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Commerce 101

CORE AND OPTIONS

eBook



GET
SMART
EDUCATION

Commerce 101

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**HARNESSING THE RESOURCES OF
THE SURFING COMMUNITY TO
IMPACT THE GLOBAL COMMUNITY**

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Core 1

Consumer and Financial Decisions

1. The Nature of Commerce

Each day people make decisions that are related to commerce. These decisions have immediate and/or long-lasting consequences, so it is important to make wise choices.

a) Scope of Commerce

Commerce refers to the activity of buying and selling and incorporates multiple participants and systems including:

- Consumer (a person who uses goods and services)
- Financial system (involving money, economics, banking and investment)
- Business (commercial activities related to buying and selling goods, services and ideas)
- Employment (work undertaken by individuals in return for income to earn a living)
- Legal system (the government, courts and personnel involved in creating, implementing and enforcing laws and regulations)
- Environmental system (involving natural resources and the natural world).

■ Needs and wants

Consumers have unlimited needs and wants but limited resources (such as income or time) to meet them all. Needs refer to necessities such as water, food and shelter, whereas wants refer to those things that consumers desire or something not essential for survival such as chocolate or Coca-Cola. Wants are unlimited and vary from one person to the next. Consumers spend money on wants to try and improve their quality of life and standard of living.

■ Goods and services

Goods are tangible (something that can be touched) products such as books, pens and hats.

Services are activities provided by other people such as doctors, lawyers and gym memberships. Services are intangible products (cannot be touched).

■ Resources

A resource is something that is ready to use if, or when, it is needed. An example of a resource is keeping money aside in a savings account. Other examples include a forest with timber resources or a friend with computer skills who has volunteered to help set up a website.

In economics, there are four key inputs used for the creation of goods and/or services. They are called factors of production:

- Land: any resources that are natural (not manufactured) such as rivers, oceans, mountains, sand and soil
- Labour: human effort used in the production of goods and services
- Capital: anything produced which can help in the production of something else (i.e. not money itself, but the goods purchased with the money that will be used in production – investment)
- Enterprise/Entrepreneurship: the skill and expertise of the person who has an idea or invention to bring to the marketplace (usually through a business)

■ Scarcity and its impact on choice

Whilst wants are unlimited, the resources to create and access these wants are limited. The scarcity of resources means that businesses need to make decisions about the allocation of resources. This is known as the economic problem and means that choices need to be made about:

- what to produce
- how to produce
- for whom to produce

The problem is similar for individual consumers – they have limited resources such as time, money, skills and expertise and unlimited wants such as entertainment, holidays, nice cars and new mobile phones. Like business, consumers need to make choices about how to get the most satisfaction (or utility) for their resources used. Every decision involves a trade-off – it has a cost.

Exercise 1.1

Indicate whether each of the following statements is true or false.

Jen is hoping to go to the movies on Friday night. This would be best described as a need.	True / False
Consumers have limited needs and wants and unlimited resources to meet them.	True / False
The factors of production are land, labour, capital and enterprise (or entrepreneurship)	True / False
Needs are unlimited.	True / False
Jim provides a service because has a cleaning business.	True / False

2. Consumer and Financial Decisions

Consumer decisions are those choices about what goods and services to buy. All consumers regularly make financial decisions such as how much to save, when to take on loans and how to repay debt.

a) Factors influencing consumer and financial decisions

The decision to spend money on goods and services is both a consumer decision and a financial decision. There are a range of factors that affect the decisions consumers make.

Factor	Influence on consumer and financial decisions
Advertising or Marketing	Marketing refers to the wide range of activities a business undertakes to meet the needs of their identified customers. Advertising is a specific form of marketing which aims to influence a buyer's behaviour by promoting a product. Marketers strategically target their product or service to their audience and hone their message for more effective marketing campaigns.
Age	Age and life stage will affect a consumer's preferences, needs and wants. For example, interest in life insurance products will vary between a young woman who has just finished school and an older man with a family.
Convenience	Due to the busy nature of life, more and more products and services are becoming available to help time-poor consumers. This is especially true of the service-based industry that includes everything from dog walking to personal shopping. Consider the rise of the convenience services such as meal delivery (UberEats or Menulog), internet banking, mobile dog grooming and online shopping in general.

Culture	Culture is a set of beliefs, attitudes and behaviour shared by all members of a group. A cultural group can refer to people of a particular religion, age range, income group, gender or other demographic. Culture influences the tastes and preferences of the group. For example, a Hindu bride traditionally wears red, maroon or a bright coloured saree whereas, a Catholic bride traditionally wears a white gown on her wedding day (it is against Hindu culture to wear white on auspicious occasions).
Customer Service	Consumers may also base their purchasing decisions around the service offered by a business. The quality of service is for both pre- and post- service purchase can be a key area of differentiation for many consumers. With a higher level of service, customers are often willing to pay a higher price.
Disposable Income	Disposable income refers to the income that remains for a consumer once their regular expenses have been covered – it is the income that is not budgeted for other purposes. The amount a consumer is willing to spend on a particular product or service is a combination of many factors including income level, current financial obligations, durability, quality of product and the influence of marketing.
Environmental Considerations	Environmental factors are increasingly influential on consumer and financial decision making. This includes thinking about sustainable and ethical inputs and production practices, carbon footprint and waste management. The demand for sustainable and eco-friendly products has grown significantly over the past 20 years.
Social Media	Being a part of a social network influences culture and impacts individuals tastes and preferences. Social media platforms such as Instagram, Facebook, Twitter and Snapchat are also used by business to advertise their products and influence consumer and financial decisions. Sophisticated algorithms track user profiles and what they 'follow', 'like', 'tag' and 'comment on' to then push out targeted advertising based on the data collected.

b) How do individuals make decisions?

Individuals constantly make decisions by determining their needs/wants and resources, collecting information and comparing options. The time and effort given to making decisions is often related to the financial significance of the decision.

■ Spend or save

When individuals and families earn income, they need to make decisions about how to manage their income – how much to spend (and on what) and how much to save.

Individuals and households budget to pay for a range of expenses. These expenses can be fixed or variable. Fixed expenses are regular payments that are for the same amount. They are predictable and easier to budget for. Variable expenses are those payments where the cost may change over time depending on use.

Fixed expenses	Variable expenses
Rent	Food/Groceries
Loan repayments	Transportation
Mobile phone plans (contracted)	Clothing
Internet/Phone plans (contracted)	Gifts
Subscription services (eg Spotify)	

Savings refers to the portion of income not spent on current expenditures (fixed and variable). Saving money (putting aside a part of income earned) can help individuals and families become financially secure and provide a safety net in case of an emergency.

Reasons for saving:

- ❑ Being prepared for unexpected expenses: it is important to have access to emergency funds for things such as home/car repairs, medical expenses, or a sudden loss of income. This is commonly referred to as 'saving for a rainy day'.
- ❑ Saving for a specific goal: buying a car, going on a holiday (or other luxury item) or a deposit for a property.
- ❑ Saving for retirement: superannuation (often known as 'super') is money that is put aside and saved while you are working so you can enjoy an income later in life when you retire. Retirement is when you decide to stop working. In Australia, there is no minimum age to retire (as long as you can financially support yourself). The age pension which is financial support from the government to individuals who are past working age is available from 65 ½ years of age (rising to 67 by 2023). Individuals are able to start accessing their superannuation savings, if they are retired, between 55 – 60 years of age. For most people in Australia, their employer is required by law to pay an amount equal to 9.5% p.a. of their salary into their superannuation fund account (this is paid in addition to salary or wages). Superannuation fund managers invest the funds into a range of investments with the goal of earning a return (which is reinvested into the super fund).

The decision to save by individuals/households and the amount to set aside will vary according to:

- ❑ Level of income: the more a person earns, the greater their capacity to save.
- ❑ Level of expenses: including costs such as rent, electricity, transportation, phone, groceries.
- ❑ Age: different life stages influence how much someone spends or saves.
- ❑ Location: opportunities to spend money may vary depending on location (city, remote areas, climate, activities).
- ❑ Wealth: the more assets a person has, the more financially secure they may feel which will influence their need to save.
- ❑ Lifestyle choices: some people choose to use their disposable income (extra income left over once expenses are paid for) on lifestyle activities and 'going out'. For example, eating out at restaurants, buying tickets to concerts/sporting matches/theatre, travelling and beauty treatments.
- ❑ Personal values, experiences and goals: whether someone thinks saving is important will influence their decisions about spending and saving – did they grow up learning about savings and influenced by their parents decisions or do they prefer to 'live in the now' rather than plan for the future?

CASE STUDY: "Australian millennials are bad with managing their money"

Younger Australians have been exposed as irresponsible with their money, choosing to eat avocado on toast out and expensive travel over saving. Concerning new findings show many millennials live from one payday to the next and have no savings at all, data from financial phone app Acorns have revealed.

One in three millennials don't have a personal budget and 1 in 10 don't bother saving any money at all. Acorns chief executive officer George Lucas said many younger Australians have short-term savings goals which is usually for discretionary expenses such as holidays.

"One of the reasons the generation before used to save a lot of money was because they were saving for a house, but when people are constantly being told they can't afford property they ask, 'why am I saving'," he said.

"The avocado on toast issue is definitely a problem ... millennials know all the latest restaurants and cafes and they like going to them." The research also found four in 10 millennials live from one payday to the next and only 18 per cent are worried about their financial future.

Source: <http://www.heraldsun.com.au/moneysaverhq/australian-millennials-are-bad-with-managing-their-money/news-story/cdda7057a395a4407192661b27858742>

■ Different types of goods and services

When individuals and families identify a need/want, they need to decide what to buy to fulfil that need/want. This involves considering different types of goods and services.

Type of good/service	Explanation and example
Goods	Tangible (something that can be touched) products such as books, pens and hats
Services	Activities provided by other people such as doctors, lawyers and waiters. Services are intangible products (cannot be touched).
Substitute products	Two products that could be used for the same purpose such as Coco Pops and Rice Bubbles (as breakfast cereal).
Complementary products	Complementary goods which are used together such as a tennis racquet and tennis balls or a car and petrol.
Luxury products	Products which are not necessary but make life more pleasant for consumers. As income levels increase, the demand for these superior goods increases more than proportionally. Examples include designer clothing, perfume, sports cars and Rolex watches.
Collective services	Services that are available to all members of the public such as national defence, police and public schools/hospitals. These are provided or funded by the Government.

When a consumer decides to buy a packet of chips, they might find more than 83 snack options from 23 companies to choose from. The average supermarket now carries 48,750 grocery items, five times more than in 1975. The range of brands and products available to consumers is bigger than ever before. With so many choices available, choice overload can make consumers question the decisions they make before they even make them.

■ Buying locally, regionally, interstate or globally

There are a range of locations that consumers can source the goods and services they require. The process of globalisation and rapid developments in technology and transportation have led to consumers having more choice than ever – sourcing what they need both locally, interstate and globally.

■ Visiting physical or online stores

There are a range of retail outlets accessible to consumers, the traditional options being physical stores often referred to as ‘bricks and mortar’ stores. These include:

- ❑ Supermarkets: large grocery stores such as Woolworths, Aldi and Coles
- ❑ Department stores: large stores with a range of goods and services, divided into departments. Examples: Myer, David Jones, Harvey Norman, BigW, KMart, Target
- ❑ Specialty stores: concentrates on narrow product areas such as clothing, electrical goods or food. Examples: City Beach, t2Tea, Dymocks, Sumo Salad
- ❑ Convenience stores: a small to medium grocery and convenience shop usually operating near residential areas. Examples: 7-Eleven, City Convenience stores
- ❑ Online stores: selling directly to customers through an e-commerce website. Examples: amazon.com, booktopia.com.au

Purchasing **online** through e-tailers (electronic retailers) is becoming a popular option due to the convenience of being able to shop from home at any time and the ease of 'shopping around' for the best value deal. Many retailers offer an online store in addition to their traditional physical stores to reach a greater market and increase their sales. Some businesses choose to operate as online stores only to reduce the expenses of rent, store fit-outs, stock management and staffing.

Issues to consider when internet shopping include:

- choice of local, interstate or global e-tailers
- security of payment details
- cost of shipping/postage/delivery
- risk of non-delivery
- exchange rates
- consumer rights and protection (Australian laws apply in Australia only)

c) Different payment options

Once a consumer has identified their needs and wants, considered the range of goods/services available and compared the options available to make a final choice, they will need to decide on a method of payment.

■ Cash transactions

In today's economy, there are a range of methods of payment available for consumers to use their money to access goods and services – both cash and cashless transactions.

Legal tender refers to a medium of payment recognised by a legal system to be valid. Cash (or currency) in the form of notes and coins is common legal tender in many countries.

Functions & Characteristics of Money

Functions	Characteristics
Standard of value: money provides a common measure of the value of goods and services being exchanged	Durable: needs to withstand everyday wear and tear
Medium of exchange: money allows goods and services to be traded without the need for a barter system	Portable: easy to carry around
Store of value: money generally holds its value over time (though inflation can impact this); other items can act as stores of value eg artworks and land	Widely accepted as method of payment: eg everyone within a country agrees to accept the country's currency as payment
	Stable in value: generally holds its value over time (ie not perishable)
	Easily divisible: it can be broken down into smaller denominations (eg notes and coins in different values)
	Difficult to counterfeit: cannot be easily copied or reproduced – this maintains its value through scarcity

Reserve Bank of Australia – protective features of Australian currency

Australian banknotes are printed on polymer, a type of plastic, and they have a distinctive feel. Polymer banknotes were developed to make our currency more difficult to counterfeit. The polymer makes it possible to include a range of security features on our banknotes.

The security features that can be used to check a banknote are:

POLYMER SUBSTRATE

Australian banknotes are printed on polymer, a type of plastic, and they have a distinctive feel. A genuine banknote should return back to shape after it is scrunched up.

TOP-TO-BOTTOM WINDOW

There are multiple security features in the clear top-to-bottom window. The window should be an integral part of the banknote and not an addition. Check that the security features in the window cannot be easily rubbed off.



3D IMAGE

Tilt the banknote to see a three-dimensional image with a colourful border. The image will appear raised or recessed.



FLYING BIRD

Tilt the banknote to see a bird move its wings and change colour in the top-to-bottom window.



COLOURFUL BIRD

Tilt the banknote to see colours change within a bird.



REVERSING NUMBER

Tilt the banknote to see a number change direction within the building. The number alternately appears forwards, disappears, then appears backwards.



ROLLING COLOUR EFFECT

Tilt the banknote to see a rolling colour effect. On one side of the banknote it is a prominent patch near the top corner; on the other side it is within a bird shape.



IMAGE IN SMALL WINDOW

Look for an image in a small clear window. The image is embossed and has a light and dark effect. The window should be an integral part of the banknote and not an addition.



INTAGLIO PRINT

Feel the distinctive texture of the dark printing. The slightly raised print can be felt by running a finger across the portraits and numerals.



BACKGROUND PRINT (OFFSET)

Multi-coloured and multi-directional fine-line patterns appear on each side of the banknote. This background printing should be very sharp. Check for irregularities such as less clearly defined patterns, thicker or thinner lines, or colour differences.



MICROPRINT

There is microprint, or tiny, clearly defined text, in multiple locations on the banknote.



FLUORESCENT INK

A bird, the serial number and year of print fluoresce under UV light. To validate the UV fluorescent features on Australia's banknotes, it is recommended that a UV black light with a wavelength that is centred around 365nm be used, and that it is done so in low ambient lighting conditions. Many UV black lights that use Light Emitting Diodes (LEDs) emit wavelengths between 395 – 400nm, which are not suitable for viewing the UV features.



■ Cashless transactions

In many ways, we are moving towards a cashless economy. People generally receive their wage or salary by direct deposit into their bank accounts, and most consumer payments are cashless, made using credit and debit cards.

Debit Cards

When a consumer pays at the checkout using the EFTPOS (Electronic Funds Transfer Point of Sale) machine by pressing CHQ (cheque) or SAV (savings), they are using an Australian debit card payment system. This same system also allows consumers to get 'cash out' from many retail outlets. Debit cards provide consumers with a convenient and safe way to access their own money held in a bank deposit account.

FUN FACT: In 2016 Australians made more than 2.2 billion EFTPOS transactions, worth more than \$138 billion. This is equivalent to an average of more than 6 million EFTPOS CHQ and SAV transactions a day.

Credit Cards

Credit cards present a 'buy now, pay later' option for payment – they allow consumers to borrow money up to a certain limit with an agreement to make regular minimum repayments. Most credit cards incur an annual fee. Some offer consumers an interest-free period, whilst others incur interest from the day the transaction is processed.

Visa, Mastercard and American Express (AMEX) own the payment networks over which payments are made between participating outlets. They do not issue credit and debit cards (the cards are issued by banks or financial institutions). Pressing CR (credit) at the checkout using the EFTPOS machine will use these payment networks. These providers charge retailers for access to this payment network, a cost which is often passed onto the consumer through a surcharge. For example, Aldi supermarkets charge an additional 0.5% for credit cards and tap-and-go payments.

Tap-and-Go Payments

Tap-and-go payments (Visa payWave and Mastercard PayPass) have become increasingly popular – with Australians leading the trend internationally. Now all you need to do is wave your bank card above a payment terminal and you can make purchases of up to \$100 without inserting your card or entering your Personal Identification Number (PIN).

Credit cards, debit cards and other devices including smartphones use Near Field Communication (NFC) technology to make secure, contactless payments. This is the same technology that smart phones use to enable payments via phone applications (Apps).

Afterpay

Afterpay is a digital service that makes it possible to buy something now and pay it off in fortnightly instalments. Unlike lay-by, you get the product right away, whether you're shopping online or in-store (with no extra charges). There are concerns Afterpay makes it 'normal' to be in debt. The safest way to shop remains to save upfront so that you only buy what you need and don't end up spending beyond your means.

Cheque

A cheque is an order to a bank to pay a stated sum from the drawer's account, written on a specially printed form. The use of personal cheques as a method of payment is not very common for low value transactions. Some large purchases such as a deposit payment on a property may require a bank cheque to be provided.

Payee: the person to whom the cheque is made out

Drawer: →

the writer of the cheque

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John Art
123 Main St
Sydney NSW 2000

Date 15/1/20

PAY TO THE ORDER OF The Art Shop \$ 3,150.00

Three thousand one hundred and fifty dollars only

BankAA
18 Pitt Street
Sydney NSW 2000

MEMO Art supplies

Signature

..123456789: 1001001239: 0709

Drawee: →

the bank of the drawee that is instructed to pay the sum of money

Direct Debit

A direct debit is an agreement with a third party to withdraw money directly from a consumer's bank account or credit card to make payments. This can be used for regular fixed payments (e.g. rent, loan payments, insurance premiums, gym memberships) and variable payments (e.g. electricity). These automatic payments can be a good way for consumers to manage their money, but can become a problem if they don't have enough money in their account or need to cancel the direct debit.

Lay-By

In some stores, consumers may be able to lay-by purchases as a method of payment. This is where a customer makes a deposit and pays off an item over a certain period of time (with at least two instalments). The shop keeps the item until it is paid off completely. Once the item is paid for, then the consumer is able to take the item home.

■ Using credit to make purchases

There are a range of loans or credit available to consumers for different purposes. Each loan and each financial institution offers consumers different facilities, terms and conditions, so making a wise decision requires careful comparison shopping.

Type of loan	Description and examples
Credit card	A small plastic card issued by a financial institution linked to a credit account which allows the account holder to purchase goods or services on credit (with borrowed money which must be repaid). Examples: Mastercard, AMEX, Visa card, Diners Club
Store cards	Credit cards offered by specific retailers or department stores (eg David Jones, Myer) which may also offer special discounts, interest-free periods or other rewards to encourage consumers to buy on credit.
Personal loan	These can be useful for buying one-off larger items (eg buying a car) and are usually over a fixed term (3-5 years).
Home loan (mortgage)	A long-term loan secured by property – usually over a 25-30 year time period or term.

CASE STUDY: “Nation’s \$32b credit card debt: One in three Aussies spend more than they earn”

One-third of Australians are spending more than they earn each month, hitting the credit cards to subsist while also relying on their savings plus the generosity of family and friends to get by.

A growing culture of convenience and the increasing use of credit and debit cards in cashless paywave transactions has meant Australians are often unwittingly overspending, according to Commonwealth Bank research.

It comes at a time when Australians owe a whopping \$32 billion on their credit cards at an average of \$4282 per card holder. The research found that almost half of Australians are uncomfortable with their current spending levels and 56 per cent believe they do not have enough savings to handle a temporary loss of income.

The research revealed that one in three Australian households would be unable to find \$500 in an emergency, and 46 per cent believe they are not progressing with their financial goals.

Source: <http://www.dailytelegraph.com.au/business/credit-cards-paywave-leads-us-down-32b-credit-debt-blackhole/news-story/c03bdfe76063bbbfd035e0938a56b9f5>

■ Lending institutions

There are a range of institutions that offer consumers the facility to borrow money.

Institution	Explanation	Examples
Banks	A 'shareholder owned' financial institution licensed to receive deposits and make loans.	Commonwealth Bank, Westpac, St George
Credit unions, building societies, mutual banks	A 'customer owned' banking institution. Each customer is a member of the credit union (pays a membership fee) and any profits are reinvested into the business (rather than paid to shareholders).	ME Bank, Police Credit Union, Teachers Mutual Bank
Peer to peer lending	An online platform (eg website) matches people who have money to invest with people who are looking for a loan.	Lending Hub, Rate Setter, Society One
Payday lenders	Businesses that lend customers small amounts of money at high interest rates, on the agreement that the loan will be repaid when the borrower receives their next pay.	Nimble, Cash Train

A borrower's ability to meet repayments can change over time for example, because of illness, unemployment or a change in their financial circumstances. When an individual applies for a loan with a lending institution, their ability to repay will be assessed to determine whether a loan should be given or not. Factors that will be assessed include:

- Total income
- Amount of savings
- Other financial commitments
- The amount to be borrowed
- Lifestyle/living expenses
- Other assets owned
- Credit/borrowing history

■ Credit rating

When submitting an application to borrow money, the financial institution will review an applicant's credit history. This helps the financial institution to determine the risk associated with lending someone money. Information provided in a credit report:

1. Personal details: name, date of birth, current/past addresses, employment and driver's licence number.
2. Credit history: list of credit or loans applied for, defaults (overdue payments of 60 days or more where official debt collection activity has started), other credit problems (listed for up to 5 years, or 7 years for serious cases).
3. Repayment history: due dates, whether payments have been on time or not, dates of any missed payments.
4. Other information: any bankruptcies (for up to seven years after they occurred) or related court judgments. Bankruptcy is a legal process undertaken where a court declares that a person is not able to repay their debts.

■ Choosing between alternative purchasing options

The practice of comparing options in advance of actually shopping to achieve the best deals is often done when buying higher priced and durable (longer lasting) goods such as televisions, refrigerators and cars. However, most consumers also comparison shop for everyday items such as chocolate bars, bread and milk.

In order to comparison shop, consumers need to select and apply appropriate criteria to rank alternative purchasing options. For example, when deciding on a new internet service, consumers might use the criteria of price, download speeds, download limits and contract length.

Unit pricing (ACCC)

In 2009, unit pricing rules were introduced into Australian supermarkets to assist consumers with comparison shopping to decide which products offer the best value. Unit pricing is regulated by the Australian Competition and Consumer Commission (ACCC). Big supermarkets and online grocery retailers must display the unit price and the unit of measurement of a grocery item alongside its selling price.



Comparison shopping websites

To assist consumers with comparison shopping, there has been a growth in online businesses providing comparison shopping websites.

Type of comparison shopping	Website/Provider
Airline tickets	Webjet.com.au; skyscanner.com.au; cheapflights.com.au
Phone plans	Finder.com.au; whatphone.com.au; youcompare.com.au
Insurance	Comparethemarket.com.au; iselect.com.au

Case Study: Choice Magazine: Helping Consumers Decide

CHOICE

Choice is a consumer advocacy group which provides Australian consumers with information and advice. One service they provide is testing and rating a range of products and services, including appliances, baby products, electronics and home entertainment, computers, food and health and financial products and services.

d) Reflecting on purchasing decisions

When making consumer and financial decisions, individuals may not make the best decisions each time. It is important to review the decisions made, how they were made and learn from any mistakes.

■ Affordability

If something is affordable, it is priced reasonably, and you have enough money to buy it. It does not necessarily mean 'cheap' or a low price but that you have enough money to easily buy it (whatever the price). When purchasing goods and services, affordability is a key consideration.

■ Decision-making processes used and ways to improve

Wants and needs change over time and so do the consumer and financial decisions that individuals make. Being able to look back at decisions made in the past and reflect on the outcome and consequences of those decisions helps us to learn what works well and what doesn't.

Sometimes people experience 'buyer's remorse' where the decision to buy something was an impulse purchase (in the moment) and perhaps not necessary or really wanted. This may have been the result of emotions, peer pressure or being influenced by advertising. Once a decision to purchase has been made, it is not always possible to return it based on a change of mind.

Being aware of our own decision-making processes and understanding how others make wise decisions will help shape and change how it might be done in the future. This might mean more careful research about options, being clear as to priorities when it comes to needs and wants, seeking advice and support before making decisions.

Exercise 1.2

Match the following statements with the correct terms below.

1. Goods which are used together such as a tennis racquet and tennis balls or a car and petrol.	
2. A large grocery store such as Woolworths, Aldi and Coles.	
3. A card that provides a convenient and safe way to access their own money held in a bank deposit account.	
4. A medium of payment recognised by a legal system to be valid.	
5. An agreement with a third party to withdraw money directly from a consumer's bank account or credit card to make payments.	
6. The income that remains for a consumer once their regular expenses have been covered.	
7. A 'shareholder owned' financial institution licensed to receive deposits and make loans.	
8. A specific form of marketing which aims to influence a buyer's behaviour by promoting a product.	
9. Money that is saved specifically for retirement.	
10. Setting aside a portion of income not spent on current expenditures (fixed and variable).	

Word Bank: Bank, debit card, saving, disposable income, complementary goods, supermarket, superannuation, advertising, legal tender, direct debit

3. Consumer Protection

Consumer laws are designed to protect consumers in their transactions with businesses and to deal with issues such as unfair business practices, unfair sales tactics, unfair contracts and unsafe products.

a) Investigate the need for consumer protection

Many argue that there is a greater need for consumer protection due in part to:

- increased competition in consumer markets
- the growing number of businesses and brands that consumers interact with
- the influence of technology (internet, payment methods, mobile phones)

In Australia, there are different laws and organisations which aim to ensure that all consumers have the same basic rights and that businesses undertake fair practices in a competitive market.

Legal selling techniques

Businesses engage in a range of marketing strategies to influence us to buy their products which include product features and branding, pricing strategies and promotions such as advertising and publicity. When you next visit the supermarket, see if you can observe any of the following legal techniques used to make consumers buy more:

- Fresh fruit and vegetables are located near the entrance to give an image of being fresh and healthy and to be visually appealing
- In-store bakeries are often located near the entrance as the aroma of freshly baked goods stimulates a shoppers appetite – hungry shoppers buy more!
- Creation of many distinct zones or areas within the supermarket (eg deli, fresh food market, butcher) often using different design, colours, lighting.
- Last minute temptations such as chocolate and lollies are placed at the checkouts which entice shoppers who are waiting in queue (or their children) to make impulse purchases.
- Having the entrance to the supermarket at the right hand side of the store means shoppers then travel anti-clockwise through the store – research has indicated that this means shoppers will spend an average of \$2 more per visit.

Sometimes businesses can go further than these legal ways to influence consumer and financial decisions. Legislation has been introduced to protect buyers from this kind of unfair, misleading and unsafe business conduct.

b) Simple contracts

A contract is an agreement made between two or more parties that is legally enforceable. Contracts can be written or verbal. You could be entering a contract by:

- signing a document
- selecting a product in a shop and paying for it at the check-out counter
- clicking on an 'I agree' button on a web page.

A valid contract requires three key components:

■ Offer & Acceptance:

An offer is an open call to anyone wanting to accept the promise of the offer with its terms and conditions. Acceptance occurs where a person agrees to the terms of the offer. By signing, clicking agree or by transferring money you are accepting the offer.

■ Intention:

A contract must have a clear intent that its purpose is to legally bind the parties to the terms. This requirement is essential as without it all agreements could become contracts.

■ Consideration:

A contract needs to benefit the parties involved. This means that both parties are getting something that they have agreed to, usually something of value like money, to 'seal the deal'. This benefit does not need to be in the form of money. The value does not need to be equal but it cannot be for something illegal or for an impossible item/task.

What makes a contract invalid?

- Duress – a contract is invalid if a party is threatened or forced to agree. A valid contract requires free will.
- One party is not recognised as having 'legal capacity' to agree to a contract. For example, people who have a mental impairment; young people (minors) and prisoners.
- Contracts that allow for one party to alter the offer (terms) and not the other.

c) Legal rights and responsibilities of consumers

The Trade Practices Amendment (Australian Consumer Law) Act 2011 and the Competition and Consumer Act 2010 protect consumers against undesirable business practices and prohibits various unfair (restrictive) business practices in Australia.

The Competition and Consumer Act is administered and enforced by the Australian Competition and Consumer Commission (ACCC) and relevant state and territory consumer agencies.

The Competition and Consumer Act 2010 defines and protects consumers from the following:

- Misleading and deceptive advertising: individuals and businesses must not engage in conduct that is misleading or deceptive or is likely to mislead or deceive such as false claims, the use of fine print and environmental claims. For example, a jewellery store advertises that a necklace 'was' \$250 and is 'now' \$150 when the store never sold the necklace for \$250.
- Unfair contract terms: terms and conditions have to be in reasonably plain language, legible, readily available, and presented clearly.
- Bait advertising: business cannot advertise goods or services for supply at a specified price without a reasonable amount of stock in supply. For example, advertising a sale on lawnmowers but only having two in stock at the sale price.
- Price displays: prices should be genuine and you should be able to easily see the total price of anything advertised. If multiple different prices are displayed on a product or in advertising, the business has to fix the display or sell you the item for the lowest price.
- Implied conditions: all goods and services must meet the consumer guarantee that they are 'of acceptable quality'. This includes it being fit for purpose, acceptable in appearance and finish, free from defects, safe and durable. These conditions are provided to all consumers regardless of whether they are written down.
- Warranties: there is a guarantee that the manufacturer of the goods will take reasonable action to ensure that facilities for the repair of the goods, and parts for the goods, are reasonably available for a reasonable period after the goods are supplied.
- Safe products: there are a range of protections to help ensure that the products you buy are safe including mandatory standards, bans, recalls and product safety information.

d) Consumer protection agencies and independent bodies and organisations

There are a range of consumer protection agencies, both independent bodies and government agencies that provide assistance and protection to consumers.

■ Federal Government

The Australian Competition and Consumer Commission (ACCC) has been given the power under federal legislation to independently administer the Australian Consumer Laws. The nature of their role is to investigate complaints and to bring legal action against businesses that have allegedly breached the laws. The Federal Courts will preside over these cases.

■ State Government

NSW Fair Trading offers information regarding the Australian Consumer Law with easy to understand explanations on the rights of consumers. NSW Fair trading also offer dispute resolution services and formal complaint methods both via phone on 13 32 20 or via lodging a complaint on their website.

■ Independent organisations

CHOICE provides consumers with both valuable consumer information about products and services available in the marketplace. This independent organisation also campaigns for consumer rights. They are well known for their magazine (and subscription website) where they publish detailed comparison shopping research and advice for consumers.

e) Consumer redress

The ACCC website and NSW Fair Trading Website provide information to consumers which is important to understand before seeking redress. Be mindful that not all rights are provided in the terms and conditions at purchase. Some rights are implied and thus are given to all consumers at point of sale. So, don't be misled!

Sometimes a consumer purchases a good which does not meet the basic legal standards of being fit for purpose, matching the description and/or safe to use. The Australian Competition and Consumer Commission (ACCC) website suggests a process for consumers to follow when seeking redress or remedy (getting a solution to your consumer problem).

CASE STUDY: ACCC



The ACCC suggests the following steps in seeking redress:

Step 1 – Contact the seller or service provider

As soon as possible, contact the business to explain the problem and the outcome you want. In many cases a simple phone call or visit can fix the problem. The business might ask you for proof of purchase and discuss whether it is a minor or major problem to determine a repair, replacement, or refund. It is a good idea to write a complaint letter—that way, the seller is clearly aware of the problem and what you want, and you also have a record of your contact.

Step 2 – Contact the ACCC or another third party

If you are still having difficulty resolving a problem, you may want to seek assistance. The best place for where to go for consumer help will depend on your circumstances.

Step 3 – Take legal action

Consider getting independent legal advice about what options are available and suit your circumstances. Your local community legal centre, legal aid office, or your lawyer could give you some advice. You may be entitled to take your complaint to the small claims court or tribunal in your state or territory. For disputes involving large sums of money, you may be able to take private legal action. Make sure that you get legal advice first, as legal action can be expensive and there is no guarantee that you will be successful.

Common remedies that consumers will be presented with:

- Refund of purchase price
- Repair of product
- Replacement of product
- If the product caused physical harm then the customer may also be entitled to compensation

Under the Australian Consumer Law, the customer is entitled to choose which remedy they wish to receive.

Exercise 1.3

Indicate whether each of the following statements is true or false.

Implied conditions must be written down.	True / False
Consumer laws can create public relations problems for businesses. Public relations refers to the relationship between business and the public.	True / False
Products must do what they are expected to do.	True / False
The ACCC stands for Australian Competition & Consumer Corporation.	True / False
The Australian Consumer Law makes harassment and coercion illegal sales strategies.	True / False

4. Financial Management**a) Consequences of poor financial management**

Poor financial management through a lack of budgeting and excess borrowing can lead to financial stress, income shortages and a lack of funds to pay for necessities. There are financial, legal and social consequences to consider.

Financial & Legal Consequences		Wellbeing and Social Consequences
<p>Consumers struggling with repayments due to excessive debt can apply for a 'hardship variation' – adjustments and payment plans can be negotiated.</p> <p>Failure to repay debts might lead to being contacted by a debt collector who may:</p> <ul style="list-style-type: none"> ■ demand payment or explain the consequences of non-payment ■ offer to settle the account and make alternative payment arrangements ■ inspect or recover goods (if they have a right to do so) – repossession 	<p>Legal action can be taken by those who lent an individual money (creditors) to recover the money they are owed.</p> <p>If an individual is unable to pay back debts, then they can apply to the courts to be declared bankrupt. Once declared bankrupt, a person is classified as bankrupt for 3 years and a trustee is appointed to assist in managing debts.</p>	<p>Individuals who are financially stressed are less satisfied with their lives and ultimately more likely to underperform at work. There can also be negative implications for mental and physical health such as health issues, family breakdown and substance abuse. This can lead to social disengagement and isolation.</p>

b) Role and importance of long-term financial strategies

To avoid excess debt and to effectively manage their financial position, it is important for individuals and families to have long term financial strategies. This relates back to the decisions to spend or save discussed earlier in this topic. Setting financial goals and developing a plan to achieve them may require research and seeking advice. The same financial plan will not be right for everyone.

■ Financial planners

A financial planner (also known as a financial adviser) is a person or authorised representative of an organisation, licensed by ASIC, to provide advice on some or all of these areas: investing, superannuation, retirement planning, risk management, insurance and taxation.

Financial advice can help individuals to clarify their goals and create a plan to achieve them in both the short and long term. The cost of financial advice can vary – from \$300 for simple advice over the phone/internet to over \$5000 for complex advice.

The Government has been making changes to the regulation of financial advice since 2014. The Future of Financial Advice (FOFA) reforms include:

- Restrictions on what sort of fees financial advisers receive (including a ban on commissions)
- A ‘best interest’ duty that means individuals must receive advice that is in their best interest (rather than those products that offer the advisor the best commission)

■ Superannuation

Superannuation (often known as ‘super’) is money that is put aside and saved while you are working, so you can enjoy an income later in life when you retire – it is compulsory saving for when you retire and have reached your ‘preservation age’. If you are aged over 18 and earn more than \$450 a month then a contribution is made by your employer to your superannuation fund – currently 9.5% p.a. of your wage/salary. Individuals can choose to top up their fund with their own additional money.

The rate of employer contribution to superannuation for workers was originally set at 3% in 1992, rose to 9% in July 2002 and 9.5% in July 2014. The government has planned to increase the rate by 0.5% a year from July 2021 until it reaches 12% in 2025. So, younger workers are better off, with a higher percentage contribution applying to them from earlier in their working lives than their parents or grandparents.

c) Tools and strategies for effective financial management

Whilst financial management may sound simple – earn income, don’t spend more than you earn, save for a rainy day – many Australians struggle to stay in control of their finances and many report experiencing financial stress.

Case Study: Financial Stress in Australia

Research by the Centre for Social Impact conducted for National Australia Bank found that two million Australians are experiencing severe or high financial stress, while a further 10 million are living with some level of financial worry. This prevents them from coping in difficult situations, for example, in paying unexpected expenses such as a big mobile phone bill or the fridge breaking down.

Many Australians simply don’t have the resources to bounce back. For example, around:

- One in two adults have limited to no savings
- One in two only have a “basic understanding” of financial products and services
- One in ten have unmet need for credit and/or insurance
- One in five have limited or no social connections
- One in 30 stated they needed but did not have access to any form of government or community support

The features of responsible financial management include:

<p>Budgeting:</p> <p>A budget is a plan which details expected income and expenditure over a set time period and plans to manage money so that essentials can be paid for. An effective budget aims to have enough left over to save or use for extras such as luxury items or to pay off credit cards/loans faster.</p>	<p>Saving/Superannuation Plans:</p> <p>Plan to save a set amount each pay and open a high interest savings account to help the money grow. This will ensure money is available for emergencies or to help towards a goal (rather than borrowing money).</p> <p>Similarly, a plan can be made to make additional contributions to superannuation that are over and above the amount contributed by your employer.</p>
<p>Monitoring and Record Keeping:</p> <p>Track spending through keeping a diary and copies of receipts. Most people aren't aware of exactly where all their income is spent – coffees, take-away meals and everyday small items add up!</p>	<p>Avoiding Overcommitments:</p> <p>It is important to keep track of income and spending to make wise decisions about finances. By thinking carefully before making a commitment, before deciding to buy new things or go on a holiday, before spending on a credit card, a person can avoid over commitments. It does not take long for expenses, bills and debts to build up to unmanageable levels.</p>

■ Managing mobile phone costs

When getting a mobile phone, it can be easy to overcommit. Not only is there the cost of the phone itself to consider (and who doesn't want the latest iPhone!), but also the ongoing costs of a mobile phone service. While a certain mobile phone deal with a company such as Telstra or Vodafone may sound like a good deal, it is important to review the inclusions and potential extra charges.

Things to consider when getting a mobile phone:

- Which phone to choose and the cost/features
- Whether to be on a plan or prepaid. A prepaid option makes it much easier to manage the costs as without loading credit, the phone will not work – you cannot accidentally build up an extraordinary phone bill through extra data use or calls
- Inclusions: if choosing a plan, be clear on included calls, SMS, MMS and data (and the charges for going over the included amounts)
- Roaming costs: if you travel overseas it is important to be aware of overseas charges – many people have left their 'mobile data' switched on and come home to bills in the hundreds (or thousands) for data use
- Contracts: most plans for mobile phone services are for 24 months, so the user is locked in (and there can be charges for breaking out of contract early)
- \$0 up front for the phone: the cost of the phone can be built into a 24 month contract – so it is not really 'free' – and, if you break or lose your phone, you will still be paying for it in the monthly instalments for the 24 month contract!

■ Budgeting: Using digital technologies

Managing money, sticking to a budget, and even handling investment decisions is easier than ever before with all the personal finance digital applications (apps) and online tools.

ASIC: Budget Planner & TrackMySPEND App

The website-based budget template has been created by the Australian Securities and Investment Commission (ASIC) to help individuals to:

- work out where their money is going
- save their results online or use the Excel budget spreadsheet
- simplify their budget by using the ASIC budget planner wizard

ASIC have also developed an app called 'TrackMySPEND' which lets individuals enter their weekly spending limit and add expenses as they occur to track their own progress.

Bank Websites

Many Australian banks have various tools and resources on their websites designed to assist their customers (and others) to manage their finances more effectively. Internet banking apps also allow customers easy access to current information about their bank accounts which helps with decision-making as well as monitoring income and spending.

Pocketbook Personal Finance Expense Tracker App

Pocketbook is a free app that links a person's bank accounts, credit cards and loans and then keeps track of their spending. It automatically sorts transactions into categories such as groceries, bills, loan payments, travel and more which helps with tracking spending and making choices about where to save money.

d) Options for addressing financial difficulty

If someone finds themselves in financial difficulty – overcommitted and struggling to make payments, there are options available for assistance.

■ Negotiate a payment plan

If struggling with the payment of bills or other financial commitments such as electricity/water bills, mortgage (home loan) repayments, credit card repayments, then it is important to get in touch with your creditor (the business or organisation owed money), explain your circumstances and negotiate an arrangement based on what you can afford to pay. Most organisations are willing to negotiate payment plans to help manage repayments – as long as the plan is reasonable and the individual keeps up with agreed payments.

■ Seek support from a financial institution

There are a range of institutions that offer financial advice and assistance with debt problems. These include:

- Financial Counselling Australia: the peak body for financial counsellors in Australia offers a free financial counselling phone line 1800 007 007 (9.30am-4.30pm Monday to Friday). Its website has an interactive map to find a face-to-face counsellor, and its consumer website has resources.
- Financial counsellors provide information, support and advocacy to assist people in financial difficulty.
- National Debt Helpline: a not-for-profit service that helps people in Australia tackle their debt problems. They are not a lender and they don't 'sell' anything or make money from you. Their professional financial counsellors offer a free, independent and confidential service to help you get back on track.
- ASIC MoneySmart website: provides information on supporting friends or family experiencing money stresses, covering topics such as talking about money, working on a budget and finding the right support.
- The Australian Psychological Society: has tips for managing stress, a booklet on understanding and managing stress and a link to find a psychologist if needed.

Exercise 1.4

Match the following statements with the correct terms below.

A plan which details expected income and expenditure over a set time period and plans to manage money so that essentials can be paid for.	
They provide information, support and advocacy to assist people in financial difficulty.	
Money that is put aside and saved while you are working, so you can enjoy an income later in life when you retire.	
A mobile device for which credit is purchased in advance of service use.	
When a person is judged by the courts as being unable to pay their outstanding debts.	
A person licensed by ASIC to provide advice on investing, superannuation, retirement planning, risk management, insurance and taxation.	
An app developed by ASIC which lets individuals enter their weekly spending limit and add expenses as they occur to track their own progress.	
A condition that is the result of financial circumstances that create anxiety or worry.	

Word Bank: TrackMySPEND, financial planner, prepaid phone, superannuation, bankrupt, financial counsellor, budget, financial stress

5. Current Issues**a) Impact of technology on payment processes**

Technology has had a significant impact on the payment processes of businesses and consumers, presenting both opportunities and challenges. Some new developments include:

- Contactless payment technologies, such as MasterCard PayPass and Visa PayWave, let customers pay without scanning their card and typing in their Personal Identification Number (PIN).
- PayPal is an alternative internet payment option. By using this service when shopping online, your credit or debit card details remain unknown to the seller.
- Apple Pay/Android Pay: consumers can now pay for goods and services using their mobile phones. They work by creating a virtual card that's used to make the transaction, so that actual bank details aren't involved in the transaction.
- After Pay: online retailers are now using a third party called 'After Pay'. Consumer will be sent the product straight away after making a partial payment and then will be required to make additional payments in regular instalments to pay off the remaining.

b) Housing affordability and the impact on savings

The term 'housing affordability' usually refers to the relationship between expenditure on housing (prices, mortgage payments or rents) and household incomes. Some argue that affordability is not just about the ability to buy or rent a home, but also about being able to afford to live in it – its maintenance, the location and cost to travel to/from work or school and support services available.

A household is typically described as being in 'housing stress' if it is paying more than 30% of its income in housing costs. According to the Australia Bureau of Statistics (ABS), in 2017–18, 11.5% of households spent 30% to 50% of gross income on housing costs with another 5.5% spending 50% or more.

Anglicare Australia publishes a Rental Affordability Snapshot which provides insights into the 'housing affordability' issue in Australia. In 2018, they surveyed over 67,000 rental listings and found that there was a significant shortage of affordable rentals. In fact, of the rentals surveyed, 180 rentals were affordable for a single parent with one child on Newstart and only two rentals were 'affordable' for a single person in a property or share house on Youth Allowance. There were no rentals that were considered 'affordable' for a single person on Newstart or Youth Allowance in Sydney, Canberra, Melbourne, Adelaide, Darwin or Perth.

The more income that is allocated to housing/living costs, the less income remains for consumer spending. A combination of high housing costs and high debt levels contributes to a reduction in savings – this can have a significant impact on the economy. A lack of affordable housing also has a negative impact on individual and society health and wellbeing.

c) Types of scams

Scams or rip-offs refer to dishonest and often illegal activities designed to take advantage of consumers, tricking them into giving away their personal details, information or money. Every year, scams cost Australians, businesses and the economy hundreds of millions of dollars and cause emotional harm to victims and their families. More than 200,000 Australians reported scams to authorities in 2019.

Scams target people of all backgrounds, ages and income levels across Australia. It is not just the vulnerable, gullible or greedy who fall victim to scams, so it is important for everyone to know what to look out for and how to protect themselves from scammers.

Scamwatch is run by the Australian Competition and Consumer Commission (ACCC). It provides information to consumers and small businesses about how to recognise, avoid and report scams.

Common scams include:

- Pyramid schemes: makes money by recruiting people rather than by selling actual products or services, even if the scheme includes the selling of a product. Participants are usually asked to make a payment to join and are promised payments for recruiting a number of other new participants (who also make payments).
- Phishing: a type of online scam where criminals send an email that appears to be from a legitimate company asking individuals to provide sensitive information. Consumers are asked to click on a link to verify details via what looks like the company's website.
- Online dating scams: romance scammers trick their victims into falling in love with them and then use their victim's trust to deceitfully take their money.

d) Managing your superannuation

Many Australians have various superannuation fund accounts in their names which they might not even be aware of. Data released by the Australian Taxation Office (ATO) reveals there is still about \$17.5 billion waiting to be found!

Each time you start a new job, there is a potential new superannuation fund account created for you – unless you clearly nominate your own superannuation fund choice, each employer has their own default superannuation fund provider they will use. People often lose contact with their super funds when they change jobs, move house, or simply forget to update their details.

It is possible to check super by registering for the Australian Taxation Office's online services via myGov. This allows individuals to see details of all their super accounts (including any lost or forgotten about) and also to consolidate their super into a single fund. People can also search for other unclaimed money, such as forgotten bank accounts, through the Australian Securities and Investments Commission's 'Unclaimed Money Search'.

Exercise 1.5 True or False

Indicate whether each of the following statements is true or false.

1. If you don't transfer your superannuation fund balance within 12 months after you change jobs, it will be given to the Australian Taxation Office	True / False
2. Phishing is a type of scam where a person is asked to share personal information by a source that appears to be legitimate.	True / False
3. Pay Pass and Pay Wave let customers pay without scanning their card and typing in their Personal Identification Number (PIN).	True / False
4. The victims of scams are generally older people with less understanding of technology.	True / False
5. 'Housing affordability' refers to the relationship between expenditure on housing (mortgage payments or rents) and the selling price of houses.	True / False

Review Questions and Activities

- Using examples, distinguish between needs and wants.
- Outline the four factors of production.
- Discuss the reasons for saving.
- Explain two factors which may influence an individual's decision to spend or save their income.
- Think about the goods and services that you have purchased in the past month and complete the following table with examples of those items purchased locally, interstate or globally:

	Examples of goods and services purchased
Local	
Interstate	
Global	

- Identify the reasons people borrow money.
- Jason has \$2000 owing on his Visa credit card which has an interest rate of 17%. Visit <https://moneysmart.gov.au/credit-cards/credit-card-calculator> and find out how long it will take Jason to pay off his card if he only makes minimum repayments.
- Outline three factors that will affect an individual's ability to repay a loan.
- For each scenario below, determine whether there is a valid contract. If not, provide a reason why the contract is invalid:

Scenario	Valid or Invalid
Sam is sixteen years of age and signs up to a phone contract that states he will pay \$29.95 a month for 24 months.	
Tammy signs a document unaware that it is a contract signing over rights to a business idea she came up with.	
Mark signs a contract selling his car. The payment he receives is \$1.	

10. Choose one Australian consumer protection agency or organisation (government or independent). Create a poster which shows the assistance and protection they provide to consumers.
11. Draft a simple valid contract for the sale of a second-hand Sony PlayStation.
12. Visit the Scamwatch website (www.scamwatch.gov.au) and research TWO types of scams. For each scam:
 - a. Identify the type of scam
 - b. Describe the scam
 - c. Explain how an individual could protect themselves from this type of scam
 - d. Extension: Design a poster to advise consumers about scams and how to avoid them.
13. Write a complaint letter to a company regarding a product or service you purchased and were not happy with. Use the template provided.

[Your name]	
[Your address]	
[Email and/or phone]	
Introduction	Dear _____, RE: Complaint about _____ purchased at _____ on _____
Outline that you have a problem with the good or service	
Explain key details of the problem: <ul style="list-style-type: none"> ■ When the problem started ■ If you have contacted the business – note who you spoke to and any results of your efforts. 	
State that you have enclosed copies of relevant documents or proof of purchase (receipt) or repairs, emails, etc.	
How would you like the business to fix/remedy the problem?	
When and how do you want the business to contact you regarding this problem?	
Advise the company of the next step you will take if they do not contact you	
List your contact details.	
Your name with a signature	Yours sincerely,

Enclosed: make a note of any additional documents that will be included with the letter	
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14. Create a short-animated video clip about responsible financial management. Your animation should:

- Use a narrative (story) element to convey the key ideas
- Show information and understandings (with some detail) about:
 - the features of responsibly financial management
 - the consequences of poor financial management
 - the sources of financial advice
- Integrate as many key terms/terminologies as appropriate and relevant to your story/animation
- Be 2-3 minutes long and be interesting, entertaining, informative and engaging
- Some free sites for creating your own animations can be found here: <http://mashable.com/2010/10/27/create-animations-online/#8yvc.9sDGgqz>

Exercise 1.6 Multiple Choice

Select the alternative A, B, C or D that best answers the question.

1. What are the elements of a valid contract?
 - a. Proposal & Acceptance, Intention, Payment
 - b. Proposal & Acceptance, Promise, Payment
 - c. Offer & Acceptance, Promise, Consideration
 - d. Offer & Acceptance, Intention, Consideration
2. If a consumer is seeking redress, they are:
 - a. Trying to damage the reputation of the company
 - b. Trying to remedy their buying situation
 - c. Trying to sue a business
 - d. Trying to get a discount
3. What does ACCC stand for?
 - a. Australian Competition and Company Commission
 - b. Australian Commercial and Company Commission
 - c. Australian Competition and Consumer Commission
 - d. Australian Commercial and Consumer Commission
4. What is the first step when a consumer has a problem with a product they have purchased?
 - a. Take legal action
 - b. Contact a third party
 - c. Contact the seller or service provider
 - d. Contact the ACCC

5. Which of the following is a more common method of payment today?
 - a. Cheque
 - b. Barter
 - c. Lay-by
 - d. PayPal

6. Which group is the main target for scammers?
 - a. Uneducated people
 - b. Elderly people
 - c. High Income earners
 - d. Everyone

7. Which of the following best describes a disadvantage of a credit card?
 - a. Attracting interest charges
 - b. Starting a credit sales contract
 - c. Points/rewards schemes
 - d. Being able to buy now and pay later

8. Which of the following refers to the bank of the person writing a cheque?
 - a. The drawer
 - b. The payee
 - c. The drawee
 - d. The payer

9. Why might a young person contribute to a superannuation fund?
 - a. To save money for his or her first house
 - b. To provide an income when they retire
 - c. To help those less fortunate than themselves
 - d. To make short term gains from speculating on the stock market

10. What is an advantage of borrowing money?
 - a. Paying interest and other charges
 - b. Being overcommitted
 - c. Being able to use the goods while they are being paid for
 - d. Easily increasing your borrowing

Answers

Exercise 1.1:

1. False, 2. False, 3. True, 4. False, 5. True

Exercise 1.2:

1. Complementary goods, 2. Supermarket, 3. Debit card, 4. Legal tender, 5. Direct debit,
6. Disposable income, 7. Bank, 8. Advertising, 9. Superannuation, 10. saving

Exercise 1.3:

1. False, 2. True, 3. True, 4. False, 5. True

Exercise 1.4:

1. Budget, 2. Financial counsellor, 3. superannuation, 4. Prepaid phone, 5. bankrupt, 6. Financial planner
7. TrackMySPEND, 8. Financial stress

Exercise 1.5:

1. False, 2. True, 3. True, 4. False, 5. False

Exercise 1.6

1. D, 2. B, 3. C, 4. C, 5. D, 6. D, 7. A, 8. C, 9. B, 10. C

Core 2

The Economic and Business Environment

1. The Nature of the Economy

Economics is the study of people and the choices they make in their daily lives. These choices centre around what is referred to as the economic problem. This problem is outlined below:

- **Wants are unlimited.** As humans, we generally have no limit to the amount of goods and services we would buy if we had enough money. Given the choice: most people would prefer to buy a car rather than catch a bus; prefer a Mercedes over a Toyota, and prefer to own three cars rather than just one.
- **Resources are limited.** The resources businesses use to create the goods and services that satisfy our wants – everything from natural resources to people – are limited in their supply. Similarly, the money that we as consumers have to buy these goods and services is also limited.
- **We must make choices.** Since our wants are unlimited, but resources are limited – we must ultimately make choices. Each time you go to the canteen, you need to solve the economic problem. You may want a sandwich, a can of Coke and a cream bun. However, you cannot afford them all – so you need to make a choice. In making this choice you will rank your options and then make the decision that best maximises your personal satisfaction.

The **economy** is how we structure our entire society to solve the economic problem. It looks at questions around how we organise people, businesses, the government, financial institutions and our trade with other countries – so that we can best satisfy society's unlimited wants with limited resources.

a) The Circular Flow of Income

When studying the economy, we often use tools that are called economic models. It is important to realise that these models are theoretical and based on a set of assumptions. They are an attempt to simplify a very complicated concept or idea in a way that makes it easier to understand.

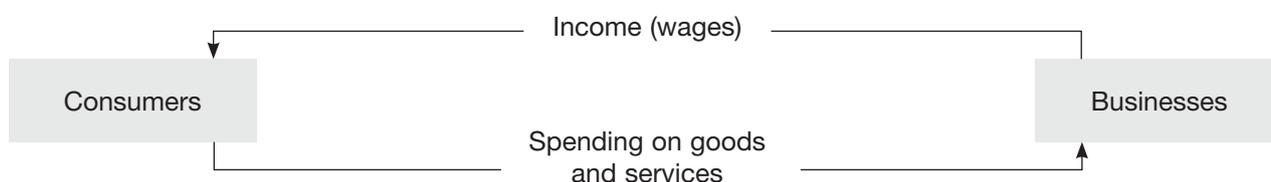
The first economic model that we will investigate is called the circular flow of income. Before we can describe this model, we must first investigate the five sectors that make up the Australian economy, as well as define and outline some of the terms and assumptions and that underpin the model.

Five Sectors of the Economy	
1. Consumers	All individuals in our society are considered consumers. Consumers generally work for businesses, and in return for their labour they are given money or income in the form of wages. When consumers receive income there is two things they can do with it: 1) Spend the money to purchase goods and services 2) Save the money
2. Businesses	Businesses are organisations that transform resources into goods or services with the goal of making a profit. For example, Toyota is a car company that transforms steel, glass, rubber, plastic, etc, into a product called a car.
3. Financial Institutions	Financial institutions are a specific type of business whose main function is to act as an intermediary in the process of saving and lending money. Examples of financial institutions include banks, credit unions, finance companies, insurance companies and superannuation funds. Businesses often need to borrow large amounts of money to expand their operations and they do this through the use of financial institutions.

4. Government	In Australia we have three levels of Government – Local, State and Federal. The key role of government is to supply society with goods or services that businesses do not, or cannot produce. These are known as collective or public goods, and include things such as hospitals, schools, police, roads, parks and recreation facilities.
5. Overseas Sector	Not all goods and services are produced in Australia. In order to satisfy the wants and needs of consumers it is sometimes necessary to import goods from overseas. For example, a Nintendo Switch is imported to Australia from Japan. Conversely, Australia produces some goods which other countries are lacking – we export these goods. For example, Australia exports coal to China.
Terms and Assumptions	
Economic Growth	In order for a nation to flourish and for its citizens to become wealthy, it is expected that an economy should “grow” every year. Each year, an economy should be “bigger” than it was the previous year. In relation to the circular flow of income, growth occurs when more money is moving around the economy.
Injections	Injections are any activity that sees money flow into an economy – thus leading to economic growth
Leakages	Leakages are any activity that sees money flow out of an economy – thus leading to economic decline.

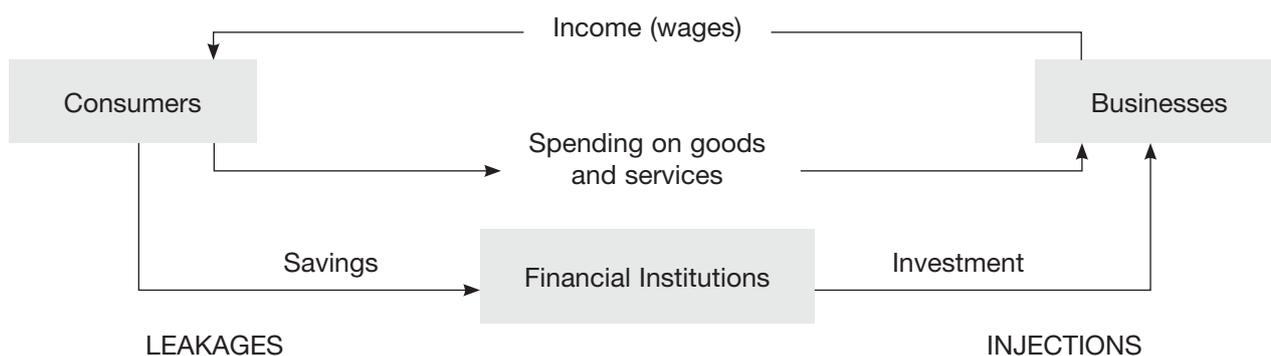
We now have all the terms and assumptions we need so that we can describe the circular flow of income economic model. This model looks at how money flows around the five sectors of the economy to produce either economic growth or decline. We will build the model one step at a time.

Firstly, let’s look at how money flows between consumers and businesses. This is seen in the diagram below:



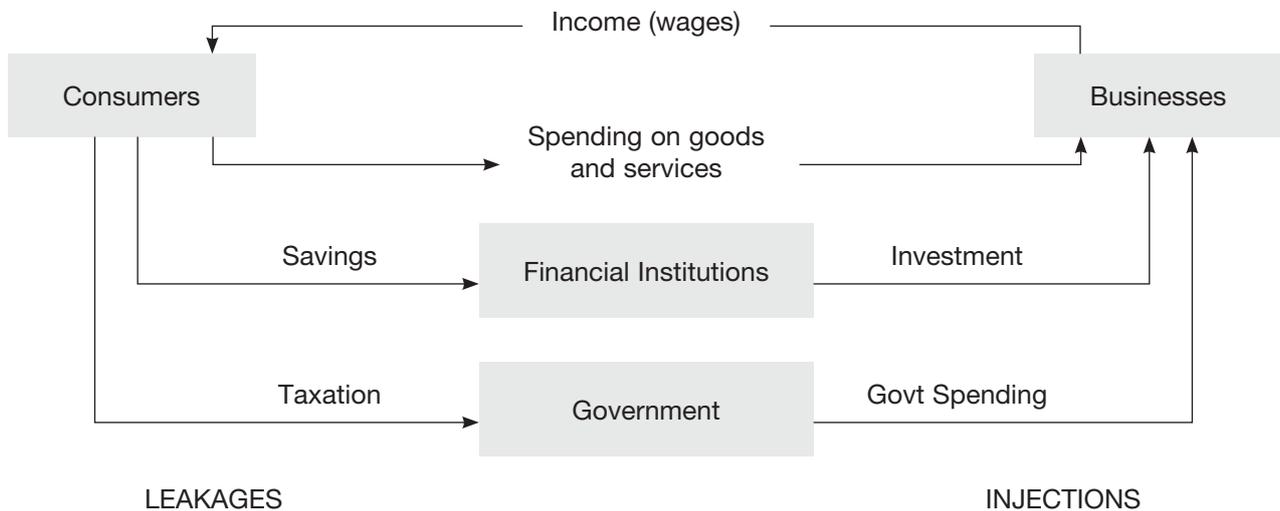
Our model assumes that businesses act as an employer for all consumers – and in return, businesses pay consumers an income in the form of wages. Therefore, money **flows** from businesses to consumers. Our model then assumes that consumers are not very good at saving, and in fact, they spend all their money! Therefore, money flows back from consumers to businesses when they purchase goods and services.

Let’s now add another layer to our model, which makes it slightly more complicated:



Our model now includes financial institutions. This gives consumers the option to save some of their money, thus “removing” it from the economy. This **savings** process is called a **leakage**. Saved money makes its way to a financial institution, such as a bank. The banks have two options in what they can do with the money. Either they keep the money in their vaults, or they lend it out to other businesses. In most cases, lending is what they bank will do, as that is how they make a profit. For example, the bank may lend the money to a business who will use it to build a new factory – this is called an **investment**. When banks put money back into the economy, this is called an **injection**.

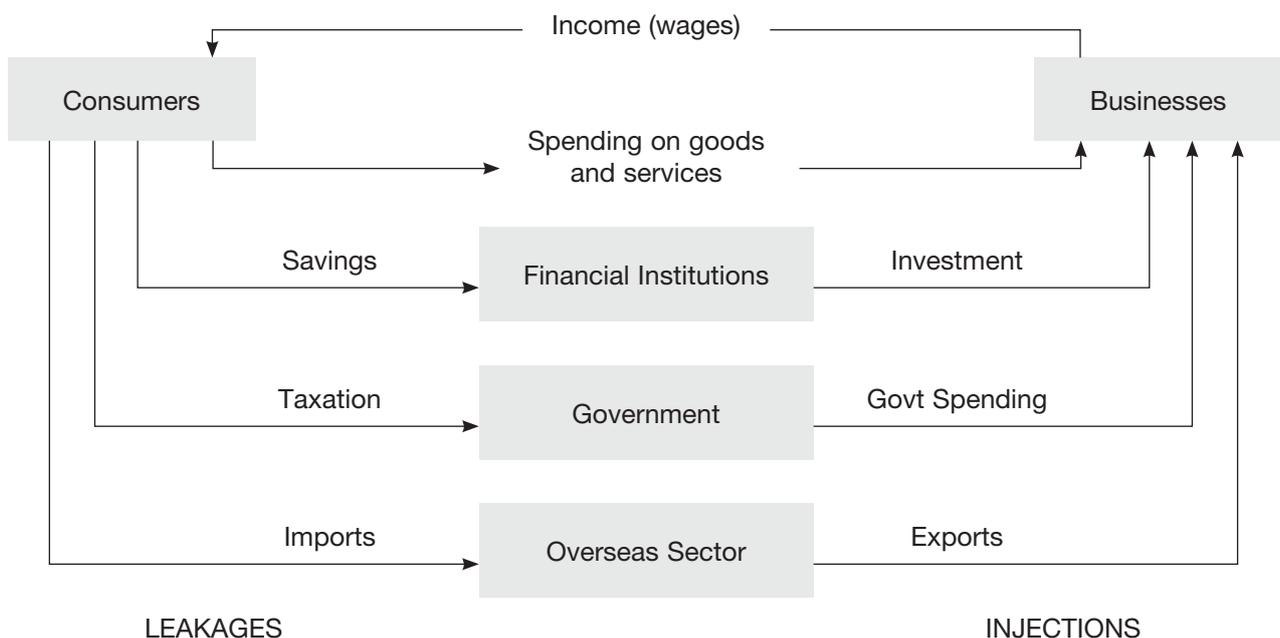
The next layer of our model involves government, and can be seen below:



Government impacts the circular flow of income through the process of **taxation**. When the government imposes a tax on the population, such as income tax or GST, it takes money out of the economy, leading to a **leakage**. However, the government does not tax people just for the sake of it! In most cases, the government will spend the money it collects in taxes on services such as health, education or policing, etc. This **government spending** results in an **injection** of money into the economy.

The final layer of our circular flow of income model involves the overseas sector, and can be seen below:

Five Sector Model – Circular Flow of Income:



The overseas sector is the trickiest to understand, because it is not immediately obvious how imports and exports result in leakages and injections. The best way to think about it is to imagine where the profits flow internationally when a business sells products overseas. For example, when you purchase a Nintendo Switch, you might buy it from JB Hi-Fi in Sydney. However, since this good was imported into Australia, the profits ultimately make their way back to Nintendo which is located in Japan. Therefore, the **import** of a good into Australia leads to a **leakage** of money out of our economy.

The opposite is the case for exports. When BHP exports coal to China, we send them the coal, but they send us money back to Australia in the form of profits. Therefore, the **export** of a good out of Australia leads to an **injection** of money into our economy.

By adding the overseas sector, the circular flow of income model is now complete. However, we need to look at one final aspect of the model – whether the economy is growing or declining.

Five-Sector Circular Flow of Income Model Economic Growth or Decline		
Scenario	Formula	Explanation
Economic growth	$\begin{array}{l} \text{Leakages} \\ \text{Savings +} \\ \text{Taxation +} \\ \text{Imports} \end{array} < \begin{array}{l} \text{Injections} \\ \text{Investment +} \\ \text{Govt. Spending +} \\ \text{Exports} \end{array}$	When the sum of all leakages in the economy is less than the sum of all injections – the increase in the flow of money through the economy will lead to economic growth
Economic decline	$\begin{array}{l} \text{Leakages} \\ \text{Savings +} \\ \text{Taxation +} \\ \text{Imports} \end{array} > \begin{array}{l} \text{Injections} \\ \text{Investment +} \\ \text{Govt. Spending +} \\ \text{Exports} \end{array}$	When the sum of all leakages in the economy is greater than the sum of all injections – the decrease in the flow of money in the economy will lead to economic decline.
Equilibrium	$\begin{array}{l} \text{Leakages} \\ \text{Savings +} \\ \text{Taxation +} \\ \text{Imports} \end{array} = \begin{array}{l} \text{Injections} \\ \text{Investment +} \\ \text{Govt. Spending +} \\ \text{Exports} \end{array}$	When the sum of all leakages in the economy is equal to the sum of all injections – the flow of money in the economy will remain the same, leading to a state of equilibrium.

b) Interdependence between different sectors of the economy

Each sector of the economy is interdependent with other sectors in ways that contribute to economic growth and the stability of our financial system.

■ The Role of the Government in Protecting Consumers

One way in which the Federal Government protects consumers is through an organisation called the Australian Competition & Consumer Commission (ACCC).

The ACCC is an independent statutory authority whose role is to enforce laws contained within the Competition and Consumer Act 2010. These laws aim to protect both consumers and businesses against unfair or fraudulent trade practices.

The ACCC provides numerous educational resources on its website (accg.gov.au) to assist both consumers and businesses in navigating and interpreting the Competition and Consumer Act 2010.

The ACCC also has many useful resources for Commerce students, such as a “Shopper App” which provides information on consumer rights. The website also has an entire section dedicated to making students “mobile savvy” – educating them on their specific consumer rights when purchasing mobile phones and associated mobile phone plans.

Case Study: ACCC Litigation with Oscar Wylee

The ACCC website contains a list of the litigation it has taken against companies who have been accused of breaking Australian Consumer Law. One such recent example is legal action taken against eyewear retailer, Oscar Wylee. This business claims in its advertising that every time a customer buys a pair of glasses from one of its stores, Oscar Wylee would donate a pair of glasses to someone in need. However, the ACCC doubts the validity of these claims. In a recent media release on the case they allege that:

“Oscar Wylee only donated around 3,000 pairs of glasses in the relevant period, despite selling over 320,000 pairs of glasses in that time. We are concerned that consumers may have chosen Oscar Wylee over other eyewear companies because they believed their purchase would result in the providing of glasses to people in need. The ACCC is seeking declarations, penalties, injunctions, corrective publication orders and an order to implement a compliance program.”¹

■ The Role of the Financial Sector in Facilitating Business Investment

Just like people, businesses need to borrow money.

Most businesses are founded through the use of some form of borrowed money, usually from banks. However, even once a business is established and running profitably, it will still need access to borrowed funds to conduct investment.

Some of the reasons a business may wish to borrow money to invest could include:

- Purchase real estate
- Open a new location
- Purchase machinery or inventory
- Develop and launch a new product
- Take over another business

Having a healthy financial sector that is willing to lend money to businesses is critical to a successful economy.

Statistics collected by the Australian Banking Association (ABA) show that in 2019 alone, banks lent around \$1 trillion to large businesses in Australia. Additionally, they lent \$284 billion to small businesses; and \$72 billion to farmers in the agricultural sector. This lending has in part contributed to the success of the Australian economy in recent decades.²

c) The Business Cycle and Its Impact on the Economy

The business cycle refers to the “uneven” nature of economic growth.

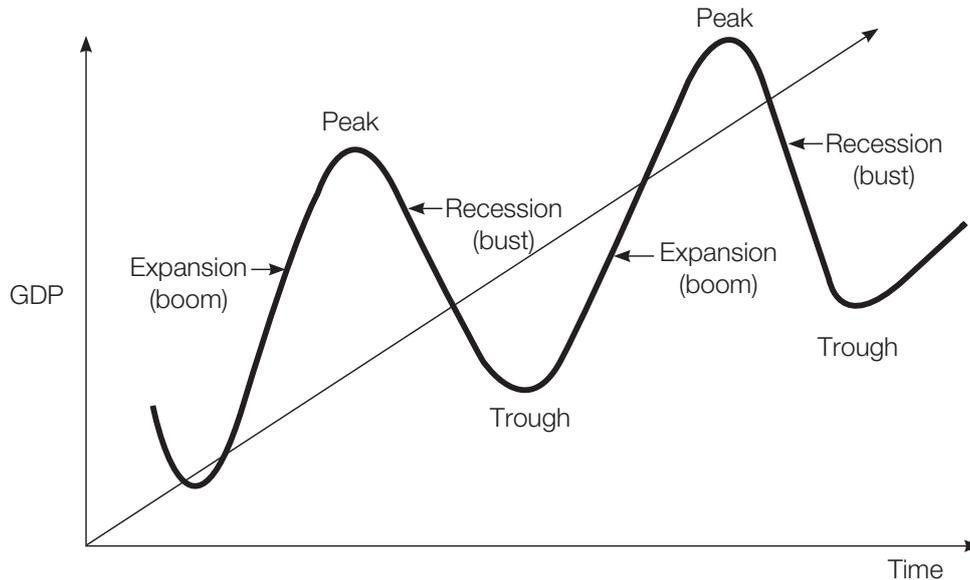
Sometimes economic growth is high, sometimes it is low, and sometimes it is “flat”. We measure growth in an economy with an indicator called Gross Domestic Product (GDP) – which is the total value of all finished goods and services produced in an economy within a given year.

¹ <https://www.accc.gov.au/media-release/oscar-wylee-in-court-for-alleged-misleading-charity-donation-claims>

² <https://www.ausbanking.org.au/wp-content/uploads/2019/12/2019-July-Banking-by-Numbers-web.pdf>

The GDP of Australia in 2019 was approximately \$1.8 trillion. To put this in perspective, imagine if every good or service sold in Australia during 2019 went through one central cash register. Every car, fridge, pizza, iPhone, wheelbarrow, bookshelf, apple and pencil – along with every haircut, legal service, doctor’s consultation and mowed lawn, etc. Well, if we added up all those transactions in that central cash register, it would come to \$1.8 trillion – the GDP of Australia.

The “uneven” nature of GDP growth within the business cycle is represented by the diagram below:



From this diagram we see that economic growth goes through a series of repeating business cycles – economist sometimes refer to this as the ‘boom/bust’ cycle.

1. The economy goes through an expansionary period of high GDP growth, until it reaches the “peak” of the boom cycle
2. The economy then goes into a contractionary period indicated by low, or negative GDP growth – this period is known as a recession
3. The contractionary period continues until the recession reaches a trough (or bottom)
4. The economy then goes back into another period of growth and the process repeats itself

It is worth noting two points about the business cycle.

The concept is historical in nature and has no predictive power. Economists draw graphs like the one above based on ***past*** economic data. Even the most informed economist can’t predict with accuracy what is going to happen in the future!

Just like the circular flow of income, the business cycle is a ***theoretical economic model***. While it might describe the business cycle in most economies, it cannot cater to all possible circumstances. For example, the Australian economy has seen significant downturns (troughs) over the past few decades, but we have not had a “proper” recession since way back in 1991.

The business cycle has various impacts on the economy.

Economic Impacts of the Business Cycle	
Booms	Busts
<ul style="list-style-type: none"> ■ Because people are feeling confident and optimistic about their job prospects, there is lower savings and higher spending ■ Businesses will invest and make more goods – consumption by consumers will rise ■ Because businesses are making more goods they will need to hire more staff – unemployment will fall ■ Staff will be in a good position to renegotiate their salary or find a new job – wages will rise ■ Overall standard of living and quality of life rises 	<ul style="list-style-type: none"> ■ Because people are feeling negative and may fear losing their jobs, there is higher saving and lower spending ■ Businesses will not invest and make less goods – consumption by consumers will fall ■ Because businesses are making less goods they reduce staff numbers – unemployment will rise ■ Staff will be in a weak position to renegotiate their salary or find a new job – wages will fall ■ Overall standard of living and quality of life falls

Exercise 1.1 True or False

Indicate which of the following statements is true or false

1. The ACCC enforces laws contained within the Competition and Consumer Act	True/False
2. We consider an economy to be “healthy” when it shrinks	True/False
3. During a boom people will feel confident about their employment prospects and firms will hire more staff	True/False
4. The economic problem states that wants are limited and resources are unlimited	True/False
5. A recession is also referred to as a “bust”	True/False
6. The five sectors in the circular flow of income model are: consumers; businesses; financial Institutions; society and the overseas sector	True/False
7. GDP does not grow at an even pace and is sporadic	True/False

2. The nature of markets within the economy

a) The Price Mechanism – Demand and Supply

Have you ever wondered why goods and services cost what they do? How does Apple set the price for a new iPhone, and how does this compare with how Coke sets the price for a can of its soft drink? As we shall see, the process of setting prices for both these items is exactly the same. It involves another economics model – this one being called the **price mechanism**. To understand the price mechanism, we need to build the model slowly, starting with the **demand curve**.

As consumers, our want for a particular product can be mapped on diagram called the **demand curve**. Regardless of the product, the demand will look something like the one in Figure 1 below:

Figure 1: Theoretical demand curve

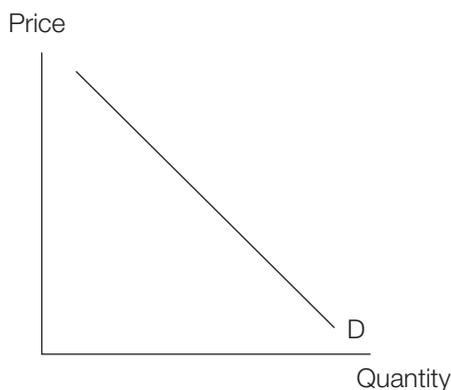


Figure 2: Demand curve for sausage rolls



Figure 1 shows the demand curve in its most theoretical form. If you study the curve, you will notice that it shows the quantity of a good people will want at different prices. It outlines a basic relationship – at lower prices, people will demand more; and at higher prices people will demand less.

The demand curve is a little easier to understand when we apply it to a real-life good or service. This can be seen in Figure 2, which shows the demand curve for sausage rolls. Here, we can see there are three different possible scenarios based on three different price points.

- If businesses charge \$5, consumers will demand 10 sausage rolls.³
- If businesses charge \$3, consumers will demand 30 sausage rolls.
- If businesses charge \$1, consumers will demand 50 sausage rolls.

Just like all economic models – the demand curve is theoretical in nature and based on certain assumptions. These are outlined below:

The demand curve only shows how much **consumers** want at each price point – it does not take into consideration how much businesses are willing to supply at that same price.

The demand curve summarises the total demand for sausage rolls across the **entire** market for the product – this is known as **aggregate demand**.

The demand curve does not necessarily predict the **individual** demand of a specific consumer. For example, perhaps someone in this market is a vegan, or just doesn't like sausage rolls – in this case their demand will be zero, regardless of the price.

Now that we have looked at demand, we must turn our attention to supply. The **supply curve** relates to **businesses**, and how much of a particular good or service they are willing to supply to customers at different price points.

The supply curve looks similar to the demand curve, but all the relationships go in the opposite direction. Remember, when looking at the demand curve we are viewing the situation from the perspective of consumers – but when looking at supply curves, we are looking at the situation from the **perspective** of **businesses**.

³ We are keeping the quantity numbers small for simplicity. But imagine the "10" represents 10,000 sausage rolls sold across Sydney per day.

Two examples of typical supply curves can be seen below:

Figure 3: Theoretical supply curve

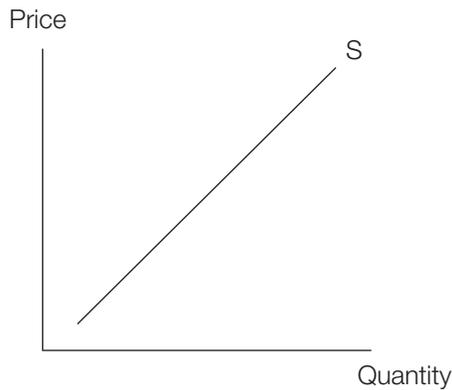


Figure 4: Supply curve for sausage rolls



Figure 3 shows the supply curve in its most theoretical form. If you study the curve, you will notice that it shows the quantity of a good that businesses will supply at different prices. It outlines a basic relationship – at lower prices, businesses will supply less, and at higher prices businesses will supply more.

Just like the demand curve, the supply curve is a little easier to understand when we apply it to a real good or service. This can be seen in Figure 4, which shows the supply curve for sausage rolls. Here, we can see there are three different possible scenarios based on three different price points.

- If consumers are willing to pay \$5, businesses will supply 50 sausage rolls
- If consumers are willing to pay \$3, businesses will supply 30 sausage rolls
- If consumers are willing to pay \$1, businesses will supply 10 sausage rolls

Unlike consumers, businesses like high prices! If prices are high, more businesses are willing to supply the good – and thus the quantity will increase. This leaves us asking the question – which curve do we use when determining the market price – supply or demand? The answer is that we need to look at the interaction of both.

We can see this demonstrated in the diagrams below:

Figure 5: Equilibrium price – theoretical

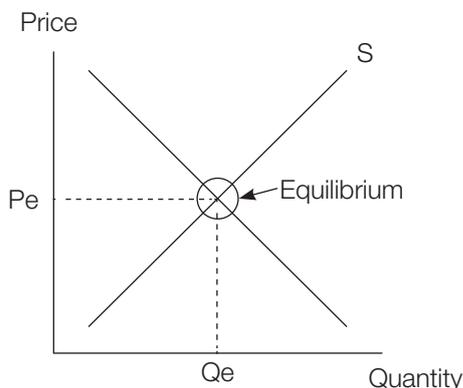
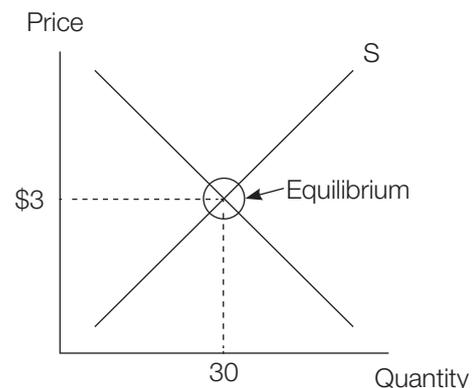


Figure 6: Equilibrium price – sausage rolls



In this final set of diagrams we see supply and demand coming together to form the **price mechanism**. Looking at Figure 5, we see that the demand and supply curves intersect at a specific point called the **equilibrium price**. At this price, the quantity of the good demanded by consumers will equal the quantity supplied by businesses.

Again, this makes a little more sense when we put in some real numbers as can be seen in figure 6. At a price of \$3, consumers will demand 30 sausage rolls, and businesses are also willing to supply 30 sausage rolls. \$3 is the equilibrium price that best satisfies **both** businesses and consumers.

b) The Various Types of Markets

Markets have been around as long as civilisation itself. They are based on the concept that some people in society have a surplus of a certain goods; and wish to trade that surplus with others who have things that they need.

For example, imagine you are a farmer in England in the 16th Century and all you grow is carrots. In this case you may go to your local marketplace and trade carrots with other members of society who have goods that you need. Perhaps you could trade for apples, potatoes, corn – or even pots and pans from the local blacksmith. This is how markets first developed. They were refined over time; and money was eventually introduced as a common medium of exchange to make the whole process easier.

The modern economy has many different types of markets which trade in a wide variety of goods and services. All markets share the following characteristics:

- They bring buyers and sellers together
- They facilitate the exchange of goods and services
- They set prices through demand and supply and the price mechanism
- They ensure the economic problem is solved in the most efficient way possible

Types of Markets Operating in Australia		
Type	Explanation	Examples
Retail markets	This type of market primarily sells goods and services directly to consumers. This can be via physical stores such as shopping centres, department stores, supermarkets, convenience stores and local shops. Goods can also be sold online via the Internet.	<ul style="list-style-type: none"> ■ Westfield ■ David Jones ■ JB Hi-Fi ■ Coles ■ 7 Eleven ■ eBay
Labour markets	These markets are where people trade their labour in exchange for payment in the form of a wage or salary. Generally, the more qualifications, skills and experience that a person has, the more they can charge for their labour.	<ul style="list-style-type: none"> ■ A surgeon is paid a great deal because their labour is considered very valuable in the market
Financial markets	The core function of financial markets involves the depositing and lending of money. Financial markets act as intermediaries for people who have savings and want to earn interest on their money. Such people can invest, with varying levels of risk, through the medium of financial markets.	<ul style="list-style-type: none"> ■ Foreign exchange ■ Bonds and Treasuries ■ Commodities ■ Derivatives – futures, options and swaps
Stock markets	Stock markets (also known as equities markets) are a specific type of financial market. They primarily involve the trading of stocks (also known as shares or equities) in public companies.	<ul style="list-style-type: none"> ■ The Australian Securities Exchange (ASX) trades shares in over 2,000 different companies – including corporate giants such as BHP, Commonwealth Bank and Woolworths

Case Study – Australian Employment in the Retail Market and Financial Market

The retail and financial markets both employ many Australians, but the profile and wage outcomes for workers in these industries are very different. You can see various statistics below which highlight some of the differences. ⁴

Statistic	Retail	Financial
Number of people employed	1,272,300	448,800
Percentage of workforces aged 15-24	32%	7%
Percentage of workforce with no qualifications beyond high school	53%	23%
Percentage of workforce with a university degree	16%	50%
Percentage employed in regional Australia	32%	15%
Average salary	\$45k	\$79K

c) Customary Trading Practices of Aboriginal Peoples and Torres Strait Islander Peoples

Trade amongst Indigenous Australians emerged from a different set of rules and traditions than those which had developed in Europe. In some cases, the foundational assumptions were the same, but in others they were very different. Some of the aspects of Indigenous trade that varied include:

- Traditional ownership rights
- Property rights linked to ritual and spiritual life
- Traditional land and resource management
- Communal sharing rules and complex kin relationships
- Limited food surpluses and storage capacity
- Literacy and knowledge transfer through traditional means
- An ordered “learning by doing” educational system
- Limited government or centralised management of trade

Throughout the rich and complex history of pre-contact Australia, Indigenous Australians participated in many forms of trade. Goods that were considered of high value and were not readily available to all communities were known to be traded over long distances. For example, finely crafted axe-heads from the Gippsland region of Victoria were traded far into inland Australia. Similar historical reports cite that long-range trade in goods which held special cultural or religious significance was common.

Along with trade in physical goods, there were also instances of certain groups temporarily trading “locations”. Under these arrangements, one kinship group would reach an arrangement with another kinship group that was mutually beneficial for both parties. This was known to occur along the Murray River, whereby the traditional owners of “river land” would temporarily swap locations with owners of “interior land”. In this way, rather than goods being brought to people, people were brought to goods. This ingenious idea gave many Indigenous Australians access to resources at certain times of the year which would otherwise have been completely unavailable to them. ⁵

⁴ <https://australianjobs.employment.gov.au/>

⁵ Butlin, N. G. *Economics and the Dreamtime : A Hypothetical History* / N.G. Butlin. Cambridge, U.K. ; Melbourne: Cambridge UP, 1993. Print.

The importance of ritual and spiritual life in relation to Indigenous trade continues to the present day. Indigenous art is one of the most important and valuable sectors of the Australian creative industries. Aboriginal art is admired and purchased not only in Australia, but internationally – and can be found on the walls in many of the world’s greatest art galleries. It is estimated that the trade in Aboriginal Art generates around \$400-\$500 million annually. However, there is much controversy over where this money goes and who profits most, as little seems to make its way back to the communities and artists from where the art originates.⁶

d) Government Intervention in Markets

In the theoretical world of economics, it is assumed that the free market can deliver all the goods and services that a society needs; and that resources will be allocated most efficiently by following the rules of demand and supply. However, there are many instances in reality where this process does not deliver the best outcomes – due to a concept known as **market failure**.

Market failure is based on the concept that under certain circumstances, the self-interest of the players involved in markets will not lead to the best outcome for society as a whole.

An example of market failure relates to pollution from factories. As consumers, we all like products such as mobile phones, but few of us think of the environmental impact of manufacturing such products, especially when this occurs overseas.

Businesses who make the phones are only incentivised to make a high-quality product at the lowest possible cost, and they are rarely rewarded for doing so in an environmentally responsible manner.

Left to its own devices, the market solves one problem very well – making high quality phones that customers want – but if this results in a river being polluted or CO₂ being released into the atmosphere, this is considered “somebody else’s problem”.

Because of market failures, governments often intervene in the economy. They primarily do this through mechanisms such as regulations, taxes, subsidies, and wage/price controls. Different economies around the world rely on government intervention to varying degrees.

Different Models of Government Intervention		
Model Type	Explanation	Examples
Laissez-faire Economy	All economic decisions and allocation of resources is based on market forces of supply and demand. There is no government intervention. This type of economy is largely theoretical in nature.	■ Not applicable
Market Economy	Most economic decisions and allocation of resources is based on market forces of supply and demand. The government only intervenes in the economy when necessary in areas such as education, infrastructure and defence.	■ Singapore ■ United States
Mixed Economy	Economic decisions and allocation of resources is balanced between market forces and the intervention of government. Most goods and services are supplied by private firms, but there is also a strong reliance on social welfare, along with government infrastructure programs.	■ Australia ■ France ■ Norway ■ Canada
Command Economy	All economic decisions and allocation of resources is controlled and planned for by a central government. There is no free market, and in theory the government provides everything its citizens need.	■ North Korea ■ Former Soviet Union and Eastern Europe from 1945 – 1991

⁶ https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Completed_inquiries/2004-07/indigenousarts/report/c03

■ Energy Pricing

The way that energy is supplied and priced across Australia is complex and varies from state to state. Both consumers and businesses rely heavily on the energy sector, and a consistent and affordable supply of gas and electricity is critical to the functioning of our economy and the wellbeing of all Australians.

Case Study: Australian Energy Regulator (AER)

Energy in Australia is supplied by a complex network of profit-making businesses (e.g. AGL, Energy Australia, Origin Energy, etc). However, the industry is regulated by the government in an effort to make prices more affordable and increase transparency within the sector. For example, the Australian Energy Regulator (AER) monitors wholesale and retail energy markets, and energy networks, under national energy legislation and rules. The AER regulates electricity networks and natural gas pipelines by setting the maximum amount of revenue they can earn. The AER does not set retail energy prices, but it does provide a price comparison website, energymadeeasy.gov.au, to help customers find the best energy offers for their needs.

■ Conservation and Environmental Protection

Governments at the local, state and federal level all intervene to protect the environment and ecosystems of Australia. Lack of environmental protection is seen as one of the main failings of laissez faire economics. Governments develop policy, implement guidelines, enforce regulations, develop education plans, fund initiatives, and deliver projects.

Case Study: Department of the Environment and Energy

The Department of Environment and Energy is the federal government department most directly responsible for conservation and environmental protection in Australia. Their goal is to develop and implement policies to protect and conserve the environment and promote climate action.

The department intervenes on regulatory matters such as:

- Environment protection and conservation of biodiversity
- National fuel quality standards
- Air quality and land contamination
- Environmental information and research
- Greenhouse emissions and energy consumption reporting
- Climate change adaptation strategy and co-ordination
- Renewable energy technology development
- Environmental water use and energy efficiency

In 2019 a key focus of the Department was delivering on the Government's pledge to improve Great Barrier Reef water quality; and protect and restore coastal ecosystems and biodiversity. They committed over \$200 million in government funding for water quality improvement, \$58 million for crown-of-thorns starfish control and \$100 million for reef restoration and adaptation science.

Exercise 1.2 Matching

Match the following statements to the correct term in the word bank:

Statement	Term
1. A market that involves the depositing and lending of money	
2. The process by which demand and supply determine the value of a good or service	
3. Under this system all economic decisions are made by the government	
4. The point where demand is equal to supply	
5. This type of market includes Westfield and eBay	
6. This economic diagram is represented by a downward sloping line	
7. This happens when a Laissez-faire economy does not deliver the best outcome for society as a whole	

Word Bank: Demand curve; Financial; Equilibrium; Retail; Command economy; Price mechanism; Market failure

3. Interactions within markets**a) Different types of businesses and their features**

In a mixed economy like Australia, goods and services are largely delivered by businesses, which take many shapes and forms.

Types of Businesses Operating in Australia		
Type	Key Features	Examples
Online	<ul style="list-style-type: none"> ■ Does not have a physical store or “bricks and mortar” retail location ■ Relies solely on the Internet and ecommerce to conduct its operations ■ Sells products suited for shipping to customers by post or courier ■ Many traditional retailers will also have a complementary online presence 	<ul style="list-style-type: none"> ■ eBay ■ Amazon.com ■ Kogan ■ Appliances Online ■ The Iconic ■ Petcircle
On Demand	<ul style="list-style-type: none"> ■ Similar to an online business but usually focussed on selling services rather than goods ■ Do not have conventional employees but rather “gig” workers – contractors and temporary staff who accept jobs when they want via their mobile phone ■ Customers are often busy people who are “time poor” and willing to pay for convenience 	<ul style="list-style-type: none"> ■ Uber + Uber eats ■ Airtasker ■ Airbnb ■ Menulog ■ Deliveroo

Global	<ul style="list-style-type: none"> ■ A very large business that operate in two or more countries ■ Usually “headquartered” in one country, but with operations located around the world ■ If involved in manufacturing, this is normally outsourced to nations with “low cost” labour ■ Also known as Trans National Corporations (TNCs) 	<ul style="list-style-type: none"> ■ Apple ■ McDonald’s ■ Toyota ■ Sony ■ Huawei ■ Westfield ■ BHP
Offshore	<ul style="list-style-type: none"> ■ When a company moves all or part of its operations to another country that has regulations or laws which better suit the business ■ Most common reason for offshoring is to avoid paying company tax ■ Offshoring to avoid tax is not illegal, but many consider it unethical 	<ul style="list-style-type: none"> ■ Apple ■ Google ■ Pepsi
Small scale	<ul style="list-style-type: none"> ■ A business that usually has one owner, turnover of less than \$10 million, and less than 20 employees ■ Serves a narrow market and is usually focussed on one geographic area spanning a few suburbs 	<ul style="list-style-type: none"> ■ Café ■ Bakery ■ Restaurant ■ Newsagent
Large scale	<ul style="list-style-type: none"> ■ A business that is incorporated – often a public company with shares traded on the ASX ■ Revenue is greater than \$250 million and/or employs more than 200 staff ■ Serves a broad market and focusses on a wide geographic area – can be state based or national 	<ul style="list-style-type: none"> ■ Woolworths ■ David Jones ■ Commonwealth Bank ■ Telstra ■ JB Hi Fi
Government	<ul style="list-style-type: none"> ■ A business that is wholly owned and operated by the state or federal government ■ There are many businesses that were once government owned but have since been privatised and floated on the ASX – e.g. Telstra, Commonwealth Bank, Qantas 	<ul style="list-style-type: none"> ■ NBN Co ■ Australia Post ■ Sydney Water
Not for Profit	<ul style="list-style-type: none"> ■ Not to be confused with charities, these are still businesses, but they have a specific purpose or stakeholder group whom they consider “customers” ■ Any “profits” are distributed back to members or the stakeholder group that the organisation serves 	<ul style="list-style-type: none"> ■ HCF Insurance ■ Hostplus Superannuation ■ Australian Medical Association

b) Factors Influencing Business Decisions

Australian businesses must change according to a variety of external factors that are usually out of their direct control – examples include technology, the business cycle and globalisation. The ability of businesses to adapt to these changes can often mean the difference between success and failure.

- Technology is often a major disruptor in business and can create many “winners” and “losers”. New and innovative companies often take over an industry due to their flexibility and the speed with which they can change to adapt to customer needs. Sometimes the established and larger businesses can catch up, but at other times they get left behind because they don’t have the skills or ability to keep up with industry changes.

- The business cycle has a significant impact on decision making. Businesses are more likely to expand and take risks during a boom, whereas during a recession they are more likely to be conservative and focus on their core products. It is worth noting that all sectors of the economy don't necessarily follow the same business cycle. For example, the mining industry may be at a different point in the cycle in comparison to the finance sector. Managers in these respective sectors must therefore make decisions which are most appropriate for their industry at that point in time.
- Globalisation has made the entire business landscape increasingly competitive. Whereas managers in the past needed only worry about domestic competition in their decision-making process, they now need to take into account potential competitors from anywhere in the world. This can be particularly challenging when Australian businesses are not competing on a "level playing field". Overseas rivals will sometimes have "unfair advantages", such as the size of their domestic market, government protection, better access to financial resources, or the benefits of a lower cost base due to cheaper labour in their country.

Case Study – Changing Nature of the Australian Restaurant Industry

Australian consumers have been using food delivery platforms at an exponential rate in recent years – consumers seem to love Uber Eats, Deliveroo and Menulog. With so many households now working long hours and having busy schedules, the option of getting home delivered meals has proved irresistible to many. However, few consumers think of the impact that their actions are having on the restaurant industry as a whole.

Small, independently owned restaurants are one of the most common type of small businesses in Australia and employ many thousands of people around the country. However, the sector is very competitive and thus has small profit margins. Since the introduction of food delivery apps these margins have fallen from 10-20%, to anywhere as low as 2-4%. In the worst case scenario – this means that for every \$100 in sales, the restaurant itself is only making \$2 in profits.

The reason that profit margins have been "eaten" away is because of the hefty fees charged to restaurants by the delivery platforms. These fees can be anywhere from 30-35% of the cost of the food order. On top of this, the platforms also often charge delivery fees directly to the customers using the app. This has left many feeling that the only true financial winners left in the restaurant industry are the platforms themselves – most of which are overseas owned multinational corporations, which means that the profits ultimately leave Australia.

Nobody knows the impact that this trend will have on the long term viability of restaurants in Australia. Many restaurateurs feel trapped by the new technology – they can't afford to use the services, but they can't afford to ignore them either. Some analysts predict the trend may change the nature of the Australian industry so that it becomes dominated by "dark restaurants" – which are food establishments that have been forced to remove all seating and "fire" all their waitstaff in an effort to reduce costs so they can focus entirely on home delivery.

c) Contribution of Entrepreneurship and Innovation

An Entrepreneur is a person who takes a financial risk to set up a business with the hope of making a profit.

Imagine you have just inherited \$100k. What would you do with the money? Some people might save the money or put it towards a deposit to buy a house. Others might spend it on a car, holiday or luxury items. But an entrepreneur would use the money to set up a business.

Although this is a risky way to spend the money, the entrepreneur's mindset is that the initial \$100k investment could be turned into a successful business that one day could be worth many, many times more. This would give them an ongoing income stream, that could then be used for any purpose they wish.

Entrepreneurs play a significant role in business growth and contribute to the general health of the economy. They provide valuable goods and services for their customers, and increase employment through job creation. They also support society as a whole via the taxes on profits that they pay to the government.

All of the world's most successful economies – such as USA, Germany, United Kingdom, China, Japan and Australia – have as strong and vibrant entrepreneurial class that underpin their economic success.

An innovative business is one that produces a new product, method or idea. This specific type of entrepreneurial activity is particularly important to the economy because innovative businesses tend to have the following features:

- Tends to be very profitable
- Tends to be involved in high growth industry sectors
- Replace older industries through innovation
- Creates highly paid “jobs of the future”
- Can be created to remain environmentally sustainable

Innovative businesses tend to be associated with the high tech-sector – but they are by no means limited to that area. Innovation also takes place in areas as diverse as green power, biotechnology, medical research, fitness, lifestyle, finance and entertainment

Case Study: Elon Musk – a 21st Century Entrepreneur

Elon Musk was born in South Africa in 1971 and moved to the United States as a student in the early 1990s. He completed undergraduate degrees in economics and physics, but dropped out of his Ph.D. program to pursue a career in entrepreneurship in 1995. He made his first fortune as a co-founder of PayPal, which was sold to eBay for US\$1.5 billion in 2002. Most entrepreneurs “strike gold” with good fortune like this only once in their careers, but Elon was only getting started.



In 2002 Elon founded Space X, an aerospace company that aimed to make space transportation and travel more affordable. To date the company has conducted 85 successful launches, with most of them utilising “reusable” rocket technology. In 2004 Elon joined Tesla, an all-electric car company. Since its establishment, Tesla has sold millions of electric cars to an initially sceptical market, and in 2019 the business had revenues totalling more than \$US20 billion. One of Elon's “craziest” business ventures is “The Boring Company” which was founded in 2017. Its goal is to solve the traffic congestion in Los Angeles by digging and constructing a series of underground tunnels beneath the city.

d) Ethical Decision Making and Corporate Social Responsibility

The primary goal of any business is to make a profit. However, increasingly businesses are also expected to act ethically and be “good corporate citizens”. Just as an individual can make decisions which result in them being considered an ethical person, so too can a business.

Businesses can make ethical decisions in the following ways:

Staff management	An ethical business will treat its staff fairly and support them in times of hardship. They will see their employees as an “asset” rather than a “cost”.
Business practices	When dealing with other countries, an ethical business will ensure that foreign workers are paid a fair “living wage” based on local conditions. They will also ensure that they don’t directly or indirectly support practices such as “sweatshops” or child labour.
Environment	An ethical business will ensure that it minimises its carbon footprint and production of waste and/or pollution.
Social Issues	Ethical businesses involve themselves in charitable and social justice work – such as fighting for the rights of refugees; or working to assist Australia’s Indigenous community.

Corporate Social Responsibility (CSR) is a business strategy whereby ethical decision making is considered a top priority and is incorporated throughout the entire business. The benefits of implementing CSR include:

Differentiation from competitors	Whilst many businesses say they want to act ethically, few have the leadership and commitment needed to fully incorporate the CSR strategy. Those which do can make themselves stand out from their competitors.
Motivated staff	Given the opportunity, most people would prefer to work for an ethical business. Staff working at such companies tend to be highly motivated, which means they ultimately produce better goods and services for the business.
Satisfied customers	Many people prefer to purchase goods and services from ethical businesses. Such people will be prepared to pay the higher prices needed to produce ethical goods; and will be more likely to remain loyal customers.
Improved profitability	While CSR is expensive to implement in the short run, it pays for itself in the long run due to motivated staff and satisfied customers.

Case Study: IKEA and Corporate Social Responsibility



Furniture and homeware store IKEA is known for its low prices – but the company believes this should never come at the expense of unethical business behaviour. IKEA considers CSR one of its top priorities and implements the strategy in the following ways:

- Products must be manufactured under acceptable working conditions by suppliers who take responsibility for the environment
- IKEA supports sustainable forestry and their long-term goal is to source all wood in the IKEA range from forests certified as responsibly managed
- IKEA owns and operates 327 wind turbines around the world and have invested in 730,000 solar panels on its buildings worldwide.
- Their restaurants integrate practices to eliminate food waste – with the goal of 0% of food waste going to landfill
- They aim to create a positive social impact for all external businesses that supply their stores. They will only do business with suppliers who offer safe working conditions, and promote the values of equality and inclusivity.

Exercise 1.3 True or False

Indicate which of the following statements is true or false

1. During an economic boom, businesses are more likely to be conservative and focus on their core products	True/False
2. Because businesses make a profit and use natural resources, they can never be considered ethical	True/False
3. Implementing a strategy of Corporate Social Responsibility (CSR) will generally cost a business money in the short term, but can lead to increased long term profitability	True/False
4. A “Large Scale” business has revenue greater than \$250 million and/or employ more than 200 staff	True/False
5. “Offshore” businesses are usually established to avoid paying company tax	True/False
6. Uber Eats has improved the profitability of the Australian restaurant industry	True/False
7. Innovative businesses tend to be involved in high growth industry sectors and create well paid jobs	True/False

4. Current Issues

In this section we will examine a series of case studies which relate to economic events or developments in society that have had a major impact on Australian consumers and/or businesses. The case studies we will explore should be considered a starting point, and you are encouraged to research each topic further.

You can also choose to research a different event or topic that particularly interest you. When conducting research, you need to consider the cause of the event, how the event impacted Australian consumers and business, and how people and society have responded to the event.

a) Reasons for Deregulation of a Particular Australian Industry

Following the end of the Second World War, Australia was known as the “the lucky country” and went through several decades of unprecedented high economic growth and prosperity. But as the nation entered the 1980s, this “luck” was starting to run out. When Bob Hawke was elected Prime Minister in 1983 the country was in the middle of a recession and suffered from both high unemployment and inflation. Australia had fallen behind the rest of the world and was losing its international competitiveness. In partnership with his Treasurer, Paul Keating, a plan was developed to turn the country around.

Central to this plan was the concept of financial deregulation. This process involved removing any laws, regulations or barriers to doing business in Australia – with the aim of making the nation more internationally competitive. Some deregulation policies that were implemented by the Hawke/Keating Government of the 1980s include the following:

- Changing the way in which wages were negotiated between unions and businesses
- Reduction of tariffs – i.e. taxes on imported goods
- Removal of regulations in the finance sector that controlled interest rates and bank lending criteria
- The commencement of privatisation of many government businesses – resulting in eventual the sale of Telstra, Qantas and Commonwealth Bank in the 1990s

However, many economists argue that the most important deregulation policy put in place during this period was the floating of the Australian dollar. Prior to this reform, the government controlled the value of the dollar through a complex process of financial manipulation by the Reserve Bank. Many believed that this process of currency valuation hampered the economy and stopped it from being able to react to events in the global economy.

The currency was officially “floated” on 9 December 1983 – bringing the country into line with most other major economies around the world at the time, such as the USA, West Germany and Japan. From this time onwards, the value of the dollar would no longer be controlled by the government, but rather, by international market forces of supply and demand. Since the initial float, the Australian dollar has fluctuated from a low of 47.75 US cents in April 2001 to a high of US\$1.10 in July 2011.

The foundations of economic reform laid by the Hawke/Keating government opened up Australia to foreign investment and linked us more closely with economies throughout the Asia Pacific region. The impacts of the reforms contributed to a boom in the economy during the 1990s; and continue to positively impact our economy all the way through to the present day.

b) Consequences of the 2008 Global Financial Crisis

The Global Financial Crisis (GFC) began at the end of 2007 in the United States. It was initiated by a slump in US property prices that led to record levels of defaults in American home loans – i.e. households could no longer afford to pay their mortgages and were forced to sell their homes for whatever they could get. Across the country as a whole house prices fell by 33% during 2008, but in some regions and states they completely crashed by 80-90% or more.

Problems in the housing sector quickly spread to other parts of the economy, most notably the fiancé sector, who for years had been giving Americans access to cheap and risky home loans which were now all turning bad. Like a set of dominos, major financial institutions on Wall Street went bankrupt and the US Stock market began to crash – the entire US economy was in crisis and a financial panic soon spread around the world.

Remarkably, whilst the GFC did impact Australia in several negative ways, we largely escaped the worst of the crisis. In large part this was due to the Federal Government’s response to the event, and the policies they put in place to try and avoid an economic downturn from occurring in Australia. The cornerstone of their response was a series of stimulus packages in which the government deliberately spent large amounts of money in order to “prop up” or “kickstart” the economy.

The first stimulus package announced in late 2008 was worth \$10 billion and included:

- \$4.8 billion in extra payments to pensioners
- \$3.9 billion in support payments for families
- \$1.5 billion in funding support to first home buyers
- \$187 million to create new training positions

As the GFC worsening moving into 2009, the government announced a second stimulus package, this time worth \$42 billion. It included spending on items such as:

- \$26 billion for infrastructure
- \$2.7 billion in small business tax breaks
- \$12.7 billion in cash bonuses for taxpayers

The last item on this list proved to be especially popular with voters, as effectively the government gave every Australian (as long as they earned less than \$80k per year) a one-off payment of \$950 into their bank account.

This gives an indication of just how seriously the government was taking the crisis – they were literally handing out money in the hope that people would spend it to get the economy moving again.

c) The Emergence and Influence of Global Companies in Australia

A duopoly is when two businesses dominate a particular market – think of Coke and Pepsi, iOS and Android, or Visa and Mastercard. For many years the Australian supermarket industry was largely a duopoly consisting of Woolworths and Coles, but all this changed when the German supermarket discount giant ALDI entered the Australian retail market back in 2001.

With the opening of its first stores in the Sydney suburbs of Marrickville and Bankstown, ALDI brought with it much needed competition to the Australian supermarket industry. ALDI is able to offer lower prices due to the unique way that it sells groceries. They save on costs in the following ways:

- Their stores are smaller than traditional supermarkets and located in cheaper locations within particular suburbs
- They avoid stocking “big name” brands wherever possible – and instead rely on their “private label” products
- They offer a smaller selection of items which means they can negotiate bigger discounts for customers
- Most stock is brought out on pallets which reduces time and money spent stocking shelves
- They have fewer workers – but actually pay them more, which keeps them highly motivated.
- They spend minimal amounts on advertising in comparison to other supermarkets

Through these cost savings measures it is estimated that ALDI sells equivalent items 13% cheaper than its major competitors. Furthermore, a recent report by consulting firm PwC estimates that ALDI customers save an estimated \$2.2 billion per year compared to those who shop at Woolworths and Coles. Additionally, it is estimated that ALDI has contributed over \$18 billion to Australian GDP since it commenced operations in Australia.

d) An Issue Relating to the Activities of a Transnational Corporation (TNC)

Most of us use Google services every day. Whether it be their search engine, Gmail, Google Maps, YouTube – or their range of productivity tools within G-Suite: Docs, Sheets, Drive and Classroom, etc. As consumers we all think that “Google is free”, and for the most part – it is free to end users.

However, last year Google had revenues of \$US136 billion and made a profit of over \$US30 billion, making it one of the world’s most profitable and valuable companies. So how does Google make all this money when it is giving away its services for free? The answer is advertising. Businesses all around the world spend billions and billions of dollars to advertise on the Google platform.

The genius behind “Google Ads” is that it allows customers to find business advertising without even trying. This is because when setting up Ads with Google, businesses include a list of keywords that they would like associated with their good or service. Then, when a Google user searches the Web using one or more of those keywords, the Ad appears on the sidebar of the Google page – or if the business pays more, as the top search result.

Online advertising is now big business in Australia – with companies spending over \$8 billion each year to obtain customers via the Internet. This represents more than half of all advertising in Australia. However, the vast majority of Australian online advertising revenue is going to overseas companies such as Google and Facebook. The ACCC estimates that for every \$100 spent on online advertising last year: \$47 goes to Google; \$21 goes to Facebook, and only \$32 goes to all other remaining websites.

This trend has had both positive and negative impacts on Australian businesses. The most pain has been felt in the traditional media sector – television, radio and newspapers. These industries were once a powerhouse and driving force in the Australian economy, and just like Google, they made most of their revenue from advertising. However, with all this money now moving online, these traditional media platforms have all faced a steady revenue decline over recent decades.

As Australian media companies slowly disappear, it has left many wondering who will be left to report on local Australian news if traditional channels are no longer profitable due to the new online models. Does Google or Facebook care about telling our stories with an Australian voice and perspective?

Exercise 1.4 Matching

Match the following statements to the correct term in the word bank:

Statement	Term
1. The activity through which Google makes most of its profit	
2. When the value of a country's currency is determined by supply and demand	
3. When two large businesses dominate the market for a good or service	
4. Businesses such as newspapers, radio, and television stations	
5. Removing laws and barriers to business	
6. When the government spends money in an effort to promote economic growth	
7. A major economic event that began in the USA in 2007	

Word Bank: Stimulus package; Floating; Traditional media; Global Financial Crisis; Advertising; Deregulation; Duopoly

Review Questions and Activities

- Draw the five-sector circular flow of income model in your workbook with pen. Then use pencil to allocate the following dollar amounts against each of the six leakages and injection (\$10m, \$20m, \$30m, \$30m, \$40m, \$70m). Experiment with allocating the numbers until you can demonstrate the following three scenarios with the numbers you have been given: growth; decline; equilibrium.
- Go the "Media Releases" section of the ACCC website. Browse the list and find a topic that interests you. Write a short summary of the media release. You can use the following as a scaffold:
 - Who was the company, organisation or issue that is under investigation?
 - What are the key issues and why are they important?
 - What role or actions were taken by the ACCC?
- ICT Activity – Use an electronic diagramming tool to draw your own version of the Business Cycle diagram. Extension: Try to include some extra detail onto the diagram relating to the economic impacts of the Business Cycle.
- Write a 2-page extended response explaining the following statement: "In a market economy, prices are set via the interaction of the forces of demand and supply". Be sure to use diagrams to enhance your explanation.

5. Norway is a country that intervenes in its economy to a great extent. This is in part due to the high wealth of this Nordic nation. Conduct some research into the Norwegian Sovereign Wealth Fund (www.nbim.no). Be sure to outline the history of the Fund, why it was established, how much it is worth, and where the money in the Fund is invested. Create a PowerPoint or Google Slides presentation to summarise your findings.
- Note 1:** There is a section on the nbim website which has an interactive global map of where the Fund invests its money. Be sure to explore this map and include findings in your report.
- Note 2:** The nbim website lists currency amounts in both US dollar and the Norwegian krone. Be sure to use US dollar amounts in your report.
6. ICT activity – Use the information in the table “Types of Businesses Operating in Australia” to create a crossword. When you are done, print your crossword and ask a classmate to try and solve it.
- Note:** Use Google to find a free electronic puzzle-maker online
7. Conduct a class debate on the following topic: “Uber Eats has had more positive than negative effects on the Australian restaurant industry”
8. Amazon.com is an example of a business that has used technology to disrupt the traditional “bricks and mortar” retail industry. Write a research report on the business. Be sure to include the following:
- History of the company and facts about its founder
 - How Amazon incorporates technology into its business operations
 - Why Amazon has been more successful than other online retailers
 - The impact Amazon has had on traditional retailers
 - The success and failure of Amazon outside the USA
 - Controversies and criticisms of Amazon in the media

Exercise 1.5 Multiple Choice

1. Which of the following is the best definition of an economy?
- a. The price mechanism via the interaction of supply and demand
 - b. Policies in relation to national spending and Gross Domestic Product
 - c. The nature of economic growth, economic decline and equilibrium
 - d. How we structure society to solve the economic problem
2. In relation to the circular flow of income, under which circumstance will economic growth occur?
- a. When leakages are less than injections
 - b. When leakages are greater than injections
 - c. When leakages are equal to injections
 - d. When leakages and injections move in different directions
3. Which of the following is not true in relation to the Business Cycle?
- a. The Business Cycle is a theoretical economic model
 - b. The Business Cycle can be applied to all economies at all times
 - c. The Business Cycle is based on past economic data
 - d. The Business Cycle contains peaks and troughs in economic growth

4. The point at which the supply curve intersects with the demand curve is known as:
 - a. Price
 - b. Equilibrium
 - c. Quantity
 - d. Continuum

5. Which of the following is not a feature of financial markets?
 - a. Involve the depositing and lending of money
 - b. Involve people investing with varying levels of risk
 - c. Rely on people trading their labour for a salary
 - d. Include derivatives such as futures and options

6. Indigenous trading practices developed in pre-contact Australia over many thousands of years. Which of the following is a unique feature of these trading practices?
 - a. Trade occurs between groups who have surplus goods
 - b. Benefits can be obtained from trading relationships
 - c. Property rights linked to ritual and spiritual life
 - d. Trade involves a certain level of trust

7. Which of the following best defines an “On Demand” business
 - a. Is wholly owned by the government pays high wages
 - b. Has a turnover of more than \$250 million
 - c. Is located in many countries and pays no company tax
 - d. Sells services online and employs “gig” workers

8. Beth has just left school and wants to become a hairdresser. She plans to open her own salon as soon as she can. Which two terms best describe Beth:
 - a. Entrepreneur and innovator
 - b. Entrepreneur and risk taker
 - c. Entrepreneur and employee
 - d. Entrepreneur and wage earner

9. The Hawke/Keating government of the 1980s implemented many economic deregulation reforms. Which of the following do many economists argue was the most important of these reforms?
 - a. Floating the Australian dollar
 - b. Changing the process for wage negotiations
 - c. Modifying the rules and regulation for banks
 - d. Reducing taxes on imported goods

10. Australia largely escaped the worst effects of the GFC in part due to swift policies implemented by the Australian government. Which of these policies was most important in minimising negative effects of the GFC on the Australian economy?
 - a. The building of new dams and power stations
 - b. Cash payments given directly to struggling farmers
 - c. The two stimulus packages announced in 2007/8
 - d. Inspirational speeches given by the Prime Minister

9. Conduct internet research into the following businesses (Westpac, Commonwealth Bank, Qantas, BHP) to find out information on their activities relating to Corporate Social Responsibility. Create a mind map to summarise your findings.

10. Research and write your own case study on one of the following topics:
 - Reasons for deregulation of a particular Australian industry
 - Consequences of the 2008 Global Financial Crisis
 - The emergence and influence of global companies in Australia
 - An issue relating to the activities of a transnational corporation (TNC)

Answers

Exercise 1.1

1. True, 2. False, 3. True, 4. False, 5. True, 6. False, 7. True

Exercise 1.2

1. Financial, 2. Price mechanism, 3. Command economy 4. Equilibrium, 5. Retail, 6. Demand curve, 7. Market failure

Exercise 1.3

1. False, 2. False, 3. True, 4. True, 5. True, 6. False, 7. True

Exercise 1.4

1. Advertising, 2. Floating, 3. Duopoly, 4. Traditional media, 5. Deregulation, 6. Stimulus package,
7. Global Financial Crisis

Exercise 1.5

1.D, 2.A, 3.B, 4.B, 5.C, 6.C, 7.D, 8.B, 9.A, 10.C

Core 3:

Employment and Work Futures

1. Work and Wellbeing

Working is good for our health and wellbeing. It contributes to our happiness, helps us to build confidence and self-esteem, and rewards us financially. It is beneficial for a society to have as many people in work as possible, because work contributes to their well-being as well as being great for the economy by increasing consumer spending and stimulating economic growth.

a) The relationship of work to quality of life

■ Disposable income

Working provides us with money to support ourselves and survive. Disposable income is the amount of money that households have available for spending and saving after paying taxes. Individuals spend disposable income on necessities, such as housing, food, bills and transportation (compulsory costs of living). Discretionary income is the money that remains after paying all necessary expenses. People spend discretionary income on what the income earner chooses like vacations, restaurant meals, Netflix etc or, alternatively, it can be saved. Discretionary income is the first to shrink amid a job loss.

■ Health

People in work tend to enjoy happier and healthier lives than those who are not in work. There is extensive scientific evidence of the positive effects work has on physical and mental health and well-being – we recover from sickness quicker and are at less risk of long-term illness and incapacity.

As we spend 60% of our waking time at our workplace it is important that employees feel physically and mentally healthy, safe and valued at work, so they can perform at our best and flourish in other aspects of life. Work-life balance is an important aspect of a healthy work environment. Maintaining work-life balance helps reduce stress and helps prevent burnout in the workplace. Chronic stress is one of the most common health issues in the workplace. It can lead to physical consequences such as hypertension, digestive troubles, chronic aches and pains and heart problems. Chronic stress can also negatively impact mental health because it's linked to a higher risk of depression, anxiety and insomnia.

■ Household economic well being and being able to manage a household

The household's financial position has a significant impact on well-being. Being employed enables households to acquire the goods and services required to meet their needs and maintain an acceptable standard of living. This includes the consumption of food, clothing, housing, education and leisure activities. Not working increases the risk of households experiencing financial difficulties in times of need or unexpected expenses, such as not being able to pay for necessities or find funds if there is an emergency.

■ Superannuation accrual

Working helps you accrue superannuation for your retirement because your employer pays 9.5% of your salary into a super fund. You can also top up your super by making your own contributions. The money deposited into your superannuation account is then invested, and the growth reinvested, to help the balance grow. The idea is that, when you retire and no longer receive an income, you can access your superannuation, rather than relying solely on the age pension, to support your lifestyle.

b) Contributing to an individual's self-esteem and non-material living standards

Self-esteem or self-worth is the belief that you are an important and worthy person. Working increases a person's self-esteem because it makes you to feel important. Work is central to individual identity, social roles and social status. Unemployment is detrimental to self-esteem because it destroys the self-respect and social relationships created by work. Being in work:

- Keeps us busy, challenges us and gives us the means to develop ourselves;
- Gives us a sense of pride, identity and personal achievement;
- Enables us to socialise, build contacts and find support

c) The redistribution of income through taxation and government expenditure

Income redistribution is an economic practice which is aimed at levelling the distribution of income in a society by transferring income from the rich to the poor. It is aimed at alleviating the social vices and the cost of extreme poverty.

Government budgets redistribute income between high and low-income households. The Australian government reduces the gap between rich and poor by raising much of their revenue via income tax which is a progressive tax. A progressive tax takes a progressively higher proportion of tax from people's income as incomes get higher.

Redistribution of income is also done on the spending side of the budget. The Australian government uses tax revenues to redistribute income and provide different types of assistance to groups in the economy to improve their standard of living. Spending on social security and welfare accounts for more than a third of the Commonwealth budget. These government benefits deliver payments and services for many different groups in Australia. Some are in cash like social security payments and include:

- Seniors (pension)
- Job seekers (Newstart)
- Students and trainees (Youth Allowance, Austudy)
- Families & parents (Single Parent, Baby Bonus, Low Income)
- Carers (Carers Allowance)
- Parents
- People with disability (Disability Support)

Government benefits also include healthcare (subsidised doctors and pharmaceuticals, free public hospitals, subsidised private insurance), subsidised aged care and childcare, plus pre-school, school, technical and university education.

2. The Workplace

a) Types of work and work arrangements

There is an estimated 11.6 million employed persons in Australia. There are 8 types of employment arrangements.

Type of Work	Features
Fulltime	<ul style="list-style-type: none"> ■ Most common type of employment. About 68% of employees are working full time ■ Has ongoing employment and works 38 hours or more a week depending on the job or industry ■ Entitled to several entitlements such as annual (holiday), sick, and carer's and long service leave.
Part-time	<ul style="list-style-type: none"> ■ Are also permanent employees ■ Usually work regular hours each week but fewer than full time employees ■ Entitled to the same benefits as a full-time employee, but on a pro rata basis (based on how many hours they work each week).
Casual	<ul style="list-style-type: none"> ■ Work on an irregular basis as needed ■ Hours may vary from week to week and there is no expectation of ongoing work ■ Entitled to a higher hourly pay rate than equivalent full-time or part-time employees. This is called a 'casual loading' and is paid because they don't get entitlement such as sick or annual leave.
Self-employed	<ul style="list-style-type: none"> ■ Work for themselves instead of working for an employer ■ Make up about 9% of all employed persons in Australia ■ Unlike employees, the self-employed negotiate their own fees and working arrangements, and can work for a variety of clients at one time
Unpaid	<ul style="list-style-type: none"> ■ Involves no monetary payment and can take on different forms including vocational placements, unpaid internships, unpaid work experience and unpaid trials ■ Gives a person experience in a job or industry and tests a person's job skills
Voluntary	<ul style="list-style-type: none"> ■ Involves no monetary payment and involves a person volunteering time and effort to a not-for-profit organisation like Rural Fire Service (RSF), State Emergency Service (SES) ■ Over 6 million Australians over the age of 18 participate in volunteer work, about 6% of the population.
Apprenticeship	<ul style="list-style-type: none"> ■ Combines paid on the job training and formal study at TAFE or registered training organisation ■ Receive a nationally recognised qualification ■ Allows you to learn a trade in exchange for a relatively low wage (depends on the level of skill and trade you choose)
Traineeship	<ul style="list-style-type: none"> ■ Also gains hand on skills and working experience while also earning a wage ■ Receive a nationally recognised qualification ■ Usually lasts for 12 months ■ Usually in a non-trade area

Case Study: New South Wales Rural Fire Service

The NSW RFS is a volunteer-based firefighting agency and is the primary agency for responding to bushfires in NSW. Volunteering with the NSW RFS offers the opportunity to learn new and valuable skills. The NSW RFS provides training and education opportunities to all members free of charge, giving you the knowledge and skills to work safely. As a Registered Training Organisation, the NSW RFS offers nationally accredited qualifications. It is also an opportunity to support your community and meet new people.



Exercise 3.1

Indicate whether each of the following statements is true or false.

1. Unpaid and voluntary work is labour that does not receive any direct remuneration	True/False
2. Part time employees are engaged on an irregular basis	True/False
3. Casual employees are entitled to sick leave	True/False
4. Self-employed workers generally find their own work	True/False
5. Each type of employment option has advantages and disadvantages	True/False
6. Apprenticeships and traineeships are formal on-the-job training arrangements between an employer and an employee that can lead to a nationally recognised qualification	True/False
7. Full time workers work 38 hours or more per week	True/False
8. Casual workers earn more per hour through casual loading	True/False

b) Sources of Income

Income is money that is earned from doing work or received from investments. There are several sources.

Source of Income	Features
Wages	<ul style="list-style-type: none"> ■ Employee remuneration based on the number of hours worked, multiplied by an hourly rate of pay. These hourly rates of pay are usually linked to minimum rates outlined within an Award. ■ If a wage earner works extra hours outside of normal hours or under abnormal conditions (overtime) they are often paid at a higher hourly rate called a penalty rate. ■ Your pay can fluctuate from week to week depending on the hours you work and there is opportunity for you to earn more if you work more than your contracted hours.
Salary	<ul style="list-style-type: none"> ■ Remuneration of an agreed annual amount, paid at agreed intervals (i.e., monthly or fortnightly) ■ Is essentially outcome and task focused rather than being focused on working a set number of hours ■ Number of overtime hours you put in is irrelevant to your pay

Commissions	<ul style="list-style-type: none"> ■ Fees earned by brokers, salespeople and agents in making a sale or closing a deal ■ Can be a percentage of a sale, or they can be a flat amount based on the sales volume ■ To ensure that these workers earn some regular income, they are usually paid a retainer (fee paid in advance to someone to secure their services).
Profit	<ul style="list-style-type: none"> ■ Income from a business venture ■ Money left over from sales revenue once all expenses are paid
Bonus	<ul style="list-style-type: none"> ■ Financial compensation that is above and beyond the normal payment expectations ■ Traditionally given to exceptional workers ■ Designed to incentivise and boost employee productivity
Dividends	<ul style="list-style-type: none"> ■ Portion of a company's profit that it decides to pay out to shareholders, in return for their investment ■ Most companies listed on the ASX elect to pay dividends twice a year ■ Amount decided by the Company's Board of Directors (usually expressed as cents per share)
Interest	<ul style="list-style-type: none"> ■ Return earned by investors for depositing their savings with a financial institution (banks and credit unions)
Rent	<ul style="list-style-type: none"> ■ Income received by way of leasing residential, commercial or industrial property.
Welfare payments	<ul style="list-style-type: none"> ■ Social Security payments from the Federal government (Department of Human Services) including pensions, unemployment benefits, family allowance, Austudy etc

c) Changes in the Nature of Work and Workplace Arrangements

Imagine you went to sleep and woke up to a workday in 1960. How different is your work life today, compared to what it was 40 years ago? The nature of work has changed dramatically. Work is now more complex, more team based, more dependent on technological competence, more time pressured, more mobile and less dependent on geography.

■ Patterns of employment

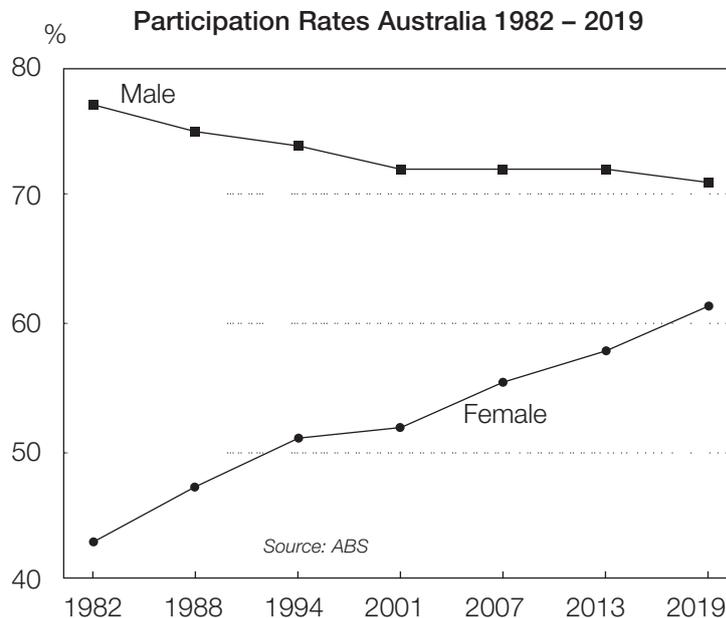
The changing structure of work has transformed the three traditional work sectors (re-orientation of the labour market towards the service sector). The number of employees employed in the primary sector (mining and agriculture) and the secondary sector (manufacturing) has fallen. These have been traditionally male dominated jobs. This is due to improvements in technology requiring less labour in these sectors. Also, globalisation and falls in protection have resulted in Australians obtaining more manufactured goods from overseas particularly Asia where they have a competitive advantage helped by their lower labour costs. The tertiary (service sector) now employs well over 80% of all jobs. This covers jobs in professional and community services, communications, business and hospitality.

The top 3 growth industries by 2025 have been identified as:

- Health care and social assistance (nurses, aged care, paramedics, doctors, anaesthetists, therapists, chiropractors, osteopaths etc.)
- Professional, scientific and technical services (accountants, engineers, programmers etc.)
- Education and training (teachers, psychologists, childcare workers, university lectures etc.)

One of the big advantages of most of these types of jobs is they cannot be outsourced (contracted out).

There has been an increase in the labour force participation rate (total number of Australians who are currently employed or in search of a job). This increase has been driven by higher participation of females (particularly those aged between 25 and 54 years) and older Australians.



There are significantly more women in the workforce. In 1982 the female participation rate was 43% (males 77%) and by 2019 had increased to 61% (males 71%). This has been driven by increased job opportunities (rise of the service sector), access to higher education and economic necessity (increased cost of living). This has influenced the nature of family life has increased the demand for childcare services. Employees have had to implement family friendly practices such as flexible working conditions to keep their good female staff.

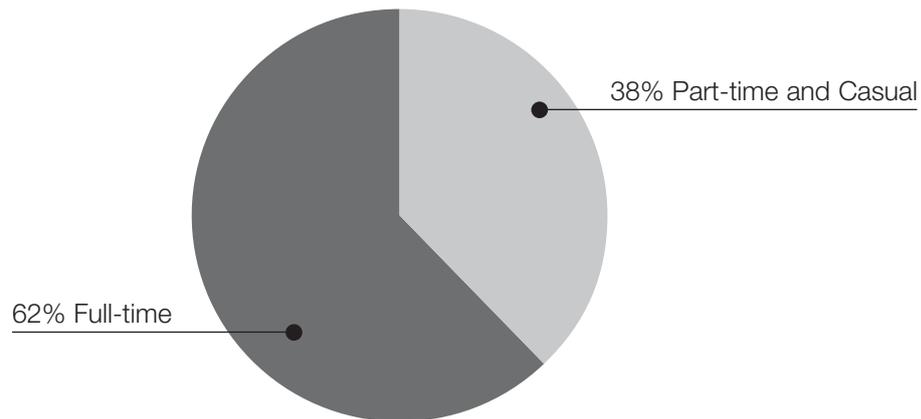
However, there is still some gender inequality with:

- Women's full time average weekly earnings are 16% lower than for men
- Women make up 72% of part time employees and 55% of casual employees
- Women make up only 15% of CEO's and 23% of directors of Companies on the ASX

Labour force participation has for older Australians has also increased significantly due to improved health availability of more flexible and less physically demanding forms of employment, slowing in growth of superannuation balances following the impact of the GFC and the increase in the age at which people are eligible for the Age Pension.

Another changing work pattern is the employment shifts from full-time and permanent positions to casual, part-time and contract positions). The number of full-time employees is falling and part-time, casual and contract employees now make up about 40% of the workforce. Part-time and casual work has a strong gender element to it in Australia, since many more women work part-time and casual than men. This is driven by businesses need to have a more flexible workforce and to reduce costs. This has a huge impact on employee's job security, pay and conditions such as leave entitlements. Many of these workers would prefer a full-time job. This is known as under employment. It is also a because Australian employment has grown more strongly in services industries that can offer workers a greater range and choice in work hours (such as healthcare, professional services, retail and hospitality). These industries typically offer more part-time work than the more traditionally 'full-time' industrial sectors and have proven to be especially attractive to female and older workers; not coincidentally, the industries with higher rates of part-time work (and more flexible work hours) also have higher rates of female workers.

What does work look like in Australia?



The decrease in the proportion of full time employment as well as more employees taking their work-life balance more seriously has led to a fall in the number of full-time hours worked by the average Australian employee. However, one in five Australians work more than 50 hours a week (Officially full-time employees in Australia work a 38-hour week). In most cases workers these do not receive overtime. Workers in mining, construction, transport, tourism and agriculture typically put in very long hours.

■ Emergence of shared economy

New technologies and peer-to-peer networks have enabled new business models to emerge (digital platform firms) like Uber, Airbnb, Menulog, Airtasker etc These businesses generate value by connecting customers, producers, and providers rather than the traditional production process in which inputs are transformed into outputs. The lack of overhead and inventory help share-based businesses run lean. These businesses can scale up faster and at lower cost. The increased efficiencies allow these brands to pass-through value to their customers and supply chain partners.

■ Impact of technology and globalisation

Significant advances in technology have impacted the way we work. Technology has eliminated many low-skill jobs as well as creating new ones like jobs in mobile app development and virtual reality design.

Technology has increased the rate of production and speed at which business occurs helping workers become more efficient. What used to take hours now can take minutes. Messages can be sent instantly to colleagues or clients across the world. Payments or proposals can be transferred almost immediately.

Technology is reshaping the skills needed for work. Jobs today require specific skills—a combination of technological know-how, problem-solving, and critical thinking as well as soft skills such as perseverance and collaboration. Technology has increased the complexity of work—workers need to know more, not only to do their jobs and tasks, but also to work effectively with others on teams.

Communication and information technology breakthroughs, especially mobile technologies and the Internet that enable employees to work more closely in some ways even as we work remotely (telecommuting). Teams can hold meetings remotely with video-conferencing technology and work on the same shared documents at once with cloud-based file-sharing tools like Google Drive.

Another impact of technology in the workplace is the ability to work as a freelancer in what's known as the gig economy. Gigging is the process of jumping from job to job or taking on multiple freelance jobs at one time. Powered by several apps it's now easier than ever to access project-based work with the flexibility to work your own hours.

Technology has also created some problems in the workplace. There is an expectation that workers are always available. The increased use of video conferencing and computer-based tools has expanded the workday to accommodate geographically dispersed team meetings. Holding a computer in your pocket that is constantly connected to your work email can make it feel impossible to ever truly be off the clock. Flashing, buzzing and “pinging” notifications consistently draw workers back to their jobs.

Globalisation has meant products are available at lower prices from overseas markets which has led to job losses especially in manufacturing. Globalisation has increased pressure on businesses to be more competitive, agile, and customer focused resulting in the downsizing of staff (cutting of jobs to reduce costs). This has resulted in less job security for workers. Globalisation has also led to a shift in jobs to developing countries like India with reduced labour rates (outsourcing).

Exercise 3.2

Match the definition with the correct term below.

Shifts tasks, operations, jobs, or processes to an external workforce (contracting out).	
Spread of products, technology, information, and jobs across national borders.	
Work arrangement in which the employee works outside the office, often working from home	
System in which goods are rented or borrowed directly from individuals rather than from businesses (collaborative consumption)	
Sector of the economy where no physical goods are transferred	
People engaged in or available for work	
Permanent employee who usually works, on average, 38 hours each week	
Permanent employee who usually works regular hours each week but less than 38 hours per week.	
Does not have a firm commitment in advance from their employer about how long they will be employed for, or the days (or hours) they will work.	
Number of people working or actively seeking work as a % of the working population.	

Word Bank: Telecommuting, sharing economy, globalisation, workforce, service sector, part-time work, full time work, casual work, outsourcing, participation rate

3. Rights and responsibilities in the workplace

a) Roles of various participants in the workplace

■ Employers

An employer provides work for employees who are paid to do a job. Employers hire and make employment agreements with employees. They also play a substantial role in determining the strategy of the organisation and operational decisions. Employers have responsibilities to provide fair and safe working conditions pay their employees the salary and benefits they agreed to provide employees with instruction and training and treat their employees with respect. They must make sure their employees are not harassed or discriminated against.

■ Employees

An employee is an individual who was hired by an employer to do a specific job. Employees can work full-time, part-time or casually. They use their skills, knowledge, experience, and contribution in exchange for compensation (pay) from an employer. Employees have significant financial and time investments in the organisation, and play a defining role in the strategy, tactics, and operations the organisation carries out. Employees have responsibilities towards their employers to personally do the work they were hired to do, follow their employer's instructions, to do their work carefully and seriously, to avoid putting themselves or others in danger and report any hazards, injuries or ill health.

■ Contractors

A contractor is an employee who works under contract for an employer. A contract employee is hired for a specific job at a specific rate of pay. A contract employee does not become a regular addition to the staff and is not considered a permanent employee. Contract arrangements tend to be limited in duration (usually engaged for a specific task or projects rather than an ongoing role). Under agreement a contractor decides what hours to work to, pays their own taxes has their own insurance and Uses their own tools and equipment.

■ Trade Unions

Trade Unions represent the collective interests of employees usually within an industry, trade or occupation. They aim to represent them in efforts to improve wages and the working conditions. A union, through its officials and delegates, bargains with the employer on behalf of union members (the rank and file) and negotiates (or engages in collective bargaining) to reach enterprise agreements with employers.

There are currently over 100 trade unions in Australia. The Australian Council of Trade Unions (ACTU) is the peak trade union body in Australian. Some of the largest unions include the Australian Workers Union, The Transport Workers Union and the Australian Services Union. Union membership has declined from 40% of the workforce to about 15% today because of the decline in the manufacturing sector, casualisation of the workforce and the privatisation of public businesses.

■ Employer Associations

Employer Associations were originally created as counterparts to unions. Their key role is to promote the interests of employers within the business environment. They provide advice on such things as awards, unfair dismissals, legislative changes and discrimination issues as well as negotiating agreements and lobbying governments on key policy issues. Examples include Australian Federation of Employers and Industries and Business Council of Australia.

■ Government

Governments play a big role in the workplace. Governments tax businesses, and therefore have a firm stake in their success. Governments employ nearly one third of Australian workers as teachers, nurses, bus drivers etc. Governments pass laws (legislation) governing the workplace such as Superannuation, Anti-Discrimination, Work Health and Safety and Fair Work Act. Governments also provide regulatory oversight through government agencies like the Fair Work Commission.

b) Changes to the roles of employees in the workplace

Most positions in the workforce are changing into more dynamic and flexible roles. Organisations want employees who can:

- Show initiative at work. That is being proactive, thinking on your feet and taking action including a willingness try new and different things to achieve their goals.

- Relish learning and development opportunities to improve employee skills (willingness to learn new skills). Upskilling is improving skills to help a current job. It enhances employees' skills in their current role and amplifies their profile in the workplace. Reskilling is learning new skills that will help in a new job or career. This may include learning new technologies.
- Work effectively in a team. Most business environments today expect or encourage teamwork. Some have actual, defined teams, whether for a particular project or for all work. For others, teamwork is more of a collaborative vibe that generates energy throughout the workplace. Teamwork makes everyone want to be unified, gives more opportunities for brainstorming and collaborating ideas and improves efficiency and productivity (allow for employees to share the workload).
- Being able to adapt to change. The only constant in today's workplace is change, and often it happens quickly, before employees and even management can mentally prepare. In today's business environment businesses are forced to implement sweeping changes to grow and survive. A knowledge-based economy and global transformations require swift adjustments.

c) Employers responsibilities to workers and the government

Employer Responsibility	Requirements
Superannuation	<ul style="list-style-type: none"> ■ Compulsory contribution made by all employers on behalf of each of their eligible employees to provide for an employee's retirement ■ Contribution (currently 9.5% of their regular wage) is paid directly to each employee's nominated super fund
Workers Compensation	<ul style="list-style-type: none"> ■ Compulsory insurance payment to cover employees if they are injured at work or become sick due to their work. ■ Includes payments to employees to cover their wages while they're not fit for work, medical expenses and rehabilitation.
Sick and carers leave	<ul style="list-style-type: none"> ■ Paid leave to help employees deal with personal illness, caring responsibilities and family emergencies ■ Full-time and part-time employees get 10 days of sick and carer's leave for each year of employment
Paid Parental leave	<ul style="list-style-type: none"> ■ Parental leave allows employees to take time away from work for the birth or adoption of a child ■ Employees can get Parental Leave Pay from the Australian Government (up to 18 weeks' leave paid at the national minimum wage) and paid parental leave from their employer ■ Many employers provide paid parental leave to their employees. This may be through a contract of employment, enterprise agreement or a workplace policy.
Long Service Leave	<ul style="list-style-type: none"> ■ Period of paid leave a worker can take after working with the same employer for an extended period ■ About 9 weeks of paid leave after a period of 10 years' continuous service.
Annual leave	<ul style="list-style-type: none"> ■ Period of paid leave for an employee to have time off from work (holiday pay) ■ An employee (other than a casual employee) accumulates four weeks of paid annual leave for each year of service

Income Tax (PAYG withholding)	<ul style="list-style-type: none"> ■ Obligation to collect (withhold) tax from the payment's employers make to employees (wages and salaries) and send to the ATO to ensure that their employees meet their end-of-year tax liabilities.
Company Tax	<ul style="list-style-type: none"> ■ Flat rate of tax paid on profits by companies (currently 30% and 27.5% if companies' turnover is less than 10 million)
Goods and Service Tax	<ul style="list-style-type: none"> ■ Broad-based consumer tax (10%) on most goods and services sold or consumed in Australia. ■ Employers with a turnover of over \$75000 are required to register for and collect GST. ■ Employers of a GST-registered business must charge its customers GST on taxable goods and services it provides, but is entitled to a credit for any GST it has paid for its expenditures (input tax credits) ■ Employers must periodically lodge Business Activity Statements and at the same time pay the net amount of GST owed to the ATO.

Exercise 3.3 True or False

Indicate whether each of the following statements is true or false.

1. An employer cannot direct an employee to take annual leave	True/False
2. Workers' compensation is a form of insurance providing wage replacement and medical benefits to employees injured at home	True/False
3. If you're a full-time time or part-time employee you can take paid personal or carer's leave to care for your child if they are sick or injured.	True/False
4. Superannuation is a compulsory system set up by the State Government to encourage people in Australia to accumulate funds to provide them with an income stream when they retire.	True/False
5. All Australian businesses are automatically registered for GST	True/False
6. To qualify for long service leave, employees need to have been in continuous employment with the same employer.	True/False
7. Sole traders also have to pay Company Tax	True/False
8. Employers have an obligation to collect PAYG withholding amounts from payments they make to workers	True/False
9. Paid Parental Leave scheme applies to full-time employees only	True/False
10. All full-time workers are guaranteed a minimum of 4 weeks paid annual leave.	True/False

d) Laws related to the workplace

There are many legal issues involving employment relations. These are largely covered by various Government laws both State and Federal.

■ Employment Contracts

An employment contract is an agreement between an employer and employee that sets out terms and conditions of employment. An employment contract includes things like salary, weekly hours, entitlements, termination and redundancy etc.

An employment contract cannot provide for less than the legal minimum set out in:

- The National Employment Standards (NES)
- Awards
- Enterprise agreements

■ National Employment Standards (NES)

The National Employment Standards (NES) are 10 minimum employment entitlements that must be provided to all employees.

The 10 minimum entitlements of the NES are:

- **Maximum weekly hours of work** – 38 hours per week, plus reasonable additional hours.
- **Requests for flexible working arrangements** – an entitlement for certain employees to request flexible working arrangements
- **Parental leave and related entitlements** – up to 12 months' unpaid leave per employee, plus a right to request an additional 12 months unpaid leave, plus other forms of parental and adoption-related leave.
- **Annual leave** – four weeks paid leave per year, plus an additional week for certain shift workers.
- **Personal/carer's leave and compassionate leave** – 10 days paid personal/carer's leave, two days' unpaid carer's leave as required, and two days compassionate leave (unpaid for casuals) as required.
- **Community service leave** – unpaid leave for voluntary emergency activities and leave for jury service
- **Long service leave**
- **Public holidays** – a paid day off on a public holiday, except where reasonably requested to work.
- **Notice of termination and redundancy pay** – up to five weeks' notice of termination and up to 16 weeks' severance pay on redundancy, both based on length of service.
- **Fair Work Information Statement** – must be provided by employers to all new employees, and contains information about the NES, modern awards, agreement-making, the right to freedom of association, termination of employment, individual flexibility arrangements, union rights of entry etc.

■ Awards

Awards (now known as Modern Awards) apply to employees in an industry and set out the minimum pay rates and conditions of employment. There are 122 industry or occupation awards that cover most people who work in Australia.

Awards give a "level playing field" for employment conditions however they are less flexible to cater for requirements of individual workplaces and employees. Awards don't apply when a business has an enterprise agreement in place.

■ Enterprise Agreements

Enterprise agreements are collective agreements between the employer and the employee (often represented by their union) for their workplace. They are for a set term of usually 3 years and include the terms and conditions of employment. Enterprise agreements must be approved by the Fair Work Commission. Enterprise agreements override any award provisions.

Enterprise agreements are more flexible and can identify and address the needs of a business. The rates of pay and conditions of employment must not be less than those contained in an award and can provide

greater entitlements. Unlike an award which is imposed by a third-party, employees are directly involved in negotiations known as enterprise bargaining. However, enterprise agreements are more time-consuming to negotiate and generally more expensive to implement than awards.

■ Individual Contract of Employment (Common Law Contracts)

Not everyone is covered by an award or enterprise agreement. Some employees have the terms and conditions of their contract of employment negotiated with the employer. This is common for senior management positions. Individual contracts are not required to be registered in any industrial court. They are however subject to common law.

■ Work Health and Safety

The Work Health and Safety Act is a national law designed to protect the health, safety and welfare of workers at work. That is to provide safe working practices. Each state has its own regulator to administer the nationally uniform laws. In NSW, this is Work Cover.

The onus of the legislation is on the employer and requires them to:

- Report incidents that expose persons to serious risks at a workplace
- Consulted employees when identifying hazards and minimising risks
- Elect workplace health and safety representatives
- Resolve workplace safety issues
- Allow WHS entry permit holders to meet with workers and investigate suspected breaches of the WHS Act

■ Anti-Discrimination

All employers have a responsibility under State anti-discrimination laws and the Fair Work Act (Federal) to prevent discrimination, harassment or bullying from occurring in the workplace. Discrimination occurs when a person, or a group of people, is treated less favourably than another person or group because of their background or certain personal characteristics.

Discrimination laws protect people from discrimination on the basis of their:

- race
- sex, pregnancy or marital status
- age
- disability, or
- sexual orientation

Discrimination can happen at different points in the employment relationship, including when recruiting and selecting staff and considering who is selected for training, promotion and redundancy. Employers, managers and supervisors must treat all their job applicants and employees based on their individual merit and not because of irrelevant personal characteristics. They must also do their best to make sure that their employees are not harassing any other job applicant or employee.

Activity 3.4 You be the Judge

Scenario	Is there a case for discrimination?
Helen is being interviewed to undertake a training course at her firm. The interviewer, Andrew, says how impressed he is with Helen. He then asks Helen about her personal life and plans she may have regarding marriage and children. Helen replies that she does not think the question is relevant. Andrew says that he is asking it to ensure that the company gets a return for the cost of training.	Yes/No
Laila is a devout Muslim who wears the traditional head covering. A work colleague Stuart constantly mocks her for her beliefs and calls her names. At times when Laila is fasting, Stuart keeps putting food on her desk.	Yes/No

■ Unfair Dismissal

Employers can only lawfully terminate employment if you're a permanent employee (or a long-term casual employee) for a valid reason. This means one based on:

- your capacity to work or your performance;
- your conduct, including its effect on the safety and welfare of other employees;
- their need to have the work you're doing performed (i.e. redundancy).

Before an employee can be dismissed, an employer will usually first need to give a warning (preferably written) and a reasonable opportunity to correct their behaviour or lift their performance. The employer must also let the employee bring a support person into any meeting to discuss performance or conduct, as well as giving the employee the chance to present your side of the argument.

Unfair dismissal is when an employee is dismissed from their job in a harsh (disproportionate response), unjust (didn't do what was alleged) or unreasonable manner (didn't follow a fair process). The Fair Work Commission hears cases on unfair dismissal.

Small businesses (with fewer than 15 employees) have slightly different rules for unfair dismissal. For example, employees must be employed for at least 12 months before they can apply for unfair dismissal.

Activity 3.5 You be the Judge

Scenario	Is there a case for unfair dismissal?
John was dismissed for sending a work email that was highly offensive to persons of the Muslim faith. The email was in clear breach of the company's policies and had the potential to cause significant reputational damage to the business. John is 63 years old and has been with the company for 10 years and has an impeccable record.	Yes/No
Peter was dismissed for breaching the company's driving safety policy when he was fined for speeding in a company vehicle and using his mobile phone while driving. At the time of the incident, Peter had been given two previous warnings for driving while speaking on a mobile phone. On one occasion, he was reported for talking on the phone and exceeding the speed limit of 15 km/h when he entered the company's yard.	Yes/No

Case Study: Unfair Dismissal



Qantas terminated a staff member's employment because, it alleged, he had removed Qantas Group alcohol from a flight which was discovered during a random search of the crew. Qantas alleged the employee made misleading claims when asked how the alcohol came to be in his possession. This included a claim that a miniature bottle of Beefeater Gin found in the staff member's possession had come from his wife, who he claimed obtained it when the couple had lunch with friends the day before the flight. When Qantas investigated this claim, it was discovered the hotel where the staff member claimed supplied the gin did not stock that product. The employee launched unfair dismissal proceedings. The Fair Work Commission upheld Qantas' decision (on appeal) because of inconsistencies in the staff member's account of how he came to have the alcohol and that the employee was aware his actions were in breach of company policy.

e) Identify methods of resolving disputes

Workplace Disputes can be damaging. Because employees and employers have conflicting interests some conflict at the workplace is inevitable. A workplace dispute is a withdrawal from work or a refusal to permit some or all members to work.

Workplace disputes are usually about:

- Remuneration – wages, allowances, entitlements
- Employment conditions – working hours, leave, benefits
- Job security/management issues – restructuring, downsizing, outsourcing

■ Grievance procedures

A grievance is a dispute between the employer and the employee. Businesses workplace dispute resolution strategy is called a grievance procedure. This outlines the process for resolving the grievances in the workplace. It includes the rules and procedures that employees, unions and employers must follow to resolve a dispute. The Fair Work Act requires that all awards and enterprise agreements set out a procedure for resolving disputes.

Grievance procedures:

- Provides a clear outline of issues that are regarded as grievances
- Illustrates the correct processes to use
- Provides a mechanism for a quick resolution

Steps in the Process of Dispute Resolution

a) Negotiation

This involves a discussion between the employer and the employee to resolve the dispute.

b) Mediation

This occurs when an independent third party assists in resolving the dispute. The mediator manages the interaction between parties and facilitates open communication.

c) Conciliation and Arbitration

If the parties cannot reach a settlement through negotiation or mediation, then Fair Work Australia is notified. Conciliation occurs when a conciliator is appointed from Fair Work Australia. The conciliator identifies the issues in the dispute, develop options, consider alternatives and endeavour to reach an agreement. Both parties must attend the meeting, but the conditions of the agreement are not legally binding. Arbitration is the final stage when lawyers from both sides present their case to Fair Work Australia who reaches a final decision which is legally binding on both parties.

Exercise 3.6 Matching

Match the definition with the correct term below

1. Independent third party tries to help solve a dispute.	
2. Discussions between parties to solve an industrial dispute.	
3. A disagreement between employees and employer	
4. Third party makes a legally binding decision	
5. The means of dispute resolution	

Word Bank: Workplace dispute, grievance procedures, arbitration, mediation, negotiation

4. Current issues related to the workplace affecting employees

a) Artificial Intelligence and Robots

Artificial intelligence (AI) is building smart machines capable of performing tasks that typically require human intelligence. Artificial intelligence (AI) makes it possible for machines to learn from experience, adjust to new inputs and perform human-like tasks. Computers can be trained to accomplish specific tasks by processing large amounts of data and recognizing patterns in the data.

The ability of computers to learn (rather than be programmed) how to carry out specific tasks puts a wide range of complex roles within reach of automation for the first time. Research indicates that about half of today's workers are in industries that are vulnerable. In some cases like truck drivers, machines will replace workers. In other fields like education and medicine work will be transformed, with machines assuming some tasks in close coordination with skilled humans performing other tasks (humans and machines working together).

Case Study: Amazon



Artificial intelligence shapes many aspects of Amazon's business. Amazon's automated grocery stores that allow customers to walk in, grab what they want, and simply walk out the door, with everything being charged to their account. Guided robots carry shelves full of products directly to fulfillment-centre workers. AI powers Alexa Amazon's popular virtual assistant. AI also plays a huge role in Amazon's recommendation engine, which generates 35% of the company's revenue. Using data from individual customer preferences and purchases, browsing history and items that are related and regularly bought together, Amazon can create a personalised list of products that customers want to buy.

b) Redundancy

Redundancies are becoming more frequent and larger organisations like Banks and Telecommunications companies are doing them on very large scales. More than one in four Australians (26%) have had the redundancy axe fall on them at some point in their working lives. Redundancy is when you lose your job because it no longer exists. It's the job being made redundant rather than the employee. If you lose your job because of redundancy, this is called a retrenchment. Redundancy is usually caused by factors such as economic conditions, restructuring, business efficiency, relocation, technological developments and mergers and takeovers. Employees do generally feel negative about the experience because they enjoyed their job, were stressed about their income and finding a new job was stressful.

c) Outsourcing

Outsourcing is the use of external providers by employers to perform business activities. Outsourcing is typically used by businesses to save costs. Outsourcing is an increasing practice for Australian businesses. Common functions that are now routinely outsourced by employers include data entry, graphic design, web design, customer support, accounting and information technology. These companies are often located in foreign countries with lower labour costs and a less strict regulatory environment. Outsourcing has meant an export of Australian jobs particularly in the service sector.

d) Privacy

Privacy issues have become increasingly prevalent in the workplace, and with the increased use of electronic resources, privacy at work is even more complex. Workplace privacy describes the extent to which employers monitor and collect information on the activities, communications and private lives of employees. Workers are often accustomed to personal privacy in their private lives, but employers aren't necessarily obligated to give workers privacy while they're on the job. Privacy issues include personnel records, workplace surveillance by cameras, drug and alcohol testing and monitoring email and internet use.

Case Study: Epicenter

Swedish company Epicenter has embedded a chip into about 150 workers. The workers volunteered to have the microchip, which is about as big as a grain of rice, implanted for free. With the radiofrequency identification chip, employees can open doors and use office technology like photocopiers, and it can even pay for lunch at the office café. However, the use of microchips inserted into employees' hands has raised privacy issues as bosses can monitor toilet breaks and how long employees work.



Review Questions and Activities

1. Discuss the implications of unemployment for the individual and society.
2. Identify a range of services funded by taxation.
3. Explain the relationship between taxation income and government-funded services.
4. Investigate the Australian Department of Human Service <https://www.humanservices.gov.au/customer/subjects/payments-job-seekers> to find out what financial assistance is given to the unemployed
5. Why has the reorientation of the labour market towards the service sector favoured the employment of women?
6. Name a teacher at your school who works full time, part-time and casual.
7. Investigate Seek Volunteer <https://www.volunteer.com.au/> to find volunteering opportunities in Australia.

8. Describe the responsibilities on the employer to ensure a safe workplace.
9. Outline the extent to which anti-discrimination laws protect individuals in the workplace.
10. Investigate the Fair Work Ombudsman <http://www.fairwork.gov.au/employee-entitlements> to find out the leave entitlements for a full-time employee.
11. Describe the obligations of employers towards employees in relation to superannuation.
12. Identify the taxes that are levied on the employer.
13. Why can a workplace dispute be damaging to the employee and employer?
14. What are the advantages of grievance procedures?
15. Research a current industrial dispute that has just been resolved and outline the process.
16. What is the difference between redundancy and dismissal?
17. Describe the main privacy issues in the workplace.
18. How will the increase in smart machines (artificial intelligence) affected employees in Australia?

Exercise 3.7 Multiple Choice

Select the alternative A, B, C or D that best answers the question.

1. Which of the following statements is NOT true?
 - a. Working helps you accrue superannuation for retirement
 - b. Working provides money to pay for the costs of living
 - c. Working has a negative effect on employees physical and mental health and well being
 - d. Unemployment is detrimental to employees' self esteem
2. What is the contracting out of different areas of the business to outside suppliers?
 - a. Staff turnover
 - b. Outsourcing
 - c. Alliances
 - d. Diversification
3. Which of the following are characteristics of contractors?
 - a. They are self employed and entitled to the same benefits as full time employees
 - b. They work for a fee within a set timeframe and arrange their own insurance and superannuation
 - c. They arrange their own insurance and superannuation and their work is typically ongoing and continuous
 - d. They are entitled to the same benefits as full time employees and work for a fee within a set timeframe

4. Which national body represents trade unions in Australia?
 - a. AWU
 - b. TWU
 - c. ASU
 - d. ACTU

5. Which type of employment allows workers to work fewer hours but still accrue pro rata benefits?
 - a. Casual
 - b. Full-time
 - c. Part-time
 - d. Voluntary

6. What is the minimum level of superannuation currently in Australia?
 - a. 12%
 - b. 9.5%
 - c. 6%
 - d. 30%

7. Which of the following taxes is NOT collected by the Federal Government?
 - a. Payroll tax
 - b. Company tax
 - c. PAYG income tax
 - d. GST

8. Who would NOT be involved in solving industrial disputes?
 - a. Trade Unions
 - b. Management
 - c. Employees
 - d. Suppliers

9. Which State Government law is designed to protect the health, safety and welfare of workers at work?
 - a. Occupational Health and Safety Act
 - b. Work Health and Safety Act
 - c. Workcover Act
 - d. Workers Compensation Act

10. Which step in the process of dispute resolution involves discussions between parties to solve an industrial dispute?
 - a. Mediation
 - b. Negotiation
 - c. Conciliation
 - d. Arbitration

Answers

Exercise 3.1

1. True, 2. False, 3. False, 4. True, 5. True, 6. True, 7. True, 8. True

Exercise 3.2

1. Outsourcing, 2. Globalisation, 3. Telecommuting, 4. Sharing economy, 5. Service sector, 6. Workforce, 7. Full-time work, 8. Part-time work, 9. Casual work, 10. Participation rate

Exercise 3.3

1. False, 2. False 3. True, 4. True, 5. False, 6. True, 7 False, 8. True, 9. False, 10. True

Exercise 3.4

1. Yes, 2. Yes

Exercise 3.5

1. Yes, 2. No

Exercise 3.6

1. Mediation, 2. Negotiations, 3. Workplace dispute, 4. Arbitration, 5. Grievance procedures

Exercise 3.7

1. c, 2. b, 3. d, 4.d, 5.c, 6. b, 7. a, 8. d, 9. b, 10. b

Core 4

Law, Society and Political Involvement

1. The role and structure of the legal system

a) The nature of laws and reason for laws

Laws are essentially rules that regulate and provide structure for our society. However, rules are only enforceable on people who choose to be governed by them. For example, by enrolling in your school you and your parents agreed to follow the rules of your school. Laws differ in that they apply to everyone equally within that area of legal authority (jurisdiction) whether they have agreed to them or not.

Laws are created to provide order and structure within society, allowing citizens to be protected, free and to provide an avenue to resolve disputes. To achieve these goals John Stuart Mill a philosopher in the nineteenth century stated that laws are created with five basic principles in mind:

- The Harm Principle: Laws that are created by government bodies to reduce individual freedoms to ensure that all citizens are protected from harm. An example of this would be drink-driving laws.
- The Paternalism Principle: Laws that are created to protect people from committing harm to themselves. An example would be criminalising the use of drugs.
- The Moral Principles: Laws that prevent people from doing acts that are morally wrong. An example of this principle would be Section 18c of the Racial Discrimination Act 1975 that makes it illegal to offend, insult, humiliate or intimidate another person or group based on someone's race, colour or nationality.
- The Samaritan Principle: These laws are about ensuring that each member of society can develop and prosper whilst in good health. An example of these laws is the NSW Education Act that ensures young people attend school up until the age of 17.
- The Statist Principle: These laws are designed to help the government maintain and regulate power. Laws of this type could be laws that are against treason (the crime of betraying one's country) or are foundational laws of a society, such as, the Australian Constitution.

While a law may fit into only one or all these principles, it is important that laws are created with these foundational philosophies in mind to ensure we maintain a just society that strives to ensure citizens can prosper and be kept safe.

In a democratic country, the law reflects the principles and standards (values) we desire in society and align with our collective beliefs of what is right and wrong (ethics). Whilst we all have our own belief of what is right and wrong (morals), laws must represent the whole community. Through the democratic election process citizens vote in members of parliament at the Federal and State level to represent their views.

Exercise 4.1:

Fill in the blanks with the words in the Word Bank below:

Word Bank: just, government, structure, disputes, themselves, rules, protect, freedom, prosper, regulates

Laws are enforceable (a) _____ that provide society with (b) _____ and an understanding of expected behaviour. The foundational purposes of law in Australia is to (c) _____ citizens, ensure democratic (d) _____ and resolve (e) _____. To realise these objectives laws are created with five basic principles. The harm principle, (f) _____ individual behaviour to protect citizens from damage. The paternalism principle, ensures citizens are protected from harming (g) _____. The moral principle, looks to create a (h) _____ society. The Samaritan principle, allows citizens to (i) _____. Lastly, the statist principle creates order and consistency in (j) _____ power.

b) Roles and responsibilities of the three levels of Government

The Federal Government received its power from the British Parliament when it passed the Commonwealth of Australia Constitution Act 1900. This document acceded (took over) authority for the then separate British colonies in Australia to form the Federal Government. The passing of the Australian Constitution Act resulted in Australia becoming a Nation with the power to make laws and enter into international agreements without the permission of the British Government.

The Australian Constitution was drafted in the 1890s and serves the fundamental purpose of being the 'rulebook' on how Australia is to run. This document, along with our legal system, provides avenues for law change and adaptation so that citizens continue to willingly follow the law due to its relevance, as well as, ensuring there are checks and balances in place that protect Australians from experiencing repressive governments.

One of the ways Australia ensures there are checks and balances on power is by separating the government power into divisions, this is known as the Division of Power. This division divides the authority to govern in Australia between Federal and State Governments. Under section 51 of the Constitution the Federal Government has the right to make laws regarding a number of specific areas referred to as Exclusive Powers. The individual State governments cover the remaining areas known as Residual Powers. If both the Federal and State governments can make a law about something then it is known as a Concurrent Power, an example of this would be taxation. The Federal Government can collect income tax whilst the State governments can create a tax on the purchasing of property within the state known as Stamp Duty.

The States also have their own individual Constitutions that delegate authority to local councils to make by-laws. The local councils take responsibility for local issues affecting residents in their geographical area. They are funded by taxes collected at local level (for example: rates based on land valuations) and grant funding from State and Federal Government. Each local council is made up of elected representatives (Councillors) and the leader is the Mayor. They meet in the Local Council Chambers.

Examples of the division of government responsibility:

Federal	State	Local
Trade Defence Immigration Environment	Housing Hospitals Roads Police Ambulance Railways	Town planning Waste management Pest control Parks Libraries Swimming Pools

Exercise 4.2

Fill in the table below:

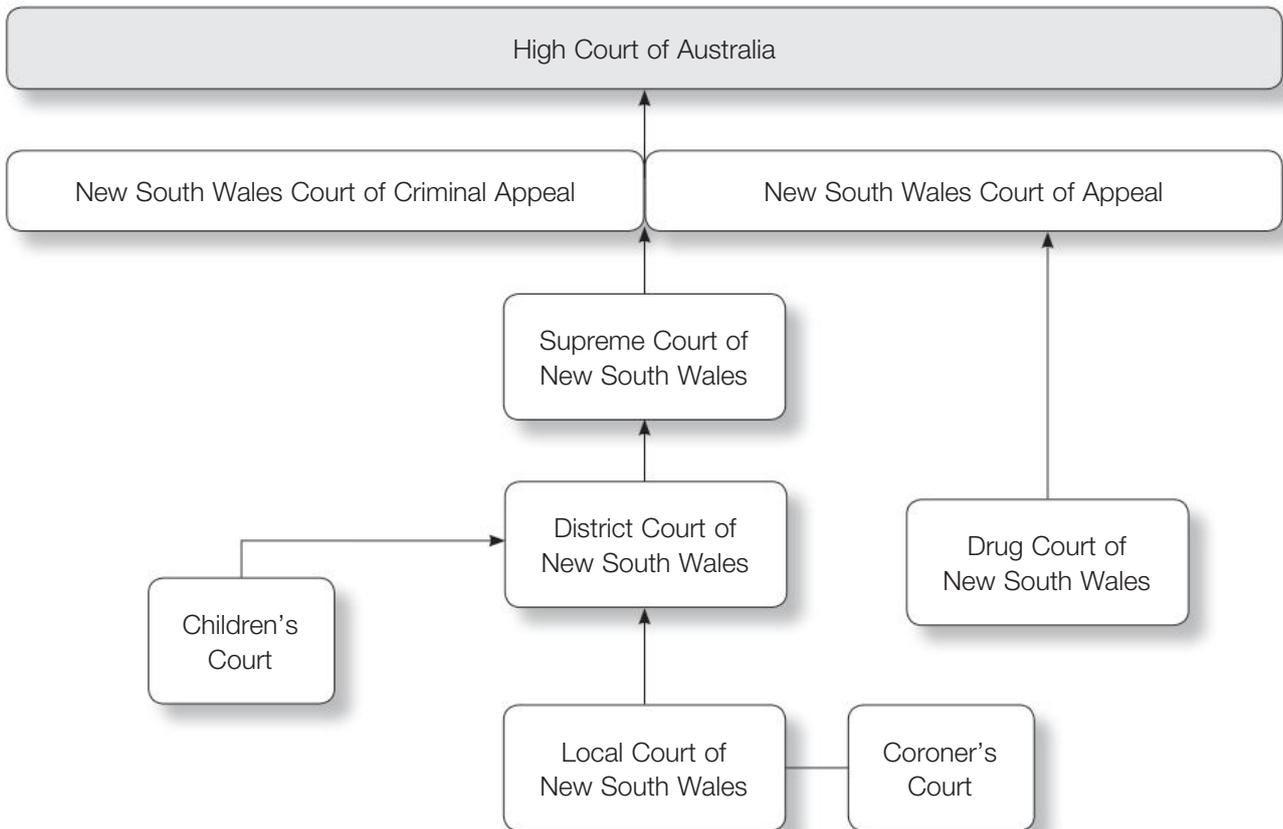
Which level of Government would you contact if...	Federal, State or Local?
1. You need to arrange rubbish collection?	
2. You want to ask a question about your tax return?	
3. You want to know more about the NAPLAN requirements for high school students?	
4. You want to understand visa requirements for a family member coming to Australia from overseas?	
5. You want to obtain a parking permit?	
6. You want to build an extension on your house?	
7. Your neighbours are playing loud music in the middle of the night?	
8. You want to join the army?	
9. You need to renew your driver's license?	
10. You are campaigning to improve hospital services in your area?	

c) Key features of Australia's Court System

Australia also separates its courts between Federal and State. Federal courts hear and interpret Federal legislation, which has been written and passed, by the Australian Government. State governments run their own court system hearing and interpreting their State based legislation. The two court structures intertwine only on matters of appeal (applying to a higher court for a reversal of the decision of a lower court) when the High Court of Australia can hear cases of Appeal from State Supreme Courts. Some courts have a specialised jurisdiction (for example, the Children's Court and Family Courts) so they deal with cases only in a narrow range of topics.

The courts within the Federal and State are also divided up in a hierarchy (rank) based on the severity of the cases they preside over. This ensures that cases can be quickly moved through the appropriate courts whilst providing a consistency across decision-making. Less severe cases are heard in lower courts (Local) where they can be conducted quickly; whilst more severe matters that require a more thorough examination of multiple submissions (evidence), a trial by peers (jury) and a more detailed understanding of the law can be heard by Intermediary (District) and Superior courts (Supreme).

All courts in the State system besides the Local court have a dual jurisdiction (an area of legal authority) of hearing and ruling on cases based on their severity (original jurisdiction) but are also charged with hearing cases of appeals (appellate jurisdiction) from lower courts. Appeals are requests to change a decision. These appeals may be made due to an error in the application of law, a decision of a court regarding guilt; or due to the severity of sentencing.



High Court of Australia	<ul style="list-style-type: none"> ■ A full bench of seven Justices interpret the Australian Constitution. They can determine if Parliament has the power to make the law in question. ■ Hear Special Leave Hearing cases (one Justice) which are appeals from Supreme and other courts such as the Family Court.
Supreme Courts	<ul style="list-style-type: none"> ■ The Court of Appeals, and The Court of Criminal Appeal – Appellate Jurisdiction only. Two to five Judges hear cases. ■ Supreme Court – Original jurisdiction over civil cases (greater than \$750 000) and Criminal cases dealing with the most serious criminal matters. Cases presided over by a Judge with a Jury empanelled to determine verdict.
District Court	<ul style="list-style-type: none"> ■ Appellate Jurisdiction – from Local court matters. ■ District Court – Has Original Jurisdiction over Civil cases (greater than \$100 000 and up to \$750 000) and indictable offences (serious crimes that carry two years or more in prison). ■ Presided over by a Judge with a Jury empanelled to determine verdict.
Local Court	<ul style="list-style-type: none"> ■ Civil Cases of less than \$100 000 and Summary cases (less serious crimes) by a Magistrate carrying a prison sentence less than two years for each individual charge. ■ The Court can also determine if there is enough prima facie (on the face of it) evidence collected by law enforcement to carry a conviction in a higher court, these are known as Committal Hearings.

Other NSW Courts

Drugs Court	<ul style="list-style-type: none"> ■ Sits between Local and District court hearing matters relating to drug crime that would receive less than a three-year prison sentence. ■ The Drug Court can order rehabilitation programs and seeks to prevent the continued use of drugs.
Children's Courts	<ul style="list-style-type: none"> ■ Young Offenders – people who are under the age of 18 when they committed a crime. ■ Child Protection – cases pertaining to the care and safety of children.
Coroners Court	<ul style="list-style-type: none"> ■ Death – ensures sudden, unexpected, unexplained and suspected deaths are properly investigated. ■ Fire – ensures explosions and fires are properly investigated.

Federal Courts

There are a range of Federal Courts that apply Federal (Commonwealth) Laws. The Family Court hears matters involving divorce, custody and separation of assets. The Federal Courts also hear cases relating to tax, bankruptcy, trade practices and other federal matters.

Exercise 4.3

Which court hears which matter?

Scenario	Court
1. Frank has been charged with break and enter a serious indictable offence.	
2. Tammy whilst walking her dog breaks her ankle when she trips over a large crack on the footpath. She is suing the local council for damages of \$40 000 covering medical expenses and loss of income.	
3. Bob has been charged with murder. Which court will conduct the Committal hearing?	
4. Mark shoplifted \$1 000 worth of watches whilst on drugs. Which court can he be referred to?	
5. Victoria and Brad are divorcing and cannot find an agreed upon settlement to divide up their assets of \$2 million.	

d) The Role of Legal Personnel and the Role and Selection of juries

Within the court system there are a range of legal personnel that serve a specific function to ensure a fair and impartial system. These include the:

Magistrate	Oversees (presides over) Local Court cases and determines if the burden of the case has been met, the validity of evidence and the sentence if the accused is convicted.
Judge	Rules on points of law meaning they ensure the court follows the legislation of parliament and follows precedent set by other courts. They also decide on the admissibility of evidence and determines the punishment if the accused is convicted (criminal trial) and determines the remedy (civil trial).

Jury	Used in District and Supreme courts as a way of determining if the evidence against an accused is sufficient to determine either guilt 'beyond reasonable doubt' (criminal standard) or what is the more probable case 'balance of probabilities' (civil standard).
Crown	For criminal cases, the State brings the charges against the accused and to this end a State prosecutor is responsible to prove the guilt of the accused in court. In a local court, this falls to the Police Prosecutor, however, in district and supreme cases this falls on the Department of Public Prosecution. The Crown is also referred to as Regina (Latin for Queen).
Defence Criminal Case	The role of the defence is to raise questions on the evidence presented by the Crown. They do not have to prove innocents as in the Australian Legal System you are innocent until proven guilty. This means that the defence needs to raise doubt or demonstrate the limitations of the prosecutors (crowns) evidence.
Plaintiff	In a civil case that is the person who brings the case to the court seeking a legal remedy to a private law matter.
Defendant Civil Case	Challenges the civil case evidence of the plaintiff.
Court Officer	Administers the court case brings the jury in and out of court, provides an intermediary communication between the Judge and Jury through the passing of notes and answering day-to-day questions, hands documents to different parties within the courtroom.

The Jury serves an important role in our criminal justice system in ensuring that an accused is judged on their innocence or guilt by society members. Within NSW the role of juries is outlined within the Jury Act 1977 and its subsequent amendments (revisions).

The jury size is determined by the legal matter, for example:

- The Civil Jury in the Supreme Court is four jury members.
- Coronial Inquest Juries are made up of six jury members.
- Criminal District and Supreme Court Cases are decided on by up to 12 jury members though 15 members may be called to sit and hear the case.

A jury member is summoned by the Sheriff who selects from the electoral roll a number of persons from each jurisdiction to be on the jury roll. Each person receives a letter of notification advising that they may be summoned throughout the next 12 months. A Summons is sent when they have been called to the court to sit on a jury.

On the summons the potential Jury member is given an identification number and only referred to that throughout their time in the courts. Before the selection of the jury at a criminal trial, the judge must direct the person prosecuting for the Crown to inform the jurors on the panel of the nature of the charge and the identity of the accused and of the principal witnesses. Jurors on the panel can apply to be excused if they consider that they are not able to give impartial consideration to the case.

Both the Crown and the Defence can challenge the eligibility of a jury to sit in a case and be impartial. Each side has three peremptory (absolute) challenges that can excuse a jury member from sitting. Additionally, if both the Crown and defence agree then additional peremptory challenges can be made excusing potential jury members. From the group assembled after the peremptory challenges a ballot is conducted to determine the potential jury group. These members are then sworn in to serve on a trial.

People may be excluded from the jury roll because they hold high public office, are employed in certain public sector roles (NSW Police) or have a criminal conviction. You can also apply to be excluded for such reasons as:

- Being a sole trader or contractor
- Having school aged children that you must take care of

- Unable to read or understand English
- Having a mental or physical impairment or illness
- Are enrolled in education and need to take exams and/or attend lectures
- Are a carer of a sick, infirm or disabled person
- Medical practitioners

Jury members who have been incorrectly called or who engage in misconduct in relation to the trial may be dismissed. Misconduct includes making inquiries into the accused or witnesses and talking about the case. Recently, this has become more of an issue with the rise of social media accounts.

Traditionally, a jury was required to come to a unanimous verdict (all jury members agree) on the verdict of either guilty or not guilty. When jury members were unable to agree the result would be known as a hung jury (no verdict was given) and the case would need to be retired (second trial) with a new judge and jury. That requires that all of the trial processes steps to be taken again. Following the NSW Law Reform Commission report and the adoption by other Australian states, the NSW Parliament amended (revised) the Jury Act to allow for majority verdicts. This means that if the deliberation has taken more than eight hours then a majority verdict can be allowed if approved by the Judge. A majority verdict under the Jury Amendment (Verdicts) Act 2006 (NSW) allows for a unanimous verdict from 11 jury members on a 12-person jury or 10 jury members on a 11-person jury, with the remaining jury member undeclared.

In recent years, there has been debate around the role of the jury. Specifically, if it still serves in the public interest to maintain their position within the justice system or if reform should be conducted.

Some of the debate's arguments include:

Arguments that support the role of Juries	Concerns over the role of Juries
<ul style="list-style-type: none"> ■ Provides an accused to be judged by society (criminal trial process) ■ Fundamental part of democracy to allow citizens to be a part of the judicial process ■ Determines the community standards (civil case) 	<ul style="list-style-type: none"> ■ Very expensive ■ They can place too much weight on scientific evidence, this is referred to by some as the 'CSI Effect' ■ They do not understand the language of court or court procedures ■ There are concerns over impartiality due to current news programs and social media

Exercise 4.4

Check your understanding by taking this quiz:

Question	Answer
1. The maximum amount of Jury members allowed to be sworn in for a case is?	
2. A majority verdict is allowed after how many hours of deliberation?	
3. The largest amount of jury members allowed to decide on a verdict is?	
4. The lowest amount of jury members in a criminal trial allowed to decide on a verdict is?	
5. If you serve a prison sentence longer than 3 months you are exempt from Jury service for how many years?	
6. How often does the Sheriff create a new Jury role?	
7. The Prosecution and the Defence have peremptory (absolute) challenges. How many does each side have?	

e) The Making of Common and Statute law

The best way to describe the Hierarchy of Australian Law is through a deck of cards.



The Ace is always the Australian Constitution. No law made by Statute or Common Law can surpass the wording and intent of the constitution. Any law that is made that contradicts the Constitution will be found to be invalid by the High Court.



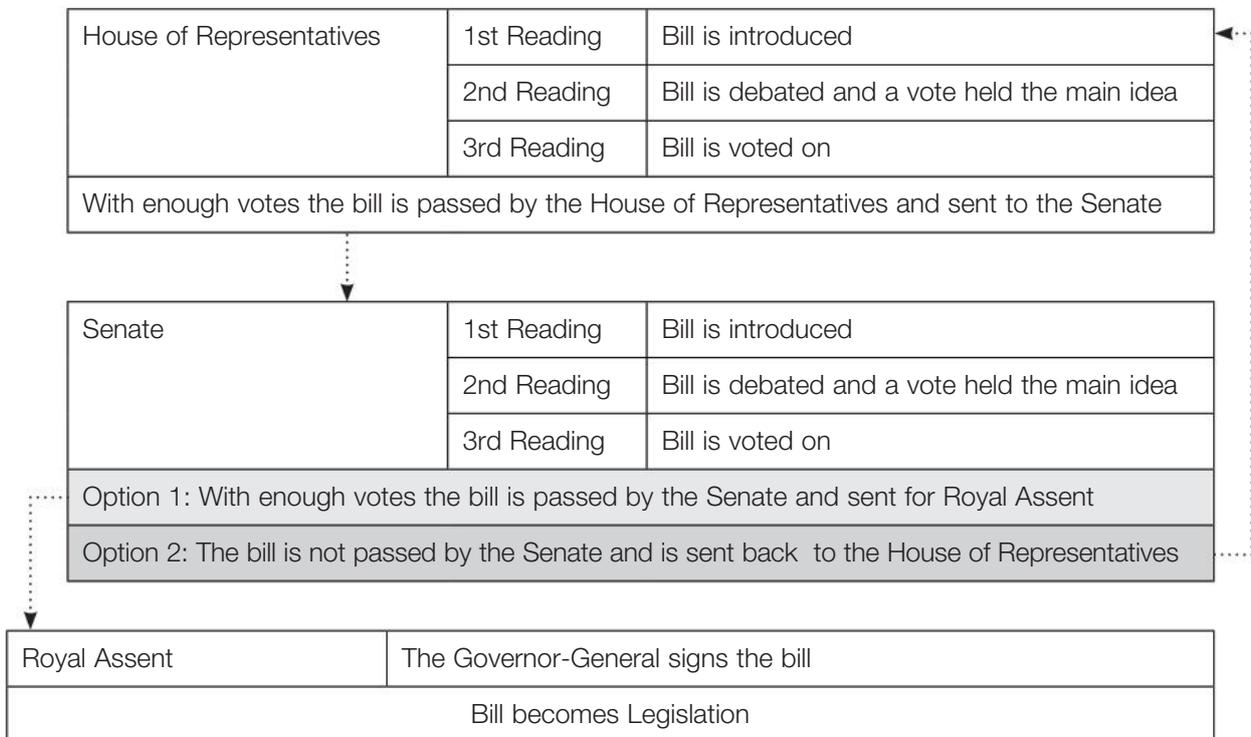
The King is Statute Law. This is law made by the elected Parliaments of Australia and thus it is seen as the representation of the will of the people. If a common law is established parliament can make statute law to alter that precedent. However, common law cannot make a precedent that goes against statute law.



The Queen is Common Law. This is law made by the Courts and establishes precedent for other courts to follow. The precedents help the law stay relevant. A binding precedent obliges a court to follow its decision, while a persuasive precedent can influence or inform a decision but not compel or restrict it.

Proposed laws (known as Bills) must be passed by both Houses (except in Queensland where there is only one House of State Parliament) and have Royal Assent before they can become Acts of Parliament. Except for laws relating to revenue and taxation (which must be introduced in the House of Representatives), a proposed law can be introduced in either House.

Below is a flowchart of how a bill usually becomes a law. During the readings of both the House of Representatives and Senate, the Bill may be sent to committees or altered based on the debates of the houses.



Exercise 4.5

Indicate whether the following statements are true or false:

1. A NSW Supreme Court Precedent has to be followed by the Queensland Supreme Court.	True/False
2. The most important legal document in Australia is the Australian Constitution.	True/False
3. Statute Law overrides Common Law Precedents.	True/False
4. When the Senate passes the bill it is officially legislation/law.	True/False
5. Bills cannot be changed between the 1st reading or 3rd reading.	True/False

f) Aboriginal and Torres Strait Islander Peoples Customary Law

Customary law in Australia, relates to the system and practices among Aboriginal Australians which have developed over time from accepted moral norms in Aboriginal societies and which regulate human behaviour, mandate specific sanctions for non-compliance and connect people with the land and with each other, through a system of relationships.

The Australian legal system since European settlement has primarily been based on models migrated from England. However, over the last 50 years there has been a gradual recognition of Australia's First Peoples' Customary laws. This recognition has been at both Federal and State level through the creation of legislation and common law precedents.

Key dates of the Legal Systems gradual recognition of Australia's First Nations Peoples:	
1770	Captain Cook enters Botany Bay on the Endeavour. The British Government does not recognise the rights of Aboriginal and Torres Strait Islander peoples and declare that Australia is terra nullius – land belonging to nobody.
1932	Australian Aborigines' League during the 1930s, Mr Cooper and other leaders gathered 1,814 signatures on a petition calling on the Prime Minister and King to intervene "for the preservation of our race from extinction and to grant representation to our race in the Federal Parliament".
1948	The Commonwealth Nationality and Citizenship Act gives the category of 'Australian Citizenship' to all Australians, including Aboriginal and Torres Strait Islander peoples.
1962	The Commonwealth Electoral Act is amended to give the vote to all Aboriginal and Torres Strait Islander people at Federal elections.
1963	Yolngu leaders present the Yirrkala bark petitions to the Australian Parliament.
1967	Referendum is passed to give the Australian Government the power to make laws for Aboriginal people and to include Aboriginal people in the Census.
1971	Neville Thomas Bonner becomes the first Aboriginal parliamentarian following his election as Senator for Queensland.
1972	The Aboriginal Tent Embassy is pitched outside Parliament House in Canberra and the Australian Government establishes the Department of Aboriginal Affairs .
1975	The Australian Parliament passes the Racial Discrimination Act to help ensure that people are treated equally and receive the same opportunities.
1976	Australian Parliament passes the Aboriginal Land Rights (Northern Territory) Act 1976 (Cth) , leading to the establishment of Land Rights legislation in most Australian states in the 1970s and 1980s.

1985	Uluru is handed back to its Traditional Owners.
1988	The Barunga Statement , calling for self-management and land rights for Aboriginal and Torres Strait Islander peoples, is presented to Prime Minister Bob Hawke, who indicates his support for a treaty.
1991	The Royal Commission into Aboriginal Deaths in Custody presents its final report.
1992	The High Court recognises native title in the landmark Mabo v Queensland (No.2) (1992), busting the myth of terra nullius. Prime Minister Paul Keating delivers the 'Redfern Speech' recognising the history of dispossession, violence and forced removal of Aboriginal children.
1993	Australian Parliament passes the Native Title Act .
1997	The National Inquiry into the Separation of Aboriginal and Torres Strait Islander Children from their Families releases the Bringing them Home report .
2000	The Council for Aboriginal Reconciliation (CAR) delivers its final report to Prime Minister John Howard and the Australian Parliament at Corroboree 2000 .
2002	Circle Sentencing pilot program in Nowra incorporates Aboriginal Elders in the negotiation of penalties for crime of Indigenous people.
2007	The Australian Government, led by Prime Minister John Howard, begins the Northern Territory Emergency Response .
2008	Prime Minister Kevin Rudd formally apologised to the Stolen Generations on behalf of the Australian Parliament.
2009	Australia supports the United Nations Declaration on the Rights of Indigenous People. Previously, Australia had been one of only four nations to oppose the Declaration.

(Source: Extracts from <https://www.reconciliation.org.au>)

Exercise 4.6

Indicate whether the following statements are true or false:

1. Since settlement Aboriginal and Torres Strait Islanders Customary laws have been recognised by the Australian Legal System.	True/False
2. Aboriginal and Torres Strait Islanders people were given the vote at Federation of Australia	True/False
3. The High Court recognised land rights of Aboriginal and Torres Strait Islanders in Mabo v Queensland case.	True/False
4. All Aboriginal and Torres Strait Islander people's laws are recognised in either statute or common law.	True/False

g) Types of Law

Public law is the body of law that provides powers, rights and responsibilities between the government and the individual. Public law is composed of constitutional, administrative and criminal law. The punishment for a breach of public law can be incarceration (imprisonment).

Private law is the body of law that regulates the relationship between individuals in society such as the law of contracts, property or torts. It is against the International Covenant on Civil and Political Rights (ICCPR) for a Private Law matter to result in incarceration.

The two most common areas of law that citizens are aware of are Criminal Law and Civil Law. Both function as mainly state based legislated areas and can be heard in the state court hierarchy depending on the severity of the action. There are clear distinctions between the types of law such as:

	Criminal Law	Civil Law
Main NSW Legislation	Crimes act 1900 NSW Other criminal legislation includes: Graffiti Control Act 2008 NSW Road Rules 2014 NSW	Civil liability Act 2002 NSW
Offences	Crimes covered by the act include: <ul style="list-style-type: none"> ■ Offences against the sovereign ■ Offences against the person ■ Offences relating to public order ■ Stealing and similar offences ■ Fraud ■ Computer offences ■ Terrorism 	Types of tort include: <ul style="list-style-type: none"> ■ Negligence ■ Defamation ■ Nuisance ■ Trespass
Aim	Punish Offender for their actions. Deter the offender and others from committing similar acts.	To either stop an action or to gain compensation for loss or injury suffered from others actions.
Court Personal	The Crown- the Department of Public Prosecution (DPP) will commence court action on the charges against the Defendant (Accused/Offender)	Plaintiff brings the case to the court taking action against the Defendant
Onus of Proof	Prosecution	Plaintiff
Standard of Proof	Beyond Reasonable Doubt	Balance of Probabilities
Penalties	No conviction recorded, caution, fine, suspended sentences, probation, criminal infringement notice, penalty units, community service order, imprisonment, diversionary programs	Damages, Injunction, Specific Performance

Domestic Law is the legal system established within a state to govern events, transactions, and persons in that state. Australian Domestic Law comes (derives) from many different places, such as the United Kingdom, Australian Constitution, Statute Law, Common Law, Customary Law and International Law that is ratified by Australia. It is a Hard Law system meaning that laws are binding on the parties involved and can be legally enforced before a court.

International Law is the set of rules, norms, and standards generally accepted in relations between nations. It is also derived from many different places, such as treaties, conventions and resolutions. International Law is a Soft Law system meaning that laws are voluntarily entered into by Nation States and enforceability is limited.

Exercise 4.7

Examine the following scenarios and identify whether the act is Criminal or Civil.

Scenario	Criminal or Civil
1. Sally is 18 and makes a U-turn in an area clearly stating that it is not allowed.	
2. Frank is found to have a spray can in his possession. He is 16 years of age.	
3. Tony writes an article about Billy disparaging his character by calling him a liar, there is no evidence within the article to support the claim.	
4. Mark fails to ensure that the products that he serves in his café are in date. Tom suffers food poisoning after eating at the café resulting in a weeklong hospital stay.	
5. Aurora is drunk in a public street singing loudly and waking the neighbours.	
6. Sam decides to use his new printer to print up the Australian \$10 bills then tries to use them to purchase goods at his local supermarket.	

2. Law reform, political action and decision-making**a) Why do laws change?**

Laws need to be changed and/or created to cover our changing society. Law reform is the process of changing the law to make them more current, correct flaws, simplify or remedy injustice.

Once a law is passed it may overtime become obsolete (outdated) and no longer represent the values or ethics of the majority of Australia. Laws may also need to be introduced to protect new society values. It is here when the debate around law reform begins and whether the law should be:

- Proactive- Change before society has or maybe ready for change; or,
- Reactive- Change when society has already adjusted and adopted a new value.

The challenge to the government is that change that is not completely accepted by the society at large may create a problem for their re-election or, it may present a government that is contemporary and could help gain more votes.

Reasons for change include:

- Technological: Advancements in technology have impacted on criminal activity, privacy and how members of society relate to one another. Interactive technologies such as social media sites, like Instagram, Facebook and Twitter have had positive impacts for society but have raised issues of concern around privacy, bullying and personal security.
- Scientific advancements around genetic profiling and Deoxyribonucleic Acid (DNA) have created advancements in criminal investigation but also concerns for privacy and misuse.
- Copyright laws are covered in both international treaties and domestic legislation. With content being added to the internet every day it is hard to understand who owns what and where royalties should go.
- Social Attitudes: Society changes over time and therefore, our views on justice alter. Some of the social changes that will alter society and therefore our laws may be increase in multiculturalism the increased emphasis on social justice and human rights and the decline in organised religion affiliation.

Law reform issues are usually investigated or reported on by Parliamentary committees, the media, government law reform commissions and lobby groups.

The parliament members then may raise issues in question time to the relevant Minister asking them to explain aspects of the law that is in question or they can draft new bills and bring to the parliament floor.

Exercise 4.8

Indicate whether the following statements are true or false:

1. Societies values stay the same so laws do not need to change.	True/False
2. The media can place pressure on the government to examine unfair laws.	True/False
3. As technology changes the law needs to keep up to date.	True/False
4. The internet has led to multiple areas of law reform.	True/False
5. Scientific advancements have had no benefits for the Legal System.	True/False
6. Australia does not examine international standards when making laws.	True/False

b) Methods an individual or group have taken to influence politicians

Political action is any action that brings pressure on political or governmental agencies and/or individuals in order to persuade them to take action.

Individuals can take direct action on issues in a variety of different ways including joining a group or organisation that represents their interests, voting in elections, attending public meetings, protests, making phone calls, writing letters, using social media to connect with elected officials and supporting social media campaigns.

A lobby group refers to a group of people seeking to influence legislators (Government) on a issue. They are sometimes referred to as pressure groups. Lobbying consists of a range of strategies designed to co-opt or realign policy. Broadly, these strategies attempt to influence one of two key targets: government (including regulators) and the public.

Lobby Groups in Australia			
Business/Industry	Environmental	Community/Social	Unions/Workers
<ul style="list-style-type: none"> ■ Business Council of Australia ■ National Farmers Federation ■ Australian Medical Association 	<ul style="list-style-type: none"> ■ Australian Conservation Foundation ■ Greenpeace Australia ■ Wilderness Society 	<ul style="list-style-type: none"> ■ Australian Red Cross ■ Animal Liberation ■ GetUp! ■ Surf Life Saving Australia 	<ul style="list-style-type: none"> ■ Australian Council of Trade Unions ■ Independent Education Union ■ Australian Nursing Federation

Exercise 4.9

Indicate whether the following statements are true or false:

1. Lobby groups work for the government.	True/False
2. GetUp! is an example of a Lobby Group.	True/False
3. Political Parties share similar beliefs.	True/False
4. Protesting has no impact on government policy.	True/False

c) The process by which referendums change the Australian Constitution

In order to change the Australian Constitution, a referendum (a poll of the voters of Australia) must be called. As outlined in Section 128 of the Australian Constitution for the referendum to pass:

- Majority of Australians must agree; and
- At least the majority within four states must agree.

Voting in a referendum is compulsory for those on the electoral roll, in the same way that it is compulsory to vote in a general election.

Since 1901, Australia has had forty-four Referendums with only eight achieving enough votes to be carried. The most successful referendum in Australia's history was in 1967 where 90.77% of the nation voted 'Yes' to amended the Australian Constitution to give the federal parliament the power to make laws in relation to Aboriginal and Torres Strait Islander people and to allow for Aboriginal and Torres Strait Islander people to be included in the census. This is in stark contrast to the 1999 referendum which proposed to alter the Australian Constitution so that Australia became a republic. 54.87% voted against the proposal.

Steps for arranging a referendum include:

- Both houses of Parliament must pass the law 'Constitutional Alteration Bill' to propose a change to the constitution. If only one house (House of Representatives) passes and the other (Senate) does not, they cannot resubmit the bill for three months. If it still does not pass both houses, then the Governor General can submit the bill for referendum.
- The proposed law is submitted for referendum. The referendum can only take place between 2 and 6 months of the Houses of Parliament passing the Constitutional Alteration Bill.

Exercise 4.10

Check your understanding by taking this quiz:

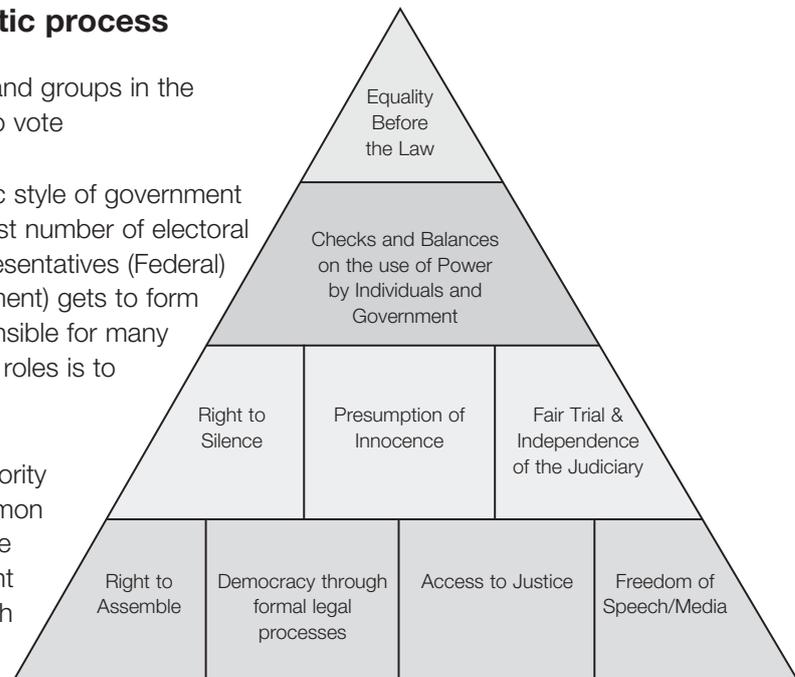
Question	Answer
1. On both houses passing the Constitutional Alteration Bill what is the minimum amount of time before a referendum can take place?	
2. What is the minimum amount of States that need to agree to pass a referendum change?	
3. What is the length of time needed before a Constitutional Alteration Bill can be resubmitted?	
4. What section of the Constitution outlines the process of referendum?	

3. Participation in the democratic process

Rights and responsibilities of individuals and groups in the democratic process, including the right to vote

Parliamentary Democracy is a democratic style of government whereby the party that receives the largest number of electoral seats in the lower house, House of Representatives (Federal) or the Legislative Assembly (NSW Parliament) gets to form the government. The parliament is responsible for many important functions but one of their main roles is to legislate (create laws).

Australia also divides its law-making authority between two systems: Statute and Common Law. The distinct difference is that Statute Law is written and passed by a parliament whereby Common Law is created through judicial (court) decisions establishing precedent. Precedent is seen whereby cases of similar characteristics receive the same ruling.



The Legal System creates our democratic foundation and provides Australian citizens with protection and ensures business and governments operate in the interest of the people.

Legislation is required to be fair and follow the principles of the Rule of Law (see pyramid graph for these nine fundamental values). In order to achieve this the Australian Legal System ensures the following characteristics are adhered to including:

- Laws cannot be retroactive (taking effect from a date in the past);
- Laws must be known;
- Laws must be in coherence with other laws;
- Laws must be enforceable; and
- Laws must apply to all.

The social contract within a democracy is based on rights and liberties for all. To ensure that the peoples have responsibilities within the democratic process. They must live within the laws of society to ensure that everyone has the most freedoms allowed. We also have the responsibility to vote which is a requirement under the Australian Constitution. Unlike other democracies where voting can be at the discretion of the citizen (freedom to decide) in Australia it is compulsory. Every citizen who is aged 18 years and over must vote in a federal and state election if validly enrolled.

Exercise 4.11

Indicate whether the following statements are true or false:

1. In Australia citizens over 18 do not have to vote.	True/False
2. New laws in Australia can have an earlier date put on them.	True/False
3. In a Parliamentary Democracy the party that receives the largest electoral seats in the Senate forms government.	True/False
4. A principle of the Rule of Law is the presumption of innocence.	True/False

b) How elections are conducted and a range of voting methods

The Australian Constitution requires periodic elections for both Houses of Parliament. Elections are when a specific group vote (decide) on who will hold a position. In Australia we refer to the specific groups who can vote government members in as electorates.

In an election, members of the electorate (called constituents) submit their vote using a specific method of voting. Each method determines the successful candidate in different ways.

■ First past the post

This method counts all votes and the candidate with the most votes wins. This is not used in Australia in formal Government elections; however, often used in other contexts such as school representative council elections, community groups and other organisations. An informal hands up vote in class, where majority win is a simple example of the first past the post method of voting.

■ Preferential

Voters submit their preferences for the candidates in their order of preference. This method of voting is used for Federal Government House of Representatives elections.

A ballot paper is used which includes all candidates. Voters complete the ballot paper indicating their preferences for candidates in the boxes provided with a number '1' next to their first preference, '2' next to their second preference and so on.

If a voter completed the ballot paper incorrectly, it will not be counted. This is called an informal vote. For example, they tick or cross the boxes on the ballot paper or use a smiley face. A donkey vote is the term used when a voter numbers the boxes from top to bottom in number order without thought for the candidates or their actual preferences. This vote will be counted as it is technically valid, but the voter did not undertake their civic responsibility in voting seriously.

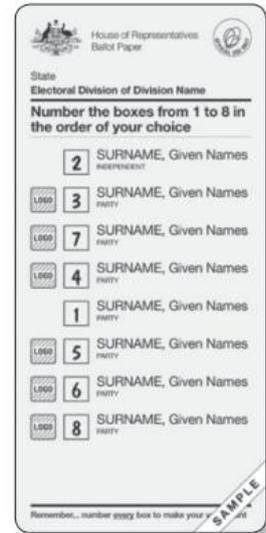
The essence of preferential voting is that voters rank the candidates in the order of their choice. Voters put the number 1 next to their first choice, 2 next to their second choice, and so on. This means that if a voter's first choice of candidate is not elected, their vote may be re-examined and their other preferences taken into account. In this way, candidates can build an absolute majority of support (more than 50% of the votes) rather than the simple majority required under first-past-the-post voting.

■ Optional Preferential

A similar system to preferential but instead of the voter filling in a preference to be indicated for each candidate under optional preferential voting, voters may choose to mark a preference for as many candidates as they want. As long as there is a '1' next to one candidate, the ballot paper is considered valid. Optional Preferential is only valid in New South Wales.

■ Proportional Representation

Proportional Representation is when members are elected from across many electorates. The Senate does not have a member elected to represent each electorate but rather has 12 elected from each State and two from each Australian Territory. The Proportional Representation system is used to elect Senators.



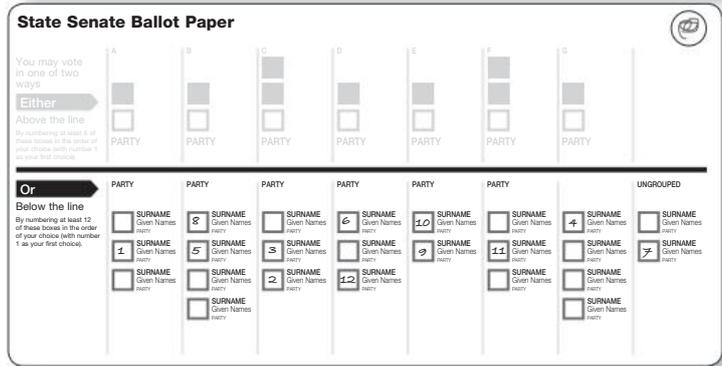
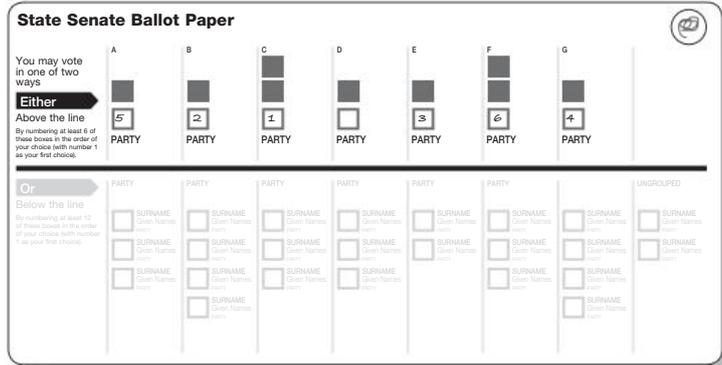
Sample Ballot Paper (House of Representatives)

Within this system, voters have the option of how they vote, either:

Above the line: Voting about the thick black line on the ballot paper allows you to place a 1 and additional numbers (as indicated on the ballot paper) against the candidate groups (parties) you wish to vote in.

Below the line: Voting below the thick black line on the ballot paper requires you to allocate your vote to individual candidates. You must allocate at least the required positions as indicated on the ballot paper.

A candidate is elected when they achieve the required quota (number) of votes needed. This style of voting can increase the chances of minor parties and independents winning seats.



Exercise 4.12

Indicate whether the following statements are true or false:

1. Optional Preferential is valid across Australia.	True/False
2. Donkey Votes are counted as votes in Australia.	True/False
3. In the Proportional Representation system a candidate needs to achieve 50% of the vote to be elected.	True/False
4. The first past the post system is used in federal elections in Australia.	True/False

c) The role of political parties and independent representation in Australia’s system of government including formation of government

In Australia, the Government is formed by the political party with the elected majority in the House of Representatives (lower house in Federal Parliament). The House of Representatives represents the people of each State in proportion to their numbers—that is, there are more members from the States with the largest populations. Each electorate (the area represented by one elected member) votes to elect their federal representative, this is around 100 000 voters for each electorate. The party who holds the majority of seats (at least 76 of the 150) with federal representatives appoints a leader of Federal Government who takes the office of the Prime Minister.

After the election, the House of Representatives may last no more than three years but can be ended (dissolved) sooner by the Governor-General.

Each State is represented equally in the Senate (Upper House) and there are 12 Senators from each State. In 1975 the Territories (ACT and Northern Territory) of Australia were given permission by the Federal Government to elect two Senators each. Senators serve for six years. Elections for half the Senate take place every three years alongside the election for the House of Representatives.

A political party is an organisation that represents a group of people or set of ideas. It aims to have members elected to Parliament so their ideas can affect the way Australia is governed.

Under Australian law, to register as a political party, there must be:

- A written constitution
- An aim to achieve the election of members to the House of Representatives or Senate
- Either 500 members whose names appear on the electoral roll, or have at least one member who is a current member of the Federal Parliament

As of December 2019, there are 56 registered main political parties in Australia.

Major Political Parties in Australia	
Party	History/Origins
	The Australian Labor Party (ALP) began as a political affiliate of the trade union movement advocating for improved working and living conditions for the 'working class' population
	The Liberal Party is a 'centre-right' political party that pursues conservative economic and social policies. In particular, the Liberal Party is concerned with promoting free enterprise and individual liberties.
	Nationals traditionally represent graziers, farmers, and rural voters generally, it began as the Australian Country Party in 1920 at a federal level. Usually forms a coalition government with the Liberals.
	The Greens claim to speak for the environment and also on behalf of people who are disadvantaged in our society: children, refugees, students, people with disabilities, Aboriginal and Torres Strait Islander people, and individuals and families living in poverty.
	One Nation is a nationalist, right-wing populist party in Australia which has received a lot of media attention.

Minor parties only have a small number of members elected to Parliament. They may form part of the government or the opposition through a coalition or agreement with another party. If this is not the case, they sit with the Independents on the seats that curve around at the end of each chamber.

Some of the minor parties currently registered in Australia include:

- Christian Democratic Party
- Shooters, Fishers and Farmers Party
- United Australia Party

Independents are members of parliament that are not affiliated (officially attached) to any party. This means they do not have to vote along party lines (vote on legislation the same way as the party they represent). The power of discretion in their voting gives them a significant importance in both the lower house (forming coalitions) and upper house. If no party holds a majority of seats in the lower house after the election, then they will need to join with other minor and independent parties to form coalition governments. This can result in Independents having a significant role in shaping policy as their vote (approval) would be required to pass any acts. In the upper house where no majority is needed to form government, the role of independents is significant. For laws to be made acts need to pass both houses. When there is no majority in the upper house (39 of 76 in the Senate) parties need to gain the votes of minor parties and independents.

Exercise 4.13

Complete the following glossary table by adding the word to the definition provided.

	Word	Definition
1.		When two or more political groups and/or independents join together.
2.		An organisation that represents a particular group of people who aim to get members into government.
3.		When members of parliament need to vote the way of the political party they are affiliated with.
4.		A party that only has a small number of members of parliament.

d) The process through which government policy is shaped and developed, including the role of Prime Minister and Cabinet

The Constitution created the law-making (legislative) power of the Commonwealth Federal Parliament, consisting of two Houses:

- House of Representatives
- Senate

The Federal Government take responsibility for those issues affecting (or potentially affecting) the whole nation. This is funded through taxes collected at the federal level, for example income tax and company tax. The exclusive legislative responsibilities of the Federal Government are outlined in Section 51 of the Constitution. Their task in government is to implement the policies (principles) that they promoted during the election campaign through passing legislation, initiating government department changes and initiatives to achieve these goals.

The Prime Minister is the leader of the elected political party with the majority of seats in the lower house. The Federal Ministers are appointed from the House of Representatives and are members of the elected majority government and have an area of responsibility known as a Portfolio like Health, Finance, Foreign Affairs, Education and Home Affairs.

Ministers sit on the front bench in Parliament which is why they may be called “frontbenchers”. They suggest ideas for new laws or changes to existing laws as well as answer questions during Parliament Question Time. The Cabinet of Australia is the council of senior Ministers who is led by the Prime Minister. Cabinet meetings are strictly private and occur once a week where vital issues are discussed, and policy formulated.

Australia has a two-party preferred system (two significant parties, Liberal and Labor). When one party is asked to form government, the other party becomes the opposition party. The opposition appoints a Shadow Prime Minister and Shadow Ministers. Their role is to examine closely the decisions of the government either presenting alternative policies or by raising questions during Question Time, which is parliamentary time set aside where Ministers are obligated to respond to questions.

Exercise 4.14

Indicate whether the following statements are true or false:

1. The Prime Minister comes from the opposition government.	True/False
2. Political parties and independents present policies to the electorate during election campaigns.	True/False
3. Ministers are required to answer questions during Question Time regarding their portfolio.	True/False
4. Cabinet refers to a group of Senior Ministers.	True/False

Case Study: Hung Parliament following the 2010 Federal election



Composition of the House of Representatives

Party / affiliation	No. of members
Australian Labor Party	72
Coalition	72
– Liberal Party of Australia	60
– The Nationals	11
– Country Liberal Party	1
Cross-bench members	6
– Independents (T Windsor, R Oakeshott, A Wilkie, B Katter)	4
– Australian Greens (A Bandt)	1
– The Nationals WA (T Crook)	1
TOTAL	150

The Labor Party having been in office prior to the election held a minority government with the support of the Australian Greens Party and three independents.

e) A parliamentary majority, a hung parliament and minority government

When a political party receives the majority of seats in the lower house at the election (at the Federal level it is a majority of the 150 seats and in NSW Parliament it is a majority of the 93 seats) they are invited to form government. However, at times neither party after they election receives a majority of the seats in the lower house which is known as a hung parliament.

When this occurs a coalition of parties may be arranged for a government to be formed. A coalition is formed when two or more political parties join to create a bigger group and gain the majority of seats. However, not all coalitions are formed due to a hung parliament with some parties aligning prior to elections due to similar ideologies (ideas). For example, the Liberal Party and National Party currently form a Coalition Government.

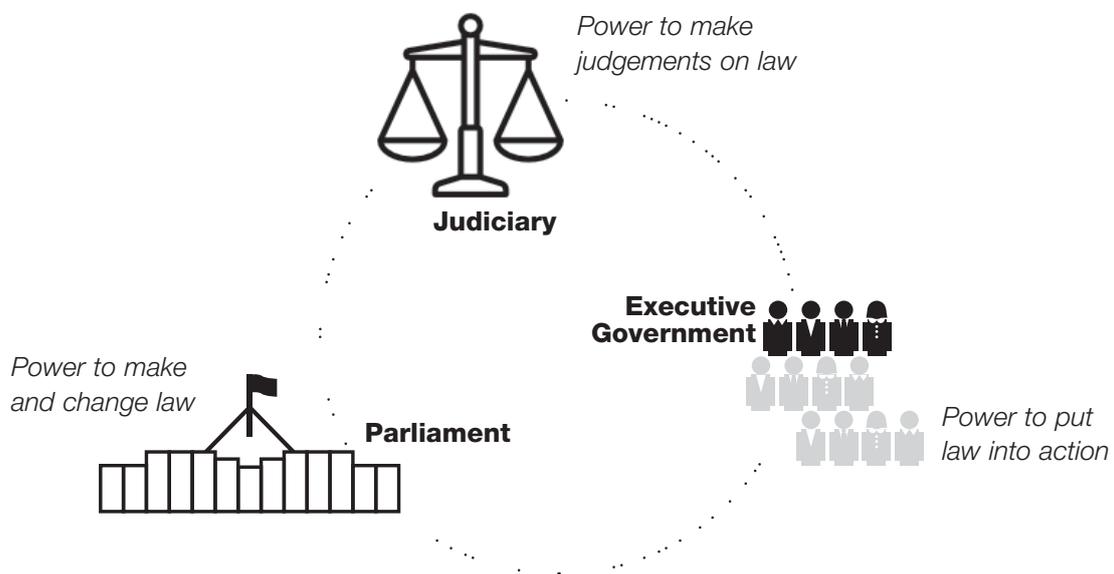
A minority government may also be arranged in which independents and minor parties may agree to support one party in forming government. This does not provide a clear majority of seats for legislation to pass but acknowledges the independents and minor parties willingness to work with a minority government.

Exercise 4.15

Indicate whether the following statements are true or false:

1. A hung parliament is when one side gets a significant majority of the seats in the lower house.	True/False
2. When no one party holds the majority of seats in the lower house then another election can be called.	True/False
3. In the 2010 Election the Labor Party resumed office with a minority government.	True/False
4. Coalitions can be formed prior to elections due to parties sharing similar ideologies on policy.	True/False

f) The separation of powers between the Parliament (legislative), Executive and Judiciary



The Separation of Powers (SOP) divides the government into 3 branches under the Australian Constitution: Parliament (Legislature) to make laws, Executive (Government) to implement laws once passed and Judiciary (Courts) to apply and interpret laws. Each arm of government authority has a clear role. The role of each arm cannot change unless the citizens of Australia agree to it through a referendum.

The three branches of government restrain each other. If the Government recommends a law unacceptable to Parliament, Parliament can refuse to pass it. If an unconstitutional law is made by the Parliament the Court can invalidate it. The Court can only rule on matters allowed by law or the Constitution.

Sometimes the Government is frustrated when Parliament does not pass legislation. And occasionally people complain about the Court striking down unconstitutional laws. But the system was deliberately designed this way to protect us by creating checks and balances on the use of power.

Exercise 4.16

Indicate whether the following statements are true or false:

1. The Separation of Powers divides the authority to make laws between the Federal Government and the State Governments.	True/False
2. The Governor General falls under the Executive arm of government.	True/False
3. Australian citizens have minimal legal protection to stop oppressive government actions.	True/False

4. Current issues Students**a) Access to the law and why some individuals or groups have difficulty in doing so, due to factors such as cost, distance, time, procedures and language difficulties**

Effective access to the legal system is fundamental for citizens to be able to be treated fairly, to ensure the principles of the Rule of Law are sustained and to provide every person with their essential Human Rights.

Access to the legal system is impacted by:

- Cost – Legal representation is expensive and while Legal Aid and advice can be accessed many Australians are not aware of their entitlements.
- Time – While the legal system aims to move quickly. Time is needed to provide each party with adequate opportunity to locate evidence and mount a case or to investigate legal matters.
- Procedure – The law is complex and legal matters use a language different from conversational speech.
- Distance – Access to Legal Aid is challenging for people living in rural Australia. Courts also are hard to access due to their sitting days (days they hear cases).

In order to remedy some of these difficulties there are multiple agencies both government and non-government that can help individuals. These include:

Law Access NSW	Is a free government telephone service that provides legal assistance for people who have a legal problem in NSW.
NSW Civil and Administrative Tribunal	Resolving residential tenancy disputes between landlords and tenants in New South Wales.
Community Legal Centres NSW Inc.	Is the peak body for all community legal centres (CLCs) in NSW providing support to those seeking legal advice by referrals to an appropriate legal service provider.
The Women's Domestic Violence Court Advocacy Program	An independent service for women and children seeking help and information about how to get protection from the court from domestic violence.
The Aboriginal Law Service	Provides legal help and representation for indigenous Australians in criminal and child protection matters.

The justice system doesn't always work well for everyone and sometimes people can't get access to justice. Some community sections are much more vulnerable than others. Groups that typically experiences difficulties in accessing the law include people with disabilities, Indigenous Australians, people from culturally diverse background, women, people on low incomes, people with low levels of education and people living in remote and regional areas.

People with mental illness and disability are over-represented in the justice system. They are more than twice as likely to experience legal problems. They are also more likely to have difficulty resolving them. The justice system can be a particularly challenging place for people with disability and mental illness. Those with a physical disability can face problems of access due to their mobility, and may face obstacles in accessing courts, tribunals, and other intermediaries to exercise their claim/ defend themselves. People with intellectual disabilities may face additional barriers in understanding legal processes and procedures. The Australian Law Reform Commission report entitled, 'Equality, Capacity and Disability in Commonwealth Laws' raised several issues that limited the ability of people with a disability to effectively participate in the Australian Justice System. These included:

- Communication barriers;
- Difficulties accessing the necessary support, adjustments or aids to participate in the justice system;
- The costs associated with legal representation; and

Aboriginal people are over-represented in the criminal justice system. They account for about 3% of the Australian population however they account for about 27% of the prison population. Further the high rate of indigenous deaths in custody has marred our legal system. Indigenous peoples lack of access to the law has contributed greatly to their incarceration rates. The barriers confronting Indigenous people access to the law include:

- a reluctance of Indigenous communities to involve outsiders
- a lack of awareness of the scope and ability of the law to resolve problems
- the limited ability of the law and traditional legal approaches to resolve problems that in many cases involve not just legal, but also political, historical and cultural issues
- the reliance on documentary evidence to substantiate legal claims
- long-term distrust of and previous negative experiences with the legal system
- lack of cultural awareness, sensitivity and compassion within the justice system
- lack of Aboriginal personnel
- lack of relationship between the local Legal Aid office and the local community(ies)
- intimidation in approaching legal services

Legal services available to indigenous people have improved over the years. Legal aid is provided to aboriginal people funded by the Commonwealth Government to promote access to justice. The Aboriginal and Torres Strait Islander legal service (ATSILS) was set up in 2012.

However, currently the services are not totally adequate in providing full access to justice. Services could be improved expanding on the community legal services already available, providing more legal services in remote areas, providing interpreter services in every court, allowing Indigenous people to lodge court documents and correspond with the court in their language and providing more Indigenous community correction officers.

Newly arrived Australians (migrants) can face several barriers when accessing the Australian justice system. These barriers, often experienced simultaneously, can heighten their vulnerability and ultimately hinder the settlement process. Key barriers to accessing justice include English language and literacy, unfamiliarity and cultural difference, prejudice, racism and discrimination, past trauma and complexities of the legal system.

Young people can face invisible hurdles to accessing legal assistance. According to the 1997 Seen and Heard: priority for children in the legal process report, young children face difficulties in accessing justice for matters such as criminal charges, contract issues, personal injury and consumer issues as they lack the

legal capacity to participate in the judicial process. They also may not be aware of the laws that govern them and their rights and responsibilities under the law. In 2016 The Child Rights International Network ranked Australia at 38 out of 197 countries in access to justice for Young people.

Exercise 4.17

Indicate whether the following statements are true or false:

1. Everyone in Australia has equal access to the law.	True/False
2. Only non-government organisations are trying to provide better access for groups and individuals to the legal system.	True/False
3. The Equality, Capacity and Disability in Commonwealth Laws report provides suggestions on potential areas of change to provide better access.	True/False

Review Questions and Activities

- Outline what is meant by Exclusive, Residual and Concurrent Powers.
- Explain the importance of the court hierarchy.
- Distinguish between Original and Appellate Jurisdiction.
- Using the Rule of Law Website outline what precedent was set in the case *Dietrich v The Queen* [1982] HCA 57.
- Distinguish between Domestic and International System of laws.
- Explain the need for the law to reform.
- Outline how a referendum passes.
- Distinguish between below the line and above the line voting.
- How is a coalition formed?
- Identify the leaders of the main political parties (Labor, Liberal Nationals, Greens and One Nation).
- Explain how the Separation of Powers and Division of Powers protect the Australian Democracy.
- Read the SBS Article the 'Opera House protest: Torch lights disrupt racing ad' discuss how individual action can influence politicians.
- When is the next State and Federal election due?
- Read the Guardian Article 'Australian election 2019: Who should I vote for? Guide to party policies in the 2019 Australian federal election'. Distinguish between the policies of the Coalition, Labour and Green Parties.
- Using the https://www.aph.gov.au/About_Parliament/Senate website outline the parties and independents that make up the current Senate. How will this make up effect the passage of bills?

Exercise 4.17 Multiple Choice

Select the alternative A, B, C or D that best answers the question.

1. The law restricts people from smoking in public places. This is an example of a:
 - a. Paternalism
 - b. Harm
 - c. Moral
 - d. Samaritan

2. A principle of the Rule of Law is:
 - a. Innocent until proven guilty
 - b. Freedom of Speech
 - c. Knowing the law
 - d. All of the above

3. A court with no appellate jurisdiction is?
 - a. Local Court
 - b. District Court
 - c. Family Court
 - d. High Court

4. The role of the Judge in the district court is to:
 - a. Decide on a verdict
 - b. To question the accused
 - c. To rule on points of law
 - d. To swear the witnesses in

5. The Standard of Proof in a civil case is:
 - a. Balance of doubt
 - b. Balance of Probabilities
 - c. Beyond all doubt
 - d. Beyond reasonable doubt

6. Common law is made by:
 - a. Parliament
 - b. The Queen
 - c. The Courts
 - d. The Prime Minister

7. Laws are altered because of changes to:
 - a. Society expectations
 - b. Scientific discoveries
 - c. Technological changes
 - d. All of the above

8. A person struggles to understand a court notice form because they do not read English. What is preventing this person from accessing the law?
 - a. Cost
 - b. Time
 - c. Language
 - d. Procedures

9. What is not a barrier for Indigenous Australians in accessing the law is:
 - a. Lack of confidence in confidentiality
 - b. Lack of Aboriginal personnel
 - c. Long Term Distrust
 - d. No specific services to target the needs of Indigenous People

10. The Separation of Powers divides power between:
 - a. Local, State and Federal Governments
 - b. State, Federal and Commonwealth
 - c. Judiciary, Executive, Parliament
 - d. Judiciary, Parliament and Police

Answers

Exercise 4.1

1. rules, 2. structure, 3. protect, 4. freedom, 5. disputes, 6. regulates, 7. themselves, 8. just, 9. prosper, 10. government.

Exercise 4.2

1. Local, 2. Federal, 3. Federal, 4. Federal, 5. Local, 6. Local, 7. Local, 8. Federal, 9. State, 10. State

Exercise 4.3

1. District, 2. Local, 3. Local, 4. Drugs, 5. Family

Exercise 4.4

1. 15, 2. 8, 3. 12, 4. 10, 5. 10, 6. 12 months or 1 year, 7. 3

Exercise 4.5

1. F, 2. T, 3. T, 4. F, 5. F

Exercise 4.6

1. F, 2. F, 3. T, 4. F

Exercise 4.7

1. Criminal, 2. Criminal, 3. Civil, 4. Civil, 5. Criminal, 6. Criminal

Exercise 4.8

1. F, 2. T, 3. T, 4. T, 5. F, 6. F

Exercise 4.9

1. F, 2. T, 3. T, 4. F

Exercise 4.10

1. 2 months, 2. 4, 3. 3 months, 4. 128

Exercise 4.11

1. F, 2. F, 3. F, 4. T

Exercise 4.12

1. F, 2. T, 3. F, 4. F

Exercise 4.13

1. Coalition, 2. Party, 3. Voting along party lines, 4. Minor

Exercise 4.14

1. F, 2. T, 3. T, 4. T

Exercise 4.15

1. F, 2. F, 3. T, 4. T

Exercise 4.16

1. F, 2. F, 3. T

Exercise 4.17

1. B, 2. D, 3. A, 4. C, 5. B, 6. C, 7. D, 8. C, 9. D, 10. C

Option 1

Our Economy

Economics is the study of people and the choices they make in their daily lives. These choices centre around what is referred to as the economic problem.

- Wants are unlimited. As humans, we generally have no limit to the amount of goods and services we would buy if we had enough money.
- Resources are limited. The resources businesses use to create the goods and services that satisfy our wants – everything from natural resources to people – are limited in their supply.
- We must make choices. Since our wants are unlimited, but resources are limited - we must make choices that best balance unlimited wants with limited resources.

Society makes goods and delivers services in response to the economic problem – this process is called production.

Please remember as we proceed in this chapter that economics relates to the production of both goods and services. However, most of the examples in this book will refer to examples relating to goods, as they are easier to understand when trying to explain foundational concepts in economics.

For example, Toyota produces cars (a good) and Commonwealth Bank produces financial products (a service). Both are products, but most students find the former more intuitive and easier to understand than the latter.

When making goods, our society must answer four basic questions in relation to production:

What specific goods will society produce?	<ul style="list-style-type: none"> ■ Will we make phones, bananas, medicine, tables, staplers, TVs, shopping centres, bridges or nuclear power plants? The list is endless and because we have limited resources we can't make them all. ■ Some societies are better or worse at producing certain goods, e.g. It is hard to grow coffee in Australia due to the climate and terrain, but mining is cost effective due to our plentiful mineral resources
How much of each good will society produce?	<ul style="list-style-type: none"> ■ We need to get the right balance between demand and supply for each good. ■ For example, if we produce too many apples they may spoil or go to waste; and if we produce not enough, consumers may be left without a product they desire.
How will society produce the good?	<ul style="list-style-type: none"> ■ We must work out the most efficient way to produce a good to ensure most people in society have their needs met. This is usually by businesses making the good in return for profit. ■ However, who will pay for the production of goods that we all want, but no individual person is willing to pay for? E.g., roads, parks, and a clean environment.
To whom, and how will society distribute the goods?	<ul style="list-style-type: none"> ■ In most cases goods are allocated based on whoever can afford to pay for them. The more money you have, the more you can purchase. ■ However, should some goods be made cheaper – e.g., should education be completely free, should pensioners and children pay less for health care?

Goods and services are produced by putting various resources together in a specific way to make a product.

For example, McDonalds combines meat, bread, cheese, onions and condiments to make a Quarter Pounder Burger. However, there are other items that go into make a burger that may not be immediately obvious.

There are four key types of resource that go into making any product – in economics these are known as the factors of production.

Land	Land incorporates all the natural resources that go into producing any good. This includes all plant and animal products from the earth and sea, along with any minerals that can be dug up from the ground. Examples of land resources include: wheat, barley, corn, cattle, sheep, fish, timber, rubber, coal, gas, iron ore and uranium.
Labour	Labour is the people that work to make the goods and services that businesses produce. Products cannot be made without people – even a factory with lots of robots and automation will still have people overseeing the operation and conducting maintenance or repairs.
Capital	Capital is the money and equipment that goes into the production of a good or service. For example, when setting up a new coal mine, it will cost BHP millions of dollars to purchase dump trucks, bulldozers, excavators, cranes, utes, portable offices and computer equipment. All these items and the money needed to buy them is considered capital.
Enterprise	Unlike the other three factors of production, enterprise is an intangible concept. Enterprise is comprised of the skills that an entrepreneur has when they put together the other factors of production (land, labour, capital) in a specific way to make a good or deliver a service. The entrepreneur is motivated by the goal of making a profit.

1. Performance of the Australian Economy

Different economies around the world achieve their economic goals with varying levels of success. Some economies are better at combining their factors of production to make products which best solve the economic problem for their society. In order to compare economies and their levels of success we use a set of unbiased measurements known as economic indicators.

a) Economic indicators used to measure the performance of the Australian economy

Australia performs very well on most economic indicators in comparison to other nations around the world.

However, it must be noted that economic indicators often represent an average of values relating to whatever they are measuring. For example, if Australia does very well on a wealth indicator, it does not necessarily mean that everyone in the country is rich. Some members of society will be exceedingly wealthy; and some will be poor – but the average will be doing quite well.

There are numerous economic indicators for any particular measure of performance we wish to investigate. Each type of indicator has its particular pros and cons. We will be looking at some of the more commonly used indicators, but these should not be considered an exhaustive list.

■ Standard of Living

The Human Development Index (HDI) is an economic indicator that is published by the United Nations. It is particularly useful when measuring the standard of living in a society because it does not just look at money and income when looking at the overall wellbeing of the citizens in a nation.

The HDI measures three key variables:

Income	The HDI looks at GDP per capita when measuring income. This is how much an economy produces in relation to the size of its population.
Life Expectancy	This is the average age to which each citizen in a country lives. A high life expectancy is correlated with low infant mortality and a well-functioning health care system that takes care of its population.
Education	This measures the average level of education for citizens within a country. A highly educated society is correlated with informed citizens who can participate in a democratic, innovative and high-growth economy.

Case Study: United Nations HDI Rankings for 2019

Every year the United Nations releases its Human Development Index (HDI) rankings. Statistics related to income, health and education are collated from over 180 countries. These statistics are then converted into a score that ranges from 0 to 1. In recent decades Australia has consistently ranked highly. Last year we were in equal 6th place with Iceland. A table of the top ranked nations can be seen below:

Rank	Country	HDI Score	Life Expectancy	Avg. Years Schooling	Avg. Income in USD
1	Norway	0.954	82.3	12.8	68,059
2	Switzerland	0.946	83.6	13.4	59,375
3	Ireland	0.942	82.1	12.5	59,375
4	Germany	0.939	81.2	14.1	46,946
4	Hong Kong, China	0.939	84.7	12.0	60,221
6	Australia	0.938	83.3	12.7	44,097
6	Iceland	0.938	82.9	12.5	47,566
8	Sweden	0.937	82.7	12.4	47,955
9	Singapore	0.935	83.5	11.5	83,793
10	Netherlands	0.933	82.1	12.2	50,013
11	Denmark	0.930	80.8	12.6	48,836
12	Finland	0.925	81.7	12.4	41,779
13	Canada	0.922	82.3	13.3	43,602
14	New Zealand	0.921	82.1	12.7	35,108
15	United Kingdom	0.920	81.2	13.0	39,507
15	United States	0.920	78.9	13.4	56,140

Source: United Nations - hdr.undp.org

■ Economic growth

Economic growth is measured by an indicator called Gross Domestic Product (GDP) – which is the total value of all finished goods and services produced in an economy within a given year.

GDP is expressed as a dollar amount. When we want to compare different economies around the world, we normally convert their GDP to United States dollars.

Economic growth occurs when an economy gets larger – i.e. the total value of all goods and services produced in the current year increases in comparison to the previous year. Growth rates in different ranges represent different levels of economic performance:

Growth Rate	Performance Level
0-2%	Low
3%-4%	Good
5%-6%	High
6%+	Very high

An economy can have a negative growth rate, which means the economy is shrinking and citizens in that economy are worse off than they were in previous years. If an economy shrinks for two quarters in a row (i.e. 6 months) it is called a recession.

Case Study: Gross Domestic Product – International comparisons

Countries vary enormously in the size of their economies and GDP. Below are rankings of national economies as collated by the World Bank. Table 1.1 shows the top 15 countries listed by the size of their GDP. We can see that the United States is the world’s biggest economy – producing \$US 20.5 trillion in goods and services. Australia is ranked 13th with \$US 1.4 trillion. This means the US economy is almost 15 times larger than Australia!

When comparing the size of national economies, it is also useful to take the size of the country’s population into account. This is done in table 1.2, where the GDP of each economy is divided by the number of people living in that country. By doing this, much smaller countries that were not on the first list start appearing on the second list. While their economies may not be large in absolute terms, they are “punching above their weight” economically.

Rank	Country	\$US Tril.
1	United States	20.5
2	China	13.6
3	Japan	5.0
4	Germany	4.0
5	United Kingdom	2.8
6	France	2.7
7	India	2.6
8	Italy	2.0
9	Brazil	1.9
10	Canada	1.7
10	Russia	1.7
12	Korea, South	1.6
13	Australia	1.4
13	Spain	1.4
15	Mexico	1.2

Rank	Country	\$USD
1	Luxembourg	114,341
2	Switzerland	82,839
3	Norway	81,807
4	Ireland	77,450
5	Iceland	73,191
6	Qatar	69,027
7	Singapore	64,582
8	United States	62,641
9	Denmark	60,596
10	Australia	57,305
11	Sweden	54,112
12	Netherlands	52,978
13	Austria	51,513
14	Finland	49,960
15	Germany	48,196

Source: World Bank - data.worldbank.org

■ **Income Distribution**

Income is money received by an individual through work - or by a business through making a profit

The distribution of income within different national economies can vary enormously. Most economists consider a fair distribution of income to be an important consideration in measuring the success of an economy.

Income inequality occurs when an economy has a small number of very wealth citizens who get most of the income that the nation produces. Income inequality is measured by an indicator called the Gini Coefficient. This is a score that ranges from 0 (total income equality) to 1 (total income inequality).

Some countries with high income inequality (and thus a high Gini coefficient) include: South Africa (.62); Colombia (.51) and Papua New Guinea (.51). Australia has a relatively fair distribution of income by international standards, with a Gini coefficient of .30.

■ **Environmental Sustainability**

Producing goods and services in an economy should not come at the expense of damage to the environment. All fields of study are becoming increasingly aware of the importance of sustainability; and economics is no different.

There is a tension internationally between large and established economies (such as the United States, Germany, Japan and Australia) who have negatively impacted the environment for decades - and emerging nations (such as China and India) who wish to grow their economies to similar levels.

While all nations in the world deserve the same living standards that we enjoy in Australia, it is difficult to see how this can be possible in a sustainable way using current production methods. This is one of the biggest challenges facing economics in the 21st century.

b) Economic influences affecting the performance of the Australian economy

Governments plays an important role in promoting economic development in an economy. The ways that the Australian government intervenes in our economy can be broadly categorised as follows:

- **Macroeconomic policies** – these are “big picture” policies that aim to affect the economy as a whole and reduce large fluctuations in the business cycle.
- **Microeconomic policies** – these are a narrower set of policies that aim to manipulate the decision making of individuals or businesses to achieve better economic outcomes.

Macroeconomic policies

Monetary policy	Government manipulation of the interest rate (cost of borrowing money) to achieve economic goals around inflation, employment and economic growth.
Fiscal policy	The process by which the government controls its own income and expenditure to affect the economy. Income is manipulated via higher/lower taxes; and expenditure is manipulated by increasing/decreasing spending money on government services.

Microeconomic policies

Trade	The government can create incentives or restrictions to manipulate Australia’s trading with overseas economies. The Australian government has promoted trade in recent decades through: reducing tariffs (taxes on imports); providing subsidies to exporters; and negotiating international free trade agreements.
Education	The Australian government invests heavily to educate the Australian population. On average, it costs approximately \$13,000 per year in funding to educate a student in a public school. The Federal government also contributes over \$36 billion annually to fund universities and TAFEs.
Productivity	The Productivity Commission is an independent research and advisory organisation that provides the Federal Government with advice and research on how to improve the efficiency of the Australian economy.

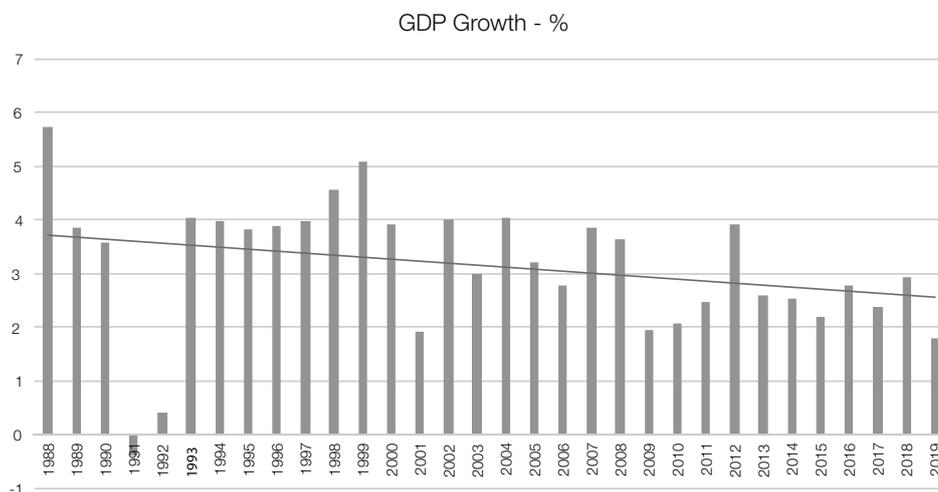
c) Performance of the Australian economy

By international standards, Australia has a well-functioning, productive and successful economy. Our performance across various economic indicators is outlined below:

■ Economic Growth

Australia has enjoyed uninterrupted economic growth since our last recession back in 1991 – a record amongst developed nations. Australia’s growth rate during the last 30 years has averaged just over 3%. Whilst this is not very high compared to some emerging economies, it is very consistent and has contributed to our high standard of living and stable economy.

The chart below shows Australia annual GDP growth since 1998. We can see a slight downward trendline in GDP, but this mirrors the same marginal downward trend in global growth.

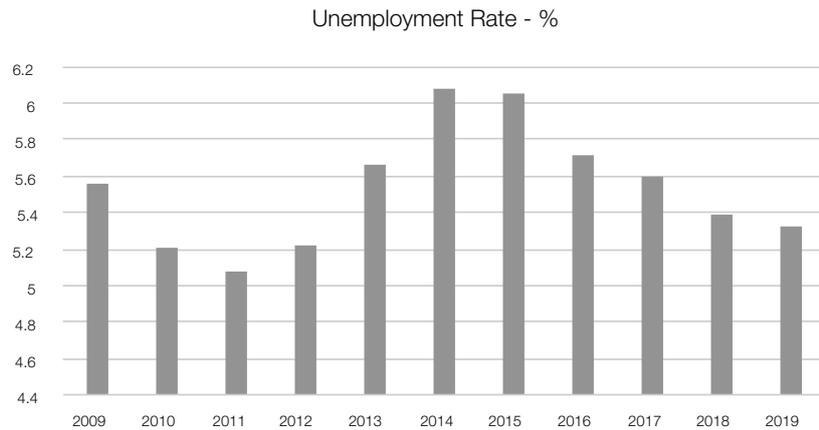


Source: World Bank - data.worldbank.org

■ Unemployment

An unemployed person is someone who is actively looking for a job but cannot find one. An economy aims to have a low unemployment rate, meaning that only a small percentage of its society cannot find paid employment.

Over the past ten years, the Australian economy has enjoyed a relatively low unemployment rate, in the range of 5%-6%. Earlier decades have seen much worse periods of unemployment – for example, in the four years from 1991-95, unemployment averaged 10.2%.



Source: World Bank - data.worldbank.org

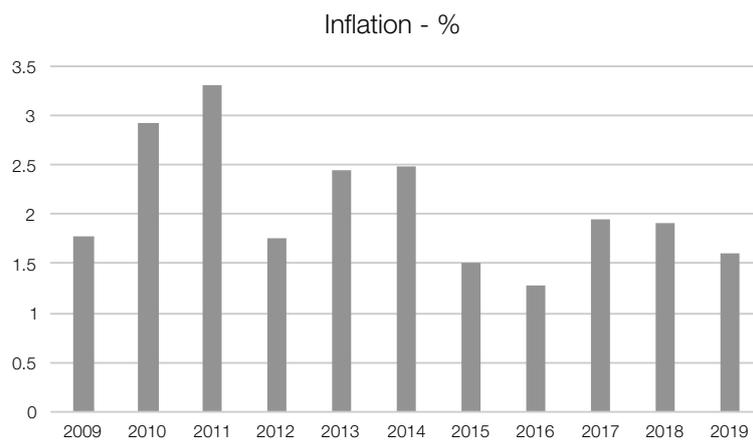
■ Inflation

Inflation is an indicator that measures the rise in prices of goods and services – it is normally expressed as a percentage.

Economies want to avoid high inflation or large fluctuations in inflation, as it causes economic uncertainty and makes business planning difficult. Throughout the 1970s and 1980s Australia suffered from high inflation levels – sometimes well over 10%.

In the early 1990s the Reserve Bank of Australia (RBA) set an “inflation target” for the nation of 2-3%. To a large extent, the RBA has been able to meet this target over the last 30 years by using monetary policy tools to manage the economy.

Australia’s inflation rate over the last decade can be seen below. The average rate over this period of time has been 2.4% – right in line with the RBA target.



Source: World Bank - data.worldbank.org

Sustainability Indexes

There are many ways to gauge the environmental impact of a national economy, but one of the most effective relates to its CO2 emissions. More than any other metric CO2 emissions contribute to global climate change.

Australia does not produce much CO2 in absolute terms – we emit just over 1% of global carbon emissions. This compares favourably to the United States (13.8%) and China (29.4%). However, when our small population is considered, and we look at per capita figures, we perform very poorly. Annually we emit 16.8 tonnes of CO2 per person, which is similar to the United States (16.1) and actually double that of China (8.0).

d) Reasons Behind the Australian Economy’s Performance

There are many reasons behind the Australian economy’s excellent performance over recent decades.

Natural resources	Australia is a large country with abundant natural resources. We have a significant mining sector that profits from large reserves of iron ore, coal, natural gas, gold, aluminium and petroleum. We also have a strong agricultural sector that specialises in wheat, grains, rice, oilseeds, legumes, sugarcane, cotton, fruits, vegetables.
People	Australia has a highly educated, motivated and entrepreneurial workforce. Decades of migration have also contributed positively to the economy through the dynamism, skills and diversity that this group brings to the country.
Financial System	Australia has a healthy and well-regulated financial system. The banks have solid credit ratings and loans for investment are readily available to individuals and businesses. Internationally Australia is seen as a safe and trustworthy country in which to invest.
Government Policy	Beginning in the 1980s, successive Australian governments have recognised the need for reform of the Australian economy. Numerous deregulation, privatisation and labour market reforms have been implemented that have contributed the economy becoming more productive. Similarly, governments have placed a high priority on promoting international trade, particularly within in the Asia Pacific region.
Society	Australia is a fair and egalitarian democracy. By international standards, there is very little government corruption. Similarly, people and businesses generally follow laws and comply with regulations. This has benefitted the country in terms of international investment; and has also attracted highly educated and wealthy migrants to the country.

e) Australia’s Economy Within the Asian Region

The Australian economy is very important and influential within Asia. We are the 5th largest economy in the Asian region, which is impressive given our relatively small population. Indonesia’s economy (US\$1.0 trillion) is smaller than Australia’s (US\$1.4 trillion) – despite the fact that their population is almost 11 times larger! However, there is one country in the Asian region whose economy completely dwarfs Australia’s – and that is China.

Case Study: Economic Comparisons Between Australia and China

Australia and China are vastly different nations with very different economies. Although Australia has enjoyed significant economic growth over the last 40 years, it is nothing compared to that of China. Emerging from virtual poverty in the 1970s, China has become a political and economic superpower that will drive global economic growth into the 21st century. However, despite its huge size and economic success, the Chinese economy still lags behind Australia when it comes to income distribution and the standard of living for its average citizen. A range of indicators comparing the two economies can be seen below.

Indicator	Australia	China	Times larger / where relevant
GDP – \$US Trillions	1.4	13.6	9.7x
GDP – percentage of global economy	1.6%	15.9%	
Exports – \$US Trillions	0.43	2.49	5.8x
Imports – \$US Trillions	0.42	2.14	5.1x
Population size	24,992,000	1,393,000,000	55.7x
GDP per capita – \$US	57,300	10,100	
Labour force size	13,141,000	783,194,000	59.6x
Human Development Index (HDI)	0.938 – rank 6th	0.758 – rank 85th	
Average annual economic growth since 1980	3.10%	9.51%	3.1x
Foreign Reserves (money held in overseas banks) – \$US Trillions	0.05	3.10	65.8x
Overseas debt – \$US Trillions	2.1	1.6	

Exercise 1.1 True or False

Indicate which of the following statements is true or false.

1. The economic problem relates to the fact that wants are unlimited and resources are limited in our economy	True/False
2. The four factors of production are Land, Labour, Capital and Resources	True/False
3. Indicators are unbiased data and statistics that can be used to compare different economies	True/False
4. A GDP growth rate of 6% or more is considered to be very high	True/False
5. Microeconomic policies include monetary and fiscal policy	True/False
6. The Reserve Bank of Australia has set an inflation target of 2-3%	True/False
7. Australia is a small and thus largely irrelevant economy in the Asian region	True/False

2. International trade and the Australian economy

Trade has always played an important role in the Australian economy. From the pre-contact Indigenous era, all the way to the present day - trade has strengthened the national economy by contributing to jobs growth, prosperity and improved standards of living.

Trade is a “two-way” street, and is comprised of the following:

Trade Type	Definition	Examples
Imports	Goods or services that are produced by other nations and sold to Australia	<ul style="list-style-type: none"> ■ Australia buys Toyota cars from Japan ■ Australia buys Rolex watches from Switzerland
Exports	Goods or services that are produced by Australia and sold to other nations	<ul style="list-style-type: none"> ■ Australia sells coal and iron ore to China ■ Australia sells wine to Singapore

It is important that note that trade comprises both goods and services.

Trade in goods are easy to understand because we can all imagine fridges, mobile phones or TVs arriving in Australia on a giant container ship. However, when it comes to international trade, services (and particularly financial services) are just as important. For example, when the typical Australian gets a loan from a bank to buy a house, most of the money being lent to them is actually “imported” from overseas money markets.

a) Australia as a trading nation

It needs to be recognised that whilst trade is extremely important to the Australian national economy, we are a relatively smaller player in relation to global trade. This can be seen in the table below which shows Australia’s global export ranking from 2017. We can see that Australia does not make the top ten in the export of goods and services; and is ranked 23rd.

Note: all amounts in US\$ billion

Rank	Country	Goods	Services	Total exports	Global % share
1	China	2,263	228	2,491	10.8%
2	United States	1,546	781	2,327	10.1%
3	Germany	1,448	304	1,752	7.6%
4	Japan	698	185	883	3.8%
5	Netherlands	652	218	870	3.8%
6	United Kingdom	441	351	792	3.4%
7	France	535	249	785	3.4%
8	Republic of Korea	574	87	661	2.9%
9	Hong Kong	550	104	654	2.8%
10	Italy	506	111	617	2.7%
23	Australia	232	65	297	1.3%

Source: Department of Foreign Affairs and Trade – dfat.gov.au

Despite the relatively modest contribution we make to global trade, Australia is actively engaged in all the key international organisations that manage world trade: such as the World Trade Organisation (WTO); Asia-Pacific Economic Cooperation Forum (APEC) and the Group of Twenty Forum (G20). We also play a leading role in the Asia Pacific region as evidenced by our close relationship and formal trade agreements with the Association of Southeast Asian Nations (ASEAN).

■ Australia’s Major Trading Partners

The table below shows Australia’s top trading partners by two-way trade (i.e. both imports and exports). All amounts are listed in A\$ millions.

Rank	Country	2018
1	China	214,860
2	Japan	85,776
3	United States	73,859
4	Korea	40,864
5	Singapore	32,223
6	India	30,461
7	New Zealand	29,255
8	United Kingdom	26,938

Rank	Country	2018
9	Thailand	25,714
10	Malaysia	24,061
11	Germany	23,261
12	Hong Kong	17,823
13	Taiwan	17,665
14	Indonesia	17,570
15	Vietnam	14,568

Source: Department of Foreign Affairs and Trade - dfat.gov.au

We can see from this table that China is by far our most important trading partner. Two-way trade between the countries accounts for over \$214 billion. Top put that in perspective, the value of trade between Australia and China is 2.5x larger than that with our next largest partner, Japan. You will also notice that 11 of our top 15 trading partners are all located in the Asian region.

■ Australia's Major Imports and Exports

Data in the tables below shows the major categories of goods and services that Australia imports and exports. All amounts are listed in A\$ millions.

Top 10 exports of goods & services			Top 10 imports of goods & services		
	2019	% of total exports		2019	% of total imports
Iron ores & concentrates	77.0	16.4%	Personal travel services	46.2	11.0%
Coal	69.5	14.8%	Refined petroleum	25.2	6.0%
Natural gas	50.0	10.6%	Passenger motor vehicles	21.6	5.1%
Education services	37.7	8.0%	Telecom equipment & parts	14.6	3.5%
Personal travel services	22.3	4.7%	Crude petroleum	13.3	3.2%
Gold	18.9	4.0%	Goods vehicles	10.6	2.5%
Aluminium ores & conc	11.4	2.4%	Freight transport services	10.1	2.4%
Beef	9.5	2.0%	Computers	9.8	2.3%
Crude petroleum	8.4	1.8%	Professional services	7.7	1.8%
Copper ores & concentrates	5.9	1.3%	Passenger transport services	7.5	1.8%
Total	469.9	100%	Total	419.7	100%

Source: Department of Foreign Affairs and Trade – dfat.gov.au

We can see from the first table that Australia's exports are heavily reliant on goods related to the resource and mining sectors. Iron ore, coal and natural gas alone make up a significant proportion of our exports (41.8%). The only services in the top ten are travel (which is foreign visitors coming to Australia) and education (which is foreign students studying in Australia).

Our imports are comprised of a more even balance between goods and services. In terms of percentages, there is no particular industry that overwhelmingly dominates imports in the same way that mining does for exports. It could come as a surprise to many that travel (Australians visiting overseas) is our largest import category! We spend about the same amount on international travel (\$46.2 billion) as we do on importing cars (\$21.6 billion) and the petrol to run them (\$25.2 billion).

b) Changes in Australia's trade patterns

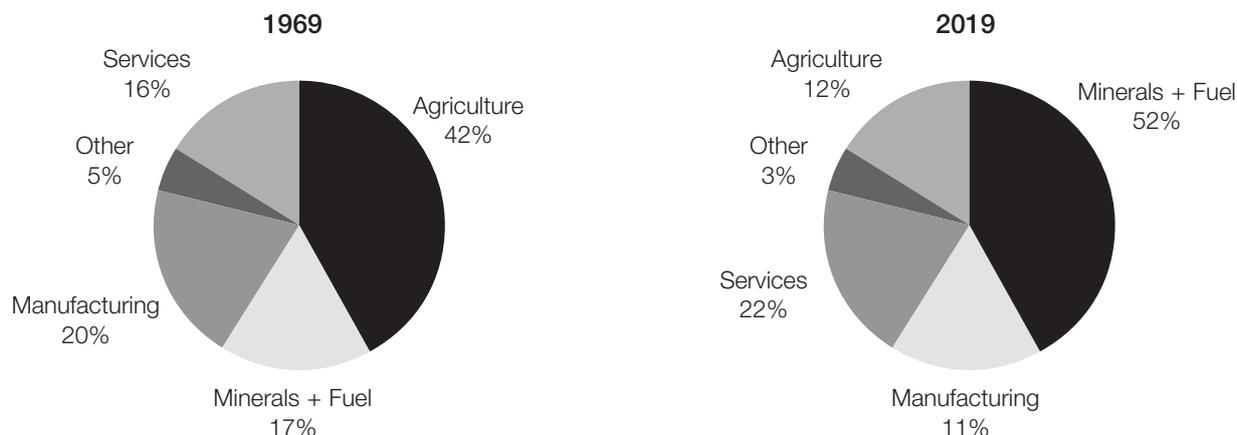
The size and volume of Australia's trade has changed tremendously over recent decades. For example, in 1964, our two-way trade in goods and services amounted to \$6.1 billion – which was 28.7% of GDP at the time. Today, two-way trade amounts to over \$880 billion – contributing to more than 40% of GDP.

Historically the United Kingdom was Australia's largest trading partner. In 1964, almost 25% of goods exported from Australia went back to the "mother country". However, in the post-war period the UK started to forge closer trading relationships with its neighbouring European countries; and trade with "former colonies" such as Australia became less important. When the UK entered the European Free Trade Association in 1960, Australia realised that it had to forge stronger trading links with countries in our own region.

With the economic rise of Japan in the 1960, Australia began trading heavily with its Asian neighbour – and they overtook the UK to become our major trading partner in 1967. They remained in this spot until they

were overtaken by China in 2009. Today, two-way trade with Asia represents around 2/3 of our total trade in goods and services.

The two charts below show the change in the composition of Australia’s trade exports from 1969 to 2019.



Source: Department of Foreign Affairs and Trade – dfat.gov.au

We can see that over this 50-year period the sectors that make up Australia’s exports have changed significantly. In particular, the mining sector has tripled in importance (rising from 17% to 52%) - whilst the agricultural sector has declined dramatically (falling from 42% down to 12%).

It is difficult to predict the future of Australia’s trade; however, most analysts assume that that our close links to Asia will only strengthen in the coming years. The UK’s decision to leave the European Union will necessitate the negotiation of a free trade agreement between our two nations; and could likely fast-track our current free trade negotiations with the EU.

c) Interdependence of Australia with other global economies

Case Study: Australia and China

Australia’s economy is highly interdependent with that of China. In 2018/19 two-way trade between the two countries was \$231 billion – with imports comprising \$81 billion and exports \$153 billion. Contrary to public perception, we actually export much more to China than we import! China accounts for more than 25% of our international trade – which is the same level of importance as our next four trading partners combined (Japan, USA, Korea and South Korea).

The Chinese trading relationship has developed slowly but consistently over many decades. To a large degree, the Australian economy has been benefitting from an industrial and infrastructure boom that started in China back in the 1980s. Over several decades, literally trillions of dollars have been spent by the Chinese government to transform the country from a relatively poor agricultural society, to a modern industrial economy. They have built new cities from the ground up: factories, roads, bridges, airports, railways, apartments, office buildings, schools, hospitals and military infrastructure.

Australia has contributed to China’s economic development primarily through the export of our natural resources to their emerging economy. Australian iron ore (which is used to make steel) has gone into constructing their buildings, bridges and railways. Similarly, our coal and natural gas has been used to generate electricity in their new power plants; and provide fuel for the furnaces in their steel mills.

In return, Australia has imported cheap consumer goods made in Chinese factories. Everyone in Australia is aware of the “Made in China” label that is attached to everything from clothes, handbags, kitchenware, electrical goods, electronics, whitegoods, furniture, hardware, groceries and computers. In recent years, China has been focussing on the production of higher value goods such as iPhones, medical equipment and cars – all of which are being made in China and imported in Australia.

While the trading relationship with China comes with many benefits, it also carries several risks. These mostly relate to significant power imbalance between our two nations. China’s economy is almost 10x larger than Australia’s – and simply put, we rely on them much more than they rely on us. Whilst China is Australia’s no.1 trading partner – we are 7th on their list, and account for less than 3% of their overall global trade. If our trading relationship ended for some reason, it would have catastrophic consequences on our economy, but relatively little impact on China.

d) Government impact on trade

Successive Australian governments over recent decades have seen trade growth as a key economic priority. Both Labor and Liberal/Coalition governments have taken pro free trade policy positions; and have worked to engage Australia with the numerous international organisations that promote free trade.

■ Department of Foreign Affairs and Trade (DFAT)

DFAT is the government department most directly responsible for promoting Australia’s trade interests internationally. DFAT coordinates and negotiates Australia’s Free Trade Agreements (FTAs) – which are treaties (contracts) between two or more countries that set the “rules” for trade between the parties. The goal of FTAs is to increase the trade of goods and services between the two countries signing the treaty. This is done by reducing or eliminating barriers to trade, such as tariffs and government regulations. Negotiating a FTA is a long and complicated process that can often take several years.

Australia’s first FTA was signed with New Zealand in 1983. This is known as the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA). The agreement is one of the most comprehensive FTAs in the world and effectively removes all barriers to trans-Tasman trade in goods and services.

Australia has also entered into bilateral FTAs with the following nations:

Country	Acronym	Year
Singapore	SAFTA	2003
United States	AUSFTA	2005
Thailand	TAFTA	2005
Chile	ACIFTA	2009
Malaysia	MAFTA	2013
Korea	KAFTA	2014
Japan	JAPEA	2015
China	ChAFTA	2015
Hong Kong	A-HKFTA	2020

In recent years, Australia has also signed two multilateral FTAs – which are agreements that include multiple countries.

- The ASEAN-Australia-New Zealand FTA (AANZFTA) was signed in 2010 and currently includes: Australia, New Zealand, Brunei, Burma, Malaysia, the Philippines, Singapore, Vietnam, Thailand, Laos, Cambodia, and Indonesia.

- The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was signed in 2018 and currently includes: Australia, Canada, Japan, Mexico, New Zealand, and Singapore.
- The CPTPP was originally intended to include the United States, but Donald Trump signed an executive order that withdraw America from the deal following his election as President in 2016.

The FTAs negotiated by the Australian government have delivered the following benefits:

- Increased economic activity and job creation
- Cheaper goods available to Australian consumers
- Access to new technologies and innovative business practices
- Increased foreign investment
- Stronger and more cooperative international relationships
- Increased international profile for Australia

Exercise 1.2 Matching

Match the following statements to the correct term in the word bank:

Statement	Term
1. The term for when Australia sells coal to China	
2. This is Australia’s top trading partner	
3. Australia’s top export	
4. Historically this was Australia’s most important trading partner	
5. The government department responsible for negotiating FTAs	
6. Australia’s first FTA which was signed in 1983	
7. This is Australia’s largest import	

Word Bank: Iron ore; Travel; Export; ANZCERTA; China; DFAT; United Kingdom

3. Global influences on the Australian economy

Globalisation is the process by which countries have become more interconnected through trade in goods and services.

Globalisation is a major trend that started in the 1970s and 1980s; and has increased in pace ever since. Technology has played a large part in the expansion of globalisation – particularly in relation transport, communications, computing and the Internet.

Globalisation has brought with it numerous benefits – but also a series of downsides

Advantages of Globalisation	Disadvantages of Globalisation
Free trade and increased competition have made goods and some services cheaper for consumers	In some instances, it has made the rich members of society even more wealthy; and thus, increased income inequality
Poor countries are given the opportunity to bring themselves out of poverty through trade and the development of their local economy	Factories and pollution generating industries have been moved from wealthy countries to poor countries
Companies benefit by having access to larger world markets and more customers, which increases profits	Some workers in wealthy countries must compete with a global workforce, which reduces their wages and standard of living
When countries are closely linked economically, it leads to better cultural understanding, cooperation and a reduction in military conflicts	Some large multinational corporations have moved offshore to avoid paying taxes, which puts pressure on local economies to fund government spending

Most economists argue that on balance, globalisation has had a net positive effect on the Australian economy – meaning that the advantages have outweighed the disadvantages. It has led to increased jobs growth and an overall higher standard of living. However, this claim is difficult to prove with objective research data. The negative effects of globalisation have disproportionately impacted some members of Australian society more than others.

Certain populist political movements in recent years (e.g. President Trump in the USA; and Brexit in the United Kingdom) are based in large part on an “anti-globalisation” platform. These political movements have often been supported by “working class” people in those countries who feel they have been “losers” in the globalisation experiment.

a) International and domestic business cycles

The business cycle refers to the “uneven” nature of economic growth in a country as measured by GDP.

The international business cycle is an aggregate of every country’s individual business cycles put together into one set of growth data. In short, it shows GDP growth per year for the entire global economy.

A chart showing the international business cycle since 2003 can be seen below:



The average level of global economic growth over this period was 2.9%. However, there are significant fluctuations within this range.

The highest years of growth were 2004 and 2006, where global GDP increased by at 4.4%.

The lowest year was 2009. This was during the low-point of the GFC, where global GDP actually decreased by -1.7%.

We can also see a trendline for the international business cycle which shows a slight downward trend in global GDP over the 16-year period.

It is important to note that the international business cycle shows the average growth across all the world's countries and their economies. The individual growth for specific countries years can vary significantly from this average.

Global GDP growth in 2009 was -1.7%. However, some nations were affected by the GFC worse than others. For example, the US economy declined -2.5%, the UK -4.2% and Japan -5.4%.

Conversely, Australia actually grew its economy during that year by 1.9%. And remarkably, despite the global economic catastrophe going on, China managed to grow its economy by an astonishing 9.3%.

b) Impacts of the Global Economy on Australia

Labour markets in Australia have been impacted in both positive and negative ways due to globalisation.

<p>Positive Labour Outcomes</p>	<ul style="list-style-type: none"> ■ High-income jobs have been created in finance, banking, mining, education and information technology ■ Many large multinational companies (e.g. Google, Apple, Microsoft, etc) have opened offices in Australia, thus creating high-income jobs in our country ■ Australians have been given more opportunities to live and work overseas
<p>Negative Labour Outcomes</p>	<ul style="list-style-type: none"> ■ Throughout the 1970s/80s many manufacturing jobs were lost, as were many high-income jobs in steelworks, shipyards and petrol refineries ■ In the last decade, many retail jobs have been lost due to ecommerce and the Internet ■ There are few "entry level" jobs available anymore in large Australian corporations (eg, call centre, customer service, clerk, etc), as these have been outsourced to countries like the Philippines and India.

Many of the negative effects of globalisation on Australian labour markets have, at least in part, been offset by lower prices of goods.

In general, most consumer goods (eg, clothes, homewares, appliances, furniture, computers etc) have become much cheaper due to them being made in low-wage countries like China.

Most services have not changed much in price (or have gone up) as they are generally delivered by businesses that employ Australians and thus they cannot benefit from cheap overseas wages.

c) Changes in the Global Economy

Fluctuations in the global business cycle impacts the Australian economy in the following ways:

Confidence	<ul style="list-style-type: none"> ■ Consumer confidence is an intangible economic indicator that is measured through surveys and questionnaires. It attempts to gauge consumers “feelings” about future economic growth; and thus their likelihood to either spend or save money. ■ Business confidence is a similar indicator, but it surveys business leaders, and attempts to gauge whether they are likely to invest in business expansion. ■ Major downturns in the global business cycle have a negative effect on both consumer and business confidence.
Interest Rates	<ul style="list-style-type: none"> ■ Interest rates are the cost of borrowing money. The value of rates in Australia is heavily influenced by the Reserve Bank of Australia (RBA) and its ability to manipulate the “cash rate”. ■ Because Australian banks “import” much of the money they lend to Australians, the interest rates they must charge to make a profit are impacted significantly by overseas money markets trends. ■ There have been numerous instances in recent years of the RBA lowering the “cash rate” in an attempt to reduce interest rates. However, these reductions have not been passed on by Australian banks because they have sourced their funds from overseas.
Exchange Rates	<ul style="list-style-type: none"> ■ The Australian dollar (AUD) is a “floating currency”, which means that its price is set on international markets according to supply and demand. ■ The long-term average value of the AUD is 70 US cents. ■ In 2011, during the peak of the mining boom, the Australian dollar was traded at an all-time high of \$1.11. This appreciation of the currency was largely due to China’s demand for Australian dollars to purchase coal and iron ore. This made the AUD “scarce” and thus pushed up the price. ■ Sometimes the AUD is pushed down in value – which is called depreciation. This can be due to international trends not directly related to our economy. For example, in 2001 the AUD fell in value to 47 US cents – a record low. This was largely due to speculation by currency traders in London and New York, rather than due to any fundamental problems with the Australian economy at that time.

d) Influence of the Global Economy

Financial flows are the movement of money around the world for various investment purposes. This investment, known specifically as foreign investment, usually involves the purchasing of businesses or financial assets in another country. Just like trade in physical goods, financial flows and foreign investment are a two-way process between nations.

Globalisation has seen an exponential increase in financial flows and foreign investment over recent decades.

- In 2019, Australian people and business invested \$2.8 trillion overseas.
- In 2019, foreign people and businesses invested \$3.8 trillion in Australia.

Foreign investment can be further broken down into the following categories:

Direct investment	<ul style="list-style-type: none"> ■ This type of investment relates to the purchase of an existing business (or part thereof) - or setting up a new business in a foreign country. ■ It is considered a long-term form of investment and can lead to job creation and other benefits for the “host” economy. ■ An example would be the Australian company BHP opening a gold mine in Brazil. The profits from this project would ultimately come back to Australia, but there would also be many benefits for the local Brazilian economy.
Portfolio investment	<ul style="list-style-type: none"> ■ This type of investment involves the purchasing of shares or other financial assets in a foreign country. ■ It is considered a short-term form of investment. ■ An example would be an Australian superannuation fund buying shares in the American company Google on the New York Stock exchange.

e) Global Market for Labour

The global economy has led to the development of a global market for labour.

The emergence of large multinational corporations, which have operations in countries all around the world, has resulted in a large and diverse international workforces. It has also led to a greater movement of people around the world following job opportunities; and companies seeking to reduce their wage costs through strategies such as outsourcing.

In Australia, globalisation has led to deregulation of the labour market and a reduction in wage growth:

Unions are organisations formed to represent the interests of groups of workers. They negotiate with management on behalf of these workers on issues such as wages and working conditions. Union membership in Australia has declined significantly as a result of deregulation; and the competitive pressures put on the Australian economy by globalisation. In 1976 over 50% of the Australian workforce was represented by a union, but today that figure is less at 14%.

Whilst the unemployment rate in Australia has remained relatively stable over the last decade, the same cannot be said for wage growth. In particular, over the last five years numerous economic indicators have showed a slow down in real wage growth for the average Australian. For example, in the period 2008-2013 wages grew by an average of 3.3%, but in the following period of 2013-2018 they only grew 2.2%. This slow down in wage growth is in part due to international factors, such as the end of the mining boom because of a reduced demand for our resources from China.

Exercise 1.3 True or False

Indicate which of the following statements is true or false.

1. There is controversy and debate over the advantages and disadvantages that have resulted from globalisation	True/False
2. The international business cycle combines GDP growth from China, USA and Japan only.	True/False
3. During the GFC world economic growth went backwards	True/False
4. Globalisation led to the creation of many manufacturing jobs in Australia during the 1970s and 1980s	True/False

5. It is generally acknowledged that globalisation has led to lower prices for consumer goods	True/False
6. Interest rates are the value of the Australia dollar in relation to the US dollar	True/False
7. Portfolio investment is a short term strategy that involves buying shares or other financial assets	True/False

4. Current issues

In this section we will examine three case studies which relate to a global issue affecting the Australian economy. The case studies we will explore should be considered a starting point; and you are encouraged to research each topic further. Other options for case studies that can be explored include: environmental degradation; inflation; and the setting of interest rates and the role of the RBA.

You can also choose to research a different topic or event that interest you. When conducting research, you need to: analyse the issue in relation to its causes; examine its impact on individuals and the economy; and assess government policy responses where relevant.

a) Unemployment

- Whilst the unemployment rate has been relatively low over the last decade, this does not necessarily show the true picture when it comes to employment opportunities for all Australians. Two trends that are often overlooked in this area of economics are long-term unemployment and underemployment.
- **Long-term unemployment** is when a person has been looking for a job for a period of more than 12 months. People become long-term unemployed for a variety of reasons, including:
 - Low level of work skills, training or education
 - Lack of recent work experience, which becomes a downward spiral over time
 - Loss of confidence and motivation due to constant setbacks
 - Stigma from being long-term unemployed
 - Work skills that are no longer required by the economy
 - Ageism: many employers prefer younger workers
- The long-term unemployment rate generally follows the broader unemployment rate; and goes up and down in line with fluctuations in the broader economy.
- Underemployment is when a person wishes to work full-time, but can only find part-time or intermittent work. For example, a person may ideally want a full-time job, but can only find a 3-day per week job, or a temporary contract that only goes for 2 months. Underemployment it is linked to long-term unemployment in that some people find themselves out of work for a long time - briefly find temporary work - but are then unemployed again once the contract runs out.
- Both long-term unemployment and underemployment are trends which have been exacerbated by globalisation. In an effort to remain competitive, many large multinational corporations are “streamlining” or “downsizing” their workforces, which has led to a reduction in the number of steady and secure full-time jobs.
- One way in which the government is trying to address long-term unemployment and underemployment is through the Jobactive program. Jobactive is a network of job providers who operate across 1700 locations throughout Australia. These providers offer employment services to both employers and job seekers. Employers can get assistance from Jobactive providers to help them recruit employees who best suit their businesses needs. Job seekers can get assistance from a Jobactive providers to find and keep a job.

- Despite funding programs like Jobactive, some groups have criticised the Australian government for not doing enough to help the long-term unemployed in Australia. For example, a recent report by the Australian Council of Social Service (ACOSS) stated that “A majority of unemployed people are systematically excluded from paid employment. As people become unemployed for longer periods, their job prospects sharply diminish.” In relation to funding, the report commented that overall government spending on employment services was “less than half the OECD average level, and the eighth lowest of 30 OECD countries”.

b) Inequality in The Distribution of Income and Wealth

- Income inequality in any market economy is “normal” and is to be expected to some degree. For example, why would a surgeon study for 12 years - and potentially spend hundreds of thousands of dollars training – if they expected to earn the same income as a shop assistant. In a market economy people are paid according to the value and scarcity of their skills; and as long as everyone has the access to the same opportunities, then this system is largely “fair”.
- However, not everyone does have access to the same opportunities. Not every child has the same upbringing, and those from highly disadvantaged groups are often surrounded by poverty, neglect, drug and alcohol abuse, violence and sexual abuse. This can lead to systemic levels of income inequality in a society, whereby certain groups remain on low incomes for generation after generation – becoming stuck in a cycle of poverty.
- An Australian from the lowest 5% of income earners receives \$436 per week - this compares to \$11,682 per week for a person from the top 1%. Put another way, the top 1% earn in one fortnight the same that the lowest 5% will earn in an entire year! This type of extreme income inequality can have many negative impacts on society.
- The lowest 20% of income earners in Australia are over represented by certain groups of people. These include: sole parents; over 65s; unemployed people; people born in non-English speaking countries; people living outside capital cities; and indigenous Australians.
- The Australian government aims to reduce income inequality via the implementation of various social welfare programs. Through these programs, the government taxes high income earners more; and part of this tax is then redistributed via social welfare payments to those on lower incomes.
- The major areas of social welfare payments in Australia are: Aged pension (\$70b); disability pension, carer payments and the NDIS (\$47b); family tax benefits and childcare assistance (\$37b); and, unemployment and sickness benefits (\$10b).
- Contrary to the opinions of some people in the media, the bulk of social welfare payments go to pensioners and the disabled; and only a relatively small amount go to “lazy dole bludgers”.
- Australia’s level of income inequality is above the OECD average. However, we actually fare better than some other English speaking nations - with Australia having lower levels of income inequality than both the United Kingdom and the United States.
- Welfare payments to address income inequality are the largest expenditure item for the Federal government, accounting for around 36% of total spending.

c) Multinational Corporations Within the Australian Economy

- In general, the Australian government is supportive of large foreign multinational corporations opening their doors in the Australian market. In recent years companies such as Google, Facebook, Apple and Amazon have all expanded their presence in this country. This development provides many opportunities for Australians, particularly in relation to employment, as these tech giants tend to offer very high wages and excellent working conditions.

- However, some large multinational corporations are also known to participate in tax avoidance behaviour. It should be noted that tax avoidance is different to tax evasion. Tax avoidance involves setting up complex corporate entities and legal structures so that a business can minimise paying tax in a particular country. For example, if a multinational operates throughout the Asia Pacific region, it may structure its tax affairs so that all profits are declared in a country like Singapore (which has a low tax rate) rather than in a country like Australia (which has a high tax rate).
- Tax avoidance behaviour is not illegal, though many consider it unethical. Tax evasion on the other hand involves explicitly lying or being deceptive when declaring income and lodging tax returns. This behaviour is illegal and is punishable by fines or even imprisonment.
- To help combat tax avoidance practices by multinationals the Australian government introduced the Multinational Anti-Avoidance Law (MAAL) in 2016. This new law aimed to ensure that multinational businesses pay their fair share of tax on the profits that they earn in Australia. The MAAL hoped to prevent further erosion of Australian tax revenues by stopping multinationals from using “artificial and contrived arrangements” to create the appearance of not making any profits Australia.
- Following the introduction of MAAL, the Australian Tax Office (ATO) created the Tax Avoidance Taskforce, which was “established to ensure multinational enterprises, large public and private businesses (and associated individuals) pay the right amount of tax in Australia.” In commenting on the new initiative, the ATO stated that “We recognise the majority of taxpayers do the right thing, but where we see deliberate tax avoidance behaviour we will act.”
- Since its establishment in 2016, the Task Force has been successful in closing many tax “loopholes” that multinationals had taken advantage of for many years. For example, in December 2019 the ATO settled a major tax case with Google Australia. The tech giant agreed to a \$481.5 million back payment following an audit of its tax records from 2008-2018. As with all “out of court settlements”, the payment did not imply any wrongdoing by Google and was not an admission of liability by the company.
- In commenting on the settlement, the ATO stated that Google “join the likes of Microsoft, Apple and Facebook who have all publicly stated that they have settled their tax affairs with the ATO and we welcome their transparency. This result brings the increased collections made against taxpayers in the ecommerce industry to around \$1.25 billion cash... The operation of the MAAL has already seen \$7 billion in taxable sales being returned to Australia. That’s \$7 billion in sales booked, and the appropriate profit of these activities taxed, in Australia for the first time and locked in for the future.”

Source: Australian Taxation Office – ato.gov.au

Exercise 1.4 Matching

Match the following statements to the correct term in the word bank:

Statement	Term
1. When somebody is employed, but is not able to work the number of hours they would like	
2. When a person has been out of work for more than 12 months	
3. A very large gap between the richest and poorest members of society	
4. Examples include the old age pension and unemployment benefits	
5. When a business tries to minimise its tax obligations through legal loopholes	
6. When a business or individual lie or are deliberately deceptive when lodging their tax returns	
7. A recent series of laws aimed at ensuring multinational corporations pay their fair share of tax in Australia.	

Word Bank: Long-term unemployment; Tax avoidance; MAAL; Underemployment; Tax evasion; Income inequality; Welfare payments

Review and Activity Questions

1. ICT activity – Create three (3) electronic mind maps to summarise the following economic concepts: the economic problem; the four production questions; the four factors of production.
2. Create a glossary that defines the following terms: economic indicator; human development index; gross domestic product; economic growth; recession; income; macroeconomic policy; microeconomic policy.
3. Do some further reading about the United Nations Human Development Index (HDI) on their website: hdr.undp.org. Find a list that shows the HDI scores and rankings for all countries. Then answer the following questions:
 - a. List 3 countries whose HDI rankings surprised you and explain why?
 - b. Find a country with a very low HDI ranking. Give 3 reasons why you think this country has such a low HDI?

4. ICT Activity – find a reliable source on the internet that gives you data for:
 - a. Rank of top 30 countries by nominal GDP
 - b. Rank of top 30 countries by nominal GDP per capita

Enter this data into two separate spreadsheets (use Microsoft Excel or Google Sheets). Use spreadsheet tools to create two charts that best summarise the data visually. Print the charts and paste them in your workbook.

Write 2 paragraphs that summarise your findings.

5. Research a country that is performing poorly economically (this will generally be any country with low nominal GDP per capita). Write a 1-page report on why you think the economy of this country is underperforming compared to the rest of the world.

Hint: The reasons could be to do with history, politics, war, lack of natural resources, poor education and health outcomes, etc.

6. ICT Activity - Do a Google search for “DFAT fact sheets countries economies”. This will take you to a section of the DFAT website that has a series of PDF fact sheets that summarise the economies of most nations from around the world.

Choose 3 countries that interest you. Create a PowerPoint or Google Doc that outlines Australia’s trading relationship with each country.

Note: If Australia has a limited trading relationship with a country you have chosen, you may need to choose another one which is more suitable.

7. Imagine that you are going to a student protest against Australia’s involvement in free trade agreements. Create a protest poster that you will take to the protest. This poster should contain words, slogans, images and symbols that summarise your position.

Hint: you may need to do some internet research for news articles that outline some of the arguments against free trade.

8. Conduct further research on the Global Financial Crisis. Create a timeline of key events related to the crisis.

9. Google is a multinational corporation that has had significant impacts on the Australian economy. Write a research report on the business. Be sure to include the following:
- History of the company and facts about its founders
 - Why Google has been so successful in Internet search
 - Examples of Google's other products and services (other than search)
 - The success and failure of Google outside the USA – including Australia
 - Controversies and criticisms of Google in the media
10. Research and write your own case study on one of the following topics:
- a. Environmental degradation
 - b. Inflation
 - c. Setting of interest rates and the role of the RBA

When researching and writing your case study, you need to make sure that you:

- Analyse the issue in relation to its causes
- Examine its impact on individuals and the economy
- Assess government policy responses where relevant

Exercise 1.5 – Multiple Choice

1. Which of the following is the best definition the factor of production enterprise?
 - a. The work people do when combining the other factors of production
 - b. All natural resources including minerals and agricultural products
 - c. The skills that an entrepreneur uses to combine the other factors of production
 - d. The money that is used to buy machinery, factories and equipment

2. The Human Development Index (HDI) is an economic indicator published by the United Nations each year. Which three measures make up the HDI?
 - a. Income; housing; education
 - b. Education; Income; employment
 - c. Inflation; income; life expectancy
 - d. Income; life expectancy; education

3. Which of the following best defines Gross Domestic Product (GDP)?
 - a. Value of all goods and services produced in given year
 - b. The overall rise in prices over a given
 - c. The number of people employed and unemployed in a given year
 - d. The improvement in economic productivity in a given year

4. Which of the following best describes Australia's unemployment rate over the last decade?
 - a. Relatively high and in the range of 5%-6%
 - b. Relatively low and in the range of 5%-6%
 - c. Relatively high and in the range of 9%-10%
 - d. Relatively low and in the range of 9%-10%

5. Which economic region is most important to Australia's trading relationships?
 - a. European Union
 - b. Asia Pacific
 - c. North America
 - d. Middle East

6. Which of the following statements is most correct in relation to Australia's trading relationship with China?
 - a. Australia exports \$5 billion worth of goods to China annually
 - b. Our trading relationship with China is relatively unimportant
 - c. Australia mostly exports manufactured goods to China
 - d. Australia exports more to China than we import from China

7. Which of the following statements is NOT true about the Global Financial Crisis (GFC).
 - a. All economies declined by the same rate
 - b. Global GDP declined by -1.7%
 - c. Major declines in world GDP occurred in 2009
 - d. In 2010 world GDP bounced back significantly

8. Consumer confidence is an intangible economic indicator that is measured through surveys and questionnaires. Which of the following is most true in relation to consumer confidence?
 - a. It will reduce the value of the AUD as consumers are more likely to travel
 - b. It will cause the RBA to put upward pressure on interest rates
 - c. It gauges the likelihood of whether consumers will spend or save their money
 - d. If consumer confidence goes up, businesses will likely scale back production

9. Tim is a 57-year old man with a degree in petroleum engineering. He worked at the Shell petrol refinery for 30 years until it shut down 3 years ago. He has suffered from underemployment since this time. What do you think is the main cause for his underemployment?
 - a. He has a low level of work skills
 - b. He has a low level of education
 - c. His skills are no longer required by the economy
 - d. He does not have enough work experience

10. What is the largest area of spending for the Federal Government?
- a. Education
 - b. Welfare
 - c. Defence
 - d. Health

Answers**Exercise 1.1**

1. T, 2. F, 3. T, 4. T, 5. F, 6. T, 7. F

Exercise 1.2

1. Export, 2. China, 3. Iron ore, 4. United Kingdom, 5. DFAT, 6. ANZCERTA, 7. Travel

Exercise 1.3

1. T, 2. F, 3. T, 4. F, 5. T, 6. F, 7. T

Exercise 1.4

1. Underemployment, 2. Long-term unemployment, 3. Income inequality, 4. Welfare payments, 5. Tax avoidance, 6. Tax evasion, 7. MAAL

Exercise 1.5

1. C, 2. D, 3. A, 4. B, 5. B, 6. D, 7. A, 8. C, 9. C, 10. B

Option 2

Investing

1. Reasons for investing

a) Individual and business investment

Investment is when an asset or item is acquired with the hope that it will generate income or increase (appreciate) in value. Both individuals and businesses invest money for a range of reasons.

■ Reasons individuals and businesses may choose to invest

Individuals invest their savings (a portion of their income set aside for future use) for a greater future return. Even if the money is just deposited into a savings account at a bank, it can earn a small percentage return.

In a similar way, businesses that generate a profit (revenue is greater than the expenses of running the business) can invest their extra income. A business could re-invest in their own business operations and growth, in other businesses or a range of other options that are also available to individuals.

The reasons individuals and businesses invest include:

- To fund a major purchase
- To generate extra income
- To save for retirement (or other future needs)
- To make their money work harder for them
- To achieve financial goals faster

One of the main reasons why people invest their savings is to ensure that the money maintains its value. You might choose to save your money by storing it in a 'piggy bank' at home, but then it does not earn any extra income. In fact, its value decreases (depreciates) over time because of inflation.

Inflation is the general rise of prices in the economy over time which means that \$1 today will not buy the same amount of goods or services in the future as it can today (purchasing power). The Reserve Bank of Australia (RBA) aims to maintain an inflation rate of 2-3% p.a. This means that investors would be seeking a return of at least 3% to ensure that their savings maintain their purchasing power.

Each month the RBA publishes a range of charts which summarise market trends in the Australian economy. The Consumer Price Index chart on page 132 shows the trends in the inflation rate in the Australian economy and on the right is the trend chart for the cash rate.

Remember, the RBA aims for inflation to be in the 2-3% range. The RBA adjusts the cash rate to influence the rate of inflation (increase in average prices for goods and services in the economy). The cash rate impacts on the interest rates set by banks which reflect the reward for saving and the cost of borrowing money.

To encourage spending in the economy (to raise the rate of inflation if it is below the target range), the RBA lowers the cash rate (which makes borrowing money cheaper) to stimulate consumer spending which drives economic growth. If the inflation rate is higher than the target range, then the RBA will raise the cash rate to discourage borrowing of money and consumer spending (which will slow economic growth and reduce the pressure on the prices of goods and services in the economy). Look at the charts and see if you can see this relationship in action at different times in Australia's economic history.



Source: RBA

■ Range of ways to finance investment

To finance investments, investors can use their savings or borrow money to fund the investments (or use a combination).

Savings represent income not spent in a certain time period. Individuals and businesses may choose to set some of their income aside for future use and investment. This income may be from working, or from other sources such as inheritance, prize money or a redundancy payment. This extra money is then used to finance investment.

Superannuation is saving for retirement. Australia has compulsory superannuation requirements which means that all employees will have money contributed by their employer to a superannuation fund as savings for retirement. Currently, the government requires that employers contribute the equivalent of 9.5% of an employee’s annual salary. The Government’s plan to raise this to 12% p.a has been temporarily placed on hold. Employees can also choose to add more to their superannuation accounts. This means that there is a lot of superannuation money invested by Australians – at the end of 2019, it was valued at approximately \$2.9 trillion.

Whilst some investors may have savings to invest, many Australian investors also borrow money to invest. Loans are also available to investors. For example, an investor may borrow money to buy shares, trade currency or other investments. They usually do this because they believe that the return gained on the investment will be greater than the cost of borrowing the money (interest charges and fees). This can also be risky as no matter how the investment performs, the loan must be repaid. This means that if the investment loses money, the investor still needs to find money to pay back the loan.

Borrowing to invest most often happens with property investment as most investors do not have enough savings to meet the purchase cost of the property. Many investors will take out a long-term loan secured by property – this is called a mortgage. For example, in Sydney NSW, the median house price is \$937,500 and the median price for apartments is \$715,000. Nationally, the average dwelling cost (houses and apartments combined) is \$524,744.

A loan for property from a bank or other financial institution is called a mortgage loan. These are the longest-term loans available (between 20 and 30 years) and also have the lowest interest rates in the market. Banks will usually require that investors have some savings for a deposit and will then assess each loan application for approval based on their bank’s lending requirements.

Exercise 2.1

Unscramble the words below.

1. eesntvniitm	
2. srki	
3. tifnonila	
4. psrueaunntoain	
5. gwinbroor	
6. gvinssa	
7. ntremeiert	
8. wogrht	
9. lewaht	
10. gmrageto	

2. Investment options

The state of the economy and market trends are important to consider when making investment decisions. For example, in times of low inflation and lower economic growth, interest rates are lower. During these times, there is little return offered by savings accounts with banks. Slower economic growth can also affect the performance of shares and other investments.

When investing money, a number of other investment decisions also need to be made:

1. Amount: investors need to consider the amount they wish to invest and whether it will be only the initial amount, or whether they will add to it over time
2. Term: the length of time for investment to be held
3. Investment goals: each person has a different financial situation and needs which will impact on what might be the right decisions when making investments
4. Type of investment option: each financial investment option has advantages and disadvantages for each investor and should be researched carefully
5. Risk: the degree of uncertainty about expected returns (and the possibility of loss). It is the chance an investment won't give the desired outcome. Some people can tolerate more risk than others depending on their individual situation. It is also important to research carefully and check any investment offers. As it is said, "if it's too good to be true, it probably isn't!"
6. Return: the overall earning (after taxes) that might be earned from investments such as interest, dividends, capital gain
7. Cost: investors need to consider any expenses, fees and other charges involved with both the initial investment and any ongoing costs

8. Liquidity: how easily an investment can be turned into cash. Some investors prefer to keep their savings in liquid investments so they are able to easily access the money if needed. For example, savings accounts are more liquid when compared with an investment property.
9. Diversification: an investment strategy which aims to reduce risk by spreading the money invested among various types of investments (that is, having a portfolio of investments)
10. Type of portfolio: there are many different investment options available in the market. An investor may choose to create an income-based portfolio (e.g. invest in properties to achieve regular income from rent; or focus on dividend returns from shares) or a growth-based portfolio which focuses on the gain to be made from asset value increases (appreciation or capital gain such as increased property prices)
11. Ethical or socially responsible investment options which align with the investor's personal values.

a) Range of investment options

There are a range of investment options available in the market. An investor will choose those that suit their investment goals, time frames and personal situation.

■ Savings accounts (cash accounts)

A savings account is a deposit account held at a bank or other financial institution. Investors earn interest on the deposited amount (usually variable rate). Some banks may offer rewards such as a higher interest rate when certain criteria are met, for example, at least four deposits and no withdrawals in a certain time period. Interest on a savings account is usually compound interest.

Compound interest is where you earn interest on the money you originally deposit, and on the interest you have already earned - so you earn interest on interest.

Most banks have a range of accounts on offer such as everyday transaction accounts, bonus saver accounts, online access only accounts. Each type of account has different interest rates, benefits and costs. It is important for investors to comparison shop to ensure they choose the most suitable option. Most information is available online through bank websites and also comparison websites such as www.infochoice.com.au.

Most Australian banks are very low risk, with deposits guaranteed by the Government. The funds are easily accessible which means the investment is highly liquid. Given the low level of risk, the return offered is also relatively low when compared with other investments.

■ Shares – domestic and international

Shares represent part ownership in a company. For public companies, shares are traded through the Australian Securities Exchange (ASX) using a stockbroker (or online brokerage service). When a company first issues shares for sale to investments (an Initial Public Offering), it does so in the primary market to raise money. This is called equity finance.

LTD: 'Limited' after the name of a business indicates it is a limited liability company. It is a public company and the shares are traded on the ASX.

PTY LTD: 'Proprietary Limited' after the name of a business indicates it is a private company and also a limited liability company but with less shareholders who purchase shares privately (not via the ASX).

Investors make money from shares via capital gain (the return earned when the shares are sold at a higher price than they were purchased for) and dividend payments (a percentage share of the company's profits relative to percentage share owned).

'Blue chip shares' refer to shares in those companies with long histories of growth and stability like BHP and CBA. They usually pay regular dividends and generally maintain a fairly steady price trend.

The share price is determined by the forces of supply and demand. That is, how many people want to buy the shares and how many are available for sale. A range of factors may influence a company's share price – both internal and external factors as shown in the table below.

Factors Influencing Share Price

Internal (within the company)	External (outside the company)
<ul style="list-style-type: none"> ■ Profit levels (and announcement of dividends) ■ Directors and management (people running the company) ■ Plans for growth and expansion ■ Technological innovations ■ Competitiveness in industry ■ Introduction of a new product or a product recall ■ Employee layoffs or redundancies ■ Anticipated takeover or merger ■ A change of management ■ Accounting errors or scandals 	<ul style="list-style-type: none"> ■ Interest rates ■ Economic growth rates (economic outlook) ■ Unemployment rate ■ Exchange rates ■ Government policies and laws ■ Global and local events (news events such as natural disasters, terrorism) ■ Global economic events ■ Trends in trade

The performance of the Australian share market is reported by the following summaries:

- ASX 200: a benchmark index (created in the year 2000) and consists of the 200 largest public companies by market capitalisation listed on the ASX.
- All Ordinaries Index (All Ords): capitalisation-weighted index of performance of share prices of about 500 of the largest Australian companies. Established by the ASX at 500 points in January 1980.

When reading about the performance of global financial markets, you might see or hear the following measures for different share markets:

- Nasdaq Index: an index of more than 3,000 stocks listed on the US Nasdaq exchange that includes the world's foremost technology and biotech giants such as Apple, Google, Microsoft, Oracle, Amazon, Intel and Amgen.
- Dow Jones Industrial Average: a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE).
- Hang Seng Index: a market capitalisation-weighted index of 40 of the largest companies that trade on the Hong Kong Exchange.
- FTSE (Financial Times Stock Exchange) 100: is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation

■ **Property (domestic & international)**

Many investors buy property (to live in or rent out) and many use a mortgage to pay for it (a long-term loan secured by property that is usually paid back with interest over 25-30 years). Ways to invest in property other than the 'family home':

- Residential (house/unit)
- Commercial (shops/offices)

- Industrial (factory/warehouse)
- Managed fund specialising in property (property trust)

Many Australians invest in property as capital growth has been stable. Property is a physical asset that does retain its value over the long term which also has tax advantages (when rented out as an investment property). However, there is also the risk that the property value may depreciate if the housing market is experiencing a boom at the time of purchase or another economic event triggers a fall in the market. As with any investment option, it is important for investors to seek advice and conduct their own research.

Case Study: RAPID RECOVERY: House prices gains largest in 16 years

Australian property prices have seen the largest monthly gains in 16 years, according to the latest figures from CoreLogic. Nationally, house prices etched up 1.7 per cent in November, bringing quarterly growth to 3.8 per cent.

Growth was strongest in Sydney, where prices went up 2.7 per cent, while values grew 2.3 per cent in Hobart and 2.2 per cent in Melbourne. Perth saw price gains of 0.4 per cent, the first month-on-month rise since early 2018.

A series of interest rate cuts, easier home loan rules and the removal of negative gearing change fears all drove the growth. “Additionally, we’re seeing advertised stock levels persistently low, creating a sense of urgency in the market as buyer demand picks up,” CoreLogic head of research Tim Lawless said.

“There’s also the prospect that interest rates are likely to fall further over the coming months and an improvement in housing affordability following the recent downturn are other factors supporting a lift in values.”

These figures mark the fifth consecutive month of growth, and an “unexpected period of rapid recovery”. “The question is, how long can such a high pace of capital gains be sustained?”

Source: <https://au.finance.yahoo.com/news/australian-house-prices-growing-fastest-in-16-years-234642855.html>

Whilst the capital gain earned over time from property can be significant, it is important to consider the costs involved in owning investment properties. Costs include initial one-off costs with purchasing a property as shown in Table 1 below.

Sample costs of purchasing a property (in addition to the property purchase price)

Costs	Estimated (\$)
Stamp Duty (state government tax on sale of assets)	% of the cost of the property E.g. \$9,268 for \$300,000 property value and \$40,490 for \$1,000,000 property value
Legal Fees (Conveyancing)	\$1,000 - \$3,000
Building and Pest Inspections	\$1,000
Home Loan Application fee	\$800

There are also ongoing costs to consider such as real estate agent fees, council rates, utilities, strata fees, maintenance, renovation/improvements and insurance which need to be considered. Most investment properties are purchased with the intention of renting them out to generate income which will assist with

repaying the mortgage and to cover other expenses. However, the market rental rate can change over time and there may be periods of time where the property is vacant.

With such a competitive property market locally, an increasing number of Australians are investing abroad with the United States as the most popular destination. The median house price in Sydney was \$1.142 million in December 2019, compared to the US where it is roughly \$AU250,000. See Table 2 (below) for some advantages and disadvantages of international property investment.

International Property Investment

Advantages	Risks
<ul style="list-style-type: none"> ■ Lower entrance point (lower house prices) – so less income and less deposit needed ■ Income/Cash flow in foreign currency ■ Possible tax benefits ■ Foreign residency 	<ul style="list-style-type: none"> ■ Lack of local knowledge ■ Exchange rates ■ Finding a loan/finance ■ Additional costs ■ Different laws and rules (eg fees, tenants, landowner rights)

■ **Term deposits (fixed interest accounts)**

Unlike a savings account, a term deposit is for a larger amount of money (there is usually a minimum deposit amount) and the deposit is locked for an agreed period of time (between 1 and 50 months). The longer you leave your money untouched, the more interest you can earn. The rate of interest earned is set at a fixed rate and is usually higher than a savings account. However, term deposits usually pay the interest into a different account (rather than redeposit it into the same account) and so the interest is calculated using simple interest. Interest is paid at the end of a specified term at the set interest rate OR if the term is more than 12 months, interest may be paid annually (as a % of the original deposited amount).

■ **Superannuation/Managed Funds**

Managed funds are professionally managed portfolios made up of stocks, bonds, and other investments. Money is pooled together with other investors money and a professional fund manager manages the investment. Superannuation funds are a type of managed fund that deals specifically with superannuation contribution payments. It is possible to choose funds with a range of risk levels, types of investments, or green/ethical funds depending on investment goals.

Different Investment Mixes in Managed Funds

Type of fund	Typical investment mix
Growth Fund (higher risk)	Around 85% in shares and property Remainder in cash or fixed interest
Balanced Fund (average risk)	Around 70% in shares and property Remainder in cash or fixed interest
Conservative Fund (lower risk)	Around 30% in shares and property Remainder in cash or fixed interest
Cash Fund (lowest risk)	100% in deposits with Australian deposit-taking institutions

To invest in a managed fund, individuals buy a unit in the fund (like a share in a company) - and the unit price changes over time, earning a return (or making a loss). Managed funds can be bought directly from the fund manager through a financial adviser or an online broker. Profits are returned to investors in the form of dividends. Fund managers are paid management fees plus a percentage of earnings for good performance.

Managed funds can be a good investment as they enable an investor to more easily diversify their investment, as they can access a broader range of options in different markets with relatively less money. The minimum investment amount is usually quite low. However, the fees involved can be higher than other investment types and ultimately, you depend on the skills of the fund manager and do not control the specific investment decisions. It can also take a few days to enter or exit a managed fund which impacts the liquidity of this investment option.

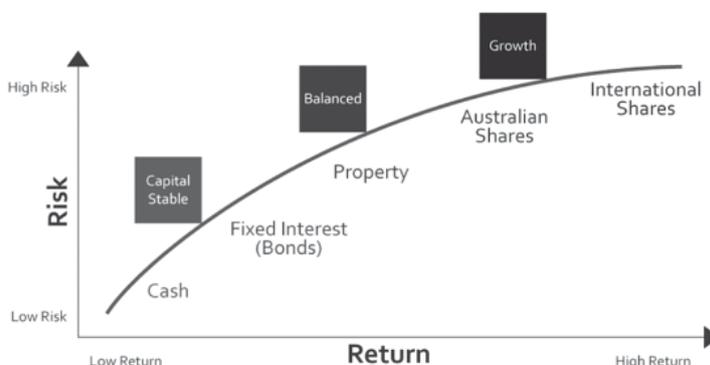
b) Relationship between risk and return for investments

Investments are expected to provide a return but this return will come with a certain level of risk.

Risk is the degree of uncertainty about expected returns (and the possibility of loss). It is the chance an investment won't give the desired outcome. Some people can tolerate more risk than others depending on their individual situation. It is also important to research carefully and check any investment offers. As it is said, "if it's too good to be true, it probably isn't!"

Return refers to the overall earning that might be gained from investments through sources such as interest, rent, dividends and capital gain.

As a general rule, the higher the potential return from an investment, the greater the investment risk and the probability of experiencing losses. It is generally recommended that more risky investments be held for a longer term such as 5 years plus (to better even out any short-term fluctuations). The diagram below shows the range of investment options and their relative levels of risk and return.



c) Ethical investments

Ethics refers to a set of moral principles that influence an individual's (or group's) behaviours and decision-making. Responsible or ethical investments are considered those made in areas such as healthcare or clean energy, avoiding industries such as coal, weapons, gambling, tobacco or oil which are harmful on an environmental and/or social basis.

Each individual will have their own perspectives on what is ethical or not ethical and will choose investments accordingly. It is important to research the options and to understand the different language used to describe ethical investments, which can be confusing. For example, most people think of Woolworths Ltd (a public company listed on the Australian Securities Exchange) as a grocery chain. However, it also owns and controls more than 14,000 poker machines – does this make them a gambling company too? Some investors may feel that supporting a business that is involved in gambling is unethical, whereas other investors may not.

Case Study: Australian Ethical



Australian Ethical is an ethical wealth management company that only invests in well-managed and ethical companies that have a positive impact on the planet, people and animals.

POSTITIVE SIDE (investing in...)	NEGATIVE SIDE (not investing in...)
Clean energy	Coal
Sustainable products	Coal seam gas
Medical solutions	Oil
Innovative technology	Weapons
Responsible banking	Tobacco
Healthcare	Old growth forest logging
Recycling	Exploitation
Energy efficiency	Gambling
Education	Human rights abuses
Aged care	Harmful products

Exercise 2.2

Match the definition with the correct term below.

1. Probability of losses relative to the expected gain on any particular investment	
2. Collection of investments owned by an individual or by an institution	
3. Money saved during your working life to help support your financial needs when you retire	
4. A general increase in prices and fall in the purchasing value of money	
5. Overall earning that might be earned from investments such as interest, dividends, capital gain	
6. Term used to describe how easy it is to convert assets (such as investments) into cash	
7. Asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit	
8. Approach which attempts to balance the moral aspects of an investment option and the return on investment	
9. Loan of money from a bank or other lending institution that is secured by property	
10. Investing in different asset options to reduce overall risk	

Word Bank: Ethical investment, inflation, risk, return, liquidity, investment, diversification, portfolio, superannuation, mortgage

3. Investment planning

a) Factors influencing an investment portfolio

When it comes to investing money, it makes a lot of sense to have a plan. Putting a plan together involves developing strategies and choosing the right investments. A range of factors can influence an investment portfolio (the mix of investments chosen) for a business or individual.

Investment portfolios can be held directly by investors or managed by financial professionals. Investors should build an investment portfolio that suits their level of risk and investing goals.

■ Risk and diversification

Selecting a mix of investments is called diversification and is an important way that investors can spread their risk. If you have ever heard the expression “don’t put all your eggs in one basket” then this also describes diversification.

A basic, diversified portfolio might include a mix of investments such as shares, a fixed deposit account and property. Decisions about which investments and types will depend on an investor’s goals, their risk and return profile, and the length of time for investing.

Diversification helps investors manage the ups and downs of financial markets by spreading money across different types of investments. It aims to maximise return by investing in different areas that would each react differently to the same event (minimising risk). This means that if there is a change in the economy or if one business/industry is not performing so well, then all funds won’t be lost.

For example, let’s say that Michael has a portfolio with only shares in one major supermarket. If it is publicly announced that their store-workers are going on indefinite strikes about pay and stores will be closed, the share prices for that business will drop. This will be a loss in portfolio value. However, if Michael has other stocks in different industries (eg a healthcare company, a travel company and a mining company), then only part of his portfolio would be affected.

When making decisions about the mix of investments, past performance of an investment is not an indication of future performance. Investors need to be careful in assessing past performance. Each investment can be affected by market forces and unpredictable events which can have a negative impact on future performance.

■ Short and long-term goals

Investing is not a ‘get rich quick’ tactic done for a short period of time expecting to make a significant amount of money. It’s often a long-term process that requires patience, commitment, and keeping calm when the market fluctuates. Investors should consider how long they have to invest when building an investment portfolio.

Short-term goals are generally focused on the next 1 to 3 years. Examples of short-term goals might be travel, purchasing a vehicle, paying for a wedding or saving for a deposit on a property. Generally, these involve choosing a cash investment with good security and easy access such as a high-interest savings account or term deposit.

Medium-term goals tend to be a little bigger than short-term goals and set to be achieved in 4 to 6 years. Examples of these types of goals could be saving for a deposit for a house, starting a new business, buying an investment property or paying off a larger debt.

Longer-term goals are generally focused on accumulating wealth for retirement or planning for actual retirement. Everyone is different – one long term goal might be to go back to full time study in 8 years' time or start a charity when you turn 50!

When it comes to investing, it is important to find the right balance for you and your individual situation. Before investing, whether it be short or long-term investing, it is important to have clear goals in mind and to seek additional information and advice.

b) Monitoring returns of an investment portfolio

Once money is invested, it is just as important for investors to maintain good records about each investment and also monitor their progress. Investors might:

- Set up folders (real or virtual) to keep copies of all documents related to investments organised and easy to find
- Receive summary statements showing the value of the investments and the fees and taxes paid
- Track investments with Apps or software tools that analyse changes in the value of investments
- Monitor longer-term investments using an online brokerage account or with the help of a broker/financial advisor

If investing in many different options and with larger sums of money, then investors may benefit from hiring a financial manager to oversee their investments and adjust in response to market conditions.

The performance of investments changes over time because financial markets, economies and personal circumstances (employment, health, family status, age) are always changing. For this reason, most investors will modify their investments over time to ensure that they are on track to achieve their investing goals and to maximise long-term gains.

c) Factors impacting investment decisions

■ Changes in personal circumstances

Changes in personal circumstances can lead to changes in investment decisions. Changes in personal circumstances may include changes in:

- Employment status and income level
- Family circumstances and dependents – a person's life stage and family arrangements (eg. Having financially dependent children) can influence risk tolerance and investment choices
- Age – an investor's choices will be influenced by the timeline for their investment planning and how soon they want to access their investment returns
- Financial resources – the amount of money a person has to invest can change over time which will impact investment choices. For example, receiving an inheritance, or a bonus income payment or a change in pay rates for work can influence investments.
- Personal priorities and goals can influence investment decisions.

■ Changes in economic circumstances

Economic circumstances such as economic growth, unemployment levels, inflation and consumer confidence can impact investment decisions in terms of investment options, risk, return and investor confidence. For

example, the cash rate in the economy will impact investor willingness to borrow funds to invest, or the potential return of savings accounts or term deposits.

Case Study: RBA: Statement on the Australian Economy (November 2019)



RESERVE BANK OF AUSTRALIA

The Australian economy is gradually coming out of a soft patch. GDP growth has been recovering since its low point last year; it

picked up a little in the first half of 2019 and moderate growth is expected over the remainder of the year. Growth is expected to reach 2¼ per cent over 2020 and around 3 per cent by the end of 2021. This outlook is largely unchanged from three months ago, and is supported by the low level of interest rates, recent tax cuts, ongoing spending on infrastructure, the upswing in housing prices in some markets and a brighter outlook for the resources sector.

The established housing market is turning around, especially on the east coast. Housing prices have been rising in most capital cities other than Perth. Some other indicators, such as auction clearance rates, have also been higher than earlier in the year. This turnaround has come sooner and faster than had previously been expected. Housing loan approvals have been increasing over recent months, although this is yet to translate into faster growth in housing credit.

d) Managing risk

Investing money with the hope of making a return will always carry a degree of risk for the investor. There are a range of strategies that an investor can use to try to manage their own risk so that they are comfortable with their decisions. These include:

- Developing an investment plan which includes setting goals, understanding current financial position and developing a risk profile
- Researching investment options using multiple sources of information and advice
- Seeking financial advice from qualified professionals such as financial advisors and financial planners
- Responsible borrowing for investment and avoiding overcommitment)
- Being aware of scams and rip-offs – if it sounds too good to be true, it probably is!
- Diversification of investments – choosing a range of investment options with different levels of risk and return potential

Exercise 2.3

Indicate whether each of the following statements is true or false.

Statement	
1. Investors may benefit from hiring a financial manager to oversee their investments and make adjustments in response to market conditions.	True / False
2. A basic, diversified portfolio might include several investments such as shares, Government bonds and an investment property.	True / False
3. When making decisions about the mix of investments, past performance is a good indication of future performance.	True / False
4. Research and monitoring of share performance is only important when deciding which shares to buy.	True / False

5. Once money is invested, it is not really necessary for investors to maintain records about each investment.	True / False
6. The performance of investments changes over time because financial markets, economies and personal circumstances are always changing.	True / False
7. The best shares investment strategy is to invest in one company that has experienced high increases in their share price for the last 6 months.	True / False
8. Selecting a mix of investments is called diversification.	True / False
9. Decisions about which investments and types will depend on an investor's goals, their risk profile, and the length of time for investing.	True / False
10. Financial managers will ensure that you don't lose any of your investment money.	True / False

4. The financial services industry

Financial services are Australia's largest and fastest-growing industry contributing about \$150 billion to the Australian economy and employing more than 450,000 people in Australia or 3.8 per cent of the workforce. The financial services industry in Australia includes banks and credit unions, superannuation providers, insurance companies, investment advisers, stockbrokers and wealth management firms. Investors can seek a range of advice and support across the industry based on their needs.

a) Role and responsibilities of the financial services industry

■ Financial advice

Financial advice can help individuals to clarify their goals and create a plan to achieve them. There are different types of financial advice options available, and various things to be considered when choosing and working with a financial adviser. The cost of financial advice depends on the level of complexity and amount of research and expertise required. It can range from \$300 for simple advice over the phone/internet to over \$5000 for complex advice. It is important to ensure a planner is licensed to provide advice or is the authorised representative of a licence holder (registered with ASIC).

A financial planner (also known as a financial adviser) is a person or authorised representative of an organisation, licensed by ASIC, to provide advice on some or all these areas: investing, superannuation, retirement planning, risk management, insurance and taxation.

■ Responsibilities of lenders and advisers when providing financial information and advice

Key Australian legislation that regulates the financial services industry includes:

- Competition and Consumer Act 2010 (and Australian Consumer Law - ACL)
- Corporations Act 2001
- Corporations Amendment (Future of Financial Advice) Act 2012
- Anti-Money Laundering and Counter-Terrorism Financing Act 2006
- National Consumer Credit Protection Act 2010

Since 2014, the Government made some changes to the regulation of financial advice - the Future of Financial Advice (FOFA) reforms include:

- Restrictions on what sort of fees financial advisers receive (including a ban on commissions)
- A 'best interest' duty that means individuals must receive advice that is in their best interest (rather than those products that offer the advisor the best commission)

Legal responsibilities of lenders under the National Credit Act include:

- Need to be licensed and registered with ASIC
- Must understand individual clients and verify their financial position before offering credit
- Provide customers with a credit guide and disclosure document (includes details and information about fees and charges and personal information)

■ Role of Government agencies

Government agencies have an active role in regulating the financial services industry. Financial regulation in Australia is split mainly between the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulatory Authority (APRA). The Australian Securities Exchange has also played a role in regulating market conduct.

The Reserve Bank of Australia (RBA) retains its central banking functions including responsibility for most payment systems and setting of monetary policy (cash rate in the economy).

There are a range of industry associations that influence what happens in the financial services industry:

- Association of Superannuation Funds of Australia – www.superannuation.asn.au
- Australian Accounting Standards Board – www.aasb.gov.au
- Australian Securities Exchange – www.asx.com.au
- Financial Planning Association – www.fpa.asn.au
- Investment and Financial Services Association – www.ifsa.org.au

The Australian Securities and Investment Commission (ASIC) is an independent Commonwealth Government body established by the Australian Securities and Investments Commission Act of 2001 (ASIC ACT).

The ASIC's role is to 'maintain, facilitate and improve the performance of the financial system and promote confident and informed participation by investors and consumers in the financial system'. As part of this, the ASIC can:

- investigate suspected breaches of the law
- issue infringement notices in relation to alleged breaches of laws
- ban people from engaging in credit activities or providing financial services
- seek civil penalties from the courts, and
- commence prosecutions

Exercise 2.4

Indicate whether the investment return is more likely to rise or fall or stay the same in each person's investment situation.

Investment Situation	Rise/Fall/Same Value
1. Sarah owns shares in 'D-Town Clothing Ltd'. This company has signed a contract to supply jeans and jackets to a chain of retail stores across Australia.	
2. A new council swimming pool and new primary school are being built in Orange. Steven owns an investment property in Orange.	
3. Mary owns shares in 'Ace Cards Pty Ltd'. A media announcement has been made that the General Manager has misappropriated (taken) funds from the company for several years.	
4. John owns shares in 'Excel Ltd'. The company just released their 2019 annual report showing record profits for the last financial year and strong projections for 2020.	
5. Joe bought two artworks by a well-known Australian artist. One of the works was scratched when he moved house recently.	
6. Ben owns shares in 'Scalp Dreams Ltd'. The company has just found a miracle cure for baldness.	
7. Jennifer has \$10,000 in a savings account. The RBA has announced they are cutting the cash rate.	
8. Sophie has \$10,000 in a 3-year term deposit she started last month. The RBA has announced they are cutting the cash rate.	

5. Current issues**a) Ethical investing and implications for business**

Ethical investing invests for positive impacts on people, animals and the environment, in addition to competitive financial returns.

It's often called values-aligned investing, because it's where people bring their super and other investments into line with their personal values. It's a way of saying 'I would like to make money from investing but I don't want to do so at the expense of the environment, animals or society'.

'Ethical investing' funds now top \$600 billion in Australia, with returns starting to match the market

Funds promoted as ethical or responsible investment in Australia have more than quadrupled in size over the past three years to \$622 billion under management, with returns keeping pace with mainstream investment vehicles, according to analysis released today.

The rise of ethical investment — as well as other forms such as "socially responsible investing" — comes as universities and other institutions switch their portfolios to a more environmentally friendly, low-carbon-emission focus.

"More and more Australians are wanting their investments and savings to align with their values, and are reaping the rewards with strong financial performance," says Simon O'Connor, CEO of the Responsible Investment Association Australasia.

Source: <https://www.businessinsider.com.au/ethical-investing-funds-australia>

b) The consequences of poor or inaccurate financial advice for individuals, and possible redress

By law, financial advisors, brokers and financial planners are required to exercise proper care and skill when providing services to their clients. Poor or inaccurate financial advice can lead to negative consequences for the investor – mainly a loss of the money invested and lost income/returns. Financial losses can create stress for individuals and impact families.

What warning signs could an investor look for?

- Being pushed into particular products
- Being pressured into acting quickly
- Advisors suggesting get-rich-quick strategies
- High-risk investment options being recommended even when seeking low-risk options
- Costs, fees and charges are unclear
- Advisor doesn't take time to understand the investor's personal financial situation

If you're unhappy with any aspect of the advice or service you receive, try to talk it over with the adviser. If you're not happy with the fees you are being charged, see if they are willing to renegotiate their fees.

If you are still not satisfied (or your adviser won't meet with you), make a complaint through the adviser's internal dispute resolution system. Their financial services guide will tell you how to do this.

You should receive an acknowledgement letter of internal dispute within 14 days. The advice provider has 45 days to give you a final response. If you're unhappy with the response, you can contact the Australian Financial Complaints Authority (AFCA).

You can also complain to the adviser's industry association and/or professional body. Check ASIC's financial advisers register to see which associations or professional bodies the adviser belongs to.

If the advice has left you in a worse financial position than before you received it, you can ask to have your advice reviewed. You may be entitled to a remediation payment if the advice is found to be inappropriate for your circumstances or you suffered a loss as a result of a criminal act by your adviser.

Source: <https://www.moneysmart.gov.au/investing/financial-advice/problems-with-a-financial-adviser>

In 2011 the Commonwealth Bank's financial planning arm, Commonwealth Financial Planning Ltd, was sued for negligent financial advice, while in 2013 Macquarie Bank faced a similar scandal when more than 800 clients complained about serious financial mismanagement of its investors' funds.

Redress is a process of seeking a resolution or to set right an undesirable or unfair situation. If an investor decides that a financial advisor has provided poor or inaccurate financial advice, ASIC suggests the following options for redress:

c) Cryptocurrency investment – Bitcoin

Unlike regular currency like coins and notes, cryptocurrency is a virtual currency that exists as a digital token. The most well-known type of cryptocurrency is Bitcoin, but there are hundreds of others including Ethereum, Litecoin and Ripple.

Bitcoin is a form of digital currency or cryptocurrency, created and held electronically. No one controls it. They don't physically exist as actual coins – but just because you can't physically hold a bitcoin, it doesn't mean

it isn't worth anything. There have been reports of the rapidly rising prices of virtual currencies. In May 2017, one bitcoin was worth \$US 2,800, up from \$US 1,200 at the end of April. In May 2018, one bitcoin was worth \$US 9,800.

Cryptocurrencies can be bought at many online providers; however, before you purchase, make sure that you have a plan on how to store it in a cryptocurrency wallet. Buying cryptocurrency through exchanges such as Coinbase or Kraken can be done using a credit or debit card.

Cryptocurrencies are kept in a digital wallet and can be used to pay for real goods and services. Transactions are recorded using a vast digital ledger called a blockchain. It's most commonly used for online payments but can in some cases can be used in stores. However, because cryptocurrency is not legal tender, it's not accepted everywhere and is not backed by any government.

Review Questions and Activities

1. Define investment.
2. Explain why people may borrow to finance their investments.
3. Using examples, outline the relationship between risk and return.
4. Suzannah is a full-time teacher who earns \$95,000 p.a. She would like to buy an investment property to rent out. Her budget is to invest \$700,000 (\$100,000 deposit and a \$600,000 mortgage. Research online and recommend a suitable investment property for Suzannah and a mortgage loan option that would be suitable.
5. Describe superannuation in Australia.
6. Research the best term deposit option for an investor who would like to deposit \$50,000 for 12 months. Provide details about the bank, account terms/conditions and identify the amount of interest (return) that will be earned.
Jim would like to invest \$50,000 in a diversified share portfolio. Research and construct a detailed share investment plan for Jim based on current share market data. Justify your investment choices. (Don't forget to include brokerage fees!)
7. Recommend appropriate investment options available to a young person working full-time who has \$10,000 to invest.
8. How can an individual make ethical investment decisions?
9. Why is diversification an important investment strategy?
10. Identify three risk mitigation strategies for managing investments.
11. Investigate Responsible Investment Association Australasia (RIAA) (<https://responsibleinvestment.org/>) and how they may assist investors in choosing ethical options.
Conduct online research into ethical investment options. Create a poster which compares TWO different investment options in the market for potential investors.
12. Outline the responsibilities of lenders when providing financial information and advice in Australia.
13. Explain the role of the Australian Securities and Investment Commission in the financial services industry.
14. Visit ASIC's Moneysmart website and evaluate the financial advice they provide for Australians.
Investigate and report ONE current issue of your choice relating to investment. Choose an engaging way to report on your issue. For example, you might make a 'news' video, write an article, plan a series of social media updates to report on the issue.

Exercise 2.5 Multiple Choice

Select the alternative A, B, C or D that best answers the question

1. Which of the following terms best describes the purchase of an asset in order to make a profit?
 - a. Credit
 - b. Investment
 - c. Superannuation
 - d. Consulting

2. Which of the following best describes a disadvantage of choosing a term deposit as an investment?
 - a. High interest rates
 - b. Minimal fees and charges
 - c. Poor liquidity
 - d. A wide range of accounts and services

3. Peter has decided to purchase a range of both low-risk and high-risk financial investments. The investments are considered part of Peter's what?
 - a. Debts
 - b. Dividends
 - c. Savings
 - d. Portfolio

4. Why might a young person contribute to a superannuation fund?
 - a. Save money for his or her first house
 - b. Provide an income when retired
 - c. Help those less fortunate than themselves
 - d. Make short term gains from speculating on the stock market

5. You buy 1000 EXO shares at \$10 a share and sell them for \$8 a share. Brokerage is \$30 a transaction. What is your total capital loss?
 - a. \$1940
 - b. \$2000
 - c. \$2030
 - d. \$2060

6. Cynthia would like to diversify her investments and also reduce the time and effort she puts into monitoring and analysing investment performance. Which of the following would be the best option for Cynthia?
 - a. Choose a range of savings accounts with different banks
 - b. Choose a balanced portfolio in a managed fund
 - c. Purchase two investment properties in different states
 - d. Use a broker to buy shares in a company on the ASX

7. Which is a summary of each day's share trading of major companies in Australia?
 - a. Dow Jones
 - b. NASDAQ
 - c. All Ordinaries
 - d. Stock Exchange Market

8. Who can earn rental income?
 - a. People who write music or books
 - b. People who own land or buildings
 - c. People who own shares in companies
 - d. People who generate large volumes of sales

9. Which of the following statements about shares is correct?
 - a. All companies have their shares listed on the stock exchange
 - b. The company sets the daily market price of their shares
 - c. All companies issue dividends each year
 - d. If you own a share you are a part owner of a company

10. Which of the following investments presents the highest risk and potential return to investors?
 - a. Australian shares
 - b. Australian term deposits
 - c. Australian savings account
 - d. Australian investment portfolios

Answers**Exercise 2.1**

1. Investment, 2. Risk, 3. Inflation, 4. Superannuation, 5. Borrowing, 6. Savings, 7. Retirement, 8. Growth, 9. Wealth, 10. Mortgage

Exercise 2.2

1. Risk, 2. Portfolio, 3. Superannuation, 4. Inflation, 5. Return, 6. Liquidity, 7. Investment, 8. Ethical, 9. Mortgage, 10. Diversification

Exercise 2.3

1. True, 2. True, 3. False, 4. False, 5. False, 6. True, 7. False, 8. True, 9. True, 10. False,

Exercise 2.4

1. Rise, 2. Rise, 3. Fall, 4. Rise, 5. Fall, 6. Rise, 7. Fall, 8. Same,

Exercise 2.5

1. B, 2. C, 3. D, 4. B, 5. A, 6. B, 7. B, 8. B, 9. D, 10. A

Option 3

Promoting and Selling

1. The Selling Process

The selling process refers to the way a business markets their product (a good, service and/or idea) to a group of current and potential consumers to convince them to buy. It involves a range of actions taken by a business to understand consumers and then respond to their needs through targeted strategies.

Marketing strategies can be related to the product itself along with pricing, promotion, digital marketing and different methods of distribution for a product. Effective planning and implementation of a selling process can help a business to:

- Maximise sales and profitability
- Improve brand image and business reputation
- Gain an advantage over competitors to gain market share

a) Key features of the selling process

- How do businesses differentiate their products?

Most businesses operate in a competitive market where there are others offering the same, or similar, products to consumers. By differentiating their product, and having a competitive advantage, a business hopes to gain more customers relative to other businesses (market share) and increase sales and profitability.

A business can differentiate their products based on the factors described in the table below.

Factor	Description
Product Features	<p>The components, ingredients or characteristics of a good or service. These may include:</p> <ul style="list-style-type: none">■ the function of a product■ dimensions and specifications■ unique features and experiences■ style and quality■ packaging – the look and feel of the product's wrapper or container■ branding – the logo, colour and characteristics associated with the business (or the product)
Price	<p>The amount of money a customer has to pay to purchase a product. When setting prices, businesses need to consider cost of production, the price customers are willing to pay and the prices set by competitors.</p> <p>Some pricing strategies include:</p> <ul style="list-style-type: none">■ premium pricing: charging the highest possible price, typically for a high-quality product offering e.g. Porsche in the car market■ penetration pricing: setting a low price to gain market share in a competitive market (and usually raising it later) e.g. introductory offers on new products■ bundle pricing: selling multiple products for a lower rate than individual items e.g. 1 for \$5 or 2 for \$8

Promotion	Any type of marketing communication used to inform or persuade target audiences of a product, service, brand or issue. The aim is to increase awareness, create interest, generate sales or create brand loyalty. Promotional strategies include: <ul style="list-style-type: none"> ■ advertising e.g. television commercial, Facebook ads ■ sales promotion e.g. buy one get one free, competitions, rebates ■ personal selling e.g. pharmaceutical or car salespeople ■ publicity e.g. media releases, editorial
Innovation	A business might offer consumers an invention or innovation. An invention is something new, never seen by the world, whereas an innovation is an improvement to an existing product or idea. For example, most Apple products are innovations (improvements of existing technology) – the iPod was an improvement on the Sony Walkman that could hold more songs.
Service	Service is the degree to which the business interacts with the customer to ensure a positive experience. The quality of service is influenced by staff communication and interpersonal skills, product knowledge and experience, before and after sales care, time taken in the buying process. For example, a checkout operator at the supermarket is trained to ensure that customers are served quickly and in a polite and friendly way.
Convenience	The degree to which the business and/or product contributes to an easy and effortless way of life for consumers. For example, ready-made meals save consumers time and effort.
Value	Perceptions by the consumer about the benefit, worth or usefulness of a product relative to its cost. For example, Sally decides to spend an extra \$300 on her new fridge because it has a better energy rating and an added 5-year warranty.

■ **Social, ethical and environmental considerations in promotion**

Sustainably-sourced, eco-friendly, biodegradable – these are words regularly used by businesses to show consumers that they are taking responsibility for their actions. Corporate social responsibility (CSR) refers to how organisations take responsibility for the effects of their business on environmental and social wellbeing.

Social considerations for business include the way the business treats its staff and positive involvement in the local community. For example, staff volunteering programmes, sponsorship, supporting community initiatives and events.

Ethical relates to society’s beliefs about what is right and wrong. The way businesses conduct themselves in all areas of their operations can affect their reputation in the market, the selling process and ultimately their profits. Ethical issues in business include how a product is manufactured (whether business practices are transparent, legal and fair), bullying, harassment and discrimination, use of social media, health and safety record, data management and privacy concerns.

Environmental concerns for business relate to their impact on the natural world including resource use, waste and energy management, sustainable processes, carbon footprint and emissions.

There are many ways that social, ethical and environmental considerations have impacted the marketing of products, including:

- Environmentally friendly packaging and zero waste living as consumers are increasingly concerned about single-use plastics and as a result biodegradable and reusable packaging is on the rise – bring your own cup (‘Keep Cup’), minimal packaging made from recyclable materials. Stores such as The Source Bulk Wholefoods allow customers to bring their own containers and buy their groceries from large containers.

- Sustainably sourced fashion from textiles used in production (natural fibres, recycled products, non-toxic, organic) to ethical production (no sweatshop labour exploiting workers in the developing world), consumers are thinking more about their choices.
- Consumption as consumers are questioning whether they need to buy new products and opting to purchased used goods or rent goods instead.
- Ethical lifestyles as younger generations are embracing plant-based meat products and other ‘kinder’ options. The new generation of plant-based meats such as Beyond Meat and Impossible Foods have been designed to reduce the global impact of beef while appealing to everyone (not just vegans!)
- Climate change and carbon footprint as pressure on businesses is mounting from consumers and shareholders to reduce their carbon footprint. For example, carbon offsets in the aviation industry and divestment from fossil fuels in the banking industry.

Case Study: H&M



As much as 95% of all textiles thrown away across the globe each year could be recycled and not added to landfill. H&M reduces textile waste by encouraging consumers to bring their old or unwanted garments to H&M stores through their retail garment take back system. Clothing that can be worn again is marketed worldwide as second-hand goods (Rewear). Textiles that are no longer suitable to wear are converted into other products, such as remake collections or cleaning cloths (Reuse). Textiles that can't be reused get a new chance as textile fibres or are used to manufacture products such as damping and insulating materials for the auto industry (Recycle).

■ Nature of product promotion

The style and nature of product promotion has changed over time in response to society’s expectations, wants and needs. The imagery and messages communicated to consumers through advertising and other promotions used today is very different from that used in past decades. Industries, advertising and marketing are always evolving as trends change and political and socioeconomic contexts shift, and consumers change the way they consume media.

One example of a significant shift in product promotion has been the role of gender, particularly the use of gender stereotypes in advertising. The table below compares tradition and more contemporary approaches to product promotion.

Approaches to Product Promotion	
Traditional/Past	Contemporary and emerging
Traditional understanding of gender – male and female. Masculine and feminine.	Diverse understanding of gender – gender diversity. Fluidity of masculine and feminine traits or characteristics
Masculinity as being strong, rational, unemotional, tough, aggressive, assertive, powerful and in power. Femininity as being soft, gentle, emotional, quiet, womanly, beauty, nurturing, motherly, submissive.	Fluidity of masculine and feminine traits or characteristics. Women can show traditionally ‘masculine’ qualities as much as men can demonstrate traditionally ‘feminine’ qualities.
Traditional understanding of the family unit – mother, father and two children.	Diverse understanding of the family unit – singles and couples (with/without children, same sex or not), single parents, adopted children.

Women stereotypically shown as housewives/family makers and men as the ‘breadwinners’ – working to provide income for the family	Women and men shown in a range of roles related to their personal and professional lives. Men and women as parents, businesspeople, corporate board members, friends, siblings, volunteers and more.
Advertising mostly targeting males – the income earners at the time who made the buying decisions.	More women are working and have more discretionary income than women in the 1960s.
Women in traditional types of employment eg teachers, nurses, childcare and men as doctors and lawyers or involved in manual labour	Women and men depicted in diverse work contexts: engineering, doctors, lawyers (as well as teaching, nursing and childcare)
Beauty stereotypes: Traditionally, women in advertisements tend to be young, thin and white. Women who do not fit into this category are either invisible, presented as tokens or portrayed negatively. Men are expected to have square jaws and a full head of hair; male beauty is connected with physical strength and muscular physique.	More diverse interpretations of beauty shown in advertising: different body shapes and sizes, different ethnicities, a range of ages and abilities.

Some countries have created guidelines on gender equity and portrayals in the media. For example, Malta has implemented guidelines that state ‘men and women should both be seen as making decisions to support the family and with regard to household tasks and home management’.

In the United Kingdom in 2019, the Advertising Standards Authority (ASA) introduced new rule in the advertising codes that ‘[advertisements] must not include gender stereotypes that are likely to cause harm, or serious or widespread offence’. The aim is to ban the depiction of men and women engaged in gender-stereotypical activities to help stop ‘limiting how people see themselves and how others see them and the life decisions they take’.

The Unstereotype Alliance is a United Nations backed initiative to eradicate harmful gender-based stereotypes in advertising. Led by UN Women (the United National entity for gender equality) the alliance brings together partners and seeks to collectively use the advertising industry as a force for good to drive positive change all over the world. The Alliance ‘contributes to empowering women in all their diversity (race, class, age, ability, ethnicity, religion, sexuality, language, education, etc.) and addressing harmful masculinities to help create a gender equal world’ (www.unstereotypealliance.org). Alliance members commit to creating content that depicts people as empowered actors, refraining from objectifying people and portraying progressive and multi-dimensional personalities.

Case Study: Unilever

Unilever is one of the most leading companies committed to eliminating outdated gender stereotypes in advertising especially for women. Unilever aims to avoid all gender stereotypes in roles, personality and appearance.



Exercise 3.1

Complete the following passage using the words provided below:

Word bank: community, bullying, selling process, service, social, natural, ethical, marketing, differentiating, competitive, distribution, service, environmental, sales, pricing, profitability, responsibility, reputation, convenience, product.

The _____ refers to the way a business markets their product (a good, _____ and/or idea) to a group of current and potential consumers to convince them to buy. It involves a range of actions taken by a business to understand consumers and then respond to their needs through targeted strategies. _____ strategies can be related to the product itself along with _____, promotion, digital marketing and different methods of _____ for a product.

Most businesses operate in a _____ market where there are others offering the same, or similar, products to consumers. By _____ their product, and having a competitive advantage, a business hopes to gain more customers relative to other businesses (market share) and increase _____ and _____. A business can differentiate their products based on the factors such as: product features, _____, innovation, _____ and value.

Corporate social _____ (CSR) refers to how organisations take responsibility for the effects of their business on environmental and social wellbeing. _____ considerations for business include the way the business treats its staff and positive involvement in the local _____. The way businesses conduct themselves in all areas of their operations can affect their _____ in the market, the selling process and ultimately their profits.

_____ issues in business include how a _____ is manufactured (whether business practices are transparent, legal and fair), _____, harassment and discrimination, use of social media, health and safety record, data management and privacy concerns. _____ concerns for business relate to their impact on the _____ world including resource use, waste and energy management, sustainable processes, carbon footprint and emissions.

2. Targeting consumers

The target market for a product is the specific group of current and potential consumers at whom a business aims their good and/or service. Once clearly identified, then the promoting and selling processes can be developed in a way that best appeals to the targeted market.

Whilst some brands and businesses may have broad (or mass) market appeal, most products are designed to appeal to a specific sub-group of the market (target market). A very small and specialised segment of the market is called a niche market.

a) Processes used to target consumers

■ Market segmentation

Market segmentation where a business divides a broad target market into subsets of consumers who have common needs, and then designing and implementing strategies to target them effectively. A market can be divided on the basis of:

- Demographic factors: age, gender, ethnicity, income, level of education, relationship status, religious affiliation. For example, an upscale women’s clothing retailer may target women with incomes over \$80,000 annually. Similarly, luxury car dealers focus their marketing efforts on people with higher incomes. Companies selling life insurance for people close to retirement age may target people 50 and over. A hip-hop radio station may appeal more to people aged 25 and under.
- Lifestyle factors: how consumers live their lives, often linked to sub-cultural groups such as surfies, hippies, urban professionals, hipsters, retirees.
- Geographic factors: location of consumer e.g. urban/rural, climate, distance from city centre, general population tastes and preferences.
- Behavioural factors: customer buying behaviour e.g. frequency, benefits needed, occasion etc.
- Psychographic factors: the attitudes, beliefs and values of the consumer that explain why they buy.

■ Market research

Market research is the process of gathering information about consumers’ needs and preferences.

Businesses can collect data themselves directly from consumers (primary data) or access data collected for other purposes (secondary data) to identify and analyse trends that influence promotion strategies used.

Primary Data	Secondary Data
Survey	ABS (Australian Bureau of Statistics) data
Questionnaire	Industry reports
Focus groups	Marketing reports e.g. McKinsey
Feedback	Data available in the business already (collected for other purposes e.g. sales records for all products kept for accounting reasons)
Observations	
Taste testing	

Once the target market is clearly defined and well understood, a business will develop a selling process that effectively communicates with the desired target market to convince them to buy their products. The selling process usually involves a combination of marketing strategies.

■ How promotion strategies target young people and groups in the community

When the broad mass market has been effectively segmented and a target market identified, it is much easier for a business to successfully target their products at specific groups. Each group will have different needs and wants, habits and preferences. They will respond differently to selling techniques and have varying expectations of a business, its brand and its products.

Young people represent an important demographic to marketers because in addition to their own purchasing power (which is considerable) they influence their parents' buying decisions and are the adult consumers of the future.

Youth marketing is any marketing effort directed toward young people. This group is often broken down into smaller segments depending on their age – tweens, teenagers, university students, and young adults (aged 23-34). Each market segment has products and advertising campaigns that are targeted specifically for them.

To effectively appeal to young people, promotion strategies need to:

- Be relatable: the language and imagery used in advertising needs to reflect how young people behave, think and feel.
- Offer a solution to a problem: young people need to believe there is a reason to buy a good or service. For example, Uber lets young people find cheap rides on their smartphones, rather than having to call a taxi and wait.
- Develop a modern and genuine brand: Today's young people (Millennials and Gen Z) are caring and passionate about the world around them. They want to do their part to preserve the environment, save animals, fight homelessness, feed the hungry, and support other worthy causes. Further, they want to buy from businesses that share their morals and values – brands that they trust.
- Use influential celebrities: To connect with a younger audience, marketing professionals should understand who influences them. A YouTuber or an Instagrammer might have more impact than the more traditional use of an actor or athlete.
- Have a social media presence: Young people are highly engaged on social media platforms such as Snapchat, Instagram, Facebook, and Twitter – these need to be part of a business's digital marketing strategy
- Use traditional approaches too: Research indicates that children and teens still spend more time watching TV than they do using any other type of media, an average of approximately one hour a day among 2- to 8-year-olds and more than two-and-a-half hours a day of live TV among those 8 and older.

Case Study: Schoolies Unearthed



Schoolies Unearthed offers their target market of school leavers interested in an adventurous and socially minded celebration of the end of school an alternative to the traditional alcohol fuelled Gold Coast Schoolies celebration. Schoolies Unearthed promotes their trips through their website and social media (Instagram and Facebook). The marketing team monitors all enquiries through social media and hosts webinar sessions for those interested in a trip to Vanuatu, Nepal, Vietnam or Borneo (instead of the Gold Coast).

■ Legal and ethical issues in product promotion

A range of legal and ethical issues are associated with product promotion strategies in Australia. If a business operates globally, these issues will vary in each country and context – it is the responsibility of businesses to understand and respond to these influences appropriately.

In Australia, all businesses must legally comply with Australian Consumer Law called the Competition and Consumer Act 2010 (CCA). This legislation aims to promote fair competition in markets and protect consumer rights. The Australian Competition and Consumer Commission (ACCC) administers and enforces the Act.

This Act regulates product promotion strategies in the following ways:

- Expectation of 'acceptable quality' – this protects consumers if products fail within an unreasonable amount of time. For example, Apple's standard warranty now apply for 2 years (rather than 1 year offered previously which was seen as 'unacceptable')
- Expectation that products are 'fit for purpose' (do what they are supposed to do) and 'match the description' (in the advertising and on the packaging)
- Protecting against 'deceptive and misleading advertising' which includes issues related to false information (verbal, written, visual) in advertising, use of fine print, before and after images, country of origin information and information provided on packaging and any claims made which are untrue e.g. success, predicted effects of the product, environmental benefits.
- Warranties: any promise made by the business to repair or replace faulty products in a time period. For example, Hyundai was the first car manufacturer to offer Australian customers 5 years unlimited kilometres warranty for their cars. Under the law, these warranties need to be honoured under the conditions offered to the customer at the time of purchase.

The ACCC can seek remedies such as criminal or civil penalties up to \$1.1 million for companies and \$220 000 for individuals.

Case Study: Heinz



Heinz has been hit with \$2.25 million in penalties by the Federal Court of Australia for breaching Australian Consumer Law by making misleading advertising claims about the nature of its Little Kids Shredz products. The ACCC acted against Heinz because they had made misleading health claims that its Little Kids Shredz products were beneficial for young children. This was not the case, with the product containing approximately two-thirds sugar. The packaging of the product also included pictures of wholesome fresh fruit and vegetables and statements such as '99% fruit and veg', which conjured up the impressions of nutritiousness and health.

Ethical issues are the 'moral' factors that affect marketing decisions over and above legal requirements. These issues represent the different opinions and perceptions of people in the community and may change according to the target market. What some groups in society may find offensive, other groups may not.

The law does not cover everything that might be considered poor or questionable marketing behaviour. However, the Advertising Standards Bureau is an industry based self-regulation system which investigates complaints from consumers about advertising and makes recommendations to businesses. Again, effective market research is important to help businesses understand the perspectives and opinions of their market to avoid harmful publicity and negative impacts on sales, brand image and profit.

Some ethical issues in product promotion are outlined in the table opposite.

Ethical Issue	Description and Examples
Products that damage health	Advertising of alcohol, gambling and unhealthy foods raise concerns in the community. The advertising of tobacco in Australia is heavily regulated by legislation (eg Plain Packaging Act 2011)
Gender stereotypes (rather than real people)	Whilst market segmentation has a place in promoting products, businesses need to be mindful of 'telling' their consumers what they should be and how they should act based on gender. A business can risk offending and/or alienating their target market. For example, Microsoft's recent campaign encouraging girls to pursue science, technology, engineering, and maths (STEM) responded to gender in promotion differently.
Poor taste in advertising	Whilst there are censorship requirements at a general level, issues are still raised about the sexualisation of children, blatant or suggestive images of men and women, use of violent imagery and ideas. Other areas which can draw criticism of business include promotion of alcohol and gambling, advertising to children, use of language.
Accuracy	This is the less defined aspect of 'deceptive and misleading advertising' which is a legal issue. There are still 'grey areas' that businesses could exploit in terms of clarity and accuracy of their claims – which becomes an ethical concern. For example, the use of post-production technique like 'Photoshopping' images for beauty products – some edits are a standard practice, but does that make it OK?

Greenwashing is the practice of making an unsubstantiated or misleading claim about the environmental benefits of a product, service, technology or company practice. This has become more of an issue with consumers actively looking for 'greener' options.

Companies realise that consumers today have an increased awareness of the environmental impact that modern goods may have. Environmental claims are now relevant to a larger product range, from small household items such as nappies, toilet paper, cleaners and detergents to major whitegoods and appliances.

Exercise 3.2

Indicate whether each of the following statements is true or false.

1. Warranties are any promise made by the business to repair or replace faulty products in a particular time period	True / False
2. Accessing ABS census data to understand a target market is a type of primary market research	True / False
3. A business targets male consumers who are aged 16 – 24 and live in the inner city areas. The business is segmenting the market based on behavioural and geographic factors.	True / False
4. Ethical issues are the 'moral' factors that affect marketing decisions beyond legal requirements	True / False
5. The Advertising Standards Bureau can investigate cases and apply legal penalties such as fines.	True / False
6. A very small and specialised segment of the market may be called a niche market.	True / False
7. Market research is the process of gathering information and data to better understand consumers, competitors and products.	True / False
8. A refrigerator breaks down after 12 months. The customer is entitled to repairs at the manufacturer's expense.	True / False
9. McDonalds has a legal responsibility to limit the amount of McValue meals that children eat.	True / False
10. A market researcher interviews a second group of consumers to analyse their perceptions of the recently launched product range. This is best described as secondary market research.	True / False

3. Selling techniques

The marketing department in a business (or the business owner in a smaller business enterprise) are responsible for developing and implementing selling techniques for goods and/or services.

To increase the chances of success a process of research, planning, implementation and review is followed that includes more than just selecting selling techniques. A business may follow a process similar to that identified below.

1. Analyse the current position
2. Conduct market research
3. Develop goals (e.g. sales, market share)
4. Clearly identify the target market
5. Develop selling techniques
6. Implement selling technique
7. Monitor progress (e.g. collect sales data)
8. Review and evaluate performance
9. Make changes as needed to selling techniques to improve

a) Analysing selling techniques

■ The range of selling techniques used to market a good or service

There are a range of selling techniques that can be applied by a business to try and influence their customers to buy. The specific strategies used by a business will depend on the characteristics of the target group of consumers and what best appeals to them. There is no point in a business spending money on a strategy that will not 'reach' consumers and lead to sales.

Product

The product can be a good or service offered to the consumer (or potential consumer). A business will need to consider the product features as part of their selling technique to ensure it appeals to the needs and wants of the target market. For example, when developing a beverage, a business may consider features such as flavour, colour, taste, container, size, ingredients, and health benefits.

The packaging is the physical container for a product. It has a functional role which includes wrapping the product, meeting legal requirements such as listing ingredients and nutritional information, and a role in safely transporting the product through distribution. The packaging also performs a branding role through its colours, logo, and design. A brand is a name, term, symbol or special design that identifies a business' products and reputation. If a business can build up brand loyalty, they are likely to make repeat sales from returning customers.

Pricing

Price is the amount of money a customer is prepared to offer in exchange for a product. Things to consider when setting a price include the price charged by the business' competitors, the perceived quality of the product itself and the costs of production (to allow a margin for profit).

Pricing methods include:

- Cost-based: the business analyses the costs of production and adds a margin for profit to determine their selling price
- Market-based: the price is set based on what the market (consumers) are willing to pay for a particular product (this is also influenced by supply and demand forces in the market).
- Competition-based: the prices set by the competition will influence a business's price setting – if they are offering a higher quality product than other sellers, then they may choose to charge a higher price, a lower price than competitors can help a business to gain market share.

Distribution

Distribution (place) refers to how and where the product reaches the customer. A business will consider whether to sell directly to customers (through the business' own warehouse, shop or online store) or through a reseller (eg Tip Top selling bread to customers through supermarket retailers). A business must also consider how many locations to make their product available. Coca-Cola is intensively distributed – this means it is sold in many different locations and is relatively easy for customers to find. A more expensive and luxurious product such as a Tiffany & Co engagement ring is only available exclusively at Tiffany & Co and there are not many physical stores. This limiting of availability implies exclusivity and may increase the product's perceived value.

People

The staff in a business who interact with the customers will influence the selling process. This may be through knowledge of the product, level of service or presentation of staff (uniform, body language, verbal/non-verbal communication). People can create a distinct competitive advantage for a business and be a point of differentiation.

Promotion

Promotion refers to the entire set of activities which communicate the product, brand or service to consumers. A range of strategies are used by businesses to promote their products:

- Advertising: a form of mass communication that gives people information about a product to influence customer buying behaviour. Traditional media for advertising includes newspaper, magazines, television commercials, radio, outdoor advertising (eg billboards, bus stops). Newer forms of advertising media include websites/blogs, social media, email and SMS.
- Personal selling: involves the activities of a sales person directed to a customer in an attempt to make a sale. For example, a car salesperson spends time getting to know the customer's needs and wants in a new car so that they can tailor their selling efforts.
- Sales Promotions: direct offers or incentives aimed at customers in an attempt to sell more of a product. This might include special offers, discounts, free gifts, 'Buy-one-get-one-free', vouchers, giveaways and competitions.
- Publicity/Public Relations (PR): publicity is any media about a business and/or its products. It differs from advertising in that it is free and its timing is not controlled by the business. Public relations refer to the professional maintenance of a favourable public image by a business (or another organisation). For example, the information provided on business websites such as 'About Us' and 'Media Releases' helps to inform consumers and influence their opinion.

Case Study: Red Bull



One of the most successful brands when it comes to organisational PR stunts is without a doubt Red Bull. For decades they have been creating out of the ordinary, extreme stunts, all while positioning themselves as a brand that “gives you wings.”

In 2005, one of the most successful PR stunts began. Red Bull and Austrian skydiver and base jumper Felix Baumgartner began groundwork for a stratospheric freefall planned to exceed human limits. Then, seven years later, on October 14, 2012, Baumgartner rose to 128,000 feet in a stratospheric balloon and completed a freefall jump that had him rushing towards Earth at supersonic speeds before parachuting safely to the ground.

- Digital Marketing & Social Media: the marketing of products or services using digital technologies, mainly on the Internet, but also including mobile phones and display advertising. This includes the use of social media, online reviews and business websites as well as direct email marketing and SMS promotions.
- Measuring the effectiveness of selling techniques

Selling techniques are implemented by a business to achieve their goals of increased sales and profitability. Running a business is a constant process of review and analysis. To judge the effectiveness of the selling techniques used, they must be monitored and evaluated.

Process	Actions	Explanation/Examples
Monitoring	Collecting Data	A range of data is collected and measured to track business performance and achievement of goals. This data may include: sales figures, customer feedback, retailer feedback, online reviews, industry and market data, competitor response.
Evaluation	Analysing Data Judging Performance	Summarising collected data in a meaningful way to interpret results and judge performance. This includes identifying trends, comparing actual performance against goals set, identifying strengths and weaknesses of the selling techniques used.
Improvement	Planning Ahead Changing Approach	If the business is achieving their goals, monitoring and evaluating will help them to identify success factors to build upon further and apply again. If the business is not achieving goals at the desired level, they will review strategies, check market research data, adjust techniques and perhaps initiate new selling techniques.

CASE STUDY: Lululemon Athletica



Lululemon Athletica is a technical athletic apparel company for yoga, running and training. They use several selling techniques to market their products and maximise profits.

Selling Technique: People

Lululemon employees are encouraged to talk to customers more about yoga and goal-setting than their products. They also dress like they are going for a workout so customers can relate to them in that context rather than as retail assistants. This also makes them more likeable, and customers are more comfortable trusting them which builds a positive relationship.

Selling Technique: ‘The Sweat Collective’ Ambassador Program

Instead of celebrity endorsements (eg Rhianna for Puma), Lululemon supports a community of driven athletes and inspirational individuals to promote brand values to inspire new and existing customers and boost sales. The group is made up of local yoga instructors, social influencers, and elite athletes. They lead free in-store classes including yoga and running groups, participate in global events, and interact with stores and customers regularly.

Selling Technique: High Quality Product (Consistently High Price Point) with Limited Supply

Lululemon’s products are known for being high quality, well-designed, and carefully engineered. Their guarantee is “If our product doesn’t perform for you we’ll take it back.” Their products are set at a high price point. For example, leggings cost between \$80 and \$150. It stocks very few of each item and updates stock often, meaning shoppers never know what they’ll find – this encourages customers to visit stores regularly.

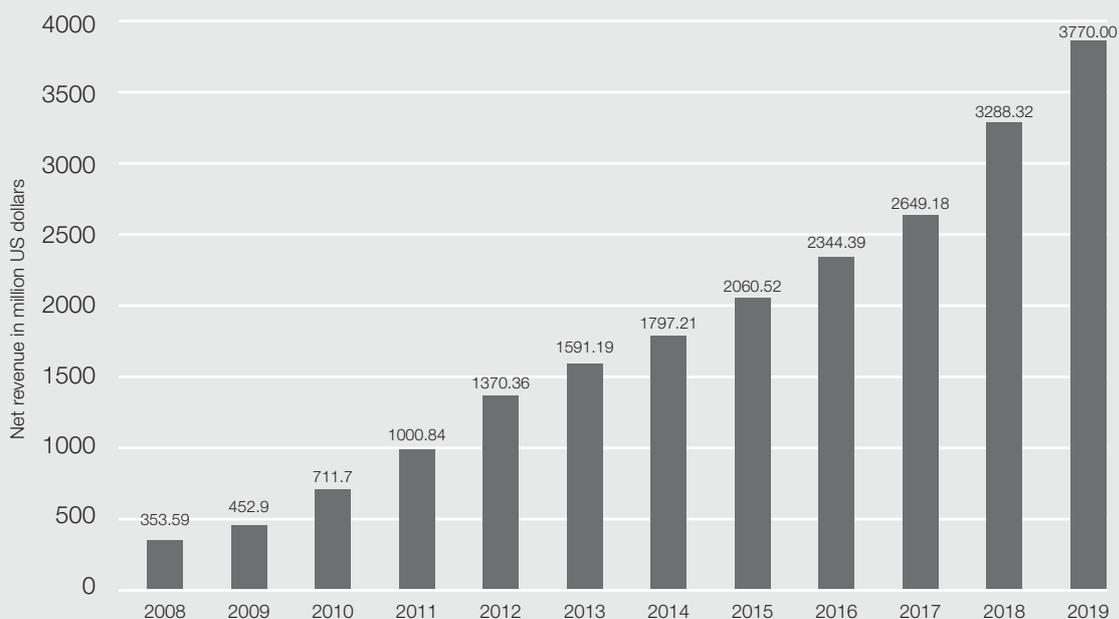
Selling Technique: A community, not a market segment

Underpinning the Lululemon marketing strategy is a recognition that when people buy sportswear, they’re potentially buying much more than just gym shorts or a running top. By treating their customers as a group of people brought together by the common purpose of a healthier life, they are able to create deeper connections with customers. This focus on community can be seen in everything from the way athletic achievements of individual people are celebrated on social media and the use of inspirational slogans on their eco-friendly reusable shopping bags.

Selling Technique: Brand & Company Values

Lululemon’s retail stores transform into fitness and conversation hubs on weekends for free lessons, to give back and get people involved with the brand. There are free yoga classes and run clubs which keep customers engaged in the brand and also ‘give back’ to the community.

Net revenue of lululemon worldwide from 2008 to 2019 (in million US dollars)



Source: <https://www.statista.com/statistics/291238/net-revenue-of-lululemon-worldwide/>

■ Factors influencing selling techniques today

Like all areas of business, promoting and selling is impacted by factors from the external business environment. There are a range of external factors that influence contemporary selling techniques implemented by business.

The external business environment includes all influences which exist outside the direct control of a business – they can present both challenges and opportunities for businesses. Technology, social media, global market influences and government regulations all impact the selling techniques used by business.

Factor	Opportunities	Threats/Risks
Technology	New technology can improve products and create a competitive advantage for a business. New and improved features exclusive to a business' product can increase sales. Technology can reduce production costs and then allow a business to change its pricing to gain market share.	Technology develops rapidly and is constantly changing – a business needs to be careful about investment in technology – it is expensive and may not create the advantages expected. Effective research and evaluation should be done before implementing new technology.
Social Media	Access to a mass audience who are more captive vs most other mediums. Ability to accurately target the market due to access to personal data. Instant engagement and feedback, a two-way exchange unique to this medium. eg. likes, shares and even purchase. If a campaign message is strong it has the ability to go viral and reach a wider audience, also known as earned media (where an advertisement's reach is earned, not paid for).	Consumers are becoming more desensitised to social media advertising and so businesses are having to be creative in their tactics. Negative publicity can escalate quickly and go viral in a way that can hurt a business' reputation. Eg. negative comments or cancel culture – if a prominent figure or business steps out of line, they can be punished and their reputation damaged in an instant.
Global Markets	Access to a much bigger consumer market where a business' product offering may successfully grow. Businesses can relocate their production to take advantage of lower costs in different overseas locations. A business can learn from other businesses in global markets – understanding best practice – and apply these methods to their own selling techniques.	Increased competition through offering local customers cheaper alternatives. This is usually the result of different regulations and lower production costs – especially in the developing world. Not all selling techniques can be applied across different global markets in the same way. Language, culture, tastes and preferences may require a business to alter its product, their advertising media and pricing to suit the new markets.
Government Regulations	Government regulation creates an 'even playing field' for promotion and selling techniques. A basic standard is set of acceptable business practices and government agencies work to administer the law and enforce these standards. This helps to maintain a fair and competitive market.	Government regulations prohibit the production and sale of certain products in a market. Regulations impact the content and messaging of advertising business businesses. For more information, refer to the section earlier in this chapter that explains the legal regulations related to promoting and selling in Australia.

Case Study: Red Bull

Austrian company Red Bull has adopted such an effective global marketing approach that many Americans assume that it is an American brand! One of its most successful tactics is to host extreme sports events all over the world such as the Red Bull Indianapolis Grand Prix and the Red Bull Air Race (UK) to the Red Bull Soapbox Race in Jordan – a truly global approach.



In addition to these events, Red Bull’s packaging also plays a part in its global appeal. ‘Red Bull really looks like a product from a global economy. It doesn’t look like a traditional American soft drink – it’s not in a 12-ounce can, it’s not sold in a bottle, and it doesn’t have script lettering like Pepsi or Coke. It looks European.

Exercise 3.3

Match the definition with the correct term below.

1. The activities of the people in the business directed at a customer in an attempt to convince them to buy a product	
2. The amount that consumers are asked to pay for a product.	
3. The process of collecting information and data to track progress	
4. A form of mass communication that gives people information about a product	
5. The way that a product makes its way from producer to consumer either directly or indirectly	
6. The name, logo and attributes of a business.	
7. Making a judgment that is based on data and specific performance criteria.	
8. The goals set by a business to increase sales, brand awareness, market share and new product development.	
9. After collecting data (monitoring) and analysing performance, a business changes their marketing strategy to better achieve their goals.	
10. The physical container for a product which has both a branding and practical physical role	

Word Bank: Price, evaluating, Improvement, personal selling, packaging, monitoring, brand, advertising, objectives, distribution

4. Current Issues in Promoting and Selling

a) Role of social media advertising in product promotion

Social media plays a significant role in the promoting and selling efforts of most businesses in today's market. Successfully engaging with a target audience on social media requires a well-thought-out and timely strategy.

In Australia, whilst the number of internet users has remained relatively stable, the number of active social media users has continued to increase. This presents an opportunity to business and a communication channel direct to their target market.

Facebook is by far the most popular platform, with Instagram (owned by Facebook) taking over LinkedIn's second place this year, mainly for those aged under 40. Twitter and Snapchat have shown a decline of -2.3% and -14% in advertising reach in the market.

Around 50% (9 million Australians older than 14) are using social media at least once a day and 4 million use it more than 5 times a day. Mornings and after work are the best times to post to reach the greatest number of people. There is plenty of opportunity for businesses to engage with followers on social media and generate leads and purchases through special offers.

When developing a social media strategy for promoting their products, a business should:

- Carefully choose their social media platforms
- Develop a calendar/schedule for releasing content
- Give consumers a reason to follow them – people are more likely to buy from businesses that they 'follow' on social media
- Consider forming relationships with social media influencers (the right ones for their brand and image)
- Encourage user-generated content e.g. encourage followers to post pictures of themselves using the business product and add the related hashtags as a way of promoting products through word-of-mouth

Word of mouth marketing is any instance where consumers share information about a product or organisation with one another, whether by talking or through some other medium. Essentially, when getting people to talk about your brand, product, or business is the goal of this type of marketing – whether it is online or in real life.

Case Study: Lush Cosmetics



Lush Cosmetics uses a hashtag for its user-generated content campaigns. Within Lush Cosmetics' Instagram bio, they ask followers to "Share your #LushLife with us!" This encourages fans to submit their own content directly to Lush through the #LushLife Instagram hashtag.

This is a form of word-of-mouth and one of the most effective forms of online promotion. Consumers are doing the promoting for the business, which means it will reach more people. It can also increase trust and likeability in a brand since the message is coming from a peer rather than directly from a brand.

Whilst a social media presence, when carefully planned and implemented, can help a business promote its products and reach a wider market, there are also potential disadvantages. A social media presence requires significant investment of time and resources which may not lead to the desired sales and profits. Not only is there the need for planning, there is also a need for ongoing monitoring. In Australia, businesses are held responsible for the comments and content posted by users and followers (not just their own business-generated content).

b) Regulation of advertising to young people

Australia currently has in place a set of regulatory and self-regulatory arrangements governing the promotion of products to children, the aim of which is to ensure that advertisers and marketers develop and maintain a high sense of social responsibility.

The Australian Association of National Advertisers (AANA) is the peak national body representing Australia's advertisers. Their goal is to 'inspire and promote responsible, innovative and respected marketing, through a commitment to sustainable industry collaboration'.

AANA has developed a Code of Conduct for Advertising and Marketing Communications to Children (aged 14 years and younger) which sets out the guidelines that include the following advice:

Advertising or marketing communication to children:

- Must not mislead or deceive children and must not be ambiguous
- Must not employ sexual appeal or include sexual imagery
- Must not portray images or events which depict unsafe uses of a product or unsafe situations which may encourage children to engage in dangerous activities or create an unrealistic impression in the minds of children or their parents or carers about safety.
- Must not undermine the authority, responsibility or judgment of parents or carers.
- Must not be for, or relate in any way to, alcohol products or draw any association with companies that supply alcohol products.
- Must neither encourage nor promote an inactive lifestyle or unhealthy eating or drinking habits

A recent study found that Australian children who watch TV are being targeted by junk food advertising. This study found that children aged between 5 to 8 years were conservatively being exposed to as many as 1000 junk food TV ads a year.

c) Use of indigenous cultural and intellectual property

Indigenous Cultural and Intellectual Property (ICIP) rights are Indigenous people's rights to protect their heritage and culture. Heritage includes all aspects of cultural practices, traditional knowledge, and resources and knowledge systems developed by Indigenous people as part of their Indigenous identity. Australian intellectual property laws only protect some forms of ICIP – mainly because they protect individual right rather than collective or community level rights.

ICIP is said to include the following rights:

- Right to protect traditional knowledge and sacred cultural material
- Right to ensure that traditional laws and customary obligations are respected. For example, when a t-shirt is manufactured with a print of a traditional motif on it, the design should be one that is allowed to be used for this purpose
- Right to full and proper attribution or naming of the community connected with the ICIP
- Right to prevent insulting, offensive and misleading uses of ICIP in all media. For example, an artwork containing traditional knowledge is printed on underwear or a large painting containing traditional knowledge is cut up by a gallery to make 10 small paintings.
- Right to control the recording of cultural customs and expressions, and language which may be essential to cultural identity, knowledge, skill and teaching about Indigenous culture

Cultural copyright is not yet active in Australia to protect the creative work of Indigenous groups of artists, including Aboriginal people. The World Intellectual Property Organisation (WIPO) within the United Nations is hard at work drafting a future ‘Indigenous cultural productions’ right. This will protect the work of groups of Indigenous people and will also protect traditional designs. It is taking some time because copyright typically protects the original work of individuals, rather than the traditional work of groups.

All cultures are influenced by, and influence each other, as a natural consequence of contact with, or awareness of each other. The processes or acts by which cultures are influenced by each other, or take on each other’s attributes is called cultural appropriation. Businesses need to be aware of cultural appropriation issues relating to the use of Indigenous cultural and intellectual property when promoting and selling their goods or services.

Exercise 3. 4

Indicate whether each of the following statements is true or false.

1. Australian Association of National Advertisers (AANA) has developed a legally binding Code of Conduct for Advertising and Marketing Communications to Children.	True / False
2. A social media presence requires significant investment of time and resources which may not lead to the desired sales and profits.	True / False
3. Word of mouth marketing is any instance where consumers share information about a product or organisation with one another.	True / False
4. Indigenous Cultural and Intellectual Property (ICIP) rights are Indigenous people’s rights to protect their heritage and culture.	True / False
5. Businesses need to monitor their social media posts as they can be held responsible for comments posted by users on their content.	True / False
6. Cultural copyright is active in Australia to protect the creative work of Indigenous artists.	True / False

Review Questions and Activities

1. Define promotion.
2. Explain how businesses differentiate products.
3. Distinguish between social, ethical and environmental considerations when promoting products.
4. Describe the role of gender in promoting products.
5. Using an example, define ‘target market’.
6. Explain one legal influence on selling products.
7. Recommend two selling techniques for a sandwich shop to implement to increase sales.
8. Explain how technology has influenced selling techniques.
9. Analyse the effectiveness of selling techniques used by a business/brand of your choice.
10. Investigate how advertising to young people is regulated in Australia.

Exercise 3.5 Multiple Choice

Select the alternative A, B, C or D that best answers the question.

1. Which government organisation investigates complaints about deceptive and misleading advertising?
 - a. Fair Trading Australia
 - b. Competition and Consumer Act
 - c. Advertising Standards Bureau
 - d. Australian Competition and Consumer Commission

2. A new cereal has just been launched. Which of the following is an example of a distribution technique?
 - a. A lower price than competitors
 - b. A colourful box to appeal to children
 - c. A full-page feature in 'Men's Health' magazine
 - d. A deal to sell the cereal through major supermarkets

3. Maria recently purchased earphones for her iPod. Which of the following best describes the implied condition that is legally guaranteed to Maria?
 - a. Products that damage health
 - b. Acceptable quality
 - c. Extended warranty
 - d. Workable merchandise

4. Which of the following actions could a manufacturer take to become more environmentally sustainable in their production?
 - a. Reduce packaging
 - b. Offer a greater product range
 - c. Support a local charity event
 - d. Conduct market research about consumers

5. Alex bought a fridge with a one-year warranty. Two months after purchase the fridge stopped working. Who would be responsible for honouring the warranty?
 - a. The store that sold Alex the fridge
 - b. The Office of Warranty and Returns
 - c. The Australian Competition and Consumer Commission
 - d. The manufacturer of the fridge

6. Which of the following is a legal responsibility that a clothing retailer has towards their customers?
 - a. To deliver quality service
 - b. To offer a money back guarantee
 - c. To provide a safe shopping environment
 - d. To discount clothes at the end of the season

7. The publishers of a new magazine are targeting middle-aged men with an interest in fishing. Which of the following best describes their market segmentation?
 - a. Demographic and Behavioural
 - b. Demographic and Lifestyle
 - c. Behavioural and Lifestyle
 - d. Behavioural and Geographic

8. Which of the following products is most likely to be intensively distributed?
 - a. Computers
 - b. Sports cars
 - c. Soft drinks
 - d. Designer jewellery

9. In order to keep product prices low, Coleworth is the only supermarket retail chain that does not offer customers free plastic bags to pack their groceries. Customers need to purchase or bring re-usable bags. Which of the following factors best describes how this business differentiates itself in the market?
 - a. Service and convenience
 - b. Service and environmental
 - c. Value and convenience
 - d. Value and environmental

10. Which of the following is an example of promotion as a selling technique for a new shampoo product?
 - a. Creating a brand name
 - b. Making it only available in barber shops
 - c. Creating an environmentally friendly container
 - d. Advertising it as adding shine and volume to hair

Answers

Exercise 3.1

The **selling process** refers to the way a business markets their product (a good, **service** and/or idea) to a group of current and potential consumers to convince them to buy. It involves a range of actions taken by a business to understand consumers and then respond to their needs through targeted strategies. **Marketing** strategies can be related to the product itself along with **pricing**, promotion, digital marketing and different methods of **distribution** for a product.

Most businesses operate in a **competitive** market where there are others offering the same, or similar, products to consumers. By **differentiating** their product, and having a competitive advantage, a business hopes to gain more customers relative to other businesses (market share) and increase **sales** and **profitability**. A business can differentiate their products based on the factors such as: product features, innovation, **service**, **convenience** and value.

Corporate social **responsibility** (CSR) refers to how organisations take responsibility for the effects of their business on environmental and social wellbeing. **Social** considerations for business include the way the business treats its staff and positive involvement in the local **community**. The way businesses conduct themselves in all areas of their operations can affect their **reputation** in the market, the selling process and ultimately their profits.

Ethical issues in business include how a **product** is manufactured (whether business practices are transparent, legal and fair), **bullying**, harassment and discrimination, use of social media, health and safety record, data management and privacy concerns. **Environmental** concerns for business relate to their impact on the **natural** world including resource use, waste and energy management, sustainable processes, carbon footprint and emissions.

Exercise 3.2

1. True 2. False 3. False 4. True 5. False 6. True 7. True 8. True 9. False 10. False

Exercise 3.3

1. Personal selling, 2. Price, 3. Monitoring, 4. Intensive distribution, 5. Distribution, 6. Branding, 7. Evaluation, 8. Marketing objectives, 9. Improvement, 10. Packaging

Exercise 3.4

1. F, 2. T, 3. T, 4. T, 5. T, 6. F

Exercise 3.5

1. D, 2. D, 3. B, 4. A, 5. A, 6. C, 7. B, 8. C, 9. D, 10. D

Option 4: Running a Business

1. Being an entrepreneur

a) Characteristics of entrepreneurs

An entrepreneur is more than someone who starts their own business. Entrepreneurs are people who make things happen. They organise, manage, and assume the risks of a business or enterprise. Well known entrepreneurs include Bill Gates (Microsoft), Steve Jobs (Apple), Mark Zuckerberg (Facebook), Sergey Bin (Google), Jeff Bezos (Amazon) and Richard Branson (Virgin).

They have several things in common.

■ Seeking and taking advantage of an opportunity

A business opportunity is a consumer need or want that can be potentially met by a new business. Entrepreneurs do not wait for an opportunity to come to them. They study their environment by looking at industry trends and find the opportunity. These opportunities can often solve a problem.

Case Study: Uber

Garrett Camp and Travis Kalanick came up with the idea of letting you hail a car with your smartphone after hiring an expensive private car for New Year's Eve. But what began as just a thought quickly grew into a global brand with Uber estimated to have over 110 million users worldwide.



■ Establishing a shared vision

Vision is basically the goal which an entrepreneur aspires to achieve. Entrepreneurs have a clear understanding of what the business will be like in the future. Entrepreneurs are not necessarily good managers, but they have the vision and energy to bring people together. They can persuade, negotiate, lead and change direction when they must. They have big goals and an overriding ambition to succeed.



Case Study: Bill Gates

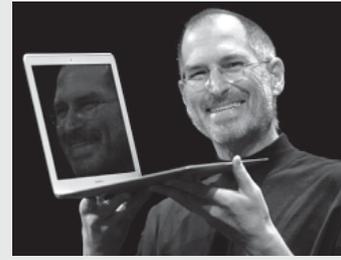
Guided by a belief that the computer would be a valuable tool on every office desktop and in every home, Bill Gates began developing software for personal computers. Gates' foresight and his vision for personal computing have been central to the success of Microsoft and the software industry.

■ Demonstrating initiative, innovation and resilience

Successful entrepreneurs demonstrate initiative. They are proactive, resourceful and can turn ideas into action. Entrepreneurship goes hand-in-hand with innovation — the ability to produce new ideas; provide better solutions; and pioneer new products. Entrepreneurs are not necessarily inventors. Most entrepreneurs create businesses around existing products, but they create new means of delivering them. Because it's tough to be an entrepreneur they also need to be resilient to adapt and bounce back when things don't go as planned.

Case Study: Steve Jobs

Steve Jobs is an entrepreneurial legend. He famously started Apple in a garage with co-founder Steve Wozniak in 1976 after dropping out of college. Jobs was known for his innovation in making computer technology elegant and consumer friendly. His legacy includes the Mac computer, the iPod, iPhone and iPad. He was forced out of the company he founded when he clashed with the management. He returned to the company in 1997 to once again lead the business he started. According to Jobs, two things are required to build a successful company: passion and people.



“People say you have to have a lot of passion for what you’re doing and it’s totally true. And the reason is because [building something of value is] so hard that if you don’t, any rational person would give up. It’s really hard. And you have to do it over a sustained period of time. So, if you don’t love it, if you’re not having fun doing it ... you’re going to give up. And that’s what happens to most people.”

■ Appreciating the role of failure in success

Every successful entrepreneur has experienced failure. Entrepreneurs learn from their failures and see failure as a challenge rather than a personal shortcoming. Successful entrepreneurs navigate around several failures until finally “making it.” Because entrepreneurs are not scared of failure, they have less to hold them back when they go after their business opportunity.

2. Planning for success

There are a number of key considerations when planning and organising a business including:

a) Selecting business opportunities

Entrepreneurs often begin with innovative ideas but succeeding in a new business also requires careful and objective assessment. Several factors need to be assessed by entrepreneurs when analysing business opportunities. These include:

Market Research

Market research is the action and activity of gathering information about consumers’ needs and preferences. It is an important process for an entrepreneur to assess the viability of a new good or service (business opportunity). Obtaining statistics and conducting market research gives the entrepreneur a better understanding of their market, their customers and their needs, as well as giving them a better insight into their competitors. This greater understanding of the market helps the entrepreneur focus their marketing efforts, make informed decisions and make the most of available opportunities. Entrepreneurs can undertake their own primary research using surveys or interviews, or through talking to their customers and other businesses or use secondary research by tapping into other sources like the Australian Bureau of Statistics (ABS).

Location

Business location is key to successful operations and growth especially when contact with the public is part of the business. Some online businesses are “footloose” in that they could set up pretty much anywhere. An entrepreneur needs to decide on the best location considering factors such as:

- Closeness to customers
- Good pedestrian flow

- Proximity to home and family
- Zoning regulations
- Number of nearby competitors
- Economic climate of the trading area
- Future plans to the area
- Assess to suppliers
- Visibility from passing traffic
- Geographical factors like near to beach
- Adequate parking

Demographics

Demographic analysis gives insight into the geographic composition of a population. It shows population's make-up in terms of age, gender, income level, occupation, education, ethnicity and family circumstances. Demographic analysis enables an entrepreneur to understand key information about their customers to see if the community they are planning to service offers a population with the demographic traits necessary to support their business. Detailed demographic information is available from the Australian Bureau of Statistics (ABS).

Competition

A business opportunity will depend on the level and strength of competitors. Knowing who your competitors are, and what they are offering, can help the entrepreneur to make their products, services and marketing stand out. It enables the entrepreneur to set their prices competitively and help them respond to rival marketing campaigns with their own initiatives.

Entrepreneurs need to monitor their competitors by analysing:

- The products or services they provide and how they market them to customers
- The prices they charge
- How they distribute and deliver
- The strategies they employ to enhance customer loyalty and what back-up service they offer
- Their brand and design values
- Whether they innovate – business methods as well as products
- Their staff numbers and the calibre of staff that they attract
- Their media activities – website, social media and local newspapers, radio, television and any outdoor advertising

Target Markets

A target market is the particular group of consumers at which a product or service is aimed. Entrepreneurs need to understand who they are selling to. They need to create a complete picture of their customer and know why they want their product and how they will use it. By determining who will buy their products, entrepreneurs can fine tune the various aspects of their marketing message to appeal to this group and to avoid wasting time and money on non-customers.

An entrepreneur’s target market will have certain characteristics in common such as:

- Demographics (age, gender, income, religion, education)
- Geographic’s (location, climate)
- Psychographics (values, lifestyle. personality)
- Behavioural (occasion, loyalty, usage)

b) Key features of organisational structures

One of the most important decisions in starting a business is the type of legal structure you select. This decision has an impact on how much you pay in taxes, it will affect the amount of paperwork your business is required to do, the personal liability you face and your ability to raise money.

There are several options.

Sole Trader

As the name implies this type of business is owned and operated by one person though the business may employ staff. The sole trader owns the business, makes all the decisions and gets to keep all the profits. The business is not a separate legal entity (unincorporated business enterprise). The sole trader is personally responsible to the debts of the business.

To set up as a Sole Trader you first need to obtain an Australian Business Name (ABN) and a Tax File Number (TFN) through the Australian Taxation Office (ATO). If you want to operate under an actual business name such as ‘Vandelay Industries’ rather than your own personal name you must register your business name with the Australian Securities and Investment Commission (ASIC).

Advantages of a Sole Trader	Disadvantages of a Sole Trader
■ Simple to create	■ The Sole Trader is personally responsible for all debts and losses (unlimited liability). They assume all the risk and responsibility and could lose their assets.
■ Least costly form of ownership to establish	■ Business ceases upon owner’s death (lack of continuity for the business)
■ Profit incentive (receives all the profits)	■ Limited access to capital
■ Total decision-making authority	■ Difficult for owner to take time off for holidays and illness
■ Least regulated form of business ownership	■ Business development is limited to the expertise and capabilities of the owner
■ Business can be discontinued easily or may be sold without needing the consent of others	

Partnership

Strictly speaking a partnership is limited to between 2 and 20 partners though some professions are allowed more. The partners own the business, make all the decisions and get to share all the profits. Like the sole trader, a partnership is not a separate legal entity (unincorporated business enterprise). The partners are personally responsible to the debts of the business.

To set up a partnership you still need to obtain an Australian Business Number (ABN). The partnership will also need its own Tax File Number (TFN) through the Australian Taxation Office (ATO) however all the partners will have their own TFN for their own income tax return. If you want to operate under an actual business name rather than the personal names of your partners you must register your business name with the Australian Securities and Investment Commission (ASIC).

A partnership can be formed verbally without any legal process being followed but it is prudent to have a written partnership agreement drawn up by a solicitor before commencing business. The agreement may include such items as:

- Capital to be contributed
- How profits and losses are to be shared
- Managerial roles
- Exit procedures
- Arrangement for salaries

Advantages of a Partnership	Disadvantages of a Partnership
<ul style="list-style-type: none"> ■ Relatively easy and inexpensive to establish 	<ul style="list-style-type: none"> ■ Partners have a joint and individual liability for debts and actions of all the partners (unlimited liability)
<ul style="list-style-type: none"> ■ There is a broader management base than a Sole Trader which means a wider pool of expertise. This makes it possible to divide the business operation by specialist roles. It also makes it easier for partners to take time off. 	<ul style="list-style-type: none"> ■ Potential for conflict and personality clashes between partners
<ul style="list-style-type: none"> ■ React quickly to changing market conditions (flexibility) 	<ul style="list-style-type: none"> ■ Transferring ownership is difficult. Adding a new partner generally requires the agreement of all the partners.
<ul style="list-style-type: none"> ■ Minimal government regulation (reporting requirements) 	<ul style="list-style-type: none"> ■ Partnership ends with the death and bankruptcy of one of the partners. If the business is too continue, it must be reformed.
<ul style="list-style-type: none"> ■ Greater access to finances from the resources of all partners (larger pool of capital) 	

Company

A company is a much more complex business structure. A company is an incorporated business enterprise, it is a distinct legal entity from the people who own and manage the business. The owners are not personally responsible for the debts of the business. The owners are called shareholders and the company is managed by directors.

There are basically 2 types of companies:

- a) Proprietary (Private) Companies
 - Have between 1 and 50 shareholders
 - Have the words Pty Ltd in their name
 - Are not listed on the Stock Exchange
 - Have restrictions on who can buy shares

b) Public Companies

- Have a minimum of 5 shareholders but no maximum
- Have the words Ltd in their name
- Are listed on the Stock Exchange
- Have no restrictions on who can buy shares
- Must publish an Annual Report which includes their financial statements

All companies are governed by the Corporations Act and must be registered with the ASIC. In addition, public companies must comply with the listing rules of the Australian Securities Exchange (ASX).

Advantages of a Company	Disadvantages of a Company
<ul style="list-style-type: none"> ■ Shareholders are not liable for the debts/losses of the business (limited liability), so their personal assets are not threatened. 	<ul style="list-style-type: none"> ■ Forming a company is expensive and it is more time consuming to set up.
<ul style="list-style-type: none"> ■ Transfer of ownership is much simpler 	<ul style="list-style-type: none"> ■ There are more legal requirements and government regulation
<ul style="list-style-type: none"> ■ Management can be run by a board of independent experts 	<ul style="list-style-type: none"> ■ Double taxation (the company is taxed on its profits and the shareholders are taxed again on the dividends they receive at the personal income tax rate).
<ul style="list-style-type: none"> ■ Much easier to attract finance and grow 	
<ul style="list-style-type: none"> ■ The company does not have to be wound up upon the change in and or death of one of the owners (perpetual succession). 	

Exercise 4.1

Complete the following table by circling true or false.

	Sole Trader	Partnership	Private Company	Public Company
1. You have full control	True/False	True/False	True/False	True/False
2. It is relatively cheap to set up and simple to administer	True/False	True/False	True/False	True/False
3. Gives you protection from personal liability	True/False	True/False	True/False	True/False
4. Easy to raise capital	True/False	True/False	True/False	True/False
5. Transferring ownership is easy	True/False	True/False	True/False	True/False

Exercise 4.2

Match the definition with the correct term below.

1. Person who leads, managers and supervisors the running of a company on behalf of shareholders	
2. Governs the standards and behaviour of public companies	
3. Owner of a company	
4. Continuation of a business existence despite the death, bankruptcy or retirement of an owner	
5. Federal Government body that registers and regulates companies	
6. Business owned by one person	
7. A unique identifying number issued to all businesses	
8. Contract between partners to create and govern a partnership	
9. Owners of a business are personally liable for the business debts	
10. A type of company that is listed on the stock exchange and has an unlimited number of shareholders	

Word Bank: ASX, ABN, sole trader, public company, shareholder, director, perpetual succession, partnership agreement, unlimited liability, ASIC.

c) Range of options for financing a business

Entrepreneurs need funds to establish, operate and grow their business. They can raise finance by either debt or equity financing.

Debt financing is where a business borrows. It comes with having to pay interest and principal at specified dates. Failure to pay back debt usually results in legal proceedings. Debt can be classified as short term or long term. Short term debt financing usually applies to money needed for the day-to-day operations of the business, such as purchasing inventory or supplies. Long term debt financing usually applies to assets your business is purchasing, such as equipment, buildings, land, or machinery. The main advantage of debt finance is that its quick to establish, it doesn't change the ownership structure of the business and interest payments are tax deductible.

Equity financing refers to the sale of an ownership interest to raise funds for business purposes such as getting a new partner or selling shares. The main advantage of equity finance is that it involves less risk to the business.

■ **Preparation of a loan application**

For a business to get off the ground, or to keep one operating, it must have financing which is often in the form of a business loan (debt financing). Businesses can apply to banks or other financial institutions, like finance companies, for business loans.

There are a number of considerations before you apply for a business loan.

- Understand your loan purpose.
- Work out the loan amount.

- Calculate what you can afford to repay.
- Decide between a secured or unsecured loan. Secured loans offer an asset for the loan such as property and the lender may sell your asset if you are unable to repay the loan. For an unsecured loan no asset is offered however the interest rate is usually higher.
- Choose a fixed or variable interest rate. A variable interest rate loan is a loan in which the interest rate charged on the outstanding balance varies as market interest rates change. As a result, your payments will vary as well. Fixed interest rate loans are loans in which the interest rate charged on the loan will remain fixed for that loan’s entire term, no matter what market interest rates do. This will result in your payments being the same over the entire term.
- Understand the fees and charges such as establishment fees and ongoing monthly fees.

Banks like Westpac use certain criteria when assessing a loan application.

- Can you afford the business loan?
Westpac require your financials for the last 2 years including balance sheets, profit and loss and tax returns. Having access to this historical information helps Westpac determine whether your business can meet your future loan repayments.
- Can you provide security for your loan?
Westpac require the business loan to be secured with an asset, usually property.
- Will you be able to continue making repayments?
Westpac evaluate your business by looking at your business plan, competitor activity, suppliers and business contracts to determine whether your business will have enough revenue to meet your repayments in future.

■ **Prospectus**

Public companies use a prospectus to offer shares to the public. A prospectus will usually include key information about the company’s business model, risks, management, financials, and details of the share offer itself. A prospectus is used to help investors make a more informed investment decision.

d) Establishing a new or purchasing an existing business

When most entrepreneurs think of starting a business, they think of beginning from scratch—developing your own idea and building the business from the ground up. But starting from scratch presents some advantages and disadvantages.

Advantages	Disadvantages
■ Cheapest option (because you’re not paying for goodwill or a franchise fee)	■ Riskiest option, no established cash flow
■ Greater flexibility in decisions	■ Need to spend lots on promotion to attract a customer base
■ Avoids any problems about previous management	■ More difficult to obtain finance
	■ Must decide on strategies on your own

Alternatively, it may be easier to buy an existing business. When you buy a business, you take over an operation that’s already generating cash flow and profits. You have an established customer base and reputation as well as employees who are familiar with all aspects of the business. And you don’t have to reinvent the wheel—setting up new procedures, systems, and policies. You need thoroughly investigate all aspects of a business for sale. You look at the business’s operations, financial performance, legal and tax

compliance, customer contracts, intellectual property and assets. Buying an existing business presents some advantages and disadvantages.

Advantages	Disadvantages
<ul style="list-style-type: none"> ■ Business is already running so it has an immediate cash flow 	<ul style="list-style-type: none"> ■ More expensive because paying for goodwill
<ul style="list-style-type: none"> ■ Better chance of survival 	<ul style="list-style-type: none"> ■ Business may be built on the qualities of the owner
<ul style="list-style-type: none"> ■ Easier to obtain finance 	<ul style="list-style-type: none"> ■ The previous owners may be selling as they see tough times ahead so you may not be able to grow or expand the business.
<ul style="list-style-type: none"> ■ Established customers and suppliers 	<ul style="list-style-type: none"> ■ If a business has a poor reputation- may be difficult to change the reputation

Another popular alternative is buying a franchise. Buying a franchise gives you the right to run an established business and sell its products and/or services for a specified period. Buying a franchise presents some advantages and disadvantages.

Advantages	Disadvantages
<ul style="list-style-type: none"> ■ Well known proven formula 	<ul style="list-style-type: none"> ■ Restrictions on decision making
<ul style="list-style-type: none"> ■ Easy to obtain finance 	<ul style="list-style-type: none"> ■ Higher costs- establishment fees and royalties
<ul style="list-style-type: none"> ■ You are supported by the franchisor and have access to training, information and resources. 	<ul style="list-style-type: none"> ■ Your reputation can suffer if other franchisees have a poor reputation.
<ul style="list-style-type: none"> ■ Your expenses may be lower through the collective buying power of the franchise. 	
<ul style="list-style-type: none"> ■ Market exposure is higher than with most businesses as your business is an established brand. 	

Exercise 4.3

Indicate whether each of the following statements is true or false.

1. Debt finance is provided by the owners	True/False
2. Equity finance involved less risk	True/False
3. Starting from scratch is more expensive to establish	True/False
4. It's harder to obtain finance without a history of sales	True/False
5. The franchisee pays for the rights to use the business name	True/False

e) Likely success of small business opportunities

About 55000 Australian businesses go bust each year. Small businesses are most vulnerable with more that 60% closing within the first 3 years.

Business failure is not usually caused by just one single factor but rather a combination of several. About 70% of businesses primarily fail due to a lack of management expertise such as insufficient business planning, excessive borrowings, undercapitalisation, failing to keep proper financial records, poor human resource management or inadequate marketing (failure to meet customer needs). The other 30% of businesses fail due

to changes in the external environment (unforeseen occurrences) such as a downturn in economic activity, a change in government policies or a new competitor.

Successful well managed businesses have several key characteristics:

- They focus on their customers (lifeblood of the business) and understand what they want.
- They have a well-defined and updated business plan (written statement setting out the business' goals and the strategies to achieve them).
- They utilise and exploit technology to gain a competitive advantage
- They monitor cash flow, so they know how much money the business has coming in and how much is going out.
- They monitor external factors particularly their competitors
- They seek professional advice
- They recruit the right staff, train and motivate them as well as monitoring their performance
- They comply with legislation and ethical standards
- They keep comprehensive and accurate business records so they can track performance
- They manage risks to the business

3. Business operations

a) Local, state and federal regulations

Governments establish many rules and regulations that guide businesses. Regulatory laws are standards that affect how businesses operates in specific situations. Business owners must comply with regulations established by federal, state and local governments.

Federal Government	State Government	Local Government
Taxation requirements of businesses: GST, PAYG, Company tax and FBT	Taxation requirements of businesses: Payroll tax	Zoning (land use)
Registration requirements such as TFN and ABN	Work Health and Safety	Development applications
Consumer protection (Competition and Consumer Act)	Workers compensation	Health regulations
Fair Work Act (National workplace relations system)	Anti-Discrimination Act	Fire regulations
Unfair dismissal legislation	Environmental protection	Parking regulations
Compulsory superannuation	Food labelling	Licences e.g. tables and chairs, signage
Intellectual property regulations (patents, copyright, domains)	Licences e.g. alcohol	
Company regulations (ASIC)		
Regulations prohibiting anti-competitive behaviour (ACCC)		

Three major regulations affecting business operations are:

- Work health and safety regulates employers to protect the health, safety and welfare of workers (safe working practices). The Work Health and Safety Act 2011 is administered by Safework NSW. Employers who breach these laws face fines, licence suspensions and even criminal prosecution.
- Taxation is a compulsory financial charge imposed by the governmental in order to fund various public expenditures like education and health. Taxes are levied by the Federal, State and Local governments.

Taxation	Levied by
Income Tax – Pay As You Go (PAYG) <ul style="list-style-type: none"> ■ Paid by the employees ■ Collected and sent to the ATO by the business 	Federal Government
Goods and Services Tax (GST) <ul style="list-style-type: none"> ■ 10% ‘value added’ charge ■ Paid on most goods and services sold or consumed in Australia 	
Company Tax <ul style="list-style-type: none"> ■ Tax paid on profits made by companies ■ Profits are calculated after all deductions have been made ■ Calculated at 27.5% (for companies aggregated turnover less than \$10million a year) 	
Capital Gains Tax <ul style="list-style-type: none"> ■ Calculated on profits on selling assets such as real estate, shares or managed fund investments 	
Stamp Duty <ul style="list-style-type: none"> ■ Paid on documents when transferring ‘duty’/ownership of a sold asset like property or land. 	State (NSW) Government
Payroll Tax <ul style="list-style-type: none"> ■ Calculated on the wages paid or payable to employees by an employer when taxable wages exceed \$750, 000. ■ In NSW the payroll tax rate is 5.45% 	
Council Rates <ul style="list-style-type: none"> ■ Based on the value of land owned ■ Rates revenue collected is spent on community services and facilities including sporting and recreation services, waste collection treatment and disposal, public health and environmental planning and protection. 	Local Government

- Environmental regulations are administered by Federal and State governments. The Environment Protection and Biodiversity Conservation Act 1999 (Federal environmental law) provides a legal framework to protect and manage nationally and internationally important flora, fauna, ecological communities and heritage places. In NSW the Protection of the Environmental Operations Act 1997 is administered by the Environment Protection Authority (EPA) and covers water, land, air, noise pollution and waste management. There are serious penalties if you break any of the laws, and lack of knowledge cannot be used as a defence. Even accidents can result in prosecution.

b) Appropriate marketing strategies for promoting a business and selling products or services

When selling products, you must first understand and comply with the law (Competition and Consumer Act) which says you can't give false, deceptive or misleading information to customers. For example, products need to comply with mandatory Australian safety standards, pre-packaged articles meet the legislative requirements for correct measurement and labels must give correct information to consumers such as ingredients, date marking of food for sale, country of origin etc.

The goal of selling products and services is to make them stand out and be noticed. Good marketing keeps drawing your customers' attention and communicating to them the features and benefits to your products and services. There are several marketing strategies known as the 7 P's that can be employed to help you reach your target audience, boost your customer base, and ultimately, increase your sales and profitability. These include:

- Product (features, advantages and benefits that your customers can enjoy from buying your goods or services, including brand name, packaging and warranties).
- Price (value that is put to a product or service)
- Promotion (making your customers aware of your products and services using advertising, personal selling, sales promotions, publicity and social media)
- Place (where your products and services are seen, made, sold or distributed)
- People (the staff and salespeople who work for your business)
- Processes (steps involved in delivering your products and services to the customer)
- Physical evidence (everything your customers see when interacting with your business such as signage, uniforms and web site)

c) The importance of ethical decision making and corporate social responsibility

Business ethics is the application of ethical behaviour (knowing the difference between right and wrong and choosing to do what is right) in a business context. Acting ethically in business means more than simply obeying applicable laws and regulations. Corporate social responsibility (CSR) is the act of incorporating environmental and social concerns into a company's business. Social responsibility means that businesses, in addition to maximizing shareholder value, must act in a manner that benefits society.

Examples include supporting charities and local communities, promoting human and civil rights, treating employees honestly and go green initiatives like recycling and reducing greenhouse emissions.

Being ethical and socially responsible is good business practice, and a failure to do so can have a deleterious effect on the business. Trustworthy companies are better at attracting and keeping customers, talented employees, and capital. Those tainted by questionable ethics suffer from dwindling customer bases, employee turnover, and investor mistrust.

Case Study: Google



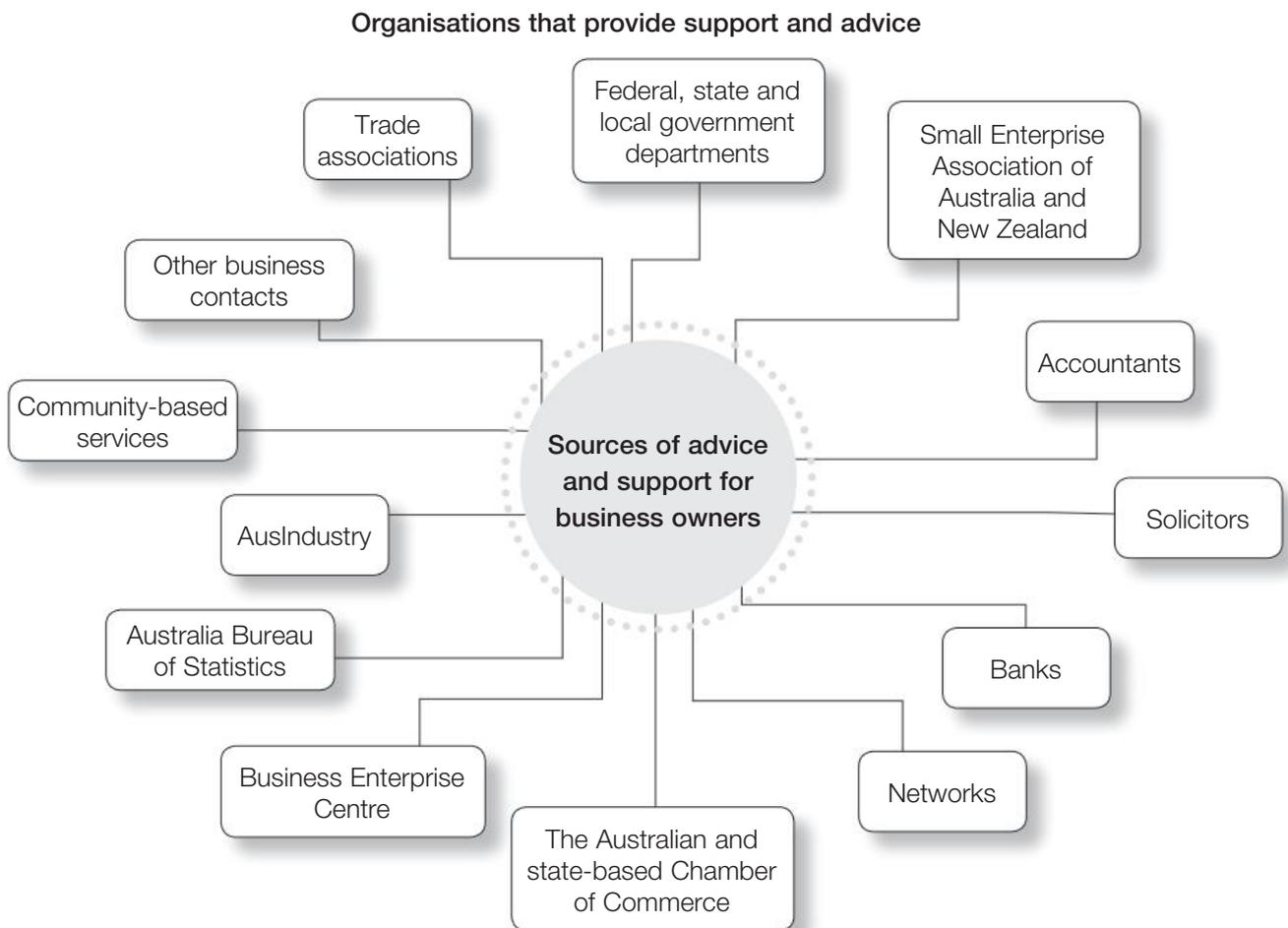
It would be hard to find a business that demonstrates the corporate social responsibility of companies more than Google does. In addition to providing its classic search and an array of apps like Gmail and Google Drive to make our lives easier, Google contributes to a cleaner environment by building green energy into its products and services. For example, Google Maps helps your car become more efficient by understanding and analysing where you are going lower emission and carbon footprint. Groups that protect wildlife can use Google Earth to see areas threatened by humans. Google offers incentives to employees who bike to work or use other alternatives to cars.

Case Study: Royal Commission into the Australian Financial Services Sector

The recent Royal Commission into the financial services sector has found that Australian banks and insurance companies have been unethical in the dealings with their customers. These practices included irresponsible lending, harsh loan enforcement, charging fees for no service and selling of worthless insurance policies to vulnerable customers. This has had a devastating impact on how banks are now received.

d) Organisations that provide support and advice to small businesses

Businesses can receive support and advice from a number of organisations.



4. Maintaining financial records

a) Purpose and use of financial records

Keeping accurate and up-to-date records is vital to business success. Well-kept records help the entrepreneur make appropriate decisions to reduce costs, increase sales, raise profitability and purchase new assets.

Financial records evaluate a company's financial health and earnings potential. They provide key performance indicators such as profitability, liquidity and solvency which assist investors, lenders and creditors in their decision-making.

Financial records are also required by entrepreneurs to meet legal and regulatory obligations with the ASIC and ATO.

By law your financial records must:

- Explain all transactions, financial position and performance
- Be in writing (electronic or paper)
- Be kept for five years (some records may need to be kept longer).

Most businesses use electronic record-keeping software such as Xero or MYOB. This software:

- Automatically tallies amounts and provides ready-made reports
- Produces invoices, summaries and reports for GST and income tax purposes
- Saves on physical storage space
- Backs up records in case of flood, fire or theft.

b) Features of key business documents and how to interpret them

Accounting allows a business to keep track of all its financial transactions. It is the process in which the company records and reports all the financial data that go in and out of the business. The accounting data is summarised to produce financial statements including the income statement, balance sheet, and cash flow statement. Financial statements are the report cards for the business. They tell the story, in numbers, about the financial health of the business.

■ Income Statement

An income statement (profit and loss statement) is a financial statement that shows whether the business has made a profit or loss during a period of time.

Income Statement for the Greedy Pig Cafe for the period ending 30/06/20

Sales		200 000
Less Cost of Goods Sold		
Opening stock	15 000	
+ Purchases	75 000	
– Closing stock	10 000	80 000
Gross Profit		120 000
Less Operating Expenses		
Wages	20 000	
Rent	40 000	
Advertising	5 000	
Utilities	5 000	70 000
Net Profit		50 000

- Sales is the revenue generated by the business
- Cost of goods sold (COGS) are the inventory costs, calculated by the formula
Opening stock + Purchases – Closing stock
- Gross Profit = Sales – COGS
- Operating expenses are the costs incurred in running a business like advertising, insurance, rent etc
- Net profit = gross profit – expenses

Exercise 4.4

Using your accounting knowledge, find the missing amounts in the following separate income statements a through d.

	a	b	c	d
Sales	\$500000	\$300000	\$200000	
Cost of goods sold	\$200000	\$140000		\$100000
Gross profit			\$80000	\$240000
Expenses	\$150000			\$110000
Net Profit (loss)		\$60000	\$ (10000)	

■ **Balance Sheet**

A balance sheet is a financial statement that shows a business's assets, liabilities and owners' equity at a specific date (what a business is worth).

Balance sheet for Greedy Pig Café as at 30/6/20

Current Assets			Current Liabilities		
Cash	15000		Creditors	30000	30000
Debtors	12000		Non-current liabilities		
Inventory	10000	37000	Mortgage	37000	37000
Non-current assets			Owners' equity		
Furniture/fittings	110000	110000	Capital	60000	
			+ Net profit	50000	
			- Drawings	30000	80000
		147000			147000

- Assets are items of value that the business owns. There are two types of assets:
 - a) Current assets are assets that are normally expected to be turned into cash within one year e.g. debtors, inventory
 - b) Non-current assets are fixed assets, not held for re sale and are expected to be kept for more than a year e.g. furniture, machinery, technology, motor vehicles, buildings
- Liabilities show what a business owes. There are two types of liabilities:
 - a) Current liabilities are obligations that you expect to be pay back within a year e.g. short-term loan, credit card, creditors, bank overdraft
 - b) Non-current liabilities are long term obligations that is not expected to be paid back with a year e.g. mortgage
- Owners' equity is the owner's interest in the assets of the business (Owners' Equity = Assets – Liabilities)

Exercise 4.5

For each account listed, identify the category in which it would appear on a classified balance sheet for a Shoe Shop.

Account	Balance Sheet Classification
1. Motor Vehicle	
2. Inventory (shoes)	
3. Creditors	
4. Mortgage	
5. Cash	
6. Drawings	
7. Computer Equipment	
8. Net Profit	

■ **Cash Flow Statement**

A cash flow statement shows the movement of cash inflows and outflows over a period of time (shows whether a business can pay its bills on time).

Cash Flow Statement for the Greedy Pig Cafe for the period ending 30/06/120

	For the period ending 30 June 2020
Total cash inflows (TCI)	180000
Total cash outflows (TCO)	170000
Net Cash Flow (NCF)	10000
Cash at the beginning of the year	5000
Cash at the end of the year	15000

- Only cash transactions are included in the cash flow statement
- Cash inflows are cash payments coming into the business like cash sales
- Cash outflows are cash payments going out of the business like paying staff and suppliers
- $NCF = TCI - TCO$
- $\text{Cash at the end of the year} = NCF + \text{Cash at the beginning of the year}$

■ **Taxation records**

Business owners must keep taxation records for at least five years according to the Australian Taxation Office (ATO). Records you need to keep include:

- Receipts and other evidence of all sales and purchases you made for your business
- Tax invoices, wage and salary records
- All documents about GST

- records of the purchase, sale and other costs of any business assets, such as land, buildings or office equipment
- all records relating to tax returns, activity statements, fringe benefits tax (FBT) returns, and contributions to employee super.

c) Management strategies to reduce risk and avoid insolvency and bankruptcy

Businesses are exposed to risks all the time. Such risks can directly affect day-to-day operations, decrease revenue or increase expenses. Their impact may be serious enough for the business to fail. Risk management is the process of identifying risks, assessing risks and developing strategies to manage risks.

Risk management can produce the following benefits to business:

- Lower insurance premiums
- Reduced chance that the business may be the target of legal action
- Reduced losses of cash or stock etc.
- Reduced business down time.

Businesses are required by law to manage some risks. For example, businesses must manage or reduce the risk of:

- Accidents and injury by making your workplace safe under workplace health and safety (WHS) laws
- Customer complaints by treating customers fairly under Australian Consumer Law
- Injury or harm to employees by having workers' compensation insurance
- Damaging the environment by meeting the environmental laws

Businesses commonly manage many risks by taking out insurance. Examples include:

- Buildings and contents insurance (cover the businesses buildings as well as contents and stock against loss)
- Public liability insurance (covers against claims of personal injury or property damage that a third party suffers because of your business activities)
- Motor vehicle insurance (covers damage to property or persons as the result of a motor vehicle accident)
- Professional Indemnity insurance (covers professionals against legal costs and claims for damages to third parties which may arise out of advice or a service to their customers)
- Product liability insurance (covers personal injury or property damage caused by products sold or supplied through the business)

Exercise 4.6

Design a risk management strategy for the following risks to business.

Possible risk	Risk management strategy
Business relies on a small number of major customers	
Business relies on a small number of major suppliers	
Debtors are slow or unable to pay debts to the business	
New competitors entering the market	
Economic downturn	
Changing tastes and trends	
Business relies heavily on IT	

d) Ways a business responds to changing economic conditions

Changes in overall economic conditions have a big influence on business. Economic conditions tend to rise and fall in regular cycles. The cyclical pattern is called the economic cycle.

When the economy is growing, consumers' confidence is high, and consumers feel safe to borrow and spend leading to increased profits for business. Business generally respond by hiring more staff, increasing prices, increasing production, investing in technology and equipment and looking at ways to expand the business.

Following a peak, the economy typically enters a correction and the economy slows down. Demand decreases because consumers become uncertain about the future. Employment declines (unemployment increases), and business profits fall. A severe downturn is called a recession. Businesses generally respond by decreasing staff levels, reducing production, keeping prices down, cutting costs and putting off investment

in technology equipment. Some businesses are more vulnerable than others during an economic downturn. These tend to be businesses where purchasers can easily put off their spending because it is discretionary (non-essential). For example, hotels, construction, high end restaurants, airlines and new cars.

Exercise 4.7

Match the definition with the correct term below.

1. Process of identifying and minimising business exposure	
2. Protection from financial loss	
3. Tax on income payments to employees	
4. Financial statement that summarizes a company's assets, liabilities and owners' equity	
5. Laws that control the way businesses operate	
6. Raising customer awareness of a product or brand, generating sales, and creating brand loyalty.	
7. Administrator of Australia's taxation system	
8. Areas of land are divided by local governments into areas within which various uses are permitted	
9. Something valuable that a business owns	
10. Systematic procedure by which the documents of a business are created, captured and maintained	

Word Bank: ATO, record keeping, promotion, balance sheet, insurance, PAYG, zoning, risk management, government regulation, assets.

Review Questions and Activities

1. What is the difference between an entrepreneur and a business owner?
2. Check out the following web site to see if you have what it takes to be an entrepreneur.
<https://www.bdc.ca/en/articles-tools/entrepreneur-toolkit/business-assessments/pages/self-assessment-test-your-entrepreneurial-potential.aspx>
3. Select a well-known aboriginal entrepreneur and write a brief biography.
4. Think up a company name and see if its available using the ASIC web site (<https://asic.gov.au/>)
5. Identify a successful local café and explain why location may be a critical factor in its success.
6. Prepare a due diligence checklist for buying an existing Gym.
7. Write an article for a business magazine on the key factors in running a successful business.
8. Identify the various government regulations that would apply to running a Thai restaurant.
9. Why is it important for a business to market its products and services?
10. Check out <https://www.business.gov.au/> and describe how the Australian government provides support and advice to small business.
11. Check out Who gives a crap <https://au.whogivesacrap.org/> and outline how this business is ethically and socially responsible.

Exercise 4.8 Multiple Choice

Select the alternative A, B, C or D that best answers the question.

1. Which of the following statements about a sole trader is generally true?
 - a. The business has its own legal entity and is subject to company tax
 - b. The operations of the business are global in nature
 - c. The trading name of the business has the words "Pty Ltd" attached
 - d. The owner of the business makes all of the decisions

2. Which of the following explains why entrepreneurs would potentially accept high risks?
 - a. Higher returns
 - b. Higher inventory prices
 - c. Lower establishment costs
 - d. Minimal outsourcing

3. Which of the following legal structures have limited liability?
 - a. Sole Trader and Private Company
 - b. Public Company and Private Company
 - c. Partnership and Sole Trader
 - d. Partnership and Public Company

4. Under which legal structure are personal conflicts among owners most damaging?
 - a. Companies
 - b. Partnerships
 - c. Sole traders
 - d. Trusts

5. To become public companies, businesses will sell their shares with which Australian Institution?
 - a. Australian Securities Exchange
 - b. Australian and Investment Securities Commission
 - c. Australian Public Company Commission
 - d. Foreign Exchange Market

6. Baker Pty Ltd would be best classified as a
 - a. Public Company
 - b. Private Company
 - c. Partnership
 - d. Trust

7. Which of the following is true in the case of buying an existing business?
 - a. It is guaranteed to succeed
 - b. It involves a greater initial capital outlay than starting a business from scratch
 - c. Usually does not involve having to pay for the goodwill of the business
 - d. It does not involve working as hard as starting a business from scratch

8. The Balance Sheet of a business could include:
 - a. Sales
 - b. Debtors/Accounts receivable
 - c. Opening Stock
 - d. Rent payments

9. Which current NSW law provides for a safe workplace?
 - a. Work Health and Safety Act
 - b. Superannuation Guarantee Act
 - c. Workers Compensation Act
 - d. Anti-Discrimination Act

10. Which of the following taxes is imposed on company profits?
 - a. PAYG
 - b. GST
 - c. FBT
 - d. Company tax

Answers

Exercise 4.1

1. True, True, True, True, 2. True, True, False, False, 3. False, False, True, True, 4. False, False, True, True
5. True, False, False, True

Exercise 4.2

1. Director, 2. ASX, 3. Shareholder, 4. Perpetual succession, 5. ASIC, 6. Sole trader, 7. ABN, 8. Partnership agreement, 9. Unlimited liability, 10. Public company.

Exercise 4.3

1. False, 2. True, 3. False, 4. True, 5. True

Exercise 4.4

	a	b	c	d
Sales	\$500000	\$300000	\$200000	\$340000
Cost of goods sold	\$200000	\$140000	\$120000	\$100000
Gross profit	\$300000	\$160000	\$80000	\$240000
Expenses	\$150000	\$100000	\$90000	\$110000
Net Profit (loss)	\$150000	\$60000	\$ (10000)	\$130000

Exercise 4.5

Account	Balance Sheet Classification
1. Motor Vehicle	Non-current Asset
2. Inventory (shoes)	Current Asset
3. Creditors	Current Liability
4. Mortgage	Non-Current Liability
5. Cash	Current Asset
6. Drawings	Owners' Equity
7. Computer Equipment	Non-current Asset
8. Net Profit	Owners' Equity

Exercise 4.6

Possible risk	Risk management strategy
Business relies on a small number of major customers	Locking in major customers through long-term service contracts, continually asking their views about the business's products
Business relies on a small number of major suppliers	Locking in major suppliers through long-term service contracts and seek alternative suppliers
Debtors are slow or unable to pay debts to the business	Checking the credit status of the customer before sale, imposing credit limits, prompt follow up
New competitors entering the market	Continually monitor competitors, research industry trends and adopt new products and services
Economic downturn	Promoting products and services that sell better during an economic downturn
Changing tastes and trends	Researching consumer trends and tastes so that the business can respond to change
Business relies heavily on IT	Keeping data safe by performing backups, having an uninterrupted power supply, protecting servers and networks

Exercise 4.7

1. risk management, 2. insurance, 3. PAYG, 4. balance sheet, 5. government regulations, 6. promotion, 7. ATO, 8. zoning, 9. assets, 10. record keeping

Exercise 4.8

1. D, 2. A, 3. B, 4. B, 5. A, 6. A, 7. B, 8. B, 9. A, 10. D.

Option 5

Law in Action

1. Contact with the law

a) The nature of legal capacity

As children get older their contact with the law gradually increases, receiving their full legal rights and responsibilities on their eighteenth birthday. However, this does not mean that a young person is without legal rights and responsibilities until they reach adulthood. The following tables look at how age affects both criminal law and other legal entitlements.

Legal Entitlements of Young People	
Entitlement	Age
Voting	18 years of age at the time of election in Local, State and Federal Elections.
Contracts	Young people under 18 can sign (enter) a contract but will only be legally bound to it if it is of benefit to the young person. Exploitative/unfair contracts are not legal if the person is under 18.
Driving Offences	Under the law all drivers have the same accountability for their actions.
Cigarettes and alcohol	It is illegal for anyone to sell these items to anyone under the age of 18. If these items are found on a young person in a public place then these items can be confiscated by the Police.
Marriage	The age to get married without consent is 18 years of age in Australia. However, young people may apply to the court if they are 16 or over and ask for permission. This will only be granted in unusual or exceptional circumstances. Parents may also grant 16-17-year-old consent to marry.
Medical	Under 14 years parents or guardians need to consent to medical treatment. At 14 years of age young people may consent to their own medical treatment; however, some doctors may still want a parent or guardian approval. .
Youth Allowance	16 to 17 independent or needing to live away from home to study, 16 to 24 undertaking a full time apprenticeship, 16 to 21 looking for full time work and 18 to 24 studying full time.
Civil law action (being sued)	18 years of age
Paying Income Tax	No age limit
Change own name without parental consent	18 years of age

Exercise 5.1:

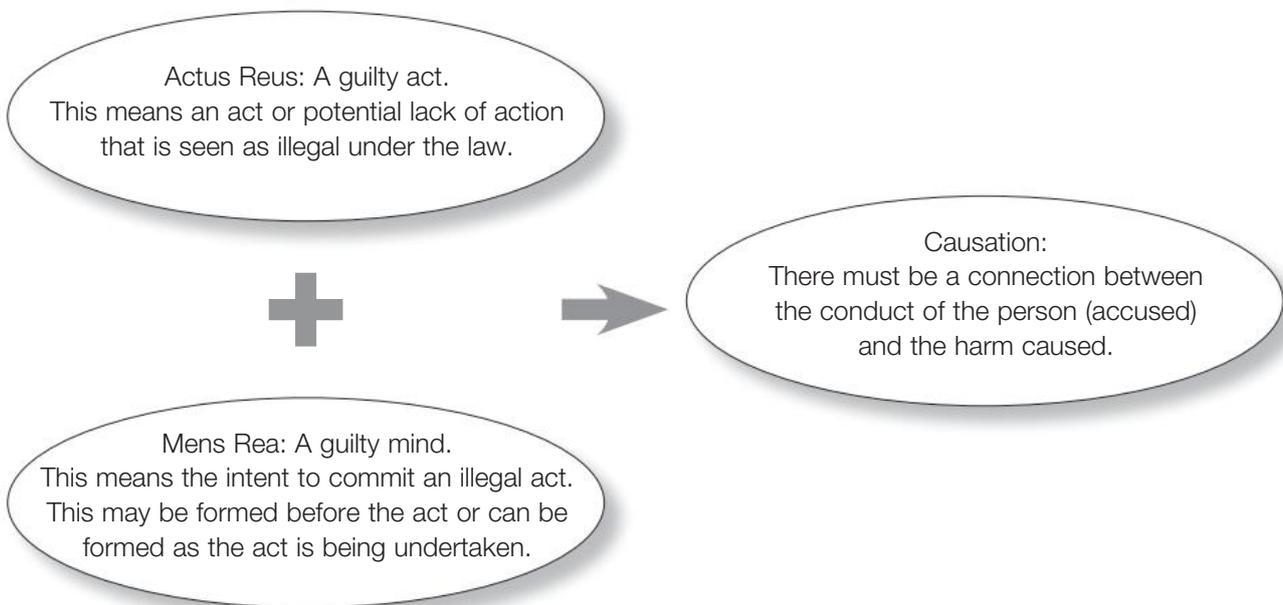
Indicate whether the following statements are true or false:

1. In Australia you can consent to your own Medical Treatment at the age of 13.	True/False
2. A 16-year-old may be sued for a civil law breach.	True/False
3. A 15-year-old does not have to pay income tax.	True/False
4. Parents may grant legal approval for a 17-year-old to get married.	True/False

b) Ways in which individuals may come in contact with the criminal law

■ **Elements of a Crime**

For a person to be convicted of a crime it needs to be proven beyond a reasonable doubt that they had sufficient actus reus and mens rea. It also needs to be proven that there is a link between the act and the harm caused (causation).



Some crimes fall into a category called strict liability offences. This means that no Mens Rea (intent) needs to be proven only the Actus Reus (act itself) needs to be established. Strict Liability offences include:

- Littering
- Motor infringement (speeding offences, car defects, driving without a licence, going through a red light, and other traffic laws).



Case Law: Causation R v Hallett [1969] SASR 141

Mr. Hallett and the deceased, Mr. Whiting, were driving in the sand near a body of water when they became bogged. An argument ensued and Hallett physically assaulted Whiting. He then left Whiting slumped on his back at the edge of the water.

At the time that Hallett left the scene, Whiting was still alive, but when he returned some hours later, he had died and was floating in the water. It was suggested that Whiting had died after becoming unconscious and drowning.

The court found that Hallett's actions were the overriding cause of Whiting's death, and that he was therefore responsible for the death. In other words, if he had not been assaulted or if he had not been left unconscious near a body of water, he never would have died.

Causation in this case would have been broken if an 'extraordinary coincidental event occurs which causes the person's death or suffering'. Such as, if Whiting had instead drowned after being hit by an extraordinary tidal wave, the defence team may have been able to argue that the chain of causation had been broken.

Edited extract from: What is "Causation" in Criminal Law?
<https://nswcourts.com.au/articles/what-is-causation-in-criminal-law/>

■ The levels of responsibility that apply to young people as the accused, a witness or a victim

Young people (under the age of 18) may come in contact with the criminal law as an:

- Accused (person being charged with a crime).
- Victim (person who has been directly impacted by the criminal act of another).
- Witness (present in the planning of a crime, present at the time of the crime or became aware of the crime after the act).

The ability for a young person to engage with the criminal justice system can be challenging due to their age. Their age may result in them not having the same legal understanding of an adult, may leave them open to manipulation and/or they may not have enough resources to get legal help. To this end police, magistrates, judges and lawyers will need to be aware that a young person may struggle to provide reliable evidence as both a witness and victim, they may also have to consider additional reasons for a young person committing a criminal act.

Report from the New South Wales Judicial Commission examining the factors that the legal system needs to consider when dealing with young people:

The capacities of children and young people

Children and young people face difficulties in our adversarial system because of a mismatch between their capacities and the adult-oriented court environment and processes. If these difficulties are not considered, the evidence that the court obtains from them may be of poorer quality and less complete.

Young People as Witnesses

Children and young people are not adults, and depending on their age and development:

- their ability to understand language, concepts, the meaning behind events and court processes differs from that of adults.
- their ability to communicate their evidence is generally different from that of adults because of:
 - differences in the way they understand the world, especially time, context, and causality
 - differences in what aspects of past events they remember
 - their greater dependence on context for comprehending language and concepts
 - their less developed capacity to sequence events and report them in order
 - differences in their understanding of vocabulary and grammar

Young People as Victim

Children's and young people's comprehension and communication abilities can vary considerably, even among children of the same age, depending on their background and experiences.

- Children's and young people's ability to give convincing evidence is significantly affected by stress and anxiety;
- Adolescents may have more difficulty dealing with the emotional impact of court proceedings than younger children.

Young People as Accused

Children and young people facing criminal charges are likely to have significant difficulties in presenting their evidence adequately — because:

- many come from disadvantaged socio-economic and educational backgrounds and a significant proportion have intellectual, physical and mental health problems;
- they may have experienced physical and emotional abuse and neglect;
- some may be completing illegal acts to pay for their drug and/or alcohol addiction.

Adapted Extract From: Children and young people Judicial Commission of New South Wales 2017

The legal system tries to protect young people even in matters of criminal action. It does this by providing specific rights to young people when dealing with the law, these include:

- Under the law a young person cannot be interviewed by the police without an adult support person (independent adult whose role is to help a young person know their rights and make sure they are treated fairly).
- A special hotline for free legal advice for young people. Legal Aid Hotline phone number 1800 101 810
- A young person can only be held by the Police for 4 hours (not including time outs or charge process)
- A special Court (Children’s Court) that deals with the care and protection along with the criminal actions of young people
- Juvenile Justice Centres are used when a young person gets a control order. These centres are for young people under 18-year old.



Case Law: Are admissions made in private, by a juvenile to a support person, admissible, or are they protected by s 90 Evidence Act? JB v Regina [2012] NSWCCA 12

A youth liaison officer was asked to attend a police station to act as a support person for a young person suspected of fatally stabbing another juvenile.

The support person spoke with JB privately and asked what had happened. JB told him that he had stabbed a man. The support person asked JB where he had obtained the knife to which he responded that it was in the garden, where he had put it earlier in the night. This evidence was admitted into evidence.

On appeal to the CCA it was submitted that Her Honour had applied incorrect principles in her consideration of s 90 Evidence Act and that an element of unfairness arose in admitting the admissions.

The Court decided that the relationship between a support person and a juvenile is not a “special relationship” and is not protected by the legislation. A support person’s fundamental role is to assist the juvenile in his or her dealings with police and to protect them from any disadvantage as a result of their age. Such a role does not demand confidentiality.

Source:

https://www.legalaid.nsw.gov.au/__data/assets/word_doc/0019/14527/Recent-cases-relating-to-Juvenile-Justice.doc+&cd=2&hl=en&ct=clnk&gl=au&client=safari

■ When a young person is considered to be an adult in different criminal situations

Not all people have the same legal capacity (ability) in the eyes of the law to commit crime. While the law strives for equality it is not fair to assume that every person has the same level of culpability (blame). To determine someone’s level of responsibility for an offence, capacity and reason must be looked at. This is determined by the police, magistrates, judges and/or juries by looking at:

- age of the offender
- intelligence quotient (IQ)
- mental health
- motivation i.e. self-defence, duress (being pressured or forced), necessity (need)

By looking at these factors it may be determined that the person is not guilty of a crime or may have a different level of guilt than others, which may affect the sentence (punishment/penalty) that they receive for the crime.

Criminal Law	
Age	Legal Rights and Responsibilities
Under 10	Doli Incapax a common law precedent that states a child is incapable of wrongdoing. In other words, they may commit the crime (actus reus) but are not able to understand the repercussions/consequences of the crime therefore, they are not able to form the guilty mind (mens rea). Both the actus reus and mens rea need to be present for an indictable crime to be committed.
Under 14	While a young person is still seen as Doli Incapax it is a rebuttable presumption. This means that the prosecution needs to convince the court that the young person knew the consequences of the crime and still committed the act anyway. Therefore, forming the necessary mens rea. If the court is convinced charges can be made against the young person.
Under 18	<p>A young person is covered under the Young Offenders Act NSW. This means that when they commit crime the law has two key focuses in mind: welfare and justice.</p> <p>Welfare- Young people are seen as vulnerable under the law, thus the criminal justice system needs to make sure they understand the process, ensure their identity is kept private and focusing on making sure they understand their rights.</p> <p>Justice- Young people still need to be held accountable for their crimes, however, with a focus on rehabilitation, the criminal justice system offers different penalties. They also can appear (depends on the young person's location or the severity of the crime committed) in front of the Children's Court which specialises in Young Offender matters.</p>

■ **Appropriate punishments for a range of crimes**

Currently the legal model that is used when dealing with young people when they are found guilty of committing a crime is a mix of the:

- Justice Model with a focus on accountability of the offender;
- Welfare Model with a focus on rehabilitation of the offender; and,
- Restorative Model with a focus on reconciliation through recognising the harm done to the victim.

This combination of models is best seen in the penalties that are typically used for young people who are found guilty of committing a crime. The severity of the offence and the criminal record of the offender will determine the penalty given by the police, magistrate or judge.

A misconception of many in society is that a juvenile criminal record is deleted when a young person turns 18 years of age this is incorrect. It is important to know that some offences committed by a person under the age of 18 may prevent a young person being granted permission to travel to certain countries (visa) or work in certain professions.

Punishments and Penalties for Young People:

- Warnings – In certain cases, police have discretion to issue a warning instead of sending the child to court. Warnings can be given for most summary offences (less serious offences) unless they involve violence, or the officer believes it is more appropriate for the case to be dealt with in court. Police or youth liaison officers may choose to notify the child's parents of the warning.
- Police Cautions – For less serious offences, children are to be dealt with using a caution unless police believe it is against the interests of justice to do so. In reaching that decision, police are required to take into account:
 - the nature of the offence,
 - any degree of violence involved,
 - any harm caused to a victim, and
 - any previous offence committed by the child.
- Youth Conferencing – Conferencing is used to assist children to reflect and take responsibility for their actions. It to build and strengthen family support and help address any underlying causes of the child's offending conduct. The aim of the conference is to reach an agreement between the child and any alleged victims ('complainants'), who have the right to veto potential outcomes. The child is monitored to ensure compliance with the outcome plan.
- Cautions/dismissals by courts – Magistrates, like police or other investigating officials, may choose to deal with NSW court cases involving children by way of a caution. Under section 33 of the Children (Criminal Proceedings) Act, magistrates may dismiss the charges against a child altogether.
- Good behaviour bonds – The court may impose a good behaviour bond upon a child with or without conditions, for up to two years.
- Fines – Courts may also impose fines – but these fines must not exceed the maximum fine prescribed by law, or \$1,100, whichever is less.
- Community Service – The Court may also order a child to undertake a certain number of hours of unpaid work for the community.
- Probation – An option in more serious cases is to release the child into the community on probation for a period of two years or less.
- Detention – Sending a young person to a juvenile detention centre is the most serious penalty. It can only be used as a last resort.

Edited Extract from: <https://nswcourts.com.au/articles/penalties-in-the-childrens-court/>
Penalties in the Children's Court

Currently a justice model is predominantly used when addressing punishments for adults. The penalty varies depending on the nature of the crime, the criminal history of the offender and the statutory and judicial guidelines for the crime. Current penalties issued to adults in New South Wales include:

- Caution
- Fines
- Intensive Correction Orders
- Community Correction Orders
- Imprisonment

Exercise 5.2

Indicate whether the following statements are true or false:

1. Doli Incapax applies to anyone under the age of 15 who commits a crime.	True/False
2. An aim of Youth Conferencing is to help address the underlying causes of why the young person committed a crime.	True/False
3. The welfare model focuses on rehabilitating the offender.	True/False
4. A juvenile record is deleted when a young person turns 18 years of age.	True/False
5. Young people can understand time differently than adults.	True/False
6. The relationship between a juvenile and a support person is protected under law, resulting in their communication being confidential.	True/False

c) Ways individuals may come in contact with civil law

Under the International Covenant on Civil and Political Rights it is illegal to incarcerate (place someone in prison) a person for a breach of civil law unless their actions demonstrate criminal intent.

Examples of when action can be both Civil and Criminal are :

- A person who is discriminated against (civil) but also is assaulted through hate speech (criminal).
- A person who is defamed (information that may harm a person’s reputation) is a civil matter however, if the accused knowingly published information that is false it can be criminal under the Crimes Act 1900 (NSW).

■ Civil law and young people

Young people may experience issues that are covered under civil law such as:

- Employment contracts
- Discrimination
- Entering into contracts
- Being unable to pay bills
- Arranging Centrelink

A young person under the age of 18 years, is held to contracts that are signed and understood. If a young person experiences issues where individuals or businesses are holding them to unfair contracts or they have received a bill that is beyond what they were advised in the contract, then they can seek legal advice from Legal Aid NSW Youth Hotline.

Young people may also experience issues in employment contracts such as:

- being paid less than the minimum wage;
- not receiving superannuation which is paid to people under 18 years old work for more than 30 hours per week and earn more than \$450 a month;
- not receiving penalty rates such as time and a half; or,
- being asked to work free trial periods.

Young people need to ensure they are officially recognised under the Australian Tax Office as employees of the business and ask their employer what Award (legal document that outlines working conditions like minimum pay) they are being paid under. If a young person feels that their employment rights are not being covered, they can seek legal advice from Legal Aid NSW Youth Hotline.

■ **Civil law and negligence**

Under the Civil Liability Act 2002 (NSW) negligence is defined as a “failure to exercise reasonable care and skill”. For someone to have committed negligence the harm caused must have been:

- Foreseeable;
- The risk not insignificant; and,
- A reasonable person would have taken precautions.

The remedy awarded in cases of negligence is usually damages which is a financial compensation. This financial compensation may cover the costs of court costs, medical bills, loss of income, and an amount for pain and suffering.



**Case Law: Who dropped the grape?
Woolworths Ltd v McQuillan [2017] NSWCA**

Ms McQuillan was awarded \$151000 plus interest and costs after taking Woolworths to court for negligence after she slipped on a grape in their Leichhardt store in November 2012 soon after they open at 10am. Her case was based on the assumption that the Woolworths employees had not properly maintained the safety of the store when they were setting up for the day and had failed to remove the hazard. The District Court Judge who heard the case concluded that Woolworths were negligent and awarded Ms McQuillan damages.

Woolworths appealed the decision and in the court of appeal the three judges overruled the original district court verdict. They stated that there was no evidence that it was a Woolworths employee who had dropped the grape as the store had been open for 30 minutes with no employee on duty in that area. Therefore, there was no way of knowing who dropped the grape.

The judges determined that Woolworths had a duty to keep a “proper lookout” not a “perfect lookout”. Ms McQuillan was ordered to pay the legal costs of Woolworths for both the District Court Case and the Appeals Case.

Exercise 5.3

Indicate whether the following statements are true or false:

1. A person can be imprisoned if found guilty of breaking civil law.	True/False
2. A person is negligent when they fail to exercise reasonable care and skill.	True/False
3. An award outlines the minimum wage a person is allowed to be paid in an industry.	True/False
4. A young person who works more than 30 hours a week and receives more than \$450 a month is entitled to superannuation.	True/False

2. Rights and responsibilities of individuals

a) Laws that protect human rights

The three main international documents that outline Human Rights and make up what is commonly referred to as the United Nations Bill of Rights are:

- The Universal Declaration of Human Rights (UDHR)
- International Covenant on Civil and Political Rights (ICCPR)
- International Covenant on Economic, Social and Cultural Rights (ICESCR)

Under International Law Human Rights are categorised by the following characteristics: they are universal (apply to everyone); inalienable (can not be taken away); inherent (permanent); and, indivisible (unable to be divided). Australia have recognised these international laws by becoming a signatory to these documents and ratifying (incorporating these documents) into Australian Statute Law. The ratification has created a range of legislation that looks to remove all forms of discrimination.

Examples of Australian Statute Law that protects human rights	
Racial Discrimination Act 1975	Promotes equality before the law for all people regardless of race, colour or national or ethnic origin. It is unlawful to discrimination against people on the basis of race, colour, descent or national or ethnic origin.
Sex Discrimination Act 1984	Protects people from unfair treatment on the basis of their sex, sexual orientation, gender identity, intersex status, marital or relationship status, pregnancy and breastfeeding. It also protects workers with family responsibilities and makes sexual harassment against the law.
Disability Discrimination Act 1992	Seeks to eliminate discrimination against people with disabilities.
Age Discrimination Act 2004	Protects people from age discrimination in employment, the provision of goods and services, education and the administration of Commonwealth laws and programs.

In the Australia Legal System rights are protected by:

- Statute law such as the Sexual Discrimination Act;
- Common law such as the right to legal representation which was articulated by the Australian High Court in *Dietrich v The Queen* [1992] HCA 57; and,
- The Australian Constitution such as the right to a trial by jury for indictable offences (serious crime) and the right to vote.

Australian rights are not protected through one formal document such as a Bill of Rights or a Charter of Rights. While there have been calls to create a document that guarantees Human Rights in Australia there are concerns that a constitutional document would limit the flexibility for amending rights if they become outdated and a statute law (legislation) would not secure the rights in law as parliament can easily amend the legislation. The Victorian Government in a move to establish the key rights of the citizens of Victoria have created a statute law that provides a Victorian Charter of Human Rights and Responsibilities.

Extract of Some of the rights covered in the Victorian Charter of Human Rights and Responsibilities:

Your right to recognition and equality before the law (section 8) – Everyone is entitled to equal and effective protection against discrimination, and to enjoy their human rights without discrimination.

Your right to life (section 9) – Every person has the right to life and to not have their life taken. The right to life includes a duty on government to take appropriate steps to protect the right to life.

Your right to protection from torture and cruel, inhuman or degrading treatment (section 10) – People must not be tortured. People must also not be treated or punished in a cruel, inhuman or degrading way. This includes protection from treatment that humiliates a person. People must not be subjected to medical treatment or experiments without their full and informed consent.

Your right to freedom from forced work (section 11) – A person must not be forced to work or be made a slave. A person is a slave when someone else has complete control over them.

Exercise 5.4

Indicate whether the following statements are true or false:

1. Australia has a Bill of Rights.	True/False
2. The Constitution ensures the right not to be discriminated against on the basis of age.	True/False
3. Victoria has its own Charter of Human Rights and Responsibilities.	True/False
4. It is not discrimination if someone does not get a job based on their lack of the inherent requirements of the job.	True/False

b) Rights and responsibilities of individuals in a range of situations

Legal rights are legal entitlements that are provided and guaranteed under law. In Australia we have explicit rights granted under the Constitution, Common Law and Statute Law. Australians also have a number of inferred rights, rights that are not explicitly given but are deduced from legal documents and decisions for example Freedom of Speech is an inferred right. Rights usually have a corresponding responsibility that must be observed. This ensures that all Australian rights are protected and adhered to. When we breach these responsibilities it can result in legal action.

■ **Rights and responsibilities in commercial, family and work situations**

<p>Commercial Situations:</p> <p>There are a number of legislations both at Federal and State level that protect individuals in commercial situations such as:</p> <ul style="list-style-type: none"> ■ Competition and Consumer Act 2010 (Cth) – Included in this legislation is the Australian Consumer Law which protects individuals rights when purchasing goods and services. ■ Fair Trading Act 1987 (NSW) – Protects businesses and individual rights in New South Wales when they are trading and making commercial decisions. 	
Rights	Responsibility
<ul style="list-style-type: none"> ■ Protects people from false or misleading statements. ■ Right to repair, replacement or refund on goods that are not of merchantable quality. 	<ul style="list-style-type: none"> ■ Enter contracts in good faith. ■ Reasonable care is taken to ensure the safety of others.

Family Situations:

There are a number of legislations that protect the family unit such as:

- Family Law Act 1975 (Cth) – that outlines legal obligations parents have for their children.
- The Children and Young Persons (Care and Protection) Act 1998 (NSW) – articulates the rights of children.
- Education Act 1990 (NSW) – Outlines responsibilities to send children to school.

Rights	Responsibilities
<ul style="list-style-type: none"> ■ Children have the right to be Educated. ■ Parents have the right to reasonably discipline their children. ■ Parents have the right to solely make decisions on Medical Treatment of their children until 14 years. ■ Children have the right to inheritance. 	<ul style="list-style-type: none"> ■ Parents have a responsibility to care for their children. ■ Parents have an obligation to ensure their children receive an education. ■ Parents have the responsibility to ensure the provide.

Work Situations:

Rights and responsibilities of employers and employees are outlined in Common Law as well as Federal and State legislation such as:

- Fair Work Australia 2009 (Cth) – Along with other entitlements it provides the National Employment Standard.
- Work Health and Safety Act 2011 (NSW) – Outlines the rights and responsibilities of employers and employees to ensure a safe and healthy working environment.

Rights	Responsibilities
<p>Some rights guaranteed under the National Employment Standards to employees:</p> <ul style="list-style-type: none"> ■ Maximum weekly hours. ■ Requests for flexible working arrangements. ■ Parental leave and related entitlements. ■ Annual leave. ■ Personal/carer’s leave, compassionate leave and unpaid family and domestic violence leave. ■ Community service leave. ■ Long service leave. ■ Public holidays. 	<p>Employees have an obligation to:</p> <ul style="list-style-type: none"> ■ Follow reasonable instructions, policies and procedures. ■ Undertake their work with care and skill. ■ Ensure they report any work health and safety issues.

- Rights and responsibilities if the offender, victim, defendant/plaintiff and witness

Criminal Cases rights and responsibilities	
Offender	
Offender rights in the courtroom:	Offender responsibilities in the courtroom:
<ul style="list-style-type: none"> ■ To not have to testify. ■ To present a case if they choose to. The burden is placed on the prosecution. 	<ul style="list-style-type: none"> ■ To advise the court if they will be raising a defence. ■ To attend court. ■ To arrange legal representation or represent themself.

Victim	
Victim rights in the courtroom:	Victim responsibilities rights in the courtroom:
<ul style="list-style-type: none"> ■ If they do not feel safe appearing in court that they can ask to provide their evidence from a remote location. ■ Support services. ■ The right to make a Victim Impact Statement in sentencing. 	<ul style="list-style-type: none"> ■ Having to attend court to be a witness of the crime if required. ■ Having to respond to a subpoena (order to attend court) if issued.
Witness	
Witnesses rights include:	Witnesses responsibilities include:
<ul style="list-style-type: none"> ■ If they do not feel safe appearing in court that they can ask to provide their evidence from a remote location. 	<ul style="list-style-type: none"> ■ Having to attend court to be a witness. ■ Having to respond to a subpoena if issued. If witnesses do not comply they may be arrested.

Civil Case Rights and Responsibilities	
Defendant	
Defendant rights in the courtroom:	Defendant responsibilities in the courtroom:
<ul style="list-style-type: none"> ■ To present evidence 	<ul style="list-style-type: none"> ■ To raise a defence against the civil case presented by the plaintiff.
Plaintiff	
Plaintiff rights in the courtroom:	Plaintiff responsibilities in the courtroom:
<ul style="list-style-type: none"> ■ To present evidence 	<ul style="list-style-type: none"> ■ To present the civil case to the court ■ Prove on the balance of probabilities the case they brought to the court.

■ **The convention of the rights of the child**

In 1989, the Human Rights Convention of the Rights of the Child (also known as the CRC) began to be adopted by Nation States. The convention articulates the rights children (under 18 years old) have and rights that should be enforced by Nation States into their domestic law. Australia signed the CRC in 1990 and has included aspects of the convention into legislation such as the New South Wales legislation Children and Young Persons (Care and Protection) Act 1998 (NSW).

The Australian Human Rights Commission (AHRC) see the four Guiding Principles of the CRC as:

- respect for the best interests of the child as a primary consideration
- the right to survival and development
- the right of all children to express their views freely on all matters affecting them
- the right of all children to enjoy all the rights of the CRC without discrimination of any kind.

The Convention on the Rights of the Child:

Summary of United Nations Convention on the Rights of the Child

A child means every human being under the age of eighteen years, unless under the law applicable to the child, majority is attained earlier.

Every child has the inherent right to life.

Every child shall have the right from birth to a name, the right to acquire a nationality, and the right to know and be cared for by his parents

Every child has the right to preservation of his or her identity.

Every child who is separated from his parents has the right to maintain personal relations and direct contact with both parents on a regular basis, except if it is contrary to the child's best interests.

Every child has the right to leave any country, including its own.

Every child has the right to express his/her own views freely in all matters affecting them.

Every child has the right to freedom of expression.

Every child has the right to freedom of thought, conscience and religion.

Every child has the right to freedom of association and to freedom of peaceful assembly.

Every child has the right to privacy.

Every child has the right to protection of the law in case of interference or attacks on said privacy.

Every child has the right to access information and material from a diversity of national and international sources, especially those aimed at the promotion of his/her social, spiritual and moral well-being and physical and mental health.

Children of working parents have the right to benefit from child-care services and facilities for which they are eligible.

Every child has the right to protection from all forms of abuse, physically or mentally.

Every child temporarily or permanently deprived of his/her own family environment has the right to special protection and assistance provided by the state.

Every child who is seeking refugee status has the right to receive appropriate protection and humanitarian assistance.

Every mentally or physically disabled child has the right to enjoy a full and decent life, in conditions which ensure dignity and promote self-reliance.

Every child has the right to the highest attainable standard of health and to facilities for the treatment of illness and rehabilitation of health.

Every child who has been "placed" by the competent authorities for the purposes of care has the right to a periodic review of the treatment provided the child and all other circumstances relevant to his/her placement.

Every child has the right to benefit from social security, including social insurance.

Every child has the right to a standard of living adequate for the child's physical, mental, spiritual, moral and social development.

Every child has the right to education.

Every child has the right to enjoy his/her own culture, to profess and practice his/her own religion and to use his/her own language.

Every child has the right to engage in play, recreational activities, and to participate freely in cultural life and the arts.

Every child has the right to be protected from economic exploitation.

Every child has the right to be protected from the illicit use of narcotic drugs, and from being used in the illicit production and trafficking of such substances.

Every child has the right to be protected from all forms of sexual exploitation and sexual abuse.

Every child alleged as or accused of having infringed the penal law has the right to be presumed innocent until proven guilty.

Every child has the right to prompt access to legal and other assistance.

Neither capital punishment nor life imprisonment will be imposed for offenses committed by persons below 18 years of age.

Every child has the right to protection during times of war.

Source: <http://rightsofthechild.org/convention-summary.htm>

Exercise 5.5

Indicate whether the following statements are true or false:

1. A child in the CRC is considered anyone under the age of 18.	True/False
2. According to the AHRC a guiding principle of the CRC is that children to express their views freely on all matters affecting them.	True/False
3. Australia has not signed the CRC.	True/False
4. A right in the CRC is that every child has the right to privacy.	True/False

3. Resolving disputes

a) Range of options for dispute resolution

According to the Federal Government:

“Sometimes things happen that you did not expect, or you will have a different view or disagree with someone about something. When this occurs and it stops you from being yourself or harms your relationships, you may have a dispute.”

Citation: Your Guide to Dispute Resolution <https://www.ag.gov.au/legalsystem/alternatedisputeresolution/pages/default.aspx>

Disputes can happen between individuals; individuals and organisations; or, may happen between individuals and the State. The role of law enforcement agencies, alternative dispute resolution methods and other restorative models is to help all dispute parties to understand the reasoning for the dispute and to find a solution to the matter.

■ **Role of law enforcement agencies, tribunals, courts and government agencies**

Law enforcement agencies play a pivotal role in helping individuals resolve disputes as well as being a party in a dispute. Enforcement Agencies include the New South Wales Police Force and Australian Federal Police (AFP). Depending on the jurisdiction (area of responsibility) individuals can contact law enforcement agencies to help address disputes between individuals. If there is evidence that the dispute has resulted in the commission of a crime this can also lead to criminal charges. For example, NSW Police Stations have a Domestic Violence Liaison Officer (DVLO). This is an officer that community members can contact to seek

advice and assistance in matters of Family Violence. If a person is an immediate threat of family violence it is advised that people call 000.

Tribunals include the New South Wales Consumer, Trader and Tenancy Tribunal, Fair Work Commission and New South Wales Civil & Administrative Tribunal. Tribunals are concerned with resolving disputes between individuals; individuals and organisations; and individuals and Government Agencies. These tribunals are different from courts as they address specific areas of conflict and may not have the same rules of evidence that are adhered to in court. The decisions of tribunals like courts are binding on the parties. For example, the New South Wales Trader and Tenancy Tribunal helps to resolve disputes between builders and property owners and tenants (renters) and real estate agencies or property owners. Such as if a property owner is not completing regular property maintenance then a tenant can contact the tribunal to arrange a hearing that may obligate the property owner to undertake immediate repairs.

Courts include Civil Courts, Criminal Courts and the Land and Environment Court. Courts can address disputes within their jurisdiction. There are specific hearing rules of evidence and court procedure that need to be adhered to. This can make courts less accessible to individuals who are unfamiliar with these practices. Their decisions are legally binding on the parties and can result in further legal actions. For example, if an individual breaches the terms of their contract. The court may order damages (additional money) be paid in compensation to the injured party.

Individuals can also seek support in resolving disputes with government agencies. These Include:

Ombudsman

The Ombudsman resolves disputes between individuals and government agencies. Individuals can contact the Ombudsman to make a complaint. The Ombudsman as an independent government agency can then investigate the matter to ensure the government agencies are appropriately commissioning their service to the public.

Australian Tax Office

The Australian Tax Office (ATO) like most government agencies offers an internal process to resolve complaints from individuals and businesses. Their website offers a simple form that people can use to raise complaints and seek resolution on matters. If individuals and businesses are not satisfied, they can raise a complaint with the Commonwealth Ombudsman.

Australian CentreLink

Australian CentreLink like the ATO has its own internal process that individuals can use to have matters reviewed or make formal complaints. Their website offers phone numbers and forms people can use to raise these matters. These matters will receive a response within ten working days. If individuals are not satisfied, they can also raise the complaint within the Commonwealth Ombudsman.

Case Study: Robodebt (power of dispute resolution)

Robodebt is an electronic program that generates letters to citizens believed to have received government payments falsely. The letters were sent to individuals asking them to prove their income from as far back as 7 years ago and were sent in a way that indicated that the person owed a debt to the government.

After the Australian Government received a number of complaints, along with media attention, opposition questioning and a class action case the Robodebt program was modified.

Alternative dispute resolution methods

Alternative Dispute Resolution is a process that looks to support parties to find solutions to disputes. It is characterised by a number of steps that progress in formality and can result in Tribunal decisions or Court hearings. However, the hope of this process is that matters will be resolved before formal tribunal or court decisions are needed.

Steps to Alternative Dispute Resolution Process:

- Negotiation (two parties in conflict try to resolve the dispute).
- Mediation- (independent third party helps guide the dialogue in a constructive way to find a solution to the dispute).
- Conciliation- (independent third party plays a more direct role in the actual resolution of a dispute and even advises the parties on certain solutions).
- Arbitration (two parties present their case to an independent third party, Arbitrator who hears the matter and then makes a legally binding decision).

Alternative Dispute Resolution processes are required to be undertaken in a range of matters such as in resolving Fair Work Issues, Family Law and Tenancy Issues. The benefits of this process include:

- Maintaining communication between parties
- Resolving matters in a way that benefits both parties
- Inexpensive and reduces the burden on courts to resolve all disputes.

Alternative Dispute Resolution processes deal with private law (between individuals) and administrative law (between individuals and government organisations) matters. In matters of a criminal nature Restorative Models are alternatives to courts.

Restorative justice looks to provide the offender an avenue to acknowledge the harm done by their actions, provide a forum for reconciliation and a penalty that support the restoring of the offender to their previous community standing. Two restorative programs in NSW are Circle Sentencing and the Youth Justice Conference.

Circle Sentencing began in NSW in 2002 and operates in many jurisdictions across the State. Circle Sentencing is an alternative to court procedures for First Nations people who have admitted to committing a crime. Instead of having the matter heard in a court the offender, judicial officers, members of the community, elders and police sit in a circle and discuss and agree to an appropriate penalty.

Under the Young Offenders Act 1997 the Children's Court may refer a matter to be resolved through a Youth Justice Conference. The conference is an alternative to court procedures for young people who have admitted to committing a crime. Instead of having a matter heard in the court the offender, their families, extended families, victims and their supporters, police, and the child's lawyer can participate in the conference and agree to an outcome plan.

■ Role of customary law

Native Title is the recognition of the First Nations people's rights to their traditional water and land. Under the Native Title Act 1993 (Cth) the government, the land user and the traditional owners of the land can negotiate, mediate and reach an agreement over the use of the land. This strategy is referred to in the Native Title Act as 'future acts.' The agreements made are referred to as Indigenous Land Use Agreements (ILUAs) and are voluntary legally binding agreements. The Commonwealth government determines that this system results in timely and cost effective resolutions. When these negotiations are successful, they result in agreement between all parties.

■ Effectiveness of different methods of resolving disputes

Using alternative methods to resolve disputes other than court decision provides a significant amount of benefits to our legal system and communities. However, these alternative dispute methods may not always be as effective in every circumstance. Parties and legal agencies need to determine on a case by case basis what is the most appropriate method of dispute resolution.

Effectiveness of Alternative Dispute Resolution Process	
Positives	Negatives
<ul style="list-style-type: none"> ■ Cost effective (cheaper) to the parties and legal system ■ Time efficient to the parties and legal system ■ Allows both parties the right to be heard ■ Allows both parties to reach a resolution they support 	<ul style="list-style-type: none"> ■ May be inappropriate in addressing all matters ■ Parties may not follow through with resolution decision ■ May result in some parties experiencing more hurt throughout the process

Exercise 5.6

Indicate whether the following statements are true or false:

1. The Ombudsman resolves disputes between individuals and government agencies.	True/False
2. Courts are able to address disputes only within their jurisdiction.	True/False
3. In order to make a complaint with the Australian Tax Office you need to go and see them in person.	True/False
4. Restorative Justice is used in private law matters.	True/False
5. Alternative Dispute Resolution Process are more cost effective than attending court.	True/False
6. Indigenous Land Use Agreements are made between government, land users and traditional owners.	True/False
7. Decisions made by an Arbitrator are not legally binding.	True/False

4. Current issues

a) Comparison of gun laws between Australia and the United States

Australian and the United States have very different Gun Laws.

Included in the United States of America (USA) Constitution is a Bill of Rights. The Bill of Rights provides legal protection for several legal entitlements that the USA State and Federal governments must ensure they protect. Meaning the governments are restricted on the laws they can make that limit the rights outlined in this document. The legal rights of Americans are outlined in specific Amendments. For example, the Second Amendment of the USA Constitution reads: "A well-regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed." Some USA states have limited the carrying of firearms on their person and have issued some waiting times on gun purchases.

Within the Australian Constitution citizens do not have a legal right to bear Arms. Nor is it up to the Federal Government on who can own a gun. The Federal Government only has the power to restrict importation of weapons from overseas. Gun laws like in the USA are created by the State Governments. Since 1996 all States in Australia have banned rapid-fire long guns.

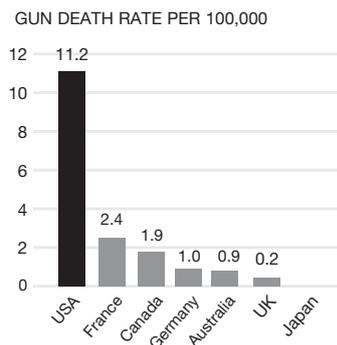
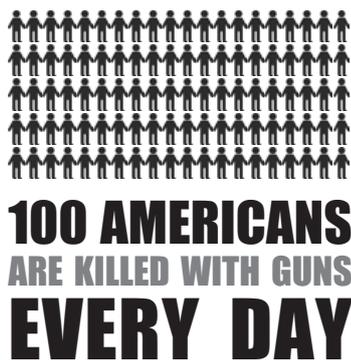
In Australia the motivation for the uniformity of gun laws was due to several mass killings. From August of 1987 to March of 1996 there were nine multiple killings in Australia that used a firearm. The aftermath of these crimes had begun to significantly change the Australian attitude on whether citizens had the right to own firearms.

On 28th April 1996, at the Port Arthur Historical Site in Tasmania 35 people were killed and 19 wounded by a person using a firearm. This tragic event resulted in Prime Minister John Howard leading the States to collaboratively change the Australian gun laws. Specifically, the laws administered by the States that controlled the purchasing, possession and storage of firearms. The Federal and State Governments also implemented a Buy Back Scheme in 1996 and in 2003 which meant individuals could hand in any firearms they possessed and receive financial compensation.

Under the Australian Constitution (section 51) the Federal Parliament has the powers to: *“the acquisition of property on just terms from any State or person for any purpose in respect of which the Parliament has power to make laws;”*

Therefore, while the government was allowed to request a compulsory hand in of firearms to ensure it was done on “just terms” meant they had to provide compensation to the owners. In order to raise the funds of the firearm buy back in 1996, the Medicare Levy (compulsory tax) that year was increased for all taxpayers.

Within the USA individual States continue to develop legislation around background checks and the right to carry firearms. However, according to the Gun Violence Archive in 2019 the USA experienced 417 mass shootings. Even with these significant figures as it stands there is currently limited political will to make a constitutional change to limit the supply and access to guns in the USA.



AMERICANS ARE 25 TIMES MORE LIKELY TO DIE FROM GUN VIOLENCE THAN RESIDENTS OF PEER NATIONS

In 2018 Australia saw its largest mass killing since Port Arthur with seven people dead in Western Australia and in 2019, four people were killed in Darwin. After the initial reduction in firearms following the buy backs of 1996 and 2003, the Australian Institute released a report in 2019 stating that “The number of guns per gun-owner in Australia has increased dramatically, from 2.1 guns per gun owner in 1997 to 3.9 guns per owner at present”, resulting in more guns in Australia than before the 1996 Port Arthur Shooting.

Exercise 5.7

Indicate whether the following statements are true or false:

1. In both Australia and the United States of America, individual states are responsible for gun laws.	True/False
2. The Australian Constitution gives the rights of its citizens to bear arms.	True/False
3. There were less guns in Australia in 2019 than in 1997.	True/False
4. The United States of America in 2019 had 417 mass shootings.	True/False

Review Questions and Activities

1. Outline the elements of crime that need to be proven in a strict liability offence.
2. Explain why it may be difficult for a young person to engage in the legal system.
3. Outline two ways young people are protected when they encounter the criminal justice system.
4. Distinguish between the criminal responsibility of a 9 year and a 15 year-old.
5. Outline how Australia has protected human rights.
6. What is meant by Civil Law?
7. Outline the steps in the Alternative Dispute Resolution Process.
8. Distinguish between Circle Sentencing and Youth Justice Conferences.
9. Outline an overall principle of the Human Rights Convention of the Rights of the Child.

Exercise 5.8 Multiple Choice

1. An independent third person is used to manage the communication between two parties in a dispute. What is this known as?
 - a. Negotiation
 - b. Mediation
 - c. Conciliation
 - d. Arbitration
2. At what age is a young person able to get married without consent?
 - a. 16 years old
 - b. 17 years old
 - c. 18 years old
 - d. 21 years old
3. What best describes the role of the Ombudsman?
 - a. An independent government agency that has the power to investigate government departments.
 - b. An independent government agency that has the power to investigate individuals.
 - c. A government agency that has the power to investigate government departments.
 - d. A government agency that has the power to investigate individuals.
4. What models are used when dealing with young people who come into contact with the law?
 - a. Judgement, Restoration and Welfare
 - b. Justice, Restorative and Wellbeing
 - c. Judgement, Rehabilitation and Wellbeing
 - d. Justice, Restorative and Welfare

5. Which is not a right found in the Charter of the Rights of the Child?
 - a. The right to education
 - b. The right to play
 - c. The right to Vote
 - d. The right to privacy

6. A young person is convicted of a crime in court. Their penalty is that they are required to work at a local shelter for a number of hours. This penalty is best known as?
 - a. Good Behaviour Bond
 - b. Community Service
 - c. Warning
 - d. Youth Justice Conference

7. In the United States of America the right to bear Arms is covered under which Bill of Rights?
 - a. The first Amendment
 - b. The second Amendment
 - c. The fifth Amendment
 - d. The tenth Amendment

8. The United Nations Bill of Rights is made up of which documents?
 - a. UDHR, ICCPR, ICESCR
 - b. UDHR, ICCPR, CRC
 - c. UDHR, ADR, CRC
 - d. CRC, ICCPR, ICESCR

9. A young person is arrested and is brought to the police station for questioning. What rights are they granted during this process?
 - a. The right to a friend to support them and can be interviewed for 2 hours
 - b. The right to a friend to support them and can be interviewed for 4 hours
 - c. The right to an adult support person and can be interviewed for 2 hours
 - d. The right to an adult support person and can be interviewed for 4 hours

10. What best describes the way Human Rights are protected in Australia?
 - a. A Bill of Rights
 - b. A Charter of Rights
 - c. International Documents
 - d. The Constitution, Statute Law and Common Law

Answers**Exercise 5.1**

1. False, 2. False, 3. False, 4. True

Exercise 5.2

1. False, 2. True, 3. True, 4. False, 5. True, 6. False

Exercise 5.3

1. False, 2. True, 3. True, 4. True

Exercise 5.4

1. False, 2. False, 3. True, 4. True

Exercise 5.5

1. True, 2. True, 3. False, 4. True

Exercise 5.6

1. True, 2. True, 3. False, 4. False, 5. True, 6. True, 7. False

Exercise 5.7

1. True, 2. False, 3. False, 4. True

Exercise 5.8

1. b, 2. c, 3. a, 4.d, 5.c, 6. b, 7. b, 8. a, 9. d, 10.d

Option 6

Travel

1. The nature of tourism

Tourism refers to the activities of people traveling to and staying in places outside their usual environment for leisure, business or other purposes like family events (such as weddings and funerals). In 2019, approximately 9.4 million people from overseas visited Australia. Tourism contributes around 10% of Australia's total exports each year, representing close to \$60 billion of our GDP.

a) Different forms of tourism and their contribution

There are several different forms of tourism.

■ Aboriginal Cultural Tourism

In recent years, the Australian Government has increased marketing initiatives designed to promote Australia's rich Aboriginal history and culture. Each year, over 300,000 tourists visit Uluru alone, however, there are many other Aboriginal cultural sites that are growing in popularity for tourists, such as Kata Tjuta (The Olgas, NT), Wilpena Pound (SA), The Indigenous Tourism Trail (Eyre Peninsular, SA), Lake Mungo (NSW), Barrangaroo (Sydney) and Birrarung Marr (Melbourne).



Lake Mungo in Western NSW

Aboriginal cultural tourism makes a substantial contribution to Australia economically, and inarguably raises awareness about Aboriginal history, however, some would argue there are some negative impacts to indigenous people, such as insensitivities of tourists and excessive litter.

■ Ecotourism

Ecotourism refers to travel that is focussed on experiencing natural areas, appreciation of natural environments, and conserving such environments through the proceeds of tourism. Activities in Australia related to ecotourism include:

- Arkaroola Wildlife Sanctuary (SA)
- Daintree Discovery Centre (QLD)
- Hervey Bay Whale Watch (QLD)
- Phillip Island Nature Parks (VIC)
- Scenic World (NSW)
- Roaring 40s Kayaking (TAS)
- Kimberley Quest (WA)

Ecotourism providers such as those above make a significant contribution in terms of the access they provide for individuals to enjoy Australia's beautiful



'Roaring 40s Kayaking Tours' in Tasmania

natural environment. In addition they contribute substantially to federal, state and local economies. However, often these picturesque and beautiful locations are the most vulnerable and increasing tourism to these areas can have a negative impact on the wildlife and fragile ecosystems.

■ **Recreational tourism**

This is the form of tourism undertaken by most people when embarking on a holiday. Recreational tourists use a variety of factors when planning a holiday including:

- The desire for a domestic or overseas holiday
- Accommodation (camp, stay in a hotel or Airbnb)
- Climate and season of the destination
- Activities available (such as skiing, boating, or theme parks)
- Budget available



Japan is a popular destination for snowboarders and skiers

■ **Mass Tourism**

Mass tourism involves large numbers of tourists visiting a travel destination simultaneously. Due to the large volume, travel companies and travel agents are often able to provide cheap rates and packaged deals, which are appealing to tourists. While there are some positive impacts for the local people (mostly economic), there are many negative impacts of mass tourism including:



A typical day on the Great Wall of China

- Environmental destruction
- Loss of culture
- Pollution
- Excessive crowds
- Economic impact (proceeds of tourism supporting large travel companies and hotel chains, rather than the local people)

2. Planning a trip

a) Options available when planning a trip

■ **Appropriate travel destinations and factors that influence the choice of destination**

There are a range of different factors that can influence travel choices. Some of these include:

Climate and season

Tourists need to factor in the weather and the climate when choosing a travel destination. Issues such as rainfall, wind, snowfall, heat, cyclones, and peak seasons for garden growth/blooms are all factors that influence travel destinations.

For example, many tourists might think that the ideal time to visit the Great Barrier Reef is the Australian summer. This seems like a logical assumption; however, it is likely this could result in a very wet and

unpleasant holiday! Not only are cyclones common in this area during the summer, it is also the wet season. As the graph shows, the temperature and rainfall conditions during the winter make for perfect holidaying in North Queensland.

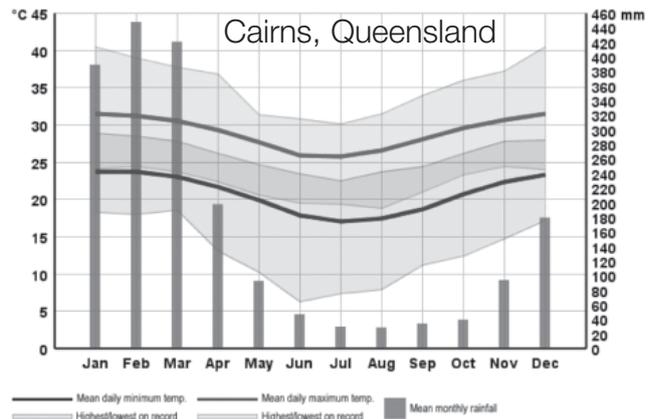
Tourists wishing to experience the famous cherry blossoms in Japan will have to book their trip to coincide with the very short window in spring when these trees are in bloom (late March to early April). The warm days and cool nights provide for the perfect conditions required for cherry blossoms to bloom.



Cherry blossoms in full bloom beneath Mt Fuji in early April



The Great Barrier Reef in July



Climate data for Cairns showing large rainfall for summer while winter has ideal travel conditions.

Financial factors

Travelling is not cheap. Tourists need to consider costs associated with:

- Accommodation
- Modes of transport
- Travel Insurance
- Chosen activities/sightseeing
- Meals
- The cost of borrowing money (interest) should they choose to take out a loan for their trip.

The preparation of a travel budget is essential for travellers in order to manage their finances properly and ensure they have enough money for their trip. Typically, a travel budget will specify how much an individual/couple/family has saved, and a list of their expenses. An example is below:

Eric and Paula’s travel budget	
Destination: Hawaii	Duration of holiday: 14 days
Amount saved	\$10,500
Airfares	\$2,500
Accommodation	\$1,700
Meals	\$1,800
Activities/Sightseeing	\$3,000
Travel insurance	\$500
Spending money	\$1,000
Total expenses	\$10,500

Political situation

It is important to consider the political situation of the country to which you wish to travel. In recent times, countries such as Indonesia, Iran, Syria, Bolivia and Fiji have had volatile political environments which tourists need to take into consideration when travelling.

One of the many responsibilities of any government is to provide warnings and advice to its citizens about potentially dangerous travel situations. Smartraveller.gov.au is an Australian Government website designed to 'provide Australians with the latest information and advice for safe travel overseas'.

For example, During 2019, Hong Kong experienced mass protests regarding tensions with China about new extradition laws. By January 2020, there have been several deaths and numerous injuries.

Case Study: Hong Kong



There's an ongoing risk of violent confrontation in Hong Kong. Demonstrations can take place with little or no warning, with instances of violence and vandalism. Expect road closures, transport disruptions and heightened police action, including the use of tear gas. MTR stations, the Airport Express, shopping centres and businesses may close or suspend services at short notice. Be aware. If there are signs of disorder, move away quickly to a safe place. Avoid demonstrations and monitor local media.

January 2020, Smart Traveller

Personal preferences

When choosing a travel destination, personal preferences have a large impact. All tourists have a slightly unique reason for wanting to travel and they are motivated different things.

For example, some people may want to sit on the beach for 2 weeks in Thailand and read their favourite books. Some may prefer the thrill of skiing or snowboarding in Japan or Switzerland. Some may want to visit their ancestor's graves in France who fought in historical conflicts, while others may prefer to book a group holiday (such as a Contiki tour) to see the beauty of the Andes in Peru while making friends along the way.

Your personal preferences for travel are likely to be shaped by your family history, your personal experiences, your cultural heritage, the peak travel times of certain destinations, or the weather.

Sporting or cultural events

Some tourists base their travel plans around significant cultural or sporting events. For example:

- ANZAC dawn service – Gallipoli, Turkey
- Rugby World Cup
- Olympics
- Tour de France – France
- The Masters Golf – Georgia, USA
- The Vatican City – Rome, Italy
- The Boxing Day Test Match – Melbourne, Australia
- The Sydney to Hobart Yacht Race

Case Study: 2019 Rugby World Cup

The 2019 Rugby World Cup played in Japan was responsible for the influx of 400,000 international tourists and an economic injection of 216 billion Yen (\$2.88 billion AUD).



Advantages and disadvantages of different means of travel

When planning a trip, a key consideration for tourists is how they will get to and from their destination. There are a number of options:

Means of travel	Advantages	Disadvantage
<p>AIR</p> 	<ul style="list-style-type: none"> ■ Fast ■ Relatively safe ■ Customised travel options available such as economy, business class and first class ■ A relatively cheap form of travel (when purchasing economy tickets or using low cost airlines) ■ Aircraft are becoming more fuel efficient and environmentally friendly 	<ul style="list-style-type: none"> ■ Potential delays in airports due to weather, security issues or aircraft maintenance ■ Unpredictability of turbulence ■ Restricted nature of being in the air ■ Some destinations cannot be reached in one flight leading to stopovers and additional costs ■ Major contributor to carbon emissions.
<p>RAIL</p> 	<ul style="list-style-type: none"> ■ Avoid 'traffic jams' ■ Very safe statistically ■ Usually cheaper than air travel ■ Tourists can embark/disembark at stations where they please 	<ul style="list-style-type: none"> ■ Significant infrastructure required and therefore rail is not available in all areas ■ Passengers are limited to how much luggage they can take/carry on ■ Takes longer than air travel ■ There can be delays due to maintenance/track work
<p>SEA</p> 	<ul style="list-style-type: none"> ■ Many entertainment options on board ■ Relaxed form of travel ■ Very safe statistically ■ Usually cheaper than air travel ■ Food and drinks are usually included in the cost of ticket 	<ul style="list-style-type: none"> ■ Limited flexibility once ship leaves dock ■ Slow form of travel ■ Passengers are more likely to get motion sickness when on the water. ■ Passengers 'forced' to share holiday with others.
<p>ROAD</p> 	<ul style="list-style-type: none"> ■ Road travel allows passengers great flexibility in terms of where they go – there are roads everywhere! ■ Travel options are numerous – caravan, camper trailer, coach travel, motor home ■ Motor vehicles are becoming more environmentally friendly ■ Very accessible – most adults possess a driver's licence 	<ul style="list-style-type: none"> ■ Many problems associated with many road travel (traffic, road accidents, road rage) ■ Difficult to understand street signs and road rules if driving in foreign countries ■ Major contributor to air pollution

Means of travel	Advantages	Disadvantage
<p>GROUP TRAVEL</p> 	<ul style="list-style-type: none"> ■ Major elements of holiday have been organised leading to less stress and worry. ■ Ability to meet new/likeminded people and share travel experiences with them ■ Lower cost of travel due to bulk discount ■ Insurance included as part of cost ■ Greater safety in foreign countries due to group culture, headcounts etc 	<ul style="list-style-type: none"> ■ Can be 'rigid' in nature due to organised activities ■ Less privacy as holiday is being shared with others ■ Various opinions and personalities can make group travel awkward when tourists don't agree ■ Locals may take a particular disliking to large groups of tourists
<p>INDIVIDUAL TRAVEL</p> 	<ul style="list-style-type: none"> ■ Freedom and flexibility to see the sights that interest the individual traveller ■ No specific schedule that must be adhered to – the pace of travel is completely flexible (depending on the budget) ■ Getting away from what is familiar and travelling alone can be great for mental health 	<ul style="list-style-type: none"> ■ Safety is a big concern, particularly for females in some countries. ■ Loneliness – Some people will struggle with being alone for long periods of time ■ Lack of structure can also be a challenge for some tourists as they don't have the money/time management skills or imagination required to travel alone

Exercise 6.1

Indicate whether each of the following statements is true or false.

1. Air travel is the most environmentally friendly form of transport	True/False
2. Group travel allows tourists to meet likeminded people	True/False
3. When travelling by sea, food/drinks are included in the ticket price	True/False
4. Group travel involves less organising for the tourist	True/False
5. Air travel can be cost effective	True/False
6. Travelling by rail is generally very safe	True/False
7. Safety is a big concern when travelling alone	True/False
8. Time management is an important skill when travelling alone	True/False
9. There is unlimited luggage allowance on trains	True/False
10. Business class is the cheapest form of air travel	True/False

■ The different planning options available

The two main options available are planning your own holiday (DIY) or using a travel agent.

Planning your own holiday – DIY	Using a travel agent
<p>This form of planning means that you will be entirely responsible for all aspects of your holiday planning. This includes:</p> <ul style="list-style-type: none"> ■ Researching and choosing a holiday destination ■ Organising travel insurance ■ Researching the best fares and booking transport. This will include airport transfers/shuttles, as well as travel passes that allow travel during specific time periods (HINT: look up Japan Rail Pass) ■ Booking accommodation ■ Planning where you will eat ■ Organising attractions to visit <p>The biggest challenge with this type of planning is managing all the costs that are associated with the different aspects of a holiday.</p> <p>Businesses such as Trivago and Web Jet are designed to appeal to travellers that want to plan their own holiday.</p>	<p>A travel agent seeks information from a traveller(s) on their chosen destination and preferred time of travel, and then puts together a package that includes transport, transfers, accommodation, insurance, sightseeing, tours and daytrips.</p> <p>The obvious advantages of using a travel agent include:</p> <ul style="list-style-type: none"> ■ Gain access to cheaper rates through the buying power of the agent ■ The time taken to organise the trip and all the associated pressure and stress is worn by the agent <p>The agent makes money by adding on a margin to the costs associated with booking the holiday. Some people believe that this margin makes the holiday more expensive than if they were to book the holiday themselves.</p>

b) Key considerations when planning a trip

■ Official documents

There are some important documents that are required when travelling to another country. Firstly, you must have a **passport**. A passport is a document issued by the government that certifies your identity and allows you to travel to other countries.

You may also need a special type of **visa**. A visa gives the traveller permission to stay in a country for a specific period of time, depending on the nature of their travel. There are a variety of different types of visas with different conditions. These include student visas, working visas, and permanent residency visas.

Travellers must also fill in an **incoming passenger card** where they must declare (amongst other things), their criminal history, their intended purpose for travel, any dangerous goods they may be carrying, as well as any plant, food or animal products.

Finally, tourists must have certain vaccinations when visiting overseas locations. The record of such vaccinations is located within the passport. This will be discussed next.

■ Medical requirements

It is advisable to visit your doctor before travelling overseas. They will know the standard vaccinations required for the locations to which you are travelling or will be able to refer you to a specialist who can administer the correct vaccines.

The Smartraveller website is also a good place to visit when undertaking research on medical requirements for travellers. It will have detailed information on certain diseases which are more prevalent in some countries, as well as how and where to find help if you do become ill.

■ Political stability and travel warnings

As mentioned earlier in this chapter, the political situation and stability of a country is an important consideration when planning a trip. Travellers would be wise to consult the Department of Foreign Affairs and Trade (DFAT) in the planning stages of their trip. One of the reasons for this is the fact that DFAT provide warnings for travellers about potential instability and dangerous situations. Examples include:

- Advice regarding riots, protests, and civil unrest
- Advice for those working overseas
- Advice for travelling safely alone, particularly for women in foreign countries
- Advice regarding health and exposure to disease

An extremely serious health issue that has gained international exposure during January 2020 is the outbreak of novel coronavirus (2019-nCoV). DFAT have provided travel warnings to Australian tourists wishing to visit China, and for those who have either been to China, or have had contact with people who have.



The World Health Organization is closely monitoring the situation. If you are considering travelling to any destination with detected cases of the novel coronavirus, we strongly recommend the following.

Before you travel

- Talk to your doctor before travelling with children, if you are pregnant or have a weak immune system.
- Read our advice about infectious diseases and medical assistance overseas before you go.
- Check with your travel agent, airline, cruise operator, accommodation provider and travel insurance provider to consider your options regarding any potential changes in services.
- Understand the risks you're taking and that efforts to control the spread of the coronavirus may cause further widespread disruptions which can come into effect with limited notice.

While you're away

- Avoid all high-risk areas such as farms, live animal markets, and areas where animals are slaughtered, including fish and seafood
- Avoid contact with animals (alive or dead), including pigs, chickens, ducks and wild birds
- Avoid surfaces with animal droppings or secretions on them
- If you come into contact with any animals or animal products, avoid touching your eyes, nose and mouth until you have thoroughly sanitised your hands.
- Wash your hands often with soap and water, carry hand sanitiser with you and use it often
- Keep a distance from sick people, especially if they have a fever, cough, or difficulty breathing
- Monitor your health closely
- See a health care professional immediately if you start feeling unwell
- Follow the advice of local authorities
- Contact your airline or travel company for information about changes to flight services
- It is not known whether wearing a face mask will reduce your risk of exposure to the novel coronavirus. However, if you are travelling in an affected country, you must follow the advice of local authorities about whether wearing a mask in public is mandatory

January, 2020, Smart Traveller

■ **Travel Insurance**

This is an important consideration for any traveller. Travel insurance provides tourists with financial protection against unfavourable situations and circumstances while away from home. These might include:

- Lost luggage
- Sickness/illness requiring medical treatment
- Daytrips or tours that have been cancelled or postponed without refund
- Delayed or cancelled flights requiring more expensive tickets to be purchased
- Damage to your property due to the negligence of others

Travel insurance is generally quite cost effective and enables travellers to greatly minimise their risk when visiting another country. Therefore, it is highly recommended.

■ **Language/cultural considerations**

Most people will endeavour to learn a few basic words prior to arrival in a foreign country. This makes for a much smoother holiday as it enables you to communicate and navigate your way around what is sure to be an unfamiliar place. Some of the words/phrases that are helpful include:

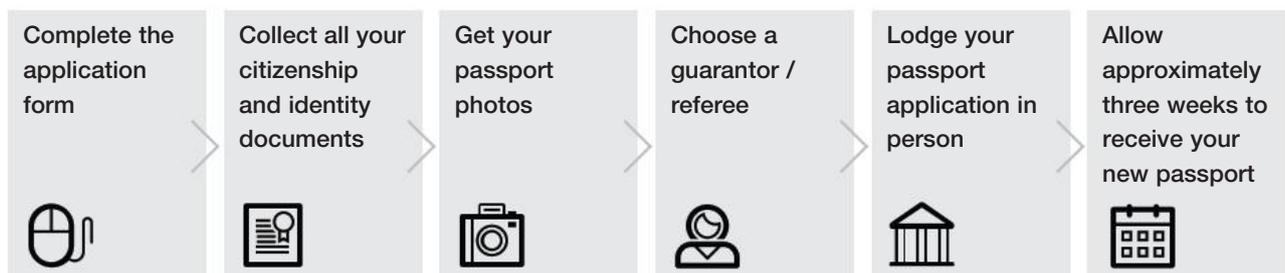
- “Hello, please, thank you, excuse me” (some basic manners)
- “Where can I find a bathroom”?
- “How much is this”?
- “How long will it take”?
- Numbers are helpful (1-10 at a minimum)

The ability to know/understand a few basic customs will also help to provide a hassle-free holiday. Bowing in Japan, tipping waiters/waitresses in the USA, removing shoes in Korean homes and treating traffic signals as ‘precautionary’ in South America are all examples of being culturally aware when travelling overseas.

c) The Process of applying for and renewing a passport

On the Department of Foreign Affairs and Trade (DFAT) website, you will find the steps required in order to apply for and renew a passport. When applying or renewing, you will need to have some important legal documents proving your identity (Australian birth certificate), as well as have your photograph taken. In addition when applying for a new passport , you must bring supporting identity documents that show your photo and your current residential address and Choose a guarantor/referee and obtain their identifying information for the application. Your guarantor/referee must be an Australian citizen aged 18 or older, who has known you for at least 12 months but who is not related to you and does not live with you. You must lodge your application in person at Australia Post.

The application process for a new passport



It will take about 3 weeks to receive your passport. If you urgently need a passport and don't have time to wait 3 weeks, an additional fee can be paid to speed up this process (this is called priority service). The standard passport fee is currently \$293 for an adult (10 years validity). Children under 16 and persons over 75 can apply for a 5 year passport for \$150.

A passport is an extremely important document and it must always be kept in a safe place . If a passport ends up in the wrong hands it can be used to steal someone's identity and cause significant hassle and inconvenience.

d) The process of applying for a visa

As mentioned previously, a visa gives a traveller permission to stay in a country for a specific period of time, depending on the nature of their travel. Visas are issued by the host country. For example, if you want to work in Turkey for a 2-year period, only the Turkish government can authorise you to do this. Like passports, visas require the traveller to provide legal documents and fill in applications forms. This can be quite costly and doesn't necessarily guarantee the applicant that the visa will be approved. The Australian government cannot influence the decision of a country to issue or deny visa applications to Australian citizens.

Some visas will permit the traveller to exit and enter the country as they please, while others have more strict protocols in place. It is important that the visa holder abide by all rules and regulations associated with that visa, as failure to meet these rules can result in deportation and put future visa applications at risk.

3. Developing an itinerary

a) Making decisions about where to stay, getting around, length of stay, what to see and do

Would you start a business without knowing how much money was required, where supplies were coming from, who the target customers were or what goals the business intended to achieve? Of course not! In the same way, you wouldn't embark on a holiday without having planned the time of departure and arrival, the location(s) of your accommodation, the mode of transport you will use to get around, and the details of the natural and cultural sites you wish to see. An itinerary is a travel plan that addresses some key issues relating to your trip:

- What to do/see?
- Where to go/stay?
- When to go?
- How to get there?
- How much will it cost?

Travel Itinerary for Melissa Turpin



Destination: Waikiki **Trip starts:** 9/5/20 **Trip ends:** 17/5/20



DEPARTING FLIGHT

Date	Departs	Airline	Flight	Departure	Arrives	Arrival
9/5/20	4:30pm	Jetstar	JQ3	Sydney	Honolulu	6:00am



CAR RENTAL

Pick up Date	Time	Drop off Date	Time	Location	Company	Vehicle
9/5/20	7am	16/5/20	6am	Honolulu Airport	Avis	Midsize 4WD



HOTEL

Name	Address	Room	Check-in	Check-out
Halekulani	2199 Kalia Rd, Waikiki	705	9/5/20 2pm	16/5/20 10am



EVENTS

Date	Event	Start	End	Pick up
11/5/20	North Shore Shark Adventures	10:00am	1:00pm	Hotel pick up
14/5/20	Whale Watch Cruise	8:45am	10:45am	Hotel pick up



RETURNING FLIGHT

Date	Departs	Airline	Flight	Departure	Arrives	Arrival
16/5/20	8:00am	Jetstar	JQ2	Honolulu	Sydney	1:30pm

b) Travel advice provided by the Department of Foreign Affairs and Trade (DFAT)

As mentioned, the Smartraveller website is extremely helpful in providing Australians with advice about travelling to certain locations. Having a well-planned itinerary is great, but the best plans can come undone if the destination is experiencing an outbreak of disease, riots and violence, or lawlessness due to political instability.

c) Other travel considerations

■ Travel reviews

For the traveller that wants to research their upcoming holiday and ensure they are prepared, there are a variety of reviews and publications which can provide great assistance including:

TRAVELLER

Traveller magazine – Each Saturday and Sunday in the Sydney Morning Herald, The Age, The Sun Herald and The Sunday Age, the Traveller magazine provides feature stories, travel advice, travel reviews, blogs, deals and tour packages.



Lonely Planet – Lonely Planet produce travel guides to a large variety of destinations. They provide potential travellers with tips on where to eat, how to be culturally sensitive, price guides for activities, maps, things to see and do, as well as the best modes of transport for getting around.



‘Getaway’ – Mainstream TV programs such Getaway provides would-be travellers with ideas regarding places to go and things to see. They review destinations provide options for travellers with a variety of budgets.

■ **Methods of payment**

There are a variety of ways that a tourist can pay when travelling overseas, however the most advisable methods can be seen below:

- Currency conversion: it is recommended to carry at least some foreign currency when travelling, particularly in poorer countries with less advanced technology and more limited access to electronic payment methods. Australian currency can be converted in many places including banks, at the airport and at the post office. You should always ask what fee is being charged, as charges will vary. It is generally more expensive at airports.
- Travel cards: these are like your debit card you use for withdrawing money from an ATM. Australian dollar are loaded onto the card. The card will have multiple different currencies that can be used when purchasing products and it will know which one to use (provided you’ve chosen that currency when setting up the card). There is very little risk as most of these cards are protected with chip and PIN security, and the currency exchange rates are locked in at the time of loading/re-loading. When your balance is low, you can simply top up the card online.
- Your regular debit or credit card can be used internationally, but the risk of high fees is often enough to turn travellers away from using these.

■ **Health advice**

It is essential to consult you doctor before travelling. They will be able to provide advice on the required vaccinations as well as provide advice on general practices that promote safety and good health while overseas.

Exercise 6.2

Match the definition with the correct term below.

1. Gives permission for a person to enter a country for a specific purpose.	
2. Official document granting permission to travel between countries	
3. Travel plan	
4. Cover for emergencies or accidents that might happen to you or your belongings while you are on a holiday away from home.	
5. Completed by passengers entering Australia to provide certain information to Australian Border Force such as health, character and where they will be staying.	
6. Person whose job it is to arrange travel for clients on behalf of suppliers.	
7. Government department that helps Australians avoid difficulties travelling overseas.	
8. Card that you load foreign currency onto so it can be used overseas to withdraw cash when you are overseas	

Word Bank: DFAT, passport, travel insurance, travel card, visa, itinerary, incoming passenger card, travel agent.

4. Solving problems related to travel

a) Financial issues

As exciting as planning a holiday can be, it is important to be realistic about the amount of money that will be required for you to both enjoy yourself and avoid financial issues. Therefore, having a dedicated budget that enables you to save enough money and not rely too heavily (if at all) on borrowed money is very important.

Travellers need to be aware of the foreign exchange rate when travelling. Exchange rates are the value of one currency in terms of another. Since foreign businesses and individuals want to be paid in their own currency, we need to convert our Australian dollars into the local currency before making purchases. These exchange rates fluctuate daily. For example, if the exchange rate is AUS \$1 buys US \$0.68, that is the equivalent of AUS \$10 being exchanged for US \$6.80. This rate of exchange could fluctuate positively or negatively for the tourist prior to travel and is something that tourists need to be mindful of when planning a trip.

Lost or stolen travel documents can also be a cause of financial stress when holidaying. It is essential that passports, travel cards, wallets and valuables are always kept in safe locations to avoid financial issues when travelling.

Case Study: My Currency Converter App



My Currency Converter app supports over 150 different currencies from all around the world, ranging from the US Dollar to the Colombian Peso. When you are travelling you can find out how much the Australian currency is worth in just a few short seconds.

Exercise 6.3

Match the country with the currency below.

1. Indonesia	
2. China	
3. Japan	
4. India	
5. United Kingdom	
6. Vietnam	
7. Thailand	
8. South Africa	
9. Italy	
10. Switzerland	

Word Bank: Rand, euro, franc, dong, yen, yuan, puree, rupiah, baht, pound.

b) Potential areas of legal concern in different countries

Australian tourists (particularly those who are younger and less experienced) MUST understand that Australian laws are unique to Australia. We have a justice system that promotes rehabilitation and is lenient by comparison to other countries. The past 20 years have seen numerous cases of Australian tourists facing serious charges involving long jail sentences, even execution.

Case Study: Schapelle Corby



Schapelle Corby was convicted of smuggling cannabis into Indonesia in 2005. She spent nine years imprisoned on the Indonesian island of Bali in Kerobokan Prison after ordinarily being sentenced to 20 years. Schapelle's sentence was reduced after she petitioned the President of Indonesia for clemency on the grounds of mental illness. Since her arrest Corby has publicly maintained that the drugs were planted in her bodyboard bag and that she did not know about them. Her trial and conviction were a major focus of attention for the Australian media.

c) Potential issues due to cultural differences

In the same way Australia's laws are unique, so too is its culture. Australian travellers must pay close attention to how Australian culture differs to that of the cultures of other countries. The following are examples of unacceptable practices in other countries that may land Australians in hot water:

- The wearing of bikini's in Islamic countries
- Failure to wear headscarves in Islamic countries
- Spitting and Chewing gum in Singapore is illegal
- The practising of religious beliefs in China
- Homosexual behaviour can carry physical punishments, even the death penalty in Iran, Sudan and Yemen
- Pre-martial sex is illegal in Indonesia

d) Strategies to deal with travel problems and where to go for assistance

Airlines often have resources dedicated to assisting travellers who are facing problems relating to their holidays. Contacting your airline is a good idea. Sometimes they may not be able to help but might be able to point you in the direction of someone who can.

To ensure that countries have good diplomatic relations with one another, a representative of Australia (and their staff) is placed in most countries around the world. This is known as an Australian embassy. Australian embassies (consulates) exist to also provide support to Australians in the event of situations occurring overseas. These are for serious cases rather than things like your hotel mucking up your reservation or not knowing where to get a decent bowl of Pad Thai.

Embassies aim to provide assistance in:

- Issuing replacement passports
- Providing details of local doctors or hospitals in a medical emergency
- Providing support if you are arrested (check on your welfare and provide details of lawyers and/or interpreters)
- Providing advice and support in missing person or kidnapping cases

The Australian embassy also provides support in an international crisis such as terrorist attacks, major accidents, pandemics, natural disasters and political unrest.

5. Current Issues

a) Declining tourism on communities

While many people can tell you they've partied in Bali, climbed the Eiffel Tower or swum in the crystal waters of Fijian Islands, less people can say they've driven around Australia, or spent time in the Outback. Cheap airfares and a comparatively strong Australian dollar has made international travel more appealing than the traditional 'family road trip'. This has hurt local communities that relied on the tourism industry in the past.

With the growing influence of travel agents and tour operators, many of the less commercial international sites are neglected in favour of well-known tourist hotspots.

b) Overtourism in certain historical and cultural sites

As mentioned at the beginning of this chapter, mass tourism has some significant economic benefits, but the drawbacks of 'overtourism' leave some destinations struggling to cope. A reminder of some of those drawbacks:

- Environmental destruction
- Loss of culture
- Pollution
- Excessive crowds

It also leaves many locals having a real resentment towards tourists who, in many cases, are very polite and respectful people!

Case Study: Uluru

The Uluru-Kata Tjuta National Park Board announced in 2017 that tourists would be banned from climbing the Uluru from 26 October 2019. The Board voted unanimously to end the climb because of the spiritual significance of the site, as well as for safety and environmental reasons. The high temperatures in the area, which can reach 47C (116F) in the summer, mean visitors have died of dehydration and other heat-related events. But the steep and slippery climb to the summit – which stands 348m (1,142ft) high – can also prove dangerous. Just last year, a Japanese tourist died while attempting to ascend one of the steepest parts of the rock. Tourists will still be able to walk around the base and take a cultural workshop.



c) Risks associated with travelling to certain countries – awareness of local laws and cultural customs

When travelling overseas, you're subject to all local laws and penalties, including those that may appear harsh by Australian standards. It's your responsibility to research the local laws in the country you are visiting and obey them. Like in Australia, ignorance is no excuse for breaking the law. Local police are unlikely to accept 'I didn't know' as an excuse.

Local laws may reflect the local religion and customs. Learning about, and respecting, the local religion can help you stay within the law.

You also need to check your medication. Even with an Australian prescription, you could be arrested for carrying or using drugs.

Authorities may also apply the law inconsistently. This may depend on who you are, or the situation when you broke the law.

Some local laws discriminate against certain populations. This is particular the case for women and LGBTI travellers in conservative countries.

Unwary tourists can make easy targets for thieves because they stand out in a crowd, are unused to their surroundings, and are generally carrying money, credit cards and valuables. Thieves can devise inventive ways to rob you. Some of these may include impersonating a police officer and asking to check your money for counterfeit bills and impersonating as a tour guide and offering to show you the sights of the city. If possible, choose accommodation that has unmarked 'swipe cards' rather than numbered keys for each room. If you lose your swipe card or if it is stolen, the thief won't know which room to rob.

Review Questions and Activities

1. View the YouTube clip <https://www.smartertravel.com/overcrowded-tourist-destinations/> Discuss the positives and negatives of mass tourism in these locations.
2. Evaluate the decision to ban the climbing of Uluru.
3. Write a brief travel blog about the best time to ski in Colorado, USA. Use the internet to inform your column.
4. Discuss which form/forms of transport would be most appropriate in the following situations. Justify your decisions.
 - a) A family wants to travel to Tasmania from Melbourne, but they want to take their own car
 - b) Michael finishes Year 12 this year and wants to see South America but is constrained by his finances
 - c) David and Lara both have 6 months long service leave and are keen to visit multiple regional towns throughout Australia
 - d) Peter and Louise are a retired couple who would like to travel to Fiji. They are not constrained by time and would prefer their choice of transport to be entertaining
 - e) Rachel wants to visit Japan. She avoids conflict and prefers to take her time when travelling
 - f) Lorenzo and Francesca are an Italian couple who hate flying, but they want to see more of Europe.
5. Investigate The Australian Border Force <https://www.abf.gov.au/> and outline their role.
6. Prepare a travel itinerary for your ideal schoolies trip at the end of Year 12.
7. Investigate the travel warnings that are currently in place for Australians visiting 2 other countries. Go to www.smartraveller.gov.au
8. Visit the Smart Traveller website. Select 'Before you go' and then 'Staying safe'. List the 9 issues that government wants you to be wary of when travelling.
9. Download the My Currency Converter App and find out how much \$10 Aussie gets you in Indonesia, USA, Japan, New Zealand, China and South Africa.
10. Go to the Australian passport Office web site www.passports.gov.au › lost-and-stolen-passports and find out what to do when your passport is lost or stolen.
11. Conduct research to learn about ONE of the following Australians and their trouble with the law overseas: Myuran Sukumaran and Andrew Chan, Van Nguyen, Ann Yoshe Taylor, Ryan Scott Williams and Scott McIntyre.

Exercise 6.4 Multiple Choice

Select the alternative A, B, C or D that best answers the question.

1. Excessive crowds are one of the negative impacts of which type of tourism?
 - a. Aboriginal tourism
 - b. Mass Tourism
 - c. Recreational tourism
 - d. Ecotourism

2. The best place for a tourist to find information on travel warnings is:
 - a. The Sydney Morning Herald
 - b. Getaway
 - c. Smartraveller
 - d. NSW State Government website

3. An advantage of group travel is:
 - a. The opportunity to meet new and like-minded people
 - b. There is no specific schedule
 - c. Locals may take a disliking to large groups of tourists
 - d. Privacy is limited

4. Political instability does not include:
 - a. Riots
 - b. Protests
 - c. Civil unrest
 - d. Poor customer service

5. Travel insurance covers:
 - a. Medical expenses, lost luggage, cancelled flights
 - b. Lost luggage, change of mind, damage to property
 - c. Clothing expenses, damage to property, medical expenses
 - d. Clothing expenses, lost luggage, medical expenses

6. An Australian embassy does NOT assist Australian travellers with:
 - a. Stolen passports
 - b. Homesickness
 - c. Criminal charges
 - d. Illnesses requiring medical assistance

7. When visiting other countries, travellers need to change their Australian dollars for overseas currency. How does a traveller know how much foreign currency they will receive?
 - a. By checking the Australian Securities Exchange (ASX)
 - b. By asking the Australian Government
 - c. By checking the foreign exchange rate
 - d. By asking a local

8. A document that specifies relevant times, costs of activities, locations and modes of transport required is called a:
 - a. Travel budget
 - b. Travel plan
 - c. Travel brochure
 - d. Travel itinerary

9. Claire must return home from working in the UK, as her allowed time there is about to expire. What has happened?
 - a. Her passport is no longer valid
 - b. Her visa has run out
 - c. She has been deported
 - d. She has been fired

10. What does Smartraveller recommend tourists do while on holidays to avoid coronavirus?
 - a. Avoid high risk areas such as farms and animal markets
 - b. Wash your hands often with soap and water
 - c. Monitor your health closely
 - d. All of the above

Answers**Exercise 6.1**

1. False, 2. True, 3. True, 4. True, 5. True, 6. True, 7. True, 8. True, 9. False, 10. False

Exercise 6.2

1. visa, 2. passport, 3. itinerary, 4. travel insurance, 5. Incoming passenger card, 6. Travel agent, 7. DFAT, 8. travel card

Exercise 6.3

1. rupiah, 2. yuan, 3. yen, 4. rupee, 5. pound, 6. dong, 7. baht, 8. Rand, 9. Euro, 10. franc

Exercise 6.4

1. B, 2. C, 3. A, 4. D, 5. A, 6. B, 7. C, 8. D, 9. B, 10. D

Option 7

Towards Independence

1. Moving from home

a) Reasons a young person may have for leaving home and living independently

Many people move out of the family home and set up their own place during their late teens to late 20s (though the trend is for young people to stay at home longer).

Young people leave the family home for a variety of reasons. These include:

- wish to live independently
- need to move to a place closer to work or study (location difficulties)
- have formed a relationship and decide to live with that person
- decide to move into shared accommodation with a group of friends
- choose to leave home because of conflict, arguments or restrictions at home
- be asked to leave by parents

b) Key issues facing young people in their moves to independent living

Young people who move out of home without enough planning can experience several negative outcomes. This often happens because they do not have someone with enough knowledge and experience to offer advice and support through the process.

Young people may face problems they didn't anticipate, such as:

- **Un-readiness** – Finding they are not quite ready to handle all the responsibilities
- **Financial** – Not having enough money to pay bills (including rent, utilities like gas and electricity and the cost of groceries) or spending too much.
- **Conflict with flatmates** – From not respecting others' needs or not finding the right flatmates to having incompatible lifestyles.
- **Violating lease agreements** – Not paying rent or damaging property.
- **Poor study/work performance** – Not managing time properly or being distracted by household activities or worries.
- **Unsafe/unsuitable accommodation** – Poor planning when finding accommodation

Kidshelpline.com.au has a great checklist of important issues for parents to discuss with their kids before they move out:

- **Purpose** – Is their goal realistic? Are they moving out for the right reasons?
- **Income** – Where will they get enough money to pay for things? How will they organise their budget?
- **Expenses** – What will they need to pay each week/fortnight/month?
- **Location** – Where will they be living? What facilities are nearby? Is it near public transport?
- **Accommodation** – What to look for in a potential place to live? What type of accommodation will they be living in? What suburb will they live in and how realistic are their expectations within their chosen location?

- **Transport** – Will they use public transport, or will they need to have their own car?
- **Flatmates** – Who will they be living with, if anyone? Would those people make good flatmates?
- **Chores** – What chores will need to be done by each person and when?
- **Time management** – How will time be divided between work/study, socialising and doing housework?
- **Healthy living** – Do they know how to shop for the ingredients for cooking healthy meals?
- **Support** – Who can provide assistance and support if problems arise?
- **Readiness** – Are they mature enough to handle the various responsibilities of living independently?

c) Applying for Legal and Medical Identification

Australia does not have a national identity card. Instead, various documents may be used or required to prove a person’s legal and medical identity such as birth certificate, photo ID and Medicare Card. Identification is often necessary for travel, starting a job, obtaining social welfare, opening bank accounts, verifying that one is over 18 years for access to licensed premises and purchase of alcohol and cigarettes and picking up goods etc.

■ Birth Certificate

A birth certificate documents the birth of a child. It is a legal requirement in NSW to register your child’s birth with us within 60 days. Birth Certificates are held by the NSW Registry of Births, Deaths & Marriages and are often used to help establish a person’s identity.



■ Photo ID

Drivers licences issued by the Roads and Maritime Services (RMS) are the most widely used personal identification documents. Driver licences also list a person’s full name, date of birth, current address and contains a photograph. NSW citizens can also get a digital copy of their driver’s license to display on their smart phones and use it as a form of ID at pubs and clubs. For people who do not have a driver’s



license the RMS will issue a photo card, also called proof of age card. Other identity documents with a photograph also includes a passport.

■ Medicare Card

A Medicare card is a plastic green card, the same size as a typical credit card, issued to Australian citizens and permanent residents and their families. You can have your own Medicare card if you’re aged 15 or older and enrolled in Medicare. The card or the Medicare number is required to be provided to enable the cardholder to receive a rebate of medical expenses under Australia’s Medicare system, as well as subsidised medications and care as a public patient in a public hospital.



d) Types of support provided by Government

Government organisations both Federal and State provide support for young people leaving home. The Federal Department of Human Services (Centrelink) offers:

- Financial help with costs of rent, such as Rent Deduction Scheme and Rent Assistance.

- Access to Community Engagement Officers who can help people access income support.
- Financial support to assist with costs while you finish school, undertake tertiary education, or undertake an apprenticeship or traineeship (such as Austudy and Youth Allowance).

Community and Religious groups provide youth outreach programs and support services for young people such as emergency housing. Some of the most well-known are:

- Father Chris Riley Youth Off the Streets <https://youthoffthestreets.com.au>
- Mission Australia <https://www.missionaustralia.com.au>
- Anglicare <https://www.anglicare.org.au/>

e) Continuing to live at home to save for future purchases

Nearly 1 in 4 (23%) people aged 20-34 continue to live in the parental home many to save to buy property in the future. In Sydney and Melbourne, this figure is even higher (27%) because of the high costs of real estate. Males in this age group are more likely than females to be living with their parents (27% and 18% respectively). Of Australians aged 25-29 who live in their parental home, more than half of these (54%) have moved out and returned. They are known as Boomerang kids. Most (52%) last less than 2 years before moving back to the parental home, with 20% lasting less than 1 year.

2. Arranging Accommodation

s) Types of accommodation available, suitability and affordability

Options available when leaving home depend upon your financial and person circumstances. These options include:

■ Residential Colleges

Residential Colleges offer great opportunities to make friends and live close to campus. Most residential colleges are full board (includes meals and other services). Some residential colleges also offer additional support including academic and pastoral care. It can be more expensive than living in a share house and most residential colleges require you to move out during the university holidays.

■ Shared Accommodation

Many young people share accommodation with others to split the cost of rent and utilities, such as electricity and gas. The positives of shared accommodation are sharing the financial burden of rent/utilities, the opportunity to make new friends, and safety (living with others can provide extra security).

Some of the negatives of shared accommodation can include issues with keeping the house/unit clean—whose turn is it to wash the dishes, flatmates who don't pay bills/rent on time, and differences in lifestyle or values that may cause conflict.

Some young people deal with these issues by establishing clear ground rules with their fellow housemates at the start of the tenancy. This could mean making decisions about:

- sharing the cost of rent and utilities
- whether food is to be shared or everyone is to buy their own

- sharing responsibility for household chores
 - rules about noise, visitors and parties
 - withdrawal from the rental lease, when someone is moving out.
-
- **Private rental homes and apartments.**

This option suits those who have a steady income and wish to live alone. Private rental gives young people more choice in the types of houses/units that they live in as well as the location. Monthly rents are generally less expensive than mortgage repayments so private rental is a good option for young people who don't want the expense and commitment of home ownership. Things to consider include rental increases, instability of tenure and regular inspections.

- **Public housing**

These homes are available to people on low incomes and are affordable with long term occupancy managed through state governments. Rent is calculated as a percentage of income. Community housing is like public housing but is managed by community organisations who receive governments funding. Some properties may be group share options where tenants have their own bedroom but other facilities (such as the bathroom, kitchen and laundry) are shared. Rent is calculated at a percentage of market rent.

- **Temporary housing**

Boarding houses provide accommodation for a fee. That is lodgers rent a room for one or more nights, and sometimes for extended periods of time. A boarding house resident does not have the same control over the premises as a resident of a boarding house and only has a right to occupy a room and to share other facilities such as a kitchen and bathroom.

- **Emergency accommodation**

This is short term housing managed by not-for-profit organisations for people who are homeless or at risk of homelessness after an emergency. These options are temporary and designed to immediately assist people in crisis to stabilise and move on to something more permanent.

b) Assessing information relating to arranging a lease

A residential tenancy agreement (lease) is an agreement between the landlord and the tenant that outlines all the terms that both parties must follow. This legal contract specifies that you agree to pay a certain amount of rent for a set period (usually for a minimum of 6 months) at specified intervals (usually fortnightly).

Steps relating to arranging a lease include:

- Signing the lease document
- Paying a rental bond usually four weeks' rent lodged by the landlord at the Rental Bond Board (operated by the NSW Fair Trading) or direct through Rental Bonds Online (RBO). Provided you look after the property the bond will be returned when you move out.
- Paying rent in advance from the first day of tenancy (usually 2 weeks)
- Completing a condition report and return a copy to the landlord or agent within 7 days. This report details the exact condition of the property when you move in. This records the general condition of the property, on a room by room basis, including fittings and fixtures. It is extremely important as any disputes regarding the state of the property when you leave can be related to the condition report. The form will

be an important part of the bond refund process. It will help support the property manager/owner's claim for compensation if the property has been damaged beyond normal fair wear and tear. It also protects a tenant from unsubstantiated claims.

- Taking possession of the premises. This involves obtaining the keys and moving in with your belongings.

Residential tenancies in NSW are covered by the Residential Tenancies Act 2010. This legislation sets out the rights and obligations of tenants.

Tenants' Rights

- To be given a copy of the residential tenancy agreement and a condition report completed by the landlord/agent
- To have premises rented to you in a reasonable state of cleanliness and fit to live in
- To be given rent receipts (unless you pay rent into a nominated bank account)
- To be offered at least one means of paying the rent for which you do not incur a cost
- To be given 60 days written notice of a rent increase
- To have quiet enjoyment and use of the premises – the landlord/agent must not interfere with your possession of the premises
- To have reasonable peace, comfort and privacy
- To have reasonable locks and security
- To have reasonable repairs and maintenance done
- To be given written notice of the landlord wanting to end the tenancy agreement
- To refuse the landlord access except in certain circumstances and with proper notice

Tenants obligations

- To fill out the condition report and give the landlord/agent a copy within 7 days
- To pay rent on time
- To care for the premises
- To pay for any damage caused by you or your guests
- To report the need for any repairs or maintenance
- Not to make alterations or additions without the landlord's permission
- Not to use or permit the premises to be used for an illegal purpose
- Not to interfere with the peace, comfort or privacy of neighbours
- To give correct written notice when you leave
- To leave the premises in a similar condition to when you rented them, except for normal wear and tear.

Top tips for problem-free renting from Tenants NSW

- Make sure you receive an email or SMS notification confirming your bond has been received and advising you of your Rental Bond Number.
- Date -stamped photos are a great way to record the condition of the property when you first move in. Keep these in case the landlord objects to returning your bond at the end of your tenancy.

- Keep a copy of your lease, condition report, rent receipts, Rental Bond Number and copies of letters/ emails you send or receive in a safe place where you can easily find it later.
- Never stop paying your rent, even if the landlord is not complying with their side of the agreement (e.g. by failing to do repairs). You could end up being evicted if you do.
- Comply with the terms of your lease. Never make any alterations, keep a pet or let other people move in without asking the landlord or agent for permission first.
- Keep a diary of your dealings with the landlord or agent – record all the times and dates of conversations, who you spoke to and what they agreed to do. If repairs are needed, put your request in writing to the landlord or agent and keep a copy. This type of evidence is very helpful if a dispute arises that ends up in the NSW Civil and Administrative Tribunal (NCAT).
- Consider taking out home contents insurance. It will cover your belongings in case of theft, fires and natural disasters. The landlord’s building insurance, if they have it, will not cover your things.
- If the property has a pool or garden, be clear about what the landlord or agent expects you to do to maintain them.

Exercise 7.1

Match the definition with the correct term below.

1. A legally binding, written agreement between a tenant and a property manager/owner.	
2. Performs duties related to managing rental properties.	
3. A security deposit paid at the start of the tenancy.	
4. The owner of real estate which is rented.	
5. A person who occupies property rented from a landlord.	
6. Reflects the age and state of the premises.	
7. A tenant’s regular payment to a landlord for the use of property.	
8. Online service helping tenants and agents lodge, manage and refund residential bond money easily and securely.	
9. A routine, necessary household task	
10. A person who you share living arrangements with.	

Word Bank: Bond, lease agreement, rent, flatmate, chores, landlord, real estate agent, Rental Bonds Online, condition report, tenant

3. Managing Finances

a) Major costs involved in Independent Living

Renting a house or an apartment can be expensive. There are two types of costs:

1. Establishment Costs

These are one-off costs of setting up your new place and include:

- Rental bond (usually a month’s rent in advance)

- Rent in advance (usually 2 weeks)
- Removals fees or costs of hiring a moving truck
- Connection fees for phone, internet, gas and electricity
- Set up costs of furnishing rooms or equipping a kitchen (cooking implements, fridge, microware) and laundry (washer, dryer)

2. Ongoing costs

These are recurring costs of living in your new place and include:

- Rent
- Insurance
- Utility bills like gas, water and electricity
- Food, entertainment and transport

b) Strategies to minimise financial problems

Leaving home is expensive and it does not take long for bad budgeting to lead to financial hardship. Financial problems can be avoided by:

- Calculating your known monthly income then plan a monthly budget for food, bills, transport, entertainment and extras.
- Having a fully funded emergency fund of 3 months of living expenses.
- Always paying bills and rent on time to avoid a bad credit rating. Apps like Mint, send you regular reminders for when your bills are due.
- Take out home contents insurance.
- Be mindful of the legal implications of entering a new lease with the other members of the share house. "Where all names are on the lease ... all of the tenants are going to be equally responsible for any loss or damage that is suffered by the landlord down the track. If one tenant doesn't pay their rent or damages the property, all of the tenants under that agreement are going to be held liable."
- Discuss with your flatmates how rent is going to be divided and paid. A good idea is to open a joint account for their share house and all rent money is then transferred by direct debit into the agent's account.
- Agree on a system for how household bills will be divided and paid. If your name is on utility bills you are legally responsible for paying those bills.
- Set up a house kitty for things like toilet paper, cleaning products and possibly food.

c) Construction of a household budgets

A budget is a written plan that helps you know how much money you have coming in and what you need to spend it on. Since budgeting allows you to create a spending plan for your money, it ensures that you will always have enough money for the things you need like paying rent and bills. Following a budget will help keep you out of debt and help avoid financial problems.

A budget includes:

- Your income – how much money you have coming in and where it comes from (for example wages).

- Your expenses – how much money you spend and where you spend the money (for example, bills, food, transport, rent, entertainment).
- Your bottom line (income – expenses)

Monthly Budget for Thomas Klein

1. Your Income	
a. Take-home pay (Wages)	\$3,200.00
b. Additional income (interest, dividends etc.)	\$20.00
Total income	\$3,220.00

2. Your Expenses	
a. Housing (Rent and home contents insurance)	\$1,100.00
b. Transportation (Car payments, petrol, insurance, tolls, etc.)	\$300.00
c. Utilities (Gas, electricity, etc.)	\$115.00
d. Subscriptions (Netflix, internet, cell phone, gym, etc.)	\$250.00
e. Groceries	\$250.00
f. Medical (health insurance, prescriptions, etc.)	\$60.00
g. Dining, travel, and entertainment	\$200.00
h. Other discretionary (Hobbies, personal care, etc.)	\$50.00
i. Debt payments (Credit cards etc.)	\$150.00
j. Savings (Regular savings plan)	\$200.00
k. Custom (Other unique expenses not covered)	\$50.00
Total expenses	\$2,725.00

3. Your Bottom Line	
Income minus expenses	\$495.00

d)Tax obligations

Tax is money people and businesses pay to the Australian Government to provide services including health, education, defence, roads and railways and social security and other payments from Centrelink. Tax obligations include applying for a Tax File Number and completing a tax return.

■ Applying for a Tax File Number

Before starting work, its recommended that you get a TFN otherwise you'll pay more tax. A tax file number is a 9-digit number provided to you by the Australian Taxation Office (ATO). It's a unique reference number that is used as part of your super and tax records

The easiest way to lodge a TFN application is via Australia Post. You will need to complete an online form and then attend an interview within 30 days. You will be required to present your proof of identity documents, along with your completed form, at the interview.

Alternatively, if you're a Department of Human Services (Centrelink) customer, you can apply at a Centrelink centre. You will need to complete a TFN form, which you can order online or by phone, and then make an appointment at your local centre. When you attend, be sure to take your completed form and proof of identity documents with you.

If you can't attend an interview via Australia Post or Centrelink, you can submit your TFN application by post. You will need to order a form online or via phone, fill it out and then post it to the address listed on the form, along with certified copies of your identification documents.

■ Completing a Tax Return

Generally, you need to lodge an annual tax return with the Australian Taxation Office (ATO) if you received payments, such as wages, in Australia during the financial year (from 1 July to 30 June). If you're lodging your own tax return it is due by 31 October. A tax return tells the ATO how much income you received and tax you paid. The ATO will then send you a notice of assessment and your tax refund if you're entitled to one. MyTax is the quick, easy, safe and secure way to lodge online. You can generally receive your refund within 2 weeks. You can also lodge your tax return with a registered tax agent or lodge a paper tax return.

e) Insurance options available

Insurance is a means of protection from financial loss

Insurance is a contract, represented by a policy, in which an individual receives financial protection or reimbursement against losses from an insurance company. The amount of money charged by the insurer is called the premium.

There are 2 main types of insurance.

■ Household Insurance

Home insurance (property insurance) covers losses and damages to an individual's house caused by events such as floods, fire and storm damage.

Contents insurance covers the cost of replacing or repairing your household items and possessions if they are damaged, lost or stolen. It can include things like furniture, clothes, computers, fridges, electrical equipment, tools, and jewellery. Contents insurance on its own without home insurance is also known as renter's insurance.

The type of cover you choose will affect the premium you pay. Some policies cover you for defined events (e.g. burglary and fire) while others cover you for any accidental event. Others give you only limited cover if you take an item (e.g. a laptop) outside your home.

Some types of contents insurance policies cover the value of your belongings and others replace your belongings with new items e.g. 'new for old.'

■ Personal Insurance

Health insurance covers the cost of medical and surgical expenses. It gives you a wider range of health care options and more comprehensive cover than Medicare (public health system). There are two types of health insurance: hospital and general treatment (ancillary or extras).

The Private Health Insurance Rebate is a federal government subsidy for the cost of insurance, while the Lifetime Health Cover rules are designed to encourage people to purchase private health cover earlier and to stay covered. The Medicare Levy Surcharge is an extra 1% to 1.5% levy paid by Australian taxpayers who don't have Private Hospital Cover and who earn above \$90,000 (individuals) and \$180,000 (couples or families).

Motor Vehicle Insurance covers damage to property or persons as the result of a motor vehicle accident. There are 4 specific forms of motor vehicle insurance:

- Compulsory Third Party (CTP) is mandatory personal injuries insurance. It protects any person that you might injure while you are driving.
- Comprehensive covers damage to your own vehicle and other people’s property, as well as theft.
- Third Party Property covers damage to another person’s property but not damage to your own vehicle.
- Third Party Fire and Theft offers the protection of third party property policies, as well as additional fire and theft protection.

Exercise 7.2

Indicate whether each of the following statements is true or false.

1. Ongoing costs are one-off expenses	True/False
2. A budget is a written plan of income and expenses	True/False
3. A premium is the financial cost of insurance cover	True/False
4. Third Party Property motor vehicle insurance covers damage to your own vehicle and other people’s property	True/False
5. A kitty is a fund of money for communal use	True/False
6. In preparing your budget you should first list the sources of income you expect to receive	True/False
7. Rent is considered an establishment cost	True/False
8. Ongoing costs stay the same each month	True/False
9. The Medicare Levy Surcharge is paid by taxpayers who do not have private health insurance	True/False
10. Insurance is a financial risk management tool	True/False

4. Major Purchases

a) Major items to be purchased for independent living

When you’re moving into your first home or apartment, there are several major items that need to be purchased like refrigerator, bed, washing machine, television, dining table and chairs and lounge.

b) Options available for the purchase of major items

These major items can be purchased new or second hand. In some shared household people pool their resources and jointly own these major items.

■ **New Items**

New items are sold by department stores and speciality stores. They usually come with a warranty. New items are usually bought by cash or credit card. Some goods can be bought on Hire-purchase agreements from finance companies. These are different to ordinary loans because you don’t own the goods until you make the final payment and the creditor could take the goods back if you fall behind on payments.

■ Second-hand items

Second-hand items are sold by dealers, on reseller sites like eBay, Gumtree, Facebook Marketplace and at markets and garage sales. Often people are renovating their homes and will get rid of appliances at a fraction of the price. Generally, these items are not covered by a warranty. You should closely inspect them to make sure they are in good working order.

■ Joint Ownership

Joint ownership is when two or more people share the cost and ownership of major household items. It's great to share the cost but it can be tricky if you cease living together.

■ Consumer protection available for selected items

Australian Consumer Law (ACL) covers you when you're buying or paying for goods. Consumer guarantees apply to all purchases for personal and household use and cover new and second-hand items, sale items and online purchases. However, Consumer guarantees won't apply if you bought the product privately like at a garage sale or on Gumtree.

Under the Australian Consumer Law, certain consumer guarantees apply automatically, including that a product must be of acceptable quality - it is:

- fit for the purpose for which it is commonly used
- safe, durable and free from defects
- acceptable in appearance and finish.

If a product does not meet the consumer guarantees, the consumer is entitled to a remedy. The type of remedy depends on whether the problem is major or minor.

A problem is major when a reasonable consumer would not have bought the product if they had known the problem beforehand. Consumers are entitled to reject the product and choose a refund or replacement or keep it and the seller will compensate them for any drop in value. A minor problem can be fixed within a reasonable time. You must give the store the chance to fix the problem. They choose whether to refund, repair or replace.

While all companies that sell into Australia must comply with the Australian Consumer Law (ACL), the fact is it can be difficult to get a repair, replacement when you buy a product online from an overseas seller. According to a recent NSW Fair Trading survey, nearly 50% of Australians who buy goods from overseas experience problems with these transactions. The main issues are items arriving late, not arriving at all or receiving a product different to the one advertised, and 12.8% of respondents said they had received a faulty product.

The best way to protect yourself is to only deal with suppliers you trust and have a good reputation, display clear processes for solving problems and giving replacements and refunds and to check up on retailers by searching for online reviews.

■ Alternatives for the purchase of major items (sharing economy)

The sharing economy connects consumers to people who have products or services to sell, hire or lease via an online platform. It includes services such as Gumtree, E-Bay and Facebook Marketplace. The sharing economy provides consumers with several benefits including:

- the opportunity to buy from individual traders, as well as big businesses
- the advantage of understanding other consumers' experiences through the platforms' ratings and reviews functions

- being able to find products or services that better suit your specific needs or preferences
- potentially cheaper services.

When you buy from someone you connected with through a sharing economy platform, you generally have the same rights as you have when you buy in a store. However, these rights may not apply if you buy from a person who is undertaking a one-off or infrequent transaction. In this case, the seller may not be required to comply with some of the consumer law because they will not be considered to be acting in trade or commerce.

Case Study: Gumtree



In March 2000, at the height of the dotcom boom, two entrepreneurs by the name of Simon Crookall and Michael Pennington had an idea to set up a classified ads website for Aussies, Kiwis and South Africans arriving in the UK. Gumtree (which was acquired by E-Bay) is the leading local marketplace in Australia for the purchasing of major items for independent living with 7 million visitors monthly.

5. Community Involvement

a) Opportunities to become active and effective participants in the community

Community involvement is the creation of opportunities to enable all members of a community to actively contribute to society.

■ Young people enrolling to vote, being informed and voting responsibly

The federal, state and local government elections are critical in shaping the society we live in. In Australia citizens over the age of 18 can vote. For Australia to have a vibrant democracy, all eligible voters should ensure they are enrolled. You can enrol to vote on the Australian Electoral Commission (AEC) website. When you enrol to vote, your name and address is added to the electoral roll. This is the list of voters entitled to vote in an election.

Being active in the electoral process enables you to have your say in who runs your country. It is a great privilege to be able to choose those who govern us because in many parts of the world today not everyone is as fortunate. It is when we all make our voices heard at the ballot box that we can have a real say in the way our country is governed. The right to vote is both a privilege and a responsibility that we should all take quite seriously.

■ Benefits of Community Involvement

Community services cannot function without volunteers from the community. Community involvement provides young people the opportunity to become active members of their community and have a lasting, positive impact on society at large. Community involvement enables young people to acquire life skills and knowledge, as well as provide a service to those who need it most.

Community involvement is important because:

- Teaches young people compassion and understanding. It can be used to advocate for causes that you are personally passionate about.
- Encourages people to creatively develop skills and build competencies and capacities to building a better community.

- Empowers young people to openly give their views about decisions that affect them and to actively take responsibility for changes in their community.
- It is an important part of your resume. A history of Community involvement demonstrates your commitment to the community and a willingness to work for the betterment of others.

Ways you can get involved in your community include:

- Volunteering in an animal shelter, nursing home, soup kitchen, bush regeneration etc.
- Support local businesses buy buying locally.
- Donate blood to the Red Cross
- Donate money to local community service groups
- Place unwanted clothing in Lifeline bins
- Participate in Clean Up Australia Day to clean up your local environment.
- Attend local festivals and events
- Join a local sporting club

Review Questions and Activities

1. Research the following web sites and write your own article titled 'Top tips to finding the perfect flatmate'.
<http://www.realestate.com.au/advice/tips-for-finding-the-perfect-flatmate/>
<https://www.domain.com.au/advice/a-psychologists-guide-to-choosing-a-great-flatmate/>
<https://flatmates.com.au/info/finding-perfect-roommate>
2. Complete the Residential Tenancy Agreement from the Fair-Trading web site under your name using the following information:
 - Property Unit 1 40 Park St Parramatta NSW 2105
 - Landlords agent LJ Hooker 10 Phillip St Paramatta NSW 2105 Ph: 96355000
 - Lease 6 months from 1st May
 - Rent is \$800 a fortnight
 - Rent payable in advance starting on 17th April
 - Rent paid direct debit LJ Hooker Paramatta CBA Paramatta
BSB 062154 Account 89291378
 - No inclusions, no strata by laws, you do not have to pay for water usage
 - Maximum number of occupants 2
 - Urgent Repairs John's Electricals 0425683910 No Leaks Plumbing 041072180http://www.fairtrading.nsw.gov.au/pdfs/Tenants_and_home_owners/Residential_tenancy_agreement.pdf
3. Explain how a tenancy agreement protects the tenant.
4. Under what circumstances can a tenant forfeit all or part of their bond?
5. Check out the standard condition report found on the Fair-Trading web site. What is included in a Condition Report and why is it important for a tenant to fill it in accurately?
http://www.fairtrading.nsw.gov.au/pdfs/Tenants_and_home_owners/Condition_report.pdf

7. Download the Chorma for Chores App (its free) and write a review for it.
8. Select a desirable unit in your area to rent and use the Insurance Council of Australia's contents insurance calculator to help work out the value of your possessions.
https://homecontents.com.au/index.php?c=web_intro&profile=suminsured_ica_rwd&session_expired=true
9. What are the advantages and disadvantages of joint ownership of major household items.
10. Investigate Gumtree www.gumtree.com.au to find a second-hand fridge in your local area.
11. Investigate www.govolunteer.com.au and find out volunteering opportunities in your local area.
12. Investigate the purpose and contribution of an organisation (charity, association, club or union) in your local community.

Exercise 7.3 Multiple Choice

Select the alternative A, B, C or D that best answers the question.

1. Which type of accommodation involves the splitting of costs like rent and utilities
 - a. Shared accommodation
 - b. Residential colleges
 - c. Public housing
 - d. Boarding housing
2. Which Federal Government organisation provides support for young people leaving home.
 - a. Department of Family and Community Services
 - b. Salvation Army
 - c. Department of Education
 - d. Department of Human Services
3. What is a residential tenancy agreement called?
 - a. Bond
 - b. Lease
 - c. Tenant
 - d. Guarantee
4. Who governs rental laws in NSW?
 - a. Office of Fair Trading
 - b. ASIC
 - c. Department of Community Services
 - d. Rental Bond Board

5. Which of the following is a one-off cost for setting up new accommodation?
 - a. Bond
 - b. Insurance
 - c. Rent
 - d. Utilities

6. Which of the following best describes a warranty?
 - a. Money, you pay up front when you move into a rental house
 - b. The amount charged for accommodation
 - c. Written guarantee for a product and declares the maker's responsibility to repair or replace a defective product or its parts.
 - d. Paying for a large item over a long period

7. Which of the following is not an advantage of buying household items second hand?
 - a. It's much more affordable
 - b. Older machines typically do use less energy to run and have a smaller effect on greenhouse gases than newer models.
 - c. Reduce landfill waste
 - d. Reduces the need to manufacture new materials, meaning less energy and water is consumed.

8. Which Australian law sets out consumer rights including your rights to a repair, replacement or refund when you purchase a household item
 - a. Australian Consumer Law
 - b. Australian Taxation Law
 - c. Australian Retail Law
 - d. Australian Rights Law

9. Which of the following best describes a tax file number?
 - a. A unique number issued by the ATO which identifies you for tax purposes
 - b. A unique number included on Medicare claim forms
 - c. A unique number given to you when you apply for social security
 - d. The primary identifier for ownership of a bank account

10. Which of the following is an advantage of lodging your tax return on-line?
 - a. You get your refund faster
 - b. It's available 24/7, so you can lodge at your convenience
 - c. Most information from your employer, bank and government agencies will be pre-filled
 - d. All of the above

Answers

Exercise 7.1

1. Lease agreement, 2. Real estate agent, 3. Bond, 4. Landlord, 5. Tenant, 6. Condition report, 7. Rent, 8. RBO, 9. Chores, 10. Flatmate

Exercise 7.2

1. False, 2. True, 3. True, 4. False, 5. True, 6. True, 7. False, 8. False, 9. True, 10. True

Exercise 7.3

1. a, 2. d, 3. b, 4. d, 5. a, 6. c, 7. b, 8.a, 9.a, 10.c