

Economics marking guide and response

Mock external assessment 2026

Combination response (61 marks)

Assessment objectives

This assessment instrument is used to determine student achievement in the following objectives:

1. comprehend economic concepts, principles and models of economic management
3. analyse an economic issue that involves economic management
4. evaluate an economic outcome relevant to economic management.

Note: Objectives 2 and 5 are not assessed in this instrument.

Purpose

This document consists of a marking guide and a sample response for the mock paper.

The marking guide:

- indicates the correlation, for each question, between mark allocation and qualities at each level of the mark range
- informs teachers and students about how marks are matched to qualities in student responses.

The sample response:

- demonstrates the qualities of a high-level response
- has been annotated using the marking guide. In Questions 11–14, each highlighted phrase in the sample response is matched to the descriptor highlighted in the same colour.

Mark allocation

Where a response does not meet any of the descriptors for a question or a criterion, a mark of '0' will be recorded.

Glossary of notations

Notation	Meaning
↑	Increase or higher
↓	Decrease or lower
%	Percentage
AD	Aggregate demand
AS	Aggregate supply
CPI	Consumer price index
GDP	Gross domestic product
RBA	Reserve Bank of Australia
s1, s2 ...	Source 1, Source 2 ... in the stimulus book

Marking guide

Multiple choice

Question	Response	Reason
1	C	Investment is a component of aggregate demand; saving and imports are leakages.
2	A	The RBA targets consumer price inflation of 2–3 per cent.
3	D	A deficit that persists at trend growth is not caused by the business cycle.
4	B	Higher borrowing costs reduce consumption and investment, lowering aggregate demand.
5	C	Real wage change is about $3.2\% - 4.0\% = -0.8\%$.
6	A	A tight labour market pushes up wages and prices.
7	D	Both policies reduce aggregate demand.
8	B	Microeconomic reform targets efficiency in individual markets.
9	D	Higher input costs reduce aggregate supply.
10	A	Monetary policy has a short implementation lag.

Short response

Question 11 (4 marks)

Sample response	The response:
Frictional unemployment occurs when people are temporarily between jobs, e.g. a graduate searching for a first job. It exists at full employment because it takes time for workers to search for vacancies and for employers to hire, even when there are plenty of jobs. Structural unemployment occurs when the skills or location of unemployed workers do not match the jobs available, e.g. when technology replaces routine clerical work. It remains at full employment because these workers cannot fill the vacancies on offer until they retrain or move, which takes a long time.	• describes one reason, e.g. frictional unemployment [1 mark]
	• explains why this unemployment exists at full employment [1 mark]
	• describes another reason, e.g. structural unemployment [1 mark]
	• explains why this unemployment exists at full employment [1 mark]

Question 12 (4 marks)

Sample response	The response:
Automatic stabilisers are changes in government revenue and spending that happen as economic activity changes, without any new policy decision. In a downturn, incomes and profits fall, so tax receipts fall, while more people qualify for welfare payments. This adds to household disposable income and supports aggregate demand, so the contraction is smaller than it would otherwise be. In an upswing the reverse happens, which slows spending and limits inflation, so the business cycle is smoother. An example is the JobSeeker payment, where total spending rises automatically as unemployment increases.	• identifies that automatic stabilisers change government revenue or spending without a new policy decision [1 mark]
	• demonstrates an understanding of the link between economic activity and the budget [1 mark]
	• explains why this moderates the business cycle [1 mark]
	• provides an example of an automatic stabiliser [1 mark]

Question 13 (7 marks)

Sample response	The response:
The budget outcome is a deficit, because government payments are \$31.5 billion greater than receipts, which is an expansionary stance. It is largely a structural deficit, because it occurs when economic growth is above trend and unemployment is low at 4.4%. In these conditions tax receipts are strong and welfare payments are low, so the deficit cannot be explained by the business cycle. Instead, the deficit reflects policy decisions to increase spending on defence, housing and renewable energy. As deficits are forecast for at least a decade, the government must keep borrowing, which adds to gross debt of more than \$1 trillion. In a downturn, automatic stabilisers would reduce tax receipts and increase welfare payments, adding a cyclical deficit to the existing structural deficit. With debt already high, borrowing more to fund discretionary stimulus would increase interest payments, leaving less revenue for other spending. Therefore the government has limited capacity to increase spending or cut taxes, so fiscal policy would be less effective in a future downturn.	Analysis (4 marks) - identifies the budget outcome as a deficit or an expansionary stance [1 mark] - identifies the deficit as structural because growth is above trend and unemployment is low [1 mark] - describes increased government spending as contributing to the deficit [1 mark] - identifies that continued deficits add to government debt [1 mark] Conclusion (3 marks) - explains that a downturn would add a cyclical deficit through automatic stabilisers [1 mark] - explains that high debt or interest costs limit further borrowing for stimulus [1 mark] - describes that fiscal policy is less effective or more constrained in a downturn [1 mark]

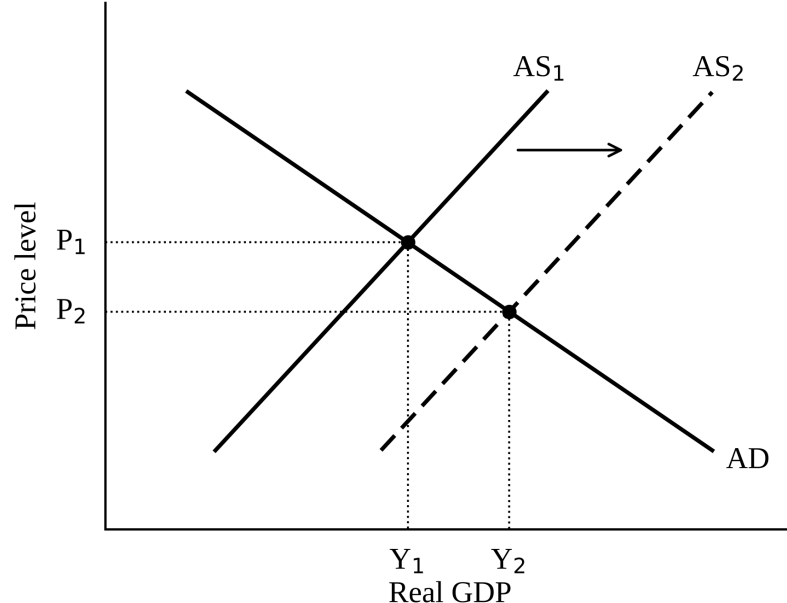
Question 14 (10 marks)

Sample response	The response:
Trimmed mean inflation fell from 6.8% in December 2022 to 2.7% in June 2025, which was inside the RBA's 2–3% target. It then rose for four quarters in a row to 3.6% in June 2026, with CPI inflation at 3.9%, so inflation was again above the target. The RBA lifted the cash rate to 4.35% by December 2023, then cut it to 3.60% by September 2025 as inflation eased. As borrowing costs fell, real GDP growth strengthened from 0.8% in September 2024 to 2.6% in December 2025. This indicates that stronger aggregate demand added to demand-pull inflation, and the RBA raised the cash rate back to 4.35% by June 2026. The cash rate was unchanged at 4.35% from December 2023 to December 2024. Trimmed mean inflation kept falling over this period, from 4.2% to 3.2%, which shows that monetary policy works with a time lag and must stay restrictive for some time to reduce inflation. In the second half of 2026 the RBA should have used a contractionary stance by raising the cash rate above 4.35%, because trimmed mean inflation of 3.6% was above the target and still rising. A higher cash rate increases borrowing costs, so households and businesses reduce consumption and investment. Lower aggregate demand reduces upward pressure on prices, which improves price stability, although economic growth, already slowing to 2.1%, would weaken further.	Analysis (6 marks) • describes the trend in inflation using data and a date [1 mark] • describes the trend in the cash rate using data and a date [1 mark] • interprets the inflation and cash rate data, e.g. against the 2–3% target [1 mark] • interprets the GDP growth data [1 mark] • identifies a stationary period in the data [1 mark] • interprets the stationary period [1 mark] Evaluation (4 marks) • identifies a valid reason for a change in monetary policy [1 mark] • decides on a valid monetary policy stance [1 mark] • uses price stability as the economic criterion for the decision [1 mark] • uses economic reasoning to support the stance identified [1 mark]

A response that argues for holding the cash rate at 4.35% can earn full evaluation marks if it is reasoned against price stability, e.g. by using the slowing in GDP growth and the time lag of the 2026 increases. For reference, the RBA raised the cash rate to 4.60% on 29 September 2026.

Extended response — Question 15 (26 marks)

Question 15a) (4 marks)

Sample response	The response:
Effect of higher productivity on the Australian economy 	• identifies an informative title [1 mark] • draws an AD and AS diagram accurately [1 mark] • labels the AD and AS lines, and axes appropriately [1 mark] • identifies the increase in aggregate supply and the new equilibrium [1 mark]

Higher productivity shifts aggregate supply to the right from AS_1 to AS_2 , so real GDP rises from Y_1 to Y_2 and the price level falls from P_1 to P_2 . A rightward shift of a vertical long-run aggregate supply curve is also an accurate response.

Question 15b) (22 marks)

Criterion: Analysing (9 marks)

The response:	The response:	M	The response:	M
Problem (3 marks) (s1, 2, 3)	Productivity data (s1)		Company tax rates (s6)	
- describes the economic problem as weak or falling labour productivity growth in Australia (s1 and s2) [1 mark] - describes that the problem is greater in the non-market sector (s3) [1 mark] - calculates a number to enhance meaning [1 mark]	- describes the trend of ↓ labour productivity growth using dates and data - describes the trend in real GDP per person using dates and data - explains that weaker productivity growth is reducing growth in GDP per person	3	- describes Australia's company tax rate relative to the other economies, using data - interprets the pattern described - makes a comparison to the average or to the lowest rate shown, with data	3
	- describes ↓ productivity growth and GDP per person with one data point - identifies a connection between productivity and GDP per person	2	- describes Australia's company tax rate relative to the other economies - interprets the pattern or makes a comparison	2
	describes the trend of ↓ productivity growth and GDP per person	1	identifies that Australia's company tax rate is among the highest shown	1
	does not satisfy any of the descriptors above.	0	does not satisfy any of the descriptors above.	0

Criterion: Evaluating (13 marks)

The response:	The response:	M	The response:	M	The response:	M
Economic ideas (2 marks)	Option 1: lower the company tax rate (s5 and s7)		Option 2: expand Fee-Free TAFE (s4 and s8)		Evaluation	
• uses the diagram to describe the ↑ in aggregate supply and links it to productive capacity or economic growth [1 mark] • uses accurate language of shift or movement [1 mark]	• describes option 1, identifying an example from each source • explains that a lower tax rate raises the after-tax return on investment, increasing the incentive for businesses to invest • explains likely flow-on effects of a lower company tax rate, with data	4	• describes option 2, identifying an example from each source • explains how more skilled workers might raise productivity, with data • identifies that not all enrolments have led to completed qualifications • explains likely flow-on effects of expanding Fee-Free TAFE	4	• makes a valid decision about which option should ↑ economic growth • considers two different perspectives • provides economic reasoning to support the decision	3
	• describes option 1, identifying an example from either source • describes that businesses may invest more • explains a likely flow-on effect of option 1, with data	3	• describes option 2, identifying an example from either source • explains how more skilled workers might raise productivity, with data • identifies a likely flow-on effect of option 2	3	• makes a valid decision about which option should ↑ economic growth • provides economic reasoning to support the decision	2
	• describes that businesses may invest more • describes another likely effect of option 1	2	• describes that more workers could gain skills • describes another likely effect of option 2	2	• makes a decision about which option should ↑ economic growth	1
	• describes option 1 with a relevant detail or likely effect	1	• describes option 2 with a relevant detail or likely effect	1	• does not satisfy any of the descriptors above.	0
	• does not satisfy any of the descriptors above.	0	• does not satisfy any of the descriptors above.	0		

Question 15b) sample response

Sample response (about 480 words)

Australia's economic problem is that labour productivity, the output produced for each hour worked, has stopped growing. Productivity growth averaged only 1.1% a year over the decade to 2020, which is 0.7 percentage points below the 60-year average of 1.8%, and GDP per hour worked fell 0.2% in the year to June 2026 (s2). Source 1 shows growth of 1.7% in 2020–21 turning into falls of 3.7% in 2022–23 and 0.7% in 2024–25. Real GDP per person followed, falling 1.0% in 2023–24 and 0.3% in 2024–25, because output per person cannot keep rising when each hour of work produces less. The problem is greater in the non-market sector, where productivity fell for four years in a row, including 1.9% in 2024–25, compared with 0.2% in the market sector (s3).

One cause is a weak incentive to invest. Australia's 30% company tax rate is the second highest of the economies shown, 8.8 percentage points above the 21.2% average and more than double Ireland's 12.5% (s6). A higher rate lowers the after-tax return on new equipment, so workers have less capital to work with.

Option 1 lowers the company tax rate to 20% for companies with revenue under \$1 billion and 28% for larger companies, with a 5% cashflow tax (s5). A higher after-tax return should lead businesses to invest more in equipment and technology. Modelling suggests investment would rise by about \$10 billion, GDP by \$13 billion (0.7%) and labour productivity by 0.5%, without reducing government revenue (s7). As my diagram shows, greater productive capacity shifts the aggregate supply curve to the right from AS_1 to AS_2 . Real GDP increases from Y_1 to Y_2 while the price level falls from P_1 to P_2 , so the growth is not inflationary. However, business groups argue the cashflow tax adds complexity, and the largest companies would pay a combined 33% (s7), which may weaken their response.

Option 2 expands Fee-Free TAFE, which has funded over 500,000 places for \$1.5 billion and attracted more than 851,000 enrolments (s4). Workers with more skills produce more per hour and can fill shortages, and the share of occupations in shortage fell from 36% in 2023 to 29% in 2025 (s8). This would also shift aggregate supply to the right. However, only 276,990 courses, about 33% of enrolments, had been completed by June 2026, and nearly half of trade occupations were still in shortage (s8). Not every funded place adds a skilled worker, and the program adds to government spending.

Using the criterion of economic growth, I recommend Option 1. From a business perspective, it raises the incentive to invest across the whole market sector, and its modelled gain of 0.7% of GDP comes at no cost to the budget. From a household perspective, Option 2 gives individuals a more direct benefit through free training and better job prospects, but its effect on growth depends on completions and takes years to appear. Option 1 is therefore more likely to increase Australia's productive capacity and rate of economic growth.

A response that recommends Option 2 can earn full marks if the decision is reasoned against economic growth and considers two perspectives.