**Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

STAGE 2 ECONOMICS

Assessment task 6

2013

DETERMINATION OF PRICE AND OUTPUT

## FORMATIVE TEST

## General instructions

* Working time – 1 hour
* Write using blue or black ink
* Answer all questions
* Write your name at the top

**A few tips**

* Remember to use economic terminology
* Draw and label diagrams correctly

**SECTION 1 – SHORT ANSWER and STIMULUS RESPONSE QUESTIONS**

*Questions in this section will be assessed in terms of the extent to which students demonstrate:*

* *Knowledge, understanding, and application of economic concepts, principles, models, and skills.*
* *Evaluation of the effects of interdependence on individuals, business, and government, locally, nationally, and globally.*
* *Analysis and evaluation of the impact of economic change locally, nationally, and globally.*

1. Using appropriate economic concepts and principles answer the following questions.
2. Consider the following information about the economy below

**External Balance – Different concerns**

Country A is a net importer of commodities, while Country B is a net exporter of commodities, and both countries are experiencing contrasting balance of payments issues. In recent years Country A has experienced consistent current account surpluses and Country B has experienced consistent current account deficits. Country A has been accused of fixing its currency at too low a level, to maintain a balance of trade surplus. Government officials from Country A have responded by arguing that an appreciation of its currency would have negative economic consequences not only for its own economy but also for the economies of countries from which it imports and to which it exports.

External balance statistics for Country A and Country B are given below.

|  |  |  |
| --- | --- | --- |
| **Statistic** | **Country A** | **Country B** |
| Balance on goods and services | $8bn surplus | $2.4bn surplus |
| Current account balance as a percentage of GDP | 8% | -3.4% |
| Exchange rate | Fixed | floating |

1. Explain the discrepancy between Country B’s current account balance as a percentage of GDP and Country B’s balance on goods and services. (2 marks)
2. Describe *one* possible negative and *one* possible positive effect of a current account deficit. (2 marks each)

Negative:

Positive:

1. Evaluate the claim of government officials from Country A that an appreciation of its currency would have negative economic consequences for: (6 marks)

* Country A’s economy
* the economies of countries from which Country A imports
* the economies of countries to which Country A exports.

1. *Refer to the table below, which shows changes to indicators of economic performance for a country over a 12-month period.*

|  |  |
| --- | --- |
| *Indicator* | *Change* |
| *Dwelling approvals* | *Down by 12%* |
| *New car sales* | *Down by 5%* |
| *Household savings ratio* | *Up by 5%* |
| *Consumer sentiment* | *Down for 12 consecutive months* |
| *Business investment* | *Up by 2%* |
| *Job vacancies* | *Down by 2%* |

1. (i) Identify *one* coincident indicator shown in the table above. (1 mark)

(ii) With reference to the table above, explain the likely impact of the changes in the leading indicators on aggregate demand in this country in the next period. (2 marks)

1. (i) Define the term ‘investment’ (1 mark)

(ii) Explain how an increase in business investment can affect productivity of labour. (2 marks)

1. (i) Using the information for the 12-month period shown in the table on page 8, explain how consumption expenditure in this economy is likely to have changed over this period. (2 marks)

(ii) Discuss how the change in consumption expenditure you explained in part (c)(i) may affect the achievement of the macroeconomic objective of full employment. Complete the aggregate demand – aggregate supply diagram to support your answer. (3 marks)

P

Real GPP

1. Using the circular-flow model and the concept of the expenditure multiplier, explain the process by which an increase in investment expenditure may affect the achievement of the macroeconomic objective of economic growth. (5 marks)
2. Draw a new curve/s on the diagrams below to show the short-run impact on the Australian economy of the following events. Outline the impact on price levels, economic growth and the level of unemployment. (K&U)
3. Depreciation of the Australian Dollar

P

LAS

SAS

AD

Real GPP

Yf

(3 marks)

1. The Reserve Bank of Australia lowers interest rates

P

LAS

SAS

AD

Real GPP

Yf

1. marks)
2. Ford sacks 1,200 workers

P

LAS

SAS

AD

Real GPP

Yf

(3 marks)

3. Refer to the following article

**The Dominance of State-owned Firms in China Raises Concerns**

Before China started its transition from a planned economy, all firms were owned by the state. State ownership is now declining but in 2012 state-owned firms are still responsible for approximately 45% of China’s real gross domestic product (GDP). State-owned firms dominate banking, energy, and infrastructure industries, creating a large number of monopolies.

Some economists argue that the pace of China’s future economic growth may slow rapidly unless state owned firms, which are inefficient and lack entrepreneurship, are made to operate on commercial lines. In addition, moving away from a monopoly towards an oligopoly in some industries may bring more benefits than costs.

Internationally, there are claims that China is protecting its domestic industries. In China, state-owned firms are required to purchase locally wherever possible. They also receive low-cost loans from state-owned banks, and more efficient firms pay a subsidy to less efficient firms. Some countries are pressuring Chinese leaders to sign a trade agreement that will ensure that state-owned firms operate on a commercial basis when involved in international trade.

1. State 1 method of calculating GDP (1 mark)
2. Define the term Real GDP (1 mark)
3. Which of the following is likely to lead to an increase in a countries Real GDP (1 mark)
   1. Imports increase
   2. Volunteers move into paid work
   3. Inflation increases
   4. The population decreases
4. Refer to the following stimulus material

|  |  |  |  |
| --- | --- | --- | --- |
| **Statistic** | **2010** | **2011** | **2012** |
| Consumer spending (% change) | -3.3 | 1.3 | 2.5 |
| Investment (% change) | -15.4 | 3.5 | 5.5 |
| Savings (% change) | -3.5 | -4.7 | -8.3 |
| Exports (% change) | -10.1 | 5.3 | 6.5 |
| Imports (% change) | -11.9 | 8.0 | 12.5 |
| Real GDP (% change) | -4.9% | 2.7 | 3.4 |
| Current Account Balance (as a % of GDP) | -1.7 | -3.4 | -7.8 |
| Unemployment rate | 4.9 | 5.3 | 4.8 |
| Exchange rate ($US, average annually) | 1.62 | 1.55 | 1.40 |

1. State which phase of the business cycle this economy is in between 2010 and 2012. (1 mark)
2. Explain *one* factor that may cause a change in investment in an economy. (2 marks)
3. Name *one* component of aggregate demand that is not shown in the table above. (1 mark)
4. Using evidence from the table above, explain *one* possible reason for the change in exports in this economy between 2010 and 2012.
5. Using evidence from the table, outline *one* possible reason for the change in the exchange rate in this economy between 2010 and 2012. (1 mark)
6. Using the circular-flow model and with reference to the concept of the expenditure multiplier, explain what effect an increase in imports may have on economic activity in an economy that is in equilibrium.

**Assessment**

|  |  |
| --- | --- |
| **Learning Requirements** | **Assessment Design Criteria** |
| 1. know, understand, communicate, and apply economic concepts, principles, models, and skills  2. explain the role of economic systems in dealing with the economic problem of scarcity  3. evaluate the effects of interdependence on individuals, business, and governments locally, nationally, and globally  4. evaluate and explain the way in which economic decisions involve costs and benefits  5. critically analyse and evaluate economic issues and events (past and current) using economic models and the skills of economic inquiry  6. critically analyse and evaluate the impact of economic change locally, nationally, and globally. | Knowledge and Understanding  The specific features are as follows:  KU1 Knowledge, understanding, and application of economic concepts, principles, models, and skills.  KU2 Understanding of the role of economic systems in dealing with the economic problem of scarcity.  Analysis and Evaluation  The specific features are as follows:  AE1 Analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.  AE2 Evaluation of the effects of interdependence on individuals, business, and government, locally, nationally, and globally.  AE3 Analysis and evaluation of the impact of economic change locally, nationally, and globally.  AE4 Evaluation of the way in which economic decisions involve costs and benefits.  Communication  The specific features are as follows:  C1 Communication of economic principles, models, and concepts.  C2 Use of economic terminology. |

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| --- | --- | --- | --- | --- |
| **Assessment Criteria** | | **Requirements** | | **Grade** |
| Knowledge and Understanding  KU1 Knowledge, understanding, and application of economic concepts, principles, models, and skills. | | * Knowledge, Application and Understanding of Macroeconomics including: aggregate demand and supply, circular flow & macroeconomic objectives. | | A, B, C, D, E  **/20** |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Knowledge and Understanding Overall Grade | A+ | A | A- | B+ | B | B- | C+ | C | C- | D+ | D | D- | E+ | E | E- | | | | | |
| Analysis and Evaluation  AE2 Evaluation of the effects of interdependence on individuals, business, and government, locally, nationally, and globally.  AE3 Analysis and evaluation of the impact of economic change locally, nationally, and globally. | | * Appropriate use of specific economic concepts, models and principles | | A, B, C, D, E  **/26** |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Communication Overall Grade | A+ | A | A- | B+ | B | B- | C+ | C | C- | D+ | D | D- | E+ | E | E- | | | | | |
| Communication  C1 Communication of economic principles, models and concepts  C2 Use of economic terminology. | | * Appropriate use of specific economic concepts, models and principles throughout assessment task – marked holistically. | | A, B, C, D, E |
| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Communication Overall Grade | A+ | A | A- | B+ | B | B- | C+ | C | C- | D+ | D | D- | E+ | E | E- | | | | | |
|  | **On Balance Grade** | |  | |

Performance Standards for Stage 2 Economics

|  |  |  |  |
| --- | --- | --- | --- |
|  | Knowledge and Understanding | Analysis and Evaluation | Communication |
| A | Comprehensive knowledge, in-depth understanding, and focused application of complex economic concepts, principles, models, and skills.  Comprehensive and well-informed understanding of the role of economic systems in dealing with the economic problem of scarcity. | Astute and logical analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.  Perceptive evaluation of the effects of interdependence on individuals, business, and government locally, nationally, and globally.  Incisive analysis and evaluation of the impact of economic change locally, nationally, and globally.  Insightful and well-informed evaluation of the way in which economic decisions involve costs and benefits. | Sophisticated communication of economic principles and models, and complex concepts.  Consistent, clear, and appropriate use of correct economic terminology. |
| B | Some depth of knowledge and understanding, and focused application, of a variety of economic concepts, principles, models, and skills.  Well-informed understanding of the role of economic systems in dealing with the economic problem of scarcity. | Well-considered analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.  Well-considered evaluation of the effects of interdependence on individuals, business, and government locally, nationally, and globally.  Well-informed analysis and evaluation of the impact of economic change locally, nationally, and globally.  Well-informed evaluation of the way in which economic decisions involve costs and benefits. | Clear and accurate communication of economic principles and models, and a variety of concepts.  Clear and appropriate use of economic terminology. |
| C | Considered knowledge and understanding, and competent application, of economic concepts, principles, models, and skills.  Informed understanding of the role of economic systems in dealing with the economic problem of scarcity. | Considered analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.  Considered evaluation of the effects of interdependence on individuals, business, and government locally, nationally, and globally.  Informed analysis and evaluation of the impact of economic change locally, nationally, and globally.  Informed evaluation of the way in which economic decisions involve costs and benefits. | Competent communication of some economic principles, models, and concepts.  Appropriate use of economic terminology. |
| D | Superficial understanding and partial application of some basic economic concepts, principles, models, and skills.  Some recognition of the role of economic systems in dealing with the economic problem of scarcity. | Basic consideration and description of one or more economic issues and/or events (past and current) using some skills of economic inquiry.  Basic consideration and description of one or more of the effects of interdependence on individuals, business, and government locally, nationally, and globally.  Recognition of aspects of the impact of economic change locally, nationally, and globally.  Some awareness of the way in which economic decisions involve costs and benefits. | Communication of some basic economic principles, models, and concepts.  Some appropriate use of some economic terminology, with inconsistencies. |
| E | Identification and attempted application of one or more basic economic concepts, principles, models, or skills.  Limited recognition of the role of economic systems in dealing with the economic problem of scarcity. | Emerging awareness of one or more economic issues or events (past and current), with limited use of skills of economic inquiry.  Limited recognition of one or more of the effects of interdependence on individuals, business, and government locally, nationally, and globally.  Emerging recognition of an aspect of the impact of economic change locally, nationally, and globally.  Limited awareness of the way in which economic decisions involve costs and benefits. | Attempted communication of one or more simple economic principles, models, or concepts.  Limited use of economic terminology. |