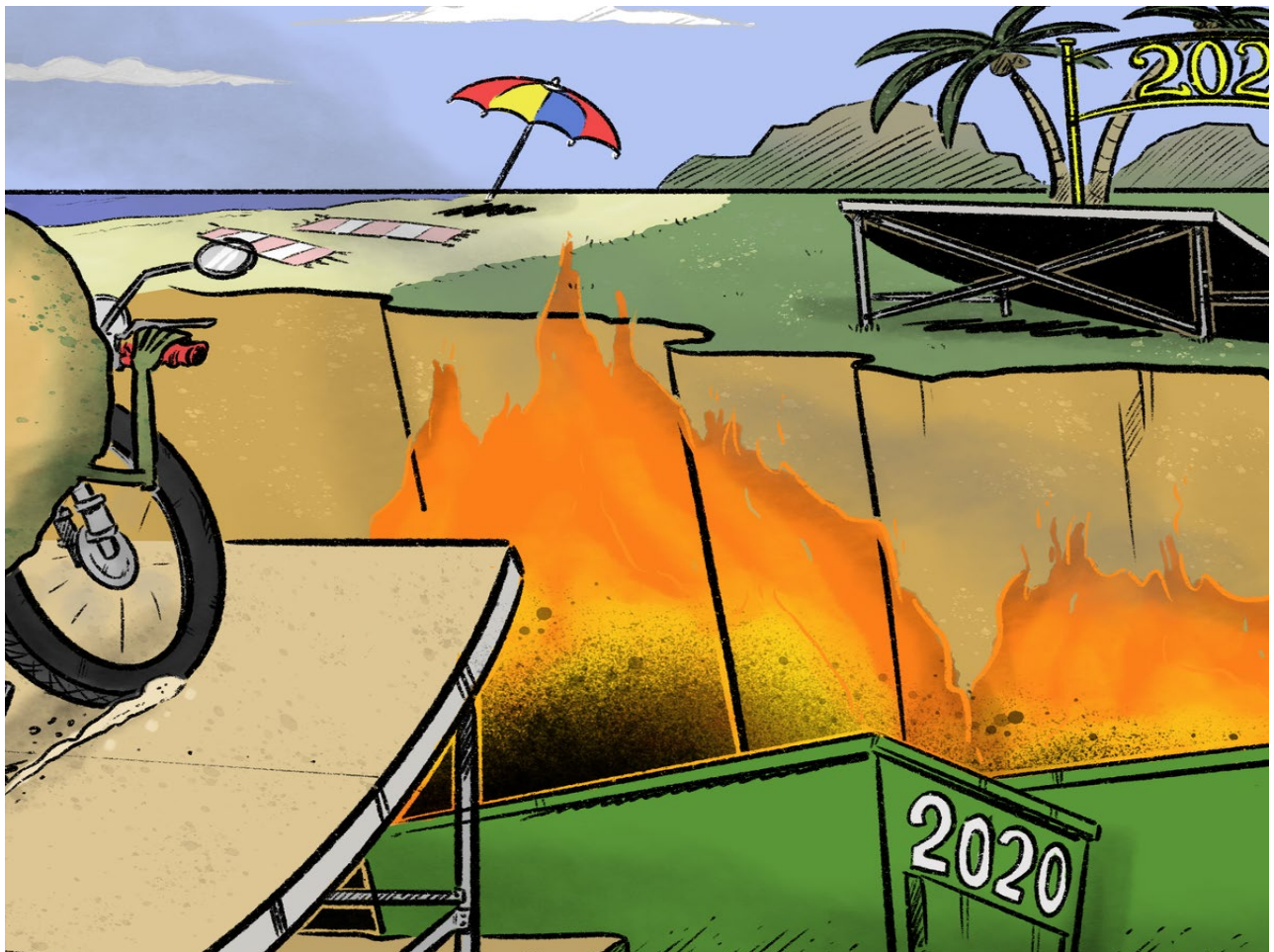




VCE TRANSITION PACKAGE 2022

UNITS 3 AND 4

ECONOMICS



Welcome to Unit 3 and 4 Economics!

Be ready – the pace is FAST!

Many topics will sound familiar, as they were studied at a basic level in Units 1 and 2. However in Units 3 and 4 we will be going into more depth on previously learned subject matter and also covering a lot of new material.

Your main keys to success will be your ability to keep up with the course content, maintain organised class notes, commit to work outside class time and your willingness to come and see teachers outside of scheduled classes if you are having difficulty with any concepts. Please let me know if you need help earlier rather than later!

In this booklet you will find information about the Study Design, assessment for the year, a timeline, class materials, teacher contact details and your holiday homework. Please read this transition book carefully over the holidays and ensure you return to school prepared.

Good luck with your Economics studies in 2022!

Regards,

Mrs Jackman

Teaching Staff

NAME OF TEACHER	EMAIL ADDRESS	LOCATION
Sally Jackman	jackmans@vermontsc.vic.edu.au	Commerce Office

It is important to regularly touch base with your teacher for constant feedback.

Required Materials

- **TEXTBOOK:** *Economic Fundamentals in Australia (A text for students of VCE Economics Units 3&4), By MacGregor, Salla and Grinham. 7th edition.*

You may purchase this via the booklist OR second hand, but ensure you get the 7th edition. In the meantime, *the first two chapters are available online at <https://www.commpap.com/efa/>*

- **WORKBOOK / LOOSE LEAF PAPER:** You are required to have a workbook for Economics that must come to every class (please ensure this book has sufficient pages to last a whole year and is only used for Economics)
- **DISPLAY BOOK:** This is required to keep all your handouts tidy and should be brought to every class.
- **WRITING MATERIALS:** Pens, pencils, highlighters, eraser, ruler

What to do to succeed

- Fully participate in class, including class discussions, worksheets, activities etc.
- Monitor online class resources (Teams, school emails) – I will use these to communicate important information
- It is your responsibility to catch up on missed work after an absence. All work will be on Compass. If it is a planned absence, see your teacher prior.
- Maintain an electronic glossary throughout the year. You will be provided with a template which includes a list of terms. You should be updating the glossary each week. Some suggestions:
 - Don't simply copy definitions out of the back of the text, these have a tendency to be too wordy and are difficult to remember. Develop short, snappy definitions that are easy to incorporate into responses.
 - Try to avoid using definitions from the internet – use the powerpoint notes and textbook
- Pre-reading & watching – prior to each lesson, you will be required to watch pre-recorded screencast videos and/or read relevant textbook chapters. I will assume you have done this and will teach the content accordingly.
- Homework – this must be completed regularly and on-time. I understand you have other commitments and will generally try to avoid setting homework for you to complete in only one night (this does not apply to work that should have been completed in class). Only relevant and useful homework will be set.
- Monitor the media regularly. You should be engaging with all / some of the following resources:
 - Free access to The Age newspaper via the library catalogue (on school premises only). Or use The Age website (<https://www.theage.com.au/business/the-economy>) you can read approx. 30 free articles per month on the website (bookmark this on your computer). Look out for articles by Ross Gittins (or monitor his blog <http://www.rossgittins.com/>), Shane Wright and Jessica Irvine.
 - Free access to <https://www.theguardian.com/au>, <https://www.abc.net.au/news/politics/>
 - Sign up to email alerts from <https://www.businessinsider.com.au/category/australian-economy>
 - Listen to podcasts on your way to and from school – this is an easy way to engage with current conditions. The most accessible are The Money (ABC Radio), Please Explain (The Age) and The Signal (ABC Radio). Others include The Economists, AM, PM. These can all be accessed in any podcast app.
 - Watch The Kohler Report by financial journalist Alan Kohler. Approx 2 minutes towards the end of the 7pm ABC News each weeknight (usually around 7:20pm), or stream on demand <https://www.abc.net.au/news/business/kohler-report/>
- Use the Study Design and past exams / examiners reports (<https://www.vcaa.vic.edu.au/curriculum/vce/vce-study-designs/economics/Pages/index.aspx>) when writing notes and revising. Remember, points from the 'blurb' for each Outcome may be assessed as well as the points under key knowledge and skills.
- Revision – set aside one night per week for each week to consolidate the content learned that week. In this time:
 - finish off incomplete class or homework tasks or catch up on missed work
 - collate all notes and handouts from the week
 - write your study notes - base these on the study design points and the 'notes guide' you will be provided for each Area of Study. Whilst your study notes should obviously incorporate all required content at an appropriate level of detail, they should also focus on areas of weakness for YOU. Write more on areas you struggle with. Create flashcards for content that is hard to remember.
 - update your glossary with definitions for terms covered that week

Unit 3/4 Assessment Breakdown

Unit 3 School Assessed Coursework makes up 25% of your study score

- Outcome 1 – 40%
- Outcome 2 – 30%
- Outcome 3 – 30%

Unit 4 School Assessed Coursework makes up 25% of your study score

- Outcome 1 – 60%
- Outcome 2 – 40%

The end of year examination makes up 50% of your study score – all U3/4 coursework is assessable.

Unit 3/4 School Assessed Coursework (SACs)

All SACs in Year 12 Economics will be tests. Each test will consist of 5-10 multiple choice questions, plus a range of short answer and extended response questions. This will incorporate the analysis of graphs/data, as well as questions in Unit 3 requiring the construction of supply and demand graphs.

SACs will be completed in class time. Most SACs will be 60 minutes, except SAC 1a + SAC 1b in Unit 3, which will be 45 minutes.

A checklist and notes guide based on the Study Design will be provided at least one week before the SAC, in addition to practice SACs and solutions. Students will be assessed on both key knowledge and key skills, as listed in the Study Design. You must be aware of the 'blurb' at the start of each Outcome as well as the dot points under knowledge and skills – all is assessable.

Unit 3 School Assessed Coursework

SAC 1a	Relative scarcity & supply/demand	Thurs 17 th Feb	Term 1 week 3	20% of unit 3	45 min
SAC 1b	Market failure and competition	Tues 8 th Mar	Term 1 week 6	20% of unit 3	45 min
SAC 2	Domestic macroeconomic goals	Mon 2 nd May	Term 2 week 2	30% of unit 3	60 min
SAC 3	Australia and the world economy	Thurs 2 nd Jun	Term 2 week 6	30% of unit 3	60 min

Unit 4 School Assessed Coursework

SAC 1a	AD policies – Budgetary policy	Term 3 week 4	30% of unit 4	60 min
SAC 1b	AD policies – Monetary policy	Term 3 week 1	30% of unit 4	60 min
SAC 2	Aggregate supply policies	Term 3 week 9	40% of unit 4	60 min

If you are away on the day of a SAC, you **must have a medical certificate (obtained on the day of absence)** or it be an 'approved' absence such as school sport or excursion. Unless you are away sick, contact SM prior to the SAC to obtain paperwork.

Unit 3 Timeline (semester 1)

WEEK	DATE	SCHOOL EVENTS & PUBLIC HOLIDAYS	PROPOSED SACs
AOS 1 – Markets & resource allocation			
1	31 Jan - 4 Feb	<i>Study residential Th 3 + Fri 4 Feb</i>	
2	7-11 Feb		
3	14-18 Feb	<i>Senior round robin Tues 15 Feb</i>	SAC 1a (20% of U3) Thurs 17 Feb
4	21-25 Feb		
5	28 Feb - 4 Mar		
6	7-11 Mar		SAC 1b (20% of U3) Tues 8 Mar
AOS 2 – Domestic macroeconomic goals			
7	14-18 Mar	<i>Labour Day Mon 14 March House Athletics Fri 18 March</i>	
8	21-25 Mar		
9	28 Mar - 1 Apr		
10	4-8 Apr	<i>Parent-teacher interview Wed 6 Apr</i>	
		Holidays	
		Holidays	
1	26-29 Apr	<i>Anzac Day Mon 25 April</i>	
2	2 - 6 May	<i>Senior round robin Fri 6 May</i>	SAC 2 (30% of U3) Mon 2 May
AOS 3 – Australia & world economy			
3	9 - 13 May		
4	16 - 20 May		
5	23 - 27 May	<i>Girls footy/Boys netball Tue 24 May</i>	
6	30 May - 3 Jun		SAC 3 (30% of U3) Thurs 2 Jun
7	6 - 10 Jun	<i>GAT likely Wed 8 June Report writing day likely Fri 10 June</i>	
8	13 - 17 Jun	<i>Queen's birthday Mon 13 June</i>	
		UNIT 4	
9	20 - 24 Jun		
		UNIT 4	

Study Design

Unit 3 AOS 1 - An introduction to microeconomics: the market system, resource allocation and government intervention

In this area of study students investigate the role of the market in answering the key economic questions of what and how much to produce, how to produce and for whom to produce. They consider the effect of decisions made by consumers and businesses on what goods and services are produced, the quantities in which they are produced, to whom they are distributed and the way they are produced. Students investigate some of the key factors that influence the level of demand and supply in the economy and how these might lead to changing prices and the movement of land, labour and capital to those areas of production that generate the most value for society. Students use models to make predictions and to consider the role of markets in achieving economic efficiency. Using a case study from the past two years they discuss instances where the market fails to allocate resources efficiently and whether government intervention leads to a more efficient allocation of resources in terms of maximising society's wellbeing.

On completion of this unit the student should be able to explain how markets operate to allocate resources, and discuss the effect of government intervention on market outcomes.

Key knowledge

- relative scarcity: needs, wants, resources and opportunity cost
- the nature of, and conditions for, a perfectly competitive market
- the law of demand and the demand curve including movements along, and shifts of, the demand curve
- factors likely to affect demand and the position of the demand curve: changes in disposable income, the prices of substitutes and complements, preferences and tastes, interest rates, changes in population and consumer confidence
- the law of supply and the supply curve including movements along, and shifts of, the supply curve
- factors likely to affect supply and the position of the supply curve: changes in the cost of production, technological change, productivity growth and climatic conditions
- the effects of changes in supply and demand on equilibrium prices and quantity traded
- the role of relative prices in markets on the allocation of resources and the effect on living standards
- the meaning and significance of price elasticity of demand and supply
- factors affecting price elasticity of demand: degree of necessity, availability of substitutes, proportion of income and time
- factors affecting price elasticity of supply: spare capacity, production period and durability of goods
- the meaning and significance of economic efficiency: allocative efficiency, productive efficiency, dynamic efficiency and inter-temporal efficiency
- the effect of competitive markets on the efficiency of resource allocation
- reasons for market failure: public goods, externalities, asymmetric information and common access resources
- the role and effect of indirect taxation, subsidies, government regulations and government advertising as forms of government intervention in the market to address market failure
- one contemporary example of government intervention in markets that unintentionally leads to a decrease in the efficiency of resource allocation

Key skills

- define key economic concepts and terms and use them appropriately
- construct and interpret demand and supply diagrams
- interpret and analyse statistical and graphical data
- evaluate the role of the market in allocating resources
- explain the effect of government intervention in markets
- compare alternative economic viewpoints to form conclusions

Unit 3 AOS2 - Domestic macroeconomic goals

In this area of study students investigate the Australian Government's domestic macroeconomic goals of low inflation, strong & sustainable economic growth and full employment and why these goals are pursued. They consider the role of key economic agents using a simple circular flow model of the macroeconomy. Students examine how each of the goals is measured & the potential consequences associated with the non-achievement of each goal. They identify & analyse contemporary aggregate demand & aggregate supply factors that may influence the achievement of domestic macroeconomic goals in the past two years, and consider how achievement of the goals may affect material & non-material living standards.

On completion of this unit the student should be able to analyse key contemporary factors that may have influenced the Australian Government's domestic macroeconomic goals over the past two years and discuss how achievement of these goals may affect living standards.

Key knowledge

The nature and purpose of economic activity

- the difference between material and non-material living standards
- factors that may influence living standards including access to goods and services, environmental quality, physical and mental health, life expectancy, crime rates and literacy rates
- the circular flow model of income including the role of households, businesses, government, financial institutions and the external sector in an open contemporary macroeconomy
- the nature and causes of the business cycle
- the meaning and importance of aggregate demand and the factors that may influence the level of aggregate demand in the economy: changes in the general level of prices, disposable income, interest rates, consumer confidence, business confidence, the exchange rate and rates of economic growth overseas
- the aggregate demand curve
- the meaning and importance of aggregate supply and the factors that may influence the level of aggregate supply in the economy: changes in the general level of prices, quantity and quality of the factors of production, cost of production, technological change, productivity growth, exchange rates and climatic conditions
- the aggregate supply curve
- effects of changes in aggregate demand & aggregate supply on level of economic growth, employment and price levels

The Australian Government's domestic macroeconomic goals

- the meaning of the goal of low inflation (price stability)
- measurement of the inflation rate using the Consumer Price Index (CPI) including the difference between the headline and underlying (core) rate of inflation
- causes of inflation including demand and cost inflation
- consequences of a high inflation rate: erosion of purchasing power, redistributive effects, resource misallocation, savings and investment and international competitiveness
- the meaning of the goal of strong and sustainable economic growth
- measurement of the rate of economic growth using real Gross Domestic Product (GDP)
- the reasons for pursuing strong and sustainable economic growth including lowering of the unemployment rate, growth in real income and increased ability of government to provide essential services
- the meaning of the goal of full employment and classifications within the labour force: employed, unemployed, hidden unemployment, disguised or under-employed
- measurement of the labour force including the participation rate, the unemployment rate and the labour force underutilisation rate
- types and causes of unemployment: cyclical, structural, frictional, seasonal and hard-core unemployment
- consequences of unemployment - loss of GDP, loss of tax revenue, reductions in living standards, greater income inequality
- aggregate demand and aggregate supply factors that have influenced inflation, economic growth, the unemployment rate and living standards in the past two years

Key skills

- define key economic concepts and terms and use them appropriately
- calculate relevant economic indicators using real or hypothetical data
- explain trends, patterns, similarities and differences in economic data and other information
- apply economic concepts and theories to explain the nature and importance of the Australian Government's domestic macroeconomic goals
- analyse economic relationships through the interpretation of data, graphical trends, patterns and other information

Unit 3 AOS3 - Australia and the world economy

Australia is an open economy. There has been a gradual reduction in trade barriers with trade making an increasingly greater contribution to Australia's living standards. Students examine the reasons why countries engage in international transactions such as the exchange of goods and services and the movement of savings and investment capital, and evaluate how these transactions might affect living standards. They investigate how international transactions are recorded and the relationships between different sections of the balance of payments. Students apply their knowledge of demand and supply models to explain movements in the exchange rate, and discuss the effects of changing currency values on the achievement of the Australian Government's domestic macroeconomic goals.

On completion of this unit the student should be able to explain the factors that may influence Australia's international transactions and evaluate how international transactions and trade liberalisation may influence the current account balance, the Australian Government's domestic macroeconomic goals and living standards in Australia.

Key knowledge

- the relationship between trade and living standards including lower prices for consumers, greater choice for consumers, the ability of businesses to achieve economies of scale and access to more resources for business and government
- the balance of payments and its components
- causes of Australia's current account deficit including cyclical and structural factors
- the relationship between the current account and the capital and financial account
- the composition and cause of net foreign debt and net foreign equities
- the terms of trade: meaning and measurement and the factors that may influence the terms of trade
- the effect of movements in the terms of trade on the current account balance, the domestic macroeconomic goals and living standards
- factors affecting the value of the exchange rate including relative interest rates, demand for exports and imports, capital flows, the terms of trade and relative rates of inflation
- the effect of exchange rate movements on the current account balance, the domestic macroeconomic goals and living standards
- factors that may influence Australia's international competitiveness including productivity, production costs, availability of natural resources, exchange rates and relative rates of inflation, and the effect of these factors on domestic macroeconomic goals and living standards
- the effect of trade liberalisation on Australia's international competitiveness, domestic macroeconomic goals and living standards

Key skills

- define key economic concepts and terms and use them appropriately
- explain key international economic relationships and how they may affect living standards
- explain trends, patterns, similarities and differences in economic data and other information
- calculate relevant economic indicators using real or hypothetical data
- access and interpret, and draw conclusions from, information gathered from a range of sources

Unit 4 AOS1 - Aggregate demand policies and domestic economic stability

In this area of study students examine how the Australian Government and its statutory authority, the RBA, can utilise budgetary and monetary policy respectively to influence the level of aggregate demand in the economy. They evaluate the relative effectiveness of each policy by focusing on their strengths and weaknesses and explain how each policy has been utilised by the Australian Government in the past two years.

On completion of this unit the student should be able to discuss the nature and operation of aggregate demand policies and analyse how the policies may influence the Australian Government's domestic macroeconomic goals and living standards.

Key knowledge

- the need for aggregate demand policies in terms of stabilising the business cycle

Budgetary policy

- sources of government revenue including direct and indirect taxation, revenue from government businesses and the sale of government assets
- types of government expenses including government current and capital expenditure and transfer payments
- the budget outcome: balanced, deficit or surplus
- the ways government may finance a deficit or utilise a surplus
- the relationship between the budget outcome and the level of government (public) debt
- the role of automatic stabilisers (cyclical component of the budget) in influencing aggregate demand and stabilising the business cycle
- the role of discretionary stabilisers (structural component of the budget) in influencing aggregate demand and stabilising the business cycle
- the effect of automatic and discretionary changes in the budget on the budget outcome and government (public) debt
- the stance of budgetary policy: expansionary or contractionary
- the effect of budget initiatives from the past two years on the Australian Government's domestic macroeconomic goals of strong and sustainable growth, full employment and low inflation
- the strengths and weaknesses of using budgetary policy to achieve the Australian Government's domestic macroeconomic goals and how these goals may affect living standards

Monetary policy

- the role of the RBA with respect to monetary policy as outlined in its charter
- the role of open market operations in altering interest rates
- transmission mechanisms of monetary policy and their influence on the level of aggregate demand including savings and investment, cash flow, availability of credit, exchange rate movements and asset prices
- the stance of monetary policy: expansionary or contractionary
- the focus of monetary policy from the past two years on the levels of aggregate demand and the Australian Government's domestic macroeconomic goals of strong and sustainable economic growth, full employment and low inflation
- the strengths and weaknesses of using monetary policy to achieve the Australian Government's domestic macroeconomic goals and how these goals may affect living standards

Key skills

- define and use key economic concepts and terms relating to the Australian Government's aggregate demand policies
- gather relevant data and information about the nature and operation of aggregate demand policies in Australia
- discuss and analyse the effect of contemporary factors on the setting of aggregate demand policies
- evaluate the strengths and weaknesses of aggregate demand policies in achieving the Australian Government's domestic macroeconomic goals

Unit 4 AOS2 - Aggregate supply policies

In this area of study students examine the important role of aggregate supply policies in creating a stronger macroeconomic environment so that domestic macroeconomic goals can be more easily achieved. They investigate the different approaches that government may take to promoting competition and efficiency. Should the Australian Government intervene in the market? Is it better to rely more on the market to promote productivity growth and improvements in the quality and quantity of the factors of production? Students evaluate each of these approaches, highlighting their strengths and weaknesses and drawing conclusions about the short-term and long-term consequences in terms of the domestic macroeconomic goals and living standards.

On completion of this unit the student should be able to discuss the nature and operation of aggregate supply policies and analyse how the policies may influence the Australian Government's domestic macroeconomic goals and living standards.

Key knowledge

- the nature, operation and aims of aggregate supply policies and their relationship to the domestic macroeconomic goals, international competitiveness and living standards
- the relationship between the efficient allocation of resources and aggregate supply
- how the following aspects of budgetary policy are designed to influence aggregate supply and the achievement of domestic macroeconomic goals:
 - spending on training and education
 - research and development grants
 - subsidies
 - investment in infrastructure
- how welfare and tax reform policies are designed to influence aggregate supply and living standards
- the effect of immigration policies on the labour market and aggregate supply, and the way in which this influences the achievement of domestic macroeconomic goals
- the strengths and weaknesses of using aggregate supply policies to achieve the Australian Government's domestic macroeconomic goals and how these goals may affect living standards

Key skills

- define key economic concepts and terms and use them appropriately
- describe the aims of aggregate supply policies in terms of the domestic macroeconomic goals and living standards
- gather relevant data and information about the nature and operation of aggregate supply policies in Australia
- analyse the effect of aggregate supply policies on the domestic macroeconomic goals and living standards
- discuss the strengths and weaknesses of aggregate supply policies

Holiday Homework

These tasks are to be **HAND WRITTEN** completed in your Economics workbook by the first lesson back in 2022.

All questions must be answered (where applicable) in full sentences and you must explain each of your points carefully. Use appropriate titles for each activity.

Task 1

Read chapter 1 of the text thoroughly, available online at: <https://www.commpap.com/efa/>

Complete the following tasks from chapter 1. You may note the answers to the tables and classification activities directly into the textbook (there will be a new text in 2023, so you won't be able to sell this book).

Please HAND WRITE your responses to the review questions in your Economics exercise book.

- Activity 1a p.2
- Review questions 1.1 p.8 Q7+8
- Activity 1b p.9 Q2,3,4
- Review questions 1.2 p.13 Q1,5a-e
- Activity 1d p.16
- Review questions 1.3 p.19 Q1-7

Task 2

Read the extract article on the following pages and answer the questions at the end.

RBA governor Philip Lowe delivers good and bad news for borrowers with jobs

Michael Janda, Business Insider, 16th November 2021

Reserve Bank governor Philip Lowe had good and bad news for the cohort of Australians who are working and doing so largely to pay off a mortgage.

The good news first. "I would like to repeat a point I made a couple of weeks ago – that is, the latest data and forecasts do not warrant an increase in the cash rate in 2022," he said. So, the good news for borrowers is that {interest} rates that are directly linked to the current RBA cash rate are likely to stay around record lows for a while longer.

The bad news was the reason why the RBA governor expected interest rates to stay lower for longer. "Labour force participation in Australia remains high and the wage-setting processes – including multi-year enterprise agreements and the annual minimum wage case – impart a degree of inertia into aggregate wage outcomes," he explained. "Wages growth is expected to pick up, but to do so only gradually".

"Our business liaison suggests that most businesses retain a strong cost control mindset and are seeking to use measures other than raising base wages to attract and retain staff."

"It is likely that wages will need to be growing at 3-point-something per cent to sustain inflation around the middle of the target band, which is 2-3% increases in general price levels on average per annum," Dr Lowe added. The RBA currently doesn't expect inflation to be at that level until the end of 2023, which is why Dr Lowe thinks it may be able to hold off on raising interest rates until 2024.

"Many of the factors that have caused inflation to rise elsewhere are also at play in Australia, though most of these are more muted here." Dr Lowe said the stronger wages growth in the US and UK can be largely explained by a persistent fall in the proportion of people either in work or looking for it, a phenomenon that's been dubbed "the great resignation". People have used time in lockdowns over the past two years to reassess their current employment situations. Many are choosing to seek new jobs as a result, with many even studying or training in a whole new career.

"In the United States, labour force participation has not yet recovered and is still around 2 percentage points below its pre-pandemic level," he observed. "In contrast, in Australia we were hitting record highs for participation just before the Delta outbreak and are expected to return to these highs in the coming months."

But what about the COVID-related supply chain disruptions and surging demand for goods we have been reading much about? Won't that push up inflation in Australia, even if wages don't rise faster?

"A period of strong demand saw prices rise, which was recorded as higher inflation, but prices aren't likely to keep rising at current rates as conditions normalise, and some prices may even decline."

That is unless workers get uppity in the meantime and successfully demand higher pay packets to compensate for the rise in prices. "If a period of higher wages growth were to reset wage growth norms, this would have a persistent effect on overall inflation," Dr Lowe added.

The net result is that interest rates are likely to remain at record lows for a couple more years, that is unless your pay packet starts climbing, in which case the RBA will hope that you'll be able to afford the extra repayments.

<https://www.abc.net.au/news/2021-11-16/rba-delivers-good-and-bad-news-for-borrowers-with-jobs/100624304>

Check your understanding: True or False

	True or False?
The RBA is planning to increase the cash rate (official interest rate) in the next 6 months	
An increasing labour force participation rate increases the supply of labour available to firms	
An increase in wages tends to increase inflation because consumer spending increases at a slower rate	
The RBA's target band for inflation is 3-point-something.	
Australia is currently experiencing weaker wages growth than the US and UK	

Short Answer Questions

- Using two different colours, highlight those terms in the article that you do not understand, and those economic terms that you would be able to explain to a classmate. Include a legend.
- Explain why the RBA's 'good news' of an ongoing low cash rate should positively affect households.
