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2021 Ateco Answers Assessment 2

ANSWER KEY- 2021 ATECO ASSESSMENT 2 AD/AS MODEL

a) **With reference to the Keynesian (3 stage) AS model explain the impact of an increase in aggregate demand (AD) during a trough, upswing and boom.** **(12 marks)**

Description	Marks
Define/ explain Keynesian AS curve- Keynesian AS curve combines both the SRAS and LRAS curves into one single AS curve.	1
	1
Identify 3 stages: Keynesian, intermediate and classical range	1
Diagram with title and fully labelled	1
Define Aggregate Demand- AD is the total amount of expenditure on goods and services in an economy in a given time period.	½
Trough- define	2
Explain fully what happens when AD increases in a trough, price remains almost constant due to a lot of spare capacity available and real GDP (Y) rises (reference to the diagram)	½
	2
Upswing- define	
Explain fully what happens when AD increases in an upswing, price starts increasing as the spare capacity starts decreasing and competition for resources increases input prices and with increased spending and investment, real GDP (Y) rises (reference to the diagram)	½
	2½
Boom- define	
Explain fully what happens when AD increases during boom, cost push Inflation increases due to increased competition for scarce resources, and real GDP (Y) does not change as there is no spare capacity available and the economy is operating at full employment/ capacity (reference to the diagram)	
TOTAL	**12**

b) Using the Aggregate Demand and Aggregate Supply (AD/AS) model explain why Australia experienced a recession in 2020. Assume the model was originally in equilibrium.   (8 marks)

Explain AS/AD model and equilibrium.   (1 mark)
(It is important to explain the curves and the nature of equilibrium before manipulating the model)

Define Recession – illustrated by contractionary gap on AS/AD model
                                                                (1 mark)

Should refer to statistics e.g., -7% fall in GDP, unemployment 7% and inflation 0.9% for the year or reference to specific sectors most affected by the recession e.g., Education, tourism, the Arts, imports, agriculture etc.

Identify two causes of the recession/contractionary gap

1. Negative Demand Shock due to

Falling consumer confidence/spending and business sentiment/investment following the pandemic and increased unemployment

Examples – Fall in demand tourism and education due to travelling bans. Some areas sectors experience increased demand –
Bunnings/supermarkets/food delivery/on-line retail   (1 mark)

Construct an AD/AS diagram that shows

- Aggregate demand shifts left
- Real GDP falls creating a contractionary gap
- Prices fall (except for goods/services in demand e.g., Medical supplies)
- Unemployment rises

Must refer to shifts, changes in prices, GDP, contractionary gap and link to the concept of recession
May discuss how the government tried to support AD through
Job keeper/seeker/transfer payment and tax cuts   (2 marks)

2. Negative Supply Shock due to

Bushfires and drought (early 2020) reduced agricultural output
Shutdown of production and provision of services (such as Arts) due to pandemic throughout the world
Border closures reduced the supply of workers from eastern states and overseas.
Reduced supply chains/shipping   (1 mark)

Construct an AD/AS diagram that shows

- SRAS shifting left
- Fall in Real GDP creating a contractionary gap
- Prices rise
- Note Unemployment will rise as Real GDP falls

Must refer to shifts, changes in prices, GDP, contractionary gap and link to the concept of recession.   (2 marks)

See the following link for a video that explains these diagrams in the context of Australia 2020 recession. https://www.youtube.com/watch?v=OwDBKiLy1BI