

ECONOMICS

2/3 UNIT (COMMON)

Introduction

1996 was the second year of examination of the 1994 (Pathways) Stage 6 2/3 Unit Economics Syllabus. The examination format accompanying this revised syllabus changed in 1995 to include new instruments in the form of short answer questions. Evidence from the marking of the 1996 examination suggests that the introduction of this short answer section - Section II - has encouraged further development of the skills of analysis and interpretation specifically required by this section of the paper. Similarly, it is evident from the quality of responses to Section III of the paper that students were well prepared to answer the newer strands of the Core, in particular the *International Context for Economic Management*, and *Micro-economic Management*.

The candidature for both 2 Unit and 3 Unit continued to decline in 1996, with the *rate* of decline remaining constant between 1995 and /1996. The 2 Unit candidature dropped from 9,277 in 1995 to 7,667 in 1996. 3 Unit candidature, approximately 27% of total Economics candidature in 1996, declined from 2,832 in 1995 to 2,146 in 1996.

As was the case in 1995, evidence suggests that the *quality* of this candidature, however, continued to strengthen in 1996.

This examination report contains general as well as specific information related to each section of the examination paper. It has been written to provide advice to both teachers and students who should refer to the **1996 HSC Economics Sample Answers** publication for examples of candidate responses to individual questions on this paper.

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SECTION 1

Multiple Choice

ITEM	CORRECT RESPONSES	% CORRECT
1	C	90%
2	C	60%
3	A	80%
4	D	89%
5	A	63%
6	A	78%
7	D	47%
8	B	92%
9	A	67%
10	A	48%
11	C	61%
12	B	50%
13	A	53%
14	B	71%
15	A	85%
16	B	52%
17	C	86%
18	D	75%
19	C	74%
20	B	42%

The table above indicates the correct response for each question and the percentage of the total candidature choosing the correct response. The multiple choice questions in Section 1 of the 2/3 Unit Economics examination 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 commencing the Higher School Certificate Course in Economics.

The questions in Section 1 were drawn from all sections of the Core Topic and, as has previously been the case, some required calculations.

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The mean mark achieved for this section was approximately 13, with Questions 1 (*internal balance*), 4 (*depreciation of the Australian dollar*), 8 (*tariffs*) and 17 (*personal income tax rates*) receiving the highest rate of correct response from candidates. Questions 7 and 10, both of which examined subject matter related to the balance of payments, were amongst those in which less than 50% of the candidates chose the correct response.

It is worth drawing students' attention to Questions 5 (*subsidy*), 11 (*indirect tax*) and 16 (*tariff*) which are examples of questions that require **application of understandings of Preliminary Course** concepts - in this case, *demand and supply analysis* - to Higher School Certificate Core Topic subject matter.

SECTION II

GENERAL COMMENTS.

Responses to this section were generally of a pleasing standard, with strong evidence to suggest that the majority of candidates were familiar with the specific requirements of this type of instrument and, in particular, the need to address the requirements of the question by utilising the space provided (lined space) and by referring to the relative importance of each part of the question in terms of the mark/time allocation. Students need to be encouraged to answer questions in this section in a **concise and accurate manner**.

The space provided for each response is considered more than enough for students to earn full marks. In the 1996 examination, practically all candidates contained their responses to the lined space provided. Those who needed additional space for these questions were not necessarily the ones who gained more marks, i.e. longer responses did not necessarily gain any advantage.

MARKING OF SECTION II

The marking of this section of the paper differs considerably from that of Sections III and IV where impression marking is used to rank candidates' responses. 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 marked this section of the paper throughout the marking period. In the early stages of pilot marking, there was continued reassessment and readjustment of the criteria to ensure that all types of responses had been accommodated by the criteria and that the selected criteria constituted a valid and equitable means of discriminating between responses.

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All short answer responses were double marked. In some questions, half-marks were used to further discriminate between responses. A mark of zero was awarded to non-attempts, a restatement of the question, or completely incorrect or completely irrelevant information.

Teachers and students should refer to the 1996 HSC Economics Sample Answers for examples of candidate responses to these questions.

Question 21 - Micro-economic Reform

If Australia wishes to improve its international competitiveness, then micro-economic reform must continue to be a major instrument of economic policy.

Significant progress has been made in introducing micro-economic reform across a broad spectrum of Australian industries over the past decade. Many industries in both the private and public sectors have undergone massive changes in their structure and operation since these reforms were introduced.....

However, the task of reforming the Australian industrial base is far from complete.... Micro-economic reform comes at a cost..... There is a limit to the speed with which significant changes in the workplace can be introduced, especially when opposition to the reforms is intense.....

With the assistance of the quotation above, answer the following questions

- (a) Outline TWO ways in which micro-economic reform should enable Australia to 'improve its international competitiveness'. (2)
- (b) Using TWO examples, briefly explain how micro-economic reforms have brought about massive changes in the structure and operation of Australian industries. (4)
- (c) Explain why there is a 'limit to the speed with which significant changes in the workplace can be introduced'. (4)

SYLLABUS REFERENCE

This question was drawn largely from the **Contemporary Micro-economic Management** strand of the Higher School Certificate Core Topic, in particular the areas of study dealing with **Objectives of government micro-economic policy** and the policies themselves including **nature and evaluation of current practices**. Relevant subject matter included **Rationale for micro-economic policy, Infrastructure, and Labour Market**. The **Resource allocation** Area of Study from the **Economic Management - Problems and Issues** strand of the HSC Core topic was also relevant to this question.

This question required interpretation and analysis of information contained in a quotation, devised by the examination committee, about micro-economic reform. The function of the quotation was not only to provide students with information directly related to parts of the question, but also to suggest some extended analysis, e.g. it was evident in many responses to both parts (a) and (b) that students had used the reference to *both private and public sectors* in the quotation to assist them in their responses.

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There was considerable discrimination by markers in this question on the basis of students who followed the specific *directive terms* used in different parts of the question, e.g. part (a) required candidates to *outline*, while part (c) asked candidates to *explain*.

In the first two parts of the question, candidates were able to draw on a range of examples of micro-economic reform from both the public and private sector, largely those of current significance. These included reference to tariff reforms, competition policy measures, deregulation, privatisation, corporatisation, and labour market reforms. Industries most commonly referred to included telecommunications, the waterfront, motor vehicles, banking/finance, and public utilities.

In responses to part (c) of the question which asked for an explanation of the limits to micro-economic reform, candidates wrote about union/employee resistance, legislative processes, political considerations, corporate inflexibilities, short term structural unemployment and difficulties associated with the financing of capital requirements associated with workplace change.

Those who performed well in this question were students who were able to meet the specific requirements of each part of the question - especially in relation to the directive terms used - providing accurate and relevant information, and communicating their knowledge clearly and concisely.

Question 22 - Unemployment and inflation rates; economic activity

The table below gives selected economy data for a country.

Year	% change in real output on previous year	Consumer Price Index	Employed persons (millions)	Unemployed persons (millions)
1	4.6	105	54.0	5.5
2	3.1	110	54.5	5.8
3	0.6	113	54.0	6.0
4	3.1	120	55.0	5.5
5	4.2	129	57.0	4.8

In parts (a) and (b), show all necessary working. Marks may be awarded for relevant working.

- (a) From the data in the table, calculate the unemployment rate in Year 3. (12)
- (b) From the data in the table, calculate the inflation rate in Year 5. (12)

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- (c) What evidence in the table indicates that Year 3 was a period of relatively low economic activity? (3)
- (d) Suggest appropriate macro-economic policy measures to address the problem of rising inflation evident in the table between Years 3 and 5. Give reasons for your answer. (4)

SYLLABUS REFERENCE

This question was based on the **Skills Outcomes** for the course :

Students should be able to:

- **select and organise relevant data**
- **examine and interpret... statistical data**
- **reach conclusions based on logical reasoning**
- **use a range of computational techniques**

(Economics 2/3 Unit Syllabus, page 29, Board of Studies , December, 1994)

In addition, candidates were required to demonstrate their understanding of management of **inflation** by governments.

Parts (a) and (b) of the question required candidates to calculate the unemployment rate and the inflation rate for specific years, using the information given in the table. The following instruction:

In parts (a) and (b), show all necessary working. Marks may be awarded for relevant working.

was not one that candidates might have encountered in Economics examinations previously, but is the type of instruction commonly encountered by candidates in Mathematics and Science examinations. The use of this instruction and the provision by the Examination Committee of 12 marks for each of these questions enabled candidates to gain some credit for correct working and/or the formula, even if their answer was incorrect. Those who did not show any working, but who answered the questions correctly, were given full marks.

It appeared that in many cases where candidates offered incorrect responses for parts (a), (b) or (c), they had, in fact, been careless in their use of the statistics from the table.

In part (a) students were required to provide an answer relating to Year 3.

In part (b) they were required to provide an answer relating to Year 5.

In part (c) they were required to refer to Year 3.

In part (d) they were required to relate to evidence between Years 3 and 5.

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In some cases information from the wrong year was provided. Students may need to be reminded to take a little extra time to ensure that they are providing the information for the year or period of time referred to.

Some candidates used two different coloured highlighters to highlight Year 3 and Year 5 on their question/answer sheet. This appeared to be a very effective way of *highlighting/emphasising* the relevant years.

The correct response for part (a) was 10%. The majority of candidates who included a formula tended to use the following formula:

$$\frac{\text{Total number of unemployed}}{\text{Labour force}} \quad \times \quad \frac{100}{1}$$

A relatively high proportion of candidates were awarded full marks for this question, although a significant number did not know how to measure the size of the labour force, tending to equate it only with the number of *employed persons*.

Candidates were less successful with part (b). The majority, who did not answer this part of the question correctly, clearly did not know the formula for the inflation rate, while others made errors associated with the use of the correct statistics from the table. Those who offered a formula commonly used:

$$\frac{\text{CPI Year 5} - \text{CPI Year 4}}{\text{CPI Year 4}} \quad \times \quad \frac{100}{1}$$

$$\frac{129 - 120}{120} \quad \times \quad \frac{100}{1}$$

$$= 7.5\% \text{ (correct response)}$$

Note: Some candidates (very few) used the following method

$$\frac{129}{120} \quad \times \quad \frac{100}{1} = 107.5, \text{ therefore } 7.5\% \text{ inflation}$$

107.5 by itself was not accepted as the correct answer.

Candidates who showed their workings and provided the correct formula and the correct application of the formula (correct figures from the table) but were incorrect in their final answer received one mark.

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In part (c), candidates were required to identify **evidence** from the **table** that **indicated** that Year 3 was a period of relatively low economic activity.

Evidence included:

- Low percentage change in real output (0.6%) on the previous year.
- High level of unemployment (10%) which was the highest in the 5 years.
- Lowest level of inflation over the 5 years (2.7%).
- The number of employed persons fell from 54.5 million in Year 2 to 54 million in Year 3. This was the only year in which the number of employed persons fell.

If students mentioned 3 of the 4, and also provided the figures, they received full marks. Those who identified all the evidence (in written form) and provided at least two of the figures (e.g. 10% unemployment and 0.6% real output) also received full marks.

Some candidates seemed to have difficulty in relating to the fact that the economic data was for a *hypothetical* country and referred to *Australia=s unemployment*. Candidates did not lose marks for this reference but students' attention should be drawn to the fact that stimulus material may be for a hypothetical country **but not necessarily** for Australia.

This question asked only for **evidence from the table**. A number of the excellent quality responses provided all the possible evidence from the table but also provided analysis and/or explanation and discussion. The question did not require this and no increased marks were awarded for providing this additional (irrelevant) detail.

In part (d) some candidates began by stating that inflation increased from 2.7% in Year 3 to 7.5% in Year 5 and that output increased and unemployment fell. Although it was not necessary to include this information in the response, some students very effectively linked it into the reasons for the use of the appropriate measures.

The majority mentioned the terms *Monetary Policy* and *Fiscal Policy* and, in addition, discussed *tightening* or *contractionary* measures. Some candidates failed to do more than make cursory mention of these terms. Average candidates discussed at least 2 measures in basic terms, eg increase interest rates and increase taxes/decrease revenue. In addition, they provided very basic reasons for the use of specific measures, e.g. increased interest rates, increased saving, decreased spending, decreased pressure for price increases. The better candidates provided a more expanded explanation of the reasons for the use of the particular measures, e.g. *increased interest rates leads to decreased incentive for businesses to invest and increased incentive for households to save and consume less and this leads to decreased aggregate demand which results in decreased inflation*.

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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 the Economics is communicated*, **not** just *what Economics is communicated*. It has been the view of the Economics Syllabus Committee and Examination Committees for some time that the *extended-response* format may encourage 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 treated 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 best answered by a listing (*a, b, c, d, etc*) of such 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.

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 such knowledge to answer the question asked.

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

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

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

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SECTION III

This section of the paper is based on the Higher School Certificate Core Topic in the Syllabus, and focuses on economic management in terms of both policies and problems and issues associated with economic management. In the 1996 examination, Question 24 was the more popular of the two questions, and was attempted by approximately 60% of the candidature. Students generally structured their answers around the points given in the question, and used these points as an essay plan. The majority of candidates made some attempt to refer to the stimulus, or to integrate it into their answers. The 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 their responses.

Question 23.

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

Improving Australia's Trade Performance.

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

- problems associated with Australia's recent trade performance
- multilateral trade agreements aimed at improving Australia's trade performance;
- other government policies designed to improve Australia's trade performance

One of the key objectives of APEC is to liberalise trade by reducing barriers such as tariffs and difficult customs procedures. The benefits of greater liberalisation of international trade include increased economic welfare, improved international competitiveness and improved international relations.

D CLARKE and B J WILLIAMS
The Benefits and Costs of APEC: An Interdisciplinary Inquiry, 1995
Economics, October 1995

The APEC idea is catching. The World Trade Organisation is likely to follow the lead given by the Asia-Pacific Economic Cooperation forum and commit itself to a global free-trade area by 2020.

The Australian, 26 February 1996

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SYLLABUS REFERENCE

This question was drawn primarily from the **International Context for Economic Management** strand of the Higher School Certificate Core Topic. It also, however, examined the **External Balance** Area of Study from the **Economic Management - Problems and Issues** strand of the Core, allowing students to demonstrate their understanding of macro and micro economic policies designed to improve Australia's trade performance.

The **stimulus material** directed students to a discussion of Asia Pacific Economic cooperation and the World Trade Organisation in answering the question.

Excellent Responses

Excellent responses introduced the trade performance problem by considering it in the context of Australia's Current Account Deficit. Candidates explained the fluctuations in Australia's trade performance in terms of changing growth rates within the Australian economy, some of which were policy-induced. Explanations of the changes in the terms of trade and the effect of currency appreciations on performance were concise and accurate. The reasons for, and significance of, price differentials between commodities and manufactured goods were explained in terms of differences in price elasticity of demand, and income elasticity. Most candidates saw a need for a change in the export mix as the key to improving performance and this became the theme for further discussion. The United States Export Enhancement Program and its detrimental impact on Australia's trade opportunities was discussed by most candidates.

The role of multilateral trade agreements in providing an opportunity for lowering protection levels and enhancing Australia's trade performance was analysed in reference to current issues. Candidates discussed APEC, CER, WTO and ASEAN, including member nations, aims and objectives and recent initiatives. Improved trade opportunities were seen as a way of developing further economies of scale.

In addressing the third part of the question, candidates examined both macro- and micro-economic policies in detail. These were discussed in terms of providing opportunities for greater productivity and efficiency, and improved international competitiveness. Labour market reforms, tariff policy, fiscal measures and competition policy were included in this discussion.

In addition to superior content, it was evident that excellent candidates were able to sustain a focus on the theme for each point. Their ability to analyse and synthesise was an advantage in drawing on their knowledge and directing it to the requirements of the question.

Above Average Responses

Above average responses tended to use a descriptive approach to address problems associated with Australia's trade performance. There were some inaccuracies in explanations, e.g. the terms of trade. The treatment of multi-lateral trade agreements tended to be poor, with information on bilateral agreements such as the CER being used as supplementary material. There was greater reliance on the stimulus material. The discussion of government policies included reference to

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micro-economic reforms such as labour market reform. While there was also a tendency for reference to be made to fiscal policy, few students here succeeded in linking trade performance and fiscal measures.

Average Responses

These responses were shorter, and often tended to take an historical and/or descriptive approach dealing with a much narrower range of issues. These candidates showed no understanding of the relationship between the Current Account Deficit and trade performance. They tended to equate *trade* with *merchandise trade*. There was some reference to relevant concepts such as the terms of trade, but failure to demonstrate fully understanding of the concept and to link it to the requirements of the question. Some candidates included material on areas such as comparative advantage that were not directly required by the question asked. Policies discussed included micro-economic reform, but candidates were unable to link the policy measures to the way in which they might contribute to an improvement in Australia's trade performance.

Question 24

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

Monetary Policy in Australia

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

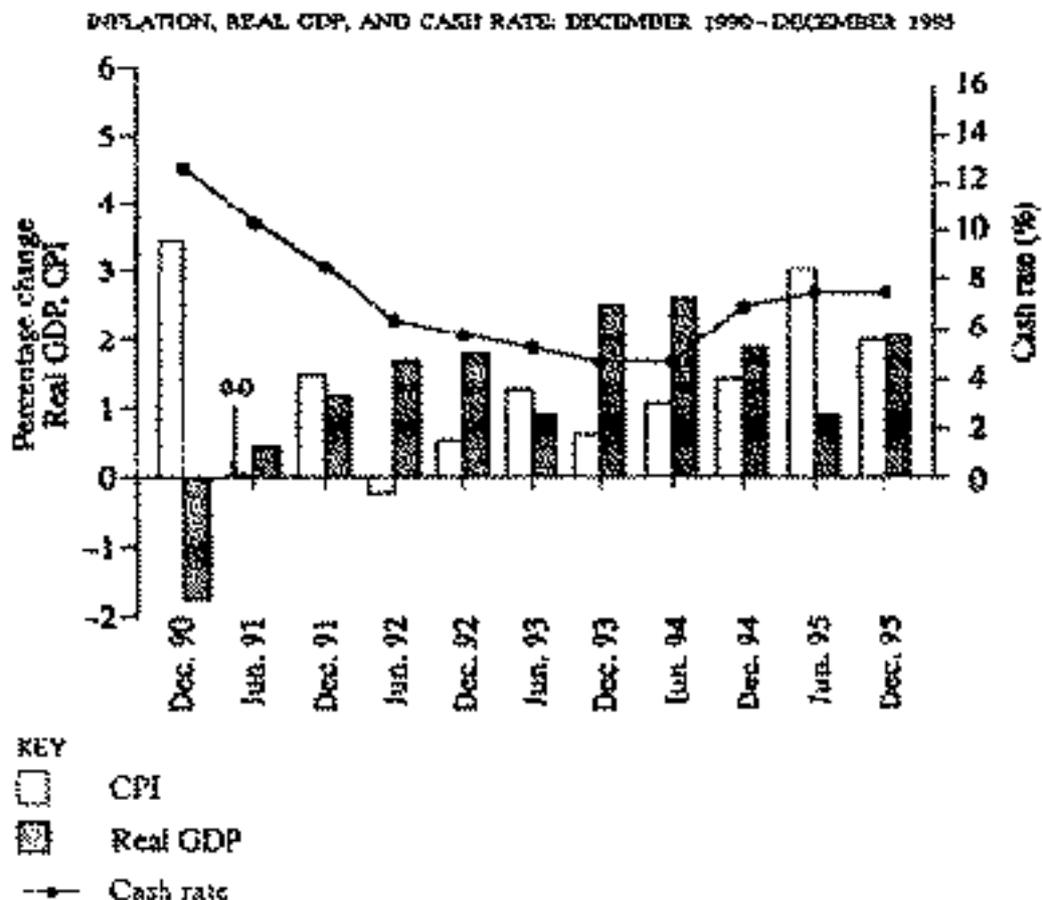
- the meaning of **monetary policy**;
- current objectives of monetary policy;
- the way in which monetary policy currently operates ;
- current problems in using monetary policy as a tool of economic management

A Central goal of economic policy is to ensure that unemployment continues to fall. To achieve this it is necessary to avoid excessive inflation and current account pressures that have accompanied, and ultimately constrained robust growth in the past.....

Monetary policy is important in limiting the inflationary expectations of wage and price setters. Given the..... lags in its impact on the economy and the need to head off inflationary pressures, monetary policy has been adjusted in the cycle and the monetary authorities' intentions have been made transparent.

Commonwealth of Australia, **Budget Statements 1995-96**
Budget Paper No.1, pp 2:33-2:34

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SYLLABUS REFERENCE

This question was drawn from the **Contemporary Macro-economic Management** strand of the Higher School Certificate Core Topic, examining primarily the '**Monetary Policy**' subject matter, from the '**instruments of macro-economic policy**' Area of Study. It also provided students with opportunities to demonstrate their understanding of '**Conflicts between objectives**' from the '**Objectives of government macro-economic policy**' Area of Study, as well as the **Problems and Issues** associated with **Inflation and Unemployment**.

A pleasing feature of responses to this question was the extent to which students were able to make effective use of the stimulus material to support their responses.

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The quotation from the Budget Statements 1995-1996, Budget Paper No.1, directed students to particular issues such as unemployment, inflationary and current account pressures, the lagged impact of monetary policy adjustments, and the *transparency* of monetary authorities' intentions.

The graph showing inflation, real GDP, and the cash rate for the period December 1990 to December 1995 encouraged students to refer to the relationship between these variables in addressing the specific requirements of the question.

Monetary policy was an area in which there were two key recent developments in the second half of 1996 - the termination of the *special relationship* between the authorised dealers in the short term money market and the Reserve Bank (August 9, 1996), and the easing of monetary policy and decline in the cash rate by 0.5% on November 6, 1996. A number of candidates included this information in their responses.

Excellent Responses

Excellent responses featured clear and accurate definitions of monetary policy, with many candidates elaborating on the role of the Reserve Bank, commonly highlighting the *internal balance* objective of monetary policy. Emphasis tended to be placed on *current* objectives of monetary policy as specified by the question, mainly in terms of the target for the underlying rate of inflation to be kept at between 2 and 3 %. Reference was also made to recent discussions between Treasury and the Reserve Bank, with some candidates raising the independence of the bank as an issue.

In discussing the *way in which monetary policy currently operates*, candidates explained the mechanics of market operations, the transmission mechanism and how changes in cash rates influence the general level of interest rates in the economy. Others also included a discussion of the influence of changes in cash rates on the *real economy*, e.g. on savings, spending, availability of credit. Demand and supply analysis was employed effectively by a significant number to illustrate the effect of changes in interest rates on borrowing and lending.

In the discussion of the problems associated with using monetary policy as a tool of economic management, candidates tended to use Phillips curve analysis to illustrate the conflict between lower inflation and lower unemployment rates. The majority also referred to the problem of time-lags between the implementation of policy measures and the impact on the economy. The *blunt* nature of monetary policy was also discussed.

It was noted with interest that many candidates used information from the Reserve Bank video and seminar papers from June 1995.

Above Average Responses

Above average responses showed a clear understanding of the operation of monetary policy, but lacked the detailed analysis of the excellent responses. They included a discussion of the relationship between policy objectives and the way in which policy was currently conducted.

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Some referred to recent movements in interest rates and were able to discuss the demise of the authorised dealers. While most candidates discussed the transmission mechanism and the impact of changes in the cash rates on other interest rates, analysis of these changes on the levels of savings, investment, consumption, employment and inflation were superficial. There was a tendency for greater reliance on stimulus material in discussing the problems involved in using monetary policy as a tool of economic management. Few referred to exchange rate issues, while most included a very basic representation of the Phillips Curve.

Average Responses

Average responses tended to be superficial and descriptive, with candidates commonly defining monetary policy solely in terms of its objectives. These responses generally featured sound textbook knowledge of the operation of monetary policy pre-July 1996. Explanations of how monetary policy affects the economy were over simplified. There was little analysis of the *current* objectives of monetary policy, with many candidates tending just to list general macro-economic policy objectives. There was some discussion of unemployment rates and inflation rates, but statistics quoted were often inaccurate and the information given was not related to the question. In some cases, candidates included a superfluous amount of pre-prepared information on inflation, types, causes, etc, while analysis of current issues was limited to those suggested by the stimulus.

SECTION IV

Popularity of Options and Questions

OPTION	% OF CANDIDATURE	QUESTION	% OF OPTION
<i>LABOUR ECONOMICS</i>	39.52%	25	27.66%
		26	72.34%
<i>INDUSTRY ECONOMICS</i>	13.88%	27	73.21%
		28	26.79%
<i>DEVELOPMENT ECONOMICS</i>	25.83%	29	50.17%
		30	49.83%
<i>ECONOMICS OF PRIMARY INDUSTRIES</i>	5.16%	31	15.99%
		32	84.01%
<i>DISTRIBUTION OF INCOME & WEALTH</i>	15.59%	33	54.65%
		34	45.35%

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LABOUR ECONOMICS

Question 25

Outline the role of employer and employee organisations in the current determination of wages and working conditions in Australian labour markets. How and why does the government intervene in labour markets in Australia?

SYLLABUS REFERENCE

This first part of this question was drawn directly from the **Institutional Aspects of the Domestic Labour Market** Area of Study. The second part of the question, whilst also examining this area of study (**Government Employment Policies**) provided opportunities for students to refer also to government intervention associated with **Labour Market Outcomes**, e.g. minimum wage, **supply of labour**, e.g. net migration rates, superannuation, and the **demand for labour**, e.g. structural factors, Anti-discrimination Act.

Excellent Responses

The excellent responses tended to be characterised by the ability of candidates to link the two parts of the question. Here they not only outlined the role of employer and employee organisations as required by the question, but also tended to offer explanations of the roles and changes in them that had resulted from recent changes to wage determination and, in particular, to enterprise bargaining. The institutional limitations on both types of organisations, specifically the Industrial Relations Commission and the legal framework, was often included in this discussion. It was pleasing to note the number of candidates who distinguished between State and Federal legislation and Award structures.

The role of employer organisations was outlined generally in the context of the provision of an opposing force or balance to employee organisations by such organisations. Examples cited included the Federation of Australian Industry, the Business Council of Australia, and the Australian Chamber of Commerce.

The role of employee organisations was generally recognised as being that of representing the interests of their members in relation to rates of pay and working conditions. Specific reference was made to the ACTU and, in many cases, to the issues associated with declining union membership. Distinctions were often made between industry/craft unions and more unions composed of less specialised membership.

Excellent responses clearly examined the requirements of the second part of the question in analysing not only the ways in which the government intervenes in labour markets in Australia - the *how*, and also the *why*, or reasons or rationale for this intervention.

Government intervention was viewed in terms of a move from a centralised to a decentralised system of wage determination. Some responses included a historical perspective and reference

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to the Accords, although this was not specifically required by the question. In addition to specific changes in legislation, responses referred to macro-economic policy measures such as fiscal related labour market employment programs such as Jobstart and Skillshare.

In terms of reasons for the current *style* of intervention under the current Federal Government, candidates tended to focus on labour market policy measures as part of the Micro-economic reform agenda, and explained the increased efficiencies and productivity gains that have been targeted by the shift to enterprise bargaining. These were related to the opportunity for improved international competitiveness. Reference was also made to strategies such as broadbanding and multiskilling.

A significant number of candidates provided clear comparisons of the labour market policies of the previous Labor government with that of the current Federal government, and included these in an impressive manner into their response to the second part of the question.

Above Average Responses

Above average responses addressed both parts of the question adequately, although they tended to use a descriptive approach, especially in the second part of the question.

The outline of the role of employer and employee organisations in the determination of wages and working conditions was brief, and emphasised the differences in objectives of the two organisations and the industrial conflicts that often resulted.

Responses to the second part of the question concentrated on a broad discussion of current wage determination policies and, in particular, on enterprise bargaining. There was a less comprehensive treatment of the *reasons* behind government intervention, with many responses listing the advantages of a shift towards a more decentralised system of wage determination.

Average Responses

In general, these responses were brief and descriptive, giving very brief treatment to the first part of the question and often appearing to be confused about the identification and roles of employer organisations. Discussion in them was frequently limited to reference only to the ACTU.

In the second part of the question, government intervention was often seen as being synonymous with enterprise-bargaining, resulting in a very narrow interpretation of the requirements of the question. Some responses featured an obsolete dissection of the various Accords, with little or no reference to enterprise-bargaining or the Federal Government's approach to Incomes Policy. This was, perhaps, an indication of the use of inferior (and out-of-date) source material by some candidates, rather than their lack of understanding of the requirements of the question.

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Question 26

Distinguish between an award and an enterprise agreement. Why has Australia moved towards a decentralised wage determination system? Discuss the effects of a decentralised system of wage determination on the operation of labour markets in Australia.

SYLLABUS REFERENCE

This first part of this question was drawn directly from the **Institutional Aspects of the Domestic Labour Market** Area of Study. The second part of the question, whilst relating also to this Area of Study, allowed students to draw on their knowledge of **labour market outcomes - wage/non wage outcomes, social wage, earnings drift, fringe benefits.**

Excellent Responses

These responses provided accurate and relevant detail on all parts of the question. Candidates offered *quality* definitions of awards and enterprise agreements but, more importantly, were able to place these terms in the context of wage determination in Australia. The role of the Australian Industrial Relations Commission in ratifying enterprise agreements was well explained. Candidates showed strong analytical ability in the second part of the question and provided many reasons for the shift to a system of decentralised wage determination such as increased productivity, gains in employment, labour market flexibility, industrial harmony, allocative efficiency and lower inflation. Reference was made frequently to the evolution of Incomes Policy by way of a description of the Accords. In the better responses, however, such reference was not lengthy and tended to reflect the emphasis in the question which was the *reasons* for such a shift, as opposed to the details of each Accord. Responses included a discussion of gains in international competitiveness, wage flexibility, reductions in unit labour costs and increased labour mobility. The change in the position of incomes policy from being a tool of macro-policy to one of supporting micro-economic reform was also explained.

These responses also referred to quantitative evidence. Candidates were well informed about the consequences of the implications of the Workplace Relations Bill in taking labour markets one step further towards an even higher degree of decentralisation. Responses to the last part of the question were particularly strong, including analysis of both the positive and negative effects of a decentralised system of wage determination on the operation of labour markets in Australia. Possible negative effects, or disadvantages discussed included increased income inequality, loss of comparative wage justice, increased industrial disputes, reduced union representation and involvement and diminished role of the Australian Industrial Relations Commission.

Above Average Responses

Above average responses distinguished between Awards and Enterprise Agreements and adequately explained the role of the Australian Industrial Relations Commission in determining Award wages and conditions. Candidates obviously possessed a sound understanding of the role of Awards in Australia's centralised wage fixing system of the early 1980s and early 1990s and the development of Enterprise Agreements in the more decentralised and deregulated labour market environment of the mid 1990s.

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Whilst these responses were able to present significant reasons for the movement towards a decentralised system, they were not able to link it effectively to the micro-economic reform agenda. More time tended to be devoted to the problems of the Accords, rather than to the advantages of the current model of wage determination. Here responses to the last part of the question were often brief, and did not reflect an accurate understanding of what constitutes *labour markets*.

Average Responses

Average responses tended to offer descriptions of the Accords, with no accurate indication of knowledge and understanding of the current system of wage determination. They lacked any explanation of the role of institutions in the labour market, in particular the role of the Australian Industrial Relations Commission.

Here some attempt was made to relate enterprise bargaining to productivity gains, but this was often without adequate explanation or reference to the specific requirements of the question. These responses referred to the Workplace Reform Bill or Australian Workplace Agreements, but only briefly. The possible negative consequences of a decentralised system of wage determination, such as erosion of comparative wage justice, or inequitable wage or employment outcomes for some workers, e.g. women, were usually overlooked.

INDUSTRY ECONOMICS

Question 27

Compare the conduct of typical firms in TWO different market models. Outline the ways in which the government might influence the conduct of these firms. Illustrate your answer with examples from the Australian economy.

SYLLABUS REFERENCE

This question was drawn from the **Market Models** and **Government Policies** Areas of Study. The focus of the question was on the **conduct** aspect of the market models. The requirement of the question that students illustrate their answers with **examples from the Australian economy** is also drawn from the Syllabus (page 46).

Excellent Responses

Here candidates analysed and compared the conduct of their selected market models, using appropriate and accurate diagrams for both the short run and the long run, and for the specific industry and the firm where appropriate. Comparisons between oligopoly or monopoly and perfect or monopolistic competition were most common. Candidates were confident of their treatment of the main elements of *conduct*, namely pricing and output policies, advertising, protection of market share, research and development. Diagrams were well integrated into these responses.

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Those who compared perfect competition with, for example, oligopolistic competition, referred to the lack of government intervention in perfect markets because of the highly competitive nature of the market, and compared this with the need for governments to scrutinise closely and regulate the potentially collusive conduct of oligopolies, particularly in relation to pricing policies. The beer industry, communications and motor vehicle industry were often used as examples, and some responses explored areas such as the development of a national electricity grid.

In these responses students referred to a range of government policy measures and, more specifically, to recent developments in the area of competition policy, as well as the recommendations of the Hilmer Report and the role of the Australian Consumer and Competition Commission and the National Competition Council. Corporatisation and privatisation were also discussed.

Above Average Responses

Above average responses provided an accurate analysis of the conduct of their chosen market models, although there were more candidates in this category whose choice of market models did not allow them the same scope for comparison, e.g. comparisons of the conduct of typical firms in a monopolistic market with those in an oligopolistic market tended to be narrower than those between, for example, perfect competition and oligopoly. Integration of diagrams was less frequent, as well as less impressive.

Use of specific examples featured less in these responses, and were often tacked on to the end as an afterthought. Treatment of government policies was less thorough, and not representative of those required by the Syllabus. The same degree of quality of information was not provided in discussions of recent developments of competition policy, again, perhaps, indicating the use of inappropriate or outdated source material.

Average Responses

These responses were descriptive and did not, in the main, provide diagrams of market models. There was less selection of market extremes, and many did not reflect an accurate understanding of *conduct*, often including much inappropriate information on market *structure*.

Diagrams, where used, often tended to be inaccurate with, for example, incorrect shading of profit areas more appropriate for a discussion of *performance* than *conduct*. Treatment of government influence tended to focus on trade practice legislation, with brief references to privatisation and corporatisation.

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Question 28

Outline the types of government policies designed to support industry in the Australian economy. Examine the reasons for changes in governments' approaches to industry in recent years.

SYLLABUS REFERENCE

This question was drawn primarily from the **Government Policies** Area of Study for this topic. The question also required candidates to use their knowledge and understanding of **micro-economic aspects of government policy**, in particular the changes in the approach to industry policies.

Excellent Responses

Excellent responses discussed an extensive range of key policy areas such as industry assistance, competition policy, micro-economic reform, labour market reform, taxation reform and, in some instances, financial deregulation.

They provided great depth of analysis and supplemented their answers with use of specific examples, where appropriate, such as:

- reductions in tariffs for the motor vehicle and textiles, clothing and footwear industries,
- the recommendations of the Hilmer report and its implementation to date,
- the role of the Australian Consumer and Competition Commission and the National Competition Council,
- privatisation and corporatisation of government business enterprises,
- the move towards decentralised wage fixation through enterprise agreements,
- the recent industrial relations legislation brought down by the Federal government.

These responses also gave a clear explanation of the changes to industry policy since the mid-1980s, focussing on the need for Australia to become more internationally competitive in the context of increasing exposure to global markets. Candidates frequently used their knowledge of the International Context core of the course to justify their explanation of this area. The current government's approach to deregulation was explained in terms of broad micro- and macro-economic policy objectives for the economy.

Above Average Responses

Above average responses tended to concentrate on a narrower range of policy initiatives, usually focussing on industry assistance and competition policy to the exclusion of other policies. This may reflect a narrower interpretation of the term *support* used in the question. Responses tended to contain less analysis than the excellent responses as well as fewer examples of specific policies.

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The majority identified the need to make Australian industries more competitive as being the main reason for changes to government industry policy in recent years but quite often failed to elaborate on these. Here there was considerable evidence of pre-prepared answers that did not address the specific requirements of the question, particularly in the last section

Average Responses

Average responses were usually descriptive, lacking in depth analysis and showed a limited understanding of the reasons for the implementation of particular policies other than in the broadest sense, e.g. the anticipated competitive gains from the privatisation or corporatisation of government business enterprises was rarely enunciated clearly, if at all.

Typical responses in this category also tended to focus on industry assistance and competition policy, although some gave a superficial description of a broad range of policies. Most attempted to explain the reasons for policy changes but, often, such explanations were vague or confusing, implying a less than clear understanding of the principles involved. Information presented tended to neglect recent policy developments in the area. Appropriate use of examples was made in many instances, e.g. tariff diagrams, but the responses generally tended to be brief - many were only two pages in length.

DEVELOPMENT ECONOMICS

Use of examples

Both questions for this option included the requirement - '*Use examples to illustrate your answer*'. In the Syllabus, the Area of Study - **Nature Of Economic Development**, subject matter - **Contrasts in the Levels of Development** - identifies *examples* as part of the requirement for the topic (Syllabus - page 48).

Question 29

Outline the main sources of economic growth. Discuss the possible role of developed nations in promoting growth in developing countries. Use examples to illustrate your answer.

SYLLABUS REFERENCE

This question examines the **Nature and Sources of Economic Growth** Area of Study for this topic. In addition, it required students to draw on their knowledge of **Economic Relations between Rich and Poor Nations**, as well as the **Strategies for Growth and Development** Area of Study for this topic. The question also called for use of examples, encouraging students to utilise those required by the **Nature of Economic Development** Area of Study for the topic and, in addition, those associated with specific strategies covered in the **Strategies for Growth and Development** Area of Study.

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Excellent Responses

Excellent responses were characterised by effective use of appropriate examples, as well as an appropriate amount of detailed, rather than generalised, information. Popular examples included South Korea, Vietnam, Indonesia, Mexico, Mozambique, Ethiopia, Rwanda, China and Papua New Guinea. In particular, Indonesia and Vietnam were used well by a significant number of candidates to illustrate different experiences and problems associated with pathways to economic growth. Moreover, reference to and links with economic theory were common features of these excellent responses.

In outlining the sources of economic growth, these candidates tended to analyse the various contributions of factors such as appropriate technology, capital widening and deepening, entrepreneurialism, domestic savings and investment, levels of overseas debt, and widened export bases. Production possibility analysis was used by a significant number of candidates.

The second part of the question provided a useful means of discriminating between candidates. Only the better candidates were able to explore the effects of trade barriers, newly emerging international and regional trade policies, and the problems associated with some types of foreign aid, various kinds of loans and the operations of transnational corporations. The integration of appropriate examples was particularly impressive and enhanced the quality of these responses.

Above Average Responses

Above average responses generally answered the first part of the question well, but provided only a limited amount of analysis. Candidates could identify the sources of economic growth, but tended, in many cases, not to *outline* or *provide* any additional information about the sources.

Investment and capital formation, labour force improvements and expansion of exports formed the main part of the discussion, while economic theory tended to feature less and examples were generally not integrated into the total response. Information was often listed, but backed by a less than desirable amount of discussion or explanation.

Average Responses

Average responses generally presented a list of sources of economic growth, again with little detail. Some included information that was not required by the question, such as a discussion of the measurement of economic growth, or of the level of poverty in developing countries.

Responses to the second part of the question tended to be limited to a brief discussion of types of aid provided, and on transnational corporations. There tended to be little or no reference to examples which, if included, were usually mentioned at the end of the response. These responses often contained generalised and inaccurate information. There was less evidence of use of economic concepts such as productivity, structural change, capital formation, or externalities to answer the question asked. The information was often more *geographical*, or representative of general type responses.

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Question 30

Outline the strategies that can be used by governments of less developed countries to promote economic growth. Discuss the costs and benefits of a higher level of economic development for developing countries. Use examples to illustrate your answer.

SYLLABUS REFERENCE

This question was drawn from the **Strategies for Growth and Development** Area of Study for this topic. In particular, the question examined the subject matter of **Alternative Approaches to Development, Strategies to Overcome Specific Problems, and Costs and Benefits of Economic Development**. Like Question 29, this question called for use of examples, encouraging students to utilise those required by the **Nature of Economic Development** Area of Study for the topic and, in addition, those associated with specific strategies covered in the **Strategies for Growth and Development** Area of Study.

Excellent Responses

Excellent responses referred to a range of both specific and broad strategies that can be used by governments in less developed countries to promote economic growth. Choices such as *unbalanced* growth versus *balanced* growth, *foreign aid* versus *self-reliance*, and *import reliance* versus *export driven* were often referred to. A significant number described the development of specific countries that are less developed, referring to particular strategies, e.g. the *take-off* and drive to maturity of South Korea, the role of trade as the *engine* for growth, the role of particular industries such as cars and shoes, and the contribution of aid programs. Statistical evidence was well used in reference to particular countries and to support statements. Examples were drawn from the *Asian Tigers*, Indonesia, Malaysia, Tanzania, Mozambique and Ethiopia. Distinction was made between *growth* and *development*.

In the second part of the question which required a discussion of the costs and benefits of a higher level of economic development for developing countries, the better candidates demonstrated, once again, their ability to use specific examples of particular countries. These responses contained excellent discussions of a range of costs and benefits including structural change, loss of cultural identity and negative externalities. There was balanced treatment of both sections of the question.

Above Average Responses

In above average responses candidates discussed a variety of strategies, but were less able to discuss the broad strategies to promote growth. They included, however, some good analysis of the way in which particular strategies were used. In general, candidates here were less confident in the use of examples and often provided only brief information about examples used and very little statistical detail. A few responses included appropriate chronological profiles of growth in specific countries. Some attempt was made to integrate the role of economic theory, with discussion of, for example, Schumpeter and Hirshman. More impressive responses continued to include the use of specific examples into their discussion of costs and benefits in the second part of the question.

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Average Responses

Average responses lacked the depth of treatment of the strategies for growth, mentioning only three or four and sometimes confusing these with *sources* or *characteristics* of developing countries. They tended to cover specific strategies such as population policies or intermediate technology rather than general strategies such as significant government involvement versus reliance on market forces. Discussion was often very basic, e.g. stating that more saving resulted in more investment. There was little attention to factors such as capital widening and deepening, or the implications for the resource base of a country. There was no discussion of more *sophisticated* costs and benefits such as structural change or inflation. In these responses there tended to be a less balanced treatment of the two parts of the question.

ECONOMICS OF PRIMARY INDUSTRIES

Question 31

Outline the ways in which the Australian mining industry has changed in recent years. What influence does the international sector have on the Australian mining industry? Explain how the mining industry in Australia is affected by government environmental policies.

SYLLABUS REFERENCE

This question was drawn from both the **Nature and Importance of Primary Industries** and the **Mining** areas of study for the topic. The second part of the question required students to draw on their knowledge and understanding of subject matter, including balance of payments, terms of trade, trends in overseas markets and export market instability. The focus of the third section of the question was the subject matter - **Commonwealth and State government policies - mining leases and environmental policies.**

Excellent Responses

While this question was attempted by only a small number of candidates, excellent responses demonstrated a comprehensive understanding of the operation of the Australian mining industry, recent changes to the industry, and the impact of various government environmental mining policies on the industry. Responses featured examples of specific sectors of the mining industry, e.g. gold, bauxite, coal, and particular trading partners, e.g. Japan. In the first part of the question, statistical evidence was used to support discussion of the decline in the importance of the industry in terms of its contribution to G.D.P and to the value of export income. The increasing use of sophisticated technologies and of capital for labour, the role of foreign investment and the extent of non-domestic ownership were also discussed. Candidates successfully linked changes in the industry with developments in the international sector and, in particular, the impact of changes in world demand and world prices on the prosperity of the sector as a whole. A significant number referred to access to Asian markets and trade agreements.

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The effects of government environmental policies were seen as being both positive, e.g. requirements for restoration of mining areas, and negative, e.g. retarding extraction of mineral resources and adding to operating costs. There was some discussion of Federal - State government conflict in this area. Examples used included Coronation Hill and the Great Barrier Reef - with some evidence to suggest that students of environmental economics used their knowledge of environmental impact assessment to advantage..

Above Average Responses

Above average responses discussed the first part of the question using one or two statistics to discuss the contribution of mining to G.D.P, export income and employment. There was less emphasis in these responses on *changes in recent years* as required by the question. Discussion of the influence of the international sector on the mining industry focussed on world prices, changes in world demand and, to a lesser extent, foreign ownership. These discussions tended to be brief, and usually made little reference to recent developments or current information. Some became side-tracked when discussing structural changes in the international economy, and, consequently, did not keep to the specific requirements of the question.

Responses to the last part of the question referred to various taxation measures - licence fees, excise duties, and restoration of mining sites. There was also some discussion of recent Land Rights legislation and its impact on mining proposals.

Average Responses

Average responses were generally brief and less disciplined in terms of keeping to the specific requirements of the question. Most responses to the first part featured lists of features of the industry, e.g. investment, ancillary industries, role of transnationals, with little reference to *change*. Export market instability was discussed in the second section of the question, but little attention was paid to other influences of the international sector.

In answering the third part of the question, candidates tended to list a range of Commonwealth and State government policies affecting the mining industry, but not necessarily *environmental* policies.

Question 32

Outline the contribution of the agricultural sector to output and employment in the Australian economy. What are the main problems currently faced by Australian agricultural industries ? Discuss policies governments can implement to overcome these problems.

SYLLABUS REFERENCE

This question was drawn from the **Agriculture** Area of Study, examining in particular students' knowledge and understanding of subject matter related to **Contribution to GDP, investment, exports, employment. Factors influencing farm incomes, and Government policies such as research and innovation, financial assistance and marketing schemes and rural adjustment.**

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Excellent Responses

Excellent responses dealt with all parts of the question thoroughly and showed a comprehensive understanding of issues. Candidates tended to *analyse* issues, rather than merely describing them. In the first part of the question, they were able to recognise and explain, with the use of supporting statistical evidence, the downward trend in the contribution of the agricultural sector to output and employment in the Australian economy. Structural change was often used as a context for this discussion.

The second part of the question allowed these candidates to demonstrate their knowledge of the problems currently faced by Australian agricultural industries. The impact of seasonal variations, income volatility, price elasticity, inelasticity of supply, declining terms of trade, cost-price squeeze, debt servicing, agri-business and trade restrictions were amongst the problems identified by most candidates. In many cases, clearly labelled and well explained diagrams were included in the discussions of elasticity. A significant number of candidates made specific reference to the United States government's Export Enhancement program and its impact on Australia's ability to gain new export markets.

Current government policies, rather than just those listed in the texts, were clearly explained. The better responses evaluated the effectiveness of the policies, although this was not actually required by the question. Both micro-economic reform measures and macro-economic policy measures, such as investment allowances, were discussed.

Above Average Responses

Above average responses were generally well written and included a variety of relevant statistics to answer the first part of the question. In answering the second part of the question, candidates referred to more recent problems such as exchange rate volatility in 1996. Declining terms of trade, price and income elasticity and inelastic supply were discussed, often with the use of diagrams.

A range of government policies were discussed in responses to the last part of the question although there tended to be more description of the policy elements rather than any evaluation of their effectiveness. The Rural Adjustment Scheme, diesel fuel rebates, sales tax exemptions and provision of infrastructure were among policies discussed. Some candidates linked the policies to the specific problems identified in the second part of the question. This was done most effectively by many candidates.

Average Responses

These responses tended to be brief and descriptive, were largely pre-prepared, and contained information that was less current and, therefore, less relevant to the question. There was less use of statistical evidence, and candidates tended to present a narrower range of both problems and policies. Information was frequently listed without being explained. Analysis and use of diagrams were less common in this category of responses.

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DISTRIBUTION OF INCOME AND WEALTH

Question 33

How is the inequality of income measured ? Outline the costs and benefits for the Australian economy of inequality in the distribution of income. Discuss government policies designed to promote a more equitable distribution in Australia.

SYLLABUS REFERENCE

This question was drawn from the **Personal Income and Wealth in Australia** and **Government Policies towards Redistribution** Areas of Study for the topic. The question encouraged use of **Statistical Evidence** as identified under the first Area of Study for the topic. The third section of the question was related to the **role of government** and **problems associated with government policies** subject matter from the Syllabus.

Excellent Responses

Those producing these responses were usually able to define income well in addition to explaining clearly and accurately the tools of measurement. The Lorenz curve was carefully drawn with the correct axes and the Gini co-efficient was dealt with competently. Candidates were particularly adept at explaining the economic costs and benefits of inequality, and recognised the links between the effects on the individual and the whole economy. Social costs were logically treated and the distinction between relative and absolute poverty identified. Relevant statistics were used effectively by a significant number of these candidates.

A range of government policies designed to promote a more equitable distribution of income was identified. These commonly included most of those listed in the Syllabus such as taxation policies, transfer payments and non-cash benefits, anti-discrimination legislation, employment policies and provision of community services. The policies were *analysed* by the majority of candidates in this category with an appropriate discussion of their effectiveness in promoting a more equitable distribution of income. There was a tendency also for these candidates to integrate current issues into their responses. Recent budgetary measures, and the impact of the shift towards a more decentralised system of wage determination were also included in these responses.

Above Average Responses

Above average responses were able to explain adequately both the Lorenz curve and the Gini co-efficient in addressing the first part of the question. In addition, they could also identify most of the economic benefits of inequality of income, including incentives to save more, accumulation of capital and improved geographic mobility. There tended, however, to be a less balanced treatment of the economic and social costs and benefits of inequality. Whilst a number of government policies to promote a more equitable distribution of income were identified, there was a tendency for these candidates only to describe them, in some cases too briefly, with very little attempt to refer to differences in effectiveness of various policies. Reference was made to current policy initiatives such as the Job Compact, and to the distributional impact of recent industrial relations legislation.

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Average Responses

Average responses dealt with the Lorenz Curve and the Gini Co-efficient, but frequently confused the meaning of coefficients of 1 and zero. Statistical sources were largely ignored. Social benefits and economic costs tended to be dealt with superficially in the second part of the question. Progressive tax, welfare payments and anti-discrimination legislation were treated in the last part, but again with little attempt to deal with the effectiveness of the policies in the discussion.

Question 34.

*Distinguish between **income** and **wealth**. Outline the factors influencing the distribution of wealth in Australia. Discuss the problems faced by the Australian Government in attempting to bring about a more equitable distribution of income and wealth.*

SYLLABUS REFERENCE

This question was drawn from all three areas of study in the topic - **Personal Income and Wealth in Australia, Factors influencing Distribution and Government Policies towards Redistribution**. The question focussed on **Income and Wealth** in the first and the third parts of the question and on **Wealth** only in the second part of the question. As in Question 33, use of **Statistical evidence** as identified in the first Area of Study in the Syllabus was encouraged.

Excellent Responses

Excellent responses provided concise and accurate definitions in distinguishing between income and wealth in the first part of the question. In outlining the factors influencing the distribution of wealth in Australia, effective links were made between high income-earning capacity, and the ability to accumulate wealth. Appropriate references were made particularly to the ownership of resources, the impact of market forces on income, accumulation of assets, and the role of inheritance. The majority of candidates used the Syllabus headings - Market Factors and Institutional and Social Factors - to organise the information. There was some listing of these factors, but excellent responses explained in detail the way in which each factor influenced distribution, rather than simply identifying the factors. Effective use of relevant statistical evidence was a common feature of these responses.

The problems faced by the Australian Government in attempting to bring about a more equitable distribution of income and wealth were discussed comprehensively. Problems of tax avoidance and evasion, dis-incentive effects, the rewards for enterprise, and the economic and social costs of welfare policies, as well as discrimination were featured in this discussion. Some of these responses referred to broader policy issues such as the need for fiscal constraint and its relationship with welfare policy objectives.

Above Average Responses

Above average responses included a clear distinction between income and wealth. In discussing the second part of the question, however, they tended to include less of a focus on *wealth* as

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required by the question. Factors influencing distribution were those influencing income distribution as well, although some candidates were unable to link income with wealth. In discussing problems associated with achieving a more equitable distribution of income, candidates tended to provide a listing that had been previously prepared and memorised, without adequately discussing, the issues surrounding these problems, such as political constraints, fiscal priorities and conflicting policy objectives. They made little reference to recent or current policy issues.

Average Responses

Average responses tended to resemble textbook-type prepared answers that did not, for example, include the emphasis on *wealth* required in the second part of the question. The link between income and wealth, although established, was not developed or analysed. Discussion of the factors influencing distribution tended to focus on market factors and neglected or excluded social and institutional factors such as access to education and training or cultural attitudes. Here responses to the third part of the question were limited to an often superficial discussion of tax evasion and welfare costs. The discussion frequently featured the use of emotive terminology such as *dole bludger*.

3 UNIT (ADDITIONAL)

Popularity of Options and Questions

OPTION	% OF CANDIDATURE	QUESTION	% OF OPTION
<i>ENVIRONMENTAL ECONOMICS</i>	21.25%	1	85.87%
		2	14.13%
<i>INCOME AND EXPENDITURE ANALYSIS</i>	33.17%	3	37.98%
		4	62.02%
<i>COMPARATIVE ECONOMIC SYSTEMS</i>	20.41%	5	48.05%
		6	51.95%
<i>EVOLUTION OF ECONOMIC IDEAS</i>	26.01%	7	18.03%
		8	81.97%

The candidature for 3 Unit Economics in 1996 was 2,240. This represented 22% of the total candidature, a 1% decline from 1995. It does, however, represent a relatively strong participation of the total candidature in the Economics 3 Unit course.

The quality of responses generally continued to be impressive. While there was still evidence in some options of prepared responses, these candidates generally demonstrated a higher level of competence in *application* of knowledge and understanding to answer specific questions.

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Responses tended to be more analytical, particularly those to the Income and Expenditure Analysis questions where effective and relevant integration of Keynesian diagrams and mathematical illustrations of the multiplier were common features of better responses. Similarly, there was a pleasing improvement in the incorporation of micro-economic analysis into the responses to the Environmental Economics questions.

The marking of the 3 Unit essays was identical to the marking of the 2 Unit essays, that is, they were *impression marked* and ranked on a scale of 0 - 9. Teachers and students need to be mindful of the impact of the conversion of a mark out of 9 to a mark out of 25 on the discrimination between responses. All 3 Unit examiners are required to have had significant experience in the teaching of the options they mark.

Teachers and students should refer to the 1996 HSC Economics Sample Answers Publication for examples of candidate responses to individual questions on this paper.

ENVIRONMENTAL ECONOMICS

Question 1

What is meant by market failure? Explain the relationship between market failure and environmental problems. Evaluate alternative types of government policies designed to reduce the impact of market failure on the environment.

SYLLABUS REFERENCE

This question was drawn primarily from the **Price Mechanism** and **Government Environmental Policy** Areas of Study in the Syllabus. The third section of the question drew in particular on the subject matter related to **alternative techniques** and **Government policy responses**

Excellent Responses

These responses showed a sophisticated understanding of the issues associated with both the concept of *market failure* and government policies. In them candidates tended to explain both the nature and causes of market failure, often incorporating micro-economic analysis. Property rights, social and private costs and benefits and external factors were discussed in the context of market failure. The better responses were well structured and logically sequenced, and successfully linked most effectively the concept of market failure and environmental problems. They showed excellent insight into the role of public or quasi-public goods, the nature of environmental resources, the exploitation of both renewable and non-renewable resources, degradation of the environment and pollution that may result from market failure.

In evaluating the types of government policies designed to reduce the impact of market failure on the environment, candidates analysed a range of policies, frequently referring to current or recent environmental policy issues such as forests, development of wilderness or national park areas, and mining. In the better responses candidates tended to compare the effectiveness of types of policy

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responses, e.g. regulation versus market-based solutions, while maintaining the link with market failure. The ability of candidates to *evaluate*, rather than to *describe* these policies was a key discriminator.

Above Average Responses

Above average responses explained market failure in terms of lack of private property rights, often referring to water, air, or wilderness as examples. The link made to environmental problems was more basic, but candidates could still incorporate analysis of the causes of particular problems such as depletion of natural resources to market failure. Some included diagrams which, however, were not always relevant, nor were they always incorporated into the response. Evaluation of government policies tended to be descriptive and resembled textbooks, showing very little specific link to market failure.

Average Responses

These responses tended to be more brief and more descriptive. Candidates were less able to focus on the concept of market failure in all parts of the response as required by the question. The majority of these saw this as a government environmental policy question. Policies were usually listed and described briefly, with little analysis or evaluation. Irrelevant information, sometimes lengthy case study material, was included by some candidates.

Question 2

Explain the costs and benefits of preserving the environment.

Evaluate the role of environmental impact assessment techniques in preserving the environment. Illustrate your answer by referring to studies of environmental issues.

SYLLABUS REFERENCE

The first part of the question was drawn primarily from the **Economic Aspects of Environmental Issues - Relationships between the Environment and Economic Growth** Area of Study of the Syllabus. The second part of the question was drawn from **Government Environmental Policy** Areas of Study in the Syllabus, in particular from the **Environmental Impact statements** example in the **Alternative Techniques** section of the subject matter. The requirement of the question for students to refer to **Studies of Environmental Issues** is drawn from the Syllabus requirement under the **Government Environmental Policy** Areas of Study.

Excellent Responses

In excellent responses students offered clear explanations of the costs and benefits of preserving the environment. Inter-generational equity, intrinsic and aesthetic value, and improved quality of life were included as *benefits*, while loss of productive capacity, loss of income and employment and loss of foreign exchange earnings were commonly discussed as *costs*. Many candidates included opportunity cost analysis in their responses to this part of the question. In evaluating the role of environmental impact assessment techniques, they included cost-benefit analysis, environmental impact statements, and public enquiries as examples.. Frequently, and most

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impressively, current issues including wood chipping, the M5 tollway and the airport - rail link project were included in these responses. Some candidates presented quite sophisticated information on cost-benefit analysis.

Above Average Responses

Above average responses introduced costs and benefits of preserving the environment in the context of the trade-off between economic growth and environmental quality. Opportunity cost models were effectively used by many. Environmental assessment techniques such as cost-benefit analysis, however, tended to be discussed rather than evaluated, with emphasis often on one technique only. Whilst most candidates referred to case studies of environmental issues, these were often as an *after-thought* and not integrated into the response. Some case studies were quite dated and therefore less impressive, e.g. Gordon/Franklin Dam.

Average Responses

In average responses candidates tended to list costs and benefits only superficially and with very little explanation or elaboration. Similarly, environmental impact assessment techniques were listed, with little evaluation being given. Over-lengthy case studies were often presented, tending to be descriptive and largely irrelevant and dated. Many candidates chose to list and briefly describe government policy responses such as taxation, pollution controls and regulations in their response to the last part of the question. This was not required.

INCOME AND EXPENDITURE ANALYSIS

Question 3

Explain the main reasons for fluctuations in the level of economic activity over time. How can demand management policies be used to counter the adverse effects of these fluctuations? Evaluate the effectiveness of these demand management policies.

SYLLABUS REFERENCE

Whilst drawing on knowledge and understandings of the option as a whole, this question directly examined the **Fluctuations in the Level of Income, Output and Employment** Area of Study in the Syllabus and the associated **Business Cycle** subject matter. The second part of the question was drawn from the **Reasons for Fluctuations in the Level of Economic Activity** and **Counter-cyclical Policies** sections of the subject matter and, in particular, the concept of **demand management** policies. In addition this topic area highlights those Skills Objectives and Outcomes in the Syllabus that relate to use of **appropriate computational techniques and graphical analysis and models to communicate economic ideas**.

Excellent Responses

Excellent responses clearly showed a superior understanding of *how* and *why* the economy experiences fluctuations in the level of economic activity. Analysis of business cycle models, gap analysis diagrams and computational techniques illustrating the derivation of the multiplier and the accelerator were effectively integrated into such responses. There was clear identification of

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specific factors influencing economic activity including innovations, with reference to Schumpeter, the Krontatiev long-wave cycle, the role of investment and its inherent volatility as explained by the multiplier/accelerator interaction, exogenous disturbances, and government policies.

Candidates explained the impact of the Keynesian Demand Management theory with the use of clear, accurately labelled and well explained diagrams. Counter-cyclical policies, both discretionary and through automatic stabilisers were explained, as was the concept and impact of time-lags.

Some candidates chose to evaluate the effectiveness of demand-management policies solely within a theoretical context, and often included the concept of stagflation. Supply-side economics and the role of rational expectations were included in the discussion. Other candidates used a more contemporary framework, drawing on current policy issues. In evaluating the effectiveness of demand management policies, candidates referred to micro-economic reforms to complement demand management, conflicting policy objectives, the political cycle, and policy mix issues.

Above Average Responses

In above average responses candidates showed their understanding of the business cycle by using business cycle diagrams. A range of factors responsible for fluctuations in the level of economic activity were explained, although most candidates focussed on investment and government policy. Accurate income and expenditure diagrams were included by the majority of candidates to explain the role of the multiplier and the changes in aggregate demand resulting from the use of discretionary fiscal policy. Gap analysis was generally employed to explain the use of demand management policies and their effectiveness. In general, the last part of the question was, at times, slightly neglected by these candidates who spent more time on the first two parts of the question.

Average Responses

In average responses candidates generally took a narrow view of the factors contributing to fluctuations in the level of economic activity, often restricting the discussion to an explanation of government policies. Some sought to identify the components of aggregate demand, giving a more detailed explanation of the consumption and investment components. While the business cycle diagram featured prominently in these responses, the use of other diagrams such as income and expenditure diagrams and gap analysis were not as common and, when used, were frequently inaccurate. Although there was adequate use of specific terminology in these responses, they lacked analysis or evaluation.

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Question 4

Using diagrams and/or equations, explain how the equilibrium level of income is determined in an open economy. With reference to the role of the multiplier, explain how equilibrium is restored if the economy is in disequilibrium.

SYLLABUS REFERENCE

Whilst drawing on knowledge and understandings of the option as a whole, this question directly examined the **Introducing the International Sector** Area of Study in the Syllabus and the associated **Open Economy Model**. The second part of the question examined students' knowledge and understanding of the **multiplier process** that is established in the topic through the simple Keynesian model, but further expanded in the open economy model to include an analysis of **equilibrium** as identified in the subject matter. As with the previous question, this question enables students to demonstrate their competence in relation to achievement of the Skills Outcomes in the Syllabus that relate to use of **appropriate computational techniques and graphical analysis and models to communicate economic ideas**.

Excellent Responses

In excellent responses candidates gave adequate attention to both parts of the question, displayed a superior understanding of both the equilibrium level of income and the multiplier process. These responses were couched in simple, clear language with accurate diagrams and equations. The equilibrium level of national income was explained both in terms of aggregate demand and supply, and leakages and injections.

Candidates frequently included some multiplier analysis in their explanations of equilibrium. The assumptions of the demand and supply model were explained.

Calculations involving the complex multiplier were used to explain the impact of changes on leakages or injections on the equilibrium level of national income. Models used the multiplier, and the multiplier in reverse. Inflationary and deflationary gaps were correctly identified and explained as part of the analysis. Appropriate monetary and fiscal policies were analysed in terms of their role in restoring equilibrium. Effective incorporation of current Federal policy initiatives into these responses was commendable.

Above Average Responses

Above average candidates possessed a clear understanding of the concepts, processes and analysis required in each part of the question. There tended to be an emphasis on details in the first part of the question, however, with a less than desirable explanation of the role of the multiplier in the second part. Demand and supply, and leakages and injections models were used to explain determination of the equilibrium level of income in an open economy. There was, however, a tendency for some diagrams to be labelled incorrectly, although explanations of diagrams were generally sound, but often brief.

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Candidates frequently referred to current policy initiatives in explaining *restoration of equilibrium*. This was most effective in some cases, particularly when explaining fiscal and monetary policy initiatives, e.g. reductions in interest rates. Some used only the simple multiplier model in their analysis; this was not appropriate, given the first part of the question.

Average Responses

Average responses were not as lengthy, and did not contain the detailed explanations that characterised the more impressive responses. Candidates tended to concentrate more on the leakages and injections models to explain equilibrium. Whilst these candidates demonstrated an understanding of the concept of equilibrium, very basic diagrams and indefinite explanations were common. Some chose to ignore the *open economy* requirement of the question. Many relied on simple multiplier models, although those who used the complex multiplier did so accurately.

COMPARATIVE ECONOMIC SYSTEMS

Question 5

What features distinguish advanced industrialised economies from newly industrialised economies? Outline the main economic issues and problems facing EITHER one advanced industrialised economy (other than Australia) OR one newly industrialised economy. Discuss the significance of international economic relations for the future development of the economy you have chosen.

SYLLABUS REFERENCE

This question was based on the **Market Economies** Area of Study of the Syllabus and examined both **Advanced Industrialised Economies** and **Newly Industrialised Economies**. In line with the Syllabus requirement for **one case study** from either group, the second part of the question examined the **Issues** and **Problems** associated with the chosen case study. In addition, candidates were required to focus on **International Economic Relations** as identified in the subject matter for each group, for the chosen case study

Excellent Responses

Excellent responses were lengthy and, in them, candidates were most thorough in their explanations. The most common examples chosen were the United States of America and Japan for advanced industrialised economies, and South Korea for a newly industrialised economy. Statements were commonly well supported by relevant and accurate statistical information, while comparative statistics were used effectively in many cases, either in terms of comparisons between economies, or for the same economy in different time periods. Distinguishing features identified in answer to the first part of the question included rates of economic growth, patterns of economic growth, levels of inflation, levels and patterns of employment, trade position, and degree of government intervention.

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A pleasing feature of these responses was the ability of candidates to refer to a range of different economies in answering the first part of the question. Comparisons were also drawn between various types of government policy responses, particularly in the area of micro-economic reform. Case studies were detailed and, in most cases, information was current. Issues and problems dealt with included: declining international competitiveness and inequitable distribution of income in the United States of America, and inefficiencies in the agricultural sector and an ageing population in Japan. In the last part of the question, candidates were able to draw on their knowledge of specific trade agreements such as NAFTA, APEC and GATT. Only a small number were able to respond successfully to the challenge in the last part of the question to *predict* the way in which future development of the chosen economy might be influenced by international economic relations.

Above Average Responses

Above average responses were generally of a high standard. Some, however, were brief, with superficial treatment of some parts of the question, particularly the problems and issues of the case study, and the significance of international economic relations. Information on the case study was often prepared, and not specifically in terms of the requirements of the question. Information given often tended to be dated, with little reference to current problems and issues, or to recent developments in the area of international economic relations. Few candidates dealt with future development issues as required by the last part of the question. A small number attempted to answer the second part of the question by referring to a case study for both advanced industrialised economies and newly industrialised economies. As the question asked for only *one*, this might have been an indicator of misinterpretation of Syllabus Requirements for this option, particularly in relation to the major case study.

Average Responses

Average responses tended to experience difficulty in responding to the specific requirements of the question, and indicated the use of prepared essays in answering the question. A significant number of candidates chose China or Russia for their case studies, indicating confusion regarding the correct classification of economies, misinterpretation of the question, and/or preparation of inappropriate case studies for the Market Economies section of the Syllabus. While better candidates were able to write about a range of problems and issues in answering the second part of the question, average responses tended to provide a more lengthy discussion of just one or two issues, resulting in a narrower, and therefore less impressive, response. The last part of the question was poorly answered by these candidates, even, sometimes, completely ignored.

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Question 6

Describe the main forces promoting change within EITHER a socialist economy OR a former socialist economy. Examine the economic problems associated with these changes for that economy. How is the economy responding to these problems?

SYLLABUS REFERENCE

This question was based on the **Socialist Economies and Former Socialist Economies** Area of Study of the Syllabus. Candidates were required to choose only one of these and to base their answer primarily on their case study. The question was based on *forces promoting change* and was therefore weighted to encourage candidates who had made a case study of a former socialist economy. The question also examined the **Comparative Economic Systems; a Review** Area of Study of the Syllabus and, in particular, the subject matter associated with a study of **Convergence and Divergence**.

Excellent Responses

In the majority of excellent responses candidates chose China or Russia as a case study but it was evident that they had referred to a variety of different sources. In describing the main forces promoting change, these candidates referred to at least five forces including political factors, increased role of market forces, technological change, developments in trade relations and higher rates of economic growth. Their descriptions were detailed, often supported by relevant statistical information and recent developments. A number of candidates were able to examine change over a substantial period of time, referring, for example, to the reforms of Kosygin, Gorbachev and Yeltsin in Russia. Candidates were able to link the three parts of the question by identifying problems associated with factors identified in the first part of the question, and then identifying specific responses of the economy to the problems. Some chose to focus initially on government policy response and then went on to include responses of businesses, consumers and institutions and other countries. Issues associated with the absence of political reforms in China, and industrial and civil unrest in Russia were amongst those areas that candidates analysed well and in a contemporary context.

Above Average Responses

Above average responses discussed the three parts of the question in terms of specific requirements of the question and there was little evidence of previously prepared essays that had been memorised. China and Russia were, again, the most popular case studies presented. The concepts of convergence and divergence were often explained and related effectively to the first part of the question. Some candidates tended to focus their discussion of forces promoting change to the reforms that were the result of the command economy. In answering the second part of the question, candidates often gave a brief history of the transition of the economy. Here several problems were discussed, such as political constraints, inelasticity of supply, inequitable distribution of income, civil and military unrest. The last part of the question was dealt with only superficially, with only a small number of candidates showing an understanding of *current* economy responses.

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Average Responses

Average responses tended to be dominated by a series of definitions of terminology such as *convergence*, *divergence*, *socialist economy*, *command planning*. In addition to Russia and China, candidates also chose Poland, Cuba and Vietnam. There was less application of knowledge to the specific requirements of each part of the question, and some evidence of previously prepared responses that had been memorised. Forces promoting change, problems associated with change and response to problems were often dealt with in lists that included very little explanation or elaboration. A common weakness of those who chose Russia was to focus on social problems such as alcoholism and crime at the expense of economic problems. Reference to recent developments was minimal.

EVOLUTION OF ECONOMIC IDEAS

Question 7

Outline the problems of capitalism identified by Karl Marx. Describe the features of a Marxian model of socialism. Assess Marx's contribution to the evolution of economic ideas.

SYLLABUS REFERENCE

In addition to requiring an understanding of the subject matter for the topic as a whole, this question was drawn from the **Critics of Capitalism** Area of Study of the Syllabus and specifically examined the subject matter associated with **Karl Marx**.

Excellent Responses

Excellent responses addressed all parts of the question equally, but not necessarily with equal weight. Candidates identified the problems of capitalism without presenting a history of Marx's life and times. They referred to the importance of problems relating to class structure, the Dialectic conflict and labour usage. These were explained in the context of Marx's Theory on Surplus Labour Time, Capital Accumulation and the rise of an industrial reserve army. Some candidates used labour ratios, trade cycle diagrams, bar graphs of a worker's day, and flow diagrams as a means of illustrating Marx's contribution in terms of a review of capitalism.

Features of the Marxian socialist model were well explained in these responses, which described it as an historical phase between capitalism and communism. The concept of a classless society, public ownership of property, equitable distribution of resources and lack of exploitation of resources were included in the discussion. In assessing Marx's contribution to the evolution of economic ideas, these candidates showed their appreciation of Marx's role and this formed the basis of an analysis of the capitalist system. Business cycle theory, social and political change, the rise of the Trade Union movement, provision of government services and welfare and technological change and unemployment were included in the discussion.

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Above Average Responses

Above average responses addressed all parts of the question, but tended to neglect the features of the Marxian model of socialism. The responses to the first and third parts of the question were often similar to those of the excellent responses. Although many key issues were mentioned, they were not developed in detail.

Average Responses

Average responses could outline some of the problems of capitalism, but often became confused in describing the economic conditions of the time and /or the surplus value of labour. Many were confused about Marx's ratios, often presenting inaccurate versions and explanations of them. There was a tendency for such responses to focus on what Marx did *not* achieve, or the way in which his theories were discredited. Some focussed only on Marx, the person.

Question 8

What is meant by classical economics ? Explain the significance of the writings of Adam Smith in the development of economic thought. Evaluate the relevance of the teachings of Adam Smith for economic systems in the 1990s.

SYLLABUS REFERENCE

In addition to requiring an understanding of the subject matter for the topic as a whole, this question was drawn from the **Classical Foundation** Area of Study of the Syllabus and specifically examined the subject matter associated with **Adam Smith**.

Excellent Responses

Excellent responses were characterised by a capacity to set the context for classical economics and were able to identify the main participants including Adam Smith, David Ricardo and Thomas Malthus. The better candidates explained how the writings of Adam Smith formed a foundation or point of departure for other economists such as Mark or Marshall.

These candidates provided a detailed analysis of the following issues :

- the focus of Smith's writings on an explanation of how economic growth is achieved,
- freedom of enterprise, economic liberalism and the role of self interest,
- markets and the *invisible hand*
- the labour theory of value,
- capital accumulation and investment,
- division of labour, specialisation of capital and free trade.

The concepts of absolute and comparative advantage and the work of Ricardo were discussed by some candidates. A feature which tended to distinguish excellent responses from others was the ability of candidates to respond to use of the terms *significance* and *relevance* in the question.

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There were varied responses to the third part of the question which tended to be covered more superficially by most candidates. Micro-economic reform measures such as deregulation and privatisation were referred to in the context of attempts by policy-makers to promote greater efficiency and productivity. The better candidates included a review of the *invisible hand* rationale, often referring to conflicting objectives and unemployment in their discussion.

Above Average Responses

Above average responses demonstrated a comprehensive knowledge of the main elements of classical economics and of the writings of Adam Smith. They included an explanation of the *invisible hand*, freedom of enterprise, self-interest and the role of markets, but were less able to explain the *significance* of the writings for the development of economic thought. In evaluating the relevance of the teachings of Smith for economic systems in the 1990s, candidates referred briefly to developments in macro- and micro-policy initiatives, e.g. privatisation, that highlighted the role of markets. They were less able to evaluate the extent to which complex policy issues and problems could be resolved with such an approach.

Average Responses

Average responses relied more on a description of Smith's ideas, rather than on an analysis to facilitate some discussion of their significance and relevance. There was a weighting, therefore, of content towards the first part of the question, and neglect, particularly of the third part of the question. Excessive detail on some components of Smith's writings, e.g. comparative advantage, was a common feature of these responses, which were brief and, sometimes, obviously previously prepared and memorised.