

ECONOMICS

Introduction

1995 was the first examination of the 1994 (*Pathways*) Stage 6 Economics 2/3 Unit Syllabus. The changes to the 1995 examination format reflected the changes to the structure of the Higher School Certificate Course in Economics, in particular the expansion of the Core Topic, Economic Management, and the reduction of the number of 2 Unit Options to be studied from three options to two options. A short answer section, Section II, was also introduced.

The candidature size for both 2 Unit and 3 Unit continued to decline in 1995, although the *rate* of decline has slowed. 2 Unit candidature declined from 11,397 in 1994 to 9,187 in 1995. 3 Unit candidature, approximately 31% of the total Economics candidature in 1995, declined from 3,798 in 1994 to 2,673 in 1995. There appears also to have been a more marked decline in the participation of female students in the 2 Unit course than in the 3 Unit course.

Evidence suggests that the quality of this smaller candidature, however, continued to strengthen in 1995. The high standard achieved and quality of the examination scripts, both for 2 Unit and for 3 Unit, were impressive.

This examination report contains general as well as specific information related to each section of the examination. In addition, sample answers have been provided for Section II.

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SECTION 1

MULTIPLE CHOICE

ITEM	CORRECT RESPONSES	% CORRECT
1	B	47.17
2	A	87.48
3	B	42.39
4	B	72.41
5	C	65.03
6	A	75.00
7	A	81.17
8	B	80.24
9	D	54.54
10	C	36.29
11	A	56.68
12	D	68.96
13	B	58.84
14	C	84.50
15	D	65.05
16	C	64.40
17	A	61.42
18	D	73.13
19	A	55.11
20	D	74.36

The multiple choice questions in Section 1 of the paper are based on the outcomes of the Core of the Higher School Certificate Course identified in the 1994 Economics Syllabus, pages 28-30, and further expanded in the areas of study, subject matter and terms and concepts on pages 34-41 of the Syllabus. In addition, it is assumed that the outcomes of the Preliminary Course have been achieved by all students before commencing the Higher School Certificate Course in Economics.

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Questions in Section 1 were drawn from all sections of the HSC Core and, as has previously been the case, some of them required calculation. It was pleasing to note the significant proportion of students who showed an accurate understanding of the notion of *structural unemployment* (Question 2), as examination responses in previous years had indicated limited understanding of this concept. Question 14 on *Enterprise Bargaining* was typical of questions that reflect recent economic developments associated with Economic Management. This question too was well answered by students.

There was, however, some indication that students were not as confident in other areas of the course such as Taxation (Questions 1 and 3) which, although traditionally treated in the area of Fiscal Policy, is now a significant part of the Contemporary Microeconomic Management Core section under Microeconomic Policies (Questions 1 and 3). Question 10, which examined understanding of the relationship between the productivity of labour, growth of GDP and unemployment, was not well answered. It is to be expected perhaps that students may have more difficulty with understandings that are built upon throughout both the Preliminary and HSC Courses, and that, when examined, often require more *application* of understanding than other questions.

The Mean mark for this section of the paper was 13.04, indicating that candidates generally performed well .

SECTION II

General Comments

The introduction of this section is the major change in the new examination format for the Pathways Syllabus in Economics. The restructuring of the examination paper made provision for the inclusion of a wider range of assessment instruments. The short answer section was introduced as a more effective instrument for assessing a student's ability to interpret and analyse information and to demonstrate their ability to understand and apply economic theory in a more precise and specific way than occurs in Sections III and IV of the paper.

The very high standard of the responses in this section indicated that the majority of students were well prepared for the short answer section. Anecdotal evidence suggests that most had been provided with ample opportunities, through class exercises, assessment tasks and major examinations, to refine their skills in answering these types of questions. The more exposure students have to this type of instrument, the more confident they will become of meeting the specific demands of the questions, particularly in relation to following directive terms, interpreting and analysing various types of stimulus material that might be used in these questions, and in fulfilling the requirements of each question in the space provided.

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There is a close relationship between **mark allocation, time allocation and space provided** on the paper in Section II. It is vital that this relationship be emphasised and that students be provided with appropriate advice, particularly regarding the length of their answers. It was pleasing to note that less than one per cent of students continued their answers to these questions into another examination booklet. Students should not be given the impression that they must write no more than will fit into the space provided in order to gain full marks. The space provided for each response is considered more than enough to earn full marks by answering the question asked. Students should be encouraged to give careful consideration to the specific requirements of the question, and to answer in a concise and accurate manner.

Marking of Section II

The marking of this section of the paper differs considerably from the marking of Sections III and IV where impression marking is used to rank students. The marking of these questions involves the establishment of **specific criteria for each section of the question**. The schemes are drawn up by Senior Markers during the pilot marking period (before the actual marking commences) after extensive reading and consideration of the full range of responses offered by students. A specialised group of 5 marking teams marks this section of the paper throughout the marking period. In the early stages of pilot marking, there is continued reassessment and readjustment of the criteria to ensure that all types of responses are accommodated by the criteria and that the selected criteria constitute a valid and equitable means of discriminating between responses.

All short answer responses are double-marked. In some questions, half-marks are used to further discriminate between responses.

Sample answers

For each of the parts of Questions 21 and 22, a sample of an answer that gained full marks is provided below. In addition, an indication is given of some of the features of answers that were awarded *less than full marks*. In all cases, a mark of zero was awarded to non-attempts, a restatement of the question, or completely incorrect or completely irrelevant information.

Question 21.

- (a) Define 'balance of payments'.

'The balance of payments is a systematic record of all financial transactions between Australia (a country) and the rest of the world over a specific period of time. It consists of the Current Account and the Capital Account.' (2 marks)

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Comment: Responses that did not refer to the period of time or the two accounts did not receive full marks. Answers such as *how much we owe to other people* received zero marks.

- (b) *Using the table, give reasons for the change in the balance on current account since 1991-92.*

‘Since 1991-92, the current account deficit has grown considerably, mainly as a result of the reduction in the balance on merchandise trade and the decrease in net unrequited transfers. The balance on net income had improved as a result of the appreciation in the Australian dollar, but a higher level of economic growth associated with the recovery caused the level of imports of consumer and capital goods to rise. The increase in expenditure on imports exceeded the increase in export receipts.’ (3 marks)

Comment: Responses that listed only the changes in the accounts, or offered only mathematical reasoning for the changes in the components did not receive full marks.

- (c) *Explain the reason for the relationship between the capital account balance and the current account balance.*

‘Under a floating exchange rate system, the exchange rate changes so that the balance on the capital account (a surplus) is equal to or offsets the balance on the current account (a deficit). (2 marks)

Comment: Responses that did not identify the floating exchange rate system as the mechanism which balances the accounts did not receive full marks.

- (d) *Why might the Government seek to reduce the current account deficit?*

‘The Government wants to reduce the current account deficit so that the domestic savings that are used to finance this deficit and are paid overseas can be used to fund economic growth domestically. Reducing the debt will also reduce interest payments and the level of foreign debt. This will improve Australia’s international competitiveness and promote long term growth and efficiency of our industries.’ (3 marks).

Comment: There was a tendency for a significant number of responses to be based on *how* the government might reduce the current account deficit, instead of *why* as required by the question. These responses did not gain full marks.

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Question 22

- (a) *What are interest rates?*

'Interest rates are the price of money, the cost of borrowing and the reward for lending'. (1 mark)

Comment: Answers that referred to only one of the functions of interest rates, e.g. the cost of borrowing, also gained one mark.

- (b) *What factors have influenced the level of interest rates in Australia over the last decade?*

'The factors that have influenced the level of interest rates in this period include the inflation rate, the level of the current account deficit, periods of high economic growth and the recession, overseas interest rates and other external influences, and the government's economic policy, in particular monetary policy.' (3 marks)

Comment: Students received less than full marks if they listed one or two factors only, or if they listed factors that were not relevant or significant.

- (c) *How can changes in interest rates affect the level of economic activity?*

'Increases in interest rates will increase the cost of borrowing, discourage investment and encourage savings which will tend to reduce the level of economic activity. Decreases in rates will lead to an increase in activity, as consumers and businesses will borrow and spend more, and more people will be employed.' (3 marks)

Comment: Because the question referred to *changes* in interest rates, answers based on either increases or decreases only were awarded less than full marks. The directive term *how* also indicated the need for some analysis or explanation.

- (d) *How can changes in interest rates affect the value of the Australian dollar?*

'An increase in interest rates will attract capital inflow by increasing returns to overseas lenders. This will increase the demand for Australian dollars which will cause the value of the currency to appreciate. The opposite will apply if interest rates fall - the dollar will depreciate.' (3 marks)

Comment: As in part (c), the question required both increases and decreases in interest rates to be discussed, as well as some explanation or analysis.

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THE MARKING OF SECTION III AND SECTION IV

Students are required to answer the questions in Sections III and IV of the Economics examination in **essay form**. Rather than signal a *traditional* essay format with formal introductory paragraphs and conclusions, this requirement is designed to encourage students of Economics to communicate their knowledge in a form that provides for optimal fluency, sequencing, explanations and analysis, i.e. economic literacy is about *how* Economics is communicated, not just *what* economics is communicated. It has been considered for some time that the *extended-response* format that is used in other subjects often encourages students to present information in a fragmented and unrelated manner that does not provide for the full explanations and type of analysis of the relationships that are often the focus of the content in Economics.

Essay format tends to encourage students to write in full paragraphs that are sequenced logically in terms of the question asked. This does not, however, mean that the students cannot use point form to answer some sections of questions. A question such as *Identify the main features of Australia's current Balance of Payments position* would be most adequately answered by a listing (*a, b, c, d*, etc) of these features, with some qualification or added information. Students must use their own discretion in making such decisions, and should be provided with ample opportunities to evaluate different ways of organising and communicating their knowledge to answer questions in Economics.

Students are also encouraged to plan their essays carefully, and to note the specific requirements of each part of the essay question. Such questions may not always consist of three sections, as happened in the 1995 examination paper.

IMPRESSION MARKING OF ESSAYS

Essays in Economics are *impression marked*. This means that answers to essays are allocated marks on the basis of the *impression* created by the student in terms of their knowledge of economics, and their use of that knowledge to answer the question asked.

This type of marking differs significantly from the marking of essays or extended responses in other subjects, where specific criteria are identified for the answers in each part of the mark range and marks are allocated according to such criteria. Impression marking is a more flexible method of marking as it makes provision for the differences in the ways in which students might interpret questions, and for the variety of approaches and subject matter students might use to answer the question asked.

During the **pilot marking**, after extensive reading of a large number of scripts from different examination centres, Senior Markers select a number of scripts that best represent the full range of marks and the variety of types of responses to a particular question. These scripts

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are then used for briefing sessions with markers. There is no *final marking* of any scripts until Senior Markers are confident that appropriate standards have been established for the full range of marks for the question.

Essays are marked on a scale of **0-9**, with the final mark then being converted to a mark out of 20 for each essay. A general marking guide provides a broad description of the mark range:

- 0** no answer given/ question is restated/ no relevant facts given
- 1** answer is among the poorest 5% of answers for this question at this examination
- 2**
- 3** answer is below average, but above the poorest 5%
- 4**
- 5** answer is of average quality
- 6**
- 7** answer is better than average, but not among the best 5%
- 8**
- 9** answer is among the best 5% of answers for this question at this examination

During the marking, a number of strategies are used to ensure the reliability, consistency and validity of the marking process. The **Marker Statistics Operation** provides statistical reports which assist the Supervisors of Marking and Senior Examiners to ascertain whether the marking process is providing an acceptable distribution of marks for each question, and to ensure that this distribution and appropriate standards are maintained. In particular:

- Senior Markers monitor and scrutinise marks awarded to scripts to ensure that markers *within a group* are marking consistently
- *Control scripts* are periodically circulated through all groups marking a particular question to ensure consistency *across groups*
- The Supervisor of Marking and the Assistant Supervisor of Marking monitor marks across different sections of the paper, and across different options
- All scripts are double-marked
- A large proportion of scripts are *check-marked* by Senior Examiners and check-markers

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- Statistical reports allow monitoring of marks from individual markers, individual marking groups, all groups marking a particular question, and all questions or options in a specific section of the paper.

SECTION III

This section of the paper examined economic policies, issues and problems that are of current significance both in terms of recent economic developments and the Higher School Certificate Core topics in the Syllabus.

Question 23 was the more popular of the two questions, and was attempted by approximately 56% of the candidature. Students generally structured their answers around the points given in the question, using these points as an essay plan. The majority made some attempt to refer to the stimulus, or to integrate it into their answers. Better candidates presented their information in well constructed and logically sequenced paragraphs. Fluent expression and a commendable level of economic literacy were also features of the better responses.

Question 23.

With the assistance of the following information and using your knowledge of Economics, write an essay on

Economic Growth and Unemployment in Australia

In your essay, include some discussion of the following points:

- *recent trends in economic growth in Australia;*
- *the importance of maintaining strong economic growth to reduce the level of unemployment;*
- *external and internal constraints on growth;*
- *government policies to maintain a strong growth rate.*

Excellent responses were characterised by the extent of theoretical knowledge, appreciation of current economic trends, and use of comprehensive economic analysis. Candidates were able to address all sections of the question, and to use the stimulus material and current statistics to support their explanation of the relationship between economic growth and unemployment. A distinction was made between different types of unemployment, in particular structural and cyclical unemployment. An additional strength of these responses was the thorough treatment of internal constraints (e.g. inflation) and external constraints (e.g. current account deficit). The linkages between these constraints were well explained.

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In this context, many students referred to Phillips Curve analysis, frequently including the notion of a *natural rate of unemployment*.

In developing an explanation of the relationship between growth and unemployment, many candidates referred to *sustainable economic growth*. Few students, however, referred to the *pattern* of growth as opposed to the *level* of growth. Linkages were also made between the level of domestic savings, the level of foreign debt, the budget surplus and the current account deficit. Candidates referred to a range of macroeconomic and microeconomic policies, identifying those that targeted structural and cyclical unemployment as well as promoting a general increase in the level of economic growth. A pleasing feature of these responses was the ability of candidates to refer to specific policy measures, particularly in the area of microeconomic reform. Throughout these essays, the better candidates employed current statistics and showed sound knowledge of trends in key economic indicators.

Above average responses tended to address all sections of the question, but did not offer the same depth of analysis as excellent responses. Whilst candidates in this category were able to refer to general trends in economic growth, they were not as successful in developing full explanations of the relationships between internal and external constraints and growth and unemployment. There was a tendency for some to stray from the main concepts identified in the question, and to include information that was obviously pre-prepared.

Poor responses were descriptive and relied heavily on the stimulus material. There was a tendency for candidates here to describe the main trends in the graph, without any analysis. The link between economic growth and unemployment was established, but there was little evidence of understanding of other relationships. A general overview of government policies was common in the last section of these essays.

Question 24

With the assistance of the following information and using your knowledge of Economics, write an essay on

Microeconomic Reform in Australia.

In your essay, include some discussion of the following points:

- *the meaning of the term 'microeconomic reform';*
- *examples of recent microeconomic reform;*
- *reasons for microeconomic reform;*
- *possible effects of microeconomic reform in the Australian economy.*

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Microeconomic management is a newly expanded section of the Higher School Certificate Core of the Syllabus, and is of vital significance for current economic management. This question, although less popular than Question 23, tended to attract the more capable candidates.

Outstanding responses addressed all sections of the question comprehensively. Explanations of the term *microeconomic reform* varied from the succinct, e.g. *actions to improve the efficiency with which resources are utilised*, to lengthy discussions of different types of efficiency - allocative, technical and dynamic. The better candidates explained the relationship between supply-side economics and microeconomic reform, often including a diagram to illustrate the effects of reforms on aggregate supply. Recent examples were chosen to illustrate the range of specific reform measures that have been used in areas such as taxation, the labour market, trade and protection, competition policy, and corporatisation and privatisation of government business enterprises.

In outlining the reasons for microeconomic reform, the better candidates noted the failure of macroeconomic policy alone to achieve the government's objectives. Improvements in efficiency were identified as a prerequisite for sustainable economic growth and improved living standards. The distinction between short-term and long-term effects of microeconomic reform was well explained by the majority of these candidates.

Average responses provided an adequate definition of microeconomic reform, often with a lengthy list of examples or a detailed explanation of one or two areas such as labour market reform or tariff reductions. Both approaches were acceptable. Here students were able to link the notion of microeconomic reform to international competitiveness and some referred to the graph showing the international competitiveness index. A common weakness in this range of responses was the inability of candidates to distinguish between the reforms that would promote efficiencies in the long term and those that were more *one-off* measures such as selling government assets to reduce the budget. Few students were able to recognise the way in which microeconomic reform could contribute to a higher level of domestic savings and thus reduce the current account deficit.

Poor responses were characterised by a vague explanation of microeconomic reform. Here students offered a limited range of examples and were, in the main, unable to explain the reasons for microeconomic reform or the reform process. Some of the weaker candidates copied out the stimulus - few were able to use it. Many students in this range offered pre-prepared material on the current account deficit that was not directed towards the question.

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SECTION IV

POPULARITY OF OPTIONS AND QUESTIONS

OPTION	% OF CANDIDATURE	QUESTION	% OF OPTION
LABOUR ECONOMICS	39.72%	25	59.56%
		26	40.44%
INDUSTRY ECONOMICS	14.81%	27	53.25%
		28	46.75%
DEVELOPMENT ECONOMICS	25.73%	29	36.29%
		30	63.71%
ECONOMICS OF PRIMARY INDUSTRIES	4.50%	31	57.21%
		32	42.79%
DISTRIBUTION OF INCOME & WEALTH	15.23%	33	52.28%
		34	47.72%

LABOUR ECONOMICS

Question 25

What have been the main changes in the methods of wage determination in Australia over the last decade? What are the main benefits sought from the movement towards a system of enterprise bargaining? Discuss the potential disadvantages of this system for the management of the Australian economy.

This question was the more popular of the two Labour Economics questions. Students were, in many cases, well prepared for an essay that allowed them to show their knowledge and understanding of current features of wage determination in Australia.

Excellent responses included a well defined coverage of the changes to wage determination from the centralised system of the early 1980s to the more decentralised current system of enterprise bargaining. In most cases, students were able to trace these developments by identifying **key developments** in the Prices and Incomes Accords, such as the introduction

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of the second tier and productivity considerations in Accord Mark III and the origins of enterprise bargaining in Accord Mark VI. These responses explained a range of benefits emanating from the shift towards enterprise bargaining, including improvements in allocative and dynamic efficiency and were also inclusive of specific distributional problems associated with the difficulty of access for some workers to wage rises under enterprise bargaining, and the widening of wage relativities. The distinction between enterprise agreements and enterprise flexibility agreements was made in some outstanding responses. In discussing the disadvantages of the system for economic management, candidates acknowledged the shift in wages from a tool of macroeconomic management to a tool of microeconomic management, whilst recognising that less direct control over wages outcomes under a more decentralised system might, in fact, lead to greater reliance on other policy measures in order to achieve particular economic objectives such as lower inflation.

In above average responses candidates were able to trace the changes in the Accords, but were not, in many cases able to link these to a shift towards a more decentralised system of wage determination. There was also a lack of detail in the discussion of Accord Mark VIII. Whilst the benefits of enterprise bargaining were adequately discussed, few students in this range were able to analyse the potential disadvantages, such as problems associated with inflation.

Poorer candidates often presented fragmented lists describing the eight Accords. These were frequently incorrect and were not related to the question. Such candidates tended to discuss in general terms one or two advantages of enterprise bargaining but, more often, completely ignored the last part of the question and did not deal with any potential disadvantages.

Question 26

'What factors determine the demand for labour and the supply of labour in the Australian economy? How are these factors affected by the business cycle? Illustrate your answer with reference to the Australian economy.'

This question focused on the demand for and the supply of labour, but also required that students examine the effect of the business cycle on these factors. It was perhaps this last section that acted as a deterrent for some who showed a preference for Question 25.

Excellent responses analysed a range of factors determining the demand and supply of labour at the *macro* or aggregate level and at the *micro* or individual firm or industry level. Demand factors that were identified included concepts such as the derived demand for labour, the relative costs of labour and capital, the productivity of labour and the role of technology. In identifying the factors that determine the supply of labour, responses in this category included factors such as the size of the labour force and the participation rate as well as factors at the *micro* level such as wages and working conditions, the occupational and geographical mobility of labour, and education and skills. The second section of the question was well answered

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in these responses which provided a full explanation of the relationship between the various stages of the business cycle and the changes in the demand and supply of labour. References to the Australian economy and to specific policy initiatives such as Working Nation and to the changes in unemployment rates as the economy moved into and out of the recession were common. Some candidates explained the upward pressure on wages that may result from an upturn in the level of economic activity, and the implications of this for the demand and supply of labour.

Above average responses included an adequate identification of the factors determining the demand and supply of labour, with most students in this category acknowledging the differences between total demand and supply, and demand and supply for labour in terms of individual firms and industries. In the second section of the question, however, there tended to be a superficial description of the role of the business cycle, often in terms of unemployment only. These responses lacked specific reference to the experience of the Australian economy, and tended to be more general.

Poorer responses were more limited in their treatment of demand and supply factors and tended not to distinguish between *macro* and *micro* factors. Reference to the business cycle, if at all, was brief, with no real development of its significance in terms of the demand and supply of labour. Those who were not confident of this area resorted, in many cases, to coverage of material that was not related to the question.

INDUSTRY ECONOMICS

Question 27

'How does the determination of the price-and-output policy of a producer in an oligopolistic market differ from that of a producer in a more competitive market structure? Why are so many Australian markets oligopolistic? What are the consequences of this for the conduct and performance of Australian industries?'

This question was the more popular of the Industry Economics alternatives and was answered by approximately 53% of Industry Economics candidates.

The standard of responses was generally pleasing, with the majority of candidates employing some analysis of market structures in their answers. Another favourable trend was the reference to specific Australian examples as required by the Syllabus (page 46).

Outstanding responses were characterised by accurate comparisons of an oligopolistic market structure with that of perfect competition and/or monopolistic competition in the first part of their answers. This analysis compared profit maximisation as a means of explaining the determination of price and output. Candidates generally included diagrams to illustrate the

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kinked demand curve, as well as models of profit maximisation, sometimes in the short term as well as in the long term. The diagrams were usually correct, well labelled and well explained. In explaining why so many Australian markets are oligopolistic, the better candidates discussed the significance of the small size of the Australian market, economies of scale, and the role of previous government protection policies. The majority examined the consequences for the conduct and performance of Australian industries in terms of an assessment of the technical and dynamic efficiency of oligopolists with particular reference to resource allocation and incentives to undertake research and development. Some candidates referred specifically to current developments in the area of competition policy and the implementation of the recommendations of the Hilmer report.

Above average responses generally answered the first part of the question well, although, in many cases there was little or no analysis included. Listings of characteristics typical of oligopolies and other market structures were common, often without any explanation or comparison, although some candidates did make good use of specific case studies. While most responses did acknowledge the significance of the small size of the Australian market in the second part of the question, few candidates were able to develop this in the final section in terms of efficiency or resource allocation.

Poor responses were frequently inaccurate or confused the requirements of the question, and tended to contain brief mention of some market structure characteristics. Diagrams, when used, tended to be inaccurate and poorly labelled and were not explained. These responses showed little knowledge of Australian oligopolies. Inclusion of irrelevant information and brevity were common characteristics of these poor responses.

Question 28

'How can the degree of competition in a market be identified? In what ways, and for what reasons, has the government sought to encourage more competition within Australian markets?'

Outstanding responses featured a comprehensive explanation of the means of identifying the degree of competition in a market, including buyer and seller concentration, price and non-price competition, barriers to entry, and profit maximisation. These were often presented in a *well-rehearsed* manner, with references to specific market structures and included specific examples in the discussion. In answering the second part of the question, candidates here demonstrated a good understanding of the objectives of current competition policy and the reform measures that have resulted from the Hilmer Report. These were discussed in the context of microeconomic reform, and the efficiency gains (dynamic, technical and allocative) associated with competitiveness; reference was also made to privatisation, corporatisation, and reforms such as those associated with tariffs and with the labour market. Many of these candidates were able to explain clearly the links between policies to increase competition and the aim of improvements in international competitiveness and a sustained reduction in the level of foreign debt.

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Above average responses addressed both parts of the question, but tended to concentrate on government measures to encourage more competition and to neglect the *reasons* or objectives of such policy measures. Coverage of the Hilmer Report and other reforms was often brief and descriptive. Here candidates tended to be more confident in their explanations of changes to tariff policies or protection than they were in explaining other measures such as those contained in the Hilmer recommendations.

Poorer responses tended to list the features of the four common market structures without relating them to the *degree of competition* as required by the question. The second part of the question was often ignored, with little or no attention being given to recent policy initiatives. These candidates did not explain the objectives of government policies to increasing competition and were generally not familiar with competition policy and microeconomic reform.

DEVELOPMENT ECONOMICS

Question 29

'What are the main indicators of economic development of a country? Use examples to contrast the level of development in different countries. What problems are likely to be encountered in attempting to promote global equality?'

Excellent responses distinguished between economic growth and economic development as a means of answering the first part of the question. A range of indicators were identified, and there was a clear distinction between monetary indicators such as real income per capita and non-monetary or social indicators such as the physical quality of life index, nutrition, literacy, or other components of the consumption profile. These candidates also tended to identify weaknesses of some of the indicators, clearly distinguishing between *indicators* and *characteristics* of economic development. Contrasts in development were generally detailed and illustrated with statistics from a variety of countries. In the last part of the question, the problems associated with attempts to promote global equality were structured in terms of the Syllabus - finite resources, political considerations, and unrealistic objectives. Many of the better candidates included a discussion of the *Limits to Growth* study by the Club of Rome, UNCTAD and examples of current political considerations related to international trade.

Above average responses tended to focus less on *indicators* in the first part of the question, offering a more descriptive account of characteristics or features. Contrasts of development tended to be more superficial, with less reference to a range of countries. Use of statistics was limited and some candidates spent much of their time on one or two lengthy case studies. The last section of the question was poorly answered, with many students presenting a discussion of the problems facing less developed countries, but failing to address the issue of *global equality*.

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Poorer responses were, in many cases, pre-prepared answers that did not address the specific requirements of the question, particularly the last section which was largely ignored. In many cases these candidates provided only a brief discussion of problems facing developing nations, with some brief references being made to a few indicators. Few examples or references to specific countries were used and many statistics were inaccurate.

Question 30

'What is the difference between economic growth and development? Using examples, discuss alternative development strategies for less-developed countries.'

Almost two-thirds of those who studied this Option chose this question, and, in general terms, the question was well answered. Responses of candidates who used an integrated approach including their case study information tended to be more impressive than those candidates for whom the case studies tended to be an afterthought or an *add-on*.

Excellent responses included a clear distinction between economic growth and development, with the better candidates explaining that development also included changes in factors such as literacy rates, the status of women, income distribution, infant mortality and industrial and economic structure of a nation. A range of indices such as the Physical Quality of Life Index were used to emphasise these changes. In the second part of the question, alternative development strategies were well explained, and with reference to specific case studies. The *Asian Tigers* were popular examples, as was Mozambique. The better candidates acknowledged the different approaches to development required by various countries because of differences in factor endowments.

Above average responses usually managed the first part of the question well, but adopted a more descriptive approach to the treatment of development strategies. There tended to be an emphasis on the role of foreign aid, with less attention being given to alternative or different strategies needed by different countries. There was also a tendency for some candidates to stray from the question and offer a discussion of problems rather than strategies in this part of the question.

Poor responses were brief and superficial. Although frequently correct in the distinction between economic growth and economic development required in the first part of the question, there was a tendency for these candidates to offer fragmented lists of characteristics of countries experiencing problems with development, or lists of problems themselves that were rarely explained. Strategies were neglected, or limited to a discussion of the types of foreign aid.

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ECONOMICS OF PRIMARY INDUSTRIES

Question 31

'What are the major influences on the level of farm incomes in the Australian agricultural sector? Using specific examples, discuss measures taken by the Australian Government to assist the agricultural sector.'

This question was the more popular of the two questions from this Option. It appeared that some students had difficulty with the two part structure of the question, perhaps needing more guidance in terms of the content required. It was interesting also to note that most students tended to focus on *falling* farm incomes in the first part of the question, and did not examine possible *increases* in farm incomes that might result from higher yields or productivity.

Although most students showed an understanding of the major influences on the level of farm incomes in the Australian agricultural sector, the better candidates distinguished clearly between domestic factors such as drought or cost increases, and overseas factors such as changes in world prices for commodities or exchange rates. Such candidates tended to explain the role of particular factors such as the income-inelastic demand for foodstuffs and world price volatility. A range of specific macro- and micro-economic examples were used to explain the measures taken by the government to assist the agricultural sector, including funding for research by the CSIRO, the Rural Adjustment Scheme, accelerated depreciation allowances, abolition of marketing schemes, tax concessions, reform of infrastructure such as rail, and regional and global trade agreements. The better responses also included a discussion of the problems associated with the formulation, implementation and cost of government measures to assist the agricultural sector.

Above average responses tended to give a brief coverage only of relevant factors in the first part of the question, although most offered some explanation of *how* factors such as increases in interest rates might influence farm incomes. These responses were more descriptive and generalised in discussing government measures, and neglected the role of microeconomic reform in promoting a reduction of costs to farmers and improvements in productivity.

Poorer responses presented superficial listings of factors in the first section, and measures in the second section. These were brief and generally not explained, while some lacked economic content, tending to be based on general knowledge.

Question 32

'What is the contribution of the mining sector to the Australian economy? What current problems and issues does the mining sector face? Discuss the possible impact of government policies on the future of mining in this country.'

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Excellent responses explained the contribution of the mining sector to the economy in terms of contribution to Gross Domestic Product, export earnings, investment or capital formation and employment.

The better responses included a statistical profile of this contribution, with particular emphasis on how this has changed over time. Some students referred to the multiplier effects of changes (both increases and decreases) in export earnings on the level of national income. These candidates demonstrated a thorough understanding of the range of factors affecting the mining sector, particularly in relation to changes in environmental policies and requirements, changes in world prices and markets for mineral products, industrial disputes, Native Title legislation, as well as exchange rate movements and the time lags between investment in mining and return on the investment. Explanations demonstrated an understanding of *how* these factors affect the mining sector. Only the better responses discussed specifically the impact of policies on the *future* of mining. Here candidates examined possible future changes in policy measures to greater environmental constraints, a possible resources rent tax, carbon taxes, and further labour market reforms.

Above average responses were also characterised by the use of current statistics to answer the first part of the question. The problems and issues treated in the second part of the question tended to be dealt with in a superficial manner, with a lack of explanation as to how these affect the mining sector. Different policy measures were outlined, but not fully explained and, in most cases, not linked to the *future* of mining.

Poorer responses tended to be brief, general in content, and did not address the specific requirements of the questions. Use of statistics was rare in this category of responses, and those that were used were often dated or inaccurate. There was little treatment of the last part of the question, with some candidates briefly mentioning one or two policy measures only.

DISTRIBUTION OF INCOME AND WEALTH

Question 33

How do market forces influence the distribution of income in Australia? What role do institutional and social factors have in affecting this distribution? Discuss the impact of government policies on the distribution of income in Australia.

The quality of the responses to this question was most pleasing, reflecting the quality of the candidature and their thorough preparation for this topic. Candidates tended to answer each section of the question in order. They generally showed a thorough understanding of the relevant economic concepts and relationships required by the question, although the role of market forces in influencing the distribution of income was not dealt with as well as other sections. The last section of the question required a discussion of the *impact* of government

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policies on the distribution of income. There was, however, a tendency for students to discuss only the policies themselves, rather than their impact.

Excellent responses recognised that the market forces related to income distribution were based on resource ownership and the price of productive resources. Analysis was provided of the markets for land, labour, and enterprise, with students successfully presenting an accurate explanation of the determinants of demand and supply in each market. This was often supported by diagrammatic analysis.

Social and institutional influences on income distribution were comprehensively examined. Issues such as the effect of family structure, discrimination, education, socio-economic background, labour market duality and the role of trade unions, wealth accumulation, education, cultural influences, age and gender were well understood and explored.

These responses also contained an excellent discussion of the range of government policy influences including the taxation-transfer system, the provision of non-cash benefits (e.g. public housing); legislation to create opportunities and overcome discrimination (EEO, Affirmative Action, Anti-discrimination); government employment initiatives such as those associated with Working Nation, incomes policy, the social wage and safety net provisions, support for charities and other community organisations. Here students were able to support their arguments with relevant statistical data and specific examples.

Above average responses discussed the main factor markets, but generally concentrated their analysis on the labour market, sometimes using a graphical approach. Here treatment of a range of social and institutional influences on income distribution was adequate, although the analysis was frequently superficial.

Poor responses provided little or no discussion of the market forces influencing distribution and treatment was often limited to a brief description of the labour market. Some institutional and social influences were identified, although the discussion of their impact was minimal and frequently descriptive.

Question 34

'Distinguish between absolute and relative poverty. Why do some groups in Australia earn incomes below the poverty line? Discuss the effectiveness of government policies designed to help low-income earners in Australia.'

This question was attempted by a little less than half of the candidates who presented responses for this Option. The question itself drew on the subject matter in the Syllabus that referred to absolute and relative poverty, the factors contributing to and influencing the incidence of poverty for particular groups, and the effectiveness of government policies designed to assist those described as *low income earners*. A pleasing feature of responses generally was the attempt by most candidates to address all sections of the question.

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Excellent responses were characterised by the use of specific examples from the Australian economy, such as trends in unemployment, inflation and the Henderson poverty line. These candidates distinguished clearly between the terms *absolute* and *relative* poverty, and showed a thorough understanding of the concept of the poverty line. The Gini Coefficient and the Lorenz Curve were also used to describe the incidence of poverty. Here students presented a thorough explanation of the reasons why some groups, including single parents and workers who were largely unskilled, were more likely than others to experience poverty, referring to a range of market, social and institutional factors. The concepts of the poverty cycle, poverty trap and self-perpetuating poverty were well integrated into the discussion. In many cases, an evaluation of the effectiveness of government policies in assisting low income earners was accompanied by a clear explanation of the nature of current policies such as welfare initiatives in the 1995/96 Budget, labour market programs like Working Nation and Jobsearch, and the Prices and Incomes Policy, in particular the safety-net provisions contained in Accord Mark VIII and Anti-Discrimination legislation.

Above average responses contained clear and accurate distinctions between *absolute* and *relative* poverty. Whilst candidates identified here the groups most likely to experience poverty, they did not give adequate explanations as to why this was the case, i.e. they neglected the factors that caused a higher incidence of poverty for some. In some cases, students merely listed isolated facts, failing to link key ideas into their analysis. There was frequent reference to the Gini coefficient and the Lorenz curve, but often these concepts were not well integrated into the discussion, with students frequently displaying only superficial understanding of the significance of the concepts. In addressing the final section of the question, there was, in the discussion, an over-reliance on progressive taxation and welfare as policies to help low income earners. Candidates tended to describe the policies only, rather than their effectiveness, as the question required.

Poor responses frequently did not address all parts of the question, or offered only brief descriptive references to one or two sections. Here candidates were often confused about the distinction between *absolute* and *relative* poverty, and provided little, if any, explanation of why some groups were more likely to earn incomes below the poverty line. Terms such as the *poverty line* were poorly defined and, in many cases, students failed to offer factual material when discussing government policies.

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3 UNIT ADDITIONAL

POPULARITY OF OPTIONS AND QUESTIONS

OPTION	% OF CANDIDATURE	QUESTION	% OF OPTION
ENVIRONMENTAL ECONOMICS	21.02%	1	53.03%
		2	46.97%
INCOME AND EXPENDITURE ANALYSIS	34.13%	3	67.11%
		4	32.89%
COMPARATIVE ECONOMIC SYSTEMS	21.22%	5	41.72%
		6	58.28%
EVOLUTION OF ECONOMIC IDEAS	23.63%	7	64.62%
		8	35.38%

ENVIRONMENTAL ECONOMICS

Whilst the two questions from this topic were drawn largely from different areas of study in the Syllabus, both were broadly concerned with the impact of economic decisions on the environment, and the role and responsibilities of government in influencing the decision-making process and the outcomes of these decisions.

Question 1

'What is cost-benefit analysis? What difficulties arise in the application of cost-benefit analysis to decisions that have environmental consequences? How might governments take better account of environmental costs and benefits in decision-making?'

The standard of responses was, on the whole, impressive, with the majority of candidates displaying thorough knowledge of cost-benefit analysis, its rationale and its application to solving the trade-off between environmental quality and economic growth. A number of different case studies and examples were effectively utilised by many candidates throughout their responses. These included the Third Runway, old-growth forests, Coronation Hill, land degradation, endangered species and pollution.

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Excellent responses defined cost-benefit analysis precisely and generally included the steps associated with the cost-benefit analysis process. The better responses outlined the variety of valuation techniques used to evaluate private and social costs and benefits, e.g. contingent valuation, travel-cost, damage-cost, opportunity-cost. Market failure, net costs and benefits, internalising externalities, hedonic pricing and shadow prices were other concepts developed by some candidates in the first section of the question.

The difficulties associated with the application of cost-benefit analysis were well known. Weaknesses in pricing methods (particularly for intangible costs and benefits), subjective valuation and problems of discounting were well explained by the majority of candidates. Distributional problems and moral and ethical issues were treated in outstanding responses. In most cases, candidates referred to relevant, and often topical, specific examples to strengthen their statements. Use of appropriate economic analysis such as diagrams to distinguish between marginal private cost and marginal social cost was well integrated into this discussion by some candidates.

In addressing the ways in which governments might be better able to take account of environmental costs and benefits in decision-making, excellent responses offered a range of alternatives such as extension of regulations, providing incentives, use of more market-based solutions, and use of taxes and subsidies. The concepts of sustainable development and inter-generational equity were often introduced and explained in this part of the discussion.

Average responses tended to be more descriptive, offering only generalised information on one or two valuation techniques. These responses often focused on one case study at the expense of addressing all parts of the question. The treatment of limitations of cost-benefit analysis was brief and not well explained.

Below average responses failed to communicate a clear understanding of the cost-benefit analysis process and its limitations. Here candidates showed little understanding of valuation techniques, and failed to address the last section of the question. In many of these responses, there was a failure to show a basic understanding of the concepts and terms identified in the Syllabus.

Question 2

'Analyse the main issues affecting the management of natural resources. Distinguish between those issues that relate to renewable resources and those that relate to non-renewable resources. Why might government intervention be necessary to manage the use of natural resources?'

This question was less specific than Question 1. Candidates used a variety of approaches in answering the different components of the question. Well sequenced and clearly organised content, perhaps as a result of careful essay planning, enabled many students to communicate more effectively the factual content required by the question.

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Excellent responses featured detailed responses to all three parts of the question. In these candidates demonstrated extensive knowledge of issues such as the conflict between economic growth and the environment, sustainable development, environmental quality and inter-generational equity, and often included economic analysis such as production possibility/indifference curve analysis as key elements of their response. The distinction between renewable resources such as forests and non-renewable resources such as coal was clearly explained, and included reference to the concepts of exploitation and depletion of resources, conservation of resources, optimal levels of usage, and sustainable yield.

The role of technology both in accelerating the rate of resource depletion, and in enhancing the means of conserving some resources was included in outstanding responses. The pressure of population growth on the rate of consumption of non-renewable resources in particular was explained by a significant number of candidates. The better candidates also integrated concepts such as *free goods*, public goods, property rights, externalities and market failure into their explanation of the rationale for government intervention in the management of natural resources.

Average responses used key terms and concepts such as environmental quality and inter-generational equity, but often lacked comprehensive explanation. Diagrams such as those which included marginal private cost and benefits and marginal social cost and benefits were often poorly labelled and were not well integrated into responses. Discussion of the reasons for government intervention was commonly limited to a superficial description of the consequences of exploitation of resources in terms of higher market prices for consumers and the needs of future generations.

Below average responses were descriptive, often focussing on only one part of the question. There was generally a tendency to identify only one or two issues affecting the management of natural resources and many candidates failed to distinguish between renewable and non-renewable resources. A large number of these responses included *methods* of government intervention in the management of natural resources, rather than *reasons* for intervention as required by the last part of the question. Absence of economic analysis was a common characteristic of these responses which often included subjective and emotive treatment of environmental issues not specifically related to the question.

INCOME AND EXPENDITURE ANALYSIS

This was the most popular Option, attracting more than one-third of the 3 Unit candidature. As this was the first year of examination of this Option at 3 Unit level, there was an expectation that the quality of responses would be appropriate for the level, and that 3 Unit candidates would be capable of demonstrating considerable competence in economic analysis.

Both questions provided ample opportunities for students to show their understanding of Keynesian analysis by incorporating appropriate diagrams and quantitative explanations where

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appropriate. A pleasing feature of excellent responses in both questions was the use of clear, well-labelled diagrams that were well integrated into the response with appropriate text and explanations.

Question 3

'Explain the terms 'consumption function' and 'marginal propensity to consume'. How can changes in the level of autonomous consumption affect the equilibrium level of income in the economy? How might a government seek to close a deflationary gap by influencing the level of consumption expenditure? Use diagrams/or equations to illustrate your answer.'

The majority of candidates answered all sections of the question adequately and used diagrams and equations as required by the question.

Excellent responses featured several well-labelled and well-explained diagrams with concise definitions of relevant terminology. In most instances, equations were used to support diagrams which illustrated changes in autonomous consumption and the resulting changes in the equilibrium level of income. The multiplier and the multiplier in reverse were commonly included in this analysis. Some candidates also included the multiplier-accelerator model. The better candidates were able to explain and graphically illustrate a deflationary gap in terms of an excess in aggregate supply. They dealt with specific policy instruments in explaining how the government might close a deflationary gap by influencing the level of consumption expenditure. An increase in the level of consumption, a decrease in the marginal rate of tax, and a reduction in the general level of interest rates were some of the measures that were well explained and illustrated by the majority of candidates. These candidates often discussed the relative merits associated with different short term and long term policy decisions, and were able to relate them to recent policy decisions where relevant.

Average candidates dealt with the first section of the question satisfactorily, but were not able to address policy measures to close a deflationary gap in adequate detail. In some cases, analysis was incorrect, with confusion between deflationary and inflationary gaps. Explanations were often superficial and contained only limited use of appropriate equations to support the analysis. These candidates appeared less confident in discussing changes in income that result from changes in consumption, rather than from other components of aggregate demand such as investment.

Below average responses also explained adequately the terms *consumption function* and *marginal propensity to consume*, using graphs to assist their explanation. These responses were commonly, however, weak in explaining government policies to close a deflationary gap. Some candidates were able to depict a deflationary gap correctly, but could not explain or depict how it might be eliminated. Explanations tended to refer to *demand* and *supply*, and failed to refer to specific components such as consumption, or to the *marginal propensity to consume*.

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Question 4

'Explain why an autonomous increase in aggregate investment demand is likely to lead to a multiplied increase in the level of aggregate income. What determines the size of the multiplier effect in an open economy? To what extent does the multiplier effect depend on whether the economy has substantial unemployed resources or is at full employment?'

Excellent responses were characterised by accurate graphical and algebraic illustration of the multiplier effect. Factors determining the size of the multiplier in an open economy were well explained, with candidates frequently demonstrating the effect of changes in the size of the marginal propensity to save, the marginal rate of tax and the marginal propensity to import on the equilibrium level of income with the use of equations. The multiplier in reverse was frequently integrated into the discussion, and a significant number of candidates also included the multiplier-accelerator in their explanation of the effect of changes in investment on the level of income. Factors operating to modify the multiplier effect were often related to examples from the Australian economy, such as inflationary expectations. In examining the impact of the level of employment of resources on the multiplier, excellent responses explained that the existence of unemployed resources and excess capacity would reduce the formation of net or new capital resources, and therefore reduce the size of the multiplier effect. Full employment was frequently discussed in terms of inflation which might discourage investment and modify the effect of the multiplier. Despite the theoretical nature of the question, a significant number of candidates chose to refer to recent experience from the Australian economy in answering the question.

In average responses candidates answered the first two sections of the question with some analysis, although there was a tendency for these candidates to include lengthy discussions of consumption at the expense of addressing the multiplier itself. Algebraic derivations of the multiplier were less common, and the components of the multiplier in an open economy were not discussed in as much detail as in excellent responses. Here candidates tended to give brief treatment only to the last section of the question, and often failed to identify the significance of net investment for the multiplier effect.

In below average responses candidates provided a basic discussion of the multiplier, and made some attempt at analysis. They tended to provide less detail on the complex multiplier, often including the formula for the simple multiplier only. Reference was often made to inflationary and deflationary gaps, with little attempt being made to integrate this information into the question. These students were less able to address the last section of the question, and usually did not provide analysis to demonstrate the impact of the level of employment of resources on the multiplier effect.

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COMPARATIVE ECONOMIC SYSTEMS

Whilst the standard of the responses for this option was, on the whole, very pleasing, there was some evidence to suggest that the case study requirements for the topic as identified in the Stage 6 (1994) Economics Syllabus (pages 70-73) are not being met. It should be ensured that the case studies chosen for the topic fulfil these requirements both in terms of the classification of economies and in the detail required.

Question 5

*'Examine the major factors contributing to economic development in **EITHER** one newly industrialised economy **OR** one advanced industrial economy other than Australia. Assess the major domestic and international problems facing this country.'*

The quality of responses to this question was pleasing. Students were well informed about the factors that contribute to economic development, although only the better responses identified and differentiated between domestic and international problems. A wide range of case studies were presented, with Japan as a popular case-study for an advanced economy and South Korea or Singapore often chosen as a newly-industrialised economy.

There was some evidence, however, that the case study requirements of this topic as specified in the Syllabus had been misinterpreted, with some candidates presenting detailed case-study information on both newly-industrialised and advanced industrial economies, and others failing to present case-study information of the depth required by the Syllabus and the question. There was also some evidence of inappropriate classification of case-study economies, particularly in the case of China and Russia. It is essential that the case study requirements of this topic should be well understood by students.

Excellent responses identified an extensive set of factors that had facilitated growth in these economies and carefully explained the significance of each. For instance, those students who chose Japan were able to discuss the impact of indicative government planning, labour market productivity, the significance and reasons for the high savings ratio, the emphasis on quality education and on-the-job training, post-war reconstruction policies, and the high level of expenditure on research and development. In the second part of the question, the better candidates were able to discuss at least two domestic problems, and at least two international problems associated with their case study. For example, those discussing Japan referred to effectiveness of government, the banking crisis, social upheaval, the changing work ethic, rising unemployment and the cost of living as domestic problems, and the appreciation of the yen, trade surpluses and trade war with the USA as international problems.

In average responses candidates presented an adequate discussion of the factors contributing to economic development and frequently utilised relevant and current statistics in this section of the question. They did not, however, distinguish between domestic and international

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problems as effectively as the better candidates. In some cases, discussion was superficial and did not acknowledge the complex relationships between different features of these economies.

Below average responses tended to be brief and often presented inappropriate case studies, e.g. Russia, or a descriptive or historical account of economic development. Here candidates commonly failed to explain *how* different factors have contributed to economic development. They were often able to refer to only one domestic problem and largely ignored international problems.

Question 6

*'What are the characteristics of a socialist economy? Assess the role of government and the operation of market forces in **EITHER** a socialist **OR** a former socialist economy you have studied.'*

The case studies commonly used by candidates in their responses to this question included Russia, China, Vietnam and, to a lesser extent, Poland and Cuba. Many candidates referred to a number of specific economies when identifying the characteristics of socialist economies and then chose to focus on one in substantial detail as required by the second part of the question.

Excellent responses were characterised by the effective use of case study information. Frequent reference to recent economic developments in case-study economies enhanced the quality of these responses. A range of characteristics of socialist economies were described, with the majority of candidates addressing features of the organisational framework and planning. Reference to a variety of economies was often used as a means of comparison in answering the first part of the question.

In assessing the role of the government and the operation of market forces in the chosen economies, the better candidates commonly presented an historical account of key economic and political developments. They presented both the rationale for the role of government and the impact of government policies on various aspects of the economy, e.g. economic and allocative efficiency, economic growth, productivity, foreign debt. Diagrams illustrating the effect of government policies such as the imposition of a quota were used by some candidates.

In average responses candidates addressed the first part of the question well, but were less able to utilise their case study in answering the second part of the question. In some cases, the choice of a particular case-study appeared to constrain the candidate's ability to discuss a variety of aspects of government and market features. In many there was little attempt to refer to recent economic developments, with a significant number of candidates presenting a brief historical account that was not updated.

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Below average responses included only brief treatment of a few of the characteristics of a socialist economy. In these responses candidates were not able to address the specific requirements of the second part of the question, frequently presenting pre-prepared case study material that was largely historical. Incorrect generalisations were common and, in some cases, candidates chose inappropriate case studies, such as Japan.

EVOLUTION OF ECONOMIC IDEAS

This was the second most popular 3 Unit Option in 1995, chosen by almost one quarter of 3 Unit students. Both Question 7 and Question 8 required not only knowledge of economic theories, but also their application or an account of the relevance of these theories to economic policies. It was the ability of the candidates to examine this relevance effectively and its application in terms of each question that tended to discriminate most effectively between candidates.

Question 7

'Current economic theories are the result of a long evolutionary process of change and modification to previous theories.'

Choose TWO economists that you have studied and explain how their ideas have influenced current economic theories and their application.

Excellent responses reflected a thorough understanding of the evolution of economic theories, factors influencing the changes in economic ideas and the current relevance of theories. These candidates chose economists that would best allow them to discuss the question in specific terms, the majority choosing Marshall or Smith and Keynes.

Accurate and relevant economic analysis was a feature of many of these responses. The ideas of these economists and their relevance to current theories were explained with detailed reference to specific issues, e.g. Smith's work on the division of labour and the role of free markets was linked to current arguments for free trade and recent developments in GATT and APEC. Marshall's theories were linked to current competition policy.

Average responses showed a clear understanding of the main theories of the two chosen economists. In some cases, however, the choice of economists limited the ability of candidates to answer the question fully. This was commonly the case for those who chose Smith and Ricardo, and were, therefore, unable to discuss a range of differences in the elements of theories and their application. Discussion was frequently limited to examination of the relevance of theories to fiscal policy only, without any attempt to integrate current monetary, labour or microeconomic policies into the answer.

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Below average responses tended to offer an historical and descriptive discussion of the ideas of two economists, and failed to explain the relevance of their ideas to current economic theories as required by the question. These responses were often characterised by inaccurate information and some confusion about appropriate economists. There was little attempt to employ any relevant analysis to assist in the explanation of the theories.

Question 8

'In what main ways do the theories of John Maynard Keynes differ from those of the classical economists who preceded him? What has been the impact of Keynesian theories on government stabilisation policies since the 1930s?'

Excellent responses offered a clear and comprehensive explanation of the differences between the theories of Keynes and classical economists such as Smith and Marshall. The main areas considered were the quantity theory of money, the notion of *full employment*, the relationship between wage levels and unemployment, determinants of savings and investment, and the role of aggregate demand (contrasted with Say's Law of Supply).

The second part of the question was well answered by the better candidates who presented a thorough explanation of the impact of Keynesian theories on stabilisation policies, analysing the emergence of stagflation, the changing role of fiscal policy and the significance of the monetarist views in addressing weaknesses in the application of Keynesian theories to more recent economic developments. Many candidates effectively integrated Keynesian diagrams into the explanations of the theory.

Average responses tended to answer the first part of the question by offering lists of the main features of the theories of Keynes and the classical economists who preceded him, but made little attempt to explain the *differences* in the theories as required by the question. Whilst there appeared to be some understanding of stabilisation policies in general terms, the information was not expressed in terms of the question, with many students tending to provide a description of Keynesian theories without specific reference to the impact of these theories on government stabilisation policies since the 1930s.

Below average responses were characterised by a superficial and generalised treatment of the features of Keynesian theories, but made brief reference only to the theories of the classical economists. There was little attempt to meet the specific requirements of the question. Some candidates offered a brief explanation of stabilisation policies but did not relate them to Keynesian theory.