



GENERAL COMMENTS

This was the first year of the new *VCE Economics Study Design 2010–2014*.

It was evident that students found Section A of the 2010 Economics examination more challenging than in recent years. The quality of written answers in Section B was generally good and the majority of students attempted all question parts. It is commendable that students had prepared well and kept abreast of current developments in the Australian economy, and thus gave themselves the best chance to score high marks on the examination. Students responded confidently to a number of questions that related to the current context, such as Section B, Questions 1d., 3b., 4a., 4b., 4c. and 4d.

Students need to improve their understanding of key economic concepts and terms such as ‘scarcity’ (multiple-choice Question 3), ‘real’, ‘nominal and money terms’ (multiple-choice Question 11), ‘relative prices’, ‘production’ and ‘productivity’, and ‘personal disposable income’. There was also evidence of the need for students to engage more with the new aspects of the study such as living standards (multiple-choice Question 6) and price elasticities (multiple-choice Question 8) in order to maximise their performance. Students should practise their key skills, in particular the interpretation and analysis of statistical and graphical data, so that they are better prepared to answer questions which require this interpretation and analysis, such as multiple-choice Question 15 and Section B, Question 3a. They should practise applying economic theory to the real world context so that they are better able to respond to questions such as Section B, 3b. Students need to provide explanations that are as detailed as possible in order to ensure that their answers fully respond to all requirements of each part of each question.

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
1	7	88	3	2
2	13	5	4	78
3	2	7	39	52
4	11	18	58	13
5	27	3	1	69
6	20	27	22	31
7	5	4	14	78
8	23	17	21	39
9	63	11	12	13
10	1	1	88	10
11	8	43	5	44
12	6	10	62	22
13	14	7	7	71
14	9	60	14	16
15	13	13	42	31

Section B – Written responses

Question 1a.

Marks	0	1	2	3	4	Average
%	19	25	24	19	13	1.8

The most successful answers to this question explained concisely what is meant by achieving a more equitable distribution of income and described how one example of a budgetary policy action, implemented over the past two years, might have operated to achieve a more equitable distribution of income. These answers suggested that a more equitable distribution of income is achieved when low-income earners and/or welfare recipients become relatively better off and this therefore may improve their ability to purchase basic goods and services. These answers then went on to select budgetary policy actions in order to show how a budgetary policy action, implemented over the past two years, might have operated to achieve a more equitable distribution of income. For example:



- spending on the 'Building Education Revolution' (BER), which provided funds to schools to build new buildings. It was thought that this would support economic growth and create jobs throughout the Global Financial Crisis (GFC) period in 2009 and 2010. If jobs are created/supported and more people are working with fewer people relying on welfare, this is likely to lead to better equity outcomes
- increases to transfer payments, such as special increases to the amount of the age pension as an example of fiscal stimulus to support economic growth during the GFC in 2009, promoted better equity outcomes as pensioners become relatively better off.

The less successful answers did not provide an explanation of the meaning of a more equitable distribution of income and therefore did not specifically link the description of a budgetary policy action to achieving a more equitable distribution of income. Some students struggled to select a policy that had been implemented over the past two years.

Question 1b.

Marks	0	1	2	3	4	Average
%	34	19	15	19	13	1.6

The most successful answers explained concisely what is meant by improving external stability and described how one example of a budgetary policy action, implemented over the past two years, might have operated to improve external stability. These answers suggested that an improvement in external stability would indicate that Australia is better able to finance its international financial transactions, that the size of the Current Account Deficit (CAD) is not too large and is improving, that the exchange is relatively stable, and that there are improving levels of Net Foreign Debt (NFD). These answers then went on to select budgetary policy actions such as:

- improving external stability might include budgetary policy actions to raise Australia's international competitiveness, which assists in improving Australia's ability to sell and/or supply exports. Improving export performance is likely to positively influence the CAD. This might be about improving efficiency of transport and avoiding bottlenecks and making sure exports can be delivered to external markets as efficiently as possible. For example, the budget over the past two years has included spending to improve infrastructure such as a program of major infrastructure spending on roads, rail, ports, broadband, etc.
- a focus on improving productivity will also assist in making Australia's exports more internationally competitive. Additional budget spending directed to providing extra training and assistance for retrenched workers announced in 2009 is likely to improve the productivity of Australia's workforce, thus positively impacting on Australia's ability to be internationally competitive.

Students appeared to find Question 1b. more difficult than Question 1a. In order to improve, students should learn definitions of economic concepts and learn more about theoretical economic relationships, such as that between key economic goals (for example, external stability) and policies (for example, budgetary policy).

Question 1c.

Marks	0	1	2	3	4	Average
%	6	13	22	32	27	2.6

This question required students to have an understanding of the economic relationships between key economic goals and living standards. A number of students struggled to discuss these relationships and often made assertions without explaining the impacts. For example, many students said that higher inflation meant higher prices and that this would lower living standards but did not explain why.

Students are advised to read questions carefully so that they answer the question directly. A number of students simply discussed the relationship between the economic goal and living standards; however, the question required a discussion about the impact on living standards related to a failure of not achieving the economic goal.

Question 1d.

Marks	0	1	2	3	4	5	6	7	8	Average
%	11	9	10	13	18	14	12	7	6	3.8

A number of high quality answers were written in response to this question. The most successful answers included concise definitions of budgetary and monetary policies and the economic goals of low inflation and strong and sustainable economic growth. These answers then examined the relationship between the two policies as they operated over the past two years in order to achieve these goals. Most students recognised that the policy settings were designed to be expansionary during 2009, with a view to supporting economic growth during the GFC and with inflation

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remaining at low levels. They also recognised that these policies then became less expansionary during 2010 as Australia's economic growth and inflation rates picked up.

Low-scoring answers included discussion of the years leading up to 2009 and 2010, which was not a requirement of the question, and/or examined only the relationship in either 2009 or 2010. To score full marks, students needed to examine the relationship in both 2009 and 2010.

Question 2a.

Marks	0	1	2	3	Average
%	22	41	27	10	1.3

Responses to this question showed that students need to revise theories related to microeconomics, the operation of competitive markets and the price mechanism more thoroughly. Very few students understood the concept of 'relative prices'. The majority of students found it difficult to select an appropriate factor that might cause a change in relative prices, which then causes a change in resource allocation.

Question 2b.

Marks	0	1	2	3	Average
%	30	27	26	17	1.3

A number of students showed a relatively good understanding of how price signals influence the allocation of resources, although very few students made links to 'relative prices'. The more successful answers provided an explanation such as 'The price mechanism describes how the forces of demand and supply determine relative prices of goods and services, which then ultimately determines the way productive resources (for example, labour, land, capital and enterprise) are allocated in the economy. As relative prices change in various markets and as a result demand for a good or service may rise, it sends a signal to suppliers that profit opportunities exist if they direct their resources into those areas experiencing higher demand. Thus the changing conditions in the market have caused a change in the way resources are allocated'.

Question 2c.

Marks	0	1	2	3	4	5	6	Average
%	19	12	12	16	15	15	11	2.8

There were a number of very well written responses to this question. These responses stated that an efficient allocation of resources is achieved when resources are allocated in such a way that they maximise the welfare or living standards of all citizens. However, sometimes markets fail to allocate resources so that living standards or welfare is maximised, and as a result governments intervene in order to ensure resources are reallocated to benefit society. Students then selected two arguments and outlined two reasons for government intervention in markets to achieve an efficient allocation of resources related to public goods, externalities, market power or asymmetric information.

Question 3a.

Marks	0	1	2	Average
%	2	26	73	1.7

Students generally responded well to this question. They were able to recognise that the overall trend was 'up' and offer a comment about an aspect of the trend as shown in the graph. The less successful answers described different aspects related to the trend as shown in the graph, but did not describe the 'overall' trend, which was the essential requirement of the question.

Question 3b.

Marks	0	1	2	3	4	Average
%	9	18	32	24	18	2.3

Most students outlined an appropriate demand side factor, but many students struggled to outline an appropriate supply side factor. This suggests that students need to pay closer attention to understanding the sorts of factors that influence the supply side of the economy.

An example of a suitable demand side factor was that capital cities have experienced strong population growth due to relatively high migration rates both from overseas and from the drift of rural people to urban centres. More population means higher levels of demand to house the increased number of people. Demand may exceed supply and this will push prices up.

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An example of a suitable supply side factor was that governments have been restricting urban sprawl, which has restricted the land available for property development. This restricts the supply of land available for housing, so supply is lower than demand and this pushes prices up.

Question 3c.

Marks	0	1	2	3	4	Average
%	5	14	27	30	23	2.5

This question was handled well by students who were able to write about a number of possible effects on future material and non-material living standards if housing prices continued to rise at the rates indicated in the graph. The effects discussed included the fact that housing affordability tends to be reduced and low-income earners are more likely to be excluded from the market. Property owners become better off and the distribution of income widens. Future living standards for people who do not own real estate might worsen. Living standards may worsen as home owners struggle to make mortgage payments, thus leaving less income available. Home buyers may be forced to buy in more affordable outer suburban areas where access to infrastructure may be limited, and they may be forced to spend much more time commuting to work.

Question 4a.

Marks	0	1	2	3	4	Average
%	4	11	25	32	29	2.7

In general, students were able to outline two suitable economic problems for the Australian economy that might result from an ageing population. It was pleasing to see that students were aware of a number of economic problems associated with the ageing of Australia's population, indicating their engagement with and understanding of how a current issue is causing problems for the economy.

High-scoring answers generally discussed the economic problems associated with the fact that an ageing population is likely to mean that there are fewer people in labour force. For example, it is estimated that by 2050 nearly one quarter of Australia's population will be aged 65 and over, compared with 13 per cent today. This means that there will be only 2.7 people of working age for every person aged 65 and over, compared with 5 people today. The fact that there are fewer people in the labour force is likely to mean that the rate of gross domestic product growth may be slowed. For example, real GDP per person is projected to grow at 1.5 per cent annually over the next 40 years, compared with 1.9 per cent over the past 40 years.

It is also likely that the fiscal/budget position will deteriorate as underlying structural pressures that have been built into the budget over a number of years are magnified by the effects of an ageing population – fewer people paying tax, more outlays for pensions and health services and less funding available to improve infrastructure.

Question 4b.

Marks	0	1	2	3	4	5	6	7	8	Average
%	10	5	8	11	14	15	17	11	8	4.3

The most successful answers to this question used the problems outlined in Question 4a. to inform the sorts of supply side policies that might be used to reduce the effects of an ageing population. For example, this included an explanation of the use of appropriate aspects of budgetary policy to raise the participation rate, such as providing incentives to encourage older workers to keep working beyond retirement age. Many good answers also explained how appropriate immigration policies could be used to increase the size of the working age population.

While some students selected aggregate supply side policies such as labour market reform or trade liberalisation, these students struggled to develop an appropriate argument as to how these policies might reduce the effects of an ageing population. Students are advised to think carefully about their selection of a policy and should choose a policy which is designed to tackle the economic problem specified. The main aim of labour market reform or trade liberalisation is not to tackle the effects of an ageing population. However, some students who chose these policies were awarded marks if they were able to discuss how these policies might be used to raise productivity levels. This would reduce the effects of a slowing rate of economic growth due to the reduced size of the labour force because of the ageing of the population.

Question 4c.

Marks	0	1	2	Average
%	13	29	57	1.5

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This question was well handled by the majority of students. It was pleasing to see students' up-to-date knowledge of a current economic issue facing the Australian economy and the economic problems that might result from the effects of climate change. The most successful answers discussed problems such as climate change is believed to result from excessive carbon pollution associated with economic growth and development, which will likely reduce rates of economic growth in the long term. To continue using resources in production without efforts to reduce or minimise carbon emissions will promote current growth at the expense of future growth rates. Greater economic costs will be associated with more natural disasters, longer droughts, water shortages, increases in food and water-borne diseases, erosion, rising sea levels and associated economic costs. Climate change will add to long-term production costs as the nation's productive capacity is reduced. National output levels will be lower in the longer term, reducing potential growth of average incomes and damaging both material and non-material living standards.

Question 4d.

Marks	0	1	2	3	4	Average
%	13	13	25	29	21	2.3

The majority of students were able to identify a suitable aggregate supply side policy that might be used to reduce the effects of climate change, with most students selecting either the Renewable Energy Target (RET) scheme or the Carbon Pollution Reduction Scheme (CPRS). However, to score full marks students were required to clearly explain how the selected policy might be used to reduce the effects of climate change. A number of less successful answers simply defined the policy rather than explaining how the policy is likely to work to reduce the effects of climate change. For example in the case of the CPRS, in order to score highly, it was necessary to explain how a 'cap and trade' scheme would be used to limit the amount that can be polluted through the selling of permits, which means that it is no longer free to generate carbon waste. The argument follows that the right to pollute is now scarce, so the higher price for doing so will give producers and consumers the incentive to change their behaviour, thus reducing the effects of climate change.