BOARD OF STUDIES
NEW SOUTH WALES

1997 HSC

EXAMINATION REPORT

Economics

1997 HIGHER SCHOOL CERTIFICATE

EXAMINATION REPORT

ECONOMICS

In 1997 the total number of candidates presenting for Economics was 6692, of whom 4950 presented for the 2/3 Unit (Common) Course and 1742 for the 3 Unit Course. This represents a decrease of 12% on the total candidature for Economics at the Higher School Certificate Examination in 1996.

2/3 UNIT (COMMON)

Introduction

This report contains general as well as specific information related to each section of the examination paper. It is intended to provide feedback to both teachers and students on the marking of the 1997 examination.

1997 is the third year in which the 1994 (Pathways) Stage 6 2/3 Unit Economics Syllabus has been examined. The examination tested the students via 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).

Analysis of the marking of the 1997 paper suggests that the quality of the candidates' answers continues to improve across all four sections. Especially pleasing were the results from the Short Answer section, first introduced into the Economics examination paper with the adoption of the Pathways Syllabus. Candidates' responses to this section showed that Economics students continue to develop the important analytic and interpretative skills that are assessed through this section of the paper. Similarly, responses to Section III were excellent, indicating that students were well prepared to answer the Contemporary Macro-economic Management Strand of the Syllabus Core.

The rise in both the quality and depth of student knowledge, as shown by student answers over the past few years, is encouraging, given the continuing fall in the number of students undertaking Economics at the Higher School Certificate Examination. In 1997, the candidature for both 2/3 Unit (Common) and 3 Unit (Additional) continued to reflect the annual decline in the number of HSC students presenting for Economics.

Section 1 Multiple Choice

Section I of the 2/3 Unit (Common) paper (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.

Item	Correct Response	% Correct
1	B	90.30
2	A	41.10
3	A	88.26
4	D	56.68
5	C	32.26
6	D	86.14
7	A	65.31
8	C	72.00
9	A	70.07
10	D	58.38
11	D	68.08
12	A	40.97
13	B	74.51
14	B	59.11
15	C	79.35
16	C	49.54
17	C	50.35
18	D	78.27
19	C	42.75
20	B	80.52

The multiple choice questions in Section I 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 as detailed on pages 34–41 of the Syllabus. In addition, it is assumed that the Outcomes of the Preliminary Course, pages 9–11 of the Syllabus, have been achieved by all students before commencing the Higher School Certificate Course in Economics.

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

The mean mark achieved for this section was approximately 12.8. Question 1 (90%), Question 3 (88%), and Question 6 (86%) received the highest rates of correct response from candidates, while Question 2 (41%), Question 5 (32%), Question 12 (40%), and Question 19 (42%) received the lowest.

It should be noted that Question 5, which generated the most incorrect responses of all the multiple choice questions, is an example of a question that requires application of understandings of Preliminary Course concepts to subject matter based on Higher School Certificate Core Topics.

It should also be noted that Question 17 generated some controversy. Analysis of the statistics run on this question suggest that the concept of *crowding* in, although contained in the Syllabus and thereby available for use in the setting of multiple choice questions, has, in some instances, not been taught in its full context.

Section II   Short Answers

General Comments

Responses to this section were generally of a high standard. It now appears that, within three years of this section's introduction, students are familiar with the specific requirements of this type of testing. Candidates appeared to have handled well the relative importance of each part (that is, the time/mark allocation tradeoff). They also appeared to have stayed within the lined space provided for answering each part of the questions. Responses were generally tight, but students need to be continually encouraged to answer the internal parts of these questions in both a concise and an accurate manner. In this respect, it is considered that the space provided for each response is more than enough for students to earn full marks. Longer responses do not necessarily gain better marks. That is, those students who take additional space for these parts are not necessarily the ones who gain the highest marks. It should be noted, however, that all of a student's answer is considered and no student is penalised for writing outside the lined space.

The Marking of Section II

The marking of Section II differs considerably from that of both Section III and Section IV where impression-marking is used to rank candidates' responses. The marking of Section II involves the establishment of specific criteria for each part of the question. Candidates' responses are then assessed in the light of how well they achieve these criteria. The criteria are established by Senior Markers during a 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. As marking takes place, the criteria are reassessed and readjusted, as necessary, to ensure that all types of responses have been accommodated and that the selection criteria continue to constitute a valid and equitable means of discriminating between candidates' responses.

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, restatements of the question, or for completely incorrect or irrelevant information.

In 1997, this section of the paper was marked by a specialised group of six marking teams.

Question 21

(a)   Most students were able to give an accurate definition of the term *exchange rate*, defining it as *what one nation's currency will exchange for in terms of another nation's currency*. Some key phrases used by candidates included *the price*, *relative prices*, *the value*, *relative value*, and *in terms of another currency*. Several responses mentioned *the value of a nation's currency when measured against a trade-weighted basket of currencies*.

The better responses were brief and to the point. Longer answers tended to wander off the question. Partial marks were awarded to candidates who tried to give the correct definition but whose statement was not clearly expressed.

(b)   Most candidates were able to answer this section of the question. Answers that received full marks indicated that one Australian dollar could be exchanged, on Day I, for eighty US cents (or 8/10 of a dollar US). Both written and numerical answers were acceptable.

Poorer quality responses merely indicated that the exchange was 80 cents and failed to denote the currency involved. Wrong answers, which gained no marks, expressed the wrong exchange rate, ie US$1 exchanged for 80c Australian.

(c)   The better candidates mentioned and discussed two factors that would cause the supply of the Australian dollar on the foreign exchange market to increase. In their responses they identified the fact that the shift from S_1S_1 to S_2S_2 indicated an increase in supply. Examples of descriptions gaining full marks included:

   •   *a fall in Australian interest rates leading to a capital outflow from Australia, thus increasing the supply of Australian dollars in the foreign exchange market;*

   •   *an increase in the number of Australian tourists going overseas and thus selling Australian dollars to buy foreign currencies;*

   •   *an increase in the level of imports into Australia, leading to more Australian dollars being exchanged for foreign currencies to pay for the imports, thus leading to an increase in supply of the Australian dollar;*

   •   *speculation that the Australian dollar is going to depreciate leading to increased sales of Australian dollars in the foreign exchange market.*

Many candidates failed to indicate clearly whether the factor discussed applied to Australia or to a foreign country. Partial marks were awarded for listing factors, while additional marks were awarded for an accompanying relevant description.

Some candidates described two factors which led to a decrease in demand, which further led to a depreciation of the Australian dollar. These answers received no marks.

(d)   Excellent responses mentioned that a shift from S_1S_1 to S_2S_2 represented an increase in supply causing a depreciation in the Australian dollar. The following is an answer typical of those awarded full marks:

With a depreciation of the Australian dollar the price of exported goods should fall and the volume of sales should rise. The price Australians pay for imports should rise and the volume of imports should decline.

This question was not always well answered and poorer quality responses mentioned items only in brief, saying, for example, *increased exports, decreased imports*. These responses received part marks. Some candidates mentioned, as a likely impact, the balance of trade, but usually failed to indicate adequately why the balance of merchandise trade would alter.

The better candidates discussed impacts on both exports and imports, while poorer candidates considered only exports and discussed competitive effects as well as the components. The best responses recognised the importance of elasticity of demand for both exports and imports and the difference between value and volume effects.

(e)   Successful candidates were able both to describe and explain two (2) possible actions the Reserve Bank could take to maintain the exchange rate at Day 1 levels. Examples that received full marks included:

   •   *the Reserve Bank could influence an increase in interest rates, thus attracting capital inflow which would increase the demand for Australian dollars;*

   •   *the Reserve Bank could use its foreign reserves, entering the market as a buyer of Australian dollars, increasing the demand for Australian dollars and thereby maintaining the exchange rate.*

The better responses recognised that actions could be taken by the Reserve Bank to influence demand as well as to control supply.

Poorer quality candidates responded by describing actions that had an impact on the money supply, implying that this caused the shift from S_2S_2 to S_1S_1.

Some candidates suggested that the Reserve Bank could re-introduce a fixed exchange rate, although this would be a Government policy decision. Some marks were awarded to those who mentioned this possibility.

A number of candidates received partial marks for discussing qualitative statements by the Reserve Bank or *jawboning* up the demand for Australian dollars.

A common response stated that the Reserve Bank could use its foreign reserves to purchase Australian dollars in the foreign exchange market in order to reduce supply.

Question 22

a)   Reading from the table of figures, students earned full marks by identifying Nation X as having the absolute advantage in the production of both computers and wheat.

b)   The best responses stated either that a nation should specialise in the production of goods in which it has a comparative advantage because it would have a lower opportunity-cost in terms of the alternative foregone or that the nation would achieve greater efficiency in its resource allocation as a result of specialisation.

Less successful candidates interpreted the question as asking for the reasons for specialising in production. Such responses suggested lower production costs and improvements in productivity. These candidates received partial marks as appropriate.

c) *Comparative advantage* is a difficult concept for students to understand fully. This part of the question required candidates to calculate the relative opportunity costs for both computers and wheat in each of the two nations, *X* and *Y*. The better students correctly identified the fact that Nation *Y* had the comparative advantage in the production of computers. They calculated the correct ratios to support their answers, namely that Nation *Y* had to forego 2 units of wheat for every 1 computer (400 computers: 200 wheat) while Nation *X* had to forego 2 2/3 units of wheat for every 1 computer (800 computers: 300 wheat).

Half-marks were awarded to students who indicated correctly that Nation *Y* should specialise in the production of computers but added no explanation. Additional marks, but not full marks, were earned with further explanation but with no reference to figures.

Some responses mistakenly compared opportunity costs for producing computers and wheat *between* Nation *X* and Nation *Y*, instead of *within* each nation. These candidates did not appear to understand the concept of opportunity cost. No marks were awarded in these cases.

d) Since this part of the question asked candidates to describe two international attempts to promote free trade (and not world attempts), candidates could refer to organisations that promoted trade within their own structures while simultaneously restricting trade with organisations or nations outside their structure, so long as they were able identify *how* these organisations promoted free trade.

The better candidates identified two unilateral, bilateral, or multilateral attempts to promote free trade, pointing out the promotion of free trade through the setting of agreed targets for tariff reduction and the phasing out of subsidies and quotas. The most commonly identified organisations that were described were:

- General Agreement on Tariffs and Trade (GATT), superseded in 1995 by WTO;
- World Trade Organisation (WTO) from 1995 as a continuation of GATT;
- Australia Pacific Economic Co-operation (APEC) agreement;
- North America Free Trade Agreement (NAFTA);
- European Union (EU);
- Closer Economic Relations Trade Agreement (CERTA);
- Association of South East Asian Nations (ASEAN).

In each of the two attempts chosen for discussion, candidates could refer to member nations or to how the organisations were promoting free trade. In answers where candidates referred only to multilateral or bilateral attempts without naming specific agreements, half-marks only were awarded. Similarly, half-marks were also awarded where the attempt was listed but no description given.

The better responses outlined two of the following reasons for restricting trade: *establishment of infant industries*, *prevention of dumping, protection of domestic employment, protection from cheap foreign labour, self-sufficiency, diversification of domestic industries*, and *political considerations (eg sanctions against another nation)*.

In citing the effects of these restrictions, the better candidates discussed two from amongst the following: *inefficient allocation of resources; retaliation by other nations; loss of international competitiveness; higher domestic prices;* and *possible short term increases in domestic employment.*

Half-marks were awarded for responses which cited reasons but not effects. Three-quarter marks were awarded for responses which cited the same effect for each reason.

Weaker responses offered two *types* of trade restriction rather than two *reasons* for restricting trade and were disadvantaged in the marks accordingly.

Section III and Section IV

Essays

General Comment

Students are encouraged to answer the questions in Section III and Section 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. It does suggest, however, that students should write in full paragraphs that are treated logically and sequentially in terms of the question asked. Such a format will save students from presenting information in a fragmented and unrelated manner that does not do justice to their knowledge of economics.

The use of essay form, however, does not preclude students from using point form to answer some aspects 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 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.

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 students may take, and the subject matter used in answering the question. Marks are allocated on the basis of the impression created by the student in terms of his/her knowledge of economics and his/her use of such knowledge to answer the question asked.

Prior to actual marking, each question is **pilot-marked.** During pilot-marking, Senior Markers read a large number of scripts from different examination centres and select those scripts that best represent the full range of marks and canvass the different types of candidates' 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, with marks being allocated according to those criteria.

Each essay is double-marked on a scale of 0-9, with the final mark being converted to a mark out of 20. The following general marking guide provides a broad description of the mark range available to responses:

9   The response is among the best 5% of responses for this question at this examination. It contains clear reasoning, with explicit and scholarly argument. Illustrative examples are used to support arguments.

8 or 7   The response is above average but not among the best 5%. It is internally consistent and factually correct. Arguments are supported with relevant evidence and examples.

6, 5, or 4   The response is of average quality, somewhat descriptive but relevant to the question. It provides some useful factual data, uses sources and examples to support the answer (though in a limited way), and draws conclusions that are consistent with the arguments given.

3 or 2   The response is below average but better than the poorest 5%. It contains little use of factual data to support generalisations. Its conclusions are inconsistent with the data or argument or there are no conclusions given.

1   The response is amongst the poorest 5% of answers. There is an absence of factual data and much of the material is irrelevant, incoherent, or incomprehensible.

0   A mark of zero is given out 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.

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

• 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.

• The Supervisor of Marking monitors marks across different sections of the paper and across different Options.

• Double-marking of all responses.

• Check-marking, by Senior Markers and Check Markers, of a large proportion of scripts.

SECTION III

Essays based on Stimulus Material

Section III (Question 23 and Question 24) is based on the Higher School Certificate Core Topic in the Syllabus and focuses on economic management in terms of both policies and problems and issues. In the 1997 examination, Question 24, attracting approximately 54% of the responses, was the more popular of the two questions. As is implicitly 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. 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 students deliver some meaningful analysis of the required points, this does not preclude an examination of other points relevant to the general topic.

Question 23

Syllabus Reference

This question was drawn from the **Contemporary Macro-economic Management and Contemporary Micro-economic Management** of the 2/3 Unit (Common) Higher School Certificate Core, especially the **Objectives of Government Macro-economic Policy** Area of Study (page 38) and the **Instruments of Macro-economic Policy** Area of Study (page 38).

Excellent responses

Excellent responses were analytical in approach and covered all parts of the question. They presented historical data on unemployment and inflation, analysing the trends in the light of other problems occurring in the economy over the same time-frame. They showed a sound understanding of the tie-up between unemployment and inflation and the ongoing structural change that has occurred in Australia during the 1990s.

Excellent responses used the Friedman-Phelps expectations-augmented Phillips curve to explain the inverse relationship between unemployment and inflation, making reference to its short-term nature. These responses surveyed the traditional Keynesian and Monetarist demand management strategies for both their short-term and long-term implications. They also explained current government micro-economic and macro-economic policies, showing an obvious understanding of the government's medium and long-term goals. Recent monetary policy initiatives and the role of the Reserve Bank of Australia were highlighted, mention was made of Okun's Law in illustrating the role of economic growth in lowering unemployment, and labour market reform was touted as a long term solution to unemployment.

Excellent responses not only discussed policies undertaken in recent years but also analysed possible alternative strategies.

Above Average Responses

Above average responses covered all parts of the question. They discussed trends in unemployment and inflation since 1990, defining both terms without becoming sidetracked into a discussion of their types.

In these responses candidates drew on Phillips Curve analysis and discussed the ways in which demand management macro-economic policies could be used to reduce unemployment through an expansion of the economy or to reduce inflation through a contraction of the economy. They pointed out the trade-off nature of the relationship as described by the Phillips Curve and the inherent difficulties of reducing unemployment and inflation simultaneously. Above average responses also discussed the lowering of unemployment and inflation in the context of micro-economic policies such as labour market deregulation and other attempts at micro-economic reform.

Average Responses

Average responses tended to be definitional rather than analytic and included irrelevant information, such as the *types* of unemployment and inflation. Students used statistics to explain trends in unemployment and inflation in Australia since 1990, but were unable to analyse satisfactorily the reasons for these trends.

In such responses candidates used the Phillips Curve to show the inverse relationship between unemployment and inflation. They failed, however, to expand on the implications of this relationship for government economic policy. Policy measures discussed were largely restricted to fiscal and monetary policies, with, in some instances, a brief reference being made to micro-economic policy. Generally, average responses were based on a limited knowledge of economics and relied heavily on the stimulus material.

Question 24

Syllabus Reference

This question was drawn from the **Contemporary Macro–economic Management, Contemporary Micro–economic Management,** and **The International Context for Economic Management** of the 2/3 Unit (Common) Higher School Certificate Syllabus Core, especially the **Objectives of Government Macro–economic Policy** Area of Study (page 38) and the Instruments of Macro-economic Policy Area of Study (page 38), and the **Balance of Payments Issues** Area of Study (page 36).

General Comment

The stimulus material directed students to a discussion of the strategies which might be used to lift National Saving, with an emphasis on the fiscal consolidation measures aimed at increasing public saving. A graph of the current account balance invited students to analyse any problems that might be reflected there. On the whole, unfortunately, there was little evidence of judicious use of the stimulus material by the candidates.

Excellent Responses

Excellent responses featured clear, accurate, and detailed understanding of the meaning of fiscal policy in its current economic context. This included current budget data and intent. These responses focused on each part of the question and demonstrated clearly the logical connections between the discussion points. They explained the Current Account Deficit, savings-investment gap, and twin deficits theory, and proffered critical appraisal of government measures to increase national saving.

In these responses candidates were able to examine fiscal policy as part of a policy mix aimed at the external problem. Some examined potential conflicts, including the lag problem, arising out of the current fiscal/monetary policy mix. These responses acknowledged the problem of reducing unemployment in the context of lower economic growth.

Above Average Responses

Above average responses covered all parts of the question well, though in-depth analysis of the relationship between the current policy stance and its impact on the external sector was not always mentioned in detail. These responses were based on knowledge and made good use of accurate statistics to support their analyses.

Average Responses

Most average responses focused on the first discussion point, often displaying sound knowledge of fiscal theory. In most cases, however, candidates had difficulty in applying this theory to the government's current fiscal stance. Little use was made of supporting statistics and the third discussion point was generally covered inadequately.

SECTION IV

Options

The following table shows the relative popularity within each option and between options. **Labour Economics** with 75% of the candidature was easily the most popular option. This contrasts with **Economics of Primary Industries** which attracted only 9% of the candidature.

Popularity of Options and Questions

Option	% of Candidature	Question	% of Option
Labour Economics	**75%**	**25**	**54%**
		26	**46%**
Industry Economics	**28%**	**27**	**32%**
		28	**68%**
Development Economics	**49%**	**29**	**73%**
		30	**27%**
Economics of Primary Industries	**9%**	**31**	**64%**
		32	**36%**
Distribution of Income and Wealth	**33%**	**33**	**57%**
		34	**43%**

Labour Economics

EITHER

Question 25

What are the determinants of the supply of labour to firms and the economy as a whole? Discuss how participation rates can affect this supply of labour. Explain government policies that have affected labour supply over the last few years.

Syllabus Reference

> The first and second parts of this question were drawn directly from the **Supply of Labour** Area of Study (page 43). The third part was drawn from the **Institutional Aspects of the Domestic Labour Market** Area of Study (page 44).

Excellent Responses

Excellent responses were characterised by accurate and detailed discussion of all parts of the question. They generally offered a clear definition of the labour supply. At the macro-economic level, the determinants of labour supply were examined in terms of population size, working-age population, and labour-force participation rates. At the micro-economic level, factors discussed included wage levels, training, experience, mobility, working conditions, education, and the disincentives associated with the tax system.

These responses provided detailed discussion of the effects of participation rates on the labour supply. Detailed analysis was couched in terms of recent trends in female participation, retention rates, early retirement, and increasing opportunities for part-time work.

In the last part of the question, such responses included detailed discussion of the effects on the labour supply of a range of government policies, including the impact of micro-economic stabilisation policies on hidden unemployment, changes to the wage determination system, labour market training programs, incentives/disincentives for further education and training, and legislative measures such as EEO, affirmative action, and anti-discrimination.

Above Average Responses

Above average responses answered all parts of the question, but were less analytical and more descriptive than the excellent responses. Supporting evidence from the Australian experience was used but not as extensively as in the excellent answers.

Macro-economic and micro-economic determinants of the labour supply were generally well discussed. These responses showed a good understanding of the link between participation rates and the supply of labour. Explanation of the effects of government policies on the participation rate focused on the pro-cyclical movements of participation rates in line with business cycle stabilisation policies and the impact of labour market programs.

Average Responses

Average responses tended to be descriptive rather than analytical. Macro-economic and micro-economic determinants were described but only limited explanation was provided.

Students seemed to possess sound knowledge of labour-force participation rates but were able to provide only very little discussion of their effects on labour supply.

The last part of the question elicited only minimal explanation of the effects of government policy on the supply of labour. Job retraining and *Work for the Dole* schemes were popular policies discussed. The poorer responses indulged in irrelevant descriptions of the changes in the Accord system throughout the eighties and nineties.

OR

Question 26

Outline current government labour market policy. How has this policy affected the role of institutions in the labour-market? Discuss the implications of this policy on wage and employment outcomes.

Syllabus Reference

> The first and second parts of this question were drawn from the **Institutional Aspects of the Domestic Labour Market** Area of Study (page 43). The third part was drawn from the **Labour Market Outcomes** Area of Study (page 44).

Excellent Responses

Excellent responses tended to be characterised by the ability of the candidates to link all three parts of the question. These responses outlined present government labour market policy, giving a clear description of the 1996 Workplace Relations Act including a discussion of its intended purpose. They explained Enterprise Bargaining, Enterprise Agreements (Certified Agreements and Australian Workplace Agreements), and the Safety Net. They identified and explained succinctly the long-term trend in labour-market policy from the Accord through the Federal Industrial Relations Reform Act (1993) to present day policy.

In these responses candidates effectively linked government labour market policy to the diminishing role of unions, the changing role of the IRC, and employer associations. They frequently drew on case studies and relevant examples to support their arguments.

They also gave a theoretical underpinning to the effects of labour market policy on wages and employment. Analyses included discussion of the link between wages and productivity, increased flexibility in the labour market, increased efficiency in resource allocation, and improvements in international competitiveness and the Current Account deficit. These responses invariably linked micro-economic reform of the labour market to macro-economic issues of aggregate demand, Current Account deficit, and foreign debt.

Excellent responses discussed work practices such as changes to occupational distribution, and working conditions. They identified labour market programs and their implications for the quality of the labour supply. These responses also identified problems with the current system, for example the trading off of working conditions for wage rises and the potential for inequality between incomes.

Above Average Responses

Above average responses addressed all parts of the question. These responses showed a sound knowledge of government labour market policy and were able to describe both how the policy affected the role of institutions in the labour market and what implications the policy might have for wages and employment outcomes. These responses, however, though adequate, lacked deep analysis.

Average Responses

Average responses identified and discussed each part of the question. They over emphasised the first part of the question, however, with some candidates presenting an obsolete dissection of the various versions of the Accord. In these responses candidates generally pointed out the trend to decentralisation but were frequently confused over the details of the three tiers of the current wages policy. They identified just one or two implications of labour market policy on wages and employment outcomes, amongst them employee flexibility, the $10 Safety Net rise, and the continuing high level of unemployment.

Industry Economics

EITHER

Question 27

Why is there a high degree of seller concentration in many Australian markets? What problems may arise from highly concentrated markets? Explain how government policy may lead to reduced seller concentration. Use examples to illustrate your answer.

Syllabus Reference

> The first and second parts of this question were taken from the **Market Models Area** of Study (page| 46). The third part was taken from the **Government Policies** Area of Study (page 46).

General Comment

The first and second parts of the question tended to be the discriminators here, as most responses had something valid to say about the last part.

Excellent Responses

Excellent responses defined seller-concentration through reference to the Australian context. They suggested reasons as to why this high degree of seller-concentration occurs in Australia, citing, amongst others, economies of scale, history, government policy and regulation, Australia's isolation, and, as a consequence, Australia's small market.

In these responses candidates discussed the problems of highly concentrated markets such as monopolies and oligopolies in terms of decreased productivity and efficiency (especially allocative and dynamic), misallocation of resources, higher prices, reduced supply, less initiative

for research and development, supernormal profits, and deadweight loss to society.

Above Average Responses

Above average responses defined seller concentration, giving one or two examples, but either failed to explain it fully or described only the reasons for its existence in many Australian markets. Their discussions on the problems of highly concentrated markets were short and lacked explanation. They did not mention market structures but, instead, looked at descriptive factors such as high prices and large profits without providing analysis. These responses tended to answer the last part of the question well, covering all the points made by the excellent responses.

Average Responses

Average responses were often confused by the meaning of the phrase *high degree of seller concentration*, even to the point of thinking that it referred to a lot of sellers. These responses gave one or two reasons for high seller-concentration but no examples. The second part of the question was poorly handled, with either very basic discussion of the problems or descriptive examples of Australian markets. Some responses merely looked at the problems firms face in these markets. The majority had some good points to discuss but provided little detail and did not refer to specifics such as Hilmer or regulating bodies such as the Australian Competition and Consumer Commission (ACCC). On the whole these responses were descriptive rather than analytical.

OR

Question 28

Outline the pricing and output policy for a firm maximising profit in monopolistic competition. How does this policy differ from that of a monopolist? Explain why and how governments might influence the pricing and output decisions of firms in less than perfectly competitive markets.

Syllabus Reference

The first and second parts of this question were taken from the **Firm and Market Models** Areas of Study (page 46). The third part was taken from the **Government Policies** Area of Study (page 46).

Excellent Responses

Excellent responses analysed and compared the conduct of monopolistic competitors, examining monopolists in both the short term and the long term. Their diagrams were technically excellent and they incorporated sound explanations of the mechanisms involved. They referred to the technical and allocative inefficiences in each model as a lead into the last part of the question relating to government intervention. Current examples relating to competition and industry policy backed up the arguments. These responses mentioned the Hilmer Report, the role of the Australian Competition and Consumer Commission (ACCC), the National Competition Council (NCC), and the privatisation or corporatisation of Government Business Enterprises (GBE), all under the umbrella of micro-economic reform.

The ability of candidates to write succinctly, to incorporate a comparison of the models into their essays, and to provide depth of analysis in respect of arguments for or against government intervention indicated the excellence of these responses.

Above Average Responses

Above average responses tended to cover all aspects of the question but did not strike the same balance of treatment as was evident in the excellent responses. Diagrams were accurate, with explanations that displayed a solid understanding of the specific theory. The *why* and *how* of government intervention were not as well expressed and did not canvass the same full range of interventions as the excellent responses.

Average Responses

Average responses discussed all parts of the question but tended to be descriptive in nature rather than analytic. Diagrams were very basic, with the long run position for each model often not being drawn. Discussion of the range of policy initiatives was limited and tended to be shallow, while the *why* of government intervention was often ignored.

Development Economics

General Comment

In 1997, the standard of responses to the Development Economics questions was generally good, revealing an improved understanding of the real economic problems facing less developed countries. They were more specific in detail and less inclined to rely on the broad social generalisations that characterised many answers in this option some years ago. Students showed more sensitivity to the issues involved and greater awareness of the complex nature of economic development.

EITHER

Question 29

Outline problems faced by developing nations in attaining higher standards of living. Discuss TWO strategies by which economic development can be achieved. Explain the costs and benefits of economic development.

Syllabus Reference

The first part of this question was drawn from both the **Nature and Source of Economic Growth** and the **Nature of Economic Development** Areas of Study (page 48). The second and third parts were drawn from the **Strategies for Growth and Development** Area of Study (page 49).

Excellent Responses

Though not explicitly asked to do so by the question, in the excellent responses candidates drew on case studies and other examples in order to support their arguments.

Their responses showed an awareness of the fact that economic growth was not always easily converted into higher living standards. They focused on problems such as population growth, income distribution, the role of transational corporations, and trade imbalance that specifically obstruct this process.

Strategies for development were explained with particular reference to the economic reasoning behind such strategies. Costs and benefits were both dealt with in the final part of the question, with students displaying a knowledge of both economics and related social issues.

Above Average Responses

Above average responses showed a thorough knowledge of the problems facing less developed countries in attaining higher standards of living but did not always relate them to the distinction between *growth* and *development*. Strategies for development were explained and illustrated by real examples and programs. The costs and benefits of development were correctly identified, though often given only brief treatment.

Average Responses

Average responses answered all parts of the question though in no great detail. They tended to list just a few problems or to state the characteristics of less developed countries as an answer to the first part of the question. Suggested strategies were often limited to only one (usually population control) and they did not include detailed economic reasoning or discussion. In these responses candidates discussed the final part of the question very briefly, curiously often **ignoring benefits** while **focusing on costs**. Examples and case studies tended to be out-dated.

OR

Question 30

What are the main differences between developed and developing nations? To what extent can the differences in economic performance of these two groups be explained by problems specific to the developing nations? How can global equality be promoted? Use examples to illustrate your answer.

Syllabus Reference

> The first and second parts of this question were drawn from the **Nature of Economic Development** Area of Study (page 48). The third part was drawn from the **Strategies for Growth and Development** Area of Study (page 49).

Excellent Responses

Excellent responses clearly distinguished between developed and developing countries by referring to economic growth rates, income levels, structural weaknesses, and social characteristics. In these responses students supported their arguments through the use of statistics and specific examples that were drawn from a wide range of countries.

In the second part of the question, such responses focused on structural weaknesses, especially as they related to a narrow export base, poor infrastructure, long term current account problems, heavy reliance on imports, and low domestic savings with attendant foreign borrowings and external debt. These responses also raised the implications of severe external imbalance for investment, exchange rate stability, interest rates, and price stability in developing countries. The very best incorporated quotations from the World Bank and other relevant organisations. In discussing structural weaknesses, some candidates presented a case study, giving a *cause and effect* analysis rather than just describing the weaknesses.

In such responses candidates discussed a comprehensive range of strategies designed to promote global equality. Issues ranging from foreign aid/loans through to the promotion of self-help programs were covered. Responses featured discussion of the reduction in trade barriers and the role of organisations such as GATT (General Agreement on Tariffs and Trade) and the WTO (World Trade Organisation).

Above Average Responses

Above average responses were able to distinguish between developed and developing countries but their discussions were relatively short and less confident in their analyses than the excellent responses. These responses tended to proceed quickly into the second part of the question, a discussion on the specific problems faced by developing countries. The last part of the question was given balanced treatment, with foreign aid/loans and free trade being mentioned. Arguments were backed with useful examples and statistics. These responses, however, tended to be descriptive rather than analytical.

Average Responses

Average responses discussed only briefly the main differences between developed and developing countries. The concept of global equality was dealt with superficially, with discussion seldom ranging beyond foreign aid and *hard* and *soft* loans. Limited use was made of examples and statistics. These responses generally appeared to be prepared answers that tended to be descriptive and confined their analyses to the social characteristics of over-population, illiteracy, birth/death rates, unemployment, and health issues.

Economics of Primary Industries

EITHER

Question 31

What is the contribution of primary industries to the Australian economy? Explain the domestic and international problems that confront Australia's primary industries. Discuss government policies designed to overcome these problems.

Syllabus Reference

The three parts of this question were drawn from all three Areas of Study the Nature and Importance of Primary Industries, Agriculture and Mining (pages 51 and 52).

Excellent Responses

Excellent responses were characterised by the use of recent, accurate statistics, sound economic reasoning, and an in-depth coverage of all parts of the question. Drawing on accurate data, these responses showed the magnitude of recent changes in the fortunes of Primary Industry, acknowledging the decline in the relative contribution that Primary Industry is making to Australia's Gross Domestic Product (GDP) but highlighting its continuing importance for Australia's export receipts.

Excellent responses canvassed a wide variety of domestic and international problems as they impinge on the primary sector. Problems raised included seasonality, cost pressures, increasing farm debt, Native Title, high investment costs, export price volatility, industrial disputation, and the protectionist policies of the USA and the European Union (EU). These responses gave a very good coverage of possible government policies aimed at rectifying these problems. Policies discussed included the provision of infrastructure, research and development funding, attempts to promote free trade, and appropriate macro-economic and micro-economic measures designed to maintain a non-inflationary environment.

Above Average Responses

Above average responses generally covered the first and second parts of the question quite well. They provided accurate statistics to show the contribution of primary industries to GDP, exports, employment, and investment. Problems and government policy responses were set out clearly but lacked the depth of the excellent responses.

Average Responses

Average responses tended to concentrate on the first and second parts of the question only. They were more anecdotal in nature and the statistics used were not always relevant. The coverage of problems and responses was broad but lacked depth. Some students concentrated on either agriculture or mining, but did not deal with them as part of the total primary sector.

OR

Question 32

Why do the prices of agricultural products tend to be unstable? What are the implications of this price instability for the agricultural sector and for the economy as a whole? How could the Australian Government stabilise agricultural prices? Use examples to illustrate your answer.

Syllabus Reference

The three parts of this question were drawn from the **Nature and Importance of Primary Industries and Agriculture** Areas of Study (pages 51 and 52).

Excellent Responses

Excellent responses were characterised by the ability of candidates to discuss all parts of the question thoroughly, supporting their analyses with relevant and current statistics. They provided a very good coverage of the main demand and supply factors that contribute to unstable agricultural prices, including inelasticity of demand, seasonality, protectionism, and increasing production costs. On the whole, they had a solid grasp of the main issues, using theoretical and graphical analysis such as supply and demand graphs and the cobweb theorem to support their arguments.

Here candidates clearly indicated the implications of price instability for both the agricultural sector and the economy as a whole. Implications discussed included Balance of Payment, exchange rates, and the uncertainty of farm income and attendant multiplier effects on the economy.

These responses gave a detailed and relevant outline of possible government policies designed to deal with the issue of price instability. Policies canvassed included the idea of marketing boards and rural support schemes as well as current micro-economic reforms aimed at overcoming structural inefficiencies associated with the agricultural sector. These responses pointed out the benefits to Australia of increasing the size of its markets and of pursuing anti-protectionist policies, thereby stabilising prices and incomes. The roles of WTO and APEC was discussed, especially in respect of achieving these aims for Australia.

Above Average Responses

Above average responses answered all parts of the question. They discussed the causes of unstable prices quite well and treated government policy responses well. These answers, however, were distinguished from excellent answers by their quality. Whilst covering the different parts of the question adequately, they lacked the depth and breadth of the excellent answers. Occasionally, these candidates tried the *scattergun* approach to answering the question, providing as much information as they could, hoping to *hit* the right answer, but frequently providing irrelevancies.

Average Responses

Average responses covered all parts of the question but they lacked the breadth and depth of the excellent and above average responses, tending to be descriptive and suggesting the possibility of prepared answers. They also contained much information that, whilst related to the agricultural sector, was not relevant to the question asked. Such responses were largely discriminated from the better responses by their lack of quality in the last part of the question.

Distribution of Income and Wealth

EITHER

Question 33

Describe the distribution of income in Australia. How do market factors influence this distribution? What are the arguments for and against governments attempting to influence the distribution of income?

Syllabus Reference

The three parts of this question were drawn from the three Areas of Study—**Personal Wealth and Income in Australia, Factors Influencing Distribution, and Government Policies towards Redistribution**, (pages 54 and 55).

General Comment

In answering questions on the distribution of income and wealth, students must discipline themselves not to become carried away on a philosophical approach which tends to colour their treatment of the issues.

Excellent Responses

Excellent responses adopted a variety of approaches. Their analytical skills and the various economic tools of measurement used were exceptional. Using diagrams such as the Lorenz Curve and/or the Gini Coefficient together with accurate and relevant statistical information, these responses reflected an outstanding knowledge of income distribution in Australia. Candidates referred to the sources of income for various income groupings and correctly identified groups negatively affected by the income distribution pattern. The distinction between *income* and *wealth* was clearly established as was the role wealth plays in determining income.

Such responses were comprehensive in their treatment of the influence of market factors on income distribution. Referring to factors such as labour mobility, industrial relations policy, the impact of globalisation, the level of economic activity, the level of unemployment, and structural adjustment, these responses suggested that market forces create income inequality.

These responses included a coherent and well reasoned exposé of the arguments for and against government intervention so as to influence the distribution of income. Measures such as taxation policy, labour market programs, education, and industry assistance were discussed.

Above Average Responses

Above average responses stated clearly that the distribution of income in Australia is not equal. They provided statistical and graphical evidence to support their position, identifying income distribution across occupation, age, family structure, and so on, and discussed the market factors that led to this imbalance. Above average responses proffered arguments for and against government intervention in income distribution but their arguments lacked the depth of the excellent responses.

Average Responses

Average responses attempted all parts of the question. They gave a brief definition of income, described its measurement via the Lorenz Curve and Gini Coefficient and included relevant statistics and a general indication of the groups most negatively affected by income distribution.

These responses provided a superficial treatment of the market forces. Candidates showed general understanding of how a market operates and frequently used appropriate graphs, but they did not link this understanding to the question. Their answers tended to adopt a view, attacking the question rather than analysing the arguments for and against government intervention. On the whole, these responses showed limited evidence of wider reading.

OR

Question 34

How can poverty be measured? What groups are most likely to be affected by poverty? Discuss the policies available to governments to reduce poverty. What problems are associated with such policies?

Syllabus References

The three parts of this question were drawn from the three Areas of Study—**Personal Wealth and Income in Australia, Factors Influencing Distribution, and Government Policies Towards Redistribution**, (pages 54 and 55).

Excellent Responses

Excellent responses accurately distinguished between the terms *absolute poverty* and *relative poverty*. They showed a thorough understanding of the concept of the poverty line and the limitations of its use. Referring to a range of market, social, and institutional factors, these responses provided an extensive explanation of why some groups, among them single parents, the aged, migrants from non-English-speaking backgrounds, Aborigines, the unemployed, and unskilled workers, are most likely to live in poverty.

Excellent responses provided a comprehensive analysis of current macro-economic and micro-economic policies designed to alleviate poverty in Australia. Most discussions included the progressive nature of the tax system, transfer payments, non-cash benefits such as public housing and subsidised health, anti-discrimination legislation, labour market programs, the Safety Net function in industrial awards, and the provision of community services. Candidates paid appropriate attention to the economic and social problems arising from these government policies, for instance, discussing the 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 established a clear link between income inequality and poverty, with measurement tools being supported by statistical evidence. These responses identified the groups most likely to experience poverty and discussed contributing factors. A range of government policies were discussed, but little reference was made to related problems.

Average Responses

Average responses clearly distinguished between *absolute poverty* and *relative poverty*. Frequent reference was made to the Lorenz Curve, the Gini Coefficient, and the Henderson Poverty Line as measurement tools but these concepts were discussed only superficially. Candidates identified some groups that are more likely to be affected by poverty. The treatment of government policies was very limited and the associated problems were largely ignored.

3 UNIT (ADDITIONAL)

The following table shows the popularity of the options and questions available to 3 Unit (Additional) candidates. **Income and Expenditure Analysis**, at 68% of the candidature, continues to attract the most candidates.

Option	% of Candidature	Question	% Option
Environmental Economics	36%	1	68%
		2	32%
Income and Expenditure Analysis	68%	3	49%
		4	51%
Comparative Economic Systems	42%	5	61%
		6	39%
Evolution of Economic Ideas	54%	7	70%
		8	30%

At 25% of the total Economics candidature, some 1742 students, 3 Unit (Additional) continues to show a relatively strong participation rate. The quality of responses continues to be impressive. They tend to be more analytical, though, in some instances in 1997, there was evidence of prepared responses.

As is the case with 2/3 Unit (Common), essays in 3 Unit (Additional) are impression-marked and ranked on a scale of 0-9. Teachers and students should be mindful of the impact on the discrimination between responses of the conversion of a mark out of 9 to a mark out of 25. In 1997, all 3 Unit markers had previously taught the 3 Unit option to which they had been assigned.

Environmental Economics

EITHER

Question 1

Discuss the limitations of the price mechanism in relation to environmental issues. Explain government policy responses that are available in addressing these limitations. Refer to studies of environmental issues in your answer.

Syllabus Reference

The first part of the question was drawn from **the Price Mechanism** Area of Study (page 65). The second part was drawn from the governmental environmental policy Area of Study (page 65).

Excellent Responses

Excellent responses were well structured, technically correct and logically sequenced. These responses showed a thorough understanding of the concept of market failure and the issues related to government policies. In them, candidates explained the nature and causes of market failure, often illustrating their responses with examples. The associated issues of property rights, social and private costs and benefits, quasi-public goods, free riders, and externalities were discussed, while effective use of diagrams was made.

Excellent responses noted that zero opportunity costs led to externalities and that, as markets allocated resources inefficiently, market failure occurred. Their analyses drew upon illustrations of social vs private costs, abatement costs, and market failure.

These responses linked both the need for government intervention in addressing environmental issues and the inadequacies of the price mechanism in providing the level of environmental quality deemed desirable by society. Several policies were discussed and evaluated for their effectiveness. References were frequently made to: pricing policies, subsidy and taxation policies, abatement expenditure resulting in lower pollution levels, traceable permits, environmental legislation and the Environmental Impact Statement (EIS) as an attempt to find a non-monetary solution through cost-benefit analysis, and public education programs. Some responses also projected to future-generation analysis, linking present policy need to future outcomes.

These responses were familiar with a variety of case studies such as: Coronation Hill, BHP, and pollution emission levels. They compared the effectiveness of such policies to their case studies and made appropriate references throughout the essay.

Above Average Responses

Above average responses tended to concentrate on explaining market failure and characteristics of public goods, quasi-public goods, free-riders, and externalities. Pareto or Social Optimum and Opportunity Cost models were effectively used. Here candidates tended to concentrate on pricing policies, such as taxation and subsidies, as the Government's main tools for dealing with market failure. Little discussion took place on other methods.

Whilst above average responses referred to case studies, these were often discussed as an afterthought and not integrated into the response. Some case studies were dated and therefore less impressive, eg Gordon/Franklin Dam and the M5 Tollway.

Average Responses

Average responses tended to list and define key terms and were able to use them appropriately in discussing market failure. They argued that, in order to solve market failure, the government needed to find a solution to the problem, usually via a tax or subsidy. Some responses introduced lengthy discussion on the cost-benefit analysis underpinning market failure. Here case studies were drawn out, tending to be descriptive, largely irrelevant, and dated. Some responses, however, omitted case studies altogether.

OR

Question 2

What is the relationship between the environment and economic growth? What are the implications of economic growth for renewable and non-renewable resources? Explain why environmental resource management is an important economic issue in Australia today. Use current environmental issues to illustrate your answer.

Syllabus Reference

The three parts of the question were drawn from the economic aspects of the **Environmental Issues** Area of Study (page 65).

Excellent Responses

Excellent responses were based on a sound understanding of the relationship between economic growth and the environment. Discussion tended to centre on the role of the environment as a provider of resources while diagrams showing the trade-off between the environment and economic growth were frequently used. These responses also examined the role of the environment as a source of amenities and a receptacle for waste. Examination of the issue of sustainable development provided a link to the second part of the question.

These candidates showed a clear understanding of the concepts of renewable and non-renewable resources. Issues of depletion, exploitation, conservation, and preservation were appropriately discussed. Such responses also provided comprehensive discussions of the reasons for the significance of resource management issues and included references to factors such as market failure, the influence of *Green politics*, equity, high living standards and international treaty obligations. Examples of current environmental issues were used to support discussion.

Above Average Responses

Above average responses reflected a clear understanding of the relationship between economic growth and the environment. These responses focused on the role of the environment as a provider of resources and examined the trade-off between growth and the environment. The concepts of renewable and non-renewable resources were well explained and the issues of depletion, exploitation, conservation, and preservation were discussed, with appropriate examples being used.

Above average responses took a less analytical approach than the excellent responses when explaining why environmental resource management is an important issue. Some digressed into discussion of policy instruments, seeking to explain *how* rather than *why* governments have been required to deal with resource management issues.

Average Responses

Average responses provided limited discussion of the relationship between economic growth and the environment. These responses generally treated the relationship as a trade-off between *growth* and its demand for resources and the *environment* as a supplier of resources. Discussion of the concepts of renewable and non-renewable resources was generally good, with appropriate examples being provided.

There was a tendency for average responses to provide a very general account of resource management. Explanation of the reasons for resource management as an issue was limited and reasons given were generally restricted to one or two issues such as inter-generational equity, pollution, or a specific mining or forestry controversy. Digression into a description of government policies was also common.

Income and Expenditure Analysis

EITHER

Question 3

Outline the determinants of both consumption and investment. Explain how both consumption expenditure and investment expenditure influence the equilibrium level of output through the multiplier process.

Syllabus Reference

The two parts of this question were drawn from the simple **Income-Expenditure Model** Area of Study (page 67).

Excellent Responses

Excellent responses revealed exceptional analytical and reasoning skills. In them, candidates approached the question in many ways, yet successfully covered all elements of it. The challenge for markers was to differentiate between those who achieved 9 and those who received 8. Many excellent responses included more information than was necessarily required to answer the question. These responses distinguished themselves by the intelligent use of logical reasoning and exposition when treating each aspect of the question.

Excellent responses discussed the determinants of consumption and investment. Many mentioned the accelerator theory, showing their knowledge of the process, and were able to link this successfully to a detailed exposition of the multiplier theory.

These responses accurately applied the use of algebraic formulae and graphs to appropriate parts of the question. The influence of consumption and investment on the equilibrium level of output was illustrated through the use of graphs and formulae together with appropriate analysis.

Although the question suggested an explanation of the Three Sector Model, excellent responses applied the use of the Five Sector Model and clearly showed the impact of the multiplier on the level of aggregate output. These responses gave evidence of wider reading and used practical examples of changes to consumption and investment, thereby giving theory a sense of practicality.

Above Average Responses

Above average responses clearly outlined the determinants of consumption and investment, giving an adequate analysis of each and clearly identifying the impact of both induced and autonomous expenditure changes on the equilibrium level of output.

Above average responses used the three sector model to demonstrate the theory. They gave a clear algebraic and graphical explanation of the multiplier effect and covered all sections of the question comprehensively, with sound use of language and reasoning skills.

Average Responses

Average responses covered each section of the question, albeit at a superficial level. These responses sometimes were a little confused in their reasoning. They used graphs but showed a limited understanding of what they were demonstrating. Whilst the algebra was evident, it was not comprehensive.

In these responses candidates showed that they had a fair understanding of the question but lacked the necessary depth of knowledge to treat all aspects comprehensively. Generally, in such responses, candidates explained the equilibrium level of income theory but their ability to discuss the changes to consumption and investment was poor. The concepts of induced and autonomous investment were largely omitted.

OR

Question 4

Describe the main phases of the business cycle. What are the reasons for fluctuations in the level of economic activity? Discuss the policies that can be used to reduce these fluctuations, and explain the limitations of such policies.

Syllabus Reference

> The three parts of this question were drawn from the **Fluctuations in the Level of Income Output and Employment** Area of Study (page 69).

General Comment

The standard for this question was generally very good, with most candidates clearly understanding the concept of the Business Cycle and the aspects of economic analysis that relate to it. Many were well prepared for the question and dealt with it most comprehensively.

Excellent Responses

Excellent responses incorporated into all parts of the question clear analysis and good use of diagrams, formulae and graphs to illustrate their points. In these responses candidates showed clearly that changes in aggregate demand cause fluctuations in the business cycle through both the multiplier and the accelerator. Other explanations and theories for business cycle fluctuations were mentioned, including technological change, exogenous shocks, and economic mismanagement.

Counter-cyclical policies were discussed and explained with reference to the recent Australian experience. Automatic stabilisers were referred to. Excellent responses devoted some time to an explanation of the limits for countering cyclical policies, mentioning crowding out, time lags, and the respective Keynesian vs Monetarist positions apropos demand management of the economy.

Above Average Responses

Above average responses answered all parts of the question adequately but tended to be more descriptive than analytical. Some responses devoted more space to a description of the business cycle and to the macro-economic policy section and less to the more analytical second part of the question which sought explanations of the business cycle.

Average Responses

Average responses usually answered the first part of the question well but dealt only briefly with the causes of economic fluctuations. Such responses tended to draw diagrams or use formulae, but did not discuss them in the body of the text.

In these responses candidates were able to identify the counter-cyclical policies used by governments but at a more basic level than the better responses. Discussion of the limitations of these policies was either brief (time lags only) or non-existent.

Comparative Economic Systems

EITHER

Question 5

What are the functions of an economic system? Discuss the reasons for the variety of economic systems. Why has there been a convergence of economic systems over time? Use case studies to support your answer.

Syllabus Reference

The first and second parts of this question were drawn from the **Economic Systems** Area of Study (page 71). The third part was drawn from the **Comparative Economic Systems: a Review** Area of Study (page 73).

Excellent Responses

Excellent responses listed the functions of an economic system and explained them, using examples of one case study.

In the second part of the question, these responses noted and discussed the fact that traditional, cultural, political, and economic factors were the reasons for the variety of economic systems. They provided specific examples, drawing on any of the case studies in this part, eg advanced countries or newly industrialised countries.

Here candidates examined *convergence* by, firstly, defining what it meant, secondly, using case studies to highlight it, thirdly, describing *convergence theory*, eg Galbraith, and finally, by relating examples and case studies. Inclusion of theory was not essential for a response to be considered excellent, but candidates who did include theory generally came into the excellent category.

Above Average Responses

Above average responses listed the functions of an economic system, but provided explanations that failed to relate these functions to a case study.

In discussing the reasons for the variety of economic systems, these responses tended to devote too much of their time to the case study rather than giving the reasons for the existence of such systems. Although the information given was correct, it was not always relevant to the question.

Above average responses coped well with the third part of the question, although, here, candidates showed some confusion over the use of the term *over time* in the question.

Average Responses

Most average responses tended to be case studies, giving the functions of one economic system but little in the way of an explanation. They rarely gave reasons for the variety of such systems, choosing, instead, to explain and define each of the different types of economic systems.

Convergence was often done well but, again, concentration was on the case studies.

OR

Question 6

Discuss the organisational framework and planning practices in socialist economies. Explain the problems encountered when a country tries to make a transition from central planning to a market based economy.

Syllabus Reference

The first part of this question was drawn from the **Socialist Economies** Area of Study (page 72). The second part of this question was drawn from the **Former Socialist Economies** Area of Study (page 73).

Excellent Responses

Excellent responses clearly described the organisational framework and planning practices of socialist economies. They did this by referring to a selected economy and comparing practices in different economies as suggested by the question.

These responses linked planning practices with problems that they caused, leading to a change in a market-based economy. They were able to relate numerous problems that arose in the transition period and described their impact on these economies. By examining the problems in detail, excellent responses were able to indicate that improved performances were often unequally shared by the peoples affected. The problems they listed included rising unemployment and inflation, increasing inequality of incomes, and poverty on a scale not previously experienced. They also analysed the change to a more open economy and how this would often produce a growing Current Account deficit and foreign debt. The problems of macro-economic and micro-economic management were frequently discussed, as well as the social problems of increasing crime.

Above Average Responses

Above average responses showed some weaknesses in addressing the first part of the question on framework and planning practices, failing, however, to go into the same depth of detail as the excellent responses, preferring to give more attention to the problems of transition. These responses tended to be descriptive in their discussion of problems, failing to analyse why such problems should arise.

Average Responses

Average responses discussed the role of planning in socialist economies but most failed to cover the issue of organisational framework adequately. These responses considered a number of problems but lacked depth in their understanding or explanation. Some candidates appeared to have read the first part of the question which asked for the functions of an economic system and decided to describe these without really knowing how to use such information to deal with the issues of organisational framework and planning practices.

Evolution of Economic Ideas

EITHER

Question 7

Explain the basis on which Keynes criticised classical theory. How has the Keynesian approach influenced subsequent economic thought?

Syllabus Reference

The two parts of this question were drawn from the **Classical Foundation, Neoclassical Economics, and the Keynesian Revolution** Areas of Study (pages 75 and 76).

Excellent Responses

Excellent responses answered both parts of the question well, clearly indicating the basis of Keynes' criticism of classical theory rather than simply describing his theories. Reform and stabilisation of capitalism, analysis of the economy's output as a whole, and the distinction, now, between savers and investors were well developed concepts behind Keynes' criticism. The importance of the notion of *ex ante* and the speculative motive for holding money were identified. These responses successfully explained how Keynes, who had no argument with it while full employment existed, based his criticism of classical theory on the possible long term equilibrium position being at a point of high unemployment.

When analysing Keynes' influence on subsequent economic thought, excellent responses identified the Great Depression as vindication of Keynesian Theory. They analysed the subsequent use of fiscal policy to fine-tune economies, often using well developed diagrams. In these responses candidates showed the importance of Keynes' identification of macro-economic management as being a major influence on economic thought.

The importance of Keynes' identification of the volatility of investment, the role of expectations, and the multiplier were well analysed, while Keynesian analysis was shown as being the starting point for macro-economic policy today. Many candidates proceeded to discuss the development of Keynesian thinking by successive economists.

Above Average Responses

Above average responses generally answered both parts of the question but in less detail than the excellent responses, tending to be more descriptive and less analytical. These responses discussed Keynes' criticisms of Say's Law, in the classical analysis of the labour market.

In the second part of the question, these responses discussed the influence of Keynes' work on government policy, though not at length. Very few were able to mention the effect of Keynes' work on post-war economists. Most responses at this level dealt at length with the central issues raised by the question, supporting their arguments with relevant diagrams.

Average Responses

Average responses failed to answer the question asked but were able to describe the basis of classical theory, eg Say's Law and the role of interest rates. The Keynesian theory that *aggregate demand determines unemployment* was adequately explained as were deflationary/inflationary gaps.

The second part of the question was very poorly answered, with many responses relating Keynesian style policy to deficit budgets. Here students often expressed the erroneous idea that Keynesian theory has now been proven wrong and has become irrelevant.
OR

Question 8

Outline the main features of micro-economic theory as proposed by the marginalist school of economic thought. Discuss how developments in neoclassical economics that followed Alfred Marshall have enhanced economists' understanding of markets and competition.

Syllabus Reference

The two parts of this question were drawn from the Neoclassical Economics Area of Study (page 76).

Excellent Responses

Excellent responses provided the historical setting for development of neo-classical ideas. Here candidates provided details of the founders of marginal utility theory, namely, Jevons, Walrus, and Menger, leading into Marshall's development of micro-economic theory. They used detailed diagrams and explanations of related graphs and supply and demand analysis. Major points discussed included explanation of time periods, long run, and short run. Reference was made to a number of other relevant economists and their theories, eg Fisher's *Theory of Exchange*, Sweezy's *kinked* demand curve. Those who mentioned Chamberlain and Robinson discussed details of monopolistic competition, oligopoly and monopsony and included clear diagrams with explanations. Schumpeter and business cycles were also discussed. Some responses followed up with discussions on present day policies and examples. There was also some mention of the revival of ideas by monetarists (Freidman) and the *laissez faire* competition policy.

Key concepts which were discussed in excellent responses included marginal utility, allocation of resources, elasticity, consumer surplus, producer surplus, quantity theory of money, marginal revenue/marginal cost, differential products, and supernormal profits.

Excellent responses explained how developments in the neo-classical period increased an understanding of markets and competition, especially those market structures that are more relevant today, eg monopolistic competition and oligopolies. They also indicated a clear understanding of new concepts as distinct from historical correctness.

Above Average Responses

Above average responses indicated a clear understanding of marginalism and its relevance to the understanding of markets. These responses were generally more descriptive than the excellent responses. They provided a limited explanation of Marshall's marginal utility graphs and a minimal discussion of the roles and influences of Chamberlain and Robinson, as well as general descriptions of micro-analysis, including monopolistic competition, oligopoly and monopoly only.

Average Responses

Average responses generally failed to answer all parts of the question, tending to be too descriptive and lacking clarity of understanding. Average responses mentioned Jevons, Walrus, and Menger but did not give any clear description or understanding of their involvement in the neo-classical period, though there was reasonable coverage of Marshall. They lacked analysis of the shift from macro-economics to micro-economics and then from perfect competition and monopolies to imperfect competition.