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**Willetton Senior High School**

**Year 11 AEECO 2020**

**Assessment 6**

**Name: ANSWERS Your Mark: \_\_\_\_\_\_\_\_\_/20**

**Teacher:**

**TYPE:** Extended Response

**OUTCOMES:** Outcome 1: Economic inquiry; Outcome 2: The operation of the economy

**WEIGHTING:** 8%

**CONTENT:** Circular Flow Model and Business Cycle

**Time allowed:** 50 minutes

**Conditions:**

This assessment is to be written in class without notes.

1. Draw the 5-sector circular flow model. Explain the impact on each of the five sectors of coronavirus crisis that effects most of the world. (8 marks)
2. Draw the business cycle. Explain the characteristics of the trough of the business cycle and state why the economy cannot remain at a trough forever. (6 marks)
3. Explain what leading, lagging and coincident indicators are. Provide three examples of each. (6 marks)

**ANSWER KEY**

1. Draw the 5-sector circular flow model. Explain the impact on each of the five sectors of coronavirus that effects most of the world. (8 marks)

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| --- | --- |
| Correctly drawn circular flow model; must have correct arrows and all 5 sectors labelled correctly- loss of half a mark per error.  Define circular flow model  For each sector- identify what will happen to the size and why:  **Financial sector:** leakages will increase as investment on infrastructure will fall and savings may increase as consumers become less confident.  **Government sector**: injections increase due to more government spending on welfare and leakages fall as tax revenues fall  **Overseas sector:** decrease in imports as households have less to spend, decrease in exports as global economic growth is slow  **Households:** consumptiondecreases due to less employment, leading to less income and expenditure  **Firms:** production decreases due to less demand by households and the overseas sector  Overall the economy will shrink/contract | 1  1  5  1 |
|  | 8 |

1. Draw the business cycle. Explain the characteristics of the trough of the business cycle and state why the economy cannot remain at a trough forever.

(6 marks)

|  |  |
| --- | --- |
| Correctly drawn business cycle model; must have phases labelled and a trend line- loss of half mark per error  Define the business cycle  Identify at least 3 characteristics of the trough phase of the business cycle- fully explained  Outline any **one** reason that the economy can’t stay at the trough-   * prices become low enough and consumers start making purchases * this leads to an increase in consumption * decrease in inventories * interest rates are sufficiently low that investment now seems attractive * exports become competitive * increase in output and employment | 1  1  3  1 |
|  | 6 |

1. Explain what leading, lagging and coincident indicators are. Provide three examples of each. (6 marks)

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| --- | --- |
| **Leading**- show trends in the economy in advance before a change in the economic activity occurs.  Examples- new housing approvals, share prices, inventory levels, consumer expectations and business and consumer confidence.  **Coincident**- those that appear to move in line with the level of economic activity.  Examples- retail sales, new car registrations, production of building materials, sales of consumer durables and growth of real GDP  **Lagging**- indicators that confirm trends in economic activity after they have occurred.  Examples- consumer price index, unemployment and interest rate | 1  1  1  1  1  1 |
|  | 6 |