



## Introduction

### **‘Yes, but what do I have to learn?’**

How often have you asked that question when surrounded by reams of economics notes, work sheets, newspaper articles, and graphs? You probably have folders full of ‘stuff’ – all very important for giving you an appreciation and understanding of this subject, but possibly confusing you when it comes down to learning the ‘nuts and bolts’ of the Year 12 Economics course.

You may wonder why Malaysia is often mentioned in this text. This is in the interest of inclusivity, as a large percentage of the total Year 12 Economics cohort are students studying in Malaysia. It is hoped that all students will enjoy and benefit from using Essentials Economics.

### **This revision guide gives you the essentials**

Of course you must:

- expand upon these brief notes
- make connections between sections of the course
- use graphs/diagrams where applicable
- refer to current/past examples in the economy to enhance your answers.

In the exam you will have to answer:

- several multiple choice questions
- responses to source material in short answers
- essays.

In this guide you will be given the opportunity to practise questions. Answers are provided at the back of the book.

## Improving your exam performance

Are you someone who says, 'Oh, I always do badly in the multiple choice/short answer/essay questions?'

Why do you always do badly in a particular type of question? You can practise 'forever and a day' and still get them wrong – if you have not analysed your technique in answering these questions.

The hints that follow focus on the 'How' of answering multiple choice, short answer and essay questions. Apply these suggestions. They could make a difference. Answers can be found in the back of this book.

### 1. Multiple choice questions

These questions relate to all parts of the course. Do not rush these questions.

Most people don't give these questions their due. Many students tend to rush through these and concentrate on the essays. Each section of the exam is important. Doing well in the multiple choice questions could make that difference between an A and a B.

### Know the language of your subject

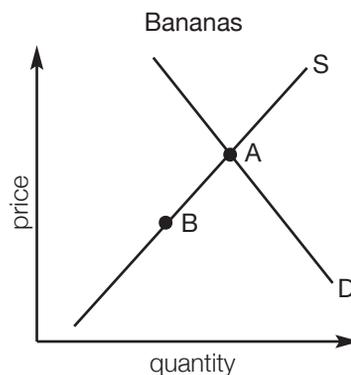
It will be assumed that you are familiar with economic terminology. It might help you to keep a glossary throughout the year. An example follows, which highlights the need for an understanding of economic terminology.

- In a **market** economy the question of **what** to produce is resolved primarily by
  - the decisions of the government in the satisfaction of collective want
  - households producing directly to satisfy their wants
  - private **entrepreneurs** responding to consumer demands
  - publicly owned enterprises** operating through the market.

**Note:** refer to Guideline Answers at the back of the book to see if you are correct.

### Focus on what is being asked

Underline or **highlight** key words. **Use the paper provided.** Draw in the graphs/make changes... don't try to do it all in your head! This is one of the most common mistakes students make. For example, to do the following question, you need to first work out what would cause a new equilibrium position B – an increase or decrease in demand, or an increase or decrease in supply? When you show a new line through B it is obvious that you are looking for a factor that would cause a decrease in demand.

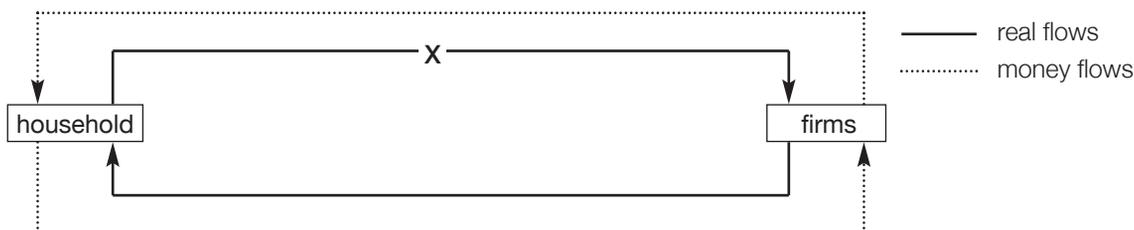


- The market for bananas is shown in the above diagram. The original equilibrium is at point A. A new equilibrium position B could result from
  - a 50 percent decrease in the cost of bananas
  - technology creating a new strain of disease-resistant bananas
  - orange producers reducing their prices by 50 percent
  - the government imposing a sales tax of 33 percent on the sale of bananas.

3. To enable you to focus more successfully on the possible answers, it may help you to cross out any which are obviously wrong.

For example in the question below, the flow marked X has to be a real flow, not a money flow. Therefore immediately you could eliminate the possible answers:

- K incomes  
L consumption expenditure.



The flow marked X is described as:

- J resources  
M goods and services.

## Keep up-to-date with current events/trends in your country's economy.

Develop an understanding of the causes and likely effects of major economic events or trends, as these often provide a context for general questions involving economic theory.

4. Increases in the official interest rate are primarily aimed at
- J contracting domestic demand  
K increasing spending on imports  
L increasing foreign capital inflow  
M increasing the level of national savings.

## 2. Short answer questions

### Analysis of articles

In Economics it is important that you are able to apply your theoretical knowledge to the analysis of articles. This is not an easy task.

An approach you might like to try is:

1. First skim through the article to gain a general impression of its content.
2. Look at the questions to see what specifically you should be looking for.
3. Go back to the article and read it in depth, **highlighting** points you think are relevant to the questions. Glance back at the questions, as you need to.
4. Now read each question carefully and start preparing your answers, referring back to the article to assist you. You should not need to read it all again. Instead you can probably go to the areas you have previously highlighted.

**Note:** it may be that none of the answers are to be found in the article. In that case the article is setting the scene for the questions which follow.

1. Consider the following article:

**China joins multilateral trade group**

IN THE EARLY YEARS of the 21st century China joined the World Trade Organization, a global group of over 140 member countries, committed to the liberalisation of world trade.

Membership has provided China with improved access to international markets. China has vowed to make substantial cuts to its trade barriers, which had limited opportunities for countries such as Australia in their interaction with the world’s most populated country.

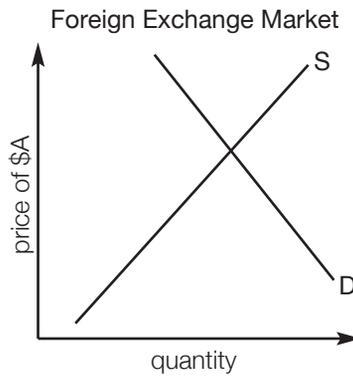
This article has been compiled from several newspaper extracts.

(a) Suggest a way in which China could substantially open its agricultural, industrial and services markets to foreign competition.

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(b) Show the expected outcome of the trade liberalisation on the market for the Australian dollar.



Explain your choice.

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(c) Outline a possible short-term cost to China of its decision to liberalise its international trade.

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(d) Suggest ways in which Chinese consumers should gain from their country’s membership of the World Trade Organization.

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The examiner will want to test your ability to see relationships and make connections. You will be asked for your own suggestions. There may be a number of acceptable responses to the question that follows:

2. Explain why faster economic growth should reduce the size of a government’s budget deficit.

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**Length of answers**

Use the lines provided and allocated marks as a guide to the length of answer required. If two lines are provided and the question is worth 2 marks, it is unlikely that a one-word answer will be sufficient to gain full marks.

**Graph analysis**

Many students have trouble reading graphs when they are asked to identify a certain year, month or quarter. Remember that the financial year is often of importance in Economics and years will sometimes be labelled through a financial year (July 1 – June 30).

**Note:** it often helps to go back to the starting point of the horizontal axis and read forward from there when trying to separate years.

It might help to separate the relevant years with a red pen so that they stand out clearly.

## Quarters

Are you sure you know the quarters of the year? These are important in Economics. Many indicators (for example the Consumer Price Index) are published quarterly. These quarters are named according to when they end:

1st quarter March

2nd quarter June

3rd quarter September

4th quarter December

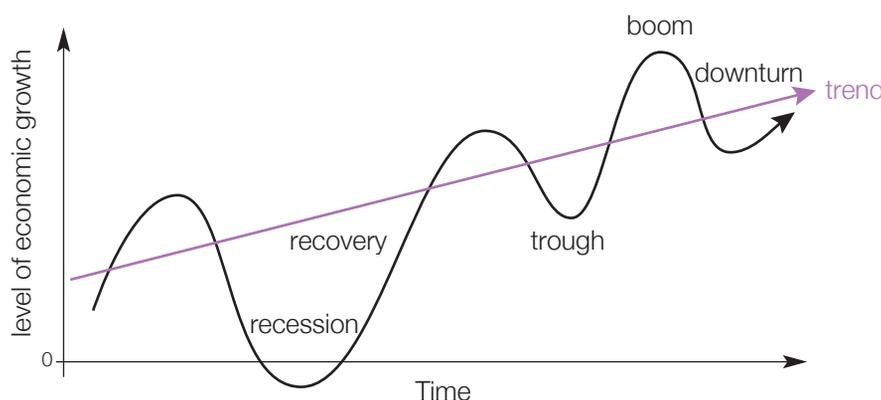
## Relationships between graphs/lines on graphs

Sometimes you may be asked to describe the relationships between different graphs or between lines on the same graphs. You are looking for patterns. If trend lines go in approximately the same direction, the relationship is said to be a direct one. If one goes up as the other goes down, the relationship is indirect or inverse.

If you are asked just to describe the relationship, then you need only to refer to its direct or indirect nature. You may, however, be asked to go further and to try and **explain** the relationship. This is when you draw on your accumulated knowledge and come up with reasoned suggestions.

## Linking of graphs to the business cycle

The business cycle is characterised by booms, downturns, troughs and upturns, as you can see in this graph.



If lines on a graph follow a cyclical pattern they can be compared with the business cycle. Retail sales and consumer sentiment, for instance, are likely to follow a cyclical pattern.

## 3. Essays

In the examination, you may be asked to write one essay from Key Area 3: Macroeconomics or Key Area 4: Globalisation.

### Use of diagrams

If diagrams can be used to illustrate your answer, by all means use them. However, use about  $\frac{1}{4}$  page when constructing a diagram, label it clearly and work it into your answer. Do not just throw in a diagram without an explanation. Use phrases such as 'As can be seen from the diagram above...'

Write above and below your graphs. Do not write around them as it can become very messy and difficult for the reader to follow.

### Use of economic terms

Make sure you can spell economic terms. You may have been asked to keep a glossary that will familiarise you with economic terms and their meanings. When you first use economic terms write them in full and if there is an abbreviated form, show this in brackets, for example, 'Consumer Price Index' (CPI). Thereafter you can use the abbreviation.

In a question that asks, for example, 'What are the important issues that dominate macroeconomics?', it may be useful to start your essay with a brief explanation of the term 'macroeconomics'.

## Use of current events

Use examples from current events where applicable. Your example need not be long – a sentence should suffice. Be aware of key figures and trends. Know the latest CPI, unemployment and GDP figures. It isn't necessary to know state figures; national figures and trends could be useful.

**Note:** Rule up columns in the back of your Economics folder and keep track of changes in CPI, unemployment, GDP and Current Account figures as results are published throughout the year. This way you can see at a glance what trends are emerging.

## Choosing which essay to answer

You will be given three choices and must write one essay. Look further than the subject content of the question. What are you being asked to do?

Essays which ask you to '**critically assess**' or to '**evaluate**' are the most difficult to do as they require you to present both the positives (benefits) and negatives (costs) of an issue and make a judgement. You are very likely to be required to answer this type of question.

It is important to note that in the questions which ask you to '**evaluate**' it is **not** sufficient to give a list of the benefits then of the costs and bring it all together in your concluding paragraph. You must try and meld the costs and benefits together as you are discussing the required issue. An example follows:

In a question that asked you to critically assess the success of government economic policies which are aimed at returning a Budget to surplus, you might discuss fiscal and monetary measures aimed at reducing aggregate demand. These actions could help to rein in the Current Account deficit by reducing demand for imports, **but on the other hand** could result in a drop in satisfaction of collective wants and increased unemployment if public sector spending was reduced.

You will probably be asked to answer a 'single stem' question. This question would not be divided into parts (a) and (b). This will be quite testing and requires much practice. You will quite possibly need to incorporate work from both Key Areas 3 and 4 into this answer. For instance, a question on globalisation (Key Area 4) could also ask you to show the potential effects on the macroeconomic objectives (Key Area 3).

## Planning your answer

Use the reading time allotted at the start of an exam for planning your essay response.

**The following terms are commonly used in essay questions and you should be clear as to their meaning**

Describe	Give a detailed account of the characteristics of a subject.
Discuss	Examine a subject by argument or debate, for example, by going into the costs and benefits.
Analyse	Examine the structure of a topic, its components and the relationship between these components. In other words, compare the costs and the benefits.
Examine	Investigate; enquire into a subject.
Explain	Make the meaning clear, intelligible. Expand on a topic.
Outline	Write a description of the essential parts only.
Evaluate	Appraise, assess and make judgement.

