



2013

Economics GA 3: Examination

GENERAL COMMENTS

Students appeared to respond positively to the 2013 Economics examination paper, with the majority of students attempting all questions. However, a number of students did not use their time well, writing long answers for two- and three-mark questions and leaving insufficient time to appropriately tackle the questions worth six marks. It is essential that students use the mark allocation as a guide to the level of detail required in their responses and the amount of time they should allocate to each question.

The students who scored the highest marks showed a strong understanding of current economic issues related to the Australian economy, such as the impacts of an ageing population and climate change, challenges associated with a high Australian dollar value and the 'end' of the mining boom, and current policy responses.

Students who demonstrated sound knowledge of economic terms and concepts, who were able to distinguish between short- and long-term effects and who were able to clearly explain key economic relationships also performed strongly. These students went into sufficient detail and demonstrated an understanding of how and why

- budgetary policy infrastructure spending improves aggregate supply
- removing trade barriers encourages increased productivity
- an ageing population can negatively affect aggregate supply
- environmental policies could improve Australia's long-term economic prosperity and living standards
- a high Australian dollar affects inflation and living standards.

Some students appeared to struggle with the role of relative prices and the operation of the price mechanism. This lack of understanding was reflected in their answers to Section B, Questions 2b, 3ai., 3aii., 3aiii., 4a., 4b. and 4c., where fewer marks were received.

Students should be reminded that in order to score the maximum available marks in their written response questions they must specifically address the question asked and include all required aspects. For example, in Section B, Question 2d., there appeared to be a tendency for students to list everything they knew about their selected microeconomic reform policy, rather than explicitly discussing how the operation of the policy might increase productivity and achieve low inflation.

SPECIFIC INFORMATION

Section A – Multiple-choice questions

The table below indicates the percentage of students who chose each option. The correct answer is indicated by shading.

Question	% A	% B	% C	% D	% No Answer
1	81	2	9	7	0
2	21	53	18	8	0
3	4	15	62	18	0
4	3	3	12	81	0
5	72	5	20	3	0
6	18	16	16	49	0
7	8	6	79	6	0
8	6	87	2	5	0
9	5	72	11	12	0
10	4	33	59	4	0
11	74	8	14	3	0
12	14	17	17	52	1
13	88	7	4	1	0
14	5	4	78	13	0
15	4	14	14	68	0



Section B – Written responses

Note: Student responses reproduced in this report have not been corrected for grammar, spelling or factual information.

This report provides sample answers or an indication of what answers may have included. Unless otherwise stated, these are not intended to be exemplary or complete responses.

The statistics in this report may be subject to rounding errors resulting in a total less than 100%.

Question 1a.

Marks	0	1	2	Average
%	16	20	64	1.5

Most students ably tackled this question. However, a number of students did not follow the instruction to select a factor using the information in the table, and instead gave another reason. Therefore, no marks could be awarded. Students need to pay careful attention to the question, and should practise their skills in reading data and understanding economic relationships between trends and economic goals and performance.

The best answers identified the fall in consumer confidence, giving an explanation such as:

A fall in consumer confidence suggests that consumers might be more cautious with their spending and/or may be deferring spending due to factors impacting on their confidence in the state of the economy. These factors might include worries about job security, given the structural changes occurring in the economy, relatively slow world economic growth, relatively high levels of the AUD making it difficult for export industries (other than miners) and concerns about the end of the mining boom and what this might mean for the Australian economy. As private consumption spending makes up about 60% of aggregate demand (AD), a fall in consumer confidence leading to less spending and therefore less AD is likely to lead to slower economic growth and a resultant rise in cyclical unemployment as employers reduce their demand for labour.

Some students correctly identified that falling terms of trade may also have contributed to the rise in unemployment. However, their explanation often failed to demonstrate a clear understanding about how the terms of trade operates or how its operation may affect employment. Students did not seem to understand that the terms of trade is not the difference between the value of our exports and the value of our imports, but rather, it's about the terms under which our trade takes place, and whether those terms are improving or worsening – that is, it is about the relative prices of exports to imports.

The following is a good response referring to the deterioration in the terms of trade.

A deterioration in the terms of trade means export prices relative to import prices have declined. Consequently this will have most likely contributed to lower injections of spending into Australia from overseas relative to increasing leakages. This trend would flow through to lower national incomes via a decline in net external demand. We would see some downward pressure upon AD and some potential for increased cyclical unemployment.

A further impact of the deterioration in the terms of trade would be that declining export prices may be squeezing profit margins of local export industries, and this may have been a factor that has resulted in closure of businesses, displacement of workers and the emergence of structural unemployment.

Question 1b.

Marks	0	1	2	3	4	Average
%	3	9	18	28	42	2.9

Most students were able to clearly describe how a rise in the unemployment rate is likely to affect automatic stabilisers and living standards.

The following is an example of a good response.

A rise in unemployment will see the Australian budget outcome trending toward a larger deficit or a smaller surplus. Without the government making any discretionary budgetary policy changes, a rise in unemployment is likely to mean that automatically government budget revenues will fall and government budget outlays will rise.

In terms of revenues, increased unemployment (that is less persons employed) will see lower aggregate pay as you go (PAYG) income taxes collected and a resultant decline in household spending. This is likely to result in lower company profits due to

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lower levels of aggregate demand and therefore declining company tax receipts for the government. In addition, with lower household spending, one can assume that indirect tax collections may also be reduced (for example excise duties taxes on fuel and alcohol).

In terms of outlays, the automatic stabiliser of unemployment benefits will increase as the number of unemployed persons rise and more people qualify for unemployment benefits.

A rise in unemployment is likely to reduce average household disposable income and lead to slower growth in AD and a reduced rate of economic growth. Such a trend will be likely to cause a lower level of real Gross Domestic Product (GDP) per capita – and consequently see a decline or a slower rate of improvement in average material living standards.

For those households directly affected by unemployment – lower disposable incomes, as they move from earning factor income to being recipients of transfer income, means less access to goods and services. Unemployment can also have impacts upon non-material living standards, creating financial stress for families, contributing to social dysfunction, and ultimately condemning many to long term unemployment and relative poverty.

Question 1c.

Marks	0	1	2	3	4	5	6	Average
%	13	8	14	21	22	15	6	3

Many students appeared to have a sound understanding of the changes in budgetary and monetary policy over the past year. However, they struggled to mount a convincing discussion related to discretionary budgetary policy, tending to focus on issues related to the size of the budget deficit rather than providing specific examples of discretionary changes made to budgetary policy in 2013. Many students talked more confidently about changes in monetary policy and how lowering the cash rate will, through a number of transmission mechanisms, likely raise the economic growth rate and generate employment growth.

The best answers were able to explain, with examples from 2013, how discretionary budgetary policy and monetary policy operate to influence AD in order to affect the unemployment rate, and could clearly explain how the two policies are working compatibly to lower unemployment. The sorts of discretionary budgetary policies selected were announcements of spending initiatives for education (Gonski), the spending for the National Disability Insurance Scheme and spending on infrastructure projects.

Question 2a.

Marks	0	1	2	3	4	5	6	Average
%	2	7	15	22	23	20	11	3.6

Generally, students were able to explain how an ageing population and the effects associated with climate change might influence Australia's future rate of economic growth.

It was expected that student answers would touch on some or all of the following points.

An ageing population is a situation in which an increasing percentage of the nation's total population falls within the older age brackets (people who are no longer of working age). This can raise concerns for future rates of economic growth because a higher percentage of the population retired leads to a reduced supply of labour. Using supply side logic, it can be argued that a reduction in available labour resources will damage the ability to produce, leading to a consequent slowing in economic growth.

Future rates of economic growth may be jeopardised because

- lower participation rates are likely to negatively impact on labour costs and labour productivity, leading to lower rates of economic growth into the future
- skills shortages are likely to become more common and acute, causing capacity constraints to set in earlier and resulting in lower rates of economic growth into the future
- government finances will come under added pressure to support the ageing population, resulting in either higher taxes and/or chronic budget deficits and mounting public debt. Higher tax rates are a disincentive to economic activity, and chronic budget deficits and mounting public debt will eventually have to be reined in through large spending cuts, jeopardising healthy rates of economic growth into the future.

An ageing population may also be associated with a decline in average household disposable income in Australia, as retirees are now likely to be more reliant upon government-provided transfer incomes or self-funded (superannuation-based) income streams instead of factor incomes. Demand side logic suggests that lower average disposable incomes

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may have a significant impact upon AD through lower levels of consumption (C), with a flow-on effect on the level of national production and economic growth.

Climate change is the belief that, over time, global economic activity and human behaviour has adversely affected the delicate ecological and environmental balance on Earth, leading to significant and damaging variance in weather and seasonal conditions.

The costs of climate change are thought to be numerous: chronic drought, rising sea levels, coral bleaching destroying tourism assets such as the Great Barrier Reef, rising temperatures, heat waves, crop failures, increased severity of natural disasters such as bushfires, loss of flora and fauna, increased household expenditure to 'climate proof' homes, flooding of coastal areas and water shortages. All of these examples pose obvious threats to future economic growth. For example,

- climate change can damage the quality of available natural resources – droughts and floods will limit the productive capacity of the natural environment
- natural disasters such as the recent floods in Queensland and bushfires in New South Wales – attributed to climate change – can wreak havoc on a nation's productive infrastructure, including mines, roads, bridges, water storages, etc. This can set communities back years in their ability to produce
- governments may implement environmental policies aimed at reducing the impacts of climate change, which may add to production costs and/or be passed on to consumers in the form of higher prices. Governments also provide subsidies and financial support to those suffering from the effects of natural disasters. It can be argued that government resources allocated to addressing climate change are likely to be drawn from other possible uses, such as infrastructure development, that would have otherwise boosted productive capacity.

A number of student responses demonstrated unclear logic. For example, some students commented that an ageing population is a problem because workers become less productive as they age. Others suggested that the average age of the population increases, leading to an increase in the unemployment rate.

Some students suggested that any spending on areas such as aged care and health for an ageing population is 'wasted' spending, overlooking the fact that this will contribute to AD just like any other spending.

Some students also implied that spending on aged pensions was a negative, but failed to explain why. They may have been trying to make the point that spending money on pensions directs government resources away from nation-building projects, but this needed to be clearly stated.

Question 2b.

Marks	0	1	2	3	Average
%	6	17	42	35	2.1

The most successful students focused their description of their chosen policy on how it might improve Australia's long-term economic prosperity and living standards. A significant number of students, however, appeared to lack a clear understanding of long-term economic prosperity.

A large percentage of students chose the carbon tax as their policy but struggled to articulate how a carbon tax operates to influence long-term prosperity. The better answers identified that a carbon tax aims to reduce carbon emissions and influence long-term economic prosperity by encouraging people not to emit carbon, thereby slowing the rate at which our climate will become unstable. Sadly, many students seem to think that carbon is a 'resource' and that the government is placing a tax on it in order to reduce its 'use', conserving it for use by future generations.

Some students chose the Murray-Darling Basin Plan and demonstrated a good understanding of how it will improve inter-temporal efficiency by preserving resources for use by future generations.

Question 2c.

Marks	0	1	2	3	4	5	6	Average
%	9	10	15	18	20	18	10	3.3

A number of students only discussed one policy – either budgetary policy or immigration policy – rather than focusing on how these policies might work together to improve long-term economic prosperity and living standards.

Many answers failed to explain the link between increasing aggregate supply and achieving the long-term capacity to grow, i.e. being able to produce more and use resources more efficiently.

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Many students also focused their discussion of immigration policy on the use of 457 visas. While this is relevant, it is not a key immigration policy tool. A large number of students also wrote about how increased skilled immigration will allow employers to pay lower wages because ‘foreign workers will be paid less than Australian workers’. While there may have been some recent reports in the media about employers who have been accused of underpaying foreign workers, it is important for students to understand that this practice is illegal and not an economic policy. All migrants, temporary or permanent, should be paid at the same rate as local workers, and under the same conditions.

The following is an example of a good response.

All governments pursue economic growth as it is the primary means by which nations can improve living standards over time, thus achieving long term economic prosperity. On the supply side, economic growth is determined by the factors that influence the willingness and ability of businesses to produce goods and services. One factor that influences the willingness and ability of businesses to produce goods and services may relate to access to sufficient numbers of skilled workers (the quantity and quality of the labour, a factor of production).

Various budgetary policies and immigration policies in a policy mix can play an important role in influencing the willingness and ability of businesses to produce goods and services by, for example, ensuring there is a sufficient pool of appropriately qualified/skilled labour resources. One way to increase the availability of labour resources might be to use budgetary policies to encourage higher rates of labour force participation. Higher rates of LFP will help to reduce real unit labour costs over time. Examples of such budgetary policies include increasing the child care rebate to encourage the stay at home parent back into the labour force; increasing the age for those able to access a pension from 65 to 67 to encourage workers to stay in the workforce for longer; cutting welfare benefits to single parents once their child reaches school age, thus encouraging those parents back into the workforce; etc.... Budgetary policy can also target the quality of the labour force by implementing policies aimed at education and/or retraining to assist in upskilling the unemployed to return to work.

Immigration policy refers to changes made to the terms and conditions that need to be met by foreign citizens who wish to enter, live and work in Australia. Immigration policies can be implemented to increase the size of the labour force by, for example targeting an increase in migrants of working age and/or increasing the skill of the labour force by increasing the number of workers entering via the skilled migration program.

Question 2d.

Marks	0	1	2	3	4	Average
%	9	10	25	35	22	2.5

In order to score high marks for this question, students needed to specifically discuss how a microeconomic reform policy might operate to increase productivity and promote low inflation. Far too many students claimed that their chosen policy lowered inflation without explaining how this would occur. The best answers were able to discuss how the microeconomic reform policy aims to increase productivity (reducing the number of inputs required to produce the same volume of goods and services) and how the improved productivity may help reduce cost structures in the economy, thus lowering inflation.

Question 3a.

Question 3a. required students to demonstrate their understanding of the price mechanism in changing the allocation of resources. While most students were able to answer part i. satisfactorily, in parts ii. and iii. students generally struggled to explain how the equilibrium market price and quantity adjusts from E1 to E2 on the diagram, and also had difficulty explaining the role of the price mechanism in changing the pattern of resource allocation. This area of the study design appears to need more attention, as students continue to find these explanations very challenging. Students need to understand how and why prices change and what this means in terms of how resources are allocated across different markets. They should be aware that supply will only respond because price rises, and the price will only rise because consumers are bidding up the prices in a free, competitive market where they are competing with each other over something they want that is not readily available, i.e. there is a shortage of that product at that price.

Question 3ai.

Marks	0	1	2	Average
%	10	24	66	1.6

In part i., the majority of students were able to identify an appropriate microeconomic demand-side factor that might have caused an increase in demand for cups of takeaway coffee. This included a factor such as a reduction in interest rates allowing consumers more discretionary income which they may choose to spend on cups of coffee.

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Question 3aii.

Marks	0	1	2	Average
%	47	36	16	0.7

A possible answer could have been: The initial increase in market demand for cups of coffee created a market shortage at the original price of \$3 as quantity demanded had increased from 800 cups per day to 1600 cups per day, while supply remained constant. The shortage put upward pressure on market price as the coffee shops realised the potential for greater profitability due to the strength of demand. As the price increased towards \$4 per cup of coffee there was some contraction in demand (D) and simultaneously some expansion in supply (S) (movement along the respective D and S curves toward convergence at E2), with the market eventually settling at a new equilibrium point of E2 with 1200 cups of coffee now being demanded and supplied at a new agreeable price of \$4 per cup.

Question 3aiii.

Marks	0	1	2	Average
%	36	36	28	0.9

A possible answer could have been: The initial increase in market demand for cups of coffee created a shortage in the market and placed upward pressure on market prices. As the market price increased, relative to costs of production, it became relatively more profitable to supply cups of coffee so there was an expansion in supply at the higher price, necessitating more resource allocation to the production of that product. Producers responded to the higher 'price signals' by allocating more resources to the production of the product in higher demand.

Question 3b.

Marks	0	1	2	3	4	Average
%	7	18	26	29	20	2.4

While most students were able to offer some explanation of an efficient allocation of resources and equity in the distribution of income, too few of these explanations were succinct and accurate definitions.

High-scoring responses included the following points.

- An efficient allocation of resources is said to occur when no other pattern of resource allocation between competing uses (no other combination of outputs/goods and services produced from the available inputs) would result in greater human satisfaction being achieved. The opportunity cost of production decisions is minimised when an efficient allocation of resources is achieved.
- Allocative efficiency implies that markets are free to respond to patterns of consumer demand, while technical efficiency relates to businesses producing goods and services at the lowest unit cost possible without compromising quality of output.
- The goal of equity in income distribution acknowledges the importance of a 'fair' distribution of final income between individuals or households in the national economy. Central to this goal is the avoidance of absolute poverty (extreme deprivation of decent living standards) along with the aim of reducing the number of citizens living in relative poverty (having access to a living standard considered to be deficient by general community standards). The goal is not to achieve perfect equality in income distribution – in full awareness that in a market economy, there should be reward for contribution to production processes.

Question 3c.

Marks	0	1	2	3	Average
%	36	22	26	15	1.2

Many students did not seem to have considered the trade-off between equity and efficiency, despite this being part of the key knowledge in the study design. However, a few students were able to give good examples of the trade-off in action.

Able students explained that this trade-off acknowledges the conflict between maximising equity in income distribution and maximising efficiency in resource allocation. They then went on to illustrate this dilemma, making the following sorts of points.

- The achievement of the government's key economic goal of equity might result in a reduction in economic growth over the long-term, therefore having negative consequences for material living standards. For example, a decision to increase social welfare benefits in an attempt to increase support for the disadvantaged may actually discourage citizens from participating as active and productive members of the labour force, creating a

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financially costly climate of welfare dependency. The inherent cost to efficiency here is the fact that the labour force participation rate might be lower than optimum and there will be an opportunity cost to national efficiency as government resources allocated to welfare are then lost to such areas as investment in infrastructure.

- So, greater equity may stifle incentive, motivation, drive, personal effort, innovation and enterprise, resulting in lower productivity (output from inputs). A decrease in productive efficiency (shift in the AS curve to the left), all other things being equal, will result in higher prices, leading to a contraction in aggregate demand (AD) and lower levels of output and employment. Similarly, if the greater equity has come about as a result of higher taxes (e.g. particularly steep marginal rates of tax on personal incomes), the same result occurs. That is, the achievement of greater equity comes at the expense of efficiency.
- Rational economic decisions that result in greater efficiencies may come at a cost to equity. The economy may achieve a more efficient allocation of resources through improvements in productivity or productive (technical) efficiency. To the extent that these are caused by structural reform (industry restructuring), labour redundancies are likely, causing some structural unemployment in the shorter-term, with negative consequences for equity as more people become reliant on welfare. However, higher efficiency levels exert downward pressure on costs and prices, ultimately contributing to stronger economic growth and causing reductions in the unemployment rate. In this respect, greater efficiency can actually contribute to an improvement in equity over time.
- This trade-off may present a policy dilemma for the Australian Government.

Question 3d.

Marks	0	1	2	3	4	Average
%	35	19	22	16	8	1.5

This question proved to be a challenge for students, with many struggling to demonstrate an understanding of the two-speed economy, despite much being made of this in recent years. Students were expected to be aware that Australia is said to have experienced a 'two-speed' or 'patchwork' economy over recent years, as there has been disparity between the strength of economic activity in different industry sectors (e.g. the mining sector and others) and geographical regions of the nation (e.g. Western Australia and Queensland compared to South Australia and Tasmania). The almost insatiable, and price inelastic, demand for mining resources by such nations as China has led to massive injections of income to the local economies of Western Australia and Queensland. Consequently, income and employment levels in such local economies have been historically high and material living standards of citizens have been boosted. In contrast, the regions of Australia where mining is not a key industry have not reaped these rewards and, in fact, have suffered as a result of the mining boom as the consequent appreciation of the \$AUD has placed Australian service industries and manufacturing industries at a distinct price disadvantage in global markets. Citizens in such regions as Victoria, New South Wales, South Australia and Tasmania have experienced closure of businesses, rising structural unemployment and declining employment opportunities generally. Students need to realise that aggregate national economic performance indicators often hide the disparity in regional economic performance.

Some students were able to identify appropriate policies to use in their discussion, such as the Minerals Rent Resource Tax (MRRT) or the easing of monetary policy. However, a number of answers failed to discuss the differential impact of the policy. For example, students needed to explain that monetary policy is a blunt instrument, so reducing interest rates didn't have the capacity to target certain sectors of the economy and so did not achieve the desired effect of improving the performance of different sectors of the economy.

Making some of the following points about the MRRT would have secured high marks.

- A policy response to the situation created by the two-speed economy was the introduction of a MRRT, after much political debate, in 2010. The intent of this additional tax upon those industries directly gaining 'super profits' from the mining boom was to generate a larger pool of budget revenue for redistribution to other areas of the nation. This policy is founded on the belief that, while mining resources are regionally located, the rewards should be more evenly spread, as the whole nation and its citizens effectively own the mining resources.
- The revenue the MRRT was expected to raise (although it has raised very little so far) was to be redistributed to ease the adverse impact of the mining boom on particular groups, sectors and regions. For example, it was announced that the 'proceeds' from the MRRT would pay for
 - \$1.8 billion to increase Family Tax Benefit Part A for eligible families, commencing 1 July 2013
 - \$1.1 billion for a new Supplementary Allowance for the unemployed, students, and parents with young children, on income support, with the first payment commencing March 2012

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- An extra \$2.1 billion over five years on a new Schoolkids Bonus, to be paid directly to eligible recipients
- More than tripling the tax-free threshold from \$6000 to \$18 200 from 1 July 2012, saving up to 1 million Australians from having to lodge a tax return
- Allowing companies to carry-back tax losses so they get a refund against tax paid on the previous year in 2012–13, increasing to two years from 2013–14, providing a tax benefit of up to \$300 000 per year.
- Delivering tax breaks for small business from 1 July 2012, such as increasing the instant asset write-off threshold to \$6500.
- The problem of inequity resulting from the mining boom that created the two-speed economy should, in theory, be addressed by this policy initiative, but in late 2012, Treasury announced that projected revenues from the MRRT have fallen well short over the last two years as global commodity prices stalled, global demand for mining resources weakened and operational and infrastructure inefficiencies impeded production levels.

Question 4a.

Marks	0	1	2	Average
%	21	25	54	1.3

Most students knew that the value of the Australian dollar, while falling somewhat across 2013, was still at relatively high levels, and the majority of students were able to outline a factor that contributed to this. For example, even though the high demand for minerals has fallen somewhat, China is still demanding minerals exports. In order to achieve full marks, students needed to explain how their chosen factor influenced the demand and/or supply of Australian dollars, and thus the exchange rate.

Question 4b.

Marks	0	1	2	Average
%	11	28	61	1.5

This question was well handled by students. Answers indicated that students had a good understanding of the economic relationship between a high dollar value and its impact on the economy. High-quality answers made the following sorts of points.

- A highly valued \$AUD places many local industries (as seen in manufacturing, tourism and education) at a price disadvantage against global competitors.
- Not only will Australian consumers be attracted to purchasing imports instead of locally made goods and services, but Australian businesses will also struggle to sell their relatively expensive exports on overseas markets.
- The damaging effect upon net external demand will result in considerable leakage of economic activity out of the nation, which may lead to business closures and loss of employment in many local industries. Higher unemployment levels are concerning to the government for both economic and social reasons.

Question 4c.

Marks	0	1	2	3	4	Average
%	13	16	22	23	26	2.3

The majority of students were able to satisfactorily describe the effect of a high Australian dollar on living standards, with a number of very good answers submitted. However, many struggled to explain the effect of a high \$AUD on inflation. Students did not seem to understand that the value of the dollar affects import and export prices directly, but does not have a direct effect on the purchasing power of \$AUD within Australia. It only affects transactions across borders, because when we buy our own locally produced products we don't exchange our money for another currency.

A highly valued Australian dollar is likely to moderate inflation pressures. Students may have used either of the following arguments.

- A highly valued Australian dollar means the cost of local businesses importing intermediate goods and capital goods will be cheaper in terms of \$AUD – allowing businesses to moderate retail selling prices without damaging their own profitability. Thus, the high dollar serves to reduce cost-push pressures.
- The strong \$AUD will have been encouraging increased leakages out of the national economy and this will have been removing heat from Gross National Expenditure (GNE) and easing demand-pull inflationary pressures.

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Question 4d.

Marks	0	1	2	3	4	Average
%	28	19	22	20	11	1.7

To score full marks for this question, students needed to demonstrate an understanding of what is meant by external stability. A number of students provided adequate definitions, with good answers making these points.

- External stability is a key economic goal associated with a strengthening of Australia's position within the global economy. It is said to be achieved when Australia continues to be able to 'pay its own way' in international trade and financial dealings with other nations in the global economy. Success in this goal is measured using three key indicators
 - the size and direction of change in the exchange rate
 - the size and direction of change in the CAD:GDP ratio
 - the size and direction of change in the NFD:GDP ratio and the size and direction of change in the NFD Servicing:Export Earnings ratio.
- An unstable exchange rate reflects trade volatility. A large and increasing CAD:GDP ratio indicates an unsustainable leakage of domestic economic activity into the global marketplace. A large NFD Servicing:Export Earnings ratio reflects the inability of the national economy to repay interest on accumulated foreign sourced credit from current global income. In all such cases, the economy would be deemed to be failing in its goal.

While many students did not deal with this question in sufficient detail, many also lacked any good ideas about policies designed to promote external stability directly. Some were able to discuss the effect of increased infrastructure spending and its positive impact on international competitiveness, and thus the balance of payments and current account deficit (CAD). However, the best answers were those that discussed policies to promote national savings, such as increasing the superannuation contribution guarantee and moving the budget towards a surplus/smaller deficit.