2012 Assessment Report

VICTORIAN CURRICULUM AND ASSESSMENT AUTHORITY

2012 Economics GA 3: Examination

GENERAL COMMENTS

The majority of students attempted all questions on the 2012 Economics paper.

In general, students had a strong grasp of current macroeconomic issues and pressures on economic decision-making in the Australian economy. For example, in Section B, Question 3d., a number of students were able to discuss how the Federal Government was aiming for a budget surplus, even though the Reserve Bank of Australia (RBA) was decreasing the cash interest rate and easing monetary policy, and the global economy was faltering.

The approaches to some questions in Section B often lacked structure and direction, such as in Question 4f. Responses to such higher-order questions should be planned for a minute or two so students can 'unpack' the question effectively and be certain they are answering all question requirements.

Most students demonstrated sound knowledge of key economic terms and concepts, such as strong and sustainable economic growth, and automatic and discretionary budgetary stabilisers, in both Sections A and B. However, there are still many students who are unable to provide accurate definitions and explanations of concepts and terms such as the price mechanism, resource allocation, efficiency and terms of trade.

Students should be reminded to pay attention to both the key knowledge, such as 'the role of relative prices in the allocation of resources', and key skills, such as 'construct graphs and tables to represent economic data' and 'interpret and analyse statistical and graphical data', as specified on page 23 of the *VCE Economics Study Design*, as it seems that less attention has been paid to learning and practising these aspects.

Students are reminded to use pen to answer all questions in Section B. This is clearly stated in the instructions on the examination paper.

In general, there was more answer space provided in Section B of the 2012 examination than in previous examinations. This was in response to feedback from assessors and teachers that many students were completing their responses in blank spaces and on the back of the question booklet. For 2013 the number of lines provided will be appropriate for the type of answer required. There will not be a standard number of lines per mark. Teachers and students should be aware that answer spaces have to allow for a range of writing styles and sizes. It is not a requirement that all students use all the lines in the answer space provided.

SPECIFIC INFORMATION

Section A – Multiple-choice questions

The table below indicates the percentage of students who chose each option. The correct answer is indicated by shading.

Question	% A	% B	% C	% D	% No Answer
1	96	1	2	1	0
2	3	8	83	7	3
3	70	10	10	10	2
4	98	1	1	0	0
5	7	45	34	14	5
6	9	81	5	4	0
7	9	38	6	47	2
8	79	9	8	4	2
9	8	75	11	6	3
10	3	5	89	4	0
11	14	17	63	6	0
12	23	2	4	70	4
13	8	72	14	5	4
14	7	20	48	25	5
15	8	11	63	18	5

Section B – Written responses

Note: Student responses reproduced in this report have not been corrected for grammar, spelling or factual information.

This report provides sample answers or an indication of what the answers may have included. Unless otherwise stated, these are not intended to be exemplary or complete responses.

Question 1a.

Marks	0	1	2	Average
%	10	35	56	**1.5**

Most students were able to make reference to the complementary/direct relationship between the two macroeconomic goals, although many did so through discussion of the problems that arise when the goals are not achieved. For example, recessions (low economic growth) and the resultant higher levels of unemployment. However, this approach tended to contribute to excessive wordiness, and students may have spent a longer time answering the question than was necessary for two marks.

Many students provided extensive definitions of the goals before explaining the relationship. The relationship was the main focus of the question.

Regardless of these weaknesses in approach, many students were able to score full marks for this question.

The most successful students were able to refer to the health of aggregate demand and aggregate supply as the linking logic to efficiently display understanding of the nature of the relationship. These students stated that there tends to be a direct or complementary relationship between these economic goals, and that when the rate of economic growth is relatively high (when strong and sustainable growth is achieved, such as Gross Domestic Product [GDP] of 3–4% p.a.). For example, when levels of aggregate demand are rising, firms employ more labour as they increase their output (production levels). This leads to a reduction in unemployment, and a rise in employment, helping to achieve full employment (approximately a 4–5% unemployment rate).

Question 1b.

Marks	0	1	2	3	4	Average
%	11	10	21	26	32	**2.6**

To answer this question successfully, students needed to select any two of the following limitations of using GDP as a measure of an economy's living standards or wellbeing.

- Real GDP is a better measure: real GDP is adjusted for the inflationary impact rather than GDP expressed in current prices, where the effects of inflation have not been accounted for.
- GDP does not include the non-material/quality of life elements of living standards. Pursuing high rates of economic growth as measured by GDP might result in environmental degradation, urban problems, overcrowding, stress, materialism, etc., which impact negatively on non-material living standards, thus not indicating a true picture of changes in living standards.
- Some types of production are excluded from the calculation of GDP, particularly non-market activity (where money is not exchanged). This can include black market (illegal) activity, production in the household and volunteer work. Household activity and volunteering, in particular, add to wellbeing and living standards but are not counted in GDP; therefore GDP might underestimate wellbeing, particularly if the non-market sector is large.
- Imputed production involves error: some parts of GDP are estimated (underestimated or overestimated) and so might be incorrect.
- Quality changes can be ignored: some products may have improved in quality with no increase in value; for example, cars, air travel and technology.
- GDP (even GDP per capita) does not tell us how GDP is distributed. Not everyone has the same access to goods and services. Therefore, increases in GDP may not be evenly distributed and so might not indicate whose living standards might have improved.
- GDP does not measure the negative externalities associated with some forms of production. For example, spending on defence or fighting crime adds to GDP but may be negative for wellbeing or indicate negative social impacts. (GDP fails to distinguish between economic activity that contributes to society's wellbeing and economic activity that detracts from society's wellbeing.)

Generally, this question was well done. A few students tried to extract two separate points from the one general limitation; for example, GDP fails to account for the existence of negative externalities. These students then referred to two separate examples of negative externalities, which did not allow them to score full marks.

Some students did not mention living standards and others did not display an adequate understanding of why the stated limitation rendered GDP a deficient measure of changes in material or non-material living standards. Some weaker students were confused about the difference between material and non-material living standards, and some thought that non-market and black-market activity were the same thing, which is incorrect.

Question 1c.

Marks	0	1	2	3	4	Average
%	31	13	17	22	17	**1.8**

Many students were not able to provide an alternative measure to GDP as an indicator of living standards. A number of students selected an alternative measure but were often unable to say much about the measure itself; for example, how it collected data or what it included. Sometimes students did not discuss why the selected measure might be a better measure of living standards than GDP.

The most successful answers selected either the Measure of Australia's progress (MAP) or the Genuine Progress Indicator (GPI) as a better measure of an economy's living standards. The following are examples of possible answers.

- The MAP reflects a desire of the Australian Bureau of Statistics (ABS) to indicate whether life in Australia is actually getting better, rather than just measuring economic indicators. It measures progress across three broad indicators: society (for example, changes in health, work situations and levels of crime), economy (for example, national income and productivity) and environment (for example, changes in biodiversity and levels of waste), indicating whether progress has been made across a variety of indicators within each of these three categories. Unlike GDP, the inclusion of social and environmental factors in the MAP allows it to indicate if we have made progress in areas such as health, education, crime, biodiversity and air pollution, thus providing an indication of changes in material and non-material living standards. The inclusion of these indicators gives a better indication of overall wellbeing than GDP alone.
- The GPI is an attempt to measure whether a country's growth, increased production of goods and expanding services have resulted in the improvement of the wellbeing or living standards of the people in that country. GPI advocates the claim that it can more reliably measure economic progress, as it distinguishes between 'worthwhile growth' and a decline in the quality of life. GPI uses GDP data, but makes negative and positive adjustments to the figure to reflect the impact on the country's wellbeing of different types of activities and spending. For example, it deflates (reduces) the GDP figure with calculations for the costs of environmental damage, inequality and the reduction of leisure time due to increased working hours. It also inflates (adds to) GDP figures with calculations for the benefits contributed to the community by volunteer work, raising children and performing household chores.

Question 1d.

Marks	0	1	2	3	4	Average
%	10	9	24	33	25	**2.6**

Most students responded with an environmental policy rather than a supply-side budgetary policy. The carbon tax was a common example, given its introduction in 2012. However, many students failed to effectively link the carbon tax to the supply side of the economy and to living standards, instead providing a broad, descriptive overview of the basic premises of the policy initiative and ignoring the question requirements.

The word 'operate' in the question was not well interpreted by a number of students. Policy operation relates to the intended effects of the policy on the stated goal (such as improving living standards) and the means by which specific features of the policy act to effect change. Students who wrote about the carbon tax were able to explain the broad nature or focus of the policy but struggled to elaborate on how the elements of the policy would influence the supply side of the economy and living standards.

Some students chose to discuss a specific element of environmental policy, such as investment in desalination or subsidies for the use of alternative energy sources by businesses, then linked these more effectively to lower costs and improved productivity or increased productive capacity. For these students, choosing a more specific environmental policy initiative seemed to provide greater scope for the development of an effective line of logic that addressed the entire question.

Few students showed that they understood how the selected policy affected the supply side by influencing the willingness and/or the ability of producers to produce.

Students who discussed a budgetary policy supply-side initiative such as the National Broadband Network (NBN) initiative tended to be able to link their chosen policy more precisely to the supply-side logic and often presented more convincing explanations as a result.

When discussing the carbon tax, students who scored high marks often identified the 'short-term pain for long-term gain trade-off' through discussion of such matters as short-term inflationary pressures and/or structural unemployment, as costs associated with the inevitable structural adjustment. These costs were then compared to longer-term benefits such as improvements in reducing carbon emissions leading to reduced probability of erratic weather patterns that destroy key infrastructure and increase the incidence of drought, floods and bushfires.

A possible answer could have been:

One environmental policy designed to influence aggregate supply is the carbon tax, introduced in Australia in July 2012. It is designed to internalise the negative externalities (environmental damage, climate instability) involved in the production and consumption of high-carbon emission goods and services by placing a price on carbon pollution.

The initial effect (short-term) on the supply side might be negative, but in the long-term it is designed to mitigate the effect of climate change on future rates of economic growth. Because it forces firms to pay the costs associated with carbon pollution, it might reduce supply in the short-term, as firms that use high-carbon polluting inputs face higher costs of production. (The impact will depend on the level of compensation given by the government as part of the introduction of the tax.)

However, in the medium- to long-term, other methods of production that don't cause as much pollution might be developed and/or businesses will switch to using these methods. The aim of the policy is to protect Australia's economy from the effects of climate change in the long-term, to promote long-term economic prosperity by allowing Australia to adapt to future challenges and achieve growth into the future. In the future, the effect of ongoing flooding, drought, storms and rising temperatures (all consequences of climate change) will impact negatively on supply. By tackling and reducing climate change, the carbon tax is designed to try and reduce the negative future impacts on the willingness and/or ability to supply. It is also designed to encourage innovation in the Australian economy to reduce carbon emissions and use more renewable energy sources that will guarantee prosperity into the future.

Question 2a.

Marks	0	1	2	Average
%	11	32	56	**1.5**

This question was generally well answered. The most successful answers described two of the following characteristics.

- There are many buyers and sellers in the market, such that they cannot influence price individually. Thus, they are price takers, not price makers (setters). Therefore, prices are determined through the forces of demand and supply.
- The good or service offered by suppliers is homogenous, therefore virtually identical, and substitutable, and decisions about purchasing are based on price alone.
- Ease of entry and exit in the market. No high barriers to new competitors entering and starting up in the market. Barriers to entry can include steep set-up costs, government licensing and other restrictions.
- Perfect market knowledge: perfect information (good knowledge) such that buyers and sellers know what is happening in the rest of the market. This means that they can compare prices and research the product across the market (that is, avoiding asymmetrical information).
- Rational behaviour, such that decisions are made based on maximising wellbeing (producers seek to maximise profit, while consumers seek to maximise utility).

Weaker answers often listed a characteristic but did not give a description, so it was unclear whether the student understood the characteristics of a perfectly competitive market.

Question 2b.

Marks	0	1	2	3	4	Average
%	23	20	18	20	19	1.9

This question challenged many students. Often students seemed to lack the ability to identify where to start their analysis of the operation of the market mechanism.

Most students were able to mention consumer sovereignty directing suppliers in their pattern of production, but many didn't show understanding of the concept of relative price movements and how these send signals to consumers and producers.

Some students referred to changes in demand and supply factors affecting resource allocation, but did not mention that this is in response to changes in price signals resulting from changes in relative prices.

Many students did not answer the question as asked and wrote instead about how efficient the market system is and types of efficiency.

A possible answer could have been:

The market (price) mechanism describes how the forces of demand and supply determine the allocation of resources in a perfectly competitive market.

The law of demand dictates that as the price of a product rises, the demand for that product falls. The law of supply dictates that as price of a product rises, supply of that product will rise. This apparent conflict is resolved in the market through the achievement of an equilibrium quantity and price of a product that will be determined by the interaction of supply and demand (sellers and buyers) in the market. At the equilibrium price and quantity, an efficient outcome has been achieved because all that has been supplied will have been bought. For example, in the market for fresh tomatoes, if there is a change in a demand factor such as consumer preferences, which causes an increase in demand for tomatoes at all possible prices (for example, during summer when people eat more salads), then, at the original equilibrium price, there will be a shortage of fresh tomatoes. This signals to the market that an insufficient quantity of resources has been allocated to this purpose. The shortage will mean there is pressure for prices to rise (in a perfectly competitive market). As prices rise, there will be an expansion of supply as producers are encouraged to produce more fresh tomatoes, or new producers are attracted to the market by the higher relative prices available. As prices rise, demand will contract, until a new higher price and higher quantity is reached. This will result in the reallocation of resources to the production of fresh tomatoes as rising prices in the market for tomatoes signals to suppliers that there is a shortage, or underproduction, and they will be attracted to producing tomatoes to gain the higher prices, higher incomes and better profits available.

Question 2c.

Marks	0	1	2	3	4	5	6	Average
%	16	10	14	16	20	15	9	3

Relatively few students scored high marks for this question. Too many students focused on market failures in general and wrote what appeared to be a prepared answer. Students do not seem to understand how market power might result in a reduction in the volume of goods and services produced, and an increase in prices.

The more successful students honed in on the specific types of efficiency (such as allocative, technical and dynamic), and developed logical and clear links between the excessive market power of some businesses and the negative impact of this on the various types of efficiency. Students who were able to provide examples related to suppliers in supermarket retailing, banking and petrol suppliers were generally able to provide meaningful answers.

The most successful answers discussed the following points.

- Market power is where a firm has a degree of producer sovereignty. It usually occurs in a market structure where there are not many sellers or where there are barriers to entry into that market. A high level of market power means that there is only one (monopoly) or a few suppliers (oligopoly) in the market. This supplier or suppliers may therefore be able to influence prices/restrict supply.
- A high level of market power decreases efficiency of allocation of resources because firms become price makers/price setters instead of price takers. Efficiency in resource allocation occurs when productive inputs are used to produce goods and services that maximise the satisfaction of needs and wants in society, and minimise opportunity cost. With a high level of market power, competition and the incentive for firms to be efficient in

the way they use resources is reduced, and producers may restrict output and/or charge higher prices (a reduction in allocative efficiency).

- The impact on other efficiencies as well as allocative efficiency. For example, firms who do not face the discipline of competitive pressures are less likely to seek ways to boost their technical efficiency, which again may result in higher prices than what would eventuate in a competitive market.
- Material living standards may be negatively affected because less may be produced, and consumers may experience a higher price than within a market that has more competition. Non-material living standards may be negatively affected because monopolists and oligopolists may not produce the types of products desired by the market (that is, consumer sovereignty is compromised).

Question 3a.

Marks	0	1	2	Average
%	15	26	59	**1.5**

This was question was generally well answered. Some students, however, were unable to make a link between worsening overseas economic conditions, what this might mean for aggregate demand and thus unemployment in Australia.

A possible answer could have been:

Australia's material and non-material living standards are likely to be negatively affected by worsening global economic conditions. Australia relies on the export of commodities that are then used to produce products for global markets. If there is a global recession, demand for Australia's commodity exports (coal, iron ore) and other exports (for example, manufactured food or LPG) are likely to fall. This will reduce the income available to exporters, which could lead to those exporters reducing their demand for labour. The decrease in the demand for labour can lead to a decrease in consumption and thus a contraction in economic growth. This will reduce material living standards as unemployment rises and incomes fall.

Question 3b.

Marks	0	1	2	3	4	Average
%	18	16	21	24	22	**2.2**

Most students were able to deduce that worsening global economic conditions will likely lead to a return to deficit from surplus or an increase in the size of the budget deficit. Students were required to demonstrate why this relationship would exist, with many doing so without discussing how automatic stabilisers and discretionary stabilisers operate, as required by the question.

The more successful students discussed why the relationship exists through the clear and concise explanation of automatic and discretionary stabilisers in operation, with most students providing appropriate examples to support their explanation. For example, these students said that as a result of the worsening global conditions and a likely increase in unemployment, it would be expected that there would automatically be an increase in welfare outlays and a reduction in income tax receipts (automatic stabilisers) that reflect the impact of the macroeconomy upon the budget outcome. A stimulus package involving income tax cuts and increased infrastructure outlays is a discretionary stabiliser that reflects the intended impact of a expansionary deficit budget outcome on the macroeconomy.

Question 3c.

Marks	0	1	2	3	4	Average
%	21	12	21	28	18	**2.1**

This question was reasonably well done. Most students correctly selected a budget policy initiative from the 2012–13 Budget.

A large number of students selected the change in the tax-free threshold and simply asserted that this initiative favoured 'the poor' and thus improves equity, without demonstrating clear understanding of how this might be so. These students did not seem to understand that all taxpayers receive the tax-free threshold. Many students did not explain that the increase in disposable income that results from increasing the tax-free threshold makes up a larger proportion of the income of low-income earners, and thus is beneficial to them. They also did not mention that tax brackets had also been adjusted further up the scale, which would have further supported their arguments.

Too many students claimed that increasing the tax-free threshold would lead to increased employment because people will seek work. While this may be true, it needed to be explained more appropriately; students didn't seem to understand that much of unemployment is due to the lack of demand for labour or structural limitations on employment, not because people don't work because of high tax rates.

Question 3d.

Marks	0	1	2	3	4	5	6	Average
%	18	13	13	14	18	15	8	**2.8**

A number of students struggled to answer this question. There were some seemingly prepared answers on theory related to the nature and operation of both budgetary and monetary policy, but often there was little or no reference to how these policies operated in 2012 or how they may have affected levels of economic growth.

Very few students referred to aggregate demand in their response, despite the question explicitly requiring this. The question called for demand-side macroeconomic analysis, and while students were able to use terms like 'contractionary stance' and 'expansionary stance' these terms were not well explained. It would have been good to see students discuss the intended impacts of the stated policies on the specific components of aggregate demand during 2012.

Many students completed the response as two separate parts, with little or no attempt at discussing the policy-mix relationship between the monetary and budgetary policies in 2012.

Other students simply stated that budgetary policy has been contractionary, while monetary policy has been expansionary, but did not comment about how and why this is the case, why this is significant or what it means for economic growth.

The more successful students explored the following points.

- The argument for fiscal consolidation while growth is still reasonably healthy: better positioning of macroeconomic policy flexibility if the global economy continues to deteriorate.
- The role of budgeting for a surplus to remove public-sector competition for funds from financial markets: avoiding the 'crowding-out' of private borrowers and reducing the upward pressure on domestic interest rates, thus supporting an easing in monetary policy.
- The importance of an easing of monetary policy: to provide the short- to medium-term stimulus to private- sector confidence – via the impact channels – while, on the other hand, the inevitable contractionary impact that occurs via the pursuit of a budget surplus outcome.

In regard to budgetary policy, the more able students were able to distinguish between the important role being played by reversion to surplus and fiscal consolidation on one hand, but the implementation of purposeful discretionary initiatives to stimulate growth on the other hand.

Question 4a.

Marks	0	1	2	Average
%	8	30	61	**1.6**

Most students were able to explain the difference between production and productivity but didn't seem able to carry their understanding over to parts b. and c. of the question, where they confused production and productivity.

The most successful students explained that productivity is a measure of the efficiency of use of resources or factors of production – that is, a measure of output per unit of input of resources/productive resources (for example, labour productivity is output [GDP] divided by [per] hours worked), while production is the process of creation of goods and services – the act of making/creating goods and services. Therefore, the difference is that production is about the process and steps involved in making goods and services, and productivity is a measure of how efficiently those goods and services are made.

Question 4b.

Marks	0	1	2	Average
%	21	30	49	**1.3**

There were some very good answers to this question. However, many other students simply restated the question and/or could not explain how increases in productivity enabled a firm to produce more from existing resources and hence lower the costs per unit, thus allowing an increase in sales relative to those of a competitor.

Question 4c.

Marks	0	1	2	3	4	Average
%	12	14	24	31	19	2.3

Many students struggled to explain the link between the selected microeconomic reform policy (MER) and improvements in productivity. These students asserted rather than explained that relationship. A number of students provided what seemed to be a prepared response, describing the policy's operation without any reference to the requirements of the question.

Some students showed a misunderstanding of the nature of productivity by writing about workers working more hours once labour market reform was introduced, and that would improve productivity.

Most students chose trade liberalisation as their selected MER. While they correctly identified aspects of this area of MER, many struggled to clearly explain why a decrease in tariffs or increased engagement in free-trade agreements prompts local businesses to seek productivity improvements and cost efficiencies. Students were unable to display clear linking and analysis and instead made sweeping assumptions.

The most successful students set up the analysis of impact on productivity and economic growth as a supply-side argument. They were able to explain how MERs are designed to increase efficiency by transforming the way particular industries, firms, markets and sectors operate. By improving efficiency, these reforms raise the economy's productive potential or capacity, thus improving the willingness or ability to produce. So, the use of MER policies increases aggregate supply by expanding productive capacity, and improves the ability of the economy to achieve higher rates of economic growth without inflation. Improving competitiveness keeps prices down, which tends to increase aggregate demand via greater consumption (C), investment (I) and net exports, which leads to an increase in GDP (economic growth).

A possible answer using trade liberalisation could have been:

Trade liberalisation is a process focused on the removal of barriers that had been designed to reduce international trade, especially the removal of tariffs (taxes on imports designed to discourage imports and protect domestic industry that competes with imports), import quotas (limits of the amount of certain types of imports allowed to enter the country) and subsidies (payments to domestic producers designed to protect them from international competition). It also involves the promotion of bilateral (country to country) and multi-lateral (large country groupings and regional groupings) free-trade agreements.

Trade liberalisation encourages countries to play to their comparative advantage – to specialise in those areas where the nation experiences a cost advantage. It forces domestic industry to compete by increasing efficiency/productivity; for example, via implementing technology that improves productivity. This increases productivity and, as more output is able to be produced without increased costs, this allows economic growth to increase without inflationary pressure.

Question 4d.

Marks	0	1	2	Average
%	40	34	26	0.9

The question required students to 'explain the difference between the terms of trade and the current account balance'. However, many students ignored this, simply defining these terms which did not demonstrate that the student was aware of any significant point of difference.

The more able students had a clear understanding of the two measures and noted that terms of trade relates only to relative change in the price of exports and imports, whereas the current account balance is a measure of the value of our balance of payments on current account trade transactions as a consequence of both price and quantity variables.

High-scoring students stated that the terms of trade is the ratio of the average prices of our exports relative to the average price we pay for imports, while the current account balance is the difference between the total value of credits minus debits for current external transactions, including merchandise (goods), services, primary incomes and secondary incomes (net incomes and net unrequited transfers), over a given period of time. Therefore, the terms of trade measures the price of exports and imports, whereas the current account balance includes the value of exports relative to imports but other current international transactions as well.

Question 4e.

Marks	0	1	2	Average
%	29	31	40	1.1

Most students correctly identified the direction of the trend in the time frame required and extracted some relevant data from the stimulus material. If students understood the meaning of the terms of trade they were able to describe a factor that might explain the trend. Most good answers provided a description such as: Increasing demand for commodities, such as iron ore, that are among Australia's most popular exports has been as a consequence of continuing, relatively rapid economic growth in China and India. This increasing demand has meant that the price of exports has risen rapidly, thus pushing up the terms of trade.

Question 4f.

Marks	0	1	2	3	4	5	6	Average
%	26	20	19	13	12	7	3	2

Students found this question challenging. A number of students did not appear to understand the difference between a decrease in productivity and a decrease in the rate of productivity growth as the question asked.

A successful interpretation of the question would have shown that it was looking at the relationship between three macroeconomic variables – slower productivity growth, higher population growth and increased terms of trade – and that the negative impact on living standards by slower productivity growth might not be as evident, while higher population growth and improved terms of trade were serving to boost living standards.

Many students observed that slowing productivity growth will likely have a negative impact on GDP levels, and therefore cause a likely drop in real GDP per capita and living standards. However, some students did not discuss how higher rates of population growth and the rise in the terms of trade might hide this impact, with many students simply discussing what was meant by or what caused higher population growth and increased terms of trade.

The following points were made in high-scoring answers.

- Given that any economy has limited resources, achieving productivity growth is a very important source for improving material living standards. Slower productivity growth means Australia is not using its resources as efficiently as it could. A likely impact of slower productivity growth on Australia's living standards is if productivity growth slows, Australia's material living standards (for example, as measured by GDP per capita) are likely not to rise as quickly as previously. This is because, over time, the amount of output per unit of input is not rising, or not rising as rapidly. Over time, increased productivity (productivity growth) will be needed to sustain living standards with fewer available resources.
- Higher population growth means that Australia is expanding its resource base. It is expanding its supply potential, meaning there is less pressure on the current resources to be used more efficiently (increased productivity) to meet increasing demand. As a supply-side factor, population growth means that the size of the potential labour force in Australia increases, which means that more can be produced as the labour force increases in size. However, this can disguise the declining growth in productivity since it allows for the use of more labour rather than the smarter use of labour to achieve output.
- The increased terms of trade reflects increased demand for the commodities Australia sells. The increased demand for Australia's resources from overseas has meant that, while prices for these commodities have been increasing, so too has the level of demand. This has meant that the buyers of Australia's commodities have had little choice but to pay the increasing prices, and Australian producers have not been under competitive pressure to reduce costs in order to reduce the selling price, which may help maintain market share or retain customers. This has meant that producers have not been under as much pressure as usual to improve their productivity. Rising terms of trade means that Australia receives a higher price for its exports, which creates an increase in income for a given level of exports. This means that Australia's living standards have continued to grow despite the lack of growth in productivity.