

2008
HIGHER SCHOOL CERTIFICATE
Sample Examination Paper

ECONOMICS

General Instructions

- Reading time – 5 minutes
- Working time – 3 hours
- Write using blue or black pen
- Write your student number at the top of this page

Total marks – 100

Section I

20 marks

- Attempt Questions 1–20
- Allow about 35 minutes for this section

Section II

40 marks

- Attempt Questions 21–24
- Allow about 1 hour and 15 minutes for this section

Section III

20 marks

- Attempt either Question 25 or Question 26
- Allow about 35 minutes for this section

Section IV

20 marks

- Attempt either Question 27 or Question 28
- Allow about 35 minutes for this section

Directions to school or college

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Section I
20 marks

Attempt Questions 1–20
Allow about 35 minutes for this section

Use the multiple choice answer sheet.

- 1 Which of the following would encourage the process of globalisation?
 - A A reduction in the levels of direct foreign investment
 - B A reduction in the number of free trade agreements
 - C A reduction in tariff levels
 - D A reduction in immigration levels

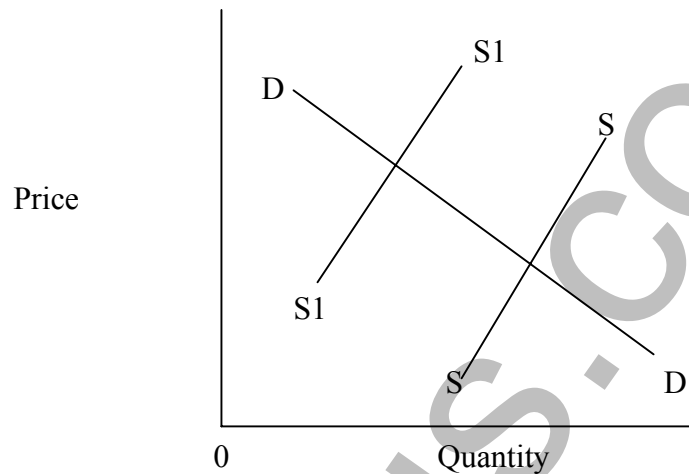
- 2 Which of the following would occur due to an increase in economic activity?
 - A An increase in transfer payments and the budget deficit would decrease
 - B An increase in tax revenue and the budget surplus would increase
 - C A decrease in transfer payments and the budget deficit would increase
 - D A decrease in tax revenue and the budget surplus would decrease

- 3 If investment rises by \$100m in an economy and this raises national income by \$500m what is the marginal propensity to save in this economy?
 - A 0.1
 - B 0.2
 - C 0.5
 - D 0.8

- 4 Other things being equal what would be the impact on Australia of interest rates falling overseas?
 - A Increased capital inflow and an appreciation of the Australian dollar
 - B Decreased capital inflow and an appreciation of the Australian dollar
 - C Increased capital inflow and a depreciation of the Australian dollar
 - D Decreased capital inflow and a depreciation of the Australian dollar

- 5 Which of the following international organisations would most likely provide assistance to an economy experiencing major exchange rate problems?
 - A World Bank
 - B World Trade Organisation
 - C Association of South East Asian Nations
 - D International Monetary Fund

- 6 Which of the following could explain a movement in Australia's Terms of Trade index from 112 to 118?
- A A fall in the volume of goods exported relative to goods imported
 - B A fall in the volume of goods imported relative to goods exported
 - C A rise in export prices relative to import prices
 - D A rise in import prices relative to export prices
- 7 The diagram shows the change in a subsidy for Australian farmers.



According to the diagram, what are the effects of the movement in the supply curve from SS to S1S1?

- A The subsidy has increased and Australian farmers will face greater competition from imports
 - B The subsidy has increased and Australian farmers will face less competition from imports
 - C The subsidy has decreased and Australian farmers will face greater competition from imports
 - D The subsidy has decreased and Australian farmers will face less competition from imports
- 8 What is the equilibrium level of income if $C=50+0.8Y$ and $I=100$?
- A 100
 - B 150
 - C 250
 - D 750
- 9 What is one way a government can finance a budget deficit?
- A Increase level of exports
 - B Increase the rate of its Good and Services Tax
 - C Encourage welfare recipients into the workforce
 - D Borrow from the Reserve Bank

- 10 If an economy is experiencing a surplus in its Current Account Balance which of the following must be true?
- A It has a Capital and Financial Account surplus
 - B It has a Capital and Financial Account deficit
 - C It has imported more goods than it exported
 - D It has exported more goods than it imports

- 11 The table shows Consumer Price Index information for a nation.

Year	Consumer Price Index
1	100
2	105
3	109.2

What is the inflation rate for year 3?

- A 4.0%
 - B 4.2%
 - C 5.0%
 - D 9.2%
- 12 Which of the following is a feature of a fully centralised wage fixing system?
- A National wage decisions by a central body
 - B Negotiated workplace agreements
 - C Unions bargaining on behalf of employees with employers
 - D Individual bargaining with employers
- 13 Which of the following Reserve Bank actions would reduce the level of unemployment?
- A Buy government securities to reduce exchange settlement funds
 - B Buy government securities to increase exchange settlement funds
 - C Sell government securities to reduce exchange settlement funds
 - D Sell government securities to increase exchange settlement funds
- 14 Which of the following could reduce Australia's international competitiveness?
- A A decrease in real wages in Australia
 - B An increase in domestic productivity
 - C A rise in Australian interest rates
 - D A depreciation of the Australian dollar

- 15 Which of the following is an example of structural unemployment?
- A Unemployed lacking the skills required in new jobs
 - B Unemployment rising due to a fall in economic activity
 - C Women with working spouses give up work to have children
 - D School leavers taking a long time to find employment
- 16 What action would a government take to improve environmental management?
- A Imposing a tax on producers using renewable resources
 - B Imposing a tax on imported solar energy products
 - C Imposing a tax on hydro-electricity produced by a dam
 - D Imposing a tax on a product equal to the value of its pollution
- 17 What is the best measure of Australia's external stability?
- A The trend in the Balance of Goods and Services
 - B The trend in the level of Foreign Direct Investment into Australia
 - C The Current Account Deficit as a proportion of GDP
 - D The Capital and Financial Account Deficit as a proportion of GDP
- 18 What would be the two actions the Australian government could take to tighten fiscal policy?
- A Increase tax rates and increase government spending
 - B Increase tax rates and reduce government spending
 - C Decrease tax rates and reduce government spending
 - D Decrease tax rates and increase government spending
- 19 If $T=84$, $X=42$, $M=35$, $S=16$, $I=18$ and $G=80$ what would happen to the economy?
- A The economy would expand because leakages are less than injections
 - B The economy would expand because leakages are greater than injections
 - C The economy would contract because leakages are less than injections
 - D The economy would contract because leakages are greater than injections
- 20 What is the impact on an economy if aggregate supply increases by a larger amount than the increase in aggregate demand?
- A GDP will decline and prices will rise
 - B GDP will decline and prices will fall
 - C GDP will rise and prices will rise
 - D GDP will rise and prices will fall

End of Section I

Section II
40 marks

Attempt Questions 21–24
Allow about one hour and 15 minutes for this section

Answer the questions in the spaces provided.

Marks

Question 21 (10 marks)

The table shows labour force and population information for a nation.

Labour force data	Number of persons (millions)
Total Population	38
Unemployed persons	1
Employed persons	17
Population of working age	31

- (a) Calculate the labour force participation rate for this nation. **1**

- (b) Calculate the unemployment rate for this nation. **1**

- (c) Explain what could happen to the labour force participation rate due to a period of increases in real wages. **2**

- (d) Define the term hidden unemployment. **1**

Question 21 continues on page 7

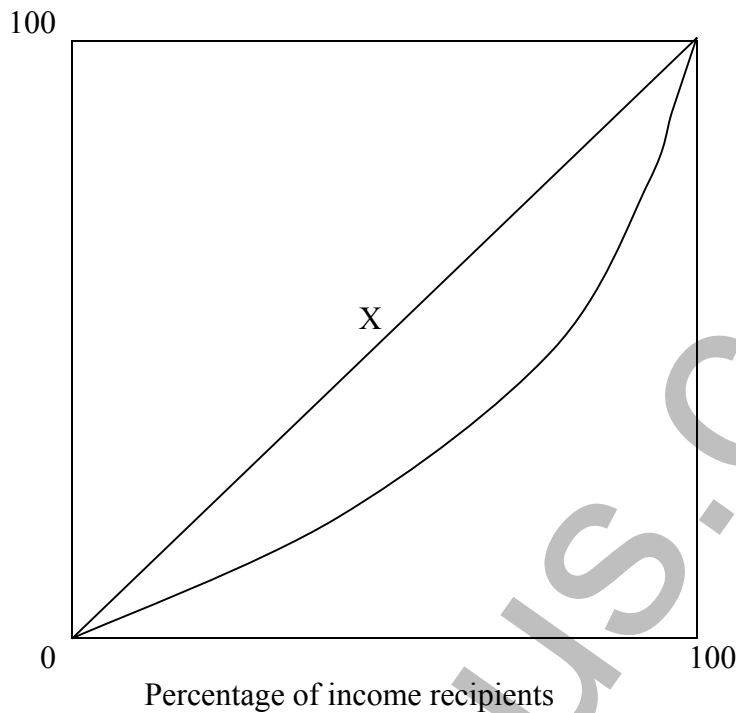
Question 22 (continued)

- (d) State TWO ways rising interest rates impact on demand in the economy. **2**

End of Question 22

Question 23 (10 marks)

The diagram shows the Lorenz curve for a nation.



(a) What is the line marked X? 1

(b) What does the Lorenz curve for this nation indicate about its income distribution? 1

(c) If the Lorenz curve moved to the right what would have happened to income distribution? 1

Question 23 continues on page 11

Question 23 (continued)

- (d) If the Gini coefficient for the nation changed from 0.5 to 0.3 what has happened to income distribution in this nation? **1**

- (e) Describe TWO benefits of income inequality. **4**

- (f) Explain why wealth distribution is less equal than income distribution. **2**

End of Question 23

Question 24 (10 marks)

The table shows selected data for an economy that uses a floating exchange rate system.

Balance of Payments items	\$ billion
Exports	140
Imports	170
Net Services	20
Net Income	-35
Capital account	10

(a) Calculate the balance on current account for this economy. **1**
(\$ billion)

(b) Calculate the balance on financial account for this economy. **1**
(\$ billion)

(c) Outline TWO factors that could have contributed to the net incomes result. **2**

(d) Explain how a rise in overseas interest rates could affect ONE component of an economy's Balance of Payments. **2**

Question 24 continues on page 13

Question 24 (continued)

- (e) Explain how an increase in productivity in this economy could impact on TWO components of its Balance of Payments.

4

End of Section II

Section III
20 marks

Attempt either Question 25 or Question 26
Allow about 35 minutes for this section

Answer the question in a writing booklet. Extra writing booklets are available.

In your answer you will be assessed on how well you:

- use your knowledge and the economic information provided
 - apply economic terms, concepts, relationships and theory
 - present a sustained, logical and well-structured answer to the question
-

Question 25 (20 marks)

Discuss the policies available to the Australian government for dealing with inflation and analyse the effectiveness of these policies.

Australia is facing a period of inflationary pressure due to a sustained period of economic growth causing the economy to approach full capacity. The supply constraints in our robust economy are putting pressure on resources, prices and our international competitiveness.

The Reserve Bank has raised the cash rate in response to inflationary pressure in 2007. Promised income tax cuts are of concern as they will add to aggregate demand. The government must ensure its future expenditure is conservative so that fiscal policy plays its part in controlling inflation.

OR

Question 26 (20 marks)

Discuss the policies available to the Australian government for achieving external stability and analyse the effectiveness of these policies.

The continuing deficits in Australia's balance on goods and services and net income have contributed to our ongoing current account deficits. This in turn causes our foreign debt to rise. The Australian government can use both macro and micro economic policies to address external stability.

External Accounts	June 2007
Net Foreign Debt	\$544.1 billion
Foreign Debt (% of GDP)	52.0%
Current Account Deficit	\$52.9 billion
CAD (% of GDP)	5.7%
Terms of trade	118.9

Source: Australian Bureau of Statistics

End of Section III

Section IV
20 marks

Attempt either Question 27 or Question 28
Allow about 35 minutes for this section

Answer the question in a writing booklet. Extra writing booklets are available.

In your answer you will be assessed on how well you:

- use economic data
 - apply economic terms, concepts, relationships and theory
 - present a sustained, logical and well-structured answer to the question
-

Question 27 (20 marks)

Examine the impact on an economy of freely floating its exchange rate.

OR

Question 28 (20 marks)

Examine the role, importance and influence of international organisations, trading blocs and agreements on the global economy.

End of paper

Section I – Multiple choice
Answer sheet

	A	B	C	D
1				
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Mapping grid

Question	Marks	Content	Outcome	Band
1	1	Globalisation	H1, H3	2–3
2	1	Economic activity and budget	H1, H2	4–5
3	1	Multiplier	H1, H11	4–5
4	1	Interest rates and \$A	H1, H4	5–6
5	1	International organisations	H1, H2	3–4
6	1	Terms of trade	H1, H11	4–5
7	1	Effect of change in subsidy	H1, H6	3–4
8	1	Equilibrium level of income	H1, H11	5–6
9	1	Finance and budget deficit	H1, H2	2–3
10	1	Balance of payments	H1, H8	2–3
11	1	Calculate inflation	H1, H11	4–5
12	1	Wage determination	H1, H6	3–4
13	1	Market operations	H1, H6	4–5
14	1	International competitiveness	H1, H4	4–5
15	1	Structural unemployment	H1, H8	2–3
16	1	Environmental management	H1, H6	3–4
17	1	External stability	H1, H8	3–4
18	1	Fiscal policy	H1, H2	3–4
19	1	Circular flow and equilibrium	H1, H11	4–5
20	1	Aggregate demand and supply	H1, H7	3–4
21(a)	1	Labour force participation rate	H1, H11	3–4
21(b)	1	Unemployment rate	H1, H11	3–4
21(c)	2	Impact of increasing real wages	H8	4–5
21(d)	1	Hidden unemployment	H1	2–3
21(e)	2	Economic cost of unemployment	H1	2–3
21(f)	3	Government policy and participation rates	H5	4–5
22(a)	2	Monetary policy	H1	2–3
22(b)	2	Time lags	H6	3–4
22(c)	4	Operation of monetary policy	H2	5–6
22(d)	2	Impact of rising interest rates	H3	3–4

Question	Marks	Content	Outcome	Band
23(a)	1	Line of equality	H1	2–3
23(b)	1	Lorenz curve	H1	2–3
23(c)	1	Movement of Lorenz curve	H1	3–4
23(d)	1	Gini-coefficient	H11	4–5
23(e)	4	Benefits of income inequality	H7	4–5
23(f)	2	Wealth distribution	H1, H7	4–5
24(a)	1	Balance on current account	H11	3–4
24(b)	1	Balance on financial account	H11	5–6
24(c)	2	Net income	H1	3–4
24(d)	2	Interest rates and balance of payments	H4	4–5
24(e)	4	Productivity and balance of payments	H3	3–4
25	20	Economic policies and inflation	H1, H2, H5, H6, H7, H8, H10	2–6
26	20	Economic policies and external stability	H1, H2, H5, H6, H7, H8, H10	2–6
27	20	Impact of floating exchange rates	H1, H2, H3, H4, H5, H6	2–6
28	20	International organisations, trading blocs and agreements and their impact on the global economy	H1, H2, H3, H4, H5, H10	2–6

Marking guidelines

Section I

1	C	11	A
2	B	12	A
3	B	13	B
4	A	14	C
5	D	15	A
6	C	16	D
7	C	17	C
8	D	18	B
9	D	19	A
10	B	20	D

Section II

Question 21(a)

Criteria	Marks
<ul style="list-style-type: none"> Correctly calculates labour force participation rate 	1

Suggested answer:

$$\frac{18}{31} \times 100 = 58\%$$

Question 21(b)

Criteria	Marks
<ul style="list-style-type: none"> Correctly calculates unemployment rate 	1

Suggested answer:

$$\frac{1}{18} \times 100 = 5.6\%$$

Question 21(c)

Criteria	Marks
<ul style="list-style-type: none"> Explains impact of rising real wages 	2
<ul style="list-style-type: none"> States participation rate will rise 	1

Suggested answers:

Increasing real wages will encourage people into the workforce, raising the participation rate.

Question 21(d)

Criteria	Marks
• Defines hidden unemployment	1

Suggested answers:

Those people who are not counted in the official unemployment statistics and who can be considered unemployed.

Question 21(e)

Criteria	Marks
• Explains ONE economic cost	2
• States ONE economic cost	1

Suggested answers:

One cost is the impact on the federal budget as rising unemployment causes more expenditure on welfare payments and reduces tax revenue, e.g. lower income tax collections.

Question 21(f)

Criteria	Marks
• Explains fully how a policy change increases labour force participation	3
• Describes a policy change and provides a limited explanation of its impact	2
• States a policy change	1

Suggested answers:

Lowering income tax rates will encourage welfare recipients to join the workforce. Poorly skilled low income earners who join the workforce would not earn much more than their welfare payments when income tax is high. They are less likely to seek work. Tax cuts would leave them with greater disposable income so they would be encouraged to seek work.

Question 22(a)

Criteria	Marks
• Defines monetary policy	2
• Mentions control of interest rates without reference to objectives	1

Suggested answers:

Monetary policy is the manipulation of interest rates by the Reserve Bank to achieve economic objectives.

Question 22(b)

Criteria	Marks
• Explains time lag	2
• States time lag is 6–18 months	1

Suggested answers:

Investors and consumers often make their borrowing decisions well in advance so that a rise in interest rates will not bring an immediate reduction in borrowing and spending.

Question 22(c)

Criteria	Marks
<ul style="list-style-type: none"> • Outlines fully how Reserve Bank sales of securities decreases exchange settlement account balances and raises cash rate and other interest rates 	4
<ul style="list-style-type: none"> • Outlines how RBA sells securities and this reduces funds available for lending thus driving up the cash rate and other rates (no mention of exchange settlement accounts) 	3
<ul style="list-style-type: none"> • Mentions RBA sale of securities and that this reduces funds for lending so driving up interest rates 	2
<ul style="list-style-type: none"> • States that RBA sells securities and this raises interest rates 	1

Suggested answers:

The Reserve Bank will sell second-hand Commonwealth Government Securities to banks. This reduces their exchange settlement funds and they must borrow money from the overnight money market to top up their ES accounts, putting upward pressure on the overnight cash rate and hence raising all other interest rates.

Question 22(d)

Criteria	Marks
<ul style="list-style-type: none"> • States TWO impacts on demand 	2
<ul style="list-style-type: none"> • States ONE impact on demand 	1

Suggested answers:

Rising interest rates discourage consumers from spending and investors from investing.

Question 23(a)

Criteria	Marks
<ul style="list-style-type: none"> • Names line of perfect equality 	1

Suggested answer:

Line of perfect equality (of income distribution).

Question 23(b)

Criteria	Marks
<ul style="list-style-type: none"> • States income is not equally distributed 	1

Suggested answers:

Incomes are not equally distributed, e.g. high income earners receive a greater proportion of income.

Question 23(c)

Criteria	Marks
<ul style="list-style-type: none"> • States income distribution becomes less equal 	1

Suggested answers:

Incomes would have become less equally distributed. Therefore lower income earners receive an even smaller proportion of income than before.

Question 23(d)

Criteria	Marks
<ul style="list-style-type: none"> States that income distribution has become more equal 	1

Suggested answer:

A smaller Gini coefficient means that incomes have become more equally distributed.

Question 23(e)

Criteria	Marks
<ul style="list-style-type: none"> Describes TWO benefits 	4
<ul style="list-style-type: none"> Describes ONE benefit and states another benefit 	3
<ul style="list-style-type: none"> Describes ONE benefit 	2
<ul style="list-style-type: none"> States ONE benefit 	1

Suggested answers:

High income earners have a high MPS which provides more savings for investment in the economy.

Income inequality encourages workers to become more skilled to raise their income.

Question 23(f)

Criteria	Marks
<ul style="list-style-type: none"> Explains that high income earners are able to save more so they can purchase appreciating assets 	2
<ul style="list-style-type: none"> States high income earners possess more assets 	1

Suggested answers:

High income earners are able to save more to purchase assets, e.g. property, which can appreciate over time and further decrease equality in wealth.

Question 24(a)

Criteria	Marks
<ul style="list-style-type: none"> Correctly calculates the balance on current account 	1

Suggested answer:

Deficit of \$45 billion.

Question 24(b)

Criteria	Marks
<ul style="list-style-type: none"> Correctly calculates the balance on financial account 	1

Suggested answer:

Surplus of \$35 billion.

Question 24(c)

Criteria	Marks
• Outlines TWO factors contributing to net income result	2
• Outlines ONE factor contributing to net income result	1

Suggested answers:

Increased foreign investment from overseas would lead to increased dividend debits.

Increased borrowing from overseas investors would lead to greater interest debits.

Question 24(d)

Criteria	Marks
• Explains how rising overseas interest rates increase interest payments	2
• States income debits rise	1

Suggested answers:

Rising overseas interest rates would lead to increased interest debits on overseas borrowings.

Question 24(e)

Criteria	Marks
• Explains how rising productivity impacts on TWO components of the Balance of Payments.	4
• Explains how rising productivity impacts on ONE component of the Balance of Payments and states another impact without explanation.	3
• Explains ONE impact of rising productivity	2
• States an impact without explanation, e.g. increased productivity raises exports	1

Suggested answers:

Rising productivity reduces domestic production costs and hence domestic prices. The improvement in our international competitiveness would increase our exports and reduce our need to import so improving our balance of trade.

Rising productivity would encourage overseas investment, increasing direct and portfolio credits in the financial account.

Section III

Question 25

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates factually precise and extensive knowledge of the policies available for the Australian government for dealing with inflation and the effectiveness of these policies • Synthesises relevant economic data to support a comprehensive, contemporary and theoretical discussion in a sustained, logical and well-structured answer • Integrates economic terms, concepts, issues, relationships and theory 	17–20
<ul style="list-style-type: none"> • Good use of appropriate knowledge of anti-inflation policies and the effectiveness of these policies • Sketches in general terms some policies and their effectiveness • Uses relevant data to develop a logical and well-structured response • Applies appropriate economic terms, relevant concepts, relationships and theory 	13–16
<ul style="list-style-type: none"> • Uses correct and usually relevant information to demonstrate some knowledge and understanding of policies and their effectiveness • Uses relevant data to develop a coherent response • Applies appropriate economic terms, concepts and theory 	9–12
<ul style="list-style-type: none"> • Sketches in general terms some policies with some reference to their effectiveness • Makes minimal use of data to develop a generalised response • Uses some economic terms and concepts 	5–8
<ul style="list-style-type: none"> • Demonstrates basic knowledge of anti-inflationary policy • Basic use of some terminology in a limited response 	1–4

Question 26

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates factually precise and extensive knowledge of the policies available to the Australian government for achieving external stability and the effectiveness of these policies • Synthesises relevant economic data to support a comprehensive, contemporary and theoretical discussion in a sustained, logical and well-structured answer • Integrates economic terms, concepts, issues, relationships and theory 	17–20
<ul style="list-style-type: none"> • Good use of appropriate knowledge of policies to achieve external stability and their effectiveness • Uses relevant data to develop a logical and well-structured response • Applies appropriate economic terms and relevant concepts, relationships and theory 	13–16
<ul style="list-style-type: none"> • Uses correct and usually relevant information to demonstrate some knowledge and understanding of external stability policies • Uses relevant data to develop a coherent response • Applies appropriate economic terms, concepts and theory 	9–12
<ul style="list-style-type: none"> • Sketches in general terms some policies with some reference to effectiveness • Makes minimal use of data to develop a generalised response • Uses some economic terms and concepts 	5–8
<ul style="list-style-type: none"> • Demonstrates basic knowledge of external stability • Basic use of some terminology in a limited response 	1–4

Section IV

Question 27

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates factually precise and extensive knowledge of the impact on an economy of freely floating its exchange rate • Sketches in general terms a range of impacts on the economy • Synthesises relevant economic data to support a comprehensive, contemporary and theoretical discussion in a sustained, logical and well-structured answer • Integrates economic terms, concepts, issues, relationships and theory 	17–20
<ul style="list-style-type: none"> • Good use of appropriate knowledge of the impact on an economy of freely floating its exchange rate • Sketches in general terms some impacts on the economy • Uses relevant data to develop a logical and well-structured response • Applies appropriate economic terms, relevant concepts, relationships and theory 	13–16
<ul style="list-style-type: none"> • Uses correct and usually relevant information to demonstrate some knowledge and understanding of impacts of floating the exchange rate • Uses some economic data to develop a coherent response • Applies appropriate economic terms, with relevant concepts and theory 	9–12
<ul style="list-style-type: none"> • Sketches in general terms some impacts on an economy of freely floating its exchange rate • Makes minimal use of data to develop a generalised response • Uses some economic terms and concepts 	5–8
<ul style="list-style-type: none"> • Demonstrates basic knowledge of exchange rates • Sketches in general terms impacts on the economy in a limited response • Basic use of some terminology in a limited response 	1–4

Question 28

Criteria	Marks
<ul style="list-style-type: none"> • Demonstrates factually precise and extensive knowledge of the role, importance and influence of international organisations, trading blocs and agreements on the global economy • Sketches in general terms their impact on the global economy • Synthesises relevant economic data to support a comprehensive, contemporary and theoretical discussion in a sustained, logical and well-structured answer • Integrates economic terms, concepts, issues, relationships and theory 	17–20
<ul style="list-style-type: none"> • Good use of appropriate knowledge of international organisations, trading blocs and agreements on the global economy • Sketches in general terms some of their influences on the global economy • Uses relevant data to develop a logical and well-structured response • Applies appropriate economic terms, relevant concepts, relationships and theory 	13–16
<ul style="list-style-type: none"> • Uses correct and usually relevant information to demonstrate some knowledge and understanding of their influence on the global economy • Uses some economic data to develop a coherent response • Applies appropriate economic terms, with relevant concepts and theory 	9–12
<ul style="list-style-type: none"> • Sketches in general terms some international organisations, trading blocs and agreements • Makes minimal use of data to develop a generalised response • Uses some economic terms and concepts 	5–8
<ul style="list-style-type: none"> • Demonstrates basic knowledge of some international organisations, trading blocs or agreements • Basic use of some terminology in a limited response 	1–4