

2019 HSC Economics Marking Guidelines

Section I

Multiple-choice Answer Key

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

Section II

Question 21 (a)

Criteria	Marks
• Sketches a reason why the supply of Australian dollar may increase	2
• Provides some relevant information	1

Sample answer:

Increase in outbound tourists from Australia to USA. This means more Australian dollars will be supplied to the market.

Answers could include:

- More imports
- Less capital inflows
- More capital outflows
- Speculation

Question 21 (b)

Criteria	Marks
• Demonstrates a clear understanding of why Australia's TWI may not move in the same direction as its value relative to the USD	3
• Sketches why Australia's TWI may not move in the same direction as its value relative to the USD	2
• Makes a correct statement about Australia's TWI or bilateral exchange rates	1

Sample answer:

The TWI is the value of the AUD against a weighted basket of the currencies of major trading partners. The USA is only one of many partners and hence movements in the value of the USD relative to AUD may not reflect the general value of the AUD against other trading partners.

AUD may depreciate (appreciate) against the USD but because of the amount of demand for AUD by China and/or other economies, the TWI will continue to appreciate (depreciate).

Answers could include:

- The USD has a weighting less than 10% within the TWI. The USA may be only a relatively small trading partner.
- The AUD may have appreciated (depreciated) in general but the USD could have appreciated (depreciated) even more.

Question 21 (c)

Criteria	Marks
<ul style="list-style-type: none"> Demonstrates a comprehensive understanding of how a depreciation affects Balance of Payments accounts (KAFAs and CA) 	5
<ul style="list-style-type: none"> Demonstrates a sound understanding of how a depreciation affects the Balance of Payments categories 	4
<ul style="list-style-type: none"> Sketches how a depreciation affects the Balance of Payments categories OR <ul style="list-style-type: none"> Demonstrates a comprehensive understanding of how a depreciation affects a Balance of Payments category 	3
<ul style="list-style-type: none"> Makes a relevant statement about how a depreciation affects the Balance of Payments 	2
<ul style="list-style-type: none"> Makes a relevant statement about the Balance of Payments OR an effect(s) of a depreciation 	1

Sample answer:

Depreciation of the Australian dollar will initially make imports more expensive worsening the BOGS. In the long run however this will improve the international competitiveness of our exports as it will require less of foreign currencies to purchase the same amount. Domestic consumers will also switch to domestic goods and services due to the cost factor.

Depreciation will make Australian assets cheaper to purchase and hence increase capital inflow (financial account of the BOP), although this may not be the case if further depreciation is expected. Depreciation will also make servicing our debts that are denominated in other currencies more expensive causing a larger debit in the primary income.

Answers could include:

- Definition of Balance of Payments and/or its categories (components)
- Valuation effect
- Primary income
- Secondary income
- Foreign direct
- Portfolio Investment
- J-curve
- Greater returns on overseas investments.

Question 22 (a)

Criteria	Marks
<ul style="list-style-type: none">• Sketches the relationship between economic growth and economic development	2
<ul style="list-style-type: none">• Makes a relevant statement about economic growth and/or economic development	1

Sample answer:

Economic growth refers to increase in real GDP over a period of time while economic development refers to an improvement in living standards. Economic development generally requires economic growth to take place.

Answers could include:

- Infrastructure, human and physical capital
- HDI
- Income per capita.

Question 22 (b)

Criteria	Marks
<ul style="list-style-type: none"> Enquires into TWO reasons that account for the difference in living standards between nations 	4
<ul style="list-style-type: none"> Enquires into ONE reason that accounts for the difference in living standards between nations <p>AND</p> <ul style="list-style-type: none"> Sketches ONE other reason that accounts for the difference in living standards between nations 	3
<ul style="list-style-type: none"> Enquires into ONE reason that accounts for the difference in living standards between nations <p>OR</p> <ul style="list-style-type: none"> Sketches TWO reasons that account for the difference in living standards between nations 	2
<ul style="list-style-type: none"> Makes a relevant statement about a reason for the difference in living standards 	1

Sample answer:

Countries may have access to different natural resources (eg coal, oil, water, metals) within their economies leading to differences in incomes and living standards.

The less developed economies lack funding and capital required for investments and to generate growth and this will impact living standards.

Answers could include:

- Natural resource allocation
- Low levels of human and financial capital
- Infrastructure
- Stability of government
- Institutional factors
- Economic policies
- Trade and financial flows
- Foreign debt
- Access to technology
- Global aid and assistance.

Question 22 (c)

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates a comprehensive understanding regarding the effectiveness of a strategy used to promote economic development in a country other than Australia 	4
<ul style="list-style-type: none"> • Demonstrates an understanding regarding the effectiveness of a strategy used to promote economic development in a country other than Australia 	3
<ul style="list-style-type: none"> • Sketches a strategy which could promote economic development in a country other than Australia 	2
<ul style="list-style-type: none"> • Makes a relevant statement of a strategy which could promote economic development in a country other than Australia 	1

Sample answer:

Sample answer is for China.

One strategy employed in China has been the development of Special Economic Zones (SEZs). This strategy has focused on the southern and eastern coastlines of the country, including cities such as Shanghai and Guangdong. This has attracted increased level of foreign direct investment due to favourable economic incentives such as tax concessions and eased restrictions. This has resulted in higher employment levels in these coastal areas which have led to increased living standards, but has created increased urban / rural inequality where those in regional areas tend to have lower incomes, rely on subsistence farming, and therefore have poorer educational and health outcomes.

The above sample answer focuses on SEZs, but other development strategies may include:

- One Belt, One Road (OBOR)
- Western Development Strategy (on Infrastructure and Technology)
- Rise of Central China Plan.

Answers could include:

Reference could be made to broader based strategies as opposed to specific ones, as well as any other economy.

Question 23 (a)

Criteria	Marks
• Sketches in general terms a cost associated with achieving ecologically sustainable development	2
• Correctly identifies a cost associated with achieving ecologically sustainable development	1

Sample answer:

A cost associated with achieving ESD may be a loss or decline of productive capacity for the economy as methods that are more sustainable tend to cost more and less output may be produced.

Answers could include:

- Private costs
- Social costs
- Taxation/subsidies
- Increased price for consumers
- Increased government expenditure.

Question 23 (b)

Criteria	Marks
• Provides a reason why a public beach may not be considered a public good	2
• Makes a statement about public goods relevant to public beaches	1

Sample answer:

A public beach may not be 'non-rival' as others using it may reduce a person's utility or satisfaction from using this resource.

Answers could include:

- Congestion
- Accessibility.

Question 23 (c)

Criteria	Marks
• Demonstrates an understanding of how negative externalities may arise due to market failure	2
• Makes a correct statement about negative externalities and/or market failure	1

Sample answer:

In general, negative externalities arise as the price mechanism only takes into account the private costs and benefits of the individuals involved in the exchange. It does not tend to take into account the social costs that may result, whether they be intended or unintended, eg waste or pollution.

Answers could include:

- Free riders
- Problem of the commons
- Marginal social cost, marginal private cost/benefit.

Question 23 (d)

Criteria	Marks
• Demonstrates a clear understanding of how market-based policies can be used to preserve the natural environment	4
• Demonstrates an understanding of how market-based policies can be used to preserve the natural environment	3
• Sketches how market-based policies can be used to preserve the natural environment	2
• Makes a relevant statement about market-based policies OR the preservation of the natural environment	1

Sample answer:

Market-based policies tend to act as financial incentives and discouragements to influence the behaviour of consumers and businesses with a goal of preserving the natural environment.

Taxes will increase the cost of production and hence price of procedures that are not environmentally friendly. This will reduce the quantity and production to a more socially optimum level. Subsidies increase production by rewarding certain types of consumption or production hence increasing these types of procedures. Therefore, the production for the consumer/business to better reflect the social cost – ‘internalising the externality’.

Answers could include:

- Subsidies involving solar panels
- Fishing licences and quotas
- Social costs/benefits
- Market failure
- Pollution/climate change
- Depletion of non-renewable resources
- Trading schemes.

Question 24 (a)

Criteria	Marks
<ul style="list-style-type: none"> Correctly calculates the rate of inflation to be 20% 	1

Sample answer:

$$\frac{132 - 110}{110} \times \frac{100\%}{1} = 20\%$$

Question 24 (b)

Criteria	Marks
<ul style="list-style-type: none"> Clearly supports an argument for an appropriate monetary policy stance, and the relationship between the provided indicators and the stance 	4
<ul style="list-style-type: none"> Provides some understanding of an appropriate monetary policy stance, and the relationship between the indicators and the stance 	3
<ul style="list-style-type: none"> Sketches the relationship between the chosen stance and the indicators 	2
<ul style="list-style-type: none"> Makes a relevant statements about the monetary policy in relation to the indicators 	1

Sample answer:

Stance: Tighten Monetary Policy

The economy is experiencing growth above the ideal rate, as indicated by increasing high inflation, rapidly falling unemployment and increase in CAD (as a % of GDP). The increased cash rate will reduce aggregate demand, decreasing output hence slowing employment growth. This will also decrease inflationary pressures. The slower growth will also reduce demand for imports and stabilise the cyclical part of the CAD.

Answers could include:

- Contractionary stance
- Change in the cash rate and interest rates
- Economic growth, price stability, full employment, external stability
- Phillips curve/NAIRU and other relationships between indicators
- Transmission channels of monetary policy.

Expansionary policy could be incorporated with relevant justification using the hypothetical data.

Question 24 (c)

Criteria	Marks
• Provides a clear understanding of the limitations of using monetary policy for Australia's economic management	5
• Provides some understanding of limitations of using monetary policy for Australia's economic management	4
• Provides characteristics and features of limitations of using monetary policy for economic management	3
• Sketches limitations of using monetary policy for economic management	2
• Makes a relevant statement(s) about a limitation(s) of using monetary policy for economic management	1

Sample answer:

There are time lag issues. While implementation time lag in using monetary policy is short (changes can be made at 11 possible times within the year) there is a medium term effectiveness (impact) lag with proposed changes taking approximately 9–18 months to progress through the various transmission channels of the Australian economy.

Another limitation of monetary policy as a macro tool is that it can't address objectives simultaneously (trade-off in objectives). For instance, maintaining price stability may come at the cost of full employment.

RBA will also need to consider global interest rate differentials in order to minimise negative effects of the current/proposed rate.

Answers could include:

- Policy formation lag, autonomous and induced expenditure lag, price adjustment lag
- Relative interest rates overseas
- Contagion effect
- World business cycle
- Tightening of financial lending restrictions
- Macroeconomic policy mix
- Links to investor confidence, current account
- Blunt instrument.

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 theory • Demonstrates a clear and comprehensive understanding of the effects of the sustained budget deficits on economic growth and external stability in 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 theory • Demonstrates a sound understanding of the effects of the budget deficits on economic growth and external stability in 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 theory • Sketches the effects of the budget deficits on economic growth and external stability in the Australian economy <p>OR</p> <ul style="list-style-type: none"> • Demonstrates a sound understanding of the effects of the budget deficits on either economic growth OR external stability in the Australian economy 	9–12
<ul style="list-style-type: none"> • Presents a generalised response • Uses some economic terms and concepts • Sketches some aspects of the effects of budget deficits on economic growth and/or external stability 	5–8
<ul style="list-style-type: none"> • Presents a limited response • Uses some economic terms and concepts • Lists some aspects of budget deficits or economic growth or external stability 	1–4

Answers could include:

- Discuss: Identify issues and provide points for and/or against, the impacts of the deficits on economic growth and external stability
- Fiscal policy definition
- Budget deficit definition
- Rationale for deficit ie, GFC 2008
- Economic growth
 - Continuous economic growth since early 90s
 - Fiscal Stimulus (Keynesian)
 - $AD = C + I + G + X - M$,
 - Direct impact on the G
 - Indirect impact on C

- Servicing costs/credit rating impact on I
 - Multiplier
- Cost of deficits on future growth, long-term speed hump on growth
- External stability
 - Increased gross and net debt
 - Increased servicing cost
 - Borrowing from overseas to finance deficits
 - Crowding out effect
- Assessment of current debt and fiscal situation relative to other countries to previous situation.

Question 26

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 theory • Demonstrates a clear and comprehensive understanding of the effects of microeconomic policies on employment and inflation in 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 theory • Demonstrates a sound understanding of the effects of microeconomic policies on employment and inflation in 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 theory • Sketches the effects of microeconomic policies on employment and inflation in the Australian economy <p>OR</p> <ul style="list-style-type: none"> • Demonstrates a sound understanding of the effects of microeconomic policies on either employment OR inflation in the Australian economy 	9–12
<ul style="list-style-type: none"> • Presents a generalised response • Uses some economic terms and concepts • Sketches some aspects of the effects of microeconomic policies on employment and/or inflation 	5–8
<ul style="list-style-type: none"> • Presents a limited response • Uses some economic terms and concepts • Lists some aspects of microeconomic policies or employment or inflation 	1–4

Answers could include:

- Discuss: Identify issues and provide points for and/or against, the effects of microeconomic policies on employment and inflation in the Australian economy
- Fiscal policy definition
- Microeconomic policy definition
- Rationale for microeconomic policy
- Aggregate supply – including diagram
- Philips curve – no trade off when using supply side policies opposed to macroeconomic policies
- Employment
 - NAIRU
 - Labour market policies, enterprise
 - Reducing rigidities
 - Increasing participation rate
 - Labour productivity, Okun’s Law
- Inflation
 - Financial deregulation

- Competition policy
- Product and factor market
- Reduction of tariffs
- Privatisation, corporatisation
- Infrastructure to reduce costs (NBN, roads)
- Complementary policy mix (macroeconomic and microeconomic) to address these issues.

Section IV

Question 27

Criteria	Marks
<ul style="list-style-type: none"> Provides a sustained, logical and cohesive response Integrates relevant economic terms, concepts, relationships and theory Demonstrates a clear and comprehensive understanding of the causes and effects of unequal distribution of income and wealth in Australia 	17–20
<ul style="list-style-type: none"> Provides a logical and cohesive response Applies relevant economic terms, concepts, relationships and theory Demonstrates a sound understanding of the causes and effects of unequal distribution of income and wealth in Australia <p>OR</p> <ul style="list-style-type: none"> Demonstrates a clear and comprehensive understanding of causes or effects and sketches the other 	13–16
<ul style="list-style-type: none"> Provides a coherent response Uses relevant economic terms, concepts, relationships and theory Sketches the causes and effects of unequal distribution of income and wealth in Australia <p>OR</p> <ul style="list-style-type: none"> Demonstrates a sound understanding of causes or effects and sketches some aspects of the other 	9–12
<ul style="list-style-type: none"> Presents a generalised response Uses some economic terms and concepts Sketches some aspects of the causes and/or effects of unequal distribution of income wealth in Australia 	5–8
<ul style="list-style-type: none"> Provides a limited response Uses some economic terms and concepts Lists some aspects of distribution of income/wealth in Australia 	1–4

Answers could include:

- Definition of distribution of income and wealth
- Measuring of income and wealth
- Causes of inequality (eg gender, age, policies)
 - Sources of income and wealth (and variation within them)
 - Gender
 - Age
 - Education
 - Occupation
 - Family/household structure
 - Fiscal policy – GST, marginal rates of tax, social welfare
 - Monetary policy – redistribution effect
 - Microeconomic/labour market – enterprise bargaining, superannuation
 - Effect of income on wealth

- Benefits of Inequality
 - Incentive effects – working harder/longer, acquiring skills, risk-taking
 - Geographic and occupational mobility
 - Accumulates savings (could boost investment leading to economic growth)
- Costs of Inequality
 - Lower utility in lower income groups (and on average)
 - Higher government spending due to welfare spending
 - Increased tax burden
 - Social division
 - Relative poverty
 - Working poor
 - Poverty traps (marginalisation of labour)
 - Inequality of opportunity
 - Possible lower APC as rich tend to spend less (could reduce economic growth).

Question 28

Criteria	Marks
<ul style="list-style-type: none"> Provides a sustained, logical and cohesive response Integrates relevant economic terms, concepts, relationships and theory Demonstrates a clear and comprehensive understanding of the effects of protectionist policies on the Australian and global economy 	17–20
<ul style="list-style-type: none"> Provides a logical and cohesive response Applies relevant economic terms, concepts, relationships and theory Demonstrates a sound understanding of the effects of protectionist policies on the Australian and global economy 	13–16
<ul style="list-style-type: none"> Provides a coherent response Uses relevant economic terms, concepts, relationships and theory Sketches the effects of protectionist policies on the Australian and global economy <p>OR</p> <ul style="list-style-type: none"> Demonstrates a sound understanding of the effects of protectionist policies on the Australian or global economy 	9–12
<ul style="list-style-type: none"> Presents a generalised response Uses some economic terms and concepts Sketches some aspects of the effects of protectionist policies on either the Australian and/or global economy 	5–8
<ul style="list-style-type: none"> Provides a limited response Uses some economic terms and concepts Lists some aspects of protection, the Australian or global economy 	1–4

Answers could include:

- Basis of free trade (advantages/disadvantages)
 - Absolute/comparative advantage
 - Specialisation, reduced costs, greater output and growth, factor endowment, improved allocation of resources, improved efficiency
 - Nationalism, isolation
- Protectionist policies/free trade
 - Infant industries, domestic employment, dumping, defence
 - Tariffs, subsidies, quotas, local content rules (use of diagrams)
 - Trading blocs/free trade agreements
 - EU, APEC, NAFTA, ASEAN
 - Bilateral and multilateral agreements
- Effects of global protection on the Australian economy
 - Reduced export opportunities
 - Decline in economic growth
 - Decrease in income/wealth
 - Decreased employment
 - Increased production costs and overall prices
 - Inefficient allocation of resources

- Structural change
- Effects on the global economy
 - Reduced overall growth and stagnant wage growth
 - Increased global inequality
 - Misallocation of global resources
 - Global factor/product market failure

May refer to advanced, developing or emerging economies.

Use of contemporary information is encouraged eg, USA/Trump since late 2016.

Arguments can refer to specific examples or be theoretical.

2019 HSC Economics Mapping Grid

Section I

Question	Marks	Content	Syllabus outcomes
1	1	Topic 1 — International economic integration	H4
2	1	Topic 1 — Influence of government economic forums	H2
3	1	Topic 2 — Changes in exchange rates	H4
4	1	Topic 4 — Limitations of economic policies	H6
5	1	Topic 3 — Participation rate	H1
6	1	Topic 4 — Impact of changes in interest rates	H6
7	1	Topic 3 — Effects of unemployment	H1, H7
8	1	Topic 2 — Composition of Australia's trade	H8
9	1	Topic 3 — Injections and withdrawals	H1, H11
10	1	Topic 4 — Implementation of monetary policy	H2, H6
11	1	Topic 4 — Fiscal policy	H6, H7
12	1	Topic 3 — External stability	H1, H11
13	1	Topic 3 — Inflation	H1, H11
14	1	Topic 3 — Unemployment	H11
15	1	Topic 3 — The simple multiplier	H1, H11
16	1	Topic 4 — Fiscal policy	H2, H5
17	1	Topic 2 — Australia's balance of payments	H8
18	1	Topic 2 — Trade weighted index	H4, H8
19	1	Topic 1 — Protection – tariffs	H1, H3, H11
20	1	Topic 1 — Protection – subsidies	H1, H3, H11

Section II

Question	Marks	Content	Syllabus outcomes
21 (a)	2	Topic 2 — Exchange rates	H4
21 (b)	3	Topic 2 — Exchange rates	H1, H8
21 (c)	5	Topic 2 — Exchange rates, balance of payments	H1, H4, H7
22 (a)	2	Topic 1 — Globalisation and economic development	H1
22 (b)	4	Topic 1 — Globalisation and economic development	H1, H2, H3
22 (c)	4	Topic 1 — Globalisation and economic development (including case study)	H5, H7, H8
23 (a)	2	Topic 3 — Environmental sustainability	H1, H7
23 (b)	2	Topic 3 — Environmental sustainability	H1, H10
23 (c)	2	Topic 3 — Environmental sustainability	H1, H7
23 (d)	4	Topic 4 — Environmental management	H1, H5, H6
24 (a)	1	Topic 3 — Inflation: measurement	H1, H11
24 (b)	4	Topic 4 — Monetary policy	H5, H9, H10
24 (c)	5	Topic 4 — Limitations of economic policies	H2, H5, H7

Section III

Question	Marks	Content	Syllabus outcomes
25	20	Topic 4 — Fiscal policy Topic 3 — Economic growth, external stability	H1, H2, H5, H6, H7, H9, H10
26	20	Topic 4 — Microeconomic policy Topic 3 — Unemployment, inflation	H1, H2, H5, H6, H7, H9, H10

Section IV

Question	Marks	Content	Syllabus outcomes
27	20	Topic 3 — Distribution of income and wealth	H1, H2, H7, H10
28	20	Topic 1 — The global economy Topic 2 — Protection	H1, H2, H3, H4, H6, H8, H10