



EXAMINERS' REPORT ON 2001 TERTIARY ENTRANCE EXAMINATION

SUBJECT: ECONOMICS

STATISTICS

Year	Number Who Sat	Non-Examination Candidates	Did Not Sit
2001	2833	57	115
2000	2980	54	170
1999	3014	62	156

The Examiners' Report is written by the Chief Examiner (or another Examiner on their behalf) to comment on matters relating to the Tertiary Entrance Examination in their subject. The opinions and recommendations expressed in this report are those of the Chief Examiner and not necessarily representative of or endorsed by the Curriculum Council.

The Marking Guide provided at the end of this report was prepared for markers and may have been substantially amplified by discussions held in the pre-marking meeting. It is not intended as a set of model answers, and is not exhaustive as regards alternative answers. Some of the answers are less than perfect, but represent a standard of response that the examiners deemed sufficient to earn full marks. Teachers who use this guide should do so with its original purpose in mind.

SUMMARY/ABSTRACT

The 2001 Tertiary Entrance Examinations paper in Economics appeared to be well received by teachers and candidates, with very little adverse comment. The Examining Panel wanted to produce a paper of similar difficulty to the previous year and wanted to set a paper that included relevant and challenging questions. I believe that the paper provided for an even balance of questions across all the syllabus areas. The questions in Section B are intended to test candidates' ability to interpret economic data and stimulus material. Section C tests candidates understanding of economic theory and the application of that theory to current economic events. Both written sections included a good mix of relevant and topical questions. Four of the five questions in Section C related to events that had occurred during the year. The overall mean mark for the paper was 58.16, higher than in the previous year, while the standard deviation for the paper was 15.47. The range of marks achieved by candidates was 7 to 93 out of 100. The reliability (measure of internal consistency) of the written part of the paper was 0.66, with the reliability for the overall paper being 0.76, slightly higher than in 2000 (0.74).

The mean for Section A (Multiple Choice Questions) was 15.77 out of 25, the standard deviation was 3.78 and the reliability index 0.72. Ideally the mean should be in the range 14-15, however, this can be difficult to achieve with a set of 25 questions. The mean for Section B (Data Interpretation) was 17.73 out of 30 (standard deviation 5.34). In Section C (Extended answers), the mean for all candidates was 24.41 out of 45, with the standard deviation being 8.1. While each of these means was higher than in 2000, the reliability of the paper was not compromised, and improved in terms of the written paper. I believe that the overall standard of candidate responses to the written sections of the paper had improved over previous years. Both the means for Section B and Section C were a full mark higher than in 2000.

GENERAL COMMENTS

In 2001, the examination consisted of:

Section A (25 multiple-choice questions, each worth one mark);

Section B (3 sectionalised data interpretation questions, each worth 10 marks); and

Section C (5 extended writing questions, of which candidates were required to do three, each worth 15 marks).

The paper was very easy to mark, and both its overall structure and individual question attracted few adverse comments. The percentage of papers requiring reconciliation was 32 per cent - not as low as the previous year, but still a good result. In fact, a large proportion of the reconciliation resulted from transcription errors. Many markers commented that Section C, in particular, was very simple to mark compared with previous papers.

Candidates used optical marks sheets to record their Section A choices. Each of the data interpretation questions contains a small amount of 'stimulus' information. In 2001, Questions 26 and 28 used tables of economic data from the Commonwealth Treasury, and Question 27 used a cartoon from *The Weekend Australian*.

As always, the best answers were those which were clear, concise, logically structured, incorporated appropriate models, and referred to specific events if possible. It is important for candidates to be able to define and explain the key concepts referred to in the questions and to provide relevant examples where possible. Knowledge of the current state of the economy and important events occurring during the year is important.

I would like to thank Dr Abu Siddique and Mr Ian Angwin (as co-examiners) and Mr Grant Bennett (as Independent Reviewer) for their time and commitment to ensuring that the Economics examination paper was a quality product.

COMMENTS ON SPECIFIC QUESTIONS

Section A (Multiple Choice)

The correct alternatives, and the proportion of candidates selecting them, are set out below.

Question number	Answer	Proportion selecting	Question number	Answer	Proportion selecting
1	C	0.75	14	C	0.78
2	A	0.88	15	B	0.56
3	D	0.66	16	B	0.79
4	A	0.79	17	D	0.66
5	D	0.88	18	C	0.85
6	B	0.09	19	C	0.13
7	A	0.41	20	B	0.87
8	C	0.39	21	B	0.76
9	A	0.80	22	D	0.79
10	C	0.80	23	A	0.58
11	A	0.65	24	D	0.63
12	B	0.23	25	B	0.92
13	C	0.63			

The Examining Panel wanted to again use new multiple-choice questions rather than rely on previously used questions. The aim was to restrict the number of relatively 'easy' questions to just a few, although it is quite difficult to predict the performance of candidates with respect to multiple-choice questions. For example, the easiest question in Section A was Question 25, but this was not expected when the question was set. The number of questions where the proportion of correct candidates exceeded 0.85 was four: Questions 2, 5, 20 and 25. Several questions proved rather difficult: Questions 6, 12, and 19. In Question 6, alternative (a), which is an incorrect statement, proved too good a distractor, the only correct answer is alternative (b). Question 12 covers an area of the syllabus candidates find difficult. Alternatives (a), (c) and (d) are reasons for trade, but (b) is not - absolute advantage is irrelevant in explaining the basis for trade. To choose the correct answer for Question 19, candidates needed to understand that an increase in government spending will have a bigger impact on the level of income in the economy via the multiplier, than an equivalent increase in taxation since taxation will be affected by the MPC. The mean for Section A (15.77) was a little higher than in 2000 although the reliability score was excellent at 0.72.

Section B (Data Interpretation – stimulus material, 10 marks each)

Question 26 used economic forecasts for the Australian economy to test candidate's understanding of the business cycle and the components of aggregate expenditure. Question 27 examined the important area of free trade and protection while Question 28 focussed on taxation.

26. The mean was 6.35 [1.47/2 for part (a); 2.32/3 for part (b); 2.65/5 for part (c)]. The standard deviation for this question was 2.20.

This is probably the 'ideal' Section B type question and one of the 'best' questions that has been set for this section. Candidates needed to refer to the data to answer each of the questions. One common problem with this question is that many candidates read the figures as levels rather than percentage changes. Candidates obviously need to be taught what a percentage change figure represents. Candidates answered parts (a) and (b) relatively well but found part (c) more challenging. The key was to recognise that 2001-02 represented a 'recovery' year after the low economic growth recorded in 2000-01. Many candidates failed to use a model to help explain their answer. Overall, candidates' responses to this question were of a good standard with a relatively high mean mark.

27. The mean was 5.86 [1.62/2 for part (a); 1.66/3 for part (b); 2.66/5 for part (c)]. The standard deviation for this question was 2.21.

Most candidates found part (a) relatively easy to define/explain. Surprisingly, part (b) proved more difficult, especially completing the diagram. Many candidates could not accurately draw the standard tariff diagram.

In part (c), candidates were required to explain the effects for both exports and imports - most only referred to one aspect. Very few candidates failed to see that a free trade agreement for Australia would be positive, many argued that it would have overall negative effects for the Australian economy. This needs to be addressed by teachers.

28. The mean was 5.54 [0.78/2 for part (a); 2.3/3 for part (b); 2.53/5 for part (c)]. The standard deviation for this question was 2.03.

Part (a) was poorly answered. A majority of candidates did not read the table carefully and calculated income tax as a proportion of total revenue rather than total tax revenue. The mean for part (b) was relatively high and this was expected given the question was fairly definitional, although many candidates did not distinguish between the rate of tax and amount of tax paid. In part (c), candidates were required to discuss the effects of the reduction in income tax and company tax rather than simply write about the impact of the GST. Few candidates actually answered this question well.

Section C (Extended Answers, each worth 15 marks)

29. (2331 candidates chose this question (82%) - mean 7.90 (a: 4.96; b: 2.99); standard deviation 2.70)

This was the most popular question but received the lowest mean. The question was very topical since most of the world economy, including Australia, was entering a recession phase of the business cycle during 2001. The question covers an important part of the macroeconomics syllabus as well as government economic policy. Part (a) required candidates to refer to both the characteristics and the causes of a recession. Candidates were very good at correctly defining and describing the characteristic features of a recession, but were relatively weak at explaining the causes of a recession with many referring incorrectly to high inflation and depreciation as causes of a recession. In part (b), most candidates were aware that monetary policy was normally not that effective in stimulating the economy during a recession, but could not explain why. Many candidates could not adequately explain the effects of time lags.

30. (1615 candidates chose this question (57%) - mean 8.42 (a: 3.27; b: 5.26); standard deviation 3.14)

This question covers the section on fiscal policy within the Government Economic Policy section of the syllabus. Generally this has been a neglected area of the syllabus but with the Commonwealth budget being delivered in May it is now possible to set questions on current fiscal policy. Part (a) consisted of two questions. Most candidates could easily distinguish between a budget surplus and a budget deficit, however, few candidates recognised that the planned Budget outcome for 2001-02 would have an expansionary effect on the economy. This is because the Budget surplus was being reduced compared to the previous year. Teachers need to ensure that this is understood by students in the teaching of fiscal policy. Part (b) also consisted of two questions. Candidates had to first distinguish between the discretionary and automatic stabilisers of fiscal policy, and then comment on the effectiveness of fiscal policy as a stabilising policy tool. Many candidates simply referred to automatic stabilisers in general such as imports and savings rather than to specific automatic stabilisers operating within fiscal policy, such as progressive taxation and welfare payments. This is an important

distinction. Candidates also did not adequately address the role of fiscal policy as a stabilising tool. While fiscal policy can be a powerful force in affecting aggregate demand through government spending and taxation, it is a very inflexible instrument due to political constraints and therefore not used as extensively as monetary policy. Fiscal policy has the advantage of a short outside lag, but suffers from a very long inside lag.

31. (1889 candidates chose this question (67%) - mean 8.38; standard deviation 2.53)

The second most popular question in Section C probably because, on paper, it appears to be quite simple, however, it was a difficult question to score a high mark and required careful planning. This question is based on a key section of the Macroeconomics syllabus. Students also cover this area in Year 11 and many weaker candidates opted for this question. There were three parts to the question: (i) an explanation of the circular flow model, (ii) the concept of equilibrium and (iii) an analysis of changes in leakages and injections affect equilibrium. Most candidates could answer parts (i) and (ii) quite well including a well-labelled diagram, although many candidates failed to provide a detailed description of the various sectors and flows. Part (iii) required a more sophisticated answer using specific examples, use of the AE model and reference to the multiplier process.

32. (1330 candidates chose this question (47%) - mean 8.42 (a: 3.76; b: 4.79); standard deviation 3.39)

A question that should have been chosen by more candidates, but those who did attempt this question generally answered it well. This question is based on the International Economics section of the syllabus. Part (a) required a textbook style answer with most candidates scoring high marks. Part (b) was more topical, but was certainly not difficult. Markers were expecting candidates to discuss the effects of the large depreciation of the Australian dollar during the year (both against the US dollar and the trade weighted index) that provided a competitive boost to exports and import competing industries. Another contributing factor has been the cumulative effects of microeconomic reform in raising Australia's productivity and competitiveness (including tariff reform, labour market reform, tax reform). Other factors that have also contributed to Australia's strong trade performance were the rise in Australia's terms of trade and the rebound in growth from the south-east Asian economies increasing the demand for Australia's exports.

33. (1214 candidates chose this question (43%) - mean 8.34, (a: 3.78; b: 4.65) standard deviation 3.18)

This question is also from the International Economics part of the syllabus. The least popular question in Section C, but again a question that was relatively easy to answer. Part (a) required a textbook style answer with many candidates able to score high marks. Part (b) was more difficult and required candidates to think about the nature of foreign investment and identify the short and long run effects of foreign investment on the economy. Many candidates simply discussed the costs and benefits of foreign investment without distinguishing between short and long run effects. This is a good example where candidates need to read the question carefully and plan their response rather than simply rewrite their learned notes.

POINTS FOR CONSIDERATION BY THE SYLLABUS COMMITTEE

The current structure of the paper in three separate sections is appropriate and a sound test of candidates' understanding of both economic theory and economic policy. Questions should continue to be set that encourage candidates to be aware of current developments in the economy and candidates should be able to apply economic concepts and theory to real world events. The Economics examination paper should be topical, interesting and relevant. The 2002 paper should continue to reflect a similar style and level of difficulty to the 2000 and 2001 examination papers.

Steven Kemp
December 2001

2001 Examining Panel

Chief Examiner: Mr Steven Kemp
Deputy: Dr Mohammed Siddique
Third Member: Mr Ian Angwin

Chief Marker: Mr Steven Kemp

SECTION B

Data Interpretation (30 marks)

Suggested time: 60 minutes

Answer ALL THREE (3) questions. Each question is worth 10 marks.

Write your answers in the spaces provided under each part question.

26. This question refers to the data below.

Economic Forecasts for the Australian Economy 2001–02

[Figures represent year average data and percentage change on preceding year, unless otherwise stated.]

	Actual 1999–00	Estimate 2000–01	Forecast 2001–02
Consumption	4.5	2.7	3.0
Dwelling Investment	12.4	-25.0	5.0
Business Investment	3.6	0.0	5.0
Public final demand	5.6	2.2	2.2
Gross National Expenditure	4.5	0.5	3.0
Exports of goods & services	9.2	6.0	5.0
Imports of goods & services	12.5	0.0	4.0
Gross Domestic Product	4.3	2.0	3.2
Consumer Price Index	3.2	5.8	2.0
Employment	2.7	2.0	1.0
Unemployment rate (per cent)	6.6	6.3	7.0
Current account balance (% of GDP)	-5.3	-3.0	-3.0

Source: Commonwealth Treasury of Australia 2001.

(a) Which specific item of expenditure in the table above is the most volatile?

(1 mark)

DWELLING INVESTMENT

What is the forecast rate of economic growth for the Australian economy in 2001–02?

(1 mark)

3.2%

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- (b) Identify the year which corresponds with the 'Peak' phase of the business cycle. Use data from the table to justify your choice. (3 marks)

Year **1999-00** **1 MARK**

Justification: 2 MARKS - discussion of at least 2

High rate of growth in GDP, GNE, consumption

Strong employment growth - 2.7%

Relatively low unemployment - 6.6%

High CAD & strong growth in imports

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- (c) Use the data in the table to explain the economy's performance in 2001–02.
Illustrate your answer with the use of an appropriate model such as the aggregate expenditure model.(5 marks)

1 mark: the economy is forecast to 'rebound' or 'recover' from the low rate of growth in 2000-01: GDP forecast to rise from 2% to 3.2%

1 mark: main factor is the forecast recovery in both dwelling investment and business investment (increase of 5% for both)

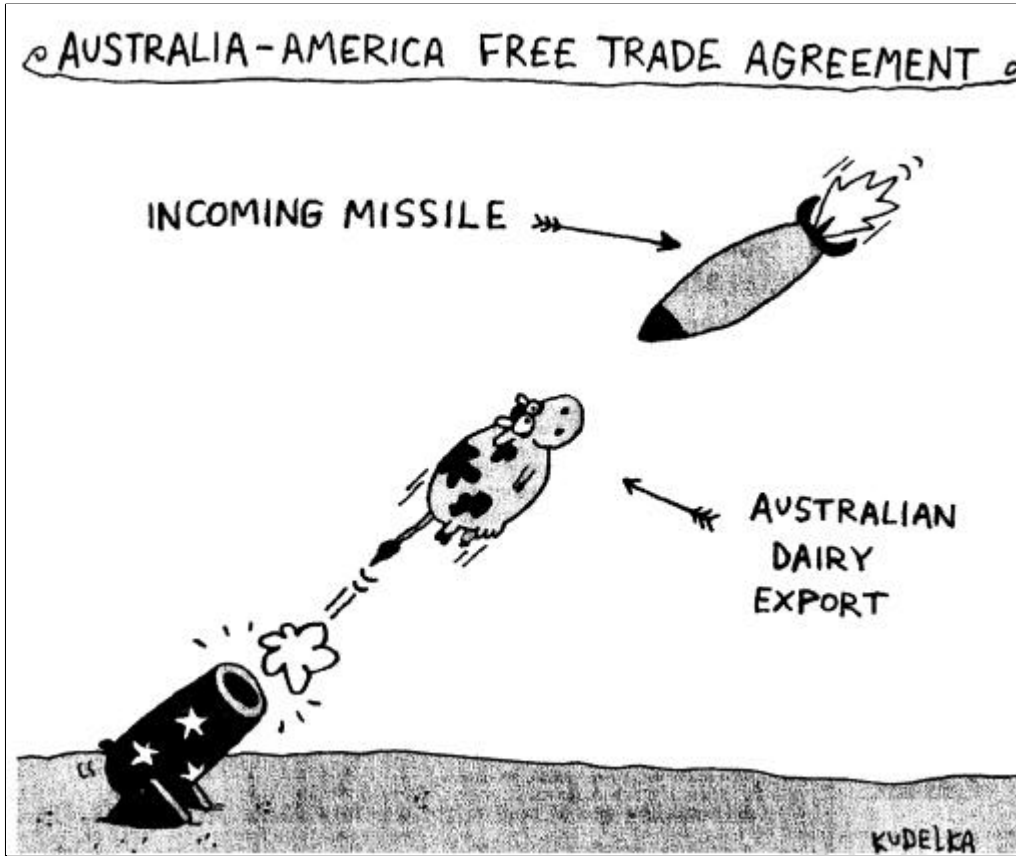
2 marks: appropriate model - use the AE diagram to show an increase in I to increase GDP.

1 mark: other stuff

- labour market softer (lagging indicator) - unemployment rising, employment growth weak
- CAD low due to soft economy
- Inflation falling as GST effect drops out

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27. This question refers to the cartoon below.



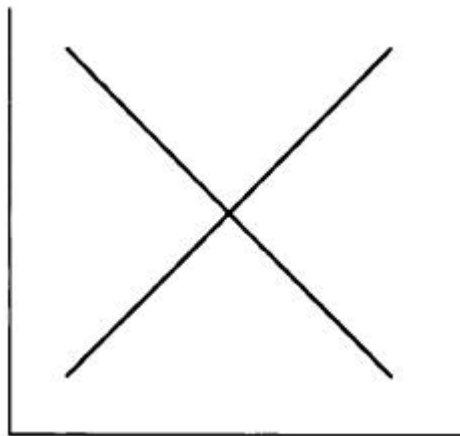
Source "The Weekend Australian" 24 March 2001

(a) Explain the meaning of a Free Trade Agreement. (2 marks)

something like: an agreement between two or more countries to reduce and/or remove protective barriers to the movement of goods and services between the countries

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- (b) Use a demand/supply model to illustrate the impact of the removal of tariff protection on the United States domestic market for dairy products. (3 marks)



Correct labelling of diagram - demand curve, supply curve, show world price and tariff line

Explanation of diagram:

- Decrease in price, increase in domestic consumption, decrease in domestic production, increase in imports

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- (c) Explain the economic effects the Australian economy may experience as a result of a free trade agreement with the United States. (5 marks)

2 marks: effects on export side - significant boost in exports to US; increase in output and employment in export and related sectors, possible increase in trade surplus

2 marks: effects on import side - US imports would increase as Australian trade barriers fall; Australian import competing sectors may contract with decrease in output and employment

1 mark: net effect - positive, Australian economy would gain, resource allocation improves

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28. This question refers to the data below.

Estimate of Commonwealth general government revenue 2001-2002

[Note: revenue collected from the GST (estimated \$27.5bn) is excluded from the following estimates since it flows to the States.]

Taxation Revenue	\$bn
Income Tax	
Individuals	82.8
Companies	27.2
Other	7.2
Indirect Tax	
Excise Duty	19.1
Customs Duty	4.9
Other	0.8
Other Taxes, Fees and Fines	4.8
Total Tax Revenue	146.8
Non-tax revenue	12.1
Total revenue	158.8

[Source: Commonwealth Budget Papers 2001-02]

(a) What proportion of total tax revenue is collected from income tax levied on individuals?

56% (1 mark)

If the estimated GST revenue is included in total tax revenue, then this proportion falls to

47.5% either 47% or 48% (1 mark)

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- (b) Distinguish between a progressive and a regressive tax. Provide one example from the taxes listed in the table of a progressive tax and one example of a regressive tax. (3 marks)

2 marks: correct definitions of progressive and regressive taxes - must define in terms of the rate of tax e.g. progressive - the rate of tax paid increases as income rises

1 mark: examples

progressive - personal income tax

regressive - excise duty or customs duty

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- (c) The introduction of the GST has enabled the reduction in personal income tax rates and the company tax rate. What effect is this likely to have on the _____ economy? (5 marks)

2 marks: discuss effects of reduction in personal income tax

- increase in disposable income may increase consumption spending but effect uncertain due to increase in prices of goods and services
- lower marginal tax rates may increase work incentive
- may have positive effect on household saving rate
- may reduce tax avoidance

2 marks: effects of reduction in company tax

- should boost profits and may stimulate increased investment
- improves competitiveness of domestic firms
- may encourage increased foreign investment

1 mark: other effects

- tax system becomes more regressive
- tax system becomes more efficient
- broader and more reliable tax base for government

END OF SECTION B

MARKING GUIDE - SECTION C

Extended Writing (45 marks)

Answer any **THREE (3)** questions. Each question is worth **15 marks**.

29. Great question, should be popular - many candidates may be well groomed for this

(a) Describe the characteristics of a recession and the factors that can cause a recession. (9 marks)

3-4 marks: discussion of the characteristics of a recession

- definition in terms of two or more successive quarters of negative growth
- rise in unemployment, decline in consumption, investment, profits, GNE etc
- must recognise slowdown in economic activity

5-6 marks: factors that can cause a recession - should discuss at least 3 different factors (watch out for a treatise on the Bin Laden effect)

- aggregate demand factors: e.g. autonomous decline in AE such as investment or exports; business expectations & confidence may fall; external shocks such as Asian currency crisis; impact of recession in other economies such as US; could use the AE model (or AD/AS model) to show decline in expenditure to cause a decrease in real GDP.
- aggregate supply factors: e.g. rise in price of oil resulting in increased costs and decline in aggregate output;
- policy induced: rise in domestic interest rates by RBA may lead to decline in investment and consumption expenditure

(b) Comment on the effectiveness of monetary policy when the economy is in a recession. (6 marks)

2 marks - know what monetary policy is & how it works: RBA policy of changing interest rates to effect private spending (C & I) and that during recession i/rs would be lowered to stimulate private demand

4 marks - monetary policy is a very flexible policy and can be used to respond very quickly to changes in the business cycle, however, monetary policy is not as effective during a recession as during a boom period; reasons such as time lags - long effect lag, a change in i/rs may take 6 to 12 months to take effect, also a cut in i/rs may not work if private sector confidence is weak, profits are negative, unemployment is rising, investment likely to be interest inelastic

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30. Another discerning question

The 2001–02 Commonwealth Budget provides for a fifth consecutive cash surplus.

	2000–01	2001–02
<i>Underlying cash balance (\$bn)</i>	2.3	1.5
<i>Per cent of GDP</i>	0.3	0.2

- (a) Distinguish between a budget surplus and a budget deficit. Will the planned Budget outcome for 2001–02 have an expansionary or contractionary effect on the Australian economy? Explain why. (5 marks)

2 marks: distinguish between a surplus (Commonwealth govt income > outlays) and a deficit budget (Commonwealth govt income < outlays)

3 marks: expansionary effect - even though the budget is in surplus, the planned surplus has decreased relative to previous year i.e. govt outlays have increased relative to govt income

- (b) Using examples, explain the difference between the discretionary and automatic elements of fiscal policy. How effective is fiscal policy in stabilising the level of economic activity? (10 marks)

6-7 marks: discretionary - planned/deliberate change in government spending and/or tax rates, usually made at time of Budget, reflects government policy objectives and priorities, may decide to increase spending on education or health, change income tax rates, introduce a new tax such as the GST.

Automatic - automatic stabilisers such as unemployment benefits, the progressive personal income tax rates affect the budget position in response to the business cycle, if the economy contracts then govt spending automatically increases (welfare payments) while taxation receipts fall, the budget surplus will automatically fall.

3-4 marks: stabilising means slowing the economy during a boom phase and expanding the economy during recession; fiscal policy is not very flexible and therefore is not the best instrument for stabilising the economy - fiscal policy suffers from very long action lag, also suffers from political bias

But one redeeming feature is that once implemented fiscal policy is very direct and quick to work e.g. increase in G or decrease in T and better at lifting economy out of recession compared with monetary policy.

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31. This is the standard boring, uninspiring type of question required each year, should be popular for the desperate

Use the complete circular flow model to describe the interaction of the different sectors in the economy. Define the concept of equilibrium and explain how changes in leakages and injections can affect the equilibrium level of income. (15 marks)

8 marks: Describe the complete circular flow model - sectors (households, firms, financial, government, overseas), income & expenditure flows, leakages & injections, must have well labelled diagram, need to explain interaction between sectors

7 marks: discussion of meaning of equilibrium: $S + T + M = I + G + X$ and effect of changes in leakages and injections on the equilibrium level of income; should be able to incorporate examples and refer to multiplier effect - good answers will include AE model to help illustrate effect of change in leakage and/or injection on level of income.

32. A beautiful question, very topical

Australia's strong trade performance is contributing to a much lower current account deficit, expected to be around the lowest level in a decade as a share of GDP in 2001–02.

- (a) Describe the key components of the current account in the balance of payments. (6 marks)

Very straightforward, description of key parts, need more than just definitions to get 6 marks:

- Goods and services
- Income
- Current transfers

Perhaps some idea of relative importance

- (b) What factors have contributed to Australia's recent strong trade performance? (9 marks)

Some discussion of the meaning of a strong trade performance - 1 mark

3-4 marks - the large depreciation in the value of the \$A: explain how a depreciation can boost net exports through price effects

3-4 marks - the cumulative effect of microeconomic reform on increasing Australia's international competitiveness & productivity, give examples

1-2 marks - other factors anything which makes sense e.g. increase in Aust's terms of trade

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33. The failed takeover bid for Woodside by Shell in 2001 is an example of potential direct foreign investment in the Australian economy.

- (a) Use examples to explain the difference between direct and portfolio foreign investment into the Australian economy. (6 marks)

Basically 3 marks for a correct explanation of each type, including examples:

Direct investment represents funds invested in an Australian enterprise by a foreign resident which gives the investor a 'significant influence' over that enterprise. Ownership of 10% or more is considered to indicate 'significant influence' by an investor. Direct investment is thus associated with either the ownership and/or control of Australian enterprises and resources.

Portfolio investment refers to all other foreign investment that is not direct investment. In other words, portfolio investment does not result in the increasing ownership or control of Australian enterprises. Portfolio investment occurs if an overseas firm purchases less than 10% of the shares of an Australian company.

- (b) Describe the short run and the long run impact of foreign investment on the Australian economy. (9 marks)

A variation of the standard costs and benefits of foreign investment - candidates need to distinguish between short and long run impact rather than simply list advantages & disadvantages

Some may refer to portfolio investment as more short term & volatile and discuss the relative merits of this compared to the more long term nature of direct investment - this is ok as long as they refer to impacts of the foreign investment on the economy

Reserve the best marks for those who make an attempt to distinguish between short and long run effects

Short run:

- immediately increases the capital account surplus
- increases demand for the \$A (may increase its value)
- direct investment may lead to increased output & employment effects
- increased transfer of foreign technology & management
- increases either foreign ownership or foreign debt

Long run:

- Australia's potential growth rate increases by accessing foreign savings & foreign technology
- productivity & competitiveness should be boosted by direct investment
- income deficit in the current account will increase with repatriation of dividends & profits, as well as interest payments
- potential for increased exports