Please note. Some comments below are quite long and indicate a variety of possible answers. For the length of answer required candidates should refer to the space given in the answer booklets.

**Question 1**

Market equilibrium is the situation where, at a certain price level, the quantity supplied and the quantity demanded of a particular commodity are equal.

At this price the market clears i.e there is no excess demand (shortage) or excess supply (surplus) and there is no tendency for change in either price or quantity.

Diagram recommended.

**Question 2**

MPC is the proportion of each extra dollar of income that is spent on consumer products and the MPS is the proportion of each extra dollar of income that is saved.

The sum (MPC+MPS) equals 1 because each extra dollar of income must be either consumed or saved. For example if a consumer spends 80 cents of an extra dollar in income they must save the remaining 20 cents.

**Question 3**

Simple diagram needed, correctly labeled. Refer to p23 The Market Economy, Dixon & O’Mahony.

**Question 4**

Cost-push inflation occurs when there is an increase in production costs (cost of the factors of production) that producers pass on in the form of higher prices thus raising the level of inflation (a sustained increase in the general level of prices).

An example of how this might occur is when wages, the carbon tax, oil prices or electricity prices rise and producers pass this on in the price of final goods and services.

Graph could be useful.
Question 5

Unemployment – those willing and able to work but not employed as a percentage of the labour force.

Cyclical unemployment is caused by a downturn in the business cycle. When there is a downturn in the business cycle, demand for goods and services falls and producers are forced to cut production and employment to maintain profit levels. A good example is the impact of the GFC. When growth returns this type of unemployment will be reduced.

Structural unemployment occurs because of a mismatch between the skills demanded by employers and those possessed by the unemployed. This can occur because of changes in technology or changes in the pattern of demand e.g. online banking has led to less bank tellers being employed.

Question 6

Monetary policy involves action by the Reserve Bank in setting the interest rate on overnight loans in the money market (cash rate) to help achieve economic objectives such as low inflation and sustainable growth.

The cash rate influences other market rates in the economy which in turn affect the level of economic activity.

The loosening of monetary policy involves lowering the cash rate (by buying government securities to increase the supply of money and credit) which will reduce other interest rates. This should boost consumer and investment spending and the level of aggregate demand. Recent cash rate reductions have had this objective.

Question 7

Fiscal policy involves the use of the Commonwealth Government budget to achieve economic objectives (resource allocation, equitable distribution of income and reduction in the business cycle fluctuations). Discretionary changes involve deliberate changes to fiscal policy such as reduced spending or increased taxation e.g. introduction of the minerals resource rent tax (MRRT).

Non-discretionary fiscal policy involves changes which follow fluctuations in the business cycle. This occurs through automatic stabilizers such as welfare benefits (which increase in a down turn & vice versa) and the progressive tax system (which increases the tax take when the economy is growing & vice versa).
Question 8

Australia’s balance of payments consists of two main accounts – the current account and the capital and financial account.

The current account records all transactions between Australia and the rest of the world over a financial period. It records the money flows of trade in goods (exports – imports) and services (e.g. education, tourism) and primary and secondary income flows such as interest payments, dividends, foreign aid donations and pensions.

Money flows coming into Australia are credits (e.g. sale of coal to China) and outflows are debits (e.g. purchasing a South Korean car).

Question 9

A tariff is a tax imposed on imported goods and services, making them more expensive. They reduce the quantity demanded for imports and therefore make the domestically produced good more competitive. It is a form of trade protection which may:

- protect a domestic industry e.g. Australian car manufacture
- assist an infant industry to grow
- raise revenue for the government (Diagram would be useful)

Question 10

Candidates needed to complete a fully labelled Demand and Supply diagram and make reference to the diagram in the written explanation.

In order for the price of Abalone to fall to $55 000 per tonne and quantity to remain at 50 tonnes, there needed to be an increase in Supply and a decrease in Demand. Candidates needed explain the impact of the increase in supply and the decrease in demand, including how the new equilibrium was arrived.

Question 11

The unemployment rate = The number of unemployed/Number employed + Unemployed (the Labour Force). = 1,200,000/13,200,000 = 9.09%.

The participation rate = the Labour Force/Population aged 15 to 65 = 13,200,000/16,000,000 = 82.5%
Question 12

The question required some thought and analysis to determine why two countries could have similar HDI’s yet very different GDP per capita figures. The first part of the answer was simple, and examples were Norway and Australia, US and New Zealand, Brazil and Saudi Arabia.

Answers to the second part needed to briefly distinguish between GDP per capita and HDI. Then candidates needed to explain that for a country with a lower GDP per capita to have a similar HDI, that country needed to have significantly better health (life expectancy, infant mortality, etc) and/or better education (literacy levels, school leaving age, etc) in order to make up the shortfall in GDP per capita compared to the other country.

Question 13

Candidates needed to complete a fully labelled Demand and Supply diagram and make reference to the diagram in the written explanation.

Solar panels are a substitute good for obtaining electricity from the grid. A subsidy for solar panels will lead to decrease in the demand for electricity from the grid. This occurs because the price of a substitute good has decreased and some customers will switch to the substitute good, leading to a decrease in demand for electricity from the grid, regardless of price. This results in a surplus of supply, a decrease in price and, as price falls, a contraction in supply in the Tasmanian market for electricity. If candidates interpreted the question as solar panels adding to the supply of the electricity market, recognition was given to these responses.

Question 14

Aggregate Demand = C + I + G + (X – M) = 700 + 300 + 450 + (70-80) = $1,440 billion.

The multiplier = 1/MPS or 1/1-MPC. However, in this example, the size of the multiplier could be worked out by dividing the final change in aggregate demand of $120 billion by the initial increase in government spending of $40 billion. The size of the multiplier is 3.

Candidates then needed to explain how aggregate demand (AD) grows, not by $40 billion but by $120 billion. The initial injection will add to AD but it will also lead to an increase in production due to the increased demand for goods and services in the economy. This increase in production will lead to an increase in incomes of $40 billion. Some of this increased income will be saved and some consumed. The amount consumed (C) will add to AD, creating another round of: increase in production/increase in incomes/increase in consumption/increased in AD. This process occurs until the final amount of increased income is fully saved and the process stops when AD has increased by $120 billion.
Question 15

Candidates needed to explain how interest rates fluctuated over the three year period. Interest rates went up then went down. ‘When’ and ‘by how much’ should have been elaborated upon.

The second part of the answer required candidates to explain that as the cost of borrowing goes down, this being a factor of demand for housing, would likely lead to an increase in the demand for housing, resulting in a shortage in the industry, with prices rising and quantity supplied expanding.

Question 16

Growth Rate = \( \frac{(GDP_{cy} - GDP_{py})}{GDP_{py}} \times 100 = \frac{1144 - 1100}{1100} \times 100 = 4\% \)

Inflation = \( \frac{(CPI_{cy} - CPI_{py})}{CPI_{py}} \times 100 = \frac{135 - 128}{128} \times 100 = 5.47\% \)

2010 Budget balance of: 315 – 330 = $15 billion deficit

2011 Budget balance of: 401 – 378 = $23 billion surplus

Candidates should remember to use % signs in answers and to use the appropriate denominations for numbers such as $billion

Question 17

Candidates were expected to give two correct examples of goods or services relating to two of Resources, Services, Rural or Manufacturing industries.

They were then expected to give a summary of the trend in dollar volumes of exports in two of these. Candidates were also given recognition if they provided correct rationale as to why volumes had gone up or down during this period.

Question 18

Candidates needed to complete a fully labelled Demand and Supply diagram (neatly and with a ruler) and make reference to the diagram in the written explanation.

Candidates needed to explain why there would be less demand for the $AUS if there was a drop in demand for Australian minerals by China. Candidates then needed to explain the impact of a decrease in demand by the Chinese for the $AUS currency. Candidates then needed to explain the impact of a fall in the valuation of the $AUS to the Chinese Yuan on inbound tourists to Australia.
Question 19

If growth in the mining industry were to increase the impact may be a shortage of skilled labour, the consequences of a two speed economy and a high Australian dollar.

Increased growth in mining activity means increased exports and the consequent demand for Australian dollars may lead to further appreciation of the currency. This is further sustained by overseas investment in the Australian economy (especially in the current global economic environment).

Expanded activity and the skills shortage in the mining sector would result in higher wages being offered and therefore attracting workers from other sectors of the economy. The high dollar impacts negatively on domestic producers, tourism operators and any industry competing internationally. With other exporters and import-competing sectors experiencing difficult conditions due to the high Australian dollar and relatively cheaper imports structural change continues within the economy with associated structural unemployment. This was identified as typifying the two-speed economy; a number of candidates included related appropriate regional and socio-economic consequences.

Continued mining industry growth could result in a skills shortage across a range of sectors. This would necessitate policy to increase numbers in the areas where there may be a shortage. There would be a widening gap between those in mining sector and those in other sectors such as manufacturing, retail, building which would make it difficult for policy makers and the RBA.

A discussion of BOP consequences in terms of increased exports improving the trade balance and for the CAD and foreign debt was possible.

Despite the fact that inflation is currently within the RBA inflation range and interest rates at historically low levels many candidates responses discussed high inflation rates. Some candidates wrote that growth automatically causes inflation while many others related the increase in investment and exports to increased aggregate demand and thus cause inflation. Candidates should be aware that inflation is a sustained increase in the general price level rather than increases in prices/costs within one particular sector of the economy.

Question 20

Good responses gave a broad definition of market failure, stating that the free market, without government intervention, will produce some outcomes which are undesirable to society. Any two of the range below were acceptable. The best responses adequately described the market failure and described the economic impact of the chosen market failure. Provision of goods and services. In a free market where production is left to the private sector, some goods and services will not be produced. These include public goods, which are non-excludable and non-rival, will not be produced because it is difficult to enforce payment, making them unprofitable to produce. These goods and services include street lights, roads
and national defence. These all improve the quality of life and often facilitate trade and business, and if not provided for the benefit of all would impact the economy.

Inequality in income distribution. A free market will often lead to those who own and control the factors of production gaining the majority of the production. This inequality tends be become entrenched in the economy as advantage is inherited, such as through education. Each society will have a different idea about the level of acceptable inequality, however there is an economic impact of high levels. High levels of poverty will lead to an unskilled, unemployed and unhealthy population, reducing economic growth and increasing demands on government.

Externalities occur when there is a benefit (positive externality) or cost (negative) to a party outside of a transaction, such as the impact of incorrectly disposed waste impacting on a resident near a tip. The business disposing the rubbish has saved money by passing on the cost to the wider community. This has an economic impact as the full cost is not captured in the price mechanism, distorting the allocation of resources, and potentially creating greater costs for health and environmental impacts. Some externalities will destroy natural resources, reducing future production.

Abuse of market power. Markets work well when there is competition; however there are situations where there are few market players, for example in natural monopolies (water, sewerage) where competition would be wasteful, or in businesses with high barriers to entry (airlines, mobile phone networks) where a small number of businesses compete for business (oligopolies). While there are other types of abuse of market power, these two are good examples of negative economic impacts as they may be able to lift prices or restrict supply, unlike a competitive marketplace. This will increase costs for consumers and businesses and reduce the need for the non-competitive businesses to innovate, become more efficient and offer high quality goods and services.

Instability in the business cycle. Free markets tend to have periods of high growth, booms, downturns and recessions, as good economic conditions give confidence to consumers and businesses, stimulating the economy and possibly leading to inflation and wage blowouts, and making the economy vulnerable to shocks. Lack of confidence about the future restricts spending and investment, thereby reducing aggregate demand even further, leading to business closure and higher unemployment. These extreme event both impact the economy and society.

Question 21

Appreciation of the AUD means that the value of the AUD in terms of other currencies increases. The price of exports in foreign currencies increases which decreases the quantity demanded of our exports. The price of imports in AUD decreases, increasing the quantity demanded of imports by Australians. The problem caused is a decrease in AD when net exports decrease. This can be shown using the AD expression. Alternatively, candidates discussed increases in leakages and decreases in injections and effect on the circular flow.
Other associated problems identified were multiplier effect of slowing growth and unemployment increasing in export and import-competing industries.

Problems with CAD included foreign investment and funding problems.

**Question 22**

There were **several strategies that were acceptable** for this question, including monetary policy, fiscal policy, trade policy and microeconomic reform. Good responses tended to point out the limitations of the strategies discussed, particularly in dealing with the two-speed economy. *The response below is an indication only, not the required answer.*

A two-speed economy is one where some sectors or regions which are booming and others are stagnant or in decline. Australia currently faces such a situation, with very high levels of mining exports and investment, and failing tourism, manufacturing, construction and retail. Generally, monetary policy and fiscal policy have economy-wide (macroeconomic) impacts, making them imperfect tools to manage a two-speed economy, however they still have a place. The Reserve Bank of Australia uses monetary policy to adjust interest rates, which has an impact on the economy through the transmission mechanism. If the RBA was to lower rates, many households would have more disposable income to spend and there should be more housing construction, which would help two of the sectors in decline. The problem with this policy is that it also makes credit cheaper for the booming sectors and there is a time lag. The federal government can use fiscal policy to counteract the expansionary impact of reduced interest rates. The current budget is contractionary, as it is aiming for a small surplus following a large deficit in previous years. Specifically targeting the two-speed economy, the government has introduced the minerals resources rent tax (MRRT) to tax super profits, with the aim being to reduce company tax and to help fund other tax relief and government expenditure. This redistribution is a key aspect of fiscal policy, and can also help to fund structural change, education and training which will help sectors and regions in decline. This policy will work as long as the mining industry generates above average profits, but if this doesn’t happen a budget surplus is unlikely.

**Question 23**

Economic sustainability aims to promote usage of resources that is both efficient and responsible, and likely to provide long-term benefits. This involves taking into account environmental concerns in order to ensure that activity is sustainable for a longer period of time. Environmental management policies which aim to modify the behaviour of households/business/industry may include the following:

- Fishing zones and seasons – bans fishing in some areas and times
- Carbon tax – increases costs to producers
- Wood heaters – subsidise households to replace in order to reduce pollution
- Recycling rubbish -
• Waste disposal strategy
• Tax on fuel – non-renewable resource
• Water metres – user pay system aimed at reducing water consumption.
• Discussion of **two examples** should suffice.

**Question 24**

The economic problem is that we have unlimited wants but limited resources, therefore we have to choose which wants to satisfy. Comparative advantage is the basis of free trade and helps us make the choices required by the economic problem. Comparative advantage states that countries should produce the goods and services for which they have the lowest opportunity cost and trade for other goods and services. This implies that all countries are maximizing production with given resources. If all countries do this and trade their surplus this should maximize allocative efficiency. This helps solve the economic problem and ensures maximum wants are being satisfied with limited (global) resources.

**Question 25**

(a) The article suggested that the economy is ‘roaring along’ in the March quarter. Growth for this quarter was 1.3% (more than twice the predicted value) and for the year to March was 4.3%. There has been an increase in consumer spending of 1.6% over the quarter and 4.2% over the year.

The limitation to drawing conclusions using this information is that the data relates to the economy as a whole, and does not differentiate between sectors. It would be expected that a significant proportion of the growth relates to the extractive industries, and that growth in other sectors was somewhat less or non-existent.

(b) Primary production is an important element of Australia’s export trade. Weather problems such as flood or drought adversely impact upon the rural sector more so than other sectors. In terms of supply and demand analysis the supply curve for primary producers will shift upwards to the left, as less product can be supplied at each price level (diagram could be provided).

(c) If net exports fall then, ceteris parabus, the current account deficit will worsen (through the decrease in the balance on goods and services).

As the current account deficit must be funded through capital/financial inflows then the implication is that the foreign debt is likely to rise.

(d) Factors could include:
• Increased incomes from economic growth
• Improved consumer sentiment
• Possibly through decreasing interest rates aimed at the ‘stagnant’ sectors.
(e) Discussion of the ‘2 speed economy was relevant here. The benefits of growth being largely restricted to those engaged in the extractive industries and related activities and consequent lack of effect on those not involved. Related are regional differences. Also relevant was a discussion of how measures of growth are not necessarily indicative of welfare- a wider concept involving general ‘wellbeing’.

Question 26

(a) The expected diagram would show a shift to the right in the demand curve (due to the surging demand in Asia) for coal-seam gas. This is a new development for the industry.

(b) Better technology allows the extraction of coal-seam gas to be cheaper and therefore able to offer it at a price comparable to other gas. The improved technology also allows the labour to be more efficient. In addition, it may also allow access to previously inaccessible or unprofitable gas. A diagram could be used to show a shift to the right in the supply curve for CSG.

(c) Indirect economic gains to Roma will result as employment levels rise. There will be increased consumption and Investment expenditure in the region, thus contributing to growth in sectors such as retail and building. The multiplied effect of this could be discussed. Also local infrastructure would be developed.

(d) Externalities of fracking include contamination of adjacent groundwater and a loss of high quality water as it seeps into fracked coal seams. Clearly there would be a significant social cost in the process and before any process goes ahead a cost/benefit analysis should be undertaken. This would allow a full assessment of the external costs of fracking to be weighed up against the benefits. Candidates were asked to make a judgement.

(e) The government could restrict the areas where fracking takes place. Industries could be taxed and some of this returned to those bearing the costs of the water loss and contamination. The government could encourage research and development. Limits could be put on levels of production. Rules, regulations and guidelines could be enacted.

Question 27

(a) A supply and demand diagram was needed showing a shift to the left for the demand curve. Prices could be shown to have fallen 14%. This has happened due to the falling levels of demand from China. As China’s economic growth has slowed, so has its demand for raw materials such as iron ore.

(b) The fall in profitability in these markets will result in lower than anticipated revenue from the MRRT, to the extent that the government may receive nothing. The
implication is that a reduction in government revenue will impact on the budget outcome (negatively). The government may need to decide to reduce spending or raise taxes from other sources.

(c) As suggested in the article, the fall in commodity prices will act as a disincentive for investment. Investment expenditure is an injection into the circular flow and the impact of reduction this injection is to place contractionary pressure on the economy. Therefore a lower level of aggregate economic activity may be the final outcome.

(d) This decrease in investment may lead to other areas becoming more attractive and this may benefit other states. Also the purpose of the MRRT was to partly redistribute income to other struggling sectors. This may also now be unlikely. As the boom in mining slows, the RBA may be able to loosen monetary policy which may benefit other states.

(e) The decreased demand for Australia’s iron ore and coal may result in a depreciation in the Australian dollar as the demand for the dollar would decrease. A diagram could be used here. The fall in export revenue would impact negatively on the balance of trade, however over time, with a weaker dollar, other industries may benefit. Imports may become more expensive resulting in a fall in the quantity demanded.
## Award Distribution

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## Student Distribution (SA or better)

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