

UNIT 3A ECO Sample Data Interpretation Tasks

1. Balance of Payments/Foreign Debt

This question refers to the table below. The data relates to the Australian economy.

	Year 1	Year 2	Year 3
Net Goods (\$m)	-23 559	-23 006	-15 291
Net Income (\$m)	-24 412	-32 831	-38 938
Net Foreign Debt (\$m)	390 565	431 941	499 363
Net Worth (\$m)	4 050 500	4 458 900	5 336 000

Source: ABS-Australian System of National Accounts

- (a) Briefly describe, with reference to the data, two contrasting movements in the above data. (2 marks)
- (b) Use data from the table to explain the relationship between foreign debt and the current account balance between Years 1 and 3. (4 marks)
- (c) Economists may view this data as having positive or negative impacts on the economy. Explain with reference to the data. (6 marks)

Part (a)

Description	Marks
• Improved net goods and worsening net income.	1
• Improved net goods and worsening net FD.	1
• Worsening FD and improved net worth.	1
Total	2

Part (b)

Description	Marks
• Increased FD (borrowing) leads to increased interest payments. Thus net income deficit worsens and so does CAD.	1-3
• Statistics from the table	1
Total	4

Part (c)

Description	Marks
• Worsening net income/FD could lead to a credit downgrade. AUD may appreciate (winners and losers).	1-2
• Increased FD may be a result of increased I, thus expansion and increased income, output and employment.	1-2
• Increased FD created larger increase in net worth, thus standard of living higher than possible without FD.	1
• Reduced net goods enables reduced CAD.	1
Total	6

2. Balance of Payments/AUD

This question refers to the table below. The data relates to a hypothetical economy, Lionsville, that has similar economic institutions and conditions as Australia.

	Year 1	Year 2	Year 3
Exports (\$m)	148 293	163 484	172 308
Imports (\$m)	147 341	152 561	168 276
Net Income (\$m)	- 22 491	- 19 921	-18 255
\$L in \$US	0.58	0.71	0.75

\$L = Lionsville dollar

- (a) Briefly describe, with reference to the data, the apparent relationship between the value of the Lionsville dollar and Net Income in the time period given. (2 marks)
- (b) Use a diagram to explain how the change in exports, between Year 1 and Year 2, could have led to the change in the exchange rate of the Lionsville dollar. (4 marks)
- (c) Explain the possible impact of Lionsville's exchange rate in Year 3 on the varying components of the current account in Year 4. (6 marks)

Part (a)

Description	Marks
• \$L appreciated and net income deficit lessened.	1
• \$0.58 to \$0.75 and -\$22491m to -\$18255m.	1
Total	2

Part (b)

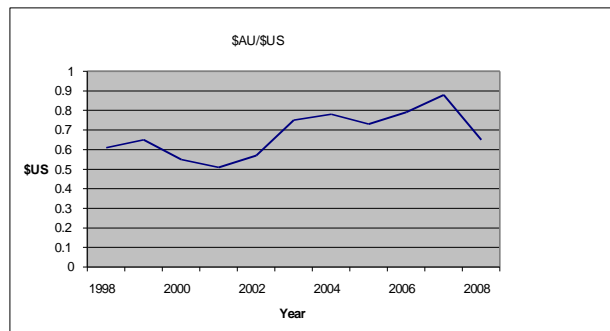
Description	Marks
• Significant increase in exports leads to increased demand for \$L which led to an appreciation of \$L (\$0.58 to \$0.71 in \$US).	1-3
• Model	1-2
Total	4

Part (c)

Description	Marks
• Appreciated \$L means export prices increase and import prices decrease.	1
• If exports elastic then net goods improves; if inelastic then net goods worsens.	1-2
• Increased demand for imports worsens net goods and net services.	1-2
• Interest payments lessens, thus net income deficit lessens.	1
• Trade surplus may go into deficit.	1
Total	6

3. Terms of Trade/AUD

This question refers to the graphs below.



(a) (Cross out the incorrect responses below.)

Between 2001 and 2007 the Australian dollar appreciated/depreciated.

The high value of the Australian dollar in mid 2008 meant that the price of many imports had fallen/risen. (2 marks)

(b) Account for the change in the terms of trade since 2006. (4 marks)

(c) Use the graphs to explain the relationship between the terms of trade and the value of the Australian Dollar since 2006. (6 marks)

Part (a)

Description	Marks
• Appreciated	1
• Fallen	1
Total	2

Part (b)

Description	Marks
• 2006-08 ToT increased; 2008 on ToT decreased.	1
• ToT increased due to increased demand and prices for raw materials ie XPI ↑; decreased price of Chinese imports, AUD appreciation led to MPI ↓	1-2
• ToT decreased due to decreased demand and prices for raw materials ie XPI ↓; increased price of Chinese imports, AUD depreciation led to MPI ↑.	1-2
Total	4

Part (c)

Description	Marks
• Direct relationship ie as ToT↑ AUD↑; ToT↓ AUD↓ (Use statistics)	1-2
• ↑XPI leads to ↑ demand for AUD, thus appreciation; ↓MPI leads to ↓ supply of AUD, thus appreciation.	1-3
• ↓XPI leads to ↓ demand for AUD, thus depreciation; ↑MPI leads to ↑ supply of AUD, thus depreciation.	
• Change in AUD may be due to other factors	1
• May comment on 'elasticity' of exports and imports	1
Total	6

4. Balance of Payments/Terms of Trade

- (a) Outline two reasons for the increase in Australia's Terms of Trade in recent years. (2 marks)
- (b) Describe any relationships that appear to exist between the Balance on Goods and Services and the Current Account. (3 marks)
- (c) Explain, with reference to the graph, the possible relationship between the Terms of Trade and the Balance of Payments since 2003. (3 marks)

Part (a)

Description	Marks
<ul style="list-style-type: none"> Increased commodity prices → ↑ XPI; Increased importance of services to exports → ↑ XPI; Cheaper imports from China → ↓ MPI. High AUD → ↓ MPI. (Any two) 	2
Total	2

Part (b)

Description	Marks
• BoGS creates the changes in Current Account.	1
• Direct relationship/follow similar pattern (highs and lows) State data from graph.	1-2
• 'Gap' due to Net Income deficit. (Structural)	1
• BoGS changes are cyclical.	1
Total	4

Part (c)

Description	Marks
• Define Terms of Trade (ToT).	1
• ToT increase (XPI↑ &/or MPI↓) leads to improved Net Goods, thus reduced CAD. Supported by 2004-06 and 2008.	1-3
• Outcome dependent on elasticity of exports and imports.	1
• 2005 – ToT↑, CAD worsened, thus other factors involved; Net income not directly affected by ToT.	1-2
Total	6

5. Foreign Investment/Foreign Debt

The data below relates to the Australian economy. Answer the questions that follow.

Year	Foreign debt (\$ billion)	Foreign investment (\$ billion)	Assets (\$ billion)	Net worth (\$ billion)
1	496.5	854.6	3765.7	2911.2
2	533.4	883.7	4102.3	3218.6
3	582.9	948.0	4527.1	3579.1
4	660.1	1093.9	5144.4	4050.5
5	709.2	1138.6	5597.7	4458.9

Source: Australian Economic Statistics (Robert Prince et al)

(a) As a formula, Net worth = _____.

Calculate the percentage increase in Net worth between Year 1 and Year 5. (2 marks)

(b) Use data from the table to explain the relationship between foreign investment and foreign debt since Year 1. (3 marks)

(c) Use data from the table to discuss the impact of foreign investment on the Australian economy since Year 1. (5 marks)

Part (a)

Description	Marks
• Assets – Foreign investment	1
• 53.16%	1
Total	2

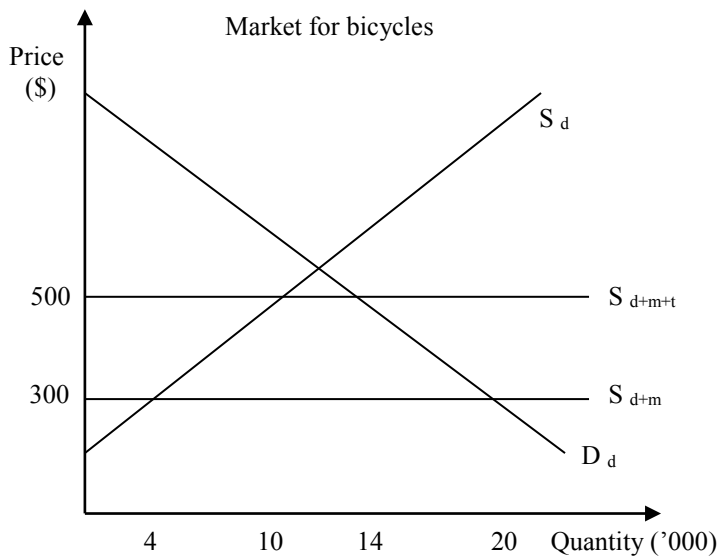
Part (b)

Description	Marks
• Direct/positive relationship ie as FD↑ FI↑. Statistics from table.	1-3
• FD is a component of FI.	1
Total	4

Part (c)

Description	Marks
• Increase in assets greater than increase in FI, thus increase in Net worth and standard of living (higher output and employment).	1-3
• FI required to finance expansion; lack of domestic savings requires FI; economic growth would be hindered if not for FI. Other benefits.	1-3
• Increased FD creates worsening net income and CAD.	1-2
Total	6

6. Tariffs



- (a) The price of the tariff is \$ _____.
 Government revenue from the tariff is \$ _____. (2 marks)
- (b) With reference to the diagram, describe the effects of the imposition of the tariff. (4 marks)
- (c) Use the diagram to illustrate and explain the possible benefits of a movement toward trade liberalisation. (6 marks)

Part (a)

Description	Marks
• \$200	1
• \$800 000	1
Total	2

Part (b)

Description	Marks
• Domestic production ↑ by 6000; domestic consumption ↓ by 6000; imports ↓ by 12 000; price ↑ by \$200; government gains revenue.	1-4
Total	4

Part (c)

Description	Marks
• Show tariff reduction on diagram and reference to changes.	1-2
• Trade liberalisation def'n.	1
• Micro - ↓ price and ↑ consumption of bicycles; flow-on effects eg ↑ consumption on other g/s, ↑ standard of living; domestic output of bicycles decreases (possible job losses).	1-4
• Macro - ↓ price and ↑ consumption; flow-on effects eg ↑ consumption on other g/s, ↓ inflationary pressures, allocation of resources to efficient firms, ↓ costs (imported inputs), long term jobs growth; domestic output of bicycles decreases (possible job losses).	1-4
Total	6