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Amendments to study design history

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| 1.1 | Current | July 2022 | Update to *Introductory concepts* key knowledge dot point 10 for Unit 1 Area of Study 1 (page 10). |
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Important information

Accreditation period

Units 1–4: 1 January 2023.

Implementation of this study commences in 2023.

Other sources of information

The [*VCAA Bulletin*](https://www.vcaa.vic.edu.au/news-and-events/bulletins-and-updates/bulletin/Pages/index.aspx) 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](https://www.vcaa.vic.edu.au/Footer/Pages/Subscribe.aspx) on the VCAA website.

To assist teachers in developing courses, the VCAA publishes online [Support materials](https://www.vcaa.vic.edu.au/curriculum/vce/vce-study-designs/economics/Pages/Index.aspx) (incorporating the previously known *Advice for teachers*).

The current [*VCE Administrative Handbook*](https://www.vcaa.vic.edu.au/administration/vce-vcal-handbook/Pages/index.aspx) 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.

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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 people behave the way they do and the consequences of their decision-making. By unpacking the economic considerations around how to best meet the needs and wants of citizens, the study of Economics provides students with valuable insight into issues that may affect them both individually and as members of society. Economics assists us in making more informed and responsible decisions and in making a contribution to public debate as active citizens.

Rationale

The study of economics examines the role of consumers, businesses, governments and other organisations in decision-making about the allocation of resources, the production and distribution 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 as well as the intended and unintended consequences of economic decision-making. Acquisition of economics knowledge and skills assists students to make more informed and responsible economic decisions and contribute to public discourse as informed citizens.

Through studying economics, students develop a range of skills, including an ability to gather, organise, analyse and synthesise a wide selection of economics information. They undertake independent inquiry, think critically and work collaboratively with their peers to develop viable solutions to contemporary economic issues. They consider the way in which economic agents respond to incentives, disincentives, make trade-offs, weigh up costs and benefits and make judgments about what is efficient and what is fair. They utilise economic models and the tools of economists effectively to analyse and evaluate the decisions made by key economic agents. In the process students appreciate the different viewpoints about issues that may affect the modern economy and broader society.

Over time, the changing nature of work will require students to be equipped with the kinds of transferrable, problem-solving, communication, evaluation and critical analysis skills developed through the study of economics. These skills can be used across many employment fields, including foreign affairs, banking, finance, health, environment and education. Economics leads to a broad range of career options such as economist, journalist, public policy advisor, political consultant, media commentator, entrepreneur, business owner, environmental manager, investment banker, investment analyst, management consultant, business analyst, actuary, accountant, academic, teacher, stockbroker, banker, town planner and many more.

Aims

This study enables students to:

* develop skills that equip them for active participation in contemporary debate
* evaluate the effectiveness of government policy responses
* develop a critical perspective and think creatively about approaches to economic problems
* understand how the Australian economy operates, including the role of consumers, businesses and governments and other key groups in the economy
* understand and apply relevant economic theories and concepts
* use economic methods of inquiry and tools to analyse the economic causes and consequences of contemporary events on local, national and international economies
* apply economic frameworks to make rational, informed decisions that are important in everyday life
* foster an understanding of how Australia’s economic relationships with other economies affect living standards and long-term prosperity.

Structure

The study is made up of four units.

* Unit 1: Economic decision-making
* Unit 2: Economic issues and living standards
* Unit 3: Australia’s living standards
* 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 and Unit 4 as a sequence. 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.

Changes to the study design

During its period of accreditation minor changes to the study will be announced in the [*VCAA Bulletin*](https://www.vcaa.vic.edu.au/news-and-events/bulletins-and-updates/bulletin/Pages/index.aspx). 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 Administrative Handbook*](https://www.vcaa.vic.edu.au/administration/vce-vcal-handbook/Pages/index.aspx). 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 Support materialsprovide 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.

Child Safe Standards

Schools and education and training providers are required to comply with the Child Safe Standards made under the Victorian *Child Wellbeing and Safety Act 2005*. Registered schools are required to comply with *Ministerial Order No. 1359 Implementing the Child Safe Standards – Managing the Risk of Child Abuse in Schools and School Boarding Premises*. For further information, consult the websites of the [Victorian Registration and Qualifications Authority](https://www.vrqa.vic.gov.au/childsafe/Pages/Home.aspx), the [Commission for Children and Young People](https://ccyp.vic.gov.au/) and the [Department of Education and Training](https://www2.education.vic.gov.au/pal/child-safe-standards/policy).

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 (SAC) as specified in the VCE study design, 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 in the study and receive an 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 Administrative Handbook*](https://www.vcaa.vic.edu.au/administration/vce-vcal-handbook/Pages/index.aspx) 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 Administrative Handbook*](https://www.vcaa.vic.edu.au/administration/vce-vcal-handbook/Pages/index.aspx) for authentication rules and strategies.

Unit 1: Economic decision-making

Economics is a dynamic and constantly evolving field of social science, which looks at 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 role of the government in the economy. Students are introduced to and explore fundamental economic concepts. They examine basic economic models where consumers and businesses engage in mutually beneficial transactions, and investigate the motivations behind both consumer and business behaviour. They examine how individuals might respond to incentives. Students are encouraged to investigate contemporary examples and case studies to enhance their understanding of the introductory economics concepts.

Students use demand and supply models to explain changes in prices and quantities traded. Through close examination of one or more 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.

Students consider the insights of behavioural economics and how those insights contrast with the traditional model of consumer behaviour. They investigate at least one behavioural economics experiment, and analyse how the theories and observations of behavioural economics have been used by government in planning and implementing policy, and by businesses in managing their relationships with consumers.

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, investigate some of the factors that motivate people to act in the way they do and consider the consequences of their actions. Every country is faced with the same basic economic problem: how are resources to be allocated to best 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. Students consider the roles of three key economic agents in the Australian economy: consumers, businesses and the government. 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 economists have developed to help them undertake and analyse economic decision-making.

Outcome 1

On completion of this unit the student should be able to describe the basic economic problem, discuss the role of consumers, businesses and the government in the economy, and analyse the factors that affect economic 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 two main branches of economics: microeconomics and macroeconomics
* the two main forms of economic analyses: positive economics and normative economics
* resources (factors of production such as land, labour and capital) used to satisfy needs and wants
* the basic economic problem of relative scarcity and the need for economic decision-making
* the concept and applications of opportunity cost
* the production possibility model to illustrate the concepts of scarcity, choice, opportunity cost, efficiency and under-utilisation of resources
* the need for trade-offs and cost-benefit analysis and their relationship to opportunity cost
* the three basic economic questions: what and how much to produce, how to produce, and for whom to produce
* how different economic systems, including market economies, planned economies, mixed economies and traditional economic systems, may answer the three key economic questions
* the three-sector circular flow model of the economy, including consumers/households, producers/businesses and government
* the purpose of economic activity and the effect on material and non-material living standards

*The economic agents*

* economic agents and the concept of the public and private sectors of the economy
* the traditional economic viewpoint of consumer behaviour: self-interest, maximisation of utility, rationality, informed decision-making and marginal benefits from consumption
* the ways consumers and workers might respond to incentives and disincentives, including taxes and tax rebates, subsidies and regulations
* the traditional economic viewpoint of business in the economy: profit maximisation
* the ways businesses might respond to incentives and disincentives, including taxes and tax rebates, subsidies and regulations
* the traditional economic viewpoint of the government in the economy: maximisation of living standards
* the role of government in economic stabilisation, improving efficiency in resource allocation and redistribution of income to improve living standards

Key skills

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

Area of Study 2

Decision-making in markets

The Australian economy predominantly uses the market-based system to allocate resources. Markets are where goods and services are exchanged for a price. Producers/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 ‘market mechanism’ – the basic demand and supply model. Students develop skills in making predictions about the possible consequences of changes in markets. They analyse the degree of competition in markets and the effect on prices, resource allocation and living standards. Using contemporary case studies, students make connections between economic theory and the workings of different markets in the Australian and global economies. In studying the operation of markets and using relevant models, students consider one or more of the markets listed on the following page:

* agricultural markets such as wool, wheat, milk and beef
* other commodity markets such as minerals and energy
* community markets
* utilities markets such as gas, electricity, water and telecommunications
* carbon emissions / carbon trading markets
* finance markets
* cryptocurrency markets
* international education market
* tourism markets
* share markets
* foreign exchange markets
* labour markets
* property/housing markets
* online markets
* health markets
* any other 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 and analyse the extent of competition in markets.

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 effect on demand and the position of the demand curve by non-price factors, including changes in disposable income, the prices of substitutes and complements, tastes and preferences, interest rates, population and demographics, and consumer confidence
* 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 effect on supply and the position of the supply curve by non-price factors, including changes in the costs of production, technology, productivity, and climatic conditions and other disruptions
* the distinction between a movement along the supply curve and a shift of the supply curve
* the effects of changes in demand and supply on equilibrium prices and quantities
* the role of the market mechanism and 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
* the strategies businesses may use to increase profit, including price discrimination, multiple branding or anti-competitive behaviour as outlined in the *Competition and Consumer Act 2010*
* one contemporary example of a market, including the degree of competition in that market

Key skills

* define key economic concepts and terms and use them appropriately
* gather, synthesise and use economic data and information from a wide range of sources to analyse economics issues and assess the effect of economic decisions
* construct and interpret graphs and diagrams to represent and interpret economic information
* apply economic knowledge, concepts and theories to predict the effect of changes in conditions on market outcomes
* research and synthesise information about a particular market
* analyse the extent of competition in markets by drawing conclusions based on economic criteria.

Area of Study 3

Behavioural economics

Economics is affected significantly by human behaviour. By studying behavioural economics students therefore gain an insight into the ideas and experiments of behavioural economists. They will develop an understanding of how the insights of behavioural economics complement the traditional economic understanding of the behaviour of economic agents. Students will also investigate how the observations of behavioural economists have been used to inform policy planning and implementation by government and producers/business.

Outcome 3

On completion of this unit the student should be able to explain how behavioural economics complements traditional understandings of decision-making, and analyse the effects of behavioural economics insights on consumers and other economic agents.

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

Key knowledge

* key insights of behavioural economics, including bounded rationality, bounded willpower and bounded self-interest
* the differences between traditional economics and behavioural economics
* the effectiveness of strategies used by government to influence consumer behaviours
* the effectiveness of strategies used by producers/businesses to influence consumer behaviours

Key skills

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

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.

It is recommended that a range of task types (two or more) are used to assess this unit. Suitable tasks for assessment in this unit may be selected from the following:

* an analysis of written, visual and statistical evidence
* a folio of applied economics 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 webpage
* a media analysis
* a case study
* fieldwork
* investigate and/or conduct and report on a behavioural economics experiment
* economics 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: Economic issues and living standards

**A core principle of economics is maximising the living standards of society. This is done through economic decisions that optimise the use of resources to produce goods and services that satisfy human needs and wants. Economic activity is therefore a key consideration for economics. Students consider the link between economic activity and economic growth and investigate the importance of economic growth in raising living standards. They evaluate the benefits and costs of continued economic growth and consider the extent to which our current measurements of living standards are adequate.**

**Economics provides useful tools for investigating contemporary issues that inspire debate and wide differences in opinion. Students undertake an applied economic analysis of two contemporary economics issues from a local, national and international perspective. They use the tools of data collection, analysis, synthesis and evaluation to examine the issue through an economics lens. They do this through investigation of the economic factors influencing the issue and via examination of its economic importance at a local, national and international level. Students consider the perspectives of relevant economic agents and evaluate the validity and effectiveness of individual and collective responses to the issue.**

Area of Study 1

Economic activity

**In this area of study students consider the meaning and importance of economic activity and the factors that affect economic activity. They investigate how economic growth is the outcome of economic activity and how economic growth is measured, and evaluate the effects of changes in the levels of economic activity on both material and non-material living standards. Economic growth is generally thought to promote improvements in living standards as it is associated with increased incomes and literacy rates and improved health outcomes. Students evaluate the effects of an ever-growing economy on material and non-material living standards, and consider the costs and benefits of economic growth in terms of material and non-material living standards. They also consider alternative methods of measuring living standards, beyond economic growth.**

Outcome 1

On completion of this unit the student should be able to explain the purpose of economic activity, the distinction between material and non-material living standards and the factors that may affect levels of economic activity and growth, discuss the costs and benefits of economic growth and examine the impact of economic activity on living standards using alternative measures.

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

Key knowledge

* the purpose of economic activity
* the meaning of material and non-material living standards
* the five-sector circular flow model of the economy
* the business cycle
* types of economic indicators, such as leading, lagging and coincident
* the relationship between the business cycle and economic indicators
* the meaning and importance of aggregate demand and its components
* the factors that may affect the level of aggregate demand and the level of economic activity
* the meaning and importance of aggregate supply
* the factors that may affect the level of aggregate supply and the level of economic activity
* the measurement of economic growth using changes in real Gross Domestic Product (GDP)
* the potential benefits of economic growth, such as growth in material living standards, improved non-material living standards, employment opportunities and economic development
* the potential costs of economic growth, including boom and bust economic cycles, congestion and pollution, environmental damage, potentially widening inequality and ‘affluenza’
* the limitations associated with using real GDP and real GDP per capita to measure changes in living standards
* alternative measures of economic activity and living standards

Key skills

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

Area of Study 2

Applied economic analysis of local, national and international economic issues

Economic issues affect all of us, influencing our daily lives and decision-making. The rapidly changing nature of the contemporary economy means the economic issues of importance to local areas, Australia and the international economy are constantly changing and evolving.

Applied economics involves students applying insights of economic theory and key economic skills to analyse economic issues. In this area of study, students undertake an applied economic analysis by investigating two contemporary economic issues from a local, national and international perspective through an economic lens. Students investigate two of the four following current economic issues: the changing labour market; the economics of international trade; the distribution of income and wealth; and economics and environmental sustainability.

The approach for each investigation will involve a similar structure, including:

1. the definition of the selected economic issue, including relevant measures and statistical indicators
2. the economic factors influencing the extent of the selected economics issue
3. the reasons the issue is of importance to the economy at a local, national and international level
4. the different perspectives of households, business, government and other relevant economic agents regarding the selected economics issue
5. the economic responses undertaken by relevant economic agents at a local, national and international level to address the economic issue, including government policies.

For each issue investigated, the key knowledge and key skills on the following page should be applied. Detailed elaborations of the key knowledge content for each issue have been provided in the Support materials.

Outcome 2

On completion of this unit the student should be able to explain the factors that affect two economic issues
at a local, national and international level and evaluate actions to address the issues.

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

Key knowledge

* the definition of the selected economic issue, including relevant measures and statistical indicators
* the reasons the issue is of importance to the economy at a local, national and international level
* the economic factors influencing the extent of the selected economic issue
* the different perspectives of households (consumers and workers), business, government and other relevant economic agents regarding the selected economic issue
* the economic responses undertaken by relevant economic agents at a local, national and international level, to address the economic issue, including government policies

Key skills

* define key economic concepts and terms and use them appropriately
* gather, synthesise and use economic information from a range of sources to analyse economic issues
* identify trends, patterns, similarities and differences in economic data and other information to draw conclusions
* evaluate the economic responses undertaken to address economic issues

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.

It is recommended that a range of task types (two or more) are used to assess this unit. Suitable tasks for assessment in this unit may be selected from the following:

* an analysis of written, visual and statistical evidence
* a folio of applied economics 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
* a media analysis
* a case study
* economics 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 living standards

The Australian economy is constantly evolving. The main instrument for allocating resources is the market, but government also plays a significant role in resource allocation. In this unit students investigate the role of the market in allocating resources and examine the factors that affect the price and quantity traded for a range of goods and services. Students develop an understanding of the key measures of efficiency and how market systems might 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.

Students develop an understanding of the macroeconomy. They investigate the factors that affect the level of aggregate demand and aggregate supply in the economy and apply theories to explain how changes in these variables might affect achievement of domestic macroeconomic goals and living standards. Students assess the extent to which the Australian economy has achieved these macroeconomic goals during the past two years.

Australia’s living standards depend, in part, on strong economic relationships with its major trading partners. Students investigate the importance of international economic relationships and the effect of these on Australian living standards. Students analyse how international transactions are recorded, and examine how economic factors might affect the value of the exchange rate, the terms of trade and Australia’s international competitiveness. Students also analyse how changes in the value of the exchange rate, the terms of trade and international competitiveness affect the domestic macroeconomic goals.

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 addressing the key economic questions of what and how much to produce, how to produce and for whom to produce. Students consider the effects of decisions made by consumers and businesses on what goods and services are produced, the quantities in which they are produced, the way they are produced and to whom they are distributed. Students investigate the key factors that affect the level of demand and supply in markets and how these might lead to changing prices, as well as the movement of land, labour and capital resources to those areas of production that generate the most value for society. Students use models to make predictions and consider the role of markets in achieving economic efficiency. They discuss instances where the market fails to allocate resources efficiently and evaluate whether government intervention leads to a more efficient allocation of resources in terms of maximising society’s living standards.

Outcome 1

On completion of this unit the student should be able to analyse how markets operate to allocate resources and evaluate the role of markets and government intervention in achieving efficient outcomes.

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

Key knowledge

* the concept of relative scarcity, including needs, wants, resources, opportunity cost and the production possibility frontier (PPF) model, and the three basic economic questions
* the meaning and significance of economic efficiency, including allocative efficiency, productive efficiency, dynamic efficiency and intertemporal efficiency and their relationship to the PPF model
* the conditions for a free and perfectly competitive market
* the law of demand and the theory of the law of demand, including the income effect and the substitution effect
* the demand curve, including movements along and shifts of the demand curve
* non-price factors likely to affect demand and the position of the demand curve, including changes in disposable income, the prices of substitutes and complements, preferences and tastes, interest rates, population demographics and consumer confidence
* the law of supply and the theory of the law of supply, including the profit motive
* the supply curve, including movements along and shifts of the supply curve
* non-price factors likely to affect supply and the position of the supply curve, including changes in the costs of production, number of suppliers, technology, productivity and climatic conditions
* the effects of changes in supply and demand on equilibrium prices and quantity traded
* the meaning and significance of price elasticity of demand and supply
* factors affecting price elasticity of demand, including degree of necessity, availability of substitutes, proportion of income and time
* factors affecting price elasticity of supply, including spare capacity, production period and durability
of goods
* the role of relative prices in the allocation of resources
* the role of free and competitive markets in promoting an efficient allocation of resources and improved living standards
* types of market failure, including public goods, externalities, asymmetric information and common access resources
* the role and effect of indirect taxation, subsidies, regulations, advertising and direct provision as forms of government intervention in the market to address market failure
* one example of a government intervention in markets that unintentionally leads to a decrease in one
of allocative, productive, dynamic or intertemporal efficiency

Key skills

* define key economic concepts and terms and use them appropriately
* construct and interpret demand and supply diagrams and a PPF model
* interpret and analyse statistical and graphical data
* gather, synthesise and use economic data and information from a wide range of sources to analyse economic issues
* analyse how the forces of demand and supply effect equilibrium price and quantity traded
* analyse the responsiveness of the quantity demanded and the quantity supplied to changes in price
* evaluate the role of free and competitive markets in achieving an efficient allocation of resources

Area of Study 2

Domestic macroeconomic goals

In this area of study students investigate Australia’s domestic macroeconomic goals supporting living standards, including strong and sustainable economic growth, full employment and low and stable inflation (price stability). Using the five-sector circular flow model of the macroeconomy, students consider the role of key economic agents and examine the factors that affect the business cycle. Students examine how each of the goals is measured and the potential consequences associated with the level of achievement of each goal. Students identify and analyse contemporary aggregate demand and aggregate supply factorsthat may have influenced the level of achievement of domestic macroeconomic goals over the past two years and consider how the level of achievement of the goals may affect living standards.

Outcome 2

On completion of this unit the student should be able to analyse key contemporary factors that may have affected domestic macroeconomic goals over the past two years, evaluate the extent to which the goals have been achieved and discuss the effects on living standards.

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

Key knowledge

***The purpose of economic activity***

* the difference between material and non-material living standards and factors that may affect living standards, including access to goods and services, environmental quality, physical and mental health, crime rates and literacy rates
* the five-sector circular flow model of income, including the role of households, businesses, government, financial institutions and the external sector in an open contemporary macroeconomy
* the business cycle and its causes
* the meaning and importance of aggregate demand and the factors that may affect the level of aggregate demand in the economy, including disposable income, interest rates, consumer confidence, business confidence, the exchange rate and rates of economic growth overseas
* the meaning and importance of aggregate supply and the factors that may affect the level of aggregate supply in the economy, including quantity and quality of the factors of production, costs of production, technological change, productivity growth, exchange rates and climatic conditions, and other events including government regulations and disruptions to international supply chains

*The domestic macroeconomic goals*

* the meaning of the goal of strong and sustainable economic growth
* measurement of the rate of economic growth using growth in real Gross Domestic Product (GDP)
* consequences of not achieving the goal of strong and sustainable economic growth and its effect on living standards, including environmental degradation, external pressures, high inflation if growth
is too high, and high unemployment if growth is too low
* the meaning of the goal of full employment, including the NAIRU (natural rate of unemployment)
* classifications within the labour force, including employed, unemployed, hidden unemployed, long-term unemployed, underemployed and frictional unemployment
* measurement of the labour force, including the participation rate, the unemployment rate and the labour force under-utilisation rate
* the difference between cyclical and structural unemployment
* the consequences of not achieving the goal of full employment and its effect on living standards, including the impact on GDP and tax revenue if unemployment is too high and the effects on inflation
if unemployment is too low
* the meaning of the goal of low and stable inflation (price stability)
* the distinction between inflation, disinflation and deflation
* 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 inflation and cost inflation
* consequences of not achieving the goal of low and stable inflation (price stability) and its effect on living standards, including erosion of purchasing power, development of a wage-price spiral, distortion of spending and investment decisions, lower returns on investment, loss of international competitiveness
if it is too high, and delayed consumption and unemployment if it is too low
* aggregate demand and aggregate supply factors that have affected the level of achievement or non- achievement of the goals of strong and sustainable economic growth, full employment and low and stable inflation over the past two years

Key skills

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

Area of Study 3

Australia and the international economy

Australia is an open economy. Students examine the reasons for international trade, such as the exchange of goods and services and the movement of savings and investment capital, and how these transactions might affect living standards. Students describe how international transactions are recorded. Students analyse the effects of movements in the exchange rate, the terms of trade and changes in international competitiveness on the achievement of the domestic macroeconomic goals and living standards.

Outcome 3

On completion of this unit the student should be able to analyse the factors that may affect the exchange rate, terms of trade and Australia’s international competitiveness, and discuss their impact on Australia’s international transactions and the achievement of the domestic macroeconomic goals and living standards.

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

Key knowledge

* the gains from international trade, including lower prices, greater choice, access to resources, economies of scale, and increased competition and efficiency
* the balance of payments and its components
* cyclical and structural influences on Australia’s current account balance
* the composition and cause of net foreign debt and net foreign equities
* the exchange rate, its meaning and measurement and the factors affecting its value, including relative interest rates, commodity prices and the terms of trade, demand for exports and imports, foreign investment, relative rates of inflation, credit ratings and speculation
* the terms of trade, its meaning and measurement and the factors that may affect the terms of trade, including commodity prices and production costs in trading partners
* international competitiveness and the factors that may affect international competitiveness, including productivity, production costs, availability of natural resources, exchange rates and relative rates of inflation
* the effect of movements in the terms of trade and the exchange rate, and changes in international competitiveness on the domestic macroeconomic goals and living standards

Key skills

* define key economic concepts and terms and use them appropriately
* explain key international economic relationships
* explain and interpret trends and patterns in economic data and other information
* apply economic concepts to analyse economic relationships and make predictions
* calculate relevant international economic indicators using real or hypothetical data
* gather, synthesise and use economic data and information from a wide range of sources to analyse and discuss economic issues

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 Support materials 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.

It is required that a minimum of two different assessment task types will be used to assess School-assessed Coursework in Unit 3

|  |  |  |
| --- | --- | --- |
| **Outcomes** | **Marks allocated** | **Assessment tasks** |
| **Outcome 1**Analyse how markets operate to allocate resources and evaluate the role of markets and government intervention in achieving efficient outcomes. | **35** | The student’s performance will be assessed using two or more of the following:* a folio of applied economics exercises
* an extended response
* an essay
* a report
* a data analysis
* a media analysis
* a case study
* structured questions.
 |
| **Outcome 2**Analyse key contemporary factors that may have affected domestic macroeconomic goals over the past two years, evaluate the extent to which the goals have been achieved and discuss the effects on living standards. | **40** |
| **Outcome 3**Analyse the factors that may affect the exchange rate, terms of trade and Australia’s international competitiveness, and discuss their impact on Australia’s international transactions and the achievement of the domestic macroeconomic goals and living standards. | **25** |
| **Total marks** | **100** |  |

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 to the study score.

Unit 4: Managing the economy

The ability of the Australian economy to achieve its domestic macroeconomic goals has a significant effect on living standards in Australia. Policymakers, including the Australian Government and the Reserve Bank of Australia (RBA), can utilise a wide range of policy instruments to affect these goals and to affect living standards.

This unit focuses on the role of aggregate demand policies in stabilising the business cycle to achieve the domestic macroeconomic goals. Students develop an understanding of how the Australian Government can alter the composition of budgetary outlays and receipts to directly and indirectly affect the level of aggregate demand, the achievement of domestic macroeconomic goals and living standards.

Students also examine the role of the RBA with a focus on its responsibility to conduct monetary policy. Students consider how the tools of monetary policy can affect interest rates, the transmission mechanism of monetary policy to the economy and how this contributes towards the achievement of the domestic macroeconomic goals and living standards.

Students consider and evaluate the strengths and weaknesses of the aggregate demand policies in achieving the domestic macroeconomic goals and living standards.

Expanding the productive capacity of the economy and improving Australia’s international competitiveness is critical to ensuring that economic growth, low inflation and employment opportunities can be maintained both now and into the future. Students consider how the Australian Government utilises selected aggregate supply policies to pursue the achievement of the domestic macroeconomic goals and living standards over the long term.

Area of Study 1

Aggregate demand policies and domestic economic stability

In this area of study students examine how the RBA and the Australian Government can utilise monetary and budgetary policy respectively to affect the level of aggregate demand in the economy. Students discuss the operation of aggregate demand policies, and analyse how current aggregate demand policy settings are intended to effect the achievement of the domestic macroeconomic goals and influence living standards. Students analyse the relative strengths and weaknesses of the policies in influencing the domestic macroeconomic goals and living standards.

Outcome 1

On completion of this unit the student should be able to discuss the operation of aggregate demand policies and analyse their intended effects on the achievement of the 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, including monetary policy and budgetary policy in terms of stabilising the business cycle

*Monetary policy*

* the role of the RBA with respect to monetary policy as outlined in its charter
* conventional monetary policy (cash rate target) and how it affects interest rates
* one example of the operation of an unconventional monetary policy tool from the past two years
* transmission mechanism of monetary policy and its effect on the level of aggregate demand, including the four channels of savings and investment, cash-flow, exchange rate, and asset prices and wealth
* the stance of monetary policy: expansionary (accommodative), contractionary (restrictive) or neutral
* the stance of monetary policy over the past two years and its likely effect on the achievement of the domestic macroeconomic goals and living standards
* the strengths and weaknesses of using monetary policy to affect aggregate demand and influence the achievement of the domestic macroeconomic goals and living standards

*Budgetary policy*

* sources of government revenue, including direct and indirect taxation; progressive, regressive and proportional taxes; and revenue from government businesses and the sale of government assets
* types of government expenses, including government current and capital expenditure and transfer payments
* the budget outcome: balanced, deficit or surplus
* the underlying cash balance (budget outcome), including as a proportion of Gross Domestic Product (GDP)
* methods of financing a deficit or utilising 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 the budgetary policy stance and budgetary initiatives over the past two years and their likely effect on the achievement of the domestic macroeconomic goals and living standards
* the strengths and weaknesses of using budgetary policy to affect aggregate demand and influence the achievement of the domestic macroeconomic goals and living standards

Key skills

* define key economic concepts and terms and use them appropriately
* gather, synthesise and use economic data and information from a wide range of sources to analyse economic issues and form conclusions
* discuss the operation of aggregate demand policies
* analyse the effect of current factors on the setting of aggregate demand policies and living standards
* predict the impact of changes in aggregate demand policies on the achievement of the domestic macroeconomic goals and living standards
* analyse the strengths and weaknesses of aggregate demand policies in achieving the domestic macroeconomic goals and living standards

Area of Study 2

Aggregate supply policies

In this area of study students examine the role of aggregate supply policies in creating a stronger macroeconomic environment so that the domestic macroeconomic goals can be more easily achieved. They investigate the different approaches that policymakers may take to promote efficiency through productivity growth, reductions in the costs of production, and improvements in the quality and quantity of the factors of production. Students analyse how these policies may affect aggregate supply and Australia’s international competitiveness and draw conclusions about the effects of these policies on the domestic macroeconomic goals and living standards.

Outcome 2

On completion of this unit the student should be able to discuss the operation of aggregate supply policies and analyse the effect of these policies on the 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 use of aggregate supply policies to complement aggregate demand policies in promoting non-inflationary economic growth over time
* the operation of aggregate supply policies in improving supply-side conditions through their impact on the quantity and quality of the factors of production, the costs of production and productivity, and the effect on Australia’s international competitiveness, productive capacity and aggregate supply
* how one of the following budgetary policies is designed to affect aggregate supply, Australia’s international competitiveness, the achievement of domestic macroeconomic goals, and living standards:
* training and education
* research and development
* subsidies
* infrastructure
* tax reform
* the effect of skilled immigration policy on population, productivity and participation and the subsequent effect on productive capacity, aggregate supply, international competitiveness, the achievement of domestic macroeconomic goals, and living standards
* trade liberalisation and its short-term and long-term effects on Australia’s international competitiveness, the allocation of resources, aggregate supply, and the domestic macroeconomic goals and living standards
* one market-based environmental policy and its short-term and long-term effects on aggregate supply, intertemporal efficiency and living standards

Key skills

* define key economic concepts and terms and use them appropriately
* gather, synthesise and use economic data and information from a wide range of sources to analyse economic issues and form conclusions
* discuss the operation of aggregate supply policies
* analyse the effect of budgetary, immigration and trade liberalisation policies on aggregate supply, international competitiveness, the achievement of the domestic macroeconomic goals and living standards
* analyse the effect of an environmental policy on aggregate supply and living standards over time

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 Support materials 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.

It is required that a minimum of two different assessment task types will be used to assess School-assessed Coursework in Unit 4.

|  |  |  |
| --- | --- | --- |
| **Outcomes** | **Marks allocated** | **Assessment tasks** |
| **Outcome 1**Discuss the operation of aggregate demand policies and analyse their intended effects on the achievement of the domestic macroeconomic goals and living standards. | **60** | The student’s performance will be assessed using two or more of the following:* a folio of applied economics exercises
* an extended response
* an essay
* a report
* a data analysis
* a media analysis
* a case study
* structured questions.
 |
| **Outcome 2**Discuss the operation of aggregate supply policies and analyse the effect of these policies on the domestic macroeconomic goals and living standards. | **40** |
| **Total marks** | **100** |  |

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 to the study score.

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: 2 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 Administrative Handbook*](https://www.vcaa.vic.edu.au/administration/vce-vcal-handbook/Pages/index.aspx)
* 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.