

Description of task	Students will read an extract titled “ <i>Statement by Philip Lowe, Governor: Monetary Policy Decision</i> ” that describes the global factors that have caused inflation to increase in Australia significantly. They then analyse a graph titled ‘ <i>Automotive Fuel vs CPI – Annual percentage change</i> ’ that identifies the relationship between fuel prices and the consumer price index. Students then answer a series of questions related to the article and graph.
Assessment Type	Data interpretation/Short Answers
Assessment Conditions	Students will have 30 minutes to answer all questions. 24 marks in total.
Content from the Year 11 Economics ATAR curriculum	Inflation <ul style="list-style-type: none"> • The concept, and measurement, of inflation • The distinction between headline and underlying inflation • Types of inflation <ul style="list-style-type: none"> ▪ Demand pull ▪ Cost push • The costs of inflation and the benefits of low inflation
Economic Skills	<ul style="list-style-type: none"> • Economic Reasoning and Interpretation • Communication

Task preparation

Prior learning	Students are familiar with the following economic knowledge and understandings: <ul style="list-style-type: none"> • the effect of changes in price on quantity demanded i.e. expansion or contraction of demand • the effect of changes in non-price factors on quantity demanded i.e. increase or decrease in demand • the effect of changes in non-price factors on quantity demanded i.e. increase or decrease in demand • the concepts of market clearing, shortages and surpluses
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Assessment task

Resources	<p>“Statement by Philip Lowe, Governor: Monetary Policy Decision” by Reserve Bank of Australia, and published on 7 June 2022, from https://www.rba.gov.au/media-releases/2022/mr-22-14.html</p> <p>Graph showing “The annual change in fuel prices versus the corresponding changes in the consumer price index” by the Australian Bureau of Statistics and published on 25 January 2022, from https://www.abc.net.au/news/2022-01-25/inflation-rises-as-housing-fuel-lift-consumer-price-index/100779682</p>
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Question 1

(12 marks)

Refer to the following extract:

Statement by Philip Lowe, Governor: Monetary Policy Decision

At its meeting today, the Board decided to increase the cash rate target by 50 basis points to 85 basis points. It also increased the interest rate on Exchange Settlement balances by 50 basis points to 75 basis points.

Inflation in Australia has increased significantly. While inflation is lower than in most other advanced economies, it is higher than earlier expected. Global factors, including COVID-related disruptions to supply chains and the war in Ukraine, account for much of this increase in inflation. But domestic factors are playing a role too, with capacity constraints in some sectors and the tight labour market contributing to the upward pressure on prices. The floods earlier this year have also affected some prices.

Inflation is expected to increase further, but then decline back towards the 2–3 per cent range next year. Higher prices for electricity and gas and recent increases in petrol prices mean that, in the near term, inflation is likely to be higher than was expected a month ago. As the global supply-side problems are resolved and commodity prices stabilise, even if at a high level, inflation is expected to moderate. Today's increase in interest rates will assist with the return of inflation to target over time.

Source: RBA Media Release, June 2022.

- a) Define the term 'inflation' and state how it is measured.

(2 marks)

- b) Identify two global factors that have resulted in inflation increasing significantly in Australia.

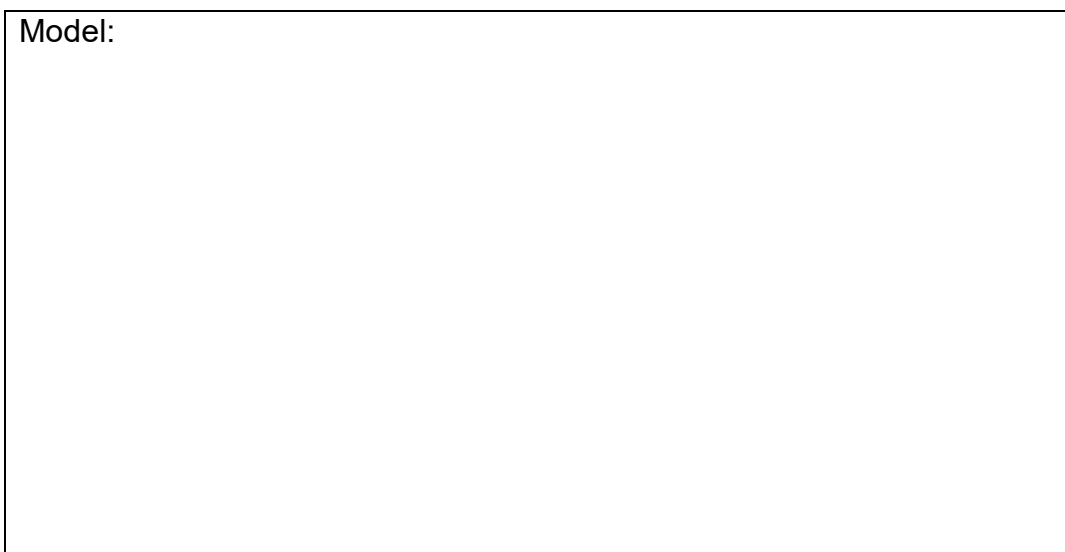
(2 marks)

c) Outline how inflation impacts household purchasing power.

(2 marks)

d) Use a demand and supply model to demonstrate and discuss the type of inflation identified in the media statement above.

Model:



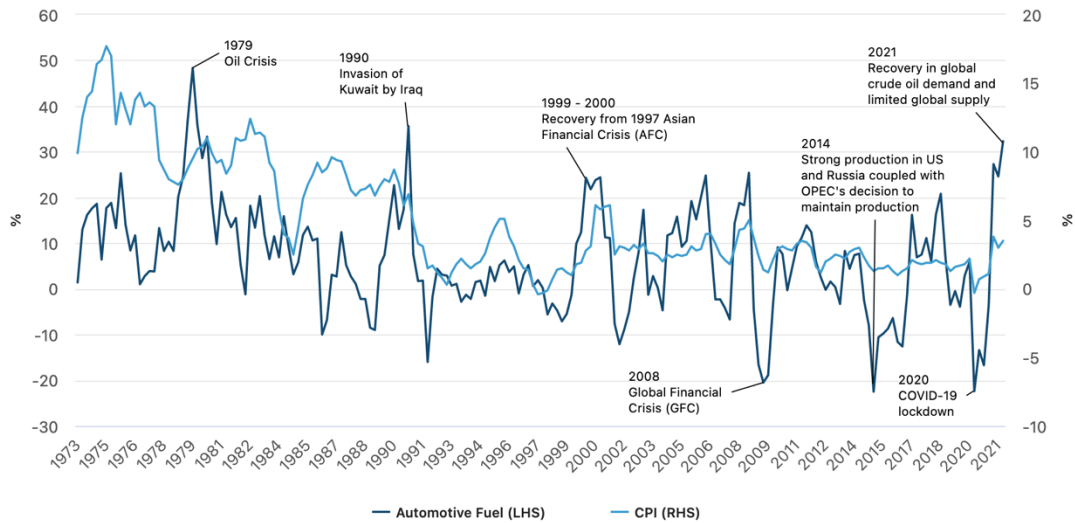
(6 marks)

Question 2

(12 marks)

Automotive Fuel vs CPI – Annual percentage change

Graph 1: Automotive Fuel vs CPI - Annual percentage change



1979 Oil Crisis
 1990 Invasion of Kuwait by Iraq
 1999 - 2000 Recovery from 1997 Asian Financial Crisis (AFC)
 2008 Global Financial Crisis (GFC)
 2014 Strong production in US and Russia coupled with OPEC's decision to maintain production
 2020 COVID-19 lockdown
 2021 Recovery in global crude oil demand and limited global supply

Source: Australian Bureau of Statistics, Automotive fuel in the CPI 23/03/2021

a) State

i) the inflation rate for 2020 (to the nearest %)

_____ (1 mark)

ii) the percentage change in automotive fuel prices in 2020

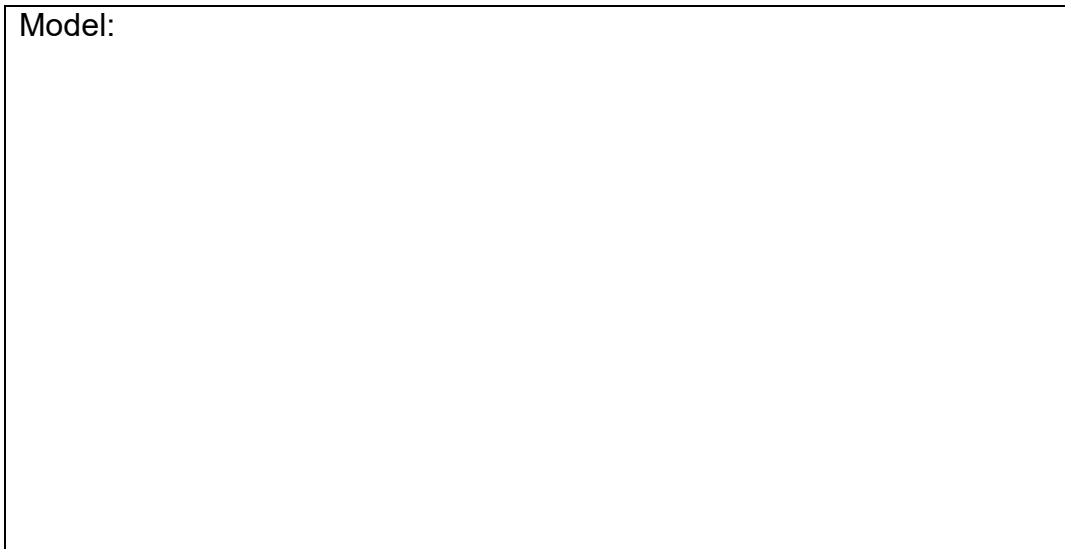
_____ (1 mark)

b) Distinguish between underlying and headline inflation.

(4 marks)

c) Use a demand and supply model to demonstrate and explain demand pull inflation.

Model:



(6 marks)

Marking guide

Question 1

a) Define the term 'inflation' and state how it is measured.

Description	Mark
Definition of inflation	
Inflation is a persistent and appreciable rise in the general or average level of prices	1
Measurement	
$\frac{CPI (Year 2) - CPI (Year 1)}{CPI (Year 1)} \times 100$	1
Total	2

b) Identify two global factors that have resulted in inflation increasing significantly in Australia.

Description	Mark
Global factors (x 2) 1 mark per factor. 2 marks max	
Identifies a global factor that have resulted in inflation	1
Total	2
Answers may include: <ul style="list-style-type: none"> • COVID related disruptions to supply chains • War in Ukraine 	

c) Outline how inflation impacts household purchasing power.

Description	Mark
Suggested response	
Outlines how inflation impacts households purchasing power	2
Identifies an impact of inflation on households	1
Total	2
Answers may include: <ul style="list-style-type: none"> • Inflation impacts household purchasing power as it reduces real income • Real income refers the amount of goods and services that can be bought with an amount of money. 	

d) Use a demand and supply model to demonstrate and discuss the type of inflation identified in the media statement above

Description	Mark
Model	
Correctly labelled model showing supply shifting to the left with an increase in price.	2
Correctly labelled model showing a price increase	1
Discussion	
Discusses the type of inflation identified with reference to higher production costs passed onto consumers	4
Explains the type of inflation identified with reference to supply constraints	3
Describes the type of inflation identified with reference to a change in supply	2
Identifies the type of inflation	1
Total	6
Answers may include: <ul style="list-style-type: none"> • Cost push inflation occurs when rising input costs are passed on to consumers who then pay higher prices for the final goods and services (provide example) • This increase in input costs causes supply to shift to the left (S1->S2) • Increase in input costs causes price to move from P1->P2 • Decreased supply causes a shortage 	

Question 2

a) State

i) Inflation rate for 2020 (to the nearest %)

Description	Mark
Calculation	
0.8%-0.9%	1
Total	1

ii) the percentage change in automotive fuel prices in 2020

Description	Mark
Calculation	
-20%	1
Total	1

b) Distinguish between underlying and headline inflation.

Description	Mark
For each measure of inflation (x2)	
Distinguishes between underlying and headline measures of inflation	2
Make a fact about underlying/headline inflation	1
Total	4
<p>Answers may include:</p> <p>Headline measure of inflation is the broad measure of changes in the cost of purchases made by wage and salary households in capital cities.</p> <p>Underlying measure of inflation gives a better picture of the rate of inflation. It is calculated by reducing the impact of irregular or temporary price changes in the CPI.</p>	

c) Use a demand and supply model to demonstrate and explain demand pull inflation.

Description	Mark
Model	
Correctly labelled model showing demand shifting to the right with an increase in price.	2
Correctly labelled model showing a price increase	1
Explanation	
Explains the concept of demand pull inflation using both economic reasoning and a suitable example	4
Describes that demand pull inflation creates a shortage of goods due to a mismatch between demand and supply in a market	3
Outlines that demand pull inflation creates a shortage of goods	2
States that demand pull inflation is related to high demand from consumers	1
Total	6
<p>Answers may include:</p> <ul style="list-style-type: none"> • Demand pull inflation is 'too much money chasing too few goods'. Households and businesses are spending more than they normally would (provide example). • This increase in demand causes demand to shift to the right (D1->D2) • Increase in demand causes price to move from P1->P2 • Excess demand causes a shortage 	