



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-may-2026

May 2026

Inflation

1. Inflation measures how quickly prices are rising over time

- True
 False

2. What is the RBA's target range for inflation?

2-3 per cent

There are two main reasons for Australia's rising inflation during 2026:

- Excess demand
- Higher oil prices

3. Why has demand increased so strongly in Australia?

Due to overall spending by households and businesses growing strongly in the second half of 2025.

4. Why have oil prices substantially increased over the course of 2026?

The conflict between the United States and Iran has reduced the supply of oil to global markets and caused oil prices to rise.

5. Distinguish between aggregate demand and aggregate supply.

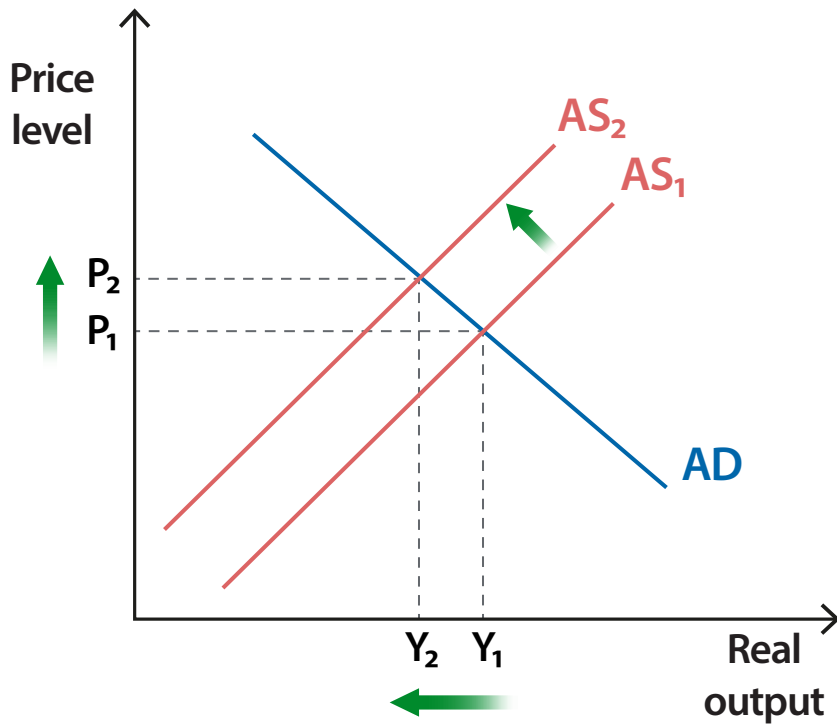
Aggregate demand: *Total spending on goods and services*

Aggregate supply: *Total amount of goods and services that can be produced*

6. In general, higher fuel prices will raise the cost to produce almost all goods and services (though not all by the same amount).

In the graph below, identify which of the curves would shift as fuel prices rise. Then, draw the new curve and label the new equilibrium price and quantity.

HINT: It may only be one curve that moves.



7. If people expect inflation to be higher in the future, are they likely to delay or bring forward their purchases?
- Delay their purchases until prices fall
 - Bring forward their purchases before prices rise further
8. If businesses expect inflation to be higher in the future, how would they likely respond?
- Lower prices today because they expect lower costs in the future
 - Raise prices today because they expect higher costs in the future

Employment

9. List the RBA's dual mandate.

Price stability and full employment

10. Current indicators of the labour market suggest it is quite "tight".

Which of the following best describes a tight labour market?

- There is a relatively high level of unemployment
- The supply of labour is high relative to the demand for labour
- The demand for labour is high relative to the supply for labour

Monetary policy decision

11. What cash rate decision did the Monetary Policy Board (MPB) take at its May meeting?

Increased the cash rate to 4.35 per cent

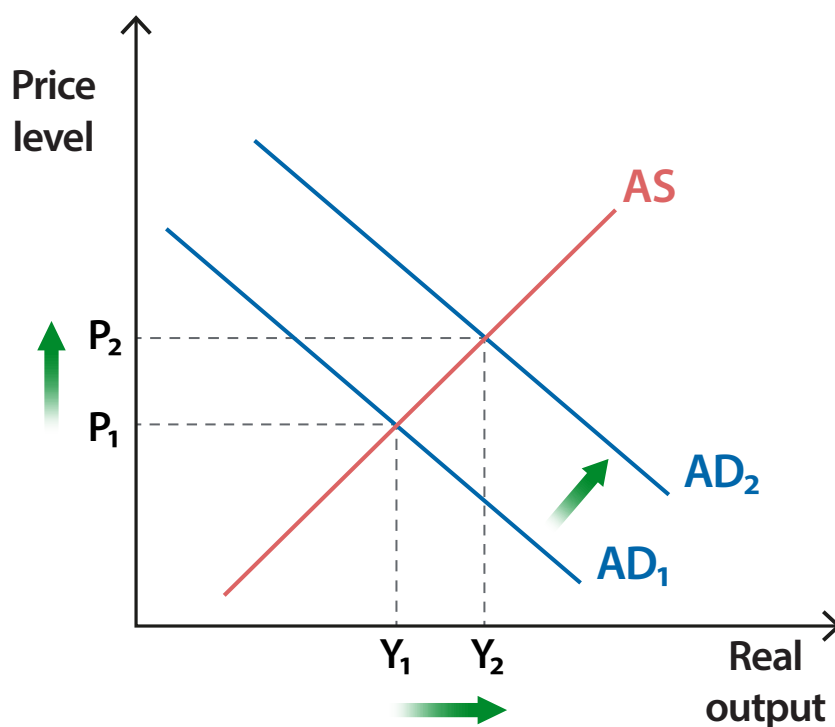
12. List some reasons why the MPB took this action.

- The cash rate was raised to slow growth in aggregate demand and bring inflation down.*
 - A higher cash rate will help to stop higher fuel prices from pushing up other prices in the economy.*
 - A higher cash rate will also help to keep inflation expectations low.*
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Part two: Extended responses

13. Explain the concept of demand-pull inflation. As part of your response, show how the aggregate supply and aggregate demand graph would change.

- In a situation of demand-pull inflation, there is excess demand.
- The total demand for goods and services (aggregate demand) increases.
- Put simply, if the same amount of goods and services are available for purchase, and these goods and services are wanted by more people, then businesses can charge higher prices.
- This is known as demand-pull inflation: higher levels of demand 'pull' prices up.
- We can demonstrate this in the graph. Higher levels of demand result in the aggregate demand curve shifting to the right, while the aggregate supply curve remains constant. The new equilibrium will be at a higher price, P_2 .



14. How does a rising oil price lead to higher costs for businesses? Use an example to illustrate your response.

Hint: This relates to the concept of cost-push inflation.

- Oil is used to make fuels like petrol and diesel. So when oil prices rise, so do fuel prices.
- Rising fuel prices will increase the costs for businesses that use fuel to produce and sell their goods and services.
- In this way, fuel is a key input to production for almost every industry.
- This is known as cost-push inflation – where higher production costs lead firms to increase prices for consumers.
- For example, farmers use fuel in their tractors, and in the trucks that transport their produce from farms to supermarkets. Higher fuel prices will increase these production costs. Typically businesses will pass these costs on, which results in higher prices paid by consumers.

15. Give an example of how inflation expectations can lead to higher inflation for consumers and businesses.

- Consumers
 - If consumers expect prices to be much higher in the future, they might bring forward their purchases to today – because they are worried that goods will be too expensive in the future.
 - This increase in spending will increase aggregate demand, and result in higher prices now.
 - In this way, expectations may become self-fulfilling.
- Businesses
 - If businesses expect prices to be much higher in the future, they might expect their costs to be higher in the future as well. To account for these higher expected costs, they might decide to set their prices at a higher level today.
 - In this way, expectations may become self-fulfilling.