



TOPIC

1

INTRODUCTION TO ECONOMICS

Topic 1 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
- P4** compares and contrasts aspects of different economies
- P5** analyses the relationship between individuals, firms, institutions and government in the Australian economy
- P7** identifies the nature and causes of economic problems and issues for individuals, firms and governments
- 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

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WSN

websites

Economics in the Media

Sydney Morning Herald
The Economist
The Australian
Australian Broadcasting Corporation
Australian Policy Online
The Conversation

Economic Indicators

Human Development Reports
International Monetary Fund country information
World Bank
Organisation for Economic Co-operation and Development
The Heritage Foundation (Index of Economic Freedom)

1 What Is Economics About?

Multiple Choice

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

- 1 What does the production possibility frontier (PPF) illustrate?
- A The actual combinations of goods currently produced in an economy
 - B The maximum output combinations an economy can achieve given fixed resources and technology
 - C The total demand for goods and services in the economy
 - D How government policies determine production levels

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- 2 Question 2 relates to the information in the table below.

Production possibility schedule				
Hoodies	60,000	40,000	20,000	0
T-shirts	0	40,000	80,000	120,000

What is the opportunity cost of producing ONE hoodie?

- A 6 T-shirts
- B 3 T-shirts
- C 2 T-shirts
- D $\frac{1}{2}$ a T-shirt

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- 3 What is the opportunity cost of producing ONE T-shirt?

- A 6 hoodies
- B 3 hoodies
- C 2 hoodies
- D $\frac{1}{2}$ a hoodie

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- 4 Which of the following best explains the economic problem?

- A Wants are limited, resources are scarce and we need to choose between our wants
- B Trade-offs are satisfying, resources are scarce and we need to choose between our wants
- C Wants are unlimited, resources are scarce and we need to choose between our wants
- D Producers must make a trade-off between producer capital and consumer goods

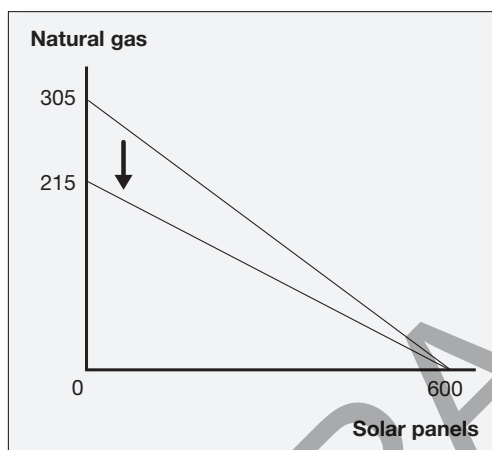
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5 Which of the following is most likely to shift the production possibility frontier outward?

- A Technological improvement
- B A reduction in resource availability
- C An increase in unemployment
- D A decrease in consumer demand

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6 What could have caused a movement in the production possibility frontier below?



- A Government subsidies for solar panels
- B Reduced unemployment among natural gas engineers
- C The release of a report on the benefits of natural gas
- D Tighter government regulation of natural gas extraction

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7 Question 7 relates to the information in the table below.

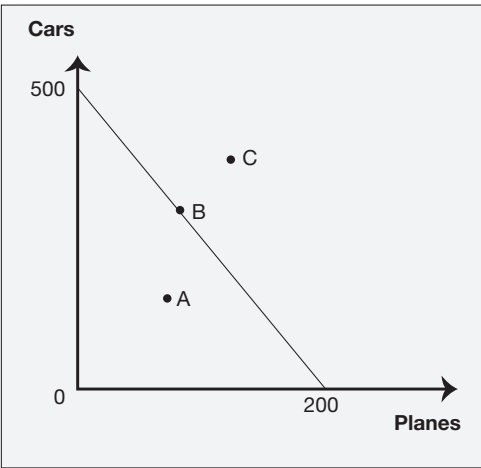
Production possibility schedule					
Pens	100	75	50	25	0
Pencils	0	5	10	15	20

Which of the following statements is correct?

- A At this point in time, it is not possible for this economy to produce 25 pens and 10 pencils
- B The most efficient combination of goods for this economy to produce is 50 pens and 10 pencils
- C The opportunity cost of 1 pencil is 5 pens
- D As the number of pencils produced increases, the opportunity cost of pens decreases

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8 The graph shows various points on a country's production possibility frontier.



In Year 1, the country is operating at its current maximum capacity. In Year 2, 10 per cent of the population are engaged in full-time studies in artificial intelligence and enter the workforce in Year 3. All else being equal, which of the following describes the likely position of the economy on the graph in Year 2 and Year 3?

	Position in Year 2	Position in Year 3
A	A	A
B	A	C
C	B	A
D	B	C

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9 Which of the following statements is correct?

- A Opportunity cost can sometimes be negative if the alternative is not valuable
- B Opportunity cost is solely measured in monetary terms
- C Opportunity cost represents the benefit forgone by not choosing the next best alternative
- D Opportunity cost only applies to government decision-making

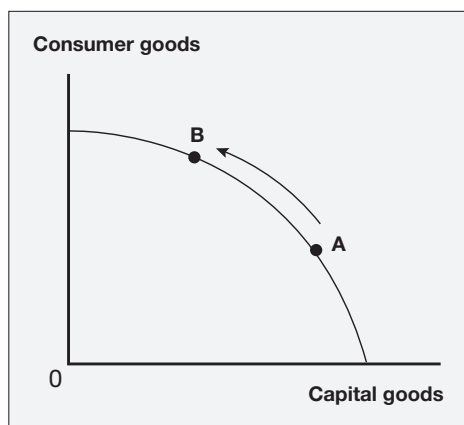
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10 Which of the following is a major aim for businesses?

- A To maximise profit
- B To minimise tax payments
- C To buy capital goods
- D To maximise spending in the economy

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Use the diagram below to answer questions 11 and 12.



11 What is a possible cause of the movement from point A to point B shown in the diagram?

- A Reduced demand for consumer goods
- B Reduced demand for capital goods in the economy
- C Reduced immigration into the economy
- D Increased taxes on consumer goods

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12 What is the most likely consequence of the movement from point A to point B shown in the diagram?

- A Inward shift of production possibility frontier in the long term
- B Inward shift of production possibility frontier in the short term
- C Outward shift of production possibility frontier in the long term
- D Rising unemployment in the short term

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13 When the government increases the income threshold for a tax exemption (such as the Medicare Levy), what is the likely impact of this policy?

- A Increase overall government revenue
- B Reduce consumer spending
- C Increase disposable income for low-income earners
- D Decrease the saving rate among individuals

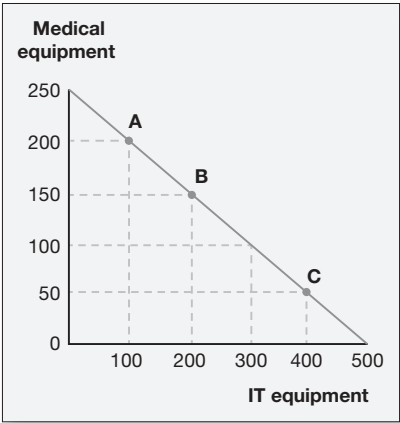
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14 Which of the following statements is correct?

- A Local swimming pools are an example of a collective want and goggles are an example of an individual want
- B Mobile phones and laptops are complementary wants
- C Collective wants are limited, while individual wants are unlimited
- D Needs and wants are limited by income

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15 Question 15 is based on the following graph.



Consider the production possibility frontier (PPF) for an economy that can produce specialised medical equipment and information technology (IT) equipment. Which of the following statements best explains what is happening in the economy shown?

A The opportunity cost of producing IT equipment is constant

B The opportunity cost of producing medical equipment is greater at B than C

C The opportunity cost of producing medical equipment is lower at A than B

D The economy is more efficient at producing IT equipment at A than C

Short Answer Questions

Write your answer in the space provided.

Question 1 (10 marks)

As part of the 2025–26 Federal Budget, the Government announced that from 1 July 2026 they will deliver new tax cuts to every Australian taxpayer. The new tax cuts aim to provide more cost-of-living relief and return bracket creep. This measure is now law.

The new tax cuts will apply from:

- 1 July 2026, the 16 per cent rate will be reduced to 15 per cent.
- 1 July 2027, the 15 per cent rate will be reduced further to 14 per cent.

– Australian Taxation Office, 28 March 2025

(a) Outline the difference between individual wants and collective wants. (2 marks)

- (b)** With reference to the information above, explain how lowering the tax rate will help individuals satisfy their wants. (2 marks)

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- (c)** Using an example, identify an opportunity cost faced by the Government in introducing the tax cuts outlined above. (2 marks)

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- (d)** Discuss how unlimited wants, scarcity, trade-offs, and opportunity cost affect both individual decision-making and government policy formation. (4 marks)

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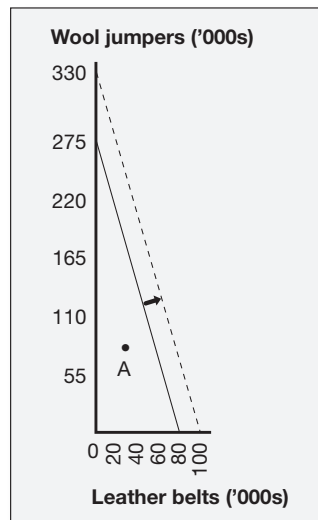
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Question 2

(10 marks)



- (a) Calculate the opportunity cost of producing ONE leather belt. (1 mark)

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- (b) Describe the consequences of producing leather belts and wool jumpers at point A in the diagram. (2 marks)

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- (c) Explain how an economy will decide what combination of jumpers and belts to produce. (2 marks)

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- (d) Outline how the outward shift in the production possibility frontier, as illustrated in the diagram, could have occurred. (2 marks)

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- (e) Outline what would happen to the production possibility frontier if the supply of wool fell sharply, and how this would affect the opportunity cost of jumper production. (3 marks)

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Question 3

(10 marks)

Annabelle must decide whether to spend her allowance on hiking gear or on drawing equipment.

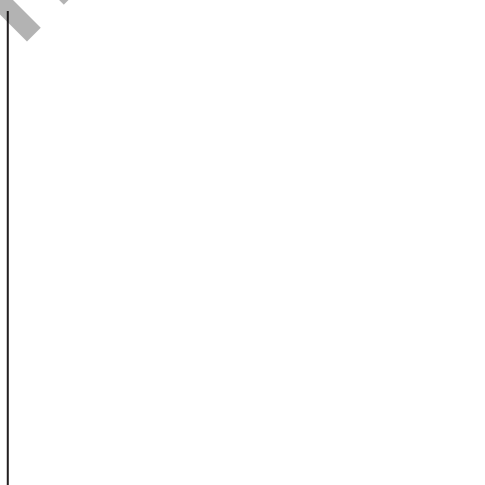
Annabelle's spending possibilities						
Hiking gear	25	20	15	10	5	0
Drawing equipment	0	50	100	150	200	250

- (a) Explain why Annabelle incurs opportunity cost when making decisions. (1 mark)

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- (b) Using the data above, construct a diagram to represent Annabelle's choices. Place drawing equipment on the horizontal axis and hiking gear on the vertical axis. (2 marks)



- (c) A new technological advancement has made it cheaper to produce hiking gear and the price comes down. Outline what impact this would have on the diagram. (2 marks)

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- (d) Annabelle cannot decide whether she should continue spending her allowance or begin to save money. Discuss the economic factors an individual must consider as well as the potential economic benefits of saving their allowance. (3 marks)

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- (e) Briefly discuss the effects of a shift from producing consumer goods to capital goods. (2 marks)

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extended response

- 1 Account for the four key economic questions and discuss how the choices of individuals, businesses and governments can influence the issues that arise from these questions.
- 2 Discuss the considerations for businesses in choosing the type of product they make and how they produce. Explain how consumers can influence this decision making.
- 3 Outline how the production possibility frontier can be used to demonstrate economic efficiency and examine the effects of resource availability and technological change on production in the economy.

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Economic Terms

Match the terms below to the correct definition, and where possible, provide TWO examples of each term. If you want to make this activity more difficult, try to write in the term without looking at the list below.

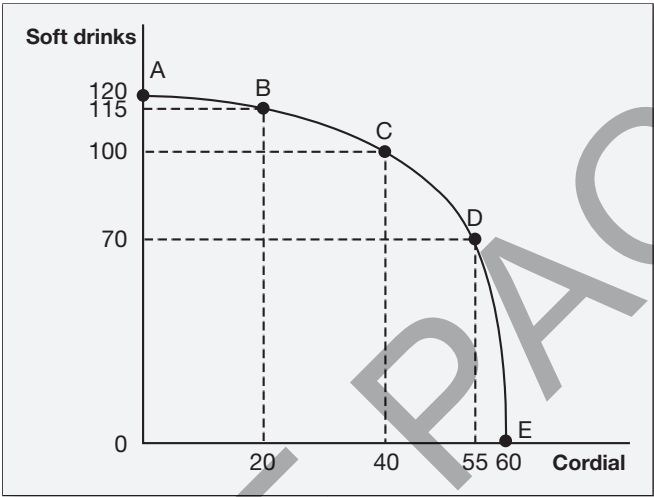
- ☐ Capital goods ☐ Individual wants ☐ Economic problem ☐ Government subsidy ☐ Needs
☐ Opportunity cost ☐ Recurrent wants ☐ Tax ☐ Unemployment ☐ Utility

Economic term	Definition	Examples
	Goods and services required to satisfy the basic necessities of life	• •
	A situation where resources in the economy are not being used to their full potential	• •
	Wants that are the desires of each person, usually dependent on personal tastes and preferences	• •
	How a society is able to satisfy its unlimited wants with a limited quantity of resources	• •
	Wants which must be satisfied over and over again	• •
	A benefit given by the government to groups or individuals, usually in the form of a cash payment or tax reduction	• •
	A want which is forgone in order to satisfy another want	• •
	A compulsory payment of money that the government imposes on firms or individuals	• •
	The satisfaction or pleasure an individual receives from consuming goods and services	• •
	Items not produced for immediate consumption, but used for the production of other goods	• •



The Opportunity Cost

Calculate the opportunity cost of moving between points on the following production possibility frontier.



1	Moving from point A to point B	2	Moving from point C to point D
3	Moving from point B to point E	4	Moving from point E to point A