

TASK 3 ECONOMIC SHOCKS

Worksheet

Focus: Economics

YOU WILL:

- ▶ model the impact of economic shocks on aggregate demand and supply
- ▶ demonstrate how shifts in the aggregate demand and supply curves impact on economic activity, employment and the general price level
- ▶ use a real-world example to show the impact of economic shocks on economic activity, employment and the general price level

YOU WILL NEED:

- ▶ *Fact sheet: The budget – Taxes and spending*
- ▶ Access to the internet

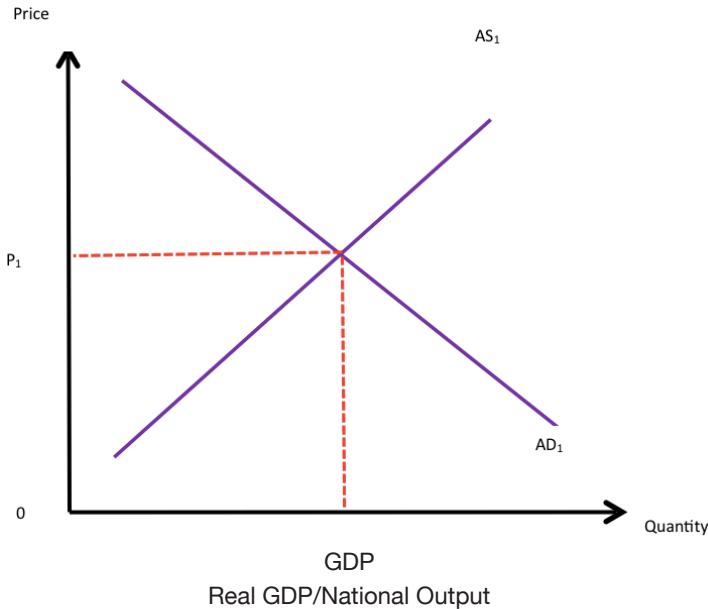
There are often factors that influence aggregate demand or supply that are unforeseen or unable to be predicted with any certainty. These factors sometimes result in either a demand shock or a supply shock, which as shown below, can be positive or negative.

	Demand shock	Supply shock
Negative	<ul style="list-style-type: none"> ▶ The demand for goods and services suddenly decreases. An example would be research showing a link between a prescription drug and the incidence of cancer. 	<ul style="list-style-type: none"> ▶ The quantity of goods and services supplied is rapidly reduced. An example of a supply shock would be any natural disaster or other unanticipated event that disrupts the production process and/or supply-chain
Positive	<ul style="list-style-type: none"> ▶ The demand for goods or services suddenly increases. An example of a positive demand shock is the rise of electric cars and the increased demand for lithium batteries. Other examples of positive demand shocks include: <ul style="list-style-type: none"> ▶ tax cuts ▶ government stimulus. 	<ul style="list-style-type: none"> ▶ The supply of goods or services rapidly increases. An example of a positive supply shock is an increase in production due to overnight technological advances.

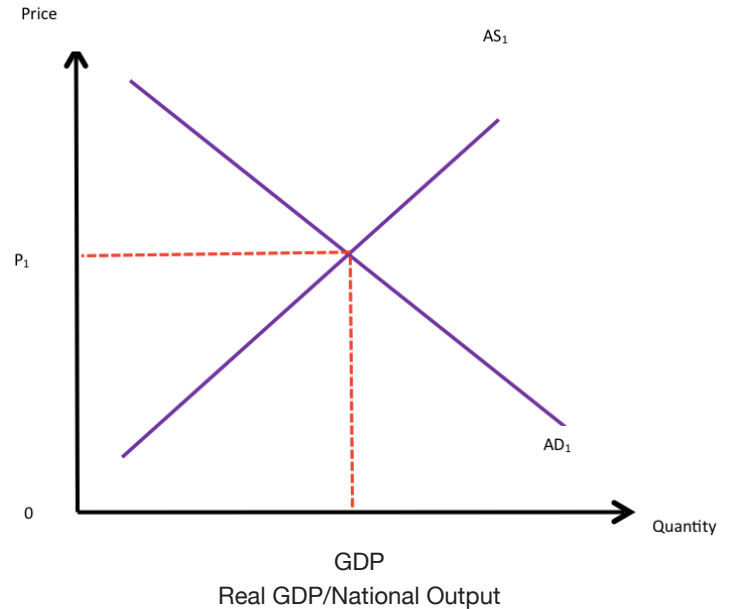
DRAW AND INTERPRET ECONOMIC DIAGRAMS

1. Use the following AD/AS diagrams to illustrate the short-term effect of positive and negative economic shocks on aggregate demand or supply. Annotate each diagram to show the implications for economic activity, employment and the general price level.

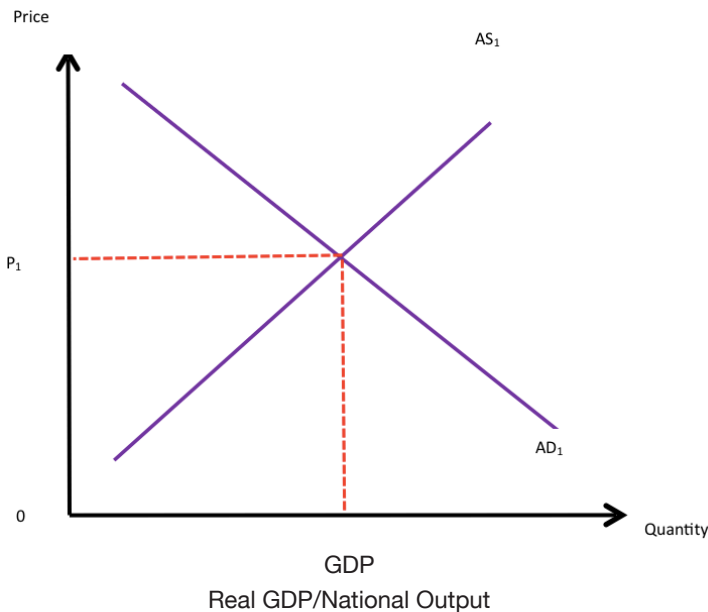
Negative demand shock



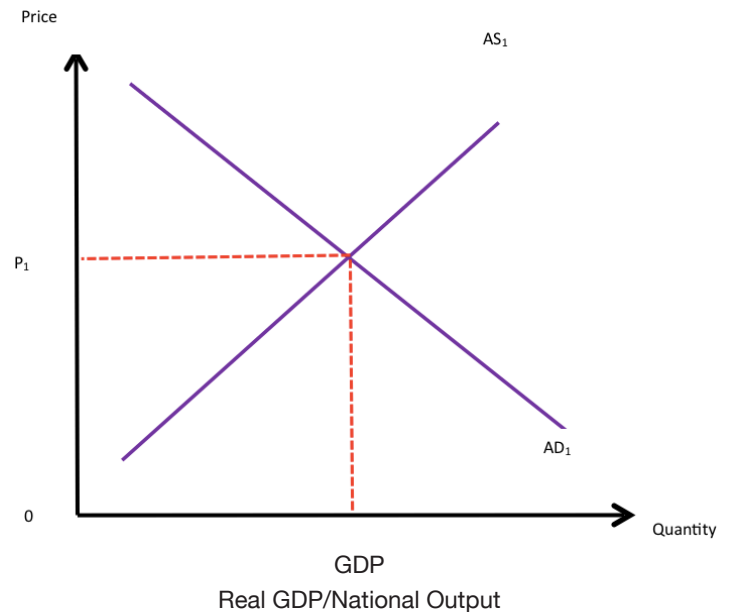
Positive demand shock



Negative supply shock



Positive supply shock



INVESTIGATE

2. Research ONE economic event that resulted in an economic shock in Australia or elsewhere.

- ▶ Explain the event, where and when it occurred.
- ▶ Explain the short-term impact of this event on economic activity, employment and the general price level.
- ▶ Provide statistics if possible, to support your conclusions.