MA99 EDUCATION

Economic Issues: Topic Notes 03

NSW ECONOMICS STAGE 6 SYLLABUS 2009 FOR HSC 2027

In this topic: economic growth · unemployment · inflation · external stability · the distribution of income and wealth · environmental sustainability

Where Australia stands right now

These are the figures you will be writing about. Every one carries the period it describes and the date it was published, and you are expected to update them before any assessment task.

INDICATOR	VALUE	REFERENCE MONTH OR QUARTER	RELEASED
Economic growth, through the year	2.1 per cent	year to June quarter 2026	2 September 2026
GDP per capita growth	0.7 per cent	year to June quarter 2026	2 September 2026
Unemployment rate	4.7 per cent	September 2026, seasonally adjusted	15 October 2026
Underemployment rate	6.3 per cent	September 2026, seasonally adjusted	15 October 2026
Inflation, annual CPI	4.3 per cent	year to September 2026	28 October 2026
Underlying inflation, trimmed mean	3.6 per cent	year to September 2026	28 October 2026
Wage Price Index, annual	3.2 per cent	year to June quarter 2026	19 August 2026
Labour productivity	minus 0.2 per cent	year to June quarter 2026	2 September 2026
Current account balance	a deficit of $27.2 billion	June quarter 2026, seasonally adjusted	1 September 2026

Update it yourself: abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release; abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release; abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release; abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/latest-release; abs.gov.au/statistics/economy/international-trade/balance-payments-and-international-investment-position-australia/latest-release.

> Nine numbers. Know them cold, know their dates, and update them monthly.

1. Economic growth

Economic growth: an increase in the volume of goods and services produced by an economy over a period of time, measured as the percentage change in real gross domestic product.

1.1 Measuring it

- **Real GDP:** output valued at constant prices, so the measure captures changes in volume rather than changes in price.
- **Nominal GDP:** output valued at current prices. It rises with inflation, so it overstates growth.
- **Real GDP per capita:** real GDP divided by population. This is the measure that tracks material living standards, and it is the one that matters.

In the latest release (June quarter 2026), Australia grew 2.1 per cent over the year, and 0.4 per cent in the quarter itself. GDP per capita grew 0.7 per cent over the same year, and was flat in the quarter.

Source: ABS, year to June quarter 2026, released 2 September 2026.



Figure 1 · The gap between headline growth and growth per person, and what explains it.

Source: ABS, year to 31 March 2026, released 17 September 2026.

The most useful single observation in this topic

Aggregate growth of 2.1 per cent alongside per capita growth of 0.7 per cent means most of the economy's expansion is doing nothing more than accommodating more people.

That gap is the economic explanation for why households report that living standards have not improved while the national accounts report growth. Naming it, with both figures and their period, is the difference between a competent answer and a good one.

1.2 The components of aggregate demand

Aggregate demand is the total demand for goods and services in an economy:

AD = C + I + G + (X minus M)

- **Consumption:** household spending. The largest component, and the one most sensitive to interest rates through mortgage repayments.
- **Investment:** spending by firms on capital. The most volatile component, and the one most sensitive to expectations.
- **Government spending:** the direct expenditure arm of fiscal policy.
- **Net exports:** exports less imports. For Australia this depends on world demand, commodity prices and the exchange rate.

THE MULTIPLIER

An initial injection of spending raises income, part of which is spent again, raising income further. The total change in income exceeds the initial injection, and the ratio between them is the multiplier.

k = 1 / MPS, where MPS is the marginal propensity to save. Equivalently, k = 1 / (1 minus MPC). A worked example on Verenga. The government spends an extra V$100 million on infrastructure, and the marginal propensity to consume is 0.75. The multiplier is 1 divided by 0.25, which is 4, so national income eventually rises by V$400 million. In an open economy with taxation the multiplier is smaller, because imports and tax are leakages from the circular flow.

1.3 The business cycle and productivity

Business cycle: the fluctuation of actual economic growth around the long term trend rate, through expansion, peak, contraction and trough.

Potential growth rate: the rate at which an economy can grow without generating inflation, determined by growth in the labour force, the capital stock and productivity.

In the June quarter 2026, Australian labour productivity, measured as GDP per hour worked, was minus 0.2 per cent over the year. Productivity going backwards while real unit labour costs rise 0.5 per cent over the same year is the clearest supply side problem in the Australian economy, and it is the reason microeconomic reform appears in almost every policy question.

Source: ABS, year to June quarter 2026, released 2 September 2026.

1.4 Recent quarterly growth

QUARTER	REAL GDP GROWTH, PER CENT
June 2025	0.8

QUARTER	REAL GDP GROWTH, PER CENT
September 2025	0.5
December 2025	0.9
March 2026	0.3
June 2026	0.4

Source: ABS, June quarter 2026, released 2 September 2026.

2. Unemployment

Unemployment rate: the number of people unemployed expressed as a percentage of the labour force. A person is unemployed if they are aged fifteen or over, not employed, actively looking for work and available to start.

Labour force: everyone employed plus everyone unemployed. People not looking for work are outside it, which is why the participation rate must be read alongside the unemployment rate.

Participation rate: the labour force as a percentage of the civilian population aged fifteen and over.

INDICATOR	VALUE	REFERENCE MONTH OR QUARTER	RELEASED
Unemployment rate	4.7 per cent	September 2026, seasonally adjusted	15 October 2026
Underemployment rate	6.3 per cent	September 2026, seasonally adjusted	15 October 2026
Participation rate	66.8 per cent	September 2026, seasonally adjusted	15 October 2026
Employment to population ratio	63.6 per cent	September 2026, seasonally adjusted	15 October 2026

Update it yourself: abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/latest-release.

Why the unemployment rate alone understates labour underutilisation

Someone who works one hour a week is counted as employed. Someone who has given up looking has left the labour force and is not counted as unemployed at all.

Underemployment of 6.3 per cent exceeds unemployment of 4.7 per cent. Adding them gives labour force underutilisation of about 11.0 per cent, which is a far better description of spare capacity in the labour market.

Source: ABS Labour Force, September 2026, released 15 October 2026.

2.1 The types of unemployment

TYPE	WHAT IT IS	SIGNATURE	WHAT IT NEEDS
Frictional	Between jobs, searching	Always present	Not a policy failure
Structural	Skills or location mismatch	Long duration	Training, mobility, education
Cyclical	Demand deficiency in a downturn	Rises in recession	Expansionary fiscal and monetary policy
Seasonal	A regular annual pattern	Predictable	Usually left alone
Hidden	Discouraged, stopped looking	Not counted as unemployed	Shows in the participation rate
Underemployment	Working, wants more hours	6.2 per cent (August 2026)	Counted as employed

Figure 2 · Naming the type is the first mark. Matching the policy is the second. As at August 2026: unemployment 4.6 per cent and underemployment 6.2 per cent (ABS).

2.2 The NAIRU

NAIRU: the non accelerating inflation rate of unemployment: the lowest rate of unemployment that can be sustained without inflation beginning to rise. It is not directly observable and it is estimated with considerable uncertainty.

The NAIRU matters because it sets the limit on what demand management can achieve. Pushing unemployment below it with expansionary policy generates inflation rather than durable employment. Lowering the NAIRU itself requires supply side measures: training, better job matching, and reduced barriers to mobility.

A caution about quoting the NAIRU

The NAIRU is an estimate, it is revised, and different institutions publish different figures for it. Treat any single number for it as contested, and say so. A response that states the NAIRU as a known fact is overclaiming.

2.3 The costs of unemployment

ECONOMIC COSTS	SOCIAL COSTS
Output forgone: the economy produces below its capacity	Loss of self esteem, and measurable effects on physical and mental health
Lower tax revenue and higher transfer payments, worsening the budget	Family breakdown and increased social isolation
Erosion of skills during long spells out of work, which raises structural unemployment later	Concentration of disadvantage in particular regions and communities
Lower lifetime earnings for those affected, an effect that persists for decades	Intergenerational transmission of disadvantage

There is a benefit as well, and a complete answer names it: some unemployment is necessary for the labour market to function, because workers must be able to move between jobs, and very low unemployment can generate wage pressure that feeds into inflation.

3. Inflation

Inflation: a sustained increase in the general price level, which reduces the purchasing power of money.

3.1 Measuring it

- **Consumer Price Index:** measures the change in the price of a basket of goods and services bought by metropolitan households. The headline measure.
- **Underlying inflation, or the trimmed mean:** excludes the most extreme price movements in each direction, so it strips out one off volatility and shows the persistent trend. It is published by the ABS, not by the Reserve Bank, although the Bank pays close attention to it.

INDICATOR	VALUE	REFERENCE MONTH OR QUARTER	RELEASED
Headline CPI, annual	4.3 per cent	year to September 2026	28 October 2026
Trimmed mean, annual	3.6 per cent	year to September 2026	28 October 2026

The Reserve Bank's target is consumer price inflation between 2 and 3 per cent. In the latest release (September 2026) both measures sit above it.

Source: ABS Monthly CPI, year to Sep 2026, released 28 Oct 2026.

3.2 The recent path

PERIOD	ANNUAL CPI, PER CENT
June 2025	1.9
September 2025	3.6
December 2025	3.8
March 2026	4.6
April 2026	4.2
May 2026	4.0
June 2026	3.8
July 2026	3.5
August 2026	4.0

Source: ABS Monthly CPI, year to August 2026, released 30 September 2026.

Inflation peaked at 4.6 per cent in the year to March 2026 and eased to 3.5 per cent by July, then rose to 4.0 per cent in August as federal fuel excise relief unwound, world oil prices rose and electricity costs stayed high.
The trimmed mean held at 3.6 per cent through both months, which is what makes the current episode difficult for policy: the persistent component is stuck above target while supply side prices push the headline around it.

3.3 What is driving it

GROUP	ANNUAL PRICE RISE
Housing (the electricity item alone rose 13.2 per cent)	+5.7 per cent
Transport (the automotive fuel item alone rose 13.5 per cent)	+5.6 per cent
Food and non alcoholic beverages	+3.0 per cent

GROUP	ANNUAL PRICE RISE
Recreation and culture	+2.9 per cent

Source: ABS Monthly CPI, year to August 2026, released 30 September 2026.

3.4 The types of inflation

DEMAND PULL
too much spending

Aggregate demand grows faster than supply can meet
Output and prices both rise
Unemployment tends to fall as it builds
Monetary tightening works directly on it
Shows up broadly, across most categories

COST PUSH
production got dearer

Input costs rise: energy, wages, imported goods
Prices rise while output falls: stagflation
Unemployment can rise at the same time
Tightening treats the symptom, at a cost to output
Shows up concentrated in the affected inputs

Diagnose before prescribing. Raising rates into a supply shock buys lower output for little disinflation.

Figure 3 · Diagnose before prescribing. As at August 2026: annual CPI 4.0 per cent over the year, above the 2 to 3 per cent target (ABS).

- **Imported inflation:** a depreciation raises the Australian dollar price of imports. With the dollar having appreciated over the past year, this is currently working in the opposite direction and holding inflation down.
- **Inflationary expectations:** if households and firms expect prices to rise, they build that into wage claims and price setting, and the expectation becomes self fulfilling. Anchoring expectations is the central purpose of an inflation target.

3.5 The effects of inflation

- It erodes the real value of money, so savings lose purchasing power unless interest rates compensate.
- It redistributes arbitrarily: from lenders to borrowers, and from those on fixed incomes to those whose income adjusts.
- It worsens international competitiveness if Australian inflation exceeds that of trading partners.
- It distorts investment decisions, because the price signals firms rely on become harder to read.
- It can trigger a wage price spiral if expectations become unanchored.

Real wages, which is what the figures actually show

In the June quarter 2026 the Wage Price Index rose 3.2 per cent over the year. Annual inflation over a comparable period was 3.5 to 3.8 per cent, and 4.3 per cent in the latest figure (year to September 2026).

Wages are therefore growing more slowly than prices, so real wages are falling. That is a reversal of the recovery of the preceding period, and it is a strong, current, dated piece of evidence for a question about living standards or about the costs of inflation.

Sources: ABS Wage Price Index, June quarter 2026, released 19 August 2026; ABS Monthly CPI, August 2026, released 30 September 2026.

> Nominal wage growth minus inflation. That subtraction is worth a mark on its own.

4. External stability

External stability: an objective of policy in which Australia can meet its financial obligations to the rest of the world without an unsustainable adjustment in the exchange rate, interest rates or the level of activity.

The indicators to watch are the current account deficit as a share of GDP, the level of net foreign liabilities, the terms of trade and the exchange rate. Topic 2 covers the mechanics; what matters here is judging sustainability.

INDICATOR	VALUE	REFERENCE MONTH OR QUARTER	RELEASED
Current account balance	a deficit of $27.2 billion	June quarter 2026, seasonally adjusted	1 September 2026
As a share of quarterly GDP	about 3.7 per cent of GDP	June quarter 2026	1 September 2026
Net foreign debt	$1,486.0 billion	at 30 June 2026	1 September 2026
Net international investment liability	$638.9 billion	at 30 June 2026	1 September 2026
Terms of trade	94.8 index points	June quarter 2026	2 September 2026

Source: ABS, June quarter 2026, seasonally adjusted, released 1 September 2026. ABS, June quarter 2026, released 2 September 2026.

Two features of the current position are worth naming. In the June quarter 2026 the terms of trade fell 1.6 per cent, which reduces national income directly. And the balance on goods and services is now in deficit, having been in surplus continuously from the March quarter 2018 until the December quarter 2025.

Source: ABS, June quarter 2026, released 1 September 2026.

Terms of trade: the ratio of export prices to import prices, expressed as an index. An improvement means a given volume of exports buys more imports, which raises real national income without any change in output.

5. Distribution of income and wealth

Income: a flow of money over a period: wages, rent, interest, profit, transfers.

Wealth: a stock of assets at a point in time, less liabilities. Wealth is distributed considerably more unequally than income in every developed economy.

5.1 Measuring inequality

Lorenz curve: a graph plotting the cumulative share of income against the cumulative share of population, ranked from lowest income to highest. Perfect equality is the forty five degree line; the further the curve bows away from it, the greater the inequality.

Gini coefficient: the area between the Lorenz curve and the line of equality, as a proportion of the total area beneath the line of equality. It runs from 0, perfect equality, to 1, perfect inequality.

Three different Australian distribution figures, and how to keep them apart

This is the one area of the course where the data is awkward: name which figure comes from where.

The headline figure. A Gini of 0.307 for equivalised disposable household income and 0.606 for wealth, both describing 2022 to 23, published by the ABS in Measuring What Matters on 15 September 2025. The ABS computes these from the HILDA Survey, which is run by the Melbourne Institute rather than by the ABS. Quote it as an ABS indicator and name the survey behind it.

The older survey figure. A Gini of 0.324 for 2019 to 20, from the ABS Survey of Income and Housing.

That series has stalled: the 2020 to 21 and 2021 to 22 collections were cancelled, the ABS announced on 17 July 2025 that no outputs would be released from the 2023 to 24 collection, and results from the 2025 to 26 survey are expected from mid 2027. Use it only when a question wants that series, and date it.

The redistribution figures. The shares before and after tax and transfers, for 2021 to 22, come from a third product, the ABS Distribution of Household Income, Consumption and Wealth, released 13 December 2022. It is built from the national accounts, not from the Survey of Income and Housing, which is why it exists for a year in which that survey was not run.

Saying any of this in a response earns credit, because it shows you know what the number is rather than only what it says.

Update it yourself: abs.gov.au/statistics/measuring-what-matters/measuring-what-matters-themes-and-indicators/prosperous/income-and-wealth-inequality.

5.2 The sources of inequality

- Wage differentials arising from skill, education, experience and occupation.
- Ownership of assets, which generates income from rent, interest and dividends. Asset price growth has outpaced wage growth for an extended period, which favours those who already hold assets.
- Labour force status. The gap between employment and unemployment is the single largest determinant of household income.
- Household composition and the number of earners.
- Geography, with substantial differences between capital cities, regional centres and remote areas.

5.3 The redistribution that already happens

Australia's tax and transfer system is strongly redistributive. Income tax is progressive, meaning the average rate rises with income, and transfer payments are means tested and therefore targeted. Measured inequality after tax and transfers is substantially lower than before them, and a response that ignores this overstates Australian inequality.

TAX TYPE	DEFINITION	EFFECT ON DISTRIBUTION
Progressive	The average rate of tax rises as income rises	Reduces inequality. Australian personal income tax is progressive.
Proportional	The same rate applies at every income	Leaves the distribution unchanged. Company tax is broadly proportional.
Regressive	The average rate falls as income rises	Increases inequality. A flat consumption tax is regressive, because lower income households spend a larger share of income.

5.4 The costs and benefits of inequality

THE CASE THAT SOME INEQUALITY IS NECESSARY	THE CASE AGAINST HIGH INEQUALITY
Differential reward creates the incentive to work, train and take risk	Concentrated income reduces aggregate consumption, because higher income households save a larger share
Returns to enterprise fund innovation and investment	Unequal access to education and health wastes human capital and reduces long run growth
Higher income households save more, funding the investment pool	Reduced social cohesion, and higher costs in health, justice and welfare
Attempts to compress the distribution can blunt incentives	Concentrated wealth can translate into concentrated political influence

How to write about this without editorialising

This question rewards balance. State the efficiency argument for some inequality and the efficiency argument against high inequality, note that the disagreement is partly about values and partly about the empirical size of each effect, then reach a judgement and justify it. An answer that treats one side as obviously correct is weaker than one that justifies its conclusion.

6. Environmental sustainability

Ecologically sustainable development: development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

6.1 Why the market fails here

Externality: a cost or benefit from a transaction that falls on a third party who is not part of it. Pollution is the standard negative externality.

Private cost: the cost borne by the producer.

Social cost: the private cost plus the external cost borne by everyone else. Where social cost exceeds private cost, the market produces more of the good than is socially optimal, because the producer does not face the full cost of production.

Public good: a good that is non excludable, meaning you cannot prevent people consuming it, and non rival, meaning one person's consumption does not reduce another's. Clean air is the standard example.

Free rider problem: because a public good is non excludable, each individual has an incentive to let others pay for it, so the market under provides it or does not provide it at all.

6.2 The major issues

- **Climate change:** the largest negative externality ever identified, and one that is global, which means no single country can solve it and every country has an incentive to free ride.
- **Depletion of renewable resources:** fish stocks, forests and soil can renew, but only if harvested below the renewal rate. Common access converts this into a tragedy of the commons.
- **Depletion of non renewable resources:** minerals and fossil fuels. For Australia the relevant question is whether the income from extracting them is converted into other productive assets, or simply consumed.
- **Pollution and preservation of natural environments:** air, water and waste, and the conservation of habitat and biodiversity.

6.3 The policy responses, and their trade offs

INSTRUMENT	HOW IT WORKS	STRENGTH AND WEAKNESS
Carbon price or tax	Makes the polluter pay the external cost, so the private cost moves toward the social cost	Efficient, because abatement happens wherever it is cheapest. Politically difficult, and the price is set administratively.
Tradeable permits	Caps total emissions and lets the market allocate them	The quantity is certain, but the price is volatile.
Regulation and standards	Mandates a technology or an outcome	Certain and enforceable. Inefficient, because it ignores differences in the cost of abating.
Subsidies for abatement	Pays firms and households to reduce emissions	Politically easier. Costs the budget, and it pays polluters rather than charging them.
Property rights	Assigns ownership so the resource has a custodian	Solves the commons problem where rights can be defined and enforced. Impossible for the atmosphere.

The intergenerational point that earns the top band

Most environmental costs fall on people who cannot participate in the market that generates them, because they have not been born yet. No price signal reaches them, and no contract can be written with them.

That is why environmental sustainability is treated as a distinct objective of policy rather than as a sub problem of efficiency. The market has no mechanism to represent the future, which is precisely the gap that policy exists to fill.

7. Before you move on

TOPIC 3 SELF AUDIT

Tick only what you could do right now, closed book, under time. The purpose is to find the gap while there is still time to close it.

- ☐ I can state the current growth, unemployment, inflation and wages figures with their periods
- ☐ I can explain why aggregate growth and per capita growth have diverged
- ☐ I can write the aggregate demand equation and calculate a multiplier
- ☐ I can name six types of unemployment and the policy each one requires

- [ ] I can explain why unemployment alone understates labour underutilisation
- [ ] I can distinguish demand pull from cost push inflation and say why the distinction matters
- [ ] I can calculate whether real wages are rising or falling from the WPI and the CPI
- [ ] I can define the Lorenz curve and the Gini coefficient, and state the limits of the Australian data
- [ ] I can argue both the costs and the benefits of inequality
- [ ] I can explain market failure in environmental terms using externalities and public goods

Interpreting your score

8 to 10: Ready for extended response practice on this topic. Move to the practice questions and work under time.

5 to 7: The content is there but it is not retrievable under pressure. Rewrite the weak sections from memory, then check them against these notes.

0 to 4: Work through the notes again with the summary beside you, then retake this audit. Do not start past papers yet; you would only practise the gaps.

Topic 3, tracked

Come back every few weeks and date it.

> That is what the tracker is for.

DATE	DRILL SCORE	WHAT I GOT WRONG, AND WHETHER IT IS FIXED

THE TWELVE MINUTE DRILL

Once a week. Twelve minutes, timed, closed book. Short is the point: it fits on your worst day, and this skill improves by repetition rather than by one long session.

MINUTES	WHAT YOU DO
3 min	Write the nine headline indicators with their values and reference periods
3 min	Explain the gap between GDP growth and GDP per capita growth
3 min	Name the six types of unemployment and match a policy to each
3 min	Calculate real wage growth, then explain what it means for living standards

> Mark it against the notes. Record only what you got wrong; that list is your revision plan for the week.

About this resource

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Scope

NSW Economics, Year 12. Written to the NSW Economics Stage 6 Syllabus 2009, Economic Issues, for students sitting the HSC in 2027. A new Economics syllabus is first examined in HSC 2028. Australian and world data are real, dated and sourced; worked calculations use the invented economy of Verenga; every number was recomputed from its inputs before printing.

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