

Trial Examination 2022

VCE Economics Units 3&4

Written Examination

Suggested Solutions

SECTION A – MULTIPLE-CHOICE QUESTIONS

1	☒ A	☐ B	☐ C	☐ D
2	☒ A	☐ B	☐ C	☐ D
3	☐ A	☒ B	☐ C	☐ D
4	☐ A	☐ B	☐ C	☒ D
5	☐ A	☒ B	☐ C	☐ D
6	☐ A	☐ B	☐ C	☒ D
7	☐ A	☐ B	☒ C	☐ D
8	☒ A	☐ B	☐ C	☐ D
9	☐ A	☐ B	☐ C	☒ D
10	☐ A	☒ B	☐ C	☐ D
11	☐ A	☐ B	☒ C	☐ D
12	☐ A	☐ B	☒ C	☐ D
13	☐ A	☐ B	☒ C	☐ D
14	☐ A	☐ B	☒ C	☐ D
15	☐ A	☒ B	☐ C	☐ D

Question 1 A

A is correct. Having more police may make society feel safer and is likely to have a positive impact on the quality of life.

B is incorrect. An increase in crime rates may make society feel anxious and worried, and is likely to have a negative impact on the quality of life.

C is incorrect. An increase in the unemployment rate may decrease consumer confidence and is likely to have a negative impact on the quality of life.

D is incorrect. Traffic congestion may make society stressed and frustrated, and is likely to have a negative impact on the quality of life.

Question 2 A

A is correct. Petrol and cars are complementary products. When the price of petrol rises, the demand for cars will shift.

B and **D** are incorrect. Subsidies and raw material prices are supply side factors and will shift the supply curve.

C is incorrect. An increase in the price of cars causes a contraction in the quantity demanded, which will cause movement along the demand curve, not a shift in the demand curve.

Question 3 B

B is correct. Government capital expenditure involves spending on infrastructure. This helps reduce the costs of production for businesses, promotes economic growth and shifts the business cycle to the expansionary stage.

A and **D** are incorrect. Higher income taxes and interest rates decrease consumption and investment, impede economic growth and shift the business cycle to the contractionary stage.

C is incorrect. Government current expenditure is the cost of running government services. Decreasing it would decrease consumption, impede economic growth and shift the business cycle to the contractionary stage.

Question 4 D

D is correct. A stronger Australian dollar promotes greater spending towards imported products, which is a source of leakage.

A, **B** and **C** are incorrect. A decrease in the unemployment rate, tax cuts and a reduction in the cash rate all increase household income and promote consumption spending in the economy.

Question 5 B

B is correct. When calculating the underlying cash outcome, both Future Fund earnings and investments in financial assets (IFAPP) should be excluded.

A, **C** and **D** are incorrect. Future Fund earnings and IFAPP are excluded when calculating the underlying cash outcome because they do not have a direct impact on economic activity; they overestimate the true cash flow position of a government and are not regular transactions that occur every year.

Question 6 D

D is correct. Removing the exemptions of education and food from goods and services tax (GST) will increase government revenue. This will reduce the budget deficit.

A is incorrect. Slowing growth in the world economy negatively impacts exports and decreases the profits of export-oriented businesses. This will decrease the government's company tax revenue and increase the budget deficit.

B is incorrect. Reducing the marginal rate of personal income tax will decrease the government's personal income tax revenue and increase the budget deficit.

C is incorrect. Removing the means tests on some items of government welfare will make it easier for members of society to obtain welfare from the government. This will increase government expenditure and increase the budget deficit.

Question 7 C

C is correct and **D** is incorrect. Trade liberalisation improves productivity and helps businesses reduce prices. It helps achieve price stability through increased competition, which forces businesses to become more efficient to be competitive in the global market. This allows businesses to reduce prices, which helps maintain inflationary pressure.

A and **B** are incorrect. The value of the Australian dollar is determined through the foreign exchange market and the forces of demand and supply.

Question 8 A

A is correct. The current account is calculated by adding net goods, net services, net primary incomes and net secondary incomes. The capital and financial account will exactly offset any current account deficit or surplus. Therefore, if the current account has a \$5 billion deficit, the capital and financial account must have a \$5 billion surplus.

B is incorrect. This option is reached by calculating the balance for the current account and not considering the capital and financial account.

C and **D** are incorrect. These options are reached by omitting the net secondary incomes.

Question 9 D

D is correct and **C** is incorrect. When the Reserve Bank of Australia (RBA) purchases Commonwealth Government Securities, there is more money in the overnight money market. This increases the supply of money or liquidity in the market. An increase in supply decreases the price or, in this case, the cash rate.

A and **B** are incorrect. When the RBA purchases Commonwealth Government Securities, liquidity in the overnight money market will increase, not decrease.

Question 10 B

B is correct. The durability of some goods is a factor that impacts the price elasticity of supply and does not affect the price elasticity of demand.

A, **C** and **D** are incorrect. These factors all impact the price elasticity of demand.

Question 11 C

C is correct. Hidden unemployment refers to members of society who are excluded from unemployment statistics and are not part of the labour force as they are not looking for work. Therefore, they are not used in the calculation and cause a decrease in the labour force participation rate.

A is incorrect. Members of society who are underemployed are considered to be employed and part of the labour force. They are used in the calculation.

B and **D** are incorrect. Members of society who are unemployed or hard-core unemployed are part of the labour force and are used in the calculation.

Question 12 C

C is correct. The stability of the currency or low inflation causes an increase in economic growth as low inflation stimulates aggregate demand in the long term.

A and **B** are incorrect. The RBA rarely intervenes in the foreign exchange market to determine the value of the Australian dollar. The value of the Australian dollar is primarily determined through the market mechanism.

D is incorrect. The impact lag for policy actions can be up to two years, so there is minimal short-term impact on aggregate demand.

Question 13 C

C is correct. Rational choices, full information and price taking by economic agents are all considered features of a competitive market.

A and **B** are incorrect. Brand loyalty is not a feature of a competitive market as competition is based on the lowest price of a product, not the brand of the product.

D is incorrect. In a competitive market, economic agents must accept the market price to either sell or buy a product and cannot determine the price themselves. Therefore, they are not price makers.

Question 14 C

C is correct. If teenagers were legally required to be in school until they are 17 years old, this will decrease the supply of labour and aggregate supply.

A is incorrect. If the retirement age were increased, then older Australians would be able to stay in the workforce longer, which will increase the supply of labour and aggregate supply.

B is incorrect. A subsidy that covers the cost of childcare will provide an incentive for parents who stay at home to look after their children to re-enter the workforce. This will increase the supply of labour and aggregate supply.

D is incorrect. If the entry requirements for skilled migrants is eased, then more migrants will apply for General Skilled Migration visas in Australia. This will increase the supply of labour and aggregate supply.

Question 15 B

B is correct. Even though interest rates can boost investment or productive capacity, interest rates that primarily affect consumption are a fundamental component of monetary policy, which is an aggregate demand policy.

A is incorrect. Assistance to businesses when there is a drought is a government subsidy to help stabilise productive capacity and is an aggregate supply policy.

C is incorrect. A reduction in company tax rates should boost investment or productive capacity and is an aggregate supply policy.

D is incorrect. The General Skilled Migration program boosts the labour force of Australia, increasing productive capacity. It is an aggregate supply policy.

SECTION B – WRITTEN RESPONSES

Question 1 (18 marks)

- a. Underemployment refers to employed people who would prefer, and are available for, more hours of work than they currently have. The graph shows that there has been a decrease in the underemployment rate. The underemployment rate was approximately 13.5% in April 2020 and approximately 8.2% in July 2021. This data shows that the underemployment rate decreased by approximately 5.3% during this period.

This decrease indicates that, on average, more households have adequate work hours and, therefore, a greater income. When average incomes increase, consumption by households should also increase. This directly increases production and aggregate demand. As a result of this, a rise in the level of economic activity should be observed.

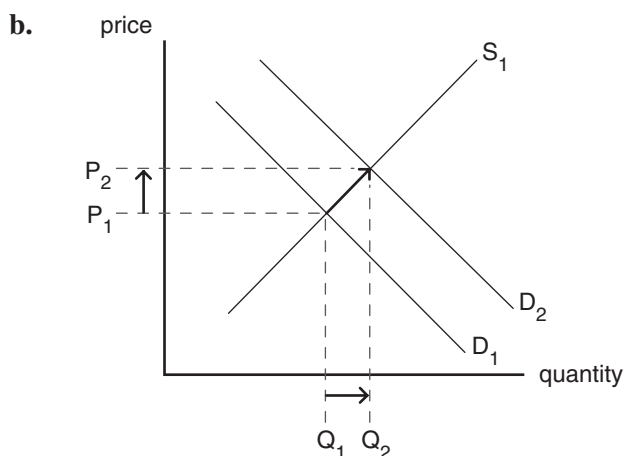
4 marks

1 mark for explaining underemployment.

1 mark for describing the trend in underemployment using data from the graph.

1 mark for explaining how the trend in underemployment impacts aggregate demand.

1 mark for explaining how the trend in underemployment impacts economic activity.



2 marks

1 mark for drawing demand and supply lines showing an increase in aggregate demand (shifted to the right as shown by labelled demand lines).

1 mark for showing the effect of this change in aggregate demand on price, quantity and supply (as shown by arrows).

c. *For example (JobKeeper):*

Government failure is a situation where the allocation of resources does not improve as a result of government intervention in the market. In some markets, this makes resource allocation with government intervention less efficient as opposed to leaving the market mechanism to operate freely to determine the best and most efficient way to allocate resources.

The JobKeeper payment scheme was a subsidy for businesses significantly affected by COVID-19 if their turnover had fallen. In the first phase of JobKeeper (30 March to 27 September 2020), eligible businesses were able to receive \$1500 (before tax) per fortnight per employee to cover the cost of wages. The reason that JobKeeper is considered a government failure is that, in some markets, \$4.6 billion went to businesses such as Harvey Norman, which increased their turnover at the height of the COVID-19 pandemic. These businesses were supported by the Australian Government when in fact they did not require any government support. The JobKeeper subsidy did not encourage these businesses to decrease their private costs, and there were no benefits to society as a result.

This shows that government intervention in some markets has decreased the efficiency of resource allocation and, as a result, \$4.6 billion in JobKeeper payments was overallocated to support these businesses. This is a clear demonstration of an inefficient allocation of resources by the government.

3 marks

1 mark for explaining failure of government intervention.

1 mark for providing a recent example of a failure of government intervention.

1 mark for explaining why the example is an inefficient allocation of resources.

Note: Acceptable policies include government promotion of a more equitable distribution of income via price floors and price ceilings; protecting local industries with government subsidies; and favouring some industries or electorates due to political lobbying or party politics.

d. Recreational fishing is considered an example of a common access resource as recreational fishing does not have a market price. For example, the fish in Port Phillip Bay are not owned by anyone. This makes the fish in Port Phillip Bay available to anyone who wishes to participate in recreational fishing.

Common access resources are associated with the following characteristics: they are non-excludable, which means that anyone can utilise the resources without having to pay to use them; and they are rivalrous in consumption, which means that consumption by one person reduces the amount that is available for another person.

Common access resources such as increased recreational fishing are considered market failures. If recreational fishing removes fish from the ocean at a faster rate than the rate of natural fish reproduction, fishing stocks can be depleted and fishing resources lost.

3 marks

1 mark for stating that recreational fishing is an example of a common access resource.

1 mark for stating the characteristics of common access resources.

1 mark for explaining why recreational fishing is a market failure.

e. *For example:*

The government can use legislation to reduce overfishing and promote sustainable, natural fish reproduction. This can include regulations that ban or limit the consumption of recreational fishing and licences for fishing that restrict recreational fishing and who can extract fish from certain areas.

For example, government legislation has banned the use of nets for recreational fishing in Port Phillip Bay. The Victorian Government has also introduced fishing licences and size limits for all recreational fishing. These measures will give fish stocks the ability to naturally reproduce in the bay as the consumption of fishing is now regulated and controlled by the government.

These measures will allow future generations to access this recreational activity. This will lead directly to greater inter-temporal efficiency in the allocation of resources as current consumption is managed by the government to allow future consumption to take place.

3 marks

1 mark for identifying a government intervention to address common access resources.

1 mark for explaining the government intervention.

1 mark for explaining how the government intervention reduces the degree of market failure.

Note: Acceptable policies include penalties from fines to seizure of equipment given to recreational anglers for overfishing or removing undersized fish from the bay; and designated zones (marine parks), which forbid fishing in certain areas.

- f.** A relative price is the price of one product compared to another product and is expressed as a ratio. Changes in relative prices send price signals to producers and consumers, and the market mechanism allocates resources to goods and services that are in high demand. A supplier sees price movements and decides whether it is more profitable to shift its resources to maximise its profit. Therefore, when the relative price of a product increases, this sends a signal to shift economic resources into that market. This results in more products being available for consumers to purchase, meaning that a greater number of consumers will be able to satisfy more of their needs and wants by purchasing these products. This directly increases their material living standards.

3 marks

1 mark for defining relative prices.

1 mark for explaining how relative prices influence the allocation of resources.

1 mark for explaining how relative prices affect material living standards.

Question 2 (18 marks)**a.** *For example:*

Budgetary policy can be used to reduce the severity of booms and recessions that are typical of the business cycle. When economic activity slows and the business cycle is characterised by weaker growth and higher unemployment, the Budget can be used to boost aggregate demand in the economy and help stabilise the business cycle.

Cyclical budgetary policy measures, or automatic stabilisers, are the changes to the Budget that occur automatically when there are changes in the level of economic activity. Automatic stabilisers work in a counter-cyclical manner and, when the economy is in the contractionary or trough stage of the business cycle, automatic stabilisers inject more money into the economy. For example, the COVID-19 pandemic dramatically decreased the level of economic activity in 2020 due to forced economic shutdowns by the government. As a result of this, the unemployment rate rose quite dramatically to approximately 7% in October 2020 and more Australians became eligible to receive unemployment benefits. At the same time, as work hours decreased due to the economic shutdowns, individuals paid less income tax due to their incomes falling into lower tax brackets. These two factors helped stabilise consumption spending, aggregate demand and the business cycle.

Structural budgetary policy measures, or discretionary stabilisers, are the changes to the Budget that occur deliberately and are made by the government to influence economic activity. In the 2021 Budget, an additional \$7.8 billion in tax cuts were made for low- and middle-income earners. This delivered an extra \$2160 for couples and directly increased the disposable incomes of these households. In the 2022 Budget, the further \$420 one-off tax offset for low and middle income earners was provided. This directly led to an increase in consumption spending by households throughout Australia and further helped stabilise aggregate demand and the business cycle.

Both automatic and discretionary stabilisers played a role in helping reduce unemployment in Australia in 2021. With budgetary policy support to stabilise consumption and aggregate demand in the economy, businesses maintained or, in some instances, increased their production of goods and services. As a result of this, there was an increase in the derived demand for labour, which increased employment in the economy. This helped the government to reduce unemployment from 7% in October 2021 to 3.9% in April 2022.

6 marks

*1 mark for explaining the role of budgetary policy.**1 mark for explaining how cyclical budgetary policy measures stabilise the business cycle.**1 mark for providing an example of how automatic stabilisers influence the business cycle.**1 mark for explaining how structural budgetary policy measures stabilise the business cycle.**1 mark for providing an example of how discretionary stabilisers influence the business cycle.**1 mark for linking the role of budgetary policy to reducing unemployment.*

b. *For example:*

The role of monetary policy is to manipulate financial variables (mainly interest rates via changes to the cash rate) to help achieve the goals of the Australian Government and improve the living standards of all Australians. Monetary policy is operated by the RBA independently from but on the behalf of the government. The primary objective of the RBA is the stability of the currency or price stability (low inflation). If the inflation rate is under control, then the RBA's attention turns to supporting its other objectives such as economic prosperity and lowering unemployment.

Economic conditions during 2021 indicated that the economy was in the contractionary phase of the business cycle. Economic growth averaged approximately 1.5% over 2021, which is below the target range of 3–3.5%.

The availability of credit transmission mechanism refers to the willingness of households to borrow money to purchase goods and services. Lowering the cash rate leads to lower interest rates. Lower interest rates increase the demand for credit because they make it cheaper for consumers and businesses to borrow and repay debt. Increased borrowing can stimulate consumption and investment by both households and businesses. This increases aggregate demand and production in the economy. When production increases, this directly increases economic growth.

The cash flow transmission mechanism refers to households and businesses with existing loans. Lowering the cash rate leads to lower interest rates. Lower interest rates can increase levels of discretionary income available to households that have mortgages as their interest rate is reduced and it costs them less to service their home loans. This increase in discretionary income can help to stimulate consumption, aggregate demand and production, and increases economic growth.

To counter the slowdown in the rates of economic growth, the stance of monetary policy has been extremely expansionary. The RBA decreased the cash rate in November 2020 to a record low of 0.1% to bring about an increase in aggregate demand and economic activity. These measures are counter-cyclical in the current economic climate to promote spending and investment in the economy to help stabilise the business cycle.

6 marks

1 mark for explaining the role of monetary policy.

1 mark for outlining economic conditions in Australia during 2021.

1 mark for explaining the availability of credit transmission mechanism.

1 mark for explaining the cash flow transmission mechanism.

1 mark for explaining how low interest rates increase aggregate demand via these mechanisms.

1 mark for outlining how monetary policy settings help to stabilise the business cycle.

- c. The goal of strong and sustainable economic growth can be defined as having sustained economic growth without causing excessive inflation, increasing the current account deficit and net foreign debt, or overusing Australia's natural resources. A strong and sustainable rate of economic growth is considered to be within the range of 3–3.5% gross domestic product (GDP) per annum.

The annual GDP growth rate was below this range during 2021, despite both aggregate demand policies having extremely expansionary stances in order to promote consumption and investment, increase aggregate demand and deliver economic growth within the target range.

Budgetary policy was somewhat effective and the main supporter of stabilising aggregate demand and economic growth in the economy. Many budgetary policy initiatives such as tax cuts, support payments to welfare recipients and wage subsidies (for example, JobKeeper) maintained incomes for households to continue consumption spending, effectively stimulating aggregate demand. Budgetary policy has carried the burden of supporting the economy via greater flexibility to target sectors of the economy that need further support, alongside automatic stabilisers that work counter-cyclically to support consumption and aggregate demand. This is despite the build-up of excessive public debt as a result of record-high deficit budgets, which will need to be repaid and will put a burden on future generations of Australians.

Even though the RBA has been able to focus its attention on achieving economic growth (as low inflation has not been a focus), the low levels of consumer confidence and high levels of household indebtedness have led to households using the high levels of discretionary income generated through the record low cash rate of 0.1% to repay debt and save money. Increased savings and debt repayment are leakages out of the economy and do not increase aggregate demand or economic growth. The RBA resorted to using less conventional methods of increasing aggregate demand in the economy. Quantitative easing and term funding facilities for the banking system both increased the money supply and promoted investment in the economy. Despite this flexibility, monetary policy is unable to target specific areas of the economy like wage and income support because it is a blunt policy tool.

6 marks

1 mark for outlining the goal and range of strong and sustainable economic growth.

1 mark for explaining the stance of aggregate demand policies and linking this to the achievement of economic growth.

1 mark for evaluating the strengths of budgetary policy in helping to achieve economic growth.

1 mark for evaluating the weaknesses of budgetary policy in hindering the achievement of economic growth.

1 mark for evaluating the strengths of monetary policy in helping to achieve economic growth.

1 mark for evaluating the weaknesses of monetary policy in hindering the achievement of economic growth.

Question 3 (13 marks)

- a. The balance on merchandise trade is the difference in value between imported and exported goods. It is made up of merchandise export receipts minus merchandise import payments. The terms of trade is the ratio of Australian export prices to import prices; that is, the average prices received for Australian exports relative to the average prices paid for imports. The difference is that the balance on merchandise trade uses the worth (or value) of the goods that Australia imports and exports in its calculation, while the terms of trade uses the actual prices of the goods that Australia imports and exports in its calculation.

3 marks

*1 mark for defining the balance on merchandise trade.**1 mark for defining the terms of trade.**1 mark for identifying a point of difference between the two terms.*

- b. While the price of iron ore fluctuated throughout the first nine months of 2021, it increased overall. In January 2021, the price of iron ore was approximately US\$138 per tonne and in September 2021 the price was approximately US\$152 per tonne. This shows an increase in the price of iron ore by US\$14 per tonne between January and September 2021.

The increase in the price of iron ore will have a positive impact on the terms of trade. The terms of trade is dependent on the changes in prices received for Australian exports and the prices that Australia pays for imports. As iron ore is Australia's main export, the terms of trade should increase because the average prices received for any given volume of Australian exports has increased.

An increase in the terms of trade will have a positive impact on the net exports component of the economy. An increase in the ratio of export prices relative to import prices will indicate that exports, which are an injection of funds into the economy relative to imports (which are a leakage of funds out of the economy), will increase economic growth. This will directly increase the profits and incomes of iron ore employers and employees in Australia. Higher profits and incomes increase the ability of consumers to buy products to satisfy their needs and wants. This directly increases their material living standards. Non-material living standards will also increase as employers and employees in the iron ore industry feel more confident about the rise in price of iron ore, thus increasing their confidence levels and decreasing anxiety. This leads to an increase in their quality of life.

6 marks

*1 mark for stating that the price of iron ore has increased according to the graph.**1 mark for using data from the graph to provide evidence of the increase in the price of iron ore.**1 mark for stating that the increase in the price of iron ore will have a positive impact on the terms of trade.**1 mark for explaining why the increase in the price of iron ore increases the terms of trade.**1 mark for explaining that an increase in economic growth has a positive impact on material living standards.**1 mark for explaining that an increase in economic growth has a positive impact on non-material living standards.*

- c. When the terms of trade increases, it means that the prices received for exports has increased relative to the prices paid for imports. Increased export prices mean that Australian exports are relatively more expensive to purchase and more foreign currency needs to be exchanged for Australian dollars. This increases the demand for the Australian dollar on foreign exchange markets and increases its value.

For Australian producers, a higher Australian dollar causes the average costs of production to decrease as the costs of imported goods and services used in the production process become less expensive. This directly decreases the prices of finished Australian-made goods and services, helping to maintain inflation, which is defined as a sustained increase in the average price level over time. This assists in helping to achieve the goal of price stability.

4 marks

1 mark for stating that a higher terms of trade appreciates the Australian dollar.

1 mark for explaining why a higher terms of trade appreciates the Australian dollar.

1 mark for outlining that a higher Australian dollar decreases the costs of production.

1 mark for stating that lower costs of production decrease prices and positively impact the goal of price stability.

Note: Consequential on answer to Question 3b.

Question 4 (16 marks)

- a. *For example (JobTrainer Fund):*

Training and education are the skills and knowledge of workers available in the production process. An efficient allocation of resources occurs when society uses its scarce resources efficiently to produce the highest possible amount of goods and services. This maximises the satisfaction, needs and wants of consumers. This is referred to as allocative efficiency.

Spending on training and education improves the quality of workers and the production process. This directly leads to the productivity of workers increasing and increases the aggregate supply or productive capacity of a country. As the productive capacity of a country increases, the needs and wants of more consumers can be met, which increases the overall satisfaction levels in society.

The Australian Government is providing \$500 million to expand the JobTrainer Fund until the end of 2022. This additional investment will provide around 163 000 additional training places that are free or low-fee in areas of identified needed skills. This includes health, aged and disability care, information technology and trades for job seekers and young people, including school leavers. The JobTrainer Fund will directly increase the productive capacity of the Australian workforce and lead to a more efficient allocation of resources.

4 marks

1 mark for explaining training and education.

1 mark for explaining efficient allocation of resources.

1 mark for explaining how training and education facilitates an efficient allocation of resources.

1 mark for referring to one appropriate policy to support the response.

Note: Other acceptable policies include Delivering Skills for Today and Tomorrow package (\$585 million); Boosting Apprenticeship Commencements wage subsidy (\$2.7 billion); increasing schools funding (\$309 billion over 10 years); educational outcomes for vulnerable and disadvantaged young Australians (\$146 million over five years); and the establishment of the National Skills Commission.

b. For example (JobTrainer Fund):

The JobTrainer Fund is a \$2 billion skills package to support the training and employment of individuals aged 17–24 years old and those of any age who are unemployed. It focuses on getting young Australians equipped with skills, qualifications and careers. JobTrainer funding covers an agreed list of qualifications that have been chosen due to their anticipated employment growth. By doing this, those who train under the JobTrainer funding initiative have a better chance of gaining qualifications in a role that will have excellent job prospects now and in the future.

Full employment is an economic situation in which all available labour resources are being used in the most efficient way possible. Due to the JobTrainer Fund, younger and unemployed Australians who lack the qualifications and training in industries with anticipated employment growth will become more attractive for employers to hire due to their newly gained qualifications and will fill a gap in the labour market in those industries. As they start working, they become employed and directly decrease the unemployment rate.

3 marks

*1 mark for outlining the policy.**1 mark for explaining how the policy makes individuals more employable.**1 mark for linking the chosen policy to a decrease in the rate of unemployment.**Note: Consequential on answer to **Question 4b**.***c. The General Skilled Migration program is designed to attract migrants who will make a significant contribution to the Australian economy and fill positions where no Australian workers are available. When Australia introduced strict border measures to protect the health of the Australian community, the supply of labour via the migration program virtually came to a standstill, apart from some essential industries and workers. As a result of this decline in the supply of labour, the productive capacity of the Australian economy decreased, which led to a decrease in aggregate supply.**

The goal of strong and sustainable economic growth is defined as an increase in the amount or level of production that has occurred over time. Economic growth is measured using GDP and a range of approximately 3–3.5% is used to determine if the goal has been achieved. When there is a decrease in aggregate supply, this causes the quantity of goods and services to decrease and the price of goods and services to increase. As a result, demand contracts and households consume fewer goods and services, leading to a decrease in aggregate demand and economic growth. From March 2020 to March 2021, GDP was on average 1.1%. This shows that the government goal of strong and sustainable economic growth has not been achieved.

Living standards refer to the quantity and quality of material goods and services available to a given population. Living standards also account for non-material factors such as the quality of life of a given population. As the price of goods and services increase and consumers decrease their consumption of goods and services, material living standards decrease. Higher prices of goods and services also act to increase the anxiety of some consumers, which leads to a decrease in non-material living standards.

6 marks

*1 mark for explaining the impact of border closures on skilled migrants.**1 mark for outlining the impact of border closures on aggregate supply.**1 mark for defining the goal and measurement of strong and sustainable economic growth.**1 mark for explaining the impact of border closures on economic growth.**1 mark for defining living standards.**1 mark for explaining the impact of border closures on Australian living standards.*

- d.** Production is the process of combining inputs (economic resources of land, labour and capital) to make outputs (goods and services for consumption). Productivity is the volume of outputs that are produced from a given number of inputs. The difference is that production indicates when something is actually being made, while productivity measures the amount that is being made.

3 marks

1 mark for defining production.

1 mark for defining productivity.

1 mark for identifying a point of difference between the two terms.