**Applied Economic Exercise**

**For members of** [**www.economicstutor.com.au**](http://www.economicstutor.com.au)

Watch the video clip at the following link <https://www.youtube.com/watch?v=wV1qI0Xg2z0> and answer the questions that follow:

1. Explain why the coronavirus is considered both a demand and a supply shock to Australia’s economy.

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1. Identify two major industries suffering disproportionally from the impacts of the virus.

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1. Use the AD/AS diagram below to model and explain the impact of the virus on economic growth and inflation.

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1. Explain what is meant by the claim that *‘the structure of our labour market means that there is an immediate transmission mechanism to household budgets’.* In your answer refer to Australia’s casualised workforce, particularly in the hospitality industry.

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1. Explain how the government stimulus measures (such as financial support for businesses and households) will impact on economic growth and the achievement of full employment.

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1. Explain how the income and living standards of self-employed contractors and workers in the ‘gig economy’ are particularly affected by the virus.

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1. Describe the relationship between ‘declining economic activity’ and the ‘stability of financial markets’. In your answer, highlight the important link to labour markets and debt serviceability, as well as debt servicing costs for Australian banks relying on offshore funding.

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1. Explain how ‘the fear of the coronavirus itself’ is perhaps a bigger potential shock to the economy than the virus itself. In your answer, refer to the one of the AD factors affecting economic activity.

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1. Discuss whether the Australian economy will experience a recession in 2020.

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1. Since the production of the video, the Australian government has announced the delivery of an unprecedented $130 billion wage subsidy paid to employers [<https://treasury.gov.au/coronavirus>] Explain how this subsidy:
	1. Is designed to protect economic growth

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* 1. Is expected t impact on the achievement of full employment

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* 1. Will influence the budget deficit and government debt

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* 1. Impact on ‘future’ rates of economic growth.

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