



TOPIC

2

CONSUMERS AND BUSINESS

Topic 2 syllabus outcomes tested

- ◆ **P1** demonstrates understanding of economic terms, concepts and relationships
- P2** explains the economic role of individuals, firms and government in an economy
- P7** identifies the nature and causes of economic problems and issues for individuals, firms and governments
- P8** applies appropriate terminology, concepts and theories in economic contexts
- P9** selects and organises information from a variety of sources for relevance and reliability
- P10** communicates economic information, ideas and issues in appropriate forms
- P12** works independently and in groups to achieve appropriate goals in set timelines

Economics Stage 6 Syllabus 2009 extracts © NSW Education Standards Authority for and on behalf of the Crown in right of the State of New South Wales, 2009; reproduced by permission.

SAMPLE PAGES

WES

websites

Consumer Protection

Australian Competition and Consumer Commission
NSW Office of Fair Trading
National Competition Council
Choice Magazine

Businesses in the Economy

Productivity Commission
Business Council of Australia
Department of Industry, Science and Resources
Export Market Development Grants
Business (Australian Government)

4 Consumers in the Market Economy

Multiple Choice

Select the alternative A, B, C or D that best answers the question.
Write your answer in the box provided.

- 1 Which of the following economic behaviours is most likely to reduce consumer sovereignty?
- A Misleading or deceptive conduct
 - B Monopoly provision of a good or service
 - C Government subsidies
 - D Higher prices
- 2 Alexia consumes \$800 of her weekly \$2000 income. However, if she accepts a new job offer, she will double her weekly income, of which she then expects to consume \$1200. How will Alexia's average propensity to consume (APC) change if she accepts the new job?
- A Become more elastic
 - B Increase
 - C Remain unchanged
 - D Decrease
- 3 Which factors would have a direct influence on individual saving patterns?
- A Future expectations and availability of credit
 - B Disposable income and the level of government debt
 - C Future expectations and business investment
 - D Availability of credit and market equilibrium
- 4 The equation $Y = C + S$ expresses the choice that consumers face when consuming or saving their income. Which of the following is always correct?
- A An increase in the level of income will increase marginal propensity to consume
 - B An increase in saving reflects an increase in income
 - C At a given level of income, an increase in saving requires an equal reduction in consumption
 - D An increase in income will result in a decrease in consumption

- 5** Yann has a weekly income of \$1300 and saves \$260 per week. What is Yann's average propensity to consume (APC)?
- A 0.2
B 0.8
C 0.6
D 0.4
- 6** Which three sectors receive the most social assistance in Australia, as measured by total expenditure on welfare payments for these cohorts?
- A Unemployed persons, families with children, and the aged
B The aged, Indigenous Australians, and families with children
C People with disabilities, unemployed persons, and the aged
D The aged, people with disabilities, and families with children
- 7** If the price of necessities such as food, clothing and electricity were to decrease, how might this affect the population's average propensity to save?
- A The average propensity to save would decrease
B The average propensity to consume would increase
C The average propensity to consume would remain unchanged
D The average propensity to save would increase

Questions 8, 9 and 10 relate to the information in the table below.

Andrea's weekly savings	Andrea's average propensity to consume (APC)	Andrea's marginal propensity to consume (MPC)
\$120	0.6	0.4

- 8** According to the above information, what is Andrea's marginal propensity to save?
- A 0.6
B 0.8
C 0.7
D 0.4
- 9** According to the above information, what is Andrea's weekly income?
- A \$200
B \$630
C \$300
D \$72
- 10** Suppose Andrea's marginal propensity to consume falls to 0.2. Which of the following is most likely to cause such a change?
- A Andrea reduces her working hours
B Andrea decides to save for a deposit on a house
C Andrea decides to improve her quality of life
D Andrea gets promoted at work

11 Question 11 relates to the information in the table below.

Country	Income per capita (US\$, PPP, 2024)	Saving (%GDP, 2024)
United States	85,810	19
Denmark	79,514	32
Australia	71,193	27
Japan	51,685	25
New Zealand	55,094	20
Greece	44,074	13
China	27,105	43
South Africa	15,457	16
India	11,159	28
Source: World Bank Development Indicators 2025		

According to the information in the table above, which of the following statements is true?

- A Japan has the highest income per capita
- B Greece has a higher saving rate than South Africa
- C New Zealand has a lower income per capita than Australia, but has a higher saving rate than China
- D India has a higher saving rate than Greece, but has a lower income per capita than the United States

☐

12 Which Australian agency protects consumers from anti-competitive behaviour?

- A Reserve Bank of Australia
- B Productivity Commission
- C Australian Competition and Consumer Commission
- D Australian Taxation Office

☐

13 Which of the following is an example of a household smoothing its consumption?

- A Spending income while working, and increasing savings when between jobs
- B Going on holiday only in summer
- C Buying a life insurance policy
- D Household members making additional contributions to superannuation

☐

14 For an individual, if average propensity to save is less than marginal propensity to save, what happens to saving if income is doubled?

- A Average propensity to save falls
- B Saving is doubled
- C Marginal propensity to save falls
- D Average propensity to save increases

☐

- 15** The table shows selected data about Hannah's income and saving in Year 1 and Year 2.

Year	Income	Saving	Consumption
1	?	?	\$62,000
2	\$95,000	\$25,000	?

Assume Hannah has a marginal propensity to save of 0.6. What was Hannah's income in Year 1?

- A \$75,000
- B \$62,000
- C \$115,000
- D \$70,000

Short Answer Questions

Write your answer in the space provided.

Question 1

(10 marks)

- (a)** Simone earns \$4000 a week and consumes \$1600 of that weekly income. Suppose Simone receives a 30 per cent pay rise and her consumption rises to \$2080. Calculate Simone's average propensity to consume at her original income level and her average propensity to save at her new income level. (2 marks)

.....

.....

.....

- (b)** Outline how future expectations can influence an individual's decision about whether to spend or save. (2 marks)

.....

.....

.....

.....

- (c)** Explain how government action can support consumer sovereignty. (3 marks)

.....

.....

.....

.....

.....

.....

- (d) Distinguish between a complementary good and a substitute good. Analyse how a change in the price of a complementary good might affect the individual demand for an item. (3 marks)

.....

.....

.....

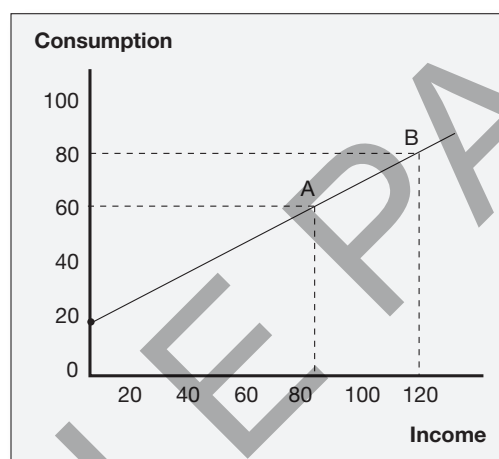
.....

.....

.....

Question 2

(10 marks)



An individual's consumption function

- (a) Define the term *average propensity to consume*. (1 mark)

.....

.....

- (b) Calculate the marginal propensity to consume at point A and the average propensity to consume at point B. (1 mark)

.....

.....

- (c) Outline why the curve in the consumption function does not meet the y-axis at 0 in the graph above. (2 marks)

.....

.....

.....

.....

- (d) Describe what would happen to the curve if the marginal propensity to consume decreased significantly. (2 marks)

.....

.....

.....

.....

- (e) From your understanding of the life cycle theory of consumption, examine how the average propensity to save (APS) changes over the course of a person's life. (4 marks)

.....

.....

.....

.....

.....

.....

.....

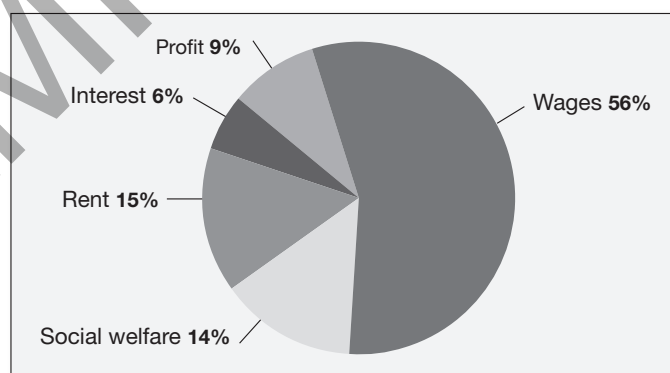
.....

.....

Question 3

(10 marks)

The information in the graph below relates to a hypothetical economy.



Sources of household income

- (a) Identify the main source of income for Australian households. (1 mark)

.....

.....

- (b) Explain how the amount and source of income can affect consumer behaviour. (2 marks)

.....

.....

.....

.....

- (c) Explain how transfer payments can be used to improve the welfare of individuals. (2 marks)

.....

.....

.....

.....

- (d) Outline how a decrease in personal income tax rates might impact consumption and saving of individuals in an economy. (5 marks)

.....

.....

.....

.....

.....

.....

.....

.....

Sample Pages

extended response

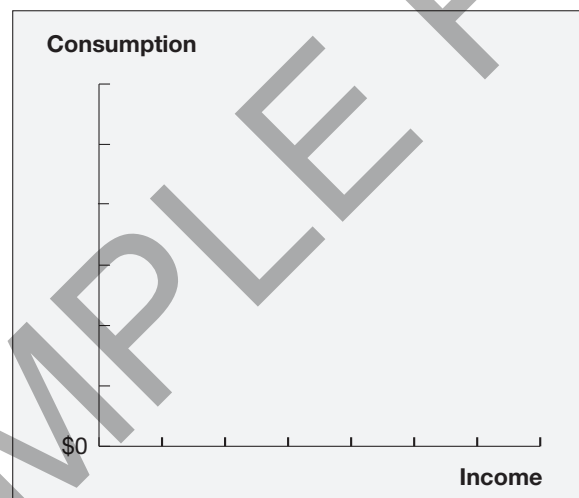
- 1 Outline the sources of consumer income and examine the role of social welfare in the Australian economy.
- 2 Consider the factors which can influence an individual's level of consumption and saving.
- 3 Discuss the factors influencing individual consumer choice and how government policies might be used to encourage individuals to increase their savings.

sr skillsrevision

Saving and Consumption Patterns

The table below examines an individual's saving and consumption patterns as their income rises. Fill in the missing elements of the table and draw the curve in the consumption function below.

Income	Saving	Consumption
25	10	
50		30
75	30	
	40	60
125		75



- (a) At an income of \$75, what is the individual's marginal propensity to save?
- (b) At an income of \$125, what is the individual's marginal propensity to consume?
- (c) Suppose that the marginal propensity to consume decreased. Draw another curve on the diagram to show what the new consumption function might look like.

ca classactivity

Consumer choice

Consumers play a central role in a market economy. Consumers receive income from many different sources, saving some of their income and spending some of it on goods and services that they need and want. Consumer sovereignty means that the tastes and preferences of consumers ultimately determine what firms produce. However, there are significant ways that business practices and other constraints can reduce consumer sovereignty.

For this activity, form small groups and discuss how the following factors influence consumer sovereignty using examples where available to illustrate your points.

Factors influencing consumer sovereignty	Discussion
Advertising and direct marketing	
Misleading and deceptive conduct by businesses	
Planned obsolescence	
Monopolies	
Increased information through the internet	
Distribution of income	