



ECONOMICS UNITS 3 & 4 2021

TRIAL EXAM A

SUGGESTED SOLUTIONS/RESPONSES

Multiple-choice Answers

1	A	B	C	D
2	A	B	C	D
3	A	B	C	D
4	A	B	C	D
5	A	B	C	D
6	A	B	C	D
7	A	B	C	D
8	A	B	C	D
9	A	B	C	D
10	A	B	C	D
11	A	B	C	D
12	A	B	C	D
13	A	B	C	D
14	A	B	C	D
15	A	B	C	D



Instructions for Section A

Choose the response that is **correct** or that **best answers** the question.

A correct answer scores **1**, an incorrect answer scores **0**.

Marks will **not** be deducted for incorrect answers.

No marks will be given if more than one answer is completed for any question

Question 1

Labour Force	10 million
Population	20 million
Employed persons	9 million
Unemployed persons	1 million
Underemployed persons	1 million

Table 1.1- Country X Employment data 2021

From the data above calculate the labour force underutilisation rate for Country X in 2021.

- A. 5%
- B. 10%
- C. 20%**
- D. 25%

Economic Reasoning

The labour force underutilisation rate is calculated by adding the unemployed to the underemployed and dividing by the total labour force. Therefore, it is $2/10 = 20\%$.

Answer C is the correct answer.

Question 2

Which combination of the following are capital factors of production?

- A. an old growth forest and a car owned by a consumer
- B. a family car and mineral resources
- C. *factory equipment and school desks***
- D. factory buildings and farming land

Economic Reasoning

Capital is a produced item that is used to deliver a good or service. Forests, minerals and farming land are natural resources. Personal use vehicles are not used to provide a good or service. A factory produces a goods and schools deliver a service. Answer C is correct

Question 3

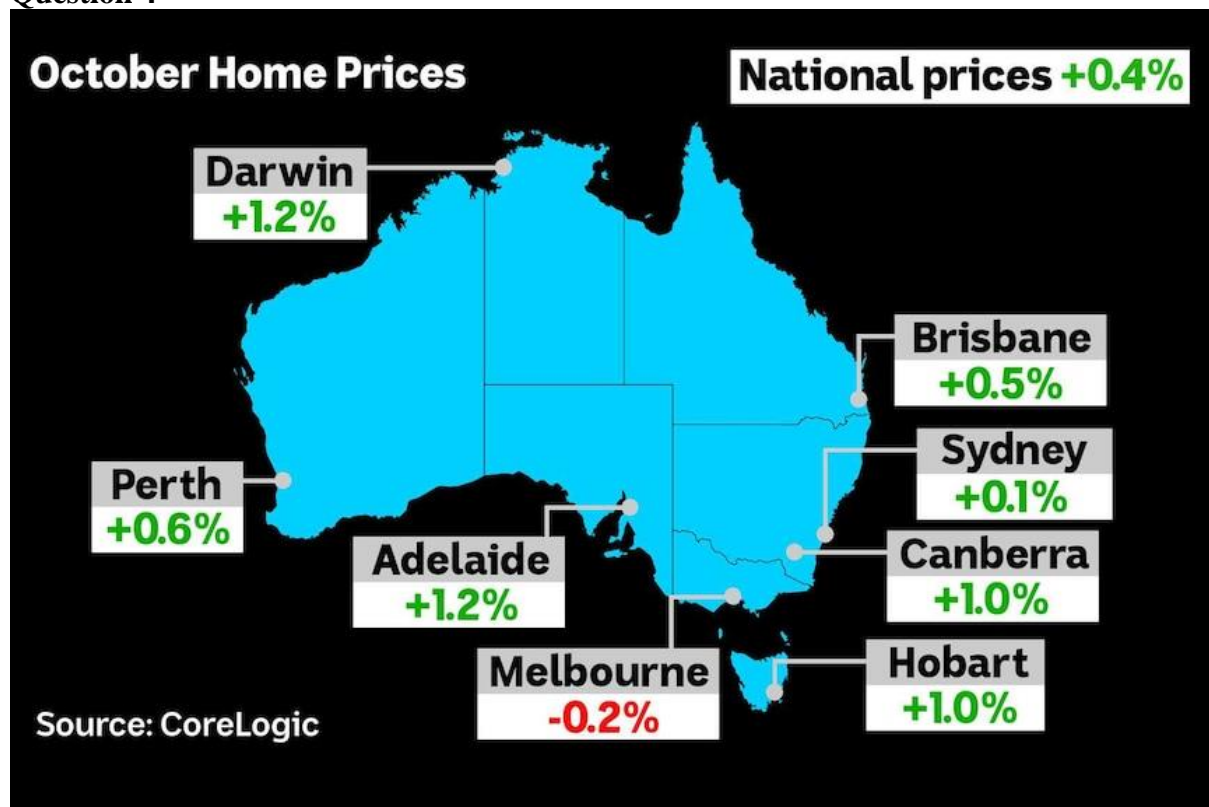
Which of the following economic events is **least likely** to be a factor contributing to a loosening of monetary policy?

- A. *increase in capacity utilisation in some industries*
- B. low levels of consumer confidence
- C. lower commodity prices
- D. slow growth rate overseas

Economic Reasoning

Answer A is correct because answers B, C & D are likely to lead to loosening of Monetary Policy. 'Increase in capacity utilisation' will more likely lead to a tightening of Monetary Policy.

Question 4

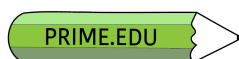


Source : <https://www.abc.net.au/news/2020-11-02/corelogic-october-housing-prices-rise-after-covid-pandemic>

Figure 1.1 – House Prices Change October 2020

Which of the following would **best explain** the change in the market for homes in Melbourne?

- A. rising disposable income has outpaced inflation growth
- B. an increase in the migration of people to Melbourne
- C. the RBA setting all-time low interest rates
- D. *household confidence declines with ongoing lockdowns*



Economic Reasoning

Answer D is correct because the infographic shows Melbourne Home prices fall by 0.2% and is caused by a decline in consumer confidence and Household spending. Answers A,B, C would all be likely to cause Home prices to rise.

Question 5

In Australia, **one** of the main reasons for the structural current account deficit is

- A. *long-term national savings-investment gap*
- B. a long-term reduction in cost-side inflationary pressures
- C. improved international competitiveness of firms
- D. a depreciation of the Australian dollar

Economic Reasoning

Answer A is correct because the structural CAD is caused by a few main reasons: Australia's Savings-Investment gap and lack of international competitiveness (Answers B, C & D indicate improving international competitiveness).

Question 6

Which of the following is **not** a supply-side initiative designed to improve market efficiency?

- A. research and development grants
- B. spending on training and education
- C. subsidies
- D. *discretionary stabiliser*

Economic Reasoning

Answer D is correct because it **is not** a budgetary supply-side policy – discretionary stabiliser is a feature of aggregate demand budgetary policy initiatives,



Question 7

Which of the following is **likely** to be a weakness of Aggregate Supply policies?

- A. ability to discriminate between industries targeting specific problems
- B. simultaneously assist in achieving all macroeconomic goals in the long-run
- C. *ability to stabilise short-term economic activity is limited***
- D. aggregate supply reforms face few political barriers

Economic Reasoning

Answer C is correct because AS policies are limited/restricted in stimulating economic activity in the short-term. Answers A & B are strengths and answer D if true (which it is not) would be a strength.

Question 8

Which of the **following features** are found in the market for ocean fishing?

- A. non-excludable and non-rivalrous
- B. *non-excludable and rivalrous***
- C. excludable and rivalrous
- D. none of the above

Economic Reasoning

Answer B is correct because ocean fishing is an example of a Common Access Resource which exhibits the features of being near impossible to exclude people from the resource, but is rivalrous – in that one's consumption limits the consumption available for another.

Question 9

Which of the following **is not** an aggregate supply factor?

- A. the size and skill of the labour force
- B. climatic conditions such as droughts and floods
- C. changes in technological advancements
- D. *changes in the level of business confidence***

Economic Reasoning

Answer D is not an AS factor. Levels of business confidence is an AD factor.

Question 10

Competitive Market

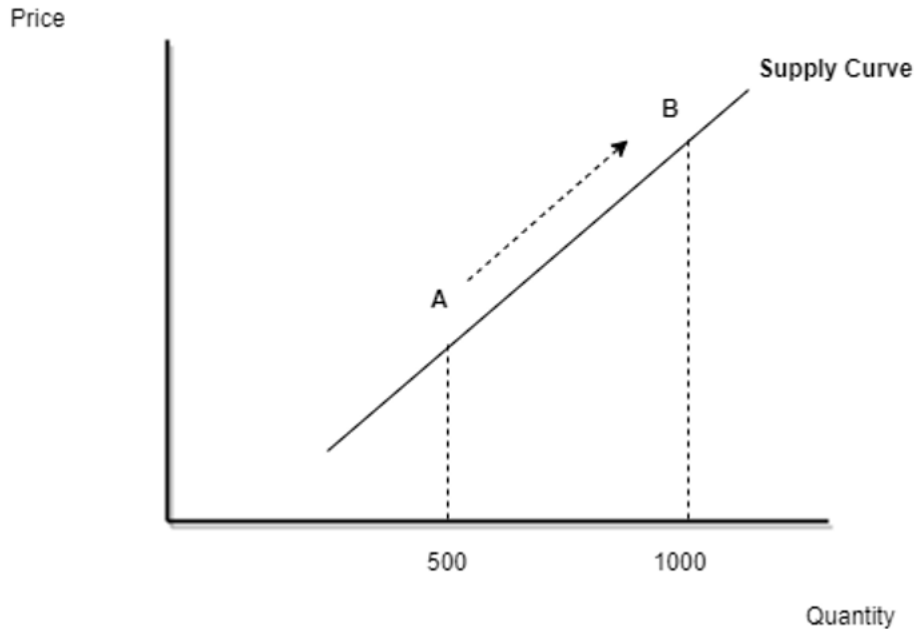


Figure 1.2 – Competitive Market

In reference to Figure 1.2, which of the following statements is correct?

- A. there is an increase in supply of 500 units
- B. there is a contraction in supply of 500 units
- C. *there is an expansion in supply of 500 units***
- D. there is a decrease in supply of 500 units

Economic Reasoning

Answer C is correct because a movement along a supply curve that sees quantity supplied rise is called an ‘expansion in supply’.

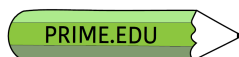
Question 11

New technology that improves the storage life of fruit and vegetables will tend to

- A. increase the price elasticity of demand
- B. reduce the price elasticity of demand
- C. *increase the price elasticity of supply***
- D. reduce the price elasticity of supply

Economic Reasoning

Answer C is correct because improved storability enables the supplier to be more responsive to prices changes and increases the PES.



Question 12

Which of the following policy settings is **most likely** to increase aggregate demand?

- A. an increase in the Federal Budget deficit and the RBA tightens monetary policy
- B. cash bonuses to taxpayers and the RBA increases the official cash rate
- C. the RBA decreases the official cash rate and tax on PAYG income increases by 5%
- D. *an increase in the Federal Budget deficit and the RBA lowers the official cash rate***

Economic Reasoning

Answer D is correct because an increase in the size of deficit has an expansionary effect on AD and lowering the cash rate is also an expansionary effect on AD.

Question 13

Consider the following data for Country X

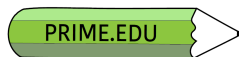
Year	CPI
2018	92
2019	96
2020	100
2021	101

What happened to the rate of change of inflation from 2019 to 2021?

- A. *the level of general prices increased at a slower rate***
- B. the level of general prices increased at a faster rate
- C. the rate of inflation increased by 5%
- D. the rate of underlying inflation increased by 5%

Economic Reasoning

Answer A is correct. From 2019 to 2020 inflation rose by 4.2% and from 2020 to 2021 inflation rose by 1% - hence inflation increased at a slower rate from 2019 to 2021.

**Question 14**

The purchase by the Australian business JB HiFi of 1000 Sony Bravia televisions from Japan will appear in the balance of payments as

- A. a credit in the Capital and Financial Account
- B. a debit in the Capital and Financial Account
- C. a credit in the Current Account
- D. a debit in the Current Account**

Economic Reasoning

Answer D is correct. Purchasing TV's from Japan is an import recorded in the Current Account of the BOP as a debit in the net goods sub-account.

Question 15

Which of the following is **likely** to have a different effect on Gross Domestic Product from the other three responses?

- A. increase in the level of government capital expenditure**
- B. increase in the level of spending on imports
- C. decrease in the level of household consumption
- D. decrease in the level of business investment spending

Economic Reasoning

Answer A is correct because the effect of a rise in G2 spending is to increase AD and domestic economic activity. Increased spending on imports(M) is a leakage likely to slow AD, reduced © spending lowers AD and a reduction in (I)lowers AD

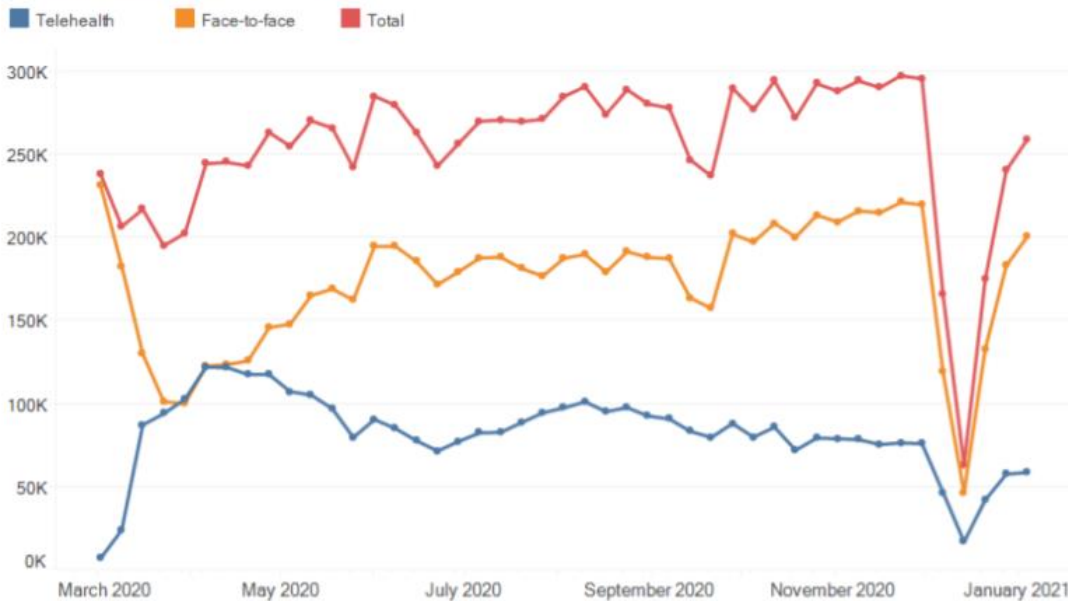
SECTION B – Written responses

Instructions for Section B

Answer **all** questions in the spaces provided

Question 1 (15 marks)

Figure COVID.1: Number of MBS mental health services per week, by mode of delivery, March 2020 - January 2021



Note: The drop in service numbers in late December 2020 - early January 2021 is similar to that observed for the same time period in previous years.
Source: Medicare Benefits Schedule data.

www.aihw.gov.au/mhsa

Graph 1.1 – Medicare Benefits Schedule (MBS) Mental Health Services

Question 1 (15 marks)

- a. Describe the trend in the number of face-to-face mental health services per week from May 2020 to November 2020. (2 marks)

Suggested Solution

The trend of face-to-face mental health visits has increased from May 2020 to November 2020. In May 2020, the number of visits was approximately 150,000 visits per week and by November this number had increased to around 200,000 visits per week.

Marking Guide

1 mark for stating the correct trend

1 mark for using data from the graph as evidence of how the trend has changed

Exam Tip

Past VCAA reports suggest with trend questions read very closely the time frame accounted for and draw a line of best fit to determine the overall trend



- b. Explain the likely impact of the trend in face-to-face mental health services per week on living standards in Australia. (3 marks)

Suggested Solution

The increasing trend and demand for face-to-face mental services suggests a decline in the non-material living standards (NMLS) of Australians. Economic wellbeing involves the elements of material and non-material aspects of life. If mental illnesses are increasing, then the quality aspects of economic wellbeing is generally declining and the national level of happiness and sense of optimism is in decline negatively impacting NMLS.

Marking Guide

1 mark for stating the trend shows non-material living standards declining

2 marks for explaining why a rise in mental illness or a decline in optimism restricts economic wellbeing

Exam Tip

Past VCAA reports suggest students remember to consider the two areas of living standards. Material living standards (MLS) associated with access to goods and services and non-material living standards (NMLS) associated with quality aspects of life

- c. Discuss how the level of disguised unemployment during the 2020-2021 pandemic may have affected living standards and rate of economic growth in Australia. (6 marks)

Suggested Solution

Employed part-time or casual workers who would prefer to work more hours or persons who are highly skilled (Airline Pilots) working in areas where their skills and expertise is not fully utilized make up the disguised or underemployed sector of the labour market. Disguised unemployment can leave people despondent and pessimistic about the future, negatively impacting the level of happiness of these workers. Because of this, disguised unemployment when rising generally causes non-material living standards to worsen.

During the initial outbreak of COVID19 there was a sharp rise in disguised unemployment – particularly with workers retained under the Job Keeper program. During this time the economy experienced a contraction (June quarter of 2020 was a negative period of GDP growth) with production and economic growth in decline. As the restrictions around COVID19 lifted in late 2020, the level of disguised unemployment fell with more full-time work vacancies being filled. Consequently, the December quarter of GDP was relatively robust and with the rate of economic growth on the rise.

Marking Guide

2 marks for correct description of key concepts of disguised unemployment, NMLS and economic growth



2 marks for the quality of discussion about disguised unemployment and NMLS

2 marks for the quality of discussion about disguised unemployment and economic growth

Exam Tip

Past VCAA reports suggest that questions with 6-8 marks on offer need detailed and comprehensive responses to get full marks. A few lines or brief outline will at best attain 2-3 marks.

- d.** Analyse whether there is a trade-off between strong economic growth and sustainable economic growth (4 marks)

Suggested Solution

In the short-term there can be a trade-off when government policy or industry strategies to curb greenhouse gas emissions come at the expense of current production. In seeking to move to sustainable economic systems, non-renewable industries such as coal mining and brown coal electricity suppliers will see these industries slowly and sometimes quickly shut down. A transition to renewable energy base load supply comes with the cost of jobs, incomes and production in 'dirtier' industries in the short-term.

However, economic modelling does suggest this transition can provide new jobs and areas for increased production in 'cleaner' energy industries. Which does suggest that in the long-term it could be that no significant trade-off between strong and sustainable growth exists but rather that sustainable growth can complement strong economic growth into the future.

Marking Guide

2 marks for a clear distinction between current production and future production and why there may be short-term trade-off

2 marks for suggesting why a trade-off may not exist once a transition to sustainable methods of production is completed

Exam Tip

Past VCAA reports suggests students should associate trade-offs in decision making give rise to opportunity costs and that when decisions about production is made it has short-term and long-term consequences.

Question 2 (14 marks)

- a. Explain how an increase in the price of a substitute may affect the demand for a good. Construct a fully labelled demand and supply diagram to illustrate your explanation (4 marks)

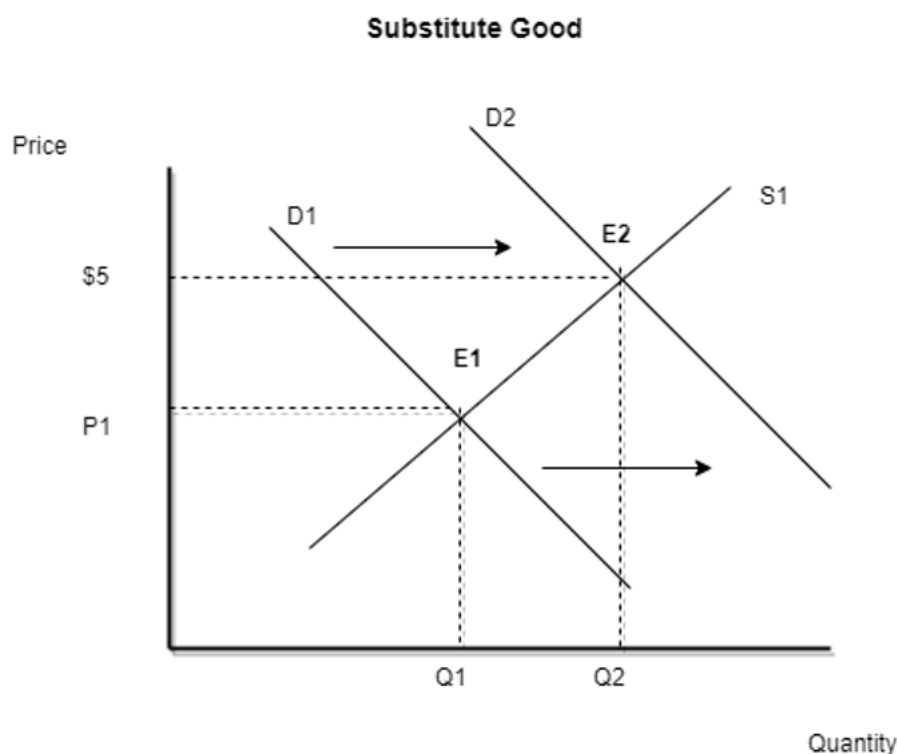
Suggested Solution

An increase in the price of substitute, will cause an increase in demand for the other good. For instance, if the price of butter rises in relation to the price of margarine, at all price levels demand for margarine will increase (shifting in the demand curve to the right). The substitute effect causing rational consumers to shift from an expensive to a less expensive option.

Marking Guide

2 marks for stating it will cause the demand curve for the other good to increase (shift it to the right)

2 marks for fully labelled diagram with both the equilibrium price and equilibrium quantity increasing





- b. Explain the effect on the equilibrium price in a competitive market that experiences an improvement in the rate of productivity growth (3 marks)

Suggested Solution

When the productivity rate improves it causes the supply curve to shift to the right (increase in supply). The rate of productivity growth improving reduces the cost per unit of production and will result in an increase in supply at every pricing point. Ceteris Paribus a contraction along the new supply curve will occur while an expansion along the demand curve means the market price for the good or services falls.

Marking Guide

- 1 mark** for stating that rising productivity growth causes an increase in supply
2 marks for explaining why it causes firms to increase supply and how the price changes

Exam Tip

Past VCAA reports suggest micro-economic analysis needs to have insights to behaviours, motives and actions of buyers and sellers in a competitive market when firms aim to maximise profit and consumers aim to maximise utility

- c. Discuss the relationships between the rate of productivity growth and allocative efficiency. (4 marks)

Suggested Solution

Productivity is the measure of the level of output given the use of a level of inputs producing goods and services. The rate of productivity growth and allocative efficiency share a positive or compatible relationship. As a firm or firms across a nation experience productivity gains it allows a higher level of production and extends the productive capacity of an economy. When an economy can produce more goods and services with its limited economic resources it is possible to that a higher level of unlimited wants and needs can be satisfied. Allocative efficiency improving with society able to satisfy more unlimited wants and needs.

Marking Guide

- 1 mark** for stating there is a positive relationship between the rate of productivity growth and allocative efficiency
3 marks for the linking of why when the productive capacity of a country expands more good and services are available to satisfy society's wants and needs



d. Select one of the following market failures.

- externalities
- public goods

Describe why the chosen market failure has a negative effect on the efficient allocation of resources. (3 marks)

Suggested Solution

Externalities

The consumption or production of the good or service that generates negative externalities, involves an overallocation of resources that do not maximise society's economic wellbeing. For example smoking cigarettes in public spaces where passive smokers (third party) inhale cancer causing chemicals, undermines society's living standards. A reallocation of labour, capital and natural resources away from cigarette manufacturing would allow more socially desirable production that would increase society's economic wellbeing.

Public goods

Public goods exhibit market features of the goods being non-excludable and non-rivalrous, thus making it virtually impossible for the private sector to provide these goods or services and make a profit. ABC radio broadcasting and streetlights are good examples of public goods and both these services provide social and private benefits for society. Without government provision of these services there will be an under-allocation of scarce economic resources to these markets. These price mechanism fails to direct resources where society's economic wellbeing can be maximized and therefore causes a market failure to occur

Marking Guide

1 mark for stating that either an over allocation or under allocation of economic resources undermines society's economic wellbeing

2 marks for explaining why the price mechanism, consumer sovereignty and profit maximization fail to deliver products that enhance living standards

Exam Tip

Past VCAA reports direct students to state market failure is caused by either an over or under allocation of resources by the price mechanism that undermines economic wellbeing.

Question 3 (19 marks)**Graph of the Cash Rate Target**

Source: RBA

Graph 1.2 – Australian Cash Rate from 1990-2021

- a. What is the monetary policy stance in 2021? Use Graph 1.2 to Justify your answer. (3 marks)

Suggested Solution

The RBA monetary policy setting is a strong expansionary stance aimed at increasing the level of aggregate demand (AD). From graph 1.2 in recent years the RBA have acted to lower the cash rate from approximately 1.75% in 2019 to be at only 0.10% as of August 2021. This lowers the cost of credit across all financial markets, encourages more borrowing and increases household spending and boosts AD.

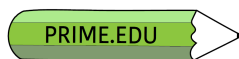
Marking Guide

1 mark for stating the monetary stance is expansionary (highly or strong expansionary stance is acceptable)

2 marks for using the data in Graph 1.2 to prove that the cash rate has been lowered in the past two years and is now at a historic low (0,1%) to boost AD

Exam Tip

Past VCAA reports suggest when using data from a graph provide a clear starting point and clear finishing point and use data to support the description of the trend or effect of the change.



Australian house prices are rising at their fastest rate in more than 17 years.

Prices increased a further 1.6 per cent across the nation in July, making for a 16.1 per cent increase over the past year, according to property research firm CoreLogic.

The annual rise in national house prices is the fastest pace of annual growth since February 2004.

Source 1: <https://www.abc.net.au/news/2021-08-02/house-prices> Mon 2 Aug 2021 at 9:32pm

- b. Analyse how **one** transmission mechanism of monetary policy may be contributing to the record house price increases over the past 12 months. (4 marks)

Suggested Solution

Monetary policy set to a strong expansionary stance with the cash rate at 0.1% increases spending on property in the housing market via the savings and investment (credit channel). The cost of money being cheap (interest rates being very low) increases the demand for credit for purchasing assets such as property, while discouraging savings. Incentivising first-home buyers and other home buyers to increase demand for property in capital cities – Sydney and Melbourne. Stronger demand with a limited supply of homes on the market is causing final prices for properties in cities and regional areas of Australia to rise sharply.

Marking Guide

1 mark for a correct transmission mechanism is described (credit channel, cash flow channel, asset and wealth channel, exchange rate channel, availability of money channel)

3 marks for analysing why low interest rates are causing demand for housing to increase and forcing prices upwards

Exam Tip

Past VCAA reports suggest when selecting a monetary transmission channel, select the one that best describes the economic phenomenon being explained (in this instance with COVID19 and international trade stalling the exchange rate channel would not easily explain why house prices are rising)



- c. Discuss whether both aggregate demand policies in 2021 have effectively achieved the goal of low inflation. (8 marks)

Suggested Solution

To a certain degree budgetary policy and monetary policy have successfully contained inflation in 2021. Budgetary policy since March 2020 has been highly expansionary with a focus on keeping jobs and maintaining economic growth. Inflation has spiked in recent figures with targeted stimulus like Job Keeper and business grants, seeing headline inflation hit 3.8% in the June quarter of 2021. With the headline inflation rate at 3.8% above the government's 2-3% target has been missed could mean the government has over-stimulated AD and undermined the goal of low inflation. However, a more measured analysis would recognize that over the last 12 months on average the CPI has been below 3% (only spiking in the June quarter 2021) and hence budgetary policy has helped keep inflationary expectations high enough to stimulate economic activity.

Monetary policy at an emergency level of 0.1% is aiming to stimulate spending and aggregate demand, which in the last 12 months has driven some market prices higher, particularly in the housing market. Although, if judging whether the goal of low inflation has been achieved it needs to be measured against a targeted 2-3% over the course of the business cycle being achieved. Over the past 12 months the headline CPI has averaged a rate below 2% and by that measure possibly the goal has not been achieved. But pandemic times have changed the government's focus to use monetary policy to support jobs and growth. Therefore, volatility in prices will be tolerated and expected, and will not influence the AD policy settings to be adjusted until stability to the level of economic activity that supports employment in most industries is achieved.

Marking Guide

2 marks for explaining the goal of low inflation correctly throughout the response

3 marks for stating possibly Budgetary policy has failed or succeeded using evidence and current knowledge

3 marks for discussing how monetary policy has failed or succeeded using data and current knowledge

Exam Tip

Past VCAA reports suggest students are expected to have a working knowledge of the budget stance, recent cash rate movements and the trends in the key economic indicators of CPI, GDP and unemployment



- d. Describe **one** strength and **one** weakness of the government using monetary policy to support jobs and growth during the pandemic. (4 marks)

Suggested Solution

One strength using monetary is the short implementation lag and the RBA quickly the emergency low cash rate of 0.1% once the decision had been made in November 2020. Lenders can quickly adjust rates or provide lower fixed loan rates which will provide more certainty and boost confidence in the household sector supporting AD and economic activity.

However, a weakness of monetary policy when targeting jobs and growth is the RBA does not have direct control over the lending rates for private sector banks and financial institutions. Hence, even with the RBA cutting the cash rate of an emergency level of 0.1% many of the banks have only reduced lending rates by a small margin or not at all. In effect, having little impact on supporting AD, economic growth and jobs.

Marking Guide

2 marks for describing one strength of a monetary policy (RBA independent of government, short implementation lag, influence market expectations, supreme tool for targeting AD)

2 marks for describing one weakness of a budgetary policy (Blunt instrument, long impact lag, RBA no direct control over interest rates, sensitivity to interest rates depends on debt levels)

Exam Tip

Past VCAA reports suggests use of strengths and weaknesses of AD and AS policies need to be discussed in the current context with accurate data (cash rate data is accurate)

Question 4 (17 marks)

- a. Define the goal of full employment. (2 marks)

Suggested Solution

The first aim of full employment is to eliminate cyclical unemployment that is caused by weak AD. Secondly the government aim to ensure the Non-Accelerating Inflationary Rate of Unemployment (NAIRU) is achieved, by targeting the lowest rate of unemployment that is possible before unacceptably high, excessive levels of inflation arise within the economy.

Marking Guide

1 mark for describing the aim to eliminate cyclical unemployment

1 mark for seeking to achieve the NAIRU

- b. Select one of the following aggregate supply budgetary initiatives



- subsidies
- spending on training and education

Explain how the chosen initiative is designed to support the goal of full employment.
(4 marks)

Suggested Solution

In the 2021 federal budget \$2.7 billion has been allocated to skills training for 170,000 apprentices and traineeships. Boosting skills of Australian workers adds to the quality and mobility of Australia's labour force and has a positive effect on aggregate supply. Having a favourable impact on willingness and ability of firms and in this case the building industry to increase production. Consequently, AS expands and allows for a lower rate of natural unemployment (where inflationary pressures are contained) while also stimulating spending and AD, contributing to the goal of full employment by cyclical unemployment being reduced.

Marking Guide

2 marks for explaining how the budgetary initiative boosts aggregate supply

2 marks for correctly linking how AS growing can support the goal of full employment

Alternative Response

Subsidies for renewable energy ventures – solar farms – and geothermal energy production opportunities expand Australia's productive capacity and lowers NAIRU and lowers cyclical unemployment with more business investment bolstering AD.



JobKeeper initially gave businesses \$1,500 per fortnight per employee to help pay the wages.

It aimed to keep a connection between workers and employers, allowing a faster recovery when the health crisis was under control.

It also kept the unemployment rate from spiking, with workers considered 'employed' even though they were being paid by taxpayer funds, in many cases to work zero hours.

Source 2 : <https://www.abc.net.au/news/2021-03-29/jobkeeper-ends> Tue 30 Mar 2021 at 10:51am

- c. Discuss how budgetary welfare reforms over 2020 and 2021 can influence the level of aggregate demand and the level of aggregate supply. (6 marks)

Suggested Solution

Job Keeper provided workers through small businesses with an income whilst the COVID19 lockdowns were at their worst in Melbourne and other cities. The household sector being supported with extra transfer payments maintained strong levels of consumption spending and had a positive impact on Australia's aggregate demand. Although, the accuracy of businesses needing 'Job Keeper' versus those that took advantage of the program, could have led to wasteful government outlays that instead of boosting AD, pushed up corporate profits.

Job keeper has a positive effect on Australia's aggregate supply – by keeping a higher percentage of workers attached to the labour force. The program enabled the quantity and quality of the labour force to remain available and motivated to work– ensuring the ability and willingness of producers to make goods and services is supported. However, some reforms that were over-generous led to some workers receiving higher welfare payments than usual boosting their short-term savings. A percentage of workers incentivized to rely on welfare over being active agents in the production of goods and services.

Marking Guide

3 marks for discussing the positive and negative effects on AD of welfare reforms

3 marks for discussing the positive and negative effects on AS of welfare reforms

Exam Tip

Past VCAA reports suggest students have a working knowledge of AD and AS policies used by the government in past 2 years. It is good idea for students to have good working knowledge of Job Keeper as it is a recent Budgetary policy that influences AD and is a welfare reform.



- d. Examine how investment in infrastructure may impact living standards and explain one weakness of using this policy to impact living standards. (5 marks)

Suggested Solution

Capital expenditure in the federal budget on roads, rail, and other transport links. In the 2021 budget \$5 billion has been allocated to the Melbourne Airport Rail Link and is to be completed by 2029. A long-term infrastructure project improves material living standards for tradespeople, construction workers and engineers who derive a factor income from delivering on this project. Through more jobs and higher disposable incomes society has greater access to more goods and services, thus improving living standards.

One significant limitation of investment in infrastructure is the impact delay. The Melbourne Airport Rail Link highlights some projects take between 8-10 years to be completed and the economic activity that flows from the project may take months and years to provide the jobs and incomes it promises to generate. Therefore, in the short-term infrastructure investment has little impact on boosting AS or AD.

Marking Guide

- 1 mark** for stating investment in infrastructure has a positive impact on living standards
- 2 marks** for explaining why infrastructure spending improves living standards
- 2 marks** for providing one weakness of investment in infrastructure (long delays, political constraints)

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