HSC Economics Syllabus Reform

A possible approach to Stage 6 Syllabus content elements

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Background

In 2025 NESA is scheduled to release a new Stage 6 Economics Syllabus for consultation.

To contribute to the thinking and engagement with a new syllabus in NSW I have written this outline of content elements for the prelim and HSC course reflecting an updating of the 2009 NESA Syllabus.

I hope this provides food for thought and contributes to the fashioning of the future syllabus for NSW teachers and students.

Things to note

- This preserves the four topic structure as the 2009 syllabus, reshaping topic 1 and topic 2 to reflect the centrality of hyperglobalisation and trade and financial flows yet recognising the close of that period and future challenges and themes for the global economy.
- Exploration of the economic objectives framework is moved to the start of the course – positioning economic growth and economic development for the global economy.
- The convention of the shaded "including lists" has been taken from the reformed Geography syllabus.
- The balance of payments is located at the end of Topic 2 as it records and reflects the impact of Australia's policies on trade and financial flows (including exchange rates, capital controls and protection policies)
- A future aspect is included within macro policy, micro policy and the global economy
- Policy limitations and effectiveness consideration is situated within the policies rather than singly at the end as in the current syllabus.
- The issue of the environment has been raised in prominence to sit second after economic growth and includes an exploration of economic impacts associated with both climate change and the energy transition.
- Protection policy, labour market policy and environment policy are all clearly signaled as components of micro policy
- The case study of the effectiveness of the policies of an economy other than Australia in dealing with hyperglobalisation is not included, however can be explored in the reasons for differences elements.
- The structure of the prelim course is preserved with some sequencing and scope changes – financial aggregates measured by the RBA and factors affecting the demand for funds has been removed

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Table of contents

Prelim Topic 1: Introduction to economics

Content

The nature of economics

- the economic problem – wants, resources, scarcity
- the need for choice by individuals and society
- opportunity cost and its application through production possibility frontiers
- future implications of current choices by individuals, businesses and governments
- economic factors underlying decision-making by individuals, business and governments:

> **Including:**
> - individuals – spending, saving, work, education, retirement, voting and participation in the political process
> - business – pricing, production, resource use, industrial relations
> - governments – influencing the decisions of individuals and business

The operation of an economy

- production of goods and services from resources – natural, labour, capital and entrepreneurial resources acquired in factor markets
- distribution of goods and services in product markets
- provision of income
- provision of employment and quality of life through the business cycle
- the circular flow model of income, equilibrium and disequilibrium

Economies: their similarities and differences

- examine similarities and differences between Australia and at least one economy in Asia:

> **Including:**
> - economic growth and the quality of life
> - participation rate and unemployment
> - distribution of income (Gini coefficient of income inequality)
> - environmental sustainability
> - the role of government in health care, education and social welfare

Prelim Topic 2: Consumers and business

Content

The nature of economics

- the economic problem – wants, resources, scarcity
- the need for choice by individuals and society
- opportunity cost and its application through production possibility frontiers
- future implications of current choices by individuals, businesses and governments
- four decisions in every economy (what to produce, how to produce, how many to produce, distribution of production)
- economic factors underlying decision-making by individuals, business and governments:

Including:
- individuals – spending, saving, work, education, retirement, voting and participation in the political process
- business – pricing, production, resource use, industrial relations
- governments – influencing the decisions of individuals and business

The role of consumers in the economy

- consumer sovereignty
- consumers either spend or save income ($Y = C + S$)
- analysing consumer behaviour (APC, APS, MPC, MPS)
- changes in APC as income rises, consumers age, and GDP increases
- Factors influencing individual consumer choice on a purchase decision

Including:
- income
- price
- price of substitutes
- price of complements
- preferences/tastes
- advertising

The role of business in the economy

- definition of a firm and an industry
- goals of the firm – achieving satisfactory levels of conflicting goals

Including:
- maximising profits
- maximising growth
- increasing market share
- meeting shareholder expectations

- Influences on average costs of production by firms

Including:
- productivity
- internal economies and diseconomies of scale
- external economies and diseconomies of scale

- how firms make production decisions

Including:
- what to produce
- what quantities to produce (volume at technical optimum)
- how to produce

- impact of investment in technology and globalisation on firms'

Including:
- production methods
- output volume and types of products
- employment
- prices
- profits

- costs and benefits of ethical decision making and environmental sustainability for firms

Prelim Topic 3: Markets

Content

The role of the market

- allocating scarce factors of production and products (allocative efficiency)
- the use of prices to reflect opportunity costs in factor markets and product markets

Demand and supply

- definition of individual and market demand and individual and market supply
- law of demand and law of supply
- demand curve and supply curve
- movement along the curves where price of the good changes (expansion and contraction of demand and supply)
- shifts of the demand and supply curve where a non price factor changes (increase and decrease of demand and supply)
- non price factors causing a shift of the demand curve (increase/decrease)

> **Including:**
> - income, population, tastes, prices of substitutes and complements, expected future prices business

- non price factors causing a shift of the supply curve (increase/decrease)

> **Including:**
> - cost of factors of production, prices of substitutes and complements, expected future prices, number of suppliers, technology

Responsiveness of demand and supply to changes in price

- definition of price elasticity of demand and price elasticity of supply
- significance of price elasticity of demand for business and government
- classifying price elasticity of demand using total consumer outlay method as elastic, inelastic or unit elastic
- perfectly elastic and perfectly inelastic demand and supply
- factors impacting price elasticity of demand of a good

> **Including:**
> - necessities and luxuries
> - existence of close substitutes
> - proportion of income spent on the good
> - length of time since a price change

- factors impacting price elasticity of supply of a good

Including:
- length of time since a price change
- ability to store inventory of the good
- excess production capacity

Determination of market price and quantity with no government intervention

- market equilibrium – using diagrams
- definition of price mechanism
- movement to equilibrium
- effects of increase/decreases in supply and/or demand on equilibrium market price and quantity through the use of diagrams

Impact of market structures and competition on market price

- pure competition
- monopolistic competition
- oligopoly
- monopoly

Government intervention in markets to change price and quantity

- if the price is considered too high – price ceiling
- if the price is considered too low – price floor
- where social costs and benefits not taken into account by the price mechanism would otherwise result in under or over consumption

Including:
- definition of market failure, positive and negative externalities
- definition of merit goods, demerit goods and public goods
- taxes to address negative externalities
- subsidies to address positive externalities
- government use of tax revenue to provide public goods

Prelim Topic 4: Labour markets

Content

Demand and supply of labour

- as a factor market, firms demand and consumers supply
- demand for labour by the firm is derived from the demand for the goods and services of the firm
- demand and supply expand and contract in response to changes in the price of labour
- non price factors causing a shift of the demand curve (increase/decrease)

> **Including:**
> - level of output desired by the firm
> - productivity of labour
> - changes in the cost of capital goods which could be substituted for labour

- non price factors causing a shift of the supply curve (increase/decrease)

> **Including:**
> - working conditions
> - human capital, skills, experience, education/training levels
> - occupational and geographic mobility of labour
> - participation rate

- price mechanism determination of wage rate and quantity of labour employed
- impact of government intervention of minimum wage as a price floor

The Australian labour force

- definitions of employed, unemployed and labour force
- general characteristics of the Australian labour force

Labour market outcomes for workers

- wage outcomes by income groups, occupational groups, age, gender and cultural background
- non-wage outcomes for different occupations
- trends in the equality of distribution of income
- arguments for and against a more equitable distribution of income from work

Labour market trends

- unemployment, underemployment
- participation rate by gender
- relative share of types of work arrangements (full time, part-time, casual, contractors)
- advantages and disadvantages of types of work arrangements for employers and employees

Government intervention in the labour market: The labour market framework

- the role of key stakeholders (unions, employer associations, government)
- the current labour market framework to determine worker pay and conditions

Prelim Topic 5: Financial markets

Content

Role and importance of financial markets

- connecting individuals, business and firms with savings (lenders) with individuals, businesses and firms that desire funds (borrowers)
- impact of operating financial markets on business operations, employment and GDP
- types of financial markets: primary and secondary
- difference between lending rates and borrowing rates

Financial markets in Australia

- the role and function of specific financial markets

Including:
- debt markets (consumer credit, housing loans, business loans)
- bond markets (corporate and government; domestic and global)
- derivatives markets (currency and commodity futures contracts)
- official cash market
- foreign exchange market
- share market (domestic and global)

Regulation of financial markets – the role and functions of current institutions

- the role and function of government institutions

Including:
- Reserve Bank of Australia
- Australian Prudential Regulation Authority
- Australian Securities and Investments Commission
- Australian Treasury
- Council of Financial Regulators

Interest rates

- diversity of interest rates offered by different lenders and for different products
- the cash rate in the official cash market as a benchmark interest rate
- the role of the RBA in implementing a target cash rate through the policy interest rate corridor and full allotment auctions

Prelim Topic 6: Government intervention in a mixed market economy

Content

The need for government intervention in the markets in the economy

- limitations of a free market

Including:

- will not produce public goods
- will overproduce demerit goods and underproduce merit goods: production and consumption of demerit goods will impact pollution and climate change
- will not protect workers in unequal bargaining positions with employers
- will not prevent formation of monopolies or anti competitive practices by businesses (collusive dealing, market abuse, cartels)
- will not produce stable, trusted financial markets
- will experience a business cycle of booms and busts with associated adverse impacts on output and employment
- will not protect disadvantaged groups or those in relative poverty

Government intervention to address limitations of a free market

- government intervention in markets in a mixed market economy

Including:

- raise taxes to produce public goods and services through government departments and government business enterprises
- use taxes and subsidies to alter production and consumption of merit and demerit goods
- use regulation to protect the environment and health
- regulate the determination of pay and conditions of workers and labour disputes
- regulate behaviour of firms to prevent anti competitive behaviours
- regulate behaviour of financial markets participants to ensure stability
- stabilise the business cycle
- redistribute income through the tax system and provide services to disadvantaged groups or those in relative poverty

Government intervention in Australia

- constitutional power of levels of government in Australia
- raise taxes (direct, indirect, progressive, regressive, proportional)
- borrow money where taxes insufficient for spending programs
- spend taxes and borrowed money (size of public sector)

Including:

- purchasing goods and services
- paying interest
- providing public goods
- redistribute income by providing transfer payments to disadvantaged (social welfare payments)
- providing services to disadvantaged
- establishing regulation and funding regulators including those required in financial markets, labour markets, competition and in relation to the environment
- stabilising economic activity using fiscal policy (the Federal Budget) and monetary policy (setting the target cash rate by the independent RBA)

Fiscal policy: Federal Budget

- the budget process
- budget outcomes – surplus, balanced, deficit
- budget stances (relative changes in budget outcomes) – expansionary, contractionary, neutral

Influences on government policies and intervention in Australia

- stakeholders and events

Including:

- political parties
- business
- unions
- environmental groups/organisations
- welfare agencies
- the media
- other interest groups
- international business cycle (impacted by financial crises, health crises and armed conflict)
- policies of foreign governments
- international energy markets

Topic 1: The global economy

Content

Economic objectives and measurement

- economic objectives for an economy in the global economy

Including:
- economic growth and quality of life
- full employment
- price stability
- external stability
- environmental sustainability
- fair income distribution

- difference between economic growth and economic development
- indicators of economic objectives

Potential benefits of trade and financial flows

- comparative advantage: advantages and disadvantages of free trade
- advantages and disadvantages of financial flows
- reasons for protection

Including:
- infant industry argument
- domestic employment
- dumping
- defence
- resilience

- methods of protection in relation to trade and their impacts

Including:
- tariffs
- quotas
- subsidies
- local content rules
- export incentives
- industry policy

- methods of protection in relation to financial flows and their impacts

Including:
- capital controls
- foreign exchange controls
- foreign investment and ownership controls

Hyperglobalisation

- causes: changes in transport, technology and communication
- role of organisations and bodies in hyperglobalisation

Including:
- international organisations – WTO, IMF, World Bank, United Nations, OECD
- government economic forums – G20, G7/8, APEC
- multilateral and bilateral preferential free trade agreements (EU, USMCA, ASEAN)

- evidence of hyperglobalisation

Including:
- global changes in protection in relation to trade and financial flows
- value, composition and direction of trade flows
- value, composition and direction of cross border financial flows (associated with debt, equity and other purposes)
- scale of transnational corporations and industry concentration

Post hyperglobalisation: Slowbalisation

- protection
- geostrategic tension and competition
- sovereign industry policy

Hyperglobalisation outcomes

- global economic growth and economic development
- geographic distribution of GWP and wealth
- international division of labour and migration
- classification of economies (IMF classification, emerging economies, BRICs)
- international and regional business cycle
- contagion and supply chain risks
- reasons for difference between economies on economic growth and economic development during hyperglobalisation

Future influences on the global economy

- industry 4.0 and artificial intelligence
- productivity trends
- climate change
- green energy transition
- possible future global scenarios as a result of strategic competition

Topic 2: Australia’s relationship with the global economy

Content

Australia’s policies in relation to trade and financial flows

- the Australian settlement
- financial deregulation: capital controls

Including:
- foreign exchange
- foreign banks

- financial deregulation: exchange rates

Including:
- definition of an exchange rate
- measuring against one currency or against a basket of currencies (trade weighted index)
- exchange rate regimes (fixed, free floating, dirty)
- demand and supply factors for a currency
- impact of interest rate differentials and the terms of trade on exchange rates
- impacts on a domestic economy of fluctuations in the exchange rate
- impacts of actions of the RBA on the exchange rate

- trade liberalisation

Including:
- unilateral protection reduction
- participation in global fora
- bilateral and multilateral preferential free trade agreements
- industry policy
- impact on Australia of protection policies of other countries

Trends in Australia’s trade and financial flows

- major drivers (including industrialisation of China, financial deregulation, armed conflict, terms of trade, protection policies)
- value, composition and direction of trade
- value, composition and direction of financial flows (including interest, dividends and investment)
- net foreign liabilities (net foreign debt + net foreign equity)

The importance and measurement of Australia's trade and financial flows

- trade and financial flows and the savings investment gap (X -M + r = S – I)
- impact of annual trade and financial flows on net foreign liabilities
- measuring trade and financial flows with the IMF's balance of payments presentation

Including:
- structure: Current Account, Capital and Financial Account
- double entry approach
- debits and credits
- links between categories
- advantages and disadvantages of a current account deficit

- trends in Australia's current account and net foreign liabilities
- causes of trends in components within Australia's balance of payments

Including:
- demand for exports
- protection policies
- terms of trade
- international competitiveness
- international borrowing
- exchange rate (Marshall-Lerner condition)
- inbound and outbound foreign investment

Topic 3: Economic Issues

Content

Economic growth

- definition
- aggregate demand and its components: AD = Y = C+I+G+X–M
- aggregate supply and its components: AS = C + S + T
- injections and withdrawals (I+G+X; S+T+M)
- multiplied impact on equilibrium output of changes of elements of AD: k = 1/MPS (ADAS and Income Expenditure graph)
- measurement: change in output (GDP)
- problem with measurement: price changes requires measurement through changes in real GDP
- sources and effects of economic growth in Australia (increase elements of AD or increase AS through productivity or increases in factors of production)
- recent trends in Australia's economic growth

Environmental sustainability

- definition: ecologically sustainable development
- private and social costs and benefits – externalities, market failure
- public and private goods – free riders
- economic impacts of climate change
- economic impacts of energy transition
- environmental issues:

Including:
- preservation of natural environments
- pollution, climate change
- depletion of renewable and non-renewable resources.

- measurement: greenhouse gases, species extinction
- recent trends in Australia's environmental sustainability

Unemployment

- definition
- measurement (labour force, participation rate, unemployment rate, NAIRU)
- problems with measurement (underemployed, hidden unemployed)
- types and causes

  Including:
  - cyclical
  - structural
  - frictional
  - seasonal
  - underemployment
  - hidden
  - long term

- effects of unemployment

  Including:
  - economic and social costs
  - main groups affected

- recent trends in unemployment in Australia

Inflation

- definition
- measurement (change in consumer price index)
- problems with measurement (headline and underline inflation)
- causes

  Including:
  - demand pull inflation
  - cost push inflation
  - imported inflation creating cost push inflation (caused by foreign inflation or depreciation of domestic currency)
  - inflationary expectations

- effects of inflation (positive and negative)
- recent trends in inflation in Australia

External stability

- definition
- measurement

Including:
- Current Account Deficit (CAD) as a percentage of Gross Domestic Product
- net foreign debt as a percentage of Gross Domestic Product
- net foreign liabilities as a percentage of Gross Domestic Product
- terms of trade
- exchange rate
- international competitiveness

- causes and effects of external stability crisis
- recent trends in Australia's external stability

Distribution of income and wealth

- definition
- measurement – Lorenz curve and Gini coefficient of income inequality and Gini coefficient of wealth inequality
- causes of income and wealth distribution

Including:
- sources of income as a percentage of household income
- taxation, transfer payments and other assistance
- sources of wealth

- effects: economic and social costs and benefits of inequality
- recent trends, according to gender, age, occupation, ethnic background and family structure

Topic 4: Economic policies

Content

Stabilisation of the business cycle

- role of macro policy (fiscal policy and monetary policy) to close output gaps using changes in aggregate demand
- significance of NAIRU for macro policy choices (Phillips curve)
- implementation and impact lags of fiscal policy and monetary policy

Fiscal policy

- definition: Federal Government budget
- budget outcome (taxes less spending, calculated on different approaches)
- budget stance (relative change in outcome to impact rate of economic growth)
- impacts of fiscal policy

Including:

- on the rate of economic growth through the stance (relative change in budget outcome from prior year)
- on resource use in the economy (directly through government expenditure, and indirectly through taxation and regulation)
- on the distribution of income in the economy (through policies on direct and indirect taxation, service provision and transfer policies)

- methods of financing a deficit
- uses of a surplus
- global influences
- limitations of fiscal policy including political constraints
- future challenges for Australia's fiscal policy
- trends in Australia's fiscal policy
- effectiveness of Australia's recent fiscal policy

Monetary policy

- definition
- Agreement on Framework for Monetary Policy
- implementation of conventional monetary policy by the RBA (policy interest rate corridor, full allotment auctions)
- unconventional monetary policy
- transmission mechanism
- impact of relative interest rates on the exchange rate
- global influences
- limitations of monetary policy
- effectiveness of Australia's recent monetary policy

Microeconomic policy

- definition
- link between productivity improvement and aggregate supply shifts
- implementation and impact lags
- microeconomic reform

Including:
  - of factor markets (labour, capital)
  - of product markets
  - of taxation system and industry policy (including protection policy)
  - through competition regulation
  - through infrastructure provision (NBN, airports, road, rail)
  - the use of deregulation and regulation to achieve productivity improvement

- political constraints
- trends in Australia's productivity growth
- areas of future focus for microeconomic reform in Australia
- effectiveness of Australia's recent microeconomic policy

Microeconomic policy: Labour market policies

- application of Federal labour market laws and state systems
- labour market regulation as a tradeoff between equity and efficiency
- Australia's national labour market framework

Including:
  - determination of minimum employment standards
  - determination of national minimum wage
  - determination of minimum pay and conditions in industries (awards)
  - negotiation of above award pay and conditions in workplaces (enterprise agreements)
  - negotiation of individual employment contracts
  - limitations on industrial disputation
  - dispute resolution

- advantages and disadvantages of different wage determination approaches (centralised, decentralised in workplaces and individualised in workplaces)
- Australia's labour market programs (education and active labour market programs)
- trends in labour market outcomes and disputes
- extent to which the current labour market framework is fit for purpose

Microeconomic policy: Environmental sustainability

- policy approaches

Including:

- entering into international agreements
- regulations (prohibiting activities, or permitting specified levels of harm)
- market-based policies (taxes, subsidies, or trading schemes)
- targets (aspirational)
- other (paying polluters not to pollute, planting trees)

- Australia's policies in relation to the environment and sustainable development
- effectiveness of Australia's recent environment policy

Conflicts and limitations of economic policies

- conflicts between economic objectives
- conflicts between the goals and settings of monetary, fiscal and microeconomic policy
- extent to which Australia's macro policy has been engaged with responding to external influences on the Australian economy
- alternate policy frameworks to stablise the business cycle

Including:

- Economic Stability Board
- Preset automatic stabilisers
- Modern monetary policy
- Variations in super percentages rather than changing interest rates