

Victorian Certificate of Education

ECONOMICS

STUDY DESIGN



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Important information

Accreditation period

Units 1–4: 1 January 2017 – 31 December 2022

Implementation of this study commences in 2017.

Other sources of information

The [VCAA Bulletin](#) is the only official source of changes to regulations and accredited studies. The *Bulletin* also regularly includes advice on VCE studies. It is the responsibility of each VCE teacher to refer to each issue of the *Bulletin*. The *Bulletin* is available as an e-newsletter via free subscription on the VCAA's website at: www.vcaa.vic.edu.au.

To assist teachers in developing courses, the VCAA publishes online the *Advice for teachers*, which includes teaching and learning activities for Units 1–4, and advice on assessment tasks and performance level descriptors for School-assessed Coursework in Units 3 and 4.

The current [VCE and VCAL Administrative Handbook](#) contains essential information on assessment processes and other procedures.

VCE providers

Throughout this study design the term 'school' is intended to include both schools and other VCE providers.

Copyright

VCE schools may reproduce parts of this study design for use by teachers. The full VCAA Copyright Policy is available at: www.vcaa.vic.edu.au/Pages/aboutus/policies/policy-copyright.aspx.

Introduction

Scope of study

Economics is the study of how resources are allocated to meet the needs and wants of society. It attempts to explain how and why individuals behave the way they do and the consequences of their decision making. Studying Economics as a social science enables students to gain valuable insight into the economic problems that they may face on an individual basis and collectively as a society to meet the needs and wants of citizens, and may therefore assist them in making more informed and responsible decisions.

Rationale

Economics examines the role of consumers, businesses, governments and other organisations in the decision making about the allocation of resources, the production of goods and services and the effect that these decisions may have on material and non-material living standards. Developing students' understanding of economics will enable them to appreciate the reasons behind these decisions and the intended and unintended consequences.

Through studying economics students develop a range of skills including the ability to gather, organise, analyse and synthesise a wide selection of economic information. They undertake independent inquiry, think critically and work collaboratively with their peers to develop viable solutions to contemporary economic issues. They utilise the economic models and tools of economists effectively to analyse and evaluate the decisions made by key economic agents and, in the process, appreciate the different viewpoints about the issues that may affect a modern economy. Further study in the field of Economics can lead to a broad range of career opportunities such as stockbroking, insurance, business analysis, banking and finance, journalism and public policy.

Aims

This study enables students to:

- understand the role of consumers, businesses and governments in the economy
- understand and apply relevant economic theories, concepts and tools
- examine and evaluate the nature and consequences of economic trade-offs
- use economic methods of inquiry and tools to analyse the economic causes and consequences of contemporary events on local, domestic and international economies
- develop an understanding of how the Australian economy operates
- foster an understanding of how Australia's economic relationships with other economies and global economic institutions influence living standards and long-term prosperity
- evaluate the effectiveness of government responses to economic situations
- develop a critical perspective and think creatively about approaches to economic problems that might arise.

Structure

The study is made up of four units.

Unit 1: The behaviour of consumers and businesses

Unit 2: Contemporary economic issues

Unit 3: Australia's economic prosperity

Unit 4: Managing the economy

Each unit deals with specific content contained in areas of study and is designed to enable students to achieve a set of outcomes for that unit. Each outcome is described in terms of key knowledge and key skills.

Entry

There are no prerequisites for entry to Units 1, 2 and 3. Students must undertake Unit 3 prior to undertaking Unit 4. Units 1 to 4 are designed to a standard equivalent to the final two years of secondary education. All VCE studies are benchmarked against comparable national and international curriculum.

Duration

Each unit involves at least 50 hours of scheduled classroom instruction over the duration of a semester.

Changes to the Study Design

During its period of accreditation minor changes to the study will be announced in the [VCAA Bulletin VCE, VCAL and VET](#). The *Bulletin* is the only source of changes to regulations and accredited studies. It is the responsibility of each VCE teacher to monitor changes or advice about VCE studies published in the *Bulletin*.

Monitoring for quality

As part of ongoing monitoring and quality assurance, the VCAA will periodically undertake an audit of VCE Economics to ensure the study is being taught and assessed as accredited. The details of the audit procedures and requirements are published annually in the [VCE and VCAL Administrative Handbook](#). Schools will be notified if they are required to submit material to be audited.

Safety and wellbeing

It is the responsibility of the school to ensure that duty of care is exercised in relation to the health and safety of all students undertaking the study.

Employability skills

This study offers a number of opportunities for students to develop employability skills. The *Advice for teachers* companion document provides specific examples of how students can develop employability skills during learning activities and assessment tasks.

Legislative compliance

When collecting and using information, the provisions of privacy and copyright legislation, such as the Victorian *Privacy and Data Protection Act 2014* and *Health Records Act 2001*, and the federal *Privacy Act 1988* and *Copyright Act 1968*, must be met.

Assessment and reporting

Satisfactory completion

The award of satisfactory completion for a unit is based on the teacher's decision that the student has demonstrated achievement of the set of outcomes specified for the unit. Demonstration of achievement of outcomes and satisfactory completion of a unit are determined by evidence gained through the assessment of a range of learning activities and tasks.

Teachers must develop courses that provide appropriate opportunities for students to demonstrate satisfactory achievement of outcomes.

The decision about satisfactory completion of a unit is distinct from the assessment of levels of achievement. Schools will report a student's result for each unit to the VCAA as S (Satisfactory) or N (Not Satisfactory).

Levels of achievement

Units 1 and 2

Procedures for the assessment of levels of achievement in Units 1 and 2 are a matter for school decision. Assessment of levels of achievement for these units will not be reported to the VCAA. Schools may choose to report levels of achievement using grades, descriptive statements or other indicators.

Units 3 and 4

The VCAA specifies the assessment procedures for students undertaking scored assessment in Units 3 and 4. Designated assessment tasks are provided in the details for each unit in VCE study designs.

The student's level of achievement in Units 3 and 4 will be determined by School-assessed Coursework (SACs) and/or School-assessed Tasks (SATs) as specified in the VCE study designs, and external assessment.

The VCAA will report the student's level of achievement on each assessment component as a grade from A+ to E or UG (ungraded). To receive a study score the student must achieve two or more graded assessments and receive S for both Units 3 and 4. The study score is reported on a scale of 0–50; it is a measure of how well the student performed in relation to all others who took the study. Teachers should refer to the current [VCE and VCAL Administrative Handbook](#) for details on graded assessment and calculation of the study score. Percentage contributions to the study score in VCE Economics are as follows:

- Unit 3 School-assessed Coursework: 25 per cent
- Unit 4 School-assessed Coursework: 25 per cent
- End-of-year examination: 50 per cent.

Details of the assessment program are described in the sections on Units 3 and 4 in this study design.

Authentication

Work related to the outcomes of each unit will be accepted only if the teacher can attest that, to the best of their knowledge, all unacknowledged work is the student's own. Teachers need to refer to the current [VCE and VCAL Administrative Handbook](#) for authentication procedures.

Unit 1: The behaviour of consumers and businesses

Economics is a dynamic and constantly evolving field. As a social science, Economics is interested in the way humans behave and the decisions made to meet the needs and wants of society. In this unit students explore their role in the economy, how they interact with businesses and the way economic models and theories have been developed to explain the causes and effects of human action.

Students explore some fundamental economic concepts. They examine basic economic models where consumers and businesses engage in mutually beneficial transactions and investigate the motivations and consequences of both consumer and business behaviour. They examine how individuals might respond to incentives and how technology may have altered the way businesses and consumers interact. Students are encouraged to investigate contemporary examples and case studies to enhance their understanding of the introductory economic concepts.

Students examine a simple microeconomic model to explain changes in prices and quantities traded. Through close examination of one or more key markets they gain insight into the factors that may affect the way resources are allocated in an economy and how market power can affect efficiency and living standards.

Area of Study 1

Thinking like an economist

Economics has an effect on everyone, irrespective of background. In this area of study students begin to appreciate the contributions of economics as a discipline and investigate some of the factors that motivate people to act in the way they do and the consequences of their actions.

Every country is essentially faced with the same economic problem. How are resources going to be allocated to meet the needs and wants of its people? Students investigate the key economic questions of what and how much to produce, how to produce and who gets to enjoy the benefits of what is produced. They consider the reasons why people might respond differently to incentives and how this can affect living standards. Students are introduced to some of the tools that economists have developed to help them solve economic problems and apply them to contemporary economic issues.

Outcome 1

On completion of this unit the student should be able to describe the basic economic problem, discuss the role of consumers and businesses in the economy and analyse the factors that influence decision making.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 1.

Key knowledge

Introductory concepts

- the basic economic problem of relative scarcity and the need for economic decision making
- the concept and applications of opportunity cost
- resources used to meet needs and wants: natural, labour and capital
- the meaning and significance of positive and normative economics
- the purpose of economic activity and the influence on material and non-material living standards
- the three basic economic questions: 'What and how much to produce?', 'How to produce?', 'For whom to produce?'

- the need for trade-offs such as current versus future, short run versus long run, and cost-benefit analyses
- the production possibility model to illustrate the concepts of scarcity, choice, opportunity cost, underutilisation of resources and efficiency
- the two sector circular flow model of the economy.

Consumers

- the traditional economic viewpoint of consumer behaviour such as rationality, ordered preferences, informed decision making and marginal benefits from consumption
- economic factors that may influence economic decisions made by consumers such as:
 - utility maximisation
 - budget constraints
 - internal influences on economic decision making for example, personality types, ethics, habit
 - external influences on economic decision making for example, culture, marketing, and government
- developments in research about consumer behaviour, including the contribution of behavioural economics
- the ways consumers and workers might respond to positive and negative incentives
- the effects of technological change on consumer behaviour.

Business

- the traditional economic viewpoint of business in the economy: profit maximisation
- how businesses might respond to positive and negative incentives
- the evolution of business and changing goals such as sustainability, community involvement, gender equality, innovation, research and development
- the effect of technology on business behaviour and the trade in goods and services
- 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*.

Key skills

- define key economic concepts and terms and use them appropriately
- apply economic theory to make economic predictions
- gather and synthesise information from a wide range of sources to assess the effect of economic decisions on relevant stakeholders
- compare the traditional economic viewpoint with research in the behavioural economics area
- construct, interpret and apply economic models to analyse the consequences of economic decisions
- evaluate the costs and benefits associated with a range of economic decisions
- investigate and evaluate alternative viewpoints on economic issues.

Area of Study 2

Decision making in markets

The Australian economy uses the market-based system to allocate resources. Markets are essentially places where goods and services are bought and sold. Businesses and consumers engage in mutually beneficial transactions within the market with minimal government intervention.

One of the key tools used to explain how prices change and how resources are allocated is the basic demand and supply model. Using contemporary case-studies students make connections between the theory and the workings of different markets in the Australian and world economy. They develop skills in making predictions and

constructing arguments about the possible consequences of key changes in different markets. In studying the operation of markets and using relevant models, students consider one or more of the following markets:

- Agricultural markets such as wool, wheat and beef
- Other commodity markets such as minerals and energy
- Community markets
- The finance market
- The share market
- The labour market
- The property/housing market
- Online markets
- The health market
- Any other relevant market.

Outcome 2

On completion of this unit the student should be able to explain the role of relative prices and other non-price factors in the allocation of resources in a market-based economy.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 2.

Key knowledge

- the assumptions of a perfectly competitive market system
- the law of demand and the demand curve
- 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
- the distinction between a movement along the demand curve and a shift of the demand curve
- the law of supply and the supply curve
- 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
- the distinction between a movement along the supply curve and a shift of the supply curve
- effects of changes in demand and supply on equilibrium prices and quantities
- the role of relative prices in the allocation of resources in a market-based economy
- 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.

Key skills

- define key economic concepts and terms and use them appropriately
- acquire economic information from a range of sources
- construct graphs to represent and interpret economic information
- use economic tools and theories to analyse and predict economic outcomes
- research and synthesise information about a particular market
- apply economic knowledge, concepts and theories to predict the effect of changes in conditions on market outcomes.

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.

The areas of study, including the key knowledge and key skills listed for the outcomes, should be used for course design and the development of learning activities and assessment tasks. Assessment must be a part of the regular teaching and learning program and should be completed mainly in class and within a limited timeframe.

All assessments at Units 1 and 2 are school-based. Procedures for assessment of levels of achievement in Units 1 and 2 are a matter for school decision.

For this unit students are required to demonstrate two outcomes. As a set these outcomes encompass the areas of study in the unit.

Suitable tasks for assessment may be selected from the following:

- an analysis of written, visual and statistical evidence
- a folio of applied economic exercises
- problem-solving tasks
- a blog of media commentaries using print or electronic materials
- a report of an investigation or an inquiry
- a debate
- an essay/a structured report
- structured questions
- a presentation (oral, multimedia, visual)
- a web page
- media analyses
- case studies
- fieldwork
- economic simulation activities.

Where teachers allow students to choose between tasks they must ensure that the tasks they set are of comparable scope and demand.

Unit 2: Contemporary economic issues

As a social science, economics often looks at contemporary issues where there are wide differences of opinion and constant debate. In most instances the decisions made by consumers, businesses and governments may benefit some stakeholders but not others. Trade-offs, where the achievement of one economic or public policy goal may come at the expense of another, are the subject of much debate in economic circles.

Students focus on the possible trade-off between the pursuit of growth in incomes and production and the goal of environmental sustainability and long-term economic prosperity. They investigate the importance of economic growth in terms of raising living standards and evaluate how achievement of this goal might result in degradation of the environment and the loss of key resources. Students examine whether the goals of economic growth and environmental sustainability can be compatible and discuss the effect of different policies on the achievement of these important goals.

Economic growth is generally associated with improvements in living standards as real incomes grow over time. Students explore how the benefits of economic growth are shared in an economy and begin to appreciate that efforts to increase economic efficiency might lead to a more inequitable distribution of income. They evaluate the role of government intervention in markets and discuss whether achieving greater equality causes a decline in economic growth and average living standards. Through the analysis of specific policy measures, students analyse and question the nature of this key trade-off and evaluate whether there is a degree of compatibility between equity and efficiency.

Students consider the influence on the world's living standards of the decisions made and the actions taken in the global economy by investigating one or more contemporary global issues and the trade-offs involved. Through an examination of the issue, students gain a greater appreciation of additional factors that can affect living standards in both Australia and in other nations. They consider the perspectives of relevant stakeholders and evaluate the validity of individual and collective responses to global issues.

Area of Study 1

Economic growth, long-term economic prosperity and environmental sustainability

In this area of study students consider the meaning and importance of economic growth and its effect on material and non-material living standards. The Australian Government generally pursues policies that are focused on at least maintaining, and in some cases, increasing the rate of economic growth. Economic growth is generally thought to promote improvements in living standards as it is associated with increasing incomes, literacy rates and health outcomes. Students evaluate the effect of an ever growing economy on other aspects of modern life. Does economic growth make life better or are there some costs involved?

Students investigate the nature of key economic trade-offs; situations where the achievement of one goal may come at the expense of another. There may be a trade-off between the goal of economic growth and the goal of environmental sustainability. Students consider the effect of economic growth on future generations and begin to appreciate some of the current environmental challenges that have been created from past and current economic decisions. They consider the role of alternative economic indicators and evaluate some Australian Government responses from both an economic and environmental perspective.

Outcome 1

On completion of this unit the student should be able to explain the factors and policies that may influence economic growth and environmental sustainability, and analyse the potential trade-off.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 1.

Key knowledge

- the nature and meaning of trade-offs in economics
- aggregate demand and its components
- aggregate supply
- the meaning and measurement of economic growth using real Gross Domestic Product (GDP) and real GDP per capita
- the economic benefits of economic growth such as growth in material living standards, employment opportunities, economic development and non-material living standards
- the limitations associated with using GDP per capita to measure changes in living standards
- aggregate demand and aggregate supply factors that may influence economic growth
- factors that might affect future rates of economic growth such as an ageing population and labour force participation
- government economic policy responses designed to influence the rate of economic growth such as budgetary policy, monetary policy and aggregate supply policies
- the meaning of both long-term economic prosperity and environmental sustainability
- economic and environmental costs of economic growth such as climate change, depletion of natural resources and deterioration of common access resources
- trade-offs and compatibility between economic growth and environmental sustainability
- alternative economic indicators of living standards
- the effect of policy response used to address environmental effects of economic growth such as market-based approaches, direct actions and regulation.

Key skills

- define key economic concepts and terms and use them appropriately
- access and synthesise information gathered from a range of sources and draw conclusions
- identify trends, patterns, similarities and differences in economic data and other information
- gather, interpret and analyse statistical and graphical data
- evaluate the potential costs and benefits associated with economic activity.

Area of Study 2

Economic efficiency and equity

Economists frequently talk about the importance of efficient allocation of resources and how fairly income and opportunity are distributed between individuals and groups within society. In this area of study students consider the nature of the potential trade-off between equity in the distribution of income and the efficiency of resource allocation in Australia.

Students analyse the factors that may lead to income disparity in Australia and one other nation, and why the income of some people is below the poverty line. They examine the effect of poverty and income inequality on individuals and the wider economy and explore the idea of intergenerational poverty.

Students investigate the factors contributing to, and the effects of, increasing economic efficiency. They examine the effect of efficiency on income distribution and the incidence of poverty. Are the two mutually exclusive goals or can an economy strike the right balance? To develop their application skills in this area of study, students evaluate contemporary budgetary policy initiatives and how these may have affected the goals of equity in the distribution of income and efficiency of resource allocation.

Outcome 2

On completion of this unit the student should be able to explain the factors and policies that may influence equity in the distribution of income and efficiency of resource allocation, and analyse the potential trade-off.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 2.

Key knowledge

- the difference between equity in the distribution of income and equality in the distribution of income
- income: earned and unearned income, transfer income, gross income, disposable income, nominal and real income and social wage income
- measures of income inequality and poverty such as the Lorenz Curve, Gini Coefficient and Henderson Poverty Lines
- the difference between absolute and relative poverty
- 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
- the effect of poverty on material and non-material living standards
- the meaning of economic efficiency and the benefits of achieving allocative and technical efficiency
- economic costs and benefits, and social costs and benefits of achieving equity in the distribution of income
- compatibility and conflict between the goals of equity in the distribution of income and efficiency of resource allocation
- the role of markets in the achievement of equity in the distribution of income and the efficiency of resource allocation
- 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.

Key skills

- define key economic concepts and terms and use them appropriately
- gather and interpret statistical data on income distribution and poverty
- construct appropriate diagrams to represent the degree of income inequality
- identify trends, patterns, similarities and differences in economic data and other information
- identify and discuss factors that influence equity in the distribution of income and efficiency of resource allocation
- discuss the costs and benefits associated with a more equitable distribution of income
- access and synthesise information gathered from a range of sources and draw conclusions.

Area of Study 3

Global economic issues

In this area of study students investigate one or more contemporary global economic issue/s. Students examine the selected economic issue/s from the perspective of the relevant stakeholders and evaluate decisions that may have been made with regard to these issue/s. Students consider the economic costs and benefits associated with greater levels of international trade, movement of capital and economic integration. They investigate whether Australia's prosperity depends upon economic events in the rest of the world and whether the decisions made by Australian economic agents have any effect on the global economy. They observe trade-offs in the wider economy and undertake cost-benefit analyses to evaluate the effect of decisions made to address current global economic issue/s.

The global economic issue/s students may investigate include:

- the challenges faced by developing nations in improving living standards and alleviating poverty
- free trade versus protectionism
- the effect of globalisation on relevant stakeholders
- the effect of government policy, foreign aid, multilateral development assistance and foreign investment on developing nations
- the global distribution of income: causes and implications of global inequality
- the effect of population movement on labour markets, economic growth and the environment
- international responses to an environmental challenge.

Outcome 3

On completion of this unit the student should be able to explain the factors that may influence a global economic issue/s and evaluate potential consequences associated with actions to address the issue/s.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 3.

Key knowledge

- definition of the selected global economic issue/s
- economic reasons why the issue/s may be of importance to Australia and the global economy
- economic factors that might influence the extent and nature of the selected global economic issue/s
- 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
- the effects associated with any action taken by relevant stakeholders to address the global economic issue/s.

Key skills

- define key economic concepts and terms and use them appropriately
- gather and interpret statistical data on the selected global economic issue/s
- identify and discuss factors that influence the selected global economic issue/s
- identify trends, patterns, similarities and differences in economic data and other information
- evaluate the costs and benefits associated with action taken to address the selected global economic issue/s
- access and synthesise information gathered from a range of sources and draw conclusions.

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.

The areas of study, including the key knowledge and key skills listed for the outcomes, should be used for course design and the development of learning activities and assessment tasks. Assessment must be a part of the regular teaching and learning program and should be completed mainly in class and within a limited timeframe.

All assessments at Units 1 and 2 are school-based. Procedures for assessment of levels of achievement in Units 1 and 2 are a matter for school decision.

For this unit students are required to demonstrate three outcomes. As a set these outcomes encompass the areas of study in the unit.

Suitable tasks for assessment may be selected from the following:

- an analysis of written, visual and statistical evidence
- a folio of applied economic exercises
- problem-solving tasks
- a blog of media commentaries using print or electronic materials
- a report of an investigation or an inquiry
- case studies
- a debate
- media analyses
- an essay/a structured report
- structured questions
- a presentation (oral, multimedia, visual)
- a web page
- economic simulation activities.

Where teachers allow students to choose between tasks they must ensure that the tasks they set are of comparable scope and demand.

Unit 3: Australia's economic prosperity

The Australian economy is constantly evolving. The main instrument for allocating resources is the market but the Australian Government also plays a significant role in this regard. In this unit students investigate the role of the market in allocating resources and examine the factors that are likely to affect the price and quantity traded for a range of goods and services. They develop an understanding of the key measures of efficiency and how market systems can result in efficient outcomes. Students consider contemporary issues to explain the need for government intervention in markets and why markets might fail to maximise society's living standards. As part of a balanced examination, students also consider unintended consequences of government intervention in the market.

In this unit students develop an understanding of the macroeconomy. They investigate the factors that influence the level of aggregate demand and aggregate supply in the economy and use models and theories to explain how changes in these variables might influence the achievement of the Australian Government's domestic macroeconomic goals and affect living standards.

Australia's economic prosperity depends, in part, on strong economic relationships with its major trading partners. Students investigate the importance of international economic relationships in terms of their influence on Australia's living standards. They analyse how international transactions are recorded, predict how economic events might affect the value of the exchange rate and evaluate the effect of trade liberalisation.

Area of Study 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.

Outcome 1

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.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 1.

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.

Area of Study 2

Domestic macroeconomic goals

In this area of study students investigate the Australian Government's domestic macroeconomic goals of low inflation, strong and 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 and the potential consequences associated with the non-achievement of each goal. They identify and analyse contemporary aggregate demand and 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 and non-material living standards.

Outcome 2

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.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 2.

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
- the effects of changes in aggregate demand and aggregate supply on the 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
- the consequences of unemployment including loss of GDP, loss of tax revenue, reductions in living standards and 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.

Area of Study 3

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.

Outcome 3

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.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 3.

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.

School-based assessment

Satisfactory completion

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 to provide a range of opportunities for students to demonstrate the key knowledge and key skills in the outcomes.

The areas of study and key knowledge and key skills listed for the outcomes should be used for course design and the development of learning activities and assessment tasks.

Assessment of levels of achievement

The student's level of achievement in Unit 3 will be determined by School-assessed Coursework. School-assessed Coursework 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.

Where teachers provide a range of options for the same School-assessed Coursework task, they should ensure that the options are of comparable scope and demand.

The types and range of forms of School-assessed Coursework for the outcomes are prescribed within the study design. The VCAA publishes *Advice for teachers* for this study, which includes advice on the design of assessment tasks and the assessment of student work for a level of achievement.

Teachers will provide to the VCAA a numerical score representing an assessment of the student's level of achievement. The score must be based on the teacher's assessment of the performance of each student on the tasks set out in the following table.

Contribution to final assessment

School-assessed Coursework for Unit 3 will contribute 25 per cent to the study score.

Outcomes	Marks allocated*	Assessment tasks
<p>Outcome 1</p> <p>Explain how markets operate to allocate resources, and discuss the effect of government intervention on market outcomes.</p>	40	<p>The student's performance on each outcome is assessed using one or more of the following:</p> <ul style="list-style-type: none"> • a folio of applied economic exercises • an essay • a report • media analysis • a case study • structured questions.
<p>Outcome 2</p> <p>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.</p>	30	
<p>Outcome 3</p> <p>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.</p>	30	
Total marks	100	

*School-assessed Coursework for Unit 3 contributes 25 per cent.

External assessment

The level of achievement for Units 3 and 4 is also assessed by an end-of-year examination, which will contribute 50 per cent.

Unit 4: Managing the economy

The ability of the Australian Government to achieve its domestic macroeconomic goals has a significant effect on living standards in Australia. The Australian Government can utilise a wide range of policy instruments to influence these goals and to positively affect living standards. Students develop an understanding of how the Australian Government can alter the composition and level of government outlays and receipts to directly and indirectly influence the level of aggregate demand and the achievement of domestic macroeconomic goals.

Area of Study 1 focuses on the role of aggregate demand policies in stabilising the business cycle to achieve the Australian Government's domestic macroeconomic goals. Students examine the role of the Reserve Bank of Australia (RBA) with a focus on its responsibility to alter the cost and availability of credit in the economy. Students consider each of the transmission mechanisms through which changes to interest rates can affect the level of aggregate demand in the economy and how these changes might affect the achievement of the Australian Government's domestic macroeconomic goals. Students examine and analyse the effects of the last two Australian Government budgets, and how particular initiatives have helped to stabilise the level of aggregate demand and influenced the achievement of domestic macroeconomic goals.

In Area of Study 2 students consider how the Australian Government utilises aggregate supply policies to manage the Australian economy. If the productive capacity of the economy is expanding, growth in aggregate demand can be met and economic growth can be maintained both now and into the future. Students investigate the role of both market-based and interventionist approaches to managing the supply side of the economy. They evaluate these policy responses in terms of their effect on incentives and consider how they increase competition and efficiency in the economy. Students assess the role of microeconomic reform in terms of its effect on economic prosperity and the achievement of the Australian Government's domestic macroeconomic goals.

Area of Study 1

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.

Outcome 1

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.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 1.

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.

Area of Study 2

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.

Outcome 2

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.

To achieve this outcome the student will draw on key knowledge and key skills outlined in Area of Study 2.

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.

School-based assessment

Satisfactory completion

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 to provide a range of opportunities for students to demonstrate the key knowledge and key skills in the outcomes.

The areas of study and key knowledge and key skills listed for the outcomes should be used for course design and the development of learning activities and assessment tasks.

Assessment of levels of achievement

The student's level of achievement in Unit 4 will be determined by School-assessed Coursework. School-assessed Coursework 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.

Where teachers provide a range of options for the same School-assessed Coursework task, they should ensure that the options are of comparable scope and demand.

The types and range of forms of School-assessed Coursework for the outcomes are prescribed within the study design. The VCAA publishes *Advice for teachers* for this study, which includes advice on the design of assessment tasks and the assessment of student work for a level of achievement.

Teachers will provide to the VCAA a numerical score representing an assessment of the student's level of achievement. The score must be based on the teacher's assessment of the performance of each student on the tasks set out in the following table.

Contribution to final assessment

School-assessed Coursework for Unit 4 will contribute 25 per cent to the study score.

Outcomes	Marks allocated*	Assessment tasks
<p>Outcome 1</p> <p>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.</p>	60	<p>The student's performance on each outcome is assessed using one or more of the following:</p> <ul style="list-style-type: none"> • an essay • a report • problem-solving exercises • a folio of media commentaries • a folio of applied economic exercises • structured questions.
<p>Outcome 2</p> <p>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.</p>	40	
Total marks	100	

*School-assessed Coursework for Unit 4 contributes 25 per cent.

External assessment

The level of achievement for Units 3 and 4 is also assessed by an end-of-year examination.

Contribution to final assessment

The examination will contribute 50 per cent.

End-of-year examination

Description

The examination will be set by a panel appointed by the VCAA. All the key knowledge and key skills that underpin the outcomes in Units 3 and 4 are examinable.

Conditions

The examination will be completed under the following conditions:

- Duration: two hours.
- Date: end-of-year, on a date to be published annually by the VCAA.
- VCAA examination rules will apply. Details of these rules are published annually in the [VCE and VCAL Administrative Handbook](#).
- The examination will be marked by assessors appointed by the VCAA.

Further advice

The VCAA publishes specifications for all VCE examinations on the VCAA website. Examination specifications include details about the sections of the examination, their weighting, the question format/s and any other essential information. The specifications are published in the first year of implementation of the revised Unit 3 and 4 sequence together with any sample material.