

**CCI/ETAWA
Student Economics
Forum 2010**



**Preparing for the
WACE Stage 3 Exam**

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WACE Economics 2010



- **Essential**
 - ***Stage 3A/3B Economics Syllabus***
 - use to study & revise, helps to organise your topics
 - ***2009 Examiner's Report***
 - provides clues to what the examiners are looking for
 - Practise answering ***past exam questions***
(note the new parts of the syllabus for 2010)

Economics 2010



You need to . . .

1. ***Know the Syllabus in 3A and 3B*** – textbook theory and concepts account for around 70% of the paper
2. ***Use models in your answers***
3. ***Be aware of current economic conditions & events – around 30% of the paper***

Remember that the exam paper was written before July

3A: International Economics

New Stuff – Global Markets

- Patterns & trends in world trade
- Globalisation
 - Extent
 - Causes & effects
 - Arguments for & against
- International competitiveness

3A: International Economics

- ***Trade***
 - Theory of comparative advantage
 - Protection
 - Trade agreements* (new)
- The ***balance of payments***
- The ***exchange rate***
- ***Foreign liabilities*** – foreign debt;
foreign investment
- Terms of trade

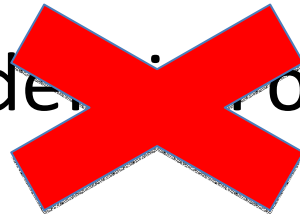
Fundamental

3B – Macroeconomic Theory

- **Aggregate expenditure & the AE model**
 - **Macroeconomic equilibrium**
 - **$AE = C + I_p + G + NX$**
 - **$GDP = C + I + G + NX$**
 - **The multiplier**
- **Aggregate demand curve**
- **Aggregate supply curve**
- **Use the AD/AS model to explain the business cycle, inflation, unemployment . . .**

3B – Macroeconomic Policy

- **Key macroeconomic objectives**
 - Sustainable rate of economic growth (3.5-4%)
 - Full employment / Natural rate of unemployment (4.75% unemployment)
 - Price stability (2-3% inflation)
 - Current account deficit; foreign debt ??



3B – Macroeconomic Policy

- **Fiscal Policy**
 - **Budget Outcomes**
 - **Automatic vs discretionary**
 - **Expansionary/contractionary**
 - **Impact (use AD/AS model)**
 - **Strengths/weaknesses**
 - **Recent Budget**

3B – Macroeconomic Policy

- **Monetary Policy**
 - The cash rate
 - Transmission mechanism
 - Expansionary/ neutral/ contractionary
 - Impact (use AD/AS model)
 - Strengths/weaknesses
 - Recent interest rate changes

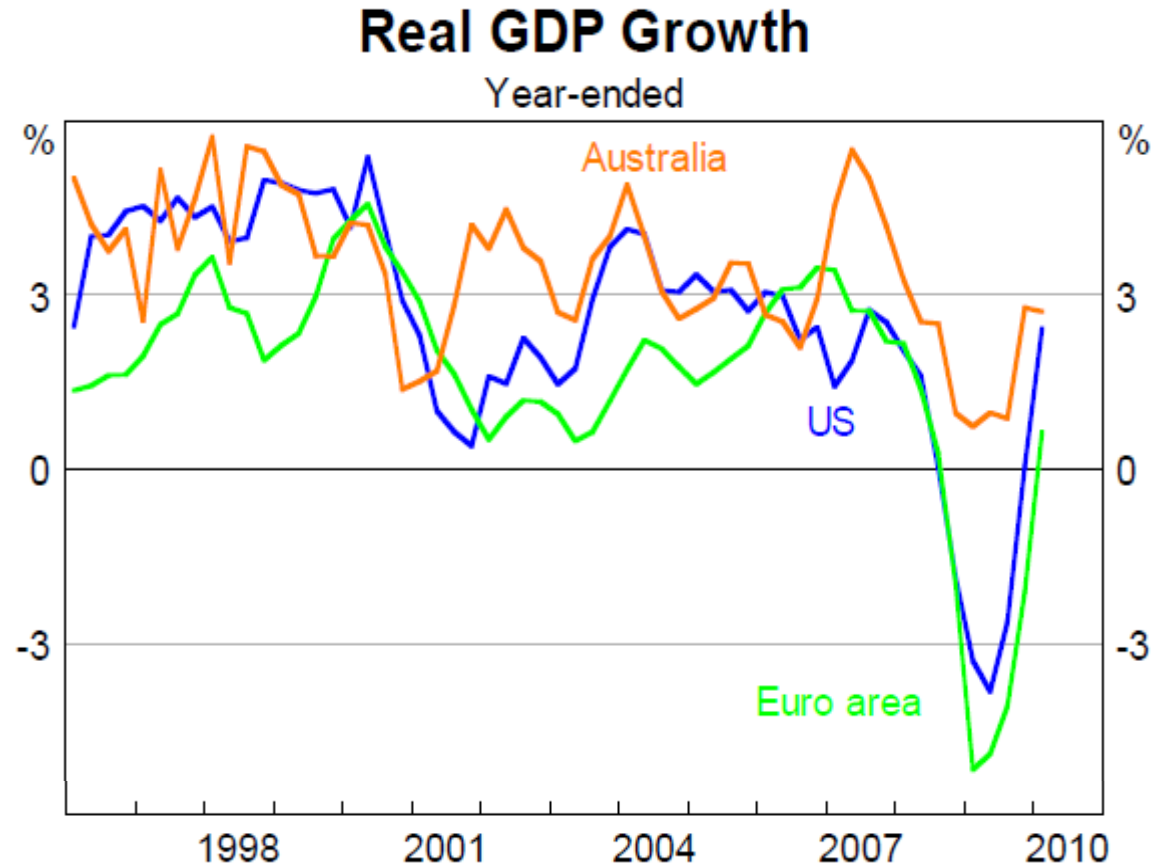
3B – Macroeconomic Policy

- **Microeconomic Reform**
 - **Examples**
 - **Productivity**
 - **Economic efficiency**
 - **Impact (use AD/AS model)**
 - **Strengths/weaknesses**

Current Macroeconomic Performance and Policy Stance

World Growth

The world is emerging from the worst recession since the 1930 Great Depression



Source: RBA

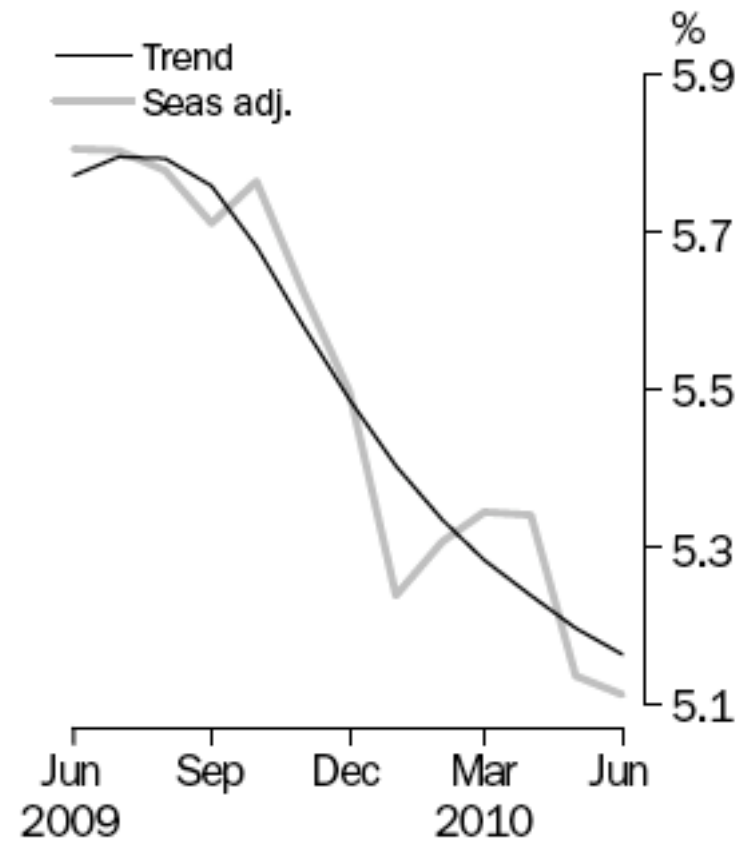
Australia - GDP Growth

	Quarterly %	Annual %
June 2009	0.8	1.0
Sept 2009	0.3	0.9
Dec 2009	1.1	2.8
<i>Mar 2010</i>	<i>0.5</i>	<i>2.7</i>

Unemployment

	Unemployment Rate %
June 2009	5.8
Sept 2009	5.7
Dec 2009	5.5
Mar 2010	5.4
June 2010	5.1

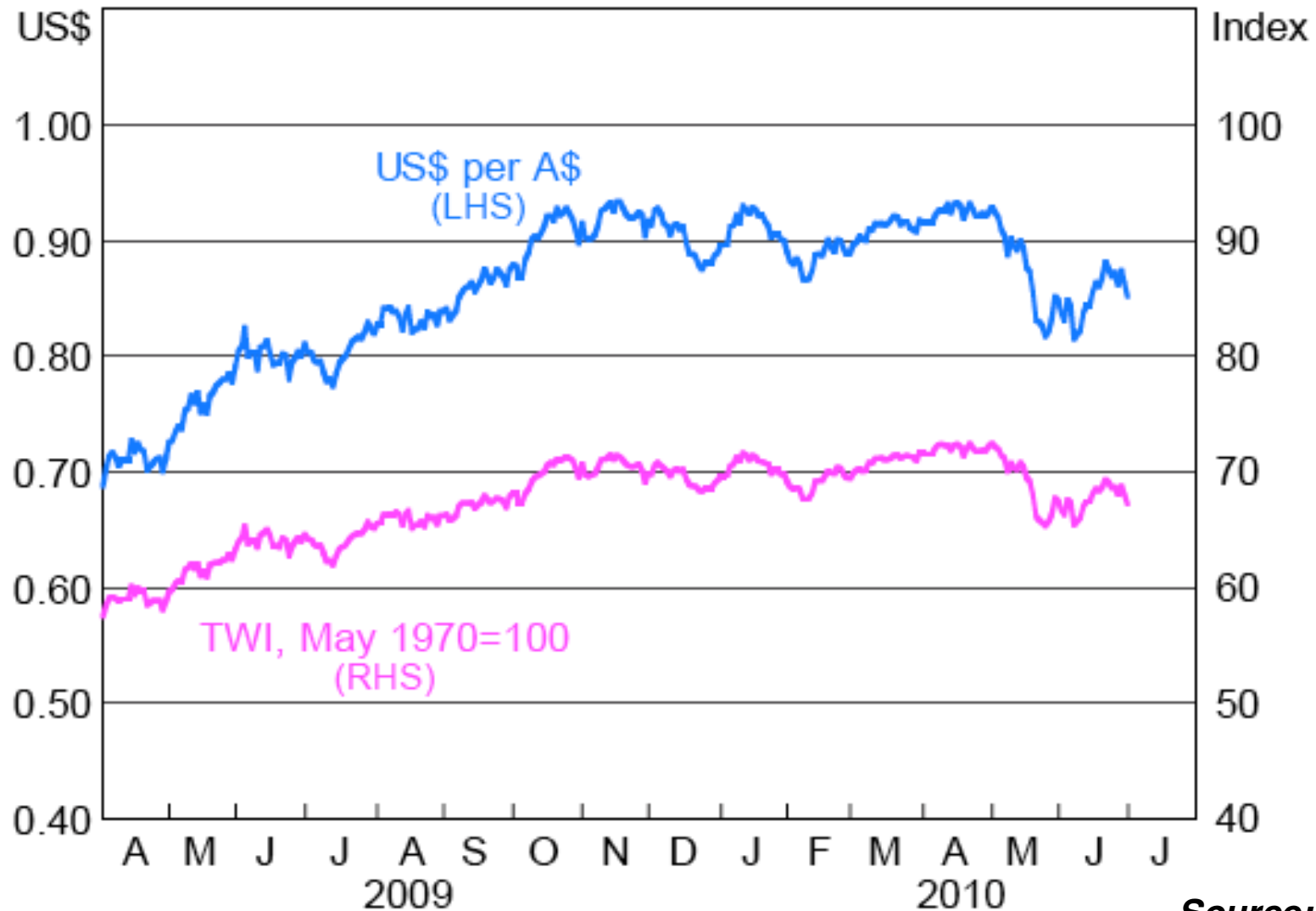
Unemployment rate



Inflation

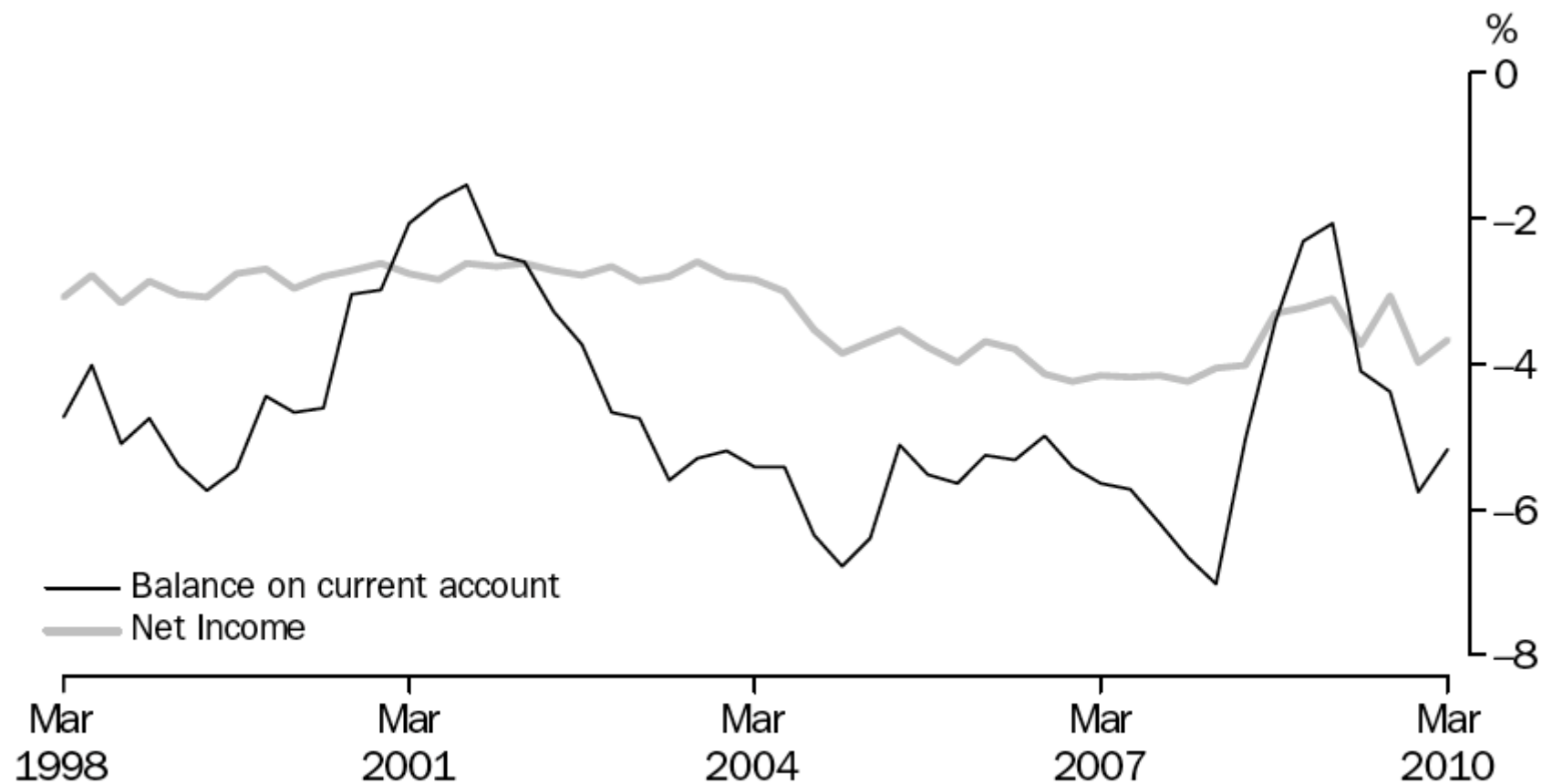
	CPI	Excl Volatile	Weight. Median	Trimmed Mean
Sept 2009	1.3	2.4	3.7	3.2
Dec 2009	2.1	2.4	3.4	3.1
Mar 2010	2.9	2.9	3.1	3.0
<i>June 2010</i>	<i>3.1</i>	<i>2.9</i>	<i>2.7</i>	<i>2.7</i>
<i>June 2010</i>	<i>0.6</i>	<i>0.6</i>	<i>0.5</i>	<i>0.5</i>

Exchange Rate: \$A & TWI



Source: RBA

Current Account Balance

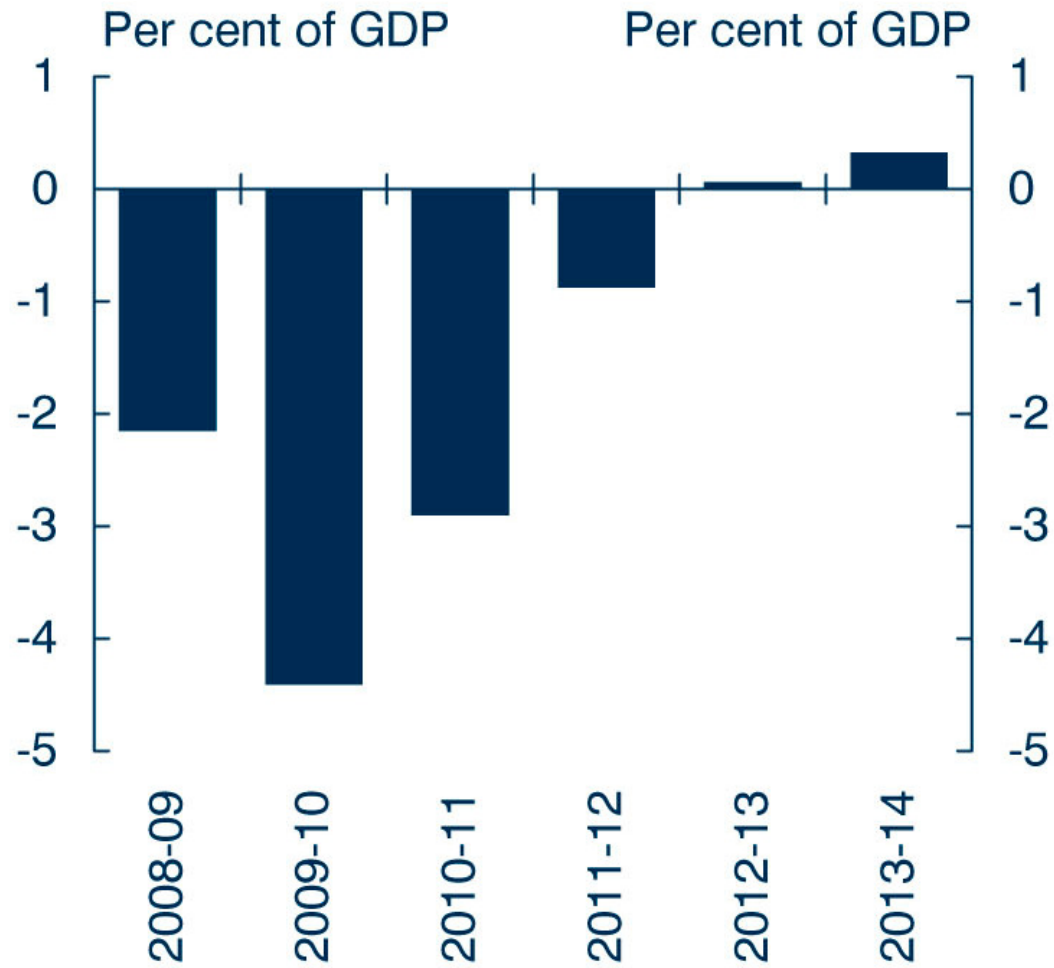


Source: *Balance of Payments and International Investment Position, Australia, (cat. no. 5302.0)*

Balance of Payments

	<i>Jun Qtr</i> 2009	<i>Sep Qtr</i> 2009	<i>Dec Qtr</i> 2009	<i>Mar Qtr</i> 2010
CURRENT ACCOUNT	-4.1	-4.4	-5.8	-5.2
Goods and Services	-0.3	-1.3	-1.8	-1.4
Credits	19.7	18.7	18.4	19.1
Debits	-20.0	-20.0	-20.2	-20.5
Primary income	-3.7	-3.1	-4.0	-3.7
NET INTERNATIONAL INVESTMENT	55.1	58.3	60.5	60.1
Net foreign equity(c)	6.1	9.3	9.1	8.2
Net foreign debt(c)	49.1	49.0	51.5	51.9

Budget Balance



Monetary Policy

Date	Change in Cash Rate - % points	New Cash Rate Target %
5 May 2010	+0.25	4.50
7 Apr 2010	+0.25	4.25
3 Mar 2010	+0.25	4.00
2 Dec 2009	+0.25	3.75
4 Nov 2009	+0.25	3.50
7 Oct 2009	+0.25	3.25
8 Apr 2009	-0.25	3.00



Neutral

Emergency

2010 Exam Paper

New Exciting Format!

- ***Section A Multiple Choice***
 - 24 questions (24 marks)
- ***Section B Data Interpretation***
 - 3 questions x 12 marks (36 marks)
- ***Section C Extended Response***
 - 2 questions x 20 marks from a choice of 4 (40 marks)

Last Year's Paper

Common Errors

1. *Poor understanding & application of basic models*
 - *Agg Expenditure (45° model)*
 - *Agg Demand & Agg Supply*
 - *foreign exchange market – $D(\$A)/S(\$A)$*
2. *Incorrect labelling of diagrams*
3. ***Very weak understanding of macro equilibrium & the multiplier***
4. ***Confusion over the CAD, foreign debt, foreign investment, terms of trade***

Section A

6. Multi-factor productivity growth measures
- (a) combined growth in labour productivity and capital productivity.
 - (b) the average growth in labour and capital productivity.
 - (c) the rate of technological progress.
 - (d) growth in living standards.

4% answered correctly

Section A

11. Which of the following is most likely to result in an increase in the value of Australia's exports?
- (a) expansionary monetary policy
 - (b) an economic downturn among Australia's major trading partners
 - (c) an increase in foreign investment into Australia
 - (d) a boom in economic activity in Australia

14% answered correctly

Section A

14. Which of the following would cause a depreciation of the Australian dollar?
- (a) a decrease in spending on imported goods
 - (b) a reduction in the domestic inflation rate
 - (c) an increase in Australian domestic interest rates
 - (d) a decrease in the government's budget deficit

35% answered correctly

Section A

17. Which of the following statements is correct?

(a) A country will have a current account surplus if it imports more than it exports.

(b) A country will have a capital and financial current account deficit if it imports more than it exports.

(c) A country that has a current account surplus will lend savings to the rest of the world.

(d) A current account deficit is an indication that a country has an excessively high level of imports.

34% answered correctly

Section A

21. Which of the following government policies is most likely to be effective in the short term in increasing aggregate spending in Australia during a recession?

- (a) an increase in infrastructure spending
- (b) a \$900 bonus payment to households
- (c) a reduction in the GST rate
- (d) a reduction in personal income tax rates

9% answered correctly

Australian Economy



- ***Be aware of the state of the economy – key developments & trends***
- ***Key indicators***
 - **GDP** **2.7%** (March qrt 10)
 - **Unemployment** **5.1%** (July)
 - **Inflation** **3.1%** (June qrt)
 - **\$A** **\$0.91US** (Current)
 - **CAD** **5.2%** (March qrt)
 - **Cash rate** **4.5%** (Current)
 - **Budget deficit** **2.9% of GDP** (estimate)

2010 – Key Developments



- *Recovery from global recession*
- *Unemployment falling to around 5%*
- *Inflation falling*
- *Rise in terms of trade*
- *Rise in \$A*
- *Cash rate increased to 'neutral'*
- *Budget deficit falls*
- *Tariffs cut on cars, TCF industries*

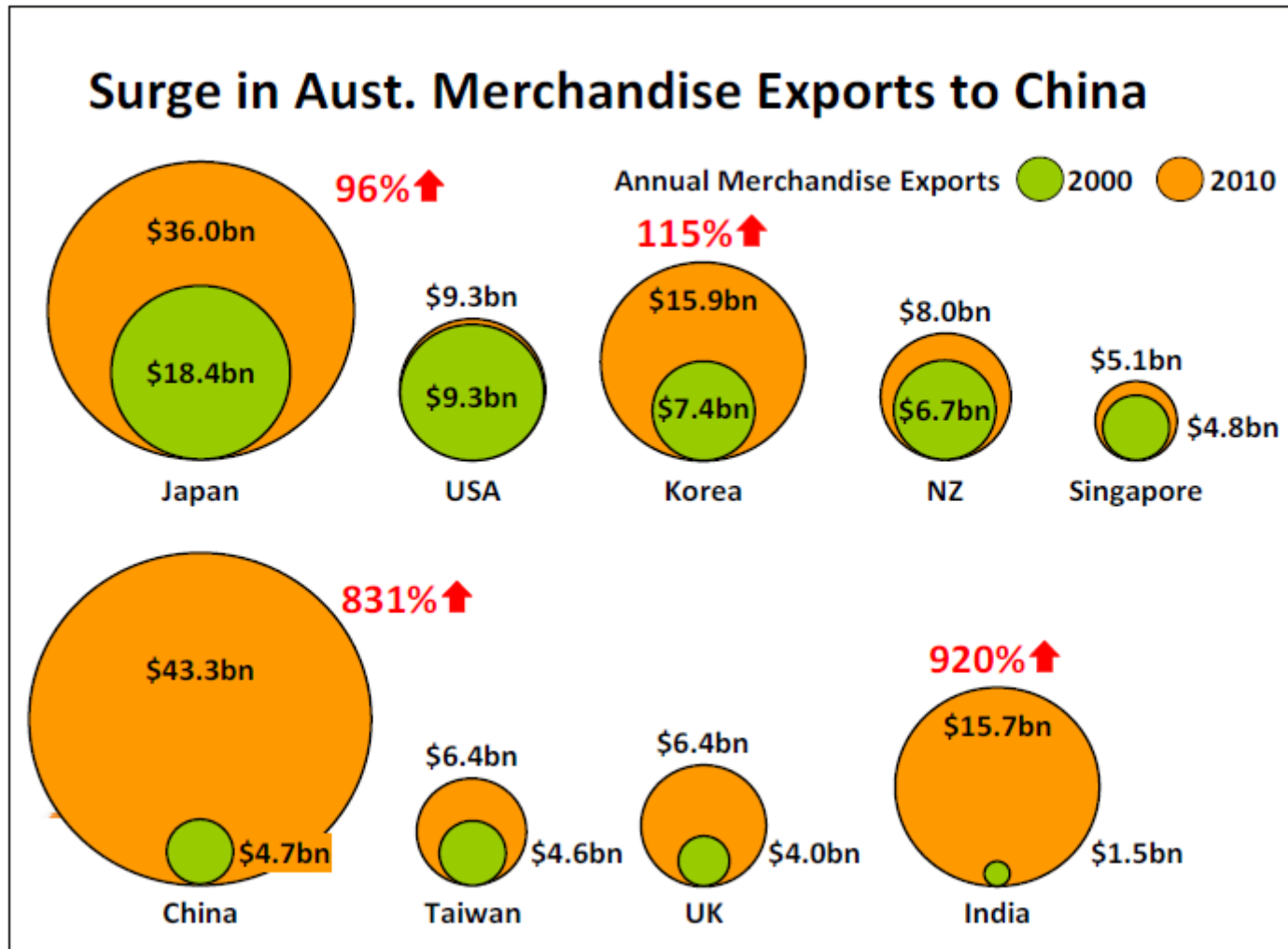
Large cuts to tariffs (Jan 2010)



Tariffs applying to motor vehicles were cut from 10% to 5%. Tariffs on clothing were reduced from 17.5% to 10%, and tariffs for textiles and footwear reduced from 10% to 5%.

Why are these tariff cuts good news for Australian businesses and consumers?

Australia's Exports



Source: Bankwest Economic Snapshot

Questions

2010 – Key Developments



- Australia's trade surplus has ballooned to a record in June as export earnings from iron ore and coal surged
- Australia's terms of trade is likely to rise by 20% this year – this explains why Australia is so strong compared to the rest of the developed world.
- It also means the next move in interest rates is up, the only question is when.