

# What's going on in the Economy?

Use the QR to watch the video, then answer the questions below.



[rba.gov.au/education/resources/videos.html?id=cec-feb-2026](https://rba.gov.au/education/resources/videos.html?id=cec-feb-2026)

February 2026

## Gross Domestic Product (GDP)

1. Gross domestic product is a measure of the total value of spending – or demand – in the economy.

- True  
 False

2. What are the four key components of GDP?

- Household consumption
- Business investment
- Government spending
- Net exports – which consists of exports and imports

3. Why would higher household incomes lead to higher demand in the economy?

Explain your answer.

*Higher household incomes mean households have more disposable income to spend on goods and services.*

*This increased household consumption is a component of aggregate demand, and will lead to a higher level of aggregate demand.*

4. Australia's GDP fell in the second half of 2025.

- True  
 False

*Australia's GDP grew strongly over the second half of 2025.*

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## Inflation

5. Based on this video, how widespread are inflationary pressures in the Australian economy?

- Only a few goods and services in the economy  
 Occurring broadly across the Australian economy

6. List some of the factors that are contributing to inflationary pressures in the Australian economy.

- *A sharp rise in electricity prices due to the end of government energy rebates*
- *Fuel and travel inflation also rose strongly*
- *Aggregate demand has increased relative to aggregate supply*

7. Based on this video, is Australia's inflation rate currently above or below the RBA's target range of 2 to 3 per cent?

- Above *The RBA's target range is 2 to 3 per cent.*  
 Below *Headline inflation in the December quarter was 3.6 per cent and underlying inflation was 3.4 per cent.*

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## The Labour Market

8. What does a tight labour market refer to?

*A tight labour market means that most people who want a job already have one or can find one easily.*

9. In a tight labour market, would you expect it to be easier or more difficult for businesses to find the right staff?

- Easier  
 More difficult

10. What does a low layoffs rate suggest?

- Employers are happy to let go of their staff, because it's easy to find new workers  
 Employers are trying to hold on to their existing workers, because it's hard to find new staff

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## Outlook and Monetary Policy Decision

**Background:** The RBA Monetary Policy Board increased the cash rate to 3.85 per cent at the February meeting.

11. Which of the following factors led the Monetary Policy Board to increase the cash rate?

- The Australian economy is likely to grow a bit faster in 2026 than previously thought
- The unemployment rate is expected to remain low in the near term
- Inflation is expected to be above the RBA's target range until the middle of 2027
- All of the above

12. What would be the likely impact of a higher cash rate on aggregate demand and inflation?

- Higher aggregate demand and therefore lower inflation
- Higher aggregate demand and therefore higher inflation
- Lower aggregate demand and therefore lower inflation
- Lower aggregate demand and therefore higher inflation

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13. Using the concepts of aggregate demand and aggregate supply, explain what economic theory suggests will happen to prices when there is increased demand from households and businesses.

*Hint: start by focusing on the shift in the aggregate demand curve, and think about what might happen if it takes time for aggregate supply to adjust.*

- *Extra demand from households and businesses will likely to lead to higher levels of demand*
  - *This will lead to a shift in the aggregate demand curve to the right*
  - *But it takes time for businesses to increase supply in response to a boost in demand*
  - *So in the short-term, aggregate supply will remain about the same – until businesses can increase production in response to higher aggregate demand*
  - *This can put upwards pressure on inflation: the new equilibrium point will be at a higher price*
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14. **How could a tight labour market lead to upward pressure on inflation?**

*Hint: think about how a tight labour market would affect wages and then business costs.*

- *A tight labour market means that employers are finding it difficult to find the right people*
- *In this situation, businesses may need to offer higher wages to attract the right staff*
- *Higher wages can increase firms' costs*
- *And firms may need to pass these costs on to consumers in the form of higher prices*
- *This can put upwards pressure on inflation*