Candidate Instructions

1. You MUST make sure that your responses to the questions in this examination paper will show your achievement in the criteria being assessed.

2. You MUST answer SIX questions from this section. TWO questions from each of the following:
   - Unit 1 – An Introduction to Economics
   - Unit 2 – Economic Management
   - Unit 3 – Australia and the Global Economy

3. You must write concise and clear answers for each of the questions you have chosen.

4. You are encouraged to include diagrams, where relevant.

5. Answers must be written in the spaces provided on the examination paper.

6. Each question is worth 6 marks. (6 x 6 = 36 marks)

7. You should make sure you answer all parts within each question so that the criterion can be assessed.

8. This examination is 3 hours in length. It is recommended that you spend approximately 45 minutes in total answering the questions in this booklet.

9. All written responses must be in English.

On the basis of your performance in this examination, the examiners will provide results on each of the following criteria taken from the course document:

**Criterion 1** Describe and apply economic terms, concepts, theories and ideas.

**Criterion 5** Communicate economic ideas and information.
UNIT 1 – AN INTRODUCTION TO ECONOMICS

You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams, where relevant.

---

**Question 1**

Explain the concept of market equilibrium. Using examples, explain the difference between a market shortage and a market surplus.

(6 marks)

**Question 2**

Explain the concept of market failure. Explain the similarities and differences between public goods and common resources.

(6 marks)

**Question 3**

Explain the concept of opportunity cost. Describe how the concept of opportunity cost can be used as a tool in economic decision-making.

(6 marks)
UNIT 2 – ECONOMIC MANAGEMENT

You MUST answer TWO questions from this Unit.

You are encouraged to include diagrams, where relevant.

Question 4

Explain the relationship between total spending, total output and total income. Identify which term represents aggregate demand. 

(6 marks)

Question 5

Distinguish between cyclical and structural unemployment. Identify ONE factor that causes each.

(6 marks)

Question 6

Explain the difference between economic growth and ecologically sustainable economic growth. Use at least TWO examples to support your answer.

(6 marks)
UNIT 3 – AUSTRALIA AND THE GLOBAL ECONOMY

You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams, where relevant.

---

**Question 7**

Explain the concept of globalisation. Identify at least THREE factors that facilitate globalisation.

(6 marks)

**Question 8**

Explain the relationship between Australia’s balance of payments and the exchange rate. Identify at least TWO factors that can affect Australia’s exchange rate.

(6 marks)

**Question 9**

Outline the current composition and direction of Australia’s trade with other countries. Describe the significance of Australia’s trade relationship with Asia.

(6 marks)
Question Number: 

(In the box write the number of the question you are answering)
Candidate Instructions

1. You MUST make sure that your responses to the questions in this examination paper will show your achievement in the criteria being assessed.

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   - Unit 1 – An Introduction to Economics
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9. All written responses must be in English.

On the basis of your performance in this examination, the examiners will provide results on each of the following criteria taken from the course document:

**Criterion 2**  Apply economic models and mathematical techniques to analyse economic data and information.

**Criterion 5**  Communicate economic ideas and information.

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Question 10

Explain, using a fully labelled diagram, how unseasonal hot weather that negatively impacts on this year’s raspberry crop, would cause changes to the equilibrium price and quantity for raspberries.

Using the Raspberry example above explain whether this has resulted in a movement along or shift of the demand or supply curve.

Explain whether this situation could result in a surplus or shortage of raspberries for producers who use raspberries to make raspberry sauce. Model this situation using a fully labelled diagram.

(6 marks)
Question 11

With reference to the table below, plot the production possibilities frontier for Devon Island.

<table>
<thead>
<tr>
<th>Production Point</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption Goods</td>
<td>20</td>
<td>40</td>
<td>60</td>
<td>80</td>
<td>100</td>
<td>120</td>
<td>140</td>
<td>160</td>
</tr>
<tr>
<td>Capital Goods</td>
<td>160</td>
<td>140</td>
<td>120</td>
<td>100</td>
<td>80</td>
<td>60</td>
<td>40</td>
<td>20</td>
</tr>
</tbody>
</table>

Calculate the opportunity cost of Devon Island moving from Production Point A to Point B. Show your calculation fully and clearly.

If Devon Island decides to produce at Point B, what possible trade-off might they need to consider? How might this trade-off potentially affect growth in the future?

(6 marks)
Question 12

The table below shows changes to demand for Devil Island Ferry Services at various prices.
Calculate the price elasticity of demand using the total revenue method, as the price changes from $10 to $15 and when the price changes from $20 to $25.

Describe the price elasticity of demand when price changes from $30 to $35.

*Using a fully labelled diagram,* demonstrate the impact of Devil Island Ferry Services upgrading its ferry so that travel time to Devil Island is reduced by 20 minutes.

(6 marks)

<table>
<thead>
<tr>
<th>Price ($)</th>
<th>10</th>
<th>15</th>
<th>20</th>
<th>25</th>
<th>30</th>
<th>35</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity Demanded</td>
<td>1000</td>
<td>900</td>
<td>800</td>
<td>640</td>
<td>400</td>
<td>100</td>
</tr>
</tbody>
</table>

Question 12 continues.
Question 13

**Australian hypothetical data showing Real GDP**

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP $bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1251</td>
</tr>
<tr>
<td>2014</td>
<td>1465</td>
</tr>
<tr>
<td>2015</td>
<td>1349</td>
</tr>
<tr>
<td>2016</td>
<td>1208</td>
</tr>
<tr>
<td>2017</td>
<td>1324</td>
</tr>
</tbody>
</table>

Plot the data from the table above to create a diagram below.

Label the main phases of the business cycle on your diagram.

Outline the possible impact of being in the 2016 phase of the business cycle on the economy.

(6 marks)
The table below shows some macroeconomic data for the Australian economy.

**Australian Economic Macroeconomic Data**

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>GDP Growth Rate (%)</th>
<th>Inflation Rate (%)</th>
<th>RBA Interest (Cash) Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2.4</td>
<td>2.8</td>
<td>2.6</td>
</tr>
<tr>
<td>2015</td>
<td>2.2</td>
<td>1.4</td>
<td>2.6</td>
</tr>
<tr>
<td>2016</td>
<td>2.7</td>
<td>1.6</td>
<td>2.0</td>
</tr>
<tr>
<td>2017</td>
<td>2.0</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>2018</td>
<td>2.5</td>
<td>1.9</td>
<td>1.5</td>
</tr>
</tbody>
</table>

https://tradingeconomics.com/

Use the table above to answer the questions below:

Analyze the GDP growth rate for the Australian economy from 2014 to 2018.

Evaluate whether the RBA monetary policy stance has had the desired impact on the level of economic activity within Australia between 2014 and 2018.

Using a fully labelled macroeconomic equilibrium diagram, model the GDP Growth Rate from 2017 to 2018.

(6 marks)
Using the data in the graph below, analyse how Australia’s national unemployment rate has changed over the past five years.

Identify ONE potential factor for the change in the unemployment rate between 2015 and 2018, explain how this factor could have impacted the unemployment rate.

Given the change to Australia’s unemployment rate from 2015 to 2018, on the diagram below show the potential impact of this change on Australia’s macroeconomic equilibrium between these time periods.

(Question 15 continued)
You **MUST** answer **TWO** questions from this Unit.

You are encouraged to include diagrams, where relevant.

---

**Question 16**

A hypothetical plan has been proposed by the federal government to increase subsidies to Australia mining businesses that export minerals overseas.

On the diagram below, show the likely effect of an increased subsidy from the government to Australia’s mining sector.

Explain how a subsidy to support Australian mineral production could potentially effect on the Australian government and consumers.

(6 marks)

---

[Diagram showing supply and demand curves]
The table below shows the level of foreign investment in Australia from different economies from 2015 – 2017.

### Foreign Investment in Australia

<table>
<thead>
<tr>
<th>Rank in 2017</th>
<th>Economy</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>% of total</th>
<th>% change 2016 to 2017</th>
<th>5-year trend % growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>876.4</td>
<td>853.2</td>
<td>896.9</td>
<td>27.5</td>
<td>5.1</td>
<td>6.9</td>
</tr>
<tr>
<td>2</td>
<td>United Kingdom</td>
<td>481.4</td>
<td>520.7</td>
<td>481.4</td>
<td>14.7</td>
<td>-7.6</td>
<td>4.2</td>
</tr>
<tr>
<td>3</td>
<td>Belgium</td>
<td>247.1</td>
<td>270.1</td>
<td>305.3</td>
<td>9.3</td>
<td>13.0</td>
<td>9.6</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>201.6</td>
<td>215.7</td>
<td>219.2</td>
<td>6.7</td>
<td>1.6</td>
<td>7.6</td>
</tr>
<tr>
<td>5</td>
<td>Hong Kong (SAR of China)</td>
<td>86.3</td>
<td>102.2</td>
<td>116.6</td>
<td>3.6</td>
<td>14.1</td>
<td>17.0</td>
</tr>
<tr>
<td>6</td>
<td>Singapore</td>
<td>98.7</td>
<td>91.2</td>
<td>82.0</td>
<td>2.5</td>
<td>-10.1</td>
<td>5.6</td>
</tr>
<tr>
<td>7</td>
<td>Luxembourg</td>
<td>60.3</td>
<td>74.5</td>
<td>81.0</td>
<td>2.5</td>
<td>8.8</td>
<td>4.7</td>
</tr>
<tr>
<td>8</td>
<td>Netherlands</td>
<td>66.3</td>
<td>76.6</td>
<td>79.0</td>
<td>2.4</td>
<td>3.2</td>
<td>15.9</td>
</tr>
<tr>
<td>9</td>
<td>China</td>
<td>75.4</td>
<td>84.1</td>
<td>65.0</td>
<td>2.0</td>
<td>-22.8</td>
<td>21.6</td>
</tr>
<tr>
<td>10</td>
<td>Switzerland</td>
<td>54.2</td>
<td>58.5</td>
<td>53.7</td>
<td>1.6</td>
<td>-8.2</td>
<td>-2.7</td>
</tr>
</tbody>
</table>


Use the table to answer the questions below.

Identify the THREE countries that had the largest percentage decrease in foreign investment in Australia from 2016 to 2017.

Identify the TWO countries that had the largest percentage increase in foreign investment in Australia over the last five years. For each of the TWO countries identified, give ONE reason why this might have occurred.

Predict what might happen to China’s foreign investment in Australia over the next five years.

(6 marks)

Question 17 continues.
Question 18

The graph below shows Australia's trade balance between May 2014 to May 2018.

Using the data from the graph above analyse how Australia's trade balance changed between May 2014 and May 2018.

State ONE reason for Australia experiencing a trade surplus from February 2018 onwards. Explain why this reason might have led to a trade surplus.

State ONE reason for Australia experiencing a one month trade deficit between November 2017 and February 2018. Explain why this reason might have led to a trade deficit.

(6 marks)
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Candidate Instructions

1. You MUST make sure that your responses to the questions in this examination paper will show your achievement in the criteria being assessed.

2. You MUST answer ALL PARTS of EITHER Question 19 OR Question 20.

3. You MUST answer ALL PARTS of EITHER Question 21 OR Question 22.

4. You must write concise and clear answers for each of the questions you have chosen.

5. You are encouraged to include diagrams, where relevant.

6. Answers must be written in the answer booklet provided.

7. Each question is worth 36 marks.

8. You should make sure you answer all parts within each question so that the criterion can be assessed.

9. This examination is 3 hours in length. It is recommended that you spend approximately 90 minutes in total answering the questions in this booklet.

10. All written responses must be in English.

On the basis of your performance in this examination, the examiners will provide results on each of the following criteria taken from the course document:

**Criterion 3** Describe and analyse problems arising from economic issues and events.

**Criterion 4** Describe and analyse economic solutions and make recommendations for future economic action.

**Criterion 5** Communicate economic ideas and information.
Federal budget 2018: Scott Morrison's election pitch serves up tax cuts and strategic spending

The government has presented a $13.4bn tax plan offering the first run of relief to low and middle income earners squeezed by a long period of slow wage growth. The seven-year tax plan, which in the first phase will give 4.4 million taxpayers with incomes between $48,000 and $90,000 a $530 cash rebate, is the centrepiece of the 2018 budget.

The budget also includes more than $2bn of funding for aged care, and $4.2bn allocated for infrastructure. The government has attempted to balance its massive outlay on personal income tax cuts, with measures clawing back $6.1bn in revenue from the black economy, and $500m from welfare crackdowns.

In the future, the government proposes a shift towards a flat tax system where the current 37% bracket would be axed and workers on incomes between $41,000 and $200,000 would be taxed at the same marginal rate. Labor has given initial backing to the tax relief for low and middle-income earners but has reserved its position on the proposal to axe the 37% tax bracket.

The economic projections released, would see the budget return to balance in 2019-20, and deliver a budget surplus of $11bn in 2020-21. Net debt is forecast to peak at $349.851bn or 18.4% of gross domestic product in 2018-19. The government's income tax relief is funded by a massive increase in company tax revenue. Company tax collections increased by $15bn or 22% in 2017-18 and are expected to continue to grow steadily in future years.

Income tax collections have also improved as the labour market has strengthened and are expected to grow strongly in the last two years of the four-year budget cycle, with Treasury forecasting a rebound in wages growth to 3.5% – which is optimistic at a time when wages growth has been stagnant. He said the overwhelming majority of the cost of tax relief hit the bottom line in 2019-20, “the same year as the budget is forecast to return to balance”.


Question 19 continues.
Question 19 (continued)

Criterion 3: Describe and analyse problems arising from economic issues and events.

(a) With reference to the extract, explain the current fiscal policy stance in Australia and the potential implications for future budgets. (6 marks)

(b) Evaluate the potential impact of the ‘$13.4bn tax plan offering … relief to low- and middle-income earners’ on individuals in Australia. (6 marks)

(c) Critically analyse the implications of the methods proposed to finance the tax cuts in terms of their practical limitations. (6 marks)

Criterion 4: Describe and analyse economic solutions and make recommendations for future economic action.

(d) Explain the potential impact on businesses of the plan to ‘deliver a budget surplus of $11bn in 2020-21’. (6 marks)

(e) Assess the potential implications of the tax cuts in terms of social justice and environmental concerns. (6 marks)

(f) Recommend whether the government should shift towards a tax system whereby ‘workers on incomes between $41,000 and $200,000 would be taxed at the same marginal rate’. (6 marks)

Section C continues.
Section C (continued)

You **MUST** answer **ALL PARTS** of **EITHER** Question 19 OR Question 20.

**Question 20**

Academics say it's time for the RBA to hike the cash rate

While most traders, analysts and market-based economists believe the Reserve Bank of Australia (RBA) will keep official interest rates steady for the foreseeable future, that's not the view shared by some economic experts in Australia. They believe the RBA should lift rates now to help build a buffer for when the next economic downturn hits. The current level of interest rates are described as “unhealthy”. “With debt levels where they are, house prices where they are, and an economy as robust as it is, now is the time to raise interest rates”.

James Morley suggests that fears over what higher interest rates could do to the Australian economy are overblown, particularly at a time when the economy is growing at an above trend pace and the labour market moving back towards full employment, regarded as an unemployment rate of around 5%. He calls for the RBA to show faith that firmer economic growth and strong labour market conditions will lead to faster wage and inflationary pressures in the future.

It is suggested that with market interest rates rising around the world, the longer the RBA retains the cash rate at current levels, the greater the risk is that it could lead to a substantial depreciation in the Australian dollar. Despite interest rate differentials between Australia and the United States turning negative, and widening, for the first time in several decades, that hasn't seen the Australian dollar collapse as yet, largely reflecting strength in Australian terms of trade as a result of firmer commodity prices.

Higher interest rates will likely tighten Australian economic conditions, placing upward pressure on both borrowing costs and the Australian dollar. Given the RBA’s forecasts that stronger economic growth will lead to a gradual reduction in unemployment and lift in inflationary pressures seem to be playing out, it appears unlikely that it will see the need to raise interest rates. Is it worth risking an economic slowdown now by trying to build buffers for when the next downturn hits, whenever that will be? Policy should tighten when data confirms the economy is improving, not based on speculation that it will improve.

Question 20 (continued)

**Criterion 3**: Describe and analyse problems arising from economic issues and events.

(a) Explain why some economic experts feel ‘…now is the time to raise interest rates’. (6 marks)

(b) Explain some of the potential costs and benefits to the economy of potential ‘inflationary pressures in the future’. (6 marks)

(c) Critically analyse the potential implications of the ‘… economy growing above trend pace’ in terms of social justice and environmental concerns. (6 marks)

**Criterion 4**: Describe and analyse economic solutions and make recommendations for future economic action.

(d) Evaluate the potential implications of an interest rate rise on individuals. (6 marks)

(e) Evaluate the potential implications of an interest rate rise on business owners. (6 marks)

(f) Make a justified recommendation for action to the Reserve Bank of Australia with respect to the cash rate in the short-run. (6 marks)

Section C continues.
Section C (continued)

Question Number: [ ]

(In the box write the number of the question you are answering)

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Section C continues.
You **MUST** answer **ALL PARTS** of **EITHER** Question 21 **OR** Question 22.

**Question 21**

**Why the Aussie dollar is plummeting, and what you should do about it**

Australians planning an overseas trip will have watched with horror as the dollar plummeted from 77 US cents in early June to a little over 73 US cents by early July. The fall is even more dramatic if you look to the beginning of the year, when the Aussie dollar was worth 81 US cents. Many experts are predicting the fall will continue – with some saying it could go as low as 65 US cents over the next 12 months.

Why? On 13 June, the US Federal Reserve – America’s version of the Reserve Bank – lifted interest rates by 0.25 percentage points, and said there were more rate increases to come later in the year. That signalled to investors a number of things: the US is a good place to invest, and it’s only going to get better. As a result, currency speculators rushed to buy US dollars, selling their other currency holdings, such as Aussie dollars.

Three factors could see the tables turn back in the Australian dollar’s favour. In Australia, commodity prices could pick up, and wages could also finally start growing above inflation. That might prompt the Reserve Bank of Australia to lift interest rates, which would likely boost the Aussie dollar.


**Australian trade surplus shrinks to $1b on softer commodity exports**

In seasonally adjusted terms, the trade surplus narrowed 44 per cent from a revised-up $1.7 billion in March to $977 million in April. The value of exports fell 2 per cent to $34.2 billion, while imports were flat at $33.4 billion. The big drag on exports were coal, down $400 million or 7 per cent, and iron ore and minerals, down $300 million or 4 per cent. Evidence suggests GDP growth may have already peaked.

However, the stronger trade performance and the narrowing of Australia’s current account deficit in 2018 has helped support the Australian dollar against a stronger US currency. CBA’s Gareth Aird said that trend is likely to continue. "Demand for Australia's exports, particularly mining commodities, has kept the Australian dollar trading north of 75 US cents for most of 2018," Mr Aird said. "We expect that will continue to be the case over the remainder of 2018."


**Question 21 continues.**
Criterion 3  
Describe and analyse problems arising from economic issues and events.

(a) With reference to at least ONE of the extracts explain why ‘Many experts are predicting the fall (in the Australian dollar) will continue’? (6 marks)

(b) Evaluate the impact on individuals and businesses of a depreciating Australian dollar. (6 marks)

(c) Evaluate the potential impact of Australia’s trade surplus on the Current Account and consequently on the level of Australia’s foreign debt. (6 marks)

Criterion 4:  
Describe and analyse economic solutions and make recommendations for future economic action.

(d) Explain ONE policy action that the government could implement to strengthen a depreciating Australian dollar. (6 marks)

(e) Using your policy from (d), critically analyse this policy action by the Australian Government in terms of social justice concerns and practical limitations. (6 marks)

(f) Recommend ONE microeconomic policy the government could implement to improve international competitiveness. (6 marks)

Section C continues.
Section C (continued)

You MUST answer ALL PARTS of EITHER Question 21 OR Question 22.

Question 22

United States-China tariffs could cause issues for miners in Australia's biggest export state

Giuliano Sala Tenna said the tariffs may mean future decisions on large mining projects are paused because of the level of uncertainty in the global economic environment. Western Australian (WA) business analyst Tim Treadgold said the new tariffs would have a knock-on effect on the state's mining exports. "If the United States says to China, you can't send us any more steel, that says to China we don't need to buy any more iron ore from Australia."

But he said it was still too early to know how much of that impact will be felt by WA's big miners. "If the two biggest economies in the world declare a trade war, demand for commodities of the sort we export will decline," he said. The tariffs may mean future decisions on large mining projects are paused because of the level of uncertainty in the global economic environment.

US-China tariffs are also unlikely to boost beef trade with China. The WA Pastoralists and Graziers Association has downplayed the potential benefit to meat exporters, after news China would impose additional tariffs on US agricultural products. Tony Seabrook said while in the short term it may benefit alternative suppliers like Australia, he expected trade tensions between the US and China to resolve too quickly for the local beef industry to see a longer-term benefit.

China's tariffs on American pork could be bad news for local producers. WA Agriculture Minister Alannah MacTiernan said "We might find ourselves in a worse position because we can't export into China, and yet there'll be a lot of American product looking for other markets and that drives prices down," she said. A global oversupply of pork means demand has been low, and the overflow of US pork could hit already struggling local producers.


Question 22 continues.
Question 22 (continued)

Criterion 3  
Describe and analyse problems arising from economic issues and events.

(a) Explain how China imposing tariffs on US agricultural products could potentially have an impact on Australian consumers of pork. (6 marks)

(b) Analyse the potential impact of a US tariff on Chinese steel on Australia’s iron ore exports. (6 marks)

(c) Evaluate the potential impact of the US-China tariff situation on Australian businesses other than the mining industry. (6 marks)

Criterion 4:  
Describe and analyse economic solutions and make recommendations for future economic action.

(d) Describe TWO potential policies that the Australian government could implement to protect Australian businesses from the US-China tariff situation. (6 marks)

(e) With reference to the TWO policies described in d), compare and contrast the two policies to evaluate their impact on the Government. (6 marks)

(f) Critically analyse the use of tariffs by the Australian government as a trade protection solution in terms of social justice concerns and practical limitations. (6 marks)