



2021

HSC
ECONOMICS
TASK 2

Economics

Student number/name: _____

**General
Instructions**

- Reading time – 5 minutes
- Working time – 1 hour and 30 minutes
- Write using blue or black pen
- NESA approved calculators may be used

**Total
Marks: 50**

Section I – 10 marks

- Attempt Questions 1– 10
- Allow about 20 minutes for this section

Section II – 20 marks

- Attempt Questions 11– 12
- Allow about for 35 minutes for this section

Section III – 20 marks

- Attempt either Question 13 or Question 14
- Allow about 35 minutes for this section

Section I

10 marks

Attempt Questions 1–10

Allow about 20 minutes for this section

Use the multiple-choice answer sheet for Questions 1– 10.

1. Which of the following is a trading bloc?
 - A. The Group of 20 (G20)
 - B. The European Union (EU)
 - C. The World Bank
 - D. The World Trade Organisation (WTO)

2. Which of the following is a disadvantage of economic integration between two trading nations?
 - A. Creates more widespread use of tariffs and quotas
 - B. Causes less emphasis on bilateral and multilateral trade agreements
 - C. Violates the World Trade Organisation's principle of trade without discrimination
 - D. Results in significant influence from transnational corporations on the global economy

3. Which of the following statements correctly describes the main source of imports and destination for exports for the Australian economy?
 - A. China is both the main source of imports and destination for exports
 - B. China is the main source of imports and the US is the main destination for exports
 - C. The US is the main source of imports and China is the main destination for exports
 - D. The US is both the main source of imports and destination for exports

4. The table shows data for a nation's terms of trade.

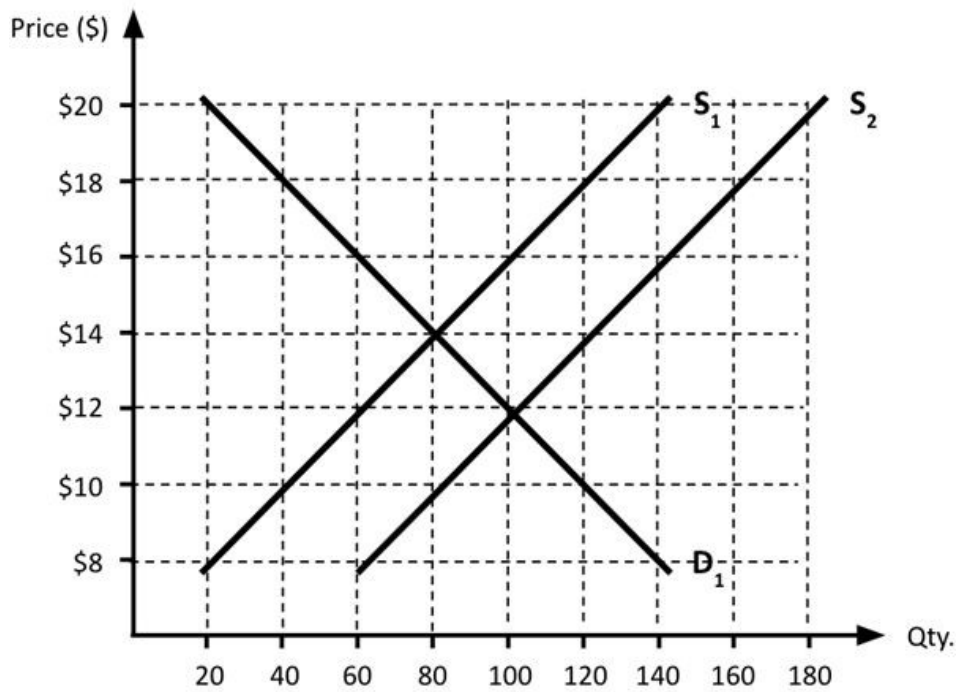
<i>Year</i>	<i>Export Price Index</i>	<i>Import Price Index</i>
1	100	100
2	107	102
3	96	116

Which statement is correct?

- A. The terms of trade fell from Year 1 to Year 2
 - B. The terms of trade fell from Year 1 to Year 3
 - C. The terms of trade rose from Year 1 to Year 3
 - D. The terms of trade rose from Year 2 to Year 3
5. An Australian firm pays dividends to a foreign investor. Where would this transaction be recorded on Australia's balance of payments?
- A. Capital account
 - B. Financial account
 - C. Net primary account
 - D. Net secondary income
6. Which of the following would be expected to cause an increase in the supply of Australian dollars?
- A. An increase in domestic inflation
 - B. A fall in foreign investment inflows
 - C. An increase in demand for Australian exports
 - D. Speculation that the Australian dollar will appreciate

Refer to the diagram for questions 7 and 8

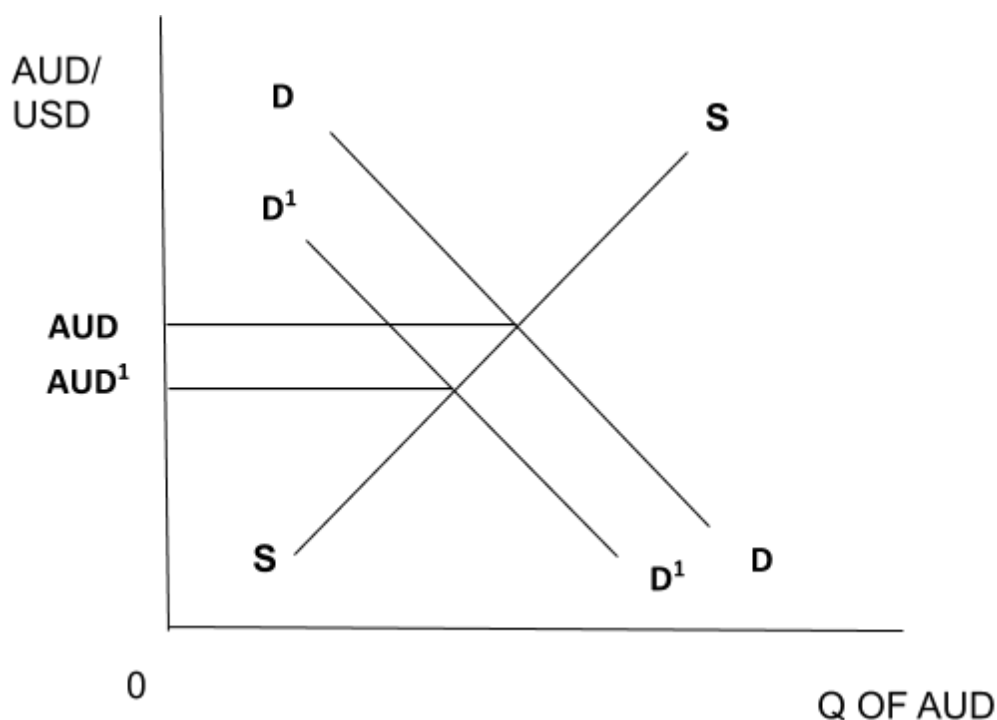
This diagram shows the impact on the price and quantity of potatoes per '000 kg when a subsidy is paid to domestic producers. Assume that the equilibrium price of potatoes with the subsidy is \$12.



7. Referring to the diagram, what is the subsidy paid to domestic producers for potatoes per '000 kg?
 - A. \$2
 - B. \$4
 - C. \$8
 - D. \$12

8. Referring to the diagram, what is the total cost to the government for this subsidy?
 - A. \$80
 - B. \$240
 - C. \$400
 - D. \$1200

9. The graph shows the foreign exchange market for the Australian Dollar (AUD) in terms of the US Dollar (USD).



Which of the following could have caused the fall in the value of the AUD?

- A. Higher interest rates in Australia
 - B. Positive expectations of an increase in the AUD
 - C. Significant purchases of the AUD by the Reserve Bank
 - D. Decreasing global commodity demand
10. Which of the following is most likely to decrease Australia's international competitiveness?
- A. Productivity growth in Australia and depreciation of the Australian dollar
 - B. Structural change in Australia and appreciation of the Australian dollar
 - C. Increased labour costs and improved infrastructure in Australia
 - D. Increased labour costs and higher interest rates in Australia

END OF SECTION I

2021

**HSC ECONOMICS
TASK 2**

Student number/name: _____

**Economics
Section II Answer Booklet**

20 marks

Attempt Questions 11–12

Allow about 35 minutes for this section

Instructions

- Answer the questions in the spaces provided. These spaces provide guidance for the expected length of response.
 - Extra writing space is provided at the end of this section. If you use this space, clearly indicate which question you are answering.
-

Please turn over

Question 11 (10 marks)

(a) Define the regional business cycle. **1**

.....
.....

(b) Distinguish between a quota and a tariff. **2**

.....
.....
.....
.....

(c) Explain the effects of protectionist policies on the international business cycle. **3**

.....
.....
.....
.....
.....
.....

QUESTION 11 CONTINUES ON PAGE 8

(d) How do transnational corporations contribute to globalisation?

4

.....

.....

.....

.....

.....

.....

.....

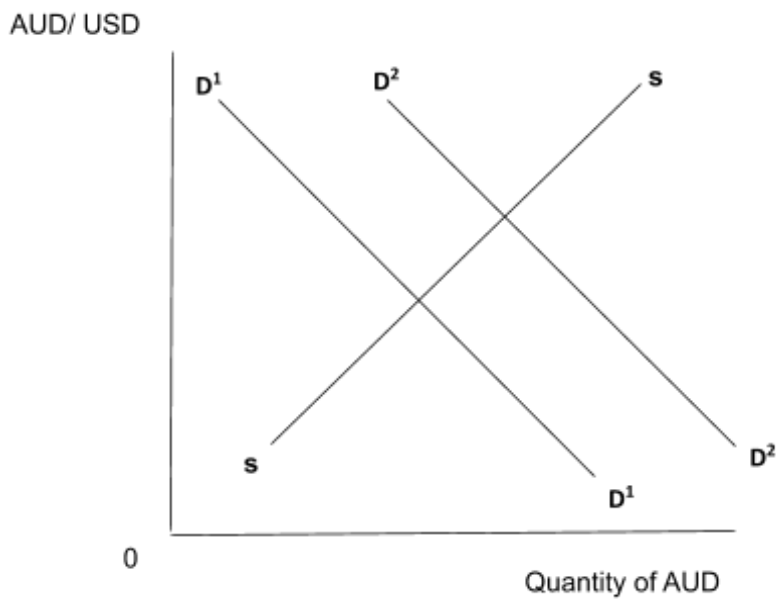
.....

END OF QUESTION 11

Question 12 (10 marks)

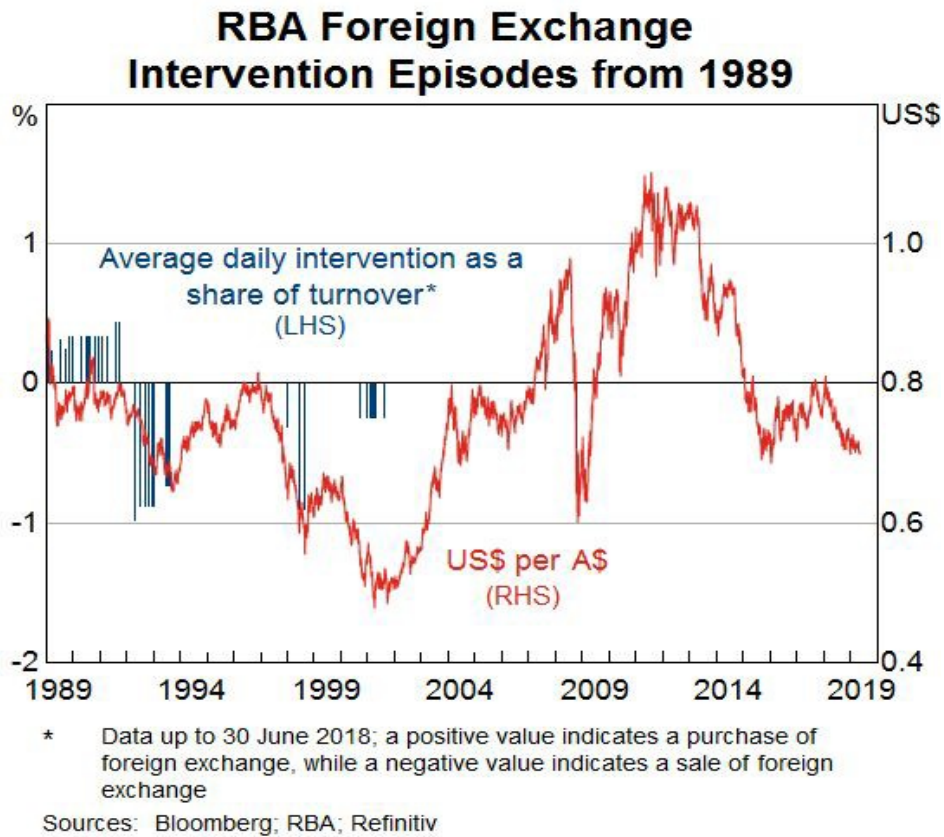
- (a) Mark the graph in TWO places to indicate the following: **2**
- (i) the ORIGINAL price of the Australian Dollar (AUD), in terms of US Dollars (USD); use 'OP' or similar to indicate the ORIGINAL PRICE.
 - (ii) The FINAL price of the Australian Dollar (AUD), in terms of US Dollars (USD) following changes in the demand for the AUD; use 'FP' or similar to indicate the FINAL PRICE.

Assume there is a flexible (floating) exchange rate.



QUESTION 12 CONTINUES ON PAGE 10

The graph shows the Reserve Bank of Australia’s approach to foreign exchange intervention from 1989-2019. Refer to this stimulus to answer Question 22 (b).



(b) Explain why the Reserve Bank of Australia has intervened in the foreign exchange market.

4

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

QUESTION 12 CONTINUES ON PAGE 11

(c) Explain TWO types of effects on the Australian economy from fluctuations in exchange rates.

4

.....

.....

.....

.....

.....

.....

.....

.....

END OF SECTION 2

EXTRA WRITING SPACE

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

2021

**HSC ECONOMICS
TASK 1**

Section III

20 marks

Attempt either Question 13 or Question 14

Allow about 35 minutes for this section Answer on separate paper.

Your answer will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question.
 - apply relevant economic information, terms, concepts, relationships and theory.
 - present a sustained, logical and cohesive response.
-

Question 13 (20 marks)

Assess the impact of exchange rate fluctuations on the external stability of an economy.

OR

Question 14 (20 marks)

For a country other than Australia, assess the policies used to achieve economic growth and development.

END OF PAPER



Student number/name: _____

2021 HSC ECONOMICS
TASK 1

Economics

Instructions for answering multiple choice questions

- Complete your answers in black pen.
- Select the alternative A, B, C or D that best answers the question. Fill in the response circle completely.

Sample 1: $2 + 4 =$ (A) 2 (B) 6 (C) 8 (D) 9
A B C D

If you think you made a mistake, put a cross through the incorrect answer and fill in the new answer. If you are using a pencil, you may rub out the incorrect answer and fill in the new answer.

A B C D

If you change your mind and have crossed out what you consider to be the correct answer, then indicate the correct answer by writing the word *correct* and drawing an arrow as follows:

A B ^{correct} C D

Student number/name: _____

Section I
Answer Sheet

-

Start Here

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

BLANK PAGE

**WARNING
DO NOT PRINT
ANSWERS BELOW**

**Marking Guidelines
Section I (10 marks)**

Questions 1-10 (1 mark each)

Question	Answer
1	B
2	C
3	A
4	B
5	C
6	A
7	B
8	C
9	D
10	D

Section II (20 marks)

Question 11(a)

Criteria	Marks
<ul style="list-style-type: none">• Correctly defines the regional business cycle.	1

Sample answer:

The regional business cycle refers to changes in real output, trade and financial flows of a defined geographic region in which two or more economies are economically integrated.

Question 11 (b)

Criteria	Marks
<ul style="list-style-type: none">• Demonstrates a clear distinction between a quota and a tariff.	2
<ul style="list-style-type: none">• Sketches in general terms the features of a quota AND/OR a tariff.	1

Sample answer:

A quota limits the maximum quantity of any imported good in a given period while a tariff is a tax on imported goods, levied by the importing country when an imported good crosses its international boundary. The tariff raises revenue for the government, while the quota restricts supply.

Question 11 (c)

Criteria	Marks
<ul style="list-style-type: none">• Comprehensively explains the effects of protectionist policies on the international business cycle.	3
<ul style="list-style-type: none">• Describes in general terms protectionist policies AND/OR the international business cycle.• Provides in general terms an understanding of the economic relationship between protectionist policies on the international business cycle.	2
<ul style="list-style-type: none">• Identifies some features of protectionist policies AND/ OR the international business cycle.	1

Answers could include:

- Protectionist policies act as a supply shock, restricting international trade and limiting the aggregate demand of an economy. This will have a cumulative effect of dampening international economic growth.
- Aggressive protectionist policies can act as both recessionary and inflationary, limiting the upward trend in the international business cycle. Less aggressive protectionist policies may insulate single open economies from international shocks but limit future trade opportunities and the upward swing in the international business cycle.

Question 11 (d)

Criteria	Marks
● Demonstrates a comprehensive understanding of how transnational corporations contribute to globalisation.	4
● Demonstrates a sound understanding of how transnational corporations contribute to globalisation.	3
● Sketches some features of transnational corporations and makes some reference to globalisation.	2
● Makes general statements about transnational corporations AND/OR globalisation.	1

Sample Answer:

- Transnational corporations (TNCs) are businesses which produce, manufacture, and sell goods and services in multiple countries for the aim of increasing customers, thus revenue, and therefore profits. For example, Apple, Shell, and Nike. TNCs often produce their goods in developing nations to take advantage of cheap raw materials, cheap labour supply, and friendly government policies which reduces expenses for these TNCs. While service-oriented companies often use developing nations for sales and technical support advice for their customers, which is cheaper than in developed nations. This contributes to globalisation because the supply chain is spread out across multiple countries, where TNCs take advantage of low-cost input costs and increase their global reach.

Question 12 (a)

Criteria	Marks
• Correctly marks the graph to indicate the original AND final price of the AUD/ USD.	2
• Correctly marks the graph to indicate the original OR final price of the AUD/ USD.	1

Question 12 (b)

Criteria	Marks
• Provides an argument that strongly supports the claim that the RBA acts to slow or correct excessive trends in the exchange rate.	4
• Provides an argument that supports the claim that the RBA acts to slow or correct excessive trends in the exchange rate.	3
• Sketches in general terms why the RBA acts to slow or correct excessive trends in the exchange rate.	2
• Makes a general statement/s about the RBA's influence on the exchange rate.	1

Sample Answer:

The RBA has changed its approach to intervening in the foreign exchange market since a flexible exchange rate was introduced in 1983. Increasingly, the RBA will only intervene when the foreign exchange market shows signs of excessive volatility characterised by significant market disorder. These occasions have become less frequent as the foreign exchange market has become increasingly sophisticated however, there have been times when the RBA has forcefully attempted to mitigate volatility. The GFC in 2008 and its ongoing effects from speculative forces prompted significant buying up of the AUD to strengthen the currency and to isolate the Australian economy from a downturn in international economic fundamentals. The RBA is a stabilising long-term speculator and through its intervention in the foreign exchange market, it has limited fluctuations in the exchange rate creating certainty for trading agreements and international transactions and buoyancy in the domestic economy.

Answers could include:

- When the Reserve Bank intervenes in the foreign exchange market, it creates demand or supply for the Australian dollar by buying or selling Australian dollars against another currency.
- The intervention transactions are typically executed through the electronic broker market, or through direct deals with banks.
- The RBA will only intervene where market functioning has been impaired to such a degree that it was clear that the observed volatility was excessive.

Question 12 (c)

Criteria	Marks
<ul style="list-style-type: none">● Demonstrates a comprehensive understanding of TWO types of effects on the Australian economy from fluctuations in exchange rates.	4
<ul style="list-style-type: none">● Demonstrates a sound understanding of TWO types of effects on the Australian economy from fluctuations in exchange rates.	3
<ul style="list-style-type: none">● Demonstrates an understanding of ONE and/or TWO types of effects on the Australian economy from fluctuations in exchange rates.	2
<ul style="list-style-type: none">● Makes a general statement/s about an effect/s on the Australian economy from fluctuations in exchange rates.	1

Sample Answer:

Exchange rates influence Australia's trade and financial flows with the rest of the world. Fluctuations in the exchange rate can be described as having two types of effects: direct and indirect. The export price of goods and services produced in Australia will be directly affected by the price of the AUD in terms of another currency. When the AUD depreciates Australian goods and services will become cheaper and conversely when the AUD appreciates, exports will become more expensive. There are indirect effects stemming from exchange rate changes. A depreciated currency will increase Australia's international competitiveness and improve economic activity but domestically it can create inflationary pressures as imported goods and services become more expensive. Such a situation can also exacerbate the Current Account Deficit as the value of net exports decrease.

Answers could include:

<https://www.rba.gov.au/education/resources/explainers/exchange-rates-and-the-australian-economy.html>

- There is a **direct effect** on the prices of goods and services produced in Australia relative to the prices of goods and services produced overseas.
- There is an **indirect effect** on economic activity and inflation as changes in the relative prices of goods and services produced domestically and overseas influence decisions about production and consumption.

Question 13 (20 marks)

SOURCE:

Section III Question 25

Criteria	Marks
<ul style="list-style-type: none"> • 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 • Makes a well-informed judgement about the impact of exchange rate fluctuations on the external stability of the Australian economy 	17–20
<ul style="list-style-type: none"> • Synthesises own knowledge and understanding with the information provided, to develop a logical and cohesive response • Applies relevant economic terms, concepts, relationships and theories • Makes some judgement about the impact of exchange rate fluctuations on the external stability of the Australian economy 	13–16
<ul style="list-style-type: none"> • Uses own knowledge and understanding with the information provided, to develop a coherent response • Uses relevant economic terms, concepts, relationships and theories • Demonstrates some understanding of the impact of exchange rate fluctuations on components of external stability 	9–12
<ul style="list-style-type: none"> • Presents a generalised response • Uses some economic terms • Sketches in general terms some aspects of the impacts of exchange rate fluctuations on the Australian economy 	5–8
<ul style="list-style-type: none"> • Presents a limited response • Uses some economic terms • Lists some aspects of exchange rate fluctuations 	1–4

Answers could include:

- Definition of exchange rate, external stability
- Components of external stability:
 - balance of payments
 - net foreign debt/liabilities.

Balance of Payments

- Net goods – exchange rate elasticity, mining vs non-mining sectors, Terms of Trade, structural adjustment
- Net services – exchange rate elasticity, two speed/multi-speed economy during mining boom, Terms of Trade volatility
- Primary income – returns/income from foreign direct investment, returns/income from foreign speculative investment, interest rate differentials, mining boom, savings investment gap, serviceability on foreign debt, valuation effect

Capital and Financial Account:

- Foreign Direct Investment
 - exchange rate sensitivity, mining vs non-mining sectors.

- Portfolio Investment:
 - interest rate differential
 - global economic uncertainty.
- Foreign Reserves:
 - domestic and global exchange rate fluctuations.
- Pitchford Thesis:
 - growth of public sector debt.
- Valuation effect

Net Foreign Liabilities

- Savings/investment gap
- Serviceability of foreign debt
- Foreign investment in Australian housing market
- Foreign investment in mining sector
- Growth of public sector debt
- Growth of net foreign debt as a percentage of GDP
- Increase in foreign ownership in Australia
- Changes to government debt ceiling

International Competitiveness – Trade Weighted Index

- Fluctuation of exchange rates impacts the overall balance on the current account.
Depreciating exchange rates lead to worsening CAD as the primary income account mostly contributes to the CAD
- International business cycle
- Fluctuations impact international competitiveness
 - link to goods and services
- Commodity price volatility leads to narrow export base
- External shocks – global events
- Changes in the international business cycle due to external shocks and global events.

Question 14 (20 marks)

For a country other than Australia, assess the policies used to achieve economic growth and development.

Marking Criteria	Marks
<ul style="list-style-type: none">• Synthesises own knowledge and understanding to develop a sustained, logical and cohesive response.• Integrates relevant economic terms, concepts, relationships and theories.• Demonstrates a clear and comprehensive understanding of the policies used and a sophisticated assessment of how they promote economic growth and development in an economy other than Australia.	17-20
<ul style="list-style-type: none">• Synthesises own knowledge and understanding to develop a logical and cohesive response.• Applies relevant economic terms, concepts, relationships and theories.• Demonstrates a sound understanding and assessment of the policies used to promote economic growth and development in an economy other than Australia.	13-16
<ul style="list-style-type: none">• Uses own knowledge and understanding to develop a coherent response.• Uses relevant economic terms, concepts, relationships and theories.• Demonstrates some understanding and assessment of the policies used to promote economic growth and development in an economy other than Australia.	9-12
<ul style="list-style-type: none">• Develops a generalised response.• Uses economic terms and concepts.• Identifies some aspects of policies used to promote economic growth and development in an economy other than Australia.	5-8
<ul style="list-style-type: none">• Presents a limited response.• Uses some economic terms and concepts.• Lists aspects of policies used to achieve economic objectives.	1-4

Answers could include:

- Trade policies eg free trade agreements
- Private and foreign investment policies
- Taxation policies
- Special economic zones
- Export assistance policies
- Membership of international economic organisations
- Agricultural and land reform policies
- Education policies
- Environmental sustainability policies eg renewable energy policies
- Clean air and water initiatives
- Infrastructure programs
- Legal and political reforms
- Health care
- Social welfare reforms