

FREE TRADE AND PROTECTION

PRACTICE TEST #1

ECONOMICS ATAR UNIT 3



ATAR Survival Guide: Answer Key

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Answer Key

Multiple Choice

1	D
2	C
3	C
4	D
5	B
6	C

Worked Solution for Multiple Choice Question 4

	Cars		Iron Ore
Australia	100	Or	200
China	250	Or	200
	Cars		Iron Ore
Australia	1 Car = 2 Iron Ore	Or	1 Iron Ore = 0.5 Car
China	1 Car = 0.8 Iron Ore	Or	1 Iron Ore = 1.25 Car

Hence, Australia has a comparative advantage in Iron Ore

Worked Solution for Multiple Choice Question 6:

	Coal		Walls
Australia	50	Or	100
United States	65	Or	80
	Coal		Walls
Australia	1 Coal = 2 Walls	Or	1 Wall = 0.5 Coal
United States	1 Coal = 1.23 Walls	Or	1 Wall = 0.81 Coal

Hence, the United States has a comparative advantage in wall production.

Question 7

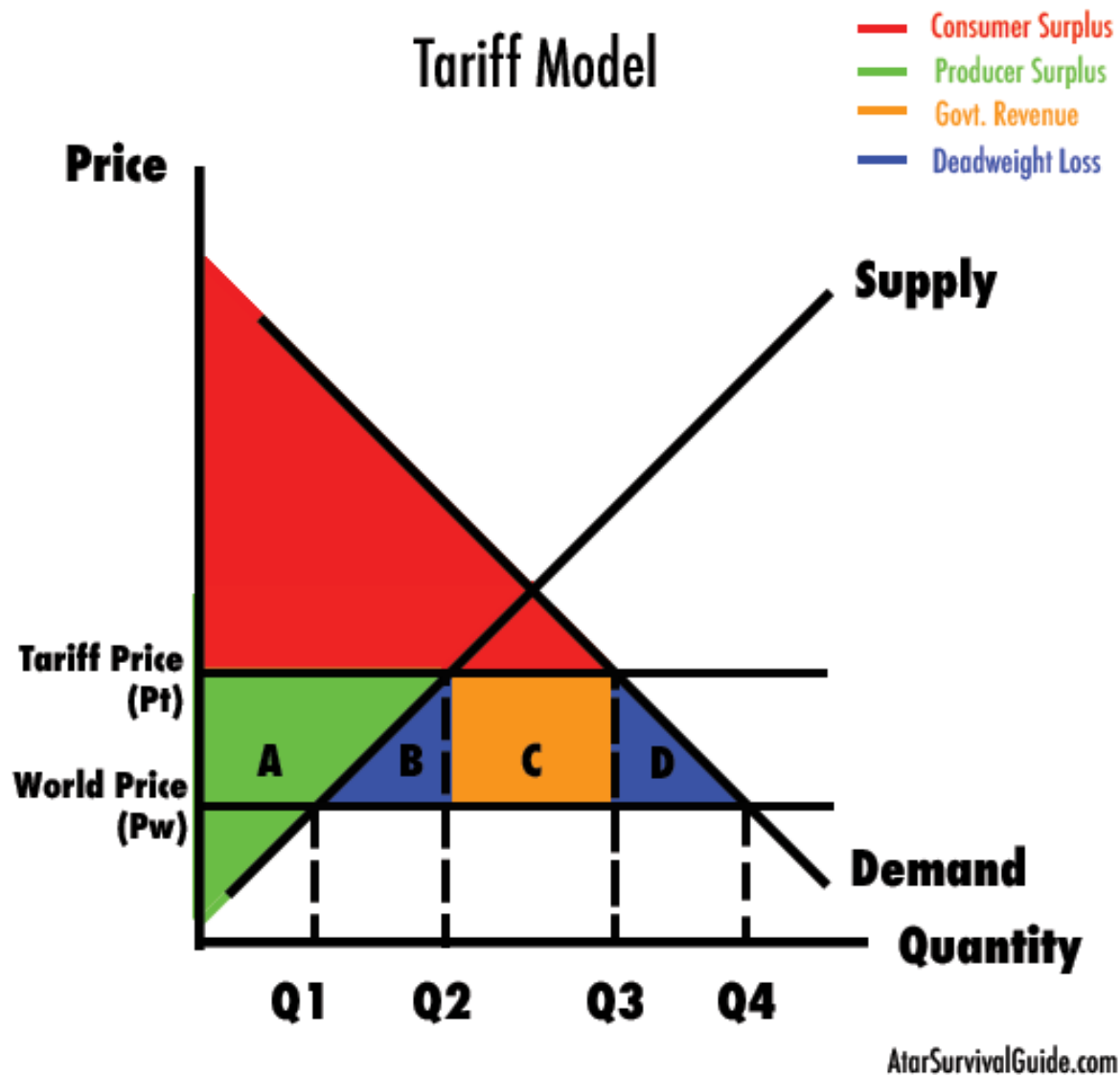
- a) State with reasons, whether ChAFTA is a bilateral or multilateral free trade agreement. (2 marks)

Description	
1 Mark for Bilateral, 1 Mark for Reasoning	
<ul style="list-style-type: none">ChAFTA is a bilateral free trade agreement	1 mark
<ul style="list-style-type: none">A bilateral free trade agreement is between two countries, in this case, ChAFTA is between China and Australia	1 mark
Total	2 marks
Accept other relevant answers	

- b) Discuss two advantages of Free Trade Agreements, with reference to the extract above. (4 marks)

Description	
2 Marks for Each Advantage (1 mark for Stating an Advantage, 1 mark for reference to extract)	
<ul style="list-style-type: none">ChAFTA will reduce tariffs on 96% of Australia's exports to China, increasing China's volume of Australian imports which will increase Australian domestic producer surplus and overall economic growth.	2 marks
<ul style="list-style-type: none">Better access to temporary Chinese skill labour will fill in skill labour force gaps, increasing economic activity and hence, increase economic growth.	2 marks
Total	4 marks
Accept other relevant answers	

- c) Using an appropriate model, demonstrate how the removal of Chinese tariffs can benefit Australia. (6 marks)



Description	
<ul style="list-style-type: none"> Correctly draws an appropriate model 	2 marks
Total	2 marks

Description	
Correctly explains the model and describes benefits	
<ul style="list-style-type: none"> • Defines tariff – a tariff is a government tax implemented on imported goods to increase domestic producer surplus 	1 mark
<ul style="list-style-type: none"> • The implementation of a tariff will increase the price of imports from the world price (P_w) to a tariff price (P_t). This results in a loss of consumer surplus of areas A + B + C + D as shown by consumers paying a higher price at P_t and receiving a lower quantity of goods from Q4 to Q3. 	2 marks
<ul style="list-style-type: none"> • A tariff will increase domestic producer surplus by area A, as shown by domestic producers receiving a higher price at P_t and selling a higher quantity of goods from Q1 to Q2. 	2 mark
<ul style="list-style-type: none"> • A tariff will increase government revenue by area C 	1 mark
<ul style="list-style-type: none"> • A tariff will result in a deadweight loss of areas B + D. As these areas are not translated into consumer, producer or government surplus and are lost, they present a net society loss. 	1 mark
Total	7 marks
Accept other relevant answers	

Question 8:

Most car manufacturers, including Toyota, Holden and Ford will cease production in Australia by the end of 2017. This has fuelled calls for protectionism to give certainty to the industry in Australia.

a) Define a Government Subsidy (1 mark)

Description	
Defines a government subsidy – 1 mark	
<ul style="list-style-type: none"> Government subsidies are grants given to domestic producers to lower their cost of production to better compete with lower price imports 	1 marks
Total	1 marks
Accept other relevant answers	

b) Discuss two arguments for and against trade liberation, in relation to the example above. (8 marks)

Description	
Lists and Explains Two Arguments For and Two Arguments Against – 2 marks for each	
<ul style="list-style-type: none"> Trade liberation provides an incentive for industries to be competitive. Uncompetitive industries, such as Australian car manufacturers, will be forced to innovate or change production to another expanding industry, increasing productivity and economic growth in the long term. 	2 marks
<ul style="list-style-type: none"> Trade liberation lowers inflation as importing cars is much cheaper than domestically producing it. Domestic production of cars would result in a loss of consumer surplus as consumers would have to pay more and receive a lower quantity of cars. 	2 mark
<ul style="list-style-type: none"> An argument against trade liberation is that it will result in an increase in structural unemployment. Those in uncompetitive industries, such as car manufacturing workers, will be unemployed with skills that are not required by the economy, resulting in long term unemployment. 	2 mark
<ul style="list-style-type: none"> An argument against trade liberation is that ensuring certainty in uncompetitive industries, such as car manufacturing, will help ensure the economy has a diverse range of industries. Ensuring Australia has a diverse range of industries, rather than relying on mining, will help ensure Australia is not too vulnerable to shocks in commodity prices. 	2 marks
Total	8 marks
Accept other relevant answers	

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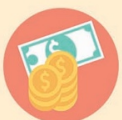
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