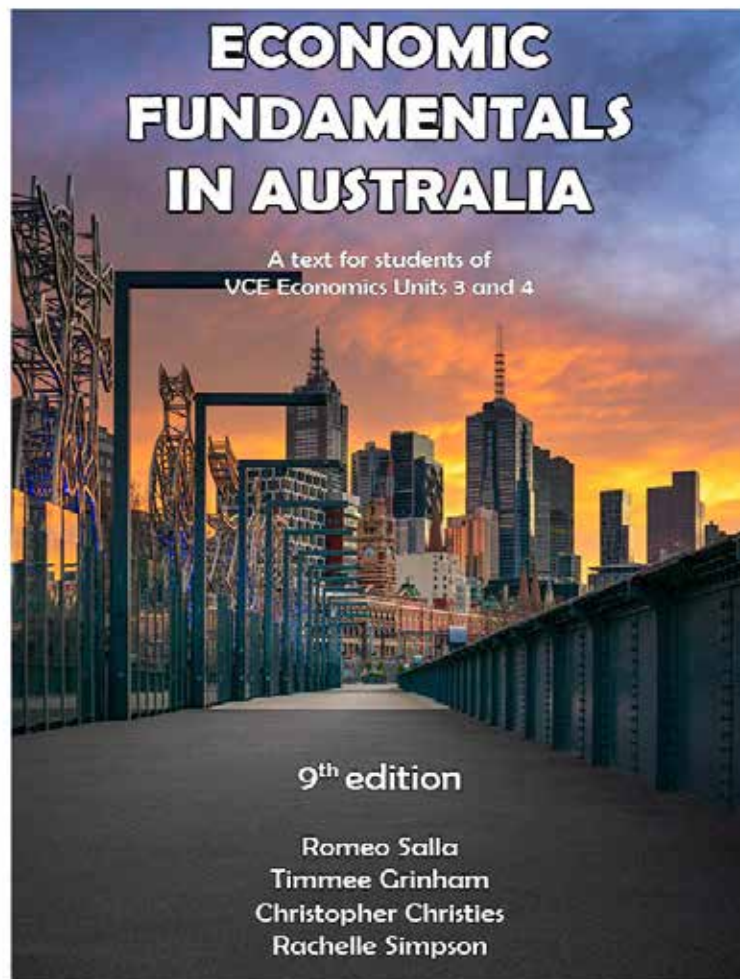


# ECONOMIC FUNDAMENTALS IN AUSTRALIA

A text for students of VCE Economics Units 3 and 4  
9<sup>th</sup> edition



Commerce Presentations and Publications (CPAP)

206/1 Queens Rd

St Kilda Rd Towers

Melbourne Vic 3004

Tel: 03 9866 2289

Fax: 03 9005 2717

Email: [cpap@commpap.com](mailto:cpap@commpap.com)

Web: [www.commpap.com](http://www.commpap.com)

Copyright © CPAP

First edition 2010

Second edition 2011

Third edition 2013

Fourth edition 2015

Fifth edition 2017

Sixth edition 2019

Seventh edition 2021

Eighth edition 2023

Ninth edition 2025

### **Reproduction and communication for educational purposes**

The Australian Copyright Act 1968 (the Act) allows a maximum of one chapter or 10% of the pages of this book, whichever is greater, to be reproduced and/or communicated by any educational institution for its educational purposes, provided that the educational institution (or the body that administers it) has given a remuneration notice to Copyright Agency Limited (CAL) under the Act. For details of the CAL license visit [www.copyright.com.au](http://www.copyright.com.au).

### **Reproduction and communication for other purposes**

Except as permitted under the Act (for example, any fair dealing for the purposes of study, research, criticism or review), no part of this book may be reproduced, stored in a retrieval system, communicated or transmitted in any form or by any means without prior written permission. All enquiries should be made to the publisher at the above address.

### **Acknowledgements**

The authors and publisher would like to thank government agencies for the use of statistical material collected from the Reserve Bank of Australia and the Australian Bureau of Statistics. All charts and data have been sourced from these organisations via their respective websites at [www.rba.gov.au](http://www.rba.gov.au) and [www.abs.gov.au](http://www.abs.gov.au), unless otherwise stated. Thanks also to Ross Gittins for granting permission to re-produce his article in Chapter 7. The authors would like to thank their families who have been forced to make further sacrifices to enable the ninth edition to be written.

Cover design by Marie Williams [[www.prolensphotography.com.au](http://www.prolensphotography.com.au)]

### **Disclaimers**

Every attempt has been made by the authors to ensure that the content contained in this publication is consistent with the Economics VCE Study Design (accreditation period 2023-2027) produced by the Victorian Curriculum and Assessment Authority (VCAA). The publisher and authors assert that there is no direct connection between this publication and the VCAA.

Students and teachers are urged to supplement the use of this text with the official Economics VCE Study Design and other resources, including internet sites referred to within the text, other texts, print and electronic media. All internet sites referred to were operational at the time of going to print. The CPAP Study Guide to VCE Economics is a companion resource to this text and is updated annually.

Printed in China

[www.economicfundamentals.com.au](http://www.economicfundamentals.com.au)

[www.commpap.com](http://www.commpap.com)

**ISBN: 978-1-921813-81-8**

# About the authors

**Romeo Salla** completed Honours and Masters degrees in Commerce (Economics major) at the University of Melbourne before moving to Canberra to work as an Economist with the Commonwealth Department of Treasury. After a few years he was promoted within the federal bureaucracy to the position of Senior Economist with the Industry Commission (now Productivity Commission). Since 1996 he has been employed as a Senior Teacher and Head of Faculty at large private schools in Melbourne, teaching VCE and IB Economics, as well as working more widely in Economics education. Romeo has held positions of responsibility with the Victorian Curriculum and Assessment Authority (VCAA) as an assessor of final examinations, including as Chief Assessor, and is also the founder of the website [www.economicstutor.com.au](http://www.economicstutor.com.au). He is also a co-author of the CPAP Study Guide to VCE Economics and co-author of Economics from the Ground Up (CPAP). Romeo regularly presents to Economics teachers and students on behalf of the VCTA and CPAP and is a prolific writer of assessment tasks and practice examinations. He has also developed the popular smartphone app (Economics Tutor), containing 1000+ multiple choice and short answer questions.

**Timmee Grinham** completed a Bachelor of Economics (Economics and Politics majors) with Honours in Politics and a Graduate Diploma in Education at Monash University, Melbourne. Following her undergraduate studies, Timmee worked towards a PhD in Women's Studies, during which time she was employed as a Tutor and sessional Lecturer. Timmee was the Assistant Editor of the Australian Tax Forum during her undergraduate studies, and she worked as an editor for the Monash Postgraduate Association. Timmee has worked as a senior Commerce (Economics and Business Management) and Humanities teacher at several government and independent schools. Timmee is particularly passionate about the role of women in economic decision-making and promoting the study of Economics among girls. She contributes to various publications and presents professional development sessions to other teachers of Economics. Timmee is also author of the quarterly CPAP Updates for VCE Economics Units 3 and 4 and co-author of Economics from the Ground Up (CPAP). Timmee has worked as an assessor of final examinations in VCE Economics (including as Assistant Chief Assessor) and Business Management, and chairs the Economics Advisory Group of the VCTA. Since 2017, Timmee has served as a member of the Reserve Bank of Australia Educators Advisory Panel. Timmee was a member of the panel of experts that developed the new VCE Economics study design, including supporting its implementation..

**Christopher Christies** completed a Bachelor of Economics degree (Economics major) and a Graduate Diploma in Education at Monash University. He has taught in government, Catholic and independent schools, and in both co-educational and single gender settings for over 25 years. During this time he has also served as Head of Humanities & Business Studies. Since 2014 he has taught at Penleigh and Essendon Grammar School, where he is also Year 12 Coordinator. Christopher has held positions of responsibility with the Victorian Curriculum and Assessment Authority (VCAA) as an assessor of final examinations (including Chief Assessor, Assistant Chief Assessor) and was a member of the panel of experts that developed the new VCE Economics Study Design and advice for teachers. Christopher presents Professional Development workshops for Economics teachers for the VCTA. Additionally, he is a regular contributor to the VCTA's Compak journal and writes examinations for commercial publications.

**Rachelle Simpson** discovered her passion for Economics in high school in NSW and went on to complete a Bachelor of Economics at the Australian National University. Following this she completed a Master of Business in Marketing at Charles Sturt University and then a PhD in Applied Economics at Victoria University where she examined the relationship between globalisation and development in the world's poorest countries. Rachelle's particular areas of interest are trade, how countries achieve economic progress and economic history. Prior to becoming a teacher, Rachelle worked in the finance industry sectors of banking, superannuation and insurance and held leadership roles in operations, compliance, business transformation and project delivery. Since becoming a teacher Rachelle has taught in both independent and Catholic schools in Victoria. Her teaching experience encompasses a range of Commerce and Humanities subjects including the VCE subjects of Economics, Accounting, Business Management and Australian and Global Politics. Rachelle is on the Victorian Commercial Teacher's Association Economics Advisory Committee (VCTA). She has also contributed to VCTA's Compak journal and is an assessor of VCE Economics examinations for the Victorian Curriculum and Assessment Authority (VCAA).

## A note to teachers and students

The authors have written this text to closely reflect the requirements of the study as outlined in the VCAA VCE Economics Study Design (2023-2027). The Study Design can be downloaded at [www.vcaa.vic.edu.au/vce/studies](http://www.vcaa.vic.edu.au/vce/studies) and it contains information about the required content for a course of study in VCE Units 3 and 4 Economics. Unit 3 comprises three areas of study (AOS) - AOS 1, 2 and 3, while Unit 4 comprises two areas of study - AOS 1 and 2. For each AOS, students are required to demonstrate an understanding of each of the dot points contained under the heading 'key knowledge.' They should also be able to demonstrate the 'key skills' for each AOS. The 'key knowledge' (and 'key skills') dot points are included in the tables below, where each key knowledge point is cross referenced to the relevant section in the text. It will therefore provide a useful guide for teachers when preparing assessment tasks or exercises and a handy guide for students when preparing for assessment tasks, including the end of year exam.

<b>Unit 3 Australia's living standards</b> <b>Area of Study 1: An introduction to microeconomics: the market system, resource allocation and government intervention</b>			
	<b>Key knowledge</b>	<b>Chapter references</b>	<b>Tick when learned</b>
1	the concept of relative scarcity, including needs, wants, resources, opportunity cost and the production possibility frontier (PPF) model, and the three basic economic questions	1.1 - 1.5	
2	the meaning and significance of economic efficiency, including allocative efficiency, productive efficiency, dynamic efficiency and intertemporal efficiency and their relationship to the PPF model	1.5 - 1.6	
3	the conditions for a free and perfectly competitive market	2.2	
4	the law of demand and the theory of the law of demand, including the income effect and the substitution effect	2.3	
5	the demand curve, including movements along and shifts of the demand curve	2.3	
6	non-price factors likely to affect demand and the position of the demand curve, including changes in disposable income, the prices of substitutes and complements, preferences and tastes, interest rates, population demographics and consumer confidence	2.4	
7	the law of supply and the theory of the law of supply, including the profit motive	2.5	
8	the supply curve, including movements along and shifts of the supply curve	2.5	
9	non-price factors likely to affect supply and the position of the supply curve, including changes in the costs of production, number of suppliers, technology, productivity and climatic conditions	2.6	
10	the effects of changes in supply and demand on equilibrium prices and quantity traded	2.7 - 2.8	
11	the meaning and significance of price elasticity of demand and supply	2.10 + 2.12	
12	factors affecting price elasticity of demand, including degree of necessity, availability of substitutes, proportion of income and time	2.11	
13	factors affecting price elasticity of supply, including spare capacity, production period and durability of goods	2.13	
14	the role of relative prices in the allocation of resources	2.9	
15	the role of free and competitive markets in promoting an efficient allocation of resources and improved living standards	3.1 + 3.2	
16	types of market failure, including public goods, externalities, asymmetric information and common access resources	3.3	
17	the role and effect of indirect taxation, subsidies, regulations, advertising and direct provision as forms of government intervention in the market to address market failure	3.3	
18	one example of a government intervention in markets that unintentionally leads to a decrease in one of allocative, productive, dynamic or intertemporal efficiency	3.4	

<b>Unit 3 Australia's living standards</b> <b>Area of Study 1: Key Skills</b>	<b>Tick when mastered</b>
define key economic concepts and terms and use them appropriately	
construct and interpret demand and supply diagrams and a PPF model	
interpret and analyse statistical and graphical data	
gather, synthesise and use economic data and information from a wide range of sources to analyse economic issues	

analyse how the forces of demand and supply effect equilibrium price and quantity traded	
analyse the responsiveness of the quantity demanded and the quantity supplied to changes in price	
evaluate the role of free and competitive markets in achieving an efficient allocation of resources	

Unit 3 Australia's living standards Area of Study 2: Domestic macroeconomic goals		
Key knowledge		Chapter references
		Tick when learned
<b>The purpose of economic activity</b>		
19	the difference between material and non-material living standards and factors that may affect living standards, including access to goods and services, environmental quality, physical and mental health, crime rates and literacy rates	4.1 - 4.2
20	the five-sector circular flow model of income, including the role of households, businesses, government, financial institutions and the external sector in an open contemporary macroeconomy	4.3
21	the business cycle and its causes	4.4
22	the meaning and importance of aggregate demand and the factors that may affect the level of aggregate demand in the economy, including disposable income, interest rates, consumer confidence, business confidence, the exchange rate and rates of economic growth overseas	4.5 - 4.6
23	the meaning and importance of aggregate supply and the factors that may affect the level of aggregate supply in the economy, including quantity and quality of the factors of production, costs of production, technological change, productivity growth, exchange rates and climatic conditions, and other events including government regulations and disruptions to international supply chains	4.7
<b>The Australian Government's domestic macroeconomic goals</b>		
24	the meaning of the goal of strong and sustainable economic growth	5.1
25	measurement of the rate of economic growth using growth in real Gross Domestic Product (GDP)	5.2
26	consequences of not achieving the goal of strong and sustainable economic growth and its effect on living standards, including environmental degradation, external pressures, high inflation if growth is too high, and high unemployment if growth is too low	5.3
27	the meaning of the goal of full employment, including the NAIRU (natural rate of unemployment)	5.4
28	classifications within the labour force, including employed, unemployed, hidden unemployed, long-term unemployed, underemployed and frictional unemployment	5.5
29	measurement of the labour force, including the participation rate, the unemployment rate and the labour force under-utilisation rate	5.5
30	the difference between cyclical and structural unemployment	5.6
31	the consequences of not achieving the goal of full employment and its effect on living standards, including the impact on GDP and tax revenue if unemployment is too high and the effects on inflation if unemployment is too low	5.7
32	the meaning of the goal of low and stable inflation (price stability)	5.8
33	the distinction between inflation, disinflation and deflation	5.8
34	measurement of the inflation rate using the Consumer Price Index (CPI), including the difference between the headline and underlying (core) rate of inflation	5.9
35	causes of inflation, including demand inflation and cost inflation	5.10
36	consequences of not achieving the goal of low and stable inflation (price stability) and its effect on living standards, including erosion of purchasing power, development of a wage-price spiral, distortion of spending and investment decisions, lower returns on investment, loss of international competitiveness if it is too high, and delayed consumption and unemployment if it is too low	5.11
37	aggregate demand and aggregate supply factors that have affected the level of achievement or non-achievement of the goals of strong and sustainable economic growth, full employment and low and stable inflation over the past two years	6.1 - 6.2

Unit 3 Australia's living standards Area of Study 2: Key Skills		Tick when mastered
define key economic concepts and terms and use them appropriately		
calculate relevant economic indicators using real or hypothetical data		
construct, interpret and apply economic models including the five-sector circular flow model of income and the business cycle		
explain and interpret trends and patterns in economic data and other information		
gather, synthesise and use economic data and information from a wide range of sources to analyse economics issues		
apply economic concepts to analyse economic relationships and make predictions		
evaluate the extent to which the economy has achieved the domestic macroeconomic goals over the past two years and discuss the effect of this on living standards		

Unit 3 Australia's living standards Area of Study 3: Australia and the international economy			
Key knowledge		Chapter references	Tick when learned
38	the gains from international trade, including lower prices, greater choice, access to resources, economies of scale, and increased competition and efficiency	7.1	
39	the balance of payments and its components	7.2	
40	cyclical and structural influences on Australia's current account balance	7.3	
41	the composition and cause of net foreign debt and net foreign equities	7.4	
42	the exchange rate, its meaning and measurement and the factors affecting its value, including relative interest rates, commodity prices and the terms of trade, demand for exports and imports, foreign investment, relative rates of inflation, credit ratings and speculation	7.6 - 7.7	
43	the terms of trade, its meaning and measurement and the factors that may affect the terms of trade, including commodity prices and production costs in trading partners	7.5	
44	international competitiveness and the factors that may affect international competitiveness, including productivity, production costs, availability of natural resources, exchange rates and relative rates of inflation	7.8	
45	the effect of movements in the terms of trade and the exchange rate, and changes in international competitiveness on the domestic macroeconomic goals and living standards	7.8 - 7.9	

Unit 3 Australia's living standards Area of Study 3: Key Skills		Tick when mastered
define key economic concepts and terms and use them appropriately		
explain key international economic relationships		
explain and interpret trends and patterns in economic data and other information		
apply economic concepts to analyse economic relationships and make predictions		
calculate relevant international economic indicators using real or hypothetical data		
gather, synthesise and use economic data and information from a wide range of sources to analyse and discuss economic issues		



**Unit 4 Managing the economy**  
**Area of Study 1: Aggregate demand policies and domestic economic stability**

	<b>Key knowledge</b>	Chapter references	Tick when learned
46	the need for aggregate demand policies, including monetary policy and budgetary policy in terms of stabilising the business cycle	8.1/2 + 8.10 + 9.1 - 9.2	
Monetary policy			
47	the role of the RBA with respect to monetary policy as outlined in its charter	9.2	
48	conventional monetary policy (cash rate target) and how it affects interest rates	9.3 + 9.5	
49	one example of the operation of an unconventional monetary policy tool from the past two years	9.4	
50	transmission mechanism of monetary policy and its effect on the level of aggregate demand, including the four channels of savings and investment, cash-flow, exchange rate, and asset prices and wealth	9.6	
51	the stance of monetary policy: expansionary (accommodative), contractionary (restrictive) or neutral	9.7	
52	the stance of monetary policy over the past two years and its likely effect on the achievement of the domestic macroeconomic goals and living standards	9.7 + 9.9 - 9.12	
53	the strengths and weaknesses of using monetary policy to affect aggregate demand and influence the achievement of the domestic macroeconomic goals and living standards	9.13	
Budgetary policy			
54	sources of government revenue, including direct and indirect taxation; progressive, regressive and proportional taxes; and revenue from government businesses and the sale of government assets	8.3	
55	types of government expenses, including government current and capital expenditure and transfer payments	8.3	
56	the budget outcome: balanced, deficit or surplus	8.4 + 8.12	
57	the underlying cash balance (budget outcome), including as a proportion of Gross Domestic Product (GDP)	8.4	
58	methods of financing a deficit or utilising a surplus	8.9	
59	the relationship between the budget outcome and the level of government (public) debt	8.9	
60	the role of automatic stabilisers (cyclical component of the budget) in influencing aggregate demand and stabilising the business cycle	8.5	
61	the role of discretionary stabilisers (structural component of the budget) in influencing aggregate demand and stabilising the business cycle	8.5	
62	the effect of automatic and discretionary changes in the budget on the budget outcome and government (public) debt	8.5 + 8.7 + 8.9	
63	the stance of budgetary policy: expansionary or contractionary	8.8 + 8.12	
64	the effect of the budgetary policy stance and budgetary initiatives over the past two years and their likely effect on the achievement of the domestic macroeconomic goals and living standards	8.10 - 8.11 + 8.13	
65	the strengths and weaknesses of using budgetary policy to affect aggregate demand and influence the achievement of the domestic macroeconomic goals and living standards	8.14	

<b>Unit 4 Managing the economy</b> <b>Area of Study 1: Key Skills</b>	Tick when mastered
define key economic concepts and terms and use them appropriately	
gather, synthesise and use economic data and information from a wide range of sources to analyse economic issues and form conclusions	
discuss the operation of aggregate demand policies	
analyse the effect of current factors on the setting of aggregate demand policies and living standards	
predict the impact of changes in aggregate demand policies on the achievement of the domestic macroeconomic goals and living standards	
analyse the strengths and weaknesses of aggregate demand policies in achieving the domestic macroeconomic goals and living standards	

Unit 4 Managing the economy Area of Study 2: Aggregate supply policies		
Key knowledge		Chapter references
		Tick when learned
66	the use of aggregate supply policies to complement aggregate demand policies in promoting non-inflationary economic growth over time	10.1 - 10.2
67	the operation of aggregate supply policies in improving supply-side conditions through their impact on the quantity and quality of the factors of production, the costs of production and productivity, and the effect on Australia's international competitiveness, productive capacity and aggregate supply	10.3
68	how one of the following budgetary policies is designed to affect aggregate supply, Australia's international competitiveness, the achievement of domestic macroeconomic goals, and living standards:: <ul style="list-style-type: none"> <li>• training and education</li> <li>• research and development</li> <li>• subsidies</li> <li>• infrastructure</li> <li>• tax reform</li> </ul>	10.4 - 10.5
69	the effect of skilled immigration policy on population, productivity and participation and the subsequent effect on productive capacity, aggregate supply, international competitiveness, the achievement of domestic macroeconomic goals, and living standards	10.6
70	trade liberalisation and its short-term and long-term effects on Australia's international competitiveness, the allocation of resources, aggregate supply, and the domestic macroeconomic goals and living standards	10.7
71	one market-based environmental policy and its short-term and long-term effects on aggregate supply, intertemporal efficiency and living standards	10.8

Unit 4 Managing the economy Area of Study 2: Key Skills	Tick when mastered
define key economic concepts and terms and use them appropriately	
gather, synthesise and use economic data and information from a wide range of sources to analyse economic issues and form conclusions	
discuss the operation of aggregate supply policies	
analyse the effect of budgetary, immigration and trade liberalisation policies on aggregate supply, international competitiveness, the achievement of the domestic macroeconomic goals and living standards	
analyse the effect of an environmental policy on aggregate supply and living standards over time	

## Proposed timeline

### Unit 3 – Australia's economic prosperity

**Area of Study 1:** approximately 6 - 7 weeks

**Area of Study 2:** approximately 6 - 7 weeks

**Area of Study 3:** approximately 3 - 4 weeks

### Unit 4 – Managing the economy

**Area of Study 1:** approximately 8-9 weeks

**Area of Study 2:** approximately 6-7 weeks

**Revision:** 2 - 4 weeks.



# Assessment

Teachers are required to provide a score for each outcome in each of Units 3 and 4, which represents an assessment of the student's achievement. The score must be based on the teacher's assessment of the level of performance of each student on the outcomes for the unit specified in the Study Design. These outcomes for each unit are linked to the key knowledge and skills as specified in the Study Design and re-produced on the previous pages.

Teachers must select two different types of assessment tasks from the designated list for each outcome published in the Study Design. School-assessed Coursework for the outcomes in Unit 3 will contribute 25 per cent to the student's study score. School-assessed Coursework for the outcomes in Unit 4 will contribute a further 25 per cent to the student's study score. The external examination will contribute the final 50 per cent to the student's study score.

Unit 3 Assessment		
Outcome statement	Marks allocated*	Assessment tasks
<b>Outcome 1</b> <i>Analyse how markets operate to allocate resources and evaluate the role of markets and government intervention in achieving efficient outcomes.</i>	35	<i>The student's performance will be assessed using two or more of the following:</i> <ul style="list-style-type: none"> <li>a folio of applied economics exercises</li> <li>an extended response</li> <li>an essay</li> <li>a report</li> <li>a data analysis</li> <li>a media analysis</li> <li>a case study</li> <li>structured questions</li> </ul>
<b>Outcome 2</b> <i>Analyse key contemporary factors that may have affected domestic macroeconomic goals over the past two years, evaluate the extent to which the goals have been achieved and discuss the effects on living standards.</i>	40	
<b>Outcome 3</b> <i>Analyse the factors that may affect the exchange rate, terms of trade and Australia's international competitiveness, and discuss their impact on Australia's international transactions and the achievement of the domestic macroeconomic goals and living standards.</i>	25	
<b>Total marks</b>	<b>100</b>	
*School-assessed Coursework for Unit 3 contributes 25 per cent to the study score.		

Unit 4 Assessment		
Outcome statement	Marks allocated*	Assessment tasks
<b>Outcome 1</b> <i>Discuss the operation of aggregate demand policies and analyse their intended effects on the achievement of the domestic macroeconomic goals and living standards.</i>	60	<i>The student's performance will be assessed using two or more of the following:</i> <ul style="list-style-type: none"> <li>a folio of applied economics exercises</li> <li>an extended response</li> <li>an essay</li> <li>a report</li> <li>a data analysis</li> <li>a media analysis</li> <li>a case study</li> <li>structured questions.</li> </ul>
<b>Outcome 2</b> <i>Discuss the operation of aggregate supply policies and analyse the effect of these policies on the domestic macroeconomic goals and living standards.</i>	40	
<b>Total marks</b>	<b>100</b>	
*School-assessed Coursework for Unit 4 contributes 25 per cent to the study score.		

## Contents

### Chapter 1 Fundamental Economic concepts

1.1 What is Economics all about?	1
1.2 Relative Scarcity: needs and wants	4
1.3 Resources and the key economic questions	5
1.4 Choice and opportunity cost	9
1.5 The production possibility frontier	9
1.6 The nature and types of economic efficiency	12

### Chapter 2 An introduction to Microeconomics and the role of markets

2.1 An introduction to microeconomics and the role of markets	22
2.2 Perfectly competitive markets	22
2.3 The law of demand and the demand curve	24
2.4 Non-price factors that affect demand	27
2.5 The law of supply and the supply curve	33
2.6 Non-price factors that affect supply	35
2.7 Market equilibrium	40
2.8 The effects of changes in supply and demand on equilibrium prices and quantities traded	42
2.9 The effect of relative prices on resource allocation	47
2.10 The meaning and significance of price elasticity of demand	52
2.11 Factors affecting price elasticity of demand	54
2.12 The meaning and significance of price elasticity of supply	57
2.13 Factors affecting price elasticity of supply	58

### Chapter 3 Competitive markets and efficiency

3.1 Competitive markets and efficiency of resource allocation	66
3.2 Competitive markets and living standards	71
3.3 Market Failure	73
3.3(i) Public Goods	73
3.3(ii) Externalities	76
3.3 (iii) Asymmetric information	86
3.3 (iv) Common Access Resources	92
3.4 Government failure	95
<b>Activity Centre: Unit 3 Outcome 1</b>	<b>107</b>

### Chapter 4 The nature and purpose of economic activity

4.1 The nature of macroeconomic activity	110
4.2 Living Standards	111
4.3 The circular flow model of income	118
4.4 The nature and causes of the business cycle	121
4.5 The meaning and importance of aggregate demand	124
4.6 Factors that can influence the level of Aggregate Demand	127
4.7 Aggregate Supply and factors that can influence Aggregate Supply	130
4.8 Using AD and AS diagrams [EXTENSION]	136

### Chapter 5 Domestic macroeconomic goals

5.1 Strong and sustainable economic growth	147
5.2 Measuring economic growth	148
5.3 Why pursue strong rates of economic growth?	152
5.4 Full employment	156
5.5 Labour force measurement	160
5.6 Causes and types of unemployment	167
5.7 The consequences of not achieving full employment	172
5.8 Low and stable inflation (price stability)	175
5.9 Measurement of inflation - the Consumer Price Index (CPI)	176
5.10 Causes of inflation	181
5.11 Consequences of high inflation	183

### Chapter 6 Factors influencing the achievement of goals

6.1 Aggregate demand and supply factors influencing goals	192
6.2 Impact of AD and AS factors over the past two years	196

<b>Activity Centre: Unit 3 Outcome 2</b>	<b>210</b>
--	------------

## **Chapter 7 Australia and the international economy**

7.1 The gains from international trade	213
7.2 Australia's Balance of Payments and its components	217
7.3 Influences on the current account balance	224
7.4 Composition and cause of net foreign debt and net foreign equity	228
7.5 Terms of trade	232
7.6 The value of the exchange rate	237
7.7 Factors affecting the value of the exchange rate	241
7.8 The effects of changes in the exchange rate	245
7.9 Factors affecting Australia's international competitiveness	250

### **Activity Centre: Unit 3 Outcome 3 258**

## **Chapter 8 The nature and operation of budgetary policy**

8.1 A definition of budgetary policy	261
8.2 The objectives of budgetary policy	261
8.3 The composition of receipts and expenditure	261
8.4 Budget outcomes	265
8.5 Automatic and discretionary stabilisers	267
8.6 Fiscal drag or bracket creep	269
8.7 Differences between actual and estimated budget outcomes	269
8.8 Expansionary versus contractionary budgets	271
8.9 Financing a deficit or investing a surplus	272
8.10 How the budget is used to assist in the achievement of economic goals	275
8.11 Budgetary policy and living standards	279
8.12 Recent budget figures and fiscal strategy	280
8.13 Specific budgetary policy initiatives over the past two years and the impact on macroeconomic goals	287
8.14 Strengths and weaknesses of Budgetary Policy	292

## **Chapter 9 The nature and operation of monetary policy**

9.1 A definition of monetary policy	299
9.3 Conventional monetary policy	301
9.4 Unconventional monetary policy	305
9.5 Monetary policy tightening and loosening	307
9.7 Monetary policy settings (the stance of monetary policy)	311
9.8 Exchange rate intervention	312
9.9 Monetary policy to achieve price stability	314
9.10 Monetary policy to achieve stronger economic growth and employment	319
9.11 Monetary policy to achieve better living standards	320
9.12 Use of monetary policy over recent years	320
9.13 Strengths and weaknesses of monetary policy	323

### **Activity Centre: Unit 4 Outcome 1 330**

## **Chapter 10 The nature and operation of aggregate supply policies**

10.1 A definition of aggregate supply policies	333
10.2 An overview of aggregate supply policies	333
10.3 The differences between aggregate demand and aggregate supply policies.	334
10.4 The use of AS policies to complement AD policies in promoting non-inflationary economic growth over time	335
10.5 The operation of AS policies to improve supply side conditions	338
10.6 Aggregate supply policies to achieve economic goals and living standards	340
10.7 Budgetary policies to influence aggregate supply and economic goals	344
10.8 Skilled immigration policy	363
10.9 Trade liberalisation	372
10.10 Environmental policies	381

### **Activity Centre: Unit 4 Outcome 2 392**

## **Chapter 11 Examination preparation and advice**

11.1 VCE Examination structure	395
11.2 Preparing for the examination – leading up to the exam	395
11.3 Preparing for the examination – in the examination	400

<b>Valuable websites</b>	<b>401</b>
<b>Glossary of terms</b>	<b>402</b>
<b>Index of terms</b>	<b>415</b>

**Visit [www.economicfundamentals.com.au](http://www.economicfundamentals.com.au) for:**

- Multiple choice answers
- Sample responses to Activity Centre Questions
- Answers to Activity Exercises
- Additional support