20	Effectiveness of Micro economic policy	H1, H2, H5, H7, H8, H9, H10
	28	20	Effectiveness of Monetary policy	H1, H2, H4, H5, H7, H8, H9, H10