

Economics

2010 ASSESSMENT REPORT

Society and Environment Learning Area



Government
of South Australia

SACE
Board of SA

ECONOMICS

2010 ASSESSMENT REPORT

ASSESSMENT COMPONENT 1: EXAMINATION

GENERAL COMMENTS

This year 1303 papers were marked, a decline of approximately 90 from 2009. The mean student achievement of close to 54% was consistent with previous years.

The examination result is used to statistically moderate the results of school-based assessment.

Part A: Multiple-choice, Short-answer and Extended-response Questions

Part A of the examination had a number of questions of differing styles and incorporated a range of stimuli which allowed for achievement at all grade levels. Parts of each of the questions demanding higher-order responses did discriminate across the range of student abilities.

More candidates this year attempted all questions in this section. Careful reading of the questions would have resulted in more successful responses. Students also need to ensure that they are familiar with directive terms used in examination questions.

Question 1 (7 marks, mean 4.89)

- (a) Definitions were generally sound, but only the successful minority of students provided examples. Most students were able to identify unemployment or inefficiency as reasons for operating inside the production possibility frontier.
- (b) Well answered. Successful students referred to impacts upon future production potential and the inability to satisfy consumer wants, especially in less developed economies, when choosing between points A and B.

Question 2 (7 marks, mean 4.27)

This question had more blank responses than other questions, and showed a wider gap between the highest and lowest achievement.

- (a) Many definitions were inaccurate or too general.
- (b) More successful responses presented an argument that the human development index (HDI) was able to indicate more about development than gross domestic product (GDP) per capita. The most successful responses compared Country C (with the highest GDP per capita) to the other two nations (which had lower GDP, but better HDI statistics) to support their argument.

Question 3 (10 marks, mean 6.40)

- (a) and (b) Generally well answered. Most students were able to identify one land, labour or capital resource referred to in the article.
- (c) This section was the least well answered and indicated confusion between the price elasticity of supply and demand. The most common correct response referred to an inelastic supply due to the long time frame needed to build infrastructure.
- (d) Most students were able to explain the term 'positive externalities' and identified reduction in air pollution or fitter employees as examples of positive externalities.
- (e) Option 2 was correct.
- (f) Many students discussed the lack of profits and the impact of free riders as key reasons why markets fail to provide infrastructure.

Question 4 (23 marks, mean 14.59)

Students needed to refer to data in the table to achieve at the highest level.

- (a) Most students could identify a possible cause of lower economic growth. Options included the cash rate increase, the trade deficit, a rising exchange rate or higher unemployment.
- (b) Students were required to illustrate a deflationary gap.
- (c) Successful responses avoided the common error of defining 'labour force' rather than 'labour force participation rate'. Most students identified the inverse relationship between unemployment and the labour force participation rate, but more successful responses included an explanation of why this occurred.
- (d) Most students referred to changes in the demand or supply for labour as a reason for the change in the growth of wages. More successful responses explained that a reduction in wage growth would lead to a decrease in the costs of production (drawing a rightward shift in the intermediate range of the short-run aggregate supply (SAS) curve), as well as a possible decrease in aggregate demand (drawing a shift of the aggregate demand (AD) curve to the left).
- (e) Students needed to refer to the data provided to achieve full marks.
 - (i) Students commonly used the high inflation rate or high current account deficit (CAD) to explain the policy decision.
 - (ii) Most students referred to a reduction in AD as a possible result of the policy change.
 - (iii) Generally well answered, with most students referring to the short implementation lag (advantage) and the long impact lag (disadvantage) associated with monetary policy.
- (f)
 - (i) The most successful responses linked a higher exchange rate to lower prices for imports and hence lower inflation, as well a higher exchange rate leading to more imports and less exports and hence an increased CAD.
 - (ii) Option 4 was correct.
 - (iii) Most students selecting the correct answer were able to explain the reason for their choice.
 - (iv) This question allowed students to show their understanding of the external balance objective. Students discussed a range of policies, including contractionary fiscal and monetary policies, external policies such as an increase in tariffs, or longer-term supply management policies.

Question 5 (13 marks, mean 9.68)

- (a) Most students were able to describe a decrease in supply and the resultant increase in price and reduction in quantity traded.
- (b) Most students were able to explain that the price elasticity of demand was likely to be inelastic because of necessity. Inelastic demand is likely to lead to an increase in total revenue.
- (c) Factors that would shift the supply curve to the left, such as the provision of subsidies to producers, were commonly identified. A decrease in the price of substitutes was the most common reason for a movement of the demand curve to the left.
- (d) This question part proved to be challenging for many students. If P1 was the maximum price, this would lead to a shortage and possible black market, as equilibrium cannot be reached. If P2 was the maximum price, the resulting surplus would bring price back to equilibrium.

Part B: Essay Questions

The essay questions in Part B allowed students to demonstrate their ability to present a sustained argument using economic terminology and economic models. Markers commented that the most successful responses addressed all parts of the questions asked.

Question 6 (20 marks, mean 11.57)

This was the most popular essay question. Less successful responses simply described the market structures. More successful responses were able to describe the structure of perfect competition and monopoly, as well as analyse how government intervention could alter the outcomes for consumers and producers. Descriptions of terms such as 'efficiency' and 'profit' were often vague, but the use of government legislation to curtail anti-competitive practices of monopolies was well described. More successful responses also discussed the broader aspects of market failure that are not specific to market form; for example, externalities, undesirable production, merit, and public goods.

Question 7 (20 marks, mean 12.15)

This was the secondmost popular essay. More successful responses were able to address all aspects of this question: the business cycle, the role of indicators, and the interaction of aggregate demand and aggregate supply in determining the level of output. These responses discussed leading, lagging and coincident indicators, as well as explaining that composite indicators have been developed to improve the reliability of predicting the business cycle. The most successful responses explained the link between all sections of the question, as opposed to discussing them in isolation. The inclusion of, and reference to, relevant diagrams often improved the quality of responses.

Question 8 (20 marks, mean 12.53)

This question was well answered. Students needed to focus on three areas: the reasons why inflation is undesirable, the causes of inflation, and the possible solutions to inflation. The undesirability of high inflation because of its effect on purchasing power for all sectors, its effect on international competitiveness, and the economic and social implications of these effects needed to be explained. Many answers were thorough and detailed, and effectively used the AD–AS model to explain demand-pull and cost-push inflation. Most students were able to link policy solutions to the causes of inflation. The most successful responses included a discussion of the advantages and disadvantages of different policy solutions.

Question 9 (20 marks, mean 12.07)

Many students focused their response on the relative merits of free trade rather than the broader topic of globalisation. Most students argued that nations involved in globalisation can benefit from the results of comparative advantage, but become increasingly vulnerable to overseas economic fluctuations. More successful responses were able to consider a range of dimensions about globalisation, including the positive and negative effects of the flows of financial capital and labour. These responses referred to the possible disproportionate outcomes for developed and developing countries, and were able to consider potential positive and negative effects on a country's internal economic conditions.

Question 10 (20 marks, mean 10.16)

This was the least popular essay and had the lowest mean score. Simplistic descriptions and broad generalisations were common. Many students restricted their discussion to poverty and neglected the issue of inequality. The causes of poverty and inequality can be quite specific to each economy and the means of promoting economic development should reflect this complexity. Students could have discussed a range of issues, such as population pressures, lack of investment in human and physical capital, lack of effective governance, and lack of access to international markets, as well as social and cultural factors. The most successful responses included excellent case-study examples to highlight successes or failures at promoting development.

Chief Assessor
Economics