

Economics marking guide and response

Mock external assessment 2026 · Paper 2

Combination response (60 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
NOM	Net overseas migration
RBA	Reserve Bank of Australia
WPI	Wage Price Index
s1, s2 ...	Source 1, Source 2 ... in the stimulus book

Marking guide

Multiple choice

Question	Response	Reason
1	B	Net overseas migration is long-term arrivals minus long-term departures.
2	A	Higher interest rates attract capital inflows, raising demand for the dollar.
3	C	Training raises the economy's productive capacity.
4	C	GDP per capita growth is about $2.1\% - 1.4\% = 0.7\%$.
5	D	Progressive tax brackets are not indexed to inflation.
6	A	Better job matching reduces frictional and structural unemployment.
7	D	The terms of trade is an index of export prices relative to import prices.
8	C	Migrants add to spending and to the labour force.
9	B	Underlying inflation above target at the peak calls for tighter policy.
10	A	Unemployment is below the NAIRU, inflation is above target and the deficit is large during strong growth.

Short response

Question 11 (4 marks)

Sample response	The response:
Cost-push inflation is a sustained rise in the general price level caused by higher costs of production, which reduces aggregate supply. For example, higher world oil prices raise fuel costs for transport and construction businesses, which pass these costs on to consumers as higher prices. This makes price stability harder for the RBA to achieve, because raising the cash rate reduces aggregate demand but does not lower oil prices. If the RBA raises rates to stop higher fuel costs flowing into wages and other prices, it risks slowing growth and increasing unemployment.	Cost-push inflation
	describes cost-push inflation as rising production costs that reduce aggregate supply [1 mark]
	provides a relevant example from the scenario [1 mark]
	Price stability
	explains why cost-push inflation makes price stability harder for the RBA to achieve [1 mark]
	uses an accurate detail, e.g. the trade-off with growth or the risk of second-round effects [1 mark]

Question 12 (10 marks)

12a) (6 marks)

Sample response	The response:
The graph shows that real wages are falling in 2026. In June 2026, consumer prices rose 3.9% over the year while wages rose 3.2%, so the purchasing power of wages fell by about 0.7 percentage points. Real wages had grown from March 2024 to September 2025, when wages growth was above inflation, but inflation overtook wages again from December 2025. First, inflation rose from 2.1% in June 2025 to 4.1% in March 2026. This reflects cost-push pressures such as higher fuel prices from the conflict in the Middle East and higher electricity prices, which raise the cost of essential items. Second, wages growth slowed from a peak of 4.3% in December 2023 to 3.2% in June 2026. An easing labour market, with fewer job vacancies, gives workers less bargaining power, and weak productivity growth limits how much businesses can afford to raise wages.	Issue
	identifies the issue as falling real wages in 2026 [1 mark]
	describes real wages using data, e.g. CPI 3.9% compared with WPI 3.2% in June 2026 [1 mark]
	Prices
	quantifies the rise in inflation over time, using data and dates [1 mark]
	explains a valid cause of higher inflation [1 mark]
	Wages
	quantifies the slowing in wages growth over time, using data and dates [1 mark]
	explains a valid cause of slower wages growth [1 mark]

12b) (4 marks)

Sample response	The response:
The government could fund training and other microeconomic reforms that raise labour productivity, which allows wages to rise without adding to inflation. A limitation is that productivity gains take years, so real wages would not recover quickly. The government could also give targeted cost-of-living relief, such as energy bill rebates. However, this adds to aggregate demand and the budget deficit, which may add to inflation and work against the RBA.	Policy 1
	identifies a valid policy [1 mark]
	explains a limitation of the policy given [1 mark]
	Policy 2
	- identifies a different valid policy [1 mark] - explains a limitation of the policy given [1 mark]

Question 14 (4 marks)

Sample response	The response:
$(77.5 - 126.6) \div 126.6 \times 100 = -38.8\%$ - Victoria had the largest fall in job vacancies, down 38.8% - Higher interest rates since 2022 reduced consumer and business spending, which lowered the demand for labour	notes the formula for percentage change [1 mark]
	calculates a number correctly [1 mark]
	identifies Victoria and the percentage change [1 mark]
	identifies a reason using economic terms [1 mark]

For checking: New South Wales fell 36.0%, Western Australia 32.6% and Queensland 19.0% over the same period.

Question 13 (11 marks)

Sample response	The response:
Several indicators show inflationary pressure in the economy. Underlying inflation of 3.6% has been above the RBA's 2–3% target since December 2025, which shows demand is still growing faster than supply. The budget is in deficit by \$31.5 billion even though the economy is growing, so fiscal policy is expansionary and adding to aggregate demand. The RBA has raised the cash rate four times in 2026, to 4.60%, which suggests monetary policy is working against fiscal policy. However, some forces are slowing the economy. Real GDP growth has eased from 2.6% to 2.1%, and the unemployment rate is rising slightly to 4.4%, which suggests the labour market is loosening. The terms of trade fell 1.6%, which reduces national income and company tax revenue. With gross debt passing \$1 trillion, higher interest payments limit the government's room to spend. Overall, the government should move to a more contractionary fiscal stance by reducing the deficit, for example by limiting new spending. This would reduce aggregate demand and support the RBA in returning inflation to target, which could allow interest rates to fall sooner. However, if unemployment rises faster than expected, the government should slow the pace of spending restraint, because automatic stabilisers will already widen the deficit in a downturn.	Expansionary (4 marks) - identifies that inflationary pressures exist [1 mark] - interprets underlying inflation above the target, using data [1 mark] - interprets the budget deficit as adding to aggregate demand, using data [1 mark] - interprets the cash rate increases or the household saving ratio as evidence of strong demand [1 mark] Contractionary (4 marks) - identifies that offsetting contractionary forces exist [1 mark] - interprets slowing GDP growth, using data [1 mark] - interprets rising unemployment, using data [1 mark] - interprets the fall in the terms of trade or the level of debt as limiting the budget [1 mark] Decision (3 marks) - makes a decision about the fiscal policy stance [1 mark] - provides reasoning for the decision made [1 mark] - describes a caveat [1 mark]

Extended response — Question 15 (21 marks)

Note for markers: sustainable economic growth is growth in real GDP that can be maintained over the long term without causing inflation, capacity constraints (such as in housing and infrastructure) or lower living standards for future generations. Responses that consider environmental sustainability as a perspective are also valid.

Source 8 table: the ABS compares permanent migrants with the total population, which includes migrants. It does not cover temporary visa holders, who make up most of net overseas migration (s3). Lower receipt of unemployment payments partly reflects eligibility rules: most new permanent residents wait four years for payments such as JobSeeker, while humanitarian entrants are exempt. Credit responses that recognise these limits, but do not require it.

Criterion: Analysing (9 marks)

The response:	The response:	M	The response:	M
Problem (3 marks) (s1, s2, s4)	Population and migration (s1, s3, s8)		Growth and capacity (s4, s5)	
- explains the economic issue as population growth driven mainly by net overseas migration [1 mark] - identifies the dilemma that migration adds to labour supply and GDP growth but also to demand for housing and infrastructure, which may make growth unsustainable [1 mark] - calculates a number to make meaning [1 mark]	- quantifies the trend in net overseas migration using data and dates (s1) - quantifies the visa groups contributing most to net overseas migration (s3) or compares economic outcomes across migrant visa streams (s8) - adds meaning to the data	3	- quantifies the gap between growth in real GDP and real GDP per person using data and dates (s5) - quantifies capacity pressures in housing, e.g. rents or completions against the Accord target (s4) - adds meaning to the data	3
	- quantifies the trend in net overseas migration, the main visa groups or the outcomes of a visa stream - adds meaning to the data	2	- quantifies either the GDP data or the housing data - adds meaning to the data	2
	- identifies the trend in net overseas migration OR - identifies the largest visa group or a difference between visa streams	1	- identifies GDP growth driven by population OR - identifies housing pressures	1
	does not satisfy any descriptors above.	0	does not satisfy any descriptors above.	0

Criterion: Evaluating (12 marks)

The response:	M	The response:	M	The response:	M
Approach 1: maintain NOM at about 290,000 (s7, s8)		Approach 2: cut NOM to 100,000 (s2, s7, s8)		Evaluation (s5, s6)	
- explains maintaining migration as sustaining labour supply and productive capacity, shifting aggregate supply right (s7, s8) - adds detail to the explanation, e.g. the Skill stream share, employment and income of skilled migrants, or fiscal contribution (s8) - synthesises a relevant idea or perspective, with detail, e.g. housing capacity (s4) or ageing (s6)	4	- explains the cut as reducing demand pressure on housing and infrastructure (s7) - adds detail to the explanation, e.g. "breathing space" (s2) or crowded housing (s8) - synthesises a relevant idea or perspective, with detail, e.g. skills shortages and ageing (s6) or budget revenue (s8)	4	- makes a valid decision about the effectiveness of both approaches, using sustainable economic growth (s5, s6) - provides economic reasoning about both approaches - makes a valid decision about which approach is more effective	4
- explains Approach 1 - synthesises a relevant idea or perspective - adds detail to either the explanation or the synthesis	3	- explains Approach 2 - synthesises a relevant idea or perspective - adds detail to either the explanation or the synthesis	3	- makes a decision about the effectiveness of either approach, using sustainable economic growth - includes economic reasoning to support one approach	3
- describes Approach 1 - refers to an economic idea or perspective	2	- describes Approach 2 - refers to an economic idea or perspective	2	- makes a decision about Approach 1 or Approach 2 - links the decision to economic growth	2
identifies Approach 1	1	identifies Approach 2	1	identifies a decision about economic growth	1
does not satisfy any descriptors above.	0	does not satisfy any descriptors above.	0	does not satisfy any descriptors above.	0

Question 15 sample response

Sample response (about 550 words)

Australia's economic issue is that population growth, driven mainly by migration, has increased total output but may not be sustainable. Net overseas migration rose to a record 538,000 in 2022–23, more than twice the 241,000 of 2018–19 (s1). It has since fallen to 292,000 in the year to March 2026, but still provided about three-quarters of population growth of 392,700 (s1, s2). Temporary students were the largest group, adding 108,100 people, or 35% of net overseas migration in 2024–25 (s3).

The dilemma is that migrants add to both aggregate demand and aggregate supply. Real GDP grew 1.4% in both 2023–24 and 2024–25, but real GDP per person fell by 1.0% and 0.3% (s5), so growth came from more people rather than higher output per person. Demand has also run ahead of capacity in housing: rents rose 7.8% in the year to March 2024, the fastest since 2009, and after 35% of the National Housing Accord period only 26% of the 1.2 million target homes had been completed (s4).

Approach 1 would hold net overseas migration at about 290,000 a year (s7). This sustains growth in the labour force, which matters because the number of Australians aged 65 and over is projected to more than double and participation to fall from 66.6% to 63.8% (s6). Migrants arrive young, with a median age of 26 (s6), and 71% of permanent places are in the Skill stream (s8), so many add directly to productive capacity, including the construction workers needed to build homes. Skilled permanent migrants had an employment rate of 81.8%, compared with 74% for the total population, and only 1.7% received unemployment payments, compared with 6.2%, which supports their positive contribution to the budget (s8). These figures exclude temporary migrants such as students, and humanitarian migrants have weaker outcomes, with 46.0% employed (s8). However, if housing supply keeps falling behind, rents and inflation could rise again, which would make growth less sustainable.

Approach 2 would cut net overseas migration to 100,000 a year, about two-thirds below the latest level (s7). At about 2.5 people per dwelling (s4), 190,000 fewer people would need about 76,000 fewer homes each year, easing rents and pressure on infrastructure and giving the “breathing space” the Opposition describes (s2). Housing is already crowded for some: 11.0% of permanent migrants live in a dwelling that needs an extra bedroom, compared with 6.8% of the total population (s8). However, 29% of occupations are already in shortage, including nearly half of all trades (s6), so fewer workers could slow housing construction itself and limit aggregate supply. The Parliamentary Budget Office estimated that 40,000 fewer migrants a year would cost the budget \$79.1 billion over a decade (s8), reducing the funds available for the infrastructure that growth needs.

Using the criterion of sustainable economic growth, Approach 1 is more effective, provided housing supply increases. From a household perspective, Approach 2 offers faster relief from rents and congestion. From a business and government perspective, Approach 1 keeps the young, skilled workers needed to offset ageing, fill shortages and fund services. Cutting migration would ease short-term pressures, but it would shrink the labour force when growth is already projected to slow to 2.2% a year (s6), so long-term growth would be weaker. Approach 1 therefore better supports growth that can be maintained over time.

A response that recommends Approach 2 can earn full marks if the decision is reasoned against sustainable economic growth and considers both approaches, e.g. by arguing that growth driven by population rather than productivity, with housing and infrastructure under strain, cannot be maintained.