

ECONOMICS (ECN315116)

FEEDBACK FOR STUDENTS AND TEACHERS

SECTION A COMMENTS

QUESTION 1

Students were expected to define and explain market equilibrium with better responses using a graph to aid in their explanation. Market shortage and market surplus needed to be clearly explained and differentiated. Higher level responses used a graph for each, clearly referring to the graph in the examples.

QUESTION 2

The concept of market failure needed to be explained in terms of the failure of the price mechanism to efficiently allocate goods and services in the free market and the result of this on the economy. Most students were able to correctly explain the nature of public goods and the need for them to be provided by the government. A number of students failed to correctly explain common resources (e.g. forests, beaches and fishing ground). Most appropriate responses provided both similarities and differences.

QUESTION 3

Students needed to provide an accurate definition of opportunity cost in their explanation of this concept. Many students needed to specify that opportunity cost is the next best alternative forgone when making decisions. Better responses used a production possibilities frontier (curve) to help explain this concept. The use of cost benefit analysis was used by higher standard students to describe how opportunity cost can be useful as a tool for economic decision making.

QUESTION 4

Students were expected to provide a clear explanation of the components of total spending, total output and total income, and how they are related to each other. Total spending comes from consumers, firms and the government. Total output is the sum of final goods and services produced across all sectors of an economy. Total income is the sum of all income earned in the economy, e.g. wages, rent, interest and profits. A circular flow model could have been drawn to show the relationship (although not essential). A number of students correctly identified that total spending represents aggregate demand.

QUESTION 5

This question required students to explain how cyclical unemployment and structural unemployment can occur. Most students were able to provide accurate explanations with better responses referring to a business cycle graph for cyclical unemployment. An example of a factor that can cause each type of unemployment was expected.

QUESTION 6

Students needed to accurately define economic growth as the sustained increase in the amount of goods and services produced in an economy over a period of time and measured by an increase in GDP. Students were also required to explain how ecologically sustainable economic growth was different. Higher level responses referred to environmental issues and the problem for future generations. Some students incorrectly failed to focus on the ecological aspect of sustainable growth. A range of examples were acceptable for both concepts.

QUESTION 7

Most students found this a straight forward question to answer. They provided an accurate explanation of what globalisation refers to and clearly identified 3 factors that facilitate globalisation, e.g. technology, increasing trade, increasing capital and financial flows.

QUESTION 8

In answering this question, more appropriate responses provided accurate definitions of the balance of payments and the exchange rate in their explanation of the relationship between the two. Clear links between the impact of the balance of payments and exchange rates (and vice versa) were expected to be shown. The factors that impact on the exchange rate tended to be well identified by students with the majority identifying interest rates, inflation rates or the demand for Australian exports.

QUESTION 9

Many students lacked an understanding of what was required from this question. Responses tended to concentrate solely on Australia's trade with Asia, lacking a more comprehensive outline on the direction and composition of Australia's trade. More successful responses outlined the composition of Australia's Trade in regard to major exports and major imports, and outlined the direction of Australia's trade in regard to major trading partners.

In describing the significance of Australia's trade relationship with Asia, better responses used current data to back up the importance of this relationship, with many students explaining the significance of China as a major trading partner to the Australian economy.

SECTION B COMMENTS

GENERAL STUDENT COMMENTS:

Students needed to read all sentences carefully as there were several tasks to do within each question. Fully labelled diagrams were required, including labelling of the axes, curves, price and quantity and the name of the market. Surprisingly common errors included incorrect labelling of demand and supply curves and failure to have a directional arrow when there was movement of a curve.

QUESTION 10

Most students responded to this question about demand and supply. A decrease in supply occurred in both markets as there was a shortage of raspberries due to climatic influence. There was movement of the supply curve and movement along (contraction) the demand curve in the raspberry market. Some students were able to justify a long-term increase in supply in the raspberry sauce market due to 'negative impacts on the crop' resulting in increased supply of poor quality raspberries (i.e. sauce-making raspberries). This was accepted for this market.

QUESTION 11

Few students answered this question. Most students accurately plotted the PPF, however identifying the opportunity cost caused problems. Many students failed to indicate the goods, or gave both gain and loss. The opportunity cost was 20 capital goods. The majority of students wrote about reducing production of capital goods at point B as a negative long-term effect. Higher rated answers took into account the level of production of capital vs consumer goods at point B and discussed trade-off between short-term standard of living and long-term increased production capability. Several answers discussed points such as price, demand, trade and profits which do not relate to the PPF and did not add to the response.

QUESTION 12

This question required calculation of the price elasticity of demand not just the total revenue at each price. Price elasticity was inelastic from \$10-\$15, unit elastic from \$20-\$25 and elastic when price moved from \$30-\$35. Accepted demand and supply movements in the Devil Island Ferry diagram were increased demand (tastes and preferences), increased supply (more ferries running per day) and decreased supply (cost of upgrading).

QUESTION 13

Most students answered this question. Any scale used was accepted and labelling of the business cycle was well done. Stronger answers stated that there was a recession as real GDP had fallen in 2015 and 2016. Possible impacts also showed good understanding of the business cycle and included increased unemployment, decreased AD and lower inflation. Some students discussed the impact on policy setting, such as more expansionary fiscal policy which was also accepted.

QUESTION 14

Analysis of GDP growth that identified the rates in the table was well done. The RBA monetary policy stance was identified as loosening the cash rate and students discussed increasing growth and inflation. Stronger answers discussed growth and inflation targets including some reasons for irregularities in the trend e.g. time lags, fiscal policy. Students should note that 2-3% is the RBA inflation target, not an economic growth target. Labelling of the macroeconomic diagram was poor. General price level and GDP were the axes labels and an increase in AD resulted in the increased growth and inflation rates for 2017 to 2018. Many were incorrectly labelled as a microeconomic diagram of demand and supply.

QUESTION 15

A substantial number of students failed to answer the first or third part of this question. When done, analysis was generally an accurate description of the data in the unemployment rate diagram. Factors included changes in the business cycle, casualisation of labour, underemployment or fiscal policy. At times, students failed to clearly explain why a factor would cause the unemployment rate to decrease. Increased AD was required in the macroeconomic diagram, not a diagram of the labour market.

QUESTION 16

This question was very popular amongst students with most students able to correctly show the subsidy as a shift of the supply curve to the right, resulting in decreased price and increased quantity. Some students included a world price which lead them to describe a tariff rather than a subsidy, or incorrectly show Australia importing minerals. Students who scored top marks were able to clearly explain potential effects on the Australian government and consumers, such as tax and trade implications.

QUESTION 17

This was answered by most students. Most students were able to correctly read the data and name countries with the largest percentage changes in foreign investment. Different time frames were asked about requiring careful reading of the task requirements by the students. Another issue was students writing about exports and imports rather than foreign investment.

Good responses discussed direct and portfolio investment, higher interest rates in Australia, and real estate and agricultural investment as potential reasons for increased investment by China and Hong Kong. A broad range of predictions was accepted around Chinese investment in the future.

QUESTION 18

Few students attempted this question about Australia's trade balance from May 2014 to 2018. Broad trend analysis was accepted. Most students were able to suggest factors that could decrease or increase imports and exports such as depreciation or appreciation of currency, protection, and commodity price fluctuation or a seasonal impact such as Christmas.

SECTION C COMMENTS

QUESTION 19

- a) Students who did well on this question recognised that the budget was moving towards surplus and therefore the fiscal stance is contractionary. Many students focused on the current fiscal deficit (budget outcome) and some credit was given for this interpretation. Marks for the second part of the question depended on the interpretation of the first part.
- b) This question was generally well answered. Strong answers included higher standards of living, increased consumption and its impact on aggregate demand, noting that low to middle income earners spend a higher proportion of their income.
- c) Strong responses discussed the practical limitations of measuring and taking action on economic activity that was being deliberately hidden, as well as costs of policing the black economy. Students also needed to identify some issues with cutting back spending on those abusing welfare. A common error here was to equate cutting back on welfare fraud with cutting back on legitimate welfare spending. A further valid point made by many strong responses, was that the sum total of both these policies falls short of the costs of the income tax cut.

- d) This was an open question which left room for credit over a wide variety of answers. Better responses realised that the increase in company taxes was due to rising company profits and was thus cyclical in nature rather than an increase in company tax rates.
- e) Generally this question was well answered. Strong responses recognised that there were both advantages and disadvantages for both social justice and environmental concerns stemming from the tax cuts.
- f) Markers accepted a range of arguments both for and against, on whether the government should shift towards a flatter tax system. Stronger responses recognised that there were both costs (such as income inequality) and benefits (e.g. more incentives to work harder) towards moving towards a flatter tax system.

QUESTION 20

- a) This question was generally well answered, with strong responses including examples from the article such as the return to surplus providing a buffer for future downturns, the effects of the falling dollar and slowing down the real estate boom.
- b) A range of costs and benefits associated with inflationary pressures were accepted. These included that inflation within the RBA target band indicated a growing economy, higher levels of spending and consumer confidence, wages growth and a return to a more normal economic situation. Costs may include higher interest rates, falling real income for low income earners and welfare recipients, a less competitive export sector and general business uncertainty.
- c) This question was interpreted by some students as being about unsustainable growth, and by others as growth returning to slightly higher than average levels. Examiners accepted reasonable responses for both these interpretations, with stronger responses mentioning advantages and disadvantages associated with higher levels of growth.

- d) Good responses included discussion about repayments on existing loans, reduced likelihood of borrowing, decreased consumption and that this could result in rising unemployment due to a fall in aggregate demand and the associated multiplier effect.
- e) Good responses included that business investment may fall, servicing costs on existing investment were likely to rise, and that there would be less consumer spending.
- f) Students were required to outline overall benefits and costs of a change in the cash rate, as well as making a recommendation. Some credit was given to students who argued only for or against a rate change, or failed to state their favoured course of action.

QUESTION 21

- a) This was generally well answered with most students referring to the fall in Australian interest rates relative to US interest rates. There may be an increased demand from the foreign sector to invest in the US. The fact that “experts are predicting” that this situation will continue, may mean speculators may also increase their demand for US currency and sell off Australian currency. Many students included diagrams showing changes to the supply and demand of the Australian dollar. Other students noted that lower commodity prices may also decrease the demand for the Australian dollar.
- b) For individuals, this may mean more expensive imports possibly resulting in decreased living standards. This could be inflationary. The cost of overseas travel would also increase. Export industries could benefit from more competitive products, increasing incomes and possibly increasing investment spending. This could lead to employment growth. Alternatively increasing costs of imported factors of production could have numerous negative consequences. This question was generally well answered.
- c) Most students were able to explain that a trade surplus means that export revenue is greater than import spending. Stronger responses explained that while Australia still experiences a CAD, the size of this deficit is smaller as a result of the trade surplus. Again, while Australia continues to have foreign debt, the trade surplus has a positive impact. Many students went on to explain the structure of the current account.

- d) Only ONE policy needed discussing here. Possible actions discussed by students included raising interest rates by exerting pressure on the RBA, subsidising export industries to stimulate demand for our exports, contractionary fiscal policy to reduce spending on imports, and successful overseas advertising campaigns to encourage tourism to Australia. Students needed to explain how their policy would help strengthen the Australian dollar.
- e) Responses depended upon which policy was adopted in part (d), e.g. if raising interest rates was used this would negatively impact those in debt, the housing market, and constrict investment. Those earning interest through savings would benefit. This clearly has social justice concerns. A practical limitation in this example would be the fact that the federal government does not have control over interest rates.
- f) Again a wide variety of answers were accepted. Microeconomic policies included subsidising firms to compete internationally, other protectionist policies such as tariffs or quotas for particular industries, specific trade agreements and deregulation of particular industries. Answers needed to explain how the reform would improve international competitiveness.

QUESTION 22

- a) This question was generally well answered. China imposing tariffs would make US agricultural products more expensive, reducing demand. This could increase the supply of US pork on world markets, decreasing world price. Many students used diagrams to show this. Australian consumers could benefit from cheaper pork becoming available from the US and competing with domestic and other world producers of pork.
- b) A US tariff on Chinese steel would increase its price within the US and contract demand. Many students used a diagram to show this. As China purchases iron ore from Australia to produce steel, there would be a decrease in demand for Australian iron ore. This would have a negative impact on Australia's trade balance.

- c) There was a wide range of answers from students. Many discussed when one major industry such as mining is negatively impacted, how there will be a multiplier effect on many other industries and townships. In addition to this, the US-China trade conflict could result in declining business confidence and a global downturn in economic activity. Other suggestions included Australia brokering new trade agreements and creating new markets for exports.
- d) Again a wide range of answers were given here. Two policies needed to be discussed. Answers included tariffs, quotas, subsidies, administrative barriers and the encouragement of trade agreements. Diagrams were generally well used where appropriate.
- e) The answer to this was dependent upon the policies given in part (d). Students discussed the varying impact upon taxation receipts and government spending of the policies they chose. Others also included discussion of how supporting domestic industries could encourage economic growth and the implications for this for the government.
- f) Students needed to discuss social justice concerns and limitations of using tariffs. Again a wide range of answers included issues such as governments needing to justify decisions of which businesses to support and which to not support. The issue of supporting inefficient industries was discussed by many. Tariffs could also lead to tension and retaliation from other countries. Tariffs increase prices within Australia and this can have a higher impact on low income households.