

VCE Economics Units 3&4

Written Examination

Suggested Solutions

SECTION A – MULTIPLE-CHOICE QUESTIONS

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|----|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| 1 | <input type="checkbox"/> A | <input type="checkbox"/> B | <input type="checkbox"/> C | <input checked="" type="checkbox"/> D |
| 2 | <input type="checkbox"/> A | <input type="checkbox"/> B | <input checked="" type="checkbox"/> C | <input type="checkbox"/> D |
| 3 | <input type="checkbox"/> A | <input checked="" type="checkbox"/> B | <input type="checkbox"/> C | <input type="checkbox"/> D |
| 4 | <input type="checkbox"/> A | <input type="checkbox"/> B | <input checked="" type="checkbox"/> C | <input type="checkbox"/> D |
| 5 | <input type="checkbox"/> A | <input checked="" type="checkbox"/> B | <input type="checkbox"/> C | <input type="checkbox"/> D |
| 6 | <input type="checkbox"/> A | <input type="checkbox"/> B | <input checked="" type="checkbox"/> C | <input type="checkbox"/> D |
| 7 | <input type="checkbox"/> A | <input checked="" type="checkbox"/> B | <input type="checkbox"/> C | <input type="checkbox"/> D |
| 8 | <input type="checkbox"/> A | <input type="checkbox"/> B | <input checked="" type="checkbox"/> C | <input type="checkbox"/> D |
| 9 | <input checked="" type="checkbox"/> A | <input type="checkbox"/> B | <input type="checkbox"/> C | <input type="checkbox"/> D |
| 10 | <input type="checkbox"/> A | <input checked="" type="checkbox"/> B | <input type="checkbox"/> C | <input type="checkbox"/> D |
| 11 | <input type="checkbox"/> A | <input checked="" type="checkbox"/> B | <input type="checkbox"/> C | <input type="checkbox"/> D |
| 12 | <input type="checkbox"/> A | <input type="checkbox"/> B | <input type="checkbox"/> C | <input checked="" type="checkbox"/> D |
| 13 | <input type="checkbox"/> A | <input checked="" type="checkbox"/> B | <input type="checkbox"/> C | <input type="checkbox"/> D |
| 14 | <input type="checkbox"/> A | <input checked="" type="checkbox"/> B | <input type="checkbox"/> C | <input type="checkbox"/> D |
| 15 | <input checked="" type="checkbox"/> A | <input type="checkbox"/> B | <input type="checkbox"/> C | <input type="checkbox"/> D |

Question 1 D

D is correct. What and how much to produce, how to produce, and for whom to produce are the three basic economic questions.

A is incorrect. The quantities in which goods and services are produced is determined by the market mechanism.

B is incorrect. The amount that goods and services should be sold for is determined by the market mechanism.

C is incorrect. The amount that goods and services cost to produce is determined by producers and the cost of production.

Question 2 C

C is correct. Any point on a production possibility frontier (PPF) represents the most efficient use of resources and therefore best represents productive efficiency.

A is incorrect. A PPF does not indicate whether resources are being used for current or future consumption and therefore does not best represent intertemporal efficiency.

B is incorrect. A PPF does not indicate which products are being produced; therefore, it cannot be determined whether producing more of one product than another maximises the wellbeing of society and therefore does not best represent allocative efficiency.

D is incorrect. A PPF does not indicate how quickly resources are allocated to the production of one product compared to another product and therefore does not best represent dynamic efficiency.

Question 3 B

The income effect states that at lower prices, consumers can afford to buy more goods and services.

Likewise, when a good or service has many substitutes (the substitution effect), consumers look for the less expensive alternative.

Question 4 C

C is correct. The durability of goods is a factor that affects the price elasticity of supply, not demand.

A, **B** and **D** are incorrect. Degree of necessity, time and the availability of substitutes are all factors that affect the price elasticity of demand.

Question 5 B

B is correct. The noise from aircraft engines would impose a cost on households located near the airport and flight paths and so is considered a negative externality in production.

A is incorrect. Flying on aircraft is both rivalrous and excludable, which are the characteristics of private goods, not public goods.

C is incorrect. Asymmetric information concerns the access to information between a buyer and seller. In this scenario, households located near the airport and flight paths are not part of that transaction; therefore, asymmetric information is not applicable.

D is incorrect. Common access resources are not owned by anyone and are not applicable in this scenario.

Question 6 C

C is correct. When there is an increase in welfare indexation, there is an increase in the amount of money given to those receiving welfare support. This may act as a disincentive to rejoin the labour force and decrease aggregate supply.

A is incorrect. An increase in childcare subsidies will entice families to put their children in childcare and rejoin the labour force; this will increase aggregate supply.

B is incorrect. An increase in tax concessions will provide an incentive for people who are unemployed to rejoin the labour force; this will increase aggregate supply.

D is incorrect. An increase in immigration will increase the supply of labour and, subsequently, aggregate supply.

Question 7 B

B is correct and **D** is incorrect. Higher wage growth increases government revenue; this pushes the budget outcome towards a surplus, which is a more contractionary budget outcome.

A is incorrect. An expansionary budget outcome occurs when government expenditure increases relative to government revenue.

C is incorrect. A balanced budget outcome means that government revenue equals government expenditure. Higher wage growth increases government revenue, and this leads to a budget outcome that is not balanced.

Question 8 C

C is correct. When the Australian dollar increases in value against the world's major currencies (appreciation), it becomes more expensive for tourists to visit Australia; this can lead to job losses in the tourism industry.

A is incorrect. When the Australian dollar appreciates, Australian exports become more expensive on world markets, which leads to a decrease in Australian export sales.

B is incorrect. The Reserve Bank of Australia (RBA) does not adjust interest rates based on the value of the Australian dollar.

D is incorrect. When the Australian dollar appreciates, net exports decrease, which slows economic activity and decreases prices.

Question 9 A

A is correct. High prices, caused by not achieving the goal of low and stable inflation, diminish purchasing power and provide a lower return on investment.

B, **C** and **D** are incorrect. Consequences of not achieving the goal of low and stable inflation include delayed consumption, development of a wage-price spiral and erosion of purchasing power.

Question 10 B

B is correct. Net secondary incomes records the transfer of funds in one direction without future obligation, such as foreign aid.

A is incorrect. Balance on merchandise trade records the export and import of goods.

C is incorrect. Net services records the export and import of services.

D is incorrect. Net primary incomes records the payment of income on foreign-owned assets.

Question 11 B

B is correct. Labelling laws ensure that consumers are aware that products meet government or industry standards; they are not financial in nature.

A, **C** and **D** are incorrect. These three options are financial in nature and are targeted towards producers. They provide a financial incentive for improving environmental outcomes or place a cost on worsening environmental outcomes.

Question 12 D

D is correct. As aggregate demand decreases, more workers may move from full-time to part-time work; this increases underemployment or the ability to be working more hours.

A is incorrect. Frictional unemployment occurs when an individual finishes working in one role and is yet to start a new role; it is not caused by a decrease in aggregate demand.

B is incorrect. Structural unemployment occurs when the skills of an employee are not required by their employer; it is not caused by a decrease in aggregate demand.

C is incorrect. Hidden unemployment occurs when people who are unemployed, but would work if they had the opportunity, are not counted in government reports or statistics. It is not caused by a decrease in aggregate demand. For example, an individual who has been looking for work for a long period of time may become discouraged and stop actively seeking employment.

Question 13 B

B is correct and **C** is incorrect. Removing or reducing tariffs makes imported products less expensive. To respond to this, Australian companies that compete with imported products need to become more efficient or risk losing market share; this leads to a decrease in the prices of Australian products.

A is incorrect. The demand for imported products increases when tariffs are removed or reduced. This increases the derived demand for labour from overseas suppliers and increases job opportunities overseas.

D is incorrect. Lower prices for imported products decrease the demand for Australian products, which leads to job losses in the Australian economy.

Question 14 B

B is correct. Rising interest rates negatively impact households with existing variable rate loans as they are committed to the loans and immediately suffer a fall in their discretionary income and consumption.

A is incorrect. Higher interest rates make it more costly to borrow money; this reduces the willingness of households to invest.

C is incorrect. Higher interest rates appreciate the Australian dollar; this makes buying imports relatively cheaper.

D is incorrect. Higher interest rates decrease the value of assets and thus overall wealth; this reduces the likelihood of consumption.

Question 15 A

A is correct. The underlying cash balance is $-\$36.9$ billion, an increase from $-\$32.0$ billion in 2021–22. This indicates that more money is being injected into the economy, which is referred to as an expansionary budgetary policy stance.

B is incorrect. A neutral budgetary policy stance would mean that the underlying cash balance would be zero.

C is incorrect. A contractionary budgetary policy stance would require a positive underlying cash balance.

D is incorrect. There is no such budgetary policy stance referred to as balanced.

SECTION B – WRITTEN RESPONSES**Question 1** (19 marks)

a. *For example:*

- **The conditions for a free and perfectly competitive market:** For a market to be considered free and perfectly competitive, there must be a large number of buyers and sellers, the products must be homogenous, and there must be ease of entry and exit into the market by buyers and sellers. A large number of buyers and sellers means that neither group has the market power to influence the price in the market. When products are homogeneous, they are identical and substitutable without branding; this helps to keep prices low as producers are unable to increase their prices to above-market levels and it is the main way consumption takes place. Ease of entry and exit occurs when there are low set-up costs for producers, so that many suppliers can enter the market to gain a share of the market and make a profit.

One of the markets most affected by the floods was the growing and supplying of fruits and vegetables for distribution throughout Australia. As farmers' products were damaged, supply decreased, which caused prices to rise. For example, the price of a head of lettuce increased from an average of \$2.80 before the floods in the first half of 2022 to prices up to \$12 after the floods. One of the key conditions of a free and perfectly competitive market is the number of sellers. As the number of sellers dramatically decreased due to the farmers not having any products to sell, the few remaining sellers dramatically increased their market power and therefore influenced the price of products.

- **Dynamic efficiency:** Dynamic efficiency can be defined as how quickly resources can be reallocated in an economy so that the living standards and welfare of society are maximised. Due to the floods, economic resources had to be reallocated to replace damaged produce to move supply in the market back to pre-flood levels. As it takes time to grow fruits and vegetables, dynamic efficiency was not achieved in the short term (up to 6 months). This is because the welfare of society was not maximised due to the shortages of fruit and vegetables in the market, which were difficult to substitute in the short term.

6 marks

1 mark for identifying the conditions for a free and perfectly competitive market.

1 mark for explaining the conditions for a free and perfectly competitive market.

1 mark for explaining how the floods affected supply.

1 mark for explaining how the decreased supply affected a condition for a free and perfectly competitive market.

1 mark for defining dynamic efficiency.

1 mark for explaining how the floods affected dynamic efficiency.

Note: Responses may refer to any market where there is minimal intervention by the government and that was affected by the floods.

- b.** The goal of low and stable inflation refers to the stability of the Australian dollar or the purchasing power of the Australian dollar. The target is a Consumer Price Index (CPI) in the range of 2–3% on average over the economic cycle. The floods decreased the supply of products to the market, which meant that the prices of those products increased significantly. The increased prices negatively affected the goal of low and stable inflation, evident in the CPI reaching 7.3% in October 2022, which is significantly above the accepted range for the goal of price stability to be met.

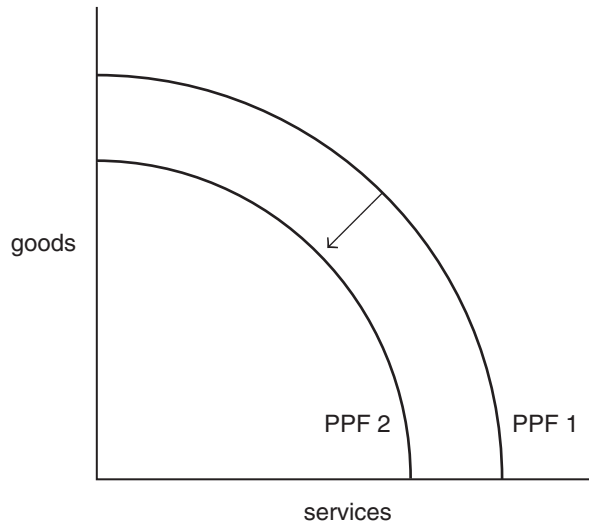
3 marks

1 mark for defining the goal of low and stable inflation.

1 mark for outlining how the floods impacted supply and prices.

1 mark for outlining how supply and prices affected the goal of low and stable inflation.

- c.**



2 marks

1 mark for drawing and labelling the axes and curves.

1 mark for showing the movement of the PPF curve to the left from PPF 1 to PPF 2.

- d.** Intertemporal efficiency is concerned with the use and allocation of economic resources between current and future time periods. If more renewable energy sources are used to generate power (such as solar panels to generate electricity), non-renewable resources that are used to generate power (such as coal) are not depleted and will be available for future generations to use, resulting in improved intertemporal efficiency.

2 marks

1 mark for outlining intertemporal efficiency.

1 mark for outlining how increasing the use of renewable energy improves intertemporal efficiency.

- e.** A public good is non-excludable and non-rivalrous. When a product is non-excludable, it means that a person cannot be stopped from consuming the product even if they have not paid for it. When a product is non-rivalrous, it means that the consumption of the product by one person does not lead to a reduction in the amount of the product available for other people. On the other hand, a common access resource is non-excludable but rivalrous. One way to distinguish a public good from a common access resource is that the consumption of a common access resource reduces the amount available for another individual, while public goods are not depleted by consumption.

3 marks

1 mark for defining a public good.

1 mark for defining a common access resource.

1 mark for providing at least one point of distinction.

f. *For example:*

Public goods result in inefficient outcomes in markets due to inefficient resources being allocated to these products. This is because there is no exchange of money taking place between a buyer and a seller in the marketplace and no profit motive for sellers to supply the market with these products. A government intervention that prevents the market failure associated with public goods is government subsidies. A subsidy is a direct cash payment from the government to a supplier so that the supplier can offer the product to the public free of charge. For example, public parks improve the satisfaction of citizens; instead of charging consumers to use public parks, businesses that make and maintain these facilities receive their revenue directly from the government. Thus, the good is provided to the public by suppliers, eliminating the market failure.

3 marks

1 mark for explaining why a public good is a type of market failure.

1 mark for outlining one government intervention to prevent this market failure.

1 mark for providing an example.

Note: Another government intervention includes direct provision .

Question 2 (12 marks)

- a. The balance on goods and services has increased since the start of 2022. In January 2022, the balance on goods and services was approximately \$12 500 million, and by June 2022, the balance on goods and services had grown to approximately \$17 500 million. This shows an increase in the balance on goods and services during this period.

2 marks

1 mark for describing the trend.

1 mark for using data from the graph to provide evidence of the trend.

- b. **The value of the Australian dollar:** The balance on goods and services increased since the start of 2022, which means that Australia was selling more exports to the rest of the world relative to buying imports from overseas. When buying Australian exports, foreign countries need to do so with the Australian dollar. This increases the demand for the Australian dollar on the foreign exchange market and causes it to appreciate.

Cyclical influences on Australia's current account balance: The current account records all transactions that Australia conducts with the rest of the world. Cyclical influences on the current account refer to movements that tie the current account to changes in the business cycle. Changes to the current account can be due to Australians spending less on imported goods and services and/or our trading partners purchasing more Australian goods and services. The main reason why the current account surplus rose in 2022 was due to the high prices being paid for commodities such as iron ore and coal, driven by increased demand from overseas.

Net foreign debt: Net foreign debt refers to the total financial obligations that Australia has with the rest of the world. It is caused by the difference between borrowing from overseas and lending to overseas. When the current account is in surplus, Australia has lent more money to overseas than it has borrowed from overseas. This results in the inflow of money to Australia being greater than the outflow of money from Australia; therefore, the current account surplus caused by the positive balance on balance of goods and services does not add to net foreign debt.

6 marks

1 mark for explaining that increased exports increases the balance on goods and services.

1 mark for explaining that increased exports appreciates the Australian dollar.

1 mark for explaining cyclical influences on the current account balance.

1 mark for explaining factors that have resulted in current account surplus.

1 mark for explaining net foreign debt.

1 mark for explaining that current account surplus does not add to net foreign debt.

- c. The terms of trade is the ratio of Australian export prices to import prices; that is, it is the amount of imported goods that Australia can purchase per unit of exported goods. In 2021, the terms of trade was approximately an index of 100, while in 2022, the terms of trade was approximately an index of 122. This shows an increase of 22 in the terms of trade index over this two-year period. Australian exporters benefit from this as they receive a higher price for the products and services that they sell in world markets. Higher prices for exports boosts profit margins for businesses in the export industry and generates higher incomes for households providing labour resources in that sector because producers are willing to provide more product for sale, which increases the demand for labour. Higher profits and incomes enable owners and workers to access a greater amount of goods and services, which boosts material living standards. Feelings of satisfaction and happiness resulting from increased profits and incomes helps to boost non-material living standards and raise overall Australian living standards.

4 marks

1 mark for defining terms of trade.

1 mark for using data from the graph to provide evidence of an increase in the terms of trade.

1 mark for linking the increased terms of trade to increased export revenue.

1 mark for explaining how the increased net exports improves living standards.

Question 3 (19 marks)

- a. Monetary policy is operated independently by the RBA on behalf of the Australian Government to primarily achieve the stability of the Australian dollar, that is, low and stable inflation. The goal of low and stable inflation is to have a CPI in the range of 2–3% on average over time. The RBA implements monetary policy by changing the cash rate (the interest rate charged to financial institutions in Australia by the RBA), which influences the interest rates that financial institutions charge their consumers. Monetary policy has a short implementation lag as changes to the cash rate are passed onto consumers by financial institutions as soon as the RBA announces a change. This means that decisions and changes made by the RBA affect society within days of being announced. However, as monetary policy is an aggregate demand policy, it cannot directly reduce inflationary pressures caused by supply-side issues. This was evident in 2022, with the price rises being mainly attributed to supply-side issues, including the war in Ukraine, supply chain issues stemming from China, and rising costs of fuel and labour shortages faced by producers. The increase in the cash rate by 2.25% between April 2022 and September 2022 dampened consumer confidence. This will flow on to decrease demand inflationary pressures through decreased consumption by households, but it does little to change the root cause of inflation and does not address supply-side issues. In October 2022, the CPI was 7.3%, which is well above the acceptable range for low and stable inflation. Evidently, monetary policy has been ineffective in achieving low and stable inflation due to it not being able to influence supply-side issues that caused the price rises.

4 marks

1 mark for outlining monetary policy and low and stable inflation.

1 mark for evaluating a strength of monetary policy in relation to low and stable inflation.

1 mark for evaluating a disadvantage of monetary policy in relation to low and stable inflation.

1 mark for determining that monetary policy has been ineffective in achieving the goal of low and stable inflation.

b. *For example:*

Unconventional monetary policy measures are implemented by the RBA when the further manipulation of the cash rate, which is the primary tool used to indirectly affect all other interest rates in the economy, is not effective in influencing the level of aggregate demand in the economy. For example, quantitative easing is one unconventional monetary policy measure that is used to stimulate an economy where the cash rate is close to zero and further decreasing of the cash rate would be ineffective as minimal additional borrowing would occur. Quantitative easing involves the RBA buying financial assets in the economy (typically government securities) with money it creates in digital form. This results in more liquidity (money supply) and causes long-term interest rates to fall and the availability of credit to rise. This encourages businesses and households to borrow more money to invest and consume, which would not have normally occurred if only the cash rate were decreased. The RBA implemented quantitative easing for the first time in 2020 in response to the COVID-19 pandemic when both gross domestic product (GDP) and the inflation rate were well below their acceptable ranges. The quantitative easing helped keep interest rates on government debt at record lows while also pumping money into the broader economy. This directly increased aggregate demand as Australia emerged from a recession at the start of 2021. GDP rose and was 3.6% in July 2022, which is slightly above the accepted range of 3–3.5%. As a result of the increase in aggregate demand, prices rose and this was evident in inflation being within the acceptable range of 2–3% on average throughout 2021; however, in October 2022, inflation was well above the acceptable range at 7.3%. Quantitative easing assisted the economy in emerging from the recession in the second half of 2020 and helped it achieve low and stable inflation in 2021. However, with inflation continuing to rise in 2022, the RBA started withdrawing quantitative easing support to the economy in May 2022 to dampen aggregate demand as the goal of low and stable inflation was not being met.

5 marks

*1 mark for outlining unconventional monetary policy measures.**1 mark for explaining one type of unconventional monetary policy measure.**1 mark for providing an example of the measure from the past two years.**1 mark for explaining the impact of the measure on aggregate demand and prices.**1 mark for explaining how measure has influenced the achievement of low and stable inflation.**Note: Other unconventional monetary policy measures include forward guidance, asset purchases, term-funding facilities, adjustments to market operations and negative interest rates.*

- c. When an economy achieves full employment, its unemployment rate has fallen to the lowest possible level that will not cause inflationary and external pressures. This rate is referred to as the non-accelerating inflation rate of unemployment (NAIRU), which is the lowest unemployment rate that will have little or no effect on inflation. For the goal of full employment to be achieved, the NAIRU needs to be approximately 4.5%. Based on data from the graph, the unemployment rate in July 2022 was approximately 3.5%, well below 4.5%. In September 2022, the unemployment rate was still 3.5%. This indicates that the goal has been achieved. However, further analysis of these figures and the goal is required to make a judgement.

Inflation is factored into the achievement of full employment. According to the goal of low and stable inflation, a CPI of 2–3% is considered to be acceptable. When the unemployment rate falls below 4.5%, this puts pressure on wages to rise as the demand for labour is greater than the supply of labour and this flows through to inflation rising to above acceptable levels. Inflation was sitting at a CPI of 7.3% as at October 2022, which is well above the acceptable range of 2–3%. High inflation negatively impacts economic growth and as the production of goods and services and aggregate demand start to decrease, the derived demand for labour and the goal of full employment will also be negatively impacted. Therefore, requirements as set out by the NAIRU under the definition for the goal of full employment have not been met.

Underemployment is a measure of those individuals who are employed and working but would prefer to be working more hours than they are currently working. Even though these individuals are technically employed, they are not satisfied with their current level of employment and are not counted in the statistics on unemployed persons; therefore, the statistics do not give an accurate indication of the reality faced by society. ABS statistics show that the underemployment rate decreased minimally by 0.1% to 5.9% in August 2022. This indicates that there is spare capacity in the economy as labour resources are not being employed to their maximum capacity.

When the current unemployment rate of 3.5% is considered without factoring in the effects of high inflation and underemployment, then the goal of full employment has been met. However, this is a selective view of a statistic that does not look at the overall impact on society and so is not an accurate representation of the costs and benefits faced by society or the achievement of the goal of full employment.

6 marks

1 mark for outlining full employment and defining NAIRU.

2 marks for stating that the goal has been met based on the unemployment rate using data from the graph.

1 mark for explaining how inflation impacts the goal of full employment.

1 mark for explaining how underemployment impacts the goal of full employment.

1 mark for evaluating the achievement of the goal of full employment.

- d. Budgetary receipts, or revenue, will increase if the rate of unemployment falls. Income tax collections will also increase as more Australians are employed and pay income tax to the Australian Government. Meanwhile, budgetary outlays, or expenses, will fall as lower unemployment levels mean fewer Australians require welfare payments or benefits, such as the JobSeeker Payment. This shifts the budget outcome towards a surplus, as government revenue becomes greater compared to government expenses. As a result, a surplus budget does not increase the level of government (public) debt because the Australian Government does not need to borrow money to fund its budget.

4 marks

1 mark for outlining the impact of low unemployment on budgetary receipts.

1 mark for outlining the impact of low unemployment on budgetary outlays.

1 mark for outlining a surplus budget outcome.

1 mark for outlining how a surplus budget outcome does not increase the level of government (public) debt.

Question 4 (15 marks)

- a. Training and education involves increasing the contribution that the workforce (labour resources) makes to production by increasing the quantity and/or quality of workers so the total quantity of output that businesses produce and sell in the economy increases. In the 2021–22 Budget, the government announced a \$954 million Australian Apprenticeships Incentive System to provide support to employers and apprentices in priority occupations such as carpenters, chefs and plumbers. This scheme will directly increase the number of workers available and provide these workers with the necessary skills required for priority occupations. This funding will directly increase the output of firms in the Australian economy. This improves the profitability of firms (through improved productivity) and makes firms more willing and able to produce, leading to an increase in aggregate supply. The increased incomes received by these apprentices will increase their material living standards as they will have a greater ability to consume goods and services and satisfy their needs and wants. Non-material living standards will also improve as feelings of satisfaction and content associated with having employment and receiving a regular income also increase. This leads to an overall increase in living standards in Australia.

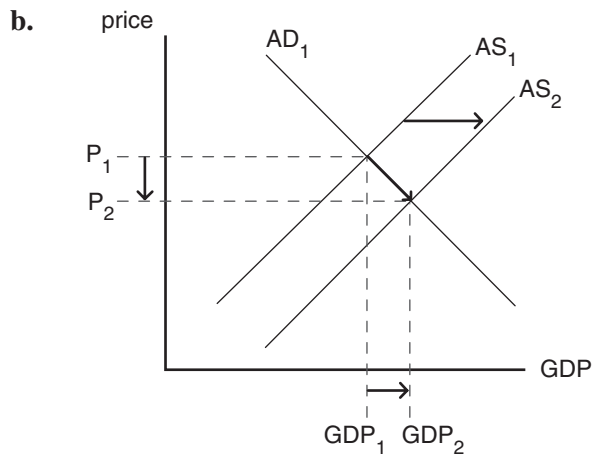
4 marks

1 mark for explaining training and education.

1 mark for explaining how training and education affects aggregate supply.

1 mark for providing an example of a training and education program from the past two years.

1 mark for explaining how training and education affects living standards.



2 marks

1 mark for drawing the aggregate demand and aggregate supply lines showing an increase in aggregate supply (shifted to the right as shown by the labelled aggregate supply lines).

1 mark for showing the effect of this change in aggregate supply on price, quantity (GDP) and aggregate demand (as shown by arrows).

- c.** The labour market refers to the supply of and demand for labour in the economy. Employees provide the supply of labour in the market, while employers provide the demand for labour. In the labour market, employers compete to hire the best workers to produce their goods and services for supply to the economy, while workers compete for the most satisfying job based on wages and conditions of employment.

An increase in the intake of immigrants will increase the supply of labour in the labour market. As the supply of labour increases relative to the demand for labour, the increased immigration intake results in downward pressure on wages and costs of production, increasing businesses' willingness and ability to supply the amount of goods and services available for sale in the economy. This positively impacts the amount of goods and services available for sale in the economy and thus increases aggregate supply.

4 marks

1 mark for explaining the labour market.

1 mark for explaining how increased immigration intake affects the supply of labour.

1 mark for explaining how increased immigration intake affects the macroeconomy.

1 mark for explaining how the change in the labour market increases aggregate supply.

d. *For example:*

One advantage of increasing immigration to Australia is that immigrants who hold Skill stream visas do not require further training and education, which reduces the cost of these workers to the Australian economy. Another advantage of increasing immigration is that the intake can focus on industries and/or areas of the economy that face skill shortages. This increases the quality and quantity of labour resources to these areas.

One disadvantage of increasing immigration to Australia is the negative social impacts associated with an increased population. These social impacts, such as overcrowding in cities, can detract from the benefits to the economy. Another disadvantage of increasing immigration is that it can increase unemployment in the Australian economy as low-skilled Australian workers are not offered training and education because it is easier to fill vacancies with already trained and qualified skilled immigrants. This leads to Australian workers becoming structurally unemployed.

Overall, the advantages of increased immigration outweigh the disadvantages as the social benefits are far greater than the costs. This has been evident throughout 2022 when Australia experienced shortages of products and services combined with increased costs due to the lack of immigrant workers in the Australian economy.

5 marks

2 marks for explaining at least two advantages associated with increasing immigration to Australia.

2 marks for explaining at least two disadvantages associated with increasing immigration to Australia.

1 mark for providing a judgement based on the advantages and disadvantages.

Note: Another advantage is increased labour supply, which puts downward pressure on wages, alleviates capacity constraints and enhances productivity. Other disadvantages include political interference affecting immigration approvals and the possible deskilling of Australian workers.