

ECONOMICS Level 3

Common Assessment Task

Work Requirements:

This task requires an individual response by each learner.

Assessment Type:

Short responses

Criteria being assessed:

- Criterion 3 – all elements

Suggested conditions:

- This task should take learners 30 minutes in total for the creation of the response.
 - This task requires an individual response by each learner.
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Task Description:

- You will answer all questions.
- You should use 10 minutes of the allocated time to read the stimulus and the questions.
- You should use 20 minutes to respond to the questions
- You are encouraged to include diagrams where relevant.

What you need to do:

You will read the stimulus and answer the questions.

Stimulus - Adapted from RBA Board minutes of March 2020

The recent health crisis around the world was having a significant effect on the Australian economy, particularly in the education, transport and tourism sectors. The uncertainty associated with the crisis was also likely to affect household spending and business investment in coming months. As a result, GDP growth was likely to be noticeably weaker in the March quarter than previously expected. Once the disruptions passed, GDP growth was expected to pick up, supported by the low level of interest rates, high levels of spending on infrastructure, the lower exchange rate, stronger investment in the resources sector and recoveries in residential construction and household consumption. In discussing a possible monetary policy response, members [of the board] welcomed indications from the Australian Government that fiscal measures would be taken to support investment and the cash flow of affected businesses and jobs. They also discussed the support that lower interest rates would provide to jobs and economic activity through a lower exchange rate and a boost to aggregate cash flows for households and businesses. Members recognised that the combined monetary and fiscal responses would help the economy deal with the challenges posed by the crisis. Members also discussed the risk that a further reduction in interest rates could encourage additional

borrowing at a time when there was already a strong upswing in the housing market. That risk was not viewed as particularly high relative to the benefits from lower interest rates. The Board concluded that it was appropriate to ease monetary policy further to provide additional support to employment and economic activity. Members agreed that it was reasonable to expect that an extended period of low interest rates would be required in Australia to reach full employment and achieve the inflation target. The Board decided to lower the cash rate to 0.5%.

Extracted and adapted from <https://www.rba.gov.au/monetary-policy/rba-board-minutes/2020/2020-03-03.html>

Questions

1. Explain why it is suggested that GDP growth was likely to be weaker in the March quarter. (4 marks)
2.
 - (a) Explain the process by which the reduction in interest rates transmits to household spending and business investment.
 - (b) Evaluate the effectiveness of a decrease in interest rates in increasing expenditure.
Total marks for Question 2 = (8 marks)
3. Critically analyse the impacts upon individuals and business from “noticeably weaker” GDP growth.
(8 marks)

(Source: Adapted from [ECN315116 Economics TASC Exam Paper 2021.pdf](#) (2021-11-16 09:06am AEDT))

Teacher use only - What needs to be submitted for assessment?

Learners respond to the questions in a separate document, clearly identifying each question.