BOARD OF STUDIES
NEW SOUTH WALES

1999 HSC

Economics

Notes from the Examination Centre

Contents

1999 Higher School Certificate
Economics Notes from the Examination Centre

INTRODUCTION

1999 is the second last year of examination of the 1994 (Pathways) Stage 6 2/3 Unit Economics Syllabus. The examination accompanying the Pathways Syllabus tests students through four instruments, namely, Multiple Choice (Section I), Short Answers (Section II), essays based on stimulus material (Section III), and essays based on options studied (Section IV).

The 1999 candidature for the 2/3 Unit (Common) was 5912; the 3 Unit (Additional) candidature was 1376.

This examination report contains general as well as specific information related to each section and question of the examination paper. It is intended to provide feedback for both teachers and students on the marking of the 1999 papers. When working through this report, teachers and students should keep in mind the following:

*   The quality of handwriting still needs to be improved. Students need to remember that the scripts are impression-marked and a failure to communicate effectively in writing may lead to poor results being achieved. Markers will not give marks for text that they cannot read. All teachers are encouraged to get their students to undertake a variety of written tasks under examination conditions, so that they are aware of what they may need to correct prior to the HSC examination, in all subjects, not just Economics.

*   Candidates need to check the questions and options that they are answering and ensure that they label their questions accurately.

*   Candidates should not present prepared responses. They must answer the questions that are set on the current examination paper. A number of responses in 1999 indicated that students had prepared topic material that they were unable to adapt to the questions asked and, therefore, they received less than the best possible marks.

2/3 UNIT (COMMON)

Section 1 (Multiple Choice)

Section I (multiple choice questions 1-20) is single machine-marked. The following table shows the correct response for each question and the percentage of the total candidature choosing the correct response.

QUESTION	CORRECT RESPONSE	% CORRECT
1	A	86.10
2	B	70.26
3	A	90.35
4	B	92.47
5	C	40.51
6	D	60.48
7	A	91.25
8	D	92.50
9	D	84.56
10	C	64.35
11	D	28.99
12	D	67.43
13	A	51.93
14	B	52.11
15	C	81.40
16	B	43.49
17	D	68.56
18	B	87.76
19	C	84.02
20	A	89.66

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 Economics Course as identified in the 1994 Economics Syllabus, pages 28-30, and further expanded in the Areas of Study, Subject Matter, and Terms and Concepts of the Syllabus. In addition, it is assumed that all students commencing the Higher School Certificate Course in Economics have achieved the Outcomes of the Preliminary Course, pages 9-11 of the Syllabus.

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

Section II (Short Answers)

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

GENERAL COMMENTS

Responses to this section were generally of a high standard. On the whole, candidates stayed within the lined space provided for each part of the questions and appeared to handle well the relative importance of each part (that is, the time/mark allocation trade-off).

The space provided for each response is considered more than enough for students with average sized handwriting to earn full marks; longer responses did not necessarily gain better marks. That is, those who take additional space for these parts are not necessarily the ones who gain the higher marks. Responses were generally relevant, but students need to be continually encouraged to answer the internal parts of these questions in a concise and accurate manner.

The Marking of Section II

The marking of Section II differs considerably from that of Sections III and IV where impression-marking is used to rank candidates' responses. The marking of Section II questions involves the establishment of specific criteria for each part of the question. The criteria are drawn up by Senior Markers during the pilot marking period (see the discussion on Sections III and IV later in this report) after extensive reading and consideration of the full range of responses offered by the students. The criteria are reassessed and readjusted as necessary to ensure that all types of responses have been accommodated and that the selection criteria constitute a valid and equitable means of discriminating between responses. A specialised group of four marking teams marked this section of the paper throughout the marking period.

Question 21

The majority of candidates answered this question well. The question provided an opportunity for good students to gain maximum marks and to do so within the marking spaces provided for each part. While some students chose to extend their responses beyond these parameters, they were not penalised. Candidates are reminded that the space provided on the examination paper should be sufficient for a person with average sized writing to achieve full marks.

Parts (a) and (b) were fairly straightforward. In part (a) full marks were awarded to candidates who correctly calculated the unemployment rate in year 4 to be 8%, or 4/50 or .08. Students needed to be aware of the correct formula ie

$$\text{Unemployment Rate} = \frac{\text{Unemployed}}{\text{Labour force}} \times \frac{100}{1}$$

(Labour force = employed + unemployed)

Part marks were awarded for the correct formula.

Part (b) Full marks were given to those who correctly determined Year 2 as the year with the highest rate of inflation from the table. Part marks were awarded to students who chose to calculate the correct % change (ie 6%), but quoted the wrong year.

Part (c). The majority of candidates were able to select two pieces of evidence from the table indicating that year 2 was a period of relatively high economic activity. Full marks were given for any two of the following responses:
- A reduction in unemployment of 1 million (from 3m to 2m) or: unemployment was at its lowest level of 2 million.
- Employed persons were increased by 1 million from 45m to 46m.
- The consumer price index reached its highest rate at 6%.
- Year 2 had the highest % rate of change in real output at 4.5% compared with other years.

Part marks were given to brief generalised statements such as 'unemployment down, employment up.'

Part (d) This question proved more difficult. Again students had to refer to the table when giving a reason. Those who stated that 'there was a decrease in the rate or % change in real output (from 2% to 1.8%) between Years 4 and 5' and that this accounted for the decrease in employment (or increase in unemployment) were given full marks. There was not much scope for awarding part-marks in this question. Students whose answers were not supported by data from the table, such as assuming that the government had taken some macroeconomic policy action or that there were structural factors responsible for the rise in unemployment between Years 4 and 5 were given some consideration.

Part (e). Candidates were required to identify one macroeconomic and one microeconomic policy response and to explain how each, in turn, could be used to increase economic activity between Years 4 and 5.

Part (e) (i) Candidates needed to identify a macroeconomic policy stance and show in a logical and sequentially developed answer how this could lead to higher aggregate demand, output and employment levels and so increase economic activity, to gain full marks. Part marks were given where a stance such as expansionary fiscal policy or loose monetary policy only was quoted. A fuller explanation was needed.

Part (e) (ii) Candidates needed to identify and link a microeconomic policy response to increased market efficiencies, improved productivity, lower costs and prices resulting in increased economic activity, to gain full marks. Some students experienced difficulty in identifying a short-term solution using a policy that usually has long term implications. Any logical and sequentially developed microeconomic policy response was awarded full marks.

Question 22

The majority of candidates handled this question quite well. They understood the impact of changing interest rates on the Australian economy and the role and function of the Reserve Bank in influencing interest rates.
(a) Full marks were awarded to those who said, 'From the graph, the level of interest rates in June 1998 was 5 %'.

(b) Candidates were awarded full marks for suggesting that one possible reason for the trend in the level of interest rates shown in the graph between December 1995 and December 1998 was the lower rates of inflation that could be the result of inflation targeting. This meant that there was less need to raise interest rates to contain inflationary expectations.

(c) Candidates needed to suggest two benefits for the Australian economy of the trend in the level of interest rates shown in the graph such as the fact that lower interest rates would mean more favourable domestic conditions. Thus, if domestic conditions are more favourable, then consumption will rise and savings will fall. Low interest rates will also see depreciation in the dollar due to less capital inflow, thus increasing international competitiveness of export industries.

(d) Candidates needed to look at the role of the Reserve Bank of Australia as it alters the official cash rate by buying and selling government securities. The better candidates were able to explain this in the contemporary context. Weaker candidates were still writing about authorised money market dealers.

(e) The better candidates discussed the role of the Reserve Bank as it responds to inflationary expectations and their 'pre-emptive' monetary strike, to prevent future inflation. The influence of interest rates on capital inflow and on the value of the dollar and general investment and economic activity were all duly noted. Where candidates listed only a single response to this section, full marks were not allocated.

Section III

GENERAL COMMENTS

Students are encouraged to answer the questions in Sections III and IV of the paper in essay form.

This essay form does not have to follow the traditional essay form that contains a formal introduction and formal conclusion. However, it does suggest that students write in full paragraphs that are treated logically and sequentially in terms of the question asked. Such a format will save the student from presenting information in a fragmented and unrelated manner that does not do justice to the students' knowledge of economics. The encouragement of essay form, however, does not preclude students from using point form to answer some parts of a question. For instance, a question that asks students to identify the main features of some economic problem may best be answered by a listing of such features accompanied by a qualification of the issues involved. Students need to use their own discretion in deciding how to approach the essay questions. In this respect, before sitting for the HSC Economics Examination, students should be allowed opportunities to evaluate different ways of organising and communicating their knowledge of economics in answering questions posed in Sections III and IV.

Section III is based on the HSC Core Topic in the Syllabus and focuses on economic management in terms of policies, problems and issues. In the 1999 examination, Question 23, attracting approximately 60% of the responses, was the more popular of the questions. As is suggested by the structure of each question, students tended to structure their responses around the points listed for discussion in the question. These points formed the basis of an essay plan. The majority of candidates made some attempt to refer to the stimulus material, integrating it into their answers. The better responses showed a commendable level of economic literacy and encapsulated information in fluent, well constructed, and logically sequenced paragraphs.

It should be noted that markers are instructed to view the 'whole response', and, provided that the student delivers some meaningful analysis of the required points, this does not preclude an examination of other points relevant to the general topic.

IMPRESSION MARKING

Essays in Sections III and IV are *impression marked*. Impression-marking is a flexible system of marking that caters for the different ways in which students may interpret questions, the variety of approaches that they may take, and the subject matter used in

answering the question. Marks are allocated on the basis of the impression created by students in terms of their knowledge of economics and their use of such knowledge to answer the question asked.

Prior to marking, each question is *pilot-marked*. During pilot-marking, Senior Markers read a large number of scripts from different examination centres and select those that best represent the full range of marks and canvass the different types of responses to the question. These scripts are then used for the briefing session with markers. *Final marking* takes place only after Senior Markers are confident that appropriate standards have been established for the full range of marks in each question.

Essays in Sections III and IV are marked by *norm-referencing*. Norm-referenced marking means that an essay is marked by reference to other essays rather than by reference to an absolute standard. It should be understood that norm-referenced marking differs significantly from the marking of essays in which specific criteria are identified and marks are allocated according to those criteria.

Each essay is double-marked on a scale of 0-20. The following general marking guide provides a broad description of the mark range available to responses:

Rank A. Marks 20 - 18.   The response is among the best 10% of responses for this question at this examination. It contains clear reasoning, with explicit and scholarly argument. Illustrative examples are used to support arguments.

Rank B. Marks 17 - 14.   The response is above average but not amongst the best 10%. It is internally consistent and factually correct. Arguments are supported with relevant evidence and examples.

Rank C. Marks 13 - 8.   The response is of average standard, somewhat descriptive but relevant to the question. It provides some useful factual data, uses sources and examples to support what is written (though in a limited way), and draws conclusions that are consistent with the arguments given.

Rank D. Marks 7 - 4.   The response is below average but better than the poorest 10%. It makes little use of factual data to support generalisations. Its conclusions are inconsistent with the data or argument or no conclusions are given.

Rank E. Marks 3 - 0.   The response is amongst the poorest 10% of answers. There is an absence of factual data and much of the material is irrelevant, incoherent, or incomprehensible.

Note: a mark of zero is given for:
a non-attempt,
where no answer is given,
when the question is restated, or
when no relevant facts are given.

During the marking of essays, the following strategies are used to ensure the reliability, consistency, and validity of the marking process:

i.   The Marker Reliability Operation provides statistical reports, which assist the Supervisor of Marking and Senior Markers to monitor the marking for distribution of marks.

ii.   Senior Markers ensure that marking within groups and between groups is consistent, by:
a) monitoring and scrutinising marks awarded to scripts, and
b) periodically circulating control scripts (previously unsighted responses) through all groups marking a particular question.

iii.   The Supervisor of Marking monitors marks across different sections of the paper and across different options.

iv.   Double marking of all responses.

v.   *Check marking*, by Senior Markers and Check Markers, of a large proportion of scripts.

Question 23

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

Australia's Current Account and External Debt

In your essay, include some discussion of the following points:
- *the economic factors that influence the current account deficit;*
- *the relationship between the current account deficit and the external debt;*
- *macroeconomic and microeconomic policies that can be used to address problems with the current account and external debt.*

SYLLABUS REFERENCE

This question was drawn from the International Context for Economic Management section of the 2/3 Unit (Common) Core.

General comments
This question was generally very well answered. Candidates presented structured responses that addressed the question format.

Most candidates were able to explain their economic terms and policies as they related to the question set.

However, candidates need to be fully aware of the changes that have occurred in the structure of the balance of payments since 1997.

Excellent responses
Excellent responses were able to analyse the effects of economic factors on the current account deficit including cyclical and structural influences. Some candidates adopted a theoretical approach in dealing with factors that could influence the Australian current account deficit. Others adopted a more contemporary approach, including reference to the Asian economic crisis and exchange rate movements as demonstrated in the stimulus material.

Responses in this category were able to distinguish clearly the links between current account deficit and external debt relating to issues such as debt versus equity, finance-serving through the income component of the current account.

Candidates were able to explain clearly various macroeconomic and microeconomic policies that could be used. Typical examples included the need for enhanced domestic savings and improved international competitiveness through restructuring of product and factor markets.

Above average responses
Above average responses showed a very good understanding of the economic factors that influence the current account deficit and could elaborate on linkages between some of these factors such as falling commodity prices and exchange rate movements. The impact of a range of factors on the current account deficit was obvious.

Candidates generally understood some of the relationships between current account deficit and external debt without evaluating the implications of debt and equity financing. A range of microeconomic and macroeconomic policies used to address the problems of the current account deficit were explained. These candidates were able to elaborate on the current economic performance and refer to the policy mix employed.

Average responses
Average responses defined a range of economic factors clearly, typically referring to four or five factors, notably the Asian economic crisis, terms of trade, narrow export base and protectionist policies. Candidates generally understood the structure of the balance of payments and the role of the current account within that structure.

Candidates generally demonstrated limited understanding of the relationship between the current account deficit and the external debt. These responses referred simply to the direct links between increase in current account deficit and the increase in external debt or the "debt trap".

Candidates generally approached the policies used to address the current account deficit and the external debt problems in a descriptive rather than an analytical way. Whilst there was evidence of the nature of macroeconomic and microeconomic policies, these were not always related to the issue of the Australian current account deficit and external debt. Many candidates used point form and subheadings rather than an essay style of response.

Question 24

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

Australia's Economic Performance

In your essay, include some discussion of the following points
- *indicators of Australia's economic performance;*
- *factors affecting Australia's current economic performance;*
- *the role of government economic policies in assisting Australia's economic performance;*
- *the limitations of government economic policies*

SYLLABUS REFERENCE
This question was drawn from the Contemporary Macroeconomic Management of the 2/3 Unit (Common) HSC Core.

Excellent responses
Excellent responses demonstrated a coherent and comprehensive approach to the questions. They had a full appreciation of the performance of the Australian economy using a wide range of accurate statistical information. The level of economic literacy was high and showed evidence of wide reading which informed these candidates that Australia's economic performance was greatly influenced by global and regional economic factors. It was also clear that they appreciated the limitations of the various government policies that had been put into place to improve Australia's economic performance. Their knowledge of economic theory was evident and was used appropriately to support their answers.

There was a variety of approaches to the question. Many candidates chose to use a lock-step approach, answering each section separately. Others took a complex overview to attack all aspects of the question thoroughly.

The use of statistical evidence to outline Australia's economic performance was accurate, wide in scope and integrated into the answer throughout the essay. Indicators such as inflation, growth, interest rates, unemployment, C.A.D., foreign debt, debt servicing ratio, productivity rate, public sector borrowing requirement, budget outcomes (surplus/deficit), trade weighted index, and participation rates were used.

The factors that affected Australia's economic performance were treated extensively and approached in terms of external/internal factors. The state of the world and regional economy, exchange rate movements, C.A.D. restraints, tariff rates, international trade barriers, debt servicing issues, levels of national savings, institutional blockages in the labour market, international competitiveness and fluctuations in the international and domestic business cycles were mentioned. These candidates frequently used their statistical information to support their analysis.

The government's role in assisting Australia's economic performance was generally approached by using macroeconomic and microeconomic policy analysis. Counter-cyclical monetary policy and fiscal policy stances were seen as short-term policy initiatives whereas microeconomic policy initiatives were seen as long-term policy. In addition, monetary policy was seen as addressing domestic demand issues, while fiscal policy was designed to address external account and national savings problems.

Microeconomic reform was clearly treated in the context of supply-side economic theory. Examples such as industrial relations reform, competition policy, Hilmer, Australian Consumers and Competition Commission, tax reform, privatisation, sale of public assets and reform to the public sector were most commonly treated. Reform of tariff policy and the financial sector were linked to an appreciation of Australia's position as a small open economy in an international context.

Discussion of the limitations to government policy clearly identified the excellent answers. The level of analysis was high, treating economic, global and political issues. Tensions between inflation and unemployment were dealt with through analysis of the Philip's curve theory, including graphs.

Time-lags associated with monetary policy and fiscal policy implementations were clearly dealt with, as were the constraints on fiscal policy in relationship to the current account deficit restraints. The twin deficit theory often rated a mention. The fluctuation and relatively slow growth of the world and regional economies were seen as a constraint to our export potential.

The very best candidates were able to identify political constraints as being the domestic attempts to implement the goods and services tax and industrial relations reform. Some also included the impediments to Australia's exporting agricultural products to the USA, Japan and the European Union.

Above average responses
In above average responses candidates answered all parts of the question. The use of statistical information tended to be confined to the first part of the question and was not integrated throughout the essay.

These responses indicated an excellent knowledge of government economic policy and included many examples of policy initiatives. However, the linkage between factors affecting Australia's economic performance and these policy initiatives were at times mismatched.

The final sections of these responses, regarding the limitations of government economic policies, were characterised by the candidates' appreciating the domestic limitations rather than discussing the global or international factors. The making of links between economic problems, policy responses and the limitations of policy prescription, while wide, were not as strong as in the excellent responses.

Average responses
Average responses showed recognition of the interrelationship between domestic performance and the international context but the treatment tended to be superficial. This particularly applied to the section on the limitations of government economic policy.

There was some confusion leading to repetition when dealing with the identification of indicators and factors affecting Australia's economic performance. This confusion also extended to discussion of the role of government economic policies in assisting Australia's economic performance. An alternative approach was a general yet accurate descriptive approach, which rolled all the first three sections into one consolidated overview.

Statistical information was generally accurate. Reference to the stimulus material was rare.

The following table shows the relative popularity within each option as well as between options. Labour Economics at 78% of the candidature is easily the most popular option. This contrasts with Economics of Primary Industries, which attracted 9% of the candidature.

OPTION	% OF CANDIDATURE	QUESTION	% OF OPTION
LABOUR ECONOMICS	78%	25	61%
		26	39%
INDUSTRY ECONOMICS	30%	27	75%
		28	25%
DEVELOPMENT ECONOMICS	53%	29	66%
		30	34%
ECONOMICS OF PRIMARY INDUSTRIES	9%	31	47%
		32	53%
DISTRIBUTION OF INCOME & WEALTH	28%	33	34%
		34	66%

Section IV

Labour Economics

Question 25

How do changes in the level of consumer demand affect the demand for labour in firms and industries in the Australian economy? Discuss the factors currently affecting the level of demand for labour in the Australian economy. Examine the government's policy response to Australia's present level of unemployment.

SYLLABUS REFERENCE

This comes from the Labour Economics option, the Demand for Labour Area of Study.

Excellent responses

Excellent responses were well balanced and answered all parts of the question using excellent definitions and statistics. Appropriate terminology was integrated into these responses including derived demand, real unit labour costs and labour productivity.

Statistics were used to show the relationship between variables, for example Okun's Law, and the delayed impact of changes in Gross Domestic Product on the demand for labour.

The best responses were able to discuss current factors affecting the level of demand for labour at the firm and industry level, for example:

- low rates of interest, relatively high rates of growth, labour productivity, relative cost of labour to capital, real unit labour cost, the Asian crisis, the impact of a reduction in protection, international competitiveness, the level of aggregate demand, the pattern of consumer demand and the effect of a minimum wage.

- Candidates could distinguish between the long-run and the short run effects of these factors, for example the positive and negative impacts of an increase in labour productivity. They were able to examine government policies rather than merely list and describe possible policy options, for example the emphasis of the current macroeconomic policy setting is to achieve a non-inflationary rate of growth which, in turn, will increase the demand for labour in the longer term.

- In addition, these candidates analysed the positive and negative impact of microeconomic reform on unemployment rates. These responses also evaluated various active employment policies adopted by the government, for example Job Network, corporatising the Commonwealth Employment Service and private placement enterprises.

Generally these responses followed a logical sequence and successfuly linked all parts of the question.

Above average responses

Above average responses often followed a logical sequence, but tended to be briefer than the best responses when examining government policy responses. The statistics quoted by these candidates were usually limited to recent changes in both the rate of economic growth and the rate of unemployment.

These responses gave a reasonably good outline of derived demand and emphasised the importance of economic growth in relation to the level of demand for labour. The factors affecting this level of demand for labour were also covered well with most students concentrating on labour productivity, the relative costs of labour to capital and the rate of economic growth. The short term and long term effects of these factors were not always highlighted.

While above average responses discussed the macroeconomic and microeconomic policies of the government, they tended to describe rather than examine labour market policies, for example describing "work for the dole" and Job Network schemes rather than analysing the impact of these schemes on unemployment.

Average responses

Average responses were descriptive rather than analytical, giving, for example, textbook description of derived demand. The use of statistics was usually restricted to the current rate of unemployment.

Discussion of the factors affecting the level of demand for labour were generally limited to a few of the following - the level of consumer demand, the Asian Crisis, labour productivity, the relative cost of labour to capital, and the impact of technology.

The range of policies used by the government was also limited to a brief outline; for macroeconomic policy, for example, interest rates and budget surpluses as well as a general discussion of microeconomic reform based on enterprise bargaining (often in more depth than the question required), were discussed. Job Network and "work for the dole" schemes were emphasised in these responses.

Question 26

Distinguish between wage and non-wage outcomes in the labour market. How are wages currently determined in the Australian economy? Discuss the impact that the present system of wage determination has had on employment outcomes, productivity and international competitiveness in the Australian economy.

SYLLABUS REFERENCE

This question comes from the Labour Economics Option, Labour Market Outcomes area of study.

Excellent responses

Excellent responses were able to address all parts of the question, showing knowledge of key processes, examples, statistics and economic reasoning. Specifically they were able to distinguish between wage and non-wage outcomes, mentioning important benefits or returns to employees other than wages such as payment for time not at work (holiday pay, sick leave, long service leave) and other benefits including superannuation, fringe benefits and working conditions.

The current system of wage determination was clearly explained. Some general background information was given including the shift from centralised to decentralised or enterprise bargaining. There was also analysis of the factor market for labour. Some candidates mentioned the Accords Mark VI and VII. Most provided details of the *Workplace Relations Act 1996* (and the 1999 amendments).

Detail of the three streams of the current system was provided:

(a) Safety net or award stream including the role of the Australian Industrial Relations Commission

(b) Certified agreements and the role of employers and unions

(c) Australian workplace agreements (AWAs) - individual contracts and the role of enterprise agreements.

The impacts were described as:

(a) Employment outcomes with reference to jobs growth or unemployment. They included discussion of recent trends in jobs growth and trends to casual and part time work as well as changing resources allocation to "efficient" industries.

(b) Productivity. It was noted that the current system specifically rewards increasing productivity, which may lead to a decrease in per unit costs, which in turn may translate into a decrease in prices or low inflation. An increase in productivity is acknowledged as a requirement for sustainable economic growth with low inflation.

Above average responses

Above average responses revealed a clear understanding of the current system of wage determination and the economic implications and impact of recent changes. There were some errors and omissions in distinguishing between wage and non-wage outcomes. It appeared that some candidates might have used a single reference source for their information on this section and the reference was deficient in preparing them for the question.

These responses were not as detailed in terms of the examples and statistics used.

Average responses

Average responses were able to outline adequately the current system of wage determination and to give some background to recent policy developments. These responses, however, were often vague or erroneous or restricted to the first and last parts of the questions only. Recent examples and/or statistics were rare.

Industry Economics

Question 27

Compare the characteristics of perfect competition and monopolistic competition in the short run. Discuss the importance of product differentiation in monopolistic competition. What is the effect of the entry of new firms in each of these market models?

SYLLABUS REFERENCE
This question comes from the Industry Economics Option, Market Models area of study.

Excellent responses
Excellent responses clearly dealt with all parts of the question and analysed the differences between perfect and monopolistic competition. Diagrams were used extensively, were correctly labelled and dealt with the short-and long-run situations for both monopolistic and perfect competition. Long-run diagrams were also used to show the effects of product differentiation and the entry of new firms into the market. The concepts of elasticity, technical efficiency, allocative efficiency and dynamic efficiency were also included in the relevant model situations, and these candidates also recognised the possibility of extending supernormal profits into the long run situation for monopolistic markets because of the presence of product differentiation. These responses also displayed ability to analyse 'entry barriers' showing how they, in turn, were addressed by each of the two market models.

Above average responses

Above average responses covered all sections of the question but tended to be a little more descriptive and a little less analytical than the excellent responses. These responses dealt with the differences between the two market models and gave good descriptions of each. In the second part of the question the analysis of 'product differentiation' and the 'barriers to entry' lacked some strength in their arguments. These responses were, however, still able to use examples to support their arguments as well as graphical presentations.

Average responses

Average responses became descriptive but still tended to include some diagrams, although analysis and explanation of these diagrams was limited. Candidates were still able to distinguish between the two market models and show the ability of each to earn supernormal profits, but made unsupported statements regarding the changes in the market with the entry of new firms. These responses were also seen to deal with the first two parts of the question in more detail than the third section.

Question 28

Why is it important for markets to be competitive? How can government policies affect industry performance in terms of economic efficiency, responsiveness to consumer demand, innovation, and international competitiveness? In your answer refer to Australian examples.

SYLLABUS REFERENCE

This question comes from the Industry Economics Option, Government Policies area of study.

Excellent responses

Excellent responses clearly stated the reasons for competitive markets. Students here realised that the second part of the question required a discussion not just of the impacts of government policies on efficiency and international competitiveness, but also required comment on its effects on innovation and the responsiveness to consumer demand. These responses listed a large number of government policy initiatives and clearly examined the results of such policies. They sometimes used appropriate diagrams such as those for perfect competition so as to explain how competition keeps

prices low and drives firms to achieve technical efficiency. They also distinguished between the types of efficiency—technical, allocative and dynamic.

Above average responses

Above average responses were more limited in their explanation of the importance of competitive markets. Although they gave a wide variety of government policies not all important ones were covered. They did not always relate government policies to innovation and consumer demand but could usually treat their impact on international competitiveness and economic efficiency quite well.

Average responses

Average responses did not deal as well with the importance of competition. Their descriptions of government policies were general and contained little analysis. They related policies simply to efficiency and international competitiveness.

Development Economics

Question 29

What is the difference between economic growth and economic development? How can governments in developing nations promote their own nation's development? Discuss the advantages and disadvantages of relying on aid from other nations.

SYLLABUS REFERENCE
This question comes from the Development Economics Option, and draws upon all three areas of study for the Option.

Excellent responses
Excellent responses clearly distinguished between economic growth and economic development. Economic growth was defined, for example, as the increasing ability of a nation to satisfy the material wants of a people over time as measured by the percentage change in gross domestic product. These responses used varied source examples and quoted up-to-date statistics on growth rates of less developed countries. Development was defined as a continuous process resulting in increases in per capita gross domestic product as well as structural changes in the economy. Some candidates outlined various indicators of economic development such as economic welfare index, human freedom index, physical quality of life index, literacy levels, and human development index. Moreover these responses usually took an analytical approach and discussed the relationship between economic growth and development, often quoting current statistics to illustrate such a relationship.

The excellent responses thoroughly examined a full range of strategies which governments in developing nations could adopt to promote their own nation's development. Strategies discussed included:

• improvements in infrastructure
• increase in national savings
• increased levels of education
• intermediate technology.

Candidates did not need to have all strategies to be considered excellent responses. Some responses took different approaches in presenting these strategies, for example, sectoral balance versus developing a particular sector; specific versus broad strategies.

All excellent responses, however, explained these strategies in depth and effectively used appropriate economic concepts such as capital widening and capital deepening as well as using examples. Many of these responses linked examples from different countries into their work to illustrate the strategy they had discussed.

These responses discussed the advantages and disadvantages of relying on aid from other nations as well as canvassing the advantages and disadvantages of each type of aid. In them candidates were able to show the interrelationships between the strategies of self-help and the use of and need for foreign aid. These responses critically analysed the approaches used in less developed countries, and also used case study material to illustrate the points they were making.

Above average responses
Above average responses tended to have a good description of economic growth and development. Most candidates wrote approximately one paragraph on this, rather than the one to two pages of the excellent responses. Examples were used to illustrate strategies but were not used effectively to distinguish between growth and development.

The range of strategies discussed in these responses was narrower than in the excellent responses and did not have the depth of detail. There was description of the different types of aid and the advantages and disadvantages of each.

They were generally more descriptive and less analytical than the excellent responses, and tended to explore fewer points and often used fewer examples.

Average responses
In average responses candidates briefly described the difference between economic growth and economic development, usually with no examples or mention of indicators. Strategies tended to be listed rather than discussed and were therefore very descriptive and not necessarily tied to other parts of the answer.

Case study material to illustrate the strategies was generally lacking. Some candidates tended to list the characteristics of less developed countries, which were not asked for in the question set.

Average responses listed the different types of aid: grants, loans etc, but often mentioned only one or two general advantages and disadvantages such as:- Advantage - establish infrastructure; Disadvantage - inappropriate technology.

Question 30

Why is it difficult to compare the standard of living between nations? What role can investment and technology play in increasing economic growth in developing nations? Discuss the possible costs and benefits of economic growth to a developing nation.

SYLLABUS REFERENCE
This question comes from the Development Economics option, Strategies for Growth and Development area of study.

Excellent responses
Excellent responses showed an ability to recognise that although real GDP is generally used to measure living standards, it does have limitations such as problems of data collection, purchasing power, non-cash transactions, double counting etc. Alternative social indicators such as literacy rates, infant mortality, MEW, PQLI etc. were also referred to and their limitations noted. In these responses candidates generally concluded that, although real GDP did have limitations, it was a useful measure of differences between countries.

In these responses candidates were able to distinguish between investment (the creation of capital) and technology (new production methods). They were able to explain the importance of capital widening and capital deepening in the process of economic growth. Some candidates used the income and expenditure diagrams to illustrate the role of investment in increasing economic growth.

Students generally recognised the need for foreign investment in order for capital accumulation to occur and also discussed the need for appropriate technology. The better candidates used case study material to illustrate their responses.

The final section of the question was a clear discriminator between the excellent and the above average responses. The best candidates discussed the costs (environmental, economic dualism, cultural losses, and transnational influences) and the benefits (unemployment decreases, export increase, output increase, increase in government revenue, infrastructure improvements etc.).

Although the question did not ask the candidates to evaluate economic growth, many did weigh the costs against the benefits. The above average candidates often listed the costs and benefits but gave no discussion.

Above average responses
Above average responses discussed real GDP as a measure of living standards and analysed the limitations of this measure. They introduced a range of alternative measures of standards of living but were not able to analyse the features of these in detail.

The responses described the importance of investment in increasing economic growth but did not draw distinctions between the sources of this investment (domestic or foreign) nor between direct and portfolio investment. In them candidates discussed the importance of investment in human capital and outlined the links between economic growth and development, income and savings.

Case studies and examples were used to illustrate points throughout the essay.

An extensive list of costs and benefits of economic growth was supplied, with some analysis included.

Average responses
Average responses were able to explain that real GDP was used to measure different living standards but were unable to explain the limitations of GDP. These responses concentrated on social indicators but were unable to explain the limitations.

Some costs and benefits were listed, however.

Candidates here were able to explain the fact that investment leads to economic growth but had great difficulty in explaining how this occurs. They generally found it difficult to distinguish between investment and technology. Many realised that less well developed countries lack domestic funds due to low savings but were unable to see the role of foreign investment or foreign borrowing.

Economics of Primary Industries

Question 31

Outline the main sources of farm income and costs faced by producers in Australia's manufacturing and service industries, and on the balance of payments. Discuss the policies that government can implement to reduce the impact of these fluctuations.

SYLLABUS REFERENCE
This question comes from the Economics of Primary Industry Option, Agriculture area of study.

General comments
This question had a problem in the wording of the first section, in that it did not use the exact wording from the Syllabus. This was a cause for concern amongst teachers and students. Particular care was taken during the marking operation to ensure that no candidate was disadvantaged due to the rewording of this question, from its draft phase until its final copy was examined. The Board of Studies statistics verify that candidates were given due consideration when the question was marked.

Excellent responses
Excellent responses used appropriately statistics such as the percentage of incomes from domestic and overseas sources, balance of payments figures etc. There was considerable use of current examples such as lamb sales to the USA and the Asian crisis.

In them candidates showed an excellent understanding of the impact of fluctuating farm incomes on other sectors of the economy and the balance of payments.

These responses referred to a wide range of macroeconomic and microeconomic initiatives. Many candidates referred to the multiplier effect of increases in income.

Above average responses
Above average responses covered all three sections of the question but were weaker in at least one section. They tended to be more descriptive and less analytical than the excellent responses.

Government policies were at times linked to textbook examples rather than recent measures.

Average responses
Average responses, although attempting all sections of the question, were at times superficial. They could discuss income and costs, policies and impacts but with little use of recent statistics.

The reference to government policy was generally textbook-related and not linked to the question. In some cases there was no reference to macroeconomic policy.

Question 32
Outline the role played by investment and export markets in Australia's mining industry. How does the Australian economy benefit from growth in the mining industry? Discuss the problems that could be associated with increased mining activities.

SYLLABUS REFERENCE
This question comes from the Economics of Primary Industries Option, Mining area of study.

Excellent responses
Excellent responses analysed all parts of the question. They discussed in detail the very important role that investment and export markets play in Australia's mining industry. Included were accurate statistics and an emphasis on the advantages. The capital-intensive nature of the industry was discussed, emphasising its impact on domestic employment and the effects on the Current Account Deficit and foreign debt. These candidates included reasons for overseas investment such as low levels of domestic savings.

The significance of exports to the general economy was emphasised. Statistics revealed both the volume of minerals exported and to whom. The impact of 'block buyers' was elaborated upon.

In these responses candidates included issues such as multinational participation, transfer pricing, resource rent tax and the 'Gregory thesis' which states that increases in mining lead to increase in the value of the Australian dollar and loss of competitiveness in the manufacturing and tertiary industries. They discussed at length the dangers in having an exchange rate so closely aligned to commodity prices.

They were clearly able to link growth in the mining industry to increases in GDP, economic growth, changes in the balance of payments and the multiplier effect. The benefits to country towns and ancillary industries were also developed.

These candidates gave a detailed coverage of the problems perceived to be caused by an increase in mining activities. Good use was made of appropriate examples to support arguments such as the disadvantages of foreign investment, instability of export markets, risks in the industry, environmental degradation, resource depletion and native title.

Above average responses
These responses were briefer than the excellent responses but still provided a detailed answer to the questions. Most candidates tended to outline the parts of the question rather than to generate good discussion about the issues. There was little attempt to provide detailed analysis, and often one section was covered only briefly. Generally these candidates handled the problems derived from investment and export markets better than the benifits.

Average responses
Average responses tended to cover some parts of the question superficially. On occasion the benefits were ignored with discussion of the problems being restricted to environmental issues. Generally most candidates were able to give sufficient explanation to be included in the average range of marks or better.

There were some emotional arguments about the environment and mining. This did not enhance the responses at this level. Students need to be reminded that it is the strength of their argument as supported by evidence that will earn them the best results.

Distribution of Income And Wealth

Question 33

Distinguish between absolute and relative poverty. What factors contribute to the level of poverty in Australia? Discuss the problems associated with government policies aimed at reducing the level of poverty in Australia.

SYLLABUS REFERENCE
This question comes from the Distribution of Income and Wealth Option, and drew upon all three areas of study for the option.

GENERAL REMARKS
A generally pleasing aspect of all responses was the tendency for them to be much longer than in previous years, showing evidence of better time management and a substantial level of knowledge of this topic.

Excellent responses
Excellent responses demonstrated a thorough and detailed understanding of the questions. The better responses used a traditional essay style approach, avoided the use of unnecessary material and focused on a clear, well-analysed answer.

Using statistical evidence the answers showed a clear understanding of the differences between absolute and relative poverty. In the second part of the question they discussed the degree of poverty in Australia, referring to the Henderson Poverty Line and the results of studies by Dilnot and Piggot. The responses here involved a detailed explanation of the factors contributing to the level of poverty in Australia, covering areas such as ethnicity, sex, age, education, family structure etc. This explanation was supported by the use of relevant statistics.

The final part of these responses concentrated on a discussion of the problems of government policies, giving both a description and an analysis of them. The problems mentioned covered items such as the effect of restructuring, opportunity, cost, fiscal policy, disincentives, tax avoidance and tax evasion, welfare fraud and abuse, anti-discrimination policies and the possible consequences of the proposed goods and services tax.

Above average responses
Above average responses demonstrated a less detailed understanding of the question. Again, the better responses were found in the answers of those candidates who favoured a traditional essay style approach.

The first part of the question was not well answered. The definitions were correct but were not supported by statistical data. The second part of the responses began with a description of the level of poverty in Australia, but tended to ignore the Henderson Poverty Line and other studies. The remainder of the second part covered most of the factors mentioned in the excellent responses but did not provide sufficient depth in the discussion of such problems as well as insufficient use of statistics to illustrate the extent of these problems. The third part gave less emphasis to the problems associated with government policies and provided less analysis of the effects of such problems.

Average responses
Average responses demonstrated a satisfactory understanding of the question and, again, essay style responses were still prominent. These responses gave a correct but brief description of the difference between absolute and relative poverty.

The second part of the answer began with coverage of factors contributing to the level of poverty without any reference to the extent of poverty in Australia. The factors mentioned were covered briefly, but not exhaustively.

Question 34

What are the main sources of income and wealth in Australia? Examine the factors that influence the distribution of income and wealth in Australia. Discuss the problems associated with government policies designed to redistribute income.

SYLLABUS REFERENCES
This question comes from the Distribution of Income and Wealth Option and drew upon all three areas of study for the Option.

Excellent responses
Excellent responses were characterised by the use of recent statistics, sound economic reasoning and an in-depth coverage of all parts of the question. Candidates identified the major sources of income and wealth and supported their findings by statistics (in terms of each income grouping as a percentage of GDP and trends in income distribution) as well as by references to studies on wealth distribution by Piggott and Dilnot.

The distinguishing feature of these responses was the ability of candidates to discuss social and institutional factors with graphical analysis. Candidates addressed the pricing of the factors of production by using diagrams showing the interplay of demand and supply forces. They examined institutional factors such as the role of unions, employer associations and the AIRC in determining wages. A discussion of social factors such as access to education and training, 'poverty trap', family structure, cultural attitudes, inheritance and discrimination was provided.

These candidates showed a clear understanding of the problems associated with government policies designed to redistribute income. They discussed possible growth in welfare-spending as a proportion of the budget and any disincentive effects leading to tax avoidance and evasion or social security fraud.

Above average responses

Above average responses addressed all parts of the question. Candidates identified the major sources of income and wealth and provided a descriptive approach to the factors influencing income and wealth distribution in Australia. They focused on the social and institutional factors and provided a superficial coverage of market factors. These responses briefly identified some implications of government policies.

Average responses

Average responses covered all parts of the question but they lacked the breadth and depth of the excellent and above average responses. They tended to be descriptive and suggested the possibility that they were prepared answers.

Discussion of the factors influencing the distribution of income and wealth was limited and tended to be shallow. Discussion of the market factors influencing pricing of the factors of production was particularly weak.

Many candidates misinterpreted the question by giving a good account of government policies but made little or no reference to their associated problems.

3 UNIT (ADDITIONAL)

The following table shows the popularity of the options and questions available to 3 Unit (Additional) candidates. Income and Expenditure Analysis continues to attract the most responses.

OPTION	% OF CANDIDATURE	QUESTION	% OF OPTION
ENVIRONMENTAL ECONOMICS	38%	1 2	77% 23%
INCOME & EXPENDITURE ANALYSIS	66%	3 4	49% 51%
COMPARATIVE ECONOMIC SYSTEMS	42%	5 6	54% 46%
EVOLUTION OF ECONOMIC IDEAS	54%	7 8	50% 50%

At approximately 25% of the total candidature in Economics (1376 students) 3 Unit (Additional) continues to show a relatively strong participation rate.

As is the case with 2/3 Unit (Common), essays in 3 Unit (Additional) are impression marked and ranked on a scale of 0-20.

Environmental Economics

Question 1

Explain what is meant by market failure. Evaluate government responses to market failure aimed at minimising the impact of economic development on the environment. Refer to specific examples in your answer.

SYLLABUS REFERENCE
This question comes from the 3 Unit (Additional) Syllabus Option Environmental Economics, the Price Mechanism and Government Environmental Policies areas of study.

Excellent responses
Candidates in the excellent category answered all parts of the question. They defined market failure and explained market failure in at least two ways, citing examples of market failure and their outcomes. They defined and explained positive and negative

externalities; public good; quasi-public good; positive and negative spill-over effects and free riders. Some talked about improperly pricing resources, linking externalities well and used diagrams such as the Marginal Private Benefit Curve, Marginal Social Cost Curve and Zero Marginal Cost Curves for a public good.

Excellent candidates understood and defined economic development. They were able to link this to environmental damage as a spill-over effect as well as there being a need for government intervention.

Candidates provided a framework with logical discussion, in that the government had a "basket of policies" and chose a policy to target a specific resource management approach. Candidates were clear about the three approaches that could be taken and outlined how a policy was used to reduce the effects of environmental damage. A range of different types of diagrams was used to support their arguments eg opportunity cost, pollution tax. These were supported by a confident and accurate explanation of the graphs and their usefulness as a tool or policy measure, especially in taxing output and taxing pollution. The best candidates were confident in using the more difficult concepts and diagrams, such as Marginal Abatement Cost.

Candidates also used a range of examples. Many were well-documented examples such as Badgery's Creek and Sydney Airport flight routes or those unique to their own circumstances like the Murray-Darling Basin. It is important to note that what mattered was how well the candidate applied their examples to answer the question.

The better candidates drew out the key concepts of the question and used them.

Above Average
The above average candidate presented a clear and concise explanation of market failure, with geographical and analytical support. They identified the link between the first part of the question, economic development and government policies to manage resources.

Candidates in this category attempted to answer all parts of the question. They defined market failure and gave a clear explanation as to how market failure occurred. They defined and explained negative external factors: public good; quasi-public good; positive and negative spill-over effects and free riders linking these to market failure. Some wrote about improperly pricing resources. Diagrams were used but not all candidates needed to do so.

The above average candidate understood that economic development led to spill-over effects and were able to link this environmental damage to there being a need for government intervention.

Candidates provided a more structured discussion, saying that the government had policies and chose these to target resource management in the absence of clear pricing. Candidates were clear about the three approaches that could be taken and outlined how a policy was used to reduce the effects of environmental damage. A range of different

types of diagram were used to support their arguments eg opportunity cost, pollution tax. These were supported by confident explanations of taxing output and taxing pollution.

Candidates also used a range of examples. Generally the above average candidate failed to evaluate government responses, simply describing the policy process, very well in most cases, with some suggestion that the government used a particular policy. For example, taxes on petrol are effective, as financial gains could be made for the government whilst less of the non-renewable resource would be used.

Average

There were two categories of how the average candidate approached the question, that is, the responses came from one of two directions.

Candidates either did the first part well but failed to deal with the evaluation of policies by Government to management resources or gave lengthy descriptions of management with little to no explanation of market failure beyond a definition.

Those who answered the first part explained market failure well but were unable to present a thorough understanding of policies with examples. Some attempted to evaluate or gave limited evaluation whilst describing pollution taxes or the Environmental Impact Statement. They defined public good and free riders with some attempt being made to mention externalities; most did not recognise externalities as being a form of market failure. Most used diagrams, eg Marginal Cost Curve for the public good.

Candidates gave information in descriptive form but did not provide comment or analysis of a policy. For example, they wrote about Badgery's Creek and knew their work but did not evaluate the appropriateness of an Environmental Impact Statement, or when a tradeable permit would be a more appropriate instrument to control tradeable emissions. Some that provided lengthy examples, usually restricted to one or two case studies, left the candidate unable to link this to the earlier part of the response, that is, to the particular government policy. It really left it to the reader to recognise that any connection existed.

Generally candidates failed to evaluate economic development; that is, they did not state the pros and cons when using examples. In most cases they simply described the policy process. Some wrote their examples at the end rather than integrating them through their response.

Question 2

Distinguish between renewable and non-renewable resources. How does resource management assist in reducing negative impacts of economic growth on the environment? Assess the costs and benefits of preserving the environment. Refer to specific examples in your answer.

SYLLABUS REFERENCE
This question comes from the Environmental Economics 3 Unit (Additional) Option, with particular emphasis on the Economic Aspects of Environmental Issues and Government Environmental Policy areas of study.

General comment
Generally the less able candidates for this option chose this question, possibly avoiding the evaluation component in Question 1. There were fewer (as a proportion) excellent and poor responses compared with Question 1. Candidates found it difficult to answer the 'how' part and reverted to providing a 'why' response. Most failed to provide a link between resource management and how this can be achieved in order to reduce the impacts resulting from economic growth.

Excellent
Excellent responses included economic concepts, data and theory in their response and clearly defined and explained the distinguishing characteristics of both renewable and non-renewable resources. Good use of examples was made throughout their response. They explained the 'how' clearly in terms of resource management, reducing the effects of economic growth of the environment and provided examples illustrating how sensible development could produce both economic growth and minimal negative impacts at the same time. They understood cost/benefit analysis and could again apply the analysis to examples of environmental preservation.

Above Average
Above average responses could distinguish very well the difference between renewable and non-renewable resources. They discussed in detail why resource management is used rather than how management assists in reducing the impact. For example, they stated that we need to reduce impacts due to market failure, and this set the platform for discussing numerous 'whys' rather than 'how'. Appropriate examples were applied to this section of the question. Candidates gave a reasonable understanding of cost/benefit analysis with examples.

Average
The average candidate provided a basic account in defining terms, renewable and non-renewable resources, economic growth and cost/benefit analysis. These candidates limited their discussions to giving reasons why resource management was needed outlining several reasons. Often key terms like *factor depletion, preservation, conservation, pollution, research*, and *technology* were outlined. The average response, however, still failed to address the 'how' part of resource management, addressing the

negative impacts of economic growth or wrote in general terms without giving specific types of resource management. Some candidates failed to provide good examples of resource management, the majority were better on outlining and providing some assessment of cost/benefit analysis, often providing examples to expand this part of the question.

Generally average responses provided reasonable content. Many, however, spent 3 to 4 pages in concentrating on market failure and externalities, but this was not in the context of resource management. They failed to give a clear understanding of resource management or of linking resource management to exploitation. This part of the question was poorly done by the majority of those candidates in the average range and also of the above average responses.

Income and Expenditure Analysis

Question 3

Using the simple income-expenditure model explain how an autonomous change in investment is likely to lead to a multiplied change in the level of income. How is the equilibrium level of income affected by the addition of the government and international sector? Use diagrams and/or equations to support your answer.

SYLLABUS REFERENCE

This question comes from the Income and Expenditure Analysis Option of the 3 Unit (Additional) syllabus. All three parts of this question were drawn from the Simple Income-Expenditure Model area of study and the Introducing the Government Sector and the Introducing the International Sector area of study.

Excellent responses
Excellent responses answered all parts of the question in detail with clear linkages and good analysis. The use of diagrams and equations was both extensive and accurate. All diagrams were clearly linked to the description of their impact on the equilibrium level of income.

The effect of the government and international sector on the equilibrium level of income was taken beyond the simple analysis. Candidates displayed knowledge of both autonomous and induced components of imports and taxation.

Generally these answers were built up to the five-sector multiplier in a logical manner.

Above average responses
Above average responses provided answers to all parts of the question but not in the same detail of analysis as the excellent responses. Again, diagrams and/or equations were used quite well, although some had a few errors or were not effectively linked to the remainder of the discussion.

These responses were able to build up to the five sector complex multiplier, using the correct formulae but not in the same detail as the excellent responses.

Average responses
Average responses generally answered all parts of the question but not in detail. They tended to be more descriptive than analytical. In them candidates described injections and leakages of the five-sector model in broad terms but generally did not distinguish between induced and autonomous aspects; and many did not clearly explain the impact of these changes on equilibrium.

In a number of these responses diagrams and/or equations were included, but were not referred to in the text of the answer. Some were poorly constructed and inaccurate. Some answers included information that, although accurate, was largely irrelevant to the question, for example the marginal efficiency of capital and detailed inflationary and deflationary gap analysis.

Question 4

Why do fluctuations occur in the level of economic activity? How can the interaction of the multiplier and the accelerator lead to cyclical changes in economic activity? Evaluate counter-cyclical policies the government can use to stabilise the economy.

SYLLABUS REFERENCE

This question comes from the Income and Expenditure Analysis Option of the 3 Unit (Additional) Syllabus. All three parts of this question were drawn from the Fluctuations in the Level of Income, Output and Employment Area of Study.

Excellent responses
Excellent responses provided a detailed analysis to all parts of the question. They provided an extensive coverage of the causes of economic fluctuations, for example, both endogenous and exogenous factors, to support their responses. Many candidates used accurate contemporary examples such as the Asian Crisis.

Analysis of the role of the multiplier and the accelerator was detailed, with the best responses showing how this interaction actually reversed the business cycle. There was excellent evaluation of the main counter-cyclical policies that could be used by government. This demonstrated a good insight into the shortcomings of these measures.

The best candidates used their knowledge of contemporary economics to support their arguments. They also used graphs and formulae accurately and effectively.

Above average responses
Above average responses generally answered all parts of the question, but in less detail and with less analysis than the excellent responses.

The multiplier-accelerator interaction was discussed, usually in detail, but generally as a cause of fluctuation, rather than showing how it can cause the business cycle to change direction.

The use of contemporary case studies, diagrams and formulae was less evident.

Average responses
Average responses were generally descriptive. Although most candidates attempted to answer all three parts of the question, more emphasis was placed on the causes of fluctuations, than the other two parts.

Coverage of the multiplier-accelerator was usually general in nature, not addressing this interaction effect on the business cycle.

Discussion of government policy tended to describe the role of fiscal policy and monetary policy, but showed little evidence of analysis.

Comparative Economic Systems

Question 5

What are the main functions of an economic system? Explain how recent economic developments have affected the functions of a market economy that you have studied. Evaluate the role of the government in dealing with the problems and prospects in that market economy.

SYLLABUS REFERENCE
This question comes from the Comparative Economic Systems option of the 3 Unit (Additional) Syllabus. This question was drawn from the Economic Systems area of study and the Market Economy area of study.

General comments
As pointed out in the Syllabus, Australia is not acceptable as a case study.
The majority of case studies discussed were limited to just four market economies: USA, Japan, South Korea and Singapore; a handful of students discussed Thailand, Indonesia and Germany.

Many candidates are still taking the 'scatter gun' approach by writing all they know about their case study rather than answering the question asked. For these students the case study became the question itself rather than the illustration through which to answer the question. Such responses scored poorly.

Many candidates appeared to have difficulty in defining 'recent' and wrote what amounted to a history lesson over a period of fifty years. The word 'recent' refers to events/issues that have occurred within the past few years. At most this should not exceed a decade.

Responses showed that students had well-prepared case studies backed by good up-to-date statistics. Some case studies, however, contained out-of-date material. This disadvantaged these students relative to their cohorts.

The first part of the question was handled well, with most students expanding the discussion of the functions of an economic system regarding resource allocation to include production, distribution and exchange. On the whole candidates were careful not to turn this into the most important part of the answer.

Excellent responses
Excellent responses answered all three parts of the question, with more emphasis on the last two parts. They showed an excellent understanding of the functions of an economic system, with precise, relevant discussion. Candidates used their case studies intelligently and highlighted recent economic developments.

Through case studies candidates were able to link the functions of the market economy. They related the developments to the composition of production, the allocation of resources and the distribution of income.

Candidates were able to relate changes to government policy and could evaluate such policy to ascertain whether it produced positive or negative outcomes.

Above average responses
In above average responses candidates answered all parts of the question. They displayed a strong understanding of the functions of an economic system, but were less successful in showing how recent economic development has affected the functions in their case study nation. Frequently these students supported their arguments by referring to the value of production rather than the composition of production.

These candidates tended to describe rather than evaluate the role of the government in dealing with the problems and prospects in that market economy.

Average responses
For many candidates at this level the case study became the whole response. They provided detailed accounts of economic development in their case study nation up to the point of turning their answer into an historical description of events over the past fifty years.

These candidates named and described government policies but did not evaluate them.

Question 6

What are the main features of socialist economic systems? Explain the economic, social and political problems being experienced in a socialist or former socialist economy that you have studied. Evaluate the role of the government in dealing with these problems.

SYLLABUS REFERENCE
This question comes from the Comparative Economic Systems Option of the 3 Unit (Additional) Syllabus. This question was drawn from the Economic Systems area of study and the Socialist Economy area of study.

General comment
The majority of answers used four case studies: Russia, China, Vietnam and Poland. Many candidates used the 'scattergun' approach and turned in well-prepared case studies that covered just about everything there was to know about the nations. Regurgitating the case study was the key feature in their answers. Since these candidates did not answer the question as asked, they scored poorly.

Excellent responses
Excellent responses answered all three parts of the question with more emphasis given to the last two parts. They named and discussed the main features of socialist economic systems without giving this first part of the question undue prominence. Candidates used their case studies intelligently, highlighting with up-to-date, relevant facts and figures the economic, social and political problems being experienced in their case study nation.

They were able to show the interlinking of social, economic and political problems, and pointed out the potential for government to be part of the problem and not separate from it.

Above average responses
Above average responses answered all three parts of the question. They discussed the main features of a socialist economic system well and provided good explanations of the economic, social and political problems being experienced in their case study nation. Their use of statistics was good, generally citing relevant figures to support their arguments.

Candidates tended to describe rather than evaluate the role of government, with policies and strategies being too often given a superficial treatment.

Average responses
Average responses answered all three parts of the question but tended to focus more on the first part and give it too much weight. They included too much history and too little analysis of current issues and government attempts to deal with them.

Many candidates took a convergence approach to answering the question and described the transition of their socialist case study nation to a market economy. Often such candidates used more than one case study, indicating lack of depth in their knowledge of the content area.

Evolution Of Economic Ideas

Question 7

Outline the contribution of Alfred Marshall to the development of economic thought. Explain how the Neoclassical school contributed to the evolution of economic ideas. Assess the relevance of Neoclassical Economics for contemporary economic management.

SYLLABUS REFERENCE
This question comes from the Evolution of Economic Ideas Option of the 3 Unit (Additional) Syllabus. This question was drawn from the Neoclassical economics area of study.

Excellent responses
Excellent responses were characterised by an exceptional understanding of the concepts and content required in providing a detailed and accurate analysis of the question. Candidates provided an excellent analysis of the contribution of Alfred Marshall to the development of economic thought, accurately placing him both chronologically and economically.

A detailed analysis of the early Marginalists such as Jevons, Menger and Walras was provided before a detailed description of Marshall's theories, including marginal utility, the Marshallian cross, water - diamonds paradox, diminishing marginal utility, rewards to the factors of production and the significance of income distribution, elasticity of demand and time periods of the firm.

Marshall was known as bridging the gap between the Marginalists and Classical Economics. He helped to validate the position of economics as an exact science with calculated outcomes. Marshall also changed the focus of the subject from a macroeconomic approach as used by the Classical School of economic thought, to a microeconomic approach.

In the second part of the question, candidates demonstrated a detailed knowledge and understanding of the other theorists of the Neoclassical school, analytically explaining their contribution to the evolution of economic ideas. Students cited the theories of Chamberlain, Robinson, Schumpeter, Fisher, Edgeworth, Hicks, Pareto, and Sweezy.

Candidates fully assessed the importance of the neoclassicalists for the development of microeconomics and its application of contemporary economic management. Answers provided a detailed, thorough discussion of varying microeconomic policies, with particular reference to the Australian economy.

Above average responses
Above average responses showed a detailed understanding of the content of Neo-classical Economics. Candidates fully explained the contribution of Alfred Marshall to the development of economic thought, relating his achievements to the preceding and current economic conditions.

A detailed explanation of each of Marshall's theories was provided. The contribution of Marshall towards resolving the differences between the classicalists and the marginalists was noted. Responses also emphasised the shift in focus from macroeconomics to microeconomics by the Neoclassicalists.

A detailed description of the other key Neoclassical economists was provided. For the third part of the question candidates provided a general coverage of the relevance of the Neoclassical school of economics for contemporary economic management, citing a few examples of relevant practices.

Average responses
The average responses included a good coverage of Marshall's theories, for most of which they were able to give a detailed explanation.

In the second part of the question, students were able to demonstrate some understanding of the other key economists of the marginal school. However, their discussions were quite limited.

The last part of the question provided a very general attempt at assessing the relevance of Neoclassical economics for contemporary economic management. Few, if any, examples were cited to validate the assessment.

Question 8

Why were the ideas of John Maynard Keynes considered revolutionary? How did Keynes explain the relationship between the equilibrium level of national income and full employment? Assess the relevance of Keynesian economics in dealing with the problems facing the Australian economy.

SYLLABUS REFERENCE
This question comes from the Evolution of Economic Ideas Option of the 3 Unit (Additional) Syllabus. The three parts of this question were drawn from the Keynesian Revolution area of study.

Excellent responses
Excellent responses recognised that Keynes completely changed the emphasis of economics from laissez-faire to demand management. The government now was responsible for manipulating aggregate demand because of the shortcomings of the market-place. The candidates made it clear that Keynes was an advocate of direct government intervention through fiscal policy.

The responses outlined criticisms of Classical and Neoclassical theory such as flexible wages and prices, ie full employment equilibrium. However, these candidates did not make this the major focus of their answer.

They had a clear understanding of Classical theory in relation to full employment equilibrium and explained that Keynes believed full employment was unlikely to occur at equilibrium. Most respondents used the Great Depression to illustrate why Keynes had developed a demand management approach. They generally referred to gap analysis to illustrate how the government could use fiscal policy to raise equilibrium to full employment.

Income and expenditure diagrams were common, but not essential, for an excellent response. Such responses were able to identify problems facing the Australian economy for example, unemployment, the Current Account Deficit and structural change. They generally identified monetary policy as a demand management tool of fiscal policy, concentrating on national saving and external balance and micro-reform to increase national efficiency.

There was a recognition that Keynesian demand management still had a role to play but that the Federal Government was concentrating on structural change through micro-economic reform and fiscal consolidation. Some candidates discussed the changing nature of fiscal policy, such as demand management with expansionary deficits in the early 1990s to surplus budgets in the late 1990s.

Above average responses

Above average responses generally answered this question on the revolutionary ideas of Keynes well but often showed signs of confusion in relation to full employment equilibrium. A number of candidates made errors when drawing inflationary/deflationary gaps. If their explanation of gap analysis was correct, these students were not penalised.

Weaker candidates in this category failed to discuss adequately the relevance of Keynesian economics. They often criticised Keynes rather than discussing problems facing the Australian economy. These candidates generally failed to discuss the policy shift from demand management to supply-side economics.

Average responses

Average responses generally had a sound knowledge of basic Keynesian theory but were often confused about why Keynes was revolutionary. Many students listed criticisms of Classical/Neoclassical economics when adequately answering the question.

Weaker candidates were confused about equilibrium and full employment and showed this with poor diagrams and little accurate explanation.

Current problems and policies were discussed very superficially.