



Barker College

2013 TRIAL HIGHER SCHOOL CERTIFICATE

Economics

Staff Involved:

- MBJ
- JMM*
- JMT

AM THURSDAY 8TH AUGUST

81 copies

Section A – Multiple Choice

Choose the best response and fill in the response oval completely

Start Here →

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| 1. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> | 11. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 2. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> | 12. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 3. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> | 13. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
| 4. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> | 14. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
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| 6. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> | 16. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |
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| 10. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> | 20. | A | <input type="radio"/> | B | <input type="radio"/> | C | <input type="radio"/> | D | <input type="radio"/> |

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AM THURSDAY 8TH AUGUST

General Instructions

- Reading time - 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Write your Student Number on all answer pages
- Hand in the paper in FOUR separate bundles:
 1. Section I
 2. Section II Short Answer
 3. Section III Stimulus Essay
 4. Section IV Essay

Total marks - 100

Section I Pages 2 - 7

20 marks

- Attempt Questions 1 – 20
- Answer these questions on the multiple choice answer sheet provided
- Allow 35 minutes for this section

Section II Pages 9 - 16

40 marks

- Attempt Questions 21 - 24
- Answer this question in the spaces provided on the paper
- Allow 1 hour and 15 minutes for this section

Section III Pages 17 - 19

20 marks

- Attempt either Question 25 or Question 26
- Answer this question on the paper provided
- Allow 35 minutes for this section

Section IV Page 20

20 marks

- Attempt either Question 27 or Question 28
- Answer this question on the paper provided
- Allow 35 minutes for this section

Section I – Multiple Choice

Total marks (20)

Attempt questions 1 – 20

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

(A) (B) (C) (D)

If you think you have made a mistake, put a cross through 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 this by writing the word *correct* and drawing an arrow as follows.

(A) (B) (C) (D)

correct
↙

Section I

20 marks

Attempt Questions 1 - 20

Allow about 35 minutes for this section

Use the multiple-choice answer sheet for Questions 1 - 20.

1. Assume that the Australian government has imposed a ban on live beef cattle exports to Egypt and Indonesia. What would be the most likely impact of this policy on Australia?
 - (A) Lower beef prices.
 - (B) Increased export income.
 - (C) Reduced unemployment.
 - (D) Inflationary pressures.

2. What would be the likely effect of increased wage flexibility in Australia?
 - (A) Higher inflation.
 - (B) Increased unemployment.
 - (C) Less equal income distribution.
 - (D) Increased export prices.

3. What is the Organisation for Economic Cooperation and Development?
 - (A) An organisation of developing countries that promotes economic growth.
 - (B) A government body that subsidises development in remote Australian farming areas.
 - (C) An association of development banks that seek to profit from development proposals.
 - (D) An international organisation whose members are mainly developed economies.

4. Which of the best indicator of structural change?
 - (A) Changes in levels of inflation.
 - (B) Patterns of resource reallocation.
 - (C) The distribution of income.
 - (D) The level of unemployment.

5. How would the RBA decrease interest rates?
 - (A) Sell CGS to reduce both liquidity and yields.
 - (B) Buy CGS to reduce both liquidity and yields.
 - (C) Buy CGS to increase liquidity and reduce yields.
 - (D) Sell CGS to increase liquidity and reduce yields.

Study the following table to answer Questions 6 and 7.

Year	Population	Population Aged 15+	Workforce	Unemployment	Hidden Unemployment
1	20 million	15 million	10 million	0.5 million	0.5 million
2	21 million	15 million	12 million	1.2 million	0.8 million

6. What is the level of unemployment for Year 1?
- (A) 1%
 (B) 5%
 (C) 6.7%
 (D) 10%
7. Which of the following would have caused the change in participation rates from Year 1 to Year 2?
- (A) Increased unemployment.
 (B) Increased income tax.
 (C) Means testing of social welfare.
 (D) Free university education.

Study the table below showing production possibilities from one unit of resources for two economies to answer Question 8.

Country	Wine Production	Olive Production
Australia	100	50
Italy	60	35

8. Which of the following statements is true?
- (A) Australia should specialise in wine production and import olives from Italy.
 (B) Italy should import both wine and olives from Australia.
 (C) Italy should specialise in wine production and import olives from Australia.
 (D) Australia needs to subsidise wine producers to maintain competitiveness.

9. What would be the effect of a reduction in interest rates on Australia's balance of payments?
- (A) An increase in the deficit on the Primary Income Account.
 (B) An increase in the Capital Account surplus.
 (C) A decrease in service exports.
 (D) An improvement in the BOGS balance.
10. What is the best indicator of *economic development*?
- (A) HDI.
 (B) Gini co-efficient.
 (C) CAD.
 (D) CPI.
11. Which of the following is the larger source of tax revenue for the Commonwealth Government?
- (A) Company tax.
 (B) Excises.
 (C) Mining tax.
 (D) Tariffs.

Use the following table showing data for an open economy with a floating exchange rate to answer questions 12 and 13.

Year	S	G	Y	T	I
1	100	125	500	100	90
2	115	125	520	105	95

12. What is the Capital and Financial Account balance in Year 1?
- (A) A deficit of 35.
 (B) A deficit of 25.
 (C) A surplus of 15.
 (D) A surplus of 25.
13. What has been the main source of the change in the level of economic activity?
- (A) Increased investment.
 (B) Improved balance on current account.
 (C) Increased balance on the financial account.
 (D) Decreased budget deficit.

14. Assume the government is budgeting for a deficit. What would be the effect of economic growth being slower than expected on the Commonwealth budget?
- (A) Increased tax revenue, lower expenditure and a higher deficit.
 - (B) Decreased tax revenue, higher expenditure and a higher deficit.
 - (C) Decreased expenditure, lower revenue and a stable deficit.
 - (D) Increased expenditure, increased revenue and a lower deficit.
15. Assume in a three sector economy that $C = 200 + 0.6Y$ and $I = 200$ in Year 1. In Year 2, I increases to $I = 220$. Which of the following statements is true?
- (A) The multiplier is 0.6 and economic growth is from Year 1 to Year 2 is 6% p.a.
 - (B) The multiplier is 2.5 and economic growth is from Year 1 to Year 2 is 5% p.a.
 - (C) The multiplier is 4 and economic growth is from Year 1 to Year 2 is 10% p.a.
 - (D) The multiplier is 6 and economic growth is from Year 1 to Year 2 is 10% p.a.
16. What is the effect of sustained high rates of inflation?
- (A) Redistribution of wealth from real property owners to those with cash savings.
 - (B) Re-rationing of output in favour of those on fixed incomes.
 - (C) Resource misallocation because prices no longer give investors clear signals.
 - (D) An improved balance on current account due to high prices.
17. Which of the following is likely to improve environmental intergenerational equity?
- (A) Increased government budget deficits to accelerate economic growth.
 - (B) Reducing the mining tax to encourage increased investment.
 - (C) Increased availability of university scholarships for school leavers.
 - (D) Expanding the carbon tax to include petrol and diesel fuels.
18. Which of the following would cause the Gini co-efficient for income distribution to fall?
- (A) An increase in the Low Income Tax Offset
 - (B) Increased tax deductions for superannuation contributions.
 - (C) Introducing tax deductions for private school fees
 - (D) Reducing the Capital Gains Tax

- 19.** What is the core function of the International Monetary Fund?
- (A) Currency stability.
 - (B) Economic development.
 - (C) Funding trade deficits.
 - (D) Trade liberalisation.
- 20.** What would most likely cause a fall in real unit labour costs for employers?
- (A) Output increasing faster than unemployment.
 - (B) Labour costs increasing faster than output.
 - (C) Labour productivity increasing faster than wages.
 - (D) Output increasing faster than inflation.

END OF SECTION I

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Section II – Short Answer

Total marks (40)

Questions 21 to 24 are compulsory

Answer this question in the spaces provided on the paper.

Answer the questions in the spaces provided. These spaces provide guidance for the expected length of response.

Question 21 (10 marks)

In many cases, tariffs were the only form of protection for agricultural products before the Uruguay Round – the Round led to the “binding” in the WTO of a maximum level for these tariffs. For many other products, however, market access restrictions involved non-tariff barriers. This was frequently, though not only, the case for major temperate zone agricultural products. The Uruguay Round negotiations aimed to remove such barriers. For this purpose, a “tariffication” package was agreed which, amongst other things, provided for the replacement of agriculture-specific non-tariff measures with a tariff which afforded an equivalent level of protection.

Source: World Trade Organisation, May, 2013

(a) What is a tariff? **1**

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(b) Outline TWO reasons why a government would impose a tariff. **2**

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Question 21 continues on page 10

Question 21 (continued)

- (c) Discuss why the World Trade Organisation prefers tariffs to non-tariff trade protection. **3**

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- (d) Explain the effect of tariffs on the competitiveness of unprotected domestic industry. **4**

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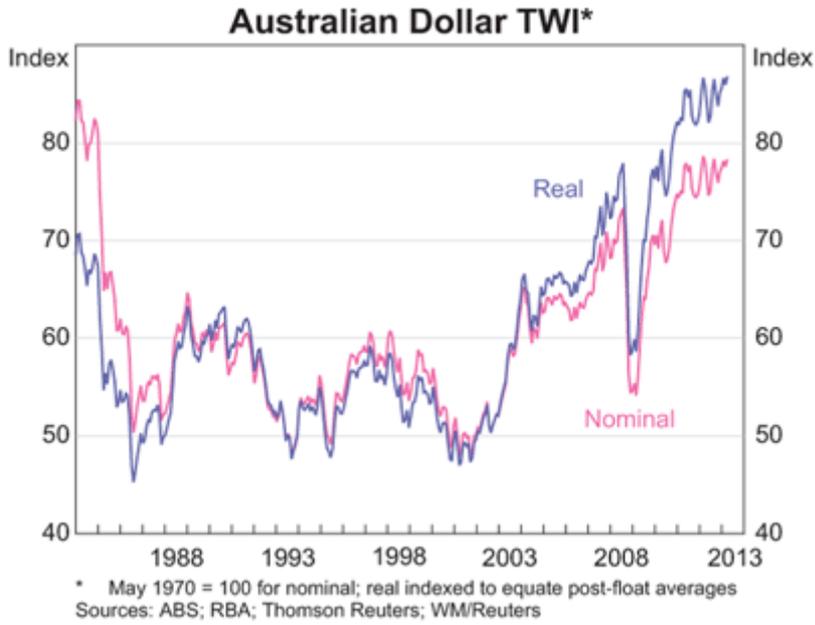
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End of Question 21

Question 22 (10 marks)



(a) What is an exchange rate?

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(b) Distinguish between a bilateral exchange rate and a trade weight index for a currency.

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Question 22 continues on page 12

Question 22 (continued)

- (c) Discuss ONE factor influencing the trend in the Trade Weighted Index for the Australian dollar since 2002. **3**

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- (d) Explain ONE advantage and ONE disadvantage of International Monetary Fund assistance to an economy. **4**

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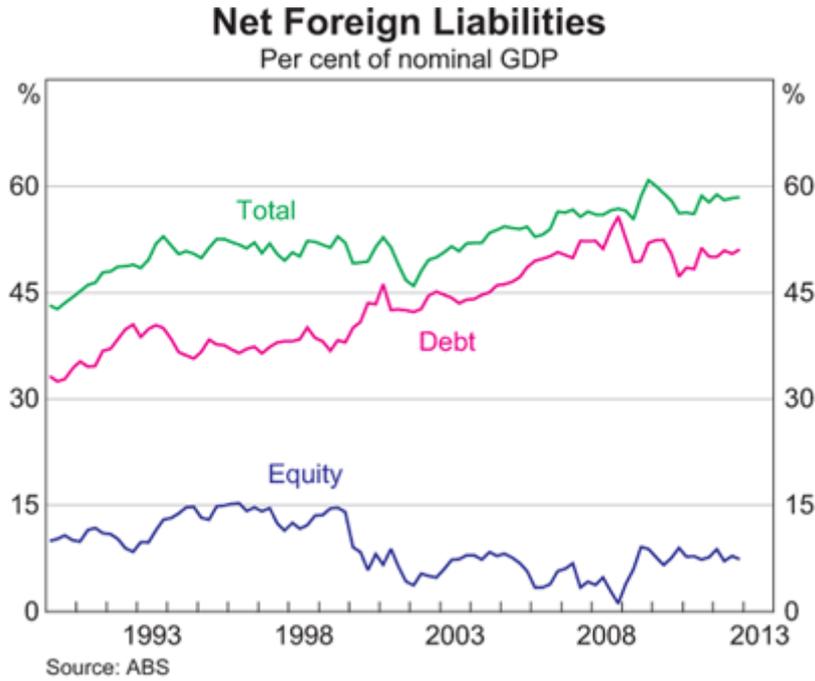
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End of Question 22

Question 23 (10 marks)



(a) Define the term net foreign liabilities.

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(b) Describe the trend in net foreign equity since 2007.

2

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Question 23 continues on page 14

Question 23 (continued)

- (c) Outline ONE negative effect of high net foreign debt. **2**

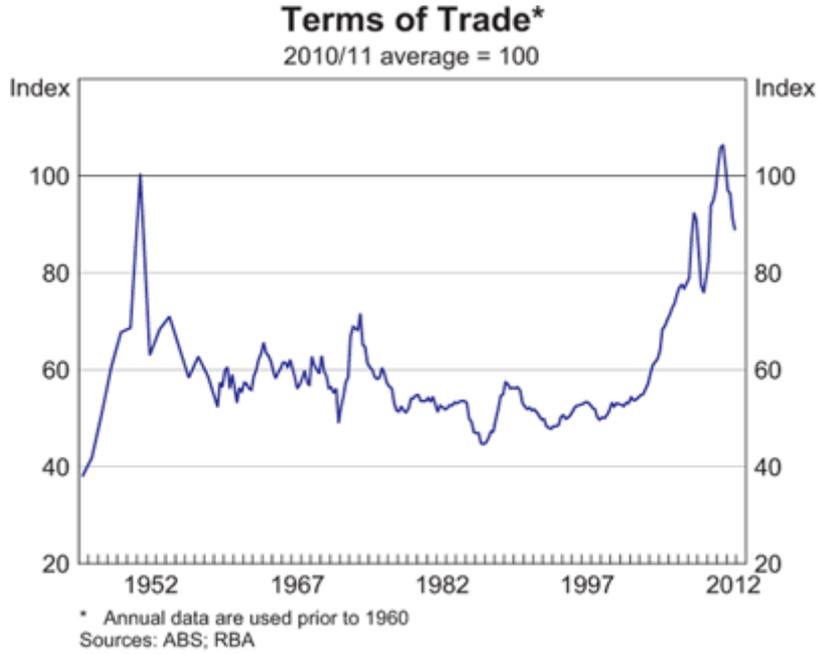
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- (d) Explain the relationship between net foreign liabilities and the current account balance. **4**

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End of Question 23

Question 24 (10 marks)



(a) What is the terms of trade? **1**

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(b) Account for the trend in the terms of trade since 1997. **2**

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Question 24 continues on page 16

Question 24 (continued)

- (c) Discuss how an improvement in the terms of trade affects domestic economic growth. **3**

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- (d) Explain the relationship between the terms of trade and structural change. **4**

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End of Question 24

End of Section II

Section III – Stimulus Essay

20 marks

Attempt either Question 25 OR Question 26

Allow about 35 minutes for this section

Answer the question on the paper provided.

In your answer you will be assessed on how well you:

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

Turn over for Question 25 OR Question 26

Question 25 (20 marks)

Discuss the role of fiscal policy in managing economic activity in Australia.

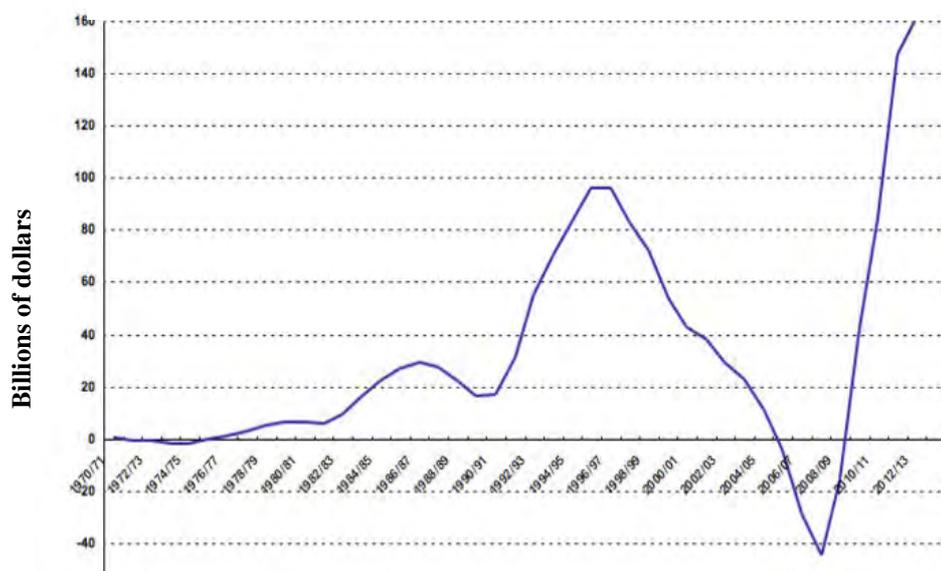
Although the government needs to pay for its additional expenditure promises there is also the need to address the underlying structural problem of reducing existing expenditure. All this is at a time when the carbon tax, Minerals Resource Rent Tax, and just about every tax, is not raising the expected revenue

Dr Phil Lewis, Professor of Economics, University of Canberra, 14 May, 2013

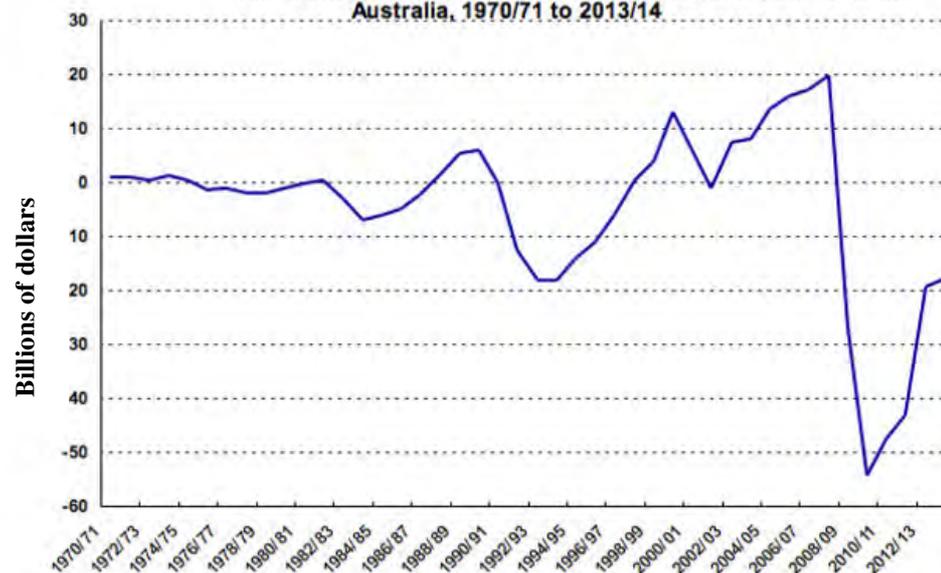
The **infrastructure** spend that has been announced is capacity building for the future. So when the economy does start moving in a positive way, we'll be ready to take advantage of that. The education and disability reforms are also positive.

Dr John Quiggan, Professor of Economics, University of Queensland, 14 May, 2013 (original emphasis)

Commonwealth government net debt, Australia, 1970/71 to 2013/14



Commonwealth government budget - surpluses and deficits, Australia, 1970/71 to 2013/14



Source: ABS

OR

Question 26 (20 marks)

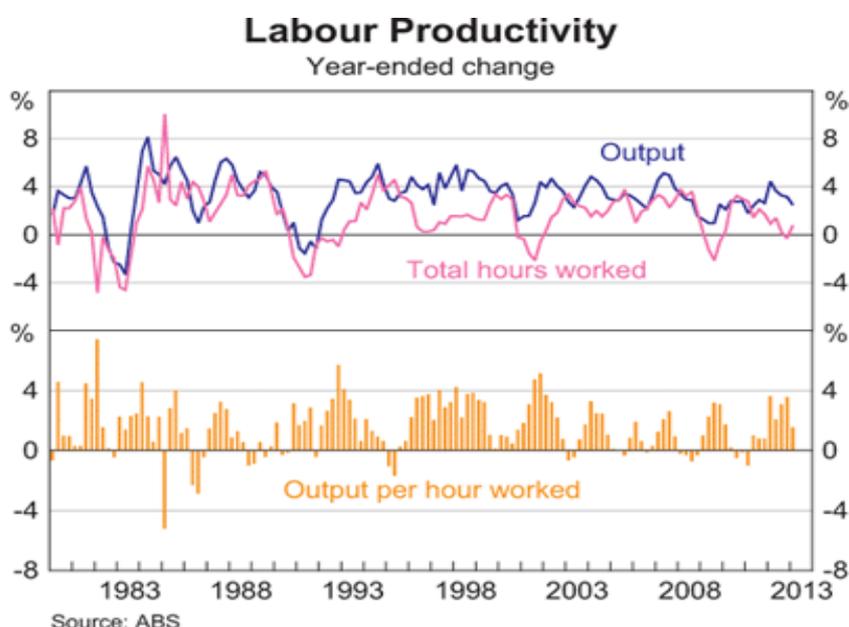
Discuss the role of microeconomic policies in improving Australia’s international competitiveness.

In this context — where wellbeing is at least maintained over time — sustainability can be attained by preserving the total stock of capital. The stock of capital is broadly defined as the ‘productive’ base that provides the opportunities from which wellbeing is ultimately derived. It includes all of society’s capital assets — produced (roads, buildings, machinery), natural (ecosystems, minerals, fossil fuels), human (education, skills, knowledge, health) and social (institutions and relationships that govern interactions between people). People value natural capital for the services it provides, including the benefit from knowing that certain natural capital exists (‘existence’ or ‘non-use’ value).

Ana Markulev, Anthea Long, *On Sustainability: An Economic Approach*, Productivity Commission, May 2013, p. 3

The trade strategy embraces five principles: the pursuit of ongoing, trade-related economic reform without waiting for other countries to reform their trade policies; non-discrimination among countries in trade negotiations; foreign policy considerations not overriding trade policy; transparency in free trade negotiations; and the seamless execution of trade policy and wider economic reform.

The Hon. Dr Craig Emerson, Minister for Trade, April 2011



End of Section III

Section IV Essay

20 Marks

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer this question on the paper provided

In your answer you 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 well-structured answer to the question
-

EITHER

Question 27 (20 marks)

Analyse the role of the World Trade Organisation and transnational corporations in the global economy.

OR

Question 28 (20 marks)

Analyse the effects of recent trends in the direction and composition of trade on the Australian economy.

End of Paper



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Marking Criteria

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 - (B) Reducing the mining tax to encourage increased investment.
 - (C) Increased availability of university scholarships for school leavers.
 - (D) Expanding the carbon tax to include petrol and diesel fuels.
18. Which of the following would cause the Gini co-efficient for income distribution to fall?
- (A) An increase in the Low Income Tax Offset
 - (B) Increased tax deductions for superannuation contributions.
 - (C) Introducing tax deductions for private school fees
 - (D) Reducing the Capital Gains Tax

- 19.** What is the core function of the International Monetary Fund?
- (A) Currency stability.
 - (B) Economic development.
 - (C) Funding trade deficits.
 - (D) Trade liberalisation.
- 20.** What would most likely cause a fall in real unit labour costs for employers?
- (A) Output increasing faster than unemployment.
 - (B) Labour costs increasing faster than output.
 - (C) Labour productivity increasing faster than wages.
 - (D) Output increasing faster than inflation.

END OF SECTION I

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Section II – Short Answer

Total marks (40)

Questions 21 to 24 are compulsory

Answer this question in the spaces provided on the paper.

Answer the questions in the spaces provided. These spaces provide guidance for the expected length of response.

Question 21 (10 marks)

In many cases, tariffs were the only form of protection for agricultural products before the Uruguay Round – the Round led to the “binding” in the WTO of a maximum level for these tariffs. For many other products, however, market access restrictions involved non-tariff barriers. This was frequently, though not only, the case for major temperate zone agricultural products. The Uruguay Round negotiations aimed to remove such barriers. For this purpose, a “tariffication” package was agreed which, amongst other things, provided for the replacement of agriculture-specific non-tariff measures with a tariff which afforded an equivalent level of protection.

Source: World Trade Organisation, May, 2013

(a) What is a tariff? **1**

Recognises and names a tariff as tax/customs duty/levy charged on imports	1
Fails to recognise and name a tariff as tax/customs duty/levy charged on imports	0

(b) Outline TWO reasons why a government would impose a tariff. **2**

Sketches in general terms the link between the tariff and TWO of: essential industry (defence industry), employment, counter dumping, retaliate for foreign protection imposed on exports, protect domestic incomes (wages, profits), infant industries. E.G. A tariff counters dumping increases the domestic price of heavily subsidised imports; A tariff increases domestic prices and the incomes to domestic resources employed in the protected industry.	2
Sketches in general terms the link between the tariff and ONE of the above OR recognises and names TWO of the above	1
Fails to sketch in general terms the link between the tariff and ONE of the above OR recognise and name TWO of the above	0

Question 21 continues on page 10

Question 21 (continued)

(c) Discuss why the World Trade Organisation prefers tariffs to non-tariff trade protection. **3**

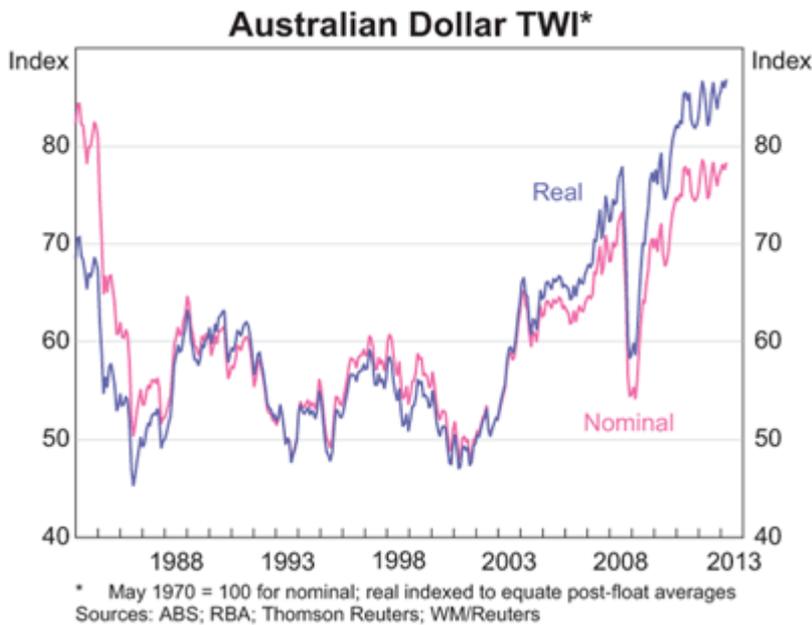
Identifies issues and provides points for and against tariffs, states the benefits of tariffs (obvious/not hidden/ a transparent form of protection) AND shows how tariffs differ from other forms of protection, especially subsidies/tax breaks/health & safety regulations.	3
Shows how tariffs differ from other forms of protection, especially subsidies/tax breaks/health & safety regulations. May not give points for and against tariffs.	2
States the benefits of tariffs, may show how tariffs differ from other forms of protection.	1
Fails to show the benefits of tariffs	0

(d) Explain the effect of tariffs on the competitiveness of unprotected domestic industry. **4**

Relates the cause (tariff) and effect (on competitiveness of unprotected industries). links protection to demand for resources, cost of resources/resource prices, cost of production for unprotected industry, prices & profits generated in relation to BOTH imports and protected domestic output and therefore the negative effect on unprotected industry (decreased output and/or employment and/or reduced productive efficiency) [costs of production or very similar concept like productive efficiency essential].	4
Relates the cause (tariff) and effect (on competitiveness of unprotected industries). Links protection to demand for resources, cost of resources/resource prices, cost of production for unprotected industry, prices & profits generated in relation to ONE of imports or protected domestic output [costs of production or very similar concept like productive efficiency essential].	3
Sketches in general terms the relationship between protection and competitiveness without explicit use of economics terms OR a generalised negative effect is described.	2
Recognises and names a negative effect.	1
Fails to recognise and name a negative effect.	0

End of Question 21

Question 22 (10 marks)



(a) What is an exchange rate?

1

Recognises and names an exchange rate as the price of one country's currency in terms of another currency ["value of a currency" will be given zero]	1
Fails to recognise and name an exchange rate as the price of one country's currency in terms of another currency	0

(b) Distinguish between a bilateral exchange rate and a trade weight index for a currency.

2

Indicates a bilateral exchange rate as being different from a TWI. Recognises and names a bilateral exchange rate (or gives an example) AND states the TWI is a weighted average against a basket of trading partners currencies, depending on X+M with each nation	2
Sketches in general terms ONE of bilateral OR TWI	1
Fails to sketch in general terms ONE of bilateral OR TWI	0

Question 22 continues on page 12

Question 22 (continued)

- (c) Discuss ONE factor influencing the trend in the Trade Weighted Index for the Australian dollar since 2002. **3**

Recognises and names high commodity prices OR improved terms of trade OR relatively high interest rates OR speculation as a factor influencing the TWI AND links the factor to supply and/or demand for \$A and the consequences for the ER. e.g. An improved terms of trade has increased the TWI for the \$A since 2002. The ToT have improved as commodity prices increase relative to import prices, especially as Chinese exports low inflation through an artificially low currency. The \$A TWI exchange rate trend matches the ToT trend, hence the appreciation of the \$A since 2002 until recently.	3
Sketches in general terms factors influencing the TWI	2
States the meaning of TWI	1
Fails to state the meaning of TWI	0

- (d) Explain ONE advantage and ONE disadvantage of International Monetary Fund assistance to an economy. **4**

Advantages

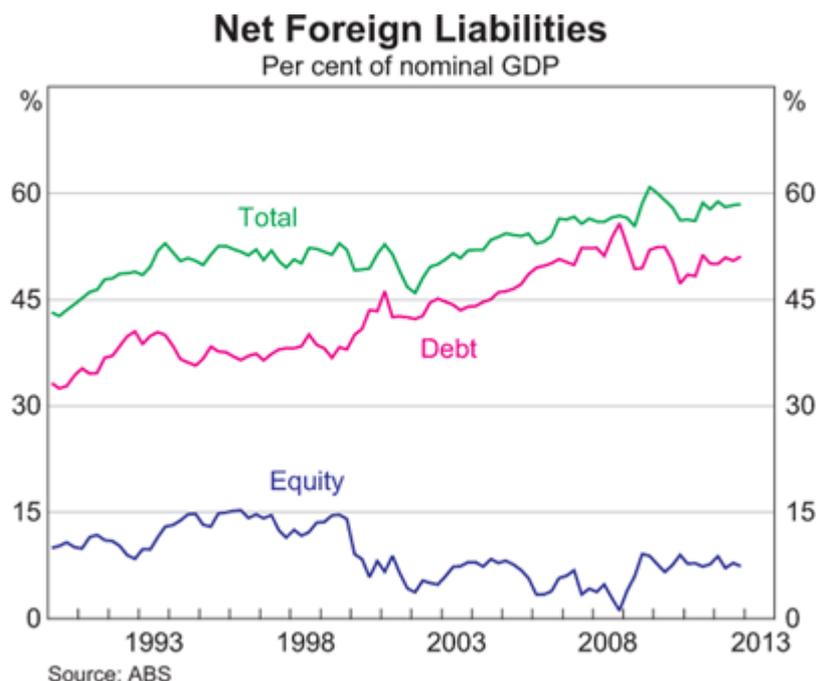
Provides why/how IMF assistance would be an advantage (ONE). Advantages: currency stability, confidence, fiscal stability of the government, possibly lower inflation, etc. E.G. Greater currency stability is one advantage of IMF intervention. AND links IMF assistance [e.g. loans] to the factor: e.g. The IMF can give loans to support a heavily indebted government. These loans enable the government to pay interest. Private investors/institutions [foreign banks] then become more willing to buy government bonds to finance the government. Private institutions increase demand for currency on FOREX markets, thereby stabilising any depreciation or devaluation of the currency.	2
Recognises and names ONE advantage	1
Fails to recognise and name ONE advantage	0

Disadvantages

Provides why/how IMF assistance would be a disadvantage (ONE). Disadvantages IMF conditions such as contractionary fiscal policy, debt cycles, unequal income distribution, etc. AND links IMF assistance [e.g. loans] to the factor: e.g. To qualify for loans, governments must cut spending, usually on social programmes for the poor. Assistance to low income earners (e.g. pensions, unemployment benefits) fall. This increases the burden of IMF compliance on those least able to afford it and effectively redistributes income from low income earners to the rest of society.	2
Recognises and names ONE disadvantage	1
Fails to recognise and name ONE disadvantage	0

End of Question 22

Question 23 (10 marks)



(a) Define the term net foreign liabilities.

2

States the meaning and identifies essential qualities of Net Foreign Liabilities. The difference between net foreign assets (debt plus equity lending to overseas) and net foreign liabilities (debt plus equity borrowing from overseas).	2
States one element of the above.	1
Fails to identify any elements of the above.	0

(b) Describe the trend in net foreign equity since 2007.

2

Provides characteristics and features of the trend in NFE since 2007. A sharp rise in 2008 from 2% of GDP to approx. 9% and since then it has fluctuated between approx. 7% and 9%. Must include figures for 2 marks.	2
Provides characteristics and features of the trend in NFE since 2007 without the detail.	1
Fails to provide characteristics and features of the trend in NFE since 2007	0

Question 23 continues on page 14

Question 23 (continued)

- (c) Outline ONE negative effect of high net foreign debt. **2**

Sketches in general terms ONE negative effect of high net foreign debt. A high NFD increases the size and servicing costs of NFL. A high NFD exposes a country to external shocks. A high NFD also increases the possibility of capital outflows if foreign investors/lenders lose confidence in the economy or interest rates may be raised on overseas borrowings. A high NFD raises the chance of exchange rate fluctuations. A high NFD may lead to a downgrading of the credit rating raising the cost of future borrowings. A high NFD may lead to tighter monetary policy to reduce the demand for imports. Increased net primary account deficit leads to an increase in the CAD.	2
Recognises and names ONE of the above effects.	1
Fails to recognise and name ONE of the above effects.	0

- (d) Explain the relationship between net foreign liabilities and the current account balance. **4**

Makes the relationship between net foreign liabilities and the current account balance evident. A CAD indicates that Australia is depending on foreign savings to the extent of the deficit. The equity and debt borrowings incur a servicing cost (interest, dividends, rent) which appears as a net primary income debit in the current account which leads to an increase in the CAD. Two fold relationship: 1. CAD = demand for foreign savings which leads to an increase in the CFA surplus, which in turn leads to an increase in NFL. 2. NFL leads to net primary income account deficit which leads to an increase in the CAD.	3-4
Provides characteristics and features of NFL AND the CA.	2
Provides characteristics and features of NFL OR the CA.	1
Fails to provide characteristics and features of NFL OR the CA.	0

End of Question 23

Question 24 (10 marks)



(a) What is the terms of trade?

1

State the meaning and identifies the essential qualities of the ToT. Refers to the relative prices a country receives for exports and pays for its imports. The ratio of export prices to import prices	1
Fails to state the meaning and identify essential qualities of the ToT.	0

N.B – Respondents needed to mention the word ‘price’ or at the very least (though it’s recommended in the HSC you stick to the definition) write down the calculation for the ToT (exp price index over imp price index).

(b) Account for the trend in the terms of trade since 1997.

2

States reasons for the trend in the terms of trade since 1997. There has been a general improvement in the ToT since 1997 with two recent years of deterioration 2009 -10 & 2011 -12. This has largely been caused by the rising commodity prices (Australia’s exports) and relatively cheaper ETM goods (our imports). The GFC affected commodity prices in 2009-10, thus accounting for the deterioration. 2011-12 saw a softening of Australia’s ToT due to the European debt crisis and the slow down in China.	2
States reasons for the trend in the terms of trade since 1997. Accounts for the general improvement in the ToT since 1997 but fails to account for one of the deteriorations.	1
Fails to states reasons for the trend in the terms of trade since 1997.	0

N.B - To get two marks, respondents would need to have accounted for the general rise AND ONE of the two deteriorations.

Question 24 continues on page 16

Question 24 (continued)

- (c) Discuss how an improvement in the terms of trade affects domestic economic growth. **3**

Identifies issues and provides points for and or against the ToT effects on domestic economic growth. An improving ToT means more imports can be purchased with a given amount of exports. If the imports are inputs into production (capital equipment, raw materials, etc) then economic growth should be positively impacted. However, as export prices rise, demand for them may contract leading to less export income (time lag involved) and slower economic growth. There is also a negative impact on the non-commodity export sector.	3
Identifies issues and provides points for OR against the ToT effects on domestic economic growth.	2
Recognises and names an improvement or deterioration in economic growth.	1
Fails to recognise and name an improvement or deterioration in economic growth.	0

N.B – To attain all 3 marks, respondents needed to include both positive and negative impacts.

- (d) Explain the relationship between the terms of trade and structural change. **4**

Relates the cause (ToT) and effect (structural change), makes the relationship between the ToT and structural change evident, provides why and or how the ToT affects structural change. As the ToT improves, imports prices fall and export prices increase. This leads to the import sectors growing and export sectors shrinking. In Australia this has meant manufacturing has suffered as imported cars etc. are more competitive, while import competing sectors such as tourism have declined. Possible reference to impact on the AUD and then Dutch disease argument. An example should be used to clarify the answer.	3 - 4
Provides characteristics and features of the relationship.	2
Recognises and names the relationship.	1
Fails to recognise and name the relationship.	0

N.B – The reallocation of resources is the key for this question. Respondents who got full marks tended to use price as the basis point for their explanation. Better responses also include actual examples.

End of Question 24

End of Section II

Section III – Stimulus Essay

20 marks

Attempt either Question 25 OR Question 26

Allow about 35 minutes for this section

Answer the question on the paper provided.

In your answer you will be assessed on how well you:

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

Turn over for Question 25 OR Question 26

Question 25 (20 marks)

Discuss the role of fiscal policy in managing economic activity in Australia.

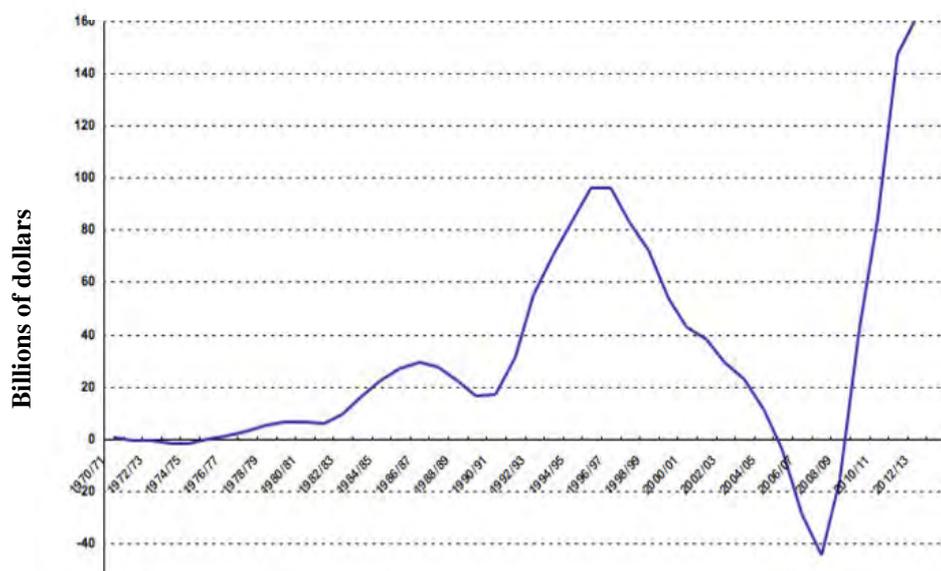
Although the government needs to pay for its additional expenditure promises there is also the need to address the underlying structural problem of reducing existing expenditure. All this is at a time when the carbon tax, Minerals Resource Rent Tax, and just about every tax, is not raising the expected revenue

Dr Phil Lewis, Professor of Economics, University of Canberra, 14 May, 2013

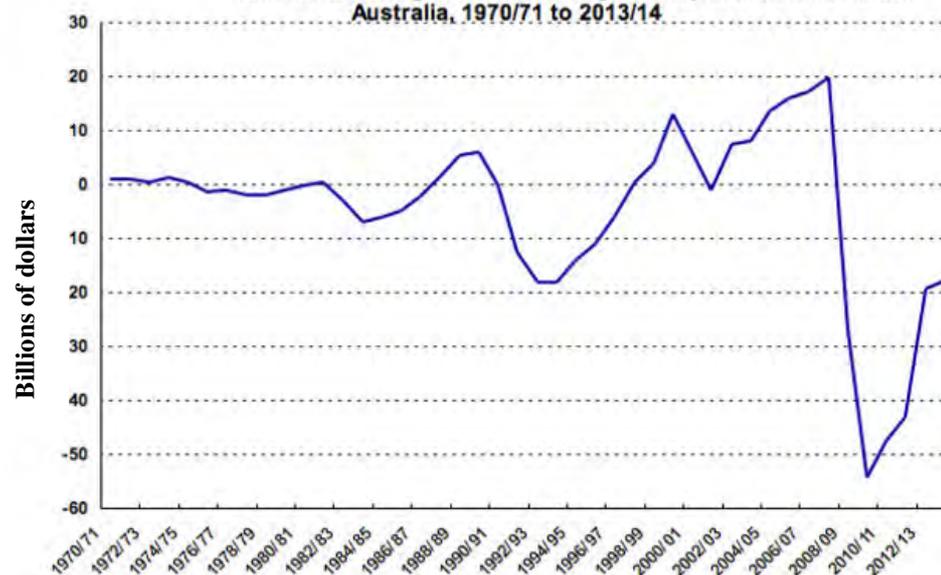
The **infrastructure** spend that has been announced is capacity building for the future. So when the economy does start moving in a positive way, we'll be ready to take advantage of that. The education and disability reforms are also positive.

Dr John Quiggan, Professor of Economics, University of Queensland, 14 May, 2013 (original emphasis)

Commonwealth government net debt, Australia, 1970/71 to 2013/14



Commonwealth government budget - surpluses and deficits, Australia, 1970/71 to 2013/14



Source: ABS

OR

SECTION III: STIMULUS BASED ESSAY

Student No: _____

Question 25

Discuss the role of fiscal policy in managing economic activity in Australia.

Syllabus Outcomes tested – H1, H2, H3, H4, H5, H6, H7, H8, H9, H10, H11

Required knowledge, understanding and skills	Mark
<ul style="list-style-type: none"> Identifies issues and provides points for and/or against the role of fiscal policy in managing economic activity in Australia Interprets and synthesises stimulus material and own knowledge effectively into response Integrates extensive and relevant economic terms, concepts, relationships and theory Presents a sustained, logical and cohesive response 	17 – 20
<ul style="list-style-type: none"> Provides characteristics and features of the role of fiscal policy in managing economic activity in Australia Interprets and synthesises some stimulus material and own knowledge into response Integrates some relevant economic terms, concepts, relationships and theory Presents a logical and cohesive response 	13 – 16
<ul style="list-style-type: none"> Sketches in general terms the role of fiscal policy in managing economic activity in Australia Demonstrates some understanding and incorporates limited stimulus material into the response Applies some economic terms, concepts and relationships Presents a coherent response 	9 – 12
<ul style="list-style-type: none"> Recognises and names the role of fiscal policy in managing economic activity in Australia Incorporates little stimulus material into the response Uses some economic terms and concepts Presents a limited response 	5 – 8
<ul style="list-style-type: none"> Makes general reference to fiscal policy Incorporate no stimulus material into response Uses few economic terms and concepts Presents a brief and limited response 	1 – 4
	/20

Possible content could include –

Definition of fiscal policy and all budget outcomes
 The distinction between contractionary and expansionary outcomes
 Discretionary and non-discretionary changes in fiscal policy
 The role of automatic stabilisers
 Counter cyclical nature of fiscal policy
 Structural change
 Micro-reform
 The multiplier
 Reallocation of resources, distribution of income
 Major spending and taxation initiatives
 Funding deficit and the impacts of such funding

Question 26 (20 marks)

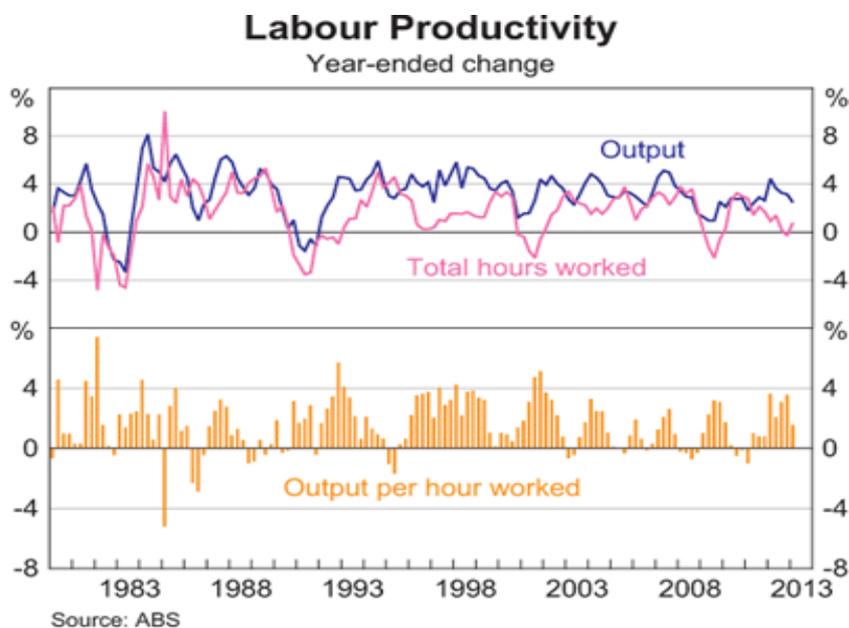
Discuss the role of microeconomic policies in improving Australia's international competitiveness.

In this context — where wellbeing is at least maintained over time — sustainability can be attained by preserving the total stock of capital. The stock of capital is broadly defined as the 'productive' base that provides the opportunities from which wellbeing is ultimately derived. It includes all of society's capital assets — produced (roads, buildings, machinery), natural (ecosystems, minerals, fossil fuels), human (education, skills, knowledge, health) and social (institutions and relationships that govern interactions between people). People value natural capital for the services it provides, including the benefit from knowing that certain natural capital exists ('existence' or 'non-use' value).

Ana Markulev, Anthea Long, *On Sustainability: An Economic Approach*, Productivity Commission, May 2013, p. 3

The trade strategy embraces five principles: the pursuit of ongoing, trade-related economic reform without waiting for other countries to reform their trade policies; non-discrimination among countries in trade negotiations; foreign policy considerations not overriding trade policy; transparency in free trade negotiations; and the seamless execution of trade policy and wider economic reform.

The Hon. Dr Craig Emerson, Minister for Trade, April 2011



Question 26

Discuss the role of microeconomic policies in improving Australia's international competitiveness.

Syllabus Outcomes tested – H1, H2, H3, H4, H7, H8, H9, H10, H11

Required knowledge, understanding and skills	Mark
<ul style="list-style-type: none"> Identifies issues and provides points for and/or against the role of microeconomic policies in improving Australia's international competitiveness Interprets and synthesises stimulus material and own knowledge effectively into response. Integrates extensive and relevant economic terms, concepts, relationships and theory. Presents a sustained, logical and cohesive response. 	17 – 20
<ul style="list-style-type: none"> Provides characteristics and features of the role of microeconomic policies in improving Australia's international competitiveness Interprets and synthesises some stimulus material and own knowledge into response. Integrates some relevant economic terms, concepts, relationships and theory. Presents a logical and cohesive response. 	13 - 16
<ul style="list-style-type: none"> Sketches in general terms the role of microeconomic policies in improving Australia's international competitiveness Incorporates limited stimulus material into the response. Applies some economic terms, concepts and relationships Presents a coherent response 	9 – 12
<ul style="list-style-type: none"> Recognises and names the role of microeconomic policies in improving Australia's international competitiveness Incorporates little stimulus material into the response. Uses some economic terms and concepts. Presents a limited response. 	5 – 8
<ul style="list-style-type: none"> Makes general statements about the current account deficit in Australia. Incorporates no stimulus material into response. Uses few economic terms and concepts. Presents a brief and limited response. 	1 - 4
	/20

Possible content could include –

Definition of micro policy and international competitiveness

Competitiveness for exports and import competing

Structural change

Micro-reform and External stability

Examples of micro polices and how they improved competitiveness

End of Section III

Section IV Essay

20 Marks

Attempt either Question 27 or Question 28

Allow about 35 minutes for this section

Answer this question on the paper provided

In your answer you 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 well-structured answer to the question
-

EITHER

Question 27 (20 marks)

Analyse the role of the World Trade Organisation and transnational corporations in the global economy.

OR

Question 28 (20 marks)

Analyse the effects of recent trends in the direction and composition of trade on the Australian economy.

QUESTION 27 –

Analyse the role of the World Trade Organisation and transnational corporations in the global economy.

Syllabus outcomes tested – H1, H2, H3, H4, H7, H8, H9, H10

Required knowledge, understanding and skills	Mark
<ul style="list-style-type: none"> Clearly relates the role of the WTO and TNCs to the facilitation of trade, labour, financial flows and foreign investment in the global economy. Response is supported by various examples of TNCs. Statements are well supported by economic data. Integrates extensive and relevant economic theory, terms, concepts and relationships. Presents a sustained, logical and cohesive response. 	17 – 20
<ul style="list-style-type: none"> Relates the role of the WTO and TNCs to the facilitation of trade, labour, financial flows and foreign investment in the global economy. Response is supported by examples of TNCs. Statements are well supported by some economic data. Integrates relevant economic theory, terms, concepts and relationships. Presents a logical and cohesive response. 	13 - 16
<ul style="list-style-type: none"> Provides the characteristics of the WTO and TNCs AND the facilitation of trade, labour, financial flows and foreign investment in the global economy. Response contains reference to TNCs. Statements are supported by some economic data. Applies some economic terms, concepts and relationships. Presents a logical response. 	9 - 12
<ul style="list-style-type: none"> Provides the characteristics of the WTO and TNCs OR the facilitation of trade, labour, financial flows and foreign investment in the global economy. Statements are supported by little economic data. Applies little economic terms, concepts and relationships. Presents a limited response. 	5 - 8
<ul style="list-style-type: none"> Makes general reference to the WTO and TNCs AND / OR the facilitation of trade, labour, financial flows foreign investment in the global economy. Statements are supported by little economic data. Applies few economic terms and concepts. Presents a brief and disjointed response. 	1 - 4
	/20

Possible content could include –

- Organisations – WTO (mainly, but can include), IMF, World Bank – and their role in trade.
- Measurement of international economic integration, as well as mentioning international & regional business cycles.
- Globalisation (trade, labour, investment, finance, and MNCs). Provision of relevant statistics.
- Globalisation leading to the facilitation of the above global drivers, therefore leading to liberalisation of each.
- Protection (methods and costs in regards to globalisation).
- Contagion effect due to globalisation and the effects of external shocks.
- Key terms and concepts may include: specialisation, efficient allocation resources, absolute & comparative advantage, competition, innovation, improved access, protection, infant industries, structural change, trade blocs and economic indicators.

General Feedback: 45% of respondents completed this question and it appeared that was the 'fall back response' as the average mark was almost 3 marks lower, the responses were shorter and more of these responses tended to look pre-prepared than with Q28. Some respondents didn't engage with question and attempted to write responses purely on China or types of protection. Protection was an area that should have been included, but in conjunction with the drivers of globalisation. Some did not understand the concept of TNC's, instead mentioning that the IMF and WB were examples of these. Better responses used actual examples of TNC's to help promote the RELATIONSHIP between their points. That was the key to this question – ANALYSE is a difficult command term and practice will be required for some in answering this style of question. Statistics would have also gone a long way for some in promoting their argument, as would have a balanced approach in the role that each agency and TNC's in general play within the global economy.

QUESTION 28 –

Analyse the effects of recent trends in the direction and composition of trade on the Australian economy.

Syllabus outcomes tested – H1, H2, H3, H4, H6, H7, H8, H9, H10, H11

Required knowledge, understanding and skills	Mark
<ul style="list-style-type: none"> • Demonstrates a thorough understanding of the causes of recent changes in value, direction and composition of trade AND their effects on the Australian economy. • Communicates a detailed understanding of the implications that structural change may have on the Australian economy. • Statements are well supported by relevant economic data. • Integrates extensive and relevant economic theory, terms, concepts, and relationships. • Presents a sustained, logical and cohesive response. 	17 – 20
<ul style="list-style-type: none"> • Demonstrates an understanding of the causes of recent changes in value, direction and composition of trade AND their effects on the Australian economy. • Communicates an understanding of the implications that structural change may have on the Australian economy. • Statements are supported by relevant economic data. • Integrates economic theory, terms, concepts, and relationships. • Presents a logical and cohesive response. 	13 - 16
<ul style="list-style-type: none"> • Demonstrates an understanding of the effects of recent changes in value, direction and composition of trade on the Australian economy. • Statements are supported by some economic data. • Some use of economic terms, concepts and relationships. • Presents a cohesive response. 	9 - 12
<ul style="list-style-type: none"> • Communicates general references to the effects of recent changes in value, direction and composition of trade on the Australian economy. • Statements are supported by little economic data. • May use some economic terms, concepts and relationships. • Presents a limited response. 	5 - 8
<ul style="list-style-type: none"> • Makes brief reference to trade by the Australian economy. • Statements are generally not supported by economic data. • Presents a brief and disjointed response. 	1 - 4
	/20

Possible content could include –

- Trends / Changes in Australia's trade from pre-1990s to now. Refer to the pattern, value, direction and composition of the desired timeframe.
- Causes can include:
 - levels of protection in Australia and trading partners
 - Overseas demand and supply for G/S
 - political decision making or trade policy
 - specialisation and goal of efficiency
- Effects can include:
 - changes in financial flows
 - changes in labour flows / patterns
 - economies of scale
 - economic contagion effect / economic policy changes
 - negative externalities such as environmental degradation
 - changes in currency values (incidence of 'Dutch Disease')
 - changes in the components of the balance of payments
 - changes in main economic indicators (growth, employment & inflation)
- Microeconomic policy based on structural change (see pg.122 of the text book)

General Feedback: 55% of the respondents completed this question and it seemed that the candidature seemed better informed about the topic than Q27. That being said, there were still responses that failed to mention (beyond an opening sentence or two) the direction and composition of trade. This is a question where statistics were very important, rather than the general statements made by some. It gave the response some credibility and evidence to back up the impacts discussed later on in the response. Again, RELATIONSHIPS were the key – between the changes that have happened over the years (reallocation of resources) and the impacts (mentioned above). Again, some respondents have preconceived ideas – some tried to turn it into a China essay, while others went towards a CAD or Exchange rates response.