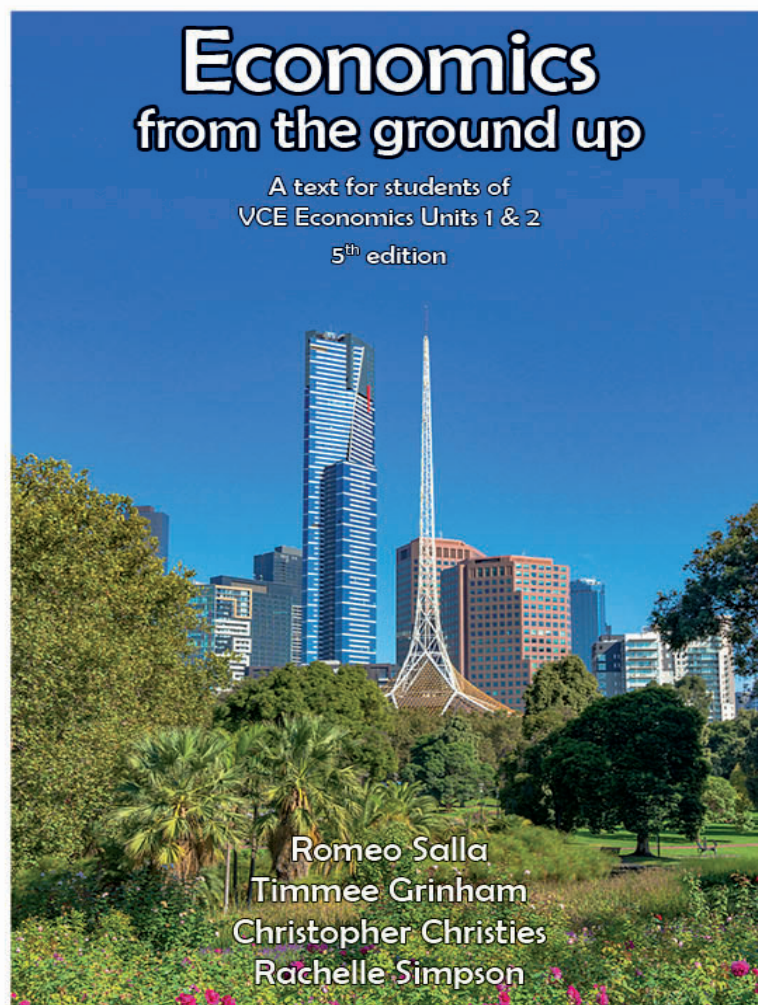


Economics from the ground up

A text for students of
VCE Economics Units 1 and 2

5th edition



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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 from 2023) 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.

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A note to teachers and students

The approach taken when writing this text has been to provide a resource that can engage and stimulate students of Economics as well as make the job of teaching the course relatively straightforward. We have written each chapter to closely reflect the requirements of the VCE Economics Unit 1 and 2 course as outlined in the VCAA VCE Economics Study Design (2023). The text is packed with colourful exercises, case studies, review questions and crosswords that are supported by a stand-alone website (www.ecogroundup.com.au) dedicated solely to users of the text.

The richness and breadth of the activities enable teachers to ‘pick and choose’ activities based on the interests of their class or the direction of their lessons. For example, teachers might like to deliver particular components of the course through the provision of activities, such as Application Exercise 3b: Black markets, Application Exercise 4m: Price discrimination at cinemas or Application Exercise 7d: The impact of AI on Australian labour markets. There are hundreds of like activities throughout the text, carefully placed to add life and relevance to each of the key knowledge points from the Study Design. They also assist students to develop the key skills outlined in the Study Design, through the collection, interpretation and analysis of economic data.

It has been our goal as both teachers and textbook writers to provide as many varied and engaging activities as possible for students. It is not our expectation that teachers would use all of the activities (or even all of the sections) in each chapter. Some sections contain multiple examples from each key knowledge or key skill area of the Study Design. In the case of Unit 2, students are only required to investigate two of the four economic issues covered in chapters 7-10, but they are encouraged to explore the content in all of these chapters to develop a greater appreciation of the economic issues facing Australia and the globe.

We hope that by including a broad array of activities, this book will promote the enjoyment of studying Economics to students of all abilities, all interest areas and many different geographic locations. We encourage teachers to construct their course with attention to the required key knowledge and skills content of the subject, along with the interests of their students.

In some respects, the structure of the text enables it to be used as a series of ‘lesson plans’, and the compact layout facilitates ‘self-paced learning’. Students can be directed to work through a section of the text, completing the review questions at the end of each section and attempting some or all of the exercises that are specifically designed for applied learning. This approach helps students to develop the key knowledge and skills for each of the five areas of study.

We hope that the breadth and depth of content in this textbook will enhance both student and teacher enjoyment of this terrific subject.

Romeo Salla
Timmee Grinham
Christopher Christies
Rachelle Simpson

Unit 1 Economic decision-making

Unit 1 AOS 1 Key knowledge: Thinking like an economist		Chapter reference Section	Tick when understood
Introductory concepts			
1.	the two main branches of economics: microeconomics and macroeconomics	1.1	
2.	the two main forms of economic analyses: positive economics and normative economics	1.1	
3.	resources (factors of production such as land, labour and capital) used to satisfy needs and wants	1.2	
4.	the basic economic problem of relative scarcity and the need for economic decision-making	1.2	
5.	the concept and applications of opportunity cost	1.3	
6.	the production possibility model to illustrate the concepts of scarcity, choice, opportunity cost, efficiency and under-utilisation of resources	1.4	
7.	the need for trade-offs and cost-benefit analysis and their relationship to opportunity cost	1.7	
8.	the three basic economic questions: what and how much to produce, how to produce, and for whom to produce	1.5	
9.	how different economic systems, including market economies, planned economies, mixed economies and traditional economic systems, may answer the three key economic questions	1.5	
10.	the three-sector circular flow model of the economy, including consumers/households, producers/businesses and government	1.6	
11.	the purpose of economic activity and the effect on material and non-material living standards	1.6	
The economic agents			
12.	economic agents and the concept of the public and private sectors of the economy	2.1	
13.	the traditional economic viewpoint of consumer behaviour: self-interest, maximisation of utility, rationality, informed decision-making and marginal benefits from consumption	2.2	
14.	the ways consumers and workers might respond to incentives and disincentives, including taxes and tax rebates, subsidies and regulations	2.3	
15.	the traditional economic viewpoint of business in the economy: profit maximisation	2.4	
16.	the ways businesses might respond to incentives and disincentives, including taxes and tax rebates, subsidies and regulations	2.5	
17.	the traditional economic viewpoint of the government in the economy: maximisation of living standards	2.6	
18.	the role of government in economic stabilisation, improving efficiency in resource allocation and redistribution of income to improve living standards	2.7	

Unit 1 AOS 1 Key skills: Thinking like an economist	Tick when mastered
define key economic concepts and terms and use them appropriately	
apply economic theory to make economic predictions and create responses that communicate economic meaning	
gather, synthesise and use economic data and information from a wide range of sources to analyse economic issues and assess the effect of economic decisions on relevant economic agents	
construct, interpret and apply economic models to analyse the consequences of economic decisions	
identify the trade-offs and discuss the costs and benefits associated with a range of economic decisions by drawing conclusions based on economic criteria	

Unit 1 Economic decision-making

Unit 1 AOS 2 Key knowledge: Decision-making in markets	Chapter reference Section	Tick when understood
19. the assumptions of a perfectly competitive market system	3.1	
20. the law of demand and the demand curve	3.2	
21. the effect on demand and the position of the demand curve by non-price factors, including changes in disposable income, the prices of substitutes and complements, tastes and preferences, interest rates, population and demographics, and consumer confidence	3.3	
22. the distinction between a movement along the demand curve and a shift of the demand curve	3.4	
23. the law of supply and the supply curve	3.5	
24. the effect on supply and the position of the supply curve by non-price factors, including changes in the costs of production, technology, productivity, and climatic conditions and other disruptions	3.6	
25. the distinction between a movement along the supply curve and a shift of the supply curve	3.7	
26. the effects of changes in demand and supply on equilibrium prices and quantities	3.8	
27. the role of the market mechanism and relative prices in the allocation of resources in a market-based economy	3.9	
28. the degree of market power in different markets, such as perfect competition, monopolistic competition, oligopoly and monopoly, and the effect on prices, resource allocation and living standards	4.3 - 4.5	
29. the strategies businesses may use to increase profit, including price discrimination, multiple branding or anti-competitive behaviour as outlined in the <i>Competition and Consumer Act 2010</i>	4.6	
30. one contemporary example of a market, including the degree of competition in that market	4.1 - 4.2	

Unit 1 AOS 2 Key skills: Decision making in markets	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 economics issues and assess the effect of economic decisions	
construct and interpret graphs and diagrams to represent and interpret economic information	
apply economic knowledge, concepts and theories to predict the effect of changes in conditions on market outcomes	
research and synthesise information about a particular market	
analyse the extent of competition in markets by drawing conclusions based on economic criteria.	

Unit 1 Economic decision-making

Unit 1 AOS 3 Key knowledge: Behavioural economics	Chapter reference Section	Tick when understood
31. key insights of behavioural economics, including bounded rationality, bounded willpower and bounded self-interest	5.1	
32. the differences between traditional economics and behavioural economics	5.2	
33. the effectiveness of strategies used by government to influence consumer behaviours	5.3	
34. the effectiveness of strategies used by producers/businesses to influence consumer behaviours	5.4	

Unit 1 AOS 3 Key skills: Behavioural economics	Tick when mastered
define key economic concepts and terms and use them appropriately	
distinguish between traditional economics and behavioural economics	
apply economic theory to make economic predictions and create responses that communicate economic meaning	
investigate and/or conduct at least one behavioural economics experiment by gathering, synthesising and using economic data and information to report on the findings	
analyse the effectiveness of government and business actions that draw on behavioural economics, using data and economic information to draw conclusions supported by economic reasoning	

Unit 2 Economic issues and living standards

Unit 2 AOS 1 Key knowledge: Economic activity	Chapter reference Section	Tick when understood
35. the purpose of economic activity	6.1	
36. the meaning of material and non-material living standards	6.1	
37. the five-sector circular flow model of the economy	6.1	
38. the business cycle	6.3	
39. types of economic indicators, such as leading, lagging and coincident	6.3	
40. the relationship between the business cycle and economic indicators	6.3	
41. the meaning and importance of aggregate demand and its components	6.1	
42. the factors that may affect the level of aggregate demand and the level of economic activity	6.4	
43. the meaning and importance of aggregate supply	6.1	
44. the factors that may affect the level of aggregate supply and the level of economic activity	6.4	
45. the measurement of economic growth using changes in real Gross Domestic Product (GDP)	6.1	
46. the potential benefits of economic growth, such as growth in material living standards, improved non-material living standards, employment opportunities and economic development	6.2	
47. the potential costs of economic growth, including boom and bust economic cycles, congestion and pollution, environmental damage, potentially widening inequality and 'affluenza'	6.2	
48. the limitations associated with using real GDP and real GDP per capita to measure changes in living standards	6.2	
49. alternative measures of economic activity and living standards	6.2	

Unit 2 AOS 1 Key skills: Economic activity	Tick when mastered
define key economics concepts and terms and use them appropriately	
construct and interpret economic models including the business cycle and the five-sector circular flow model of the economy	
gather, synthesise and use economic data and information from a wide range of sources to analyse economic issues	
identify trends, patterns, similarities and differences in economic data and other information	
discuss the potential costs and benefits associated with increasing economic activity	

Unit 2 Economic issues and living standards

Unit 2 AOS 2 Key knowledge: Applied economic analysis of local, national and international economic issues	Chapter reference Section	Tick when understood
50. the definition of the selected economic issue, including relevant measures and statistical indicators	Chap 7-10	
51. the reasons the issue is of importance to the economy at a local, national and international level	Chap 7-10	
52. the economic factors influencing the extent of the selected economic issue	Chap 7-10	
53. the different perspectives of households (consumers and workers), business, government and other relevant economic agents regarding the selected economic issue	Chap 7-10	
54. the economic responses undertaken by relevant economic agents at a local, national and international level, to address the economic issue, including government policies	Chap 7-10	

Unit 2 AOS 2 Key skills: Applied economic analysis of local, national and international economic issues	Tick when mastered
define key economic concepts and terms and use them appropriately	
gather, synthesise and use economic information from a range of sources to analyse economic issues	
identify trends, patterns, similarities and differences in economic data and other information to draw conclusions	
evaluate the economic responses undertaken to address economic issues	

Suggested timelines

Unit 1 – Economic decision-making

- Area of Study 1: Thinking like an economist - approximately 7-8 weeks
- Area of Study 2: Decision-making in markets - approximately 7-8 weeks
- Area of Study 3: Behavioural economics - approximately 4-5 weeks

Unit 2 – Economics issues and living standards

- Area of Study 1: Economic activity - approximately 6-7 weeks
- Area of Study 2: Applied economic analysis - approximately 12 - 13 weeks

Assessment

The award of satisfactory completion for a unit is based on whether the student has demonstrated the set of outcomes specified for the unit. Teachers should use a variety of learning activities and assessment tasks that provide a range of opportunities for students to demonstrate the key knowledge and key skills in the outcomes. Assessment must be a part of the regular teaching and learning program and should be completed mainly in class and within a limited timeframe. For Unit 1, students are required to demonstrate achievement of three outcomes. For Unit 2, students are required to demonstrate achievement of two outcomes. The 'key knowledge' and 'key skills' are included in the tables on the preceding pages, 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 semester examinations.

For further information about assessment consult the VCE Economics Study Design (from 2023) or visit www.vcaa.vic.edu.au.

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Visit www.ecogroundup.com.au for multiple choice answers, sample responses to application exercises and crosswords, as well as additional support.