

Economics and Business Level 10

Chapter 1 — Government and the economy

Distribution note: this document may be distributed, and whole pages may be removed from it, provided only WHOLE pages are removed (never part of a page). This allows teachers to remove tests, exams and subtopics they do not want to issue.

This work is licensed under the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License. To view a copy of this license, visit <http://creativecommons.org/licenses/by-nc-nd/4.0/> or send a letter to Creative Commons, PO Box 1866, Mountain View, CA 94042, USA.

Attribution: Classbasics Pty Ltd, vwx.au

Aboriginal and Torres Strait Islander content has been excluded as accuracy cannot be guaranteed, and it is better to be respectful than cover the entire curriculum inaccurately.

Significant effort has been made to ensure this content is legal. Please send any areas of concern to admin@vwx.au with appropriate document/legal references so errors can be verified and changes be made.

NOT YET AUDITED — living document. This booklet is a pre-audit preview. Content, coverage and question quality have not yet been through the full estate audit cycle. Treat it as a draft: use it for planning and familiarisation, but expect corrections before the audited edition is released.

Fiscal and monetary policy; the circular flow model of the economy

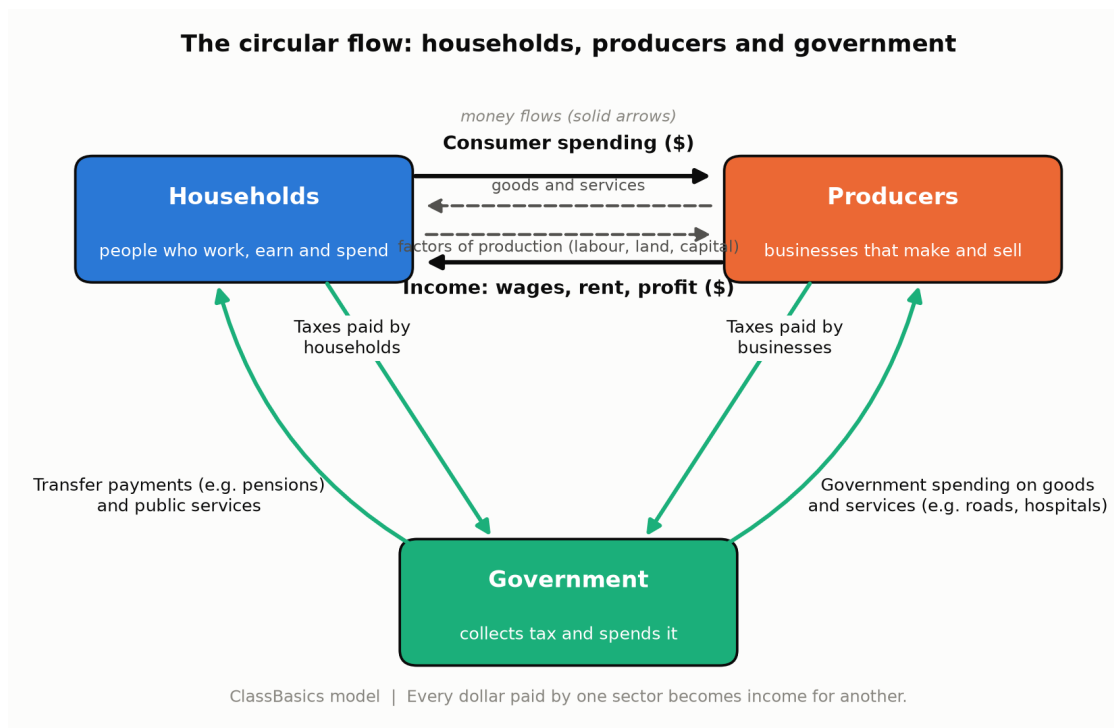
Curriculum trace. Content description **VC2HE10K01**: “economic policy, including fiscal and monetary, and the circular flow model of the economy”. Elaborations: **VC2HE10K01.E01** “distinguishing between fiscal and monetary policy and explaining how each is used to affect the economy”; **VC2HE10K01.E02** “constructing a poster to illustrate the circular flow and interconnections between government, producers and consumers”; **VC2HE10K01.E03** “developing a table to show key economic indicators, such as the unemployment rate, gross domestic product (GDP), consumer price index (CPI) and balance of trade, with the definition and use of each explained”. Achievement standard (Levels 9 and 10): “students can analyse the circular flow model of the economy and assess the appropriateness of specific government and Reserve Bank of Australia economic interventions through fiscal and monetary policy.”

Every dollar you have ever spent ended up in someone else’s pocket — and every dollar in your pocket started as someone else’s spending. This section builds the map of that movement, the **circular flow model of the economy** (a picture of how money and goods move between households, producers and government), and then meets the two big levers governments and central banks pull on that flow: **fiscal policy** (the government’s taxing and spending) and **monetary policy** (the Reserve Bank’s control of the price of borrowing). Every figure and number in this section is real, taken from the Reserve Bank of Australia (RBA), the Australian Bureau of Statistics (ABS) and the Australian Government’s Budget papers, retrieved 26 August 2026.

Theory

The circular flow model (VC2HE10K01.E02)

An economy is not a pile of money; it is a flow. The **circular flow model** simplifies the economy into three sectors — **households** (people who earn income and buy goods), **producers** (businesses that make goods and employ people) and **government** — and draws the payments that run between them.



A circular flow diagram with three boxes: Households at left, Producers at right and Government at the bottom. Solid arrows show money flows: consumer spending runs from households to producers, and income (wages, rent, profit) runs back from producers to households. Dashed arrows show real flows: goods and services run to households, and factors of production (labour, land, capital) run to producers. Four green arrows connect government: taxes paid by households and taxes paid by businesses flow to government, while government spending on goods and services flows to producers and transfer payments flow to households.

Figure 1: The circular flow of income, with government (ClassBasics model).

Read Figure 1 in two loops:

- **The money loop (solid arrows).** Households spend money on goods and services — **consumer spending** — which becomes the sales revenue of producers. Producers pay that money back to households as **income**: wages for labour, rent for land, interest and profit for capital. The things households sell to producers (labour, land, capital) are called **factors of production**.
- **The real loop (dashed arrows).** Running the other way are the actual stuff-flows: goods and services to households, and factors of production to producers. Money goes one way; the real things go the other.

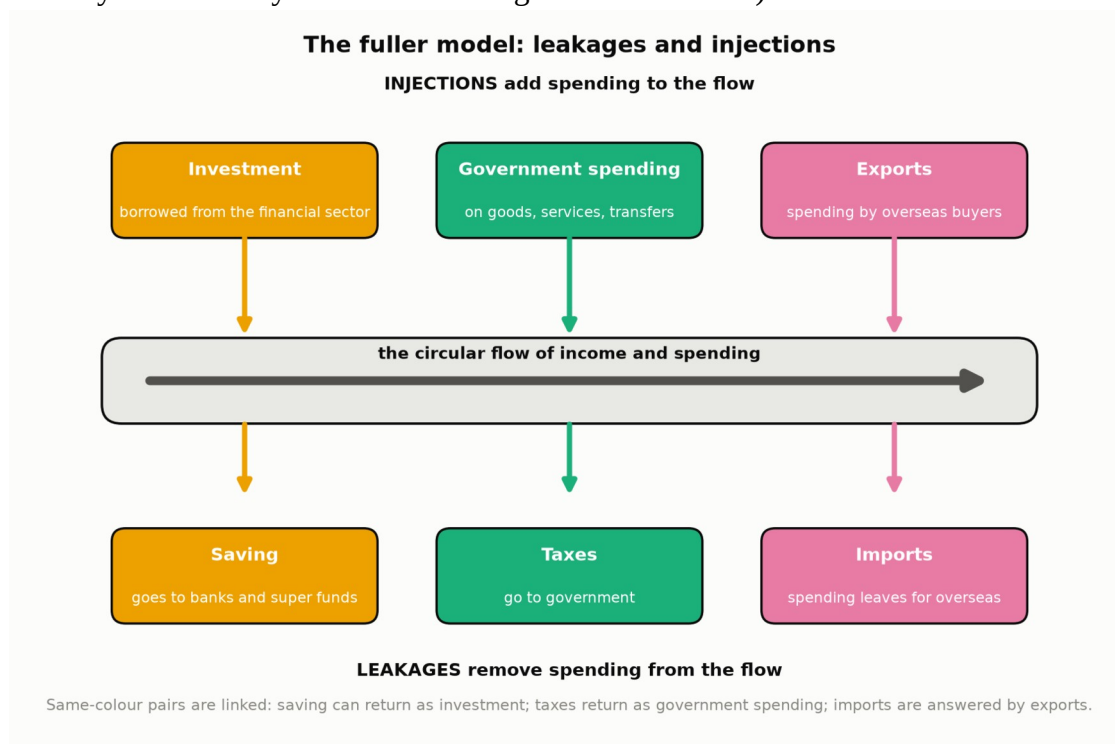
Government sits in both loops. It **pulls money out** of the flow as **taxes** paid by households and producers, and it **pushes money in** as spending on goods and services (roads, hospitals, defence) and as **transfer payments** (payments households receive without supplying goods in return, such as pensions and family benefits).

The model is a simplification — real economies also have banks, overseas traders and unpaid work inside the home, which the basic model leaves out. That is the point of a model: it keeps only what you need to see the connections.

Leakages and injections (VC2HE10K01.E02)

Once money is flowing, some of it leaks out of the circle before it is re-spent, and new money is injected in.

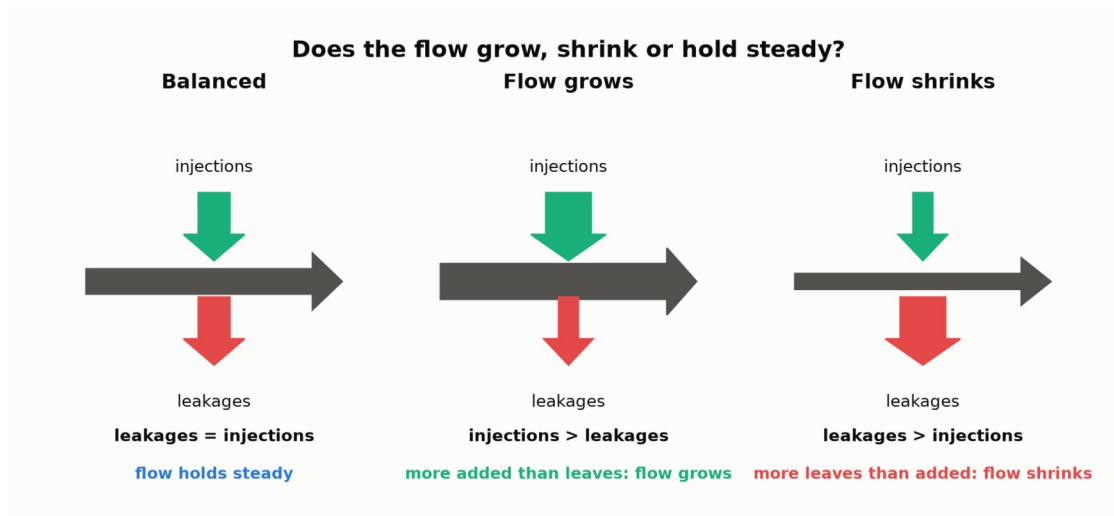
- A **leakage** is money that leaves the circular flow of income and spending. The three leakages are **saving** (income households put aside instead of spending), **taxes** (income handed to government) and **imports** (spending that flows to overseas producers instead of Australian ones).
- An **injection** is money that enters the flow from outside ordinary consumer spending. The three injections are **investment** (borrowing from the financial sector that businesses spend on equipment, buildings and stock), **government spending** and **exports** (spending by overseas buyers on Australian goods and services).



A diagram with a wide grey band across the middle labelled “the circular flow of income and spending” with a thick arrow running through it. Above the band, three boxes point spending into the flow: Investment (borrowed from the financial sector), Government spending (on goods, services, transfers) and Exports (spending by overseas buyers), labelled INJECTIONS. Below the band, three arrows point spending out of the flow into Saving (goes to banks and super funds), Taxes (go to government) and Imports (spending leaves for overseas), labelled LEAKAGES. A footer note says same-colour pairs are linked: saving can return as investment, taxes return as government spending, imports are answered by exports.

Figure 2: Leakages remove spending from the flow; injections add spending to it (ClassBasics model).

Notice the linked pairs in Figure 2: saving that flows to banks and super funds can return to the flow as investment; taxes return as government spending; and imports are answered when overseas buyers spend on our exports. Whether the whole flow grows, shrinks or holds steady depends on the totals:



Three side-by-side panels, each showing a horizontal arrow for the flow with a green injection arrow entering from above and a red leakage arrow leaving below. Panel 1 “Balanced”: the two arrows are the same thickness, captioned “leakages = injections, flow holds steady”. Panel 2 “Flow grows”: the green injection arrow is thicker than the red leakage arrow, captioned “injections > leakages, more added than leaves: flow grows”. Panel 3 “Flow shrinks”: the red leakage arrow is thicker, captioned “leakages > injections, more leaves than added: flow shrinks”.

Figure 3: Comparing leakages and injections decides whether the flow grows, shrinks or holds steady (ClassBasics model).

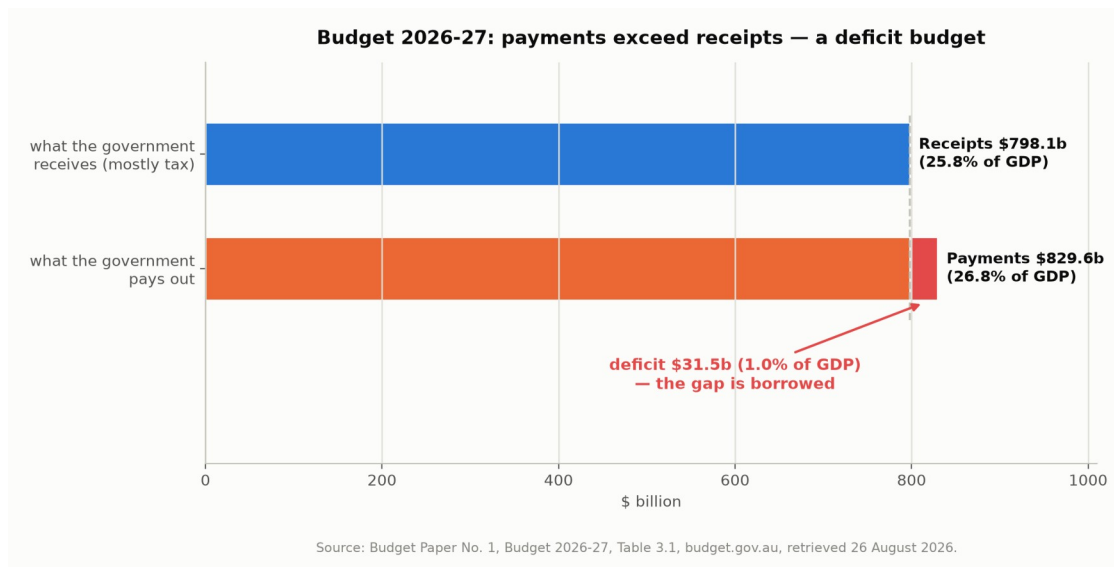
This is the analytical heart of the model. If a government wants to change the size of the flow — more spending, more production, more jobs — it can either lift an injection (spend more) or shrink a leakage (tax less). Those two choices *are* fiscal policy.

Fiscal policy: the government’s budget (VC2HE10K01.E01)

Fiscal policy is the use of the government’s budget — its spending and its taxation — to affect the economy. In Australia the Treasurer proposes the Budget each year and the Parliament approves it. The budget has two sides:

- **Receipts** — what the government receives, mostly tax.
- **Payments** — what the government pays out: services, projects and transfer payments.

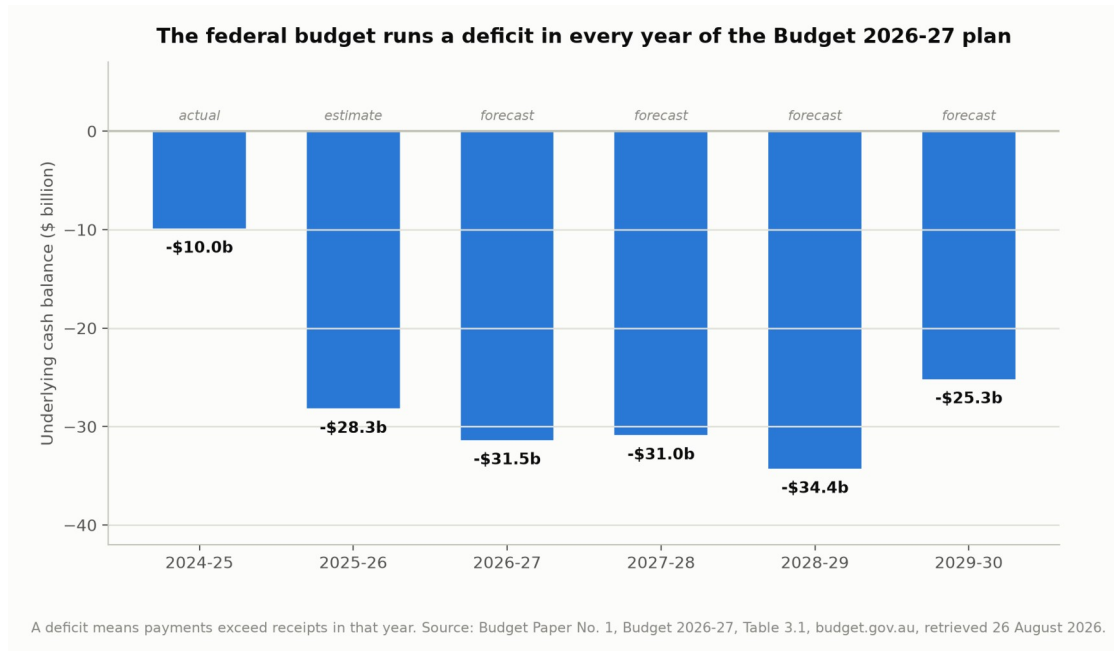
Comparing the two sides gives the **budget position**: a **budget deficit** (payments exceed receipts; the gap must be borrowed), a **budget surplus** (receipts exceed payments) or a **balanced budget** (the two are equal).



A horizontal bar chart of Budget 2026-27. The top blue bar shows receipts of \$798.1 billion (25.8% of GDP). The bottom bar shows payments of \$829.6 billion (26.8% of GDP), drawn as an orange segment the length of the receipts bar plus a red segment for the extra \$31.5 billion, with a dashed drop-line where receipts run out and a red callout labelling the red segment “deficit \$31.5b (1.0% of GDP) — the gap is borrowed”.

Figure 4: The Budget 2026-27 position. Source: Budget Paper No. 1, Budget 2026-27, Table 3.1, budget.gov.au, retrieved 26 August 2026.

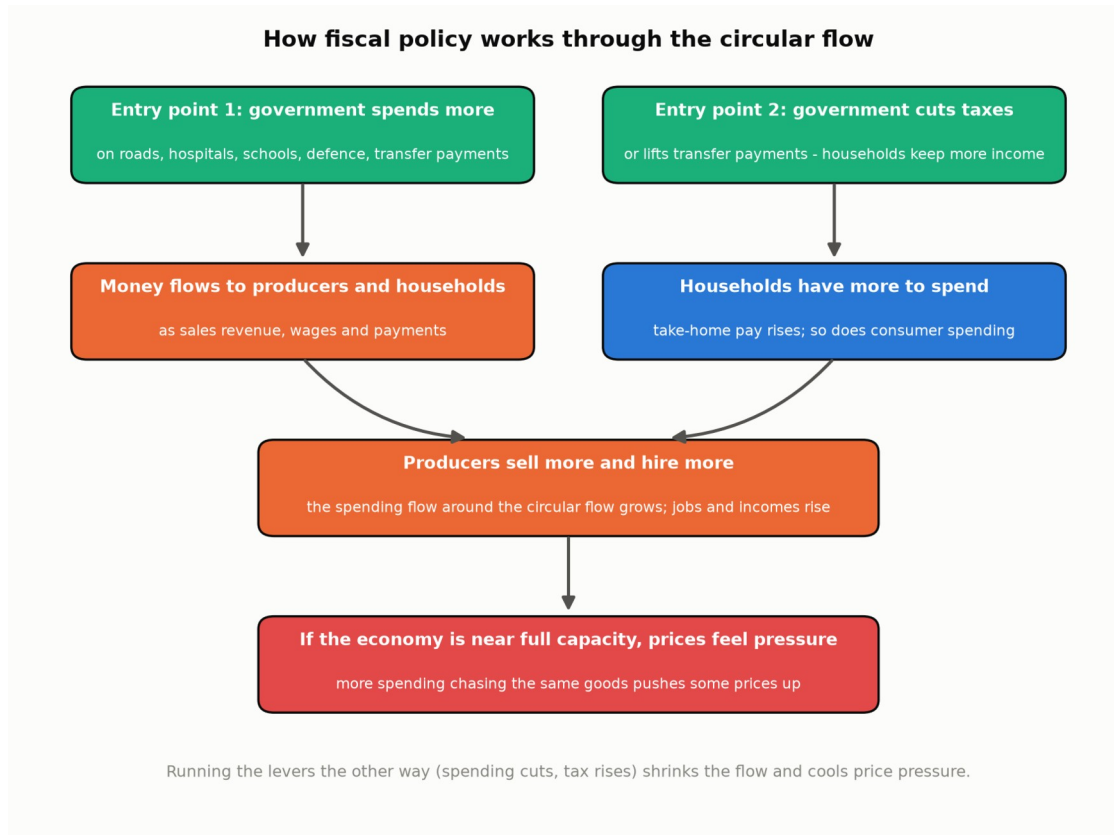
Figure 4 is the real Budget 2026-27. Payments of \$829.6 billion exceed receipts of \$798.1 billion, so the budget runs a **deficit** of \$31.5 billion (1.0% of GDP): the government is putting more money into the circular flow than it takes out. And this is not a one-off. Figure 5 shows the budget position planned across six years:



A bar chart of the Australian Government underlying cash balance from 2024-25 to 2029-30: - \$10.0b (actual), -\$28.3b (estimate), -\$31.5b, -\$31.0b, -\$34.4b and -\$25.3b (forecasts). Every bar hangs below the zero line, each labelled actual, estimate or forecast, with a source note: Budget Paper No. 1, Budget 2026-27, Table 3.1.

Figure 5: A deficit in every year of the Budget 2026-27 plan. Source: Budget Paper No. 1, Budget 2026-27, Table 3.1, retrieved 26 August 2026.

How does a deficit budget reach the circular flow? Directly — the budget *is part of* the flow (Figure 1), so changing it changes the flow in one step:



A flow chart with two green entry boxes at the top: “Entry point 1: government spends more (on roads, hospitals, schools, defence, transfer payments)” and “Entry point 2: government cuts taxes (or lifts transfer payments — households keep more income)”. These lead to an orange box “Money flows to producers and households (as sales revenue, wages and payments)” and a blue box “Households have more to spend (take-home pay rises; so does consumer spending)”. Both converge on an orange box “Producers sell more and hire more (the spending flow grows; jobs and incomes rise)”, which leads to a red box “If the economy is near full capacity, prices feel pressure (more spending chasing the same goods pushes some prices up)”. A footer notes that running the levers the other way shrinks the flow and cools price pressure.

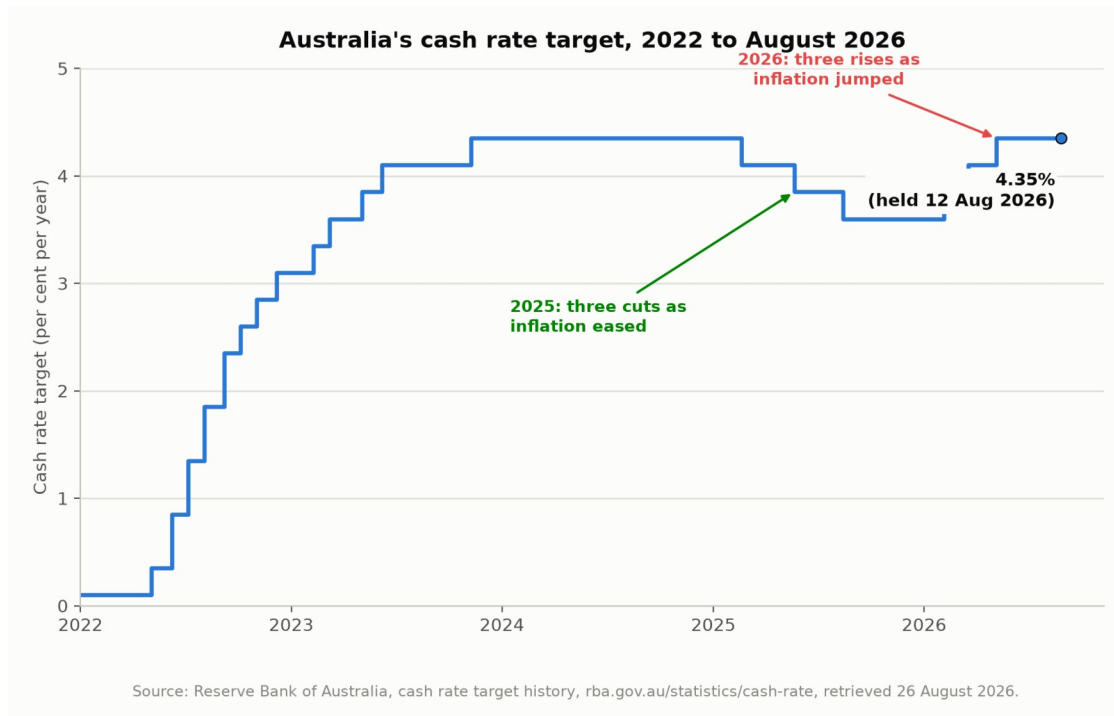
Figure 6: How fiscal policy works through the circular flow (ClassBasics model).

A real 2026 example of entry point 2: from 1 July 2026 the tax rate on incomes between \$18,201 and \$45,000 fell from 16% to 15% (a tax cut of up to \$268 a year), and from 2026-27 workers can claim a \$1,000 instant tax deduction. Both leave households with more take-home pay to send around the flow (budget.gov.au, retrieved 26 August 2026). A real example of entry point 1: the same Budget commits \$25 billion to public hospitals and \$8.6 billion to road and rail projects.

Running the levers the other way — spending cuts or tax rises — takes more out of the flow than it puts in, shrinking spending and cooling price pressure.

Monetary policy: the price of borrowing (VC2HE10K01.E01)

Monetary policy is the use of interest rates — the price of borrowing money — to affect the economy. In Australia it is run by the **Reserve Bank of Australia (RBA)**, whose Monetary Policy Board meets through the year and sets the **cash rate target**, the interest rate banks pay to borrow from each other overnight. The RBA is independent of the government of the day: the Board makes its own decisions. By agreement between the Treasurer and the RBA, the target for monetary policy is consumer price inflation between 2 and 3 per cent (9th Statement on the Conduct of Monetary Policy, 10 July 2025).

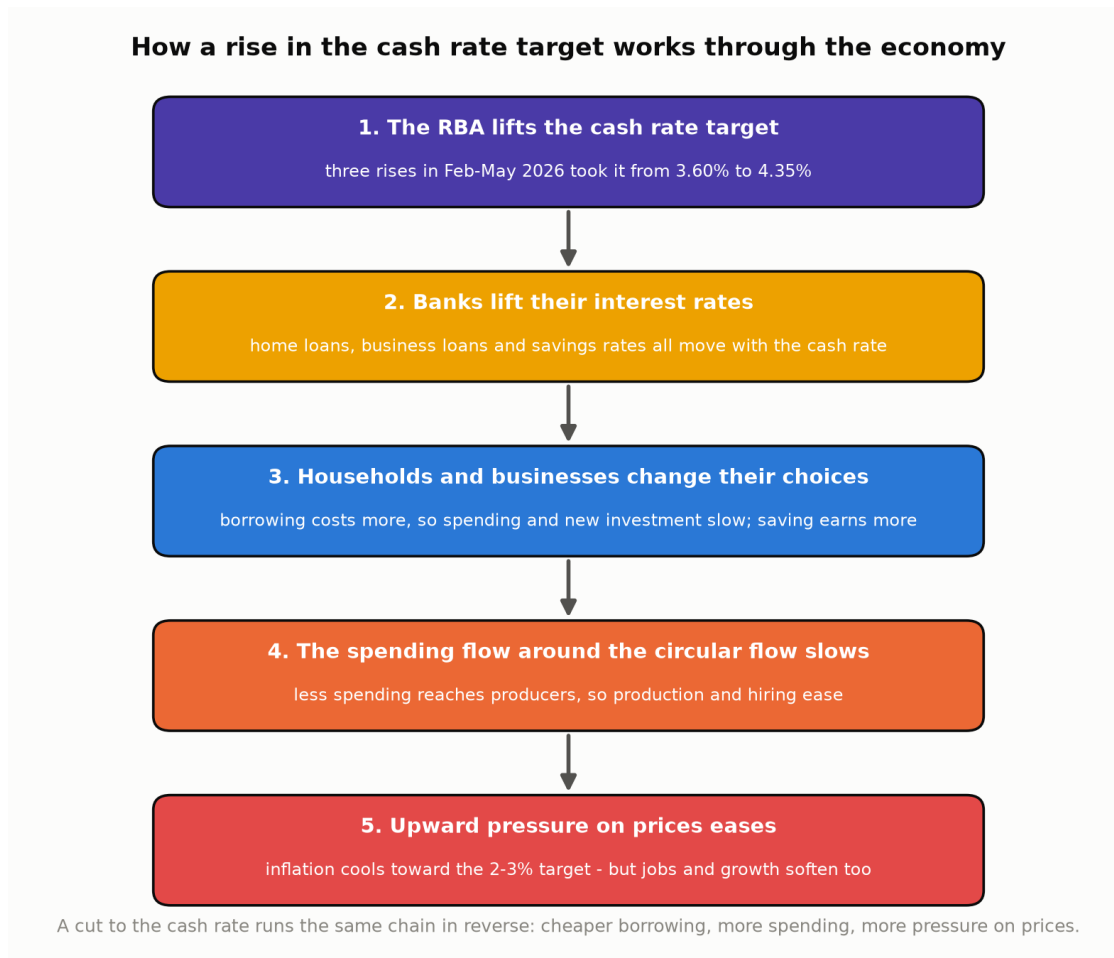


A step chart of Australia's cash rate target from 2022 to August 2026. The rate climbs in many small steps from 0.10% in early 2022 to 4.35% by November 2023, holds there through 2024, then steps down three times during 2025 to 3.60% (annotated "2025: three cuts as inflation eased"), then steps up three times in early 2026 back to 4.35% (annotated "2026: three rises as inflation jumped"), ending at a dot labelled "4.35% (held 12 Aug 2026)". Source line: Reserve Bank of Australia, cash rate target history.

Figure 7: The cash rate target, 2022 to August 2026. Source: RBA, rba.gov.au/statistics/cash-rate, retrieved 26 August 2026.

Figure 7 is the RBA's own record. The cash rate reached 4.35% by late 2023 to fight high inflation, was cut three times in 2025 as inflation eased, then raised three times between February and May 2026 — to 3.85%, 4.10% and finally 4.35% — after inflation jumped again, partly because a Middle East conflict disrupted about a fifth of seaborne oil and gas and pushed fuel prices sharply up. The Board then held the rate at 4.35% in June and again on 12 August 2026.

Unlike fiscal policy, a change in the cash rate does not touch the circular flow directly. It works through the choices of households and businesses:



A vertical five-step chain. Step 1 (violet): “The RBA lifts the cash rate target — three rises in Feb-May 2026 took it from 3.60% to 4.35%”. Step 2 (yellow): “Banks lift their interest rates — home loans, business loans and savings rates all move with the cash rate”. Step 3 (blue): “Households and businesses change their choices — borrowing costs more, so spending and new investment slow; saving earns more”. Step 4 (orange): “The spending flow around the circular flow slows — less spending reaches producers, so production and hiring ease”. Step 5 (red): “Upward pressure on prices eases — inflation cools toward the 2-3% target, but jobs and growth soften too”. A footer notes that a cut to the cash rate runs the same chain in reverse.

Figure 8: How a rise in the cash rate target works through the economy (ClassBasics model).

The trade-off sits in the last box of Figure 8: the same slowing that cools prices also softens jobs and growth. That is why every rate decision is an argument about balance, not a simple right answer.

Two policies, two levers on the same flow (VC2HE10K01.E01)

Two policies, two levers on the same flow		
	FISCAL POLICY (the government's budget)	MONETARY POLICY (the Reserve Bank)
Who decides?	The Australian Government — the Treasurer proposes the Budget and Parliament approves it.	The Reserve Bank of Australia (RBA) — its Monetary Policy Board meets through the year, independent of the government of the day.
Main levers	Government spending (including transfer payments) and taxation.	The cash rate target, which steers the interest rates banks charge and pay.
How it reaches the circular flow	Directly — the budget is part of the flow itself: taxes pull money out, spending and transfers push money in.	Through choices — a changed cash rate moves bank rates, which change borrowing and saving choices of households and businesses.
A real 2026 example	Budget 2026-27: \$829.6 billion of payments against \$798.1 billion of receipts (deficit \$31.5 billion), plus tax cuts from 1 July 2026.	Cash rate target raised three times (to 4.35%) in Feb-May 2026, then held in June and August 2026.

Both policies act on the same circular flow: one through the budget, one through the price of borrowing.

A comparison table with two columns, **FISCAL POLICY** (the government's budget) in green and **MONETARY POLICY** (the Reserve Bank) in violet, and four rows. "Who decides?": the Australian Government — the Treasurer proposes the Budget and Parliament approves it; the Reserve Bank of Australia — its Monetary Policy Board meets through the year, independent of the government of the day. "Main levers": government spending (including transfer payments) and taxation; the cash rate target, which steers the interest rates banks charge and pay. "How it reaches the circular flow": directly — the budget is part of the flow itself; through choices — a changed cash rate moves bank rates, which change borrowing and saving choices. "A real 2026 example": Budget 2026-27 payments of \$829.6b against receipts of \$798.1b (deficit \$31.5b) plus tax cuts from 1 July 2026; cash rate target raised three times (to 4.35%) in Feb-May 2026, then held in June and August 2026.

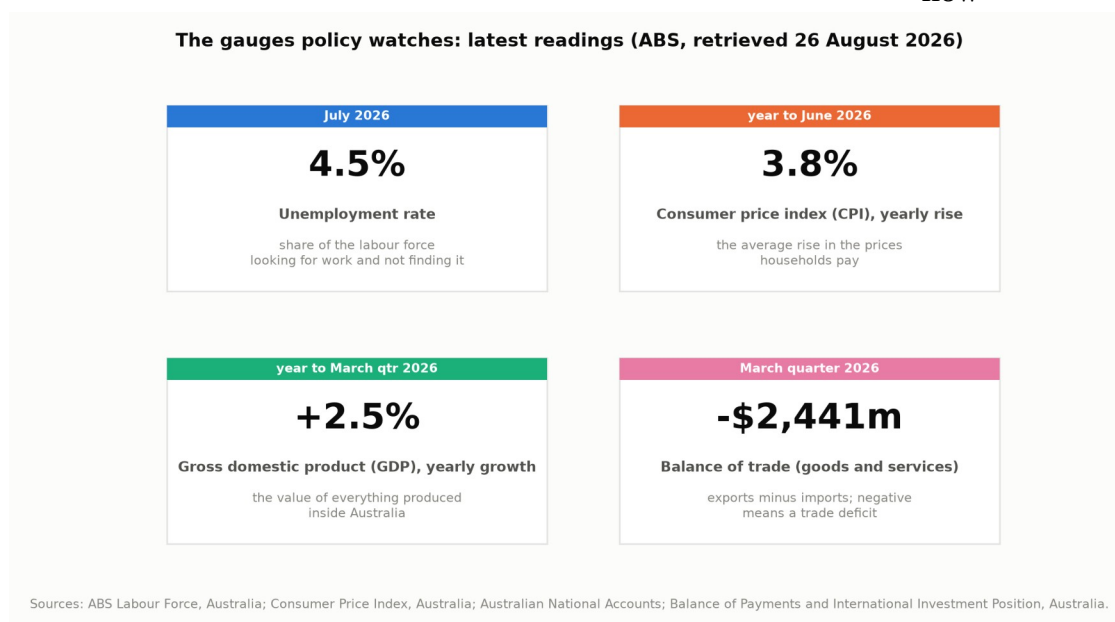
Figure 9: Fiscal and monetary policy compared (ClassBasics table).

Both policies push and pull on the same circular flow; they differ in who pulls, with what lever, and how directly the lever reaches the flow. They can also pull in opposite directions at once — in 2026 the Budget adds to the flow (a deficit) while the RBA's higher cash rate slows the flow — which is exactly the kind of tension an assessment question can ask you to judge.

The gauges policy watches (VC2HE10K01.E03)

Policy is not set in the dark. Four **economic indicators** act as gauges. (Section 1C of this book goes deeper into each one; here is the working set.)

Indicator	What it measures	Latest reading	How policy uses it
Unemployment rate — the share of the labour force looking for work and not finding it	Jobs pressure	4.5% (July 2026)	Rising unemployment suggests the flow is slowing too much; very low unemployment suggests wages and prices may rise
Consumer price index (CPI) — the average yearly rise in the prices households pay	Inflation	3.8% (year to June 2026)	The RBA's 2-3% target is read straight off this gauge; 3.8% is above target
Gross domestic product (GDP) — the total value of goods and services produced inside Australia	Growth of the flow	+2.5% (year to March qtr 2026)	Shows whether the whole flow is growing; a shrinking GDP means a shrinking economy
Balance of trade — the value of exports minus imports of goods and services	Trade with the world	-\$2,441 million (March qtr 2026)	A negative balance means spending on imports exceeds export income — a net leakage from the flow



Four stat tiles. Tile 1 (blue header “July 2026”): 4.5%, unemployment rate, share of the labour force looking for work and not finding it. Tile 2 (orange header “year to June 2026”): 3.8%,

consumer price index (CPI), yearly rise, the average rise in the prices households pay. Tile 3 (green header “year to March qtr 2026”): +2.5%, gross domestic product (GDP), yearly growth, the value of everything produced inside Australia. Tile 4 (pink header “March quarter 2026”): -\$2,441m, balance of trade (goods and services), exports minus imports; negative means a trade deficit.

Figure 10: The four headline gauges, latest readings. Sources: ABS Labour Force, Australia; Consumer Price Index, Australia; Australian National Accounts; Balance of Payments and International Investment Position, Australia; all retrieved 26 August 2026.

Assessing appropriateness: how to judge a policy decision

The achievement standard for this band asks you to *assess the appropriateness* of specific government and RBA interventions. Appropriateness is always judged against a goal and the data, and reasonable people can disagree. A strong assessment does four things, and it is the reasoning — not the conclusion — that shows quality:

1. **Name the goal.** For the RBA: inflation between 2 and 3 per cent, with jobs kept as steady as possible. For the government’s budget: services funded, with taxes and spending set to suit the economy’s condition.
2. **Read the gauges.** Cite the actual numbers (Figures 7 and 10) and compare them with the goal.
3. **Weigh both sides fully.** Put the strongest case for the decision *and* the strongest case against it. A one-sided answer is a description of a preference, not an assessment.
4. **Make a reasoned judgement.** Choose a side because the evidence and the trade-off support it, and say what would change your mind.

Here is what that weighing looks like for the two big 2026 settings, with each side argued at full strength:

- **The RBA holding at 4.35% (12 August 2026).** *For the hold:* inflation was falling (3.8% to June 2026, down from 4.0% to May), the three rises earlier in 2026 had not yet fully worked through, and unemployment had already eased to 4.5% — raising rates again risked cooling jobs more than needed. *Against the hold:* at 3.8%, inflation was still well above the 2-3% target, the Board itself said policy was only “somewhat restrictive”, and a Middle East oil shock could push prices up again — holding risked letting high inflation settle into people’s expectations.
- **The deficit Budget 2026-27.** *For the deficit:* unemployment at 4.5% means some spare capacity in the labour market, public hospitals and roads need funding, and the deficit is small as a share of GDP (1.0%). *Against the deficit:* with inflation above target at 3.8%, adding a deficit’s worth of extra spending to the flow works against the RBA’s effort to cool prices — the two levers are pulling in opposite directions.

Economists genuinely disagree about both. Your job is not to guess which side your teacher prefers; it is to run steps 1-4 with real numbers.

Worked examples (scaffolded)

WE1 (VC2HE10K01.E01) — Sort the actions: fiscal, monetary or neither? Classify each action and give the one-word reason. (a) The RBA raises the cash rate target by 0.25 percentage points. (b) Parliament approves a \$1,000 instant tax deduction for workers. (c) A commercial bank raises the interest rate on its own home loans to win more profit. *Scaffold — work through the two tests in order:* Test 1: who is acting? Government/Parliament acting through taxing or spending = fiscal; the RBA acting through the cash rate target = monetary; a private business choosing its own price = neither. Test 2: which lever moved — a tax/spending item, or the cash rate target? *Model sorting:* (a) **Monetary** — the RBA moved its lever, the cash rate target. (b) **Fiscal** — Parliament changed taxation. (c) **Neither** — a bank's own pricing decision is not policy; only the RBA's cash rate target is monetary policy (though the bank's choice is what the cash rate works *through*).

WE2 (VC2HE10K01.E02) — Trace the 2026 tax cut through the circular flow. From 1 July 2026 the tax rate on incomes of \$18,201-\$45,000 fell from 16% to 15%. Trace this change around Figure 1, naming the sector and the flow at each step. *Scaffold — use the sentence chain:* “Government changes a flow → households' income changes → one household flow changes → producers feel it → producers respond.” *Model trace:* Step 1: government shrinks a leakage — **taxes** flowing from households to government fall (up to \$268 a year kept). Step 2: households' take-home **income** rises. Step 3: part of the extra income is spent — **consumer spending** on producers rises (part is saved, a leakage). Step 4: producers' sales revenue rises. Step 5: producers respond by producing and employing more — paying out more **income**, and the loop turns faster. One tax change, four flows moved.

WE3 (VC2HE10K01.E03) — Build the trade-balance number from its parts. ABS Balance of Payments, March quarter 2026: goods exports \$132,635 million; services exports \$36,388 million; goods imports \$126,038 million; services imports \$45,426 million. Compute the balance of trade and say what it means for the flow. *Scaffold — fill the two totals first:* Total exports = goods exports + ____ = . **Total imports** = ____ = . **Balance** = **exports** - **imports** = . *Model working:* Exports = 132,635 + 36,388 = \$169,023 million. Imports = 126,038 + 45,426 = \$171,464 million. Balance = 169,023 - 171,464 = **-\$2,441 million**, a trade deficit. For the flow: more spending leaked overseas on imports than came in from exports that quarter — a net leakage.

Worked examples (unscaffolded)

WE4 (achievement standard) — Assess the RBA's decision to hold the cash rate at 4.35% on 12 August 2026. *Model answer (4-step method):* **(1) Goal:** inflation of 2-3% with jobs steady. **(2) Gauges:** CPI 3.8% (year to June 2026), above target but falling from 4.0%; unemployment 4.5%, easing; GDP growing 2.5%. **(3) Both sides:** for holding — the three rises made earlier in 2026 had not yet fully worked through the chain in Figure 8, inflation was already falling, and pushing further risked lifting unemployment above what the economy needed; against holding — 3.8% is well above 3%, the Board judged policy only “somewhat restrictive”, and an oil-supply shock could re-ignite prices. **(4) Judgement:** holding was appropriate *for now*: with inflation falling and the earlier rises still feeding through, waiting buys information at small cost — but the decision would become inappropriate if the next CPI readings stop falling, which is exactly the condition the Board attached to its warning that further

risers may be needed. (Note: a well-reasoned judgement for the *opposite* conclusion, citing the same gauges, earns full marks — the reasoning carries the marks, not the side you choose.)

WE5 (VC2HE10K01.E01/E03) — Compute and classify the 2026-27 budget position, then comment. Budget 2026-27: receipts \$798.1 billion, payments \$829.6 billion. *Model answer:* Balance = receipts – payments = 798.1 – 829.6 = **-\$31.5 billion**: payments exceed receipts, so it is a **deficit** budget (1.0% of GDP). Comment: a deficit injects more spending into the circular flow than it withdraws — appropriate if the economy needs support (unemployment 4.5% shows some spare capacity), arguable if the priority is cooling inflation (CPI 3.8%, above the 2-3% target), because it adds spending while the RBA is trying to slow it.

Practice questions — scaffolded

Q1 (E01). Complete the sentences: Fiscal policy is run by _____ and uses two levers, _____ and _____. Monetary policy is run by _____ and works through its lever, the _____.

Q2 (E02). Using Figure 1: (a) name the money flow from households to producers; (b) name the money flow from producers to households; (c) name the two flows that carry money to government.

Q3 (E02). Copy the table and place each item: saving; taxes; imports; investment; government spending; exports.

Leakage (spending leaves the flow)

Injection (spending enters the flow)

Q4 (E03). Using the indicator table and Figure 10, which gauge answers each question? (a) “Are prices rising too fast?” (b) “Can people who want work find it?” (c) “Is the whole flow of production growing?” (d) “Is spending on the world leaving the flow faster than export income returns?”

Q5 (E01/E03). Figure 4 shows Budget 2026-27. (a) Is it a deficit, surplus or balanced budget? (b) How large is the gap, in billions? (c) In one phrase: what must the government do with the gap?

Q6 (E01). Read Figure 7. (a) What happened to the cash rate target during 2025? (b) What happened between February and May 2026? (c) What was the target on 12 August 2026?

Q7 (E03). Figure 5: (a) which year shows the largest planned deficit? (b) which year’s figure is an *actual* result rather than an estimate or forecast?

Q8 (E02). True or false — correct the false ones. (a) Money that households save leaves the circular flow forever. (b) Taxes are a leakage because they take spending out of the flow. (c) Exports are a leakage because the goods leave the country.

Practice questions — unscaffolded

Q9 (E01). Distinguish fiscal from monetary policy. For each, state: who decides it in Australia, one main lever, and one real 2026 example from this section. (3 marks)

Q10 (E02). Sketch a mini-poster of the circular flow with three sectors — households, producers, government — and label at least six flows. Then, on your poster, trace the 2026 tax cut (16% to 15% on \$18,201-\$45,000) by circling the first flow it changes and arrowing the next two flows it moves. (4 marks)

Q11 (E03). Using the ABS March-quarter-2026 figures in WE3, calculate the balance of trade in goods and services. Show your working, state whether it is a surplus or deficit, and explain in one sentence what a negative balance means for the circular flow. (3 marks)

Q12 (E01/E03). Calculate the 2026-27 budget balance from the receipts and payments in Figure 4 and classify the budget. Then give one argument *for* running this budget and one argument *against* it, each tied to a real gauge reading from Figure 10. (4 marks)

Q13 (E01). The RBA raised the cash rate target three times in February-May 2026, from 3.60% to 4.35%. Using the chain in Figure 8, explain how those rises were meant to cool inflation — and name one cost of doing so. (3 marks)

Q14 (E02). “The government is both a leakage and an injection in the circular flow.” Explain this claim using two named flows from Figure 1, and state which side was larger in 2026-27, with evidence. (3 marks)

Q15 (achievement standard). Assess the appropriateness of the RBA’s decision to leave the cash rate target at 4.35% on 12 August 2026. Use the four-step method from Theory and cite at least three real figures. (4 marks)

Q16 (achievement standard). Two economists examine the same deficit Budget 2026-27 and reach opposite conclusions about whether it is appropriate. Using the gauges in Figure 10, reconstruct the strongest reasoning on *each* side, then give your own reasoned judgement. (4 marks)

Answers

WE1. (a) Monetary — the RBA moved the cash rate target. (b) Fiscal — Parliament changed taxation. (c) Neither — a private bank's pricing decision is not policy. **WE2.** Taxes (leakage) fall → household income rises → consumer spending rises → producers' revenue rises → producers produce/employ more, paying more income. **WE3.** Exports \$169,023m; imports \$171,464m; balance $-\$2,441\text{m}$ = trade deficit = net leakage from the flow. **WE4.** See Fully-worked solutions. **WE5.** $-\$31.5\text{b}$, a deficit; support-for-jobs case vs adds-spending-while-inflation-high case. **Q1.** the Australian Government (Treasurer/Parliament); government spending; taxation; the Reserve Bank of Australia; cash rate target. **Q2.** (a) consumer spending. (b) income (wages, rent, interest, profit). (c) taxes paid by households and taxes paid by businesses. **Q3.** Leakages: saving, taxes, imports. Injections: investment, government spending, exports. **Q4.** (a) CPI. (b) unemployment rate. (c) GDP. (d) balance of trade. **Q5.** (a) deficit. (b) $\$31.5$ billion. (c) borrow it. **Q6.** (a) cut three times ($4.35\% \rightarrow 3.60\%$). (b) raised three times ($3.60\% \rightarrow 4.35\%$). (c) 4.35% , held. **Q7.** (a) 2028-29 ($-\$34.4\text{b}$). (b) 2024-25 (actual). **Q8.** (a) False — saving can return to the flow as investment. (b) True. (c) False — exports bring spending *into* the flow; they are an injection. **Q9.** Fiscal: Australian Government (Treasurer proposes, Parliament approves); lever = spending or taxation; example = 2026-27 deficit budget / tax cuts from 1 July 2026. Monetary: RBA (independent); lever = cash rate target; example = three rises to 4.35% in Feb-May 2026. **Q10.** Poster must show households, producers, government with six labelled flows (e.g. consumer spending, income, taxes, government spending, transfers, factors/goods). Tax-cut trace: taxes fall → income rises → consumer spending rises. **Q11.** $169,023 - 171,464 = -\$2,441$ million; deficit; more spending left the flow on imports than returned from exports (net leakage). **Q12.** $798.1 - 829.6 = -\$31.5\text{b}$, deficit. For: unemployment 4.5% shows spare capacity / services needed. Against: CPI 3.8% is above target, so extra flow-spending works against the RBA. **Q13.** Banks lift rates → borrowing costs more → spending and investment slow → less spending reaches producers → price pressure eases. Cost: jobs and growth soften (unemployment had already eased to 4.5%). **Q14.** Leakage = taxes paid by households and businesses; injection = government spending and transfers. In 2026-27 the injection side was larger: payments $\$829.6\text{b}$ > receipts $\$798.1\text{b}$ (deficit $\$31.5\text{b}$). **Q15.** Any judgement that names the 2-3% goal, cites ≥ 3 figures (e.g. CPI 3.8% and falling; unemployment 4.5% ; rate 4.35% after three rises), weighs both sides and concludes with reasoning. **Q16.** For the deficit: spare capacity (unemployment 4.5%), small deficit (1.0% of GDP), needed services. Against: inflation 3.8% above target, fiscal adds spending while monetary slows it. Own judgement reasoned from these.

Fully-worked solutions

Q11 (3 marks). Exports = goods exports + services exports = $\$132,635\text{m} + \$36,388\text{m} = \$169,023\text{m}$. (1 mark) Imports = goods imports + services imports = $\$126,038\text{m} + \$45,426\text{m} = \$171,464\text{m}$. Balance of trade = exports – imports = $\$169,023\text{m} - \$171,464\text{m} = -\$2,441$ million — a trade **deficit**. (1 mark) Meaning for the flow: spending leaving Australia on imports exceeded spending arriving from exports, so the overseas sector was a net leakage from the circular flow that quarter. (1 mark)

Q12 (4 marks). Balance = receipts – payments = $\$798.1\text{b} - \$829.6\text{b} = -\$31.5$ billion; payments exceed receipts, so Budget 2026-27 is a **deficit** budget. (2 marks: calculation + classification) Argument for, tied to a gauge: with unemployment at 4.5% , not everyone who wants work has it, so extra government spending puts idle labour and capacity to work. (1 mark) Argument against,

tied to a gauge: with the CPI at 3.8% — above the 2-3% target — a deficit adds spending to a flow the RBA is trying to slow, so the two policies work against each other. (1 mark)

Q13 (3 marks). Chain (2 marks for a correct four-link chain): the RBA's higher cash rate target → banks lift home-loan and business-loan rates → borrowing costs more and saving earns more, so household spending and business investment slow → less spending reaches producers, so production and hiring ease → upward pressure on prices eases toward the 2-3% target. Cost (1 mark): the same slowing softens jobs and growth — unemployment had already risen to 4.5% by July 2026.

Q15 (4 marks). Step 1, goal (1 mark): the RBA aims for inflation of 2-3% with jobs steady (9th Statement on the Conduct of Monetary Policy). Step 2, gauges (1 mark): CPI 3.8% (year to June 2026) — above target but down from 4.0% to May; unemployment 4.5% and easing; cash rate 4.35% after three rises in Feb-May 2026; GDP +2.5%. Step 3, both sides (1 mark): for holding — earlier rises had not fully worked through, inflation was falling, and a further rise risked unnecessary job losses; against holding — 3.8% is well above 3%, policy was only “somewhat restrictive”, and an oil shock could push prices up again. Step 4, reasoned judgement (1 mark): any conclusion that follows from the cited evidence, e.g. “appropriate for now, wrong if CPI stops falling” or “too soft, because 3.8% and an oil shock demand firmer policy” — marks go to the linkage of evidence to judgement, not to the side chosen.

Q16 (4 marks). Side A, for the deficit (1-2 marks for a full case): unemployment 4.5% means spare capacity, so deficit spending (−\$31.5b, only 1.0% of GDP) employs idle resources and funds hospitals and roads without serious inflation risk. Side B, against the deficit (1-2 marks for a full case): CPI at 3.8% is above target, so adding net spending to the flow while the RBA raises rates to cool it makes inflation harder to beat; the planned deficits also run through to 2029-30 (Figure 5). Own judgement (remaining marks): a stated position that engages with both cases, e.g. “the deficit is appropriate in size but mistimed while inflation is above target” or the reverse — scored on reasoning, not conclusion.

Sources

All sources retrieved 26 August 2026 unless stated.

- Reserve Bank of Australia, cash rate target history, rba.gov.au/statistics/cash-rate.
- Reserve Bank of Australia, Statement by the Monetary Policy Board (Media Release 2026-19), 11 August 2026.
- Reserve Bank of Australia and Australian Government, 9th Statement on the Conduct of Monetary Policy, 10 July 2025 (inflation target of 2-3 per cent).
- Australian Bureau of Statistics, Consumer Price Index, Australia, June 2026.
- Australian Bureau of Statistics, Labour Force, Australia, July 2026.
- Australian Bureau of Statistics, Australian National Accounts, March quarter 2026.
- Australian Bureau of Statistics, Balance of Payments and International Investment Position, Australia, March quarter 2026.
- Australian Government, Budget Paper No. 1, Budget 2026-27, Table 3.1 and Statement 1, budget.gov.au.

- Australian Government, cost-of-living measures (tax cuts from 1 July 2026; \$1,000 instant deduction), budget.gov.au.
- Victorian Curriculum F-10 Version 2.0, Economics and Business, Levels 9 and 10 (VC2HE10K01 and elaborations; achievement standard extract).

How and why government and the Reserve Bank intervene: performance and living standards

*Content description VC2HE10K02: the ways government and the Reserve Bank of Australia intervene in the economy to improve economic performance and living standards. Elaborations drawn on: VC2HE10K02.E01, VC2HE10K02.E02, VC2HE10K02.E03, VC2HE10K02.E04. By the end of this section you should be able to **assess the appropriateness** of specific government and Reserve Bank economic interventions — that is, weigh each one against what it was trying to achieve.*

Section 1A introduced the circular flow model and named the two big policy levers: **fiscal policy** (the government's spending and taxing decisions) and **monetary policy** (the Reserve Bank's interest-rate settings). This section asks *why* the Australian Government and the Reserve Bank of Australia (RBA) use those levers at all, *how* each lever works in practice, and what each one does for economic performance and living standards.

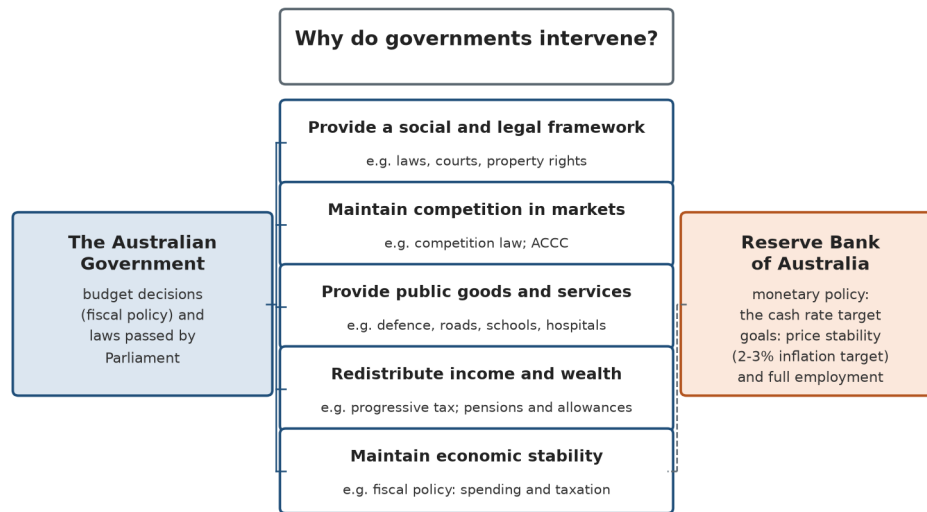
Theory

Five reasons governments intervene

Markets do many things well: prices carry information, and self-interested buyers and sellers usually move resources to where they are valued. But markets can also fail — some goods would not be produced at all, some firms can become too powerful, and incomes can end up very uneven. For those reasons, every mixed economy has government intervention. Economists group the reasons into five (Figure 1):

1. **Provide a social and legal framework.** The economy runs on rules: laws, courts and property rights, enforced by bodies such as the Australian Competition and Consumer Commission (ACCC).
2. **Maintain competition.** Competition law stops firms fixing prices or bullying rivals out of a market, so prices stay fair and firms keep improving.
3. **Provide public goods and services.** A **public good** is something that, once provided, everyone can use and one person's use does not leave less for others — national defence is the classic example. Private firms cannot easily charge for such goods, so government supplies them, along with services like public schools and hospitals.
4. **Redistribute income and wealth.** Taxes and payments shift some income from higher earners to people who need it more — retirees, job seekers, students.
5. **Maintain economic stability.** Government tries to smooth the ups and downs of the business cycle: keeping inflation low, unemployment low and growth steady.

Economic intervention in Australia: who intervenes, why and how



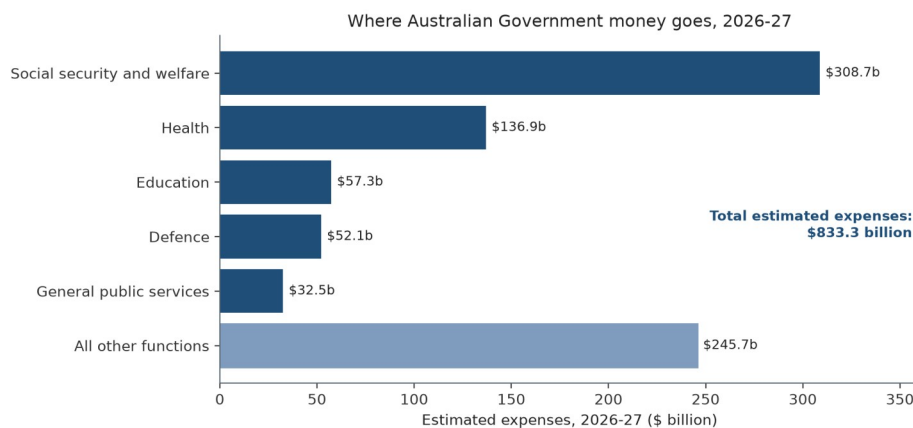
Original model drawn for this section. ACCC = Australian Competition and Consumer Commission.

Figure 1. Who intervenes in the Australian economy, why and how.

The RBA is the fifth reason's other half. It is Australia's central bank — the bank that banks and the government bank with — and it intervenes through **monetary policy**, mainly by setting the **cash rate** target. Its goals are **price stability** (the 2-3% inflation target, on average over the medium term) and **full employment** (as much work for willing workers as the economy can sustain).

How the government intervenes: the Budget

The government's main tool is its Budget — the yearly statement of what it will spend, what it will tax and what it will borrow. The 2026-27 Budget plans \$833.3 billion of expenses (Budget Paper No. 1, retrieved 26 Aug 2026). Figure 2 shows where that money goes.

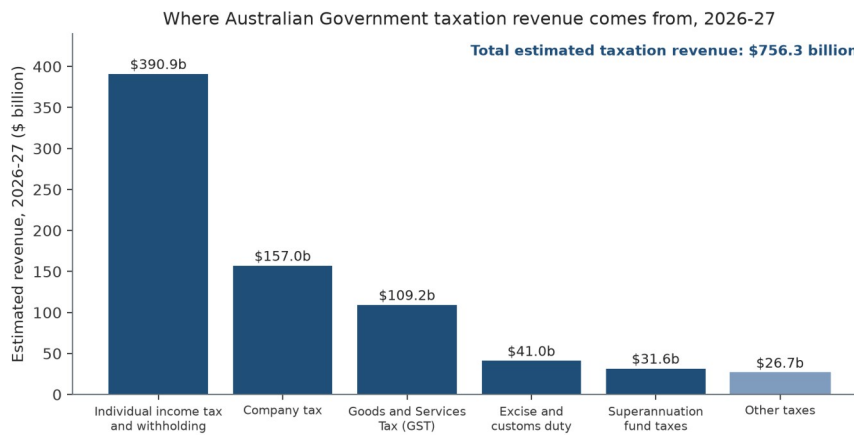


Source: Australian Government, Budget Paper No. 1 2026-27, Statement 6, Table 6.3. 'All other functions' includes debt interest and transfers to the states. Retrieved 26 Aug 2026.

Figure 2. Where Australian Government money goes, 2026-27.

The two biggest single items — social security and welfare, and health — are reasons 4 and 3 in action: redistribution and public services.

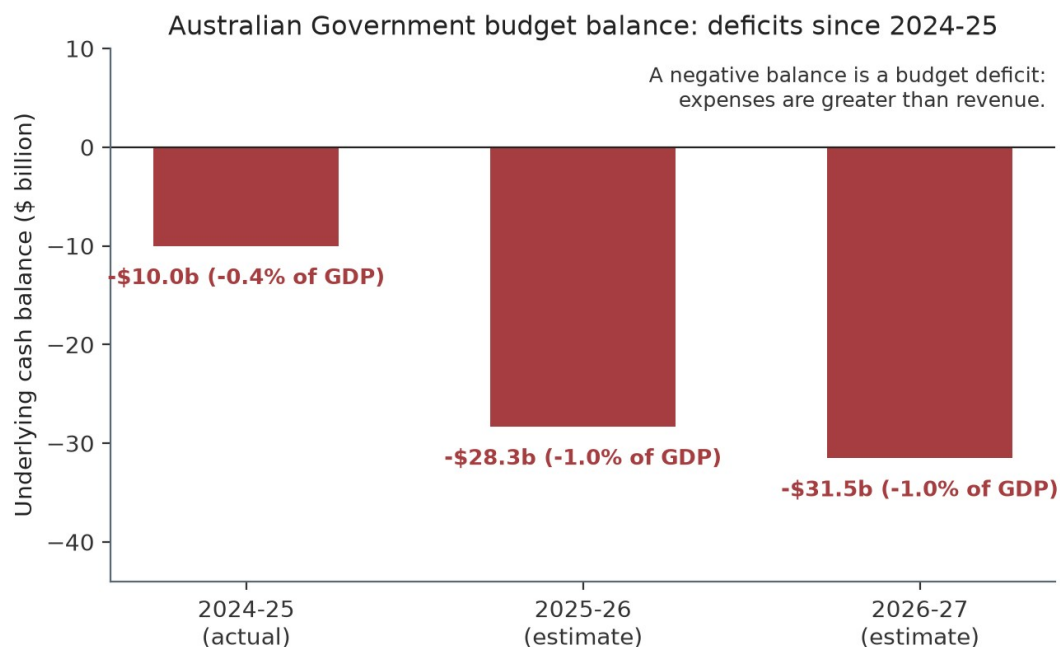
The money comes mainly from taxation: \$756.3 billion estimated in 2026-27 (Figure 3).



Source: Australian Government, Budget Paper No. 1 2026-27, Statement 5, Table 5.10. 'Other taxes' includes fringe benefits tax, the major bank levy and visa charges. Retrieved 26 Aug 2026.

Figure 3. Where Australian Government taxation revenue comes from, 2026-27. (Superannuation is the scheme under which employers must set aside part of your wage for your retirement.)

In 2026-27 the government plans to spend more than it raises, so the Budget is in **deficit** — a negative **budget balance**. Figure 4 shows the underlying cash balance, the government's headline measure of the gap.



Source: Australian Government, Budget Paper No. 1 2026-27, Statement 1, Table 1.2. Retrieved 26 Aug 2026.

Figure 4. Budget deficits since 2024-25. Running a deficit is itself an intervention: the government is adding spending to the economy that it does not tax back out.

Redistribution in practice: progressive tax and transfers

Australia's personal income tax is **progressive**: each extra dollar of income is taxed at a higher **marginal rate**, so higher incomes pay a higher **average rate** (Figure 5). Using the legislated 2025-26 rates, a taxable income of \$60,000 pays \$8,788 in tax (an average rate of 14.6%), while \$150,000 pays \$36,838 (24.6%).

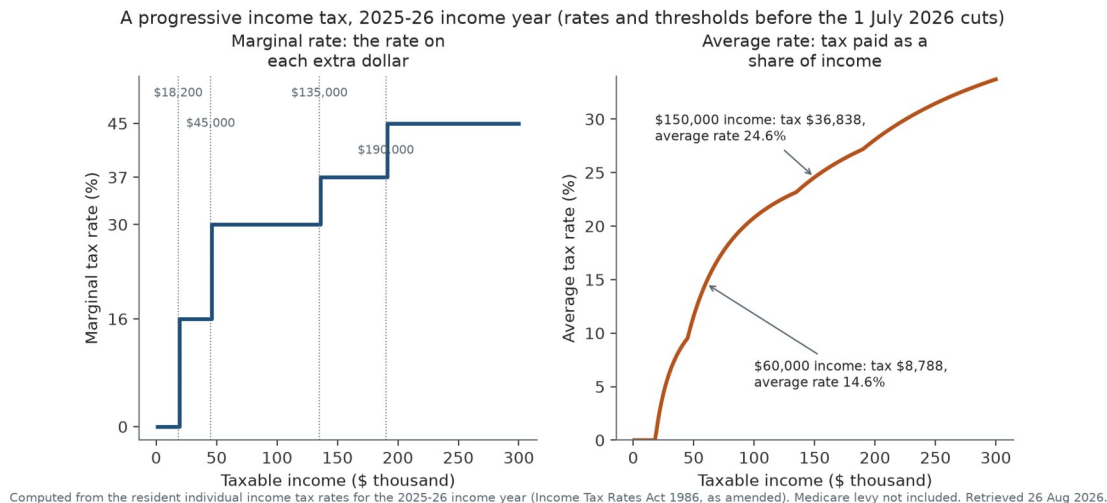


Figure 5. A progressive income tax: marginal and average rates, 2025-26 income year (before the 1 July 2026 cuts).

Tax changes are also interventions. The 2026-27 Budget cut personal income tax for every worker earning above roughly \$20,000, with the dollar cut rising with income (Figure 6).

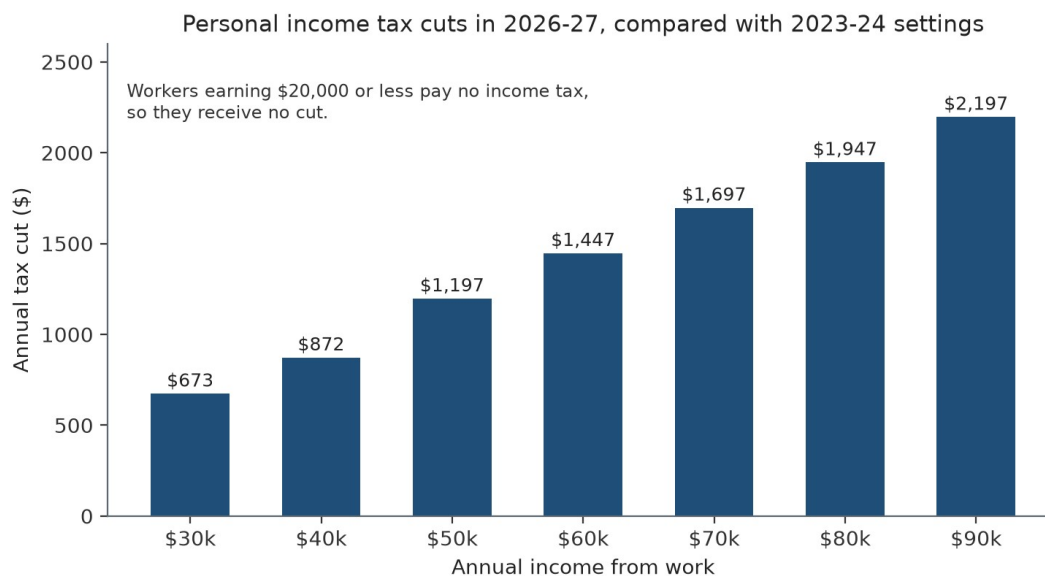


Figure 6. Personal income tax cuts in 2026-27.

The other side of redistribution is **income transfers** — regular payments such as the Age Pension, JobSeeker Payment and Youth Allowance (Figure 7; rates from Services Australia, retrieved 26 Aug 2026).

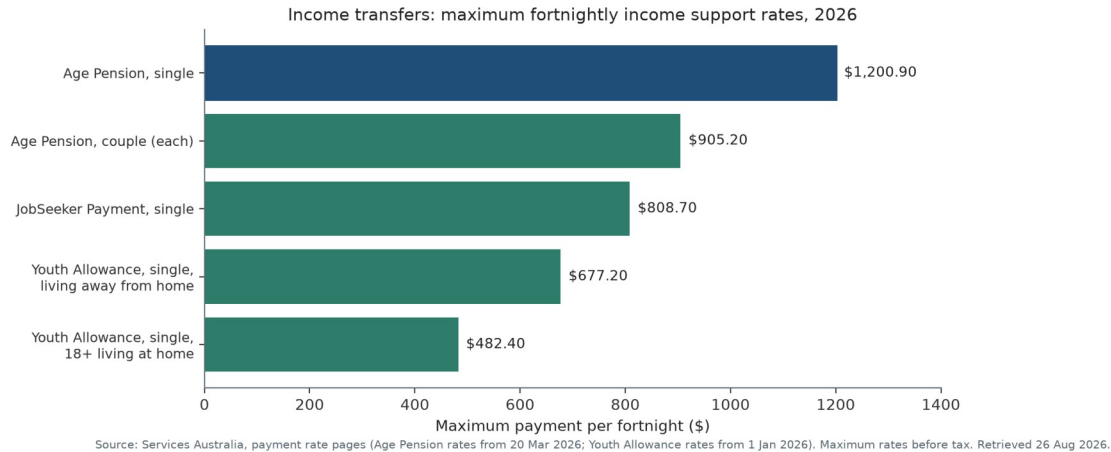


Figure 7. Income transfers: maximum fortnightly income support rates, 2026.

Contested terms — fairness, poverty and how far to redistribute. The curriculum says governments may aim for a more *equitable* distribution of income, but it does not define that word, and reasonable people disagree about what fairness requires. This book uses these working definitions: **equality** means everyone gets the same; **fairness** here usually means more support goes to those with greater need. Australia has **no official poverty line**; researchers (for example the OECD) commonly call a household poor when its income, after tax and transfers, falls below half of the middle household's income.

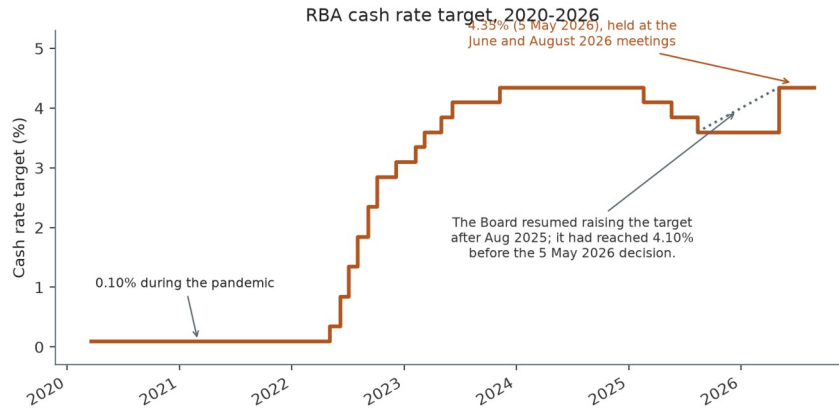
On how far government should redistribute, steelman (state as strongly as possible) both sides:

- **For stronger redistribution:** it prevents poverty and hardship; it gives children from low-income families a fairer start; a society that shares its gains holds together better; and transfers automatically support spending when the economy turns down.
- **Against stronger redistribution:** high taxes can weaken the incentive to work, save, invest and start businesses, shrinking the pie everyone shares; government is better at growing the pie than dividing it; and picking winners and losers is costly and imperfect.

In this subject you are marked on the quality of your reasoning — evidence, costs and benefits, trade-offs — never on which side you land on.

How the RBA intervenes: the cash rate

The RBA's main tool is the **cash rate** target — the interest rate banks charge each other for overnight loans. When the target moves, most other interest rates (home loans, car loans, savings accounts) move with it. Figure 8 shows the target since 2020.

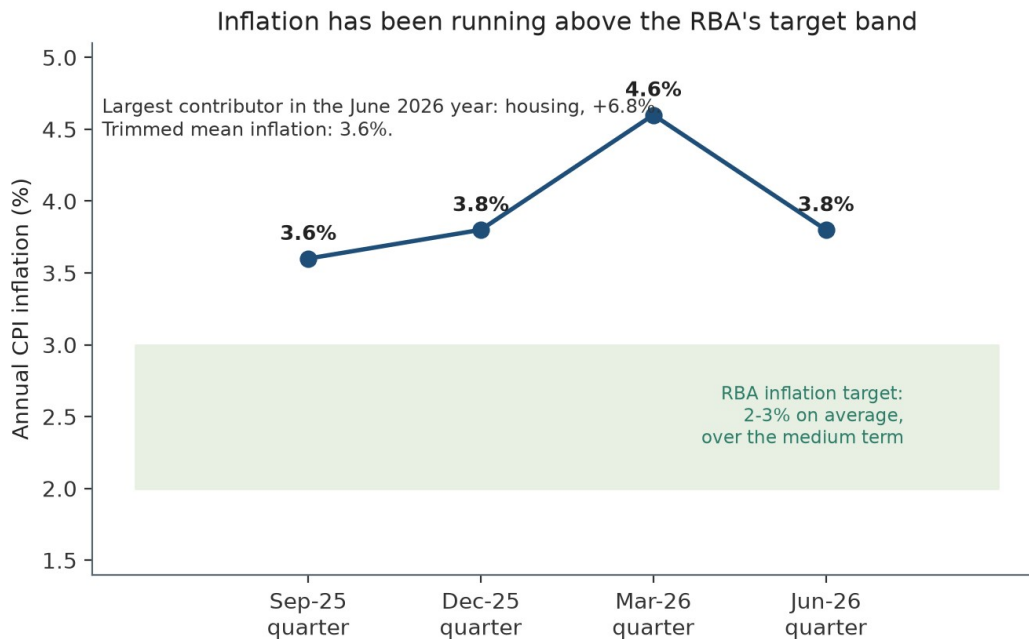


Source: Reserve Bank of Australia, cash rate target decisions (rba.gov.au); 2026 values cross-checked against SBS News reporting of the 11 August 2026 decision. Retrieved 26 Aug 2026.

Figure 8. The RBA cash rate target, 2020-2026.

The logic runs both ways. Raising the cash rate makes borrowing dearer and saving more rewarding, so households and firms spend less; slower spending growth eases the pressure on prices. Cutting it does the opposite. So the rate is the RBA's lever for reason 5 — stability.

Was the lever needed recently? Figure 9 shows annual **inflation** — the yearly percentage rise in consumer prices, measured by the consumer price index — against the 2-3% target band.



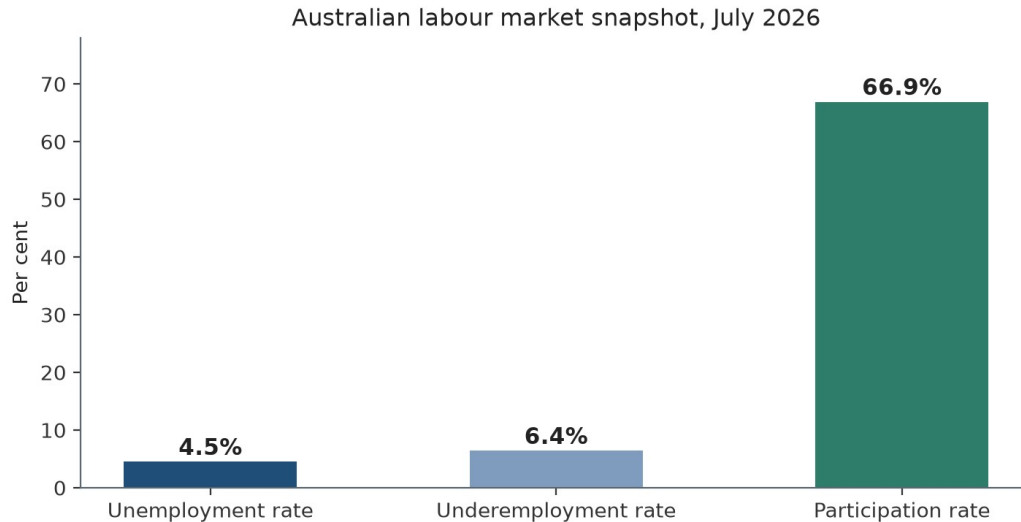
Source: ABS, Consumer Price Index, Australia, June quarter 2026. Retrieved 26 Aug 2026.

Figure 9. Inflation has been running above the RBA's target band.

With inflation above the band — and housing costs up 6.8% in the year to the June quarter 2026 (ABS, retrieved 26 Aug 2026) — the Board judged that the appropriate intervention was to raise the target back to 4.35% on 5 May 2026 and hold it there through the June and August 2026 meetings, accepting some cost to borrowers in order to bring price growth back to target.

Performance and living standards

Economic performance is how well the economy is running, judged by indicators such as economic growth, inflation and unemployment. Australia's economy (real gross domestic product, or **GDP** — the total value of goods and services produced) grew 2.5% in the year to the March quarter 2026 (ABS National Accounts, retrieved 26 Aug 2026). Figure 10 is a labour-market snapshot.

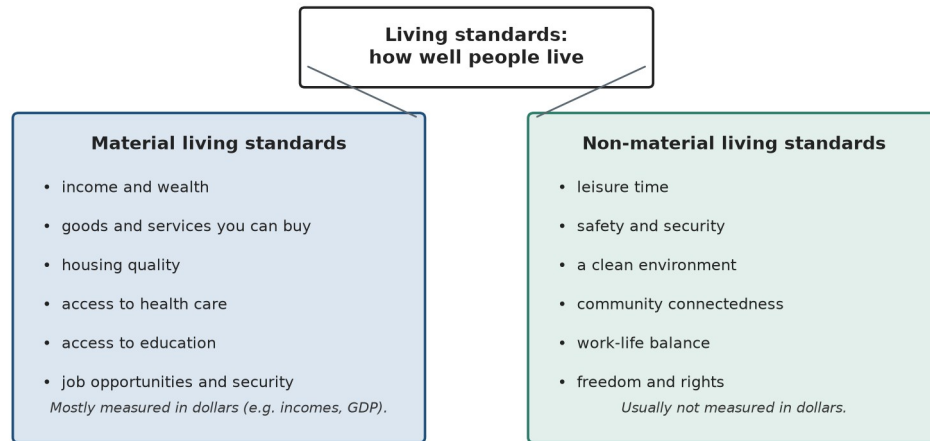


Source: ABS, Labour Force, Australia, July 2026 (seasonally adjusted). Retrieved 26 Aug 2026.

*Figure 10. Australian labour market snapshot, July 2026. The **unemployment rate** is the share of the labour force actively looking for work; the **underemployment rate** adds people working fewer hours than they want; the **participation rate** is the share of people aged 15 and over in or seeking work.*

Living standards — how well people live — have two sides (Figure 11).

Two sides of living standards

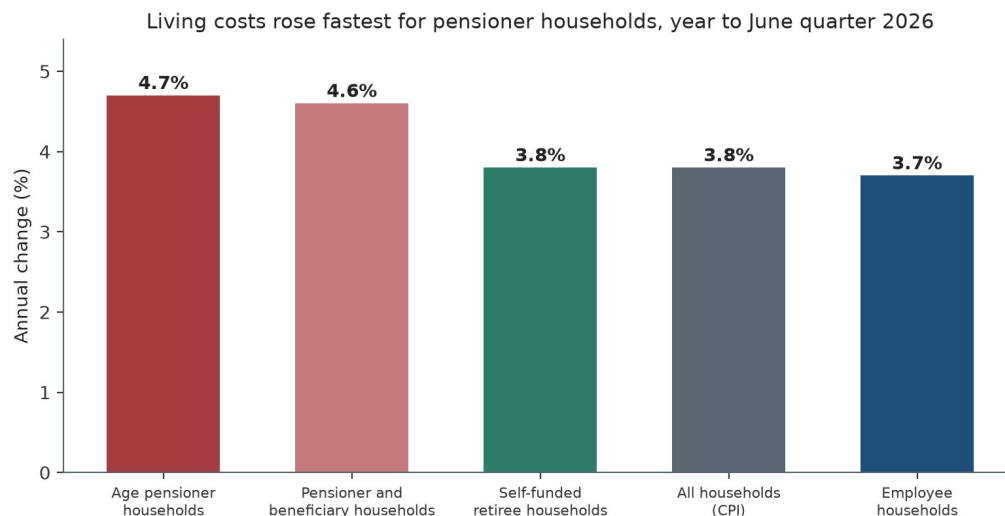


Original model drawn for this section.

Figure 11. Two sides of living standards.

GDP growth mainly measures the material side. It says little about leisure, safety, a clean environment or how the income is shared — which is why living standards and GDP are not the same thing.

Living standards also vary *between* groups, and inflation is one force that shapes the variation. Different households buy different things, so they face different price rises. Figure 12 uses the ABS Selected Living Cost Indexes (retrieved 26 Aug 2026).



Source: ABS, Selected Living Cost Indexes, Australia, June quarter 2026. Retrieved 26 Aug 2026.

Figure 12. Living costs rose fastest for pensioner households.

Pensioner households faced 4.7% higher costs while employee households faced 3.7% — a full percentage point more, driven by the faster-rising items (such as housing and utilities) that take a larger share of a pensioner’s budget. Whether wages and pensions keep up matters too: wages rose 3.2% in the year to the June quarter 2026 (ABS Wage Price Index, retrieved 26 Aug 2026), behind the 3.8% rise in consumer prices. Unemployment and poverty are the other great forces: a household that loses its job drops from wages to JobSeeker (\$808.70 a fortnight for a single person — Figure 7), and households near or below half the middle income (the OECD’s common poverty measure) find the material side of Figure 11 out of reach. That is precisely why reasons 4 and 5 — redistribution and stability — sit on the government’s list.

How to assess an intervention (the skill this section builds): name the goal; read the evidence; trace the costs and the benefits; then make a weighed judgement about whether the intervention was appropriate. The worked examples and questions that follow all use this recipe.

Worked examples

Example 1 — scaffolded

Using the legislated 2025-26 rates (Figure 5), calculate the income tax on a taxable income of \$60,000, and the average tax rate.

Working	Comment
First \$18,200: tax \$0.	The tax-free threshold.
\$18,200 to \$45,000: \$26,800 at 16c per dollar: $0.16 \times 26,800 = \$4,288$.	The 16% marginal bracket.
\$45,000 to \$60,000: \$15,000 at 30c per dollar: $0.30 \times 15,000 = \$4,500$.	The 30% marginal bracket.
Total: $4,288 + 4,500 = \$8,788$. Average rate: $8,788 \div 60,000 \approx 14.6\%$.	Matches the right panel of Figure 5. ✓

Example 2 — scaffolded

Assess the appropriateness of the RBA raising the cash rate target to 4.35% on 5 May 2026.

Working	Comment
Goal: price stability — inflation at 2-3% on average over time.	Name the goal.
Evidence: consumer price index inflation 3.6-4.6% across the four quarters to June 2026; trimmed mean 3.6%. Above the band.	Read the evidence (Figure 9).
Reasoning: a higher cash rate makes borrowing dearer and saving more rewarding, cooling spending and price growth.	Trace the mechanism.
Costs: dearer mortgages and business loans; some risk to jobs. Benefits: lower inflation	Weigh costs against benefits (Figures 8, 10).

Working	Comment
protects every household's purchasing power. Unemployment 4.5% is still low, so the labour market has room to absorb the cooling. Judgement: with inflation above target for an extended period, raising and holding the rate was an appropriate intervention — the benefit (returning to target) outweighs the cost while unemployment stays low. <i>Example 3 — unscaffolded</i> The 2026-27 tax cuts (Figure 6) give \$673 to a worker on \$30,000 and \$2,197 to a worker on \$90,000, and nothing to anyone on \$20,000 or less. Assess the tax cuts as a tool for redistributing income. The dollar value of the cut rises with income, and the lowest earners receive nothing (they pay no tax), so as <i>redistribution</i> the cuts are weak: the most money flows to higher-income workers, the opposite direction to transfers such as the Age Pension. A supporter of the cuts would answer that their goal was never redistribution but fairness of a different kind — letting every taxpayer keep more of their own income — and that lower earners received larger cuts <i>relative to the tax they paid</i>. The assessment therefore hinges on the goal you test the policy against: against the goal “shift income to lower earners”, the cuts are inappropriate compared with targeted transfers; against the goal “reduce everyone's tax burden”, they do what they say. Stating the goal before judging is what makes the assessment sound. <i>Example 4 — unscaffolded</i> In the year to the June quarter 2026, living costs rose 4.7% for age pensioner households and 3.7% for employee households (Figure 12). Explain what this difference means for living standards, and give one non-material factor the figures cannot capture. A single person on the maximum Age Pension received \$1,200.90 a fortnight (Figure 7), about \$31,200 a year. If their costs rose 4.7% while an employee household's rose 3.7%, the pensioner lost more purchasing power than the employee unless pension rises matched or beat 4.7% — and because pensioners spend a larger share of a smaller income on fast-rising items like housing and utilities, the same inflation bites harder. Materially, the gap widens inequality of living standards between the two groups. Non-materially, the chart cannot say how secure, healthy or connected those pensioners feel; a pensioner with stable housing and strong community ties may report higher living standards than a richer but stressed and time-poor employee household. Living standards are judged on both sides of Figure 11.	Assess = weighed judgement against the goal.

Practice questions

Scaffolded

Q1. List three of the five reasons governments intervene in the economy, giving one Australian example for each.

Q2. Use Figure 2. (a) Name the largest single spending function in 2026-27 and its amount. (b) Show that social security and welfare is about 37% of total estimated expenses. (c) Which of the five reasons for intervention does this spending mainly serve?

Q3. Use Figure 3. (a) Which single tax raises the most revenue, and how much? (b) About how many times larger is it than the GST? (c) Why does a company tax exist at all — which reason for intervention does it connect to?

Q4. (a) Define *budget deficit*. (b) Figure 4 shows deficits in all three years. Express the 2026-27 deficit as a percentage of GDP. (c) Give one benefit and one cost of running a deficit.

Q5. Use Figure 8. (a) State the cash rate target during the pandemic. (b) State the target after 5 May 2026. (c) In one sentence, why did the RBA raise the target so steeply through 2022-23?

Q6. Use Figure 7. (a) State the maximum fortnightly Age Pension for a single person. (b) Calculate how much more per fortnight that is than the single JobSeeker Payment. (c) Which reason for intervention do these transfers serve?

Un scaffolded

Q7. Explain, using the two average-rate figures in Figure 5, why Australia's personal income tax is called *progressive*, and how that design redistributes income.

Q8. Assess the appropriateness of the RBA holding the cash rate at 4.35% at its August 2026 meeting. Use Figures 8, 9 and 10, and give one cost of holding the rate there.

Q9. "GDP growth is not the same as rising living standards." Explain this claim with one material and one non-material example.

Q10. Assess the 2026-27 tax cuts (Figure 6) as an intervention to improve the living standards of low-income households. Refer to who receives what, and name one alternative intervention that targets low incomes more directly.

Answers

Q1. Any three of: social and legal framework (laws, courts, property rights, the ACCC); maintain competition (competition law enforced by the ACCC); public goods and services (defence, roads, public schools and hospitals); redistribute income and wealth (progressive tax, the Age Pension); maintain economic stability (Budget spending and taxation, the RBA's cash rate). **Q2.** (a) Social security and welfare, \$308.7 billion. (b) $308.7 \div 833.3 \approx 0.37 = 37\%$. (c) Mainly redistribution (reason 4), with public services (reason 3). **Q3.** (a) Individual income tax and withholding, \$390.9 billion. (b) $390.9 \div 109.2 \approx 3.6$ times. (c) Companies use the legal framework, infrastructure and educated workers the state provides; company tax is their contribution, and it also limits how much income high earners can shelter in companies — reasons 1 and 4. **Q4.** (a) A budget deficit occurs when government expenses exceed revenue in a year. (b) -1.0% of GDP. (c) Benefit: the extra spending supports jobs and services (stability). Cost: the gap is borrowed, so future budgets carry debt interest. **Q5.** (a) 0.10%. (b) 4.35%. (c) To cool spending and bring high inflation back towards the 2-3% target. **Q6.** (a) \$1,200.90. (b) $1,200.90 - 808.70 = \$392.20$ per fortnight. (c) Redistribution of income (reason 4). **Q7.** The average rate rises with income — 14.6% at \$60,000 but 24.6% at \$150,000 — so higher incomes contribute a larger share of each extra dollar earned; the revenue funds transfers and services that flow mostly to lower-income households, shifting income down the distribution. **Q8.** Appropriate: inflation (3.8% to June 2026, trimmed mean 3.6%) was still above the 2-3% band after peaking at 4.6%, so holding a restrictive rate continues the return to target; unemployment at 4.5% shows the labour market can carry it. Cost: borrowers (mortgage holders, some businesses) keep paying high interest, which also cools hiring and can lift unemployment. **Q9.** Material: GDP can rise while rents rise faster for low-income renters, leaving them worse off (Figure 12 shows pensioners' costs outpacing employees'). Non-material: longer working hours can lift GDP while cutting leisure and work-life balance; cleaner air or safer streets raise living standards without appearing in GDP. **Q10.** Weak as redistribution: the dollar cut rises with income (\$673 at \$30,000 to \$2,197 at \$90,000) and households on \$20,000 or less receive nothing, so the least goes to the lowest incomes. For a low-income working household the cut still helps at the margin (e.g. \$673 $\approx$ a fortnight's rent for some), but a more direct intervention is an income transfer (raising JobSeeker or rent assistance) or a refund that also reaches people with no tax to cut. Judgement: appropriate if the goal is broad-based tax relief; inappropriate if the goal is targeting low incomes.

Fully-worked solutions

Q1. The five reasons are: provide a social and legal framework; maintain competition; provide public goods and services; redistribute income and wealth; maintain economic stability. Any three with examples earns full marks, e.g. framework — laws, courts and property rights enforced by bodies such as the ACCC; public goods — national defence and public hospitals; redistribution — the progressive income tax funding the Age Pension.

Q2. (a) Social security and welfare, \$308.7 billion. (b) $308.7 \div 833.3 = 0.370\dots$, so about 37% of the \$833.3 billion total. (c) It mainly serves reason 4, redistribution — pensions and allowances move income to retirees and low-income households — with reason 3 (public services) alongside, since welfare also buys services for the community.

Q3. (a) Individual income tax and withholding, \$390.9 billion — more than half of all taxation revenue. (b) $390.9 \div 109.2 \approx 3.6$, so roughly three and a half times the GST. (c) Companies operate inside the state's legal framework and rely on its infrastructure and educated workforce; company tax (\$157.0 billion) is their contribution to that, and it also stops high earners sheltering personal income in companies — connecting to reasons 1 and 4.

Q4. (a) A budget deficit is the situation in which a government's expenses in a year are greater than its revenue; the balance is negative. (b) The 2026-27 deficit of \$31.5 billion equals 1.0% of GDP. (c) Benefit: deficit spending adds to demand, supporting jobs and services (reason 5, stability). Cost: the gap must be borrowed, and the debt carries interest that future budgets must pay (Figure 2's "all other functions" includes that debt interest).

Q5. (a) 0.10% from March 2020, to support spending through the pandemic. (b) 4.35%, set on 5 May 2026 and held at the June and August 2026 meetings. (c) Inflation had surged well above the 2-3% target, so the Board raised the target from 0.10% to 4.35% over 2022-23 to cool borrowing and spending and bring price growth back down.

Q6. (a) \$1,200.90 per fortnight (maximum, single). (b) $1,200.90 - 808.70 = \$392.20$ more per fortnight. (c) Reason 4: redistribution of income and wealth — transfers move income to people who are older, between jobs or studying.

Q7. A tax is progressive when the average rate rises as income rises. Figure 5's right panel shows exactly this: a taxable income of \$60,000 pays an average 14.6%, while \$150,000 pays 24.6%, because each extra dollar is taxed at a higher marginal rate (16%, then 30%, then 37%, then 45%). The design redistributes in two steps: higher-income households contribute a larger share of their income, and the revenue funds transfers (Figure 7) and universal services that lower-income households rely on more heavily, shifting income down the distribution.

Q8. Follow the assess recipe. Goal: price stability, 2-3% on average. Evidence: consumer price index inflation 3.8% in the year to the June quarter 2026 and trimmed mean 3.6% — above the band, after peaking at 4.6% in the March quarter (Figure 9). Reasoning: holding the target at 4.35% keeps borrowing dearer than usual, continuing to cool spending growth until inflation settles back in the band. Costs: mortgage holders and borrowing businesses keep paying high interest; prolonged high rates also risk lifting unemployment. Weighing: unemployment was 4.5% and participation 66.9% (Figure 10), so the labour market remains strong enough to absorb the cooling. Judgement: holding the rate was appropriate — the marginal benefit of returning inflation to target outweighs the cost to borrowers, though the Board would need to revisit that judgement if unemployment began to climb.

Q9. GDP measures the market value of output — the material side of Figure 11 — so it can rise while living standards do not. Material example: in the year to June 2026, pensioner households' living costs rose 4.7% against 3.7% for employee households; if incomes do not keep up, those households are poorer in a growing economy, and GDP says nothing about the gap. Non-material example: leisure time, safety, a clean environment and work-life balance are in Figure 11's right column; a household working a second job adds to GDP but loses leisure and balance, and cleaner air raises living standards without showing up in GDP at all. Hence growth is one input to living standards, not a synonym for them.

Q10. Goal first: if the goal is lifting low-income living standards, test who receives what. Figure 6 gives \$673 at \$30,000 rising to \$2,197 at \$90,000, and nothing at \$20,000 or below — the households with the least income receive the least or nothing, because a tax cut can only reach people who pay tax. Benefits: low-paid workers still gain (\$673 is real money for a \$30,000 household) and take-home pay rises for every worker, supporting spending. Costs/limits: the dollar value flows mostly to higher incomes, so per dollar spent the cuts do less for low incomes than a targeted alternative would. Alternative intervention: an income transfer — for example a rise in JobSeeker, rent assistance or a payment that reaches people with no tax liability — targets low incomes directly. Judgement: the cuts are appropriate as broad-based support for workers' take-home pay, but inappropriate as the main tool for raising low-income living standards; transfers do that job more directly. A strong answer is marked on this weighing of evidence against a stated goal, not on agreeing or disagreeing with the policy.

Economic indicators: measuring performance, shaping decisions

Curriculum trace. Content description **VC2HE10K03**: “economic indicators as a measurement of economic performance and their influence on economic decision-making”. Elaborations: **VC2HE10K03.E01** “investigating what each of the following key economic indicators are, how each is calculated and what each shows about the economy: ‘gross domestic product (GDP)’, ‘share market fluctuations’, ‘unemployment rate’, ‘consumer price index (CPI)’, ‘balance of trade’, ‘interest rates’”; **VC2HE10K03.E02** “visiting the Australian Bureau of Statistics website to find out the current: population of Australia, CPI, GDP, average weekly earnings and unemployment rate”; **VC2HE10K03.E03** “visiting the Australian Bureau of Statistics website and using the data by region page to find economic data about different regions in Australia, comparing selected economic indicators, such as population, median income, number of businesses or number of jobs, between 2 local government areas and 2 states, and presenting the data on a table and drawing 5 conclusions based on the data”. Achievement standard (Levels 9 and 10): “They explain the interdependence of the different sectors of the economy, identify and analyse the economic indicators used to measure economic performance, and assess the implications of Australia’s participation in the global economy via international trade.”

Every month, the Australian Bureau of Statistics (ABS) publishes the latest unemployment rate. Every three months it publishes GDP, the CPI and the balance of trade. Eight times a year, the Reserve Bank of Australia (RBA) announces its cash rate decision. Within minutes these numbers become news headlines — “unemployment up”, “inflation eases” — and within weeks they help shape budgets, interest rates, business plans and household choices. This section opens up those numbers: what each of Australia’s six key economic indicators is, how each is calculated, what each shows about the economy — and then how decision-makers use them. Every figure in this section is real, from the ABS, the RBA and ASX market data, retrieved 26 August 2026.

A word about the title. The curriculum asks about measuring “economic performance” but does not define the term, so this section states its working meaning. Here, **economic performance** means how well the economy is doing against its main goals: producing more goods and services, keeping people in work, keeping prices stable, and trading strongly with the world. The indicator readings themselves are measurable facts — 4.5% unemployment is what the survey found. What counts as *good* performance is contested: people disagree about which goals matter most, and about whether any single number can speak for the whole economy. That disagreement is examined under GDP below, and Section 1B takes it further through living standards.

Theory

1. What an economic indicator is (VC2HE10K03)

An **economic indicator** is a regularly published number that measures one part of the economy. Indicators do three jobs:

1. **Measure performance** — is the economy growing, are prices stable, are people finding work?

2. **Compare** — across time (this year against last year) and across places (Victoria against Western Australia).
3. **Shape decisions** — governments, the RBA, businesses and households all read the same numbers before acting.

Australia's working set has six key indicators, shown together in Figure 1. Notice the rhythm: some update every trading day (the share market), some monthly (unemployment), some quarterly (GDP, CPI, balance of trade). A **quarter** is a three-month stretch; the ABS reports four times a year. Because the indicators update at different speeds, no single day's news tells the whole story — the economy is read like a dashboard, not a single gauge.

The six key economic indicators, and where each one comes from

Indicator	What it measures	Who publishes it, how often	Latest reading
Gross domestic product (GDP)	the total value of goods and services produced inside Australia	ABS, Australian National Accounts, every quarter	+2.5% through the year to March qtr 2026
Consumer price index (CPI)	the average movement in the prices households pay	ABS, Consumer Price Index, every quarter (and monthly)	3.8% annual rise, year to June qtr 2026
Unemployment rate	the share of the labour force looking for work and not finding it	ABS, Labour Force, every month	4.5%, July 2026
Balance of trade	the value of exports minus the value of imports of goods and services	ABS, Balance of Payments, every quarter	-\$2,441 million, March qtr 2026 (a deficit)
Interest rates (cash rate target)	the base price of borrowing money in the economy	RBA Monetary Policy Board, meets through the year	4.35%, held at the August 2026 meeting
Share market (S&P/ASX 200)	the share prices of Australia's 200 biggest listed companies	ASX, every trading day	9,164.6 points, 26 August 2026

Latest readings: ABS National Accounts, Mar qtr 2026; Consumer Price Index, Jun qtr 2026; Labour Force, Jul 2026; Balance of Payments, Mar qtr 2026; RBA, Aug 2026; ASX, 26 Aug 2026.

A four-column table of the six key economic indicators. Columns: indicator; what it measures; who publishes it and how often; latest reading. Rows: Gross domestic product (GDP), the total value of goods and services produced inside Australia, ABS Australian National Accounts every quarter, +2.5% through the year to March qtr 2026; Consumer price index (CPI), the average movement in the prices households pay, ABS every quarter and monthly, 3.8% annual rise year to June qtr 2026; Unemployment rate, the share of the labour force looking for work and not finding it, ABS Labour Force every month, 4.5% July 2026; Balance of trade, exports minus imports of goods and services, ABS Balance of Payments every quarter, -\$2,441 million March qtr 2026 (a deficit); Interest rates (cash rate target), the base price of borrowing money, RBA Monetary Policy Board through the year, 4.35% held at the August 2026 meeting; Share market (S&P/ASX 200), the share prices of Australia's 200 biggest listed companies, ASX every trading day, 9,164.6 points 26 August 2026.

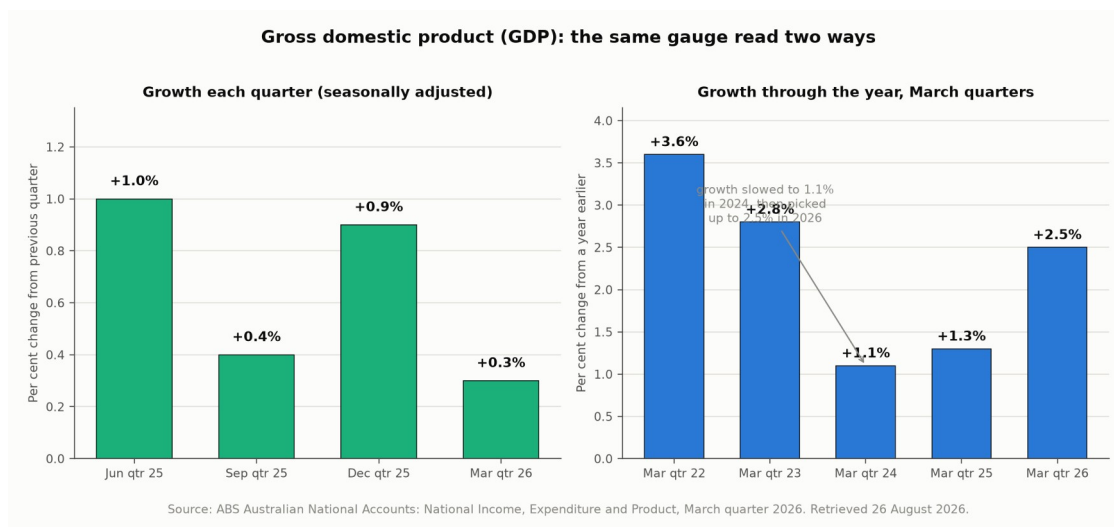
Figure 1: Australia's six key economic indicators, and where each one comes from. Sources: ABS, RBA and ASX; latest readings as at August 2026, retrieved 26 August 2026.

Reading trends from charts like the ones in this section builds on the Level 7–8 skills of VC2HE8S03 (construct, interpret and draw conclusions from graphs; trends and cause-and-effect) — here the same skills carry extra weight, because real decisions follow from the reading.

2. Gross domestic product (GDP): how fast the economy is growing (VC2HE10K03.E01)

Gross domestic product (GDP) is the total value of the goods and services produced inside Australia in a given period. It is the broadest single measure of the economy's size, and its growth rate is the headline number for whether the economy is expanding or shrinking.

How it is calculated. The ABS builds GDP in the *Australian National Accounts*, released every quarter, by adding up the value of production across all industries. The growth figures in Figure 2 are **real** growth — that is, price changes have been stripped out, so the figures measure extra production, not just higher prices. They are also **seasonally adjusted**: the ABS removes regular within-year patterns (such as the December retail rush) so that one quarter can be fairly compared with the next.



Two bar charts from the same ABS release. Left, growth each quarter, seasonally adjusted: June qtr 2025 +1.0%, September qtr 2025 +0.4%, December qtr 2025 +0.9%, March qtr 2026 +0.3%. Right, growth through the year at each March quarter: 2022 +3.6%, 2023 +2.8%, 2024 +1.1%, 2025 +1.3%, 2026 +2.5%, with a note that growth slowed to 1.1% in 2024, then picked up to 2.5% in 2026.

Figure 2: GDP growth read two ways — quarter by quarter, and through the year. Source: ABS Australian National Accounts: National Income, Expenditure and Product, March quarter 2026, retrieved 26 August 2026.

What it shows. Read Figure 2's left panel for the short-run pulse: the economy grew in every one of the four quarters shown, though the pace swung between +0.3% and +1.0%. Read the right panel for the bigger trend: through-the-year growth slowed to 1.1% by 2024, then picked up to 2.5% in the year to the March quarter 2026. Two quarters in a row of falling GDP is often

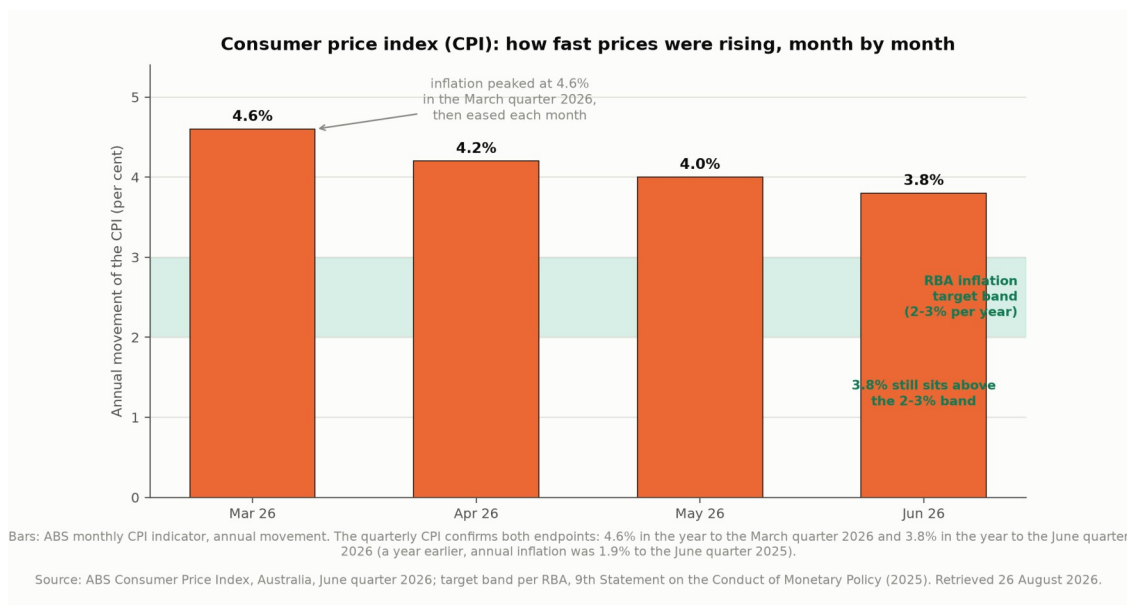
called a **recession** — Australia was not in one here, but the term marks why policymakers watch this gauge so closely.

What GDP leaves out — and why that is contested. GDP is the most-watched gauge and also the most argued over. It measures *paid* production, and it is collected the same way every quarter, so movements are comparable. But it leaves out unpaid work (caring for family, volunteering), it does not measure damage to the environment, and it says nothing about how income is shared — GDP can rise while many households are no better off. Economists genuinely disagree about how much this matters: some argue GDP growth remains the best single sign of economic performance because jobs, incomes and government revenue tend to move with it; others argue an economy should be judged by broader measures of living standards. Both positions are defensible; what matters is knowing what the number does and does not measure. Section 1B takes the living-standards question further.

3. Consumer price index (CPI): how fast prices are rising (VC2HE10K03.E01)

The **consumer price index (CPI)** measures the average movement in the prices that households pay for the things they buy. The yearly rate of increase of the CPI is called **inflation**.

How it is calculated. The ABS tracks the prices of a fixed **basket** of goods and services that stands in for what Australian households buy. Each quarter the ABS prices the same basket and compares the total cost with earlier quarters; the result is reported as an **index number** — a number that tracks change against a chosen starting point set at 100. The headline figure is the *annual* movement: how much more (or less) the basket costs than a year earlier. The ABS also publishes a monthly CPI indicator for a faster read between quarters.



A bar chart of the annual movement of the CPI month by month, with a green band from 2 to 3 per cent marking the RBA inflation target. March 2026 4.6%, April 2026 4.2%, May 2026 4.0%, June 2026 3.8%. A note says inflation peaked at 4.6% in the March quarter 2026 then eased each month, and 3.8% still sits above the 2-3% band.

Figure 3: Annual inflation, month by month, March to June 2026. Source: ABS Consumer Price Index, Australia, June quarter 2026 (released 29 July 2026); target band per RBA, 9th Statement on the Conduct of Monetary Policy (2025). Retrieved 26 August 2026.

What it shows. Figure 3 shows inflation peaking at 4.6% in the year to the March quarter 2026, then easing each month to 3.8% by June. The quarterly CPI confirms both endpoints: 4.6% in the year to the March quarter 2026 and 3.8% in the year to the June quarter 2026 — and only 1.9% a year earlier, in the year to the June quarter 2025. So prices rose slowly through mid-2025, then much faster, before easing again in mid-2026.

Why it matters. Inflation decides how far a dollar goes. When prices rise faster than incomes, households can buy less with the same pay — Question 11 below asks you to check exactly that against real wage data. Inflation is also the RBA’s main gauge: by agreement with the government, the RBA aims to keep inflation between 2 and 3 per cent a year (9th Statement on the Conduct of Monetary Policy, 10 July 2025). At 3.8%, Figure 3’s last bar sits above that band.

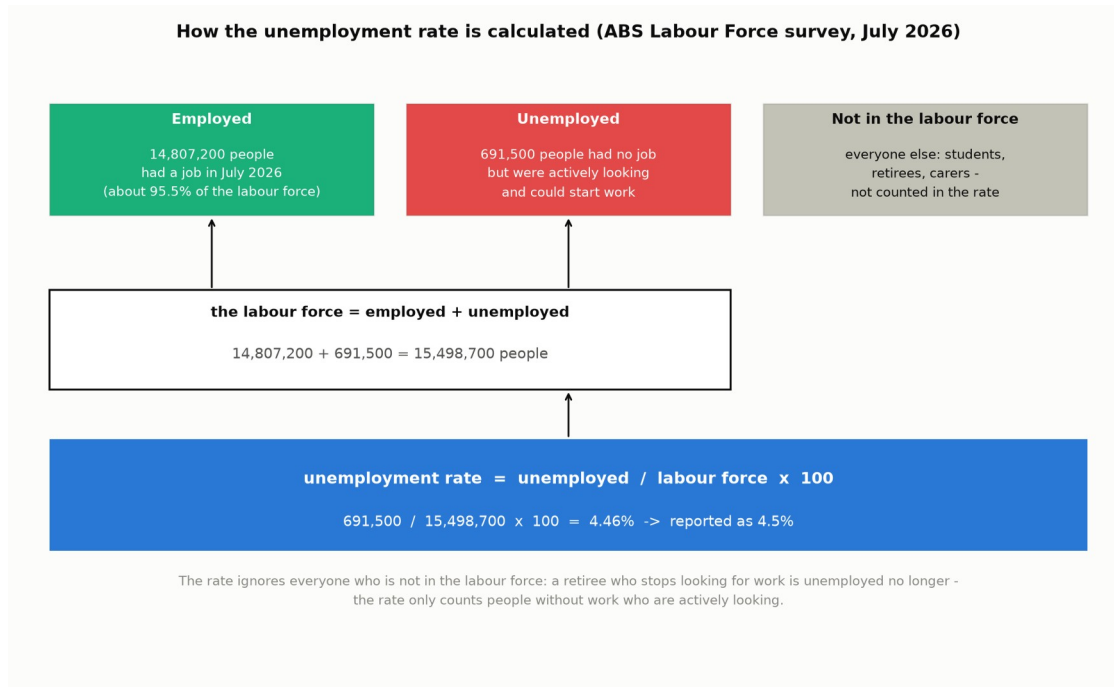
4. The unemployment rate: how the jobs market is holding up (VC2HE10K03.E01)

The **unemployment rate** is the share of the **labour force** that is looking for work and not finding it. The labour force is not “everyone”: the ABS sorts the population into three groups — **employed** (had a job), **unemployed** (had no job, but was actively looking and could start work), and **not in the labour force** (everyone else: students, retirees, carers). Only the first two groups make up the labour force.

How it is calculated. Each month the ABS runs a survey of households, classifies every person into one of the three groups, and computes:

$$\text{unemployment rate} = \text{unemployed} \div \text{labour force} \times 100$$

Figure 4 runs the real July 2026 numbers through that formula.

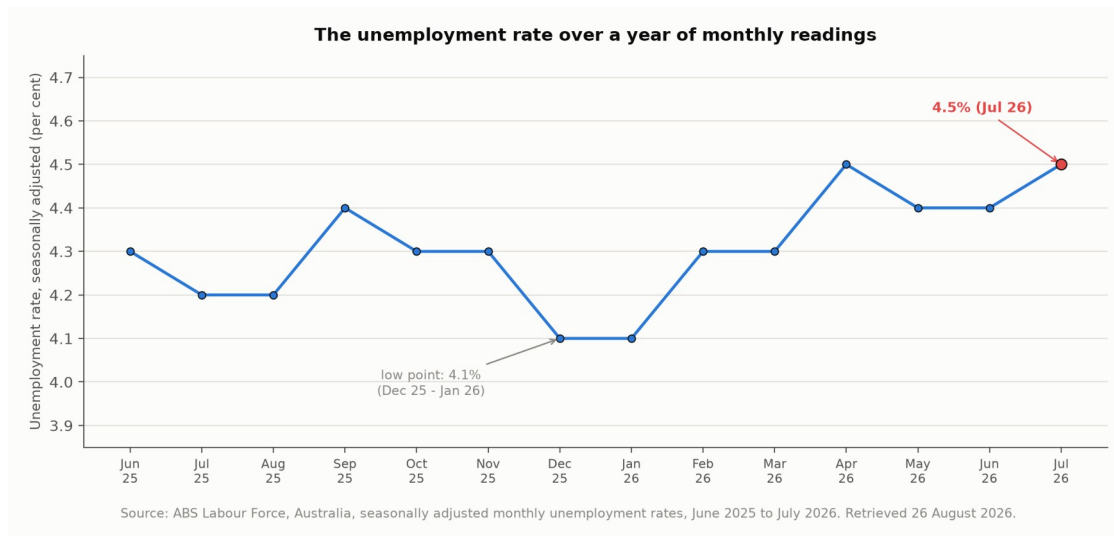


A diagram showing how the unemployment rate is calculated. Three boxes: Employed, 14,807,200 people had a job in July 2026, about 95.5% of the labour force; Unemployed, 691,500 people had no job but were actively looking and could start work; Not in the labour force, everyone else such as students, retirees and carers, not counted in the rate. Arrows lead down to a band: the labour force = employed + unemployed = 15,498,700 people, and then to a blue formula band: unemployment rate = unemployed divided by labour force times 100, so 691,500 divided by 15,498,700 times 100 = 4.46%, reported as 4.5%. A footer notes the rate only counts people without work who are actively looking.

Figure 4: Calculating the unemployment rate from the ABS Labour Force survey, July 2026.

Two things follow from the definition. First, the rate ignores everyone outside the labour force: a person who stops looking for work is no longer counted as unemployed, so the rate can fall for a bad reason as well as a good one. Second, the rate does not capture people who have some work but want more hours — they count as employed. Keep both limits in mind when you read the number.

What it shows. Figure 5 gives the trend: the rate dipped to 4.1% in December 2025 and January 2026, then climbed through 2026 to 4.5% in July — 0.3 percentage points higher than a year earlier (4.2% in July 2025). (A **percentage point** is simply the distance between two percentages: 4.5 – 4.2 = 0.3.) A low rate suggests a tight jobs market where businesses struggle to find staff, which can push wages and prices up; a rising rate suggests the economy is creating too few jobs, which brings hardship to the people without work.



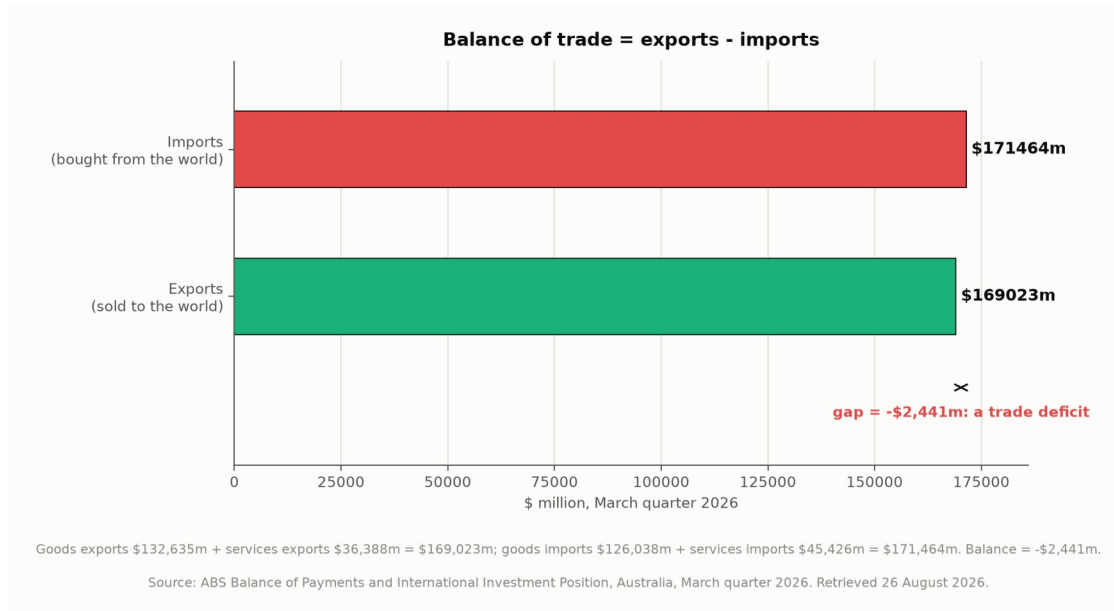
A line chart of the monthly unemployment rate from June 2025 to July 2026. The rate starts at 4.3%, dips to a low of 4.1% in December 2025 and January 2026, then climbs through 2026 to end at 4.5% in July 2026, marked in red.

Figure 5: The unemployment rate, month by month, June 2025 to July 2026. Source: ABS Labour Force, Australia, seasonally adjusted (released 20 August 2026), retrieved 26 August 2026.

5. Balance of trade: Australia's deals with the world (VC2HE10K03.E01)

Exports are the goods and services Australia sells to the rest of the world; **imports** are the goods and services Australia buys from it. The **balance of trade** is the difference: exports minus imports. If exports exceed imports, Australia runs a trade **surplus**; if imports exceed exports, a trade **deficit**.

How it is calculated. The ABS adds up exports and imports of goods and services each quarter in its *Balance of Payments* release and reports the gap.



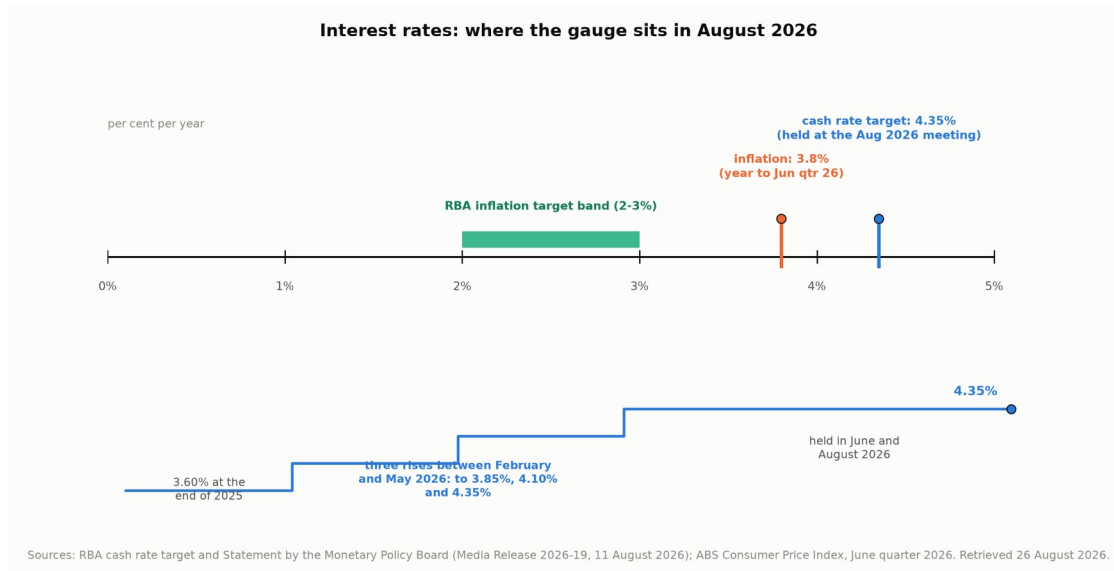
A horizontal bar chart of the March quarter 2026 trade numbers. Exports, sold to the world, \$169,023 million, green bar; imports, bought from the world, \$171,464 million, red bar; a bracket between them labels the gap, -\$2,441 million, a trade deficit. A note below lists the parts: goods exports \$132,635m + services exports \$36,388m; goods imports \$126,038m + services imports \$45,426m.

Figure 6: Balance of trade, March quarter 2026. Source: ABS Balance of Payments and International Investment Position, Australia, March quarter 2026 (released 2 June 2026), retrieved 26 August 2026.

What it shows. In the March quarter 2026, Australia's imports (\$171,464 million) exceeded its exports (\$169,023 million) by \$2,441 million — a deficit. Section 1A's circular flow language fits here: imports are a leakage from the flow of Australian spending, exports an injection, and this quarter the leakage ran slightly ahead. One quarter is a snapshot, though. Inside this deficit sit two different stories — a surplus in goods and a deficit in services — and Section 1D owns the longer view of Australia's trade patterns, so this section does not repeat that working.

6. Interest rates: the price of borrowing (VC2HE10K03.E01)

The interest-rate indicator is the **cash rate target**: the interest rate at which banks borrow from each other overnight, set by the RBA's Monetary Policy Board at its meetings through the year. Bank rates on home loans, business loans and savings accounts move with it, so the cash rate is the base price of borrowing money in the economy. (Section 1A explains the RBA and this lever in detail; here the cash rate is read as an indicator.)



A horizontal scale from 0 to 5 per cent per year. A green band marks the RBA inflation target of 2–3%. An orange marker shows inflation at 3.8% for the year to June qtr 2026; a blue marker shows the cash rate target at 4.35%, held at the Aug 2026 meeting. Below, a small step chart shows the cash rate at 3.60% at the end of 2025, rising three times between February and May 2026 to 3.85%, 4.10% and 4.35%, then held in June and August 2026.

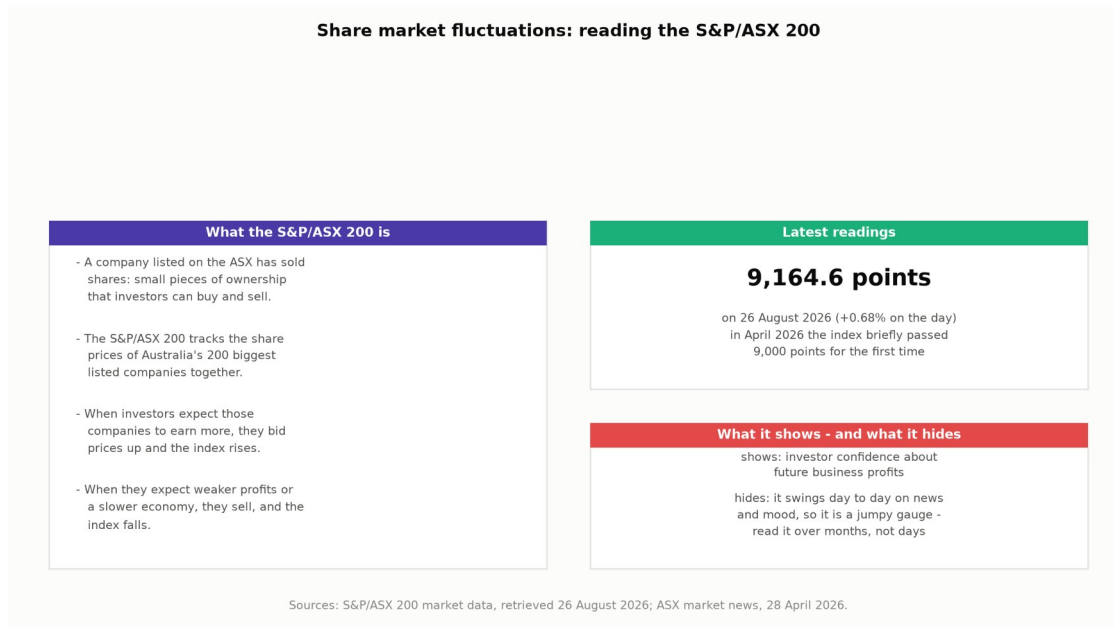
Figure 7: Where the cash rate sits against inflation and the target band, August 2026. Sources: RBA Statement by the Monetary Policy Board (Media Release 2026-19, 11 August 2026); ABS Consumer Price Index, June quarter 2026. Retrieved 26 August 2026.

What it shows. Figure 7 reads the gauge against its reason for being. Inflation at 3.8% sits above the 2–3% band; the cash rate at 4.35% sits above inflation — borrowing is priced high on purpose, to slow spending. The bottom panel shows the recent path: after three cuts during 2025 took the rate to 3.60%, the Board lifted it three times between February and May 2026 (to 3.85%, 4.10% and 4.35%) as inflation jumped, then held it at its June and August 2026 meetings as inflation eased. In short: the gauge rose when the CPI gauge flashed red, and paused when the CPI gauge improved. That is two indicators talking to each other.

7. The share market: what investors expect (VC2HE10K03.E01)

A company **listed** on the ASX (the Australian Securities Exchange) has sold **shares** — small pieces of ownership that investors can buy and sell. The **S&P/ASX 200** index tracks the share prices of Australia’s 200 biggest listed companies together, so it moves when investors change what they are willing to pay for those companies.

How it is “calculated”. Unlike the five ABS indicators, the share market is not computed by a statistical office. Prices are set by buyers and sellers on every trading day; the index rolls those prices into one number. When investors expect stronger future profits, they bid prices up and the index rises; when they expect weaker profits or a slower economy, they sell and it falls.



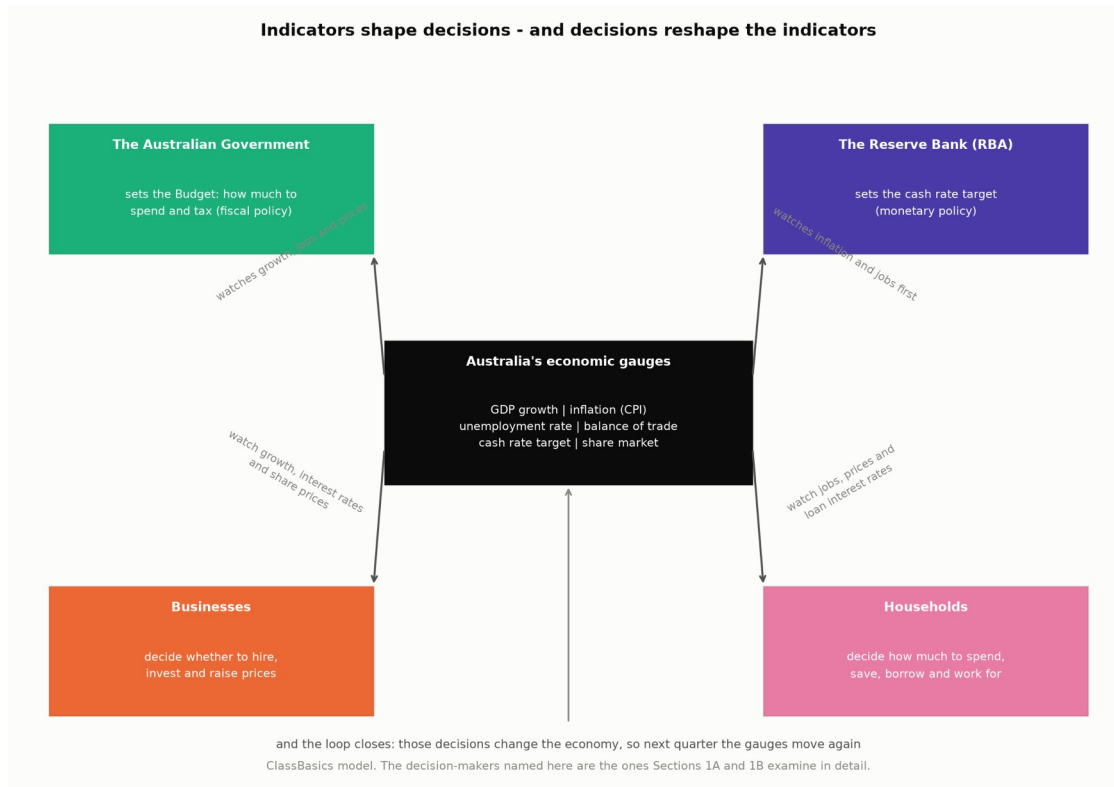
Two panels about the share market. Left panel, what the S&P/ASX 200 is: a listed company has sold shares, small pieces of ownership that investors can buy and sell; the index tracks the share prices of Australia's 200 biggest listed companies together; when investors expect companies to earn more they bid prices up and the index rises, and when they expect weaker profits or a slower economy they sell and it falls. Right top panel: 9,164.6 points on 26 August 2026, up 0.68% on the day; in April 2026 the index briefly passed 9,000 points for the first time. Right bottom panel: the index shows investor confidence about future business profits, but it swings day to day on news and mood, so it is a jumpy gauge — read it over months, not days.

Figure 8: Reading the S&P/ASX 200. Sources: S&P/ASX 200 market data, retrieved 26 August 2026; ASX market news, 28 April 2026.

What it shows — and what it hides. On 26 August 2026 the index stood at 9,164.6 points, up 0.68% on the day, having briefly passed 9,000 in April 2026 for the first time. Because share prices react to *expectations*, the index is a forward-looking gauge: it tells you what investors think will happen to profits. It is also a jumpy one — news and mood swing it day to day, which is why it is read over months, not days. And it is not the economy: most Australian businesses are too small to be listed, and government and household activity never appears in it at all.

8. From gauges to decisions (VC2HE10K03)

The second half of the content description asks about the indicators' "influence on economic decision-making". Figure 9 maps it: four kinds of decision-maker watch the same six gauges, each through the lens of its own choices.



A model diagram with a central dark box listing Australia's economic gauges: GDP growth, inflation (CPI), unemployment rate, balance of trade, cash rate target and share market. Arrows run from the gauges to four decision-makers: the Australian Government, which sets the Budget (how much to spend and tax, fiscal policy); the Reserve Bank (RBA), which sets the cash rate target (monetary policy); Businesses, which decide whether to hire, invest and raise prices; and Households, which decide how much to spend, save, borrow and work for. Each arrow is labelled with the gauges that decision-maker watches most. A note and arrow at the bottom say the loop closes: those decisions change the economy, so next quarter the gauges move again.

Figure 9: Indicators shape decisions — and decisions reshape the indicators (ClassBasics model).

- **The Australian Government** watches growth, jobs and prices when it sets the Budget — how much to spend and tax (**fiscal policy**, Section 1A).
- **The RBA** watches inflation and jobs first when it sets the cash rate target (**monetary policy**, Section 1A).
- **Businesses** watch growth, interest rates and share prices when deciding whether to hire, invest and raise prices.
- **Households** watch jobs, prices and loan rates when deciding how much to spend, save and borrow.

A real example from August 2026 shows the loop turning. The CPI gauge read 3.8% — above target but falling — so the RBA held the cash rate at 4.35% rather than lifting it again. That hold keeps home-loan costs where they are, which shapes how much households borrow and spend,

which feeds into the next GDP and CPI readings. Decisions move the gauges; then the moved gauges shape the next decisions.

9. Reading the gauges together (VC2HE10K03)

No single indicator tells the story of the economy. In August 2026 the dashboard read in four directions at once:

- **GDP +2.5% through the year** — the economy is growing (good news), though the latest quarter grew just 0.3% (the pace is cooling).
- **CPI 3.8%** — prices are still rising faster than the 2–3% target (bad news), but inflation is falling month by month (improving).
- **Unemployment 4.5%** — low by past standards (good news), but up 0.3 percentage points on a year earlier (drifting the wrong way).
- **Balance of trade –\$2,441 million** — in deficit this quarter (a net leakage from the flow), with goods in surplus and services in deficit underneath.

That is what “identify and analyse the economic indicators” means in practice: name the reading, describe the movement, and say what it suggests for a decision — holding the good news and the bad news in the same sentence.

10. Comparing places: indicators by region (VC2HE10K03.E03)

Indicators compare places as well as times. The ABS publishes data by region, so you can put two states — or two local government areas (LGAs), the councils that govern local areas — side by side. Figure 10 compares Victoria and Western Australia; it is a worked model of the comparison the curriculum asks for.

Two states, two stories: comparing economic indicators

Indicator	Victoria	Western Australia
Population, 31 December 2025	7,121,900 people	3,076,500 people
Annual population growth, 2025	+117,300 people (+1.7%)	+65,500 people (+2.2%)
Employed persons, July 2026 (seasonally adjusted)	3,817,400 people	1,668,400 people
Unemployment rate, July 2026	5.1% (seasonally adjusted)	4.4% (seasonally adjusted)

Sources: ABS National, state and territory population (31 December 2025); ABS Labour Force, Australia (July 2026). Retrieved 26 August 2026.

A comparison table of Victoria and Western Australia. Population at 31 December 2025: Victoria 7,121,900 people; Western Australia 3,076,500. Annual population growth, 2025: Victoria +117,300 people (+1.7%); Western Australia +65,500 people (+2.2%). Employed persons, July 2026, seasonally adjusted: Victoria 3,817,400; Western Australia 1,668,400. Unemployment rate, July 2026: Victoria 5.1%; Western Australia 4.4%.

Figure 10: Two states, two stories. Sources: ABS National, state and territory population (31 December 2025, released 18 June 2026); ABS Labour Force, Australia (July 2026). Retrieved 26 August 2026.

Five conclusions from Figure 10 — notice that each one names the figures it came from:

1. **Victoria is far larger in people:** 7,121,900 against Western Australia's 3,076,500 — about 2.3 times as many.
2. **Western Australia is growing faster:** +2.2% in 2025 against Victoria's +1.7%.
3. **More people work in Victoria** (3,817,400 against 1,668,400) — in line with its bigger population.
4. **Victoria's unemployment rate was higher** in July 2026: 5.1% against 4.4%, so finding work was harder in the bigger state.
5. **Size and jobs-market strength are different things:** the state with more than twice the people had the weaker jobs gauge.

The same method works at the local level. Table 1 compares two Victorian LGAs from the 2021 Census. A **median** is the middle value when everyone is lined up in order — half earn more, half earn less — so a median income is not thrown off by a few very high earners.

Indicator (2021 Census)	Melbourne	Melton
People	149,615	178,960

Indicator (2021 Census)	Melbourne	Melton
Median age (years)	30	33
Median weekly personal income	\$959	\$786
Median weekly household income	\$1,678	\$1,887

Table 1: Two LGAs compared. Source: ABS Census of Population and Housing 2021, QuickStats for Melbourne (LGA24600) and Melton (LGA24650), retrieved 26 August 2026.

Three things stand out. Melton had more people than Melbourne (178,960 against 149,615). Melbourne had the higher median *personal* income (\$959 against \$786 a week) and the younger population (median age 30 against 33), which fits an inner city of younger workers and students. Yet Melton had the higher median *household* income (\$1,887 against \$1,678 a week). The two income figures point in different directions because a household is everyone living together: more earners per household can lift household income even where each person earns less. Reading the columns separately is exactly how an indicator can mislead if you do not check what it measures.

Your turn (E03). Visit the ABS website's data by region pages. Choose 2 LGAs and 2 states, choose indicators (population, median income, number of jobs or number of businesses are good starters), present the data in a table like Table 1, and draw 5 conclusions — each one naming the figures it came from.

11. Finding the current numbers yourself (VC2HE10K03.E02)

The curriculum asks you to visit the ABS website and find the *current* readings. Here is what that looked up on 26 August 2026 — your model answers for the five items:

Item	Reading found	Release
Population of Australia	27,801,023 (at 31 December 2025, up 1.5% on a year earlier)	National, state and territory population
CPI	3.8% annual rise, year to June quarter 2026	Consumer Price Index, Australia
GDP	+2.5% through the year to March quarter 2026	Australian National Accounts
Average weekly earnings	\$2,160.00, full-time adults (May 2026, up 3.5% on a year earlier)	Average Weekly Earnings, Australia
Unemployment rate	4.5% (July 2026)	Labour Force, Australia

Table 2: The five E02 lookups, as found 26 August 2026. Source: ABS releases as listed, all retrieved 26 August 2026.

One warning: these readings change with every new release. If you repeat this task next term and get different numbers, check each release's date — moving numbers are the whole point of an indicator.

Worked examples (scaffolded)

WE1 (VC2HE10K03.E01) — Calculate inflation from a mini-basket. A tiny economy's household basket holds 40 loaves of bread, 30 litres of milk and 10 cinema tickets. Year 1 prices: \$4.00, \$3.00, \$20.00. Year 2 prices: \$4.60, \$3.15, \$21.60. Calculate the index for year 2 (year 1 = 100), the way the CPI is built, and then the year's inflation rate. *Scaffold — three steps:* Step 1: cost of the basket each year = (quantity × price) for each item, then add. Step 2: index = year 2 cost ÷ year 1 cost × 100. Step 3: inflation = index – 100. *Model working:* Year 1: $(40 \times \$4.00) + (30 \times \$3.00) + (10 \times \$20.00) = \$160 + \$90 + \$200 = \$450$. Year 2: $(40 \times \$4.60) + (30 \times \$3.15) + (10 \times \$21.60) = \$184 + \$94.50 + \$216 = \$494.50$. Index = $494.50 \div 450 \times 100 = 109.9$. Inflation = $109.9 - 100 = 9.9\%$. Notice that bread rose 15% — the most of the three items — and it pulls the index hardest because the basket buys 40 loaves. Quantities act as weights, exactly as they do in the real CPI basket.

WE2 (VC2HE10K03.E01) — Calculate the unemployment rate from the real ABS figures. July 2026: 14,807,200 people employed; 691,500 unemployed (looking and able to start). *Scaffold — three steps:* Step 1: labour force = employed + unemployed. Step 2: unemployment rate = unemployed ÷ labour force × 100. Step 3: the ABS reports the rate to one decimal place. *Model working:* Labour force = $14,807,200 + 691,500 = 15,498,700$. Rate = $691,500 \div 15,498,700 \times 100 = 4.46\%$, reported as **4.5%**. Check the meaning: about 95.5% of the labour force had work. Remember who is missing from the rate entirely — everyone not in the labour force (students, retirees, carers).

WE3 (VC2HE10K03.E03) — Draw five conclusions from a two-state comparison. Using Figure 10 (Victoria and Western Australia), write five conclusions. *Scaffold — one conclusion per frame:* Frame 1: “___ had more people than ___ — ___ against .” **Frame 2:** “___ grew faster: ___ against .” **Frame 3:** “**More people worked in** (___ against .)” **Frame 4:** “___'s unemployment rate was higher: ___ against ___.” Frame 5: finish this sentence — “This shows that a state's size and its jobs-market strength are ...” *Model conclusions:* See the numbered list in Theory subsection 10. A full set earns its marks by (a) making five distinct points, and (b) attaching figures to every one.

Worked examples (unscaffolded)

WE4 (VC2HE10K03.E01/E02) — Pick the right gauge. For each question, name the indicator that answers it, give its latest reading from this section, and add a one-line read. (a) “Are prices rising too fast?” (b) “Can people who want work find it?” (c) “Is the economy producing more than a year ago?” *Model answer:* (a) **CPI:** 3.8% annual rise to the June quarter 2026 — above the 2–3% target band, so prices are still rising faster than the RBA wants. (b) **Unemployment rate:** 4.5% in July 2026 — low; most people who want work have it, though the rate is up on a year earlier. (c) **GDP:** +2.5% through the year to the March quarter 2026 — yes, production is up on a year ago.

WE5 (achievement standard) — Analyse the year's inflation and link it to a decision. The annual rise of the CPI moved from 1.9% (year to June quarter 2025) to 4.6% (year to March

quarter 2026) to 3.8% (year to June quarter 2026). Describe the movement, and explain how it shaped one decision by a named decision-maker. *Model answer:* Movement: inflation was low in mid-2025, jumped through the year to a peak of 4.6% in the year to the March quarter 2026, then eased to 3.8% — still above the 2–3% band. Decision: the RBA's. As inflation jumped, the Board lifted the cash rate target three times between February and May 2026, from 3.60% to 4.35%, to slow spending and cool prices; as inflation eased to 3.8%, it held the rate at its June and August 2026 meetings rather than lifting again. (Choosing another decision-maker — the government on the Budget, or households on borrowing — earns the same marks if the link between the reading and the decision is made.)

Practice questions — scaffolded

Q1 (E01). Complete the sentences. (a) The total value of goods and services produced inside Australia is called _____. (b) The yearly rate of increase in the prices households pay is called _____. (c) The share of the labour force looking for work and not finding it is the _____. (d) Exports minus imports is the _____. (e) The interest rate set by the RBA, which steers other interest rates, is the _____. (f) The ABS publishes the unemployment rate every _____, and GDP every _____.

Q2 (E01). Match each question to one of the six indicators in Figure 1. (a) “Did Australia sell more to the world than it bought?” (b) “What do investors expect of Australia’s biggest companies’ future profits?” (c) “What is the base price of borrowing money?” (d) “What share of the labour force is looking for work and not finding it?”

Q3 (E01). A mini-basket holds 50 loaves of bread, 40 litres of milk and 20 cinema tickets. Year 1 prices: \$4.00, \$2.50, \$15.00. Year 2 prices: \$4.20, \$2.80, \$16.50. (a) Find the cost of the basket in each year. (b) Find the year 2 index (year 1 = 100). (c) What is the year’s inflation rate? (d) Which item rose the most, and by what percentage?

Q4 (E01). A town has 32,000 people. Of these, 19,100 are employed and 900 are unemployed (looking and able to start). (a) What is the town’s labour force? (b) Calculate its unemployment rate. (c) How many people are not in the labour force, and why are they left out of the rate?

Q5 (E02). You are on the ABS website. Match each number to the release where you would find it: *National, state and territory population; Consumer Price Index, Australia; Australian National Accounts; Average Weekly Earnings, Australia; Labour Force, Australia*. (a) the population of Australia; (b) the CPI; (c) GDP; (d) average weekly earnings; (e) the unemployment rate.

Q6 (E03). Read Figure 10. (a) Which state had more people at 31 December 2025? (b) Which state grew faster in 2025? (c) Which state had more employed people in July 2026? (d) Which state had the higher unemployment rate?

Q7 (E03). True or false, using Table 1 — correct the false ones. (a) Melbourne had more people than Melton in the 2021 Census. (b) Median weekly personal income was higher in Melbourne. (c) Median weekly household income was higher in Melbourne. (d) Melton’s median age was lower than Melbourne’s.

Q8 (E01). True or false — correct the false ones. (a) GDP counts unpaid caring work done at home. (b) The CPI measures the average movement in the prices households pay. (c) A trade surplus means imports exceed exports. (d) The cash rate target is set by the ASX.

Practice questions — unscaffolded

Q9 (E01). Describe how the CPI is calculated — basket, price collection, index, annual movement. Then state one thing the CPI shows about the economy and one thing it cannot tell you. (4 marks)

Q10 (E01). From Figure 5, the unemployment rate was 4.2% in July 2025 and 4.5% in July 2026. (a) What is the change, in percentage points? (b) Was the jobs market tighter or looser in July 2026 than a year earlier? (c) Name one decision-maker who would watch this change, and say what they might do about it. (3 marks)

Q11 (E01/E02). In May 2026, average weekly earnings for full-time adults were \$2,160.00, up 3.5% on a year earlier. (a) At 52 weeks, what is that per year? (b) The CPI rose 3.8% in the year to the June quarter 2026. Compare the two rates and say what that suggests about what the average full-time wage could buy. (c) Which two indicators did you just read together? (3 marks)

Q12 (E03). Using Table 1, write five conclusions comparing Melbourne and Melton, each naming the figures it came from. One of your conclusions must explain how personal income and household income can point in different directions. (4 marks)

Q13 (E01). The S&P/ASX 200: (a) what does it measure? (b) why is it called a jumpy gauge — what moves it day to day? (c) give one reason a business might still watch it closely. (3 marks)

Q14 (E01). A small economy produces \$500 million of GDP in a quarter. (a) Next quarter GDP rises by 0.4% — how many dollars is that, and what is the new GDP? (b) The following quarter GDP falls by 0.4% from its new level — what is GDP now? (c) What do you notice about equal percentage rises and falls? (3 marks)

Q15 (achievement standard). “Australia’s economic performance in the year to mid-2026 was strong.” Using four of the six indicators and their real readings from this section, argue the strongest case on *each* side, then give your own reasoned judgement. (4 marks)

Q16 (achievement standard). Choose two of the four decision-makers in Figure 9. For each, name two gauges they would watch most closely in August 2026, give the real readings, and explain one decision they would make on that evidence. Finish with one sentence on how those decisions feed back into the gauges. (4 marks)

Answers

WE1. Year 1 basket \$450; year 2 basket \$494.50; index 109.9; inflation 9.9%. **WE2.** Labour force 15,498,700; rate 4.46% → 4.5%. **WE3.** See Theory subsection 10 for the five model conclusions. **WE4.** (a) CPI, 3.8%, above the 2–3% band. (b) unemployment rate, 4.5%, low but up on a year earlier. (c) GDP, +2.5% through the year. **WE5.** Inflation jumped from 1.9% to 4.6%, then eased to 3.8%; the RBA lifted the cash rate three times to 4.35% as it jumped, then held as it eased. **Q1.** (a) GDP / gross domestic product. (b) inflation. (c) unemployment rate. (d) balance of trade. (e) cash rate target. (f) month; quarter. **Q2.** (a) balance of trade. (b) share market (S&P/ASX 200). (c) interest rates (cash rate target). (d) unemployment rate. **Q3.** (a) \$600; \$652. (b) 108.7. (c) 8.7%. (d) milk, +12%. **Q4.** (a) 20,000. (b) $900 \div 20,000 \times 100 = 4.5\%$. (c) 12,000; they are not looking for work (or cannot start), so they are outside the labour force the rate is built from. **Q5.** (a) National, state and territory population. (b) Consumer Price Index, Australia. (c) Australian National Accounts. (d) Average Weekly Earnings, Australia. (e) Labour Force, Australia. **Q6.** (a) Victoria. (b) Western Australia (+2.2% against +1.7%). (c) Victoria. (d) Victoria (5.1% against 4.4%). **Q7.** (a) False — Melton had more people (178,960 against 149,615). (b) True. (c) False — Melton's was higher (\$1,887 against \$1,678). (d) False — Melton's was higher (33 against 30). **Q8.** (a) False — GDP counts paid production; unpaid caring work is left out. (b) True. (c) False — a surplus means exports exceed imports. (d) False — it is set by the RBA's Monetary Policy Board. **Q9.** See Fully-worked solutions. **Q10.** (a) +0.3 percentage points. (b) Looser — a bigger share of the labour force without work. (c) e.g. the RBA: a looser jobs market is one reason to hold rates rather than lift them. **Q11.** (a) \$112,320. (b) Earnings rose 3.5%, prices rose 3.8% — pay rose slower than prices, so the average full-time wage bought slightly less. (c) average weekly earnings and the CPI. **Q12.** See Fully-worked solutions. **Q13.** (a) the share prices of Australia's 200 biggest listed companies. (b) investors' expectations change with news and mood every trading day. (c) it signals what investors expect for future profits and the economy. **Q14.** (a) \$2 million; \$502 million. (b) about \$500.0 million (\$502m – \$2.008m). (c) equal percentage rises and falls do not return you to the start — the fall comes off a bigger base. **Q15.** See Fully-worked solutions. **Q16.** See Fully-worked solutions.

Fully-worked solutions

Q9 (4 marks). How it is calculated (2 marks): the ABS tracks a fixed basket of goods and services standing in for what households buy; it prices the basket regularly (each quarter, with a monthly indicator in between), compares the cost over time as an index number, and reports the annual movement as inflation. Shows (1 mark): how fast the prices households pay are rising — 3.8% in the year to the June quarter 2026. Cannot tell you (1 mark): any one valid limit, e.g. whether incomes kept up (compare with average weekly earnings), what is happening to prices outside the household basket, or how price rises are spread across different households.

Q10 (3 marks). (a) $4.5\% - 4.2\% = +0.3$ percentage points. (1 mark) (b) Looser: a larger share of the labour force was looking for work without finding it. (1 mark) (c) One named decision-maker with a linked response (1 mark), e.g. the RBA: a looser jobs market means less upward pressure on wages and prices, one reason to hold the cash rate rather than lift it; or the government: rising unemployment is an argument for Budget support; or a business: a looser market makes it easier to find staff, so hiring plans can go ahead.

Q11 (3 marks). (a) $\$2,160.00 \times 52 = \$112,320$ a year. (1 mark) (b) Earnings rose 3.5% on a year earlier while the CPI rose 3.8% over the same stretch: pay rose slower than prices, so the average full-time wage bought slightly less than a year before. (1 mark) (c) Average weekly earnings and the CPI — reading two gauges together is how the “real” story emerges. (1 mark)

Q12 (4 marks). Up to 3 marks for five distinct conclusions, each naming its figures. Model set: 1. Melton had more people than Melbourne: 178,960 against 149,615 (2021 Census). 2. Melbourne’s median weekly personal income was higher: \$959 against \$786. 3. Melton’s median weekly household income was higher: \$1,887 against \$1,678. 4. Melbourne’s population was younger: median age 30 against 33. 5. The two areas’ income figures point in different directions — personal income higher in Melbourne, household income higher in Melton. Plus 1 mark for explaining the split: a household pools everyone living together, so more earners per household can lift household income even where each person earns less — the columns must be read separately because they measure different things.

Q14 (3 marks). (a) 0.4% of $\$500\text{m} = \2m ; new GDP = $\$502\text{m}$. (1 mark) (b) 0.4% of $\$502\text{m} = \2.008m ; $\$502\text{m} - \$2.008\text{m} \approx \$499.99\text{m}$ (about $\$500.0\text{m}$). (1 mark) (c) Equal percentage rises and falls do not bring you back exactly to the start: the fall is taken from the bigger post-rise base, so GDP lands just under the original $\$500\text{m}$. (1 mark)

Q15 (4 marks). Four correct real readings used across the answer (1 mark): e.g. GDP +2.5% through the year; CPI 3.8%; unemployment 4.5%; balance of trade $-\$2,441\text{m}$; cash rate 4.35%; ASX 200 at 9,164.6 points. Strongest case *for* “strong” (1 mark): growth of 2.5% is solid; unemployment 4.5% is low, so most people who want work have it; inflation is falling month by month (4.6% $\rightarrow$ 3.8%); the share market passing 9,000 points shows investors expect stronger profits ahead. Strongest case *against* (1 mark): inflation at 3.8% is still above the 2–3% band and pay is rising slower than prices (Q11); unemployment is up 0.3 percentage points on a year earlier; the latest quarter grew just 0.3%; the trade balance ran a deficit of $\$2,441$ million. Reasoned judgement (1 mark): any stated position that follows from the cited evidence — e.g. “strong on jobs and growth, weak on prices: performance was mixed, improving on the worst of 2025-26 but not yet where policy wants it” — marks go to the link between evidence and judgement, not the side chosen.

Q16 (4 marks). Decision-maker 1 (1 mark): two named gauges + real readings + a linked decision. Model: the RBA watches the CPI (3.8%, above target but falling) and unemployment (4.5%, easing); on that evidence it held the cash rate at 4.35% at its August 2026 meeting. Decision-maker 2 (1 mark): model: households watch jobs (unemployment 4.5%) and borrowing costs (cash rate 4.35%); with work relatively secure but borrowing dear, a household might delay a big loan and keep saving instead. (Government and business answers earn the mark the same way, e.g. the government reading growth +2.5% and unemployment 4.5% when framing the Budget; businesses reading growth and the share market when deciding whether to hire or invest.) Two gauges each, correctly read (1 mark for readings across both decision-makers). Feedback sentence (1 mark): those decisions change spending and hiring, which shows up in the next GDP, CPI and unemployment readings — the loop in Figure 9 closes.

Sources

All sources retrieved 26 August 2026 unless stated.

- Australian Bureau of Statistics, *Consumer Price Index, Australia*, June quarter 2026 (released 29 July 2026), including the monthly CPI indicator.
- Australian Bureau of Statistics, *Labour Force, Australia*, July 2026 (released 20 August 2026), including seasonally adjusted state unemployment rates and employed persons.
- Australian Bureau of Statistics, *Australian National Accounts: National Income, Expenditure and Product*, March quarter 2026 (released 3 June 2026).
- Australian Bureau of Statistics, *Balance of Payments and International Investment Position, Australia*, March quarter 2026 (released 2 June 2026).
- Australian Bureau of Statistics, *National, state and territory population*, December 2025 (released 18 June 2026).
- Australian Bureau of Statistics, *Average Weekly Earnings, Australia*, May 2026 (released 13 August 2026).
- Australian Bureau of Statistics, *Census of Population and Housing 2021*, QuickStats for Melbourne (LGA24600) and Melton (LGA24650).
- Reserve Bank of Australia, cash rate target and *Statement by the Monetary Policy Board* (Media Release 2026-19), 11 August 2026.
- Reserve Bank of Australia and Australian Government, *9th Statement on the Conduct of Monetary Policy*, 10 July 2025 (inflation target of 2–3 per cent).
- S&P/ASX 200 market data, 26 August 2026; ASX market news, 28 April 2026 (index passing 9,000 points).
- Victorian Curriculum F-10 Version 2.0, Economics and Business, Levels 9 and 10 (VC2HE10K03 and elaborations; achievement standard extract).

Australia's international trade: changing patterns, and the costs and benefits of globalisation

Curriculum trace. Content description **VC2HE10K04**: “the changing patterns of Australia’s international trade and costs and benefits of globalisation”. Elaborations: **VC2HE10K04.E01** “examining the currency exchange rates of the Australian dollar over a period of time, analysing the effect of a change in the value of the Australian currency and economy, and investigating how economic conditions within one country affect other nations”; **VC2HE10K04.E02** “identifying and explaining the costs and benefits of global trade (for example, opportunities to access larger markets and economies of scale, opportunities to sell surplus products, increased consumer choice and lower prices, improved diplomatic relationships between countries, and diversified sources of national income) and comparing these to the negative outcomes of global trade, such as environmental impacts and potential exploitation of workers living in developing economies”; **VC2HE10K04.E03** “exploring the ethical considerations involved in global trade, such as the implications of offshoring operations and employment, potential exploitation of employees in other nations, differing quality and safety standards between countries”; **VC2HE10K04.E04** “analysing current patterns of trade between Australia and different regions of the world, including Asia, for example total value of trade each year, composition of trade (such as category goods, services), direction of trade and how and why these have changed over time”. Achievement standard (Levels 9 and 10): “They explain the interdependence of the different sectors of the economy, identify and analyse the economic indicators used to measure economic performance, and assess the implications of Australia’s participation in the global economy via international trade.”

Everything in your school bag has a passport. The phone in your pocket was designed in one country and built in another; the fuel in the school bus was refined overseas; the iron in the bridge on your way to school may leave the country next month as someone else’s building. Australia is a trading economy: what we sell to the world and what we buy from it shapes our jobs, our prices and our standard of living. Section 1A showed that **exports** (what we sell overseas) are an **injection** into the circular flow of income and **imports** (what we buy from overseas) are a **leakage** out of it. This section opens up those two flows: who we trade with, how that pattern has changed, what the **exchange rate** does to the flow, and whether all this trade — **globalisation** — has been good for us. Every figure and number in this section is real, taken from the Australian Bureau of Statistics (ABS), the Department of Foreign Affairs and Trade (DFAT) and the Reserve Bank of Australia (RBA), retrieved 26 August 2026.

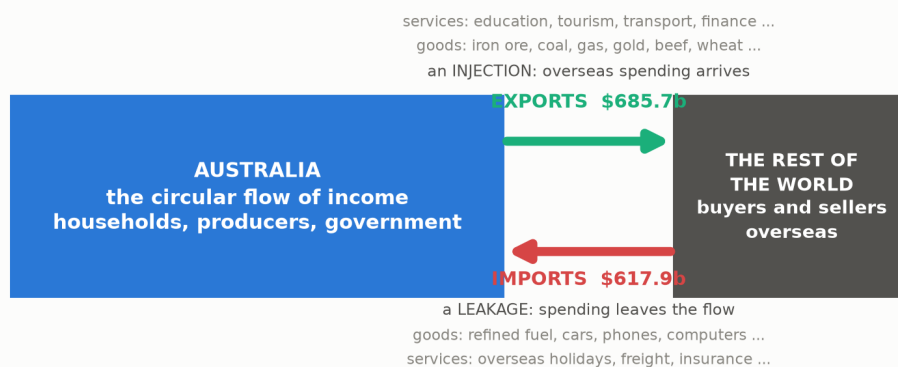
A word we must define before we use it. **Globalisation** is used in this section in the sense given by the International Monetary Fund (IMF, *Globalization: Threat or Opportunity?*, 2002, updated 2008): the growing reliance of the world’s economies and peoples on one another, brought about by trade across borders in goods and services, technology, and flows of investment, people and information. Other definitions exist and are not interchangeable with this one. Notice what kind of term it is: the *size* of that reliance is measurable — we can count trade as a share of the economy — but whether globalisation is overall a good thing or a bad thing is **contested**: two careful people can read the same numbers and reach opposite conclusions. This section measures the first, and for the second it weighs both sides at full strength.

Theory

An open economy: one injection, one leakage (VC2HE10K04.E04)

An economy that trades with the world is called an **open economy**. In an open economy the circular flow has two extra pipes: exports carry overseas spending *into* the flow, and imports carry our spending *out* of it. The difference between the two is the **balance of trade**: when the value of exports is bigger we run a **trade surplus**; when imports are bigger, a **trade deficit**.

Australia's trade with the world: one injection, one leakage (values for 2023-24)



Balance of trade = exports – imports.
2023-24: \$685.7b – \$617.9b = +\$67.8b (a trade SURPLUS). Two-way trade reached \$1.3 trillion — about 47% of GDP.

Sources: ABS Balance of Payments and International Investment Position, Australia; DFAT Composition of Australia's Trade 2023-24.

A diagram with a blue box labelled Australia (the circular flow of income: households, producers, government) and a grey box labelled the rest of the world. A green arrow runs from Australia to the world, labelled exports \$685.7b, an injection: overseas spending arrives, with goods (iron ore, coal, gas, gold, beef, wheat) and services (education, tourism, transport, finance) listed. A red arrow runs back, labelled imports \$617.9b, a leakage: spending leaves the flow, with goods (refined fuel, cars, phones, computers) and services (overseas holidays, freight, insurance) listed. A note below reads: balance of trade = exports minus imports; 2023-24 gives plus \$67.8b, a trade surplus; two-way trade reached \$1.3 trillion, about 47% of GDP.

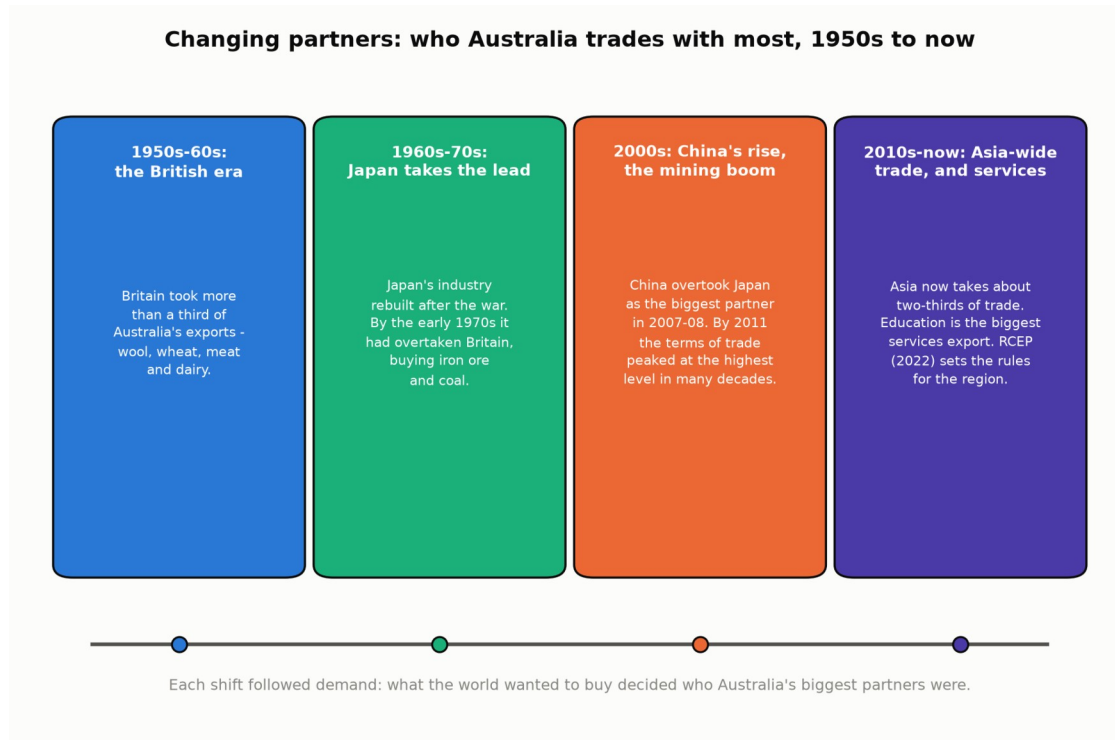
Figure 1: Australia's trade with the world is one injection and one leakage on the circular flow (values for 2023-24). Sources: ABS Balance of Payments and International Investment Position, Australia; DFAT Composition of Australia's Trade 2023-24.

Figure 1 shows the real 2023-24 totals. Exports of \$685.7 billion and imports of \$617.9 billion give **two-way trade** (exports plus imports) of about \$1.3 trillion — close to half of Australia's whole yearly production. That single fact is the hook for everything below: when almost half of

the economy crosses a border in one direction or the other, what happens overseas stops being “foreign news” and becomes Australian economics.

The changing pattern: who we trade with, and why it moved (VC2HE10K04.E04)

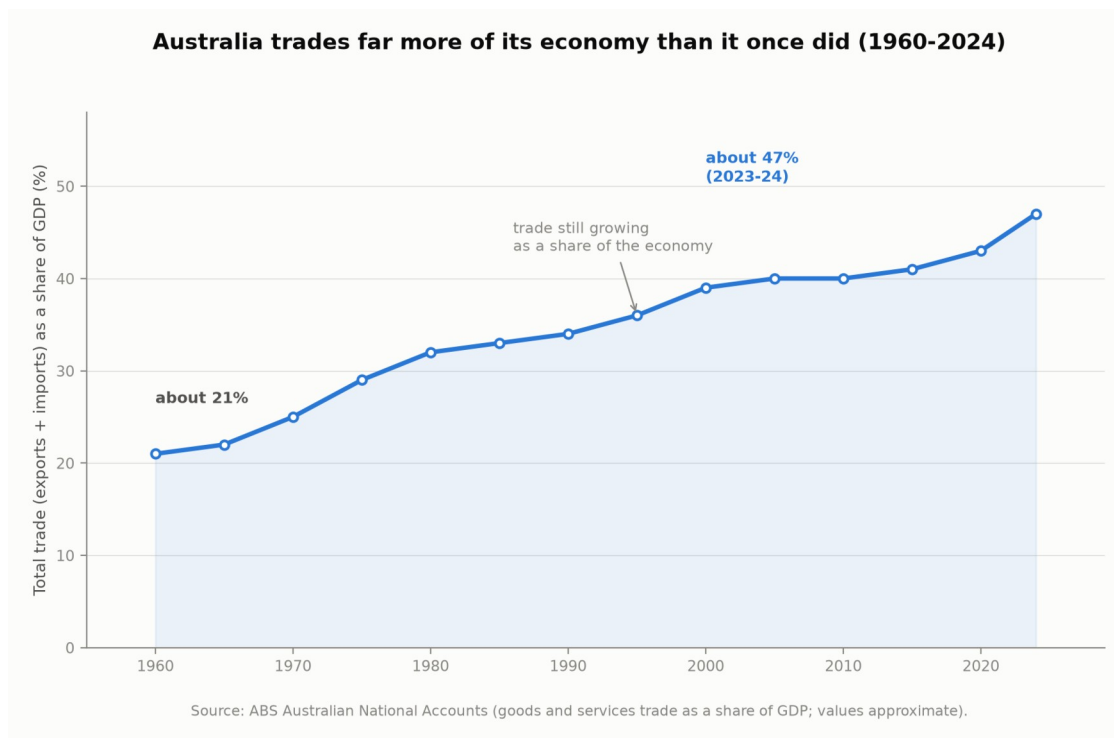
The **direction of trade** — which countries and regions we trade with most — has shifted three times in living memory, and each shift followed one simple thing: what the world wanted to buy.



A timeline with four era panels. 1950s-60s, the British era: Britain took more than a third of Australia's exports - wool, wheat, meat and dairy. 1960s-70s, Japan takes the lead: Japan's industry rebuilt after the war; by the early 1970s it had overtaken Britain, buying iron ore and coal. 2000s, China's rise and the mining boom: China overtook Japan as the biggest partner in 2007-08; by 2011 the terms of trade peaked at the highest level in many decades. 2010s to now, Asia-wide trade and services: Asia now takes about two-thirds of trade; education is the biggest services export; RCEP (2022) sets the rules for the region.

Figure 2: Four eras of Australia's trade direction — Britain, then Japan, then China, then a wide Asian network (ClassBasics model).

The **composition of trade** — what crosses the border — moved too. In the 1950s Australia mostly sold farm products (wool, wheat, meat) and bought factory goods. Today the biggest exports are mined (iron ore, coal, gas) and grown and taught (beef, wheat, and education for overseas students), while the biggest imports are the machines, vehicles, phones and fuel a modern economy runs on. And the whole flow grew faster than the economy itself:

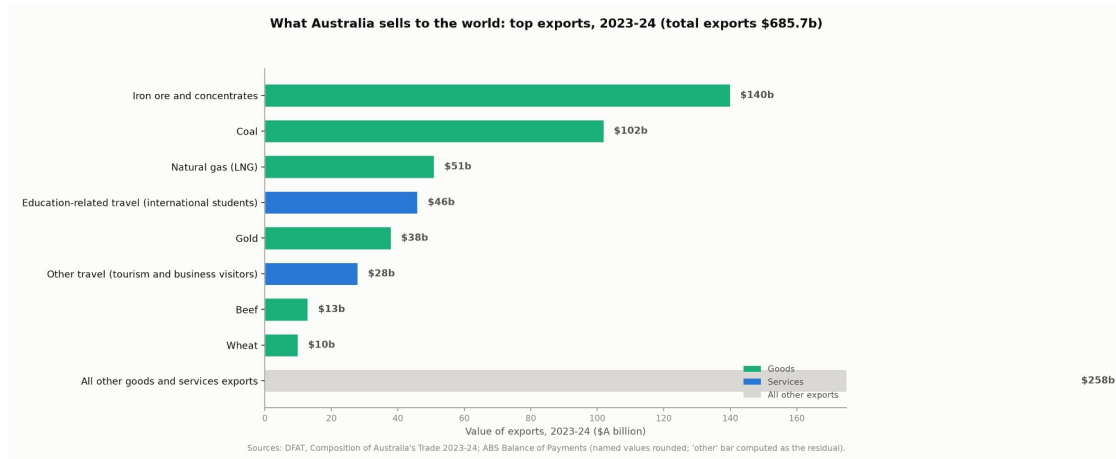


A line chart of total trade (exports plus imports) as a share of GDP, from about 21% in 1960 rising with small steps to about 47% in 2023-24, annotated “about 21%” at the left, “about 47% (2023-24)” at the right, and “trade still growing as a share of the economy” in the middle.

Figure 3: Trade as a share of the Australian economy, 1960-2024 — the measurable face of globalisation. Source: ABS Australian National Accounts (values approximate).

Figure 3 is the number a trade economist points to first. In 1960, total trade was about a fifth of GDP; today it is close to half. That rise — economies trading a bigger and bigger share of what they make — is the measurable core of globalisation.

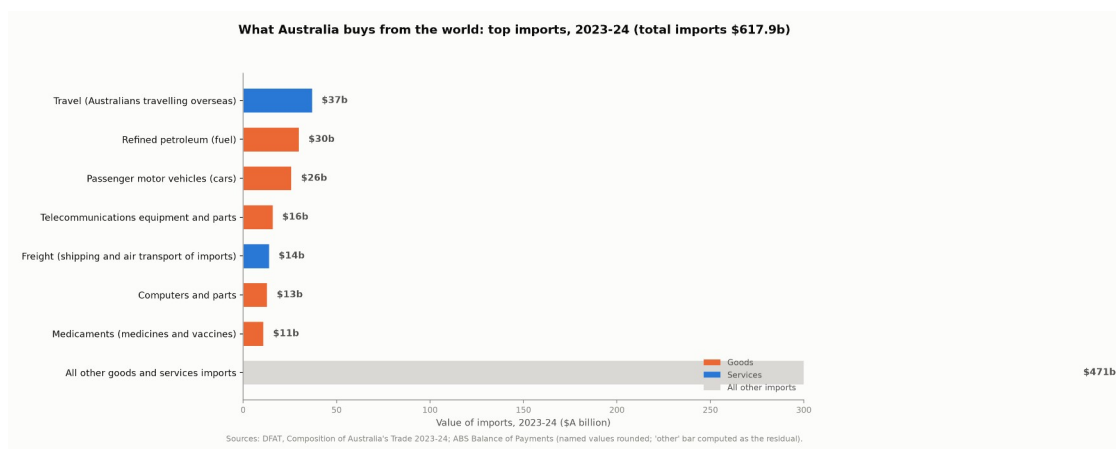
What we sell. Figure 4 breaks the export basket into its biggest items. Notice that two of the top eight are services: the fees and living costs of overseas students (**education-related travel**) and the spending of overseas visitors (**other travel**). International education is Australia’s largest service export.



A horizontal bar chart of top exports, 2023-24: iron ore and concentrates \$140b (goods), coal \$102b (goods), natural gas (LNG) \$51b (goods), education-related travel (international students) \$46b (services), gold \$38b (goods), other travel (tourism and business visitors) \$28b (services), beef \$13b (goods), wheat \$10b (goods), and all other goods and services exports \$258b, totalling \$685.7b.

Figure 4: What Australia sells to the world, 2023-24 (named values rounded to the nearest \$1b; the “other” bar is the computed remainder of total exports). Sources: DFAT Composition of Australia’s Trade 2023-24; ABS Balance of Payments.

What we buy. Figure 5 shows the import basket. Australia digs and grows plenty, but we refine and build less than we use: our top goods imports are refined fuel, cars, phones and computers, and our top services imports are Australians holidaying overseas and the freight that carries our imports.



A horizontal bar chart of top imports, 2023-24: travel (Australians travelling overseas) \$37b (services), refined petroleum (fuel) \$30b (goods), passenger motor vehicles (cars) \$26b (goods), telecommunications equipment and parts \$16b (goods), freight (shipping and air transport of imports) \$14b (services), computers and parts \$13b (goods), medicaments (medicines and vaccines) \$11b (goods), and all other goods and services imports \$471b, totalling \$617.9b.

Figure 5: What Australia buys from the world, 2023-24 (named values rounded to the nearest \$1b; the “other” bar is the computed remainder of total imports). Sources: DFAT Composition of Australia’s Trade 2023-24; ABS Balance of Payments.

Who we trade with now. Figure 6 gives today’s direction of trade. One partner — China — takes about a quarter of all two-way trade, and the Asian partners shown together take just over half; add the region’s remaining partners (Thailand, Vietnam, the Philippines and more) and Asia’s share is about two-thirds.



A horizontal bar chart of shares of Australia’s two-way trade in goods and services, 2023-24: China 24.0%, Japan 9.0%, United States 8.0%, South Korea 5.5%, India 5.0%, United Kingdom 4.5%, Singapore 4.0%, New Zealand 3.5%, Indonesia 2.5%, Malaysia 2.5%, all other partners 31.5%. A note in the empty top-right region says: the Asian partners shown here account for 52.5%; adding the region’s other partners brings Asia’s total to about two-thirds.

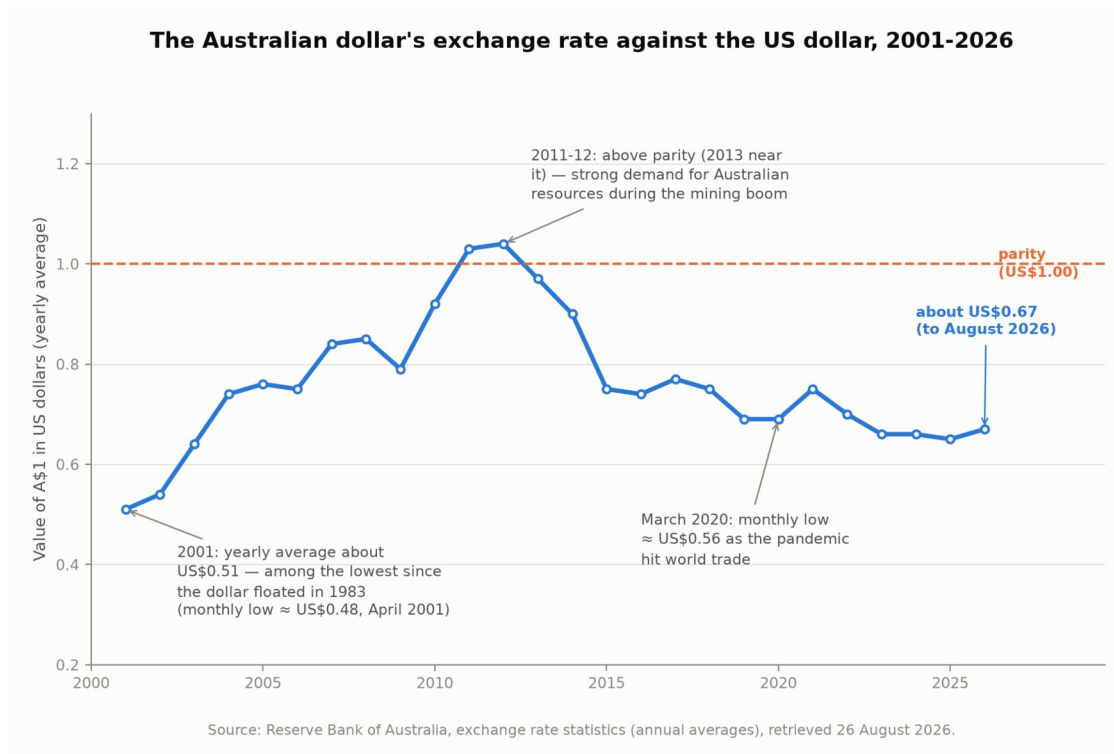
Figure 6: Australia’s top trading partners, 2023-24 (shares rounded). Source: DFAT, Composition of Australia’s Trade 2023-24.

Why the pattern changed. Three forces did it. (1) *Demand*: Japan’s post-war rebuilding and then China’s city-building wanted exactly what Australia has — iron ore, coal, gas — while Asia’s growing middle class wanted our beef, wheat and university places. (2) *Rules*: governments signed agreements that lowered the walls between economies — the 1957 commerce agreement with Japan (Australia’s first big trade treaty), Closer Economic Relations with New Zealand (1983), the China-Australia free trade agreement (2015) and the regional RCEP agreement (2022). (3) *Lowered protection at home*: Australia once shielded its own producers with high **tariffs** (taxes on imports) — in 1973 one government cut most tariffs by 25 per cent in a single move, and through the 1980s and 1990s they were cut again and again until

the average tariff fell to a few per cent. Cheaper imports for everyone, and more pressure on Australian producers to compete.

The exchange rate: the price of our money (VC2HE10K04.E01)

Every trade in Figure 4 and Figure 5 has to cross one more market first: the market for money. The **exchange rate** is the price of one currency in terms of another — how many US dollars one Australian dollar buys. Since December 1983 the Australian dollar has **floated**: its price is set by buyers and sellers in the currency market, not by the government.



A line chart of the yearly average value of A\$1 in US dollars, 2001-2026. It starts about US\$0.51 in 2001 (annotated “2001: yearly average about US\$0.51 - among the lowest since the dollar floated in 1983, monthly low about US\$0.48, April 2001”), climbs to above parity in 2011-12 with 2013 near it (annotated “2011-12: above parity (2013 near it) - strong demand for Australian resources during the mining boom”), falls to about US\$0.69 in 2019-20 with a March 2020 monthly low of about US\$0.56, and ends about US\$0.67 to August 2026. A dashed line marks parity at US\$1.00.

Figure 7: The Australian dollar against the US dollar, yearly averages 2001-2026. Source: Reserve Bank of Australia, exchange rate statistics, retrieved 26 August 2026.

Read Figure 7 as a story about trade. In 2001 the dollar was weak — about US\$0.51 — because the world then wanted little of what we sold. During the mining boom the world queued for Australian resources and the dollar rose above **parity** (US\$1.00) — the yearly averages for 2011 and 2012 sat above US\$1.00, with 2013 near it. When the boom cooled, the dollar slid back into the mid-60s US cents, dipped near US\$0.56 when the 2020 pandemic shut world trade, and sat around US\$0.65-0.67 through 2024-26.

A rising exchange rate is an **appreciation**; a falling one is a **depreciation**. Neither is simply good or bad — each makes a different set of Australians better or worse off:

Two directions of the exchange rate, two different effects		
	APPRECIATION (the A\$ rises)	DEPRECIATION (the A\$ falls)
What happens	The exchange rate RISES — A\$1 buys more foreign currency (for example, US\$0.67 moves to US\$0.80).	The exchange rate FALLS — A\$1 buys less foreign currency (for example, US\$0.67 moves to US\$0.55).
Australian exports overseas	Dearer for foreign buyers, so demand eases; each unit of foreign income converts into fewer Australian dollars.	Cheaper for foreign buyers, so demand strengthens; each unit of foreign income converts into more Australian dollars.
Imports into Australia	Cheaper — imported fuel, cars, phones and overseas holidays cost less.	Dearer — imported fuel, cars, phones and overseas holidays cost more.
Price pressure (inflation)	Eases — cheaper imports hold down prices that households and businesses pay.	Rises — dearer imports lift prices, including fuel at the bowser.
Likely winners	Consumers, businesses that buy foreign equipment, and Australians travelling overseas.	Exporters (farmers, miners, tourism and education providers selling to the world).
Likely losers	Exporters and Australian producers competing with cheaper imports.	Consumers and businesses that rely on imported goods; inflation picks up.

One country's exchange rate is never 'good' or 'bad' outright — it creates winners and losers at the same time.

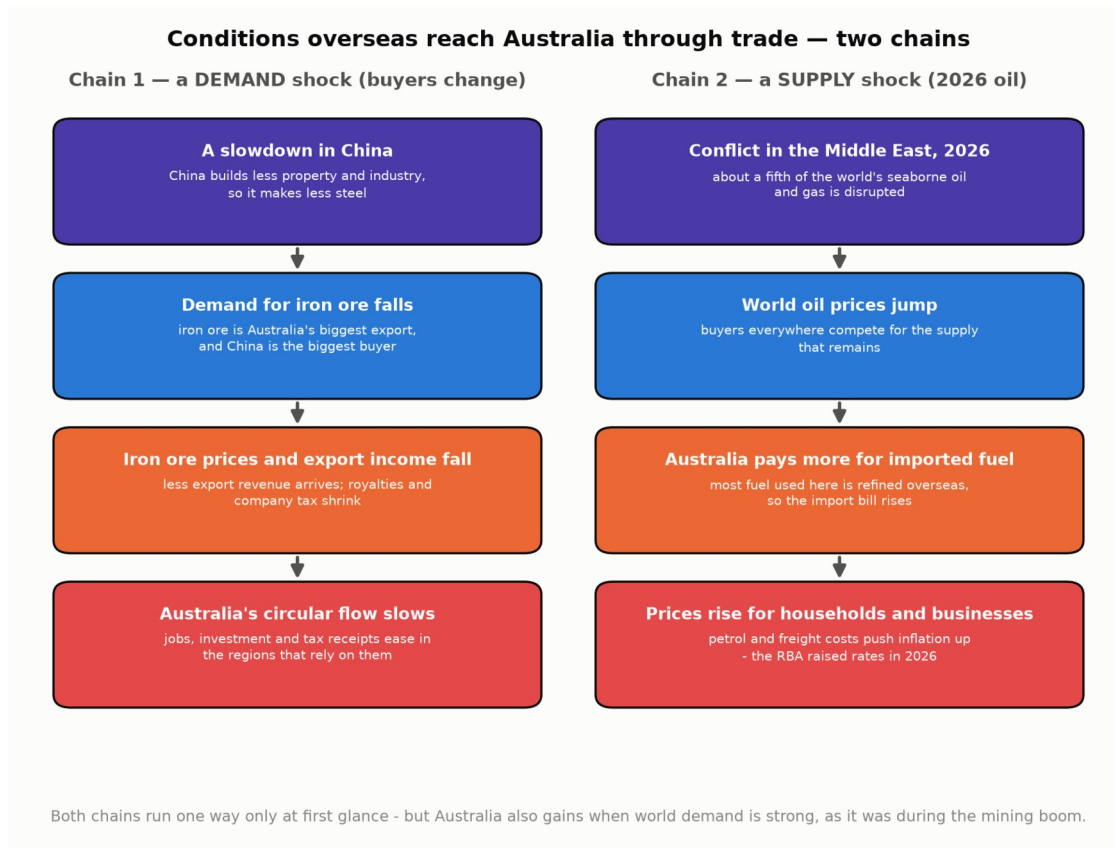
A comparison table with two columns, APPRECIATION (the A\$ rises) in green and DEPRECIATION (the A\$ falls) in red, and six rows. “What happens”: the exchange rate rises, A\$1 buys more foreign currency (for example US\$0.67 moves to US\$0.80); the exchange rate falls, A\$1 buys less foreign currency (for example US\$0.67 moves to US\$0.55). “Australian exports overseas”: dearer for foreign buyers so demand eases, each unit of foreign income converts into fewer Australian dollars; cheaper for foreign buyers so demand strengthens, each unit of foreign income converts into more Australian dollars. “Imports into Australia”: cheaper - imported fuel, cars, phones and overseas holidays cost less; dearer - imported fuel, cars, phones and overseas holidays cost more. “Price pressure (inflation)”: eases; rises, including fuel at the bowser. “Likely winners”: consumers, businesses that buy foreign equipment, Australians travelling overseas; exporters (farmers, miners, tourism and education providers selling to the world). “Likely losers”: exporters and Australian producers competing with cheaper imports; consumers and businesses that rely on imported goods.

Figure 8: An appreciation and a depreciation create different winners and losers (ClassBasics table).

The same dollar move can therefore be good news at one end of the country and bad news at the other: a cheaper dollar fattens a Pilbara miner’s and a Riverland farmer’s income in Australian-dollar terms, and lifts the cost of the phone and the fuel their households buy.

How one country's conditions reach another (VC2HE10K04.E01)

Because the flow in Figure 1 is connected at both ends, an economic shock in one country travels along the pipes. Two real chains show the two directions:



A diagram with two vertical chains of four coloured boxes each. Chain 1, a demand shock: a slowdown in China (China builds less property and industry, so it makes less steel) leads to demand for iron ore falls (iron ore is Australia's biggest export and China is the biggest buyer), which leads to iron ore prices and export income fall (less export revenue arrives; royalties and company tax shrink), which leads to Australia's circular flow slows (jobs, investment and tax receipts ease in the regions that rely on them). Chain 2, a supply shock: conflict in the Middle East, 2026 (about a fifth of the world's seaborne oil and gas is disrupted) leads to world oil prices jump (buyers everywhere compete for the supply that remains), which leads to Australia pays more for imported fuel (most fuel used here is refined overseas, so the import bill rises), which leads to prices rise for households and businesses (petrol and freight costs push inflation up - the RBA raised rates in 2026).

Figure 9: Two spillover chains — a demand shock and a supply shock reach Australia through trade (ClassBasics model).

Chain 1 happened in real time in the 2010s. When China's building pace slowed, the iron ore price fell from above US\$180 a tonne in 2011 to under US\$50 by late 2015; Australian export income, mining investment and state royalties all shrank with it, even though nothing inside Australia had changed. That ratio — the price of what we sell compared with the price of what

we buy — is the **terms of trade**; when it falls, the same volume of exports buys fewer imports, and the whole country is a little poorer. Chain 2 is the 2026 shock you met in Section 1A: with most of Australia’s fuel refined overseas, a supply disruption in the Middle East arrived here as dearer petrol and freight, and added to the inflation the RBA fought with three rate rises.

The costs and benefits of global trade (VC2HE10K04.E02)

Global trade is not a single gift or a single threat; it is a bundle of gains and costs that arrive together. Figure 10 puts the two columns side by side.

The benefits and costs of global trade		
	BENEFITS	COSTS
Markets	Bigger markets — a business can sell to the world, not just Australia's 27 million people, and grow large enough to enjoy economies of scale.	Competition from anywhere — producers that cannot match overseas prices or quality shrink or close, taking local jobs with them.
What we sell	Surplus products find buyers — Australia produces far more wheat, beef, coal and gas than it uses, and the difference earns export income.	Dependence on a few buyers — around a quarter of Australia's trade runs through one partner (China), so a slowdown there is felt here.
What we buy	More choice and lower prices for households; cheaper imported equipment for businesses.	Distant supply chains are hard to see — goods can arrive from workplaces with weak safety rules and low pay.
People and workplaces	New export industries create jobs and income across the economy.	Jobs can move offshore where wages are lower, and workers in developing economies can be exploited so prices stay low.
The environment and diplomacy	Trade agreements build diplomatic relationships and spread ideas and technology.	Extra production and transport add emissions and pollution; more trade means more shipping and flights.

The same flows of trade that lower prices can also move jobs and add emissions — assessing globalisation means weighing both columns.

A comparison table with a BENEFITS column in green and a COSTS column in red and five rows. Markets: bigger markets - a business can sell to the world, not just Australia’s 27 million people, and grow large enough to enjoy economies of scale; competition from anywhere - producers that cannot match overseas prices or quality shrink or close, taking local jobs. What we sell: surplus products find buyers - Australia produces far more wheat, beef, coal and gas than it uses, and the difference earns export income; dependence on a few buyers - around a quarter of Australia’s trade runs through one partner (China), so a slowdown there is felt here. What we buy: more choice and lower prices for households; cheaper imported equipment for businesses; distant supply chains are hard to see - goods can arrive from workplaces with weak safety rules and low pay. People and workplaces: new export industries create jobs and income across the economy; jobs can move offshore where wages are lower, and workers in developing economies can be exploited so prices stay low. The environment and diplomacy: trade

agreements build diplomatic relationships and spread ideas and technology; extra production and transport add emissions and pollution, and more trade means more shipping and flights.

Figure 10: The benefits and costs of global trade, side by side (ClassBasics table).

Two rows of Figure 10 carry subject terms worth naming. **Economies of scale** are the fall in average cost as a business produces more: a factory making for 27 million Australians is small, and small producers have high costs per item; the same factory making for the Asia-Pacific market runs longer production runs, spreading the cost of its machines over more units, and its average cost falls. That is why access to larger markets is the prize exporters chase. And **diversified sources of national income** is the flipside of the dependence cost: when export income arrives from many countries and many products, one buyer's bad year is survivable; when a quarter of trade runs through one partner, that partner's economy becomes partly our weather.

The ethical side of the ledger (VC2HE10K04.E03)

Some costs in Figure 10 are not just numbers; they are questions about how people are treated. Three ethical considerations sit at the centre of global trade, and each has a real Australian face:

Ethical consideration	What it looks like in the real world	How Australia responds
Offshoring of operations and employment — work moving to countries where wages are lower	Australia's car-making industry closed (Ford ended local production in 2016, and Holden and Toyota followed in 2017), and some service work — call centres, data processing — moved offshore too	Adjustment support for affected workers and regions; retraining; and new export jobs in other parts of the economy
Potential exploitation of employees in other nations — workers paid very little in unsafe workplaces so that prices stay low	The Rana Plaza garment factory collapse in Bangladesh (2013), in which more than 1,100 workers died, making clothes for customers on the other side of the world	The <i>Modern Slavery Act 2018</i> (Cth): large businesses must report each year on the risk of modern slavery — forced labour, debt bondage, child labour — in their supply chains
Differing quality and safety standards between countries — goods made to cheaper rules overseas	Imported products that would not pass Australian safety rules reaching Australian homes	The Australian Consumer Law sets mandatory safety standards, and the ACCC recalls unsafe imports

Ethical reasoning here follows the same discipline as the rest of this book: name the consideration, state the strongest case on each side, and judge with reasons. Take offshoring. The strongest case *for* it is that work moving to lower-wage countries lifts incomes for the workers who get those jobs — often the best-paid work in their region — and lowers prices for everyone; the strongest case *against* is that it can break the deal a community had with its employers,

leaving one town's workers to pay a cost that shareholders never see. Both are real. A well-reasoned position engages both, and the same symmetry applies to cheap imports: lower prices genuinely lift the living standards of the poorest Australian households, while the same supply chains can hide workplaces no Australian would accept. The *Modern Slavery Act 2018* is one Australian answer: not a ban on trade, but a rule that large businesses must look at their chains and say in public what they found.

Assessing the implications: how to judge Australia's participation (achievement standard)

The achievement standard for this band asks you to *assess the implications of Australia's participation in the global economy via international trade*. As in Section 1A, a strong assessment does four things, and it is the reasoning — not the conclusion — that shows quality:

1. **Name what “good” would mean.** Higher living standards, jobs, stable prices — and, from E02 and E03, fair treatment of workers here and overseas, and an environment that is not worn down by the trade.
2. **Read the data.** Cite the real numbers from this section: two-way trade close to half of GDP (Figure 3); a surplus of \$67.8 billion in 2023-24 but a deficit of \$2,441 million in the March quarter of 2026 (Figure 1 and Section 1A); about two-thirds of trade with Asia and a quarter with one partner (Figure 6); an exchange rate that has swung from US\$0.48 to above parity and back (Figure 7).
3. **Weigh both sides fully.** The strongest case *for* participation: export income pays for the standard of living Australia has — the mining boom lifted the terms of trade to their highest level in many decades and funded wages and government services; competition and imports hold prices down and widen choice; trade ties (CER, ChAFTA, RCEP) build diplomatic relationships; and in the 2008-09 world downturn, strong Asian demand for Australian resources helped Australia avoid the deep recession that hit most rich countries. The strongest case *against* the current pattern: dependence on a few buyers makes Australia a price-taker in someone else's story (Figure 9, Chain 1); structural change costs real jobs in real towns (the car closures of 2016-17); the export mix (coal, gas) and the shipping that carries it add emissions the world is trying to cut; and cheap imports can carry hidden exploitation.
4. **Make a reasoned judgement.** Choose a side because the evidence and the trade-off support it, and say what would change your mind — for example, “participation is good while our income is diversified; a quarter of trade with one partner is the risk to watch”, or the reverse.

Two students can reach opposite conclusions and both earn full marks, exactly as in 1A: the marks sit in the linkage of evidence to judgement.

Worked examples (scaffolded)

WE1 (VC2HE10K04.E01) — Follow one dollar across the exchange rate. A Queensland coal exporter is paid US\$100 per tonne. The exchange rate moves from US\$0.65 to US 0.55. *Work out the Australian-dollar income before and after, and name the direction of the change (per A1).* Fill in: *before* = $100 \div 0.65 = \square$, *After* = $100 \div 0.55 = \square$. *Direction:* the A buys fewer US cents, so this is a ____ (appreciation/depreciation). *Model working:* Before: $100 \div 0.65 = \$153.85$ per tonne. After: $100 \div 0.55 = \$181.82$ per tonne. The exporter gains \$27.97 a tonne

(about 18%) from the **depreciation**. Now the mirror image: an imported phone priced at US\$700 costs $700 \div 0.65 = \$1,076.92$ before and $700 \div 0.55 = \$1,272.73$ after — the buyer of imports loses \$195.81. Same move, opposite winners.

WE2 (VC2HE10K04.E04) — Build the 2023-24 trade picture from its parts. Using Figure 1: exports \$685.7b, imports \$617.9b. (a) Compute the balance of trade and classify it. (b) Compute two-way trade. (c) China's two-way trade was about \$313b; express it as a share of the two-way total and compare with Figure 6. *Scaffold — totals first:* balance = exports – imports = . **Two-way** = exports + imports = . Share = $313 \div \text{two-way} \times 100 = \underline{\hspace{1cm}}$. *Model working:* (a) $685.7 - 617.9 = +\$67.8\text{b}$ — **a trade surplus**. (b) $685.7 + 617.9 = \$1,303.6\text{b} \approx \1.3 trillion . (c) $313 \div 1,303.6 \times 100 \approx 24.0\%$, matching Figure 6's China bar.

WE3 (VC2HE10K04.E02) — Watch economies of scale appear. A Victorian winery sells 2 million bottles a year at home, at an average cost of \$8.00 a bottle. Winning shelf space across Asia lifts volume to 5 million bottles a year, and the average cost falls to \$6.40 a bottle. (a) What is the saving per bottle, in dollars and percent? (b) Name the two choices the lower cost now gives the winery. *Scaffold — one subtraction, one division:* saving = $8.00 - 6.40 = .$ **Percent** = $\text{saving} \div 8.00 \times 100 = .$ *Model working:* (a) \$1.60 a bottle; $1.60 \div 8.00 \times 100 = 20\%$. (b) Keep the price and earn a bigger margin to fund growth — or cut the price to win more shelf space. Both are live options *because* the bigger market shrank the average cost: that is economies of scale doing the work the CD names.

Worked examples (unscaffolded)

WE4 (VC2HE10K04.E01/E04) — Read the March-quarter-2026 balance the way an economist would. ABS Balance of Payments, March quarter 2026: goods exports \$132,635m; services exports \$36,388m; goods imports \$126,038m; services imports \$45,426m. Compute the balance of trade, classify it, and give one reason from this section why the goods and services stories differ. *Model answer:* Exports = $132,635 + 36,388 = \$169,023\text{m}$. Imports = $126,038 + 45,426 = \$171,464\text{m}$. Balance = $169,023 - 171,464 = -\$2,441\text{m}$ — **a trade deficit** (the same number Section 1A used as its gauge). The difference in stories: goods ran a surplus ($132,635 - 126,038 = +\$6,597\text{m}$) on the back of resources, while services ran a deficit ($36,388 - 45,426 = -\$9,038\text{m}$) — Australians' overseas holidays and the freight bill on imports outweighed the income from students and visitors that quarter. A quarter is a snapshot, not a verdict: 2023-24 as a whole was a \$67.8b surplus.

WE5 (achievement standard) — Assess, in four steps, whether Australia's participation in the global economy has been good for Australia. *Model answer (4-step method):* **(1) Goals:** higher living standards, jobs, stable prices, fair treatment of workers here and overseas, and a liveable environment. **(2) Data:** two-way trade $\approx 47\%$ of GDP in 2023-24; a \$67.8b surplus that year, but a $-\$2,441\text{m}$ quarter in March 2026; Asia $\approx$ two-thirds of trade and China $\approx$ a quarter; the terms of trade at their highest in many decades by 2011; the dollar swinging from US\$0.48 to above parity and back. **(3) Both sides:** for participation — export income funds the standard of living, the boom years financed wages and services, imports hold down prices and widen choice, trade agreements build diplomatic ties, and Asian demand helped Australia avoid a deep 2008-09 recession; against the current pattern — one-partner dependence imports other countries' downturns (the 2015 ore-price collapse), structural change closed the car industry by 2017, the coal-and-gas export mix and its shipping add emissions, and cheap imports can hide exploited

workers. **(4) Judgement:** e.g. participation has been good on the first three goals — the data in (2) shows income, jobs and choice that a closed economy could not match — but the risk profile has worsened as trade concentrated on one partner, so the judgement turns on diversification. (Note: a well-reasoned judgement for the *opposite* conclusion, citing the same data, earns full marks — the reasoning carries the marks, not the side you choose.)

Practice questions — scaffolded

Q1 (E04). Complete the sentences: When the value of exports is bigger than the value of imports, the balance of trade is a _____; when imports are bigger, it is a _____. Exports plus imports together are called _____ trade.

Q2 (E04). Using Figure 1: (a) what was the value of exports in 2023-24? (b) what was the value of imports? (c) compute the balance and say whether it is a surplus or a deficit.

Q3 (E04). Using Figures 4 and 5, name: (a) Australia's biggest goods export; (b) its biggest service export; (c) its biggest goods import; (d) its biggest services import.

Q4 (E04). Using Figure 6: (a) name Australia's biggest trading partner and its share; (b) name the next two biggest *Asian* partners; (c) roughly what share of Australia's trade does the whole Asian region take?

Q5 (E01). Read Figure 7. (a) In which year was the yearly average lowest, and about what was it? (b) in which years did the yearly average sit above parity? (c) what was the dollar worth, on a yearly average, to August 2026?

Q6 (E01). Using Figure 8, name two groups helped by a depreciation and two groups hurt by it.

Q7 (E02). From Figure 10, pick one benefit and one cost and sort each into the right sentence: "This one helps _____ because _____." / "This one hurts _____ because _____."

Q8 (E01/E04). True or false — correct the false ones. (a) An appreciation makes Australian exports cheaper for foreign buyers. (b) Imports are a leakage from the circular flow of income. (c) A trade deficit means the value of imports is bigger than the value of exports.

Practice questions — unscaffolded

Q9 (E04). Describe how the *direction* of Australia's trade changed from the 1950s to now, using Figure 2, and give the one force that explains all four eras. (3 marks)

Q10 (E04). Figure 3 shows trade as a share of GDP rising from about 21% to about 47%. (a) Explain in one sentence what that rise says about how Australia's economy changed. (b) Is this figure part of the *measurable* core of globalisation, or part of the *contested* judgement about it? Give a reason for your answer. (3 marks)

Q11 (E01). A Tasmanian beef exporter is paid US\$60 per carton. The exchange rate moves from US\$0.70 to US\$0.60. Calculate the Australian-dollar income per carton before and after, state the size of the change, and name the direction of the exchange-rate move. (3 marks)

Q12 (E02). A Tasmanian salmon farm sells 1 million kg a year at an average cost of \$12 a kg. Export contracts lift volume to 4 million kg a year and the average cost falls to \$9 a kg. Calculate the saving per kg in dollars and percent, and explain in one sentence why selling a surplus overseas can lower the cost for buyers at home too. (4 marks)

Q13 (E03). Name the three ethical considerations in global trade from this section. For one of them, give the real example used here and the Australian law or rule that responds to it. (3 marks)

Q14 (E01). Using Chain 1 of Figure 9, explain how a building slowdown in China can shrink a mining town's income in Western Australia without a single decision being made in Australia. Name the ratio economists use to compare the price of what we sell with the price of what we buy. (3 marks)

Q15 (E02/E03). Cheap imported clothing gives Australian households lower prices, and some of it is made in workplaces Australians would not accept. (a) Name the benefit and the cost using the correct terms from Figure 10. (b) Give one Australian policy response named in this section. (c) In one sentence, say why a ban on such imports is not the only — or obviously the best — answer. (4 marks)

Q16 (achievement standard). Assess the implications of Australia's participation in the global economy via international trade, using the four-step method from Theory and citing at least three real figures from this section. (4 marks)

Answers

WE1. Before \$153.85/t; after \$181.82/t; gain \$27.97/t (about 18%); a depreciation. The imported phone rises from \$1,076.92 to \$1,272.73. **WE2.** (a) +\$67.8b, a surplus. (b) \$1,303.6b $\approx$ \$1.3 trillion. (c) $\approx$ 24.0%, matching Figure 6. **WE3.** (a) \$1.60, 20%. (b) keep the price for a bigger margin, or cut the price for more market. **WE4.** -\$2,441m, a deficit; goods surplus +\$6,597m on resources, services deficit -\$9,038m on holidays and freight. **WE5.** See Fully-worked solutions. **Q1.** surplus; deficit; two-way. **Q2.** (a) \$685.7b. (b) \$617.9b. (c) $685.7 - 617.9 = +\$67.8b$, a surplus. **Q3.** (a) iron ore and concentrates. (b) education-related travel (international students). (c) refined petroleum (fuel) is the biggest goods import; travel (Australians overseas) is the biggest single import overall. (d) travel (Australians travelling overseas). **Q4.** (a) China, about 24%. (b) Japan and South Korea. (c) about two-thirds. **Q5.** (a) 2001, about US\$0.51. (b) 2011 and 2012 (2013 near it). (c) about US\$0.67. **Q6.** Helped: exporters (e.g. miners, farmers, education providers); businesses selling to overseas buyers. Hurt: consumers buying imported goods; businesses that rely on imported equipment or fuel. **Q7.** Any correct pairing, e.g. benefit: bigger markets help a growing business because it can spread costs over more units (economies of scale); cost: dependence on a few buyers hurts Australia when that partner slows. **Q8.** (a) False — an appreciation makes exports *dearer* for foreign buyers. (b) True. (c) True. **Q9.** Britain (wool, wheat, meat) → Japan (iron ore, coal) → China (mining boom) → a wide Asian network with services too. The force: what the world wanted to buy — demand for what Australia has. **Q10.** (a) A growing share of what Australia makes and spends crosses borders — the economy opened up. (b) Measurable core: it is counted from real trade and GDP numbers, not a value judgement. **Q11.** Before: $60 \div 0.70 = \$85.71$; after: $60 \div 0.60 = \$100.00$; change +\$14.29 (about 16.7%); a depreciation. **Q12.** \$3 a kg, 25%; the bigger market spreads fixed costs over more kg, so average cost falls for every buyer. **Q13.** Offshoring of operations and employment; potential exploitation of employees in other nations; differing quality and safety standards. Example: exploitation → Rana Plaza (2013) → Modern Slavery Act 2018 (Cth) reporting; or safety standards → unsafe imports → Australian Consumer Law mandatory standards / ACCC recalls. **Q14.** China builds less → less steel → less iron ore demanded → ore prices and export income fall → WA royalties, wages and tax shrink. Ratio: the terms of trade. **Q15.** (a) Benefit: lower prices / increased consumer choice; cost: potential exploitation of workers in developing economies. (b) Modern Slavery Act 2018 (Cth) supply-chain reporting (or ACCC/Australian Consumer Law safety standards). (c) A ban would lift prices on the poorest households and could cost those same overseas workers their best-paid jobs — the ethical cases cut both ways. **Q16.** Any judgement that names goals, cites ≥ 3 figures (e.g. 47% of GDP; \$67.8b surplus 2023-24; -\$2,441m March qtr 2026; $\approx$ 24% China share; US\$0.48-to-parity dollar), weighs both sides and concludes with reasoning.

Fully-worked solutions

Q11 (3 marks). Before: $\text{US}\$60 \div 0.70 = \text{\$85.71}$ per carton. (1 mark) After: $\text{US}\$60 \div 0.60 = \text{\$100.00}$ per carton; change = +14.29, *about* 16.7 *Direction: the A* buys fewer US cents — a **depreciation**, which lifts exporters' Australian-dollar income (Figure 8). (1 mark)

Q12 (4 marks). Saving: $\$12 - \$9 = \text{\$3 a kg}$; $3 \div 12 \times 100 = 25\%$. (2 marks: value and percent) Explanation (2 marks): the farm's fixed costs (ponds, processing plant, staff) are now spread over 4 million kg instead of 1 million, so the average cost of every kg falls — including the kg sold at home; selling the surplus overseas is what makes the scale possible.

Q15 (4 marks). (a) Benefit = increased consumer choice and lower prices; cost = potential exploitation of workers in developing economies (Figure 10). (1 mark) (b) The *Modern Slavery Act 2018* (Cth): large businesses must report annually on modern-slavery risks in their supply chains. (1 mark) (c) Reasoned one-liner (2 marks): a ban removes the jobs those workers hold — often the best-paid work available to them — and lifts prices that poorest Australian households feel most, so the ethical answer has to weigh both columns of Figure 10, not delete one.

Q16 (4 marks). Step 1, goals (1 mark): living standards, jobs, stable prices, fair work here and overseas, a liveable environment. Step 2, data (1 mark): any three of — two-way trade $\approx 47\%$ of GDP (2023-24); +\$67.8b surplus that year; -\$2,441m in March qtr 2026; Asia $\approx$ two-thirds and China $\approx$ a quarter of trade; the dollar from US\$0.48 (April 2001 monthly low) to above parity (2011-12) and back to $\approx$ US\$0.67; terms of trade at their highest in many decades by 2011. Step 3, both sides (1 mark): for — export income funds the standard of living, imports hold down prices and widen choice, trade agreements build diplomatic ties, Asian demand softened the 2008-09 downturn for Australia; against — one-partner dependence imports foreign downturns (2015 ore collapse), structural change closed car-making by 2017, the export mix and its shipping add emissions, cheap imports can hide exploitation. Step 4, reasoned judgement (1 mark): any conclusion tied to the evidence, e.g. “good on income, jobs and choice, but the concentration risk is the flaw to fix” or “the costs — dependence, emissions, hidden exploitation — now outweigh the gains” — marks go to the linkage of evidence to judgement, not the side chosen.

Sources

All sources retrieved 26 August 2026 unless stated.

- Australian Bureau of Statistics, Balance of Payments and International Investment Position, Australia (March quarter 2026; annual 2023-24 totals).
- Australian Bureau of Statistics, Australian National Accounts (goods and services trade as a share of GDP; values approximate).
- Department of Foreign Affairs and Trade, Composition of Australia’s Trade 2023-24 (top partners, top exports and imports; named values rounded).
- Reserve Bank of Australia, exchange rate statistics (AUD/USD yearly averages, 2001-2026).
- Reserve Bank of Australia and Australian Government, statements on the 2026 cash rate path (cross-reference Section 1A).
- Australian Government, *Modern Slavery Act 2018* (Cth).
- Australian Competition and Consumer Commission / Australian Consumer Law, product safety standards and recalls.
- International Monetary Fund, *Globalization: Threat or Opportunity?* (2002, updated 2008) — attributed definition of globalisation.
- Victorian Curriculum F-10 Version 2.0, Economics and Business, Levels 9 and 10 (VC2HE10K04 and elaborations; achievement standard extract).