MA99 EDUCATION

Australia's Place in the Global Economy: Topic Notes

02

NSW ECONOMICS STAGE 6 SYLLABUS 2009 FOR HSC 2027

In this topic: Australia's trade and financial flows · the balance of payments · the current account deficit and its causes · foreign debt and foreign equity · exchange rates · free trade and protection in Australian policy

This topic changed recently, and most textbooks have not caught up

Australia ran a surplus on goods and services for most of the last decade. That ended. The balance on goods and services moved into deficit in the March quarter 2026, the first deficit since the December quarter 2017, and widened in the latest release (June quarter 2026).

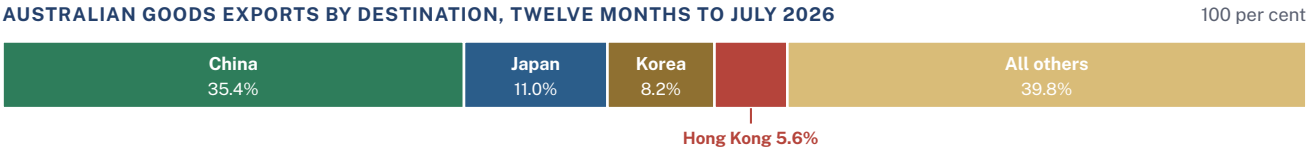
Any resource that describes Australia as reliably running a trade surplus, offset by a primary income deficit, is now describing the past. Section 2.3 sets out what to say instead.

Source: ABS Balance of Payments, June quarter 2026, released 1 September 2026.

1. Australia's trade and financial flows

1.1 The value, composition and direction of trade

Three questions, always in this order: how much, of what, and to whom. A response that answers all three is describing Australian trade; one that answers only the third is listing countries.



One market takes more than a third. That is the concentration risk.

BS International Trade in Goods, July 2026 release (released 3 September 2026). The next five are the United States, India, Taiwan, Singapore and the United Kingdo

Figure 1 · The direction of Australian goods exports.

Source: derived from ABS International Trade in Goods, twelve months to July 2026, released 3 September 2026.

The concentration is the point. One market takes more than a third of Australia's goods exports, and the top four take about sixty per cent. This is the single most quotable fact in the topic, and it cuts both ways in an essay: it is the source of the income Australia has enjoyed from the resources boom, and it is the exposure that makes a downturn in one economy a national problem.

1.2 Composition: what Australia actually sells

EXPORT CATEGORY	SHARE OF MERCHANDISE EXPORTS
Metalliferous ores, chiefly iron ore	29.6 per cent
Gold, non monetary	12.9 per cent
Coal, coke and briquettes	12.8 per cent
Natural gas, chiefly LNG	10.9 per cent

EXPORT CATEGORY	SHARE OF MERCHANDISE EXPORTS
Meat and meat preparations	5.5 per cent
Non ferrous metals	3.3 per cent
Cereals and cereal preparations	2.9 per cent

Source: derived from ABS International Trade in Goods, twelve months to July 2026, released 3 September 2026.

Note what this table does not include. It is goods only, so education and tourism, which are among Australia's largest exports of any kind, do not appear. When a question asks about the composition of Australian exports, say whether you are talking about goods or about goods and services, because the answer is different.

A structural change worth knowing

Gold is now Australia's second largest goods export, ahead of coal, at about 12.9 per cent of merchandise exports in the twelve months to July 2026. That is unusually high by historical standards and it reflects global demand for a safe asset.

It is a good example of composition changing faster than a syllabus does. Check it before you quote it in an examination: the ABS publishes monthly.

Update it yourself: abs.gov.au/statistics/economy/international-trade/international-trade-goods/latest-release.

1.3 Financial flows: debt and equity

Australia has imported capital for essentially its entire history as a modern economy, because domestic saving has been persistently lower than the investment the economy wants to undertake. That gap has to be financed from abroad, and it can be financed in one of two ways.

	FOREIGN DEBT	FOREIGN EQUITY
What the foreigner gets	A fixed claim: interest and repayment of principal	An ownership share: dividends and capital gains
Who bears the risk	The Australian borrower. The obligation is owed whether or not the project succeeds.	The foreign owner. A failed venture pays no dividend.
Effect on the current account	Interest payments are a debit on net primary income	Dividends paid abroad are a debit on net primary income
Australia's position at 30 June 2026	A net liability of $1,486.0 billion	A net asset of $847.1 billion

Source: ABS, at 30 June 2026, released 1 September 2026.

The nuance almost every student misses

Australia is a net foreign debtor but a net foreign equity holder. Australians, largely through superannuation funds, own more foreign shares and businesses than foreigners own of Australia.

Net the two together and the net international investment liability is $638.9 billion, which is far smaller than the foreign debt figure alone suggests. Quoting only the debt number overstates the external position, and saying so is worth a mark.

Source: ABS Balance of Payments, at 30 June 2026, released 1 September 2026.

2. The balance of payments

Balance of payments: the record of all transactions between Australia and the rest of the world over a period of time. It has two parts: the current account and the capital and financial account.

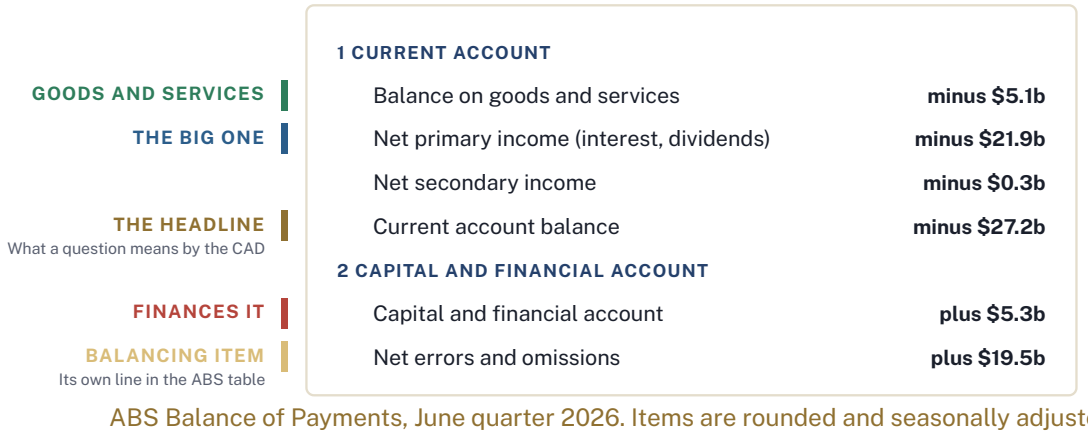


Figure 2 · Learn the structure once and every balance of payments question becomes arithmetic.

Source: ABS, June quarter 2026, seasonally adjusted, released 1 September 2026.

2.1 The current account, component by component

- **Net goods:** exports of goods less imports of goods. Driven by commodity prices and volumes.
- **Net services:** exports of services, including education and tourism, less imports of services, including Australians travelling overseas.
- **Net primary income:** income earned on investments, flowing in both directions. Interest on foreign debt and dividends to foreign owners are debits; income on Australian investments abroad is a credit. This is consistently the largest single deficit item in the Australian accounts, at a deficit of $21.9 billion in the June quarter 2026.
- **Net secondary income:** transfers with nothing received in return: foreign aid, workers' remittances, pensions paid abroad. Small for Australia.

2.2 The capital and financial account

This account records the transactions that finance the current account. A current account deficit means Australia is spending more on the rest of the world than it earns from it, and the difference must be funded by either borrowing from abroad or selling assets to foreigners. Both appear as credits on the financial account.

The identity you must be able to state

Under a floating exchange rate, the current account and the capital and financial account sum to zero, apart from a statistical discrepancy recorded as net errors and omissions. The seasonally adjusted lines in Figure 2 are adjusted one by one, so they leave a gap of about $2.4b; the identity is exact only in the original, unadjusted data.

This is an accounting identity, not a theory. It is true by construction. What it means in substance is that a current account deficit is always exactly matched by a net capital inflow, and that a country running a current account deficit is, by definition, a net importer of capital.

2.3 Why Australia runs a current account deficit

Australia has run a current account deficit in almost every year for more than four decades. There are two ways to explain it, and a strong response gives both.

THE SAVINGS AND INVESTMENT EXPLANATION

The current account deficit equals the gap between national investment and national saving. Australia is a capital scarce economy with a large resource endowment, so the investment opportunities here have historically exceeded domestic saving. The deficit is the arithmetic consequence of investing more than the country saves.

THE STRUCTURAL EXPLANATION

- A narrow export base concentrated in commodities whose prices Australia does not set.
- A large stock of foreign liabilities accumulated over decades, whose servicing cost shows up every quarter as a net primary income deficit.
- A high propensity to import manufactured goods, because Australia has a small domestic manufacturing sector.
- A relatively low national saving rate compared with the economies that fund it.

Is a current account deficit a problem?

The examinable answer is: it depends what is funding it and what it is funding.

The Pitchford thesis, which has been influential in Australian policy, argues that a deficit driven by private sector borrowing decisions is not a policy problem, because private borrowers bear the consequences of their own decisions and will not systematically over borrow.

The counterargument is that the deficit still creates vulnerability: it must be refinanced continuously, and a sudden loss of investor confidence forces an abrupt adjustment through the exchange rate and interest rates regardless of who did the borrowing.

An essay that simply asserts a deficit is bad has not engaged with the debate.

CALCULATING THE DEFICIT AS A SHARE OF GDP

Examiners like this calculation because it is the only way to compare a deficit across time or between economies. The ABS does not publish the ratio, so you work it out.

STEP	WORKING
Take the current account balance	$27,220 million deficit, June quarter 2026
Take nominal GDP for the same quarter	$742,502 million, June quarter 2026
Divide and multiply by 100	27,220 divided by 742,502, times 100
The answer	about 3.7 per cent of GDP for that quarter

Source: ABS, June quarter 2026, seasonally adjusted, released 1 September 2026. ABS, via RBA Table H1, June quarter 2026, released 3 September 2026.

Use the same quarter for both numbers. Comparing a quarterly deficit with annual GDP is the commonest arithmetic error in this topic and it understates the ratio by a factor of four.

> Same period on the top and the bottom. Every time.

2.4 The effects of the balance of payments on the economy

- **On the exchange rate:** a larger deficit means a larger supply of Australian dollars on foreign exchange markets relative to demand, which puts downward pressure on the currency.
- **On interest rates:** an economy dependent on foreign capital may need to offer a risk premium to keep attracting it, which raises domestic interest rates above what domestic conditions alone would require.
- **On growth:** servicing foreign liabilities transfers income abroad, which reduces the income available for domestic consumption and investment. This is the difference between gross domestic product and gross national income.
- **On policy credibility:** a persistent deficit constrains how expansionary policy can be, because stimulus tends to draw in imports and widen the deficit.

3. Exchange rates

3.1 Measuring the exchange rate

Exchange rate: the price of one currency expressed in terms of another.

Trade weighted index: the value of the Australian dollar against a basket of the currencies of Australia's major trading partners, each weighted by its share of trade. It is a better measure of overall competitiveness than any single bilateral rate, because a single rate can move for reasons that have nothing to do with Australia.

3.2 Where the dollar sits

INDICATOR	VALUE	REFERENCE DATE	RELEASED
AUD to USD	0.7032 US dollars	24 September 2026	24 September 2026
Trade weighted index	65.3 index points	24 September 2026	24 September 2026

Update it yourself: rba.gov.au/statistics/frequency/exchange-rates.html.

Why you should quote the trade weighted index as well as the US dollar rate

If the US dollar weakens against every currency in the world, AUD/USD rises without anything having changed in Australia. The trade weighted index would barely move.

A response that notices this distinction is doing analysis. One that treats AUD/USD as the exchange rate is doing recall.

3.3 What moves the dollar

The dollar is the price that clears the foreign exchange market, so anything that changes the demand for or supply of Australian dollars moves it.

FACTOR	RAISES DEMAND FOR AUD WHEN	RAISES SUPPLY OF AUD WHEN
Terms of trade	Export prices rise, so foreigners need more AUD to pay for Australian exports	Export prices fall
Interest rate differentials	Australian rates are high relative to overseas, attracting financial inflow	Australian rates are low relative to overseas
Expectations and speculation	Traders expect the AUD to appreciate	Traders expect it to depreciate
Relative inflation rates	Australian inflation is low relative to partners, improving competitiveness	Australian inflation is high relative to partners
Global risk sentiment	Investors are willing to hold risk	Investors move to safe havens. The AUD is treated as a risk currency.
Domestic growth prospects	Australia's outlook improves, attracting investment	The outlook deteriorates

3.4 Appreciation and depreciation

AN APPRECIATION
the dollar buys more

Exports dearer abroad, so export volumes fall
Imports cheaper here, so import volumes rise
Downward pressure on inflation
Import competing industry squeezed
Foreign debt servicing cheaper in dollars

A DEPRECIATION
the dollar buys less

Exports cheaper abroad, so export volumes rise
Imports dearer here, so import volumes fall
Upward pressure on inflation, imported
Import competing industry protected
Foreign debt servicing dearer in dollars

Neither is good or bad. Each helps one group and hurts another, which is what an essay must say.

Figure 3 · Neither direction is good or bad. Each helps one group and hurts another. As at 24 September 2026: AUD 0.7032 US dollars and trade weighted index 65.3 (RBA).

The dollar has appreciated over the past year, with the figure for 24 September 2026 at 0.7032 US dollars and a trade weighted index of 65.3 index points. For an essay, that means import competing industries and exporters are under more pressure than they were, while imported inflation is being held down.

Source: RBA, 24 September 2026, released 24 September 2026.

3.5 The J curve

1 **Dollar falls**
One dollar buys fewer units of foreign currency

2 **Exports cheaper**
Foreign buyers see lower prices, so demand rises

3 **Imports dearer**
Quantity falls and imported inflation rises

4 **Worse first**
Contracts are fixed, so the import bill jumps

5 **Then better**
Volumes adjust over twelve to eighteen months

Figure 4 · The order of events, which is where the marks are.

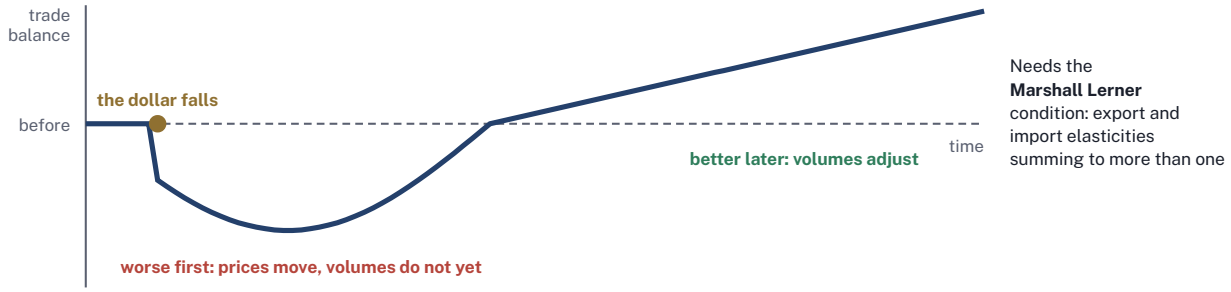


Figure 5 · The J curve. The trade balance gets worse before it gets better.

Marshall Lerner condition: a depreciation improves the trade balance only if the sum of the price elasticities of demand for exports and imports exceeds one. If demand is inelastic, the higher price of imports outweighs the volume response and the balance worsens.

J curve: the path of the trade balance after a depreciation: it worsens first, because contracts and volumes are fixed in the short run, then improves as quantities adjust over roughly twelve to eighteen months.

3.6 Exchange rate systems and Reserve Bank intervention

SYSTEM	HOW IT WORKS	TRADE OFF
Floating	The market sets the rate. Australia has floated since December 1983.	The rate absorbs external shocks automatically, but it is volatile and the central bank cannot use it as a target.
Managed float	The market sets the rate but the central bank intervenes to smooth disorderly movements	Reduces volatility, but intervention is costly and rarely changes the trend.
Fixed	The government pegs the rate to another currency or a basket	Certainty for traders, but monetary policy must be surrendered to defending the peg, and the peg can be attacked.

The Reserve Bank can intervene directly, by buying or selling Australian dollars in the foreign exchange market, which is called dirtying the float. It can also influence the rate indirectly through monetary policy, since a change in the cash rate changes the return on Australian assets and therefore the demand for the currency. Direct intervention in Australia is rare and is used to address disorderly markets rather than to target a level.

The benefit of a float that a top response names

A floating rate is an automatic stabiliser for a commodity exporter. When commodity prices fall, the dollar falls with them, which cushions the fall in Australian dollar export revenue and supports the trade exposed sector at exactly the moment it is under pressure.

This is a substantial part of why Australia avoided recession during several global downturns that hit comparable economies harder.

4. Australian policy on free trade and protection

Australia was one of the most protected economies in the developed world into the 1970s. The dismantling of that protection, beginning with a twenty five per cent across the board tariff cut in 1973 and continuing through the 1980s and 1990s, is one of the largest structural reforms in Australian economic history.

PERIOD	POLICY DIRECTION	EFFECT
To the early 1970s	High tariffs and quotas protecting manufacturing	A large but internationally uncompetitive manufacturing sector
1973	A twenty five per cent across the board tariff cut	The beginning of sustained liberalisation
1980s and 1990s	Phased tariff reductions, floating of the dollar, deregulation of finance	Resources shifted toward areas of comparative advantage; manufacturing employment fell sharply
2000s onward	Bilateral and regional free trade agreements	Preferential rather than multilateral liberalisation, with the trade diversion risk that carries

4.1 The consequences, honestly stated

Liberalisation raised aggregate national income and lowered prices for consumers. It also concentrated the costs on particular industries, particular regions and particular workers, and those costs were real. A response that acknowledges both is stronger than one that celebrates the reform or condemns it.

- **The gains:** lower consumer prices, access to inputs at world prices, stronger productivity growth in the industries that survived, and a reallocation of resources toward areas of genuine comparative advantage.
- **The costs:** sustained job losses in manufacturing, concentrated in particular regions, with adjustment that took a generation rather than a few years.
- **The policy lesson:** the case for liberalisation is a case about aggregate welfare. It does not by itself answer the question of what is owed to the people who bear the cost, which is why adjustment assistance and regional policy accompany trade reform.

4.2 The effect of other economies' protection on Australia

- Agricultural protection in Europe, the United States and Japan restricts market access for one of Australia's genuine comparative advantages.
- Subsidised production abroad depresses world prices for the commodities Australia sells.
- Trade measures imposed by a major partner can remove a large share of a market at short notice, which is the concentration risk in Figure 1 made concrete.
- Retaliation cycles raise costs for economies that were not party to the original dispute, because global value chains cross many borders.

Writing about trade disputes without dating your answer

Specific measures come and go, sometimes within a single school year. Write about the mechanism, which does not change, and attach one current example with its date.

The mechanism: a concentrated export market gives the buyer leverage, and the cost of diversifying away from it is borne by the exporter over years, not months.

5. Before you move on

TOPIC 2 SELF AUDIT

Tick only what you could do right now, closed book, under time. The purpose is to find the gap while there is still time to close it.

- ☐ I can state the value, composition and direction of Australian trade with current figures
- ☐ I can draw the structure of the balance of payments from memory
- ☐ I can explain net primary income and say why it is Australia's largest deficit item
- ☐ I can calculate the current account deficit as a share of GDP, using the same period for both
- ☐ I can distinguish net foreign debt from net foreign equity and state Australia's position on each
- ☐ I can give both the savings and investment explanation and the structural explanation of the deficit
- ☐ I can argue both sides of whether a current account deficit is a problem
- ☐ I can list six factors that move the dollar and say which way each pushes it
- ☐ I can explain the J curve and state the Marshall Lerner condition
- ☐ I can explain why a floating exchange rate is an automatic stabiliser for a commodity exporter

Interpreting your score

8 to 10: Ready for extended response practice on this topic. Move to the practice questions and work under time.

5 to 7: The content is there but it is not retrievable under pressure. Rewrite the weak sections from memory, then check them against these notes.

0 to 4: Work through the notes again with the summary beside you, then retake this audit. Do not start past papers yet; you would only practise the gaps.

Topic 2, tracked

Come back every few weeks and date it.

> Improvement in this subject is invisible from the inside. That is what the tracker is for.

DATE	DRILL SCORE	WHAT I GOT WRONG, AND WHETHER IT IS FIXED

THE TWELVE MINUTE DRILL

Once a week. Twelve minutes, timed, closed book. Short is the point: it fits on your worst day, and this skill improves by repetition rather than by one long session.

MINUTES	WHAT YOU DO
3 min	Draw the balance of payments structure and label every component
3 min	Calculate the current account deficit as a share of GDP from the latest two figures
4 min	List the factors moving the dollar, with the direction of each
2 min	Write the J curve sequence in order

> Mark it against the notes. Record only what you got wrong; that list is your revision plan for the week.

About this resource

MA99 EDUCATION

Scope

NSW Economics, Year 12. Written to the NSW Economics Stage 6 Syllabus 2009, Australia's Place in the Global Economy, for students sitting the HSC in 2027. A new Economics syllabus is first examined in HSC 2028. Australian and world data are real, dated and sourced; worked calculations use the invented economy of Verenga; every number was recomputed from its inputs before printing.

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MA99 EDUCATION

Australia's Place in the Global Economy: Practice Questions

02

NSW ECONOMICS STAGE 6 SYLLABUS 2009 FOR HSC 2027

1. Instructions

Total: 167 marks. At examination pace that is about 5 hours, so this is a bank to work through over several sittings rather than a paper to sit in one. For a timed run, take one band at a time and give yourself roughly two minutes a mark.

This is the most arithmetic heavy topic in the course. Show every calculation. Where a question asks for a balance, state whether it is a surplus or a deficit; a number without its sign is not an answer.

Australian figures in this set are real and dated. Verengan figures are invented so the arithmetic is clean. Verenga is a medium sized open economy with a floating currency, the vera, written V$.

The convention that trips everyone

A credit is money coming in. A debit is money going out. Australia's balance of payments is written so that the current account and the capital and financial account sum to zero, before the balancing item. A current account deficit is therefore financed by a capital and financial account surplus. It is not caused by it, and neither one is the other's fault.

> Every year students lose marks by calling the financing the cause. Do not be one of them.

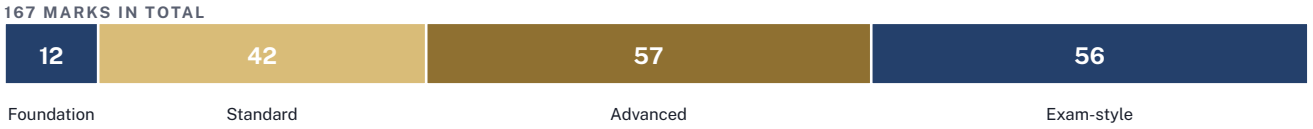


Figure 1 · How the 167 marks are spread across the four bands. The last two bands carry two thirds of the marks, so that is where the time goes.

2. The questions

FOUNDATION One idea, applied once. Circle the best answer.

Question 1

1 MARK

The balance of payments records:

A The Australian government's revenue and spending
B The assets held by Australian banks
C The value of the Australian dollar against the United States dollar
D All transactions between Australian residents and the rest of the world over a period

Question 2

1 MARK

The current account is made up of:

A The capital account and the financial account
B The goods and services balance, net primary income and net secondary income
C Exports only
D Government borrowing from overseas

Question 3

1 MARK

Interest paid by an Australian company to a foreign lender is recorded in:

A Net primary income
B The services balance
C The goods balance
D The capital account

Question 4

1 MARK

In the June quarter 2026, Australia's current account deficit was:

A A surplus of $27.2 billion
B A deficit of $27.2 billion
C A deficit of $5.1 billion
D A deficit of $1,486.0 billion

Question 5

1 MARK

The terms of trade is:

A The difference between exports and imports
B The exchange rate against the trade weighted index
C An index of export prices divided by an index of import prices, times 100
D The balance on the current account as a share of gross domestic product

Question 6

1 MARK

An improvement in the terms of trade means that:

A Australia exports a larger volume of goods
B The exchange rate has depreciated
C The current account has moved into surplus
D Export prices have risen relative to import prices, so a given volume of exports buys more imports

Question 7

1 MARK

Under a floating exchange rate, the value of the Australian dollar is determined by:

A The demand for and supply of Australian dollars in the foreign exchange market
B The Treasurer
C The Reserve Bank setting it each morning
D The level of the cash rate alone

Question 8

1 MARK

A depreciation of the Australian dollar will, other things equal:

A Make exports more expensive to foreign buyers and imports cheaper
B Make exports cheaper to foreign buyers and imports more expensive
C Leave both export and import prices unchanged
D Reduce the price of imported fuel

Question 9

1 MARK

Net foreign debt is:

A The total borrowing of the Australian government
B The current account deficit accumulated over ten years
C The value of foreign shares owned by Australians
D What Australian residents owe to foreigners, less what foreigners owe to Australian residents

Question 10

1 MARK

The J curve describes the effect on the trade balance of:

A A rise in the terms of trade
B An increase in tariffs
C A depreciation, which worsens the balance before it improves it
D A fall in the cash rate

Question 11

1 MARK

Australia's largest export market in calendar year 2025, measured on goods and services, was:

A China
B The United States
C Japan
D The Republic of Korea

Question 12

1 MARK

Australia's largest single export item in calendar year 2025 was:

A Coal
B Education related travel
C Iron ore and concentrates
D Natural gas

STANDARD Two steps, or one step plus an explanation.

Question 13

3 MARKS

Identify the three components of the current account and state one transaction that is recorded in each.

Question 14

3 MARKS

Explain why the current account and the capital and financial account must sum to zero.

Question 15

4 MARKS

Verenga's external accounts for one year are shown below, in billions of vera.

ITEM	CREDITS	DEBITS
Goods	128	104
Services	52	70
Primary income	14	46
Secondary income	6	8

(a) Calculate the balance on goods and services. (1 mark)

(b) Calculate the balance on primary income and on secondary income. (1 mark)

(c) Calculate the current account balance and state whether it is a surplus or a deficit. (1 mark)

(d) State the balance on the capital and financial account implied by your answer. (1 mark)

Question 16

3 MARKS

Verenga's export price index rose from 104 to 117 while its import price index rose from 100 to 104, over the same period.

(a) Calculate the terms of trade index in each period, on a base of 100. (2 marks)

(b) State whether the terms of trade improved or deteriorated, and by what percentage. (1 mark)

Question 17

4 MARKS

Explain two factors that increase the demand for Australian dollars on the foreign exchange market.

Question 18

3 MARKS

Distinguish between the bilateral exchange rate and the trade weighted index, and explain why the Reserve Bank watches the second.

Question 19

3 MARKS

On 24 September 2026, the Australian dollar bought 0.7032 United States dollars and the trade weighted index stood at 65.3 (RBA). Explain why these two figures can move in different directions.

Question 20

3 MARKS

Explain the difference between net foreign debt and net foreign equity, and state which one Australia holds as an asset.

Question 21

4 MARKS

Explain what the primary income deficit measures and why it is the largest component of Australia's current account deficit.

Question 22

4 MARKS

In the June quarter 2026, Australia's balance on goods and services was a deficit of $5.1 billion and net primary income a deficit of $21.9 billion, or 2.9 per cent of GDP (ABS). Explain what this composition tells you about the source of Australia's current account deficit.

Question 23

4 MARKS

Outline two measures of international competitiveness and explain what each captures that the other does not.

Question 24

4 MARKS

Explain what the Pitchford thesis argues about a current account deficit driven by private borrowing, and state one objection to it.

ADVANCED Several ideas held together, usually with data to read.

Question 25

6 MARKS

The Verengan vera depreciates from V$1 equals 0.80 Dunmorran dollars to V$1 equals 0.64 Dunmorran dollars.

(a) Calculate the percentage depreciation of the vera against the Dunmorran dollar. (2 marks)

(b) A Verengan exporter sells bauxite at V$500 a tonne and does not change the vera price. Calculate the price to a Dunmorran buyer before and after the depreciation. (2 marks)

(c) A Verengan firm owes a loan of 80 million Dunmorran dollars. Calculate the vera value of that debt before and after the depreciation, and explain the consequence. (2 marks)

Question 26

5 MARKS

Explain the J curve effect and the Marshall Lerner condition, and explain how they are related.

Question 27

6 MARKS

Analyse the effects of a sustained appreciation of the Australian dollar on the Australian economy. Refer to at least three effects that work in different directions.

Question 28

6 MARKS

At 30 June 2026, Australia's net foreign debt was $1,486.0 billion, or 51.4 per cent of GDP, while net foreign equity was an asset position of $847.1 billion, leaving a net international investment liability of $638.9 billion, or 22.1 per cent of GDP (ABS). Analyse what this structure tells you about Australia's external position, and explain why a debt figure quoted alone is misleading.

Question 29

6 MARKS

Analyse the relationship between the terms of trade, the exchange rate and national income for a commodity exporting economy.

Question 30

6 MARKS

Explain how the composition of Australia's exports creates a particular pattern of risk. In calendar year 2025 iron ore was $121.0 billion, or 18.2 per cent of exports, coal $64.1 billion, or 9.6 per cent, down 24.7 per cent on the year, and gold $59.5 billion, or 9.0 per cent, up 66.8 per cent (DFAT).

Question 31

6 MARKS

Analyse the arguments for and against the view that Australia's current account deficit is a problem requiring a policy response.

Question 32

5 MARKS

Explain how a floating exchange rate acts as an automatic stabiliser for a commodity exporting economy, and identify one circumstance in which it does not.

Question 33

6 MARKS

Australia has nineteen free trade agreements in force at September 2026, the most recent with the United Arab Emirates from 1 October 2025 (DFAT). Analyse the benefits and the costs to Australia of pursuing bilateral and regional agreements rather than multilateral liberalisation.

Question 34

5 MARKS

Explain the effect of a fall in the exchange rate on inflation, and explain why the size of that effect has changed over time.

EXAM-STYLE Written the way the HSC frames it, and marked that way.

Question 35

8 MARKS

Explain the structure of Australia's balance of payments, and analyse the causes of Australia's persistent current account deficit.

Question 36

10 MARKS

Analyse the effects of movements in the Australian dollar on Australia's trade performance and on domestic economic activity.

Question 37

10 MARKS

Assess the sustainability of Australia's foreign liabilities. Refer to dated evidence.

Question 38

8 MARKS

Explain the links between the terms of trade, the exchange rate and Australia's international competitiveness.

Question 39

10 MARKS

Discuss the impact of Australia's trade agreements on its trade performance and on its economic structure.

Question 40

10 MARKS

Evaluate the significance of Australia's trade concentration, in both its commodity composition and its destination, for the stability of the Australian economy.

3. Solutions

Answers, worked solutions and marking criteria for all forty items.

Foundation · Answers

Q	ANSWER	WHY
1	(D)	The balance of payments is a record of transactions over a period, not a stock at a point in time.
2	(B)	Goods and services, primary income and secondary income. The capital and financial account is the other half of the balance of payments.
3	(A)	Interest and dividends paid to foreigners are primary income debits, because they are returns on factors of production.
4	(B)	A deficit of $27.2 billion in the June quarter 2026, which widened by $1.8 billion on the March quarter.
5	(C)	An index of export prices over an index of import prices, times 100.
6	(D)	The terms of trade is about prices, not volumes. A rise means each unit of exports buys more imports.
7	(A)	A floating rate is set by demand and supply. The Reserve Bank sets the cash rate, which influences the rate but does not set it.
8	(B)	A depreciation lowers the foreign currency price of exports and raises the domestic price of imports.
9	(D)	Net foreign debt is a net figure and it covers all residents, not only the government.
10	(C)	Volumes take time to respond while the higher import price applies immediately, so the balance worsens first.
11	(A)	China, at $195,647 million, or 29.4 per cent of exports.
12	(C)	Iron ore and concentrates, at $120,954 million, or 18.2 per cent.

Standard and Advanced · Worked solutions

QUESTION 13 · 3 MARKS

Balance on goods and services: exports and imports of goods, such as iron ore, and of services, such as education related travel and tourism.

Net primary income: returns to factors of production, chiefly interest paid on foreign debt and dividends paid on foreign owned equity, in both directions.

Net secondary income: transfers with nothing given in return, such as foreign aid, pensions paid abroad and workers' remittances.

Marks: 1 for each component correctly named with a valid example.

QUESTION 14 · 3 MARKS

Every transaction is recorded twice, once as a credit and once as a matching debit. A sale of exports earns foreign currency, which must be brought back, held or lent abroad, and each of those is recorded in the capital and financial account.

So a deficit on the current account means Australia has spent more foreign currency than it earned, and the difference must have been funded by borrowing from or selling assets to foreigners, which is a capital and financial account surplus of the same size.

In practice the two do not match exactly because the data are collected from different sources, and the gap is recorded as a net errors and omissions or balancing item.

Marks: 1 for double entry; 1 for the financing relationship; 1 for the balancing item.

QUESTION 15 · 4 MARKS

(a) Goods: 128 less 104 equals a surplus of V$24 billion. Services: 52 less 70 equals a deficit of V$18 billion. Balance on goods and services: 24 less 18 equals a surplus of V$6 billion.

(b) Primary income: 14 less 46 equals a deficit of V$32 billion. Secondary income: 6 less 8 equals a deficit of V$2 billion.

(c) Current account: 6 less 32 less 2 equals a deficit of V$28 billion.

(d) The capital and financial account must be a surplus of V$28 billion, ignoring the balancing item.

Marks: 1 for each of the four parts. A correct number with the wrong sign or without the words surplus or deficit earns half, rounded down.

QUESTION 16 · 3 MARKS

(a) Terms of trade equals the export price index divided by the import price index, times 100. Period one: 104 divided by 100, times 100, equals 104. Period two: 117 divided by 104, times 100, equals 112.5.

(b) The terms of trade improved, from 104 to 112.5. The percentage change is 8.5 divided by 104, times 100, which is 8.2 per cent.

Marks: 2 for both index values with the formula shown; 1 for improved and the correct percentage.

QUESTION 17 · 4 MARKS

Demand for Australian dollars rises when foreigners want to buy Australian exports, because they must convert their currency into Australian dollars to pay for them. A rise in commodity prices or in the volume of exports therefore raises demand.

Demand also rises when foreigners want to invest in Australia, whether by buying Australian assets or by lending. A widening interest differential in Australia's favour, or an improvement in expected returns, raises this demand.

Other acceptable factors: speculation that the dollar will appreciate; a fall in Australian inflation relative to trading partners, which improves competitiveness.

Marks: 2 for each factor, where the mechanism is explained rather than named.

QUESTION 18 · 3 MARKS

A bilateral exchange rate is the value of the Australian dollar against one other currency, such as the United States dollar.

The trade weighted index is the value of the Australian dollar against a basket of the currencies of Australia's trading partners, each weighted by its share of Australia's trade.

The Reserve Bank watches the trade weighted index because competitiveness depends on the dollar against all trading partners, not one. The dollar can fall against the United States dollar while rising against others, in which case the bilateral rate overstates the improvement in competitiveness.

Marks: 1 for each definition; 1 for why the index is the better guide to competitiveness.

QUESTION 19 · 3 MARKS

The bilateral rate measures the dollar against one currency. The trade weighted index measures it against a weighted basket.

If the Australian dollar rises against the Chinese yuan and the euro but falls against the United States dollar, the bilateral United States rate falls while the trade weighted index, which averages many partners using trade weights, can rise. The two can therefore move in opposite directions, and a single bilateral rate is partly about the other currency rather than about the Australian dollar.

This is why a headline about the dollar falling against the United States dollar can coexist with an almost unchanged position against Australia's actual trading partners.

Marks: 1 for the difference in what each measures; 1 for a mechanism that separates them; 1 for the implication for interpreting a headline.

QUESTION 20 · 3 MARKS

Net foreign debt is the stock of borrowing owed by Australian residents to foreigners, less the lending owed to Australian residents by foreigners. It carries a contractual obligation to pay interest and to repay principal.

Net foreign equity is the difference between the value of Australian owned equity abroad and foreign owned equity in Australia. Equity carries no obligation to repay, and the return varies with profit. Australia holds net foreign equity as an asset: $847.1 billion at 30 June 2026 (ABS), largely because superannuation funds hold shares overseas.

Marks: 1 for each definition; 1 for the correct identification of the asset position with a dated figure.

QUESTION 21 · 4 MARKS

The primary income balance measures the returns paid to the owners of factors of production across borders: interest on debt, dividends on equity, and reinvested earnings, netted between what Australia pays out and what it receives.

It is a deficit for Australia because Australia has run current account deficits for most of its history and has funded them by borrowing from and selling assets to foreigners. The stock of those liabilities is large, so the servicing cost is large.

It is therefore the consequence of past deficits rather than of any current trade weakness, which is why it persists even in periods when Australia is selling more goods abroad than it buys.

In the June quarter 2026 net primary income was a deficit of $21.9 billion, or 2.9 per cent of GDP, out of a total current account deficit of $27.2 billion, or 3.7 per cent of GDP (ABS).

Marks: 1 for what it measures; 2 for the explanation that it reflects the accumulated stock of liabilities; 1 for a dated figure.

QUESTION 22 · 4 MARKS

The primary income deficit of $21.9 billion is roughly four times the goods and services deficit of $5.1 billion, so the great majority of the current account deficit is the cost of servicing foreign liabilities rather than an excess of imports over exports.

This is the structural reading: Australia's deficit is a consequence of having imported capital over a long period, which is a different problem from an economy that cannot sell its output abroad.

There is a live qualification. The goods and services balance has itself moved into deficit, having fallen into deficit in the March quarter 2026 for the first time since the December quarter 2017 (ABS), so both components are now negative. That is new and it is worth saying, but the relative sizes still hold. The policy implication differs accordingly. A trade driven deficit points to competitiveness policy; an income driven deficit points to national saving, and to whether the borrowed capital has been invested productively enough to service itself.

Marks: 1 for the comparison of the two components; 1 for the structural reading; 1 for the qualification that goods and services has also moved into deficit; 1 for the policy implication.

QUESTION 23 · 4 MARKS

Relative unit labour costs: the cost of labour per unit of output in Australia compared with trading partners, expressed in a common currency. It captures the combined effect of wages, productivity and the exchange rate on the cost of producing here.

The real exchange rate: the nominal exchange rate adjusted for relative price levels. It captures whether Australian goods are cheap or dear to a foreign buyer after inflation differences are taken out. Unit labour costs capture the supply side, including productivity, which the real exchange rate does not isolate. The real exchange rate captures all prices, not only labour costs, and so covers industries where labour is a small share of cost.

Other acceptable measures: export market share, and non price competitiveness such as quality, reliability and delivery time, which neither index measures at all.

Marks: 2 for each measure with what it captures; the fourth mark requires the contrast to be explicit.

QUESTION 24 · 4 MARKS

The Pitchford thesis argues that a current account deficit arising from the borrowing decisions of private agents is not in itself a policy problem. Private borrowers and lenders each bear the consequences of their own decisions, they have the information and the incentive to judge the return, and the deficit is simply the sum of those voluntary decisions.

On this view the deficit is a problem only if it results from government borrowing, or from distortions that cause private agents to borrow more than they otherwise would.

The principal objection is that private decisions can carry costs the borrower does not bear. A currency crisis, a sudden withdrawal of foreign funding or a banking failure affects the whole economy, not only the borrowers, so the private calculation omits a real social cost.

A second objection is composition: if borrowing funds consumption or asset prices rather than productive investment, the liability grows without the income to service it.

Marks: 2 for the thesis; 1 for the condition under which it says a deficit does matter; 1 for a valid objection.

QUESTION 25 · 6 MARKS

(a) The vera falls from 0.80 to 0.64 Dunmorran dollars, a fall of 0.16. As a percentage of the starting value: 0.16 divided by 0.80, times 100, equals a depreciation of 20 per cent.

(b) Before: V$500 times 0.80 equals 400 Dunmorran dollars. After: V$500 times 0.64 equals 320 Dunmorran dollars. The bauxite is 20 per cent cheaper to the Dunmorran buyer although its vera price has not changed.

(c) Before: 80 million Dunmorran dollars divided by 0.80 equals V$100 million. After: 80 million divided by 0.64 equals V$125 million. The vera value of the debt rises by V$25 million, or 25 per cent, without the firm borrowing another cent. A depreciation helps the exporter and hurts the foreign currency borrower at the same time, and firms that are both must hedge.

Marks: 2 for the 20 per cent depreciation with working; 2 for both export prices; 2 for both debt values with the consequence explained. Note that the 20 per cent fall in the vera raises the debt by 25 per cent, not 20; an answer that says 20 earns 1 of the last 2.

QUESTION 26 · 5 MARKS

The Marshall Lerner condition states that a depreciation improves the trade balance only if the sum of the price elasticities of demand for exports and for imports is greater than one. If demand on both sides is inelastic, the higher price of imports outweighs the volume response and the balance worsens. The J curve describes the path over time. Immediately after a depreciation, contracts are already signed and volumes have not adjusted, so the higher import price dominates and the trade balance worsens. Over the following quarters volumes respond, exports rise and imports fall, and the balance improves past its starting point.

The two are connected because elasticities rise with the time allowed for adjustment. In the short run the Marshall Lerner condition typically fails, which is the downstroke of the J; in the longer run it typically holds, which is the upstroke.

The practical implication is that a government should not judge a depreciation by the trade balance one quarter later.

Marks: 2 for the condition; 2 for the path; 1 for the link through time varying elasticities.

QUESTION 27 · 6 MARKS

Against exporters and import competing producers. An appreciation raises the foreign currency price of Australian exports and lowers the domestic price of imports, so export volumes fall and import competing industries lose market share. Employment in those sectors falls, and because they are regionally concentrated the effect is uneven.

In favour of consumers and of firms that import inputs. Imported goods and inputs become cheaper, which raises real incomes and lowers production costs for firms that buy from abroad. Overseas travel and imported capital equipment become cheaper.

On inflation. Cheaper imports reduce imported inflation directly and through input costs, which gives the Reserve Bank room it would not otherwise have. An appreciation is therefore partly a substitute for tighter monetary policy.

On foreign liabilities. An appreciation reduces the Australian dollar value of debt denominated in foreign currency and of the servicing cost, but it also reduces the Australian dollar value of Australia's foreign equity assets, which are a large position (net foreign equity is an asset of $847.1 billion).

The net effect depends on what caused the appreciation. If it reflects a rise in the terms of trade, national income rises and the appreciation is part of how that income is delivered. If it reflects a rise in foreign interest in Australian assets alone, the competitiveness cost arrives without the income gain.

Marks: 2 for each of three distinct effects explained, to a maximum of 6. A response that lists effects without mechanisms is capped at 3. The distinction by cause earns the sixth mark where three effects are already there.

QUESTION 28 · 6 MARKS

The structure. Australia is a large net debtor and a large net equity holder at the same time. It has borrowed heavily from abroad and simultaneously accumulated equity overseas, chiefly through superannuation funds. Netting the two gives a net international investment liability of $638.9 billion, or 22.1 per cent of GDP, far smaller than the debt figure alone.

Why the debt figure alone misleads. Quoting the figure at 30 June 2026 of $1,486.0 billion, or 51.4 per cent of GDP, as Australia's external position ignores $847.1 billion of offsetting assets. It is the equivalent of describing a household by its mortgage while ignoring the house.

The two sides also behave differently. Debt carries a contractual servicing obligation whatever happens; equity returns fall when the foreign economy weakens. A net position weighted towards equity assets and debt liabilities is therefore riskier than the net figure suggests during a global downturn, because the income on the assets falls while the obligation on the liabilities does not.

Currency denomination matters too. A depreciation raises the Australian dollar value of foreign currency debt but also raises the value of foreign equity assets, and the direction of the net effect depends on how much of the debt is hedged or is denominated in Australian dollars.

The sensible judgement is that the gross debt figure overstates the vulnerability and the net figure understates the asymmetry between the two sides.

Marks: 2 for describing the structure with both figures; 2 for why the debt figure alone misleads; 2 for the asymmetry between debt and equity in a downturn.

QUESTION 29 · 6 MARKS

The terms of trade and income. For a commodity exporter, a rise in the terms of trade raises the purchasing power of a given volume of exports. National income rises without any increase in the volume produced, which shows up as a rise in real gross domestic income above the rise in real gross domestic product.

The terms of trade and the exchange rate. Higher commodity prices raise the demand for the currency, both to pay for the exports and to fund the investment that follows, so the exchange rate appreciates. For Australia the correlation between the terms of trade and the trade weighted index is one of the strongest relationships in the data.

The exchange rate and the rest of the economy. The appreciation redistributes the gain. The commodity sector receives higher prices; the non commodity traded sector faces a higher exchange rate without the price gain, and contracts. This is the mechanism behind the two speed economy.

The whole sequence runs in reverse on the way down, which is the stabilising part: when the terms of trade fall, the currency depreciates, which cushions export income in domestic currency terms and returns competitiveness to the rest of the traded sector.

In the June quarter 2026 the terms of trade fell 1.6 per cent to 94.8, on a base of 2023-24 equals 100 (ABS), a fall the ABS attributed mainly to higher import prices.

Marks: 2 for terms of trade and income; 2 for the link to the exchange rate; 2 for the redistribution within the economy and the reversal on the way down.

QUESTION 30 · 6 MARKS

Concentration in a narrow set of commodities means export income is determined by world prices that Australia does not set. The three largest items are all mineral or energy commodities.

The volatility is visible within a single year. Coal fell 24.7 per cent while gold rose 66.8 per cent, between calendar 2024 and calendar 2025, with no comparable change in the volumes produced.

Because these are prices rather than volumes, the swing runs straight into national income, company profits, company tax receipts and state royalties, and therefore into the Commonwealth budget. A commodity price forecast is a budget forecast.

The partial offsets. Gold rising while coal fell is genuine diversification within the commodity basket, and a floating exchange rate cushions the domestic currency value of export receipts when prices fall. The structural risk is different from the volatility risk. Coal's fall may be cyclical or it may be the beginning of a permanent decline as trading partners decarbonise, and the two require different responses: a stabilisation fund for the first, structural adjustment policy for the second.

Marks: 2 for the concentration and its consequence; 2 for using the dated figures to show volatility; 2 for the offsets and the distinction between cyclical and structural risk.

QUESTION 31 · 6 MARKS

The case that it is a problem. A deficit must be financed, so it adds to foreign liabilities and to the servicing cost, which is already the largest part of the deficit. It creates dependence on foreign investor sentiment, which can reverse quickly. A large deficit can be a symptom of low national saving or of poor competitiveness. And servicing costs are a first claim on export earnings.

The case that it is not. Under the Pitchford view, a deficit arising from private decisions reflects profitable investment opportunities exceeding domestic saving, which is what a developing resource economy should expect. Australia has run deficits for most of its history without crisis. Much of the borrowing is hedged or denominated in Australian dollars, which

removes the currency mismatch that caused crises elsewhere. And Australia holds a large net foreign equity asset position against the debt. The resolution. The size of the deficit matters less than what the borrowing funds and how it is denominated. Borrowing that funds productive investment generates the income to service itself; borrowing that funds consumption or asset prices does not.

The policy conclusion follows. There is no case for a policy targeted at the deficit itself. There is a case for policy directed at national saving, at the productivity of investment, and at the prudential regulation that limits currency and maturity mismatch.

Marks: 2 for each side properly argued; 2 for a resolution that identifies composition and denomination as what matters.

QUESTION 32 · 5 MARKS

The mechanism. When commodity prices fall, foreign demand for the currency falls with them and the exchange rate depreciates. The depreciation raises the domestic currency value of each unit of exports, which partly offsets the fall in the foreign currency price, and it improves the competitiveness of every other traded industry at the same time. Income and employment therefore fall by less than the commodity price fall alone would imply.

It works in the other direction too. A commodity boom appreciates the currency, which restrains the inflationary pressure that the income gain would otherwise create.

Where it does not work. If the depreciation is large and imported inputs are a large share of costs, the rise in import prices can raise inflation enough to force a monetary policy tightening, and the contraction from that tightening offsets the cushioning. The same failure occurs where firms hold large unhedged foreign currency debt, because the depreciation raises the domestic value of that debt at exactly the moment their income falls.

Marks: 3 for the stabilising mechanism in both directions; 2 for a circumstance in which it fails, explained.

QUESTION 33 · 6 MARKS

Benefits. Bilateral and regional agreements can be concluded when multilateral negotiation is deadlocked, and they can go further than the multilateral system on services, investment and regulatory alignment. They give Australian exporters preferential access ahead of competitors. For a middle power they are also a way of diversifying away from a single dominant market.

Costs. Preferential access to some partners means trade diversion away from lower cost producers outside the agreement, which reduces efficiency. Nineteen agreements produce overlapping rules of origin, and the compliance cost falls hardest on small exporters, so the preference is often not used. Negotiating bilaterally weakens the multilateral system that a small economy relies on most, because bargaining power matters less under common rules.

The judgement for Australia. As a middle sized economy without the leverage of a large market, Australia gains most from a rules based multilateral system, and the bilateral route is second best pursued because the first best has stalled. The 72 per cent of world merchandise trade still conducted on a most favoured nation basis at the end of February 2026 (WTO) is the measure of how much of the first best remains.

Marks: 2 for benefits; 2 for costs; 2 for a judgement that addresses Australia's particular position.

QUESTION 34 · 5 MARKS

The mechanism. A depreciation raises the Australian dollar price of imported finished goods directly, and of imported inputs, which raises domestic production costs and feeds through to consumer prices with a lag. This is exchange rate pass through.

Why the effect has weakened. A larger share of import contracts is now written in Australian dollars or hedged, which delays the pass through. Global supply chains mean the imported content of a finished good is itself sourced in several currencies. Retailers absorb part of the change in their margins to hold market share. And credible inflation targeting anchors expectations, so a one off price rise does not become an ongoing inflation rate.

The consequence for policy is that a given depreciation now requires less of a monetary response than the same movement would have required thirty years ago, but the effect is not zero, and a large sustained depreciation still shows up in the consumer price index.

Marks: 2 for the mechanism including the lag; 2 for at least two reasons the effect has weakened; 1 for the policy consequence.

Exam-style · Indicative content and criteria

QUESTION 35 · 8 MARKS

Indicative content: the two accounts and their components; the double entry logic that makes them sum to zero; then the causes, distinguishing the structural primary income deficit arising from accumulated foreign liabilities from the cyclical goods and services position, which moves with the terms of trade and the exchange rate. Dated evidence: a current account deficit of $27.2 billion, or 3.7 per cent of GDP, in the June quarter 2026, of which net primary income was a deficit of $21.9 billion, or 2.9 per cent of GDP, and goods and services a deficit of $5.1 billion (ABS). The low national saving explanation should appear.

MARKS	CRITERIA
7 to 8	Explains the structure accurately and analyses causes, separating structural from cyclical, with dated figures.
5 to 6	Explains the structure and gives sound causes, with at least one dated figure.
3 to 4	Describes the accounts with limited causal analysis.
1 to 2	Limited attempt, or confuses the current account with the budget.

QUESTION 36 · 10 MARKS

Indicative content: the determinants of the exchange rate; the effects of appreciation and depreciation on exports, imports, the trade balance and the composition of output; the J curve and the Marshall Lerner condition; effects on inflation through pass through; effects on foreign liabilities in both directions; the stabilising role for a commodity exporter, and its limits. A strong response distinguishes the cause of a movement from the movement itself.

MARKS	CRITERIA
9 to 10	Analyses both directions with correct theory, uses the J curve and pass through accurately, refers to dated figures, and distinguishes causes of movements from their effects.
7 to 8	Sound analysis of both directions with some theory and at least one dated figure.
5 to 6	Describes the main effects with limited theory.
3 to 4	Some relevant points, mostly one directional.
1 to 2	Limited attempt.

QUESTION 37 · 10 MARKS

Indicative content: the distinction between the flow, being the current account deficit, and the stock, being net foreign debt and the net international investment position; the figures at 30 June 2026, being net foreign debt of $1,486.0 billion, or 51.4 per cent of GDP, net foreign equity assets of $847.1 billion, and a net international investment liability of $638.9 billion, or 22.1 per cent of GDP (ABS); the debt servicing ratio and the composition of the borrowing; the Pitchford thesis and its objections; currency denomination and hedging; the judgement that sustainability depends on whether the borrowing funds investment that services itself.

MARKS	CRITERIA
9 to 10	Distinguishes stock from flow, uses dated figures on both, argues both sides of sustainability, and reaches a defensible judgement with stated criteria.
7 to 8	Uses the figures correctly and argues sustainability with some balance.
5 to 6	Describes the position with limited evaluation, or conflates debt with the net position.
3 to 4	Some relevant figures, little argument.
1 to 2	Limited attempt.

QUESTION 38 · 8 MARKS

Indicative content: the terms of trade as a price ratio and its effect on national income; the transmission to the exchange rate; the effect of the exchange rate on relative unit labour costs and the real exchange rate; the squeeze on non commodity traded industries during a boom; the reversal on the way down. The terms of trade for the June quarter 2026 of 94.8, down 1.6 per cent, on a base of 2023-24 equals 100 (ABS), and the exchange rate on 24 September 2026 of 0.7032 United States dollars with a trade weighted index of 65.3 (RBA), give the dated anchor.

MARKS	CRITERIA
7 to 8	Links all three accurately with mechanisms, not assertions, and uses dated figures.
5 to 6	Links the three with sound theory and at least one figure.
3 to 4	Describes each separately with weak links.
1 to 2	Limited attempt.

QUESTION 39 · 10 MARKS

Indicative content: the nineteen agreements in force at September 2026 (DFAT) and the shift from multilateral to preferential liberalisation; trade creation and diversion; the effect on the composition of Australian exports and on import competing industries; the concentration of exports in China at 29.4 per cent in calendar year 2025 (DFAT) and whether agreements have diversified or deepened it; rules of origin compliance costs; the strategic dimension. Both sides required for a discuss.

MARKS	CRITERIA
9 to 10	Discusses both trade performance and structural effects, uses creation and diversion correctly, cites dated evidence, and reaches a balanced conclusion.
7 to 8	Both effects covered with evidence, conclusion reached.
5 to 6	Mostly one sided or descriptive, some evidence.
3 to 4	Lists agreements with little analysis.
1 to 2	Limited attempt.

QUESTION 40 · 10 MARKS

Indicative content: commodity concentration, with iron ore at 18.2 per cent, coal at 9.6 per cent and gold at 9.0 per cent of exports in calendar year 2025 (DFAT); destination concentration, with China at 29.4 per cent (DFAT); the volatility this transmits to national income, the budget and the exchange rate, illustrated by coal falling 24.7 per cent while gold rose 66.8 per cent in one year (DFAT); the stabilising role of the floating exchange rate; the counter argument that concentration is the expression of comparative advantage and that forced diversification sacrifices real income; policy options being stabilisation funds, market diversification and structural adjustment, with their limits. An evaluate requires a judgement against stated criteria.

MARKS	CRITERIA
9 to 10	Evaluates against explicit criteria, quantifies both concentrations with dated figures, addresses the comparative advantage counter argument, and reaches a defensible judgement.
7 to 8	Sound evaluation with dated evidence on both concentrations and a judgement.
5 to 6	Describes the concentration and asserts significance with limited support.
3 to 4	Some relevant points, little evaluation.
1 to 2	Limited attempt.

> Say surplus or deficit. A number on its own is half an answer.

Attempt record

Come back every few weeks and date it. Improvement in a written subject is invisible from the inside, which is why students who are getting better so often believe they are not.

DATE	MARK OUT OF 167	THE ONE THING TO FIX NEXT TIME

Fill one row every time you sit a set. A tracker with three rows in it is worth more than a perfect one you never started, because the pattern you are looking for only shows up across attempts, not inside one.

About this resource

MA99 EDUCATION

Scope

NSW Economics, Year 12. Written to the NSW Economics Stage 6 Syllabus 2009, Australia's Place in the Global Economy, for students sitting the HSC in 2027. A new Economics syllabus is first examined in HSC 2028. Australian and world data are real, dated and sourced; worked calculations use the invented economy of Verenga; every number was recomputed from its inputs before printing.

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