

Economics

from the ground up

A text for students of
VCE Economics Units 1 and 2

3rd edition



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Christopher Christies



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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 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 (2017-2021). 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 enables 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 2w: price discrimination at cinemas or Application Exercise 2u: Gender inequality. There are hundreds of like activities through 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. 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. In many instances, particularly in the chapters related to Global Economic Issues, teachers also have the option of the downloading an additional range of case studies and other activities that approach the content in greater depth. Accordingly, the range of activities in the text and on the website will provide hours of extension work for the keen student of Economics.

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

Table 1:
Unit 1 The behaviour of consumers and businesses
Area of Study 1: Thinking like an economist

| Key knowledge: Thinking like an economist | Chapter reference Section | Tick when understood |
|--|----------------------------------|-----------------------------|
| Introductory concepts | | |
| 1. the basic economic problem of relative scarcity and the need for economic decision making | 1.1, 1.2 | |
| 2. the concept and applications of opportunity cost | 1.3, 1.4 | |
| 3. resources used to meet needs and wants: natural, labour and capital | 1.1 | |
| 4. the meaning and significance of positive and normative economics | 1.1 | |
| 5. the purpose of economic activity and the influence on material and non-material living standards | 1.6 | |
| 6. the three basic economic questions: 'What and how much to produce?', 'How to produce?', 'For whom to produce?' | 1.5 | |
| 7. the need for trade-offs such as current versus future, short run versus long run, and cost-benefit analyses | 1.7 | |
| 8. the production possibility model to illustrate the concepts of scarcity, choice, opportunity cost, underutilisation of resources and efficiency | 1.4 | |
| 9. the two sector circular flow model of the economy. | 1.6 | |
| Consumers | | |
| 10. the traditional economic viewpoint of consumer behaviour such as rationality, ordered preferences, informed decision making and marginal benefits from consumption | 2.1 | |
| 11. economic factors that may influence economic decisions made by consumers such as: | 2.1, 2.2 | |
| • utility maximisation | 2.2 | |
| • budget constraints | 2.2 | |
| • internal influences on economic decision making for example, personality types, ethics, habit | 2.2 | |
| • external influences on economic decision making for example, culture, marketing, and government | 2.2 | |
| 12. developments in research about consumer behaviour, including the contribution of behavioural economics | 2.3 | |
| 13. the ways consumers and workers might respond to positive and negative incentives | 2.4 | |
| 14. the effects of technological change on consumer behaviour. | 2.5 | |
| Business | | |
| 15. the traditional economic viewpoint of business in the economy: profit maximisation | 2.6 | |
| 16. how businesses might respond to positive and negative incentives | 2.7 | |
| 17. the evolution of business and changing goals such as sustainability, community involvement, gender equality, innovation, research and development | 2.8 | |
| 18. the effect of technology on business behaviour and the trade in goods and services | 2.8 | |
| 19. the nature and effectiveness of strategies businesses may use to increase profitability including price discrimination, multiple branding and illegal, anti-competitive behaviour as outlined in the Australian Competition and Consumer Act 2010. | 2.9 | |

Table 2:
Unit 1 The behaviour of consumers and businesses
Area of Study 2: Decision making in markets

| Key knowledge: Decision making in markets | Chapter reference Section | Tick when understood |
|--|----------------------------------|-----------------------------|
| 20. the assumptions of a perfectly competitive market system | 3.1, 4.4 | |
| 21. the law of demand and the demand curve | 3.2 | |
| 22. the way non-price factors such as changes in disposable income, the prices of substitutes and complements, preferences and tastes, interest rates, changes in population, consumer sentiment and government intervention, affect demand and the position of the demand curve | 3.3 | |
| 23. the distinction between a movement along the demand curve and a shift of the demand curve | 3.4 | |
| 24. the law of supply and the supply curve | 3.5 | |
| 25. the way non-price factors such as changes in the cost of production, technological change, productivity growth, climatic conditions and government intervention affect supply and the position of the supply curve | 3.6 | |
| 26. the distinction between a movement along the supply curve and a shift of the supply curve | 3.7 | |
| 27. effects of changes in demand and supply on equilibrium prices and quantities | 3.8 | |
| 28. the role of relative prices in the allocation of resources in a market-based economy | 3.9, 4.5 | |
| 29. 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, 4.4 | |

Table 3:
Unit 2 Contemporary economic issues
Area of Study 1: Economic growth, long-term economic prosperity and environmental sustainability

| Key knowledge: Economic growth, long-term economic prosperity and environmental sustainability | Chapter reference Section | Tick when understood |
|--|----------------------------------|-----------------------------|
| 30. the nature and meaning of trade-offs in economics | 5.6 | |
| 31. aggregate demand and its components | 5.1 | |
| 32. aggregate supply | 5.1 | |
| 33. the meaning and measurement of economic growth using real Gross Domestic Product (GDP) and real GDP per capita | 5.1 | |
| 34. the economic benefits of economic growth such as growth in material living standards, employment opportunities, economic development and non-material living standards | 5.2 | |
| 35. the limitations associated with using GDP per capita to measure changes in living standards | 5.2 | |
| 36. aggregate demand and aggregate supply factors that may influence economic growth | 5.3 | |
| 37. factors that might affect future rates of economic growth such as an ageing population and labour force participation | 5.4 | |
| 38. government economic policy responses designed to influence the rate of economic growth such as budgetary policy, monetary policy and aggregate supply policies | 5.5 | |
| 39. the meaning of both long-term economic prosperity and environmental sustainability | 5.6 | |
| 40. economic and environmental costs of economic growth such as climate change, depletion of natural resources and deterioration of common access resources | 5.6 | |

| | | |
|--|-----|--|
| 41. trade-offs and compatibility between economic growth and environmental sustainability | 5.6 | |
| 42. alternative economic indicators of living standards | 5.2 | |
| 43. the effect of policy response used to address environmental effects of economic growth such as market-based approaches, direct actions and regulation. | 5.7 | |

Table 4:
Unit 2 Contemporary economic issues
Area of Study 2: Economic efficiency and equity

| Key knowledge: Economic efficiency and equity | Chapter reference Section | Tick when understood |
|---|----------------------------------|-----------------------------|
| 44. the difference between equity in the distribution of income and equality in the distribution of income | 6.1 | |
| 45. income: earned and unearned income, transfer income, gross income, disposable income, nominal and real income and social wage income | 6.1 | |
| 46. measures of income inequality and poverty such as the Lorenz Curve, Gini Coefficient and Henderson Poverty Lines | 6.2, 6.3 | |
| 47. the difference between absolute and relative poverty | 6.2 | |
| 48. causes of income inequality and poverty in Australia and one other nation, such as unequal ownership of factors of production, relative levels of labour demand and labour supply, unemployment, lack of human capital and sovereign indebtedness | 6.4 | |
| 49. the effect of poverty on material and non-material living standards | 6.2 | |
| 50. the meaning of economic efficiency and the benefits of achieving allocative and technical efficiency | 6.6 | |
| 51. economic costs and benefits, and social costs and benefits of achieving equity in the distribution of income | 6.5 | |
| 52. compatibility and conflict between the goals of equity in the distribution of income and efficiency of resource allocation | 6.8 | |
| 53. the role of markets in the achievement of equity in the distribution of income and the efficiency of resource allocation | 6.7 | |
| 54. budgetary policy decisions on the achievement of equity in the distribution of income and the efficient allocation of resources, such as progressive, proportional and regressive taxes, unemployment benefits and subsidisation of merit goods. | 6.9, 6.10 | |

Table 5:
Unit 2 Contemporary economic issues
Area of Study 3: Global economic issues

| Key knowledge: Global economic issues | Chapter reference Section | Tick when understood |
|--|----------------------------------|-----------------------------|
| 55. definition of the selected global economic issue/s | 7.1, 7.2, 8.1, 8.2 | |
| 56. economic reasons why the issue/s may be of importance to Australia and the global economy | 7.3, 8.3, 8.4 | |
| 57. economic factors that might influence the extent and nature of the selected global economic issue/s | 7.4, 8.2 | |
| 58. the different perspectives held by stakeholders regarding the selected global economic issue/s, such as the role of consumers, businesses, governments and other relevant stakeholders | 7.5, 8.5 | |
| 59. the effects associated with any action taken by relevant stakeholders to address the global economic issue/s. | 7.5, 8.6 | |

Suggested timelines

Unit 1 – The behaviour of consumers and businesses

- Area of Study 1: approximately 8-9 weeks
- Area of Study 2: approximately 8-9 weeks

Unit 2 – Contemporary economic issues

- Area of Study 1: approximately 5-6 weeks
- Area of Study 2: approximately 5-6 weeks
- Area of Study 3: approximately 5-6 weeks

Assessment

The award of satisfactory completion for a unit is based on a decision that the student has demonstrated achievement of the set of outcomes specified for the unit. This decision will be based on the teacher's assessment of the student's overall performance on assessment tasks designated for the unit.

Assessment tasks must be a part of the regular teaching and learning program and must not unduly add to the workload associated with that program. They must be completed mainly in class and within a limited timeframe. Teachers should select a variety of assessment tasks for their assessment program to reflect the key knowledge and key skills being assessed and to provide for different learning styles.

For Unit 1, students are required to demonstrate achievement of two outcomes. For Unit 2, students are required to demonstrate achievement of three outcomes. For further information about assessment consult the VCE Economics Study Design (2017 - 2021) or visit www.vcaa.vic.edu.au.

The 'key knowledge' dot points are included in Tables 1 to 5 (pages v-vii), 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.

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