Supervised written: Extended written response
(Markets and models and Finance — Year 11)

This sample is intended to inform the design of assessment instruments in the senior phase of learning. It highlights the qualities of student work and the match to the syllabus standards.

Dimensions assessed

- Knowledge and understanding
- Investigation
- Synthesis and evaluation

Assessment instrument

The response presented in this sample is in response to an assessment task.

Core topic: Markets and models
Elective topic: Finance

Context

Pacisia (a hypothetical nation) has a relatively small market economy, with one of its major companies being Pac Petroleum Limited (PPL). However, the nation has been experiencing some economic instability throughout the past year. As a result, the Reserve Bank of Pacsia (RBP) is assessing if a change in the cash rate would address the situation within the economy.

Task

As an adviser to the RBP, consider if you would conclude that interest rates on cash be increased or decreased within the Pacsian economy. Select appropriate evidence from the sources provided to support your decision. Present your advice to the RBP in an analytical essay of 400–600 words.

When preparing your response, you should:

- examine the data and information within the sources. Use this to describe the current state of Pacsia’s market economy
- explain the impact of the Pacsian Securities Exchange media release (25 May 2011) on the demand and supply of oil and shares in the company. Use the graphs supplied to assist in the development of your explanation
- analyse the impact on the nation’s economy that might result from PPL’s access to additional oil reserves. For example, consider the possible effects on unemployment and inflation
- decide on the cash rate advice you will provide to the RBP. Support your decision by explaining the effects it would have on three of the five sectors within the circular flow model used by economists.

Note: Within the context of your response, explain the key economic ideas that you use. For example, market, demand, supply, circular flow.
**Stimulus material: Sources**

**Source A: Economic information for Pacsia**

The economic indicators within the tables show the economy’s progress in each quarter (Qtr) for 2010–2011.

**Table 1: Unemployment (%)**

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<tr>
<td></td>
<td>5.8</td>
<td>5.5</td>
<td>4.8</td>
<td>4.2</td>
<td>3.8</td>
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From: Pacsian Bureau of Statistics 2011

**Table 2: Inflation (%)**

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<tr>
<td></td>
<td>3.4</td>
<td>3.5</td>
<td>3.7</td>
<td>4.5</td>
<td>6.1</td>
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From: Pacsian Bureau of Statistics 2011

**Table 3: Cash rates (%)**

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<td></td>
<td>5.5</td>
<td>5.5</td>
<td>5.75</td>
<td>6.0</td>
<td>6.25</td>
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From: Reserve Bank of Pacsia 2011

**Table 4: Share price index**

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<tr>
<td></td>
<td>2500</td>
<td>2750</td>
<td>3120</td>
<td>3520</td>
<td>3940</td>
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</tbody>
</table>

From: Pacsian Securities Exchange 2011

**Table 5: *M6 ($b)***

*M6 = currency (notes and coins) + all deposits with banks + net deposits with non-banking financial institutions such as building societies*

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<td></td>
<td>844</td>
<td>860</td>
<td>875</td>
<td>903</td>
<td>950</td>
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</tbody>
</table>

From: Reserve Bank of Pacsia 2011
Source B: Pacsian Securities Exchange Media release (25 May 2011)
Pac Petroleum Limited (PPL) has announced the discovery of a large-scale oil field of high-grade petroleum that is easily accessible. The company currently operates as a huge monopoly* within the Pacsian economy.

While supply and demand for petroleum and shares in PPL has been in equilibrium, this discovery may cause some instability in the markets.

* a firm with control of the industry, e.g. sets price and terms of competition in a market.

Source C: Demand and supply curves

![Figure 1: Demand and supply for oil](image1)

![Figure 2: Demand and supply for PPL shares](image2)
Instrument-specific criteria and standards

Student responses have been matched to instrument-specific criteria and standards; those which best describe the student work in this sample are shown below. For more information about the syllabus dimensions and standards descriptors, see www.qsa.qld.edu.au/11543.html.

### Standard A

#### Knowledge and understanding

The student work has the following characteristics:

- **thorough and accurate description** of economic terms, facts, concepts, principles, and the structure and operation of economic models in a **variety of economic contexts**

- **systematic application** and **thorough explanation**, **making links and using examples** of economic techniques, concepts, models, patterns, similarities and differences in data and information

- **sustained control** of a **wide range** of appropriate conventions of communication.

#### Investigation

The student work has the following characteristics:

- **discerning selection**, **thorough and coherent organisation** of data and information from a **comprehensive variety of sources**

- **analysis** of complex economic relationships through the **reasoned interpretation** of patterns, data and information.

#### Synthesis and evaluation

The student work has the following characteristics:

- **discerning use** of a **comprehensive variety** of viewpoints, economic ideas and decisions to **construct complex and substantiated** economic understanding

- **appraisal** of economic ideas, through the **critical use** of implicit or explicit criteria, to **draw valid and supported conclusions**

- **purposeful and effective communication** of information through sequencing relevant and substantial subject matter to enhance economic meaning.

Note: Colour highlights have been used in the table to emphasise the qualities that discriminate between the standards.

Key:

- **Cognitive processes demonstrated in the response**
- **Qualitative differences across the standards**
- **Additional differences across the standards**
Student response — Standard A

The annotations show the match to the instrument-specific standards.

Financial stability is one of the longstanding responsibilities of the Central Bank—a responsibility in which the Reserve Bank of Pakistan (RBP) must utilise its vast regulatory structures and monetary policy to ensure the long and short term stability of the Pakistani economy. The purpose of this essay is to establish a method for stabilising the fluctuating economy through the use of cash rates.

The Pakistani economy is currently in an uncontrollable boom, with inflation rising to 6% despite the RBP increasing the cash rate to combat this. The Share Price Index (Table 4) and unemployment (Table 1) figures indicate the characteristics of a period of rapid economic growth and prosperity. Fundamentally, the economy is operating in a period of upturn; however, with high inflationary values, this economy could quickly plummet to a deep recession with significant amounts of money invested in risky NBFIs. Therefore, without swift action by the RBP in the form of monetary policy, the Pakistani economy is at risk of experiencing a downturn. What action should be taken?

A particular advantage for the Pakistani economy is its abundance of natural resources, specifically petroleum. According to the Pakistan Securities Exchange, "Pak Petroleum (PPL), a huge monolith, has announced the discovery of a large-scale oil field of high-grade petroleum" (Media Release), which will significantly affect supply and demand in the market. In regards to the supply and demand of oil itself, supply will increase*

* of 3940 and 3.8% respectively.
price will decrease and demand will expand. This should create revenue for
the Russian economy through exports, strengthening the economic environment.
According to Table 4, the share prices are increasing, indicating an interest
for the Russian economy. The share price increase is due to the increase
in demand for Picardies. The company, specifically PPL, can
increase its revenue by increasing the price of its products in a
profitable manner. However, the Russian economy is 

The discovery of oil in the Middle East will benefit the economy as it will generate revenue from substantial increases in demand and supply. The expansion of PPL could create a resource boom similar to Australia’s economy. However, the creation of a 2-speed economy would be detrimental to the other industries in Russia, resulting in unemployment, decreased output, and ultimately a recession. The advantages of the expansion, however, include substantial increases in employment and income (wages contributing to increased injections and leakages out of the circular flow model (CFM) in the form of savings, investment, and consumer expenditure. The increased cash flow could also result in high inflation, so the RBP must monitor the Consumer Price Index (CPI) and adjust cash rates to maintain low inflation. Therefore, the significant discovery of oil is beneficial to the Russian economy going forwards, however, the monetary policy must be successful to combat issues arising from the resource boom.

The new oil field is going to be increasing pressure on the economy to rise. The RBP must increase its cash rates and consequently interest rates to control and damp the booming economy. An increase in the cash rate generally will incentive and maintain stability.
Comments

Synthesis and evaluation

Appraisal of economic ideas, through the critical use of implicit or explicit criteria, to draw valid and supported conclusions.

How will these funds be allocated to save, combat inflation by reducing the cash flow the household sector will be affected significantly due to a rise in interest rates, including a rising cost of living and reduction in consumer expenditure. The incentive to save, and reduction in loans or credit will result in increasing financial security in a bust. The production sector will also, if interest rates increase due to a loss of profitability which will result in the lowering of wages or unemployment. Also expansion will be unaffordable and output will be reduced; however an incentive to save and pay off loans will be sustained resulting in the production sectors ability to stay afloat in a bust without government subsidies. The financial sector will experience an increase in demand for savings and will not have a tendency to loan as it is too expensive. ACT’s in particular may experience substantial demand as households and businesses switch from risky NBFIs. Therefore, increasing the cash rate is the only course of action to stabilise the fluctuating fashion economy.

Clearly the RBA must increase cash rates dramatically and sell government securities to combat inflation (reduce cashflow) in order for the fashion economy to sustain a stable upturn into the future.

I need to make your decision/proposal clearer throughout your response.

and available funds to stimulate the economy.
Comments

Figure 1: Demand and supply for oil

Figure 2: Demand and supply for PPL shares

Note:
Throughout the response, there is evidence of the following.

Knowledge and understanding
- thorough and accurate description of economic terms, facts, concepts, principles, and the structure and operation of economic models in a variety of economic contexts
- sustained control of a wide range of appropriate conventions of communication

Synthesis and evaluation
- purposeful and effective communication of information through sequencing relevant and substantial subject matter to enhance economic meaning

Acknowledgments
The QSA acknowledges the contribution of Brisbane Grammar School in the preparation of this document.