Practice Assessment — Task 2: Balance of Payments & Terms of Trade (Extended Answer)

This practice task mirrors **Task 2** in the course assessment outline: an extended-response question on the balance of payments and the terms of trade. As in the real task, you choose **one** of the two questions and write a sustained, structured response. Recommended time: 40 minutes for one question (20 marks).

> Plan before you write: identify the directive verb, sketch your paragraph points and the diagram you will use, then write in P–E–E–L paragraphs. Integrate at least one fully labelled diagram and refer to it in your prose. (See the Extended-Answer Technique resource on the balance-of-payments lesson.)

Choose ONE question

`Question A.` Analyse the structure of Australia's balance of payments and explain how a persistent current account deficit is linked to the savings–investment gap. In your answer, refer to the double-entry recording system and the relationship between the current account and the capital and financial account. (20 marks)

`Question B.` Explain the concept of the terms of trade and analyse the effects of a sustained rise in Australia's terms of trade on national income, the exchange rate and the current account. (20 marks)

Your response

Circle the question chosen: A / B

Plan (verb, paragraph points, diagram):

Response:

Marking guide (teacher)

General. Mark holistically against the description below, rewarding sustained analysis, correct use of a labelled diagram referenced in the prose, accurate terminology, and (for "analyse") clear cause-and-effect chains. Indicative band: 17–20 thorough and well-structured with an integrated diagram; 13–16 sound with minor gaps; 9–12 descriptive with limited analysis; 5–8 fragmentary; 0–4 minimal.

QUESTION A — INDICATIVE CONTENT

- Structure: BOP = current account (trade balance + net primary income + net secondary income) plus the capital and financial account.

- Double-entry: every transaction recorded twice, so the accounts sum to zero overall; a current account deficit is matched by a capital and financial account surplus.
- Savings–investment gap: a CAD reflects domestic investment exceeding domestic saving; the shortfall is funded by net capital inflow (foreign borrowing/equity).
- Analysis: links the identity ($S - I = CAB$) to the financing flows; explains why a CAD is not inherently "bad" if it funds productive investment; may reference net income outflows servicing past borrowing.
- Diagram: a BOP structure tree or the S–I/CAB relationship, referenced in the prose.

QUESTION B — INDICATIVE CONTENT

- Concept: terms of trade = (export price index ÷ import price index) × 100; a rise = export prices rising relative to import prices.
- National income: a higher ToT raises export revenue for a given volume, lifting incomes, company profits and tax revenue (the income effect).
- Exchange rate: higher commodity prices/ToT raise demand for $A, tending to appreciate the currency.
- Current account: higher export values improve the trade balance, though an appreciation and rising imports may partly offset; analysis should weigh these.
- Diagram: the ToT index over time, or an exchange-rate D/S appreciation, referenced in the prose.