

Economics

Course Code: ECN315116

Section A

General Comments

It is not necessary to fill the entire page with writing to gain top grades. A concise well written response using correct economic terminology with clear accurate examples is required.

Many students used diagrams/graphs in their answers. Good diagrams were directly relevant to the material required. Good diagrams were clear and accurately labelled, partially labelled sketch graphs do not gain top marks.

Question 1

Strong answers briefly defined the economic problem and opportunity cost and showed how the two are linked. This was followed by a clear appropriately labelled PPF diagram which explained the concept of opportunity cost with a correct calculation.

The economic problem involves scarce resources, unlimited needs and wants and the need for choice. Opportunity cost demonstrates the real cost of choices. PPF allows students to show graphically the opportunity cost of choices. Strong responses noted that needs and wants are ranked.

Question 2

Statement of the four economic questions was required - what to produce, how much to produce, how to produce and how to distribute the produce. A short comment on each was appropriate (outline only).

Candidates then needed to show that both markets and the government were involved in answering the question of what to produce in a mixed market eg consumer sovereignty and government production. A common error was to explain the involvement of markets but not the government.

Question 3

Good responses clearly defined price elasticity of demand and then provided two correct examples one elastic and one inelastic. Strong responses referred to the revenue/outlay method. Some used calculations and some used diagrams of demand curves to support their answers.

Question 4

Clear definitions of unemployment and underemployment were needed to allow the distinction between the two to be clear. Candidates then needed to use this information to clearly show how the unemployment rate actually underestimates the amount of unused labour resource in Australia. Most students referred to underemployment as those people who have work but want more hours and are therefore effectively partly unemployed. Others noted that some people work in jobs below their qualifications and are therefore underused labour.

Question 5

A precise definition of inflation was required eg a sustained increase in the general price level. Many candidates then referred to the CPI as a measure of inflation. For top marks candidates then needed to identify demand-pull and cost-push inflation as the main causes. Demand-pull inflation involves demand increasing when supply is at or near capacity, thus as AD increases consumers bid up prices. Cost push inflation involves an increase in the cost of factors of production which leads profit maximising businesses to increase their prices to maintain profitability. Some candidates made good use of diagrams.

Question 6

Candidates needed to present the formula for AD and identify the components eg consumption, investment, government expenditure and net overseas demand. A clear explanation of how two factors (eg income, consumer expectations or interest rates) can influence consumption was required.

Question 7

Good responses clearly defined tariffs and subsidies identifying that they are forms of protection to support domestic import competing industries. Many candidates used diagrams to help explain the difference between the two, these needed to be appropriately labelled for full marks not partial sketch graphs. Some candidates forgot to include that tariffs lead to consumers paying higher prices whilst receiving less product whilst subsidies lead to consumers paying higher taxes or government spending being directed to the subsidy leading to an opportunity cost in use of government resources.

Question 8

Candidates provided a wide range of definitions of globalisation. The definition supplied in Dixon and O'Mahony is a good definition. Candidates also used a wide range of examples. The key to attaining top marks was to show how the example impacted on performance of the Australian economy. This could be quite general eg increased interconnectedness and the global business cycle or more specific to an industry eg car manufacturing.

Question 9

The structure of the current account includes the key areas of balance on goods and services, net primary income and net secondary income. A brief comment on the content of the first two of these components was necessary for top marks. Candidates then needed to link a persistent current account deficit to foreign liabilities. Answers tended to be limited in this part of the question. Foreign liabilities include both foreign debt and foreign equity.

Section B

Question 10

The question required students to present and provide an explanation of a fully labelled diagram to show the effect of a tax on sugary drinks. While a surprising number of students omitted to shift the supply curve, this was generally well done.

The consequent rise in the price of sugary drinks results in a decrease in quantity purchased and hence a reduction in sugar consumption. Elasticity of demand will determine the relative effectiveness of the tax in reducing sugar consumption. Candidates displayed a sound understanding of the relationship between elasticity and consumer behaviour:

- If demand for sugary drinks is elastic (due to the product having close substitutes and being non-addictive) this will result in a greater than proportionate fall in the quantity demanded, effectively achieving the government's desired outcome.
- If demand is inelastic (maybe viewed as addictive) then the tax does not effectively contribute directly to achieving the government's desired outcome; however, the tax revenue generated could be directed to another method to achieve the government's aim such as an advertising campaign.

Full marks could be achieved from clear explanation of a correct diagram and a discussion that related either elastic or inelastic demand to the government's goal; the best answers covered both inelastic and elastic demand.

Question 11

This question was well answered. Students are reminded that it is necessary to write terms in full rather than use abbreviations; for example, 'Financial Sector' rather than just 'F'. The examiner expected a brief discussion that identified the role of injections into, and leakages from, the circular flow of income in the five-sector model as well as identifying the 3 leakages and Injections (Note Consumption is not an injection, as incorrectly stated by some

students). While candidates were aware that disequilibrium occurs when the sums of injections and leakages are not equal, some did not provide a suitable example of how this might occur; detailed numerical examples were accepted but not required. Candidates should be aware that disequilibrium does not necessarily occur if, for example, savings did not match investment or imports did not equal exports.

Question 12

Candidates were well prepared for this question and displayed sound understanding of the Production Possibility Frontier. Candidates clearly understood the long-term implications of an economy choosing to produce fewer capital goods, and offered a variety of ways a country could achieve the combination of goods represented by point Y which lay beyond the PPF provided.

The opportunity cost was 2 capital goods.

Question 13

Full marks were achieved for correct answers to the first two parts of this question as part (c) is outside the current Economics syllabus. Nevertheless, a small proportion of candidates did, in fact, successfully calculate Real GDP for 2015 as requested. Virtually all students showed the method used to work out their answers.

- a.) Inflation for 2013/14 = 3.9%
- b.) Economic Growth for 2014/15 = 9.1%

Question 14

This was not the most popular question. Most candidates produced a diagram showing (as stated) increased output; many of these recognised that the Aggregate Supply curve shifted to the right.

Students generally did not distinguish demand/supply for the aggregate economy from that of any particular goods/services market. As a consequence the resulting fall in the “general price level” was not understood to relate to inflation and the rise in total output was not understood to imply a rise in GDP. Reduced inflationary pressures and a rise in total output would likely be associated with falling unemployment, lower interest rates and a rising standard of living.

Question 15

A variety of terms to describe four phases of the business cycle was accepted with *boom*, *downturn*, *recession*, and *upswing* being presented most frequently. Phase C represents a recession – a number of students pointed out that the economy was experiencing negative growth for more than two successive quarters.

Full marks were awarded for identifying the four phases of the business cycle and then (briefly) explaining several impacts of recession on an economy:

- Falling GDP
- Higher unemployment, especially cyclical unemployment
- Government fiscal policy likely to stimulate the economy, both discretionary and non-discretionary, with an expansionary fiscal stance the leading towards a budget deficit
- Loosening of monetary policy
- Falling incomes and living standards

Question 16

Many candidates realised that this was a straightforward question and duly received full marks; very few appreciated quite how economical an answer would earn full marks.

Candidates generally appreciated that Australia’s higher interest rate levels – when compared with those in the USA (and elsewhere) – cause increased demand for the \$AUD on foreign exchange markets which results in an appreciation of the \$AUD, and said so clearly.

Full marks could be achieved by candidates who showed this increased demand for the \$AUD and the resulting rise in the \$AUD/\$US exchange rate on the diagram provided, and then went on to briefly explain how the reduced purchasing power of the \$US results in decreased demand for Australian exports so that Australian exports to the USA fall.

Some candidates used the diagram to explain the reduced US demand for Australian exports rather than to reflect the currency market. Many candidates unnecessarily chose to unburden themselves on the topic of a “floating exchange rate”.

Question 17

When first encountered this is a daunting question; closer inspection however, reveals that it was not necessary to link the question's two aspects. Candidates are simply expected to

- cite and briefly explain one factor that might contribute to rising (\$) expenditure by inbound tourists, and
- cite and briefly explain one factor that might contribute to falling (%) manufacturing output in Australia.

Candidates usually attributed rising tourism expenditure to the depreciating Australian dollar which question 18 shows has been steadily depreciating since September 2012, making Australia a relatively cheaper and thus more attractive tourist destination. The decline in manufacturing output was generally explained in terms of restructuring of the Australian economy, free trade agreements, Australia's high (wage) costs and lack of comparative advantage in manufacturing, and also as a result of the combination of reduced protection, free trade agreements and globalisation. Some students incorrectly linked an increase or decrease in government spending to the tourism or manufacturing trend.

Question 18

This question tended to reveal candidates better able to communicate economic ideas and information (criterion 5).

Over the period 1/1/2010 to 1/4/2016 the \$AUD/\$US exchange rate showed the following “trend”:

“After a brief appreciation there was a period of fluctuations in the exchange rate at about \$1.05 US to \$1 AUD; from the beginning of 2013 the \$AUD has steadily fallen (depreciated) against the \$US.”

or

“Apart from an appreciation in 2010, the Australian dollar has steadily depreciated over the 2011 to 2016 period.”

Candidates were required to explain the implications of this trend – the steady depreciation of the \$AUD – for two components of aggregate demand, most commonly exports and imports. This was generally done quite easily and many candidates scored high marks for this question.

It was neither necessary nor helpful to describe each and every fluctuation in the graph over the six year period.

Section C

General comments

Better answers explained economic terminology mentioned in questions- for example market failure, current account, social justice; and used appropriate economic terms in answers.

Extracts need to be read carefully and the information contained therein used in the responses.

Question 19

- (a) Information was available in the extract relating to technological advances. Some analysis of the effects of technological change was helpful, and stronger responses recognised that the increased unemployment in regional areas was due to labour being replaced by technology and capital rather than a fall in production or demand.

- (b) Answers were often restricted to discussing whether 5.7% unemployment for the entire economy was cause for concern. Information in the extract relating to high levels of youth and indigenous unemployment should have pointed students towards a discussion of issues regarding an average measure and its applicability to all on society. Students could also have discussed hidden unemployment, underemployment and *historic* unemployment levels as well as unemployment levels amongst different groups.
- (c) This section gave students the opportunity to show knowledge of recent economic events- for example – the end of construction phase of then mining boom, decline in demand from China, falling commodity prices, technological advance. A wide range of possible reasonable responses were also accepted.
- (d) An appreciation of issues confronting rural isolation assisted in answering this section. Better responses included issues such as lack of diversification in rural economies, transport and communication issues, infrastructure and training/education opportunities.
- (e) Impacts could be positive or negative. It was important to identify both the impacts on businesses (eg lower incomes and therefore lower levels of spending) and the final budget effect of lower taxes and higher welfare contributing to deficits. This part was generally handled well.
- (f) Answers were required to analyse implications of high levels of indigenous unemployment. Linking to diversity proved difficult for most students. A discussion of the general social and economic problems associated with unemployment was sufficient if this recognised that these problems disproportionately affect indigenous Australians.

Question 20

This question was generally handled well.

- (a) This part was handled well. Strong responses gave a discussion of negative externalities as the relevant type of market failure, including details on how fossil fuels imposed a cost on society. The question did not require solutions to be offered.
- (b) Better answers clearly dealt with sustainability and how coal mining contributed to growth. Most dealt with environmental sustainability and depletion; very few talked about sustainability in terms of macro-economic goals in relation to inflation and employment.
- (c) Most dealt with this part well. Better answers clearly identified which benefits accrued to each of company, individuals and other businesses.
- (d) Generally well handled. Many had the misconception that the government was responsible for the current account deficit. Candidates needed to identify the area of the current account effected by exports, such as net exports and impact on the net primary income account.
- (e) Generally well handled with relevant information provided in the extract. Costs associated with climate change, mine clean up costs and the costs of addressing future structural unemployment were among the valid responses.
- (f) Environmental implications were well addressed. Social justice issues were less clear but possible issues included inter-generational equity; effects upon more sustainable industries; those affected by negative externalities within and without Australia; effects upon indigenous population; non-mining employees; exchange rate effects on other industries

Question 21

- a) Good responses addressed the flow on effects of increased employment in export industries by looking at a range of ways that this affected the wider economy. These gains included discussion of the general benefits of increased employment as well as the impacts on the budget and the multiplier effect. Stronger responses noted that export industries often have higher levels of income and linked this to the concept of comparative advantage.
- b) This question was misinterpreted by many students, who focussed narrowly on structural unemployment rather than the broader concept of structural change. Better responses discussed both the gains and the losses of broader industries and gave examples of industries that have been declining or growing in Australia due to increased trade, including changes in structural unemployment
- c) Students who focussed on a range of aggregate demand components scored well on this questions. Better answers discussed net exports, potentially increased domestic consumption due to cheaper imports and investment.

- d) A wide range of environmental concerns were accepted, including increased consumerism, local damage due to increased transport, climate change due to increased fossil fuel use and poor environmental protection in foreign countries. Many students did not attempt to address practical limitations associated with free trade, but issues such as political sensitivities, self-sufficiency and defence and distance were accepted.
- e) Students could discuss either tariffs, quotas or subsidies. Better answers briefly outlined the impacts of these methods of protection, such as higher prices for consumers. Many responses indicated that protection was justified if an industry was unprofitable or inefficient rather than arguing that protection was justified to protect domestic employment, or to avoid dumping, or to help an infant industry to establish.
- f) Most students correctly identified that an appreciation of the Australian dollar would make exports less attractive to foreigners and that imports would be cheaper for Australians. Better answers discussed why this would negate the benefits of a free trade agreement and why the RBA, with a focus on sustainable economic growth, full employment and price stability, would be concerned.

Question 22

- (a) Most answers correctly stated that a government deficit exists when total government expenditure exceeds total government revenue. I.e. $G > T$. Students went on to say that this is expansionary fiscal policy and this has direct implications for the circular flow. Government spending is an injection while taxation is a leakage. Some students went on to explain that this could have a multiplied effect on other parts of the circular flow.
- (b) Good answers clearly explained what automatic stabilisers are and how they counterbalance economic cyclical changes. Common examples used were transfer payments and the progressive tax system. In a time of economic downturn they should increase the size of the budget deficit.
- (c) Good answers fully explained the costs and problems such as the need to borrow funds from within the Australian economy or from overseas, and the servicing costs associated with this. Some mentioned the recent threat to our AAA credit rating. The cost to future generations of servicing this debt was mentioned by some candidates. In addition some mentioned the costs of solving this problem (without fully answering part d)
- (d) Most students answered the first part of this question well. Generally there would be an increase in taxation revenue and/or a reduction in government spending. This would be a contractionary fiscal stance. While this would not be beneficial short term economic growth its long term effects could be debatable. Effects on income distribution varied according to changes mentioned (eg an increase in GST compared to an increase in the highest rate of marginal tax). In regards to diversity students commented on how different groups in society could be affected.
- (e) Well answered by most students. An explanation of expansionary monetary policy, how this would work and its effectiveness was expected.
- (f) One fully explained microeconomic strategy was sufficient. Some examples included deregulation, reforms to public trading enterprises, deregulation, national competition policy and any policies which target specific industries or aspects of the Australian economy.