

2024 VCE Economics external assessment report

General comments

Students performed quite well in the examination. In Section A, many of the 15 multiple-choice questions were well handled.

However, Questions 3 and 5 in Section A had the highest incidence of incorrect responses, suggesting that teachers and students need to carefully revise the following key knowledge areas as part of examination preparation:

- how price factors and non-price factors affect the demand curve. That is, the former lead to movements along the demand curve while the latter cause shifts of the demand curve (Question 3)
- the meaning of relative prices (Question 5).

Overall, students responded to most of the questions in Section B in a meaningful way and structured their responses well. However, some points to note are:

- Students must carefully choose when (and when not) to define macroeconomic goals in their responses. If a goal is in one component of a question, a definition is not expected or required for the rest of that component; for example, if they provide a definition in Question 4c., they do not need to provide a definition again in Question 4d.
- Further, students must commit key economic definitions from the study design to memory as it was evident in the responses to Questions 1, 2b. and 4a. that a number of students had a tenuous grasp of the terms featured in these questions.
- The task word and the total marks per question provide important information about how much detail is required and the approach to be taken in responding to a question. Therefore, students need to carefully consider how much detail is needed in each response based on these two things. For example, in Question 2a., there was no need for an equilibrium adjustment analysis and in Question 4a. there was no need for an evaluation of the achievement of the goal or a statement about the current rate of inflation.
- Question 4d. proved to be another area where more preparation is required, as many responses did not provide a balanced assessment in relation to the achievement of the two macroeconomic goals. Evaluation, in the context of this question, required students to consider relevant information such as the benchmarks (official or unofficial targets) for the macroeconomic goals of low and stable inflation and full employment, and to make a judgment based on a knowledge and understanding of Australia's inflation and unemployment performance over the past 2 years, while also considering points for and against whether the macroeconomic goals in question have been achieved or not.
- Overall, responses did not score highly in Questions 5a. and 5b., suggesting that Area of Study 3 from Unit 3 needs to be singled out for further consolidation and revision. For example, for Question 5a., many responses did not identify a relevant structural influence on the current account, while other responses referred to cyclical influences on the current account, which was not what the question asked. For Question 5b., many responses did not demonstrate how foreign investment is treated in the balance of payments.
- Students are expected to write responses in full sentences and paragraphs. Some students used shorthand consisting of arrows and economic symbols. This approach could not convey the complexity

and sophistication of economic relationships and meant that these responses did not obtain the full complement of marks allocated to a question.

- Students who use the extra space at the back of the booklet to finish their answers should make it very clear to assessors that their answer continues beyond the space allocated in the answer booklet. Simply writing 'P.T.O.' at the end of the allotted writing space is sufficient. Students who do not do this risk assessors ignoring the part of their response at the back of the booklet.
- It is important to explain the links between concepts in economics. Many responses contained simplistic assertions without explaining why these relationships exist. In general, students must ensure they 'explain' rather than 'assert' economic relationships. The examples provided below demonstrate how students can write a more complete response that addresses the requirements of the question.

Examples where 'assertions' are extended into 'explanations':

- 'An increase in AD [aggregate demand] leads to an increase in inflation' would be better phrased as 'an increase in AD leads to more pressure on the capacity of the Australian economy, leading to shortages and price pressures, which accelerate inflation'.
- 'An increase in AD leads to an increase in economic growth' would be better phrased as 'an increase in AD sends signals to suppliers to increase production levels, leading to an increase in economic growth'.
- 'An increase in AS [aggregate supply] leads to an increase in production' would be better phrased as 'an increase in AS puts downward pressure on prices, stimulating AD for the increased level of output/production'.
- 'An increase in productivity means an increase in the productive capacity' would be better phrased as 'an increase in productivity allows firms to get more outputs from the same level of inputs, expanding the economy's productive capacity or potential output, hence increasing the willingness and/or ability of businesses to supply goods and services for sale'.
- 'An increase in production or AD leads to more jobs in the economy' would be better phrased as 'an increase in production means firms require more labour in the production process to satisfy the increased demand, which leads to an increase in derived demand for labour and an increase in jobs or a decrease in the unemployment rate'.

Many responses did not demonstrate understanding of the distinction between purchasing power and disposable income. These concepts are not interchangeable. Disposable income measures (in nominal terms) wages paid to employees minus taxes paid to the government plus any transfer payments received, whereas purchasing power measures the amount of goods and services a given level of income can purchase (which is determined by inflation). For example, an increase in inflation means the same level of disposable income has a reduced 'purchasing power' because goods and services are more expensive, but it does not equate to a decrease in disposable income.

It is important that students have a contemporary understanding of the Australian economy, as per the study design. For example, Questions 4b., 4c., 4d., 6a., 6b. and 6d. all required a contemporary understanding to receive full marks. Students should note that where the study design states 'over the past 2 years', both a theoretical and a contemporary understanding are required.

Specific information

Note: Student responses reproduced in this report have not been corrected for grammar, spelling or factual information.

This report provides sample answers or an indication of what answers may have included. Unless otherwise stated, these are not intended to be exemplary or complete responses.

The statistics in this report may be subject to rounding resulting in a total more or less than 100 per cent.

Section A – Multiple-choice questions

The table below indicates the percentage of students who chose each option. Grey shading indicates the correct response.

Question	Correct answer	% A	% B	% C	% D	Comments
1						This question was invalidated because it does not align with the study design.
2	A	65	28	2	5	
3	B	27	55	10	7	
4	B	1	96	2	0	
5	D	4	30	10	56	
6	B	2	90	3	5	
7	A	64	7	16	12	
8	B	8	80	10	2	
9	D	7	7	19	66	
10	C	4	3	74	19	
11	A	69	7	13	11	
12	B	5	90	4	1	
13	B	6	85	7	3	
14	D	8	5	10	77	
15	C	2	11	86	1	

Section B

Question 1

Marks	0	1	2	3	Average
%	9	17	32	42	2.1

To achieve full marks, students were required to:

- demonstrate their understanding of both opportunity cost and relative scarcity
- explain the relationship between these two concepts.

High-scoring responses:

- demonstrated an understanding of both opportunity cost and relative scarcity
- explained how relative scarcity forces individuals, businesses and economies to make choices
- highlighted that when choices are made in the context of scarcity certain benefits are forgone (there is an opportunity cost). Therefore, efficient decision-making is about minimising opportunity cost.

Areas for improvement:

- Many responses demonstrated a misunderstanding of opportunity cost. Opportunity cost is not the cost or price of the next-best alternative; it is the benefit or value forgone in making choices in the context of scarcity.
- Some students misread the question and distinguished between the two concepts rather than showing how they are connected.

The following is an example of a high-scoring response.

Relative scarcity is the basic economic problem that a society's wants/needs are infinite whereas our resources are finite. This forces economic agents to make decisions on how these resources are going to be allocated. This results in opportunity costs which is the value of the next best alternative foregone when making an economic decision. For example, a farmer may have land which is allocated to the production of wheat. However, the opportunity cost of allocating this scarce resource could've been the value of using the land to produce rice (if this is the next best alternative).

Question 2a.

Marks	0	1	2	3	4	Average
%	7	13	17	19	45	2.8

To achieve full marks, students were required to:

- draw a correctly labelled demand and supply diagram showing a shift of the supply curve to the right
- explain how an increase in skilled migration (albeit at a lower rate than previous years) would lead to an increase in the supply of labour, the participation rate or the size of the population
- explain how the shift to the right would lead to a decrease in equilibrium price (wages) and an increase in quantity traded (level of employment).

High-scoring responses:

- correctly labelled the demand and supply diagram, including X and Y axes, equilibrium points, D1, S1 and S2, P1 (W1) to P2 (W2) and Q1 to Q2
- explained how an increase in supply would be due to an increase in skilled migrants entering the Australian labour market
- correctly outlined an increase in the quantity traded (jobs) and a decrease in prices (wages).

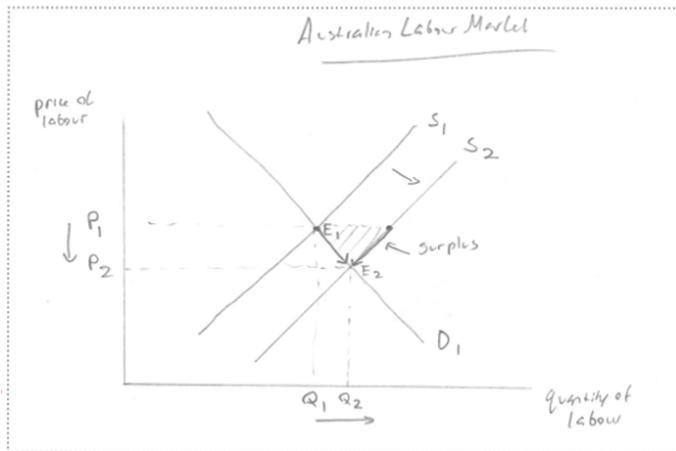
Areas for improvement:

- Some responses did not demonstrate an understanding that net overseas migration is still increasing (positive), albeit at a slower rate, and made the error of shifting the supply curve for labour to the left.
- Many responses mistook an increase in equilibrium 'quantity traded', such as an increase in jobs in the labour market, for 'quantity supplied', which implies a movement along the supply curve. Students must use the correct language when describing changes in the market.
- Many students spent valuable time explaining how the market moved from the original to the new equilibrium (E1 to E2). While this does demonstrate a deeper understanding and add weight to the response, this question only required students to explain the impact on the market, not how the market changes or adjusts to the new equilibrium, which was addressed in Question 2b. Questions that require a disequilibrium analysis or an explanation of how the market adjusts will explicitly state this or have a higher mark allocation.

- Students should remember that a question that asks about the ‘impact on a market’ is effectively asking them to describe how the change (usually a shift) specifically impacts equilibrium price (P) and quantity traded (Q).

The following is an example of a high-scoring response.

Commented [A1]: PNG image not showing on old iPhone view



Australia’s 2023–24 net migration is 315,000 which, although lower than the previous 400,000, will still increase the total quantity of labour (factor of production) available to Australian firms, leading to a favourable rightward shift of the supply curve and resulting in both a higher equilibrium quantity of Australian labour and a lower price.

Question 2b.

Marks	0	1	2	3	Average
%	14	20	32	34	1.9

To achieve full marks, students were required to:

- explain the shift to the right of the demand curve due to an increase in the size of the Australian population (relevant non-price demand factor)
- explain how the shift in the demand curve would lead to a shortage at the current market price and create pressure for prices to rise (for example, from either buyers bidding up the price of houses or sellers of houses raising their asking price)
- outline the new higher equilibrium price and quantity traded.

High-scoring responses:

- focused on how the shift in demand (increase in demand at every price level) resulted in pressure for the equilibrium price and quantity traded to increase
- demonstrated an understanding of a shortage, that is, where quantity demanded (QD) exceeds the quantity supplied (QS), and of the role a shortage plays in helping the market to adjust or transition to a new equilibrium
- explained the movements along both the demand (contraction in QD) and supply (expansion in QS) curves as a consequence of the shortage exerting upward pressure on the price.

A small number of high-scoring responses focused on how an increase in skilled migrants such as tradespeople (increase in the quantity and quality of the factors of production) will increase the supply of

houses in the housing market. That is, they moved the supply curve to the right and explained how this causes a temporary surplus in the housing market at the original price level, which then drives down the price and increases the quantity of housing traded.

Areas for improvement:

- Some students misread this question and continued their analysis of the labour market from Question 2a.
- Many responses identified the shortage that would occur as a result of the increase in demand for housing but did not explain how the shortage leads to a change in house prices.

The following is an example of a high-scoring response:

The net migration of 315,000 in 2023–24 will increase Australia’s population and thus shift the demand curve for housing to the right. This may cause a shortage of housing at the pre-existing price level, causing profit-seeking suppliers to increase prices to eliminate this shortage. This should lead to an expansion in the supply of housing and a contraction in the demand for housing until a new equilibrium is reached with a high quantity [traded] and a higher price.

Question 2c.

Marks	0	1	2	3	4	Average
%	3	10	25	36	27	2.8

To achieve full marks, students were required to:

- demonstrate an understanding of skilled migration as an AS policy that is designed to attract foreign workers with the necessary skills and knowledge to fill skills shortages in the Australian economy
- demonstrate an understanding of how this policy would work to improve one AS factor and therefore the productive capacity in the Australian economy. High-scoring responses linked the increase in skilled migration to an increase in labour productivity or to an increase in the labour force participation rate, both of which expand the economy’s potential output. Furthermore, some responses argued that the increase in the intake of skilled migrants helps to ease costs of production for Australian businesses due to a loosening of the labour market and the filling of skilled vacancies, and in doing so, increases the willingness and ability of businesses to supply goods and services
- demonstrate an understanding of how increased productive capacity allows for economic growth to occur without inflationary pressures
- demonstrate an understanding of how skilled immigration may affect non-material living standards.

High-scoring responses:

- demonstrated an understanding of how skilled migration works to counter the effects of an ageing population and skills shortages in Australia by attracting skilled and knowledgeable workers to Australia
- demonstrated the links between skilled migration and one AS factor
- demonstrated the link between an increase in one AS factor and the productive capacity of the Australian economy
- demonstrated an understanding of how AS policies allow for non-inflationary or sustainable growth. For example, by arguing that increase in AS allows AD to grow without inflationary pressures or that an increase in AS (increase in total volume of goods and services available for sale) exerts downward pressure on the general price level, stimulating AD for the increased level of production
- provided a relevant reference to non-material living standards, for example, that they are reduced due to an increase in congestion, pollution or reduced access to infrastructure or that they are improved by multiculturalism and diversity.

Areas for improvement:

- Many responses simply asserted that an increase in the productive capacity automatically leads to an increase in GDP, without explaining the relationship between AS and AD.
- Students should remember that AS policies are designed to increase the potential rate of growth in the economy without causing inflationary pressures, and in doing so fulfil the ‘sustainable’ component of the goal of strong and sustainable economic growth.
- Many responses contained insufficient or incorrect links between the key concepts in this question.

For example:

- They stated that an increase in productivity leads to an increase in AS and therefore the achievement of the goal.
- They stated that an increase in skilled migration leads to a decrease in the costs of production for businesses but did not refer to the loosening in the labour market and how this lowers the bargaining power of workers in negotiating wages.
- They mistakenly stated that a decrease in the costs of production increases productivity.

Therefore, it is important that students explain why an increase in one factor leads to a change in something else (see General comments section above). For example, if productivity increases (a favourable AS factor), businesses can get more output from the same inputs, allowing them to lower their per-unit costs of production, which makes businesses more willing and able to supply. The resultant increase in aggregate supply exerts downward pressure on the general price level, which stimulates aggregate demand for the increased output, promoting non-inflationary economic growth. Alternatively, students could argue that businesses may pass on these lower costs of production as lower prices to consumers, stimulating aggregate demand and supporting non-inflationary economic growth.

The following is an example of a high-scoring response:

As approximately 70 per cent of Australia's migration program is focused on skilled immigrants, skill shortages will be able to be filled – assuming that these positions were previously unfilled or occupied by less capable workers. The average level of labour productivity will rise.

Increased productivity reflects higher technical efficiency with more outputs produced per labour input. Thus, productive capacity will shift out as a product of the quantity and quality of resources in the economy. Further, the higher labour productivity will increase capability to supply, improving aggregate supply and contributing to non-inflationary economic growth. This improves the achievement of strong and sustainable economic growth, as greater productive capacity allows firms to respond to greater aggregate demand.

The goal refers to the highest growth rate possible, consistent with strong employment growth, stable price inflation, external and environmental pressures. However, non-material living standards may fall as greater production may increase pollutions and compromise the quality of life for Australians.

Question 3a.

Marks	0	1	2	Average
%	2	18	81	1.8

To achieve full marks, students were required to:

- demonstrate an understanding of the overall trend in long-term unemployment since January 2022
- refer to relevant data from the graph.

Areas for improvement:

- Some responses focused on irrelevant aspects of the data and did not address the question directly. This question asked for the *overall trend* as opposed to each up and down movement over the period.
- Some responses referred to the incorrect time period (prior to January 2022), while other responses used incorrect data by not acknowledging that the data was expressed in thousands ('000).

The following is an example of a high-scoring response:

Australia's long-term unemployed persons decreased from around 150,000 people (Jan. 22) to around 116,000 people (Nov. 23). This signifies a decreasing trend.

Question 3b.

Marks	0	1	2	3	Average
%	30	27	24	18	1.3

To achieve full marks, students were required to:

- demonstrate an understanding of both hidden and long-term unemployment
- highlight a clear point of difference between the two types of unemployment.

High-scoring responses:

- clearly highlighted the key difference
- explained that hidden unemployment refers to people who would like a job but are discouraged from seeking work due to continual rejection and hence are not included in the official unemployment figures like the long-term unemployed.

Areas for improvement:

- Confusing long-term unemployment with another type of unemployment, such as structural or frictional.
- Making vague statements such as long-term unemployed people are people who have been unemployed for a long time, rather than stating that the long-term unemployed are people who have been unemployed for a duration of 12 months or longer.
- Confusing hidden unemployment with disguised (under) unemployment.
- Confusing hidden unemployment with hard-core unemployment by claiming that the hidden unemployed are people who are discouraged from actively seeking work due to 'physical, mental or personal reasons'. Some responses claimed that the hidden unemployed are stay-at-home parents or carers or people who have been injured at work and are therefore prevented from working.

The following is an example of a high-scoring response:

Hidden unemployment refers to individuals who do not have a job and would like to work, however have become discouraged about job prospects and are no longer looking. Whereas long-term unemployed refers to individuals who have not had a job for 12 or more months and are unemployed. A key difference is that individuals can become 'hidden unemployed' within months and will no longer be included in the unemployment rate. Whereas individuals must be unemployed for 12 or more months to be classified as 'long-term unemployed' and will still be included in the unemployment statistics.

Question 3c.

Marks	0	1	2	3	Average
%	8	22	35	35	2.0

To achieve full marks, students were required to:

- demonstrate an understanding of one consequence of not achieving the goal of full employment, for example, if the rate of unemployment is too high or too low
- draw a relevant link between the chosen consequence and its effect on material living standards.

High-scoring responses:

- clearly demonstrated the impact of an unemployment rate, whether too high or too low, on one consequence, such as high inflation, a decrease in GDP or a decrease in tax revenues
- clearly linked the same consequence to a reduction in material living standards.

Areas for improvement:

- Many responses confused a decrease in disposable income with a decrease in purchasing power (see 'General comments' section above).
- Students chose one consequence, like a drop in GDP (when there is rising high unemployment), and then explained how a different consequence would impact living standards, such as a decrease in purchasing power due to increased inflation (when unemployment is very/too low).
- Some responses did not address the last part of the question, which required students to identify a link with material living standards. Students are reminded to identify all of the content words in a question, and then to methodically address each one in their response in order to access the full range of available marks.

The following is an example of a high-scoring response:

The goal of full employment refers to the lowest level of unemployment, that is in alignment with other government goals and where no cyclical unemployment exists. It is often referred to as NAIRU (non-accelerating rate of unemployment) and is around 4.5 per cent. One consequence if the unemployment rate is below the NAIRU is that it could create high inflationary pressures, as firms experience labour shortages, leading to higher wages and [they] must increase prices to protect profit margins. With high inflation, this reduces the purchasing power of consumers' incomes and hence decreases the volume of goods and services they can consume (a decrease in material living standards).

Question 4a.

Marks	0	1	2	Average
%	23	31	46	1.3

To achieve full marks, students were required to:

- state that the NAIRU is the lowest rate of unemployment possible without causing inflationary pressures in the economy
- include some detail to demonstrate the depth of their understanding. For example, they might state that
 - the NAIRU is believed to be somewhere between 4 per cent and 4.5 per cent
 - the NAIRU implies no cyclical unemployment but some structural unemployment
 - the NAIRU means that unemployment is neither too high (that it reduces living standards as more individuals move to transfer incomes) nor too low (that it erodes purchasing power and hence living standards)
 - there is a degree of conjecture about the precise level of the NAIRU, with some economists suggesting that it might be less than 4 per cent.

High-scoring responses included:

- a statement that the NAIRU is the lowest rate of unemployment possible that does not put excessive inflationary pressure on the economy, which many economists believe to be 4–4.5 per cent or more, specifically 4.25 per cent according to Treasury estimates.

Areas for improvement:

- Students provided an insufficient description of the NAIRU. For a 'describe' question worth two marks, students must provide more than a basic definition.

The following is an example of a high-scoring response:

The NAIRU is the lowest rate of unemployment possible within an economy before inflation begins to accelerate unsustainably. It is a key measure of the level of achievement of the goal of full employment and is estimated to be around the 4.25 per cent unemployment rate in Australia.

Question 4b.

Marks	0	1	2	Average
%	22	30	49	1.3

To achieve full marks, students were required to:

- explain how one contemporary AS factor from the past 2 years has impacted the rate of inflation and therefore the achievement of the goal.

High-scoring responses included:

- a reference to a contemporary AS factor that has impacted the rate of inflation over the past 2 years, such as the high participation rate over 2024, the impact of the continued tensions in the Middle East on oil prices, the negative productivity growth over the past 2 years or the increase in wage price index (from a tighter labour market) over the past 2 years.

Areas for improvement:

- Students used generic factors such as costs of production and technological change without citing a recent and specific example from the past 2 years. For instance, students who chose costs of production as an AS factor could have explained how the Russian invasion of Ukraine has contributed to higher energy costs for businesses, or how a tight labour market has led to wages growth, resulting in cost inflationary pressures. Similarly, students could have identified the conflict in the Middle East as disrupting global shipping and supply chains, and in turn impacting the costs of production.
- It was evident that some students were not aware of how contemporary AS factors as per the study design have influenced the goal of low and stable inflation over the past two years.
- Some students used interest rates as an AS factor. They argued that the decision by the Reserve Bank of Australia (RBA) to increase interest rates has contributed to higher inflation by raising the costs of production, suggesting that the RBA was contributing to the inflation problem. In short, this revealed a misunderstanding of monetary policy, which employs higher interest rates to restrain AD and dampen demand inflationary pressures. Students are reminded that interest rates (monetary policy) are an AD policy rather than an AS policy, and thus they are used to stimulate or dampen AD, not AS.
- Some students used business confidence as an AS factor. Students are reminded that business confidence is an AD factor and is a driver of investment expenditure, which is a component of AD or total expenditure.

The following is an example of a high-scoring response:

One AS factor has been the downwards trend in productivity over the past 2 years. This meant less output could be achieved per unit or input, increasing average costs of production for firms. These

increased costs have been passed onto consumers through higher prices which has put pressure on the rate of inflation to remain higher than the 2–3 per cent target over the past 2 years.

Question 4c.

Marks	0	1	2	3	4	5	Average
%	17	8	10	16	20	19	2.9

To achieve full marks, students were required to:

- demonstrate an understanding of the RBA’s current monetary policy stance (contractionary)
- demonstrate an understanding of one transmission mechanism of monetary policy and its impact on AD given the contractionary stance taken by the RBA
- show a clear link between a decrease in AD and a decrease in the level of inflation
- demonstrate an understanding of the impact of the RBA’s current stance on the achievement of low and stable inflation (price stability).

High-scoring responses:

- referenced the current target cash rate in relation to the neutral cash rate
- showed clear links between AD and demand inflation. For example, by arguing that a decrease in AD would place less pressure on the productive capacity of the Australian economy and allow for growth in prices to slow.

Areas for improvement:

- Many students chose a more complex transmission mechanism and did not explain it adequately. For example, some students who chose the asset prices/values transmission mechanism simply stated that higher interest rates lead to less demand for housing, and in turn to lower house prices and lower inflation. These responses did not recognise that lower asset (such as house) prices reduce the ‘paper wealth’ of asset owners, resulting in a negative wealth effect, which reduces the willingness of asset owners to spend, dampening consumption, AD and demand inflationary pressures.
- Some students identified a relevant transmission mechanism but then went on to explain another transmission mechanism. For example, a number of students identified the saving/investment transmission mechanism but then went on to explain the cash flow transmission mechanism, or vice versa.
- Some students did not identify a transmission mechanism and wrote that higher interest rates lead to lower levels of consumer confidence and thus to lower levels of consumption and AD. Although this argument has some merit as higher interest rates can weigh heavily on consumer confidence, it does not address the question, which was specifically about a monetary policy transmission mechanism.
- Some students provided an explanation of conventional monetary policy; that is, how the RBA adjusts the policy interest rate corridor to change the target cash rate and then engages in liquidity management to keep the actual cash rate in line with the target cash rate. This used up valuable time for no reward as it was beyond the scope of the question. Students are reminded to scrutinise each question carefully before committing pen to paper to ensure that their responses reflect what is being asked.

The following is an example of a high-scoring response:

The current monetary policy stance is contractionary, whereby the target cash rate is set at 4.35 per cent above monetary policy neutrality (3–3.5 per cent). This is designed to decrease AD and promote the achievement of the goal of price stability since the inflation rate (3.8 in Q2 2023) has been above the target range of 2–3 per cent. The higher target cash rate should flow onto a higher interest rate which should (via the cash flow transmission mechanism) mean households with variable interest rate loans experience an increase in interest repayments, thereby decreasing their discretionary income. In

response, households may cut back their private consumption spending (C), reducing AD. This decrease in AD may lead to surpluses emerging which would exert downward pressure on prices. Thus, the RBA's stance is designed to lower the inflation rate and promote this achievement of price stability (contain the annual CPI increase to 2–3 per cent on average over a cycle).

Question 4d.

Marks	0	1	2	3	4	5	6	Average
%	10	7	10	18	25	19	10	3.4

To achieve full marks, students were required to:

- make a relevant reference to the quote on page 14 of the examination paper
- make a reference to the current rates of unemployment and inflation
- evaluate the level of achievement of full employment over the past 2 years
- evaluate the level of achievement of low and stable inflation over the past 2 years.

High-scoring responses:

- included a reference to the extent to which the Australian economy has achieved the goal of full employment that demonstrated the student's knowledge of the contemporary Australian economy, such as in the following example

On the one hand, the current unemployment rate is below the NAIRU target and could be seen to be adding to inflationary pressures in the economy, which may cause worry for the RBA. However, over the past 2 years the unemployment rate has risen from around 3.6 per cent to 4.2 per cent, which is likely to have eased the pressure on wages and therefore inflation. Currently, with the unemployment rate at or within the NAIRU target, the goal has been achieved.

- included a reference to the extent to which we have achieved the goal of low and stable inflation that demonstrated the student's knowledge of the contemporary Australian economy, such as in the following example

Inflation has been well above target over the past 2 years, rising as high as 7.8 per cent in 2022. More recently the rate of inflation has dropped into the 2–3 per cent target band, currently at 2.8 per cent. However, this recent change in the headline rate is largely due to the temporary energy bill relief package which will expire soon, pushing the headline rate higher. Despite this one-off drop in the inflation rate, inflation has still not been sustainably within the range long enough to have achieved the goal.

Areas for improvement:

- Some responses did not evaluate the achievement of the goals and simply assessed whether they had or had not been achieved. Students are reminded that 'evaluate' is an important task word, which in this context means to look at two sides or to 'weigh up' the achievement of the goals.
- Many responses indicated one side of the argument, such as 'we have achieved full employment', but the other side of the evaluation was weak or non-existent.
- Some students misunderstood the intent of this question and provided an evaluation of the strengths and weaknesses of the budgetary policy and monetary policy in achieving the macroeconomic goals of low and stable inflation and full employment. This was surprising as Question 4d. required students to consider the strengths of these two AD policies in achieving the macroeconomic goal of strong and sustainable economic goal. Students are advised to use their reading time effectively to ensure they have a good understanding of the requirements of each question.

The following is an example of a high-scoring response:

The goal of low and stable inflation lies within a target range of 2–3 per cent on average, as measured by the CPI over the course of the business cycle. As it has been the RBA's primary goal, 'prioritising its

inflation objective (goal)', they have implemented a contractionary monetary policy stance by tightening and increasing the target cash rate over the 2 years. With its 13 increases, it has helped inflation to fall from 7.8 per cent in December 2022 to 4.1 per cent in December 2023, to now a rate of 2.8 per cent in September 2024. This has pushed the rate of inflation just into the range of low and stable inflation. However, the reduction in inflation to 2.8 per cent may be the result of the energy bill relief rebate which directly reduced the headline inflation rate as \$300 was taken off of households' energy bills. With the underlying rate of inflation, the measure of increases in price, excluding volatile items (e.g. government policies), is 3.5 per cent, still above the target range of 2–3 per cent. However, when considering the headline inflation rate of 2.8 per cent, it can be said that the goal of low and stable inflation has been achieved. Moreover, whilst they have prioritised their goal of inflation, it 'does not mean that employment has taken a back seat', with the rate of unemployment being 3.9 per cent in December 2023, below the goal of full employment, a target range of 4–4.5 per cent of natural unemployment, that does not include cyclical unemployment, and does not cause inflationary pressures, the contractionary stance of monetary policy may have helped to increase the rate of unemployment, with it being at 4.1 per cent as of September 2024. This pushes the rate just into the range of full employment. Overall, over the past 2 years, as a result of the contractionary monetary policy stance, the goal of low and stable inflation and the goal of full employment have been achieved.

Question 5a.

Marks	0	1	2	Average
%	57	14	29	0.7

To achieve full marks, students were required to:

- demonstrate an understanding of one structural factor leading to a decrease in the current account (CA) balance.

High-scoring responses:

- demonstrated an understanding of a structural factor that would decrease the CA balance
- included a reference to the higher relative cost structures in the Australian economy due to high minimum wages and poor productivity growth compared to other economies, which results in a lack of international competitiveness, and discussed the impact of this on the CA balance via the balance on goods and services (BOGS) sub-account of the CA
- included a reference to Australia's chronic savings and investment imbalance, which results in the need to borrow the savings of foreigners to fund this imbalance, and discussed the impact of the associated servicing costs (interest payments) on the CA balance via the primary incomes sub-account of the CA
- demonstrated how the structural factor would lead to a decrease in credits relative to debits or an increase in debits relative to credits
- made a relevant reference to the table.

Areas for improvement:

- Many responses revealed confusion about the structural factors that impact the CA. Structural factors are inherent characteristics or underlying features of the Australian economy that persistently impact the CA balance over the longer term. Structural factors cannot be things that change in the short term, such as exchange rates, overseas economic growth, fluctuations in commodity prices and the terms of trade or one-off climatic conditions.
- Some responses confused the CA balance with the budget balance. These two concepts are very different. The former relates to credit and debit transactions of a current nature between Australia and the rest of the world, while the latter relates to the difference between government revenues and government expenditure (outlays).

The following is an example of a high-scoring response:

The current account balance has moved from a surplus of \$7,782 million in June 2023 to a deficit of \$158 million in September 2023. This is likely the result of the national savings-investment gap in Australia. This is occurring as Australia lacks the domestic savings to fund investments, thus causing the need for Australia to borrow from overseas, increasing the interest that needs to be repaid on these loans, which are recorded as net primary income debits, which increase relative to the credits received, thus moving the current account balance into a deficit.

Question 5b.

Marks	0	1	2	Average
%	54	27	20	0.7

To achieve full marks, students were required to:

- describe two separate transactions on the balance of payments (BOP), which would result from the selling of an Australian cotton farm to a foreign buyer.

High-scoring responses:

- highlighted the main account of BOP impacted for each transaction (such as the CA and the financial account)
- identified the sub-account impacted (such as net direct investment and net primary income)
- referred to the change in credits/debits.

The highest-scoring responses focused on the increased credits on the net direct investment sub-account on the Capital and Financial Account (CAFA) and the increased debits on the net primary incomes sub-account on the CA.

Areas for improvement:

- Many students made the partially correct observation that the CA plus the CAFA must be equal to 0 and therefore a credit on the CAFA would lead to a debit on the CA. However, the double-entry accounting system is not quite that simple. A credit on the CAFA – for example, as a result of the sale of assets to a foreign entity – would actually lead to a corresponding debit on the CAFA. It is best that students ignore the double-entry accounting that takes place on the BOP as it is beyond the scope of the study design.
- Equally, responses that stated that wages would now be paid from a foreign entity to Australian workers and hence would impact the CA were incorrect as this is not a 'cross-border' transaction.

The following are examples of high-scoring responses:

The buying of a large cotton farm is likely to increase net direct investment surplus (used to expand production), as it increases the inflow of money (credits) Australia receives minus the outflow of money (debits) in the net direct investment account of the financial account. It is also likely to increase the net primary income deficit, as there are more debits in the form of profits to overseas relative to credits from overseas in this account.

or

- The initial purchase (credit) would increase the foreign direct investment component of the CAFA and BOP.*
- The payment to the investors (debit) from the revenue generated from the farm would decrease the net primary income section of the CA (current account) and BOP.*

Question 5c.

Marks	0	1	2	Average
%	19	20	61	1.4

To achieve full marks, students were required to:

- demonstrate an understanding of how the chosen factor will impact the demand and/or supply of the Australian dollar (AUD) from the foreign exchange (FOREX) market and therefore will either appreciate or depreciate its value.

High-scoring responses:

- focused on how the chosen factor impacted the demand and/or supply of the AUD in the FOREX market and therefore the change in the value of the AUD.

Areas for improvement:

- Some students argued that a lower relative inflation rate in Australia means that foreigners do not need to exchange as much of their currency for Australian dollars to purchase Australian goods (exports), and as a result the AUD depreciates. This missed the point. A lower relative inflation rate makes the Australian economy more internationally competitive, resulting in stronger demand for Australian goods (exports), which leads to higher demand for the AUD in the FOREX market, appreciating its value.

The following are examples of high-scoring responses:

- A lower relative rate of inflation in Australia compared to our major trading partners**

Lower relative rates of inflation in Australia compared to its major trading partners would cause the value of the Australian dollar (AUD) to appreciate. This is because our exports will appear cheaper and thus more attractive to foreign buyers, increasing demand for exports thus demand for AUD. Imports will appear relatively more expensive with higher overseas inflation rates, reducing imports thus supply of AUD. More demand and less supply for AUD will cause the value to appreciate.

and

- A downgrading of the Australian Government's credit rating**

A downgrading of the Australian Government's credit rating would constitute an increase in the risk for investors seeking to invest in Australia due to a higher risk of the Australian Government not paying back its debt. As a result, demand for the AUD would decrease, causing a surplus of the AUD in the foreign exchange markets and depreciating the currency.

and

- Higher interest rates in the United States of America relative to Australia**

Higher interest rates in the United States relative to Australia would result in more supply of AUD in the forex market. Foreign investors hoping for higher returns invest in the US as there is a higher relative return compared to Australia. This would result in investors selling AUD (and buying USD) to invest in the US, increasing the supply of AUD and therefore depreciating its value.

Question 5d.

Marks	0	1	2	3	4	Average
%	12	16	24	21	26	2.3

To achieve full marks, students were required to:

- explain the short-term impacts of trade liberalisation on the achievement of strong and sustainable economic growth (SSEG)

- explain the long-term impacts of trade liberalisation on the achievement of SSEG.

High-scoring responses:

- demonstrated an understanding of trade liberalisation as an AS policy (such as a reduction in tariffs, the signing of Free Trade Agreements or FTAs, or removing subsidies and quotas)
- explained clearly how trade liberalisation can hurt the competitiveness of Australian businesses in the short term
- showed how this change would make it harder to achieve the goal via either a decrease in consumption and/or an increase in import spending decreasing AD or a reduction in efficiency due to restructuring and reallocation of resources
- explained how trade liberalisation leads to a reallocation of resources from the least productive industries/sectors to the most productive industries/sectors where Australia possesses a comparative advantage, resulting in greater efficiency, output, competitiveness and economic growth. That is, over time, trade liberalisation promotes specialisation and stronger and more sustainable economic growth
- demonstrated the extent to which Australian businesses can do this, that there is a consequent improvement in international competitiveness and the goal of SSEG is more likely to be achieved.

Areas for improvement:

- Many students did not attempt to 'discuss' how trade liberalisation impacts the goal in the short term and long term or in a positive and negative way.
- It was evident that some students did not understand the requirements of the task word 'discuss', which requires students to consider points for and against, and strengths and weaknesses, in order to present a balanced argument. In relation to a question on trade liberalisation, this is best achieved by examining both short-term and long-term impacts, which are often conflicting.

The following is an example of a high-scoring response:

Trade liberalisation refers to the reduction/removal of barriers to trade, including the removal of tariffs, subsidies, quotas etc. The goal of strong and sustainable economic growth (SSEG) refers to the fastest rate of growth, consistent with high employment without causing excessive inflation, external instability and environmental pressures. This is generally 3–3.5% growth in real GDP p.a. In the short term, trade liberalisation should cause some inefficient industries/businesses to shut down as they are unable to compete with cheaper imports. This should reduce demand for labour increasing structural unemployment. This should reduce production and growth in real GDP, hurting the goal. In the long term, resources would be reallocated to areas of comparative advantage. Over time, firms will experience increased pressure to restructure. If firms can effectively restructure they should become more productive. This should reduce their production costs and increase their willingness to supply and boosting aggregate supply (AS). This should increase firms' willingness to produce and increase GDP. It should also allow any increase in AD to be met by AS, promoting non-inflationary economic growth, and helping to achieve the goal.

Question 6a.

Marks	0	1	2	3	Average
%	21	15	24	40	1.8

To achieve full marks, students were required to:

- identify and justify the stance of the 2024–25 Federal Budget
- demonstrate an understanding of how the stance affects the level of AD
- describe one reason for this stance given current economic conditions, such as sluggish economic growth and cost of living pressures.

High-scoring responses:

- demonstrated an understanding of the current expansionary stance through the budget surplus in 2023–24 moving into deficit in 2024–25, which means there are more injections into the economy relative to leakages
- referred to one relevant contemporary economic condition, such as low GDP growth at 1 per cent
- described how the stance was intended to 'fix' or 'improve' the chosen economic condition. For example, a high-scoring response explained how the expansionary stance that leads to more injections relative to leakages into the economy will act to stimulate AD and bring the rate of economic growth closer to the target range of 3–3.5 per cent real GDP growth per annum.

Areas for improvement:

- Many students mistakenly chose the 2023–24 budget. The question specifically referred to the 2024–25 budget. Students are reminded to double-check the question and ensure they have knowledge of the stances underpinning the two most recent budgets.

The following is an example of a high-scoring response:

The budget is currently in a deficit of \$28.3 billion which is an expansionary stance.

This is due to the extremely low levels of economic growth, with GDP continuing to fall from 2.1 per cent (June 2023) to 1 per cent (June 2024). This is even more exaggerated when looking at the June quarter, where growth was 0.2 per cent (or 0.8 per cent when annualised). Because of this, the government chose to run a deficit budget (where their outlays exceeded their revenues) in order to stimulate spending and production and lift AD and economic growth.

Question 6b.

Marks	0	1	2	3	4	Average
%	20	16	18	18	28	2.2

To achieve full marks, students were required to:

- demonstrate an understanding of one automatic stabiliser from the past 2 years
- explain how the chosen automatic stabiliser would impact the budget outcome via revenues relative to expenses
- demonstrate an understanding of one discretionary stabiliser from the past 2 years
- explain how the chosen discretionary stabiliser would impact the budget outcome via revenues relative to expenses.

High-scoring responses:

- demonstrated an understanding of the current economic conditions and how they would influence the chosen automatic stabiliser. For example, these responses explained how the low growth and the increase in the unemployment rate over the past 2 years have likely led to lower tax revenues for the Australian Government and pushed the budget towards deficit
- illustrated how elevated commodity prices (reflected in stronger terms of trade) over the course of 2023 resulted in increased profitability in the mining sector and, in turn, higher company tax revenues collected by the government, which contributed to the larger than expected budget surplus of \$15.8 billion in 2023–24 (revised up from \$9.3 billion)
- demonstrated an understanding of a discretionary policy over the past 2 years, such as the Stage 3 tax cuts, spending on new infrastructure projects or one-off energy bill rebates
- explicitly showed how each stabiliser would impact the budget outcome, for example, by explaining how Stage 3 tax cuts will lead to less revenues relative to outlays and therefore push the budget into the deficit that is predicted for the 2024–25 financial year

- used relevant examples of automatic stabilisers in the budget such as the progressive income tax system, welfare payments (like JobSeeker) and corporate taxes.

Areas for improvement:

- Some students did not appreciate that automatic stabilisers are in-built mechanisms in the budget that not only act to stabilise the business cycle but in doing so also affect the budget outcome. The focus of this question was on the latter rather than the former.
- Students are reminded that if they use commodity prices, they need to explicitly link them to the automatic stabilisers in the budget such as company tax.
- Some students only explained how automatic and discretionary stabilisers operate to stabilise the level of economic activity/the business cycle rather than explaining how these stabilisers have affected the budget outcome over the past 2 years.

The following is an example of a high-scoring response:

In 2024–25, the automatic stabiliser was unemployment benefits. Although still below the target of 4.25 per cent NAIRU, unemployment rates have been rising from 3.5 per cent in June 2023 to 4.2 per cent currently. This decreases the number of people receiving an income, thus reducing government revenue through lower tax revenue. Furthermore, individuals will be eligible for unemployment benefits, such as JobSeeker, increasing the government expenditure. This moves the budget outcome towards the deficit or \$28.3 billion.

A discretionary stabiliser implemented in the 2023–24 budget was the Stage 3 tax cuts, reducing the first bracket from 19 per cent to 16 per cent and the second from 32.5 per cent to 30 per cent. This reduced the government revenue through less taxation revenue, further reducing the budget outcome towards deficit.

Question 6c.

Marks	0	1	2	Average
%	18	38	44	1.3

To achieve full marks, students were required to:

- demonstrate an understanding of either a surplus or a deficit
- explain how the government may either finance a deficit or utilise a surplus.

High-scoring responses:

- demonstrated an understanding of a deficit or a surplus by explaining, for example, that a surplus is when revenues exceed expenditure or that a deficit is when expenditure exceeds revenues
- explained how the government could finance a deficit or utilise a surplus
- provided extra context. For example, they explained how financing a deficit will lead to an increase in government debt, which could then lead to higher deficits in the future via increased interest repayments, or how surpluses can be invested into the Future Fund, which is a large pool of government funds invested to maximise returns and provide funding for future government superannuation liabilities.

Areas for improvement:

- Many students explained how to finance a deficit *and* utilise a surplus, but only one was required and allocated marks.
- Many students provided very brief answers, which were not sufficient to receive two marks. Students need to be aware that a question worth two marks requires more detail. It was not sufficient for students to simply state that bonds can be sold to finance the deficit.

- Some students made the incorrect claim that budget deficits can be financed by raising taxes. It is important to remember that a budget deficit means that the government has not raised enough revenue to cover its expenses for the coming financial year and thus needs to borrow to make up for this shortfall in funds.

The following is an example of a high-scoring response (regarding a surplus):

A budget surplus means that government receipts outweigh government outlays. This means there is a surplus of cash left over which the government can use to repay debts. Reducing public sector debt leads to fiscal consolidations and places less risk on Australia's AAA credit rating.

The following is an example of a high-scoring response (regarding a deficit):

One way to finance a budget deficit is by selling bonds to domestic investors. This is considered the least expansionary option as an expansionary budget deficit is (at least partially) offset by the crowding-out of the private sector. Nevertheless, the government borrows funds from the domestic private sector to finance the budget deficit, with approximately one-third of current government debt held by domestic investors.

Question 6d.

Marks	0	1	2	3	4	Average
%	17	19	25	24	14	2.0

To achieve full marks, students were required to:

- outline a strength of monetary and budgetary policy
- explain how these strengths have influenced AD and supported the goal of SSEG over the past 2 years.

High-scoring responses:

- highlighted two relevant strengths that, over the past 2 years, may have helped both monetary and budgetary policy, impacted AD and enabled the goal of SSEG to be achieved
- explained how the strengths help the government/RBA to influence AD and therefore the goal
- referred to the fact that, despite these strengths, the goal has not been achieved
- linked their chosen strength/s of monetary policy to the achievement of the 'sustainable' aspect of SSEG by bringing inflation down.

Areas for improvement:

- Many students referred to generic strengths that were not relevant over the past 2 years.
- Many students explained how the policy works to impact AD and the goal. It is very important that students focus on how the strength helps the policy influence AD and therefore the achievement of the goal, rather than how the policy works to impact AD and the goal.
- Some students stated that a short implementation lag is a strength of budgetary policy. The implementation lag connected to budgetary policy tends to be long because of the need for the government to negotiate with opposition parties and the requirement for a budget bill to gain the approval of both houses of parliament. The exception here is automatic stabilisers, which operate contemporaneously to stabilise the business cycle. If students wish to make the argument that budgetary policy can have a relatively quick impact on the macroeconomic goals, they must make explicit reference to automatic stabilisers or the cyclical component of the budget.
- Some students correctly stated that a short implementation lag is a strength of monetary policy but then went on to explain that monetary policy is a flexible policy instrument as the RBA has eight opportunities over the course of the year to change monetary policy. Students are reminded that a short implementation lag and flexibility are two distinct strengths of monetary policy. The former refers to the

speed with which the RBA can change interest rates, that is, any change in the cash rate usually flows onto interest rates applied by the banks to their customers within a few days; while flexibility refers to the eight opportunities the RBA has to change the cash rate in a calendar year and therefore interest rates more generally. Further, in emergency situations the RBA can choose to change interest rates at any time they see fit, further illustrating its flexibility. In short, alignment between the stated strength and the explanation of the stated strength is required.

The following is an example of a high-scoring response:

One strength of monetary policy is its independence from political pressures. Despite an election in May 2022, the RBA raised interest rates two weeks prior, and despite their unpopularity with the public, [they] have maintained a contractionary stance over 2024. This unpopular stance has helped to stabilise AD in order to achieve a more sustainable balance between AD and AS and assisted with the achievement of the SSEG goal by easing demand inflation pressure.

One strength of budgetary policy is its ability to target areas in the economy using various policies. For example, in the 2024–25 budget, the Stage 3 tax cuts are designed to increase household disposable income and thus stimulate consumption spending. This should assist in stimulating economic growth and bringing the economy closer to SSEG in the future.

Question 6e.

Marks	0	1	2	3	4	5	Average
%	6	8	14	20	25	26	3.3

To achieve full marks, students were required to:

- demonstrate an understanding of one of the AS policies listed
- demonstrate how the selected policy impacts AS via a relevant AS factor
- link the selected policy/the improvement in AS to an improvement in international competitiveness
- make a relevant reference to the impact of the policy/an increase in AS or international competitiveness on the achievement of the goal of full employment.

High-scoring responses:

- provided a relevant example of the policy
- explained the link between how the policy works and the impact on AS via a specific AS factor
- demonstrated an understanding of the meaning of international competitiveness
- focused on the AS impacts first, and how they would ultimately increase AD (via lower prices) and create jobs.

Areas for improvement:

- Many students did not demonstrate sufficient understanding of how the policy leads to an increase in AS via an improvement of one of the AS factors.
- Many students focused too heavily on the AD impacts.
- Some students drew on the explanation of skilled migration they provided in Question 2. While this is an AS policy, consideration of skilled migration was not required for Question 6e.

The following is an example of a high-scoring response:

Training and education initiatives are implemented with the goal of improving the quantity and quality of labour resources in the economy. In the 2024–25 budget, \$90 million was dedicated towards funding 20,000 places related to training construction workers. When these workers complete this training there is an increase in the average labour productivity level, allowing more outputs to be produced per labour input and contributing to technical efficiency in the future. This greater productivity paired with lower wages costs from a greater supply of labour increases firm's willingness and ability to supply. This

increases aggregate supply, contributing to low inflationary growth, [and] with more productive firms able to reduce prices in order to gain a market share whilst maintaining profit margins, the international competitiveness of export competing firms will rise. E.g. relative lower prices from increased productivity improves the ability of Australia's tradable sector to compete with international firms. Furthermore, great international competitiveness leads to more AD (via X) and an increased production. Firms will require more labour to expand production, which reduces the rate of unemployment and brings the Australian economy closer to its goal of full employment (NAIRU 4.25 per cent).