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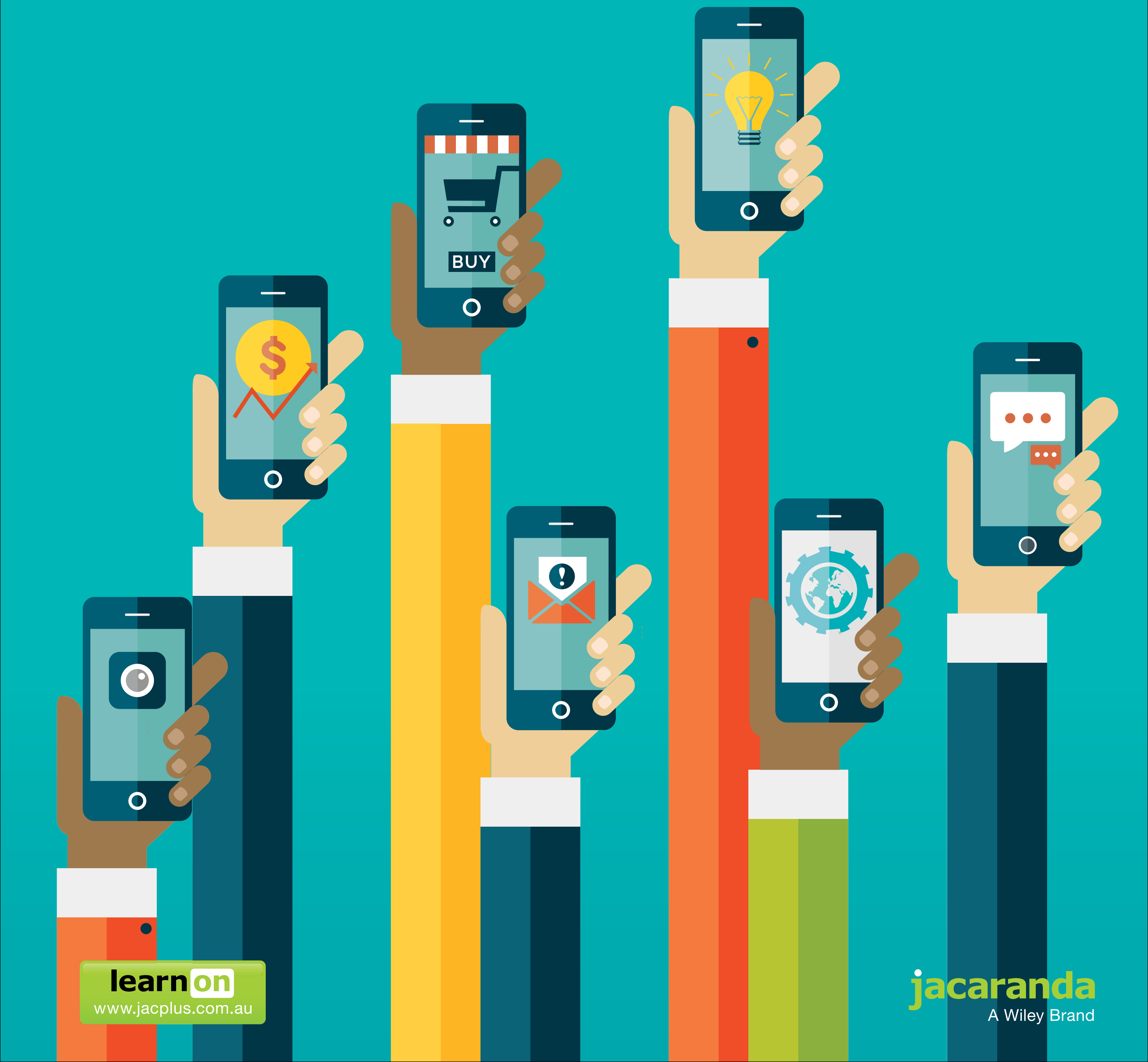
# JACARANDA NEW CONCEPTS IN COMMERCE

FOURTH EDITION

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JACARANDA NEW CONCEPTS IN

# COMMERCE

NSW AUSTRALIAN CURRICULUM | FOURTH EDITION

# JACARANDA NEW CONCEPTS IN COMMERCE

NSW AUSTRALIAN CURRICULUM | FOURTH EDITION

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All activities have been written with the safety of both teacher and student in mind. Some, however, involve physical activity or the use of equipment or tools. **All due care should be taken when performing such activities**. Neither the publisher nor the authors can accept responsibility for any injury that may be sustained when completing activities described in this textbook.

This textbook contains images of Indigenous people who are, or may be, deceased. The publisher appreciates that this inclusion may distress some Indigenous communities. These images have been included so that the young multicultural audience for this book can better appreciate specific aspects of Indigenous history and experience.

In this book, the word 'Aborigine' rather than 'Koori' is used when referring to Indigenous Australians. The issues raised are not unique to the Indigenous people of New South Wales and so the Australia-wide reference has been maintained.

It is recommended that teachers should first preview resources on Indigenous topics in relation to their suitability for the class level or situation. It is also suggested that Indigenous parents or community members be invited to help assess the resources to be shown to Indigenous children. At all times the guidelines laid down by the relevant educational authorities should be followed.

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*(continued)*

| Topics | Students learn about: | Section numbers |
|---|---|---|
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*(continued)*

*(continued)*

| Topics | Students learn about: | Section numbers |
|---|---|---|
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# HOW TO USE

## the *Jacaranda New Concepts in Commerce* resource suite

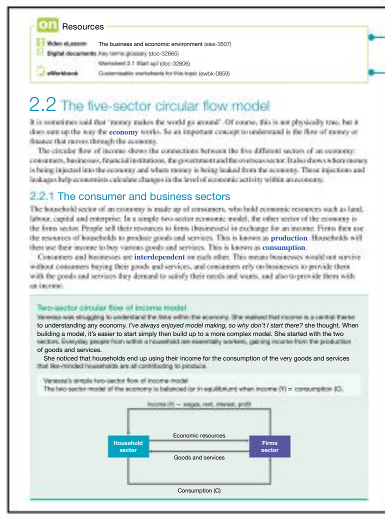
Designed to help teachers implement the NSW Australian curriculum Commerce Syllabus, *Jacaranda New Concepts in Commerce*, Fourth Edition, is a complete resource suite providing engaging, contemporary and detailed content. Students of all abilities are supported in acquiring critical knowledge, understanding and skills, and are empowered to be able to make informed and responsible decisions in this modern world. The series is available across a number of digital formats: learnON, eBookPLUS, eGuidePLUS, PDF and iPad app.

Skills development is integrated throughout, and explicitly targeted through SkillBuilders and a comprehensive range of activities.

This suite of resources is designed to allow for differentiation, flexible teaching and multiple entry and exit points so teachers can *teach their class their way*.

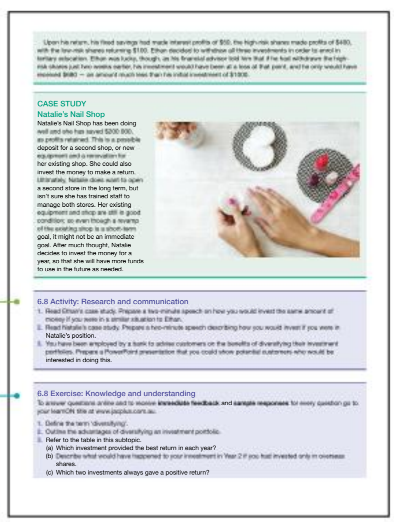
## Features

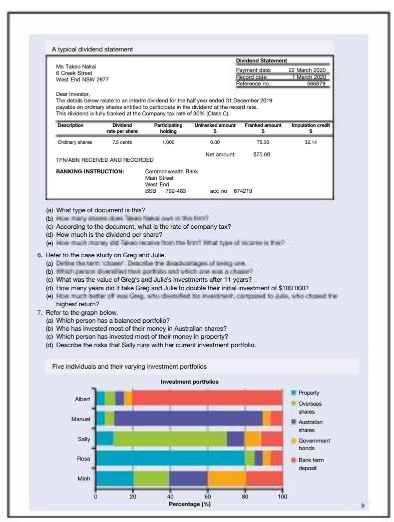
All topics start with an **Overview** which includes a pre-test to gauge students' readiness to begin.


**OnResources** feature boxes provide guidance about additional resources online.

An online **workbook** is available for customisation and printing.

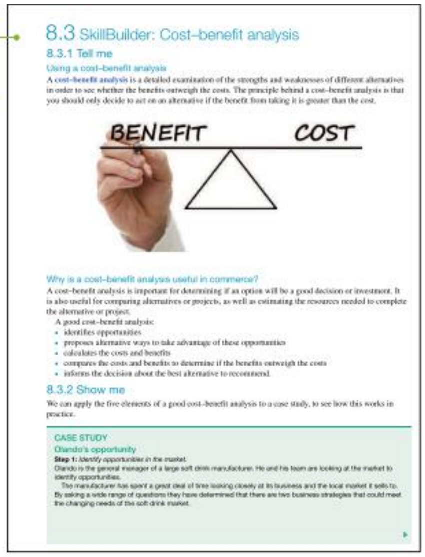


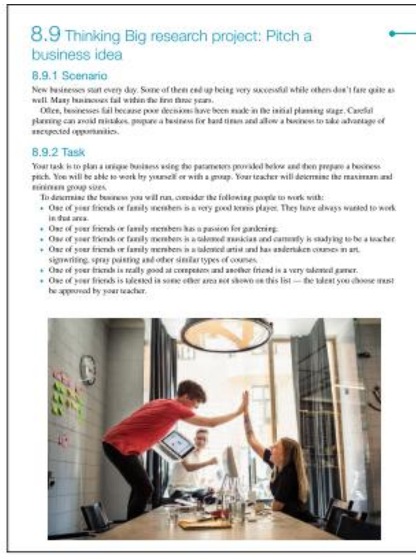




A range of activities are provided to promote deeper inquiry, encourage collaboration and help students to develop their research skills.

Exercise set at the end of each subtopic allow students to **check** and **apply** their understanding.

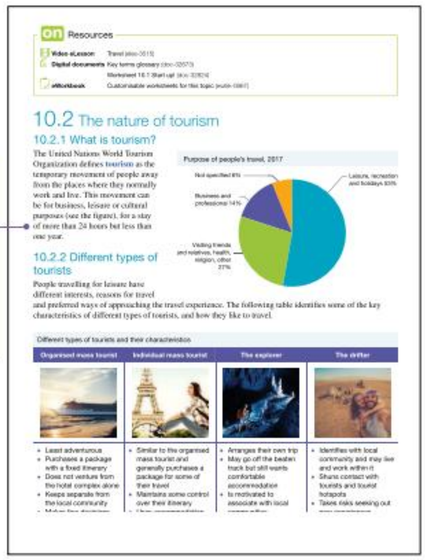
**Skillbuilders** model and develop key skills in context.

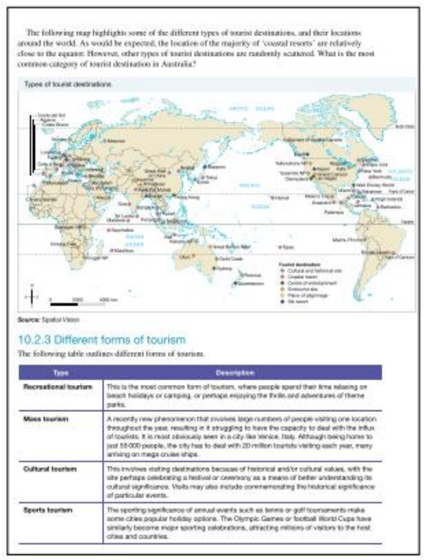


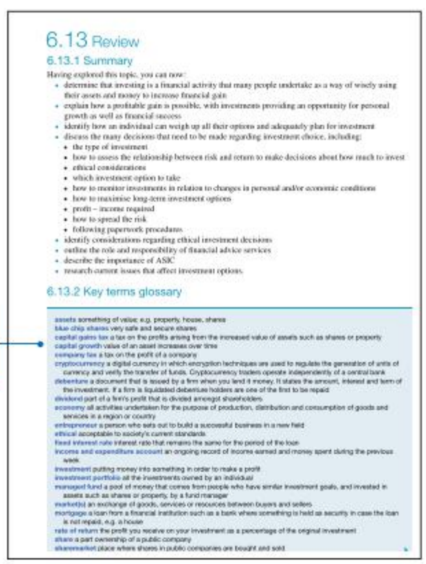



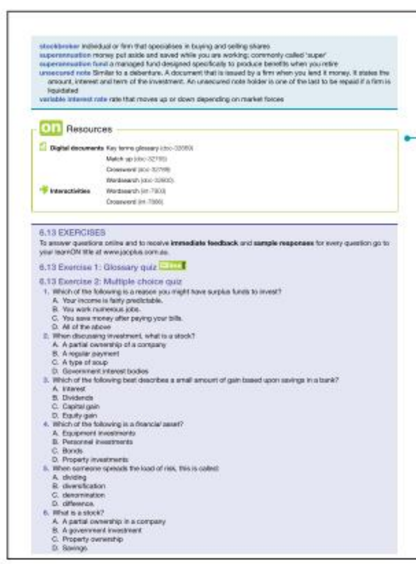

In each topic, a **Thinking Big research project** provides opportunities for students to delve deeper, think creatively and work collaboratively.

Content is presented using age-appropriate language, and a wide range of engaging sources, diagrams and images support concept learning.




A range of questions and a post-test are available online to test students' understanding of the topic.

**Key terms** are available in every topic review.

# learnON

*Jacaranda New Concepts in Commerce learnON* is an immersive digital learning platform that enables student and teacher connections, and tracks, monitors and reports progress for immediate insights into student learning and understanding.

It includes:

- a variety of embedded videos and interactivities
- questions that can be answered online, with sample responses and immediate, corrective feedback
- additional resources such as activities, an eWorkbook, worksheets, and more
- Thinking Big research projects
- SkillBuilders
- comprehensive teacher support material, providing teachers with practical teaching advice, work programs and assessments.

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# CORE STUDY TOPICS



CORE STUDY

# 1 Consumer and financial decisions

## 1.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS at www.jacplus.com.au.

### 1.1.1 Introduction

Congratulations! You are about to begin the exciting subject called ‘Commerce’. This is not a totally new subject to you. You have been practising Commerce ever since you made your first purchase many years ago. That simple transaction launched you on life’s journey as a consumer and as an important part of the commercial world.

Commerce examines how people earn their income, how they spend their money, and how and what goods and services are produced. It also investigates the ways in which governments and the law influence people’s commercial behaviour.

Undertaking this Commerce course will give you a better understanding of how to make wise commercial decisions.

## CONTENT FOCUS

On completion of this topic, you will have:

- identified and researched issues that individuals encounter when making consumer and financial decisions
- investigated laws and mechanisms that protect consumers, including the process of consumer redress
- examined a range of options related to the personal financial decisions of a consumer, and assessed responsible financial management strategies.

**on** Resources

| | |
|---|---|
| **Video eLesson** | Consumer and financial decisions (eles-3506) |
| **Digital documents** | Key terms glossary (doc-32664) |
| | Worksheet 1.1 Start up! (doc-32675) |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0858) |

# 1.2 The nature of commerce

## 1.2.1 The scope of commerce

The world of **commerce** is everywhere. It is all around us, going on day and night, today and tomorrow. The world of commerce never sleeps, but is an active and exciting place full of surprise and change.

Surviving in this competitive world of commerce is not easy. Many of the things you will do as a consumer will require wise decision-making. Now and in the future, you will be managing your own **money**. You will be earning, spending and saving your income. Through improving your knowledge of how the world of commerce operates, you can learn to make wise consumer decisions.

In our daily lives, we are constantly making commercial choices; these commercial decisions can include things such as:

- what to buy
- what to produce
- where to live
- what career to follow
- where to invest funds
- how much money to save.

Consumers can purchase either goods or services

A **consumer** is someone who purchases **goods** and **services** to satisfy their **needs** and **wants**. Items we need are those things that everyone must purchase because they are essential for our survival. This includes items such as food, clothing and shelter. Wants are things we like to have, such as a car, phone or computer. A person's wants are unlimited.

Goods are things that are produced and can be physically touched; for example, a television or a car. Services are things that one person will do for someone in return for payment. People who provide services include hairdressers, doctors, dentists and personal trainers.

Consumers constantly have to make choices when they purchase goods and services. Some of these choices and decisions are quite simple, because the consequences are minor and/or available money is limited. However, some decisions have major impacts on future life. This includes decisions such as, 'Will I buy this house?', 'Will I buy a car?' and 'Will I go to university?'

A consumer has the choice of purchasing either **durable** or **non-durable** goods. A durable good is one that can be used many times, such as a car or television. Non-durable goods are those that can be used only once, such as a sandwich or a litre of petrol.

What an individual gives up in order to satisfy a need or want is known as **opportunity cost**. For example, say Jack got a part-time job helping at a local cafe. With his first pay cheque of a $100, he had to decide whether to purchase a new video game or to put the money towards buying a car when he left school. After much thought, he decided to put the money towards a car. His opportunity cost of doing this was the purchase of the video game.

Jack faced the choice of buying a new video game or saving for a car

To satisfy our needs and wants, producers use resources to manufacture the goods and services that we desire. The four types of resources are:

- **Land** — these resources occur naturally, such as forests, coal and fertile soil.
- **Labour** — this includes both the physical and mental effort of people who are working.
- **Capital** — these resources are goods used to make other goods. For example, a tractor is a capital good because it is used to produce crops.
- **Enterprise** — this is the ability to combine the other resources of land, labour and capital so as to earn a profit.

These resources are limited or scarce. At times, some resources can be overutilised and become even more limited. For example, some species of fish have become quite rare due to overfishing. Overall, this means that producers have to constantly make decisions in order to provide consumers with the goods and services they desire to satisfy their needs and wants.

### 1.2 Activity: Research and communication

1. Design a pamphlet aimed at 15-year-old students explaining the importance of making wise consumer decisions.
2. In small groups, discuss how the internet may influence consumer decision-making. Summarise the views of the group as dot points in a visual presentation.

### 1.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Use the words in the list to complete the following passage.
   **unlimited wants food goods plumbers services computer consumer scarce**
   A ___________ is someone who purchases ___________ and services to satisfy their needs and __________. Needs are those items that everyone must purchase because they are essential for survival. This includes items such as _________, clothing and shelter. Wants are things that we like to have, such as a car, mobile phone or ___________.
   Goods are things that are produced and can be physically touched; for example, a television or a car, while ___________ are things that one person will do for someone in return for payment. People who provide services include __________, doctors and dentists.
   Wants are ________ while resources are _________.
2. Classify the following goods as needs or wants by including them in the correct column in the table: television, house, bread, car, shirt, computer, coat, mobile phone.

| Needs | Wants |
|---|---|
| | |

3. Classify the following as either goods or services by including them in the correct column in the table: plumber, television, bicycle, doctor, dentist, camera, dress, electrician, teacher, shoe.

| Goods | Services |
|---|---|
| | |

4. Explain the difference between durable and non-durable goods.
5. Outline what is meant by the term 'opportunity cost'.
6. Sally decides to spend her pocket money on a cake instead of saving it to buy a mobile phone. What is the opportunity cost of her decision?
7. Explain the difference between each of the four resources that are used to manufacture our goods and services.

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.3 Key factors affecting consumer and financial decisions

All consumers have individual needs and wants. Therefore, what people buy varies from one person to another. For example, if you asked each class member what she or he wants, the responses would reveal a wide variety of goods and services. Let us look at the key factors affecting consumer decisions.

## 1.3.1 Customer service

Good pre-sales and after-sales service makes you feel you are a valued customer. Consequently you will keep buying products from that store. Poor service can have the opposite effect.

## 1.3.2 Price

How much is it? This is usually one of the first things you want to know. If the **price** of a good is more than you can afford, you will probably not buy it. Consumers want the best value for their money: that is, they want to pay the lowest price for the best quality. To ensure this, the *Competition and Consumer Act 2010* (Cwlth) implemented a per unit pricing code for many products. This makes it very easy for consumers to compare the price of products even if they are in different sized containers.


| SPC Baked Beans in Tomato Sauce 4 × 220g pack |
| --- |
| **Total price** $4.20 |
| **Per unit price** $0.48/100 g |

## 1.3.3 Convenience

Many consumers do not have a lot of time to shop. They want shopping to be hassle-free, or convenient. Convenience has many meanings for consumers, such as travelling time to a retail outlet, the number of stores located within one shopping complex or suitable shopping hours. These factors will influence when, where and what consumers buy. Nowadays, convenience also relates to being able to shop online or to have access to an app.

Convenience can be a major factor affecting consumer decisions.

## 1.3.4 Marketing and advertising

This plays an extremely important role in influencing our consumer decisions. As consumers, we are constantly exposed to all aspects of marketing. The average consumer is exposed to an estimated 500 marketing strategies (mainly some form of advertising) every day. New products are released onto the market and advertised. If the marketing campaign is successful, consumers will be influenced into thinking they need this product.

## 1.3.5 Gender

Males and females have a number of common wants, such as entertainment, music and a car. However, a person's gender influences some types of purchase. For example, female consumers may spend more on cosmetics than males. The influence of gender on consumer decisions is best displayed by the products advertised in catalogues for Mother's Day and Father's Day: mum gets the iron and dad gets the cordless drill!

## 1.3.6 Age

As a baby, you most probably wanted a toy or rattle. Now you are a teenager, you may want a mobile phone. By the time you are 18, a car becomes an important want. Later on, you might wish to buy a place to live in and when you are older and have retired, you may want to go on a world trip. Our wants change over time.

## 1.3.7 Disposable income

A consumer's level of income determines what kind of products they regularly purchase. **Disposable income** refers to the amount of money that households have available for spending and saving after income taxes have been accounted for. A buyer with higher disposable income will spend more on luxury or lifestyle items. People with higher disposable income also spend more on vacations and tours.

## 1.3.8 Environmental considerations

With increasing community awareness of environmental pollution, many consumers are becoming more aware of the problems caused by throwaway packaging. You therefore may be influenced to purchase a product that has minimal packaging or packaging that can be recycled.

## 1.3.9 Social media

Social media includes websites and applications that enable users to create and share content or to participate in social networking. It incudes programs such as Facebook and Instagram. Social influencers are people with a large audience who post regularly on social media promoting products. The content they post often influences their followers' purchasing decisions.

## 1.3.10 Cultural factors

Cultural factors are the set of basic values, perceptions, wants and behaviours of a particular community or group of individuals. The culture of an individual influences the way they behave. What an individual learns from their parents and relatives as a child becomes their culture. Cultural factors have a significant effect on an individual's buying decisions. Every individual has different sets of habits, beliefs and principles that they develop from their family status and background.

**on** Resources

**Digital documents** Worksheet 1.2 Using spider maps (doc-32676)

Worksheet 1.3 Supermarket shopping: the hidden persuaders (doc-32677)

Worksheet 1.4 The art of persuasion (doc-32678)

### 1.3 Activity: Research and communication

1. In small groups, discuss why some consumers are prepared to pay a high price for a product while other consumers would not buy the product even if the price was low. What does this tell you about the relationship between price and customer tastes and preferences?
   (a) In pairs, debate the following topic: 'Advertising is the most important factor affecting consumer decisions'. One person presents the affirmative case and the other person the negative case. Each person writes the key points for their case.
   (b) Divide the class into two groups, those for the affirmative case and those for the negative case. Each group is to refine their arguments before a spokesperson presents the group's comments.

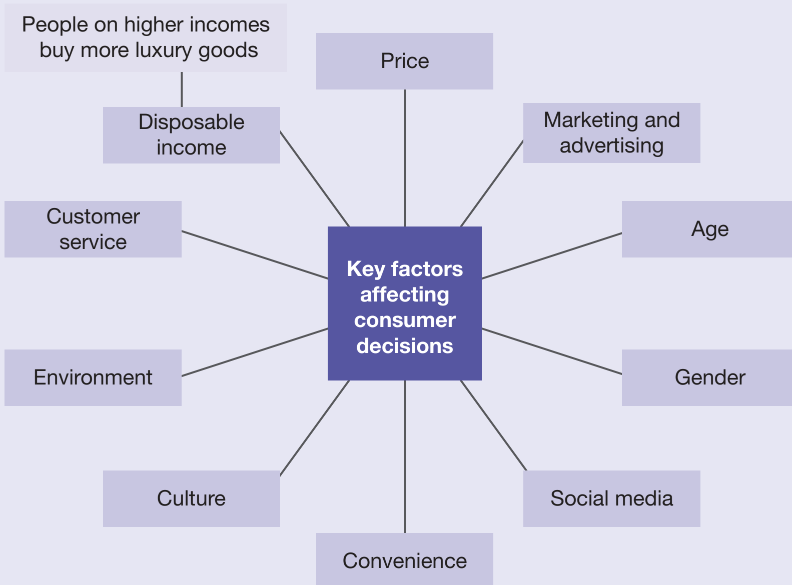
### 1.3 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Survey the members of your family for instances of when they have been influenced by each of the factors affecting consumer decisions when making a purchase. Use a table similar to the following example to present your information.

| Factor | Consumer decision |
|---|---|
| Disposable income | My brother got a new, higher paying job. With the higher income, he purchased a new car. |

2. Using a mind mapping program such as bubbl or mindmap, add elements to the mind map below to summarise the factors affecting consumer decisions.




3. Explain how consumers would benefit from per unit pricing.

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.4 How individuals make particular decisions

## 1.4.1 Whether to spend or save?

The most basic financial decision consumers need to make is how much of their **income** to save and how much to spend. Income is money received on a regular basis from work, property, business, investment or welfare. To gain the greatest possible satisfaction from their income, many people develop a financial plan. Consumers need plans so that they will have enough money to take care of their needs and satisfy their wants. A plan might cover income and spending for the week, month, year and even future years. By making these plans, consumers should be able to improve their wellbeing or quality of life. These plans are called **budgets**.


Consumers who do not have a budget are often heard saying that 'money burns a hole in my pocket': a sure sign of poor financial decision-making.

## 1.4.2 What to buy?

Most goods and services are available from more than one **retailer** or **e-tailer**. Often the same product costs different amounts at different stores or sites. Shopping around to obtain the best deal is referred to as **comparison shopping**. When making a major purchase, it is essential you compare the price, quality, availability and after-sales service. If you know the cheapest price in the marketplace, you are in a better bargaining position. If the prices are almost identical in all stores or sites, the most conveniently located store or the site you are familiar with is probably a wise choice. If there is a lot of difference between the prices, the cheapest product may not always be the best buy because it may be of inferior quality, and consequently not last as long as more expensive items. The more you know about the items you intend to buy, the better shopper you will be.

**COMFACT**

Many Australian families spend up to 40 per cent of their disposable income at the supermarket each week. Therefore, comparing grocery prices can save a family quite a lot of money over time.

There are many different ways to compare products and prices.

Online shopping — **e-commerce** — has made comparison shopping much easier. You can quickly compare prices for a wide variety of products from online stores around the world. However, whether it is an online 'click' store or a real 'brick' store, you should always avoid the temptation of **impulse buying**.

There are many different types of goods and services and we buy them for a range of reasons; for example, consumables, household goods, luxury items, repair services or information services.

*Some types of shops are cheaper than others*. For example, department stores (Myer), discount variety stores (Target and Big W) and large specialty stores (Harvey Norman and JB Hi-Fi outlets) are usually cheaper than small, independent retailers because larger stores can carry more stock. However, most small retailers focus on high levels of assistance and after-sales service.

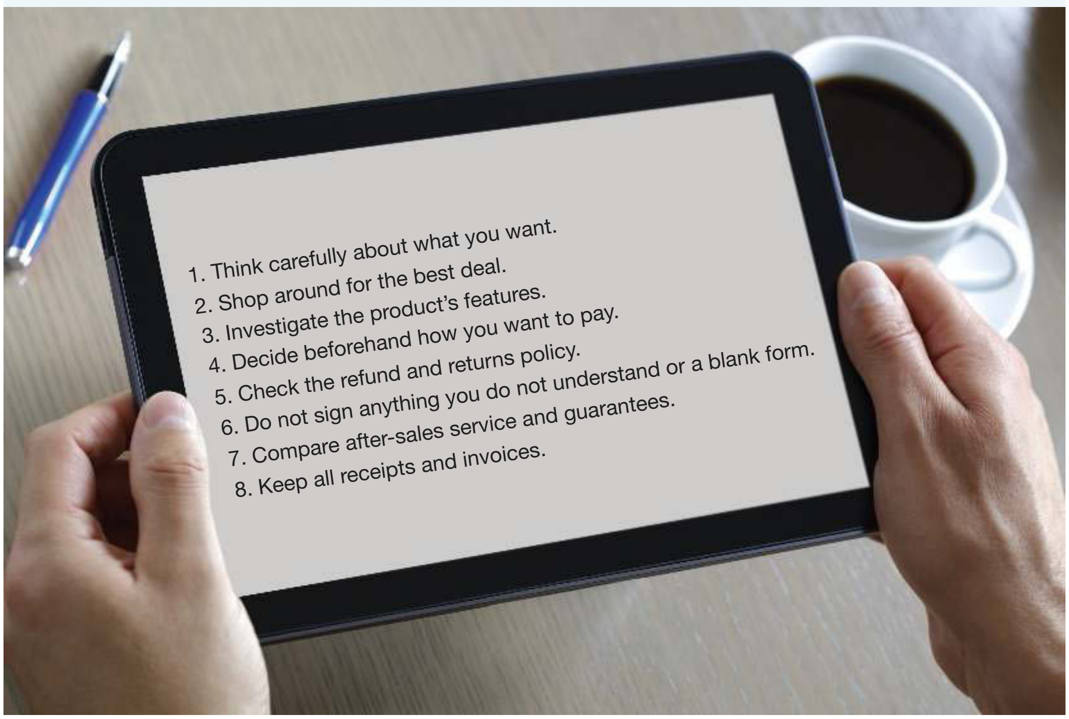
Generic products are those that lack a brand name. These products are usually cheaper and of an acceptable quality.


*Some brands are cheaper than others*. Well-known, highly reputable brands tend to be more expensive than those brands that are not well known. However, this does not always mean that a cheaper product is of inferior quality although, generally, expensive products are better quality and will last longer. When you buy a product, you need to think about its quality as well as the price.

*Do not be pressured into buying something quickly*. Making a quick decision will usually result in you wasting your money. Purchases made on the spur of the moment can often turn out to be unsatisfactory. You may be left with a product which does not meet your requirements and which you may never use.

To help you make wise decisions in the future, follow the eight rules for comparison shopping, shown in the following figure.

Eight rules for comparison shopping




**on** Resources

**Digital documents** Worksheet 1.5 Teenage spending habits (doc-32679)
Worksheet 1.6 Shop to a budget (doc-32680)

**Weblink** Comparison

### 1.4 Activity: Research and communication

1. Advise others of the advantages of comparison shopping by either:
   (a) creating a collage poster
   (b) designing a pamphlet
   (c) preparing a PowerPoint presentation.
2. In small groups, visit different electronic retailers or use the **Comparison.com.au** weblink in the Resources tab to research and determine the best deal for a:
   (a) 14 megapixel digital camera with 10 × optical zoom
   (b) 42” (106 cm) LED television with 1920 × 1080 pixel resolution
   (c) 34 litre 1000 watt microwave oven.
   Select a product from the list and explain why it was the best deal. Share your results with the rest of the class.

### 1.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. How is impulse buying different from comparison shopping?
2. (a) What is a generic product?
   (b) List the sources you could use if you wished to undertake a comparison shopping exercise.
3. Briefly outline the main advantages of comparison shopping.
4. Here are a number of strategies you can use to help avoid impulse buying. Copy each of them into your notebook and then explain how the strategy would help you to avoid falling into the trap of impulse buying.
   (a) Prepare a shopping list.
   (b) Compare different brands.
   (c) Compare prices at different stores.
   (d) Ask yourself, ‘Do I really need this?’

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.5 Choosing where to buy

## 1.5.1 Range of locations and sources

Once you have decided *what* you want to buy, the next decision is *where* to buy the product. Once **manufacturers** have produced products, they are then usually distributed to **wholesalers**. The wholesaler buys large quantities, then sells smaller quantities to retailers. Wholesalers add their costs and a **profit** to the price they charge the retailer. The retailer then sells the products directly to the consumer. Retailers, too, add their costs and a profit to arrive at the recommended retail price.

### CASE STUDY

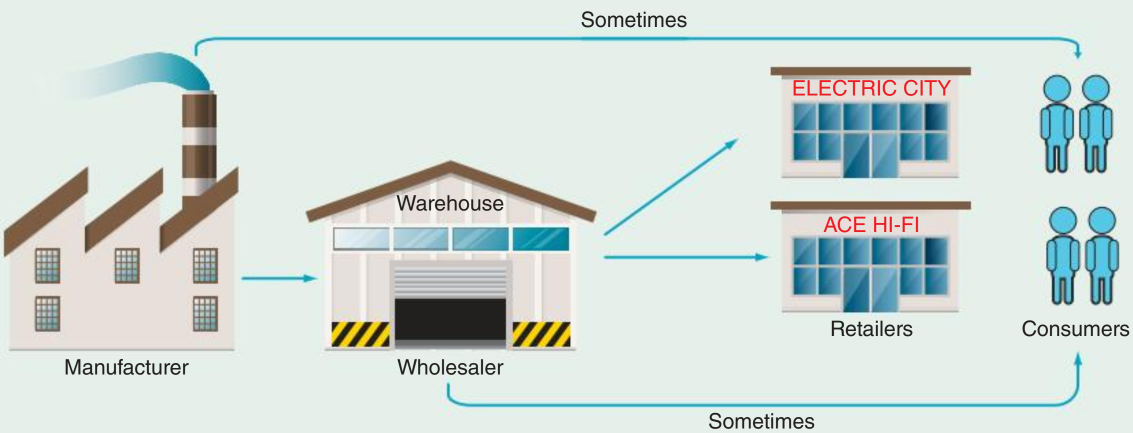
### What price should I really pay? Manufacture price? Wholesale price? Retail price? Discount price?

Basically, there are four types of prices at which products sell in passing from the manufacturer to the consumer. These are:

1. The *manufacture price*, which is the price at which wholesalers purchase products.
2. The *wholesale price*, which is the price at which retailers purchase products.
3. The *recommended retail price*, which is the normal selling price at which stores sell the product. This is the price at which the manufacturer and/or wholesaler suggests the retailer (the person selling directly to the public) sells the product. (This can sometimes be 50 to 100 per cent more than the price paid to the wholesaler.)
4. The *discount price*, which is any price below the recommended retail price.

The following diagram shows the usual **distribution chain** through which products pass from the place of manufacture to the point where they are sold. At each stage in this distribution chain, the seller needs to make a profit. This is done by selling the products at a higher price than the price at which they were bought. This means that the final price consumers pay depends on the price the seller paid and the profit he or she makes, or at which stage in the chain consumers buy the goods. Sometimes, for example, the consumer can buy products at a cheaper price directly from the manufacturer or wholesaler.

The distribution chain. In a country as large as Australia it is necessary to provide a reliable and efficient distribution network. The vital link between each of the organisations is transport.




The range of locations and sources that consumers can access to purchase products

| Non-store retail | Retail stores | Locations |
|---|---|---|
| Mail order | Convenience stores | Local |
| Door-to-door | Department stores | Regional |
| Party plan | Discount department stores | Interstate |
| Auction | Supermarkets/hypermarkets | Global |
| Telemarketing | Specialty stores | |
| Internet shopping | Stall/marketplaces | |
| Vending machines | | |

Developments in transportation and technology, especially communications technology, have provided consumers with a wide range of locations and sources from which to purchase products (see the table above).

The type of product to be purchased will usually be the main factor influencing both location and source decisions. For example, we normally purchase everyday products such as foodstuffs at a local supermarket. We might buy some specialised clothing over the internet from a retailer located in another country or from a mail order catalogue.

Each type of location and source has advantages and disadvantages for consumers. Usually, where to shop will be a matter of individual choice. One consumer might be prepared to travel some distance to shop at a specialty store where the range may be more selective, while another consumer might prefer to shop at the local mall. The local shopping centre might be the only option for some groups who are unable to travel far or who do not have internet access; for example, the elderly.

## 1.5.2 Mail order

Magnamail catalogue purchases can be made by mail, fax, phone or online.


**Mail order** is a system of shopping in which the consumer completes and posts an order form, usually from a magazine or catalogue, and receives products through the mail.

The advantages of mail order shopping include:
- a greater range of products is available than found in retail stores
- the convenience for consumers with a disability or those who live in remote communities.

However there are a number of disadvantages with this type of purchasing including the risk of:
- losing money if a business does not send the product
- products being different in reality from the way they appear in the catalogue
- experiencing problems tracing a business that uses only a post office box number if a refund is required.

The electronic version of a mail order catalogue is online shopping or television channels dedicated to showing product demonstration commercials.

## 1.5.3 Online shopping

The internet has revolutionised the way people shop as it provides consumers with a whole new shopping experience: **online shopping**. With a personal computer connected to the internet, the shopping experience is available to consumers anywhere, and people can buy almost anything from anywhere in the world.

Many consumers shop online to save time and money.

Shoppers who are ‘time poor’ like the convenience of shopping online. It is quick and easy if you know what you are looking for, or have to decide between only a few products. Other consumers like being able to shop around for the cheapest price or to select from a wide range of goods and services at a time that suits them. However, online shopping can become time-consuming and boring if you are making a purchase that requires lots of comparisons over many sites. The risk of impulse buying is also great when you shop online because you can get bombarded with targeted advertising aimed at tempting you to splurge on something you really don’t need.

Regardless of the reason for using your mouse rather than leaving your house, you should be aware of some of the risks involved with online shopping. The basic rules of wise shopping still apply, especially since Australian consumer protection law is not normally enforceable for overseas purchases. It is essential you read the policies regarding refunds, returns and your privacy before you provide your credit card details. This is especially true for online auction sites. Before you become involved in an online auction, make sure you understand how it works, what your rights are and what you can do if things go wrong.

### COMFACT

Tips for online shopping:
- Check the details regarding product return, refund and exchange.
- Ensure that the site is secure and that your credit or debit card details are encrypted.
- Convert the displayed price to Australian dollars.
- Receive confirmation of your order and follow its progress.

If you use only trusted online shopping sites and are not tempted by any deals that seem too good to be true, shopping online can be just as safe as in a store. It is recommended that you use a separate credit card with a low limit to make online payments instead of debit cards. That way you can protect your bank account should your card number be compromised. Alternatively, you can use an online payment facility such as PayPal. If customers experience problems such as non-delivery of goods they can contact the facility to obtain a refund.

The main advantages of online shopping are:

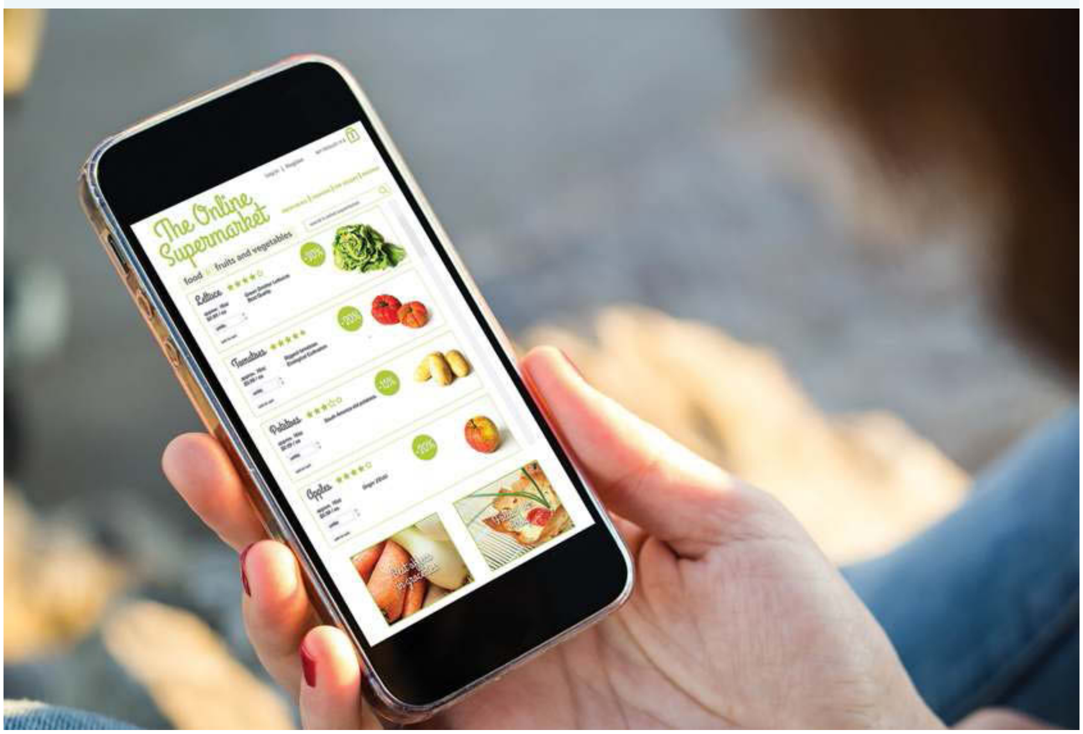
- an increase in the range of sources from which you can buy
- comparison shopping can be done from the comfort of your home and at a convenient time
- the product may be cheaper
- it allows for quick price comparisons
- relatively quick delivery times even from overseas sites
- allows the use of mobile devices and apps which make online shopping easier.

However, there are a number of disadvantages of online shopping, including:

- a website may not be permanent and tracing the owner if anything goes wrong may be impossible
- a delivery charge may be added to the price
- the return of a faulty product will take time and effort
- supplying credit card details can be risky unless the site is secure; that is, personal information is coded
- the proliferation of scams and internet fraud.

As well as using personal computers, consumers are increasingly using smartphones to compare product features, search for the cheapest price, or find store locations. Woolworths, for example, offer a smartphone app to make price comparisons easier, create and save a shopping master list, locate stores and scan the barcodes of products. Online shopping will become increasingly popular as more businesses provide shopping applications (apps) for use with smartphones.

Smartphone shopping apps can be used to undertake product research and make purchases.



## CASE STUDY

### Emma learns an expensive lesson

Online shopping can be risky

Emma was a Year 9 high school student who was a very good swimmer. She decided to use her birthday money to purchase a new swimming costume. She visited the local stores but couldn't find an option she liked, so went online and found a costume on a Malaysian-based website that was exactly what she wanted. The costume cost $200 but the small print on the site stated that a discount of 50 per cent would be given if the purchaser made a direct money transfer. Emma thought this was a great bargain and immediately ordered and paid for the swimmers.

That evening she explained to the family what she had done. Her brother told her directly transferring money, especially to an overseas firm, was not a good idea. He said he would not be surprised if she had been scammed. Nevertheless, Emma was still confident about her purchase.

Three weeks after making her purchase, her swimmers had still not arrived. Emma went online but the website she had been using was no longer available. She then rang her bank to see if she could get her money back, only to be told that because the payment was a direct international transfer, this was not possible. She was also told that in future she should make online purchases using a credit card or, even better, use a third-party payments facility such as PayPal. Emma thought it was terrible that she had lost $100, but the worst part was putting up with her brother saying 'I told you so!'

## 1.5.4 Types of retail outlets

While retailing has become much more complex and sophisticated in the twenty-first century, the basic idea has not changed. Buyers and sellers still come together in a marketplace and products are exchanged for money.

The following covers six main types of retail outlets.

### Convenience 'corner' stores

These stores were once located in residential areas but are now commonly attached to service stations. They sell a variety of products, concentrating on food items, magazines and newspapers. Prices at these stores are usually higher than at supermarkets and there is generally less choice available. However, they are convenient.

7-Eleven — a convenience store

## Specialty stores

Hairdressers, newsagents and gift shops are examples of specialty stores. They specialise in either one type of product or service or a limited range of a few products. Some specialty stores are part of a larger franchise chain such as Dymocks and The Body Shop. The main advantage of purchasing goods from a specialty store is the service and product knowledge provided by the sales staff.

The Body Shop — a specialty store


## Discount variety stores

These stores are of a plain design and offer basic customer service. Their products are normally cheaper than those of department stores. Kmart and Target are both examples of this type of retailing. Discount variety stores attract a large number of customers because of their convenient location, large range of stock and cheaper prices.

Target — a discount variety store


## Factory outlets

These shops are often near the factory where the goods were manufactured. The goods are normally sold to the public at a discount because the costs of transportation and wholesalers are not involved in the distribution chain. Factory outlets usually offer big savings on goods.

A factory outlet


## Department stores

Myer and David Jones are two well-known examples of retail department stores. These stores sell a large range of products within the one store. Because they buy in bulk, their prices are often cheaper than at specialty stores. However, because they offer some sales assistance on the shop floor, their prices tend to be higher than those of a discount variety store.

A department store

### Supermarkets

These are large, self-serve stores such as Woolworths, Aldi and Coles. Originally selling only food items, they are now becoming more like discount variety stores, offering a large range of items for sale. Some supermarkets that have expanded to sell an even larger range of products have evolved into hypermarkets.

Supermarkets sell a wide range of goods.


**COMFACT**

An average hypermarket has up to 100 checkouts and 90 to 100 aisles. They stock over 60 000 items compared to a supermarket, which stocks approximately 14 000.

## 1.5.5 Buying locally, regionally, interstate and globally

Once a consumer decides what to buy, he or she then needs to decide where they will shop.

### Locally

The local convenience store or shopping arcade, containing a takeaway, newsagent and possibly a fruit and vegetable store, will frequently be used by consumers who live nearby. People travelling to and from school or work often shop here because of the convenient location. However, their purchases are restricted to only a few basic items. For a larger variety of goods, they will need to shop at a regional centre.

### Regionally

Department stores, discount department stores and supermarkets are often located in large regional shopping complexes, such as Westfield shopping centres, and are surrounded by numerous specialty stores. The stores are located under the one roof, air-conditioned for consumer comfort and, most importantly, provide plenty of parking. Often, cinemas and food halls are part of the shopping complex. Customers from the surrounding region travel to these complexes.

A large regional shopping centre

### Interstate or globally

Nowadays, mainly due to the ease of online shopping, consumers can purchase goods from another state or country. We live in a global world, rather than a world limited by national borders. Consumers are no longer restricted to their local or regional shopping centres. Consequently, consumers in search of a specific item, cheaper prices or greater variety will often decide to purchase from a global marketplace.

**on Resources**

**Digital document** Worksheet 1.7 Product website search (doc-32681)

**Weblink** NSW Fair Trading Youth

## 1.5 Activity: Research and communication

1. In small groups, discuss: 'Home shopping via the television or internet makes it more difficult to be a wise consumer'. Choose a spokesperson to share the group's comments with the class.
2. Compare the prices of a wholesaler and a retailer for a range of similar brand household electrical appliances. What generalisations can you make about price variations based on your evidence?
3. Conduct a survey of class members to determine how often they visit each of the different types of retail store within a one-week period. Rank the different purchasing options from most to least frequently visited.
4. In small groups, survey ten people to determine the factors that influence them to shop at a particular type of retail outlet (store and non-store). Your survey form could be similar to the following. The first response has been included for you.

| Goods | Where purchased (type of retail outlet) | Reason for selecting this outlet |
|---|---|---|
| 1. Groceries | Supermarket | Convenience, cheap prices, wide variety |
| 2. Magazines | | |
| 3. Household electrical appliances | | |
| 4. Sporting equipment | | |
| 5. Clothing | | |
| 6. Fruit and vegetables | | |
| 7. Books | | |

What generalisation can you make about people's shopping habits based on these results?

## 1.5 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is the difference between a *manufacturer, wholesaler* and *retailer*?
2. Explain why it is sometimes cheaper to buy from a manufacturer or wholesaler than a retailer.
3. What is the difference between the recommended retail price and the discount price?
4. A manufacturer sells a product to a wholesaler for $50.00. The wholesaler adds on 50 per cent when selling it to the retailer. The retailer adds on another 65 per cent when reselling it. Calculate the price the consumer will pay for the product.
5. List the advantages and disadvantages of mail order shopping.
6. Collect three mail order catalogues. Paste the order forms into your notebook and then answer the following questions about each catalogue:
   (a) Is the order form easy to understand or confusing?
   (b) What do the letters 'p & p' mean?
   (c) What methods of payment are accepted?
   (d) Would you purchase the goods being advertised? Why or why not?
7. Why are more expensive products such as washing machines and televisions often easier to buy at less than the recommended retail price than less expensive products such as magazines and sweets?
8. Why would a retailer be prepared to sell at less than the recommended retail price?
9. List two reasons people may prefer to shop online.
10. Tamzin decided to purchase a smartphone she saw advertised on an interstate electronic company's website. The price was $995 (including postage and packaging). She completed the credit card payment details and submitted her order.
    (a) What extra charges are included in the cost of the smartphone?
    (b) What should Tamzin have done locally before purchasing off the internet?
    (c) Explain how Tamzin is at a disadvantage if the smartphone is faulty.
    (d) Why should Tamzin keep a record of (i) the order and (ii) the retailer's address details?

11. What is the basic idea of retailing?
12. How are specialty stores able to exist in competition with large discount variety stores?
13. List one advantage and one disadvantage of buying goods from each of the six different types of retail outlet.
14. Examine the table entitled 'The range of locations and sources that consumers can access to purchase products'. Name a real-life example of each type of retail store and non-store retailer.
15. Over the past ten years or more, two interesting trends have emerged in retailing. One is the increase in the number of grocery supermarkets with delicatessens, bakeries and coffee shops. Another is that, during the same period, the number of small, family-owned grocery stores has decreased.
    (a) What do you think has caused this trend in retailing?
    (b) What strategy would you suggest to help a small, family-owned grocery store prosper?
16. Select what you consider to be the most important advantage and disadvantage of online shopping. Justify your selections.
17. Read the case study 'Emma learns an expensive lesson' and answer the following questions.
    (a) What incentive was Emma given to encourage her to pay with a direct money transfer?
    (b) Explain how Emma could have avoided the problem she encountered.
18. Use the **NSW Fair Trading Youth** weblink in the Resources tab to read about how to protect yourself when shopping online. Prepare a summary of this information by creating a wordcloud consisting of what you consider to be the twenty most important words.
19. Use the Woolworths weblink in the Resources tab to learn about the app's features. What benefits does this website offer a Woolworths customer?

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.6 Different payment options

## 1.6.1 Different methods of payment

Michelle really likes the colour and style of the jacket on display. It is on special at $125. She tries it on. A perfect fit! The decision to buy it is an easy one to make. After wrapping the jacket, the assistant asks, 'How would you like to pay for it?' This is an even more important decision.

A consumer can select from a variety of different methods of payment.

### Cash

This is the notes and coins (money) issued by the federal government. Consumers normally use cash to pay for relatively inexpensive items such as a newspaper, bus fare or soft drink. Consumers rarely use cash for expensive items such as a car or a house.

The main advantages of cash include:

- it is accepted almost everywhere
- some stores offer a discount for cash
- there are no hidden costs (for example, interest charges)
- there is reduced risk of getting into debt.

The main disadvantages of cash include:

- it can be easily lost or stolen
- it may not be safe to carry around
- if no ATM is available, a consumer may not be able to make a desired purchase if they don't have enough cash on them.

**COMFACT**

Notes and coins are legal tender and must be accepted as payment for goods and services.

## Credit

Credit is the supply of money now in return for the promise of paying it back later. Credit allows you to buy what you want immediately and pay for it later, either in full or in monthly payments. Because you are using money you do not have, you will be charged **interest** for its use unless you pay the total balance back to the credit card company before the end of the interest-free period, usually one month.

The main advantages of paying by credit card are that they:

- avoid the necessity to carry around large amounts of cash
- are a convenient payment method for online and telephone purchases
- help you establish a good credit history
- offer cheap use of funds, provided you always pay your balance in full.

However, there are disadvantages. Credit cards can:

- make it easy to overspend and consequently build up your debt
- be more expensive than other forms of credit such as a personal loan
- damage your credit rating if you continually make late payments.

Care should be taken with your credit card. If the card is stolen, you must ring the bank immediately and cancel the card in case someone else tries to use it to purchase goods unlawfully.

Some credit cards, including MasterCard-branded cards, can also be debit cards.


Credit cards can be linked to systems such as Google Pay so you can pay using your smartphone.

G Pay

Credit cards can be linked to your smartphone. This means by using systems such as Google Pay, Samsung Pay or Apple Pay, you can purchase your goods simply by waving your smartphone at the terminal.

Learning to use credit wisely is very important. Getting into debt can lead to many problems. You may end up losing your goods, being sued or even made bankrupt. Managing credit and debt is a necessary skill in today's complex commercial society. Whenever you use credit there is one important thing to remember: buy now, pay MORE later, unless you manage the credit carefully by repaying the total balance owing before the end of the interest-free period.

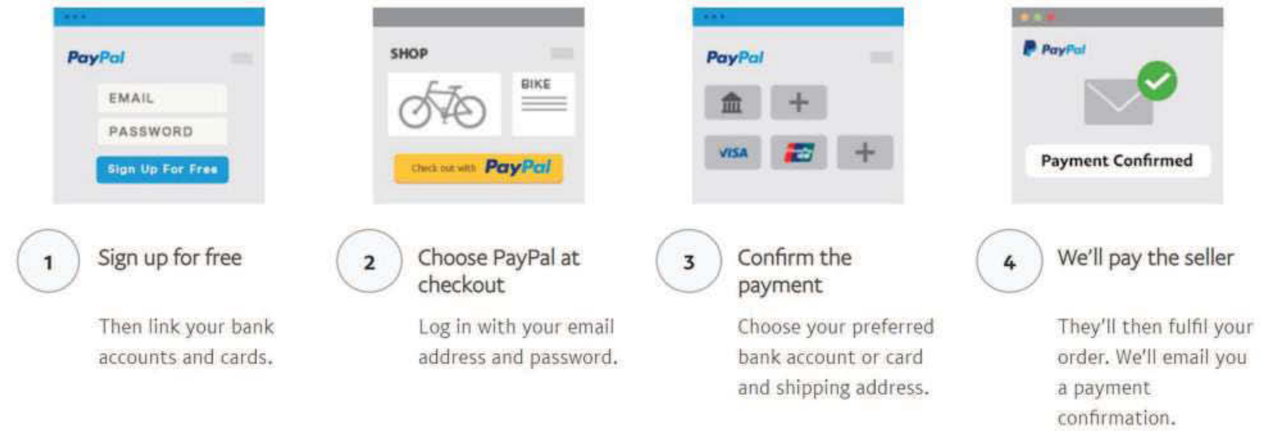
## Store credit

Some large stores or retail groups issue their own cards that operate like regular credit cards. These cards usually are associated with special deals, discounts, bonuses and a rewards program. However, these cards usually have higher interest rates and fewer interest-free days than regular credit cards.

## PayPal

Most online merchants accept PayPal as one of their methods of payments. PayPal is an intermediary whereby you end up paying for the good using your credit card, bank account or money stored in your PayPal account. PayPal's advantage lies with its security and ability to obtain a refund if a dispute about the transaction arises.

How PayPal works




## Electronic funds transfer: debit cards and BPAY®

There is a great deal of difference between a debit and a credit card. With a credit card, you use other people's money and are charged interest. With a debit card, you are using your own money, by electronically accessing money already in your account. You pay no interest, only an account operating fee, and can spend up to your account balance. The most common way of using your debit card for purchases of goods is by **EFTPOS** (electronic funds transfer at point of sale).

EFTPOS is a computerised system in which money is transferred from a consumer's account to the business's account. It is important that EFTPOS receipts are kept for checking against account statements. Often businesses will also allow you to withdraw extra cash with EFTPOS.

BPAY® is another type of electronic payment method. This system uses the telephone or internet to transfer funds from your cheque, savings or credit card account to the account of the business you wish to pay. First a consumer keys in a login and password to access their internet or phone banking account. Then they enter the transaction details, including a special customer reference number written on the bill, so money is transferred from their bank account directly to the business's account.

A customer using an EFTPOS machine to make a payment

on Resources

**Digital document** Worksheet 1.8 Give me credit! (doc-32682)

## Direct debit

Many consumers have bills that arrive at regular intervals such as telephone, rates and car insurance. By using a direct debit system, you can schedule bill payments from your nominated bank account. The bank automatically withdraws (debits) the funds from your account and electronically transfers the funds to the business requiring payment. It is a convenient method of payment that helps overcome the problem of forgetting to pay an account. These payments can normally be set up and terminated by using internet banking.

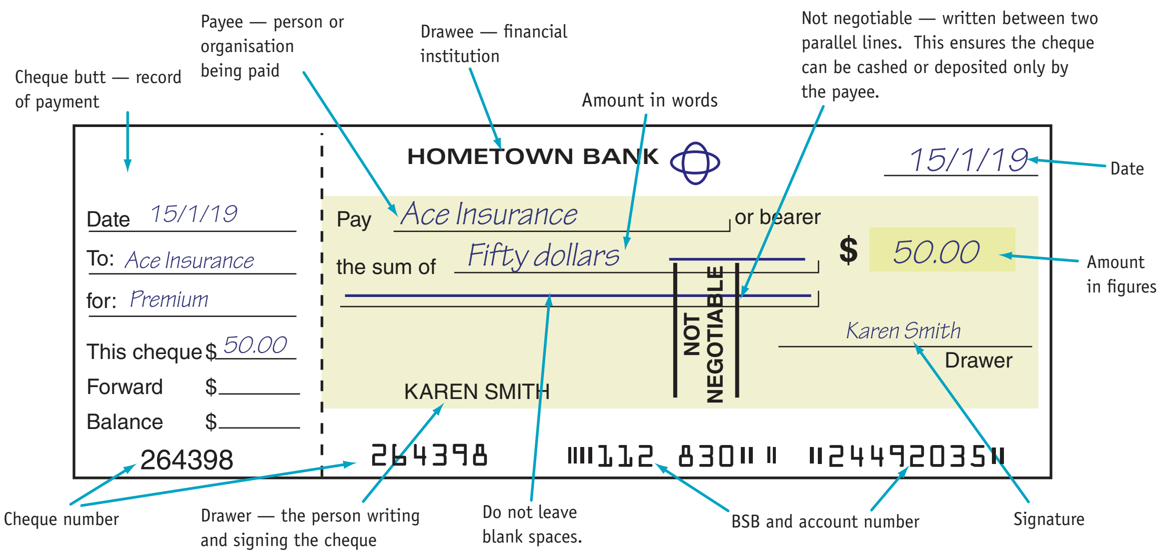
While direct debit is becoming increasingly popular, there are some disadvantages. For example, you must make sure you have enough money in your account to pay the bill or the payment will be refused. You may also be charged by your bank if you don't have enough funds in your account to pay. You, therefore, have to be careful to remember when the money will be taken out and ensure your account always has enough funds to cover the payments. Relying on direct debit also means that some consumers do not actually check whether their bills are accurate.

## Cheque

A **cheque** is a written communication ordering your financial institution, called the **drawee**, to pay a person a specific amount of money. The person being paid is called the **payee**. The person authorising the transaction is termed the **drawer**. Cheques are issued in a numbered order, called a chequebook.

When writing a cheque, no blank spaces should be left before or after the amount. This prevents words or numbers being added later.

A not negotiable cheque cannot be cashed by anyone other than the payee named on the cheque.




Some advantages of using cheques include:

- they are safer than carrying cash
- they can be posted safely
- only the named recipient is able to cash the cheque, again making them safer.

Disadvantages of cheques include:

- they are not accepted everywhere
- cheques take time to process and clear (more than a day)
- bank charges are involved with having a cheque book.

## Lay-by

When you buy goods using lay-by, you first pay a deposit and then the store puts aside the good for you. You then make regular payments over a fixed period of time. Unlike cash or credit card purchases, you do not take possession of, or own the good, until you pay off the last instalment owing.

If you cancel the lay-by before paying the full purchase price, the store must be notified in writing. The store is required, under the Lay-By Sales Act, to provide a refund after deducting storage, handling and depreciation costs. If you do not complete payment by the agreed date, the store can cancel the lay-by. After receiving written notification from the store, you have seven days to decide to either pay the full amount or receive a refund, less costs.

Lay-by is a good option when you want to secure something you desire. Because no interest is charged, it is cheaper than other options such as using a credit card. However, lay-by is quickly being replaced as a method of payment as consumers opt for 'buy now, pay later' providers such as Afterpay and Zip Pay.

## Book-up

**Book-up** is credit provided by a retailer so that you can purchase goods from the retailer's store and pay the account at a later date. You must pay back this amount within a set period of time.

Tradespeople such as plumbers and builders usually have an account with a hardware supplier where they can book up materials and equipment. People living in remote locations may also use book-up because they experience difficulty in accessing alternative methods of payment.

Tradespeople usually have an account with a hardware supplier

The main advantages of book-up are:

- you can purchase goods and pay for them later
- interest is not charged unless you apply for an extension of time
- you can spread your purchases over a week or fortnight.

However, there are some disadvantages, including:

- some form of security may be required
- unless you keep accurate records, you may overspend
- charge accounts can be used only in that store.

### CASE STUDY

### Book-up — Jill's corner shop

Jill had been booking-up items with a corner shop. When she went to check how much her account was she questioned why her bill was so high. The trader told her he had been letting her relatives book-up on her account. Jill told the trader that she was not responsible for the items that she had not authorised. The trader said she was. Jill told the trader that she gave approval only for her daughter and aunty to book-up on the account. Jill was able to show the trader her copy of the letter stating who could use the account. The trader still wanted the full amount owing from Jill.

Jill contacted Fair Trading to get information on how to solve the problem. A Customer Service Officer was able to help her resolve the matter with the trader. This was possible because Jill had kept all her receipts and the agreement she had with the trader.

***Source:*** NSW Fair Trading, *Book-up*.

## Afterpay

Afterpay is a digital service linked to a customer's credit or debit card and enables consumers to 'buy now, pay later'. The service is available to consumers over 18 years, and allows consumers to purchase something at the current price and pay this amount off in four equal instalments every two weeks.

'Buy now pay later' providers such as Afterpay are replacing lay-by as a method of payment.


The advantages of Afterpay include the following:

- instant online approval and no application fees
- no annual fees, and no extra payments if you pay on time
- the purchaser receives the good or service immediately.

The main disadvantage of Afterpay is that significant fees are charged if you miss a payment. Afterpay charges a standard $10 late fee per missed payment, and a further $7 if the payments are not received within seven days.

For example, say Stephanie saw a pair of jeans she really liked. Because she wanted to wear them that night, she purchased them using Afterpay. She intended to pay the purchase amount off over the next eight weeks in four instalments of $25 each. However, she was late on two of her payments and was charged a late fee of $10 on each occasion. Her $100 jeans ended up costing her $120.

Due to the rapid success of Afterpay, a number of competitors have entered the market, including Zip Pay and Sezzle.

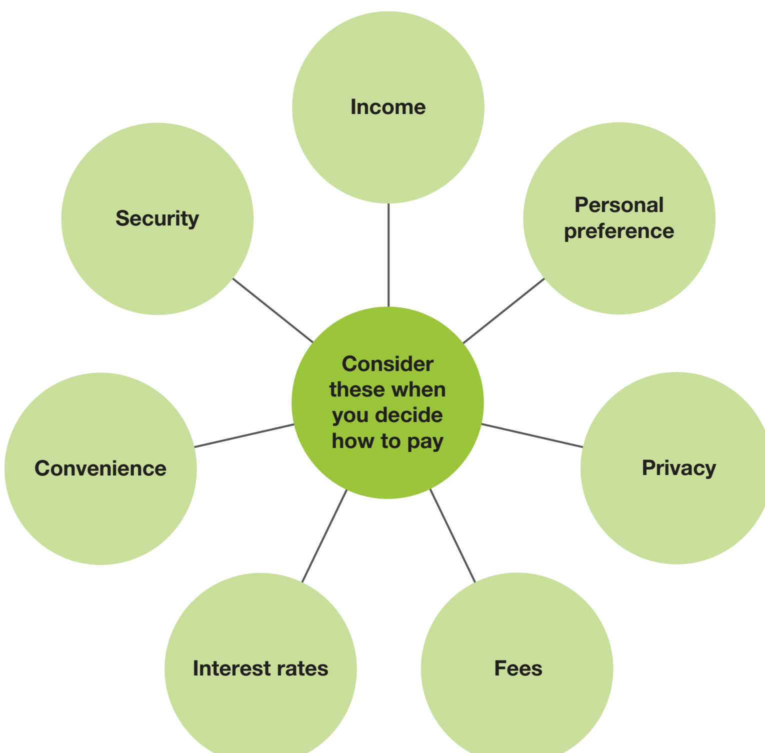
## 1.6.2 Ranking payment options

Anthony was recently granted a credit card by his bank with a limit of $5000. He was very pleased with this and went out and purchased a second-hand car that he could drive to work instead of catching the bus. However, at the end of the month his credit card statement said that he needed to pay over $100 in interest plus make a further minimum payment of $50. Anthony was outraged. He arranged a meeting at the bank where a personal loan was organised to pay off the credit card. His monthly repayments were now only $40 per month, which he felt was much more manageable. On the way home from the bank, he cut up his credit card.

Anthony chose a very inappropriate way to pay for his car.

Deciding on which payment option is most appropriate for you is very important. Anthony chose an option that was not at all suitable for him. Your decision should be based on aspects such as your income, personal preference, privacy, fees charged, interest rate, convenience and security.

You need to consider these things when deciding how you will pay for goods and services.



## 1.6 Activity: Research and communication

1. Set up a class debate to consider the following topic: 'Careless consumers, and not credit, are to blame for debt problems'. Share roles so that those not debating are involved either in assisting with research, or in running the debate and keeping notes on the arguments of both sides.
2. In small groups, research the options that could be taken to improve financial services for people living in remote communities. Present the group's research to the rest of the class.
3. Reflect on some of your own recent purchases. What influenced your decisions on what to buy and how you paid for it? Discuss your thoughts with another student.

## 1.6 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is meant by the term 'legal tender'?
2. Why should credit be used wisely?
3. What are the advantages and disadvantages of using a credit card?
4. What is the difference between a *debit card* and a *credit card*?
5. What do the letters EFTPOS represent?
6. Draw a diagram showing what happens when a BPAY® transaction occurs.
7. What is the advantage of setting up a direct debit to pay a regular bill such as electricity or rent?
8. What is a cheque?
9. When writing a cheque, why should no blank spaces be left before or after the amount?
10. Study the cheque in section 1.6.1 and then answer the following questions.
    (a) Who is the drawer of the cheque? Who is the drawee?
    (b) What is the name of the payee?
    (c) What is the number of the cheque?
    (d) Suggest reasons why the amount for the cheque is written in both words and figures.
    (e) What effect do the words 'Not negotiable' have on a cheque?
11. If you buy an item through lay-by, when do you have possession and ownership of the good?
12. What must you and the store do if you cancel the lay-by before paying the full purchase price?
13. What are the advantages and disadvantages of using:
    (a) lay-by
    (b) book-up?
14. What method of payment would you prefer for the following purchases? Why?
    (a) A microwave oven from a department store
    (b) Groceries at a store in a remote community
    (c) The annual car registration
15. What advice would you give a friend who wanted to take up an offer for a store credit card?
16. Describe how PayPal works.
17. What method of payment should Michelle (referred to at the beginning of this subtopic) use to purchase the jacket? Justify your choice, and take into account the following factors: She has:
    - $364 in her savings account
    - a credit card with a limit of $500
    - $130 in her wallet
    - a part-time job and earns $135 per week.
18. Errors can be made when filling in cheques. Which of these errors would cause the cheque to be worthless to the payee?
    (a) The cheque date was left blank.
    (b) The cheque butt was filled out incorrectly.
    (c) The drawer forgot to sign the cheque.
19. Why are retailers prepared to offer lay-by services without any charge?
20. What would stores want to know about you before allowing you to book-up a good or service? How would they find this out?
21. Explain why Anthony made a poor choice when deciding to pay for his car with a credit card.
22. State some of the things you should consider when deciding on how to pay for a good or service.

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.7 SkillBuilder: Comparison shopping investigation

## 1.7.1 Tell Me

Jamie has moved into a flat and wants to purchase a new microwave oven. Since he is working full-time as well as studying, he does not have much time to compare the prices, quality and reputation of the various brands on the market. He, therefore, decides to use a comparison website, such as Canstar Blue, to assist him in his decision-making.


**on** Resources

**Weblink** Canstar Blue

## 1.7.2 Show me

Jamie has many expenses associated with moving into his flat, so his most important criteria when selecting the brand of microwave to purchase is value for money. However, since he is a very untidy person, he feels that ease of cleaning is also an important consideration.

Jamie draws up the following table and, using the information on the Canstar Blue website, fills it in as shown.

| Brand of microwave | Value for money | Ease of cleaning | Ease of use | Overall satisfaction |
|---|---|---|---|---|
| Brand A | ★★★★★ | ★★★★★ | ★★★★ | ★★★★ |
| Brand B | ★★ | ★★★★★ | ★★★★★ | ★★★★★ |
| Brand C | ★★★★ | ★★★ | ★★★★★ | ★★★★ |
| Brand D | ★★★★★ | ★★★ | ★★★★ | ★★★★ |

After considering the options, Jamie decides on the Brand A microwave because it has the highest rating in his two main criteria, even though Brand B had a higher overall satisfaction rating.

Jamie's next step is to visit the websites of the main retailers, both e-tailers and also those who have a store in his neighbourhood.

After a little more research, he is able to pick up a great deal on his new microwave.

## 1.7.3 Let me do it

Complete the following activities to practise this skill.

### 1.7 Activities

Jamie is very happy with his microwave but now decides he needs a television for his flat. He has a budget of no more than $700 and wants to purchase as large a TV as possible. His overall criteria are value for money and ease of use.

1. Complete the following table using the comparison website Canstar Blue; add in rows as you need them.

| Brand of television | Value for money | Ease of use | Overall satisfaction |
|---|---|---|---|
| Brand A | | | |
| Brand B | | | |

2. Based on Jamie's criteria, which brand should he purchase? Give reasons for your answer.
3. Now you have decided which TV Jamie should purchase, visit the websites of the main retailers and find the cheapest price for the selected TV.

# 1.8 Consumer protection

## 1.8.1 The need for consumer protection


Most consumers know what it means to be given 'a fair go'. It means being treated justly and honestly. For example, when you buy a product it should be of good quality, a sales assistant should not give you misleading information and once you have signed a contract all parties must abide by the terms and conditions.

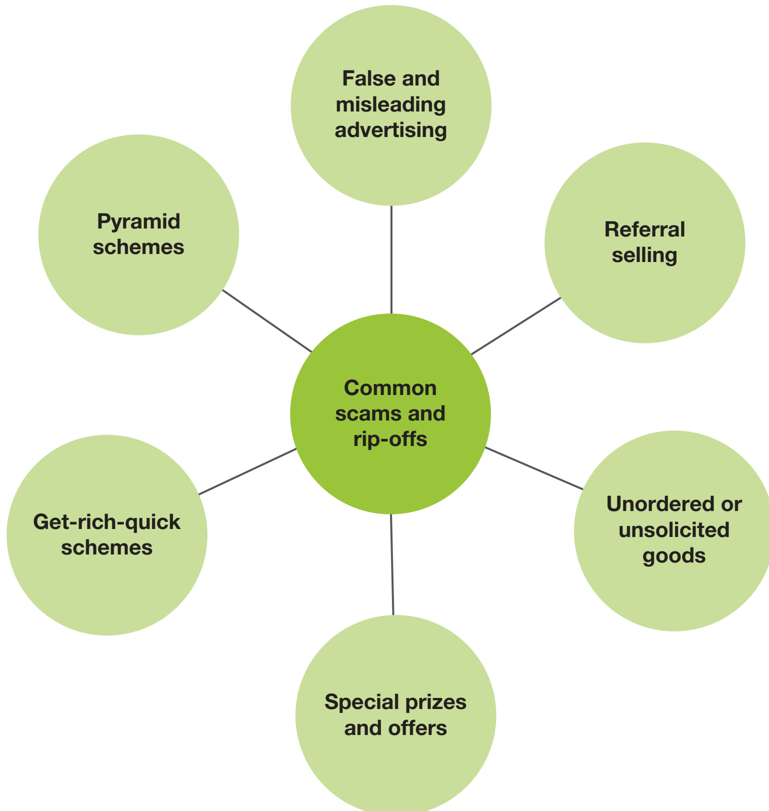
The majority of businesses are trustworthy, honest and act ethically: that is, they conduct their operations in a fair and morally right manner. Occasionally, however, consumers are not given a fair go in the marketplace.

It is for this reason, state and federal governments have passed laws that are designed to protect consumers in the marketplace. Two crucial pieces of protective legislation are the *Competition and Consumer Act 2010* (Cwlth) and the *Fair Trading Act 1987* (NSW).

Under the Competition and Consumer Act, an **unconscionable act** by a seller is any practice that is just not reasonable, such as **scams** and **rip-offs**. Such an act is illegal and some traders do it to gain an unfair advantage over the unsuspecting consumer. Every year, 1 in 20 Australians fall victim to some type of scam. These people lose millions of dollars and sometimes their identities. The aim of any scam is to trick you into giving away money or your personal details. Get-rich-quick schemes, fake lotteries and miracle health cures are some of the favoured methods used by scammers to rip off people. Scammers are creative and manipulative and try new versions of scams. As a wise consumer, you need to be aware of these unethical techniques so you can protect yourself from such practices. Remember the golden rule to help you beat scammers: 'If a deal sounds too good to be true, it probably is.'

Some of the more common scams and rip-offs include those shown in the following figure.

Beware of these common scams and rip-offs




## False and misleading advertising

Two of the most common false and misleading advertising techniques are:

- *bait and switch advertising*. This involves advertising a few products at reduced and, therefore, enticing prices to attract customers. When the advertised products quickly run out, customers are directed to higher priced items.
- *misleading advertising*. Some advertisements use words that are deceptive or claim that a product has some specific quality when it does not. Such actions convey a false impression of the exact nature of the product.

Bait and switch advertising is misleading and deceptive.


## Referral selling

This illegal technique offers the consumer a 'special deal' if she or he buys the product and then supplies the names of potential customers to the trader. The 'special deal' usually takes the form of a discount or commission, which is not always paid.

### Unordered or unsolicited goods

This practice involves sending unordered goods through the mail and then demanding payment for them. The *Competition and Consumer Act 2010* protects you from having to pay for these goods. You should write to the trader, explaining where the unordered goods can be picked up. The goods become your property after one month of mailing the letter. If you do not write, then the goods become your property after three months. You must not use the goods during this period.

### Special prizes and offers

You scratch the prize coupon to discover you have won a 'mystery' prize. When you go to collect your prize, you are told you can receive it only if you purchase a certain number of goods. As a consumer you should be careful of any deal that involves free gifts, prizes, lucky numbers or 'free deals just for you'.

### Get-rich-quick schemes

In this type of scam, a letter or email arrives offering you the chance to participate in the transfer of money from another country. For your help, you will receive a percentage of that amount. However, you are required to supply your bank account details for the transaction to occur, giving the scammer the opportunity to steal your money.

### Pyramid schemes

The chain letter is the most common form of this type of scam. You are required to pay a joining fee with the opportunity of earning quick and easy money as you recruit new members. However, most participants will lose their money.

**CASE STUDY**

**How Jamie lost his savings**

Jamie was a 70-year-old pensioner. One day he received an email saying he was the winner of a European lottery, and had won more than $2.5 million. The email had originated in a country where Jamie had a number of relatives; it had an official-sounding name, and used long serial numbers that made it sound important.

Jamie replied to the email giving his phone number and some other details. A man rang him saying that to process the prize money he needed to pay a $300 fee. Jamie did not want to miss his prize so quickly sent the money.

He was soon regularly receiving calls or emails asking for money to pay for various fees or taxes. Over a 12-month period, Jamie sent more than $30 000 overseas before eventually working out he was being scammed.

**on** Resources

**Weblinks** NSW Fair Trading

Scamwatch

### 1.8 Activity: Research and communication

1. In small groups, brainstorm as many ethical issues as you can that relate to misleading and deceptive advertising. Share your responses with the rest of the class.
2. Create a poem or rap song that explains the meaning behind the golden rule of avoiding scams.
3. Use the **NSW Fair Trading** weblink in the Resources tab to:
   (a) investigate the most recent scam alerts. Select a scam that interests you and present a brief oral report to the class as to how this scam operated.
   (b) Summarise the ten golden rules that reduce the chance of being scammed.
4. Use the **Scamwatch** weblink in the Resources tab to visit the federal government's 'Scamwatch' website and learn more about the latest scams targeting Australians.

### 1.8 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Name two important pieces of legislation that protect consumers.
2. Unscramble the following words and then use each one in a sentence to explain its meaning.
   (a) rfai og
   (b) anunooclecbisn cdnoctu
   (c) lfrrreea lisegnl
   (d) tbai nda htwsci
   (e) dlienasmgi vtseagndrii
3. Write a brief report about a scam or rip-off in which either you or a member of your family has been involved.
4. Draw a series of comic strips to illustrate what happens when a bait and switch scam occurs.
5. What does the law say to do if you are sent some goods which you did not order?
6. With reference to the case study of how Jamie lost his savings, why do you think Jamie was vulnerable to this type of scheme? What advice would you give Jamie to ensure he does not fall for similar scams?

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.9 Reasons for and features of a simple contract

## 1.9.1 What is a contract?

Suppose you buy some groceries at the supermarket. You hand the seller the money and she or he gives you the groceries. In this situation, you and the seller reach an *agreement*. The seller agrees to supply you with a good at a certain price and you agree to pay that price. Another word used to describe an agreement is a contract.

A **contract** is a legally enforceable agreement between two or more persons or parties. The contract outlines the details of the agreement and the *rights* and *responsibilities* (*obligations*) of each of the parties.

A contract is most often an oral (verbal) agreement. Agreements that involve large sums of money, such as when buying a house, are usually put in writing.

Every consumer transaction involves a contract.

## 1.9.2 Features of a simple contract

Three essential elements make a contract legally binding: the offer, the acceptance and the consideration.

### Offer

An **offer** is a proposal. It involves one of the parties offering something of value (for example, money) to the other party in the agreement. The person making the offer (*offeror*) must clearly communicate their intention to the other party (*offeree*).

Many consumers think that when a business displays items in the store or advertises something in a catalogue, the business is making an offer to sell. It is not. What appears to be an offer is in fact an *invitation to treat* and the business does not legally have to sell the good. The consumer makes an offer to purchase. The offer can be either accepted or rejected by the retailer. This applies to self-service situations particularly. In the supermarket example, you make the offer to purchase the groceries.

### Acceptance

An **acceptance** occurs when the offeree agrees to the proposal. This involves either a written or oral statement or an act that clearly communicates acceptance of the offer, such as a shake of the hand. In the supermarket example, the seller accepts your offer to purchase when she or he hands you the groceries.

### Consideration

**Consideration** is the final essential feature required to form a valid contract. This stage requires each party to the agreement to give up something of value. Consideration can take the form of a sum of money paid, or the promise to do something. In the supermarket example, you give up your money and the retailer gives up the groceries.

The three elements of a legally binding contract


OFFER


ACCEPTANCE


CONSIDERATION

#### LEGAL CASE — OFFER

***Pharmaceutical Society of Great Britain v. Boots Cash Chemist Ltd (1953)***

This English legal case was the first to decide that the customer offers to purchase the goods when she or he takes them to the checkout. The customer's offer could be refused here, so a contract of sale exists the moment the checkout operator accepts the offer.

## LEGAL CASE — OFFER AND ACCEPTANCE

***Carlill v. Carbolic Smoke Ball Co. (1893)***

In this famous example of a contracts case, the manufacturers of a flu cure promised to pay 100 pounds ($200) to anyone who caught the flu after using the company's Carbolic Smoke Ball. This offer appeared in a newspaper advertisement. Mrs Carlill bought the remedy from a chemist and used it as directed. However, she subsequently caught the flu.

The company argued there was no contract between Mrs Carlill and themselves as no offer was made because it was only an advertisement. The company also claimed that an offer cannot be made to the world at large.

Mrs Carlill won because the court decided the act of using the smoke ball was an acceptance of the company's offer. It also established the fact that an offer can be made to the general public.

The advertisement that Mrs Carlill responded to when she purchased a Carbolic Smoke Ball


## LEGAL CASE — CONSIDERATION

***Chappell & Co. v. Nestlé Co. Ltd (1960)***

Sometimes the nature of consideration is not so straightforward. In this case, Nestlé offered a music record to customers who sent them a small amount of money plus three chocolate wrappers. However, Chappell & Co, who owned the copyright of the music, would receive only minimal royalties because the music was being sold at a reduced price.

The court ruled that the wrappers did form part of the consideration for the sale of the records, despite the fact they had no real value.

### 1.9 Activity: Research and communication

1. With a partner, research online to discover the meaning of the term 'invitation to treat'.
2. In a small group, research online and prepare a short talk on a famous contract law case.

### 1.9 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is meant by the term 'contract'?
2. Identify the three elements of a valid contract.
3. Explain the significance of each of the legal cases outlined above.
4. Describe two contracts you have made recently and then answer the following questions about each one.
   (a) Was the contract oral or written?
   (b) Who were the parties in the contract?
   (c) What consideration was given by the parties?
5. Examine the following hypothetical cases. State whether or not you think a contract exists. Discuss the legal reasoning behind your decision. Share your answers with the rest of the class.
   (a) Gemma offers to buy Zara's laptop computer for $850. It is agreed they will make the exchange when Zara delivers the laptop to Gemma's house. Once there, Gemma says she is no longer interested.
   (b) Hamaub agreed to sell his car to Colleen for $10 000. The agreement was written and signed by both parties, at which time Colleen paid Hamaub a deposit of $1000. Two days later, Colleen changed her mind and wanted her deposit back.
   (c) An art dealer mistakenly attached a price tag of $100 to a painting that was worth $1000. A customer offered to buy the painting for $100.
6. 'Oral contracts are not worth the paper they are written on.' What is meant by this expression? Share your answer with the rest of the class.

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.10 Legal rights and responsibilities of consumers

## 1.10.1 Legal rights of consumers

Consumers have four basic rights. These are:

1. *Safe products*. Directions for proper use are provided and products are tested by the manufacturer to ensure product quality.
2. *Accurate product information and descriptions*. For example, ingredients are clearly labelled on food containers.
3. *Full disclosure of the terms of sale*. The full price is always displayed, especially on any credit contracts.
4. *Consumer guarantees and warranties are honoured*. Customers can expect a refund or exchange if the product is faulty.

## 1.10.2 Protective legislation

In 2011, a single, national consumer law — the Australian Consumer Law (ACL) — was introduced, which operates using the *Competition and Consumer Act 2010* (Cwlth). This federal Act applies in the same way to all Australian consumers and businesses, regardless of where the business operates or where the consumer shops.

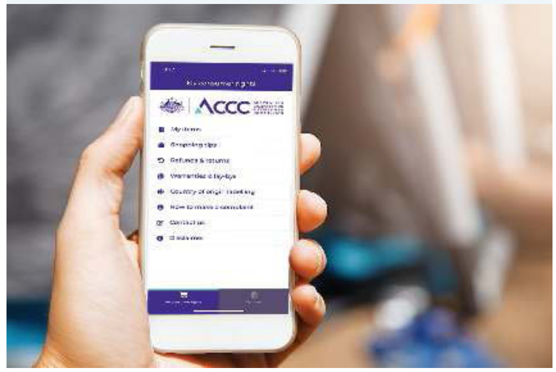
The Act's main purpose is to protect consumers against undesirable business practices, such as:

- misleading and deceptive advertising
- unconscionable (unreasonable and unethical) conduct
- misrepresenting the contents of products, their place of manufacture or their characteristics
- unfair trade practices that restrict competition and which can severely limit the rights of consumers
- false claims regarding goods and services.

The *Competition and Consumer Act 2010* is administered and enforced by the Australian Competition and Consumer Commission (ACCC), each State and Territory's consumer agency, and the Australian Securities and Investments Commission (ASIC).

As we have seen in subtopic 1.8, of all the unfair trading practices, false or misleading advertising can be the most serious because of the influential nature of advertising. Even though consumer protection legislation makes false or misleading advertising illegal, there are still a number of methods used by some retailers. The most common are:

The ACCC Shopper app includes consumer information and tools to set reminders and keep copies of receipts.




- *Fine print*. Important conditions are written in a small-sized print and are, therefore, difficult to read.
- *Before and after advertisements*. Consumers may be misled by, 'before' and 'after' advertisements where the comparison is distorted so that before images are worsened and after images enhanced.
- *Tests and surveys*. Some advertisements make unsubstantiated claims; for example, stating '9 out of 10 people' prefer a product when no survey has been conducted.
- *Country of origin*. Accuracy in labelling is important; for example, 'Made in Australia' and 'Product of Australia' have two distinct meanings.
- *Packaging*. The size and shape of the package may give a misleading impression of the contents.

Consumers are now protected, under the Competition and Consumer Act, against misleading advertising or false claims on the part of the business.


## COMFACT

The ACCC has been successful in prosecuting several large firms for false or misleading advertising. These include:

- Reckitt Benckiser, the manufacturers of Nurofen, who were fined $6 million for misleading consumers regarding their pain-specific range of products.
- Acquire Learning and Careers Pty Ltd, who were fined $4.5 million for unconscionable conduct and making false and misleading statements when encouraging people to enrol in inappropriate educational courses.

## 1.10.3 Consumer guarantees

The *Competition and Consumer Act 2010* provides **consumer guarantees** on certain goods and services. These guarantees are a consumer's automatic legal right. Consumers are guaranteed that the *goods* they buy:

- are of **acceptable quality**
- are fit for purpose (suitable for that which they are being sold)
- match the description, sample or demonstration model
- comply with any express warranty. A warranty is a voluntary promise made by a manufacturer or supplier about the goods.
- are legally owned by the seller without any charges (money owing on them)
- have spare parts reasonably available.

Consumers are guaranteed that the *services* they buy are:

- fit for purpose
- provided with reasonable skill and care
- provided within a reasonable time.

If something goes wrong, the consumer should seek a remedy from the business, usually in the form of a refund, replacement or repair.

Consumer guarantees have important implications for businesses. For example, signs that state 'no refunds given' are unlawful, because they imply it is not possible to get a refund under any circumstance, even when there is a problem with the good or service.

## 1.10.4 Responsibilities of consumers

Consumers have numerous responsibilities as well as many rights. These responsibilities include paying the correct amount, purchasing goods and services from ethical and legal sources, using the products in an environmentally friendly manner and accepting most of the risk when they purchase something. The legal term for this acceptance of risk is '**caveat emptor**', which is Latin for 'let the buyer beware'. A seller is not required to tell you everything about the goods for sale. Therefore, it is the purchaser who is accepting the most risk.

Caveat emptor means 'let the buyer beware'.

**on** Resources

**Digital document** Worksheet 1.9 The unfinished script (doc-32683)

### 1.10 Activity: Research and communication

1. Create and perform a roleplay for a situation in which the principle of 'caveat emptor' applies.

### 1.10 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Identify the basic rights of consumers.
2. What is the name of the legislation that provides some protection to consumers? Outline five undesirable business practices that it prohibits.
3. What is meant by the term 'consumer guarantees'?
4. List the features a (i) good and (ii) service must possess to be considered acceptable quality.
5. Under what circumstances is a business required to offer a refund?
6. In each of the following examples, state whether there has been a breach of the Competition and Consumer Act.
   (a) A company advertises a particular brand of television and states that it is at a cheaper price than a competitor. This statement is false.
   (b) A company advertises jumpers and claims that they are made in Australia when in fact they are made in China.
   (c) A company advertises that a special deal is for only one week when in fact it plans to extend it for two months.
7. Describe the responsibilities of consumers.

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.11 Organisations that provide assistance for consumers

## 1.11.1 State government

New South Wales Fair Trading is the state consumer protection agency. It provides information and assistance to all consumers on areas such as consumer issues, shopping on the internet, home building and motor vehicle sales. The department has the responsibility for:

- assisting consumers to resolve their complaints
- checking that products meet Australian safety standards
- ensuring that scales, scanners and petrol pumps used to weigh and price products are correct
- warning the community about dubious business practices such as scams and rip-offs.

## 1.11.2 Ombudsman

The word 'ombudsman' is based on a Swedish word meaning 'agent'; someone who has the task of investigating and reporting on complaints. In the last few years, industry ombudsmen have been established to deal with disputes between consumers and specific businesses including finance, telecommunications and insurance.

**COMFACT**

The Telecommunications Industry Ombudsman (TIO) provides consumer advice and a dispute resolution service for problems with telephone and internet service providers.

## 1.11.3 Federal government

The two federal government commissions largely responsible for assisting consumers are:

1. *Australian Securities and Investments Commission (ASIC)*. This commission protects consumers in the areas of consumer credit, investment, life and general insurance, superannuation, and banking (except lending) in Australia. The aim of ASIC is to assist in reducing fraud (scams and rip-offs) in financial markets and financial products.
2. *The Australian Competition and Consumer Commission (ACCC)*. This commission operates nationally for the enforcement and administration of the Competition and Consumer Act, and acts as a watchdog on the pricing of goods and services. The ACCC is obligated to inform the public so that they are aware of their rights and responsibilities under the law.

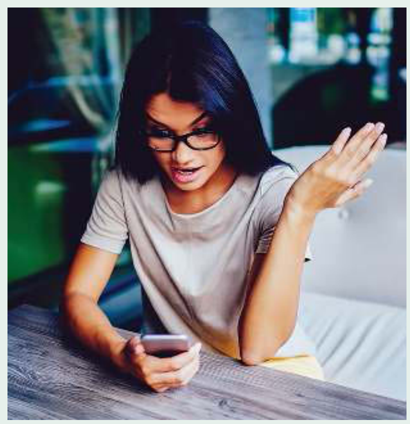
**CASE STUDY**

**Ayesha learns to read the fine print**

Ayesha recently updated her phone to the latest model and wanted to add a new unique ringtone to it. She found the ringtone she wanted on the internet and downloaded it but did not read the conditions in the small print. Very soon, Ayesha found that $10 per month for new ringtones was being added automatically to her phone bill.

Ayesha tried repeatedly to terminate the ringtone service but could find no options to delete or even contact the firm. Eventually she called her phone company; however, they said they were unable to assist her and that she needed to contact the ringtone firm.

Exasperated, Ayesha contacted the Telecommunications Industry Ombudsman, who very quickly helped her to favourably resolve the issue.



## 1.11.4 Independent organisation: CHOICE

CHOICE is Australia's largest consumer watchdog organisation. It is independent, non-profit and not tied to any political party. When CHOICE was formed in 1959, there were no government consumer affairs departments and no laws governing fair trading.

Apart from its lobbying for the introduction and improvement of consumer legislation, CHOICE has conducted comparative tests on thousands of goods and services. The organisation also deals with consumer inquiries and investigates consumer complaints. The results of these tests, readers' letters and informative articles are published in its monthly magazine *CHOICE* and on its website.

CHOICE aims to provide consumers with information and guidance about goods and services. By providing this information, it helps consumers protect themselves and encourages them to lobby for their rights to adequate information, and to adequate resolution where products are unsatisfactory. By helping to educate the public, as well as making consumers aware of their rights, CHOICE is assisting consumers to get better value for money.

## 1.11.5 The media

Current affairs television programs sometimes investigate consumer complaints about poor quality products, shoddy or costly repairs, poor service, or scams and rip-offs. The bad publicity often causes the business to resolve the problem. Some newspapers have regular columns providing consumer advice and letters from consumers outlining individual complaints. Radio stations, especially talkback programs, will provide an expert to discuss consumer issues or advise callers on a particular problem.

### on Resources

**Digital document** Worksheet 1.10 The telecommunications ombudsman (doc-32684)

**Weblinks** CHOICE
ACCC
NSW Fair Trading

### 1.11 Activity: Research and communication

1. With a partner, use the ACCC weblink in the Resources tab and find two products that have been recalled. Give a short talk to the class on why these products were recalled.
2. Ask your teacher or librarian to source multiple copies of *CHOICE* magazine or use the **CHOICE** weblink in the Resources tab to visit their website. Choose a product review that interests you and read the article. Why is information like this useful for consumers?
3. Use the **ACCC** and **NSW Fair Trading** weblinks in the Resources tab to find consumer information and advice provided by the Australian and NSW governments. Prepare a 30-second elevator pitch on the piece of advice that you found most interesting.

### 1.11 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. List the government and independent organisations that provide assistance for consumers.
2. Outline how each of the following assists consumers.
   - New South Wales Fair Trading
   - Australian Securities and Investments Commission
   - Australian Competition and Consumer Commission.
3. Briefly outline the role of CHOICE.
4. In small groups, determine which of the organisations mentioned in this subtopic would be best suited to deal with the following situations.
   (a) Gina has a complaint regarding her telephone account.
   (b) Tim wants to read a comparative test on digital cameras.
   (c) Zachary believes the local butcher's scales weigh in the butcher's favour.
   (d) Eva wants some advice about the Competition and Consumer Act.
   (e) Caro thinks that his insurance policy contains misleading information.
5. With reference to the case study 'Ayesha learns to read the fine print', describe how Ayesha could have avoided her problem with the ringtones.
6. 'The best protection a consumer has is to be well-informed about his or her rights and responsibilities.' Discuss.

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.12 SkillBuilder: Questioning and research

## 1.12.1 Tell me

The following steps provide a useful guide to carrying out research:

- Identify and understand the general task you are attempting to complete.
- Develop a series of specific questions that will help guide your research in the appropriate direction, and help you determine the information you need.
- Locate appropriate sources of that information.
- Record relevant information from a range of sources.
- Present the information in an appropriate form.

## 1.12.2 Show me

Imagine you have been asked to investigate the role of your state Consumer Protection or Fair Trading authority's website in providing advice for consumers and businesses.

Your first step is to clearly identify the key task. This could be expressed as follows:

*'Prepare a report on the type of advice the state Consumer Protection or Fair Trading authority website provides for consumers and businesses, with examples.'*

It is now necessary to break this down into a series of more specific questions. These could include:

1. How is the website organised to provide advice?
2. What types of headings or categories of information are used?
3. How is the material broken down (types of industries, types of products, and so on)?
4. If a consumer has a specific problem with a particular product or supplier, what does the website advise them to do?
5. What sort of advice is provided to businesses?
6. What are some relevant examples?

The next step is to locate your sources. Each state authority has a website, so you simply need to use a search engine to find the name and website of your home state's Consumer Protection or Fair Trading authority.

Keep your questions beside you as you navigate through the site, and note the location of material that provides answers. You can select and print some text, and then highlight those sentences or paragraphs that provide answers to your questions. Sometimes a complete answer to a question may be found in several places in a piece of text. Be sure to highlight all relevant text, and indicate with a number which question the information answers.

When you are satisfied you have found the answers to all the questions, you need to write the answers in order, making sure you use your own words as much as possible. You can then use the answers to present your information in the required form. For example, this may be an oral report to the rest of the class, an essay to be marked by your teacher, a PowerPoint presentation, or any other format that is appropriate.

## 1.12.3 Let me do it

Complete the following activities to practise this skill.

### 1.12 Activity

Using the outlined process as a model, carry out the following research task:

*Prepare a report on the type of advice the ACCC gives to consumers in relation to internet and phone usage. In your report, include specific examples of each.*

# 1.13 Processes of consumer redress

## 1.13.1 Remedies and their outcomes

As you walk into a store, you see two large signs which say, ‘Sorry, no refunds’ and ‘Choose carefully, no exchanges’. Does this mean you could not get a refund or exchange if the good was faulty at the time of purchase, or it did not do the job you were told it would do, or it was incorrectly labelled?

You take an electrical appliance to be repaired and the service person tells you that they will take all care but no responsibility. Does this mean that, if they accidentally drop your appliance and break it, there is nothing you can do about it? Have you ever bought a brand new item and it doesn’t work, even though you followed the instructions carefully?

Such signs are meaningless and unlawful.


Consumers have some basic rights. The signs referred to at right are quite misleading. Under certain circumstances, a seller cannot refuse a refund or exchange. If the goods are different from how they are labelled, if they were faulty when manufactured or do not do what you were told they would do, then you can seek a refund or exchange. A repairer may also be liable for any damage that is caused if the service is not carried out with care and skill. Consumers can **redress** the things that are wrong.

Once you have established that the problem has not been caused by a mistake on your part, contact the trader either by phone or in person. You may be required to put your complaint in writing. Explain the problem in a calm, logical, but assertive manner. ‘Losing your cool’ tends to make a situation worse.

There are some important points to remember when making a complaint.

- If using the phone, always get the name of the person you are talking to.
- Keep a written record of all conversations and copies of letters and emails.
- File any receipts, dockets or credit accounts to show proof of purchase.
- Return the faulty good promptly.
- If you leave the good with the trader, request a receipt.
- Check your guarantee to determine whether it covers the problem being experienced.

## 1.13.2 NSW Fair Trading

If you have tried to redress the problem and are still not satisfied, then your next course of action is to contact your local NSW Fair Trading office and seek advice. This will be an informal conversation where you explain the circumstances of your problem. If you wish to take it further, you must lodge a formal written complaint and ask the office to negotiate or mediate on your behalf. The office personnel will ask you to provide certain information and copies of any relevant documents.

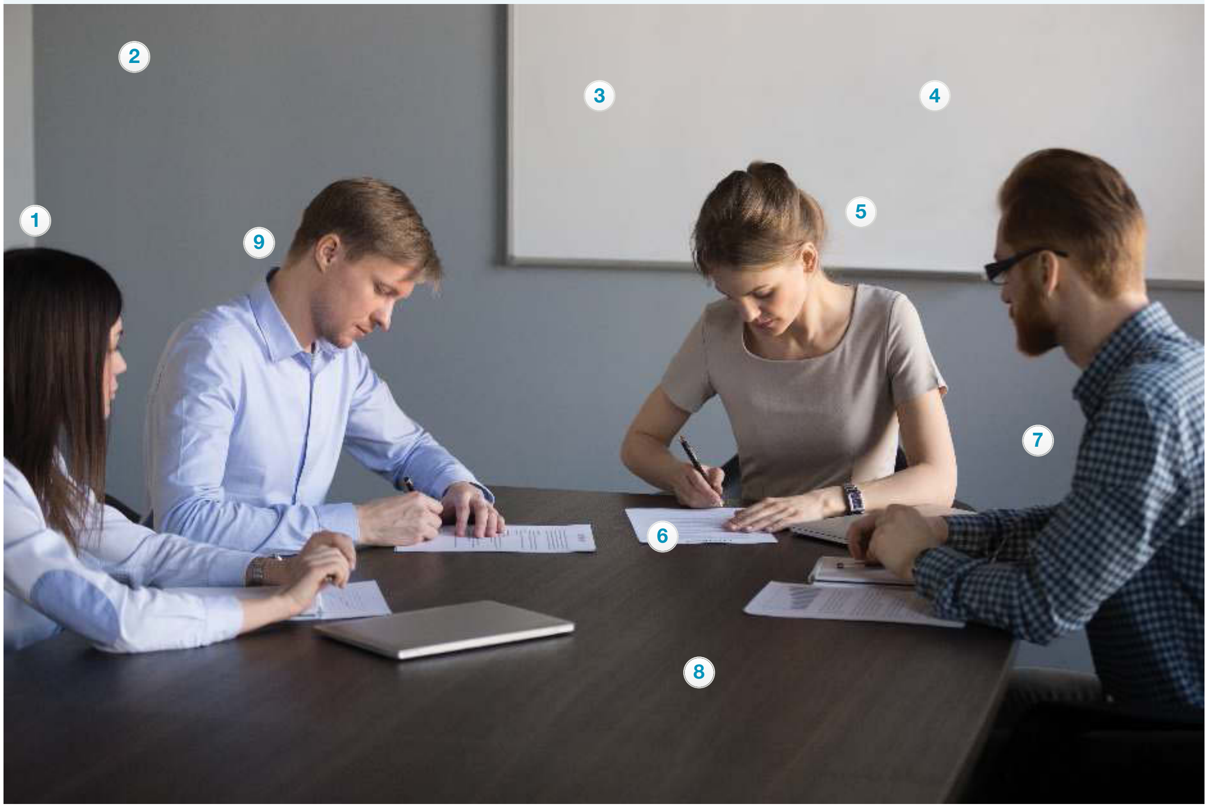
The office will make contact with the trader and attempt to reach an amicable solution. The office will then contact you and inform you of the outcome.

## 1.13.3 NSW Civil and Administrative Tribunal

If you are still not satisfied the problem has been redressed, you can lodge a claim with the NSW Civil and Administrative Tribunal (NCAT). This tribunal was formed in 2014 and deals with a broad and diverse range of matters, including consumer claims, tenancy issues, building works, equal opportunity and administrative review of government decisions. It can generally hear claims up to the value of $40 000.

This tribunal has the power to make the following orders to resolve a dispute:
- order that money owed does not have to be paid
- order for goods or services to be provided
- order faulty goods be fixed or replaced
- order a refund and goods to be returned.

The NSW Civil and Administrative Tribunal can arbitrate on a dispute between two parties and the decision of the tribunal is legally binding.




1 Interpreters can be arranged free of charge.
2 The meeting will be held within four to five weeks of the complaint being lodged.
3 The meeting is conducted in an informal atmosphere.
4 It is a closed hearing, that is not open to the public.
5 The referee will hear the claims put forward by both the consumer and the trader.
6 The referee tries to reach a settlement both parties are happy with.
7 Consumer
8 Both parties conduct their own case without legal representation.
9 Trader

**on** Resources

**Digital document** Worksheet 1.11 The Takata Airbag (doc-32685)
**Weblink** NCAT

### 1.13 Activity: Research and communication

1. A consumer bought a pair of jeans. The label recommended 'machine wash and tumble dry'. The consumer followed the instructions but the jeans shrank.
   In small groups, role-play the scene where the consumer returns the jeans for a refund. Conduct the role-play three times with the consumer adopting:

(a) a passive manner
(b) an aggressive manner
(c) an assertive manner.

After the roleplay, list the strategies people used to be assertive.

2. Use the **NCAT** weblink in the Resources tab to locate the NSW Civil and Administrative Tribunal website and answer the following questions:
   (a) What types of matters does the NCAT handle?
   (b) How much does it cost to make an application to the NCAT?
   (c) Will the tribunal try to settle the dispute before making a decision?

### 1.13 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Explain what you must do to make a formal complaint to NSW Fair Trading.
2. 'Sorry. No exchange/refunds.' Explain under what circumstances a sign like this is invalid.
3. You purchased a new shirt, but when you got home you realised you did not like the colour. Are you entitled to a refund? Why or why not?
4. Explain why losing your temper when asking for a refund or exchange will only make the situation worse.
5. Imagine you buy a laptop computer and find it is damaged. The store owner believes you dropped it and should pay for repairs. Construct a flow diagram showing the steps you can take to make a consumer complaint. Briefly outline what occurs at each step. Alternatively, prepare this as a PowerPoint presentation.

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.14 Financial management

## 1.14.1 The importance of financial management

Acquiring, saving and growing the necessary funds to live a full and satisfying life, now and into the future, requires planning and management. Consider the following fable of the cicada and the ant.

### CASE STUDY

### The fable of the cicada and the ant

One summer day, a cicada emerged from the ground and began singing with all his heart. He saw an ant passing by, bearing a heavy load of seed to store for the winter.

'Come sing with me,' said the cicada.

'I must stockpile food for the winter,' said the ant, 'and I advise you to do the same.'

'Don't worry about winter, it's still far away,' said the cicada. The ant wouldn't listen and continued her work.

When winter arrived, the starving cicada went to the ant and humbly begged for food. 'If you had listened to my advice in the summer you would not be in need now,' said the ant. 'I'm afraid you'll have to go without.'

Only then did the cicada realise: it is best to prepare for days of necessity.

The ant stockpiled plenty of food to use during the long, cold winter.

Individuals managing their income and savings are faced with similar decisions as faced by the cicada in the fable. Is the task to enjoy life now with no consideration for the future, stockpile funds in preparation for future necessities, invest savings to capitalise on potential growth, or a combination of these? Your approach to financial management is a personal one. However, if you make poor choices, the consequences can be like those of the cicada in the fable; you may not be able to satisfy all your needs and wants.

## 1.14.2 Consequences of poor financial management

### Excessive debt

Poor management of finances can result in a number of unwelcomed personal, social and legal consequences, as follows:

- *Personal:* These can include being unable to satisfy one's own needs (for example, food and shelter) or wants (entertainment costs or ongoing costs of a smart phone); inability to maintain lifestyle choices (such as living arrangements, hobbies and leisure activities); feelings of self-doubt or regret; stress at home, school or work; physical, mental and emotional illness; repossession of personal property (for example, car or home); accumulation of excessive **debt** (money owing); or even **bankruptcy**.
- *Social:* Consequences in this area include relationship tensions or breakdown (for example, between friends, family or co-workers); social isolation through an inability to afford the cost of social activities (such as going out to dinner, getting together for coffee, going to movies, bands or events, or gym membership); inability to holiday, travel or invest with others.
- *Legal:* Consequences of excessive debt in this area may include:
  - **garnishee** of your wages or bank accounts, which is a court order that allows an employer or bank representative to take money from your wages or accounts and then give it to your **creditors** (the people that you owe money to).
  - **writ of execution**, a court order that allows a court official (the sheriff) to seize and then sell some of your property. This is then used to pay your debts.
  - bankruptcy, where a person gives up control of their **assets** (items of value such as a car) and finances, either voluntarily or by a court order. In exchange, the bankrupt person is given protection from their creditors. You are not bankrupt until the Federal Court of Australia issues a **sequestration order**. Only people can become bankrupt. A company is instead **liquidated**; this is when all its assets are sold in order to pay its debts.

### Impact of debt on wellbeing

#### CASE STUDY

#### How Toni became socially isolated

Toni's debt caused her overall wellbeing to decline.

Having just left school, Toni applied for a credit card to help manage the many costs of moving out of home to seek work. She used this credit card to cover large expenses associated with the move, including a bond of $1000 for the share house, her share of four weeks rent in advance and the purchase of a second-hand refrigerator. She intended paying off a proportion of what she owed on her credit card each pay day but difficulty finding work, a lower than expected salary, larger than expected living expenses plus accumulated interest owed from borrowing the money soon became a problem. Eventually, to manage her excessive debt, Toni moved out of the share home into cheaper but less desirable accommodation. She refrained from social events including her hobbies and secured additional shifts at work to increase her weekly income. Toni progressively lost touch with her friends and family, had less leisure time, a lower standard of living and more personal stress. Ultimately, she realised her general wellbeing was declining.

Toni's story is not uncommon. According to the Australian Securities and Investments Commission (ASIC), at June 2017, 18.5 per cent of consumers were overwhelmed by their credit card debt load, with outstanding balances totalling $45 billion. This represents one in six Australians (1.9 million people) struggling to repay debt. Of these, young people were identified as a group of particular concern.

Financial health and overall wellbeing are linked. Common signs of financial stress include high blood pressure, sleeping difficulties, tiredness, mood swings, loss of appetite, headaches, arguing with people closest to you about money, psychological stress (for example, feeling fearful) and withdrawing from people. Changes of behaviour and mindset assist those who have been financially stressed to recover. Strategies and actions to aid recovery include:

- creating a personal budget
- rolling all debts into one loan
- regularly depositing a little cash into a savings account
- setting aside money for emergencies
- being open to the idea of talking about money with those closest to you
- seeing if you can get a better plan with your bank or financial institution
- accessing financial assistance.

**on** Resources

**Digital document** Worksheet 1.12 Problems of excessive debts — terms activity (doc-32686)

### 1.14 Activity: Research and communication

1. In groups, discuss strategies that Toni could have adopted to improve her wellbeing.
2. One strategy to improve wellbeing is to join local community or sporting groups. With a partner, use the internet to create a database or spreadsheet of local community and sporting groups. Include the name of the group, its contact details and a brief description of its aim.
3. Create an infographic or mind map showing possible consequences of failing to manage your finances.
4. Research the fees and interest payable on credit cards presently offered by major banks in Australia. If Toni had shopped around, would some credit cards have been better than others?

### 1.14 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. In your own words, what is the take-home message of the fable about the cicada and the ant?
2. Use the words in the list to complete the following sentences.
   **creditor sequestration relationships writ garnishee**
   (a) Excess debt may cause __________ to break down.
   (b) A _________ is a person or business to whom you owe money.
   (c) A __________ allows an employer or bank to take money from your wages or accounts and give it to your creditors.
   (d) A _________ of execution is a court order that allows a court official to seize and then sell some of your property. Funds from the sale are then used to pay your debts.
   (e) You are not bankrupt until the Federal Court of Australia issues a ________ order.
3. With the benefit of hindsight, how could Toni have managed her finances differently?

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.15 Importance of long-term financial strategies

When establishing a financial plan, it is very important to establish a set of goals. The three main types of plans are short-term plans, where the goals are achieved in one to three years; medium-term plans, with the goals achievable in four to six years; and long-term plans, where the goals are achieved in seven or more years.

## 1.15.1 Funding retirement through superannuation

The most common long-term financial goal is to fund a comfortable retirement. Because Australians are living longer, the government is increasing the age that people can access the aged pension to 67 years. Even then, this pension will provide only enough funds for a very basic lifestyle. Increasingly, people need to fund their own retirement if they are to continue to enjoy the standard of living they are accustomed to. While people can adopt many investment strategies over the long term to achieve this goal — such as investing in real estate, shares and managed funds — the most common is **superannuation**.

Superannuation is simply a compulsory savings account.


Superannuation (commonly just called 'super') is money that's put aside and saved while you're working. A superannuation fund is a compulsory savings account where each time you are paid, your employer will allocate a percentage of your income to the account. You may also want to pay additional money into your account because this does have some tax advantages.

You should choose your own superannuation fund and not just accept the one the employer uses. Your decision should be based on the fund's fees and its history of returns. These vary considerably. It is also very important to have just the one 'super' account because this will minimise your fees and maximise your returns.

### CASE STUDY

#### Leisa

Leisa was 22, had completed a media degree from The University of Sydney and had just been accepted to work at a national media organisation. She did not start for two weeks and during that time she decided to get her administration in order.

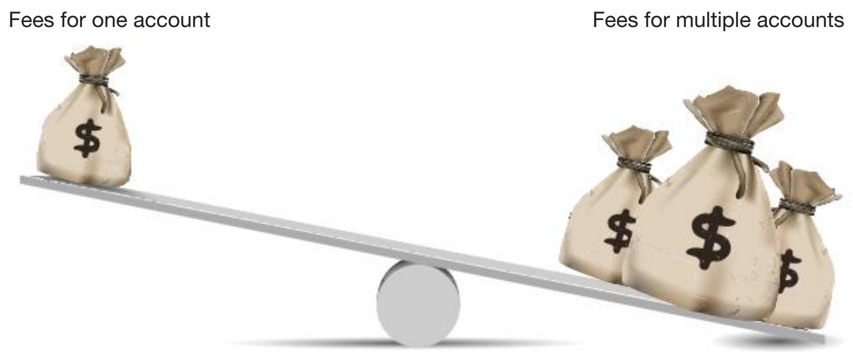
Leisa had funded her own way through university by working numerous jobs, including waitressing, working as a kitchen hand, gardening and even picking fruit for a short stint in the Riverina of NSW. She had never taken any interest in superannuation and, each time she started a job, had just filled out some papers and joined a new scheme. When going over her superannuation paperwork, much of which she previously hadn't even bothered to open, she discovered that she had joined six funds and had paid a total of nearly $20 000 into her super. However, she was angry when she found that five of the fund accounts had been closed due to low balances and that the money had been transferred to the Australian Tax Office.

Leisa was eventually able to retrieve the money and have it paid into her remaining account. However, she had still lost a considerable sum in fees and lost interest.

When Leisa started work at the national media organisation, she told the HR department she wished to use her remaining account as her superannuation fund. This was quickly organised, and all future payments would go into it.

Leisa enjoyed her new job but for a long time she was very angry with herself for losing that money in lost fees and interest.

Having more than one superannuation account is very costly in fees.




## CASE STUDY

### Megan and Tom

Megan worked in the human resources department of a large company and her husband Tom was a mechanic. They had been married for 30 years and had two children. They were fortunate in that, over the years, they had always had a financial plan. As part of this plan, they had always contributed as much as possible to their superannuation scheme.

Once they retired, they intended to take this superannuation as a lump sum and pay off their children's university debt and then invest the rest in a combination of bank term deposits, real estate and shares. This they hoped would provide them with more than enough to fund a very comfortable retirement. As they aged, they also planned to sell their large four-bedroom home and purchase a small apartment. The money left over from this could also be used to pay for any aged care if needed.

## CASE STUDY

### Sue and Ewan: time can mean more money

The following table shows the details of Sue and Ewan's super accounts. Both are 60 years old. Sue has been investing $2000 each year (less than $40 a week) while Ewan invests $5000 each year. The fund returns 8 per cent on average over the years.

| | Sue | Ewan |
|---|---|---|
| Starts investing at age | 25 | 40 |
| Invests until age | 60 | 60 |
| Investment timeframe | 35 years | 20 years |
| Investment per year | $2 000 p.a | $5 000 p.a |
| Total amount invested | $70 000 | $100 000 |
| **Investment value at age 60** | **$372 204** | **$247 115** |

***Source:*** UniSuper.

Even though the total Sue has invested is much less than what Ewan has invested overall, she is more than $125 000 richer. This is because she started investing at age 25 and Ewan started at 40. More time means much more money when it comes to superannuation. This is because of compound interest. Compound interest, put simply, is when you are being paid interest on the interest earned from your investment.

### 1.15 Activity: Research and communication

1. With a partner, visit a comparison site such as https://www.canstar.com.au/superannuation/ and determine which fund would most suit Leisa.
2. Based on the three case studies, prepare a set of long-, medium- and short-term financial goals for yourself.

### 1.15 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Use the words in the list to complete the following sentences.
   **employer seven retirement super fees 67**
   (a) A long-term financial plan is usually for _______ or more years.
   (b) The most common long-term financial goal is to fund a comfortable __________.
   (c) The federal government is increasing the age that people can access the aged pension to __________ years.
   (d) Superannuation is commonly called '_____________'.
   (e) A superannuation fund is a compulsory savings account where each time you are paid over a certain amount, your _____________ will allocate a percentage of your income to the account.
   (f) Your choice of superannuation fund should be based on the fund's _____ and its history of returns.
2. Refer to the case study of Leisa. Explain why Leisa was a very poor money manager.
3. Refer to the case study of Megan and Tom. Describe why Megan and Tom could be considered to be wise money managers.
4. Refer to the case study of Sue and Ewan. Analyse the data in the table and explain why Sue had so much more money in 'super' than Ewan, even though overall he had paid more into the fund.

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.16 Tools and strategies for effective financial management

## 1.16.1 Importance of monitoring and record keeping

People who earn money may wish they could spend it on whatever they choose, but the reality is quite different. Taxes and charges, bank fees, rent, mortgage payments and bills quickly take a large proportion of the money we earn. These expenses are **fixed expenses**; that is, they are the same amount every time. For example, on your mobile phone plan you may have to pay a minimum charge of $40 per month. Other types of expenses are **variable** and change over time. For example, you may buy a jumper this month and go to the movies next month. The secret to managing money is to keep accurate records of the money coming into and out of your account, monitor your balance and minimise your expenses wherever possible.

### CASE STUDY

### *Financial News* interviews Sasha and Lizzy

Sasha and Lizzy are twin sisters who may look the same but could not be any more different when it comes to their finances. Sasha has a good job with Telstra earning $1900 per week. Lizzy works as a manager in a retail store earning $1050 per week.

**Interviewer:** *What do you see as the 'secret' of managing your money?*

**Sasha:** Live for today! Don't get me wrong, I don't spend money I don't have. I earn the money first, but then I really, really enjoy spending it. I pay bills first — you know, rent, petrol for my car, electricity and so forth — then with what is left, I buy fashion, accessories, nice things for my flat. I also love to eat out and socialise with friends.

Lizzy and Sasha – so alike, yet so different!

**Lizzy:** The secret, umm, is to save money so you can make your big dreams happen. I have a dream to own my own home. Everything I can save today gets me closer to realising that dream. I opened a bank account to save for a home deposit and I love to watch it grow each pay day. It's even better when I see the interest on that money added to the bottom line. Gotta love that!

**Interviewer:** *How do you know what money goes into and out of your account?*

**Sasha:** I never worry about that much. If I think I am spending too much, I look at the balance of my account when I withdraw money from the ATM. I'm usually out shopping or socialising when I do that. All my other bills are automatically deducted from that account each fortnight, just after pay day. So, if any money is in the account when I go to the ATM, it's there to be spent!

**Lizzy:** I'm very different from Sasha. I keep very detailed records. I keep a record each week of my income and expenses, so I know exactly how much I'm saving. I also have a folder on my laptop where I keep records of all my bank statements, pay slips, receipts and tax deductions. I like to be organised.

**Interviewer:** *Can you share an example of the type of records you keep to manage your finances?*

**Sasha:** Umm. Not really. I guess I let the bank do that for me because all I need to know is my bottom line.

**Lizzy:** Sure. This is my record from last week. You can see that I was paid $1050, spent $570 and saved $480. It was an unusual week really, because I went out to see a movie with a friend and needed to buy a jacket for work. Most other weeks I manage to save an extra $50 because I do not need to buy clothes or pay for entertainment.

| Income | Amount ($) |
|---|---|
| Salary | $1050 |
| **Weekly expenses for Lizzy** | |
| **Expenditure** | **Amount ($)** |
| Rent | $220 |
| Electricity | $40 |
| Phone | $20 |
| Food | $100 |
| Train fare | $120 |
| Clothes | $40 |
| Entertainment | $10 |
| Internet | $20 |
| **Total** | **$570** |
| Savings | $1050 – $570 = $480 |

**Interviewer:** *How often do you check the balance of your account?*
**Sasha:** As I said, only when I'm withdrawing money from an ATM.
**Lizzy:** Monthly. When my saving and working bank statements arrive, I check the balance of each account against the records that I keep. I find that task very rewarding.

## 1.16.2 Budgets

No-one wants the worry of overspending and ending up in debt. Through careful budgeting, you can make sure your spending is not greater than your income. If your spending is too high or your income is too low, you will need to cut back some of the things you would like to buy. Normally, you will find it easier to cut back non-essential, variable expenses.

If you are still not satisfied, you will have to modify some fixed expenses; for example, walk to work or school, and make your own lunch. If you are not able to reduce your spending, you either have to earn more income, borrow money or go without. Remember, though, you should borrow only if you are certain you can make the repayments.

If you are a compulsive shopper, you will need to monitor your spending very carefully, especially if you use some form of credit. Set up a budget, try to save on a regular basis no matter how small the amount, keep accurate and up-to-date records, monitor your spending and avoid overcommitments. Following these practices will help you manage your finances responsibly and provide greater financial security.

A budget should follow a number of steps.

### STEP 1 Calculate your total income

Calculate and record all the income you are likely to receive. Your budget can be recorded either in a book or as a computerised spreadsheet.


### STEP 2 Record your expenses

Make a list of all your expenses. These should be divided into two types: fixed and variable.

### STEP 3 Total your expenses

Calculate and record the total of all your spending.


### STEP 4 Compare your total income with your total expenditure

Calculate whether you have sufficient income to meet your total expenses.

### STEP 5 Assess your financial position

If necessary, modify your budget. This may mean taking steps to reduce your expenses or to increase your income.

CASE STUDY

### Talat Malik's budget

Talat had just left school. She was studying at university and had a part-time job. She wanted to be sure that she would have enough money to meet her expenses and to save a little in case of an emergency. She prepared the following budget to help manage her finances.

| Details | Jan | Feb | Mar | Totals |
|---|---|---|---|---|
| **Income** | | | | |
| Wages | $1000 | $1000 | $1000 | $3000 |
| Interest | $50 | $50 | $50 | $150 |
| Total income | $1050 | $1050 | $1050 | $3150 |
| **Expenses** | | | | |
| Rent | $400 | $400 | $400 | $1200 |
| Food | $100 | $100 | $100 | $300 |
| Phone | $50 | $50 | $50 | $150 |
| Electricity | $100 | $150 | $150 | $400 |
| Transport | $200 | $200 | $200 | $600 |
| **Total expenses** | $850 | $900 | $900 | $2650 |
| **Amount saved** | $200 | $150 | $150 | $500 |

As shown in her budget, each month her total income was $1050, while her expenses were $850 in January and $900 in the other months. This meant that in January she saved $200 and in February and March she saved $150. After three months she had saved $500.

Talat was meeting her commitments and was able to save a little each month.

## 1.16.3 Savings plans

Russell rips open his first pay slip — his first wage of $84.50 has been paid into his bank account. Next stop is the shopping centre where he buys a new video game and then a T-shirt that is 'on special'. He goes to the movies and buys some lunch. As he nears home, the reality hits him. Out of his $84.50, he has only $3.50 left.

Russell has just learned a valuable Commerce lesson: you can do two things with money — spend it or save it. Russell can, however, do both by spending some of his earnings responsibly and working out a regular savings plan.

People save for many reasons, and these reasons change at different stages of life. For example:

- Teenagers might save for a laptop, a car or a big holiday at the end of Year 12.
- On leaving school, young people may wish to experience the excitement of living in an inner-city location. The cost of living in such areas can be high, especially accommodation costs, and may make it difficult to save. People living in remote rural communities also experience high living costs, especially for food and household items, due to the added expense of transporting supplies to isolated areas.
- Houses are so expensive that not many people can afford to pay cash for them. First-home buyers must save for a deposit and arrange the rest through a loan.
- For wage or salary earners with children, the saying 'saving for a rainy day' means that it is important to have some money saved in case illnesses, accidents or other emergencies affect them or their dependants.

- Older people save for their retirement by putting funds aside in a superannuation plan. They want to have a good lifestyle and to feel secure in their old age.
- Whatever a person's age, saving money gives some people a sense of satisfaction and pleasure. When they look at their savings balance, they feel a sense of achievement. Also, having access to savings and not living from pay to pay reduces stress. Knowing that they can get by if an emergency arises provides many people with a sense of security.

## 1.16.4 Superannuation

In Australia, superannuation is a compulsory savings scheme for retirement. Over your working life, you pay into a fund and then when you retire, you receive either a large lump sum or a pension.

You can choose between two types of superannuation funds: a retail fund or an industry fund. These differ as follows:

- Retail funds are usually run by banks or investment companies. They will offer many investment choices but the company that owns them will also keep some of the returns as a profit.
- Industry funds usually offer less choice, but any profits are returned to the members. Originally, many industry funds were **trade union** based. (Trade unions are organisations that represent employees and try to improve their wages and working conditions.)


**on** Resources

**Digital document** Worksheet 1.13 The budget of Mario (doc-32687)

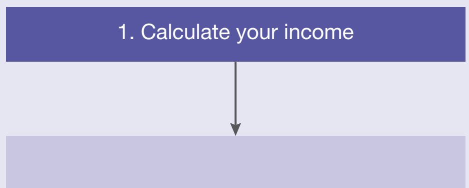
### 1.16 Activity: Research and communication

1. Using a computer spreadsheet, record all your income and spending over a two-week period.
   (a) What was your balance for each week?
   (b) Were you satisfied with how you managed your finances?
   (c) Predict changes you could make over the next three months.
   (d) What changes would you make if you wanted to increase your savings?
2. With a partner, use the internet to research two industry superannuation funds and two retail superannuation funds. Compare the fees and returns from these funds.

## 1.16 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Explain the difference between fixed and variable expenses. Give two examples of each.
2. Refer to the case study of Sasha and Lizzy.
   (a) Which sister earns the most money?
   (b) Which sister spends the most?
   (c) What problems could arise from Sasha spending most of her income? Suggest ways in which Sasha could reduce her spending.
   (d) Describe Lizzy's financial plan.
3. Construct a flow chart that shows the steps in preparing a budget. If possible, use the drawing tools on your word processor to assist in this process.




4. Study the following budget for Nina Rossi and then answer the questions.

| Details | January | February | March | Totals |
|---|---|---|---|---|
| **Income** | | | | |
| Wages | $2000 | $2000 | $2000 | $6000 |
| Interest | $0 | $150 | $0 | $150 |
| Total income | $2000 | $2150 | $2000 | $6150 |
| **Expenses** | | | | |
| Rent | $500 | $500 | $500 | $1500 |
| Food | $200 | $200 | $200 | $600 |
| Phone | $50 | $50 | $50 | $150 |
| Electricity | $100 | $100 | $100 | $300 |
| Transport | $200 | $200 | $200 | $600 |
| **Total expenses** | $1050 | $1050 | $1050 | $3150 |
| **Amount saved** | $950 | $1100 | $950 | $3000 |

   (a) In which month did Nina expect to have the highest total income?
   (b) What is Nina's biggest expense?
   (c) At the start of April, Nina wished to go on a holiday to Bali costing $2500. Would she be able to afford this? Explain your answer.
5. (a) Using a spreadsheet program such as Excel and the data provided, prepare the budget for Ali Khan for the months of January, February and March. Be sure to place equations where appropriate so that any changes will automatically update your answer. Use the budget in the previous question as a guide.
   Data for Ali Khan: wages $1500 in each month, interest $100 in February only, rent $400 in each month, food $250 in each month, phone $50 each month, electricity and transport are both $100 in each month.
   (b) The government increased the cost of bus travel. This changed Ali's transport costs to $200 in each month. How did this affect his total amount saved?
6. What two things can you do with your income?
7. What are the two main types of superannuation funds? Explain an advantage of each.

**Fully worked solutions and sample responses are available in your digital formats.**

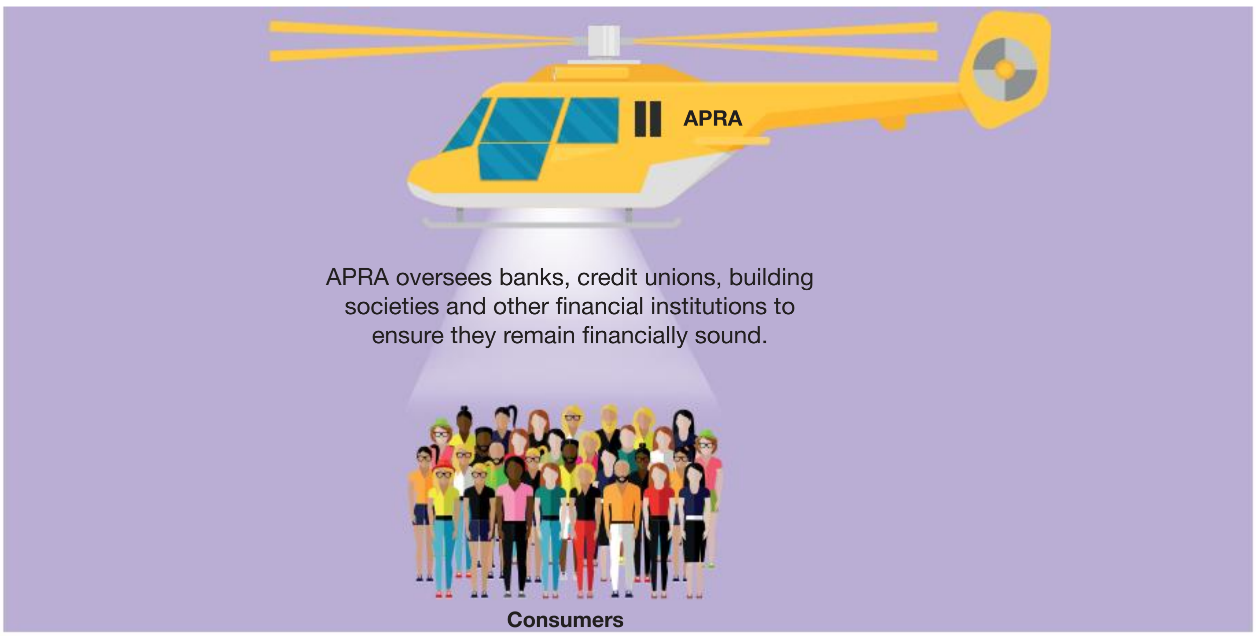
# 1.17 Options for addressing financial difficulty

## 1.17.1 Personal loans

In Australia, customers can access personal loans from:

- banks (for example, ANZ Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation)
- credit unions
- building societies
- other financial institutions (for example, finance companies).

While none of these lending organisations is government owned, all are supervised by the Australian Prudential Regulatory Authority (APRA). Regulation requires these lending organisations to offer services to assist customers to get the best possible outcome from their choice of loan product and thereby reduce financial stress. Typically, these services take the form of information, tips and tools as well as access to teams of financial advisors and counselling specialists.




Once you have a personal loan, you begin making regular repayments to your credit provider. The amount of each repayment is based on the sum borrowed, the term (length) of the loan and whether the interest rate is fixed or variable. Fixed interest rates stay the same throughout the term of the loan (for example, 2 per cent over five years). Variable rates will change over the period of the loan.

## 1.17.2 Negotiating alternative payment plans

Should someone experience difficulty with their repayments due to unforeseen circumstances (such as illness or unemployment), they have the right to apply to their credit provider for a hardship variation. This requires them to:

- Contact the provider of the loan.
- Tell them about the need to vary the loan contract because of hardship. (This is set out in Section 72 of National Consumer Credit Code.)
- Explain why they are having difficulties, how long they think their financial problems will continue and how much they can afford to repay.

A number of choices are available if you have to vary your loan due to hardship; these include:

- extending the loan period
- making smaller repayments over a longer period
- postponing repayments for an agreed period.

Other options include selling assets and only paying the interest on the loan (rather than also reducing the principal or amount borrowed).

While changing payment plans may incur fees, it is better than just ignoring the problem. If a borrower continues to skip repayments, the finance provider is entitled to foreclose on the loan. This means they can seize the borrower's assets and sell them to recover the money.

### CASE STUDY

### Ajay experiences hardship meeting car loan repayments

Since leaving school, Ajay worked night shifts at a mine located 30 kilometres outside his town. Because he did not want to rely on friends and family for transport, he decided to buy a car.

Ajay took out a personal loan with one of Australia's big banks. He borrowed $10 000 over five years on a 10 per cent fixed interest rate. Within 12 months of taking out the car loan, the mining industry took a downturn and Ajay was retrenched.

Due to his period of unemployment, Ajay had difficulty meeting his monthly loan repayments. He made an appointment to speak to an advisor at the bank. He described how his retrenchment and the difficulty finding another job had made it impossible for him to meet his next monthly repayment. He asked if he could change the term of his loan from five to seven years so, although it would take him longer to pay off the car, his monthly repayments would be smaller. He also wanted to know if the fixed interest rate agreed upon a year earlier could be changed to the lower interest rate of 5 per cent now advertised by the bank.

Ajay renegotiated his personal loan with the bank.

Although he had to pay a small fee to change his plan, Ajay took the advice of his bank's financial advisor. The new plan was for a secured loan of $8000 over seven years at 5 per cent interest. The security for the loan was the car itself.

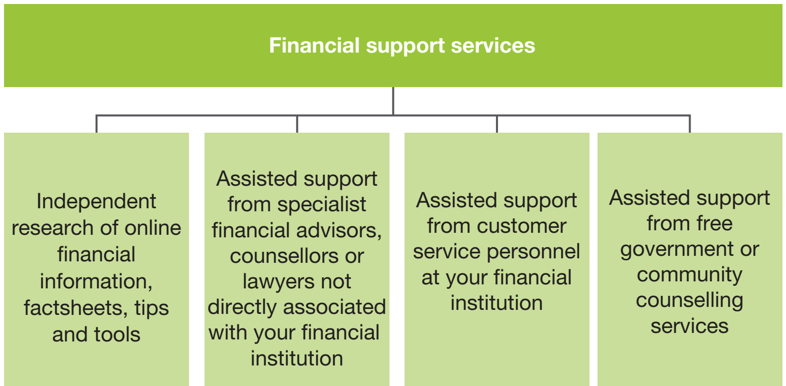
After four months without an income, Ajay secured work interstate as a fly-in fly-out miner. Because his new job had a higher salary and the living expenses associated with the new job were lower, he paid off his car loan well inside the seven-year term.

## 1.17.3 Seeking support

In addition to the support offered by lending institutions, a range of other services and service organisations can help you negotiate loans and alternative payment plans. These support services are summarised in the following diagram.

People who find themselves in financial difficulty have several options available to them to get help. Those who prefer to 'go-it-alone' can choose to access reliable information, factsheets, tips and tools to help them resolve the difficulty on their own. This includes resources provided online by the Australian Securities and Investment Commissions (ASIC); for example, through moneysmart.gov.au.

People experiencing financial difficulty can access support from many sources.




People who are less confident to address their own difficulties or face very complex issues can access support from other people. These people include:

- Specialist financial advisers, counsellors and lawyers who are not directly associated with your financial institution. Using independent services of this kind will incur a cost.
- Customer support and services personnel directly associated with your financial institution. These services are usually at no-cost to customers because they are factored into the price of the financial product (for example, the loan plan) the customer has bought.
- Counsellors at government or community agencies, many of whom provide services for free or at low cost. For example, the National Debt Helpline offers free step-by-step guides to fix common debt problems as well as free, independent telephone counselling.

The best choice is the option of ‘best fit’. For example, a young person applying for a hardship variation on a car loan is more likely to opt for the no-cost, or low-cost, service not directly associated with their bank.

**on** Resources

**Weblink** MoneySmart

### 1.17 Activity: Research and communication

1. Work with a partner to compose an informed reply to the following social media post:
   *Hi. I am hoping someone can help me. I have taken out a loan with a credit union and I simply cannot keep up with my repayments. What should I do?*
2. Imagine you have a loan for $20 000 and have just been retrenched. Research the websites of the major banks to identify how each may be able to help in this situation.

### 1.17 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. State whether the following are true or false.
   (a) Personal loans in Australia are only provided by the ‘big four’ banks.
   (b) In Australia, consumers of personal loans have the right to negotiate a hardship variation.
   (c) Credit providers in Australia are supervised by a regulatory authority.
   (d) It is better to seek help with financial difficulties sooner rather than later.
2. Use the words in the list to complete the following passage.
   **amount** **credit** **interest** **term**
   The size of repayments on a personal loan depends upon the __________ borrowed, _________ rate and the _________ of the loan. These variables are negotiable with a _______ provider.

3. Refer to the case study 'Ajay experiences hardship meeting car loan repayments'.
   (a) Explain why Ajay needed a vehicle.
   (b) Describe how Ajay was able to repay the loan early.
   (c) Compare the terms of Ajay's loan before and after the re-negotiation due to hardship.
4. Outline some of the sources of support that people experiencing financial difficulty can seek out.

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.18 Impact of technology on consumer decisions

The methods that consumers use to pay for goods and services have constantly changed over time. Most of the changes are due to the impact of technology.

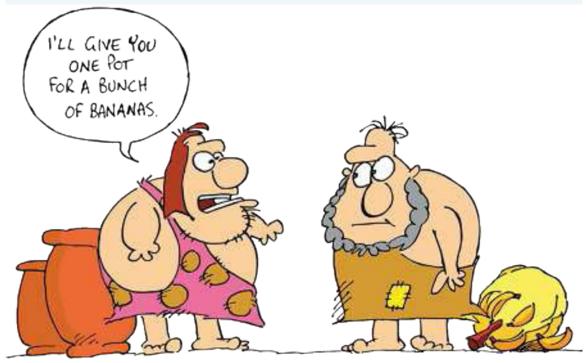
## 1.18.1 Barter

Before coins and notes were used, a system called **barter** existed. Barter was swapping or exchanging one good for another. Barter still exists in some parts of the world.

However, there are a number of problems with barter. Trying to calculate the value of an item is difficult. Finding someone who wants what you have and has what you want is known as 'double coincidence of wants'.

The development of money overcame the problems of barter.

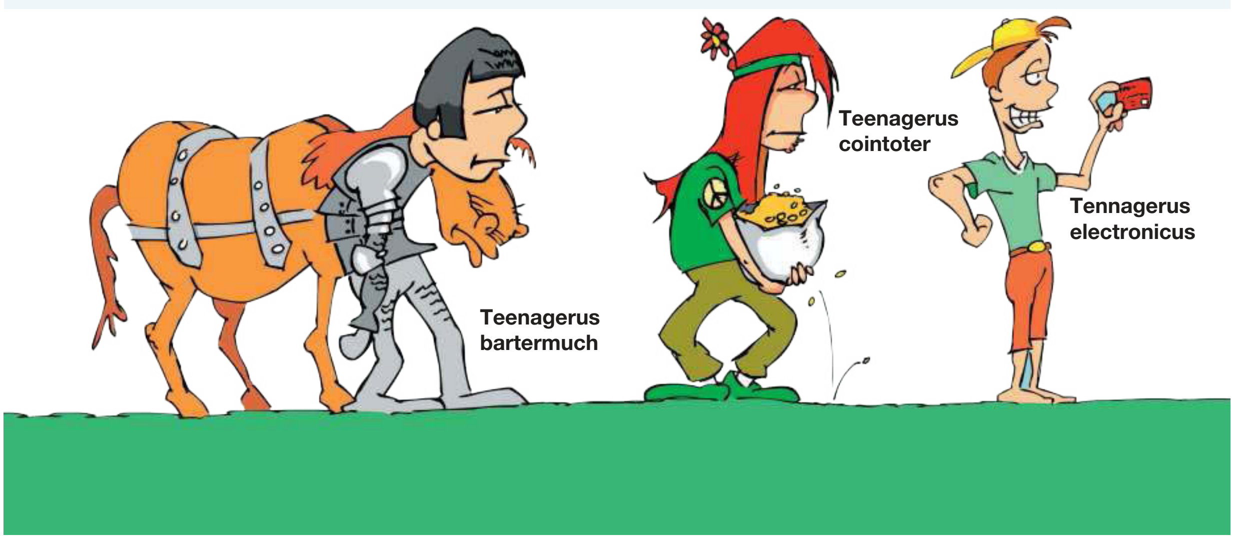
Barter — an early method of payment




## 1.18.2 Money

Money — anything people generally accept as payment in exchange for goods and services — gave consumers greater freedom in satisfying their needs and wants. Earlier societies used items they valued, such as gold, shells, rum, salt, cattle or even coloured stones, as money. They were scarce or rare and accepted by everyone as a form of payment.

Evolution to a cashless society



## 1.18.3 Impact of technology

Developments in computer technology have virtually turned Australia into a cashless society. The modern consumer typically prefers to use **electronic transfer** both to receive money and to pay for purchases. Some of the current technological methods that can be used to make electronic (cashless) payment include:

1. *Visa payWave* and *MasterCard PayPass*. This 'tap and go' technology allows for payments of under $100 simply by tapping your debit or credit card, keyring or mobile phone against a specialised contactless terminal.
2. *Smartphone apps*. There are numerous apps such as Apple Pay, Google Pay and Samsung Pay. These are aimed at allowing consumers to make mobile credit card payments using smartphones. The mobile phone is becoming an extension of the purse or wallet.

Simply 'tap and go' to make a quick electronic payment


When using any new technology to make payments, it is important to remember the safety issues involved with electronic transactions. Keep track of your spending by checking your statements regularly and contacting your bank if there are irregularities.

Financial institutions are structuring their transaction fees and charges to encourage customers to adopt electronic banking.

### COMFACT

According to Chinese historians, China was the first country to issue paper money. Called 'flying notes' their use was first recorded about AD 800.

### on Resources

**Digital document** Worksheet 1.14 SWOT analysis (doc-32688)

### 1.18 Activity: Research and communication

1. Using your library and the internet, research an early form of money. Find out where and when it existed, who used it and what it was like.
2. As a class, discuss the advantages and disadvantages of using smartphone apps such as Apple Pay and Google Pay as a means of buying goods.

### 1.18 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is barter? Describe some of the problems associated with barter.
2. What is money? Name some of the things that earlier societies used as money.
3. Where and when was the first paper money issued?
4. Name two common payment cards that use tap and go technology.
5. Name two common smartphone apps consumers can use when purchasing goods.
6. How might older Australians be disadvantaged by the trend towards payments with smartphone apps?
7. What problems could arise from people paying bills electronically?

**Fully worked solutions and sample responses are available in your digital formats.**

# 1.19 Thinking Big research project: Smart financial management

## 1.19.1 Scenario

You are an experienced financial adviser and a client has come to you looking for advice on how to maximise her financial situation. Madison is a young professional who is planning her wedding, which is to be held in four months time. Madison and her fiancé, Taylor, are planning to buy a house within the next two years. Madison's job as a Function Coordinator is well paid and she prides herself on being very well organised not only in her personal life, but also in her money management. In your role as a financial adviser, you must take into account your client's short, medium and long-term financial goals, before making a recommendation.


## 1.19.2 Task

Madison has a number of goals with varying time frames for achievement. To offer her sound advice, you will need to gather information from a variety of sources about different types of credit cards, personal loans and term deposits. You are provided with information about Madison's financial situation, her goals for the future and a video interview with Madison. You must provide Madison with a recommendation on how she should proceed in order to reach her goals.

## 1.19.3 Process

1. Form a group with other members of your class. Open up your ProjectsPLUS application for this topic, located in the Resources tab. View the Project Brief and then click the 'Start new project' button and set up your project group. Save your settings and the project will be launched.
2. Navigate to your Media Centre, and open the 'Monthly Budget for Madison McMulligan' template. Using the spreadsheet template provided, you must complete a monthly budget for Madison using the information below. Ensure you use correct formulas to calculate the totals. Print the budget once you have completed it and make sure that you submit this with your final project.

> Madison is a Functions Coordinator for a luxury international hotel and earns a salary of $50 000 net. She is lucky that she lives at home; paying her parents $100 a week for board. She has recently bought a new car and has a monthly repayment of $280. In addition to this, she pays $70 a month for her car insurance. She has calculated that every month she spends about $200 on fuel and car maintenance. Madison eats out for lunch every working day, on average spending about $15. She has also calculated that she spends about $400 a month on clothes and about $200 on entertainment. Added to these expenses is the cost of a mobile phone on a $75 monthly plan and a private health insurance plan that costs $47 a month.

3. Help Madison to finance her wedding, based on the following information:

> Madison is yet to save any money at all towards her wedding. The wedding planner has estimated that this most important day will cost about $14 000 in total. Madison and her fiancé will share the cost equally.

Look at the budget you created for Madison and calculate how much money she could save in the next four months. Navigate to the Media Centre and open the 'Recommendations to Madison McMulligan Template'. Refer to Part 2 of the template and outline how much money you believe Madison could save, as well as your recommendations for some cutbacks in Madison's expenses.

4. If she looks like running out of time, she may need to find another source of finance. Use the internet to find a range of credit card and personal loan options for Madison and enter your findings as articles under these topics in your Research Forum. Refer to the weblinks provided in the Media Centre to get you started. You can view and comment on other group members' articles and rate the options they have entered. When you have decided on the best credit card and best personal loan, refer to Part 3 of the 'Recommendations to Madison McMulligan Template'. Complete the table provided and then make recommendations on what Madison should do to finance her wedding.


5. After the wedding, Madison and Taylor will be concentrating on saving their pooled money to buy their first home. As their financial advisor, your role is to propose the best type of term deposit. Research the term deposit options that are currently available from Australia's lending institutions and enter your findings as articles under the 'Term Deposits' topic in your Research Forum. Refer to the weblinks provided in the Media Centre to get you started. Rate and comment on the options that have been entered. As a group, decide on the best option and then refer to Part 4 of your 'Recommendations to Madison McMulligan template' where you will need to propose and justify which term deposit Madison should use.
6. Print the Research Report, Monthly Budget, and Recommendations to Madison McMulligan documents and submit them to your teacher.

**on** Resources

**ProjectsPLUS** Smart financial management (pro-0132)

# 1.20 Review

## 1.20.1 Summary

Having explored this topic, you can now:

- understand what a consumer is and the types of decisions they need to make in order to satisfy their needs and wants
- list the key factors affecting consumer decisions — disposable income, price, advertising/marketing, age, gender, social media, culture, convenience, environment and customer service — and understand that, when comparing prices of various goods, we should try to compare the 'per unit price'
- identify that comparison shopping is when we shop around to obtain the best deal, and that we need to look at aspects such as price, quality, availability and after-sales service
- compare goods and services from a huge number of options, including convenience stores, department stores, discount stores, supermarket/hypermarkets, specialty stores, market stalls, mail order, door to door, auctions, telemarketing, vending machines and, increasingly, through the internet
- understand consumer choices when paying for goods and services, including cash, credit cards, debit cards, BPAY®, electronic fund transfer, direct debit, cheque, lay-by, afterpay or book-up

- understand when firms are acting in an honest, trustworthy and ethical manner and when consumers could be victims of scams or rip-offs
- identify the two important pieces of legislation that try to prevent businesses acting dishonestly — that is, the *Competition and Consumer Act 2010* (Cwlth) and the *Fair Trading Act 1987* (NSW)
- determine the main features of a simple contract — the offer, acceptance and consideration
- identify the basic consumer rights and understand that while some protective legislation exists to ensure these rights — namely, the *Competition and Consumer Act 2010* (Cwlth) — it is still important for the buyer to beware, or 'caveat emptor'
- suggest some organisations that may help if consumers need assistance, including the NSW Department of Fair Trading, an industry ombudsman, ASIC, ACCC, Choice, the media and the NSW Civil and Administrative Tribunal
- describe the consequences of poor financial management, including excessive debt and the effect on wellbeing
- describe the importance of long-term financial strategies, including the need for monitoring, record-keeping, budgets, savings and superannuation
- explain the various options available for anyone experiencing financial difficulty
- describe how technology has changed the payment process.

## 1.20.2 Key terms glossary

**acceptable quality** a product fit for purpose, acceptable in appearance and finish, free from defects, safe and durable
**acceptance** when the offeree agrees to the proposal
**assets** items of value
**bankruptcy** when a person gives up control of their assets and finances, either voluntarily or by a court order
**barter** the swapping or exchanging of one good for another
**book-up** a charge account operated by a trader
**budget** a list of income and likely expenditures
**capital** goods used to make other goods
**caveat emptor** a term meaning 'let the buyer beware'
**cheque** a written communication ordering your financial institution to pay a person a specific amount of money
**commerce** the buying and selling of goods and services between individuals and businesses
**comparison shopping** contacting (by telephone, internet or in person) a number of sellers to obtain the best deal
**consideration** the giving up of something of value
**consumer** someone who purchases goods and services to satisfy needs and wants
**consumer guarantees** a set of rights and remedies for defective goods and services
**contract** a legally binding agreement
**creditors** people you owe money to
**debt** money owing to external sources; e.g. a bank
**disposable income** the amount of money that households have available for spending and saving after income tax has been deducted
**distribution chain** the ways of getting the product to the customer
**drawee** the financial institution that provides cheque account facilities
**drawer** the person who writes and signs a cheque
**durable goods** items that can be used many times
**e-commerce** the buying and selling of information, goods and services via the internet
**e-tailer** electronic retailer
**EFTPOS** electronic funds transfer at point of sale
**electronic transfer** the transfer of funds from one account to another via the internet or telephone
**enterprise** a project or undertaking that may relate to a business, organisation, community or government agency
**fixed expenses** expenses that are the same amount every time — for example, monthly rent, or a minimum charge of $40 per month for a mobile phone
**garnishee** a court order that allows an employer or bank representative to take money from your wages or accounts and give it to your creditors
**goods** items that you can see or touch

**impulse buying** buying something without giving much thought as to whether you really need it
**income** money received on a regular basis from work, property, business, investment or welfare
**interest** the price that must be paid in order to use someone else's money
**labour** the human skills and effort required to produce goods and services
**land** naturally occurring resources, such as forests, coal and fertile soil
**liquidated** where all company assets are sold in order to pay the company's debts
**mail order** to buy products, via catalogues, for delivery by mail
**manufacturer** a person or business that makes goods
**money** any token, with an agreed value, that people accept as payment in exchange for a good or service
**needs** things that are necessary for survival, such as water and food
**non-durable goods** items that can be used only once
**offer** a proposal
**online shopping** purchasing products over the internet
**opportunity cost** what you have to forgo if you choose to do A rather than B; the value of the next best alternative that is forgone whenever a choice is made
**payee** the person who is to receive the money from a cheque
**price** the amount of money a consumer is prepared to offer in exchange for a good or service
**profit** what remains after all business expenses are deducted from sales revenue
**redress** to set right
**retailer** a business that sells products directly to consumers
**rip-off** to overcharge or swindle
**scam** an illegal business practice
**sequestration order** an order from the Federal Court of Australia declaring an individual bankrupt
**services** things done for you by others
**superannuation** money set aside during your working life for retirement; commonly called 'super'
**trade union** organisation that represents employees and tries to improve wages and working conditions
**unconscionable act** any practice by a seller that is just not reasonable and often illegal
**variable expenses** expenses that change over time, and do not occur on a regular basis. For example, a person may go to a music concert this month to hear their favourite singer and buy a computer game next month
**wants** things that are not essential for survival but that we would like to have
**wholesaler** buys goods in large quantities from the manufacturer
**writ of execution** a court order that allows a court official (the sheriff) to seize and then sell some of your property

## on Resources

**Digital documents** Key terms glossary (doc-32664)
Match up (doc-32750)
Crossword (doc-32784)
Wordsearch (doc-32795)

**Interactivities** Wordsearch (int-7898)
Crossword (int-7881)

## 1.20 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

### 1.20 Exercise 1: Glossary quiz online only

### 1.20 Exercise 2: Multiple choice quiz

1. Which of the following terms best describes the process of contacting different sellers to find the best price for a product or service?
   A. Price shopping
   B. Product shopping
   C. Window shopping
   D. Comparison shopping

2. What is the Latin term meaning 'let the buyer beware'?
   A. *Careful emptor*
   B. *Caveat emptor*
   C. *Caveat empty*
   D. *Caviar emperor*
3. What three essential elements make a legally binding contract?
   A. The offer, the acceptance and the consideration
   B. The offer, the handshake and the consideration
   C. The offer, the acceptance and the cheque
   D. The proposal, the handshake and the cheque
4. What is buying things without giving much thought as to whether you really need them?
   A. Impulse buying
   B. Having too much money
   C. Urge buying
   D. Instinctive buying
5. One problem with bartering was the need for a 'double coincidence of wants'. What does this mean?
   A. Finding two people who want the same good.
   B. Finding someone who wants what you have and has what you want.
   C. Finding twins who coincidently want identical items.
   D. Finding two people who coincidently want what you have.
6. Which of the following is an advantage of a credit card?
   A. It is easy to overspend.
   B. They are a convenient payment method for online transactions.
   C. They are often more expensive than other forms of credit.
   D. Missing a monthly repayment will affect your credit rating.
7. Since January 2011, a single consumer law has been in force across Australia. It ensures that when you buy products and services they come with automatic guarantees that they will work and do what you asked for. What is this law called?
   A. Australian Goods and Services Law (AGSL)
   B. Australian Consumer Law (ACL)
   C. Australian Fair Trading Law (AFTL)
   D. Australian Fair Price Law (AFPL)
8. A common scam is referral selling. What does this usually involve?
   A. The consumer being offered a 'special deal' if they pay in cash.
   B. The consumer being offered a 'special deal' if they buy the product and provide their names as referees for the shop assistant.
   C. The consumer being offered a 'special deal' if they buy the product and provide names of potential customers.
   D. All of the above.
9. Which of the following is an advantage of using a debit card to purchase goods and services?
   A. You use a financial institution's money and are charged interest.
   B. You use your own money and pay no interest.
   C. You may spend up to your credit limit.
   D. You use a financial institution's money but they do not charge interest.
10. In Australia, which of the following describes a compulsory savings scheme for retirement?
   A. A credit card
   B. A personal loan
   C. A term deposit
   D. A superannuation scheme

## 1.20 Exercise 3: Knowledge and understanding

1. Complete the statements by selecting the correct word from the list below.
   **budget consumer durable wants services need goods consumer guarantees**
   (a) A ________________ is someone who purchases goods and services to satisfy needs and wants.
   (b) Something that is necessary for survival is called a ________________.
   (c) ________________ are not essential for survival but are the things we would like to have.
   (d) Items that you can see or touch are called ________________.
   (e) ________________ cannot be touched but are provided for you by other people.
   (f) A financial plan is called a ________________.
   (g) A ____________ is a type of good that can be used more than once.
   (h) ____________ ____________are a set of rights and remedies for defective products.
2. Draw a diagram to show the distribution process from the manufacturer to the consumer.
3. Outline the situations where the following is the most appropriate means of purchasing goods.
   (a) Mail order
   (b) Internet shopping
4. What are the main elements of a simple contract?
5. Carefully study the following illustration.
   (a) Fill in the empty boxes using the image as a guide.
   (b) Explain how each practice helps a person to become a wise consumer.

Practices of a wise consumer


6. Outline the role of the NSW Consumer Administrative Appeals Tribunal (NCAT).
7. Explain the difference between a *credit card* and *direct debit*.
8. What are the advantages of keeping an up-to-date record of your purchases and payments?

## 1.20 Exercise 4: Challenge your understanding

1. Explain why needs and wants vary between:
   (a) people in the 1890s and people today
   (b) a teenager living in regional NSW and an elderly person living in Sydney
   (c) a middle-aged executive earning $400 000 a year and a young sales assistant earning $40 000 a year.
2. Research the changes that have occurred in the way we shop. Present your information by completing the following timeline.

**Middle Ages** **Online**

5th–15th century 21st century

3. Explain how specialty stores are able to exist in competition with large department and discount stores.
4. Find three examples of persuasive advertisements and paste them in your notebook. Under each one, explain how the advertisement might influence the consumer to buy the product.
5. Read the article 'Supermarket shopping — at your convenience' then answer the questions that follow.

> **Supermarket shopping — at your convenience**
> As you enter the supermarket you encounter your first obstacle: a shopping trolley with a mind of its own. After taming the 'beast', you set off cautiously, for you have entered into a game of enticement where the retailer has cleverly set traps to ensnare the unsuspecting consumer. Traps pepper your journey, such as music, lighting, pleasant aromas from the bakery, eye-catching display techniques and, worst of all, the rearrangement of the store to divert you to new aisles. After dodging the tempting specials, you make your way to the checkout. Which aisle to line up in? The 'express' aisle moves at a snail's pace and the self-service counter is extremely busy. Never mind, just pick up (and later purchase) a magazine while you wait — another trap. With the trolley unloaded, and goods scanned and bagged, you now take a leap of faith and hope the EFTPOS transaction is accurate. Leaving, you push the errant trolley to your car, once you remember where you parked it. You breathe a sigh of relief. How can this be called 'convenient'?

   (a) Do you agree with the sentiments expressed by the writer? Give reasons for your answer.
   (b) Is this article based on fact or impression? How can you tell?
   (c) Investigate and report on the changes that have occurred in supermarket shopping over the last 50 years. Why have these changes occurred and who has benefited, the consumer or the retailer?
6. List and explain some techniques retailers use to tempt us into impulse buying. The first one has already been completed for you.

| Techniques used by retailers to encourage impulse buying | |
|---|---|
| **Technique** | **Explanation** |
| 1. 'Sale' prices | You think you are getting a good bargain. |

7. Prepare a database or spreadsheet of organisations that provide advice for people who are experiencing financial difficulties.
8. Explain how consumer guarantees provide some protection for a consumer.

9. Write a story in which you imagine that you are unable to pay your mobile phone account. Explain how you came to be in this position and what you plan to do.
10. Answer the following questions:
    (a) What does the term 'plastic money' mean?
    (b) What are some advantages and disadvantages of using debit cards?
    (c) Why is a debit card better than a cheque for both the consumer and business?
    (d) Will cashless shopping create any difficulties for society? Explain your answer.
11. In small groups, construct a flow diagram to indicate the steps involved in using an ATM.
12. Does the law provide sufficient protection to consumers who buy goods and services online or by the telephone? Explain your view.


**Fully worked solutions and sample responses are available in your digital formats.**

## on Resources

**Digital documents** Worksheet 1.15 Wrap up! (doc-32689)
Glossary quiz (doc-32762)
Multiple choice quiz (doc-32773)

**eWorkbook** Customisable worksheets for this topic (ewbk-0858)

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# 2 The economic and business environment

## 2.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS at www.jacplus.com.au.

### 2.1.1 Introduction

Do you shop, have a bank account or even catch public transport? Of course you do! So even without knowing, you are engaged in and dependent on the world of business and economics.

Whether we know it or not, we are all involved in the economy. When we buy goods and services, put money in a bank account or get a casual job, we are contributing to the economy.

However, the economic and business environment is always changing. Not too long ago, most goods and services were bought from local shops in a face-to-face exchange. Now, thanks to advancements in technology such as the internet and smartphones, you can buy anything you want, 24 hours a day, and have it delivered to your door. Businesses can now access a global market, not only to sell their products but also to get them produced. Although this can create opportunities for businesses, it also presents challenges that individuals, businesses and governments need to think about.

This topic looks at the way our economy and markets operate in a globalised world, including the interdependent nature of our economy and the role and function of businesses within the economy.

**CONTENT FOCUS**

On completion of this topic, you will have:

- developed an understanding of the importance, and features of, the economic environment, including markets
- explored the nature, role and operation of businesses in the context of an increasingly globalised economy
- investigated cause-and-effect relationships in relation to a major economic event or development affecting Australian consumers and businesses.

on Resources

Video eLesson The business and economic environment (eles-3507)

Digital documents Key terms glossary (doc-32665)

Worksheet 2.1 Start up! (doc-32806)

eWorkbook Customisable worksheets for this topic (ewbk-0859)

# 2.2 The five-sector circular flow model

It is sometimes said that 'money makes the world go around'. Of course, this is not physically true, but it does sum up the way the **economy** works. So an important concept to understand is the flow of money or finance that moves through the economy.

The circular flow of income shows the connections between the five different sectors of an economy: consumers, businesses, financial institutions, the government and the overseas sector. It also shows where money is being injected into the economy and where money is being leaked from the economy. These injections and leakages help economists calculate changes in the level of economic activity within an economy.

## 2.2.1 The consumer and business sectors

The household sector of an economy is made up of consumers, who hold economic resources such as land, labour, capital and enterprise. In a simple two-sector economic model, the other sector of the economy is the firms sector. People sell their resources to firms (businesses) in exchange for an income. Firms then use the resources of households to produce goods and services. This is known as **production**. Households will then use their income to buy various goods and services. This is known as **consumption**.

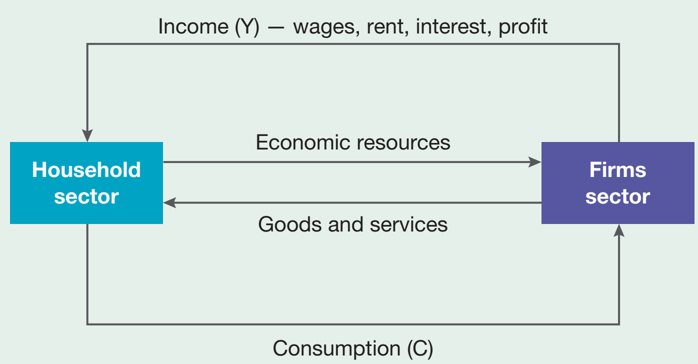
Consumers and businesses are **interdependent** on each other. This means businesses would not survive without consumers buying their goods and services, and consumers rely on businesses to provide them with the goods and services they demand to satisfy their needs and wants, and also to provide them with an income.

### Two-sector circular flow of income model

Vanessa was struggling to understand the links within the economy. She realised that income is a central theme to understanding any economy. *I've always enjoyed model making, so why don't I start there?* she thought. When building a model, it's easier to start simply then build up to a more complex model. She started with the two sectors. Everyday people from within a household are essentially workers, gaining income from the production of goods and services.

She noticed that households end up using their income for the consumption of the very goods and services that like-minded households are all contributing to produce.

Vanessa's simple two-sector flow of income model
The two sector model of the economy is balanced (or in equilibrium) when income (Y) = consumption (C).



## 2.2.2 The financial sector (third sector)

The financial sector refers to financial institutions such as banks that act as intermediaries between the savers and borrowers in an economy. They receive the savings of individuals and businesses and then lend this money to others who need to borrow money.

A choice of saving or investment is an important factor within the economy. **Saving** (S) refers to putting money away for later use and is a leakage from the circular flow of income, whereas **investment** (I) is when money is borrowed and used to expand and grow a business. This means investment is an injection into the circular flow of income.

## 2.2.3 The government sector (fourth sector)

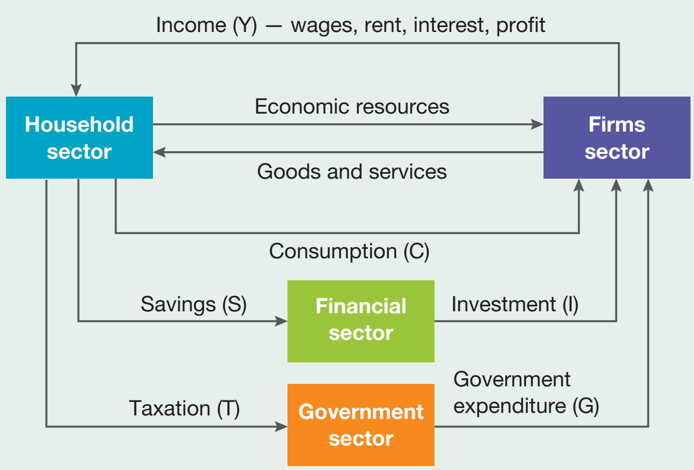
The government sector refers to local, state and federal governments and has two significant roles in the circular flow of income:

1. *Taxation* (leakage): the government collects taxes from individuals and businesses when they earn an income or profit.
2. *Government expenditure* (injection): this is when governments spend money raised through taxation on things such as infrastructure, welfare payments, education and health.

### Four-sector circular flow of the economy

Vanessa was thinking about her part-time job. She had tax taken out by the government and she also tried to save a bit of her pay each week and not spend all of it. She felt her first model didn't reflect this so she added two more sectors.

Vanessa's four-sector model of the economy




## 2.2.4 The overseas sector

A more complete approach to understanding economies occurs when we also consider the overseas sector. This macroeconomic model details global (macro) influences upon a nation's economy and successfully explains the role of trade in helping an economy grow. Trade consists of exports and imports.

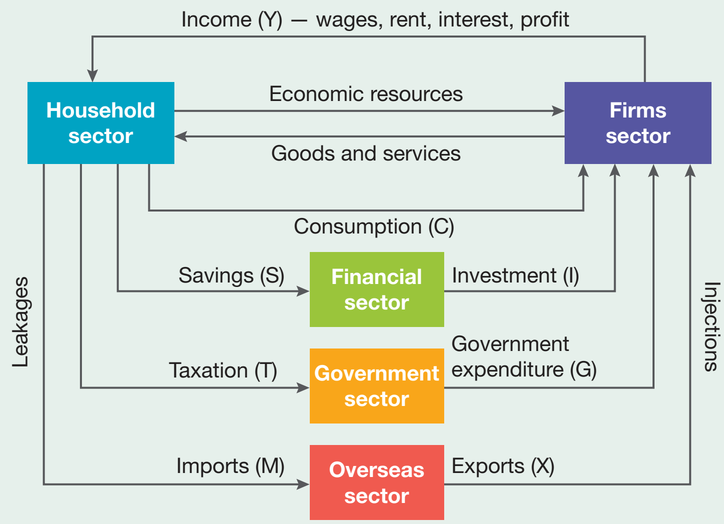
**Exports** (X) refers to Australian businesses selling their goods or services to overseas individuals, businesses or governments. These are an injection into the circular flow of income.

**Imports** (M) refers to the buying of overseas goods or services by Australians. These are a leakage from the circular flow of income.

## Five-sector circular flow of the economy

Vanessa realised she had forgotten something pretty important. People in the news and politicians talk about international elements of global finance and their impact upon Australia. This overseas sector was dealing with what she knew to be trade — bringing in things (imports) Australia doesn't have and selling things (exports) that Australia is able to share with the world.

Vanessa's completed model of the economy: the five-sector circular flow of the economy



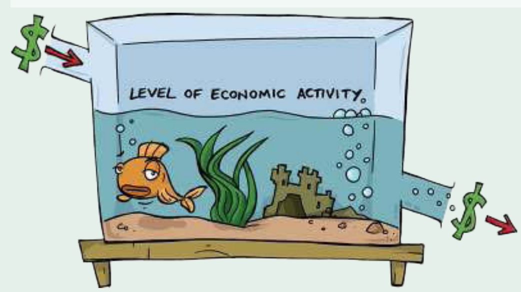

The circular flow of income is used by economists to measure changes in the level of economic activity within an economy; that is, is the economy growing or shrinking? This is done by adding up the injections into the economy and comparing them to the leakages out of the economy.

- When injections are greater than leakages, economic growth occurs and the economy will expand.
- When leakages are greater than injections, an economy will experience economic decline.

It is the government's role to try to manage and maintain a balance within their nation's economy by altering flows of money and influencing decisions within sectors.

Vanessa shared her models with the class. She described how each sector is equally dependent upon other sectors for success. To show that she was able to critically look at things and analyse where things can go wrong, she applied the example of a fish tank to explain problems within the economy: 'If leakages such as savings (S), taxation (T) and imports (M) are always leaving the economy, this is hard to balance. So the injections of investment (I), government expenditure (G) and exports (X) will stop the leakages from draining the fish tank dry. This is the tricky balance an economy has to maintain.'

The effect of injections and leakages is to raise or lower the level of economic activity.




**on** Resources

Digital document **Digital document** Worksheet 2.2 Economic links — the circular flow of income model (doc-32690)

### 2.2 Activity: Research and communication

1. In pairs, create a mind map showing all the ways you interact with the circular flow of income.
2. Create a flow chart that illustrates all the consequences on the circular flow of income for the following scenarios.
   (a) A new business being established in Australia
   (b) The government reducing the personal income tax rate
   (c) Banks being restricted in how much individuals and businesses are allowed to borrow
3. In small groups, brainstorm the impacts of a global recession on Australia's circular flow of income.

### 2.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What five sectors comprise the Australian economy?
2. Using examples, what is meant by the terms 'leakage' and 'injection'?
3. Explain the impact of leakages and injections on economic activity.
4. Complete the following table using appropriate symbols. The first one has been filled in for you.

| Model (Sectors) | Leakages | Injections |
|---|---|---|
| (a) Four | S + T | ____ + ____ |
| (b) Five | ____ + ____ + ____ | ____ + ____ + ____ |

5. Complete the following table by indicating next to each statement whether the event will expand or contract the level of economic activity.

| Statement | Increase or decrease economic activity |
|---|---|
| (a) Increased investment | |
| (b) Higher taxes | |
| (c) Rising export sales | |
| (d) Reduced government spending | |

6. Using the completed five-sector model, identify the money flows that best describe each of the following transactions.
   (a) An employee collects his wages.
   (b) A car manufacturer installs a new welder.
   (c) A teenager opens and deposits money into a bank account.
   (d) A school student buys a mobile phone.
   (e) An Australian miner sells iron ore to China.
   (f) An employee pays income tax.

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.3 The interdependence between different sectors of the economy

## 2.3.1 The role of the government in protecting consumers

The government has a significant role in the financial protection of consumers through the regulation of the financial sector. The Australian Securities and Investments Commission (ASIC) is an independent Commonwealth Government body responsible for the regulation of the financial sector. It operates under the *Corporations Act 2001* (Cwlth) and the *National Consumer Credit Protection Act 2009* (Cwlth).

Its main roles are:

- monitoring the financial services industry
- monitoring the provision of financial services such as investment advice
- providing consumer protection in financial services, including shares, managed funds, superannuation, insurance, credit and deposit-taking.


## 2.3.2 The role of the financial sector in facilitating business investment

Do you spend every cent you receive in pocket money or in return for any work you do, or do you set some aside as savings? While most people your age don't save much, many others in the economy do put aside some of their income as savings. This money is usually deposited in a bank or similar financial institution. Therefore, financial institutions act as intermediaries between the savers and the borrowers in an economy.

Banks and other financial organisations receive deposits, and use this money to lend to others who need to borrow money. Most businesses will borrow money, particularly when they need to expand the business. This may involve buying new equipment or even moving to bigger premises. Money spent in this way is known as investment. Financial intermediaries collect the savings of thousands of depositors, and then have large sums available for businesses to invest in growth.

**on** Resources

**Weblink** ASIC consumer protection

### 2.3 Activity: Research and communication

1. Use the **ASIC consumer protection** weblink to find out more about the role of the Australian Securities and Investment Commission. Explore the For consumers tab to create a list of how ASIC can protect consumers.
2. Research different bank websites or comparison sites such as Canstar (www.canstar.com.au) and investigate the following.
   - Savings deposit rates
   - Borrowing rates for products such as mortgages and credit cards
3. In small groups, brainstorm why we need the government to protect consumers when they are saving or borrowing money.
4. In small groups, brainstorm the consequences of the following scenario. Share your findings with the rest of the class.
   *You live in world without banks or other financial institutions.*

### 2.3 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What does ASIC stand for?
2. In your own words, what is the role of ASIC?
3. Define the following terms.
   (a) Savings
   (b) Borrowings
4. Explain what is meant by the following statement.
   'Financial institutions act as intermediaries between the savers and the borrowers in an economy.'

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.4 The business cycle

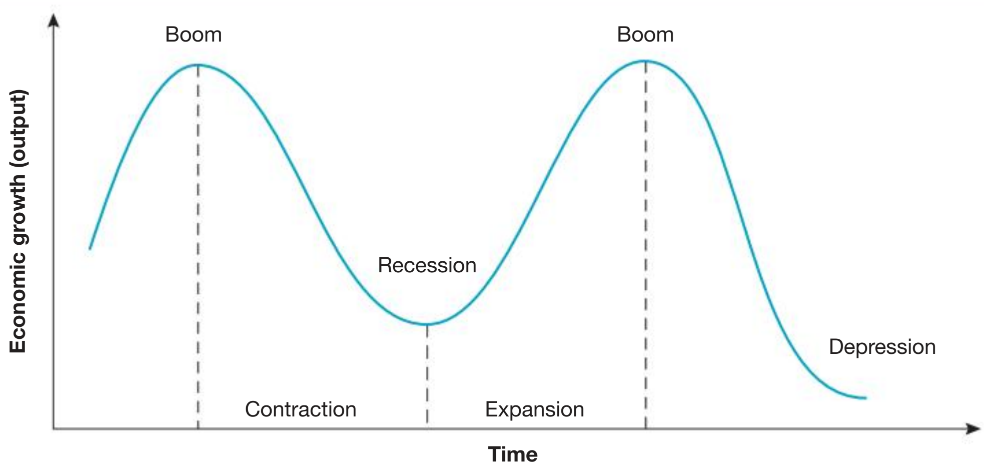
## 2.4.1 Phases of the business cycle

Imagine your local shopping centre to be a small-scale representation of the Australian economy. Now, imagine what would happen to the businesses within the shopping centre if all their customers decided to shop at another centre for a day. Economic disaster! If this situation continued for a month, the centre's businesses would close, employees would be laid off, and landlords and suppliers would not be paid. Eventually, as the 'economy' plunged into a **recession**, business owners would lose confidence in the economy's future. However, at the rival shopping centre, new businesses would open, many new jobs would be created, landlords and suppliers would gain new customers and the confidence of the local business owners would soar. The 'economy' of this shopping centre would boom.

While such an extreme situation would not happen in reality, the Australian economy does experience a cycle of 'booms' and 'busts'. These periods of high and low economic activity are referred to as the **business cycle**. After a period of prosperity, business activity gradually slows until a recession or **depression** is reached. A recession is where an economy gets smaller for a period of six months or longer. A depression is a long and severe recession. Eventually, business picks up again until prosperity is restored. This completes the cycle. These cycles are a basic feature of our economic system.

No economic system works perfectly all the time. The level of economic activity fluctuates (moves up and down). In other words, total production, incomes, spending and employment rise and fall. The fluctuations are caused by changes in the level of total spending — consumer spending (consumption), business spending (investment), government spending and exports — within the economy.

Phases of the business cycle




**Contraction**

Key features
- Falling levels of production (output)
- Decreasing consumer spending
- Rate of inflation may fall
- Wage rates generally fall
- Interest rates eventually fall
- Level of unemployment rises

**Expansion**

Key features
- Rising levels of production (output)
- Increasing consumer spending
- Rate of inflation may rise
- Wage rates generally rise
- Interest rates eventually rise
- Level of unemployment falls

## CASE STUDY

### The Great Depression

In 1929 the United States of America had never been richer. People rushed to buy shares in companies in order to 'get rich quick'.

But on 24 October 1929, the euphoria rapidly evaporated. On what has become known as 'Black Thursday', the New York Stock Exchange saw share values begin to fall sharply. American factories soon found it difficult to sell their goods. Employers were forced to reduce wages and dismiss many workers. This meant more people had less money to spend, and so the whole process accelerated.

People queuing for food during the Great Depression

As a result, US businesses cut back production and investment. Business and consumer confidence were shattered. Thousands of businesses were declared bankrupt. Mass unemployment became common. Lifetime savings were wiped out when thousands of banks suspended operations. Farmers were bankrupt. Families were evicted from their homes for not being able to meet their mortgage repayments. And all the while, the unemployment queues grew longer.

As the US economy toppled, it dragged down other national economies. What began as a financial crisis of confidence in the USA ended up as the Great Depression of the 1930s.

Australia was one of the worst-affected countries during the Great Depression. In 1932, unemployment was around 32 per cent.

The fluctuations of the business cycle do not fall into a regular pattern. The periods of expansion can vary from several months to several years. A contraction need not result in a recession or a depression if a recovery begins before the economy falls too far. For example, if the Reserve Bank of Australia (RBA) lowers interest rates, this should raise people's confidence in the economy. This aims to encourage consumers and businesses to increase spending, which helps avoid a downward spiral to recession.

Sometimes, a downturn may occur in only one kind of production; for example, coal. However, because of the interdependent nature of our economy, a change in any direction tends to spread. An increase in business activity can also spread. An increase in the demand for goods and services can force production and incomes to rise.

## 2.4.2 Recessions — too little spending

Recessions are caused by lack of spending, not the inability of the economy to produce goods and services.

Most goods and services are produced before they are sold. The amount produced depends on how much the business thinks consumers, other businesses and governments will buy, which in turn is influenced by the level of economic confidence.

By choosing to spend some of your money, you send a signal to businesses to keep making the products you buy. If, however, some products are not bought, the business may cut back on production and some employees might lose their jobs and incomes. This causes total spending to fall even further as people's confidence in the future is shaken. In this way, a recession spreads and economic growth is slowed. When a recession becomes widespread and long-lasting, it is called a depression.

The key features of a recession include the following:

- Income and production are at their lowest level in the business cycle.
- Unemployment is at a high level.
- The inflation rate tends to stay low.
- Wages and salaries either fall or grow very slowly.
- Consumer demand and, consequently, business sales and profits reach their lowest levels.
- Bankruptcies are everyday occurrences and the business outlook is bleak.
- Businesses have a lot of unused resources and no incentive to purchase new machinery.
- Interest rates remain low, while investment opportunities are few and the number of creditworthy borrowers is reduced.

The number of business closures increases during a recession.


## 2.4.3 Booms — too much spending

The upside of the business cycle is growth and prosperity. Production, spending and employment rise. Businesses expand, employees are hired and incomes increase. Consequently, total spending increases even more. Consumer and business confidence are high. However, the economy cannot keep producing more goods and services indefinitely. There is a limit. When this happens, additional spending pushes up prices. **Inflation**, a general rise in prices, now becomes a major economic problem and will eventually bring an end to the continued growth.

During a period of inflation, each dollar you have buys less and less; more money is needed to buy goods and services.

The key features of a boom include the following:

- Income and production are at their highest levels.
- There is full employment of labour and all other resources.
- Wages and salaries are relatively high. Employees are now in a strong bargaining position as businesses compete for scarce labour resources.
- Businesses are operating at full capacity. Increases in consumer demand are met by increases in prices rather than by increases in production.
- Interest rates are high because loanable funds are in relatively short supply.
- The rate of inflation rises sharply.

## CASE STUDY

### 2008 Global financial crisis

In September 2008, the US financial system suffered a massive loss of confidence as homeowners defaulted on their mortgage payments. The 'housing bubble' finally burst! Quickly, the US financial crisis spread to the rest of the world. Large financial institutions became bankrupt or were bought out, and governments were forced to implement rescue packages to bail out their financial systems.

The global financial crisis (GFC) led to a severe global economic recession, the worst since the Great Depression of the 1930s. World stock markets collapsed and world economic growth and trade severely declined, with a consequent increase in unemployment. The economic deterioration was so severe in some countries that the International Monetary Fund was forced to bail them out by offering massive loans.

Governments implemented expansionary **fiscal** and **monetary policies** to stimulate consumer spending and business investment. This would act as a buffer against the deteriorating global economic conditions.


## CASE STUDY

### Economic stimulus package

The global financial crisis of 2008 caused a downturn in world economic conditions. In response, governments of the rich nations launched economic stimulus packages in order to pour millions of dollars into their economies.

In Australia, for example, the Rudd Government injected about $53 billion into the Australian economy through two budgetary stimulus packages. These contained a mixture of immediate stimulus to encourage consumer spending and longer-term infrastructure projects such as school buildings.

In the US, President Obama introduced a $1.21 trillion stimulus designed to create or protect 3.5 million jobs.

Additionally, world central banks cut interest rates with the aim of stimulating consumer spending and business investment.

Governments may attempt to stimulate the economy through funding various infrastructure projects.

## CASE STUDY

### 2011 European Union debt crisis

Flowing on from the GFC, in 2011 five smaller European Union (EU) countries — Portugal, Italy, Ireland, Greece and Spain (PIIGS) — struggled to repay their national debts. Greece's debt was so large it exceeded the size of the nation's entire economy! The PIIGS risked defaulting (failing to repay) on their loans. This would cause a recession in many countries, including the United States due to its large export sales to that region. Fearing the crisis would spread, loans were organised to help bail out the PIIGS on condition they adopt cost-saving measures to ensure the bailout money was repaid. The PIIGS faced a difficult time paying off the debt while at the same time trying to expand their economies.

The European Union debt crisis threatened the world's economy.

**on** Resources

**Digital documents** Worksheet 2.3 The 'ups' and 'downs' of economic growth (doc-32691)
Worksheet 2.4 Current economic conditions (doc-32692)

### 2.4 Activity: Research and communication

1. Read the case study about the Great Depression and complete the following.
   (a) List the main economic effects of the Great Depression.
   (b) In small groups, brainstorm the policies you would put into action to fix a depressed economy. Share your answer with the rest of the class.
   (c) Investigate what the economic role of the government should be in a depressed economy, according to the famous English economist John Maynard Keynes. (*Hint:* you may need to access some economic references.) Compare and comment on your solutions with those developed by Keynes.
2. Read the case studies on the 2008 global financial crisis (GFC) and the economic stimulus package. From these readings and your own research, prepare a one-page report that addresses the following points.
   (a) The causes of the GFC
   (b) The impacts of the GFC (this should include economic and social impacts)
   (c) The responses to the GFC by governments
3. Have a class discussion about the relationship between the five-sector circular flow model of the economy and the business cycle.

### 2.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What do you understand by the term the 'business cycle'?
2. Outline the main phases of the business cycle. Use a diagram to illustrate your answer.
3. Why does the level of economic activity fluctuate over time?
4. Outline how consumers, businesses and government spend in an economy.
5. What is one of the main causes of a contraction in an economy?
6. Why does the Reserve Bank of Australia often lower interest rates when a decrease in the level of economic activity occurs?
7. Why does the number of business closures decrease during a boom?
8. Outline the main economic problem during the following.
   (a) A recession
   (b) A boom

9. Explain why a rise in consumer confidence often results in a boom.
10. Read the case study on the European Union debt crisis. Outline the main causes of the crisis.

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.5 The price mechanism and the interaction of demand and supply within a market

Have you ever wondered why the price of some goods and services like fruit and vegetables or holiday accommodation always seems to be changing?

Well, the answer is economics and the interaction of demand and supply.

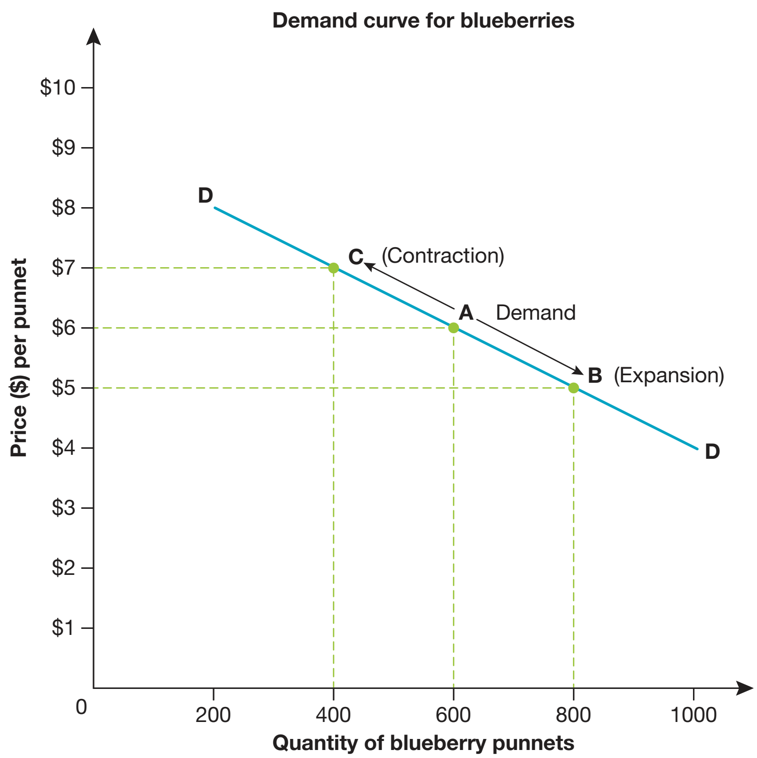
Through the interaction of demand and supply, **markets** attempt to solve the economic problem of scarcity and the efficient allocation of resources.

## 2.5.1 Demand

Demand is the quantity of a product that consumers are willing to purchase at a particular price at a given point in time. As prices increase, demand for that good or service decreases. If the price decreases, the demand for that good or service increases. This is known as the **law of demand**.

So, if we think of blueberries, the cheaper they are, the more people will want to buy them. However, the more expensive they are, the less blueberries people will want to buy.

This relationship can be illustrated using a demand schedule or table. Plotting the information on a graph gives us the demand curve for blueberries.




| Demand for blueberries | | | | | |
|---|---|---|---|---|---|
| Price of blueberries | $4 | $5 | $6 | $7 | $8 |
| Quantity of blueberries demanded | 1000 | 800 | 600 | 400 | 200 |

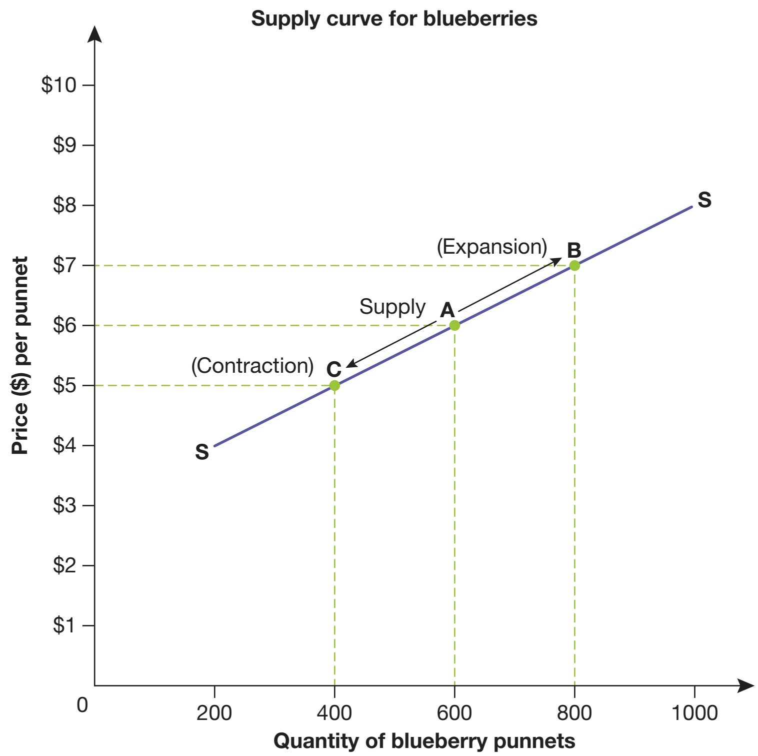
This demand curve shows that when the price of blueberries changes, the amount of blueberries people want to buy also changes. For example, when the price of blueberries is $6 per punnet, the quantity demanded is 600 punnets. This is shown at point A on the graph. However, if the price of blueberries falls to $5 a punnet, the amount of blueberries people are willing to buy expands to 800 punnets. This is shown at point B on the graph. The increase in the demand for blueberries is called an expansion in demand.

However, if the price of blueberries increases from $6 to $7 per punnet, the quantity demanded will contract from 600 punnets to 400 punnets. This is shown by a movement from point A to point C on the graph. The decrease in the demand for blueberries is called a contraction in demand.

## 2.5.2 Supply

Supply refers to the quantity of a good or service that businesses are willing and able to offer for sale at a given price, at a given point in time. For blueberries, businesses are the farmers who are growing the blueberries. As prices for a good or service increase, the quantity supplied will increase. If the price decreases, the supply of that good or service will decrease. This is known as the **law of supply**.

This relationship can be illustrated using a supply schedule or table. Plotting this information on a graph gives us the supply curve for blueberries.




| Supply of blueberries | | | | | |
|---|---|---|---|---|---|
| Price of blueberries | $4 | $5 | $6 | $7 | $8 |
| Quantity of blueberries supplied | 200 | 400 | 600 | 800 | 1000 |

This supply curve shows that when the price of blueberries changes, the amount of blueberries farmers are willing to sell also changes.

For example, when the price of blueberries is $6 per punnet, the quantity farmers are willing to supply is 600 punnets. This is shown at point A on the graph. However, if the price of blueberries increases to $7 a punnet, the amount of blueberries farmers are willing to sell increases to 800 punnets. This is shown at point B on the graph. The increase in the supply of blueberries is called an expansion in supply.

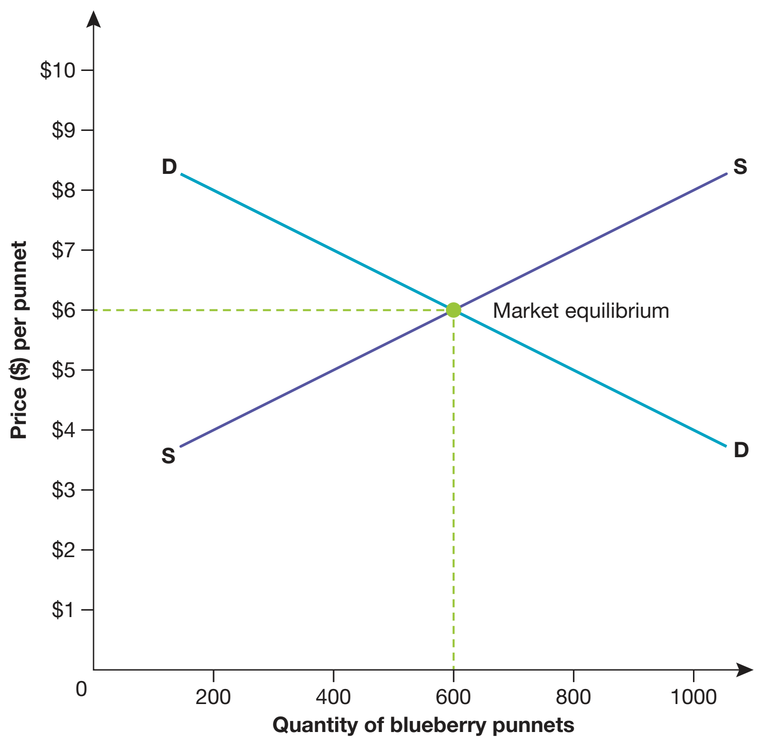
However, if the price of blueberries falls from $6 to $5 per punnet, the quantity supplied by farmers will contract from 600 punnets to 400 punnets. This is shown by a movement from point A to point C on the graph. The decrease in the demand for blueberries is called a contraction in demand.

## 2.5.3 The price mechanism

Once the supply and demand for a good or service has been established, it is possible to plot them both on a graph. The point at which the demand and supply curve intersect is called **market equilibrium**. This is the point at which buyers and sellers agree on a price and exchange the good or service for money.

So, the **price mechanism** refers to the forces of demand and supply in determining the price and quantity of a good or service.

We can see on the graph that the equilibrium price for blueberries is $6 a punnet and the equilibrium quantity for blueberries is 600 punnets.



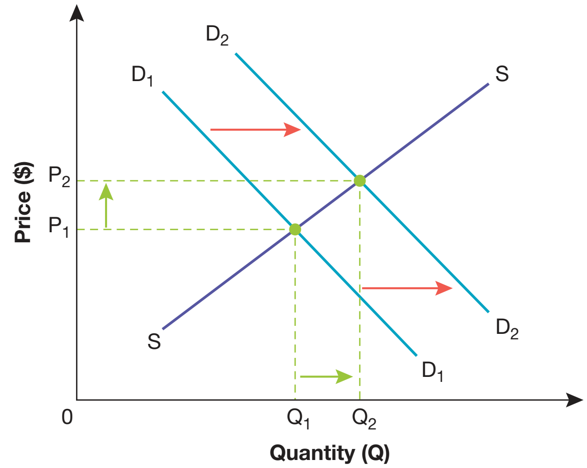

### Why are the prices of some products always changing?

You have probably noticed that the prices for goods such as blueberries are always changing. This is due to changes in the demand and supply of blueberries.

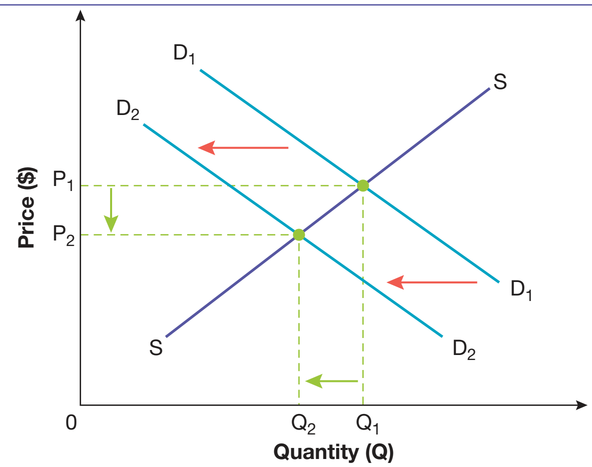
#### Changes in demand

A change in any factor other than price will cause a shift in the entire demand curve and change the equilibrium price and quantity. The following table outlines the effects of these shifts on the demand curve.

**Increases in demand shift the demand curve to the right**, moving the equilibrium point.
This results in an:
- increase in price
- increase in quantity.




**Decreases in demand shift the demand curve to the left**, moving the equilibrium point.
This results in a:
- decrease in price
- decrease in quantity.



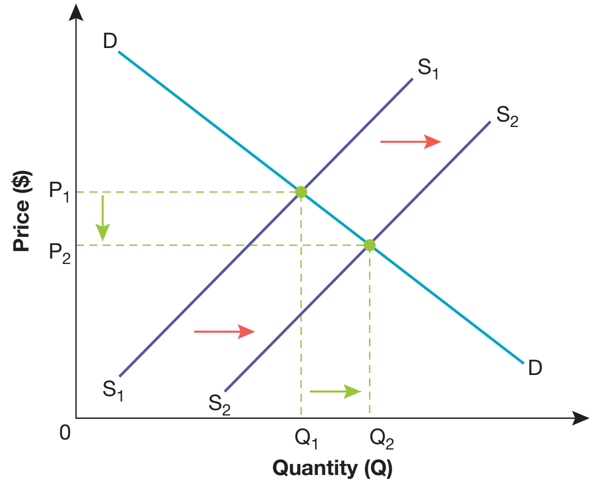
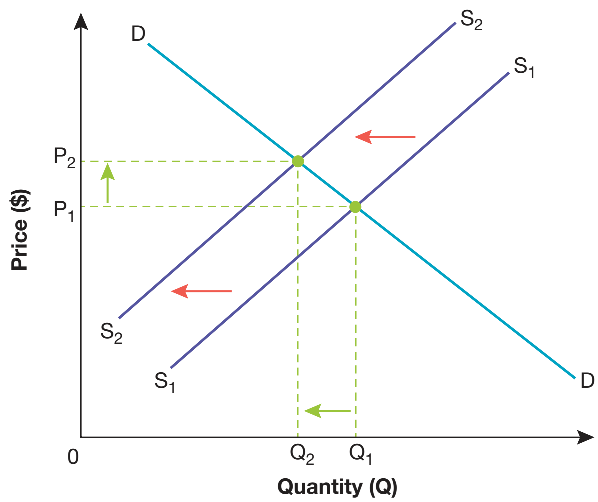

## What could cause a change in demand?

Let's return to looking at blueberries. The following table shows the factors that cause a shift in the demand for blueberries.

| Reasons for increases in demand | Reasons for decreases in demand |
|---|---|
| • *A rise in consumer income:* if consumers have higher incomes, they are able to buy more blueberries. This causes an increase in demand.<br>• *Changes in consumer tastes and preferences:* recently, blueberries have become known as a superfood. This has increased the demand for blueberries.<br>• *An increase in the size of the population:* the number of people who may buy blueberries has increased.<br>• *A substitute good becomes more expensive:* if strawberries increase in price, consumers could buy fewer strawberries and more blueberries.<br>• *A complementary good becomes cheaper:* as milk prices fall, the price of blueberry smoothies also falls. This increases the demand for blueberries<br>• *Prices are expected to rise in the future:* if people think the prices of blueberries will be higher in the future, they will buy more blueberries now. | • *A fall in consumer income:* if consumers have lower incomes, this will reduce the amount of blueberries they can afford to buy. This decreases the demand for blueberries.<br>• *Changes in consumer tastes and preferences:* blueberries may fall out of fashion if consumers realise they are not the superfood they once believed they were.<br>• *A decrease in the size of the population:* a fall in the population can lead to a decrease in the demand for blueberries.<br>• *A substitute good becomes cheaper:* if strawberries become cheaper, consumers may stop buying blueberries and switch to strawberries.<br>• *A complementary good becomes more expensive:* if milk becomes more expensive, people may no longer be able to afford blueberry smoothies. The demand for blueberries will fall.<br>• *Prices are expected to fall in the future:* if people think the prices of blueberries will be lower in the future, they may put off their purchase of blueberries and wait until the price drops. |

## Changes in supply

A change in any factor other than price will cause a shift in the entire supply curve. Increases in supply cause the supply curve to shift to the right and decreases in supply will cause the supply curve to shift to the left. The following table outlines the effects of these shifts in the supply curve.

| | |
|---|---|
| **Increases in supply** shift the supply curve to the right.<br>This results in an:<br>• a decrease in price<br>• an increase in quantity. |  |
| **Decreases in supply** shift the supply curve to the left.<br>This results in:<br>• an increase in price<br>• a decrease in quantity. |  |

## Would could cause a change in the supply?

Returning to blueberries, let's look at what could cause the supply for blueberries to change.

| Factors that cause an increase in supply | Factors that cause a decrease in supply |
|---|---|
| • *Increased efficiency:* if blueberry farmers develop new technology, this may allow them to increase the amount of blueberries grown.<br>• *A fall in the cost of production:* if the wages of blueberry pickers falls, farmers can employ more people and increase output.<br>• *Improved climatic conditions:* increased rainfall would increase the harvests of blueberry farms.<br>• *An increase in the number of suppliers:* more people may start blueberry farms because they hear that blueberries are a superfood. | • *Decreased efficiency:* a new bug found to be eating blueberries would reduce crops.<br>• *An increase in the cost of production:* if the cost of fertilisers used by farmers increases, they may not be able to produce as many blueberries.<br>• *Unfavourable climatic conditions:* a drought may reduce the amount of blueberries farmers can grow.<br>• *A decrease in the number of suppliers:* ongoing drought may force many blueberry farmers out of business. |

**on** Resources

**Weblink** Jindabyne Holiday Park

### 2.5 Activity: Research and communication

1. In small groups, brainstorm some real-world examples where price is significantly affected by the forces of demand and supply.
2. Investigate the changes in holiday accommodation due to demand and supply.
   Use the **Jindabyne Holiday Park** weblink to complete the following table for prices for different times of the year. (Remember to compare the prices of the same accommodation/room type!)

| Date | Room type | Price |
|---|---|---|
| | | |
| | | |
| | | |

Try to account for the differences in price throughout the year.

### 2.5 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What does the demand for a good refer to?
2. Define the law of demand.
3. Outline what is meant by the supply of a good.
4. Define the law of supply.
5. What is the point called where the demand and supply intersect?
6. Construct the following demand and supply curves.
   (a) Construct a demand curve for the following product:

| Price | Quantity |
|---|---|
| $100 | 300 |
| $ 80 | 350 |
| $ 60 | 400 |
| $ 40 | 450 |
| $ 20 | 500 |

   (b) On the same graph construct a supply curve for the same product:

| Price | Quantity |
|---|---|
| $100 | 500 |
| $ 80 | 450 |
| $ 60 | 400 |
| $ 40 | 350 |
| $ 20 | 300 |

   (c) What is the equilibrium price and quantity for this product?

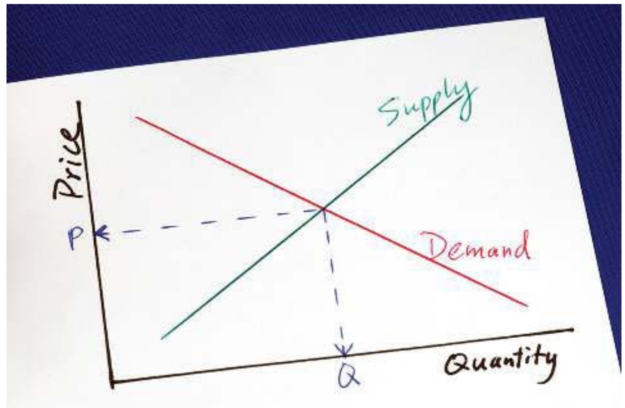
7. Outline two factors that can cause an increase in demand for apples. Explain the effect of the increase in demand for apples on the equilibrium price and quantity.
8. Outline two factors that can cause a decrease in supply of apples. Explain the effect of the decrease in supply for apples on the equilibrium price and quantity.

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.6 SkillBuilder: Communicating information in tables and graphs

## 2.6.1 Tell me

In subtopic 2.5 we discussed the different methods of determining prices for goods and services. Price setting usually involves some interaction between buyers and sellers, where the buyers want to pay as low a price as possible while the sellers would like to charge as high a price as possible. From these two different sets of preferences, the market will usually arrive at a price that is acceptable to both buyers and sellers. We can demonstrate how this works by using simple tables and graphs.




## 2.6.2 Show me

Imagine a fruit and vegetable market such as Paddy's Markets in Sydney or the Queen Victoria Market in Melbourne. These markets have a number of different businesses all competing against each other, allowing buyers to browse the different stalls and compare prices and quality. All stalls sell potatoes, and most sellers agree on the following:

- If they could charge $10/kg, they would happily supply 100 kg of potatoes for sale each day.
- If they could only charge $5/kg, they would only provide 50 kg for sale a day.
- If they could only charge $2/kg, they would only supply 20 kg of potatoes for sale a day and concentrate on selling other fruit and vegetables that would make a bigger profit.

Buyers have a different point of view: they want to buy at the cheapest price possible. They agree on the following:

- If potatoes cost $10/kg, only a small number would buy potatoes and then only in small quantities: a total of 20 kg in any given day.
- If the price dropped to $8/kg, buyers might purchase 30 kg a day.
- If the price fell to $6/kg, buyers might purchase 40 kg a day.
- If the price fell to $4/kg, buyers might purchase 60 kg a day.
- If the price fell to $2/kg, buyers might purchase 80 kg a day.

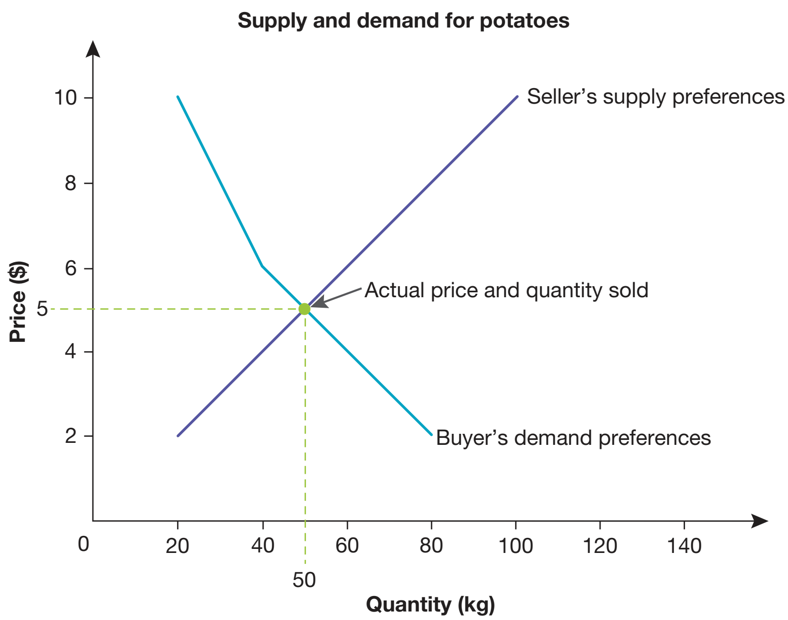

We can see that as the price rises, suppliers will supply more but consumers will demand less. As the price falls, consumers will demand more but suppliers will supply less. What is the likely price that will be acceptable to both buyers and sellers? We can start to answer this by putting the above data into tables. The following tables show the sellers' preferences and the buyers' preferences.

| Seller's preferences | |
|---|---|
| **Price** | **Quantity supplied** |
| $2 | 20 kg |
| $5 | 50 kg |
| $10 | 100 kg |

| Buyer's preferences | |
|---|---|
| **Price** | **Quantity purchased** |
| $10 | 20 kg |
| $8 | 30 kg |
| $6 | 40 kg |
| $4 | 60 kg |
| $2 | 80 kg |

The data from these tables can now be entered into a graph, as shown. If we place the different prices along the vertical axis and the different quantities along the horizontal axis, we can plot the preferences of both buyers and sellers on the graph. The sellers' preferences are shown with the blue line, while the buyers' preferences are shown with the red line. The point at which the two lines intersect will be the price that the market will bear. The market for potatoes will settle at a point where 50 kg of potatoes will be sold each day at a price of $5/kg. Sellers know that if they have 50 kg of potatoes in stock on any given day, they will be able to sell them all at this price.

Supply and demand graph for potatoes




## 2.6.3 Let me do it

Complete the following activities to practise this skill.

### 2.6 Activities

In the same fruit and vegetable market, tomatoes are also subject to similar buyer and seller preferences. Sellers agree on the following:

- If they could charge $14/kg, they would happily supply 140 kg of tomatoes for sale each day.
- If they could only charge $7/kg, they would only provide 70 kg for sale a day.
- If they could only charge $3/kg, they would only supply 30 kg for sale a day.

Buyers generally agree on the following:

- If tomatoes cost $14/kg, buyers would demand a total of 30 kg in any given day.
- If the price dropped to $10/kg, buyers might be prepared to purchase 40 kg a day.

- If the price fell to $8/kg, buyers might purchase 60 kg a day.
- If the price fell to $6/kg, buyers might purchase 80 kg a day.
- If the price fell to $4/kg, buyers might purchase 100 kg a day.

1. Construct a table showing the different quantities sellers would be prepared to supply at each price level.
2. Construct a table showing the quantities that consumers would demand at each price level.
3. Enter the data from these tables onto a graph that shows both sellers' supply preferences and buyers' demand preferences.
4. What is the equilibrium price and quantity for tomatoes?

**on** Resources

**Digital document** Worksheet 2.5 The price mechanism (doc-32878)

# 2.7 What is a market?

A market exists in any situation where buyers and sellers come together to exchange goods and services. A market can exist in a physical location, it can be spread across a number of locations, or can have no physical location at all. We will now look at a number of different markets that exist within the Australian economy: retail markets, labour markets, financial markets and stock markets.

## 2.7.1 Retail markets

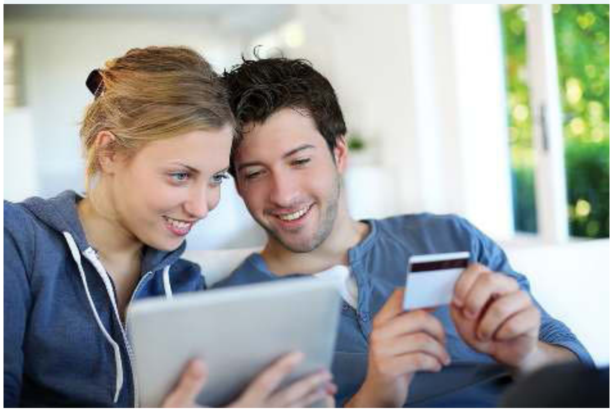
We are all very familiar with retail markets. These are the markets that allow us to buy most of our goods and services. They include:

- the shopping areas in the central business districts (CBDs) of our large capital cities
- the huge suburban shopping malls such as Westfield centres at Parramatta in western Sydney and Chatswood in northern Sydney
- local shopping centres with a supermarket and a number of specialty stores
- shopping strips located along major roads and near public transport hubs
- the groups of shops gathered in the main streets of country towns and regional centres
- online shopping websites.

The past 15 years has seen a huge increase in online shopping. In 2019, online shopping in Australia was worth more than $23 billion, an amount equivalent to 6.6 per cent of all retail sales. About 80 per cent of this online shopping involved purchases from Australian retailers. Online shopping is likely to continue to grow, and the proportion of goods being bought from overseas businesses is likely to become larger as more people become aware of the wide range of choices available around the world.

Large shopping malls provide a wide range of retail businesses.

Online shopping has increased rapidly over the last 15 years.



## 2.7.2 Labour markets

At any given time, people will be looking for a job. Some of them are people who are unemployed and want to find work; some of them already have a job and are hoping to move to new or different work. At the same time, many businesses will be looking to employ new people to work for them. Prospective employees are hoping to *sell or supply* their labour to employers. Those employers wish to *buy or demand* the skills and effort of suitable employees. This combination of buyers and sellers of labour constitutes the **labour market**.

Like many other markets, the labour market does not operate in a particular physical location. The labour market relies on a variety of means of communication between the sellers of labour (potential employees) and the buyers of labour (employers). These allow employers to advertise vacancies in their businesses, and potential employees to find out about job opportunities. The operation of the labour market can involve the following:

- The simple placement of a sign in a shop or café window indicating that the owner has a job vacancy.
- Advertisements for job vacancies in newspapers. This method has declined significantly in recent years, with relatively few vacancies advertised in this way today.
- Online 'jobs boards' such as Seek, Adzuna, Jora and Australian JobSearch. These are the fastest growing source of job advertisements, and are updated every day. Employers pay a fee to advertise their vacancies, and in many cases it is possible to apply online for the vacancies advertised.

Online job boards such as SEEK are the fastest growing source of job advertisements.


The price paid by the employer as a buyer of labour is known as a wage or salary. Wages and salaries are quite highly regulated in Australia. A minimum wage must be paid to all employees over the age of 21 years. It is adjusted every year to account for rises in the cost of living. As at 1 July 2019, it was $19.49 per hour, or $740.80 for a standard 38-hour working week.

## 2.7.3 Financial markets

Financial markets are the intermediaries between the savers and the borrowers in an economy. As households earn an income and businesses make a profit, they may choose to save and so deposit their money into a bank or other financial institution. On the other hand, others in an economy need to borrow money. People may borrow to buy a car, a house or go on a holiday. Businesses may borrow and invest so they can grow and expand the business.


However, just as all goods and services have a price, so too does money. The price of having access to money that actually belongs to someone else is known as **interest**. When you deposit your money in a bank account, the bank will pay you interest on your savings. Banks then lend out the money that they have deposited with them to other consumers or to businesses. They will usually charge a higher rate of interest to borrowers than they pay to their depositors. This is how they make a profit.

## 2.7.4 Stock markets

Like other markets, the stock market is simply a relationship between buyers and sellers.

In this case, it is shares in public companies that are bought and sold. A share is a unit of ownership in a company. Businesses can raise money for investment by selling shares in their companies, and individuals or other businesses can invest their savings by buying shares in companies, hopeful that the value of the shares will increase.

The Australian stock market is the Australian Securities Exchange (ASX). Over 2000 companies are listed on the ASX, including large retailers such as Woolworths and Wesfarmers (owners of Coles); the four big banks (ANZ, CBA, NAB and Westpac); and large mining companies such as BHP Billiton and Rio Tinto.

Stockbrokers buy and sell shares on behalf of their clients.


The value of shares can go up and down, depending on the demand for those shares. When a company reports that it has had a successful year, many people may want to buy shares in that company. If more people are wanting to buy than to sell, the price tends to rise. If the company appears to not be performing well, more shareholders may want to sell their shares than there are buyers, so the price is likely to go down.

**on** Resources

**Digital document** Worksheet 2.6 Markets (doc-32872)

### 2.7 Activity: Research and communication

1. Investigate an online job search website such as seek.com.au, and search for each of the following jobs in your local area: nurse, bricklayer, hairdresser, taxi driver.
   (a) How many vacancies were available for each type of job?
   (b) What sort of information is provided about each job?
   (c) Explain the process for applying online for one of these jobs.
2. Research the website of a major retailer. Prepare a PowerPoint presentation on the main features of this website, including type of goods, lay out, methods of payment available, returns policy, exchange policy and delivery options.
3. Write a job advertisement for a casual retail position. What skills and qualifications would the employee require?
4. Using newspapers or magazines, create a collage showing examples of the different types of markets covered in this subtopic.
5. Examine the stock market report in a newspaper or at asx.com.au and complete the following.
   (a) Identify two companies that experienced an increase in share price in the previous day's trading.
   (b) By how much did each increase in price?
   (c) How many shares were bought and sold for each company?
   (d) What is the highest and lowest price each company's shares reached during the last year?
   (e) Is the current price closer to the highest or lowest experienced during the past year?
   (f) From what you can see of the shares in these two companies, do you think they would be good value to buy right now? Explain your answer.

### 2.7 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Explain what a market is.
2. Create a mind map showing the different types of retail markets.
3. Outline how retail markets have changed over the past 15 years.
4. What is being bought and sold on financial markets?
5. What is being bought and sold on the labour market?
6. Create a mind map showing the different ways employers can advertise a job opportunity.
7. What is the ASX?
8. Explain what a share of a company is.

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.8 SkillBuilder: Contesting and debating ideas

## 2.8.1 Tell me

When you open a newspaper or watch the news on television, you are exposed to many economic and business issues. These issues are complex and diverse in nature. A study of such issues may require you to examine a range of aspects, including:

- events — such as the global financial crisis (GFC)
- individuals — such as famous entrepreneurs or world leaders
- policies — of Australian governments or overseas governments
- business decisions — of either Australian or overseas businesses
- agreements — such as free trade agreements between Australia and other countries.

When studying such issues, it is important to be able to contest and debate different ideas related to each issue. These important skills are defined as:

- contesting — coming up with opposing ideas on an issue
- debating — the process of communicating about these opposing ideas with others.

In order to contest an idea, you must examine an issue from many different perspectives, not just from your own point of view. You must also consider the impacts of an issue on all stakeholders.

For example, if a business was considering moving their factories from Australia to Indonesia, you would have to consider the impact of this decision on each of the following stakeholders:

- owners/shareholders
- employees — both in Australia and Indonesia
- suppliers
- the Australian federal government
- the Indonesian government
- consumers.

Each of the preceding stakeholders may have a different view on the planned relocation. They may engage in debate in order to contest or challenge the perspective of the other stakeholders.

As a student of economics and business, it is important for you to be able to contest and debate issues and to express your own ideas clearly, in written, verbal and multimedia form.

## 2.8.2 Show me

Read the following case study.

### CASE STUDY

### Car manufacturing in Australia

For over ninety years, cars had been manufactured in Australia. The car manufacturing industry was an important source of employment for Australian people and has contributed to Australia's export earnings.

However, by 2017 Toyota, Holden, Mitsubishi and Ford had ceased motor vehicle production in Australia.

This issue has two main perspectives:

1. Some people have argued that the federal government should have provided more money to the car manufacturers to help keep them in Australia. These people worry that many thousands of jobs were lost and that the suppliers of these businesses were also negatively affected.
2. Others argue that the car manufacturers in Australia are inefficient and, therefore, should not be supported by the government. These people believe that the high production costs in Australia mean that it would never have been viable to produce cars in Australia.

Consider the facts in the following table.

Key facts relating to the exit of car manufacturers from Australia

| Toyota | Holden | Ford |
|---|---|---|
| • Started manufacturing in Australia in 1963<br>• Closed its Australian operations in 2017<br>• Employed more than 4000 people Australia-wide | • Began as an Australian saddlery business in 1856<br>• Closed its Australian operations in 2017<br>• Almost 3000 people in Australia lost their jobs | • Opened in Australia in 1925<br>• Closed its Australian operations in 2016<br>• Closure of its operations cost 1200 jobs in Australia |

***Source:*** Chris Uhlmann and Emma Griffiths, *Car industry funding*, ABC News, 10 March 2015.

The case study relates to a contested business and economic issue. Different stakeholders involved in this issue have very different perspectives. The two major political parties in Australia also engaged in lengthy debate in relation to this issue.

The following questions allow for a close examination of the case study so that issues can be contested and debated.

1. What are the main issues/ideas relating to this economic or business issue?
   - Why did car manufacturers choose to close their Australian operations?
   - Should the Australian Government have provided assistance to the car manufacturers?
   - How were different stakeholders affected by the Australian operations closures?
2. Who are the major stakeholders involved in this issue?
   - Employees of Toyota, Holden and Ford
   - Shareholders of Toyota, Holden and Ford
   - Consumers
   - The federal government
   - Suppliers of parts and materials

3. What are the interests/perspectives of each of the stakeholders involved in this issue?

| Stakeholder | Interest/perspective of this stakeholder |
|---|---|
| Employees | The main interest of employees is job security and well paying, challenging work. They wanted production to stay in Australia. |
| Shareholders | The main interest of shareholders is maximising the return on their investment. Therefore, they may be happy about the closures if they resulted in increased profit for the business. |
| Consumers | Consumers want good quality and reasonably priced cars. They may support the closures if it results in cheaper cars. |
| The federal government | The federal government wants businesses to be competitive so would not want to keep providing financial support to inefficient businesses. However, the government would be very concerned about the job losses that resulted from the closures. |
| Suppliers | Suppliers want to keep their customers, and the closures will have forced them to find new customers or move into new markets. |

4. What is your view on this issue?
   - Consider where you stand on the issue. Try to consider all the facts that are available before deciding on your view.
5. How does your view compare with the views of others?
   - Compare your view on the issue with that of others. Do any stakeholders share or oppose your view?
6. How can you communicate your perspective to other people interested in this issue?
   - It is often useful to debate your ideas and perspectives with friends, family members or as a whole class. Consider whether or not your perspective is influenced by the opinions of others.

## 2.8.3 Let me do it

Complete the following activities to practise this skill.

### 2.8 Activities

Using the preceding example as a model, select another economic or business issue to investigate. Some examples of issues that you may consider include the following.

- Construction of wind and solar farms.
- Penalty rates — are they still necessary in our current economy?
- Has technology ruined our 'work–life balance'?
- Any other economic or business issue you are interested in

In relation to your chosen economic or business issue, answer the following questions (refer to the previous example if you are unsure how to answer any of the questions):

1. What are the main issues or ideas relating to your chosen economic or business issue?
2. Who are the major stakeholders involved in this issue?
3. What are the interests and perspectives of each of the stakeholders involved in this issue?
4. What is your view on this issue?
5. How does your view compare with the views of others?
6. How can you communicate your perspective to other people interested in this issue?

Once you have conducted your research, you could communicate your findings in a number of ways:

- Conduct a class debate so that you and your classmates can challenge and contest each other's ideas.
- Prepare a written report that examines your perspective and other perspectives on the issue.
- Use a multimedia platform (such as iMovie) to create a Q&A-style program. This would allow for debate and contesting of ideas.

# 2.9 Customary trading practices of Aboriginal Peoples and Torres Strait Islander Peoples

When we trade we exchange something for something else. Today, an exchange usually involves money. In Aboriginal and Torres Strait Islander society, trading involved swapping, or **bartering**, one item for another. Aboriginal and Torres Strait Islander peoples traded, and continue to trade, to improve their standard of living. By trading they could obtain things that were not available in their area, or could become exposed to new ideas. Trade routes linked Aboriginal and Torres Strait Islander communities. Some of these routes were (and still are) long and complex.

Indigenous Australians traded with each other as well as with people in Indonesia and Papua New Guinea. Trade routes existed all across Australia. The trade, or exchange, routes often followed natural features such as rivers or chains of waterholes, and they regularly intersected. These routes criss-crossed the mainland. They could cross incredibly long distances, sometimes thousands of kilometres. Tasmanian Aboriginal peoples had their own trade routes for exchanging ochre and other items.

Even though goods were exchanged across the whole continent of Australia and between the Torres Strait Islands and the mainland, individual people did not necessarily travel the entire distance along a trade route. Goods, stories and ideas might be carried by a trader to a community centre and then be exchanged for other items. These goods, stories and ideas might then be taken by another trader to another centre and passed onto another community. Goods and other items were, and are, passed on from one language group to another. It was not just goods that were traded, though. Rituals, chants and ceremonies were also traded, including the words that went with them.

## 2.9.1 Participation in historical and contemporary markets

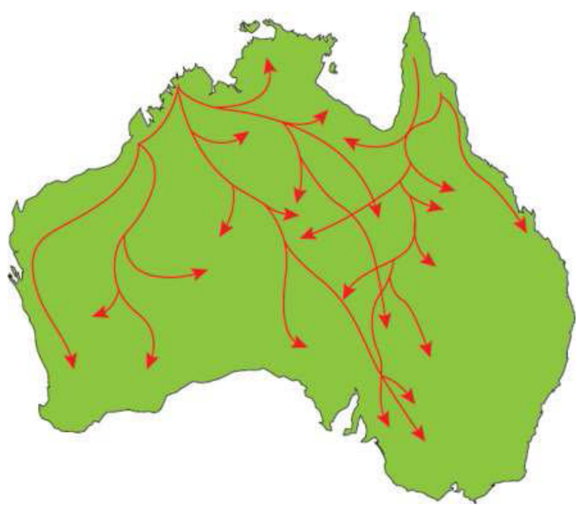
The items that Aboriginal and Torres Strait Islander peoples produce or collect and then trade depends on where they are located. A group living in a coastal area, for example, is in a position to exchange the resources it finds there, such as fish and shells. A group living inland might exchange the resources that it finds there, including herbs and stones, for items found in different types of country. Trade also included exchanging technology and ideas.

### Trading rare and valuable goods

Before European settlement, Aboriginal and Torres Strait Islander peoples produced many items to trade. These included stones and shells, such as pearl, baler and trochus shells. Trochus shells were (and are) used to make buttons, ornaments and jewellery, including bracelets and necklaces. Also traded were ochres (used for paint and body decoration), tools (such as stone axes) and ceremonial items. Foods, including fish, crab, dugong or turtle meat, yams, bird eggs and turtle eggs were traded over small distances. Snake skins, mats, spears and wood carvings were also traded.

Wilgie Mia in Western Australia is the largest and deepest underground ochre mine in Australia and has been in operation for over 3000 years. Red, yellow, white and black ochre was mined for ceremonies and to trade. Ochre is still mined by Aboriginal men to use in ceremonies and for rock art, and continues to be traded between Indigenous communities.

Major trade routes for pearl and baler shells



Colin Hamlett, a traditional owner of an area of the Weld Ranges in Western Australia, at an Aboriginal ochre mine named Wilgie Mia.

Bardi Elder and traditional land owner Joe Davey holds up trochus shells, one in raw form and one polished.

### Changes in technologies and ideas

Trade was seen as a way to exchange and share resources. It was also a method of passing on traditions and knowledge by word of mouth (lore). When trading, people from different areas and cultures needed to respect the rights, boundaries and cultural differences of the people they were trading with. Good relations would occur between neighbouring groups when they met to share or exchange resources because they could also share their knowledge and practices related to the Dreaming.

## 2.9.2 The use of cultural knowledge in enterprising ways

Aboriginal and Torres Strait Islander peoples have made use of their cultural knowledge in recent times in many innovative and enterprising ways. Over the last decade, many Aboriginal businesses have been formed. Indigenous-owned enterprises operate in areas such as art and craft, cultural tourism, land management, finance and mining.

Many Aboriginal and Torres Strait Islander peoples have found a livelihood through the commercialisation of art and crafts and other cultural practices. The Aboriginal and Torres Strait Islander art and craft market has grown dramatically over the last few decades.

Indigenous man painting traditional artwork in Cooktown, Queensland

## 2.9.3 Indigenous tourism

Indigenous tourism is worth billions of dollars every year in Australia and hundreds of thousands of international visitors arrive every year hoping to have an Aboriginal experience. Many Aboriginal owned and operated tourism enterprises exist across the country.

Tourism Australia has an Aboriginal tourism website where tourists can explore detailed content, images, footage and information about Aboriginal tourism experiences in Australia. Aboriginal Tourism Australia (ATA) is a non-profit company established in 1995 to provide leadership and a focus for the development of Aboriginal tourism.

Aboriginal street musician playing a didgeridoo at Circular Quay in Sydney

**on** Resources

Weblink Aboriginal Tourism

### 2.9 Activity: Research and communication

1. Find out more about one of the goods traded by Aboriginal or Torres Strait Islander peoples. Use the internet to research the following.
   (a) Where the good came from
   (b) How and why it was traded
   (c) How far was it traded
   Write down the results of your research in the form of a brief report.
2. Have a class discussion about what impact you think European settlement had on the types of goods that Aboriginal and Torres Strait Islander peoples traded.
3. Working in small groups, create a presentation about the innovative and enterprising ways in which Aboriginal and Torres Strait Islander peoples make use of their cultural knowledge. Use internet research in your planning and present your findings in a video or using presentation software, such as PowerPoint.

### 2.9 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is a trade route?
2. Aboriginal and Torres Strait Islander trade routes were sometimes thousands of kilometres long. Explain how this was possible.
3. How did Aboriginal and Torres Strait Islander communities trade?
4. List the goods traded by Aboriginal and Torres Strait Islander peoples.
5. What is ochre used for?
6. Outline how Aboriginal and Torres Strait Islander peoples use their cultural knowledge to engage in contemporary markets.

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.10 The reasons for government intervention in the market

Left to itself, a market can be a very efficient allocator of resources. This is because the owners of those resources are always seeking to maximise their profits and incomes. However, at times the profit seeking nature of businesses can result in negative outcomes for society and the environment. Governments may need to intervene in the market to reduce these problems.

## 2.10.1 Prevention of environmental degradation

Environmental degradation is the deterioration of the natural environment and is caused by things such as pollution and habitat destruction. The prevention of environmental degradation is not only an important environmental issue but also an economic one, because humans rely on the environment for the air we breathe, the food we eat, the water we drink and for the production of our goods and services.

Governments can attempt to reduce environmental degradation by imposing regulations that restrict people from things that cause environmental damage. This can include laws that ban littering and the use of some chemicals in manufacturing, and restrictions on how and where building developments can take place.

### CASE STUDY

#### *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act)

The EPBC Act is the Australian government's key piece of legislation to protect the environment. It aims to balance the protection of the environment with social and economic needs by ensuring ecologically sustainable development.

The main aims of the EPBC Act are:

- provide for the protection of the environment, especially in matters of national environmental significance
- conserve Australia's biodiversity
- protect our world and national heritage
- promote ecologically sustainable development.

### COMFACT

Australia has experienced the largest decline in **biodiversity** of any continent over the past 200 years. We have lost more than 50 animal species and 48 plant species, and the ongoing rate of extinction is one of the highest in the world.

## 2.10.2 Conservation of natural resources

The overuse of natural resources is both an environmental and economic issue. Natural resources such as fresh water, fish, agricultural land and forests need to be conserved so that future generations are not restricted from using them.

The challenge faced by governments is the trade-off between the short-term exploitation of natural resources for economic gain and the long-term needs of both society and the economy. For long-term economic growth, the environment needs to be sustainably managed.

### CASE STUDY

#### Market-based policies to reduce carbon dioxide

In 2012, the Australian government put a price on each tonne of carbon dioxide emitted by Australian businesses in specific industries. Putting a price on carbon meant that the environmental costs were now included in the business's production costs. This encouraged business to reduce carbon dioxide emissions. However, critics argued businesses would pass on the costs to consumers and this would increase prices.

In 2014, carbon pricing was replaced with a Direct Action Plan, where carbon dioxide polluting businesses were paid if they reduced their carbon emissions. This encouraged businesses to be more efficient and reduce their carbon emissions. However, critics argue that this policy does not impose costs to businesses that increase or do not reduce their carbon emissions.

Governments have introduced laws to prevent buisnesses from polluting the environment.

**on** Resources

**Digital document** Worksheet 2.7 Government intervention (doc-32873)

### 2.10 Activity: Research and communication

1. In small groups, think of other ways the market may not provide the best outcomes for the following.
   (a) The environment
   (b) Society
2. Have a class discussion about why depleting natural resources will have a long-term negative impact on the economy.

### 2.10 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Outline why markets do not always produce the best outcomes for the environment.
2. What is environmental degradation?
3. What are the aims of the Environment Protection and Biodiversity Conservation Act?
4. Describe the different ways government can reduce the environmental impact of individuals and businesses.
5. Look at the information in the Comfact box and assess the performance of Australia in preserving its natural environment.
6. Read the case study on market-based policies to reduce carbon dioxide. Explain how putting a price on carbon dioxide emissions can result in a decrease in carbon dioxide emissions.

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.11 Different types of businesses

## 2.11.1 Online businesses

A business which runs some or all of its business using the internet is running an online business. Advances in electronic commerce (e-commerce) and mobile technology such as smartphones has enabled an explosion in the number of online businesses. Today, consumers expect a business to have a website. In response, more and more Australian businesses are using the internet to cover all aspects of commercial transactions.

Online businesses provide opportunities for any aspiring entrepreneur, regardless of age or experience, to create a virtual business that can sell direct to the world without the associated costs of a 'bricks and mortar' business.

### CASE STUDY

#### Small business goes online

Ellie Jordan and Taylah Golden owned and operated a successful online business.

The fashion label Jordan Taylah, an online sleepwear business started in 2008 by Ellie and Taylah, operated from the homes of these two fashion designers. Taylah and Ellie designed and hand-made pyjamas of all sizes, and sold their collection online. Originally they sold their products at local markets and fairs, but with help from family and friends their online business was created. The most remarkable aspect of their venture, though, is that they were only 12 years of age when they started the business!

The business's motto is 'dream big'; quite appropriate for these two e-tailers.

## 2.11.2 On-demand businesses

People no longer need to stand in line and wait for a bus, phone restaurants to order home delivery or even leave the house to buy a coffee. We are just a tap away from getting groceries and our favourite meals delivered to our doorsteps. One of the most exciting new types of businesses is the on-demand business, which uses mobile technology such as apps to maximise consumer convenience.

### CASE STUDY

### Uber

Ride-sharing company Uber has transformed the taxi industry through its innovative use of technology. Uber's mobile app connects customers who need to travel with nearby drivers who are willing to transport them. Uber was founded in 2009 and has grown rapidly. It now operates in hundreds of cities in over 60 countries around the world.


## 2.11.3 Small and large businesses

Like soft drinks, businesses come in different sizes:

- Micro business: a business with fewer than five employees.
- Small business: a business with 5 to 19 employees.
- Medium business: a business with 20 to 199 employees.
- Large business: a business with 200 or more employees.

Most people usually associate the term 'business' with large companies such as Woolworths, Commonwealth Bank and Westfield, which employ thousands of people across hundreds of locations. However, 98 per cent of businesses in Australia are small to medium enterprises (SMEs).

SMEs are businesses with fewer than 200 full-time employees and/or less than $10 million turnover. SMEs play an especially important role within the Australian economy. As consumers, we rely on a large number of SMEs to satisfy our needs and wants. These businesses also provide employment for about 7 million people.

Large businesses have more than 200 employees and usually operate on a national or global scale.

## 2.11.4 Global businesses

A global business is a large company that has branches in many different countries. For global businesses, national borders do not represent barriers to trade; they are merely a line on a map.

A global business, commonly referred to as a **transnational corporation** or TNC, is a large company that has branches in many different countries. The transnational corporation represents the highest level of involvement in global business.

Global businesses come in many different forms and sizes. Coca-Cola, LG, McDonald's, Uber, News Corporation, BHP, Toyota, Inditex (Zara) and Westfield are just a few of the well-known foreign and Australian transnational corporations.

Neon signs in London showing examples on TNCs

### CASE STUDY

### Zara — expansion of a global business


Zara launched in Australia in 2011, shaking up the local fashion sector. Since Zara was listed on the Spanish stock market in 2001, they have become Spain's largest company, as well as the world's largest clothing retailer by sales.

Even though Australia is a much smaller market than other parts of the world, Zara made the decision to expand into Australia because they believed Australians to be fashion-savvy consumers who desire the latest fashion and international brands. Zara already had an enthusiastic following among many Australians who travelled overseas and desired their high-quality fashion and low prices. For its Australian launch, Zara opened a massive three level store in Sydney. Since then, Zara has continued to expand throughout Australia and in 2019 had 19 stores. It also opened an Australian online store in 2018.

So, how did Zara's entry into Australia affect Australian retailers? International fashion retailers such as Zara have taken $700 million in sales from local retailers such as Myer, David Jones and Witchery, and contributed to the closure of more than 20 retail chains since 2016 such as Top Shop, Marcs, Herringbone, Laura Ashley and Roger David.

In response, Australian retailers have had to make significant changes. In addition to lowering their prices, they have become more responsive to the needs of the consumer, creating new designs every few weeks rather than every few months.

## 2.11.5 Offshore businesses

In a globalised world, businesses can get many of their functions completed in different countries. This is often to take advantage of cheaper production costs in a developing country, such as lower wages or less strict environmental regulations, and can result in significant cost savings for the business.

However, the desire for greater profit margins among some TNCs has sometimes resulted in the use of sweatshops, especially in the clothing industry of low-income countries, where workers may work very long hours with low pay in unsafe working conditions. These businesses are under increasing pressure to ensure employees in low-income countries are not exploited by unscrupulous businesses.

### CASE STUDY

### Are your clothes made in sweatshops?

Working conditions in sweatshops are often inadequate. Workers are forced to work overtime with restricted toilet breaks. Women and children work long hours in extreme heat with poor lighting and ventilation with virtually no safety precautions. Wages are low.

Sweatshop workers are not always employed directly by TNCs. However, the TNCs buy their garments from the companies that employ them. The garments then find their way into fashionable shops in Australia, carrying labels that are instantly recognisable.

**on** Resources

**Digital document** Worksheet 2.8 Types of businesses (doc-32874)

## 2.11.6 Government businesses

Government businesses are government owned and operated. They provide essential community services such as health, education, roads and welfare. Examples of these businesses in Australia include Australia Post, NBN Co, Sydney Water and Sydney Trains. Although Australia no longer has many government businesses, the ones still in operation are generally very large.


## 2.11.7 Not-for-profit businesses

A not-for-profit business provides services to the community and does not earn a profit for its owners. All of the money earned from donations or running the business must go back into the services the business is providing to the community. Typically, most not-for-profit businesses receive tax concessions, meaning they do not pay as much tax as other types of businesses.

Examples of not-for-profit businesses include charities, sporting and recreation clubs, community service organisations and cultural societies.

### 2.11 Activity: Research and communication

1. Have a class discussion about the impacts on-demand businesses are having on society and the economy.
2. In small groups, create a mind map of all the global businesses you have interacted with in the past week.
3. Research your favourite global business. Create a presentation that shows the following.
   (a) Where its headquarters are located
   (b) Which countries the business sells to
   (c) Which countries are involved in the production of its goods
4. Imagine a scenario where no government businesses were in operation. Create a presentation showing as many impacts as you can.
5. Research a not-for-profit business and write a report providing the following.
   (a) The aim or vision of the organisation
   (b) Where they operate
   (c) How they raise their funds

### 2.11 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Create a table of the different types of businesses with at least two examples for each type.
2. Outline what an online business is.
3. In pairs, think of as many on-demand businesses you are aware of and create a list of them.
4. Explain how on-demand businesses are maximising customer convenience.
5. Compare the features of small to medium businesses with those of a large business.
6. How significant are SMEs to the Australian economy?
7. Define a global business.
8. Read the case study on Zara and complete the following.
   (a) When did Zara launch its first Australian store?
   (b) Outline the impact Zara is having on local retail stores.
   (c) Explain how fashion retailers in Australia are responding to Zara.
9. Explain why some businesses get their products produced overseas.
10. Why do you think government businesses mostly provide essential services?

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.12 Factors influencing business decisions

## 2.12.1 Technology

Technological advances have changed many aspects of business, from administration tasks, communication and service provision to manufacturing processes. With appropriate technology, businesses can increase efficiency and productivity, create new products and improve the quality and range of products and services.

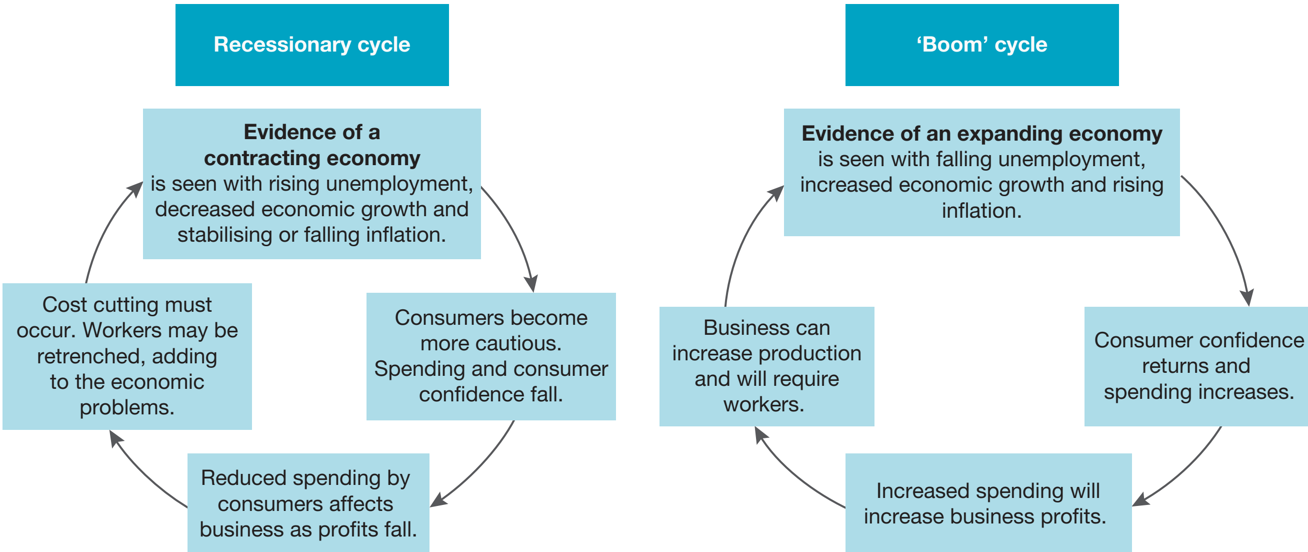
The use of hi-tech robotics in many manufacturing industries is improving productivity, reducing operating costs and eliminating many boring and repetitious tasks. Rapid advances in information technology (IT) such as bar codes and electronic funds point of sales technology (EFTPOS) have reduced communications delays and allowed suppliers and customers to interact instantaneously over great distances.

Technology such as teleconferencing or video-conferencing, email, cloud computing and smartphones effectively eliminates the distance between people, and creates opportunities for more flexible work arrangements that are beneficial for both the employee and the employer.

## 2.12.2 The business cycle

As previously mentioned, in section 2.4, the business cycle has a significant impact on business. When economic problems start to appear, we as consumers become more cautious with the way we spend our money. The reduced spending has an impact on business; profits start falling and cost cutting must occur if they are to survive. Unfortunately, this cost cutting can be in the form of retrenching workers; therefore, the economy falls further into recession. Alternatively, when evidence shows a growing economy, confidence returns. The consumer is more willing to purchase consumer or luxury goods, which in turn sees spending levels rise and business profits improve.

These cycles are illustrated in the following figure.




One important factor to consider in terms of the business cycle is that not all businesses experience a fall in revenue and sales during a recession; nor do they necessarily experience an upswing in trade during a 'boom' period. The businesses most susceptible to the 'swings' are those selling consumer or luxury goods, such as luxury cars or jewellery, because consumers will cut back on these when they reduce overall spending. Some businesses fare better during a recession; for example, food staples like grocery stores, along with 'bargain shops' or other clearance outlets.

## 2.12.3 Globalisation

We live in a global world, rather than a world limited by national borders. Consider the news and entertainment we receive from around the planet, the clothing and footwear brands being sold worldwide, the rapid telecommunications access to all parts of the globe, and the large number of products Australia buys and sells on the world market.

**Globalisation** is the process by which the world is becoming increasingly interconnected as a result of increased trade and cultural exchange. It involves reducing the barriers to trade, investment and labour across national borders and can have both positive and negative implications for businesses.

| Positive impacts of globalisation for businesses | Negative impacts of globalisation for businesses |
|---|---|
| • *Expanded markets:* today, even small businesses can easily go global. The use of the internet and other technologies makes it possible for most businesses to access the global market and start selling products to other countries.<br>• *Cheaper materials:* globalisation enables businesses to seek out the cheapest materials and supplies from around the world. This is referred to as **global sourcing**.<br>• *Access to labour:* global businesses now have access to a much greater pool of talent. They can lower production costs by accessing cheaper labour in developing countries, or they can access the most skilled employees from around the globe. | • *Increased competition:* customers now have a multitude of choice in the market. Global businesses and online businesses give consumers access to goods and services from around the globe. However, this means that businesses now face competition from all over the globe.<br>• *Increased unemployment in some industries:* industries that are unable to compete with cheaper imported products may be forced to close down.<br>• *Environmental and social issues:* some TNCs that outsource production to developing countries may exploit workers and damage the environment in order to reduce the costs of production. |

Globalisation is not going away; therefore, businesses need to implement strategies to minimise the potential threats, as well as take advantage of the opportunities that arise.

### 2.12 Activity: Research and communication

1. Have a class discussion about some of the negatives of technology on businesses, the economy and society.
2. Imagine you own a business and, due to a recession, you start losing sales. In small groups, create a list of strategies you could use to make sure your business survives a recession.

### 2.12 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Describe how recent technological changes have affected businesses.
2. Explain how technology is benefiting businesses.
3. Describe how cost-cutting measures by a business can worsen a recession.
4. What effect does a recession have on businesses?
5. Using examples, explain why some types of businesses do better than others during a recession.
6. Define globalisation.
7. Create a mind map showing the positives and negatives of globalisation for businesses.

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.13 The contribution of entrepreneurship and innovation

## 2.13.1 Entrepreneurship

Most of us have seen something advertised and thought, *That is just what I need*. Someone, somewhere, had the idea to provide this product. Not all inventors or innovators will seek to use their idea as the basis for a business. In many cases, they will be happy to sell their idea to an existing business and let someone else manufacture and market that product. To be willing to take the risk of starting up and operating a business and then working to build that business requires qualities of entrepreneurship.

A person who is willing to take a risk and has the qualities required to turn an idea into a successful business is called an entrepreneur. An entrepreneur's methods are sometimes regarded as ground-breaking and innovative. For these people, the opportunity to explore untapped markets with no guarantee of success can be motivation itself. However, for those whose ideas translate into a successful business venture, the profits are often huge.

An entrepreneur is someone who:

- has great ideas and do something about them
- hunts for opportunities to promote their ideas
- thrives on the challenge of creating their own successful business
- makes money out of solving problems and selling their ideas
- usually starts up their own business.

Could you be an entrepreneur? If you have most of these attributes and skills, your chances of entrepreneurial success look good.


### CASE STUDY

### Richard Branson

Richard Branson is the founder of the Virgin group, which comprises hundreds of companies, including an airline, a train company and a mobile phone network. He started his first business at the age of 16. You may have seen Richard Branson in the media because he is famous for his publicity stunts whenever Virgin launches a new business or project. One of Richard Branson's current big ideas is commercial space travel.

If you have heard Richard Branson speaking, you will know that he is passionate and enthusiastic. He listens to staff and customers, carrying a notebook with him wherever he goes so that he can write down what he sees and hears. He then follows up on the ideas. He shares Virgin's future plans with his staff, and his vision inspires people to perform at their best.


## 2.13.2 Innovation

The definition of **innovation** may vary, but it generally refers to the process of improving or significantly contributing to an existing product or service. Invention refers to the development of something that is totally new, but innovation and invention both result in something unique being created.

### CASE STUDY

### Dyson vacuum cleaners

James Dyson noticed that his vacuum cleaner only picked up dirt when it had a new bag. As the bag filled, it lost suction and he was tired of buying and replacing old vacuum bags. So he set out to design a new vacuum cleaner that didn't need a bag. In 1979, after five years and 5127 prototypes, the world's first bagless vacuum cleaner had arrived. It was the first change in vacuum technology since 1901.

Entrepreneurs and innovators can significantly influence the way we live and the way we work. Their ideas and creations can improve living standards, create jobs and increase economic activity.

### 2.13 Activity: Research and communication

1. Have a class discussion on the following topic: what do you think would happen to Australia's economy if we had no entrepreneurs?
2. Choose an entrepreneur (besides Richard Branson) and investigate the behaviours and skills that they bring to their business. Use the following questions to help you.
   (a) What business did this entrepreneur start, and at what age?
   (b) Why did this person become an entrepreneur?
   (c) What behaviours does this person display that makes them an entrepreneur?
   (d) What skills does this entrepreneur have?
3. In pairs or small groups, come up with a list of innovative products and explain how they have improved your life. Present your findings to the class.
4. In small groups, develop an original business idea. Through discussion, develop a strategy for launching your new product. You will need to consider how it will be promoted (for example, advertising and publicity), distributed (online or shopfront) and priced (high-end or budget). Create a multimedia presentation for your class.

### 2.13 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Complete the entrepreneur checklist. Do you have the skills and attributes of an entrepreneur?
2. In your own words, describe what an entrepreneur is.
3. Explain the difference between innovation and invention.
4. How have entrepreneurs and innovators contributed to society and the economy?
5. Read the case study on Richard Branson. Outline his entrepreneurial qualities.

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.14 Ethical decision-making and corporate social responsibility

## 2.14.1 Corporate social responsibility and good business

A relatively recent phenomenon affecting all key areas of business is **corporate social responsibility** (CSR). Corporate social responsibility refers to businesses considering the interests of stakeholders, society and the environment when making economic and business decisions. It involves ethical decision-making, where businesses go beyond the minimum requirement of the law and make decisions that are in the interests of society and the environment. CSR places value on profits as well as social responsibility and environmental sustainability.

Corporate social responsibility is good business — customers eventually find out which businesses are acting responsibly, and which are not. Customers can react and stop buying a business's product if they learn that the business is exploiting employees, accepting bribes or polluting the environment. At the same time, customers will reward socially responsible businesses by purchasing more of their products. Acting in a socially responsible way may cost money in the short term, but in the long run it turns out to be in the company's own interest.

## CASE STUDY

### Levi Strauss and Adidas — environmental and social responsibility

As businesses become more global, many recognise the importance of fulfilling their environmental and social responsibilities.

In response to concerns about climate change and the destruction of the natural environment, pressure is growing for businesses to act more environmentally sustainable.

The jeans manufacturer Levi Strauss and Company has developed its own environmental policy, which includes strict wastewater guidelines and the reduction in greenhouse gas emissions from its global operations.

#### Protecting human rights

Businesses are under increasing pressure to protect the human rights of their workers. Adopting a human rights code of conduct is one strategy businesses can use to act in an ethically responsible way. Once a code of conduct has been created, the business may insist that all its suppliers follow it. Adidas, for example, will deal only with suppliers who follow its Labor Rights Charter and 'Workplace Standards', which include no forced or compulsory labour, fair wages and benefits, a safe and healthy work environment, and, most importantly, no child labour.


## on Resources

**Digital document** Worksheet 2.9 Corporate social responsibility (doc-32875)

**Weblinks** Good on you

The Body Shop Australia

### 2.14 Activity: Research and communication

1. Use the **Good on you** weblink to research a business of your choice and find out about their corporate social responsibility.
   Prepare a multimedia presentation for your class that outlines the social and environmental positives and negatives of your chosen business.
2. In small groups, create a mind map that shows how you as consumers can act socially and environmentally responsible.
3. The Body Shop is a global leader in CSR. Use **The Body Shop Australia** weblink to visit their website and create a list showing how they are environmentally and socially responsible.
4. In small groups, imagine you are a global manufacturing business. Create a CSR code of conduct, which outlines all the ways you and your suppliers must act.

### 2.14 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Define the term 'corporate social responsibility'.
2. Outline what it means for a business to make ethical decisions.
3. Why might a business act unethically?
4. Explain the short-term costs and long-term benefits of CSR.
5. Explain how Adidas and Levi Strauss and Company are environmentally and socially responsible.

**Fully worked solutions and sample responses are available in your digital formats.**

# 2.15 Thinking Big research project: Please stop calling

## 2.15.1 Scenario

Australia is a market economy and businesses and consumers should be free to pursue their goals without too much interference. However, we can't always rely on businesses to operate ethically and so the government assists with the protection of consumers. Call centres are one way businesses get in touch with current and potential customers but they can sometimes irritate people. The federal government has called for the creation of new guidelines to help regulate the call centre industry.

## 2.15.2 Task

Your task is to assist the government in developing a set of guidelines for how call centres should conduct themselves when dealing with consumers.

This set of guidelines should consider:

- the rights of consumers
- the rights of call centre operators
- the responsibilities of consumers
- the responsibilities of call centre operators.

## 2.15.3 Process

- Open the ProjectsPLUS application for this topic. Click the 'Start Project' button to set up your project group. Working in pairs will enable you to share responsibility for the project. Save your settings and the project will be launched.
- Navigate to the Research Forum. This is where the creation of your set of guidelines begins.
- One student will develop the guidelines for call centre operators and the other student will develop the guidelines for consumers.

- Research how call centres operate and the reasons they operate as they do. Use the weblink in the Media Centre to watch a video about a call centre.
- Identify some Australian businesses that use call centres and some of the issues people have with the way they operate.
- Using your research, develop your set of guidelines using clear and direct language.
- Submit your completed guidelines to your teacher for assessment and feedback.

on Resources

**ProjectsPLUS** Please stop calling (pro-0178)

# 2.16 Review

## 2.16.1 Summary

Having explored this topic, you can now:

- understand that the five-sector circular flow model consists of consumers, businesses, the financial sector, government and the overseas sector
- identify that savings, taxation and imports are leakages from an economy, and investment, government expenditure and exports are injections into an economy
- understand that when injections are greater than leakages an economy will grow, and when leakages are greater than injections an economy will experience economic decline
- identify that the financial sector acts as an intermediary between savers and borrowers in an economy
- understand all economies experience periods of expansion and contraction, referred to as the business cycle; recessions are caused by a lack of spending and result in increased unemployment, lower business production and profits and low wage growth; booms are when the economy is growing and result in low unemployment, increased business production and profits and high wage growth (and can also lead to high levels of inflation)
- identify that demand refers to the amount of a product consumers are willing to buy at a particular price (as the price of a good rises, the demand for that good falls) and that supply refers to the amount of a product producers are willing to sell at a particular price (as the price of a product increases, the amount producers are willing to sell increases)
- understand that the price mechanism is where demand and supply intersect and shows the point where buyers and sellers agree on a price, and that changes in the demand and supply of a product will result in a change in equilibrium price and quantity
- determine that a market is any situation where buyers and sellers come together to exchange goods and services for money, and that examples of markets include retail markets, labour markets, financial markets and stock markets
- understand Aboriginal and Torres Strait Islander peoples traded using bartering, with common goods traded including stones, shells, ochres, tools, food, technology and ideas
- identify how the government intervenes in markets using laws and regulations such as the *Environment Protection and Biodiversity Conservation Act 1999* to reduce environmental degradation and to conserve natural resources
- understand technology has increased efficiency and lowered the production costs for businesses, while globalisation has allowed businesses to sell their products worldwide and get their products produced in other economies, but has increased competition

- understand that corporate social responsibility refers to a business making decisions based not only on maximising profits, but also on social and environmental responsibility
- identify that entrepreneurs and innovators take risks and turn ideas into businesses, and that their ideas improve our living standards and increase economic activity.

## 2.16.2 Key terms glossary

**barter** the swapping or exchanging of one good for another
**biodiversity** the variety of plant and animal life in the world or in a particular habitat
**business cycle** the cyclical fluctuations in the general level of economic activity
**consumption** the purchasing of goods and services to satisfy needs and wants
**corporate social responsibility** when businesses consider the interests of stakeholders, society and the environment when making economic and business decisions
**depression** a severe contraction in the level of economic activity resulting in many business failures, high and sustained levels of unemployment and sometimes falling prices
**economy** all activities undertaken for the purpose of production, distribution and consumption of goods and services in a region or country
**exports** goods and services sold by local businesses to overseas consumers
**fiscal policy** the use of the federal government's budget to achieve economic objectives
**globalisation** the process that sees people, goods, money and ideas moving around the world faster and more cheaply than before
**global sourcing** seeking out the cheapest materials and supplies across national borders as if there were only one large market
**imports** goods and services purchased by local consumers from overseas businesses
**inflation** a general rise in prices across all sectors of the economy, causing money to lose its value
**innovation** either adding a new product to an existing product line, or significantly improving an existing product or process the process of creating a new or significantly improved product, service or process (way of doing something)
**interdependence** a joint dependence between participants in an economy; that is, the reliance of consumers, workers, businesses and governments on each other
**interest** the price that must be paid in order to use someone else's money
**investment** the use of money to purchase equipment or premises for the establishment of a new business or the expansion of an existing business
**labour market** the buying and selling of labour
**law of demand** states that the quantity of a good or service demanded varies inversely to price
**law of supply** states that the quantity of a good or service supplied varies directly with price
**market** where the exchange of goods, services or resources between buyers and sellers occurs
**market equilibrium** the point at which the demand and supply curves intersect
**monetary policy** the Reserve Bank using interest rates to achieve economic objectives
**price mechanism** the interaction of the forces of demand and supply that determines the price of a good or service
**production** the creation of goods and services
**recession** a relatively mild contraction in the level of economic activity resulting in reduced spending, rising unemployment and a slow rate of economic growth
**saving** regularly putting aside some money for future use
**transnational corporation** a large business that has branches in more than one country

**on** Resources

**Digital documents** Key terms glossary (doc-32665)
Match-up (doc-32751)
Crossword (doc-32785)
Wordsearch (doc-32796)

**Interactivities** Wordsearch (int-7899)
Crossword (int-7882)

## 2.16 EXERCISES

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

### 2.16 Exercise 1: Glossary quiz online only

### 2.16 Exercise 2: Multiple choice quiz

1. What is a person who demonstrates enterprising behaviours known as?
   A. CEO
   B. Producer
   C. Financial planner
   D. Entrepreneur
2. Which sector of the five-sector circular flow model of the economy involves imports and exports?
   A. Consumers
   B. Business
   C. Government
   D. The overseas sector
3. Which of the following is an example of a financial intermediary?
   A. A producer
   B. A bank
   C. An accountant
   D. A government organisation
4. Which of the following is a characteristic of the boom stage in the business cycle?
   A. Inflation pressures
   B. Lack of consumer confidence
   C. High levels of unemployment
   D. Low levels of building approvals
5. Producers in an economy operate in which sector?
   A. Business
   B. Government
   C. Financial
   D. Economic
6. What do financial intermediaries usually do with the money that individuals deposit?
   A. The money is left alone.
   B. The money is lent to other individuals or businesses.
   C. The money is sold to overseas buyers.
   D. The money is invested in the stock exchange.
7. Which of the following are examples of leakages from the circular flow model?
   A. Expenditure, savings, taxation
   B. Exports, taxations, investment
   C. Savings, taxation, imports
   D. Exports, savings, investment
8. What does the law of demand state?
   A. As the price of a product increases, the demand for that product increases.
   B. As the price of a product increases, the demand for that product decreases.
   C. As the price of a product decreases, the demand for that product decreases.
   D. As the price of a product increases, the demand for that product does not change.
9. What can cause changes in demand?
   A. Incomes, tastes and fashions, and future expectations about the market
   B. Prices of complementary and substitute goods and services
   C. Changing population, age and gender distribution and the number of potential customers
   D. All of the above
10. Which system of trade was commonplace for Aboriginal and Torres Strait Islander people?
   A. Bartering
   B. Innovating
   C. Purchasing
   D. Borrowing

### 2.16 Exercise 3: Knowledge and understanding

1. Identify the five sectors in the five-sector circular flow model of the economy.
2. In economic terms, what is the household sector?
3. Explain how the household and business sectors are reliant on each other.
4. Explain how the financial sector facilitates business investment.
5. Outline the features of an entrepreneur.
6. Compare the impacts of an economic boom and a recession on the economy.
7. What is a market? Support you answer with an explanation of two different types of markets.
8. Outline how a global business such as Zara has influenced the Australian retail market.
9. Explain how some offshore businesses operate unethically.
10. Explain why the government intervenes in markets.
11. List five goods traded by Aboriginal and Torres Strait Islander peoples.
12. Define the law of demand.
13. Define the law of supply.
14. What is meant by the term ‘the price mechanism’?

### 2.16 Exercise 4: Challenge your understanding

1. How does a not-for-profit business differ from most other businesses?
2. Explain the importance of small to medium businesses to the Australian economy.
3. What are the positive and negative impacts of globalisation for Australian businesses?
4. Explain how investing in technology can improve a business’s productivity and profitability.
5. Discuss the importance of a business demonstrating corporate social responsibility and ethical behaviour.
6. Explain two factors that could cause an increase in demand for chocolate bars.

**Fully worked solutions and sample responses are available in your digital formats.**

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| | | |
|---|---|---|
| **Digital documents** | Worksheet 2.10 Wrap up! (doc-32807) | |
| | Glossary quiz (doc-32763) | |
| | Multiple choice quiz (doc-32774) | |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0859) | |

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# 3 Employment and work futures

## 3.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS at www.jacplus.com.au.

### 3.1.1 Introduction

How many times have you been asked, 'What do you want to do when you leave school?' For many young people, this is a difficult question. There are just so many possible pathways in education, training and work.

Joining the workforce starts you on an exciting journey; a journey filled with opportunities, excitement, satisfaction, personal fulfilment, and sometimes frustration and disappointment. It is likely you will change careers a number of times over your working life. Also, because the world of work is constantly changing, you may one day end up working in a job that has not yet been invented. Throughout your career, you will gain some job-specific skills and you will likely need to do some additional training. However, you will also need cross-over skills such as communication, problem-solving and resilience. Embracing learning is one of the ways you can ensure that you will be successful in the ever-changing world of work.

Planning for your future career begins now!

**CONTENT FOCUS**

On completion of this topic, you will have:

- investigated the contribution of work to the individual and society and the changing nature of work
- examined how individuals may derive an income, and the changing rights and responsibilities of workplace participants
- analysed a range of perspectives in their consideration of employment and work futures.

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Video eLesson Employment and work futures (eles-3508)

Digital documents Key terms glossary (doc-32666)

Worksheet 3.1 Start up! (doc-32693)

eWorkbook Customisable worksheets for this topic (ewbk-0860)

# 3.2 Work and wellbeing

## 3.2.1 Economic and wellbeing benefits of work

Can you imagine what life would be like if you couldn't afford to pay the water bill, have a working fridge or buy groceries? Or if you couldn't pay for any transport and worried about how to pay for the roof over your head? Having access to these things is only possible if you (or your parents, carers or guardians) work to earn an income to pay for them.

Life would be quite different from what it is today if people did not work. Food production would stop, and people would begin to starve. Other supplies such as electricity, gas and clean water would dry up. The very nature of society would change, as would Australia's ability to trade with other countries.

This makes you (and your parents, carers or guardians) an important part of the **economy** because you all contribute money whenever you choose to buy goods and services to satisfy your needs and wants. The money spent has come from the income earned from working – your family has been involved in production.

A major economic benefit of work is that workers pay taxes to the government. The government will then redistribute these funds and provide the collective wants that the society desires such as education, health, roads, railways, and social welfare such as the aged pension.

## 3.2.2 Work to earn a living

How many times have you heard the saying, 'Money doesn't grow on trees'? As you get older, the importance of money and its uses becomes clearer. For example, you need money when you catch up with friends and plan a day out to the movies, ice skating, rollerblading, visiting the art gallery or any other exciting or interesting activities. You need money to fund your lifestyle.

So where does the money you need come from? If you said your parents, carers or guardians, you know that the money comes from them going to work. Once you leave school, chances are you will enter the workforce if you haven't already started working while at school. Being part of the workforce will enable you to start earning money, which you can then use to buy things that you want. Earning a living is often the primary reason that people work. It is, however, not the only one.

Going to concerts with friends is just one of the many activities for which you need money.

Jobs provide income that is used to buy goods and services

## 3.2.3 Why do people work?

Imagine for a moment that you are unbelievably rich. You have so much money that you will never have to worry about working to earn more. What would you do? Most likely you are imagining a life of non-stop fun. Now it's time for a reality check! Even the wealthiest people in the world often choose to work. This is because there are many personal benefits to be gained from working aside from financial benefits.

| Non-financial benefits of working | Financial benefits of working |
| --- | --- |
| • Opportunity to use your skills and abilities in a positive way<br>• Meeting and mixing with new people<br>• Doing something you love and are passionate about<br>• Increasing your self-esteem and confidence<br>• Developing your natural strengths and talents<br>• Being part of a group or a team<br>• Making friends<br>• Contributing to the Australian economy<br>• Being happy | • Earning an income<br>• Exchanging money for goods and services<br>• Being a consumer<br>• Having the ability to buy what you need and want<br>• Creating and maintaining a good standard of living for your family |

## 3.2.4 Benefits of work

The main reason that people work is to be paid — to receive an income — but there are other reasons too. Let's look at some of the most common ones.

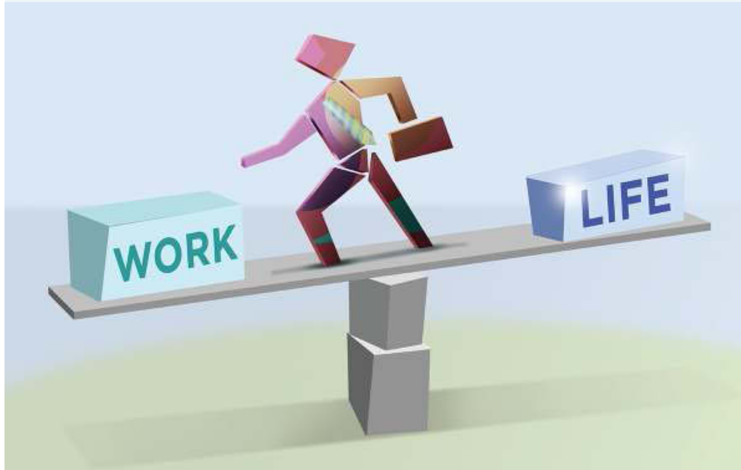

### To earn money

To survive, we must have money. Most people sell their labour to an **employer** and receive an income in return. The worker becomes the **employee**, while the person paying for their work is the employer. The most common forms of income are wages and salaries. While earning money, many workers will struggle to maintain some degree of balance between work and leisure, known as the **work–life balance**. This need for work–life balance is important to many workers and can form the foundations of a good life and a worker's sense of **wellbeing**.

## To improve living standards

Imagine a teenage girl who has just received her first pay packet from a part-time job. On her way home, she decides to visit a shopping centre and buy new clothes. The income from her job has allowed her to improve her **standard of living** and given her a brand new wardrobe.

Earning money is important for most workers, but achieving a work–life balance is necessary for wellbeing.




Working generates an income that enables consumers to satisfy their needs and wants. What if those needs and wants are intrinsic? That describes something inside the individual that will motivate them to want to go to work — for example, to be happy, to have a good life, to feel valued for the work they perform, and to pass on their knowledge and skills to the next generation. The quality of the work is also important to employees. Studies of modern values have revealed few employees want to be wasting their life contributing to questionable or immoral work. After all, many hours are spent working, and people want them to count for something.

## To gain status and prestige

The type of work a person does is often used to measure that person's status and prestige within our society. In other words, their status comes from their occupation. The value we place on a person's job determines his or her income. For example, to be a heart surgeon requires an intense level and length of training, with a very specific skill set needed. As such, heart surgeons receive high incomes. This is partly due to the education and training needed to become a surgeon as well as their high skill level and specialisation.

The work of a heart surgeon is well remunerated because of the high level of training and skill needed to perform the job.

Historically, society has tended to place a lower value on work in what are referred to as the 'caring professions', such as childcare, nursing and aged care. For this reason, salaries for people who work in these areas have generally been lower than in many other fields. These roles have traditionally been filled by women, and this provides another reason for the disparity that is often seen between the relative wages of men and women in Australia. This attitude is slowly changing, with wage rises being fought for and won in many of these areas. In a 2016 survey that asked Australians to rate professions in terms of their perceived ethics and honesty, nursing emerged as the number one ranked profession. This was the 22nd year in a row that nurses were recognised as number one in ethics and honesty. Doctors were ranked second in the survey and school teachers ranked fifth.

### To obtain self-satisfaction

Two hundred employees of a factory were asked to write down the most important aspect of their work. The responses revealed that it was not money: 67 per cent of the employees said that knowing they had done the job well and received some praise from the supervisor were the most rewarding aspects. Both job satisfaction and self-satisfaction were seen as important. This doesn't mean that money is not important; it is. However, there are many other rewards you can get from a job.

### To make friends

The social aspects of work increase its value. On average, employees spend more time at work with their co-workers than they do at home with their families (not including sleep time). Work provides the opportunity to meet other people and make friends. Sometimes workplaces have social clubs that employees can join to make friends and have fun, and participate in organised activities aimed at increasing the sense of staff connectedness and satisfaction.

Social interaction is one of the key reasons that people work.

### To help others

Voluntary workers play an essential role in our society. Many people in the local community work for voluntary agencies such as country fire brigades, Meals on Wheels or the State Emergency Service. They receive no financial payment, but do it for pleasure and the satisfaction of being able to help others.

Volunteers, such as lifesavers, receive no payment for their work but offer their services to the community freely.

### To have disposable income

Many people work in order to pay the bills and survive. However, most people work for an enjoyable life. A disposable income is funds that are available to be spent after all taxes, bills and compulsory costs of living are paid for. This surplus income can then be spent in any manner desired; that is, disposed on fun, holidays and hobbies. Paying for needs is ideal, but being able to pay for wants is a luxury that most aspire to.

### To be able to manage a household

Managing a household is not easy. Many people find the costs of day-to-day living stressful, so having a job enables ease in paying compulsory expenses first, but also then having surplus funds left over to be disposed of in any desired manner. Disposable income normally goes on luxuries and wants such as hobbies and pastimes, technology and travel.

### To add to superannuation

Often, people want to make their retirement as carefree as possible. They make mature decisions about their money, pay off all their bills, have savings and still realise that even after disposable income has been spent, they could put more into their future. Many people make choices to add extra funds into their **superannuation**, so they have more available when they are no longer working. Adding more into superannuation now can have tax advantages.

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**Digital document** Worksheet 3.2 Work and wellbeing (doc-32831)

### 3.2 Activity: Research and communication

1. Conduct a small survey of your family and friends to find the reasons they go to work. Present your information in a table similar to the one shown. What are the top three reasons people work? Present your results to the class and discuss your conclusions.

| | Reasons for working |
|---|---|
| Person 1 | |
| Person 2 | |
| Person 3 | |
| Person 4 | |

2. You have been hired by a voluntary agency such as Lifeline to prepare a float display in a forthcoming street procession. The display must raise the status of the agency's volunteer workers. Work in groups to design and present a float display for your selected voluntary agency. Consider your message, costumes, roleplay actions, banners, decorations and music. Incorporate constructive feedback provided by the class when deciding how you could improve a future display.
3. Using online resources, prepare a list of five volunteer agencies that operate in your area. Present this as a database or spreadsheet, including contact details, addresses and purpose of the organisation.
4. In pairs, decide whether you would work if you were so wealthy that it was not necessary. Give two reasons for your decision.

### 3.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What benefit can you see working would bring to your life?
2. What benefit has working brought into the life of someone you know?
3. List three examples of voluntary work.
4. Look at the reasons given in this section for why people work. Do you agree with them? Explain your answer.
5. For each of the following occupations, write one positive benefit and one negative consequence of the career choice. Compare your list with other class members.
   - Athletes
   - Bankers
   - Computer programmers
   - Doctors
   - Entertainers
   - Firefighters
   - Plumbers
   - Police
   - Scientists
   - Teachers
6. Describe some of the economic benefits from the government imposing taxes on workers.

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.3 Workplace participants

## 3.3.1 Who is in the workplace?

You could be forgiven for assuming that the Australian workplace involves only two groups of people — employers and employees. Our nation's work environments are much more complex than this simple relationship. Trade unions and governments have a significant impact on the nature of Australian workplaces. The ways in which these groups function and interact with each other form the basis of Australian work environments and, on a larger scale, our country's economy. In this subtopic, we identify and examine the participants in the Australian workplace.

The major participants in the Australian workplace


## 3.3.2 Employees

In the coming months, many of you will enter the Australian workforce for the first time. Some of you probably already have. Whether you flip burgers at the local fast-food shop, stack shelves at the supermarket or work in some other retail business, you are part of the Australian workforce. An employee is someone who works for another person or entity in return for financial compensation. This work may vary in a number of ways including the nature of the work completed, the level of responsibility and the time spent completing the work. Whether you work as a server at the drive-through at McDonald's or as the company's **chief executive officer (CEO)**, you are an employee of McDonald's. Although their roles and responsibilities differ greatly, both the server and the CEO undertake specific jobs and are paid for their time and effort.

As of February 2019, more than 12.7 million Australians were working as employees. This figure equates to just over half of Australia's total population. Casual, seasonal, part-time and full-time employment are all included in this calculation. An increasing number of employees are looking for more flexible working conditions. It is estimated that just under 31 per cent of Australia's workforce are employed on a casual or contract basis. Although this kind of work provides employees with more flexibility, casual work does not come with the same rights and benefits as part-time or full-time employment. The different types of employment are discussed in section 3.4.3.

A McDonald's server. Their job may be very different from that of the CEO, but both are employees of the same company.

### Contractors

Another way that businesses can hire workers for labour is through contracting. This is becoming more and more popular as businesses realise specific skillsets are only needed at certain times. This enables businesses to get the best help they need in specialist areas, but also cut costs. For example, Target stores need visual merchandisers to design window displays at peak periods such as Christmas. Each Target store, therefore, contracts the work of the visual merchandiser to complete the required window display, and then pays them for their contracted time, rather than employing them as full-time employees. Contract work can also last for set periods of time; for example, to assist when a full-time employee is on maternity leave, a contracted employee may fill in for six months.

## 3.3.3 Employers

A diverse range of employers exists within Australia. As at June 2018, there were more than 875 000 employing businesses in Australia. The majority of these were micro businesses with only one to four employees. The full breakdown of employing businesses in Australia is shown in the following table.

Number of businesses (by size) in Australia as at June 2018

| Business size | Number of employees | Number of businesses in Australia |
|---|---|---|
| Small | 1–19 | 823 551 |
| Medium | 20–199 | 50 338 |
| Large | 200+ | 3855 |
| | **Total** | **877 744** |

***Source:*** Data derived from ABS 8165.0 — *Counts of Australian businesses, including entries and exits* (June 2013 to Jun 2018)

From the smallest self-run business to the largest **multinational company**, all employers in Australia are subject to the same responsibilities and requirements. These include the provision of:

- a safe workplace
- adequate financial compensation for work completed

- necessary and relevant education and training
- contributions to superannuation
- essential rights to employees (such as adequate breaks and supervision).

A number of government organisations hold employers to these responsibilities. The most influential of these is the Fair Work Commission (FWC). There have been several versions of the FWC including Fair Work Australia and the Australian Industrial Relations Commission. The Fair Work Commission is Australia's national workplace relations tribunal and is responsible for administering the provisions of the *Fair Work Act 2009*. The Commission's powers and functions include setting the national minimum wage and minimum wages in modern awards, approving, varying and terminating enterprise agreements, and dealing with unfair dismissal, anti-bullying and general protections claims. The Commission does not enforce compliance with the Fair Work Act. The Fair Work Ombudsman's role includes enforcing compliance with the Act and educating people about fair work practices, rights and obligations.

The Fair Work Commission is Australia's national workplace relations tribunal.


***Source:*** © Commonwealth of Australia (Fair Work Commission) 2018

## 3.3.4 Trade unions

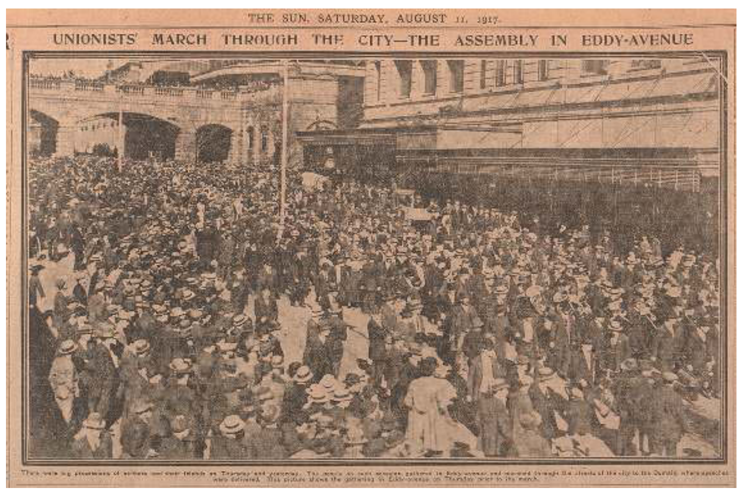
Much progress has been made for working conditions and improved rights due to actions of unions. These bodies were strong in reaching change and improving conditions to be what they are today.

The history of trade unions can be traced back to the merchants guilds of the Renaissance. In those organisations, workers who held the same job banded together to organise their industry, set prices, agree upon standard practices and protect the rights of their members. Australian trade unions play a similar role. They are organisations of workers who actively seek better pay, safer working conditions and increased job security. It is not compulsory for workers in a particular industry to join a union, although it is strongly encouraged by union members.


A union with a large number of active members can place more pressure on governments and employers than a smaller union. This pressure usually takes the form of **industrial action**, which can include strikes and work bans. Industrial action can be brief and isolated, or it can continue for days or weeks — even years in extreme cases. The longest industrial action in Australia occurred in 1946 and lasted for three years. It started when Aboriginal pastoral workers in Western Australia's Pilbara region refused to work until they were properly paid and provided with safe working conditions. Participation in industrial action is one way in which trade unions can affect the Australian workplace. Through this mechanism, they can be a crucial part of the Australian working environment.

Teachers protesting for higher wages and better conditions at the Rod Laver Arena in Melbourne

## Trade unions: early beginnings


THE SUN, SATURDAY, AUGUST 11, 1917.

UNIONISTS' MARCH THROUGH THE CITY—THE ASSEMBLY IN EDDY-AVENUE

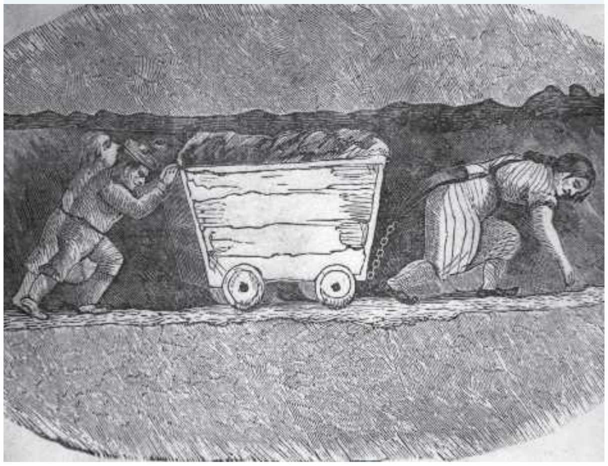
The Industrial Revolution began in England over 220 years ago, in the late eighteenth century. This revolution changed the way people lived and worked. People who once used to work as farm labourers moved to the towns and began to work in factories where conditions were very harsh. Men, women and children were forced to work long hours in noisy, dirty and dangerous workplaces. Small children were often sent down coal mines or up chimneys (as chimneysweeps). Accidents often happened around machinery, but there was no compensation or sick leave. If a person was injured, someone else took their job.

It was illegal to join with other workers to discuss how you could try and improve your working conditions. However, this did not stop workers from forming these illegal 'associations' as they were known. These associations were the beginnings of trade unions.

### COMFACT

The first workers to form a trade union were six farm labourers from the village of Tolpuddle in Dorset, England. In 1834, they were arrested and sentenced to seven years' transportation. Over the years, they became known as the Tolpuddle Martyrs.

Children were cheap labour in coalmines.



Ellison Jack, an 11-year-old girl coal-bearer, Report of the Commission of Mines, 1842

I have been working below three years on my father's account; he takes me down the mine at two in the morning and I come up at one or two next afternoon. I go to bed at six at night to be ready for work next morning; the part of the pit I bear [coal] in, the seams are much on edge. I have to bear my burthen up four traps, or ladders, before I get to the main road, which leads to the pit bottom. My task is four to five tubs; each tub holding 4¼ hundredweight[1]. I fill five tubs in 20 journeys. I have had the strap when I did not do my bidding. I am glad when my task is wrought[2] as it sore fatigues me.[3]

[1] One English hundredweight = about 50 kg
[2] finished
[3] wears me out

## Role of trade unions

A trade union is an organisation that looks after workers in a particular job or industry. Members pay a fee to finance the union's operations. The working conditions experienced by many of today's employees are the result of past trade union action. By joining together, workers were able to approach employers and bargain with more strength for improved pay and conditions. Australia, for example, was the first country to legislate the eight-hour working day.

Unions generally aim to:

- protect the interests of union members; for example, by undertaking campaigns and negotiations for increased pay rates
- improve the working conditions of members; for example, by monitoring health and safety
- ensure fair treatment of employees at work; for example, by preventing unfair dismissals
- promote quality of life issues; for example, by limiting work hours.

Usually, each individual workplace will elect a voluntary union representative who will:

- attend local union meetings
- keep members informed and assist them with work-related issues
- organise meetings at the workplace
- represent the members in negotiations with the management.

Trade unions have helped employees to improve conditions in a large range of areas relating to their employment. The following achievements have helped shape our society into what it is today.

- 1902: The first **workers' compensation** law was established in Western Australia.
- 1908: The Pastoral Workers **Award**, established by the Australian Workers Union, was the first award in Australia. Since then, awards have been the cornerstone of setting out terms of working conditions for millions of employed workers.
- 1920s: **Paid sick leave** was introduced. Prior to this, workers went to work sick or stayed home without pay.
- 1936: A campaign by the printing workers led to the beginning of **paid annual leave**.
- 1947: **Penalty rates** (extra money for working outside of normal hours) were established after unions raised the issue with the Arbitration Commission.
- 1951: New South Wales became the first state to introduce **Long Service Leave**.
- 1969: The principle of **equal pay for women** was adopted by the Australian Conciliation of Arbitration Commission. (Attempts to achieve this principle can be traced back to the end of the 1940s.)
- 1971: The Australian Workers Union fought for **protection against unfair dismissal**.
- 1973: The first annual paid leave with a 17.5 per cent **leave loading** was achieved by the Metal industry.
- 1973: Industrial action was taken to fight for the demand of proper **meal and rest breaks**. Prior to this, workers had to go a whole day without a break.

- 1980s: Trade unions were successful in banning the use of asbestos as part of their fight for **safe working environments**.
- 2011: After a long campaign, the **Paid Parental Scheme** was introduced, entitling parents of children born or adopted after 1 January 2011 to 18 weeks' pay on the National Minimum Wage.
- 2011: The trade unions' 'Stand Up For Super' campaign led to an increase to the **compulsory Superannuation Guarantee,** at the time set to increase to 12 per cent by 2019. (Prior to 1986, only a select group of employees were entitled to superannuation. Trade Unions battled for this to become an entitlement for all.)

The union movement conducts campaigns on issues that affect their members.


Despite all of these achievements, however, the number of workers belonging to trade unions is declining. Reasons for this include enterprise bargains, laws that are unfriendly towards unions and stifle their ability to take action, hostility from upper management and young people not seeing the point of joining. In order to increase memberships, unions are now offering other services such as cheap personal loans, free legal services, discounted goods and services as well as private health care plans.

## 3.3.5 Employer associations

Employers also have found it necessary to join together to protect their common interests. The Australian Industry Group (AIG) is a peak industry association, representing about 60 000 businesses. Other important associations include the Australian Chamber of Commerce and Industry, the Business Council of Australia (BCA) and the Australian Retailers Association (ARA). These and other associations have as their main roles to:

- advocate for their industry to be a career of choice
- represent employers in dealings with trade unions
- give advice and assistance on a wide range of issues such as taxation, industrial relations and employment legislation
- lobby governments with their memberships' views.

In some cases, an employers' association will negotiate with a union to establish a new set of pay and conditions. At other times, an association will represent its members before an industrial relations tribunal. These services are a great benefit to all members, especially small business owners.

Employers' associations have always been involved in lobbying governments. Over the years, they have set up a number of research offices to provide economic and industrial advice to their members and the public. Their representatives often appear in the media to present and discuss the employers' views on current workplace and economic issues.

Logos for the Australian Retailers Association, and the Australian Industry Group. The ARA employ more than 1.2 million people across Australia and continue to advocate for retail to be a career of choice.

## 3.3.6 Governments

If support isn't possible through trade unions or employees associations, federal, state and local government agencies can also provide support.

Governments play a crucial role in the Australian workplace. By setting and enforcing employment standards, our governments are one of the most important components of the Australian working environment. The regulation of minimum wages, leave and superannuation **entitlements** are just some examples of these standards. Government projects both create and sustain employment in Australian states and territories. All three levels of government are involved in the planning and implementation of new projects. Regardless of whether these projects involve the construction of new infrastructure or the creation of new training programs, they will generate jobs. Although private enterprise also generates jobs and helps set standards in certain industries, governments often have greater power and influence over job markets.

**on** Resources

**Digital documents** Worksheet 3.3 The eight hour day (doc-32694)

Worksheet 3.4 'The labourer is worthy of his hire' (doc-32695)

**Weblinks** Australian Council of Trade Unions (ACTU) Worksite

Australian Retailers Association

### 3.3 Activity: Research and communication

1. Research an industrial action in Australian history. Write a summary of the dispute, answering the following questions:
   (a) What was the dispute about?
   (b) Who was involved in the dispute?
   (c) What kind of industrial action was taken?
   (d) How was the dispute resolved?
2. Set up a class debate to consider the topic: 'Trade unions should not be allowed to call a strike.' Share roles so that those not debating are involved either in assisting with research or in running the debate, and keeping notes on the arguments of both sides.
3. Use the **Australian Council of Trade Unions (ACTU) Worksite** weblink in the Resources tab and access the 'Q & A Quizzes' section of the site. Select and complete four separate quizzes. How would you rate your knowledge of the topics quizzed? Write down two things you learned from doing the quizzes.
4. Research one employer association referred to in the text by using one of the three **Employers' association** weblinks in the Resources tab. Find out the number of members, the association's aims and the services it provides.

### 3.3 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What proportion of Australia's population is currently employed in casual, part-time or full-time work?
2. When did the first trade unions begin and what was their purpose?
3. What is the main role of governments in the Australian workplace?
4. Suggest reasons why someone would choose:
   (a) casual work over part-time/full-time work
   (b) part-time/full-time work over casual work.
5. Explain the role of the Fair Work Commission.
6. Copy the table in section 3.3.3 and add a column titled 'Percentage of all Australian businesses'. For this new column, you will need to take each category of business and calculate the percentage of Australian businesses that fall into that category. For example, what percentage of Australian businesses have 1–19 employees? Complete this calculation for each category in the table.
7. Describe the role played by trade unions in the workplace.
8. Explain the benefit to employees of joining a trade union.
9. Analyse how governments may assist in maintaining a work environment that benefits all parties.
10. 'The bigger the business, the easier it is to manage the workplace.' Do you agree with this statement? Justify your response.
11. Read Ellison Jack's comments in section 3.3.4 and then answer the following questions.
    (a) Ellison Jack makes the statement, 'I have had the strap when I did not do my bidding.' Explain what you think she means by this.
    (b) Approximately how many hours did Ellison Jack work each day?
    (c) Explain why people had to endure these poor working conditions.
    (d) Outline how a trade union could have helped to improve the conditions for Ellison Jack.
12. Choose two items from the list of achievements of trade unions and explain why each achievement is of importance in our society.
13. What is the main difference between trade unions and employers' associations?
14. List the main roles of:
    (a) trade unions (b) employers associations.
15. What gives a trade union and employer association their strength?
16. Why do you think young people are deciding not to join trade unions?
17. Many people say that trade unions have outlived their purpose — with working conditions greatly improved, there is no longer the need for trade unions. Do you agree or disagree with this statement? Justify your answer.

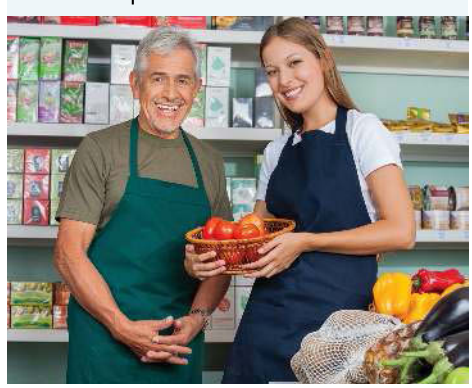
**Fully worked solutions and sample responses are available in your digital formats.**

# 3.4 Types of employment and work arrangements

## 3.4.1 Paid and unpaid work

Paid work is defined by the Australian Bureau of Statistics as performing services for one hour or more per week in return for receiving money or income, while unpaid work comprises those tasks performed without receiving an income. Jobs such as cooking, cleaning and gardening are all work, but you cannot argue that you are employed when you are cleaning your room! Household chores do not earn an income, although your parents may reward you with pocket money for performing them. In the world of Economics, pocket money is not considered an income. Other examples of unpaid work are family duties, school work, voluntary work and community service.

People who work or are looking for work are part of the labour force.



## 3.4.2 Types of employment

Once you gain employment, you can be employed in many ways. A variety of employment contracts and types of employment are available, as shown in the following table.

| Type of work | Features |
|---|---|
| **Full-time** | • Continuing, ongoing employment<br>• Number of hours per week is 38 or more<br>• A range of entitlements received |
| **Part-time** | • Ongoing employment<br>• Number of hours per week is fewer than 38<br>• Number of hours may be fixed or variable<br>• Entitlements received on a pro-rata basis |
| **Casual** | • Employed on an hourly, or 'as needed', basis<br>• No permanent weekly roster<br>• Hours vary from week to week; for instance, 10 hours one week and 3 hours the next<br>• May work for more than one employer.<br>• No access to entitlements but a loading received to compensate |
| **Self-employed** | • An individual who works for himself or herself |

Each type of employment option has advantages and disadvantages.

### Karl Gerstenberg — full-time nurse

'This is my first full-time job. I work 40 hours per week over a five-day cycle. Sometimes I also work overtime. I get additional pay for working more than my allocated hours. The hourly rate is also higher if I work at night or on weekends.

Although I have to spend more time at work than in my previous part-time job, I enjoy earning a higher income. This has made it easier to start saving on a regular basis. As well, I am entitled to a wide range of non-wage benefits, especially paid holiday leave and long service leave. However, the greatest benefit is the job security. The main disadvantage of full-time work is not having time for my hobbies but I guess the extra money makes up for that.'

### Virginia Dimitriados — part-time fashion designer

'Part-time work suits me. I can earn some money on a regular basis but, because I am taking a TAFE course, I need time to study. As a part-time employee, I have job security because I work regular days and regular hours but for fewer days or hours than a full-time employee. As a part-time employee, I receive a number of entitlements on a **pro-rata** (proportional) basis. For example, I work three days per week so, therefore, I am entitled to three-fifths of the non-wage benefits available to full-time employees. However, part-time work does have a few disadvantages. Firstly, because I work fewer hours, I receive a smaller weekly pay and reduced entitlements compared to full-time employees. Secondly, I do not receive the loading paid to casual staff. Overall, while I'm studying, part-time employment offers better conditions than casual employment. An added benefit is that I'm presently able to work in the industry I want to have a career in. I'm studying fashion while I work with fashion, gaining real hands-on experience and training alongside my study.'

### Sally Nicholson — casual checkout operator

'As a casual worker, I am employed on an hourly basis. The main disadvantages of casual employment are that I do not receive a range of **entitlements** (non-wage benefits), such as long service leave or sick leave, and the lack of job security. If there is no work for me to do, I can be dismissed at one hour's notice, or with one hour's pay instead of notice. However, to compensate, I am paid a **loading**; that is, extra pay, on top of the normal full-time rate. As well, I have the flexibility to agree or refuse to work at a particular time. If I have agreed to take a job, I can take a few days unpaid leave if needed for emergencies such as my children getting sick, or illness or death within the family. While this job provides me with some income, because it is not regular, I am finding it difficult to obtain a home loan. If both myself and my employer agree, my employment status can be changed to permanent. Some places have a process that allows this to happen when you have worked for them for a specific period of time. This is different for each workplace though, so it's important to find out what rights you have.'

### Anderson Tubino — works from home

'I've recently moved to Australia but still wanted to keep working for my boss in Brazil. I consider myself to be a crucial part of his business because I am in prototypes and design. So, my boss pays me to work from home. I've set up a small space where I can make the products and experiment with their creation but most of my work is actually just paperwork online and can be done anywhere. I recently travelled to China for a wedding and was able to check design mock-ups online and video conference while out and about. I really like the flexibility of my work and appreciate my boss being able to provide this opportunity for me. Sometimes I struggle with motivation of a morning, to get up and get focused on work because the comfort of my home is so relaxing. What I like best, though, is being able to help my son get ready for school each day. I don't have to travel to work so I am available as a family man in the mornings and afternoons. Working from home gives me freedom and a lifestyle I enjoy.'

### Grace Bernardini — self-employed landscape gardener

'Being self-employed gives me the freedom and flexibility to work where and when I want to. I especially like making business decisions and being responsible for the business's success. Creating an idea in my head and seeing it actually appear out there, that's huge to me. I get enormous satisfaction from creating designs that delight my clients. There are also some tax advantages to being self-employed. However, being your own boss does have a number of disadvantages. I have no guaranteed income each week and, consequently, a lack of financial security. I have to pay for all my own entitlements and if I am ill, I earn no money unless I have some insurance. Risks are involved but hopefully the rewards will be greater.'

### Maria Noel Machado — traineeship

'I got a job as a receptionist at a local business. They realised I was great within the role and wanted me to train further to be the Business Administration Manager. I was then placed on a **traineeship**, (where you combine employment and training in order to gain a qualification) where I went to a private college for two years, part-time, while I was still working and getting paid. It's great! I love that the theory I am learning matches what I am doing as part of my job. My workplace is really supportive too, and always provides me with learning opportunities and understands that I am still learning. Even better is that I have a job while I study, and I will be promoted when I finish my training, as well as being fully qualified.'

### James Scott — apprenticeship

'I knew I wanted to work in the trade industry, but I didn't realise how easy it would be! Upon leaving school I saw a job online that a plumbing company needed apprentice workers. I didn't really know what this meant, so I went along to the job interview and asked. Basically, the workplace pays for me to learn on the job as an **apprentice** (training that involves following and studying a qualified practitioner of a trade e.g. plumber). I work alongside more experienced employees for four years, gaining knowledge that they share with me. I also go to TAFE one day per week, and get paid to be there! I have to pass my TAFE assessments, but my workplace is really good and allows me time to prepare for them. I get paid slightly less than if I were fully qualified but this isn't too bad, because I know my boss is paying for all my costs of learning, giving me equipment for learning and setting me up for my career.'

## 3.4.3 The labour force and its workers

Australia's **labour force** is made up of people who are working and people who are actively looking for employment, whether it is **full-time**, **part-time**, **casual** or **seasonal**. The labour force is made up of people aged 15 and over who are either employed (including self-employed people) or unemployed. People not regarded as part of the labour force include:

- pensioners
- people with a physical or mental disability who are unable to work
- full-time students who do not work
- full-time carers who look after children or other family members
- volunteers working without pay in institutions such as the State Emergency Service and charities.

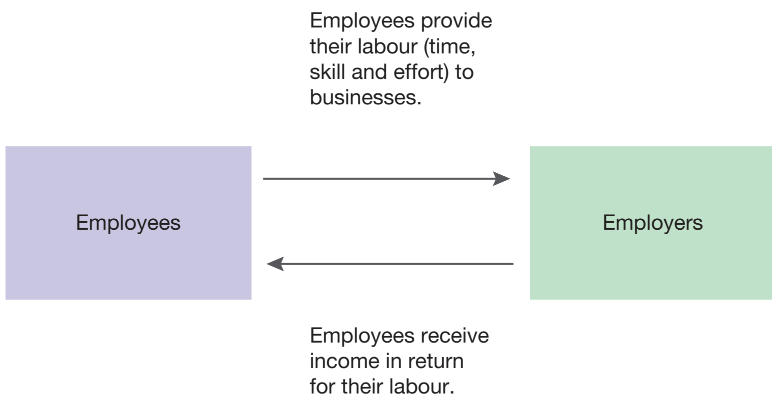
A small percentage of the labour force (5.1 per cent in January 2019) is unemployed. This group is still included in the statistics on employment rates in Australia.

To be considered employed, you must fulfil all these requirements:

- be aged 15 years or over
- have worked for at least one hour in the week, or have a job even though you were not at work in the week
- have received pay, profit, commission, or payment of some kind for your work.

In Australia we have industry-wide awards that set out the minimum wages and working conditions for all employees in an entire industry or occupation. These awards also set out the award hours, which are the minimum weekly hours of work that a person covered by that award must be given.

The employment relationship




## 3.4.4 Voluntary work

Voluntary workers play an essential role in our society. Many people in the local community work for voluntary agencies such as rural fire services, surf lifesavers and state emergency services. They receive no financial payment. They do it for pleasure and the satisfaction of being able to help others. Just because volunteers do not receive an income does not mean that the job they do is any less valuable.

### Alex Varen — volunteer

'I wanted to contribute a bit more to my community. I only go to uni two days per week and I also work another two days. I realised that volunteer work was a nice way for me to give back to the people who helped me so much. So I signed up to be a volunteer lifeguard. I get about one shift per week, which is normally on a weekend. This suits me because I can enjoy the beach, and get to keep fit and active as well as helping out where needed. I think I got the desire to volunteer from my mum — she volunteers at a homeless shelter two nights per week. She always told me how rewarding it is to give and expect nothing back, and she is right! I love the satisfaction I get from assisting others with my skills and being a good citizen.'

## 3.4.5 Forms of income

### Wages

Wages are what an employee receives in exchange for their labour or services. Normally, a wage is a fixed regular payment, paid in increments. If working casually, a wage will be paid per hour; if working part- or full-time, it will be paid per week, fortnight or month as part of a salary.

### Salaries

A salary is the total package of remuneration paid to an employee. Salaries tend to include your base pay, as well as superannuation, leave allowances and any other elements of finance such as bonuses.

### Commission

A commission is another form of payment for a job or service. However, commissions mostly are percentages or 'cuts' of a bigger sale and are an incentive for that sale. Commissions are largely used in sales; for example, when reaching targets that boost business income, the business then shares a portion back with the employee who made the sales.

### Profits

People who operate their own business are self-employed. They make their own income from the **profit** of the business. Profit is calculated by subtracting the expenses of a business from its revenue. This is given by the below equation:

$$\textbf{Profit} = \textbf{Revenue} - \textbf{Expenses}$$

### Dividends

A dividend is a sum of money paid regularly by a company to its shareholders out of its profits (or reserves). Some people use dividends as their main form of income and live off their investment dividend payments.

**on** Resources

**Digital document** Worksheet 3.5 The workplace (doc-32832)

### 3.4 Activity: Research and communication

1. Undertake a quick survey of the class as to what type of work each student wants to do when they are no longer at school. Research the type of income and state the current pay rates that would be received. Present this information as a table.
2. Conduct a survey of your family and friends on the hours they work. Present your information in a table and discuss your conclusions with the class.
3. (a) Locate ten volunteer agencies that operate within your community. The Yellow Pages and the internet may help to get you started.
   (b) Choose one of the agencies and research the benefits that they provide.
4. If you had the opportunity to be a voluntary worker, what would you do and why?

### 3.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. How does the ABS define work?
2. Why do you think the ABS definition requires a minimum of one hour of work per week?
3. Distinguish between paid and unpaid work.
4. Why is remuneration important for someone who is working?
5. Are the following statements true or false?
   (a) Pocket money is a form of income.
   (b) If you work only three hours per week, you are not employed.
   (c) A full-time employee works, on average, about 38 hours per week.

6. Explain the difference between the following.
   (a) Casual work and part-time work
   (b) Paid and unpaid work
7. Tom stays home and looks after the house and children all week, and Janet works as a doctor. Who is working? Explain your answer.
8. Complete the statements by selecting the correct words from the following list.

| | | | | |
|---|---|---|---|---|
| **risks** | **service** | **pro-rata** | **fewer** | **freedom** |
| **self-employed** | **sick** | **flexibility** | **security** | |

   (a) Casual employment offers ____________, but does not provide job ____________.
   (b) Part-time employees work regular but ____________ hours than full-time workers and receive entitlements only on a ____________ basis.
   (c) Full-time employees have the benefit of entitlements such as paid ____________ leave and also long ____________ leave.
   (d) ____________ people have the ____________ to work where and when they want to, but face greater ____________ than other types of employment options.
9. Which 16-year-old employee, performing the same duties, will receive higher hourly payments from her or his employer?
   (a) Casual employee
   (b) Part-time employee

   Justify your answer.
10. In your notebook or on your computer, construct and complete a table like the one below. The first answer has been filled in for you.

| | Employment options available | | | |
|---|---|---|---|---|
| | **Casual** | **Part-time** | **Full-time** | **Self-employed** |
| **Advantages** | 1. Paid a loading | | | |
| **Disadvantages** | | | | |

11. How is a profit calculated? Think of your local area and name three individual people who would earn a profit.

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.5 The nature of work

## 3.5.1 Choosing careers

Even as a teenager, you have probably been asked the question, 'What do you want to do when you grow up?' From a young age, some people have a strong interest and desire to work in a particular job. In many cases, this interest comes from observing a parent, carer or guardian, sibling or family friend who works in a particular industry. Other people spend much of their teenage life and young adult life trying to decide exactly what they would like to do for work. In the contemporary Australian workforce, people may change their mind about what they want to do for work many times in their working lives.

Choosing a career is a significant decision. It is natural for people to feel confused, unsure and nervous about making such a decision. A common tool people use to help them determine the type of work that may be suited to them is a 'personality and career aptitude test'. This tool aims to identify the strengths, weaknesses, interests and personality traits of a particular person in order to suggest industries or occupations that may suit them. While these tests are useful, they are just one of many tools that young people can use to help determine the type of work they may be suited to. Parents, carers or guardians, siblings, friends, teachers, career counsellors and employment agencies may also provide useful information.

## 3.5.2 Changing industries

Within Australia, you can generally be employed in a wide range of occupations, in a variety of different industries. An **industry** refers to a group of businesses involved in similar or related work. An occupation relates to the work or activities that a person performs in order to earn a living.

However, over the last 100 years, the work people do has changed a lot. New occupations and industries are constantly being created as the Australian economy responds to influences such as technology, globalisation and sustainability.

The three main types of industries are primary, secondary and tertiary. The nature of work within these industries is changing a lot and employees need to be aware of their dynamic role within the workforce.

### Primary industry

A **primary industry** is one that produces raw materials (for example, fresh fruit) from what nature has provided. All types of farming, mining, fishing, grazing and forestry are primary industries. Primary industries provide all our food. Hence, the work of employees in these industries is essential. As well, approximately 60 per cent of all Australia's exports are primary industry products.

### Secondary industry

**Secondary industry** include all workers involved in turning raw materials into finished or semi-finished products. For example, iron ore, coal and limestone are turned into steel — a semi-finished product. Steel is then used to manufacture cars and steel-framed houses — finished products.

### Tertiary industry

People who work in **tertiary industry** provide a service to others (for example, retailers, dentists, bankers and solicitors). The number of employees in tertiary industries has grown so rapidly since the 1960s that it has been broken down into the quaternary industry and quinary industry.

Farming — primary production

Manufacturing steel frames — secondary production

Dentistry — tertiary industry

### Quaternary industry

The **quaternary industry** is made up of service industries that deal with processing information and knowledge. The ability to connect people online is one of the reasons this sector has grown. The sector includes technology jobs such as network specialists and IT professionals, along with services such as financial advisors, libraries and education.

### Quinary industry

The **quinary industry** is made up of domestic services, many of which were once carried out by people within their own homes. Hospitality, childcare, domestic cleaning and home maintenance services are examples of quinary industry services. They include both paid and unpaid workers.

IT consultant— quaternary industry

Hospitality — quinary industry


## 3.5.3 Changes in occupations

In 1900, nearly one-third of our labour force worked in primary industries, mainly farming and mining. Since then, the proportion of primary industry workers in the labour force has dwindled to about 3 per cent. Because of improved methods of farming and mining, and the use of mechanical equipment, fewer workers are needed to produce our food supply and minerals.

For a long time, many of those who left the farms and mines moved into jobs within secondary industries. They took factory jobs in the city. In recent years, however, the proportion of the labour force needed to do factory work has been decreasing and is presently about 17 per cent. This is because many factory jobs have been eliminated by technology, especially automation.

As opportunities for employment have decreased in some occupations, they have increased in others. In fact, about 80 per cent of the labour force consists of people working in service industries. This growth in employment in service industries is expected to expand rapidly during the next two decades because of advances in computing, especially telecommunications, as well as social and lifestyle changes.

### 3.5 Activity: Research and communication

1. The 'Job Outlook' website is an initiative of the Australian government's Department of Employment. The website identifies a range of industries in the Australian economy and provides useful data about the characteristics and trends in different industries and occupations. Use the website to research two industries and present current trends within these industries in a table.

### 3.5 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Explain how the occupations of the labour force changed over the past century.
2. Use a table to list which industry each of the jobs below belongs to.
   Lawyer, chef, farmer, dentist, carpenter, computer operator, real estate agent, tow-truck driver, factory hand, cleaner, teacher, child carer, welder, journalist, newsreader, miner, secretary, surgeon, writer, machinist

3. Use the table below to answer the questions that follow.

Proportion of employment by industry in Australia 1900–2020 (%)

| Year | Primary | Secondary | Tertiary |
|---|---|---|---|
| 1900 | 34 | 20 | 46 |
| 1940 | 21 | 25 | 54 |
| 1980 | 8 | 21 | 71 |
| 2000 | 5 | 21 | 74 |
| 2020 (est.) | 3 | 17 | 80 |

***Source:*** Data derived from ABS statistics.

(a) In which year was the proportion of people employed in the following industries at its highest and lowest?
(i) Primary (ii) Secondary (iii) Tertiary
(b) Which industry experienced the greatest increase and which suffered the greatest decline in employment over time?
(c) Which industry was the most stable, with regard to employment over time?

4. In small groups, brainstorm these questions.
(a) Why has the tertiary sector grown so rapidly over the past 100 years?
(b) What does this tell you about future employment prospects?
5. With a partner, compile a list of tertiary jobs that are essential for the production of a reality tv show. Place the letters ‘Qt’ next to those jobs that would be classified as quaternary and the letters ‘Qn’ for those jobs in the quinary sector. What conclusions can you draw from the list?

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.6 Patterns of employment

People are dynamic, as are workplaces. This means the nature of work is constantly changing to better meet the needs of the economy, of businesses and of society.

## 3.6.1 Participation rates

When your grandparents worked, the majority of the Australian workforce was male. Most of these men were the ‘breadwinners’ — supporting their wives and families until retiring in their sixties. Women often ‘retired’ from the workforce when they married, and it was relatively uncommon for a woman to work if she had young children. Today, the two-income family is more common, with women continuing to work throughout the period of having dependent children. Employment is more likely to be part-time or casual and there have been significant changes in the types of jobs in which people are employed.

The labour force today is well educated, and employees increasingly want more challenging, interesting work. Many feel driven to build their career through a succession of jobs in a range of different businesses. They want to be more involved in the decision-making process, and to make decisions for themselves. Employees want greater responsibility for their own actions and want to initiate tasks without being ordered to.

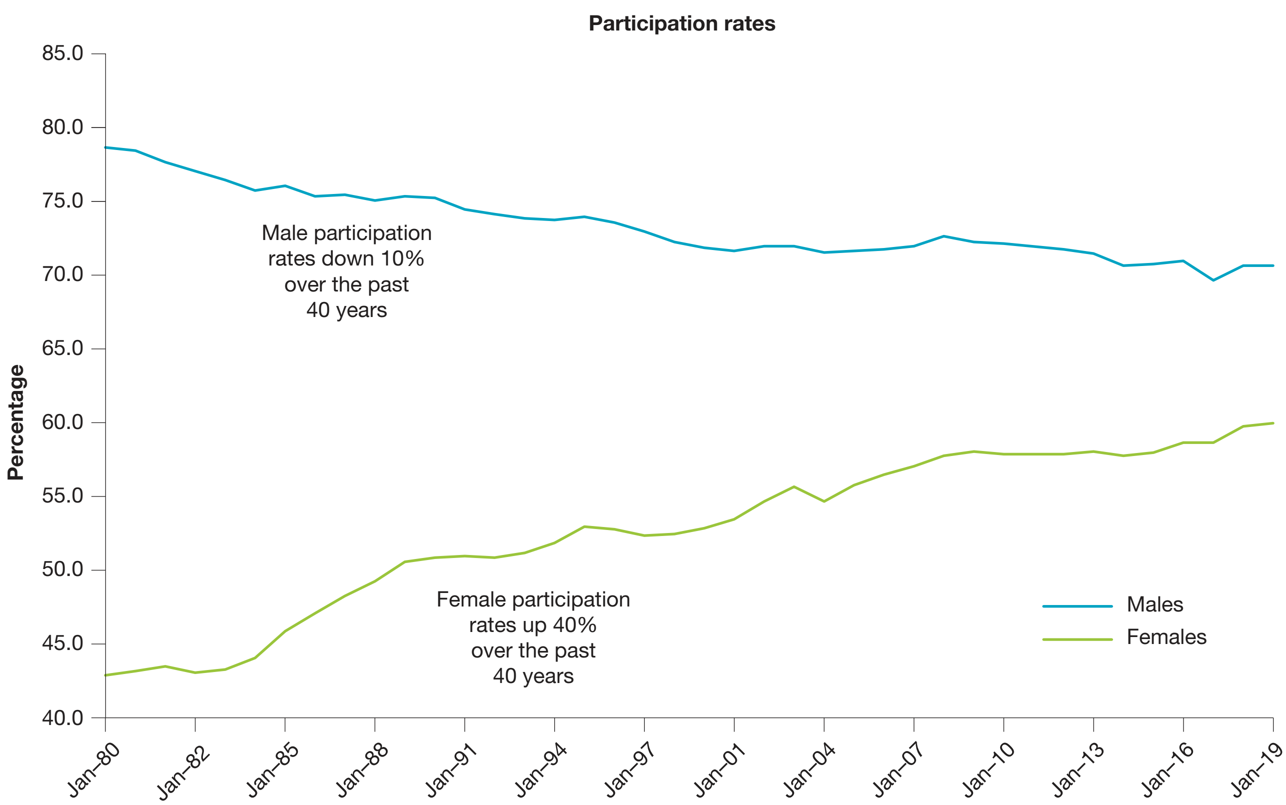
With this shift in the way people approach their careers, human resources management has become increasingly important within the business world — emphasising the value placed on finding the right person for a particular role. In this subtopic, we will explore these and other changes to the Australian workforce and work patterns.

## The changing roles of women and men

One of the most significant changes seen in the Australian workforce has been the increased participation of women. As mentioned, in the past it was common for women to leave the workforce when they had children, and often they never returned to paid work. This is no longer the case.

Overall, the number of women in the workplace has risen rapidly in recent decades — women now comprise approximately 47.0 per cent of the workforce and have a **participation rate** of 61.1 per cent. The participation rate measures an economy's active labour force and is the sum of all employed workers divided by the working age population. It refers to the number of people who are either employed or are actively looking for work. On average, the labour force participation rate of women is still lower than that of males; however, the gap has narrowed slightly over the years. This rise reflects increasing educational levels as well as women choosing to work longer instead of retiring. The following graph shows the change in workforce participation rates from January 1980 to January 2019.

Labour force participation rates for men and women




**Source:** Adapted from Australian Bureau of Statistics, *Labour Force, Australia, 2019* (cat. no. 6202.0).

As women have entered the workforce in greater numbers and continued to work after having children, the need for formal childcare has increased. This has led to the growth of the childcare industry and has created significant new job opportunities in this area. Another significant change has been an increase in flexible work options, offering benefits such as parental leave (for both women and men) and part-time work, which allows greater flexibility to juggle the demands of work and parenthood.

The following figure shows the proportion of males and females in the employed Australian labour force in May 2018, and their average weekly earnings.

The increased participation of women in the workforce has created the need for formal childcare

Proportion of males and females in the paid workforce in 2018, and their average weekly earnings

**All employees in May 2018**

Males
49.9%
Average weekly earnings = $1525.40

Females
50.1%
Average weekly earnings = $1053.30

***Source:*** Australian Bureau of Statistics, www.abs.gov.au/ausstats/abs@.nsf/mf/6306.0

Female employees slightly outnumber males, but as can clearly be seen, women's average weekly earnings are significantly lower than that of men. This can be explained to some extent by looking at the differences in full-time and part-time participation rates. It is important to make sure women are not being discriminated against and that 'glass ceilings' as an unacknowledged barrier to advancement in a profession of a particular group (e.g. female), are shattered to allow equal opportunities for all genders.

### COMFACT

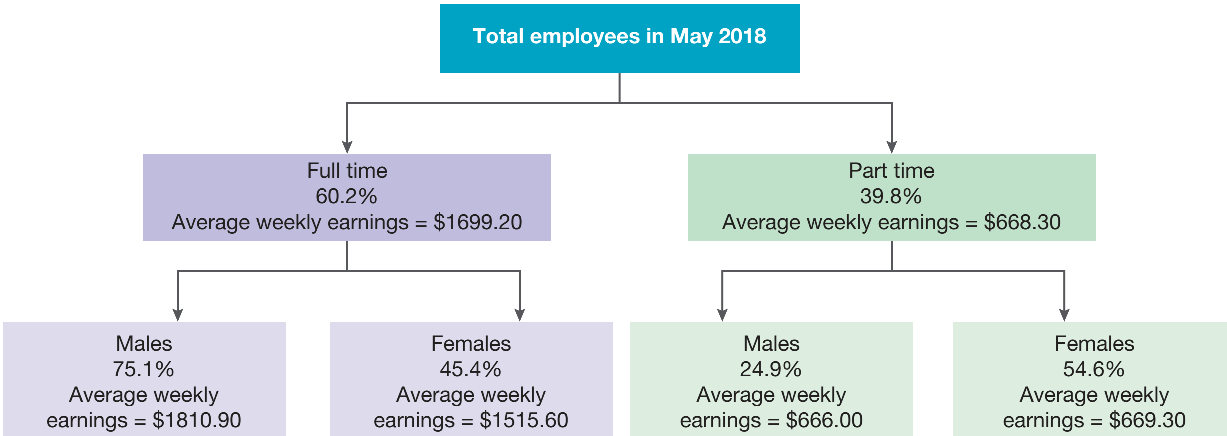
A study in 2017 found that among Australia's 200 largest companies, only 12 (6 per cent) have female chief executive officers (CEOs). Ironically, 7 per cent of the CEOs are called Andrew. This means you are more likely to gain a high leadership position within these companies if you are called Andrew than if you are a woman.

## Participating full-time, part-time and causally

An employee is considered to work full-time if their hours of work equate to 38 hours or more per week, or they work the agreed or award hours for a person in their occupation or industry, and the work is ongoing. An employee is considered to work part-time if they work less than 38 hours a week in ongoing employment, where the number of hours they work is either fixed or variable.

The following figure shows that in May 2018 there were more full-time employees (60.2%) than part-time employees (39.8%), and as would be expected, average full-time earnings ($1699.20/week) were significantly higher than average part-time earnings ($668.30/week). However, 54.6% of females were employed on a part-time basis, compared with only 24.9% of males; that is, the majority of male workers (75.1%) were employed full-time, which accounts for much of the disparity in average weekly earnings between men and women.

The proportion of full-time and part-time employees in May 2018, and their average weekly earnings




***Source:*** Australian Bureau of Statistics, www.abs.gov.au/ausstats/abs@.nsf/mf/6306.0

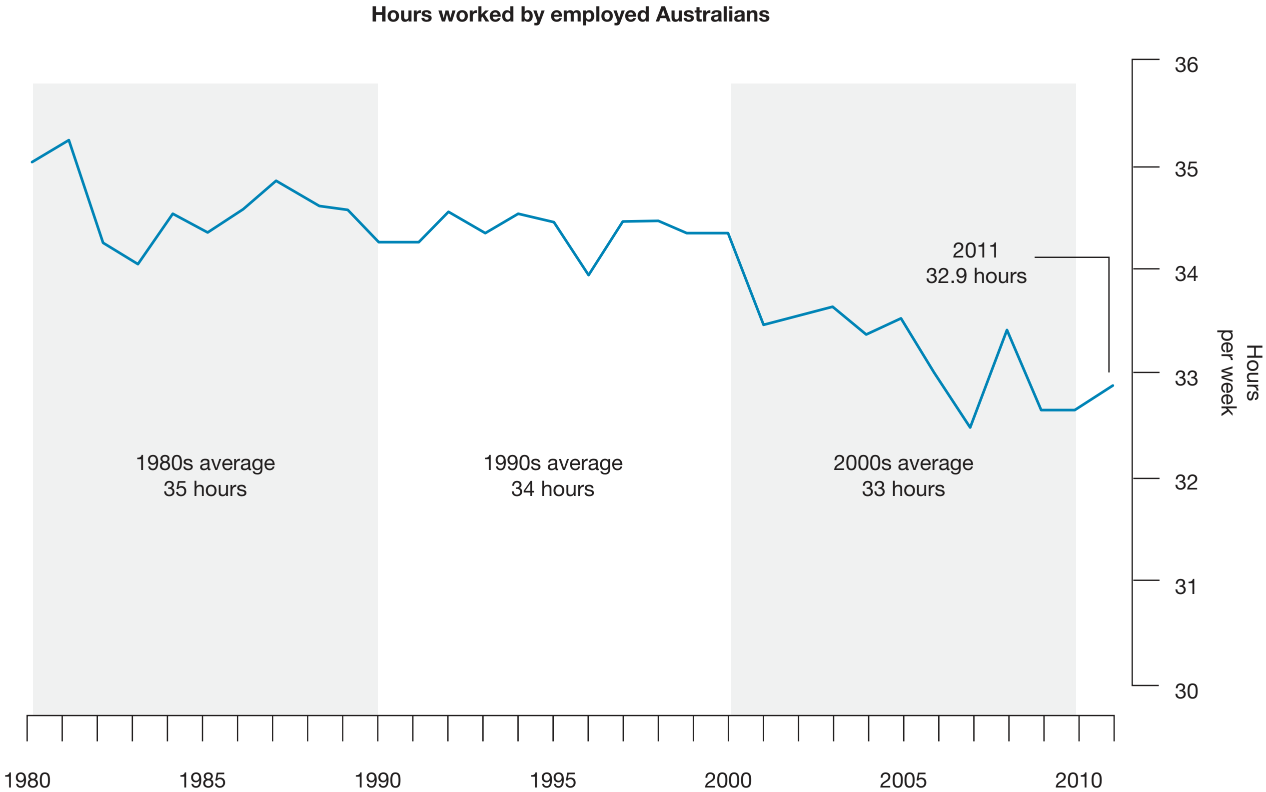
Casual workers make up approximately 20 per cent of the labour force. Some industries — such as the retail and hospitality industries — employ a large proportion of their workers as casuals.

Some casual employees, especially the young, find it difficult to gain full-time employment. Their working life is often dominated by periods of part-time and casual work. Consequently, they have few opportunities for promotion and are usually retrenched first if the business is experiencing financial difficulties. These people will sometimes experience long periods of unemployment. Exploitation of these employees can also occur. However, some casual workers do not want to work additional hours and like the flexibility this type of employment provides when balancing their work and personal lives.

## 3.6.2 Hours of work

In today’s work environment, there is a perception that people will be available outside of traditional work hours due to technology-enabled connectivity. They are generally working longer hours than ever before. While in some industries this may indeed be the case, Australian Bureau of Statistics figures show that since the 1980s there has actually been a decline in the average hours worked by Australians — from 35 hours average in the 1980s, to 32.9 hours average in 2011. The following figure depicts this change.

The average number of hours worked by employed Australians shows an overall decrease from 1980 through to 2011.




***Source:*** Adapted from Australian Bureau of Statistics, *As a Matter of Fact, 2012* (cat. no. 1393.0). Most recent data available at time of publishing

The change in average work hours can in part be attributed to the significant increase in part-time employment during this period. Part-time roles now exist in almost all industries, and are particularly prevalent in the retail and hospitality sectors.

Changes to trading hours have had a significant impact on the hours of work for many Australians.


Apart from the change in the number of hours worked, there has also been a significant shift in the times that people work. Where once the world of work was largely framed around the 9-to-5 workday, this is no longer the case. For example, changes to retailing regulations have created a demand for employees to work vastly different hours to those of the past, with weekend and late-night trading now allowing businesses to operate well outside 9-to-5, Monday-to-Friday hours. Similarly, venues such as bars, restaurants and nightclubs are now able to stay open much later, creating a need for staff who are willing and able to work shifts into the early hours of the morning.

Consumer demand has also created a need to provide call centre staff in certain industries from early in the morning until late in the evening. Thus, employees working in such fields may work a range of hours that are significantly different to what was once the case.

## 3.6.3 Work–life balance

Many employees are requesting work arrangements that improve work–life balance. Employers are also recognising the cost savings and benefits of 'family friendly' workplace practices to motivate and retain skilled staff. Some work–life balance initiatives include workplace childcare, family leave and home-based work.

Australia's national paid parental leave scheme should also improve work–life balance for some families. The government-funded scheme commenced in 2011, providing payment for 18 weeks within the first year after the birth of the child. Additional changes were made in 2012 when it was decided that dads and partners were also entitled to two weeks paid parental leave.

### Flexible working conditions

Flexible working conditions are patterns of work that allow employees to balance work, life and family obligations more effectively. For example, some employer–employee agreements allow opportunities for home-based work, which gives employees more flexibility during working hours. Many businesses also offer permanent part-time work, job-sharing and flexible working hours in order to retain skilled and valued staff.

Work is creeping further into employees' private lives.

However, some employees (other than those who choose part-time work) are finding that flexible working hours and permanent part-time work may not be as beneficial as they had hoped. Many employees now work 12-hour shifts, broken by days off, as part of their industrial agreements. Others have lost their weekends and the opportunity to enjoy time off with their work, life and family obligations.

These difficulties have arisen because employees and employers may have a different meaning for the term 'flexibility'. For example, an employee may view flexibility as providing her or him with an opportunity to rearrange work hours to better suit lifestyle and family commitments. However, an employer may see flexibility as the introduction of longer shifts or the scrapping of penalty rates for weekend work.

## 3.6.4 Availability of jobs

In the late 1960s, almost half of Australia's labour force was employed in production industries such as mining, manufacturing, construction, electricity, gas and water, agriculture, forestry and fishing. In 1997, some thirty years later, that proportion had decreased to 28 per cent. During the same period, service industries grew substantially. These include: property and business services, accommodation, cafés and restaurants, culture and recreational services, personal and other services, health and community services, retail, education, transport and communication, trade and finance, and insurance. This trend continues today, and is a major factor in shaping the ongoing changes seen in the Australian workforce.

## 3.6.5 Job security

A major concern for employees is the threat that they may lose their job. Job security is the likelihood that an employee will keep his or her job, and not face unemployment either through being made redundant or dismissed. In the past 20 years, employees have faced continuing employment cutbacks, automation, downsizing, increased competition from imports and non-unionised domestic companies. Job security can no longer be taken for granted. It is a significant issue for many Australian workers.

## 3.6.6 Career lengths

In Australia the national average tenure in a job is 3.3 years.

Anecdotal evidence suggests that members of **Generation X** are likely to change jobs about 11 times during their working life. It is anticipated that this figure may double for **Generation Y** or **Generation Z** and increase even further for **Generation Alpha**.

Research has found that the reason for changing jobs varies from person to person, but may include:

- social reasons – response to life events, such as having children
- economic reasons – wanting to obtain better working arrangements
- career-related reasons – wanting to gain further career experience
- workplace inclusion/exclusion or bullying
- other personal reasons – a desire to gain new experiences.

Possible reasons may include:

- a lack of opportunity to change jobs
- security
- convenience
- feeling valued in a role
- liking the people they work with
- a faster commute (quick to get to and from work)
- the need to build/consolidate retirement (superannuation) funds.

Job tenure by age group in Australia

| Age group | Average job tenure |
|---|---|
| Under 25 | 1 year, 8 months |
| 25–34 | 2 years, 8 months |
| 35–44 | 4 years |
| 45+ | 6 years, 8 months |
| Average | 3 years, 4 months |

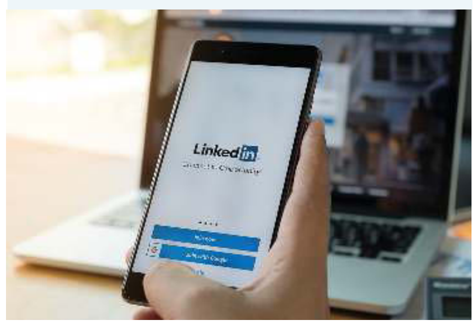
***Source:*** The Household, Income and Labour Dynamics in Australia (HILDA) Survey, Department of Employment

Today's workers change jobs far more often than they did in the past. This trend is expected to continue.


## 3.6.7 The impact of technology on the nature of work

Technological advances are causing the nature of work to change. New jobs are being created, while others are made redundant. The so-called 'information revolution', brought about by the use of new communication technologies, has led to massive changes in the way people work. One area of concern is the 'always available' trap: checking emails and SMS messages during downtime, such as when commuting or holidaying. This has extended the working day. People's digital footprint and their interactions on the web have also blurred the lines between their personal lives and their work lives. While technological change improves productivity, it can result in an unprecedented invasion of personal time, which has a negative effect on work–life balance.

Through advances in technology employers can now easily access potential employees from around the world.



### CASE STUDY

#### When will the self-service machines win?

The man who invented the self-service checkout system, Dr Howard Schneider, was laughed at when he first pitched his machine to a supermarket chain in the 1980s. Back then, the idea of replacing humans with an object appeared ridiculous. Moving forward to today, we can see how much the world has changed. The rollout of self-checkout systems is steadily increasing in Australia, even though some shoppers find them frustrating and difficult to use. Messages about unexpected items in the bagging area or the inability to locate pomegranates in the fruit category can lead to frustration and irritability and thus also customer dissatisfaction. Other people love the new invention because it provides convenience when they just 'pop in' for a few items. However, the machines are yet to provide a win for the stores, because they have to still 'staff' the self-checkout areas to provide help with working the systems and in an attempt to combat theft. For the moment, it appears that the machines have not replaced the necessity of humans in this scenario. However, newer modules are already being built with increased scanning accuracy. Who knows what this will mean for job security in this industry in the future?


## 3.6.8 Globalisation as a changing factor

Another aspect of advancing times is globalisation. This is the process of businesses or other organisations developing international presence or starting to operate on an international scale. When expanding overseas, some employment opportunities will go overseas too. For example, overseas call centres first began because Australian customers wanted to call for support about products and services outside of their own working hours. This meant it was ideal for the call centre to be located in another country, where the times for workers there matched up with times that Australia people were not working. Globalisation increases ease in operations, reduces costs for consumers and assists with international trade success.

**on** Resources

**Weblink** Hours of work

## 3.6.9 Sharing economy

This is an economic system whereby goods and services are shared between individuals either for free or for a fee. Generally, it will involve using some form of an online platform. It brings many benefits, including cheaper goods and services, extra income for providers, and provides flexible employment opportunities for workers.

The sharing economy is often criticised as it tends to treat workers as individual contractors, which can lead to lower wages and poorer working conditions. Firms in the sharing economy also frequently cause problems for traditional businesses. For example, Uber has had an enormous impact on the traditional taxi industry. Examples of firms in the sharing economy include Airbnb, Uber, GoGet, and oBike.

After launching their ride-sharing platform in 2012, Uber launched UberEATS, a food delivery platform, in Sydney in 2016.

## CASE STUDY

### Airbnb

Airbnb began in 2008 when two designers had some spare space and decided to share this with three travellers looking for a place to stay, by acting as 'hosts' during their stay. Now, millions of hosts and travellers use Airbnb so they can list their space and book accommodation options anywhere in the world. This concept of sharing allows the everyday person to 'share' their spare house, room or bed, and then share in a payment for the use of it. Contemporary businesses are able to assist individuals who want to share. As such, Airbnb is now an extremely lucrative company, allowing all involved to benefit from this new outlook.

**on** Resources

**Digital document** Worksheet 3.6 work patterns (doc-32696)

### 3.6 Activity: Research and communication

1. Using the case study 'When will the self-service machines win?' as a starting point, brainstorm the effects technological advancements have had on our society.
2. As a group, discuss why Airbnb is a good setup for the following participants.
   (a) The visitor
   (b) The host
   (c) Airbnb
3. Select a service that could be shared. Design a poster and a 30-second digital advert for your 'shared economy' business venture.
4. Discuss the following statement: 'The value of work is a personal thing'.
5. Use online resources (such as the **Hours of work** weblink) to find and examine information on average hours worked by Australians. Describe the changes in working hours from the 1980s to today. Have they increased, decreased or remained the same?

### 3.6 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Are the following statements true or false?
   (a) The number of females in the labour force has increased over the last 30 years.
   (b) This subtopic was about the changes in traditional work patterns.
   (c) Work–life balance initiatives are becoming common in workplaces.
2. Identify some things that employees want from their job in today's society.
3. Summarise three points from the 'Women in the workplace' section.
4. Why do many businesses offer 'family-friendly' workplace practices?
5. List four factors causing job losses.
6. Why do employers and employees sometimes hold conflicting views with regard to flexible working hours and part-time work?
7. Outline two effects of technology on work patterns.
8. What are the advantages and disadvantages to employees of flexible working conditions?
9. Describe some of the advantages and disadvantages of the shared economy.
10. Examine the graph showing labour force participation rates for men and women. Discuss how participation rates of women have changed from 1980 to today.

11. Review the figures showing proportion of men and women in the paid workforce in 2018, and the proportion of full-time and part-time employees in 2018. Consider the information shown in these figures with other factors discussed in this subtopic and explain why the average weekly earnings for women are lower than they are for men.

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.7 SkillBuilder: Analysis and interpretation of data

## 3.7.1 Tell me

Tables and graphs can provide a wealth of information clearly and concisely; to get the most from them, it is important to analyse them closely.

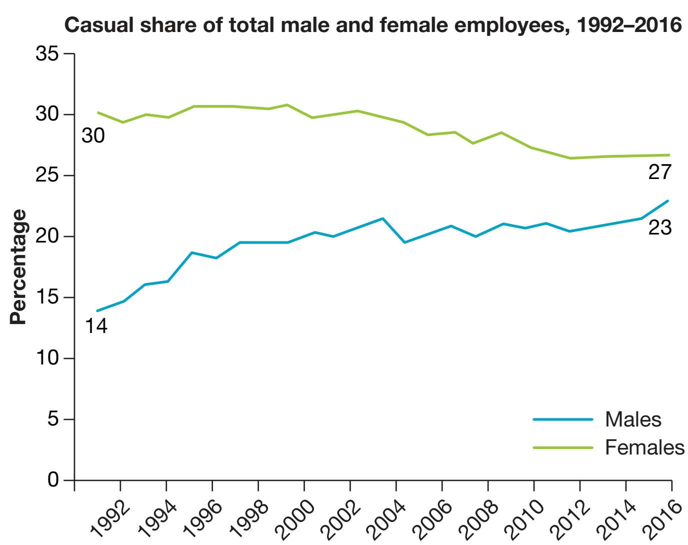
Line graphs are very useful for showing trends (patterns of change over time) and comparing data. When analysing a line graph, first examine the heading — what does it tell you about the data contained in the graph? Examine the key, which identifies what each of the lines on the graph represents. Then look closely at the vertical and horizontal axes, they show you the variables as numbers, percentages, years and so on. When reading line graphs, find points on the graph where two variables meet to obtain specific information. For example, in the following graph showing part-time employees as a percentage of total employees, we can see that about 20 per cent of all people employed in 2002 worked in casual roles.

The trend lines on a line graph show an overall picture of what is happening; that is, whether a particular variable has increased, decreased or remained steady over time. Examine these lines closely — what changes do you see? If there has been change over time, has it been steady and gradual, or perhaps sudden and erratic? When examining a line graph, note down any patterns that you identify. You will then be ready to complete your interpretation, which involves writing a paragraph or two to summarise the information you have found in your analysis of the data.

## 3.7.2 Show me

Examine the following graph.

Casual share of total male and female employees, 1992–2016




**Source:** ABS, *Australian Labour Market Statistics*, cat. no. 6105.0 (estimates for 1992 to 2004): ABS, *Characteristics of Employment*, cat. no. 6333.0, (estimates for 2005 to 2016)

The graph's title tells us that the data provided relates to the proportion of all employed people who were employed on a casual basis during the period 1992 to 2016. Looking at the key, we can see information is provided about men and women as part of the total employed population.

The green line shows the percentage of all employed females who were employed casually, and the blue line shows the percentage of all employed males who were employed casually. Looking at these lines on the graph, we can clearly see that the percentage of females employed casually is significantly higher than that of males.

We can also see that the percentage of females employed casually is slowly declining. However, the percentage of males employed casually is slowly increasing. The decline for females is much slower than the increase for males. To summarise what we have learned from this graph, we could write a brief paragraph such as:

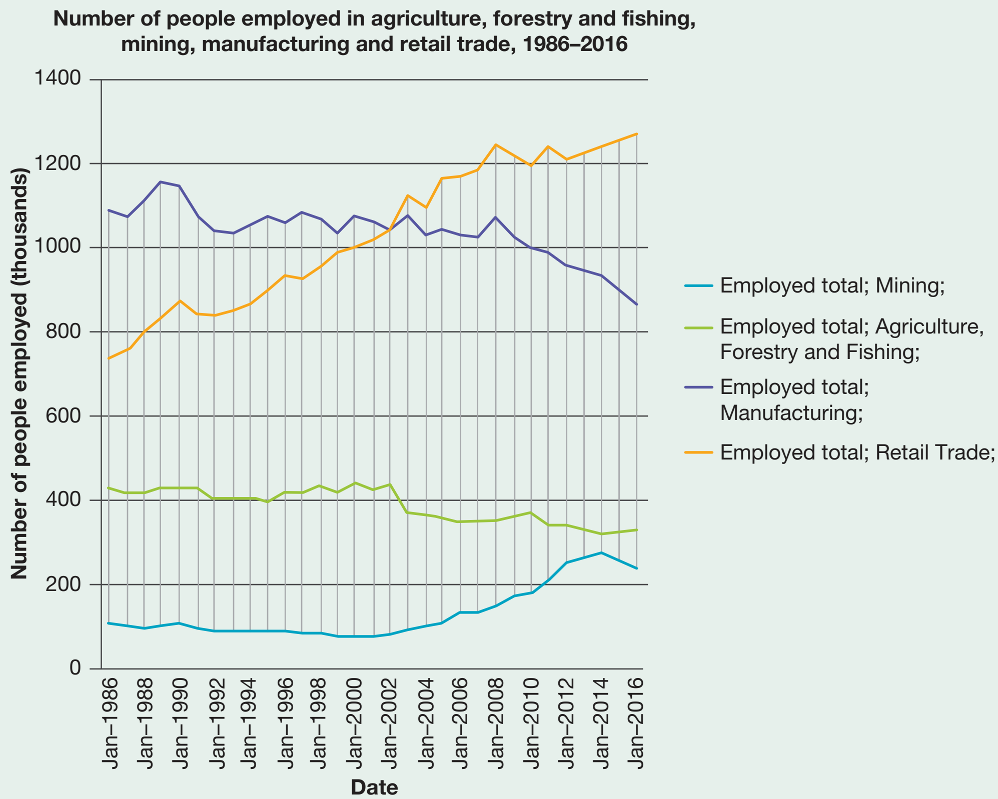
> By analysing the employment rates for casual employees in Australia, certain changes have occurred over time. A slow but steady and solid increase in the male population being employed casually can be seen. Interestingly, there has been a decrease in female casual employment. However, females are still more frequently employed in casual employment than males, with a 27 per cent employment rate compared to the 23 per cent rate for males in 2016.

## 3.7.3 Let me do it

Complete the following activities to practise this skill.

### 3.7 Activities

Practise your skills by analysing and interpreting the following line graph. Write a paragraph describing the trends shown.




***Source:*** Adapted from Australian Bureau of Statistics, *Labour Force, Australia, Detailed, Quarterly, May 2016* (cat. no. 6291.0.55.003).

# 3.8 Rights and responsibilities in the workplace

You should be aware of many things when gaining a job, so that your rights are upheld and your responsibilities are met. The conditions of your employment are outlined in your contract.

## 3.8.1 The employment contract

When you begin your first job, both you and your employer have entered into an **employment contract**. This is a legally binding, formal agreement between an employee and an employer.

Every employer and employee is bound by a contract of employment. There are three important elements to these contracts: *offer, acceptance* and *consideration*.

A business can place a job advertisement in a newspaper, on the internet, put up a sign in the window or approach you personally and offer you a job. If you decide to apply for the position and your application is successful, you will be asked to attend a job interview. During the interview you are informed about the terms and conditions that apply to the job. This is the offer. If you agree to these terms and conditions you make the acceptance. That is, you agree to take the job.

The consideration, from the company's point of view, is that it has to supply the wage and other conditions offered. In return, the employee's consideration is to supply the labour. Consideration refers to the benefits that both parties will receive.

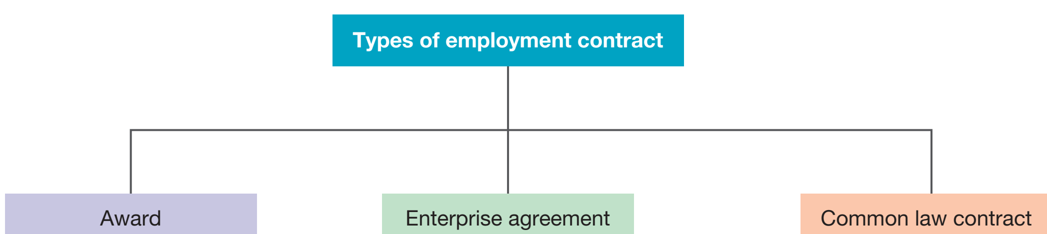
A job offer can be made in several ways.


A contract does not have to be written. It can be a verbal (or spoken) contract. It is generally safer to have a written contract, in case one of the parties to the contract does not fulfil their side of the contract. There is an old saying, 'verbal contracts are not worth the paper they're written on!'.

At the beginning of your employment there is normally a good relationship between you and your employer. It is what happens from there that determines how the relationship develops. If both parties to the contract fulfil their obligations, a positive relationship will be maintained. Sometimes, though, this working relationship can sour. You may feel your employer is not fulfilling all of her or his obligations. Of course, the employer may feel the same about you. When these situations arise, you may need the help of someone from outside the business. This person can help determine who is liable under the terms of the contract.

There are three different types of employment contract.

The main types of employment contract



**COMFACT**
One of the most important pieces of legislation relating to employment arrangements is the Australian government's *Fair Work Act 2009*.

## 3.8.2 Modern awards

Award coverage is high in retail and hospitality.

Modern **awards** refer to the legally enforceable minimum terms and conditions that apply to a business or industry. They cover employees across Australia who work in the same industries and occupations, and apply in most workplaces. Modern awards include information about:

- wages, including penalty and overtime rates
- hours of work and rest breaks, including flexible work arrangements
- allowances for uniforms or tools
- leave, including sick, holiday, long service, study, family and maternity leave
- superannuation
- **redundancy** entitlements.

Modern awards are adjusted for wage increases given in National Wage Cases heard by Fair Work Commission (FWC), the independent national workplace relations tribunal. They also cover a large proportion of employees in lower skilled occupational groups in the hospitality, retailing and community services sector.

Some employers will provide above-award payments, especially if they wish to attract more workers to their business or if they want to hold on to their existing staff. Award infringements may be reported by employees to the FWC through the Fair Work Ombudsman, or through a trade union.

Awards have the following advantages and disadvantages.

Modern awards

| Advantages | Disadvantages |
|---|---|
| • Set a minimum for pay and conditions<br>• Cover all employees performing a similar job<br>• Protect employees from exploitation | • Inflexible – may not suit all employees<br>• Prevent recognition of individual initiative as all employees receive the same pay |

**on** Resources

**Digital document** Worksheet 3.7 Acronyms (doc-32697)

**Weblinks** Fair Work Commission
Fair Work Ombudsman

## 3.8.3 What are penalty rates?

### Penalty rates

Employees often get a higher pay rate when working:

- weekends
- public holidays
- overtime
- late nights shifts or
- early morning shifts.

### Allowances

Allowances are extra payments made to employees who:

- do certain tasks or have a particular skill
- use their own tools at work
- work in unpleasant or dangerous conditions.

Common allowances include:

- uniforms and special clothing
- tools and equipment
- travel and fares
- car and phone
- first-aid
- leading hand/supervisor
- industry of employment (for example, building and construction).

## 3.8.4 Enterprise agreement

Imagine all the students in your Commerce class sitting down with your teacher and negotiating a set of conditions for your class. Apart from the essential conditions such as completing all the work and respecting each other's opinions, you might negotiate a homework-free month in return for one extra assessment task. You have just entered into an **enterprise agreement**.

An enterprise agreement is a negotiated agreement about pay and conditions made at a workplace/enterprise level between an employer and a group of employees or union. It offers broader terms and conditions than a modern award, and can either replace a modern award or act as an 'add-on agreement'.

When two parties negotiate, they should bargain in good faith.

The key features of enterprise agreements are they:

- may cover rates of pay, overtime, hours of work, allowances and leave
- must be in writing and approved by all parties
- must be approved by Fair Work Commission (FWC), who must be satisfied that the agreement:
  - passes a *'better off overall test'* (BOOT) compared to the modern award
  - does not include any unlawful conditions
  - has an expiry date
  - outlines how disputes are to be settled
  - includes a flexibility clause allowing for variations if required.

To ensure that both parties bargain in good faith — that is, a genuine attempt to negotiate the issues in a timely and fair manner — there are strict rules relating to the enterprise bargaining process.

Enterprise agreements have the following advantages and disadvantages.

Enterprise agreements

| Advantages | Disadvantages |
|---|---|
| • Consultation with and involvement of employees<br>• Possibility of improved pay and conditions<br>• Access to training<br>• Greater flexibility | • Possibility of undermining of award standards, with some employees working longer hours<br>• Possibility of job losses<br>• Greater inequity in wage rates between employees |

## 3.8.5 Common law contract

Imagine if your Commerce teacher and you came to an agreement about your conditions of work for this subject. These conditions would apply only to you. That is why they are sometimes called individual common law contracts. The new contract would do away with the classroom conditions agreed to in the award or enterprise agreement. For example, the new agreement may offer you a 'classroom (employment) package' that includes more homework in return for the right to attend only two Commerce lessons each week. You have just entered into a common law contract.

**Common law (employment) contracts** cover those employees who are not under any award or enterprise agreements. They are more common among professional and managerial employees. Such contracts are signed individually and are secret; that is, not open to public scrutiny.

Common law contracts have the following advantages and disadvantages.

Common law contracts

| Advantages | Disadvantages |
|---|---|
| • Right to sue for compensation if the employment conditions are not met<br>• Flexibility to suit the varied needs of individuals<br>• Individual initiative rewarded | • Offer less protection than other agreements<br>• Possible exploitation of employees due to unfair bargaining positions<br>• Expense of any court case if either party sues for compensation |

There are many different aspects to consider when determining the most suitable employment contract.


on Resources

Weblink NSW Industrial Relations

## 3.8.6 Rights and obligations of employees and employers

All employment contracts establish legally binding rights and obligations for both parties. The obligations of each party are reflected in the rights of the other party.

The rights and obligations of employees and employers

| Employees expect employers will | Employers expect employees to |
|---|---|
| • Pay correct income – set by an award or agreements<br>• Provide a safe, healthy and discrimination – free work place<br>• Provide a pay slip showing the total amount and how it was calculated<br>• Not require the undertaking of illegal activities<br>• Abide by requirement of industrial relations legislation | • Obey lawful and reasonable command made by the employer<br>• Attend work at required times<br>• Use care and skill in carrying out their work activities<br>• Act in good faith and in the interests of the employer<br>• Dress appropriately for the job<br>• Respect colleagues and employer |
| **These rights and obligations apply to casual, part-time and full-time employees.** | |

It is important that you are aware of your rights so you know your entitlements. It is also important to know your obligations because if you fail to meet your responsibilities, your employer might discipline you or in some cases terminate your employment.

## 3.8.7 Employee entitlements — National Employment Standards (NES)

Within an award, agreement or contract of employment will be a list of entitlements. Although there is a common set of entitlements, such as leave provisions, there will be differences based on the particular job or industry. Ask your employer which award or agreement applies to you and your job so you can find out about your specific entitlements. Remember, though, if you are a casual worker you do not have access to most of these entitlements. Instead you are paid a loading as compensation.

### National Employment Standards

1. **Maximum weekly hours of work** — 38 hours per week
2. **Request for flexible working arrangements** — for parents or carers of children under 18
3. **Parental leave and related entitlements** — up to 12 months unpaid leave
4. **Annual leave** — four weeks paid leave per year
5. **Personal/carer's leave and compassionate leave** — 10 days paid leave, two days unpaid carer's leave
6. **Community service leave** — unpaid leave for voluntary emergency activities and up to 10 days paid jury service
7. **Long service leave** — after a period of continuous employment
8. **Public holidays** — a paid day off on a public holiday
9. **Notice of termination and redundancy pay** — up to 4 weeks' notice of termination and up to 16 weeks' redundancy pay, both based on length of service
10. **Provision of a Fair Work Information Statement** — a statement for all new employees about their rights and entitlements.

Since 1 January 2010, most employees are entitled to a set of ten minimum employment entitlements known as the National Employment Standards (NES). The NES were developed by the federal government in consultation with business, unions and the community. They were designed to provide a greater safety net for employees, particularly for the most vulnerable and low-paid employees in the workforce. The standards apply to all full-time and part-time employees, whether permanent or fixed term. Some of the NES also apply to casual employees.

The National Employment Standards provide a safety net for employees.

## 3.8.8 Independent contractors

Not everyone in the labour force operates under an employment contract. Currently, about 10 per cent of the labour force consists of independent contractors, often known as consultants or freelancers. Independent contractors do not have the same legal status as employees. Contractors tend to have a set term for a project and control their own work. A contractor carries most of the risk on a job undertaken, including covering their own superannuation, tax, insurance and leave. This is why many employers prefer to hire independent contractors as it allows employment risks such as sickness to be shifted to the person undertaking the work.

Owner–drivers are often independent contractors.

## 3.8.9 Employment contracts — the new industrial landscape

As you can tell from the information contained in this subtopic, the world of work is complex and constantly changing. Some employees will benefit, while others will be disadvantaged.

### CASE STUDY

The move from a predominantly award-based bargaining system towards workplace enterprise agreements has had mixed effects on employees. Where employees' skills are in demand, or where they are represented by strong trade unions, employees are generally achieving excellent wage and non-wage benefits.

Many employees in less secure bargaining situations were, in recent years, under pressure to accept agreements that resulted in a reduction in their pay and working conditions. Employers, who were under pressure to reduce costs, saw such agreements as a strategy to improve flexibility and competitiveness in global markets. For many employees today, agreements involve significant trade-offs in working hours and conditions.

**on** Resources

**Weblinks** Young people at work
Fair Work Commission
Fair Work Ombudsman

### 3.8 Activity: Research and communication

1. In small groups, decide which type of employment contract you would prefer if you were a:
   (a) casual sales assistant
   (b) full-time clerk
   (c) full-time senior manager.
   Justify your choice and then share your answer with the rest of the class.
2. On your own initiative you devised a new packing system for a firm. This reduced transport costs by 10%. As a group, discuss whether the employer is more likely to reward you if you were employed under an award or a common law contract.
3. More than half of all newly hired employees do not discuss their conditions of employment with their employer before starting work. Many of these are young people. As a class, create a short script to help a young person ask a prospective employer about their conditions of employment.
4. Use the **NSW Industrial Relations** weblink in the Resources tab to access 'Young people at work' and answer the following questions.
   (a) Outline what you should receive when you are offered a job.
   (b) Why is it best to seek advice before signing any document agreeing to working conditions?
   (c) Act out a role play of a wage negotiation.
5. As a class, brainstorm the advantages and disadvantages of being an independent contractor.
6. Investigate workplace relations issues for young people by using the **Young people at work** weblink in the Resources tab. Select a topic that interests you and prepare a brief report on what you learned.
7. Use the **Fair Work Ombudsman** weblink and click on the Pay tab to investigate an industry you are interested in, and to see what allowances and penalty rates are available. Create a factsheet that could be used to circulate awareness. In your factsheet make sure to outline how someone would get help if they think they are not being paid the correct penalty rate and/or allowance.

### 3.8 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Match these statements to the most appropriate word or phrase in the list.
   **acceptance offer consideration employment contract contract written contract**
   (a) An agreement that is enforceable by law _______________
   (b) The terms and conditions that apply to an employment contract _______________
   (c) When you agree to the terms and conditions of a contract _______________
   (d) The benefits both parties will receive from a contract _______________
   (e) This type of contract is safer than a verbal contract _______________
   (f) A legally binding, formal agreement between an employee and an employer _______________

2. Examine the verbal and written job offers shown in section 3.8.1 and then answer the following questions.
   (a) Which of the two job offers provides more detail? Give reasons for your answer.
   (b) Which of the contracts would be easier to enforce in a court of law? Why?
3. List the benefits (consideration) that the employer and employee receive under an employment contract.
4. What should you do:
   (a) before you sign an employment contract? Why?
   (b) if the employment contract contains something you do not understand?
5. What is an award? List four issues outlined in a modern award.
6. Under what circumstances may an employer offer above-award conditions?
7. Explain the difference between an *enterprise agreement* and a *common law contract*.
8. List the key features of an enterprise agreement.
9. Explain the meaning of the term 'bargaining in good faith'.
10. What type of employee is usually covered by a common law contract?
11. Outline the right a party has if the conditions of a common law contract are not fulfilled.
12. Why should you be aware of your workplace rights and obligations?
13. What is the purpose of the National Employment Standards?
14. Determine whether the following statements are *True* or *False*.
    (a) Part-time employees cannot access entitlements offered to full-time employees.
    (b) Casual employees receive a loading to compensate for their lack of entitlements.
    (c) Independent contractors are classified as employees.
15. Why do many employers prefer to hire independent contractors instead of employing a person?
16. Which one of the three advantages of awards do you consider to be the most important? Why?
17. Investigate a modern award by using the **Fair Work Commission** weblink in the Resources tab. Why is it important for employees to have access to their award?
18. Use the **Fair Work Ombudsman** weblink in the Resources tab and outline the Ombudsman's role by clicking on 'About Us'. Select an area of interest and explain how this information could be useful for an employee.
19. Why do you think enterprise agreements have to be approved by Fair Work Commission?
20. Which employment contract would you prefer to:
    (a) accept as an employee?
    (b) offer as an employer?
    Give reasons for your answer.
21. Select what you consider to be the three most important standards from the ten National Employment Standards. Give reasons for your choices.

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.9 Responsibilities to workers and the government

The responsibilities of employers to workers are set out in 3.8.6 and include paying the correct income, providing a safe work place and abiding by the law. However, employers also have many responsibilities to the government, these include paying taxes, collecting taxes (PAYG and GST) and transferring them to the ATO as well as implementing government policies such as paid parental leave and superannuation.

## 3.9.1 Taxation

### Reasons for taxes

Many people complain about paying **taxes** and feel they would be better off without them. However, there are some goods and services that are provided for the whole community and available for everyone to use. These are called **collective wants**: goods and services that are mostly provided by governments. They include schools, hospitals, defence forces and social welfare payments. To pay for these goods and services, the government needs to raise money, which it does through taxes. Taxes are the main source of government revenue.

Governments provide these collective goods and services.

## Types of taxes

Over time, taxes have been placed (imposed) on many unusual items such as hats, beds, baths, windows, marriages and even funerals. History also records that a Turkish ruler collected a tax each time he dined with one of his subjects. Why? To pay for the wear and tear on his teeth!

In Australia, there are a number of different taxes, but the one most likely to affect you in your working life is personal income tax where a percentage of each worker's earnings is given to the federal government. How much tax you pay depends on how high your income is because income tax rates vary according to income.

PAYG income tax rates 2019–2020

| Taxable income | Tax on this income |
|---|---|
| $0–$18 200 | Nil |
| $18 201–$37 000 | 19 cents for each $1 over $18 200 |
| $37 001–$90 000 | $3572 plus 32.5 cents for each $1 over $37 000 |
| $90 001–$180 000 | $20 797 plus 37 cents for each $1 over $90 000 |
| $180 001 and over | $54 097 plus 45 cents for each $1 over $180 000 |

The most common method of paying personal income tax is through the Pay As You Go (PAYG) system. It generally applies to wage and salary earners. Your employer deducts tax out of each pay and sends this to the Australian Taxation Office (ATO). The PAYG system is based on a tax year starting on 1 July and ending the following 30 June.

The federal government also gains revenue from:

- company taxes paid by businesses out of their profits
- excise duty, a special tax placed on cigarettes, alcohol and petrol
- customs duty, a tax on some imported goods
- capital gains tax, a tax on profits made on the sale of assets such as property and shares.

We pay excise duty on petrol


Since 2000, Australia has also had a **Goods and Services Tax (GST)**. This is payable on most goods and services sold, with the major exception of fresh food as well as some medical and educational services. The

GST is a tax that is applied at each stage of production but paid by the final consumer. Ten per cent of the price of each purchase is returned to the federal government as GST. This money is then passed onto the state and territory governments.

## Processes of paying taxes

### Tax File Number (TFN) declaration

When you start a new job, you should complete a TFN declaration form. The Australian Tax Office (ATO) will use the information you provide on this form to determine the amount of tax automatically deducted from your pay. If you have more than one job, you must complete a form for each employer.

**COMFACT**

No income tax is paid on lottery winnings, raffle prizes, gifts, rewards for information and inheritances.

## Income tax return

Australia's tax system works on self-assessment. This means that you must show your assessable income and claim only the deductions and offsets (formerly called rebates) to which you are entitled. An income tax return has to be completed and returned to the ATO at the end of the financial year. The ATO will then check your return to determine whether you have paid enough tax. If you have not, you will have to pay more tax. If you have paid too much tax, the ATO will give you a refund.

In order to do your tax return, you need to keep records in a number of areas. You need to ensure that these papers (or electronic records) are kept safe and retained for five years. Following is a list of items that you should keep track of and place in a folder (either hard copy or on your computer) that you can easily get your hands on when it comes to doing your tax return.

It's important to keep recelpts of all expenses related to your job.

- payslips of payments you have received
- receipts of expenses you have had that relate to your job; for instance, this could include costs of protective clothing if you work as a farmer or of a computer if you work as a IT consultant
- receipts of gifts, donations and other contributions
- car expenses if your work requires you to travel for work (you cannot claim your travel to work); you should keep a logbook of the kilometres and odometer readings for the periods that you have travelled for work.

Speaking to a tax agent for advice when you need to lodge a tax return for the first time is a good idea: they can help you to familiarise yourself with the process and advise you on taxation laws.

## 3.9.2 Paid parental leave

It is natural that employees need time off when they want to have a baby. Paid parental leave enables workers to receive some pay while they are off work with their newborn. The government-funded paid parental leave scheme commenced in 2011, providing payment for 18 weeks within the first year after the birth of the child. Additional changes were made in 2012 when it was decided that dads and partners were also entitled to two weeks paid parental leave.

Paid parental schemes vary enormously around the world. For example, the USA offers no paid parental leave while Norway offers a generous 46 weeks of leave at 100 per cent of wage.

## 3.9.3 Superannuation

### The golden years

When you retire, you may be able to access an aged pension in order to survive. This is an amount provided by the federal government to help you meet your basic needs. It does not allow for a luxurious or a preferred lifestyle. As a result, you may need to work longer, or sell assets in order to generate the cash flow required. It is best to start a savings program early in life.

However, you are probably wondering why you should worry about retirement at this stage of your life. Well, imagine what your life will be like if you have no regular income when you eventually retire. Your lifestyle will suffer. What you need is a long-term investment plan — superannuation — that lets you save for retirement.

### What is superannuation?

Superannuation (super) is a compulsory savings scheme whereby your employer contributes part of your wage or salary (9.5 per cent until 2021) into a special type of investment account known as a superannuation fund. These funds are then invested to increase their value before they are paid to you when you retire.

Employees can choose to contribute to this fund also, thus increasing the overall amount they will receive on retirement. How much the employee chooses to contribute is up to him or her. The government encourages employees to make personal contributions by allowing some contributions to be tax deductible. Also, through the super co-contribution scheme, low- and middle-income earners receive a payment from the government for every after-tax dollar they contribute to their superannuation.

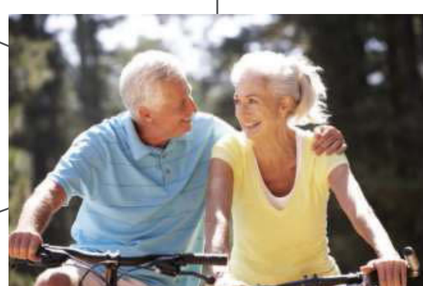
There are laws in place that determine when you are eligible to access your superannuation savings. Recent changes have made it attractive to remain working until at least age 60.

It is vital to have a financial plan that includes saving for retirement.

The federal government is encouraging people to start a superannuation savings plan while they are young and able to work so that they can become self-funded retirees.

To encourage older workers to remain in the workforce, the federal government recently abolished any age limit for retirement.

You can retire when you choose, but you need to be able to pay for your living expenses once you are no longer earning a wage or salary.



When you retire you may be eligible for an age pension in order to survive. However, the pension amount is not always enough to maintain a comfortable lifestyle.

After a lifetime of working, a superannuation contribution rate of 12 per cent of the average person's pay will create about $1 million by the time they are 60 years old.

Starting a savings program early in life can help provide a comfortable lifestyle in retirement.

So how much superannuation do you need to retire? The answer depends on many factors, such as your lifestyle and expenses. In other words, in order to figure out how much money you need to save, you need to consider how much money you are likely to spend when you stop working. In order to maintain the same standard of living when you retire as you enjoyed when you were working, you will need approximately two-thirds of your working wage during retirement. This approximation is constantly updated as the cost of living keeps going up. The figure takes into account aspects such as the price of food, utility bills, changing lifestyles and spending habits.

Those who have the financial resources to do so are well advised to plan ahead for retirement, so they can be self-funded retirees. This means putting aside money now (while you are young and able to work) for when you get older and no longer have a regular income. Some people choose to invest their money in property, shares, term deposits or managed funds.

Normally, the longer you leave your money in a super fund, the more it grows.

Advantages and disadvantages of superannuation as a saving/investment option

| Advantages | Disadvantages |
|---|---|
| • A forced saving scheme.<br>• The money is automatically deducted and invested.<br>• The value increases over time.<br>• It allows you to maintain your lifestyle into old age.<br>• You can change super funds, under certain circumstances.<br>• You are given the right to select which investment options you prefer.<br>• Your super fund stays active even when you change employers. | • Most people have to wait until they are at least 60 before they can access their super funds.<br>• Super fund investments may lose value over time.<br>• The government does not guarantee the safety of super funds.<br>• Administration and management fees are charged by the super funds.<br>• Taxation must be paid on certain lump sum payments |

## CASE STUDY

### A super idea

Hi, I'm Jason Starkey. I began saving for my retirement when I started my first part-time job at the age of 16. My employer began contributing to my superannuation then. I had a great time for a few years and enjoyed spending my money. Once I had started working full-time as a plumber, I immediately began contributing to my work superannuation fund. Later on, when I had children and money was tight, I kept on contributing but at a slightly lower rate. Once the children had become self-supporting, I increased my superannuation contributions to the highest level. Now, at the age of 70, I am pleased I made those earlier decisions. My superannuation balance of $615 000 is sufficient to allow me to do the things I would like to do in retirement — travel, update my car and enjoy life.

**on** Resources

**Digital document** Worksheet 3.8 Rights and responsibilities in the workplace (doc-32833)

### 3.9 Activity: Research and communication

1. Research one country's paid parental leave scheme and then answer the following.
   (a) How long do you need to be working for, before you can get paid parental leave?
   (b) Who is entitled to it?

(c) How long does the mother typically get?
(d) How long does the father typically get?
(e) What variables are there?

2. Imagine that a local financial adviser came to speak to the class about the importance of having a lifetime savings plan, and why superannuation is so important. Write out three questions you could ask.

### 3.9 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Explain why governments tax people.
2. Which tax raises the most revenue for the federal government?
3. Collect pictures of three collective wants provided by the government and paste them into your notebook. Underneath each, write a short statement explaining how it improves your quality of life.
4. What do the following letters represent? Provide a brief explanation of each.
   (a) ATO
   (b) PAYG
   (c) GST
   (d) TFN
5. When should a tax file number declaration form be completed? What is its purpose?
6. Michael earns $35 000 per annum and Tai receives $68 000 per annum.
   (a) Explain to Tai why his entire salary is not taxed at the 32.5 per cent rate.
   (b) Calculate the tax payable in each case.
7. Complete a mock PAYG tax return form with the following details:
   *Name:* Robert Polosak
   *Address:* 2 High Street, Bigga 2497
   *Date of birth:* 18–5–1988
   *Occupation:* Engineer
   *Tax File Number (TFN):* 371 958 137
   *Income:* $61 085
   *Interest on term deposit:* $2215
   *Deductions:*
   - Journals $435
   - Computer use $860
   - Lighting/power — office $1105
   - Safety equipment $792
   - Conference fees $1185
8. What is the obligation of employers towards employees in relation to superannuation?
9. What is the legal age for retirement? Explain.
10. 'We would all be better off if we did not pay taxes, but provided for our own needs and wants.' Do you agree or disagree with this statement? Give reasons for your answer.
11. PAYG income tax is a progressive tax; that is, the proportion paid in tax increases when income increases. Do you think this type of tax system discourages people from working? Give reasons for your answer.
12. A friend has come to you for advice about superannuation. Outline the advantages and disadvantages of superannuation as a saving/investment option.
13. Why do you think the government encourages older workers to remain in the workforce?
14. According to the cartoon provided, what are some of the consequences of being ill-prepared for retirement?

15. What problems may result from a rapidly ageing population and a declining birth rate? Share your answer with the rest of the class.
16. Read the case study above. Why do you think Jason made the correct decisions regarding his superannuation contributions?

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.10 Laws relating to the workplace

## 3.10.1 Workplace health and safety (WH&S) legislation

Did you know that this year:

- about 180 people will be killed at work
- most of the deaths will be men aged under 34
- about 250 people will die from work-related injuries or illnesses
- construction, agriculture/forestry, and transport will account for 50 per cent of these deaths
- 97 per cent of work-related deaths could have been prevented?

A recent safety poster carried the warning 'WORK IS A HEALTH HAZARD'. Inadequate training, lack of appreciation for the seriousness of health and safety issues, and an attitude of 'she'll be right' all contribute to carelessness. They are the three main causes of workplace injuries and illnesses.

Every morning Costa Logistics employees perform stretching exercises to avoid injuries.

On 1 January 2012, the *Work Health and Safety (WHS) Act 2010* (Cwlth) came into effect. WH&S has as its core the safety and protection of employees and outlines the legal requirements for employers and employees. Employers must ensure:

- their workplace is safe
- machinery is regularly inspected and maintained
- protective clothing and adequate training are provided
- committees have been set up to enforce the WH&S (formerly OH&S) rules
- they have a written WH&S policy.

Unsafe work practices


However, safety in the workplace is not *just* an employer's responsibility. All employees must:

- comply with safety instructions
- report any situation they think may be dangerous
- cooperate in the investigation of accidents in order to prevent them from happening again.

SafeWork NSW, the State Insurance Regulatory Authority (SIRA) and Insurance and Care NSW (icare) work together to provide reasonable WH&S advice to employers and employees and conduct workplace inspections.

## 3.10.2 Bullying in the workplace

Approximately one in six students are bullied every week in Australian schools. Not much seems to change when they join the workforce, with figures suggesting that 85 per cent of workers suffer or witness bullying. It is a serious issue both for schools and workplaces.

The more noticeable forms of workplace bullying are intimidation, humiliation, verbal abuse, slamming doors, pushing, touching or fondling, and threatened or actual violence against an employee — in short, any repeated actions likely to generate a risk to health and safety. Workplace bullying can be repeated and ongoing, and can be debilitating. There are also subtle forms of bullying such as excluding or isolating employees or assigning meaningless tasks unrelated to the job.

If you experience bullying in the workplace, you can take a number of steps to assist in preventing and responding to it. You can:

- read your workplace bullying policy and follow the reporting procedures
- calmly tell the other person to stop the behaviour if you feel comfortable
- seek advice from another person, such as a health and safety representative, supervisor or manager, or someone you trust.

### CASE STUDY
### Pizza with the lot?

A 17-year-old pizza delivery boy accused his employer of assault. The pizza store manager allegedly:

- locked him in the freezer for almost half an hour, ignoring his pleas to be released because of his asthma
- tied the boy to the bonnet of his car while he drove it back and forth
- sprayed a fire extinguisher under the door of a toilet cubicle where the boy was hiding
- hit the boy in the head, jammed his ankle in a door and cut his face with a wristwatch during a scuffle.

In court, the 27-year-old manager defended his actions, claiming they were part of the teenager's 'initiation' into the company. The manager was found guilty on four counts of criminal assault. He was fined $650 and placed on a 12-month $500 good behaviour bond.

## 3.10.3 Sexual harassment

The *Anti-Discrimination Act 1997* (NSW) and the *Sex Discrimination Act 1984* (Cwlth) make sexual harassment unlawful. Sexual harassment covers a wide range of unwelcome behaviour of a sexual nature that could make a person feel humiliated or offended. It includes comments on a person's physical appearance, questions about a person's sex life, and the display of pornographic images, for example, on a screensaver or a poster. It is not a defence to say the harassment was meant to be a joke.

Any person who feels they have been unlawfully sexually harassed can contact the Australian Human Rights Commission for free advice. The commission investigates complaints and helps find a solution.

Sexual harassment includes unwanted touching of a sexual nature.


**on** Resources

**Weblinks** WorkCover Authority of NSW
Australian Human Rights Commission

### 3.10 Activity: Research and communication

1. Read the case study 'Pizza with the lot?'. As a class, discuss:
   (a) the adequacy of the penalty
   (b) why some employers and employees engage in 'initiation' ceremonies.
2. Use the **WorkCover Authority of NSW** weblink in the Resources tab and research the following:
   (a) how to notify an incident or an injury
   (b) two recent safety alerts.
3. Use the **Australian Human Rights Commission** weblink in the Resources tab to outline how sexual harassment can be identified.

### 3.10 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What do the letters WH&S represent?
2. Examine the unsafe work practices diagram in section 3.10.1. Make a list of all the unsafe practices that you can find in the diagram
3. Identify the three main causes of workplace injuries and illnesses.
4. Use the following pairs of words in a sentence:
   - bullying/workplace
   - company/responsibility.
5. Give one example, within a school setting, of subtle bullying and another of more noticeable bullying.
6. What particular age and gender group faces the greatest risk of workplace death or injury? Suggest reasons why accident numbers within this group are so high.
7. Imagine that you are a person being bullied at school or in the workplace. Comment on how it would affect your:
   (a) self-confidence
   (b) performance.

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.11 Anti-discrimination and unfair dismissal

## 3.11.1 Anti-discrimination

**Discrimination** occurs when a person is treated less favourably because of factors such as gender, age, ethnicity, religion or disability. For many years, discrimination in the workplace was widespread. Women found it difficult to gain promotion, and pay rates for females have been, and still are, below the pay rates for males in comparable occupations. Older employees were sometimes dismissed or forced to retire to be replaced by younger, lower-paid workers. Many migrants and indigenous people found it difficult to secure permanent employment because of their racial backgrounds.

Beginning in the late 1970s, several federal and state laws were passed aimed at ending these kinds of discrimination. Under these laws, it is illegal to discriminate on the grounds of a person's:

- gender, ethnicity, age or sexual orientation
- physical or mental disability
- religious faith or political opinions
- marital status, family responsibilities, pregnancy or potential pregnancy.

(a) Direct discrimination is treating a person or group less favourably than another person or group in similar circumstances.
(b) Indirect discrimination is treatment that seems fair but which has an unequal or unfair impact on one person or group compared with others.


The main legislation in this area includes:

1. *Racial Discrimination Act 1975* (Cwlth). This Act ensures that employers cannot specify particular racial or cultural characteristics when advertising a position.
2. *Sex Discrimination Act 1984* (Cwlth). This Act makes it unlawful to discriminate on the basis of sex, pregnancy or potential pregnancy, or marital status, with respect to dismissals, family responsibilities. It also prohibits sexual harassment.
3. *Disability Discrimination Act 1992* (Cwlth). This Act ensures that, within reason, all people with a disability have equal access to employment.
4. *Age Discrimination Act 2004* (Cwlth). This Act ensures that people are not discriminated against on the basis of age.
5. *Affirmative Action Act 1986* (Cwlth). This Act requires businesses to promote equal employment opportunities (EEO) for those people previously discriminated against.

## CASE STUDY

### Case study in discrimination: Mishka's case

For 10 years, I worked as an Accounts Manager at a major company. After becoming pregnant, I applied for 12 months maternity leave. At the time, my boss was not happy with the application for leave and evidence was presented later at a legal hearing that he had stated, 'That's it! I now have three women on maternity leave and I'm sick of hiring and training new staff. I'm only hiring men in future'.

At the end of my maternity leave, my boss informed me that although I could resume work with the company, I could not return to my previous position as Accounts Manager. Instead, the company placed me in telephone marketing and it was clear that I had suffered a demotion from my previous position. I applied for an unfair dismissal claim with the Fair Work Commission. During the conciliation process, it was agreed that I had been unfairly dismissed. I received a monetary settlement, and a statement of service showing what I had been doing for the company during the time I worked with them. I was also offered my old job back. However, I chose to go to another company because I had lost trust in my employer and felt that they had not treated me like a valued employee.

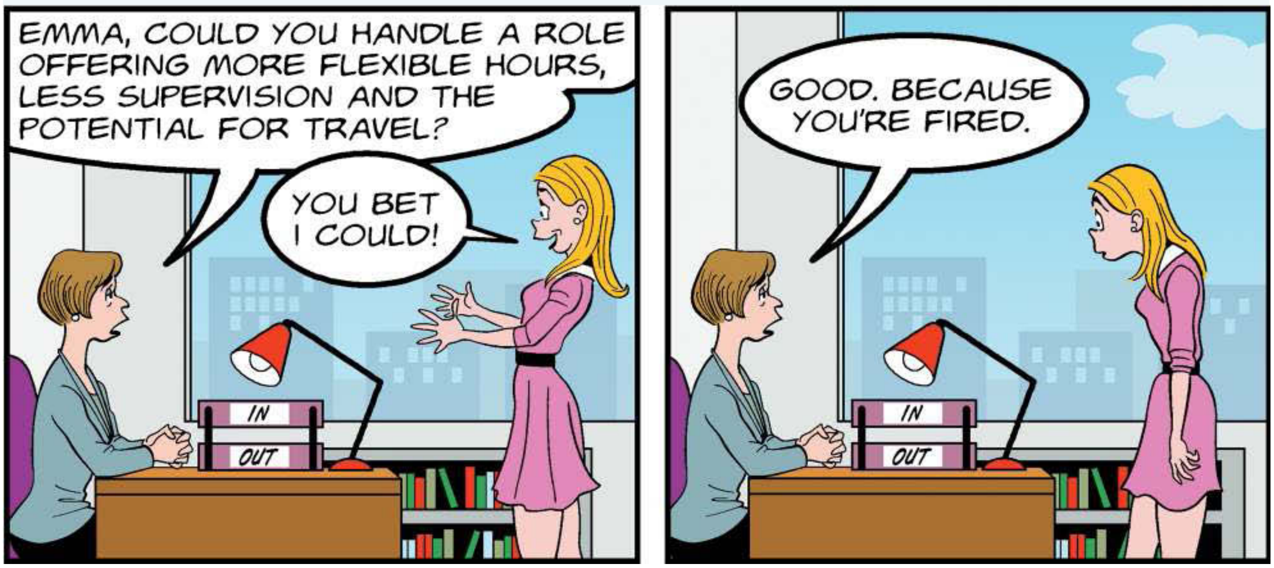
## 3.11.2 Unfair dismissal

If an employee is not performing his or her job satisfactorily or behaves in an inappropriate manner, the business can terminate their employment. This is called dismissal. There are three ways in which an employee may be dismissed:

1. *Summary dismissal* is based on a serious breach of the employment contract, such as fraud, intoxication, or assault of an employer.
2. *Dismissal 'by notice'* is based on failure to perform the job adequately.
3. *Redundancy or retrenchment* is dismissal due to the employer no longer needing the employee for economic or operational reasons.

**Unfair dismissal** occurs when an employee is sacked (or threatened with the sack) and they believe the dismissal is 'harsh, unjust or unreasonable'. Protection from unfair dismissal has been incorporated into federal legislation. Under the *Fair Work Act 2009* (Cwlth) an employee who believes they have been unfairly dismissed can apply to the Fair Work Commission for reinstatement and/or compensation. The Act's main objective is to create a system that gives employees access to a cheap, simple and fair process of appeal. If employees believe they have been unfairly dismissed, they need to apply to the Commission within 21 calendar days of the dismissal taking effect. Employees of a small business cannot claim for unfair dismissal until they have served a minimum employment period of 12 months, while for larger businesses, the minimum employment period is six months.

An inappropriate dismissal technique




### Resources

**Digital document** Worksheet 3.9 An unhealthy working environment (doc-32698)

### 3.11 Activity: Research and communication

1. Read the following story and answer the questions.

**Natashia Frazer and Civic Printers**

*I was employed by Civic Printers for 12 years. One month ago my new supervisor warned me that if my work did not improve I may be dismissed. Before this I had received only good work reports.*

*One Friday afternoon I was told that someone else had complained about my performance and that I was being dismissed. I had never been given any written advice that my work was unsatisfactory. However, the supervisor's decision was final and I was dismissed. I think it is unfair.*

(a) Have a class vote to decide whether Natashia's dismissal was fair or unfair.
(b) Now, as a class, discuss whether the termination of Natashia was fair or unfair.
(c) Take another vote to see if the discussion has made any difference to class members' views.

2. Use the **Young Worker Toolkit** in the Resources tab to investigate 'Quitting and losing your job'. Select one of the questions and summarise the response.

### 3.11 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is meant by the term 'discrimination'?
2. Identify the groups in society which may experience discrimination.
3. Briefly outline the purposes of two pieces of anti-discrimination legislation.
4. Briefly outline the three ways that an employee may be dismissed.
5. When is a dismissal considered to be unfair?
6. Why do you think anti-discrimination legislation has not always been effective?
7. With reference to Mishka's case study in section 3.11.1, do you agree or disagree with the Federal Court's decision? Why or why not?

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.12 Resolving disputes

When issues occur at work, disputes can be resolved in many ways.

## 3.12.1 Methods of resolving disputes

Resolving workplace disputes can be time consuming and very expensive, especially if an adversarial court case is involved. So, over the past 20 years, alternative methods have been set up to help resolve disputes. The main methods, in the order in which they normally occur depending on the seriousness of the dispute, are:

- grievance procedures
- negotiation
- mediation
- conciliation and arbitration.

## 3.12.2 Grievance procedures

Grievances are complaints that an employee has formally reported to a manager or union representative. Grievances usually occur when an employee thinks they have been unfairly treated.

To reduce the risk of these low-level complaints blowing out into a major confrontational issue, most businesses have developed a system of **grievance procedures**: a number of predetermined steps that are followed to resolve a dispute. In most cases, the problem is resolved after discussions between the people involved. For example, you may think it is unfair that a work colleague is always given first choice when selecting work times on a new roster. You decide to inform your supervisor of your grievance. The supervisor would then follow the set procedures to negotiate a solution.

## 3.12.3 Negotiation

A negotiated decision


**Negotiation** is a method of resolving disputes where the parties involved discuss the issues in an attempt to reach a compromise. You could negotiate with your work colleague to reach a compromise regarding the selection of work times on a new roster. The supervisor or manager then formally recognises the negotiated agreement. Effective negotiators are not motivated by trying to beat the other person. Rather, they want to reach an agreement that satisfies all those involved. Consequently, some 'give and take' may be required in an attempt to reach a compromise solution. Successfully negotiating a resolution to a dispute usually results in all the parties feeling good about the decision and committed to the end result.

Unfortunately, our cultural obsession with winning, while sometimes a desirable quality, can be an obstacle to effective negotiation. A win–win approach is preferable.

If negotiation fails to resolve the dispute, the next alternative is mediation.

## 3.12.4 Mediation

**Mediation** is an informal process where a third party (the Commission) helps those involved in a dispute to reach a solution acceptable to both sides. Mediators do not act *for* either of the parties, nor do they advise or decide who is right or wrong. Their main role is to encourage the parties to examine all the issues. Discussions are confidential and held in a non-threatening environment. The main advantage of mediation is that:

- both parties will feel that they have achieved something by themselves
- it provides a win–win solution where no-one is seen to 'lose'.

If mediation fails to resolve the dispute, the next alternative is to have the case heard in a court, by the Fair Work Commission, which has the power to conciliate and arbitrate.

## 3.12.5 Conciliation and arbitration

**Conciliation** is a semi-formal process where a third party, in this case the Fair Work Commission helps settle a dispute by trying to get both parties to reach a mutually acceptable solution. A teacher conciliates when she or he assists two students to settle a dispute by offering advice and suggestions.

If no solution is reached and the dispute continues, the teacher now has to resort to **arbitration**. The teacher decides what will happen, makes an order and the students must obey. Arbitration is a formal process where both parties present their evidence, and then the Fair Work Commission makes a decision that is legally binding. Both the employer and employee must accept the decision, or formally challenge to decision through an appeals process.

The main disadvantage of arbitration is that both parties may feel they have lost some control over the process and the final outcome when compared to a mediated or conciliated outcome.

The Fair Work Commission is the national workplace relations tribunal.


***Source:*** © Commonwealth of Australia (Fair Work Commission) 2018

A conciliated outcome — you 'own' the solution


An arbitrated decision — a solution is imposed on you


**on** Resources

**Digital document** Worksheet 3.10 Resolving disputes (doc-32834)

### 3.12 Activity: Research and communication

1. Rebecca and her employer are in disagreement over the sick leave entitlements of her award. She wants to be able to take three days off without having to produce a doctor's certificate. Her employer wants it to stay as one day only.
   Your class has been asked to help settle the dispute. Conduct a roleplay to try to resolve this conflict using conciliation. After this, conduct a mock trial and arbitrate on this disagreement. Elect a panel to act as the arbitrator and have class members present arguments for both sides.

### 3.12 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is meant by the term 'grievance procedure'?
2. Explain the difference between:
   (a) *negotiation* and *mediation*
   (b) *conciliation* and *arbitration*.
3. What is the similarity between mediation and conciliation?
4. What is the main role of a mediator?
5. Briefly outline the possible benefits of a mediated resolution both for employers and employees.
6. If you were in dispute with a classmate about sitting in a specific seat, would you prefer your teacher to conciliate or arbitrate? Why?
7. What is the advantage of a win–win solution when resolving a dispute?

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.13 Current issues within the scope of employment

The scope of employment has many issues within it. A major concern for many, including the government, is unemployment. Other aspects of concern include discrimination and the impact of technology.

## 3.13.1 Understanding unemployment

In our economy there is a certain amount of **unemployment**, even during periods of economic prosperity.

To be counted as unemployed, a person must be:

- without work
- available to begin work
- actively seeking employment.

Unemployment can result from:

- people leaving their jobs and going in search of others (*frictional unemployment*)
- some jobs being seasonal; for example, fruit picking (*seasonal unemployment*)
- a fall in consumer spending which reduces the demand for workers (*cyclical unemployment*)
- people's skills no longer being needed due to new technology (*structural unemployment*)
- some people having difficulty keeping a job due to personal characteristics (*hard-core unemployment*).

The cost of unemployment to the individual and society is high.

### COMFACT

The total labour force is made up of all those people who have jobs — that is, are employed; plus all those who are actively seeking work — that is, are unemployed (employed persons + unemployed persons).

The unemployment rate is calculated by the formula:

$$\frac{\text{Number unemployed}}{\text{Total labour force}} \times \frac{100}{1}$$

$$\text{For example: } \frac{500\,000}{9\,000\,000} \times \frac{100}{1} = 5.6\%$$

## 3.13.2 Full employment

Full employment is one of the main federal government economic objectives. The acceptable target for full employment would allow for an unemployment rate of between 4 and 5 per cent. In effect, this policy is saying that even when the level of economic activity is high and the economy is expanding, of all those eligible people who are seeking work, jobs will not be available for 4 or 5 per cent. In a labour force of approximately 10 million, if between 400 000 and 500 000 people were unable to find a job, the economy would still be said to have achieved full employment.

In January 2019, the unemployment rate in Australia was 5.3 per cent. However, while this number is close to the acceptable level, it is not good news for young people in Australia. Unemployment for youths between the ages of 15 and 24 was 12.3 per cent in January 2018. On top of this, a 2017 study stated that an additional 18 per cent of youths are under-employed — meaning that they have some work but that they would like more hours. This means that almost one in five young people are either unemployed or need additional hours to make ends meet. Youths without a university degree suffer the most in this employment market. With a changing economy, jobs not only are hard to find, but also do not provide the same sense of job security as they used to.

### CASE STUDY

Hi, I'm Jon Miller. I am 18 years old and have been looking for a job for the last ten months. I left school at the end of Year 11. I enjoyed working on my older brother's car and I want a job as a mechanic.

I visited every auto business in town but not one had anything to offer. I was starting to feel as if there was something wrong with me. I rewrote my résumé three times but all I ever got was rejections. Getting an apprenticeship and a steady job is all I want. I believe I would make a good employee. My school references are good. I am keen to learn and do not mind working hard.

I realise securing a steady job will depend on my ability to acquire training and work experience. I am enrolling in a TAFE course to gain some extra skills. Then I would have something extra to offer an employer. Why won't someone give me a chance?

## 3.13.3 Social cost of unemployment

Those who experience periods of long-term unemployment suffer economically and socially. Combined, the individual costs are felt by the whole of society. Families may have to relocate to other areas in search of work. Family members may become separated in the process. Society's living standards are reduced, while government spending on social welfare payments increases. Overall, society's quality of life is diminished.

Unemployment is a fact of life — for some.

## 3.13.4 Personal costs of unemployment

- ***Poverty*** Without a job, there is no regular income. Social welfare payments only maintain a person at a level below the poverty line. With few savings, there is little left over for the costs involved in job-seeking.
- ***Boredom*** With plenty of time but limited by a shortage of money, many unemployed people become frustrated and bored. This can sometimes lead to vandalism, crime and other anti-social behaviour.
- ***Poor health*** The emotional and financial pressures can have an enormous negative impact on a person's physical and mental health.
- ***Loss of self-esteem*** Our society places a lot of importance on the type of work a person does. A person who is unemployed can often lose self-confidence.
- ***Loss of skills*** The longer a person is unemployed, the more difficult it becomes to find a job. While not working, they are not acquiring new skills or practising their existing skills.
- ***Ridicule and prejudice*** Being unemployed may affect how others in society view people. Often seen as 'dole-bludgers' they are frequently the object of ridicule and prejudice.
- ***Isolation*** Many unemployed people end up feeling they are not accepted as part of society, and become depressed, ill or hostile. This makes it even harder to find employment and results in the vicious cycle of long-term unemployment.
- ***Discrimination*** Being out of the labour force for long periods of time can go against a person applying for work. An employer may unintentionally discriminate against such a person and not even give them an interview.

on Resources

Digital document Worksheet 3.11 Reliability of statistical data (doc-32699)

## 3.13 Activity: Research and communication

1. In small groups, prepare a list of all the effects of unemployment on the individual and on society. Present your information in a table similar to the one below. Alternatively, prepare this as a PowerPoint presentation.

| Unemployment | |
|---|---|
| Effect of unemployment on individuals | Effect of unemployment on society |

2. Write an email or letter to a local newspaper outlining your concerns about the level of youth unemployment. In your email or letter, refer to the following points:
   (a) effects of unemployment on the individual and society
   (b) unemployment and young people.

## 3.13 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Complete this sentence: 'To be classified as unemployed a person must be … '.
2. Copy and complete the following table and then answer the questions.

| Country | Number of people employed | Number of people unemployed | Labour force | Unemployment rate % |
|---|---|---|---|---|
| A | 3 500 000 | 200 000 | | |
| B | | 1 500 000 | 17 250 000 | |
| C | 1 600 000 | | 1 900 000 | |
| D | 56 250 000 | 2 750 000 | | |

   (a) Which country has the largest number of people unemployed, and which country has the smallest
   (b) Which country has the highest unemployment rate, and which country has the lowest
   (c) What is the benefit of expressing the unemployment rate as a percentage?
3. In what ways might long periods of unemployment 'go against you' when applying for a job?
4. Why is it often difficult for unemployed people to find things to fill in their time?
5. Read the Jon Miller case study in section 3.13.2. If you were in Jon's situation, what would you do to:
   (a) improve your chances of getting a job
   (b) find other avenues of employment
   (c) overcome any unintentional discrimination by employers?

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.14 SkillBuilder: Analysis and interpretation of graphs

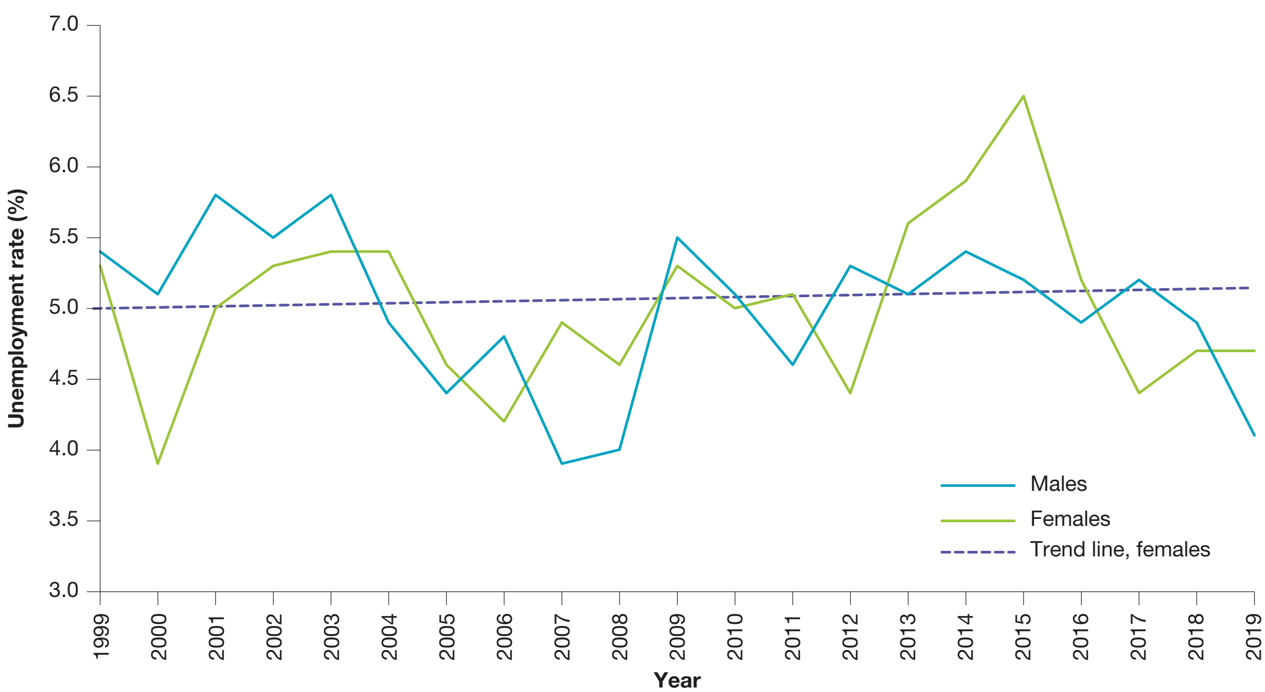
## 3.14.1 Tell me

Throughout this topic, you have seen different graphs displaying information about various aspects of work and income in Australia. We will now examine the line graph in greater detail.

## 3.14.2 Show me

As discussed earlier, line graphs are useful for displaying trends and comparing data. When reading line graphs, find points on the graph where two variables meet to obtain specific information. For example, in the following graph the variables being measured are the unemployment rates for men and women. We can see that the two curves cross at various points, indicating that the unemployment rate for men and women was the same at those points in time. We can see from the horizontal axis that the most recent time this occurred was in 2018 and the vertical axis shows that the unemployment rate was approximately 4.7 per cent, so we know that the unemployment rate for both sexes in 2018 was about 4.7 per cent.

New South Wales unemployment rate by gender, 1999–2019




***Source:*** Graph based on data compiled from Australian Bureau of Statistics, *Labour force, Australia, August 2019* (cat. no. 6202.0.).

Trend lines are useful to insert on a line graph to observe an overall pattern (trend) in the data. Observing the graph above, the trend line for the female unemployment rate in NSW has been inserted. This trend line shows that the unemployment rate for females in NSW has slightly increased over the past 20 years.

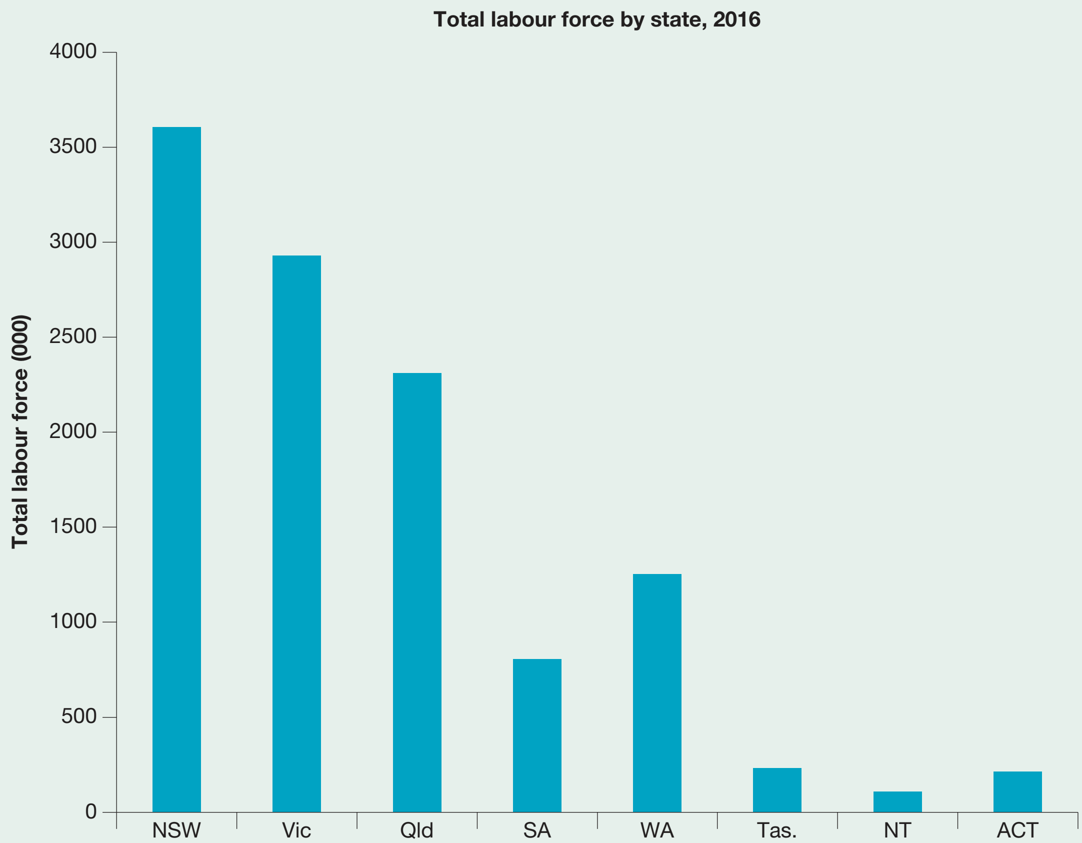
## 3.14.3 Let me do it

Complete the following activities to practise this skill.

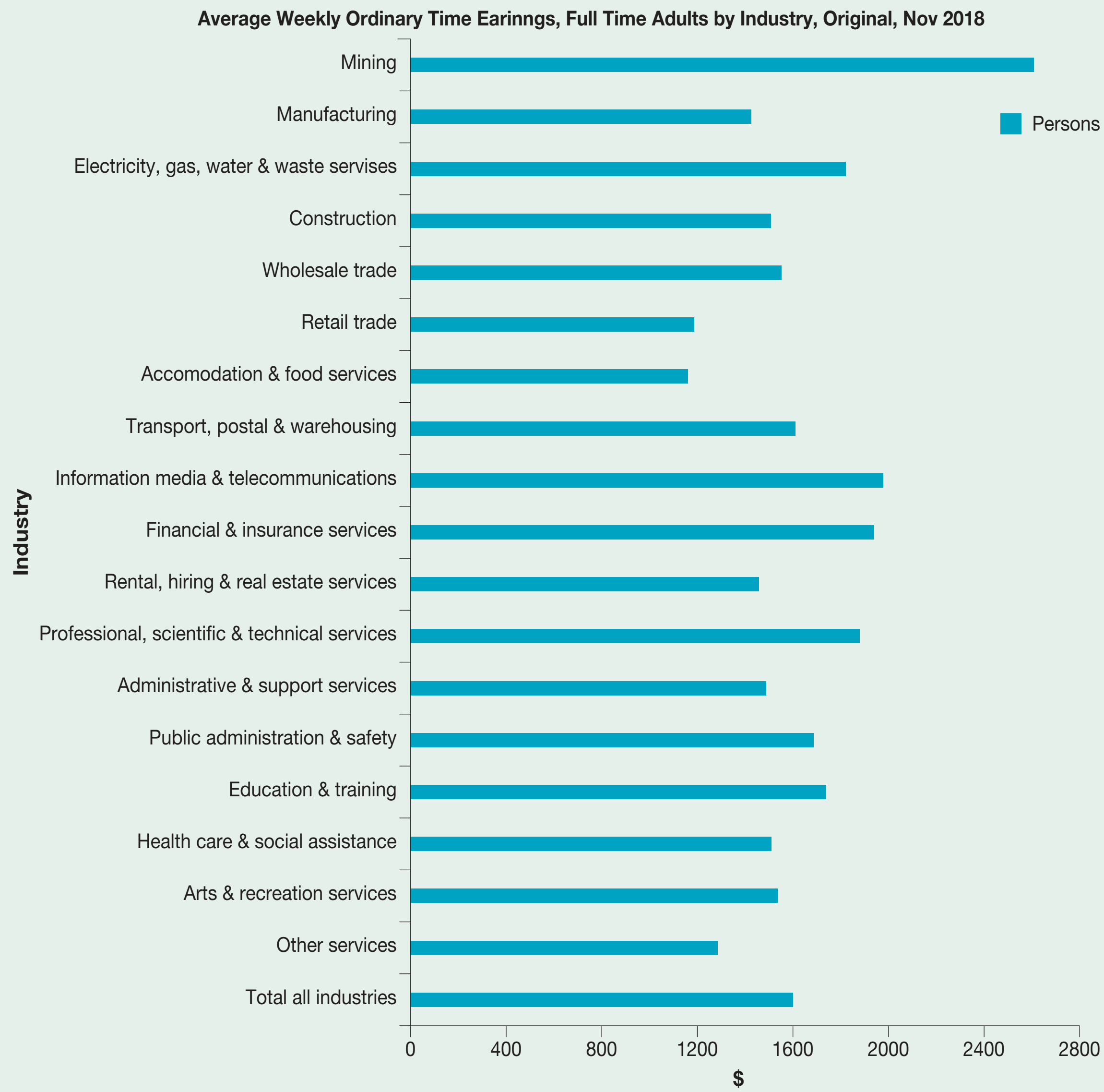
### 3.14 Activities

Examine the graphs below and answer the questions which follow. Use what you have learned about graphs (vertical axis, horizontal axis and variables) to analyse what each graph tells you.

**1.** Examine the following graph and answer these questions:
   (a) Which state's labour force has the greatest number of people?
   (b) Which state's labour force has the least number of people?
   (c) How many people are in the New South Wales labour force?

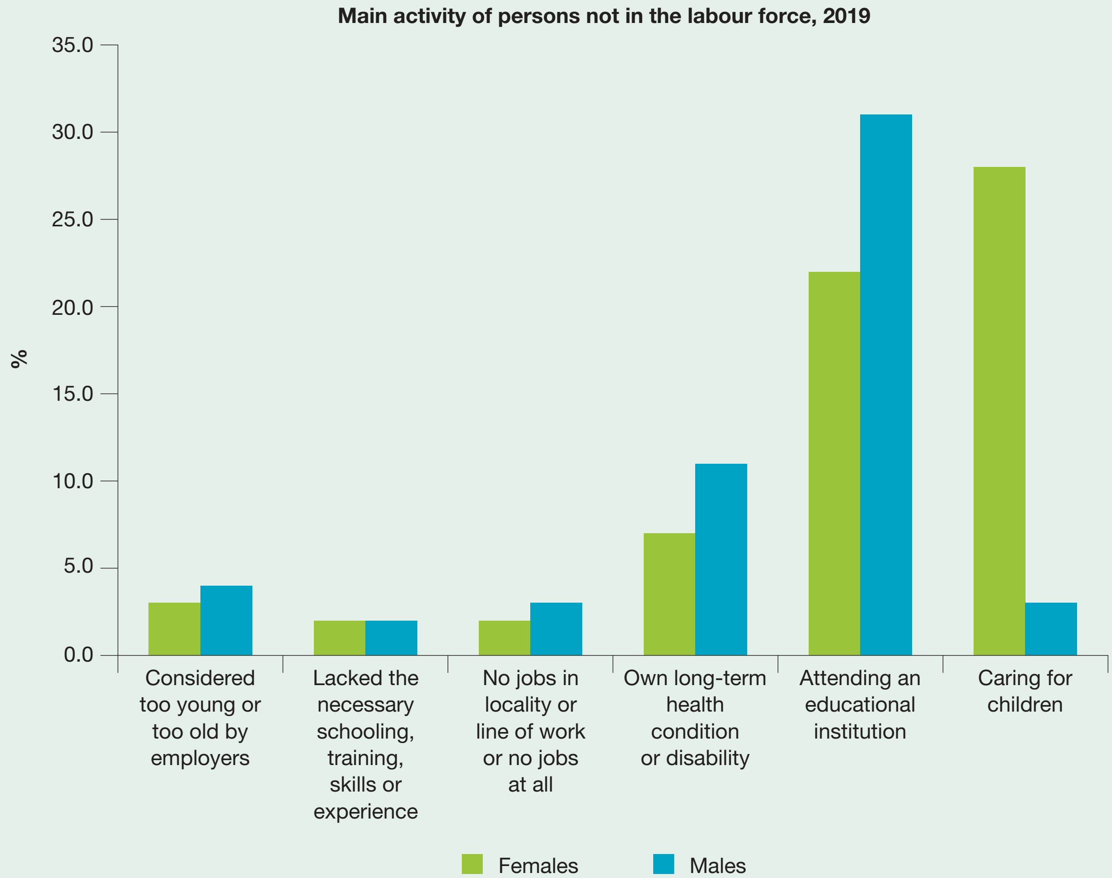


2. Examine the following graph and answer these questions:
(a) Which industry offers the highest average weekly earnings?
(b) Which industry offers the lowest average weekly earnings?
(c) What is the average weekly earnings of a person in the construction industry?
(d) In which industry sector would a nurse be included?




***Source:*** Graph redrawn from ABS 6302.0 *Average weekly earnings, Australia, Nov 2018*

3. Examine the following graph and answer these questions:
   (a) What percentage of men are considered too young or too old by employers?
   (b) For which category are the percentages identical for both males and females?
   (c) What percentage of men care for children?
   (d) What percentage of women care for children?




**Source:** Graph based on data compiled from Australian Bureau of Statistics, *Participation, Job Search and Mobility, Australia, Feb 2019* (cat. no. 6226.0)

4. Examine the following table and answer these questions:
   (a) What trends do you see in the number of employed people during the period?
   (b) What trends do you see in the number of unemployed people during the period?
   (c) To what can you attribute these trends?

**Employed and unemployed persons, 2010–18**

| | May 2011 | May 2012 | May 2013 | May 2014 | May 2015 | May 2016 | May 2017 | May 2018 |
|---|---|---|---|---|---|---|---|---|
| Employed persons ('000) | 11 196.2 | 11 390.0 | 11 485.4 | 11 546.1 | 11 766.2 | 11 974.8 | 12 256.6 | 12 571.4 |
| Unemployed persons ('000) | 589.8 | 620.4 | 675.8 | 717.0 | 729.9 | 715.5 | 704.5 | 702.4 |

**Source:** Data from Australian Bureau of Statistics, *Labour force, Australia, May 2018* (cat. no. 6202.0).

# 3.15 Employment opportunities

It is important to think ahead about your future, acting in advance about what career you want to take. You now know all the required legal aspects of working and obligations that your employer owes to you as well. Once you are ready to take the path to employment, initiative is the key!

## 3.15.1 Lifetime of learning

'I can't wait to leave school,' said Zara. 'I want to leave as soon as I finish Year 10, get a job, earn some money and have fun. No more rules, uniform or homework!' What Zara didn't realise was that without educational qualifications and further training, she would find it very difficult getting and keeping a job. If she wanted a good job, she would have to change her attitude towards learning.

Tomorrow the world of work will be different from what it is today. No-one really knows how different. Certain jobs will change more than others, but all jobs are likely to experience some change. Many employees will find that they must learn new skills to adjust to changes in their jobs. Others will have to train themselves for new jobs that open up when old ones disappear. The idea of a job for life is vanishing and workers in the future will tend not to have a clear career path. As an employee you will be required to continually undertake workplace training — a 'lifetime of learning'.

Most employers today prefer to hire people who have undertaken training and gained skills. Such employees will be in greater demand than those who are unskilled. The benefits of education and training for employees include:

- higher incomes
- opportunities for promotion and self-improvement
- adaptability — greater ability to adapt to and cope with change
- a challenge — the chance to learn new things
- improved job satisfaction through better job performance.

Learning doesn't stop when you leave school.

Many jobs require employees to gain specialised skills or complete tertiary education before starting. Others may allow employees to acquire the necessary skills and experience on the job. Here are three case studies of young people working.

### CASE STUDY

### Jack Newton — building a career

As soon as I completed my HSC, I started working in my uncle's business as an apprentice builder. I work with him through the week and then go to the Meadowbank TAFE College one week every month on block release to complete the theory and practical subjects. At the end of the course, I will have a Certificate IV in Building and Construction. The course teaches me the skills and knowledge required to construct low-rise buildings. My favourite subjects are applying structural principles and construction work. On-the-job training occurs when I'm working with the other builders who show me various construction techniques.

What I like most about my job is that I'm always learning something new. It's also great to see a completed house or extension and say 'I helped build that'. When I complete my apprenticeship I intend to do further study so I have the skills to one day operate my own business. Because there is a shortage of builders in the industry, my career prospects are excellent.

## CASE STUDY

### Tai Van, crew trainer at McDonald's

I started part-time work with McDonald's when I was a Year 10 student. I was keen to learn, and undertook some on-the-job training courses. The store manager was very impressed with my range of skills and work performance. After eight months he offered me the position of crew trainer.

I was pleased to take on this added responsibility. It meant I could help train younger employees. As well, it was another formal qualification I could add to my work portfolio. The manager also suggested to me the possibility of undertaking the Certificate in Food Retail course if I wanted to work full-time.

This would provide me with a nationally recognised qualification that would give me greater job security and a higher income.

I gained a lot of personal satisfaction from knowing that this training provided me with more job opportunities. As well, the training I received would make me a more suitable candidate for promotion within the business.

## CASE STUDY

### Fahima Karam

At school I really enjoyed science and knew since Year 10 that I wanted a job that would allow me to work in a laboratory and undertake research. Instead of going straight from school to university I completed a gap year as a teacher assistant in Vietnam. My time in Vietnam led me to develop an interest in the prevention of sickness and disease.

When I returned home, I decided to enrol in a Bachelor of Health Science, majoring in Public and Environmental Health. After completing my degree, I was fortunate to be given a position as a laboratory assistant with a research team investigating leptospirosis (a water-borne disease). I am currently working full time and completing my master's degree part time. My skills and experience qualify me to apply for jobs as a research scientist anywhere in the world.

### 3.15 Activity: Research and communication

1. Using an employment website such as seek.com.au, select four jobs that are advertised and complete the following tasks.
   (a) Write down the wage or salary paid for each of the jobs. Find it out, if it is not stated.
   (b) Decide which job requires the highest level of skill.
   (c) Decide which job requires the lowest level of skill.
   (d) 'Employees with higher levels of training receive higher incomes.' Is this statement supported by these advertisements?

### 3.15 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What ability will be an important one for future workers to have?
2. Identify three benefits to employees of undertaking workplace training.
3. In relation to the case studies for Jack, Tai and Fahima:
   (a) Identify the steps taken by each person to become established in their job.
   (b) List the types of knowledge and skills that each job requires.
4. After reading subtopic 3.15, what advice would you give Zara?
5. In 1900, the average age of a person entering the labour force was 15. Today it has risen to 18 years. Why do you think this change has taken place?
6. 'It is becoming more important for employees to undertake training.' Explain why this statement is true.
7. If you were Tai, would you agree to undertake the Certificate in Food Retail course? Why?

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.16 Different pathways in education and training

## 3.16.1 Education

At this point in your life, many people — parents, carers or guardians, teachers and friends — will be asking you about your future. What are you going to be? Are you going to complete Year 12? And, if so, which subjects? There are many choices available to you in terms of education, training and employment opportunities.

There is no 'normal' education pathway. These days, there are many options available when choosing an education.

### HSC

The New South Wales Higher School Certificate (HSC) is gained by the completion of a set number of units of study. You may choose among a variety of subjects offered by your school.

At the completion of your HSC studies, you may receive an Australian Tertiary Admission Rank (ATAR) score. This score is used to rank your performance in relation to all other students who completed Year 12 in the same year. That is, it gives you a relative position. University courses often have an ATAR score that is used as a cut-off. Students must have achieved this score (or close to it) to obtain entry into the course. The ATAR score may be used on its own as a selection tool for entry into courses, but it is sometimes also used in conjunction with other selection criteria that may include: prerequisite subjects, interview, folio presentation and so on. (See a Careers teacher for more information.) As of 2020, you will need to sit an online test and meet a minimum standard of literacy and numeracy to receive your HSC.

### VET

Some students decide not to gain an ATAR score, and choose a vocationally based course. These vocational educational and training (VET) courses give students practical, work-related experience, as well as literacy and numeracy skills. Students who complete a VET course are likely to be interested in going on to a TAFE course, apprenticeship, traineeship or job.

### TAFE

Technical and Further Education (TAFE) courses offer training for many different career areas. They cater for people with all levels of education. The areas of study available can be as varied as tourism, business studies, visual arts and plumbing.

TAFEs offer Diploma and Advanced Diploma courses for students who have completed Year 12. They also offer Certificate courses at Levels I to IV. To gain entry into a certificate course you must have completed Year 10. TAFE also offers traineeships for a variety of career areas. You should go to the institution to receive more information relating to the types of course available and the fees and charges associated with this type of education. TAFEs also conduct open days.

It is also possible to complete a TAFE certificate as part of your VET studies. It may involve attending TAFE one day a week, or completing the unit at your school if arrangements have been made.

## 3.16.2 Apprenticeships

A number of **apprenticeships** are on offer that cover a wide range of careers, including hairdressing, carpentry, sales and information technology. An apprenticeship allows you to work while studying the area of interest to you.

If you take on an apprenticeship you will learn about your job as you work with your employer. On particular days, and/or some evenings, you will be required to attend classes at a TAFE college.

## 3.16.3 University

Most university courses are taught through lectures and tutorials. At a lecture you will be in a large group of students taking your own notes from the speaker. Tutorials are small group classes that extend the information acquired from lectures or from the reading assigned to the course. You are expected to contribute to general discussions and this may form part of your assessment. There is often a focus on independent learning. You may also be required to spend time by yourself researching, reading, writing up practicals and so on.

When you begin your bachelor degree, you are known as an undergraduate. At your formal graduation ceremony, you become a graduate. Any university course you then proceed to do is known as postgraduate study.

Most universities conduct open days, where interested students are welcome to go to the university and find out information about different courses. Some universities are now offering online courses. This may be an opportunity if you are unable to move to a new area.

## 3.16.4 Training

Some schools conduct a work experience program where students are encouraged to seek temporary employment at a firm to gain an insight into that particular field of work. Some professions, such as accounting, offer **cadetships/traineeships**. This is where a company employs you and gives you time to attend university or TAFE. This is a great way to become trained and educated in this field of work because you have permanent employment.

## CASE STUDY

### Succeeding in a competitive employment market

Once you start your employment journey in the workforce, you will soon find out that it's a place where fierce competition exists. Being 'good' at something or having the right qualifications is no longer enough; you need to be able to 'sell' yourself. This can be particularly difficult if you have little experience or if you find yourself in a position of having lost a previous job. Following are some strategies that can help you to reach your dream position:

Make your interview a positive experience

1. The internet is a great communication tool. However, remember that what you post is part of your digital footprint and many companies use the internet to vet prospective employees. This is when silly photos on Instagram or derogatory comments on Twitter may come back to haunt you and ruin your prospect of employment. Think carefully about what you post and who you becomes friends on social media, and ensure that your account settings are set appropriately. Keep in mind that once you put something on the internet, it stays there. If you have gained expertise in a specific area, you could use the internet to your advantage by blogging and using Twitter to gain followers.
2. Got a job interview? See it as an achievement, but not a guarantee of getting the job! Make sure you take the time to prepare. Consider the position and research possible questions that may come up. Remember that employers not only are looking for past experience, but also want workers with the right attitude. Show that you are a person who does not give up, chases learning opportunities and is able to communicate well with others. And don't forget to present yourself well — so leave the dodgy sneakers at home.
3. If you struggle to find the right job, consider volunteering in your local community. Not only will this give you skills you can use in other paid employment opportunities, but it may also help you establish a network of additional people who are interested in helping you in the future.
4. While being humble can be a good quality, it does not always help you to get a promotion. Be proud of your accomplishments and give credit where it's due. Don't be afraid to speak up in meetings and seek ways of helping your employer with work-related issues. At the same time, don't promise things you can't achieve and make sure that you build good relationships with your co-workers.

**on** Resources

**Digital document** Worksheet 3.12 Paving your own pathway (doc-32835)

### 3.16 Activity: Research and communication

1. Imagine that a guest speaker came to talk to the class about HSC, TAFE or university. Write a list of questions to direct them in their presentation to the class. You may want them to cover areas such as: What are they studying? Why do they choose to study it? What are the pluses and minuses of their chosen education?
2. Search the internet to obtain information about the careers below. Note down the educational requirements, where the study may be undertaken, and details of work opportunities. Find out if there is a demand for these careers.
   (a) Engineer
   (b) Plumber
   (c) Zoo keeper
3. Select a career that you are interested in. Use the internet to find out what the educational requirements are for that career, and where study may be undertaken. Suggest school subjects that might be helpful to you in achieving this career.

### 3.16 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Explain the difference between:
   (a) HSC and VET
   (b) TAFE and university
   (c) an apprenticeship and work experience.
2. What would be the benefits of completing an online university degree? Would there be any disadvantages to this?

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.17 SkillBuilder: Preparing a résumé

## 3.17.1 Tell me

The first step in gaining employment is applying for a job. To do this, you will need a résumé: a short summary of your skills, experience and qualifications. (It is also known as a curriculum vitae, or CV.) A résumé is a crucial part of the job application process, and yours needs to stand out from the résumés of everyone else who has applied for the same position. With so many applicants, a poorly presented or badly written résumé may be the difference between getting the job and not even getting an interview. Employers are not concerned with fancy résumés, nor do they want to spend 20 minutes reading your entire life story. They are often put off by résumés with photographs and will not consider your application if you don't have the necessary skills. An effective (and ultimately successful) résumé will be:

Your résumé needs to stand out from the crowd to secure the interview that eventually leads to the job.

- brief and succinct
- relevant to the position for which you are applying
- a strong and confident description of your skills, experience and qualifications.

This SkillBuilder explains the various components of a résumé and presents examples and templates on which you can model your own résumé.

Let us now examine the elements of an effective résumé.

### Length

An effective résumé should be between one and two pages long. Remember that your résumé is merely a summary and an introduction to who you are as a prospective employee. If there is other important information that you wish to provide, you can do so through a cover letter or during the interview process. Do not be concerned if your résumé is only one page long. Some people are tempted to add irrelevant information simply to make a résumé longer and seem more impressive. This is a common mistake and can impede your chances of getting the job.

### Order

The order of your résumé is important and the information in it should flow logically. Use the following list as a guide:

- contact details
- opening statement/career overview
- key skills and personal attributes
- employment history
- education
- referees.

### Contact details

Begin with your name, possibly in a slightly larger font than the rest of your résumé. You want to make a bold and positive impression from the first time an employer sees your résumé! You only need to provide your phone number and email address on a résumé. Make sure that your email address is professional and does not include any nicknames or inappropriate words and phrases. An address such as john.smith@jacarandamail.com would be more suitable than one such as smithy9999@jacarandamail.com.

### Opening statement/career overview

A brief opening statement is a component usually seen in the résumés of older professionals, and can add a touch of maturity to your résumé. If you choose to include this component, make sure it is relevant to the position. There is no point explaining your experience and passion for babysitting if you are applying for a job as a dog washer.

### Key skills and personal attributes

This section can be included as a simple bullet-point list of your relevant skills (including any technical skills) and personal attributes. You need to list the skills for which this particular employer is looking. In other words, the skills you list for one job application may differ from those you list for another, depending on the job requirements. Many applicants use the same résumé, changing only the employer name and job title (and sometimes forgetting to do even this!), and then wonder why they have no success in their job hunting. Do not make this mistake.

### Employment history

The convention for listing your previous jobs is to start from the most recent position and work backwards to the oldest. For each position you should provide the job title, the name of the employer and the dates (in months or years) during which you worked. You can also include a bullet-point summary of the main responsibilities of each job held.

### Education

There is no need to list your entire educational history in a résumé. Instead, you need only include the highest level of education you have obtained. It is also a good idea to describe any achievements or positions of responsibility that you may have had during your time at school.

### Referees

Ideally, at the end of your résumé you should include the names and contact details of two people who are willing to provide references. A reference is a written or verbal testimony about you by someone (the referee) who knows you well or for whom you have worked. At least one referee should be a past employer who can attest to your work ethic and professional performance. The second referee could be from a non-employer (such as your sporting coach or former teacher/principal) who can vouch for your character and personality. Make sure that you ask your referees for permission before listing them on your résumé.

## 3.17.2 Show me

The following figure contains the résumé of a Year 11 student who is applying for a casual position at a veterinary clinic. Consider how this student uses the components we have just discussed.

Résumé of Chris Fernandez

## Résumé of Chris Fernandez

### Contact details

Email: chris.fernandez@jacarandamail.com

Mobile: 0400 000 000

### Career overview

Current Year 11 student seeking career opportunities in veterinary sciences. Highly motivated and passionate individual with demonstrated experience working in high-pressure working environments. Dedicated to the health and wellbeing of animals and to the emotional welfare of their owners and families. Strong communication skills and the ability to learn quickly and effectively.

### Key skills and personal attributes

- Customer service
- Relevant scientific background
- Caring and enthusiastic personality
- Proficiency in Microsoft Office Suite
- Verbal and written communication skills
- Occupational health and safety procedures
- Point-of-sale experience
- Proficiency in Macintosh operating environments

### Employment history

McDonald's Restaurant (2018–present)

- Customer service: Provided customer service at register. Responded to all customer enquiries, providing support and guidance as required.
- Cash management: Ensured accurate management of all cash and electronic sales.
- Stock control: Conducted regular and thorough stocktake of inventory.

### Achievements

- Employee of the Month, November 2018 and April 2019

### Education

Heartback Secondary College

Years 7 to 11 (current)

### Current subjects

Biology, Chemistry, Physics, English and Geography

### Achievements

House Captain (2019); Debating Captain (2018–19); Student Environmental Group Coordinator (2017–18)

### Volunteer placements

Green Valley Animal Shelter (2018– present)

- Customer Service: Responded to incoming calls and customer inquiries . Liaison between customers and veterinary clinics.
- Practical duties: Cleaning of pens; involvement with welfare of animals.

### Referees

Peter Parker
Franchise Manager
McDonald's Green Valley
Phone 01 9555 5555

April O'Neill
Manager
Green Valley Animal Shelter
Phone: 01 9555 5554

Resources

Weblink How to write a résumé

### 3.17.3 Let me do it

Complete the following activity to practise your skills.

**3.17 Activity**

Using the example in résumé as a guide, create your own résumé. Make sure you follow the guidelines as to what to include and what to omit from your résumé. Use the following checklist to make sure you've included all essential elements:

- contact details
- opening statement/career overview
- key skills and personal attributes
- employment history
- education
- referees.

If you are happy with your final product, why not print off some copies and deliver them to businesses in your area where you might like to work? Good luck!

# 3.18 Work in the future

## 3.18.1 Likelihood of work changing in the future

Can you imagine what work will be like in the year 2050? Will new jobs exist like the ones we see in sci-fi movies, or will they continue to be much the same as they are now? Although it is very difficult to predict how work will change, what form it will take, what activities will need to be performed and what skills, knowledge and abilities workers will need to have, it is worth noting that one of the challenges of government is to do just that — to attempt to predict some of these changes and to make policies and economic plans that will support the future world of work in Australia.

Work as we know it will slowly change. Exactly how it will change is unknown, but it is likely to be dependent on a range of factors, which in turn could have particular outcomes. The following table summarises some of these potential factors and outcomes.

One role of government is to try to predict what work will be like in the future and make policies and economic plans to support the future world of work.

Potential changes and outcomes in the future world of work

| Factor | Outcome |
|---|---|
| Skills required in the future workplace | Future employees will require more education and higher skills development to participate in the workforce. |
| Changes in the gender segregation of the workforce | More equal representation of men and women in all types of work across all industries; the gender gap in average wages will continue to decrease |
| More employment in certain sectors of industry (service) and decreased employment opportunities in other sectors of industry (manufacturing) | More service-oriented roles; more focus on case work that follows a customer from start to finish, multi-skilling of the workforce, to enable the same employee to assist a customer throughout their entire customer experience |
| Further advances and increased use of technology in the workplace | Employees will need to continue to learn how to operate new equipment and software in order to perform their jobs.<br>Some roles may become obsolete as new technology provides more efficient ways of completing particular tasks. |
| Changing worker attitudes and the desire for work–life balance | The provision of more flexible work arrangements to accommodate employees' needs, increase satisfaction and productivity, and retain staff |
| Changing workplace environments | Creation of more creative, ideas-driven environments that encourage workers to think independently and be creative in their problem-solving<br>Greater focus on having healthy and happy employees who will work longer and stay with an organisation, rather than frequently changing jobs; employees supported through the provision of benefits such as an onsite gym, canteen or café, childcare facilities etc. |

## Increased education and skill levels

Two interrelated service areas that are experiencing distinct growth and an increase in employment opportunities are professional, scientific and technical services; and education and training. In the future, these areas will continue to grow as the need for higher skilled workers increases. Lower skilled jobs are decreasing and being replaced by roles that require a higher level of education and which are more skills-focused. Thus, the need for workers to be multi-skilled, educated and more technically oriented, to enable them to work with the newest technological advances, is becoming increasingly evident.

Without appropriate, accessible training and education opportunities, it will be difficult to meet Australia's future workplace requirements. Thus, the need to provide such opportunities is an issue of constant focus for government.

## Changing attitudes to gender segregation

Another possible change is in the area of **gender segregation**. This is where one gender, male or female, is more likely to be employed in a particular area than the other gender. Gender segregation is common in some industries. This is particularly evident in construction and mining. For example, in 2018, in the Victorian construction industry, women accounted for only 11 per cent of workers; in mining they account for only 16 per cent of workers. However, in the more traditionally female-dominated occupations such as healthcare, social assistance, education and training, women continue to occupy the vast majority of roles. What might be the outcome if more men started to work in these typically female-dominated occupations and more women started working in typically male-dominated professions?

Certainly, it would have an impact on the gender gap that still exists in average wages of men and women. It might also lead to an increase in the perceived value (and the higher wages that go with it) of the traditionally lower paid female-dominated industries. Would it also change the way that we view the genders, or perhaps the industries? Or might it simply be a natural progression that comes as part of an ever-changing work environment?

### Declining industries and growth industries

Over the past 100 years, the work people do has changed significantly. This is clearly demonstrated by looking at the industries in which they work. The three main employment industries are the primary, secondary and tertiary industries. In the past, much of the workforce was involved in the primary and secondary industries. In recent years, however, there has been a shift towards greater participation in the tertiary industry, and in what have now been termed the quaternary and quinary industries also.

### Further advances in technology

With ongoing technological developments comes the need for workers to continue to up-skill in order to be able to use new equipment or software to its potential. In some instances, however, we may see a decrease in the number of jobs available in particular fields due to the automation of tasks. Many laborious tasks have been made simpler and quicker through the use of technology. Such increased efficiencies mean fewer people are required to complete the same amount of work and, hence, fewer work positions are available in that field.

It is difficult to know how far the impact of technology will reach in the workplace — which jobs of today may become obsolete in the future as a result of new technological developments. But equally, the new areas of work that will emerge through technological development are largely unknown. It is hoped that these new fields will open up increasing opportunities that will be more than adequate to replace the roles that are lost.

### Changing attitudes, the desire for work–life balance and changing workplace environments

As Generations Y, Z and Alpha join the workforce, we may see a shift in the style of environments within which people work. Employers may need to create a new style of workplace, one that encourages workers to stay, rather than changing jobs on a regular basis, as is the tendency of these younger generations. More flexible working arrangements and benefits that promote staff satisfaction and increase productivity may become an increasingly common feature of the future world of work. American company Google provides an example of this kind of workplace.

In addition to businesses making changes to their working arrangements, governments throughout the world are also considering their role in ensuring a healthier work–life balance for employees. Many national governments, especially in developed nations, are beginning to understand that employees' inability to 'switch off' from their work may in fact be resulting in declining productivity and many social issues such as increased stress levels. The following case study outlines the actions of the French government in attempting to ensure a healthier work–life balance for its citizens.

A series of graphs showing changes in various industry sectors


***Source:*** Adapted from Australian Bureau of Statistics, *6291.0.55.003 Labour Force, Australia Detailed, Quarterly, May 2016*

## CASE STUDY

### French employees 'switch off' from work

Significant research has been undertaken that points to the fact that levels of work-related stress are higher than ever before, both in Australia and globally. Many workers in modern workplaces feel the pressures of high workloads and increasing demands from their employers. Technological developments have meant that workers are constantly connected to their jobs and rarely get the opportunity to 'switch off'.

In 2016, French President François Hollande and his governing party introduced legislation to discourage employees from sending emails outside of set work hours. The law requires all companies with 50 or more employees to develop a code of conduct to regulate the emailing activities of employees. The code of conduct must identify set work hours within which employees can send and respond to emails. Outside of these hours, emailing is to be banned.

There were numerous opponents of the policy, who asserted that it was not the role of the government to regulate the behaviour of businesses or employees in such a way. They also suggested that the law would not achieve its intended goal of reducing work-related stress. Whether this particular law makes a difference or not, one thing is clear — employees, businesses and governments are increasingly recognising the need in the future to create a healthier work–life balance for workers.

Large French companies are obliged by law to have a code of conduct that bans employees from work email at night, on weekends and on holidays.

## Resources

**Digital document** Worksheet 3.13 Work in the future (doc-32879)

### 3.18 Activity: Research and communication

Investigate one business that has developed flexible workplace practices for its employees. Outline the nature of the flexible workplace practices offered by the business and explain the impact they have had on the employees and business.

### 3.18 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample** responses for every question, go to your learnON title at www.jacplus.com.au.

1. Define gender segregation.
2. Define tertiary industry.
3. Identify the five key industries in the Australian work environment.
4. Explain why, in the future, businesses will increasingly need to create new styles of workplaces.
5. Explain a range of factors that may contribute to the gender gap in earnings that still exists between the average wages of men and women.
6. 'The French government has no right to tell employees when they can send and receive emails.' Do you agree or disagree with this statement? Justify your decision.
7. 'We all need a break from work — work-life balance is important.' Comment on this statement, providing reasons why you agree or disagree with the statement.

**Fully worked solutions and sample responses are available in your digital formats.**

# 3.19 Thinking Big research project: Workplace evolution presentation

## 3.19.1 Scenario

Over time, the way jobs are conducted and what is required from each job has changed. While technology has been a large component of that, it is not the only factor.

Online shopping, the growth of women in the workplace, the recognition of parental leave and carer's leave for employees, the growth of part-time and casual work, and 24-hour shopping have changed the way we need to work.

## 3.19.2 Task

Your task is to investigate how jobs have changed over time, starting with changes to supermarkets, and how they might change in the future.

The task is in two parts:

- Describe the changes that occurred in supermarkets over time. Interview your parents or guardians and/or grandparents and ask them how supermarkets operated in the 1950s or 1960s and beyond. Use the images provided as prompts.
- Select another job, area or industry that has undergone change in the last 50 years. Describe the job, area or industry and what changes have occurred, and what future changes might also occur.


Prepare a report or presentation to the rest of the class outlining the changes that have occurred in both the supermarket area and the second job/area/industry selected.

### 3.19.3 Process

- Work individually.
- Select a family member or friend to interview regarding their experiences with supermarkets.
- Select a second job, area or industry to interview that person about. Seek permission from your teacher for the selected job, area or industry. Some examples include:
  - banking — discussing aspects such as ATMs and Paywave
  - construction — pre-fabricated housing and 'kit' homes
  - accounting — ICT and cloud technology.
- Also include three interesting facts that most people won't know about.
- Use the information and some photos to create a report and/or presentation about the selected job, area or industry.

**on** Resources

**ProjectsPLUS** Workplace evolution presentation (pro-0203)

## 3.20 Review

### 3.20.1 Summary

Having explored this topic, you can now:

- identify different types of employment and the positive and negative aspects relating to each one
- explain how the workforce has changed over time, including increases in tertiary industries, changes in expectations of the employer and employee, and changes that have enabled women to be more active in the workforce
- explain the role of unions and employer groups, and identify how the workplace has changed over time due to the efforts of these groups
- distinguish between different types of employment contracts, and the advantages and disadvantages of each
- explain how employment contracts are affected by the legal system
- identify and explain your rights and responsibilities in the workplace depending on the type of employment contract you have
- explain the importance of protecting individuals and their rights in the workplace
- identify and explain issues relating to superannuation, including different savings and investment options
- discuss how redundancy and privacy have affected employment trends and ethical issues
- explain the background to, and importance of, WH&S legislation
- identify when workers are being treated unfairly and when grounds for legal action exist, including anti-discrimination and unfair dismissal issues
- identify and explain different ways of resolving disputes in the workplace, including mediation, negotiation, conciliation and arbitration
- identify different types of taxes and explain how the taxation system enables us to gain access to a range of government-funded services
- identify and evaluate different types of education options available
- explain the benefits of education and skill increases on your ability to secure a job
- understand the nature of employment and the impact it has upon individuals and society.

## 3.20.2 Key terms

**apprentice** a person who has agreed to work for a skilled person for a particular period of time and often for lower wages in order to gain knowledge and skills about a particular job — for example, an apprentice plumber
**apprenticeship** training and education in a trade
**arbitration** a method of resolving disputes whereby an impartial third party decides on a settlement arrangement that is then binding on the parties to the dispute
**award** a document that outlines an employee's minimum pay and conditions
**cadetship/traineeship** training in a full-time job, with time allocated to attend university or TAFE
**casual** employed on an 'as needed' basis
**chief executive officer (CEO)** the most senior person in charge of managing an organisation
**collective wants** goods and services that are for the use of the whole community
**common law (employment) contract** when an employer and an individual employee negotiate a contract covering pay and conditions
**conciliation** similar to mediation except the conciliator can suggest possible solutions
**discrimination** treating a person less favourably because of factors such as gender, ethnicity, religion or disability
**economy** all activities undertaken for the purpose of production, distribution and consumption of goods and services in a region or country
**employee** person who works for a wage or salary
**employer** person who hires employees
**employment contract** a legally binding formal agreement between an employee and an employer
**enterprise agreement** agreement about pay and conditions made at a workplace/enterprise level
**entitlements** non-wage benefits such as long service leave or sick leave
**full-time** continuing, ongoing employment working 38 hours or more per week
**gender segregation** the physical, legal, and cultural separation of people according to their biological sex
**Generation Alpha** a person typically born after 2010
**Generation X** a person typically born between the early to mid-1960s to the early 1980s
**Generation Y** a person typically born between the early to mid-1980s to the mid-1990s
**Generation Z** a person typically born between the mid-1990s to the mid- to late 2000s
**goods and services tax (GST)** a value-added tax levied on most goods and services sold for domestic consumption; GST is paid by consumers, but is remitted to the government by the businesses selling the goods and services; GST provides revenue for the government
**grievance procedures** a number of predetermined steps that are followed to resolve a dispute
**industrial action** a temporary show of dissatisfaction by employees; for example, a strike
**industry** an area of economic activity, employment, trade, manufacturing, production or gathering of resources
**labour force** people aged 15 and over who are either employed or unemployed
**loading** extra pay to compensate casual employees for lack of access to entitlements
**mediation** when a third party helps those involved in a dispute to negotiate a solution acceptable to both sides
**multinational company** a corporate organisation that owns or controls the production of goods or services in at least one country other than its home country
**negotiation** a method of resolving disputes where the parties involved discuss the issues in an attempt to reach a compromise
**participation rate** the proportion of people aged 15 or over employed or actively looking for work
**part-time** ongoing employment working fewer than 38 hours per week
**primary industry** industry involved in the growing or extracting of natural resources
**pro rata** proportion of normal full-time benefits related to the hours worked
**quaternary industry** industry involved in the transfer and processing of information and knowledge
**quinary industry** industry involved in providing domestic services
**redundancy** the termination of an employee's employment due the employer deciding they no longer need the employee's job to be done by anyone, or the employer becomes bankrupt
**seasonal** employment that does not continue year-round but usually recurs
**secondary industry** industry involved in turning raw materials into finished or semi-finished products
**sharing economy** also known as collaborative consumption, involves people sharing their possessions for payment
**standard of living** the degree of wealth and material comfort available to a person for their life and lifestyle
**superannuation** money set aside during your working life for retirement; commonly called 'super'
**taxes** the part of our income taken by the government to pay for collective goods and services
**tertiary industry** industry involved in providing a service to others

**traineeship** the combination of employment and training in order to gain a qualification
**unemployment** when people are trying to find work but have so far been unsuccessful
**unfair dismissal** termination of employment that is considered to be harsh, unjust or unreasonable
**wellbeing** a state of being comfortable, happy and healthy
**work–life balance** achieving the right amount of time devoted to work and for personal life

## on Resources

**Digital documents** Key terms glossary (doc-32666)
Match-up (doc-32752)
Crossword (doc-32786)
Wordsearch (doc-32797)

**Interactivities** Wordsearch (int-7900)
Crossword (int-7883)

## 3.20 EXERCISES

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

### 3.20 Exercise 1: Glossary quiz online only

### 3.20 Exercise 2: Multiple choice quiz

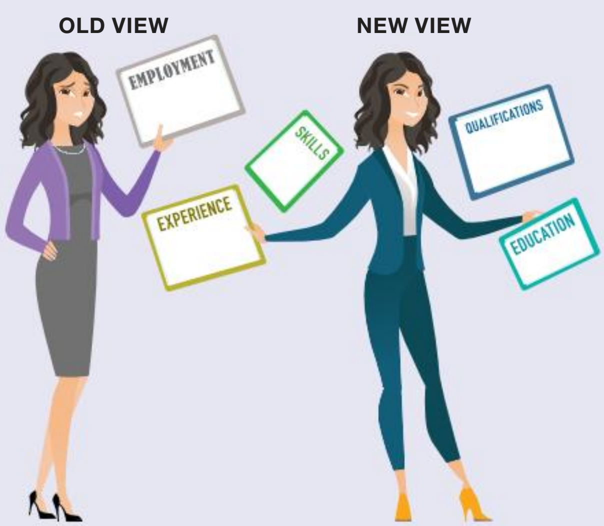
1. Who is an employer?
   A. A person who works for an employee
   B. A person who hires employees
   C. A worker for a company
   D. None of the above
2. What is the term given to the contracting out of operations to outside suppliers?
   A. Outsourcing
   B. Loading
   C. Conciliation
   D. Entitlements
3. Antonia is a registered nurse. What is the name given to the legally binding agreement that sets out her minimum wages and conditions?
   A. Loading
   B. Benefit
   C. Award
   D. Entitlements
4. What is the Australian Retailers Association an example of?
   A. Trade union
   B. Employer association
   C. Employee association
   D. Government department
5. What is the name given to the group of people aged 15 and over who are employed or actively seeking work?
   A. Participation rate
   B. Labour force
   C. Employment rate
   D. None of the above
6. When an employer treats an employee differently because of race, sex or religion, what is it known as?
   A. Apprenticeship
   B. Conciliation
   C. Grievance procedures
   D. Discrimination
7. Which state government legislation helps protect workers from workplace accidents?
   A. Workplace Health and Safety Act
   B. Workplace Act
   C. Workplace Safety Act
   D. Workers Compensation Act
8. What term refers to extra money paid on top of a full-time casual rate?
   A. Outsourcing
   B. Piece worker
   C. Wage
   D. Loading
9. Which of the following taxes is collected by the federal government?
   A. Company tax
   B. Rates
   C. Stamp duty
   D. Driver's licence fees
10. Amy works five days per week as a full-time casual worker at Sportsgirl. Her daily rate is $100; however, she also receives a loading of 20 per cent. How much would Amy get for a typical working week?
    A. $620
    B. $580
    C. $600
    D. $480

### 3.20 Exercise 3: Knowledge and understanding

1. Match the terms shown in the table with the correct definitions.

| Terms | Definitions |
|---|---|
| Employer | An extra amount paid to casual employees to compensate for not having access to a range of entitlements |
| Entitlements | The seller of labour |
| Labour force | A person who hires employees |
| Employee | The proportion of people aged 15 or over employed or actively looking for work |
| Casual employment | All those people aged 15 or over who have a job as well as those unemployed |
| Participation rate | Holiday, sick and long service leave are examples of this |
| Award | Working regular days and regular hours but less than full-time employees |
| Part-time employment | A document that outlines an employee's minimum pay and conditions |
| Loading | To be employed on an hourly basis |

2. Lara is asked to work an extra four-hour shift. The overtime rate is time-and-a-half. She is normally paid $15.00 per hour. What will be her total income for this shift?
3. Explain what is meant by 'entitlements'. Provide examples of entitlements.
4. (a) List three skilled jobs.
   (b) List three unskilled jobs.
   (c) Out of skilled or unskilled jobs, which will usually result in higher incomes and promotion? Why?
   (d) What is an award? Under what circumstances may an employer offer above-award conditions?
5. The following words have been scrambled. Unscramble them and use each one in a sentence.
   **cyandrdeun** **wroepicek** **nita-nimisdcrtainoi** **siunon** **ainnigertr** **demitanoi**
6. What is the role of a trade union in the workplace?
7. Briefly outline the main aims of the *Sex Discrimination Act 1984* (Cwlth).
8. What health and safety obligations does an employer have towards employees?
9. Explain the difference between conciliation and arbitration.
10. Research the latest income statistics to find out the difference between male and female incomes. The website of the Australian Bureau of Statistics is a good place to start.
11. What does the following image suggest about the relationship between education, work opportunities and changing work patterns?



## 3.20 Exercise 4: Challenge your understanding

1. Why are taxes necessary?
2. Besides fresh food, list some other goods or services that do not incur GST.
3. Determine whether the following items are taxable or GST-free.
   (a) Breadcrumbs
   (b) Bait used for recreational fishing
   (c) Potato chips sold hot, ready to eat
   (d) Potato chips sold frozen
   (e) Sushi
4. Why is superannuation considered a saving/investment option?
5. Why is it important to be financially ready for retirement?
6. List the three different employment contracts.
7. Explain why both the employer and the employee should be familiar with the award or contract conditions covering a job.
8. Outline the three elements of an employment contract.
9. Explain the difference between an award and an enterprise agreement.
10. List the advantages and disadvantages of common law contracts.
11. List the rights of all employees.
12. Why do you think some employers discriminate against older workers? Is it fair? Explain.
13. Males under 25 years of age account for 30 per cent of work-related deaths. Suggest reasons why accident numbers within this group are so high.
14. How effective do you think affirmative action programs are in eliminating discrimination against women in the workplace?
15. Using the words from the list, fill in the gaps in this article.

**executive** **legislation** **minimum wage**
**Sex Discrimination Act** **discrimination**

A 28-year-old woman, Alex Hall, has won a legal action against her employer. She claimed that she had suffered ____________ when her employer, McCarthy Textiles, dismissed her on the grounds that she was pregnant. Speaking outside the court, she said, 'This company has not upheld important rights that I have according to the ____________. The ____________ is very clear that people cannot suffer discrimination due to family responsibilities.'

Ms Hall went on to slam current conditions for women in the workplace. She said that although the ____________ was set in 1973, guaranteeing equal pay for women, the lack of females in ____________ positions was appalling.

**Fully worked solutions and sample responses are available in your digital formats.**

on Resources

**Digital documents** Worksheet 3.14 Wrap up! (doc-32808)
Glossary quiz (doc-32764)
Multiple choice quiz (doc-32775)
**eWorkbook** Customisable worksheets for this topic (ewbk-0860)

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# 4 Law, society and political involvement

## 4.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS at www.jacplus.com.au.

### 4.1.1 Introduction

You have probably never committed a serious crime. Hopefully, you are not planning a robbery or an assault. Most likely you are not wanted by the police and have not been required to attend a court hearing. Like the vast majority of Australians, you are a law-abiding citizen.

This chapter will help you to see how laws are connected to every aspect of your life, as they give you rights as well as responsibilities. Laws dictate things such as the need to wear a helmet when riding a bike, the age you can leave school, the movies you are permitted to watch and when you can sign a contract.

However, as you turn 18 you will also be able to vote, and you will be part of deciding who will be in charge of our country. Understanding how laws are made, how a government is formed and how you can make your voice heard in the political arena will help you when you get to this new aspect of your life.


**CONTENT FOCUS**

On completion of this topic, you will have:

- developed an understanding of how laws affect individuals and groups and regulate society, and how individuals and groups participate in the democratic process
- examined various legal and political systems
- learnt how strategies are used to resolve contentious legal and political issues.

## Resources

**Video eLesson** Law, society and political involvement (eles-3509)

**Digital documents** Key terms glossary (doc-32667)

Worksheet 4.1 Start up! (doc-32700)

**eWorkbook** Customisable worksheets for this topic (ewbk-0861)

# 4.2 Reasons for laws

Without a set of rules in a society, there would be chaos. Rules usually exist to create and maintain a sense of order. However, rules must work, or they are useless. Every country has its own laws; legal rules that can be enforced by a court of law. These laws vary according to the beliefs, attitudes and culture of a country. Most laws in Australia are made by the federal and state parliaments. In fact, making laws is their main job.

## 4.2.1 Rules and laws

You decide to go to a music festival or a football match. You may not be aware that there are laws in place to control the behaviour of the crowd. Crowd surfing, for example, is forbidden at most concerts. Similarly, Cricket Australia has banned the Mexican wave at some of its events in order to stop unruly fans from throwing potentially dangerous objects such as ice and drink containers in the air. Many argued the wave had become part of a culture of anti-social and occasionally violent behaviour. Others, however, believed it was a restriction on their freedom to participate in one of the great contemporary spectator traditions of cricket. Whatever your view, it seems that most of what we do is regulated by some type of law.

You have to obey rules at school, within your family and on the sporting field. These rules are non-legal rules and are imposed by schools, families, sporting associations or clubs. They apply only to people directly involved and may not attract serious penalties if broken.

Society also has a set of rules called **laws**, which everyone in the community is expected to obey. For example, motorists have to obey traffic laws. There are also laws to stop people under a certain age from entering premises where alcohol is served. The difference between a rule and a law is that the police and the **courts** can enforce laws. Laws, therefore, are legal rules that carry more serious penalties and you may end up having to go to court if you break a law.

In Australia, laws are part of every aspect of our lives.

Without laws, society would be in a state of anarchy.

## 4.2.2 Reasons for laws in society

Imagine what could happen if there were no laws and people could do whatever they liked. Confusion and chaos would occur. In extreme cases of conflict, a state of **anarchy** would develop. The person with the most strength would start to dominate, and the weak and helpless would suffer. However, when people obey the law, a sense of order is created, resulting in a society where people can live peacefully.

The law has four main roles:

**The four main roles of laws**

- Establish boundaries
- Protection
- Freedom
- Resolving disputes

1. *Establish boundaries* of acceptable behaviour and determine which actions will not be tolerated. For example, drink-driving laws reflect society's attitude that placing other road users at risk through intoxication is unacceptable.
2. *Protection* from the actions of others as well as our own behaviour. It does this by telling society what people *cannot* do. For example, we cannot commit assault, murder or robbery. We cannot drive while drunk or ride a bike without a helmet. In this role, the law restricts our individual freedom but provides safety for all individuals in society.
3. *Freedom* to do many things by telling society what people *can* do. For example, the law allows us to own and operate a business, drive a car, get married or divorced, or leave school.
4. *Resolving disputes* in order to stop people taking the law into their own hands. The legal system provides a police force (or service), court system and correctional centres (jails and juvenile detention centres) to enforce and administer the law.

The police force, like the courts and correctional centres, is part of our legal system.

If society has too many laws, people's freedoms are severely restricted. However, a society that does not have enough laws turns to chaos, and people become very unhappy. So it is important for society to achieve a balance between too many and too few laws.

**on** Resources

**Weblink** Youth Law Australia

### 4.2 Activity: Research and communication

1. Obtain a copy of your school rules. In small groups, answer the following questions:
   (a) Do you think your school rules are laws? Why?
   (b) Who makes these rules?
   (c) What happens if someone breaks the rules?
   (d) Are there too many or too few rules? Why?
   (e) What rules would you like to get rid of? Why?
   (f) What rules should be introduced? Why?
2. Are there situations in which breaking a law could be acceptable? For example, what do you think about a group of environmental activists who break the law when protesting against tree clearing? With this in mind, debate the following topic: 'It is acceptable to break the law sometimes'.
3. Use the internet to find out the age at which a person in Australia can legally:
   (a) drive a car on a public road
   (b) drink in licensed premises
   (c) get married
   (d) buy cigarettes
   (e) sign a contract
   (f) vote in an election.

### 4.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What are laws?
2. How are laws of the land different from school or sport rules?
3. What can happen to a person who breaks the law?
4. What is meant by the term 'anarchy'?
5. Why does society need laws?
6. List the law's four main roles.
7. Provide three examples of things the law says you:
   (a) cannot do, and
   (b) can do.
8. Imagine you have been elected Prime Minister of Australia. What three laws would you introduce to make sure people live in harmony? Explain why you would choose these particular laws.
9. Write a short story or create a cartoon about life in a city with no traffic laws.

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.3 Values, morals and ethics

## 4.3.1 Rules of morality and ethics

We develop a sense of what is right and wrong from the moral and ethical values of our society. For example, murder is considered a serious crime because our society believes human life is precious and should be protected. Usually society's moral and ethical values reflect the beliefs, attitudes and values of religious institutions.

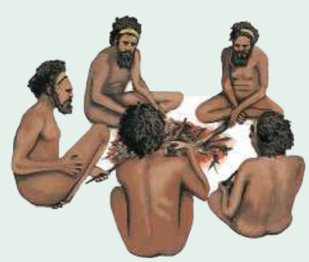
## 4.3.2 Different country, different values, different laws

Our laws in Australia are sometimes very different to those of other countries. For example, in Australia it is compulsory to wear a bicycle helmet in all states and territories; Australia also has strict anti-smoking legislation, including plain packaging of cigarettes. Few other nations around the world have similar laws to these.

Some nations have laws that Australians find very peculiar. For example, in Singapore importing chewing gum can be punished with a $100 000 fine or two years imprisonment. Also in Singapore, failing to flush a public toilet can bring about a $150 fine!

### Different laws

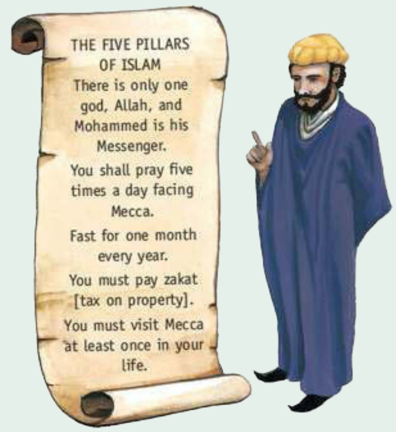
Before the arrival of Europeans in 1788, law in Australia existed as traditional Aboriginal law, passed on by word of mouth. This oral law was very important and helped maintain a stable society.



The First Fleet brought the English legal system to Australia. The British did not recognise any pre-existing Aboriginal law. Aboriginal people were expected to obey English laws, which created many misunderstandings and problems for everyone.

Christians adopted the Ten Commandments, a set of laws written down by the Hebrew lawgiver Moses in the thirteenth century BC.


Muslims adopted the Five Pillars of Islam based on the teachings of the prophet Mohammed during the seventh century BC.




King Hammurabi, who lived in Babylon (now in modern-day Iraq) around 2000 BC, was one of the earliest rulers to have a written legal code. He ordered stone pillars, two metres high, on which he wrote 280 laws for his people to obey. Some of these laws include:

| | |
|---|---|
| Law 161 | If a man accuses another, but cannot offer proof, then he shall die. |
| Law 162 | If a man assists a slave to escape, then he shall die. |
| Law 163 | If a son strikes his father, then he shall lose his fingers. |
| Law 164 | If a woman has not been a careful wife and belittles her husband, then she shall be thrown in the river. |

### 4.3 Activity: Research and communication

1. A society's legal system and its religions are often interlinked; the values found in its religious teachings are often replicated in the legal system. For instance, it is illegal to kill a person in Australia. The Old Testament says 'you shall not murder'. This means that both our legal system and the teachings of Christianity value human life. Research the beliefs of another religion such as Hinduism, Islam, Sikhism, Buddhism or Judaism and identify at least three similarities (or differences) in relation to the values represented in Australia's legal system. Present your ideas in a PowerPoint presentation and share them with your class.

### 4.3 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Examine the drawings showing the Christian and Muslim sets of rules.
   (a) Identify and list any of these laws you think might be found in Australia today.
   (b) List any laws that they have in common.
2. List three new laws that you would like the government to introduce in order to deal with:
   (a) under-age binge drinking
   (b) violent computer games.
3. Using examples, explain why it is difficult to create a set of laws to reflect everyone's values.
4. What impact did the introduction of British law have upon traditional Aboriginal law?
5. Having read some of the laws of Hammurabi (in the feature box) what do you imagine Babylonian society was like?

6. Outline what you believe to be the most ethical way to behave in the following situation. A friend gives you the answers to the next Commerce test. He took them from the teacher's desk. Would you accept such information? Why?

**Fully worked solutions and sample responses are available in your digital formats.**

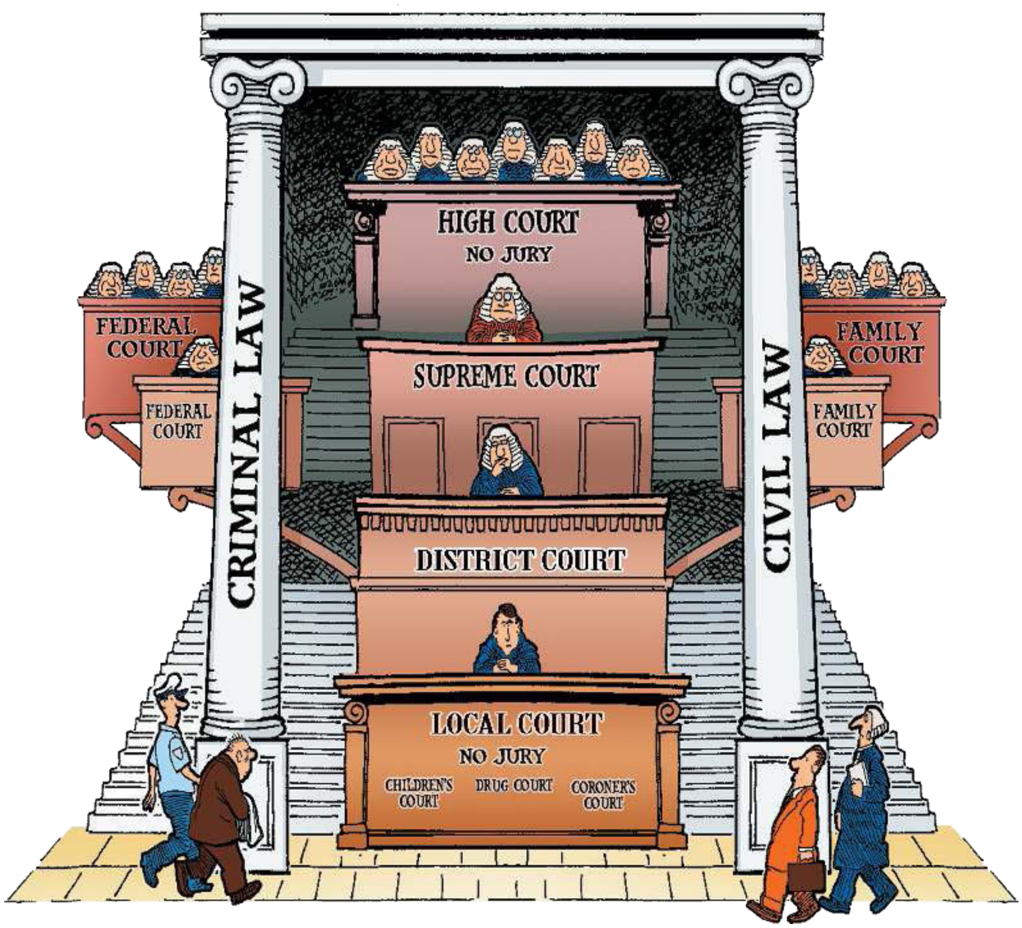
# 4.4 Australia's court system

## 4.4.1 Court hierarchy

If you break a minor rule during a lesson, your teacher will decide your 'guilt' and 'punishment'. For a more serious classroom offence, either your Year coordinator or the deputy principal will deal with the matter. For very serious offences, you will be sent to the principal. The court system operates under a similar **hierarchy**, which also relates to the seriousness of the offence. The higher courts, which hear the most serious matters, are at the top of the hierarchy, and the lower courts, which hear less serious matters, are at the bottom of the hierarchy. Each court deals, therefore, with specific legal matters over which it has authority or jurisdiction. Consequently, each court becomes 'expert' in dealing with a particular area of law.

In criminal cases, the higher courts deal with the most serious crimes. In civil cases, the higher courts hear cases that will affect many people or involve large sums of money. If an individual is unhappy with the ruling of a lower court, they can **appeal** the decision and have their case reviewed in a higher court. A serious issue facing our society is the cost of a **trial**, which becomes more expensive if the trial is held in a court that is higher up the hierarchy.

The Australian court hierarchy — the court system filters cases according to their seriousness.



## 4.4.2 The Local Court (bottom tier)

Inside a Local Court

The Local Court is at the bottom of the hierarchy. There are over 160 Local Courts in New South Wales. All criminal cases and more than 90 per cent of civil cases begin in the Local Court. In the Local Court there is no **jury**. Instead, it is a **magistrate** who hears the cases, decides the verdict and sets any punishment. A magistrate can imprison an offender for up to two years per offence, or a maximum of five years. Magistrates are qualified legal practitioners who have many years experience in dealing with legal matters.

The Local Court deals with minor civil disputes; for instance, where people **sue** other people for damage to property or for injury claims of up to $100 000. This court also hears summary offences (minor criminal matters) such as stealing, drink-driving, assault, possession of drugs and indecent language.

A magistrate also presides over **committal hearings** dealing with **indictable offences** (major criminal matters) such as armed robbery, manslaughter and homicide to decide if there is enough evidence for the case to go to trial in a higher court. A magistrate also:

- hears **bail** applications
- issues arrest warrants and search warrants
- hears applications for Apprehended Violence Orders (AVOs).

Two other specialist courts on the same bottom level of the court hierarchy as the Local Court are the Children's Court and the Coroner's Court.

## 4.4.3 The District Court (third tier)

A District Court

The District Court is the 'middle court' in the state legal system. They are located in Sydney and in larger regional centres. In the District Court of NSW, cases are heard by **judges**. District Court deals with more serious civil cases for claims over $100 000 up to $750 000 and all motor vehicle accident cases. Its criminal jurisdiction deals with serious criminal matters such as armed robbery and manslaughter. In some cases a jury will decide whether the accused is guilty or not. If the accused is found guilty, the judge will decide on an appropriate sentence. The District Court also hears appeals from the Local Court.

## 4.4.4 The Supreme Court (second tier)

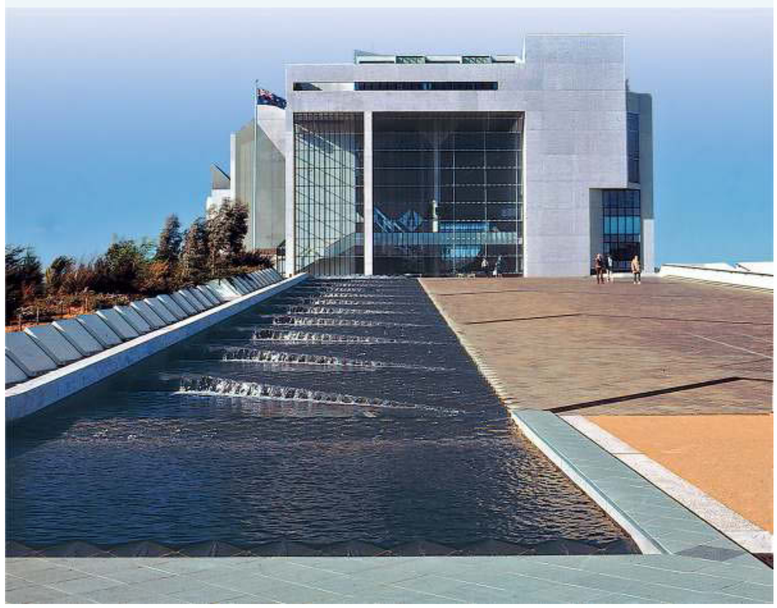
The Supreme Court is the highest in NSW and deals with the most serious criminal cases such as murder, treason and serious sexual assault. As well, the most serious civil cases involving more than $750 000 are heard in this court. The Supreme Court is located in Sydney and headed by the Chief Justice. However, the judges of the Supreme Court (and of the District Court) hold sessions of their courts in major regional centres. This is known as 'going on circuit'. The Supreme Court also deals with appeals from the two lower courts. The judgements of the Supreme Court are binding (compulsory) on all lower courts. The Supreme Court can impose a wide range of sentences.

This man is suspected of murder. He will most likely be refused bail before he appears in the Supreme Court.

The Supreme Court of NSW

## 4.4.5 The High Court of Australia (top tier)

The High Court of Australia, Canberra



Located in Canberra, the High Court deals with appeals from the state or territory Supreme Courts.

It also hears cases concerning the interpretation of the constitution; that is the laws of which Australia is governed by. It reads, interprets and applies the Constitution and, in reaching verdicts, it creates laws that then affect the powers of parliaments. The High Court, through its interpretation of the Constitution, has shifted the balance of power away from the states and towards the Commonwealth.

Because it is the highest court in Australia, its decisions are final. The High Court is a federal court, which means that any decision it makes applies to the whole country. The High Court consists of seven judges: the Chief Justice and six Justices. The most important cases are normally determined by a full bench comprising all seven Justices, while other cases are dealt with by at least two justices. No jury is used in the High Court.

## 4.4.6 Specialised Court

### Children's Court

The Children's Court deals with cases involving the care and protection of children and young people. It also deals with criminal cases concerning children and young people who committed offences when under the age of 18. This court is closed to the public and the media. The Children's Court has much the same personnel as the Local Court, but personnel in this court are specifically trained to deal with young people.

The Children's Court, Parramatta


### Coroner's Court

The Coroner's Court is a special Local Court that investigates deaths by unnatural causes in order to determine the identity of the deceased and the date, place, circumstances and medical cause of death. Coroners in NSW investigate approximately 6000 reportable deaths each year. Coroners also investigate the cause and origin of fires or explosions.

### Family Court of Australia

The Family Court is a specialised court that assists Australians to resolve more complex family law matters such as divorce, parenting disputes and the division of property when couples separate. In Australia, the only grounds needed for divorce is that the marriage has irretrievably broken down. This is demonstrated by the couple being separated for over 12 months.

### The Drug Court of NSW

This court tries to provide long-term solutions for offenders who have been caught up in the cycle of drug use and crime by encouraging the person to become free of his or her substance abuse, gain employment and reduce the need to commit crimes to support the drug habit.

In order to be referred to this court the offender has to be eligible to the Drug Court Program. The first stage involves assessment and detoxification; during this time a personalised plan is made to cater for the individual's needs to help ensure a successful completion of the program.

The offender has to take regular drug tests and make regular visits to the courts to report on their progress. Offenders will often get applause or cheering when they report that they have gone for a day, week or month without using drugs or engaging in criminal activity.

## CASE STUDY
### Court etiquette

All parties who attend court are expected to follow court etiquette and behave in an appropriate manner.

Rules of court etiquette must be followed when court is sitting, such as:

- standing when the magistrate or judge enters the courtroom
- bowing or nodding to the magistrate or judge when entering or leaving the courtroom
- referring to the magistrate or judge as 'Your Honour'
- silence and no movement when the oath is being administered
- dressing appropriately. Thongs and singlets are not permitted
- no unnecessary talking, eating, drinking or reading in the courtroom
- no weapons in court
- no using cameras, mobile phones or recording devices in the courtroom
- all hats should be removed before entering the courtroom

### on Resources

| | |
|---|---|
| **Digital documents** | Worksheet 4.2 Caught and court (doc-32701) |
| | Worksheet 4.3 Think Pair Share on child crime (doc-32702) |
| **Weblinks** | Lawlink |
| | High Court of Australia |
| | NSW Local Court |

### 4.4 Activity: Research and communication

1. Imagine you are a magistrate hearing a case against a person accused of assault. What evidence would you require in order to reach a decision? To help you answer this question, collect some newspaper articles dealing with similar cases.
2. Use the **NSW Local Court** weblink in the Resources tab to find out about the role of the local court. Present a two-minute oral presentation on one area of interest.
3. Use the **High Court of Australia** weblink to name the seven justices currently on the High Court. Which one is the chief justice?

### 4.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. On a triangle divided into four equally spaced horizontal sections, name the four different levels of courts. Start with the lowest court at the bottom.
2. Why do we have different types of courts?
3. Which court can hear appeals from Supreme Court cases?
4. What is the maximum sentence that a Local Court in NSW can impose?
5. Explain the difference between a *judge* and a *magistrate*.

6. Complete the following table to show the differences between the District Court and the Supreme Court.

| | District Court | Supreme Court |
|---|---|---|
| **Location** | | |
| **Civil case claim amounts** | $ | $ |
| **Types of criminal cases** | | |
| **Appeals to** | | |

7. (a) What is the role of the High Court of Australia?
   (b) Explain the role of the Family Court.
8. Do you think that a court hierarchy is necessary? Why?
9. In what type of cases might a person seek an appeal?
10. In which court are the following likely to be heard?
    (a) A murder trial
    (b) An appeal from the NSW Supreme Court
    (c) A hearing for a minor traffic offence
    (d) An investigation into a suspicious death
    (e) An armed robbery trial
    (f) A 14-year-old boy charged with assault
    (g) A civil dispute between business partners involving $100 million
    (h) A case dealing with an aspect of the Australian Constitution
    (i) A dispute between a couple regarding who keeps the car when they are divorced
    (j) A case involving a crime committed to support a drug habit. The accused has pleaded guilty and is wanting help with his or her addiction.
11. What is court etiquette? Outline three rules associated with court etiquette, and describe the consequences of not following these rules.
12. Use the **Lawlink** weblink in the Resources tab to examine some recent decisions of the Supreme Court. Why do you think the decisions are made public?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.5 The role of court personnel

## 4.5.1 Magistrate as umpire

After being arrested, you may end up in court if the police feel they have a strong case against you. If you plead not guilty, a trial will be conducted. It will take place in a courtroom. In Australia, the method of trial used is called the **adversarial system**. This means two opposing sides will present their arguments to an independent umpire; a judge or a magistrate.

Courts can be very tense places. The decisions made in them can have an enormous impact on people's lives. Courts and the officials who work in them deal with real-life dramas. While each courtroom official has a specific role to play, they are all attempting to achieve the same objective: justice. The main roles include magistrate, judge, juror, prosecutor, and counsel for the defence.

A magistrate is in charge of the lowest court, where the atmosphere is much more informal. He or she does not wear a wig or a robe, and is a qualified legal practitioner. People address a magistrate as 'Your Honour'.

After hearing the cases presented by both sides, the magistrate decides whether a person is guilty or innocent. If people are found guilty, the magistrate decides the punishment or (in civil cases) how much money to award as damages. A magistrate will refer very serious criminal offences to a higher court.

Judge as umpire — who's who in a judge's court (criminal trial)


1. The judge's associate is a trained lawyer who manages much of the paperwork.
2. Members of the public, who listen to and observe the court proceedings
3. Members of the media, who observe proceedings so they can report what happens
4. Sheriff's Officers serve summonses and provide security for the court.
5. The accused
6. Anyone whose name is on the electoral roll can be called as a juror. In a criminal case, the jury consists of 12 people. In a civil matter, only six people decide how much money should be paid for damages. In a civil trial, the jury must decide on the **balance of probabilities** whether the defendant is liable, and in a criminal trial on whether the accused is innocent or guilty **beyond reasonable doubt**.
7. A prison officer from the prison where the accused has been held
8. In criminal cases, the counsel for the defence represents the accused, the **defendant**. If the accused pleads guilty, the counsel for the defence presents arguments to try to lessen the punishment. If the accused pleads not guilty, defence counsel must convince the judge or jury that their client is innocent. In a civil case, the counsel for the defence attempts to convince a judge (and occasionally a jury) that no wrong has been committed. If successful, the accused does not have to pay damages.
9. In criminal cases, the **prosecutor** has to convince the jury that a person is guilty. This is done by asking questions of witnesses to draw out relevant information. In civil cases, a barrister will act on behalf of the **plaintiff**. Their role is to present reasons why their client should receive compensation.
10. Witness box, from which people give evidence
11. The tipstaff helps the judge keep order in the court.
12. The judge is addressed as 'Your Honour'. He or she listens to arguments presented by the prosecutor and the counsel for the defence, and is not allowed to ask a witness questions (except to clarify a point). When there is a jury, the judge has to make sure jury members understand the proceedings and evidence presented. If a jury announces a guilty verdict, the judge decides the sentence or punishment.

**on** Resources

**Digital documents** Worksheet 4.4 Who's who in court — criminal court (doc-32703)

Worksheet 4.5 Five Ws (and one H) (doc-32704)

### 4.5 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. List the main courtroom officials.
2. How many jurors are there for a civil case and how many for a criminal case?
3. Outline the role of the counsel for the defence.
4. When can a judge question a witness?
5. What is the jury's responsibility in a criminal trial?
6. What is the difference between the:
   (a) defendant and plaintiff
   (b) prosecutor and counsel for the defence?
7. Finish the following sentence:
   The adversarial system is a bit like a game of tug-of-war because ___________________.

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.6 The role and selection of juries

## 4.6.1 Role of the jury

Although juries are used in less than 5 per cent of all legal cases, they are often what people find most intriguing about the law. Being on a jury is the one opportunity for the average person to play an integral part in the operation of the legal system.

### CASE STUDY

#### Interview with a juror

**Interviewer:** How did find out that you had jury duty?
**Alex:** I got a letter from court officer, Sheriff Arujave, informing me that I had been randomly selected for jury duty.
**Interviewer:** Were you excited about being selected for jury duty?
**Alex:** While the idea of being responsible for making a decision about someone's guilt or innocence may be a bit exciting, I have found that it is harder than I imagined it would be. It is not easy to make a group of 12 people agree on a verdict, because we all have different opinions! It is very time consuming and has taken longer than I thought.
**Interviewer:** What happens if you can't make a decision?
**Alex:** We are close to having a hung jury; meaning that we are unlikely to get to a decision that all people are happy with. If we don't make up our minds soon the judge will order a new trial.

A juror

A jury is made up of ordinary people whose main role is to be independent and decide on the facts of the case. Jurors must decide what they believe actually happened according to the evidence they have heard. In a civil trial they must decide on the *balance of probabilities* whether the defendant is liable, and in a criminal trial on whether the accused is innocent or guilty *beyond reasonable doubt*. To do this effectively, jurors must be able to:

- listen to all the facts of the evidence, and remember and understand them
- decide what they believe actually happened according to the evidence they have heard
- put aside their own prejudices or bias
- be fair and impartial

- understand points of law the judge explains
- deliver a verdict on the guilt or innocence of the accused in a criminal trial, or decide if a party is liable in a civil trial.

**COMFACT**

Some people can be exempt from jury duty because of their occupation. These include practising doctors, dentists, clergy and emergency workers.

Other reasons that you could apply to be excused from jury duty are financial hardship, personal opinions or knowledge of the case, family issues, or physical or mental disabilities.

Having a criminal record could also make you ineligible for jury duty.

**CASE STUDY**

**A little snooze**

One man used his jury duty as an opportunity to catch up on some extra Zs.

The assault trial of two bouncers was aborted on the second day, after the judge noticed that the man had been dozing off. Before discharging the jury, His Honour stated, 'One of your number has not been paying attention ... we are concerned the juror may not be able to give a proper verdict.'

A similar incident occurred in the NSW Supreme Court, where a juror in a murder trial was discharged after he continued to fall asleep in the jury box. The frustrated judge told the man to pack up and go home after he turned up late to court, following days of sleeping on the job. This might have been a way to get out of jury duty, but it was also an enormous waste of court time and resources.

***Source:*** https://downingcentrecourt.com.au/blog/jurors-behaving-badly-in-downing-centre-court/

## 4.6.2 Empanelling a jury

Once the jury panel is in the courtroom, empanelment, which is the process of selecting a jury, begins. Potential jurors must walk past the accused and his or her counsel, as well as the prosecution. This is so counsel can look at them and decide whether they are the type of people they want on the jury. They have from the time each juror stands until he or she reaches the jury box to make a challenge.

A jury being sworn in

## 4.6.3 Arguments for and against the jury system

Some people say that juries are the best and most accepted method to use in a trial. Others argue that they are outdated and prejudiced, and should be replaced with either trial by judge alone or professional, specialist jurors.

| Arguments for the jury system | Arguments against the jury system |
| --- | --- |
| 1. A jury is a cross-section of society and therefore reflects society's values and attitudes. | 1. Because some people are exempt from serving, the jury is not a true cross-section of society. |
| 2. There is widespread acceptance of the jury system. | 2. Ordinary people may not understand complex legal technicalities. |
| 3. The final decision is made by more than one person. | 3. Juries do not have to give reasons for their decisions. |
| 4. Juries are independent and impartial decision makers who are not controlled by the government. | 4. Juries can be persuaded by the skills of clever lawyers. |
| 5. Ordinary citizens are given the opportunity to play an active role in the administration of justice. | 5. It is difficult for people to remain completely impartial, especially if they are influenced by the media coverage of the trial. |
| 6. It provides an opportunity for the community to understand the final decision. | 6. It costs a lot of money to operate and the jury selection process can be time consuming. |
| 7. It reduces the possibility of bribery or corruption which might occur if only one person is to decide the outcome of the case. | 7. Jurors could be biased and may be influenced by their own personal prejudices. |

### 4.6 Activity: Research and communication

1. Under the American legal system, juries are allowed to publicly discuss the reasons for their decision after a case has finished. Should this be allowed under the Australian legal system? In small groups, discuss.
2. In some nations, trials are televised. Investigate the advantages and disadvantages of this using the internet.

### 4.6 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is the role of the jury?
2. Distinguish between the standard of proof required for a civil trial and a criminal trial.
3. In a criminal matter, what do the jurors decide?
4. In a civil case, what are juries mainly concerned with?
5. Who may be called upon to do jury duty? What exemptions are there to this?
6. Explain the difference between a *majority verdict* and a *unanimous verdict*.
7. What is a hung jury and what effect does it have on a trial?
8. From the list in section 4.6.3, select the most important advantage and disadvantage of the jury system. Give reasons for your selection.
9. Why does a criminal trial require a higher standard of proof than for a civil trial?
10. Read the case study 'A little snooze'. What is your opinion about the jurors who were sleeping in the court instead of listening to evidence?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.7 How laws are made: common law

## 4.7.1 The beginnings of common law

There are two ways of making laws. Laws that are written down beforehand are called **statute law**, or Acts of Parliament. Laws can also be developed piece by piece by judges, as they come across new problems in the cases they hear. These laws are referred to as **common** (judge-made or case) **law**. In Australia, the law is a combination of both common and statute law.

The justice system in England and Australia is based on common law. When Henry II became King of England in 1154, in medieval times, people were tried at a number of different courts. Most had to prove their innocence through trial by ordeal or trial by combat. Henry II decided his people should all have the opportunity for royal justice (that is, the justice of the king's court). Though the other courts continued, the king's court began travelling around, hearing cases. Judges started keeping records of their decisions, referring back to them when hearing similar cases.

Trial by ordeal

## 4.7.2 Common law

Common law today continues to mean the decisions given by judges. It may occur because a judge has to decide on a case where there is no existing law that regulates it. Consequently, it is up to the judge to make a decision. A record of these decisions will be placed in books called *Law Reports* so that they can be referred to when needed. These decisions are known as legal **precedents**.

Judges do not deliberately attempt to change or make a law but this may happen as they try to resolve the dispute before them.

## 4.7.3 Precedent

If your uncle gave your eldest sister a new phone for her eighteenth birthday, you might expect to receive a phone for your eighteenth birthday, or at least a present of equivalent value. This is because your uncle set a precedent and you expect to be treated the same. Precedent works the same way in law.

Traditionally, judges will give similar decisions in cases that are alike. This is known as the act of precedent. Precedent helps the legal system achieve fairness and justice as similar cases are dealt with in the same way.

If there is no existing relevant law, judges can create a new rule to settle a dispute.

## 4.7.4 Statutory interpretation

Courts also make laws when they interpret (decide on the meaning of) words in a law made by Parliament. Laws made by Parliament often use complicated language. This language is used in an attempt to fully explain what the law means, and to try to cover all the possible situations to which the law is relevant.

Although only Parliament can change the wording of a law, when a court interprets a word, this new meaning applies as law from then on. The principle of precedent applies to interpretation as well. Therefore, once a judge decides on the meaning of a word or phrase, that meaning becomes law and must be followed by other judges in lower courts.

Judges use a variety of methods to help them interpret the meaning of words in statutes.

### CASE STUDY

### Dr Grant's itchy underpants

In 1936, Dr Grant of Adelaide purchased a pair of knitted underpants from a retailer.

The underwear was contaminated with a chemical residue and after wearing them Dr Grant developed dermatitis, a skin irritation, which caused him great discomfort and pain.

At that time, there was no law stating that a manufacturer must produce a good suitable for the purpose for which it is being sold. Dr Grant sued the manufacturer of the underwear, Australian Knitting Mills, for compensation for suffering, relying on a decision made in a previous case in a higher court. This case, *Donoghue v. Stevenson* (1932), involved a woman who, after drinking some cordial from an opaque green bottle, noticed the rotting remains of a decomposed snail at the bottom. She became violently ill and successfully sued the drink manufacturer for injuries. Where, after all, was the rest of the snail?

She was the first person in our legal system to successfully use the duty of care principle for an action of negligence.

### Resources

**Digital document** Worksheet 4.6 Learning legal terminology (doc-32839)

### 4.7 Activity: Research and communication

1. Conduct a class discussion, the topic being: 'Courts should determine all cases on their merit and should not have to follow precedent'. Compile a list of the main points on the board.

### 4.7 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is the difference between *statute law* and *common law*?
2. How did common law begin?
3. What is the purpose of the *Law Reports*?
4. What is meant by the term 'precedent'? How does precedent help the legal system achieve fairness and justice?
5. Explain how courts use statutory interpretation to create new laws.
6. Provide two examples of precedents that are used in your classroom or family. What is the advantage of having such precedents?
7. In small groups, read the information about Dr Grant and then answer the following questions:
   (a) Which case was used as a precedent?
   (b) Explain how precedent assisted Dr Grant in winning his case.
   (c) Why might the court in Dr Grant's case be bound by the decision of the *Donoghue v. Stevenson* case? After all, they were about different things — snails and underpants.

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.8 How laws are made: statute law

## 4.8.1 The beginnings of parliament

Our parliamentary system of government originated in England. In 1215, King John was forced by his barons to sign a document called the Magna Carta. He promised to call up all his lords by name (to discuss important matters) and to have ordinary people elected to similar meetings in certain communities. His actions gave rise in time to what are known today in England as the House of Lords and the House of Commons.

These meetings of lords and commoners were first referred to as 'parliaments' in 1236 (from the French word *parler*, meaning 'to speak'). They were usually held to discuss the king's need for extra taxes. At this stage, the king always had the final say.

By around 1350, parliaments were divided into two groups. The lords met in a separate place (or 'house') to the elected community members. In 1407, Henry IV decided that the community members (House of Commons) had to approve requests for grants of money before these requests were considered by the lords (House of Lords). By the fifteenth century, formal requests of the House of Commons, known as bills, were part of the law-making process.

A twentieth-century illustration showing King John reluctantly signing the Magna Carta

## 4.8.2 Statute law

In Australia, the laws created by parliament have the highest status and must be obeyed by all people. Parliament makes most of the laws. We have one parliament at the federal level that makes laws on issues that affect the whole country. This is the Federal or Commonwealth Parliament situated in Canberra. Each state and territory has its own parliament. The New South Wales Parliament, situated in Macquarie Street, Sydney, makes laws that are applicable to New South Wales only. The State Parliament delegates some of its law-making power to local councils, which look after areas in which people live. Once each law has been passed, it is binding on all courts and judges. Most laws in Australia are made this way.

Parliament is often referred to as the supreme law-making authority because it can virtually make laws on whatever it likes, change laws when it wants to and pass an Act to overcome the effects of precedent. Statute law will always succeed over common law and no court has the power to change it. The only exception is the High Court, which has the power to overturn a law, but only if it is unconstitutional.

Parliaments can make new laws and change existing ones.

**COMFACT**

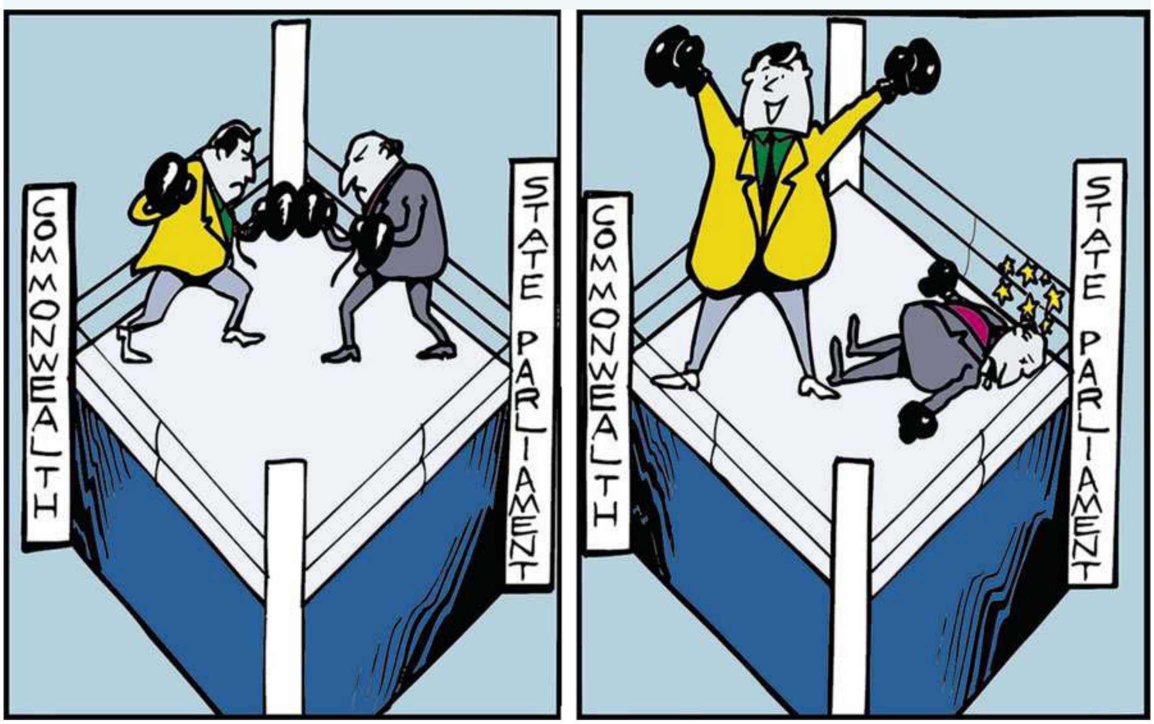
Laws made by parliament are also called Acts, statutes and legislation.

## 4.8.3 Federal and state constitutions

Each parliament has a **constitution**, which is a document that outlines the powers of the parliament and any restrictions to its law-making authority. The constitution, therefore, is essentially the rulebook for how a parliament is to operate and a country be governed. The Australian Constitution limits the powers of the Federal Parliament. State Parliament is restricted by the state's Constitution and, to some extent, the Australian Constitution as well.

The state governments retain the power to make laws *unless* the Constitution hands this power to the Australian government. There are sometimes disagreements between the Australian and state governments over who has the power to make laws on certain issues. For example, should areas of World Heritage be under state or federal control? When such disagreements occur, the matter is decided by the High Court. The Australian Constitution (Section 109) outlines that if there are any inconsistencies between Commonwealth and state legislation then the Commonwealth laws will apply.

If there are inconsistencies between Commonwealth and state law, Commonwealth law will apply.



## Resources

**Weblink** Constitution

### 4.8 Activity: Research and communication

1. Find an example of a constitution that affects you. It might be the constitution of your SRC, School Council or a sporting team. Use a word-processing application to present some of the important sections of the document. Be sure to include:
   (a) the name of the group represented by the constitution
   (b) any specific rules
   (c) the procedures involved in altering the constitution
   (d) any powers conferred to others.
2. Find a news article that reports on a new law being made by parliament. Underline the key words and write a brief summary of this report and present it to the class.
3. Use the **Constitution** weblink in the Resources tab to see the Australian Constitution. What do sections 28, 68 and 96 of the Constitution refer to?

### 4.8 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Draw a timeline and record the significant events in the early beginnings of parliament.
2. Where does the word ‘parliament’ come from? Why is it appropriate?
3. List the three levels of government that have law-making powers.
4. Why is parliament often referred to as the supreme law-making authority?
5. Who may overrule a statute law? What is the only reason this may occur?
6. What is the purpose of a constitution?
7. Which court has the power to settle disagreements concerning constitutional issues?
8. Why do you think Section 109 was written into the Australian Constitution?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.9 How a bill becomes a law

## 4.9.1 Making laws

There are very definite procedures for how laws are made or changed. Before any proposed laws can become Acts of Parliament, they have to be debated and passed by parliament, and then approved by the Executive Council, the head of state and selected government ministers. During the debate, the government explains why the law is needed and why it will be good for Australia. The Opposition tries to argue why this is not the case. Let's see, step by step, how all of this happens in Federal Parliament.

**STEP 1**

A proposed new law, or changed law, is discussed in **Cabinet**. Often, people in Australia put pressure on the government to change something. A decision is then made on what to do.

**STEP 2**

If the government decides to proceed, government lawyers are asked to draft a bill. A bill is basically a 'first draft' of an Act of Parliament.

**STEP 3**

Copies of the bill are given to all members of the House of Representatives. The members read the material in their own time. This is known as the 'first reading'.



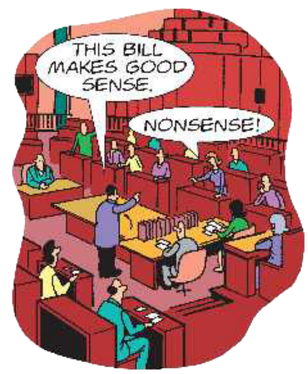
**STEP 4**

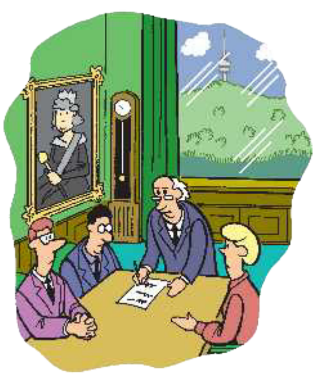
The bill goes through a 'second reading'. During this stage, the responsible minister (for example, the Minister for Immigration if the bill is to do with migrants) describes the main purpose and likely benefits of the bill. Speakers from the Government and Opposition say what they think about it. Debates may take weeks. Then there is a vote. If the majority vote in favour, the bill moves to the next stage.

**STEP 5**
The bill is debated again, this time bit by bit. This stage is known as the committee stage, as the debate occurs in parliamentary committees. Changes to the bill may be made.


**STEP 6**
The bill, including any changes made during step 5, goes through a 'third reading' in the house. A vote is taken. If the majority vote for it, the bill is passed through to the Senate.

**STEP 7**
Similar processes to those outlined in steps 3 to 6 occur in the Senate. If the Senate decides to change something, the bill is referred back to the House of Representatives for another debate and vote. Sometimes the Senate may refuse to approve a bill. If it is a money supply bill, the Governor-General calls a **double dissolution** of parliament (as the government cannot govern without money). If the Senate votes to approve the bill, it is sent to the Governor-General for royal assent.



**STEP 8**
The Governor-General meets with a select number of government ministers in a meeting of the Executive Council. If he or she approves and signs the bill, it becomes an Act of Parliament. It is now legally binding for all Australians.

**on** Resources

**Weblinks** Role-plays
Australian Parliament videos

### 4.9 Activity: Research and communication

1. Use the internet to find the difference between a bicameral and a unicameral parliament.
2. Use the **Role-plays** weblink in the Resources tab to select one or more of the role-plays and act them out.

### 4.9 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Explain the difference between a bill and an Act.
2. Explain the 'readings' a bill has to go through before it becomes an Act of Parliament.
3. Who is the last person to sign a bill so that it can become an Act of Parliament? Who is this person at the moment?
4. What is meant by the term 'double dissolution'?
5. Explain some possible advantages of an Act having to pass two houses of parliament and not one.
6. Why do you think it is so important for a bill to be debated so often?
7. Would you say the process by which laws are made in Australia is fair? Does it give full opportunity for the people, through their elected representatives, to have their say? Justify your answer.

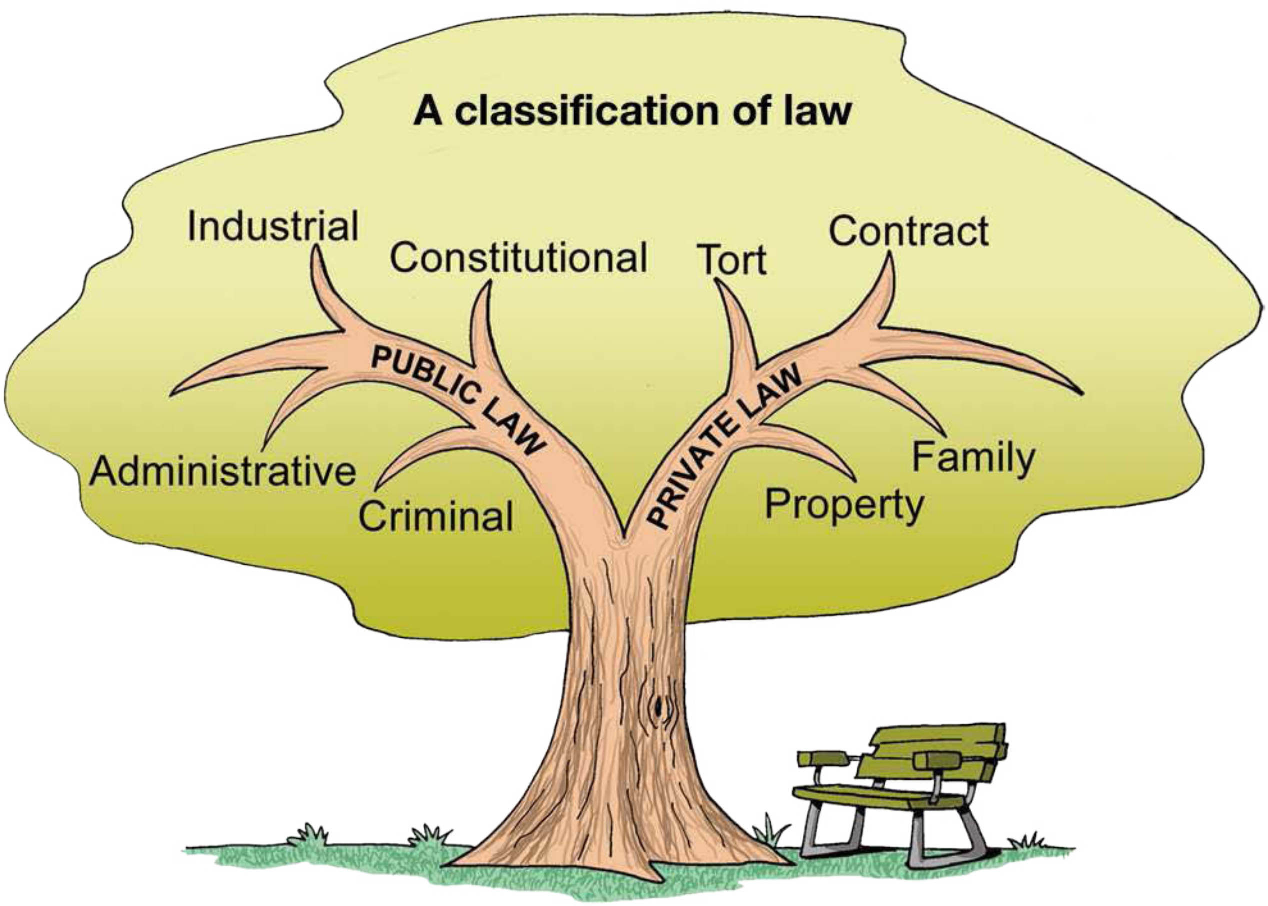
**Fully worked solutions and sample responses are available in your digital formats.**

# 4.10 Types of law

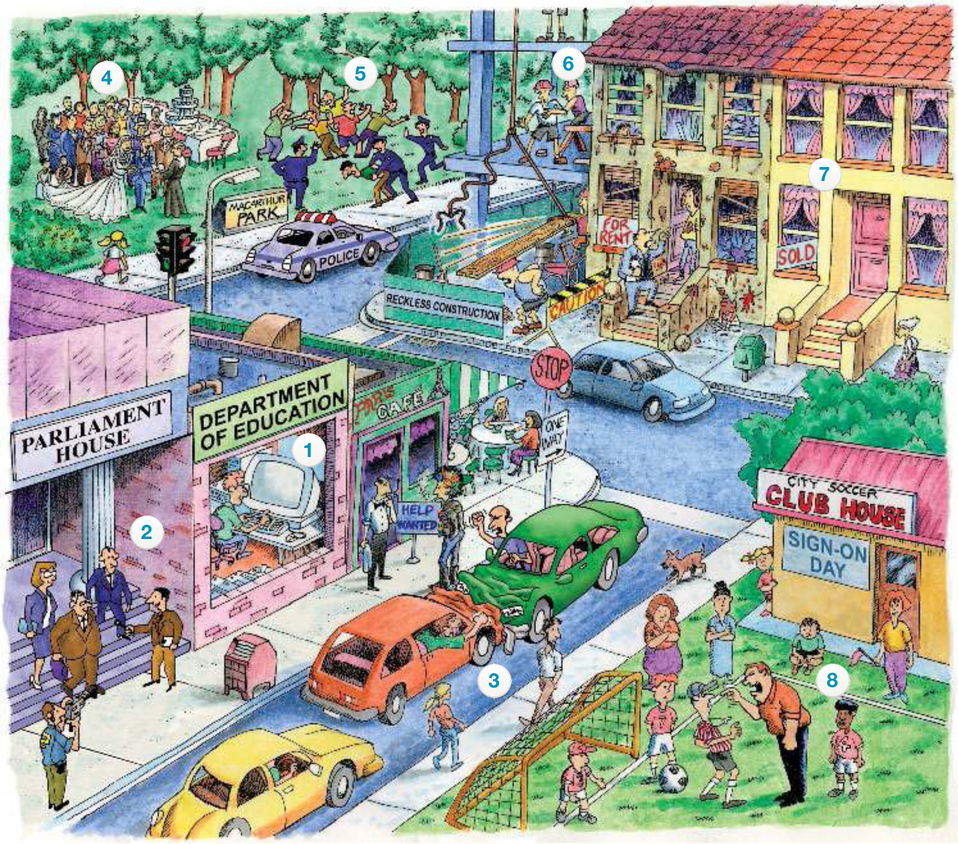
## 4.10.1 The two branches of the law

There are two main ways of classifying the law: private and public law. **Private law** deals with how individuals interact with other individuals as well as the rights and duties people have towards each other. **Public law** is concerned with regulating people's behaviour within society as a whole and protects the freedom of individuals. It also deals with the conduct society expects from its government (the state). Private and public law have a number of branches.

The two branches of the law



Lawbreakers




1 **Administrative law**
Administrative law deals with the decisions and powers of these government departments. This law allows courts to review and change the decisions of government if necessary.

2 **Constitutional law**
This set of laws deals with the rules by which a country is governed. It is concerned with the powers and authority of parliament; the rights of each citizen; the powers between the federal and state governments.

3 **Contract law**
This set of laws is concerned with legal agreements between two or more people. If one party fails to carry out his or her side of the agreement, that person can be sued for breach of contract.

4 **Family law**
This law regulates family relationships. It sets out rules about the process of getting married; who can get married; de facto relationships; divorce; custody and other aspects involving family members.

5 **Criminal law**
Criminal laws are needed to keep the community safe from harm, to provide for an orderly society and to provide a way of dealing with a crime when it occurs. Offenders will be punished if they choose to put people and property at risk.

6 **Industrial law**
This law is concerned with the rights and obligations of employers and employees. Much of the law deals with the legal way of resolving industrial disputes, workers' compensation, occupational health and safety, and discrimination in the workforce.

7 **Property law**
This law recognises two broad types of property: real property (land and buildings) and personal property (goods and services we purchase). Specifically, property law provides regulations about the sale, leasing and hiring of property.

8 **Tort law**
The law of **tort** deals with situations when one person infringes the rights of another, resulting in distress or injury; for example, the mental distress caused by being bullied. The person injured may claim financial compensation from the other party for any loss suffered.

**on** Resources

Digital document Worksheet 4.7 Lawbreakers (doc-32705)

### 4.10 Activity: Research and communication

1. (a) Using the internet or other methods, collect and paste into your notebook three stories that deal with one of the branches of law that interest you.
   (b) Select one article and prepare a dot point summary of the content.
   (c) Outline what most interested you in this particular article.

### 4.10 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Outline the difference between *private* and *public* law.
2. What is meant by the term ‘tort’?
3. Which branch of the law mainly applies in each of the following situations?
   (a) Manuela purchases a diary from a newsagent.
   (b) Two armed robbers hold up a bank.
   (c) Shanii and Angelo announce their engagement.
   (d) Mr Preston disagrees with the decision made by his local government planning department and wants it changed.
   (e) The Concerned Action Group wants the federal government to take control of the state national park in their area.
   (f) Joe Zappadi tells his eight employees who are on strike that he will not agree to their demands.
   (g) Kristin Wroe, a real-estate agent, sells a factory to Letitia Chung.
   (h) Moshe reverses his car and accidentally scrapes the door of the parked car next to him.
4. Why do you think the law has been divided into different branches?
5. Joanne is fed up with the loud music coming from her neighbour’s house. Do you think she should have the right to:
   (a) make a complaint or
   (b) sue?
   Give reasons for your answer.

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.11 Civil law

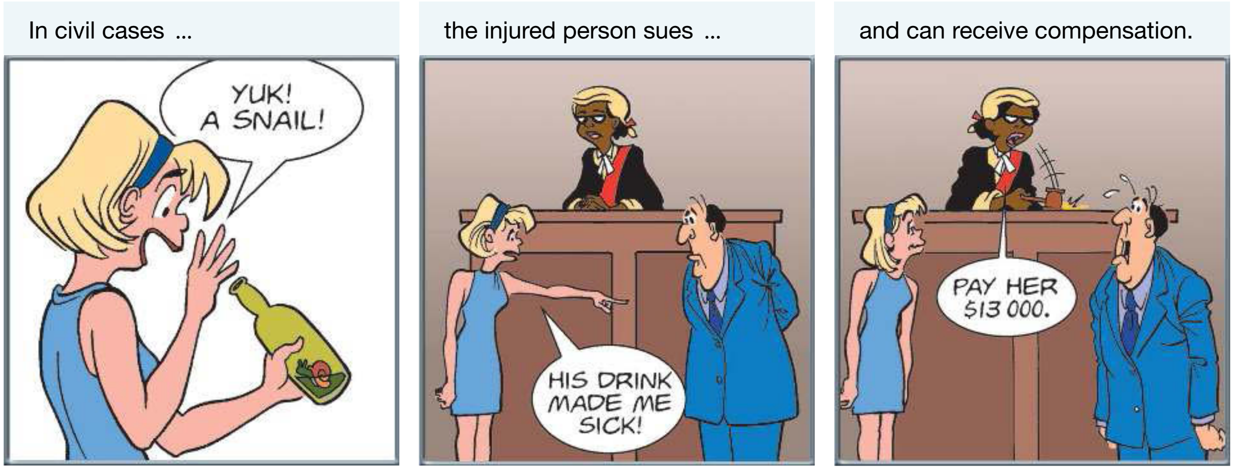
## 4.11.1 Protecting our individual rights

Civil law, is part of private law, deals with non-criminal matters. It allows an individual to bring actions against other members of the public for a civil wrong done to them. It plays an important role in the creation and protection of our individual rights.

The two main areas of civil law are the law of tort and contract law. The law of tort includes:

- negligence — where a person fails to take reasonable care and, as a result, injures another person
- defamation — where a person injures another person’s reputation
- nuisance — where a person causes unreasonable interference with another person’s right to quiet enjoyment of their property
- trespass — where a person interferes with another person, or that person’s property rights.

Civil law gives the person whose rights have been infringed (the plaintiff) the ability to initiate action to sue the wrongdoer (the defendant). Where a civil wrong is successfully proven in court, the wronged party will seek money as compensation.




Sometimes the judge decides that the plaintiff is in the wrong and can order him or her to pay the defendant's costs. Alternatively, the judge can look at contributory factors in the case. For example, it might be determined that the plaintiff was held partly responsible, say 40 per cent, and the defendant 60 per cent responsible for the injury that has occurred. In such a situation the damages are reduced accordingly. In civil cases juries are optional, but if one is used, it is their role to determine both the outcome and the amount of damages. Not all civil cases end up in court. Often the parties reach an out-of-court settlement.

Following are some Australian civil law cases.

### CASE STUDY

#### Defamation

In September 2017, Australian actress Rebel Wilson was awarded A$4.5 million in damages, after a court found that Bauer Media had defamed her in some magazine articles that were published in 'Woman's Day' and 'The Australian Women's Weekly'. Wilson claimed that the stories, which accused her of lying about her age, name and other personal details, were inaccurate, damaged her reputation and caused her to lose acting roles. Bauer Media won during an appeal and Ms Wilson was forced to repay A$4.1 million, as the compensatory damages were reassessed to A$600 000.

### CASE STUDY

#### Sexual harassment

Between 2008 and 2010, Kate Mathews was subjected to repeated sexual harassment while working for Winslow Constructions. Her supervisors laughed at and ignored her complaints. As a result of her treatment, Ms Mathews now suffers from several chronic psychiatric illnesses, including post-traumatic stress disorder, bipolar disorder, anxiety and depression. In 2015 she was awarded $1.3 million in personal injury damages by the Victorian Supreme Court.

## CASE STUDY
### Negligence

Tony Caccavielo, a grape grower, was awarded $7 million for damages after a cloud of chemicals (all deadly to grapes) blew across his vineyard from a neighbour's property. The money was to enable the land to be rehabilitated and the vineyard to be re-established. It also represented compensation for the loss of grape sales as the new vines were growing.

## CASE STUDY
### Workplace injury

Nicole Harris, a 34-year-old part-time Coles worker, was awarded over $1 million in damages as a result of injuries she suffered after falling from a safety step while straightening stock on shelves at a supermarket. The injuries were to her hip, knee, ankle and shoulder. As a result of the injuries, she uses a walking stick, is unable to drive, cannot sit or stand for extended periods and is unable to perform some simple household tasks.

Justice Linda Ashford stated she felt there had not been sufficient training, supervision or monitoring of staff using the safety step.


## CASE STUDY
### Sporting injury

Not all negligence cases are successful in their action, particularly when a person voluntarily agrees to take part in a contact sport knowing that it has obvious risks. There is, for example, a real risk of being bumped and injured while playing football. Two rugby players, Luke Hyde and Peter Worsley, suffered spinal injuries in separate rugby union games. On appeal from the NSW Supreme Court, the High Court found that the two players knew about and understood the dangers of playing rugby and by agreeing to play had consented to the risks. Therefore, they could not recover any damages.


### 4.11 Activity: Research and communication

1. In small groups, discuss whether you agree or disagree with the decisions in the five case studies of civil law. Give reasons for your answer.

### 4.11 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is the purpose of civil law?
2. What are the two main areas of civil law?

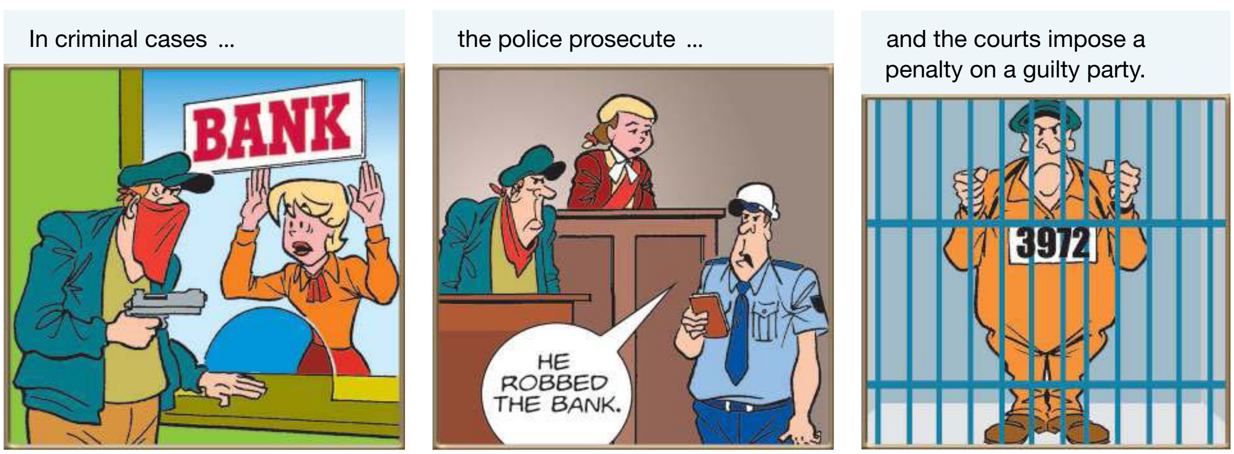
3. List the four most common torts.
4. Explain the difference between *plaintiff* and *defendant*.
5. Ben is awarded $200 000 in compensation. However, the court decided that he contributed to his injuries 25 per cent. How much will Ben receive in his final payout?
6. Indicate whether the following statements are TRUE or FALSE:
   (a) The term 'defendant' refers to the person who is claiming his or her civil rights have been breached.
   (b) The most common remedy in a negligence case is an award of damages.
   (c) Often, the parties in civil cases reach an out-of-court settlement.
7. Why do you think the most common remedy in civil cases is an award of damages?
8. Give an example of where one person might infringe the rights of another:
   (a) on the roads
   (b) in a theatre review
   (c) as a neighbour and
   (d) in a restaurant.
9. Rearrange the following steps (a to d) in a logical order:
   (a) plaintiff suffered damage
   (b) duty of care owed
   (c) compensation awarded
   (d) failed in duty of care.

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.12 Criminal law

## 4.12.1 Crime

In simple terms, a crime involves behaviour that is considered by the state to be unacceptable, deserving of prosecution, conviction and punishment. From ten years of age, a person can be prosecuted for committing an offence. This is considered the 'age of criminal responsibility' when the offender knows the difference between right and wrong.




Serious crimes, such as armed robbery, homicide, child abuse, murder and sexual assault, are called indictable offences. These offences are heard in the District and Supreme Courts. For these offences, the guilt of the defendant is determined by a judge and jury.

Less serious crimes, such as minor assaults, petty theft, vandalism and traffic infringements, are called summary offences. They are dealt with relatively quickly and cheaply by a magistrate in a Local Court.

The purpose of criminal law, which is part of public law, is to protect individuals from others doing the wrong thing; to make the community feel safe from harm. If, for example, a person went around killing other people or stealing their property, and was not punished, people would live in fear.

Under our system of criminal law, if a person commits a crime, the police force and the judiciary are the way in which the state (society) deals with criminal behaviour. During the court case the accused will have the opportunity to tell their side of the story. If they are found guilty, they will be punished with either a fine, court order/or imprisonment.

Following are some Australian criminal law cases.

### CASE STUDY

### Murder

Ian Turnbull, 81 years old, was sentenced to 35 years imprisonment for murdering NSW environment officer Glen Turner at Croppa Creek near Moree in 2014. Turnbull had been facing prosecution for illegal land clearing. Supreme Court Judge Peter Johnson stated that this was a de facto life sentence (a sentence term that exceeds the defendant's life expectancy) due to Turnbull's age.

The court had heard that Turnbull had admitted to taking his rifle and firing several shots at Mr Turner over a 20-minute period.

### CASE STUDY

### Arson, murder and manslaughter

Adeel Khan was found to have deliberately set fire to his shop in Rozelle in an attempt to claim $225 000 in insurance. He took 10 plastic containers of petrol and placed fuel soaked cloth between them and then set fire to them. The resulting explosions and fire killed three people and injured several others who lived in neighbouring apartments.

Khan was convicted of one count of murder, two counts of manslaughter, causing grievous bodily harm, wounding and destroying a building for financial gain. In total he was sentenced to a maximum of 40 years in prison. He is not eligible for **parole** until 2044.

In her sentencing remarks, Supreme Court Justice Elizabeth Fullerton stated, 'I am satisfied beyond reasonable doubt that the offender's motivation in planning for and deliberately setting and igniting the fire was personal financial gain'.

### CASE STUDY

### Fraud


Bryan Pereira was an executive for the Australian ASX-listed company Coca Cola Amatil. He was sentenced to six years imprisonment with a **non-parole** period of four years after pleading guilty to a number of fraud charges. The charges related to using his corporate credit card for overseas trips, and for purchasing jewellery, gifts and accommodation. He also received a Mercedes-Benz valued at $180 000 and over $1.5 million in bribes.

When sentencing Pereira, NSW District Court judge Mark Williams stated that his crimes were an abuse of trust and motivated by greed. He also stated that because Pereira had pleaded guilty, he had reduced his intended 10-year sentence by 40 per cent.

## CASE STUDY

### Embezzlement

Caroline Portolesi, aged 38, was the Maroubra branch manager of the NSW Department of Family and Community Services (FACS). As part of her role, she needed to organise and pay for services such as cleaning and home care for people with disabilities. In February 2016, she was sentenced to 19 months home detention after pleading guilty to obtaining financial advantage by deception. Portolesi used a stolen identity to set up a fraudulent business, Esay Cleaning Services. She then used that business to invoice FACS for work that was never performed. The amount embezzled was nearly $180 000, with the money used to fund a severe gambling addiction. In deciding on home detention and not a prison sentence, Magistrate Lisa Stapleton accepted submissions relating to Portolesi's gambling addictions and complex mental health issues.

## CASE STUDY

### Assault causing death


Hugh Garth was convicted of unlawful assault causing death. District Court judge Antony Townsend sentenced him to 10 years imprisonment with a non-parole period of eight years. The court heard that while at a 21st birthday party, an intoxicated Garth punched Raynor Manalad, causing him to fall to the ground unconscious. Manalad, a 21-year-old nurse, died the next day in Westmead hospital after suffering extensive bleeding on the brain. When sentencing Garth the Judge said there was a need to 'deter others being violent after drinking to excess'. Pictured is Manalad's mother, speaking after Garth is jailed for at least eight years.

**on** Resources

**Digital documents** Worksheet 4.8 Analysing graphs and statistics on crimes (doc-32706)
Worksheet 4.9 Lawyer chat (doc-32707)

### 4.12 Activity: Research and communication

1. (a) With reference to the five cases studies provided in this subtopic, complete the following table.

| Offender's name | Offences convicted | Court involved | Sentence imposed | Your opinion of the sentence |
|---|---|---|---|---|
| Ian Turnbull | Murder | Supreme | | |
| Adeel Khan | | | | |
| | | | | |
| | | | | |
| | | | | |

(b) In small groups, discuss the opinions expressed in your tables.

## 4.12 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Are the following statements TRUE or FALSE?
   (a) A crime is defined as an offence against the police.
   (b) The community expects to be kept safe from harm.
   (c) Crimes do not affect the wider community, only the victim.
   (d) The community expects offenders who break the law to be punished.
   (e) Criminal laws reflect the values and morals of the community.
2. At what age can a person be charged with a criminal offence? Why is this age called the 'age of criminal responsibility'?
3. Explain the difference between *indictable offences* and *summary offences*. Provide three example of each.
4. What is the purpose of criminal law?
5. Rearrange the following steps in a logical order.
   (a) police investigate crime
   (b) court imposes a penalty
   (c) police prosecute
   (d) criminal offence committed
6. How should society deal with children under ten years of age who:
   (a) commit vandalism, or
   (b) badly injure other children?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.13 Customary law

## 4.13.1 What is customary law?

Aboriginal customary law is largely expressed through the obligation of kinship.

Every country has different laws because each society has different beliefs, values and cultures, and the law has to reflect this. Even within Australia, we have different laws made by different communities. Our current laws are based on British laws brought out by the first settlers from Britain. However, laws already existed in Australia prior to this, developed by Indigenous Australians and suited to Aboriginal culture.

Before the arrival of Europeans in 1788, law in Australia existed as traditional Aboriginal law, passed on by word of mouth. This oral law was very important and helped maintain a stable society. It was a legal system based on customs and rituals, and varied between the approximately 600 different Indigenous groups living in Australia.

Incorrectly, the early European colonists thought that Aboriginal society had no law because there were no written rules, parliaments, courts, police and prisons. However, traditional Aboriginal peoples lived according to a complex set of customary laws that outlined the correct or appropriate way of living. A group of elders who knew the customs administered this law and could punish offenders. When a law was broken, the person who had committed the offence (the accused) would meet in public with the person who had been affected by the conduct (the victim). Members of the tribe would witness the meeting. Once a penalty was decided, the tribe would carry out the punishment. Punishments ranged from being banished from the tribe to death.

There is no single system of Aboriginal and Torres Strait Islander law. Whilst the separate Indigenous tribes developed their own laws, there were also common aspects among tribes.

Aboriginal law was, and is, based on **kinship**, which links closely to Indigenous traditions and customs and outlines the correct way of living in everyday situations such as marriage, education, trade and the sharing of food. Kinship for Indigenous Australians is a complex system of values and culture, inextricably linked to the Land and people. The British colonists did not understand the system of kinship, which made it difficult for English law and Aboriginal law to coexist.

With the arrival of Captain Cook at Botany Bay in 1770, who took possession of 'The Great Southern Continent' for England, Aboriginal law was displaced and English law established. The clash between two different legal systems has caused much conflict over the years.

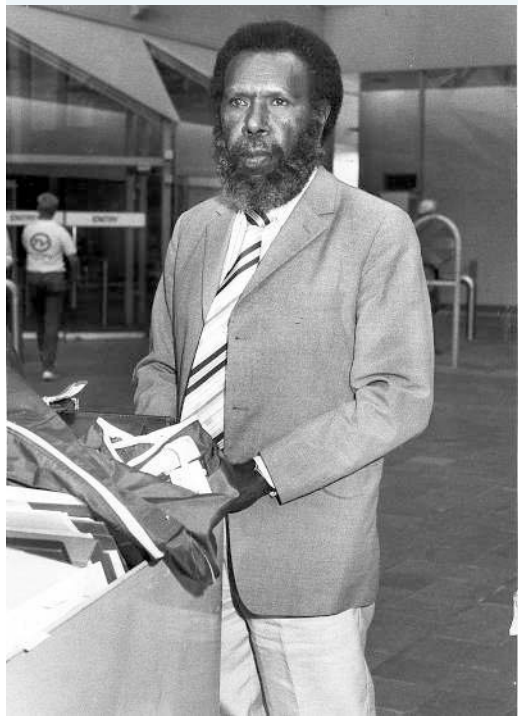
## 4.13.2 Recognition of Indigenous Law

### Native Title Act

A growing awareness and recognition of customary law has developed with time. Of most importance is, perhaps, the acknowledgement that Captain Cook and the British were incorrect in claiming Australia as *terra nullius* even though it was already inhabited. At the time, the British did not recognise the Aboriginal peoples as having any legal title over the land because they had no written laws of land tenure, as existed in European countries. However, in 1982, this notion was challenged by Eddie Mabo, an Indigenous inhabitant of Murray Island in the Torres Strait.

Mabo began legal action against the State of Queensland, claiming that he and his people were the legal owners of Murray Island. Mabo was joined in this action by a number of other Indigenous inhabitants of Murray Island. The High Court decided in favour of the Islander plaintiffs and declared that: 'The Murray Islanders of the Torres Strait are entitled, as against the whole world, to possession, occupation and enjoyment of the lands of the Murray Islands.' The Meriam people of Murray Island were able to claim native title because they were able to demonstrate ongoing occupation and use of their land. Their system of family ownership and land usage was significant because it could be clearly demonstrated that these had operated continuously since before white settlement. The Native Title Act (1993) was the first piece of Australian legislation that recognised customary law.

Eddie Mabo challenged the state of Queensland in the High Court, resulting in changes to the law concerning Indigenous land rights.



### Circle sentencing

The Integration of customary law in Australia's legal system has been a hot debating topic for many decades. However, views have changed and there is a growing awareness and advocacy for allowing indigenous people to have a legal system that reflects their culture. For instance, circle sentencing was introduced in NSW in 2002.

Circle sentencing was introduced to remove the barriers that existed between the indigenous people and the legal system by making the place of sentencing inclusive of cultural differences. Instead of having a magistrate hand down the sentence, circle sentencing involves getting all relevant parties together. The defendant and the victim, legal representatives, elders from the communities and other parties that may have been affected by the crime gather to talk about what has happened and what the appropriate punishment would be. All participants are able to have a say in the sentencing and the magistrate provides sentencing alternatives. In this way, customary law is linked to Australia's legal system, as the sentence given will still fit the Australian sentencing policies. As such, circle sentencing shows that customary law is not outdated and that it can co-exist with existing laws.

### 4.13 Activity: Research and communication

1. Research traditional Aboriginal laws. Explain three of these laws that are different from British Australian laws.
2. In small groups, prepare a list of the rules that you think would have been necessary in the penal colony at Sydney Cove to preserve law and order. Keep in mind that there was no regular contact with England, food was in short supply and convicts outnumbered soldiers and free settlers. Compare your list with other members of the class.
3. Set up a class debate to consider the following topic: 'Indigenous peoples should be able to live under their customary laws if they so wish'.

### 4.13 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Where do Australia's laws come from?
2. Why did the British colonists not understand the traditional Aboriginal system of law?
3. Aboriginal customary law had no written record.
   (a) How did Aboriginal people know what their laws were?
   (b) How was a 'trial' of an accused person conducted?
   (c) What types of punishment were used?
4. What is meant by the term kinship?
5. What was the outcome of Eddie Mabo's courtcase?
6. What impact did Captain Cook's arrival have upon Aboriginal customary law?
7. What is circle sentencing? How do you think circle sentencing might help the Indigenous peoples in Australia to access the law?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.14 Domestic versus international law

## 4.14.1 Laws regulating Australia and its citizens

Domestic laws relate to being a law-abiding citizen of one's country. As citizens, we are members of a number of communities. We are members of our local community, the state we live in and the country we live in. As members of these communities, we are expected to abide by the laws that apply to those communities — the parking laws at our local shopping centres, the speed limits when driving on the roads and the laws governing taxation when completing our tax return for the Australian government. If you break a domestic law you will be dealt with by the country's legal system.

## 4.14.2 International law and The United Nations

International law is concerned with setting standards of acceptable behaviour for nations and their citizens when dealing with issues that cross borders, or issues of concern to society in general, as a way to foster good relationships and avoid conflict. International law is mainly developed from treaties and conventions between countries. A treaty is a form of contract between two parties (two countries or two international organisations from different countries). The Charter of the United Nations is perhaps the most famous international law.

The United Nations is responsible for both establishing international laws as well as enforcing them. The United Nations makes use of the International Court of Justice and the UN Security Council, responsible for deploying UN peacekeepers, to assist it in enforcing international law. When disputes relating to international law or disputes between nations or ethnicities turn to conflict, the United Nations will often step in and deploy peacekeepers. Peacekeepers are military and other personnel who help countries experiencing conflict create conditions for lasting peace. Their role is to provide security as well as the political and peace-building support to help countries make the difficult transition from conflict to peace.

The United Nations has headquarters in a lot of different places and is the body responsible for determining international law.


## Resources

**Digital document** Worksheet 4.10 The trial of Slobodan Milosevic (doc-32840)

### 4.14 Activity: Research and communication

1. Research the trial of Slobodan Milosevic on war crimes charges. Write a short report on this case that would be suitable for a newspaper front page.

### 4.14 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Explain the meaning of ‘domestic law’.
2. Who is one of the main legal enforcers of international law?
3. What is the purpose of international laws?
4. In your own words, outline an argument for why the formation of the United Nations is good for relationships between countries.

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.15 Accessing the law

## 4.15.1 Barriers to accessing the law

One of the main functions of the legal system is to safeguard people's rights. The legal system can perform this protective role only if people have equal access to the law. **Access** means equal opportunity for all people to make use of the legal system. If some people are unable to access the law, then they are **discriminated** against and consequently denied justice.

The effectiveness of our legal system is judged on whether or not members can access it. Ideally, everyone should have equal access. However, ask the following people how effective the legal system is and you might not get a glowing review: the young rape victim who is reluctant to come forward; the parents whose daughter is murdered and go through a long trial only to find the judge has misdirected the jury; the mentally ill defendant whose illness is not given due consideration in our justice system. In reality there are a number of factors that create barriers to accessing the law.

Some of the barriers to justice


### Cost

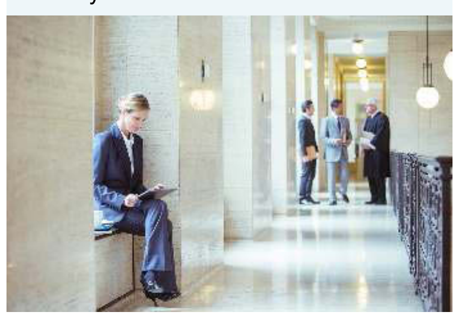
Not everyone can afford legal advice and representation. Obtaining legal advice can be very expensive. Fees charged by lawyers and barristers are very high. If a legal case is prolonged or is subject to appeal, the legal costs can very quickly mount up. Often, legal aid can be difficult to obtain. This may deter people from exercising their legal rights to solve their problems.

### Time

The prospect of a lengthy trial is another barrier to equal access to the law. The saying 'justice delayed is justice denied' means that if a trial drags on for a long period then people are not treated fairly. For example, a woman who sued a tobacco company for compensation for the terminal cancer she argued was caused by cigarette smoking died before the lengthy case was settled. The case had dragged on through the court system for nine years!

While some delays are inevitable, particularly in terms of police investigation of crime scenes and the gathering of forensic material, cases should be settled promptly once all the evidence is assembled.

A lawyer waits for a case to be called.



## Distance

There are a range of places you need to go to in order to access the law, including offices of lawyers, police stations and court houses. Living in remote places may mean that you will have to travel long distances on multiple occasions, if you need to see a lawyer or visit a police station or court house. This could be both time consuming, costly and very difficult to arrange, especially if you don't have a driver's licence or access to public transport.

## Procedures

When confronted with a legal issue, you face a number of problems. Firstly, because of your limited knowledge of the law, you may not even be aware that you have certain rights or responsibilities. Your access may be restricted because of your ignorance of the law. If you have to go to court, the procedures can be intimidating and confusing.

People can also be denied access to the law because they perceive that the legal system is insensitive to their needs. This is most often seen in sexual offence cases.

## Language

If English is not your first language, it may be difficult to understand the legal terminology and procedures. Without the assistance of an interpreter, you may not understand what is going on during a court hearing. Even finding help from a lawyer or translating legal documents may pose a problem. Not being able to communicate your needs can limit your access to the law.

### COMFACT

A case highlighting the problem of communication and understanding involved an Aboriginal boy who spoke only Luritje and could not understand English. The lawyer struggled with the absurdity of processing people through a system that has little meaning for them. Since the boy did not understand community service, he was unfairly jailed instead.

### CASE STUDY

### Not equal access for everyone

Those who are unemployed, uneducated, have drug or alcohol problems, have a mental illness or are Indigenous Australians are often at increased risk in our community. If a crime occurs, these people will almost certainly experience difficulty using the legal system. Imprisonment rates for Indigenous Australians are 12 times that of non-Indigenous rates, 28 per cent of prisoners have a mental illness, 60 per cent of prisoners have drug or alcohol problems and two-thirds of prisoners are unemployed before entering prison.

These statistics have implications for our legal system, because these disadvantaged groups are unlikely to be able to afford good legal representation and they may find it difficult to communicate effectively with their legal counsel and the court.

### 4.15 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is meant by the terms:
   (a) access
   (b) discriminate?

2. List the five barriers that people face in accessing the law.
3. Explain in your own words the expression ‘justice delayed is justice denied’.
4. Why is it important for people to have equal access to the law?
5. Identify those groups that may experience difficulties in achieving equal access to the law.
6. Refer to the **Comfact** box about the Aboriginal boy. Do you think the outcome of his case was unjust? Give reasons for your answer.
7. How does the present legal system unintentionally discriminate against some people?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.16 SkillBuilder: Debating an issue

## 4.16.1 Tell me

### What is a debate?

A debate is a discussion about an issue. The issue is presented as a statement — for example, ‘Using a jury is the best way to make sure a trial is fair’. Participants in the debate take it in turns to put forward arguments for and against the statement.

Unlike an argument you might have at home, a debate follows strict rules of conduct.

### Why is debating useful in civics and citizenship?

A debate requires the participants to carefully investigate an issue and critically analyse both sides of the question. Participating in a debate can develop research skills. It can also help individuals gain confidence in public speaking. Debating is used by people who work in law, such as lawyers, and by people involved in politics, such as members of parliament.

The skills used in debating, including researching and analysing information, are considered very useful in the legal profession.

## Model

The members of each team take it in turn to present their arguments in three to four minutes. The affirmative team's first speaker starts the debate. The following case study illustrates how a formal debate is conducted.

### CASE STUDY

### Conduct of a debate

#### Affirmative team

The first speaker should:

**a.** greet the audience
**b.** state which team he or she is representing and the issue
**c.** introduce the other team members, their role and the team's view
**d.** argue the team's case and state how the second speaker will build on this case.


The second speaker should:

**a.** explain how his or her speech will build on the affirmative team's view
**b.** argue against (rebut) the first speaker from the negative team
**c.** add new examples to support the affirmative team's view.

The third speaker should:

**a.** argue against (rebut) the negative team's case
**b.** summarise the main arguments of the debate
**c.** restate the affirmative view, explaining why it is the stronger case
**d.** avoid introducing new arguments.

#### Negative team

The first speaker should:

**a.** introduce the team members, describe their role and the team's view
**b.** state whether the negative team accepts the affirmative team's view of the topic
**c.** argue against (rebut) the points made by the first speaker of the affirmative team
**d.** state how the second negative speaker will build on the team's case.


The second speaker should:

**a.** explain how his or her speech will build on the negative team's view
**b.** argue against (rebut) the two previous speakers from the affirmative team
**c.** add new examples to support the negative team's view.

The third speaker should:

**a.** argue against (rebut) the affirmative team's case
**b.** summarise the main arguments of the debate
**c.** restate the negative view, explaining why it is the stronger case
**d.** avoid introducing any new material.

#### Elements of a good debate

A good debate:

- has members from each team taking turns to present their cases
- starts with the first speakers from each team introducing their teams and their team's view
- continues with the second speakers rebutting the previous speakers and adding new examples to support their team's view
- finishes with both third speakers rebutting the other team's case, summarising the main arguments and restating their team's view
- has arguments that only take three to four minutes.

## 4.16.2 Show me

### How to conduct a debate

**You will need:**

- a sheet of lined paper
- a pen
- a team of three people.

**Procedure:**

A formal debate follows a set of rules. In a debating contest (for example, in school) there are two teams of three speakers, each of whom plays a defined role. One team argues in favour of the topic (the affirmative team) and the other team argues against the topic (the negative team). You can prepare for a debate by following the steps below.

**Step 1**

Form a team of three people. Find out whether your team is to debate in favour of or against the topic. As a team, examine the topic carefully and discuss what you think it is about. You may need to use a dictionary to find a definition of key words contained in the topic statement.

**Step 2**

Work out what arguments support your team's case. List them in order of importance.

**Step 3**

Work out what arguments do not support your team's case. This will help you to anticipate what your opponents will say.

**Step 4**

Carry out research to help fully develop your arguments. As part of your research, consider interviewing other students and the adults you know to learn their attitudes to the issue.

**Step 5**

a. Divide the arguments you have collected among the members of the team.
b. Decide which team members will be the first, second and third speakers. Agree on what each member will say.

## 4.16.3 Let me do it

### 4.16 Activities

#### Work with a partner

1. Select one of the following topics:
   (a) 'Our legal system should not presume that an accused person is innocent.'
   (b) 'Judges should participate in finding evidence and questioning witnesses in criminal trials.'
   (c) 'Legal aid should be provided to all people accused of a crime.'
2. Work on your own to compile a list of as many arguments as you can for each side of the topic.
3. Convince your partner in two minutes that you support the topic.
4. Your partner has two minutes to question you about the topic.
5. Reverse the roles in steps 3 and 4 above.

#### Class debate

As a class, decide on the topic to be debated. Follow the steps given above to prepare for and conduct the debate.

#### Evaluating the debate

Use the following list to evaluate the performance of each team:

1. The team's viewpoint was clearly outlined.
2. Speakers' statements were well researched.
3. Speakers gave clear reasons to support their view.
4. Examples were used to support arguments.
5. Responses to arguments made by the other team were effectively made.

6. The concluding statements were convincing.
7. Speakers spoke loud enough to be heard.
8. Speakers made good eye contact with the audience.
9. Speakers spoke at a good pace (not too fast or too slow).
10. The overall performance of the team was effective.

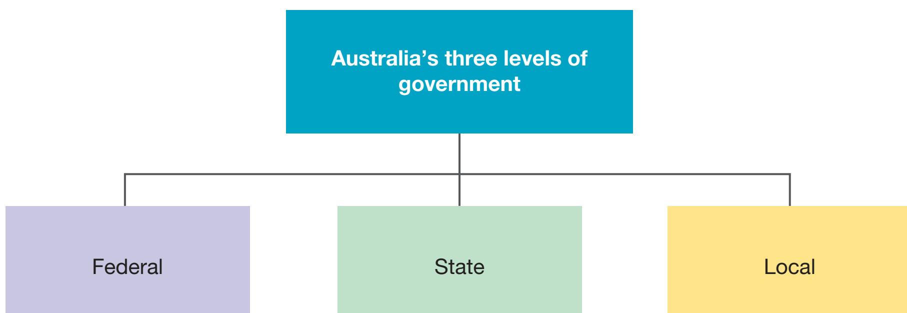
### 4.16 EXERCISE

1. How did you decide what your point of view would be?
2. What aspect of compiling a list of arguments did you find relatively easy and what did you find more challenging?

# 4.17 The three levels of government

## 4.17.1 Structure of Australia's government

On 1 January 1901, the Commonwealth of Australia was formed. Before this, Australia consisted of six colonies, under the control of the British monarch. Each had its own form of government and set of laws. The colonies — now called states — agreed to join together to become one nation in a process called **Federation**. The British monarch (queen or king) was still the head of state, but Australia became an independent country governed by a **constitutional monarchy** with three levels of government — federal (or central), state and local.




Australia's three levels of government each:

- have their own power to make decisions
- have their own separate responsibilities
- are elected by the people.

Australia's constitution outlines the powers of the **Federal Parliament**, and some powers of state parliaments. (States also have their own constitutions.) In 1919, the New South Wales government passed the Local Government Act. This contains all the rules that local governments must follow.

Governments make important decisions such as which groups in society will receive money or other types of support. They also provide for our collective wants. While each level of government specialises in its area of control, there is some degree of overlap. This is necessary to meet the needs of all Australian citizens.

### COMFACT

To change the Constitution, a **referendum** must be held. Proposed changes are accepted only if supported by a majority of voters in a majority of states (that is, at least four states).

## 4.17.2 Federal government

In Australia there are two houses of Federal Parliament; an upper house (the **Senate**) and a lower house (the **House of Representatives**). The prime minister is the head of government and other ministers are appointed to look after particular government **portfolios**. The Cabinet, which includes the prime minister and senior ministers, makes the key government decisions. The Governor-General represents the British monarch as head of state and usually acts on the advice given to by the prime minister and other ministers.

The federal government controls those things which affect us all, regardless of where in Australia we live. The money the government need to spend on the areas they are in charge of is mainly raised from taxation of people and businesses.

Federal Government responsibilities include:

- Air travel
- Currency
- Defence
- Foreign Affairs
- Immigration
- Medicare
- Pensions
- Postal services
- Social Security
- Taxation
- Telecommunications and broadcasting
- Trade and commerce

Defence – the armed forces – a major federal government responsibility

However, because the federal government support the states by giving them funding, it is also involved in issues relating to education, environment, health and Aboriginal welfare.

## 4.17.3 State government

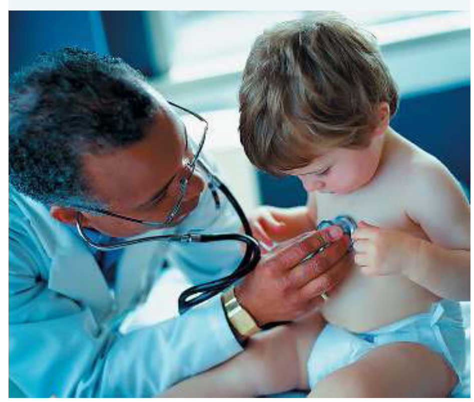
NSW has its own parliament consisting of two houses — an upper house (the Legislative Council) and a lower house (the Legislative Assembly). The process of government is similar to that of the federal government. The head of the government is the Premier and the head of state is the Governor. The state government obtains most of its income from federal government grants, and property and payroll taxes. The state government controls those things which affect citizens within their individual state and that is not already a responsibility of the federal government. However, sometimes responsibilities overlap.

The state government can legislate over any areas that are not explicitly mentioned in the constitution.

State government responsibilities include:

- Aboriginal welfare
- Agriculture and fishing
- Community services
- Consumer affairs
- Education
- Emergency services
- Environment protection
- Health
- Industrial relations
- Law and order
- Public transport
- Roads and railways
- Sport and recreation

Health – a major state government responsibility



## 4.17.4 Local government

There are about 550 local government areas (LGA) in Australia, often referred to as councils or shires. The state decides the geographical area of the local governments; Sydney, for example is divided into about

35 LGAs. On the other hand, in rural and remote areas of NSW several towns could be combined into one shire and have one shire council established in the largest town within the LGA. The head of the LGA is called a mayor.

The LGAs operate under state government legislation and can only make rules, called by-laws, on local issues. They are responsible for the needs of the citizens in a particular area and they obtain most of its income from land rates.

Parks and sports ovals – a major local government responsibility

Responsibilities include:

- Dog/cat registration
- Libraries
- Parks
- Rubbish collection
- Sewerage
- Streets and bridges
- Swimming pools
- Town planning

It can be confusing to identify the government responsible for the services we interact with on a day to day basis, mainly because they are often interrelated. For instance, if you were driving down the street to the local shopping centre and you were delayed by roadworks, it would be the local government responsible for the repairs as they are in charge of local roads. However, if you were stopped by the police for a breathalyser test it would be the state government's responsibility as they are in charge of traffic laws and the police. The federal government could also be seen to be part of this as they would have provided the state government with funding for Law Enforcement as well as the roads (infrastructure).

**on** Resources

**Digital document** Worksheet 4.11 Expressing opinion in the political arena (doc-32841)

### 4.17 Activity: Research and communication

1. Look at the areas of responsibility of each level of government. Decide one thing you would like your political representatives at each of the three levels to do to improve the way Australia is governed. Compose three emails, one to each representative, setting out your request and explaining why you think it is important.

### 4.17 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What happened in Australia at Federation?
2. Name the three levels of government in Australia.
3. What is the purpose of a referendum? What conditions must an Australian federal referendum meet to be successful?
4. Which level of government is involved in the following situations?
   (a) You travel to school by rail.
   (b) Your car is stolen so you use your mobile to phone the police.
   (c) You write a letter thanking the staff for repairing the swings in the park.
   (d) You email your income tax return to your accountant.
   (e) You need a passport to travel overseas.
5. Explain why we have three levels of government.
6. Why do you think the federal government is responsible for defence and immigration?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.18 Why do laws change?

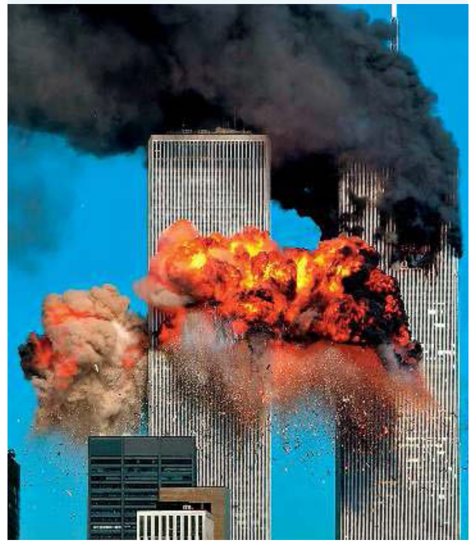
## 4.18.1 Laws reflect changes in society

The law is a set of dynamic legal rules. This means that new laws develop and old ones are scrapped due to changes in social values, technology and political circumstances. For example, homosexuality was once a criminal offence and opening retail stores on a Sunday was illegal.

Changing political circumstances can bring about radical changes to the law. The terrorist attacks on the World Trade Center and the Pentagon in the United States of America on 11 September 2001 sparked major changes to Australia's security laws.

Often, citizens will pressure the government to amend an existing law or introduce a new one. If the government is convinced of the citizens' argument, it will do this.

The Australian government passed strict anti-terrorism laws in response to the rise of terrorism.



## 4.18.2 The Eureka Stockade and democratic rights

Throughout Australia's history, people have applied pressure, through a variety of methods, to change laws. This is one of the best things about living in a democracy: individuals, either alone or as members of an organised group, have the right to pressure for change.

During the 1840s, only males who were 21 years old and over, and who owned or rented property, were allowed to vote in the elections in the Australian colonies. Therefore, many people were prohibited from voting. The system of government was far from democratic. However, over time, as more people arrived and settled here they campaigned for change.

The pressure for change finally came to a head at dawn on 3 December 1854 at the Eureka Stockade, situated on the Ballarat goldfields. Led by Peter Lalor, the actions of the diggers (miners) at the Eureka Stockade were one of Australia's earliest instances of a group of people joining together to apply pressure on the authorities to change the law.

The Eureka battle and the political reforms demanded by the miners eventually led to the principle of *one person one vote*, voting by secret ballot and voting rights for all men aged 21 and over.

A twenty-first century illustration showing soldiers charging the Stockade

**COMFACT**

The Eureka or 'Southern Cross' flag, flown at the Eureka Stockade, has been used by many groups as a symbol of their protest against authority.

## 4.18.3 The vote for women

During the 1880s, the vote for women became a basic demand in Australia. Thousands of women and many men participated in rallies, demonstrations and political campaigns in an attempt to change the law in order to provide equality of voting. Women's suffrage — the right to vote — was actively pursued and, in 1884 the first women's suffrage organisation was formed in Victoria. These suffragists, who were the people who supported the vote for women, claimed the right to vote was a matter of justice and equality.

Eventually, in 1894, after a long and hard struggle, a new law was passed which gave women 21 years old and over the right to vote in South Australia. Other colonies followed but it was not until 1902 that women in New South Wales gained the right to vote.

Photograph of prominent Victorian suffragette Vida Goldstein (1869–1949)

## 4.18.4 Cybercrime laws

In recent years, cybercrime and terrorism have become constant threats. With most Australian homes being linked to the internet, there are more opportunities for cybercriminals and terrorists to steal identities, money and confidential information from unsuspecting individuals. In response to growing community concern about this type of criminal behaviour, the federal government developed a new set of laws to fight internet offences such as computer hacking, child pornography, terrorism and copyright infringement. The legislation requires internet service providers (ISPs) to collect and retain emails, text messages and other internet traffic data. This information is to be made available to police in Australia as well as foreign law enforcement and intelligence agencies such as the FBI or CIA.

Australia must modernise its laws and stay up to date with evolving cyber technology, while at the same time not excessively restricting civil liberties or invading individuals' privacy.

Technology advances at a rapid pace and laws need to be introduced to protect individuals.


**on** Resources

Weblink Eureka

### 4.18 Activity: Research and communication

1. Design a poster that could have been used in the 1890s to support equal voting rights for women. Create a slogan and symbol that represent your cause. Display your posters in the classroom.
2. In small groups, use the library and the internet to research the following aspects of the Eureka Stockade battle. Use the **Eureka** weblink in the Resources tab to find the answers.
   (a) Do you think it was appropriate that the miners used civil disobedience to achieve their objectives? Why?
   (b) Present some arguments to (i) justify, and (ii) refute, the actions taken by the miners at the Eureka Stockade.
   (c) Do you regard the Eureka Stockade as the beginnings of democracy, a short-lived glorious rebellion or a futile bloody massacre? Give reasons for your answer.

### 4.18 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is one basic right of all people who live in a democracy?
2. (a) List the changes to the law that the diggers of the Eureka Stockade gained.
   (b) The official government flag at the time was the Union Jack. To fly any other flag was an act of defiance. What did the Southern Cross flag represent to the diggers?
3. What new law did the suffragists want introduced?
4. What motivated the Australian government to introduce the cybercrime legislation?
5. Do you support or reject the cybercrime legislation? Why? Share your answer with the rest of the class.
6. In small groups, imagine you were living in the 1890s. Brainstorm the arguments you would present to:
   (a) support the suffragists
   (b) oppose the suffragists.
   Select a spokesperson to present your arguments to the rest of the class.
7. When technological advances are thought to pose a threat, people expect laws to be introduced to control them. A recent example of this is data retention laws. Why do you think it is difficult for law-makers to deal with technological change?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.19 Political action

## 4.19.1 Issues that concern the community

Being a politically active citizen means being informed about social, political and economic issues, as well as being actively involved in the political process. A politically active citizen will be aware of what is happening on the wider stage as well as in the local community.

There is a wide range of issues that concern people. For example, you might want stricter laws dealing with environmental protection. Other people may want more money to be spent on schools or the local library, while others are concerned about human rights issues in Australia and overseas. Everyone has their own interests and causes which they regard as important.

## 4.19.2 How to take action on political issues — active citizenship

'It's no use complaining. No-one ever listens.' 'What's the use of writing? Politicians never answer letters.' 'Voting is a waste of time. No matter who you vote for, a politician always gets elected.' 'Signing a petition is futile. It will not make any difference.' Have you ever heard these comments? Unfortunately, many people are apathetic and use these excuses for not becoming involved in political issues. However, the actions of individuals can make a difference.

In a democratic country like Australia, everyone has the right to influence government decisions. Even though you cannot vote until you are 18, there are other ways of being politically active.

**COMFACT**

Which is more powerful, drops of water or a piece of granite? Ultimately, the water droplets are because they will wear away the granite. This analogy can be applied to political actions. A single letter or email to a politician may not make any difference. However, lots of letters or emails will eventually have an impact.

Some major issues that concern community members


## Keeping informed

One of the best things you can do as an active citizen is to make sure you are aware of what is going on. This means reading newspapers, listening to podcasts, browsing social media, watching and listening to the news and current affairs programs on television and radio, reading politically related blogs and taking an interest in your community.

Lobby groups often hold rallies to publicise their causes.


If you are unhappy with something, you can make your concerns known. You can write letters or emails to newspapers or to politicians or make submissions to government bodies. You might choose to **lobby** particular politicians; that is, meet with them and try to influence them. You can organise or become involved in public protest meetings or demonstrations. You can also add your name and address to a petition indicating support (or otherwise) for some government action. You can use the media, especially talkback radio, letters to the editor, blogs and social media as a way of publicising a cause. You might even decide to join a political party and try to get your ideas accepted as party policy.

## COMFACT

Combining both petitions and cyber activism, change.org is a website where concerned people can add an issue, present their views and share the digital petition. Once shared, if others also hold the same views on the issue, they can digitally sign the petition to show their support.

### Cyber activism

Politically active citizens and advocacy groups use online petitions such as change.org, social media such as Facebook, Twitter and YouTube to reach, organise and mobilise their supporters to influence government decisions. For example, GetUp!, an independent, grass-roots community advocacy organisation which gives everyday Australians opportunities to get involved in social and political issues, has approximately 1 000 000 online members. GetUp! uses social media to organise members, publicise its campaigns and lobby politicians.

GetUp! is an independent movement to build a progressive Australia and bring participation back into our democracy.

## 4.19.3 Youth advisory councils

One way of becoming an active citizen at the grassroots level is to join your local youth advisory council (YAC). Set up by local councils, YACs consist of student representatives, aged between 12 and 17, from secondary schools in the local council areas. The main function of YACs is to provide a special forum where young people can discuss a wide variety of views and ideas concerning local youth issues and projects. They offer advice and information to their local council in order to help the community and council understand and support the needs of young people.

YAC: an outstanding example of how young people can demonstrate citizenship at work.

### on Resources

**Digital document** Worksheet 4.12 Pressure/lobby groups (doc-32708)

### 4.19 Activity: Research and communication

1. Discuss the advantages of each of the following methods of political action. Which method do you think would be the most effective? Why?
   (a) Individual action
   (b) Political parties
   (c) Lobby groups
   (d) Media
   (e) Social media
2. Write and perform a podcast or vlog, aimed at high school students, which explains why it is important to be an active citizen.
3. In small groups, select a current issue that concerns the community. Research and report on the methods of political action taken by individuals and/or groups involved with the issue.

### 4.19 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is a politically active citizen?
2. Explain why Youth Advisory Councils are such a good example of politically active citizenship.
3. Imagine that you are a member of the youth advisory council in your local area. With two or three others, decide what you could do with $20 000 in a way that would best help young people. Decide how much you will spend on each activity and what your priorities are. You may wish to prepare this as a PowerPoint presentation.
4. What arguments would you use to convince someone who is apathetic about becoming an active citizen?
5. (a) How is a school's Student Representative Council an example of a lobby group?
   (b) Write down three things you could do to be a more 'active citizen' within your school community. Explain why these would help your school to be a better place.

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.20 Referendums

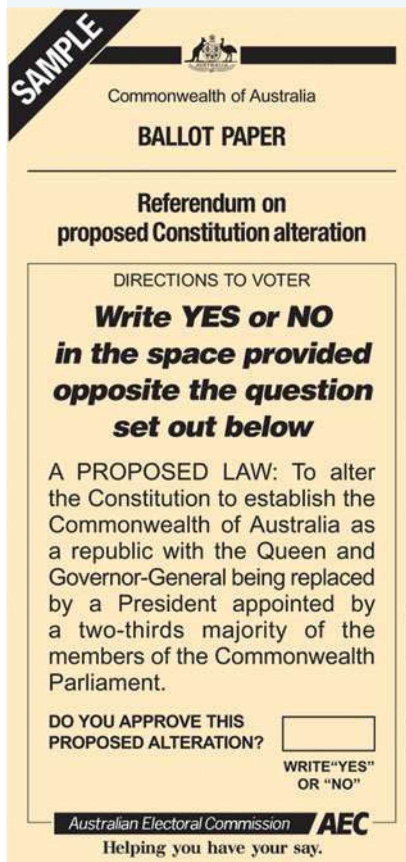
## 4.20.1 The process for changing the Constitution

When the founding fathers developed our Constitution, they wanted to make sure that it could not be changed by politicians seeking to gain more power for themselves. They also wanted to make sure that the two most populous states, New South Wales and Victoria, could not dominate government in a way that could disadvantage the smaller states. For these reasons, they made sure that it would not be easy to change the Constitution.

Chapter VIII section 128 of the Constitution describes the process on how it can be changed. The following steps must be observed if any change is to occur:

- Any proposed change to the Constitution must first be approved by a majority of members of both houses of the federal parliament.
- Within six months of being approved by the parliament, the proposed change must be put to the people to vote in a referendum. All registered voters are entitled to have a say.
- The referendum will usually be in the form of a question asking the voters whether or not they approve of the change. Voters write the word 'YES' or 'NO' in a box on the voting paper to signify their support or opposition to the proposed change.
- For the change to be approved, more than 50 per cent of all voters in Australia must vote yes to the proposal.
- In addition, there must be a majority in favour in at least four of the six states.
- If the above requirements are met, the proposal goes to the Governor-General for final approval and the change is made to the Constitution.

A ballot paper from the referendum held in 1999


SAMPLE

Commonwealth of Australia

BALLOT PAPER

Referendum on proposed Constitution alteration

DIRECTIONS TO VOTER

**Write YES or NO in the space provided opposite the question set out below**

A PROPOSED LAW: To alter the Constitution to establish the Commonwealth of Australia as a republic with the Queen and Governor-General being replaced by a President appointed by a two-thirds majority of the members of the Commonwealth Parliament.

DO YOU APPROVE THIS PROPOSED ALTERATION?

WRITE "YES" OR "NO"

Australian Electoral Commission AEC

Helping you have your say.

**on** Resources

Video eLesson Referendums (eles-2288)

**DISCUSSION**

Do you think that Australia should become a republic? Would you have written 'YES' or 'NO' in the 1999 referendum? Discuss as a class.

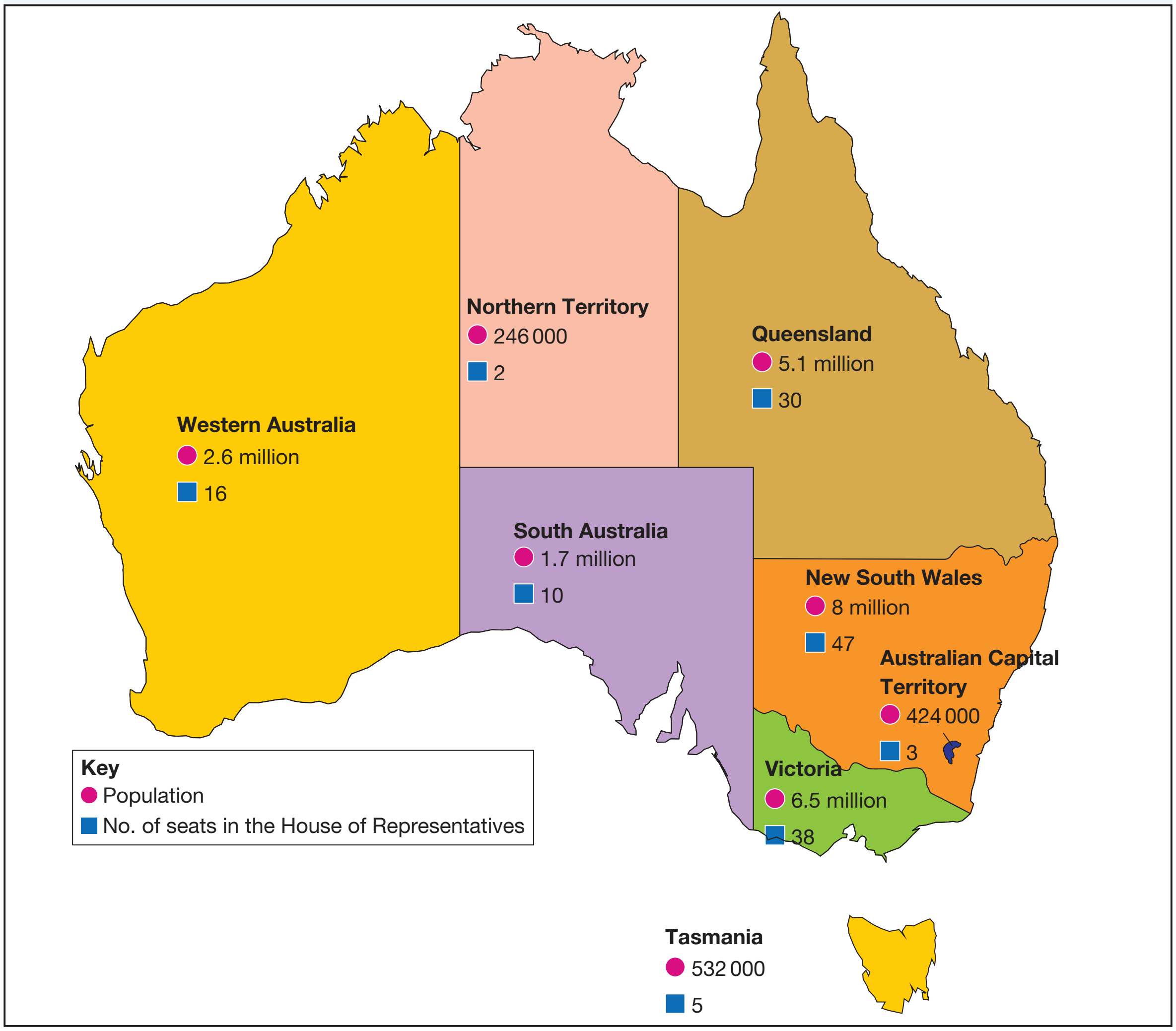
The Constitution can only be changed through a vote of the people.

## 4.20.2 The double majority

The requirement of having a majority of votes as well as a majority in at least four out of six states is known as the 'double majority'.

The founding fathers introduced the need for a double majority because they wanted to make sure that the states with larger populations could not out-vote the states with smaller populations, and so change the Constitution to gain some advantage for their own inhabitants. Throughout most of Australia's history, New South Wales and Victoria have been the biggest states in terms of population. Today, with over 13 million people between them, they make up more than 50 per cent of our population of just over 23 million, and elect 85 of the possible 150 members of the House of Representatives.

The population and the number of elected representatives of each state




Remember that the Constitution was developed by representatives of the original six colonies that were to become states within the new Commonwealth of Australia. These men knew that they were giving up some of their colonial powers to the new federal parliament. Many of those who represented the smaller states were suspicious of the motives of the larger states, and were afraid that New South Wales and Victoria might try to dominate the others. For this reason, they insisted on the inclusion of the double majority to protect the interests of the smaller states. Without this double majority, it would be possible for the voters in the two largest states to out-vote the combined voters in the other four states and two territories.

## 4.20.3 Where do proposals for change come from?

Proposals to change the Constitution can come from several sources. For example, a number of state governments may get together and decide that a particular change would be valuable. Sometimes the federal government will hold an inquiry into a particular issue, and this may lead to recommendations for constitutional change. There have been times when community pressure has led to government recognising the need for a change. This occurred in the 1960s when many people campaigned to have the federal government gain the power to make laws for Indigenous Australians Proposals for change have also come from special constitutional conventions, such as that held in 1998 to consider the issue of Australia becoming a republic.

No matter where a proposal comes from, it usually needs the support of the government of the day to have any prospect of bringing about constitutional change. This is because the proposal must have the majority support of the parliament before it can be put to a referendum. Since Federation it has been very difficult to achieve constitutional change, and for this reason alone, a government will want to make sure there is strong popular support for any proposal before considering the cost and effort of holding a referendum.

In 1998, a special constitutional convention was held in the old Parliament House in Canberra to consider the issue of Australia becoming a republic.

### 4.20 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Rewrite the following stages for constitutional change in the correct order:
   (a) The proposed change is put to the people to vote in a referendum.
   (b) The proposal goes to the Governor-General for approval.
   (c) The proposed change must achieve a double majority for the referendum to be successful.
   (d) A proposed change to the Constitution must be approved by a majority of members of both houses of the federal parliament.
   (e) Voters write the word 'YES' or 'NO' in a box on the voting paper to signify their support or opposition to the proposed change.
2. Identify two possible sources of proposals for changing the Constitution.
3. What is a double majority? What has to happen for a double majority to be achieved?
4. Imagine that there has been a proposal to hold a referendum to change section 128 of the Constitution so that the double majority is no longer required for constitutional change.
   (a) Outline one argument in favour of making such a change and one argument against the change.
   (b) Do you believe that this proposal would be successful at a referendum? Give reasons for your answer.

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.21 Participating in the democratic process

## 4.21.1 Democracy at work

Imagine a group of eleven friends where four members want to see a movie, two prefer to go ice-skating and five want to go to a restaurant. To solve this dilemma, the group will probably discuss the benefits of the three activities in an attempt to influence each other's decision. At the conclusion of the discussion, a vote will be taken and whatever activity the majority vote for will be the one the group agrees to. This group has undertaken a process called *democratic decision-making*, which is similar to how the Australian system of government operates.

A majority vote will determine what activity the group undertakes.

## 4.21.2 The origins of democracy

The main feature of a **democracy** is that all people have equal rights and privileges. It also means that, in the end, power rests with the people. If people do not like what the government of the day is doing, they can vote to have it removed.

The democratic system of government originated in ancient Greece during the fifth century BC. It is based on the two Greek words *demos*, meaning people, and *kratia*, meaning power or rule. Democracy in ancient Greece was called direct democracy because citizens would hold public mass meetings to discuss issues that affected them. The citizens (adult males born in Athens to free parents) then voted and the idea that gained the majority of votes would win.

## 4.21.3 Australia's representative democracy

Representative democracy was designed to give all citizens a say in the decisions that would affect the majority of people. Therefore, when Australians talk about their democratic rights they mean that citizens are given power to decide who will represent their views through electing members of parliament. In a representative democracy, the citizens have the ultimate power because they elect representatives to act on their behalf.

## 4.21.4 Australia's political system

Our political system is based on the Westminster system used in Britain. The basic principles of our political system are that:

- the head of state and the head of the government must be two different people (for example, the Queen and the Prime Minister)
- there are two houses of parliament (bicameral); a lower house and an upper house
- there are three different sections of government; the parliament (legislature) to make the laws, the executive to administer the laws and carry out the business of government, and the judiciary (courts) to enforce the law
- these three sections of government must be kept separate (a principle called the 'separation of powers').

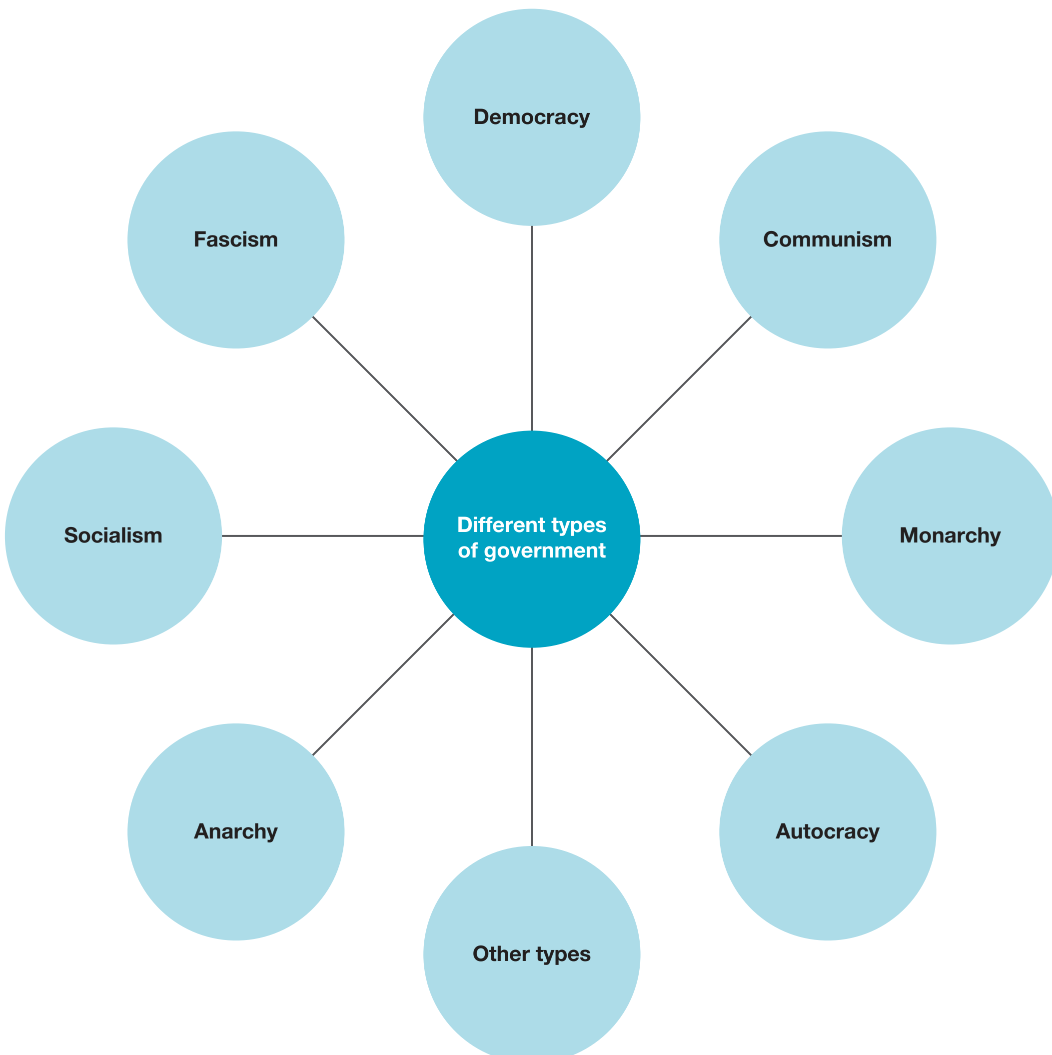
Everyone must vote in state and federal elections, including these lifesavers from Bondi Surf Club.


## 4.21.5 Different types of government

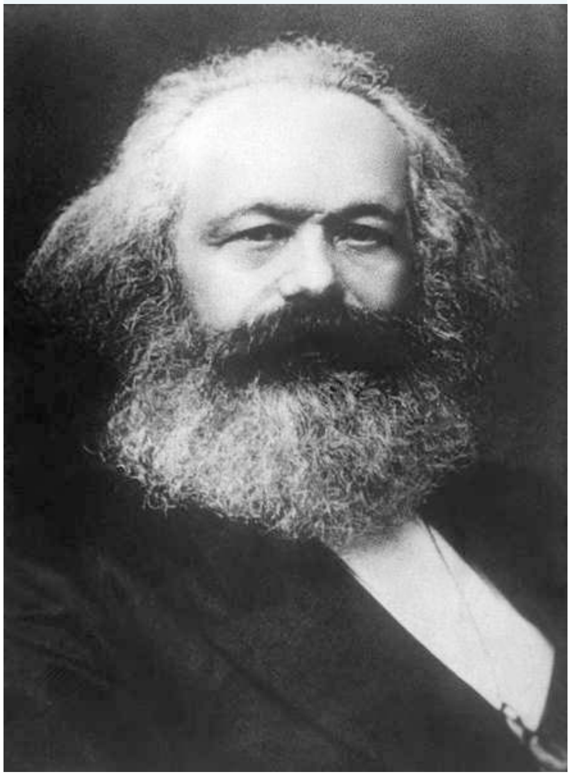
A democracy is only one type of government. Others include:

1. *Communism*. This system of government is based on the theories of Karl Marx and Friedrich Engels. In this system there is no private ownership. Everything, apart from some personal items, is owned by the government (state) which supplies all the needs and wants of the citizens. Since the early 1990s, former communist countries in the USSR and eastern Europe have dramatically changed. China is also transforming its communist system of government.
2. *Monarchy*. A true monarchy is a system of government where the monarch (such as a king or queen) has total supreme power, such as in Oman and Kuwait. A constitutional monarchy occurs where the powers of the monarch have been limited by a series of laws. A republic is a democratic form of government that has a president.

3. *Autocracy*. Autocracy is opposite in meaning to democracy and occurs when one person or group, often an authoritarian military dictatorship, holds all the power. These are oppressive and secretive regimes, such as in Burma (formerly Myanmar).
4. *Anarchy*. Anarchy occurs when the system of government has broken down and there are no laws or the laws are no longer being enforced. During a civil war a state of anarchy usually exists, such as in Syria.
5. *Socialism*. In this system of government the ownership of all the main economic resources are in the hands of the community. Socialist governments have a high priority for social welfare, and equality of income and wealth.
6. *Fascism*. Adolf Hitler adopted this approach. Fascism is based on strong centralised power permitting no opposition or criticism. The political party in power controls all the affairs of the nation and emphasises aggressive nationalism and anticommunist ideas.



Karl Marx (1818–1883). His thoughts have shaped the governments of many countries.



In 1990, the Burmese military regime overturned an election result that saw about 80 per cent of votes go to the opposition party led by the charismatic Aung San Suu Kyi. She was held under house arrest for 15 years until mid-2012 when some democratic reforms were introduced.

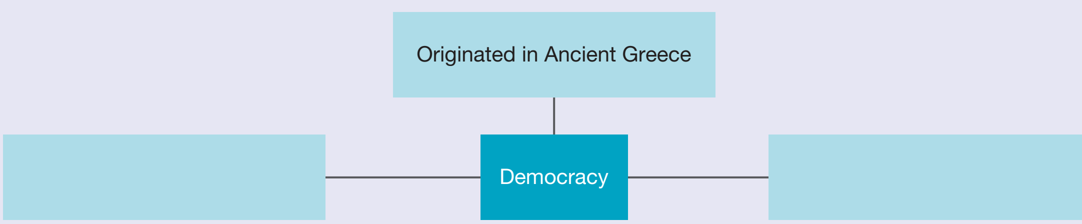
### 4.21 Activity: Research and communication

1. In small groups, discuss what you think are the most important features of Australia's political system. Present your group's ideas to the class.
2. In pairs, research a country that is presently attempting to introduce a more democratic process of government.
   (a) What difficulties are being experienced in attempting to introduce the democratic process?
   (b) Outline any forms of assistance being given by other democratic countries or the United Nations.

### 4.21 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Explain why Australia is a constitutional monarchy.
2. Add extra elements to the mind map started below to summarise the main features of a democracy.



3. Explain the difference between the parliament, the executive and the judiciary. Suggest why it might be important in a democracy to keep these functions separate.
4. What is the difference between 'democracy' and 'autocracy'?
5. The following jumbled words are four different types of government. Unscramble each and then write a sentence that explains the main characteristics of this form of government.
   (a) MSSAIOLCI
   (b) MOUMNIMSC
   (c) HCMRONAY
   (d) AACYRNH
6. Explain the meaning of the following statements:
   (a) 'Democracy operates best when the people have the ultimate power.'
   (b) 'Power without control is the enemy of freedom.'

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.22 Voting in the democratic process

## 4.22.1 The right to vote

All Australian citizens over 18 must be enrolled to vote. They are also obliged to keep their enrolment up to date with their current residential address.

Australian citizens denied the right to vote include the mentally unsound, anyone convicted of treason and prisoners serving a sentence over three years.

## 4.22.2 Methods of voting

### First past the post

This is the simplest form of voting. People vote for the person they wish to elect by placing the number 1 next to that person's name on their **ballot paper**. The person with the most votes wins. It is a very simple system of voting. However, it can result in a winner who is supported by a minority of the population.

### Preferential

In Australia, we have a **preferential system** of voting. This means that voters decide not only the candidate they want the most, but also the order in which they prefer the other candidates (in case their favourite does not win).

### House of Representatives

When you vote in a House of Representatives election, you are given a green ballot paper. You must place a number in the box beside each candidate's name. Write the number 1 beside the candidate you most prefer. (This is your first-preference vote.) Write the number 9 (if there are nine candidates) beside the candidate you least prefer. For your vote to be formal, you must place a number, in your preference order, in every box.

To win, a candidate must get an **absolute majority**; half the number of **formal votes**, plus one. Some candidates are lucky; they get this with first-preference votes. When no candidate has an absolute majority of first-preference votes, voter **preferences** are counted.

Preferential voting system for the House of Representatives

**House of Representatives**

100 000 formal votes

Absolute majority needed = $\frac{100\,000}{2} + 1 = 50\,001$

| | STEFAN | JANE | QUENTIN | KALI |
|---|---|---|---|---|
| |  |  |  |  |
| **First preference votes** | **37 000** | **34 000** | **15 000** | **14 000** |
| Other preference votes | + 13 500 | + 400 | + 100 | |
| | 50 500 | 34 400 | 15 100 | |

13 500 to Stefan
400 to Jane
100 to Quentin

Note that no candidate has an absolute majority.

Kali has the fewest first-preference votes. Her votes are given to other candidated in the order in which voters stated their second preferences. Stefan benefits most. This gives him an absolute majority.

If there was no clear winner after Kali's votes were distributed, Quentin's votes would be distributed in the same way — and so on until there was a winner.

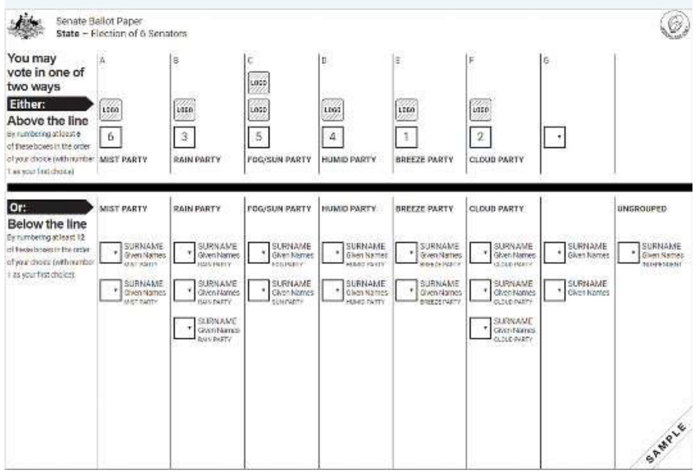
## Proportional representation/optional preferential

When you vote for a senator, you will be given a white ballot paper. You can vote in two ways:

- If you vote above the line, you need to number at least six boxes from 1 to 6 in your order of preference.
- If you vote below the line, you need to number at least 12 boxes from 1 to 12 in your order of preference.

To win a seat, senators have to win a set proportion, or **quota**, of the votes. This is why the Senate voting system is called optional preferential proportional representation, often referred to as simply **proportional representation**.

A sample Senate ballot paper




### 4.22 Activity: Research and communication

1. Conduct a class vote on what could best be done to improve your school. Use the counting method for deciding seats in the House of Representatives. Count the votes, including preferences, to decide who wins. Share responsibilities for this activity among the class. Here's what to do.
   (a) First select five people to present their policy. All should have quite different viewpoints. Make the presentations interesting and persuasive.
   (b) Prepare enough ballot papers for the whole class, making them like the sample shown for the House of Representatives. Include the names of all speakers. Decide the order of names on the ballot paper by putting speakers' names on pieces of paper, and drawing them, in turn, out of a container.
   (c) Listen as a class to each presentation. Decide how you will vote, ensuring your vote is formal. Make sure you vote in secret. Place ballot papers in a collection box.

(d) Nominate class members to conduct the counting and be scrutineers. Decide, first, what is the absolute majority a candidate must achieve. Place papers in piles according to first-preference votes; that is, candidates marked with number 1.
(e) Did anyone get an absolute majority? If not, start distributing preferences. Use the information in this subtopic to help you to do this.

### 4.22 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Who has the right to vote in Australia?
2. What types of voting systems are used in Australia?
3. How does a candidate win in an election for the House of Representatives?
4. How is the election to the senate different from the House of Representatives?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.23 Rights and responsibilities in the democratic process

## 4.23.1 Role and strategies of pressure groups

A pressure group is formed when people join together over concern for a common issue in an attempt to influence government decisions. The pressure applied to politicians and other decision makers comes from the group's members, as well as from any publicity generated.

There are many types of pressure groups. Some key ones are the Australian Council of Trade Unions (ACTU), Australian Industry Group (AIG), Australian Council of Social Services (ACOSS) and Australian Conservation Foundation (ACF). Their ability to influence government decision making depends on the size of their membership and the strategies they adopt.

### COMFACT

From January 2018, due to the passing of the Marriage Equality bill, same sex couples can now get married. This was achieved because the Australian people voted Yes in a postal survey. The commitment from groups such as The Australian Marriage Equality and New South Wales Gay and Lesbian Rights Lobby played a big role in making this happen. Spreading the word about *why* something needs to change is instrumental when it comes to making a change.

Pressure groups may use a number of strategies (tactics) to publicise their cause and influence government decisions. These include:

- protest marches, demonstrations and rallies
- letters and email-writing campaigns and petitions
- staged media events and publicity campaigns
- meetings with politicians (lobbying)
- making recommendations to the government
- using social media to establish online communities
- standing for election to parliament.

A demonstration is a common strategy to pressure decision makers.

## 4.23.2 Rights and responsibilities of individuals and groups in the democratic process

A citizen is someone who lives as part of a community. As Australian citizens, we have numerous specific rights and responsibilities. Some rights we tend to take for granted, such as the freedom to choose the type of government we would like. Some responsibilities, like voting, may be seen as 'just things you have to do'. An active citizen not only knows his or her rights and responsibilities — and how important they are — but also looks for opportunities to be involved.

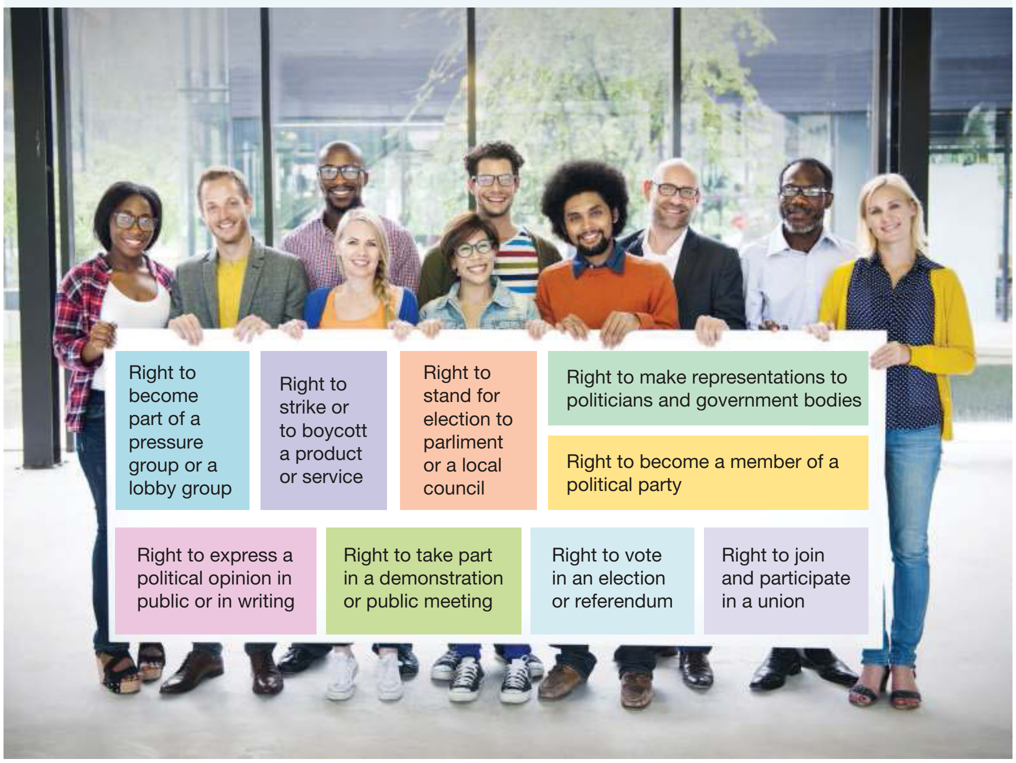
As Australian citizens, we have the right to expect our government to protect us and to help improve the quality of our lives. In a democracy, we also have the right to a number of personal freedoms. As active citizens, we have an obligation to contribute to the community by taking part in the political and legal processes in this country. Active citizens play a vital role in improving the way we are governed.

### Your rights

As an Australian citizen, you enjoy a number of basic rights, such as freedom of speech and freedom of religion. You can leave the country whenever you wish (provided you have a passport) and can apply when you are older to work in the armed services, the police force or the public service. You also have the right to trial by jury and to be protected from discrimination.

Another very important right you possess is the right to decide how you want to be governed. Some of the ways this right is exercised are shown in the diagram below.

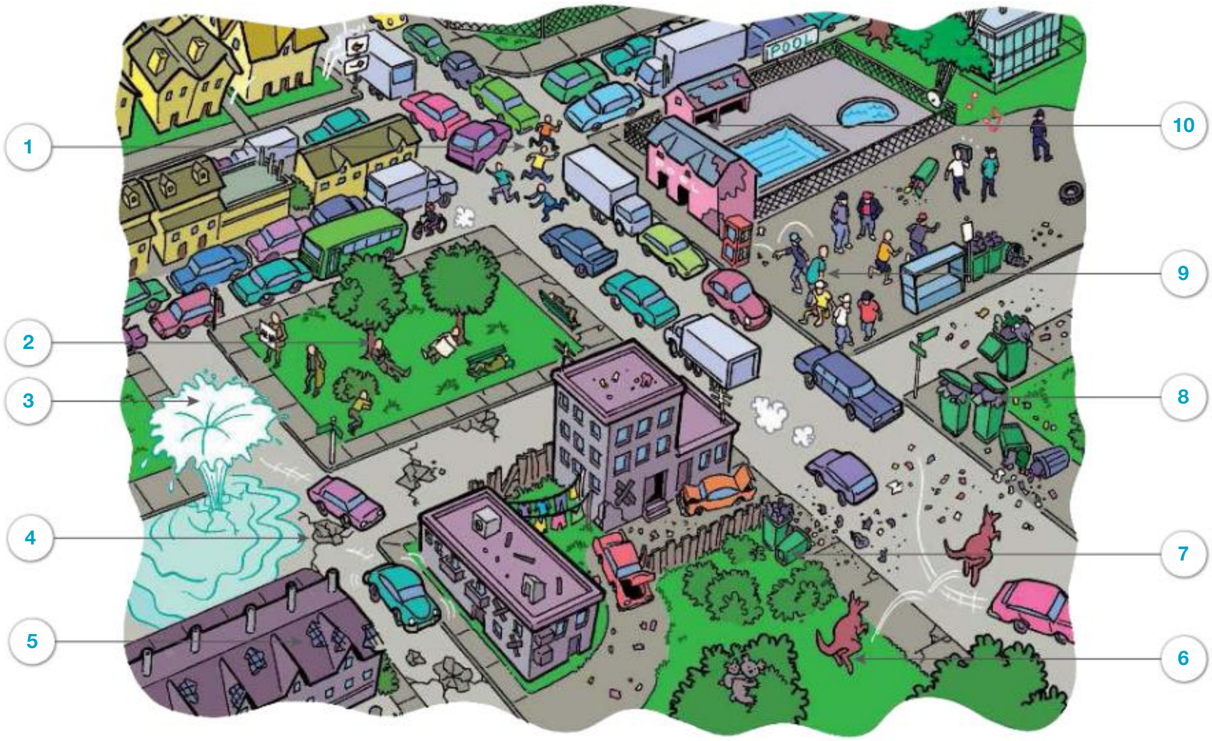
Your rights to decide how you will be governed




### Your responsibilities

Two of your responsibilities as an Australian citizen over the age of 18 are to register yourself on the electoral roll, and to vote in federal, state and local elections. An active citizen will always ensure that his or her vote counts; that it is a formal vote, and carefully considered.

You are also obliged to pay your taxes, obey the laws of the land and serve as part of a jury if asked. In times of war, you may be asked to defend your country.




1 Traffic lights are needed
2 Unemployment levels are high
3 Water supply main has broken
4 Local streets are developing potholes
5 Government housing estates are run down
6 Native species live near busy roads
7 Local parks are becoming rubbish dumps
8 Rubbish is not always being collected
9 Numbers of young people are at risk of breaking the law
10 The buildings around the local swimming pool need painting

**on** Resources

**Digital document** Worksheet 4.13 My rights and responsibilities in Australia (doc-32842)

## 4.23 Activity: Research and communication

1. Create an infographic that illustrates the rights and responsibilities of individuals in the democratic process.
2. Write a story of what it would be like to live in a country where your rights are denied. You may wish to present the story with text and graphics.
3. 'Young people have too many rights and forget their responsibilities'. Discuss this topic.
4. Study the illustration above in section 4.23.2, taking note of the annotations. Work in small groups to devise an **action plan** about how best you could show your citizenship in helping to improve the situation. Think about what you can do personally or as a member of a pressure group. Draw up your plan of action, which lists, in detail, the steps your group proposes to take.
5. What do you think would happen to a democracy like Australia if its people did not meet their obligations as citizens? Discuss your ideas in small groups and then present them to the class.

### 4.23 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is the main purpose of pressure groups?
2. List some of the pressure groups with which you are familiar.
3. List three rights and three responsibilities you have as a citizen.
4. Which strategy used by pressure groups do you think is the most effective? Why?
5. Explain the difference between a right and a responsibility.
6. Which (i) right and (ii) responsibility do you consider to be the most important? Give reasons for your answers.
7. List the responsibilities you have as a member of your class.

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.24 Role and function of political parties

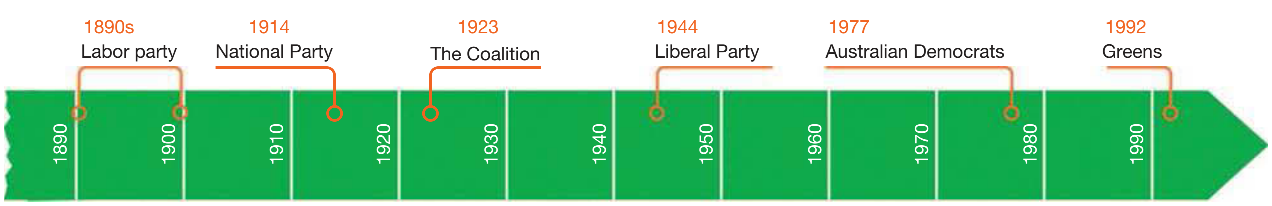
## 4.24.1 Providing options for Australian voters

Political parties are groups of people who band together because they share the same views about issues they think are important. Their main aim is to get candidates elected to Parliament so as to influence the decisions of government.

All political parties must be registered with the Australian Electoral Commission. There are two requirements for this registration. First, the aims of the party must be submitted. Second, the party must have at least 500 eligible voters, unless the party already has a member in parliament.

Not all candidates belong to a political party. Some may be independents.

Timeline showing formation of major Australian political parties




## 4.24.2 Australian Labor Party

The Australian Labor Party (ALP), the oldest political party in Australia, was formed in the 1890s. Unemployment was then high and living conditions were harsh, so workers banded together. They wanted to try to change things by having a say in government. This background has meant that trade unions have always had strong links with the Labor Party.

The ALP's policies promote social justice, compassion and a fair go for all. Its main aims are to:

- ensure wealth and power are more evenly and fairly shared in society
- provide jobs for everyone who wants to work
- abolish poverty and improve the living standards of all Australians
- ensure that all Australians can obtain the education, housing and community services they need.

In 2010, Labor Party leader Julia Gillard became the first female prime minister of Australia.

## 4.24.3 The Liberal Party of Australia

The Liberal Party of Australia was founded by Robert Menzies in 1944. When in office, the Liberal Party usually forms a **coalition** with the National Party.

Liberal policies are based on the absolute rights and freedom of all people. The party believes in incentive, individual freedom and free enterprise. Its main aims are:

- a lean government that minimises interference in daily life and minimises taxes
- a government that encourages private businesses and does not compete with them
- a just and humane society in which the family and the role of law and justice are maintained.

## 4.24.4 National Party of Australia

The National Party was founded in 1914, originally as the Country Party. It mainly represents people living in rural and regional Australia. The Nationals fight for an equality of services, lifestyle and opportunity between the cities and the regions. Its main aims are to:

- provide strong local community representation
- ensure decent health, safety, social and economic welfare
- promote individual achievement, free choice, a fair go and reward for private enterprise.

## 4.24.5 Australian Greens

Formed in 1992, the Australian Greens (The Greens) is a progressive, national party founded on four main principles: ecological sustainability, social and economic justice, peace and nonviolence, and grassroots democracy. The Greens have frequently held the **balance of power** in the Senate. Its main aims are to:

- protect and preserve the environment
- ensure that everyone in our society is treated fairly and with respect
- create a safe, harmonious world in which force is not used to solve differences
- ensure that society is governed by the people, and not run by the wealthy and powerful.

## 4.24.6 Independents

Members of parliament who do not belong to a political party are called **independents**. Their position can be very powerful if the government does not have a majority in parliament. It relies on these independents to support the Bills going through the parliament. The government often has to make compromises and deals with these independents to guarantee that government legislation passes.

### COMFACT

The Nick Xenophon Team (NXT) was established on 1 July 2013. Its aim was to bring up issues in parliament that were specific to South Australia. The party won three seats in the Senate in the 2016 federal election.

In April 2018, NXT applied to change its name to Centre Alliance.

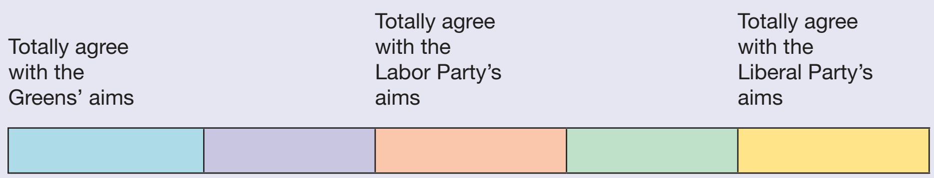
### 4.24 Activity: Research and communication

1. In small groups, discuss what your group's aims would be for Australia if you were a political party. Decide why these aims are important. Think of a name for your party and a logo.

### 4.24 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is a political party?
2. What is required for a party to be registered with the Australian Electoral Commission?
3. What does 'forming a coalition' mean? Give an example.
4. Why do you think the Liberal Party forms a coalition with the Nationals and not the Labor Party or the Greens?
5. Which political party generally represents the interests of people in rural and regional Australia?
6. Explain why a party or an individual who holds the balance of power is so powerful.
7. Copy the following scale into your notebook. Place a cross where you feel your political beliefs lie with regard to the three main political parties. Write a paragraph outlining your reasons for the location of the cross on the scale.




8. The following table sets out the number of House of Representatives seats that might be won at three elections in the future. Assume the Liberal–National coalition is disbanded before Election C. Assume also that none of the other parties formed coalitions.

| Election | Liberal Party | Labor Party | National Party | Other parties |
|---|---|---|---|---|
| Election A | 48 | 66 | 23 | 13 |
| Election B | 32 | 69 | 29 | 20 |
| Election C | 39 | 77 | 20 | 14 |

(a) Why did the Labor Party, which won the most seats, not win Election A?
(b) How many seats did the Liberal–National coalition lose in Election B?
(c) Who won Election C? Why?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.25 The inner workings of Australia's government

## 4.25.1 Forming the federal government

Winning the vote in a lower house electorate gives the successful candidate a seat in the House of Representatives. Government is formed in Australia on the principle of parliamentary majority in this house. This means that the party with the majority of seats in the House of Representatives forms the government, and its leader becomes prime minister. In government, the winning party has the power to make laws for governing the country.

An election will result in either the re-election of the existing government for another three-year term, or the defeat of the government and the election of the Opposition to form a new government. If the party in government retains power, its leader remains prime minister and the government continues as before. If the government is defeated, the leader of the Opposition prepares to take over as prime minister. The outgoing prime minister will usually visit the Governor-General to resign early in the week following election day. The newly elected prime minister then visits the Governor-General to be sworn in.

Once counting is complete for all electorates and the result is finalised, government ministers will be appointed and will in turn be sworn into office by the Governor-General. From this point, the new government takes control and has three years before having to face the voters again.

The major party that fails to win enough seats in the House of Representatives to form government becomes the Opposition. Senior members of the Opposition become shadow ministers. For each government minister, there is a corresponding person in the Opposition who is a shadow minister. A shadow minister is expected to scrutinise the activities of the relevant minister, and will often publicly criticise that minister's performance. This is one way in which ministers and the government remain accountable to the people. If the Opposition then wins the next election, usually shadow ministers become ministers and the Opposition leader becomes prime minister.

#### Hung parliament

When the two major parties have the same number of seats in the House of Representatives following an election, there is said to be a '**hung parliament**'. This means that neither side is in a position to form government on its own. Minor party representatives or independents will decide to support one side or the other, and this will lead to that party forming government.

#### Minority government

It can sometimes occur that a government has fewer seats than the Opposition but is able to govern because it has the support of enough crossbenchers to win important votes in the House of Representatives. In this case it is said to be a **minority government**. In order to remain in power, a minority government has to be able to gather enough votes to support its spending decisions, and to retain the 'confidence' of the House.

## 4.25.2 Policy making in Australian politics

Once the government has been elected, it is charged with the responsibility of running the country. Part of this responsibility is the development and implementation of policy — the rules and regulations which become the laws by which all Australian citizens must live. The policy-making process in Australian politics is complex. All members of parliament have a role to play in this process, although some individuals hold more influence than others.

### Backbenchers

The House of Representatives is colloquially divided into backbenchers and frontbenchers. Traditionally backbenchers are young and inexperienced members of parliament who occupy the back seats of the House of Representatives. They are involved in parliamentary debate, can serve on parliamentary committees and can suggest amendments to bills. Backbenchers can also suggest their own bills, which may or may not have the support of their party. Backbencher's bills, sometimes referred to as **private member's bills**, are seldom successful. Some exceptions include:

1. The Commonwealth Electoral Bill 1924 which made voting compulsory in Australia
2. The Euthanasia Laws Bill 1996 which made it illegal for states to make laws allowing euthanasia
3. The Reproductive Healthcare Reform Bill 2019, which decriminalised abortions by removing it from the Crimes Act 1900.

### Frontbenchers and Cabinet

Members of parliament with an allocated portfolio are referred to as frontbenchers because they occupy the front rows of the House of Representatives. Frontbenchers are usually more senior party members and so they can have a significant influence on policy decisions. Frontbenchers are also members of Cabinet, a council of senior members of parliament who are specifically chosen to assist the prime minister with policy decisions and other executive functions. Cabinet is not mentioned in the Constitution and each government is free to determine its specific functions. As a result, the sitting prime minister has a significant influence on how the Cabinet works. Furthermore, the prime minister is free to shuffle the roles of Cabinet members if he or she feels such a change is necessary.

The House of Representatives. Notice the long front bench where Cabinet members usually sit. The prime minister and leader of the Opposition sit on opposite sides of the large table in the middle of the chamber.

A properly functioning Cabinet should direct government policy and make decisions regarding the most important national concerns. During the private and confidential meetings of Cabinet, issues and policies are discussed and votes conducted. Once a Cabinet vote has been cast, the final verdict must be supported by all members of Cabinet, regardless of personal opinion. This is known as Cabinet solidarity.

### The prime minister

The final decision-making power in Australian politics is often left with the prime minister. Although the Governor-General can also make important decisions (mainly procedural in nature), the prime minister can develop his or her own policies, sometimes in contrast to the views expressed by the prime minister's Cabinet members. Prime ministerial policies still need to follow the same pathways as regular bills, and in this way the power of the prime minister is kept in check.

## 4.25.3 Shaping Australian policy and law

### Setting the policy agenda

Winning an election gives a government the right and responsibility to set the policy agenda for Australia. This is known as a mandate. Governments are free to decide on which areas they will focus their policy decisions. While all government responsibilities must be carefully administered and regulated, individual prime ministers and their parties may choose to focus on particular aspects. Pressure groups and members of the public can also help set the policy agenda by attempting to influence their local members and other politicians. When successful, this influence can both contribute to the development of new policy and result in the amendment or even complete withdrawal of other policy decisions.

### Education funding — an example of government policy development

One method of developing government policy is to set up a review of existing practices, invite submissions from interested parties and the general public, and then have the review panel make recommendations to assist in the development of policy. Although the provision of education has been a state government responsibility since federation, the Commonwealth government has provided additional funding to both government and non-government schools since the 1960s. Different funding models have been attempted over the years, with advocates for government schools, independent schools and Catholic schools all arguing for increased funding for their particular sectors.

## Parliamentary debate

Although the exact function of both houses of the Australian parliament differ, their general purpose remains the same — to debate issues of national significance and the laws proposed to deal with these issues. Within the walls of parliament, our elected representatives debate the merit of proposed legislation. Members of the ruling party, the Opposition and members of minor parties all participate in these discussions. Question Time is a designated part of the parliamentary schedule during which all members of parliament (MPs) can pose questions to other members and ministers. Members of the Opposition are free to question the government but often MPs ask members of their own party questions instead. Designed to provide an opportunity for ministers to promote their opinions or policies, these questions are known as '**Dorothy Dixers**'.

Through these questions and debates, government decisions are scrutinised and the power of the ruling party is closely monitored. The role of the Opposition party, and of the leader of the Opposition in particular, is crucial as they have the most opportunity to ensure the accountability of the prime minister and Cabinet. This includes maintaining a close watch on the spending of public money and the administrative actions of the government.

### 4.25 Activity: Research and communication

1. Using internet resources, investigate the most recent Senate Federal election results and answer the following:
   (a) How many quotas did the highest placed candidate receive?
   (b) How many major party candidates were elected from the passing on of surplus votes above a quota?
   (c) Name any independents or minor party candidates elected.
   (d) How many first-preference votes did these independents or minor party candidates receive?
   (e) What was the final party-by-party breakdown of the six successful candidates?

### 4.25 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is required to achieve an absolute majority of votes?
2. Outline how each of the following roles is determined following a federal election.
   (a) Government
   (b) Opposition
   (c) Prime minister
   (d) Leader of the Opposition
   (e) Ministers
   (f) Shadow ministers
3. What is the difference between a hung parliament and minority government?
4. Why are preferences important in counting House of Representatives votes?
5. Why are votes above a quota passed on at a transfer value?
6. Explain the method for calculating the transfer value of Senate votes.
7. Who would win the seat in the following scenario?
   First preference votes were recorded for a House of Representatives seat at an election:

| Candidate | Votes |
|---|---|
| Ahmed | 32 000 |
| Michael | 21 000 |
| Jan | 29 000 |
| Tran | 8 000 |

- Voters who gave first preferences to Jan gave 18 000 second preferences to Ahmed and 11 000 second preferences to Michael.
- Voters who gave first preferences to Michael gave 8000 second preferences to Ahmed and 13 000 second preferences to Jan.
- Voters who gave first preferences to Tran gave 3000 second preferences to Ahmed and 5000 second preferences to Jan.

8. Do you believe that the Cabinet has any real power in the decision-making process in Australian politics? Justify your response.
9. Should the power of the prime minister be restricted? What are the positive and negative implications of the prime minister having a large amount of individual power?
10. Identify two sources of influence in the development of government policies.
11. What are the advantages of setting up a review panel to provide recommendations in relation to policy development?

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.26 Separation of powers

## 4.26.1 The separation of powers

The Australian continent had been colonised by the British, and the vast majority of white settlers were of British origin, so the founding fathers looked to the British Westminster system of government as a model for the new Australian Commonwealth government. The Westminster system had a long history, dating back to the Middle Ages, and had a number of safeguards designed to protect its citizens. One such safeguard was known as the '**separation of powers**'. Under the separation of powers, government functions are shared across three 'arms' of government: the legislative, the executive and the judicial. It means that the power to make laws (legislative) is separate from the power to put those laws into action (executive), and that both of these arms are separate from the power to enforce the law and settle legal disputes (judicial). It means that we have a court system that is presided over by independent judges who are sworn to uphold principles of justice and fairness. The concept of the separation of powers can be traced back to the signing of the Magna Carta in England in 1215.

Our parliamentary system is based on the Westminster system. Westminster is a district of London in which the British Parliament is located.

### The separation of powers in the Australian Constitution

The Australian Constitution supports the idea of the separation of powers to allow for three arms of government:

1. legislative arm
2. executive arm
3. judicial arm.

## 4.26.2 The legislative arm

The legislative arm is the parliament. It has the power to make new laws and to change or repeal existing laws. It consists of two separate 'houses'; the House of Representatives and the Senate, together with the

Governor-General as the representative of the Queen. A proposed law is known as a Bill. To become law, a Bill must be debated and voted on by both houses of parliament, and then approved by the Governor-General. It then becomes known as an Act or a statute, which are the formal names of laws that have been passed by parliament.

## 4.26.3 The executive arm

The executive is the arm of government with the responsibility of putting the laws into action. Executive power officially lies with the Governor-General, but it is usually exercised by government ministers. These are members of parliament who have special responsibility for particular areas of government. For example, the minister for defence is responsible for administering all laws that relate to the defence forces; the minister for immigration is responsible for laws dealing with migrants wishing to come to Australia; and the minister for the environment is responsible for those laws that are designed to protect the environment. Public servants and other government employees are part of the executive arm of government.

When all government ministers meet together, they are known as the Cabinet. Such meetings usually take place in the Cabinet Room in Parliament House.

## 4.26.4 The judicial arm

The judicial arm includes the **judiciary** and the courts, which are responsible for enforcing the law and settling disputes that might arise under the law. The courts can also ensure that the law is applied fairly and equally to everyone, so they are a safeguard for our rights and freedoms. Once a judge has been appointed, he or she cannot be easily removed by the executive arm. This means that judges can be independent and make decisions without fear or favour.

The High Court of Australia has the power to interpret and enforce the Constitution.

### Why do we have the separation of powers?

The separation of powers provides a system of checks and balances on the power of government. This works in the following ways:

- Members of parliament can make laws but have to face elections on a regular basis. If laws prove to be unpopular or unfair, the people can vote for new and different members to replace them.
- An independent judiciary has the power to ensure that parliament and the executive are acting within the limits of the Constitution. This is a way of protecting individual freedoms. The High Court can declare any law invalid if it is contrary to the Constitution.
- Government ministers have to gain the approval of a majority of both houses of parliament if they want to bring in any new laws. If they cannot convince enough members, the law will not be passed.
- Government ministers are all members of parliament, and are individually accountable (or answerable) to parliament. They are required to answer questions in parliament about actions they take as part of their executive role.

DISCUSS

'The separation of powers exists to protect us from the abuse of power.' Discuss arguments to support this case and then counterarguments to represent opposing points of view. Which point of view do you support?

## 4.26.5 The division of powers

One of the key reasons for having a constitution is to reinforce the rights of citizens in a democracy such as Australia. Our Constitution does this by ensuring that no one person or organisation within our structure of government has all the power. Instead, power is shared in a number of ways, and the Constitution reinforces this arrangement.

Most of the colonial parliaments that were to become state parliaments after federation had been in existence since the 1850s. State parliaments were accustomed to passing laws and governing their areas of Australia, and everyone expected them to continue doing this after 1901. For this reason, the Constitution supports the idea of a division of powers between the state parliaments and the federal parliament. Law-making powers are divided in such a way that national issues can be handled by the central government, while state governments can concentrate on providing essential services for their citizens.

The federal government controls the issuing of currency to ensure the same money is used throughout Australia.

The provision of essential services such as firefighting is the responsibility of state governments.

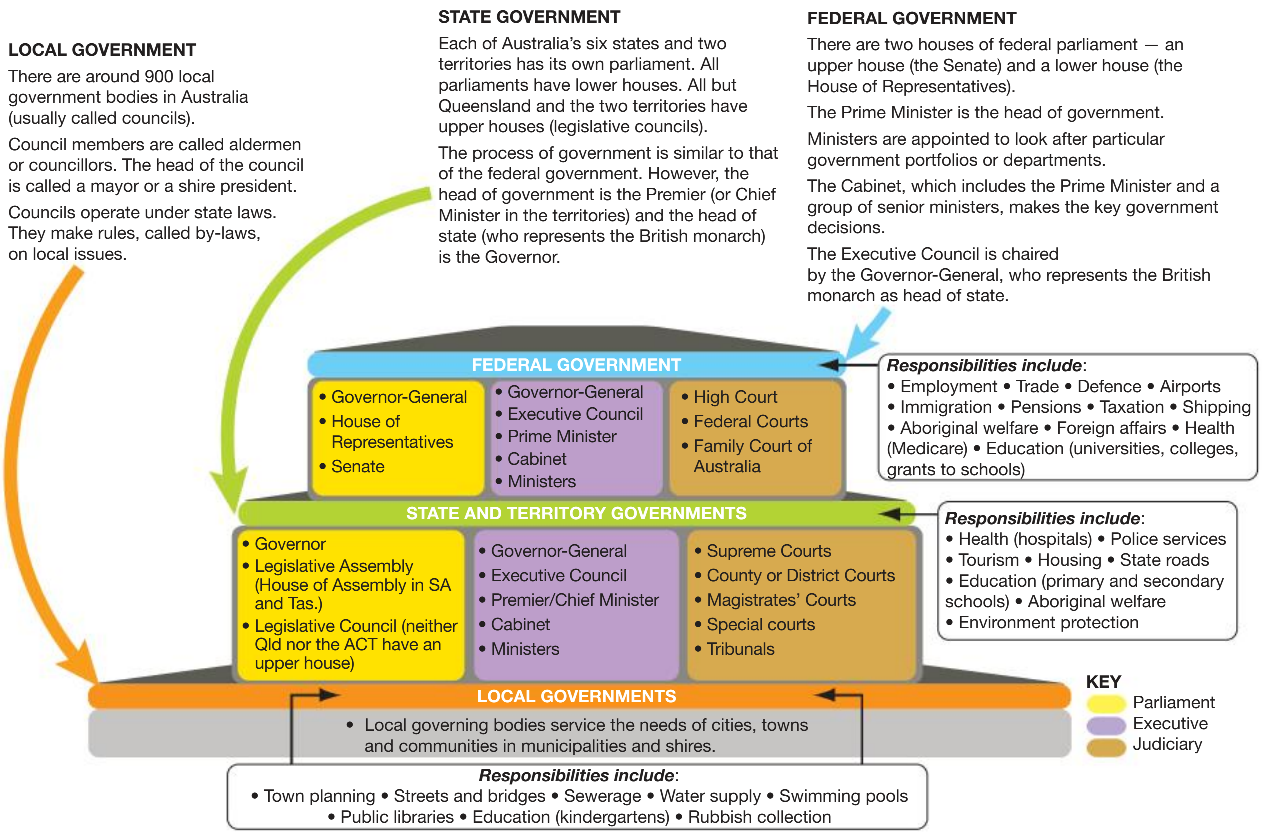
Public swimming pools are valuable facilities provided by local councils.

**on** Resources

**Digital document** Worksheet 4.14 Separation of powers (doc-32843)

**Interactivity** Time out: Responsibilities (int-1207)

The division of powers and the separation of powers




## 4.26 Activity: Research and communication

1. Using internet resources, find out who currently performs the following roles in our system of government. For each one, indicate whether their role is legislative, executive or judicial:
   (a) the minister for defence
   (b) your local member of the House of Representatives
   (c) the Chief Justice of the High Court
   (d) the state minister for education.

## 4.26 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Outline the role of each of the following arms of government, and provide an example of each:
   (a) legislative arm
   (b) executive arm
   (c) judicial arm.
2. List three examples of the responsibilities of each of the following levels of government:
   (a) federal government
   (b) state government
   (c) local government.
3. What is the difference between the division of powers and the separation of powers?
4. Outline the role of the Governor-General.

5. For each of the following, indicate whether the role is legislative, executive or judicial:
   (a) members of parliament
   (b) government minister
   (c) High Court judge
   (d) the Cabinet.
6. 'The separation of powers is an important safeguard of our rights and freedoms in Australia.' Do you agree or disagree with this statement? Give reasons for your answer.

**Fully worked solutions and sample responses are available in your digital formats.**

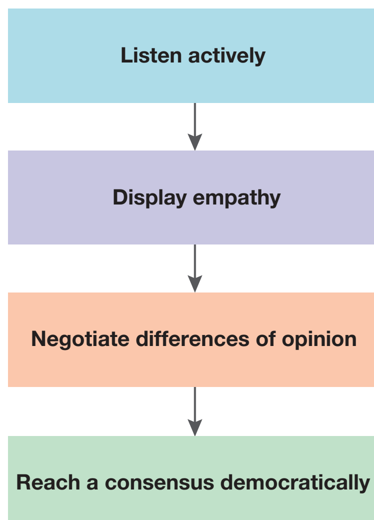
# 4.27 SkillBuilder: Problem solving and decision making

## 4.27.1 Tell me

Problem solving and decision making involve working collaboratively in groups, negotiating and using teamwork to solve an issue and develop a plan for action. In order to do this successfully, you will need to do the following:

- Listen actively to the views of every member of the group.
- Display empathy for others' views. This means that you have an appreciation for the feelings of others and respect their right to an opinion, even if it is different from your own.
- Negotiate to resolve differences of opinion.
- Arrive at a conclusion in a democratic manner. This can mean having a vote among members of the group, or arriving at a consensus.

The problem-solving and decision-making process




## 4.27.2 Show me

Making decisions collaboratively is very difficult. In groups of 4–5 debate one or more of the following topics:

a. Soft drinks should only be sold with a warning label due to their high sugar content.
b. The voting age should be lowered to 16 years.
c. The school hours should be amended to cater for a three-day weekend.
d. Optional topic agreed upon with your teacher.

In your groups begin by doing the following:

1. Without disclosing who is 'for' and who is 'against' the topic, make a list of questions that would make it easier to make an informed opinion.
2. Research the questions individually or in pairs.
3. Share information gathered to the group as a whole.

Each person writes down their opinion, making sure to use arguments gained from the research. Members of the group can take it in turns to keep notes. For each discussion point, you should use the following procedure:



- Give each person a chance to express his or her opinion on the discussion point being considered. The key points of the opinion should be written down.
- Do not permit any argument or disagreement until everyone has expressed an opinion on that discussion point.
- Once everyone's opinions on the discussion point have been shared and written down, read out the opinions and discuss them to determine whether or not everyone is in agreement.
- If there is disagreement, allow those on each side of the argument the opportunity to put their point of view to convince the majority.
- Seek the maximum level of agreement on each point discussed by allowing people to make some changes to their opinions to accommodate the views of others.

In devising a plan of action for discussion point 4 below, all possible ways of encouraging 18-year-olds to vote should be collated into a series of steps that you believe will achieve the final result.

## 4.27.3 Let me do it

Complete the following activities to practise this skill.

### 4.27 Activities

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

Use the steps modelled above to consider the following issue: Voting in Australia is compulsory for all those over 18 years of age, and has been since the early 1920s. It was a decision of the parliament at the time and is not written into the Constitution. In many other countries, such as the United States and Great Britain, voting is optional. In Australia, you can be fined for not voting. Would it be fairer and more democratic for Australia to move to optional voting?

Discussion points could include:

1. What are the advantages and disadvantages of compulsory voting, both for individuals and for our society as a whole?
2. What are the advantages and disadvantages of optional voting, both for individuals and for our society as a whole?
3. If a change were to be considered, what are some of the ways you might convince others to support the change?
4. If you do not wish to change, how do you convince others to support the current system?
5. Develop a plan of action to put your ideas into practice.

**Fully worked solutions and sample responses are available in your digital formats.**

# 4.28 Thinking Big research project: Making laws

## 4.28.1 Scenario

You are a Member of Parliament. The local council responsible for much of your electorate has recently opened a new sporting ground in the area. Although it should have been a positive addition to your electorate, the new sporting ground has brought with it a range of new issues. The biggest issue is the significant increase of alcohol-related offences by young people under the age of 25. These offences are being highlighted in the local media. Unfortunately the number of offences has risen so much that, now, the details are being used by the country's media networks as the best example of the urgent need to increase the legal age of drinking from 18 to 21.

## 4.28.2 Task

To satisfy your constituents and your political party, you must take action. You will need to develop a policy for your political party on the issue of 'Increasing the legal drinking age from 18 to 21'. You might not agree that the drinking age should be increased to 21, but your party needs to be seen to be making positive change. So if you don't support this suggestion, you must introduce a different party policy that will target binge drinking among some of Australia's youth. As a Member of Parliament you must provide a report to your party detailing why the current drinking laws need to change.

You will also need to make sure that a new or amended law is passed. This means you will be required to describe the process that will have to be followed to secure the passage of this law through parliament.

You are provided with a newspaper article published on the issue, an excerpt from a radio talkback show and letters from two of your constituents who are passionate about different sides of this argument.

## 4.28.3 Process

1. Form a group with other members of your class. Open up your ProjectsPLUS application for this topic, located in the Resources tab. View the Project Brief and then click the 'Start new project' button and set up your project group. Save your settings and the project will be launched.
2. Navigate to the Media Centre and read the newspaper article and letters from your constituents, and then listen to the talkback radio segment.
3. You now need to complete research on the topic of 'Increasing the legal age of drinking from 18 to 21', and enter your findings as articles in the Research Forum under each of the following pre-loaded topics:
   i. Medical reasons for increasing the age of drinking
   ii. Social consequences of alcohol abuse
   iii. Financial repercussions of alcohol abuse
   iv. Political reasoning


The information that you gather will be used to help you complete the 'Party Policy' template. View and comment on other group members' articles, and rate the information they have entered. You may also like to add additional topics to the Research Forum.

4. When your research is completed, print your Research Report and then navigate to your Media Centre and select 'Templates'. Open the 'Party Policy' template to use as a guide to complete this section. Use your Research Report to help you discuss why the current law regarding the drinking age needs to change.
5. Decide on a policy for your party e.g. 'Increasing the legal drinking age from 18 to 21'. If you don't think the drinking age should be increased to 21, introduce a different party policy that will target binge drinking among Australia's youth.
6. Next, write a 3–5 minute speech based on your research. Your audience will be the political party that you represent. In the speech, you will need to describe and justify your new policy (i.e. provide arguments in favour of it). Once your group has written the speech, select one group member to present the speech to the rest of the class.
7. Create a poster describing the process that will have to be followed in order to make your policy into law. Use a flow chart to illustrate this process.
8. On the last page of your 'Party Policy' document, a properly referenced Bibliography needs to be completed. An example is provided.
9. Print your 'Party Policy' document and each student's Research Report, and submit them to your teacher along with your poster.

on Resources

**ProjectsPLUS** Making laws (pro-0133)

# 4.29 Review

## 4.29.1 Summary

Having explored this topic, you can now:

- identify that we have laws to create a society in which people can live peacefully and know what can be done freely and what is prohibited
- explain the difference between rules and laws and how they operate in different environments
- describe how a nation's laws will reflect the moral and ethical values of that society and how, over time, these values may change and, therefore, so will the nation's laws
- explain how the court system consists of a Local Court, District Court, Supreme Court and a High Court, and that this is a hierarchical system; generally, the more serious the offence, the higher the court in which it is heard
- understand that if you do not like the decision of a lower court, you may appeal to a higher court to have it changed, and that a number of specialised courts also exist
- identify that Australia uses the adversarial system as our method of trial
- identify and describe the functions of the numerous specialised personnel associated with the adversarial system, including the judge, magistrate, accused, sheriff's officers, prosecutor, plaintiff, defendant, witnesses, tipstaff and jurors
- explain the jury empanelling process and the role of the jury in the legal process
- differentiate between public law (concerned with regulating people's behaviour and protecting the freedom of individuals) and private law (which deals with how individuals interact with other individuals)
- explain the differences between civil law (which is part of private law and deals with non-criminal matters such as trespass, defamation and negligence), criminal law (part of public law and focused on protecting individuals from others doing the wrong thing) and common law (also known as judge-made law)
- outline the changes in perception of customary law and its ability to co-exist with Australia's legal system

- make connections between domestic laws and international law, and the role the United Nations has in terms of enforcing international law
- understand the legal system can perform its protective role only if people have equal access to the law
- suggest barriers to equal access to the law; such as costs, time, distance, language and procedural complexities, and the changes that are being implemented to overcome these barriers
- describe the difference between federal, state and local levels of government, and explain the roles and responsibilities of each government
- explain how laws are linked to changes in our society and how laws are amended to reflect current trends
- explore ways you can make a difference by taking political action through lobbying, cyber activism or being an active citizen
- explain how the media, lobby groups and political parties can work towards solving issues in our society
- explain the process of a referendum
- outline what democracy is and how it functions in our society and distinguish between different forms of governments
- explain the process of voting in Australia and differentiate between different voting methods
- identify similarities and differences between political parties
- describe the roles and functions of political parties
- explain how pressure groups work towards influencing the government
- outline how the federal government is formed and describe the role the prime minister and Cabinet have in developing policies and making decisions on behalf of Australians
- explain the division of power between the legislative, executive and judiciary.

## 4.29.2 Key terms glossary

**absolute majority** half the number of formal votes received in an election plus one
**access** equal opportunity for all people to make use of the legal system
**adversarial system** system in which two opposing parties present their arguments to a magistrate or judge
**anarchy** disorder or confusion due to the absence of government or laws
**appeal** an application for a legal decision to be reviewed in a higher court
**bail** to release an accused person who is awaiting trial
**balance of power** the power an individual or party has by holding the casting vote
**balance of probabilities** the standard of proof in civil trials
**ballot paper** a piece of paper on which a voter records her or his vote
**beyond reasonable doubt** the standard of proof required in a criminal trial
**Cabinet** the group of select government ministers that meets regularly to decide major issues of government
**coalition** a government that becomes possible because two or more parties agree to work together and hence gain the majority of votes
**committal hearing** a hearing in a Local Court to decide whether there is enough evidence to put a person on trial for an indictable (serious) offence
**common law** system of law based on the previous decisions of judges, or precedents
**constitution** a document that outlines the powers of the parliament
**constitutional monarchy** a form of government in which a non-elected monarch acts as the head of state. There are usually constitutional limits on their power
**court** a place where people can resolve disputes relating to law
**defendant** the party in a criminal or civil trial against whom an action has been brought
**democracy** a system of government where political power lies with the people
**discriminate** to treat somebody differently or less favourably because of her or his personal characteristics such as gender, ethnicity or religion
**Dorothy Dixer** a rehearsed question asked of a government Minister by a backbencher of their own political party
**double dissolution** a decision made by the head of state to dissolve both houses of parliament
**Federation** the colonies (now states) agreed to join together to form Australia

**Federal Parliament** the House of Representatives and the Senate
**formal vote** a vote that has been correctly marked on a ballot paper in accordance with the rules
**hierarchy** a grading system based on order of importance
**House of Representatives** the lower house of Federal Parliament, sometimes called the people's house
**hung parliament** a situation where no political party has a majority of elected members in parliament
**independent** a candidate or member of parliament who is not a member of a political party
**indictable offence** a serious criminal offence
**judge** a court official who has the power to make decisions on matters brought before a court of law
**judiciary** the system of courts that interprets and applies the law in a country
**jury** a group of people (either 12 or six) selected to hear the evidence in a court case
**kinship** traditional indigenous rules that outline the correct way of living
**laws** a set of legal rules
**lobby** to attempt to enlist popular and political support for some particular cause
**magistrate** a court official who hears cases in the lowest court of law
**minority government** a political party does not have a majority of overall seats in the parliament but they have still formed a government
**non-parole** a set period of time a prisoner must serve before they can be released on the promise of good behaviour
**parole** to release a prisoner on the promise of good behaviour
**plaintiff** the party that commences a civil action
**portfolio** an area of government responsibility, such as health or defence
**precedent** a previous legal decision that serves as a rule or pattern in future cases
**preferences** order in which voters list candidates at an election, after they have made their first choice
**preferential system** a counting system that is designed to allow the majority of Australians to have their say in an election by stating the order in which they prefer candidates
**private law** deals with disputes between private citizens
**private member's bill** a bill that is introduced by backbenchers as opposed to coming from the government
**proportional representation** when each senator must win a set proportion of votes, or quota, to win a Senate seat
**prosecutor** the party bringing a criminal action against the accused; usually the state
**public law** deals with disputes that affect the community
**quota** the number of votes that a Senate candidate must get to win a Senate seat
**referendum** a vote where the entire electorate is invited to vote on a particular proposal
**Senate** the upper house of the Federal Parliament, sometimes called the State's House
**separation of powers** the functions of government are spread across the legislative, executive and the judiciary.
**statute law** laws made by parliaments
**sue** to bring a civil action against another person for causing damage or injury
**tort** a civil wrong
**trial** a process to determine whether someone committed a criminal act or caused another person

## on Resources

**Digital documents** Key terms glossary (doc-32667)
Match-up (doc-32753)
Crossword (doc-32787)
Wordsearch (doc-32798)

**Interactivities** Wordsearch (int-7901)
Crossword (int-7884)

## 4.29 Activities

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

### 4.29 Exercise 1: Glossary quiz online only

### 4.29 Exercise 2: Multiple choice quiz

1. Which court hears cases concerning interpretations of the Australian Constitution?
   A. Local Court
   B. District Court
   C. Supreme Court
   D. High Court
2. What type of law is based on the previous decisions of judges?
   A. Common law
   B. Statute law
   C. Legislation
   D. Summary offence
3. What is the name given to a legal decision that sets a pattern for future similar cases?
   A. Jurisdiction
   B. Precedent
   C. Statute
   D. Amnesty
4. Which political party is the oldest party in Australia?
   A. National Party
   B. Labor Party
   C. Liberal Party
   D. Democrats
5. How many jurors are required for a criminal case?
   A. 10
   B. 8
   C. 6
   D. 12
6. What is the upper house in the Federal Parliament called?
   A. House of Representatives
   B. Senate
   C. Legislative council
   D. Parliament
7. What is the name of a law that has been passed by Parliament?
   A. Tort
   B. Precedent
   C. Statute
   D. Common law
8. Jason's lawyers have appealed the decision handed down in the District Court. Which court would hear his appeal?
   A. Local Court
   B. District Court
   C. Supreme Court
   D. Federal Court
9. Which of the following alternatives list two factors that can create barriers to accessing the law?
   A. Cost of obtaining legal advice and lengthy trials
   B. Cost of obtaining legal advice and magistrates
   C. Understanding legal terminology and precedents
   D. Lengthy trials and precedents

10. Which of the following statements is correct concerning the District Court?
    A. A magistrate hears the cases.
    B. It deals with the most serious criminal cases, such as murder.
    C. It hears appeals from the Local Court.
    D. It is the highest court in Australia.
11. Don is running as a Liberal candidate in the Senate at the next federal election. What is the voting system used in the Senate?
    A. First past the post
    B. Preferential
    C. Proportional representation
    D. Absolute majority
12. Ray believes he has been unfairly dismissed from his job as a TV presenter. He wishes to sue the station for a breach of contract. Which area of law would deal with this situation?
    A. Criminal law
    B. Civil law
    C. Public law
    D. Tort law
13. Which of the following is **FALSE** regarding the state government?
    A. The head of the government is the Premier.
    B. The head of state is the Governor.
    C. There are six parliaments in Australia.
    D. The process of government is similar to that of the federal government.
14. Which of the following are examples of pressure groups?
    A. Trade unions
    B. Welfare organisations
    C. Business associations
    D. All of the above
15. Which of the following is an advantage of the jury system?
    A. Juries do not have to give reasons for their decisions
    B. The final decision is made by more than one person
    C. Ordinary people may not understand complex legal technicalities
    D. Juries can be persuaded by the skills of clever lawyers
16. Which of the following best describes a jury?
    A. Hears the evidence presented in a trial and delivers a verdict based on this evidence
    B. Determines whether someone has committed an illegal act
    C. Presides over lengthy trials and ensures that the correct legal process is followed
    D. Imposes the sentencing
17. Which of the following statements is **FALSE**?
    A. A bill is the first draft of an Act of Parliament.
    B. Most laws in Australia are made by federal and state parliaments.
    C. Australia has a legal system that began in the United States of America.
    D. 90% of all civil cases begin in the Local Court.
18. Which of the following statements concerning political involvement is **FALSE**?
    A. Australian citizens 18 years of age and over must vote in federal, state and local elections.
    B. Voting is an important part of Australia's democratic system.
    C. The interests of society rely heavily on the many decisions taken by governments.
    D. The prime minister must be a member of the Senate.
19. Which of the following statements is **FALSE**?
    A. Trespass is part of public law.
    B. Negligence is part of private law.
    C. Tort is part of criminal law.
    D. Constitutional law is part of public law.
20. Which of the following alternatives display examples of indictable offences?
    A. Homicide, child abuse, vandalism
    B. Stealing, vandalism, rape
    C. Manslaughter, summary offences, child abuse
    D. Murder, child abuse, armed robbery

21. Which of the following statements is **TRUE**?
    A. The Governor-General meets with a select number of government ministers after the second reading to decide whether the bill will become an Act of Parliament.
    B. During the second reading the responsible minister describes the main purpose and likely benefits of the bill.
    C. The committee stage is another word for the second reading stage.
    D. A bill is a legally binding law.
22. Which of the following statements concerning the federal government is **FALSE**?
    A. Ministers are appointed to look after particular government portfolios.
    B. The Governor-General represents the British monarch as head of state.
    C. There are two houses of Federal Parliament — an upper house (the House of Representatives) and a lower house (the Senate).
    D. The prime minister is the head of the government.

## 4.29 Exercise 3: Knowledge and understanding

1. Match the following definitions to the words shown in bold, below.

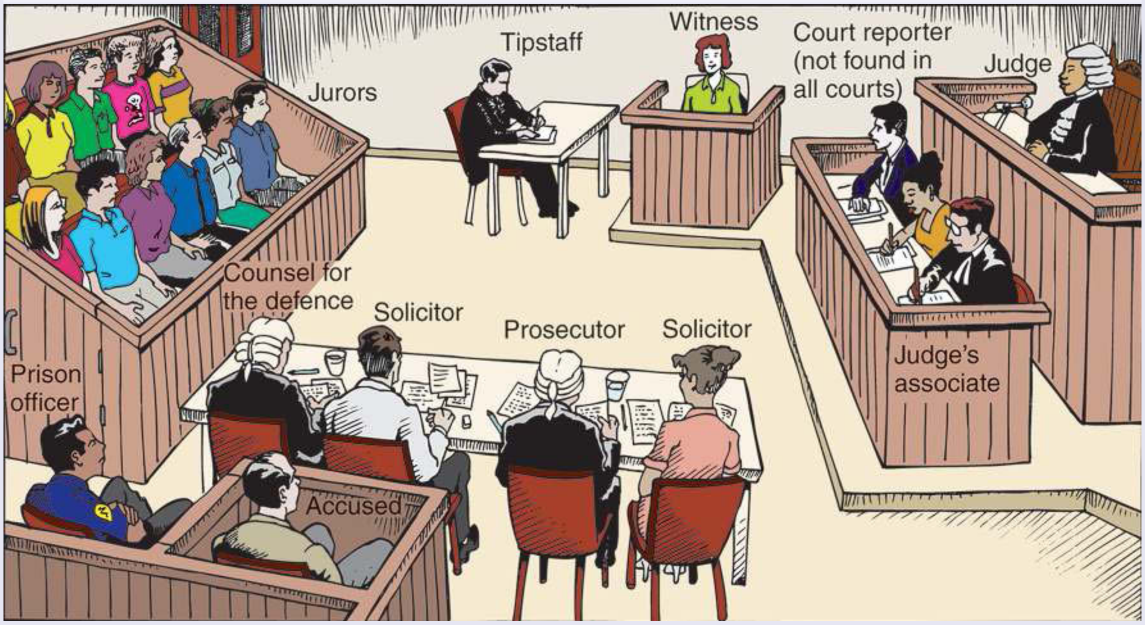
| | | | | |
|---|---|---|---|---|
| **bail** | **appeal** | **plaintiff** | **committal hearing** | **beyond reasonable doubt** |
| **trial** | **judge** | **anarchy** | **sue** | **magistrate** |

   (a) The party that commences a civil action
   (b) A process to determine whether someone committed a criminal act or caused another person a loss
   (c) An application for a legal decision to be reviewed in a higher court
   (d) To bring a civil action against another person for causing damage or injury
   (e) Disorder or confusion due to the absence of government or laws
   (f) The standard of proof required in a criminal trial
   (g) A court official who hears cases in the lowest court of law
   (h) To release an accused person who is awaiting trial. Another person usually guarantees to pay a large sum of money if the accused does not later appear in court on a certain date.
   (i) A court official who has the power to make decisions on matters brought before a court of law
   (j) A hearing in a Local Court to decide whether there is enough evidence to put a person on trial for an indictable (serious) offence
2. Which sort of society would you prefer to live in — one with too many laws, or one with too few? Explain.
3. List the basic rules that apply within your home. How are these rules different from laws?
4. What is the role of the court?
5. Explain why a court hierarchy is necessary for the system of appeals to operate.
6. What is the difference between:
   (a) criminal and civil law
   (b) indictable offences and summary offences
   (c) common law and statute law?
7. Provide examples of two laws that reflect the values of our society.
8. Explain how laws can be changed.
9. Identify those groups in society that may have trouble achieving equal access to the law.
10. 'Whenever the legal system discriminates against people it has failed in its main duty.' Discuss.
11. There are many different punishments that can be used, depending upon the severity of the crime, the circumstances and the age of the offender. One punishment used in the Australian Capital Territory was called 'shaming'. It involved a 12-year-old charged with shoplifting being forced to wear a T-shirt with the message 'I am a thief' on it. Do you think this is an appropriate method of punishment? Why?


12. Describe the difference between the three levels of government.
13. What is a referendum?
14. What does it mean to be an active citizen?

**15.** Examine the following illustration of a criminal proceeding. Outline the role of each person named.

Who's who in this courtroom scene?




## 4.29 Exercise 4: Challenge your understanding

1. List five rights you have that relate to your ability to decide how you will be governed.
2. Explain two ways individuals and groups can influence government decisions.
3. What is the difference between the 'first past the post' and 'preferential' voting systems?
4. How is a monarchy different from a constitutional monarchy?
5. Why do you think the attitude towards customary law has changed over time?
6. Assess how the separation of powers ensure that our democracy is run smoothly and justly?

**Fully worked solutions and sample responses are available in your digital formats.**

on Resources

**Digital documents** Worksheet 4.15 Wrap up! (doc-32809)
Glossary quiz (doc-32765)
Multiple choice quiz (doc-32776)

**eWorkbook** Customisable worksheets for this topic (ewbk-0861)

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# OPTION TOPICS



OPTION

# 5 Our economy

## 5.1 Overview

### 5.1.1 Introduction

In your study of Commerce, you have learnt about the problem of relative scarcity — the concept of limited resources available to satisfy our unlimited needs and wants, and the concept of having to make choices as to which wants we satisfy first.

In doing so, you have learnt about how the government can assist in satisfying our needs and wants and how they assist in the operation of the economic system. In performing their role, the government makes decisions to improve the living standards of all citizens, but forces acting from within and without the economy make this job difficult. Issues arise, such as unemployment, inflation, market failure and poverty, and the government attempts to correct these.

How does the government perform in these areas? In measuring economic performance, we are trying to determine the number of citizens who are unable to access a minimum level of goods and services and/or access to education, health and other community services.

The information obtained by measuring the performance of an economy will direct government policy. This topic will identify and discuss some of the key areas of economic performance, how performance is measured and how well Australia is performing. It will also examine current issues facing our economy and how governments operate to manage economic performance.

**CONTENT FOCUS**

On completion of this topic, you will have:

- investigated Australia's place in the global economy
- investigated measurement of economic performance, trade patterns, the impact of changes in our economy and the implications of these changes for consumers, businesses and broader society
- investigated global influences on Australia's economy.

**on Resources**

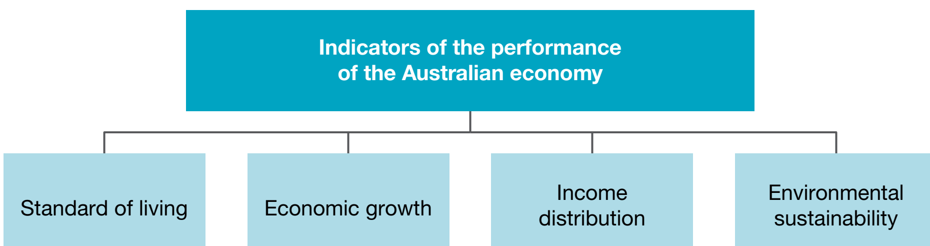
| | | |
|---|---|---|
| **Video eLesson** | Our economy (eles-3510) | |
| **Digital documents** | Worksheet 5.1 Start up! (doc-32709) | |
| | Key terms glossary (doc-32668) | |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0862) | |

# 5.2 Ways of assessing the performance of the Australian economy

If you were driving on a major motorway and saw a large electronic sign warning motorists of a hazard up ahead, would you change your driving behaviour? Most people would.

It's the same with the economy. Economists assess economic performance as a way of determining what lies ahead, so that changes can be made to keep the country travelling in the right direction.

There are many signs or indicators that can tell us how well the economy is performing. Standard of living, economic growth, income distribution and environmental sustainability are just some of the factors that can indicate performance of the **economy**.




## 5.2.1 Standard of living

Economies measure their economic performance to determine how well the economy is providing for its citizens. Measures such as unemployment rates, inflation rates and the rate of economic growth, however, do not provide information about living standards.

Changes in the performance of an economy as measured by indicators such as inflation and unemployment rates and the rate of economic growth can have an impact on both material and non-material living standards. As such it is important that the government — which is responsible for managing economic performance — takes changes to living standards into consideration when implementing policies and strategies to improve economic performance.

Living standards can be improved by economic growth.

As we will see, this can require a delicate balance in policy implementation as some policies may improve material living standards but may negatively affect non-material living standards, and vice versa.

Let's examine the link between the indicators of economic performance and material and non-material living standards.

## Living standards and economic growth

Improvements in material living standards are most often measured by changes in gross domestic product (GDP), the same measure used to calculate the economic growth rate of an economy. The difference in the calculation is that the value of GDP is then divided by the number of people in the economy (GDP per capita). This measure aims to calculate the value of goods and services each member of the economy has access to. If there is an increase in the value of GDP per capita, it is assumed that the material living standards of each individual in the economy have improved. However, this is not always the case.

Material and non-material living standards can be improved by owning your own home.


## Strong and sustainable economic growth

It is expected that economic growth will be both strong and sustainable. Strong economic growth is defined as a growth rate of between 3 per cent and 4 per cent on average. At this rate of economic growth, goals such as low inflation, full employment and external stability should be achievable. However, a higher rate of growth — such as 5 per cent, for example — would lead to economic problems, and living standards would ultimately suffer. At a rate of 5 per cent per year, the pace of the economy would be pressed beyond its productive capacity. The producers of goods and services would not be able to keep up with the demand. This would cause cost and demand inflation due to general shortages of resources, finished goods and services. It would also cause spending on imports to grow quickly.

However, an economic growth rate of less than 2 per cent per year would also endanger the government's economic goals. The unemployment rate would rise since there would not be enough jobs and incomes created for a growing **labour** force. Higher unemployment would lead to poverty and falling material living standards, because living standards suffer unless economic growth takes place at the right speed.

## The weaknesses of GDP per capita as a measure of living standards

An increase in the value of goods and services produced per year divided by the number of people in the economy does not necessarily mean that people are better off or that their standard of living has improved. There are a number of things to consider when using GDP per capita as a measure of living standards.

### GDP per capita is an average

GDP per capita gives only a rough idea about average material living standards, provided there is also a fairly even distribution of the goods and services produced, and provided the extra production makes people happier. There is no evidence to suggest that an increase in GDP is shared equally among the people in the economy. These are assumptions that can make rises in GDP per capita quite meaningless.

### GDP per capita assumes improvements in living standards

An increase in GDP doesn't necessarily mean a reduction in poverty rates.


It is assumed that an increase in GDP per capita results in better employment opportunities, an increased life expectancy, increased consumer choice, improved provision of government services, and better health and education services. These improvements should help to raise both material and non-material living standards. However, there is no information that tells us whether these improved GDP figures and employment figures have resulted from people working longer hours or from machinery and computers being introduced to replace labour in performing some jobs.

These factors can reduce our leisure time and perhaps the quality of family life, as well as resulting in increased unemployment and an increased need for welfare.

### GDP per capita doesn't measure the environmental impact

Pollution and environmental damage, resource depletion, stress, urban problems, overcrowding and possible increases in crime and divorce rates are not measured by GDP per capita, yet they have a significant impact on our living standards. Money spent on combatting crime, legal fees involved in family divorce and the costs of dealing with pollution are actually recorded as additions to GDP's value. GDP does not distinguish between good economic activity and bad activity or negative external events.

**on** Resources

**Digital document** Worksheet 5.2 Economic growth — missing words and terms (doc-32710)

**Weblink** Australia's GDP annual growth rate

## 5.2.2 Economic growth

Economic growth leads to employment and infrastructure growth.

Every day you use goods and services. Think of the things you use on a daily basis: bread for breakfast, a bus or train service to get to school, pens and paper to complete homework, and electricity for charging your laptop and mobile phone. And you will need all of these goods and services again tomorrow.

The need for an economy to produce goods and services to replace the ones that have been used or **consumed** is one of the main reasons why economies must grow each year. Other reasons why economies must grow include population growth — which requires additional goods and services — and the desire to continually improve the quality of products. Imagine if producers never improved telecommunication: mobile phones and the internet would not have been invented. **Economic growth** is defined as real growth in the volume (value) of goods and services produced by an economy over a period of time.

Measuring economic growth is important as it is linked to many other aspects of the economy and to its ability to satisfy the needs and wants of consumers.

## Measuring economic growth

Economic growth occurs when an economy increases the volume of goods and services produced over a period of time. The most commonly used general measure of this is the annual rate of growth in real gross domestic product (GDP). GDP represents the total market value of final goods and services produced by a country over a period of time. This figure is adjusted to remove the effects of any inflation existing within the economy over the same period.

The most common means of measuring GDP is by using the aggregate demand (or aggregate expenditure) method shown in the diagram below.

Aggregate demand method of measuring GDP

**Aggregate demand**

=

**Private sector consumption expenditure (C):**
Spending by individuals, households and businesses on goods and services to satisfy immediate needs and wants such as food, clothing and household items

+

**Private sector investment expenditure (I):**
Spending by individuals, households and businesses on the accumulation of capital goods (for future use) used to produce other goods and services such as computers, houses, factories and machinery

+

**Government sector consumption expenditure (G1):**
Spending by all levels of government on goods and services to satisfy immediate needs and wants such as spending on the day-to-day running costs of government departments

+

**Government sector investment expenditure (G2):**
Spending by all levels of government on the accumulation of capital goods used to produce other goods such as roads, hospitals and schools

+

**Expenditure on exports (X):**
Spending by households, businesses and governments overseas on goods and services produced in Australia

–

**Expenditure on imports (M):**
Expenditure by Australian individuals, households, businesses and governments on goods and services produced overseas

It is generally considered acceptable for the rate of increase in GDP to be between 3 per cent and 4 per cent per year. This rate allows for an increase in population, the replacement of goods and services that have been consumed, improvements and new products.

Anything less than 3 per cent is considered slow growth and suggests the economy is not keeping up with the demand for goods and services.

A rate of growth above 4 per cent is often considered to be too high; in other words, the economy is growing too quickly and the rate of growth will not be **sustainable**. A sustained rate of growth means the economy is able to maintain that level over a significant period.

Consumer goods must be continually produced to replace the ones that have been consumed.

## 5.2.3 Income distribution

### Types of income

When we think of **income**, we generally consider this to be money, in the form of wages and salaries, as payment for supplying our labour. However, income generally derives from any productive activity. Productive activity — an activity that produces a valued good or service — comes from the use of any productive resource, and the income is then distributed to the owners of those productive resources.

Labour resources receive a wage or a salary, and owners of capital resources receive a share of the business profits in the form of rent, interest and dividends. Income can then be transferred to other members of the economy. It can be transferred to the government in the form of taxation payments or income and in turn be redistributed by the government in the form of income payments or income in kind to the elderly, children, the unemployed, the sick or the disadvantaged.

Economists classify income into four types:

1. Income from labour such as wages, salaries, and profits, sometimes called *earned* or *factor income*.
2. Income from property or wealth-earning assets, such as land and capital. This category includes dividends, rent, royalties and interest and is sometimes called *unearned income*.
3. Income derived from the government such as social services and subsidies, called *transfer payments*.
4. *Income in kind* which represents the substitution of goods and services, such as a company car or house for money.

### Equitable distribution of income

Income distribution is therefore the manner in which productive income is divided amongst participants in the production process and other dependent members of the economy. Obviously, some members of the economy have the ability to acquire greater amounts of income than others. In Australia, these income inequalities do exist and the government has sought to improve income distribution and living standards across the board.

It is now a well-accepted principle in Australia that the government should interfere to redistribute income a little more equally than would otherwise be the case under **laissez-faire** capitalism. Some governments have adopted a relatively conservative attitude about how to interpret the notion of equality, and how far to promote this principle. In recent years, there has been a greater awareness of the plight of the low-income earner and a greater realisation of the need to reduce income inequalities. As an objective, the government does not aim for an equal distribution of income, because this would reduce the incentive to work and earn income. However, it does aim for a more equitable distribution of income. This means that the government wants to provide a minimum living standard for low-income earners and their families, and to reduce some of the income inequalities suffered by other members of the economy.

In the government's list of priorities, this objective does not rank as highly as low inflation and full employment, but it has increased in importance because of the undesirable effects of inflation and unemployment on income distribution. The degree of redistribution required is a matter for value or ethical judgements.

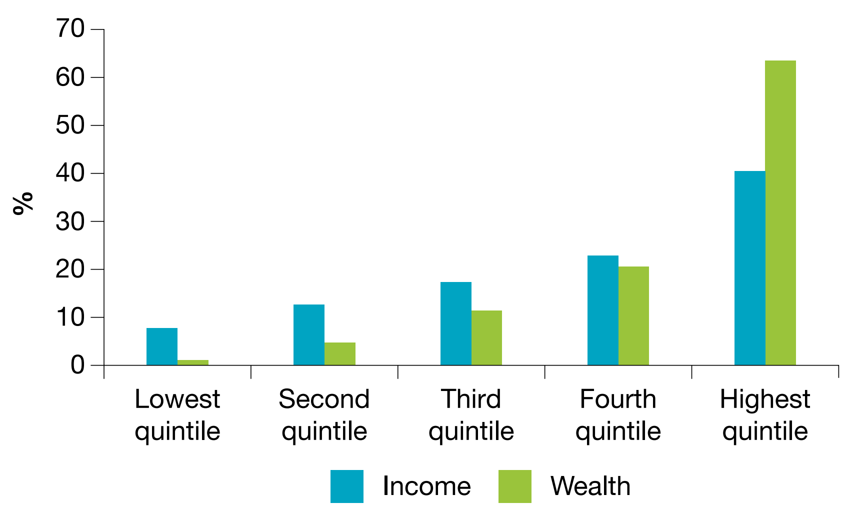
## Measuring equality

From 1945, as the British Empire lost its influence in Asia, Australia began forging closer ties with its Asian neighbours and the United States. Australia also changed its immigration policies between the late 1940s and the last decades of the twentieth century. From the 1960s onward, it responded to major social changes that were sweeping much of the world. These moves would have major implications for Australia — socially, politically and culturally. Although Australia had traditionally considered itself to be an egalitarian nation, this period of social upheaval would force many people to question just how fair the nation was towards all its citizens. Events, particularly in the 1970s, would lead many Australians to question the extent to which Australia was a truly democratic nation. And it was also during this turmoil that the country would finally break free from some long-held religious prejudices.

Australians have traditionally considered our nation to be an **egalitarian** society; that is, one that values equality and fairness. Some people have even referred to Australia as a 'classless society' because every member of society, in theory, has the opportunity to succeed. However, in 1945, there were a great number of people whose voices were left out of the national debate, including Indigenous Australians, non-white immigrants, homosexuals and many women. It would take decades for Australia to become a society that would truly value citizens of any colour, sexual orientation, religion and gender.

But in some ways Australians have become less equal since 1945. Today, while it is possible for people from a range of backgrounds to get an education, gain employment and become productive members of society, many Australians still live in poverty, and lack access to education, healthcare and other essential services. In the past 70 years, Australia has seen the gap between the richest and the poorest widen. The graph below shows that the lowest 20% of income earners receive about 8% of all income, while the highest paid 20% receive 40% of all income. Wealth is even more inequitably distributed, with the wealthiest 20% of people owning approximately 63% of total wealth. Rising house prices in the capital cities has helped cause this.

Share of equivalised disposable household income (EDHI) and net worth per quintile, 2017–18




***Source:*** ABS Survey of Income and Housing, 2017–18

This extract from the article 'Still working for the man? Women's employment experiences in Australia since 1950' suggests gender inequality in work remains an issue for women in Australia.

The changes in Australian society since 1950 have been profound. From a minority of women in paid work in 1950, it is now the norm to combine both paid work and family care across the life course. The reality of the male breadwinner exists in a minority of families, as both women and men contribute to the family funds in the majority of households. Major changes have occurred in the conditions of work for women. Whereas lower wages for women were the law in 1950, this is now forbidden through anti-discrimination and industrial legislation. Equal opportunity at work and equality of conditions and rewards are now the law.

What kind of working world do the grand-daughters of those women of the 1950s face? They are the most highly educated cohort with more women than men possessing university degrees. They will spend longer than their grandmothers in the paid workforce and can enter any occupation and industry and expect equal pay with their male co-workers. They can expect organisations (at least those with more than 100 employees as set out in the legislation) to have employment equity programs that consider and address equity issues. What is the current reality at work? There are many more opportunities for women to enter the workforce but these opportunities decrease if women choose to move to managerial ranks. Most managers are men. Women may be constrained in their choices by hostile organisational cultures and lack of practices that assist with managing both paid work and family care. Are women still working for a man? Most probably.

## CASE STUDY

### The power of democracy

A democratic society is one in which the people have the power to determine the laws and actions of the state. Australia has one of the oldest continuous democracies in the world. In 1945, all white Australian adults over 21 were entitled to vote in the federal election. This right did not extend to most Indigenous Australians. In 1962, as the civil rights movement built up momentum in Australia and overseas, the Menzies government extended the vote to all Aboriginals and Torres Strait Islanders (see subtopic 4.7). In 1971, Liberal senator Neville Bonner became the first Indigenous person to sit in Parliament. It was not until 2016 that Linda Burney became the first Indigenous woman to be elected to the House of Representatives.

In 1975, Australian democracy was put to the test when the Labor prime minister, Gough Whitlam, was dismissed by the Governor-General, Sir John Kerr (see topic 8). This dismissal was due to many reasons. One reason was because the government's supply of money had been frozen by the Opposition in the Senate. This made it impossible for the prime minister to govern the country.

Gough Whitlam watches on as the Governor-General's secretary reads the notice dismissing him in November 1975.

The Whitlam dismissal was significant because it was the first time that many Australians realised that the governor-general (who was appointed by the prime minister to represent the Queen) could sack an elected prime minister. Despite the unsettling nature of this decision, the response by all parties demonstrated the strength of Australian democracy. All parties, including the Labor Party and trade unions, agreed to resolve their issues though the established democratic process.

Today, all Australians aged 18 and over are required to vote in state/territory and federal elections. Each person's vote is cast in secret and recorded on a ballot (list of candidates); ballots are counted by independent monitors. Donations to political parties above a certain level must be disclosed. The whole electoral process is designed to be as fair and inclusive as possible, and is a great source of pride for many Australians.

## Causes of inequality

Demand-side factors:

1. **Unemployment, hours worked and incomes**
   As an economy enters a downturn, businesses will cut production, often resulting in employees working fewer hours or being made unemployed. These changes will affect the income of these workers, even if only for a short period.
2. **Inflation and purchasing power of incomes**
   People without access to regular wage increases are going to suffer during times of inflation, as the purchasing power of their income is diminished.
3. **Our capitalist economic system as an institution**
   In a capitalist economy, those with 'better' labour are able to receive greater incomes. Some of these incomes can be saved, invested or used to purchase assets which generate additional incomes.
   Also, inheritances allow wealth to be passed on, making income inequalities generational.

Supply side factors causing inequality:

1. **Increases in the costs of production,** usually through wage rises, can see workers retrenched.
2. **New technology** can also lead to workers being retrenched.

These two supply-side factors will lead to a decrease in the incomes of some people, and thus an increase in inequality.

## Effects of greater equality

1. **Living standards**
   The government's aim in redistributing income is to ensure that every member of the economy has a reasonable standard of living, above the recognised poverty line. People considered high income earners have access to better health care, better education and are able to 'build' on this to further create income and wealth. People below the poverty line suffer financial hardship, loss of confidence, and resentment. This can lead to an increase in crime rates.
2. **The way resources are allocated or used**
   Those doing the purchasing send messages to producers. A large gap between rich and poor may result in the increased production of luxury items and under-production of more essential items, such as housing, education and medicine.
3. **Production levels and unemployment rates**
   The wealthier members of an economy can influence economic performance through their willingness to save rather than spend. By redistributing some of that income, the government is able to stimulate production and therefore affect the level of employment.
4. **Labour productivity and the motivation to work**
   Too much equality can be a negative thing because it can impact upon efficiency. People on lower incomes might use income inequality as a motivator.

If equality was too great, there would be little incentive to work hard or study past the leaving age. Some jobs would never be filled if we didn't reward those employees for completing dirty, dangerous jobs.

## Distribution of income

In a market economy, people earn an income according to the demand and supply of the labour they offer. Some people earn high incomes and some earn low incomes. We also know that because of changes in the level of economic activity some people lose their jobs and spend some time earning no income.

The private sector does not provide for people who don't, can't or are limited in their ability to earn an income. In these circumstances the government intervenes to provide these people with a minimum level of income through welfare payments.

Modern Australia (and society in general) recognises that it has an obligation to look after the more vulnerable in our society and that those who can most afford to should carry the majority of the burden for providing for these vulnerable people. As a result, the following government measures are used to redistribute income and provide support to some groups in society.

The government uses taxation and its budget to ensure a minimum level of income for all Australians.


- *Welfare benefits*. The government provides direct payments through its welfare system to vulnerable Australians. These include payments to the unemployed, Indigenous Australians, the aged, veterans, the sick, and the disabled. The government also makes payments to certain groups for various reasons from time to time. Examples include:
  1. *the First Home Owner Grant*. This helps young people move into their first home and out of renting or public housing
  2. *an extra Family Tax Benefit payment*. This is an extra amount for eligible families when a child is born. It helps with the cost of raising children.
- *Progressive taxes*. Income tax is applied progressively. Higher income earners pay a larger percentage of their income in tax than low-income earners. The money collected from this taxation can be used to pay for welfare benefits to those in need and to provide necessary government services such as healthcare, education and housing. Taxation rates change periodically according to government policy and aims for the economy.
- *Provision of essential services*. The government does not only pay money directly to underprivileged people. It also redistributes income by providing services to low-income earners, giving them benefits such as healthcare, public education, concession travel cards for school children and rental assistance.
- *Compulsory superannuation*. To protect the future of Australians and reduce future reliance on government pensions, the government introduced a compulsory national superannuation scheme for all employees through a levy (currently 9.5 per cent of wages earned) on employers. The objective is for workers to be able to live off this superannuation and have less need for welfare when they retire.

**DISCUSS**

Income inequality has risen substantially in Australia over the past two decades, even with the current redistribution-of-income methods in place. Do you think the Australian government should do more to try to reduce income inequality?

## 5.2.4 Environmental sustainability

Economic growth should be sustainable. Sustainable growth refers to the rate at which Australia's economy can grow its production of goods and services without jeopardising the living standards of future generations. The obvious problem in this context is that our demand for non-renewable natural resources is creating serious environmental problems such as pollution, global warming, resource depletion and loss of biodiversity. For example, clearing old growth forests and land, discharging waste into our waterways and the atmosphere, building in sensitive areas, building more freeways, and encouraging excessive consumerism may maximise our short-term living standards and lifestyles, but what future will our children have? Will they be able to enjoy the same material and non-material living standards as we do? So, in this sense, the rate of economic growth is only sustainable in the long term if it does not deplete non-renewable resources, degrade the environment and reduce the ability of future generations to meet their needs and wants. In some ways, a trade-off exists between economic growth and some aspects of current and future living standards.

### DISCUSS

Many non-renewable natural resources are being used up to maintain our current living standards. As a class, discuss whether tighter restrictions should be placed on using these resources even if it means that economic growth will be damaged as a result.

### on Resources

**Video eLesson** Clearing forest for an oil well in the Amazon (eles-2437)

### 5.2 Activity: Research and communication

1. As a class activity, play Monopoly. As you play in groups of four, keep a record of the money you earn.
   (a) How much money did you start with?
   (b) How much money did you earn by working (passing GO)?
   (c) How much money did you earn from owning property?
   (d) Did you earn any other income? If yes, from what source?
   (e) What were your costs?
   (f) At the end of the game, construct a series of graphs that illustrate the wealth of the various members of the group. You may use a chart generation program to assist in this.
2. In groups, discuss the impact of economic growth on the environment in your local area.
3. Visit the Centrelink website and research the payments that may be available to a single female over the age of 70.

### 5.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What are the four indicators of the performance of the Australian economy?
2. Distinguish between GDP and GDP per capita.
3. Describe some of the problems that could occur in a nation if its growth rate fell below 2%.
4. Outline some of the weaknesses of using GDP per capita as a measure of the standard of living.
5. Define the term ‘economic growth’. How is it usually measured?
6. Explain the difference between GDP and real GDP.
7. State the components of aggregate demand.
8. As classified by economists, identify four different types of income.
9. What is meant by the term ‘transfer payments’?
10. Describe some of the causes of income inequality in Australia.
11. Explain why governments in Australia aim for a more equitable distribution of income.
12. Outline four ways that governments redistribute income in Australia.
13. Define the term ‘sustainable growth’.
14. Describe some of the problems that are caused by our demand for non-renewable resources.
15. Explain what is meant by ‘a trade-off exists between economic growth and some aspects of current and future living standards’.

**Fully worked solutions and sample responses are available in your digital formats.**

# 5.3 Government macroeconomic policy tools (monetary policy/fiscal policy)

## 5.3.1 The bigger picture

**Macroeconomics** refers to the branch of economics that involves the level of expenditure (the amount) or **aggregate demand** (total demand for goods and services in an economy). It involves looking at the general influences on national spending, national output, national income, employment and overall material living standards. It emphasises the need for some degree of government involvement and manipulation of aggregate demand and economic activity demand-side policies.

Macroeconomic policies involve two key areas of influence by the government: budgetary/fiscal policy and monetary policy. Each of these policy areas attempts to manipulate the level of demand and spending in the economy to achieve the economic goals of the government. Let's examine each of these policies.

The budget is delivered to parliament annually by the treasurer.

## 5.3.2 Budgetary/fiscal policy

**Budgetary policy** (also called **fiscal policy**) is a government economic policy that involves altering the level of government spending and government receipts. Each year the government prepares its **budget**, which outlines its priorities for the coming year and, in some cases, for the years ahead. The budget is a document outlining where the government plans on receiving money (receipts) and where it intends to spend that money (expenditure).

The difference between the receipts of the government and the expenditure by the government is known as the budget outcome. There are three possible budget outcomes:

- budget deficit, where the level of government receipts is less than the level of government expenditure
- budget surplus, where the level of government receipts is greater than the level of government expenditure
- balanced budget, where the level of government receipts equals the level of government expenditure. This is a rare event, and the government usually aims for a fiscal balance, where the value of budget deficits equals the value of budget surpluses over the business-cycle period.

Budgets can have a negative impact on some members of society.

To better understand how the government uses the budget to achieve its economic goals, it is important to understand the two components of the budget: budget receipts and budget spending.

## Government budget receipts

Budget receipts are the government's incoming receipts of money that pay for budget spending. The most common form of government receipt is **taxation**. There are two types of taxes:

- Direct taxes are those that refer to levies imposed directly onto the incomes of individuals and companies.
- Indirect taxes are those placed on the sale of goods and services and added onto the price of items.

Another type of government income is non-tax revenue. This includes things such as asset sales, interest, the repayment of HECS debts by university students and profits from government business enterprises such as Australia Post.

### Direct taxes

Examples of direct taxes include:

- *personal income tax*. This is a direct tax paid by individuals who earn incomes in the form of wages, salaries, rent, interest and dividends. For most people, income tax is deducted by their employer from their pay packet before they are paid (pay-as-you-go or PAYG). However, for self-employed individuals, a different system exists for estimating income and tax that must be paid.
- *capital gains tax (CGT).* This tax is levied on the real profits made from the sale of capital assets such as land and shares purchased after 1985.
- *the Medicare levy.* This direct tax is designed to provide medical insurance to help cover the basic costs of healthcare. It is normally levied at a rate of 2 per cent of personal taxable incomes.
- *withholding tax*. This is applied to individuals who fail to register their tax file number when receiving income such as dividends and interest. It is currently levied at the top tax rate of 47 per cent (including the Medicare levy).
- *company tax*. This is a flat or proportional tax levied directly on business profits. The current company tax rate is 30% for some companies, or 27.5% for companies that are eligible for the lower company tax rate. In 2018, the government passed a law to reduce this tax to 25 per cent by 2021–22.
- *fringe benefits tax (FBT).* This represents a direct tax paid by firms on the value of 'perks' provided to employees, such as a company-provided car or house. It is currently levied at 47 per cent of the taxable benefit.
- *superannuation fund tax*. This tax is levied at 15 per cent of most contributions as well as on the interest from fund investments. People aged over 60 can currently withdraw their super tax-free.
- *petroleum resource rent tax (PRRT).* This is levied at 40 per cent of the profits made from petroleum operations.

### Indirect taxes

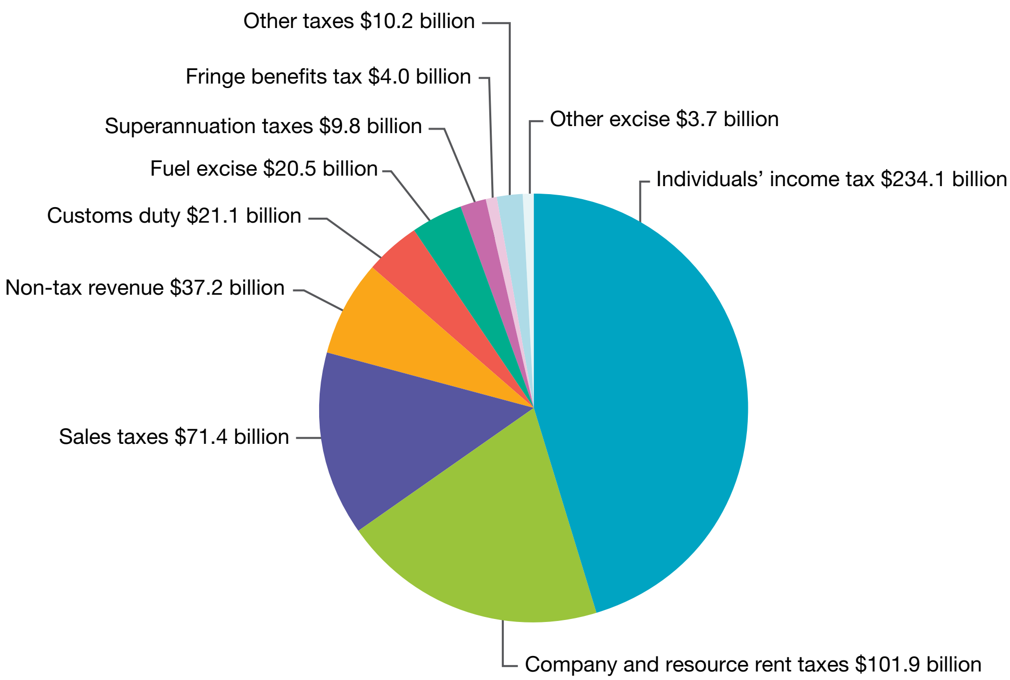
Examples of indirect taxes include:

- *excise duty*. This is an indirect tax imposed on selected, produced goods such as petrol, LPG, beer, spirits, wine and tobacco. It is a flat percentage added to the cost of the product. For example, the excise on unleaded petrol is about 30 per cent of the price of each litre sold. The precise rates applied are adjusted twice a year and are generally linked to changes in the Consumer Price Index.
- *customs duties.* These are taxes levied on certain imported goods to raise revenue and protect local producers from foreign competition. Since the 1970s, governments have had a policy of reducing tariffs to increase competition in Australia and to reduce prices for consumers.
- *goods and services tax (GST).* This tax was introduced in July 2000. It is a broad-based, indirect tax levied at the rate of 10 per cent on many goods and services in the economy.

The tax on petrol provides the government with a significant source of revenue.

The following pie chart summarises the sources of government revenue in 2019–20. Income tax on individuals is easily the main source of receipts, followed by revenues from company and resource rent taxes.

Sources of government budget revenue for 2019–20



## Government budget spending

Budget spending is how the government uses the receipts it collects to provide certain goods and services for the community. Government spending is designed to affect the incomes of consumers, the level of demand and economic activity in the economy, inflation, trade and living standards. Government budget spending is allocated mainly to:

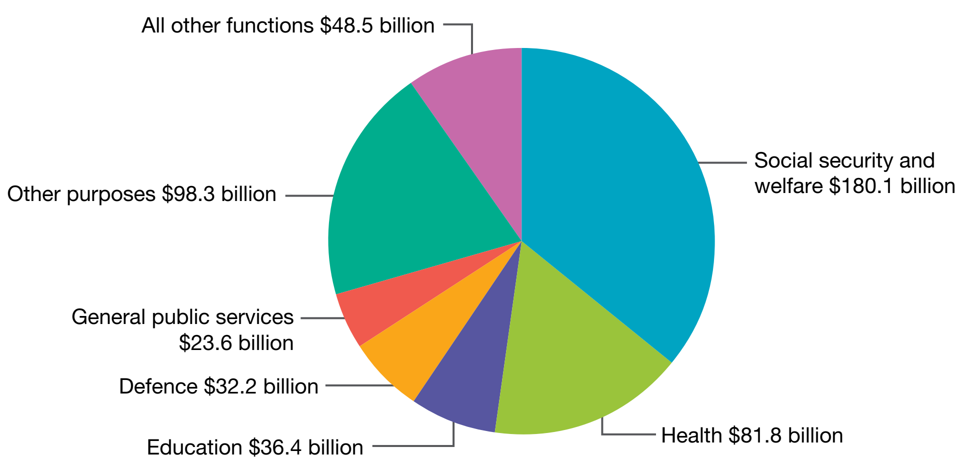
A part of government spending goes to the provision of welfare.


- *social security and welfare*. These payments go to the neediest groups in society including the unemployed, aged pensioners and people with disabilities. The main aim is to redistribute income, thereby helping to reduce poverty and improve general living standards.
- *health.* This involves providing medical attention to consumers, paying the wages and salaries of hospital staff, and outlays on building and furnishing hospitals.
- *defence.* This money is used for the payment of staff and day-to-day running expenses for the armed services, which includes payments for peacekeeping activities.
- *education.* Public education is provided by paying staff at universities, supporting state and non-government schools; vocational education and training; and building programs.
- *transport and communications*. This involves spending on government infrastructure such as roads, shipping, aviation and rail services.
- *housing and community amenities*. This includes spending on public housing and the First Home Owner Grant.
- *public-debt interest*. This is the cost to the government of paying interest on its debts or borrowings. Much of the debt incurred by the government comes from having to finance a budget deficit.
- *net payments to other governments*. These are federal payments to state and local governments to enable them to provide community services including public education, health, housing and transport.

Other areas to which government budget spending is allocated include mining, manufacturing and construction, other economic affairs, agriculture, forestry and fishing, recreation and culture, public order and safety, and fuel and energy.

The pie chart below shows the relative importance of the government's main areas of spending in 2019–20.

Allocation of government spending for 2019–20



### Impact of the budget outcome

When the government delivers its budget it has an outcome in mind.

Budget deficits are designed to be expansionary; they encourage spending through tax reductions and increased government spending. It is expected that the increase in spending by the government and by consumers (due to lower taxation payments) will lead to increased economic growth, lower unemployment, and consequently increased living standards.

Budget surpluses are designed to be contractionary; they discourage spending through tax increases and decreased government spending. It is expected that the decrease in spending by the government and by consumers (due to higher taxation payments) will lead to a slowing of the economy.

## 5.3.3 Monetary policy and the role of the Reserve Bank of Australia

In addition to altering the level of spending in the economy through taxation and direct government spending, the government can also manage the economy through monetary policy.

**Monetary policy** is a policy operated by the Reserve Bank of Australia (RBA) that seeks to manage the level of spending in the economy. It involves controlling the money in the economy and the rate at which money flows around the economy. The primary instrument of monetary policy is the manipulation of interest rates to alter the cost, availability and demand for borrowing money. Because interest rates have the capacity to alter the level of spending in the economy, they can help to achieve the government's goals of low inflation, strong and sustainable economic growth and full employment, ultimately improving Australia's living standards. Monetary policy operates without the approval of parliament and can be altered quickly through changes to the cash rate by the Reserve Bank of Australia at its monthly meetings.

The Reserve Bank of Australia controls the amount of money in the economy.


The RBA has three means of influencing the flow of money, which affects how money is spent in the economy. These are:

- *changing interest rates.* It does this through market operations.
- *influencing the exchange rate.* It achieves this by buying and selling Australian dollars.
- *persuasion.* It uses its influence to achieve the desired direction of lending activities.

### The setting of interest rates

Interest rates represent the cost of borrowing money. Whenever you borrow money you are required to repay that money, generally with interest. There is a price for borrowing money and that price can change. An increase in the price of borrowing money will generally see a decrease in the demand for money. The opposite is also true.

The official price of borrowing money is called the **cash rate**. The cash rate is the interest rate that applies to a specialised market called the short-term money market. This cash rate depends on the overall deposits of cash in the short-term money market, which, in turn, is controlled by the RBA through its market operations. Market operations involve the Reserve Bank of Australia either buying back or selling second-hand government bonds through the short-term money market. Whether the cash rate rises or falls depends on the Reserve Bank of Australia's decision to either buy back or sell these **bonds**.

Interest rates are the cost of borrowing money.


If the Reserve Bank of Australia (RBA) wanted to slow inflation, it would encourage interest rates to rise. This would discourage borrowing and spending. How would this happen? First, the RBA would announce a rise in the cash rate target at its monthly meeting (held on the first Tuesday of each month) and provide the reasons for its decision. This sends a signal to the market of the direction in which the RBA believes the economy is heading. It would then set out to achieve this target by selling government bonds in the short-term money market. Financial institutions such as banks — which are keen to make a profit — would enter the short-term money market and buy these bonds because they are selling at a lower price with an attractive rate of interest. This creates a situation where financial institutions earn a better return, increasing their profits. The RBA achieves its aim as money is withdrawn from the market leaving less money available for borrowing and interest rates — the cost of borrowing — rise as there is a reduced supply. Financial institutions buying these bonds would then transfer deposits to the RBA to pay for the bonds. This directly reduces deposits or the supply of cash held by financial institutions.

The opposite is true if the Reserve Bank wishes to lower interest rates to stimulate demand. Buying back bonds from the banks and other financial institutions provides additional funds for the banks to lend, which would lower interest rates and encourage borrowing from consumers.

Higher interest rates make borrowing more expensive because the amount of interest to be repaid increases. Borrowing would mean a greater percentage of a person's income is required to repay debt — and that's money that could otherwise be used to buy goods and services. This is particularly true for home loans. Because of the large amounts borrowed, interest-rate rises can mean more income is needed to maintain repayments on home loans, increasing the financial stress on families. At the extreme end, it can lead to **mortgage** defaults and families losing their homes.

Higher interest rates can lead to mortgage defaults, causing families to lose their homes.


At a time when interest rates on borrowings are high, interest rates on deposits will also be higher. This is good for people with excess cash, who may choose to deposit their money in a bank account and earn interest on it rather than spending it.

Overall, spending falls, aggregate demand falls and economic growth slows down. The negative impact can be a decline in material living standards as consumers have less access to goods and services. Unemployment can also result from decreased spending, leading to negative effects on non-material living standards through financial stress, marriage breakdowns and increased bankruptcies.

### Influencing the exchange rate

The exchange rate is the price at which one currency is traded against other currencies. For example, when the Australian dollar appreciates in value, our currency is able to buy more of another currency. In effect, this means imported goods and services become cheaper as fewer Australian dollars are needed to buy the same quantity of imports.

The RBA can influence the value of the exchange rate by entering the foreign exchange market and buying or selling Australian dollars. If the RBA wanted to increase the level of economic activity and employment it would sell Australian dollars, increasing the supply and lowering the price. Imports would become more expensive and consumers would switch to locally produced goods and services. The opposite is also true.

While influencing the exchange rate is an instrument of monetary policy, it is seldom used and is generally reserved for times when the value of the Australian dollar is changing erratically.

### Persuasion

Persuasion is a strategy used by the RBA to talk up or down the level of borrowing, spending and economic activity. As a result of this, consumers and investors react and change their level of spending and borrowing. Statements by the RBA that suggest the economy is performing well will see an increase in consumer and business confidence and therefore an increase in the level of economic activity.

**on** Resources

**Digital document** Worksheet 5.3 Budget outcomes — interpreting figures and graphs (doc-32812)

### 5.3 Activity: Research and communication

Investigate the current cash rate and describe what this rate is trying to achieve.

### 5.3 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Explain what is meant by the term ‘budget’.
2. Explain the difference between a surplus and deficit budget.
3. Explain what is meant by a balanced budget.
4. What is a ‘cash rate’?
5. What is meant by ‘interest rates’?
6. Explain what is meant by budgetary policy.
7. Describe how a smaller budget deficit may affect economic growth and spending in the economy.
8. Distinguish between a direct tax and an indirect tax.
9. Explain how monetary policy works.
10. In 2018 and 2019, banks raised interest rates without waiting for the Reserve Bank to change the cash rate. Explain how this may affect the government’s published monetary policy position.

**Fully worked solutions and sample responses are available in your digital formats.**

# 5.4 Government microeconomic policy tools (trade, education, productivity)

## 5.4.1 The smaller picture

Microeconomics involves attempting to improve productivity.

**Microeconomics** involves examining the operation of the smaller fragments or units making up the whole economy, such as a particular business, an industry, a specific market or small sector of the economy.

Microeconomic policies involve government actions to assist industries or markets improve their productivity to make them more competitive and to improve outcomes for consumers through lower prices, greater choice and increased employment opportunities. All of these outcomes should lead to an improvement in the living standards of Australians. This is generally known as microeconomic reform. In recent years the microeconomic policy has centred on four main areas:

- trade liberalisation
- labour market reforms
- market deregulation
- the national reform agenda.

In addition to these areas, microeconomic policies have also been specifically directed at other areas of the economy such as:

- immigration
- the environment.

Let's look at these areas in more detail.

## 5.4.2 Trade liberalisation

Trade between nations has often been subject to protection from governments. The imposition of tariffs and **quotas** and the provision of **subsidies** have all worked to protect local industries from overseas competitors.

Tariffs are a tax on imports that raise the price of those imported goods, making the locally produced goods more price competitive. Quotas are a limit on the number of goods allowed into Australia. This resulted in locally produced goods having to be purchased when no imports were available. Subsidies were an amount given to local producers to help them lower their price and compete with imports.

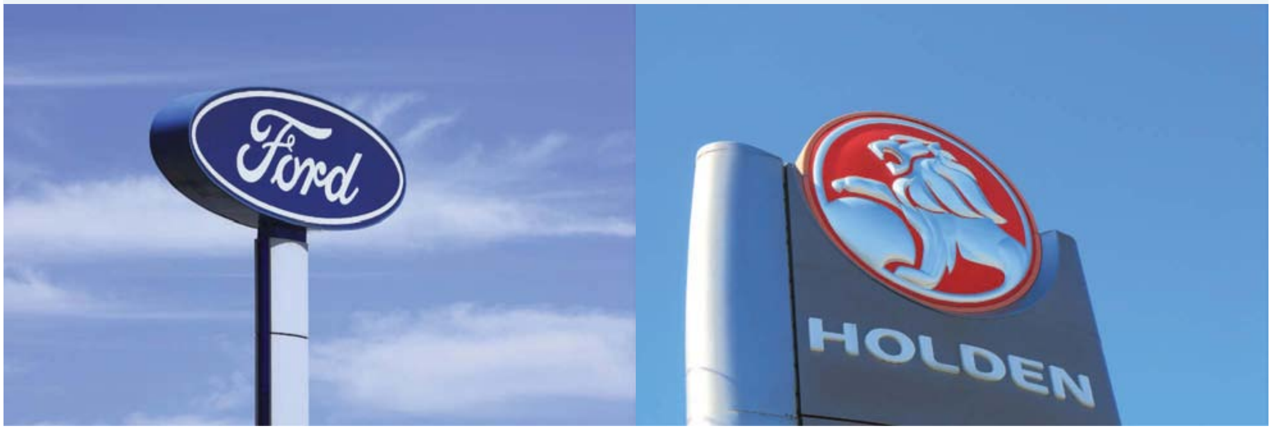
Trade liberalisation works to reduce these protection mechanisms, making it necessary for local businesses to improve their productivity so they can lower their costs and improve their ability to compete with overseas products on a level playing field. The result should be reduced prices for locally made goods and services so consumers benefit from choice options and lower prices. This enables more goods and services to be purchased, so material living standards are raised.

Trade liberalisation operates through:

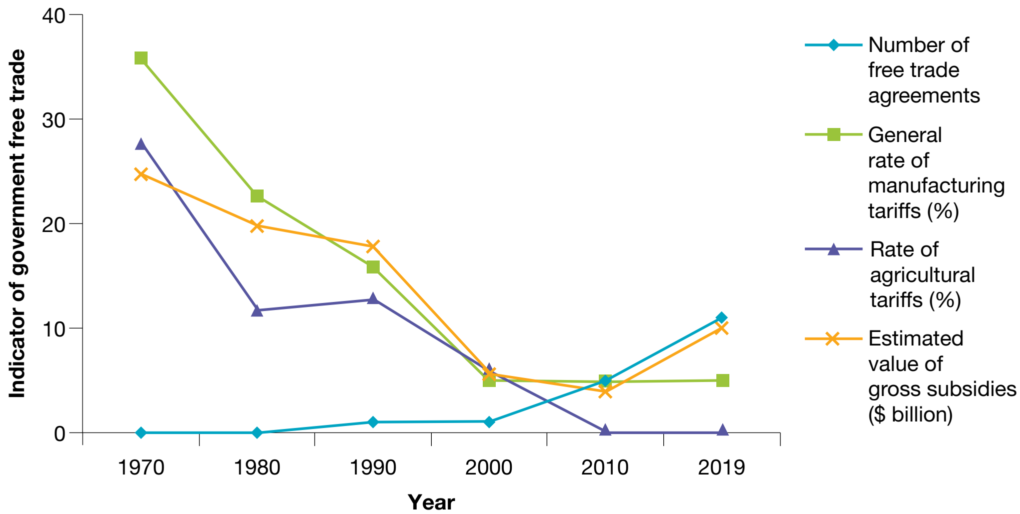
- cutting tariffs
- reducing subsidies
- abolishing import quotas
- increasing the number of bilateral free-trade agreements.

The following graph summarises changes made to Australia's level of protection since 1970.

Trade liberalisation has had some negative effects on Australian manufacturers, particularly in the motor-vehicle industry.




Indicators of the Australian government's adoption of trade liberalisation measures between 1970 and 2019




| Year | 1970 | 1980 | 1990 | 2000 | 2010 | 2019 |
|---|---|---|---|---|---|---|
| Number of free-trade agreements | 0 | 0 | 1 | 1 | 5 | 11 |
| General rate of manufacturing tariffs (percentage) | 36 | 23 | 16 | 5 | 5 | 5 |
| Rate of agricultural tariffs (percentage) | 28 | 12 | 13 | 6 | 0 | 0 |
| Estimated value or gross subsidies ($ billion) | 25 | 20 | 18 | 6 | 4 | 9 |

Reducing the level of protection has had some negative impacts. Industries where local manufacturers were unable to significantly change have ceased to operate, causing unemployment (the motor-vehicle industry is an example). This rise in unemployment has negative impacts on non-material living standards because stress, financial pressures, mortgage defaults and marriage breakdowns often result.

## 5.4.3 Labour market reforms

The **labour market** is the market in which wage levels and working conditions, such as hours of work, leave and terms of dismissal, are determined. Since the 1980s, various governments have introduced major microeconomic reforms by reducing their control over wages and wage determination. In tandem with trade liberalisation, these policies were aimed at lifting labour efficiency (a higher level of GDP per hour worked), keeping labour costs down and increasing Australia's productive capacity. This was done by shifting from a centralised wage system to one involving greater deregulation of wages based on collective bargaining or individual workplace agreements. In most cases, this created a situation where wages were linked to efficiency and determined at the workplace level, rather than by the government.

The deregulation of the labour market enabled some workers to access wage increases as a result of their increased productivity. This benefited both employer and employee as increased productivity meant lower costs and improved competitiveness. Wage increases could then be sourced from improved profits.

Improved competitiveness can also lead to increased employment levels and improved material living standards. On the other hand, non-material living standards may fall because increasing productivity usually means working more hours.

Labour market reforms have meant that many employees are now working on common law contract rather than awards or agreements.

## 5.4.4 Market deregulation

**Deregulation** is the removal of unnecessary government controls, restrictions and supervision in various areas of the economy. In Australia, this has seen progressive changes to key markets such as telecommunications, airlines, ports, shipping, primary produce and retail. Because economists believe that markets allocate resources most efficiently, a deregulated market should lead to lower prices due to stronger competition.

Market deregulation is seen as an important area of government microeconomic reform because it is a way of promoting many government economic goals including:

- *lower cost inflation* through lower prices due to competition between firms
- *strong and sustainable economic growth* through increased spending on goods and services due to lower prices (meaning higher demand)
- *higher employment in the long term* because new businesses will open in markets previously blocked, creating new jobs
- *external stability* through increased exports and less reliance on imports as locally produced goods become price competitive.

Market deregulation has led to increased competition in markets previously dominated by one company.

The result is that both material and non-material living standards will improve over time as the new competitors establish a share of the market.

## 5.4.5 National reform agenda

Microeconomic reform in Australia is currently undertaken as part of a national reform agenda designed to improve the lives of all Australians. From 1995 to 2005, reform occurred under the National Competition Policy (NCP), a broad collection of microeconomic reform measures designed to strengthen the level of competition and efficiency in markets. Strong competition results in greater efficiency, lower costs of production, cheaper prices and better quality of service and product.

Firms should be able to compete on a level playing field without one firm getting an unfair advantage because of its size or power.

In 1995, as part of the NCP reforms, the Australian Competition and Consumer Commission (ACCC) was established to help prevent powerful companies from artificially raising prices to exploit consumers. The ACCC now enforces the *Competition and Consumer Act 2010*, under which a number of anti-competitive practices are illegal, including the following:

- *Price fixing.* This is when firms collaborate to set common or similar prices that are higher than normal.
- *Exclusive dealing.* This occurs when companies refuse to supply their products or services to one or more firms.
- *Collusive bidding.* This is when competing firms that are submitting a tender or quote for the completion of works or to supply goods or services meet secretly beforehand to agree whose tender should be most attractive, cheapest and likely to win the contract.
- *Predatory pricing.* This is when dominant firms conduct a price war involving big cuts in selling prices with the intention of driving rival firms bankrupt, then later enjoying the market without competition.
- *Market zoning.* This happens when competing firms in a region divide the market into zones, areas or regions within which they agree not to compete with each other over prices.

In 2006, the Council of Australian Governments, which represents all of the state and territory governments and the federal government, adopted a national reform agenda to continue competition and regulatory reform.

on Resources

Digital document Worksheet 5.4 Case Study Death of the Australian Car Industry (doc-32814)

Weblink Anti-competitive behaviour

## 5.4.6 Environmental policy

Environmental policy refers to specific policies created by the government to improve the quality of our environment. Some measures introduced include:

- a government scheme that provides rebates for households that install domestic water tanks to collect rainwater and cut down on water usage from dams
- a government scheme that provides rebates for households that install insulation in their homes to reduce power bills
- a government scheme that provides rebates to households that install solar panels to provide their household with solar power and possibly return unused energy into the power grid, reducing reliance on fossil-fuel generated power
- the creation of the Renewable Energy Target (RET) scheme whereby 23.5 per cent of Australia's electricity will come from renewable energy sources by 2020
- the signing of the Kyoto agreement in 2008 to commit Australia to reduce emissions
- the imposition of a carbon tax (repealed in 2014)
- the signing of the Paris Agreement in 2016 — a global agreement to reduce greenhouse gas emissions and thus minimise the impact of climate change

Our environmental policy has led to the creation of a number of new industries.

These policies, among others, aimed to create new industries and provide a cleaner environment for future generations — a means of improving our non-material living standards. They also create jobs in new industries and make it important for traditional energy providers to become more efficient in order to remain competitive.

### 5.4 Activity: Research and communication

1. Complete the table below to compare the sole providers of services during the 1980s with the range of providers available today. Conduct research or consult an adult you know to help you with this task. The first item has been completed for you.

| Service | Previous provider | Providers today |
|---|---|---|
| Telecommunication | Telecom | Telstra, Optus, Vodafone |
| Electricity | | |
| Water | | |
| Gas | | |

2. Using the **Anti-competitive behaviour** weblink in the Resources tab, research some examples of anti-competitive behaviours. Share your finding with a partner.
3. In 2018 and 2019 the US government and the Chinese government both introduced tariffs on imported goods from each other. Analyse how these tariffs may affect the Australian economy.
4. In your opinion, should Australia follow the lead of the US government and impose tariffs on Chinese imports? Justify your answer.

### 5.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Define the term ‘microeconomic reform’.
2. Outline two key areas of government microeconomic policy.
3. Explain what is meant by a subsidy and how they may assist businesses.
4. Explain how one microeconomic reform can assist the government in achieving an economic objective.
5. How may reducing tariffs negatively affect one government economic objective.
6. Define what is meant by ‘environmental policies’, listing two important examples of such measures.
7. Government policies can overlap — the government has offered subsidies (or rebates) to consumers who install water tanks, home insulation and solar power panels. Describe how these subsidies form part of a government’s environment policy.

**Fully worked solutions and sample responses are available in your digital formats.**

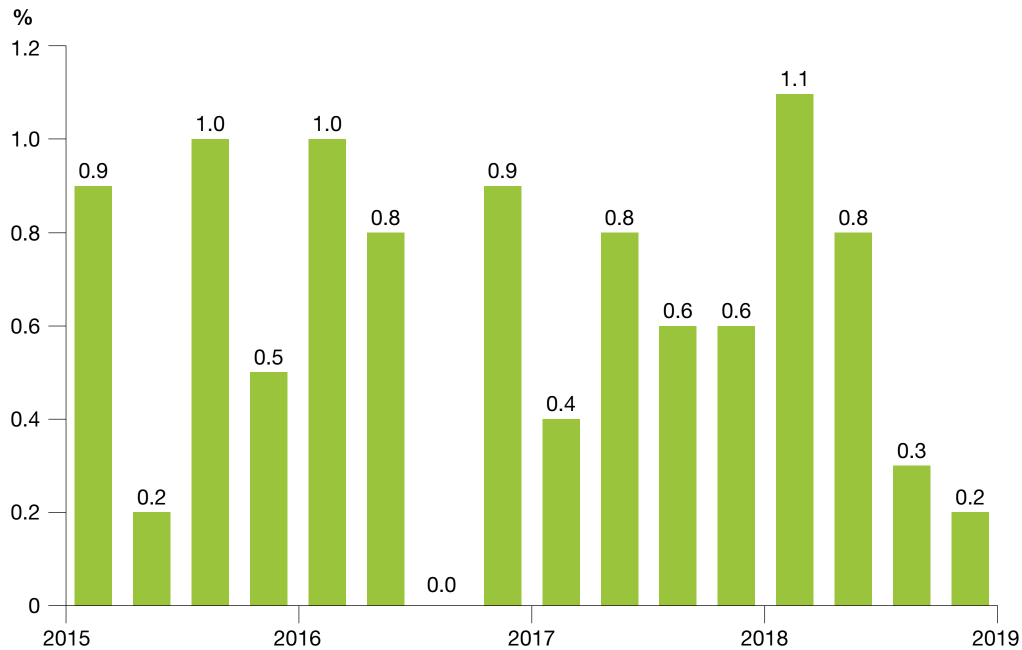
# 5.5 Economic growth rates

## 5.5.1 Australia’s economic performance

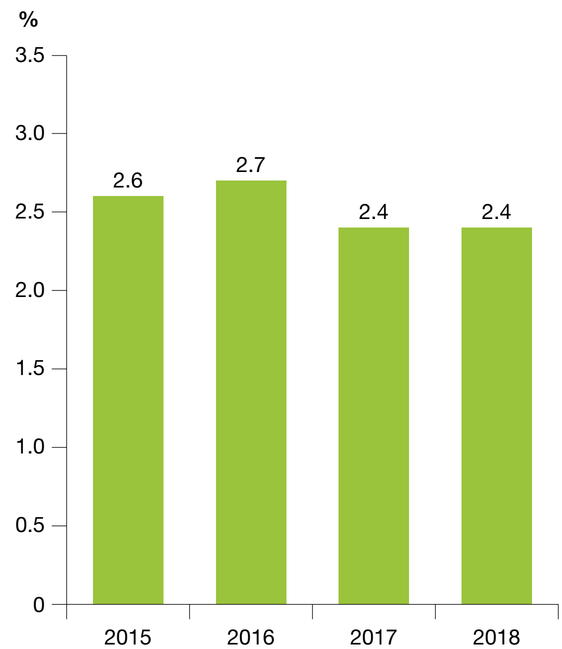
The following graph charts Australia’s rate of economic growth, as measured by changes in real GDP (GDP adjusted for the effect of inflation), from January 2015 to the end of the December quarter in 2018.

Changes to Australia’s GDP growth rate are published **quarterly** so the annual rate of GDP growth must be drawn from the quarterly figures provided.

Australia's GDP quarterly growth rate, January 2015–December 2018




Australia's annual GDP growth rate, 2015–18




For example, the annual growth rate of 2.4 per cent for 2018 shown in the graph is calculated by summing the rate for each quarter of 2018 shown in the graph above (1.1 + 0.8 + 0.3 + 0.2).

The graph 'Australia's annual GDP growth rate' shows that each year from 2015 to 2018 Australia's growth rate fluctuated but remained below 4 per cent (the figure identified as too high). The goal of achieving a rate of growth of between 3 per cent and 4 per cent, however, was not reached.

## 5.5.2 Comparison of Australia's performance with other economies

It is useful to compare Australia's economic performance with that of other countries. The United States is often considered to be the world's biggest economy and Australia's performance is regularly compared to it.

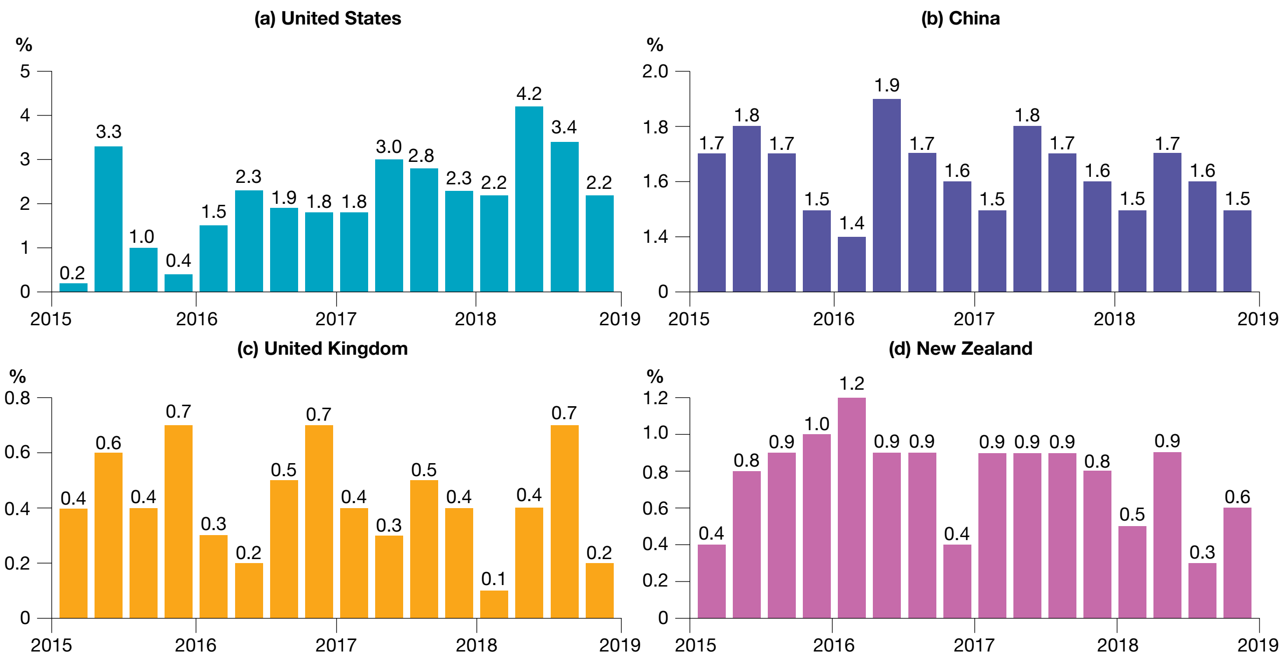
China is an important trading partner for Australia and changes in its growth can lead to a change in our growth. China buys large quantities of our mineral exports, so a decline in China's growth will have a negative impact on our mining sector and hence our growth.

Australia has historic ties to the United Kingdom. It is still one of our major trading partners and its economy is one of the main ones in Europe.

Finally, New Zealand is our closest neighbour and an important trading partner. The ties between the two countries are strong and New Zealand's economy often mirrors changes in our economy.

The following graphs show the growth rates of these four economies.

Growth rates of other economies, Jan 2015–Dec 2018: (a) United States, (b) China, (c) United Kingdom and (d) New Zealand




*Note:* The figures for the USA are not quarterly but rather are annual growth rates to the end of that quarter. The annual rate can be approximated by averaging the growth rates of the four quarters of the year. That is, for 2018, the United States economy grew by approximately 3%. The vertical scale is different for each graph.

## Limitations of measuring economic growth

While tracking changes in our GDP is the main means of measuring our economic growth, there are limitations to this form of measurement. Some of these limitations include the following:

- GDP doesn't include non-market production.
- GDP doesn't provide information about the distribution of production.
- GDP doesn't consider the impact of production on the environment.
- GDP involves some 'guesstimates' of production.

Let's look at each of these limitations.

### GDP doesn't include non-market production

If someone carries out jobs around their own home that could be done by a paid worker they are contributing to economic growth, but this contribution is not included because it can't be measured. For example, when someone paints their own home, the Australian Bureau of Statistics can't put a value on the work done, so this is not included in the official GDP figures.

### GDP doesn't provide information about the distribution of production

GDP only measures changes in the quantity of goods and services produced, but there is no information about who receives this increased number of goods and services. If the increased production is not shared equally among the citizens of the economy, it can be argued that the economy hasn't really 'grown'.

### GDP doesn't consider the impact of production on the environment

Increased production can mean increased pollution, quicker deterioration of the environment, depletion of non-renewable resources and increased climate change. These effects are referred to as **negative externalities** as they are considered negative outcomes of production. These externalities will all negatively affect our national wealth in the future.

### GDP involves some 'guesstimates' of production

The value of some non-marketed (not sold) production making up GDP has to be 'guesstimated', leading to inaccuracies. For example, estimations are made for the part of a farmer's production that is consumed on the farm, as is the annual value of accommodation provided by houses occupied by their owners. This leads to inaccuracies in Australia's GDP figures.

on Resources

Digital document Worksheet 5.5 Economic performance of a nation — understanding the data (doc-32826)

Weblink Australia's GDP annual growth rate

## 5.5.3 Comparison of Australia's performance with China

When considering Australia's economic performance, it is worthwhile examining it in comparison with countries with whom Australia has a significant relationship. In recent times, China has been one such country.

China's importance to Australia can be seen through our changing trade relationship over the past 24 years. In 1995, China ranked 7th overall in terms of our trading partners, moving to second overall in 2005, and ranked first in 2019. In 2019, the value of our trade with China was more than double that of our second most significant trading partner.

| Australia's changing trading relationships | | | |
|---|---|---|---|
| **Top 10** | **1995** | **2005** | **2019** |
| **Source of Australia's imports** | 1. United States $21 252<br>2. Japan $13 586<br>3. United Kingdom $8376<br>4. Germany $5676<br>5. New Zealand $4618<br>6. China $4320<br>7. Singapore $3724<br>8. Taiwan $2729<br>9. Italy $2579<br>10. Republic of Korea $2541 | 1. United States $27 876<br>2. China $22 742<br>3. Japan $18 927<br>4. Singapore $11 578<br>5. United Kingdom $10 744<br>6. Germany $9869<br>7. New Zealand $7388<br>8. Malaysia $6900<br>9. France $5730<br>10. Thailand $5723 | 1. China $78 321<br>2. United States $50 779<br>3. Japan $26 967<br>4. Germany $18 756<br>5. Thailand $17 900<br>6. Singapore $17 275<br>7. United Kingdom $16 426<br>8. Republic of Korea $14 302<br>9. New Zealand $14 224<br>10. Malaysia $14 054 |
| **Destination of Australia's exports** | 1. Japan $19 984<br>2. United States $7367<br>3. Republic of Korea $7042<br>4. New Zealand $6642<br>5. Singapore $5099<br>6. United Kingdom $4419<br>7. Taiwan $3994<br>8. Hong Kong $3813<br>9. China $3515<br>10. Indonesia $3300 | 1. Japan $31 719<br>2. China $19 173<br>3. United States $13 850<br>4. Republic of Korea $12 409<br>5. New Zealand $12 091<br>6. United Kingdom $9372<br>7. India $8184<br>8. Singapore $6604<br>9. Taiwan $5983<br>10. Thailand $4790 | 1. China $136 287<br>2. Japan $58 796<br>3. Republic of Korea $26 646<br>4. United States $23 098<br>5. India $22 316<br>6. New Zealand $15 039<br>7. Singapore $14 968<br>8. Hong Kong $13 419<br>9. Taiwan $12 201<br>10. United Kingdom $10 521 |
| **Trading countries** | 1. Japan $33 569<br>2. United States $28 619<br>3. United Kingdom $12 ,796<br>4. New Zealand $11 261<br>5. Republic of Korea $9582<br>6. Singapore $8,824<br>7. China $7835<br>8. Germany $7429<br>9. Taiwan $6723<br>10. Hong Kong $5895 | 1. Japan $50 646<br>2. China $41 914<br>3. United States $41 726<br>4. United Kingdom $20 116<br>5. New Zealand $19 479<br>6. Singapore $18 182<br>7. Republic of Korea $17 920<br>8. Germany $12 173<br>9. Malaysia $10 666<br>10. Thailand $10 513 | 1. China $214 608<br>2. Japan $85 762<br>3. United States $73 877<br>4. Republic of Korea $40 948<br>5. Singapore $32 242<br>6. India $30 409<br>7. New Zealand $29 262<br>8. United Kingdom $26 947<br>9. Thailand $25 727<br>10. Malaysia $24 180 |

***Source:*** https://dfat.gov.au/pages/default.aspx
*Note: All values are in A$*

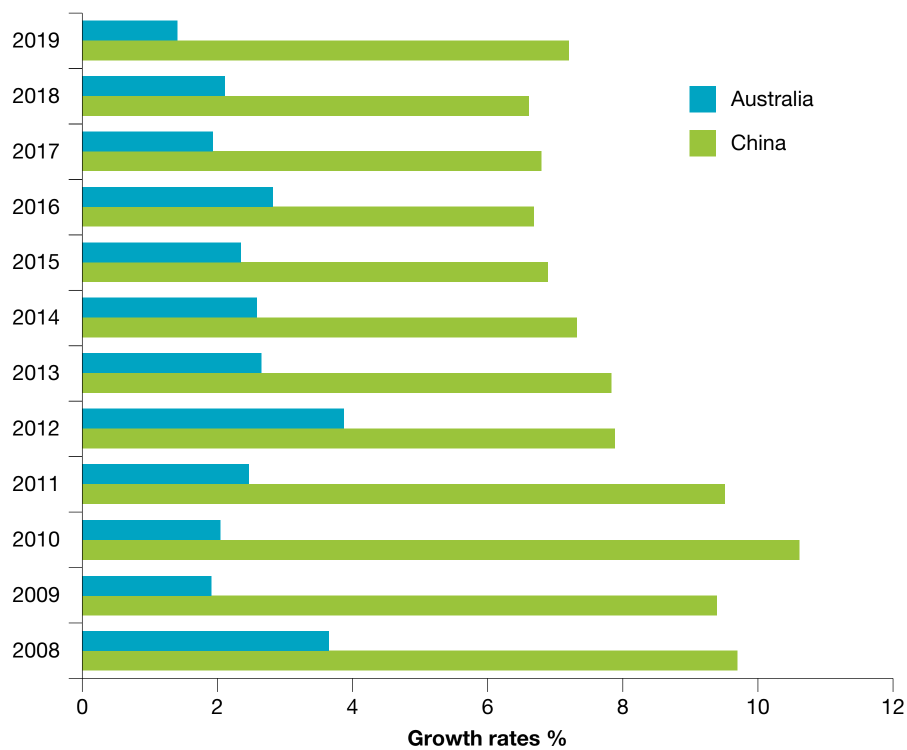
A further comparison can be made by viewing some key indicators for both countries:

| Indicator | Australia | China |
|---|---|---|
| Population (2018) | 25.2 million | 1395.4 million |
| Unemployment Rate | 5.3% (2019) | 3.61% (2019) |
| Minimum Wage | $740.80 (July 2019) | 2480 CNY (2019) |
| Average Weekly Earnings | $1237.90 (July 2019) | 82461 CNY (2018) |
| Inflation Rate | 1.6% (June 2019) | 3.0% (September 2019) |
| Interest Rate | 0.75% (September 2019) | 4.2% (July 2019) |
| Consumer Confidence Index | 92.8 (October 2019) | 122.4 (August 2019) |
| Home Ownership Rate | 65% (2016) | 90% (2014) |
| GDP per capita | US$56,919.40 (2018) | US$7,755.00 (2018) |
| GDP growth rate | 1.4% (2019) | 6.0% (September 2019) |

***Source:*** Based on data from Trading Economics, https://tradingeconomics.com/australia/indicators and https://tradingeconomics.com/china/indicators

China has been a rapidly developing nation over the last 30 years. In 1949, the average life expectancy in China was 35 years, it is currently over 76. This reflects the rapidly developing Chinese economy of the past 50 years. The below graph shows the economic growth rates for Australia and China from 2008 to 2019. It can clearly be seen that China has always had double the growth rates of Australia. This is typical of a rapidly developing nation. Once a nation has become developed such as Australia or the USA, the growth rates are generally much lower; figures around 2 to 5% are normal.

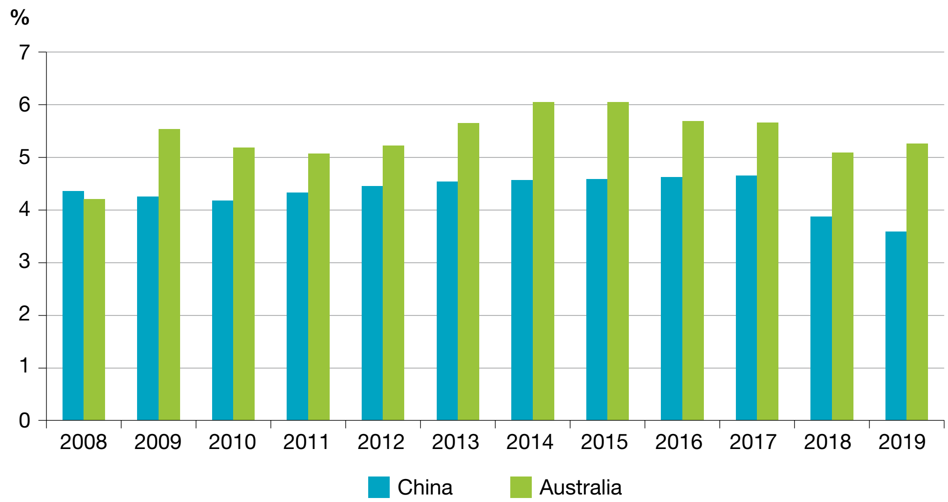
Economic growth rates Australia and China, 2008 to 2019




***Source:*** Based on data from Trading Economics, https://tradingeconomics.com/china/gdp-growth-annual and https://tradingeconomics.com/australia/gdp-growth-annual

The following graph shows that since the end of the Global Financial Crisis in 2009, Australia's unemployment rate has been consistently higher than China's.

Unemployment rates in Australia and China, 2008 to 2019




***Source:*** Based on data from Trading Economics, https://tradingeconomics.com/australia/unemployment-rate and https://tradingeconomics.com/china/unemployment-rate

Since the GFC the Australian economy has been one of the best performing in the world. However, the Chinese economy has been performing even better than ours. This is shown by its lower unemployment rates and higher rates of economic growth.

### 5.5 Activity: Research and communication

1. (a) Use the internet and complete the below table showing the latest unemployment and economic growth rates for the elected nations.

| Country | Unemployment rates % | Economic growth rates % |
|---|---|---|
| Australia | | |
| China | | |
| USA | | |
| Japan | | |
| Singapore | | |
| UK | | |
| Germany | | |

   (b) Construct two graphs that illustrate data in the above table.
2. Prepare a 30-second elevator pitch describing the current performance of the Australian economy. Research the major newspapers and media outlets to help you prepare this task.

### 5.5 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Use the words in bold below to complete the following questions.
   **Asia growth quarterly exports China environment USA double guesstimates**
   (a) Changes to Australia's Gross Domestic Product are published _________.
   (b) Generally, the Australian government tries to achieve a _________ rate of between 3–4%.

(c) A major purchaser of Australia's mineral exports is ____________.
(d) The world's largest economy is that of the ____________.
(e) A major limitation with measuring economic growth is that it does not consider the impact on the ____________.
(f) Some GDP figures are unreliable as they include ____________ of production.
(g) In 1995 the largest purchaser of Australia's ____________ was Japan.
(h) In 2019 the three largest purchasers of Australian exports were all located in ___________.
(i) Over the last 20 years China's growth rates have generally been more than ______________ those of Australia.

2. Describe how Australia's trading relationship with China has changed since the 1990s.
3. How has China's life expectancy changed since 1949?
4. Compare the unemployment and economic growth rates of China to those of Australia.

**Fully worked solutions and sample responses are available in your digital formats.**

# 5.6 Unemployment trends

## 5.6.1 What is unemployment?

As a student, you are constantly asked to think about your future and what you want to do when you finish school. While this may not necessarily be your immediate goal, eventually you will hope to gain employment. Employment enables us to earn an **income** so we can purchase the goods and services we need and want. In the workplace we can form relationships, and often our friendship groups later in life include our work colleagues. Employment also enables us to feel good about ourselves as we are contributing to society, being productive and interacting with others.

Unemployed people have to rely on the government and welfare for their income.

However, not everyone is always able to find employment, and sometimes circumstances arise that lead to a person losing their job. Unemployment is a situation where people who are willing and able to work are unable to find employment. The government recognises that there will always be some level of unemployment, but tries to reduce it. Its goal is to maintain the rate of unemployment at about 5 per cent of the workforce, or at a level where cyclical unemployment is avoided. We will talk about cyclical unemployment later in this topic; it refers to unemployment caused by cyclical or regular decreases in the level of economic activity.

Let's first look at how unemployment is measured and what the causes of unemployment are.

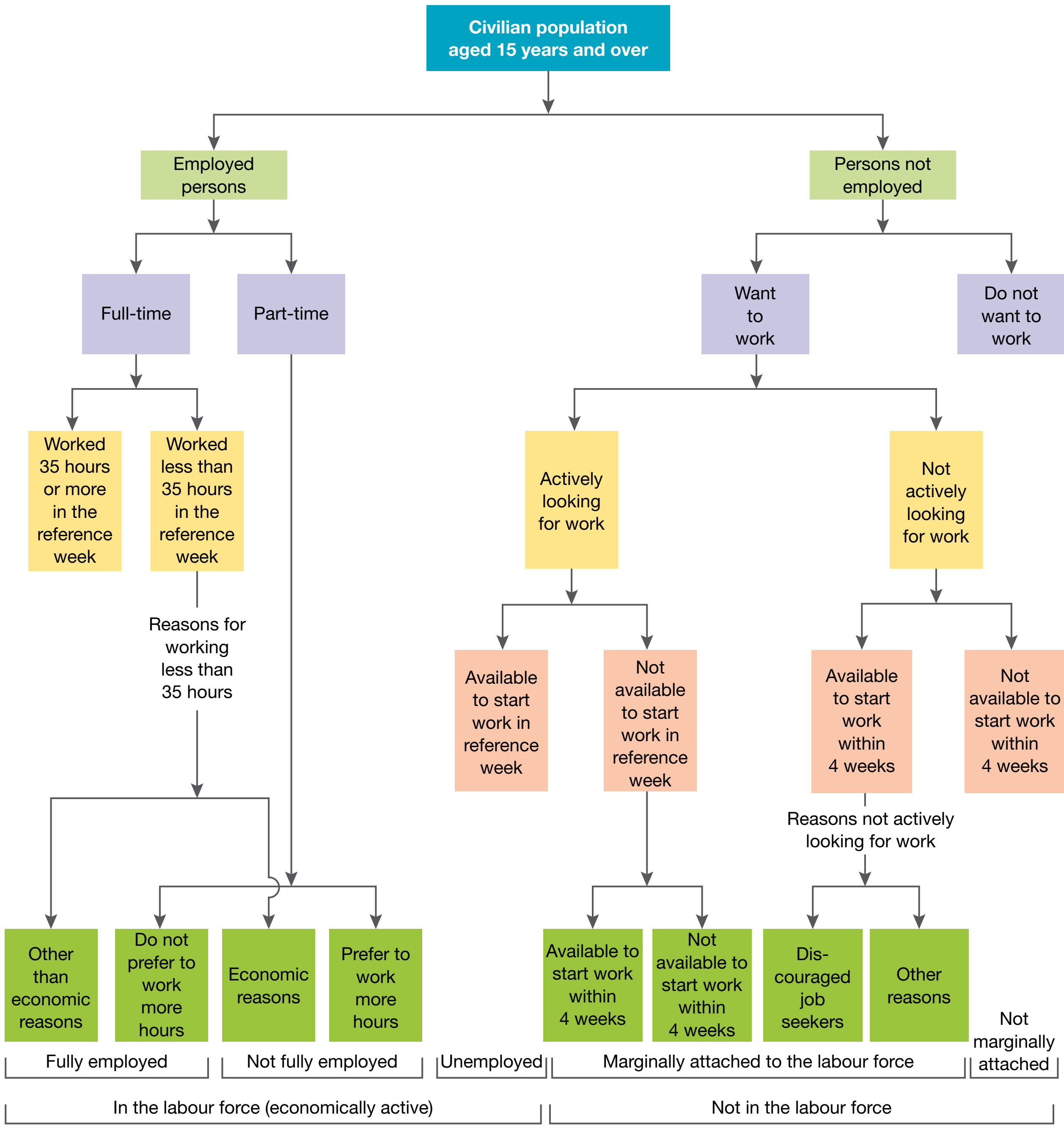
As part of the Labour Force Survey individuals are interviewed to determine their work status.

## 5.6.2 Measuring unemployment

In Australia, the unemployment rate is measured using the Labour Force Survey.

The Labour Force Survey is conducted monthly and involves about 32 per cent of the civilian population aged 15 years and over. This survey sample is selected from around the country. As shown in the following diagram, people in the labour force are classified and measured according to their labour force status.

The structure of Australia's labour force survey




The Australian Bureau of Statistics (ABS) defines the labour force as people who are older than 15 years and who are able and willing to work. This definition includes people who are classified as employed — that is, they work full time (usually more than 35 hours per week) or part time (more than one hour per week); work for payment or profit; are self-employed; work in a family business; or have a job but are prevented from working due to illness, strikes, holidays or other similar situations in the survey week.

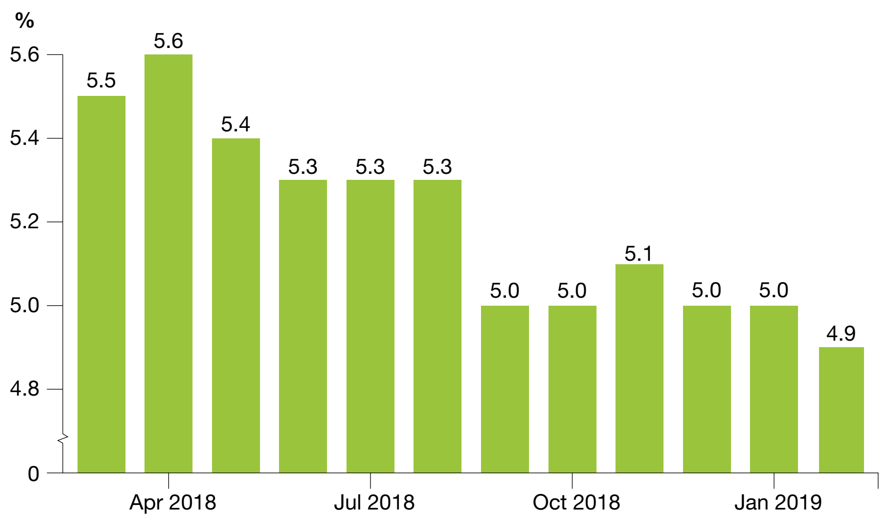
The definition also includes people who are unemployed — that is, those who do not have a paid job but who are actively looking for work by completing job applications and/or registering with Centrelink as a job seeker, either on a full-time or part-time basis, in the week prior to the survey. It also includes those who were able and willing to start employment in the week prior to the survey or are waiting to resume a job after being laid off or stood down without pay. This group of people is expressed as a percentage of the total labour force, and this percentage is called the unemployment rate.

## 5.6.3 Australia's unemployment rate

Australia's unemployment rate fluctuated over the 12 months to February 2019, but an overall downward trend is evident.

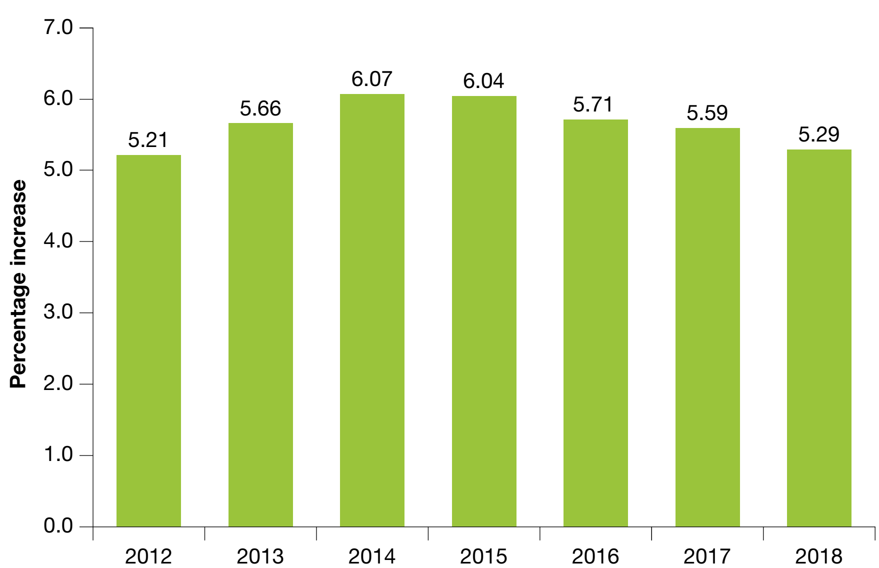
$$\text{Unemployment rate} = \left(\frac{\text{Number of people unemployed}}{\text{Total labour force}}\right) \times 100$$

Australia's unemployment rates, March 2018–February 2019




We can see in the graph below that from 2012 to 2018, unemployment has remained above 5 per cent, peaking at just over 6 per cent in 2014 and 2015, with an overall downward trend since that point.

Australia's unemployment rates, 2012–18




**on** Resources

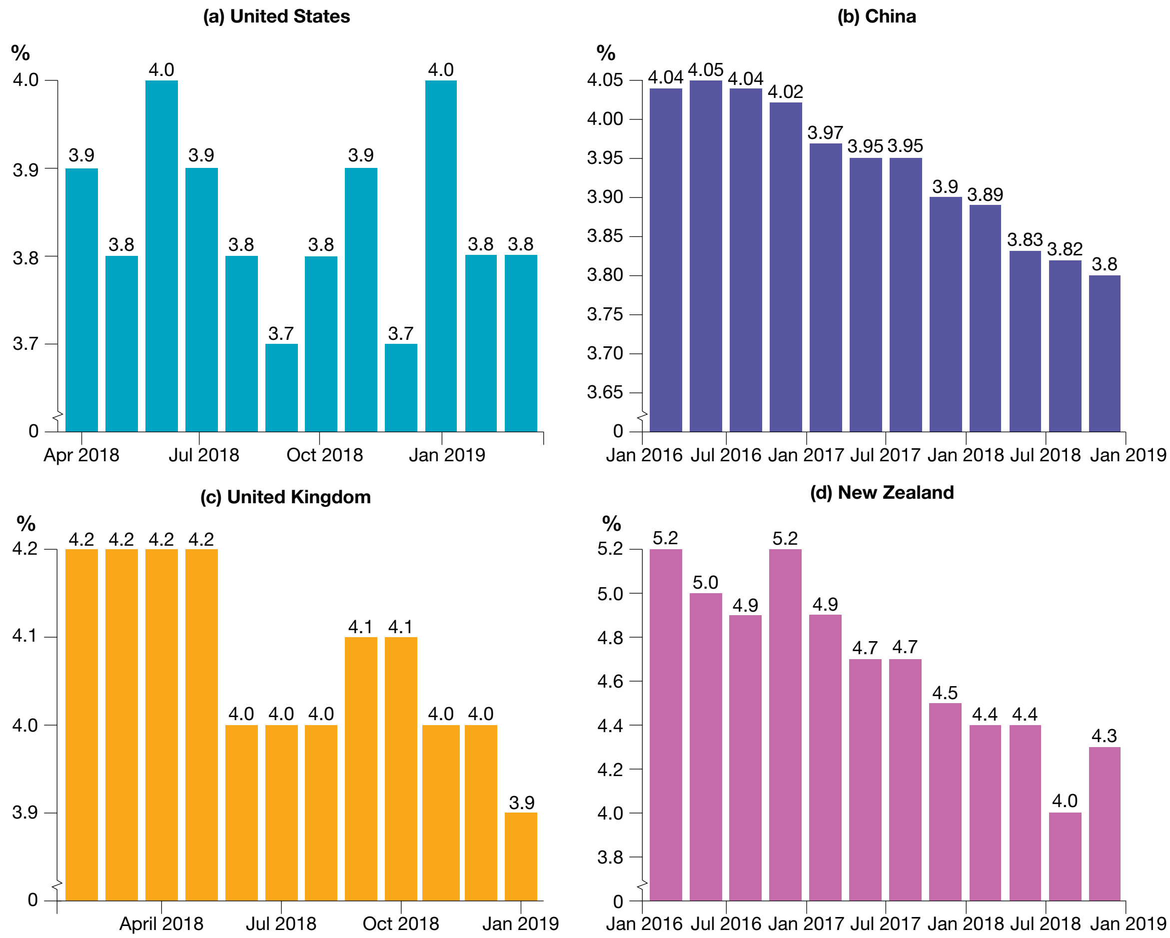
**Digital document** Worksheet 5.6 Unemployment — cloze exercise (doc-32827)

**Video eLesson** Job numbers (eles-2435)

## 5.6.4 Comparison of Australia's performance with one other economy in the Asia region

As with economic growth, it is worthwhile comparing Australia's employment performance with that of some of Australia's trading partners. The graphs below show the recent unemployment rates of the United States, China, United Kingdom and New Zealand.

Unemployment rate of other economies: (a) United States, (b) China, (c) United Kingdom and (d) New Zealand




## 5.6.5 Causes of unemployment

When examining our unemployment rate it is important to understand the causes of unemployment and the various types of unemployment that exist. It is possible to identify four key types of unemployment:

- cyclical unemployment
- structural unemployment
- seasonal unemployment
- frictional unemployment.

### Cyclical unemployment

Cyclical unemployment occurs when the level of spending in the economy falls. When consumers or businesses feel pessimistic about the economy they tend to save rather than spend. This leads to reduced spending, reduced production and hence a reduced need for labour. If the pessimism persists, the economy can move into a period of negative growth. Two consecutive quarters of negative growth is referred to as a **recession** and this can cause further negativity about the state of the economy.

Cyclical unemployment can also occur because of a reduction in consumer incomes, higher interest rates leading to less money available for spending, poor economic conditions overseas among our trading partners, and a decrease in government spending to reduce **budget** deficits and debt.

### Structural unemployment

Structural unemployment occurs as a result of changes in the way goods and services are produced. Generally, this takes place when production methods change, leading to a mismatch of skills; that is, the skills currently in use are outdated and are not transferrable to the new production methods. This causes job losses, often due to changes in technology. Another cause of structural unemployment is outsourcing.

Structural unemployment can be caused by the outsourcing of jobs such as call-centre operators.

### Seasonal unemployment

Seasonal unemployment results from the termination of jobs at the same time each year due to the regular change in seasons. Common examples of these types of jobs include fruit-picking, tourism, working for holiday operators, sheep shearing and working in the ski fields.

Fruit picking is one example of a seasonal job.

### Frictional unemployment

Frictional unemployment occurs when people are unemployed between finishing one job and starting another. This is common in the building trades and in some areas of rural industry.

## 5.6.6 Impacts of unemployment

Unemployment has a number of negative effects on the economy, society and individuals. Let's look at three of these effects:

- deteriorating living standards
- decreased national production
- changed government budget position.

### Deteriorating living standards

When an individual becomes unemployed, their standard of living is likely to deteriorate considerably because the average wage of $1604 per week (as at November 2018) is replaced by an average unemployment benefit of $277 per week (as at March 2019). This results in less spending on goods and services, and reduced savings as individuals readjust their spending patterns.

A reduced income can place stress on families and relationships as it often means cutting back spending on such things as children's activities or family social outings. Unemployed people often develop a feeling of personal failure associated with the loss of status and friends. Knockbacks from unsuccessful job applications reinforce this feeling and individuals may lose their skills and possibly their work ethic if they are out of work for long periods.

### Decreased national production

When some of a nation's resources are not used or are lying idle, the economy does not produce at its optimum or productive capacity. Fewer goods and services are available and national output, or GDP, is lower than its potential level, causing lower material living standards.

### Changed government budget position

Unemployment negatively affects government revenue and government payments. Unemployment lowers the number of income earners, thereby reducing government tax revenues. At the same time, unemployment also raises government spending on welfare benefits, leaving fewer resources for other areas of need, such as health, education and infrastructure.

**DISCUSS**

Unemployment benefits are paid to job seekers to provide a minimum adequate standard of living to people who are temporarily out of the workforce. As of August 2019 the Newstart Allowance for a single person aged 22 or over with no children is a maximum of $555.70 per fortnight. Do you think this is about right, or should it be a higher or lower figure?

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**Weblinks** Australia's unemployment rate

Australia's youth unemployment rate

### 5.6 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Define the term 'labour force'.
2. Outline the groups that make up the labour force.
3. Distinguish between full-time and part-time employment.
4. Define the term 'unemployment'.
5. Explain how unemployment is calculated.
6. Describe seasonal unemployment.
7. Explain what is meant by structural unemployment.
8. Explain how the trend in Australia's unemployment rate may have affected the Australian economy over the past four years.
9. Explain how unemployment may affect an individual.
10. Analyse the effect of rising unemployment on material living standards.
11. Analyse the effect of rising unemployment on non-material living standards.
12. Explain how unemployment levels are linked to economic growth.

**Fully worked solutions and sample responses are available in your digital formats.**

# 5.7 Inflation rates and sustainability indexes

As consumers, we are constantly looking for value for money; that is, for good quality goods and services at reasonable prices. When the price of a good or service increases, we are naturally concerned because this represents a decrease in the value we are getting for our money.

When the price of a good or service increases, we think of this as inflation. However, inflation is more than just the price of a good or service increasing. **Inflation** occurs when there is an increase in the general level of prices across the economy.

Inflation causes the value of money to fall.


## 5.7.1 Measuring inflation

Inflation in Australia is traditionally measured by the Consumer Price Index (CPI). This index is calculated every quarter by the Australian Bureau of Statistics (ABS). The CPI measures the average change in retail price of a basket of local and imported goods and services that represent a high proportion of expenditure by metropolitan households.

This basket of goods and services is referred to as the **regimen** and it includes only those items considered important to Australian households. The regimen comprises more than 80 000 items, which can be grouped into the following 11 categories:

- food
- clothing and footwear
- housing
- household contents and services
- transportation
- recreation
- financial and insurance services
- communication
- alcohol and tobacco
- health
- education.

The ABS regularly conducts a survey of prices to calculate inflation.

Once the items are selected, they are weighted. Next, the relative importance of each item to the overall household budget is determined and a weighting is applied. Weighting is based on the frequency of purchase and the relative cost of the item.

With the regimen and categories determined, prices for the goods and services included are surveyed at a range of representative retail outlets such as supermarkets, fast-food shops, chemists, department stores and service providers. Prices are only surveyed at these outlets in the eight capital cities of Australia. These prices are then compared to the prices of the same items in what is termed a ‘base year’ to determine the change in price.

## 5.7.2 Causes of inflation

There are generally considered to be two main types of inflation:

- *Demand-side factors.* These factors cause an increase in demand that exceeds the current level of goods and services.
- *Supply-side factors.* These factors lead to an increase in the cost of producing goods and services.

### Demand-side factors

Demand-side factors are those factors that influence the level of spending or demand in the economy. If there is too much demand chasing too few goods and services, the economy is operating ahead of productive capacity. This can lead to shortages. As a result, the general price level will rise. This is called **demand inflation** and it generally occurs when the economy is going through a period of strong growth and employment. A good way to think of this is as buyers at an auction who compete for only one property: the highest bidder will win the auction.

This excessive demand can result from a variety of factors, including:

- *an increase in consumer optimism about the future.* Consumers are encouraged to spend more money because they don't see a need to save for 'a rainy day'.
- *an increase in business confidence.* This can lead businesses to spend and invest in new assets, hire more employees or replace old equipment.
- *an increase in income.* If consumers have a higher income — either through wage increases determined by the government or through a reduction in income tax imposed by the government — they are likely to increase their spending on goods and services.
- *an increase in our exports.* If the economies of our major trading partners are performing well and they are experiencing good economic growth, they may increase their demand for our goods and services.

Demand inflation occurs periodically in our economy, as the economy goes through cycles. It is the Australian government's role to manage these cycles and the effects of demand inflation.

### Supply-side factors

The supply of goods and services is the task of suppliers or producers. In producing goods and services for sale, producers and suppliers may experience an increase in their costs. When costs increase, some producers and suppliers may choose to absorb the cost increase themselves and operate with a smaller **mark-up**. However, not all businesses do this, choosing instead to pass on this increased cost to consumers in the form of higher prices. This is known as **cost inflation**.

The most common supply-side causes of cost inflation include:

- *an increase in wages paid to employees.* Wages are often the main cost for a producer and rising wages represent a large cost increase, which is passed on to consumers.
- *an increase in interest rates.* This raises the producer's cost of finance and borrowing. These costs are usually passed on to consumers.
- *an increase in government taxes, oil prices and prices for utilities (such as electricity, gas and water services).* These costs are outside the control of the producer and are also usually passed on to consumers.
- *an increase in the cost of raw materials.* One-off supply-side shocks due to a one-off event can cause this. An example may be a severe storm that negatively affects the yield of a crop, such as Cyclone Larry, which hit Queensland in 2006 and wiped out much of the banana crop for that year. The price of bananas and banana-based products rose as the supply had decreased.
- *Australia's trading partners experiencing a period of inflation*. Many component parts are imported so, if our trading partners are experiencing inflation, that inflation may be passed on to Australian producers and suppliers, who then pass the cost on to consumers.

The Australian government has tried to minimise the incidence of cost inflation by making significant changes to the way some industries are organised and structured.

Reducing **tariffs** means that imported goods and services have become cheaper and Australian producers have had to cut costs to remain competitive. This has led to lower prices in some industries, such as the clothing and footwear manufacturing industry.

The government has also opened up some industries to increased competition. Industries such as gas, electricity and telecommunications were previously dominated by one provider. By allowing more competition there has been a lowering of prices as these new providers seek to attract customers.

Cyclone Larry hit Queensland in 2006, damaging banana crops and, causing banana prices to rise dramatically.

## 5.7.3 Impacts of inflation

Inflation is considered to be an unfavourable occurrence for an economy. Inflation makes it difficult for the government to achieve some of its other economic objectives and it can negatively affect the living standards of consumers. This happens because, among other things, inflation:

- *causes local producers to lose out to overseas competitors.* Inflation raises the price of goods and services produced locally. This hurts Australian producers who wish to compete internationally as the prices they sell their products for cannot compete with the lower overseas prices. This inability to compete can cause business closures, resulting in higher rates of structural unemployment.
- *undermines economic growth.* Inflation erodes consumer and business confidence as consumers stop spending and producers stop investing in productive assets when prices are rising. This can reduce the level of spending, negatively affecting the rate of economic growth.
- *changes the allocation of resources.* When inflation occurs, people with excess income often invest in what is referred to as unproductive resources; that is, resources such as shares and property, which generally increase in value at a faster rate than inflation. So, instead of being used to purchase productive resources that generate goods and services, this money goes into resources that only produce an income for those wealthy enough to invest.
- *affects income distribution.* Inflation can reduce the purchasing power of the dollar and have a negative impact on income distribution. People on a fixed wage are not able to increase their income to cope with price increases, so their purchasing power declines.

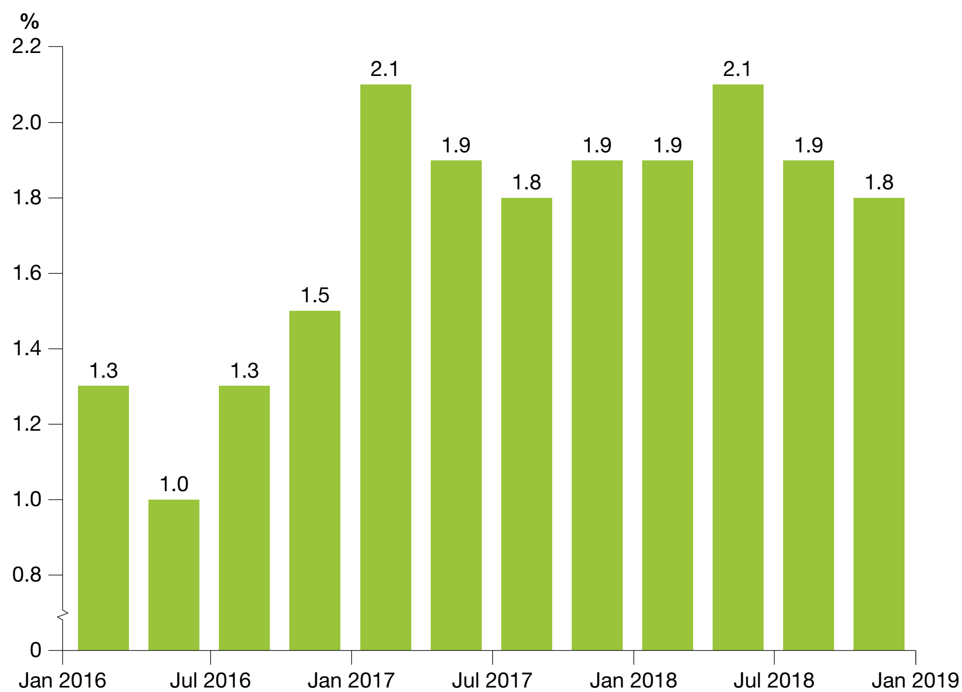
In 2009, inflation in Zimbabwe saw its government produce a 100 trillion dollar banknote.

## 5.7.4 Australia's inflation rate

The Australian government has set a target for inflation of 2 to 3 per cent over the course of a business cycle. During a business cycle it is expected that the economy will go through certain stages such as a peak or boom, an economic downturn, a trough and an expansionary phase.

The graph below charts Australia's inflation performance from January 2016 to the end of December 2018. It shows that Australia's inflation rate stayed under 3 per cent per annum, which is the upper limit of the target rate for inflation.

Australia's inflation performance, Jan 2016–Dec 2018




**on** Resources

**Digital document** Worksheet 5.7 Inflation — scrambled words exercise (doc-32828)

### 5.7 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is meant by inflation?
2. What does CPI stand for?
3. Explain what is meant by the term 'regimen'.
4. What are the two types of inflation?
5. Describe some of the harmful effects of inflation on consumers.
6. Identify two groups in society that would be negatively affected by high inflation and explain why.
7. Describe one situation where a person may benefit during a period of inflation.
8. Explain what is meant by costs pushing up prices.
9. How did Cyclone Larry impact banana prices in 2006?
10. How might rising prices affect material living standards?
11. How might rising prices affect non-material living standards?
12. How is inflation measured?
13. Can you identify any problems with the way inflation is calculated?

14. Prepare a list of all the items you have spent money on over the past week. Classify the items into the categories used by the ABS to calculate the CPI.
    (a) Which category is most important to you?
    (b) What percentage of your spending belongs to each category?
    (c) Explain the item of expenditure that is most important to you. Is your spending reflected in your response?
    (d) Assuming your income remained constant, explain how a rise in prices of 5 per cent may affect your spending.

**Fully worked solutions and sample responses are available in your digital formats.**

# 5.8 SkillBuilder: Calculating inflation

## 5.8.1 Tell me

Calculating the inflation rate for Australia involves collecting data about changes in the prices of goods and services. This information is not readily available and requires time to collect and the ability to conduct surveys at regular intervals. However, on a smaller scale, we can gain an idea of inflation rates through monitoring the changes in price of particular everyday items.

Monitoring the prices of everyday items can give us an indication of inflation rates.

## 5.8.2 Show me

Monitoring and recording the changes in price of a single product can give us an indication of what is occurring in the economy. For example, you could monitor the changes in the price of petrol or some other frequently used commodity.

Calculating changes in the price of petrol over a period of time can give an insight into how inflation is calculated and the effect the change in price may have on other areas of the economy.

## 5.8.3 Let me do it

Complete the following activity to practise this skill.

### 5.8 Activities

1. To gain an idea of inflation rates, carry out the following task.
   Identify a two-week period and a location you pass regularly where the price of petrol can be observed on a daily basis.
   Each day for the two-week period, record the price at your chosen service station of:
   - unleaded petrol
   - premium petrol
   - diesel
   - LP gas.

   (If there is more than one location available, select one and use that same location each day.)
   Record the date and time you visit the location and then record the price advertised for each of the four products listed above. *Note:* When recording the price per litre ensure the price is the 'actual' price and not the price available to customers using discount offers or supermarket dockets.
   Once you have collected this information, calculate the percentage change in price for each product each day. Use this calculation formula:

$$\%\ \text{increase on day 2} = \frac{\text{price day 2} - \text{price day 1}}{\text{price day 1}} \times \frac{100}{1}$$

At the end of the survey period, calculate the overall inflation rate for the four products using this formula:

$$\%\text{ increase over the period} = \frac{\text{price on last day} - \text{price on day 1}}{\text{price day 1}} \times \frac{100}{1}$$

2. Write a report outlining the inflation rates for the four types of fuel and then explain how the change in price of these may affect individuals, families and other businesses. Comment on the reliability of the data collected. What could be done to make the data more reliable?

# 5.9 Sustainability indexes

Measuring economic performance is not all about money, goods and services. There are other factors to consider when measuring performance. It is important that **qualitative measures** are also considered, as these can impact our non-material living standards which are increasingly being seen as just as important.

## 5.9.1 Qualitative measures

Many measures of economic performance are quantitative; that is, they measure the dollar value or the percentage value change in an item. For example, unemployment measures the number of people unemployed as a percentage of the labour force. Inflation measures the percentage change in the price of goods and services.

While these measures provide useful information, this is not the only information available or relevant to an economy. There is a range of qualitative measures that can be calculated and examined to measure the performance of our economy. Qualitative measures determine or measure the quality of our life and the economy. Let's examine six of these qualitative measures (or indices) now:

Deforestation is an issue for economies that wish to develop in a sustainable manner.

- the Genuine Progress Indicator (GPI)
- Measuring Australia's Progress (MAP)
- the Human Development Index (HDI)
- the Business Confidence Index
- the Liveability Ranking
- the World Happiness Report.

## 5.9.2 Genuine Progress Indicator (GPI)

The GPI was developed in the late 1980s to measure the overall progress of an economy in achieving improved living standards. In simple terms, it calculates GDP but then makes both negative and positive adjustments to the values to reflect the good or bad effects on society's welfare of some types of activity and spending. Deductions from the figures are made to reflect costs such as:

- environmental damage due to pollution
- depletion of non-renewable energy resources such as coal and petrol
- reduced leisure time due to increased hours of work or travel times
- inequality in the distribution of income
- increased crime rates.

Some items that add to the GDP include:

- ongoing services provided by public infrastructure
- contributions made by the socially productive use of time, such as volunteer work and housework.

## 5.9.3 Measuring Australia's Progress (MAP)

MAP is a collection of measures published periodically by the Australian Bureau of Statistics (ABS). It arose partly out of public interest in determining whether or not life in our country was getting better, and if so, whether this improvement could be sustained indefinitely.

There are four main categories of measures used by the ABS to compile this indicator. The following table summarises some of the key elements that make up each category of measure.

Measuring Australia's progress (MAP) — a summary of the concept's structure

| Key dimensions and brief description of recent trends | | | |
|---|---|---|---|
| **1. Individuals** | **2. The economy and economic resources** | **3. The environment** | **4. Living together** |
| • Health, including life expectancy, infant mortality, causes of death, burden of disease<br>• Education and training, including participation and retention rates, qualifications, literacy<br>• Work, including the unemployment rate, labour underutilisation rate and participation rate<br>• Culture and leisure, including attendance at cultural and sporting events | • National income, including real GDP per capita, real disposable income per capita, real household consumption spending per head and saving as a percentage of GDP<br>• Economic hardship, including the distribution of average real equivalised disposable household income by quintile<br>• National wealth, including real assets and liabilities per capita, economically demonstrated natural resources per head, real net foreign debt and mean household net worth<br>• Housing (no specific indicator)<br>• Productivity, including both labour and multifactor measures of efficiency, research and development as a percentage of GDP, and hours worked<br>• Competitiveness and openness, including ratio of imports to GDP, real unit labour costs in production, foreign ownership and exchange rate<br>• Inflation, including the CPI and other measures of prices | • The natural landscape, including threatened species, weed problems, native forest area, water storage capacity, water diversions and river condition index<br>• The air and atmosphere, including days of excess ozone levels, highest hour averages of sulfur dioxide concentrations, greenhouse gas emissions by sector, carbon dioxide concentrations<br>• Oceans and estuaries, including visitors to the Great Barrier Reef, number of reported oil spills | • Family, community and social cohesion, including proportion of children with lone mother families, children without an employed parent, primary carers of the elderly, voluntary work, suicide and drug-induced death rates, participation in religious activities<br>• Crime, including homicide rate, imprisonment rates, victims of personal and household crime<br>• Democracy, government and citizenship, including proportion of overseas born eligible residents who are citizens, voter turnout, proportion of women in federal parliament and major listed companies<br>• Communication, including computer ownership and internet access for households<br>• Transport, including passenger vehicles per 1000 people, road facilities |
| All sets of statistics above suggest progress over the past five years. | There appears to have been overall progress in most of these areas but economic hardship and wealth were not evenly distributed across society. | Data suggests regression for the environment in some areas and progress in others over the past five years. | Trends in this area are mixed, with some showing progress and others regression. |

## 5.9.4 Human Development Index (HDI)

The United Nations' Human Development Index is a measure that compares the wellbeing of people in different countries. It reflects and takes into account both positive indicators (such as long life expectancy at birth, educational attainment and average level of income per head per year) and negative ones (such as infant mortality and prevalence of child labour), combining these into a single statistical index number. When a country's index rises, it is a sign that there has been progress and living standards have increased. The main weaknesses of the HDI include the subjective nature of the indicators used to compile the index and the unreliability of the statistical data for some countries.

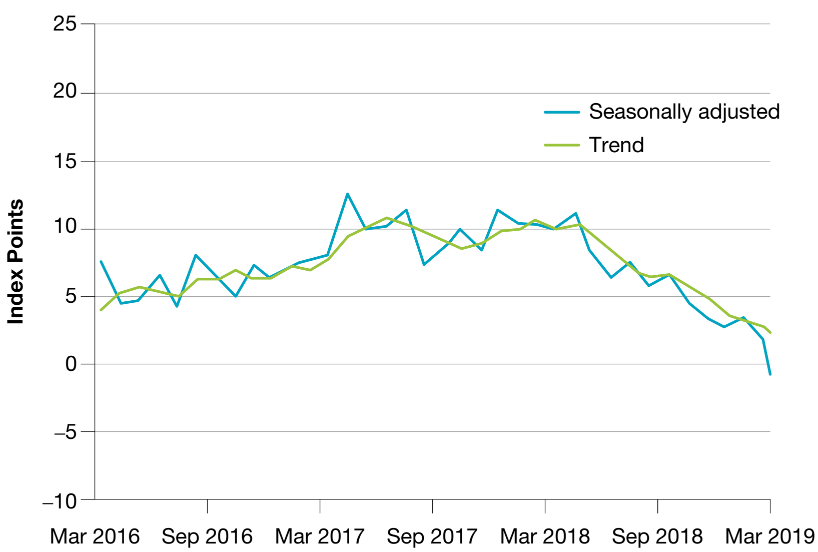
## 5.9.5 The Business Confidence Index

When business confidence in the economy is high, more employees are hired.

Imagine you had a casual job and the hours that you worked changed significantly each week. One week you may work 18 hours and the next week you may only work 4 hours. This uncertainty about your working hours may affect your confidence as a consumer. You may decide to save your money rather than spend it, just in case you don't work many hours in the next week.

Businesses are no different. They make decisions based on how confident they are in the performance of the economy. When businesses are confident that the economy is performing well, they are more likely to borrow money to invest and expand, increase their levels of production and hire more staff. Of course, when business confidence is down, the reverse occurs.

The NAB Business Confidence Index for March 2016–March 2019




***Source:*** NAB Monthly Business Survey, March 2019.

The National Australia Bank (NAB) has developed a well-respected and commonly used indicator to measure business confidence. The NAB conducts a monthly business survey of more than 500 businesses to gauge how confident they are about the economy. In particular, data is gathered on the expectations of businesses in relation to matters such as their projected trading levels, profitability and employment. This data is then used to create an index which represents the level of business confidence in the economy.

Business confidence is influenced by both domestic and global events, and can change significantly over time. Examples of domestic factors that may affect business confidence include a change of government, new laws or changes to the level of interest rates.

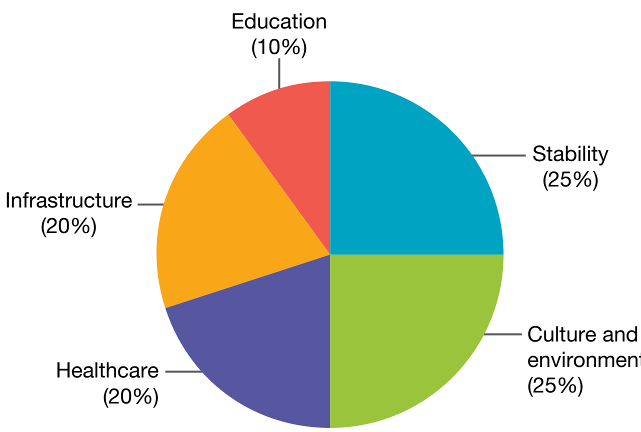
Business confidence in one industry sector (such as mining) may be very different to that of other industry sectors. As such, the Business Confidence Index provides data about different industries. For example, the March 2019 NAB Business Survey indicated that business confidence was positive in most industry sectors apart from mining and wholesale. It also provided data to show that the largest gains in business confidence occurred in the construction and retail industries.

## 5.9.6 Liveability Ranking

While economic indicators are very important, it is also necessary to consider if the benefits of a strong economy are improving our quality of life. A number of indicators such as the Liveability Ranking have been developed to try to measure this. The Liveability Ranking considers a wide range of factors (outlined in the pie chart on the right) to determine which cities are the most desirable to live in.

The 2018 *Liveability Ranking Report* surveyed 140 cities using the criteria Culture and Environment, Stability, Healthcare, Education and Infrastructure. Overall, the report identified a range of factors that had contributed to changing 'liveability' in cities throughout the world. In particular, civil unrest, acts of terror and violence have reduced stability throughout the world and caused many cities to become less 'liveable'. Cities such as Tripoli (Libya), Kiev (Ukraine) and Damascus (Syria) are all considered less liveable, largely owing to conflict.

The major categories used to determine the Liveability Ranking (and the weighting of each)




Melbourne topped the list of the world's most liveable cities for seven years in a row from 2011 to 2017. In 2018 Vienna took the top spot and Melbourne dropped to second place.

## 5.9.7 The World Happiness Report

What use is a strong and productive economy if people are not happy? If an economy is strong because people spend the majority of their lives working, with little time to enjoy themselves or see their family and friends, is it really of any benefit? The main aim of having a strong national economy is to ensure that people can benefit from it and enjoy a higher standard of living.

The World Happiness Report is a survey that was first conducted in 2012. It collects data on more than 150 countries and ranks them based on the level of happiness of their citizens. Increasingly, governments are interested in 'happiness' data because it not only tells them about the performance of the economy, but also the benefits that people derive from the performance of the economy.

The main aim of having a strong economy is to ensure that people can benefit from it and enjoy a higher standard of living.

Some of the major areas used to calculate the ranking in the World Happiness Report are:

- gross domestic product (GDP) per capita
- social support
- healthy life expectancy
- freedom of life choices
- generosity
- perceptions of corruption.

The top ten and bottom ten countries according to the *World Happiness Report*, 2019

| Top ten countries | | Bottom ten countries | |
|---|---|---|---|
| **Rank** | **Country** | **Rank** | **Country** |
| 1 | Finland | 156 | South Sudan |
| 2 | Denmark | 155 | Central African Republic |
| 3 | Norway | 154 | Afghanistan |
| 4 | Iceland | 153 | Tanzania |
| 5 | Netherlands | 152 | Rwanda |
| 6 | Switzerland | 151 | Yemen |
| 7 | Sweden | 150 | Malawi |
| 8 | New Zealand | 149 | Syria |
| 9 | Canada | 148 | Botswana |
| 10 | Austria | 147 | Haiti |

### DISCUSS

Happiness is usually reported as the primary goal in individuals' lives; however, many people believe there is much more to a rewarding life than just seeking happiness. What else do you think people should pursue in life? Discuss in groups or as a class.

## 5.9 Activity: Research and communication

1. What things are important to you? Conduct a survey of the class to ascertain the three most important things for each member of the class. Using this information, provide an explanation of what we should measure to determine our progress in terms of economic performance.
2. Choose ONE country that is not listed in the top ten or bottom ten of the World Happiness Report, 2019.
   (a) For your chosen country, undertake research in relation to its possible happiness levels. In your research, consider: gross domestic product (GDP) per capita, social support, healthy life expectancy, freedom of life choices, generosity and perceptions of corruption.
   (b) Use your research to predict where your chosen country would be ranked on the World Happiness Report for 2019. Check to see how close your estimated ranking was with the actual ranking for your country on the report.

## 5.9 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is meant by sustainability?
2. Explain why sustainability is more than just pollution.
3. Explain how non-material living standards may factor into a measure of sustainability.
4. Identify what is meant by HDI.
5. Why is it important to consider sustainability when measuring economic performance?
6. Define 'business confidence'.
7. Identify one international and one domestic factor that may influence business confidence.
8. Define 'liveability'.
9. What are the five major categories used to determine the liveability ranking?
10. According to the 2019 World Happiness Report, what are the:
    (a) three happiest countries
    (b) three least happy countries?
11. Explain what is meant by the Genuine Progress Indicator.
12. Select two key dimensions of MAP and explain them.
13. Explain democracy and crime as concepts of MAP.
14. Analyse why you think alternative measures of performance are needed.
15. Why do you think statistics for material living standards (GDP) are published but data measuring non-material living standards is not publicised? Explain your view.
16. Explain why business confidence can have an impact on economic growth and employment.
17. Explain how the level of business confidence can have an impact on economic growth and employment.
18. Explain why the World Happiness Report is a useful indicator for governments.
19. Imagine the Australian government has asked you to design a new index or indicator that provides information about the economy and standard of living in Australia. What would you call your index/indicator and how would it be calculated?
20. Media reports throughout 2019 referred to the 'housing affordability crisis' in Australia. Explain what you think is meant by this term and explain why this is a key indicator for non-material living standards, liveability and happiness.

**Fully worked solutions and sample responses are available in your digital formats.**

# 5.10 SkillBuilder: Sustainable Development Goals

## 5.10.1 Tell me

The United Nations has recognised that improving living standards should be a global concern. As such, they developed the Millennium Development Goals. The Millennium Development Goals (MDGs) were eight international development goals that were established following the Millennium Summit of the United Nations in 2000. All 189 United Nations member states at the time committed to help achieve the following Millennium Development Goals by 2015:

1. To eradicate extreme poverty and hunger
2. To achieve universal primary education
3. To promote gender equality and empower women
4. To reduce child mortality
5. To improve maternal health
6. To combat HIV/AIDS, malaria, and other diseases
7. To ensure environmental sustainability
8. To develop a global partnership for development

The United Nations' Millennium Development Goals


Each goal had specific targets and dates for achieving those targets. Post-2015, the United Nations wanted to continue the momentum created by setting these goals so they worked with member countries to set and adopt a set of goals to end poverty, protect the planet, and ensure prosperity for all. These goals are part of a new sustainable development agenda. Each goal has specific targets to be achieved over the next 15 years.

## 5.10.2 Show me

The 17 Sustainable Development Goals are an expansion from the original 8 Millennium Development Goals. Each goal has specific targets and dates for achieving those targets. The goals are:


A summary of the Sustainable Development Goals are:

### Goal 1: No poverty

Extreme poverty rates have been cut by more than half since 1990. While this is a remarkable achievement, one in five people in developing regions still live on less than $1.25 a day, and there are millions more who make little more than this daily amount, plus many people risk slipping back into poverty.

Poverty is more than the lack of income and resources to ensure a sustainable livelihood. Its manifestations include hunger and malnutrition, limited access to education and other basic services, social discrimination and exclusion as well as the lack of participation in decision-making. Economic growth must be inclusive to provide sustainable jobs and promote equality.

## Goal 2: Zero hunger

If done right, agriculture, forestry and fisheries can provide nutritious food for all and generate decent incomes, while supporting people-centred rural development and protecting the environment.

Right now, our soils, freshwater, oceans, forests and biodiversity are being rapidly degraded. Climate change is putting even more pressure on the resources we depend on, increasing risks associated with disasters such as droughts and floods. Many rural women and men can no longer make ends meet on their land, forcing them to migrate to cities in search of opportunities.

A profound change of the global food and agriculture system is needed if we are to nourish today's 795 million hungry and the additional 2 billion people expected by 2050.

The food and agriculture sector offers key solutions for development, and is central for hunger and poverty eradication.

## Goal 3: Good health and well-being

Ensuring healthy lives and promoting the well-being for all at all ages is essential to sustainable development. Significant strides have been made in increasing life expectancy and reducing some of the common killers associated with child and maternal mortality. Major progress has been made on increasing access to clean water and sanitation, reducing malaria, tuberculosis, polio and the spread of HIV/AIDS. However, many more efforts are needed to fully eradicate a wide range of diseases and address many different persistent and emerging health issues.

## Goal 4: Quality education

Obtaining a quality education is the foundation to improving people's lives and sustainable development. Major progress has been made towards increasing access to education at all levels and increasing enrolment rates in schools particularly for women and girls. Basic literacy skills have improved tremendously, yet bolder efforts are needed to make even greater strides for achieving universal education goals. For example, the world has achieved equality in primary education between girls and boys, but few countries have achieved that target at all levels of education.

## Goal 5: Gender equality

Gender equality is not only a fundamental human right, but a necessary foundation for a peaceful, prosperous and sustainable world.

Providing women and girls with equal access to education, health care, decent work, and representation in political and economic decision-making processes will fuel sustainable economies and benefit societies and humanity at large.

## Goal 6: Clean water and sanitation

Clean, accessible water for all is an essential part of the world we want to live in. There is sufficient fresh water on the planet to achieve this. However, due to economic mismanagement or poor infrastructure, every year millions of people, most of them children, die from diseases associated with inadequate water supply, sanitation and hygiene.

Water scarcity, poor water quality and inadequate sanitation negatively impact food security, livelihood choices and educational opportunities for poor families across the world. Drought afflicts some of the world's poorest countries, worsening hunger and malnutrition.

## Goal 7: Affordable and clean energy

Energy is central to nearly every major challenge and opportunity the world faces today. Be it for jobs, security, climate change, food production or increasing incomes, access to energy for all is essential. Sustainable energy is opportunity — it transforms lives, economies and the planet.

## Goal 8: Decent work and economic growth

A continued lack of decent work opportunities, insufficient investments and under-consumption lead to an erosion of the basic social contract underlying democratic societies: all must share in progress. The creation of quality jobs will remain a major challenge for almost all economies well beyond 2015.

Sustainable economic growth will require societies to create the conditions that allow people to have quality jobs that stimulate the economy while not harming the environment. Job opportunities and decent working conditions are also required for the whole working age population.

## Goal 9: Industry, innovation and infrastructure

Investments in infrastructure — transport, irrigation, energy and information and communication technology — are crucial to achieving sustainable development and empowering communities in many countries. It has long been recognized that growth in productivity and incomes, and improvements in health and education outcomes require investment in infrastructure.

Inclusive and sustainable industrial development is the primary source of income generation, allows for rapid and sustained increases in living standards for all people, and provides the technological solutions to environmentally sound industrialization.

Technological progress is the foundation of efforts to achieve environmental objectives, such as increased resource and energy-efficiency. Without technology and innovation, industrialization will not happen, and without industrialization, development will not happen.

## Goal 10: Reduced inequalities

While income inequality between countries may have been reduced, inequality within countries has risen. There is growing consensus that economic growth is not sufficient to reduce poverty if it is not inclusive and if it does not involve the three dimensions of sustainable development — economic, social and environmental.

To reduce inequality, policies should be universal in principle paying attention to the needs of disadvantaged and marginalized populations.

## Goal 11: Sustainable cities and communities

Cities are hubs for ideas, commerce, culture, science, productivity, social development and much more. At their best, cities have enabled people to advance socially and economically.

However, many challenges exist to maintaining cities in a way that continues to create jobs and prosperity while not straining land and resources. Common urban challenges include congestion, lack of funds to provide basic services, a shortage of adequate housing and declining infrastructure.

## Goal 12: Responsible consumption and production

Sustainable consumption and production is about promoting resource and energy efficiency, sustainable infrastructure, and providing access to basic services, green and decent jobs and a better quality of life for all. Its implementation helps to achieve overall development plans, reduce future economic, environmental and social costs, strengthen economic competitiveness and reduce poverty.

## Goal 13: Climate action

Climate change is now affecting every country on every continent. It is disrupting national economies and affecting lives, costing people, communities and countries dearly today and even more tomorrow.

People are experiencing the significant impacts of climate change, which include changing weather patterns, rising sea level, and more extreme weather events. The greenhouse gas emissions from human activities are driving climate change and continue to rise. They are now at their highest levels in history. Without action, the world's average surface temperature is projected to rise over the 21st century and is likely to surpass 3 degrees Celsius this century — with some areas of the world expected to warm even more. The poorest and most vulnerable people are being affected the most.

Affordable, scalable solutions are now available to enable countries to leapfrog to cleaner, more resilient economies. The pace of change is quickening as more people are turning to renewable energy and a range of other measures that will reduce emissions and increase adaptation efforts.

### Goal 14: Life below water

The world's oceans — their temperature, chemistry, currents and life — drive global systems that make the Earth habitable for humankind.

Our rainwater, drinking water, weather, climate, coastlines, much of our food, and even the oxygen in the air we breathe, are all ultimately provided and regulated by the sea. Throughout history, oceans and seas have been vital conduits for trade and transportation.

Careful management of this essential global resource is a key feature of a sustainable future.

### Goal 15: Life on land

Forests cover 30 per cent of the Earth's surface and in addition to providing food security and shelter, forests are key to combating climate change, protecting biodiversity and the homes of the indigenous population. Thirteen million hectares of forests are being lost every year while the persistent degradation of drylands has led to the desertification of 3.6 billion hectares.

Deforestation and desertification — caused by human activities and climate change — pose major challenges to sustainable development and have affected the lives and livelihoods of millions of people in the fight against poverty. Efforts are being made to manage forests and combat desertification.

### Goal 16: Peace, justice and strong institutions

This goal endorses the promotion of peaceful and inclusive societies for sustainable development, the provision of access to justice for all, and building effective, accountable institutions at all levels.

### Goal 17: Partnerships for the goals

A successful sustainable development agenda requires partnerships between governments, the private sector and civil society. These inclusive partnerships built upon principles and values, a shared vision, and shared goals that place people and the planet at the centre, are needed at the global, regional, national and local level.

Urgent action is needed to mobilize, redirect and unlock the transformative power of trillions of dollars of private resources to deliver on sustainable development objectives. Long-term investments, including foreign direct investment, are needed in critical sectors, especially in developing countries. These include sustainable energy, infrastructure and transport, as well as information and communications technologies. The public sector will need to set a clear direction. Review and monitoring frameworks, regulations and incentive structures that enable such investments must be retooled to attract investments and reinforce sustainable development. National oversight mechanisms such as supreme audit institutions and oversight functions by legislatures should be strengthened.

## 5.10.3 Let me do it

#### 5.10 Activity

Use the **Sustainable Development Goals** link, select three of the 17 goals. Prepare a summary of each of the three selected goals, stating specific targets to be met by 2030. (Note: Use the 'Why it matters' and the 'Facts and figures' tabs.)

on Resources

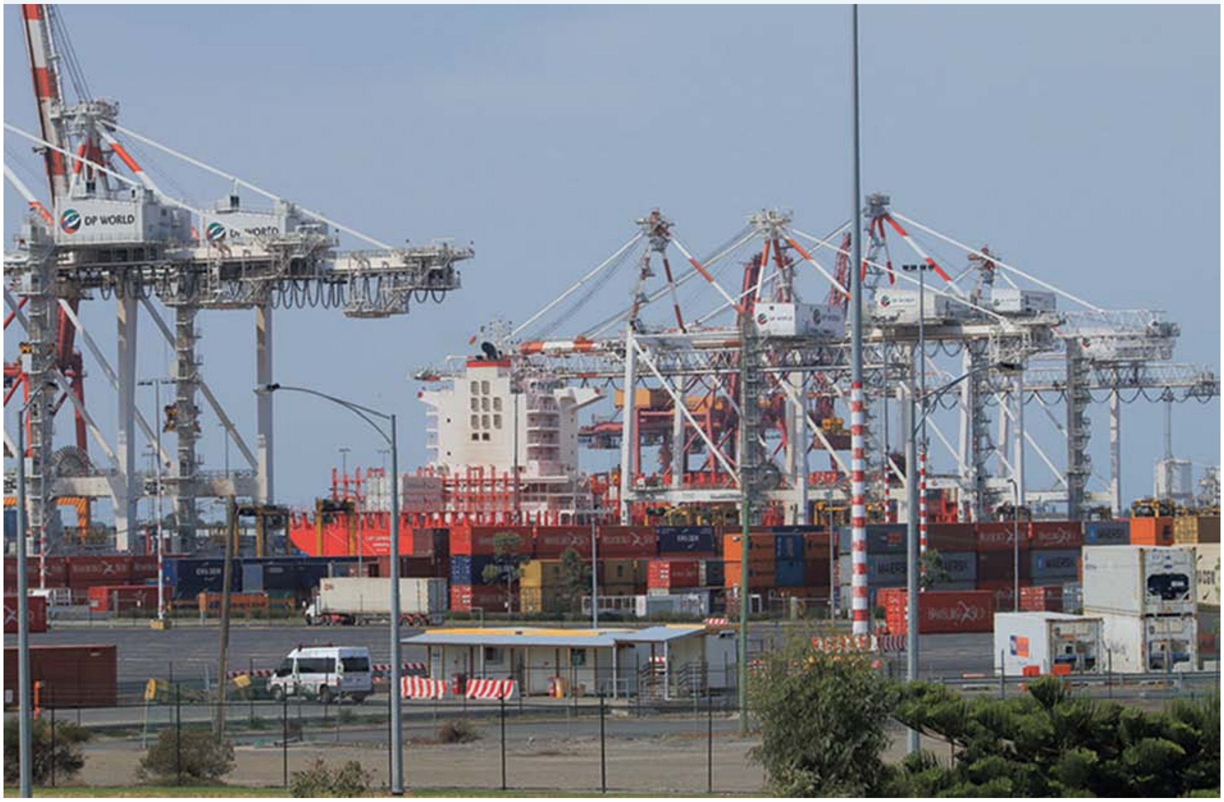
**Weblink** Sustainable Development Goals

# 5.11 International trade and the Australian economy

## 5.11.1 Trade and the Australian economy

Australia is an open economy, meaning that we trade in goods and services with other countries. Australian businesses sell **exports** to both consumers and producers in other countries. Australian consumers buy **imports** that have been manufactured in other parts of the world and brought into this country.

Australia imports many goods from overseas and exports to many other countries.

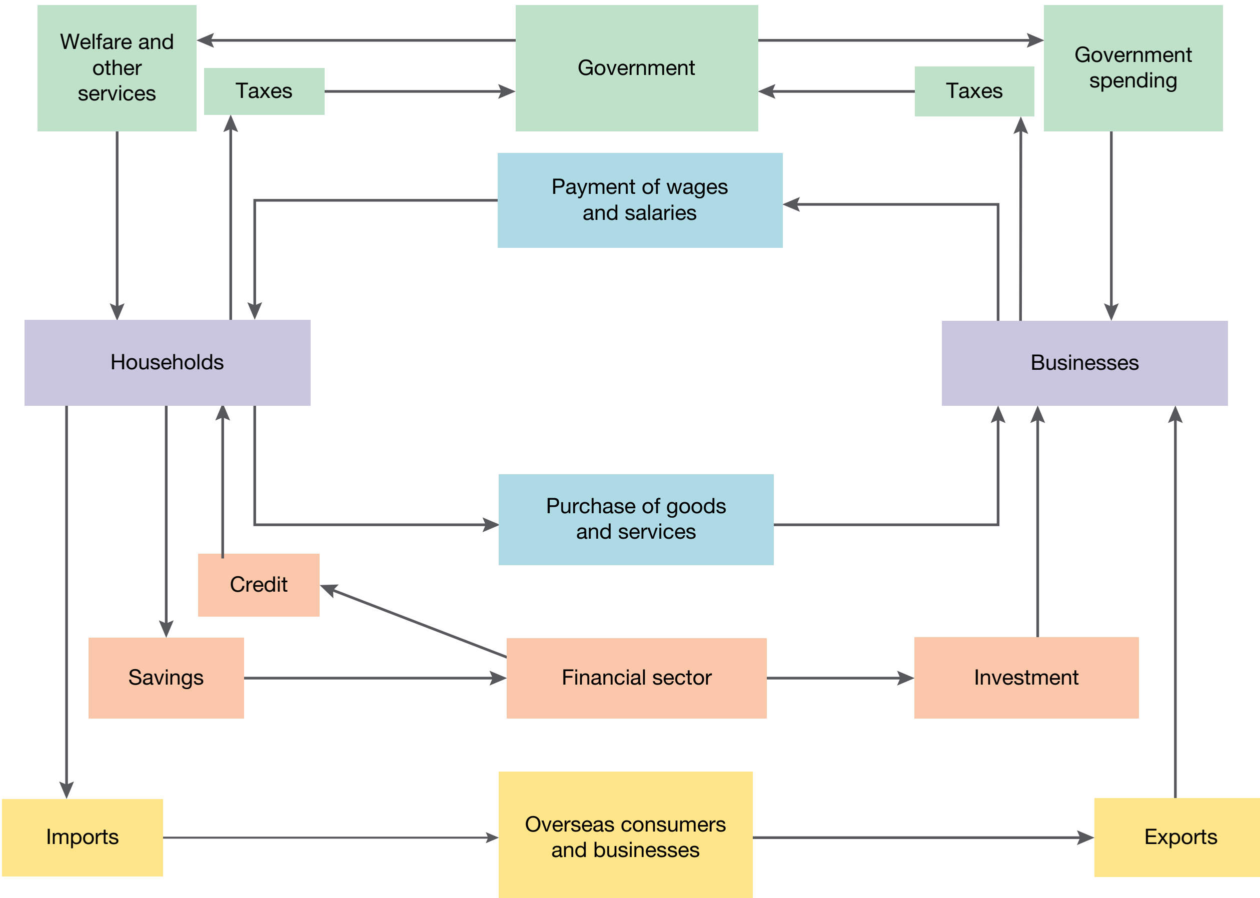



International trade can affect our economic system in a number of ways:

- Australia has a relatively small population, so if overseas consumers are willing to buy the goods and services we produce, this can help our local businesses to grow and employ more people. A significant proportion of jobs in Australia are directly or indirectly connected with the production of exports.
- Some products cannot be made here as efficiently as in other countries. A lot of the highly sophisticated machinery used in factories is imported. However, such machinery can help local factories remain competitive by producing goods more cheaply.
- Imported goods are sometimes cheaper than locally produced goods, so local producers can find it difficult to compete with imported products. Some local producers may even be forced to close down. The Australian clothing and footwear manufacturing has declined since the 1980s as cheaper imports from Asian countries have increased dramatically. While this may not be good for those Australian manufacturers, it is a positive trend for consumers because they have access to cheaper clothing.

By adding overseas trade to the circular flow diagram, we can see how overseas consumers and producers participate in the Australian economy. As shown in the following diagram, we can see that households spend money buying imports from overseas businesses, while businesses can earn money from exporting goods and services to overseas consumers. Exports are good for the Australian economy because they bring money into our market system, while imports take money out of the country and pay it to overseas businesses.

The circular flow of money between households, businesses, financial intermediaries, government, and overseas consumers and businesses




If we consistently spend more on imports than we earn from exports, money will continue to flow out of the country. Ideally, we want to sell enough exports to provide us with the extra money needed to pay for the goods and services we need to import.

## 5.11.2 Australia's major trading partners

Australia has been involved in trade with other nations since European settlement. During the nineteenth century, the Australian colonies were a major source of agricultural products such as wool, and minerals such as gold, for Britain and its empire. In recent years Australia has developed strong trading links with our Asian neighbours: four of our five most important trading partners are now in Asia.

As a relatively wealthy and advanced economy, Australia is an important trading nation for countries in the Asia region. As illustrated in the following table, in 2017–18 over 82 per cent of Australia's trade with our top ten trading partners was with Asian countries. Six of our top ten trading partners were Asian countries, including four of the top five.

Australia's trade with our top 10 trading partners in 2017–18

*Trade with Asia*

| Position | Country | Exports A$ million | % | Imports A$ million | % | Total trade A$ million | % |
|---|---|---|---|---|---|---|---|
| 1 | China | 123 274 | 51.5 | 71 346 | 42.7 | 194 620 | 47.9 |
| 2 | Japan | 51 328 | 21.5 | 26 267 | 15.7 | 77 595 | 19.1 |
| 4 | South Korea | 23 628 | 9.9 | 28 764 | 17.2 | 52 302 | 12.9 |
| 5 | India | 21 145 | 8.8 | 7 971 | 4.8 | 29 116 | 7.2 |
| 8 | Singapore | 13 164 | 5.5 | 14 610 | 8.8 | 27 774 | 6.8 |
| 9 | Thailand | 6 610 | 2.8 | 18 078 | 10.8 | 24 688 | 6.1 |
| | Total | 239 149 | 100.0 | 166 946 | 100.0 | 406 095 | 100.0 |

*Non-Asian trade*

| Position | Country | Exports A$ million | % | Imports A$ million | % | Total trade A$ million | % |
|---|---|---|---|---|---|---|---|
| 3 | United States | 21 424 | 41.4 | 48 752 | 50.3 | 70 176 | 47.2 |
| 6 | New Zealand | 14 370 | 27.8 | 13 905 | 14.4 | 28 275 | 19.0 |
| 7 | United Kingdom | 11 757 | 22.7 | 16 036 | 16.6 | 27 792 | 18.7 |
| 10 | Germany | 4 170 | 8.1 | 18 185 | 18.8 | 22 355 | 15.0 |
| | Total | 37 419 | 100.0 | 74 856 | 100.0 | 112 275 | 100.0 |

*Asian and non-Asian trade*

| | Exports A$ million | % | Imports A$ million | % | Total trade A$ million | % |
|---|---|---|---|---|---|---|
| Trade with Asia | 239 149 | 82.2 | 166 946 | 63.3 | 406 095 | 73.2 |
| Non-Asian trade | 51 721 | 17.8 | 96 878 | 36.7 | 148 599 | 26.8 |
| Total | 290 870 | 100.0 | 263 824 | 100.0 | 554 694 | 100.0 |

***Source:*** Data derived from *Australia's trade at a glance*, Department of Foreign Affairs and Trade

Let us examine the importance of China as our largest trading partner. As you can see from the first table above, the value of our exports to China is A$123 274 million. This represents 51.5 per cent of our exports to Asia, and is almost 73 per cent more than the value of imports from that country. The largest proportion of our exports to China is made up of iron ore and coal, which China buys to fuel its industrial growth. Japan and South Korea are also large buyers of Australian mineral resources. The value of our exports adds to Australia's wealth; we are able to use the money we earn from selling our exports to pay for the goods and services that we import from other countries.

More than 82 per cent of the value of our exports in 2017–18 was earned from selling to Asian countries. This money was particularly important because most of our non-Asian trade involved much higher levels of imports than exports. When we compare the value of exports with the value of imports, we can calculate Australia's **balance of trade**. If the value of exports is greater than the value of imports in a particular period of time, we are said to have a *trade surplus* for that period. If the value of imports is greater than the value of exports, we are said to have a *trade deficit*. We can see from the table above that in 2017–18 Australia had an overall trade surplus with our ten largest trading partners. When we look at trade with individual countries, we see that we had a trade surplus with some of them and a trade deficit with others.

## Resources

Digital document Worksheet 5.8 Benefits of trade exercise (doc-32829)
Weblink Department of Foreign Affairs and Trade

# 5.11.3 Australia's major exports and imports of goods, services and resources

## Exports

When considering to whom Australia exports, it is only natural to assume that we export to countries in our region. This is true, but was not always the case. Our historical ties to the United Kingdom have meant that the UK has always featured prominently in our list of top ten trading partners.

### To whom do we export?

However, in recent years the rise of China and our association with ASEAN (Association of South East Asian Nations) has seen us forge strong ties with countries in this region.

The following table shows the Top 10 destinations of our exports ($ billion):

| Rank | Country | Goods | Services | Total | % Share |
|---|---|---|---|---|---|
| 1 | China | 106.3 | 16.9 | 123.3 | 30.6 |
| 2 | Japan | 49.1 | 2.3 | 51.3 | 12.7 |
| 3 | Republic of Korea | 21.5 | 2.1 | 23.6 | 5.9 |
| 4 | United States | 12.3 | 9.2 | 21.4 | 5.3 |
| 5 | India | 16.3 | 4.8 | 21.1 | 5.2 |
| 6 | Hong Kong (SAR of China) | 11.4 | 3.1 | 14.5 | 3.6 |
| 7 | New Zealand | 9.3 | 5.0 | 14.4 | 3.6 |
| 8 | Singapore | 8.0 | 5.2 | 13.2 | 3.3 |
| 9 | United Kingdom | 6.5 | 5.3 | 11.8 | 2.9 |
| 10 | Taiwan | 9.4 | 1.5 | 11.0 | 2.7 |
| **Total Top 10 markets** | | **250.0** | **55.5** | **305.5** | **75.8** |
| **Total exports** | | **315.2** | **88.0** | **403.2** | **100.0** |

### What goods and services do we export?

As might be expected from a country that has a lot of land and is rich with natural resources, Australia is known for its exports of raw materials, minerals and crops. What might surprise some people is our exports in the area of Education and Tourism. Education-related travel is our third largest export and this comprises students from overseas travelling to Australia to complete their secondary or tertiary education. Tourism is ranked as fifth as Australia's natural features make it a valued destination for tourists.

The following table shows the Top 20 export commodities:

Australia's Top 20 Exports 2017–18

| Rank | Commodity | $ million | % share | % change |
|---|---|---|---|---|
| 1 | Iron ores & concentrates | 61 357 | 15.2 | -2.0 |
| 2 | Coal | 60 356 | 15.0 | 11.3 |
| 3 | Education-related travel services | 32 434 | 8.0 | 15.5 |
| 4 | Natural gas | 30 907 | 7.7 | 38.5 |
| 5 | Personal travel (excl education) services | 21 580 | 5.4 | -0.2 |
| 6 | Gold | 19 293 | 4.8 | 1.7 |
| 7 | Aluminium ores & concentrates (incl alumina) | 9 448 | 2.3 | 25.5 |
| 8 | Beef | 7 963 | 2.0 | 11.9 |
| 9 | Crude petroleum | 6 507 | 1.6 | 26.3 |
| 10 | Copper ores & concentrates | 5 720 | 1.4 | 25.0 |
| 11 | Professional services | 5 211 | 1.3 | 5.4 |
| 12 | Wheat | 4 652 | 1.2 | -23.4 |
| 13 | Financial services | 4 574 | 1.1 | 15.5 |
| 14 | Meat (excl beef) | 4 526 | 1.1 | 18.1 |
| 15 | Technical & other business services | 4 262 | 1.1 | -5.5 |
| 16 | Telecom, computer & information services | 4 173 | 1.0 | 25.2 |
| 17 | Aluminium | 4 097 | 1.0 | 25.2 |
| 18 | Wool & other animal hair (incl tops) | 3 985 | 1.0 | 22.1 |
| 19 | Other ores & concentrates | 3 141 | 0.8 | 20.7 |
| 20 | Alcoholic beverages | 3 111 | 0.8 | 19.1 |
| Total exports | | 403 241 | | 7.9 |

*Note:* All values are in $A

## Why do we export goods and services?

Exports are important for Australia. In the previous section it was identified that Australia imports goods and services from other countries. As the area we are referring to is called 'trade' it is important that Australia sells some of its goods and services overseas to help pay for the goods and services we import. We also export as a way of disposing of our excess goods and services, take advantage of our expertise in certain areas and to continue to build relationships with other countries.

## How do exports affect the economy?

Exports create jobs for Australians, and the income derived from those exports leads to increased tax revenue for the government. This is then spent on the provision of government services that benefit all Australia. This job creation and government spending further enhances our economic growth, creating further employment opportunities.

It is also likely that the ability to export allows businesses to develop processes that make them more efficient, so they can reduce costs and increase profits. This creates a culture of innovation and development which can bring further benefits to the economy.

The spending of money by overseas tourists in Australia is an invisible export.

## CASE STUDY

### Bellamy's Australia

Bellamy's is an Australian manufacturer that produces a large variety of organic infant formula, as well as other infant and toddler food and beverage products. It was founded as a family company in 2003 at Launceston in Tasmania and was listed on the stock exchange in 2014. The firm generally has an annual profit in excess of A$40 million.

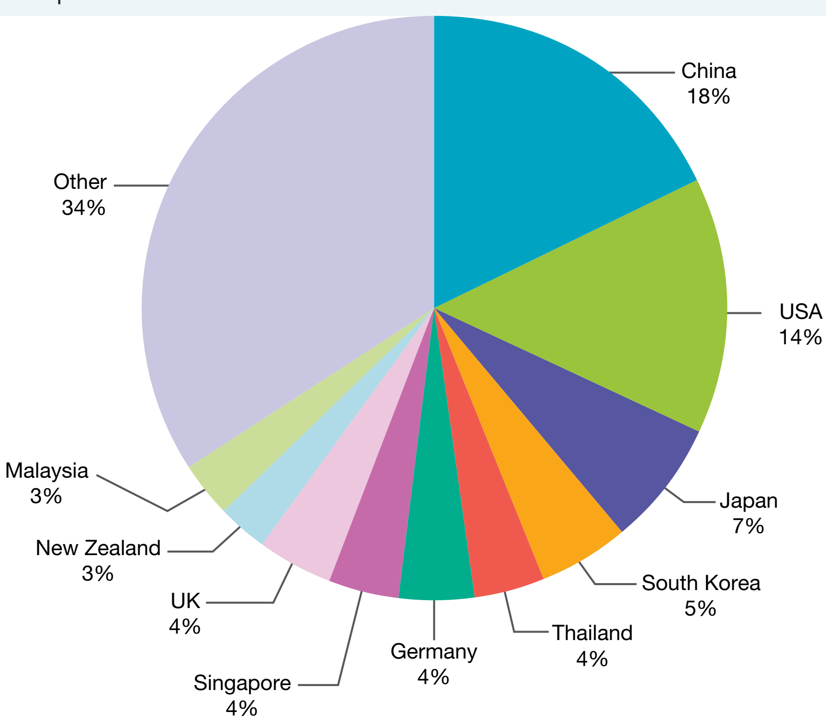
Bellamy's exports are valued at over A$1 billion. It exports its products to customers in China, Hong Kong, Singapore, Malaysia, Vietnam and New Zealand. In China, the Bellamy's products are exceptionally popular as they are rated a 'super premium' brand.

In November 2019, the Australian Foreign Investment Review Board announced that it had approved the sale of Bellamy's to the China Mengniu Dairy Company for A$1.5 billion.


## Imports

Goods and services that a nation requires but cannot produce itself must be imported. Asian nations are the main source of Australia's imports, with four of our five main sources of imports coming from Asia. However, it should be noted that the second largest source is the USA.

Source of Australia's imports



| Australia's top 15 goods and services trade partners, 2017–18 | | |
|---|---|---|
| | Goods and services imported | |
| **Country of origin** | **A$ million** | **% share** |
| China | 71 346 | 18.0 |
| United States of America | 48 752 | 12.3 |
| South Korea | 28 674 | 7.3 |
| Japan | 26 267 | 6.6 |
| Germany | 18 185 | 4.6 |
| Thailand | 18 078 | 4.6 |
| United Kingdom | 16 036 | 4.1 |
| Singapore | 14 610 | 3.7 |
| New Zealand | 13 905 | 3.5 |
| Malaysia | 12 562 | 3.2 |
| Italy | 9 131 | 2.3 |
| Indonesia | 8 384 | 2.1 |
| India | 7 971 | 2.0 |
| France | 7 416 | 1.9 |
| Vietnam | 6 946 | 1.8 |
| **Total top 15** | **308 263** | **78.0** |
| Other | 87 137 | 22.0 |
| **Total** | **395 400** | **100.0** |

The table at right shows Australia's main imports. The biggest contributor is personal travel. However, it should be noted that Australia produces only a relatively small amount of its oil requirements domestically. This means that imports of refined and crude petroleum are very significant.

In 2017, the last Australian car factory was closed. Therefore, any new car that is now sold in Australia has to be imported.

If we go back to the five-sector model (in 5.11.1) of the economy, we remember that imports were a leakage. Therefore, the effect of imports is to make the circular flow smaller. However, imports enable us to have goods and services that we otherwise would have to do without. Overall, the main benefit of trade is to enable us to have a higher standard of living than we would otherwise have.

Australia's main imports

| Rank | Commodity | Percentage % |
|---|---|---|
| 1 | Personal travel | 7.7 |
| 2 | Passenger motor vehicles | 5.8 |
| 3 | Refined petroleum | 5.2 |
| 4 | Telecom equipment and parts | 3.3 |
| 5 | Freight services | 2.9 |
| 6 | Crude petroleum | 2.7 |
| 7 | Computers | 2.4 |
| 8 | Medicaments | 2.1 |
| 9 | Goods vehicles | 1.9 |
| 10 | Passenger transport services | 1.8 |

Consumers can find imported goods in almost every store.

### How do imports affect the economy?

In 2017–18, Australia's income from goods and services exports was higher than its spending on imports, resulting in a trade surplus. The same was the case in the 2016–17 financial year. However, in many other years, Australia's spending on imports has been higher than income earned from exports. Bringing imports into the country has both positive and negative effects for consumers and producers. These are outlined in the following table.

Economic effects of imports

| Positive effects | Negative effects |
| --- | --- |
| • There is an enormous range of goods and services for consumers to buy.<br>• Australian producers are forced to make goods and services using resources in the most efficient way because they have to compete against cheaper imported products.<br>• Importing goods from other countries encourages those countries to buy our exports.<br>• Australian workers may move overseas and learn other languages and cultures.<br>• More trade between countries encourages peaceful relationships and cultural exchanges. | • Australian jobs may be lost to countries with cheaper labour costs.<br>• Imported resources may lower employment opportunities for Australian workers.<br>• Australian industries find it difficult to compete with the lower production costs of some overseas countries. This leads to a closure of industries and loss of skills.<br>• Money leaves the country to circulate overseas, rather than in Australia, affecting the exchange rate of the Australian dollar.<br>• Harmful animal species as well as diseases, such as bird flu, may be brought into the country in various ways. |

Motor vehicles and petroleum are among the many imported products sold in Australia.

**DISCUSS**

Overall, do you think that imports have a positive or negative effect on the economy? Why? Think about all of the effects of importing goods and services, from the increased range on offer, to the environmental consequences, and the impact on Australian workers.

### 5.11 Activity: Research and communication

Use the **Department of Foreign Affairs and Trade** weblink in the Resources tab to answer the following.

1. Design an advertisement (webpage or poster) to encourage consumers to buy Australian products. In presenting your advertisement design to the class, explain why you believe it could work.
2. Which goods make up most of Australia's imports from China, Japan and Thailand?
3. Which goods make up most of Australia's exports to the United States and New Zealand?
4. Which goods make up most of Australia's imports from the United Kingdom and Germany?

### 5.11 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Explain why countries trade.
2. What is the difference between exports and imports?
3. Explain the impact of international trade on the flow of money in the Australian economy.
4. Explain what is meant by *trade deficit*.
5. Explain what is meant by *trade surplus*.
6. Identify one benefit and one disadvantage of exporting goods to other countries.
7. Identify one benefit and one disadvantage of importing goods into Australia from other countries.
8. What do the letters ASEAN stand for?
9. Examine the table in 5.17.3 and answer the following:
   (a) Why was Australia's trade with China in 2017–18 of greater benefit to our economy than our trade with the United States?
   (b) With which country did Australia have its greatest trade deficit in 2017–18? Justify your answer.
   (c) With which country did Australia have its greatest trade surplus in 2017–18? Justify your answer.
10. Explain why the UK has always been one of Australia's top 10 trading partners.
11. What are the five main exports from Australia? Which countries are the main buyers of these goods?
12. List the three biggest imports into Australia.
13. Explain why all new passenger vehicles sold in Australia must be imported.
14. This question refers to the Bellamy's case study. State three countries to which Bellamy's products are exported. Why is it so popular in China?
15. Which countries were our top three sources of imports in 2017–18?
16. Which type of goods made up our largest percentage of imports by value in 2017–18?
17. Identify two reasons why Australia imports goods and services from overseas.
18. Identify the region of the world where the majority of our imports are sourced, and provide a reason why this is the case.
19. What is meant by the terms 'invisible imports' and 'invisible exports'?
20. Explain how purchasing imported goods can:
    (a) improve our standard of living
    (b) reduce our standard of living.
21. Provide five examples of imports that you and your family purchase regularly. Identify their countries of origin.
22. Name three stores in your local area and list some of the imported products they stock.
23. What type of imports do you think will increase in Australia in years to come? Justify your response.

**Fully worked solutions and sample responses are available in your digital formats.**

# 5.12 The interdependence of Australia with other global economies

Today all countries are connected to a greater extent than ever before in human history. International trade has contributed to economic growth and the generation of wealth in all nations that engage in the import and export of goods and services. Developments in travel and communications have made trade easier and broken down many traditional barriers between countries. While we have benefited in many ways from these connections with other countries, there have also been some detrimental effects. The ease of travel between countries has seen the rapid international spread of infectious diseases, while the widespread use of electronic communication has made internet fraud and identity theft much easier for criminal groups.

The growth of trade between almost all countries has created greater economic interdependence between those countries. As a result of this interconnectedness, both positive and negative economic events can spread quickly between trading partners. The economic growth of China since the 1980s has had a beneficial effect on the many other countries that trade with it. On the other hand, problems with housing loans that began in the United States in 2006 eventually spread to many other countries, creating the Global Financial Crisis of 2008.

International flights have made travel between countries quick and easy, but they come with risks such as the possibility of spreading contagious diseases across the globe.

## 5.12.1 The interdependence of Australia with the Chinese economy

Since the early 1980s, the Chinese government has pursued a number of policies designed to bring about rapid economic growth. Economic growth is measured by increases in a country's **gross domestic product (GDP)**. As GDP is the total value of all goods and services produced in a country in any given year, the rate by which GDP increases each year is effectively the rate of economic growth of that country. From 1979 until 2010, China's average annual GDP growth was 9.9 per cent. Since 2010, the rate of growth has slowed somewhat, with a rate of 6.3 per cent recorded for 2018. One way in which the Chinese have been able to achieve this level of growth is through a rapid expansion in trade with other countries. As a result of this policy, China has become the world's largest trading nation, with a total trade value of US$4.1 trillion in 2017.

China produces high-quality electronic products more cheaply than we can in Australia.

China has set out to increase its manufacturing capacity in order to provide all the goods and services required by its own huge population and also to export to other countries. It has to import large quantities of raw materials from other countries, including the materials to build hundreds of new factories and the fuel to power them. Countries such as Australia have benefited enormously from this growth in the Chinese economy. As we have seen, China is Australia's largest export customer, buying large quantities of Australian iron ore and coal. For a 10-year period from the mid 2000s, this generated a mining boom in Australia that contributed significantly to our growth in GDP.

Australia also imports large quantities of consumer goods from China, particularly clothing and other textile products, as well as increasing quantities of electronic goods and other home appliances. Most of these are produced more cheaply than we can produce them ourselves, so Australian consumers benefit from paying lower prices for a wide variety of goods imported from China.

## 5.12.2 The interdependence of Australia with the Japanese economy

In March 2011, the largest earthquake ever to hit Japan occurred under the ocean to the country's east, causing a 40-metre tsunami. As many as 18 000 people are believed to have died. Tens of thousands of buildings were destroyed, and a meltdown at the Fukushima nuclear power station led to serious radioactive pollution. There was an immediate slowdown in the growth of the Japanese economy, but the international economy was also seriously affected. Japan is a major trading nation and the world's third largest economy. Japanese cars, computers and electronics products are assembled in many factories around the world, and they rely on parts imported from Japan. The slowdown in the Japanese economy had an impact on many Japanese-owned businesses globally.

The destruction caused by the 2011 tsunami had an impact on Japan's trading partners as well as on its own economy.

Japan is Australia's second largest trading partner, so an event as dramatic as the 2011 tsunami had an impact on Australia's economy, although the effects were largely short term. These effects were positive as well as negative:

- The slowdown in the Japanese economy resulted in a reduction in demand for Australian exports such as coal, iron ore and beef. However, the reconstruction effort in Japan eventually led to a rise in demand for steel, so many of these exports subsequently increased.
- Pollution from the Fukushima nuclear power station raised concerns about the safety of the food supply in that area. This led to a rise in imports of food into Japan. As a significant supplier of food to Japan, Australia exported more food to that country in the period after the tsunami.
- The nuclear meltdown also caused Japan to reassess its reliance on nuclear power. As a result, it has been making greater use of coal- and gas-fired power stations. This is likely to result in a higher demand for coal and liquefied natural gas (LNG) from Australia. The 13 million tonnes of LNG exported from Australia to Japan in 2010 rose to 24.8 million tonnes in 2016–17.

## 5.12 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What was the average annual growth rate in China from 1979 to 2010?
2. Identify one way in which the greater interconnectedness of countries can have a detrimental effect.
3. Outline one way in which the greater interconnectedness of countries can have a positive effect on Australia.
4. When did problems with US housing loans first appear? What global event did this eventually lead to?
5. Explain how the Japanese tsunami and earthquake of 2011 affected the Australian economy in:
   (a) a positive manner
   (b) a negative manner.
6. Describe two factors that have led to the greater interconnectedness of countries.
7. How has Chinese economic growth benefited the Australian economy?
8. What casued an economic boom in Australia for ten years from about 2004?
9. Which nation is the world's third largest economy?
10. Northern Queensland has been subject to cyclones over the years. The same area has large numbers of sugar and banana plantations, as well as coal mines. The area provides sugar and bananas for the Australian domestic market, and refined sugar and coal for export. What impact do you think serious cyclone damage in this area would have on:
    (a) the price of bananas in Australian supermarkets
    (b) Australia's export trade with our Asian neighbours
    (c) the sugar plantation industry in India
    (d) the Australian confectionary manufacturing industry?

**Fully worked solutions and sample responses are available in your digital formats.**

# 5.13 The impact of government on Australia's international trade

## 5.13.1 How the government impacts on Australia's international trade

Governments have the choice of adopting a **free trade** policy or a **protectionist** policy. Protectionist policies occur when a government gives its local industry an artificial advantage over its competitors. This could be by things such as taxes on imports (**tariffs**), restrictions on the amount of imports (**quotas**), payments to local producers (**subsidies**) as well as numerous minor rules and regulations.

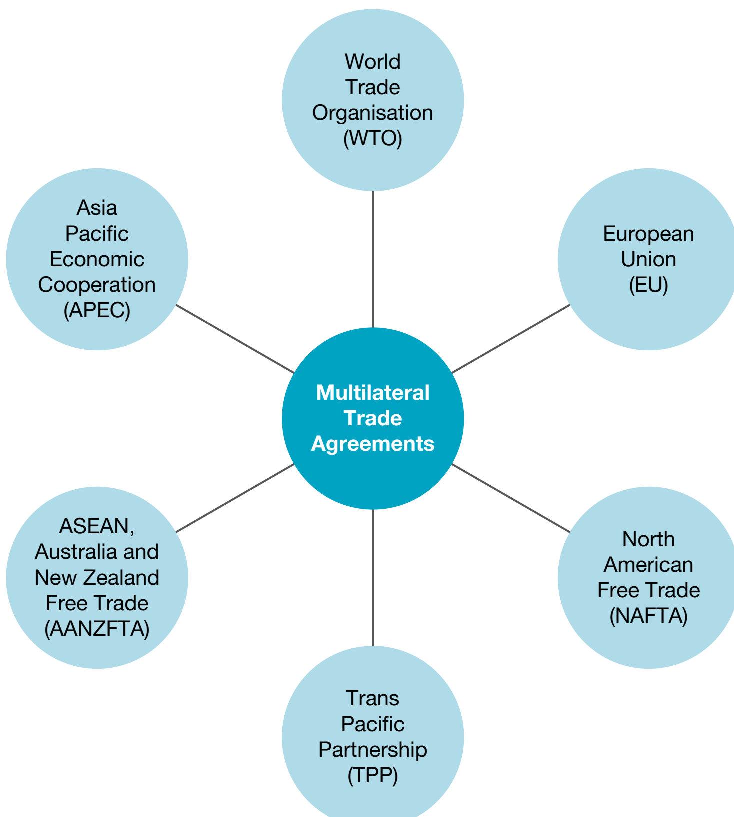
Free trade is when a government ensures there are minimal barriers to trade between nations. Australian governments traditionally adopted a protectionist policy using tariffs, quotas and subsidies to give local producers an advantage. However, since 1973 barriers to goods entering Australia have been gradually reduced. Currently there are very few restrictions on goods entering Australia.

## 5.13.2 Australia's trade agreements

There are two different types of trade agreement; **multilateral** and **bilateral**.

1. **Multilateral trade** agreements are agreements that involve three or more nations.
2. **Bilateral trade** agreements are between two nations. The Australian government has signed bilateral trade agreements with many nations including USA, New Zealand, Japan, Singapore and Thailand.

Multilateral trade agreements



## CASE STUDY

### World Trade Organization

The World Trade Organization (WTO) was formed in 1995 and is located in Geneva, Switzerland. Its role is to promote global free trade and to be a forum to settle trading disputes.

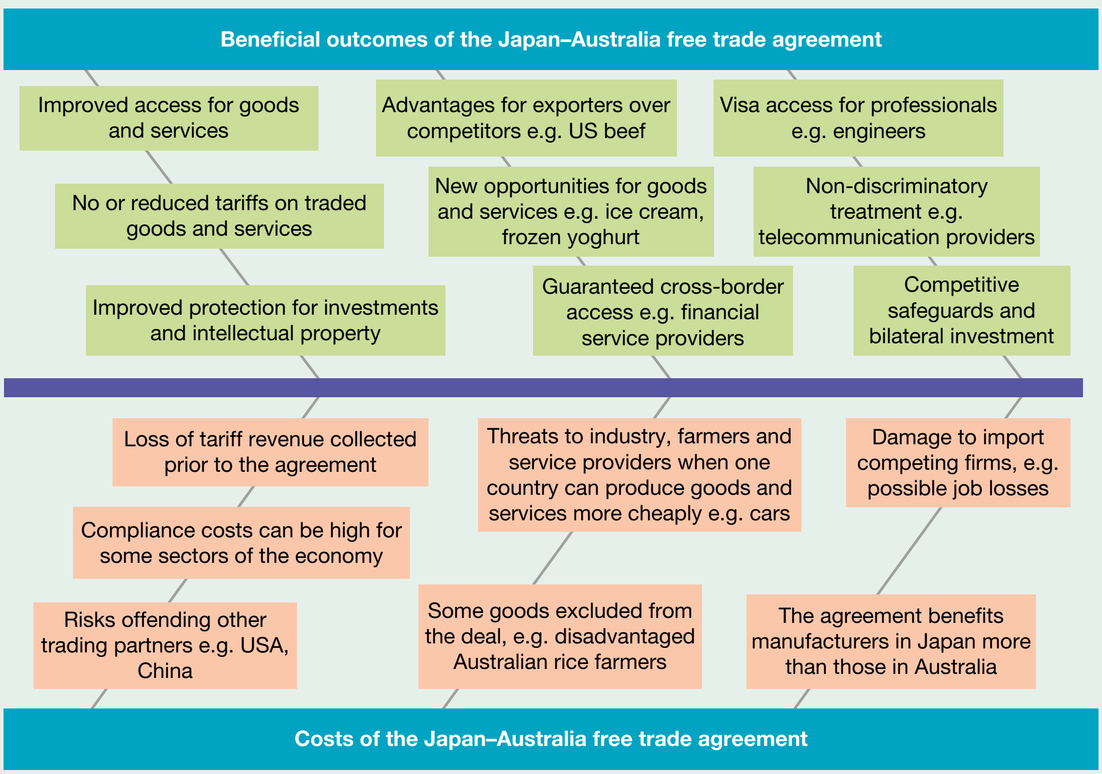
From 2001 to 2015, the WTO held a series of free trade talks in Doha, Qatar. The issues discussed included agricultural protection, minimal labour standards and environmental protection standards. However, despite 14 years of negotiation, no final agreement could be reached. It is hoped that in the future these talks will be revived.

World Trade Organization logo

## CASE STUDY

### Japan–Australia Economic Partnership Agreement (JAEPA)

When Australia and Japan entered into a free trade agreement on January 15th 2015, both countries assessed that the beneficial outcomes of the partnership agreement outweighed the costs. Some benefits and costs of the agreement are shown in the following diagram.



## 5.13.3 The significance of trade agreements

Trade agreements are significant because of the many benefits that they can bring These include:

- Trade agreements can allow nations to specialise in producing goods in which they are most efficient, leading to better use of scarce resources. Australia tends to specialise in mining and agricultural goods.
- If nations specialise and then trade their surplus, there will be higher standards of living due to the greater availability of goods. In Australia we tend to trade our surplus mining and agricultural products and import manufactured goods which we do not make, such as cars and electrical items.
- Goods will be cheaper since the more that is produced the lower costs tend to become.
- Trade enables us to obtain goods which we otherwise would not have. A good example of this is oil. Australia has very few reserves of this resource, so most is imported; generally, from the Middle East.
- Trade agreements usually allow for the transfer of technology from one nation to another.
- Trade agreements usually lead to cultural exchanges between nations.

### 5.13 Activity: Research and communication

1. In a group, prepare a three-minute podcast on one of the multilateral organisations mentioned in this section. Ensure you cover the following points about the organisation:
   (a) History
   (b) Members
   (c) Achievements
   (d) The future
2. Use the internet to find a free crossword generation site, such as **Puzzle maker**.
   Enter the words below into the program and write suitable clues, ensuring they relate to work covered in this section. Print your puzzle and distribute it to your classmates to solve.
   **Word list:** multilateral, bilateral, tariff, quota, subsidy, protection, specialise, WTO, Doha, AANZFTA, imports, exports, APEC, NAFTA, Geneva

### on Resources

**Digital document** Worksheet 5.9 Case Study China — Australia free trade agreement (doc-32830)

**Weblink** Puzzle maker

### 5.13 Exercise: Knowledge and understanding

1. Explain the difference between free trade and protection.
2. Describe the difference between a tariff, a quota and a subsidy.
3. In what way does a multilateral agreement differ to a bilateral one?
4. Name three multilateral trade agreements.
5. Describe the role of the World Trade Organization.
6. Name three nations with whom Australia has a bilateral trade agreement.
7. List three costs of the Japan-Australia Free Trade Agreement.
8. Outline three benefits of Australia being involved in free trade agreements.

# 5.14 Global influences on the Australian economy and the interactions between the international and domestic business cycles

## 5.14.1 Globalisation

Globalisation provides the means for increased interaction between the consumers, producers, workers and governments in one country's economy with their counterparts in the economies of other countries. Many people use the term 'globalisation' to describe the strengthening economic ties between nations, and the resulting trade and investment opportunities. Some use it to refer to the increasing exchanges between nations at the social, political, cultural and technological levels. For others, globalisation refers to our ability to rapidly communicate with and travel to other regions of the world. In this topic we focus on the economic issues associated with globalisation and the way they affect all participants in the global economy.

## 5.14.2 The impact of changes in global markets

### Positive impacts

Globalisation can be a driving force for economic growth (an increase in the size of the economy as measured by gross domestic product). As countries encourage free trade with other countries, new markets are created. Selling more products increases company profits, and this means companies can afford to hire more workers. As a result, both companies and workers become wealthier, and the standard of living improves. As discussed previously, a trade surplus with our trading partners will result in an increase in wealth coming into the country and contributes to the circular flow of money.


Greater choice and an increased variety of goods and services is a flow-on benefit of globalisation for consumers.

Trade helps to ensure that resources are used efficiently to produce goods and services. It enables nations to specialise in the products that they make efficiently or grow naturally. At the same time, producers competing on a global rather than national level must operate efficiently to keep prices competitive. This increased focus on efficiency and cost savings provides flow-on benefits for both producers and consumers.

**Resources**

**Weblinks** Globalisation

What is globalisation?

## Negative impacts

Globalisation can create unfair working conditions for many workers in poor countries. Large **multinational corporations (MNCs)**, for example, may shift their production factories to poorer countries where they can hire labour more cheaply. These workers may be forced to work long hours in unsafe and unhealthy factory environments for a very small wage. Workers in the home country of the MNC may lose their jobs altogether.

A downside of globalisation is the deplorable working conditions faced by many workers in poorer countries.

As well as choosing countries that have cheaper labour, MNCs may also choose to locate in countries where environmental regulation is less stringent. This may result in exploitation of natural resources and damage to the natural environment, often with little or no benefit flowing on to local communities.

MNCs also have the ability to undercut prices charged by competitors, often forcing smaller producers to close down. This results in job losses, less competition and less choice for consumers. Removal of competition can then allow MNCs to raise product prices.

**DISCUSS**

Critics of MNCs who exploit labour laws by providing poor conditions and low wages for their workers, often stage boycotts of the goods and services these companies provide. Do you think this is an effective strategy to put pressure on these companies? What else could be done to force a change in this behaviour?

## How globalisation has impacted Australia

Globalisation has affected our country in many ways:

- Many Australian companies now operate internationally, increasing their profits by selling their goods and services worldwide. Some have established their production centres in regions such as Asia to reduce labour costs.
- Globalisation has forced Australian farmers to compete at a global level to sell products such as wheat and wool. Previously they could rely on selling their crops and stock to established trading partners.
- Overseas investment by Australian companies helps to create employment and wealth in those overseas countries. Similarly, investment in Australia by overseas companies may create growth and employment opportunities that improve our standard of living.
- Importing a huge variety of goods and services allows consumers greater choice, usually at cheaper prices. Overseas-made products in almost every Australian home include electrical goods, food items, clothing and footwear, numerous television programs and the family car.

Globalisation in the form of shipping goods to or from other countries has advantages for Australian businesses and consumers.

## 5.14.3 The impact of changes in the global economy

### Impact on confidence

Confidence refers to the outlook that consumers and business have towards the economy and their financial situation. This outlook can be optimistic with high confidence or pessimistic with low confidence. The level of confidence is affected by many things including:

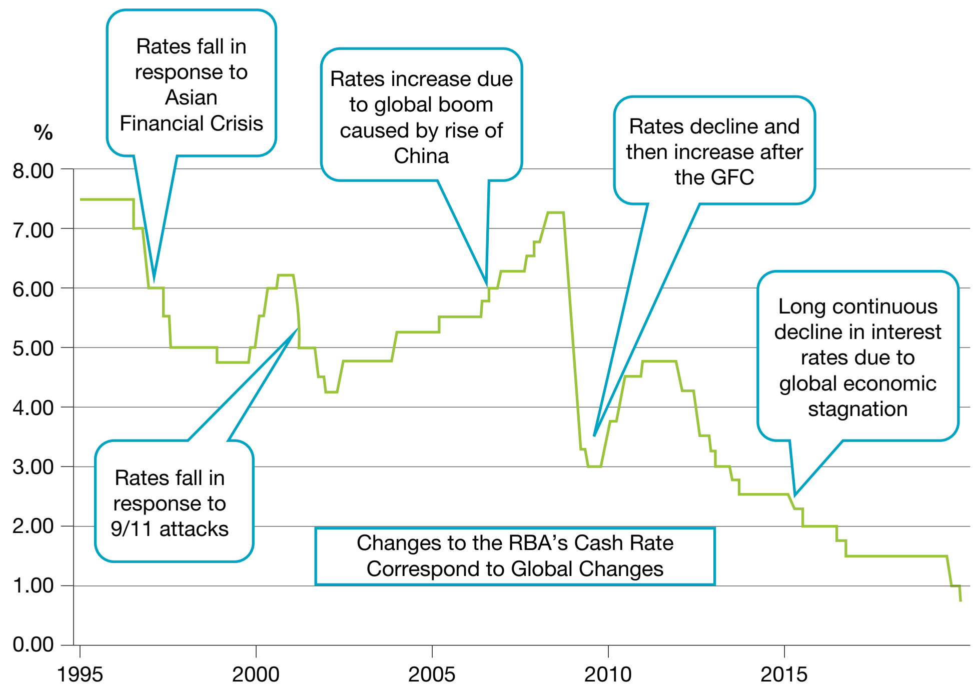
- **Economic news** — depressing statistics about the global and national economy will reduce confidence and encourage saving rather than spending.
- **Uncertainty** — a major political/economic change can lead to uncertainty, which reduces confidence. Examples of such change include a major terrorist attack, or the election of a new government in a major global economy such as the USA.
- **Unemployment** — the fear of rising unemployment globally will discourage consumers spending and business investing.
- **Real wages** — stagnant and falling real wages will make people pessimistic.
- **Inflation** — high inflation or very low inflation makes business and consumers pessimistic.
- **Personal debt levels** — rising debt levels will be a source of concern.
- **Economic growth** — a recession in any part of the world will invariably be associated with a fall in consumer confidence; positive economic growth tends to improve it.

Changes in any of these factors globally will influence business and consumer confidence.

## Impact on interest rates

Global events affect interest rates in Australia. The graph below shows the cash rate in Australia from 1995 to 2019. Most of the major changes can be attributed to a major global event such as the Global Financial Crisis in 2008 or the terrorist attacks in the USA on 9/11.

Changes to the RBA's Cash Rate Correspond to Global Changes




***Sources:*** Adapted from Reserve Bank of Australia, Triami Media BV and Trading Economics data

Today the world's financial markets are linked. Interest rates in Australia will reflect changes to interest rates overseas, especially in the USA. For example, if the US Federal Reserve (USA's equivalent of our Reserve Bank) increased interest rates in America, then Australian banks who borrow from US banks would be forced to pay higher interest on these loans. The Australian banks must pass these costs onto their Australian customers, or they must face a loss in profits.

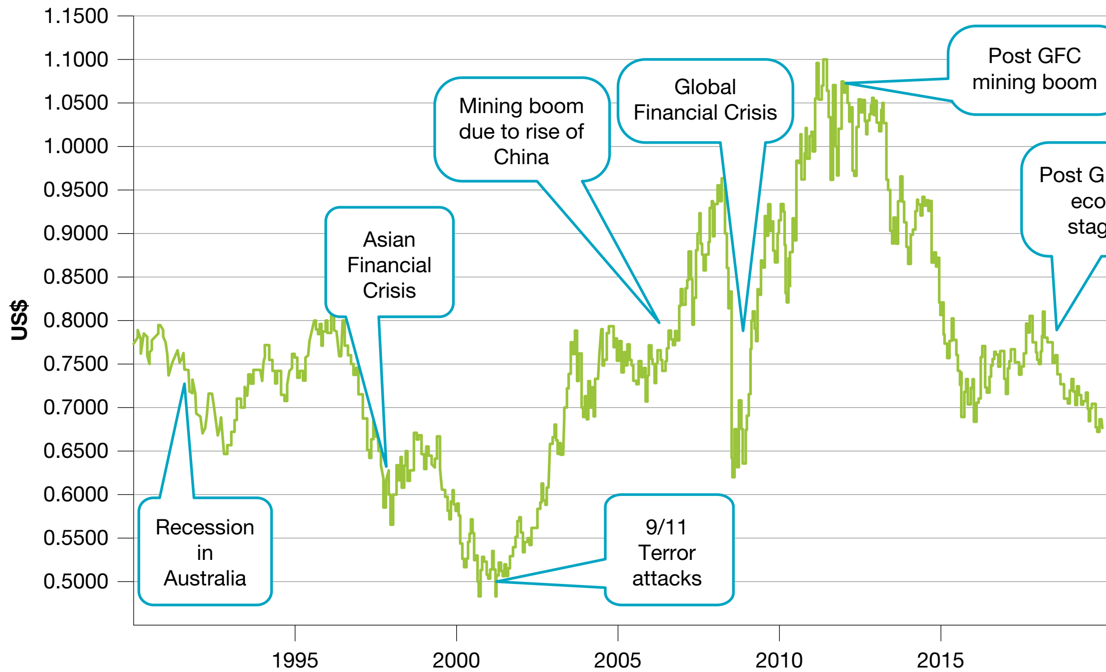
## Impact on exchange rates

An exchange rate is the value of one currency in terms of another. There are two main types of exchange rate; a floating exchange rate and a fixed exchange rate.

A fixed exchange rate is where the value of a currency is determined by the government or a government authority. A floating exchange rate is one where the value of a currency is determined by demand and supply for that currency.

Australia has had a floating exchange rate since 1983; therefore, anything that affects the demand and supply of the Australian dollar will affect the value of our currency. The following graph illustrates the effects of global events on the value of the Australian dollar.

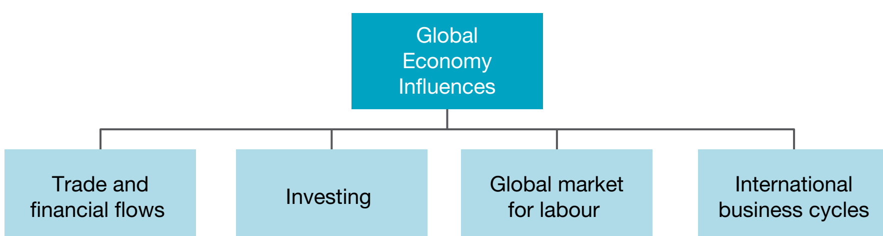
Value of Australian dollar compared to US dollar




***Sources:*** Adapted from Market Index, Trading Economics and Pound Sterling Live data

## 5.14.4 The rise and influence of the global economy

The global economy has been created by the process of globalisation. Globalisation is the 'increasing integration between different economies and the increased impact of international influences on all aspects of economic activity'. This is seen in four main areas; trade and financial flows, investing, the global market for labour and the international business cycle.

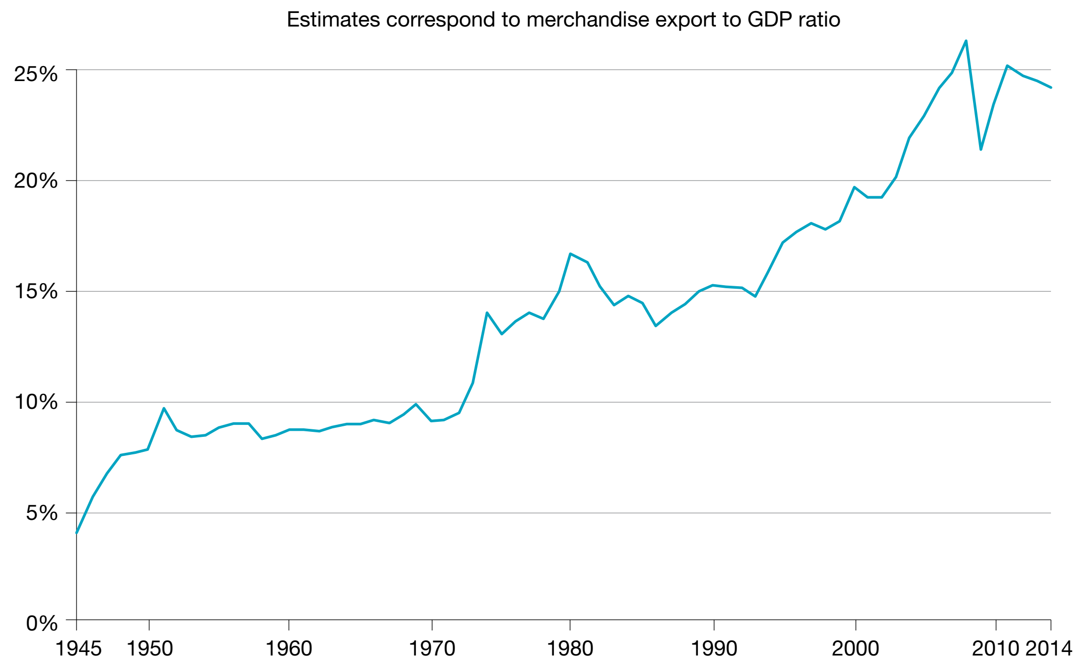



### Trade and financial flows

The value of global trade has increased dramatically since the end of the Second World War. In 1945, less than 5% of global GDP was exported. Currently this figure is nearing 25%. Transport improvements, technological developments (internet) and free trade agreements have all had a role in this rise.

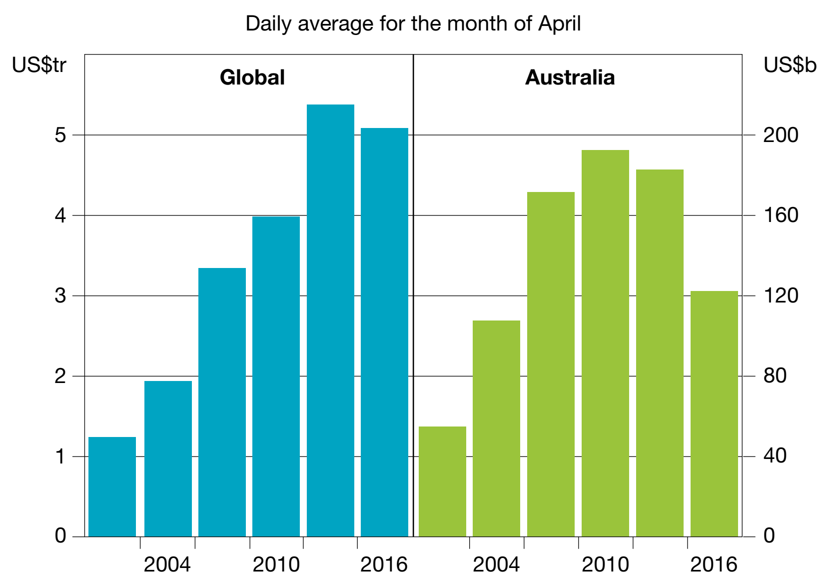
The financial deregulation and switch to floating exchange rates that occurred throughout the world during the 1980s and 1990s, increased the mobility of capital. Technological change also assisted this mobility. Using the internet, capital can move seamlessly around the world. A process that once took weeks now takes less than a second.

Value of exported goods as share of GDP




***Source:*** Esteban Ortiz-Ospina, Diana Beltekian and Max Roser (2018) “Trade and Globalization”. Published online at OurWorldInData.org.
Retrieved from https://ourworldindata.org/trade-and-globalization [Online Resource]

Foreign exchange turnover



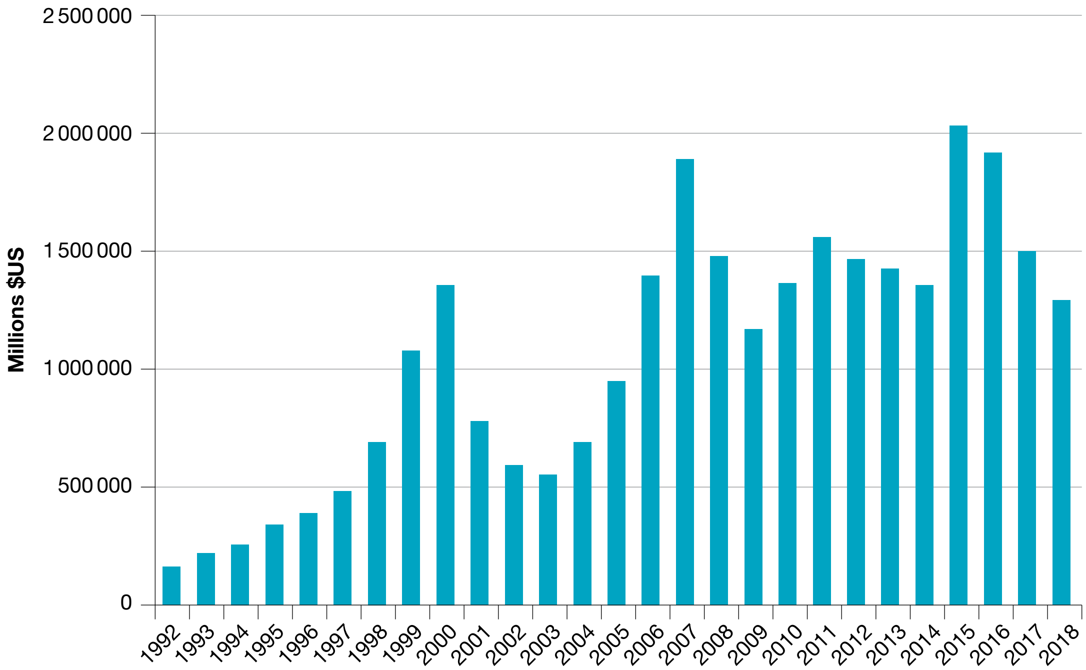

***Sources:*** Adapted from Reserve Bank of Australia, Statista, Inc and Bank for International Settlements data

Globally, over US$5 trillion is now turned over daily in foreign exchange markets. In Australia this figure is generally around US$120 billion.

## Investing

Direct foreign investment is when a firm or an individual establishes physical assets in another country. In Australia, foreign investment is frequently in the mining, agriculture and tourist sectors. For example, if an American firm constructed a new hotel in Sydney it would be an example of direct foreign investment.

Changes to global foreign direct investment — inward




***Source:*** Adapted from World Bank Group — foreign direct investment, net inflows (BoP, current US dollar) https://data.worldbank.org/indicator/bx.klt.dinv.cd.wd?end=2018&start=1992, accessed on 22 November 2019

Since 1992, the level of direct foreign investment globally has increased over ten times. It is now over US$2 000 000 million annually. In recent years much of this investment has originated from Asian nations such as China as well as some of the oil rich Middle Eastern nations such as the United Arab Emirates.

## Global market for labour

Globalisation has seen some nations specialise, for example some Asian nations with large labour forces tend to specialise in labour intensive industries such as clothing and footwear. Other nations with small but highly skilled workforces such as Singapore, tend to concentrate on capital intensive industries such as IT.

Globalisation has also seen an increase in the movement of people between nations on a permanent or long term basis. The movement of labour between nations is concentrated at the top and bottom end of the labour markets.

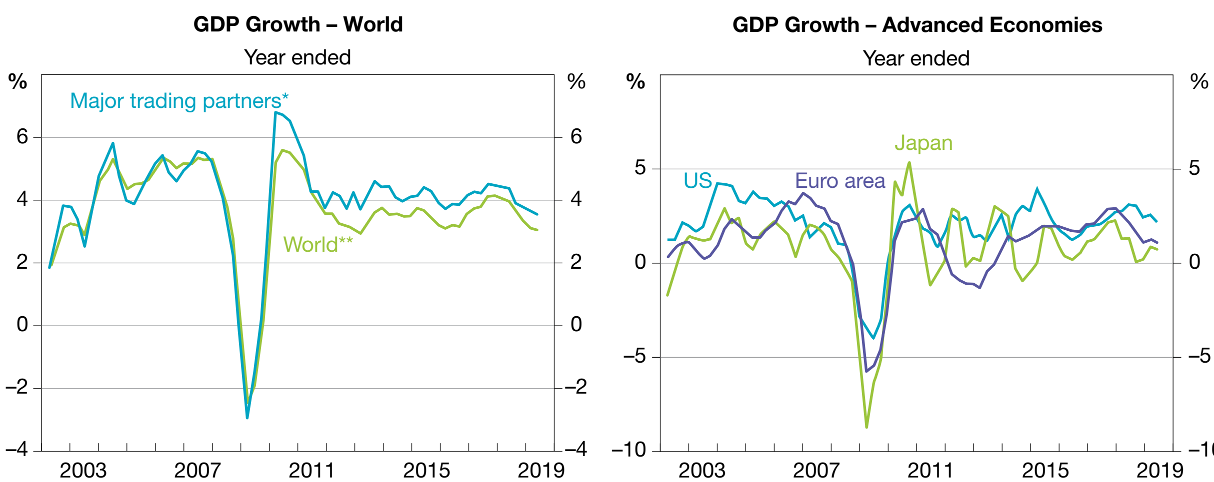
- At the top end, highly skilled workers are attracted to the developed economies of America and Europe. This is because these economies offer much higher pay and better conditions.
- At the lower end, thousands of unskilled migrants are fleeing their homelands and moving to wealthier industrialized nations in search of employment and security. Many of these migrants are fleeing war-ravaged nations such as Iraq, Syria and parts of Africa.

Kurdish refugee camp on the Turkish-Syrian border.

## The international business cycles

The business cycle refers to fluctuations in the level of economic growth of a nation. The international business cycle is the fluctuations in the level of economic activity in the global economy over a period of time. It is determined by combining all nations' or regions' business cycles. In the following graphs, the international business cycle is shown by the line labelled 'World'.

The international business cycle




* Weighted using Australian export shares

** PPP-weighted, accounts for 85 per cent of world GDP

***Source:*** The World Bank

***Source:*** The World Bank

The economic conditions in one nation affect the economic conditions in other nations. This was most clearly shown by the 2008 Global Financial Crisis. This started in the USA and as these graphs show, affected every other nation in the world.

These flow-on effects are caused by factors such as:

- international trade
- global investment flows
- multinational corporations
- global financial markets
- confidence in global markets
- interest rates globally
- global commodity prices

## Global Financial Crisis (GFC)

During the early years of this century, many US banks lent money in mortgage loans to people who were ultimately unable to repay the amount they had borrowed. In 2006 and 2007, a fall in US house prices left many of these people with houses that were valued less than the money owing on their mortgage loans. When large numbers of them defaulted on their loans and had to abandon their houses, many of the banks and other financial intermediaries lost a lot of money, severely damaging the reputation of the US financial system. This led to a tightening of credit: banks lent less money and there was a slowing in growth of the United States economy. In 2008, the US economy went into recession. Around 9 million people lost their jobs in the following two years.

Many US home owners had to abandon their mortgaged homes when house prices fell dramatically during 2006 and 2007.

In response to the problems in the US banking system, other banking systems throughout the world placed restrictions on lending. This led to a recession throughout much of the rest of the world. In many European countries, GDP declined by as much as 10 per cent, with some countries experiencing even greater decreases in economic growth and high levels of unemployment. Recession was largely avoided in Australia because the government rapidly increased spending, injecting more money into the circular flow and stimulating economic growth.

The Global Financial Crisis (GFC) of 2008 and 2009 occurred because of the close connections between the economic and financial systems of most of the world's countries. International trade and the flow of money between nations means that events that occur in one country can have an influence on the economic conditions in other countries — for better or worse.

### 5.14 Activity: Research and communication

1. Prepare a short report on the 1984 Bhopal disaster. What firm was involved? What caused the disaster? Describe short-term and long-term consequences.
2. Make a list of the country of origin of many of the products in your home, such as electrical appliances, tinned food and IT equipment. Compare your findings to others in the class.
3. With a partner, research news and media sites. State the location and causes of various refugee crises in recent years.

### 5.14 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Use the words in the list to complete the below sentences.

| | | | | | |
|---|---|---|---|---|---|
| **specialise** | **environmental** | **consumers** | **standard** | **Globalisation** | **multinational** |

(a) _________________ can be a driving force for economic growth.
(b) Trade enables nations to _________________ in the products that they make efficiently or grow naturally.
(c) Trade is beneficial as it helps companies and workers become wealthier and also improves the ________________ of living.
(d) Large ______________ corporations frequently move their factories to where they can hire labour more cheaply.
(e) Multinational firms often establish their operations in nations which have few __________ regulations.
(f) Globalisation has benefited Australia by providing ______________ with a greater variety of goods and services.

2. List four things that can affect business and consumer confidence.
3. How was the 'cash rate' in Australia and the value of the A$ affected by:
   (a) the Global Financial Crisis
   (b) the Terror attacks of 9/11
   (c) the economic boom due to the rise of China?
4. What are the two different types of exchange rates? How do they differ?
5. Describe how the value of world trade has increased since the end of World War 2.
6. Define the term 'direct foreign investment'.
7. Outline the characteristics of the two different groups that are most likely to be migrating.
8. List three factors that may cause the economic conditions in one nation to flow on to others.

**Fully worked solutions and sample responses are available in your digital formats.**

# 5.15 Thinking Big research project: How does Australia measure up?

## Scenario

You have considered data showing Australia's performance in terms of economic measures such as inflation, unemployment and economic growth, and have made comparisons with four other countries of importance to Australia's economy: China, New Zealand, the United Kingdom and the United States of America. But these are not the only countries of importance to Australia, and the economic measures identified above are not the only measures that are important to the citizens of a country.

But how does Australia measure up when compared with many other countries, and on measures beyond pure economic performance?

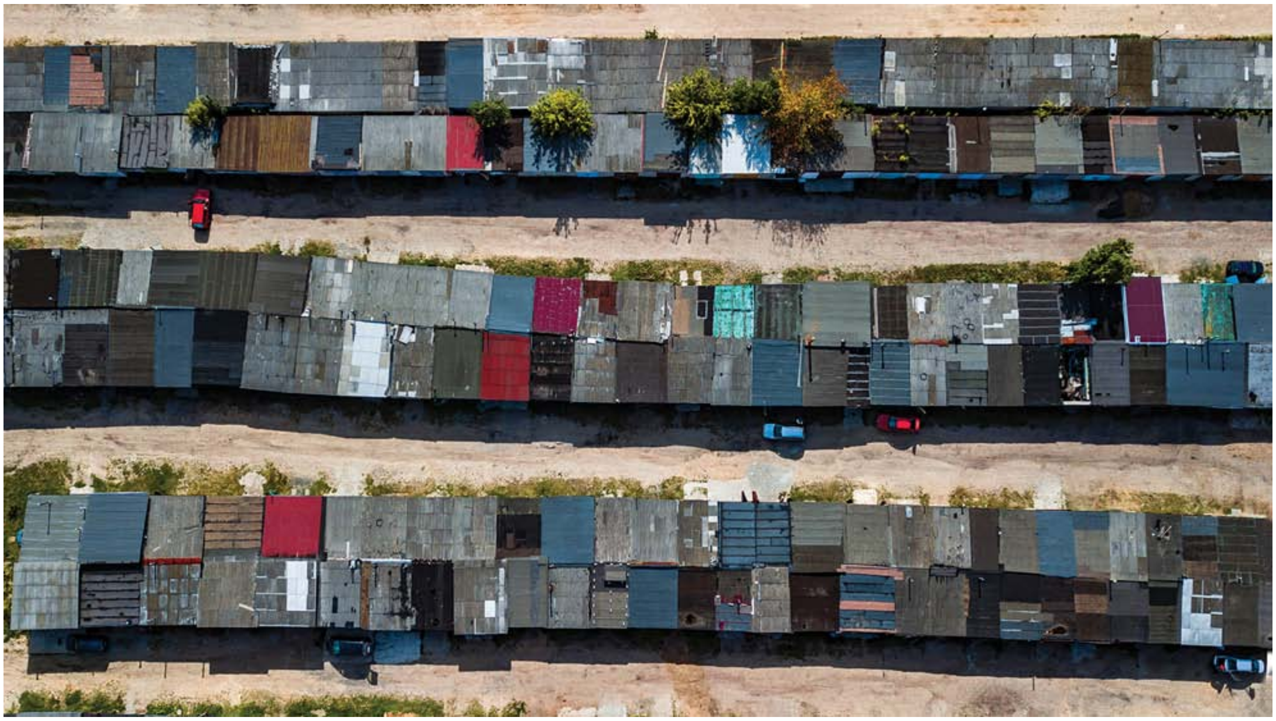
## Task

Your task is to research and create a report or PowerPoint presentation on the recent economic performance of a country with which Australia has a relationship — a country other than the four already considered in this topic (China, New Zealand, the UK and the US). In addition to economic performance, your research should include information about material and non-material living standards experienced in this country, and make comparisons with Australia across all measures.

## Process

- Open the ProjectsPLUS application in the Resources for this topic. Open the **Project set-up** tab to enter the project due date and set up your project group if you wish to. You can work independently or with a partner, which will allow you to swap ideas and share responsibility for the project. Save your settings and the project will be launched.

- Select a country that has a relationship with Australia. Such relationships are usually trade related. Navigate to the **Research forum**, where you will find starter topics loaded to guide your research. You can add further topics to the Research forum if you wish. In the **Media centre** you will find an assessment rubric and some weblinks that will provide a starting point for your research.
- Your research should cover the following aspects and include recent statistics on:
  - inflation
  - unemployment
  - GDP, real GDP, real GDP per capita
  - education and literacy
  - health measures — life expectancy, maternal mortality, infant mortality etc.
  - any other measures that you think are relevant and appropriate.
- Research the relationship between Australia and your selected country. In this section:
  - provide information on the trade relationship (what is traded, by whom and in what quantities?)
  - include trade statistics
  - outline any other relevant information about the relationship.
- Make notes of your research and remember to record details of your sources so you can create a bibliography to include in your report. Add your research notes and source details to the relevant topic pages in the Research forum. When you have completed your research, you can print out the **Research report** in the Research forum to easily view all the information you have gathered, if you wish.
- Include relevant table data, images and graphs to illustrate your report and present data in a clear, understandable format.
- Check your report/PowerPoint thoroughly, ensuring correct spelling and grammar, and when satisfied, submit to your teacher (along with your bibliography) for assessment.



**Resources**

**ProjectsPLUS** How does Australia measure up? (pro-0223)

# 5.16 Review

## 5.16.1 Summary

Having explored this topic, you can now:

- describe the different ways of assessing the performance of the Australian economy
- explain how living standards and economic growth are measured
- define income distribution and discuss the causes and impacts of inequality
- discuss the impact of macroeconomic policies such as budgetary/fiscal policies as well as monetary policies
- describe the role of the Reserve Bank of Australia in setting interest rates
- discuss the impact of microeconomic policies
- compare Australia's performance with other economies
- explain how unemployment is measured and the importance of reducing unemployment
- outline the causes and impacts of unemployment
- outline how inflation is measured and state Australia's inflation rate
- describe the causes and impacts of inflation
- explain how international trade impacts on the Australian economy
- identify who Australia's major trading partners are
- outline the interdependence of Australia with the Chinese and Japanese economy
- explain some of the global influences on the Australian economy
- define globalisation and outline the impacts

- outline the impacts of changes in the global economy such as the impacts on confidence, interest rates and exchange rates
- explain the rise and influence of the global economy

## 5.16.2 Key terms glossary

**aggregate demand** is the sum or total value of all spending or demand on final (finished) goods and services produced by a nation and measured over a period of time.
**balance of trade** the difference between the value of a country's exports and the value of its imports over a specific period of time
**bilateral agreement** an agreement between two nations
**bonds** A bond is basically a loan to a company or government that pays investors a fixed rate of interest
**budget** a list of income and likely expenditures
**budgetary policy** a macroeconomic or aggregate demand management strategy involving the government's estimates of the expected value of its receipts and the expected value of its outlays
**cash rate** the official price of borrowing money; the interest rate that applies to the short-term money market
**consume** to purchase goods and services for direct use or ownership
**cost inflation** a sustained increase in the price of goods and services caused by producers passing on increased production costs to consumers
**demand inflation** price increases that result from an excess of demand over supply for the economy as a whole
**deregulation** the removal of unnecessary direct government controls, restrictions and supervision in various areas of the economy
**economic growth** a measurement of the increase in a country's gross domestic product (GDP)
**economy** all activities undertaken for the purpose of production, distribution and consumption of goods and services in a region or country
**exports** goods and services sold by local businesses to overseas consumers
**fiscal policy** the use of the federal government's budget to achieve economic objectives
**free trade** there are no artificial barriers to trade between nations
**gross domestic product (GDP)** the total value of all goods and services produced in a country in a given period of time (usually a year)
**imports** goods and services purchased by local consumers from overseas businesses
**income** money received on a regular basis from work, property, business, investment or welfare
**inflation** a general rise in prices across all sectors of the economy
**labour** the human skills and effort required to produce goods and services
**labour market** the buying and selling of labour
**laissez-faire** no government interference in the economy
**macroeconomic** the branch of economics that emphasises the central role played by the level of expenditure or aggregate demand
**mark-up** a fixed percentage or dollar figure added to the cost price of goods and services to determine the selling price
**microeconomic** the branch of economics that studies the smaller fragments or units making up the whole economy
**monetary policy** the Reserve Bank using interest rates to achieve economic objectives
**mortgage** a loan from a financial institution such as a bank where something is held as security in case the loan is not repaid, e.g. a house
**multilateral agreement** an agreement between three or more nations
**multinational corporations (MNCs)** large business organisations that have a home base in one country and operate partially or wholly owned businesses in other countries
**negative externalities** a production outcome that was not intended and that negatively impacts our economy and/or society
**protection (protectionist)** a policy whereby a government gives local producers an artificial advantage e.g. imposes tariffs on imports
**Qualitative measures** determine or measure the quality of our life and the economy, by examination of a series of qualitative indicators, such as freedom or security
**quarterly** every three months
**quotas** quantity limits or targets for production or imports

**recession** a relatively mild contraction in the level of economic activity resulting in reduced spending, rising unemployment and a slow rate of economic growth
**regimen** a basket of goods and services whose prices are surveyed to calculate inflation
**subsidies** a cash payment by the government designed to help producers compete by enabling them to sell their product at a lower price than would otherwise occur
**subsidy** a payment to a local producer
**sustainable** able to last or continue for a long time
**tariffs** a tax on imports
**taxation** a government levy or revenue measure that can be used as part of the budget to affect the level of prices, the growth rate and the distribution of income

on Resources

**Digital documents** Key terms glossary (doc-32668)
Match up (doc-32754)
Crossword (doc-32788)
Wordsearch (doc-32799)

**Interactivities** Wordsearch (int-7902)
Crossword (int-7885)

## 5.16 EXERCISES

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

### 5.16 Exercise 1: Glossary quiz online only

### 5.16 Exercise 2: Multiple choice quiz

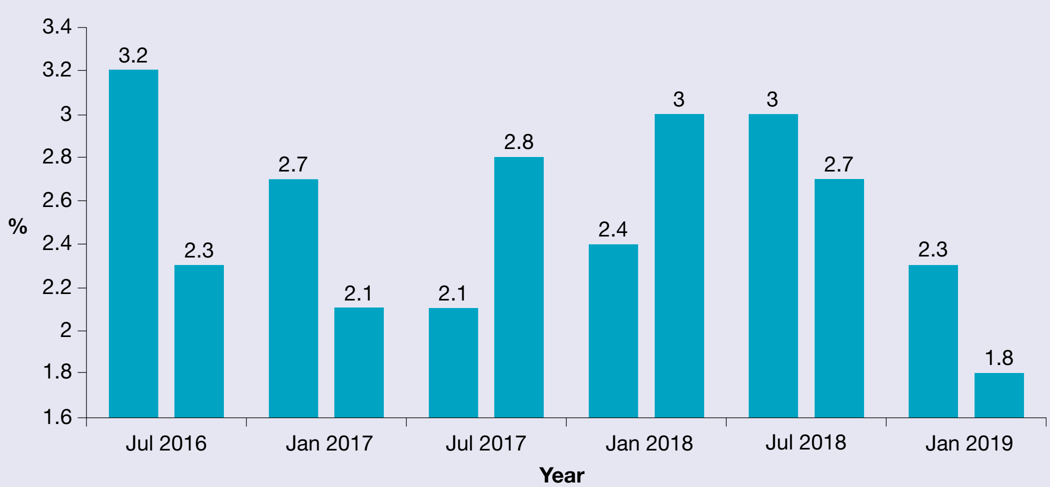
1. What is the target growth rate for the Australian economy?
   A. Between 5–6% per annum
   B. Between 1–2% per annum
   C. Between 4–5% per annum
   D. Between 3–4% per annum.
2. Which of the following is *not* considered a weakness of real gross domestic product (GDP) as a measure of economic growth?
   A. It is adjusted to remove the effects of inflation.
   B. It does not consider improvements in the quality of goods and services.
   C. It does not consider the distribution of the goods and services amongst members of the economy.
   D. It does not consider changes in non-material living standards.
3. What is the number of people within an economy over the age of 15 who are either employed or unemployed referred to as?
   A. the working population
   B. the labour force participation rate
   C. the labour force underutilisation rate
   D. the labour force.
4. When does cyclical unemployment occur?
   A. When workers are temporarily between jobs
   B. When the level of spending in the economy falls
   C. When workers are not suited to the job vacancies available
   D. When there has been new technology introduced into many businesses
5. When does structural unemployment occur?
   A. When there has been a downturn in the level of economic activity
   B. When there has been a reduction in demand, requiring fewer workers for production
   C. When seasonal factors have left some workers temporarily unemployed
   D. When the drive for efficiency has made some workers redundant.

6. What is the most common means of measuring gross domestic product (GDP)?
   A. Using the Labour Force Survey
   B. Using the aggregate demand method
   C. Using the Genuine Progress Indicator (GPI)
   D. Calculating the Consumer Price Index (CPI)
7. What is the Consumer Price Index (CPI)?
   A. An index of the average annual change in the price of a basket of goods and services representing a high proportion of expenditure by metropolitan households in Australia
   B. An index of the average rate of change in the price of a basket of consumer and investment goods and services during the year
   C. An index that measures actual changes in all prices of goods and services produced in Australia during the year
   D. An index that measures the price changes of exports and imports during the year.
8. What government economic policy involves altering the level of government spending and government receipts?
   A. Trade policy
   B. Fiscal policy
   C. Monetary policy
   D. Microeconomic policy
9. Which of the following provides the most accurate definition of monetary policy?
   A. A policy that involves the manipulation of the exchange rate to achieve low inflation
   B. A policy that involves the manipulation of interest rates to achieve low inflation
   C. A policy that involves the manipulation of the currency to achieve low inflation
   D. A policy that involves the manipulation of inflation rates to achieve low interest rates
10. Which of the following would not be considered an example of microeconomic policy?
   A. enterprise bargaining
   B. deregulation
   C. open market operations
   D. tariff reductions

## 5.16 Exercise 3: Knowledge and understanding

1. Define ‘living standards’ and distinguish between material and non-material living standards.
2. (a) Define ‘economic growth’.
   (b) Economic growth is often measured through the calculation of aggregate demand. Identify the components of the aggregate demand equation.
3. Look at the graph below and answer the questions that follow.

Australia’s GDP annual growth rate



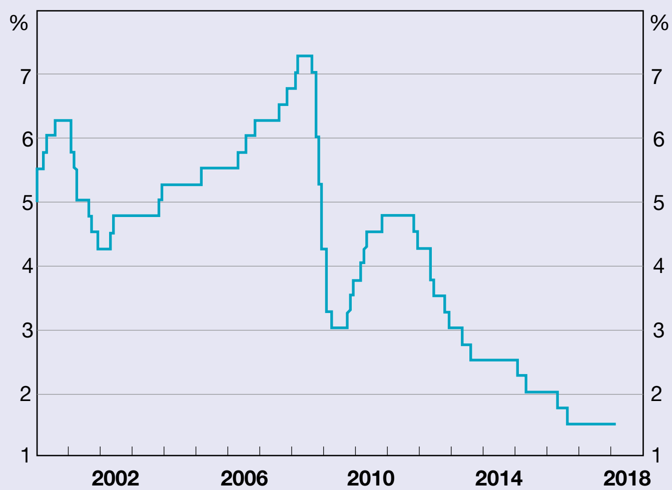
(a) Explain the trend presented in the graph. Does this show that the government's goals are being achieved?
(b) Explain the effect of the trend in the graph on:
  - employment levels
  - inflation.

4. Explain the difference between a multilateral and a bilateral trade organisation.
5. Name Australia's two largest exports.
6. Describe how a fall in the level of unemployment may:
   - negatively impact non-material living standards
   - positively impact material living standards.
7. Explain the difference between a free trade policy and a protectionist trade policy.
8. Apart from GDP, identify one other measure that can be used to indicate changes in living standards.
9. In which city does the WTO (World Trade Organization) have its headquarters? Describe the role of this body.
10. Describe three benefits of a free trade agreement.
11. Explain how inflation is calculated and outline two problems in the measurement of inflation.
12. Outline two negative consequences for living standards that may be associated with an increase in inflation.
13. Define the term 'globalisation'. State the four main areas where globalisation has influenced economic activity.
14. (a) Define 'budgetary policy'.
    (b) There are three possible budget outcomes. Identify and explain each of those outcomes.
15. What is an exchange rate? Outline the difference between a fixed and a floating exchange rate.

## 5.16 Exercise 4: Challenge your understanding

1. (a) Referring to the chart of the Australian cash rate, justify whether monetary policy is currently contractionary or expansionary.
   (b) Explain how the current level of interest rates can impact the level of aggregate demand in the economy.

Australian cash rate




***Sources:*** Adapted from Reserve Bank of Australia, Triami Media BV and Trading Economics data

2. Explain what the effect would be of the Reserve Bank of Australia decreasing the cash rate on:
   - material living standards
   - non-material living standards.
3. Discuss the impact of microeconomic policy on:
   - full employment
   - low inflation.
4. Describe the difference between a tariff and a quota.
5. The level of economic activity in China slowed in recent years. Explain the possible effects of this on Australia's rate of economic growth.

## Resources

**Digital documents** Worksheet 5.10 Wrap up! (doc- 32810)

Glossary quiz (doc-32766)

Multiple choice quiz (doc-32777)

**eWorkbook** Customisable worksheets for this topic (ewbk-0862)

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OPTION

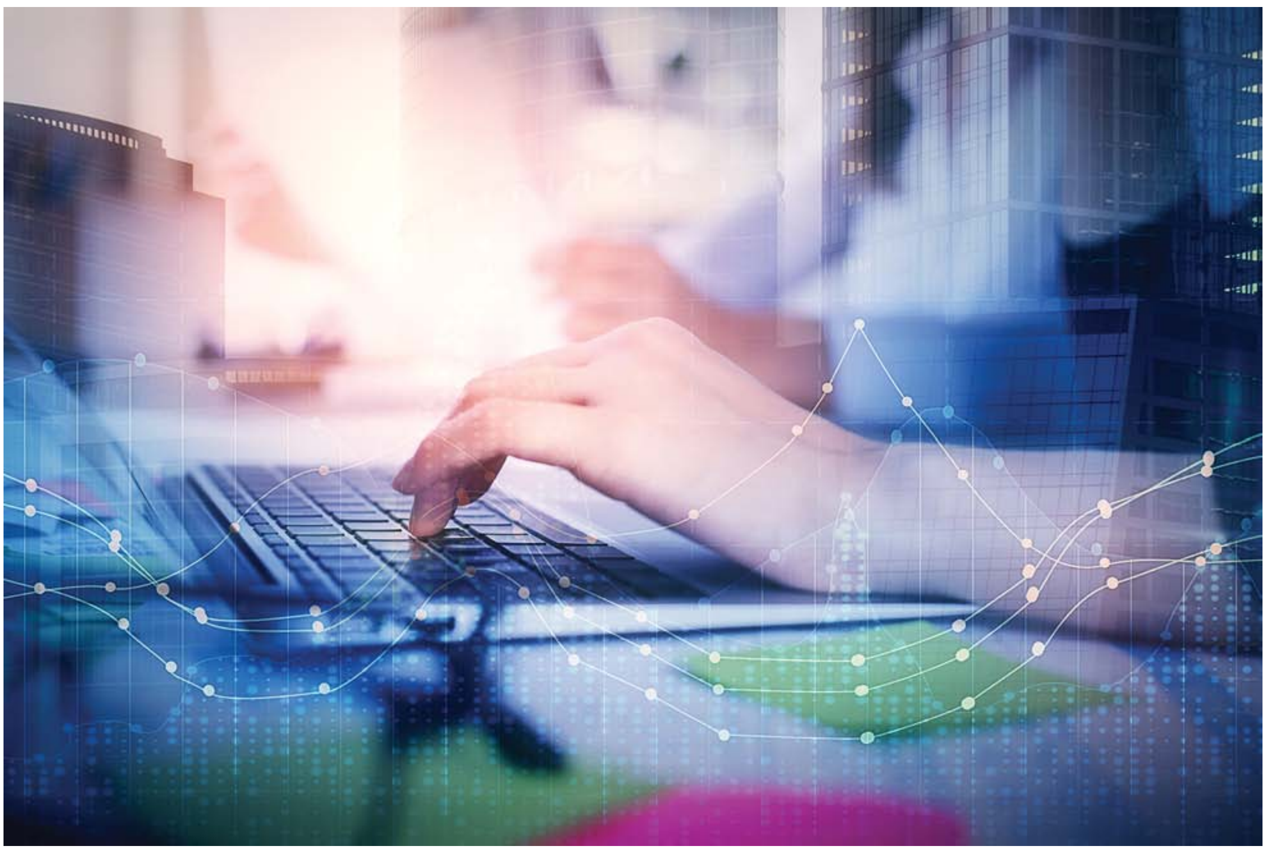
# 6 Investing

## 6.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS at www.jacplus.com.au.

### 6.1.1 Introduction

When people have savings or extra money, they can make decisions to try and turn it into something more. This is called investing. There are many ways that people invest, with their choices providing large or small returns, depending on the risk. Being informed about the options and their risks, being realistic about what they can afford, and taking time to plan and keep accurate records will help them make good investment choices. This topic will focus on the decisions and planning involved when making sound investments in today's financial environments.



**CONTENT FOCUS**

On completion of this topic, you will have:

- explored the range of investment options available and analysed information and data to make informed investment decisions
- examined the role and responsibilities of the financial services industry.

## on Resources

| | |
|---|---|
| **Video eLesson** | Investing (eles-3511) |
| **Digital documents** | Key terms glossary (doc-32669) |
| | Worksheet 6.1 Start up! (doc-32711) |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0863) |

# 6.2 Reasons for investing

## 6.2.1 Reasons individuals and businesses invest

**Investment** is when money is spent in order to gain a profitable return. Businesses and individuals may invest, for a variety of reasons:

- Businesses may invest in new machinery, technologies, factories, product initiatives, people (**entrepreneurs**), other firms or their own workforces (through programs to increase the workers' skills and efficiency levels). Companies do this to increase their profit levels.
- Individuals invest their savings in order to achieve some future goal. These goals may be short term (1–3 years), medium term (4–6 years) or long term (over 7 years). Examples of goals that might lead individuals to look for investment opportunities include the desire for extra income and future security, to pay for a major purchase, to fund a holiday or a child's education, or to ensure a comfortable retirement. Individuals also invest in their own education. This may mean that their goals are achieved faster through a higher paying job.

### COMFACT

Governments also invest, in areas such as education, roads, railways, justice systems and defence forces. This type of investment does not directly create a profit. Its purpose is to ensure that a country is competitive against all other nations throughout the world. It also helps to build a more prosperous nation with an increasing standard of living.

### CASE STUDY

#### Decisions, decisions!


Nadia looked at the bank statement in front of her in disbelief. She was $1000 in debt. How could this be? After all, she earned a fortnightly salary of $1800 and she still lived at home with her parents. It was definitely time to get her act together and work out a savings plan. Nadia felt exhilarated by the idea, and was determined not only to repay what she owed, but also to become one of those responsible people who invest for the future!

She made a careful budget and, by cutting back on her expenses, she managed to have a positive bank balance within a month. Nadia realised that if she continued to spend her money wisely, she could make some serious savings. However, as she thought about it, it didn't seem wise to just leave the money in the bank. Although an online savings account would give her 4 per cent interest, she was certain that there were better opportunities to be gained.

Nadia's best friend Liza advised her to buy shares on the internet using an internet broker as this would be cheaper than using a stockbroker. The prospect of making lots of money was exciting, but Nadia thought it was all just a bit too confusing and it seemed to be a high-risk option. After all, what did she know about the Australian stock exchange? Additionally, Nadia had seen something on the news called **cryptocurrency** but she had no idea if this was a fad or how it worked. A work colleague suggested that she should consider investing in a **managed fund** because it was a better option for first-time investors, but Nadia was still in two minds.

She loved living with her parents, but perhaps it was time to leave the nest. She had read that property could provide a very lucrative investment. Her mother, on the other hand, had stressed the importance of **superannuation** because she claimed that you can never have too much money stacked away for your retirement.

And, just to make things even more confusing, the Sunday paper had a long article outlining the difference between something called debentures and unsecured notes. Apparently, the first was better because if the firm to which you lent money went into liquidation, your investment was still safe as you would be first creditor in line to be repaid.

'This is just too confusing! There are too many choices. I give up!' Nadia exclaimed in frustration. She had to take the next big step and ask for some professional help. With a sigh she picked up the phone.

'Best Practice Financial Planning Service. How may I help you?', a cheerful and confident voice greeted Nadia.

## CASE STUDY

### Terry's retirement plans

Terry worked as a panel beater for a smash repair company. When he was 18, he began to pay into his superannuation fund.

As Terry grew older his circumstances changed. There was a wedding, children, holidays, education and retirement plans that all had to be paid for. However, while Terry changed the amount he put into superannuation, he always paid as much as he felt he could afford as he wanted to secure his future once he retired.

Terry is now 60 and intends to retire when he is 65. When he retires, he expects to receive a lump sum of over one million dollars. After seeking advice from a financial adviser, Terry intends to invest this money in a combination of shares and high-interest bank deposits. With the dividends and interest he receives from this, he expects to be able to maintain his current lifestyle and have enough to pay for a holiday each year. As he enters old age, he and his wife will sell their large 4-bedroom home and buy a smaller unit. The money left over from this will ensure their continued happiness.

**on** Resources

**Digital document** Worksheet 6.2 Investing (doc-32844)

### 6.2 Activity: Research and communication

Interview a parent, other relative or family friend about their short-term, medium-term and long-term financial goals and the types of decisions they made to try to achieve them.

### 6.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Copy the passage below and fill in the missing words from the information in this subtopic.
   __________ is when money is spent so as to gain a __________ return. Individuals, __________ and __________ generally carry out investment.
   Businesses may invest in new __________, ____________, factories, _______ initiatives, people (entrepreneurs) other __________ or their own __________.
   __________ may invest in areas such as __________, roads, __________, justice systems and __________ forces.
   Individuals invest their __________ in order to achieve some future goal such as a holiday.
2. Refer to the case study 'Decisions, decisions!'.
   (a) List all the types of investments about which Nadia was given advice.
   (b) Describe how Nadia managed to change her $1000 debt into a positive bank balance.
   (c) Explain why Nadia was confused.
   (d) Which financial planning firm did Nadia contact? What do you think the benefits would be from contacting this firm?
3. Refer to the case study on Terry's retirement plans.
   (a) How did Terry's circumstances change as he grew older?
   (b) Where does Terry intend to invest his retirement money?
   (c) Describe how Terry intends to obtain more money once he retires.
4. Write out your own financial goals for the:
   (a) short term (1–3 years)
   (b) medium term (4–6 years)
   (c) long term (over 7 years).
   Estimate the funds that you might need to achieve your goals.

**Fully worked solutions and sample responses are available in your digital formats.**

# 6.3 Financing your investment

You can finance an investment in two main ways: through personal savings or by borrowing. Most people save for smaller investments and borrow money by taking out a bank loan for larger investments. People who wish to begin investing should first assess their current financial position to avoid over-committing funds that they cannot afford.

## 6.3.1 Saving for an investment

The advantage of saving before you invest is that you do not have to pay interest on a loan. However, it takes time to save sufficient funds to make the investment. This may mean you have extra costs, such as paying rent while saving for a house.

Before starting to save, it is important to work out how much you are spending and whether there are ways to spend less and save more. Some steps to begin this process include:

- writing out a set of financial goals
- preparing a weekly budget of likely spending
- keeping a record each week of income and expenditure and comparing it to your budget.

Any surplus funds should be transferred to an investment account that earns higher interest than a regular bank account.

## 6.3.2 Borrowing to invest

When borrowing money for an investment, you must first ensure that you can afford the repayments. Shop around for some loans that suit your purposes and carefully check and compare the features of these loans. For example, personal loans may be secured (the bank or financial institution retains an interest in the item purchased, such as a boat or car) or unsecured; and home loans involve a choice of either a fixed interest rate or a variable rate.

A **fixed interest rate** remains the same for the period of the loan. Fixed interest rate loans give you greater control over your finances because the repayment amount remains the same for the fixed interest period. However, fixed interest loans cannot usually be paid off before the set date without having to pay a penalty fee.

A **variable interest rate** moves up or down depending on the financial **market**. With a variable rate, you are, therefore, at the mercy of the market. Interest rates will vary considerably over time. The Reserve bank of Australia has some control in setting interest rates.

## 6.3.3 Income and expenditure account

To determine exactly how much an individual or business has to invest, it is a good idea to prepare a weekly **income and expenditure account**. This is a continuous record of income earned and money spent during the previous week.

A typical income and expenditure account

| Income and expenditure account of Khanh Nguyen | | | | | |
|---|---|---|---|---|---|
| **Date** | **Income** | **Amount** | **Date** | **Expense** | **Amount** |
| 1 Jul | Balance available to invest | $30.00 | 1 Jul | Rent | $60.00 |
| 1 Jul | Pay for casual work | $200.00 | 2 Jul | Magazine | $8.00 |
| 3 Jul | Medicare refund | $17.00 | 4 Jul | Groceries | $27.00 |
| 6 Jul | Interest on deposit | $47.00 | 5 Jul | Donated to Red Cross | $5.00 |
| | **Total income** | **$294.00** | 7 Jul | Mobile phone | $20.00 |
| .... | .................... | ...... | | **Total expenses** | **$120.00** |
| | | | **7 Jul** | **Balance available to invest** | **$174.00** |
| | | | .... | .................. | ..... |
| 8 Jul | Balance available to invest | $174.00 | 8 Jul | Rent | $60.00 |
| 8 Jul | Pay for casual work | $208.00 | 9 Jul | Groceries | $29.00 |
| 12 Jul | Medicare refund | $20.00 | 11 Jul | Doctor's bill | $18.00 |
| 14 Jul | Birthday gift | $50.00 | 11 Jul | New fishing rod | $50.00 |
| | **Total income** | **$452.00** | 12 Jul | Internet | $18.00 |
| | | | 13 Jul | Entertainment | $36.00 |
| | | | 14 Jul | Petrol for car | $23.00 |
| | | | | **Total expenses** | **$234.00** |
| | **Balance available to invest** | **$218.00** | **14 Jul** | **Balance available to invest** | **$218.00** |

The income and expenditure account of Khanh Nguyen gives the following information.

1. At the start of the week, Khanh had $30 left over from the previous week. This is listed as the balance at 1 July at the start of the income column. All income is then listed and totalled. In the first week, this is $294.00.
2. Expenses are listed in the right-hand column and then totalled. In this case, total expenses were $120.00.
3. To calculate the amount that Khanh has available to invest at the end of the week, the total expenses are deducted from her total income. This is then written as 'Balance available to invest' and is $174.00.
4. Khanh now transfers this amount from 7 July in the right-hand column to the start of the next week on the 8 July as her new balance. She again adds her income and deducts her expenses to gain the balance of $218.00 for the week ending 14 July.
5. The process continues and Khanh can see exactly where her money has come from and where it has gone. She is also able to determine exactly how much she has available to invest.

## 6.3.4 Superannuation as an investment form

Superannuation is a form of compulsory investment that is funded by your employer, who pays a percentage of your wage into a type of savings account. It is almost as if you are investing in your own retirement, locking away funds for when you are no longer working. Some people just pay the minimum compulsory percentage of about 9.5%, while others may choose to invest extra income into their superannuation account. You can also invest your superannuation in order to have it make more money for you.

You can find out more about superannuation later in this topic.

**on** Resources

**Weblink** Banks and institutions

### 6.3 Activity: Research and communication

1. With a partner, create and practise a 30-second elevator pitch on the benefits of keeping an income and expenditure account.
2. If you borrowed $1000, would you choose a variable or fixed interest rate? Do some internet research on variable interest rates and fixed interest rates, then create a pros/cons list for both options and make your choice. Write three sentences justifying your decision.

### 6.3 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Name the two most common ways of financing an investment.
2. Describe the main advantages and disadvantages of saving to invest.
3. Outline the difference between a *fixed interest rate* and a *variable* one.
4. Refer to Khanh Nguyen's income and expenditure account.
   (a) How much did Khanh have available to invest at the start and at the end of each week?
   (b) Did Khanh have greater expenses in the first or second week?
   (c) What was Khanh's largest expense?

5. Copy the income and expenditure account for Jamie Chang (below) either into your notebook or a spreadsheet program. Fill in the places where there are question marks.

| Date | Income | Amount | Date | Expense | Amount |
|---|---|---|---|---|---|
| 15 Jul | Balance available to invest | $218.00 | 15 Jul | Rent | $60.00 |
| 15 Jul | Pay day | $180.00 | 15 Jul | Newspaper bill | $11.00 |
| 17 Jul | Bank interest | $110.00 | 16 Jul | Meat | $45.00 |
| 21 Jul | Mowing lawns | $45.00 | 16 Jul | Refreshments | $55.00 |
| | **Total income** | **$ ?** | 18 Jul | Sport fees | $2.00 |
| | | | 19 Jul | New car muffler | $87.00 |
| | | | 19 Jul | Raffle tickets | $5.00 |
| | | | 20 Jul | Petrol for lawn mower | $2.00 |
| | | | 21 Jul | **Total expenditure** | **$ ?** |
| | | | | **Balance available to invest** | **$ ?** |

6. Prepare the income and expenditure account for Leo Lansky using the information below. If possible, use a spreadsheet program to do this.

| Date | Item | Amount |
|---|---|---|
| 1 Jul | Balance available to invest | $20.00 |
| 1 Jul | Pay day — received | $210.00 |
| 2 Jul | Paid rent | $80.00 |
| 3 Jul | Purchased groceries | $40.00 |
| 4 Jul | Purchased meat | $20.00 |
| 5 Jul | Received bank interest of | $12.00 |
| 6 Jul | Entertainment costs | $40.00 |
| **7 Jul** | **Total and calculate the balance of the week's accounts** | **$ ?** |
| **8 Jul** | **Bring the previous week's balance forward** | **$ ?** |
| 8 Jul | Pay day — received | $210.00 |
| 9 Jul | Paid rent | $80.00 |
| 10 Jul | Purchased groceries | $30.00 |
| 12 Jul | Purchased meat | $25.00 |
| 12 Jul | Received money for lawn mowing | $25.00 |
| 12 Jul | Paid sport fees | $10.00 |
| 12 Jul | Entertainment costs | $35.00 |
| **14 Jul** | **Total and calculate the balance of the week's accounts** | **$ ?** |

7. Use the **Banks and Institutions** weblinks in the Resources tab to help you prepare a PowerPoint presentation that compares the different interest rates of the main banks, credit unions and building societies.

**Fully worked solutions and sample responses are available in your digital formats.**

# 6.4 Range of investment options

People can invest in many ways. Some options available to investors include investment accounts, shares, property, managed funds, superannuation, debentures and unsecured notes, and cryptocurrency.

## 6.4.1 Investment accounts


All banks, building societies and credit unions offer a variety of investment-type accounts. These include cash management accounts, internet accounts and term deposits.

A cash management account is similar to a normal statement savings account in that funds can be withdrawn and deposited whenever you like. The differences are that it will pay a much higher rate of interest and there is usually a substantial minimum amount that must be kept in the account; for example, $5000. Internet accounts can be accessed only through the internet. They offer higher rates of interest, few statements and lower fees. They tend to make excellent investment accounts, but have limitations as an everyday access account.

A term deposit is a sum of money deposited with a financial institution that must be left there for a set period of time (the term) in order to receive higher rates of interest in return. You cannot withdraw or add to the deposit if you wish to retain the higher interest rates. Most term deposits give you the choice of when the interest is paid, either monthly or when the term expires (this is called 'at maturity'). Term deposits are for people who wish their money to be very safe and who are also seeking a reasonable level of return.

## 6.4.2 Shares

Buying **shares** means buying a certain number of units of ownership in a company. This makes you a shareholder of that company. Some people might buy thousands of shares, others only a few. As the value of a company's shares goes up or down, so too does the value of the shareholder's investment. Owning shares allows you to benefit from the company's profits, which can be given to you as **dividends** or as extra shares. You may also benefit from **capital growth** if the value of your shares increase.

The electronic display board of the Australian Securities Exchange shows the prices of shares traded at the exchange.


Buying and selling shares takes place in the **sharemarket**. In Australia, such transactions take place through the Australian Securities Exchange (ASX), which was formed in 1987 by amalgamating the six capital-city stock exchanges. A **stockbroker** has direct access to the market for trading shares and, for a small fee, acts as an agent who buys and sells shares for others. The fee is known as brokerage. You can also buy and sell shares online, and there are a number of online stock trading sites that can help you with your investment choices.

It is important to diversify your investments so that all your 'eggs' are not in one basket if anything goes wrong. The Australian sharemarket makes this easier by offering a wide choice of companies in which to invest. There are over 2000 companies listed on the ASX. These companies are involved in a wide range of industries covering most sectors of the **economy**, from financial services to manufacturing and healthcare. Investing in a range of companies spreads the risk. Investing in shares also gives you flexibility. Shares can be bought and sold quickly — you can sell shares and generally have access to your money in three days or less.

Thousands of shares are traded every day on the Australian Securities Exchange (ASX).

## 6.4.3 Property

In most cases, investing in property involves people purchasing their own home or apartment. This tends to be the largest individual purchase a person will make.

In Australia, purchasing your own property has advantages, such as no longer having to pay rent, and when your property is sold, any profits from its increase in value are not taxed.

Apart from owning a home to live in, many people purchase an investment property with the intention of renting it out. This provides advantages including the income from the rent, the probability of the property increasing in value (appreciating) and taxation benefits.

The largest investment most people will ever make is buying their own home.

## 6.4.4 Managed funds

A managed fund is made up of a pool of money that comes from many people who have similar investment goals. A professional fund manager invests this money in **assets** such as shares or property. A managed fund allows a small investor to be involved in the share market and real estate.

**COMFACT**

Warren Buffett is the world's richest investor. His wealth is estimated at US$81.3 billion. This makes him the world's third richest person. Since 1965 his firm, Berkshire Hathaway, has had an average return of 19 per cent. Despite his wealth, Warren is generous person, having donated over US$27 billion to charity in the last 10 years.

## 6.4.5 Superannuation

A **superannuation fund** is a compulsory savings account where each time you are paid over a certain amount, your employer will allocate a percentage of your income to the account. You may also want to pay additional money into your account, because this does have some tax advantages.

## 6.4.6 Debentures and unsecured notes

A **debenture** is a long-term loan issued by a company to raise money. This loan is paid back over a long period of time and at a fixed rate of interest. As an alternative to investing in shares, you can invest in a company by buying a debenture — that is, by loaning the company money. The debenture states the amount lent, the interest the company will pay and the period, or length of time, of the investment. This is more secure than investing in shares, because interest payments must be made by the company. They will also include a security that will guarantee the investment even if the company defaults.

Sample interest rates for debentures and unsecured notes

| Term | Debentures | Unsecured notes |
|---|---|---|
| 6 months | 5.00% | 6.00% |
| 1 year | 7.85% | 8.50% |
| 2 years | 8.45% | 8.95% |
| 3 years | 8.65% | 9.50% |
| 4 years | 9.00% | 10.25% |
| 5 years | 9.75% | 11.25% |

**Unsecured notes** are similar to debentures except that they are not secured against the business's assets, and therefore present a greater risk to the investors in the note (the lender). For this reason, an unsecured note attracts a higher rate of interest than a debenture.

## 6.4.7 Cryptocurrency

Cryptocurrencies are digital-based finances, traded mostly within the virtual world. Cryptocurrencies were created as an alternative to typical currencies, which are controlled by banks, governments and other financial institutions.

Bitcoin is one of the earliest and most well known cryptocurrencies, and is seen to be a desirable investment due to the capped (limited) production available to consumers. This means the value of each bitcoin stays high with more unable to be circulated. Cryptocurrencies are a very high-risk investment.

Electronic display board showing the price of some cryptocurrencies


### Resources

**Digital document** Worksheet 6.3 Investment options (doc-32845)

**Weblinks** The Sydney Morning Herald

The Daily Telegraph

### 6.4 Activity: Research and communication

1. Access reliable online news sources and find three newspaper articles on cryptocurrency. Complete the following table.

| Article heading | Article author | Date of article | Summary of article | Opinion presented of cryptocurrency (good or bad investment) and why |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |

2. Property prices rise and fall at various times. These changes mean people's ability to buy their own home also fluctuates. In small groups, or independently, determine whether or not you think that people should invest in property to build up their savings.

### 6.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. List the main options available for investors.
2. Describe the features of an internet bank account.
3. Describe the advantages of owning your own home.
4. Explain the advantages of a managed fund for a small investor.
5. What is superannuation?
6. Distinguish between a debenture and an unsecured note.
7. Refer to the table below which shows a summary of a day's trading on the ASX for the selected companies.

| Stock | Last sale | Volume 000s | Buy quote | Sell quote | Year high | Year low |
|---|---|---|---|---|---|---|
| ANZ | $25.30 | 6 382 | $25.20 | $25.40 | $30.40 | $24.20 |
| BHP | $37.00 | 14 607 | $36.80 | $37.10 | $44.20 | $36.50 |
| Commonwealth Bank | $49.50 | 5 683 | $49.25 | $49.75 | $51.50 | $41.20 |
| Amcor | $6.50 | 4 839 | $6.40 | $6.60 | $7.60 | $6.30 |
| Coca-Cola Amatil | $8.80 | 2 239 | $8.60 | $8.90 | $9.20 | $8.20 |
| Woolworths | $27.50 | 4 744 | $27.20 | $27.60 | $35.60 | $25.60 |

   (a) Which share had the highest last sale price?
   (b) Which share had the most trades on this day?
   (c) In the past 12 months, which share had the lowest price?
   (d) At what price are people prepared to buy Woolworths shares? At what price are people prepared to sell Woolworths shares? What must happen before a sale can occur?
   (e) Using the last sale price, what would it cost to purchase 2000 BHP shares?
   (f) Assume you own 2000 BHP shares and they pay a dividend of 40 cents. How much would you receive?
8. 'It's easy to lose your money in the stock market.' Discuss this statement outlining the advantages and disadvantages of investing in shares.

**Fully worked solutions and sample responses are available in your digital formats.**

# 6.5 SkillBuilder: Reading a sharemarket chart

## 6.5.1 Tell me

### What is a sharemarket chart?

A sharemarket chart provides information on how shares are performing. It is one form of reporting changes in the sharemarket. Sharemarket charts are available in newspapers, on television and radio news and on the internet. Many factors are included in a sharemarket report, and not all media may provide data on the same factors. An example of a sharemarket chart is shown on the following page.

Some of the factors included in charts and other reports are: information on share prices, changes in price and percentage price changes. For example, when a sharemarket chart mentions 'net change', it is referring to the difference between the current end-of-day share price and that of the same share on the previous day.

Reading a sharemarket chart

**MOVE**
The change in price from the previous day's close.

**TURNOVER**
The volume of shares traded during the course of the day.

**QUOTATION, BUY AND SELL**
The highest bid to buy and lowest offer to sell a share, recorded at the close of trade.

**DIV YIELD**
Calculated daily by dividing the annual dividend per share by the share price; expressed as a percentage. (Special dividends excluded; adjusted for capital changes.)

**P/E RATIO**
The price/earnings ratio of a share is calculated daily by dividing the share price by the company's annual earnings per share, including significant items.

**CLOSE**
The closing price refers to the price at close of trade.

**SHARE**
The company's name, abbreviated by the Australian Securities Exchange. Different classes of a company's securities are given a separate line.

**52-WEEK HIGH AND LOW**
This represents the highest and lowest sales recorded during the past year of trading.

| Share | Close | Move | T'over 100s | Quotation | | Div Yield | P/E Ratio | 52 week | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Buy | Sell | | | High | Low |
| Bandicoot Bank | 67.88 | –0.12 | 30 025 | 67.63 | 68.00 | 3.70 | 41.24 | 71.11 | 51.79 |
| Bilby Bros. | 1.29 | –0.03 | 1094 | 1.29 | 1.30 | N/A | 647.50 | 1.54 | 0.73 |
| Bogong Bank | 44.43 | –0.79 | 89 455 | 44.41 | 44.72 | 3.3 | 16.82 | 55.72 | 42.23 |
| Cassowary Ltd | 35.67 | –0.56 | 2112 | 35.67 | 35.81 | 3.8 | 18.28 | 38.92 | 32.36 |
| Dingo Deliveries | 5.23 | –0.09 | 9778 | 5.22 | 5.25 | 4.40 | 22.54 | 5.52 | 4.11 |
| Dugong Chain | 1.31 | +0.05 | 2455 | 1.30 | 1.31 | N/A | –8.52 | 1.55 | 0.95 |

Other factors that a sharemarket chart usually includes are the share codes, symbols, dividend rates and percentage yields. The dividend rate refers to the return per share a company pays to shareholders over a given period, while the percentage yield refers to the annual income per share, expressed as a percentage of the cost of the share.

### Why are sharemarket charts useful?

Just as a weather report informs people about conditions outside and helps them decide whether to put on a coat (or take off their jumper) for outdoors, similarly a sharemarket chart tells them about the conditions in the sharemarket and helps you decide whether to buy (or sell) shares.

An important reason why an investor should be able to read a sharemarket chart is that it provides important information needed to make decisions about investments. Information about movements in shares enables investors to decide whether to hold, sell or buy shares in any of the 2000 companies listed on the Australian Securities Exchange.

Furthermore, in a sharemarket chart, the amount of shares sold and the highest and lowest prices for such shares may be included. This information is relevant for most investors, economists and advisers because it helps them in their sharemarket analysis.

## 6.5.2 Show me

### How to read a sharemarket chart

#### Procedure

#### Step 1

Recognise the type of sharemarket chart.

Look carefully at the chart heading and the headings of the columns to know what it is showing.

- Some charts divide listed companies into indices according to types such as industrial, metals and mining, energy and so on. This allows people to compare the financial performance of one company against other companies in the same sector by displaying the figures in one index.
- Other charts show the performance of the top 20, 50, 100, 200 or 300 listed companies, giving a more accurate general picture of the way the sharemarket is moving.
- For an overall picture of worldwide share price movements, other charts indicate the general picture in stock exchanges in the United States, Japan and elsewhere around the world.

### Step 2

Learn the meaning of column headings.

Use an Economics dictionary, glossary or the key (which accompanies the chart) to find out what each column is showing.

### Step 3

Look at the data.

- Each listed company has a unique three-letter symbol, for ease of location in online charts or in daily newspapers. (Use the **ASX listed companies** weblink in the Resources tab to see the companies listed on the Australian Securities Exchange.)
- Use a ruler to help you read accurately across the columns.
- A '+' sign in front of a 'Move' number means that the value of a share rose against the previous day's closing value.
- A '−' sign indicates that the share value fell against the previous day's closing value.
- Online links allow people to find recent and past financial information about any listed company, using tables and interactive charts.

### Step 4

Analyse the data.

- Examine the size of changes in data for a share from one period to another.
- Look for trends in the movement of shares.
- Compare shares to see how well or poorly one has performed against others.
- Use graphs and online interactive data to further analyse and compare data.

### Step 5

Make predictions.

- Consider whether a trend will continue, change pace or change direction.
- Apply your knowledge of current economic events to judge their likely effects on particular shares.

**on** Resources

**Weblink** ASX listed companies

## 6.5.3 Let me do it

Complete the following activity to practise your skills.

### 6.5 Activity

When deciding to invest in a company, it is often a good idea to check the performance of other firms in the same sector. Use the **ASX** weblink in the Resources tab to find a list of companies operating in the financial sector. Select four companies for that sector — one that you are considering investing in, and three competitors — then answer the following questions.

**a.** Which companies are you looking at? Write down the name and code of each company.
**b.** How does the current share price of each company compare with its highest price within the last year?
**c.** Which company had the highest share price for the day and over the last year?
**d.** Which company recorded the greatest range between highest and lowest sales price for its shares over the last year?
**e.** Compare the number of rises and falls and identify whether, overall, bank shares rose or fell on the day.
**f.** Explain why figures for one day are not necessarily a good basis on which to buy or sell shares.
**g.** Using the code for the company whose shares you would consider buying, download or copy a graph showing its share price movements over a longer period, and explain how this might affect your initial decision.
**h.** Summarise your findings for the four companies and justify whether the company you are interested in presents a good investment opportunity.

**on** Resources

Weblink ASX

# 6.6 Ethical investments

## 6.6.1 Investing ethically

When making investment decisions, some people decide to invest only in certain companies or organisations whose products, policies and practices are in line with their own beliefs and values. This is known as **ethical** investment (also called green or conscious or socially responsible investment). It is becoming more common, as people become more aware of the issues and practices of businesses, that can damage our society and the environment.

Some examples of issues that might influence the decisions of an ethical investor include:

- the type of products a company makes or sells, such as cigarettes, alcohol or gambling machines
- evidence of unsafe working conditions
- the company forbidding trade unions
- evidence of the exploitation of child labour
- creation of excessive amounts of greenhouse gases
- destruction of old growth forests
- experiments in genetic engineering or animal testing
- creation of excess waste
- firms affecting the Earth's biodiversity
- involvement in the nuclear industry.

The two most common ways of investing ethically are negative screening and positive screening.

- Negative screening — avoids investing in some types of firms, for example, cigarette companies or firms that make alcohol.
- Positive screening — involves investing in those firms that are involved in activities which are deemed desirable, such as renewable energy or healthcare.

### COMFACT

Consumers in wealthy countries such as Australia are shocked to find that frequently their clothes, household goods and sporting equipment are the products of child labour. It is estimated that worldwide over 218 million people under the age of 18 work illegally in some form of child labour. This is approximately 14 per cent of all the world's children.

Almost half these children will be involved in 'hazardous work', which could threaten their safety or health, such as handling chemicals, carrying heavy loads or mining. One of the worst types of child labour is the use of children as soldiers.

Countries with a particularly high incidence of child labour include Nigeria, Malawi, India, Pakistan and Bangladesh.

The main cause of child labour is poverty. Poor parents do not necessarily send their children to work by choice, but due to economic necessity.

The use of child labour in the developing world is one of the ethical issues facing businesses and, therefore, investors.

## CASE STUDY
### The Oxfam Shop

Although part of the broader Oxfam charity, Oxfam Shop has firmly established itself within the market as an ideal store for ethical shoppers. It is a passionate supporter of fair trade and deals with 60 fair trade organisations around the world. These organisations support thousands of local and community-focused producers, including Indigenous Australians. Through fair trade, Oxfam Shop is part of a global movement calling for an end to unfair trade practices. Fair trade empowers disadvantaged communities by paying them fair and stable prices for their work, helping them to gain the skills they need to develop their business, and giving them access to world markets.

At Oxfam Shop, consumers can discover hand-crafted pieces throughout the online and retail stores. Buying ethically helps consumers feel they are tackling poverty and making a difference for social justice. Oxfam sells unique handmade homeware products, accessories, gifts, and toys. This supports global artisans and farmers, and promotes their traditional manufacturing methods and culture. Fair trade allows the manufacturer to benefit directly from the sale.

An Oxfam store


Oxfam uses volunteers as retail store workers. This allows profits to be passed along to the charity instead of covering administration and running costs. Volunteers within Oxfam Shop are sometimes unemployed people looking to learn employment skills. This model is often unique to charity-run businesses but is successful in presenting another ethical approach to business.

## CASE STUDY
### Costa Group

The Costa Group is Australia's biggest horticultural company, involved in growing tomatoes, blueberries, raspberries, mushrooms, avocados, citrus and bananas. Their farms are located in every state of Australia.

The Costa family began the business as a small fruit and vegetable retailer in Geelong in 1937. The firm continually expanded and in 2015 was listed on the ASX. Currently, it has an annual profit after tax of over $60 million.

As part of its community responsibility, it sponsors local sporting clubs, provides fresh produce to groups and charities, and works with educational institutions to promote careers in horticulture.

The company is also committed to sustainable agriculture because they feel this will ensure long-term profitability. As part of this commitment, they are increasing water efficiency by recycling water as much as possible, reducing chemical usage, ensuring efficient use of energy and adopting measures to improve soil fertility.

**on** Resources

**Digital documents** Worksheet 6.4 Ethical investments — company research (doc-37212)
Worksheet 6.5 Ethical investments — Tassal (doc-32713)
Worksheet 6.6 Ethical investments — Bendigo Bank (doc-32714)
Worksheet 6.7 Ethical investments — Capilano (doc-32715)

**Weblinks** Oxfam Shop
Costa Group

### 6.6 Activity: Research and communication

1. Research your favourite store's website. Create a list of ethical practices the store has adopted. If your favourite store is lacking in utilising ethical opportunities create a list of ways that it can improve.
2. Compare Aldi, Coles, Woolworths and IGA, and examine their policies on about ethics within their business. Pick one element that they need to improve on, and write a letter to your local newspaper outlining your views.
3. Use the **Oxfam Shop** weblink in the Resources tab to choose a product you like. List the product's name and price. Also, supply details about the people behind the product's creation and the techniques they use to make it.
4. Use the **Costa Group** weblink in the Resources tab to find information about this firm's products and its community involvement.

### 6.6 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is ethical investment? Give two other names for it.
2. Choose three ethical considerations that concern you. Outline and describe why those three ethical considerations are of most concern to you and why investors should also act upon your concerns.
3. For the remaining seven ethical considerations, outline how they may each pose an ethical concern to potential investors.
4. With reference to ethical investing, distinguish between *negative* and *positive screening*.
5. List five ways Oxfam Shop assists and benefits its staff and suppliers.
6. When was the Costa Group floated on the ASX? Describe the main activities of the firm.
7. Outline some of the strategies the Costa Group has adopted to ensure their activity is sustainable.
8. Which of the following goods or services would *NOT* be on a list of ethical investments? Why?
   (a) Cosmetics that are tested on animals
   (b) Solar research companies
   (c) Alcohol and tobacco companies
   (d) Companies that donate a part of their profit to charity
   (e) Companies in countries that do not support human rights
9. Use the words in bold to complete the paragraph below.
   **mining India 14 per cent hazardous half incidence**
   Globally about _______ of all the world's people under 18 are involved in child labour. Almost _____ of these children will be involved in ______ work such as handling chemicals, carrying heavy loads, ______or soldiering. Countries with a high ______ of child labour include Nigeria, Malawi, _____, Pakistan and Bangladesh.

**Fully worked solutions and sample responses are available in your digital formats.**

# 6.7 The relationship between risk and return

A key factor in investing your money is the **rate of return**. This is the profit you receive on your investment as a percentage of the original investment. When investing your money, your main aim is usually to maximise the rate of return; that is, to make the most profit possible.

The rate of return is given by the equation:

$$\text{Rate of return} = \frac{\text{Profit from the investment}}{\text{Original investment}} \times \frac{100}{\text{Period (years) of the investment}}$$

***Example:***

Faiza invested $10 000 in shares. She sold them one year later and made a profit of $1500. Her rate of return is:

$$\begin{aligned}\text{Rate of return} &= \frac{\text{Profit from the investment}}{\text{Original investment}} \times \frac{100}{1}\\ &= \frac{\$1500}{\$10\,000} \times \frac{100}{1}\\ &= 15\%\end{aligned}$$

Therefore, Faiza's rate of return was 15 per cent on her investment.

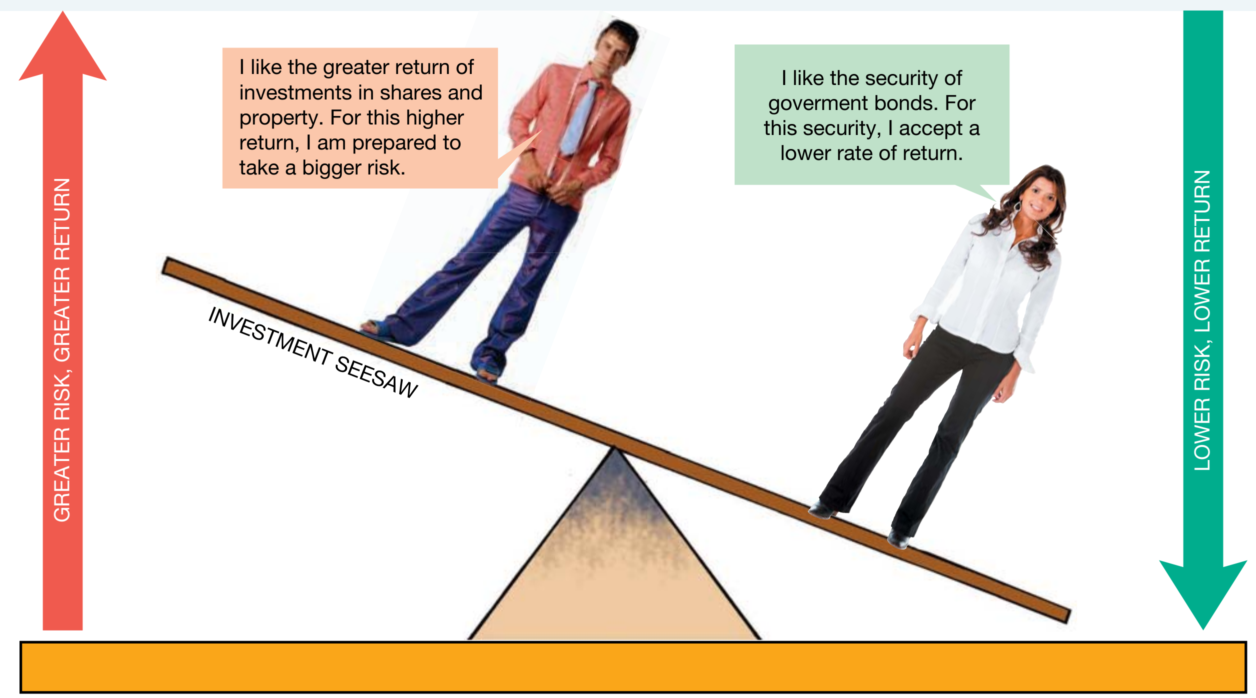
There are two main categories of investment:

1. *Growth assets*, such as shares and property, which generally provide a higher return over longer periods. However, these investments are volatile. This means that their prices fluctuate greatly in the short term so they are higher risk.
2. *Income* or *defensive assets*, such as government bonds and term deposits, which usually provide a lower return but are lower risk — their value does not change dramatically in the short term.

The price of every asset will fluctuate. This is the risk of investing — the higher the rate of return, the greater the risk involved.

An **investment portfolio** is a collection of all the investments an individual has. It is generally wise to invest in as wide a variety of investment products as possible. This would include term deposits, property, government securities as well as Australian and overseas shares.

The investment seesaw



## Resources

**Digital documents** Worksheet 6.8 Investment ups and downs (doc-32716)

Worksheet 6.9 Investment options clueless crossword (doc-32717)

**Weblinks** ASX

Financial institutions

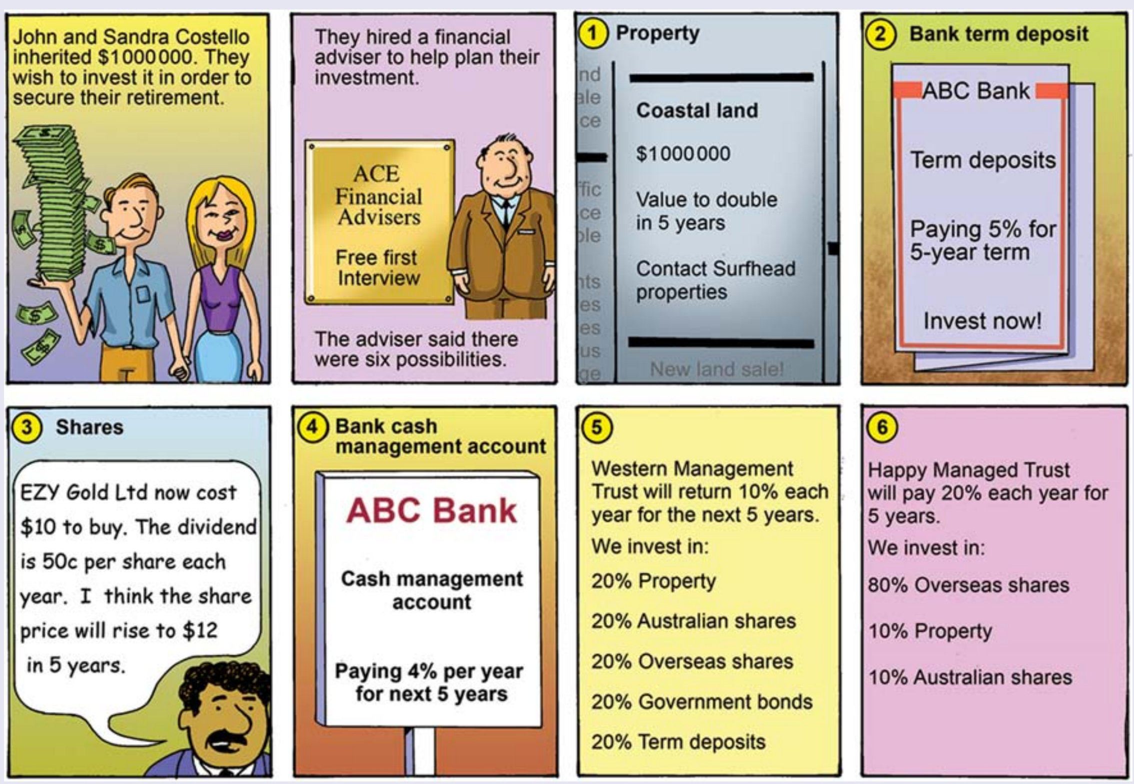
### 6.7 Activity: Research and communication

1. Draw up a list of questions that you could ask a friend, to determine if they have a low or high-risk approach to making investment choices.
2. Use the **ASX** weblink in the Resources tab and state the five firms that made the largest gains and losses on the previous day's trading.
3. Use the **Financial institutions** weblink in the Resources tab and prepare a PowerPoint presentation on the different investment options that these financial institutions have available for people in the Costellos' situation.

### 6.7 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Define the term 'rate of return'.
2. Distinguish between *defensive* and *growth assets*.
3. What is an investment portfolio?
4. Describe two ways of purchasing shares.
5. Study the diagram showing the investment seesaw and describe the relationship between *risk* and *return*.
6. Calculate the rate of return for the following:
   (a) Vic invests $5000 in shares. He sells them for $6000 one year later.
   (b) Fiona buys a unit for $100 000 and sells it for $112 000 one year later.
7. Refer to the cartoon about Mr and Mrs Costello.



(a) Construct a table showing each of the Costellos' investment options and their rate of return.
(b) Does the Western Management Trust or the Happy Managed Trust have the most balanced portfolio? What would be the risk of investing in the Happy Managed Trust?
(c) Using a program such as Microsoft Excel, construct two graphs which illustrate the investment portfolios of the Western Management Trust and the Happy Managed Trust. Copy these and paste them into Microsoft Word or a similar word-processing program. Write a paragraph comparing the two investment portfolios.
(d) Imagine that you are the Costellos' investment adviser.
  i. Outline the options that you feel would best suit their plan of securing their retirement future. Give reasons for your answer.
  ii. Construct a pie graph to illustrate the investment allocation you have outlined previously.

**Fully worked solutions and sample responses are available in your digital formats.**

# 6.8 Factors influencing an investment portfolio

When an individual or a business is considering investing they need to consider many factors; these include: risk, return, diversification as well as short, medium and long-term goals.

## 6.8.1 Diversification

Diversifying your investments means spreading your money across different investment types in order to spread the risk. This is one of the main principles of investing. Basically it means 'don't put all your eggs in one basket'.

Investment history shows that different investment types perform well at different times. No single investment will always be the best, but no single investment type will outperform all others over all periods. For example, shares may be a good investment this year, but the previous year they may have lost value while property was doing very well.

By putting all your money into one investment, you run the risk of losing a considerable proportion of the investment. By spreading your money across a range of different investment types, the risk of a fall in the value of your overall investments can be reduced. A diversified strategy generally provides a greater return.

### COMFACT

One of the golden rules of investing is that no-one should invest money that they cannot afford to lose. Investments should be funded from money that is surplus — never from money that is needed for daily expenses.

An example of the performance of various types of investments commonly found in a diversified portfolio is shown in the table below.

| Year | Property % return | Overseas shares % return | Australian shares % return | Government bonds % return | Bank term investments % return |
|---|---|---|---|---|---|
| 1 | 8% | 12% | 10% | 3% | 4% |
| 2 | 13% | –18% | –8% | 2% | 5% |
| 3 | –10% | 9% | 11% | 3% | 4% |
| 4 | 2% | 2% | 1% | 2% | 3% |

## CASE STUDY

### Greg and Julie

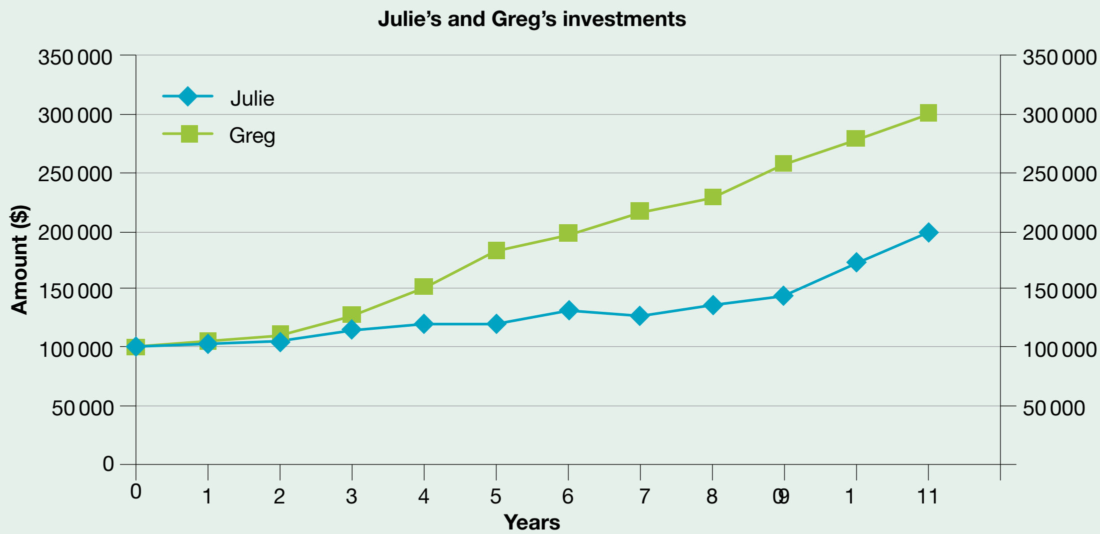
Greg and Julie each invested $100 000 for a period of 11 years.

Greg talked to his financial planner who recommended a balanced portfolio comprising 25% in Australian shares, 25% in global shares, 25% in property funds and 25% in government bonds. His aim was to maintain this balanced portfolio regardless of what happened.

Julie, on the other hand, became a 'chaser', moving her money from one type of asset to the next, depending on which had the highest return. Unfortunately, this often meant buying assets when the price was high.

Greg also bought and sold assets, but only to return his portfolio to its original 25% weighting for each type of asset. Greg's approach meant that he generally bought assets cheaply and sold his best performing assets at high prices. Since he had diversified, he was not worried about short-term falls in the value of one type of asset. His was a much less stressful and usually more successful strategy.

The graph below compares the results of Greg's and Julie's 11 years of investing.




Often, investors will decide that they don't want to invest in just one aspect alone, but that they want to share the risk. This decision can be made before they invest, or after monitoring and wanting to make changes.

An investment portfolio does not have to be fixed. It can be diverse and be changed as needed.

## CASE STUDY

### Ethan's diversified portfolio

Ethan worked hard throughout Year 11 and 12 at his part-time job. He was able to save $5000, but knew that wasn't quite enough for him to travel for a year after finishing his end of school exams. This was his short-term goal, and was really important to him. However, he knew upon his return from travels he would need to have money available to enrol at TAFE or uni. This was also a goal for his future — just a longer term one. Ethan was unsure what to do with his $5000. He decided to diversify his investment in order to spread the risk. He put $1000 in a fixed-term savings fund that he could break if he needed cash in an emergency. He put $1000 in high-risk shares. Another $1000 was put into lower-risk shares. He then sold his car for $4000 and combined it with the remaining $2000, and achieved his dream of travelling.

Upon his return, his fixed savings had made interest profits of $50, the high-risk shares made profits of $400, with the low-risk shares returning $100. Ethan decided to withdraw all three investments in order to enrol in tertiary education. Ethan was lucky, though, as his financial advisor told him that if he had withdrawn the high-risk shares just two weeks earlier, his investment would have been at a loss at that point, and he only would have received $680 — an amount much less than his initial investment of $1000.

### CASE STUDY

### Natalie's Nail Shop

Natalie's Nail Shop has been doing well and she has saved $200 000, as profits retained. This is a possible deposit for a second shop, or new equipment and a renovation for her existing shop. She could also invest the money to make a return. Ultimately, Natalie does want to open a second store in the long term, but isn't sure she has trained staff to manage both stores. Her existing equipment and shop are still in good condition; so even though a revamp of the existing shop is a short-term goal, it might not be an immediate goal. After much thought, Natalie decides to invest the money for a year, so that she will have more funds to use in the future as needed.

### 6.8 Activity: Research and communication

1. Read Ethan's case study. Prepare a two-minute speech on how you would invest the same amount of money if you were in a similar situation to Ethan.
2. Read Natalie's case study. Prepare a two-minute speech describing how you would invest if you were in Natalie's position.
3. You have been employed by a bank to advise customers on the benefits of diversifying their investment portfolios. Prepare a PowerPoint presentation that you could show potential customers who would be interested in doing this.

### 6.8 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Define the term 'diversifying'.
2. Outline the advantages of diversifying an investment portfolio.
3. Refer to the table in this subtopic.
   (a) Which investment provided the best return in each year?
   (b) Describe what would have happened to your investment in Year 2 if you had invested only in overseas shares.
   (c) Which two investments always gave a positive return?
4. State the golden rule of investing.
5. This question refers to the document 'typical dividend statement' shown below.

A typical dividend statement

**Dividend Statement**

| | |
|---|---|
| Payment date: | 22 March 2020 |
| Record date: | 1 March 2020 |
| Reference no.: | 566879 |

Ms Takeo Nakai
6 Creek Street
West End NSW 2877

Dear Investor,
The details below relate to an interim dividend for the half year ended 31 December 2019 payable on ordinary shares entitled to participate in the dividend at the record rate.
This dividend is fully franked at the Company tax rate of 30% (Class C).

| Description | Dividend rate per share | Participating holding | Unfranked amount $ | Franked amount $ | Imputation credit $ |
|---|---|---|---|---|---|
| Ordinary shares | 7.5 cents | 1,000 | 0.00 | 75.00 | 32.14 |
| | | | Net amount: | $75.00 | |

TFN/ABN RECEIVED AND RECORDED

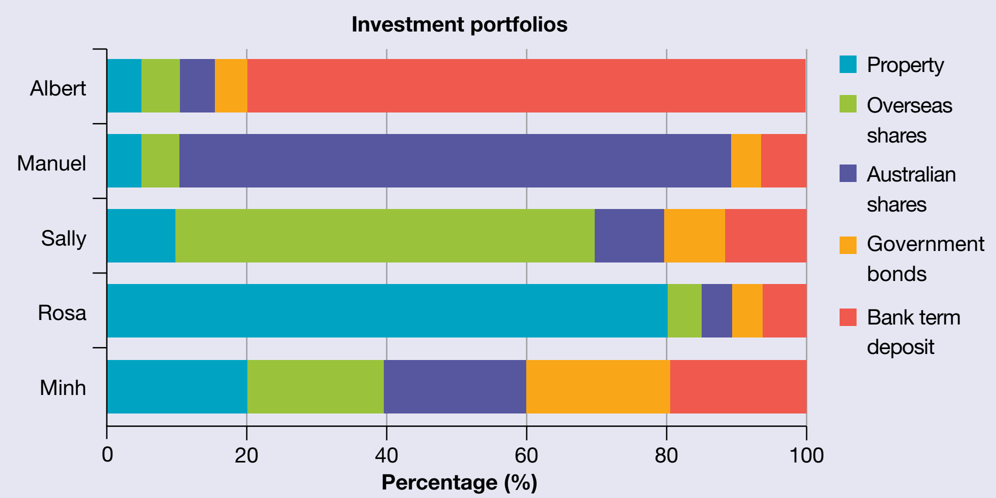
**BANKING INSTRUCTION:** Commonwealth Bank
Main Street
West End
BSB 792-483 acc no 674219

(a) What type of document is this?
(b) How many shares does Takeo Nakai own in this firm?
(c) According to the document, what is the rate of company tax?
(d) How much is the dividend per share?
(e) How much money did Takeo receive from the firm? What type of income is this?

6. Refer to the case study on Greg and Julie.
(a) Define the term ‘chaser’. Describe the disadvantages of being one.
(b) Which person diversified their portfolio and which one was a chaser?
(c) What was the value of Greg’s and Julie’s investments after 11 years?
(d) How many years did it take Greg and Julie to double their initial investment of $100 000?
(e) How much better off was Greg, who diversified his investment, compared to Julie, who chased the highest return?

7. Refer to the graph below.
(a) Which person has a balanced portfolio?
(b) Who has invested most of their money in Australian shares?
(c) Which person has invested most of their money in property?
(d) Describe the risks that Sally runs with her current investment portfolio.

Five individuals and their varying investment portfolios



8. In the case of Greg and Julie, Greg can be classified as an investor, whereas Julie is a speculator. Which do you think is better? Why?

**Fully worked solutions and sample responses are available in your digital formats.**

# 6.9 Investment planning — maintaining records and monitoring investments

## 6.9.1 Short-term investments

A short-term investment is usually an investment of less than three years. These investments are normally chosen by people who want ready access to their funds. Generally, most long-term investments have a lower rate of return. This is because of the convenience of being able to convert them to cash in a short period of time.

### CASE STUDY

Laila worked in a well paying job and had paid off her home. She wanted to have a baby soon and would therefore need to access her savings when she was no longer working.

She felt that a short-term investment would best suit her needs, as she would be able to access her funds without having to pay expensive fees. She knew she would not make as much of a return with a short-term investment, but it gave her peace of mind knowing that she could withdraw her money when it was time for her family to grow.

## 6.9.2 Long-term investments

Long-term investment are those that are held for over seven years. Generally, the longer the period of investment the higher the rate of return. (Note: Medium-term investments are those between 3–7 years.)

### CASE STUDY

Dov's grandfather died. Although he was sad, Dov was fortunate to receive an inheritance of $10 000. As he didn't need the money at the moment, Dov decided to invest the money long term so that he could get a higher rate of return.

## 6.9.3 Modifying investments to maximise long-term gains

Once you have an investment, it must be actively managed, otherwise you run the risk of losing money. This may involve changing investments in relation to changed personal circumstances, changed economic conditions or the performance of the investments. Generally in times of economic uncertainty, people invest in bank deposits, gold or **blue chip shares**.

The following table shows that, in January of a particular year, Nadi Suri purchased 1000 shares in Lucky Oil Ltd and 1000 shares in Big Retail Ltd. The value of his Big Retail shares declined dramatically, but the price of his Lucky Oil shares increased greatly. To maximise his return, Nadi should have sold some of his Big Retail Ltd shares and used the funds to purchase more Lucky Oil Ltd. Wise investment managers check their investments several times a day. Nadi was obviously not a wise investment manager.

| Shares portfolio for Nadi Suri | | | | | |
|---|---|---|---|---|---|
| **Month** | **Lucky Oil Ltd share price** | **Value of 1000 shares** | **Big Retail Ltd share price** | **Value of 1000 shares** | **Value of share portfolio** |
| January | $0.50 | $500.00 | $8.50 | $8500.00 | $9000.00 |
| February | $0.65 | $650.00 | $7.40 | $7400.00 | $8050.00 |
| March | $0.85 | $850.00 | $6.20 | $6200.00 | $7050.00 |
| April | $1.10 | $1100.00 | $5.30 | $5300.00 | $6400.00 |
| May | $2.55 | $2550.00 | $4.10 | $4100.00 | $6650.00 |
| June | $3.60 | $3600.00 | $2.30 | $2300.00 | $5900.00 |

## 6.9.4 Maintaining records and monitoring investments of a hypothetical investment portfolio

It is important to continually monitor and evaluate your investments. Most people do this by regularly checking their investment records.

The three main records that shareholders need to keep are:

1. the contract note
2. the CHESS holding statement (CHESS is the Clearing House Electronic Sub-Register System and it keeps records of all transfers of share ownership)
3. dividend statements, as shown in subtopic 6.8.

These records are needed to prove ownership of the shares and for taxation purposes.

### COMFACT

In 2008, the world's stock markets experienced a meltdown with billions wiped off the value of shares. Many people, especially self-funded retirees, lost a large proportion of their investments. This event became known as the Global Financial Crisis or GFC.

Buying shares and then selling them for a profit is subject to **capital gains tax**. Income received as a dividend has already been subject to **company tax** as it was part of the firm's profit. Dividends on which company tax has been paid are said to be 'fully franked'. Therefore, the payment of a dividend does not necessarily increase an individual's tax bill.

Investments need to be carefully monitored so that they can be bought and sold at appropriate times. Wise investors complete an investment tracker, similar to the one shown belonging to N. Tomic, at least every month but preferably more often. The shrewdest investors complete these daily.

The tracker is a simple investment monitoring table. It compares the investments of N. Tomic in January to the situation in February. All of Tomic's investments are added together; this includes her apartment, term deposit, bank account and shares. The value of the shares is calculated by multiplying the last sale price by the number of shares owned. From the total value of her investments, she now must deduct what she owes, such as the amounts owing on her credit card.

A simple investment tracker for N. Tomic

| | January | | | February | | |
|---|---|---|---|---|---|---|
| | Share price | Shares owned | Value | Share price | Shares owned | Value |
| **Bank term deposit** | | | $5000.00 | | | $5000.00 |
| **Bank savings account** | | | $2000.00 | | | $4000.00 |
| **Value of own apartment** | | | $150 000.00 | | | $151000.00 |
| **Share portfolio** | | | | | | |
| BHP | $35.00 | 400 | $14 000.00 | $36.00 | 400 | $14 400.00 |
| Commonwealth Bank | $40.00 | 200 | $8000.00 | $40.50 | 200 | $8100.00 |
| Woolworths | $30.00 | 400 | $12 000.00 | $32.00 | 400 | $12 800.00 |
| Qantas | $6.50 | 400 | $2600.00 | $6.00 | 400 | $2400.00 |
| Carsales.com Ltd | $15.00 | 200 | $3000.00 | $18.00 | 200 | $3600.00 |
| Westpac | $25.00 | 1000 | $25 000.00 | $25.00 | 1000 | $25 500.00 |
| Telstra | $5.50 | 1000 | $5500.00 | $5.00 | 1000 | $5000.00 |
| **Total value — shares** | | | $70 100.00 | | | $71 800.00 |
| Minus credit card balance | | | $500.00 | | | $1000.00 |
| **Total value — investments** | | | $226 600.00 | | | $230 800.00 |

Numerous software packages are available for monitoring investments, or you can devise your own on a spreadsheet. It should be noted that online shares can be monitored with an online dealer, such as CommSec, while non-online share buyers can monitor their investment by creating a watchlist on the ASX website at www.asx.com.au/education/myasx-watchlists.htm.

**on** Resources

**Digital document** Worksheet 6.10 Planning an investment portfolio (doc-32846)

**Weblink** ASX

**COMFACT**

The Australian federal government has guaranteed deposits up to $250 000 at all Authorised Deposit-taking Institutions such as banks, credit unions and building societies. This amount is per individual. Therefore, for joint accounts each person has a guarantee up to $250 000. This policy is designed to prevent a run on a bank by people concerned about the security of their money.

### 6.9 Activity: Research and communication

1. Using a program such as Microsoft Excel, prepare two graphs showing the value of N. Tomic's share portfolio in January and February.

### 6.9 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Name the three main documents that relate to share ownership, and their purposes.
2. Buying and selling assets, such as shares for profit, is subject to which tax?

3. Refer to the preceding table for Nadi Suri.
   (a) Which share had the highest price in January? How had this changed by June?
   (b) How much did Nadi spend on shares to begin with?
   (c) By how much did the shares in Lucky Oil Ltd increase?
   (d) By how much did the shares in Big Retail Ltd decline?
   (e) By how much did the portfolio decline in total?
4. Refer to the investment tracking table for N. Tomic. Complete a table for March using the following information.

| | |
|---|---|
| Bank term deposit | $5 000.00 |
| Bank savings account | $3 000.00 |
| Value of apartment | $152 000.00 |
| BHP | $37.00 |
| Commonwealth Bank | $42.00 |
| Woolworths | $34.00 |
| Qantas | $5.50 |
| Carsales.com Ltd | $20.00 |
| Westpac | $24.00 |
| Telstra | $5.50 |
| Credit card balance | $500 |

5. Explain how Nadi Suri managed his share portfolio very poorly.

**Fully worked solutions and sample responses are available in your digital formats.**

# 6.10 Managing investments and risk mitigation

## 6.10.1 Personal and economic circumstances

When deciding to invest, individuals and businesses need to take into account any changes in their personal or economic circumstances.

For example, if an individual was retrenched then the income they had available for investment would dramatically change and they would need to adapt their investment strategy to reflect this. Similarly, if a business suddenly was faced with a strong competitor then future plans for investing in larger premises may need to be put on hold.

### Personal circumstances

Illness, change in family situations, or losing your job can all mean that investments need to change. You could have your funds in a fixed investment earning interest, which you then need to withdraw in order to pay your bills. Similarly, you might be making regular payments into an investment, which you have to cease.

Many people take out income insurance in order to counteract this. This means that an insurance company will pay you about 80% of your income so you can maintain your financial obligations.

### Economic circumstances

Sometimes the global market changes — things happen that are out of our control, and it can be hard to counteract these issues.

Finances of nations around the world change frequently and may follow patterns based upon factors such as trade, employment or national security. Others follow no patterns in times of turmoil. Knowing you are investing in national companies that have contingency plans to counter economic changes means that your shares might be safer in times of financial challenge.

As stated in Chapter 2, the economic or business cycle describes the upward and downward movements of the economy over time. While the level of economic activity affects wages, consumer spending, production levels, interest rates and unemployment, the level of economic activity can also lead to variations in investment decisions.

Before deciding which shares to purchase, smart investors try to assess the future level of economic activity, then predict what effect this will have on company profits, and therefore the future value of share prices. In other words, they base their investment decision on what they think will happen to certain shares in the future.

Understanding the economic cycle is useful because investors can use it to try to time their entry into, or exit from, the market. Investors could make a gain by buying shares when prices are lower, and then selling them when prices have recovered. However, timing the market is very hard to do in reality. It's easy to recognise a peak or a trough after it has already happened, but trying to predict one is much more difficult.

Paying attention to the economic cycle is also beneficial in determining what investments to make. Smart investors will review their investments whenever they realise that the economic cycle is entering a new phase. For example, during a recession, an investor might invest more of their money in bonds instead of shares, since bonds are less volatile and thus less risky. Then, when investors predict the economy is about to recover, they might switch back to shares, which usually have a higher potential for growth in comparison to bonds.

### CASE STUDY

### The Global Financial Crisis (GFC)

Even the most cautious investors felt the impact of the 2008 Global Financial crisis (GFC). Australia did not feel the effects of the GFC as much as other countries. However, this international event had many impacts — people were scared to make financial decisions, with many attempting to pull their money out of shares to try to avoid further losses. This had flow-on effects, where the economy kept seeing more ups and downs. It was a significantly trying time for those in the finance sector, as it changed a lot of protocols and meant that lending regulations changed.

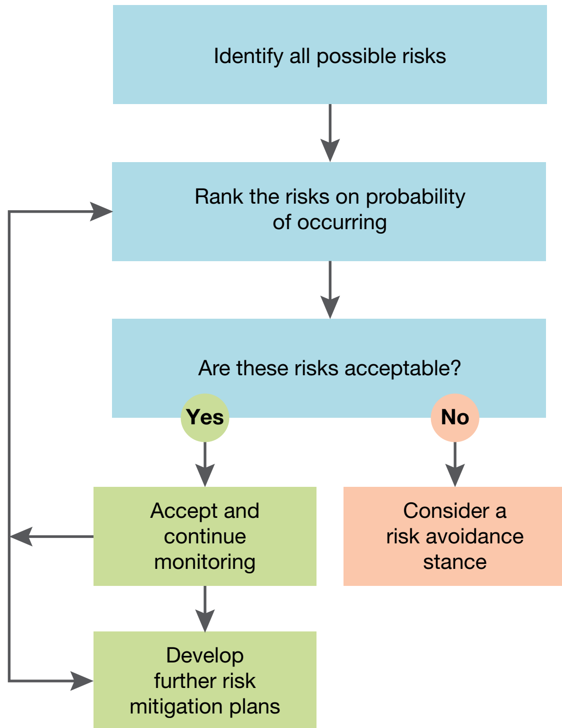
## 6.10.2 Risk mitigation strategies for managing investments

With any investment, making the initial decision and then monitoring the investment needs an approach utilising risk management strategies.

If, after considering the likely consequences and realising there is a high risk, it is vital to follow through on further risk evaluations or assessments to make sure you don't lose funds.

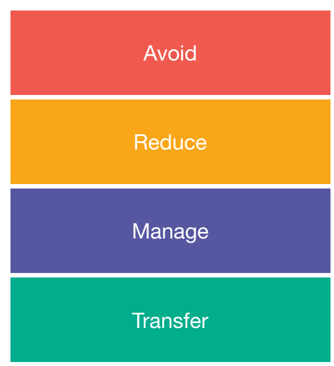
Investment risk mitigation is the process of developing strategies to reduce threats to your overall financial position.

Investment risk mitigation strategies




Adapted from: https://www.workiva.com/blog/risk-mitigation-strategies-increase-value-erm

Ultimately, when working through these strategies it is probable that you will come to one of the following four actions.




1. *Avoid the risk*. Entirely remove any chance of loss and don't take that investment avenue, or withdraw funds to avoid further future loss.
2. *Reduce the risk*. Diversify your investments so that 'all your eggs are not in the one basket'. This diversification will mean that there is a reduction of possible harm.
3. *Manage the risk*. Monitor and record your profits and losses.
4. *Transfer the risk*. This is frequently done by businesses, where they give ownership to financial managers, advisers and brokers. This can also involve insurance to manage risk better, where if there is a big loss there is less responsibility.

Individuals and businesses must be aware that when their circumstances change, they may need to vary their investments. Investments could be added to in positive circumstances, or reduced or terminated under negative circumstances.

### 6.10 Activity: Research and communication

1. Copy the table below. In a small group, discuss three positive and three negative personal or economic circumstances that may affect an individual or a business.

| | **Positive circumstances** | **Negative circumstances** |
|---|---|---|
| Individuals | 1.<br>2.<br>3. | 1.<br>2.<br>3. |
| Businesses | 1.<br>2.<br>3. | 1.<br>2.<br>3. |

2. Construct a plan for an investment portfolio. You have just won $100 000 on a 'scratchie' that your grandmother gave you for your birthday. However, because you are still living at home and your parents cover all your bills, they want you to invest it until you are 21. Your investment will be locked for five years. Your portfolio should indicate the following:
   (a) Choice of investment/s and why
   (b) Projected return/s each year and why
   (c) Monitoring plan
   (d) Risk mitigation strategy

### 6.10 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Use the table below to determine if there is a low, medium or high risk for the following scenarios.

| Likelihood | Negligible | Minor | Marginal | Critical | Catastrophic |
|---|---|---|---|---|---|
| Near Certain | Low | Medium | High | High | High |
| Highly Likely | Low | Medium | Medium | High | High |
| Likely | Low | Low | Medium | Medium | High |
| Unlikely | Low | Low | Low | Medium | Medium |
| Remote | Low | Low | Low | Low | Low |

**Consequence**

*Source:* https://growthmastery.net/risk-mitigation/

   (a) Loaning your friend $20 and having it returned to you
   (b) Buying $1000 of shares in a gold prospecting company
   (c) Investing $5000 in a start-up business which becomes highly profitable
   (d) Investing $1000 in a fixed-term bank deposit

**Fully worked solutions and sample responses are available in your digital formats.**

# 6.11 The role and responsibilities of the financial services industry

## 6.11.1 Role of the financial services industry

Many individuals choose to employ specially trained people to assist with their investment decisions. The role of the financial service industry is to:

- provide individuals and businesses with the tools, advice and guidance to effectively manage their financial resources
- develop and maintain chosen financial systems and provide the relevant training to support operational and reporting needs

- provide advice and oversight on the development and management of investments to ensure long-term financial gain
- ensure transactions are processed accurately, in accordance with laws and policies, and in a timely manner
- provide guidance whenever needed for contingency and continuity planning
- assist in the identification, evaluation and mitigation of risk
- provide financial reports and statutory remittances.

## 6.11.2 Financial advice

Financial institutions help individuals in many areas; these include:

- identifying short, medium and long-term goals
- developing strategies to achieve your financial goals
- developing an investment plan
- choosing tax-effective investments
- making the most of your superannuation
- finding out if you're eligible for any government assistance
- working out your insurance needs
- planning for your retirement
- considering your estate planning needs.

Individuals should start by considering whether they need help with a single issue, like consolidating superannuation or choosing investments, or if they are after a more comprehensive financial plan.

Businesses will be assisted with any financial decisions they need to make.

## 6.11.3 The responsibilities of lenders and advisers

Financial institutions provide a range of advice. Consequently, a financial adviser must be licensed by ASIC, or be an authorised representative of an organisation licensed by ASIC. You can access the financial advisers register on the **moneysmart** website to check that the person you are dealing with is authorised to give you the advice you want.

Responsible lenders obligations include:

- making reasonable inquiries about the consumer's financial situation
- taking reasonable steps to verify the consumer's financial situation
- making an assessment about whether the credit contract is suitable based on the information in the first two obligations.

Additionally, you are trusting the financial adviser with your money. You need to know they are qualified to be using your funds appropriately.

### CASE STUDY

Lin wants to invest his money in high-risk but high-return opportunities. Mark likes to make safe decisions, and is aware that investing more conservatively won't bring him a return as lucrative as Lin's. They decide to go to a qualified financial adviser in order to make sure their needs are met. When they meet their adviser, Natasha, she gives them both a profile to fill in, as well as a personality quiz. Lin and Mark give different answers and come out of the quiz with different investment 'personas'. Natasha explains that she will prepare investment advice based on their profiles. Lin and Mark each receive different advice, suited to their particular personal needs, and realise Natasha knows what she's doing. They were very pleased they found a competent financial adviser who was on the register.

**on** Resources

**Weblink** moneysmart

## 6.11.4 The role of government agencies — ASIC

The Australian Securities and Investments Commission is an independent Australian government body that acts as Australia's corporate regulator. ASIC's role is to enforce and regulate company and financial services laws to protect Australian consumers, investors and creditors. This government agency is important, as its role is to maintain the financial system and monitor investment practices, which directly impacts our nation's wealth.


### CASE STUDY

#### Researching investment options

Jayden-Lee started researching investment options on the internet. The next day, he scrolled past an ad on Instagram about an investment seminar the following weekend. He purchased his ticket and attended the event. When he got there, Tony was assigned to be his investment adviser. Jayden-Lee and Tony formed an instant bond, with Tony making a few jokes and having a bit of a laugh. At the event, there were many options to invest in on the spot. Jayden-Lee was unsure of what to do, so he asked his adviser. Tony took him to meet someone that he seemed to know and said, 'Jayden-Lee wants to sign up for your stocks'. Jayden-Lee then gave Tony a cheque for $10 000 to invest for him. At the end of the event, Tony said that he would be in touch to advise Jayden-Lee as to how the investment was going.

After a month, Jayden-Lee hadn't heard from Tony. He rang him and Tony assured him that the money was growing in size. Reassured, Jayden-Lee relaxed.

Three months later, Jayden-Lee decided he wanted to use some of the profits to go on a small holiday. He rang Tony and asked for him to withdraw $1000 from the investment. Tony stammered 'Ummm, sorry mate. I can't do that at present. The market's had a turn and your funds are really low at the moment. Don't worry though, we will grow them again soon enough.' Jayden-Lee felt immediately worried, 'Tony, how much is left? I gave you $10 000!' Tony baulked, 'I've got a call coming through, I'll call you back.' Tony didn't call back. Jayden-Lee then rang Tony several times over the next few days. He got no answer and was increasingly worried. He had no idea what to do.

## 6.11.5 Current issue — banking deregulation

Investment opportunities slowly changed in Australia when the federal government started the process of deregulation in 1973, which saw the removal of some of the strict rules regarding how banks operated in Australia. This included allowing foreign banks to open branches and a range of alternative financial institutions, such as building societies, credit unions and superannuation funds arose to compete with the banks. This deregulation continues today, with further changes resulting from the 2019 Banking Royal Commission.

The Australian Prudential Regulation Authority (APRA) oversees authorised deposit-taking institutions (ADIs): banks, credit unions and building societies. ADIs are authorised to take deposits from customers under the *Banking Act 1959*. Deposit-taking institutions pool these deposits. This means they put them together and then lend them to individuals and businesses in the form of loans and **mortgages**.

The financial sector has recently seen the start-up of many new banks, which are online-only banks. They provide many of the functions of traditional banks, such as Westpac, NAB and the CBA, but do not have any branch network. Customers access the bank's services though the internet, telephone, ATM or via an app on their smartphone. Some popular internet-only banks in Australia include ME Bank, ING, Volt Bank and UBank.

Deregulation of the banking sector in Australia has allowed foreign banks to enter the market and compete with local banks.


## Banks

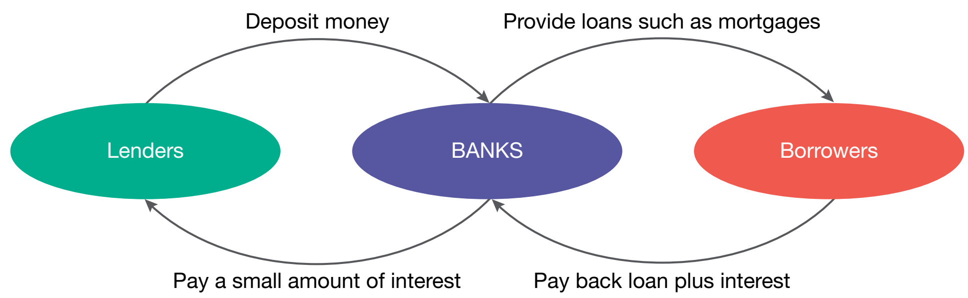
Banks offer a wide range of financial services to all participants in the Australian economy — accepting deposits; offering credit cards, cheques, overdrafts, investment and savings accounts; and lending money through personal loans, business loans and mortgages. Banks also provide other typical banking services such as internet banking, automatic teller machines (ATMs) and financial advice.

ATMs are one of the many services offered by banks.


A bank savings account is an easy and safe place for people to keep their money. This type of account allows you to deposit money and make withdrawals. In return for your deposits, the bank pays you money known as interest. The amount of interest paid depends on the type of account, the number of times interest is paid into the account each year and the amount of money in the account.

A bank is a business that wants to make a profit, so it accepts money as savings (deposits) at a lower interest rate and lends that money at a higher interest rate. Depending upon the type of savings account you hold, your interest earnings could be anywhere from 0.2 per cent up to around 3 per cent. For borrowing, interest payments vary depending on the type of borrowing, and can range between around 3.5 per cent on a variable mortgage and over 13 per cent on some credit cards.

Banks act as intermediaries between lenders and borrowers.




### Credit unions

A credit union is a financial institution that is owned and operated entirely by its members. Credit unions provide a range of products and services that are similar to those offered by banks. These include accepting deposits, offering personal and home loans, and providing payment services such as credit cards. To open an account with a credit union, you have to be an 'eligible' member. Every credit union has its own rules for determining eligibility, but it sometimes means that you have to belong to an industry affiliated with the credit union or be related to an eligible member. Because a credit union is focused on the financial wellbeing of its members, maximising profit is not its main objective.

People's Choice Credit Union is owned by its members. Its purpose is to help members save and borrow money.


### Building societies

Like credit unions, building societies are owned and operated by their members. As their name suggests, building societies historically supported their members in purchasing homes. In more recent times, building societies have expanded to offer similar services to banks. As deposit-taking institutions, building societies accept deposits from customers and provide loans and payment services. There are now less than ten building societies in Australia because many of them have converted to or merged with banks.

Building societies originally helped their members to buy homes, but over time they have become more like banks.

**on** Resources

**Weblinks** APRA
ASIC
ASIC — How to complain
ASIC — Invest smarter

## 6.11 Activity: Research and communication

1. ASIC is an independent Australian government body that acts as Australia's corporate regulator. In small groups, or independently, research ASIC's role and responsibilities . Create a brochure, poster or infographic that outlines:
   (a) why individuals should use ASIC
   (b) why businesses should use ASIC
   (c) the importance of ASIC to the Australian economy.
2. Use the **APRA** weblink in your ON Resources to find one Australian-owned bank, one foreign-owned bank, one credit union and one building society.

## 6.11 Exercise: Knowledge and understanding

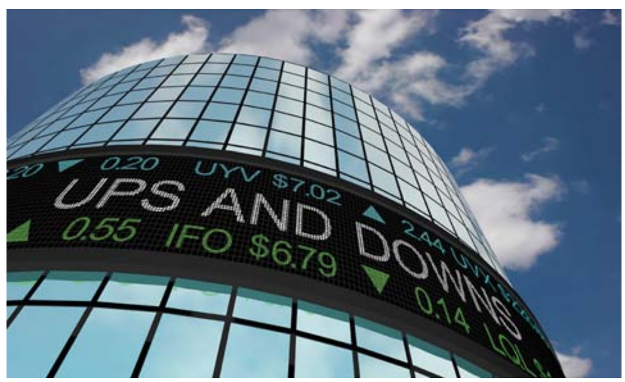
To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What is an authorised deposit-taking institution?
2. Name two internet banks.
3. In what year did the banking sector start to be deregulated in Australia?
4. Go to the **ASIC — Invest smarter** and **ASIC — How to complain** websites and create a list of what Jayden-Lee should do to try to seek redress.
5. Create a list of responsibilities that a financial adviser should adhere to.
6. How has deregulation assisted consumers looking to invest?

**Fully worked solutions and sample responses are available in your digital formats.**

# 6.12 Thinking Big research project: It's a risky business

## Scenario




Shares are an ownership interest in a public company. People invest their money in these shares hoping that if the company does well, some of the profits will be returned to the shareholders in the form of dividends, or that the value of the shares will increase over time and the shareholder will make a profit if and when they sell these shares at a later date.

All manner of people invest in shares – for example, investors, superannuation companies and retirees. It is also possible your parents might have invested some of their money in shares. However, buying shares can be a risky business. Shares often fall in value and this can occur quickly, leading to severe economic consequences such as the Great Depression and the Global Financial Crisis.

## Task

Watch one or more of the videos suggested in the following weblinks, to gain an insight into how the decline in the stock market caused the Great Depression and/or the Global Financial Crisis.

Once familiar with the concept of financial risk through investing in shares, your task is to write a report on the subject by referencing the share prices of five companies you have researched.

## Process

- Work individually.
- Using the Australian Securities Exchange (ASX) website, select five companies you may be interested in. Some companies that may be of interest include:
  - Woolworths
  - JB Hi-Fi
  - Commonwealth Bank
  - QANTAS
  - Telstra
  - NAB
  - BHP
- Using information from the ASX website or directly visiting the website of the selected companies, for each company:
  - summarise what the business does
  - summarise what industry it operates in
  - identify where it is based
  - state how many people it employs
  - state when it was started
  - identify any major announcements made by the company in the last 12 months.
- Chart the share price of the companies selected over a 5–10-day period (your teacher will provide a time-frame for this research). Prepare this information in a graph.
- Prepare a report on each company, identifying whether you believe the company is currently a high, medium or low risk investment. Provide reasons for your conclusions.

### on Resources

**ProjectPLUS** It's a risky business! (pro-0201)

**Digital document** Worksheet 6.11 Financial services (doc-32847)

**Weblinks** Hard Times: The Great Depression

The Great Depression – 5 Minute History Lesson

The 2008 Financial Crisis: Crash Course Economics #12

Australian Securities Exchange (ASX)

# 6.13 Review

## 6.13.1 Summary

Having explored this topic, you can now:

- determine that investing is a financial activity that many people undertake as a way of wisely using their assets and money to increase financial gain
- explain how a profitable gain is possible, with investments providing an opportunity for personal growth as well as financial success
- identify how an individual can weigh up all their options and adequately plan for investment
- discuss the many decisions that need to be made regarding investment choice, including:
  - the type of investment
  - how to assess the relationship between risk and return to make decisions about how much to invest
  - ethical considerations
  - which investment option to take
  - how to monitor investments in relation to changes in personal and/or economic conditions
  - how to maximise long-term investment options
  - profit – income required
  - how to spread the risk
  - following paperwork procedures
- identify considerations regarding ethical investment decisions
- outline the role and responsibility of financial advice services
- describe the importance of ASIC
- research current issues that affect investment options.

## 6.13.2 Key terms glossary

**assets** items of value
**blue chip shares** very safe and secure shares
**capital gains tax** a tax on the profits arising from the increased value of assets such as shares or property
**capital growth** value of an asset increases over time
**company tax** a tax on the profit of a company
**cryptocurrency** a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds. Cryptocurrency traders operate independently of a central bank
**debenture** a document that is issued by a firm when you lend it money. It states the amount, interest and term of the investment. If a firm is liquidated debenture holders are one of the first to be repaid
**dividend** part of a firm's profit that is divided amongst shareholders
**economy** all activities undertaken for the purpose of production, distribution and consumption of goods and services in a region or country
**entrepreneur** a person who sets out to build a successful business in a new field. An entrepreneur's methods are sometimes regarded as innovative
**ethical** acceptable to society's current standards
**fixed interest rate** interest rate that remains the same for the period of the loan
**income and expenditure account** an ongoing record of income earned and money spent during the previous week
**investment** the use of money to purchase equipment or premises for the establishment of a new business or the expansion of an existing business
**investment portfolio** all the investments owned by an individual
**managed fund** a pool of money that comes from people who have similar investment goals, and invested in assets such as shares or property, by a fund manager
**market(s)** an exchange of goods, services or resources between buyers and sellers
**mortgage** a loan from a financial institution such as a bank where something is held as security in case the loan is not repaid, e.g. a house
**rate of return** the profit you receive on your investment as a percentage of the original investment
**share** a part ownership of a public company

**sharemarket** place where shares in public companies are bought and sold
**stockbroker** individual or firm that specialises in buying and selling shares
**superannuation** money put aside and saved while you are working; commonly called 'super'
**superannuation fund** a managed fund designed specifically to produce benefits when you retire
**unsecured note** Similar to a debenture. A document that is issued by a firm when you lend it money. It states the amount, interest and term of the investment. An unsecured note holder is one of the last to be repaid if a firm is liquidated
**variable interest rate** rate that moves up or down depending on market forces

on Resources

**Digital documents** Key terms glossary (doc-32669)
Match up (doc-32755)
Crossword (doc-32789)
Wordsearch (doc-32800)

**Interactivities** Wordsearch (int-7903)
Crossword (int-7886)

## 6.13 EXERCISES

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

### 6.13 Exercise 1: Glossary quiz online only

### 6.13 Exercise 2: Multiple choice quiz

1. Which of the following is a reason you might have surplus funds to invest?
   A. Your income is fairly predictable.
   B. You work numerous jobs.
   C. You save money after paying your bills.
   D. All of the above
2. When discussing investment, what is a stock?
   A. A partial ownership of a company
   B. A regular payment
   C. A type of soup
   D. Government interest bodies
3. Which of the following best describes a small amount of gain based upon savings in a bank?
   A. Interest
   B. Dividends
   C. Capital gain
   D. Equity gain
4. Which of the following is a *financial* asset?
   A. Equipment investments
   B. Personnel investments
   C. Bonds
   D. Property investments
5. When someone spreads the load of risk, this is called:
   A. dividing
   B. diversification
   C. denomination
   D. difference.
6. What is a stock?
   A. A partial ownership in a company
   B. A government investment
   C. Property ownership
   D. Savings

7. Which of the following is the term for regular income from owning stocks?
   A. Capital gains tax
   B. Savings
   C. Dividends
   D. Salary
8. Pick the most appropriate response. Financial advisers should:
   A. be licensed and provide those details to you upon request
   B. provide sound advice that is inline with your preferred level of risk
   C. do nothing without your permission
   D. All of the above
9. The market price of a company's share of a common stock is determined by:
   A. the board of directors
   B. the stock exchange decision
   C. the CEO
   D. individuals buying and selling the stock.
10. What is a risky investment?
    A. An investment in something completely new with minimal knowledge share
    B. An investment in something that has fluctuated a lot
    C. An investment in a failed or previously bankrupt company owner
    D. Any of the above

## 6.13 Exercise 3: Knowledge and understanding

1. List three reasons why people invest.
2. List three reasons why businesses invest.
3. Match the following to the correct definition:
   **Asset dividend ethical rate of return superannuation**
   Definitions:
   (a) Managed funds to give financial support when you retire
   (b) Something of value
   (c) The profit you receive on investment
   (d) Part of a firm's profit that is divided amongst shareholders
   (e) Acceptable to the standards of society
4. Abdullah won $10 000 at his local football club's raffle. Outline three investment choices he could make and describe why Abdullah might choose each one. Rank each choice from lowest to highest risk.
5. Outline three reasons why retirement plans are important.
6. Differentiate between immediate, short-term and long-term financial goals.
7. Create a checklist someone could use in their day-to-day life to help them save.
8. What is a fixed interest rate?
9. What is a variable interest rate?
10. Select which option below will have a lower interest rate and explain why.
    (a) A home loan
    (b) A short-term loan
11. Complete the following table:

| Investment type | Description | Advantages | Disadvantages |
|---|---|---|---|
| Savings accounts | | | |
| Shares | | | |
| Property | | | |
| Managed funds | | | |
| Superannuation | | | |
| Debentures | | | |
| Unsecured notes | | | |
| Cryptocurrency | | | |

12. Design a poster promoting ethical investment.
13. Analyse how people ensure that they are more likely to make a financial return on their investment.
14. In words, explain the numeracy behind an investment of $5000 using rate of return principles.
15. Describe the changing nature of investing in today's economy.
16. Why should someone diversify their portfolio?
17. Create a checklist for keeping sound investment records.
18. What is the main source of government advice regarding anything to do with financial advisers?
19. Research and prepare a report on a current issue listed below. Your report should cover an introduction about the business, an outline of the issue the business is facing, positives of investing in the business, negatives of investing in the business and then a conclusion of your findings.
    The issues you can choose from are:
    - The Body Shop and ethical treatment of animals in the cosmetic industry
    - Adani Group (coal mine) and the impact on the Great Barrier Reef
    - Woolworths and the liquor/gaming scandal
    - George Calombaris and the underpayment of wages in the restaurant industry
    - 7-Eleven worker exploitation
    - Domino's Pizza class action lawsuit
    - Hotel Eclipse (in Poland) and intellectual property theft
    - Another issue of your choice upon negotiation with your teacher

### 6.13 Exercise 4: Challenge your understanding

1. Explain why it is important for businesses to make wise investment decisions.
2. Outline why individuals require sound financial advice before making investment decisions.
3. Explain why it is important for investors to monitor the economic cycle.
4. Evaluate why investment trends will continue to change over time.
5. Analyse the investment world within Australia, comparing it to that of an overseas country of your choice. In your answer, link the impact investments can have upon the economy.

**Fully worked solutions and sample responses are available in your digital formats.**

### on Resources

| | |
|---|---|
| **Digital documents** | Worksheet 6.12 Wrap up! (doc-32811) |
| | Glossary quiz (doc-32767) |
| | Multiple choice quiz (doc-32778) |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0863) |

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OPTION

# 7 Promoting and selling

## 7.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS at www.jacplus.com.au.

### 7.1.1 Introduction

Imagine you're shopping in your local supermarket. You have a full trolley and are adding a carton of milk as your last item. You suddenly smell something heart-warming, and instantly recognise the fresh, crunchy, satisfying and wholesome product the smell is coming from. You realise you don't have any bakery goods yet! You head to the bakery section and add some items to your trolley.

Studies have proven that when the aroma of baked bread was released in a supermarket, sales in the bakery section increased threefold. Additionally, up to 77 per cent of people have reported feeling kinder and having increased levels of positivity when smelling baking bread, and so associate this with a good experience. This bodes well for customer satisfaction and repeat business.

Scent marketing is rapidly becoming popular. Officeworks has used coffee scent at its South Melbourne store, and the scent of chocolate is often diffused through Federation Square during the Melbourne Food and Wine Festival. Market research has shown that consumers who associate a smell with a pleasant experience are more likely to make a purchase. In order to succeed, businesses are constantly looking for innovative ways to promote and sell their products.

CONTENT FOCUS

On completion of this topic, you will have:

- investigated the promotion and selling of goods and services, including social, ethical and environmental considerations
- analysed the strategies that sellers use to promote products and maximise sales, and evaluated the impact on consumers.

**on** Resources

| | | |
|---|---|---|
| **Video eLesson** | Promoting and selling (eles-3512) | |
| **Digital documents** | Key terms glossary (doc-32670) | |
| | Worksheet 7.1 Start up! (doc-32718) | |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0864) | |

# 7.2 The selling process

## 7.2.1 How businesses differentiate products

Walk into any supermarket to buy a loaf of bread and you are faced with a wide selection from which to choose: white, wholemeal, sliced, unsliced, gluten-free, vitamin enriched, fruit-based, thick for toasting and so on. Providing so many different types of breads is a deliberate selling strategy and is an example of **product differentiation**. This occurs when products (goods or services) that are the same or similar are made to appear different from and/or better than those of their competitors. By highlighting the differences between one product and another, a business (seller) is simply trying to make its product more desirable to consumers. If successful, the business is able to gain a little more control in the marketplace, especially in regard to price. Examples include jeans with designer labels, washing detergent with brightener additives and preservative-free foods. Because they offer a wide range of differentiated products, businesses such as The Coca-Cola Company, Apple Inc. and Mercedes-Benz have remained successful over many years.

### Factors which differentiate products

The difference could be as simple as changes to the packaging or labelling, or more complex, such as offering quality service, greater convenience, better value for money or environmentally friendly products. These factors help in persuading consumers that the product is superior, therefore influencing them to buy it. Some of the main factors that differentiate products are outlined below.

#### Customer service

Consumers expect a high level of customer service. Pre-sales and after-sales service are very important to consumers purchasing expensive items such as cars or electrical appliances.

Service may also include the presentation of the premises, the atmosphere, or the range of products that set a business apart and capture the consumer's interest.

For example, an exclusive restaurant will offer full-table service, an extensive menu and a comprehensive wine list. These features differentiate it from a self-serve bistro or fast-food restaurant, which instead combine an approachable atmosphere with prompt service and something on the menu to suit all customers.

### Convenience

Because today's consumers are busy, they will often select products that are convenient to use. For example, many consumers do not have a lot of time for meal preparation. Consequently, they will select prepared meals from a supermarket or fast-food store: the 'quick-and-easy' product.

A high-class restaurant provides high levels of service as well as creating an image of exclusivity and opulence. Takeaway and fast-food restaurants, however, are vastly different, and instead focus on quick service, choice and availability.


In response, food manufacturers have developed a range of convenience food products. The packaging and cooking requirements are designed to make the preparation as convenient as possible.

Youfoodz offer healthy 'ready to eat' meals conveniently delivered to your door each week.


### Value for money

As a consumer, you want the best value for your money. To satisfy this requirement, sellers will offer and promote a range of products at different prices. For example, a car company will offer a basic model and then several more luxurious versions at higher price levels. While the base model lacks some features, it offers the same reliability and quality workmanship at a lower price. This could make the base model good value for money.

### Quality

Many businesses compete on quality. A quality product has a high degree of excellence and achieves the purpose for which it was designed. A quality product should be reliable, easy to use, durable, well designed and delivered on time. It should include after-sales service and have an agreeable appearance. A business that differentiates itself based on quality will produce the best good or service available in the market.

## 7.2.2 Social, ethical and environmental considerations when promoting products

Other factors that differentiate businesses are social, ethical and environmental considerations.

### Social considerations

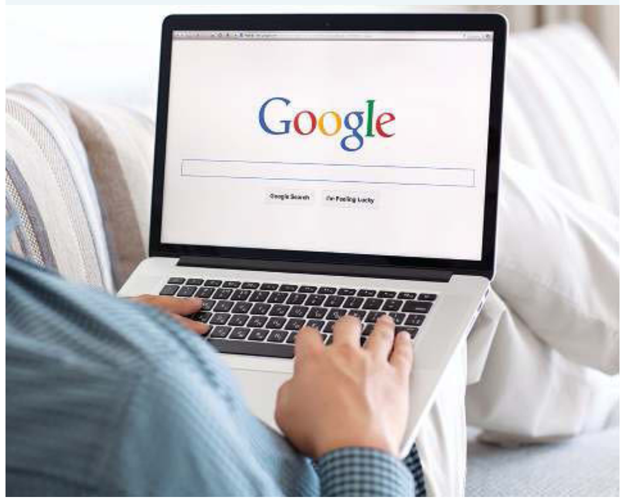
All businesses operate within a community and, like individuals, have certain social responsibilities. Many businesses develop social goals and adopt strategies that will benefit the community as well as achieve financial goals. While all businesses aim to make a profit, to do so in a manner that is not socially responsible is likely to be counterproductive; customers will eventually find out which businesses are acting responsibly and which are not, and react accordingly. Customers can refuse to purchase a business's product if they learn that the business is exploiting employees or engaging in animal cruelty.

**Corporate social responsibility** involves the managers or owners of a business taking steps to ensure that the broader social welfare, including employees, customers, suppliers and the environment, is taken into consideration when conducting business dealings. Socially responsible behaviour can be expensive in the short term, but in the long run it does turn out to be in a business's interest.

As an example of a socially responsible business, Google encourages staff to be involved in charitable efforts of all kinds. Its code of conduct covers respect for other employees, conflicts of interest, financial integrity and responsibility, confidentiality and obeying the law.

In relation to promotion, some businesses have taken specific steps to market their products or services in a manner that is of genuine benefit to the community; for example, through community sponsorships. Engaging with the local community and supporting local organisations can be a positive and socially responsible means of marketing a business. Many businesses provide sponsorship for local sports teams, both through cash donations and the donation of equipment or facilities. In return, the business can display signage at the relevant sports ground or clubrooms, and may also display a sponsorship certificate at its own business premises. Local businesses also help sponsor activities at schools and other community organisations. Not only does the business gain exposure for its brand name, but the local community also benefits.

Google is an example of a socially responsible business.



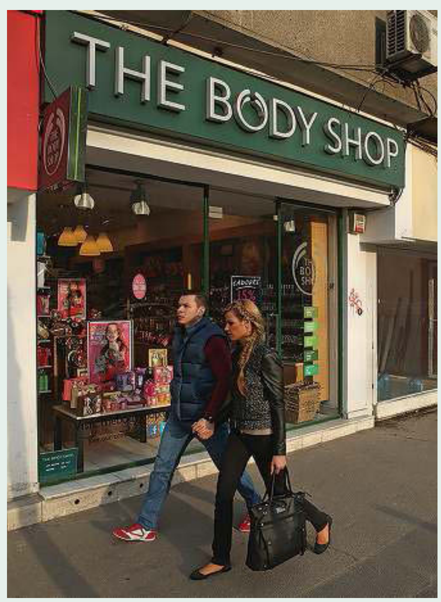

## CASE STUDY

### A socially responsible business

Founded in 1976 by Dame Anita Roddick, The Body Shop is now a high profile advocate for social and environmental causes. Anita Roddick's original vision was to build a socially responsible business that supported the community. She developed five values:

1. activate self-esteem
2. oppose animal testing
3. support community fair trade
4. defend human rights, and
5. protect the planet.

These values have guided The Body Shop's employees and their business decisions for three decades. Some of the Body Shop's campaigns include 'Stop Sex Trafficking of Children and Young People', 'Defend Human Rights', 'Against Animal Cruelty', and 'Protect Our Planet'. The Body Shop prides itself on being a retail activist.



**COMFACT**

Some businesses are able to address both social and financial objectives. Woolworths (formally Safeway) and Dormit Pty Ltd, a Melbourne timber company that produces timber products such as pallets, both actively encourage people with a disability to work for them. One quarter of Dormit's employees have disabilities.

## Environmental considerations

People are becoming more concerned with 'quality of life' issues, and especially the physical environment. Businesses that create pollution may risk losing customers, whereas businesses that adopt a 'green' philosophy and produce environmentally friendly products may see their sales increase. For example, as part of being a socially responsible business, The Body Shop is also committed to producing products that are sensitive to environmental concerns, and sells all its products in reusable or recyclable containers.

As society becomes more aware of environmental issues, marketing products and services that minimise environmental damage is likely to increase the chance of business success. Green marketing refers to the process of selling products and/or services based on their environmental benefits. Simply claiming to be 'environmentally friendly' or 'recyclable' does not necessarily qualify as green marketing. It would be expected that the business incorporate some or all of the following:

- product modification, to ensure the raw materials used are sustainable
- changes to the production process to minimise environmental damage through waste products
- changes to packaging to encourage recycling
- modified advertising practices, such as no longer using junk mail pamphlets or flyers.

Many businesses see the importance of promoting their products as environmentally sound or 'eco-friendly'. For example, Gloria Jean's Coffees ensures that it purchases resources from suppliers that look after their employees and the environment. Its coffees contain a percentage of beans from farms that have been certified by the Rainforest Alliance.

Another example is Woolworths approach to reducing plastic used and sold in-store. They began by banning all single-use plastic bags from their stores but have since expanded on this commitment in other areas. For instance, Woolworths has stopped selling plastic straws, introduced soft plastic recycling bins, and reduced plastic on fruit, vegetables and from their in-store bakery. They have also introduced bottle and can recycling (Return and Earn) near many of their stores.

As a result of pressure from the community, Woolworths implemented a variety of strategies to reduce plastic.


Governments are increasingly legislating to tighten environmental controls on business; for example, introducing regulation regarding waste disposal. It is strategic to get ahead of likely government regulation and explore green alternatives before being forced to do so. Businesses found to be operating in a way that is environmentally harmful invariably attract bad publicity. Competitors are likely to be improving their environmental impact and customers will look favourably upon environmentally friendly initiatives, so exploring green marketing should be a priority for all businesses.

## Ethical considerations

A growing number of consumers are becoming more ethically minded and will actively purchase products or brands that they believe do not exploit workers, producers or the environment. These consumers want to know more about the way goods are made, such as the factory conditions where goods are made and where raw materials come from.

Ethical consumerism provides businesses with opportunities to satisfy the demands of a growing number of consumers. For example:

- in response to the dislike of genetically modified (GM) foods by some consumers, various producers are labelling their products as GM-free
- the Fairtrade Certification system is gaining influence, with more consumers choosing to buy products carrying the FAIRTRADE Certification Mark, ensuring minimum prices, fair labour practices, sustainable production and an additional premium for community development
- the cosmetic industry is delivering more natural products that are not tested on animals.

Ethical issues will be examined further in section 7.5.2.

When consumers purchase products with the Fairtrade mark, they are supporting farmers and workers in developing countries. The mark shows people that the ingredients in the product bought have been produced by small-scale farmer organisations that meet internationally agreed Fairtrade social, economic and environmental standards. Cadbury have made many items in their popular chocolate range comply with Fairtrade practices in order to appeal to the ethical consumer.


FAIRTRADE

***Source:*** © Fairtrade

## on Resources

**Digital document** Worksheet 7.2 Product differentiation (doc-32719)

**Weblink** Fairtrade

### 7.2 Activity: Research and communication

1. Design an A4 print advertisement for a new model mobile phone that highlights its 'exclusive' features. You may wish to use desktop publishing software, such as **Canva**, to include text and graphics in the advertisement.
2. Use the **Fairtrade** weblink and read the latest news from the organisation. What countries are mentioned in this news?

## on Resources

**Weblink** Canva

### 7.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is meant by the term 'product differentiation'?
2. What is the purpose of product differentiation?
3. In pairs, select three products with which you are familiar and describe how they are differentiated from their competitors.
4. Outline some of the different factors that differentiate products.
5. Explain green marketing.
6. 'Environmentally friendly products are just a clever promotional strategy to make purchasers feel good.' Do you agree or disagree with this statement? Give reasons for your answers.
7. In what ways is the Fairtrade movement committed to production practices that are ethically responsible? For help, use the Fairtrade weblink in the Resources tab.
8. What are the benefits of corporate social responsibility for businesses?
9. Some businesses' claims to be environmentally friendly are little more than 'spin' designed to make them look good. Develop a list of questions you could ask a business owner to determine whether or not the business is genuine in its environmental credentials.

**Fully worked solutions and sample responses are available in your digital formats.**

# 7.3 Nature of product promotion

## 7.3.1 Promotion

What do the following products have in common: St. George Bank, Coca-Cola, Mars Bar and Mercedes-Benz? They all rely on a range of promotional strategies to catch the attention of customers and, hopefully, make a sale.

In order to sell more of its products, a business has to change customers' behaviour through information or persuasion. This is achieved through promotion. The role of **promotion** is to inform, persuade and remind consumers about a business's products with the aim of:

- attracting new customers by raising awareness of a particular product
- increasing brand loyalty by reinforcing the image of the product
- encouraging existing customers to purchase more of the product
- encouraging new and existing customers to purchase new products.

Many people confuse promotion with advertising because of its visibility and frequency. However, advertising is just one of the five elements of the promotion mix. A **promotion mix** is the various promotion strategies a business uses in its promotional campaign: advertising, personal selling, relationship marketing, opinion leaders, publicity, public relations and sales promotion.

### Advertising

Which current advertisement has most impressed you? What product is it advertising? Why did it impress you? You can probably answer these questions without too much thought. This is because you have been influenced by advertising. Everywhere you look, businesses are using advertising to influence our buying habits and choices.

**Advertising** is a paid, non-personal message communicated through a mass medium. Because of the enormous number of products available, advertising is an important promotional strategy for business. A successful advertising campaign can result in increased sales and profit for a business.

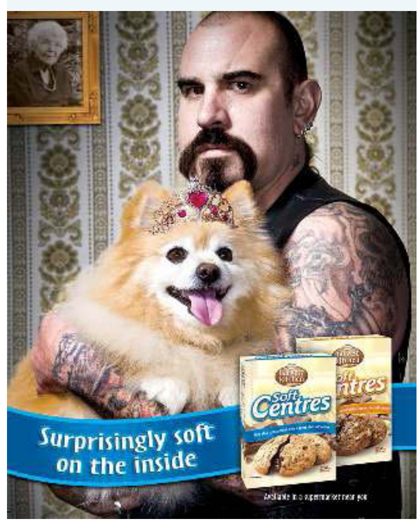
The main advantage of advertising is that it provides businesses with the flexibility to reach an extremely large audience or to focus on a small, distinct segment of the population.

Proctor and Gamble (P&G) has been the world's largest spender on advertising for many years. In 2017–18, the company spent over $7.1 billion on advertising, including TV, print, radio, internet and in-store ads. P&G is an American consumer goods company specialising in a wide range of personal, baby, home and health care products. They own many globally marketed brands such as Gillette, Oral-B, Vicks, Pantene and Pamper. Advertising is considered key to maintaining their competitive advantage.


Advertising may take many forms, from buying time on national television, to inexpensive leaflets or posters, to internet banner advertisements. Advertising media is a term for the many forms of electronic and print communication used to reach an audience and includes:

- *mass marketing* — television, radio, newspapers and magazines
- *direct marketing catalogues* — catalogues mailed to individual households
- *telemarketing* — the use of the telephone to personally contact a customer
- *e-marketing* — the use of the internet to deliver advertising messages
- *social media advertising* — online advertising using social media such as Facebook and Twitter
- *billboards* — large signs in strategic locations.

This is quite an eye-catching advertisement. Advertising informs, persuades and reminds. It can also present new ideas about a product and how a customer needs this product.



## COMFACT

Australian businesses spend over $17 billion per year on various forms of advertising.

### Personal selling

**Personal selling** involves the activities of a sales representative directed to a customer in an attempt to make a sale. For some businesses, such as those offering expensive, complex or highly individual products, personal selling is the main promotional strategy. These products in particular require the personal contact of a sales representative to familiarise the customer with the product.

For example, Vorwerk's Thermomix product can only be bought exclusively through the company's network of representatives. Vorwerk uses a face-to-face direct selling approach where potential customers hold dinner parties at their homes and a Thermomix representative prepares a six-course meal while demonstrating the features and benefits of the product. The company uses this direct marketing technique to engage and build relationships with customers.

The main benefits of personal selling are that the sales consultant can modify the message to suit the circumstances of individual customers and that this type of assistance, if done well, can help to create a long-term relationship resulting in repeat sales. The success of this strategy, therefore, depends on the competency of the business's sales force.

Vorwerk uses personal selling to promote their product the Thermomix.

### Relationship marketing

Customers want more individualised treatment. In response, businesses are looking for ways to develop long-term relationships with individual customers, a process known as **relationship marketing**. The ultimate aim is to create customer loyalty by meeting the needs of customers on an individual basis, thereby keeping customers coming back. This can be achieved through customer care, good after-sales service or the use of loyalty programs (see the following case study).

## CASE STUDY

### Positive relationships: it's personal

A highly successful relationship marketing strategy is the use of loyalty programs. A loyalty program is a rewards-based program offered by a business to customers who frequently make purchases. This strategy was introduced during the early 1990s with the FlyBuys loyalty reward program operated by the Coles Group. This was followed in 2007 by the Woolworths Everyday Rewards scheme. These schemes offer 'rewards' to those 'loyal' customers who spend specified amounts or make repeat purchases. Some loyalty schemes, such as the St.George Frequent Flyer Visa card, reward members each time they use their credit card. The points earned can be redeemed in the future for rewards such as dollars off your next shop, or free or greatly discounted products.

Relationship marketing can provide a business with a competitive advantage. By offering loyalty cards, businesses are giving customers an incentive to keep going back to their store. A recent marketing industry survey found that four in five shoppers tend to buy more from businesses where they hold loyalty cards, and 55 per cent say that when choosing between two similar companies they'll usually pick one with a loyalty program.

Retailers use loyalty programs to encourage repeat shopping, protect themselves from price wars and, most importantly, so that they can collect valuable shopping data. Each time a customer scans their rewards card, businesses are able to track their purchases, monitor their spending habits and then create specific marketing just for them.

## Opinion leaders

An **opinion leader** is a person who influences others. Their opinions are respected and they are often sought out for advice. Marketing managers use opinion leaders as information outlets for new products or to endorse an existing one. Actors, athletes, musicians and models are regarded by some groups as opinion leaders and many businesses use celebrity endorsement as part of their marketing strategies. Celebrity endorsement involves using a well-known person to use their wide appeal to become a brand ambassador to help market a product. Roger Federer, for example, is a global brand ambassador for UNIQLO, the Japanese apparel retailer.

These promotion strategies help improve the customer's image of a product or brand. Additionally, sponsored posts from celebrities on their social media platforms can boost sales enormously because consumers want to be just like their idol by using the same products.

Brand ambassadorship increases brand recognition. Some consumers are influenced when celebrities 'recommend' products because these consumers see this as a testament of the product's success and will, therefore, try it themselves.

## Publicity

What's worse than being talked about? Not being talked about! Businesses rely on being in the public eye. **Publicity** is any free news story about a business. It differs from advertising in that it is free and its timing is not controlled by the business. The main aims of publicity are to:

- enhance the image of a product
- raise awareness of a product.

One of the most successful publicity stunts was in 2018 when Elon Musk launched a Tesla motor vehicle into space on a SpaceX rocket. Musk, who owns both Tesla and SpaceX, was able to generate enormous worldwide publicity for both of these companies and their products.

## Public relations

**Public relations** are those activities aimed at creating and maintaining favourable relations between a business and its customers. It is the role of public relations personnel to design, implement and manage the public relations events of the business. Examples of public relations include making speeches on special occasions, attention-seeking gestures or donations.

On 27 April 2018, KFC celebrated its 50th anniversary in Australia. A gigantic (six-metre-tall, seven-metre-wide) chicken bucket was erected next to the Overseas Passenger Terminal at Circular Quay to mark the occasion. Thousands of KFC-lovers flocked to the location, where the company gave out free pieces of its Original Recipe chicken in 'limited edition 50th buckets', while DJs played music from the 1960s to the present, representing every era of KFC in Australia.

LCL bank is the main sponsor of the Tour de France. The company hires people to drive branded publicity caravans (like the one pictured) ahead of the race throwing out goodies and gifts to the crowds prior to the cyclists arriving.


## Sales promotion

A business may decide to offer a direct inducement to customers in an attempt to sell more of its product. This type of promotion is referred to as **sales promotion** and aims to:

- entice new customers
- encourage a trial purchase of a new product.

Examples of sales promotions include:

1. Coupons. These offer discounts on particular items by a stated amount at the time of purchase.
2. Loyalty reward programs. These offer 'rewards' to those 'loyal' customers who purchase specified amounts or make repeat purchases.
3. Premiums. A premium is a gift that a business offers the customer in return for using the product.
4. Refunds. Part of the purchase price is given back to those customers who send in a voucher with a specific proof of purchase.
5. Samples. A sample is a free item or container of a product.

For example, in 2018 Coles ran the Little Shop promotion, which awarded customers with a random miniature product for every $30 spent. This simple, yet effective, sales promotion campaign helped deliver a large increase in sales. For the 13 weeks of the promotion, supermarket sales increased by 5.8 per cent. The promotion was also credited with boosting sales of participating brands, including White King and Messy Monkeys, by up to 50 per cent. Coles launched a follow-up Little Shop 2 promotion in 2019.

The Little Shop promotion from Coles


### CASE STUDY

#### A blooming success

Edible Blooms, an Australian-based gourmet gift company, was started in 2005 by Kelly Baker. This unique business specialises in edible bouquets made of chocolate, fresh fruit, cookies, and even beer and champagne. The business is one of the busiest flower and gift websites in Australia.

Kelly appreciates the importance of developing the right promotion mix for the business. She complements her core business values — outstanding customer service, high-quality products and value for money — with innovative e-marketing and traditional branding strategies to achieve continued growth. The online side of the company presently accounts for about 70 per cent of sales. Kelly also uses an e-newsletter to inform customers of new products. Word-of-mouth promotion and online e-marketing campaigns have proven highly successful strategies. She also uses social media as part of her promotion strategies. Facebook fans receive alerts on special offers and engage in discussion on the site, and the fun links allow people to send their friends virtual blooms. People can also follow Edible Blooms on Twitter, YouTube and Instagram.

## 7.3.2 The role of gender in product promotion

Two major criticisms of some promotion stategies, particularly advertising, relate to gender. First is the use of stereotypical images of male and female roles. For example, in most advertisements it tends to be the male who uses the power tools, or who watches sport with his mates. Females, on the other hand, are portrayed preparing meals, cleaning the house or caring for the children.

Advertising often uses stereotypes.

The second major criticism refers to the overuse of sexual themes and connotations to sell products. Some advertisers target certain groups and appeal to personal desires such as physical and sexual attractiveness. Unrealistic images are portrayed as attainable.

Sex appeal can be found in advertisements for products ranging from motor vehicles to toothpaste. Advertisers use sex appeal to suggest to consumers that the product will increase the attractiveness or charm of the user. Although many people are sceptical of such claims, advertisements that use sex appeal can have subtle and persuasive impact. Consumers need to be critical of such advertisements and realise they do not represent reality but are using an attribute — sex appeal — to sell a product.

The rise of the ethical consumer means some businesses try to address ALL consumer needs by focusing on gender inclusive advertising rather than traditional gender stereotypes. This trend means that we are seeing more gender inclusive campaigns for physical strength by brands such as Adidas and Nike and also in campaigns for beauty products. The modernisation of gender within product promotion can prove successful to open and ethical consumers but can also lose customers who are more traditional.

## COMFACT

In 2019, the UK introduced new regulations banning ads featuring gender stereotypes that were 'harmful' or implied only one gender engaged in particular activities.

This ad by Dollar Shave Club is simple and inclusive.


Many of Nike's advertising campaigns are gender inclusive and feature strong and successful women.

## Resources

**Digital documents** Worksheet 7.3 Advertisement analysis (doc-32720)

### 7.3 Activity: Research and communication

1. In small groups, use the brainstorm technique to:
   (a) state reasons for the recent popularity of loyalty reward programs
   (b) determine the benefits to a business of this type of relationship promotion strategy
   (c) explain how social media advertising can be used to reinforce relationship marketing.
2. As a class, discuss whether advertising:
   (a) leads or reflects the change in gender roles
   (b) could be criticised for over-emphasising sex to sell products.

### 7.3 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is the role of promotion? What does it aim to achieve?
2. Identify the different elements of the promotion mix.
3. Why can personal selling be much more persuasive than advertising?
4. What is the main advantage of advertising?
5. What is the aim of relationship marketing?
6. Why do businesses use opinion leaders?
7. How do loyalty cards help businesses build long-term relationships with their customers?
8. What is publicity? How does it differ from advertising?
9. Describe public relations and sales promotion.
10. Create a table outlining the advantages and disadvantages of each of the promotional strategies.
11. Read the case study ‘A blooming success’ and identify the product promotion strategies used by Edible Blooms.
12. Outline how advertising may perpetuate existing gender stereotypes.
13. Which form of advertising would you choose for the following products? Give reasons for your choices.
    (a) Nike sports shoes
    (b) School textbooks
    (c) A hairdressing salon
    (d) Toys for children
    (e) Dell computers
14. What do you think makes a good advertisement? Share your answer with the rest of the class.
15. In pairs, investigate how social media advertising helps businesses reach potential customers.
16. In your opinion, what are the two most effective techniques for sales promotion? How does each of these techniques supplement advertising?
17. Why do you think sponsorship and product endorsement are increasing in popularity among marketers?
18. What do you think are the strengths and weaknesses of the following promotion strategies?
    (a) A manufacturer of a new type of disposable razor gives out thousands of free razors at a football grand final.
    (b) A lifestyle magazine runs its own lottery-style promotion for five weeks in which first prize is $20 000 worth of furniture.

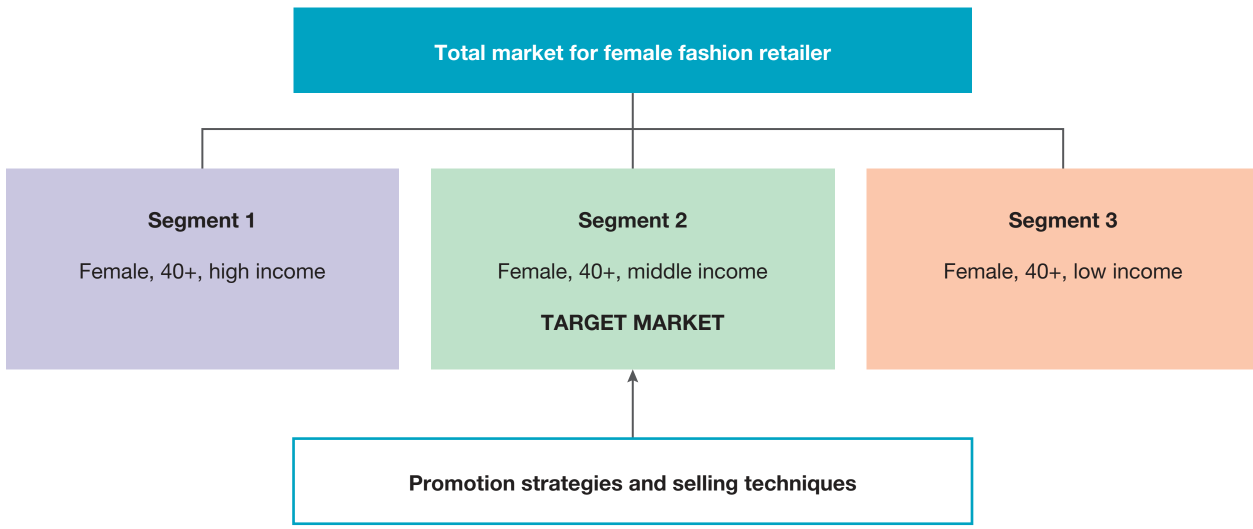
**Fully worked solutions and sample responses are available in your digital formats.**

# 7.4 Targeting customers

## 7.4.1 Processes used to target consumers

Few businesses can sell their products to the entire market — the market is just too big. Therefore, a business will divide the market into distinct segments. A business that is marketing motor vehicles, for example, would not direct its marketing efforts towards every person in the total vehicle market. Some people might want only a sports car; others might want a four-wheel drive. The business would thus direct its efforts towards a particular *segment* of the total market for motor vehicles.

> Selecting a market segment to be the target market is important. In this example, the fashion retailer makes clothes for women over 40 years of age. The clothes are of a reasonable quality but would not be classed as 'designer' clothes. In this business, female middle-income earners are the main target market.




**Market segmentation** occurs when the total market is subdivided into groups of people who share one or more common characteristics. The main features used to segment the total market are:

- age
- gender
- income level
- educational background
- geographical location
- lifestyle
- family structure.

Once the market has been segmented, the business selects one of these segments to become the target market.

The ultimate aim of market segmentation is to increase sales and profits by better understanding and responding to the desires of the target customers.

### Appropriate target markets for particular products

**Target market** refers to the group of customers to which a business intends to sell its product. Once the target market has been identified, the business concentrates its promotion efforts on that group.

For example, an exclusive women's fashion boutique in central Sydney would normally aim its promotion strategies at female, 25- to 50-year-old and city-based professionals with a high income. A rural supplies business would normally aim its promotion strategies at male, 25- to 60-year-old, rural-based farmers with middle to high incomes.

Sometimes, a business may be able to identify both a **primary target market** and a **secondary target market**. A business's primary target market will generate most of its revenue. These are the customers who are loyal to a particular business and make repeat purchases. The secondary target market provides an alternative in case there is a loss of customers from the primary target market.

A business selects a target market so it can direct its marketing strategies to that group of customers, rather than the total market. This approach allows the business to better satisfy the wants and needs of the targeted group, and makes it easier for the business to increase sales and profits.

Some businesses target a very small segment of the total market. This is known as niche marketing. In a sense, it is a segment within a segment, or a 'micro-market'. For example, look around any newsagent and you will see row upon row of magazines, each appealing to a specific niche market — male, female, young, old, urban, rural, outdoor lifestyle, indoor lifestyle and so on.

The fashion retailer Sportsgirl has a primary target market of 18- to 25-year-old females, and a secondary target market of 26- to 40-year-old females.


## CASE STUDY

### Quan's Floral Studio — target market

Quan Wilkes is owner-operator of a retail florist store called Quan's Floral Studio. The business provides fresh and dried flowers and associated product lines for all occasions. The business markets to a wide cross-section of the population within the surrounding suburb, but particularly to females aged 15 to 65 and males aged 15 to 25.

Quan's primary target market consists of females between the ages of 35 and 65 who decorate their homes with floral displays. The two secondary target markets consist of:

- females between the ages of 15 and 65 who purchase flowers for special occasions
- males between the ages of 15 and 25 who purchase flowers for their partners.

These target markets are important as they represent repeat customers who are essential for the business's long-term survival.

### Target market variables

*Geographic (where people live)*

Quan's Floral Studio targets the residents of the local area. Sales to customers from outside the surrounding suburbs are only occasional, not regular, and are not an important segment for the purposes of Quan's marketing plan.

*Demographic (population characteristics)*

Customer research data collected over the last 12 months reveal that 67 per cent of customers were female and 33 per cent male.

*Purchase decision maker (benefits sought)*

Generally, the purchase of fresh and dried flower arrangements is considered to be a gift purchase, for the individual or another person.

*Income level (people's lifestyles)*

Quan's Floral Studio caters for the middle to high income groups.

These groups consist of individuals and households who do not see the buying of flowers as a luxury, but as a regular (weekly or fortnightly) purchase.

## 7.4.2 How promotion strategies target young people and particular groups in the community

Young people represent an important demographic to marketers because, in addition to being consumers themselves, they also influence the purchasing decisions of their friends and family. For example, teenagers can affect where their family goes on vacation, the car they choose to buy and the clothes their friends wear. Young people will also become adult consumers in the future.

The amount of money spent on advertising to children has exploded over the past two decades. Parents today are willing to buy more for their kids because social influences such as smaller family sizes, dual incomes and postponing having children until later in life means that families have more disposable income. Marketers take advantage of this and have developed different strategies to target young people. These include:

- *Building brand loyalty*: marketers try to lay the groundwork of brand recognition in very young children. According to various studies, babies as young as six months of age can form mental images of logos. Brand loyalty can be established from as early as two years of age, and by the time children go to school, most can recognise hundreds of logos.
- *The internet and social media*: this is a very popular medium that marketers use to target children because the internet is now such a huge part of children's lives. Children are often online without parental supervision and, unlike other forms of promotion, the internet is largely unregulated. Sophisticated technologies make it easy for businesses to collect information from young people and to then target them with personalised advertising.
- *Pester power*: rather than targeting parents, many businesses rely on kids to pester their parents to buy products. 'Pester power' refers to children's ability to nag their parents into purchasing products they may not otherwise buy. Marketing to children is all about creating pester power. For example, studies have shown that four out of ten McDonald's visits are the result of constant nagging.
- *Psychology and research*: companies have used the help of researchers and psychologists to get access to in-depth knowledge about children's developmental, emotional and social needs so they can find out what makes them tick. Companies then create sophisticated marketing strategies to reach young people.
- *Buzz marketing*: this refers to creating interest in a product or service by maximising word-of-mouth. It involves generating excitement about a product so that people will want to tell others about it. Getting people to talk about a product, increases brand awareness and hopefully sales. One example of buzz marketing is Apple products, which rely heavily on word of mouth to maximise sales. Also, some businesses pay 'influencers' (people with large social media followings) to use or recommend their products in what looks like a genuine way. Since their followers trust that person, as soon as the influencer mentions the product or service, that person's fans will be anxious to try it.

Online food and activity advocacy group 'Parents' Voice' nominated McDonald's for the 'Pester Power' Award each year since the awards began due to their marketing of junk food targeting children.

## Regulation of advertising targeting young people


The *Competition and Consumer Act 2010* is one of the most important laws regulating marketing. This law is examined further in sections 7.5.1 and 7.8.4. In addition to this legislation, a code of ethics was developed in 2012 for marketers in relation to advertising — the Australian Association of National Advertisers (AANA) Code of Ethics 2012. If consumers feel that an advertisement breaches the code, they can make a complaint to the Advertising Standards Bureau (ASB). The role of the ASB is to ensure that the Code of Ethics is followed. They do this by administering a national system of advertising self-regulation through the Advertising Standards Board and the Advertising Claims Board. Both of these boards are part of the dispute resolution mechanism that deals with consumer complaints about most forms of advertising.

Consumers can complain to the ASB, which will then consider and assess any complaints in light of the codes. They then reach a decision by way of simple majority. If a complaint is upheld, the advertiser is requested to remove or amend the offending advertisement as soon as possible.

In 2014, the AANA adopted the Code for Advertising & Marketing Communications to Children. The object of this code is to ensure that advertisers and marketers develop and maintain a high sense of social responsibility in advertising and marketing to children in Australia.

The children's code upholds strict regulations relating to advertising or marketing that targets children. For example, advertising must not:

- portray images that show unsafe use of goods or services, encourage dangerous activities or create unrealistic impressions about safety
- be misleading or deceptive towards children
- include sexual images or imply that using a business's goods or services will enhance a child's sexuality
- portray images that may unduly frighten or distress children
- use popular personalities (including any animated personalities) to advertise or market goods or services to the extent that it is unclear whether it is a commercial promotion or program content
- promote unhealthy eating and drinking habits.

**on** Resources

**Digital document** Worksheet 7.4 Targeting the 'tweens' (doc-32721)

### 7.4 Activity: Research and communication

1. In pairs, conduct a survey of 30 people to find out what types of movie they watch at the cinema. Using a database, group the respondents by age and gender. Present your results in the form of graphs and charts.
2. Conduct an investigation into why promotional strategies targeting young people are considered to be unethical by some.

## 7.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Explain how market segmentation and target market are linked.
2. What is the purpose of market segmentation?
3. List the different ways a market may be segmented.
4. Read the case study on Quan's Floral Studio and then answer the following questions.
   (a) Identify the primary and secondary target markets.
   (b) What is the importance of these target markets to Quan's Floral Studio?
   (c) What four variables does Quan Wilkes use to segment the target markets?
   (d) How does segmenting the total market help Quan Wilkes achieve the long-term business objectives?
5. Outline some strategies businesses use to target young people.
6. Here are five different market segments:
   (a) young married couple, no children
   (b) female teenager, part-time worker
   (c) older single person, female, retired
   (d) younger single person, male, working
   (e) male teenager, full-time student.

   Copy the following list of ten products into your notebook and, beside each item, write the most appropriate market segment for that product. In some cases you may want to list more than one segment. Compare your answers with those of the rest of the class.

   | | | | |
   |---|---|---|---|
   | (a) Financial advice | (b) Ballet tickets | (c) Bus tour | (d) *Dolly* magazine |
   | (e) Health insurance | (f) Smart phone | (g) Rover lawnmower | (h) School textbook |
   | (i) Computer | (j) Furniture | | |
7. How is advertising targeting young people regulated?

**Fully worked solutions and sample responses are available in your digital formats.**

# 7.5 Legal and ethical issues arising from particular product promotion

## 7.5.1 Legal issues

Marketers should be familiar with the laws that regulate their activities and ensure they apply them to all marketing practices. The *Competition and Consumer Act 2010* (Cwlth) is one of the most important laws affecting marketing and business practices in Australia. A major purpose of the Act is to protect consumers against undesirable practices, such as misrepresenting the contents of products or their place of production, and misleading and deceptive advertising. The Australian Consumer Law (ACL), which is Schedule 2 to the Competition and Consumer Act, includes uniform consumer protection and outlines specific clauses relating to the treatment of customers. Under the Act, false and misleading advertising is illegal. This means that advertisements must not use words that are deceptive or claim that a product has some specific quality when it does not. Such actions convey a false impression of the exact nature of the product.

For example, the Australian Competition and Consumer Commission (ACCC) launched legal action against Samsung, accusing them of making 'false, misleading and deceptive' claims about their 'water-resistant' Galaxy mobile phone. The ACCC alleged that Samsung's ads misled consumers into

The ACCC accused Samsung of making 'false, misleading and deceptive' claims about their 'water-resistant' Galaxy mobile phone.

thinking the phones were water-resistant because they featured images of people using the phones in oceans and swimming pools. Samsung widely advertised the phones as being water resistant up to 1.5 metres deep for 30 minutes when, in fact, the life of the phones is adversely affected by water.

Even though the Competition and Consumer Act makes deceptive or misleading advertising illegal, a number of methods are still used by some businesses. Examples of deceptive and misleading advertising include:

- *Fine print:* where important conditions are written in a small-sized print and so are difficult to read.
- *Before and after advertisements:* consumers may be misled by 'before' and 'after' advertisements, where the comparison is distorted so that 'before' images are worsened and 'after' images enhanced.
- *Tests and surveys:* some advertisements make unsubstantiated claims; for example, stating '9 out of 10 people' prefer a product when no survey has been conducted.
- *Packaging:* the size and shape of the package may create a misleading impression of the contents.
- *Special offer:* advertisements may be misleading or deceptive if they imply that a special offer is available for only a limited period, when in fact the offer is continuously available.
- *Bait advertising*: this occurs when a business advertises items for sale at low prices to attract customers to a business, but the items are not available in reasonable quantities. When customers attempt to buy the items at the advertised price, they are told the items are out of stock and are offered a more expensive item.

## CASE STUDY

### Heinz 'misleading and deceptive' packaging


In March 2018, the Federal Court found that food company Heinz had deliberately misled the public about the nutritional content of its Little Kids Shredz range through claims on the packaging. The Court found the company misled the public by claiming that a range of toddler snacks were healthy, when they contained more than 60 per cent sugar.

The ACCC launched legal action against Heinz and argued that the snacks were higher in sugar than some confectionary items but were marketed as being beneficial for young children. The Shredz products' packaging included images of fruits and vegetables and the statements '99 per cent fruit and veg' and 'Our range of snacks and meals encourages your toddler to independently discover the delicious taste of nutritious food'.

The Federal Court agreed with the ACCC's claim that the representations on the packaging falsely implied that the products were beneficial to toddlers. The judge said the products were not beneficial to children aged one to three due to their sticky texture and high sugar content. He also stated that the company's nutritionists should have known that the representations made about the snacks being beneficial to the health of children were misleading.

The Federal Court found the company engaged in 'misleading or deceptive' conduct and breached the Competition and Consumer Act. Heinz was ordered to pay $2.25 million to the Commonwealth within 30 days as well as the ACCC's legal costs. The Court also ordered Heinz to establish a Consumer Protection Law Compliance program within three months.

The ACCC was disappointed with the penalty, having argued that Heinz should be forced to pay $10 million since their conduct was reckless. They claimed that some consumers may have been diverted from other healthy products due to the misleading packaging. The ACCC felt that the penalty was not large enough to deter other large companies from engaging in conduct that breaches Australia's consumer laws.

**COMFACT**

Misleading advertising claiming that a product has environmentally friendly qualities is not only a breach of ethics but may actually be illegal. For example, labelling which states a product has '50 per cent more recycled material than before' is misleading if the recycled content has increased only from 2 per cent to 3 per cent.

## 7.5.2 Ethical issues

**Ethics** are standards that define what is acceptable and unacceptable behaviour. It is concerned with what is morally right or wrong — and all the shades of grey in between. Most businesses want to engage in ethical business practices; that is, to act honestly and morally. These businesses will honour commitments, not engage in misleading or deceptive product descriptions and will provide a safe working environment for their employees.

While some of the marketing strategies outlined here might be legal, they are still considered wrong or unethical.

### Truth in advertising

Advertising can represent real ethical dilemmas. Exaggeration in advertising seems to be the general rule. You need only to watch TV, listen to the radio or read magazines to see examples of over-the-top advertisements. Ethical businesses should ensure their advertising is truthful because they can be held morally responsible for misleading the public by using an untruth in an advertisement. The use of terms such as 'low fat', 'huge reduction' and 'limited offer' can be interpreted in many different ways. For example, what precisely does the word 'special' mean when it is displayed above a product for sale? Most consumers would take this to mean the item is for sale at a cheaper than normal price; however, this may not necessarily be the case. The business may interpret the word 'special' to mean that the product has a distinct quality, that it is different from what is ordinary or usual. The two interpretations can easily be confused. If the business uses this word attempting to knowingly mislead customers, then this would not only be unethical, it could also be illegal. If the business wants to advertise the fact that the product is available at a bargain price, then the words 'on special' would have a clearer meaning.

### Children's advertising

The marketing of junk food, which is often portrayed as an essential part of a balanced diet, is strongly criticised by nutritionists and health advocates, especially as childhood obesity rates approach epidemic proportions. Nutritionists argue that the self-regulatory advertising codes, aimed at reducing junk-food marketing, are not working. For example, Kellogg's Coco-Pops O's which were promoted as a source of fibre, had 33.4 grams of sugar for every 100 grams!

One in three television advertisements during children's program times in Australia is for food that is high in fats, sugars and salt.

### Invasion of privacy

The growth in online advertising is raising a number of ethical issues, with the most serious being the tracking of web users and using this information to target them with advertisements. Collection of data in this way may breach consumer privacy. Presently, because most websites infer consent (the consumer agrees to their web searches being tracked unless the person opts out by ticking a box), many consumers are unaware that data is being collected on them. This behavioural data is collected and resold by data exchange companies and then used by businesses for target advertising purposes.

### Creation of needs — materialism

Does product promotion encourage materialism? Materialism is an individual's desire to constantly acquire possessions. Those who argue that product promotion does not encourage materialism point out that promotion merely satisfies existing needs of customers; it does not create those needs.

However, critics of product promotion feel that most businesses, especially large businesses, use sophisticated and powerful promotional strategies (particularly advertisements) to persuade and manipulate customers to buy whatever the firm wants to sell. These critics argue that promotional strategies create needs, many of which are artificial, by playing upon an individual's emotions.

### Product placement

In the highly popular show *The Big Bang Theory*, products from Apple, Xbox, PlayStation, Coca-Cola, Marvel, Purell (a hand sanitiser brand) and board games manufacturer Milton Bradley also have 'starring roles'. Various companies spend hundreds of millions of dollars placing their products in movies and television shows. The inclusion of advertising in entertainment is a promotion strategy referred to as **product placement**. Generally, the insertion of these products is subtle: a can of Coca-Cola seen when a refrigerator door is opened; while at other times they are prominently displayed.

*The Big Bang Theory* regularly features products, and businesses pitch competitive ideas in order to get their products shown.

Businesses are keen to use this promotional technique because it allows them to reach savvy, but advertisement-weary, consumers. However, critics of product placement argue that, because of its 'concealed' nature, this type of advertising blurs the line between what is advertising and what is entertainment.

## 7.5.3 The use of Indigenous cultural and intellectual property

If you walk into any souvenir shop in Australia, you will likely see many products with Aboriginal designs and artwork. What most tourists and consumers don't know is that most of these items are either made by non-Indigenous Australians or mass produced overseas.

According to the Arts Law Centre of Australia, around 80 per cent of Indigenous art products marketed to tourists are unauthentic. They are thought to be fakes, made by either non-Indigenous Australians or imported.

As well as the issue of fake art, many Aboriginal artists have had their artwork stolen. For example, Indigenous artist Brendon Porteous sold a couple of paintings to someone a few years ago. He later found out that the person he had sold the paintings to was reproducing them and selling these reproductions. They even signed his name! This story of the exploitation of Indigenous culture is only one among hundreds.

Copying someone else's original artwork is an abuse of copyright and is intellectual property theft. However, if somebody uses a factory overseas to produce something with an Aboriginal design, but they don't copy anyone else's work directly, then this is not illegal, because Aboriginal designs are not protected under Australian law. Under the Competition and Consumer Act, it is not illegal for fake imports to be sold, as long as they do not claim to be authentic and have a label stating where they are made.

While not illegal, this practice is unethical for many reasons. The sale of imitation and fake art deprives the Aboriginal and Torres Strait Islanders of a profitable income stream. The fake art devalues and also disrespects the genuine articles made by Aboriginal and Torres Strait Island artists.

As a result of these issues, federal MP Bob Katter introduced a private member's bill aimed at regulating the sale of Indigenous art. The Competition and Consumer Amendment (Exploitation of Indigenous Culture) Bill 2017 makes a range of amendments to the Competition and Consumer Act, which will prevent non-Indigenous Australians and foreigners from profiting from the sale of Indigenous art, souvenirs and other cultural items. This law, if passed, will make it illegal to sell fake Indigenous art. Mr Katter's bill was drafted in response to calls from First Australian groups, the Indigenous Art Code, Arts Law Australia the Copyright Council of Australia.

## CASE STUDY

### Villeroy & Boch


Villeroy & Boch is a manufacturer of high-end ceramics. In August 2019, the business was accused of 'misappropriation' of Aboriginal art for a range of plates and bowls that were designed and made in Germany and sold in Europe and the United States.

On their website, Villeroy & Boch described their Manufacture Rock Desert tableware line as 'inspired by the traditional Aboriginal dot painting style'; however, they did not mention a collaboration with an Aboriginal artist or artists. While the company did not claim their products were authentic, in the press release launching the range, they described the plates as 'original Aboriginal art with a twist'. The company sold the Rock Desert line throughout Europe via its own website and many other major retailers, with prices up to AU$44.30 for a dinner plate.

In response to queries about the Rock Desert line, Villeroy & Boch's head office issued a statement apologising for causing offence. They stated they had no intention of creating an impression that the range was other than a creative interpretation, and that they did not intend any disrespect to Indigenous art or culture. While unethical, Villeroy & Boch was not in breach of any copyright law because they were not directly copying a specific artist's work.

**on** Resources

**Digital documents** Worksheet 7.5 Product promotion strategies (doc-32722)
Worksheet 7.6 Promotional strategies (doc-32723)

### 7.5 Activity: Research and communication

1. Discuss whether advertising creates unrealistic expectations that many consumers can never attain. Record the main points on the board. Write a paragraph in your notebook summarising the points recorded.
2. In small groups, prepare a report critically analysing the ethical issues involved in:
   - advertising to young children during morning television programs
   - using sexual overtones and imagery in advertisements.

### 7.5 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What does the Competition and Consumer Act make illegal?
2. Explain how the following promotion strategies may mislead consumers.
   (a) Fine print
   (b) 'Before' and 'after' advertisements

3. Explain why the ACCC took legal action against Samsung over the Galaxy smartphone.
4. What is meant by the term 'materialism'?
5. Why are businesses keen to use product placement?
6. Read the case study on Heinz and answer the following questions:
   (a) How was the packaging used by Heinz misleading and deceptive?
   (b) Do you agree with the ACCC that the penalty should have been higher? Justify your answer.
7. In each of the following examples, state whether there has been a breach of the Competition and Consumer Act.
   (a) A company advertises jumpers and claims that they are made in Australia when, in fact, they are made in Hong Kong.
   (b) A company advertises that the special deal is for one week only, when, in fact, it plans to extend it indefinitely.
8. Why do you think the collection of data by tracking web users could be considered unethical?
9. Do you consider product placement an ethical or unethical promotion strategy? Give reasons for your answer.
10. In a recent survey of 350 Australian and overseas marketing managers, 64 per cent responded 'yes' to the question, 'Is it reasonable behaviour to bend the law if you do not actually break it?' How would you answer this question? Explain your response.
11. In groups of three or four, critically analyse the ethical issues involved in the following.
    (a) Advertising to young children during morning television programs
    (b) The use of celebrity figures to recommend products
12. Explain why the sale of imitation and fake art is considered unethical.
13. Read the case study on Villeroy and Boch and answer the following questions.
    (a) Why was the marketing of their Rock Desert tableware design considered unethical?
    (b) Why wasn't the sale of this imitation art illegal?

**Fully worked solutions and sample responses are available in your digital formats.**

# 7.6 Selling techniques

## 7.6.1 Analyse selling techniques used by businesses to promote a product — Coca-Cola

Coca-Cola is one of the most recognisable brands in the world, but how did the company become so popular? It's true that they produce a drink that people enjoy, but the key to their success is their marketing. What sets Coca-Cola apart from other businesses is the memorable promotional campaigns they create that seem to stick around for generations.

The Coca-Cola Company (TCCC) uses a wide variety of selling and promotional techniques to maximise sales. Some examples include advertising, sponsorship, sales representatives, online advertising, sales promotions (for example, competitions), product placement and social media advertising. Some of these techniques are evaluated below.

Who would have ever thought that brown, sugary, fizzy water with addictive qualities would become the universal product it is today?

### Coca-Cola's product strategies

Worldwide, TCCC sells more than 3500 different types of beverages in over 200 countries. Products range from regular and diet sparkling (carbonated) beverages to still beverages such as fruit juices and fruit drinks, waters, teas and coffees, sports and energy drinks, and milk-and-soy-based beverages. There is a drink to suit all tastes and preferences, aimed at specific target markets. This selling technique — a targeted product range — is one reason TCCC is the world's number one seller of still and sparkling beverages.

## CASE STUDY

### Targeted product range

Coca-Cola Amatil (CCA), the Australian manufacturer, seller and distributer of Coca-Cola products, offers a range of sparkling and still beverages for different target markets, segmented according to age and gender. Energy drink Mother, for example, targets 18- to 29-year-old males. The more health-conscious adult market is served with Diet Coke, which has a primary target market of females aged over 25 years and a secondary target market of anyone wanting a low-calorie drink. Deep Spring Natural Mineral Water was introduced for the 29- to 49-year-old unisex (male and female) markets who want a healthier, tasty drink which is neither a soft drink nor water. Fanta and Sprite have as their primary target markets 12- to 16-year-old teenagers who are seeking fun with friends. Appletiser is aimed at 25- to 39-year-old females who want a sparkling apple juice, whereas Powerade and Pump have as their core market 14- to 29-year-old males who are active in sports and who want to compete at their best.


## CASE STUDY

### New product launch — Coke Zero

Coca-Cola Zero — which has the taste of Coca-Cola with zero calories because it uses artificial sweeteners instead of sugar — has been one of the most successful TCCC product launch since 2005–6. The drink was originally targeted primarily to health-conscious, 18- to 39-year-old males. The advertising of Coke Zero was modified to its primary target market by referring to it as ‘calorie-free’ instead of ‘diet’. This was because the target market tended to connect the word ‘diet’ with female drinks; ‘calorie-free’ was thought to give the product a more masculine image. For this reason, Coke Zero was sometimes nicknamed ‘Bloke Coke’.


Market research from 2015 onwards, however, showed some confusion about the perceptions of sugar content within Coke Zero. Competitors put similar products to consumers and TCCC made moves to present its consumers with new alternatives. TCCC announced that a new product, Coke No Sugar, would enter the market, with the international rollout commencing in Australia in 2017. Coke No Sugar clearly brands itself as containing ‘no sugar’, whereas some felt Coke Zero indicated zero calories, zero kilojoules or zero sugar, while others were largely unsure. TCCC wanted to make a firm stance on what the product is and was, with the branding of Coke No Sugar firmly aligning with a clear status fitting with their goals of ‘continuing on a journey towards finding a recipe which tastes closer to Coke’. Coke Zero was launched in 2006, which also meant many years of product research had advanced since then and, as such, a product that was better-tasting was now available.

After initial upset from consumers, later statements from TCCC stated that Coke Zero would still be available in Australia but that TCCC thought people would love the taste of Coca-Cola No Sugar so much that, eventually, Coke Zero might be gradually phased out. TCCC adopted the safe strategy that throughout the rollout of their new product, and until the market was secured, consumers will be able to purchase both Coke Zero and Coke No Sugar.

## Coca-Cola's branding

A reason the Coca-Cola brand in particular is so successful is that it has focused on building its brand, instead of its product. Coke is described as something that brings family and friends together, encourages sharing and brings happiness, rather than just a soft drink.

Consider the Coca-Cola brand colours, for instance. They were chosen for an important reason. Studies show that the colour red triggers impulse buys, while the swirling white letters within the logo fill the mind with thoughts of liquid and a sense of movement.

Coca-Cola is one of the most recognisable brands in the world. In fact, around 94 per cent of the world's population can instantly identify Coke's red and white logo, even if the name of the brand isn't present.

## Coca-Cola advertising

Since 'Coca-Cola' was released onto the Australian market in 1937, TCCC has used advertising campaigns as a major selling technique. Originally targeted at older age groups, the target market was modified in the 1950s to concentrate on teenage and young adult consumers. For the past 60 years, teenagers and young adults have grown up believing that this product is a part of their lives: 'The Coke Side of Life'. Coca-Cola has achieved strong brand loyalty due to the huge amount of money TCCC spends on advertising each year. Various types of media are used to advertise the Coca-Cola brand in general, and Coca-Cola drink in particular. For example, newspapers, magazines, the internet, television, radio, posters and billboards are all used.

Even though nearly everyone knows what Coca-Cola is, the company still spends billions of dollars on this form of promotion.

While many wouldn't see the point in dedicating such a large part of their budget to this form of promotion, advertising constantly keeps the product in the public's mind and reminds people that they need a nice cold carbonated drink. The effectiveness of their advertising campaigns is that they train consumer's brains to associate the brand with a good feeling (such as happiness, relaxation and friends) rather than a soft drink. Coca-Cola has appealed to many different cultures and ages as a result of their advertising. This is due to the fact that no matter what the people in the advertisement are doing, the commercial portrays them enjoying themselves.

## Coca-Cola's packaging

Which soft drink do you think of when you see this advertisement?


Sometimes, the shape of the packaging can become part of the product itself. One of the most easily recognised shapes in the soft-drink market is the distinctive 'pinched in at the waist' Coke bottle. In 1977, Coca-Cola argued that the 'distinctively shaped contour' had become so well known that it was granted trademark protection by the United States Patent Office.

If you think of Coca-Cola when looking at the silhouette of the bottle shown in the figure, this advertising campaign was successful. The image was indeed part of a campaign run by the company. Besides the shape of the silhouette, nothing suggests this is an advertisement for Coca-Cola. No colours or logos are used. Yet your mind instantly thinks of Coca-Cola's product. This advertisement is only successful because of previous marketing campaigns run by the company. The company's creative marketing strategies have been a key reason Coca-Cola has dominated the soft-drink market for over 100 years.

## Coca-Cola sponsorships

TCCC has a long history of sponsoring major events, organisations and projects around the world. Among their most well-known sponsorships are American Idol, Apple iTunes, NASCAR, NBA, Rugby Australia, and the Olympic Games. They seek to be aligned with the things that people care about. Since many of their consumers are passionate about sports, these sponsorships give Coca-Cola a unique opportunity to refresh their brand and celebrate with sports fans around the world.

The Coca-Cola Company sponsored the 1928 Olympic Games in Amsterdam, and has supported every Olympic Games since. Coca-Cola supplies Olympic athletes, officials and spectators with its beverages during the Olympic Games.


## Personal selling at Coca-Cola

Coca-Cola employs many salespeople to represent the company in order to communicate, sell, service and build relationships with customers such as small food outlets and stores. In 2019, TCCC spent millions of dollars hiring sales representatives to rebuild relationships with customers. The company expanded its team of sales reps to visit stores weekly as opposed to monthly, encourage them to buy more stock and advise customers on how to boost consumption of their products. Immediately after this strategy was implemented, sales rose 2 per cent after falling 11 per cent the previous year. The company believes that once the rollout of this strategy is complete, sales will increase further due to the face-to-face relationships where sales reps can really understand customer's needs, take their orders and make sure their fridges are arranged appropriately to optimise sales.

## Coca-Cola product placement

Since Coca-Cola is such a part of everyday life, it's no wonder that the brand has found its way into many film scripts and onto sets. The beverage has often been a subtle part of many different films through the years, from silent films to foreign movies, and from classics to big-budget blockbusters. Sometimes it's a Coca-Cola sign or vending machine and sometimes characters are talking about or drinking the product.

TCCC is selling its products in more than two hundred countries and is a market leader in most of these markets. From the point of view of profitability, Coca-Cola generated US$31.86 billion from operations in 2018. These figures were achieved partially because of their effective marketing strategies.

### COMFACT

In its first year, about 10 servings of 'Coke' were sold per day. Today, approximately one billion servings are consumed worldwide every day. This equates to about 11 500 serves every second of every day.

## Product differentiation

- Product features; e.g. bottle shape
- Advertising to reinforce image
- Recognised brand name, symbol, logo and colour

## Product pricing

- Reduce prices for specific promotional activities and supermarket sales
- Premium pricing for niche products
- Bulk pack pricing

## Product niche focus

- Targeted promotion strategies; e.g. SMS messaging to 18–30-year-old generation
- 'Mother' energy drink for 18- to 20-year-old males

## Resources

**Digital document** Worksheet 7.7 Strategies for product selling and promotion (doc-32724)

**Weblinks** The Coca-Cola Company

Intellectual Property Australia

### 7.6 Activity: Research and communication

1. Use **The Coca-Cola Company** weblink in the Resources tab to view a number of Coca-Cola advertisements. What is the message The Coca-Cola Company has adopted in its advertisements?
2. A business can have a product's name or symbol registered as its trademark. The 'Dynamic Ribbon' device and the Contour Bottle are trademarks of The Coca-Cola Company.
   (a) What is meant by the term 'trademark'?
   (b) What icon is used to show that the name or symbol is a registered trademark?
   (c) Why would a business want to protect its trademark?

### 7.6 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Outline Coca-Cola's current target market.
2. Select three selling techniques used by The Coca-Cola Company and explain how each one helps the company increase its sales.
3. 'The successful formula for "Coke" is not the ingredients of the drink but its superior selling techniques.' Do you agree or disagree with this statement? Give reasons for your answer.
4. 'Any business that neglects to develop effective selling techniques will almost certainly experience low levels of sales and reduced profit levels.' Why is this so?
5. What are the advantages to The Coca-Cola Company in diversifying and selling water and alcoholic beverages?

**Fully worked solutions and sample responses are available in your digital formats.**

# 7.7 The effectiveness of selling techniques used for a particular product or service

## 7.7.1 Monitoring and evaluating selling techniques

It is very important for a business to constantly monitor the effectiveness of its selling techniques. Any downturn in sales can be very costly to a firm's profit. Any increase in sales should also be quickly analysed so that the reasons for it occurring are understood.

The usual ways to evaluate a selling strategy is to closely monitor sales and to compare results to past performance, and to compare the products and results of any competitors.

### CASE STUDY

#### An interview with Alegria Bartock, Omni Electronics Pty Ltd

**Interviewer:** *What does Omni Electronics produce?*
**Alegria:** Omni manufactures a range of home theatre systems including digital receivers and integrated digital televisions.
**Interviewer:** *Alegria, what is your role in the business?*
**Alegria:** I am the Sales Manager.

**Interviewer:** *What selling techniques has your company used in the past?*

**Alegria:** Our products are aimed at the male, high-income, 45- to 55-years age group target market. Consequently, our products were sold through exclusive hi-fi stores. We relied heavily on personal selling and below-the-line promotions. Our sales representatives concentrated on specific stores within their territories. Very little direct advertising was done, apart from some trade journal media releases and pamphlets distributed at trade fairs.

Print advertising was through magazines and catalogues.


**Interviewer:** *Why did you recently introduce a new selling technique?*

**Alegria:** Because the company decided to target a new market. We wanted to start selling to the male and female, middle income, 20–30 years age group target market.

**Interviewer:** *What new selling techniques did you introduce?*

**Alegria:** We decided to use a print and social media advertising campaign. Full page, colour spreads were placed in electronics, video, hi-fi and suitable lifestyle magazines. These advertisements were supplemented with an update of our website.

**Interviewer:** *How have you been involved with the new selling techniques?*

**Alegria:** As the sales manager, one of my main tasks is to monitor and evaluate the effectiveness of the new selling techniques. Monitoring means that I have to check and observe the actual progress of the new selling techniques. This requires gathering sales figures data. Just as a hospital patient is regularly monitored by medical staff for any signs of change, so, too, must the selling techniques be monitored.

**Interviewer:** *What do you do with the data you collect?*

**Alegria:** The data collected during the monitoring stage is used to evaluate the selling techniques. Evaluating involves comparing what we forecast to happen against what actually happened. Remember, the aim of selling and promoting is to increase sales and maximise profit. By evaluating the new selling techniques, I can determine whether our actual sales are above or below what we forecast. If the sales are above what we forecast then the new selling techniques have been a success. If the figures are below, we need to take some type of corrective action.

**Interviewer:** *Were the new selling techniques a success?*

**Alegria:** Here are the sales figures for April, May and June — the second quarter of the year. If you look at the bottom line, you can see that the total sales revenue increased by $22 000 or 7.1 per cent above our forecast. This is a pleasing result.

I am concerned about the result in sales territory 3. I will need to investigate that later. However, all the other territories performed above expectations. This tells me that the new selling techniques are a success. We will obviously continue with them.

Sales for Omni Electronics — 2nd quarter

| Sales territory | Forecast sales $ | Actual sales $ | Difference $ | % change (– decrease + increase) |
|---|---|---|---|---|
| 1 | 50 000 | 58 000 | 8 000 | +16.0 |
| 2 | 80 000 | 85 000 | 5 000 | +6.3 |
| 3 | 70 000 | 67 000 | –3 000 | –4.3 |
| 4 | 65 000 | 72 000 | 7 000 | +10.8 |
| 5 | 45 000 | 50 000 | 5 000 | +11.1 |
| **Total sales revenue** | **310 000** | **332 000** | **22 000** | **+7.1** |

**Interviewer:** *How do you evaluate the effectiveness of the selling techniques on your customers?*
**Alegria:** This is more difficult but it is important that it be done. Essentially, we rely on two methods. First, we make regular contact with our customers and talk to them. This feedback provides me with lots of ideas. It also lets us know if the customers are satisfied with our products.

In addition, written surveys are sent twice a year to a representative sample of our customers. The survey asks for feedback about satisfaction with product features, performance, quality and the level of after-sales service. We outsource the survey to a marketing company.

Regular customer contact is made to assess the level of consumer satisfaction.

**Interviewer:** *Why don't you just use the sales figures as an indication of customer satisfaction?*
**Alegria:** If your products, customer service and selling techniques are all functioning well, sales will increase. However, it is possible that we are not achieving maximum level of sales because of some consumer dissatisfaction. We can only evaluate this by talking to our customers.

## 7.7 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What data did Omni Electronics need to collect to monitor and evaluate the new selling techniques?
2. How can a business evaluate the effect of its selling techniques on its customers?
3. Why is it important to survey customers?
4. Explain the difference between monitoring and evaluating.
5. Look at the Omni Electronics sales data shown in the preceding table and then complete the tasks.
   (a) Which sales territory had the:
      i. highest actual sales
      ii. lowest actual sales?
   (b) What does the 'Difference' column measure? What is the importance of this column?
   (c) Which sales territory had the:
      i. largest percentage change
      ii. smallest percentage change?
   (d) What is the importance of having a '% change' column?
   (e) Convert these data into two column graphs measuring 'Forecast sales' and 'Actual sales'. Carefully label the graphs and provide a key.
6. A business has a sales potential of $90 000 but achieves actual sales of only $25 000. What does this signify? What should the business do next?
7. 'Any business that fails to monitor its sales will not be able to evaluate the effectiveness of its selling techniques.' Discuss.
8. You have just been appointed sales manager for Oz-T-Shirts Pty Ltd. One of your first tasks is to evaluate the sales performance as shown in the following table.

Sales for Oz-T-Shirts — 2nd quarter

| Sales territory | Forecast sales $ | Actual sales $ | Difference $ | % change (– decrease + increase) |
| --- | --- | --- | --- | --- |
| 1 | 39 000 | 45 000 | | |
| 2 | 64 000 | 68 000 | | |
| 3 | 42 000 | 46 000 | | |
| 4 | 47 000 | 43 000 | | |
| 5 | 54 000 | 62 000 | | |
| Total sales revenue | | | | |

(a) Complete the table.
(b) Analyse the forecast and actual sales. What do these figures indicate?
(c) Would you recommend continuing with the selling techniques? Why?
(d) Using a program such as Excel, prepare a series of graphs that show the forecast sales and the actual sales of Oz-T-shirts over the stated period.

**Fully worked solutions and sample responses are available in your digital formats.**

# 7.8 Factors influencing contemporary selling techniques

A variety of factors influence contemporary selling techniques. Some of these factors include technology, social media, global markets and government regulation.

## 7.8.1 Technology

Many technological advances have played a role in changing the marketing industry over the past few years. Since the technology people use in their daily lives has changed, businesses need to stay on top of these advances so they can reach people on the devices they spend the most time on. Technological advances can affect the marketing plan in several ways, with the following areas having had the biggest influence on contemporary selling techniques:

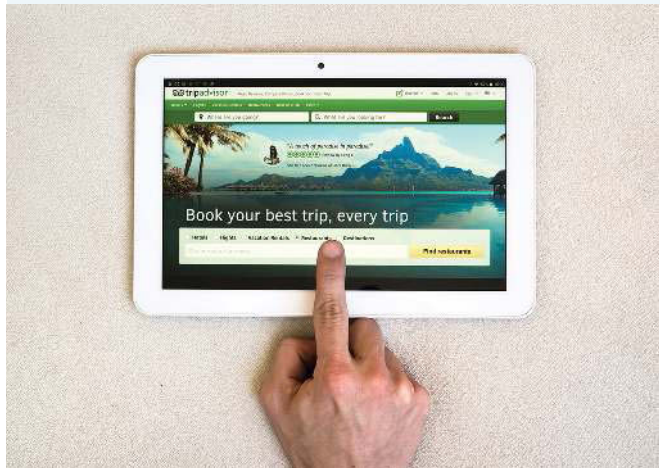
- *Artificial intelligence (AI):* a wave of new technologies has led to more ways than ever before for businesses to collect data about existing and potential customers. This data is very useful for marketers. For instance, AI allows marketers to gather lots of information about consumers, such as their habits, likes and dislikes. This helps the business better predict consumer wants, needs and interests. This knowledge can then be used by marketers to better target ads and personalise marketing strategies more effectively to consumers. In addition, data analytics technology allows businesses to gather information about their marketing campaigns so they can easily determine what

Netflix uses AI to help consumers stay engaged with their platform and continue their subscription.

worked well and what didn't, and adapt their marketing plans accordingly. For example, AI monitoring tools allow businesses to keep tabs on how their brand is perceived on social media. An example of this is Netflix, which continually adapts to users' likes and dislikes and uses the watching history of others with similar tastes to recommend what consumers may be most interested in watching next.

- *Webpages:* when anyone mentions the name of a business today, the immediate response of most people is to 'check out the website'. The fact that we can do this instantly on our mobile phones makes a customer-friendly website a necessity for just about every business. If you can't examine a website before you visit a business, you will probably instead visit an alternative that has a user-friendly online presence. Due to advancements in e-commerce, businesses no longer have to invest in bricks and mortar stores in order to sell their products. They can sell everything from a well-designed website. Websites have also meant that businesses now have access to global markets and can promote and sell their products to consumers around the world. Another important aspect is review websites, which is one of the most common ways consumers research products. Having positive reviews is a very good way of enticing potential customers.

Review websites, such as Trip Advisor, can provide evidence that may influence potential customers.




- *Digital advertising:* a variety of digital channels allow businesses to reach consumers in creative ways while also allowing customers to interact and engage with the business. Examples of digital media include online advertising (for example, retargeting, banner ads, keywords), online streaming, social media advertising, mobile app advertising and email marketing. Digital advertising allows businesses to reach a larger target audience because it has the potential to reach customers all over the world. It also allows businesses to track and analyse their customers and then personalise messages to suit their preferences.
- *Mobile phone and SMS marketing:* mobile marketing is marketing on or with a mobile device. SMS has distinct advantages over email in that messages are delivered automatically to one or more recipients without the need for them to log on. Text messages can also be used to alert regular customers of any special deals on offer.
- *Location-based marketing:* the ability for mobile devices to track and report a person's location has enabled businesses to tailor marketing messages based on a person's location. This technology allows businesses to adapt and deliver targeted marketing messages and relevant offers to customers based on where they are located and through tapping into daily habits.
- *Push notifications:* these are automated messages sent by an app to a user even when the app is not open. Developing the app can be quite expensive but in the long run they are cheaper than using SMS.

Many businesses are increasingly using location-based marketing.

## 7.8.2 Social media


Social media advertising (SMA) is expected to expand rapidly over the next few years as new, highly interactive mobile platforms and networks gain consumer acceptance.

Over the past few years, businesses have been increasingly using social media to advertise their products. **Social media advertising** (SMA) is a form of online advertising using social media platforms such as Facebook, YouTube and Twitter to deliver targeted commercial messages to potential customers. Businesses are becoming increasingly aware that SMA can have positive results, especially when used in combination with traditional advertising methods. SMA is inexpensive in comparison to traditional advertising methods and is easy to use and monitor. It’s a very effective marketing method that helps businesses gain exposure, engage with their customers and find out what people are saying about their business. It also allows businesses to accurately measure the reach (the number of people exposed to the message) and frequency (the average number of times someone is exposed) of SMA.

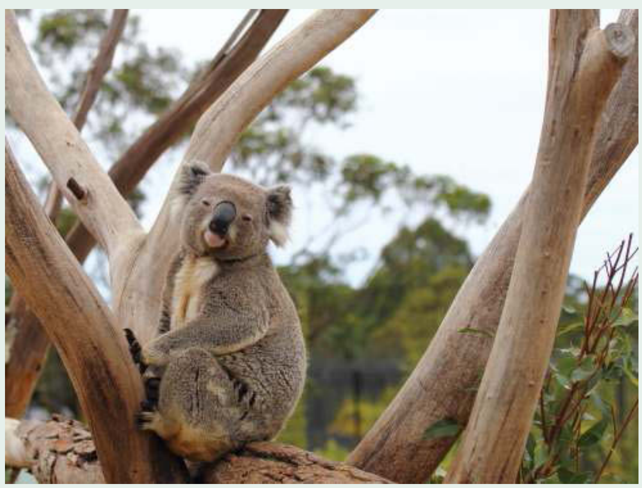
One of the attractions of SMA is that it offers an instant connection to customers. Customer service issues can be resolved faster through social media chats, customers become aware of sales and promotions faster through social media feeds, and ads can target users based on very specific needs and interests, helping them find solutions faster than before.

The main disadvantage of SMA is that marketers do not have complete control over what online consumers write about the business. This is because users have the freedom to discuss, review, criticise and even ridicule a product or a specific business.

Of course, as with traditional advertising, SMA raises concerns including issues of privacy, accuracy, honesty and consumer trust. A number of legal issues are presently evolving, such as establishing age limits for users — Facebook and YouTube specifically prohibit use by children under the age of 13.

### CASE STUDY

### The role of social media advertising in product promotion



Symbio Wildlife Park is a family owned and run zoo that has enjoyed incredible success using digital marketing. Located on the southern outskirts of Sydney in the suburb of Helensburgh, the park has used clever social media marketing campaigns to generate a huge following.

Symbio Wildlife Park took advantage of their adorable, cuddly animals by appealing to their followers’ human side in order to generate interest in their business. The zoo produced a successful ‘Meet our family’ campaign that included about 20 videos and three series introducing some of their furry residents. These posts quickly went viral, and have been seen around the world by more than 100 million browsers; total worldwide views are thought to be in the billions.

This promotional strategy, which didn’t cost the business a lot to create and implement, has been very effective. For instance, in the 12 months following the campaign being launched, the business saw a 30 per cent increase in visitation.

In 2016, Symbio Wildlife Park won the National Content Marketing Award for its ‘Meet our family’ campaign at the Australian Marketing Institute Awards. The campaign was recognised for standing out from other business’s campaigns, and showing what really makes the wildlife park different using effective content on social media. The campaign was described as providing the most organic publicity by a tourism entity in Australia and achieving globally significant engagement.

Symbio Wildlife Park's footage of koala joey Willow's nose becoming a butterfly magnet attracted 10 million views, 305 000 shares and 9 800 comments on Symbio Wildlife Park's Facebook page. The video resulted in the park winning the G'Day USA social media post of the year in 2017, and has proven more effective than a bare-chested Chris Hemsworth in selling Australia to the rest of world on social media. The park's social media posts were judged by Tourism Australia and Qantas to be the best promotion for the country in that year.

## 7.8.3 Global markets

As mentioned in section 7.8.1, the use of company websites has meant that businesses now have access to global markets. If businesses decide to sell their products to a global market, they must usually ensure they adapt their marketing plan to suit overseas markets. This is because the tastes and preferences of each foreign market will likely differ from the domestic market.

As global marketing increases, businesses are faced with a difficulty: should they use a standardised or customised marketing strategy, or a combination? A **standardised approach** is a global marketing strategy that assumes the way the product is used and the needs it satisfies are the same the world over. Therefore, the marketing strategies the business uses will be the same in all markets. It is a case of 'one marketing plan fits all'.

Alternatively, some businesses believe the marketing strategies should be modified to take into account the differences among countries' cultures, religion and tastes — a **customised approach**. A customised approach is a global marketing strategy that assumes the way the product is used and the needs it satisfies are different between countries.

Of course, it is possible for a business to adopt a middle path — that is, a combination of the two approaches. Irrespective of which approach is adopted, all businesses marketing on a global scale need to rely on market research to understand the complexities of the global marketing environment before they can design their marketing strategies. It is essential to analyse overseas markets to an even greater depth than is necessary for domestic markets. Many businesses have failed because they entered global markets without first gathering adequate market intelligence.

One company that successfully adopts a combination of the standardised and customised approach is McDonald's. Although it has standardised its name, logo, production methods and much of its menu, it also allows local variations. McDonald's has the McArabia in the Middle East (a flatbread sandwich), macaroons in France, the McSpaghetti in the Philippines, a green chilli cheeseburger in Mexico and bulgogi burgers in South Korea.


McDonald's successfully adopts a combination of the standardised and customised global marketing approach.

## 7.8.4 Government regulation

As mentioned in section 7.5.1, a variety of laws regulate promotion and selling. The main law in Australia is the *Competition and Consumer Act 2010* (Cwlth). This law is enforced by the Australian Competition and Consumer Commission (ACCC).

A breach of any of the consumer protection provisions of the Act can result in the ACCC — or the relevant state agency — taking civil or criminal proceedings against the business or individual concerned. The maximum penalty for companies who breach the Act is the greater of the following: $10 000 000, three times the value of the benefit received, or 10 per cent of turnover in the preceding 12 months. For individuals who breach the Act, the law allows courts to impose penalties of up to $500 000. In addition, consumers can sue the business for compensation.

The ACCC also has the power to issue an on-the-spot infringement notice (fine) to anyone who has breached a provision of the Act. The ACCC can fine a company up to $12 600 (or $126 000 for a listed corporation) and an individual up to $2520 for each infringement of the Act without undertaking court action.

The ACCC can issue 'public warning notices' to warn consumers of suspected illegal activity. (Previously, the ACCC had to gather evidence and then seek a temporary court injunction (ban), while the suspected illegal activity continued.) Businesses must, therefore, ensure that they are up to date with the current laws and that they apply them to all marketing practices.


In 2017, the makers of Nurofen were fined $6 million for misleading consumers.

## CASE STUDY

### Get qualified Australia found to be misleading, deceptive and unconscionable

In 2017, the Federal Court ordered Get Qualified Australia Pty Ltd to pay an $8 million penalty, and its sole director, Mr Adam Wadi, to pay a penalty of $500 000, for multiple breaches of the Australian Consumer Law. The Court found the education company, which left thousands of students without the qualifications they paid for, had engaged in misleading and deceptive conduct, unfair contract terms and unconscionable conduct.

Get Qualified Australia's false or misleading representations and misleading or deceptive conduct occurred through a range of practices, including:

- assuring consumers they were eligible for qualifications when, in fact, the company could not directly offer qualifications and its employees were not qualified to assess eligibility
- telling consumers that they would be entitled to a '100 per cent money back guarantee' if they were unsuccessful in obtaining the qualification despite Get Qualified almost always declining students' requests for refunds.

Get Qualified Australia engaged in a system of unconscionable conduct that comprised a number of elements, including:

- false or misleading representations
- obtaining contact details of potential customers through a 'Free Skills Review' function on its website, which produced an automated response irrespective of the information submitted by a consumer
- using unfair sales tactics to pressure consumers into enrolling.

The Federal Court also made declarations that Get Qualified Australia imposed an unfair contract term and entered into unsolicited consumer agreements by making uninvited sales phone calls to people, failing to disclose the full terms of the agreement and requiring payment within ten business days.

ACCC Commissioner Sarah Court said, 'Get Qualified Australia and Mr Wadi took advantage of vulnerable people trying to advance their career. Some examples of the illegal conduct included enrolling people into courses through misleading marketing and unfair sales tactics, not providing the service customers paid for, and refusing customers refunds despite GQA's 100 per cent money-back guarantee promise'.

The ACCC said that the size of the penalties was in keeping with the nature of the conduct.

**on** Resources

**Digital document** Worksheet 7.8 Live on the internet (doc-32725)

### 7.8 Activity: Research and communicate

1. Go to the website of the ACCC. Research the difference between the following terms.
   (a) Grown in
   (b) Produced in
   (c) Made in
   (d) Packed in

### 7.8 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Select one new technological advancement that has had an impact on marketing and explain how it has influenced contemporary promotional and selling techniques.
2. Outline the advantages and disadvantages of social media advertising.
3. Distinguish between a standardised and customised approach to global marketing.
4. Outline the role of the ACCC.
5. Summarise the penalties that can be applied for breaches of the Competition and Consumer Act.
6. Read the case study about Get Qualified Australia and answer the following questions.
   (a) Outline the penalties imposed on Get Qualified Australia.
   (b) Explain why the Federal Court found the company had engaged in misleading and deceptive conduct, unfair contract terms and unconscionable conduct.
7. Explain why it is important for a business owner to comply with government regulations.
8. Read the case study about Symbio Wildlife Park and explain the impact social media advertising had on this business.

**Fully worked solutions and sample responses are available in your digital formats.**

# 7.9 SkillBuilder: Questioning and research

## 7.9.1 Tell me

The following steps provide a useful guide to the process of carrying out research:

- Identify and understand the general task you are attempting to complete.
- Develop a series of specific questions that will help guide your research in the appropriate direction, and help you determine the information you need.
- Locate appropriate sources of that information.
- Record relevant information from a range of sources.
- Present the information in an appropriate form.

## 7.9.2 Show me

Imagine you have been asked to investigate the role of the ACCC's website in providing advice for consumers and businesses.

Your first step is to clearly identify the key task. This could be expressed as follows:

*Prepare a report on the type of advice the ACCC website provides for consumers and businesses, with examples.*

It is now necessary to break this down into a series of more specific questions. These could include:

1. How is the website organised to provide advice?
2. What types of headings or categories of information are used?
3. How is the material broken down (such as types of industries and types of products)?
4. If a consumer has a specific problem with a particular product or supplier, what does the website advise them to do?
5. What sort of advice is provided to businesses?
6. What are some relevant examples?

The next step is to locate your sources. The ACCC has its own website, so you simply need to use a search engine to find the website.

Keep your questions beside you as you navigate through the site, and note the location of material that provides answers. You can select and print some text, and then highlight those sentences or paragraphs that provide answers to your questions. Sometimes a complete answer to a question may be found in several places in a piece of text. Be sure to highlight all relevant text, and indicate with a number which question the information answers.

When you are satisfied you have found the answers to all the questions, you need to write the answers in order, making sure you use your own words as much as possible. You can then use the answers to present your information in the required form. For example, this may be an oral report to the rest of the class, an essay to be marked by your teacher, a PowerPoint presentation, or any other format that is appropriate.

### 7.9.3 Let me do it

Complete the following activity to practise this skill.

**7.9 Activity**

Using the process outlined here as a model, carry out the following research task:

*Prepare a report on the type of advice the ACCC gives to consumers in relation to internet and phone usage, including examples.*

**on Resources**

**Weblink** NSW Fair Trading

## 7.10 Thinking Big research project: Hitting the target — multimedia advertising campaign

### 7.10.1 Scenario

Advertising is designed to influence consumer decisions and, as with many things, it has undergone changes as society and technology have changed — moving from posters, billboards and newspapers to radio, television and now social media. You will create and adapt a product advertisement for use across different media types, aiming to hit the target market of each medium.

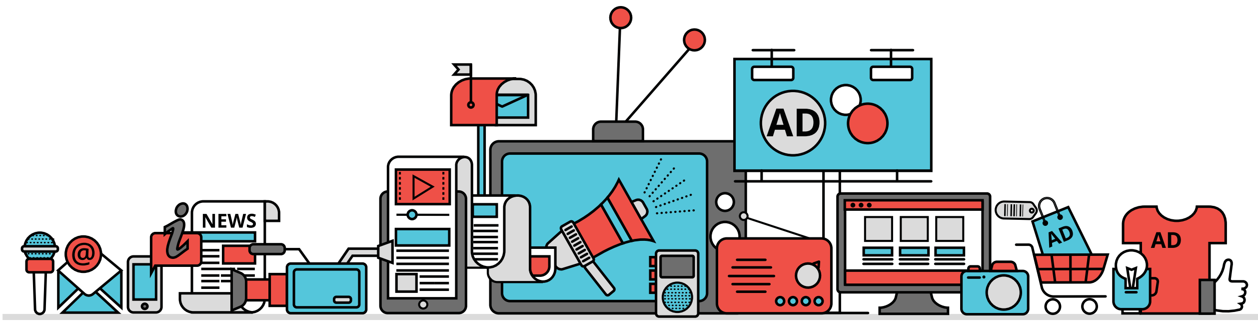
## 7.10.2 Task

Your task contains various parts, all relating to advertising one product across different media. You should complete the following:

1. Collect a newspaper advertisement for a product you are familiar with.
2. Analyse the advertisement, identifying the target market and market segments the advertisement is directed at.
3. Write a script for a radio advertisement for the same product. (Radio advertisements are generally between 15 and 30 seconds long.) Write an outline of the target market and market segments this advertisement may be directed towards.
4. Record the script in an audio format.
5. Write a script for a television commercial for the product and an outline of the target market and market segments this advertisement may be directed towards. (Television advertisements are traditionally 30 seconds long.) *Note:* the television ad must be different from the radio ad.
6. Write a script for a social media advertisement for the product (to appear on Facebook, Instagram or an online game site such as Candy Crush) and an outline of the target market and market segments it may be directed towards. Social media advertisements can be as short as 5 seconds and up to as long as 30 seconds. *Note:* the social media ad must be different from the other ads created.


## 7.10.3 Process

- Open the ProjectsPLUS application in the Resources tab for this topic. Select the **Start new project** tab to enter the project due date and set up your project group. Working in groups of three or four will allow you to swap ideas and share responsibility for the project. Save your settings and the project will be launched.
- Select an advertisement for a product, and check with your teacher for approval to work with this product.
- Navigate to the **Research forum**, where you will find starter topics loaded to help structure your work. You can add further topics to the Research forum if you wish. In the **Media centre** you will find an assessment rubric and some weblinks that will provide some inspiration for your task.
- Develop your scripts and target market outlines for each advertising form, as detailed in section 7.10.2.
- If you have the equipment and appropriate permissions, you can film the television and social media advertisements to present to the class.
- Prepare a summary of how your advertisements differ depending on the type of media you are using.
- Submit your completed scripts, target market outlines and summary of advertising differences to your teacher for assessment.




**on** Resources

**ProjectsPLUS** Hitting the target — multimedia advertising campaign (pro-0224)

# 7.11 Review

## 7.11.1 Summary

Having explored this topic, you can now:

- explain what product differentiation is and why it is important in the selling process
- list and describe the factors that differentiate products
- explain the social, ethical and environmental considerations involved when promoting products
- explain how product promotion attracts new customers, increases brand loyalty and encourages new and existing customers to purchase more products
- describe the different promotional strategies
- explain the role gender plays within promotional strategies
- describe market segmentation and the processes used to target consumers
- explain how promotion strategies target young people and particular groups in the community
- understand the legal and ethical issues that may arise from product promotion, as outlined in the Competition and Consumer Act
- explain how the application of certain selling techniques have enabled The Coca-Cola Company to be successful
- describe how technology, social media, global markets and government regulations influence contemporary selling techniques.

## 7.11.2 Key terms glossary

**advertising** a paid, non-personal message communicated through a mass medium
**corporate social responsibility** when businesses consider the interests of stakeholders, society and the environment when making economic and business decisions
**customised approach** when a business modifies their marketing strategies to take into account the differences among countries' cultures, religion and tastes
**ethics** standards that define what is acceptable and unacceptable behaviour; it is concerned with what is morally right or wrong
**market segmentation** when the total market is subdivided into groups of people who share one or more common characteristics
**opinion leader** a person who influences others
**personal selling** involves the activities of a sales representative directed to a customer in an attempt to make a sale

**primary target market** the market segment at which most of the marketing resources are directed
**product differentiation** when products that are the same or similar are made to appear different and/or better than those of their competitors
**product placement** the inclusion of advertising in entertainment
**promotion** methods used by a business to inform, persuade and remind customers about its products
**promotion mix** the various promotion strategies a business uses in its promotional campaign
**publicity** any free news story about a business
**public relations** activities aimed at creating and maintaining favourable relations between a business and its customers
**relationship marketing** the development of long-term relationships with individual customers
**sales promotion** the use of activities or materials as direct inducements to customers
**secondary target market** a smaller and less important market segment
**social media advertising** a form of online advertising using social media platforms such as Facebook, YouTube and Twitter to deliver targeted commercial messages to potential customers
**standardised approach** when a business uses the same marketing strategies in all markets
**target market** the group of customers to whom a business intends to sell its product

## on Resources

**Digital documents** Key terms glossary (doc-32670)
Match up (doc-32757)
Crossword (doc-32790)
Wordsearch (doc-32801)

**Interactivities** Crossword (int-7887)
Wordsearch (int-7904)

## 7.11 Exercises

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

### 7.11 Exercise 1: Glossary quiz online only

### 7.11 Exercise 2: Multiple choice quiz

1. What marketing strategy is designed to reinforce clear distinctions between different products and/or services?
   A. Promotional mix
   B. Product differentiation
   C. Market segmentation
   D. Sugging
2. Which of the following terms describes a person's desire to constantly acquire possessions?
   A. Brand
   B. Materialism
   C. Evaluating
   D. Premium
3. What marketing process has gathering sales figures as the first step?
   A. Segmenting the market
   B. Establishing marketing objectives
   C. Identifying target markets
   D. Monitoring and evaluating selling techniques
4. Which of the following best describes a target market?
   A. The group of customers to whom the business intends to sell its product
   B. When the total market is subdivided into smaller groups
   C. The demographic group that usually buys the product
   D. The international group that markets the product

5. Petro is a sales representative for a pharmaceutical company. He visits doctors outlining the benefits of the company's products. What is Petro engaging in?
   A. Market research
   B. Product placement
   C. Advertising
   D. Personal selling
6. If companies make false claims when promoting their products, which federal law could they be breaking?
   A. Sale of Goods Act
   B. Competition and Consumer Act
   C. Misleading Advertising Act
   D. Promotions Act
7. Which of the following is *not* an aim of sales promotion?
   A. Entice new customers
   B. Decrease sales
   C. Encourage trial purchases of new products
   D. Increase sales to existing customers
8. Which of the following describes a very small segment of the total market that a business might target?
   A. Mass market
   B. Concentrated market
   C. Differentiated market
   D. Niche market
9. Which of the following statements is false?
   A. Few businesses can sell their product to the entire market.
   B. Publicity is any free news story about a business's products.
   C. Some advertising uses stereotypical images of male and female roles.
   D. Promotion and advertising are essentially the same.
10. Which of the following best describes product placement?
   A. The methods used by a business to inform customers about its products
   B. Checking and observing the progress of the marketing plan
   C. The inclusion of advertising in films and television programs
   D. Obtaining the best quality, features and performance for a given price of a product

## 7.11 Exercise 3: Knowledge and understanding

1. Explain why it is important for a business to identify and select a target market.
2. Compare the different elements of the promotion mix.
3. Recommend which form(s) of promotion you would use for each of the following. Justify your choices.
   (a) A beauty salon
   (b) A new educational app for children
   (c) A cream for wrinkles
   (d) Nike sport shoes
4. Explain how the following promotional strategies may mislead consumers.
   (a) 'Before' and 'after' advertisements
   (b) Packaging
   (c) Special offers
5. Discuss the ethical issues involved in the following.
   (a) Advertising to young children
   (b) Product placement
6. Explain why the collection of consumer data by tracking web users could be considered unethical.
7. Select a business you are familiar with.
   (a) Outline three selling techniques the business uses to market their products.
   (b) Evaluate the effectiveness of these selling techniques
8. Create a mind map of the factors influencing contemporary selling techniques.
9. Explain three ways in which businesses can differentiate their products.
10. Examine at least one social, ethical and environmental consideration involved when promoting products.

### 7.11 Exercise 4: Challenge your understanding

1. Compare the mass marketing approach with the segmented marketing approach and with the niche marketing approach. Include the advantages and disadvantages of each in your comparison.
2. Explain how market segmentation and target market are linked.
3. Assess why having a mix of promotional strategies is important in the marketing of goods and services.
4. Evaluate the effectiveness of the different types of advertising media businesses can use.
5. Discuss the advantages and disadvantages for both consumers and businesses of using loyalty reward programs.

**Fully worked solutions and sample responses are available in your digital formats.**

**on** Resources

| | |
|---|---|
| **Digital documents** | Worksheet 7.9 Wrap up! (doc-32726) |
| | Glossary quiz (doc-32768) |
| | Multiple choice quiz (doc-32779) |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0864) |

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OPTION

# 8 Running a business

## 8.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS at www.jacplus.com.au.

### 8.1.1 Introduction

A new business starts with an idea, and usually a very excited business person such as Zahara Jones, who strives to turn their dream into reality. Like many small business owners, Zahara had a will to succeed and has embraced the challenges of business ownership.

Owning and operating your own business can be challenging, rewarding and stimulating, as well as hard work. It requires a great deal of planning, an understanding of customers and their needs, and constantly staying ahead of your competition. For those prepared to take the risk and who finally make it, the sense of achievement and satisfaction is well worth the effort.

**CONTENT FOCUS**

On completion of this topic, you will have:

- investigated how entrepreneurial attributes and dispositions contribute to business success
- examined the considerations involved when planning and running a business
- investigated key issues and processes related to the various aspects of running a business.

**on** Resources

| | |
|---|---|
| **Digital documents** | Key terms glossary (doc-32671) |
| | Worksheet 8.1 Start up! (doc-32727) |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0865) |
| **Video eLesson** | Running a business (eles-3513) |

# 8.2 Being an entrepreneur

Most of us have seen something advertised and thought, 'that is just what I need'. Someone had the original idea for this product or service and went on to start, operate and assume the risk of a business venture — that someone is an **entrepreneur**. The motivating force behind them doing this is the hope of making a profit.

The desire to be your own boss is a major reason for people starting their own business. Some people want the freedom to choose when and where they work, with whom they work and whether to work from home. The great attraction is the belief that they will have more control over their life. Of course, they are usually also motivated by the financial rewards they believe can be gained from establishing a business.

The simplest but most significant question a prospective business owner must ask is: 'Why do I want to go into business?' The business owner's personality, skills and ambitions need to be analysed because the future success of the business rests largely with the owner. For this reason, people should carefully consider the advantages and disadvantages of being self-employed.

Advantages and disadvantages of being self-employed

| Advantages | Disadvantages |
|---|---|
| • Be your own boss — independence | • Hard work and long hours |
| • Possibility of making a profit | • Other 'bosses' — customers, suppliers, financiers |
| • Challenge, reward and satisfaction | • Income may fluctuate and be uncertain |
| • Increase personal wealth | • Risk of failure |
| • Contribute to society | • Stress and worry |
| • Develop own creative ideas | • High levels of responsibility |
| • Overcome unemployment | • Constantly solving problems |
| • Achieve a better lifestyle | • Difficulty in selling the business |
| • Employ family members | |
| • Possible tax advantages | |

## 8.2.1 Characteristics of an entrepreneur

Bill Gates, co-founder of Microsoft Corporation, is a classic example of an entrepreneur. While a teenager, he decided to take the risk of establishing his own business and launched Microsoft. Today Microsoft software is used to operate millions of computers worldwide.

However, entrepreneurial qualities are not confined to the world's famous people. At a recent swimming carnival, Yolanda Zurack, a Year 10 student, arranged to take along an Esky filled with cold drinks. During the very hot day, she sold all the drinks and made a reasonable profit. Yolanda Zurack and Bill Gates are both entrepreneurs. They organised their business, undertook the necessary arrangements for it to operate, and were prepared to take a risk. The size of the profits may differ, but they possess identical entrepreneurial qualities: the ability to see and take advantage of an opportunity; the ability to establish a shared vision; initiative, innovation and resilience; and an appreciation of the role of failure in success.

## Seeing and taking advantage of an opportunity

Successful entrepreneurs are able to identify and take advantage of an opportunity. Identifying a **business opportunity** is not just about having an idea. An opportunity is something that a person can see as an avenue to success. It is often identified when a person feels they can provide goods or services in a better or different way from that already in the market, as it was the case with Kath Fry and Eisha Saleh's business Baraka Women.

### CASE STUDY

### Baraka Women

After both Kath Fry and Eisha Saleh experienced the challenge of finding modest yet stylish clothing for women, the 'baraka women' decided to solve the fashion gap themselves. 'Baraka' means 'blessing' in Arabic.

In 2008, the pair established a business designing and manufacturing modest clothes for stylish women. In 2010, Baraka opened the first designer maxi-dress boutique in Sydney, supplying designs for the over-30s female **niche market** that chooses to wear modest clothing.

Kath has since left the business, so Eisha now manages her online Baraka Women store from a home base in Sydney's Chester Hill. She aims to take the Baraka brand global, establishing small studios worldwide that offer a personalised shopping experience to customers. However, for Baraka Women, it's not just about sales. Eisha says, 'We want to empower women through producing beautiful clothes for them to wear and also put money into charitable projects that support women. Five per cent of what Baraka makes goes to charity.' These charity projects promote the advancement of women through donations, upskilling and mentoring.

Eisha Saleh and Kath Fry, pictured in front of Baraka label clothing designs.

Business owners should try to select a business opportunity that suits their personality and builds on their strengths. If you look around, you will see so many opportunities for starting a business. Potential business owners are always searching for opportunities, including ideas for new products, new customers and new ways of running businesses. There are many sources of opportunities for business ideas, including innovation and entrepreneurship, recognising and taking advantage of market opportunities, changing customer needs, research and development, technological development and global markets. Successful business managers and entrepreneurs will be very quick to seize their opportunities.

The source of a business idea may come from a person's own experiences, interests, abilities or imagination. Inspiration for ideas and opportunities can be generated by:

- listening to people, particularly for ideas on goods or services that may not be readily available
- reading magazines and books and researching on the internet
- visiting displays and exhibitions in areas such as new technology or new products from overseas

At five foot eleven and with size eleven feet, Mira Smoljko found it difficult to get shoes her size. After years of frustration, she decided to set up her own niche business, Glamazon Shoes, which specialises in fashionable and affordable shoes for women with big feet. And by big, she means up to size 15, which is a big step up from the size 10 or 11 maximums that most women's shoe stores stock.

- accessing government statistics and research information
- identifying a 'gap in the market' — that is, a demand not currently being satisfied
- determining improvements that could be made to an existing product.

The successful identification of a gap in the market is key to establishing a lucrative business. It means that the new business provides something not already available. Breaking into a market that is already well served means that the new business has to do something exceptional to draw customers away from existing businesses.

### Establishing a shared vision

An important quality for an entrepreneur is the ability to set objectives and have a vision for the business's future. **Vision** refers to the clear, shared sense of direction that allows people to achieve a common goal. A vision involves creating a short statement that will guide the business over the next few years. It should be capable of motivating everyone within the business to achieve a common goal.

Successful entrepreneurs have a clear understanding or hope of what the business will be like in the future. This gives the business a clear direction. Having a shared vision means that everyone in the business works together, as a team, to develop and then accomplish a goal. When this happens, it is much more likely that staff will enthusiastically contribute to making sure the vision is realised.

The most effective way managers can share their vision for the business is through the organisation's goals. Knowing where the business is headed and what it is trying to achieve helps employees understand where the manager wishes to take the business. Without a shared vision a business will have no sense of cooperation and commitment, which makes achieving goals impossible.

When Mike Cannon-Brookes and his university friend, Scott Farquhar, decided to launch Atlassian in 2002, their initial ambition was to earn at least $49 500 a year, which was the average graduate starting salary. Today, those same two guys are worth over $12 billion each, and Atlassian is valued at about $50 billion. Yes, they were both talented, but their vision is what differentiated them from others with similar skills. The pair have done a great deal to build a global company from nothing, to be one of the most successful Australian companies in the last decade.


### Demonstrating initiative, innovation and resilience

A successful entrepreneur demonstrates initiative, innovation and resilience. **Initiative** refers to the ability to be resourceful and decide, in an independent way, what to do and when to do it. When you show initiative, you do things without being told; you find out what you need to know; you spot and take advantage of opportunities; and, you keep going when things get tough. Initiative requires resilience and determination.

Running a business can be very stressful and unpredictable. Successful entrepreneurs, therefore, need to be resilient. **Resilience** refers to the ability to cope with the ups and downs, adapt well to change and bounce back from challenges.

Innovation is often what excites and motivates a businessperson to establish a business. **Innovation** generally refers to the process of creating a new or significantly improved product, service or process (way of doing something). An invention refers to the development of something that is totally new, but innovation and invention both result in the creation of something unique. Ideas for new products or improvements to existing products will often provide the opportunity for the establishment of a new business.

Innovation is certainly important at the beginning stages of a business, but many successful businesses have the ability to innovate and continually bring new benefits to the customer. Many business concepts are an innovation of an existing product. Tablet computers, for example, came into existence through people making technical advances with an established product.

Young entrepreneur Chris Guzowski developed a new bitcoin ATM machine in 2014. There are now thousands of these machines around that allow users to buy and sell bitcoin currency or convert it into cash.


## CASE STUDY

### Christopher Lu — CLU. Living

Business owner and designer Christopher Lu turned his passion for furniture design and interior design into a highly successful business employing three people. CLU. Living is a lifestyle furniture and homewares brand that offers home furnishing solutions and interior design for compact living.

Christopher's market research showed that because more people are living in apartments and townhouses, there was a growing demand for innovative ways to accommodate furniture in limited areas, incorporating multi-functionality and clever storage capabilities. His business is renowned for small space decorating using compact, space-saving, modular furniture, sourced both locally and from around the world. CLU. Living's products are selected for their modern design, quality and affordability.

'I studied the existing competition and their products, marketing techniques and unique selling points, and used this to create an exclusive offering with a unique look and feel. The CLU. brand is also built on excellent customer service. We listen carefully to our clients' needs to make sure we provide custom solutions for their unique problems based on their budget and lifestyle. This has allowed us to establish a loyal customer base' he said.

The CLU. brand is also bulit on excellent customer service.

## Appreciating the role of failure in success

Failure happens to everyone. In fact, every successful entrepreneur has experienced failure. Entrepreneurs do not fear failure; instead, they appreciate the role of failure in success and view it as an opportunity to learn. Failure can teach us a lot. Everything leading up to failure is a lesson: the choices you made; the reasons behind your decision, and so on. What distinguishes a successful entrepreneur from a mediocre one is whether they get discouraged and contemplate giving up when failure arises or whether they embrace failure, learn from it and grow.

# 8.2.2 A successful entrepreneur

An Aboriginal and Torres Strait Islander-owned business can be defined as a business that has at least one owner who identifies as being of Aboriginal and Torres Strait Islander origin. In 2016, there were more than 16 000 Aboriginal-owned businesses in Australia.

There are many stories of Aboriginal success in business. One example of a successful entrepreneur is Dion Devow. The qualities and capabilities that have contributed to his success are outlined in the case study below.

### CASE STUDY

### Dion Devow – Indigenous entrepreneur

Dion Devow established clothing label Darkies Design in 2010. The business produces contemporary Aboriginal-themed clothes and print media for mainstream, sports and promotional use. Dion identified a business opportunity after not being able to find Indigenous Australian clothing labels that suited him. The catalyst for Darkies Design was the realisation that there was a gap in the market for contemporary Indigenous Australian clothing. Dion chose the controversial name because he wanted to negate the derogatory term and express pride in his heritage and culture.

In addition to running Darkies Design, Dion Devow also works closely with other Indigenous people to help empower them to start their own businesses and achieve economic independence. In 2015 he helped established an Indigenous business owners network, the Canberra Business Yarning Circle, which assists Indigenous people to develop business skills and confidence. Through his experiences running multiple businesses, he wanted to create a forum that provides advice and support to many Indigenous people who have aspirations of entering into business. Since its inception, this organisation has helped establish and mentor many new Indigenous Businesses. Dion enjoys this work and feels a sense of satisfaction in being able to give back to the community.

Dion also began the Canberra Indigenous Entrepreneurs Centre whose vision is to create a supportive environment for the establishment and growth of small and medium Indigenous businesses. The motivation behind the establishment of this organisation as well as the Canberra Business Yarning Circle is due to his belief that business networking and developing relationships with others is one of the most important contributing factors to success. Dion hopes to use the knowledge and experience he's obtained to be a positive example to others. He believes that all aspiring entrepreneurs should reach out and build relationships with other businesses either through mentoring, informal discussions, business associations or formal networking forums. 'Networking introduces you to people who may become key contacts for developing your business. You never know who you're going to meet and what opportunities will come from that. Building connections in your community often leads to positive word of mouth. If you make a good impression, you will find people who are always willing to help, offer advice or make a referral. No one achieves anything by themselves.'

Dion is a firm believer in undertaking market research as a way to mitigate the risks involved in running a business. He recommends that businesses starting out use economical methods such as social media. Whenever Dion has ideas for new designs, he puts up images on a variety of social media platforms to gauge people's reaction. However, Dion warned that you need to be cautious of the response you receive as this type of feedback isn't always foolproof. Just because people 'like' something, doesn't mean they will buy it. For instance, a few years back Dion had an idea to create a yoga mat with Aboriginal prints. He got some samples made and posted them on social media where he was overwhelmed with positive responses. Based on this feedback he decided to invest in the creation of the mats, but they didn't sell.

Dion believes it takes persistence, determination and courage to achieve success with any business venture. 'It takes time to create a successful business and it's not easy, but you have to believe in yourself and take a leap of faith. You need to be driven and have courage, as there are definitely a lot of risks involved. Setbacks are inevitable, but you should accept that failure is part of the process. If you are faced with a setback, don't think of it as a total failure, but rather, think of it as a stepping-stone in your journey towards success. Running a business is very hard, but you need to persevere.'

In 2014, Dion's business was named ACT NAIDOC Indigenous Business of the year and in 2016, he was named ACT NAIDOC Person of the Year. Two years later he was awarded the 2018 ACT Australian of the Year. Dion received this honour for his clothing enterprises and the work he has done supporting many Aboriginal people to achieve their dreams. Dion is humbled by these accolades and is hopeful that his achievements will inspire other Indigenous people.

Another factor that may motivate some people to start their own business is the desire to make a difference in a particular area of social, cultural or environmental concern. Individuals may identify an issue or perceived need and develop a product or service to address that issue or need. People who develop such businesses are known as social entrepreneurs, and their businesses may operate under either a for-profit or not-for-profit structure. Anna Donaldson is one such social entrepreneur. Her not-for-profit enterprise, Lively, aims to provide training and employment opportunities for young people, while addressing the issue of social isolation among older Australians.

## CASE STUDY

### Social entrepreneur Anna Donaldson – Lively

**Interviewer:** When and why did you start Lively?

**Anna:** *I started Lively after finishing my Arts degree. While at university, I volunteered as a life story writer for elderly people. I was introduced to an older lady who was very isolated and it really opened my eyes to how many older people live out the last years of their lives in loneliness. Meanwhile, I was growing increasingly concerned about youth unemployment and the lack of work opportunities available for young people. One day I had a lightbulb moment and saw an opportunity to bring the two problems together into one solution. I just had to make Lively happen!*

Anna Donaldson (left) created Lively to address social isolation and youth unemployment, and to foster connections between younger and older Australians.

**Interviewer:** Why did you choose a not-for-profit structure?

**Anna:** *The main difference between a for-profit and not-for-profit organisation is ownership. In a for-profit company, individuals own the business (or a part thereof), and the profits the business makes go directly to them. In a not-for-profit company, no individuals own the business, and any profit made goes straight back into growing the business. I didn't start Lively to make money for myself — I started it to make a positive difference in the community. I chose a not-for-profit structure, which has enabled us to access grants and other types of funding to start up and grow the business, while keeping the services as affordable as possible for people who need help.*

**Interviewer:** What have been the most satisfying and the most challenging aspects of establishing and running your business?

**Anna:** *It is satisfying seeing the positive difference that Lively has made to so many young and older people, and knowing that Lively is responsible for that. There's great personal pride and a real sense of achievement that* *comes with seeing an idea in your mind grow into fruition. It's definitely challenging too! As an entrepreneur, you are often out of your comfort zone, learning on the go and working incredibly hard for what can seem like very little progress in the early days. Starting a business takes time, and it can feel very slow to begin with, but it's worth sticking with!*

**Interviewer:** What advice would you give other prospective social entrepreneurs?

**Anna:** *Just get out there and give it a crack! Even if your idea doesn't ultimately work, the skills you pick up along the way will open a lot of other doors. Seek out experienced mentors who can guide you and reach out to people in relevant industries to get feedback on your idea. Building networks, relationships and partnerships is key! Design your products or services with help from the people they are intended to benefit. They will know more about their needs. Lastly, be persistent! It took me almost three years to get Lively off the ground. If you believe in your idea, keep going!*

## on Resources

**Weblink** The Foundation for Young Australians (FYA)

**Digital documents** Worksheet 8.2 Do you have what it takes? (doc-32728)

Worksheet 8.3 That's a fantastic idea! (doc-32729)

### 8.2 Activity: Research and communication

1. In small groups, identify someone who successfully runs a small business. List the personal qualities that person possesses which contribute to the success of the business.
2. Using the **Foundation for Young Australians** weblink in the Resources tab, read two inspiring profiles and list the qualities and capabilities that have contributed to their success.

### 8.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Discuss the advantages and disadvantages of being an entrepreneur.
2. Create a mind map of the four characteristics of a successful entrepreneur that were discussed in this chapter.
3. What is meant by a 'business opportunity'?
4. Read the case study 'Baraka Women' and answer the following questions:
   (a) What gap did Kath Fry and Eisha Saleh identify that led to their business opportunity?
   (b) Describe their target market.
   (c) How has Baraka Women achieved a sustainable competitive advantage?
5. Explain how failure can lead to success.
6. Read the case study on CLU. Living and then answer the following questions:
   (a) What entrepreneurial characteristics does Christopher Lu possess?
   (b) What business opportunity did Christopher Lu identify that motivated him to start this business?
   (c) How does CLU. Living achieve a sustainable competitive advantage?
7. Read the case study on Dion Devow and then answer the following questions:
   (a) What business opportunity did Dion Devow identify that inspired him to establish Darkies Design?
   (b) Outline the qualities and capabilities that Dion Devow believes contribute to business success.
   (c) What characteristics does Dion possess that make him a successful entrepreneur?
8. Aside from the four entrepreneurial characteristics discussed in this chapter, identify some other personal characteristics and qualities that successful entrepreneurs possess.
9. Think about a business you might one day like to own. What personal qualities and skills do you think are needed to be successful in this business?
10. Create a table with two columns. In the first column, list the skills that you presently possess and could bring to a small business. In the second column, list other skills that you would need to develop.

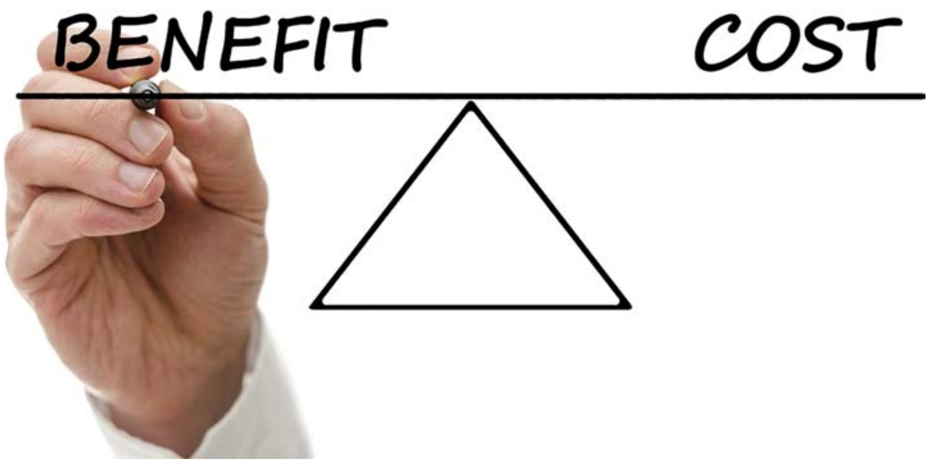
**Fully worked solutions and sample responses are available in your digital formats.**

# 8.3 SkillBuilder: Cost–benefit analysis

## 8.3.1 Tell me

### Using a cost–benefit analysis

A **cost–benefit analysis** is a detailed examination of the strengths and weaknesses of different alternatives in order to see whether the benefits outweigh the costs. The principle behind a cost–benefit analysis is that you should only decide to act on an alternative if the benefit from taking it is greater than the cost.




### Why is a cost–benefit analysis useful in commerce?

A cost–benefit analysis is important for determining if an option will be a good decision or investment. It is also useful for comparing alternatives or projects, as well as estimating the resources needed to complete the alternative or project.

A good cost–benefit analysis:

- identifies opportunities
- proposes alternative ways to take advantage of these opportunities
- calculates the costs and benefits
- compares the costs and benefits to determine if the benefits outweigh the costs
- informs the decision about the best alternative to recommend.

## 8.3.2 Show me

We can apply the five elements of a good cost–benefit analysis to a case study, to see how this works in practice.

### CASE STUDY

#### Olando's opportunity

**Step 1:** *Identify opportunities in the market.*

Olando is the general manager of a large soft drink manufacturer. He and his team are looking at the market to identify opportunities.

The manufacturer has spent a great deal of time looking closely at its business and the local market it sells to. By asking a wide range of questions they have determined that there are two business strategies that could meet the changing needs of the soft drink market.

Olando's team believes that there is an unmet need in the Australian market for low-sugar alternatives to cola flavours. There are currently some products available, but customer feedback suggests some frustration with the lack of widespread access to these options. These options also suffer from poor quality.

**Step 2:** *Propose alternative ways to take advantage of these opportunities.*
The company thinks that there are two possible alternatives. Firstly, they can introduce a new range of low-sugar soft drinks based on the unmet need. The other alternative is to select suitable products that other companies are selling overseas and offer these, or copies of these, to local customers. This would involve buying the rights to distribute these soft drinks.

**Step 3:** *Calculate the costs and benefits of each alternative.*
Olando's team conducts a cost–benefit analysis of the alternatives proposed. This means that they add up all the costs and all the benefits of each alternative, and then they compare the costs and benefits to decide if the benefits outweigh the costs. A summary of the costs and benefits of each alternative can be seen in the tables below.

| A summary of costs and benefits for a new range of low-sugar soft drinks | | |
|---|---|---|
| | **Costs** | **Benefits** |
| **Monetary** | Total (including raw materials, factory overheads, transportation, packaging, research and development, salaries): $20 million | Total (including sales): $30 million |
| **Non-monetary** | Extra workload for staff | • New research and development which could benefit the business in the future<br>• A positive image built up among customers and potential customers |

| A summary of costs and benefits for selling or imitating overseas products | | |
|---|---|---|
| | **Costs** | **Benefits** |
| **Monetary** | Total (including raw materials, factory overheads, transportation, packaging, salaries): $15 million | Total (including sales): $20 million |
| **Non-monetary** | • Staff dissatisfaction with using ideas from overseas<br>• Customer dissatisfaction with using products designed for overseas markets | Research and development team will be free to look at other products. |

**Step 4:** *Compare the costs and benefits to determine if the benefits outweigh the costs.*
The team calculates that the benefits outweigh the costs when analysing the first alternative, introducing a new range of low-sugar soft drinks. The monetary costs are $20 million, while the monetary benefits are $30 million. This means that the monetary benefits outweigh the monetary costs by $10 million. They also consider that the non-monetary benefits considerably outweigh the non-monetary costs.

When analysing the second alternative, selecting or imitating overseas products and selling these to local customers, the team calculates that the monetary benefits outweigh the monetary costs by $5 million. The team feels that, even though the non-monetary costs of this alternative are high, the non-monetary benefits still outweigh the non-monetary costs.

**Step 5:** *Choose the best alternative.*
The team determines that the best alternative is the first one, introducing a new range of low-sugar soft drinks. This is because they believe that the benefits of this alternative far outweigh the costs when compared to the second alternative.

## 8.3.3 Let me do it

### 8.3 Activities

You can now carry out this five-step process to complete a cost–benefit analysis using the case study below.

### CASE STUDY

### Uncle Bill's

Uncle Bill's is a global manufacturer of cereal products and snacks. Its marketing department has recommended that the business should respond to opportunities in the Australian market to produce products that meet different dietary needs, including low-salt, yeast-free and gluten-free products. It has proposed two alternatives. The first alternative is to introduce a new range of gluten-free cereals. The second alternative is to modify existing products already being used in other markets and sell these in the Australian market.

Bridie is the Australian regional manager for Uncle Bill's. She has asked you to be part of the team that will undertake a cost–benefit analysis of the alternatives proposed. Bridie has provided the team with a breakdown of the costs and benefits of each alternative (see the following tables).

| A breakdown of costs and benefits for Uncle Bill's: Alternative 1 — new gluten-free products | | |
|---|---|---|
| | **Costs** | **Benefits** |
| **Monetary** | Raw materials (ingredients): $12 million<br>Factory overheads — salaries, insurance, power, repairs and maintenance: $8 million<br>Transportation: $1 million<br>Packaging/labelling: $2 million<br>Selling/distribution: $3 million<br>Research and development — salaries, other overheads: $4 million | Improve market share by 5%<br>Sales of $50 million |

*(continued)*

*(continued)*

| A breakdown of costs and benefits for Uncle Bill's: Alternative 1 — new gluten-free products | | |
|---|---|---|
| | **Costs** | **Benefits** |
| **Non-monetary** | Extra workload for staff | • New research and development which could benefit the business in the future<br>• Building a positive image among customers and potential customers<br>• Empower staff (as they are involved in the development of the new product) and improve corporate culture |

| A breakdown of costs and benefits for Uncle Bill's: Alternative 2 — modification of existing products | | |
|---|---|---|
| | **Costs** | **Benefits** |
| **Monetary** | Raw materials (ingredients): $12 million<br>Factory overheads — salaries, insurance, power, repairs and maintenance: $8 million<br>Transportation: $1 million<br>Packaging/labelling: $2 million<br>Selling/distribution: $3 million | Improve market share by 4%<br>Sales of $40 million |
| **Non-monetary** | Some staff may be dissatisfied with using ideas from other countries when local ideas could have been used.<br>Loss of customers who may be dissatisfied with products that are designed for overseas markets | Research and development team will be free to look at other products. |

Construct your cost–benefit analysis by completing the following steps:
**Step 1:** Identify the opportunities for Uncle Bill's.
**Step 2:** Identify the alternatives that have been proposed to take advantage of these opportunities.
**Step 3:** Add up the costs and benefits of each alternative. Write down the total costs and benefits for alternative 1 and the total costs and benefits for alternative 2.
**Step 4:** Compare the costs and benefits for each alternative. Do the benefits outweigh the costs for one alternative or both? In your opinion, which alternative has more benefits than costs?
**Step 5:** Make a decision about which alternative to recommend.

Complete the following questions.

1. How did you decide which alternative to recommend?
2. Compare your decisions to the decisions made by other people in your class. How do the decisions differ? Can you explain the variation in decisions?
3. What aspect of completing a cost–benefit analysis did you find relatively easy and what did you find more challenging?
4. Reading the Olando's opportunity case study, identify the opportunities in the market for Olando's soft-drink manufacturer.
5. How did Olando's company respond to opportunities in the Australian market?

# 8.4 Planning for success

## 8.4.1 Key considerations involved when planning and organising a small business

Prior to starting a new business, there are key considerations involved in planning and organising the new venture. These key considerations will be examined in this section.

## 8.4.2 Opportunities to run a small business

Once a business opportunity has been identified, a number of areas need further investigation before the business opportunity becomes a reality. These other areas include market research, location, demographics, competition and target markets.

Investigating business opportunity

- Market research
- Location
- Demographics
- Competition
- Target markets

### Market research

There will always be a risk involved in starting up a new business. Will the proposed new product or service attract customers? Will it appeal to enough customers and generate sufficient sales to cover costs and make a profit? Anyone thinking about commencing a business should first gather some 'facts and figures', especially to determine whether the level of demand for the new or improved product is sufficient to generate a profit.

The process of information gathering is known as market research. **Market research** involves collecting and analysing information about customers and the business opportunities available. Market research helps the entrepreneur to make better decisions by understanding consumer behaviour. By collecting and assessing information about the needs and wants of consumers, a more accurate and responsive marketing plan can be designed and, therefore, the risk of failure can be reduced.

Many retailers use loyalty cards to gather market research. Loyalty cards provide stores with a huge amount of data about their customers, such as their gender, age, address and household size. When a customer scans their card, their transaction is recorded, and over time, the business will be able to create a profile about their buying habits. The business then uses that data to build a profile of each customer so they can promote their products in a more effective way.

To obtain accurate information, marketers usually follow a three-step approach.

The three steps of the market research process

| Step | Explanation |
|---|---|
| **1 Determining information needs** | The problem is clearly and accurately stated to determine what needs to be measured and the issues involved. This is a crucial step. |
| **2 Collecting data from primary and secondary sources** | At this stage the researchers know the facts that are needed and those that are already available. Plans must be made to gather missing data. Information may be collected from primary data (facts and figures collected from original sources for the purpose of the specific research problem — for example, surveys and focus groups) or from secondary sources (facts and figures already collected by some other person or organisation — for example, research reports or census data). |
| **3 Analysing and interpreting data** | Facts by themselves do not always provide a solution to the marketing problem. They need to be analysed and interpreted to determine what they mean. |

## Location

A good location can make the difference between success and failure. This is particularly true for retail 'bricks and mortar' businesses, which generally need a constant flow of people walking past the store. A suitable location might be a shopping centre, mall or main street, or the business owner may choose an online presence or prefer a home-based business. This will depend on the nature of the business.

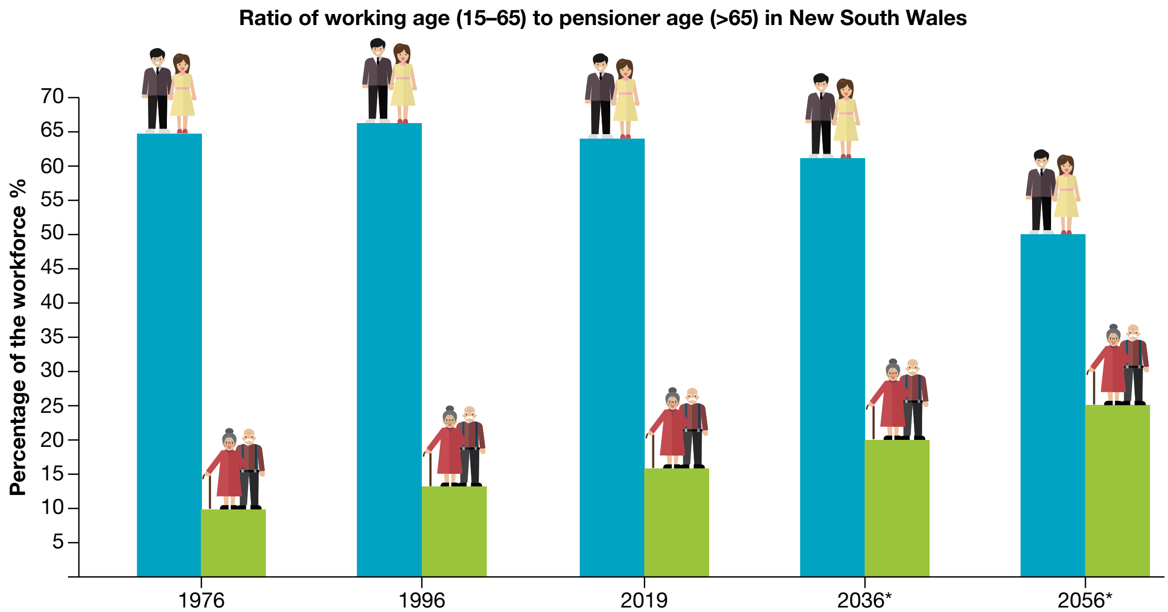
A good location will lead to more sales.

Where to locate a business is a crucial decision because this will have an impact on profits. The location chosen can affect many aspects of how a business operates, such as total sales and how expensive it is to run. Most businesses will seek locations that maximise their revenue and minimises their costs. The factors that should be considered when selecting an appropriate location will be examined in Section 8.6.4.

## Demographics

It is important for an entrepreneur to understand the changes that are taking place in the make-up of the population. **Demographic factors** are population characteristics that affect customer spending and include age, ethnicity, gender, marital status, family size and income.

An examination of a region's demographic pattern will provide a clearer picture of a business's possible customers.




Source: Based on Sean Nicholls/The Sydney Morning Herald and Health Stats NSW.
*Projected figures

## Competition

**Competition** refers to rivalry among businesses that try to supply the needs and wants of a market. Competitors, therefore, are other businesses that offer rival products or services. Businesses need to be mindful of the actions and strategies implemented by their competitors as this can affect their sales. Not only do they need to be aware of existing competitors, but they also have to monitor the environment for potential newcomers. Managers need to ensure that they respond to any changes in the actions of their competitors.

Business owners should aim to achieve a **sustainable competitive advantage** over their competitors so they can capture a larger share of the market. A sustainable competitive advantage refers to the ability of a business to develop strategies that will ensure it has an 'edge' over its competitors for a long period of time.

Both Coles and Woolworths are very similar in relation to the brands they offer, prices, layouts, weekly specials and online options. In 2011, Coles began what became known as the 'supermarket price wars' by reducing the price of their own-brand milk to A$1 per litre. Woolworths hit back, triggering seven years of intense price competition. Now, rather than price, the two supermarkets have shifted their focus to service quality, social programs and connecting with the community in an effort to get an advantage.

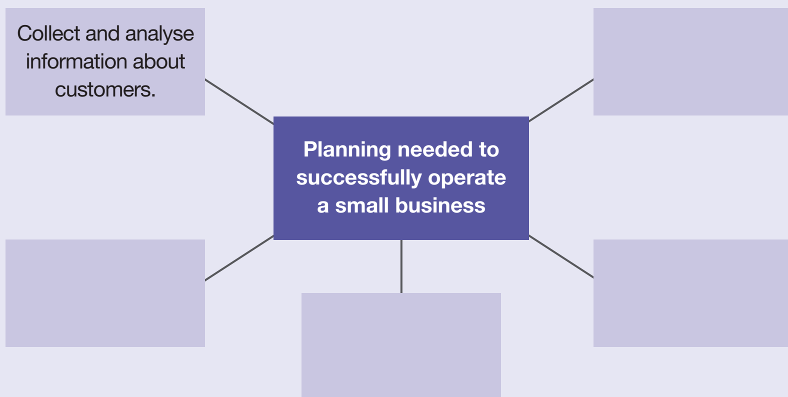

## Target markets

Many entrepreneurs are so enthusiastic about starting, they often overlook one crucial question: 'Who will buy my good or service?' Sales are the lifeblood of the business, so it is necessary to have a good understanding of one's target market.

**Target market** refers to the group of customers to whom the business intends to sell its products. Once the target market has been identified, the business concentrates its marketing activities on that group. For example, a sophisticated men's suit business in central Sydney might typically aim its marketing activities at a customer who is male, aged 30 to 50, city-based and earning an above-average income. Target market is examined in detail in section 7.4.

### 8.4 Activity: Research and communication

1. In small groups, brainstorm the possible business opportunities available to your school canteen. Choose a spokesperson to share the group's comments with the rest of the class.
2. Complete the mind map shown, to demonstrate the planning needed to successfully operate a small business.




### 8.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

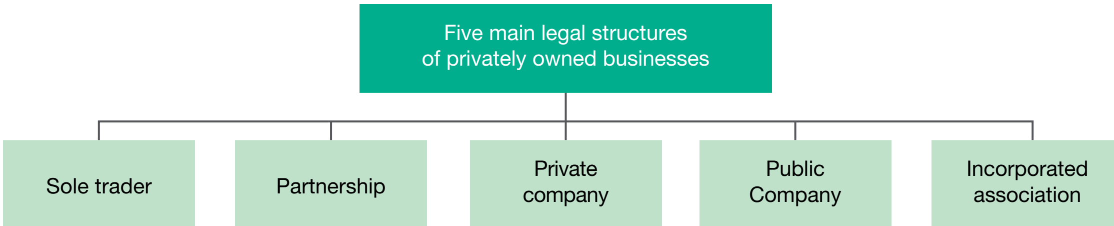
1. Why is it important for an entrepreneur to:
   (a) undertake market research
   (b) identify their target market?
2. Why should businesses aim to achieve a sustainable competitive advantage over their competitors?
3. Identify different options for a business location, i.e. different places businesses can be located.
4. Maintaining a competitive advantage is essential for long-term business success. What do you think a business can do to keep ahead of its competitors?
5. Reflect on what you have read and learned so far. How would this information influence you if you were intending to start a small business? Would you still go ahead? Give reasons for your answer.
6. Besides an ageing population, outline other demographic issues that currently impact on businesses in Australia.
7. What factors should businesses consider when determining an appropriate location?

**Fully worked solutions and sample responses are available in your digital formats.**

# 8.5 Key features of organisational structures

## 8.5.1 Types of legal structure

There are a number of different legal ownership structures available to a person wishing to establish a business. Five main types of privately owned business entities are shown in the diagram — sole trader, partnership, private company, public company and incorporated association.




As can be seen by this diagram, these five entities can be divided into:

- incorporated business entities, in the case of sole traders and partnerships
- unincorporated business entities, in the case of private companies, public companies and incorporated associations.

The term **incorporated** refers to the process companies go through to become a separate legal entity from the owner/s. This means the business exists in its own right, its own legal entity. Regardless of what happens to individual owners (shareholders) of the company, the business continues to operate. The business has taken on a life of its own. Consequently, the company can sue and be sued, can own and sell property, and has perpetual succession – it will continue to exist even when the owners change.

An unincorporated business has no separate legal existence from its owner(s) and will be either a sole trader or partnership. This means the business entity and the owner(s) are one and the same. When the owner dies then so too does the business entity.

Selecting the appropriate business structure is another important decision a business owner has to make. Each of the different legal structures is covered by different government regulations that must be followed and, as such, have an enormous effect on the overall running of the business.

## Sole trader

A **sole trader** is a business that is owned and operated by one person. It is the most common type of business in Australia. A sole trader is the simplest and cheapest structure to establish.

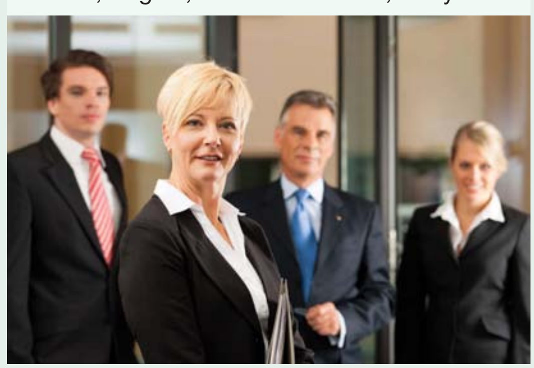
The sole trader receives all the profit and suffers all the losses. He or she has **unlimited liability**. This means he or she can be forced to sell personal assets such as the house or car to pay for business debts.

Jenna's Flower Creations

## Partnership

A **partnership** is a business usually owned and operated by between two and 20 people, called partners. The partners share their profits and losses. It is common for people with similar skills, such as doctors and solicitors, to form a partnership. Partnerships also have unlimited liability, meaning that all the owners are personally responsible for the business's debts.

Jones, Rogers, Schmidt and Carr, Lawyers



### Proprietary (private) company

A **private company** usually has between two and 50 private owners called shareholders. These businesses tend to be small to medium in size. Often, they are family-owned. Shares in private companies are offered only to those people the business wants as part-owners. This is why it is called a 'private' company.

A private company must have the words 'Proprietary Limited', abbreviated to 'Pty Ltd', after its name. The main advantage of a private company is that shareholders have **limited liability**. This means that if the business cannot pay its debts, a shareholder generally loses only the money she or he has invested in the business.

McPherson Logistics Pty Ltd

### Public company

A public company can have an unlimited number of shareholders. The shares for public companies are listed on the Australian Securities Exchange (ASX), and the general public may buy and sell shares in those companies. Most public companies are large. Shareholders in public companies have limited liability.

A public company must have the word 'Limited', abbreviated to 'Ltd', after its name.

BHP Ltd and Rio Tinto Ltd


### Incorporated Association

A group of five or more people may form an incorporated association in New South Wales by registering with NSW Fair Trading. Incorporated associations are small-scale, non-profit and non-commercial in nature. They can only conduct business in the state in which they are registered.

An incorporated association has its own legal identity separate from its members, which provides protection to members.

Small community groups such as sports clubs and art groups usually choose to register as incorporated associations. The incorporated association structure can be more effective for these types of organisations as they are generally simpler and more affordable than a company structure.

Newtown Neighbourhood Centre

#### COMFACT

The majority of registered companies in Australia are private limited. In 2016, ASIC reported that there were 2 349 382 private limited companies, representing 99 per cent of all registered companies.

## 8.5.2 Financing a business

Finance can come from a variety of sources. However, two main types of sources are available to a business, as can be seen in the diagram. The business owner can contribute their own funds (**equity**) or they can obtain a loan (**debt**) from external sources.

The two main types of finance available to small business owners

Types of finance

**Debt**

- Other people's money from:
  - banks
  - finance companies
  - trade suppliers

**Equity**

- The owners or shareholders contributions:
  - capital
  - retained profits
  - ordinary shares

There are advantages and disadvantages associated with each source of finance. For instance, the main advantage of debt financing is that the owner does not have to sell any ownership in the business to raise funds. Also, debt financing has certain **taxation** advantages. For these two reasons, debt financing is the most popular source of finance used by business people when starting a new business.

Equity has an advantage over debt because it does not have to be repaid unless the owners leave the business. It is also cheaper than debt finance because there are no interest payments.

### The preparation of a loan application

Some time in the near future, you may consider taking out a loan to pay for something such as a holiday, car or even a house. Most people wishing to start a new business don't have the required funds so may need to obtain a loan.

Loans are typically used for specific purposes — e.g. for a car, house or to start a business. A loan is an agreement to borrow a set amount of money that needs to be repaid within a certain period of time. This is called 'the term'. The term of the loan can vary. Anyone that borrows money will need to pay interest on the amount they borrow. This interest may be at a fixed rate, where the interest rate is locked in for the term, or a variable rate, where the interest may go up or down over the term. While a fixed rate loan offers the benefit of set repayments, if you want to make extra payments from time to time, you will usually have to pay an additional fee.

A loan may be **secured** or **unsecured**. A **secured loan** is where the borrower offers an asset as security, such as a car or a house, for the loan. If they don't repay the loan, the lender may sell that asset to get their money back. Secured loans offer a lower interest rate but run the risk that the lender may have the right to sell the security if the borrower can't pay.

With an **unsecured loan**, the borrower does not need to have an asset to offer as security, but the interest rate is usually higher. A person wishing to get a loan will need to consider carefully which type of loan best suits their needs.

The following are steps involved in preparing to apply for a loan:

| | |
|---|---|
| **STEP 1** | Work out whether you can afford to borrow. Before you apply for a loan, you should prepare a budget to see exactly where you spend your money and whether you can afford to make the repayments on a loan. Save up as much as you can so that you will not need to borrow as much and you can save on interest. |
| **STEP 2** | Work out how much you want to borrow. |
| **STEP 3** | Decide what type of loan you want. There are different types of loans that you can apply for e.g. a mortgage, personal loan or business loan. You also need to determine whether you want a secured or unsecured loan as well as a fixed or variable interest rate. |
| **STEP 4** | Shop around. Take the time to research and compare different lenders. Compare interest rates, product features, fees and charges. Even a small difference in the interest rate can make a big difference to how much you repay. You can seek the services of a mortgage broker or other professional to assist you in making a decision. |
| **STEP 5** | Check your credit rating. It's a good idea to check your credit rating before you apply for a loan to get an idea of where you stand. Your credit rating is important because it may influence how much credit a lender is willing to give you. The lender will usually look at this to verify your ability to meet the loan repayments. |
| **STEP 6** | Fill in a loan application with the lender of your choice. In order to complete this, you will need to determine the term of the loan. Keep in mind that the longer the loan term, the more you will pay in interest. The credit provider will also need to collect lots of information from you such as your recent payslips, past tax returns, bank account statements, details of your assets, copies of other credit contracts or bills and proof of identity documents. |
| **STEP 7** | Determine the frequency of your repayments. Most credit providers prefer you to make monthly payments by direct debit from your bank account so you don't miss any payments. |
| **STEP 8** | Read the credit contract carefully. The contract will detail: the amount you are borrowing; the interest rate, fees and charges; the amount of repayments and when they are due; and the term of the loan. Find out what fees and charges apply, e.g. a loan application fee, monthly service fees or late fees. Ask if there are penalties for paying off the loan in full before the end of the agreed term. |
| **STEP 9** | Sign the credit contract. Always check the terms and conditions of your contract one last time before you sign. |
| **STEP 10** | Now it's time to sit back and wait for the lender to assess and approve your application. |

### Prospectus

As a general rule, if a public company offers securities for sale (for example, shares or debentures) then they must provide a disclosure document to potential investors. A prospectus is the most common type of disclosure document. A **prospectus** is a legal document issued by companies that are offering securities for sale.

Typically, a prospectus must contain all the information that investors and their professional advisors would reasonably require to make an informed decision about the following:

- the rights and liabilities attached to the offered securities; and
- the issuing company's assets and liabilities, financial position and performance, and their profits and losses.

Although the *Corporations Act* contains a general disclosure test for a prospectus, it does not set out a 'checklist' with all the information it should contain. In practice, a prospectus typically includes information about the following:

- history of the business
- the company's business model
- risks
- description of management
- how the company will use the proceeds
- financial information
- details of the offer.

The role of the prospectus is to make investors aware of the risks of an investment. Without this information, they would basically have to make investments 'sight unseen'. This disclosure also protects the company from future accusations that it did not fully disclose enough information about itself or the securities in question.

## 8.5 Exercise: Knowledge and understanding

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1. Select the most appropriate word from the list below to complete the sentences that follow.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| identity | sole trader | liability | private | twenty | Trading | limited | unlimited |
| commercial | personal | five | two | 50 | public | incorporation | association |

A business entity with one owner is called a __________. This person faces __________ liability, which means he or she can be forced to sell his or her __________ assets to pay for the debts of the business. Partnerships normally consist of between __________ and __________ partners. Partnerships have unlimited __________. There are two types of companies, private and __________.
A ________ company has between two and ________ private shareholders. The owners have _______ liability, and have gone through the process of _______ . An incorporated _________ consists of a group of ________ or more people. The are usually small-scale, non-profit and non-________ in nature. They are registered with NSW Fair ________ and they have their own legal ________ separate from its members.

2. Create a table outlining the advantages and disadvantages of the five legal structures.
3. Distinguish between debt and equity finance.
4. Discuss the advantages and disadvantages of both debt and equity finance.
5. Distinguish between a secured and an unsecured loan.
6. In your notebook, complete the following table to show how each of the following businesses is owned by writing the name of the business in the correct column. The first one has been completed for you.

| | | |
|---|---|---|
| Beck's Pty Ltd | Tom Wilson Plumbing | M&M Communications |
| Isabella's Beauty Salon | Tip Top Pty Ltd | Tyler & Kelly |

| Sole trader | Partnership | Private company |
|---|---|---|
| | | Beck's Pty Ltd |

7. Decide what form of ownership structure is appropriate for each of the following businesses. Provide reasons for your answers.
   (a) A small bicycle shop
   (b) A not-for-profit community centre
   (c) A suburban hairdresser
   (d) A medical clinic
8. Michael operates a pizza and pasta shop as a sole trader and he employs two cooks, one full time and one part time. He decides to offer the full-time cook a 40 per cent partnership in the business.
   (a) What advantages will the owner gain from this arrangement that he does not have as a sole trader?
   (b) What disadvantages could the owner experience from the partnership arrangement?
   (c) Outline the advantages and disadvantages to the cook of entering into the partnership.
   (d) Prepare a list of questions the cook should ask the owner before entering into the partnership agreement.

**Fully worked solutions and sample responses are available in your digital formats.**

# 8.6 Establishing a new business or purchasing an existing business

There are three main ways of going into business:
1. setting up a new business
2. purchasing an existing business
3. purchasing a **franchise**.

Choosing between the three main options is sometimes quite difficult; each has advantages and disadvantages.

## 8.6.1 Setting up a new business from scratch

Usually it is better to start a new business than purchase an existing one when:
- a person has created something unique and starts a business to market their invention
- an existing small business does not satisfy the needs of customers
- the market has grown and existing businesses cannot support additional customers.

Marko and Nebojsa Radisic, owners of Bathroom Brothers, display the commitment needed to start a new business.

### CASE STUDY

### An interview with the Bathroom Brothers

**Interviewer: Why did you want to establish your own business?**
**Marko:** After renovating multiple bathrooms for friends, family and our own properties, we felt passionate about the whole process of renovation. The satisfaction of seeing the old bathrooms transform and look so great was really rewarding. Also, having control of the hours we work and being our own boss is very appealing.
**Interviewer: How did you identify a business opportunity?**
**Nebojsa:** We had heard a lot of horror stories about tradespeople being unreliable, taking short-cuts, charging excessive amounts or being booked out for months. We found that when compared with quotes from experienced tradespeople, we were able to be very competitive from both price and quality aspects. The sheer level of interest through word of mouth made it apparent that this had the potential to progress into a full-time business.
**Marko:** Also, we knew that the housing industry was going strong. We thought that many people with older existing houses who did not want to over-capitalise with a large renovation would see the benefit of having a new bathroom to add value to their property.

**Interviewer: How did you identify a potential target market?**
**Marko:** We identified that in the current economic climate people are often not able to afford major renovations but have enough for a kitchen or a bathroom update. We realised that the bathrooms we were completing for clients were those who were not able to afford a full house renovation but wanted to refresh and add value to their property with a new bathroom.
**Interviewer: You once said you take only moderate rather than high risks as entrepreneurs. Please elaborate.**
**Nebojsa:** The economy can turn at any time for whatever reason and having a family means others are depending on our success. While opening most types of business carries a certain level of risk, we would not be prepared to risk our family's financial security by taking on large amounts of debt to fund a new business venture. There is just too much to lose at this stage in our lives.
**Interviewer: What would you consider to be your entrepreneurial skills?**
**Marko:** Neb and I are fairly similar in that we are able to identify demand in the market, are creative, organised and have great interpersonal skills. These have all been crucial in the early days of our business and will no doubt be important for its future success.

Marko and Nebojsa Radisic of Bathroom Brothers

### Advantages and disadvantages

| Advantages of starting a business from scratch | Disadvantages of starting a business from scratch |
|---|---|
| • The owner has the freedom to set up the business exactly as he or she wishes.<br>• The owner's objectives can be matched more closely to the business.<br>• The owner is able to determine the pace of growth and change.<br>• The owner has more flexibility to select the location, target market, range of products and level of customer service.<br>• There is no goodwill for which the owner has to pay.<br>• If funds are limited, it is possible to begin on a smaller scale. | • There is a high risk and a measure of uncertainty.<br>• Without a previous business reputation, it may prove difficult to secure finance.<br>• Time is needed to develop a customer base, employ staff and develop lines of credit from suppliers.<br>• If the start-up period is slow, then profits may not be generated for some time.<br>• Potential customers may be more difficult to attract than initially expected or unforeseen competition may appear, especially if the level of planning was inadequate. |

## 8.6.2 Purchasing an existing business

When an existing business is purchased, the business is already operating and everything associated with the business is included in the purchase — for example, stock and equipment, premises, existing customer base, staff, reputation and **goodwill**.

The owner of an existing business will always present the most positive picture when selling his or her business. It is important, therefore, to find out why the business is for sale. It may be a struggling business with complex problems rather than an exciting, once-in-a-lifetime opportunity. Before signing a contract of sale, the buyer should get financial and legal advice.

### Advantages and disadvantages

| Advantages of purchasing an established business | Disadvantages of purchasing an established business |
|---|---|
| • Sales to existing customers will generate instant income.<br>• A good business history increases the likelihood of business success.<br>• Stock has already been acquired and is ready for sale.<br>• Equipment is available for immediate use.<br>• Existing employees can provide valuable assistance. | • The existing image of the business may be difficult to change, especially if the business had a poor reputation.<br>• The success of the business may have been due to the previous owner's personality and contacts which may be lost when the business is sold.<br>• It may be difficult to assess the value of goodwill with the likelihood of paying more than the business is worth.<br>• Some employees may resent any change to the business operation. |

### CASE STUDY

### Kristen Lowe — owner of Cut and Curl Hair Studio

**Interviewer: Kristen, what made you want to own a salon?**
**Kristen:** *In my fifth year of apprenticeship at the salon, the owner suggested that my colleague Michelle and I might like to buy the business. Because we were both young and, looking back now, quite naive, we both said 'yes' on the spot. We had this idea the business would open on Monday with us as the new owners. As simple as that!*
**Interviewer: Why did you decide to purchase an existing business?**
**Kristen:** *We both wanted a business that already had a good reputation and a viable customer base. This reduced the risk. As well, because we were working in the salon, we knew the customers, suppliers and how the business operated.*
**Interviewer: Did you realise at this stage the risks you were taking?**
**Kristen:** *No, not really. Michelle and I just thought the customers would keep on coming. Luckily they did! I think that was because Michelle and I had good reputations, and over the years we had built up a large clientele of regular customers.*
**Interviewer: You started the business as a partnership but now operate it as a sole trader. Was it difficult being a sole trader?**
**Kristen:** *Yes. At the beginning it was stressful without having someone to share the burden and talk things over with. However, as time went by, I found that I liked being solely in charge because I could make all the decisions, and knew that the success of the business rested solely with me.*

Kristen Lowe started in business in partnership with another hairdresser, but now enjoys operating as a sole trader.

### COMFACT

Seventy per cent of all new businesses start from scratch, while 26 per cent are purchases of existing businesses. The remaining four per cent are businesses that have either been inherited from a family member, restarted from a previously failed business, or bought by employees from the original owners.

## 8.6.3 Franchising

Under a franchise agreement a person (*franchisee*) buys the right to use the business name and distribute the goods or services of an existing business (*franchisor*). People choose to start a franchise in the hope of avoiding many of the problems associated with starting a new business. For a set fee, the small business owner receives the benefits of a successful business formula, a well-recognised name and established trademarks. Franchises are the fastest growing area of small business. There are approximately 1120 franchisors in Australia and 79 000 franchisees.

## Advantages and disadvantages

| Advantages of purchasing a franchise | Disadvantages of purchasing a franchise |
|---|---|
| • Products, equipment, premises design and marketing are usually established.<br>• The franchisor often provides training.<br>• There is less need for the franchisee to have previous business experience.<br>• The investment risk may be lower.<br>• There is immediate benefit from the franchisor's goodwill. | • The franchisor usually controls everything to do with price, suppliers and health regulations.<br>• Profits must be shared with the franchisor.<br>• The franchisor often charges a service fee for advice.<br>• Contracts may be biased in favour of the franchisor.<br>• The franchisee may merely feel like an employee, but without the benefits and security.<br>• The franchisee has to deal with day-to-day operations and they are legally accountable. |

### CASE STUDY

### Gelatissimo — a successful franchise business model

Domenico and Marco Lopresti founded Gelatissimo in 2002 as a single store on King Street in Sydney. The business has since become Australia's biggest chain store selling gelato (ice-crearn that originated in Italy). The brothers were already running a wholesale gelato business when they saw an opportunity to open a retail store using a secret family formula for gelato. Before long, word of mouth spread and there were queues out the door of their new store. They soon opened other stores.

The founders of Gelatissimo decided to adopt a franchise business model because they saw it as an ideal way to grow the business quickly.


Initially, the owners had chosen a company-owned model for Gelatissimo. However. in 2004 they started franchising. The main reason for adopting a franchise model was because the company model was not working as expected, and the owners decided to try franchising instead. They trialled franchising with a particular franchisee — he was given the opportunity to turn a company-owned store around and was able to do so.

The Lopresti brothers also saw franchising as an ideal way to grow their business quickly. Furthermore, as product quality and product presentation are critical for the business, the owners felt that Gelatissimo was best suited to a franchising model, which allows franchisees to bring passion and commitment to their own store.

It is this passion and commitment to creating premium products without compromise that have led to Gelatissimo's success. Gelatissimo now has stores in more than 40 locations across Australia, as well as in China, the Philippines, Singapore, Saudi Arabia, Kuwait and Bangladesh. With close to 50 gelato flavours, some of which have won awards, the business is well known for its quirky flavours. It often adds new ones, particularly limited-edition flavours, such as the 'Hugh Chocman' — named in honour of Hugh Jackman.

Domenico and Marco have since left the business, but the decision they made to pursue a franchise business model clearly affected the ultimate success of Gelatissimo.

### COMFACT

Franchising has a success rate of almost three times that of independent businesses, largely because it involves an established business name backed up by managerial expertise.

Many well-known businesses operate under a franchise agreement.


**COMFACT**

Owning your own McDonald's might sound very appealing; however, in addition to having previous successful business experience, you would also have to agree to the following in order to become a franchisee:

- complete a 12-month unpaid part-time training program
- have approximately $1 200 000 to spend.
- be willing to relocate to anywhere within Australia
- commit to the business for about 20 years to ensure its success.

## 8.6.4 Important planning considerations

### Staffing

Successful business owners recognise that they rely on the quality of their employees to achieve their aims of improved profit, growth and increased market share. People are a business's most valuable asset, so it is important to hire the best people. Also, when an employee turns out to be an excellent worker, retaining that employee may be crucial to ongoing business success. Developing good working relationships with staff and motivating them to do their best in the workplace must be a high priority for the business owner.

Good staff provide the business with a competitive advantage, especially if the business offers a service where the customers come into direct contact with the employees. Therefore, the management of the staffing function — the recruiting, selecting, maintaining, training and separating of employees — must be undertaken with care.

One mistake that some business owners often make is not providing enough time or financial resources to satisfactorily carry out the recruitment process. Making hasty recruitment and selection decisions often ends in misfortune for both the business owner and the employee.

Different ways that business can recruit new staff include:

- newspaper advertisements
- recruitment agencies
- professional associations
- word of mouth
- temporary/casual agencies.
- online advertisements
- company websites
- schools, TAFE colleges and universities
- social networking sites

## Identifying an appropriate location

Each individual business has different requirements and must satisfy their own criteria when deciding on the 'best' location. The diagram below outlines the factors to consider when choosing a location. These factors vary in importance from business to business, and will depend on a business's main activity.

Factors to consider when choosing a location

### Equipping premises

Once the business owner has found an appropriate location, they will then need to determine the equipment they will need to run the business. Business owners need to ensure they have the right equipment, fittings, furniture and technology so their employees can work efficiently.

This is especially important for those businesses that rely on visual appeal to attract customers, such as a shop or restaurant. If the business owner is not confident in equipping their premises, they can hire a professional such as an architect, professional shopfitter or interior designer to assist them.

The following are some of the main things to keep in mind when equipping premises:

- Whether to rent/lease or purchase equipment
- How much money is required and what sources of funds to use
- Where to purchase the equipment
- How to maintain the equipment
- What training staff will need in order to use the equipment

### Obtaining realistic valuations

If you plan on purchasing an existing business, it's important that you determine the current worth of the business and its future prospects. There are many considerations that should be taken into account when estimating a business's value including sales, costs, profits, assets, liabilities, tax and legal issues. You will therefore need access to a whole range of information in order to value the business properly. Below is a summary of the type of information you should seek:

- Business history
- Financial statements for the past few years
- Details of any assets the business owns such as machinery, equipment, stock, etc.
- Details about goodwill
- Legal information including legal documents such as leases and insurance policies, as well as any registration papers
- Sales information
- Business policies and procedures
- Staff, supplier and customer information

If you can afford to, it is always a good idea to get professional advice through either an accountant, a business advisor or a business broker. These professionals can help you analyse all the information available to determine a realistic value of the business. They can also assist you organise your own finances.

Below are some common methods that can be used to determine the value of a business.

- Look at the current marketplace value of similar businesses in the same industry.
- Use the return on investment (ROI) method. This method uses the business's net profit to work out the value of the business. The ROI = (net annual profit / selling price) × 100.
- Use the business's assets to calculate value. This involves calculating the value of the total assets of the business and using that figure as an indication of how much the business is worth. You will need to include both tangible assets (physical things you can touch such as equipment and stock) as well as intangible assets (things that can't be touched but still have value such as intellectual property and goodwill).

## 8.6.5 Likely success of small business opportunities

In the real world, success can be hard to achieve. While starting and operating your own business is very appealing, unfortunately there is a very high failure rate. Within the first year of trading, about one in four businesses will fail. This rises to approximately seven out of ten businesses failing within the first five years. Such figures tell a sobering story for anyone thinking of starting a small business. Therefore, undertaking thorough planning is absolutely essential to minimise the risk of failure.

| Small to Medium Enterprises (SME) failure rates from year of establishment | |
|---|---|
| **Period from commencement** | **Cumulative total of approximate failure rate (%)** |
| After 1 year | 25 |
| 2 years | 42 |
| 3 years | 54 |
| 4 years | 64 |
| 5 years | 71 |

## Factors contributing to the success or failure of businesses

### Entrepreneurs under the microscope

What does it really take to be a successful entrepreneur? You often read about entrepreneurs with no wealth or education becoming hugely successful. This can sometimes happen, but the latest research revealed in the book *The anatomy of an entrepreneur: family background and motivation* is that 90 per cent of 549 company founders were from middle-class or upper lower-class backgrounds, and were well educated. The entrepreneurs in this study gave their insight into what influences success or failure, as shown below.

**Keys to success**

- Prior work experience in the field — knowledge of the business
- Ability to learn from mistakes
- Work with a strong team
- Access to information
- Entrepreneurial abilities

**Barriers to success**

- Unwilling to take risks
- Not enough time or energy
- Difficulty raising capital to finance the business venture
- Failure to plan
- Negative cash flow
- Inaccurate record keeping

**on** Resources

**Digital documents** Worksheet 8.4 You're the DJ (doc-32730)

Worksheet 8.5 Which business will I buy? (doc-32731)

**Weblink** business.gov.au

### 8.6 Activity: Research and communication

1. Create an information brochure on franchises. Include useful facts along with details of organisations and websites that will assist a potential franchisee.
2. Go to the business.gov.au weblink and outline the factors that need to be considered when purchasing an existing business.
3. Aside from those that have been mentioned, identify some other factors that lead to the success or failure of businesses.

### 8.6 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. One advantage of setting up a new business is not having to pay for goodwill. Explain this advantage.
2. List three circumstances when it may be better to start a business from scratch than to purchase an existing one.
3. Why should a buyer of a business consult an accountant and solicitor before signing a contract of sale?
4. Read the 'Kristen Lowe — owner of Cut and Curl Hair Studio' case study and then answer the following questions.
   (a) Why did Kristen and Michelle decide to purchase an existing business?
   (b) Briefly outline Cut and Curl's strengths and weaknesses.
   (c) According to Kristen, what are the benefits of being a sole trader?
5. Distinguish between a 'franchisor' and a 'franchisee'.
6. Identify two main benefits of franchising for (i) the franchisor and (ii) the franchisee.
7. Read the Case Study on Marko and Nebojsa of Bathroom Brothers and answer the following questions:
   (a) What factors motivated Marko and Nebojsa to establish a new business?
   (b) Identify Marko and Nebojsa's personal characteristics that have contributed to their success.
8. Read the case study on Gelatissimo and outline all the reasons why Domenico and Marco Lopresti decided to purchase a franchise.
9. How does the right staff help a business achieve a sustainable competitive advantage?
10. List in order of importance the factors a retailer should consider when choosing a location.
11. Why is equipping premises an important consideration for business owners?
12. Identify the type of information you should seek in order to obtain a realistic valuation of a business.
13. Explain what you consider to be the two most significant advantages and two most significant disadvantages of starting a business from scratch.
14. Suggest why some people choose to buy an existing business rather than set up a new one.
15. Explain what you consider to be the two most significant advantages and two most significant disadvantages of purchasing a franchise.
16. Why do you think businesses operating as a franchise have a success rate three times that of independent businesses?
17. Select a small business you patronise regularly. If this business was for sale, would you consider buying it? Give reasons for your answer.
18. Once a business advertises a job vacancy, they then need to determine which applicant they should hire. Identify strategies a business owner can use to help them select the best employee from the range of candidates that apply for a job.

**Fully worked solutions and sample responses are available in your digital formats.**

# 8.7 Business operations

## 8.7.1 Key considerations involved in running a small business

Once someone has made the decision to start their own business, there are a variety of factors that need to be considered. Some of these considerations include:

- regulations that affect the business's operations;
- marketing strategies that can be used to promote the business;

- ethical decision-making and corporate social responsibility;
- organisations that provide support and advice to small businesses.

## 8.7.2 Regulations affecting business operations

Small business owners may sometimes feel they are overregulated. Fulfilling all the legal obligations may be frustrating at times, particularly when more than one level of government is involved. All small business owners should be aware of the legislation (laws) that affects their business, especially the regulations, licences and approvals they may require to operate legally.

All three levels of government have regulations that must be followed by small business owners.

### Federal government regulations

Federal government obligations include:

- payment of Pay As You Go (PAYG) income tax and fringe benefit tax, where applicable
- deduction of income tax from employees who earn above the minimum taxable wage level
- possible collection of goods and services tax (GST) on behalf of the Australian Taxation Office
- provisions for employee superannuation
- abiding by unfair dismissal laws when dismissing employees
- not engaging in anti-competitive practices
- ensuring employee working conditions abide by the National Employment Standards (annual leave, maximum number of working hours)
- registration of the business name unless the business carries the name of the owner
- protecting consumers from undesirable business practices
- not engaging in misleading or deceptive advertising.

**COMFACT**

Small business owners should consult a solicitor or accountant to help them understand the laws governing their business operations.

### State government regulations

State government obligations include:

- provision of employee entitlements such as award rates of pay and conditions
- abiding by work health and safety regulations
- taking out workers' compensation insurance
- abiding by any pollution controls
- observing regulations relating to the sale of food, cigarettes and alcohol
- adequate and non-deceptive labelling of all foodstuffs and clothing.

### Local government regulations

Many small business owners overlook the importance of local government regulations. Any business using premises or land must first seek local government approval. Commencing trade before approval is obtained could result in the closure of the business. Local governments have control over the following business activities:

- determining land zoning (use) and approving new development applications
- fire regulations, especially fire prevention facilities
- parking regulations governing the number of spaces that need to be provided
- health regulations, especially the safe handling of food
- the size, shape and location of business signs.

Almost every aspect of business is affected by government regulations.

- Copyright
- Licences
- Business registration
- Weights and measures
- Building permits
- Safe food handling
- Signage
- **Consumer protection**
  - refunds
  - misleading and deceptive advertising
  - unconscionable conduct
  - product labelling
- Health regulations

- Trade practices and fair trading
- **Employment of people**
  - Awards
  - superannuation
  - occupational health and safety
  - unfair dismissal
  - workers compensation
  - equal employment opportunity
- Trading hours
- Development application
- Zoning
- Patents
- **Taxation**
  - pay as you go (PAYG) tax
  - goods and services tax (GST)
  - company tax
  - payroll tax

Three major regulations affecting business operations include work health and safety, taxation and environmental regulations.

## Work health and safety

Growing community and worker awareness of safety issues, increasing levels of injuries and accidents at work and rising compensation costs in recent decades, prompted both federal and state governments to improve work health and safety (WHS).

A business owner is legally responsible for implementing health and safety practices in the workplace when he or she establishes a business. In NSW, the Work Health and Safety Act 2011 is the main law covering WHS. Some of the main obligations under this law include the following:

- Employers must ensure the health, safety and welfare at work of all employees by providing a safe system of work.
- Employers must ensure that all employees are adequately trained in relation to WHS.
- Employers must ensure that machinery and substances are used, handled, stored and transported safely.
- All employers must take out workers' compensation insurance.
- Employers must take steps to ensure that all people on-site who are not employees are not exposed to risks.

Under the WHS Act, employers must put in place control measures if they cannot eliminate a health and safety risk. An example of a control measure is the use of personal protective equipment (PPE). PPE refers to anything used or worn that can minimise the risk to workers' health and safety, e.g. boots, ear plugs, masks, gloves or hard hats.

- Employees are required to take reasonable care for the health and safety of others, to cooperate with employers and comply with WHS requirements.
- Health and Safety committees must be established at workplaces with more than 20 employees.
- SafeWork NSW inspectors may inspect a workplace and issue improvement and prohibition notices.
- Corporations may be fined up to $3 million and individuals $300 000 and/or a five-year prison sentence for serious breaches.

**COMFACT**

563 600 people in Australia experienced a work-related injury or illness in 2017–18. In 2017, there were 190 work-related deaths.

## Taxation

Taxation is the compulsory payment of a proportion of earnings to the government. Taxation is a means by which the government finances its expenditure by collecting money from individuals and businesses. Tax can be imposed, for example, on income, on capital gains and on the provision of goods and services. Many different federal and state taxes apply to businesses, and it is important that a person starting a business becomes familiar with all the appropriate tax requirements. Some of the main taxes that affect a business are shown in the table below.

| Type of Tax | Overview |
|---|---|
| Income tax – pay-as-you-go (PAYG) | • Imposed on the employee<br>• Taken from the employee's salary or wage directly<br>• Must be lodged with the tax department by the business<br>• Detailed in a group certificate that the employee receives at the end of the financial year<br>• Taxed at progressive tax rates — the more you earn, the higher your rate of tax |
| Company tax | • Paid on the earnings of a company and calculated on the company's taxable income (which is income left after allowable deductions are calculated)<br>• Currently calculated at 27.5 per cent of taxable income for small businesses or 30 per cent for larger businesses |
| Goods and services tax (GST) | • A broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia<br>• Businesses are responsible for collecting the tax on behalf of the government. They need to pay the ATO the amount of GST collected from consumers.<br>• Any business with an annual turnover of $75 000 or more operating within Australia must register for the GST.<br>• Requires all registered businesses to prepare a business activity statement (BAS) at regular reporting intervals, either monthly or quarterly |
| Fringe benefits tax (FBT) | • Paid by employers for any benefits they provide to an employee in place of salary or wages<br>• Examples of fringe benefits include: a work car; a discounted loan, paying for an employee's gym membership, providing entertainment by way of free tickets.<br>• This is calculated on the taxable value of the fringe benefits provided. |

### Environmental regulations

Federal, state and territory governments, and local governments jointly administer environmental protection laws in Australia. The Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) is the Federal government's main environmental law. The EPBC Act is focussed on the protection of nine 'matters of national environmental significance'. These matters include threatened species; World Heritage Sites; the Great Barrier Reef Marine Park; and water resources in relation to large coal mining and coal seam gas developments.

In NSW the Protection of the Environment Operations Act 1997 (POEO Act) is the main law regarding environmental protection. This law is administered and enforced by the Environment Protection Authority (EPA). The EPA partners with business, government and the community to reduce pollution and waste, protect human health, and prevent degradation of the environment. They are responsible for issuing and monitoring environment protection licences and have the power to fine or sue businesses and individuals who break the law.

It's important that all business owners make sure they comply with all environmental laws covering water, air, land, noise pollution and waste management. There are serious penalties if these laws are breached. Everyone involved in the business including owners, managers, operators, supervisors, contractors and subcontractors, need to also understand and comply with environmental law. It's the business owner's responsibility to ensure that they've developed an environmental management plan, including training for all staff.

## 8.7.3 Marketing strategies for promoting a business and selling products or services

You may have established a business selling a world-first proven product. However, products do not 'sell themselves'. Without customers, a product — even if revolutionary, exciting and so on — is useless. Many small business owners have failed despite having an excellent product. They lacked customers — and, in business, 'no customers' equals 'no profit'!

Consequently, you will have to promote your business. **Promotion** refers to methods used by a business to inform, persuade and remind customers about its products. Some of the main forms of promotion include:

- *Personal selling:* involves the activities of a sales representative directed to a customer in an attempt to make a sale.
- *Relationship marketing*: refers to the development of long-term, cost-effective and strong relationships with individual customers.
- *Sales promotion*: refers to activities or materials used by the business to attract interest and support for the good or service — e.g. free samples, coupons and point-of-purchase displays.
- *Publicity*: refers to any free news story about a business's products.
- *Public relations*: those activities aimed at creating and maintaining favourable relations between a business and its customers.

Since each promotional strategy has different benefits, it's important for businesses to use a mix of these strategies in order to cater to the needs of everyone in their target market.

- *Advertising*: where print or electronic mass media are used to communicate a message about the product.

These different promotional strategies are examined in more detail in section 7.3.1.

## 8.7.4 Ethical decision-making and corporate social responsibility

Ethics involves the study of moral issues and choices. Ethics is not concerned with legal obligations, but with what is morally right or wrong (and all the shades of grey in between). In many decisions involving ethical questions, it is sometimes difficult to definitively say what is 'right' and what is 'wrong' because it often depends on the circumstances surrounding the situation.

Like individuals, organisations are frequently confronted with ethical decisions. For example, what should a business do:

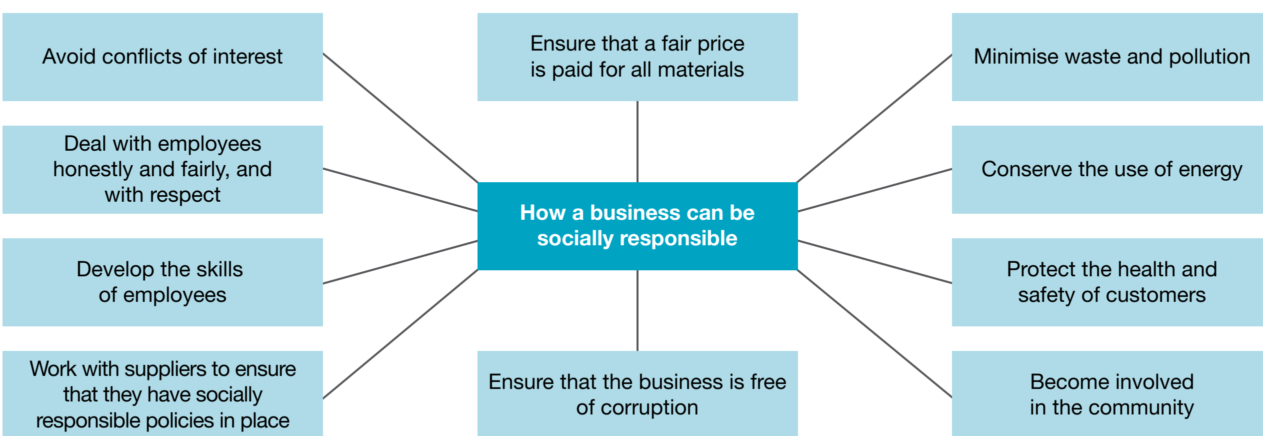
- with a loyal, long-serving employee who cannot adapt to new technology
- with confidential information about a competitor's pricing policy that a disgruntled employee leaked
- when deciding who to offer a promotion to between two equally competent employees — should they hire a women with two young children or the male employee with two older children?

These are just a few of the ethical challenges that confront business owners and managers. How they respond to these situations will have long-lasting consequences for the image and reputation of the business, as well as the behaviour of employees. It is important for business owners to have high personal and ethical standards so employees perceive the importance of ethical considerations.

The traditional view of business is that it exists to create products, earn a profit and provide employment. As society's expectations of acceptable business behaviour change, socially aware business owners recognise the importance of planning business objectives that incorporate corporate social responsibility. **Corporate social responsibility (CSR)** refers to the way that a business considers the financial, environmental and social impacts of its decisions. A socially responsible business will attempt to achieve two goals simultaneously: increasing profit as well as providing for the greater good of society.

It is recognised that business activities have an impact on society; as such, businesses need to give careful consideration to their actions. The central theme is 'above and beyond' making a profit and obeying the law. There are many ways in which a business can be socially responsible. Some of these are summarised in the diagram below.

Socially responsible approaches to business




Today, it is generally accepted that ethics and social responsibility is good for business. The benefits of ethical decision-making and corporate social responsibility include:

- improvement in staff turnover and absenteeism rates as staff feel more valued and motivated
- lower business costs (such as recruitment and training costs)
- increase in employee productivity

- increase in sales as customers reward socially responsible businesses by purchasing more of their products
- improved business reputation
- marketing opportunities if the business receives publicity in the media
- attracting better employees who want to work for organisations that are socially responsible
- helping business achieve a sustainable competitive advantage.

It is important that managers understand the implications of managing their business in an ethical and socially responsible manner. How managers respond to ethical situations and socially responsible issues will have long-lasting consequences for the image and reputation of the business, as well as its corporate culture, policies, objectives and strategies.

From the outset, the founders of Kathmandu have sought to be a business that puts in more than it takes out of society. It has continued to focus on building a culture of sustainability that ensures all employees understand their impact and their role within the organisation — the 'Sustain the Dream' strategy. Kathmandu aims to conduct its operations with a set of ethics that are closely aligned to customer values, its team and the wider community.


## CASE STUDY

### SecondBite fulfils a social need

Ian and Simone Carson established SecondBite in 2005 because they could no longer stand to see perfectly good food going to waste while there were hungy people in the community. They realised that there was a need for redistributing food that was still safe to eat but could not be sold. Approximately 8 billion dollars worth of food is thrown away in Australia every year — there is plenty of food, yet unlimited needs.

After they began to understand the scale of food wastage in this country, the Carsons began to explore ways of redistributing food. They began by rescuing surplus fresh food from farmers, markets and supermarkets and transporting it to local agencies such as Sacred Heart Mission and Brotherhood of St Laurence. The social enterprise grew as volunteers, donors and other supporters became involved.

'You go anywhere and people hate seeing things thrown out, so once they know you can actually do something with it, they want to help you,' Mr Carson says.

Businesses such as Muffin Break donate fresh food to SecondBite, which redistributes it to community food programs. In doing so, SecondBite fulfils a social need.


When SecondBite started, it operated with just three volunteers in Victoria and moved just over 600 kilograms of food. Now the national headquarters for the organisation, the Kensington warehouse operates with 5 vans, 1 truck, 23 staff and over 600 volunteers. SecondBite has warehouse locations in Melbourne. Brisbane, Sydney, Adelaide, Hobart, Devonport, and hubs in suburban and regional Victoria. They partner with providers in Perth and Darwin, and facilitate direct connections across Australia in regional and rural areas, supplying fresh food to over 1200 agencies nationally, completely free of charge.

SecondBite collects food using its fleet of refrigerated vans. Fresh produce is taken to a warehouse with cold storage and freezer space, where it is sorted and packed into crates for each community food program. The food programs use the deliveries to make up food parcels, cook dine-in meals or run school breakfast or lunch programs. These programs support people who are homeless, women and families in crisis, youth at risk, indigenous communities, asylum seekers and new arrivals to Australia.

SecondBite has also developed a nutrition education program and advocates for an end to food insecurity.

## 8.7.5 Organisations that provide support and advice to small businesses in Australia

Small to Medium Enterprise (SME) owners cannot be experts in all areas of their business. Further, they do not normally have the funds to employ a specialist or consultant to assist with management. They therefore need to possess a variety of skills, including marketing, personnel, finance, administration and public relations skills. Obviously, this multifaceted role is not an easy task. However, the business owner can receive assistance from a large number of government and private support agencies, examples of which are shown in the following diagram.

Sources of support and advice to small businesses in Australia

## Resources

**Digital document** Worksheet 8.6 Promote your business (doc-32732)

**Weblinks**
ACCC
ASIC
NSW Fair Trading
EPA
ATO

### 8.7 Activity: Research and communication

1. In small groups, arrange an interview with a local small business owner. Prepare either a two-page written or five-minute oral report based on this interview. You may wish to develop your report under the following headings:
   (a) Reasons for establishing the business
   (b) Brief history of the business
   (c) Regulations required to operate the business
   (d) Success and failure along the way
2. Advertising a business is vital to its success. Imagine you have found a 'gap' in the local restaurant market. For instance, perhaps no traditional Italian pizza is available or, despite the area's Lebanese population, you can't find a good falafel! Once you have a clear idea of the gap, identify your target market, the needs of the customers and what specialties you would offer. Design a promotional brochure advertising the opening of your business. Be sure to include the following:
   - name and address of the store
   - date of opening
   - hours of trading
   - details of opening specials or other promotional activities.
3. Choose one of the following regulatory bodies and use the related weblink in the Resources tab to learn about this body and complete the questions below.
   - NSW Fair Trading
   - Australian Securities and Investments Commission (ASIC)
   - Australian Competition and Consumer Commission (ACCC)
   - NSW Environment Protection Authority (EPA)
   - Australian Taxation Office (ATO)
     (a) What is the role of this organisation?
     (b) Why is their role important to business?
4. Research a Code of Conduct for a particular business.
   (a) Outline what is included in the business's code of conduct.
   (b) Explain the importance of developing a code of conduct.
5. In small groups, research the different sources of support and advice to small businesses. Outline how each of these organisations can assist small businesses.

### 8.7 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Complete the following table by listing three examples of regulations for which each of the three levels of government is responsible.

| Federal | State | Local |
|---|---|---|
| 1. | 1. | 1. |
| 2. | 2. | 2. |
| 3. | 3. | 3. |

2. Explain why work health and safety laws were introduced.

3. Why is it important for businesses to ensure they comply with environmental regulations?
4. Why is it important to promote a business and its products?
5. Create a table outlining the advantages and disadvantages of the main forms of promotion.
6. Outline reasons why ethical decision-making and corporate social responsibility is important.
7. Why do most small business owners need to seek advice and support?
8. Read the Case Study of Ian and Simone Carson, the owners of SecondBite, and then answer the following questions:
   (a) What motivated Ian and Simone Carson to establish SecondBite?
   (b) Outline the different ways that SecondBite displays corporate social responsiblity.
9. All of us come into contact with federal, state and local government laws every day, often without realising it. Working in pairs, list all the things you have done today since waking up. Next to each item in the list, identify the federal, state or local government laws which might have applied to that particular activity (e.g. driving to school you will be affected by the road laws).
10. Why is it important for small business owners to have a good working knowledge of their legal rights and responsibilities?
11. What would you do in each of the following ethical scenarios?
   (a) Your colleague asks you to cover for her so she can sneak out of work early to go to her son's soccer game. Would you agree?
   (b) Your organisation's policy forbids colleagues from becoming romantically involved. You have become aware that two of your colleagues are dating. Do you report them?
   (c) You overhear a private conversation between your boss indicating that he is going to retrench a colleague of yours in about four weeks' time. This colleague is a good friend of yours. Do you tell them?
   (d) You have witnessed one of your colleagues, who is also a close friend, harassing and bullying another employee. Would you back the victim up if they reported it?
   (e) You are selling a product, but very soon a newer version of the product will be released. Until then you need to sell what you have. Would you tell a customer about the possibility to wait and buy something better?
12. In groups of three or four, research the arguments for and against corporate social responsibility. Which set of arguments do you support? Provide reasons for your answer.
13. Consider the following statement, 'A business must be socially responsible in order to succeed'. Explain whether you agree or disagree with this statement and justify your response.

**Fully worked solutions and sample responses are available in your digital formats.**

# 8.8 Maintaining financial records

## 8.8.1 The importance of maintaining financial records and minimising risk

### The purpose and use of financial records

All small business owners need a set of accurate and up-to-date financial records to track the success of their business and to help minimise risk. Some reasons why it is important for businesses to maintain financial records include:

- *To inform decision-making*: business owners need good financial records to be able to monitor the progress of their business. Business owners need to know where their organisation stands so they can then make informed decisions about the business. Accurate financial records allow the business owner to see whether sales are increasing or decreasing, what their expenses are, which items are selling, whether they are meeting their goals, how much stock they have on hand and how much they need to order. From this information, business owners can make informed decisions about how to operate more efficiently and profitably, which will increase the likelihood of business success.
- *To fulfill legal requirements*: business owners are required by law to keep a range of records for their businesses including business registration documents, leases, contracts, records relating to income and expenses, who they employ, where their business operates from and insurance documentation.
- *To meet your tax obligations*: business owners are responsible for meeting their federal and state tax obligations. They need to keep accurate records to help them prepare their activity statements and

annual income tax return. Some tax records that business owners have to keep include sales records, purchase/expense records, year-end income tax records, banking records and payments to employees and contractors. Without accurate records, business owners can under-pay or over-pay on their taxes, which might get them in trouble with the ATO.

- *To obtain funding or a loan*: lenders and investors will want to see accurate financial records such as a balance sheet and income statements before they loan money to a business. They would be unlikely to invest in or make loans to a business that cannot demonstrate its financial position.
- *To enable business owners to manage their cash flow*: accurate financial records allow business owners to see how much money they have available and whether or not this will be sufficient to meet their obligations when they fall due.

Legally, business owners need to keep records and documents for different lengths of time depending on the government department that needs the information or your business structure. In general, sole traders and partnerships must keep records for at least five years and companies for a minimum of seven years.

## 8.8.2 The features of key business documents and how to interpret them

### Profit and loss statements

A business earns income by selling a good or service to its customers. This is known as trading. To measure how successful a business is at trading, a financial report called a profit and loss statement, or an income statement is drawn up. An **income statement** is a summary of the income earned and the expenses incurred over a period of trading. It allows business owners to see exactly how much money has come into the business as revenue, how much has gone out as expenditure and how much has been derived as profit.

A profit and loss statement can be prepared using the following steps:

- *Step 1:* Record the revenue, which is the income earned by a business from sales.
- *Step 2:* Record the cost of goods sold (COGS). This refers to the value of stock (inventory) that a business has sold to its customers.
- *Step 3:* Calculate the gross profit. This is done by subtracting COGS from revenue, i.e. gross profit = revenue – COGS.
- *Step 4:* Record and total the expenses, which are the costs incurred in running the business. Common expenses include wages and salaries, purchases of raw materials, payments for telephone, electricity and so on.
- *Step 5:* Calculate the net profit or loss. A net profit/loss is the amount remaining when the expenses are deducted from gross profit i.e. net profit = gross profit – expenses.

To understand a profit and loss statement, examine the profit and loss statement of Dipak's Diner, an eat-in and takeaway café.

Income statement for Dipak's Diner

**Dipak's Diner**

*Income statement for the year ending 30 June 2019*

| | $ | $ |
|---|---|---|
| **Revenue** | | 215 000 |
| *less* **Cost of goods sold** | | 90 000 |
| **Gross profit** | | 125 000 |
| *less* **Expenses** | | |
| Wages | 38 000 | |
| Rent | 20 000 | |
| Electricity | 5 500 | 63 500 |
| **Net profit** | | 61 500 |

### Balance sheets

The balance sheet, or statement of financial position, shows the financial position of a business at a particular time. It records three different sets of accounts — value of assets; value of liabilities; and, proprietorship or owner's equity. We can use the example of Dipak's Diner again to explore the various elements in a balance sheet.

Balance sheet for Dipak's Diner

**Dipak's Diner**

*Balance sheet as at 30 June 2019*

| **Assets** | $ | $ | **Liabilities** | $ | $ |
|---|---|---|---|---|---|
| *Current assets* | | | *Current liabilities* | | |
| Cash at bank | 68 000 | | Accounts payable | | 35 000 |
| Stock on hand | 22 300 | 90 300 | | | |
| | | | *Non-current liabilities* | | |
| *Non-current assets* | | | Bank loan | | 55 000 |
| Equipment | 58 000 | | | | |
| Motor vehicle | 37 000 | | *Owner's equity* | | |
| Glasses and cutlery | 12 500 | 107 500 | Net profit retained | 61 500 | |
| | | | Capital | 46 300 | 107 800 |
| **Total assets** | | **197 800** | **Total liabilities and owner's equity** | | **197 800** |

1. *Value of assets*. **Assets** are items of value *owned* by a business. The assets of Dipak's Diner include cash at bank, equipment (ovens, tables and chairs), motor vehicle, and stock on hand (fruit and vegetables and wines). Assets can be divided into two different types:
   i. Current assets, which will be used up or change value within one year. Examples include cash at bank and stock on hand.
   ii. Non-current assets, which will last for longer than a year. Examples include motor vehicle and equipment.
2. *Value of liabilities*. **Liabilities** are the debts *owed* by a business to others. Liabilities can be divided into two different types:
   i. current liabilities, which will need to be repaid in less than one year. Dipak's current liabilities include accounts payable (the money he owes to other businesses like suppliers).
   ii. non-current liabilities, which will need to be repaid in longer than a year. Dipak's non-current liabilities include the long-term bank loan used to buy equipment for the cafe.
3. *Owner's equity*. Owner's equity represents the value of the business to the owner(s). It is sometimes called capital, as it represents the money the owner has invested in the business.

The balance sheet is called the balance sheet for a good reason — it should always balance. This means that the total of items on the left-hand side (the assets) must total the sum of items on the right-hand side (liabilities and owner's equity). This is summarised in the basic accounting equation:

$$\textit{assets} = \textit{liabilities} + \textit{owner's equity}$$

## Cash flow

A cash flow statement indicates the movement of cash receipts (inflows — such as money from sales), and cash payments (outflows — such as payments for expenses), over a period of time. By regularly comparing the totals of receipts and payments, a business is able to calculate its surplus or deficit of cash. This is an important indicator of a business's **liquidity** — the ability of a business to pay its short-term debts on time. A typical cash flow statement is shown at right.

Cash flow statement for Dipak's Diner

**Dipak's Diner**

*Cash flow statement for the year ending 30 June 2019*

| | $ | $ |
|---|---|---|
| **Opening cash balance** | | 11 000 |
| **Cash inflows** | | |
| Cash sales | 75 300 | |
| Interest received | 55 000 | |
| **Total cash inflows (TCI)** | | 130 300 |
| **Cash outflows** | | |
| Wages | 38 000 | |
| Rent | 20 000 | |
| Electricity | 5 500 | |
| **Total cash outflows (TCO)** | | 63 500 |
| **Net cash flow (TCI–TCO)** | | 66 800 |
| **Closing cash balance** | | 77 800 |

### Taxation records

The previous section outlined why it is important for businesses to maintain their financial records. Business owners also need to be aware of exactly what taxation records they need to keep and for how long. The records business owners need to keep depends on their situation, but as a general rule, it is better to keep too many records than not enough.

Generally, business owners must keep records for five years from the date they lodge their tax return. Business owners can keep records in paper or digital format. If a business uses digital records, it is recommended that they keep a back-up.

The types of records that should be kept can be organised into the following categories:

- payments the business has received
- expenses related to payments the business has received
- records relating to the purchase or sale of assets
- tax-deductible gifts, donations and contributions.

As a rule, it is best that business owners keep a record of all their income and expenses.

on Resources

**Digital document** Worksheet 8.7 Maintaining financial records (doc-32733)

## 8.8.3 Strategies to minimise risk and avoid insolvency and bankruptcy

It takes courage to establish and operate a small business. There are so many risks that the small business owner must be prepared to take and manage. However, there are strategies which businesses may put in place to minimise risk and avoid insolvency and bankruptcy. Risk management is the process of:

- evaluating the risks faced
- calculating the possible costs
- implementing procedures to minimise such risks.

Unexpected occurrences may be costly and threaten the viability of the business. Some events could lead to the insolvency of a company or to personal bankruptcy. Thorough planning is required to minimise the damage of these unexpected events. Below are some possible risks and strategies to help reduce their impact on the business.

Possible risks and strategies to minimise risk

| Possible risk | Risk minimisation strategy |
|---|---|
| Rising bad debts | If customers are consistently late in paying, enforce a strict credit policy. The policy could include charging customers late fees for any late payments. |
| Lawsuits | Comply with statutory regulations and take precautions not to harm others — a reasonable duty of care. |
| Falling sales | Conduct market research to find out why sales are falling. Try to reduce costs to ensure the business survives. |
| Machinery breakdowns | Set aside money to cover the costs of repairs and service equipment regularly. Ensure machinery is inspected and serviced regularly and that staff are trained on how to use the machinery correctly. |
| Physical damage | Take out an appropriate insurance policy such as fire, storm, flood or earthquake. |
| Copyright infringement | Obtain protection of your new product or idea (patent). |
| Supplier problems | Use a number of suppliers. Do not rely on only one. |

*(continued)*

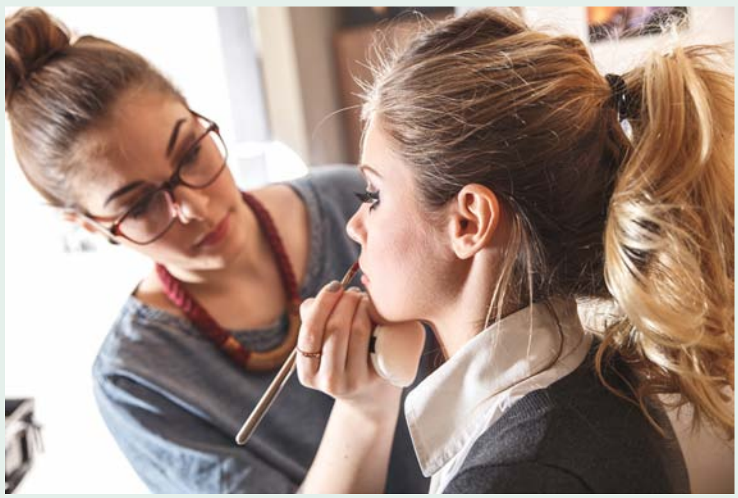
(continued)

| Possible risk | Risk minimisation strategy |
|---|---|
| Ill health | Death or disability insurance can protect your business. |
| Tax obligations | Keep up to date with changes to taxation and keep detailed records. |
| Expanding too quickly | Slow the growth rate to a more sustainable level. |
| Writing cheques in excess of funds | Examine your cash position and talk to your suppliers. |
| Theft | Put in place stock loss and crime prevention measures and improve security. |
| Computer security | Install antivirus software, operate from a secure site, use a VPN (virtual private network) and back up all files. |

## Propose a course of action for a hypothetical business

For each of the scenarios below, propose strategies each business owner could take to minimise risk.

Isabella runs a make-up store in a busy shopping strip in Sydney. There has been an increase in theft on the street where her business is located. In addition to this, there has been an increase in theft in her store. She calculated that in the last six months, she lost $3000 worth of stock, mainly due to shoplifting.



Alex runs a shoe store in a shopping strip in Parramatta. Most of the store's sales come from passing trade, i.e. people walking past his store. A new shopping centre opened a month ago, within walking distance from Alex's store. Since it opened, there have been fewer people passing by his shop.

Jenny owns a café. She has recently experienced a decline in sales due to a new café opening nearby. There has also been an increase in the number of employee injuries. Many of these injuries have occurred due to sharp objects in the kitchen, spillages and manual handling.

Michael owns a bakery store. He wants to increase the variety of baked goods he sells. Before he decided on which new pastries, breads and cakes to sell, he realised that some new items will contain ingredients with a shorter shelf-life. As a consequence, he is concerned about the risk of food poisoning as well as whether or not customers will like the new options.

## 8.8.4 The ways businesses respond to changing economic conditions

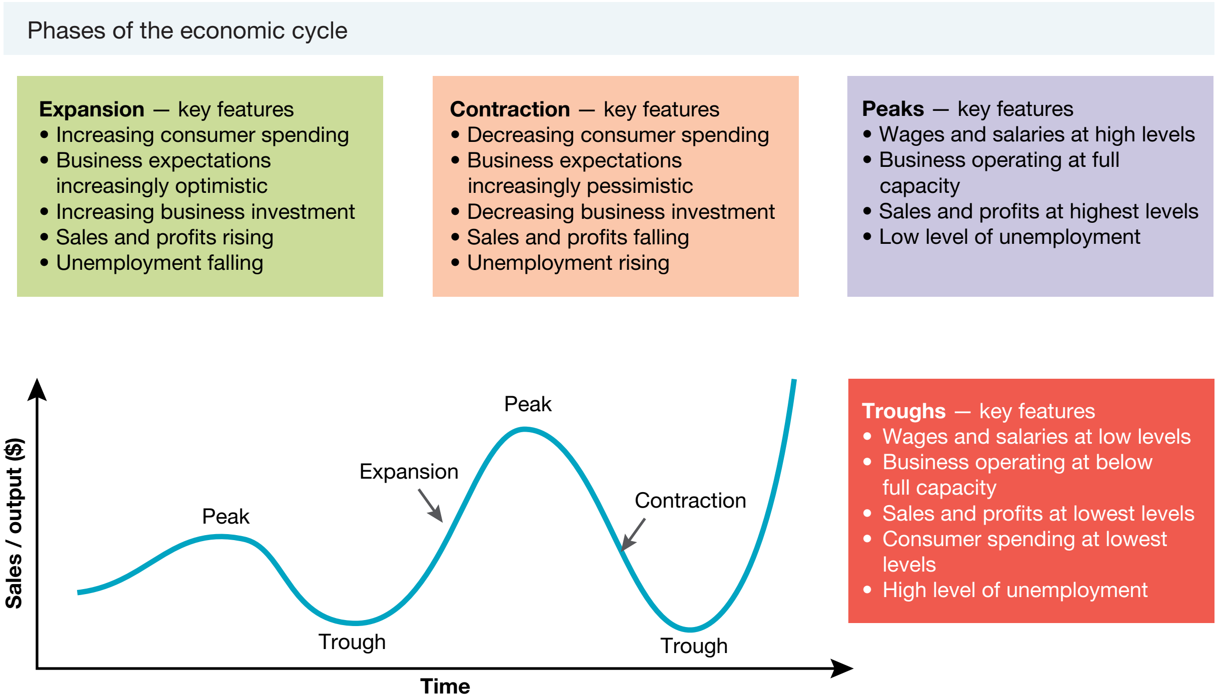
The Australian economy experiences economic 'boom' and 'bust' cycles. These periods of high and low economic activity are referred to as the business cycle. After a period of prosperity, business activity gradually slows until a recession or depression is reached. Eventually, business picks up again until prosperity is restored. This completes the cycle.

Economic forces have an enormous impact on both business and customers. They influence a business's ability to compete and a customer's willingness and ability to spend.

**COMFACT**

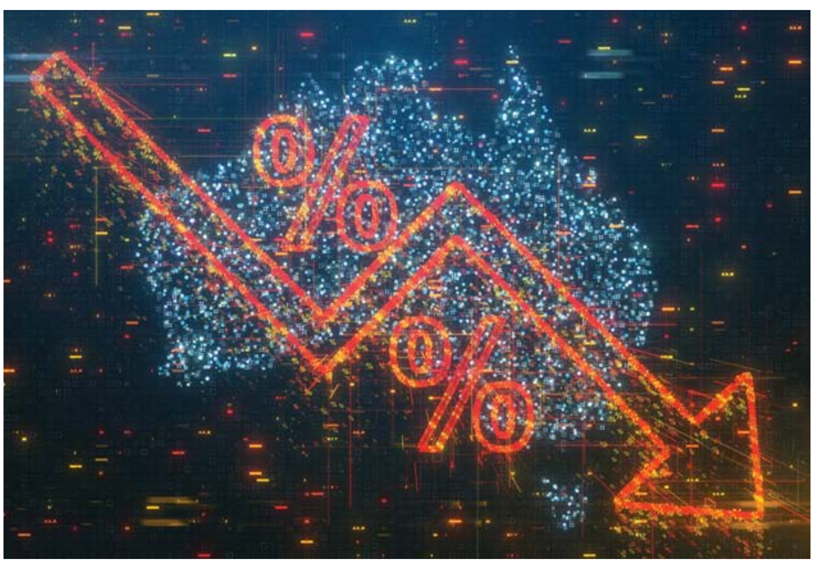
An Australian Bureau of Statistics survey of bankrupt businesses found that 35.2 per cent of owners blame 'economic conditions' as the reason for failure. Twenty-five years ago, the main reason for business failure was lack of business ability. Today only 10.1 per cent of businesses fail for this reason.

The following image shows the impact of each phase of the economic cycle on a business's performance.




The ways businesses respond to changing economic conditions is summarised in the table below:

| Business responses to peaks | Business responses to troughs |
|---|---|
| • Increase employees' wages and salaries<br>• Increase production to take advantage of an increase in sales<br>• Hire more staff<br>• Increase prices<br>• Expand business<br>• Invest in new equipment, technology or assets | • Keep employees' wages and salaries at current levels<br>• Decrease or maintain production at current levels<br>• Decrease the size of the workforce<br>• Keep prices at the same level<br>• Put a stop to expansion or possibly close some locations<br>• Maintain current equipment, technology or assets |



## 8.8.5 Key issues, processes and strategies related to running a business

Establishing a business is just the beginning. Keeping the business successfully running takes time, effort, dedication and management. There are four main key business functional areas — operations, marketing, finance and human resources. Some of the key issues, processes and strategies related to running a business have been categorised under these functional areas and are summarised in the following graphic.

The key issues, processes and strategies related to running a business

**Key issues, processes and strategies related to running a business**

**Management of Operations**

This involves:

- *Inputs* – determining and purchasing resources to produce goods or services
- *Transformation* – converting all the resources into the final good or service
- *Outputs* – deciding on the final product and/or service that will be produced
- *Inventory management* – to have the right amount of stock on hand
- *Supply chain management* – determining how to manage the flow of supplies
- *Quality management* – ensuring that goods and services are produced to meet set standards

**Management of Human Resources**

This involves:

- *Acquisition* – recruitment and selection of staff
- *Training and development* – teaching staff skills so they can do their jobs more effectively
- *Motivation* – rewarding people to achieve the business goals
- *Performance management* – assessing the performance of employees
- *Resolving workplace disputes* – implementing procedures to resolve disputes effectively
- *Separation* – managing when and how employees leave the business

**Management of Finance**

This involves:

- *Source of funds* – determining where to get funds from
- *Preparing financial statements* – cash flow statements, income statement and balance sheets
- *Financial ratios* – analysing and interpreting financial statements
- *Cash flow management* – implementing strategies to ensure the business has enough funds to meet their obligations

**Management of Marketing**

This involves:

- *Situational analysis* – understanding the business's current position through undertaking a SWOT analysis
- *Market research and marketing objectives* – conducting research and setting clear and achievable goals
- *Target market* – determining the group of customers the business intends to sell products to
- *Product* – quality, design, branding and packaging
- *Price* – setting the 'correct' price for the goods and services
- *Promotion* – methods used to inform, persuade and remind customers about the products
- *Place (distribution)* – how to get the goods or service to the customer

### 8.8 Activity: Research and communication

1. Arrange for a representative of your nearest Business Enterprise Centre to visit your class. Select a panel of interviewers from the class and prepare a list of questions to conduct a 'current affairs'style interview with the representative. You may wish to video the interview. Make sure you explain all this to the representative before she or he arrives at the school.
2. In pairs, reorder these scrambled words to form a sentence. You will get clues from the text. The first word is in the correct position.
   (a) A competent needs small owner business manager to risk a be.
   (b) Thorough required planning damage minimise is unexpected to events of the.
   (c) It strategies develop minimisation important risk is to.
3. As a class visit a local business. Have a representative of the firm explain:
   - the key strategies the firm adopts to ensure its future success
   - the processes involved in the day to operations
   - key issues that are currently affecting the firm.

### 8.8 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Create a mind map summarising some of the main reasons why it is important for business owners to maintain financial records.
2. How do you calculate a business's net profit?
3. Outline the three sets of accounts recorded in a balance sheet.
4. Distinguish between an asset and a liability.
5. What does 'owner's equity' represent?
6. Complete the following accounting equation:
   Assets = ____________ + ____________
7. What is meant by the term 'liquidity'?
8. Identify some of the taxation records businesses should keep.
9. What is meant by the term 'risk management'?
10. Identify a suitable risk minimisation strategy for the following risks:
    (a) physical damage
    (b) supplier problems
    (c) falling sales
    (d) lawsuits
    (e) computer security.
11. How does the economic cycle impact businesses?
12. What are the four key business functions?
13. Julian Moloney owns and operates Blue Hills Corner Store. Last financial year, he had a sales revenue of \$178 000. His cost of goods sold totalled \$75 000. His operating expenses were: electricity \$1800, advertising \$2200, interest charges \$3000, salaries \$12 000, and rent \$15 000.
    (a) Construct an income statement for Julian's business and advise the amount of his net profit (or loss) for the year.
    (b) Advise Julian on how he could increase the net profit for the following year.
14. Sandra Dyer, who makes customised jewellery, has asked you to help construct a balance sheet. Draw up her balance sheet as at today's date from the following: cash at bank \$200, building \$17 800, accounts payable \$6500, machinery \$5200, accounts receivable \$800, motor vehicle \$7000, mortgage \$5500, stock \$2000, net profit retained \$10 000 and capital \$11 000.
15. Adriana owns a craft shop. During July, the business sold \$8200 of craft goods and received \$200 in bank interest. She paid her sales assistant a monthly wage of \$1350. During this month, the business spent \$2800 purchasing craft equipment, \$350 for rent, \$750 for insurance and \$150 for electricity. Prepare a cash flow statement for the month of July for Adriana's business.
16. Why do you think it is important to manage risk?

**Fully worked solutions and sample responses are available in your digital formats.**

# 8.9 Thinking Big research project: Pitch a business idea

## 8.9.1 Scenario

New businesses start every day. Some of them end up being very successful while others don't fare quite as well. Many businesses fail within the first three years.

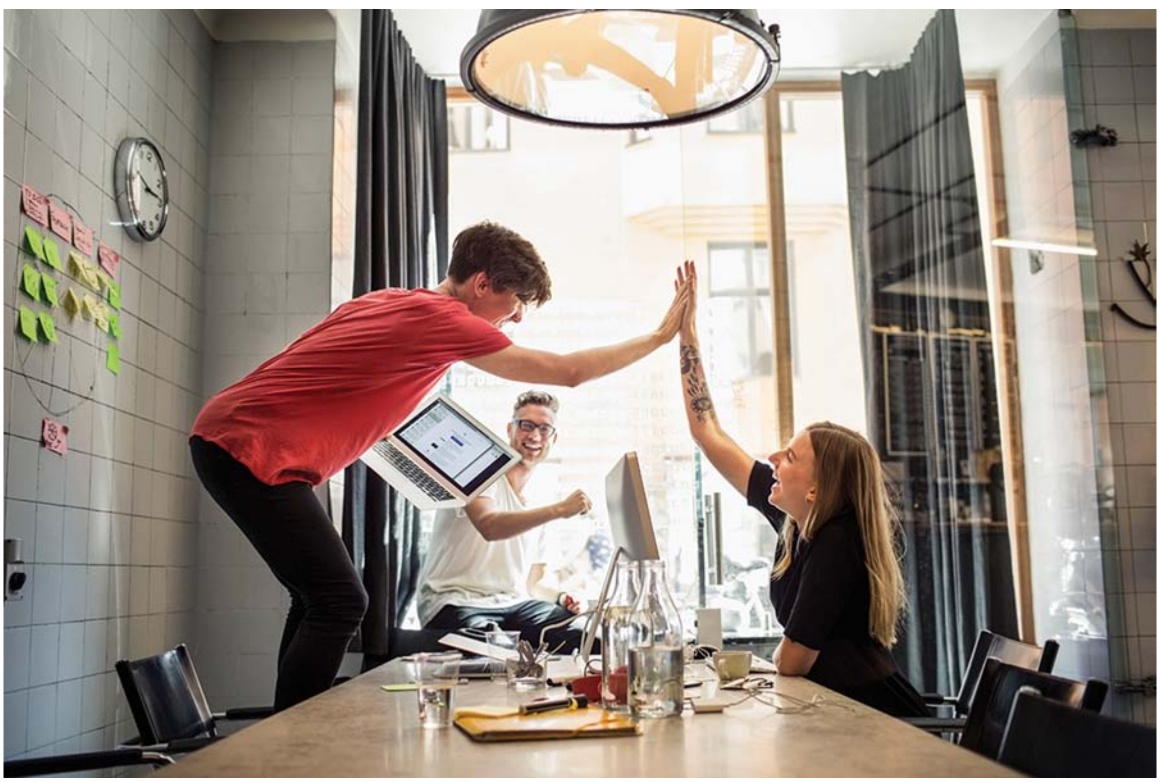
Often, businesses fail because poor decisions have been made in the initial planning stage. Careful planning can avoid mistakes, prepare a business for hard times and allow a business to take advantage of unexpected opportunities.

## 8.9.2 Task

Your task is to plan a unique business using the parameters provided below and then prepare a business pitch. You will be able to work by yourself or with a group. Your teacher will determine the maximum and minimum group sizes.

To determine the business you will run, consider the following people to work with:

- One of your friends or family members is a very good tennis player. They have always wanted to work in that area.
- One of your friends or family members has a passion for gardening.
- One of your friends or family members is a talented musician and currently is studying to be a teacher.
- One of your friends or family members is a talented artist and has undertaken courses in art, signwriting, spray painting and other similar types of courses.
- One of your friends is really good at computers and another friend is a very talented gamer.
- One of your friends is talented in some other area not shown on this list — the talent you choose must be approved by your teacher.



## 8.9.3 Process

- Open the ProjectsPLUS application for this topic. Click the **Start new project** button to enter the project due date and to set up your project group if you wish. Working in groups will enable you to share responsibility for the project. Save your settings and the project will be launched.
- Navigate to the **Research forum**, where you will find starter topics loaded to guide your research. You can add further topics to the Research forum if you wish. When you have completed your research, you can print out the **Research report** in the Research forum to easily view all the information you have gathered.
- In the **Media centre** you will find an assessment rubric to guide your work and some weblinks that will provide a starting point for your research.
- You are to prepare a 'pitch' to the friend and/or family member. The 'pitch' is to convince them to go into business with you, using your business knowledge and skills and their specific talent. The pitch should convince them to join you in a unique business venture — something that is new or innovative or needed in your area. Your pitch could include:
  - name of the business
  - business logo
  - description of what the business will do
  - type of business ownership
  - location of business
  - target market information.
- Provide a list and explanation of the qualities you possess and that your partner may possess that will make your business a success.
- In addition, you will provide explanations and justifications for each of the decisions you have made.
- Source any images that may help illustrate your points and make your pitch enticing.
- The pitch should be delivered as a written report but could also be given as an oral presentation.
- Submit your business pitch to your teacher for assessment and feedback.


on Resources

ProjectsPLUS Pitch a business idea (pro-0179)

# 8.10 Review

## 8.10.1 Summary

Having explored this topic, you can now:

- identify the key reasons people choose to start their own business, the advantages and disadvantages to being self-employed and the range of skills and personal characteristics of an entrepreneur
- explain the steps involved in identifying and assessing opportunities to run a small business including market research, location, demographics, competition and target markets
- distinguish between the main legal structures for operating private businesses — sole trader, partnership, private company, public company and incorporated association
- understand the range of options for financing a business with a mix of debt and equity finance
- understand the steps involved in the preparation of a loan application
- differentiate between the different ways of going into business — setting up a new business, purchasing an existing business or purchasing a franchise — and the advantages and disadvantages of each
- understand how businesses undertake the processes of staffing, equipping premises, identifying an appropriate location and obtaining realistic valuations
- identify factors contributing to the success or failure of businesses
- identify regulations from all three levels of government (federal, state and local) that must be followed by business owners
- outline the range of options available for promoting a business
- explain the importance of ethical decision-making and corporate social responsibility
- identify the organisations that provide support and advice to small businesses
- explain why maintaining accurate and up-to-date financial records are essential for tracking business success, to inform decision making and to fulfill legal requirements
- list the key features that are included in a range of financial documents
- list strategies that can be put in place to minimise risk
- identify the key issues, processes and strategies to running a business for each of the key business functions.

## 8.10.2 Key terms glossary

**assets** items of value
**business opportunity** something an entrepreneur can see as an avenue to success
**competition** refers to rivalry among businesses that try to supply the needs and wants of a market
**corporate social responsibility** when businesses consider the interests of stakeholders, society and the environment when making economic and business decisions
**cost–benefit analysis** a detailed examination of the strengths and weaknesses of different alternatives in order to see whether the benefits outweigh the costs
**debt** money owing to external sources; e.g. a bank
**demographic factors** population characteristics that affect customer spending which include: age, ethnicity, gender, marital status, family size and income
**entrepreneur** a person who sets out to build a successful business in a new field. An entrepreneur's methods are sometimes regarded as innovative.
**equity** funds contributed by the business owner(s)
**franchise** involves buying the rights from another business to distribute its products under its name
**goodwill** the monetary value of a business's reputation
**income statement** a summary of the income earned and the expenses incurred over a period of trading
**incorporated** refers to the process companies go through to become a separate legal entity from the owner/s
**incorporation** process whereby a company has become a separate legal entity from its owners (shareholders)
**initiative** the ability to be resourceful and decide, in an independent way, what to do and when to do it

**innovation** the process of creating a new or significantly improved product, service or process (way of doing something)
**liabilities** the debts owed by a business to others
**limited liability** if the business cannot pay its debts, a shareholder generally loses only the money he or she invested in the business
**liquidity** the ability of a business to pay its short-term debts on time
**market research** collecting and analysing information about customers and the business opportunities available
**niche market** also known as a concentrated or micro market, a niche market is a narrowly selected target market segment
**partnership** a business owned and operated by between two and twenty people
**private company** an incorporated businesses with between two and fifty private shareholders
**promotion** methods used by a business to inform, persuade and remind customers about its products
**prospectus** a legal document issued by companies that are offering securities for sale
**resilience** the ability to cope with the ups and downs, adapt well to change and bounce back from challenges
**secured loan** where the borrower offers an asset as security for the loan
**sole trader** a business that is owned and operated by one person
**sustainable competitive advantage** this refers to the ability of a business to develop strategies that will ensure it has an 'edge' over its competitors for a long period of time
**target market** the group of customers to whom the business intends to sell its products
**taxation** a government levy or revenue measure that can be used as part of the budget to affect the level of prices, the growth rate and the distribution of income
**unlimited liability** when a business owner is personally responsible for all the debts of his or her business
**unsecured loan** where the borrower does not need to have an asset to offer as security, but the interest rate is usually higher
**vision** the clear, shared sense of direction that allows people to achieve a common goal

### on Resources

| | |
|---|---|
| **Digital documents** | Key terms glossary (doc-32671) |
| | Match up (doc-32758) |
| | Crossword (doc-32791) |
| | Wordsearch (doc-32802) |
| **Interactivities** | Wordsearch (int-7905) |
| | Crossword (int-7888) |

## 8.10 Exercises

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

### 8.10 Exercise 1: Glossary quiz online only

### 8.10 Exercise 2: Multiple choice quiz

1. Michael and Rosie own a small business. They have unlimited liability. Which type of legal structure is this?
   A. Sole trader
   B. Partnership
   C. Public company
   D. Private company
2. Which of the following is a secondary source of data that businesses can use for market research?
   A. Interviews
   B. Focus groups
   C. Journal articles
   D. Surveys

3. Which of the following is a state government regulation?
   A. Competition and Consumer Act
   B. Deduction of income tax
   C. Payment of superannuation
   D. Work health and safety regulations
4. What is an advantage of debt financing over equity financing?
   A. Debt finance requires regular payments.
   B. Debt finance requires payment of principal.
   C. Debt finance does not involve any loss of ownership.
   D. Debt finance does not have to be repaid.
5. An accountant has been given the following information by her client.

| | | | |
|---|---|---|---|
| Cash | $20 000 | Inventory | $55 000 |
| Bank loan | $480 000 | Buildings | $650 000 |
| Creditors | $75 000 | | |

   What is the value of owner's equity?
   A. $110 000
   B. $170 000
   C. $210 000
   D. $230 000
6. Which of the following statements about franchising is not true?
   A. Franchising is experiencing enormous growth in Australia.
   B. Operating a franchise is generally a high-risk business venture.
   C. The product sold by a franchisee is usually a well-known product.
   D. Franchisors usually provide ongoing training and support.
7. Calculate the net profit or loss for a business based on the following information:

| | |
|---|---|
| Revenue | $310 000 |
| COGS | $64 000 |
| Expenses | $89 000 |

   A. $157 000
   B. $221 000
   C. $285 000
   D. $463 000
8. In relation to the economic cycle, which of the following would be a feature of a peak?
   A. Decreasing sales and profits
   B. Low level of unemployment
   C. Decreasing business investment
   D. Consumer spending at lowest levels
9. Which term is used to describe how businesses consider the financial, environmental and social impacts of their decisions?
   A. Ethical decision-making
   B. Environmental sustainability
   C. Corporate social responsibility
   D. Environmental corporate responsibility
10. Which method of promotion uses print or electronic mass media to communicate a message about the product?
   A. Advertising
   B. Publicity
   C. Personal selling
   D. Sales promotion

### 8.10 Exercise 3: Knowledge and understanding

1. Identify ONE organisation that can provide support and advice to small businesses and explain how this organisation can assist businesses.
2. Outline THREE characteristics of a successful entrepreneur.
3. Outline the steps involved in carrying out market research.
4. Outline some considerations that should be taken into account when estimating a business's value.
5. Describe the features of a profit and loss statement.
6. Explain THREE factors that have contributed to the high failure rate of small businesses.
7. Explain THREE factors businesses should consider when determining their location.
8. Explain why it is important for a business to identify and select a target market.
9. Discuss TWO promotional strategies businesses can use.
10. Distinguish between debt and equity finance.
11. Outline under which conditions it would be most beneficial to establish a new business from scratch.
12. Discuss the establishment option of purchasing an existing business.
13. Compare TWO different organisational structures.
14. Discuss why it is important for businesses to demonstrate corporate social responsibility.
15. Explain the purpose of maintaining financial records.

### 8.10 Exercise 4: Challenge your understanding

1. Discuss the advantages and disadvantages of purchasing a franchise for both the franchisor and the franchisee.
2. How can the demographics of an area impact on the success of a business?
3. Select ONE state and ONE federal regulation affecting business operations and explain how this regulation affects businesses.
4. Explain how THREE factors can impact on the likely success of a business.
5. Identify THREE different risks businesses can face. For each risk, recommend TWO strategies businesses can implement to minimise the chance of these risks occurring.
6. Recommend THREE strategies businesses could implement to respond to a downturn in the economic cycle.

**Fully worked solutions and sample responses are available in your digital formats.**

**on** Resources

**Digital documents** Worksheet 8.8 Wrap up! (doc-32813)
Glossary quiz (doc-32769)
Multiple choice quiz (doc-32780)

**eWorkbook** Customisable worksheets for this topic (ewbk-0865)

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OPTION

# 9 Law in action

## 9.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS at www.jacplus.com.au.

### 9.1.1 Introduction

Crossing the street, attending school, buying a sandwich, owning a mobile phone, driving a car or riding a pushbike are all activities that involve the law. Every day you come into contact with the law, whether you realise it or not.

Most people know something about the law. We learn about it because we, as individuals, are part of a society that has rules and regulations. The laws of our community are, therefore, part of our everyday lives. The law is there to protect your rights and to outline your responsibilities.

A wide range of laws affect many aspects of our daily lives and help maintain order within our society.

CONTENT FOCUS

On completion of this topic, you will have:

- investigated a range of situations in which individuals may come in contact with the law
- examined the legal rights and responsibilities of individuals in society
- examined the range of options available for dispute resolution.

on Resources

| | | |
|---|---|---|
| **Video eLesson** | Law in action (eles-3514) | |
| **Digital documents** | Key terms glossary (doc-32672) | |
| | Worksheet 9.1 Start up! (doc-32734) | |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0866) | |

# 9.2 Contact with the law

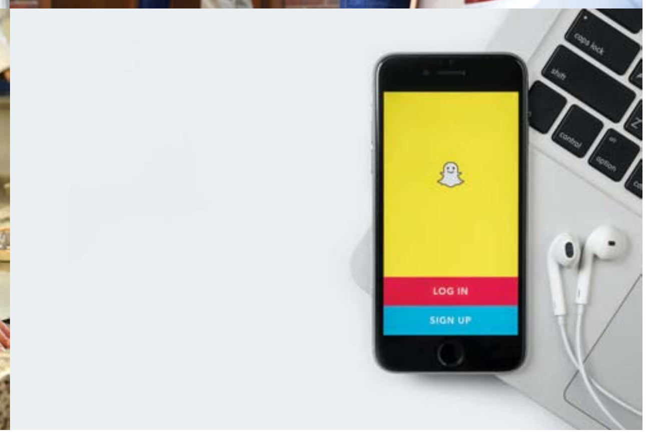
## 9.2.1 Legal capacity

'Sorry, but you can't come in unless you have some identification that shows you are 18 or over', said the attendant at the door of the club.

What the attendant is referring to is a person's legal **capacity**; that is, the ability of a person to do something. A person's age (and mental status) can affect her or his capacity. For example, the law treats a person under 18 years of age, a **minor**, differently from an **adult**, a person aged 18 years or over. However, there are some rights you may gain before you turn 18. The following table indicates how old you must be to carry out certain activities.

Minimum age requirements

| Activity | Minimum age | Comment |
|---|---|---|
| Leave school | 17 | Unless you have a full-time job, attend TAFE or are being home schooled |
| Drink alcohol | 18 | Once you turn 18, you can buy alcohol at a bottle shop to consume at home or buy a drink at a licensed pub or restaurant. |
| Move out of home | No law | No law stipulates that you can't move out of home before you turn 18. In most cases, however, you need your parents' or carers' permission and a safe place to go. |
| Get a full-time job | 16/17 | In order to be able to work full-time you have to:<br>• be 17 years of age<br>• have completed year 10.<br>If you are under the age of 16, you can still begin full-time work if you seek an exemption to leave school and you have a job lined up. |
| Get a tattoo | 18 | If you are under the age of 18 and want a tattoo you will need your parents' or guardians' permission in writing; it should give detail about the size, content and location of the tattoo on the body. |
| Open a Snapchat account | 13 | Snapchat's policy is that you have to be at least 13 years of age before you can sign up to their app. |




## CASE STUDY

### Bicycles and the law

A bicycle is defined as a vehicle with one or more wheels that is built to be propelled by human power through a belt, chain or gears. In Australia, a bicycle is considered a vehicle, therefore cyclists are required to obey road rules, including stopping at red lights or stop signs, giving way as indicated by signage and giving hand signals when changing direction.

To be a legal road vehicle during the day, a bicycle must have:

- at least one working brake
- a working bell or horn fitted to it.

To be a legal road vehicle at night, a bicycle must also have:

- lights fitted and in use when riding at night
- a red rear reflector that is clearly visible for 50 metres.

It is compulsory to wear an approved helmet correctly when riding a bike. This applies to all cyclists, regardless of age, and includes any child being carried as a passenger. Failing to obey road or bicycle rules may result in a fine.

Laws relating to bicycle use are intended to protect cyclists and other road users. What laws are being broken here?

## CASE STUDY

### Pets and the law

Being the owner of a dog is a big responsibility. These responsibilities are set out in the *NSW Companion Animals Act 1998* and the *Companion Animals Regulation 2018*. The Act gives local councils the power to enforce the law to ensure that owners meet their responsibilities. Some breeds of dog, such as the American pit bull terrier, Japanese tosa, dogo Argentino and fila Brasileiro are called 'restricted breeds' and these have a range of more stringent rules of ownership.

The cartoons in this section show some of the responsibilities of pet ownership, while the table outlines the fines for failing to meet various responsibilities.

| Common penalties for failing to meet dog ownership responsibilities | |
|---|---|
| Animal not microchipped | $165 |
| Animal not registered | $275 |
| Dog not on lead in public place | $330 |
| Failure to remove dog faeces | $275 |
| Dog in prohibited place | $330 |
| Dog attacks any person or animal | $1320 |

*Note:* these figures will vary depending on local council regulations and fines.

The various responsibilities placed on pet owners are intended to keep both pets and the public safe.



## Resources

**Digital document** Worksheet 9.2 Law in action puzzle (doc-32735)

**Weblink** Youth Law Australia

### 9.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is meant by the term 'capacity'?
2. At what age does a minor become an adult?
3. At what age may you legally:
   (a) leave school
   (b) get a full-time job?
4. List the legal requirements for a bicycle:
   (a) at night
   (b) in the daytime.
5. Study the illustration of the cyclist in the 'Bicycles and the law' case study and list all the laws that are being broken.
6. Which level of government is responsible for enforcing the law relating to dog ownership?
7. Study the 'Pets and the law' case study cartoons, showing responsibilities of pet owners, and the table, which lists some penalties for failing to meet these responsibilities. Outline the consequences for failing to meet three of the responsibilities of owning a dog.
8. Name one restricted dog breed. Why do you think some breeds have more stringent rules of ownership?
9. Use the **Youth Law Australia** weblink in the Resources tab to discover and then outline the situation regarding:
   (a) young people getting a tattoo
   (b) when you can apply for a passport
   (c) when you can be charged with a criminal offence.

**Fully worked solutions and sample responses are available in your digital formats.**

# 9.3 Contact with the criminal law and elements of crime

## 9.3.1 Criminal law

**Criminal law** deals with how people should behave; that is, what they can and cannot do. Criminal law deals with offences such as armed robbery, murder, drink driving, fraud, rape, shoplifting and not paying train fares.

Criminal law covers many aspects of expected social behaviour. Which of these offences involve criminal law?

## 9.3.2 Young people and criminal offences

### Accused

Once a person is 10 years old they can be **accused**; that is, **charged** with an alleged criminal offence. Children under 10 are not seen as mature enough to commit criminal offences.

Children aged between 10 and 14 years have a limited responsibility for offences they commit. If they are charged with a crime, it must be proven in court that they knew what they did was 'seriously wrong'. A commonly used defence for people in this age group is that they did not fully understand the consequences of their actions.

People who are under 16 and found guilty of an offence will have no conviction (a finding of guilty) recorded against them unless it was a serious offence. If a conviction is recorded against them in the Children's Court, they can have that conviction wiped from their record after three years if they have not been in any more trouble.

### Witness

A **witness** is a person who gives **evidence** in court. Witnesses must swear an **oath**: a promise to tell the truth. The oath is usually sworn while holding a religious text such as the Bible or Qur'an, or by making an affirmation if the person has no religious beliefs. Generally, children can be called as witnesses only when it can be shown that they understand the 'oath'. An example of an oath is shown on right.

An example of an oath sworn by witnesses in court.

I SWEAR BY ALMIGHTY GOD THAT THE EVIDENCE I SHALL GIVE TO THE COURT IN THIS CASE WILL BE THE TRUTH, THE WHOLE TRUTH AND NOTHING BUT THE TRUTH.

### Victim

A **victim** is a person who is injured or killed by another person in an act of violence. A young person can be a victim of a criminal offence at any age.

## 9.3.3 Elements that need to be proven to convict someone of a crime

To find the accused guilty of a crime, the prosecution must prove that the accused not only *committed* the act, but also had the *intention to commit* a wrongful act. Criminal liability depends on the presence of two elements:

1. Guilty act (from Latin, *actus reus*). This means that the accused actually committed the offence and did not just think about doing it.
   The main features of *actus reus* are:
   - the act, or omission, actually occurred
   - it was done by the accused
   - it was voluntary; not committed under force.
2. Guilty mind (from Latin, *mens rea*). This means that a person must have intended to commit the crime. It can take several forms including intending to commit a crime (such as robbing a bank), being reckless (such as driving under the influence of drugs or alcohol), and being negligent (such as failing to give someone first aid).

### CASE STUDY

#### McConnell versus R 1977 NSWLR 714

Three men named McConnell, McFarland and Holland had kicked, beaten and stabbed a man named Bergmann. They thought they had killed him so they threw his body into a river. Bergmann was not dead when he was thrown into the river; however, he died from drowning.

The counsel for the defence claimed that McConnell, McFarland and Holland did not have the intention of killing Bergmann (*mens rea*) when they threw him into the river and therefore they could not be convicted of murder.

For the accused to be found guilty of a crime, it must be determined that both *actus reus* (guilty act) and *mens rea* (guilty mind) were present.


## 9.3 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. The illustrations in section 9.3.1 show several different situations. Which ones would involve criminal law?
2. Complete the sentences by filling in each blank space with a word from the options provided.
   **witnesses oath criminal ten Children's charged victim public *mens rea* murder**
   (a) ___________ law deals with how people should behave.
   (b) Criminal law deals with offences such as armed robbery, ___________, drink driving and fraud.
   (c) Children under the age of ___________ are not considered mature enough to be charged with a criminal offence.
   (d) Once a person is 10 years old, they may be accused or ___________ with a criminal offence.
   (e) People under the age of 18 will appear in the ___________ Court.
   (f) People who give evidence in a court are known as ___________.
   (g) The Children's Court is closed to the ___________.
   (h) A promise to tell the truth in a court is known as an ___________.
   (i) A ___________ is a person injured or killed by someone in an act of violence.
   (j) The two elements of a crime are *actus reus* and ___________ ___________.
3. Refer to the 'McConnell versus R' case study. Do you believe that McConnell, McFarland and Holland intended to commit murder at any stage? Why?

4. Has a crime been committed in the following cases? Justify your answers by referring to the elements of a crime.
   (a) Jillian and Andrew, aged 18 and 19, snatched an elderly lady's purse as she came out of a supermarket. The victim returned to the shop for help, became distressed and died from a heart attack.
   (b) Victor Natui owned two Rottweilers. An elderly man, Tom, kept a vegetable patch on the block next door. One day when Tom came to check the vegetables, the neighbour's dogs had escaped. They attacked Tom and mauled him to death.

**Fully worked solutions and sample responses are available in your digital formats.**

# 9.4 Punishment for a crime

## 9.4.1 Forms of punishment

Until changes were introduced towards the end of the nineteenth century, many different punishments were used against people who broke the law. Punishments included whipping, exile, deportation, torture (using devices such as the rack or thumbscrews) and **capital punishment**, where an offender is put to death. Some methods by which capital punishment has been carried out include hanging, electrocution, gas chamber, guillotine, shooting and lethal injection. No-one has been executed in Australia since Ronald Ryan was hanged in 1967.

### CASE STUDY

### The Ronald Ryan case

Ronald Ryan and Peter Walker escaped from Pentridge Prison (Melbourne) in December 1965. During the escape, a prison officer named George Hodson was shot and killed.

Ryan and Walker were recaptured in Sydney after a nationwide manhunt. They had been free for 19 days. While at large, they held up a branch of the ANZ Bank, and Walker shot dead a man who had recognised him.

Ryan was charged with the murder of Prison Officer Hodson. His trial before Judge Starke began on 15 March 1966. Ryan claimed that he did not fire any shots and that a bullet fired by one of the guards may have killed Hodson. However, the jury found him guilty and Judge Starke imposed the death penalty.

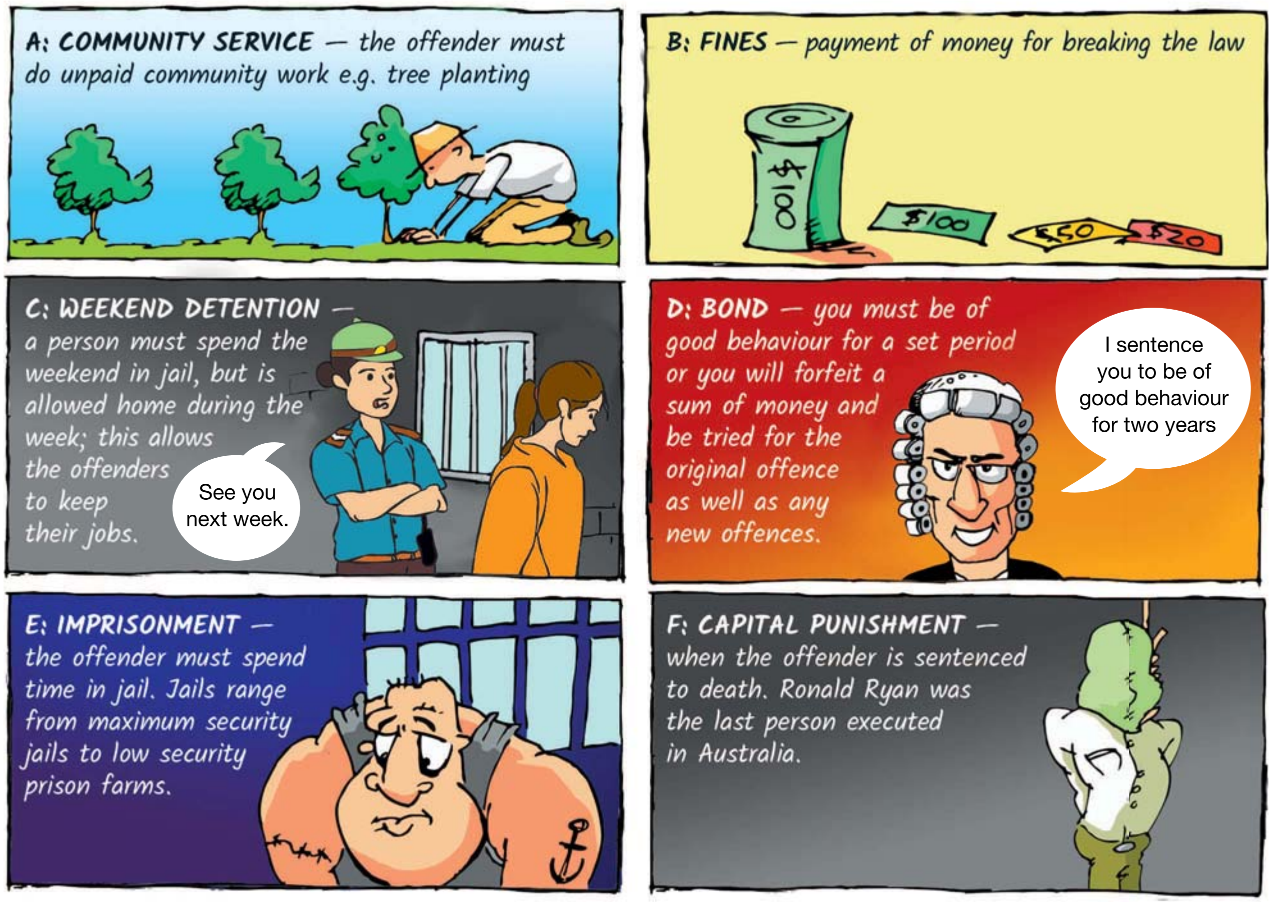
Despite a nationwide protest, Ryan was executed by hanging at Pentridge Prison on 3 February 1967. There is still controversy as to whether Ryan fired the fatal shot. Over the next 20 years, all states in Australia abolished capital punishment.

In Australia today, when a person is found guilty, the magistrate or judge imposes an appropriate punishment. They have a large number of options to choose from, including fines, community service, weekend detention, home detention, **good behaviour bonds**, court-mandated behaviour change courses (for example, drink-driving education) and imprisonment.

## 9.4.2 Common penalties for crimes

When sentencing a person, a magistrate/judge takes into account factors such as a guilty plea, circumstances of the crime (for example, the degree of violence), prior convictions and the level of hardship that the sentence may cause (for example, a person who is convicted of drink driving needing a driver's licence for their work).

Forms of punishment




The following table shows common penalties for drink driving. Many fines are now expressed in terms of penalty units. This makes it easier to increase the fines so as to keep them in line with inflation. Currently a penalty unit is valued at $110.

Penalties for drink driving from 20 May 2019

| Crime | First offence | Second or subsequent offences |
|---|---|---|
| **Driving with a low-range prescribed concentration of alcohol (breathalyser reading of .05 to .079)** | 20 penalty points, licence disqualification of 3 to 6 months coupled with an on-the-spot fine | 30 penalty points and licence disqualification of 6 to 12 months |
| **Driving with a mid-range prescribed concentration of alcohol (breathalyser reading of .08 to 0.149)** | 30 penalty points and/or 9 months jail; licence disqualification of 6 to 12 months | 50 penalty points and/or 12 months jail; licence disqualification of 1 to 3 years |
| **Driving with a high-range prescribed concentration of alcohol (breathalyser reading of .15 or above)** | 30 penalty points and/or 18 months jail; licence disqualification of 1 to 3 years | 50 penalty points and/or 2 years jail; licence disqualification of 2 to 5 years |

## CASE STUDY

### Jordan's poor decision

Jordan was 19. He had a very bad driving record. His offences included speeding, driving without a licence and a mid-range drink-driving conviction.

On the night of his brother's 21st birthday party he overindulged in the party spirit and drank a great deal. Unfortunately, at the end of the party Jordan refused to take an Uber with the others and instead got behind the wheel of his old Nissan Skyline and headed for home.

He was stopped at a roadside random breath testing station and recorded a blood alcohol reading of 0.23.

When he went to court, the magistrate said, 'I hope you have your toothbrush with you! I am sentencing you to nine months imprisonment, with six months non-parole. I do this to teach you a lesson before you kill someone'.

**on** Resources

**Digital document** Worksheet 9.3 Punishment for a crime (doc-32836)

### 9.4 Activity: Research and communication

1. Conduct a class debate on the following:
   'Capital punishment should be reintroduced for offences such as murder, child molestation and terrorism.'

### 9.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Complete the sentences below by filling in the blank spaces with a word from the options provided.
   **capital detention convictions fine bond community hanging maximum**
   (a) A ___________ is the payment of money as punishment for breaking the law.
   (b) ___________ service is where an offender must do unpaid work such as tree planting.
   (c) When a person spends their weekend in jail, it is known as weekend ___________.
   (d) When a person is sentenced to death, it is known as ___________ punishment.
   (e) There are different types of jails including ___________ security and low security prison farms.
   (f) A ___________ is when you agree to be of good behaviour for a period of time or you will forfeit a sum of money.
   (g) When determining a person's sentence, a magistrate will take into account factors such as any prior ___________.
   (h) The only means by which capital punishment was carried out in Australia was ___________.
2. Refer to the case study of Ronald Ryan. Match each name in the table below with the appropriate description.

| Name | Description |
|---|---|
| Ronald Ryan | Murdered prison officer |
| Peter Walker | Last person to be executed in Australia |
| George Hodson | Ordered the execution by hanging of Ronald Ryan |
| Judge Starke | Ronald Ryan's accomplice |

3. Refer to the 'Jordan's poor decision' case study and also the table in section 9.4.2, showing penalties for drink driving.
   (a) State three offences for which Jordan had been previously convicted.
   (b) Would Jordan have been charged with a low-, mid- or high-range drink-driving offence?
   (c) What is the maximum jail sentence that Jordan could have received for his latest offence?
   (d) How long could Jordan have been sentenced to jail for his first mid-range drink-driving charge?
   (e) Why do you think the magistrate resorted to a jail sentence for Jordan's latest offence?

**Fully worked solutions and sample responses are available in your digital formats.**

# 9.5 Contact with civil law

## 9.5.1 The difference between civil and criminal law

**Civil law** deals with non-criminal matters involving disputes between individuals and organisations. In contrast, criminal law involves doing something that is considered to be an offence. Where a civil wrong is successfully proven in court, the plaintiff will ask for money as compensation; this is known as seeking damages.

Sometimes, the same incident may involve both criminal law and civil action. For example, Lee snatches Fiona's bag and, in doing so, breaks her arm, making it impossible for her to work and also causing considerable pain and suffering. The police catch Lee and charge him with assault and robbery. He is eventually given a large fine and a suspended jail sentence. Fiona can now take out a civil case against Lee seeking a sum of money as compensation for her lost wages, as well as for her pain and suffering.

## 9.5.2 Contracts


A **contract** is a legally binding agreement. A person under 18 can legally enter into a contract to purchase essential goods and services that are necessary to support him or her. Such goods and services may include food, housing, medical and dental services or education. A contract for these types of goods and services can be enforced through the courts. Therefore, people under 18 can rent a flat or house and sign a lease. However, if rent is not paid or damage is caused to the premises, the landlord can sue the young person.

If a person under the age of 18 buys goods such as jewellery or a laptop, the contract will not be legally binding and the seller will not be able to enforce it. Also, if a person under 18 has entered into a loan agreement or obtained credit, these contracts cannot be enforced, because the lender has to take the borrower's legal capacity into consideration before agreeing to set up the contract to begin with.

### Mobile phone contracts

Many young people enter into mobile phone contracts. As with all contracts, it is important to read and understand the 'fine print'. Failure to do so may result in financial hardship, as evidenced by the fact that mobile phones are one of the top five causes of problem debts among young people. Also, you should think carefully before agreeing to act as a **guarantor** for a friend's mobile phone contract, as the following figure depicts.

Signing as a guarantor may mean you are ultimately liable for your friend's mobile phone debt.

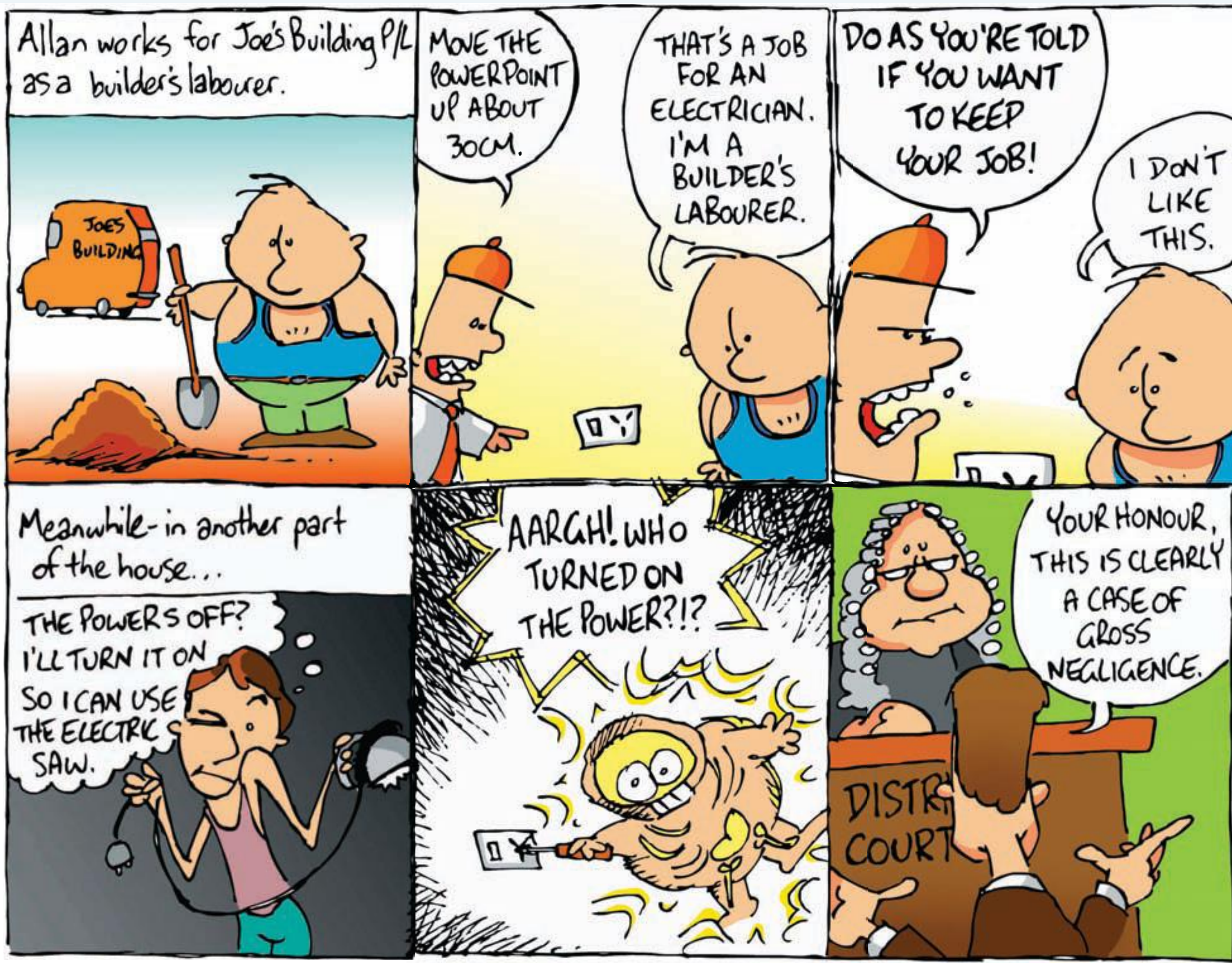

## 9.5.3 Negligence

**Negligence** occurs when a person or an organisation fails to exercise reasonable care and causes damage to another person. For example, an employer has a duty of care to provide a safe workplace. Employees who are injured at work are entitled to workers' compensation. However, if they were injured due to the employer's negligence, the injured worker can also sue their employer, as outlined in the following illustration.

Businesses also have a duty of care to their customers and may be found negligent if the goods and services they provide cause harm. For example, restaurants and cafés have a duty of care to ensure the food they provide is safe to eat. The principle of duty of care is based on what we would expect a reasonable person to do or not do.

The seriousness of the negligent act is a deciding factor in how much money will be awarded as compensation in a civil trial.

An example of negligence




## COMFACT

The modern law of negligence was developed as a result of a decision of the House of Lords (England) in the case of *Donoghue v. Stevenson* (1932).

## 9.5 Activity: Research and communication

1. Conduct a mock trial on the following: 'The wolf from the three little pigs story has been charged with destruction of property, vandalism and attempted murder'.

## 9.5 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Explain how civil law differs from criminal law.
2. Describe the type of punishment that tends to be given in civil cases.
3. What is a contract? Outline the circumstances under which people aged under 18 may enter into a contract.

4. Name the major cause of debt among young people.
5. Refer to the cartoon about Lachlan's mobile mistake in section 9.5.2.
   (a) Explain why Brant could not enter into a mobile phone agreement.
   (b) Define the term 'guarantor'.
   (c) How could Lachlan have avoided the problem with the phone company?
6. Refer to the cartoon about negligence in section 9.5.3.
   (a) Who is the employer?
   (b) Name the employee.
   (c) Explain why the employer was negligent.
7. Discuss whether negligence has occurred in the following situations.
   (a) On a busy, hot summer's day, a lifeguard leaves the beach for five minutes to get a drink. In the meantime, a swimmer is calling out for help. The swimmer drowns and his parents decide to sue.
   (b) After a party, Imogen accepts a lift from Patrick despite being aware he had been drinking for several hours. Patrick subsequently crashes the car. Imogen is hurt and decides to sue.

**Fully worked solutions and sample responses are available in your digital formats**.

# 9.6 The impact of civil and criminal law on young people

## 9.6.1 Joint criminal enterprise

You can end up in handcuffs for just 'going along with it'.

Imagine that you and a friend go to the shopping centre and enjoy a burger at the food court. At the table next to you are two women, both engaged in discussion. Your friend whispers to you that one woman's handbag has fallen over on the ground. He shortly after bends down, pretending to tie his shoelaces while stealing the purse in the handbag. He shows you how he places the purse in his own backpack and tells you that it's time to buy another burger as he takes out $20 from the purse. In this scenario, you might think that you are not the criminal and are instead just an innocent bystander. This is not the case, because the law says that you can be seen to be just as guilty as the main offender if you are present, assist in the crime or know what's going on.

These situations can be difficult because you may not intend to assist but things happen so fast and you might not fully realise what has occurred. In this case, your willingness to walk away from the scene of the crime with your friend, knowing he had stolen the purse and intends to spend the money, would place you in the position of possibly being charged with theft as well.

In this kind of scenario, the police would be enforcing the law as it falls under criminal law. You, as the thief, would be viewed as the offender and the victim in this case would be the woman whose purse was stolen. For more information about criminal law, see topic 4.

## 9.6.2 'It was just for fun'

Social media has not only caused an increase in cybercrimes, but also created a trend where young people video or livestream themselves doing criminal activities. One example is youths who deliberately make a mess in shops by pouring out liquids on floors, stampede through aisles and tear down products, or even lick food and put it back on the shelf. All these things are illegal.

You may think that spilling your drink on purpose in the local Coles is not a big deal. After all, it can just be cleaned up. However, stupid acts can lead to accidents and the grin might turn to a frown if someone slipped because of the spill, knocked their head on a shelf and sustained a brain injury. If a video or stream of the incident existed, the police could use this as evidence in a criminal court case. However, the person who got injured, or their family, may also decide to seek compensation by taking you to civil court. If this occurred, you would be called the defendant and the victim would be called the plaintiff.

Silly pranks can lead to dangerous situations.

If you get in trouble with the law, knowing who to turn to for advice and support might be difficult. Legal Aid NSW is one service that provides advice to people when encountering legal difficulties. Children's Legal Services is a branch of Legal Aid NSW that helps youths under the age of 18.

**on** Resources

**Digital document** Worksheet 9.4 The impacts of civil and criminal law (doc-32837)

### 9.6 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Define the following terms.
   (a) Offender
   (b) Plaintiff
   (c) Defendant
2. What is the most likely outcome of a civil case?
3. Explain the rationale for why the two friends in section 9.6.1 could both be taken to court.
4. In the situation described in section 9.6.2, imagine that the police found five other videos of 'accidental spilling' on one of the offender's phone. Do you think this might have any effect on the case and its outcome?
5. The scenario in section 9.6.2 shows how quickly a silly prank can turn into a court case. Use the internet and magazines to research other cases and find articles about 'accidental crimes' or 'crimes committed by youths'. For each article, summarise the main events and identify if a criminal and/or civil crime is being described. Draw a diagram showing who would be the offender/victim or defendant/plaintiff.

**Fully worked solutions and sample responses are available in your digital formats.**

# 9.7 Rights and responsibilities of individuals

## 9.7.1 Human rights

Some nations, such as the USA and New Zealand, include in their constitutions a Bill or **Charter** of Rights. This virtually guarantees that their citizens cannot lose any of their rights unless a referendum is held to change their constitution.

In Australia, the only rights that are guaranteed by the Constitution are the rights to:

- vote
- freedom of religion
- freedom of movement
- own property
- trial by jury
- a fair trial.

However, this is not to say that human rights are not protected by Australian legislation. The Australian Human Rights commission is funded by the federal government but operates as an individual entity. It is responsible for investigating infringements of Australia's anti-discrimination legislation, which includes:

- *Age Discrimination Act 2004* (Cwth)
- *Australian Human Rights Commission Act 1986* (Cwth)
- *Disability Discrimination Act 1992* (Cwth)
- *Racial Discrimination Act 1975* (Cwth)
- *Sex Discrimination Act 1984* (Cwth).

Through the commission, you can lodge a complaint about a range of discrimination covered in these pieces of legislation. The commission will investigate the claim and if they decide to move forward will try to help resolve the problem through a conciliation process (see section 9.9.2). The outcomes you could expect include:

- getting an apology
- being reinstated to a job
- receiving monetary compensation for lost wages
- forcing changes to policies.

## 9.7.2 Protection provided by the law

As you can see, the law protects Australian citizens from discrimination and as such also ensures that fundamental human rights are upheld. The law, in addition, protects individuals in a variety of situations. For instance, when you go into shop you will not only have the right to being treated without discrimination, but the price of the product or the service should also be the same regardless of whether you are a young female or an old man.

In the same way, there are laws protecting the rights of children as well as adults in the workplace.

## 9.7.3 Conventions on the rights of the child

As part of our contribution to the global community, Australia is a party to many treaties and conventions. One of these is the United Nations Convention on the Rights of the Child (CROC). This was written in 1989 and ratified (signed) by Australia in 1990. There are 40 articles altogether; some are summarised below.

- Children should be protected from discrimination on the basis of their family background.
- The interests of the child must be considered by the courts and welfare agencies.

- Children have the right to express their opinion freely in all matters affecting them and to have that opinion taken into account in any matter affecting them.
- Children have the right to express their views, obtain information and give others information and tell of their ideas.
- The government must respect a child's right to freedom of thought, morals/conscience and religion.

### COMFACT

In Australia, we rely on specific statutes and also the common law to guarantee our rights.

### CASE STUDY

#### Lyn and Chris

Lyn and Chris were both turning 14 on the same day. Their parents thought it would be a great idea to cut costs and hold one party at a nearby youth centre. However, when they tried to organise it, the council advised them that they had banned parties at the youth centre due to complaints from nearby residents.

Lyn, Chris and their parents were furious, because nobody had been consulted. They contacted several councillors, the mayor and the local newspaper.

Eventually, a meeting was held involving the council, Lyn, Chris (and their parents) and several nearby residents. At this meeting, a set of rules was drawn up for the use of the youth centre for young people's parties that everyone agreed to.

Lyn and Chris's party went ahead and everyone had a great time.

Which articles of the Convention on the Rights of the Child did the council violate when it banned parties at the youth centre?


### CASE STUDY

#### Workplace violence and harassment

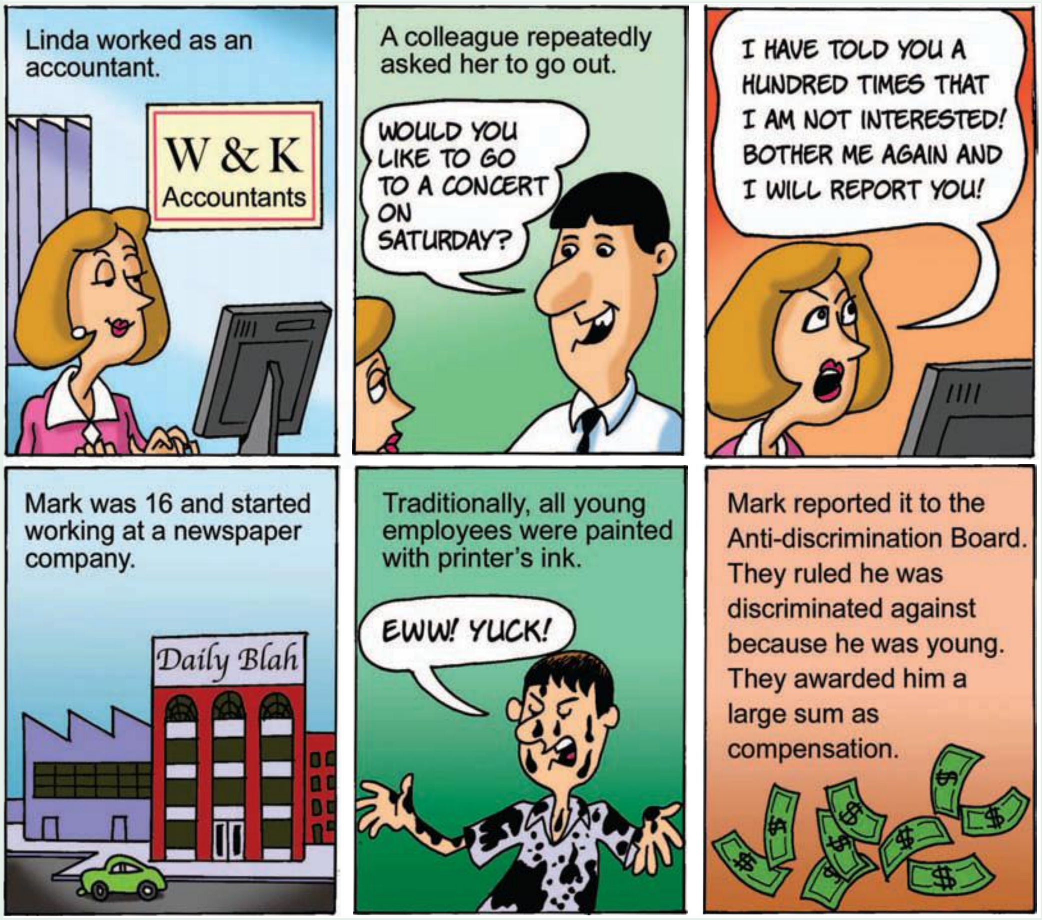
Violence and harassment are not acceptable in the workplace. Violence includes things such as:

- verbal abuse
- threats of physical abuse
- deliberately being placed in danger
- assaults such as harming you physically or simply making physical contact
- sexual assault
- initiation ceremonies that cause physical harm.

Harassment generally involves less aggressive behaviour than violence, but is still illegal in the workplace. It includes things such as:

- demeaning comments or put downs
- ridiculing or making fun of you
- spreading rumours
- stealing or hiding your tools or equipment
- damaging any of your personal property
- sexual harassment.

Harassment and violence — which is which?




## on Resources

Weblink Youth Law Australia

## 9.7 Activity: Research and communication

1. 'Australia should have a Bill of Rights to ensure every citizen's rights are guaranteed.' Discuss this in small groups and share your arguments with the class.

## 9.7 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Complete the passage below by filling in the blank spaces with words from the options provided.

| | | | | | |
|---|---|---|---|---|---|
| **New Zealand** | **common** | **Rights** | **statutes** | **Child** | **1989** |
| **40** | **United States** | **United** | **Convention** | **1990** | **constitutions** |

Nations such as the ___________ and ___________ have a Bill of ___________ included in their ___________. Australians rely on specific ___________ and also the ___________ law to guarantee their rights.

Australia is a party to the __________ Nations __________ on the Rights of the __________. It was written in __________ and ratified by Australia in __________. Altogether, it contains __________ articles.

2. List four things that are classed as harassment in the workplace.
3. List four things that are classed as violence in the workplace.
4. Read the case study about Lyn and Chris and list any articles from the Convention on the Rights of the Child that were broken by the council.
5. Study the cartoons in the 'Workplace violence and harassment' case study. Which one describes a situation of violence and which describes a situation of harassment?
6. Use the **Youth Law Australia** weblink in the Resources tab to describe how the law tries to protect people injured in a car accident.
7. What human rights do we have according to the Bill or Charter of Rights?
8. What areas of discrimination can the Australian Human Rights Commission help people with?

**Fully worked solutions and sample responses are available in your digital formats.**

# 9.8 The role of law enforcement agencies

## 9.8.1 The law and you

The law affects almost everything you do. If you buy a mobile phone and it does not work properly, there are laws that can help you get it fixed, get an exchange or receive a refund. If you rent a flat, there are laws that say what you and the landlord can and cannot do. If you have an accident at work, there are laws that say who has to pay your doctor's bills.


In each of these situations, the law is there to protect you. The law therefore empowers you to seek a solution to your problem. Without the protection of a legal system, enforcement of a person's rights would be based on physical violence: 'might is right'. In this situation, most people would be powerless. Of course, the law operates in the background, waiting for you to access it if you should need its assistance.

The legal system consists of a number of institutions such as parliaments, courts and prisons. It also includes people who work within this system: politicians, lawyers, police officers, the tax office, judges and prison officers.

## 9.8.2 Politicians make laws

- Parliament is our main law-making institution.
- It can make new laws and change existing ones.
- These laws are binding on all courts and judges.
- Parliament responds to pressures (lobbying, petitions, demonstrations, etc.) to make new laws or change existing laws.

## 9.8.3 Legal advisors specialise in the law

- Lawyers (solicitors and barristers) provide legal advice and assistance.
- They represent their clients and conduct their cases at a court hearing. This is their advocacy role.
- Their duty is to argue a case in the best interests of their clients.

## 9.8.4 Police enforce the laws

- Police do not make the laws; they only enforce the laws.
- They also prevent and investigate crime, protect life and property, and maintain peace and order.
- Police assist in the prosecution of suspected offenders.
- Rules outline police powers and how they do their job.


## 9.8.5 Australian Taxation Office

- Tax crimes involve hiding cash wages, avoiding paying your taxes, using offshore accounts and falsely claiming refunds or benefits; these activates are often linked to identity crime, money laundering and organised crime.
- The Australian Taxation Office (ATO) helps to prevent these crimes by collecting financial data from a range of different sources and cross-checking to detect anomalies or patterns that indicate a tax crime may be committed.
- The ATO works with Australian law enforcement to fight against these crimes.

## 9.8.6 Courts interpret laws

- Courts settle disputes according to strict rules of evidence and procedure.
- Court officials are responsible for the administration of the court and the efficient running of a case.
- Judges have the ability to create law through the decisions they make when hearing a case: an act of precedent.
- Most courts are open courts; people may enter and listen to the case.

## 9.8.7 Law-breakers are punished by courts

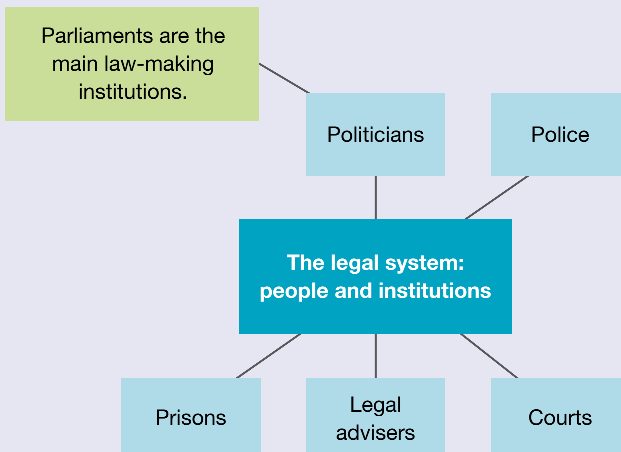
- Prisons hold people convicted of a crime.
- Prison staff manage the prison.
- All offenders must be given the opportunity for rehabilitation.
- Imprisonment — loss of freedom — is the harshest form of punishment that can be imposed.

### Resources

**Digital document** Worksheet 9.5 Join the police force (doc-32736)

**Weblink** Department of Justice

### 9.8 Activity: Research and communication




1. As a class, brainstorm how laws empower individuals and groups in our society.
2. Add extra elements to the concept map started in the figure to summarise the people and institutions that make up the legal system.
3. (a) Investigate the 1923 Victorian police strike. What were the causes, events during and results of this strike?
   (b) Research and summarise the purpose and responsibilities of specialised police branches such as the drug squad, highway patrol and water police.
4. Research the legal system of another country and compare it with what you know of the Australian legal system. What are the similarities and differences? Present your information either as a PowerPoint presentation or a word-processed report.
5. Using the **Department of Justice** web link, create a mindmap, graph or summary of how prison life could affect a person.

### 9.8 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. In the past, disputes were often resolved with the belief that 'might is right'.
   (a) What is meant by this expression?
   (b) Why is this system of resolving disputes unfair to most people?
   (c) What advantages are there for individuals and society in having a comprehensive legal system?
2. What is the role of police in our society?
3. What do you think would happen in our society if police went on strike?

4. Vigilantes, private citizens who take on the role of guardian of society, take enforcement of law into their own hands. Explain why it is better that the police and courts, rather than individuals, resolve disputes.
5. Why should offenders be given the opportunity of rehabilitation?

**Fully worked solutions and sample responses are available in your digital formats.**

# 9.9 Dispute resolution outside of the courts

## 9.9.1 Alternatives to going to court

In Australia, a number of alternative methods for resolving civil disputes are available, rather than going to court. These include mediation, conciliation and arbitration. In criminal matters — particularly when dealing with young people — police may use warnings, formal cautions, community conferencing, circle sentencing or the courts.

In civil matters, the advantages of resolving disputes without proceeding to the court system include:

- the system is generally cheaper and quicker than going to court
- it may create goodwill between the parties
- it is more flexible, thus better able to meet the parties' individual needs.

The disadvantages include:

- people may opt for mediation because they cannot afford to go to court
- it may lead to people surrendering their legal rights.

## 9.9.2 Mediation and conciliation

**Mediation** is where the people (parties) involved in a dispute meet with a neutral third party — a mediator — who helps them to negotiate an agreement. This is normally some form of compromise. Mediators do not act for either of the parties, nor do they advise or decide who is right or wrong. Their main role is to encourage the parties to examine all the issues. The main advantage of mediation is that both parties feel that they have achieved something for themselves.

**Conciliation** is very similar to mediation except that the conciliator is usually much more interventionist; that is, they will offer their opinions and views. Conciliation is quite common in industrial disputes.

A mediator is a neutral third party who helps people to negotiate an agreement.

## 9.9.3 Tribunals and arbitration

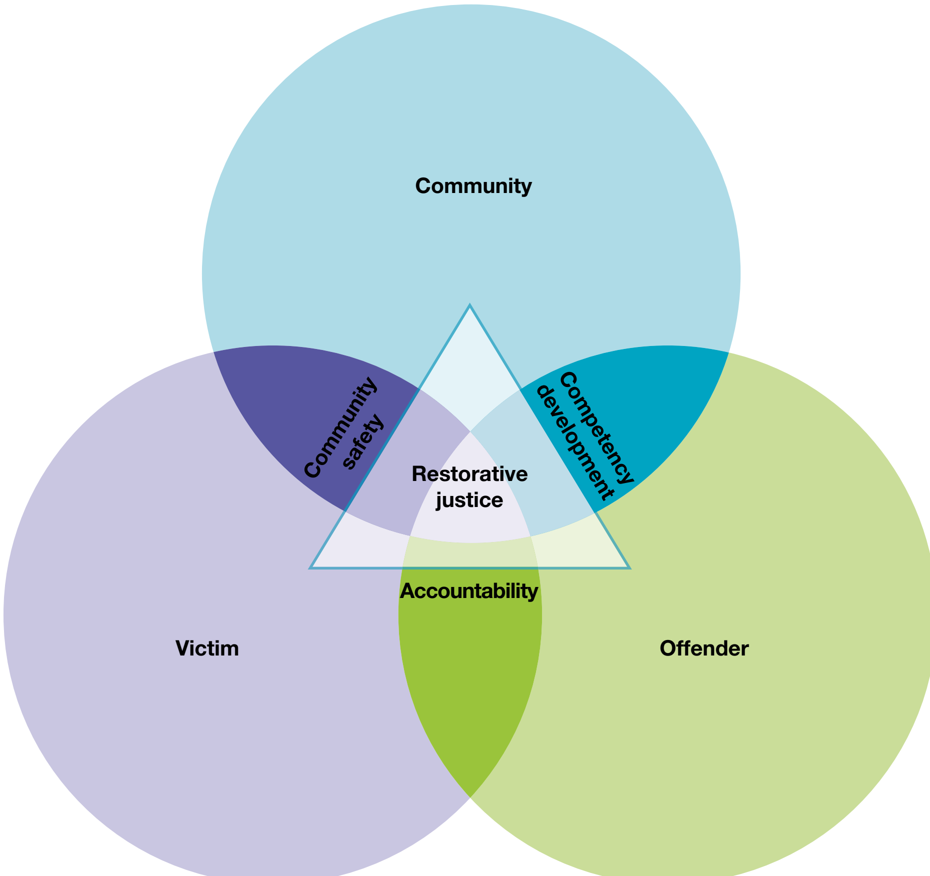
A tribunal is a government body with powers to settle disputes. Most tribunals use mediation as the first option to settle a dispute. However, if this is not successful, arbitration is used. **Arbitration** is similar to mediation in that a third person assists the parties to reach their own solution. However, if the parties cannot reach an agreement, the arbitrator decides for them. The arbitrator's decision is binding, which means that both parties must accept the decision and carry out any actions stipulated in that decision.

Tribunals hear disputes on a wide range of issues, including matters of credit, domestic building work and tenancies.

## 9.9.4 Restorative justice

Restorative justice allows the victim and the offender to discuss the situation, usually face to face. This meeting will allow the victims the opportunity to explain how the crime has affected them, while the offender gets the chance to own their actions and gain an understanding to how they are able to fix the damage that they have done. During this time, both parties and the people who are there to support them get to discuss the crime as well as possible solutions with a convenor, who is trained to facilitate such discussions. Other people who may be asked to attend the conference include police informants, community representatives, school teachers and sport coaches.

Restorative justice enables all parties to express how they have been affected and what is required for them to be able to move on.




The benefit of restorative justice for the victim is that he or she gets the opportunity to play a role in deciding the offender's punishment and also has a chance to seek closure to the event. For the offender, the advantage of restorative justice includes the possibility of avoiding court, which means they will not have a criminal record. If they have already been to court, the offender may get a reduced or even suspended sentence as a consequence of having accepted responsibility for their actions.

## 9.9.5 Warnings

If a person under the age of 18 commits a criminal offence, such as offensive conduct or carrying an offensive implement, they may be dealt with by a police officer issuing a warning. The child's name will be taken but the incident will not become part of the child's criminal history.

## 9.9.6 Formal cautions

A child may be given a formal caution by a senior police officer or a respected member of the community such as an Aboriginal elder. Issues taken into account when deciding whether to give a caution include the seriousness of the offence, whether violence was involved, the harm caused to the victim, the nature of prior offences and the number of previous offences.

An example of an incident that may lead to a caution


## 9.9.7 Community conferencing

Community conferencing is viewed as being more severe than a caution, but not as severe as a court appearance. A child must first admit to an offence before being eligible for conferencing or a caution. People who may attend the conference include the child, the victim, people responsible for the child, investigative officials, a support person for the victim, and a specialist youth officer. The aim of the conference is to draw up a plan that is agreed to by all the participants, including the victim.

A major benefit of conferencing is that the child does not end up with a criminal record.

**on** Resources

**Digital document** Worksheet 9.6 Settling disputes (doc-32737)

### 9.9 Activity: Research and communication

1. Research newspapers to obtain an article that relates to a crime by a young offender. State the source and the date the article was written, and then write a summary of the information in the article.
2. Working collaboratively or independently, research a range of different restorative justice case studies. Select one, and complete the following.
   (a) Summarise the crime committed by the defendant.
   (b) Outline the events of the restorative process.
   (c) Do you believe that this case demonstrates that restorative justice is a good or bad option for solving disputes outside of the courtroom? Justify your answer.

### 9.9 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Name the five options that police have when dealing with young people.
2. Identify the advantages and disadvantages of resolving disputes without going to court.
3. Outline the difference between a *warning* and a *formal caution*.
4. Refer to the cartoon in section 9.9.6.
   (a) Who issued the caution?
   (b) Would Travis have a criminal record after the caution?
   (c) If Travis did not admit to the offence, could he have been cautioned?
5. Describe how community conferencing operates.
6. Explain the difference between *arbitration, conciliation* and *mediation*.
7. Which methods of resolving a dispute are the most effective in a school setting? Why?

**Fully worked solutions and sample responses are available in your digital formats.**

# 9.10 Dispute resolution in Aboriginal and Torres Strait Islander communities

## 9.10.1 What is customary law?

**Customary law** refers to the guidelines for behaviour that have been developed by Aboriginal and Torres Strait Islander peoples. These laws are passed on by word of mouth and have not been written down.

## 9.10.2 The Dreaming

Indigenous Australian peoples believe that their customary laws originated in the Dreaming. The Dreaming explains how the ancestors of Indigenous Australian peoples created the landscape and its features, as well as the laws necessary to survive in the harsh Australian environment. Aboriginal and Torres Strait Islander peoples have a very strong relationship with the Australian land. They believe that they do not own the land — the land owns them, so it is their responsibility to take care of it. The stories, songs and dances told about the Dreaming reveal the many ways in which Indigenous Australian peoples are connected to the land.

Indigenous Australian people believe that the Australian landscape and all its features were created by their Dreaming ancestors.

## 9.10.3 Dreaming stories

Elders passed on customary laws by telling Dreaming stories to other members of their community or language group. The stories provide guidance or instructions about how to behave and the right way to live. Indigenous people expect that the younger ones will listen to the old people, be obedient, and not be greedy or steal. Other customary laws concern what foods can be eaten, what rules apply to families, requirements for marriage, and spiritual responsibilities. Songs and dances were also used to pass down customary law.

## 9.10.4 Dispute resolution

Aboriginal and Torres Strait Island societies did not have governments, police or courts. Disputes were resolved by the elders, who would meet together to discuss the incident or dispute and then agree on an appropriate solution or consequence. Punishments might include shaming or public ridicule for less serious offences, or exile or spearing for more serious cases. Spearing involved stabbing a spear into the thigh of a person who had committed an offence. The scar left behind would always remind the offender of the wrong act they had carried out.

## 9.10.5 Recording customary law

Customary law has not been **codified**. It is not easy to record. This is because it is not always the same throughout Australia. Different language groups and communities have their own customary laws, languages, beliefs and traditions. The laws that apply to one group do not necessarily apply to another group. The different language groups of New South Wales and the Australian Capital Territory can be seen in the following map. How many language groups can you see?

Indigenous Australia is made up of many different language groups, each with its own customary laws, languages, beliefs and traditions. This map shows the Indigenous language groups in New South Wales and the Australian Capital Territory.


***Source:*** Aboriginal Languages/Nations Map in NSW and ACT, copyright Reconciliation NSW, www.reconcilationnsw.org.au

**on** Resources

**Weblink** AIATSIS map of Indigenous Australia

## 9.10.6 Customary laws and Australian law

Some state and territory laws have been amended to specifically refer to customary law — the Northern Territory's Sentencing Act recognises customary law. Many courts have also taken customary law into account when considering sentences. Refer to the case study 'Court imposes customary punishment' in this section for an example.

**CASE STUDY**

### Court imposes customary punishment

The 1993 case of Wilson Jagamara Walker was the first in Australia to include a customary punishment as part of a sentence. Walker was a 23-year-old Aboriginal man from central Australia who pleaded guilty to manslaughter. He had been walking home when he heard a cry for help from a person being attacked by a group. Walker went to assist, and ended up killing one of the attackers by stabbing him near the neck. The judge, Chief Justice Martin, initially sentenced Walker to three years' imprisonment. The sentence was then suspended and Walker was released on a two-year good behaviour bond with conditions, including that he be speared in the thigh by relatives of the victim.

Wilson Jagamara Walker's case was the first in Australia to include a customary punishment as part of a sentence.

In describing the customary punishment, Chief Justice Martin said that:

> When you return to Yuendumu, you will be called upon to face tribal punishment ... by getting speared in each of your legs a couple of times in such a way that you will be pained for at least a couple of weeks ... A hunting spear would be used. The punishment would be administered by the brother of the dead man.

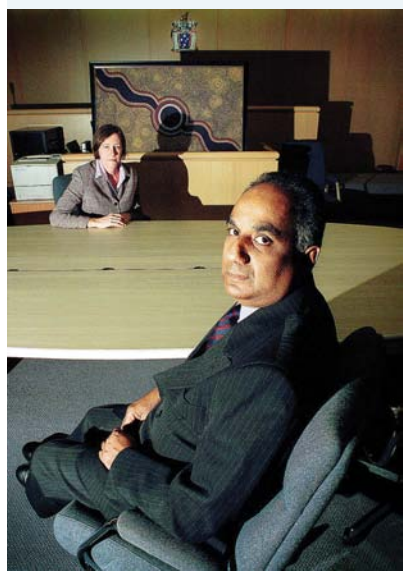
Martin ordered police officers to witness the spearing so that they could verify that the sentence had been carried out. Walker was told to return to the court to have the sentence reviewed if this did not occur.

## 9.10.7 Alternative sentencing for Indigenous offenders

If found guilty of an offence, Aboriginal and Torres Strait Islander defendants have alternatives to having a sentence imposed by the court. One initiative is circle sentencing, a scheme operating in New South Wales that tries to avoid imprisonment for Aboriginal offenders. This is where a circle of people — including Aboriginal elders, the victim, the offender, the offender's lawyer, the prosecutor or police and a magistrate — will sit together to attempt to decide an appropriate sentence. The Indigenous offender must have pleaded guilty or have been found guilty of the offence.

The offence is considered first, and then the offender and his or her background is discussed as well as the effect of the wrongdoing on the victim and the community. The elders decide the sentence, which must be approved by the magistrate. The circle will often hand down a good behaviour bond with conditions attached, such as counselling or community service.

The Broadmeadows Koori Court in Victoria provides a more informal environment for Aboriginal offenders, who must plead guilty if they wish to be sentenced here.



### 9.10 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is meant by the term 'customary law'?
2. What is the Dreamtime (or the Dreaming)?
3. Give an example of legislation that recognises customary law in Australia.
4. List as many reasons as you can to explain why Aboriginal and Torres Strait Islanders find customary laws significant. Compare your reasons with other class members. Write down any new ideas.
5. Read the case study 'Court imposes customary punishment' in this section. Outline the way in which the judge incorporated customary law into the sentence imposed on Mr Walker.
6. Customary law's punishments for serious cases included exile or spearing of the thigh.
   (a) Which of these punishments do you think would be worse and why?
   (b) Would exile have the same effect today as it used to have when it was first used?
   (c) Read the case study about Wilson Jagamera Walker and the information about circle sentencing. Do you believe that customary law has a place in Australian Law?
7. Work in groups to investigate one of the circle sentencing courts.
   (a) How does the court work and what sort of cases does it sentence?
   (b) Identify one case that has been resolved by a circle sentencing court. Prepare a summary of the facts of the case and the judgement made by the court.
8. Create a list of pros and cons for recognising customary law as part of Australia's legal system. Do you think that customary law should be recognised?
9. Working in groups of three, consider whether new courts should be established to reflect the traditional laws of other ethnic or religious groups in Australia. For example, should an Islamic court be established so that Muslim offenders could be sentenced according to sharia law?
10. Describe how circle sentencing operates.

**Fully worked solutions and sample responses are available in your digital formats.**

# 9.11 Dispute resolution by the United Nations

## 9.11.1 The United Nation's purpose

The United Nations (UN) was born out of the pain and suffering of World War II. After witnessing the horrors of war for the second time within 30 years, the nations of the world were desperate to prevent another world war. For this reason, 51 countries united in 1945 with the goals of maintaining global peace and protecting the safety and rights of global citizens.

The United Nations was officially founded in 1945 with Australia as one of the original 51 member states.

## 9.11.2 The United Nations as peacekeepers

UN peacekeepers provide protection to a humanitarian aid agency distributing food supplies in Haiti after the earthquake in 2010.


One of the UN's responsibilities is to maintain global peace through the use of peacekeepers and military observers.

Australia has been involved in UN peacekeeping missions from the first envoy sent in 1948.

The role of United Nations peacekeepers is exactly that — to develop and maintain peaceful interactions between social, ethnic or political groups. The specific activities of the mission depend on the nature of the conflict. Missions may involve enforcing a **ceasefire** between previously warring parties; or peacekeepers may be asked to conduct **democratic** elections that would otherwise be problematic.

Peacekeepers are instructed to operate using non-violent methods wherever possible. According to the UN Charter, peacekeepers are allowed to use military force only in self-defence or if the essential goal of the mission is under threat (see following excerpt showing the principles of UN peacekeeping). Often known as Blue Berets, due to their distinctive blue hats and helmets, UN peacekeepers can include soldiers of national armies as well as police officers and political staff. Australia has sent 65 000 personnel to various UN peacekeeping missions. Australian doctors, engineers, diplomats, and military servicemen and women have all played their part in the establishment and maintenance of peace in countries around the world. Follow the **Peace is a full-time job** weblink in your Resources section to learn more about what the UN is doing to keep the peace.

Principles of UN peacekeeping: Non-use of force except in self-defence and defence of the mandate

A UN peacekeeping operation should only use force as a measure of last resort. It should always be calibrated in a precise, proportional and appropriate manner, within the principle of the minimum force necessary to achieve the desired effect, while sustaining consent for the mission and its mandate. The use of force by a UN peacekeeping operation always has political implications and can often give rise to unforeseen circumstances.

Judgments concerning its use need to be made at the appropriate level within a mission, based on a combination of factors including mission capability; public perceptions; humanitarian impact; force protection; safety and security of personnel; and, most importantly, the effect that such action will have on national and local consent for the mission.

*Source: United Nations*.

**on** Resources

**Weblink** Peace is a full-time job

## 9.11.3 Australian peacekeeping missions

Although civilian personnel have contributed to peacekeeping missions, military and police officers have traditionally played a more significant role. Australian peacekeepers have served in several key conflicts around the world.

One of the best-known examples of Australian peacekeeping efforts was our involvement in the East Timor independence crisis. A small country located to Australia's north-west, East Timor has endured a volatile history. Unlike much of the area which was settled by the Dutch, East Timor was **colonised** by the Portuguese. In 1975, East Timor became an independent state, although it was soon invaded by neighbouring Indonesia in the same year. The Indonesian rule over East Timor was brutal and unjust, but Australian governments during this time were reluctant to criticise Indonesia. They feared such a move would damage political relations between the two countries.

After decades of civil unrest, two UN programs were launched to deal with the East Timor crisis. Australia had considerable involvement with both the UN mission in East Timor (UNAMET) and the International Force East Timor (INTERFET). The former mission successfully organised and conducted a referendum which resulted in East Timorese independence. Organised and led by Australian forces under Major General Peter Cosgrove, INTERFET then helped develop more effective military and law-enforcement strategies in East Timor. The Australian contribution to East Timorese independence is an excellent example of the positive contributions Australia has made to our region.

An Australian peacekeeper greets an East Timorese child in Dili.

**on** Resources

**Digital document** Worksheet 9.7 Australia's Peacekeeping efforts (doc-32838)

9.11 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. The United Nations was formed after which global event?
2. What is the key role of UN peacekeepers?
3. Construct a flowchart which explains East Timor's journey towards independence.
4. List three challenges you might face as a UN peacekeeper.
5. Which of these challenges do you believe would be the most difficult to overcome and why?

**Fully worked solutions and sample responses are available in your digital formats.**

# 9.12 Rights and freedoms in the Democratic People's Republic of Korea

## 9.12.1 Comparing rights and responsibilities

As covered in subtopic 9.7, the Australian Constitution and several discrimination Acts protect Australian citizens from being abused or mistreated. However, not all people around the world live in such fortunate circumstances.

The military enforce the law in the Democratic People's Republic of Korea.

The Democratic People's Republic of Korea (DPRK), for instance, rules through intimidation and violence. Their constitution guarantees the same freedoms as Australia's constitution, but the reality does not match the words. The following table compares a few rights.

| Right in Australia | Reality in DPRK |
|---|---|
| **Freedom of religion** | The DPRK is considered an atheist state even though the constitution promises 'freedom of religion'. Anyone who is seen to share the word of God can face harsh penalties, including torture or execution. |
| **The right to vote** | As a one-party state, no freedom in voting is possible. Voicing political opposition or starting groups or unions is also illegal, with penalties ranging from torture and prison camps to forced labour and execution. |
| **Freedom of movement** | The citizens of the DPRK are not allowed to leave the country without permission. The borders are heavily guarded with personnel, CCTV and barbed wire. In some places, mobile phone scramblers are even used to prevent communication between countries. Any attempt to communicate with the outside world can lead to torture, imprisonment or death. |
| **The right to own property** | The DPRK does not allow privately owned property because the state is seen to own all land. Instead of owning a home, the state will assign individuals a home and give them the right to reside there for a specific period of time. |
| **The right to being treated equally** | The DPRK encourages stereotypical gender roles by training boys and men to be leaders while steering the girls and women towards stereotypically female roles. This has led to a very small proportion of women in leadership roles compared to Australia. |


## COMFACT

The DPRK has signed five human rights treaties involving the rights of children, women, people with disabilities, political and civil rights as well as economic, social and cultural rights. However, evidence suggests that these treaties are not being upheld. The 2014 United Nations Commission of Inquiry, for example, found that the country had violated human rights by engaging in extermination, enslavement, torture, rape and forced abortions.


## 9.12 Activity: Research and communication

1. Research the background of the DPRK and make an information poster including at least 10 facts. Share your findings with your class.

### 9.12 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Use the map of the DPRK and identify the countries it shares a border with.
2. Explain, in your own words why signing human rights documents may not be worth the paper they are written on.
3. Name three rights that are limited in DPRK.
4. How does it make you feel about your own rights and freedom when you learn about how the people in the DPRK live?

**Fully worked solutions and sample responses are available in your digital formats.**

# 9.13 SkillBuilder: Group consensus

## 9.13.1 Tell me

### What is a group consensus?

A group consensus is when a collection of people work together to make a decision that is agreeable to everyone in the group. Consensus is reached by using a democratic process where every group member's perspective is listened to and understood. A decision is made after evaluating all options and respecting everyone's different perspectives.

### Why is a group consensus useful in commerce?

Decisions made by a group of people are usually better than decisions made by someone working alone. Reaching a group consensus helps us to problem solve and appreciate different points of view. Consensus is used in many areas of commerce. In parliament, consensus is reached when a Bill is passed through both houses. In a legal trial, jurors will need to reach consensus when they decide on the facts of a case.

### Model

Read the following case study.

#### CASE STUDY

#### Find the crime

Yohan was caught by the police after he allegedly broke into an antique store. The owners of the store, who live next door, were woken up by loud banging to discover a man trying to open their safe. They chased him away and called the police. A police dog tracked the man down in a nearby park after police surrounded the area. Yohan was arrested and taken away for questioning. He has been charged and summoned to appear in court.

What crime has been committed?

### Decide if a crime was committed

A group might look at this case and decide that it involves a criminal action. Discussion might focus on what crime was actually committed. Was it breaking and entering, trespass or robbery? Someone in the group might point out that nothing was actually stolen. Yohan was trespassing, however, and he did break into the shop. The group might agree that Yohan could be charged with trespass and breaking and entering, or they might vote on each charge.

### Decide if the defendant is guilty or not guilty

The group will now need to come to an agreement about whether or not they think the defendant is guilty or not guilty. A discussion would be held looking at the facts of the case. Someone in the group might claim that the fact that Yohan was found in the park after the police dog tracked his scent there is proof that he is guilty. Someone else might argue that this could easily be a case of mistaken identity. After discussing all possible solutions, the group will make a decision either by unanimous agreement (where everyone is in agreement) or by taking a vote. The group might decide that Yohan is guilty of both trespass and of breaking and entering. One person in the group might disagree with the final decision, believing that Yohan should be charged with robbery and not with breaking and entering, but everyone else believes that they can live with the decision.

### Elements of a good group consensus

A good group consensus:

- clearly identifies what needs to be decided
- allows everyone to express his or her opinion and make suggestions
- discusses the advantages and disadvantages of possible solutions
- chooses a solution that everyone can support.

## 9.13.2 Show me

### How to reach a group consensus

#### You will need:

- a sheet of lined paper
- a pen
- a problem or an issue to solve.

#### Procedure:

**Step 1**

Form a team of three or four people. Decide how your group will finalise a decision. Will you require unanimous support for a decision or will you vote? If you vote, is a simple majority all that is required?

**Step 2**

Outline what needs to be decided. Clearly state the issue so that everyone in the group understands it.

**Step 3**

Discuss the problem with the group. Allow everyone to express his or her opinion and make suggestions.

**Step 4**

Make a list of solutions that include everyone's suggestions.

**Step 5**

Discuss the advantages and disadvantages of each solution.

**Step 6**

Select the best solution, based on the discussion. This could be a unanimous decision or a vote. Consensus does not necessarily mean that everyone agrees with the final decision, but that everyone feels they can support the group's decision.

**Step 7**

Implement the group's decision. This might mean writing it down and presenting it to the rest of the class.

## 9.13.3 Let me do it

Complete the following activities to practise this skill.

### 9.13 Activities

Consider the following cases:

- Case 1 — Fred is talking to Bob over the back fence about his tomatoes and calls him a silly old fool. No-one else hears the comment.
- Case 2 — Phil is found asleep in the driver's seat of his parked car by a police patrol. He has been drinking heavily.
- Case 3 — Masako holds a black belt in karate. When stopped by a would-be mugger intent on robbery, she kicks the robber and breaks his arm.
- Case 4 — Petros likes to take a shortcut to work by cutting through Karen's vacant corner block of land. He has been doing this for over five years.
- Case 5 — Wayne is a spectator at a football match. On seeing a bad error of judgement by umpire Thompson, he verbally abuses Thompson in a loud and clear voice.
- Case 6 — Daniel gets involved in an argument with Martin. He becomes so angry that he threatens to punch Martin on the nose. Martin believes that he means it.
- Case 7 — While digging in the garden in her backyard, Rachel breaks a water pipe and floods Mrs Paize's henhouse next door, drowning her prize rooster.
- Case 8 — Nerida's house has been burgled several times. She sets a trap and shoots Tom as he enters with the intent to burgle again.

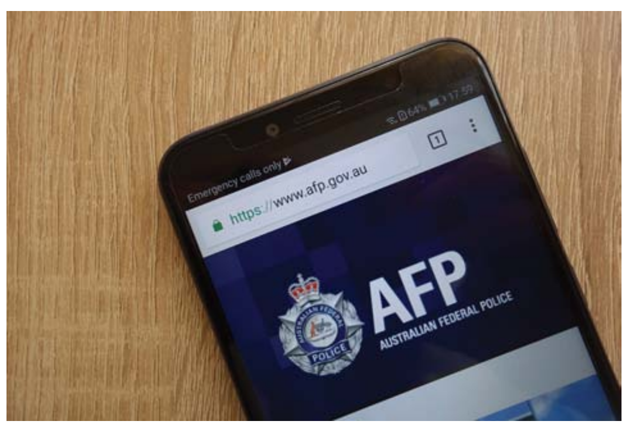
1. Working in groups of three or four, choose one of the cases. Decide whether the case involves a criminal action, a civil action (or perhaps both), or even no action at all. State the crime or the civil wrong that you think is involved.
2. As a group, come to an agreement about whether or not you think the defendant is guilty or not guilty, or liable or not liable.
3. Explain your decisions to the rest of the class, outlining how you reached a consensus on those decisions.
4. How did you make decisions in your group? Did everyone contribute equally? How easy was it to come to consensus in your group?
5. How democratic were your group decisions? Did someone take charge while others stayed silent? Did everyone start by contributing ideas before someone with a more dominant personality won out?
6. In your opinion, what does reaching a consensus mean?

# 9.14 Thinking Big research project: Create a bill of rights

## 9.14.1 Scenario

In June 2019, the Australian Federal Police raided the home of a journalist and the offices of the Australian Broadcasting Corporation (ABC). They were searching for information regarding leaks from what became known as the 'Afghan Files' and which may have been related to a series of stories broadcast in 2017. These stories covered operations conducted by Australia's elite special forces that resulted in alleged incidents of unarmed civilians being killed.

These Federal Police raids have renewed calls for Australia to consider the creation of an Australian bill of rights.




## 9.14.2 Task

Your task is to research and prepare a report on another country's bill of rights and then draft one for Australia. Then, as a class, work together to combine ideas into one cohesive bill that the whole class agrees upon.

## 9.14.3 Process

- Open the ProjectsPLUS application in the Resources tab for this topic. Open the **Project set-up** tab to enter the project due date and set up your project group if you wish to. You can work independently or with a partner, which will allow you to swap ideas and share responsibility for the project. Save your settings and the project will be launched.
- Select a country that has a bill of rights, and then conduct research into the elements included in the bill. Navigate to the **Research forum**, where you will find starter topics loaded to guide your research. You can add further topics to the Research forum if you wish. In the **Media centre** you will find an assessment rubric and some weblinks that will provide a starting point for your research.
- Make notes of your research and remember to record details of your sources so you can create a bibliography to include in your report. Add your research notes and source details to the relevant topic pages in the Research forum. When you have completed your research, you can print out the **Research report** in the Research forum to easily view all the information you have gathered, if you wish.
- Prepare a brief report detailing the history of your selected country's bill of rights and what it contains.
- Using the information you gained about your selected country, draft a bill of rights for Australia. For each element in your draft bill, provide a brief explanation as to why you think it should be included.
- Submit your report and proposed bill to your teacher (along with your bibliography), and/or present it to the class.

- Once all groups have submitted or presented their proposals, the class should discuss the various proposals and draft a bill of rights that all the class agrees on, which Australia could adopt. This could then be created in poster form for display in the classroom.

**on** Resources

**ProjectsPLUS** Create a bill of rights (pro-0222)

# 9.15 Review

## 9.15.1 Summary

Having explored this topic, you can now:

- explain how a person's age and mental status can affect their legal capacity and how the law treats minors differently from adults
- discuss the rights and responsibilities that are part of being a law-abiding citizen
- outline the way criminal law deals with expected social behaviour
- explain how people who are charged with a criminal offence are treated differently depending on their age
- understand why the prosecution must prove that both *actus reus* (guilty act) and *mens rea* (guilty mind) were present for the accused to be found guilty of a crime
- identify the rationale behind punishments
- explain the difference between civil and criminal law, including the use of damages as compensation
- outline the legal obligations when a contract is entered into, and the obligations of a guarantor

- explain the term ‘negligence’ and outline how the law can help a person seek damages as compensation
- explore legal issues that affect young people
- explain how law and order is enforced by a range of institutions, including the police, the Australian Taxation Office and the courts
- explain the rights enshrined in Australia’s Constitution, along with the treaties and conventions Australia is a party to
- explain how the Constitution and other pieces of legislation protects human rights in Australia
- explain the United Nation’s role in enforcing treaties and keeping peace in the world
- compare human rights in Australia with that of another country in the world
- understand why workplace violence and harassment is unlawful in Australia
- evaluate the methods of resolving civil disputes
- examine different legal cases using legal terminology, including accused/defendant, witness, plaintiff and victim
- understand the law is constantly changing
- understand the alternatives to court when dealing with criminal offences committed by minors
- explain the differences between Australian law and customary law
- outline how customary law can co-exist with Australian law.

## 9.15.2 Key terms glossary

**accused** to be charged with an alleged criminal offence
**adult** a person aged 18 years or over
**arbitration** a method of resolving disputes whereby an impartial third party decides on a settlement arrangement that is then binding on the parties to the dispute
**capacity** the ability of a person to do something
**capital punishment** the practice of putting an offender to death as punishment for a crime
**ceasefire** a temporary or permanent suspension of fighting
**charge** a formal allegation that a person has committed an offence
**charter** an official document describing the goals and principles of an organisation
**civil law** deals with non-criminal matters involving disputes between individuals and organisations
**codified** laws that have been collected and organised, usually in written form
**colonised** a country or region whose government has been replaced by one from another country
**conciliation** similar to mediation except the conciliator can suggest possible solutions
**contract** a legally binding agreement
**criminal law** law involving cases where the parliament has declared some action to be illegal
**customary law** comprehensive systems of governance in Aboriginal and Torres Strait Islander cultures, including ownership and custodianship, caring for Country/Place responsibilities, kinship, ceremonial duties, marriage and childcare, as well as sanctions and dispute resolution processes
**democratic** supporting democracy, or the system of government where supreme power is vested in the people and exercised directly by them or by their elected representatives under a free electoral system
**evidence** information presented that helps a court reach a decision in a case
**good behaviour bond** a type of punishment whereby the offender agrees to display good behaviour for a set time or they will forfeit a sum of money and be sentenced for the original offence as well as any new offences of which they may be found guilty
**guarantor** a person who agrees to pay another person’s debt if they are unable or unwilling to pay themselves
**mediation** when a third party helps those involved in a dispute to negotiate a solution acceptable to both sides
**minor** a person under 18 years of age
**negligence** the failure to exercise proper care, which could result in another person being injured or suffering a risk
**oath** a promise (in the legal system, a promise to tell the truth as a witness)
**victim** a person who is injured or killed by another
**witness** a person who gives evidence in court

## on Resources

Digital documents Key terms glossary (doc-32672)
Match-up (doc-32759)
Crossword (doc-32792)
Wordsearch (doc-32803)

Interactivities Crossword (int-7889)
Wordsearch (int-7897)

## 9.15 Exercises

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

### 9.15 Exercise 1: Glossary quiz online only

### 9.15 Exercise 2: Multiple choice quiz

1. What is the term given to the person who is charged with an alleged criminal offence?
   A. Victim
   B. Minor
   C. Accused
   D. Witness
2. What is the term used to describe the ability of a person to do something?
   A. Minor
   B. Capacity
   C. Adult
   D. Guarantor
3. Which of the following is an example of capital punishment?
   A. Community service
   B. Imprisonment
   C. Fine
   D. Hanging
4. Which of the following is *not* considered a criminal offence?
   A. Drink driving
   B. Shoplifting
   C. Fraud
   D. Parking in a clearway
5. Which of the following is *not* considered by a magistrate in determining a person's sentence?
   A. Circumstances of the crime
   B. Prior convictions
   C. The victim's financial situation
   D. Level of hardship a sentence may cause
6. Which of the following statements best describes a minor?
   A. A person who breaks the law at hand
   B. A person who has not reached the legal age of adulthood
   C. A person under 16 years of age
   D. A person who is not responsible for their actions
7. Owen had an ongoing dispute with his employer regarding his working hours. Owen felt that he was not paid for extra duties that his employer had added to his workload. Owen and his employer had unsuccessfully tried to reach a compromise. In the end, the conflict was solved by the help of a third party who heard both sides of the dispute and offered an opinion on the matter. Which type of dispute resolution process did Owen and his employer engage in?
   A. Arbitration
   B. Conciliation
   C. Litigation
   D. Negotiation

8. Which of the following statements is false?
   A. You cannot be charged with an alleged criminal offence if you are under the age of 12.
   B. Children between the ages of 10 and 14 have limited responsibility for offences they commit.
   C. A victim can be of any age, even an unborn baby.
   D. The criminal liability depends on the presence of two elements: *actus reus* and *mens rea*.
9. A contract is a legally binding agreement. A business cannot enforce a loan agreement from a person under the age of ____________. A lot of young people fail to read the ____________ before signing a contract, which can cause them ________ problems.
   Which of the following alternatives solves the passage correctly?
   A. 18, fine print, legal
   B. 16, fine print, financial
   C. 16, fine print, legal
   D. 18, fine print, financial
10. Which of the following is *not* a right protected by the United Nations Convention on the Rights of the Child (CROC)?
   A. Children have the right to express their opinions freely in all matters affecting them.
   B. Children have the right to express their views, obtain information and give others information and tell them of their ideas.
   C. Children have the right to be discriminated against based on their family background and social status.
   D. The government must respect a child's right to freedom of thought, morals/conscience and religion.

## 9.15 Exercise 3: Knowledge and understanding

1. What is the difference between a plaintiff and a victim?
2. Which law deals with fraud, shoplifting, murder and bodily harm?
3. Identify three types of punishments that were used in the early nineteenth century.
4. During which circumstances can you legally enter into a contract under the age of 18?
5. Why do you think you should consider carefully before agreeing to be a guarantor for a friend?
6. What benefits do you think circle sentencing has in preventing the accused from re-committing an offence?
7. What is the main difference in sentences handed down in civil versus criminal court?
8. Explain why you could be taken to court for a break and enter if all you did was drive your friends to and from the place they broke into.
9. Outline the elements needed to prove that the accused is guilty of a crime.
10. Under what circumstances can a crime be tried in both a criminal and civil court?
11. Explain the term negligence and what remedies you can seek in a court of law if you have been the victim of negligence.
12. Make a flowchart showing the differences and similarities between mediation, conciliation and arbitration.

## 9.15 Exercise 4: Challenge your understanding

1. In Perth on 27 January 2016, a group of nine boys, including an 11-year-old, spent the night engaging in violent activities that culminated in the attack and murder of Patrick Slater. Mr Slater was stabbed with a screwdriver and the 11-year-old boy was seen moments after the attack running away with the bloody weapon. The boy was found guilty of manslaughter and sentenced to four years in jail in juvenile detention. Write an extended response arguing why or why not such a young boy should be sentenced to jail.
2. Do you think that restorative justice could help to prevent revenge crimes? Write a minimum of three paragraphs covering the purpose of restorative justice, the procedure, and how the people involved in this process might feel at the end of the process.
3. Australia has helped the UN in peacekeeping efforts in a range of conflicts, including:
   - Indonesian War of Independence (1947)
   - prelude to the Korean War (1953)
   - various conflicts in Israel and the Middle East (since 1956)
   - Iran–Iraq War (1988—91)
   - Rwandan Civil War (1993—96)
   - East Timorese independence crisis (2012).

   Research one of the listed conflicts and write an extended response outlining what the conflict was about, how Australia was involved, and how a global approach to this conflict was needed to solve the situation.

4. Write an extended response explaining why the law is constantly changing. You might like to consider how laws are reflective of values and principles in each society as well as how new technology or changes in the world 'outdates' some crime while leaving it open for new crimes to take place.
5. Tramel is a 27-year-old mechanic. One day he had a work accident that lead to part of his arm having to be amputated. Explain, using your knowledge of the legal system, how a civil trial could help Tramel in this situation.

**Fully worked solutions and sample responses are available in your digital formats.**

## on Resources

**Digital documents** Worksheet 9.8 Wrap up! (doc-32738)
Glossary quiz (doc-32770)
Multiple choice quiz (doc-32781)

**eWorkbook** Customisable worksheets for this topic (ewbk-0866)

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OPTION

# 10 Travel

## 10.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS at www.jacplus.com.au.

### 10.1.1 Introduction

The time has come to plan for the annual family holiday. Everyone suggests where they would like to go and what they would like to see and do. The family's excitement levels rise quickly. The overall aim of the holiday is to tick all the boxes — famous sights, a bit of culture here and some sport there, and maybe the occasional adventure tossed in for good measure.

Planning a trip has never been easier. The rise of internet options now means access to information for would-be travellers can be provided in a click or a swipe of your mobile phone, tablet or even your computer. Online holiday 'shopping' enables consumers to access information to assist with decisions ranging from choice of accommodation to transport options, to help with official documentary requirements and other useful advice for a host of destinations.

If it's an overseas trip that the family decide on, a host of government websites can be considered that provide help with official documents, including passports and visa requirements, 'no-go' areas and travel insurance. Once a decision has been made in terms of the location to visit, the next step is to develop the itinerary. A range of travel specialists offer assistance in the development of an itinerary or, for the more adventurous family, a do-it-yourself option.

Some say preparing for a trip is as enjoyable as the trip itself, so what's holding you back?

**CONTENT FOCUS**

On completion of this topic, you will have:

- learned how to plan for travel and how to solve problems encountered when travelling
- explored the considerations that need to be made when planning for travel
- identified what relevant data to gather when developing a travel itinerary and budget.

**Resources**

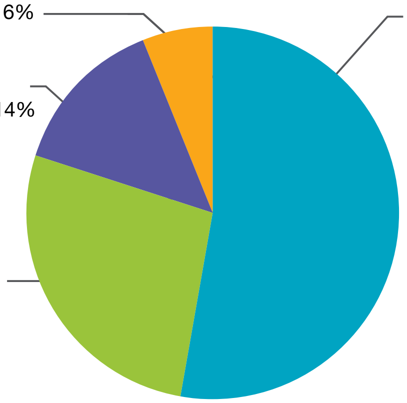
| | |
|---|---|
| **Video eLesson** | Travel (eles-3515) |
| **Digital documents** | Key terms glossary (doc-32673) |
| | Worksheet 10.1 Start up! (doc-32824) |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0867) |

# 10.2 The nature of tourism

## 10.2.1 What is tourism?

The United Nations World Tourism Organization defines **tourism** as the temporary movement of people away from the places where they normally work and live. This movement can be for business, leisure or cultural purposes (see the figure), for a stay of more than 24 hours but less than one year.

Purpose of people's travel, 2017




## 10.2.2 Different types of tourists

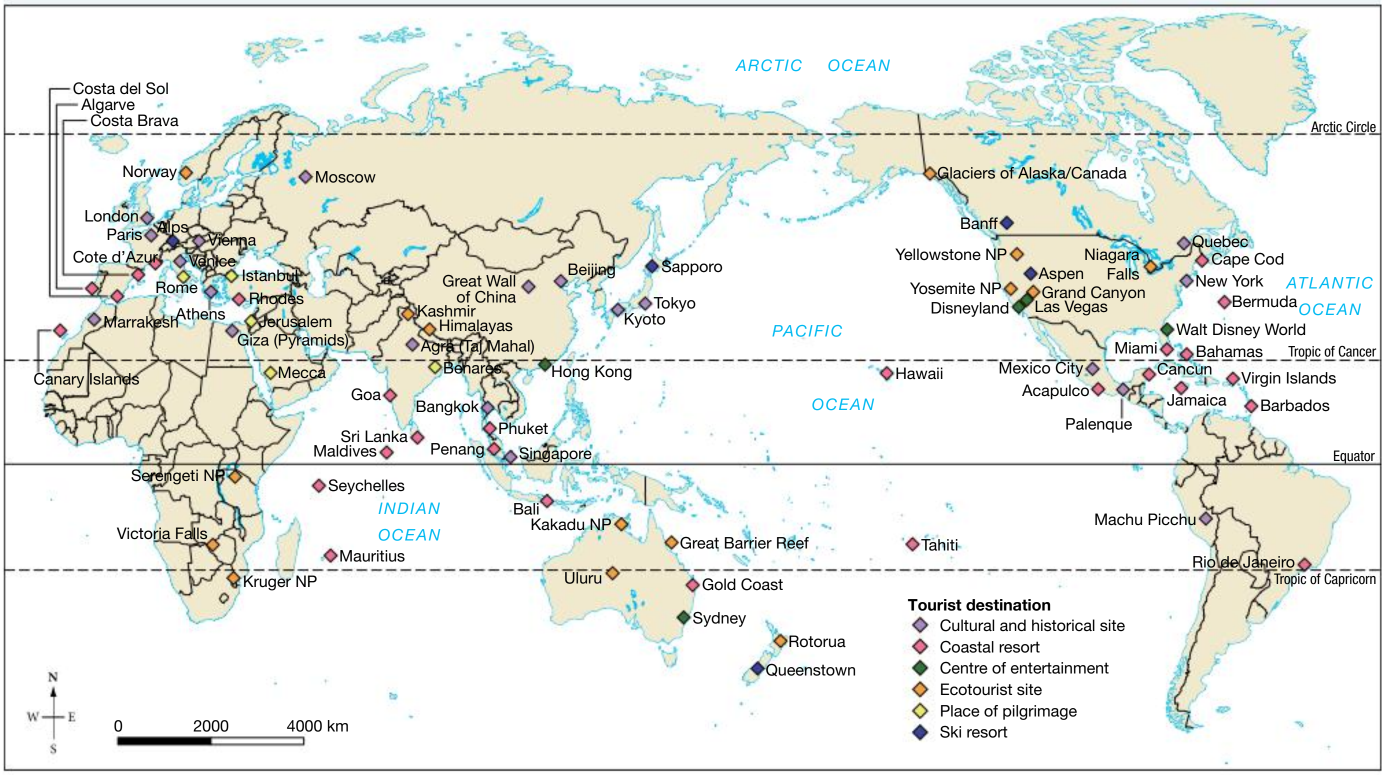
People travelling for leisure have different interests, reasons for travel and preferred ways of approaching the travel experience. The following table identifies some of the key characteristics of different types of tourists, and how they like to travel.

Different types of tourists and their characteristics

| Organised mass tourist | Individual mass tourist | The explorer | The drifter |
|---|---|---|---|
|  |  |  |  |
| • Least adventurous<br>• Purchases a package with a fixed itinerary<br>• Does not venture from the hotel complex alone<br>• Keeps separate from the local community<br>• Makes few decisions about the holiday | • Similar to the organised mass tourist and generally purchases a package for some of their travel<br>• Maintains some control over their itinerary<br>• Uses accommodation as a base and may take side tours or hire a car | • Arranges their own trip<br>• May go off the beaten track but still wants comfortable accommodation<br>• Is motivated to associate with local communities<br>• May try to speak the local language | • Identifies with local community and may live and work within it<br>• Shuns contact with tourists and tourist hotspots<br>• Takes risks seeking out new experiences, cultures and places |

The following map highlights some of the different types of tourist destinations, and their locations around the world. As would be expected, the location of the majority of 'coastal resorts' are relatively close to the equator. However, other types of tourist destinations are randomly scattered. What is the most common category of tourist destination in Australia?

Types of tourist destinations




***Source:*** Spatial Vision

## 10.2.3 Different forms of tourism

The following table outlines different forms of tourism.

| Type | Description |
|---|---|
| **Recreational tourism** | This is the most common form of tourism, where people spend their time relaxing on beach holidays or camping, or perhaps enjoying the thrills and adventures of theme parks. |
| **Mass tourism** | A recently new phenomenon that involves large numbers of people visiting one location throughout the year, resulting in it struggling to have the capacity to deal with the influx of tourists. It is most obviously seen in a city like Venice, Italy. Although being home to just 55 000 people, the city has to deal with 20 million tourists visiting each year, many arriving on mega cruise ships. |
| **Cultural tourism** | This involves visiting destinations because of historical and/or cultural values, with the site perhaps celebrating a festival or ceremony as a means of better understanding its cultural significance. Visits may also include commemorating the historical significance of particular events. |
| **Sports tourism** | The sporting significance of annual events such as tennis or golf tournaments make some cities popular holiday options. The Olympic Games or football World Cups have similarly become major sporting celebrations, attracting millions of visitors to the host cities and countries. |

| Type | Description |
|---|---|
| **Religious tourism** | People may travel to certain regions and cities as part of a religious pilgrimage to trace the origins of their beliefs. |
| **Health tourism** | People looking for different approaches to improving personal health and wellbeing, including having medical procedures such as dental work undertaken, may travel to specific destinations. |
| **Adventure tourism** | This attracts people wanting to challenge themselves and achieve the ultimate adrenaline rush — by, for example, mountaineering or zip-lining through forest canopies. |
| **Business tourism** | This involves men and women attending conferences, seminars or trade fairs related to their respective profession. |
| **Culinary tourism** | People may travel to well-known food regions such as Japan to engage in cooking schools or classes operated by local chefs using regional produce. |
| **Voluntourism** | This is a growing area of the international tourist market, especially among 19 to 30 year olds. A voluntourist spends part or all of their time overseas doing community or environmental work. |

An example of cultural tourism is Australians and New Zealanders visiting Gallipoli, Turkey, on Anzac Day, whereas an example of religious tourism may be Catholic people travelling to the Holy Land to better understand the path that Jesus took or Muslims travelling to Mecca as required in the Koran. **Voluntourism** can mean spending time in unique locations such as Ghana, Ethiopia, Brazil and Sri Lanka. Voluntourism is also available within Australia — in South Australia, for example, at Echidna Care Inc., volunteer tourists can help with research and management of the reserve.

### Aboriginal cultural tourism

The Tourism Australia website offers information to travellers interested in having an authentic first nation experience in the land 'down under'. According to the website, 'The world's oldest living culture delivers a diversity of experiences that create truly memorable Australian journeys.'

Opportunities to experience Indigenous culture are readily available, often with the benefit of being led by Aboriginal guides keen to share their rich heritage and give people a deeper understanding of Australia.

The range of Aboriginal natural and cultural experiences include:

- visiting distinctive landscapes and waterways with unique flora and fauna
- identifying bush tucker and possibly traditional hunting sites
- exploring ancient rock art sites that give insight into the Dreamtime
- engaging in immersive journeys on country and learning firsthand about the strong spiritual connection between Australia's first people and the land
- walking tours, and museum and gallery visits
- staying in traditional accommodation in remote areas.

## Ecotourism

**Ecotourism** involves all nature-based forms of tourism that support an appreciation of nature and the traditional cultures within them. The aim is to manage tourism in a sustainable way. This might be through educational programs related to the environment or cultural heritage, or by controlling the types and locations of tourist activities or the number of tourists visiting an area.

Ecotourism differs from traditional tourism in two main ways:

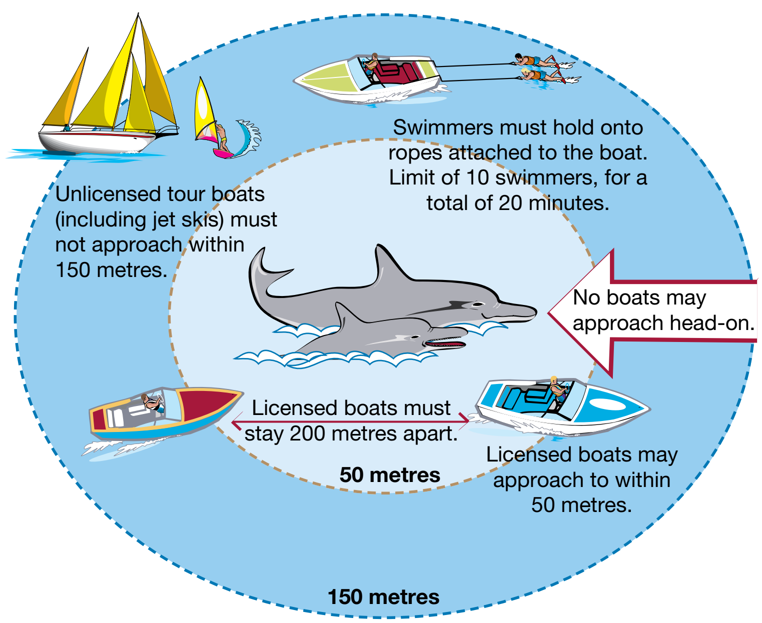
1. It recognises that many tourists do wish to learn about natural environments (such as reefs, rainforests and deserts) and the cultural environment (indigenous communities).
2. It aims to limit the impact of tourist facilities and visitors on the environment.

Ecotourism is often characterised by:

- small-group tours
- being locally owned and operated
- involving activities that have minimal impacts on the natural environment
- bringing income to local communities through alternative employment and income opportunities
- increasing the overall awareness towards the conservation of natural and cultural environments.

In Australia, with its unique natural beauty, both local and international tourists are motivated to experience high-quality ecotourism experiences, often in World Heritage areas. A famous example of wildlife-based ecotourism is Monkey Mia in Western Australia. Here, the wild dolphins come into shore and tourists are able to feed, swim with and touch them. The following figure shows some of the regulations in place to manage this experience for the mutual benefit of tourists and the marine wildlife.

Regulations for contact with dolphins

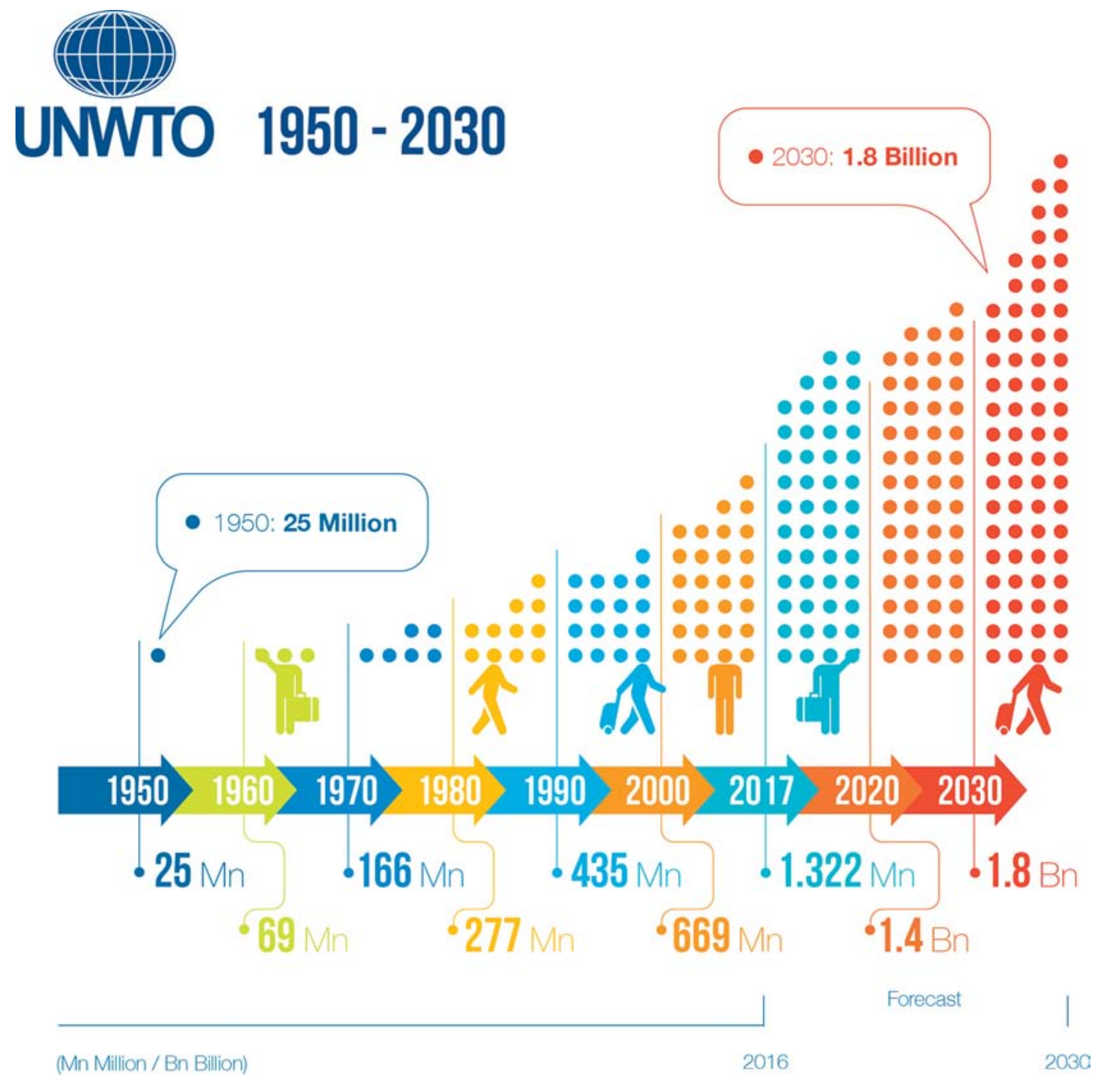


## 10.2.4 Contribution of tourism

Tourism, including all the types identified in the previous section, is one of the world's largest industries. The different forms of tourism addressed previously make a substantial contribution to world economies. One in ten jobs worldwide is linked either directly or indirectly to the tourism industry. In 2017, tourists added US$7 trillion (approximately AU$10.18 trillion) to the global economy.

More than 1 billion international tourist visits occur across the world each year. This has grown from 25 million visits in 1950, 166 million in 1970, and 435 million in 1990. By 2030, this number is expected to grow to almost 1.8 billion, as shown in the following figure.

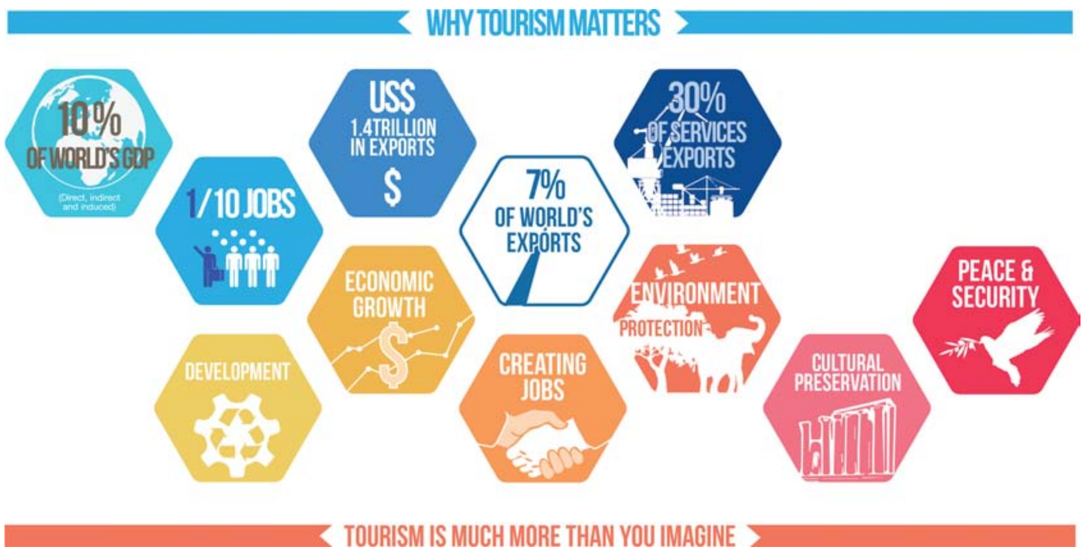
Worldwide international tourists arrivals, 1950–2030




***Source:*** © UNWTO Barometer 2018 — World Tourism Organization (UNWTO), January 2018

Globally, about 10 per cent of gross domestic product (GDP) is directly linked to the tourism industry; for an increasing number of developing countries, it is the primary source of income. Even when global economies are experiencing a downturn, people still travel. After natural disasters, many countries rely on the return of the tourist dollar to help stimulate their economies.

Impact of global tourism




***Source:*** © Highlights 2017 — World Tourism Organization (UNWTO), July 2017

Recent indications are that tourism employs nearly 1 million people in Australia, which makes up approximately 8 per cent of the workforce. The international tourism sector accounts for 1 per cent of Australia's national income ($11 billion) and has shown substantial growth since the beginning of the century. In this time, the composition of inbound tourists has also changed, with the number of people from India and China increasing significantly. Most tourists to Australia come for education, business and leisure, which is consistent with global trends (see the figure at the start of this subtopic).

**on** Resources

**Weblink** Ecotourism Australia

### 10.2 Activity: Research and communication

1. What type of tourist are you? Make a sketch of yourself, similar to the one shown. Annotate your cartoon to describe yourself as a tourist, using information in section 10.2.2 to help you. Include information about your ideal holiday and explain why you appear as you do in your cartoon.

2. Divide a piece of paper into quarters and, using travel brochures or images printed from the internet, create a collage so that each quarter illustrates one of the following types of tourism: recreational, cultural, sports and religious.
3. Use the internet to research an ecotourism destination, and discuss the positive contributions to the local community.

### 10.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample** responses for every question, go to your learnON title at www.jacplus.com.au.

1. What is tourism?
2. What are the two most common reasons for people's travel?
3. Describe the key characteristics of two different types of tourists.
4. Describe the distribution of tourist destinations in Australia. Account for the location of each.
5. Suggest reasons for the relatively few tourist destinations in Africa.
6. Identify the types of tourist destinations located in North America. Select one type and investigate its significance for tourism in its location.
7. Summarise the contribution of tourism to world economies.
8. How have international tourism numbers changed over time?
9. Outline the contribution of tourism to Australia's economy.
10. Describe the changing composition of Australia's tourism industry.
11. How does the 'Impact of global tourism' diagram reflect the increasing contribution of tourism to world economies? Support your answer with examples.

**Fully worked solutions and sample responses are available in your digital formats.**

# 10.3 Planning a trip

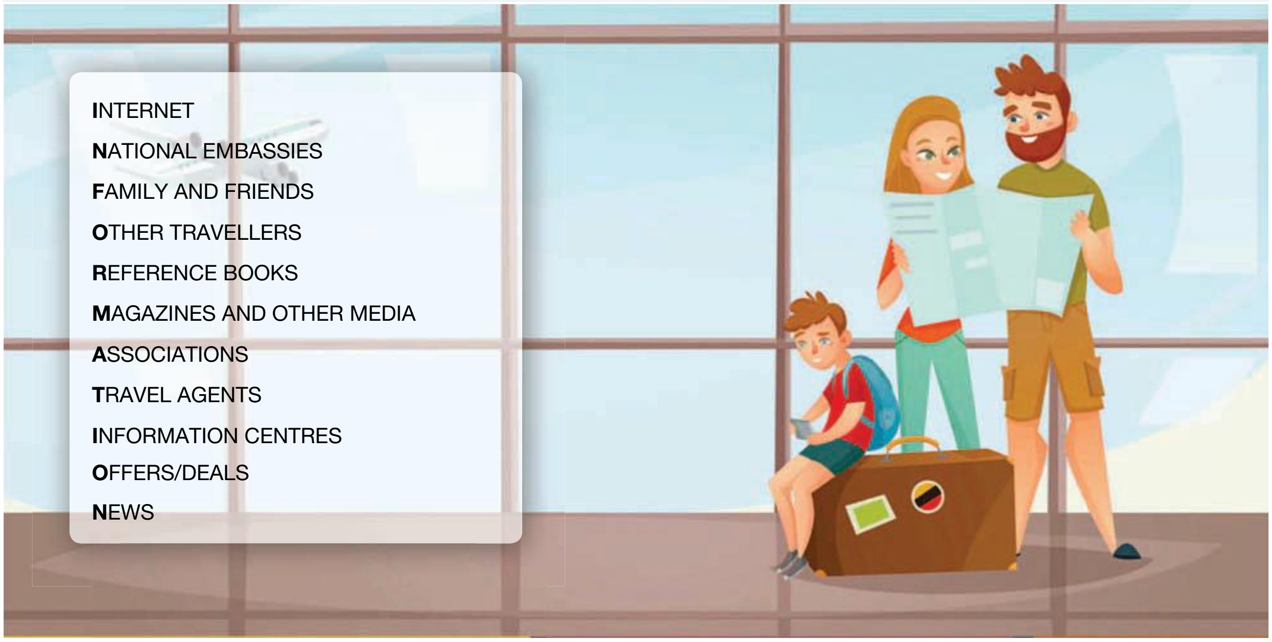
## 10.3.1 Choosing a travel destination

Many different information sources are available to assist travellers select their destinations. These include pamphlets, brochures, travel guide books (such as the Lonely Planet and Frommer's titles), travel agents, fellow tourists (this is a particularly important resource for backpackers) and travel programs on television. As you browse the internet, you may also find sources of inspiration and good tips on travel blogs, Instagram, Facebook and from reading comments on sites such as TripAdvisor — or even just from searching 'top destinations'.

When identifying an appropriate travel destination, people need to take into account factors such as:

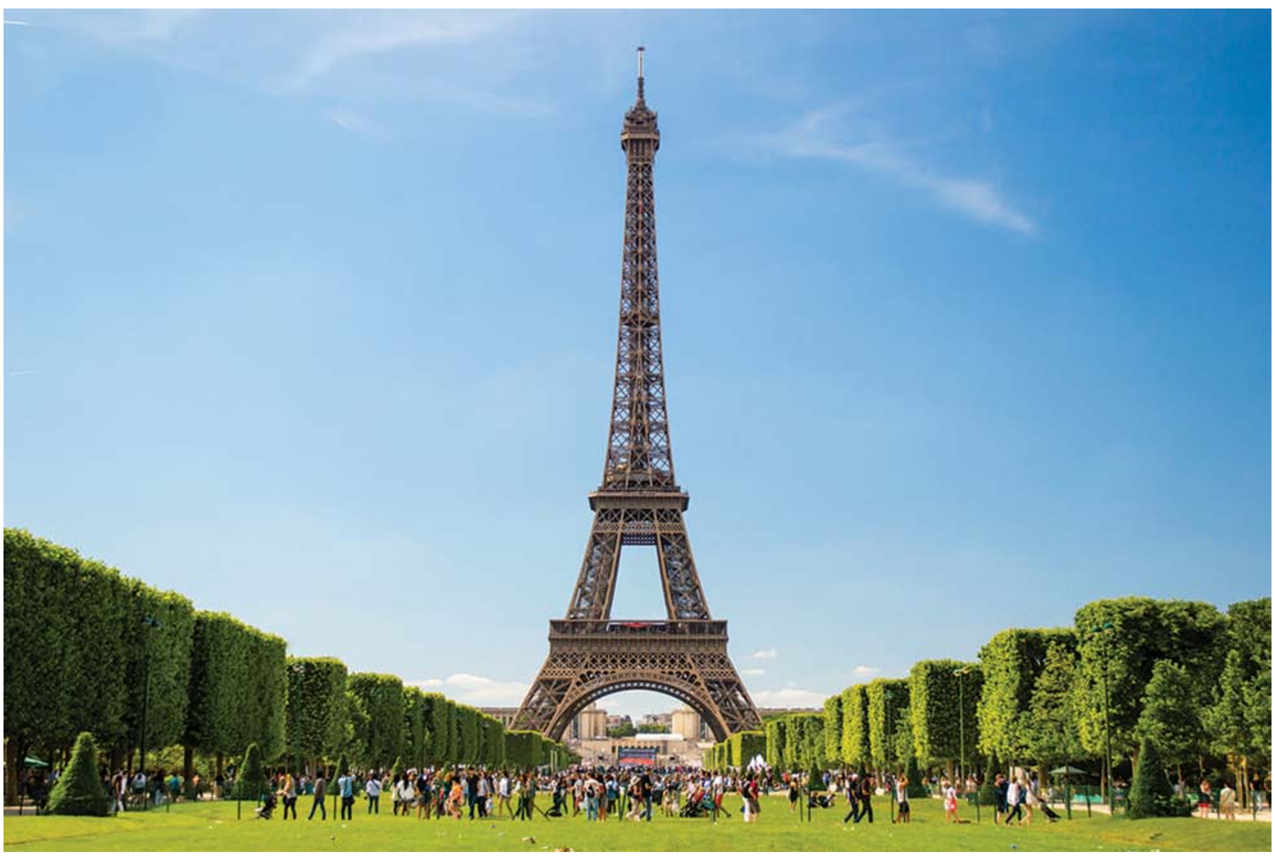
- the weather
- their finances
- government travel advice
- special events such as sporting fixtures or religious holidays
- the type of holiday they are seeking.

Sources of travel information




## COMFACT

France is the single most popular destination for tourists. It attracts over 89.4 million people each year. This represents nearly 8 per cent of all international tourists. Its own population is just over 67.19 million people.



## 10.3.2 Factors affecting travel decisions

Before you decide where to go, you should consider a number of factors. The main factors that affect the choice of tourist destinations are:

- personal preference
- the political situation in the countries that will be visited
- a person's financial circumstances.

### Personal factors

People may have personal reasons for their desire to visit a certain destination. The reasons may include the culture, history, natural beauty, and/or familial ties to a particular country or city. You also may consider whether you want an active or relaxing trip, and who you will be travelling with, such as family and/or friends. Maybe you are thinking of going by yourself? What about the weather? Northern hemisphere winters can be very cold and traditionally popular tourist destinations will be less crowded. On the other hand, northern hemisphere summers can be very hot and may clash with locals having their holidays. Many of these personal reasons may also be influenced by age, education, and the cultural background of the traveller. Consideration also should be given to other factors, such as the length of time you want to be away, which will then influence how far you want to go.

### Political situation

Instability (both short or long term) in a country may influence a person when considering their travel options. If it is anticipated that the instability is most likely short term (for example, due to a recent change of government), a person may decide to travel elsewhere or postpone their trip for the immediate future. If the country is experiencing political instability on a more ongoing basis, people may decide to travel to the country but heed any travel advice and warnings to mitigate possible danger to them.

Political risk is a difficult factor to gauge because the situation within a particular country can literally change overnight. If travelling overseas, it is a good idea to seek advice from the Department of Foreign Affairs and Trade (DFAT), either by phone, accessing the website www.smartraveller.gov.au, following them on Twitter or Facebook, or downloading their free app. This organisation issues travel advice on various risks to travellers, including political instability or terrorism threats in a particular country. The advice is generally based on up-to-date official information from defence organisations such as ASIO (Australian Security Intelligence Organisation) and is much more reliable than any other source that is available to the general public.

### Financial factors

An individual's financial situation will affect their choice of travel destination, accommodation standard and the activities in which they participate when on holiday. Some people take out a loan so that they can have an enjoyable holiday and then spend several years repaying it. Others simply save for their holiday and thus avoid having to pay large amounts of interest. The downside of this option is that they must wait until they have saved enough money before booking the holiday.

Before beginning your trip, it is an extremely good idea to prepare a **budget**. This budget should show the amounts allowed for accommodation, travel, food and entertainment. For people travelling overseas, it should also include an amount for safety in case of unforeseen circumstances, such as an airline strike or a fall in the value of the Australian dollar. The table shows a typical travel budget.

A typical travel budget

| Item | Amount |
|---|---|
| **Amount saved for holiday** | **$5500** |
| Accommodation | $1000 |
| Airfares | $2000 |
| Car hire | $400 |
| Food and entertainment | $1000 |
| Spending money | $500 |
| In case of emergency | $500 |
| Travel insurance | $100 |
| **Total expenses** | **$5500** |

The financial reasons for people visiting a certain destination may be related to the cost of living in that destination. For example, relatively cheaper South-East Asian countries (compared to more expensive Western European countries) are attractive for some on a smaller budget.

Fluctuating exchange rates can also be an important factor. A high Australian dollar makes it cheaper for Australians to travel overseas. When the value of the Australian dollar is low, it benefits tourists to Australia.

The geographical location of Australia means international trips often require more expensive airfares.


## on Resources

**Digital documents** Worksheet 10.2 Holiday destinations (doc-32739)
Worksheet 10.3 Smartraveller (doc-32740)

**Weblinks** TripAdvisor
Hipmunk
Airbnb
Go Budgeting

### 10.3 Activity: Research and communication

1. Using the **TripAdvisor**, **Hipmunk** or **Airbnb** weblinks in your Resources tab, find the most suitable international holiday for the following:
   (a) a family of two adults and two children with a budget of $5000
   (b) a wealthy, retired couple with an unlimited budget
   (c) a backpacking university student with a budget of $1500
   (d) your own dream holiday with an unlimited budget.

### 10.3 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

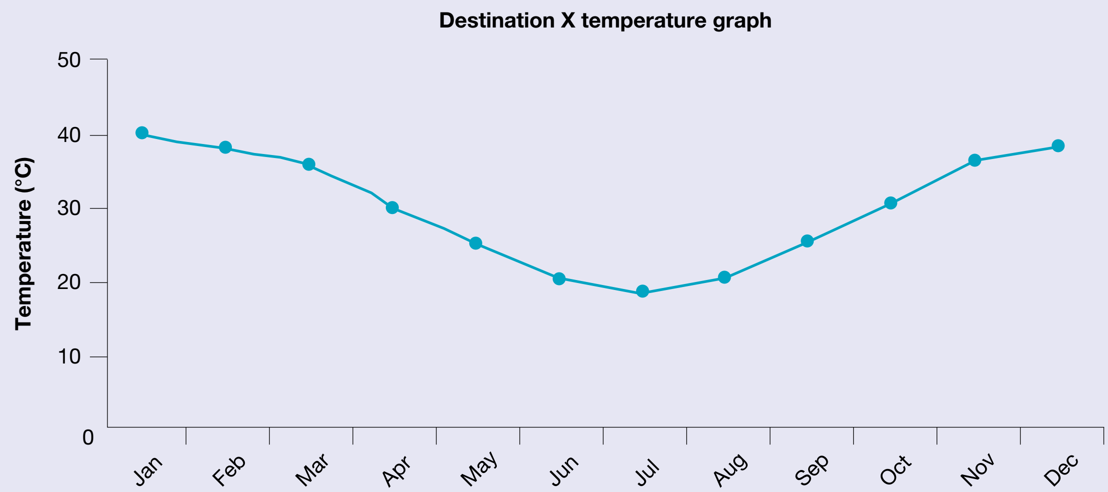
1. List three sources of information that are available to assist travellers when selecting their destinations.
2. Name three things travellers need to take into account when identifying appropriate travel destinations.
3. Kim wishes to take a two-week holiday in sunny northern Queensland to escape the rain in her home town. She carefully studies the rainfall data for Cairns, as shown in the table.
   (a) Name the three months in which Kim definitely should not travel.
   (b) Which three months would best suit her needs?

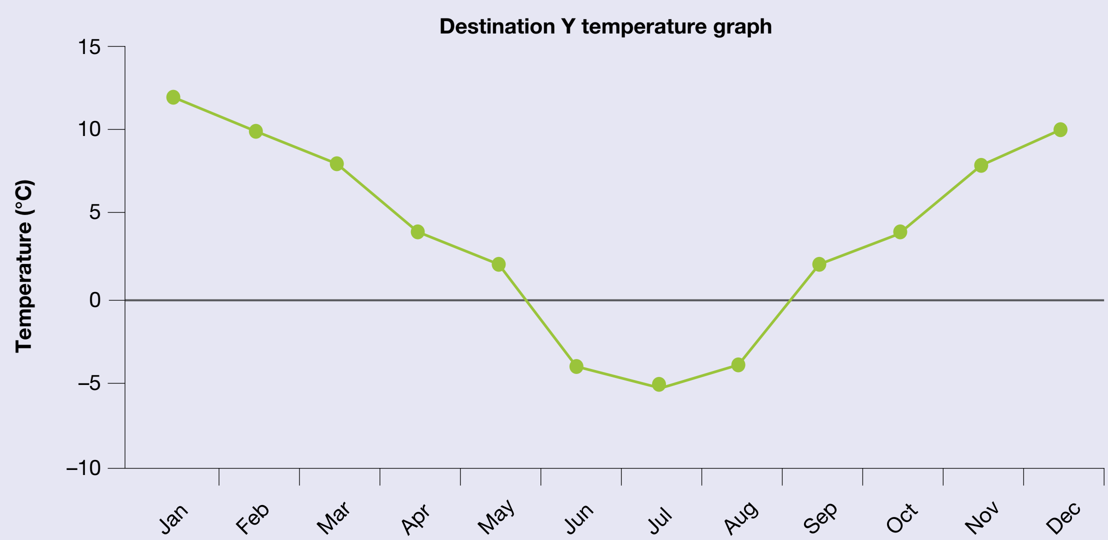
Cairns rainfall data (mm)

| J | F | M | A | M | J | J | A | S | O | N | D |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 394 | 446 | 422 | 193 | 91 | 47 | 30 | 26 | 34 | 48 | 93 | 175 |

4. Levi wishes to go on a skiing holiday. He carefully studies the following temperature graphs. Should he select destination X or Y for his holiday? Why?

Average yearly temperatures for destinations X and Y




5. Complete the following sentences using the words in the list.

**interest** **Department** **financial** **unforeseen** **budget**

(a) The factors affecting the choice of tourist destinations are personal preference, the political situation in the country to be visited and the individual's ___________ circumstances.
(b) The advantage of saving for a holiday in advance is that you do not have to pay large amounts of ___________.
(c) The ___________ of Foreign Affairs and Trade issues travel advice to people visiting overseas nations.
(d) It is a good idea to prepare a ___________ that shows the amounts allowed for accommodation, travel, food and sightseeing.
(e) People travelling overseas should include an amount in case of ___________ circumstances such as an airline strike.

6. Lee wishes to go on an overseas holiday costing $7000 at the end of the year. She prepares the following budget to help her save for the trip.

Lee's budget

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Expenses** | | | | | | | | | | | | |
| Rent | $500 | $500 | $500 | $500 | $500 | $500 | $500 | $500 | $500 | $500 | $500 | $500 |
| Food | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 |
| Telephone | | | $100 | | | $100 | | | $100 | | | $100 |
| Electricity | | | $150 | | | $150 | | | $150 | | | $150 |
| Car — petrol | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 |
| Entertainment | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 |
| Car registration | | | | | | $400 | | | | | | |
| Other | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 | $200 |
| **Total expenses** | **$1300** | **$1300** | **$1550** | **?** | **?** | **?** | **?** | **?** | **?** | **?** | **?** | **?** |
| **Total income** | **$2000** | **$2000** | **$2000** | **$2000** | **$2000** | **$2000** | **$2000** | **$2000** | **$2000** | **$2000** | **$2000** | **$2000** |
| Amount saved | $700 | $700 | $450 | ? | ? | ? | ? | ? | ? | ? | ? | ? |
| Amount saved at end of month | $700 | $1400 | $1850 | ? | ? | ? | ? | ? | ? | ? | ? | ? |

(a) Copy this table into a spreadsheet program, such as Microsoft Excel. Calculate the answers for the cells where there is a question mark.
(b) In which month did Lee save the least amount of money? Why was this?
(c) Would Lee be able to save enough for her holiday or would she need to take out a loan?
(d) What was the highest monthly amount that Lee managed to save?
(e) Insert equations as appropriate and determine the effect if Lee was given a pay rise so that her total income is now $2500 per month.


7. Use the **Go Budgeting** weblink in the Resources tab and complete the budget for your allocated scenario. Using your scenario, how long would it take to save for a $20 000 world trip?
8. The following advertisements show three types of holiday location. Match up each of the following people with their most suitable holiday, giving reasons for your answers.
(a) A couple on a honeymoon
(b) A middle-aged couple who wish to experience Asian culture
(c) A 20-year-old university History student who is very physically active

### 1 Island paradise

Unwind in the beautiful surroundings of Boracay Island, in a five-star luxury resort. Package includes accommodation in an ocean-view room, all main meals and use of resort facilities.

5 nights from $859

### 2 Myanmar magic

For the traveller seeking a holiday with a difference, the city of Yangon offers a wealth of new experiences. Staying in Myanmar's newest boutique hotel, ideally located in a picturesque area, you are free to explore the city, or enjoy the comforts of your 4-star accommodation.

4 nights from $1395 (includes airfare)

### 3 Nile Valley adventure

Experience the wonders of Egypt on this 11-day budget tour. Take in the sights, including the pyramids, Luxor and Abu Simbel, and a camel ride to the Valley of the Kings. Then enjoy a relaxing 4-day felucca cruise of the Nile, past villages, sand dunes and palm groves. A great combination of fun, history and culture.

10 nights from $810

**Fully worked solutions and sample responses are available in your digital formats.**

# 10.4 Advantages and disadvantages of various means of travel

## 10.4.1 Means of travel

The four transport options available for travellers are road, rail, air and sea. The following figure summarises the advantages and disadvantages of each of these types of transport.

Advantages and disadvantages of road, rail, air and sea transport options

### Road


Advantage

- Travel possible on roads in cities and countrysides, including using a car, mobile home, caravan, bus or bike
- Can increasingly travel in an environmentally friendly way; for example, hybrid or electric vehicles
- Flexible — you can go where and when you want
- Relatively inexpensive
- Most places are accessible by road
- Can have space for your luggage

Disadvantage

- Difficult and expensive to take your vehicle overseas
- Road accidents are a problem
- If travelling in a motorised vehicle, can get caught up in traffic congestion and the air pollution is affected
- Stressful driving in strange cities with different road rules

### Rail

Advantage

- Relatively inexpensive
- Much safer than road transport
- Less polluting than road
- Less stressful than road
- Main stations are usually located in the centre of a city

Disadvantage

- Takes longer than air transport
- Subject to industrial disputes
- Level of service may be low
- Many smaller places do not have rail stations
- Luggage storage may be difficult

### Air

Advantage

- Very fast
- High level of service
- Fares have become much cheaper in the past 20 years
- Only real option for international travel out of Australia for people with a time constraint
- Pollution and noise levels of latest aircraft are much lower than older aircraft

Disadvantage

- Problems of terrorism
- Frequent delays due to anti-terrorist security
- Some airlines have gone bankrupt, stranding passengers
- Airports are frequently well away from the city centre
- Much more expensive than road or rail
- Subject to industrial disputes

### Sea

Advantage

- Very relaxed means of travel
- Usually the cost includes food and entertainment
- Safe means of travel

Disadvantage

- Access limited to places with a port
- Very slow when compared to air travel
- Usually a floating resort rather than a means of transport
- Some people suffer sea sickness

## 10.4.2 Group or private travel

A good starting point when deciding whether to travel in a group or privately is to reflect on the type of person you are. Do you prefer to do things by yourself or would you describe yourself more as someone who enjoys the company of others? Once you've considered this, you can line up the advantages and the disadvantages of either option.

### Group travel

The advantages and disadvantages of group travel are shown in the following table.

| Advantages of group travel | Disadvantages of group travel |
| --- | --- |
| • Costs — it is generally cheaper to travel in numbers due to more affordable accommodation options (such as twin share); bus and train travel is generally cheaper; discounts are often available for entertainment such as museum entry or theatre tickets. Travel tour companies often use this model.<br>• Safety — unfamiliar cities may be best visited in a group, providing 'safety in numbers'.<br>• Sharing experiences — having someone to share a meal or a concert can add to the experience and may lead to enduring friendships after the trip.<br>• Organisation — all the work is done for you, including itineraries, pre-arranged entry to places of interest and transport. | • Privacy — a lack of alone time can be an issue in larger groups.<br>• Conflict — friendships and relationships may be strained through being together all of the time.<br>• Clash of ideas — managing competing interests (for example, if you want to go to the zoo but the others are going to the beach) can be difficult. This may become a more significant issue if you are constantly compromising. |

### Private travel

The advantages and disadvantages of private travel are shown in the following table.

| Advantages of private travel | Disadvantages of private travel |
| --- | --- |
| • Your time is your own — you can travel and see the sights at your own pace.<br>• Making new friends — travelling alone may encourage you to move out of your comfort zone and seek the company of others.<br>• Alone time — you can have time to yourself or time to explore specific interests that are not shared by others. | • Safety — people travelling by themselves can be more vulnerable to crimes such as theft or attack.<br>• Too much time alone — as good as it sounds initially, some people struggle being by themselves for extended periods of time. |

**COMFACT**

- The world's busiest international airport according to total international passenger traffic is Dubai International Airport. It handles over 88 million passengers each year.
- The world's busiest train station is Shinjuku Station in Tokyo. On average, it is used by more than 3.6 million people each day.
- The world's largest airliner is the Airbus A380, which can carry up to 853 passengers and has a top speed of 945 km/h.

**on** Resources

**Digital document** Worksheet 10.4 Internet travel research — New Zealand (doc-32741)
**Weblink** NSW TrainLink

## 10.4 Activity: Research and communication

1. Imagine that you are the State Minister for Transport and are responsible for the entire state's rail, bus and ferry services. Prepare a speech where you point out the benefits of public transport and urge tourists to use it instead of motor vehicles.

## 10.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Study the advantages and disadvantages of the types of transport and answer the following questions.
   (a) Which means of transport is the only real option for people wishing to visit Australia but with only one week in which to do it?
   (b) List the costs involved in owning a car.
   (c) What is the fastest means of transport?
   (d) On which means of transport does the fare include the entertainment and all meals?
   (e) Why does air travel incur frequent delays?
   (f) List the main disadvantages of rail transport.
   (g) If you were travelling between Adelaide and Alice Springs, which means of transport would you choose? Give reasons for your answer.
   (h) Assume you are travelling from Sydney to Los Angeles. Which means of transport would you select? Why?
2. Refer to the TrainLink timetable provided and answer the following questions.

NSW TrainLink timetable

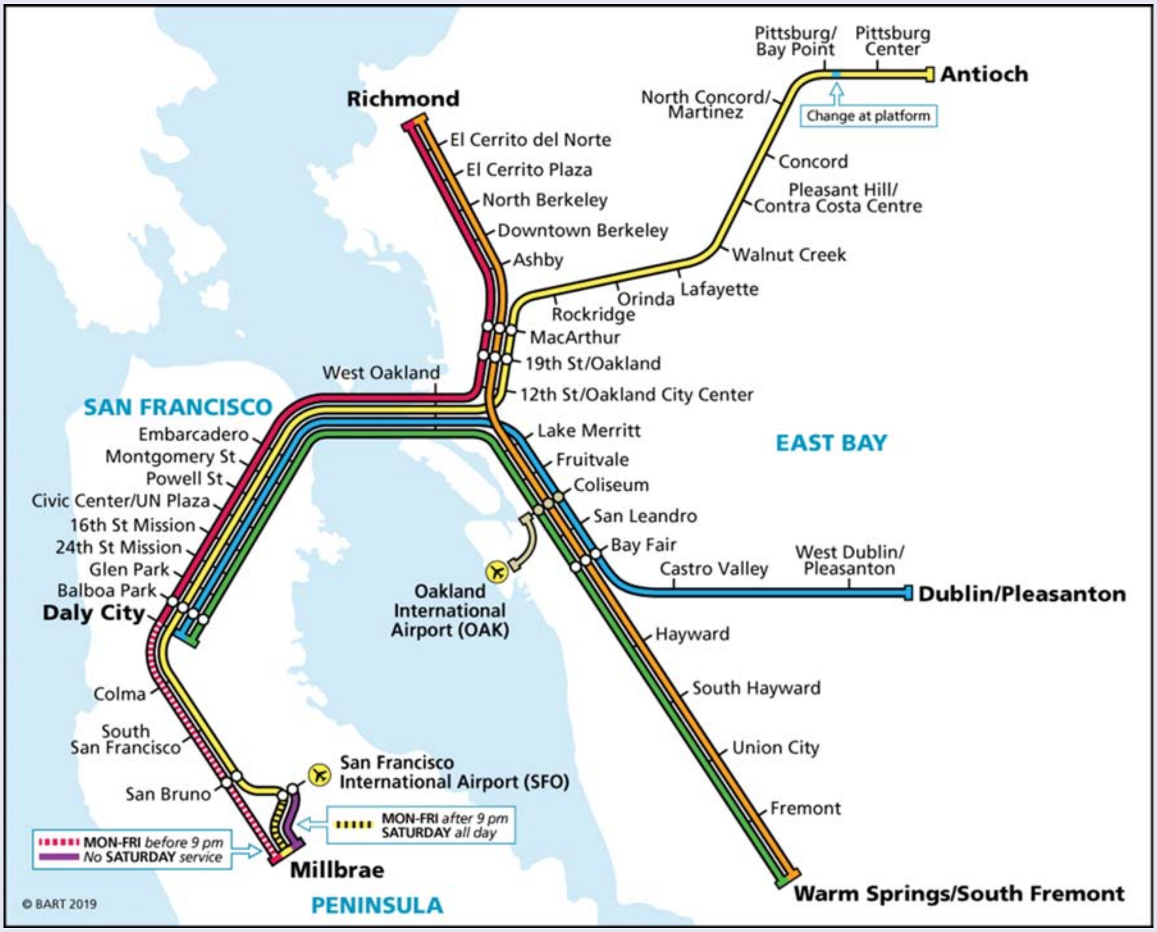
NSW GOVERNMENT Transport

| | Monday to Friday Canberra XPLORER | Saturday and Sunday Canberra XPLORER | Daily Canberra XPLORER |
|---|---|---|---|
| Central | 07:12 | 07:05 | 12:05 |
| Campbelltown | ◗ 07:48 | ◗ 07:41 | ◗ 12:53 |
| Mittagong | **a**08:42 | **a**08:35 | **a**13:48 |
| Bowral | **a**08:48 | **a**08:41 | **a**13:54 |
| Moss Vale | 08:54 | 08:47 | 14:00 |
| Bundanoon | **a**09:07 | **a**09:00 | **a**14:13 |
| Goulburn | 09:44 | 09:39 | 14:50 |
| Tarago | **a**10:12 | **a**10:08 | 15:17 |
| Bungendore | **a**10:36 | **a**10:32 | 15:44 |
| Queanbeyan | 11:05 | 11:01 | 16:14 |
| Canberra | 11:20 | 11:16 | 16:25 |

Symbols
◗ Stops to pick up only
**a** Stops to pick up and set down passengers only when required

   (a) You live near Central and wish to travel to Canberra for a business meeting at midday on Thursday. What time must you catch the train from Central station?
   (b) You slept in and missed the train from the previous question. What time does the next train to Canberra depart from Central?
   (c) Under what circumstances do the trains stop at Bundanoon?

3. Refer to the diagram of the San Francisco rapid train network. On this system you can change trains only at designated transfer stations.




(a) You arrive at San Francisco International Airport and intend to catch the train to your hotel near Fremont. At which stations would you need to change trains?
(b) Can you catch the train from your Fremont Hotel to the basketball match at the Coliseum?
(c) You go from your Fremont Hotel to Berkeley University, near Downtown Berkeley, to hear a lecture. Did you need to change trains?
(d) After the lecture you decide to go to a football game that is being played near Balboa Park. Which line should you use so that you do not need to change trains?

4. Use the **NSW TrainLink** weblink in the Resources tab to answer the following:
(a) How many trains depart Central Station Sydney next Saturday for Grafton? What time do they depart Central and what time do they arrive in Grafton?
(b) What time does the train depart Armidale next Monday? When does it arrive at Hornsby?
(c) When do the trains from Melbourne arrive at Albury?

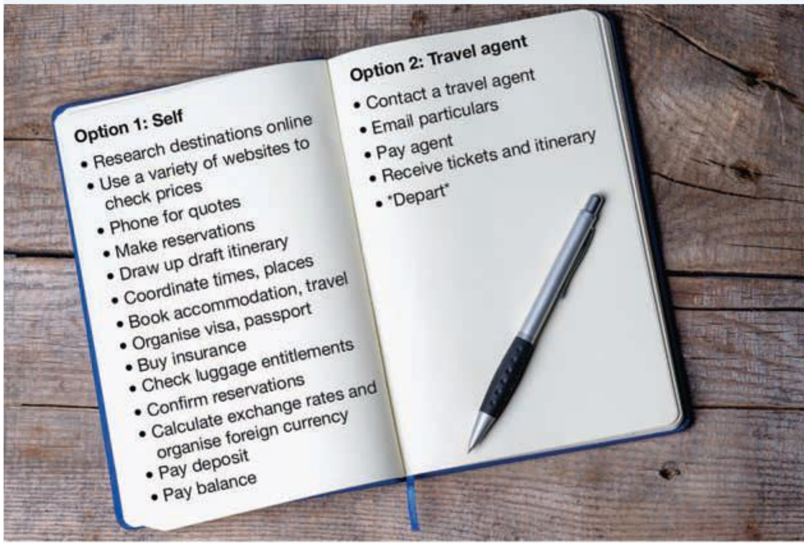
**Fully worked solutions and sample responses are available in your digital formats.**

# 10.5 Travel planning options

Two main options are available for an individual when organising a trip. They are:

- doing all the organisation themselves
- using an agent.

The options available for organising travel.




## 10.5.1 Do-it-yourself

Whether it includes the gathering of information so that possible destinations can be considered, right through to booking all flights and accommodation, the do-it-yourself travel option has become increasingly popular with travellers. Many businesses in the travel industry encourage the do-it-yourself option by setting up user-friendly websites so that people can book directly.

The main advantage associated with the do-it-yourself option is that people are able to pursue their travel plans and organisation at their own leisure. For example, the major airlines will often e-mail subscribers 'special deals' available for '24-hours only or until sold out', offering extremely low airfares at any time of the day. Similar deals also occur with accommodation, whether it be through hotels directly or via opportunities offered by electronic-based travel companies. These deals can provide access to heavily discounted travel options across a variety of smart device platforms that permit a response at any time of the day, without relying on anyone else.

The additional advantage is that people who choose the do-it-yourself option can often sort their travel plans at a time that is convenient to them, without being constrained by the application of business and retail hours and/or time zones and also take advantage of holiday options provided by local operators.

Local operators (often identified after extensive searches) have become aware of the need to appeal to do-it-yourself holiday planners and so offer websites that can be accessed in different languages.

The major deterrent of the do-it-yourself option is that people are unable to avail themselves of the experience, convenience and, in some cases, the value that travel agent specialists might offer.

## 10.5.2 Using an agent

An **agent** is a person or organisation that conducts business, such as arranging travel plans, on behalf of another. (Other types of agents include real estate agents and stock and station agents.)

Using a travel agent has advantages, such as:

- dealing with qualified staff who are experts in their field and will consequently be aware of problem areas (this could include visa or immunisation requirements)

- gaining access to cheaper holiday packages than those available to the general public
- organising travel insurance at a reduced premium.

The main disadvantage of dealing with travel agents is that sometimes their costs are higher, as they take a commission on the fees charged. In the past, some agents have also gone into liquidation and this has left tourists stranded in all parts of the world.

### COMFACT

In 2019, the world's oldest travel firm, Thomas Cook, went into administration, leaving over 600 000 tourists stranded around the globe.

If you decide to deal with a travel agent, you should first check that they are a member of the Australian Federation of Travel Agents (AFTA). This is the representative body for Australia's travel agents, founded in 1957. AFTA's aim is to encourage and promote travel, and to uphold the interests of travel agents. All members of AFTA have to follow the organisation's **code of ethics**, a set of values and principles that are summarised below.

Summary of the Code of Ethics of the Australian Federation of Travel Agents (AFTA)

**ACCURACY** — AFTA members will be factual and accurate when providing information in any form about their services.

**COMPLIANCE** — AFTA members will abide by Australian Consumer Law.

**CONSUMER PROTECTION** — AFTA members will take every reasonable precaution to protect their clients against any fraudulent misrepresentation or unethical practices which may arise in the travel industry.

**DISCLOSURE** — AFTA members will act fair and reasonably in their dealings with their clients, and provide complete details about terms and conditions of any travel service, including cancellation and service fee obligations, prior to accepting payment for a booking.

**REFUNDS** — AFTA members will facilitate refunds to their clients appropriately and refund any undisputed funds under their control within the specified time limit.

**RESPONSIVENESS** — AFTA members will promptly respond to their client's complaints.

**EXPLOITATION OF CHILDREN** — AFTA members will not provide or assist in the provision of any travel service which, to their knowledge, is to be used for a purpose involving the exploitation of children.

### CASE STUDY

### Alina's holiday

To celebrate finishing Year 12, Alina and her two friends booked a 7-day holiday in Hawaii. They had seen a website offering cheap Hawaiian holidays and felt it was too good an opportunity to miss.

When the tickets arrived (only one day prior to departure), they were shocked to see that of the seven days, two would be spent in the air travelling, and that nearly another two days would be spent waiting at a Fiji airport as they had to change planes to take advantage of the cheaper fares. The final straw was that the promised beachfront hotel had mysteriously changed into a hotel located several kilometres from the beach.

The girls were upset and vowed to do plenty of research in future before booking a holiday.

**on** Resources

**Weblink** Flight Centre

### 10.5 Activity: Research and communication

1. Using the library, internet and telephone directory, create a database that lists all the organisations in your suburb, town or region that can assist with organising travel. Include their address, phone number and website details.

### 10.5 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Describe the two options available for organising travel.
2. What is an agent? Give three examples of different types of agents.
3. Draw up a table similar to the one provided showing the advantages and disadvantages of using a travel agent or organising your own travel.

| | Organise own travel | Use a travel agent |
|---|---|---|
| Advantages | | |
| Disadvantages | | |

4. Define the term 'code of ethics'.
5. Identify whether the following statements about the AFTA code of ethics are *True* or *False*.
   (a) AFTA members must provide accurate information to customers.
   (b) AFTA members do not have to provide any refunds.
   (c) AFTA cannot ignore a customer's complaint.
   (d) AFTA members must protect their customers from false representations.
   (e) AFTA members must not comply with rules and regulations of the federal, state and local governments.
6. Refer to the case study on Alina's holiday.
   (a) For how many days was it advertised that the customer would be in Hawaii?
   (b) How many days would Alina and her friends actually have been able to spend in Hawaii?
   (c) Apart from the short time spent at the holiday destination, what other problem did Alina have with her booking?
   (d) How could Alina have avoided these problems?
7. Use the **Flight Centre** weblink in the Resources tab. State three current specials for holidays and their price.

**Fully worked solutions and sample responses are available in your digital formats.**

# 10.6 Considerations when planning a trip

## 10.6.1 Official documents

Travelling overseas requires a good deal of preparation to ensure your trip is safe and free of trouble. Your first step should be to ensure that your **passport** is in order. A passport is an official document granting permission to travel between countries. You must have a valid passport before leaving Australia, and in some cases it must be valid for at least six months beyond the planned stay.

You should also make sure that you have obtained any required **visas**. A visa is an endorsement on a passport, usually by a stamp or certificate, indicating that the holder is allowed to enter, leave or stay in a country for a specified period of time.

Different requirements and regulations exist all over the world regarding entry requirements. To get a visa, you will need to fill in a form with details of why you are requesting permission to enter the country and what you intend to do when you get there. You will also have to pay a fee. A visa usually states the length of time that you will be allowed to stay in the country and in what capacity you are visiting. For instance, if you have indicated you will be on a working holiday, your visa will state that you are allowed to seek employment.

You must also pay a **departure tax** when leaving a country. In Australia, this is usually included in the cost of your airfare. In other countries, you may have to pay this at the airport before departing. Some nations also require you to pay an 'entry tax' upon arrival. This usually has to be paid in the local currency.

On arriving back in Australia, a traveller must have the following documents:

- a completed incoming passenger card — the aim of this document is to keep a record of people entering the country, to monitor for any illegal immigrants and to keep out undesirables such as criminals
- a valid passport.

The Australian Border Force has the responsibility of preventing prohibited imports and exports from entering and leaving Australia. Since Australia is an island, many of our customs regulations are designed to keep out or avoid the spread of exotic diseases and pests. This includes foot-and-mouth disease and swine fever.

There are many goods that you are not allowed to import or can bring into the country only under strict guidelines. These include drugs, firearms, live animals, animal products, plants, plant products and various protected wildlife and their products. For example, ivory is an illegal import. Failure to comply with these laws can result in items being confiscated, fines and even imprisonment.

Tough screening rules are enforced at airports to ensure passenger safety


**COMFACT**

Many Asian countries have severe punishments for using or carrying illegal substances. In recent years, several Australian citizens have even been executed. Van Tuong Nguyen was hanged in Singapore in 2005, while Andrew Chan and Myuran Sukumaran were executed by firing squad in Indonesia in 2015. All these executions were related to drug smuggling offences. Australians are currently on death row in Vietnam, China, Thailand, Indonesia and Malaysia.

## 10.6.2 Medical requirements

A useful starting point before travelling overseas is to visit the smartraveller website. It provides useful information on health risks and medications. It also highly recommends visiting your local doctor for more clarification and requirements. Your doctor will be able to provide advice on general health issues when travelling. They may also refer you to a specialist travel medical centre or a doctor with experience in medical requirements for travellers, where they may advise particular vaccinations or prescription medicines before you travel.

You should ensure you visit these medical practitioners to seek advice on appropriate vaccines and medications well before your intended travel date because some vaccines take a period of time before they take effect.

In some countries (for example, Australia), potential visitors must have a certificate of vaccination for medical conditions such as yellow fever. Entry into the country may not be permitted unless proof of vaccination is presented to authorities.

In some cases, it is wise to err on the side of caution and to take general precautions as well as adhering to medical advice. This includes:

- wearing long clothing and insect repellent in mosquito-rife areas
- packing a first aid kit
- not sitting for excessively long periods and/or wearing compression stockings to reduce the incidence of deep vein thrombosis (DVT), especially while flying

- avoiding local tap water, including not having ice in drinks or eating anything washed in it
- applying (and reapplying) sun screen and wearing hats
- ensuring that food is freshly prepared.

People who require ongoing medications should ensure that they collect them beforehand and have enough for the duration of their trip. There is no guarantee that people will be able to access their medications when travelling. Further, medications may be packaged differently or have different chemical composition to those available in Australia.

## 10.6.3 Political stability and travel warnings

Recent political unrest in some countries has changed the nature of travel, most probably forever. A degree of caution needs to be applied to all travel destinations; however, some might require more caution than others. The Department of Foreign Affairs and Trade (DFAT) provides quite extensive Safety and Security advice or travel warnings for a range of countries and regions. Often the advice includes general information such as avoiding public demonstrations, being alert in commercial and public areas and exercising caution in rural areas. Travellers are encouraged to monitor political situations on an ongoing basis through travel advisories because situations can change quite quickly. All travel involves an element of risk. The advice is meant to assist people but it cannot prevent a situation from occurring.

Australians are also encouraged to register with the nearest Australian diplomatic mission when travelling overseas for extended periods. This DFAT service is offered to assist in locating Australians in emergency situations such as natural disaster, political disturbance or family emergency.

### TRAVEL ADVICE — TURKEY

- Exercise a high degree of caution in Turkey, including Ankara and Istanbul, because of the high threat of terrorist attack. Pay close attention to your personal security at all times. Monitor media for the latest information about safety or security risks.
- Do not travel within 10 kilometres of the border with Syria or to the city of Diyarbakir.
- Reconsider your need to travel to all areas within the south-eastern provinces of Batman, Bingol, Bitlis, Diyarbakir province, Gaziantep, Hakkari, Hatay, Kilis, Mardin, Mus, Sanliurfa, Siirt, Sirnak, Tunceli and Van, due to the unpredictable security situation. The situation is more dangerous at night and in rural areas.
- Terrorist groups in Syria and Iraq kidnap and murder westerners. These groups can launch violent attacks and kidnapping operations across the border, in Turkey.
- Terrorists have called for attacks in Turkey, including on tourist destinations and locations frequented by foreigners. Attacks could take place anywhere and at any time.
- Females travelling alone or in small groups are at risk of violent sexual assault. Be cautious especially in Istanbul, coastal resort areas such as Antalya and other tourist areas.

***Source:*** www.smartraveller.gov.au. Current as at November 2019.

## 10.6.4 Travel insurance

Travel insurance is where the traveller (either individually or as a family) pays an amount of money to a provider for protection against misadventure during the course of their travel. Travellers should always ensure that the insurance policy selected matches the requirements of the trip. The policy should be read and understood by the policy holder before they commit to the conditions stated in the document.

Areas covered by travel insurance include health, property and travel cancellation. It is available from most travel agents, private health funds and companies offering insurance products.

The government-funded health insurance scheme Medicare is of little use overseas, and is no substitute for travel insurance. In some instances, an injury or sickness overseas has cost tens of thousands of dollars, and these costs would have been borne by the traveller if they had not had travel insurance.

The insurance policy (and a copy) should be able to be accessed on the trip in the event that a claim is necessary and it should contain emergency contact details to facilitate queries should they arise during the trip.

Travellers should also note that travel insurance might be compromised if government advice, such as that referred to in section 10.6.3 is not heeded.

### CASE STUDY

#### Travel insurance tales

1. A young Australian worked in a US ski resort for four months, then took time off to travel around the US. He permitted his 12-month travel insurance policy to expire just a few days before his departure for home. He was hit by a car while crossing a road and suffered serious head injuries. He was admitted unconscious to intensive care and required highly intensive sophisticated care until he was able to be flown back to Australia. He was still unconscious and returned on a stretcher. The cost to the family for the medical evacuation alone was A$80 000. They took out a second mortgage on their house to raise the funds.
2. A young Australian surfer went to the US for a surfing competition. Although an experienced surfer, he unfortunately chose the wrong wave during a practice session. He was dumped on a reef and sustained serious injuries. He was flown to a local hospital and immediately underwent two major operations. The hospital bill was A$290 000. Fortunately, the young man's parents had insisted he take out travel insurance. The insurance company covered the bill, and the young man and his family were able to focus on his recovery.

***Source:*** www.smartraveller.gov.au.

## 10.6.5 Language and cultural considerations

When planning a trip to a country where you are unable to speak the local language, you should consider learning some basic words. The ability to be able to converse with the locals is an advantage to a traveller in many ways. If a traveller has command of even a few words, they appear more confident and/or may elicit assistance at a time when they most need it. The words for *hello*, *please* and *thank you* are often simple to learn and help to act as a way of adapting to a new situation. The often-tried strategy of speaking English more loudly or slowly will likely fail.

Courses are available for travellers that provide them with some basic words and phrases that take some of the difficulties out of travelling to a new country. Also available are apps that allow for basic phrases to be converted to other languages to facilitate communication.

on Resources

**Digital document** Worksheet 10.5 Advice for first-time overseas travellers (doc-32742)
**Weblink** Smartraveller

### 10.6 Activity: Research and communication

1. Create an infographic that could be put on display at an overseas airport, warning people that the penalty for drug trafficking is death in that nation.
2. Use the **Smartraveller** weblink in the Resources tab to state the top ten travelling tips.

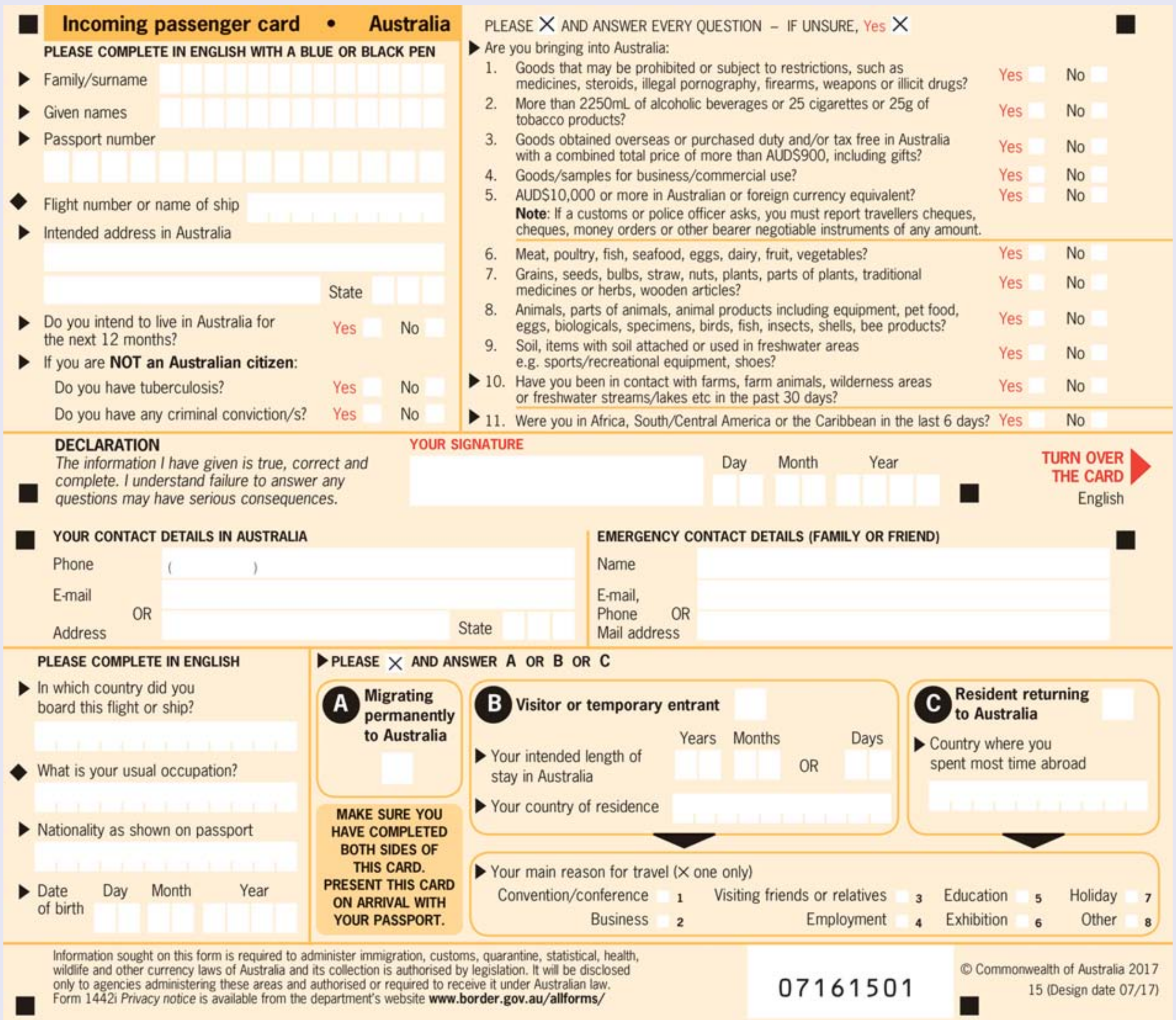
## 10.6 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Copy the following sentences and complete them using the words in the list.

| | | | | |
|---|---|---|---|---|
| **visa** | **criminals** | **two** | **incoming passenger** | **passport** |
| **animals** | **Smartraveller** | **diseases** | **departure** | |

   (a) A __________ is an official document granting permission to travel between countries.
   (b) A ________ gives permission to a person to enter a country for a specific purpose.
   (c) You often have to pay ________ tax when leaving a country.
   (d) On arriving back in Australia, a traveller should have _________ documents, including a completed _________ card, and a valid passport.
   (e) There are many goods that cannot be brought into Australia including drugs, firearms and live _________.
   (f) The Australian Border Force tries to stop exotic _________ from entering the country.
   (g) The best way to find out about the political stability of your destination is to visit the _________ website.
   (h) The aim of the incoming passenger card is to prevent undesirables such as _________ from entering the country.
2. Why would we try to prevent diseases such as foot and mouth disease from entering the country?
3. Refer to the incoming passenger document shown.



**Incoming passenger card • Australia**

PLEASE COMPLETE IN ENGLISH WITH A BLUE OR BLACK PEN

- Family/surname
- Given names
- Passport number
- Flight number or name of ship
- Intended address in Australia
- State
- Do you intend to live in Australia for the next 12 months? Yes No
- If you are **NOT an Australian citizen**:
  - Do you have tuberculosis? Yes No
  - Do you have any criminal conviction/s? Yes No

PLEASE X AND ANSWER EVERY QUESTION – IF UNSURE, Yes X

Are you bringing into Australia:

1. Goods that may be prohibited or subject to restrictions, such as medicines, steroids, illegal pornography, firearms, weapons or illicit drugs? Yes No
2. More than 2250mL of alcoholic beverages or 25 cigarettes or 25g of tobacco products? Yes No
3. Goods obtained overseas or purchased duty and/or tax free in Australia with a combined total price of more than AUD$900, including gifts? Yes No
4. Goods/samples for business/commercial use? Yes No
5. AUD$10,000 or more in Australian or foreign currency equivalent? Yes No
   **Note**: If a customs or police officer asks, you must report travellers cheques, cheques, money orders or other bearer negotiable instruments of any amount.
6. Meat, poultry, fish, seafood, eggs, dairy, fruit, vegetables? Yes No
7. Grains, seeds, bulbs, straw, nuts, plants, parts of plants, traditional medicines or herbs, wooden articles? Yes No
8. Animals, parts of animals, animal products including equipment, pet food, eggs, biologicals, specimens, birds, fish, insects, shells, bee products? Yes No
9. Soil, items with soil attached or used in freshwater areas e.g. sports/recreational equipment, shoes? Yes No
10. Have you been in contact with farms, farm animals, wilderness areas or freshwater streams/lakes etc in the past 30 days? Yes No
11. Were you in Africa, South/Central America or the Caribbean in the last 6 days? Yes No

**DECLARATION**
*The information I have given is true, correct and complete. I understand failure to answer any questions may have serious consequences.*

YOUR SIGNATURE — Day Month Year

TURN OVER THE CARD
English

**YOUR CONTACT DETAILS IN AUSTRALIA**
Phone ( )
E-mail
OR
Address
State

**EMERGENCY CONTACT DETAILS (FAMILY OR FRIEND)**
Name
E-mail, Phone OR Mail address

**PLEASE COMPLETE IN ENGLISH**
- In which country did you board this flight or ship?
- What is your usual occupation?
- Nationality as shown on passport
- Date of birth — Day Month Year

**PLEASE X AND ANSWER A OR B OR C**

**A** Migrating permanently to Australia

**B** Visitor or temporary entrant
- Your intended length of stay in Australia — Years Months OR Days
- Your country of residence

**C** Resident returning to Australia
- Country where you spent most time abroad

MAKE SURE YOU HAVE COMPLETED BOTH SIDES OF THIS CARD. PRESENT THIS CARD ON ARRIVAL WITH YOUR PASSPORT.

Your main reason for travel (X one only)
Convention/conference 1 · Business 2 · Visiting friends or relatives 3 · Employment 4 · Education 5 · Exhibition 6 · Holiday 7 · Other 8

Information sought on this form is required to administer immigration, customs, quarantine, statistical, health, wildlife and other currency laws of Australia and its collection is authorised by legislation. It will be disclosed only to agencies administering these areas and authorised or required to receive it under Australian law. Form 1442i *Privacy notice* is available from the department's website **www.border.gov.au/allforms/**

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15 (Design date 07/17)

   (a) How much duty free allowance do you have?
   (b) List five items that may be prohibited from bringing into Australia.

(c) What is the purpose of question 10 on the form?
(d) Use the following details to complete a copy of the form.
Today you arrive in Sydney from Indonesia on flight QF17. Your passport number is 78946236100012. You will live at your address for longer than the next 12 months. You are an Australian citizen. Answer 'No' to every question except those relating to the wood carvings and box of coffee that you bought on your holiday. You also visited a rice farm in Indonesia.
Sign and date the form and paste it into your notebook. Below this, write a paragraph describing the purpose of this document.

4. Read the travel advice warning in section 10.6.3.
(a) Why is travel to Turkey not advisable at this time?
(b) Why would governments publish this type of information?

**Fully worked solutions and sample responses are available in your digital formats.**

# 10.7 Organising a passport and visa

## 10.7.1 Applying for or renewing an Australian passport

The process of applying for or renewing an Australian passport is reasonably simple. Details outlining the process are available at the Australian Government's Department of Foreign Affairs and Trade website. Also available there is a guide that is speech enabled for vision-impaired people.

Applicants are advised that they should allow approximately three weeks to receive their new passport and that the process is assisted if all of the necessary documentation is provided. If, however a passport is needed urgently, a priority-processing service is available for an extra fee. This service will usually ensure that the passport application turnaround time is reduced to two business days (plus any delivery time). All of the fees and charges associated with obtaining a passport, and additional passport information, are available on the **Australian Passport Office** website. Information regarding child passport applications is also available at this website.

The passport application process is as follows.

### STEP 1 Complete the application form

The first step of the process can be undertaken online and then printed later. The document once saved online can be returned to for completion at a later date. This process also assists people renewing their existing passport and/or checking the existing status of their application.

A valid passport is necessary to travel between countries.


### STEP 2 Collecting citizenship and identity documents

Applicants must confirm their Australian citizenship and prove their identity using original documents, including a full Australian birth certificate or Australian citizenship certificate.

### STEP 3 Passport photographs

Applicants are required to provide two identical colour photographs that are fewer than six months old. Other specific requirements must also be met, such as quality, clarity and lighting. These photographs need to be endorsed by a referee who must be Australian citizen aged 18 or older who has known the applicant for at least 12 months and who is not related or does not live with them. This referee must also undertake their endorsement according to certain requirements.

### STEP 4 Lodge the passport application

The applicant should take the hard copy of the application form, photographs, citizenship or identity documents (these will be copied and returned immediately) and payment to a participating Australia Post outlet where the form can be lodged.

If additional information is required a representative from the Australian Passport Office may be in contact with the applicant.

If you think that you need a passport and are under 18 years of age, talk it over with your parents or guardians because each child passport application must be supported by original documents such as those referred to previously as well as written consent that must be given by each person who has parental responsibility for you.

Children aged between 10 and 16 must have their passport lodged by a parent or another person who has parental responsibility for the child. If the child is 16 or 17, the child must accompany the parent to lodge the application.

### Lost or stolen passports

Australian passports are a prime target for theft. They can be sold for a considerable sum of money or used for other illegal purposes. At all times, you must ensure the security of your passport. It is a good idea to use the hotel safe deposit boxes for valuables such as passports and return air tickets. If your passport is lost or stolen, it can cause a great deal of inconvenience.

If you are in Australia, you must report the loss with the Department of Foreign Affairs and Trade as soon as possible either by phone or online.

When applying for a replacement passport, you will need to:

- complete a new passport application form
- provide details of the lost/stolen passport
- attend an interview
- pay the current application fee
- pay the appropriate lost/stolen passport fee.

If you are outside Australia and your passport is lost or stolen, you must immediately report the loss online or to the nearest Australian diplomatic or consular mission. In certain circumstances, such as short-term travel overseas, you may be issued with a limited validity passport if you are unable to meet all the requirements for a fully valid passport.

#### COMFACT

In 1950, 30 000 Australian passports were issued to travellers. By 2000, this number had risen to nearly 1 450 000. Passport production accounted for 37 tonnes of paper, 95 500 metres of thread, 69 000 metres of gold foil and 1100 litres of glue. From 2005, a new Australian ePassport was introduced. It uses sophisticated biometrics and facial recognition technology. These were introduced to reduce the risk of passport fraud.

#### CASE STUDY

#### A cautionary travel tale

Mike had finally arrived in Turkey. He was exhausted after his 20-hour flight from Sydney, but he figured a shower and a change of clothes at the backpacker hostel would soon refresh him. The next day he would leave to meet up with his friends at Gallipoli to commemorate Anzac Day. It was something he had always wanted to do after his grandmother had told him about his great-great grandfather who had been one of the original Anzacs. But, first, he wanted to explore Istanbul while there was still daylight.

Unsure of the local customs, he didn't want to be out after dark by himself. After checking in and freshening up, he tucked his backpack under his bunk and closed the door. No-one else seemed to be sharing the room, so he hoped for a good night's sleep. After three hours marvelling at the architecture of Istanbul, especially the Blue Mosque, he returned to his hostel and his room. Retrieving his backpack from under the bunk, he searched the inside zipper compartment for his travel documents to check his arrangements for the next day. To his horror, all his documents, including his passport, were missing. He sat on the bunk in a cold sweat. What should he do now?

## 10.7.2 Applying for or renewing a visa

A visa is an endorsement on a passport, usually by a stamp or certificate, indicating that the holder is allowed to enter, leave or stay in a country for a specified period of time. The Australian government does not issue visas for other countries and is unable to provide information about a person's eligibility. Information about visa requirements is available through the embassy or consulate of the country being travelled to, and limited information is available to assist travelling Australians on the smartraveller website.

The availability of a visa does not ensure entry to a country by a person because this is always at the discretion of the immigration officials of the country that issues the document. Before a visa is issued, a person will usually pay a fee and complete an application form that requires personal details. Often a travel agent can assist with this process.

The traveller entering another country may be asked to present return travel tickets and, in some cases, evidence of enough currency to cover their costs for the duration of the stay. People are not automatically issued with a visa and may be refused entry due to general appearance, criminal records, and/or medical conditions. Many countries require a minimum of six months validity remaining on a person's passport beyond their planned stay.

A number of different types of visas are available — for example, tourist, study or transit visa (required for a stopover to change planes within a country) — according to the type of trip a person wishes to take. It is suggested that the applicant deal directly with the issuing country's embassy representative. Visas are offered for a specified period of time and may allow for multiple entries and exits. It is important that the correct visa be applied for and that the conditions set out in the visa be met, because failure to do so may mean that the person is deported (at their own expense) and/or fined. Future travel could also be jeopardised should the conditions set out in the visa not be breached.

Australia has a number of working holiday reciprocal visa arrangements with other countries. This program offers Australian citizens the chance to travel and work in a number of countries for periods up to one year. An example is the United Kingdom's Youth Mobility Scheme.


People are encouraged to apply and secure all visas well in advance of their intended travel. Little assistance is available for people if they are refused entry to a country when overseas, even if the traveller believes that the refusal is unfair.

**on** Resources

**Weblink** Australian Passport Office

### 10.7 Activity: Research and communication

1. Use the **Australian Passport Office** weblink in the Resources tab to create a PowerPoint presentation detailing the steps required to apply for and renew an Australian passport. Your presentation should be comprehensive and include slides outlining the following:
   - the application process for both an adult and child passport
   - fees
   - what to do if a passport is lost or stolen
   - safety tips to help avoid having your identity stolen.

### 10.7 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Complete the following sentences using the words from the list.

| | | | |
|---|---|---|---|
| **Department** | **adult's** | **online** | **deposit** |
| **Post** | **tickets** | **inconvenience** | **consular** |

   (a) An ___________ passport is valid for ten years and a child's is valid for five years.
   (b) Passport application forms are available ___________.
   (c) You must lodge your passport application at a participating Australia ____________ outlet.
   (d) Some countries ask visitors to present return ___________ and evidence of sufficient money to cover their intended stay.
   (e) Hotel safe ___________ boxes should be used for valuables such as passports and return air tickets.
   (f) If you have lost your passport and you are in Australia, you should contact the ___________ of Foreign Affairs and Trade.
   (g) If you have lost your passport and you are outside Australia, you must report it online or to the nearest diplomatic or ___________ mission.
   (h) If your passport is lost or stolen, it will cause a great deal of ___________.

**Fully worked solutions and sample responses are available in your digital formats.**

# 10.8 Developing an itinerary

## 10.8.1 What, where, when and how

An **itinerary** is a travel plan. It needs to contain information such as where you intend to stay, your transport details, how long you are staying, what you plan on seeing and other things you would like to do. For example, factors such as a person's income, their budget and personal and/or family preferences all have a role in influencing the length of stay. When creating an itinerary, you have many decisions to make and factors to consider. The three most important decisions to make when planning an itinerary are where to stay, how to get around, and what to see and do. The following table provides some guidance on these topics to assist in creating a comprehensive itinerary. Once you have created your itinerary, it is a wise move to register your itinerary with www.smartraveller.gov.au because this ensures that if any serious incidents occur in an area where you are travelling, the Australian government may be able to assist.

Many websites can assist with planning your itinerary, such as tripadvisor.com.au. This site contains much information for travellers as well as many reviews. It is a good idea to research others' experiences so as to find rewarding but hidden travel experiences and to avoid possible dangers.

Decisions involved in organising an itinerary

**Organising an itinerary: decisions! decisions!**

**Factors influencing travel decisions**

- location
- time
- price
- availability
- reliability
- security
- comfort
- interests

**Where to stay**

- tent
- caravan
- hostel
- bed and breakfast
- hotel
- motel
- guest house
- resort


**Getting around**

- walk
- cycle
- taxi
- hire car
- bus
- train
- monorail
- tram
- ferry

**What to see and do**

- cultural events
- sporting events
- architecture
- gardens
- markets
- theatre
- exhibitions
- fashions
- nightclubs
- ceremonies
- monuments
- galleries
- eat
- shop
- ecotourism
- recreational activity
- explore
- workshops
- attend tours
- art and crafts
- music and dance
- meet the locals
- sightseeing
- rest and relaxation

## Time constraints

People may be restricted in their travel by certain issues such as school holidays, quieter times at work and/or climate. These constraints will mean that people will try to extract the maximum ‘value’ from their holidays in that they will attempt to fit as much as possible into their allocated time.

While the constraints of time will affect many people on their trips away, experienced travellers recommend that in fact ‘less is more’. That is, take time to see fewer attractions and enjoy what they have to offer rather than trying to fit everything into a couple of days. It is better to save some attractions for the next visit.

For some people, time constraints are addressed by organised tours (such as the Great Cities of Europe tour shown in the following case study). These tours allow for the tourist to visit a number of destinations in a specified period of time. The additional benefits associated with such tours include the fact that much of the hassles of travelling have been dealt with by people who have more experience in organising such tours. Accommodation, transport, sightseeing and sometimes meals are catered for by the tour company. By travelling in a group, the travel costs may be reduced and offer a viable proposition to budget conscious travellers.

## CASE STUDY

## Great Cities of Europe

Experience the wonders of Europe on this eight-day package tour, taking in London, Paris, Rome, Venice and Vienna. Highlights include visits to the Colosseum, the Trevi Fountain and the Eiffel Tower as well as countless other beautiful historical and cultural sites.

### Tour itinerary

*Key:* **(BB)** Buffet breakfast; **(D)** Three-course dinner

**Day 1:** Arrive London. On arrival, you will be transferred to your hotel to join your Tour Director for a welcome drink in the hotel bar.

**Day 2:** Sightseeing tour. Includes views of Big Ben and the Houses of Parliament and visits to Westminster Abbey and the Tower of London. Afternoon — at leisure. Suggested destinations include the London Eye for a bird's eye view of the city, Knightsbridge for a spot of shopping at Harrods or a relaxing stroll through Hyde Park. **(BB)**

**Day 3:** London — Paris by Eurostar. On arriving we will visit the Arc de Triomphe and the Champs Elysées. In the evening, why not enjoy a cruise on the Seine or a cabaret show? **(BB)**

**Day 4:** Paris. Sightseeing tour includes the Eiffel Tower and the Louvre. **(BB, D)**

**Day 5:** Flight to Vienna. Our sightseeing tour takes in the magnificence of Schönbrunn Palace and St Stephen's Cathedral. Afternoon at your leisure, before meeting up for dinner at one of the city's finest restaurants. **(BB, D)**

**Day 6:** Vienna — Venice. Enjoy the spectacular scenery of the Austrian Alps on our coach journey to Italy's canal city. Today we take a private cruise on the Giudecca Canal, taking in the Bridge of Sighs, the church of Santa Maria della Salute and the Doge's Palace. In the afternoon, explore St Mark's Square with its stunning cathedral. **(BB)**

**Day 7:** Venice — Rome. On arriving in the Eternal City, we will take in the Colosseum and the Roman Forum, followed by a visit to the famous Trevi Fountain — be sure to have some coins handy! **(BB, D)**

**Day 8:** This morning, we visit St Peter's Basilica and the Vatican, including the breathtaking Sistine Chapel. Afternoon at leisure. Transfer to Rome Airport in the evening for your return flight to Australia.

**Airport transfers** — Hotel transfers from London Heathrow will operate at 9.30 am, 12.30 pm and 3.30 pm. Passengers arriving later should make their own way to the hotel.

**Quality hotels**
All accommodation is in twin bedrooms with private facilities.
**London:** Hotel Tara **Paris:** Saint Lazare
**Vienna:** The Mercure **Venice:** Hotel Margherita
**Rome:** The Embassy Hotel
All hotel service charges, and tips, baggage handling fees and local taxes included.
***Early Payment Discount — save $50 per person***



Travel guidebooks also offer simple itineraries for people who have a fixed time in a certain location. They have been written by people who have significant experience in that destination.

Discussing intended travel plans or itineraries with people who have travelled to, or may have lived in the intended destination previously, may assist a traveller in identifying 'must-see' attractions. Furthermore, an experienced travel agent may also assist a traveller by having the 'must-see' attractions identified for them.

## 10.8.2 Travel advice from Department of Foreign Affairs and Trade (DFAT)

The Australian Government's Department of Foreign Affairs and Trade (DFAT) assists Australian travellers by providing a host of useful information. It is particularly helpful in assisting people with travel advice because it refers to 160 destinations and has a 24-hour consular emergency helpline within and outside Australia. It also has more general information relating to how to avoid danger, travelling around, travel insurance, partying safely, staying within the law and health.

The general travel advice is accessed by navigating to www.smartraveller.gov.au and then searching for a particular destination from its list. DFAT then refers to the destination with the following warnings (supported by a colour) to help the traveller:

- Exercise normal safety precautions (green)
- High degree of caution (yellow)
- Reconsider your need to travel (orange)
- Do not travel (red)
- Advice level not specified

When the traveller selects the destination of interest they are directed to a map of the location and an update of the current situation. For example, Malta had the following information for travel within the country.

### TRAVEL ADVICE — MALTA

- Exercise normal safety precautions in Malta. Use common sense. Look out for suspicious behaviour. Monitor the media and other sources for changes to local travelling conditions.
- There is an ongoing threat of terrorism in Europe. Terrorist attacks have occurred in a number of European cities in recent years.

Other advice is also available on safety and security, local travel, laws, health, natural disasters, where to get help, business travel, female travellers and avoiding scams.

***Source:*** www.smartraveller.gov.au. Current as at November 2019.

## 10.8.3 Other travel advice

### Travel reviews

Daily newspapers, especially the weekend newspapers, will often have a travel section that contains reviews of a number of travel destinations and modes of transport. Cruising has seen a significant rise in popularity. Reviews of airlines and airports are also common. Travel journalists will write an account of a holiday they have had and review potential destinations. Letters to the editor from travellers outlining positive and negative experiences also provide less formal reviews.

Travel magazines can also be a source of information. They feature reviews of countries, cities, accommodation and other natural and cultural aspects of a destination, as well as general advice that is helpful to travellers. Often photographs of exotic locations will supplement this information.

Guidebooks and other travel literature include reviews of destinations, helpful hints, maps, and accommodation, restaurants and transportation options.

Information evenings and travel expos provided by travel businesses offer insights and may include a video presentation about a city or country. The question and answer session to follow assists potential travellers.

Travel specialists or agents can provide firsthand reviews of destinations. Many of these specialists are experienced travellers, so they are often a source of valuable information.

Television travel shows provide information by having a reporter visit a destination and then present a segment about their experiences, often from a traveller's perspective. Some television shows are actually funded by tourism boards to encourage potential travellers.

Word-of-mouth reviews make use of the combined travel experiences of family, friends and others to encourage a person to consider one travel destination over another, especially if the experience has been a particularly good one.


Websites or blogs provide travel reviews and are accessed by typing a city or country into a search engine. You can then access websites that provide a variety of information to assist travellers. The TripAdvisor website is a popular example of such a site.

This form of technology will provide current information, often supported by photographs or video footage about a destination that may assist in the decision-making process. These reviews may include suggested itineraries or be linked to a particular destination or accommodation that gives firsthand accounts of someone's experiences.

Social media is increasingly used to entice users to travel to locations across the world. 'Influencers' use these platforms to review destinations but content should be assessed according to whether they are endorsements or just comments from like-minded travellers.

### Travel connections

Organising travel can be problematic, especially when connections are necessary. Websites provide options for arranging travel and avoiding extended waiting times in airports, train stations or ferry terminals. Accessing the comprehensive flight schedules and/or timetables that are available online allow for a smoother link between transport options, especially if longer distances and/or different countries are involved. An example of a website that can assist in this process is the Rome2rio site.

### Different methods to pay for things

Recent technological changes have allowed global financial transactions to occur more easily and this has also been of benefit to the travel industry. For many older travellers, the choices were limited to foreign cash or travellers cheques. Travellers cheques were popular because they were relatively secure, readily accepted as payment, and could be converted into cash. They can still be used but have fallen out of favour for tourists due to the development of other methods.

More recently, payment choices and methods have expanded. It is essential to make the right choice for you because the consequences can be more than inconvenience.

Generally, the best advice is to cover a number of bases and have different payment methods. A debit or travel card for use at an ATM, while easily accessed, can result in a lost card if the machine takes it, higher access and/or currency conversion costs and even the possibility of fake currency.

Credit cards have usage costs similar to debit cards and may make budgeting difficult for some. Their major attraction is that the major brands are readily accepted, and improved security features make fraud difficult. Some even offer travel insurance.

Some cash is always advisable. You may or may not decide to convert your currency ahead of your trip. Cash is required (even in small amounts) in many situations such as local markets or food stalls, or when using more exotic travel options such as tuktuks (motorised tricycles, used in many countries in South-East Asia for transporting passengers).

Usually, having a bit of cash in the local currency, a debit card and/or travel card to withdraw cash with and a credit card should ensure you have the capacity to pay for goods and services on your trip.

## Sourcing travel health advice before leaving Australia

The Australian Government's Department of Health provides information prior to overseas travel. It prioritises personal responsibility and preparation as the best approach to avoiding health risks.

Advice is broken into three components: before you leave, while you are away and when you return.

### Before you leave

Research each country that you will visit. Are water and food standards a problem? Will you be travelling to rural areas where animals carrying disease may pose a problem? The best advice is one that addresses each person's individual needs. Older travellers, children, pregnant women or those with underlying health issues will need to take particular care.


### While you are away

Preventing insect bites or taking care with eating and drinking are two areas that can be more easily addressed as you are travelling. Diseases such as yellow fever in South and Central America and Africa pose a serious threat, and mosquitoes should be avoided in these areas.

### Upon your return

Monitor your health when you get back because some diseases take a while for symptoms to emerge. It is also possible that some illnesses can be spread to family and friends. A suggested time period of up to two weeks is recommended for you to watch for symptoms such as fever, rashes, persistent vomiting or diarrhoea, unusual bleeding, swollen glands and/or persistent coughs or breathing difficulties.

#### CASE STUDY
#### Dengue fever

Simon and his friend Lachlan recently travelled to Sri Lanka. Upon returning to Australia, Simon noticed that he had a persistent fever, headaches, muscle pain and a rash in his neck. He was unable to return to work.

He visited his doctor and described his symptoms, and his doctor soon diagnosed him with dengue fever. She asked if he had noticed being bitten by a mosquito while on holiday.

Go to the smartraveller website and research the advice provided to avoid situations like that experienced by Simon.

## Resources

**Weblinks** Smartraveller

Trip Advisor

Rome2rio

### 10.8 Activity: Research and communication

1. In small groups, prepare an itinerary for a solo traveller, going on an overseas holiday. You cannot exceed your budget of $15 000. Refer to travel brochures and the internet for details. Share your itinerary with the class as a PowerPoint presentation justifying your choices.
2. Access the **TripAdvisor** weblink in the Resources tab and select a destination to travel to in Australia, providing reasons for your decision.
   (a) You have a budget of $300 per night for accommodation. Select a hotel that fits within this budget, and list the factors that influenced your choice.
   (b) Identify five things to do at your selected destination.
   (c) How will you travel to the destination? What factors will you have to consider?
   (d) Research some of the available travel reviews for your chosen destination. Will any of these reviews affect your final decision? Discuss why or why not.
3. Access **TripAdvisor** to plan a two-day business trip to Singapore. Make a list of three things you would like to do, and list two restaurants where you would like to eat.
4. Visit **rome2rio** to plan your travel to Warsaw (Poland) for a business meeting in a month. List three options for travelling between your suburb or town in Australia and Warsaw. Which would you choose? Give reasons for your answer.
5. Using **Smartraveller**, find information to help decide whether it is a good idea to holiday in the following locations: Indonesia, Sudan, Syria and Mauritius.

### 10.8 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What is the purpose of an itinerary?
2. Using the information in the diagram on travel decisions in section 10.8.1, list five accommodation alternatives you could choose when organising an itinerary. Which would you select? Why?
3. Name eight options that tourists have when deciding what to do and see.
4. What information does an itinerary contain?
5. Refer to the itinerary for the Great Cities of Europe trip in section 10.8.1 and answer the following questions.
   (a) How many days does this tour last?
   (b) In which cities does the tour start and finish?
   (c) When in Rome, at which hotel will you be staying?
   (d) On which day is the Louvre Museum visited?
   (e) In which city would you see the Trevi Fountain?
   (f) On which days is dinner provided?
   (g) What time is the last transfer from the airport to the hotel? What should late arrivals do?
   (h) How much is the discount for making an early payment?
6. Determine the current time, and time zones, in Sydney, London, New York and Tokyo.
7. Summarise the travel heath advice provided by the Australian Government's Department of Health. Use the following headings to assist you.
   (a) Before you leave
   (b) While you are away
   (c) Upon your return

**Fully worked solutions and sample responses are available in your digital formats.**

# 10.9 Solving problems related to travel

## 10.9.1 Financial issues

A major issue for travellers is that many different currencies are used around the globe. If a country did not trade and people did not travel to other areas of the world, then this would cause very few problems.

However, since trade and tourism are very important to our society, some way is needed to compare the currencies of different countries. The method that is used is known as a **foreign exchange rate**. These exchange rates, which vary nearly every day, are set by the foreign exchange market.

If you budgeted to have A$1000 spending money on a holiday to London, this would convert to approximately £560. While A$1000 might sound like a reasonable amount of spending money, it is always important to consider what the converted amount will be.

Value of Australian dollar on a set day

| Country | Currency | Rate |
|---|---|---|
| United States of America | Dollar | US $0.6881 |
| United Kingdom | Pound | £0.5583 |
| Canada | Dollar | CA $0.9071 |
| Europe | Euro | €0.6248 |
| Thailand | Baht | ฿20.97 |
| Indonesia | Rupiah | Rp 9651 |
| Japan | Yen | ¥74.31 |
| Malaysia | Ringgit | RM 2.8714 |
| New Zealand | Dollar | NZ $1.0690 |
| Singapore | Dollar | SG $0.9473 |

***Source:*** Based on data from https://www.rba.gov.au, September 2019

When travelling overseas, having a currency converter application installed on your device is highly recommended. This will enable you to quickly gauge the approximate cost of an item in Australian dollars. The XE Currency app or XE.com are useful to help keep your spending in check while holidaying.

Most people travelling overseas can use their credit cards. Purchases made on these while overseas are converted back into Australian dollars at the current exchange rate. In many countries, these cards can also be used to access automatic teller machines. Some banks' debit cards may also be used to access ATMs. It may be wise to shop around for the best travel credit card so that you minimise additional costs related to currency conversion or annual fees. It is also advisable to notify the financial institution prior to travel to avoid it cancelling the card due to 'unusual' transactions.

Prepaid travel cards are becoming quite popular for travellers. You are able to deposit your own funds into an account and then while overseas the travel card can be used at most ATMs or to purchase goods and services. The main advantages are that if the cards are lost or stolen, the most you can lose is the money you have left loaded on the card. You are also able to lock in the exchange rate prior to travel and avoid risking a falling exchange rate at your time of departure. The disadvantage is that banks usually charge fees for their use. These need to be compared to the interest charged on cash withdrawals using credit cards.

In the event that travellers have become separated from their cash, cards, passports and/or tickets, it is important to contact the respective financial institution, government agency and/or travel company as soon as possible. It is difficult to replace cash; however, cards can be 'stopped' to ensure that no unauthorised transactions are possible. Replacements cards may take time to be reissued, and this is why having alternative sources of travel finances is recommended. Passports can be cancelled, and replacements organised through Australian diplomates or consular missions (although this too may take time) and travel tickets can also be re-issued.

Taking a photograph on your mobile phone and/or creating a copy of each of these travel 'essentials' can assist authorities with organising replacements more quickly.

Countries like Australia are increasingly becoming cashless and, for the most part, travellers can rely on financial institutions to process transactions quickly and securely. Other countries are more cash oriented and/or have less efficient financial institutions. A heavy reliance on credit facilities can quickly ruin a holiday if a purchase cannot be processed or people are unable to access their funds. It is a good idea to do some research ahead of time about the preferred manner of financial transactions for that city or country. Credit facilities may not always be as readily accessed as they are at home.

Access to credit overseas may prove problematic for some, especially if you neglect to notify your financial institution before you go. Furthermore, having a credit limit will also ensure that you don't overspend and return home to a mountain of credit card debt.

People also need to be careful when using their mobile phone overseas because they may have to pay very high fees for using excess data, mobile roaming and accessing local networks. This depends on the individual's plan. It could be easier to buy a prepaid local SIM card when arriving in a different county to avoid this problem.

## 10.9.2 Legal concerns and issues in different countries

Punishments for crime can be very different from Australia in foreign countries. The most obvious example is the crime of drug trafficking, for which capital punishment applies in many of our neighbouring countries. In Malaysia and Singapore, crimes such as spray-painting graffiti are viewed very seriously. People convicted of this can expect to receive several strokes of a two-metre long bamboo cane.

### CASE STUDY

#### The Bali Nine

Andrew Chan, Myuran Sukumaran, Si Yi Chen, Michael Czugaj, Renae Lawrence, Tan Duc Thanh Nguyen, Matthew Norman, Scott Rush and Martin Stephens are known as the Bali Nine. They were a group of Australians convicted of attempting to smuggle approximately 8 kilograms of heroin out of Indonesia in April 2005. The street value of the heroin was estimated to be A$4 million and it was bound for Australia. After lengthy legal proceedings spanning many years, Chan and Sukumaran were sentenced to death. They were both executed on 29 April 2015 by firing squad. Of the remaining seven, six were sentenced to life imprisonment and one had their life sentenced reduced to 20 years imprisonment.

## 10.9.3 Cultural differences and culturally sensitive behaviour

A country's culture is the beliefs, customs and values that prevail throughout the community. People who travel, especially overseas, often experience a degree of 'culture shock' when they are exposed to unfamiliar surroundings and people. Travellers are advised to respect the local culture and customs when they visit a country. Awareness of and adherence to dress 'codes', whether formally requested or implied — for example, women covering shoulders and men wearing long trousers in South-East Asian countries — will ensure that locals act with more tolerance towards travellers.

Other aspects of culture that travellers need to acknowledge include methods of communication — for example, greetings expressed to older men and women, etiquette associated with dining, protocols for visiting religious monuments and buildings, observance of religious holidays, and the taking of photographs, especially of people and government buildings.

Certain actions acceptable in Australia may cause offence in some cultures.



**COMFACT**

As an Australian citizen, you may be covered under the Reciprocal Health Care Agreement (RHCA) if you travel to one of the following 11 countries: Belgium, Finland, Italy, Malta, the Netherlands, New Zealand, Norway, the Republic of Ireland, Slovenia, Sweden and the United Kingdom. This means that if you get sick in one of these countries your health care bill would be subsidised. However, each country has different regulations in terms of what is covered and what you have to pay for. It's a good idea to check before you travel and ensure you have adequate travel insurance.

## 10.9.4 Strategies for overcoming common problems associated with travel

If you do get into difficulties while overseas, you should contact the nearest Australian embassy or consulate. Consular services should be seen as an option only in the case of serious difficulties. The types of support the Department of Foreign Affairs and Trade (DFAT) may be able to provide include assisting Australian citizens in the event of serious injury, illness, death, arrest and/or detention. They can also provide support during crisis situations and emergencies, deliver information to assist Australians avoid travel problems, and issue passports and other travel documents. The **Vienna Convention** sets standards for people who have been arrested outside their own country. Under this, you must be given access to a consular representative.

Airlines can help if travellers get into trouble overseas. In fact, DFAT encourages people to contact airlines before contacting its representatives should the issue be travel related.

**on** Resources

**Digital document** Worksheet 10.6 Aussies abroad (doc-32743)

### 10.9 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. What are exchange rates and why are they needed?
2. Are the following statements true or false?
   (a) In Malaysia and Singapore, those who spray-paint graffiti can expect to be imprisoned.
   (b) Australian embassy staff can help people with problems such as lost passports.
   (c) The Vienna Convention sets the standards for persons who have been arrested outside their own country.
3. Refer to the table of exchange rates to answer the following:
   (a) State the currency used in the following places: Malaysia, New Zealand, Indonesia, Japan and Singapore.
   (b) If a person had A$20.00, how much of the currency from the following countries could they purchase: Canada, USA, Indonesia, Malaysia and Japan?
   (c) If a Japanese tourist purchased a watch in Australia for $10, how many Yen would they have spent?
   (d) The entry fee to Disneyland in Los Angeles is A$130. How much would have to be handed over in US currency to gain access to this fun park?
4. List those things for which travel insurance can provide compensation.
5. Why do travellers need to be sensitive about their dress and behaviour in another country or culture? Can you think of a situation in Australia where locals might find the actions or dress of an overseas tourist offensive?
6. How can punishment for crimes vary between countries? Use examples to support your answer.
7. Consider the case of the Bali Nine (covered in section 10.9.2).
   (a) What crime was the Bali Nine convicted of committing?
   (b) Outline the punishment that each member of the group received.
   (c) Why should travellers be aware of different punishments when visiting countries such as Bali?

**Fully worked solutions and sample responses are available in your digital formats.**

# 10.10 Current issues and impacts of travel

## 10.10.1 Declining tourism in some communities

With the ever-increasing variety of tourism opportunities making new and exciting destinations accessible to travellers, other communities have been significantly affected. In Australia, some rural communities — especially those in decline due to the changing nature of Australia's trade — sought to support rural activities with tourism.

Tourism in regional, rural and remote areas contributes $16 billion to Australia's income. While the rise of **agritourism** — where tourists visiting a regional area can visit a farm or food-related ventures such as restaurants for education and leisure — is apparent, a lack of a coordinated approach means that the growth is inconsistent across the country and some regions are facing difficulties.


An example of such decline in regional communities can be seen in Ivanhoe, New South Wales. Ivanhoe is a small town that lies at the end of the bitumen on the Cobb Highway.

Tourists used to travel through Ivanhoe on their way to the inland lake system on the Darling River at Menindee. Many would stay overnight at the caravan park. However, due to drought over recent years the lakes have dried up, and so has the tourist trade.

Today, the population of Ivanhoe is about 200. Over the last few years, the supermarket, baker, butcher and Commonwealth Bank have all closed.

## 10.10.2 Overtourism in certain historical and cultural sites

Many historical and cultural sites across the world are under threat — from us! Where once they welcomed tourists, many of the cities that host these sites are now putting up the 'house full' sign. Problems have arisen most strongly in cities such as Barcelona in Spain and Venice in Italy. The situation has even given rise to websites suggesting that people should avoid certain places.

The rise in **overtourism** has been attributed to disruptors such as Airbnb, cheaper travel, rising income and the use of social media in identifying 'bucket list' locations.


Locally, Australia's most popular historical and cultural sites are vulnerable with the growth in tourist numbers in the last 30 years. Issues associated with the effects of overtourism in Australia include protecting fragile ecosystems such as the Great Barrier Reef, facilitating tourism in natural environments — such as the proposed cable car on Mount Wellington in Hobart — and changing cultural values that have persuaded the closure of Uluru to climbers.

Governments are responding to the problem by closing fragile environments for extended periods, encouraging off-peak season travel and regulating the number of tourists.

## 10.10.3 Risks associated with travelling to certain countries

The Department of Foreign Affairs and Trade on its smartraveller website makes recommendations regarding the importance of being aware of local laws and cultural customs.

In respect to the law, pleading ignorance is no defence. It is important that all travellers obey local laws even if those laws may be different from back home. The Australian Government recommends that people should make themselves aware of local laws and penalties for each country on the traveller's itinerary beforehand, because consular services have limited power.

Crimes such as forced marriage, child sex abuse, human trafficking and modern slavery are all prohibited under laws both here and overseas, with breaches treated seriously.

It is similarly important to respect local customs. The smartraveller advice includes the following reminders:

- Research the local customs of the country you're travelling to and, if in doubt, seek local advice.
- Dress appropriately. Look at what the locals are wearing and be sensitive to local standards.
- Show respect when visiting cultural, historical and sacred sites. In some countries, inappropriate or indecent behaviour can lead to arrest.

- Always ask permission before taking photos of people and respect their wishes if they decline. In some countries, it's illegal to take photos of certain places, such as government buildings, airports and ports or any police or military property.
- In some countries, it's not acceptable for couples to be very affectionate in public.
- Laws and attitudes towards lesbian, gay, bisexual, trans and intersex (LGBTI) travellers around the world can be very different from those in Australia.

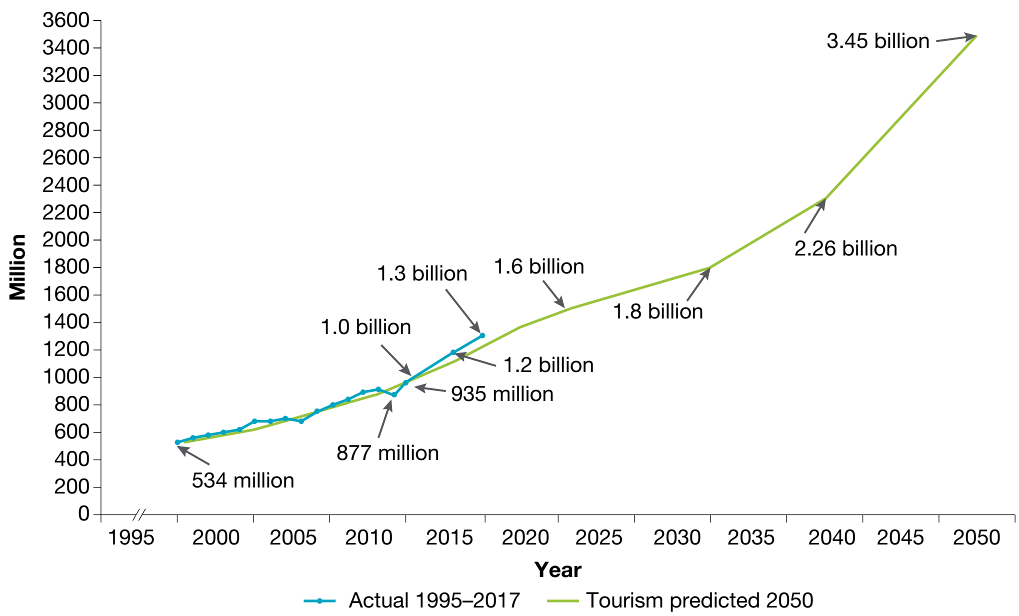
## 10.10.4. The future of tourism

Year after year, global tourism continues to increase. Advances in transport technology have reduced not only travel times but also costs, making travel increasingly accessible to more and more people. For example:

- Today, you can fly from Australia to Europe in about 20 hours from the east coast, or under 17 hours flying non-stop from Perth. A similar journey by boat in the late 1940s took six weeks or more.
- Airline and tour companies offer a range of cut-price deals, and the increased number of competitors for the tourist dollar means that travel is more affordable.
- Improvements in transport and technology have increased our awareness and knowledge of the world around us and have sparked people's desire to see new places and experience different cultures.
- In general, the travelling public has more leisure time and more disposable income, making both domestic and international travel viable.

The following graph shows the growth in tourist numbers from 1995 to 2017 together with projected growth through to 2050.

Projected future growth in world tourism




### 10.10 Activity: Research and communication

1. Design a poster aimed at young travellers that identifies the importance of recognising legal and cultural factors when travelling overseas.
2. Conduct some research on the problems caused by overtourism in either Venice or Barcelona. Outline the strategies that are being used to address it. Present your findings to your class as a short presentation.

### 10.10 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1. Using the information supplied, locate areas that are experiencing a decline in tourism.
   (a) List reasons for the decline of tourism in these areas.
   (b) Propose strategies for growing tourism in these areas.
2. What is overtourism?
3. List reasons for the rise in overtourism.
4. Consider the graph in section 10.10.4, showing future growth in world tourism.
   (a) How many global tourists are predicted in 2040?
   (b) What impact do you think these increases will have on the environment?
   (c) Will this result in small-scale or large-scale change?
   (d) Do you think these numbers are sustainable? Explain.

**Fully worked solutions and sample responses are available in your digital formats.**

# 10.11 Thinking Big research project: Design a 7-day cruise adventure

## 10.11.1 Scenario

Mystic Cruises is about to add a new cruise ship to its fleet; however, they are not sure at this stage which market they want their new cruise liner to operate in and so have research teams investigating the options. They have also decided that the team who puts together the selected itinerary will have the honour of naming the new ship and will also be among the passengers when it makes its maiden voyage.

## 10.11.2 Task

You are a researcher at Mystic Cruises and are keen to win this prize. Design a seven-night cruise for a new cruise line. You can choose where in the world the cruise ship will operate and which ports the ship will dock at (at least four). Show the ports of call and the home port on a map. For each port, you will need to develop three shore excursions that allow people to take in the sites and culture of the places they visit. Ensure the following:

- One of the shore excursions is culturally based.
- One excursion is eco-friendly.

- One excursion applies to a specific demographic group (this might be related to age, gender, singles or families).

You will also have to name the new ship, and this might be influenced by where the ship will be based. For example, one cruise line company that operates in the Pacific included the ocean's name in the name of its ships.

Present your findings as a Prezi.

## 10.11.3 Process

- Open the ProjectsPlus application for this topic and then click the 'Start Project' button. Set up your project group. This will enable you to share ideas, store your research and collaborate on the finished project.
- Check the assessment criteria before you begin.
- Assess the relevant subtopics in this topic and the suggested weblinks before branching out and conducting additional research. Pay particular attention to the cruise line websites that are included in your weblinks. These are designed to help your group decide which destinations to visit on your cruise. Remember that it must be feasible to visit each of the ports.
- Don't forget to complete your bibliography as you progress through this task, and to use the bibliography template to help you compile your bibliography. Every time you use a new resource, add it to the template.
- Plan your cruise. First decide the part of the world your cruise will operate, and then the ports you will visit. Show this on a map, and remember to include the essential features of a map: border, orientation, legend, title, scale and source (BOLTSS).
- Investigate your ports of call and prepare your shore excursions.
- Don't forget to name the ship.
- Create your Prezi.

**on** Resources

| | |
|---|---|
| **Weblinks** | P&O Cruises |
| | Carnival |
| | Royal Caribbean |
| | Cruiseco |
| **ProjectsPLUS** | Design a 7-day cruise adventure (pro-0194) |

# 10.12 Review

## 10.12.1 Summary

Having explored this topic, you can now:

- identify different forms of tourism and their contribution
- consider how travel decisions can be affected by personal, financial or political issues
- assess the disadvantages and advantages of different methods of travel
- evaluate how to best go about planning a trip for yourself and other people
- seek assistance from a travel agent and understand their role and purpose when booking a trip
- appreciate the role of language and cultural sensitivity when travelling
- explain the importance of having proper documentation when travelling
- research countries and seek advice in regards to their suitability as a travel destination
- explain the process of obtaining a visa and research the variations in entry and departure requirements depending on which country you want to visit
- outline itineraries for a specific journey, including decisions such as where to stay, getting around, length of stay, and what to see and do
- research the cost of a trip and set up a budget to suit
- understand problems that may arise when travelling and how to solve them
- convert money and understand the real cost of items in another country.

## 10.12.2 Key terms glossary

**agent** a person or organisation that conducts business on behalf of another
**agritourism** where tourists visiting a regional area can visit a farm or food-related ventures such as restaurants for education and leisure
**budget** a list of income and likely expenditures
**code of ethics** a set of values and principles
**departure tax** a tax that must be paid when leaving a country
**ecotourism** all nature-based forms of tourism that support an appreciation of nature and the traditional cultures within them
**foreign exchange rate** the ratio of one currency to another; it tells how much a unit of one currency is worth in terms of another
**itinerary** a travel plan
**overtourism** the perceived congestion or overcrowding from too many tourists, resulting in conflicts with locals
**passport** an official document granting permission to travel between countries
**tourism** the temporary movement of people away from the places where they normally work and live
**Vienna Convention** international convention that sets standards for people who have been arrested outside their own country
**visa** an endorsement on a passport (stamp or certificate) indicating that the holder is allowed to enter, leave or stay in a country for a specified period of time
**voluntourism** where part or all of travel time is spent doing community or environmental work

### on Resources

**Digital documents** Key terms glossary (doc-32673)
Match-up (doc-32760)
Crossword (doc-32793)
Wordsearch (doc-32804)

**Interactivities** Crossword (int-7890)
Wordsearch (int-7907)

## 10.12 Exercises

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

### 10.12 Exercise 1: Glossary quiz online only

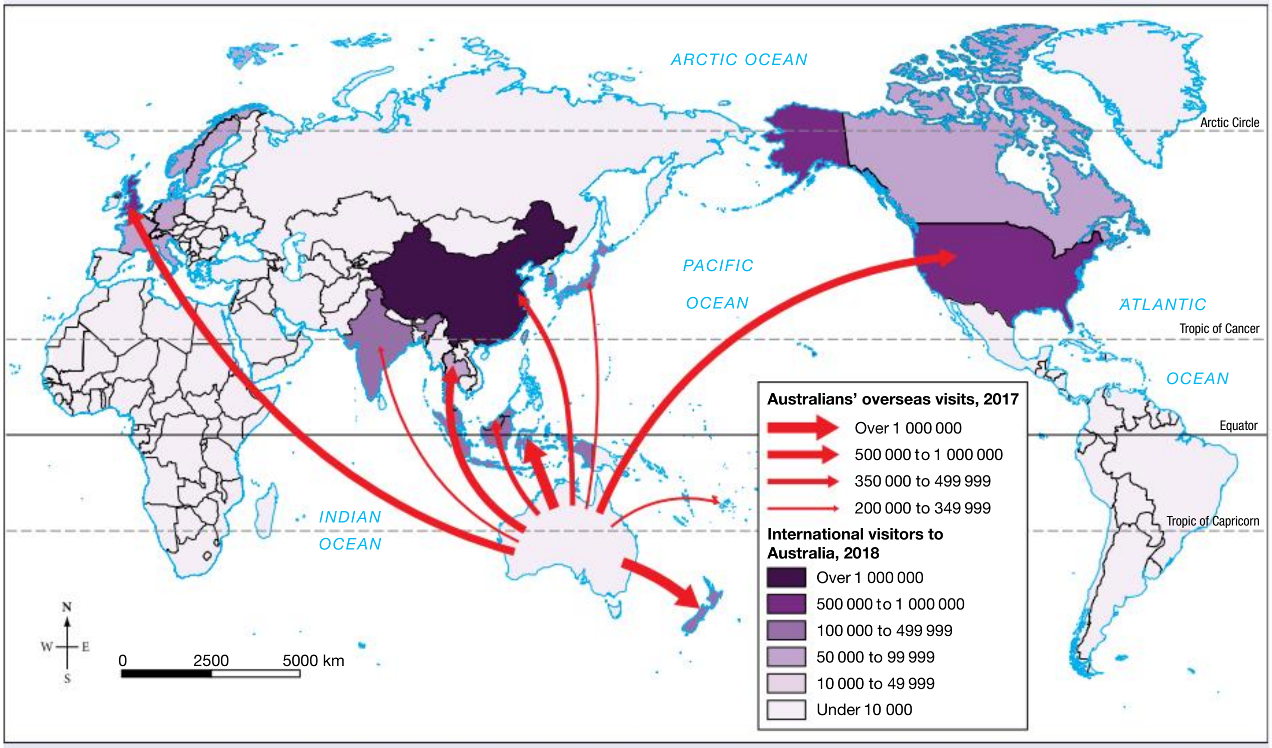
### 10.12 Exercise 2: Multiple choice quiz

1. Exploring Australia's Indigenous culture is best achieved through which of the following forms of tourism?
   A. Mass tourism
   B. Sports tourism
   C. Aboriginal cultural tourism
   D. Health tourism
2. The rise in tourism both locally and globally is best reflected in which of the following indicators?
   A. The increase in the employment in this sector
   B. The contribution to Australia's national income
   C. The rise in mass tourism
   D. All of the above
3. Which of the following is *not* a financial factor influencing the choice of destination?
   A. Visiting family overseas
   B. Local cost of living factors
   C. Changing exchange rates
   D. Cost of airfares
4. Which of the following would be considered an advantage for using ships as a means of travelling overseas?
   A. Relaxation
   B. Limiting the number of travel destinations
   C. Can take a long time
   D. Potential for sea sickness
5. Why has the do-it-yourself option become so popular for those people planning a trip?
   A. The rise of social media platforms
   B. Access to technology
   C. Improved availability of overseas tourism options
   D. A lack of knowledge about the destination
6. What is the best source of information on political stability and travel warnings for travellers?
   A. The Department of Foreign Affairs and Trade (DFAT)
   B. Overseas embassies
   C. smartraveller.gov.au
   D. None of the above
7. What colour is used by DFAT to advise people that a travel destination requires a 'high degree of caution'?
   A. Green
   B. Orange
   C. Red
   D. Yellow
8. 'Culture shock' can be avoided by travellers if which of the following precautions is taken?
   A. Vaccine
   B. Medication
   C. Respecting local culture and customs
   D. It is inevitable for all travellers
9. Where should you report your lost passport if you are travelling overseas?
   A. Department of Immigration
   B. Department of Foreign Affairs and Trade
   C. Australian embassy
   D. Nearest travel agent
10. What is the best advice for travellers seeking to protect themselves against the possibility of misadventure?
    A. Carry their Medicare card
    B. Have plenty of cash available to cover any substantial loss
    C. Take out a travel insurance policy
    D. Contact the local Australian consulate for advice on where to stay and what to eat before they leave

## 10.12 Exercise 3: Knowledge and understanding

1. Identify three forms of tourism.
2. What contribution does tourism make both locally and globally?
3. Consider the following map.

Country of origin for tourists visiting Australia, and destinations for Australian tourists




***Source:*** ABS, Austrade.

(a) Identify two sources of international visitors to Australia.
(b) Identify two reasons people travel from these countries.
(c) List the top five destinations for Australia's travellers.
(d) List two reasons people travel to these countries.

4. Research online sources and evaluate their usefulness in comparing the options available when planning a trip in respect to the following.
   - Identifying those factors that influence choosing a destination; for example, personal, financial and political
   - Listing advantages and disadvantages of choice of transport
   - Choosing the do-it-yourself planning option or using an agent
5. Describe key considerations when planning a trip.
6. Your older sister has indicated that she is taking a trip overseas after completing her first year of university. She knows that you are studying this topic and has asked you to explain the process of applying for a passport and visa. Prepare an email that includes a list of the steps involved in applying for both a passport and visa.
7. Your family has decided to travel overseas to Hawaii for your next holiday. Describe the factors involved in developing an itinerary and planning a trip. Can you anticipate any difficulties with its implementation?
8. Research online and then write a report that describes the travel problems that may arise when somebody has a holiday. The report should include the following:
   - a suitable introduction that previews the problems that may arise
   - numbering and sub-headings as well as diagrams and statistics to highlight the characteristics and features of the potential problems that may arise
   - recommended strategies to resolve the problems that you have identified.

9. Working in teams, select a current issue relating to travel and tourism; for example, declining tourism, overtourism or travel risk.
   (a) Construct a PowerPoint presentation that summarises the significance of the issue. Use key concepts such as identifying the issue, where the issue is located, how it affects people and the response by the community to the issue.
   (b) Develop a list of questions in the form of a quiz that you could ask your class to assess their knowledge of the topic both before and after the presentation. What evidence suggests that your class is now more aware of the issue you presented?
10. Consider the following figure.

Characteristics of the future tourist


   (a) Outline each of the characteristics identified in the figure.
   (b) Rank the characteristics of the future tourist from most important to least important. Justify your selection. Compare your response to another person in your class. How do your responses compare to others in the class?
   (c) Which of these characteristics of the future tourist best describes you? Compare your response to another person in your class. How do your responses compare to others in the class?
   (d) List any other characteristics that you and your class could identify that would further describe the future tourist.

## 10.12 Exercise 4: Challenge your understanding

1. Recently the decision was made to stop people from climbing Uluru. The traditional owners have asked tourists to respect their laws and culture. Using the internet and the **Uluru: Please don't climb** weblink provided, investigate the reasons for this decision. Discuss this matter with members of your class.

2. The Department of Foreign Affairs and Trade has teamed up with consumer advocate CHOICE to provide two travel guides for Australians.
   Access the **Smartraveller: Travel insurance** weblink and read some of the case studies. Construct a report to recommend why insurance is necessary when travelling overseas.
3. Reflect upon your most recent holiday or day out. Imagine you are a travel writer and provide a travel review for the experience aimed at students in your class.
4. Your family receives a telephone call from your brother who has travelled overseas after finishing his final examinations. His backpack, which contained all his money, passport and other travel documents, has been stolen. Outline the advice you would give him to help him at this time.
5. 'Travelling to certain countries comes with a deal of risk. It is vital that travellers be aware of local laws and cultural customs.' Discuss this statement with reference to the importance of recognising different views on legal responsibilities and cultural sensitivity.

**Fully worked solutions and sample responses are available in your digital formats.**

## on Resources

| | |
|---|---|
| **Digital documents** | Worksheet 10.7 Wrap up! (doc-32815) |
| | Glossary quiz (doc-32771) |
| | Multiple choice quiz (doc-32782) |
| **Weblinks** | Uluru: Please don't climb |
| | Smartraveller: Travel insurance |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0867) |

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# 11 Towards independence

## 11.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS at www.jacplus.com.au.

### 11.1.1 Introduction

As young people get older they begin to want more independence. This means having the freedom to make their own decisions regarding personal, social and financial matters.

Moving towards independence may mean moving out of home to live alone or with friends. Recent trends show that nowadays many young adults leave this step towards independence until much later than previous generations. Some young people choose to 'leave the nest' after careful planning and organisation. Others may find themselves with little choice but to 'go it alone'. No matter if the time is right or whether circumstances make it necessary, there are resources and support groups to help with any financial and legal matters that arise. Knowing about the issues and possible pitfalls can help make the transition safer and easier.

**CONTENT FOCUS**

On completion of this topic, you will have:
- investigated financial, consumer, legal and employment issues which may affect you in the future
- examined a range of strategies that you may use in your move towards independence
- learned about the role of community organisations and how you, as an individual, can contribute to society.

**on Resources**

| | |
|---|---|
| **Video eLesson** | Towards independence (eles-3516) |
| **Digital documents** | Key terms glossary (doc-32674) |
| | Worksheet 11.1 Start up! (doc-32825) |
| **eWorkbook** | Customisable worksheets for this topic (ewbk-0868) |

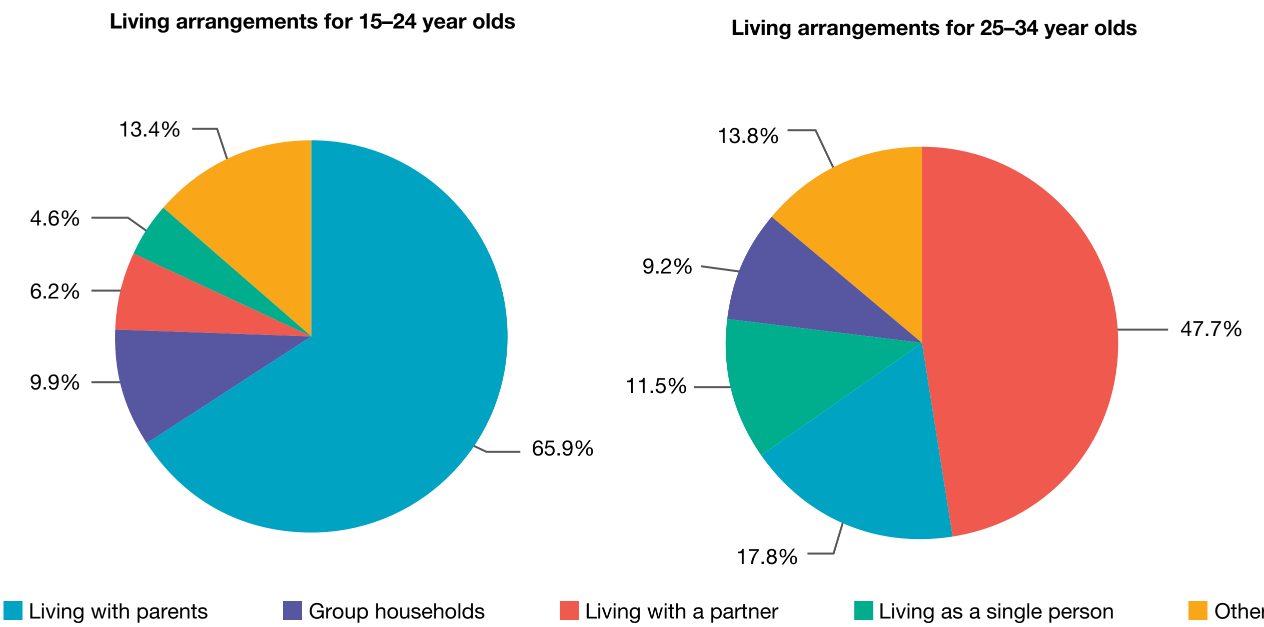
# 11.2 Moving from home

There are a number of factors related to independent living that need to be considered.

## 11.2.1 Reasons for leaving home and living independently

Most people will eventually leave the home they grew up in and find a place of their own. However, everyone is different. Some people leave home when they are very young, others wait until they are in their 30s and some people live with their family all their lives. The main reasons for people leaving home are to further their education, take up employment, establish an independent lifestyle or due to disagreements with their parents or carers.

Living arrangements for young people in Australia




***Source:*** Data derived from ABS Household and Family Projections, Australia, 1996–2021.

## 11.2.2 Key issues facing young people in their moves to independent living

When leaving home there are many issues to consider. You need to ensure you have access to a regular income so you can finance the move, pay any bond and support yourself so you can afford ongoing payments such as rent, bills and **insurance**. You need to decide if you want to live alone or with others, and find a safe place that's in a convenient location for you. It's important to know what paperwork may be required, such as applying for a **Medicare card**, and you may need a plan to overcome any homesickness you may feel.

Moving out of home can give you a new sense of freedom.

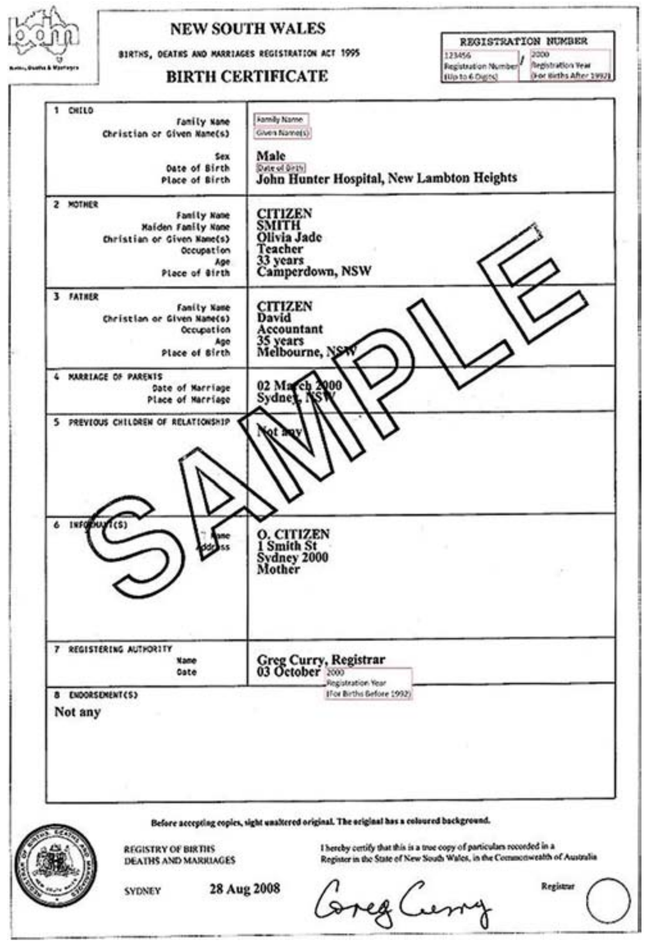
## 11.2.3 Applying for legal or medical identification

### Birth certificate

In NSW a **birth certificate** is an official copy of your birth registration held by the NSW Registry of Births, Deaths and Marriages. Women who have given birth in NSW need to register their newborn with the Registry of Births, Deaths and Marriages. It is a legal requirement in NSW for parents to register their child's birth within 60 days – the hospital does not do this for them.

A birth certificate can be a useful document to help establish your identity. For example, your birth certificate can help you prove your identity when applying for a passport and a driver licence. Your parents may have a copy of your birth certificate. Alternatively, you may obtain a copy from the NSW Registry of Births, Deaths and Marriages.

To apply for a birth certificate, visit the **Service NSW** website.



NEW SOUTH WALES
BIRTHS, DEATHS AND MARRIAGES REGISTRATION ACT 1995
BIRTH CERTIFICATE

REGISTRATION NUMBER
123456 Registration Number (Up to 6 Digits) / 2000 Registration Year (For Births After 1992)

| | |
|---|---|
| 1 CHILD Family Name<br>Christian or Given Name(s)<br>Sex<br>Date of Birth<br>Place of Birth | Family Name<br>Given Name(s)<br>Male<br>Date of Birth<br>John Hunter Hospital, New Lambton Heights |
| 2 MOTHER Family Name<br>Maiden Family Name<br>Christian or Given Name(s)<br>Occupation<br>Age<br>Place of Birth | CITIZEN<br>SMITH<br>Olivia Jade<br>Teacher<br>33 years<br>Camperdown, NSW |
| 3 FATHER Family Name<br>Christian or Given Name(s)<br>Occupation<br>Age<br>Place of Birth | CITIZEN<br>David<br>Accountant<br>35 years<br>Melbourne, NSW |
| 4 MARRIAGE OF PARENTS Date of Marriage<br>Place of Marriage | 02 March 2000<br>Sydney, NSW |
| 5 PREVIOUS CHILDREN OF RELATIONSHIP | Not any |
| 6 INFORMANT(S) Name<br>Address | O. CITIZEN<br>1 Smith St<br>Sydney 2000<br>Mother |
| 7 REGISTERING AUTHORITY Name<br>Date | Greg Curry, Registrar<br>03 October 2000 Registration Year (For Births Before 1992) |
| 8 ENDORSEMENT(S)<br>Not any | |

SAMPLE

Before accepting copies, sight unaltered original. The original has a coloured background.

REGISTRY OF BIRTHS DEATHS AND MARRIAGES
SYDNEY 28 Aug 2008

I hereby certify that this is a true copy of particulars recorded in a Register in the State of New South Wales, in the Commonwealth of Australia

Greg Curry
Registrar

### Photo Identification (ID)

Photo identification can be very useful as you move towards independence. In NSW, people over the age of 16 years can obtain a Photo Card from the NSW Government, which shows your name, address, date of birth and your photo. The Photo Card is an alternative form of photo identification for people who do not hold a current NSW driver licence or any other form of photo identification, or who wish to have an additional form of photo ID.

Photo identification can be useful for a number of everyday services such as opening bank accounts, entering licensed premises or obtaining your boarding pass for a domestic flight at an airport. A Photo Card can be used everywhere that accepts a driver licence as photo ID. This means that people who do not have a driver licence are not placed at a disadvantage in this regard, as they are able to use their Photo Card for identification purposes instead.

To apply for a NSW Photo Card, visit the **Service NSW** website.

### Medicare card


Looking after your own health is important as you move towards independence. You may need to see a doctor or get treated in a hospital. For a young person this can be very expensive and they may not be able to afford it. Medicare is the scheme that gives Australian residents access to health care. It is provided by the government, and enables you to access treatment by a doctor at no cost, or with a rebate of the expense. It also means Australian residents can have free medical treatment at a public hospital. If you are aged 15 years or older, you can apply for your own Medicare card. Children under 15 years are usually listed on the card of a parent or carer. Most taxpayers pay a **Medicare Levy** which funds the health care system. Currently the Medicare Levy is set at 2% of their taxable income.

If you are 15 years old or older you can get your own Medicare card by visiting the Australian Government's **Department of Human Services** website.

**on** Resources

**Weblinks** Service NSW – Birth certificate
Service NSW – NSW Photo Card
Department of Human Services – Medicare card

## 11.2.4 Support organisations

The organisations that provide support to young people who are not living at home come under three main classifications: government, religious and community.

### Government organisations

- *The Department of Social Services.* A federal government department with the responsibility of developing and delivering programs to ensure a fair society for all Australians.
- *Centrelink*. This is the main federal government welfare agency. It provides specialist staff, including counsellors and social workers, who work with young people in greatest need.
- *The Department of Communities and Justice.* This is a NSW government department tasked with delivering services to disadvantaged families and individuals in NSW. They have special responsibility for protecting young people from risk of significant harm.

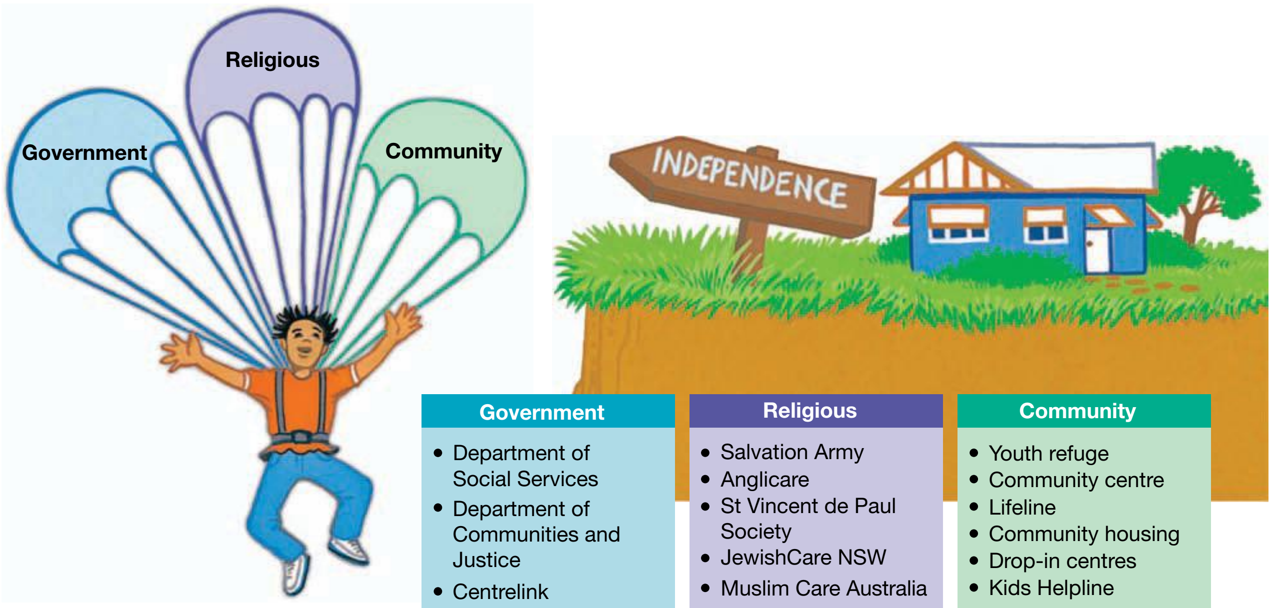
### Religious organisations

Religious groups have created organisations to provide support for people. These organisations include Anglicare, St Vincent de Paul Society, Salvation Army, JewishCare NSW and Muslim Care Australia. The Salvation Army, for example, provides many welfare services including hostels for the homeless, counselling, drop-in-centres, drug and alcohol rehabilitation, health workers and recreation centres.

### Community organisations

These include organisations such as youth **refuges** (which provide temporary accommodation to young people), community centres, community housing, youth drop-in centres, Kids Helpline and Lifeline. These organisations are usually funded by governments, private sponsorship and donations. They can be important for young people who may find themselves homeless.

When you are leaving home, these organisations may provide support.




### CASE STUDY

### Youth Refuge case study: Tahlia's story

'My name is Tahlia and I am 17 years old. I have lived in five different refuges in my life and I can honestly say that Coast Shelter was the best for me. Some things were challenging to overcome, but the workers were 100% supportive and encouraging, which really helped me stay motivated. One thing I really enjoyed and appreciated was how it was not like a prison, but with appropriate restrictions of course. The workers treated us equally, made things fun, laughed with us and talked with us, making us have the feeling of security, trust, stability and faith that things will only get better.

During my stay I attended school every day and I received awards and merits for my efforts. The workers really praised me for keeping a sufficient routine both at school and at the Refuge. I intend on going to university and hope to complete a bachelor degree with courses in nursing, midwifery, social science, medical science and biochemistry. Thank you to the workers at Wyong Youth Refuge who helped me to gain my courage and independence to take such steps in life.'

***Source:*** https://coastshelter.org.au/wyongyouth.html

## 11.2.5 Continuing to live at home to save for future purchases

Moving out of home can mean an increase in expenses, such as rent, and grocery bills, that you may not be able to afford. You may be able to avoid or minimise these expenses by continuing to live at home. For example, living at home and paying board (money) to your parents or carers could be cheaper than renting a place of your own. Youth pay rates, an **apprentice** wage, or receiving inconsistent hours at work may also make continuing to live at home a more affordable option. This could mean increasing your savings for future purchases, such as a car or a property.

**on** Resources

Digital document Worksheet 11.2 Moving from home (doc-32876)
Weblinks Department of Social Services
Centrelink

### 11.2 Activity: Research and communication

1. Use the **Department of Social Services** and the **Centrelink** weblinks in your Resources tab to create an informative poster that advises young people of the services these organisations provide.
2. Create a section for a youth website informing young people about the purpose of the following forms of identification and how to apply for one (include website links to the relevant government department):
   - a birth certificate
   - a NSW Photo Card
   - a Medicare card
3. Using the telephone book or the internet, create a directory of organisations that provide support for young people in your area. Include each organisation's name, phone number, address, email, and website details in your directory. Present this as either a database or spreadsheet.

### 11.2 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. List the main reasons young people decide to leave home.
2. Study the two pie chart graphs in section 11.2.1 and describe the changes in living arrangements that occur as people grow older.
3. List the issues that are involved in leaving home.
4. Name three types of organisations that provide support to young people who are not living at home. Give two examples of each and list their services.
5. Why do you think more young people remain at home for longer than in previous generations? Consider economic and social factors in your answer.
6. Discuss advantages and disadvantages of moving out of home.

**Fully worked solutions and sample responses are available in your digital formats.**

# 11.3 Arranging accommodation

There are a range of accommodation options available for people who are wanting to live independently. Each option needs to be evaluated, taking into account particular situations and needs. It is most likely that you will be involved in arranging a **lease**.

## 11.3.1 Types of accommodation available and their suitability for particular situations and needs

### Types of accommodation

Before deciding to leave home, young people need to carefully consider the alternatives. It may be cheaper to live at home and there will be far fewer security concerns. Leaving home provides more independence, but it also carries more responsibilities. These include such basic tasks as housework and paying your own bills.

Options available when leaving home depend largely on financial and personal circumstances. Options include setting up your own apartment, moving into a share house, setting up your own share house or entering a university college. The most common choice is to set up an apartment and share it.

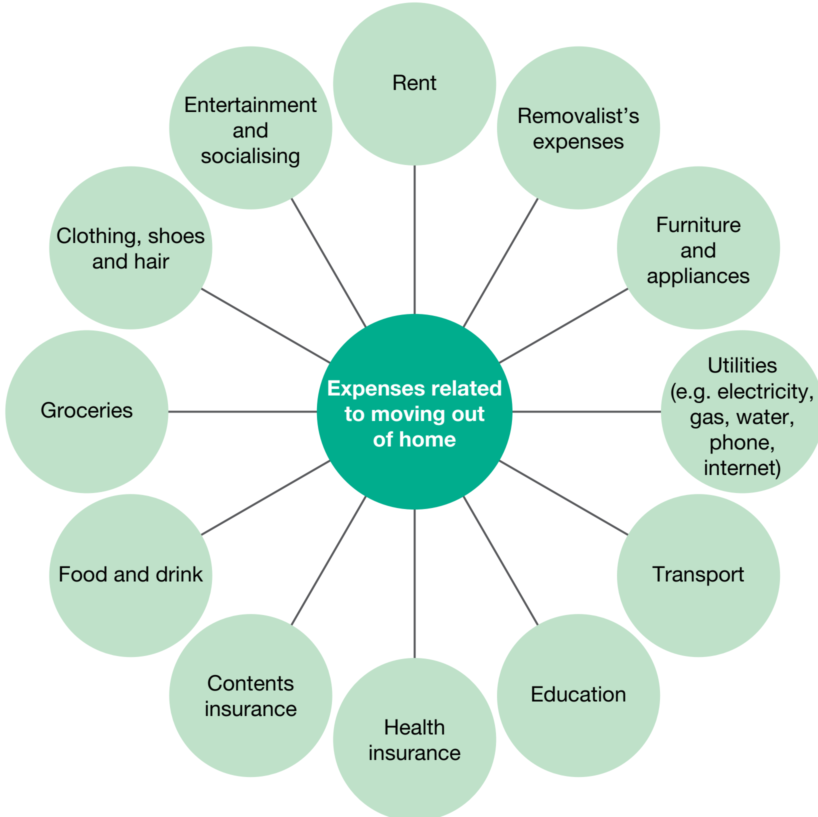
### Finding the right place to live

Generally, houses and apartments that are available for renting (or sharing) are advertised in newspapers, on the internet, in real estate agents' windows and on community noticeboards. You should make a shortlist of all those that may meet your requirements and then conduct an inspection. When conducting this inspection, it is a good idea to draw up a checklist such as the one below. The accommodation you finally choose will be the one that meets your requirements and fits within the constraints of your budget.

| Check these features | Yes / No / Not important |
|---|---|
| Can I get along with the other people? | |
| Is the rent within my budget? | |
| Are any furnishings provided? | |
| Is there a laundry? | |
| Will I have to pay for water? | |
| Does the bathroom or toilet leak? | |
| Are any repairs needed? | |
| Is the gas connected? | |
| Is the house/flat near shops and public transport? | |
| Is the water pressure strong or weak? | |
| Is the flat/house in good condition for its age? | |
| Is there a stove? Does everything work? | |
| Is there a TV aerial and connection? | |
| Any signs of mice, rats, cockroaches, white ants etc.? | |
| Is there a garage, carport or parking space? | |
| Do I need to do the mowing or gardening? | |
| Is a telephone and internet connection available? | |
| Are there double locks and security doors fitted? | |

## 11.3.2 Calculation of the affordability of accommodation

Before you move out, create a **budget** to help you work out your income and expenses. A budget will help you maintain control over your finances. Consider your income and then calculate your expenses. You should consider saving some of your income to cover unexpected expenses, and for future major purchases such as a car and property.




Therefore, an important consideration when considering moving out of home is whether or not you can afford it, keeping in mind that finding accommodation and living away from your family home will result in a range of expenses, not just rent.

### 11.3 Activity: Research and communication

1. Copy the table below and interview your parent or guardian to help you fill in the information.

| Utility | Supplier | Cost per week |
|---|---|---|
| Electricity | | |
| Gas | | |
| Water | | |
| Phone | | |
| Internet | | |

2. Visit a real estate website, such as **Domain** or **Realestate**. Make a list of ten premises that are available for rent in your area. Write a paragraph stating which one you would prefer and why.

**on** Resources

**Weblinks** Domain
Realestate

### 11.3 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Describe some of the responsibilities related to independent living.
2. Describe the accommodation alternatives that are available for people when they leave home.
3. Make a copy of the checklist in section 11.3.1 and complete it by pretending that you are looking at the prospect of renting where you currently live.
4. (a) Identify what you should create before you move out of home.
   (b) List six expenses related to moving out of home.
5. Advertisements for accommodation often use abbreviations. Write down the following abbreviations in full. You may find these included in advertisements for accommodation.

| | | | |
|---|---|---|---|
| rms | ________________ | cnr | ________________ |
| a/c | ________________ | cpbds | ________________ |
| exc | ________________ | grge | ________________ |
| adj | ________________ | mod | ________________ |
| br | ________________ | neg | ________________ |
| cl | ________________ | balc | ________________ |

6. Match each of the following accommodation types with a situation listed below.

| Accommodation type | Situation |
|---|---|
| Youth refuge | a. A young woman entering university having just completed the HSC |
| Renting a flat | b. A 14-year-old boy who runs away from a violent, abusive home |
| University college | c. A 30-year-old wealthy computer programmer who wishes to own her own home |
| Purchasing a house | d. A 22-year-old man who leaves home due to work commitments |

**Fully worked solutions and sample responses are available in your digital formats.**

# 11.4 Accessing information available relating to arranging a lease

## 11.4.1 Tenancy rights and responsibilities

The main steps involved in renting a property are as follows.

1. Determine exactly what features you require in a property; for example, size and location. You then need to locate the available suitable properties using bulletin boards, real estate agents or websites such as **Realestate** and **Domain**.
2. Obtain a copy of the **residential tenancy agreement** from the agent. This is an agreement between the **landlord** and the **tenant** that outlines all the terms that both parties must follow. The landlord is the person who owns the premises being rented; the tenant is the person or persons who rent the property. Both have rights and responsibilities in relation to the renting of the property and these should be set out in the agreement.

3. Complete the **condition report**. This details the exact condition of the property when you move in. It is extremely important as any disputes regarding the state of the property when you leave can be related to the condition report. For example, worn carpet, paint chips and any broken/damaged fittings should all be recorded in the condition report. It is a good idea to take photos or videos of the premises when completing the condition report. An image can easily solve a dispute regarding the items listed.
4. You may be asked to pay a **reservation fee**. This is usually one week's rent that will reserve the premises for you while your application for tenancy is being considered.
5. Sign the lease after reading it and checking it thoroughly. A lease is a contract between two parties, usually regarding the renting of an asset such as a house, flat or motor vehicle.
6. Pay a rental **bond**, usually four weeks' rent. This money is lodged by the landlord at the Rental Bond Board, operated by NSW Fair Trading. It is used to cover the landlord for any damages or repair costs if you leave the property in an unsatisfactory condition, or if you break the terms of the agreement by failing to pay rent or give notice of vacating. However, most tenants have their bonds refunded when they move out of a property.
7. A tenant must pay the rent in advance from the first day of tenancy. Most landlords or their agents require two weeks' rent in advance.
8. The final step is to take possession of the premises. This involves obtaining the keys and moving in with your belongings. Taking photographs or videos of the state of premises inside and outside, prior to moving in, is a good idea. This means you have evidence of what the place looked like before you entered the property. Keep any photographs taken with your copy of the condition report.

## 11.4.2 New tenant checklist

At the start of every tenancy you should be given the following by the landlord or agent:

- a copy of the new tenant checklist
- a copy of your lease (tenancy agreement)
- 2 copies of the premises condition report
- a bond lodgement form for you to sign, so that it can be lodged with NSW Fair Trading
- keys to your new home.

The first thing you should do before you sign the lease is read it thoroughly. If there is anything in it which you don't understand, ask questions.

Remember, you are committing to a legally binding contract for which there is no **cooling-off** period. You will want to be certain you understand and agree to what you are signing.

At the start of every tenancy, the tenant must be given a copy of the new tenant checklist.

## 11.4.3 Signing the lease

Only when you can respond with a **Yes** to the following statements, should you sign the lease.

| Statements | Yes/No |
|---|---|
| I have read the lease and I asked questions if there were things I didn't understand. | |
| I know the length of the lease (6 months, 12 months or some other period). | |
| I know that I must be offered at least one way to pay the rent which does not involve paying a fee to a third party. | |
| I know that any additional terms to the lease are negotiated before I sign. | |
| I have checked that all additional terms to the lease are legal; for example, the lease does not include a term requiring me to have the carpet professionally cleaned when I leave, unless I have agreed to that as part of a condition to allow me to keep a pet on the premises. | |

### CASE STUDY

#### Karen loses her bond

When Karen moved into her new apartment, she was given a condition report to fill in and give back to the real estate agent. She was really busy moving in and forgot about it. She eventually completed it, but rushed through it and did not fill it out in the detail required.

After a while she noticed that some of the bathroom tiles were broken, the carpet had stains on it and the living areas needed painting.

When Karen moved out, the real estate agent refused to give her the bond money back. The agent explained that the bond money would be used for the repair work on the bathroom tiles, cleaning costs for the carpet and to have several rooms painted.

Karen argued that these things were already like that when she moved in. The agent told her that there had been nothing written on the condition report about these problems. Consequently, she failed to have her bond returned and lost four weeks' rent.

## 11.4.4 Financial advice

A lease is a legal contract between a tenant and a landlord. Once it is signed, it is legally binding. If you do not understand any part of the contract, you should obtain financial advice before you sign it. You could obtain financial advice from the Tenants' Union of NSW which is a community legal centre specialising in NSW residential tenancies laws.

**on** Resources

**Weblink** Tenants' Union of NSW

## 11.4.5 Common rental problems

Common problems tenants face include the landlord failing to:

- carry out necessary repairs
- provide reasonable security such as working windows and door locks
- provide a key after changing the locks
- give sufficient notice of any rent increase or if the rent increase is to be excessive
- respect the tenants' privacy.

Solutions to these problems include:

- Notify your landlord/agent as soon as you become aware of a problem. Complain in person or on the phone and then follow up with a letter or email confirming what was said. If you would prefer, take someone along to act as a witness when you go to see the landlord/agent about the problem.
- Any follow-up letter or email should clearly outline the problem, what you want done and the history of your complaint. Always keep copies of all your correspondence.
- Keep a diary of your conversations with the landlord/agent/head tenant — who you spoke to and what they agreed to do.
- If all else fails, complain to the NSW Civil and Administrative Appeals Tribunal for an order to resolve the problem.

'Do nots' for tenants include:

- Do not stop paying rent — being 14 days behind in your rent is sufficient grounds for your landlord to give you notice to leave.
- Do not move out without giving the required notice — you may end up losing your bond and/or compensating the landlord.

## 11.4.6 Sharing accommodation

The main reasons people decide to live in share accommodation is to lower living costs, such as rent, and other bills, such as electricity. A further advantage is that as the costs are lower, you will be able to afford to live in a more expensive area than would otherwise be the case.


### Tips for a harmonious share house

- Have everyone's name on the lease and on utilities accounts, such as gas, water, electricity and internet — whoever's name is on the account is legally responsible for the debt.
- To avoid disputes regarding the telephone or internet usage, use a mobile and your own wifi.
- Draw up a roster for chores such as cleaning.
- Pay a set amount each week into a **kitty**; from this, pay for basic groceries, electricity, internet, gas and so on. A kitty is a central fund to which everyone contributes and the money is used for particular expenses. Numerous apps such as 'Splitwise' have been developed that assist in this process.
- Draw up rules for any visitors; e.g. no noisy parties.
- Don't keep problems to yourself. Your flatmate may have no idea that their breakfast of sausages and eggs every morning makes you feel sick.

You must remember that you have little legal recourse against a flatmate who has refused to pay their share of the rent or any other bills. This is because many of the agreements are verbal. If the situation deteriorates, usually one of you will need to move out.

### CASE STUDY

#### Fooled by a flatmate

Holly and Aliya were both excited when they were accepted to the same university. They had been friends for a long time and the idea of sharing the next phase of their lives felt perfect. However, finding a place to live was harder than they thought. When a three-bedroom flat became available, they jumped at the opportunity, even though it was a bit out of their price range. Their families were excited for them and helped make the flat a home by giving them second-hand furniture and appliances.

Holly and Aliya didn't want to put a strain on their relationship, so they kept a joint kitty for all their bills and divided the cleaning and cooking responsibilities. They also converted the smallest of the bedrooms into a guest bedroom/study. They were able to make ends meet, but they wished they knew a third person who could help with the rent.

A few months later, at a party, they met Sarah. They all had a lot in common and had a great night. When Sarah described how she didn't like her current flatmates, Holly and Aliya both acted on impulse and invited Sarah to move in to their flat. She could live in the guest bedroom and wouldn't need to bring anything at all. They were all really excited when Sarah moved in the next week.

However, it was not long before things started to change. Sarah was often late with the rent and for some reason the kitty was always empty. She was not keen on cooking or cleaning and always forgot to put the rubbish out when it was her turn. To top it off, she often partied late at night, waking up the others when she came home. Holly and Aliya tried to talk to Sarah about their concerns, but it always ended in arguments and with Sarah telling them to lighten up.

Just before the holidays, Holly and Aliya had planned to tell Sarah to find a new place to stay. However, to their surprise, Sarah brought up the issue first. She apologised for not having been a good flatmate and said that she had found another place to live and would be moving while Holly and Aliya were visiting their families. She also promised to repay the money she owed them as soon as she got her next pay cheque. They all hugged and promised to keep in touch.

When Holly and Aliya came back from their holiday and opened the door, they were horrified to find the aftermath of a huge party! In shock, they realised that Sarah had not only moved out, but had trashed the house before doing so. In despair they looked at the ripped and dirty carpet in the lounge room, the broken tiles in the bathroom and the big dent in the kitchen sink. They tried to call Sarah but she had changed her number. Holly and Aliya realised that not only would they never see the money Sarah had promised to repay, but also that Sarah's name had never been put on the lease and, as such, they were the ones who were legally responsible for the damage.

**on** Resources

**Digital documents** Worksheet 11.3 Renter's checklist (doc-32744)

Worksheet 11.4 Residential tenancy — internet research (doc-32745)

## 11.4 Activity: Research and communication

1. Assume you are a real estate agent and you are renting out your home to your parents or carers. Complete a condition report from the real estate agent's point of view. Ask your parents or carers to check the condition report from the tenant's point of view. Download a copy of a condition report from the **NSW Fair Trading** website.
2. Visit the **Tenants NSW** website and use the 'Rent Tracker Postcode' tool to discover the average rents for different-sized dwellings in the area where you live. Compare this with neighbouring suburbs.
3. Create an advertisement where you inform people you have a room for rent. Include all the relevant information, including the type of person for whom the accommodation would be most suitable.

4. Read the case study 'Fooled by a flatmate'. Working in small groups, answer the following questions.
   (a) What rules were set for the operation of the flat?
   (b) Draw up a roster for task sharing in the unit. Allocate jobs fairly by entering Holly, Aliya, Sarah or All in an appropriate cell.

| Task | Mon | Tues | Wed | Thurs | Fri | Sat | Sun |
|---|---|---|---|---|---|---|---|
| Make breakfast | | | | | | | |
| Make lunch | | | | | | | |
| Cook dinner | | | | | | | |
| Wash up | | | | | | | |
| Take out garbage | | | | | | | |
| Clean kitchen and mop floor | | | | | | | |
| Shop for groceries | | | | | | | |
| Vacuum and dust | | | | | | | |
| Clean toilet/bathroom | | | | | | | |

   (c) Holly is given overtime on Tuesdays and Sundays. She cannot do any domestic jobs on these days. Rewrite the roster to accommodate her.
   (d) Discuss some of the possible actions Holly and Aliya could take to retrieve their money from Sarah.

**on** Resources

**Weblinks** NSW Fair Trading – Condition report
Tenants NSW Rent Tracker Postcode Tool

## 11.4 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Describe the eight steps involved in renting a property.
2. What is a bond?
3. Describe the difference between a *tenant* and a *landlord*.
4. What is a condition report? Why should care be taken when filling this out?
5. Refer to the new tenant checklist in section 11.4.2.
   (a) State three things you should receive at the start of a tenancy.
   (b) How long is the 'cooling-off period' after signing a lease?
   (c) List three things you need to be able to say 'YES' to before signing a lease.
6. Describe four common problems that tenants face.
7. Despite difficulties that may occur with a landlord, why should you never stop paying rent?
8. What is the last resort for a tenant who is having a problem with a landlord?
9. Read the case study 'Karen loses her bond' in section 11.4.2 and outline how she could have avoided the problem.
10. Read section 11.4.6 on share accommodation advice and answer the following.
   (a) State two advantages of moving into share accommodation.
   (b) Describe four pieces of advice for someone moving into share accommodation.
   (c) Why is it often difficult to take legal action against a flatmate who has refused to pay some of their debts?
11. Study the cartoon in section 11.4.6 and explain how this situation could have been avoided.

**Fully worked solutions and sample responses are available in your digital formats.**

# 11.5 Managing finances

Managing your finances responsibly when living independently is important in order to minimise financial problems. Construction of a household budget, knowing your tax obligations, understanding your superannuation contributions, and taking out insurance are important considerations in this area.

## 11.5.1 Major costs involved in independent living

When moving into an apartment or house, there are two types of costs:

- **Establishment costs**. These are one-off costs that are involved in setting up your new place. Typical establishment costs include the rental bond, internet connection, essential whitegoods such as a refrigerator and washing machine, and furniture.
- **Ongoing costs**. These are costs that are recurring. Typical ongoing costs include rent, electricity, gas, water, telephone, groceries and travel expenses.

## 11.5.2 Strategies to minimise financial problems

### Monitoring spending

Earning money and being able to spend it can be exciting. It can be easy to spend too much during a shopping trip, on a night out with friends or when hosting a party. A few days before their next payday, a person in this situation may find themselves asking where all their money went. Monitoring our spending is an important money management skill. We need to spend our income wisely and ask questions such as 'do I really need it?' and 'can I afford it?' before we buy. It is important to remember that some of the money we earn will be needed for expenses such as rent and bills. We should also be saving some of the money we earn.

One way to monitor spending is to avoid impulse buying. Impulse buying is buying something without giving much thought as to whether the purchase is really necessary. For example, we may be tempted into impulse purchases when we see something on sale, or we may make impulse purchases at the checkout, where retailers tend to place their lower-priced items.

### Superannuation

**Superannuation** is a compulsory savings scheme where your employer contributes part of your wage or salary, currently 9.50 per cent, into a special type of investment account known as a superannuation fund. These funds are then invested to increase their value before they are paid to you when you retire.

Superannuation is important for you because the more superannuation you build up during your working life, the higher your standard of living will be in retirement. While the government age pension is available for people who retire, superannuation gives you an opportunity to have a higher income in retirement compared to the government age pension.

When you are working it is important that you check that your employer is paying superannuation for you by checking your payslip. It does not matter whether you work full time, part time or casual.

#### CASE STUDY

**Superannuation — Maria's Story**

Maria had recently left school and was employed as a waitress at a local restaurant. She enjoyed the job and it was helping her save for an overseas holiday. She checked her bank account regularly and saw that her employer was paying her wages. Maria thought everything was okay until she received her end-of-year statement from her superannuation fund. She noticed that her employer was not paying her superannuation — that is, 9.50 per cent of her wage.

Maria approached her boss about this but he would not answer her questions about superannuation, telling her to check her bank account where she would see money that he had paid her.

Maria called the Australian Taxation Office (ATO) who told her she was entitled to be paid superannuation and that she should have seen an amount of $4000.00 on her end-of-year statement from her superannuation fund.

The ATO contacted Maria's employer and ensured that Maria's missing superannuation was paid, and that her employer would pay her superannuation into the future.

### Minimising financial problems when living with other people

Strategies that can be used to minimise financial problems when living with other people include:

- Each person in the house/flat pays a set amount into a central fund called a kitty. This is then used to pay the bills associated with the whole group; for example, food, rent, gas and electricity.
- The internet and telephone can be a problem. Either use your own mobile phone and mobile data or negotiate with your flatmates to setup a fixed cost modem with unlimited internet that everyone can use (and pay for).
- A set of rules is drawn up. These would cover things such as a roster for cooking and cleaning. However, it should also cover what happens if the electricity and gas bills are higher than the amount available in the kitty.
- Everyone should have a budget. This includes people sharing a house, someone living alone or a married couple. This will ensure that they are able to meet any expenses as they occur. Each person should also try saving money for a personal goal such as a holiday, a new car, a house or to invest for retirement.

## 11.5.3 Constructing a household budget

A budget is a list of planned income and expenditure for some future period. It helps people to manage their finances successfully. Business adviser John C. Maxwell states that 'a budget is telling your money where to go instead of wondering where it went'. A simple household budget shows the expected income, the main expenses and the remaining funds, if any, that can be saved each month.

Expenses can be classified into **fixed expenses** and **variable expenses**. Fixed expenses are the same amount every time, such as rent, or paying a minimum charge of $40 per month for your mobile phone. Variable expenses change over time. These do not occur on a regular basis. For example, you may go to a music concert this month to hear your favourite singer and buy a computer game next month.

Which of these are ongoing costs?


The following table is the household budget of Maria Portelini, an accountant who lives alone in a rented unit. She has prepared this using her past experience and adding a little for inflation (an increase in the general level of prices). Some expenses, such as car registration, occur only once a year and some bills arrive each quarter. Others, such as rent and food, occur monthly or weekly.

Maria lists all her fixed and variable expenses and also her expected income. She then totals her expenses and subtracts this from her total income. This gives the amount saved each month. This amount is added to the previous month's savings to give a 'running total' of the amount that Maria can save over the year if she has calculated her expenses realistically. There are some months when Maria anticipates that her spending will exceed her income and she will need to dip into her savings to cover the monthly costs.

Household budget — Maria Portelini

| Type of expense | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rent | $ 1200 | $ 1200 | $ 1200 | $ 1200 | $ 1200 | $ 1200 | $ 1200 | $ 1200 | $ 1200 | $ 1200 | $ 1200 | $ 1200 |
| Food | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 |
| Electricity | | | $ 100 | | | $ 100 | | | $ 160 | | | $ 100 |
| Gas | | | $ 40 | | | $ 40 | | | $ 60 | | | $ 40 |
| Telephone/mobile | | | $ 100 | | | $ 100 | | | $ 100 | | | $ 100 |
| Car registration | | | | | | | | | | | $ 500 | |
| Car insurance | | | | $ 400 | | | | | | | | |
| Hospital/ medical | | | | | | $ 300 | | | | | | $ 300 |
| Internet | $ 50 | $ 50 | $ 50 | $ 50 | $ 50 | $ 50 | $ 50 | $ 50 | $ 50 | $ 50 | $ 50 | $ 50 |
| Car petrol/ repairs | $ 250 | $ 250 | $ 250 | $ 250 | $ 250 | $ 250 | $ 250 | $ 250 | $ 250 | $ 250 | $ 250 | $ 250 |
| Credit cards | $ 100 | $ 100 | $ 100 | $ 100 | $ 100 | $ 100 | $ 100 | $ 100 | $ 100 | $ 100 | $ 100 | $ 300 |
| Other expenses | $ 200 | $ 200 | $ 200 | $ 200 | $ 200 | $ 200 | $ 200 | $ 200 | $ 200 | $ 200 | $ 200 | $ 200 |
| **Total expenses** | **$ 2100** | **$ 2100** | **$ 2340** | **$ 2500** | **$ 2100** | **$ 2640** | **$ 2100** | **$ 2100** | **$ 2420** | **$ 2100** | **$ 2600** | **$ 2840** |
| **Income** | | | | | | | | | | | | |
| Salary | $ 2500 | $ 2500 | $ 2500 | $ 2500 | $ 2500 | $ 2500 | $ 2500 | $ 2500 | $ 2500 | $ 2500 | $ 2500 | $ 2500 |
| **Saved per month** | $ 400 | $ 400 | $ 160 | $ 0 | $ 400 | $ –140 | $ 400 | $ 400 | $ 80 | $ 400 | $ –100 | $ –340 |
| **Cumulative total saved** | **$ 400** | **$ 800** | **$ 960** | **$ 960** | **$ 1360** | **$ 1220** | **$ 1620** | **$ 2020** | **$ 2100** | **$ 2500** | **$ 2400** | **$ 2060** |

## 11.5.4 Tax obligations

### Applying for a tax file number

When you are earning money, you will need to pay tax to the government. To follow Australia's tax laws, the first thing you should do is get a **tax file number** (TFN). A TFN is a unique personal reference number the Australian Taxation Office (ATO) gives to you so they can identify you and enforce Australia's taxation laws.

You will use the same TFN throughout your life and you should not let anyone else see your TFN. This is because if someone else accesses your TFN, they can use this aspect of your identity to commit crimes or cause other identity theft-related problems.

You will need your TFN when you get a job. If you start work before you have a TFN, you have 28 days to get one and give it to your employer. If you do not have a TFN, your employer will take more tax out of your pay, which means you will be paid less money each week until you complete your tax return at the end of the financial year.

To apply for a TFN visit the **Australian Taxation Office** website, or go to an Australia Post shop or **Centrelink** service centre.

### Completing a tax return

Earning an income means you will need to pay income tax to the government. The government collects income tax on a pay-as-you-go (PAYG) basis. This means that when you are working and earning an income your employer will deduct the tax from your pay and send it to the Australian Taxation Office. Income on which tax is paid is called 'assessable income'. Not all money received by an individual is considered to be assessable income. Examples of non-assessable income are pocket money, inheritances and lottery or prize winnings.

The amount of taxation you will pay depends on the amount of income earned in a financial year. In Australia we have a **progressive tax system**, which means that as your income increases, the tax rate will also increase. Refer to the 'Resident tax rates 2019–20' table below.

Resident tax rates 2019–20

| Taxable income | Tax on this income |
|---|---|
| 0 – \$18 200 | Nil |
| \$18 201 – \$37 000 | 19c for each \$1 over \$18 200 |
| \$37 001 – \$90 000 | \$3 572 plus 32.5c for each \$1 over \$37 000 |
| \$90 001 – \$180 000 | \$20 797 plus 37c for each \$1 over \$90 000 |
| \$180 001 and over | \$54 097 plus 45c for each \$1 over \$180 000 |

***Source:*** https://www.ato.gov.au/Rates/Individual-income-tax-rates/
*The above rates do not include the Medicare levy of 2%.

The Australian financial year is 1 July to 30 June, and at the end of each financial year you must fill in a tax return and send it to the Australian Taxation Office. This has to be done before 31 October. On the tax return you must show all the income you have received in the last financial year. This includes income from all sources, not only work. For example, you may have received some interest from a bank account. This is income you must declare on your tax return.

Your taxable income is the total of your assessable income reduced by the amount of any allowable **deductions**. Allowable deductions are expenses incurred in gaining your assessable income, such as protective clothing, self-education expenses and the use of your personal computer for work. It is important when claiming a work-related deduction that you spent the money yourself, and that your employer did not reimburse you. Any deductions made will reduce the amount of tax you have to pay, because the deductions will reduce your assessable income. If you plan to claim any deductions, make sure you keep records of all the expenses, so you have evidence to prove that you actually spent the money on the expenses you are claiming.

### 11.5 Activity: Research and communication

Visit the **Australian Taxation Office** website and go to the Tax File Number section.

Create an infographic or fact sheet aimed to inform young people about the following:

- What a tax file number is and why you need one
- How to obtain a tax file number
- What to do if your Tax File Number is lost or stolen

Include a title for your infographic fact sheet.

on Resources

**Weblink** Australian Taxation Office

**Digital documents** Worksheet 11.5 Interpret and analyse an annual budget of David Martinello (doc-32746)
Worksheet 11.6 Interpreting tables (doc-32747)

## 11.5 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Describe the difference between *establishment costs* and *ongoing costs*.
2. Outline four strategies that can be used to overcome problems when sharing a house or flat.
3. Define the term 'budget'.
4. The following table is incorrect. Copy it and correct the entries so that each cost is in the correct column.

| Establishment costs | Ongoing costs |
|---|---|
| bond | refrigerator |
| bed | electricity |
| rent | groceries |
| mobile phone bill | television |
| petrol for car | table |

5. (a) Explain why it is important to monitor your spending.
   (b) Recommend two ways that you could monitor your spending.
6. Read 'Superannuation Case Study – Maria's Story' and then answer the following questions:
   (a) Define 'superannuation'.
   (b) Explain why superannuation is important for people who are working.
   (c) Outline the problem Maria experienced at her workplace.
   (d) Explain how the Australian Taxation Office helped Maria to solve the problem.
7. Examine the budget of Maria Portelini, section 11.5.3, and answer the following.
   (a) Classify each of the expenses (except 'other expenses') as either fixed expenses or variable expenses.
   (b) Describe how Maria calculates the amount that she has saved each month.
   (c) Why do you think she has allowed more for electricity and gas for the third quarter of the year?
   (d) Explain why a negative amount is shown in the 'saved per month' row for June, November and December. What effect does this have on Maria's total savings?
   (e) Maria has forgotten to enter the home contents insurance in the budget which she expects to cost approximately $400 for the year. In which months should she avoid this payment falling, if she has any choice?
8. Complete the annual budget of Sarah Packham using the information below. Use a table similar to that for Maria Portelini. Sarah prepares her annual budget using her past experience and adding a little to account for inflation.
   Estimated monthly salary is $4000.
   ***Expenses***
   *Rent:* $1600 per month
   *Water rates:* $150 in March, June, September and December
   *Food:* $400 per month
   *Electricity:* $80 March, $100 June, $140 September, $80 December
   *Gas:* $60 March, $80 June, $100 September, $60 December
   *Mobile phone:* $100 March, $90 June, $90 September, $100 December
   *Car registration:* $500 in November
   *Health insurance:* $600 in June and December
   *Car — petrol and repairs:* $400 per month
   *Car insurance:* $350 in April
   *Home contents insurance:* $400 in June
   *Credit cards:* $150 per month
   *Internet:* $50 per month
   *Other living expenses:* $150 per month

9. Use the table 'Resident tax rates 2019–20' to calculate the tax payable in the following situations:
   (a) John is 17 years old and works part-time at 'Just Games'. He earned a total of $9000 in the last financial year.
   (b) Jenny is 18 years old and works as casual waitress at a restaurant. She earned $20 000 in the last financial year.
   (c) Mark works for an international company. He earned $220 000 in the last financial year.
   (d) In each of the situations above, who collects the tax that is paid and what is it used for?

**Fully worked solutions and sample responses are available in your digital formats.**

# 11.6 Managing finances — insurance options

## 11.6.1 Paying for peace of mind

Insurance is the means by which people gain financial protection against unexpected events. People pay an annual or monthly amount (a **premium**) to an insurance company and the insurance company pays out a sum to cover losses or costs if an unexpected event occurs.

The company that arranges and provides the insurance cover is called the **insurer**. The person or group that pays the premium and is covered by the insurance is the **insured**.

## 11.6.2 Insurance as a contract

When an individual enters into an insurance contract with an insurance company, the following steps and documents are involved in the application and claims processes.

1. A person seeking insurance obtains *quotes* from a range of insurance companies and compares the features of the cover that each company offers and the premiums charged.
2. The *proposal* is the form you must fill out when you have selected from the quotes and are applying to a company for insurance. Both the insurer and the insured must act in the utmost good faith in disclosing all relevant details about the contract and the person or property being insured. Any errors or false statements could affect the validity of the policy and any future claims.
3. The *policy* is issued by the insurance company when it accepts the proposal. It contains all the information regarding the contract, such as **inclusions** (the items or events covered) and **exclusions** (the items or events not covered).
4. The *renewal notice* is sent to you each year informing you that your insurance policy is about to expire. If you wish to continue to receive cover, you must pay a further premium.
5. A *claim form* must be completed and submitted to the insurance company if the event against which you are insured has occurred and you wish to receive the compensation to which you are entitled.

## 11.6.3 Types of insurance

Since insurance is a competitive industry, there are often wide variations in cover provided and premiums applied. A wise consumer will shop around when choosing between insurers. Some of the different types of insurance are as follows.

### Household insurance

- Home insurance — covers a home against damage and destruction to the building from various causes, such as storms, fire or accidental explosions. It is very important that the inclusions and exclusions are very carefully noted; for example, some policies will not cover flood damage.

- Home contents insurance — provides compensation if your home's contents (such as furniture) are damaged or stolen.

### Personal insurance

- Life insurance — the most common form of life insurance is term insurance. This policy covers a person for a set time. If the person dies within this time span, the insurance company will pay a specified amount to the next of kin or other nominated person.
- Sickness and accident insurance — usually taken out by self-employed people who are not covered by workers' compensation and do not receive pay for sick leave. It provides cover if a person cannot work and receive their normal income.
- Health insurance — as covered earlier in this topic, in Australia, everyone is covered for basic medical costs by a government health insurance scheme called Medicare. However, if people wish, they may take out additional private health insurance cover to provide special benefits, such as orthodontic expenses.

### Motor vehicle insurance

- Compulsory third party — protects drivers of motor vehicles from the high costs of compensation involved if they kill or injure someone in an accident. This insurance is compulsory and is obtained at the time of registering your vehicle by purchasing a 'green slip' from an insurance company.
- Third party property damage — a form of motor vehicle insurance that covers the cost of damage caused by a driver with regards to property owned by other people (for example, other motor vehicles, homes of other people, fences, traffic signals).
- Comprehensive motor vehicle insurance — this type of insurance covers the costs of repairs or sometimes the replacement of your vehicle and any other vehicles involved in an accident.

### Other types of insurance

- Workers' compensation — a compulsory form of insurance for all employers to provide money for any employees injured at work.
- Public liability — covers firms for the high costs incurred if they are sued by members of the public who suffered injury or property damage as a result of their business.
- Marine insurance — this insurance covers boats and ships for accidents or damage.
- Pluvius insurance — provides protection against loss of takings due to rain. Functions such as outdoor sporting events and concerts are usually covered by this type of insurance.
- Pet insurance — helps to cover the cost if your animal gets sick and needs to see a veterinarian.

**on** Resources

**Digital document** Worksheet 11.7 Safety first (doc-32748)
**Weblink** Insurance companies

### 11.6 Activity: Research and communication

1. You are 18 and have just left school. You wish to take out private health insurance. Research your options on the sites of Medibank Private, HCF and nib. Prepare a 30-second elevator pitch explaining your choice and the reasons behind it.
2. Imagine you own a recent model Toyota Corolla. Use the **Insurance companies** weblinks in the Resources tab to research insurance premiums for both the greenslip and comprehensive insurance for this vehicle, for a driver under 25 years of age living in your area.
3. Access the **Money Smart Rookie – Moving Out** weblink and watch the video. Outline tips and advice for young people wanting to move out of home and the errors to avoid.

**on** Resources

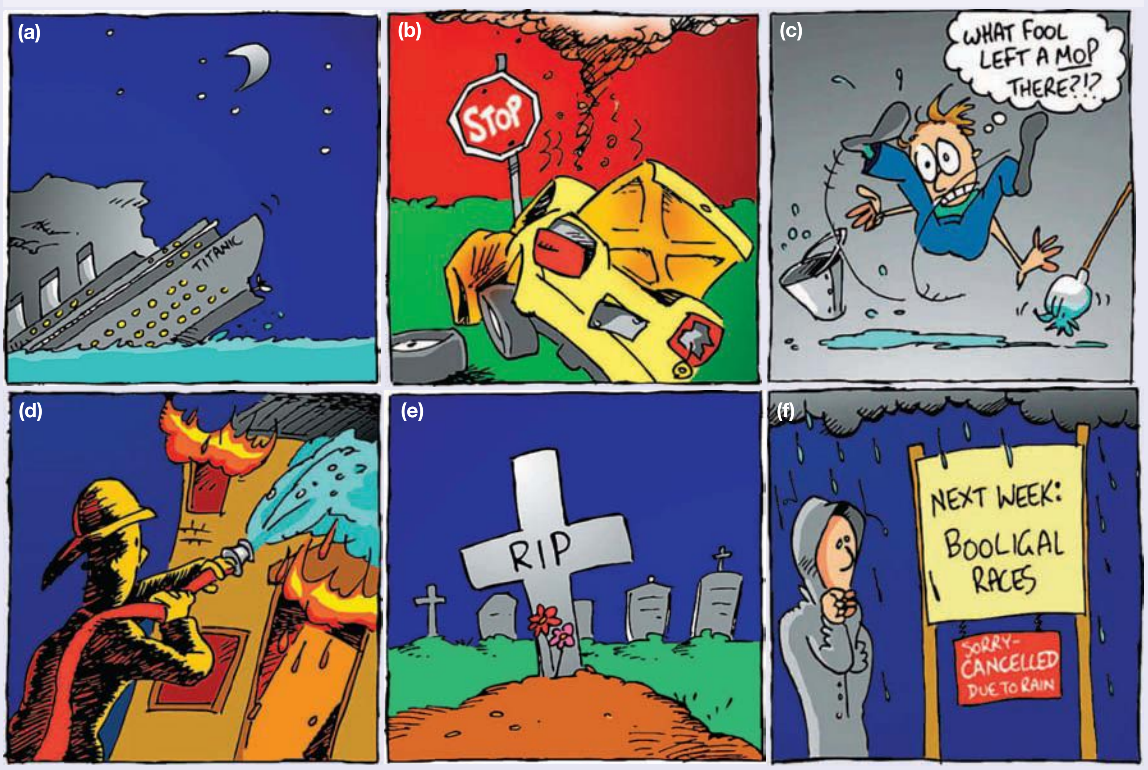
Weblink MoneySmart Rookie — Moving Out

## 11.6 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Unscramble the following words and write a sentence that explains their meaning.
   (a) usderin
   (b) merpumi
   (c) ooaprpls
   (d) rrnsieu
   (e) lmaic romf
   (f) somttu dgoo tfhia
   (g) iolpyc
   (h) eeawlnr eciton
   (i) ssnoiulcni
   (j) xlceunoiss
2. Define the term *insurance*.
3. Explain the difference between *home* and *home contents* insurance.
4. Describe the difference between *compulsory third party, third party property* and *comprehensive motor vehicle* insurance.
5. Which insurance is compulsory for all employers?
6. What insurance is obtained when purchasing a green slip?
7. Match up the following insurance types to the appropriate cartoon below: pluvius, marine, public liability, term life insurance, home insurance, comprehensive motor vehicle.

Which insurance is necessary in these situations?



8. Which of the following would have the higher insurance premium? Explain the reasons for your answer.
(a) a smoker or non-smoker
(b) a racing car driver or office worker
(c) a person whose father died of heart attack or a person with both parents living past 80
(d) a Rolls Royce or a small imported car from Korea
9. Construct a flowchart that illustrates the process involved in obtaining insurance.

**Fully worked solutions and sample responses are available in your digital formats.**

# 11.7 Major purchases

## 11.7.1 Buying a mobile phone

One of the first major purchases that a young person will make is to purchase their mobile phone. Basically they have two options:

- Fixed-term contract — this usually requires you to pay a minimum amount each month for between 18 months to 2 years. This 'minimum monthly payment' is the mobile phone service provider's way of getting you to pay for the mobile phone handset. Generally, mobile phones on fixed-term contracts provide slightly lower call costs than pre-paid phones. They also often provide a range of benefits, including music or video streaming, unlimited texts and a set amount of GBs.
- Pre-paid mobile phone account — a pre-paid mobile phone account allows you to pay solely for the calls you make. In other words, there is neither a minimum monthly charge nor any fixed-term contract. You simply pay money to the mobile phone service provider for an allocated phone number, and to have your phone account activated and credited with a prescribed amount of call credits and data download limit. You can also buy data credits so that you can access the services and apps on the phone or use it as a hotspot for your computer. You then top up your account as you use your phone and run down the call credits. However, you must initially pay for a phone.

Tips and advice for buying a mobile phone

## 11.7.2 Buying a car

Buying a motor vehicle is usually the second largest purchase a person makes during their life (with the largest being the purchase of a home).

The use of a motor vehicle in many parts of Australia is virtually essential, particularly in some country areas and newer suburbs where public transport services are not fully developed.

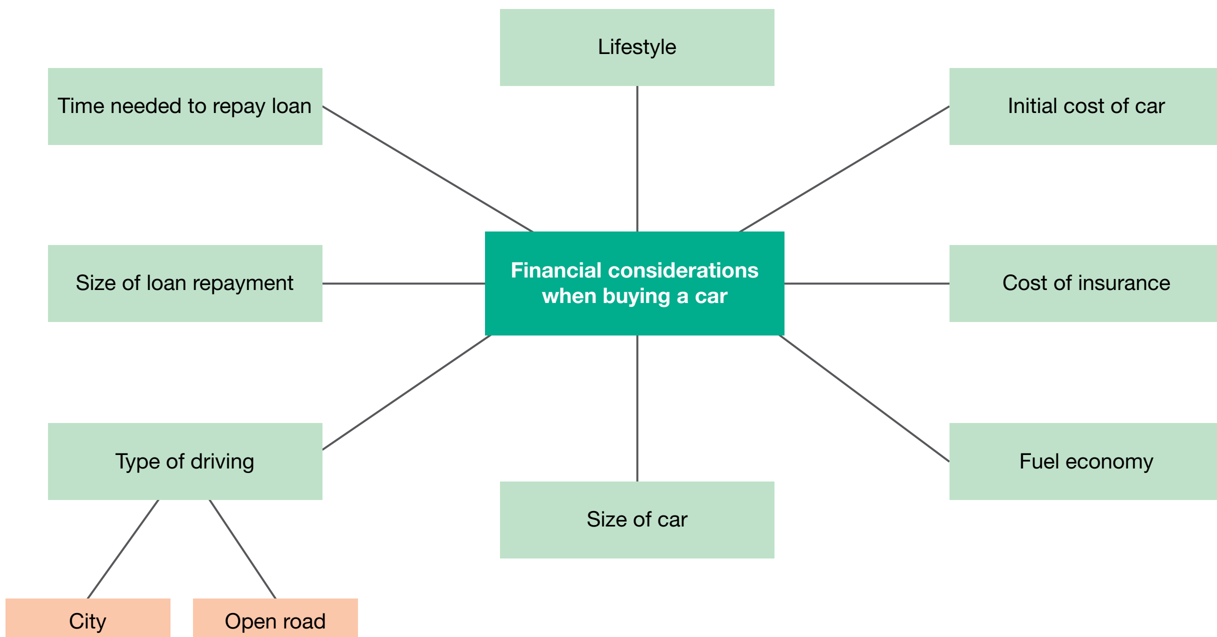
The ownership of a car involves two types of costs:

- initial costs which include stamp duty and dealer delivery charges
- recurring costs which include insurance, registration, servicing (oil, tune-ups), replacing worn components (tyres, batteries) and fuel.

When buying a car, you should first determine your needs with regard to your finances.

To pay for your new vehicle, you can either use cash or take out a loan. Whichever you decide, you must ensure that you have the finance available prior to starting the purchase process. If you decide to take out a loan, check the interest rates charged by different banks, credit unions, finance companies and other lenders. Most car dealers also offer to arrange finance. As car dealers receive a commission from the finance company on each loan that they arrange, the repayment amount may be higher. It is advisable to shop around and check all the facts for each loan option.

Financial considerations when buying a car




### COMFACT

Manufacturing of cars began in Australia in 1948 when General Motors launched the FX Holden. Over the years, many firms operated in Australia, including General Motors, Ford, Toyota, Nissan and Mitsubishi. The last locally produced car occurred in November 2017 when the last Holden Commodore rolled off the production line.

All new cars sold in Australia have now been imported. Popular makes include Toyota and Hyundai.

When buying a vehicle, your options include a new car from a dealer, a used car from a dealer, or a used car from a private seller.

Buying a used car from a licensed car dealer can be more expensive than buying privately, but it offers more protection. Licensed dealers are regulated by the law and must give certain guarantees that do not apply to private sellers. These guarantees include:

- A guarantee of clear title on the vehicle. This means that ownership of the car will be passed on to you in the sale and the car cannot be repossessed because of someone else's debt. An individual can check this information at the national Personal Property Securities Register (www.ppsr.gov.au).
- Under the Motor Dealers Act, dealers must give a **warranty** (this is a promise to repair any defects) on most cars sold. This varies with the age and the condition of the car when sold, but basically:
  - new cars must have any defects fixed that occur in the first 12 months, or the first 20 000 kilometres driven
  - second-hand vehicles that have been driven for less than 160 000 kilometres and are less than ten years old must have defects fixed that occur in the first three months, or 5000 kilometres, whichever comes first.

Beware of the less reputable car dealers who might try 'every trick in the book' in an effort to make a sale. Some simple rules that all buyers should follow are:

- Set a maximum price and don't go above it.
- Remember to bargain as you could save thousands of dollars.
- Budget for both the initial and recurring costs.
- Obtain an insurance quote and make sure you can afford it as some vehicles incur higher insurance premiums than others, particularly for young drivers.
- Check when the registration runs out.
- Be sure to have a full car inspection carried out by your automobile club, such as the NRMA, before you buy it.
- Obtain a PPSR (Personal Property Securities Register) certificate to ensure the vehicle is not carrying debt from a previous owner.
- Do not sign anything unless you are absolutely sure you want to buy the car.
- When picking up a car after paying for it, ensure that it has the same tyres, battery, toolkit and other fittings as when you inspected it. Some dealers have been known to replace new tyres with old ones prior to giving you the car.

### 11.7 Activities: Research and communication

1. In groups, prepare a presentation to the class informing teenagers about the purchase of a mobile phone. In your presentation include information about:
   - the different ways that teenagers use mobile phones
   - the advantages and disadvantages of a fixed-term contract and a pre-paid mobile phone account
   - the importance of shopping around and comparing, including two examples of a current mobile phone deal for teenagers from two telecommunication companies who are competitors
   - what to do if a teenager has a complaint about a mobile phone they have purchased, including the role of the Telecommunications Industry Ombudsman.
2. List three pieces of advice that you would give to someone who is thinking about purchasing a mobile phone.

on Resources

**Weblink** Telecommunications Industry Ombudsman

## 11.7 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. identify two options you have when purchasing a mobile phone.
2. Draw up a table to list the advantages and disadvantages of pre-paid mobile phones over signing a fixed-term contract.
3. Name the two largest purchases that most people make in their lifetime.
4. What is a warranty?
5. List the initial costs incurred when purchasing a motor vehicle.
6. Define the term 'recurring costs'. When operating a motor vehicle, what do they include?
7. Outline the financial considerations that need to be thought about when buying a car.
8. Explain the advantages of buying a used car from a dealer.
9. Four car advertisements are shown below. Which vehicle would suit each of the following?
   - A family of five people wishing to own a medium-sized vehicle
   - A university student
   - A person who wishes to use the vehicle for off-road four-wheel driving
   - A builder

Common advertisements as used by car dealers

**BUILT TOUGH**

This beaut ute comes complete with fold-down builder's rack, dual airbags, air-conditioning and power steering. 48 000 km on the clock — a steal at $24 000!

**PRICED TO SELL**

Low mileage, great fuel-efficiency and plenty of features make this the perfect run-around car for those on a budget. Air-con, power steering and Bluetooth — and reduced to only $7990.

**ROOM FOR THE KIDS**

This stylish family car has only travelled 34 000 km and features anti-lock brakes, power windows, Bluetooth and loads more extras. Don't miss it — for only $41 000, it won't last long.

**GET AWAY FROM IT ALL**

Get off the beaten track in this automatic four-wheel drive — comes with cruise control, power steering and towbar. Yours for only $34 000!

10. Why do some young people get into financial difficulties because of their mobile phone usage?

**Fully worked solutions and sample responses are available in your digital formats.**

# 11.8 Options available for the purchase of major items

## 11.8.1 Cash or credit

There are two ways of purchasing goods and services: using cash or credit.

### Payment by cash

The advantages of using cash are that you instantly receive the good, avoid debt and can possibly negotiate a discount. However, it has disadvantages such as having to wait until you have saved sufficient funds to purchase the good and the inconvenience of carrying large sums of money.

There are three ways of paying with cash:

- using notes and coins
- with a **debit card** from a bank such as Commonwealth Bank or Westpac. These cards allow you to buy goods by electronically transferring the money out of your bank account and into the store's account. This is commonly called EFTPOS (**e**lectronic **f**unds **t**ransfer at **p**oint **o**f **s**ale). Some stores, such as supermarkets or service stations, also allow you to withdraw extra cash from your account at the same time as paying for the goods
- by cheque — although very few firms will accept a cheque unless some prior arrangement has been made
- through the internet, by making a direct transfer from your account to the firm's. You can also use third-party bill paying services such as BPAY to do this.

The lender and borrower must follow the correct procedures and check all loan contract documents carefully before signing a motor vehicle contract. Once this is done the keys can be handed over and the buyer can drive away in their new car.

### Payment by credit

When you buy goods and pay for them later, it is known as credit. There are four methods of buying goods on credit. They are:

- credit sales contract — where the retailer provides you with the credit and the goods and you pay for them at a monthly rate, plus interest
- loan contract — you take out a personal loan from a financial organisation such as a bank or building society and then use these funds to buy the goods. This is the preferred method to make large purchases, such as a car. Sometimes when you take out a loan, you **mortgage** the goods being purchased. This means that if you fail to make all your repayments, the mortgagee will repossess the goods and sell them. The loan may have various features such as fixed or flexible interest rates, a non-repayment term or the facility to make an online application.
- continuing credit contract — using a credit card such as Visa or MasterCard. There are many different types of cards, all with different features. Typical features include a low annual fee, low interest rate, interest-free days, access to automatic teller machines (ATMs) worldwide and a rewards program, such as earning points that can be exchanged for goods or services.
- lay-by — you pay a deposit for a good and then make regular repayments for a set time, for example, three months. Lay-by has the benefit of avoiding interest but the disadvantage is that the shop does not give you the good until the final payment is made. You can now also apply online to use a 'pay later' service such as Zip Pay and Afterpay. Once you have finalised your account, you can shop and set up a payment plan that suits you. The advantage compared to lay-by is that you can access your purchase straightaway.

**COMFACT**

Using credit to purchase items can be much more expensive than paying in cash. This is because it can involve interest payments and, most likely, fees. It may lead people into debt for long periods of time.

## 11.8.2 New, second hand, joint ownership

Major items can be purchased new, or second hand, which means they have been used in the past by someone else, but may still be in good condition.

Major items can also be purchased through joint ownership, where two or more people share the ownership of an item. Joint ownership is common when people purchase property. Joint ownership can be between married couples, family members such as siblings, friends or even flatmates.

Joint ownership can be helpful for young people who want to buy a property but who cannot afford to do so on their own, as it allows people to split the costs of buying a home. Joint ownership can also be an option for people living in shared accommodation arrangements, where housemates or flatmates may split the costs when buying items such as furniture. However, there may be issues when one person decides to move out. Will the person moving out sell their share of a particular household item to the other flatmates? Will all the flatmates contribute to this cost? What if the value of the household item has depreciated, as may happen with items such as computers? How will you decide on how much the household item is worth? It is best to have the answers to all these questions in a written agreement before flatmates buy items through a joint ownership arrangement, to avoid misunderstandings and possible conflict.

## 11.8.3 Consumer protection available for selected items

The Australian Consumer Law, contained in a schedule to the Competition and Consumer Act 2010 (Cth), protects consumers from unfair business practices when purchasing items. For example, goods bought must be safe, durable, and free from defects or faults, such as a hole in a piece of clothing.

Consumers who purchase second-hand goods from businesses are also covered by the Australian Consumer Law. However, the age of the item, price, condition and whether the seller informed the buyer of any defects before purchasing the product will all be taken into account. For example, a second-hand dishwasher that is advertised for $450 and described as 'used only a few times, in good working condition' should last for quite a few years. On the other hand, a dishwasher advertised for $55 and described as '12 years old, still works' should not be expected to last as long and may need repairs in the near future.

Consumers should exercise the principle of 'caveat emptor', meaning 'let the buyer beware'. If someone is buying a second-hand car or boat, for example, they should check to ensure it hasn't been stolen, by using the Personal Property Securities Register (established by the Australian Government under the Personal Property Securities Act 2009 Cth.). Consumers can search for cars and boats by serial number — the vehicle identification number (VIN) or chassis number for cars, and the hull identification number (HIN) for boats.

### CASE STUDY

### Second-hand goods — Mario's story

Mario was excited when he passed his driving test and gained his driver licence. He was looking forward to being independent by owning his own car. He could not afford a new car so decided to buy a second-hand one from a private seller. He was enjoying driving to work and to social events. Soon after, he received a call from the police saying they would have to repossess it. This means they would have to take back possession of the car as it had been stolen. The police advised Mario that he could have avoided this situation if he had checked whether the car had been stolen before purchasing it, by searching for it on the **Personal Property Securities Register**. Mario was now faced with the difficult task of finding the person who had sold him the car to try and get his money back.

**on** Resources

**Weblink** Personal Property Securities Register

| Making judgements about consumer protection laws and second-hand goods | |
|---|---|
| **Ticks** | **Crosses** |
| ✓ Justice is achieved for consumers who cannot afford to buy new products and who buy second-hand products instead; they are still entitled to consumer protection, thus being treated equally; equality is an aspect of justice.<br>✓ The United Nations Guidelines for Consumer Protection (1999) states that 'special care should be taken to ensure that measures for consumer protection are implemented for the benefit of all sectors of the population, particularly … people living in poverty'.<br>✓ Consumers can check the national online Personal Property Securities Register to check that the second-hand car or boat they want to buy has not been stolen. | ✘ The Australian Consumer Law does not apply to second-hand goods bought through private sales, such as goods bought at a garage sale or from a neighbour.<br>✘ Unless a consumer gets written communication from a seller regarding a product's flaws or defects, they have no recourse if something goes wrong. The consumer should exercise the principle of 'caveat emptor', or 'let the buyer beware' and ask the seller to communicate any defects in writing.<br>✘ Some people — for example, people from a non-English speaking background — may not be aware of the Personal Property Securities Register when buying second-hand goods. |

The Australian Consumer Law applies not only to physical commerce, or in-store shopping, but also to e-commerce, or buying items online — as long as you are buying from Australian based businesses. If you buy from an overseas online seller you may not be covered by the Australian Consumer Law, as each country has its own consumer protection laws. This means you may experience difficulties in obtaining a refund, repair or replacement if the product you purchased is faulty.

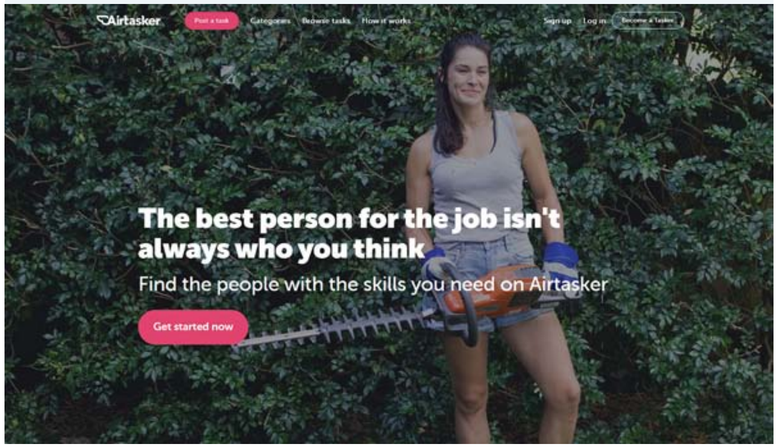
## 11.8.4 Alternatives to the purchase of major items

### Sharing economy

The **sharing economy**, also known as collaborative consumption, involves individuals renting goods rather than buying or owning them, or hiring services rather than completing the everyday task themselves.

One example of the sharing economy is a person renting out their house or apartment. For example, Airbnb connects homeowners with people who need a place to stay when they are travelling. Homeowners advertise when their property will be available and at what price, usually when they are not using the property. This form of accommodation can be cheaper than staying at a hotel. Advantages of using a service like Airbnb include paying a cheaper rate for accommodation compared to staying at a hotel, accessing more amenities, such as a full kitchen and a spacious lounge room, which a hotel does not offer, and an opportunity to find accommodation in local neighbourhoods away from busy tourist areas, where hotels may be difficult to find. Disadvantages include the possibility of renters having to share living spaces with strangers, or finding that the owner of the property has made false and misleading statements about its condition. For the owner, there is the possibility of someone causing damage to the property during their stay.

Airtasker provides an online and mobile marketplace where users can hire community members to complete everyday tasks for a fee. Established by Australian entrepreneurs in 2012, the outsourcing platform allows users to describe the task and indicate a budget, then community members bid to complete the task.




Another example of the shared economy is ridesharing or carsharing services like Uber, DiDi and Ola., where you can pay someone to drive you somewhere in their personal vehicle. This allows you to access some of the benefits of car ownership without having to pay for car maintenance and petrol. Some car owners also rent out their car by the hour or day when they are not using the car themselves.

Since the introduction of rideshare schemes in December 2017, inner Sydney commuters have really taken to utilising the alternative transport option. Figures from the city's two dockless bike scheme operators, Mobike and Lime (e-bikes), have shown share bikes are being taken on more than 6600 trips in the inner city each day. With over 140 000 registered users, the rideshare schemes have been successful in increasing the number of people cycling, which reduces the traffic congestion and provides more transport options.

Since the introduction of rideshare schemes in Sydney, share bikes are being used for more than 6600 trips each day.

### Rent-to-buy schemes

You may not have the cash saved up for something or cannot get a credit card, but really want to buy something. Or, you may own an item that breaks down and you cannot afford to buy a new one. A rent-to-buy lease allows a consumer to rent goods such as a refrigerator or television, for a certain period of time — say, three years. They then have the option to buy the item once the lease term is up. However, this can be an expensive way to buy goods. For example, a business may offer you a TV to rent at $18 per week over three years. Over three years you will pay $2808. If the sale price of the TV is $1000, you have ended up paying much more for the TV by the end of the lease term. There could also be hidden fees, charges and conditions. If the good is damaged or stolen during the rent-to-buy period, a consumer may still need to make rental payments on the item. Rent-to-buy schemes are attractive to consumers who are already facing financial difficulties. However, participating in these schemes may increase their financial difficulties, especially if they do not read the fine print before signing up.

**on** Resources

**Digital document** Worksheet 11.8 Financing a major purchase (doc-32749)

**Weblink** Major banks

### 11.8 Activity: Investigate and communicate

1. Use the **Major banks** weblinks in the Resources tab.
   (a) Construct a table showing the various credit card options available.
   (b) Construct a table showing the various personal loan options available.

### 11.8 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. What are the two main ways of purchasing goods or services?
2. Draw up a table to list the advantages and disadvantages of paying by cash.
3. Identify four ways of paying for goods using cash.
4. Explain how a debit card operates.
5. What are the four methods of buying goods or services on credit?
6. Define the term 'mortgage'.
7. Describe how lay-by operates.
8. Many people returned to using lay-by when the 2008 global financial crisis struck. Why do you think they did so?
9. Outline one advantage and one disadvantage of each of the following options people use to purchase major items:
   - new
   - second-hand
   - joint ownership
10. (a) Identify the piece of legislation that protects consumers from unfair business practices when purchasing items.
    (b) Describe how a business could breach this piece of legislation.
11. Read the case study **Second-hand goods — Mario's story**. Explain the importance of using the Personal Property Securities Register before paying for a second-hand car or boat.
12. Explain why it can be difficult to obtain a refund, repair or replacement for a faulty product if you bought it from an overseas online seller.
13. Evaluate the effectiveness of consumer protection laws in protecting consumers in Australia who buy second-hand goods. 'Evaluate' means to make judgements – what is working well, what is not working well and what needs to be improved.

14. Define the 'sharing economy'.
15. Describe one example of the sharing economy.
16. (a) Describe rent-to-buy schemes.
    (b) Explain the disadvantages of these schemes for consumers.

**Fully worked solutions and sample responses are available in your digital formats.**

# 11.9 SkillBuilder: Choosing a mobile phone plan

## 11.9.1 Tell me

Do you have a pre-paid mobile or do you pay a bill at the end of every month? Do you have unlimited standard calls and can you send as many text messages as you want? How many gigabytes or megabytes of data are you allowed and is social media included? You need to consider all these questions and more when you choose a mobile phone plan.

In this SkillBuilder, you will find out what mobile phone plans are and how you can select the one that best suits your needs. You will also find out how to compare the many options offered by the various providers that operate in Australia.

Choosing the right mobile phone plan can save you a lot of money over time.

## 11.9.2 Show me

Mobile phones are usually purchased through telecommunications providers. Companies such as Telstra, Optus and Vodafone sell phone handsets as well as contract agreements known as 'plans'. Although some people choose to purchase their mobile phones outright, the majority of Australian consumers sign up to either a pre-paid or post-paid mobile phone plan. Usually included in the plan are essential mobile phone functions such as calls, text messages, multimedia messaging, data charges and voicemail. Tailored plans are often available that enable consumers to choose a plan that suits their specific needs. For example, as business owners tend to make the majority of their phone calls during the day, business plans offer a lower charge for calls made during business hours. Mobile phones can also provide portable internet access when used as personal 'hotspots'. Before purchasing a phone and signing up to a plan, it is important to compare mobile phone providers and the options they offer to consumers.

## 11.9.3 Let me do it

Complete the following activities to practise this skill.

### 11.9 Activities

1. Construct a comparison table like the one shown below. You can either use the headings provided, or you can alter this table to suit your own search parameters. Use online information or call the company directly to obtain the information you need. As mobile phone providers offer a huge range of products, it is best to narrow your search before you begin this phase. A good way to do this is to choose one specific brand and model of phone to research. There are also many different mobile phone providers in Australia, so it will be easier if you limit your search by investigating only some of the following companies:
   - Telstra
   - Optus
   - Vodafone
   - Belong
   - Dodo
   - iiNet
   - Amaysim.

There are several websites that present information and compare plans for a number of different mobile phone providers.

Use the **Mobile phone providers** weblinks in the Resources tab to find information on the pricing of mobile phone plans offered by three different telecommunications companies.

| Phone provider | Length of contract (months) | Calls included ($) | Min. monthly charge ($) | Data included (GB) | Additional data costs ($ per GB) | Flagfall ($) | SMS costs ($) | MMS costs ($) |
|---|---|---|---|---|---|---|---|---|
| **Telstra** | | | | | | | | |
| **Optus** | | | | | | | | |
| **Vodafone** | | | | | | | | |

2. Once you have completed the summary table above, you need to evaluate the costs and benefits of the different alternatives. To do this, complete the following tasks.
   (a) Complete a cost–benefit analysis for each of the mobile phone plans that you researched. Use a table like the one below to help you.

| Phone provider | Costs | Benefits |
|---|---|---|
| **Telstra** | | |
| **Optus** | | |
| **Vodafone** | | |

   (b) Considering your own needs as a mobile phone user, rank the providers from most suitable to least suitable.
   (c) Write a one-paragraph response that justifies your rankings.

**on** Resources

**Weblinks** Mobile phone providers 1
Mobile phone providers 2
Mobile phone providers 3

# 11.10 Community involvement

## 11.10.1 Becoming active and effective participants in the community

### Enrolling to vote

As you move towards independence, you will gain the right and have the responsibility to vote, which means you will be able to elect people to represent you at the local, state and federal government level. Gaining the right to vote means you can also vote in referendums and plebiscites when they are held. Referendums are polls about Parliament-proposed change to the Australian Constitution, or to the constitutions of states and territories, such as the 1999 Australian republic referendum. Plebiscites are polls about non-constitutional issues.

In Australia you have the right to vote if you are an Australian citizen, aged 18 years and over. Before you can vote, you must be on the electoral roll, and you may enrol to vote if you have lived at your address for at least one month.

When you turn 16 years old you can enrol to vote so that when you turn 18 you will be ready to vote. This is important, because the electoral roll, which is an alphabetical list of people who are entitled to vote in an election or referendum, closes soon after an election has been called. An enrolment application form is available on the **Australian Electoral Commission** website, or you can go to an Australian Electoral Commission office or Australia Post and pick one up.

### Being informed

To make an informed vote it is important to understand what the different political parties believe in and stand for. Reading and watching the news, visiting the website of each political party and talking to family and friends about political issues can be ways you can stay informed and make an informed vote which reflects your beliefs and values.

### Voting responsibly

Enrolment and voting is compulsory in Australia. If you do not vote you will be breaking the law and may be fined. It is important you understand the different methods of voting and the difference between voting above the line and below the line when voting in the Senate at a federal election, for example. If you cannot attend a polling booth on the day of the election, you will need to vote before the election by attending a pre-poll booth or making a postal vote. The Australian Electoral Commission can help you make a valid vote by explaining all the voting rules and procedures. Who you vote for has important consequences in terms of what kind of laws are made in Parliament and how your local area is governed through your local council, so it is important to take voting seriously and vote responsibly.

#### CASE STUDY

#### Elections in Australia

##### Why are elections always held on a Saturday in Australia?

The Commonwealth Electoral Act specifies polling must take place on a Saturday. Saturdays are appropriate for voting as not as many people are working compared to weekdays, so they have the time to vote. Also, schools are available to be used as polling booths on Saturdays. In England, where voting is not compulsory, elections are usually held on a Thursday, meaning people who go away for the weekend won't miss out on voting.

##### Why do we use pencils for voting?

The Commonwealth Electoral Act says that pencils must be provided to voters. The benefit of pencils is that they are cost effective. You might ask, though, doesn't this make it easier for someone else to change a vote, by using an eraser, for example?

Ballot boxes are guarded by a polling official. Once the ballot papers are taken out of the ballot box after 6 pm when polling booths close, workers who are counting the votes are heavily supervised by members of political parties called 'scrutineers'. Scrutineers have permission to enter the counting area and make sure that the votes are being counted correctly and that no dishonest worker changes a vote, by using an eraser, for example. As voters are advised to get a new ballot paper if they make a mistake, a ballot paper that looked like it had been changed by someone using an eraser would be treated as suspicious.

### CASE STUDY

#### Olivia's first time voting in an election


Olivia had enrolled to vote when she turned 16, as she remembered learning about the importance of doing this while studying Commerce in Year 10. Shortly after turning 18, she found herself having to go and vote in an election. As the electoral roll closed soon after the election was called, Olivia was glad she did not have to worry about rushing to enrol to vote — she was looking forward to casting her first ever vote and did not want to miss out.

When Olivia arrived at the polling booth (at the local school), she was approached by quite a lot of people handing out leaflets of papers. Unsure of why they were doing this and wondering who all the people were, Olivia ended up entering the polling booth with her hands full of paper. After she voted, she went home and asked her parents who those people were and if they were getting paid.

Olivia's parents explained that the leaflets were 'how to vote' cards, and that people handing them out are usually members of political parties, or relatives and friends supporting the candidate who is standing for election. They are under the direction of a booth captain, who makes sure that each gate of the school or other voting venue has someone handing out how to vote cards so that no voter is missed. Each how to vote card has specific instructions on how to vote for a particular political party. Olivia's parents told her that it is important voters follow the how to vote card that matches for whom they want to vote.

Alternatively, they said that you can make a valid vote without following any of the how to vote cards. Olivia's parents also said that the people handing out the how to vote cards are usually volunteers who do not get paid.

## 11.10.2 The benefits of community involvement

Studies show that people involved in their communities, especially in volunteer work, experience high levels of satisfaction and that community involvement makes them feel good about themselves. Apart from the obvious benefit to the community, people who contribute their time or expertise feel a sense of belonging and purpose. They can also gain valuable skills.

Working together towards a common goal provides a sense of purpose and achievement.

**Community services** are services largely funded from within the community to provide something that is desirable but not profit making. They cannot function without assistance from the community, and there is a need for individuals to put something back into the community. This ensures that highly desirable services, such as volunteer fire brigades and The Smith Family, are fully staffed and funded. Governments are unable and unwilling to fully fund many of these community services. This means that to survive, such services must not only provide volunteers, but also be fundraisers. By involving yourself in a community service, you are not only helping others, but you can also meet new people, gain worthwhile experience and increase your own wellbeing and self-esteem.

Ways that individuals can contribute to the community include:

- joining a volunteer organisation — this could be anything from the local sporting club to a bush fire brigade
- making donations to community services groups
- donating blood to the Red Cross — this is safe, easy and could save someone's life
- signing up for organ donation
- placing unwanted clothing in recycling bins such as those provided by St Vincent de Paul Society and Lifeline
- reducing litter by recycling bottles, cans and cartons by using the NSW Government's Return and Earn scheme
- supporting community fundraising efforts, from simple actions such as buying a raffle ticket or some goods from a fete stall, to actively selling the raffle tickets and making goods yourself to be sold at the fundraiser
- passing on your expertise and skills free of charge to community groups
- joining a local environmental group such as Clean Up Australia Day
- becoming a member of a youth advisory group through a local council
- joining a political party — young people can join the young people's branch of a political party.

## CASE STUDY

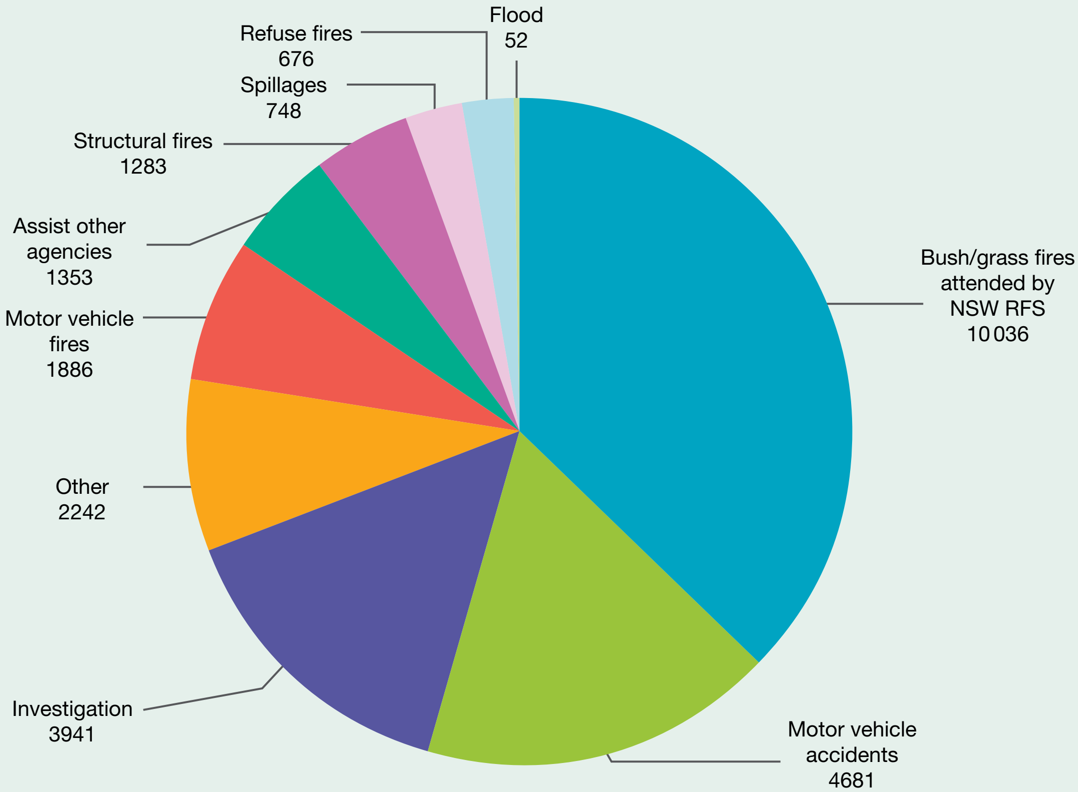
### NSW Rural Fire Service

#### Goals and strategies

The first bushfire brigade in NSW was formed at Berrigan, in the southern Riverina, over 100 years ago. The aim was for residents to join together to fight bushfires which regularly devastated the area.

The NSW Rural Fire Service depends on volunteers for its existence.

In 2017–18, NSW RFS members attended more than 24 000 incidents across the state.




The current NSW Rural Fire Service was formed in 1997. The aim was to unite the community effort to fight bushfires. The Service has grown into the world's largest fire service. It comprises over 2000 volunteer rural fire brigades and has a total membership of almost 74 000 volunteers.

A number of paid staff also manage the day-to-day operations of the Service at headquarters, regional offices and district fire control centres.

Each year, the Service attends over 7000 bush/grass fires, mainly in the summer months. It also provides volunteers to fight fires in other states as needed.

### The organisation's effectiveness in achieving objectives

The NSW Rural Fire Service (NSW RFS) is the world's largest volunteer fire service. The organisation provides fire and emergency services to approximately 95 per cent of NSW. They attend to a range of incidents across the state, including bush fires and grass fires. The NSW RFS also assists with storm damage and motor vehicle accidents.

People who want to be members of the NSW Rural Fire Service undergo a comprehensive training program, which involves being a probationary member of the brigade for a minimum period of six months. At the end of the probationary period the brigade will vote on whether to accept a person as an ordinary member. This ensures the organisation has highly skilled people achieving its goals.

### Actions individuals can take to assist the organisation to achieve its goals

The Rural Fire Service needs people with all sorts of skills, and you can join as a volunteer. There are a range of roles available, including firefighting, equipment maintenance and community education.

Some NSW Rural Fire Service brigades offer junior or cadet membership for those aged from 12 years, enabling young people to be involved in its work, as well.

You can also support the fundraising efforts of the NSW Rural Fire Service. For example, many Rural Fire Brigades conduct fundraising activities at community events through coin collections or barbeques. These proceeds go directly to assisting the brigade to continue its work.

Individuals can also help the NSW Rural Fire Service by working with them to prepare a personal survival plan that will help you should you be threatened by a bush fire.

### Actions to improve the effectiveness of the organisation

It would help the NSW Rural Fire Service if more people were educated about planning and preparing for bush fires, especially if they live in a bush fire area.

It is also important that more people are educated about ways to reduce the risk of a house fire. For example, having an adequate number of suitable smoke alarms installed throughout your home is very important. Each smoke alarm should be tested regularly and the battery should be changed at least every 12 months.

You can also assist the NSW Rural Fire Service by staying up to date before, during and after a bush fire. You can do this by checking the information and warnings that the NSW Rural Fire Service provides to the community, which also helps improve the effectiveness of the organisation. Check the **Fires Near Me** website which gives information and warnings about bush fires and other incidents attended by the NSW Rural Fire Service.

## 11.10 Activity: Research and communication

1. (a) Complete the 'enrol to vote' form on the **Australian Electoral Commission** website as you would when you reach your 16th birthday and are eligible to enrol to vote. Do not submit the form if you are not yet 16 years old. You may print a copy of the form for your Commerce workbook.
   (b) List the three types of evidence of identity accepted by the Australian Electoral Commission for people enrolling to vote.
   (c) Outline the two ways you can sign the enrolment form.
   (d) List the requirements you need to satisfy to get on to the electoral roll.
   (e) i. Is voting compulsory if you are 18 years old?
   ii. What may happen if you do not vote?
2. Conduct a class debate on the following topic:
   'The legal voting age should be lowered from 18 years of age to 16 years of age.'
3. Using the internet, prepare a directory of the community services available in your area. In your directory, include the name of each organisation, as well as their address, contact details and a brief description of what they do. Present this as either a database or spreadsheet.
4. Invite a representative from the NSW Rural Fire Service to speak to the class. Prepare questions to ask the guest speaker prior to their arrival.

## 11.10 Exercise: Knowledge and understanding

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Outline what the right to vote enables you to do.
2. Explain how you can stay informed and make an informed vote at an election.
3. (a) Why are elections always held on a Saturday in Australia?
   (b) Explain how you can still vote even though you are unable to attend a polling booth on the Saturday of an election.
4. Read the Case study: Olivia's first time voting in an election.
   (a) Outline the purpose of 'how to vote' cards.
   (b) 'How to vote cards should not be handed out to people entering polling booths on an election day'. Do you agree or disagree with this statement? Explain reasons for your answer.
5. Discuss compulsory voting in Australia (include two arguments for compulsory voting and two arguments against compulsory voting).
6. (a) Describe some ways individuals can be involved in their communities.
   (b) Explain the benefits of community involvement.
7. Refer to the information about the NSW Rural Fire Service and answer the following questions:
   (a) Describe the aim of the NSW Rural Fire service.
   (b) When and where was the first bush fire brigade formed?
   (c) What is the main cause of bush fires in NSW?
   (d) Describe actions individuals can take to assist the organisation to achieve its objectives.
   (e) Evaluate the effectiveness of the NSW Rural Fire Service in achieving its objectives. 'Evaluate' means to make judgements — what is working well, what is not working well and what needs to be improved.

(f) Propose actions to improve the effectiveness of the NSW Rural Fire Service. ‘Propose’ means to put forward ideas, suggestions and strategies for consideration.

**Fully worked solutions and sample responses are available in your digital formats.**

**on** Resources

**Digital document** Worksheet 11.9 Community involvement (doc-32877)

**Weblinks** Australian Electoral Commission

Fires Near Me

# 11.11 SkillBuilder: Communication and reflection

## 11.11.1 Tell me

An advertisement is designed to convince individuals or groups of people to take particular action. Most advertising we see is aimed at encouraging us to buy particular products, but advertising can also be used to encourage people to take action on a political issue.

A good advertisement:

- is designed to attract attention
- uses bold colours and simple images
- provides key information in bold print
- uses recognisable symbols and logos
- provides reasons for action
- makes use of simple, easy-to-read language.

An advertisement that aims to encourage participation in a democratic activity should include all these features.

## 11.11.2 Show me

The following advertisement was used to encourage people to attend a rally at Federation Square, Melbourne, to support the protest against the building of a McDonald’s outlet in Tecoma, Victoria. The advertisement has these features:

- It uses bright colours, including some of the colours used by McDonald’s in its own advertising.
- The key information (time, date and location of the protest) is shown in the centre, in large print, using white lettering on a red background.
- The original poster included two logos widely used in the Tecoma anti-McDonald’s campaign — a burger and the ‘golden arches’ logo — each with a circle and diagonal line. The circle and diagonal line are widely accepted as negative symbols. For copyright reasons we have been unable to reproduce the McDonald’s logo here. However, you can see the original poster by using the **Burger off** weblink in your Resources section.
- The slogan ‘Burger off’ was widely used in the Tecoma campaign and so has a level of recognition from that campaign. The phrases ‘Tecoma goes to town’ and ‘No Maccas in the hills’ also clearly identify the purpose of the protest.


An advertisement to encourage people to attend a Tecoma McDonald’s protest rally

- The information that the Master of Ceremonies for the protest is Rod Quantock (a well-known local Melbourne comedian), and the phrases 'See the film', 'Hear the music' and 'Meet the people' are all designed to encourage people to attend. It is particularly designed to attract those who do not live in Tecoma but wish to show their support for the campaign.
- The addresses of two websites for further information is also an important part of the advertisement.

**on** Resources

**Weblink** Burger off

### 11.11.3 Let me do it

Complete the following activity to practise this skill.

#### 11.11 Activities

Using the above model, design an advertisement to encourage more young people to enrol to vote before they turn 18. Your advertisement should contain the features discussed above.

## 11.12 SkillBuilder: Delivering an oral presentation

### 11.12.1 Tell me

A successful oral presentation starts before a single word has been spoken:

- *Preparation*. You must research and plan your speech properly. Being organised and prepared will give you confidence in yourself and in your subject material.
- *Proper use of visual aids*. Are you going to use PowerPoint, Keynote or any other visual aids? If so, you need to consider how to use these tools properly. Avoid overloading your audience with a cluttered combination of visual and audio information.
- *Delivery*. The final key to a successful presentation is the delivery. Sustained eye contact and a confident, well-projected voice will help you deliver your intended message.

Preparation, proper use of visual aids and delivery are key elements of a successful oral presentation.

## 11.12.2 Show me

### How to give an oral presentation

#### Preparation

Follow these steps to prepare for your oral presentation:

1. **Research** your oral presentation carefully, making sure you are answering the question set.
2. Use a **variety of sources** of information when you are researching your oral presentation — e.g. websites, newspaper articles, books, magazines and case study examples.
3. Be **organised**. Are all your palm cards in order? Are your PowerPoint slides in order?
4. **Practise** presenting your oral report out aloud. You may want to create an audience (e.g. family, friends, pets, or even the mirror). The more prepared you are the more effective your oral presentation will be when you do have to speak in front of an audience. Practice makes success.
5. **Pronunciation** — make sure you can pronounce all words correctly. If you come across a word that is difficult to pronounce, access online dictionaries, where you can submit a word and hear it pronounced correctly.
6. **Timing** — be mindful of the length of time you have in which to give your presentation. If your presentation is longer than the allowed time, you will need to shorten it. Ask someone to listen to you practise, and time how long it takes you.

#### Proper use of visual aids

Visual information can add to your presentation. However, if used incorrectly, it can decrease the effectiveness and clarity of your message. Make sure that any visual aids serve a clear purpose. Do not commit any of the mistakes shown in the **How not to use PowerPoint** weblink in the Resources tab.

#### Delivery

The effectiveness of your speech often relates to the connection you make to your audience. Eye contact and a confident delivery of your speech are two ways to boost this connection. Sustained eye contact requires more than simply looking up from your notes every now and then. You need to make and hold eye contact with members of your audience. This will only be possible if you have practised your speech often and know the content extremely well. Sustained eye contact will also improve your delivery of the speech itself. Remember not to rush your speech, and be sure to explain your points clearly and carefully.

Speaking in public can be daunting, but try to connect with your audience even if you are feeling nervous.

**on** Resources

**Weblink** How not to use PowerPoint

## 11.12.3 Let me do it

Complete the following activity to practise this skill.

### 11.12 Activities

You have just learned about the skills required to successfully deliver an oral presentation. Now it is time to put these skills into action by researching a community organisation (other than the NSW Rural Fire Service) in which young people can become involved.

During your oral presentation you must:

a. Outline the goals and strategies of the organisation.
b. Describe the actions individuals can take to assist the organisation to achieve its objectives.
c. Evaluate the organisation's effectiveness in achieving its objectives. 'Evaluate' means to make judgements – what is working well, what is not working well and what needs to be improved.
d. Propose actions to improve the effectiveness of the organisation. 'Propose' means to put forward ideas, suggestions and strategies for consideration.

Then use the procedure discussed in this SkillBuilder to ensure that your presentation is successful.

# 11.13 Current issues

## 11.13.1 Ease of access to loans and credit facilities

Credit enables consumers to buy products now and pay for them later. They in effect borrow money and promise to pay it back later. Credit can be useful when you want to buy something, but you do not have the cash. However, there is a cost to borrowing money, which is called interest. Sometimes consumers can avoid interest by paying back the money during the interest free period. There may also be fees and charges to pay when accessing credit. Developments in the fast loans area have led to new problems for people using credit.

**Payday loans** can be attractive to young people as they enable them to borrow money quickly. Payday loans are officially known as 'small amount credit contracts' and enable you to borrow small amounts of money. They have high interest rates and must be paid back by the time you get your next paycheck. Your loan repayments will be deducted from your pay in your bank account on the day you are paid — thus the name 'payday' loan. There are establishment fees to pay, such as 20% of the amount borrowed, and interest must be paid on the amount you borrow. Lenders do not look closely at your financial situation and credit history, so if you have a poor credit history and are on a low income, these loans can be relatively easy to obtain.

If you cannot pay the payday loan on the next payday after you borrow the money, you may be able to roll over the loan to pay on your next payday. Some people continue to roll over the loan and the loan continues to grow with interest. Sometimes you can be forced to take out another payday loan to pay off the first payday loan.

## 11.13.2 Alternatives to loans and credit facilities

Given the disadvantages of payday loans, it is worth investigating cheaper alternatives.

### Contact your utility provider

If you are having difficulties paying your bills by the due date, contact the **utility** provider who may allow you to pay the bill in instalments. For example, instead of paying a $120 electricity bill all at once, you may be able to pay $40 every fortnight until the bill is paid. It is wise to contact your utility provider first when facing difficulties paying a bill, rather than taking out a small amount loan like a payday loan in order to pay the bill. Arranging a payment plan may mean you can avoid putting yourself in debt.

### Centrelink advance payment

If you are receiving Centrelink welfare payments and need money urgently, you may be able to receive your payment earlier in the form of an advance payment. This involves no interest rate charges.

## No Interest Loans Scheme

The No Interest Loans Scheme (NILS®) provides people on low incomes access to credit without interest charges and fees. The scheme offers loans of up to $1500 for essential goods and services such as washing machines, wheelchairs and car repairs. Repayments are set up over 12–18 months.

To be eligible for NILS you must have a Health Care Card or Pensioner Concession Card from the government or earn less than $45 000 a year after tax ($60 000 for joint applicants or people with children). You must also show that you can and are willing to repay the loan within 12 to 18 months.

NILS providers are based in community centres and other local organisations across Australia.

### CASE STUDY

#### Steven gets a new refrigerator

Steven's refrigerator broke down and he did not have savings to buy another one. He was concerned about where he would put food that needed to be in a refrigerator. He needed $350. Steven started looking online and found a payday lender who would lend him the money he needed to buy another refrigerator; he would receive the money later in the day. However, Steven would also need to pay an establishment fee, which was 20% of the amount borrowed, and 45% interest if he could not pay back the amount borrowed in time. He was concerned about money being taken out of his next pay, as he needed that money for other expenses.

Steven's brother, who had studied Commerce when he was at school, suggested he apply for a no interest loan through the No Interest Loans Scheme at a community centre in the local area. Steven applied and received the loan. He bought a new refrigerator and paid it off over the next 18 months, without interest or fees.

## National Debt Hotline

If you find you are experiencing difficulties with debt, you can receive help by phoning the National Debt Hotline on 1800 007 007, where you can speak to a professional financial counsellor for free.

### 11.13 Activity: Research and communication

1. Use an online payday calculator, such as **MoneySmart Payday Calculator**, to complete the following questions.
   *Belinda is a single mother earning less than $60 000 a year after tax. She borrowed $1000 from a payday lender, as she urgently needed to buy a computer for her children who were at school. She paid it back over 10 months.*
   (a) What was the establishment fee — 20% of the amount borrowed — that Belinda was charged?
   (b) What monthly fees did she pay?
   (c) What was the total amount she would have to repay to the payday lender?
   (d) Propose a cheaper alternative Belinda could have used to borrow $1000 to buy a new computer.
2. Watch the ABC TV Four Corners program 'Game of Loans'.
   Use the program to write a report about the problems related to payday lenders.
3. Investigate a current issue, other than ease of access to loans and credit facilities, that has an impact on the independence of young people. Describe the issue — asking 'What? Who? Where? How? Why?' — and propose possible solutions.

**on** Resources

**Weblink** Moneysmart Payday Calculator
ABC TV Four Corners – Game of Loans

**11.13 Exercise: Knowledge and understanding**

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

1. Fill in the missing words in the following:
   It is important to always check the i ______________ rate when you are thinking about using credit. The h ________________ the interest rate, the more money you will have to pay back to the lender.
2. Define a payday loan.
3. Outline how a payday loan is paid back to the lender.
4. Discuss three disadvantages of payday loans.
5. Propose cheaper alternatives to payday loans.

**Fully worked solutions and sample responses are available in your digital formats.**

# 11.14 Thinking Big research project: Designing a website

## 11.14.1 Scenario

The National Roads and Motorists' Association (NRMA) is an Australian organisation offering many services such as roadside assistance, motoring advice, car servicing, driver training, car insurance and even holiday destination discounts. The company has decided it would like to invest in a website that would specifically target young drivers wanting to purchase their first car.

## 11.14.2 Task

NRMA has hired you to create an insightful and interactive website for young people wanting to purchase a car. Your website should be visually appealing, with an attractive design and selective use of colour and images. You could use an online website creation program such as Google Sites to produce the website.

## 11.14.3 Process

The NRMA has indicated that they would like particular content covered, so the website must include the following:

### Section 1 — Homepage

Write a welcome message from the President of the NRMA, which includes the purpose of the website and a summary of what it contains.


### Section 2 — Types of costs

Include initial costs and recurring costs that need to be considered when buying a car.

### Section 3 — How much can you afford?

Include price ranges and examples of cars in those price brackets.

### Section 4 — New or used?

Include advantages and disadvantages of each.

### Section 5 — Where to buy?

Include information about private sales, licensed car dealers and auctions. Include advantages and disadvantages of each.

### Section 6 — Motor vehicle insurance — protecting your car

In this section include the following:

a. Different types of motor vehicle insurance
b. Factors considered when car insurance companies assess risk — the higher the risk, the higher the premium

Include the following table in this section and complete the 'Example of risk factor' column. The first entry has been completed for you. You are to include three more factors and examples of your own.

| Factors affecting risk | Example of risk factor |
| --- | --- |
| Location | Drivers living in urban areas which are highly populated with traffic congestion are considered to be a higher risk as they tend to have more accidents and insurance claims compared to drivers living in rural areas. |
| Age | |
| Model of the motor vehicle | |
| *Your own factor* | |
| *Your own factor* | |
| *Your own factor* | |

### Section 7 – Tips, tricks and traps to avoid

Include information about how to avoid being 'ripped off' and how to make sensible consumer decisions when buying a car.

### Section 8 – The benefits of being an NRMA member

Use the **NRMA** website for information about this organisation.

### Section 9 – Frequently asked questions

Include a list of questions you think young people might have when they are looking to purchase a car, and provide the answers to these questions.

### Section 10 – Glossary

Select ten terms which you think a young person should understand when looking to purchase a car. Include the words and the meanings in this section.

**on** Resources

**ProjectsPLUS** Designing a website (pro-0245)
**Weblink** National Roads and Motorists' Association (NRMA)

# 11.15 Review

## 11.15.1 Summary

Having explored this topic, you can now:

- identify and explain issues associated with moving into your own place
- identify and locate support from different organisations
- evaluate a range of accommodation options, including their suitability depending on needs and budgets
- identify difficulties associated with shared accommodations and seek proactive solutions
- explain the process of signing a lease
- differentiate between establishing and ongoing costs associated with independent living

- explain strategies to minimise financial problems such as constructing a household budget, saving money and monitoring spending
- identify the importance of applying for a tax file number and completing a tax return
- explain different insurance options, including household and personal insurance
- identify major items to be purchased for independent living and options available for the purchase of these items
- outline opportunities for individuals to become active and effective participants in the community, including voting and being involved in community organisations
- discuss current issues that impact on the independence of young people and propose possible solutions.

## 11.15.2 Key terms glossary

**apprentice** a person who has agreed to work for a skilled person for a particular period of time and often for lower wages in order to gain knowledge and skills about a particular job — for example, an apprentice plumber
**birth certificate** an official copy of your birth registration held by the NSW Registry of Births, Deaths and Marriages, including information such as name and place of birth
**bond** money that is lodged with the Rental Bond Board. It is used to cover any damages or cleaning costs if the rented premises are left in an unsatisfactory condition
**budget** a list of income and likely expenditures
**Centrelink** the main federal government welfare agency. It provides financial assistance as well as counsellors and social workers to those in need
**community services** services largely funded from within the community to provide something that is desirable but not profit making
**condition report** details the exact condition of a property when new tenants move in
**cooling off period** a period of time after a sale contract has been signed, during which the buyer can cancel the contract without receiving a penalty
**debit card** plastic card that allows you to buy goods by electronically transferring money out of your account into the store's account. It can also be used to obtain cash
**deductions** items that can be used to reduce your assessable income, thus reducing the amount of tax you pay
**establishment costs** one-off costs for setting up a new place to live or a business
**exclusions** the things that an insurance policy will not specifically cover
**fixed expenses** expenses that are the same amount every time — for example, monthly rent, or a minimum charge of $40 per month for a mobile phone
**inclusions** the things that an insurance policy covers
**insurance** the payment of an amount of money that covers a person or property in the event of loss, damage or accident so that the person does not suffer a severe financial setback
**insured** the person who is covered by the insurance policy
**insurer** the company that is providing the insurance
**kitty** a central fund of money that has been contributed by a group of people (e.g. flatmates).
**landlord** the person who owns the premises being rented
**lease** a legal contract between a tenant and a landlord that allows the tenant to use the landlord's property in return for rental payments. Once a lease is signed, it is a legally binding document
**Medicare card** a card issued by the government to individuals or families which they can use to access free health care by a doctor and access free health care at a public hospital
**Medicare levy** an additional tax of 2% of income used to fund the Medicare system
**mortgage** a loan from a financial institution such as a bank where something is held as security in case the loan is not repaid, e.g. a house
**ongoing costs** those costs that keep on recurring such as rent, mortgage and electricity bills
**payday loan** a high-cost, short-term and small amount loan. The borrower agrees to pay back the loan when they receive their next pay
**premium** the amount of money to be paid to receive insurance cover
**progressive tax system** in a progressive tax system, as a person's income increases the percentage that is paid in tax also increases
**refuge** a place of shelter which keeps a person safe and protects them from danger — for example, a youth refuge

**reservation fee** usually one week's rent that will reserve the premises for a person while their application for tenancy is being considered
**residential tenancy agreement** the standard agreement between tenants and a landlord when a house or flat is being rented
**sharing economy** also known as collaborative consumption, involves people sharing their possessions for payment
**superannuation** money set aside during your working life for retirement; commonly called 'super'
**tax file number** a unique personal reference number the Australian Taxation Office gives to a person so they can identify them and enforce Australia's taxation laws
**tenant** the person or persons who rents a property from a landlord
**utility** an organisation supplying the community with a service such as water, gas or electricity
**variable expenses** expenses that change over time, and do not occur on a regular basis. For example, a person may go to a music concert this month to hear their favourite singer and buy a computer game next month
**warranty** a promise to repair any defects that are in a product

## on Resources

**Digital documents** Key terms glossary (doc-32674)
Match up (doc-32761)
Crossword (doc-32794)
Wordsearch (doc-32805)

**Interactivities** Wordsearch (int-7908)
Crossword (int-7891)

## 11.15 Exercises

To answer questions online and to receive **immediate feedback** and **sample responses** for every question go to your learnON title at www.jacplus.com.au.

### 11.15 Exercises 1: Glossary quiz online only

### 11.15 Exercise 2: Multiple choice quiz

1. Belinda came home from work to find her rented flat had been burgled. The thief had stolen her laptop, jewellery and television. Which type of insurance would protect Belinda?
   A. Home insurance
   B. Home contents insurance
   C. Public liability insurance
   D. Life insurance
2. Which of the following is an advantage of buying goods with cash?
   A. You have to wait until you have saved sufficient funds
   B. Convenience of carrying large amounts of money
   C. Avoiding the pitfalls of debt
   D. Easy to keep a record
3. Which of the following would be considered an initial cost in buying a car?
   A. Stamp duty
   B. Insurance
   C. Registration
   D. Servicing
4. What is the cost of borrowing money?
   A. Utility
   B. Kitty
   C. Interest
   D. Bond

5. What is the main federal government welfare agency that provides financial assistance to those in need?
   A. Department of Communities Services and Justice
   B. Centrelink
   C. Department of Social Services
   D. The Salvation Army
6. Which of the following best describes an insurance premium?
   A. The amount of money to be paid to receive insurance cover
   B. The person who is covered by the insurance policy
   C. The company that is providing the insurance
   D. Items that an insurance policy specifically covers
7. Which of the following statements concerning a rental bond is true?
   A. It is usually two weeks rent.
   B. It is used to cover the landlord for any damages or repair costs.
   C. The money is lodged with the real estate agent.
   D. All of the above
8. Which of the following refers to the person who owns a property being rented?
   A. Landlord
   B. Tenant
   C. Insurer
   D. Supplier
9. Referring to the statements, which of the following is correct?

   **Statement I:** The Australian Consumer Law applies only to physical commerce in Australia.
   **Statement II:** The Australian Consumer Law applies to physical commerce and to goods bought online from Australian-based businesses.

   A. Statement I is TRUE and statement II is FALSE.
   B. Statement I is FALSE and statement II is TRUE.
   C. Both statements are TRUE.
   D. Both statements are FALSE.
10. Jane has just moved into an apartment in the inner city. Which of the following would be classified as an ongoing cost for Jane?
    A. Rental bond
    B. Telephone reconnection
    C. Electricity
    D. Whitegoods

## 11.15 Exercise 3: Knowledge and understanding

1. Write down FIVE keywords related to young people and their move towards independence.
2. Complete the passage below, using the words in the box.

| | | | | | |
|---|---|---|---|---|---|
| birth | homesickness | photo | generations | step | Medicare |

   Moving out of home to live alone is a big ___________.
   Recent trends show that many young adults are leaving home much later than previous _____________.
   When young people leave home, they may experience _____________.
   Important documents needed when living independently include a ______________ certificate, ____________ ID and a ___________ card.
3. Outline the key issues facing young people as they move towards living independently.
4. (a) Identify TWO reasons a young person may have for leaving home and living independently.
   (b) Identify TWO advantages of continuing to live at home.
5. Explain the purpose of a Medicare card.
6. Mike is 19 years old and is thinking of leaving home, as he wants to live independently. He is looking for accommodation. Mike is also looking to buy some furniture.
   (a) Identify TWO factors Mike needs to consider before leaving home to live independently.
   (b) Identify THREE options available to Mike for the purchase of the furniture.
   (c) Outline TWO accommodation options for Mike.

7. (a) Define a lease.
   (b) Describe the process for arranging a lease, when renting a property.
8. Outline TWO advantages of living in share accommodation.
9. Describe ONE type of support provided to young people not living at home by each of the following types of organisations:
   (a) government organisation
   (b) religious organisation
   (c) community organisation
10. Outline the difference between fixed and variable expenses.
11. Describe TWO tax obligations for a young person.
12. (a) Define insurance.
    (b) Outline TWO types of insurance.
13. Explain how consumers are protected when purchasing new and second-hand goods.
14. Discuss the advantages and disadvantages of joint ownership.
15. Define the sharing economy using an example.
16. Outline opportunities for young people to be active and effective participants in the community.
17. (a) Describe the role of ONE community organisation.
    (b) Evaluate the effectiveness of the community organisation in achieving its objectives.
18. Define a payday loan.
19. Explain the No Interest Loans Scheme.
20. Explain why we need to manage our use of credit.

### 11.15 Exercise 4: Challenge your understanding

1. Interview an adult, such as your parent or carer, about their reasons for leaving home and the key issues faced as they moved towards independent living. Write a report based on your interview.
2. Explain TWO strategies that can be used to avoid problems when sharing a house or an apartment.
3. Explain TWO strategies a young person could use to minimise financial problems when living independently.
4. Prepare a collage of advertisements for cars. Divide the advertisements into new and used cars and then classify the cars in each of these two categories into different price categories, such as cars under $2000, cars between $2000 and $10 000 and cars over $10 000.
5. Discuss the advantages and disadvantages of making purchases under a joint ownership arrangement.

**Fully worked solutions and sample responses are available in your digital formats.**

### on Resources

**Digital documents** Worksheet 11.10 Wrap up! (doc-32816)
Glossary quiz (doc-32772)
Multiple choice quiz (doc-32783)

**eWorkbook** Customisable worksheets for this topic (ewbk-0868)

**Weblink** Commerce quiz

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# GLOSSARY

**absolute majority** half the number of formal votes received in an election plus one
**acceptable quality** a product fit for purpose, acceptable in appearance and finish, free from defects, safe and durable
**acceptance** when the offeree agrees to the proposal
**access** equal opportunity for all people to make use of the legal system
**accused** to be charged with an alleged criminal offence
**adult** a person aged 18 years or over
**adversarial system** system in which two opposing parties present their arguments to a magistrate or judge
**advertising** a paid, non-personal message communicated through a mass medium
**agent** a person or organisation that conducts business on behalf of another
**aggregate demand** a means of looking at the total demand for goods and services in an economy at any given time
**agritourism** where tourists visiting a regional area can visit a farm or food-related ventures such as restaurants for education and leisure
**anarchy** disorder or confusion due to the absence of government or laws
**appeal** an application for a legal decision to be reviewed in a higher court
**apprentice** a person who has agreed to work for a skilled person for a particular period of time and often for lower wages in order to gain knowledge and skills about a particular job — for example, an apprentice plumber
**apprenticeship** training and education in a trade
**arbitration** a method of resolving disputes whereby an impartial third party decides on a settlement arrangement that is then binding on the parties to the dispute
**assets** items of value
**award** a document that outlines an employee's minimum pay and conditions
**bail** to release an accused person who is awaiting trial
**balance of power** the power an individual or party has by holding the casting vote
**balance of probabilities** the standard of proof in civil trials
**balance of trade** the difference between the value of a country's exports and the value of its imports over a specific period of time
**ballot paper** a piece of paper on which a voter records her or his vote
**bankruptcy** when a person gives up control of their assets and finances, either voluntarily or by a court order
**barter** the swapping or exchanging of one good for another
**beyond reasonable doubt** the standard of proof required in a criminal trial
**bilateral agreement** an agreement between two nations
**biodiversity** the variety of plant and animal life in the world or in a particular habitat
**birth certificate** an official copy of your birth registration held by the NSW Registry of Births, Deaths and Marriages, including information such as name and place of birth
**blue chip shares** very safe and secure shares
**bond** money that is lodged with the Rental Bond Board. It is used to cover any damages or cleaning costs if the rented premises are left in an unsatisfactory condition
**book-up** a charge account operated by a trader
**budget** a list of income and likely expenditures
**budgetary policy** a macroeconomic or aggregate demand management strategy involving the government's estimates of the expected value of its receipts and the expected value of its outlays
**business cycle** the cyclical fluctuations in the general level of economic activity
**business opportunity** something an entrepreneur can see as an avenue to success

**Cabinet** the group of select government ministers that meets regularly to decide major issues of government
**cadetship/traineeship** training in a full-time job, with time allocated to attend university or TAFE
**capacity** the ability of a person to do something
**capital** goods used to make other goods
**capital gains tax** a tax on the profits arising from the increased value of assets such as shares or property
**capital growth** value of an asset increases over time
**capital punishment** the practice of putting an offender to death as punishment for a crime
**cash rate** the official price of borrowing money; the interest rate that applies to the short-term money market
**casual** employed on an 'as needed' basis
**caveat emptor** a term meaning 'let the buyer beware'
**ceasefire** a temporary or permanent suspension of fighting
**Centrelink** the main federal government welfare agency. It provides financial assistance as well as counsellors and social workers to those in need
**charge** a formal allegation that a person has committed an offence
**charter** an official document describing the goals and principles of an organisation
**cheque** a written communication ordering your financial institution to pay a person a specific amount of money
**chief executive officer (CEO)** the most senior person in charge of managing an organisation
**civil law** deals with non-criminal matters involving disputes between individuals and organisations
**coalition** a government that becomes possible because two or more parties agree to work together and hence gain the majority of votes
**code of ethics** a set of values and principles
**codified** laws that have been collected and organised, usually in written form
**collective wants** goods and services that are for the use of the whole community
**colonised** a country or region whose government has been replaced by one from another country
**commerce** the buying and selling of goods and services between individuals and businesses
**committal hearing** a hearing in a Local Court to decide whether there is enough evidence to put a person on trial for an indictable (serious) offence
**common law** system of law based on the previous decisions of judges, or precedents
**common law (employment) contract** when an employer and an individual employee negotiate a contract covering pay and conditions
**community services** services largely funded from within the community to provide something that is desirable but not profit making
**company tax** a tax on the profit of a company
**comparison shopping** contacting (by telephone, internet or in person) a number of sellers to obtain the best deal
**competition** refers to rivalry among businesses that try to supply the needs and wants of a market
**conciliation** similar to mediation except the conciliator can suggest possible solutions
**condition report** details the exact condition of a property when new tenants move in
**consideration** the giving up of something of value
**constitution** a document that outlines the powers of the parliament
**constitutional monarchy** a form of government in which a non-elected monarch acts as the head of state. There are usually constitutional limits on their power
**consume** to purchase goods and services for direct use or ownership
**consumer** someone who purchases goods and services to satisfy needs and wants
**consumer guarantees** a set of rights and remedies for defective goods and services
**consumption** the purchasing of goods and services to satisfy needs and wants
**contract** a legally binding agreement
**cooling off period** a period of time after a sale contract has been signed, during which the buyer can cancel the contract without receiving a penalty

**corporate social responsibility** when businesses consider the interests of stakeholders, society and the environment when making economic and business decisions
**cost inflation** a sustained increase in the price of goods and services caused by producers passing on increased production costs to consumers
**cost–benefit analysis** a detailed examination of the strengths and weaknesses of different alternatives in order to see whether the benefits outweigh the costs
**court** a place where people can resolve disputes relating to law
**creditors** people you owe money to
**criminal law** law involving cases where the parliament has declared some action to be illegal
**cryptocurrency** a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds. Cryptocurrency traders operate independently of a central bank
**customary law** comprehensive systems of governance in Aboriginal and Torres Strait Islander cultures, including ownership and custodianship, caring for Country/Place responsibilities, kinship, ceremonial duties, marriage and childcare, as well as sanctions and dispute resolution processes
**customised approach** when a business modifies their marketing strategies to take into account the differences among countries' cultures, religion and tastes
**debenture** a document that is issued by a firm when you lend it money. It states the amount, interest and term of the investment. If a firm is liquidated debenture holders are one of the first to be repaid
**debit card** plastic card that allows you to buy goods by electronically transferring money out of your account into the store's account. It can also be used to obtain cash
**debt** money owing to external sources; e.g. a bank
**deductions** items that can be used to reduce your assessable income, thus reducing the amount of tax you pay
**defendant** the party in a criminal or civil trial against whom an action has been brought
**demand inflation** price increases that result from an excess of demand over supply for the economy as a whole
**democracy** a system of government where political power lies with the people
**democratic** supporting democracy, or the system of government where supreme power is vested in the people and exercised directly by them or by their elected representatives under a free electoral system
**demographic factors** population characteristics that affect customer spending which include: age, ethnicity, gender, marital status, family size and income
**departure tax** a tax that must be paid when leaving a country
**depression** a severe contraction in the level of economic activity resulting in many business failures, high and sustained levels of unemployment and sometimes falling prices
**deregulation** the removal of unnecessary direct government controls, restrictions and supervision in various areas of the economy
**discriminate** to treat somebody differently or less favourably because of her or his personal characteristics such as gender, ethnicity or religion
**disposable income** the amount of money that households have available for spending and saving after income tax has been deducted
**distribution chain** the ways of getting the product to the customer
**dividend** part of a firm's profit that is divided amongst shareholders
**Dorothy Dixer** a rehearsed question asked of a government Minister by a backbencher of their own political party
**double dissolution** a decision made by the head of state to dissolve both houses of parliament
**drawee** the financial institution that provides cheque account facilities
**drawer** the person who writes and signs a cheque
**durable goods** items that can be used many times
**e-commerce** the buying and selling of information, goods and services via the internet

**e-tailer** electronic retailer
**economic growth** a measurement of the increase in a country's gross domestic product (GDP)
**economy** all activities undertaken for the purpose of production, distribution and consumption of goods and services in a region or country
**ecotourism** all nature-based forms of tourism that support an appreciation of nature and the traditional cultures that live within them
**EFTPOS** electronic funds transfer at point of sale
**electronic transfer** the transfer of funds from one account to another via the internet or telephone
**employee** person who works for a wage or salary
**employer** person who hires employees
**employment contract** a legally binding formal agreement between an employee and an employer
**enterprise agreement** agreement about pay and conditions made at a workplace/enterprise level
**enterprise** a project or undertaking that may relate to a business, organisation, community or government agency
**entitlements** non-wage benefits such as long service leave or sick leave
**entrepreneur** a person who sets out to build a successful business in a new field. An entrepreneur's methods are sometimes regarded as innovative
**equity** funds contributed by the business owner(s)
**establishment costs** one-off costs for setting up a new place to live or a business
**ethical** acceptable to society's current standards
**ethics** standards that define what is acceptable and unacceptable behaviour; it is concerned with what is morally right or wrong
**evidence** information presented that helps a court reach a decision in a case
**exclusions** the things that an insurance policy will not specifically cover
**exports** goods and services sold by local businesses to overseas consumers
**Federal Parliament** the House of Representatives and the Senate
**Federation** the colonies (now states) agreed to join together to form Australia
**fiscal policy** the use of the federal government's budget to achieve economic objectives
**fixed expenses** expenses that are the same amount every time — for example, monthly rent, or a minimum charge of $40 per month for a mobile phone
**fixed interest rate** interest rate that remains the same for the period of the loan
**foreign exchange rate** the ratio of one currency to another; it tells how much a unit of one currency is worth in terms of another
**formal vote** a vote that has been correctly marked on a ballot paper in accordance with the rules
**franchise** involves buying the rights from another business to distribute its products under its name
**free trade** there are no artificial barriers to trade between nations
**full-time** continuing, ongoing employment working 38 hours or more per week
**garnishee** a court order that allows an employer or bank representative to take money from your wages or accounts and give it to your creditors
**gender segregation** the physical, legal, and cultural separation of people according to their biological sex
**Generation Alpha** a person typically born after 2010
**Generation X** a person typically born between the early to mid-1960s to the early 1980s
**Generation Y** a person typically born between the early to mid-1980s to the mid-1990s
**Generation Z** a person typically born between the mid-1990s to the mid- to late 2000s
**globalisation** the process that sees people, goods, money and ideas moving around the world faster and more cheaply than before
**global sourcing** seeking out the cheapest materials and supplies across national borders as if there were only one large market
**good behaviour bond** a type of punishment whereby the offender agrees to display good behaviour for a set time or they will forfeit a sum of money and be sentenced for the original offence as well as any new offences of which they may be found guilty

**goods** items that you can see or touch
**goods and services tax (GST)** a value-added tax levied on most goods and services sold for domestic consumption; GST is paid by consumers, but is remitted to the government by the businesses selling the goods and services; GST provides revenue for the government
**goodwill** the monetary value of a business's reputation
**grievance procedures** a number of predetermined steps that are followed to resolve a dispute
**gross domestic product (GDP)** the total value of all goods and services produced in a country in a given period of time (usually a year)
**guarantor** a person who agrees to pay another person's debt if they are unable or unwilling to pay themselves
**hierarchy** a grading system based on order of importance
**House of Representatives** the lower house of Federal Parliament, sometimes called the people's house
**hung parliament** a situation where no political party has a majority of elected members in parliament
**imports** goods and services purchased by local consumers from overseas businesses
**impulse buying** buying something without giving much thought as to whether you really need it
**inclusions** the things that an insurance policy covers
**income and expenditure account** an ongoing record of income earned and money spent during the previous week
**income statement** a summary of the income earned and the expenses incurred over a period of trading
**income** money received on a regular basis from work, property, business, investment or welfare
**incorporated** refers to the process companies go through to become a separate legal entity from the owner/s
**incorporation** process whereby a company has become a separate legal entity from its owners (shareholders)
**independent** a candidate or member of parliament who is not a member of a political party
**indictable offence** a serious criminal offence
**industrial action** a temporary show of dissatisfaction by employees; for example, a strike
**industry** an area of economic activity, employment, trade, manufacturing, production or gathering of resources
**inflation** a general rise in prices across all sectors of the economy, causing money to lose its value
**initiative** the ability to be resourceful and decide, in an independent way, what to do and when to do it
**innovation** the process of creating a new or significantly improved product, service or process (way of doing something)
**insurance** the payment of an amount of money that covers a person or property in the event of loss, damage or accident so that the person does not suffer a severe financial setback
**insured** the person who is covered by the insurance policy
**insurer** the company that is providing the insurance
**interdependence** a joint dependence between participants in an economy; that is, the reliance of consumers, workers, businesses and governments on each other
**interest** the price that must be paid in order to use someone else's money
**investment portfolio** all the investments owned by an individual
**investment** the use of money to purchase equipment or premises for the establishment of a new business or the expansion of an existing business
**itinerary** a travel plan
**judge** a court official who has the power to make decisions on matters brought before a court of law
**judiciary** the system of courts that interprets and applies the law in a country
**jury** a group of people (either 12 or six) selected to hear the evidence in a court case
**kinship** traditional indigenous rules that outline the correct way of living
**kitty** a central fund of money that has been contributed by a group of people (e.g. flatmates).
**labour** the human skills and effort required to produce goods and services
**labour force** people aged 15 and over who are either employed or unemployed

**labour market** the buying and selling of labour
**laissez-faire** no government interference in the economy
**land** naturally occurring resources, such as forests, coal and fertile soil
**landlord** the person who owns the premises being rented
**law of demand** states that the quantity of a good or service demanded varies inversely to price
**law of supply** states that the quantity of a good or service supplied varies directly with price
**laws** a set of legal rules
**lease** a legal contract between a tenant and a landlord that allows the tenant to use the landlord's property in return for rental payments. Once a lease is signed, it is a legally binding document
**liabilities** the debts owed by a business to others
**limited liability** if the business cannot pay its debts, a shareholder generally loses only the money he or she invested in the business
**liquidated** where all company assets are sold in order to pay the company's debts
**liquidity** the ability of a business to pay its short-term debts on time
**loading** extra pay to compensate casual employees for lack of access to entitlements
**lobby** to attempt to enlist popular and political support for some particular cause
**macroeconomic** the branch of economics that emphasises the central role played by the level of expenditure or aggregate demand
**magistrate** a court official who hears cases in the lowest court of law
**mail order** to buy products, via catalogues, for delivery by mail
**managed fund** a pool of money that comes from people who have similar investment goals, and invested in assets such as shares or property, by a fund manager
**manufacturer** a person or business that makes goods
**mark-up** a fixed percentage or dollar figure added to the cost price of goods and services to determine the selling price
**market** where the exchange of goods, services or resources between buyers and sellers occurs
**market equilibrium** the point at which the demand and supply curves intersect
**market research** collecting and analysing information about customers and the business opportunities available
**market segmentation** when the total market is subdivided into groups of people who share one or more common characteristics
**mediation** when a third party helps those involved in a dispute to negotiate a solution acceptable to both sides
**Medicare card** a card issued by the government to individuals or families which they can use to access free health care by a doctor and access free health care at a public hospital
**Medicare levy** an additional tax of 2% of income used to fund the Medicare system
**microeconomic** the branch of economics that studies the smaller fragments or units making up the whole economy
**minor** a person under 18 years of age
**minority government** a political party does not have a majority of overall seats in the parliament but they have still formed a government
**monetary policy** the Reserve Bank using interest rates to achieve economic objectives
**money** any token, with an agreed value, that people accept as payment in exchange for a good or service
**mortgage** a loan from a financial institution such as a bank where something is held as security in case the loan is not repaid, e.g. a house
**multilateral agreement** an agreement between three or more nations
**multinational company** a corporate organisation that owns or controls the production of goods or services in at least one country other than its home country
**multinational corporations (MNCs)** large business organisations that have a home base in one country and operate partially or wholly owned businesses in other countries

**needs** things that are necessary for survival, such as water and food
**negative externalities** a production outcome that was not intended and that negatively impacts our economy and/or society
**negligence** the failure to exercise proper care, which could result in another person being injured or suffering a risk
**negotiation** a method of resolving disputes where the parties involved discuss the issues in an attempt to reach a compromise
**niche market** also known as a concentrated or micro market, a niche market is a narrowly selected target market segment
**non-durable goods** items that can be used only once
**non-parole** a set period of time a prisoner must serve before they can be released on the promise of good behaviour
**oath** a promise (in the legal system, a promise to tell the truth as a witness)
**offer** a proposal
**ongoing costs** those costs that keep on recurring such as rent, mortgage and electricity bills
**online shopping** purchasing products over the internet
**opinion leader** a person who influences others
**opportunity cost** what you have to forgo if you choose to do A rather than B; the value of the next best alternative that is forgone whenever a choice is made
**overtourism** the perceived congestion or overcrowding from too many tourists, resulting in conflicts with locals
**parole** to release a prisoner on the promise of good behaviour
**part-time** ongoing employment working fewer than 38 hours per week
**participation rate** the proportion of people aged 15 or over employed or actively looking for work
**partnership** a business owned and operated by between two and twenty people
**passport** an official document granting permission to travel between countries
**payday loan** a high-cost, short-term and small amount loan. The borrower agrees to pay back the loan when they receive their next pay
**payee** the person who is to receive the money from a cheque
**personal selling** involves the activities of a sales representative directed to a customer in an attempt to make a sale
**plaintiff** the party that commences a civil action
**portfolio** an area of government responsibility, such as health or defence
**precedent** a previous legal decision that serves as a rule or pattern in future cases
**preferences** order in which voters list candidates at an election, after they have made their first choice
**preferential system** a counting system that is designed to allow the majority of Australians to have their say in an election by stating the order in which they prefer candidates
**premium** the amount of money to be paid to receive insurance cover
**price mechanism** the interaction of the forces of demand and supply that determines the price of a good or service
**price** the amount of money a consumer is prepared to offer in exchange for a good or service
**primary industry** industry involved in the growing or extracting of natural resources
**primary target market** the market segment at which most of the marketing resources are directed
**private company** an incorporated businesses with between two and fifty private shareholders
**private law** deals with disputes between private citizens
**private member's bill** a bill that is introduced by backbenchers as opposed to coming from the government
**pro rata** proportion of normal full-time benefits related to the hours worked
**product differentiation** when products that are the same or similar are made to appear different and/or better than those of their competitors
**product placement** the inclusion of advertising in entertainment

**production** the creation of goods and services
**profit** what remains after all business expenses are deducted from sales revenue
**progressive tax system** in a progressive tax system, as a person's income increases the percentage that is paid in tax also increases
**promotion** methods used by a business to inform, persuade and remind customers about its products
**promotion mix** the various promotion strategies a business uses in its promotional campaign
**proportional representation** when each senator must win a set proportion of votes, or quota, to win a Senate seat
**prosecutor** the party bringing a criminal action against the accused; usually the state
**prospectus** a legal document issued by companies that are offering securities for sale
**protection** a policy whereby a government gives local producers an artificial advantage e.g. imposes tariffs on imports
**publicity** any free news story about a business
**public law** deals with disputes that affect the community
**public relations** activities aimed at creating and maintaining favourable relations between a business and its customers
**qualitative measures** measures that determine quality of life and the economy by examination of a series of qualitative indicators, such as freedom or security
**quarterly** every three months
**quaternary industry** industry involved in the transfer and processing of information and knowledge
**quinary industry** industry involved in providing domestic services
**quota** the number of votes that a Senate candidate must get to win a Senate seat
**quotas** quantity limits or targets for production or imports
**rate of return** the profit you receive on your investment as a percentage of the original investment
**recession** a relatively mild contraction in the level of economic activity resulting in reduced spending, rising unemployment and a slow rate of economic growth
**redress** to set right
**redundancy** the termination of an employee's employment due the employer deciding they no longer need the employee's job to be done by anyone, or the employer becomes bankrupt
**referendum** a vote where the entire electorate is invited to vote on a particular proposal
**refuge** a place of shelter which keeps a person safe and protects them from danger — for example, a youth refuge
**regimen** a basket of goods and services whose prices are surveyed to calculate inflation
**relationship marketing** the development of long-term relationships with individual customers
**reservation fee** usually one week's rent that will reserve the premises for a person while their application for tenancy is being considered
**residential tenancy agreement** the standard agreement between tenants and a landlord when a house or flat is being rented
**resilience** the ability to cope with the ups and downs, adapt well to change and bounce back from challenges
**retailer** a business that sells products directly to consumers
**rip-off** to overcharge or swindle
**sales promotion** the use of activities or materials as direct inducements to customers
**saving** regularly putting aside some money for future use
**scam** an illegal business practice
**seasonal** employment that does not continue year-round but usually recurs
**secondary industry** industry involved in turning raw materials into finished or semi-finished products
**secondary target market** a smaller and less important market segment
**secured loan** where the borrower offers an asset as security for the loan
**Senate** the upper house of the Federal Parliament, sometimes called the State's House
**separation of powers** the functions of government are spread across the legislative, executive and the judiciary

**sequestration order** an order from the Federal Court of Australia declaring an individual bankrupt
**services** things done for you by others
**share** a part ownership of a public company
**sharemarket** place where shares in public companies are bought and sold
**sharing economy** also known as collaborative consumption, involves people sharing their possessions for payment
**social media advertising** a form of online advertising using social media platforms such as Facebook, YouTube and Twitter to deliver targeted commercial messages to potential customers
**sole trader** a business that is owned and operated by one person
**standard of living** the degree of wealth and material comfort available to a person for their life and lifestyle
**standardised approach** when a business uses the same marketing strategies in all markets
**statute law** laws made by parliaments
**stockbroker** individual or firm that specialises in buying and selling shares
**subsidies** a cash payment by the government designed to help producers compete by enabling them to sell their product at a lower price than would otherwise occur
**subsidy** a payment to a local producer
**sue** to bring a civil action against another person for causing damage or injury
**superannuation fund** a managed fund designed specifically to produce benefits when you retire
**superannuation** money set aside during your working life for retirement; commonly called 'super'
**sustainable competitive advantage** this refers to the ability of a business to develop strategies that will ensure it has an 'edge' over its competitors for a long period of time
**sustainable** able to last or continue for a long time
**target market** the group of customers to whom a business intends to sell its products
**tariffs** a tax on imports
**tax file number** a unique personal reference number the Australian Taxation Office gives to a person so they can identify them and enforce Australia's taxation laws
**taxation** a government levy or revenue measure that can be used as part of the budget to affect the level of prices, the growth rate and the distribution of income
**taxes** the part of our income taken by the government to pay for collective goods and services
**tenant** the person or persons who rents a property from a landlord
**tertiary industry** industry involved in providing a service to others
**tort** a civil wrong
**tourism** the temporary movement of people away from the places where they normally work and live
**trade union** organisation that represents employees and tries to improve wages and working conditions
**traineeship** the combination of employment and training in order to gain a qualification
**transnational corporation** a large business that has branches in more than one country
**trial** a process to determine whether someone committed a criminal act or caused another person
**unconscionable act** any practice by a seller that is just not reasonable and often illegal
**unemployment** when people are trying to find work but have so far been unsuccessful
**unfair dismissal** termination of employment that is considered to be harsh, unjust or unreasonable
**unlimited liability** when a business owner is personally responsible for all the debts of his or her business
**unsecured loan** where the borrower does not need to have an asset to offer as security, but the interest rate is usually higher
**unsecured note** where the borrower does not need to have an asset to offer as security, but the interest rate is usually higher
**utility** an organisation supplying the community with a service such as water, gas or electricity
**variable expenses** expenses that change over time, and do not occur on a regular basis. For example, a person may go to a music concert this month to hear their favourite singer and buy a computer game next month
**variable interest rate** rate that moves up or down depending on market forces

**victim** a person who is injured or killed by another
**Vienna Convention** international convention that sets standards for people who have been arrested outside their own country
**visa** an endorsement on a passport (stamp or certificate) indicating that the holder is allowed to enter, leave or stay in a country for a specified period of time
**vision** the clear, shared sense of direction that allows people to achieve a common goal
**voluntourism** where part or all of travel time is spent doing community or environmental work
**wants** things that are not essential for survival but that we would like to have
**warranty** a promise to repair any defects that are in a product
**wellbeing** a state of being comfortable, happy and healthy
**wholesaler** buys goods in large quantities from the manufacturer
**witness** a person who gives evidence in court
**work–life balance** achieving the right amount of time devoted to work and for personal life
**writ of execution** a court order that allows a court official (the sheriff) to seize and then sell some of your property

# INDEX

***Note:*** Figures and tables are indicated by italic *f* and *t*, respectively, following the page reference.

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## W



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