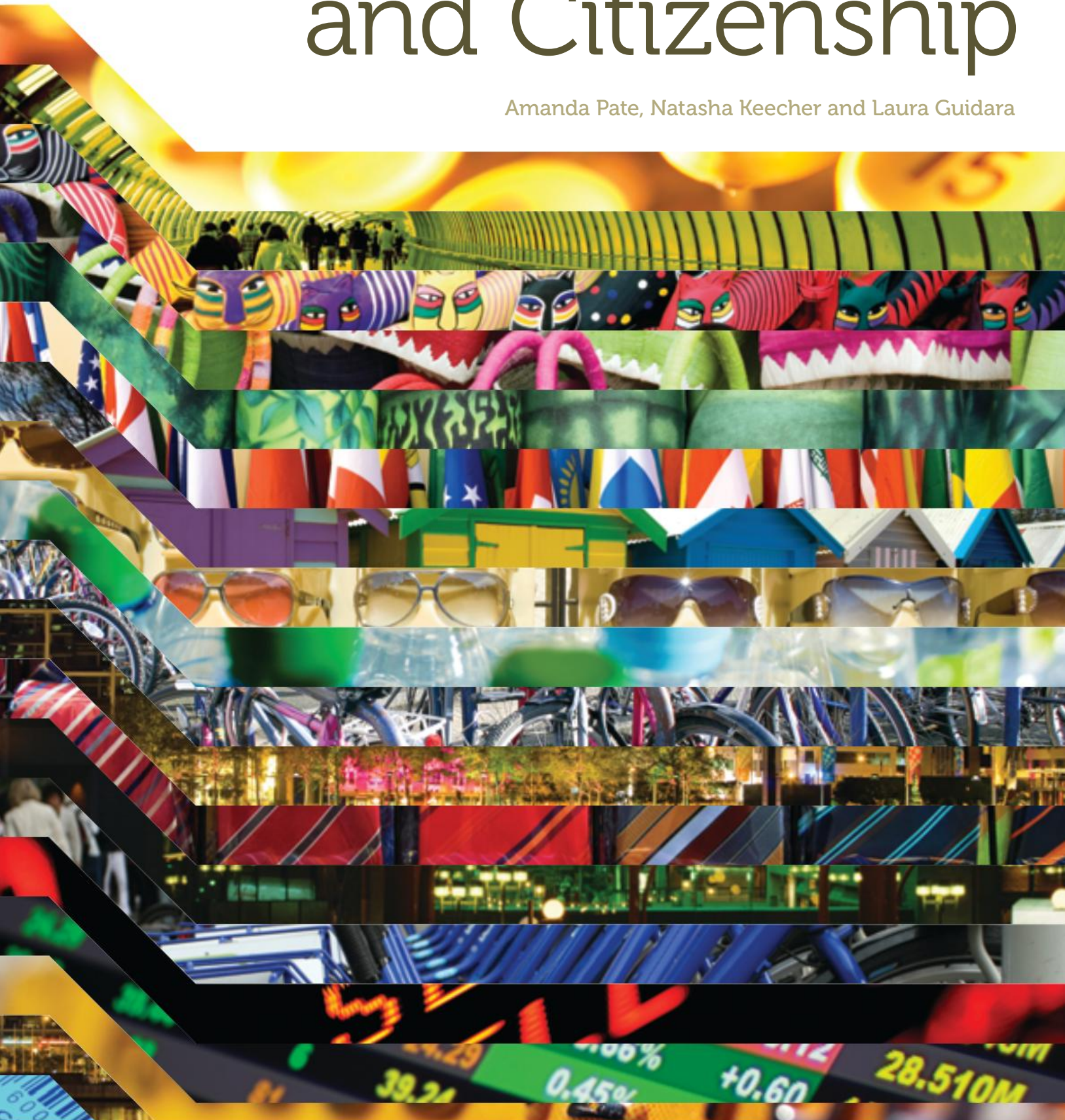


# Commerce, Civics and Citizenship

Amanda Pate, Natasha Keecher and Laura Guidara



Commerce, Civics and Citizenship

A series of 20 horizontal lines for writing, each preceded by a short horizontal line segment and a diagonal line segment.

# Commerce, Civics and Citizenship

Amanda Pate  
Natasha Keecher  
Laura Guidara

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# How to use this book

Each section is separated into chapters and each chapter is divided into easy-to-use units. Each unit contains the features described below.

Easy-to-understand *Glossary* terms are conveniently located within the margins of the student book.

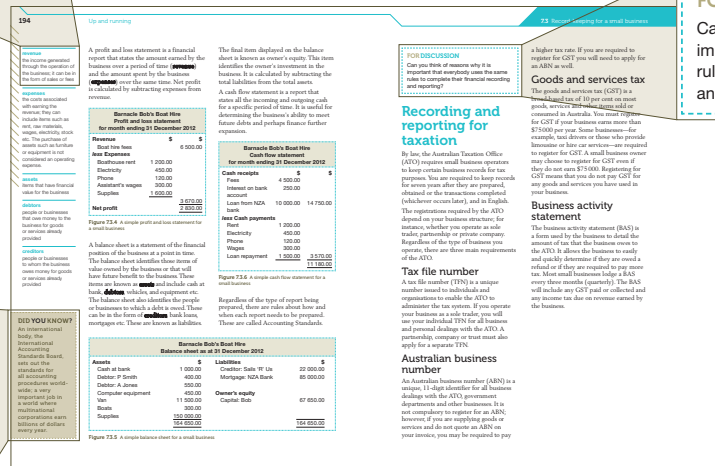
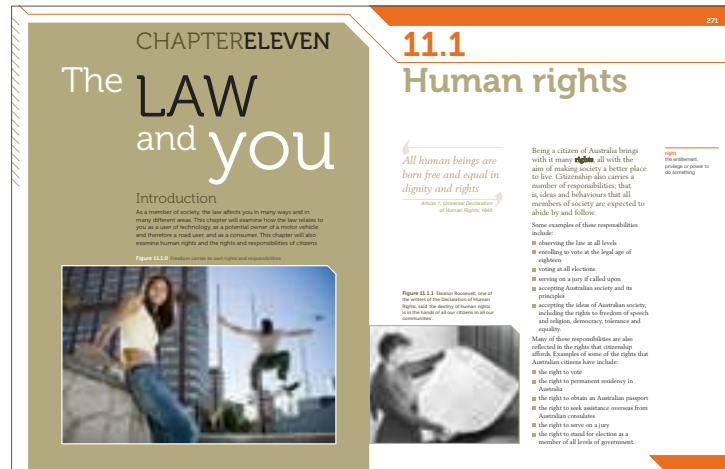
**revenue**  
the income generated through the operation of the business; it can be in the form of sales or fees

*Did you know?* comments are interesting facts designed to engage students in the topic being studied. They can also be used as a tool for classroom discussion or further research.

## DID YOU KNOW?

An international body, the International Accounting Standards Board, sets out the standards for all accounting procedures world-wide; a very important job in a world where multinational corporations earn billions of dollars every year.

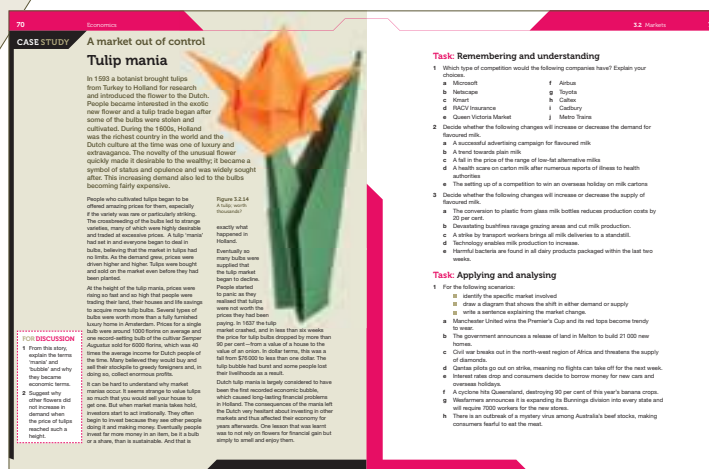
*Case studies* provide real-world examples to students; they will engage students and provide a link between the classroom and the wider world.



## FOR DISCUSSION

Can you think of reasons why it is important that everybody uses the same rules to complete their financial recording and reporting?

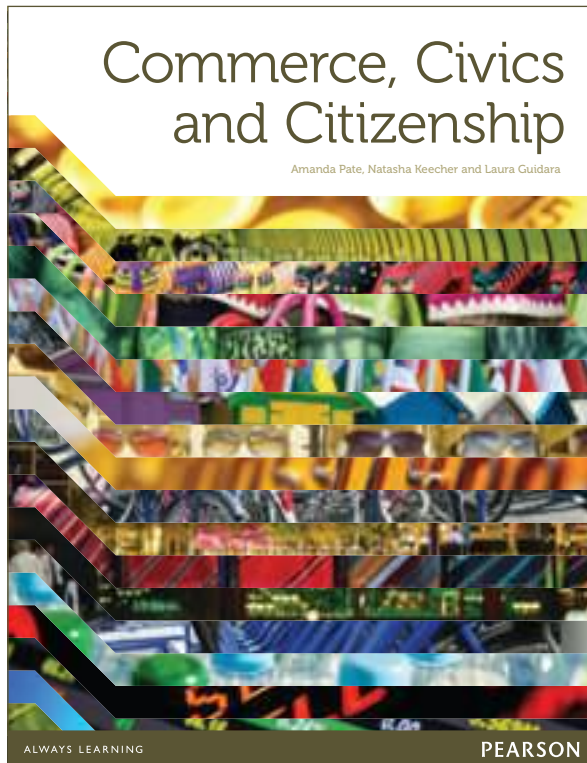
*For discussion* questions can either be answered in class to facilitate class discussions or by the students in their books.



*Tasks* are located at the end of each chapter and are scaffolded to guide student learning and understanding. Also included is an *Assessment task*, which is designed to extend students' learning and can be used as a graded task.

- Task: Remembering and understanding
- Task: Applying and analysing
- Task: Evaluating and creating
- Task: Assessment

# Commerce, Civics and Citizenship



## Student Book

*Commerce, Civics and Citizenship* has been written to develop and consolidate students' knowledge and understanding of Economics VELS Level 6 and the requirements of the Civics and Citizenship domain.

Features of the student book include:

- three clearly identifiable sections (Economics, Business, and Civics and Citizenship) divided into chapters and easy-to-use units
- definitions of key terms in the margins
- structured learning activities and assessments catering to different learning styles and needs
- in-depth case studies
- 'For discussion' questions throughout the units to facilitate class discussions.



# ALWAYS LEARNING

## Pearson Reader

**Pearson Reader** is an interactive, online version of your student book. With links to a range of resources, such as case studies, action graphs, chapter and unit tests, interactive activities and more, it is designed to save teachers time and to present content in the way students like to learn.

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- set chapter and unit tests that will be available for use in the classroom and are editable to suit the needs of students

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# ECONOMICS



# CHAPTER ONE

# Me and my MONEY

## Introduction

You earn it ... you spend it ... you save it ... you lend it ... you gamble it ... you invest it ... you borrow it! Everyone uses money. We all want it, we work hard for it and we often think about it. Most people don't spend much time wondering what money actually is; their major concern is how much they have, and how to get more. Although it is a very personal thing to us, money is important to the operation of an economy. For instance, transactions for goods and services are very difficult to complete without money. A long time ago, there was no money. People didn't need any. They grew, gathered or hunted for their food. They built their own houses and made their own clothing. Sometimes people had things that others wanted and they would trade with each other. Today it is hard to imagine our world without money. It has become an essential part of the way we live and function within an economy.



**Figure 1.1.0** Australian money 'growing'

# 1.1

## What is money?

*The art is not in making money, but in keeping it.*

Proverb

So what is money? Money is any good that is widely used and accepted in transactions between buyers and sellers. It is something that is used as a means of payment; that is, it can be exchanged for the goods and services that we buy. Before money as we know it today was in use, people met their own needs by exchanging things they had in surplus for things they wanted but other people had. This system of swapping is called a **barter** system, and is the oldest form of trading. Let's look at a simple model of barter exchange:

### barter

the exchange of goods and services between two parties without the involvement of cash



Figure 1.1.1 Barter has its limitations!

### A barter economy

|        | Has a surplus of | Wants    |
|--------|------------------|----------|
| Eloise | Fish             | Cow hide |
| Sue    | Cow hide         | Fish     |

In this simple example, Eloise and Sue both want what the other has and could easily swap their goods. When there is a match between what the parties have to trade and want to acquire, a barter system can work efficiently—although in the example above the parties would first have to agree how many fish would equate to one cow hide. For instance, Sue may ask for 24 fish in exchange for one cow hide. But suppose we take the following example as a development of our simple economy.

### DID YOU KNOW?

Bartering was first recorded in Egypt more than 4500 years ago although it is thought to have been engaged in for up to 9000 years.



**double coincidence of wants**

a situation that exists in barter where each party wants something offered by the other, so that an exchange can take place

**DID YOU KNOW?**

On the Pacific island of Yap before the 20th century, you couldn't exactly keep change in your pocket. The local currency was stone: large disc-like stones measuring up to 4 metres wide, known as Rai stones. While Western-style money is used today, the Rai stones are still exchanged on traditional occasions. The stones are rarely moved, but their ownership passes from one to another. The island could even be said to have stone money banks; there are no bank windows, no tellers, not even a building; just discs of limestone of various sizes, propped along the path leading to a village.

**A barter economy**

|        | Has a surplus of | Wants    |
|--------|------------------|----------|
| Eloise | Fish             | Cow hide |
| Sue    | Cow hide         | Mangoes  |
| Terry  | Mangoes          | Fish     |

As things stand, no trade can take place because there is no matching of goods between any two people. You can see that as more participants are added into an economy the pattern of bartering that is required so that everyone ends up with what they desire becomes too complex. Exchange will occur, but only with some compromise, as each person realises they may have to swap some items they do not want in order to trade at a later time. Also, they may have to barter several times with different people before they end up with what they want. Now imagine that there are a hundred people with a hundred different commodities; the pattern of barter transactions necessary for everyone to end up with what they want becomes too complex and trade becomes too difficult.

Although a barter system can operate in a subsistence or primitive culture where society is based on basic necessities, it is not efficient in a society that has to deal with a growing population and an increasing number of commodities. In this situation, using barter as a means of exchange has a number of limitations.

- Finding someone who has the goods you want and hoping that they want the goods you have can be a problem. This is known as a **double coincidence of wants**. Exchange can only happen if both parties agree to trade. No single party can complete the deal.
- It can be difficult to measure and divide a commodity without losing some of its value. In many cases a product is indivisible and cannot be subdivided into small quantities. For instance, you cannot offer half of a live cow as a trade.

- Since there is no medium available to value a commodity, reaching an agreement is not easy and often one party ends up suffering or losing out in the exchange. How many bananas is a fair swap for a cow?
- Wealth in a barter system cannot always be stored, and many of the goods are perishable in the long run. If you agree on exchanging 70 bananas for one cow, what will you do with all those bananas?

As civilisation developed, it was no longer enough for people to simply trade things that they didn't need or want. Barter became less practical, and societies began to adopt specific commodities that held a higher value as a medium of exchange. Throughout history, many different substances have served as forms of money. This can be traced back to 6000 BCE, where the concept of money is believed to have been introduced by the tribes of Mesopotamia, who paid for the goods they traded with valued products such as barley, lead, copper and other metals, spices and silver. In Roman times, soldiers were paid with salt, which was highly prized and sought after. Indigenous Americans used precious shells and beads and early colonists in Australia used rum, while Europeans developed a system of money based on gold and silver coins. As long as the substance was considered to be scarce, it had its own intrinsic value and could be used as a medium of exchange.

**FOR DISCUSSION**

- 1 Why is money considered important to our way of life?
- 2 Can you think of any countries that might still use a barter economy?
- 3 What are some goods you own that you would be willing to swap? What would you swap them for? Working with another student, compare your goods and make a hypothetical exchange. Was it simple or difficult?



Figure 1.1.2 Ancient Chinese paper money

## The development of money through time

Money has seen significant evolution from earlier civilisations, which has led to the universal adoption of money in the form of the coins and notes we are familiar with today. Coins made of precious metals were first used in the 7th century BCE, using an alloy of gold and silver that does not tarnish or rust. They were stamped or 'minted' and were divided into different weights for different units and values. Later, the Greeks and Romans created designs on the metal pieces with the portraits of their rulers and gods.



Figure 1.1.3 A Greek silver tetradrachm from the time of Alexander the Great

The origins of paper money stem from **goldsmiths**—rich craftsmen who made ornaments and jewellery out of gold, which they stored in secure vaults. Villagers deposited gold and coins with goldsmiths for safe-keeping in exchange for a paper receipt. People soon discovered that it was easier to exchange the paper receipts than to take them to the goldsmith, redeem them for gold, exchange the gold for other goods, then have the seller redeposit the gold and get another receipt. Goldsmiths became bankers in the modern sense when they understood that they did not need to keep all of the gold in the vault to finance the receipts on hold. Instead they realised that they could lend out some of their gold, keeping only a fraction in reserve in the vault. This is what banks do with our money today.

It is important to point out that the actual substance of money used today is not valuable; the metal and paper used in its construction is not regarded as being precious in any way. What makes money valuable is that members of a community are willing to accept it at its 'face value'—that is, the value printed on the face of the coin or note—and that there is only a limited amount of it in circulation. Money also needs to possess a number of characteristics; it must be:

- **durable**  
The notes and coins must be able to withstand being used repeatedly and therefore last a long time.
- **portable**  
People have to be able to carry money with them and transfer it easily to others.
- **divisible**  
Money should be able to be easily divided into smaller units of value.
- **acceptable**  
Everyone must be able to use money as a method of transfer within an economy and be confident that stores will accept it from us when we buy something, knowing they can use it elsewhere.

### goldsmith

a metalworker who specialises in working with gold and precious metals; goldsmiths became bankers, since they had secure and safe storage of valuable items

### DID YOU KNOW?

The Chinese invented paper and adopted the first form of paper money around the 7th century BCE.

### DID YOU KNOW?

The expression 'to pay through the nose' is thought by some to originate in the 9th century, when the Swedish king imposed a 'nose tax' or poll tax on the conquered people of Ireland. It has also been attributed to the medieval practice of slitting the noses of those who did not pay their taxes.

■ **scarce**

The amount of money in circulation should be restricted so that the value remains constant.

■ **recognisable**

Money must be easy to identify and difficult to reproduce or forge. This means that it must have identifiable features so that we can distinguish it as 'our' currency. Common features found on money are serial numbers, different colours, seals, complex patterns, authorisation signatures and specific paper.



**Figure 1.1.4** The essential qualities of money

**FOR DISCUSSION**

- 1 What other six words could be used to describe the characteristics of money?
- 2 Why is it important that anything used as a medium of exchange is scarce?
- 3 Why are gold and silver coins no longer used?
- 4 What might have been some of the items exchanged in early Australian settlement?

## Functions of money

Money is often defined in terms of the four functions or services that it provides.

Money serves as a:

- medium of exchange
- measure or standard of value
- standard of deferred payment
- store of value.

### Medium of exchange

Money's most important function is as a medium of exchange to facilitate transactions. Money effectively eliminates the double coincidence of wants problem by serving as a medium of exchange that is accepted in all dealings, by all parties, regardless of whether they desire each other's goods and services.

### Measure or standard of value

A second important function of money is to serve as a standard of value—or unit of account, as it is sometimes referred to. Just as we measure weight in kilograms or height in centimetres, the values of goods and services are expressed in terms of money. Knowing the value or price of a good in terms of money means it is possible to compare the value of goods and services and make decisions about how much of a good to supply, or how much of a good to purchase.

### Store of value

In order to be a medium of exchange, money must hold its value over time; that is, it must be a store of value. Serving as a store of value means that wealth can be held in the form of money and saved for future use—to be spent at a later time. Money is not the only asset that functions as a store of value. Possessions such as company stocks, real estate, gold and even works of art can be used as a store of value.



However, these assets must be converted into cash before this value can be used. Money does not have to be converted; it is already in the form that can be spent.

## Standard of deferred payment

As a standard of deferred payment, money in the form of credit allows a person to purchase goods and services now and to pay for them at a later time. It allows people to enjoy the fruits of their labour before having to perform the work.



Figure 1.1.5 Money serves four main functions

## Australian money



Figure 1.1.6 Australian banknotes

### Reserve Bank of Australia (RBA)

Australia's central bank, charged with managing the financial system and issuing currency

The **Reserve Bank of Australia (RBA)** is responsible for managing the money in circulation in Australia. It arranges for the printing of banknotes by its subsidiary, Note Printing Australia, located north of Melbourne. The company also prints polymer banknotes for countries in the Asia-Pacific region, including New Zealand, Indonesia, Singapore and Malaysia. The coins circulating in the economy are produced by the Royal Australian Mint in Canberra.

So how do we order money when we need it? Well unfortunately we do not have that pleasure, but commercial banks do exactly that. They place an order with the RBA, which is processed at the National Note Processing and Distribution Centre. Notes and coin are initially distributed in bulk to cash centres operated by armoured car companies. These companies then store the notes and deliver amounts as required on behalf of the commercial banks. We as consumers trust that the money we are using is officially authorised and authentic.





Figure 1.1.7 Australian coins currently in circulation

We take for granted that our notes and coins are in fact **legal tender** and therefore legally acceptable. The Reserve Bank has, however, placed some limits on what is acceptable as legal tender. Many consumers and in fact businesses are unaware that there are limits on how much money you can hand over in one transaction.

### FOR DISCUSSION

- 1 Explain whether it would be possible or not to negotiate a \$5 note to be worth more.
- 2 Which function of money does the price tag on your Commerce, Civics and Citizenship textbook represent?

#### 5, 10, 20 and 50 cents

Can be used up to the value of \$5

#### \$1 and \$2 coins

Can be used up to the value of \$10

#### \$5, \$10, \$20, \$50 and \$100 banknotes

Can be used without limit

So the next time you try to hand over \$7 worth of 20- and 50-cent coins at the local fast-food shop, or \$15 in \$1 and \$2 coins at the supermarket, be aware that the retailer can legally refuse to accept your payment. However, there is nothing legally stopping you from paying for a \$30 000 car in \$5 notes!

## Protecting our nation's money

There are high standards in place to ensure Australian money is both clean and free from forgery.

The Reserve Bank of Australia has the responsibility of maintaining the quality of notes in circulation and removes damaged banknotes from circulation as soon as possible.

Banknotes can be classified as: unfit, incomplete, badly damaged or contaminated. An unfit banknote is one that has become worn or had minor damage. It may have been torn, have small pieces missing, have tape on it or been defaced. Unfit banknotes can continue to be offered and accepted in transactions, but banks are requested to

remove them from circulation when they are returned by customers in their daily banking.

As the term suggests, an incomplete banknote is one where the damage has left a piece of the note missing. If more than 80 per cent of the note is missing it completely loses its value and is worth nothing. If less than 20 per cent is missing the note is deemed unfit but is still accepted. If the note is somewhere in between it is deemed to be incomplete and a proportion of the value is paid. Badly damaged or contaminated banknotes have unusual damage such as severe heat damage or contamination from blood, chemicals or other substances; or their value or genuineness is questionable. If, for example, a wad of money is burnt in a house fire, it no longer has any value.

Although it is rare for money to be forged in Australia, the move to **polymer** banknotes, made using a process developed by CSIRO on the RBA's behalf, ensures maximum protection against counterfeiting. The RBA has also provided a simple guide for detecting counterfeit money in circulation.

### DID YOU KNOW?

The \$50 note has the greatest number of notes in circulation, consisting of 46 per cent of the total currency issued. That is 474 million banknotes, worth \$23 711 million.

### DID YOU KNOW?

In 1988, Australia introduced its first polymer banknote and, in 1996, became the first country in the world to have a complete series of polymer currency.



Figure 1.1.8 The \$10 note contains a microprint of the famous Banjo Paterson poem *The man from Snowy River*.

**FOR DISCUSSION**

- 1 What is meant by 'legal tender'?
- 2 Who controls the production and circulation of Australia's currency notes?
- 3 What was Australia's first polymer bank note?
- 4 Would you be able to offer \$7.20 in a combination of 20- and 50-cent coins as payment of a debt?

## Moneys of the world

Although we can trace the origins of money and the form it took in earlier societies, most countries have developed a form of money that is distinctly their own. Throughout the world, money takes the form of notes and coins, but their size, shape, denomination and characteristics are unique to each country. We refer to the world's money as national currencies.

In order to be able to buy products or move around when travelling overseas, or to trade as a business with another country, you must operate in the form of money found in that country. This requires an exchange of one **currency** for another, and essentially means you are purchasing a country's money using your local money. For example, if we say that one Australian dollar is equal to 90 cents from the United States, this is the Australia/US **exchange rate**. It might be written like this: AU\$1 = US\$0.90.

An exchange rate represents the value of the currency of one country compared to that of another country. The rate varies from day to day based on the supply of and demand for each currency against the others, and is dependent on economic conditions and investor confidence. The value of the Australian dollar reflects how much other countries are willing to pay for our goods and services. This is referred to as floating exchange rate. Currency can

depreciate (a fall in its price in terms of another currency) or appreciate (a rise in its price in terms of another currency) in value over one day's trading on the world's money markets.

| Factors that create demand for AU\$                  | Factors that create a supply of AU\$                         |
|------------------------------------------------------|--------------------------------------------------------------|
| People overseas buying our products in their country | Australian companies deciding to invest their money overseas |
| Tourists deciding to travel to Australia             | Australians buy cheaper imported products                    |
| Overseas companies investing in Australian firms     | Australians travelling overseas rather than locally          |

For example, if there is a rise in the demand for Australian wheat then there will also be a rise in the demand for Australian dollars to pay for it; this will increase the value of our local currency. Likewise, a boost in the demand for imported Japanese cars will mean an increase in the demand for the Japanese currency to pay for them and a rise in the value of the yen. This situation occurs because when we trade in overseas products we must pay for them in the currency of the country that sells them. That is why, when the exchange rate of the Australian dollar falls, it is more expensive for us to buy overseas goods and services or to travel abroad.

The currencies of some of the world's major economies are recognised by the symbols and abbreviations in Figure 1.1.9.

**Figure 1.1.9** World currencies

| Symbol   | Currency                      | Country                  |
|----------|-------------------------------|--------------------------|
| \$ (USD) | United States dollar          | United States of America |
| £ (GBP)  | British pound; pound sterling | United Kingdom           |
| ¥ (JPY)  | Yen                           | Japan                    |
| € (EUR)  | Euro                          | European Union           |
| \$ (AUD) | Australian dollar             | Australia                |

**currency**

a system of money that is used in a particular country

**exchange rate**

the amount of one currency that is defined as equivalent to another; usually expressed in terms of one unit of another currency

**DID YOU KNOW?**

Decimal currency was introduced in Australia in 1966. Before then, legal tender in Australia consisted of pounds, shillings and pence. Prime Minister Robert Menzies suggested in 1963 that the new currency should be called the 'royal', but eventually the term 'dollar' was chosen.

## Task: Remembering and understanding

- 1 What characteristics of Australia's notes and coins make them difficult to forge?
- 2 Would a diamond be an adequate form of money, according to the characteristics of money? Why, or why not?
- 3 What advantages do plastic notes have over paper notes?
- 4 What five tests can be undertaken to assess the condition of a bank note?
- 5 Can anything be used as money?
- 6 Who benefits from a higher exchange rate? Why?
- 7 Who would prefer to have a lower exchange rate? Why?
- 8 Which function of money is present in these scenarios?
  - a Rowena paid \$1600 for a new bed.
  - b Peter paid for his Fiji holiday on credit and hopes to pay off the \$899 bill as soon as possible.
  - c Ursula and Anna bump into each other at the market and notice they have bought the same pair of shoes. Ursula paid \$35 for hers while Anna bought hers at another stall for \$27.
  - d Matthew has been putting aside \$400 a month to buy a new mountain bike. So far, he has saved \$3500.
  - e Jason and Michelle's application to borrow \$180 000 from their bank to buy their dream house has been approved.
  - f A sudden storm that damaged Doug's roof was repaired at a cost of \$4000. Because it was an emergency repair, he has negotiated to pay the amount next month.
  - g Andrew deposits \$1000 into his savings account.
- 9 Match the countries below with their respective currency.

| Country      | Currency |
|--------------|----------|
| Japan        | Krona    |
| England      | Rand     |
| South Africa | Won      |
| Thailand     | Dong     |
| India        | Rouble   |
| Sweden       | Krone    |
| Russia       | Rupee    |
| Denmark      | Franc    |
| South Korea  | Yen      |
| Mexico       | Pound    |
| Switzerland  | Baht     |
| Vietnam      | Peso     |

### Task: Applying and analysing

- 1 Think about the money you use every day. How does the Australian currency meet the characteristics that it should have?
 

|             |                |
|-------------|----------------|
| ■ Durable   | ■ Acceptable   |
| ■ Portable  | ■ Scarce       |
| ■ Divisible | ■ Recognisable |
- 2 Use a newspaper or an online currency exchange calculator to convert the following sums into US dollars, Euros, Japanese Yen, British pounds and New Zealand dollars:
 

|              |                |
|--------------|----------------|
| a AU\$ 1.00  | d AU\$ 100.00  |
| b AU\$ 5.00  | e AU\$ 1500.00 |
| c AU\$ 30.00 |                |

### Task: Evaluating and creating

- 1 Identify the people who appear on each of Australia's banknotes and outline three key points about each of them as reasons why they were chosen.
- 2 For the next two weeks, record the value of the Australian dollar in relation to the US dollar and the British pound. At the end of the recording period, complete the following questions and activities.
  - a Draw your results on a line or bar graph so you can compare the trends.
  - b In which country does the Australian dollar have more value? Why is our currency higher in one country over the other?
  - c How much did the dollar fluctuate over the two weeks? If there were no significant fluctuations, what do you think this suggests?
  - d What things happened in these economies that may account for any fluctuations? (Keep your eye on the news during the two-week period.)

### Task: Assessment

#### Design your own money: Creating a new currency

You have been appointed by the Reserve Bank of Australia to produce a new banknote for the nation. You have been asked to keep in mind the history and traditions of the country, its people and culture, and have a vision for what it means to be Australian.

- 1 Design the new banknote using a computer or by freehand. Make sure you include:
  - the denomination (how much it is going to be worth)
  - features on both sides
  - security features to minimise the risk of forgery
  - the key features your currency should have
  - appropriate colours, people and figures.
- 2 Provide a written summary, explaining:
  - how you have considered the relevant features and functions of money
  - how your new form of currency will meet each of the characteristics of money
  - what security features are incorporated in your note; name each security feature, state where and how you included them in your note and why each feature makes it difficult to counterfeit.



# 1.2

## Different forms of money

### bank

a financial institution involved in borrowing and lending activities

*And how will you be paying for that?*

An important part of spending money is choosing the best option of paying for your purchases, given your circumstances and needs. The word 'money' is associated in most people's minds with cash; the notes and coins that make up our currency. Cash is still a popular way of making payments in Australia, but there are now a number of electronic alternatives in common use as we become more of a 'cashless' society.

Figure 1.2.1 Poker chips



## Cheques

Although treated like cash, cheques are a non-cash payment in the form of a 'promise to pay' an amount of money. A cheque is an instruction to a person's **bank** to process a payment on their behalf. Cheques state:

- the amount of money to be paid
- the name of the person to whom it is to be paid (the payee)
- the name of the person who will make the payment (the payer or drawer of the cheque)
- authorisation (a signature) and date.

A cheque may also be marked 'Not negotiable—account of payee only'; this means it must be deposited into the payee's bank account before the funds can be used. Thus, if a cheque is stolen it cannot be turned into cash by the thief.

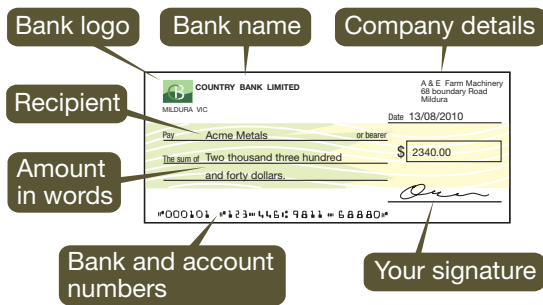


Figure 1.2.2 Composition of a cheque

Cheques have the advantage of being paper based, widely understood, and useful when paying for goods by post or making payment of a large sum of money. They are also safer to carry than cash.

However, it can take three to five working days to process a cheque. The delays in clearing the funds can be a problem, as can the cost attached to a cheque that is dishonoured, or 'bounced'. A cheque bounces when the bank attempts to pay the recipient as you have requested on the cheque, only to find that you do not have the money in your account. The bank will charge you a dishonour fee, and the person on the other end will not receive their money. This is why cheques are not always accepted by businesses.

## Electronic funds transfers (at point of sale)

Electronic transactions take place at the store where an item is purchased. You are required to swipe a card and either sign a docket or enter a personal identification number (PIN)—a 4- or 6-digit security code. The money is then transferred from your account to that of the retailer.

### EFTPOS

Electronic Funds Transfer at the Point of Sale (EFTPOS) is a card-based system that allows a real-time transfer of funds from one account into another. It is commonly

used at retail stores to make small payments or cash withdrawals, and is now one of the most common forms of non-cash payment. EFTPOS has the advantage of providing an immediate transfer of funds. However, it does require a computer terminal in the store, and a telephone line at the cost of the business.

## Contactless payments

Technological innovation has introduced the contactless payment, which is a way to pay for goods up to \$100 without swiping a card, signing a docket or providing a PIN. The MYKI cards recently introduced in Melbourne's public transit system provide one example of this type of technology. MasterCard has added this feature, called PayPass, to its debit and credit cards. You simply 'tap' or place your card or an especially enabled device against the PayPass reader and wait for a green light—a much simpler and quicker process than conventional EFTPOS. Contactless payment uses 'near field communication' technology, which can securely transmit and receive information over several centimetres. It also allows mobile phones, key chain fobs and wrist watches to be configured as PayPass devices.



Figure 1.2.3 Hong Kong's Octopus card is more than a travel ticket; it can also be used at different outlets, including McDonald's.

### FOR DISCUSSION

- 1 Who is a payee?
- 2 Why is a cheque stamped 'not negotiable'?

### DID YOU KNOW?

As long as you include all the details that are required on a cheque, you can write out an order to pay someone on anything, even a piece of bark or fabric!

**lay-by**

an agreement to pay for goods over a period of time

## Electronic funds transfer (not at point of sale)

Methods of non-cash spending such as funds transfers over the Internet are the 'fast movers' in how we choose to spend our money. Internet banking has become the most convenient form of keeping track of our funds and controlling where it goes.

### Direct debit

Direct debits are commonly used by people to pay their bills or make regular payments automatically. This method allows payments to be transferred from your account directly into the account of another. For example, you might set up a direct debit linked to your electricity company so that your recurring monthly bill will be paid. This payment method is convenient and free, as long as your account contains sufficient funds to cover the debit amount. If it doesn't, your bank may charge you an administrative or processing fee and the bill will not be paid on time. The advantage of direct payments is that it is an immediate transfer with no delays and low costs.

### BPAY®

The use of BPAY® and other online payment services allows consumers to use the Internet or telephone at any time to transfer funds from their bank account to a biller. It is instantaneous and the contact details and biller code are retained for future payments. You are able to pay multiple bills and can even schedule bill payments in advance.

### PayPal

PayPal is emerging as a popular method of online payment transfers throughout the world. It is an account-based system that lets anyone securely send and receive online payments for a small charge, using their credit card or bank account. All you

need is a bank account, email address and street address in order to set up and use PayPal. It has become widespread as a means of payment for Internet shopping and is preferred by large on-line shopping companies such as eBay and Amazon. PayPal is popular, as it has the ability to send and receive international payments with no added administration costs and allows users to shop without having to share their financial information.



**Figure 1.2.4** BPAY® is a popular online payment service.



**Figure 1.2.5** PayPal provides secure payment for online retailers.

### Lay-by

**Lay-by** is offered by department stores as an alternative to buying on credit, and is technically considered to be a cash transaction. It is a contract where the retailer agrees to hold the goods and allows you to pay for them over an agreed period of time. The time periods are usually three or six months, although on larger items it can be longer. When you have finished paying for the item in full you are able to take it home. It also has the added advantage of not having to pay interest on the total purchase price, as you would if you had bought it using a credit card.

For large items such as computers, furniture or large electrical goods, some stores offer a take-home lay-by payment plan with no interest. The goods are purchased for a minimum price of \$500; a deposit is then paid and the remainder of the amount is divided up into equal payments over a

#### DID YOU KNOW?

There were an estimated 36 million debit cards and 16 million credit cards in circulation in Australia in 2009. (Source: Euromonitor International, January 2010)

#### DID YOU KNOW?

PayPal currently has more than 225 million account holders in more than 190 countries worldwide and accepts transactions in 23 currencies.

period of time (usually 12 or 24 months). For example, you purchase a computer from Harvey Norman to the value of \$1400. You pay a deposit of \$500 and the remainder is paid in 12 equal instalments of \$75 per month. No interest is applied unless you fail to pay the amount in full within the time.



**Figure 1.2.6** Lay-by—an alternative to buying on credit?

### FOR DISCUSSION

- 1 What mechanisms need to be in place to be able to use BPAY® to pay bills?
- 2 In what ways can lay-by be considered a more sensible spending option than credit?

## Credit

Credit options consumers can choose from come in the form of credit cards, store cards, and loans.

### Credit cards

People increasingly choose to buy with credit cards. Buying on credit means that with a single swipe of your plastic card, you receive goods or services immediately. You have used your bank's money, and have agreed to pay that bank later with your funds. Credit cards allow you to spend using a continual line of credit up to a pre-set limit. Credit limits are based on a credit rating assessment and can vary from a small amount of \$500 or \$1000 to as high as \$20000 or \$50000, and are sometimes unlimited. The decision of a bank to set a

credit limit is based on the applicant's level of income and ownership of assets, and an evaluation of their overall ability to repay the debt.



**Figure 1.2.7** The most common credit cards

Once a purchase has been made on **credit** it is your responsibility to pay off the debt. Banks and institutions issue a statement showing a record of your purchases and usually require repayment each month. The bank expects at least a minimum amount of repayment, which is commonly about 2—3 per cent of the value of the sales. However, if payment is not made in full at this time, the card user is charged a further amount in the form of interest. For example, if you purchase an item for \$500 and the monthly interest is 1.5 per cent, you will be required to pay an additional \$7.50 in interest on top of the original cost.

### The cost of credit debt

Let's illustrate how paying only the minimum monthly payment off your credit card balance creates more debt than you may realise. Assume you own a typical credit card with an annual interest rate of 16 per cent (1.3 per cent per month) and a minimum payment required of 2.5 per cent of the total purchase price.

- You spend \$1000 on a plasma television for your bedroom.
- When the statement arrives one month later, you do not have the money to pay it off in full, and you can only afford to make the minimum repayment. This means you now have to pay interest on the remaining debt.

### credit

a contractual arrangement where a consumer buys something now but defers payment and agrees to repay the lender at a later date

### DID YOU KNOW?

The story goes that three businessmen had arranged to meet for lunch. Frank McNamara had changed his suit that morning and had forgotten his wallet. When the bill came, he couldn't pay for his lunch. McNamara and his lunch partners hit on the idea of a credit card that could be used by businessmen in New York restaurants. Within a year, they had issued the first card. They called it the Diners Club card.

### DID YOU KNOW?

American Express offers 17 different types of credit cards to Australian consumers.



- With a minimum payment of 2.5 per cent required, you must pay a total of \$25.
- The interest rate on your \$1000 purchase is 1.3 per cent per month, which is \$13 per month.
- Therefore, of the \$25 you have paid in that month, \$13 is used to pay the interest that has been charged, and only \$12 has come off the total debt.

If you continue paying only the minimum balance each month, it will take you more than 11 years to pay off the original \$1000 debt, and you will have paid a total of \$1860 for the television.

## The advantages and disadvantages of using credit cards

### Advantages

A credit card can be a great convenience and provides the safety of being able to make large purchases without having to carry large amounts of cash.

Credit cards can also be helpful in times of emergency when cash is not readily available. Sometimes things happen that are out of our control, such as an accident or other misfortune, which may lead to unforeseen costs such as the need for a rental car or a motel room for several nights.

Many credit cards offer special rewards and benefits. For example, some cards allow you to earn frequent flyer kilometres to convert into free flights, or points that can be redeemed for gifts or cash. Companies also provide benefits such as free travel and life insurance and protection from theft or loss of items purchased with the card. These benefits can be helpful as long as you remember your spending limits.

Most credit cards are accepted worldwide as an acceptable form of payment which is handy if cash is not easily accessible.

Building a credit rating can be important when applying for things such as loans and renting a property. Having a credit card

and using it wisely by making payments on time and in full can assist you to build a good credit history.

### Disadvantages

A major disadvantage of credit cards is that they encourage people to spend money that they don't have. Having a credit card can make it too easy to make spontaneous spending decisions; it is easy to treat them as 'free money' and forget that you will have to pay the debt off at some point.

Credit card companies charge high interest rates on the balance that you don't pay off at the end of each month. It is crucial to remember that credit card companies only begin to make money when you cannot afford to pay off your charges on time.

Another problem that credit cards create is that people simply have too many of them. Banks are highly competitive and under pressure to increase their profits, so consumers are often sent new credit card offers in the mail. Some people accept each card that is offered and end up with more credit cards than they know what to do with, which leads to the temptation to spread their spending across all of them.

Although we tend to carry a credit card in place of cash, sometimes credit cards or the details recorded on them can be stolen and debts you have not incurred may appear on your statement. You do not need to lose your wallet; the details on the card can be copied from a discarded receipt, or retrieved from a payment made over an insecure phone line or website. To avoid liability for any purchases charged during this time you must report your card stolen immediately and have it cancelled. If you don't realise your credit card number has been stolen until you receive your monthly statement, you may be charged a fee, or the company may attempt to hold you legally responsible for the debt.

With banks and financial institutions competing for your business, there are many options available to consumers. Some important factors you should consider

when choosing the credit card that is right for you are:

- the interest rate being charged on your purchases
- the interest rate charged on cash withdrawals
- minimum repayments
- the number of interest-free days
- penalty fees
- reward and loyalty programs.

### FOR DISCUSSION

- 1 What is the difference between a debit card and a credit card?
- 2 What is one advantage of using cash and one advantage of using credit cards to make purchases?
- 3 What is the effect of not paying your credit card balance off completely at the due date?

## Personal loans

A loan is a contract between a consumer and a financial institution, where the borrower pays back a set amount over a fixed period of time. The lender will charge interest over the course of the loan, which can be thought of as the 'cost' of borrowing the money, and the borrowed amount plus the interest is repaid in regular instalments. In general, more money is borrowed on a loan than on a credit card and it takes longer to repay, but the interest rate is lower. Loans are negotiated on a long-term or short-term basis depending on the needs and situation of the borrower, and interest is calculated on a fixed rate or variable rate. When deciding on the term of a loan, the rule of thumb is:

- the longer the loan period, the more interest you pay in total but the smaller the monthly repayments
- the shorter the loan period, the less interest you pay in total but the larger the monthly repayments
- a fixed rate of interest may be higher than the prevailing interest rate but it is set, and will not increase if variable

rates increase; most short-term loans are fixed-interest loans

- a variable rate of interest may be lower when you take out a loan, but it will move up and down over time; when interest rates rise, your repayments will also rise. Long-term loans such as home mortgages usually have a variable interest rate.

## Store cards

Stores such as Myer and David Jones produce their own cards that allow you to purchase on credit exclusively in those stores. They also entitle you to special offers and preview sales. However, these cards often have an annual membership fee attached and attract a much higher interest rate than regular credit cards—commonly more than 20 per cent.

## The cost of making money

Money is a vital commodity in any economy. The more money someone has, the more comfortable they can make their lives. But money is also needed by the government to support the country and fund the services they provide, such as education, hospitals, defence and roads. Governments make their money from revenue through the tax system. Therefore a proportion of the money made by individuals and businesses goes to the government in the form of **income tax**. The money made by businesses is also taxed in the form of company tax and GST. When the government receives its funds from taxation, it sets a budget or plan showing how the money is to be spent. The government's budget is handed down by the Treasurer in May every year, and it is the role of the Australian Taxation Office to collect the money needed from the nation's citizens. If the government collects more tax dollars than it spends, the budget is said to be in surplus. If the government cannot cover all of its spending with the

### income tax

the share of money earned that is paid to the government

### DID YOU KNOW?

The average credit card debt per person is \$3141 and the total amount owing on Australian credit cards is \$45 153 billion. If you add mortgage debt to credit card debt, each Australian owes \$56 000!

(Source: Reserve Bank of Australia, December 2009)

**tax-free threshold**

a government policy that excludes the first \$6000 earned in a year from taxation. That equates to no tax being paid on the first \$115 earned every week.

taxes collected, the budget falls into deficit. The government must then decide whether it should raise taxes to collect more money, cut back on the delivery of public services, sell off some of its assets or borrow the money it needs.

Most people earn an income by working for someone else to earn a salary or a wage. The difference between the two is that a salary is calculated on a yearly basis, while a wage is generally calculated on a weekly basis using an hourly rate. For instance, an IT consultant may earn a salary of \$89 000 per year and a shop assistant may earn \$550 per week. In general, the more money you make from working, saving or investing the more tax you are required to pay. The government sets a **tax-free threshold** that allows everyone to earn \$6000 per year and not pay any tax, after which various tax rates are applied; most Australians pay on average less than 30 per cent tax on their earnings (including shares). The highest rate anyone can pay is 45 cents in the dollar—and you would have to be earning more than \$180 000 a year to do so.

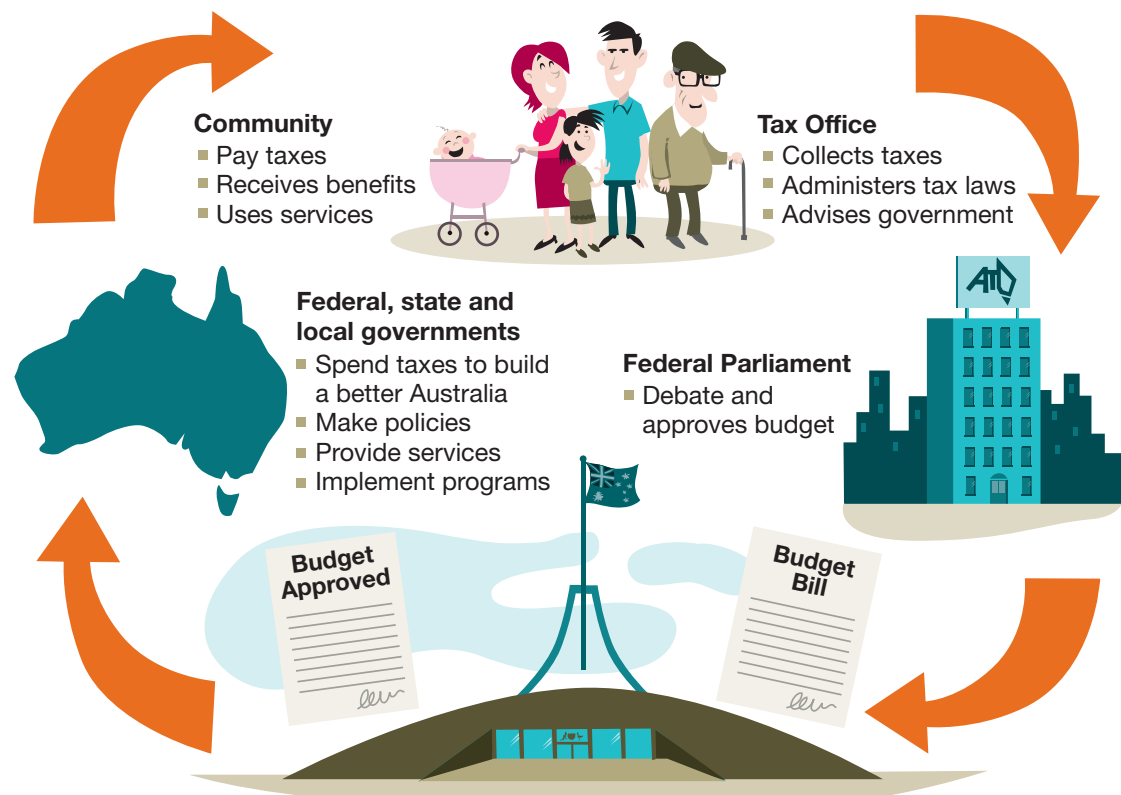
Money that is considered income and therefore taxable is:

- wages and salaries
- interest from banks and other financial institutions
- dividends or profits received as a shareholders in a company
- welfare benefits
- money received from property or investments
- monetary gifts received.

**Income tax rate for the 2010–2011 tax year**

| Taxable income        | Tax paid                                          |
|-----------------------|---------------------------------------------------|
| Up to \$6000          | Nil                                               |
| \$6001 to \$37 000    | 15c for every dollar over \$6000                  |
| \$37 001 to \$80 000  | \$4650 plus 30c for every dollar over \$37 000    |
| \$80 001 to \$180 000 | \$17 550 plus 37c for every dollar over \$80 000  |
| \$180 001 or more     | \$54 550 plus 45c for every dollar over \$180 000 |

**Figure 1.2.8** The Australian taxation system

**DID YOU KNOW?**

The term 'salary' comes from the Latin word 'sal' meaning salt, which was what Roman soldiers were paid with their 'salarium'.

**FOR DISCUSSION**

- 1 What is the difference between a wage and a salary?
- 2 What are some of the services provided by the different levels of government that have not already been mentioned?

## Lenders of money: banks and financial institutions

As we mentioned earlier, banking originated in ancient Mesopotamia where goldsmiths provided secure places for the safe-keeping of gold and other commodities. Modern-day banks are still secure houses for money, but today perform many more services; they are among the largest and most profitable large-scale organisations.

Millions of people conduct their saving and borrowing with a range of financial institutions. Banks offer a wide range of financial services to individuals and businesses and play an important role in the economy. The most common banking services offered to consumers are savings and cheque accounts. Most savings accounts are used for depositing regular payments, with some providing specific incentives to save. For example, you may be rewarded with higher interest if you maintain a balance above a certain level for a given period. Cheque accounts typically cover day-to-day banking needs. Regular payments, such as salaries, are deposited and the cheque book provides a means of paying bills. Both types of accounts also let you do your banking via the phone and the Internet, and offer a debit or credit card attached to the account.

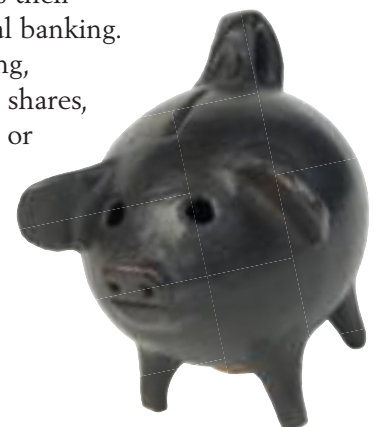
Until the 1980s, banks were regulated by government and there was very little competition. Deregulation of the banking sector opened the door to more competition with the establishment of a wider range

of organisations offering customers a new choice in services and products. New banking establishments began to emerge, including building societies, credit unions, finance companies and community banks.

- Community banks are typically locally owned and operated by residents in a small regional community, where lending decisions are made by people who understand the needs of local families and businesses. One of the first community banks was the Bendigo Bank, which was established in 1998 in country Victoria.
- Building societies are very similar to community banks in that they are owned by their members or customers. These institutions were established specifically to provide mortgages for the purchasing of homes. Their operations are focussed more on lending to customers than providing savings facilities.
- Credit unions operate as banks, but they are owned and controlled by the people who use them. They are commonly set up to service occupation-specific industries and are run as not-for-profit organisations; any money made is put back into providing low-cost loans and efficient services. Examples of credit unions include the Victorian Teachers' Credit Union, the Railways Credit Union and Police Credit.
- Finance companies tend to service large-scale organisations, funding asset developments and fleet products such as company cars. Private consumers often use these financial groups to lease products such as cars and boats through dealerships.

Australians are increasingly choosing a financial body that best suits their needs in addition to traditional banking. This includes financial planning, funds management, trading in shares, exchanging foreign currencies or managing superannuation.

**Figure 1.2.9** A Tudor pygg bank

**DID YOU KNOW?**

The word 'bank' comes from the Italian 'banca', which means bench or counter. In the middle ages, bankers used to sit on the side of the road and the villagers would come and sit at their bench to do business.

**DID YOU KNOW?**

The term 'piggy bank' comes from an old English word 'pygg', which referred to the orange clay used to make storage jars, commonly used for salt or flour and, sometimes, money. Pygg jars that were used for money had a narrow opening and were known as 'pygg banks'. In time, potters began to make them in the likeness of a real pig!



## Task: Remembering and understanding

- 1 What is the difference between saving and investing?
- 2 Why are there so many different options offered by financial institutions?
- 3 What are some different ways you can make money?
- 4 Why does the tax system have different rates applied to different levels of income?
- 5 Explain one type of transaction that is considered to be a cash payment although it does not use money.

## Task: Applying and analysing

- 1 Identify the level of government (local, state or federal) that would be responsible for the following public services.
 

|                                                                                                                                                         |                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| <ol style="list-style-type: none"> <li>a Electricity</li> <li>b Parks</li> <li>c Transport</li> <li>d Immigration</li> <li>e Sporting fields</li> </ol> | <ol style="list-style-type: none"> <li>f Defence</li> <li>g Airports</li> <li>h Libraries</li> <li>i Welfare</li> <li>j Water</li> </ol> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
- 2 Read the following scenarios and advise each person which money option would be most suitable for their circumstances.
  - a Vanessa is a business professional who earns an extremely high income and likes to spend it. She can often be found in David Jones during her lunch break purchasing high-end products. While shopping one day, Vanessa comes across a special price on a 3D television and decides she must have it. The offer on the \$11 000 television is a four-year interest-free period, but it is only available to David Jones store card holders and Vanessa does not have one. What would you advise Vanessa to do?
  - b Karl works as a sales representative earning an average income of \$500 a week. He is seeking tickets online for an upcoming U2 concert for his girlfriend's birthday when he comes across a great one-day special for a luxury world cruise, which he has wanted to do for some time. The cruise will cost \$13 000 and the U2 tickets are being offered for \$600. Karl is not keen on using credit, but doesn't want to pass up this opportunity even though he knows he cannot afford it with his current savings. He also wants to please his girlfriend. What option(s) would you advise for Karl?
  - c Jeff is a teacher who has a passion for Harley-Davidson bikes. He has been saving over the years for a deposit on his favourite model, which he can purchase from a city motorbike dealer. The bike is priced at \$9000, and Jeff currently has a total of \$3000 saved for a deposit. He requires a further \$6000. What is the best option you can advise for Jeff to take up?

## Task: Evaluating and creating

- 1 Do you think people who earn a higher income should pay a higher rate of tax? Why, or why not?
- 2 Countries such as the Cayman Islands, Macau, Kuwait and the Cook Islands do not have any income tax. Investigate how they raise the money needed to provide public goods and services.

## Task: Assessment

- 1 Credit card evaluation
  - a Conduct an analysis of four different types of credit cards. Choose one financial institution from each category and complete the checklist, drawing up a table like the one below.

|                                | Credit card 1 | Credit card 2 | Credit card 3  | Credit card 4    |
|--------------------------------|---------------|---------------|----------------|------------------|
|                                | Bank          | Credit union  | Community bank | Building society |
| Annual fees                    |               |               |                |                  |
| Interest rate on purchases     |               |               |                |                  |
| Interest rate on cash advances |               |               |                |                  |
| Minimum repayment              |               |               |                |                  |
| Number of interest-free days   |               |               |                |                  |
| Benefits/rewards programs      |               |               |                |                  |
| Penalty fees                   |               |               |                |                  |
| Other                          |               |               |                |                  |

- b Which card do you feel offers the best deal overall? Why? Which card rates the lowest in your assessment? Explain your conclusion.
  - c With the information you have gathered from your research, prepare a pamphlet or brochure for young people who are thinking of getting a credit card, informing them about the benefits and costs of credit cards.

# 1.3

## Scams

### scam

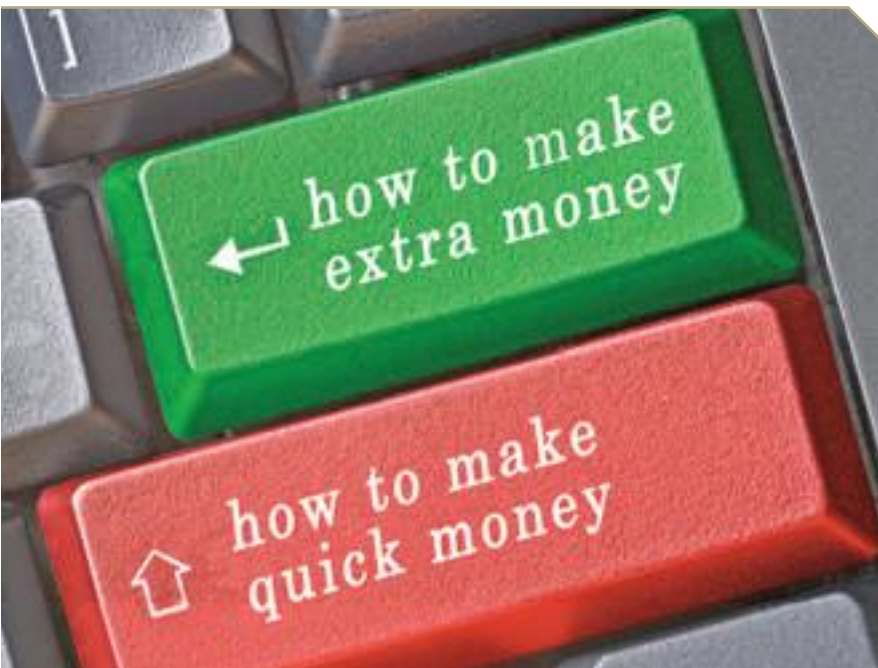
a deceptive promise designed to trick you into handing over your money or personal information

*If it sounds too good to be true ... it probably is!*

### DID YOU KNOW?

Many Australians are tricked by scams and 800 000 fall victim in some way, losing around \$1 billion each year.

**Figure 1.3.1** People fall for scams because they offer money for little or no effort



A **scam** is a dishonest and deceitful attempt to trap you into parting with your money or something of value. It is a scheme or a venture that purposely distorts the truth and offers you something that you are never going to receive.

Why do scams succeed?

- A scam appears to be the real thing through the use of seemingly legitimate symbols or language, which are intended to convince you to give money or information. Most consumers make assumptions that companies and organisations are legitimate and trustworthy. Scammers use uniforms, letterheads, titles and false celebrity endorsements to trick you into trusting their credibility.
- Although most of us are perfectly rational consumers, all of us are vulnerable to a persuasive approach at one time or another. Scammers manipulate your emotions and psychological mindset to produce the response they seek. They exploit basic human desires and needs such as greed, fear or the desire to be liked, and often use persuasive techniques that can be hard to resist. For example, scammers use triggers and techniques of seduction that make potential victims focus on huge prizes or benefits on offer, which make you feel inadequate if you resist or even question the offer.

- Scammers target a large pool of the population rather than seeking out one specific group. By covering people from all backgrounds, ages and incomes, nobody is excluded and there is a chance that at least some members of the public will fall victim to the scam. Scams also use the technique of social reinforcement by telling you everyone is doing it and so should you.

## Types of scams

Scams can be sold and circulated in a number of ways. Some are direct and face-to-face; others are through various forms of telecommunication or via unsolicited mail and advertisements in newspapers and magazines. The Internet has also become a popular means of scamming consumers. Some of the common forms of scams are listed below.

### Consumer scams

- Lotteries, sweepstakes and competitions
- Job and employment scams
- Banking, credit and online account scams
- Internet scams
- Mobile phone scams
- Health and medical scams
- Door-to-door scams
- Psychic and clairvoyant scams
- Dating and romance scams
- Charity scams



**Figure 1.3.2** Some of the better-known scams have originated in Nigeria.

### Business scams

- Unauthorised advertising
- False billing scams
- Overpayment scams
- Sports investment scams

### Money transfer scams

- Nigerian scams
- Requests to help transfer money
- Requests to provide bank account details

### Identity theft

- Card skimming
- **Phishing**—email
- **Smishing**—mobile phones
- **Vishing**—phone calls



**Figure 1.3.3** Computers make it very easy for scammers to extract money and personal details from unwary users.

Consumers are protected from scams by the *Trade Practices Act 1974* (Cth). The Australian Competition and Consumer Commission (ACCC) administers the law by promoting competition and fair trading and providing consumer protection for all Australians. It also runs the SCAMwatch website, which provides information to consumers and small businesses and shows how to recognise and report scams.



**Figure 1.3.4** SCAMwatch

#### phishing

the sending of legitimate-seeming emails in an attempt to gain sensitive information such as usernames, passwords and credit card details

#### smishing

the sending of instant text messages purporting to be from a legitimate source such as a bank, in an attempt to gain sensitive information such as usernames, passwords and credit card details

#### vishing

making phone calls as if from a legitimate business in an attempt to gain sensitive information such as usernames, passwords and credit card details

#### FOR DISCUSSION

- 1 Can you think of any scams that have not been mentioned?
- 2 Why do people fall for scams?

#### DID YOU KNOW?

Scammers always use non-traceable, free, public e-mail addresses such as Yahoo! and Gmail.



The ACCC also publishes *The little black book of scams*, which is a guide to help identify the different types of scams and tips on guarding against them. This online book offers advice on how to avoid falling victim to a scammer and what to do if you are unfortunate enough to be scammed. Log on to Pearson Places and follow the prompts to find this book.



## Golden rules

**Remember these golden rules to help you beat the scammers.**

- ☐ Always get independent advice if an offer involves money, time or commitment.
- ☐ There are no guaranteed get-rich-quick schemes—the only people who make money are the scammers.
- ☐ Do not agree to offers or deals straight away. If you think you have spotted a great opportunity, insist on time to get independent advice before making a decision.
- ☐ Do not hand over money or sign anything until you have done your homework and checked the credentials of the company that you are dealing with.
- ☐ Do not rely on glowing testimonials; find solid evidence of a company's success.
- ☐ Log directly on to a website that you are interested in rather than clicking on links provided in an email.
- ☐ Never send money or give credit card or online account details to anyone you do not know and trust.

If you spot a scam or have been scammed, get help. Contact the office of fair trading in your state or territory, the Australian Competition and Consumer Commission (ACCC) or the Australian Securities and Investments Commission (ASIC) for assistance.

Scammers are imaginative and manipulative. They know how to push your buttons to produce the response they want.

Source: The little black book of scams, ACCC, 3 September 2010, ACT

## Internet scams target young

**The consumer watchdog is scouring the Internet today for scams targeting young people.**

The Australian Competition and Consumer Commission (ACCC) is running the Australian arm of an Internet sweep for scams that are taking place in more than 40 countries.

ACCC deputy chairman Peter Kell says about 45 employees are looking for scams aimed at young people, such as sites offering free tickets to concerts.

'They will be targeting particular keywords. These might range from things like "a miracle cure" to "easy money",' he said.

'Where possible [we'll be] taking those sites down if they turn out to be scams.

'We're also sending more general warnings about the sorts of information that people might put on their Facebook page.

'We've seen scams where criminals have used that information to impersonate young people and target their friends or family for money.'

Mr Kell says young people are not as mindful of the risks online as other users.

'Certainly [they are] technically savvy, but they're not always experienced consumers,' he said.

'They may not always be able to pick up the signs that there's a scam or that there's inadequate information.

'We're getting a growing number of complaints in relation to the sort of sites that young people visit.'

Mr Kell says it is not always easy to get sites taken down.

'It can vary considerably. In some jurisdictions it can be very difficult to arrange for a site to be taken down,' he said.

'In other cases we have found that once scammers know that law enforcement agencies are onto them, they often just abandon the site.'

Source: ABC News Online, 21 September 2010, 2:37 p.m. AEST

## Protecting yourself from scams

# Identity theft

Ever wondered why somebody would want to be you? Well, you would be surprised at the reasons why. **Identity theft** is fraud carried out by a criminal who assumes someone else's identity in order to profit illegally. In simple terms, someone pretends to be you in order to sign up for goods and services in your name or to use your details to access your existing financial accounts. You will be completely unaware of this until you receive your credit card statement with a number of high-value purchases that you have not made or your bank balance disappears without your knowledge. Identity theft is one of the fastest-growing forms of crime and hundreds of thousands of people worldwide are victims each year. In Australia, identity theft is the single fastest-growing white-collar crime. In many cases individuals who are the victims of identity theft are reimbursed by their financial institutions, but it can leave an impact through the disruption of replacing cards, having to pay fees and the possibility of affecting future credit applications. In the worst of cases some identities are stolen in order to commit crimes of which you may be accused. Then it is a case of having to prove you are the victim not the perpetrator.

The most common method of identity theft is the pilfering of a wallet, which allows access to credit cards, driving licence, store cards, Medicare card and other items that might be used to assume someone's identity. Although this method is still widely used, it suffers the drawback of being noticed relatively quickly. Other methods that are increasingly being used are stealing mail, going through garbage, hacking into computers and emails, and 'shoulder surfing' or direct observation, where information is captured simply by peering over someone's shoulder as they fill out a form, unaware of being watched. Of most concern is that a growing rate of identity theft now comes from information accessed by employees, friends and relatives. In fact, many victims know the person who assumed their identity.

When the fraud specifically involves email, SMS or phone, we label those crimes as phishing, smishing and vishing.

Experts advise that there are a number of ways to help avoid becoming a victim of identity theft, as well as ways to minimise the damage if you do become a target. It is widely agreed that you should adopt the following practices.

- Shop only on secure sites.
- Protect your personal information.
- Do not store or share PINs and passwords.

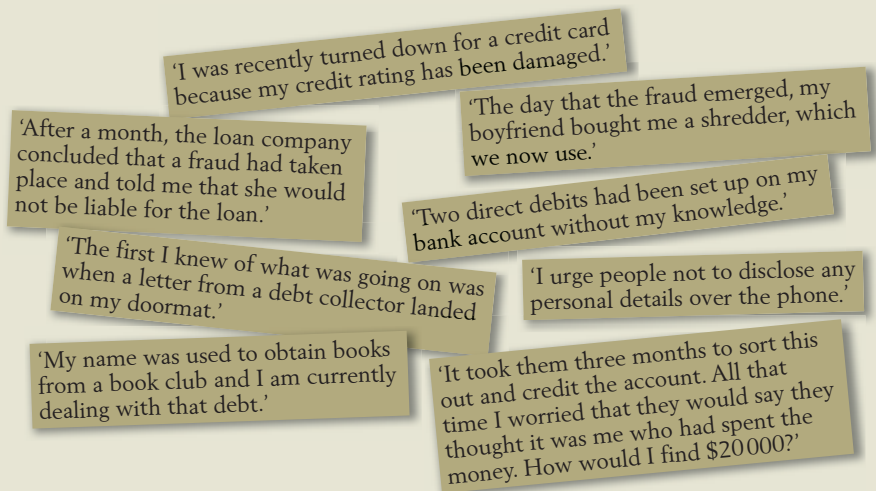


**Figure 1.3.5** Identity theft can have far-reaching consequences.

- Protect sensitive data on your computer with encryptions, or save to an external source.
- Disable pop-ups in your Internet browser.
- Use cash or credit.
- Get off mailing lists.
- Lock your mailbox.
- Destroy documents before throwing them away.
- Check your credit rating.
- Report any attempts at identity theft you become aware of.



## Quiz: Online scams and identity theft

Find out how safe you and your computer really are by doing this quiz. Circle the answers that best describe what you are doing online for each of the listed online activities. You may find in some sections that you will want to circle more than one answer—that is okay, but only select the ones that best apply to you. Be honest!

At the end of the quiz, add up your total score and then see what your personal security profile is.

### Email

- a** I read every email I get, even if it's not addressed to me.
- b** Whenever I get mail that I don't want, I always try to unsubscribe and if I can't I send them an email telling the sender to take me off the list.
- c** I only read email addressed to me.
- d** I only ever read email addressed to me from people I know.

**Scores:** a = 4    b = 5    c = 1  
d = 0

### Email attachments

- a** I like getting funny email attachments and I always check them out.
- b** I only open email attachments addressed to me from people I know.
- c** I never open email attachments, unless I know exactly what they are.

**Scores:** a = 5    b = 1    c = 0

### P2P

- a** I use P2P to download software.
- b** I use P2P to download movies/music.
- c** I only use P2P to download software/movies/music from trusted sites that have links to their own content.
- d** I have adjusted my router settings to make P2P run faster.

**Scores:** a = 5    b = 4    c = 0  
d = 1

### Web surfing

- a** I like to just surf around following links to other sites.
- b** I use a search engine to find what I'm looking for.
- c** I like to download software from the internet.
- d** I like to go to sites where I can download movies, MP3s and software.
- e** I only go to sites I know and trust.
- f** I like to enter competitions on the web.
- g** I never read the privacy policy/terms and conditions on websites.
- h** When I get pop-ups I like to check out the sites in the pop-up.

**Scores:** a = 3    b = 0    c = 3  
d = 5    e = 0    f = 3  
g = 1    h = 5

### Internet banking/shopping:

- a** I use the same password for my Internet banking as I do for most other things.
- b** My Internet banking password is a real word.
- c** My Internet banking password has only letters in it.
- d** I shop online using a credit card.
- e** I shop online using a debit card.
- f** I only shop from shops I know offline.
- g** I use eBay.
- h** I don't pay much attention to eBay seller feedback.
- i** I shop online from shops overseas.
- j** I buy things from offers in my email.
- k** I update my bank account when emails are sent to me.

**Scores:** a = 5    b = 5    c = 4  
d = 3    e = 2    f = 0  
g = 1    h = 4    i = 3  
j = 5    k = 5

**Personal security profile:****If you scored more than 16**

High risk! You are placing yourself at high risk of having your personal identity stolen or being scammed. Think about changing your online behaviour and start protecting yourself and your computer before you get into a mess.

**6 to 15**

Average effort! You need to change some of your online behaviour. Look back at the quiz and work out where you need to change what you are doing.

**0 to 5**

Good effort! You are doing everything right—or at least nearly everything. Check to see where you have scored higher than 2 and work on changing that score.

**Security action plan:**

Look at your quiz results. Select one of your answers with a score of three or above. Copy it into the table below and decide how you are going to deal with the issue. If you are in the high-risk category you might need to think about several of your answers.

| Activity                  | Issue                                     | Action                                         |
|---------------------------|-------------------------------------------|------------------------------------------------|
| <b>Example</b>            | <b>I use P2P to download movies/music</b> | <b>I will find out about trusted P2P files</b> |
| Email                     |                                           |                                                |
| P2P                       |                                           |                                                |
| Web surfing               |                                           |                                                |
| Internet banking/shopping |                                           |                                                |

**Task: Remembering and understanding**

Identify and distinguish between the three main categories of identity theft.

**Task: Evaluating and creating**

You have been asked by the ACCC to speak to students on its behalf about the concept of scams and the role of the ACCC and SCAMwatch in protecting consumers' rights. Prepare cue cards with a brief summary and present this as a speech to the rest of your class. Choose one example of a scam in your speech.

**Task: Assessment**

Log on to Pearson Places and follow the prompts to SCAMwatch. Choose one type of scam from the list provided and write a 'Scam Alert'. Decide whether your alert is for students, parents or businesses, and inform them about that particular type of scam. Ensure your alert includes:

- a description of the type of scam
- how to protect yourself
- how it is done
- what to do if you are a victim.
- what signs to look for





## CHAPTER TWO

# Earning, spending, SAVING

### Introduction

Every day billions of people all over the world head out to work. They may work for a large organisation, a small business or even for themselves. They provide labour, skills, expertise and knowledge in exchange for some form of income. Workers then spend their income on goods and services produced by other workers. Income earners also pay tax to the government, which uses this 'income' to provide goods and services for the community. Many people are able to put aside part of their income as savings, hoping to use the money later on to purchase a more expensive item such as a home, a car or a holiday.



**Figure 2.1.0** Many teenagers' first experience of paid work is a part-time job in a supermarket.

# 2.1

## Earning an income

*It is better to have a permanent income than to be fascinating.*

Oscar Wilde

Income is defined as the financial reward gained in exchange for labour or services, through the sale of goods or property or from financial investment. Simply put, income is money you earn for doing something or selling something. Most people in Australia receive their income from employment and/or investment.

### Sources of income: income from employment

#### Wages

Wages are income earned through the provision of **labour**. Wages are paid at an hourly rate; for example, an 18-year-old shop assistant could earn \$11.75 per hour. The hourly rate will depend on the type of work being completed, the experience or age of the employee and the type of **employment arrangement**: casual, part-time or full-time. Wages are generally paid on a weekly basis. Wage earners can expect to receive **penalty rates** on top of their base wage if they work more hours in the week than is stated in their employment arrangement. Wages are the most common form of income paid in industries such as retail, manufacturing and construction.

#### labour

the provision of human physical and mental effort in exchange for income

#### employment arrangement

the predetermined set of conditions under which workers provide labour according to the control and direction of the employer

#### penalty rate

an increased hourly rate paid for working outside the normal working hours set down in the employment arrangement

**Figure 2.1.1** There are different types of job opportunities for young people.



**intellectual property**

something produced by creative effort, such as a book, song, play or work of art, the ownership of which, or the right of use, may be legally protected by a copyright, patent, trademark etc.

## Salaries

A salary is also income earned through the provision of labour. However, salaries are paid on an annual basis. The yearly amount is then divided into pay periods, most commonly fortnightly or monthly. Salary earners do not generally receive penalty rates but they can often receive extra income in the form of a bonus. Salaries are the most common form of income for people employed in professional fields, such as teachers or doctors.



**Figure 2.1.2** A science teacher and her students. A graduate teacher will earn a basic salary of approximately \$45 000. Teachers are paid fortnightly, so this amount would be divided by 26 and the teacher would receive around \$1700 a fortnight.

**DID YOU KNOW?**

The copyright to the song *Happy Birthday to You* is owned by Warner/Chappell Music. This means that if you want to use the song in film or television you have to pay a royalty to Warner/Chappell. That is why you rarely hear people singing the song in films today. Warner/Chappell earns approximately US\$2 million per year in royalties from the song.

**FOR DISCUSSION**

- 1 What type of income do you receive?
- 2 What are some common sources of income for young people?

## Profit

Profit is the income received in the course of operating a business. Businesses can earn revenue through sales (the provision of a good) or fees (the provision of a service). Once the owner has deducted the costs of running the business from the sales revenue or fees, the amount remaining is the profit.

## Income from other sources

### Welfare payments

Within our community there are people who are unable to earn an income through the provision of labour. These people may rely on the government to provide them with financial assistance. This form of income is commonly referred to as a welfare payment, and may take a number of forms such as an unemployment benefit, a disability benefit or a supporting parent's benefit. Other income paid to an individual by the government comes in the form of a pension. Some people who have retired from permanent employment receive a pension.

### Royalties

Income can be received through the payment of royalties. Royalties are paid for the use of property, usually copyrighted works, patented inventions, or natural resources. For example, when a person creates a book, song, play or painting, the work is considered **intellectual property**. Similarly, a patent on an invention grants the inventor an intellectual property right in the thing created.

Authors, songwriters, composers, playwrights and inventors use businesses (such as publishers or record labels) that specialise in the sales and promotion of intellectual property. When a business obtains the right to market the creation, the creator usually receives compensation in the form of a royalty. A songwriter who writes a hit song will receive a royalty payment each time that song is played on the radio or used in a jingle or station promo.

Salespeople may rely on a form of income known as commission. A real estate agent who sells a house will receive a percentage of the selling price as commission. Sales assistants in car dealerships, fashion stores and jewellery stores may receive a commission on top of a base wage or salary.



**Figure 2.1.3** A real estate agent will charge a commission that is on average 3 per cent of the purchase price of a property.

same job. The reason that casual rates are higher than permanent rates is because casual employees don't have as many benefits as permanent employees; there is no entitlement to sick leave, annual leave or superannuation contributions by the employer.

## Part-time work

A part-time job is one that employs you for less than a full working week. A full working week is considered to be 38 hours, so any job that requires you to work, say, two days a week is considered part-time. A job that requires you to work three hours a day, five days a week is also considered part-time. Unlike a casual employment arrangement, part-time work guarantees your working hours and, usually, times. If you are employed to work 20 hours a week on Thursday, Friday and Saturday, you are guaranteed those hours and those times each week.

## Choosing casual or part-time work

People do part-time and casual work for many reasons, including:

- lack of availability of full-time jobs
- to gain experience
- extra income during holidays
- needing money while studying
- trying out a job before pursuing it as a career
- paying the bills while following another career or interest, such as art or music
- being unable to work full-time.

## Full-time work

A full-time job is one that employs you for a full working week. This is considered to be 38 hours per week, but may also include occasional or guaranteed overtime hours as well at a higher rate of pay. Full-time employment arrangements, like part-time work, offer benefits unavailable to casual workers, such as job permanence, sick leave, annual leave and superannuation.

## Investments

Investments can generate income in the form of dividends or interest. These forms of income will be discussed in Unit 2.3.

# Types of employment

## Casual work

A casual job is a job with no set or guaranteed hours of work. Casual employees work the number of hours that their employers require. The number of hours worked and the times and dates of those hours may vary from week to week depending on the type of work and the employment roster. A casual employment arrangement is characterised by a great deal of flexibility, for both the employer and the employee. An additional feature of casual work is that the hourly rate of pay is often higher than that for permanent workers, whether full-time or part-time, doing the

### DID YOU KNOW?

It is estimated that Australians are working unpaid overtime to the tune of more than 2 billion hours; this amounts to a \$72 billion gift to their employers.



## Short-term contract work

Short-term contract jobs are jobs that have a definite end date. The length of the contract will be set out in the contract itself. Short-term or contract jobs could last for one month, three months or even 12 months. People sometimes choose short-term jobs because they do not want to be in the same job for a long time or they are 'experimenting' with a career or occupation. People sometimes accept short-term contracts because permanent work is unavailable. Often an employee might be offered another short-term contract when the existing short-term contract ends, but otherwise their employment finishes with the end of the contract.

### FOR DISCUSSION

- 1 Explain the difference between wages and salaries.
- 2 Explain the difference between part-time employment and casual employment.
- 3 Explain the difference between part-time employment and full-time employment.

## Employment agreements

In Victoria, details about pay and conditions related to each job may be set out three ways:

- industry-wide awards
- collective bargaining agreements at workplace level
- individual contracts.

In 2009 the Australian federal government implemented a system of workplace conditions outlined in the *Fair Work Australia Act 2009*. The Fair Work legislation includes a set of ten National Employment Standards, which state the

minimum standards—conditions—an employee can expect from an employer. These conditions include minimum standards in the areas of weekly hours of work, leave (annual, long service, parental and other), public holidays and notice of termination.

### Industry-wide awards

An industry-wide award contains details about pay rates and employment conditions for employees in a specific industry. Awards apply to all people who work in a particular industry, such as construction, education or health. For example, in 2010 a group of employers and employee representatives came together and created the Hair and Beauty Industry Award. This agreement covers all people who work in that industry and includes minimum pay standards and other employment conditions such as breaks, leave entitlements and hours of work. The Award also provides a guarantee that the conditions of the National Employment Standards will be met by all employers in this industry.

### Collective bargaining agreements

Employees and employers can also choose to negotiate collective bargaining agreements. This type of employment agreement—also known as an enterprise agreement—is between a specific employer and a group of employees and applies only to those who work for a particular organisation. An example of this type of agreement is the Red Rooster Agreement, created in 2008.

### National employment standards

**From 1 January 2010, employers and employees in the national workplace system are covered by the National Employment Standards (NES).**

Under the NES, employees have certain minimum conditions. Together with pay rates in modern awards (which also



generally take effect from 1 January 2010) and minimum wage orders, the NES makes up the safety net that cannot be altered to the disadvantage of the employee.

The NES include minimum entitlements to leave, public holidays, notice of termination and redundancy pay.

In addition to the NES, generally an employee's terms and conditions of employment can come from a modern award, an agreement, a pre-modern award and state or federal laws.

### What are the 10 NES entitlements?

The NES are set out in the Fair Work Act 2009 and comprise ten minimum standards of employment. In summary, the NES involve the following minimum entitlements:

- 1 Maximum weekly hours of work**—38 hours per week, plus reasonable additional hours
- 2 Requests for flexible working arrangements**—allows parents or carers of a child under school age or of a child under 18 with a disability to request a change in working arrangements to assist with the child's care
- 3 Parental leave and related entitlements**—up to 12 months' unpaid leave for every employee, plus a right to request an additional 12 months' unpaid leave, and other forms of maternity, paternity and adoption-related leave
- 4 Annual leave**—four weeks' paid leave per year, plus an additional week for certain shift workers
- 5 Personal/carers' leave and compassionate leave**—10 days paid personal/carers' leave, two days unpaid carers' leave as required, and two days compassionate leave (unpaid for casuals) as required
- 6 Community service leave**—unpaid leave for voluntary emergency activities and leave for jury service, with an entitlement to be paid for up to 10 days for jury service



**7 Long service leave**—a transitional entitlement for employees who had certain LSL entitlements before 1/1/10 pending the development of a uniform national long service leave standard

**8 Public holidays**—a paid day off on a public holiday, except where reasonably requested to work

**9 Notice of termination and redundancy pay**—up to four weeks notice of termination (five weeks if the employee is over 45 and has at least two years of continuous service) and up to 16 weeks redundancy pay, both based on length of service

**10 Provision of a Fair Work Information Statement**—employers must provide this statement to all new employees. It contains information about the NES, modern awards, agreement-making, the right to freedom of association, termination of employment, individual flexibility arrangements, right of entry, transfer of business, and the respective roles of Fair Work Australia and the Fair Work Ombudsman.

**Figure 2.1.4** The ten National Employment Standards (Source: Fair Work Online)

### Individual contracts

Lastly, an individual can negotiate specific terms and conditions of employment with an employer. This is an individual contract. This type of agreement would be commonly used in a short-term or contract-based employment situation.

It is important to note that regardless of the type of employment agreement in operation in a workplace, all employees are covered by the basic conditions outlined in the National Employment Standards.

## CASE STUDY

## Young people and their rights at work

## Ripped abs or ripped off?

Hi, my name is Greg and I have just started—and finished!—my first job at my local gym. I am completing a VET course in Fitness this year and working at the gym seemed like a good idea, although it didn't really turn out that well. Chris and Craig were my bosses at the gym. Chris ran the exercise/fitness side of things while Craig handled the financial side of things. As part of my VET course I was required to keep a work journal—luckily for me!



**Figure 2.1.5** Job Watch and Fair Work Australia are two sources of information about people's rights at work.

**Shift one—Wednesday May 5**

Arrived at work at 10:00 as I had previously organised with Craig. He told me I would have to wait until Chris arrived before I could start work, as Chris would have to show me around. I had brought in my bank details and my tax file number and tried to give these to Craig, but he said to hang on to them because I wouldn't need them yet. Odd! Chris finally arrived at 12:00 and was too busy to show me much so I just sat around and watched. Left at 3:00.

**Shift two—Wednesday May 12**

Started work at 10:00 again today, Chris showed me around properly and got me started cleaning the machines, vacuuming the gym and filling the snack machines. Not exactly what I had in mind but at least I am doing something. I do have a Certificate III in personal training so I think I can work with some of the customers. Mentioned to Chris that Craig didn't have any of my bank details and asked how/when I would be paid. Was very surprised to hear that the brothers considered me a trainee and that I was on trial and that I wouldn't be paid until I had passed the trial. It didn't sound right but this is my first job so maybe it is normal?

**Shift four—Wednesday May 19**

Back at work today. Craig called me on Friday and got me to come in on Saturday,

which was quite exciting as I thought I would be doing some fitness work. Instead, I sat at the counter all day, checking people in and booking exercise classes. And then I had to clean the change rooms after. Today, Wednesday, I started at 10:00 and worked until 3:00. Cleaning again mainly but I did help out some guys doing weights. I asked Chris how long before the trial was over and I would get paid. He said the usual period was one month but because I was so young it might be two. This still didn't sound right to me—I am going to ask my teacher.

My teacher gave me some websites to look up—'Job Watch' and 'Fair Work Australia'—to try and find out some information. That was a good idea because I found out that unpaid trial work is illegal. I called the Fair Work Infoline too and they gave me advice about how to approach my bosses.

**Shift seven—Wednesday May 26**

Worked all weekend—cleaning and reception mainly but a bit more fitness stuff with clients so that was good. Craig doesn't work weekends so I didn't have a chance to speak to him about the information Fair Work gave me but when I confronted him this morning he was none too happy! I told him that I had discovered that I had to be paid minimum wages for all the hours I had worked—30 so far and that I would need to have pay slips etc.

**Shift eight—Wednesday June 2**

I was really surprised that I hadn't been called in to work over the weekend but turned up for my shift at 10:00 today as normal. Craig called me into his office and handed over an envelope with heaps of money and the pay slips I asked for. He then said that they didn't need me to work today and that they would call me when they needed me again. Bet they don't! Time to look for a new job, but I can't say I am sorry!

**FOR DISCUSSION**

- 1 Do you think Greg should have worked so many shifts without pay? Would you have stayed so long?
- 2 What things should you find out before you start work?
- 3 Although Greg was probably happy to walk away from this job, do you think Craig had the right to reduce his shifts?

## Paying tax

Regardless of the type of income you receive and the type of employment agreement that covers you, every income earner has one thing in common—paying tax. Taxation can be direct or indirect. Direct taxation is deducted from your income and paid to the government. Income tax is collected by the federal government on a **pay-as-you-go (PAYG)** basis. Indirect taxes are included in the price you pay for most goods and services; the **goods and services tax (GST)** is an example of an indirect tax. The GST will be examined in detail in chapter 7.3.

The government uses the money collected through taxation to provide services for the community. These collective services include hospitals, schools and roads. Welfare payments and other government benefits are also funded through taxation. It is the largest form of income for the federal and state governments and is the only way that such services can be provided.

## Income tax

The amount of taxation paid by an individual depends on the amount of income earned in a financial year. In Australia, income is paid on a progressive basis; this means that as your income increases the proportion of tax you pay in each dollar also increases. At the end of each financial year every income earner in Australia prepares a tax return. Every employee is issued with a group certificate by their employer, which provides a summary of the taxpayer's earnings and the amount of tax they have paid. When preparing a tax return, the taxpayer is able to deduct some of the costs incurred in earning their income, such as travel, protective clothing, tools and equipment. These deductions are subtracted from the gross income to provide the amount of taxable income. The tax payable on the taxable income is then calculated. (You will find a table showing the personal income

tax rates for the 2010–2011 year in Figure 2.1.6 below.) If the amount of tax payable is lower than that shown as having been deducted on the group certificate, then the taxpayer is entitled to a tax refund from the Australian Taxation Office (ATO).

Every taxpayer is issued with a tax file number (TFN). This is a unique number issued by the ATO. It is used to identify the taxpayer when a tax return is lodged.

| Taxable income        | Tax paid                                          |
|-----------------------|---------------------------------------------------|
| Up to \$6000          | Nil                                               |
| \$6001 to \$37 000    | 15c for every dollar over \$6000                  |
| \$37 001 to \$80 000  | \$4650 plus 30c for every dollar over \$37 000    |
| \$80 001 to \$180 000 | \$17 550 plus 37c for every dollar over \$80 000  |
| \$180 001 or more     | \$54 550 plus 45c for every dollar over \$180 000 |

**Figure 2.1.6** Income tax rates for the 2010–11 tax year. (Source: ATO)



**Figure 2.1.7** The federal government introduced a 12-month flood levy to pay for some of the flood damage to infrastructure in Queensland and Victoria in 2011.

### pay-as-you-go (PAYG)

the way your tax is paid through the year; if you are an employee, your employer deducts the tax from your pay and sends it to the Australian Taxation Office for you.

### goods and services tax (GST)

a consumption tax that is added to the supply of most goods and services in Australia; levied at 10 per cent of the price of the goods and services

### levy

the collection of a tax, either as a one-off payment or for a set period of time

### DID YOU KNOW?

Taxes have been present for a long time. In Egypt for a period of time there was a tax on cooking oil, and scribes or tax collectors were able to enter people's homes and audit them to ensure they were paying the right amount of tax.



## Task: Remembering and understanding

- 1 List all forms of income mentioned in Unit 2.1.
- 2 Outline three types of employment agreements.
- 3 For each of the income types listed below, give two examples of occupations that would typically receive income in this way.
 

|                                     |                                       |
|-------------------------------------|---------------------------------------|
| <b>a</b> Wages<br><b>b</b> Salaries | <b>c</b> Royalties<br><b>d</b> Profit |
|-------------------------------------|---------------------------------------|
- 4 Create a table similar to the one below and summarise the key advantages and disadvantages of working on a casual basis compared to working as a part-time employee.

| Employment type | Advantages | Disadvantages |
|-----------------|------------|---------------|
| Part-time       |            |               |
|                 |            |               |
| Casual          |            |               |
|                 |            |               |

- 5 Explain clearly why some people might choose to work part-time rather than full-time.

## Task: Applying and analysing

- 1 Calculate the weekly income for each of the following employees:
  - a Tess is a part-time employee who usually works 20 hours a week. She earns \$7.80 an hour.
  - b Travis is a full-time employee. He earns \$8.30 an hour. In this particular week he worked 45 hours. Penalty rates of \$9.60 are paid for every extra hour worked.
  - c Sarah is a casual employee who has worked 16 hours in this week. Her pay rate is \$11.45 an hour.
  - d Lynda is a first-year nurse. According to her industry award, she is paid \$38 000 a year. Can you determine her weekly income?
- 2 Explain why Sarah's pay rate is higher than that of Tess or Travis.

## Task: Evaluating and creating

- 1 In pairs, make a list of services provided to the community by the state and federal governments. Compare your list with other members of the class.
- 2 Log on to Pearson Places and follow the prompts to the Australian Taxation Office. Use the information on this website to present a set of instructions for obtaining a tax file number.



## Task: Assessment

- 1 Pay and conditions for employees can be contained in three types of employment agreements. Can you explain why there remains a need for a body such as Fair Work Australia?
- 2 Using the table in Figure 2.1.6 to calculate the tax payable in the following situations:
  - a Megan is 16 and works part-time at Jeans South. She earned a total of \$5380 in the previous financial year.
  - b Lu is 17 and works as a casual shop assistant at King's Bookstore. He earned \$12 758 in the previous financial year.
  - c Dale is a 35-year-old teacher. He earned \$65 890 in the previous financial year.
  - d Rachel is a waitress at Portofinos. She earned \$20 200 in the previous financial year. She spends a lot of time in the restaurant kitchen and has had to buy special safety shoes. These shoes cost her \$240. Can she claim the shoes as a deduction? What difference will this make to the tax she has to pay?
- 3 In 2008, Red Rooster employees signed an agreement that covered the conditions of their employment.
  - a What was included in the agreement?
  - b Outline the advantages and disadvantages of this type of agreement.
- 4 In 2011, the federal government introduced a levy to pay for some of the damage caused by disastrous floods in Queensland and Victoria.
  - a Outline the financial cost of the floods.
  - b How much will people need to pay?
  - c In your opinion, is the levy a good idea? Why, or why not?
  - d A permanent disaster relief fund that is funded by a permanent tax or levy has been proposed. Do you agree with this idea? Why, or why not?

# 2.2

## Spending income wisely

*Economy does not lie in sparing money, but in spending it wisely.*

Thomas Huxley

It is great to have our own money; to be free to make our own spending choices, to buy what we want and spend our money how we choose. However, sensible spending is wise, as it allows us to make the most of our hard-earned income.

So what makes a 'sensible spender'? A sensible or wise spender is someone who makes informed consumer decisions.

### FOR DISCUSSION

- 1 Are you a spender or a saver?
- 2 If you plan to make a big purchase, what do you do?

**Figure 2.2.1** Australian teenagers love a bargain.



Sensible spenders will do their homework before making any major purchase or before committing themselves to an ongoing contract, such as pay television or a mobile phone.

The first and most important decision to make revolves around your actual income. You need to ask yourself if you can really afford the item you are planning to buy. Perhaps it would be better to wait until you have some money saved instead of taking out a loan or using a credit card. Is it possible that you could get by with a less expensive but less prestigious model? It is vitally important that when considering a major purchase such as a car—or even a house—that you match spending to income and do not spend beyond your

means. This is especially important if you plan to take out a loan or use a credit card to make the purchase, because you need to ensure that you can afford the repayments each month. But, even if you are using your own money, it is important that you take into account any other expenses you might have and whether you will still be able to afford to go out with friends or pay for public transport for school etc. once you have made your purchase.

Once you have decided to go ahead with your purchase, the next important step is to shop around to find the best deals. Doing careful research at this stage will ensure that you get the best deals. Many retailers will offer discounts for cash or throw in 'free' extras as part of the package. Conducting this research may be as simple as collecting pamphlets from your letterbox or visiting the stores. Try to look past the advertising and marketing strategies and concentrate on finding specific information about the total costs and value for money. There are many independent sources of consumer information that can assist you in making a sensible decision.

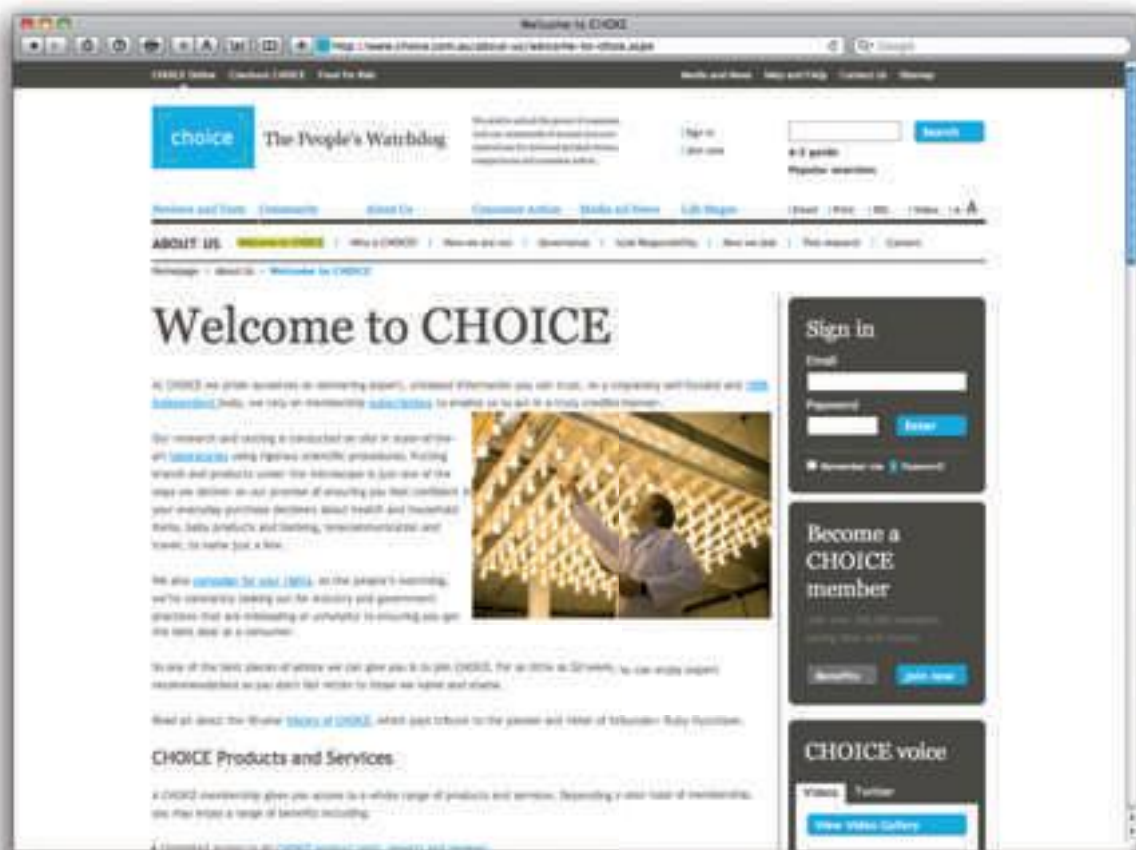
CHOICE is an independent organisation that acts as a consumer watchdog, regularly testing and rating a number of consumer products and publishing the results in its monthly magazine, *Choice*.

When signing up for a long-term contract—for instance, for an Internet, mobile phone or pay TV provider—it is important to ensure you understand exactly what you are signing up for. It is essential to investigate the extra costs or 'fine print' of any major purchase. If you are not sure you understand the contract, don't sign it. Check with someone independently; perhaps check out the website for Consumer Affairs Victoria, which provides consumers with a summary of their rights and responsibilities.

### FOR DISCUSSION

- 1 Do you have a mobile phone? How did you decide which company to go with?
- 2 Would you know who to contact if you had a problem with the phone contract?

**Figure 2.2.2** CHOICE is a good source for reliable and independent information about products.



### DID YOU KNOW?

The first mobile phone service in Australia was launched in 1987.



## CASE STUDY

## Spending wisely

## Purchasing a mobile phone

It is estimated that there are more than 21 million mobile phones in use in Australia. That is more than one per person. Mobile phones are simple and convenient to use, and offer more and more services to the user. Ask your parents to compare the first mobile phone they ever owned with the iPhone you may be using now. So how do you find the best phone, the best provider and the best arrangement for you? Following the guidelines of sensible spending will help you make the best purchase that you can afford, now and in the future.



Figure 2.2.3 Mobile phone plans come in a range of formats—and so do the prices!

#### Matching spending to income

It would be wonderful to have the latest iPhone with Internet capabilities and all of the applications. It would also be expensive and the sensible spender will ask: what do I really need? What can I afford?

#### Shop around and compare

Before you buy a mobile phone or sign up to a contract you should gather as much information as you can about:

- the types of plans available
- the contract conditions
- the billing arrangements
- available coverage
- what to do if you have difficulties.

Shopping around for the best deal may involve using the Internet to investigate the various mobile phone providers and the services they offer. Consider making your purchase from a major retailer such as Kmart or Myer, where the salesperson can help you make the best decision with no bias. Online forums on websites allow you to read the reviews about mobile phone products and services from other consumers.

#### Investigate the extra costs

Once you have decided on the phone and the provider, it is important to investigate the different types of plans available (pre-paid, capped and monthly), as call costs and deals may vary dramatically. Decide what calls, texts and downloads you would normally make so that you can work out the best deal for you. Penalties can apply if you change plans before the contract expires. Voicemail, call forwarding, premium SMS, Internet browsing and international roaming are often additional charges to your call plan or cap.

#### Understand your rights and responsibilities

When purchasing any major item or signing any contract, ensure you understand exactly what you are paying for. This is your responsibility as the purchaser. If something does go wrong you do have rights as a consumer. These rights will be discussed in more detail in other chapters of this book. In this instance it is sensible to first contact the retailer or network provider to try and sort out the problem. If you are unsuccessful, you could contact Consumer Affairs Victoria for support and advice.



Figure 2.2.4 PhoneChoice is an organisation that offers free, independent and unbiased advice to consumers looking to purchase a mobile phone.

**Task: Remembering and understanding**

- 1 Outline the two main factors to consider when making a major purchase.
- 2 Explain why saving for the purchase of a major item such as a car or holiday may be a better idea than using a credit card or bank loan.
- 3 When choosing an Internet or mobile phone plan, what are the major considerations?
- 4 List the sources of information a consumer can use to help make an informed decision.

**Task: Applying and analysing**

Imagine that you are going to purchase a games console such as a Wii or an Xbox. In pairs, conduct research into the deals offered by three or four major retailers. Include the base price of the item, as well as any extras that are being offered and the amount of extra value this adds to the item. Prepare a report that makes a recommendation.

**Task: Evaluating and creating**

Log on to Pearson Places, follow the prompts to the Australian Communications and Media Authority and locate the consumer and community advice section. Use the information contained in the links on this section to prepare a brochure explaining the sensible spending choices in relation to the purchase of a mobile phone or broadband Internet plan.

**Task: Assessment**

In teams of 2–4 students, conduct an investigation and prepare a presentation to the class advising teenagers about the purchase of a mobile phone. You will need to conduct a survey to discover the most common requirements—calls, texts, downloads—for people in your age group. You will need to present a table outlining the available plans, caps and deals, plus a discussion of the benefits of contracts v. prepaid usage. Be sure to include advice about signing contracts and where to seek help if something goes wrong.

## 2.3

## Saving

*The safe way to double your money is to fold it over once and put it in your pocket.*

Frank Hubbard

#### DID YOU KNOW?

Australia's first bank was the Bank of New South Wales, which was formed in 1817. Other private banks quickly followed. Each bank could produce its own banknotes.

**Figure 2.3.1** Not all activities require teenagers to spend money.



Saving involves setting aside a portion of your income each week. People save money for a variety of reasons: for a major purchase, to avoid using credit, for a 'rainy day', for their retirement. This unit will investigate a variety of ways people can save money.

## Savings accounts

The simplest way to save money is to open a standard savings account with a bank or building society and wait for your money to earn interest. It is important, however, to research your bank and choose the account that is right for your needs. Some accounts offer higher rates of interest if you don't make any withdrawals, some offer accounts with no transaction fees. Use the same process when choosing a bank account that you would with any major financial decision. Shop around and compare, investigate the fine print and understand your rights and responsibilities.

## Budgets

When saving for something important such as a new car or a holiday, it is useful to prepare a budget. A budget can also help you manage your finances to ensure that you are being a sensible spender. A budget is basically a plan outlining your anticipated income, spending and saving within a particular time frame. Budgeting will help

you to set and reach financial goals, such as saving for a holiday or a new car. Sticking to a prepared budget will help you control your spending and enable you to be ready for times when more spending is required, such as Christmas and holidays. Budgets help you formalise a savings plan and may be a useful tool when applying for credit.

## Preparing a budget

| Weekly budget |        |
|---------------|--------|
| Income        |        |
| Source        | Amount |
|               |        |
|               |        |
|               |        |
| Total         |        |
| Expenditure   |        |
| Item          | Amount |
|               |        |
|               |        |
|               |        |
| Total         |        |
| Savings       |        |

**Figure 2.3.2** An example of a budget planner

Compiling a budget should follow a sequence of logical steps.

- Work out your income—weekly or monthly.
- List your usual expenditure.
- Work out the difference between your income and your expenses—this can be set aside as savings.
- Adjust your budget as you go.
- Evaluate your budget.

### Calculate your income

Find out how much money you make from your job each week or month. Are there any extra sources of income? Remember to include those also, whether it be interest

payments on your savings or odd jobs you do locally; they should all be in your income list.

### List your expenditure

Your expenditure includes unavoidable costs that you must pay each week or month. This can include your mobile phone bill, bus fares, lunch etc. It can also include any spending on entertainment, clothing, gifts etc. that you plan to make.

### Work out your savings

By comparing income and expenditure you should be able to work out the total amount you can afford to save each week. Can you cut back on your expenses? Can you increase your income?

### Adjust your budget as you go

Unexpected things happen. Your phone may need repairing, your favourite band may announce a concert—just remember to add it into your expenses and adjust your budget so you can continue to stick to it.

### Evaluate your budget

Follow your newly created budget for exactly one month. At the end of the first month, evaluate how you went with your budget. Ask yourself things such as: where did I overspend, where could I save more money next month, what was the hardest thing about my budget?

Once you begin using a budget and saving a proportion of your income, it is important to make the right choice about the management of that money. You can choose to simply leave it in a bank account to earn interest or you may choose to invest your money in a product such as a term deposit, or in shares or even property.

## Superannuation

Superannuation is another form of saving for the future, but with a long-term focus on saving for your retirement. In 1992 compulsory superannuation was introduced for all employees. Under this scheme, your



employer is required by law to contribute on your behalf to a superannuation fund or scheme. They must pay an amount equal to 9 per cent of your total income. Many people also willingly contribute extra amounts to their 'super funds' to guarantee a comfortable retirement. Superannuation is a form of compulsory saving.

## Young put super change on the agenda

by Sallie Don

**Megan Whiley and Zelko Cetinic, a young professional couple in a new relationship, have started discussing savings and superannuation.**

The couple has recently moved into an apartment in Sydney's trendy inner west.

Ms Whiley, 29, and Mr Cetinic, 34, yesterday welcomed proposed changes to the superannuation system, which they say would help them as younger people still early in their careers. If the federal government implements the recommendations in the Cooper report released yesterday, on their current salaries they stand to gain about \$100 000 between them in extra superannuation by the time they retire.

Mr Cetinic says the proposed changes have made him think about making more voluntary contributions to his super, as he has seen his parents struggle in retirement.

'Neither of them really had jobs that had super funds, so they've had to look after themselves for their retirement,' he said.

He also said that superannuation rules have always 'been a bit of a shambles' and hard to understand. 'It's just common sense that they are trying to streamline super,' he says.

Mr Cetinic has recently consolidated all his super and hopes the government takes on board the report's recommendations.

'This would make it all even better to understand,' he says.



Ms Whiley says that while she has typically saved for medium-term goals as opposed to retirement, she thinks 'it's great the government is giving us an opportunity to put money away'.

She complains that as a younger saver, the government often focuses more on retirement issues of older generations.

She says her parents were among the lucky—and prudent—ones of their generation.

'They got the best prices in property, they got an opportunity in the Howard government to put money away without even being taxed.'

Ms Whiley thinks her parents were 'way better off at setting themselves up for retirement'.

She says that while it is good to see the 'government is thinking of younger people for a change', it probably won't affect her vote in the coming election.

'There are plenty more issues going on with this government that rate much higher up for me,' she says.

*The Australian, 6 July 2010*

## Investment in the securities market

Investment is a fancy name for saving. Well, not really; but it works along the same lines. If you have \$1000 and you leave it in a savings account for a year at 10 per cent per annum you will end up with \$1100. If you have \$1000 and you invest it in the securities market you could end up with a lot more—or a lot less!

Buying shares has become a very popular form of investment for many Australians. There are more than 1500 companies listed on the Australian Securities Exchange (ASX). Buying shares in one of these companies gives you part-ownership in

### DID YOU KNOW?

Currently in Australia there are approximately five persons working for each person over the age of 65 not working. In 2056, the number of people of working age for each person over the age of 65 is expected to be less than three.

that company. This can have two financial benefits. First, each year companies distribute a share of their profits to their owners or shareholders; this is known as a dividend. Second, shares in companies that perform well can increase in value over time; you could choose to sell your shares at a profit when you have a need for cash. Of course, investing in the market is not

fool-proof and there is no guarantee that the companies you choose to invest in will, in fact, perform well. A stockbroker or financial adviser can help you put together a portfolio of shares that should minimise risk and maximise returns. Most investment advisers recommend that the stock market should be a long-term investment solution.



Figure 2.3.3 Investing on the stock exchange can be a form of saving.

## Task: Remembering and understanding

- 1 Explain why it is important to save a proportion of your income.
- 2 Discuss the importance of preparing a budget.
- 3 Explain the importance of superannuation to the individual and to the government.
- 4 Explain how superannuation is 'saved'.
- 5 Explain the difference between saving and investing.
- 6 Explain how investing in the stock market could be considered a form of saving.

## Task: Applying and analysing

- 1 Using a budget planner similar to the one in Figure 2.3.2, prepare a weekly budget for yourself. Don't forget to include all income and expenditure. How much can you afford to put aside as savings?
- 2 You want to buy an iPhone valued at \$1050. At your present rate of saving, how long will it take you to reach your goal? How could you reach your goal faster?
- 3 Using a table similar to the one below, outline the advantages and disadvantages of each form of saving discussed in the chapter above.

| Form of saving  | Advantages | Disadvantages |
|-----------------|------------|---------------|
| Savings account |            |               |
| Superannuation  |            |               |
| Shares          |            |               |

- 4 Read the article titled 'Young put super change on the agenda' on page 46.
  - a What is superannuation?
  - b What is meant by 'voluntary contribution'?
  - c Explain why Mr Cetinic believes it is important to voluntarily contribute to his superannuation.
  - d Contrast the experiences of Mr Cetinic's parents with those of Ms Whiley's parents.
  - e Discuss why the government may be concentrating on the retirement issues of older generations, and why Ms Whiley believes it is important for the government to be thinking about younger generations.

## Task: Evaluating and creating

### Preparing a budget

Nick Smith is a secondary school student with a casual job at a fast-food restaurant. His income is \$275 a week. His parents give him \$50 toward his school supplies and travel. He estimates that he spends about \$100 a week on entertainment, \$40 a week on travel, \$30 a week on books and stationery for school and \$50 a week (on average) on clothes. He has \$350 in a savings account at the moment. He is currently saving for a motorbike, which he estimates will cost him around \$2300.

- a Prepare a one-week budget for Nick. Show total income and total expenses and show the difference between the totals as savings.
- b How many weeks will it take Nick to save for the motorbike?
- c Explain how the budget will change after Nick has purchased his bike. Hint: consider how his expenditure will change.
- d Why should Nick continue to prepare (and stick to) his budget after he has purchased his motorbike?

## Task: Assessment

### Playing the stock market

- a Working in groups, log on to Pearson Places and follow the prompts to the Australian Securities Exchange and its Schools Sharemarket Game.
- b Each group has \$50 000 to invest in the share market.
- c Decide on a portfolio of five companies with which you will invest your \$50 000.
- d Create a table or spreadsheet to show your purchases.
- e Monitor your shares over the next four weeks, updating your table each week.
- f As a class, determine the winner of the sharemarket game; that is, the group that had the largest increase in the value of its portfolio.



| Sharemarket Game |              |                |                  |                           |                      |                    |                    |
|------------------|--------------|----------------|------------------|---------------------------|----------------------|--------------------|--------------------|
| Company name     | Company code | Purchase price | Number of shares | Total value week 1        | Total value week 2   | Total value week 3 | Total value week 4 |
|                  |              |                |                  | (purchase price × number) | (new price × number) |                    |                    |
|                  |              |                |                  |                           |                      |                    |                    |
|                  |              |                |                  |                           |                      |                    |                    |
|                  |              |                |                  |                           |                      |                    |                    |
|                  |              |                |                  |                           |                      |                    |                    |
|                  |              |                |                  |                           |                      |                    |                    |
|                  |              |                |                  |                           |                      |                    |                    |
|                  |              |                |                  |                           |                      |                    |                    |

Figure 2.3.4 A typical spreadsheet for following the ASX Schools Sharemarket Game



# CHAPTER THREE

# Economics

## Introduction

Economics is the business of choosing between scarce resources; it is integral to the decisions that we make every day. Whether you are at school or in the work force, understanding the social science of economics will help you understand how people make these choices and what impact their choices have on others. Economics relates to every aspect of our lives, from the decisions we make as individuals or families to the structures created by governments and firms. Why is it that some products can have a high price and still be in demand? When do services and products decrease in value? What is the best allocation of the resources we have available? How do we allocate our time, how much do we spend and save, how do we combine resources to produce goods and services? All of those questions and many more can be answered by basic economic knowledge.

**Figure 3.1.0** Economic choices pervade every aspect of our lives



# 3.1

## The basics

*Without economy  
none can be rich,  
and with it few will  
be poor.*

Samuel Johnson

**Figure 3.1.1** People satisfying their needs and wants



Economics is about meeting our needs and wants so that we can maximise available resources and improve our living conditions. It can be defined as the study of how a society uses its limited resources to satisfy unlimited needs and wants.

To understand **economics** means to understand how individuals, businesses and governments work together and interact in order to sustain a way of life. Any operation of an economy must account for human behaviour and an understanding of the decisions and actions people make to satisfy the way they want to live. It must also continually measure data on the choices made and the impact they have, including what goods and services are produced and the prices that are charged, and predict what may happen in the future to help citizens plan their lives and to guide government policies.

An **economy** is an area in which people make and purchase goods and services. It can be any size and have any number of people involved. A local economy would involve a small town, a national economy would encompass Australia and a global economy takes in the world. The most basic function of any economy is to use efficiently whatever resources it has in order to satisfy as many needs and wants as possible. And the most basic economic problem is how to best solve this problem.

### **economics**

how a nation attempts to satisfy its people's needs and wants with limited resources

### **economy**

the organisation of a society where goods and services are produced and consumed

## Needs and wants

Needs refer to those things that are necessary for survival. The main needs in life are:

- food
- water
- clothing
- shelter.



Food



Shelter



Water



Clothing

**Figure 3.1.2** Economic needs

When our basic needs have been satisfied, we want something better and once we have satisfied that want, we want something else again. So it can go on and on. In other words, our wants are unlimited. Wants refer to all the needs we have to maintain life plus the other material things we wish to have that can

make our life more comfortable. Although most people's needs are very similar, generally everyone's wants differ and there are a number of factors that will influence what those wants are.

### Age

As we move through the stages of life and experience new things, our wants logically change. If you observe the different wants of infants, teenagers, adults and the elderly you can see distinct differences. Newborns may be satisfied with a pacifier or dummy to help them sleep, teenagers want to be up to date with the newest technology by owning an iPhone, adults may seek stability in life and want the Australian dream of owning their own home, and the elderly may choose to enjoy their retirement by wanting that long-awaited and well-deserved holiday.

### Income

The amount of money available in a household will influence the wants that can be satisfied. If you come from a wealthier family you may want products that are more prestigious and expensive, such as a flat screen TV for your bedroom, whereas individuals who come from a more financially modest family may be satisfied with products of a lesser value, such as a DVD to watch on the family television.

### Fashion and tastes

People will change their wants based on what is trendy or fashionable in present-day society. What was 'hip' and demanded last year may become obsolete or old-fashioned a year later. Clothes are a good example of the impact of fashion and how it changes what people want to wear and be seen in.

### Culture

Do you think all teenagers your age have the same sorts of wants all over the world? Imagine you were living in a country with high spiritual values, such as India,

or growing up in a rural settlement in Ethiopia; would your wants be identical? Of course not. Differences in religion, family structure, customs and traditions will greatly influence the goods and services wanted in those societies. Some of the wants in our culture may not even exist in theirs.

## Values and attitudes

The type of lifestyle we would like to lead and the things we believe in guide our choices of the material things we want in life. Some consumers make decisions to respect the natural environment by wanting to buy only organic foods, drive a small, fuel-efficient car or install solar energy in their homes. Others make purchases based on their want for personal enjoyment and leisure, by driving a large 4WD and having the latest hi-tech gadgets in the home.

## Environment

The physical environment or climate of your surroundings will significantly affect the wants you have, particularly as wants help us to feel comfortable and satisfied. If you were living in the cold of Siberia you would certainly want high-quality heating and home insulation, and warm thermal clothing and footwear. If you were living in Darwin, however, the want for heating and warm clothes would be replaced with a want for excellent air-conditioning and maybe a swimming pool to go with your shorts and sandals.

When we have our own wants we refer to them as 'individual wants'. We each try to satisfy things we personally want and we buy these items using the money we earn. However, there are also wants that are desired by the whole community. These are called 'collective wants'. These items are commonly known as public goods and services and it is the responsibility of the government to provide these wants for the population using the funds received from the taxation system.

All wants can have a number of features.

| Types of wants | Features of wants                                                                                                                                                                  |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Recurrent      | Some wants occur repeatedly, such as food and clothes.                                                                                                                             |
| Complementary  | Some wants are paired with other wants; for instance, you need fuel to run a car.                                                                                                  |
| Unlimited      | The wants that we purchase are never totally fulfilled. As long as you have money, when one want has been purchased and therefore satisfied, another takes its place very quickly. |
| Changeable     | Wants change over time, due to things such as fashion, technology, age, income, season and location.                                                                               |

There are three levels of government that provide different collective wants, based on their level of accountability. The federal or Commonwealth government provides the wants that all Australians have as a nation. Some of these wants include a solid defence capability and human services such as the aged pension, unemployment benefits and border security. State governments provide the wants that are specific to each state or territory. These range from efficient hospitals and schools to a strong police force and reliable roads. Finally, your local government or council provides for the needs of your local community or neighbourhood, which could include your immediate suburb, city or region. The wants of local residents include garbage collection, the maintenance of local libraries and provision of recreation centres.

### FOR DISCUSSION

- 1 What distinguishes a need from a want?
- 2 What are some of the attitudes and tastes that have caused people's wants to change over time?
- 3 What is more likely to affect your wants compared to the wants of your parents or grandparents?
- 4 Do millionaires get to satisfy all their wants?



**factors of production**

the resources—land, labour, capital and enterprise—that are used to produce goods and services

**exhaustible (non-renewable)**

limited in supply; a resource that is exhaustible, such as coal, iron ore or petroleum, cannot be replaced

**renewable**

available indefinitely; a resource that is renewable; such as water, forest or fisheries, will always be available, so long as it is not over-used or abused

**entrepreneur**

a person who uses their skills, creativity and innovation to create or exploit economic opportunities; e.g. Richard Branson



**Figure 3.1.3** Can't have one without the other

## Resources

To provide us with our needs and wants we have to organise and use our country's resources to best produce our required goods and services. Resources are anything that can be used in the production process (what we use to make goods). They are also referred to as the **factors of production**. An economy develops as these factors of production are organised to create the necessary goods and services to satisfy the needs and wants of a society. There are four categories of resources: land, labour, capital and enterprise.

### Land

Land resources are often called raw materials or natural resources, as they occur naturally in the environment; that is, they literally come from the land. Examples of this resource include minerals, gold, fish and animals, soil and forest. These resources can be either **exhaustible** or **renewable**. When a resource is exhaustible it is limited in its supply and it cannot be replaced; it will eventually run out. Resources that are exhaustible include coal, iron and petroleum. Resources that are renewable are available indefinitely as long as they are not abused or over-used. Examples of renewable resources include water, fish and forests.

### Labour

Labour involves the physical and mental effort, and the human skills that go into producing goods and services. We often call it the labour force or the workforce. The production of some goods is labour-intensive

and requires a lot of workers (sewing t-shirts) while others are not (making chocolate bars).

### Capital

Capital refers to goods that have been produced for the purpose of making final goods for the shelves or for providing services. Capital includes the factories, machines, tools and computers, which assist labour to increase production. These are often called our 'man-made' resources.



**Figure 3.1.4** Economic resources: land, labour, capital

### Enterprise

Enterprise is the term used for the skills, creativity and innovation that people apply to the use of the other three resources. We call a person who uses their skills to create economic opportunities an **entrepreneur**. Entrepreneurs produce something that is different and is what people want.

As we have seen, economics is about using available resources to satisfy as many needs and wants of as many people as possible. However, we can never meet all wants because of the finite nature or scarcity of resources, and this forms a key economic problem.

### FOR DISCUSSION

- 1 What are some goods or services that need a complementary good or service?
- 2 Do you think that there any services or goods that the government should provide, which they currently do not?
- 3 What are some examples of the different factors of production used at your school?
- 4 What is another name for someone who undertakes enterprise?

# What is economic scarcity?

**Economic scarcity** means that the resources a society needs to produce goods and services to meet people's needs and wants are limited. Scarcity allows us to classify goods into different categories.

- Economic goods are anything that has a price. The scarcer a good is, the higher the price will be.
- Free goods are things we don't pay for; generally, they are not scarce. Air and sunshine are examples of free goods. They may be used in the production process but do not have a cost associated to them or are not charged.
- Capital goods are used to make other goods. They include machinery, tools and equipment.
- Consumer goods are things we buy off the shelves in stores. They can be categorised as **durable goods** and **non-durable goods**.

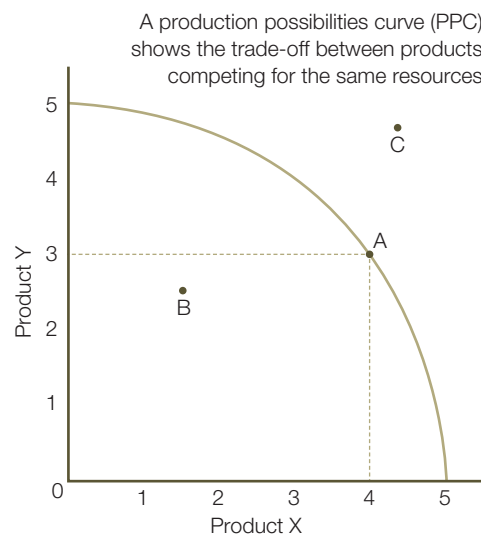
Scarcity creates a need for choice. When you choose to purchase or produce one product, you sacrifice an alternative product. This is called **opportunity cost**, and is defined as a good or service given up in order to consume or produce another good or service of equal value as a result of scarcity. Suppose we have decided to spend our savings of \$10 000 on either a car or an overseas holiday. Whichever we choose, we are giving up one or the other.

## Opportunity cost model

We can illustrate opportunity cost using an economic model called a production possibilities curve (PPC), which shows the trade-off between products that are competing for the same resources. In Figure 3.1.5 you can see that, if you produce five units of Product Y, you have used all of your resources and cannot produce any of Product X. For each unit of Product X that you make, you will have to give up some of

Product Y until, if you produce five units of Product X, you can no longer produce any units of Product Y at all. When all of these choices are plotted on the graph, you will have a production possibility frontier—a line that defines all of the possible trade-offs between Products X and Y while using all of your economic resources. Since all economies operate at or near full utilisation of resources (that is, on the production possibility frontier), every economic choice has an opportunity cost.

You can apply this graph to a single business operation or to a whole economy.



### How to read the PPC

- A Full use of resources—using all of the resources you have available
- B Not using all available resources efficiently—you could be making more
- C Trying to produce more than is possible with the available resources—simply can't be done!

Figure 3.1.5 A production possibilities curve

## A summary of the basic economic problem

The economic model leads to four fundamental questions any economy has to answer.

- 1 What to produce?
- 2 How to produce it?
- 3 How much to produce?
- 4 Who to produce it for?

**economic scarcity**  
the concept that the factors of production are finite and therefore insufficient to meet people's needs and wants

**durable goods**  
goods that last a long time, such as television sets, cars or computers

**non-durable goods**  
goods that do not last a long time or are consumed quickly, such as food, petrol, cosmetics and laundry products

**opportunity cost**  
the amount of one good or service that must be forgone in order to make or purchase another good or service

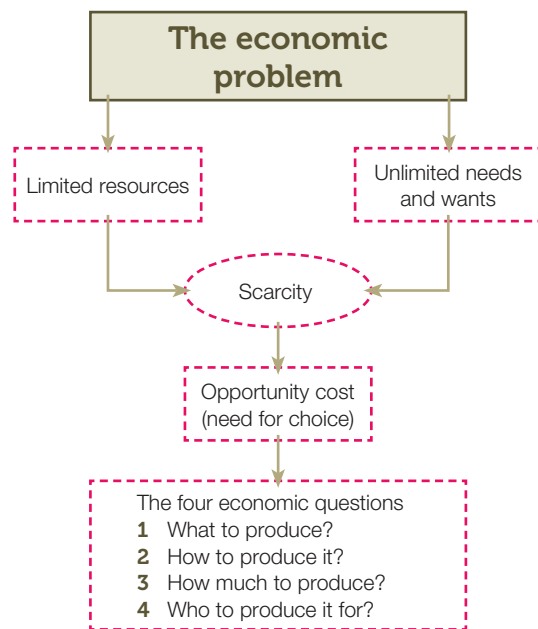


**Figure 3.1.6** What economics tries to deal with

Every economy faces these fundamental questions, whether it is a highly developed economy, the poorest of countries, your local community or a small group of people stranded on a desert island.

## Economic systems

To respond to these questions, different economic systems have developed. These systems revolve around how people in those societies allocate scarce resources to satisfy competing needs and wants. In other words, an economic system attempts to find ways of solving the basic economic problem.

There are four main types of economic systems that have developed over time. These are:

- a traditional or subsistence economy
- a command or planned economy
- a market or unplanned economy
- a mixed economy.

### FOR DISCUSSION

- 1 Is there any such thing as a 'free good'?
- 2 Why do economies have to consider the basic economic questions?
- 3 Does opportunity cost mean the same thing as opportunity gained?

## Traditional or subsistence economy

A traditional or subsistence economy is an economic system in which the allocation of resources is based on inheritance and ritual, and tends to meet only the basic human needs of the community in order to be self-sufficient. There is no central authority or commercial activity, and customs govern the decisions that are made. Economic activity and production are very simple and can still rely on the historical system of barter, where people exchange goods and services directly rather than via the medium of money.

One advantage of a subsistence economy is that there is little uncertainty; everyone knows what role to play. Life is generally simple, stable and predictable and people follow the traditions of their ancestors. The problem with this simple subsistence is that the system will generally work only when the goods and services being exchanged are simple in nature. As soon as more sophisticated products are introduced into the market, it is almost impossible to work out how much they are worth. This type of economy also tends to discourage new ideas and new ways of doing things (production) and the consequent lack of progress limits the standard of living of the participants.

## Command or planned economy

A command or planned economy is an economic system in which the state or government controls the factors of production and makes all decisions about their use. In this structure, the government decides what is best for the people and makes all decisions: who will work, where they will work and what will be made. Finally, the government also decides who will receive the goods and services. The controlling authorities believe that when individuals act with their own interests in mind, it is possible or even likely that the overall good of the community will suffer. Because the government has total control

over production and its factors, these economies can change rapidly. Whatever is needed most will be produced. There is no uncertainty, with people being told when and how to work.

However, these economies are designed to meet only needs, not wants. There is neither incentive to work hard nor any reward for initiative or entrepreneurship. This system of government means slow decision making, high costs of production due to lack of efficiency and little flexibility, which ultimately slows economic progress. Consumers may have their needs met, but they also lack choice. Perhaps the purest examples of an economy of this type are the kibbutz communities that exist in Israel. In these groups, people do not have private property rights. In fact, some of the groups even wash all the clothes communally; people then take whichever clothes they need from a central pile.



**Figure 3.1.7** North Korea is an example of a planned economy

## Market or unplanned economy

An unplanned or free market economy is a type of economic system in which decisions about the allocation of scarce

resources are made by two groups: businesses and consumers. The production of goods and services is based on what consumers demand and what businesses are willing to supply. These groups interact freely in the marketplace with minimal restrictions, and the government plays only a minor role: making sure that the market is stable enough to carry out its economic activities properly. The government does not tell a business what goods to produce or what price to charge. Instead, these decisions are driven by changes in prices and the level of competition that occurs as individual buyers and sellers trade in the marketplace.

Since unplanned economies are governed by the laws of supply and demand, the market itself will seek to economically maximise the standard of living for all. Businesses can decide what goods to produce and in what quantity, and consumers and businesses can decide what they want to purchase and at what price. The key advantage of a market economy is the high degree of individual freedom that exists as a result of the lack of government interference. The economy adjusts to changes based on consumer wants and as a result there is a wider variety of goods and services available.

With this type of economic system relying on the interaction of demand, supply and price, there is an argument that it does not provide for people's basic needs. Economic activity is motivated by profit, which has the disadvantage of creating or enlarging a gap between the wealthy and the poor.



**Figure 3.1.8** Capitalist economies depend on the market to make economic decisions.



**consumer sovereignty**

the preferences of consumers that determine what goods and services they will buy; this freedom of consumers ultimately determines what goods and services the economy will produce

**product market**

the market where households buy finished goods and services; the most familiar market is the retail market

**factor market**

the market where businesses buy the land, labour and capital factors of production

**gross domestic product (GDP)**

the total value of all final goods and services produced in an economy in a period of time

**FOR DISCUSSION**

- 1 What is another name for an unplanned economy?
- 2 What does the 'mix' refer to in a mixed economy?
- 3 Can you think of any countries that may still be operating as a traditional economy?
- 4 What sorts of things will affect the type of economic system that operates in a country?

## Mixed economy

A mixed economy is an economy that has a combination of economic systems. It is usually defined as an economy that contains both privately owned and government-owned enterprises; or that combines elements of a market economy and a command economy. This system exists in many countries where neither the government nor the business sector fully controls the economic activities of that country, although both parties play an important role in economic decision making. In a mixed economy there is flexibility in some areas and government control in others. Businesses own most resources and determine what and how to produce, but the government regulates certain industries. To put it simply, the government takes care of people's needs and the marketplace takes care of people's wants.

In reality, there are no pure command or market economies. To some degree, all modern economies are mixed economies and exhibit characteristics of both, although the combination may vary from country to country.

## The market economy of Australia

Sometimes a market economy is also referred to as a capitalist or free-enterprise economy. Although it has been established that an unplanned or free market does not actually exist in practice, a country such as Australia is still referred to as a market economy because it comes as close as possible to the economic model where most economic decisions are arrived at by the interaction of consumers and producers or firms. Perhaps 30 per cent of economic decisions are made by the government, and the model operates through a market system where money is exchanged for

goods and services. This relationship is demonstrated through a circular-flow model that shows how things work in a market economic system, and in particular what exchanges take place. The model makes some basic assumptions about the economy, which are listed below.

- The price mechanism operates, which means that price determines how resources are allocated.
- There is **consumer sovereignty**, where consumers direct where resources go by exercising their purchasing power.
- There is economic freedom in the choice of how to live, where to work and ways to save and invest.

## Circular-flow model

In the market economy there are flows between two sectors: the household sector and the business sector. These two sectors interact in the **product market** and the **factor market**. Households are consumers who demand goods and services, provide the labour to businesses to make them and then pay for goods and services with money. Businesses produce and supply the goods and services, source the factors of production and pay for the resources used. The circular-flow model also demonstrates how goods and services are provided to consumers through the exchange of three other sectors in the economy. The inclusion of the government sector in a market economy comes from the need to acquire resources to provide some key public services.

## Gross domestic product and the economic cycle

The performance of an economy is commonly measured by economic growth. One piece of information about the economic growth of a nation is its **gross domestic product (GDP)**. This is the most common determinant of a nation's

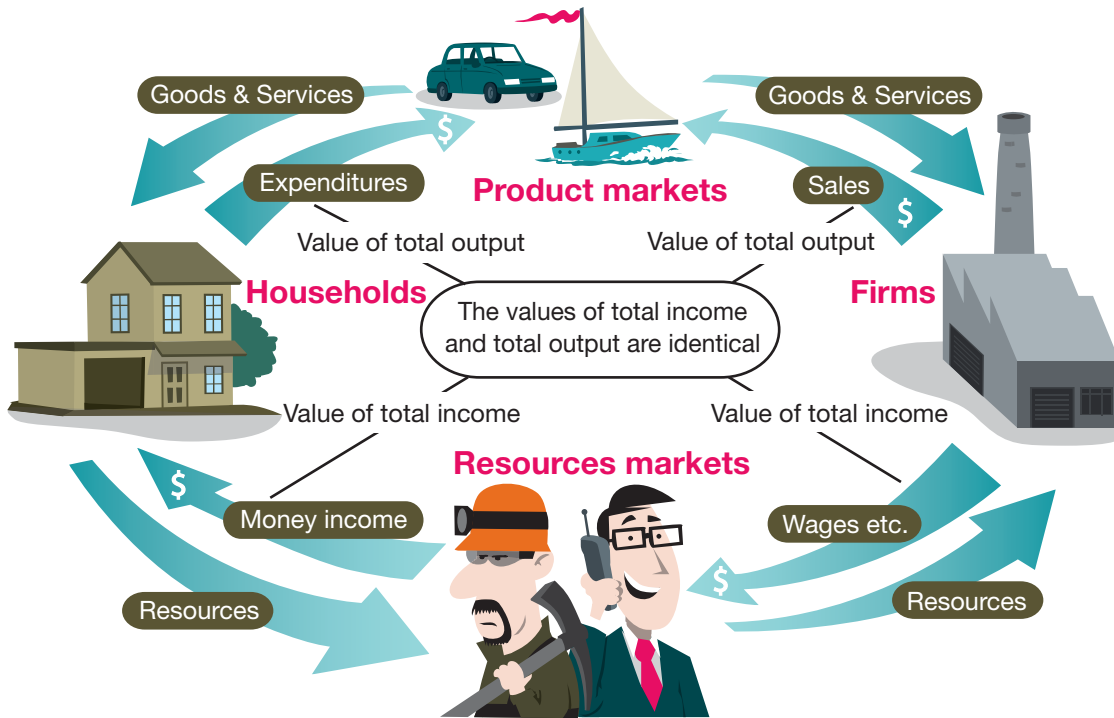


Figure 3.1.9 The circular-flow model

economic performance, and measures the total value of all the goods and services produced in a country, usually over a year. Each year the percentage change is calculated, which gives an indication of whether the standard of living in an economy is rising or falling. Gross domestic product takes into account the flows in the circular model, so it is calculated using consumer spending, private investment, government spending, imports and exports, and is represented by the formula:

$$\text{GDP} = C + I + G + (X - M)$$

Many factors can affect the components of GDP; thus, economic activity is constantly changing and tends to follow a cycle of ups and downs. In economics this pattern of increased and decreased growth in business activity is known as the economic cycle or **business cycle**.

The rate of economic activity moves through four phases.

#### 1 Peak or boom

The economy is producing at its full capacity with high GDP and unemployment is at its lowest.

#### 2 Contraction

GDP declines as consumers and businesses reduce their spending due to a lack of confidence in the economy. Investment declines and unemployment rises.

#### 3 Trough or recession

This is the lowest point of the business cycle, where production output is below capacity, causing prices to fall, and unemployment to reach high levels. With GDP at its lowest, business profits drop and some will go out of operation.

#### 4 Expansion

Consumer and business spending rises, increasing GDP, and unemployment begins to fall.

#### FOR DISCUSSION

- 1 What does capitalism mean?
- 2 Can it be said that a market economy is a free economy?
- 3 Who are all the groups that operate in a market economy?
- 4 Who decides what products are made and sold in a market economy?
- 5 How do economists measure the value of economic activity in a country?

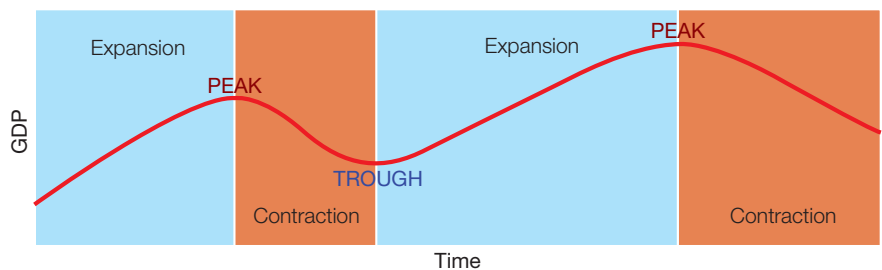


Figure 3.1.10 The activity of an economy is measured by the economic or business cycle.

### Task: Remembering and understanding

- 1 Is the term 'economy' another word for 'country'? Explain.
- 2 Many people believe that there should be more items considered as needs in today's society. Which items would you add as economic needs today?
- 3 List the characteristics of wants. Find five examples of products that fit into each of these characteristics. Do not use the same example more than once.
- 4 If a market economy is supposed to be free of intervention and based on decisions made by businesses and households, why does the government still have input?
- 5 According to the business cycle, what causes a recession?

### Task: Applying and analysing

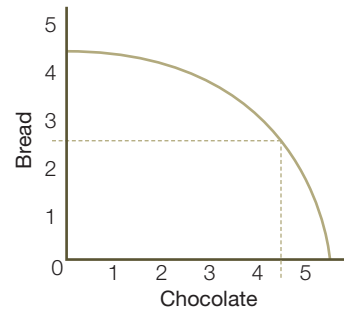
- 1 There are always things we want that we do not have.
  - a Make a list of all the things you would like to have at the moment—your wants. You should be able to think of at least ten different items.
  - b Your money supply is not enough for you to have all of your wants, so take the items in your list and rewrite them in order from what you want most to least.
  - c What factors influenced your order of wants?
  - d Write a sentence that would illustrate opportunity cost within your list.
  - e How would the government decide on a preference order of collective wants to supply to its citizens?
  - f Write an example of an opportunity cost the government may be faced with.
- 2 Classify the following items as land, labour, capital or enterprise.
 

|                          |                                  |
|--------------------------|----------------------------------|
| a Your Commerce teacher  | g Fertiliser added to soil       |
| b A computer             | h An importer's warehouse        |
| c Richard Branson        | i A NASA astronaut               |
| d A real estate agent    | j Beef on King Island            |
| e Potatoes from Tasmania | k A telecommunications satellite |
| f A migrant from Italy   |                                  |
- 3 Team up with another student in your class and choose a product. Individually write down all the resources you think will be needed to produce that product. Use the headings: land, labour, capital and enterprise. Once you have completed your list, swap with your partner and see what similarities and differences you had. Use both lists to create a poster of your product, combining all your ideas.

### Task: Evaluating and creating

- 1 Using the board or sheets of paper, create a class concept map of Economics that reflects the concepts you have learned and the links between them.

- 2 Examine the diagram on the right. Plot the following situations on the production possibilities curve.
- Where the maximum output is 2.5 units of bread and 4.5 units of chocolate
  - Where output is below full potential
  - Where production is beyond the capacity of the economy



- 3 The table below shows the different combinations of computers and scooters that could be produced in an economy if all resources were used efficiently. Using the information, create a production possibilities curve. On your graph, use the horizontal axis for computers and the vertical axis for scooters.

| Production possibilities |     |    |    |    |    |
|--------------------------|-----|----|----|----|----|
| Computers                | 100 | 90 | 70 | 40 | 0  |
| Scooters                 | 0   | 30 | 50 | 70 | 80 |

- How many scooters could be produced if 40 computers were produced?
- How many computers could be produced if 60 scooters were made?
- Plot this point onto your graph and label it 'A': 50 computers and 30 scooters.
- What does this point tell you?
- Plot this point onto your graph and label it 'B': 80 computers and 70 scooters.
- What does this point tell you?

## Task: Assignment

- 1 Research a country and complete a profile of their economic system, using the template below. You may choose a country of your choice or your teacher may allocate one to you. You will find some useful websites by logging on to Pearson Places and following the prompts to the online resources listed below.
- Countries of the World
  - Students of the World
  - CountryReports
  - The World Factbook



| Country:                 |                 |
|--------------------------|-----------------|
| Population:              | Capital city:   |
| Currency:                | Leader:         |
| Unemployment rate:       | Inflation rate: |
| Government/economy type: |                 |
| Main industries:         |                 |
| Main exports:            |                 |
| Main imports:            |                 |
| Trading partners:        |                 |

Figure 3.1.11 Template of economic profile



# 3.2

## Markets

### microeconomics

an area of economics that analyses individual markets

### market

a process or an institution where producers and consumers interact with each other in order to sell and buy goods and services

*The market is not an invention of capitalism. It has existed for centuries. It is an invention of civilisation.*

Mikhail Gorbachev

**Microeconomics** is concerned with the individual parts of the economy and focuses on the economic behaviour of individual consumers, businesses and industries. It is concerned with the demand and supply of particular goods, services and resources and analyses the level of competition that operates within these markets.

## The nature of markets

When you hear or see the word **market** it may make you think of a place where you go to purchase your fruit and vegetables. In economics a market refers to so much more, and there are many diverse markets that operate in an economy. A market can indeed be the Sunday craft market at the local community hall, but it can also be as complex as the sharemarket, or as competitive as the housing market.

Countries where markets control the economic activity of a nation have what is known as a market economy. A market economy is one where market forces address the fundamental questions of what to produce, how much to produce and who will produce it, and there is little or no government intervention. The participants in a market economy are consumers and producers, who interact to determine the selling price of each product.

**Figure 3.2.1** In economics, the term 'market' does not necessarily refer to 'shopping' markets



### DID YOU KNOW?

The Australian banking market is made up of 54 banks, 108 credit unions and 11 building societies, and there are more than 2000 mortgage products to choose from.

## Types of markets

|                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Property and housing</b> <ul style="list-style-type: none"> <li>Involves the buying and selling of private homes and commercial buildings</li> </ul>                                                                                                                                      | <b>Labour</b> <ul style="list-style-type: none"> <li>Involves the buying of labour by businesses, which employ people for a wage or salary</li> </ul>                                                            |
| <b>Finance and banking</b> <ul style="list-style-type: none"> <li>Involves financial institutions such as banks and credit unions, which borrow money from savers and lend money to buyers</li> </ul>                                                                                        | <b>Commodity</b> <ul style="list-style-type: none"> <li>Involves selling and buying raw materials to companies that make final products with them</li> <li>Includes gold, gas, timber, iron, minerals</li> </ul> |
| <b>Stock</b> <ul style="list-style-type: none"> <li>Involves buying and selling shares in companies to make money</li> <li>When companies make profits, shareholders are paid also</li> </ul>                                                                                                | <b>Agricultural</b> <ul style="list-style-type: none"> <li>Involves farming to produce products for local and overseas consumers</li> <li>Includes wheat, wool, beef, sugar etc.</li> </ul>                      |
| <b>Sport and leisure</b> <ul style="list-style-type: none"> <li>Involves the running of local and international sporting events, such as the Grand Prix, AFL, horse racing and tennis</li> <li>Also involves the provision of leisure businesses such as travel and entertainment</li> </ul> | <b>Foreign exchange</b> <ul style="list-style-type: none"> <li>Involves the exchange of international currencies and local currency</li> <li>Often used in trading of exports and imports</li> </ul>             |

Figure 3.2.2 Types of markets

## Types of market competition

Markets are important to countries such as Australia, because their operations make many of the nation's economic decisions. With so many different types and sizes of markets, the rivalry and type of competition varies. A market for property will have many competitors, whereas a market for groceries has fewer key players.

The different levels of competition in a market are shown in Figure 3.2.3 below.

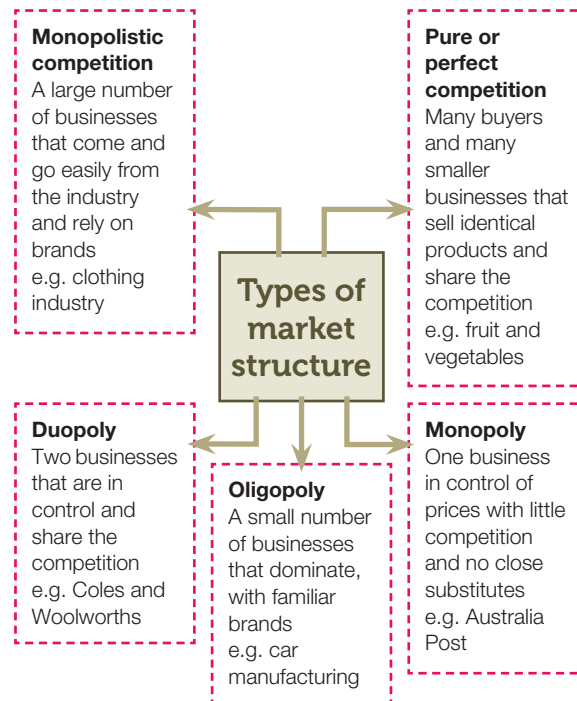


Figure 3.2.3 Types of market structures

## The operation of a market

Analysis of how markets function requires examination of the behaviour of consumers and producers. What defines a market is the dealings that take place. A market exists when buyers and sellers interact and negotiate price in order to purchase particular goods or services. In any market, economic decisions are made according to the laws of supply and demand. The relationship between price and the amount of a product people want to buy is what economists call the demand curve. The relationship between the quantity sellers want to sell during some time period (quantity supplied) and price is what economists call the supply curve.

## Demand

The concept of demand is a way of summarising the behaviour of buyers. Demand refers to how much consumers are willing and able to buy, and consists of two

law of demand

as the price of a product rises, the quantity demanded will fall, and vice versa

elements: the desire for goods and services and the capacity to pay for them. It is important to distinguish demand and wants. You may want to buy a new car, but your capacity to pay for it is limited. If you don't have the money you can't buy it! Demand, on the other hand, reflects the quantity of products consumers plan to buy in a given period of time, given their scarce resources.

Specifically, demand is defined as the relationship between various prices of a good and the corresponding quantities that consumers are willing and able to purchase at a given time and with all other factors remaining constant. This relationship is inverse, or negative, meaning that as one factor moves up or down, the other factor moves in the opposite direction.

The law of demand

The **law of demand** states that as the price of a good increases then quantity demanded will fall. As the price of the good falls, demand increases.

This is illustrated in a table called a demand schedule or on a graph called a demand curve. A demand curve shows this inverse relationship between the price and quantity demanded of the good by sloping downward and to the right.

| Demand schedule           |                                    |
|---------------------------|------------------------------------|
| Price of cherries (\$/kg) | Quantity of cherries demanded (kg) |
| 2.00                      | 20 000                             |
| 4.00                      | 15 000                             |
| 6.00                      | 12 000                             |
| 8.00                      | 10 000                             |
| 10.00                     | 8 000                              |

Demand curve for cherries

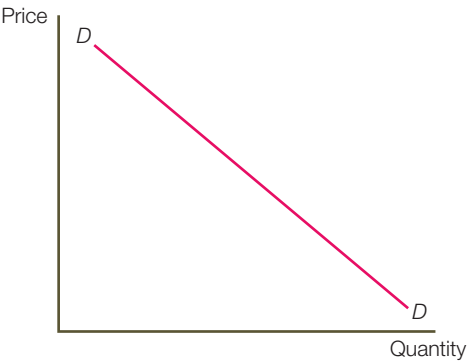


Figure 3.2.4 The demand curve slopes downward and to the right.

Changes in demand

When there is a change in price there will be a movement along the existing demand curve. As prices rise, people demand less of the product, which leads to a contraction in demand. As prices fall people demand more of the product, which leads to an expansion in demand.

Demand curve for cherries

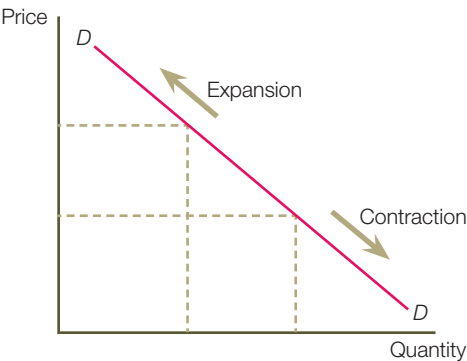


Figure 3.2.5 Only price changes result in a movement along the demand curve.

Shift in the demand curve

As long as the only thing changing is price, the demand curve remains in the same position.

However, if there is a change other than price, the entire demand curve shifts. An increase in demand shifts the curve to the right and a decrease in demand shifts the curve to the left. The factors that may cause this shift are:

- **level of disposable income:** an increase in income leads to more spending
- **tastes and fashions:** changes in preferences can lead to particular goods and services becoming more popular at certain times; for instance, loose-fit jeans versus tight jeans
- **price and availability of substitute products:** if the price of a similar product decreases, people will switch to that similar good to replace the more expensive product; for instance, butter versus margarine
- **price and availability of complementary products:** if the price of a product changes, and it is used or linked with another product, that linked product will be affected; for instance, petrol and cars, coffee and milk
- **consumer confidence:** if shoppers feel positive about the economy and the future, they are more likely to spend their money and demand a wide variety of products
- **size of the market:** if the population increases, there will be more consumers in the market place and demand will rise; for instance, housing or food.



**Figure 3.2.6** Our taste for gadgets has caused great demand for the latest technology.

For example, imagine that grapes, which are considered a substitute for cherries, increase dramatically in price. The effect of this price rise causes more consumers to want to purchase cherries instead of grapes. This increase in demand will shift the demand curve for grapes to the right.

If a marketing campaign for a summer of mangoes is successful, the demand for cherries will drop as a consequence. As a result, this will shift the demand curve for cherries to the right.

### Shifts in the demand for cherries

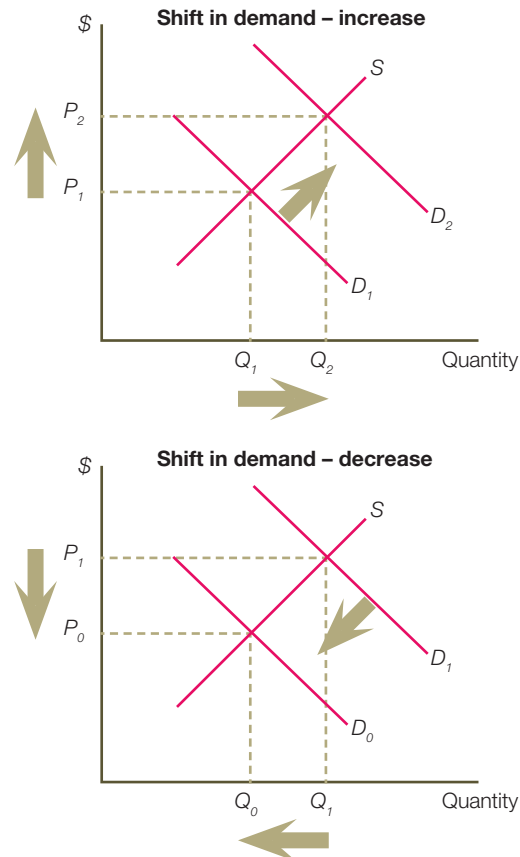


**Figure 3.2.7** Shifts in the demand curve result from increases and decreases in demand. These shifts are caused by a change in factors other than the price.

## Supply

The concept of supply is a way of summarising the behaviour and goals of sellers. Supply refers to how much producers are willing to provide to consumers for purchase. Businesses are guided by their objective of maximising profits and using their full productive capacity efficiently.

Specifically, supply is defined as the relationship between various prices of a good and the corresponding quantities that producers are willing to offer at a given



**law of supply**

the higher the price of a product, the more suppliers will provide, and vice versa

time and with all other factors remaining constant. This relationship is positive, meaning that as one factor moves up or down, the other factor also moves in the same direction.

**The law of supply**

The **law of supply** states that as the price of a good increases then quantity supplied will rise. As the price of the good falls, supply decreases.

This is illustrated in a table called a supply schedule or on a graph called a supply curve. A supply curve shows this positive relationship between the price and quantity supplied of the good by sloping upward and to the right.

| Supply schedule for cherries |                                    |
|------------------------------|------------------------------------|
| Price of cherries (\$/kg)    | Quantity of cherries demanded (kg) |
| 2.00                         | 5 000                              |
| 4.00                         | 9 000                              |
| 6.00                         | 12 000                             |
| 8.00                         | 14 000                             |
| 10.00                        | 16 000                             |

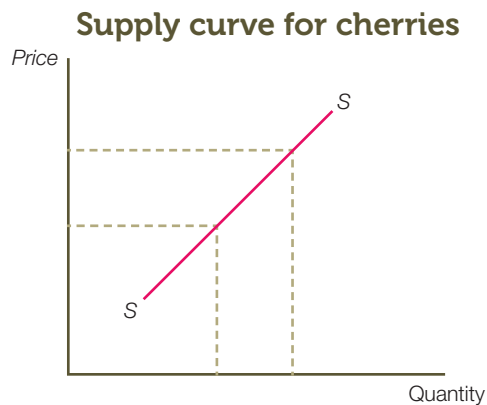


**Figure 3.2.8** The supply curve slopes upward and to the right.

**Changes in supply**

When there is a change in price there will be a movement along the existing

supply curve. As prices rise, producers supply more of the product, which leads to an expansion in supply. As prices fall, producers supply less of the product, which leads to a contraction in supply.

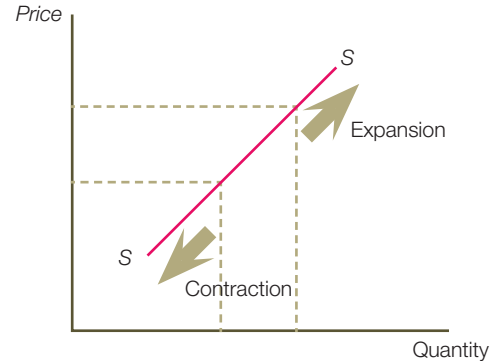
**Supply curve for cherries**

**Figure 3.2.9** Only price changes result in a movement along the supply curve.

**Shift in the supply curve**

As long as the only thing changing is price, the supply curve remains in the same position. However, if there is a change other than price, then over time the entire supply curve shifts. An increase in supply shifts the curve to the right and a decrease in supply shifts the curve to the left. The factors that may cause a shift are:

- **a change in the cost of resources:** an increase in costs (e.g. wages, interest rates) leads to lower production
- **technological change:** improvements in methods of production (e.g. robotics, telecommunications) can decrease costs
- **natural disasters and other events:** unexpected events (e.g. drought, flood, earthquake, strikes) can cause a decrease in supply
- **government actions:** these can make policies or introduce incentives to encourage or discourage production (e.g. export enhancement schemes, legal bans)
- **future expectations:** confidence in future economic levels and general environment can affect production decisions
- **number of suppliers or markets:** an

increase in the number of businesses can result in increased supply

- **seasonal conditions:** the climatic changes of the seasons can disrupt production or increase production (e.g. good rainfall could lead to a better than expected harvest of wheat, or winter frosts in Victoria could affect the crop of wine grapes).



**Figure 3.2.10** When Cyclone Yasi hit Queensland in 2011, an estimated 85 per cent of the banana crop was destroyed.

For example, imagine that cherry producers begin using an automated machine to pick the fruit at harvest. This increased efficiency in production makes cherry production a more profitable activity and will encourage further plantings of cherry trees, which will in time increase the volume of cherries harvested, thus causing the supply curve to shift to the right. If an unexpected storm causes serious damage to the majority of cherry trees, fewer cherries will be available for consumers to buy. This will result in the supply curve shifting to the left.

### Shifts in the supply of cherries

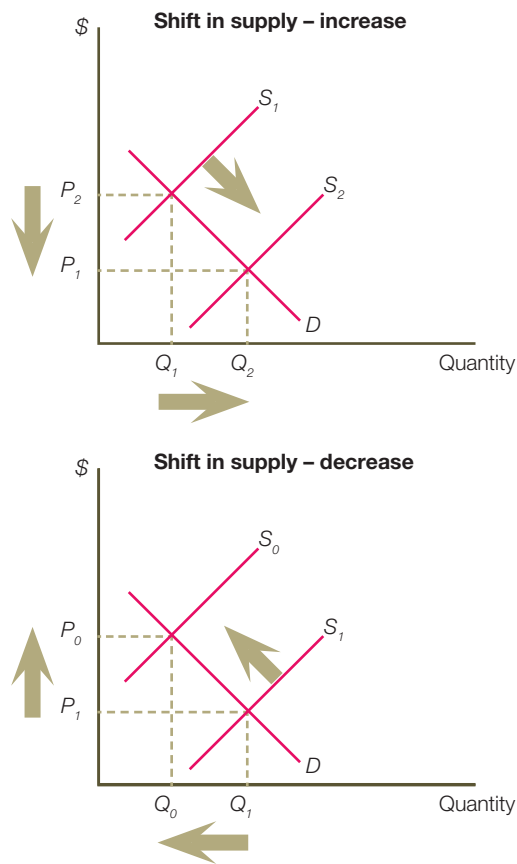


**Figure 3.2.11** Shifts in the supply curve result from increases and decreases in supply. These shifts are caused by a change in factors other than the price.

#### equilibrium

the point of intersection of the demand and supply curves; at this point or price, the quantity demanded equals the quantity supplied and there is no shortage or excess of a product

### Market equilibrium

To analyse a single product or an entire market, it is necessary to examine the relationship of demand and supply together with price. The interaction of buyers and sellers requires a compromise between the two, because buyers want to pay the lowest possible price and producers want to sell at the highest possible price. When these parties reach the middle ground and both buyers and sellers are happy, the market has achieved market **equilibrium**. This means that buyers are willing to buy exactly the same amount that producers are willing to supply. This interaction also results in an equilibrium price. When demand is equal to supply the economy does not suffer a shortage or overproduction and resources are being used efficiently. This is illustrated

#### FOR DISCUSSION

- 1 According to the law of demand, how does a rise or fall in the price of a product affect the quantity demanded?
- 2 According to the law of supply, how does a rise or fall in price affect the quantity producers make available in a market?
- 3 What is the difference between a movement along the curve and a shift of the curve to left or right?

**elasticity**

the responsiveness of the quantity demanded or supplied to a change in price, or, put simply, how much the quantity changes when the price changes.

in a table called a demand and supply schedule or on a graph showing demand and supply curves.

| Demand and supply schedule for cherries |                                    |                                    |
|-----------------------------------------|------------------------------------|------------------------------------|
| Price of cherries (\$/kg)               | Quantity of cherries demanded (kg) | Quantity of cherries supplied (kg) |
| 2.00                                    | 20 000                             | 5 000                              |
| 4.00                                    | 15 000                             | 9 000                              |
| 6.00                                    | 12 000                             | 12 000                             |
| 8.00                                    | 10 000                             | 14 000                             |
| 10.00                                   | 8 000                              | 16 000                             |

### Demand and supply curves for cherries

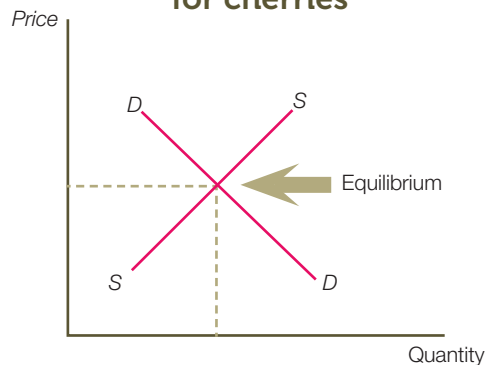


Figure 3.2.12 Market equilibrium

### Elasticity of demand and supply

**Elasticity** measures how sensitive demand and supply are to changes in price. It asks the question: how much more or less of a product will you as a consumer demand, and how much more or less will a business supply, as the price goes up or down? Elasticity is the responsiveness of the quantity demanded or supplied to a change in price, or, put simply, how much the quantity changes when the price changes.

Elasticity can be:

- **perfectly elastic:** if the price rises, consumers decide they can do without it and there is no demand for the product

- **relatively elastic:** if the price rises, some consumers will choose to not buy it while some will continue to demand it
- **relatively inelastic:** most people will continue to demand the product with a rise in price, but some consumers will reassess their need for it
- **perfectly inelastic:** the quantity demanded does not change with an increase in price.

When the elasticity of a good is graphed and the slope of the demand or supply curve is steep, the good is relatively inelastic; a price change means little change in the quantity demanded or supplied. If the slope is shallow it demonstrates that a price change means a large change in quantity demanded or supplied; the good is relatively elastic. A slope of 45 degrees is referred to as 'unit elasticity'; this is where quantity demanded or supplied changes by the same proportion as the change in price. Most goods are relatively elastic.

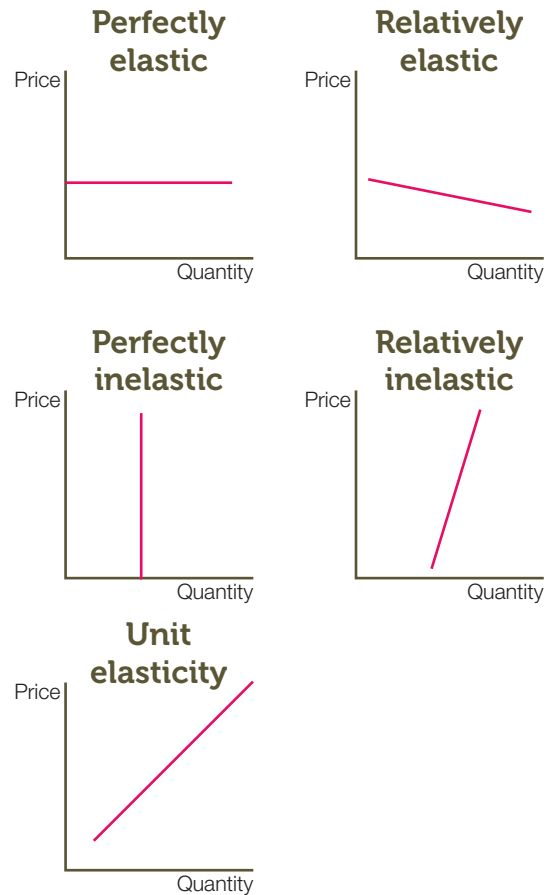


Figure 3.2.13 Price elasticity of demand

### FOR DISCUSSION

- 1 What are all the different terms you can think of that are used to explain equilibrium?
- 2 What is the determining factor that makes a good elastic or inelastic?

Goods that are relatively inelastic in demand and supply include necessities such as bread, milk, medical care and petrol. Products that are relatively elastic in demand and supply include luxury items such as prestige cars and diamonds, which people can do without, and agricultural products including wool, wheat, beef and fruit, where production levels are difficult to adjust as it takes a whole season to grow the crops.

## Economic bubbles

An **economic bubble** is an event that takes place in a market where prices rise to extremely high levels far above their actual value, only to fall again—often very swiftly—causing many companies to go out of business and the collapse of the market. When the overestimation of the market is recognised, the bubble ‘bursts’ and it comes crashing down. Economic bubbles often happen in the stock market and the housing market.

A bubble arises when investors sense a market opportunity and decide to buy shares in businesses in that market. More investors and businesses notice this trend on the share market and they too buy up, thinking that the value of the shares will keep going up and that they can make some good profits from their investment. If too many people decide to do the same thing and go on a buying spree, the shares of businesses in that market may be seen as being more valuable than they actually are. If something happens in the economy to make the market pop, which inevitably happens over time, the share price drops; people realise the true value of their shares, which is often much lower than the price they paid for them.

One of the most famous recent examples of a share market bubble was the dot-com bubble, which occurred in 2000. Dot-com companies became hugely popular after the Internet—which was originally created by the US military—started to expand in the mid-1990s. People began to invest in technology companies, buying up shares in

any company that dealt with the Internet. They believed that Internet companies were about to experience huge growth as the technology developed and more people decided to get online. Over the years between 1995 and 2000, ‘tech’ stocks were traded in a buying frenzy. Some companies that had never been heard of before had their share price rise from a few dollars to more than \$200.

However, on 14 April 2000, Wall Street suffered its biggest fall in trading history, and \$US2 trillion was lost on the stock market. In particular, the market that trades tech stocks, the Nasdaq, lost half of its entire value in shares. This ‘bubble burst’ was devastating to many investors and businesses. Some lost everything; Bill Gates, the owner of Microsoft, the largest IT company in the world, lost \$30 million in just a few hours on that day.

The most recent bubble was the real estate bubble that occurred in the United States in 2007–08, where the prices of housing rose at a rapid pace and then came tumbling down. Before the burst, people seized on low interest rates and took out large, risky loans to buy up houses and property. After the bubble burst, housing prices plummeted, resulting in the collapse of the housing market. Home owners could no longer get anywhere near the price they had originally paid. To make matters worse, they were also unable to pay their mortgage debts with banks. Because banks invest and borrow funds all over the world, this began to cause a widespread problem and consumer and business confidence dropped significantly, not only in the US but internationally as well. In consequence, share markets around the world also began to crash. This initial credit crunch caused more bubbles to burst, which led to the emergence of the global financial crisis (GFC) in September 2008. The crisis affected the global credit, banking and trade markets, which will take some time to completely recover.

### economic bubble

a market event in which the price of an item is traded up to an exceedingly high level and then quickly collapses

### DID YOU KNOW?

In 2009, most Australian taxpayers were sent a \$900 cheque by the government to entice consumers back to stores in the expectation that they would spend it on goods and services, thus helping markets recover from the GFC.



## CASE STUDY

## A market out of control

## Tulip mania

In 1593 a botanist brought tulips from Turkey to Holland for research and introduced the flower to the Dutch. People became interested in the exotic new flower and a tulip trade began after some of the bulbs were stolen and cultivated. During the 1600s, Holland was the richest country in the world and the Dutch culture at the time was one of luxury and extravagance. The novelty of the unusual flower quickly made it desirable to the wealthy; it became a symbol of status and opulence and was widely sought after. This increasing demand also led to the bulbs becoming fairly expensive.

People who cultivated tulips began to be offered amazing prices for them, especially if the variety was rare or particularly striking. The crossbreeding of the bulbs led to strange varieties, many of which were highly desirable and traded at excessive prices. A tulip 'mania' had set in and everyone began to deal in bulbs, believing that the market in tulips had no limits. As the demand grew, prices were driven higher and higher. Tulips were bought and sold on the market even before they had been planted.

At the height of the tulip mania, prices were rising so fast and so high that people were trading their land, their houses and life savings to acquire more tulip bulbs. Several types of bulbs were worth more than a fully furnished luxury home in Amsterdam. Prices for a single bulb were around 1000 florins on average and one record-setting bulb of the cultivar *Semper Augustus* sold for 6000 florins, which was 40 times the average income for Dutch people of the time. Many believed they would buy and sell their stockpile to greedy foreigners and, in doing so, collect enormous profits.

It can be hard to understand why market manias occur. It seems strange to value tulips so much that you would sell your house to get one. But when market mania takes hold, investors start to act irrationally. They often begin to invest because they see other people doing it and making money. Eventually people invest far more money in an item, be it a bulb or a share, than is sustainable. And that is

**Figure 3.2.14**  
A tulip; worth thousands?

exactly what happened in Holland.

Eventually so many bulbs were supplied that the tulip market began to decline. People started to panic as they realised that tulips were not worth the prices they had been paying. In 1637 the tulip market crashed, and in less than six weeks the price for tulip bulbs dropped by more than 90 per cent—from a value of a house to the value of an onion. In dollar terms, this was a fall from \$76 000 to less than one dollar. The tulip bubble had burst and some people lost their livelihoods as a result.

Dutch tulip mania is largely considered to have been the first recorded economic bubble, which caused long-lasting financial problems in Holland. The consequences of the mania left the Dutch very hesitant about investing in other markets and thus affected their economy for years afterwards. One lesson that was learnt was to not rely on flowers for financial gain but simply to smell and enjoy them.



## FOR DISCUSSION

- 1 From this story, explain the terms 'mania' and 'bubble' and why they became economic terms.
- 2 Suggest why other flowers did not increase in demand when the price of tulips reached such a height.

### Task: Remembering and understanding

- 1 Which type of competition would the following companies have? Explain your choices.
 

|                                                                                                                                                               |                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| <ol style="list-style-type: none"> <li>a Microsoft</li> <li>b Netscape</li> <li>c Kmart</li> <li>d RACV Insurance</li> <li>e Queen Victoria Market</li> </ol> | <ol style="list-style-type: none"> <li>f Airbus</li> <li>g Toyota</li> <li>h Caltex</li> <li>i Cadbury</li> <li>j Metro Trains</li> </ol> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
- 2 Decide whether the following changes will increase or decrease the demand for flavoured milk.
  - a A successful advertising campaign for flavoured milk
  - b A trend towards plain milk
  - c A fall in the price of the range of low-fat alternative milks
  - d A health scare on carton milk after numerous reports of illness to health authorities
  - e The setting up of a competition to win an overseas holiday on milk cartons
- 3 Decide whether the following changes will increase or decrease the supply of flavoured milk.
  - a The conversion to plastic from glass milk bottles reduces production costs by 20 per cent.
  - b Devastating bushfires ravage grazing areas and cut milk production.
  - c A strike by transport workers brings all milk deliveries to a standstill.
  - d Technology enables milk production to increase.
  - e Harmful bacteria are found in all dairy products packaged within the last two weeks.

### Task: Applying and analysing

- 1 For the following scenarios:
  - identify the specific market involved
  - draw a diagram that shows the shift in either demand or supply
  - write a sentence explaining the market change.
  - a Manchester United wins the Premier's Cup and its red tops become trendy to wear.
  - b The government announces a release of land in Melton to build 21 000 new homes.
  - c Civil war breaks out in the north-west region of Africa and threatens the supply of diamonds.
  - d Qantas pilots go out on strike, meaning no flights can take off for the next week.
  - e Interest rates drop and consumers decide to borrow money for new cars and overseas holidays.
  - f A cyclone hits Queensland, destroying 90 per cent of this year's banana crops.
  - g Wesfarmers announces it is expanding its Bunnings division into every state and will require 7000 workers for the new stores.
  - h There is an outbreak of a mystery virus among Australia's beef stocks, making consumers fearful to eat the meat.

- i Myer and David Jones announce they are to merge into one company next year, making their shares more attractive to investors.
  - j The Australian dollar increases in value to be worth more than one American dollar.
- 2 For the following products and services, provide an example of a situation that would cause a shift in its demand or supply.
- a Coffee
  - b Credit cards
  - c Coal
  - d Plastic bags
  - e Unleaded petrol
  - f Paid television
  - g Ocean cruises

### Task: Evaluating and creating

- 1 A company produces packets of magnets according to the demand and supply schedule table below.

| Demand and supply schedules for magnets |                         |                         |
|-----------------------------------------|-------------------------|-------------------------|
| Price per pkt (\$)                      | Quantity demanded (pkt) | Quantity supplied (pkt) |
| 3.00                                    | 910                     | 200                     |
| 4.00                                    | 730                     | 300                     |
| 5.00                                    | 570                     | 450                     |
| 6.00                                    | 380                     | 600                     |
| 7.00                                    | 190                     | 780                     |
| 8.00                                    | 20                      | 980                     |

- a Draw a demand curve using the figures provided.
- b If the price was \$7, how many magnets would consumers buy?
- c At what price are 730 magnets demanded?
- d Why do the quantities demanded go in the different direction to the prices?
- e Draw a supply curve on the same graph, using the remaining figures in the table.
- f If the price of a magnet was \$8, how many would the producer supply?
- g Why would suppliers not offer more at that price?
- h At what price does demand equal supply?
- i Using the graph, work out how many magnets would be supplied if the price was \$5.50.
- j What would the price need to be to create a surplus of magnets?
- k At what price would there be a shortage of magnets?

- 2 Sally Sour owns a citrus orchard. The table below shows the number of lemons that might be demanded and supplied any given week as the price of a bag changes:

| Demand and supply schedules for lemons |                               |                               |
|----------------------------------------|-------------------------------|-------------------------------|
| Price per bag (\$)                     | Quantity demanded (1 kg bags) | Quantity supplied (1 kg bags) |
| 4.00                                   | 2                             | 40                            |
| 3.50                                   | 6                             | 30                            |
| 3.00                                   | 12                            | 20                            |
| 2.50                                   | 16                            | 16                            |
| 2.00                                   | 20                            | 12                            |
| 1.50                                   | 30                            | 8                             |
| 1.00                                   | 48                            | 4                             |
| .50                                    | 60                            | 2                             |

- Draw a fully labelled demand and supply curve.
- What is the equilibrium price for lemons?
- What quantity is sold at this price?
- Explain two factors that may cause a shift in the demand for lemons.
- Explain two factors that may cause a shift in the supply for lemons.
- Illustrate, on the demand and supply curve, the effect of an eight-bag rise in the quantity that suppliers are willing to offer at each price for the lemons.
- What is the new equilibrium price for lemons?
- Explain the difference between a shift in the demand or supply curve as opposed to a movement along the demand or supply curve.

## Task: Assessment

Working individually or in pairs, select a type of market and complete the following tasks:

- Describe your market including the products sold and/or services provided.
- How does the exchange take place in your chosen market?
- Provide some examples of businesses that operate in the market.
- Outline the type of competition that operates in the market.
- How do these competitors try to gain an advantage?
- What factors influence the demand and supply of goods or services in this market?
- Are there any regulations or government restrictions that affect the market?
- Outline any changes that have occurred in the market over the years. This can include the types of products traded, changes in price, improvements in technology and any overseas expansion.
- Include illustrations, charts, graphs etc. to support your research.

Present your work in one of the following formats.

- |                    |                                               |
|--------------------|-----------------------------------------------|
| ■ A poster         | ■ A pamphlet                                  |
| ■ A written report | ■ A multimedia presentation (e.g. PowerPoint) |



## CHAPTERFOUR

# Issues in ECONOMICS

### Introduction

Australia's economic success depends on the ability to deal with the key issues that it faces: unemployment, inflation, trade, globalisation and sustainability. What are the causes that create the problem of unemployment and what does a government do to reduce it? What happens when prices of goods and services rise too quickly, causing inflation, and how does Australia successfully control it? How does the nation maintain trade relations with the rest of the world? What are the basic reasons for trading and some of the benefits and problems encountered as a result of trade? How has the Australian economy become more linked to the rest of the world? What are the different experiences with globalisation that have changed our lives, and how has it impacted on both rich and poor societies? Finally, how has sustainability become an increasingly important focus for governments? Is it possible to operate an economy that produces the goods and services we want without ruining the environment in the process? What responsibilities do nations have to look after each other while fulfilling the needs and wants of us all?



Figure 4.1.0 Job search

# 4.1

# Unemployment

*The hardest work in the world is being out of work.*

Whitney Young

**Figure 4.1.1** The personal and social effects of unemployment can be devastating.



The labour market consists of those people who want to work and people who wish to provide opportunities by offering work. If we apply what we have already learned about the interaction of markets, the labour market is the relationship between sellers of labour—employees—and buyers of labour—employers. The price factor can be seen in the wages and working conditions that underpin an employment arrangement.

## unemployment

a situation that arises when those who are willing and able to work cannot secure a job

## The problem of unemployment

**Unemployment** is an imbalance between the supply of and demand for work. It is the position people find themselves in when they cannot get a job, even though they want to work. To be officially classified as unemployed you must be over the age of 15, be willing and available to work and be actively seeking work. The Australian Bureau of Statistics (ABS) randomly conducts a monthly labour force survey of households to determine the unemployment rate. Persons classified as being employed in the same survey are those 15 or over who have worked more than one hour for pay, profit, commission or some other payment during the survey week. This can be in a job, for a business or

### DID YOU KNOW?

In 2009, the average annual wage for males was \$69 233 compared to \$56 950 for females. That's a difference of \$12 283!

### structural unemployment

unemployment caused by the changing composition and structure of industry

### cyclical unemployment

unemployment caused by variations in the business cycle

### business cycle

the pattern of economic activity in stages, which reflects the differing levels in the value of goods and services sold; the stages are expansion, peak, contraction and trough

on a farm. The figures are then converted into an unemployment rate, which is calculated using the following formula:

$$\text{Unemployment rate} = \frac{\text{Number of unemployed}}{\text{Labour force}} \times 100$$

For example, if the number of people seeking work is 400 000 and the total labour force is 5 million, the unemployment rate would be calculated as:

$$\begin{aligned} \text{Unemployment rate} &= \frac{400\,000}{5\,000\,000} \times 100 \\ &= 8\% \end{aligned}$$

Remember the unemployed figure will be the number of people without jobs who want to work; and the labour force, or workforce as it is sometimes called, includes everyone over 15 who is willing and able to work. The labour force therefore includes all unemployed people who are seeking employment. People who are not considered to be in the labour force include full-time students, people who perform domestic duties, people who have retired and unemployed persons not actively seeking employment.

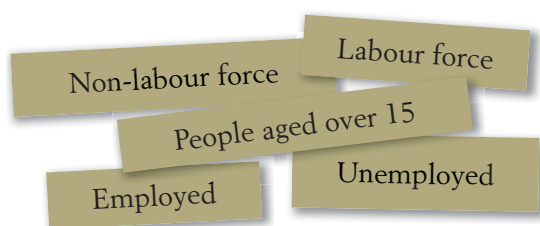


Figure 4.1.2 Who is in the labour force?

### FOR DISCUSSION

- 1 How much work is considered sufficient to be defined as 'employed'?
- 2 What components are taken into account when calculating the unemployment rate?
- 3 At what age can you become officially unemployed?

## Types of unemployment

The different types of unemployment indicate that there are many reasons why

people are unsuccessful in finding work. However, the general reasons that lead to the different forms of unemployment include:

- low levels of demand from consumers
- high wages
- free trade and removal of barriers
- new technologies
- increase in population
- international conditions
- business mergers and closures.

Knowing which cause leads to which type of unemployment is a key that allows governments to formulate appropriate policy that will reduce the number of jobless citizens. We have identified the causes, so now let's look at the types of unemployment.

### Structural unemployment

**Structural unemployment** occurs because of issues relating to the labour market. With rapid developments in technology, changes in products and changes in the location and way industries function, workers may be displaced because their skills no longer match with those required in the industry; for example, the closure of car manufacturing plants, which leaves car workers unemployed. As the structure of the economy alters over time, people have to adapt to find new jobs in new parts of the economy. This means they may have to relocate or retrain, or both of these, in order to get a new job, and it is common to have difficulty finding employment in the short run.

### Cyclical unemployment

**Cyclical unemployment** occurs because of variations in the level of economic activity (**business cycles**). The drop in employment comes about from a drop in demand for goods and services or falling demand in the overall economy, which leads to reduced demand for labour. This type of unemployment is common during economic recessions, when business activity

### DID YOU KNOW?

Once the wealthy centre of car production in the United States, Detroit has become a ghost town as a result of the global financial crisis, with the major car companies closing or relocating their plants. The city's unemployment rate reached 29 per cent, with many residents leaving to find work in other cities and states.

declines because consumers have reduced their spending. If people are not spending money and businesses cannot sell their products, their profit falls and they are forced to 'lay off' workers. Because this type of unemployment can be widespread, the government may try to offset the problem by increasing the level of public spending or reducing taxation. This was seen in 2009–2010, when the world was experiencing a global economic crisis. In Australia, to avoid a serious recession and a spike in unemployment, the government passed a \$42 billion 'stimulus package', which offered tax cuts and incentives to businesses and farmers, and a tax bonus of \$900 to most individuals. This was aimed at encouraging economic spending and activity, thereby slowing the rise of unemployment.

### Frictional unemployment

**Frictional unemployment** refers to those workers who are temporarily unemployed because they are between jobs or have recently entered the labour market. People who are frictionally unemployed are said to be 'in-between' jobs. They can include school leavers moving into their first full-time job, a teacher leaving one school to begin work at another in the near future and a professional worker holding out for a better-paying job and living off their savings in the meantime.

### Seasonal unemployment

**Seasonal unemployment** is the result of the seasonal nature of some industries, where work is only available during certain times of the year. Examples include fruit pickers, ski instructors and resort workers.

### Long-term unemployed

**Long-term unemployed** workers have been out of work for more than twelve months. This type of unemployment is usually the result of structural unemployment described above. The long-term unemployed do not always have the skills to match job vacancies.

### Hard-core unemployed

The **hard-core unemployed** include those people who are considered unsuitable for employment or are unable to find work due to personal problems or characteristics. This can include physical impairments, intellectual disabilities and psychological disorders.

#### FOR DISCUSSION

- 1 What economic factors have an impact on unemployment?
- 2 What sorts of people generally find it the hardest to find work? Why?

## The consequences of unemployment

Unemployment has significant consequences for individuals and for society as a whole.

### Individual and social effects

When people are unemployed for a period of time they can become reliant on other people and feel negatively about themselves. Loss of work places stress on an individual, which can lead to a number of personal and social problems. On an individual level, feelings of low self-esteem and low morale can set in, making it even harder to find work. Frustrations can be taken out on other people or by the abuse of alcohol and drugs. This can lead to increasing crime rates as people are unable to meet their needs and pay debts through work. Divorce rates go up in times of unemployment because people cannot solve their financial problems and the rate of homelessness rises, as do the rates of mental and physical illness. Homes are foreclosed upon or abandoned, and neighbourhoods deteriorate as a result.

Unemployment is also one of the main causes of poverty in our society. People who become unemployed have to rely on any savings they may have, and once this has been used up they must turn to the government for help.

#### frictional unemployment

those temporarily unemployed between leaving one job and starting another

#### seasonal unemployment

unemployment caused by a pattern of fluctuations in activity throughout the year; caused by the seasons, holiday periods and influx of students into the workforce

#### long-term unemployment

unemployment of more than 12 months' duration

#### hard-core unemployment

unemployment where people cannot be employed due to physical or intellectual disabilities, psychological disorders or other personal characteristics

#### DID YOU KNOW?

In 2010, the average total earnings for workers was \$996 per week. The welfare benefit paid to the unemployed was \$231 per week.



**poverty line**

the minimum level of income required to afford basic necessities of life

However welfare payments are much lower than even the minimum adult wage and people on an unemployment benefit find they cannot afford to buy the basic items we all take for granted as part of normal life. Living at or below the **poverty line** means poor housing, poor nutrition and no capacity to satisfy any wants. Poverty also makes it impossible for a person to save in order to get out of their financial crisis.

**Economic effects**

The ability of government to provide for people becomes compromised with unemployment. When there is high unemployment, people pay less in income taxes and also pay less in consumption tax because they purchase fewer goods and services. This leads to less in the way of public services, which includes everything from police and fire protection to the staffing for the municipal swimming pool and rubbish collection. Other costs of unemployment include:

- loss of output—a fall in the production of goods and services
- large pool of welfare benefits required
- loss of income—less income tax
- reduced ability to deliver public services
- reluctance to invest in business opportunities.

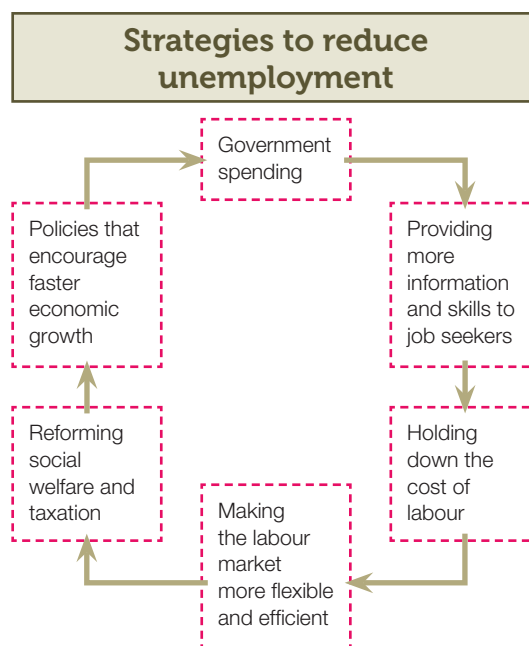


**Figure 4.1.3** Strategies to reduce unemployment

**FOR DISCUSSION**

- 1 What are the effects of living below the poverty line?
- 2 Choose one of the strategies governments can adopt to reduce unemployment and describe the underlying mechanisms.

**DID YOU KNOW?**

In June 2010, the official poverty line in Australia for a single person, including the cost of housing, was \$402.52 per week.



**Figure 4.1.4** Finding work when you are unemployed can be difficult.

### Task: Remembering and understanding

- 1 Calculate the unemployment rate if:
  - a the workforce is 9 million and the number of unemployed is 800 000
  - b the workforce is 12 million and the number of unemployed is 900 000
  - c the workforce is 16 million and the number of unemployed is 1 200 050.

### Task: Applying and analysing

- 1 Examine the situations below. Which of these people is unemployed?
  - a Robert works two hours per week at Hungry Jacks.
  - b Jim doesn't have a job but he looks in *The Age* every Saturday.
  - c Chris works in her parents' pizza shop without pay for 10 hours a week.
  - d Fay hasn't worked for a year but she is sending her resumé to potential employers.
  - e Instead of working, Martin stays at home to raise his children.
- 2 Identify the type of unemployment in the scenarios below.
  - a I'm a financial adviser. I've just left my job and I start a new job in two weeks.
  - b I always loved my job as an electrician but I was involved in a boating accident in which I lost my legs.
  - c I'm a qualified doctor from India but my qualifications aren't recognised in Australia. I pick apples when I can while I complete extra study.
  - d I was retrenched last year as a result of the recession and the whole economy being slow. I'm living off my savings until the economy picks up again.
  - e I've been looking for a job for two years now. I'm highly qualified but when people find out I've done time, they don't want to employ me.
  - f Tariffs have been reduced on imported cars; demand for Australian cars has fallen. My skills are no longer in demand at Toyota and I've been retrenched.
  - g I've just left university with a law degree. There are lots of jobs advertised for graduates and I'm attending interviews but I haven't found a job yet.
  - h I'm a welder. I used to work on an assembly line but I took time off to visit my family in Greece. When I returned, a robot had replaced me.
  - i I usually work in the fruit and grape industries, travelling to wherever they need pickers. Just now it's winter and there is no fruit to pick, so I'm without a job.

### Task: Evaluating and creating

- 1 Labour information is provided below for countries A, B and C.
 

**Country A:** labour force 500 000 people, unemployment 27 000

**Country B:** labour force 1 300 000 people, unemployment 95 000

**Country C:** labour force 850 000 people, unemployment 90 000

  - a Which country has the largest labour force?
  - b Which country has the greatest number of people unemployed?
  - c Which country has the highest unemployment rate?
  - d What is the average unemployment rate for all of the three countries combined?
  - e Plot the three unemployment rates on a line graph, a bar graph or a pie chart.

### Task: Assessment

Research government policies designed to retrain the long-term unemployed.

## 4.2

## Inflation

**inflation**

a rise in the general level of prices of goods and services in an economy over a period of time

*Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair.*

Sam Ewing

People view **inflation** in one of two ways: the prices of goods are going up, or the value of the dollar is going down. You might well wonder ‘... did I get ripped off?’ if a product you bought for \$25 today was only \$20 last week.

## What is inflation?

Inflation, as the name suggests, happens when the economy expands too much. Like a balloon, an economy can inflate as average prices for goods and services move upward, making it harder to afford the things we want and need. Inflation can be defined as a rise in the general level of prices of goods and services in an economy over a period of time. When the price level rises, each dollar buys fewer goods and services. So in simple terms, inflation affects consumers by reducing the purchasing power of their income. If inflation is 10 per cent per annum, what costs \$10 000 today will cost \$11 000 next year and \$12 100 the year after. So, unless your income rises by the same amount each year, your standard of living over time will decline and you will struggle to be able to purchase the same goods and services you used to be able to buy. Inflation is a major economic problem and is linked to changes in the level of economic activity—what is made and sold. Therefore the

Figure 4.2.1 Inflation



government attempts to keep inflation at a rate that is manageable. This target rate is identified by the Reserve Bank of Australia (RBA) as being between 2 and 3 per cent.

What actually causes prices to rise and create inflation? Inflation develops as a result of the increasing demand for goods and services by consumers, or by rising production costs for producers. The demand side of inflation is referred to as demand-pull inflation and the supply side is known as cost-push inflation. Sometimes inflation will come about as a result of both. The role of the government is to discover why these factors have occurred and then to formulate policies to bring prices back to an acceptable level.

Price levels can also be pushed up if an economy supplies too much money. Sometimes countries decide to print more money to stimulate the economy, but all this achieves is to reduce the scarcity of money—which we know is a key characteristic of currency. If everyone can get their hands on large amounts of currency then there is no longer anything valuable about it, and with so much in circulation the money simply loses its value.

**Figure 4.2.2** Children playing with money in Germany, 1922



The expectations of consumers can also drive inflation. If there is uncertainty about the future or there is political insecurity, consumers can undertake panic buying, forcing prices to higher levels.

#### FOR DISCUSSION

- 1 Can you think of something you have bought recently that costs a lot more now than it used to?
- 2 What is wrong with everyone having as much money as they please?
- 3 What is an acceptable rate of inflation?

## How is inflation measured?

The rate of inflation is measured by the **Consumer Price Index (CPI)**. The CPI is an indicator that measures the changes in the prices of a selected weighted 'basket' of consumer goods and services. These changes are most commonly calculated on a quarterly basis (every three months), but they can also be measured over a period of six or 12 months. Imagine you fill a basket with a variety of common goods and services. As the prices of those goods fluctuate, the total price of your basket will

#### consumer price index (CPI)

a measure of the average change in the price of a selected range of consumer goods and services over time

#### DID YOU KNOW?

If you lived in Melbourne in 1970 a loaf of bread cost you just 43 cents and a house sold for an average of \$12 800.



**basket of goods**

a number of goods and services designed to represent the spending pattern of average households in Australian capital cities

also change. The increase or decrease in the price of your **basket of goods** is the measure of CPI. It would not be practical to include every single item purchased by consumers, so the CPI basket includes all the important types of items most people buy. The goods chosen are classified into 11 categories:

| Contents of the CPI's basket of goods |    |
|---------------------------------------|----|
| Category                              | %  |
| Housing                               | 20 |
| Food                                  | 15 |
| Transportation                        | 13 |
| Recreation                            | 11 |
| Household contents and services       | 10 |
| Financial and insurance services      | 9  |
| Alcohol and tobacco                   | 7  |
| Health                                | 6  |
| Clothing and footwear                 | 4  |
| Communication                         | 3  |
| Education                             | 3  |

So how does the RBA know which goods and services to include in the basket? It knows from the results of a detailed survey it conducts of what households spend their income on. The survey is repeated every five years, and when it becomes clear that enough people are buying some new item such as iPhones, that item is added to the basket. There are currently approximately 100 000 individual prices that are collected each quarter. As you can see from the categories above, each of the items in the basket is given a 'weight' that reflects the item's share of households' overall spending on goods and services. It tells us that consumers buy more food and household products than they do alcohol or clothing. Keep in mind that:

- the CPI measures the change in prices, not the level of prices
- the CPI measures price changes for everyone in general and no one in particular
- every five years the ABS adjusts the items in the basket to keep the CPI up to date.

The inflation rate can be calculated using the following equation:

$$\text{Inflation rate} = \frac{(\text{current year} - \text{previous year})}{\text{previous year}} \times 100$$

For example, assume that:

CPI Year 1 equals 105

CPI Year 2 equals 110.

The inflation rate is calculated as follows.

$$\begin{aligned} \text{Inflation rate} &= \frac{(110 - 105)}{105} \times 100 \\ &= 4.76\% \end{aligned}$$



**Figure 4.2.3** Floods in Queensland and Victoria in 2011 resulted in increased prices for fruit and vegetables, which affected the inflation rate.

Australia's inflation record

| Year | Annual inflation rate (%) |
|------|---------------------------|
| 2001 | 4.4                       |
| 2002 | 3.0                       |
| 2003 | 2.8                       |
| 2004 | 2.3                       |
| 2005 | 2.7                       |
| 2006 | 3.6                       |
| 2007 | 2.3                       |
| 2008 | 4.3                       |
| 2009 | 1.8                       |
| 2010 | 3.0                       |

Try the RBA's inflation calculator by logging on to Pearson Places and following the prompts to the RBA website; click on 'Inflation rate' in the Key Information section, and then click on 'Inflation Calculator'.



### FOR DISCUSSION

- 1 Why is it that not all goods and services are used to calculate the inflation rate?
- 2 What is an acceptable level of inflation in a country? What has the trend been over the last decade?
- 3 What does the CPI actually measure or compare?

## How does inflation affect the consumer?

Inflation has serious consequences for an economy as a whole, and while there are winners and losers from the effects of price increases, in general inflation hurts people. When prices rise, people can't buy as many things with their money as they had in the past. So who benefits and who suffers from inflation?

## The losers from inflation

### 1 Wage earners

Workers whose main incomes do not keep up with rising prices are unable to improve their **standard of living** and it becomes harder to make ends meet. To overcome this, workers would have to keep getting pay rises as the price of goods and services got higher.

### 2 People on fixed incomes

People who receive a set amount, such as social welfare recipients or retirees with superannuation, find that as the cost of living goes up they are no longer able to afford the same level of goods and services. The things they need to survive have increased in price, but their incomes have not.

### 3 Business profits

Inflation creates uncertainty. People do not know whether to spend or save, so businesses become unsure whether to expand or reduce production. This stalls investment and exports become less competitive, thus compromising the capacity of the business to make profits.

### 4 Savers and investors

Inflation makes it difficult to maintain financial security. An increase in the CPI that is greater than the money (interest) paid on savings and investments means that the funds in financial accounts actually decrease in value. Furthermore, if things cost more to buy, then the capacity to save is limited.

## The winners from inflation

### 1 Borrowers and people in debt

If someone borrows money, and inflation causes the value of money to go down, then the money they pay back won't be worth as much as when they borrowed it. They essentially are paying less money back than they borrowed.

### standard of living

a measure of the material wellbeing of people in a country

### DID YOU KNOW?

The opposite of inflation is deflation, where prices constantly fall as a result of a reduction in the supply of money in the economy. Severe deflation is called a recession or a depression.

## 2 Asset holders

Those people who own valuable possessions are at an advantage in times of inflation. Assets such as land, gold, diamonds, art, antique furniture or vehicles and other collectables hold their value, unlike paper money, and can increase their worth over a long period of time.

## 3 Importers

Overseas businesses that sell their products in the Australian market benefit from inflation because, as the cost of local products increases, consumers are more willing to buy the cheaper, imported option.

## 4 Strong unionised industries

If workers have powerful and effective unions to negotiate higher wages on their behalf in times of inflation, they can maintain their standard of living in spite of the rise in prices.

## Hyperinflation

Hyperinflation is a situation where very high inflation persists for a number of years and the currency is continuously losing

its value. It is generally agreed that, for hyperinflation to exist in an economy, there must be an inflation rate of 50 per cent per month or more. At this rate, an item that costs \$1 in one year would cost \$130 in 12 months' time.

There are certain things that can cause hyperinflation, but the main cause is a massive, rapid increase in the amount of money in circulation that is not supported by a growth in the output of goods and services. This results in an imbalance between the supply and demand for the money, accompanied by a complete loss of confidence in it. Inflation goes out of control and huge amounts of money have to be printed to meet people's demand for cash. The outcome is that money becomes effectively worthless because it ceases to function as a store of value and may not serve its other functions such as a unit of value and a medium of exchange. This nearly always lead to a collapse in business and consumer confidence and in most cases a new monetary system may have to be created. In theory, the solution to hyperinflation is simple: stop printing money.

**Figure 4.2.4** High house prices affect Australia's inflation rate.



### FOR DISCUSSION

- 1 Which groups are most severely affected by inflation?
- 2 How can you benefit from high levels of inflation?



## Inflation in the economy

# Hyperinflation

Zimbabwe was once considered a vibrant and prosperous country and received international praise as a success story in Africa. The country had strong markets in mining and tobacco, and its stable economy made Zimbabwe a destination for tourists looking to explore Africa. When Robert Mugabe became prime minister he took a dictatorial approach to running the country. He used his powers to seize land owned by white farmers, redistributing much of it to favoured party members who had no interest or experience in agriculture. The crops were destroyed and the agriculture base of Zimbabwe was virtually wiped out, with few exports. At the same time Mugabe's government was printing money to finance fighting a war in the Congo and paying his soldiers. This brought international condemnation and a restriction of trade.

The result was that prices of commodities changed daily and nothing was affordable—even basic goods and services, which were in high demand. This led Zimbabwe's economy down a path of hyperinflation. By 2009 the country's gross domestic product (GDP) was reduced to \$US188 per person and 95 per cent of the population was unemployed. There was no confidence in the government or the economy and businesses were either completely collapsing or moving their operations out of the country.

The government tried to combat the spiralling situation by continuing to print more money, and in higher denominations as lesser notes became worthless. As time went on the inflation became unbearable and by the end of 2008 the annual inflation rate was 89 700 000 000 000 000 000 per cent (89.7 sextillion per cent). This is a rate of 98 per cent per day, which equates to prices doubling every 24.7 hours. The Reserve Bank

of Zimbabwe persisted, and ultimately issued the largest bank note in the history of money; a one hundred trillion dollar bill that saw the dollar lose 99.9 per cent of its value compared to the US dollar. What did this level of inflation actually mean to residents of Zimbabwe? It meant that they were purchasing a sandwich for \$Z50 million or one kilo of potatoes for \$Z17 million. Sounds crazy? Effectively, this meant that the value of the Zimbabwean dollar had been reduced almost to zero. That is why 50 million Zimbabwean dollars was equal to only one US dollar.

In 2009 the people simply refused to accept new money, so the decision was made to abandon the Zimbabwean dollar and remove it from circulation in order to remove the hyperinflation. Today, the accepted currencies are the US dollar and the South African rand. This has allowed the economy to begin to grow again, but Zimbabwe is and will remain one of the world's poorest nations for some time.

### FOR DISCUSSION

- 1 What distinguishes hyperinflation from ordinary inflation?
- 2 How does printing more money create inflation?
- 3 What would a can of Coke cost in Australia tomorrow, if the inflation rate was 98 per cent per annum?



Figure 4.2.5 'Junk' money



### Task: Remembering and understanding

- 1 What is the role of the consumer price index? How is it measured?
- 2 In what ways are inflation and unemployment related?

### Task: Applying and analysing

- 1 From the following list of people, explain who would gain and who would lose if the economy were to experience an inflation rate of 6 per cent per annum:
  - a Penny has invested her life savings in a house, which she purchased for \$420 000 one year ago.
  - b Mark is a pensioner, on a fixed pension of \$400 per fortnight.
  - c Pat was injured at work some years ago and since has been unable to work. He lives on a social security pension of \$280 per week.
  - d Will is a member of a very strong union and earns \$600 per week.
  - e Helen has \$7500 invested in the bank, which pays her 6 per cent interest per annum.
  - f James is an unemployed young adult.
  - g Chayto makes and exports hand-painted ceramic teapots to Japan.

### Task: Evaluating and creating

- 1 In November 2010, President Obama authorised the US Federal Reserve to pump 'electric' money into the US economy at a rate of \$US75 billion per month until June 2012, resulting in a total injection of more than US\$600 billion. This process is known as 'quantitative easing'.
  - a Outline the reasons why the US Federal Reserve chose this option.
  - b What are the costs and benefits of quantitative easing?
  - c Explain how quantitative easing might affect inflation.
- 2 Moneji is an isolated, independent region with a population of 700 people, located on the northernmost coast of Australia. There is a small community hub in the centre of town that caters for the needs of the locals, who are brought in from Brisbane and Darwin. To celebrate 75 years of the town's existence, the mayor, Rob Budala, announces a festival to be organised by the retail hub, which will have a variety of stalls. The mayor creates a supply of money for the locals to spend: \$1200 each. There is a feeling of anticipation amongst the locals and much discussion over capturing many of the highly sought-after products.
  - a Explain to Rob Budala what effect this extra money may have on the economy of Moneji.
  - b What will the retailers in the shopping hub do?
  - c What advice can you give the mayor?

- 3 For each of the following, calculate the price increase (inflation rate) from Year A to Year B.

| Item             | Year A (\$) | Year B (\$) | Inflation (%) |
|------------------|-------------|-------------|---------------|
| Margarine        | 3.72        | 4.89        |               |
| Petrol           | 0.68        | 1.55        |               |
| Breakfast cereal | 4.35        | 5.49        |               |
| Cappuccino       | 1.80        | 3.20        |               |
| Movie tickets    | 11.00       | 16.00       |               |
| Men's jeans      | 69.00       | 89.00       |               |
| Soft drink       | 1.50        | 2.30        |               |
| Television       | 799.00      | 959.00      |               |
| Bus ticket       | 3.20        | 5.10        |               |
| Blueberries      | 3.99        | 6.78        |               |

- a Which item has the:
- highest inflation rate?
  - lowest inflation rate?
- b What was the average inflation rate for the basket of items listed?

## Task: Assessment

### Option 1 Research

A number of countries throughout history have suffered a period of hyperinflation: Israel, Brazil, Hungary, Ukraine, Argentina, Angola, Bolivia, Germany, Peru, Austria, Chile, Greece and Taiwan.

Choose and investigate one of these countries and prepare a short summary of their experience with hyperinflation. Include:

- a when it occurred
- b factors leading up to the hyperinflation
- c how high the rates reached
- d how they dealt with the hyperinflation.

### Option 2 Analysis

China released key economic indicators in April 2011 for the first quarter of the year, which showed that the economy grew by 9.7 per cent, while inflation was 5.4 per cent.

- a What were the likely causes of china's high inflation rate?
- b How might the high inflation rate influence the Chinese economy?

# 4.3

## Globalisation

*We must create a kind of globalisation that works for everyone ... and not just for a few.*

Nestor Kirchner

Figure 4.3.1 The world is a global village



It really boils down to this: that all life is interrelated. We are all caught in an inescapable network of mutuality, tied into a single garment of destiny. Whatever affects one directly, affects all indirectly. We are made to live together because of the interrelated structure of reality. Did you ever stop to think that you can't leave for your job in the morning without being dependent on most of the world? You get up in the morning and go to the bathroom and reach over for the sponge, and that's handed to you by a Pacific islander. You reach for a bar of soap, and that's given to you at the hands of a Frenchman. And then you go into the kitchen to drink your coffee for the morning, and that's poured into your cup by a South American. And maybe you want tea: that's poured into your cup by a Chinese. Or maybe you're desirous of having cocoa for breakfast, and that's poured into your cup by a West African. And then you reach over for your toast, and that's given to you at the hands of an English-speaking farmer, not to mention the baker. And before you finish eating breakfast in the morning, you've depended on more than half the world. This is the way our universe is structured; this is its interrelated quality. We aren't going to have peace on Earth until we recognise this basic fact of the interrelated structure of all reality.

*Martin Luther King,  
'A Christmas Sermon for Peace',  
24 December 1967*

We live on a planet that is no longer limited by borders. With modern forms of travel there are very few places a person can't get to in a day; language barriers are being overcome and modern communication has made the world accessible at the touch of a button or the click of a mouse. Citizens of a nation are more conscious of the world at large and accept that they may be influenced by other cultures through trade, the media and technology. This connection creates a **global village** where people of all nations are brought closer together by removing boundaries and making the world a smaller place. We commonly refer to this as **globalisation**.

## What is globalisation?

Globalisation itself is the process of increasing interdependence between nations through trade and communication. It is based on reducing the barriers between economies that limit the flow of goods and services between them. Globalisation encourages the world to become a single marketplace. The 'global' in globalisation expresses how our lives are intertwined with people, companies and governments on the other side of the world through the food we consume, the clothes we buy, the music we listen to, the information we receive and the ideas we hold. The growth of a global economy has been increasing over the last 20 years, but globalisation is not new. For thousands of years, people and businesses have been buying from and selling to each other from great distances, such as through the famous Silk Road across Central Asia that connected China and Europe during the Middle

Ages. Likewise, for centuries, people and corporations have invested in enterprises in other countries. The global economy now reflects the total amount of economic activity going on in the world between the people living in different countries. Globalisation includes all production, trade, finance, technology and labour in each country and between countries.

The size of the global economy is measured by calculating the total output of all nations. The value of one country's goods and services is measured by GDP, but to measure the world's output we use gross world product (GWP), which adds the outputs of all economies. In 2009 the value of the world's goods and services was approximately \$US70 trillion dollars. Eighty per cent of the GWP is generated in developed countries, which account for 72 per cent of all exports, even though they support only 20 per cent of the world's population.

### global village

a point of view where the whole world is considered one community connected by social, economic and political interdependence

### globalisation

the process of increasing economic interaction of economies around the world by removing trade restrictions and improving transportation and technology



Figure 4.3.2 Along the ancient Silk Road

## The players that drive globalisation

Globalisation doesn't just happen. It is a network of interrelated elements coming from different groups, companies and countries.



### transnational corporation (TNC)

a large-scale organisation that operates in many countries; also known as a multinational corporation

## Transnational corporations

Companies that run their business in more than one country are referred to as **transnational corporations (TNCs)**, and are a major driving force of globalisation. Why does a corporation go global? The fundamental reason for a business to become a global or transnational entity is to increase in size and profitability. Although modern businesses are now very different from their historical counterparts, the goal of business remains the same; to try to gain as much market share as possible and to increase profits. This means that TNCs invest enormous sums of money across many economies and continue to expand internationally by merging with or acquiring foreign companies.

Because TNCs have the ability to run their business in several countries at the same time, people across the globe are likely to consume many of the same products. It means we can drive a car from Japan, buy furniture from Sweden, watch a movie made in France, or eat a McDonald's hamburger and drink a Coke in almost any country. Australian TNCs include BHP Billiton and Qantas.



**Figure 4.3.3** Transnational corporations are instantly recognisable by their logos.

Transnational corporations have made it possible for the world to become one single market by creating a global chain of supply. This can be explained by using the example of a t-shirt, easily available in local retail stores. The garment is designed in a large

fashion house in Melbourne. An order for the cotton fabric to be used in the t-shirts is faxed off to a textile business in China where it can be manufactured in bulk at a low cost. Once the material has been produced by a local factory in China, it is exported to Singapore for printing, dyeing and cutting into the various sizes. The final production step is to ship the pieces of fabric to Thailand, where the t-shirts are sewn and packed. The final garments are then imported to the original fashion house in Melbourne and distributed to clothing stores for sale.



**Figure 4.3.4** The global supply chain in action

## Investors

Investors rely on globalisation to take advantage of business opportunities and increase their wealth.

Foreign investment occurs when investors in one country choose to invest in another country. Investors include large banks, investment firms, corporations and shareholders. Investment generally takes the form of purchasing money, property, companies and shares.

## Governments

Governments play an active role in making globalisation possible. There are three main ways that governments can enable international trade and promote international competition:

- by removing tariff protection of local industries

### DID YOU KNOW?

Forty per cent of world trade occurs within or between TNCs.

- by reducing government controls and restrictions from an industry or market (known as **deregulation**); this minimises government participation in the dealings of the marketplace
- by selling off government ownership in industries (known as **privatisation**); for example, the sale of Telstra, the Commonwealth Bank and Qantas.

## FOR DISCUSSION

- 1 How would you explain globalisation?
- 2 What does the government do to encourage globalisation?
- 3 How do TNCs drive globalisation?

# Technology and the media

Globalisation can only be facilitated by technology and its progress. Technology has allowed business operations to expand across the globe, which has given them greater power and influence over national economies. One of the major contributing factors occurred in 1990 when the World Wide Web was launched, allowing countries from all corners of the globe to communicate and share information.

Services can now be delivered all over the world with technology reducing the distance between countries; this has lowered the costs of trading globally. For example, many businesses around the world now outsource their customer service and telemarketing to call centres in countries such as India. Globalisation of the media has also occurred with the advent of these communication and entertainment devices. Satellites inform us of major events, and news and entertainment can now reach remote areas through the Internet.

# Culture

Globalisation allows our world communities to share customs and ideas, creating a form of global culture. Multiculturalism is an example of how globalisation makes this happen, where cultures live together and become more integrated and cultural exchange is made possible. Through globalisation, our own communities are sharing culture with the world through communication, the Internet, the media and global cooperation. For example, Chinese Central Television recently created a business deal with an Australian company to allow advertising of Australian brands in China, and a

**deregulation**

the removal of government controls and restrictions from an industry or market

privatisation

the sale of government-operated businesses and services to private operators

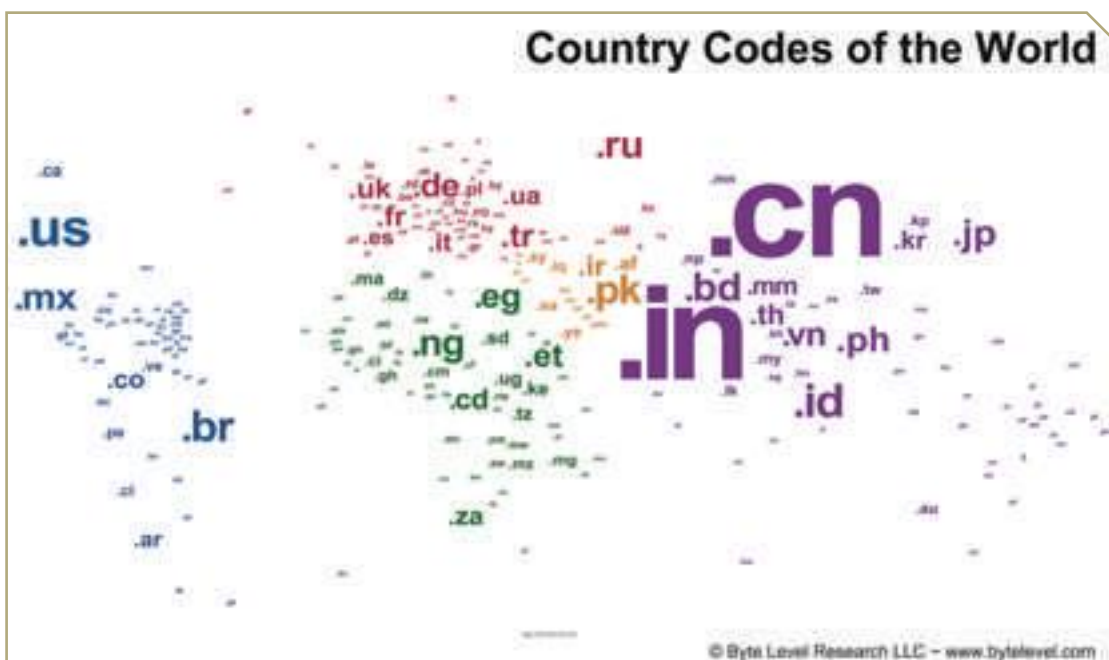


**Figure 4.3.5** Map of the World Wide Web

cultural exchange through globalisation has seen Australian Rules Football (AFL) developed in China. By accommodating the tastes of the variety of culturally diverse customers, McDonald's has succeeded in stepping into the global marketplace, with more than 31 000 restaurants in 119 different countries. McDonald's is in the process of streamlining these restaurants to cater to the customer base in each individual country. By tailoring their menus and restaurants to integrate them into the social standards within each nation, they have succeeded in globalising their corporation.



**Figure 4.3.6** The menus at McDonald's restaurants are tailored to appeal to the tastes of each nation.

## The opposing views of globalisation

It is agreed that there are both winners and losers as a result of globalisation.

### The advantages and disadvantages of globalisation

#### Advantages

Supporters of globalisation contend that it has many beneficial effects.

- It promotes faster economic growth, which has the potential to improve living standards and reduce poverty. India has cut its poverty rate in half in the past two decades.
- Reduced trade barriers have benefited disadvantaged countries. Global trade creates employment opportunities for people in poorer nations, increasing their ability to become self-sufficient.
- Institutions such as the United Nations and World Bank have been able to establish regulations that promote fair working conditions and safe environmental standards.
- International trading improves the quality and growth of industries, leading to increases in jobs and pay.
- Cheaper imports also make a wider range of products accessible to more people.
- Improved technology has significantly reduced costs and prices, thus changing the way the world communicates and does business.
- It has improved environmental awareness and accountability, and encourages the use of more efficient, less polluting technologies and helps economies import renewable alternatives to scarce domestic natural resources.
- International travel is easier than ever before. Tourists bring money and business to the local economies they visit and gain an understanding of other cultures and traditions.
- Globalisation has enabled minor cultures to be more connected and strengthened. International migration has also led to more diverse lifestyles, greater appreciation and respect for cultural identities, which promotes democracy and access to human rights.
- It promotes competition, leading to improvements in management practices, which promotes business efficiency and productivity, resulting in lower prices.
- It encourages open markets, which increases prosperity. Bigger markets mean bigger profits.

#### DID YOU KNOW?

Coca-Cola changes the amount of syrup to fit the local population's cultural palate, and some versions of Coke are said to taste sweeter or more bitter in different countries.



- There is increased life expectancy with improved access to health care treatment and facilities, sanitation and clean water.



**Figure 4.3.7** Globalisation has helped to improve literacy in less-developed economies.

### Disadvantages

Opposers of globalisation believe that the benefits listed above are illusory.

- Free trade doesn't necessarily amount to fair trade.
- With the increase in travel and tourism comes an increase in demands on local communities, affecting their own access and natural environment.
- Multinational corporations have too much power over organisations such as the IMF and the World Bank, which are dominated by business interests. Transnationals are economically more powerful than many countries. As a result, poorer countries are indirectly dependent on big business.
- Access to the Internet and communications technology is unequal. For example, 88 per cent of those with Internet access come from industrialised countries, which make up only 15 per cent of the world's population, whereas 1 per cent of people in South Asia have Internet access even though they account for 20 per cent of the world's population.
- Those with no access to the Internet and communications technology do not benefit from its advantages and have fewer chances to advance in our rapidly digitised world.
- Poorer countries are disadvantaged by free trade. They need to meet their own needs before exporting things overseas. As a result, it becomes more costly for locals to purchase locally produced goods than imported goods.
- Workers are exploited in countries that do not have the right or the power to negotiate workers' rights. 'Sweatshops' are set up in poorer countries by TNCs for their cheap labour, and the poor working conditions, low wages and abuses that exist in these sweatshops go unnoticed by those consuming the goods around the world.
- Globalisation widens the gap between the rich and the poor. Trade liberalisation rewards competitive industries and penalises uncompetitive ones. This forces countries to undertake economic restructuring and reform, which has social and economic costs. It helps the rich get richer and the poor, comparatively poorer.
- The environment has been harmed by the corrupt behaviour of agricultural, forest, mining and fishing industries, which exploit the lack of stringent environmental regulations in less-developed countries.
- Free trade and technological improvements change the economy of a country. Employment opportunities in the traditional industries become scarce, and people who are displaced may not have the appropriate skills for jobs in the new industries that are created, thus leading to unemployment.
- Competition can force a decline in wage rates, labour standards and skills. Highly educated professionals, such as doctors, engineers and IT specialists, move to developed countries to benefit from the higher wages and greater career prospects, thus creating shortages of skilled labour in less-developed countries.

### DID YOU KNOW?

Nike stopped making shoes in the US in the early 1990s. They are now made mostly in Vietnam, China and Indonesia. Workers in Vietnam receive an average wage of 20 cents an hour or \$1.60 a day. In China it is \$1.75 a day and in Indonesia \$2.46.



### less-developed country

a country with a low average income compared to the world average, resulting in a low standard of living and access to fewer goods and services

- National cultural identity and native languages can be damaged by the modern globalised culture, which spreads the adoption of English, especially in business communications.

#### FOR DISCUSSION

- 1 Which do you think is the most important advantage of globalisation?
- 2 Which disadvantage of globalisation do you think is the most concerning?
- 3 How has globalisation brought multiculturalism to Australia?

## The globalisation gap

Globalisation has brought new opportunities to less-developed countries, such as greater access to products, improved technology and higher living standards. But there is no doubt that globalisation has also brought with it inequality across nations.

Some people argue that globalisation only helps rich people get richer by making poor people poorer. With the increasing awareness of the impact of globalisation on poorer, less-developed nations has come the establishment of a number of organisations that aim to deal with them:

### The World Bank



**Figure 4.3.8** The World Bank finances development in poorer countries that cannot raise finance elsewhere.

The World Bank provides financial assistance to **less-developed countries** to move people out of poverty and into self-sufficiency. The agency operates out of Washington DC and is owned by 187 member countries who have committed to fighting poverty. The money to fund these programs is provided by the 40 wealthiest nations and by individual donations. Less-developed countries are often unable to borrow money, but through the World Bank they receive grants, interest-free loans and technical assistance. The bank makes loans for development purposes, including the building of schools and roads, providing water and electricity, fighting disease and protecting the environment. Countries have 35–40 years to repay, with a 10-year grace period.



**Figure 4.3.9** The UN emblem shows the world held in the 'olive branches of peace'.

### International Monetary Fund

The International Monetary Fund (IMF) is a specialised department of the United Nations and works with the same membership of the World Bank to maintain financial stability throughout the world. The fund monitors the world's economies, promotes and facilitates the balanced growth of international trade, and assists with poverty reduction by lending to members in economic difficulty. The IMF fundamentally 'bails out' those economies in severe trouble.

## World Trade Organization



**Figure 4.3.10** World trade brings nations together.

The World Trade Organization (WTO) developed from the same conference that also created the United Nations, the World Bank and the International Monetary Fund. The WTO develops and enforces trade rules for all member nations; for example, it can decide that certain countries' standards are unfair barriers to trade.

The World Bank, IMF and WTO are all affiliated with the United Nations. The purpose of the United Nations is to 'bring all nations of the world together to work for peace and development, based on the principles of justice, human dignity and the wellbeing of all people. It affords the opportunity for countries to balance global interdependence and national interests when addressing international problems.'

## Non-government organisations

The term '**non-government organisation (NGO)**' describes a wide range of non-profit groups representing different communities, including organisations such as Amnesty International, Oxfam and Médecins sans Frontières (Doctors Without Borders). Their aims are to ensure that

producers in less-developed countries are fairly treated and their products receive a fair price on the international market. They also work to highlight awareness of the conditions that TNCs sometimes impose on workers in less-developed nations.

These groups are increasingly working together through growing international networks to bring positive change and economic justice to people in poverty and without power. They use globalisation to raise awareness of global issues, such as abuse of human rights, the need to create world peace and the need to protect the environment. The NGOs themselves have grown in number and importance, due to globalisation and greater connection between communities. They also monitor global power and ensure it is shared evenly, and that business corporations are operating in a socially responsible manner.

### non-government organisation (NGO)

a private, not-for-profit or voluntary organisation that provides humanitarian aid and support to less-developed economies and raises international awareness of issues such as poverty



**Figure 4.3.11** There is a great divide between rich and poor nations.

### FOR DISCUSSION

- 1 Why are there a number of different world organisations involved in managing the effect of globalisation?
- 2 What is the role of the World Bank?
- 3 Why can't all countries get rich from globalisation?

### DID YOU KNOW?

The top three countries ranked as having the best quality of life are:

- 1 France
- 2 Australia
- 3 Switzerland.

| GDP per capita (2009) |                |         |                       |                          |      |
|-----------------------|----------------|---------|-----------------------|--------------------------|------|
| Ten richest countries |                |         | Ten poorest countries |                          |      |
|                       |                | US\$    |                       |                          | US\$ |
| 1                     | Liechtenstein  | 122 100 | 1                     | The Congo DRC            | 300  |
| 2                     | Qatar          | 119 500 | 2                     | Burundi                  | 300  |
| 3                     | Luxembourg     | 79 600  | 3                     | Liberia                  | 500  |
| 4                     | Bermuda        | 69 900  | 4                     | Somalia                  | 600  |
| 5                     | Norway         | 57 400  | 5                     | Niger                    | 700  |
| 6                     | Jersey         | 57 000  | 6                     | Eritrea                  | 700  |
| 7                     | Kuwait         | 52 800  | 7                     | Central African Republic | 700  |
| 8                     | Singapore      | 52 200  | 8                     | Malawi                   | 800  |
| 9                     | Brunei         | 51 200  | 9                     | Togo                     | 900  |
| 10                    | Faeroe Islands | 48 200  | 10                    | Sierra Leone             | 900  |

Source: GDP per capita (PPP) 2009 Country Ranks;  
CIA World Factbook 2009

**Figure 4.3.12** Per capita GDP in the world's ten richest and ten poorest countries

## Fair trade

The products we buy on a regular basis, such as tea, coffee, fruit and chocolate, and even luxury items such as diamonds, are often produced by the poorest people in the world, and many are not being paid fairly for what they provide. Increasing our awareness of this may influence our choices as consumers and, in the process, addresses the injustices of trade, which traditionally discriminates against the poorest, weakest producers. This is the aim of the World Fair Trade Federation, an umbrella organisation for Fairtrade associations around the world. The concept of fair trade was created in response to the 'free trade' espoused by the proponents of globalisation, which some saw as causing inequitable conditions for employees and suppliers of TNCs.

### What is fair trade?

Fair trade is an approach to trading which aims to ensure that manufacturers, farmers and workers in poor countries get a fair deal. A fair deal includes a fair price for goods and services, decent working

conditions and a commitment from buyers so there is reasonable security for the producers. By requiring companies to pay sustainable prices, fair trade addresses the injustices of conventional trade, which traditionally discriminates against the poorest, weakest producers. It enables them to improve their position and have more control over their lives.

#### DID YOU KNOW?

Some diamonds are known as 'blood diamonds'; they are also called conflict diamonds or war diamonds. The gems are mined illegally to raise money to fund civil wars in western Africa and elsewhere. The term 'blood' refers to the many innocent people who have died because of the fighting.



**Figure 4.3.13** Certified Fairtrade products display the Fairtrade label, providing an easy way for consumers to recognise and choose products that meet the standards.

### Fairtrade's vision

Fairtrade's vision is a world in which all producers can enjoy secure and sustainable



livelihoods, fulfil their potential and decide on their future.

Fairtrade principles apply to traders and producers and address the imbalance of power in trading relationships, unstable markets and the influence of TNCs. The nine principles of Fairtrade are shown below.

- 1 Creating opportunities for economically and socially marginalised producers
- 2 Developing transparent and accountable relationships
- 3 Building capacity
- 4 Promoting fair trade
- 5 Paying promptly and fairly
- 6 Supporting safe and empowering working conditions
- 7 Ensuring the rights of children
- 8 Cultivating environmental stewardship
- 9 Respecting cultural identity

Source: Fair Trade Federation

of trade and a higher market share of products. In particular, Fairtrade can make the following claims.

Sales of Fairtrade-certified products have increased an average of almost 40 per cent per year in the last five years; overall, they have been growing more than 20 per cent every year since 2000.

Approximately 27 000 Fairtrade-certified products are now sold in more than 70 countries.

There are currently 827 Fairtrade-certified producers across 60 countries, representing more than 1 million farmers and workers and directly benefiting five million people.

In 2009 the two major Fairtrade product sales were coffee, which rose by 12 per cent, and cocoa, which increased 35 per cent.

However, agricultural products still represent a very small percentage of world agricultural trade, at around 0.1 per cent.

Source: Youthink! World Bank, 2010

## The success of Fairtrade

Over the last 20 years Fairtrade has made it possible for farming communities in poor countries to benefit from fairer terms

| The benefits of fair trade                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Producer benefits                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Buyer benefits                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <ul style="list-style-type: none"> <li>■ Producers receive a fair price for their goods, which remains stable</li> <li>■ Advances are paid on all orders to at least cover the cost of materials</li> <li>■ Partnerships are created with large-scale organisations</li> <li>■ Producers are paid a 'premium', which allows them to invest it in education, healthcare, and other improvements to increase income</li> <li>■ Businesses do not exploit either their staff or the environment</li> </ul> | <ul style="list-style-type: none"> <li>■ Buyers know where each product was made, which highlights the struggle in that area</li> <li>■ Cultural exchanges between less-developed and developed countries are encouraged</li> <li>■ Shoppers can buy products in line with their values and principles. They can choose from an ever-growing range of great products. By buying into Fairtrade, consumers support producers who are struggling to improve their lives</li> </ul> |

Figure 4.3.14 The benefits of fair trade

### DID YOU KNOW?

The first Fairtrade label was launched in 1988 and was attached to coffee from Mexico. The coffee was sold in Dutch supermarkets and was branded after a fictional Dutch character who opposed the exploitation of coffee pickers in Dutch colonies.



## CASE STUDY

## The consequences of global trade

## My friend Globalisation

In a globalised world, you're never too far away from home. TNCs transcend all language and cultural barriers to the extent that it doesn't matter where you are in the world; you all speak the same language when you ask for a Coke. By accepting this way of life, we become part of a global society that allows us to immerse ourselves and experience a new culture, or feel confident that we gain new cultural experiences within the borders of our familiar comfort zone. There are even more symbols of this borderless world that help us fit in immediately with new surroundings. By wearing Levi's jeans or Nike sneakers and arming ourselves with iPhones, we are instantly granted the 'one-of-us' status, as these products are all recognised as global brands. They are names that are trusted and loved worldwide. The implications of the clothes we wear and the gadgets we use are greater than they appear. In a global world, they become the 'passports' of the worldwide resident. Making friends in new places depends more on the songs in your iPod than your nationality. And none of this would have been possible if the world had not shrunk. Improved relations among nations, free trade and state-of-the-art transport have literally made the world smaller. Add to that the information technology that provides us with everything at our fingertips, and we become part of a global culture in which our surroundings are always familiar because they are the same almost everywhere we are. It is for this reason globalisation is said to dissolve not only physical but also cultural, social and economic boundaries.

## FOR DISCUSSION

Which products do you consider to be your globalised friends?



Figure 4.3.15 Global culture is all-pervasive.

### Task: Remembering and understanding

- 1 Who is making the decisions that are driving globalisation?
- 2 How does globalisation improve our standard of living?
- 3 Is globalisation widening the gap between rich and poor?
- 4 How can human rights and the environment be protected while still obtaining the benefits of globalisation for all people?

### Task: Applying and analysing

- 1 Imagine you are a citizen of a less-developed country.
  - a Write a story outlining this citizen's average day, including all the instances of globalisation you think they would come into contact with.
  - b Review your story and compare these instances to the diversity of things that globalisation brings to your own average day.
  - c In what ways are your lifestyles different?
  - d Does globalisation mean you would have any similarities to a teenager in a less-developed country?
- 2 Choose a less-developed economy and prepare a brief oral presentation highlighting their circumstances to your classmates. Your teacher can help you choose from a variety of countries not already mentioned in this chapter. Make sure you cover the information listed below.
  - A summary of the main economic issues the country faces
  - What the government of the country is doing to promote economic development
  - What other economies are doing to assist your country
- 3 Conduct group debates using the following topics:
  - a 'The effect of globalisation is that the poor become even poorer while the rich always get richer.'
  - b 'Only the rich and strongly developed countries can participate in and benefit from globalisation, since the poor and less-developed countries are too weak to profit from globalisation.'
  - c 'When an economy grows and the country gets richer, it can happen only at the expense of some other country (or countries) that become poorer.'
  - d 'The more goods and services a country exports and the less it imports, the better it is for the economy of that country.'
  - e 'International trade should be restricted, since its enormous increase over the past decades severely harms poor, less-developed economies.'

### Task: Evaluating and creating

- 1 Obtain a copy of a map of the world from your teacher. Colour the ten richest countries in one colour and ten poorest countries in another.
  - a What areas of the world do the richest countries come from?
  - b What areas do the poorest countries come from?
  - c What are some of the key differences in these areas?
  - d Can these poor countries ever get rich?

## 2 Complete an essay addressing the following statement:

'The global economy works for about 20 per cent of the world, but for about 80 per cent it doesn't.'

Your essay should:

- be 600–800 words in length
- include definitions of key words and concepts
- include examples to support your ideas.

## Task: Assessment

### Learning quest

Can we be globally responsible consumers when buying clothes and shoes?

The textile, clothing and footwear industry is mostly located in less-developed countries and is often associated with the term 'sweatshop', meaning that the work conditions are very different to those in richer countries. Workers are often treated poorly, with low wages, long hours and poor safety conditions. Globalisation is often blamed for this.

Working in teams, investigate the impact of globalisation on the textile, clothing and footwear industry from the point of view of one of the roles outlined below.

### 1 Clothing factory worker in a less-developed country

Your farming family has suffered great hardship during several years of drought and so you are attracted to the possibilities of work in the new factories opening up in the capital city. It means you will be separated from your family but accommodation is provided and your regular wage will help you assist your family.

Background questions:

- What is an average day like working in the factory?
- What are the advantages and disadvantages of working for a multinational company?
- How do your working conditions compare to other countries?
- How much do you get paid?
- If there are problems in your factory with the way in which you are treated, what could you do about it?

### 2 Chief executive officer of a multinational clothing company

Shareholders are pushing your company to improve profits and so manufacturing off-shore with cheaper labour and attractive tax deals is an appealing option.

Background questions:

- How do you decide which country to set up a factory in?
- How do factories in less-developed countries assist the local community?
- What benefits do you provide workers with?
- What are some examples of community programs in these factory areas?
- How do your pay and working conditions compare to the profits made around the world?

### 3 Environmentalist

The production and manufacture of textiles and clothing and footwear have high environmental demands: water and energy, waste disposal, pollution. The long-term impact on the environment is not always costed effectively. The development and implementation of codes of practice for sustainable production and protection of the environment are an important aspect in the expansion of the textile, clothing and footwear industry.

Background questions:

- In what ways does globalisation affect the environment?
- What environmental problems do the textile, clothing and footwear industry contribute to?
- What are some examples of factories polluting the environment?
- What suggestions could you make to businesses to improve their environmental records?

### 4 Non-government organisation worker

As the textile, clothing and footwear manufacturers try to meet tight deadlines and costs, unskilled people can be at risk of exploitation. Local NGOs work with vulnerable people in the community to provide education and empower them to protect their rights. They also work with governments, businesses and other NGOs to assist in creating better working conditions for factory workers in less-developed countries.

Background questions:

- How do NGOs assist poor communities and their citizens?
- What activities have NGOs undertaken to try to negotiate fairer work conditions for clothing workers?
- How do NGOs support the labour rights of factory workers in less-developed countries?
- How do they help in providing aid to less-developed countries?

### 5 Activist

Many people feel concerned about the economic, environmental and social problems resulting from some practices in the textile, clothing and footwear manufacturing industry and want to do something about it.

Background questions:

- What are the main problems in the clothing manufacturing industry in less-developed countries?
- What are the main complaints you receive from workers and communities?
- What are the consequences of the closing down of factories?
- Which protest methods are the most effective?
- How have you been successful in the past?

Your research will lead to your group deciding what effect globalisation has had on the fashion industry and recommendations to improve the industry.

Present your work as an e-portfolio or on a visual display pad. Your teacher may also ask you to give a brief presentation to your classmates to share your recommendations.

*(This task has been adapted from the Global Education website  
www.globaleducation.edna.edu.au)*



# 4.4

## A sustainable economy

### non-renewable resource

those resources that are not regenerative and are only available in fixed amounts; coal, oil, gas and minerals are all non-renewable resources

*Earth provides enough to satisfy every man's need but not every man's greed.*

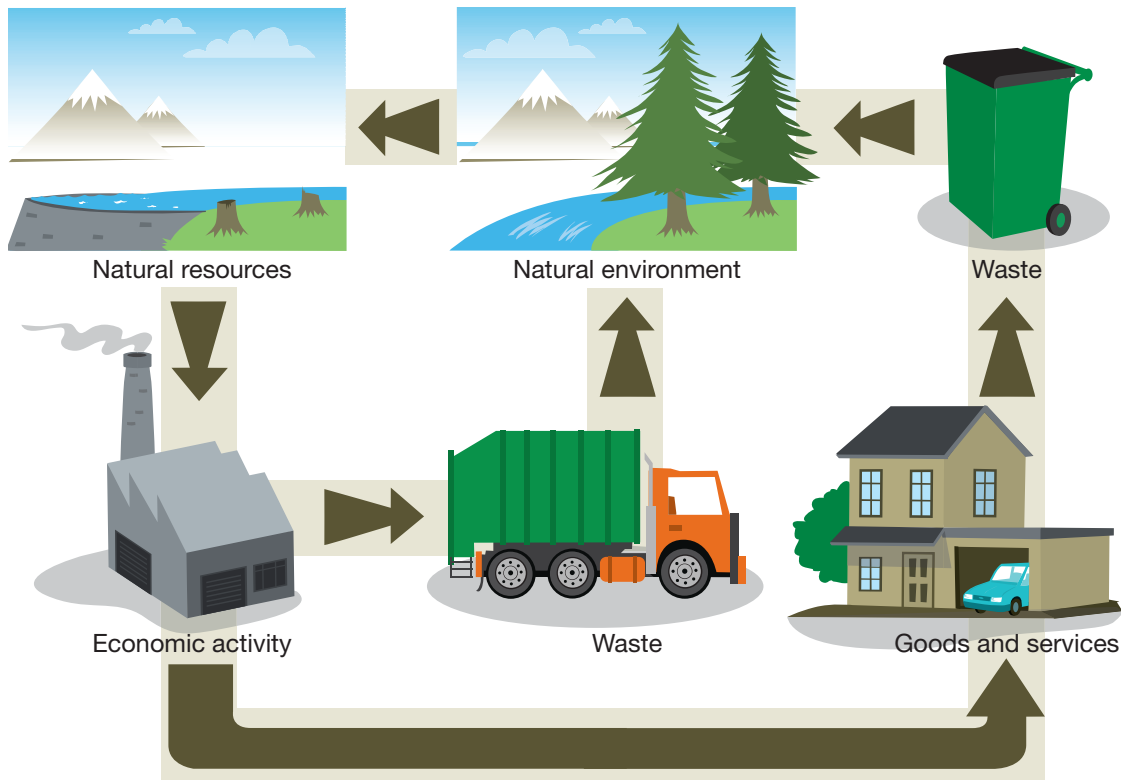
Mahatma Gandhi

We have already looked at how economics is the study of the way people make their living, how they acquire their food, shelter, clothing and other material necessities and comfort of this world. The production of goods to satisfy these needs and wants takes place in a given environment and it is the environment that provides the scarce resources. Therefore two important systems that operate in any society are the economic system and the natural system. The economic system uses natural, human and capital resources to produce goods and services, such as a car, and the natural system uses natural resources to create, destroy or sustain life, such as a forest. Economic systems impact upon natural systems by extracting natural resources and dumping the waste created, and economic development impacts on the environmental conservation of countries.

People need to consume natural resources to live, but many do not realise what they use in their everyday life and how much. Most of the energy people use is created from **non-renewable resources** such as coal, natural gas and oil. Oil, for example, makes up about half of Australia's energy use and



**Figure 4.4.1** How big is your ecological footprint?



**renewable resource**  
naturally occurring materials that come from a source that is not necessarily finite; fish, trees and energy from the sun and wind are renewable resources

**Figure 4.4.2** The relationship between economic and natural systems

is most commonly used as fuel for the car, or to produce synthetic fabrics, lipstick, plastics, fertilisers and electricity. Being non-renewable means these fossil fuels are limited. Once these resources are removed from the land they cannot be replaced or replenished for an extremely long period of time. Most nations have an abundant supply of **renewable resources**, which are replenished according to a natural cycle. These resources such as water, timber and fish are available indefinitely unless they are overused or abused. Problems arise when people consume either more of these resources than the earth has to offer or do not give the land the time it needs or the opportunity to renew itself.

A common definition of sustainable development is '... to meet the needs of the present without compromising the ability of future generations to meet their own needs' (Our Common Future, World Commission of Environment and Development, 1987).

The causes that interfere with the ability to live sustainably are:

- population growth
- waste and pollution
- poverty
- wasteful consumption
- insufficient knowledge of how nature works.

## Population growth

The world's population is about 6.5 billion people, with more than half living in cities. Large cities (those with more than 1 million residents) are expanding rapidly, up from 13 in 1900 to more than 300 in 2007. One hundred of these cities are in China alone. People migrate to cities because of:

- the opportunities and independence offered there; cities offer jobs, better housing, entertainment and freedom from the constraints of village traditions

- the development of technology, which has in many cases eliminated traditional jobs and driven people off the land
- government policies that often favour urban over rural areas.



**Figure 4.4.3** The number of large cities is expanding rapidly.

## Waste and pollution

The earth's natural resources are often damaged by pollution. Pollution is caused by harmful waste being released into the environment. For example, in factories, for every kilogram of goods that are produced, five kilograms of waste are created, which have to go somewhere. While the environment can be polluted through natural events such as volcanic eruptions, pollution that has been caused by humans includes smog, acid rain, littering and oil spills. Oil spills (for example, the BP explosion in the Gulf of Mexico in 2010) are usually caused by oil rig and tanker

accidents. They are not only dangerous for humans, but are responsible for the death of innumerable marine animals every year.



**Figure 4.4.4** Pollution is caused by harmful waste being released into the environment.

## Poverty

Environmental problems affect everyone, but people living in poor countries are more affected by environmental degradation because they rely on the land more than most. People who live in poverty survive off their immediate surroundings and they do not have the money or the resources to implement sustainable methods. In some cases, rich transnational companies persuade less-developed countries to overgraze their land and clear forests in an attempt to earn any money that they can.



**Figure 4.4.5** People living in less-developed countries are more affected by environmental degradation.

### DID YOU KNOW?

According to the UN, the top five cities in the world by population are:

- 1 Tokyo
- 2 Delhi
- 3 Sao Paolo
- 4 Mumbai
- 5 Mexico City.



## Wasteful consumption

Many people consume more than they need and are simply wasteful with what they have. Consumers from wealthy countries are driven by satisfying the many indulgent wants they have, and replace products before necessary or buy impulsively. Superseded products are thrown away along with their packaging, adding to waste piles and **landfill**. Food is another example of overconsumption, with millions of tonnes thrown away every year. People simply buy too much or let their food sit idle until it spoils, making Australia one of the world's worst producers of garbage.



Figure 4.4.6 How best to dispose of garbage?

## Insufficient knowledge of how nature works

The overuse and exploitation of the world's natural resources through agriculture is having a devastating effect on all aspects of the environment, but many people are not aware that farming can have a negative impact on nature, and ultimately

an economy. Countries such as Australia are dependent on farming and agriculture, but many farming practices lead to the poisoning of the land they so heavily rely on for economic growth. Large areas of land are cropped and the soil is treated with chemical fertilisers and pesticides to make crops grow quickly and in large quantities. Over-use or unwise use of these chemicals can leave residues in the soil that run off into rivers and lakes, thus contaminating the waterways.

Farming also uses large-scale irrigation, which can cause soil salinity: high levels of salt in the soil that can make it unproductive for vegetation. At present, salinity is a worldwide problem affecting around 12 per cent of farming land.

Crop farming is the cause of almost 35 per cent of the world's forests being destroyed. Deforestation can result in excessive erosion and the loss of living things and their habitats. Nature also contributes to releasing toxic gases into the atmosphere. The turning of soil, the rotting of old plants from harvesting and the burning off of crops all negatively affect the environment.



Figure 4.4.7 A crop duster spraying a field

## Sustainable development

The use of the earth's natural resources has increased substantially in the last 50 years. The environment has been put under increasing pressure with a growing

### landfill

the disposal of rubbish by burying it under soil or earth

### DID YOU KNOW?

Planet Ark is an Australian not-for-profit environmental organisation that was set up to promote and run recycling campaigns. Since its commencement in 1991, more than 13 million printer cartridges have been diverted from landfill and recycled and 16.25 million native trees and shrubs have been planted.

### FOR DISCUSSION

- 1 How does the environment play an economic role in a country?
- 2 How might an environmental problem in a local community be different to one in the global economy?
- 3 Why are cities getting bigger and bigger?
- 4 Make a class list of all the activities you have carried out today that have caused waste and pollution.



**sustainability**

maintaining the qualities that are valued in the environment for future generations

**ecological footprint**

the amount of resources needed to sustain a person or country, usually measured in hectares of productive land per person

population that is consuming more resources than ever before. It is widely agreed that the current levels of global consumption are unsustainable, and they will not be able to continue to provide for the current population and future generations. For example, for every four barrels of oil that are consumed, only one barrel is being discovered. At this rate, we will run out of oil within the next 100 years. It is the using up of this and other resources that have raised the awareness of a need for sustainable economies. How can an economy produce goods and services without causing harm to the environment that facilitates its production?

**Sustainability** is commonly defined as the ability of the environment to meet the needs of the present without compromising the ability of future generations to meet their own needs (*Our Common Future*, Brundtland Commission 1987). Living sustainably means living off the earth without depleting or degrading the economic resources it supplies. It also means that businesses and governments have to seek a balance between economic growth and raising living standards while still caring for the environment. To do this, sustainable development must address:

- how nature works
- how the environment affects us
- how we affect the environment
- how to deal with environmental problems
- how to live more sustainably.

## Ecological footprints: how we affect the Earth

The amount of pressure people put on the natural resources of the earth by the way they live can be measured through their **ecological footprint**. An ecological footprint is the estimated amount of

land and water required to produce the resources that a person or a population would need to live sustainably and to absorb all of the waste that is produced. It does not take into consideration all of the space in the world, only the amount of productive land and sea, and is measured by using factors including diet, travel, use of appliances and consumer habits.

The term was first created in 1993 and is measured in hectares; one hectare is the equivalent of a soccer field. The footprint expresses how much of the earth and its resources would be needed if we all lived the lifestyle of one person, a particular region, country or the entire population.

Calculating ecological footprints allows people and groups to see to what extent the pressure everyday life places on the environment.

## The world's footprint

The world's population of 6.7 billion currently uses the equivalent of 1.5 planets to provide the resources used and absorb all the waste generated. Globally, there are about 1.8 hectares of productive land per person, but the average ecological footprint is 2.7 hectares, which means it takes the planet one year and six months to renew what we use in one year. This imbalance of consuming resources and creating waste faster than renewing and absorbing them is referred to as 'ecological overshoot'. The effects of ecological overshoot are:

- depletion of water systems
- build-up of pollution and waste
- diminishing forest cover and collapsing fisheries
- global warming
- famine and disease.

On average, high-income countries have an ecological footprint of more than 6 hectares per person, while middle-income countries average approximately 4 hectares. People in low-income countries have a footprint of less than 1 hectare per person. China currently has a moderate

**DID YOU KNOW?**

Using the screensaver on your computer doesn't save energy; it just protects the screen from damage. You should switch off the screen or set up the energy saving features instead.

ecological footprint of 2.2 hectares, but many experts are concerned with the effect the increase in their population will have over the next few decades. It is forecast that in this time the population of China

will grow to 1.5 billion people and their footprint will increase to 9.4 hectares per person—more than the current footprint for the US. If so, there will need to be 25 planets to satisfy everyone's wants!

| The world's biggest and smallest ecological footprints (2007) |                 |                             |                 |
|---------------------------------------------------------------|-----------------|-----------------------------|-----------------|
| The ten biggest footprints                                    | per person (ha) | The ten smallest footprints | per person (ha) |
| United Arab Emirates                                          | 10.68           | Puerto Rico                 | 0.04            |
| Qatar                                                         | 10.51           | Timor-Leste                 | 0.44            |
| Denmark                                                       | 10.04           | Bangladesh                  | 0.62            |
| Belgium                                                       | 8.00            | Afghanistan                 | 0.62            |
| United States                                                 | 8.00            | Haiti                       | 0.68            |
| Estonia                                                       | 7.88            | Malawi                      | 0.73            |
| Canada                                                        | 7.01            | Palestinian Authority       | 0.74            |
| Australia                                                     | 6.84            | Republic of Congo           | 0.75            |
| Kuwait                                                        | 6.32            | Pakistan                    | 0.77            |
| Ireland                                                       | 6.29            | Mozambique                  | 0.77            |

Source: *Ecological Footprint Atlas, Global Footprint Network, 13 October 2010*

**Figure 4.4.8** Countries with the ten biggest and ten smallest ecological footprints



**Figure 4.4.9** What does an ecological footprint measure?

#### DID YOU KNOW?

In late 2010, China's population was the highest in the world at 1 340 910 000 people, followed closely by India. The US was third but had only 310 815 000 people. In comparison, Australia's population was 22 542 000.

## Australia's ecological footprint

Australia's ecological footprint is one of the ten largest in the world, with 6.84 global hectares of land needed per person to sustain our standard of living. More than 50 per cent of Australia's footprint is due to greenhouse gas emissions, with the average household emitting around 14 tonnes of greenhouse gases each year. If all people consumed the resources that Australians do, it would take three planets to support their lifestyle. Australia's footprint is large because most people live in large cities, in relatively large houses, travel long distances, and their energy needs come mostly from fossil fuels.

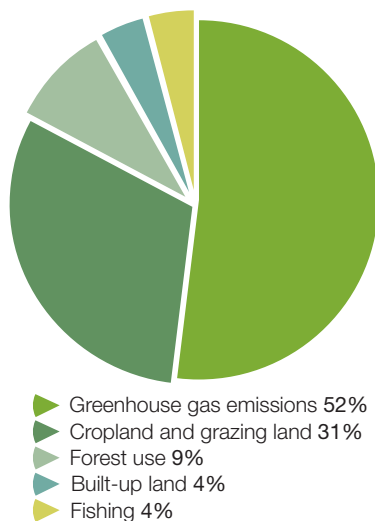


**Figure 4.4.10** The composition of Australia's ecological footprint

## Victoria's ecological footprint

It is concerning to know that if everyone in the world lived like Victorians, we would need four planets. What this means is that Victorians on average use 6.8 global hectares to meet their lifestyle needs every year, but there are only 1.8 hectares of land available for every person. It is clear from these figures that there is substantial pressure on the environment and that this pattern of consumption by Victorians

cannot be sustained. This high figure places the state nearly three times higher than the world average. The biggest proportion of this ecological footprint figure is made up of food and services. Victoria also relies heavily on burning brown coal for energy, which gives the state a large carbon footprint as well.

### FOR DISCUSSION

- 1 What does the term 'footprint' refer to?
- 2 Why does Victoria have a large ecological footprint?
- 3 What is the relationship between the type of country and the size of the ecological footprint?

## Your personal ecological footprint

Your own footprint is composed of a number of things, including:

- the energy used to produce your food, water and consumer products
- electricity to run your home
- fuel to provide transport and dispose of waste.

For instance, you may be surprised at the impact your food choices can have on your ecological footprint. Next time you do your grocery shopping, think about the type of packaging that is used, how far it has travelled to get to you and how much energy went into growing or producing it. All of this contributes to your footprint.



**Figure 4.4.11** Our feet are too big for our planet.

### DID YOU KNOW?

One kilogram of carbon dioxide would fill a family fridge. A tonne of carbon dioxide would fill a family home.

Some ways to reduce your ecological footprint are shown below.

- Use recycled products.
- Avoid the use of plastic bottles, plastic bags and cans.
- Buy organic and locally grown food.
- Avoid driving a car; walk, ride a bike or take public transport. If you do have to drive, carpool and use a fuel-efficient vehicle such as a hybrid or alternative fuel car and service it regularly.
- Unplug your electrical appliances when not in use.
- Support organisations that protect the environment.

Some of these practices will also help to offset the carbon component that increases our ecological footprint and to become carbon neutral.

## The low-carbon diet: being carbon neutral

Carbon dioxide (CO<sub>2</sub>) is a naturally occurring gas in the atmosphere but societies have become increasingly dependent on burning the fossil fuels—coal and oil—that create the harmful gas and lead to the creation of the greenhouse effect and **global warming**. When greenhouse gases build up in the atmosphere, heat gets trapped at the earth's surface, leading to negative consequences such as a rise in temperature leading to the melting of the ice caps in Antarctica. This is the global warming effect. Ordinary daily activities such as driving a car, heating a home, keeping food in the fridge and taking a trip contribute to global warming. Working out how much pollution we are creating and then trying to counterbalance it by putting carbon back into the environment is one way of becoming carbon neutral.

'Carbon neutral' is a term used to describe energy that neither contributes nor reduces the amount of carbon dioxide being released

into the atmosphere. Being carbon neutral means absorbing the same amount of carbon dioxide as is produced, by calculating how much CO<sub>2</sub> is being emitted from one activity and reducing the same amount of CO<sub>2</sub> in another activity. For example, if one tonne of carbon costs \$12 and a seat on an average domestic airline flight generates 0.4 tonnes of carbon discharge, then the emissions from the domestic flight would cost \$4.80 per seat to offset.



**Figure 4.4.12** As part of Qantas's strategy, passengers are offered the opportunity to offset the carbon emissions of their flight.

### global warming

warming of the earth's atmosphere, believed to be mainly caused by carbon dioxide emissions that are released when using fossil fuels such as coal, gas and oil

## Climate change and the Kyoto Protocol

Climate change is a global issue, requiring a global solution. It affects not only Australia but the world, both economically and environmentally. However, an effective response to the issue requires active Australian involvement. In 1992, Australia became involved in the United Nations Framework Convention on Climate Change (UNFCCC), cooperating with other countries to stabilise greenhouse gases in the atmosphere and thus reduce the human influence on the global climate. In 1997, the UNFCCC met in Kyoto, Japan. The aim was for the countries to come up with agreed targets for the reduction of their greenhouse gas emissions and become legally responsible for achieving them. The key features of the agreement were:

- to reduce their collective emissions of greenhouse gases by 5.2 per cent compared to the year 1990.



**ecotourism**

ecologically sustainable tourism that fosters environmental and cultural understanding, appreciation and conservation

- to lower overall emissions from six greenhouse gases: carbon dioxide, methane, nitrous oxide, sulphur, HFCs and PFCs.
- to establish national targets for all countries, ranging from 0 per cent reduction for Russia to 10 per cent for Iceland; Australia's target was set at 8 per cent
- to achieve these targets by 2012.



**Figure 4.4.13** It was hoped that the Kyoto Protocol would bind the world.

As of October 2009, 185 countries have signed and endorsed the protocol. Although Australia agreed with the policy, for many years successive governments, along with the US, refused to sign the agreement. There were concerns about the economic interests of the country, given that Australia has a large resources industry that produces and trades in the very fuels the agreement was trying to reduce dependence upon. Eventually Australia, through the then Prime Minister Kevin Rudd, signed the Protocol in 2007.

**FOR DISCUSSION**

- 1 Review the list of strategies to reduce our ecological footprint. How many of them do you think you could achieve?
- 2 Which ones would you be unwilling to try, and why?
- 3 How would signing the Kyoto Protocol both help and hinder Australia's economy?

## Ecotourism: an example of sustainability

Economically, tourism is one of Australia's most important industries and a major source of income, employment and foreign exchange. The survival of the industry depends on the ability of tourism to

protect the features of the environment it promotes as tourist attractions. The focus on responsible travel has given way to a new way of thinking that allows tourism to be 'greener' and less exploitative than traditional tourism. As a result, the concept of **ecotourism** emerged in the 1980s. The idea of ecotourism is that the environment should not be damaged by the presence of tourists who visit it. Ecotourism combines tourism with the principles of ecological sustainability in the hope of reducing the human impact on the environmental features of a tourist attraction. In doing this, it encourages people to explore places in ways that enhance their appreciation and understanding of the location without ruining it. This helps to reduce the negative social and cultural impacts of tourism by encouraging people to interact with locals and behave in a respectful way. It is essentially finding ways to be a tourist that is in harmony with the earth.



**Figure 4.4.14** Sustainable travel

Ecotourism has been increasingly in demand, due to a number of factors:

- an increase in the disposable income of people and the desire to travel
- a growth in awareness of environmental issues in both developed and less-developed nations
- a belief that many natural environments are being permanently altered or destroyed
- increased exposure to new and remote places through the media

- political instability and other events that influence tourists to seek out safe destinations
- the desire for cultural experiences
- increased concern about crowding at traditional tourist destinations.

Current popular world ecotourist destinations include Kenya, Nepal, Thailand, Guatemala and the Amazon, while the Great Barrier Reef and the Daintree forest are examples of ecotourism destinations located in Australia. The Great Barrier Reef is the world's largest coral reef ecosystem, while the Daintree is the oldest living tropical rainforest on earth.

Under its principles, ecotourism:

- involves travel to natural destinations
- minimises its impact on nature
- builds environmental awareness
- respects local culture
- provides financial benefits for tourist destinations and their local people
- delivers financial benefits for the conservation of natural resources
- supports human rights
- creates positive experiences.

In the tourism industry it is well known that tourists have different sets of characteristics; ecotourism may not suit the needs of everyone.



**Figure 4.4.15** The Great Barrier Reef is a natural ecotourism destination

Ecotourism means education, for both tourists and residents of nearby communities.

Here are some tips for more responsible travel:

- Book locally owned hotels, not chain hotels.
- Fly with local airlines rather than your own national carrier to contribute to the local economy.
- Offset your carbon emissions on your flights.
- Respect the local culture you are visiting.
- Leave things the way you find them.
- Dispose of waste properly.
- Respect wildlife.

### FOR DISCUSSION

- 1 Identify other locations within Australia and internationally that would be labelled ecotourism destinations.
- 2 Read Figure 4.4.16. Which type of tourist are you?

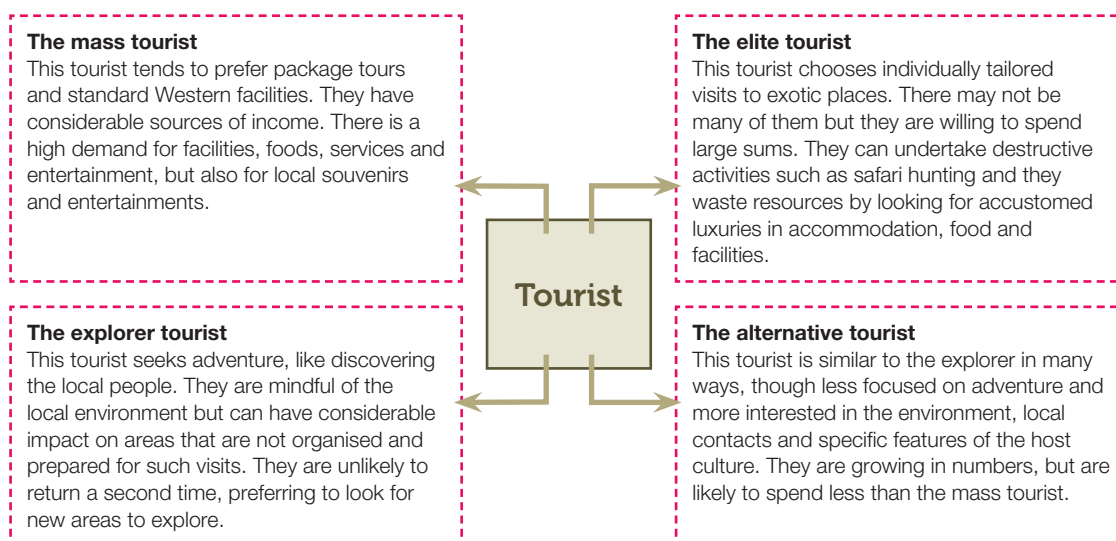


**Figure 4.4.16** Categories of tourists

### DID YOU KNOW?

The most expensive hotel in the world is the Grand Resort Lagonissi in Athens, Greece where a one-night stay in their Royal Villa will cost you \$50 000!

## CASE STUDY

## Sustainable development

## The palm oil industry

Palm oil is one of the major export earners for low-income and less-developed countries and is the second largest oil crop in the world. The industry employs hundreds of thousands of people worldwide, with export earnings of more than 22 billion per year. Given the economic need to provide employment and further develop the economies of these countries, palm oil is considered strategic and important to their future economic growth. Palm oil trees grow in tropical areas such as Ghana, Colombia, New Guinea, Malaysia and Indonesia; the latter two countries account for 85 per cent of global production of palm oil.



**Figure 4.4.17** Common household brands that contain palm oil

Palm oil is an edible oil obtained from the fruit of the African oil palm tree. It is used in approximately 50 per cent of packaged products on our supermarket shelves: ice cream, chocolate, biscuits, crackers, chips, margarine, fruit juice, soap, toothpaste, laundry powders and detergents, cosmetics and pet food. It is usually simply labelled 'vegetable oil' but, if a product has saturated fat, you can safely assume that it contains palm kernel oil or palm oil.

In 2009, the government proposed a Bill that would make businesses label products that contained certified sustainable palm oil.

Palm oil plantations require a huge area of land, which is often misused to maximise business opportunities and minimise costs.

In consequence, developers choose locations and methods that are not environmentally friendly and are unsustainable in the long term.

Oil palm companies open new plantations in forest areas when one area has already been cleared. However, forest clearing is not necessary; millions of hectares of abandoned land could be used for oil palm plantations. Globally, up to 700 million hectares are available, 20 million hectares in Indonesia alone. However, companies are reluctant to choose this option; clearing new rainforests creates business opportunities, as there are additional profits to be made by logging the timber first before setting up the plantations.



**Figure 4.4.18** Sometimes there are more economic opportunities in felling rainforests.

The deforestation methods used are quick and extremely harmful to the surrounding ecosystem. Some companies apply clearing methods such as open burning, which causes haze and poor air quality for the workers and citizens living nearby, and release large volumes of greenhouse gases.





**Figure 4.4.19** Habitat loss threatens these orangutans with extinction.

Uncontrolled burning also results in the deaths of thousands of orangutans and leaves survivors with nowhere to live and nothing to eat. The increased demand for palm oil, which grows only in tropical environments, is the greatest threat facing orangutans, which have become endangered. Companies are clearing rainforests for palm plantations at the rate of 300 football fields per hour; if this continues, orangutans could be extinct within 10 to 20 years. Eighty per cent of their habitat has already been altered or lost in South-east Asia and up to 50 orangutans die every week. Other animals also affected are the Sumatran rhino and tiger.

Given the conflict between economic growth and sustainability, the palm oil industry has come under scrutiny by parties that are concerned about safeguarding the environment and ensuring sustainable practices are adopted in these countries. The alternative to unsustainable palm oil is Certified Sustainable Palm Oil (CSPO), which is produced by plantations with good environmental, social and economic standards. For example, CSPO cannot be sourced from plantations that were cleared after 2005. In other words, by buying CSPO, major users of palm oil can avoid contributing to the ongoing destruction of forests.

For the plantations to be certified they must be managed in accordance with the principles of the Roundtable on Sustainable Palm Oil (RSPO). This is a non-profit association including environmental and social groups such as WWF and Oxfam, producers, traders and retailers. They have proved that palm oil production can be sustainable and, since they began in 2009, 4 per cent of total palm oil production has been produced by CSPO.

#### FOR DISCUSSION

- 1 Why is there such a concentration of the palm oil industry in few countries?
- 2 Why do palm oil companies choose to find new land to strip instead of planting more trees when the land has been cleared?
- 3 What are the environmental consequences of the palm oil industry? Which is the most concerning and why?
- 4 What can you do as a consumer to address this problem?
- 5 What were the key reasons for Nestlé deciding to stop using uncertified palm oil?

#### DID YOU KNOW?

We share 97 per cent of our DNA with orangutans.



## Task: Remembering and understanding

- 1 What is the difference between renewable and non-renewable resources?
- 2 Explain what is meant by the quote 'renewable doesn't always mean indefinite'.
- 3 What are some of the pressures that are creating an unsustainable world?
- 4 Why does Australia appear to have a bigger problem with environmental sustainability than many other developed countries?
- 5 What does it mean to be carbon neutral?

## Task: Applying and analysing

- 1 Explain how the following climate changes can have both a positive and a negative impact on Australia's economy.
  - a Rainfall increases by 10 per cent.
  - b Fewer winter frosts and snowfalls are expected for the next several years.
  - c The coasts of Queensland and the Whitsunday islands are expected to get two degrees warmer.

## Task: Evaluating and creating

- 1 Log on to Pearson Places and follow the prompts to visit the EPA Victoria website. Calculate your ecological footprint.
  - a How do you rate against the average Australian?
  - b What changes could you make to reduce your impact on the environment?
- 2 Write down all the electrical appliances in your home, then keep a journal for a week of how often they are used.
  - a Which items are used the most?
  - b Calculate the percentage of use and illustrate it as a pie chart.



## Task: Assessment

### Option 1 Design your own ecotourism resort

Working in a team, plan a new ecotourism resort. You must use environmentally friendly principles and apply your understanding of sustainable development and ecotourism as an industry. This should be followed in all aspects of your resort, including buildings, rooms, facilities, activities, food, travel, employees, energy use, souvenirs and anything else you think is important.

Prepare this information as a visual brief to share with your classmates.

You should also produce a brief travel brochure for travel agents and prospective tourists.

Include the following checklist:

#### Destination

- What is the name of the resort and where will it be located?
- What animal, plant or other symbol will you use to highlight your destination?
- How many people will the eco-resort cater for?

- How do people get to the resort?
- What would a night's accommodation cost?
- How will the local community benefit from your resort?

#### **Resort design and layout**

- What type of building design will fit in with the environment?
- What materials will be used in the buildings?
- How will you minimise the effects on the local plant and animal systems?
- How will the use of energy for cooking, heating, cooling and lighting be minimised?
- How will the use of water be minimised?
- Draw a map or layout of your resort.

#### **Management of the resort**

- What types of food will you provide and where will it come from?
- How will you minimise what goes into landfill?
- What items will be reused or recycled? In what ways can you minimise the use of materials such as paper, glass, plastics or cans?
- How will you minimise the resort's effect on the local animal communities?
- What activities and tours will you offer?
- How do you minimise the impact of your tours on native plants and animals?

### **Option 2 Work out your own carbon footprint**

Write a weekly diary listing your usual carbon-consumption practices. Then describe how they could be changed to reduce your carbon footprint. Use the table below as a template.

|           | <b>Current practices</b> | <b>New, lower-carbon practices</b> |
|-----------|--------------------------|------------------------------------|
| Monday    | <i>Driven to school</i>  | <i>Walk or ride to school</i>      |
| Tuesday   |                          |                                    |
| Wednesday |                          |                                    |
| Thursday  |                          |                                    |
| Friday    |                          |                                    |
| Saturday  |                          |                                    |
| Sunday    |                          |                                    |





# BUSINESS





# CHAPTER FIVE

# What makes a BUSINESS?

## Introduction

By the time you arrived at school this morning you probably interacted directly with five or six businesses and with perhaps another ten indirectly. Did you shower, get dressed, eat breakfast, listen to the radio or watch television? Did you catch the bus or train to school? Did you buy lunch on the way? Each of these simple daily activities relies on goods or services produced by businesses. Some may be large businesses: the television network, for example, or the transport company. Others may be small businesses, such as the milk bar where you bought your lunch. Each of these businesses, in its own way, contributes to the Australian economy and the lifestyle we enjoy.

Figure 5.1.0 Businesses of all shapes and sizes provide goods and services for Australians.



# 5.1

## Classification of business

*Australia's largest business is BHP Billiton, the second-largest is the Commonwealth Bank of Australia and the third-largest is Westpac Bank.*

*The Australian, 30 April 2011*

**Figure 5.1.1** Many farms can be classified as small businesses. However, the number of farms in Australia has decreased while the average size has increased.



Businesses can be classified according to their size, the industry in which they operate and their business or ownership structure.

### By size

It can sometimes be difficult to decide just what is large and what is small when it comes to classifying a business. Although the size of the business may be quite small, it may be just a branch or agency of a large business. Several indicators can be used to determine the size of a business. These include:

- the level of employment
- the **market share**
- the **level of independence** enjoyed by the owner(s)
- the sources of finance available to the owner.

When considering level of employment as a measure of business size, it is worth noting that this is the most common indicator used in Australia. According to the Australian Bureau of Statistics, a small business is defined as a business that employs fewer than 20 people. Categories of small business include:

- **sole proprietorships** and **partnerships** without employees
- microbusinesses, or businesses that employ fewer than five people, including sole proprietorships and partnerships
- businesses that employ five or more people, but fewer than 20 people.

#### market share

the percentage of the market, often expressed in total sales, held by a business

#### level of independence

the amount of freedom enjoyed by a business owner, including the freedom to manage and control the operating decisions relating to the business

#### sole proprietorship

a form of business structure where the business is owned and operated by one person

#### partnership

a form of business structure where the business is owned by between two and 20 people who share responsibility

**niche market**

the area of a target market where a company is particularly strong due to the uniqueness of their good or service.

Niche markets tend to experience limited competition.

**capital**

items of value contributed to the business by the owner, usually in the form of cash or equipment

**shares**

units of ownership in a business

The market share of a business relates to the percentage of total available customers that it services. Small businesses typically do not have a large market share as there are usually many similar businesses operating in their area. A business that is the sole supplier of a particular good or service is more likely to be a medium or large business. However, exceptions do occur; for example, when a small business owner has established a **niche market** in which they are providing a unique good or service.

One of the key reasons for becoming a small business owner is the freedom and independence available. Owners are free, within the context of the law, to choose their preferred location, working hours, business name and many other features of the business operation. Franchises—to be discussed in Chapter 7—are an exception to this rule. In a franchise, freedom of decision-making is removed from the owner, as they are bound to implement the strategies employed by the parent company.

All businesses require finance to begin or expand their operations. Major differences occur in the way businesses obtain the necessary finance. For the small business owner there are limited options available. They may contribute their own money, known as **capital**. Alternatively, they may seek personal loans through a bank or other lending institution. Not surprisingly, medium or large businesses have access to a much greater range of finance sources. They can rely on their own reserves of money, sell **shares** or encourage investment from government or other organisations.

**FOR DISCUSSION**

- 1 Classify each business you have interacted with today as 'small', 'medium' or 'large'. What observations can you make about the differences between small and large businesses?
- 2 Give an example of a good (i.e. a product) that you believe exists in a niche market. What market share would you expect this business to have?

## By industry

The Australian Bureau of Statistics (ABS) recognises nineteen different industries in which businesses in Australia can be involved. The Australian and New Zealand Standard Industrial Classification (ANZSIC) is the standard classification used in Australia and New Zealand for the collection, compilation and publication of statistics by industry. According to ABS statistics, most businesses fall into the categories of agriculture, forestry and fishing; mining; manufacturing; and construction. Many other businesses are involved in retail operations and the provision of services such as food, accommodation and hospitality.



**Figure 5.1.2** Australian businesses operate in a range of different industries.

## Retail

Retail businesses are those that earn an income through the buying and selling of goods. The goods are purchased from suppliers at one price and offered for sale to consumers at a higher price. Woolworths' food and liquor business is Australia's biggest retailer in terms of sales, followed by Coles' food and liquor, Harvey Norman, Bunnings and Big W (also owned by Woolworths).

## Service

Service businesses are those that earn an income through the provision of services valuable to consumers as a final product, such as services provided by cafés and restaurants. The service industry employs the largest number of Australians and comprises the biggest

**DID YOU KNOW?**

The United States has the largest number of head offices for the world's largest companies—551. Japan has 288, while the United Kingdom has 102. Australia is much further down the list, with 46.

group of businesses. Examples of common services include accommodation and food services; information, media and telecommunications; financial and insurance services; professional, scientific and technical services; administrative and support services; education and training; and health care.

## Manufacturing

Businesses in the manufacturing sector are typically involved in the manufacture and trade of goods made from raw materials. These goods include all foods, chemicals, textiles, machines and equipment. The materials used may include refined metals and minerals such as gold and iron ore, petroleum products, and timber, wood and pulp products. Two of Australia's largest companies, BHP Billiton and Rio Tinto, earn their income from a range of activities including mining and the production of metals such as aluminium.

## By ownership structure

In Australia there are four common forms of business structure. A business can be a sole proprietorship (owned and operated by one person), a partnership (owned and operated by a group of up to 20 people), a private company or a public company. Sole proprietorships and partnerships are the two most common ownership structures for small businesses. However, some small businesses can be private companies, where a small number of people own shares in the business. Most large organisations, on the other hand, operate as public companies, which means that any member of the general public can buy shares and become a part-owner of that company.

### Sole proprietor

A sole proprietorship or sole trader is the simplest form of business structure. As the name suggests, a sole proprietorship is owned and operated by one person.

The key advantage of choosing this form of business structure is that a sole trader has complete control over the operation of their business. They enjoy the freedom to make all decisions relating to hours worked, the good or service provided, the location of the business and their marketing strategy. It is not even necessary for a sole trader to register a business name if they plan to simply use their own name.

A sole trader's **liability** is unlimited, however, which means that their personal **assets** can be used to pay business debts. There is no division between business assets or personal assets, such as a house or car. If their business experiences financial difficulty, a sole trader may be required to sell or mortgage their personal assets to settle any debts or to meet financial obligations.

### The advantages and disadvantages of a sole proprietorship

#### Advantages

- The business is relatively easy to set up and operate.
- The owner has complete decision-making control.
- The financial record-keeping is fairly simple.
- The owner is not considered an employee of their own business and is free of any obligation to pay payroll tax, superannuation or workers' compensation.
- The business structure is relatively easy to change.
- It is relatively easy to end the operation of the business.

#### Disadvantages

- The owner's liability is unlimited, which means all personal assets are at risk if things go wrong.
- The owner is responsible for losses incurred by the business on their personal tax return.

#### liability

the responsibility of the business owner to meet the debts of the business

#### assets

items owned by an individual or a business that have financial value



**dissolution****(of a partnership)**

when a mutual decision is reached to end the business relationship and dissolve or break up the business. The business ceases to exist and the assets are divided up among the partners.

## Partnership

An alternative form of business structure is to set up a partnership. A partnership involves two or more people (but no more than 20) going into businesses together in order to make a profit.

Unlike a sole proprietorship, a partnership will usually need to register a business name with the relevant state authority unless it uses the surnames of all the partners involved.

A partnership has its own Tax File Number (TFN) and Australian Business Number (ABN), and lodges a separate tax return. Each partner jointly owns all of the business's assets and liabilities. If the business fails and a partner can't afford to pay their share of any debts incurred, the other partner(s) will be held liable for the shortfall. All partners are jointly responsible for any debts a partner incurs, whether with or without the knowledge of the other partner(s).

It is recommended that people who want to form a partnership construct a partnership agreement. This is a written agreement outlining clearly each partner's rights and responsibilities, how any profits and liabilities are to be shared, the rules relating to business entry and exit, and also the terms on which disputes will be resolved and the partnership terminated. A partnership agreement ensures that all people involved in the partnership have a common vision for the business, with mutually agreed goals. The partnership agreement can also help avoid costly misunderstandings and conflict between partners. Where there is no agreement in place, each partner is deemed to own equal shares of each asset as prescribed by the *Partnership Act 1958* (Vic.). The following outlines Business Victoria's recommendations for a partnership agreement.

### The advantages and disadvantages of a partnership

#### Advantages

- Partnerships are simple and inexpensive to set up.

- Management and staffing responsibilities may be shared.
- Combined skills, experience and knowledge can provide a better good or service.
- It is relatively easy to dissolve the partnership or for a partner to exit and recover their share.
- Partnerships offer more flexible finance options.
- Partners are not employees, so superannuation contributions and workers' compensation insurance do not have to be paid. This reduces the cost of running the business.

#### Disadvantages

- There is the potential for disputes over profit-sharing, administrative control and business direction.
- Each partner is fully responsible for debts and liabilities incurred by other partners—with or without their knowledge.
- Changes of ownership can be difficult and generally require a new partnership to be established.

### Partnership agreement

Although partnership agreements can be verbal, it is recommended that partners seek the advice of a solicitor and have a written partnership agreement prepared.

Some of the matters the partnership agreement needs to cover include:

- ☐ the nature of the business
- ☐ the role and authority of each partner
- ☐ the proportion of ownership of each partner
- ☐ the commitment by each partner to contribute funds
- ☐ the manner of **dissolution**
- ☐ the distribution of assets on dissolution
- ☐ the resolution of disputes.

## Company

A company is a separate legal entity capable of holding assets in its own name.

**Shareholders** own the company while directors run the company. In many cases company directors are also shareholders, along with company employees. To become a company, an entity must be **incorporated** under the *Corporations Act 2001* (Cth) and registered with the Australian Securities and Investments Commission.

Every Australian company receives a unique nine-digit Australian Company Number (ACN). This must appear on every public document issued, signed or published.

The tax requirements for a company are quite different from those of the other business structures. A company has its own tax income liability, which is totally separate from individual income tax.

A company's assets belong to the company and the company, not the individual owners, is responsible for debts incurred. This is a major feature of this type of business structure.

The assets belonging to the owners—that is, the shareholders—of the company cannot be called upon to pay for any debts or liabilities incurred by the company. There are some exceptions, though. For example, banks and other financial institutions may require a personal guarantee from shareholders against loans or overdrafts taken out by the company. A company can sue and be sued in its own right, but company directors can also be held personally responsible if they have not performed their duties according to the law.

There are two types of companies operating in Australia: public companies and private companies. Both share many characteristics but are usually distinguished by size and ownership. A private or proprietary company can have no more than 50 shareholders and is not permitted to sell shares to the general public. It must have at least one shareholder and one director, and at least one director must live in Australia.

A public company may have more than 50 non-employee shareholders, can offer shares to the public and may seek listing on the Australian Securities Exchange.

## Advantages and disadvantages of a company structure

### Advantages

- Shareholders/owners have limited liability in companies.
- The company structure is commercially well understood and accepted.
- Companies have the ability to raise significant capital.
- Profits can be reinvested in the company or paid out to the shareholders as dividends.
- It is easy to sell and pass on ownership.

### Disadvantages

- Companies have significant set-up and maintenance costs.
- In the case of a public company with many shareholders, there may be limited control of company affairs.
- There are complex reporting requirements for companies.

## Franchise

Although a franchise is a form of business structure, it is not, strictly speaking, a form of ownership. If you operate a franchise, you can do so as a sole proprietor, in a partnership or by establishing a private company. Chapter 6 will discuss in detail the procedure for owning and operating of a franchise.

### shareholder

a person who owns a number of shares in a company and has certain rights in relation to that company and its operations

### incorporate

to form a company

### DID YOU KNOW?

You may have seen a van with 'Jim's Mowing' or 'Jim's Plumbing' driving past you. The name comes from founder Jim Penman, who started a part-time gardening business while he was studying. He became a full-time gardener in 1982 and started the first Jim franchise in 1989. There are now over 2900 franchisees in four countries.

## CASE STUDY

## Australian manufacturing business

# Woodside

The North West Shelf, located off the north-west coast of Western Australia, has one of the richest oil and gas deposits in Australia. Currently it produces more than 40 per cent of Australia's oil and gas. One of the largest projects in the region is the Pluto LNG (Liquefied Natural Gas) Project.

The Pluto LNG project began when a gas field was discovered in 2005. Before production could begin, the infrastructure needed to be planned and constructed. An offshore platform was built first, followed by an LNG processing train with a carrying capacity of about 4.3 million tonnes per year. Storage facilities were then constructed, as well as an export jetty. Production began at the end of 2010. An important part of the project was setting up a 15-year sales agreement with two Japanese companies, who will purchase up to 3.4 million tonnes of LNG per year.

This enormous and costly project is owned and operated by Woodside, an independent Australian oil and gas company. Woodside is a transnational or multinational organisation that operates in three areas of the world: Australia, Africa and the United States.

Woodside is a 'publicly listed' company, meaning that shares in the company can be purchased on the securities exchange. Other large companies, such as Shell, own shares in Woodside. Public companies such as Woodside have enormous access to finance for expansion and growth. They encourage investment from other companies and can raise money through the sale of more shares. As one of the world's leading producers of oil and gas, Woodside enjoys a large market share.

By all classifications, Woodside is a large business. The company employs 3500 people worldwide in a variety of jobs and locations. In 2009, Woodside made a net profit of A\$1824 million.

**Figure 5.1.3** The marine supply base for the giant Pluto LNG project in northern Western Australia

### FOR DISCUSSION

Why would Woodside need to have arrangements in place to sell the LNG before starting to extract gas?



### Task: Remembering and understanding

- 1 Outline four indicators that could be used to classify the size of a business.
- 2 Explain the main difference between a sole proprietor and a partnership.
- 3 Describe the two main sources of income for a small business.
- 4 Explain the advantage a large business has when it is sourcing finance for expansion.
- 5 Describe the key activities for each of the following industry sectors and provide one example of an Australian business operating in each sector:
  - a retail
  - b service
  - c manufacturing.
  - d public company.
- 6 Provide an explanation for each of the following forms of business ownership:
  - a sole trader
  - b partnership
  - c private company
  - d public company.
- 7 Outline the concept of liability. Explain how a company differs from other forms of business ownership in relation to the owner's liability.
- 8 Outline the information that should be included in a partnership agreement and explain why these agreements are important when people are running a business as partners.

### Task: Applying and analysing

- 1 Create a table similar to the one below to summarise the key advantages and disadvantages of the different types of business structure.

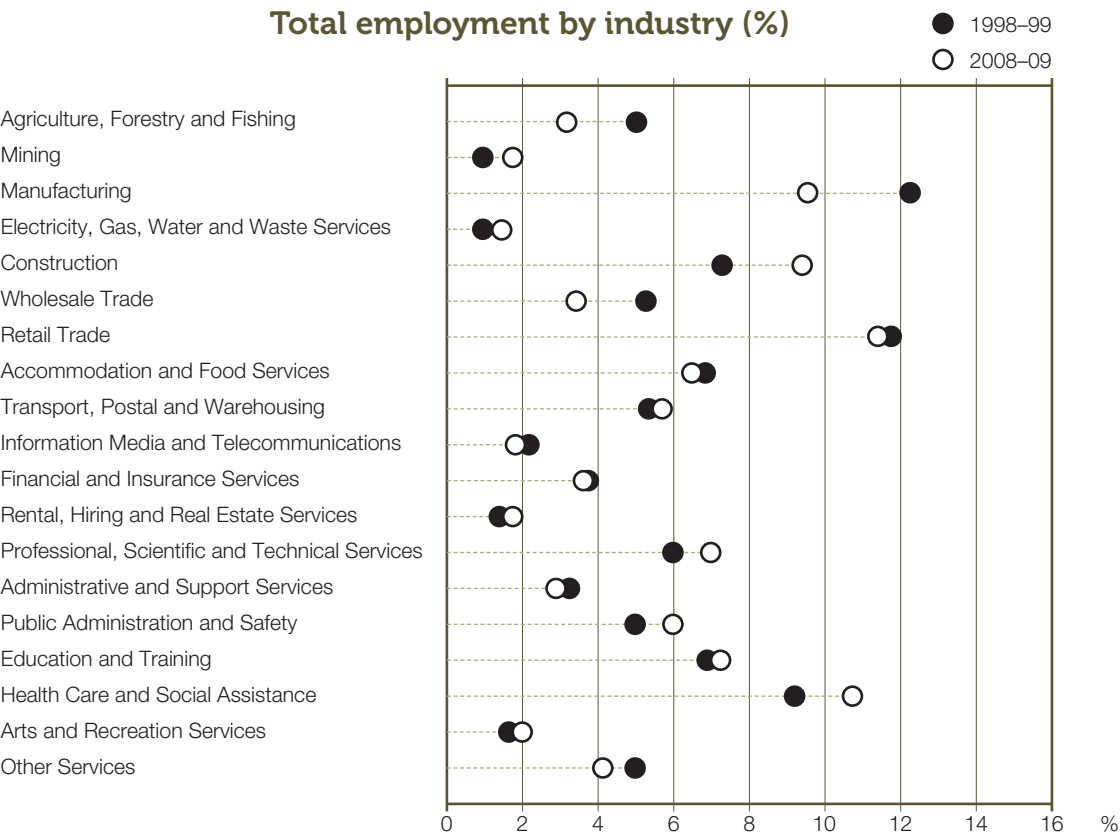
| Business structure | Advantages | Disadvantages |
|--------------------|------------|---------------|
| Sole proprietor    |            |               |
| Partnership        |            |               |
| Company            |            |               |

- 2 For each of the following businesses, suggest and justify the most appropriate form of ownership:
  - a a local newsagent
  - b a medical clinic
  - c a restaurant
  - d an accountant
  - e a car manufacturer.

### Task: Evaluating and creating

- 1 Look carefully at Figure 5.1.4 'Total employment by industry' on the next page.
  - a List the five biggest industries according to the number of people employed in 2008–09.
  - b Identify two industries where the level of employment has decreased since 1998–99. Can you suggest a reason for this decrease?
  - c Identify two industries where the level of employment has increased since 1998–99. Can you suggest reasons for this increase?





Source: Australian Bureau of Statistics, Labour Force, Australia

Figure 5.1.4 Total employment in Australia by industry, 1998–99 and 2008–09

Task: Assessment

In pairs, conduct an investigation into 10 to 15 businesses in your local shopping centre. Create a map showing the location of each business. Use a table like the one below to classify each business according to:

- the type of ownership structure (you may need to interview the owner)
- the industry—e.g. retail, hospitality, construction, health services
- the size of the business and the reasons for your choice; remember to consider level of employment, level of independence, market share and sources of finance.

| Business name            | Type of ownership | Industry              | Size                                    |
|--------------------------|-------------------|-----------------------|-----------------------------------------|
| Smith’s & Smith’s Bakery | Partnership       | Food services/ Retail | Small—few employees, small market share |
|                          |                   |                       |                                         |

# 5.2

## Contribution to the economy

*In the end, all business operations can be reduced to three words: people, product and profits. Unless you've got a good team, you can't do much with the other two.*

Lee Iacocca

All businesses, whether large or small, contribute in some way to the Australian economy. Large businesses provide thousands of jobs for Australians, endless opportunities for research and development, and millions of dollars of export income. Small businesses also provide employment for Australians, competition, and a large, accessible range of goods and services to meet the needs of consumers.

### patent

the right given by the government, either to a person or a company, to make or sell something they have invented for a certain time without being copied

### licensing agreement

an agreement in which one company gives another company permission to use or make a product that they own, in return for a fee or royalty payment

## The importance of small business

In June 2009, former Prime Minister Kevin Rudd made a speech at the National Small Business Summit held in Melbourne. In that speech, Mr Rudd said, 'Businesses—especially small businesses—are the engine of the Australian economy ...' The success of the small business sector is clearly very important to the economy.



**Figure 5.2.1** Wireless local area network (WLAN) technology was invented by an Australian team of scientists working for CSIRO (the Australian Commonwealth Scientific and Research Organisation). WLAN is the technology behind wireless laptops and related wireless devices. Over time, the WLAN **patent** could be worth billions of dollars to CSIRO in **licensing agreements**.

According to ABS statistics, in 2008–09 small businesses provided employment for 3.8 million people, accounting for around half of private sector employment. Private sector employment refers to all those people who work in companies or businesses that are separate from the government. This means that a lot of people are either running their own business or working for someone who is!

Small businesses provide us with a range of goods and services, and they provide these goods and services locally and conveniently. Small businesses often provide goods and services that are unique or custom-made. In some instances, the quality of goods produced by small businesses can be much better than those produced in very large quantities and offered in large retail environments. Small businesses can also provide their customers with personalised services.

It is not just consumers who rely on small businesses for goods and services. Many large organisations receive their supplies of component parts from small businesses. In 2010, a small business called Production Parts Pty Ltd, which operates in western Melbourne, was awarded the contract to supply rudder pedal kits for the Super Hornet fighter jet produced by aircraft giant Boeing.



**Figure 5.2.2** This Hornet is fitted with rudder pedal kits made by a Melbourne company.

In Unit 5.1 we discussed the concept of market share and noted that small businesses generally control a small market share. This is due to the large number of similar businesses operating in their geographic area. This can have benefits for the consumer. Competition between small businesses offering similar goods and services can be fierce, which tends to lead to lower prices and higher quality.

### FOR DISCUSSION

- 1 Where do you prefer to shop? Large or small retailers? Give reasons for your answers.
- 2 What do you see as the benefits of shopping at a large retail outlet versus a small retail outlet?
- 3 Who does the best takeaway food? The large chains or the small outlets? Why?

## The importance of big business

A large business such as Woolworths or BHP Billiton requires a substantial workforce. It offers employment to a large number of people and provides a range of diverse employment opportunities. Employees can work in a variety of departments, divisions or locations. Large multinational organisations can provide a wealth of experiences, training and development for their employees at a level that may not be available in a smaller business.

Large businesses also create employment indirectly through their use of goods and services produced by smaller businesses. On a much larger scale, the decision made by a large business to locate in a particular area can also create employment opportunities. The employees of the large business require goods and services such as retail outlets, medical facilities and housing. This demand provides opportunities for smaller businesses to develop in the area.

SPC Ardmona, located in central Victoria, employs over 3000 people, mainly from the local area. The regional centres of Shepparton and Benalla are also supported by the operations of SPC Ardmona.

Although a small business can provide a unique and personalised good or service, the cost to the consumer can be quite high. Another contribution that large businesses can make to our economy is the production of a variety of goods in large quantities. This can have dual benefits to the consumer. The ability to produce goods in large quantities means that a large variety of goods are available to the consumer. As large businesses are able to produce these goods at lower costs, they are able to pass on lower prices to the consumer. Think about the difference in price between handmade chocolates from a specialty store and a 500-gram block of commercial chocolate.

Large businesses are frequently exporters of goods that earn foreign currency for the Australian economy. Overseas countries buy goods and services from Australian companies that are prepared for export. According to the Department of Foreign Affairs and Trade website, one in five Australians is employed in a business that participates in the export market. **Exports** provide about 20 per cent of Australia's total income or **gross domestic product (GDP)**. Australia's largest export item in 2009 was coal. We sold coal worth \$46.4 billion dollars to other countries. The majority of export earnings comes from the **resources sector**.

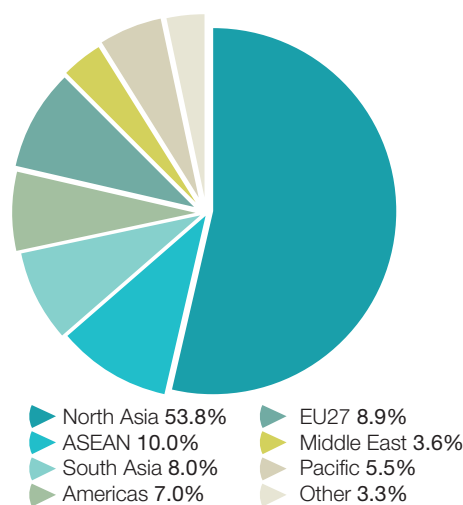
Large businesses, while striving for an edge over their competitors, will continually develop and improve technology. Many significant technological advances were created in the research and development divisions of large businesses. Such businesses have the resources—both financial and physical—to devote to investigation and development of new and better ways of doing things. These advances are then passed on to other businesses and

eventually the consumer reaps the benefit in the form of lower prices and better quality goods.

| Exported item              | (A\$ million) |
|----------------------------|---------------|
| Coal                       | 39 437        |
| Iron ore                   | 29 969        |
| Education-related material | 17 986        |
| Gold                       | 15 603        |
| Personal travel            | 12 122        |
| Natural gas                | 7 628         |
| Crude petroleum            | 7 175         |
| Aluminium ores             | 4 798         |
| Wheat                      | 4 756         |
| Beef                       | 4 307         |

Source: Australian Bureau of Statistics 5368.0 (March 2010)

Figure 5.2.3 Australia's top ten exports 2009



Source: Australian Government Department of Foreign Affairs and Trade website 2010

Figure 5.2.4 Australia's exports by major region 2009

### exports

goods or services produced in one country and sold to another

### gross domestic product (GDP)

the total financial value of all goods and services produced by a country

### resources sector

the part of the economy that collects and processes natural resources, including industries such as forestry, mining and agriculture

### DID YOU KNOW?

BHP Billiton began life as two separate companies. BHP started in Broken Hill, where it mined zinc, lead and silver. Although Billiton now has its headquarters in London, originally it started in the Netherlands and first mined in what is now Indonesia. The two companies merged in 2001.



## CASE STUDY

## Australian manufacturing business

# The history of the Shepparton Preserving Company (SPC)

Most Australians are familiar with SPC, the company famous for tinned fruit and catchy jingles. SPC, now a subsidiary of the huge Coca-Cola company, was initially called the Shepparton Preserving Company (SPC). When it first formed in 1917, it was run as a cooperative by fruit growers in country Victoria.

In 1990, SPC was facing bankruptcy. It was not only the workers at the factory who were affected. The farmers who supplied the company were also facing financial ruin, and Shepparton and the surrounding towns were also going to be adversely affected if the company closed its doors. The company's board introduced a range of initiatives to try to save SPC. One of the policies was for workers to take a pay cut. Workers would come in on their rostered days off and work for single rather than double time on weekends. In response, the company's board offered to share profits with workers once the company returned to profit. (The union at the company did not support the policy and it went to the Industrial Relations Tribunal, where they agreed to a compromise.) Within

a year, production had increased and the policy had succeeded. In 2002, SPC merged with Ardmona (a smaller cooperative cannery), and SPC Ardmona was created.

SPC Ardmona manufactures and markets some of the best known food brands in Australia, including SPC, Ardmona, Goulburn Valley and IXL. The group produces a wide variety of goods including processed fruit, vegetables, meals, soups, jams, sauces, confectionery, juice and desserts. As well as providing goods for the retail market, SPC Ardmona provides raw materials for manufacturing and exports products to more than 60 countries worldwide. SPC Ardmona has become Australia's largest fruit and vegetable processing company, with a current turnover of approximately \$500 million.



**Figure 5.2.5** Baked beans are one of a large range of products that SPC Ardmona produces.



**Figure 5.2.6** SPC sources its products from the Goulburn Valley.

In 2005, SPC Ardmona became part of the Coca-Cola group of companies. Prior to the purchase, some people in Shepparton had concerns that a company they had fought to keep in business was being bought by a large foreign company, as they were afraid they would lose their voice within the company. The sale proceeded, however, and SPC Ardmona now exists as a separate business unit.

At the height of the fruit-picking and processing season, SPC Ardmona employs up to 3300 people. The people who come to the region at this time support local businesses by requiring accommodation and food. Through its commitment to the purchase of locally produced fruit and vegetables, SPC Ardmona also provides employment and income for farmers throughout the Goulburn Valley, which is also known as Victoria's fruit bowl.

In recent years, the company has undertaken several projects designed to benefit the community of the Goulburn Valley. These projects have included sponsorship of local sporting teams, educational facilities and

Share-A-Can, a food drive that has helped the underprivileged in country Victoria during the difficult times caused by the drought.

As a large organisation, SPC Ardmona provides employment directly and indirectly. It generates export income for Australia, produces a variety of goods in large quantities and contributes to the community in which it is located.

### FOR DISCUSSION

- 1 What is a cooperative?
- 2 Explain how SPC Ardmona is important to Shepparton and the surrounding regions.
- 3 Would you take a pay cut to save the company you worked for? Why, or why not?
- 4 In 2011, SPC's parent company announced a review of operations and the possible closure of a factory in the valley. How might this influence the region?

**Figure 5.2.7** Picking fruit to be preserved and canned



### Task: Remembering and understanding

- 1 Make a list of five ways small businesses can contribute to the economy.
- 2 Make a list of five different ways the economy benefits from the activities of large businesses.
- 3 Explain why small businesses may sometimes produce better quality goods than those offered by large businesses.
- 4 Describe how large businesses can provide opportunities for employees that may not be available to small business employees.
- 5 Explain how the activities of small businesses can benefit:
  - a larger businesses
  - b the consumer.
- 6 Explain how the activities of large businesses can benefit:
  - a the local community
  - b larger businesses
  - c the consumer.

### Task: Applying and analysing

Refer to Figures 5.2.3 and 5.2.4 to answer the following questions.

- 1 Identify the industry in which you would place each of the top ten export items. For example, coal is part of the manufacturing sector while education travel (which refers to students who travel to Australia to study) is part of the service industry.
- 2 Which industry earned the highest export amount in 2009?
- 3 Calculate the total export dollars earned by the top ten items.
- 4 Calculate the percentage contributed by each item to the total amount from Question 3 and create a pie chart that shows the percentage contribution.
- 5 Which region of the world received the highest percentage of Australia's exports?
- 6 Name five countries from this region (you can use an atlas to help you).
- 7 Can you think of reasons why this region might buy such a large percentage of Australia's exports of natural resources?

### Task: Evaluating and creating

Read the article 'Bega, Kraft to generate 150 new Vic jobs' opposite.

- 1 Provide three examples from the article of how Bega will contribute to the Australian economy.
- 2 Locate Strathmerton on a map of Victoria. What do you think the term 'food bowl region' means?
- 3 Explain why the government would be supporting the agreement between Bega Cheese and Kraft Foods.
- 4 Provide an example of a small business that may increase its market share when the factory opens.
- 5 Provide an explanation of how a hairdresser in Strathmerton would benefit from the increased production of cheese at the Bega factory.



## Bega, Kraft to generate 150 new Vic jobs

**A multi-million-dollar agreement between Bega Cheese and Kraft Foods will generate 150 new jobs in Victoria.**

The alliance will see Bega buy a factory at Strathmerton, in northern Victoria, with Kraft providing a 10-year supply agreement.

Regional and Rural Development Minister Jacinta Allan said the alliance could result in Strathmerton becoming Australia's largest cheese plant and it also secures the future of the factory.

'It also provides the Strathmerton community with an economic boost and jobs creation opportunities that will flow on to local workers and families,' Ms Allan said.

Bega is showing strong support for the government's strategic planning for the food bowl region of northern Victoria and demonstrates confidence in future water supply in the region, Ms Allan said.

'This environment of support and investment has obviously created a great deal of confidence in a thriving, prosperous future for the food bowl and local manufacturing enterprises.'

Bega's Strathmerton factory processes 22 000 tonnes of dairy products a year, which the company plans to increase to 55 000 tonnes in the next five years.

Twenty thousand tonnes of that will be exported.

*The Age, 18 December 2008*

## Task: Assessment

Rip Curl and Quiksilver are leisurewear companies that started from humble beginnings in Torquay, Victoria. Both businesses are now successful international companies, yet both have stayed close to their roots and their head offices are still in Torquay. Log on to Pearson Places and follow the prompts to the websites of these two companies. Your task is to investigate their importance to the local economy (including Torquay and local towns).



- 1 Write a report that includes the following information:
  - a size of business
  - b annual income
  - c contribution to the local, state and national economy
  - d influence on tourism in the region
  - e role in the community.
- 2 Identify and list at least five local businesses (in or around Torquay) and explain how they might benefit from having Rip Curl and Quiksilver in the area. Possible businesses might include restaurants and cafés, accommodation, supermarkets etc.



# CHAPTER SIX

# Business DECISION making

## Introduction

It is estimated that about 80 000 new businesses start up in Australia each year. It is also estimated that 40 per cent of these will be out of business within 12 months; and about 75 per cent of those that survive the first year will close within five years. Some owners are even forced to declare both business and personal bankruptcy. Running your own business can be extremely satisfying and fulfilling, yet much hard work and organisation is needed to make sure your business is successful. Research and investigation into the running of a small business, the likely success of your product and the opinions of your potential customers are essential.

**Figure 6.1.0** Ladybird Organics is owned by a third-generation farming family, who realised that organic fruit and vegetables was the way of the future. They have re-engineered their farm for this new, rapidly growing market.



# 6.1

## Have you got what it takes?

*To turn really interesting ideas and fledgling technologies into a company that can continue to innovate for years, it requires a lot of discipline.*

Steve Jobs

**Figure 6.1.1** Steve Jobs is widely credited with improving the fortunes of Apple.



Although every person who starts a new small business believes they have a great idea and the motivation and enthusiasm needed to make it a success, statistics indicate that many small businesses fail, often within the first four years. A great idea and the motivation to make it work are not enough to ensure a new venture will be successful.

### Personality and skill

#### Personality traits

Potential business owners need to consider whether they have the personality traits required to run a small business. Business advisory bodies commonly state that the right personality traits combined with the necessary business skills and knowledge and the ability to manage a variety of tasks and responsibilities are the key ingredients for success. Research into this area of business management has identified a range of essential personality traits. A successful business owner needs to have passion and enthusiasm for their business idea and a willingness to persevere through difficult times. It is important to have a vision, and to back up that vision with careful planning. A small business owner will often be working alone, without the assistance of partners or employees. It is therefore important to be resourceful, independent and self-motivated.

#### FOR DISCUSSION

- 1 What personal qualities do you think people need to be successful in business?
- 2 Why do you think so many small businesses fail in the first year of operation?

#### DID YOU KNOW?

A survey conducted in 2009 found that while many small business owners suggested being more flexible and spending more time with their families were among the reasons for opening their own business, a massive 60 per cent of those surveyed were discovered to be working up to 70 hours a week!

### occupation-specific skills

those skills that are relevant to a particular industry or occupation such as cooking, ICT or gardening

### generic management skills

those skills related to the day-to-day running of a business, such as communication, the use of technology, organisation and planning and financial management

### interpersonal skills

the skills we use to interact or deal with others; sometimes referred to as communication skills or people skills, they include the ability to communicate effectively, lead effectively and work as part of a team

## Skills and competencies

Operating a successful small business also requires the owner to have specific skills relating to the operation of the particular type of business situation. If you are interested in opening a café it would be a good idea to know—or learn—how to make coffee! Someone interested in establishing a small website design business should ideally have some skills in this area. These are known as **occupation-specific skills**. Obviously, some businesses such as legal or medical practices require the owner to have specific qualifications, obtained at a tertiary institution such as college or university. Other types of businesses, such as those involved in design, hospitality or even retail, don't require specific qualifications or training. In these examples, however, some form of training or industry experience is highly recommended. These areas can be extremely competitive and the development of qualifications or experience may help new business owners operate on equal terms with some of their competitors.



**Figure 6.1.2** Occupation-specific skills are required in most business ventures.

Regardless of the type of business being considered, all owners require some level of **generic management skills** that will allow the successful day-to-day running of the business. These include the ability to communicate effectively with staff and customers; organisational and planning skills; problem-solving and decision-making skills; negotiating, selling and marketing skills; and financial management skills.



**Figure 6.1.3** Communication in business is an important skill.

Business communication is any communication used to build relationships with your staff and customers. It can be used to promote your product or service to create value for your business. Business communication will involve internal communication (with your staff)—giving instructions and feedback or even handling conflicts—as well as external communication (with your present or potential customers). This communication may be in the form of sales presentations, price negotiation, customer service and the preparation of marketing and advertising material. Business communication is therefore any communication related to your business. Effective business communication skills have been identified as a critical factor in small business success. Where the business has employees, the business owner also needs to display good leadership and **interpersonal skills**.

Organisational and planning skills relate to the ability of the business owner to deal with the day-to-day operations of



the business and to foresee and adapt to any problems that may occur. It involves the skills of time management and the ability to prioritise the tasks that need to be completed. Short-term planning will ensure that staff are available when they are needed and that necessary supplies are delivered on time. Long-term planning will allow the business owner to predict and adapt to any difficulties that may arise.

Problem-solving skills will allow the business owner to cope with any unexpected difficulties. These may relate to conflicts between staff, customer complaints or the late arrival of your stock. A logical and systematic approach to problem solving and decision making is recommended.

Any small business relies on its ability to attract new customers and maintain existing customers. This means that the effective marketing (and selling) of the product or service you provide is essential. Marketing is about identifying and understanding customers and giving them what they want. It is about making sure that the existence of your product or service is known. The process of marketing—discussed in Chapter 7—covers everything a business owner needs to take into account if products and services are to be delivered to the consumer, including research, planning, pricing, packaging, promotion, selling and distribution.

The management of the financial aspects of the business, including record keeping and financial planning, is an important task for the small business owner. If the owner does not have sufficient skill in this area, it is essential that they seek assistance and advice from accountants and financial planners.

### FOR DISCUSSION

- 1 Do you think all successful small business owners possess all of these skills?
- 2 How do you think they handle areas where they lack skills and/or experience?

In recent years the federal government has recognised the importance of these generic management skills to the success of business in Australia. As a result there has been an increase in the development of **competencies** across a range of occupations. This has led to the development of nationally recognised training programs specifically related to the management of small businesses. This has benefits for the economy as a whole by making businesses more efficient and competitive, thus contributing to an increase in **productivity** across a range of industries.

## Business support services

Small business owners need to understand, manage and take responsibility for every aspect of their business, but there are many support services available. Successful businesses commonly use the services of a number of organisations that exist to support and encourage success for the small business owner. It is recommended that business owners gain ongoing support and assistance rather than wait until something goes wrong and the business is in trouble.

Before starting any business venture, and throughout the life of the business, the small business owner should consult an accountant. An accountant can advise which is the most appropriate form of ownership and give an opinion on the likelihood of success for a new venture. An accountant will help a business owner set up systems for the recording of transactions and the preparation of **financial reports**. The business accountant will assist with the preparation of taxation requirements and negotiate with banks, suppliers and other **creditors**.

A business owner should also consult a **solicitor** before and during the life of the business. The solicitor will provide advice and assistance in the areas of contracts, leases, forms of ownership (including partnership agreements), legal liability and

### competency

a skill that can be measured

### productivity

the amount of output that can be obtained from a quantity of inputs; in simple terms, the amount of product being produced or the number of tasks being completed

### financial reports

a range of business documents that state the financial position of the business at a given point in time. Some reports are required by law, others by the ATO, but all will enable the business owner to accurately assess how well the business is performing

### creditors

people or organisations to whom money is owed. This may be in the form of a loan or mortgage. Sometimes businesses buy goods with a promise to pay their suppliers at a later date. The suppliers become creditors and expect payment within a certain time frame

### solicitor

a type of lawyer whose traditional role is to offer legal services to clients, including the drawing up of legal contracts; they generally do not represent clients in court



any legal issues that might arise from the operation of the business. They can provide assistance in the legal areas relating to naming and locating the business.

There are many government departments and agencies at all three levels—state, federal and local—that can provide assistance and information to the small business owner.

At the federal level, AusIndustry provides information related to business programs in the fields relevant to the Department of Innovation, Industry, Science and Research. AusIndustry has a specific section on its website dedicated to the provision of information for small businesses.

### FOR DISCUSSION

Why do you think governments spend so much money on assisting small business?

The Victorian state government body responsible for small business is Business Victoria; it is described as ‘a comprehensive online resource designed to help you start, run and grow your business’.

Depending on the type of industry in which a business is involved, there are many professional associations and formal networks for small business owners that will provide support and advice. For example, the Victorian Association for News Agents provides assistance for people running news agencies. If you were interested in setting up an accounting business, your first source of help could be the Association of Taxation and Management Accountants. Small business owners will often find that the geographic area where they operate may have a traders’ association, where the owners/operators of businesses in a particular shopping centre may meet once a month to discuss issues that affect them.

Other sources of support are less formal. Business owners can ‘blog’ with other business owners on the Internet, asking for advice in particular areas. Contacts may be made at trade fairs and other business conferences.

**Figure 6.1.4** Business Victoria offers a range of services for the small business owner.



**Task: Remembering and understanding**

- 1 Make a list of personality traits that would be needed to successfully run a small business.
- 2 Explain the difference between a skill and a competency.
- 3 Explain the difference between occupation-specific skills and generic management skills.
- 4 List five generic management skills.
- 5 Explain why it is important for small business owners to have a range of generic management skills.
- 6 Explain why all business owners should seek the advice of professionals before commencing a new venture.

**Task: Applying and analysing**

- 1 For each of the management skills listed below, explain why they are important to the success of a small business.
  - a Communication
  - b Decision making
  - c Financial record-keeping
  - d Organisation and planning
- 2 Identify and explain the type of support a business could receive from each of the following persons or organisations.
  - a An accountant
  - b A professional association
  - c AusIndustry

**Task: Evaluating and creating**

- 1 Read the article 'Banking on a career in cupcakes' (overleaf) and answer the following questions.
  - a Describe the generic management skills you believe Ms Lyari may possess.
  - b Do you believe she had any occupation-specific skills relating to her cupcake business? Was this important?
  - c Outline the factors that led to Ms Lyari's decision to start her business.
  - d Identify the key factors that contributed to the success of Ghermez Cupcakes.

## Banking on a career in cupcakes

*By Neena Bhandari*

**A former Wall Street investment banker who gave up the big bucks for a career in cupcakes has proven she still has a head for numbers, this week opening her third store.**

Ghazaleh Lyari worked as a banker with start-up technology companies during the dot.com boom and bust, helping at least one 10-person operation transform itself into a 5000-strong company.

Working for blue-chip companies in the US and Australia for 16 years, she handled multibillion-dollar deals and regularly put in hours that would make most minds boggle.

However all along, Lyari said her intention was to educate herself in all aspects of the business world with the view to eventually starting her own enterprise.

In 2003, she felt the time was right for a dramatic career change, thinking 'this is as good as it's going to be here'.

Lyari began exploring different consumer products, including fashion and childcare, when she was exposed to the cupcakes market in the US.

On moving to Australia, where her family had migrated from Iran in 1984, Lyari also found a distinct gap in the cupcakes market for 'something a little more elegant and sophisticated with a significant focus on quality of ingredients'.

'When I look at cupcakes with purple and green icing, it attracts my four-year-old son, but it doesn't really attract someone like me,' the 43-year-old said.

So Lyari began pursuing her idea, taking pastry classes to better understand the language of the business.

But finding a prime location proved trying, and at one point she almost gave up on the idea, returning to investment banking in Australia for 18 months.

Thankfully she was offered a store at Westfield Bondi Junction in June 2008, and Ghermez Cupcakes was kickstarted.

'I basically did both jobs and started building the business for the next six months with immense support from my husband and my parents,' Lyari said.

A redundancy from her position at Citigroup, which she said she had been planning to quit anyway, led her to focus solely on her new business.

'It was a blessing in disguise because I could now really focus on the business full-time and I have never looked back,' she said.

Lyari set up the Ghermez Cupcakes bakery in an unorthodox fashion, giving the six chefs—who work from a bakery next to one of the stores—the opportunity to mix, bake and decorate.

'In order to keep my staff interested and make them feel valued to the team, we rotate the responsibilities so they don't have to do the same thing every day like a factory worker,' she said.

In two years the business has grown 30 per cent year-on-year, and has proven to be 'recession proof'. 'People still celebrate birthdays, weddings and resort to little luxuries like chocolates and cakes because \$3.80 ... is not going to break the bank, but still gives that moment of happiness,' Lyari said.



On Wednesday Lyari opened her third store, in Sydney's George Street, and hopes to further carve out the Ghermez Cupcakes brand as a national brand.

'At this stage I strongly believe that being the best in class is the best way to go and that's my strategy,' says Lyari, who hopes to own stores in Victoria and Queensland by the end of 2011.

*Source: The Sydney Morning Herald, MySmallBusiness, 1 July 2010*

## Task: Assessment

Read the case study below. Write a 100-word recommendation, indicating whether Lynda is in a good position to start her planned business venture.

In your recommendation state:

- the reasons she should or should not start the business
- the skills she has (occupation-specific and generic)
- the skills she lacks (occupation-specific and generic)
- your advice to Lynda about the support she should seek before she starts her business.

### Lynda's books and coffee shop

Lynda is interested in opening a small cafe/bookshop in a semi-rural suburb in Melbourne's north. She has been employed at a local library for ten years, where she frequently noticed that people would sit for hours reading a book. She often thought to herself that it would be much more enjoyable for them if they were able to enjoy a cup of coffee and a treat! During her time at the library, Lynda was responsible for the ordering, cataloguing and shelving of new books. Over time she had been promoted to a senior position, which meant that she was responsible for the organisation and supervision of several members of staff. She introduced many new ideas at the library, including improving the decor and providing comfortable seating. Lynda has completed a business management course at the local TAFE where she received a Certificate III in Business Management. Lynda is an excellent cook who really enjoys baking.



**Figure 6.1.5** Should Lynda open her cafe?



# 6.2

## Initial market research

### business concept

the original idea behind the decision to start a new business

### feasibility study

a detailed investigation into the likely success of a business concept

*Not everything that can be counted counts, and not everything that counts can be counted.*

Albert Einstein

**Figure 6.2.1** Deciding where to set up a business is one of the first decisions.



Before starting any new business it is essential that careful, thorough research is conducted to determine whether the idea behind the business venture—the **business concept**—will be successful. Potential markets should be explored and possible locations investigated. This process is known as a **feasibility study**.

A feasibility study helps potential business owners understand their potential customers. It can provide valuable information about the likelihood of success of a business concept. By conducting initial market research, someone interested in starting out in business will uncover whether there will be a market for the product or service being considered. Initial market research will provide information about:

- who the potential customers might be
- what needs or wants they might have that could be satisfied by your idea
- what their buying behaviour is like
- what influences them to purchase goods and services.

When trying to determine if your business idea will be successful, it is important to know who your potential customers will be. A successful business will be one where the owner has identified those people most likely to be in a position to purchase the good or service they plan to supply.



**Figure 6.2.2** Market research is an important tool for discovering the likelihood of success of the business concept.

As well as identifying the likely customers, research should also be conducted to determine the types of goods and services that might satisfy a need or a want of these customers. Initial market research conducted in a small town might identify that the potential market includes young people aged between 16 and 25 who have lots of free time but limited amounts of spending money. The next step is to identify what they would like to spend their money on, and then to provide it for them. It is important to try and tap into a gap in the market and provide a good or service that is not currently available. In our small-town example, an entrepreneur may look at the possibility of establishing a restaurant that specialises in simple meals and friendly service, so that the young people in the community can enjoy the experience of restaurant dining at a price they can afford.

Buying behaviour refers to people's buying habits. Are people in your research area impulse buyers or do they prefer to stay loyal to the brands they are familiar with? This type of questioning will provide information about the willingness of

potential customers to be persuaded to buy your product or whether the competition is too strong. It could also enlighten the potential business owner about the amount of money people are willing to spend, the distance they would be prepared to travel to buy a product and how often they are likely to use the product. Would the customers from our small town be prepared to drive large distances for a highly rated restaurant? Or would they prefer to eat at the local pub, because it is convenient and familiar?

Lastly, initial market research will allow the business owner to discover which advertising and promotional strategies are likely to influence their potential customers. By conducting this research, they will know what needs to be done to attract their customers if they decide to go ahead with their business venture.

## Conducting initial market research

The most appropriate method of conducting initial market research will depend very heavily on the concept being developed. Discovering if there is a market for an entirely new type of business will need a different method of investigation from that used to discover if there is room for another Internet café in town. There are four commonly accepted and easily accessible forms of market research available to the small business sector. These methods will provide **primary data** or **secondary data** appropriate to the needs of the individual business. You can save time and money by using secondary data. Much of the information you need can be found in internal company records or official sources. Information collected on a day-to-day basis can help you identify trends such as popular products or the seasonality of product or service demand.

### primary data

new, first-hand data that has been collected by the user through research, surveys or observation

### secondary data

existing information (for example, census statistics); this consists of information that already exists somewhere, having been collected for some other purpose

**demographic**

characteristics of the human population such as age, gender, occupation, income etc.

**DID YOU KNOW?**

It is estimated that McDonald's—the largest fast-food chain in the world—spends up to 15 per cent of its annual budget on market research.

**DID YOU KNOW?**

Australian television watchers are divided into different demographics for ratings purposes; watchers are divided into male and female and age groups. This tells advertisers which shows will be watched by their target audience, and therefore when their advertisements should be aired.

## Purchasing market research

Many businesses, especially larger organisations, employ the services of specialist market research companies to conduct research on their behalf. These organisations specialise in the collection and interpretation of statistical data. They can design and implement market research strategies specific to the needs of the business owner. They may also be able to provide access to a range of data that has previously been collected. A specialist market research company has experience in collecting and analysing the research data, which is a skill someone considering opening a business may not have. Using professional services is less time-consuming than conducting surveys yourself, but they can be quite expensive and may not fit within the budget of a start-up business venture. They are more commonly used by larger organisations that are looking to change direction or expand.

Once the specific research needs have been determined, the market researchers will conduct interviews—over the phone, for example, or at a local shopping centre—designed to discover the buying behaviour of your potential customers. They will ask questions related to the **demographic** make-up of the area or to individual products or services.



**Figure 6.2.3** Surveys and questionnaires are an excellent way to gather information about your business idea.

## Collecting general market information

Data can also be found in many online and printed publications, which may be available to the general public free or for a small fee. Official data includes statistics and analyses compiled by a range of federal, state and local government agencies.

The largest source of official research in Australia is the Australian Bureau of Statistics (ABS). The ABS collects a wide range of data at a national and local level. This includes census data, trade and industry data, demographic statistics down to a suburb level and changes in social trends. The census is conducted every five years in Australia. On a particular evening each household in Australia is asked to complete a questionnaire containing a set of questions relating to all members of that household. It is compulsory but there are some sections that may be left unanswered; for example, questions about religion may be considered too personal. The census data is made available on the ABS website progressively over the next 2–3 months.

Other useful primary data can be obtained from sources such as the Internet, newspapers, magazines, reference books, trade directories, trade associations, banks and universities. Sources of specific secondary research include organisations such as Australia Post, the local council, local libraries and the Victorian Business Advisory Council.

Consider a person interested in opening a computer repair store in a particular area. Data gathered in the 2006 census included a section on Internet and computer usage by suburb. This information would be useful in determining how many people in your local area own computers.

An advantage of using this method is the ease of access to the data. Most of this data will be readily available to all and some time dedicated to sorting through the results will establish some common demographic data. Unfortunately not all of this data is easy to



locate and it may be confusing to follow. Another problem with general market research is its very general nature. The data may not be specific enough for a particular need and the statistics have normally not been analysed in any way.

## Conducting research through observation, survey, analysis and interview

A more personal approach to conducting initial market research is through the use of observation. A person interested in opening a bicycle repair shop could conduct analysis of the Yellow Pages or any other directory to discover how many other bicycle stores exist in the area. They could contact the local council to investigate the existence of bicycle tracks in the area; the local library may have details of cycling clubs in the area.

To overcome the often-prohibitive costs of hiring specialist market research firms, potential small business owners can conduct the surveys and questionnaires themselves. This has the dual advantages of saving money and allowing the prospective business owner to get a 'feel' for the customers they are trying to attract.

Observation is another simple data-gathering technique. If you are considering buying a business that already exists, simply observing the type of customers who use the business and attempting to assess the factors that attract them to that business can be extremely useful.

When conducting observation of an existing business, the potential buyer should consider the factors listed in Figure 6.2.4.

Conducting surveys—in either interview form or as questionnaires—requires certain skills, and bodies such as Business Victoria can provide useful information to help develop these skills. Surveys can be divided into two broad categories: the questionnaire and the interview.

Questionnaires are usually paper-and-pencil instruments that people are asked to complete. Interviews are usually completed one-on-one, with the interviewer recording what the subject of the interview says.

|                                    |                                        |
|------------------------------------|----------------------------------------|
| Who are the customers?             | ■ Age                                  |
|                                    | ■ Gender                               |
|                                    | ■ Family situation                     |
|                                    | ■ Education background                 |
|                                    | ■ Incomes                              |
|                                    | ■ Interests                            |
|                                    | ■ Buying habits                        |
| Why do they come to this business? | ■ Prices                               |
|                                    | ■ Reputation                           |
|                                    | ■ Service                              |
|                                    | ■ After-sales back-up                  |
|                                    | ■ Payment methods                      |
|                                    | ■ Location                             |
| What do they buy?                  | ■ Number of items                      |
|                                    | ■ Approximate value of each sale       |
|                                    | ■ Time spent choosing items            |
| What keeps them away?              | ■ High prices                          |
|                                    | ■ Poor reputation                      |
|                                    | ■ Poor service                         |
|                                    | ■ Lack of after-sales backup           |
|                                    | ■ Lack of a variety of payment methods |
|                                    | ■ Inconvenient location                |

Figure 6.2.4 Observation checklist

## Trial and error

When it is possible or feasible, trial and error is a very effective method of collecting data about the likely success of a new business venture. Obviously this method will not be appropriate in all situations.

### DID YOU KNOW?

Australia has a census every five years; 2006, 2011, 2017 and so on. You must answer all questions; however, you can abstain from answering questions about religion.



## The fashion duo from sass & bide: Sarah-Jane Clarke and Heidi Middleton

By Camille H

What started as a little side business between friends, Sarah-Jane Clarke and Heidi Middleton, has turned into one of Australia's favourite fashion stories—sass & bide. When Sarah-Jane Clarke (nicknamed sass) and Heidi Middleton (nicknamed bide) became lifelong friends, the duo could hardly imagine that friendship was going to produce one of Australia's iconic fashion labels: sass & bide. Clarke and Middleton's success story began in 1999 at London's Portobello Road markets, with a stall set up to sell their own creations. This little side business took off, and when the pair returned to Sydney later that year, sass & bide was launched.



**Figure 6.2.5** Sass & bide used trial and error as their initial market research.

Two years later the dynamic duo were invited to the Mercedes Australian Fashion Week in Sydney, and in 2003 launched their assault on the world with their international parade debut at London Fashion Week. New York followed a year later and the pair haven't looked back.

'The success of our denim collection allowed us to venture into ready-to-wear,' says Clarke. This, she adds, was always part of the plan. 'Before we established sass & bide we were creating one-off pieces as well as denim.'

There are now two collections, sass & bide and s&b vie, and each collection has its own marketing and distribution strategy for overseas markets. These days sass & bide is sold across 30 countries, with key international markets in the US and UK. And while Australia is still the largest market, exports now account for around 40 per cent of overall sales.

As any business owner can tell you, going in to partnership with friends does have its risks, but not for this duo. 'We always put our friendship first,' Middleton says. 'It seems to work and we don't question it.' It also helps that they have clear roles. Middleton is design director and Clarke handles the marketing and running of the business.

Dealing with seasonal differences around the world is part and parcel for any international designer keen to have a wide reach. Each collection is adapted for the northern and southern hemisphere and sold accordingly.

Staying ahead of the competition and mastering designs to meet seasonal differences keeps interest in the brand here and abroad. But Clarke maintains that keeping an eye on the competition is less about watching what others are doing and more about appreciating others' creations. 'We've always followed our own path and instincts when it comes to collection design and key business strategies,' Middleton agrees. 'We have also launched a few brand extensions (eyewear and lingerie) to keep the brand dynamic and fresh.'

'Sure we have had our fair share of mistakes, however I don't think you can dwell on them, we just take it on board and use the feedback to improve our next collection,' says Clarke.

*Source: Dynamic Business, 27 February 2010 (abridged)*

### DID YOU KNOW?

In 2011, sass & bide sold 65 per cent of stock in the company to Myer for \$42.25 million.

### Task: Remembering and understanding

- 1 Explain the importance of conducting initial market research.
- 2 Outline the benefits of conducting a feasibility study.
- 3 Identify the key information that will be provided by a feasibility study.
- 4 Explain why market research methods will not be the same for all types of business ideas.
- 5 Describe the four main ways initial market research could be conducted.

### Task: Applying and analysing

- 1 For each of the following small business ideas, identify the most appropriate market research type. Justify your response.
  - a A new computer game
  - b A new product at your school canteen
  - c The purchase of an existing business
  - d Establishing the first sushi bar in your local area
  - e A new gym and fitness centre in your local area
  - f A new range of household paints to be distributed Australia-wide

### Task: Evaluating and creating

Read the article 'The fashion duo from sass & bide: Sarah-Jane Clarke and Heidi Middleton' opposite.

- 1 Explain the method first used by sass & bide to test the likely success of their product.
- 2 Describe the keys to the success of this business.
- 3 Discuss how mistakes made in the business can form the basis of future development of ideas.
- 4 In your opinion, would the market research type used by this business have changed as the business grew? Justify your answer.

### Task: Assessment

Work in pairs to complete this activity.

Imagine that you are going to set up a small business selling snacks and drinks at the school sports. You will need to conduct initial market research to discover the likely success of this business.

- 1 Design a questionnaire to determine:
  - who the potential customers might be: students at what year levels? staff?
  - what needs or wants they have
  - their buying behaviour—under what conditions they will use your business.
- 2 Conduct the survey on a small sample group.
- 3 Write a summary of your findings including your opinion on the:
  - appropriateness of your market research method
  - likelihood of success of your business venture.

# 6.3

## Business structure

*Our success has really been based on partnerships from the very beginning.*

Bill Gates

**Figure 6.3.1** Determining the structure of a business is important to its success.



Once the decision has been made to open a small business, a number of key planning decisions need to be made. One of the earliest decisions faced by the owner(s) concerns the type of ownership structure.

### Forms of ownership

The owner(s) can choose between three main forms of ownership structure: a sole proprietorship, a partnership or a private company. Operating as a private company may be in the form of a standard trading company or as a unit or family trust.

#### Sole proprietorship

As discussed in Chapter 5, a sole proprietorship is the most popular form of ownership for small businesses. It is relatively easy to set up and to operate. The owner has complete control over the major decisions of the business and the freedom to run the business as they like. Profits are retained by the owner and do not have to be shared out among other people.

When the owner decides to end the business, winding up operations is a simple process. A date for closing needs to be set, then suppliers and customers need to be informed. The owner then needs simply to sell the assets of the business and pay any remaining bills.

Obviously running a business on your own will have its disadvantages. Often the owner of a sole proprietorship will also be the only employee, meaning that they may have to work long hours, including weekends, leaving little time for holidays, recreation and personal or family time.

Sole proprietors may also lack skills in particular areas and will need to seek the assistance of professionals such as accountants, solicitors or tax agents. This can be expensive and time needs to be spent away from the business to meet with these people.

As there is only one owner, a sole proprietor may face difficulties obtaining finance to start the business or for expansion. This type of finance is known as

capital investment. Sole proprietors have limited sources of investment capital and this may limit the size of the business or its potential for expansion.

A major disadvantage of operating a sole proprietorship is the concept of financial and legal liability. As the business is not seen as separate from the owner, any debts or losses incurred by the business are the responsibility of the owner.

As a type of business structure, a sole proprietorship is not required to pay tax. This means that the business itself does not have to lodge a tax return. Any profits that are made by the business are considered 'personal income' of the owner and included in the owner's personal tax return.

## From sculptor to environmentalist

By Yvonne Nicolas

**Making more of a wave than a ripple, former sculptor Tracy Bialek is working to create a better environment with her business, Ripple Products.**

With numerous national awards to her credit, Bialek is making her presence felt by designing products and creating environmental awareness through behavioural change programs.

The journey began when Bialek sold her car to finance Ripple Products, a company that aims to spread water-saving and energy consumption messages by promoting practical products.

That meant giving up sculpting to focus on her business and the environment. 'I was 30 years old and the time was right,' she recalls.

Bialek had also worked as a waitress, nanny and spent several years at a stationery business (where she went on to become general manager), lived in Europe and worked in online merchandising during the dot.com boom years.

She credits her varied work experience to aiding her in running her current business and now does everything, from managing staff and export markets to working with clients on environmental campaigns and designing products to fit a particular message.

For Bialek, creating art and product design have their similarities, albeit with the difference in personal expression.

'As a sculptor I worked with objects rather than figurative forms to give them a new life, in a new material ... so in a way, I was already 'recycling', taking old objects and turning them into something new,' she explains.



**Figure 6.3.2** Ripple Products, a successful sole proprietorship





### Partnership Act 1958 (Vic.)

the Act that covers business partnerships in Victoria; outlines the protection provided by law for business partners and the responsibilities of individual partners

### partnership agreement

a voluntary agreement, written as a contract between two or more persons, to operate a business with the understanding that there will be a sharing of the profits and losses between partners

'Working with my hands was stimulating but I wanted a more strategic big-picture role in my life ... now, I express myself through my business, which is reflected in every product we create.'

With no formal training, Bialek says it has been a challenge. 'I have been lucky to have had good mentors and role models, but all my business skills have been learnt on the job,' she says. 'I believe if you have a true passion for what you do, the rest follows.'

Bialek also draws upon her past experience as a sculptor, working independently and trusting her instincts, while maintaining a passion for creating environmental art and focussing on her new goals to grow her business.

Her clients include environment agencies, water and energy companies, government departments, schools, corporations and retail stores. 'Essentially, we provide product-based solutions for environmental campaigns,' she explains. 'It necessitates being able to get inside heads in order to understand strategies and goals.'

Another part of the business is conducting research within the environmental sector to better understand new technologies and identify future demands. 'I use this information in brainstorm-type scenarios with my clients to help deliver outcomes,' Bialek says.

Having the courage to take risks, maintain self-belief and find the balance between being the boss and part of a team has been a challenge that is paying off. 'Yes, hard work does pay ... and patience really is a virtue,' she says.

'We entered the market before it was ready for a business like Ripple Products but I know we are now making a strong impact.'

Though she misses creativity for creativity's sake, Bialek says her new passion is being in a position to make a difference for humanity.

*Source: The Age, Careers section p. 2, 20 June 2009*

## Partnerships

Another possible choice of business structure available to the small business person is a partnership. The clothing company, sass & bide (introduced earlier in this chapter), is an example of this form of business structure.

A partnership can be a group of between two and 20 people. These people can be involved in the ownership and operation of the business in differing degrees. Sometimes one of the partners will simply provide the investment capital and let someone else run the business. This investor is known as a silent partner or a limited partner.

As with a sole proprietorship, a partnership can be very easy and inexpensive to create. Provided you and your partners trust each other it can be a simple verbal agreement. In this situation the partners

will be covered by law. The legal conditions of partnerships are outlined in the **Partnership Act 1958 (Vic.)**. It is always advisable, however, to seek legal advice and perhaps investigate the possibility of creating a **partnership agreement**. It is important for partners to sit down together and decide how they want the partnership to work. The agreement could cover the input of finance from each partner, the roles they undertake and their contribution in terms of working hours etc. Organising this at the start of the business will avoid issues further down the track. A very basic partnership contract should include details about the starting date of the partnership, how profits, losses and capital will be shared and, most importantly, concrete guidelines about what will happen if one partner wants to leave—how much notice he or she should give and how the business's assets will be divided up.

A partnership may have greater access to investment capital than a sole proprietorship, as there is more than one person contributing to the business. Banks and other financial institutions may sometimes look more favourably upon a partnership when deciding whether to lend funds for expansion.

In any undertaking, two or more people have greater access to a wider range of skills and experience than one, and there

will almost certainly be a sharing of the workload, thus allowing for a more flexible working arrangement. This type of business structure is required to lodge a tax return that indicates the amount of income generated by the business. The business itself does not, however, pay tax. The share of the profits paid to each owner is considered personal income and is included in the owners' personal tax returns.

### FOR DISCUSSION

- 1 Why do you think it is so important to 'get everything down on paper' when operating a partnership?
- 2 What would you consider to be the most important issue relating to setting up a business with a partner, especially a spouse or a friend?

## Sticking to a simple idea pays off

By Claire Heaney

**HAVING** happily packed their husbands off to the footy, mates Fiona Gathercole and Jenny Menz started musing about what they could do that would give them as much pleasure.

Trained as nurses, they decided they would love to paint. One thing led to another and before they knew it they were heading to Bunnings to stock up on paint and canvases.

Initially they started making personalised canvases. Hand-painted in pretty colours, they featured a child's name and a string and small pegs on which they could hang pictures and the like. 'I took it to Annabella—a gift shop in Richmond, near where I was then living,' she said. 'They were so popular we were up during the night to fill orders.' While pleased with the success, Ms Gathercole said they were not being financially rewarded for their long hours.

It was while experimenting with a vinyl sticker for the canvas that they stumbled on what became The Wall Sticker Company.

Ms Gathercole said the concept was available overseas but no one had got on to it in Australia.

In late 2006, Ms Gathercole had a baby and Ms Menz was expecting her first child. They started looking at how to balance family and work.

'We ended up buying our first vinyl cutter off eBay,' she said.

By early 2007 they were stocked in a few outlets.

Ms Gathercole said they initially paid for Google Adwords to drive traffic to their website, but soon found they did not need it.

The business grew organically from a 'bit of a hobby' and last December they rented a property in Oakleigh.

The pair, who have been shortlisted in this year's Telstra Business Awards, now have three full-time staff.



**Figure 6.3.3** Successful partnerships need effort and commitment.



### Australian Securities and Investments Commission (ASIC)

an independent Commonwealth government body set up to oversee the corporate and financial services sector of the economy

Ms Gathercole concentrates on sales and marketing and Ms Menz focuses on design and information technology.

Employees work on packing, designing and administration.

The pair met through their husbands and forged a friendship. Having backpacked around the world for six months, they knew they could work well together.

About 60 per cent of sales are via their website, 30 per cent through stockists and the balance from custom orders.

The Telstra Business Awards will be announced on July 2 in Melbourne.

Adhering to a plan the Wall Sticker Company way:

- UNFAMILIARITY in the market about the product made them provide free samples to prospective buyers.
- ELEVEN days after they have sent a sample they follow up.
- TRACKING helps them find how customers hear about them.
- USING a business coach from the start has been invaluable.
- HAVING designated roles has ensured the business partnership runs smoothly.

Source: Herald Sun, 25 June, 2010

## Private companies

A private company is another popular form of business structure. It is particularly common among family-run businesses. Each person involved in the ownership of the business is referred to as a shareholder. A private company can have between one and 50 shareholders. Private companies cannot sell their shares to the general public; their names are distinguished from public company names by the label 'Pty Ltd' or proprietary limited (ownership limited).

There are two major advantages of registering your business as a private company. These advantages have been discussed in detail throughout Chapter 5. In brief, the owners of private companies enjoy limited liability, which means that the personal assets of the owners cannot be called upon to repay the debts of the business. Another major advantage of a private company is that, by virtue of the number of owners, private companies may be able to draw on a larger amount of investment capital.

A private company is a separate legal entity and therefore pays tax independently of its owners. However, any dividend—or

return on investment—received by the shareholders is treated as personal income and is included on the shareholder's individual tax returns.

On the other hand, companies can be very expensive and complicated to set up. Legal advice is essential to ensure that the correct procedures have been followed. An application for registration as a company must be lodged with the **Australian Securities and Investments Commission (ASIC)**. The business name must also be registered in every state and territory where the company intends to conduct business. These, and other costs, are ongoing and must be paid each year. The financial record-keeping associated with the operation of a private company, especially in relation to the sharing of profits, can be very complicated and the advice of an accountant or tax agent is essential.

## Family trusts

A trust is a business structure where a trustee, who may be an individual or a private company, operates a business on behalf of the members (or beneficiaries) of the trust. Unlike a company, a trust

### DID YOU KNOW?

Aldi is a privately owned company owned by two brothers, Theo and Karl Albrecht. The company began in Germany in 1913.

is not a separate legal entity. Trusts are commonly used when running a business for the benefit of others, especially family members. Family businesses are often set up as a trust so that each family member, including children, can be made a beneficiary without needing to be involved in the running of the business.

A trust is set up through a trust deed. There are two main types: discretionary trusts and unit trusts. In a discretionary trust, the trustee has discretion (choice) about the distribution of funds to each beneficiary. The most common example is the family trust. Unit trusts, on the other hand, are recommended when more than one family or group is involved. The interest in the trust is divided into units, similar to shares. Each unit holder may have a number of units in the trust. Distribution from the trust is determined according to the number of units held.

As with sole proprietors and partnerships, trustees are legally liable for the debts of the trust. They can use the assets of the trust to meet those debts. However, if there is a shortfall, they are responsible for covering the difference from their own resources.

A trust must lodge its own income tax return. Beneficiaries are not, however, liable for the debts of the trust and need only declare the funds received through the trust.

The advantages of a discretionary trust include the protection offered to the beneficiaries in the areas of debt liability and through the opportunities to minimise tax. As with a private company, trusts can be expensive and complex to establish and administer and can prove difficult to dissolve or dismantle, particularly where children are involved.

## Franchises

A commonly held mistake is that a franchise is a form of business ownership. This is not the case. A franchise is an

agreement between two parties—franchisee and franchisor—over the rights to provide a particular product or service under a particular name. People wishing to enter into a franchise arrangement will still need to consider the type of business structure or ownership type they prefer.

If a franchise is not a business structure, what is it? Simply put, it is a contractual arrangement in which one party (known as the franchisor) allows another party to use their trademark and business concept. This party is known as the franchisee. Franchising is an extremely popular form of business operation due to its many advantages. Many of the most familiar names in the market are run as franchises. Examples include McDonald's, Boost Juice, Jim's Mowing, Wendy's and Muffin Break.

Franchises exist in two distinct formats. The most familiar format, used by high-profile, recognisable organisations such as McDonald's or KFC, is known as a business format franchise. Franchises that operate under this format are provided with the support of the franchisor, a comprehensive system for the conduct of the business, including assistance in business planning, management system, location, appearance and image, and quality of goods. The franchisee then agrees to maintain the standards in relation to quality of product or service set by the parent company.



**Figure 6.3.4** A franchise is a popular form of business structure.

### DID YOU KNOW?

Subway is the second most popular franchise in Australia behind McDonald's.



The second franchising format is known as a product and trade-name franchise. These include arrangements in which franchisees are granted the right to distribute a manufacturer's product within a specified territory or at a specific location, generally with the use of the manufacturer's identifying name or trademark, in exchange for a fee. The level of ongoing support provided by the franchisor under this type of arrangement is not at the same level as in the business format agreements. Sometimes, under a product or trade name franchise agreement, the franchisee is required to purchase a certain quantity of product from the franchisor, which they then sell to their own customers.

Franchising has become extremely popular as a business structure in Australia. In 2008, a survey organised by the Franchise Council of Australia revealed that there were at least 63 500 franchises operating in Australia, which was an increase of 14.6 per cent from 2003. This figure represented 3.7 per cent of all small businesses in Australia. The total number of persons employed in business format franchise systems is estimated to be 413 500.

As you would expect, the majority of franchising takes place in the retail sector, with accommodation and food service (including 'fast food', 'food retail' and 'coffee shops') being the most popular.

There are many advantages associated with entering into a franchise agreement. Investigation has revealed that a small business run as a franchise has twice as much chance of success as a completely independent business. This may be due to some or all of the following benefits.

- Franchises are usually well-established brands, with good reputations. Access to group/national market research is available, along with advertising and merchandising assistance.
- Franchisees are provided with assistance in a range of business areas. These include help with decisions about site selection, lease negotiation, site

development, builders and shop fitters, design of the premises and the purchase of equipment.

- Franchisors provide initial management training and continuing management assistance, including access to established financial systems and checks that can provide early warning signals to highlight trouble spots.
- In the beginning, franchisees are provided with assistance in securing finance and sometimes financial assistance in establishing the business.

It is in the best interests of the franchisor to assist and promote the success of the franchisee's operation, as a poorly run business may reflect badly on the parent company. For this reason, large organisations such as McDonald's prefer to retain control over many of the operational aspects of their franchise outlets. This lack of independence in decision making is one of the disadvantages of entering into a franchising arrangement. Other negatives to consider include:

- restrictions on where you may operate and/or promote your business
- ongoing payment of fees to the franchisor
- exit fees payable to the franchisor if you sell the business, as outlined in the franchise agreement.

## Types of business structure

# A franchising success story: 7-Eleven

7-Eleven, one of the best known brand names in the world, has approximately 35 000 stores in nearly 20 countries. 7-Eleven was the first convenience store franchise established in Australia, opening its first store in Oakleigh in 1977. There are now more than 350 stores Australia-wide, generating income of around \$1.5 billion annually. The parent company, 7-Eleven Stores Pty Ltd, is a wholly Australian-owned family business operating as the independent licensee of 7-Eleven in Australia. 7-Eleven Australia services almost 100 million customers annually.

In 2008 and 2009, 7-Eleven Australia was awarded the Franchisor of the Year Award at the MYOB Excellence in Franchising Awards. The following article highlights the reasons for their continued success.

### 7-Eleven named 2008 Franchisor of the Year

Australia's leading convenience retailer, 7-Eleven, has been named as 2008 Franchisor of the Year by the Franchise Council of Australia for its continued product and store innovation, strong franchisee partnerships and consistent growth in recent years.

7-Eleven was recognised specifically for its success in building effective working partnerships with franchisees, created through active listening programs such as the Franchisee Advisory Council.



**Figure 6.3.5** 7-Eleven, a franchise success

These partnerships were one of the cornerstones of 7-Eleven's Energising Everyone plan, a 10-year blueprint for the company's growth launched in 2007.

'We've recognised that changing consumer tastes have led to declining sales in traditional core convenience store products such as confectionery and tobacco,' said Warren Wilmot, 7-Eleven's CEO.

'Our Energising Everyone program has refocused our business and our franchisees on more profitable growth categories. We also introduced new products such as public transport tickets and ATM services in many of our stores, which have increased both foot traffic and sales.

'We continue to be excited by the potential in our business and for our franchisees in being part of a business model that works for all of us,' Mr Wilmot concluded. 'As we still have eight years to go in our Energising Everyone program, there is still much to do.'

*Franchise Council of Australia, Retailer,  
1 January 2009, p. 21*

**goodwill**

a monetary value placed on the proven and established custom and reputation of the business

## New v. old

Once the decision to commence business has been made and the type of structure decided upon, it is then time to decide how to get the business off the ground. This may involve locating premises and starting the business from scratch. Alternatively, business owners may prefer to investigate the possibility of purchasing an existing business or even an established franchise operation.

If you decide to start with a clean page—that is, starting a business from scratch—there are some important factors to consider. As owner you must think about your ability to develop all areas of the business. Knowledge of the product or service you wish to provide is not sufficient. Knowledge of the financial aspects of the business is needed, and marketing, advertising and issues relating to staffing are also important.

Another important factor to consider is the location of the business. Further details surrounding this will be examined later in this unit, but when you are thinking about starting your business from scratch, deciding

where to locate the business is crucial to its success. Despite these factors, starting from scratch can have its advantages. As owner you are free to choose the location of the business and free to plan the design and layout of the premises to suit their own style. Costs can be kept to a minimum, allowing you to start small and develop the business at your own pace.

Depending on the type of business and the amount of experience and skills you possess, it is sometimes more appropriate to search for a suitable business to buy. Choosing this option will mean a readymade customer base and experienced staff may already be available. However, purchasing an existing business means buying someone else's ideas about design and layout; and the business may not have a good reputation. The major factor to consider when making this decision is the cost associated with buying an existing business. The price of the business will include an amount called **goodwill** on top of the assets and stock available. There are also considerable legal and procedural constraints during the takeover process.



**Figure 6.3.6**  
Businesses for sale are often advertised in the national media.

### Task: Remembering and understanding

- 1 Identify all forms of business ownership.
- 2 Explain why a franchise is not considered a form of business ownership.
- 3 Working in pairs, compare the advantages and disadvantages of buying an existing business over starting from scratch. Share your answers to complete a table similar to the one below.

|                             | Advantages | Disadvantages |
|-----------------------------|------------|---------------|
| Buying an existing business |            |               |
|                             |            |               |
|                             |            |               |
|                             |            |               |
| Starting from scratch       |            |               |
|                             |            |               |
|                             |            |               |
|                             |            |               |

- 4 Explain what is meant by capital investment. What influence will the availability of capital investment have on a sole proprietor?
- 5 Explain the concept of a silent partner. What advantages might this have for people wishing to establish a partnership?
- 6 Explain the difference between a partnership agreement and the *Partnership Act 1958* (Vic.).
- 7 A business operating as a private company has different obligations in relation to the payment of taxation compared to a business operating as a sole proprietorship or partnership. Explain the different obligations.
- 8 Identify the form of business ownership for which it is required to register a business name. Outline the process involved.

### Task: Applying and analysing

- 1 For each of the following situations, suggest the most appropriate form of ownership structure.
  - a Adam has worked as an accountant for a major company for the past 15 years. He has an accounting degree and has managed some of his company's biggest clients. He has also been responsible for the training and management of new employees. He is considering starting up his own business. His wife, Megan, has worked as an administrative assistant for ten years and is currently not working.
  - b David and his brother Sam would like to go into business together, making children's furniture. They are looking for a very formal business structure that will protect their personal assets and reduce their personal tax requirements.
  - c Amanda, Kylie, Liz and Sasha want to open a bed and breakfast. They want a formal business structure that has flexibility for easily introducing new owners.



**Task: Evaluating and creating**

Form groups of three or four. Each person is to take on one of the ‘identities’ in Figure 6.3.7 below. Using the sample partnership agreement in Figure 6.3.8, work together as a group to draw up a suitable partnership agreement for your business.



You are a qualified architect interested in starting up a business devoted to renovating old homes.



You are a builder and plan to work in the business full-time. You will contribute 20 per cent of the capital.



You have worked as a project manager for a major engineering company for 30 years and are now ready to retire. You would like to be involved in the business on a limited basis, acting as a consultant and receiving no salary, just a share of the profits. You will contribute 30 per cent of the capital.



You are very interested in interior design and will be contributing the ideas, and the work, to develop the homes once the reconstruction has been completed. You have no capital to contribute but will work part-time for no salary, just a share of the profits when the projects are finished.

Figure 6.3.7 The four partners

**Duties of partners will be as follows:**

| Partner's name | Duties |
|----------------|--------|
|                |        |
|                |        |
|                |        |
|                |        |

**In the event of death or the desire of any one partner to leave the partnership, then the following process will apply:**

**In the event of the partners being unable to agree on a particular issue of significance, then the following conflict resolution process will apply:**



This partnership agreement is valid for \_\_\_\_\_ years from the date of signing as made at the end of this agreement.

### Agreement of partners:

We, the signatories below, agree to the terms and conditions set down in this partnership agreement.

| Partner's name | Signature | Date |
|----------------|-----------|------|
|                |           |      |
|                |           |      |
|                |           |      |
|                |           |      |

### Part One—General information

The place of business is at:

| Partner's name | Address |
|----------------|---------|
|                |         |
|                |         |
|                |         |
|                |         |

### Part Two—Financial contributions

The total capital required by the business is \$100 000 and has been contributed to the business by the owners in the following amounts:

| Partner's name | Amount of contribution |
|----------------|------------------------|
|                |                        |
|                |                        |
|                |                        |
|                |                        |

Any profits/losses made by the business will be distributed/covered at the following rate:

| Partner's name | Rate |
|----------------|------|
|                |      |
|                |      |
|                |      |
|                |      |



| The following salaries will be paid per annum to the partners: |        |
|----------------------------------------------------------------|--------|
| Partner's name                                                 | Salary |
|                                                                |        |
|                                                                |        |
|                                                                |        |
|                                                                |        |

Figure 6.3.8 A sample partnership agreement

### Task: Assessment

Tess Kert has always wanted to open her own coffee shop. She likes people and has some experience with the management of a small business. She is, however, unsure how to go about starting a new venture and is considering a franchise operation with a major chain.

Your task is to prepare an information booklet for Tess that outlines:

- the way a franchise works
- the advantages and disadvantages of operating a franchise
- the procedures involved in setting up a franchise
- an example of an actual franchise opportunity available to Tess.

## 6.4

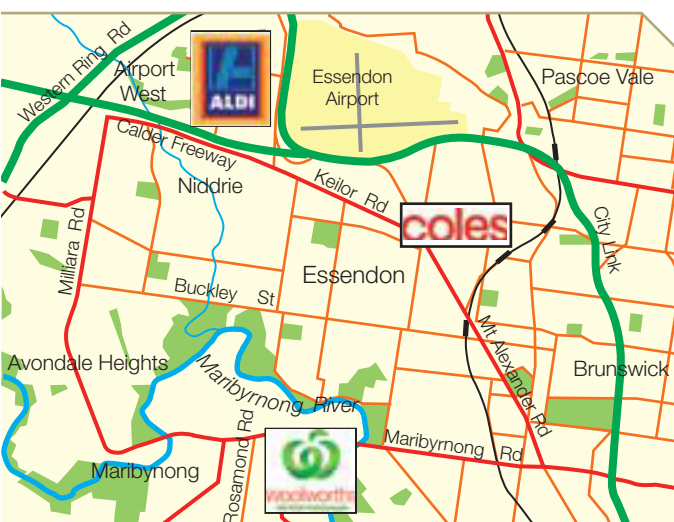
## Location

*Location, location,  
location.*

William Dillard

So far this chapter has considered the major decisions that need to be made when considering establishing a new business. Issues relating to the necessary personal qualities, skills and competencies have been discussed. The importance of conducting initial market research has been raised. Unit 6.3 discussed the relative merits of a range of ownership structures and business types. Of equal importance in the decision-making process prior to commencement is choosing the correct location for the business, based on the business type, the possible market and the personal preferences of the owner.

**Figure 6.4.1** Is this the right location to establish a small supermarket?



## Choosing a location

Choosing the right location can be crucial to the success of your business. The type of business that you intend to operate will be a major consideration in this decision. Some businesses may require their customers to come to them. Those involved in retail, accommodation, hospitality and some personal and medical services will require premises accessible to their customers. Other business, perhaps those involved in domestic or home services such as pet grooming, gardening



or tutoring, will require offices for administration and perhaps storage but will perform most of their business elsewhere. The location of the marketing rather than the business itself will be the key factor for these types of service businesses. Businesses located on the Internet and engaged in e-commerce will need to consider their location in terms of search engines and online databases.



**Figure 6.4.2** Sometimes the customer comes to the business, sometimes the business goes to the customer.

When deciding on the location of your business you should take the following factors into consideration.

## Area profile

This refers to the general make-up of the people and places in the area you are investigating. An investigation into the area profile should be able to tell you about the number and type of people who live, work or shop in the area. This information should include the age, gender and ethnic background of the residents. It should also include statistics that show if the population is changing—ageing, shrinking, growing—as this will influence the potential of your business. An area profile

will also unearth key considerations relating to the types of businesses that currently operate in the area and any planned changes. There would be no point opening a small butcher shop in a country town if there are plans to build a large supermarket on the vacant block next door! Information to help you prepare an area profile can be gathered from the Australian Bureau of Statistics (ABS) website or the websites of the local councils.

## Access to site

Do you need the customers to come to you or is it more important that you are close to transport? In most cases, businesses involved in retail or hospitality require people to be passing by and will prefer to be located in or near shopping centres or major shopping streets. Car parking may also be a factor to consider for those interested in opening businesses relating to hospitality, entertainment or personal services. A dentist requires their patients to be in the surgery for an extended period of time so there must be suitable parking nearby. On the other hand, businesses that produce large amounts of goods will need access to major transport options such as major roads or railways. You should always work out which is more important for your business before making any major location decision.

## Cost of site

When determining the location of the premises there are many cost factors that need to be taken into consideration. Of course, the most important of these will be the mortgage repayments (if you choose to buy premises) or the rent (if you choose to lease). The location of the premises will play a major factor in the size of these payments. You must also consider local rates, which can differ from one council to the next. Insurance premiums will also differ depending upon the location. Real estate agents, their websites and the real estate sections of the local newspapers will be the best source of information in this area.

### DID YOU KNOW?

Sir Richard Branson, founder and CEO of the Virgin Group of companies, started his business selling records from the boot of his car.

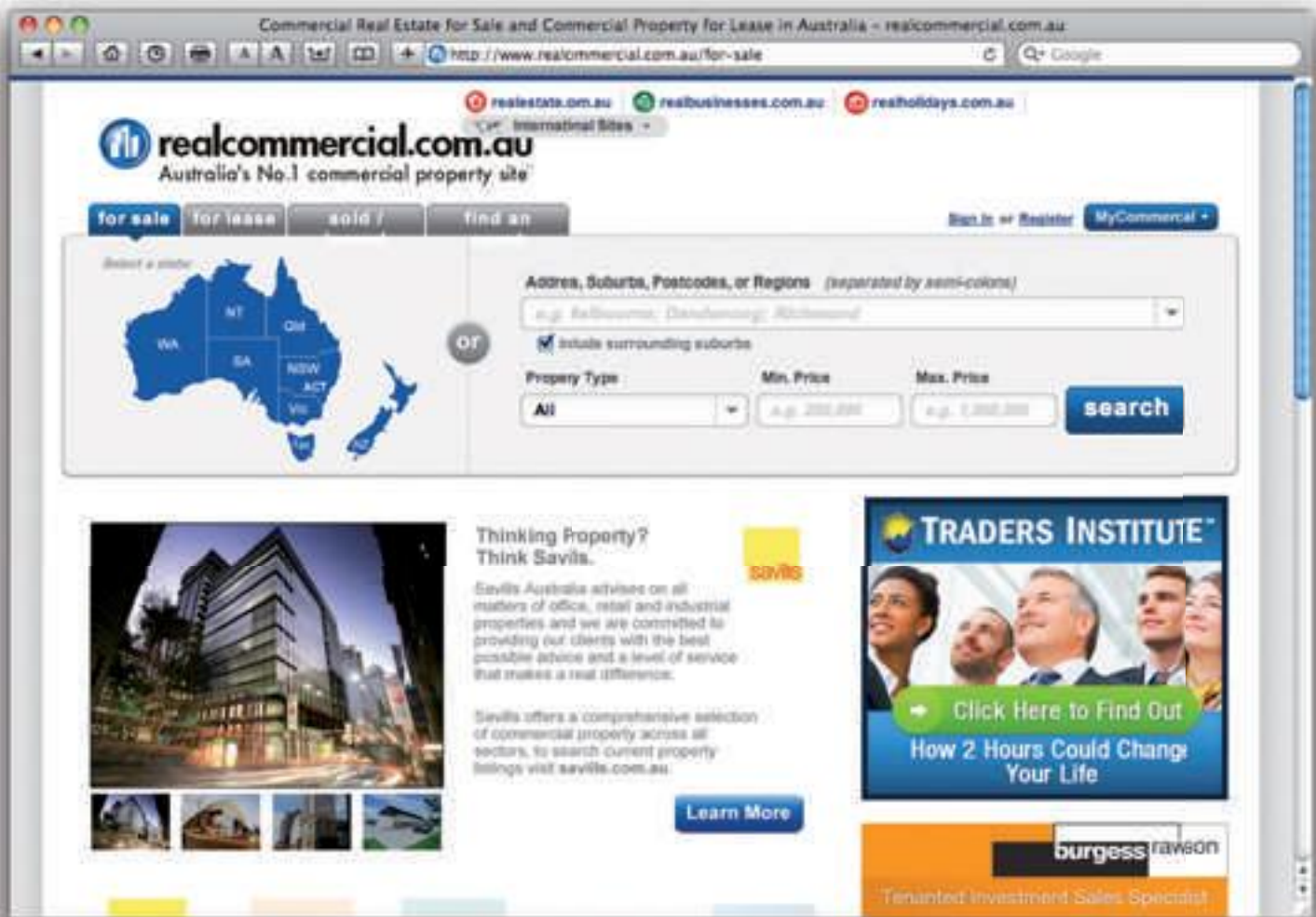


**Figure 6.4.3** The local papers and real estate websites are often the best source of information about the cost of purchasing business premises.

## Location of competition

Depending upon the type of business you operate, the location of competitors can be very important. In some instances, too many similar businesses in the one area can be damaging to each business, as the pool of potential customers will be too small to sustain all businesses. A local shopping centre would only be able to sustain one or two fish and chip shops or milk bars. On the other hand, businesses of a similar nature, such as those found in a food court, can benefit from the close proximity of competitors. Customers are drawn to the area because of the range of options available or the convenience of seating areas. Clothing and footwear stores tend to

group together for the convenience of the customer. People will come to the area as they enjoy the range of goods on offer.

## Personal affinity

Lastly, the business owner needs to consider whether they know, like and feel comfortable in the area. This is known as personal affinity—the feeling you have for the place or area. If you are likely to be unhappy in your business because it is too isolated, too far from home or you do not feel comfortable in the area, then your business will suffer. Some people will prefer to work far from home so that they can leave the whole thing behind at the end of the day; others enjoy living and working in an area where they know people and people know them.

## Buying or leasing?

Once you have decided where you are going to locate your business, the next decision to make is whether to buy your premises or lease (rent) them. Each option can present a range of advantages or disadvantages.

### Buying

If you decide to buy your property outright, this means that you have total control over how it will be set up and presented. On the other hand, buying a property will usually involve taking out a mortgage, which means the business will have a large, ongoing financial commitment.

### The advantages and disadvantages of buying

#### Advantages

- You will own the property and it will become one of your major business assets.
- You can't be asked to move if you own the property and you might benefit from an increase in value over time.
- You have total control over the way that the property is developed.
- When preparing a tax return, the cost associated with purchasing and fitting out the building can be deducted from your revenue to reduce your taxable income.

#### Disadvantages

- There are significant costs associated with buying property and these are usually higher than leasing premises.
- A mortgage will become more expensive if interest rates increase.
- All the costs of repairs and renovations are yours.
- If the business is not successful, selling the premises could be difficult.

## It's all Greek to me: How world events affect Australian small business budgets

By David Hechter

**With recent focus on world events, many small- and medium-sized businesses in Australia are left wondering what these distant, foreign developments mean to their business operations at home.**

We've seen riots in Bangkok that have left 33 dead, riots breaking out in Greece over the country's debt problems, which will require a bail-out from the International Monetary Fund, the drop of over 1000 points in the Dow Jones due to the 'fat finger' of a single errant trader, and a massive oil spill off the US Gulf Coast that has thrown the oil markets into chaos due to uncertainty over the future of offshore oil exploration.

These world events can greatly affect the operations, and cash-flow, of Australian businesses.

Unfortunately, they will result in higher borrowing costs for SMEs that use bank loans, credit cards or other forms of finance tied to interest rate levels. The reason is due to the 'credit spreads' in overseas money markets.

Our Australian banks are in great financial shape, however; because the demand for money from Australian consumers (for mortgages) and businesses (corporate lending) is greater than the domestic supply of funds (i.e. deposits collected from individuals and businesses), the Australian banks need to raise what is called 'wholesale funding' to bridge the gap.

This 'wholesale funding' is primarily obtained from overseas institutions and the rate that the banks will pay to borrow this money is driven by 'credit spreads'—essentially, the margin over and above the prevailing interest rate. As we saw during the depths of the GFC, when there is uncertainty in the global economy, these credit spreads





will increase to account for the perceived increase in risk. This is the likely outcome as a result of these recent events in Europe, Asia and the US.

As credit spreads increase, the cost of borrowing to the bank increases and these costs will be passed onto the consumer, whether they be personal or business borrowers.

*Source: Anthill Magazine, 1 June 2010*

## Leasing

Instead of buying the premises you need for your business, another option is to lease or rent the premises. Leasing your retail premises means signing a legal contract where the tenant has the right to operate a business, but the landlord has the right to restrict how the premises can be used. Rent is paid to the landlord by the tenant, usually monthly. There are many advantages and disadvantages of leasing property.

### The advantages and disadvantages of leasing

#### Advantages

- The costs associated with setting up are usually lower than buying the premises.
- Costs such as repairs to premises can be shared with the landlord.
- You can claim lease payments as business expenses on your tax return.
- You have the flexibility of relocating if there are problems with your lease.
- If relocation does become necessary, you don't have to depend on selling the property.

#### Disadvantages

- Rent money is often referred to as 'dead money', because it does not contribute to business improvement or growth.
- You depend on your landlord if modification, fitting out or maintenance is needed.

## Working from home?



**Figure 6.4.4** Working from home brings its own challenges.

What if you don't buy or lease but set yourself up at home? Home offices or businesses are becoming very popular. A home-based business is defined as either a base for a business (for example a mobile tradesperson with a home office) or the main place of business activity. In the micro-business sector, about two-thirds of Australian small businesses are home-based. If you don't need large premises and you don't have to provide space for employees, this may be an ideal situation. It would not be appropriate in all situations; it can often lead to the business owner working long hours and can interfere with normal family life if it is not possible to separate work from home in a mental sense. If you are thinking about starting a new business at home or setting up a home-based franchise, you should consider your personal qualities, your family's needs and the rights of your neighbours. The following table gives a summary of the factors home-based entrepreneurs need to think about before making this decision.



| Advantages                                                                                                                                                                                                                                                                                                                                                                                                       | Disadvantages                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>■ Saves time and money getting to and from work</li><li>■ Control hours of work</li><li>■ Available to family</li><li>■ Lower start-up costs and lower financial risks</li><li>■ Improved work/life balance</li><li>■ Can build up business slowly</li><li>■ Lower rent and other expenses</li><li>■ Flexible lifestyle</li><li>■ Can be more productive at home</li></ul> | <ul style="list-style-type: none"><li>■ Conflict with home life</li><li>■ Can be difficult to master self discipline</li><li>■ Area used for business generally not purpose-built</li><li>■ May irritate neighbours (parking or noise)</li><li>■ Workplace isolation</li><li>■ Distractions during working hours (e.g. family, friends)</li><li>■ Lack of exposure for some business types</li><li>■ May end up overworking or being unproductive</li></ul> |

Figure 6.4.5 There are many advantages and disadvantages to running a business from home.

# Locating in cyberspace?

For a small business a website can have many uses. It can be a tool for advertising or marketing, bringing people’s attention to the product or service on offer. It can also act as a virtual shop-front, where people

can access the goods online and the small business delivers directly to the customer. The factors to be considered when locating on the web are not substantially different to those for a physical location. The owner needs to consider the costs of creating and maintaining a website, its accessibility to search engines through keywords and the design of the ‘premises’ or website.



Figure 6.4.6 A virtual shopfront operated by a small business owner

### Task: Remembering and understanding

- 1 Explain how the location needs of a retail business may differ from those of a service business.
- 2 List, and briefly describe, four factors to consider when choosing a location for your business.
- 3 Name two sources of information you could use when researching the best location for your business.
- 4 Explain why personal affinity is important for a small business owner.
- 5 Explain what is meant by 'location' for an online business.
- 6 Describe how a leasing arrangement works.

### Task: Applying and analysing

- 1 Provide an example of a situation where being close to competition might be an advantage and one example where close proximity might be a disadvantage.
- 2 Suggest a region or area that would be a suitable location for each of the following business examples. Explain the reasons for your suggestion.
  - a Surfboard manufacturer
  - b Dairy farm
  - c Tractor repairer
  - d Computer store
  - e DVD rental store
  - f Wine manufacturer who sells to the local market
  - g Wine manufacturer who exports the wine overseas
- 3 Daniel and Lu are considering opening a computer repair business. They are considering working from home, setting up an office in Daniel's spare room. They anticipate that customers will be coming to the office.
  - a Explain to Daniel and Lu the advantages and disadvantages of pursuing this option.
  - b Suggest an alternative approach to locating their business.

### Task: Evaluating and creating

Interview the owner of a local business or ask your teacher to organise a small business owner to speak to the class. Write a report about the suitability of the location of the business. Using the template overleaf as a guide, consider the following aspects of the decision-making process:

| Location interview                                                                 |                                                                  |           |
|------------------------------------------------------------------------------------|------------------------------------------------------------------|-----------|
| Business name                                                                      |                                                                  |           |
| Owner                                                                              |                                                                  |           |
| Location/Address                                                                   |                                                                  |           |
| Brief description of business activities                                           |                                                                  |           |
| Location factors, e.g. access to site, location of competitors, parking, transport | Positives                                                        | Negatives |
|                                                                                    |                                                                  |           |
| Overall summary of the suitability of the location of this business                | This business is/is not/ located in a suitable location because: |           |

Task: Assessment

- 1 Prepare a simple copy of the street plan below.



Figure 6.4.7 Main Road, Tidy town

- 2 Indicate on your street plan the most appropriate location for the following businesses:
- a Two cafés
  - b A newsagent
  - c Doctor's surgery
  - d Supermarket
  - e Fruit and vegetable shop
  - f Bakery
  - g Post office
  - h Fish and chip shop
  - i Butcher
  - j Craft shop
- 3 Complete the table below to justify each choice.

| Business           | Location chosen | Reasons |
|--------------------|-----------------|---------|
| Café One           |                 |         |
| Café Two           |                 |         |
| Newsagent          |                 |         |
| Doctor's surgery   |                 |         |
| Supermarket        |                 |         |
| Fruit shop         |                 |         |
| Bakery             |                 |         |
| Post office        |                 |         |
| Fish and chip shop |                 |         |
| Butcher            |                 |         |
| Craft shop         |                 |         |



# 6.5

## What do I need? How do I pay for it?

### physical resources

the equipment, furniture, buildings etc. that are needed by the business to perform its operations

### establishment costs

those costs associated with the start-up of the business; including the purchase of any necessary physical resources as well as the cost of any permits, licences, legal fees and market research

### operating costs

the day-to-day costs of running the business; including such things as wages, the purchase of stock, the payment of gas, electricity, phone etc. and perhaps even motor vehicle expenses

*Borrow big, but always repay promptly.*

Aristotle Onassis

Starting a new business or expanding an existing one can be an expensive exercise. Small business owners have a limited source of finance available to them. A careful investigation into the specific needs of the business needs to be undertaken and extensive research conducted to determine the most appropriate way to finance those needs. Small business owners can secure finance from four main sources: the owner's resources, banks and other financial institutions, suppliers and the government. Assistance in the form of grants and subsidies may be obtained from the government for particular businesses that met a certain set of criteria.

**Figure 6.5.1** Starting a business requires much effort.



## What do I need?

Depending on the type of good or service being supplied by the small business there will be a variety of **physical resources** required by the business. When purchasing the equipment for the business, the owner needs to consider the ongoing costs associated with that purchase. Resource costs can be divided into **establishment costs** and **operating costs**.



**Figure 6.5.2** A small business needs a range of equipment.

The purchase of the necessary physical resources can also be referred to as fixed asset costs. This refers to the purchase of assets that will last a long time and will usually be quite expensive. Fixed assets can include motor vehicles, buildings, land, office equipment and furniture, storage equipment and display furniture, computers and telephones. Depending on the type of business there may also be expensive machinery to purchase. Before making each of these purchases, the business owner should carefully research the exact cost of each item and investigate the best finance options for each purchase. This should include the cost of the finance, the terms of the loan and the amount of repayments.

## How do I pay for it?

### Capital investment

Capital investment in a small business can also be defined as owner's equity. It is the amount of money the owner of a business contributes from his own personal resources.

This may be in the form of personal savings, or could be from a windfall such as a lotto win or an inheritance. When the business is being established as a partnership there is greater access to owners' equity or capital, as there are two or more people who can contribute funds. The amount of capital contributed by each partner should be carefully recorded in the partnership agreement to ensure fairness when the business is distributing profits or in the event of the business being closed down. Partners are entitled, where possible, to receive their capital investment back.

This text has also discussed private companies as a form of ownership. In this situation the owners' contribution takes the form of shares in the business. Each shareholder contributes an amount to the business, which then entitles him to a 'share' of the profits that matches the amount of contribution. For example, if one shareholder contributes 10 per cent of the investment capital then that shareholder is entitled to 10 per cent of the profits of the business.

In each of the business formats discussed above, the owner or owners may also raise capital by taking out a personal loan and then contributing that money to the

#### DID YOU KNOW?

Famous Australian businessman Dick Smith started his electronics business in 1968 with start-up capital of \$610. He sold the business to Woolworths in 1982 for approximately \$20 million.

**collateral**

an asset that is promised or given to a creditor such as a financial institution, to guarantee the payment of a debt. If the debt is not paid, the creditor may seize the asset and sell it to pay off the loan.

**interest rate**

the rate at which interest is paid by a borrower for the use of money that they borrow from a lender. For example, a small business borrows capital from a bank to buy new assets for their business, and in return the bank receives interest at a predetermined rate.

**foreclosure**

the proceeding, by a creditor, to regain property or other collateral following a default on mortgage payments

business. In this instance it is the owner of the business who retains the debt to the bank, not the business itself.

## Borrowing funds directly

Banks and other financial institutions will provide finance for small business establishment and for expansion of an existing business. There is a wide variety of possible lenders and an even greater variety of products available to the small business owner. Many financial institutions have loans that are specifically designed for small businesses and devote much of their marketing to attracting this type of customer.



**Figure 6.5.3** Many financial institutions devote much of their marketing to attracting the small business customer.

Some of the products available to small businesses are listed below.

## Mortgage

A mortgage is a large, long-term loan, usually raised to purchase an expensive asset such as land or premises. It is one way that businesses can finance the purchase of these major physical resources. Mortgages require the borrower to provide some sort of **collateral** against the loan in exchange for the funds. This means that the owner has to provide a guarantee that the loan will be repaid. This collateral is usually a 'charge' over the asset being purchased with the loan funds. A mortgage is a form of long-term finance; the duration of the loan is often 20–25 years.

Using a mortgage as a source of finance has several advantages. A mortgage can provide the business with access to finance that would not otherwise be available. The lending institution will usually organise a repayment scheme that will suit the needs of the business, which may include fixing the repayments (protecting them from changes in **interest rates**) for a set period of time. Mortgage repayments allow the borrower to know what the payments will be in advance. This fixed payment can often aid the business with managing its cash flow.

Of course, with any type of loan there are the disadvantages to consider. First, the business owner may need to pay a large deposit for the property, which they may not be able to afford. With any form of borrowing there are always extra costs. Borrowed funds require the payment of interest, so the lender eventually pays back more than the amount borrowed. Most loans will have other fees and costs associated as well, but by far the biggest factor to consider when thinking about a mortgage is the ability to repay the loan—both capital and interest. Failure to meet the loan repayments may mean that the bank will **foreclose** on your mortgage, which means that it will sell your asset to recover the money still owing on it.

## Other bank loans

When sourcing finance for smaller items or smaller amounts, the business owner can choose a simple loan. This source of finance would be most suitable for a less expensive purchase such as a motor vehicle, office equipment or furniture.

A business owner should compare the range of finance providers available and consider the advantages and disadvantages of this type of finance. On the positive side, there is a wide variety of uses for the money secured from a bank loan; banks will generally be willing to lend money for any asset that they can see will benefit the business. This gives the bank confidence that they will receive their repayments. Short-term loans can be a good way for businesses to expand operations and increase production without using their own capital. Loans provide companies with immediate resources to expand their business and potentially earn more profits. If a business owner chooses to use bank loans, they may obtain a good reputation with the bank, which increases their chances of securing further financing for future needs.

On the other hand, it is important not to borrow too much money and have too much of the business's profit tied up paying back the debt. A bank loan can usually be obtained quickly, without a lengthy application process. If the business owner can provide good information about the business, the loan could be approved in a matter of hours. As with mortgages, loans carry interest repayments and there may be costs associated with borrowing money in this way. In some instances, even choosing to repay the loan early can incur an extra cost. Borrowing too much money can lead to a decreased cash flow and, in some circumstances, repayments could be greater than the income of the business.

## Bank overdraft

An overdraft is a very short-term financing option, used by most small businesses. In

this type of bank lending, an agreement is reached between the business and the bank where the account of the business is held. This agreement allows the business owner to write cheques or withdraw cash even when there is no money in the account. This is a bank overdraft—when the bank account can, for a short time, be overdrawn. This allows the business to make payments to suppliers, pay bills and even make loan repayments when they are short of cash. This has the benefit of allowing the business to continue trading and to continue to meet its financial obligations to suppliers and other creditors (to be discussed below). The amount and length of the overdraft facility will be pre-determined so the business owner will know exactly how much leeway they have. The obvious advantage of an overdraft is business owners can still purchase the necessary items for the day-to-day running of the business when they are low on cash. This will often be due to late payment by a customer and is a very common way to operate a bank account. Bank overdrafts do, however, have a very high rate of interest, which is calculated daily, so it is not a good idea to have a large or ongoing overdraft. It is best used as a short-term solution to a cash flow problem.

## Trade creditors

A creditor is a business or individual who provides goods or services for a business and expects payment at a later date. Most small businesses will have many creditors. A café, for example, would receive daily deliveries of fresh milk but would not receive the bill until the end of the month. They would then be given seven days to pay the bill. This is an example of a credit transaction. Operating a credit arrangement with suppliers allows the business to maintain deliveries of necessary goods while they are waiting to be paid by their own customers. There are no interest repayments on credit transactions and some businesses will even offer discounts for payment on time.



## Leasing

Sometimes the business owner may decide to lease—or rent—the premises of the business instead of buying them. The advantages and disadvantages of this choice were discussed in a previous unit. Leasing can, however, be used in a range of business situations. Businesses can lease office equipment, motor vehicles, even furniture and rugs! Leasing equipment can be a good option for business owners who have limited capital, or who need equipment that must be upgraded every few years. Leasing equipment instead of purchasing it outright means the business owner does not have to borrow money or to use personal supplies of cash. Leasing can provide flexibility in the choice of equipment, but it may be more expensive in the long run. The biggest advantage of leasing business equipment is that it allows the business to have assets without having any major financial outlay. Companies who arrange leases rarely require a deposit; this means the business can obtain the goods needed without affecting cash flow. Lease payments can be deducted as business expenses on the business's tax return. Also, leases are usually easier to obtain and have more flexible terms than loans for buying equipment. Leasing allows businesses to upgrade items such as computers or other high-tech equipment that become technologically outdated in a short period of time.

Leasing business equipment has two main disadvantages: overall cost and lack of ownership. Leasing an item is almost always more expensive than purchasing it. In addition to the higher cost, unless the item is available for sale at the end of the lease, the business has paid a lot of money but retained no asset for future use. Another downside to leasing is that there is an obligation to make payments for the entire lease period even if you stop using the equipment. Some leases give you the option to cancel the lease if your business changes direction and

the equipment is no longer necessary, but some leasing companies will charge fees for this cancellation.

## Obtaining finance

If the best way for the business to obtain funds is by borrowing it from a bank or another financial institution, the business owner will need to go through an application process. When deciding whether or not to lend money, the bank will require the owner to provide certain information to establish whether the business is a good risk; for instance, a business plan that would outline the future prospects of the business. If the loan is for expansion or for the purchase of more equipment, the owner may also need to supply financial records such as the profit statement, which shows the money-making potential of the business, the balance sheet, which shows the amount of assets already owned by the business and the existence of any other loans, and perhaps a cash flow statement, which shows the anticipated spending and earning of the business.



**Figure 6.5.4** Banks have a role in providing funds and financial advice to small businesses.

### Task: Remembering and understanding

- 1 List and explain two examples of internal sources of finance.
- 2 List and explain three examples of external sources of finance.
- 3 Make a list of the types of information required when applying for finance.

### Task: Applying and analysing

- 1 For each of the following items, state the most suitable source of finance. Justify your response.
 

|                                        |                             |
|----------------------------------------|-----------------------------|
| <b>a</b> Buying stock for the business | <b>d</b> Payment of bills   |
| <b>b</b> Office furniture              | <b>e</b> Premises           |
| <b>c</b> Vehicles                      | <b>f</b> Computer equipment |
- 2 Use the table below to describe the advantages and disadvantages of these three forms of bank finance.

| Advantages      | Disadvantages |
|-----------------|---------------|
| Mortgage        |               |
| Short-term loan |               |
| Overdraft       |               |

### Task: Evaluating and creating

Assume that you are considering a loan application from Terry, a small business operator. You have arranged an interview time with him. Advise Terry which documents and information he will need to bring with him and the reason you wish to see each item.

### Task: Assessment

When a business takes out a loan for the purchase of physical equipment, the loan must be repaid with interest. An alternative to a bank loan may be to lease the equipment.

Dale Howell is interested in purchasing computer equipment for his business. He intends to buy a PC, a printer, a scanner, speakers, a modem and a large monitor. He anticipates the whole package should cost him around \$6500. He has approached the bank and has been approved for a loan for that amount. The loan would need to be repaid in five years and the interest rate is 7 per cent per year.

- 1 Calculate the total amount to be repaid.
- 2 Calculate the repayments to be made each year.
- 3 Calculate the repayments to be made each month.

Dale has also investigated the prospect of leasing his computer equipment from ITs 'R' Us. The leasing arrangement would be for five years at \$165 a month.

- 4 Calculate the yearly cost of the lease.
- 5 Calculate the total amount to be paid over the five-year term of the lease.
- 6 Advise Dale on the best option, considering all factors, not just the cost.

# CHAPTER SEVEN

# Up and RUNNING

## Introduction

Previous chapters have investigated the decisions that small business owners need to make when starting out. Once the business is up and running, a range of new factors becomes important. These new areas include staffing, marketing and financial record-keeping. In large businesses there are specialist departments and staff to handle these functions but in a small business it is important for the owner to effectively manage all of them. Some areas will be easier than others, but at all times, the business owner should seek the assistance of qualified professionals. Mistakes in these areas will be costly, especially considering the legal consequences of failing to maintain adequate tax records or not treating staff according to the requirements of law.



**Figure 7.1.0** Nad's founder  
Sue Ismiel and her family

# 7.1

## Staffing a small business

*Of all the things I've done, the most vital is coordinating the talents of those who work for us and pointing them towards a certain goal.*

Walt Disney

One of the first factors to consider is the hiring of staff. Staff can be an important resource for the business, sharing the workload and bringing new ideas with them.

Small business owners must make sure they choose the right staff for the work required. Careful **recruitment** and **selection** processes should be undertaken and thought given to the types of **employment arrangements** that will best suit the needs of the business. The management of employees and their needs is an important role for the owner of any business, who must be aware of any legal considerations and ensure that staff are being treated fairly and equitably according to the law.

### Recruitment and selection

The first stage of any recruitment and selection process is to work out exactly what is needed. This is known as a job analysis. A job analysis involves the owner of the business carefully examining the tasks that need to be completed and the level of skill or experience that is needed to complete those tasks. Using the information gathered in the job analysis, the owner can then prepare a job description outlining the actual position and the skills, experience and/or qualifications that might be needed. For example, does the job require someone

#### recruitment

the process of finding suitable applicants (from within or outside of an organisation) for a job vacancy

#### selection

the process of choosing the most appropriate candidate from a pool of applicants through interview and other selection processes

#### employment arrangements

the conditions under which a staff member is employed, specifically related to working hours; for example, full-time, part-time, casual or contract

**Figure 7.1.1** Employees are an important part of any small business.





with experience in the field or could a young person be employed and trained? Is a full-time employee needed or could the work be done by a part-time or casual employee, working fewer hours?

Once the job description has been prepared, the owner can use the information to prepare job advertisements for recruitment. The most appropriate form of recruitment will depend on the nature of the business and the type of applicant the owner is looking for. A range of recruitment options is available, each having its own advantages. Businesses searching for a local applicant—someone who would be familiar with the local area and the customers of the business—might choose simply to place an ad in a shop window or on a local bulletin board, such as might be found in a local shopping centre. This method has the advantages of being a free or inexpensive form of advertising that attracts only local applicants. Placing an advertisement in a local newspaper will also attract local people to apply, but it has a more professional approach, which may attract applicants of a higher calibre.

The business may choose to place the advertisement in the national media. Using newspapers that are available state-wide

will ensure that a large number of people from a variety of employment backgrounds will see the advertisement, hopefully producing a suitable pool of applicants.

Depending on the needs of the business, speciality magazines or websites may be the most appropriate place to attract the attention of potential employees.

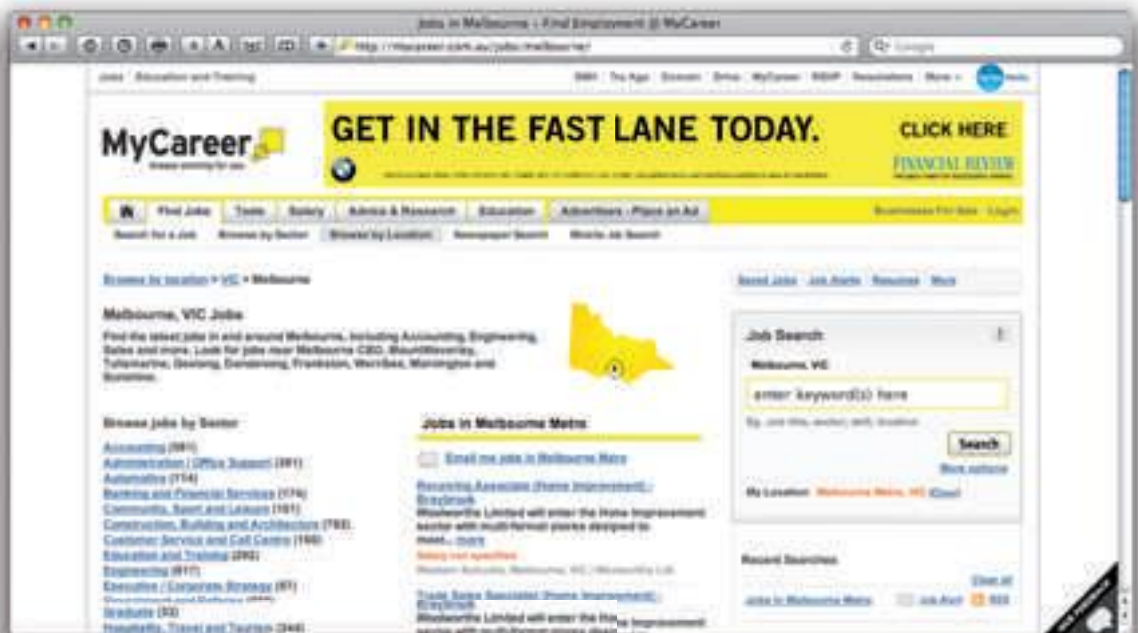
There are many employment and recruitment websites, each providing detailed search criteria that allow potential applicants to concentrate their searches in particular industries and geographic areas. This method ensures that a large number of people can access an advertisement, but potential jobs are easier to locate. Advertisements can also contain a web link to the business itself, allowing people to investigate the business before deciding to apply for the position. This provides a form of passive screening; in many cases, only people genuinely suited to the business's operation will apply for the position.

A further method for recruiting new staff is to hire a recruitment agency to conduct the search. Although this can be a considerable financial cost to the business, it does save time and allows the owner to continue with the normal activities of running a business.

### FOR DISCUSSION

- 1 Can you think of ways or places to advertise for new staff?
- 2 Why do you think advertising online is rapidly replacing other, more traditional methods of recruiting new staff?

Figure 7.1.2 An online recruitment opportunity



The recruitment agency will place the advertisement, accept the applications and organise a short-list of people it believes might be suitable for the position. It can even organise and help conduct interviews and background checks. This may save time but it tends to remove the owner from the process; the owner does not get a 'feel' for the applicants and must trust the judgement of the recruitment agency.

Once all the applications have been received, the owner must then read them through, eliminating the least suitable to arrive at a short-list of perhaps 5–6 applicants that appear to be most suitable. It is good business practice to inform each of the applicants that have not been short-listed that they have been unsuccessful. This helps build a good image and reputation for the business; and if the business expands, some of these applicants may be suitable for positions further down the track. Once the short-listed applicants have been chosen, the selection process will begin.

The selection process will include a number of steps:

- organising an interview time
- conducting an interview
- conducting any other relevant tests
- carrying out background checks and checking of referees
- choosing the successful applicant and informing unsuccessful applicants.

It is important to conduct interviews in a professional and impartial manner. If the same questions are asked of each applicant, it is easier to compare responses, and it also removes any suggestion of discrimination or unfairness. Applicants should be asked a range of open, closed and extension questions. Closed questions are used to discover simple facts about the applicant; for example, 'Can you operate a cash register?' or 'Are you available to work on Saturdays?' Open questions allow the interviewee to provide more detail about their experience or skills and provide the

owner with an insight into the suitability of each applicant. Examples could include 'Could you please explain the duties you performed at your previous job?' or 'Can you outline how you would deal with a difficult customer?' Extension or reflective questions give the applicants an opportunity to really sell themselves and provide the business owner with more information about their passion and personality. Interviewees could, for example, be asked to outline the benefits they believe they would bring to the business.



**Figure 7.1.3** A panel interview will ensure a range of opinions can be considered.

After the interviews have been conducted, it is important to check the references provided by the applicants to ensure that their qualifications and experience are legitimate. Chatting with past employers may also provide extra information about each person. Extra checks may be necessary if, for example, the position involves working with children. Victorian law states that every person involved in occupations or professional activities that deal with children must have a Working with Children Check. Other occupations involving the use of sensitive personal and financial information may also require a police check.

### employment conditions

the entitlements an employee can expect from an employer in relation to pay and leave

The final step in the process is to choose your employee and offer them the position. It is also important—as stated earlier—to contact the unsuccessful applicants so that they are not left waiting for the result of the interview.

## Employment arrangements

Staff can be employed under a range of employment arrangements. Employees can work full-time, part-time or on a casual basis. A full-time employee can typically expect to work a 38-hour week with pay and conditions that reflect the work being performed and the level of experience and skill. Part-time employees work fewer hours but are still guaranteed permanent work and suitable pay and conditions. A casual employee is employed on an hourly or daily basis and does not necessarily have regular working hours. A casual employee does not have guaranteed shifts but does receive somewhat higher pay to compensate for the lack of entitlements such as holiday pay or sick leave.

All employees, regardless of the employment arrangement, are entitled to fair and equitable pay and **employment conditions**. The minimum terms of pay and conditions for Australian workers may be determined by a number of instruments or combination of instruments, including awards, agreements, contracts of employment and legislation.

### Awards

An industrial award contains pay rates and employment conditions for employees in a specific industry. On 1 January 2010, a new system of ‘modern awards’ came into force, replacing thousands of state and federal awards that were previously in existence. The General Retail Industry Award 2010 is an example of a modern award. It applies throughout Australia to people who work in the general retail industry, and outlines

the conditions that apply in relation to hours of work, leave entitlements, pay rates, allowances and dismissal procedures. There are about 120 different modern awards covering employees in a range of industries throughout Australia.

### Enterprise agreements

Employee pay and conditions may also be covered by an enterprise agreement, which can be adapted to the requirements or characteristics of a particular enterprise. A registered agreement can be a single-enterprise agreement or a multi-enterprise agreement, and sets out the terms and conditions of employment between a group of employees and one or more employers. Enterprise agreements cannot include conditions that would leave employees worse off than under the modern award. An example of a registered agreement is the McDonald’s Australia Enterprise Agreement 2009, which came into operation on 29 June 2010. This set of pay and conditions was created between the management of McDonald’s Australia Pty Ltd and their employees, represented by their union: the Shop, Distributive and Allied Employees’ Association.

### Relevant legislation

The *Fair Work Australia Act 2009* (Cth) was passed by the federal parliament in 2009 and came into effect in January 2010. From 1 January 2010, the new National Employment Standards (NES)—a set of legislated minimum standards that underpins all modern awards and enterprise agreements—came into operation. These standards cannot be excluded from any agreement.

Under the NES, employees have certain minimum conditions that they can expect from their employer. The NES applies mostly to full-time employees but does provide some protection to part-time and casual employees. The ten National Employment Standards are set out in Figure 2.1.4 on pages 34–35 of this text.



## Dismissal

The conditions under which a worker may be dismissed are also usually contained in the awards and agreements relevant to the worker's employment. Information about appropriate dismissal procedures is also included in the National Employment Standards. It is essential that an employer—in this case the small business owner—understands and applies these conditions, so as to treat employees fairly and avoid any legal action.

Unfair dismissal occurs when, although the employer has a legitimate reason for dismissing a worker, they have not followed the correct procedures set out in the award or agreement.

Unlawful termination, on the other hand, occurs when the employee has been dismissed for a reason that is not legitimate. Examples include racial background or gender, membership of a union or temporary absence due to illness or injury.

## Staffing and the law

All employers have a legal obligation to provide a safe workplace for their employees. 'Safety' in this circumstance

refers to both the physical safety and mental wellbeing of the employees. As well as being free from dangerous situations, workplaces should also be free from workplace bullying and harassment. Under the *Occupational Health and Safety Act 1985* (Vic.), an employer can be prosecuted if he or she fails to act on any complaint by an employee. Managing health and safety should be about ensuring that systems, practices and policies are in place to prevent any dangerous or unpleasant situations. If people are aware of their responsibilities and the expectations for their behaviour, many problems will be avoided.

Another piece of legislation relevant to small businesses is particularly important in the recruitment and selection stage of the process, but has applications during the entire term of employment as well. The *Equal Opportunity Act 2010* (Vic.) (EOA) states that 'direct discrimination will occur if a person treats, or proposes to treat, a person with a protected attribute unfavourably because of that attribute'. This means that a person cannot be denied an interview, a position or a promotion or be dismissed due to age, race, gender or disability. Employers need to be clear about the conditions of the EOA to ensure they do not breach any of its rules when framing job advertisements, conducting interviews or choosing applicants for employment or promotion.



**Figure 7.1.4** The Victorian Equal Opportunity and Human Rights Commission runs workshops for business owners about laws.



## Task: Remembering and understanding

- 1 Outline three benefits of employing new staff.
- 2 Explain the difference between recruitment and selection when employing new staff.
- 3 Outline three types of employment arrangements available when employing staff.
- 4 Explain the relationship between a job analysis and the preparation of a job description.
- 5 Explain the importance of conducting an interview.
- 6 Explain clearly the difference between modern awards and enterprise agreements.

## Task: Applying and analysing

- 1 For each of the following situations suggest the most appropriate employment arrangement—casual, part-time, full-time or contract—and justify your choice.
  - a Diana has been in business as a florist for three years. Her business is doing well and she feels she could afford to hire a new staff member. Diana's son is about to start school and she would like to be available to take him to school in the mornings without having to rush to open the shop.
  - b Alan runs a small café at Preston Market. His busiest times are during the lunch hours and on Saturday mornings. He would like to hire another waitress to work these shifts, and to cover other employees when they are absent.
  - c Barry has a small business selling home-made children's toys. His toys are very popular as gifts. During peak times, such as Christmas, he is so busy making the toys that he finds it difficult to collect his supplies or make deliveries.
- 2 Complete this table to show the advantages and disadvantages of the following recruitment methods. Suggest a situation where each method may be suitable.

| Method                                                                | Advantages | Disadvantages | Suitable for: |
|-----------------------------------------------------------------------|------------|---------------|---------------|
| Local area advertising—shop window or bulletin board, local newspaper |            |               |               |
| National print media                                                  |            |               |               |
| Speciality media                                                      |            |               |               |
| Recruitment website                                                   |            |               |               |
| Recruitment agency                                                    |            |               |               |

### Task: Evaluating and creating

Sasha is a talented fashion designer who has been selling her creations to other retailers. She has decided that she would rather sell her pieces herself and has set up a small showroom attached to her workshop. However, she does not have any retail experience and is keen to hire a sales assistant to work in the shop. She is looking for an experienced person that can be trusted to work independently when Sasha is out, sourcing fabrics etc. Most of Sasha's customers are young people, living locally.

Sasha has asked you to help organise the recruitment and selection process. To do this you will need to carry out the following steps.

- 1 Create a job analysis and a brief job description.
- 2 Design a short advertisement for the position and advise Sasha where the advertisement should appear.
- 3 Develop a list of questions Sasha should ask the applicants during an interview.

### Task: Assessment

The *Fair Work Act 2009* (Cth) was passed in 2009. The Act outlines the minimum employment conditions for all employees in the new national workplace system, or Fair Work system. These conditions are known as National Employment Standards.

Your task is to conduct research and prepare a presentation outlining the key features of the Fair Work system. In your report you should answer the following questions.

- Who is covered by the Fair Work system?
- What is the difference between awards, modern awards and enterprise agreements?
- Give examples of each of the above.
- How can you check if an employee is being treated fairly under the law by an employer?
- What should people do if they have grounds for a complaint?

# 7.2

## Marketing a small business

### target market

a specific group of people that a business aims to influence with its marketing strategies

### niche marketing

concentrating marketing efforts toward a particular segment of the market, or niche

*Marketing is getting the right product or service in the right quantity, to the right place, at the right time and making a profit in the process.*

It is a common misconception that marketing is just about advertising and promoting your business. Marketing is more than that; it is also about identifying your customer and finding out what they want from a product or service.

### Marketing: who, what and how?

To be effective, marketing must involve an investigation into every aspect of the business and how it affects the consumer. It covers everything you will need to do to ensure you provide the right products and services to the consumer, including research, planning, pricing, packaging, promotion, selling and distribution.

### Identifying the market

The first stage in any marketing process is to identify who your customers are likely to be. The most successful marketing strategies are those that specifically target a particular segment or portion of the population. This group of consumers is known as a **target market** and it can be identified by a range of shared characteristics. Concentrating on a particular target market is known as **niche marketing**.

Markets are usually divided into three categories according to shared characteristics. These market dimensions include the demographic dimensions,

**Figure 7.2.1** In the United States, baby carrots are being marketed as if they were junk food.



| Demographic dimensions:<br>dividing the market based<br>on different demographic<br>variables                                                                                     | Geographic dimensions:<br>dividing the market into<br>different geographic regions                                                                                                             | Behavioural dimensions:<br>dividing the market based<br>on identifiable spending<br>behaviour                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>■ Age</li> <li>■ Gender</li> <li>■ Lifestyle</li> <li>■ Family</li> <li>■ Education standard</li> <li>■ Class</li> <li>■ Income</li> </ul> | <ul style="list-style-type: none"> <li>■ Suburban/rural/city</li> <li>■ Position of city</li> <li>■ Particular state or territory</li> <li>■ Country</li> <li>■ Region of the world</li> </ul> | <ul style="list-style-type: none"> <li>■ Rate of product use</li> <li>■ How often they buy product</li> <li>■ Brand or product loyalty</li> <li>■ Knowledge of product</li> <li>■ Benefit sought from product</li> </ul> |

**Figure 7.2.2** Market dimensions

geographic dimensions and behavioural dimensions. The table above shows the typical characteristics of each dimension.

**Figure 7.2.3** Businesses aim to reach members of particular target markets.



By dividing the market according to these dimensions, the business owner is able to more accurately target particular segments of the market. This could mean concentrating the market strategy on the needs of one particular segment, or a group of similar segments. The market needs to be carefully identified in all of its dimensions to ensure that the market is accessible and the business produces appropriate goods and services.

## Buyer influences

Businesses must also ask: What influences the normal buying decisions of the target market? These influences are important regardless of the particular market segment and must be taken into account when building a marketing strategy. They include:

- motivational factors
- sociological factors
- economic factors.

Motivational factors refer to the individual needs that consumers are trying to fulfil. A consumer who wants to purchase a luxury car will have different needs to those in the market for a 4WD or a family wagon. It is smart marketing to develop advertising and promotional strategies designed to appeal to these needs.

The sociological characteristics of an individual will also play a large role in determining a successful marketing

### FOR DISCUSSION

- 1 Why is it important to identify your potential customers before you start thinking about how to advertise your product?
- 2 What information do you think is important to discover about your customers?



**marketing mix**

the combination of elements that businesses use to market their products. These include product, price, place and promotion.

strategy. Strategies that specifically target people's class, family or ethnic background will resonate with potential customers, leading to favourable purchasing decisions.

Issues such as unemployment, inflation, interest rates and other economic factors will change people's purchasing behaviour and marketing strategies must adapt to current economic situations.

Collecting information about target markets and identifying influences on buying decisions is the first part of any successful marketing campaign. Any expenditure on advertising will be wasted if the business has not first determined who they hope to influence through their campaign. Market research should first be conducted to discover the needs of the target group.

## Market research

Market research can be conducted using qualitative or quantitative methods.

### Qualitative research

Qualitative research involves gathering descriptive information, usually through open-ended interviews or focus groups.

- Focus groups are small groups of people brought together to answer and discuss questions posed by a researcher. They are frequently used to test buyer reactions to a product or to an advertising campaign. Interviews are conducted one-on-one, using a structured questionnaire.
- Open-ended interviews consist of questions that cannot be answered with a simple 'yes' or 'no'. This type of interview can give business owners a lot of information, but can be time consuming for both the business owner and the person being interviewed. Conducting interviews has many advantages, including identifying common trends, motivators (such as those mentioned above) and the general likes and dislikes of the target market.

### Quantitative research

On the other hand, quantitative methods involve collecting numerical information

through surveys, which can then be analysed statistically. Surveys take longer to develop, but are generally easier to administer than other types of market research. They take less time to complete, so people are usually more willing to answer them. Surveys will generally provide excellent information if they are well-constructed with thoughtful questions. The easiest and most cost-effective way to conduct a survey is either by telephone or face-to-face interview at the venue where the product is sold.



**Figure 7.2.4** Focus groups are an effective method of market research.

## The marketing plan

Once the target market has been identified and investigations have been conducted into its needs and influencing factors, the business can now begin to prepare the marketing plan. The key elements of the marketing plan are often described as the Four P's: Product, Price, Place and Promotion. This is also sometimes referred to as the **marketing mix**.

### Product

A product can be a good, a service or even an idea. The product will be designed, produced and then offered to the target market. The product will include the actual item for sale, plus the extra services offered with the product. These extra services include quality, reputation, after-sales service, delivery and any warranties that may be available. This combination of

product and extra services is referred to as the total product concept. A small business owner trying to develop a product strategy should consider the following:

- 1 The product mix—will the business offer a small range of similar products or a large range of different items?
- 2 Branding—how will the business ‘brand’ or name their products?
- 3 Packaging—what type and design of packaging will best attract customers?

## Price

Price refers to the amount that the consumer is expected to pay for the product. When determining the correct price for the product, the business owner should consider the following:

- 1 What will customers be willing to pay? How are they likely to react to a change in price?
- 2 What **revenue** is needed to **break even**?
- 3 What does the price tell the consumer about your product; that is, about its value, quality and prestige?

## Place

In relation to marketing, ‘place’ refers to the method(s) used for distributing the product to the consumer. Direct distribution occurs when the consumer is able to purchase the product directly from the business; it is the most common form of distribution for a small business. Indirect distribution involves several steps or stages between the producer and the

customer. This situation would develop when the small business produces a good that is then passed to a retailer for sale to the consumer. A small business involved in the creation of hand-crafted furniture items may have an arrangement with a local store to sell their product on their behalf.

When creating a place/distribution strategy, the following should be considered.

- 1 What distribution channels and methods will be used?
- 2 Will you have a retail outlet and, if so, where it will be located?
- 3 What geographic area will your product/service be available in?

## Promotion

Promotion strategies are those designed to attract your chosen target market. They involve ensuring your customers know about your product and convincing them to purchase it. Your promotional strategy will ensure that consumers find out about your product or service. There are three key promotional tools available to the small business owner: advertising, **direct marketing** and **sales promotion**. When choosing the most appropriate promotional tool the business owner will take into account:

- 1 What am I prepared to spend; that is, what is the budget available for promotion?
- 2 Will direct selling be a cost-effective method of promotion?
- 3 Will sales promotion activities such as customer loyalty schemes increase revenue enough to make them cost-effective?

### revenue

the amount earned by the business through the sale of a good or the provision of a service. Revenue can be in the form of sales, fees, rent, rates, fares etc.

### break even

to take in the exact amount of revenue needed to cover the costs of producing the good or service

### direct marketing

a strategy designed to combine marketing and selling, in which goods and services are offered for sale via phone, email or mail-order catalogues

### sales promotion

a strategy designed to enhance the advertising used to promote the product; attracts customers through free samples, contests and competitions, special prizes and discounts



**Figure 7.2.5** Businesses can use a range of marketing techniques: door-to-door selling (left); advertising (right).

### DID YOU KNOW?

The Irish brewing giant, Guinness, reportedly spent \$US4.65 million to create its Tipping Point commercial, making this one of the most expensive commercials ever made. Soft drink giant Pepsi also spent almost \$US5 million on their famous advertisement featuring Britney Spears. Money well spent?

## CASE STUDY

## Finding the target market

## A real meal

Before you begin 'A real meal', read over the questions listed on the next page. Think about them as you read the case study.

**Background**

Picnic is an Australian chocolate icon. People know the brand and like the brand, and there's equity in every facet of the brand. Consumers say it's unique and delicious; the problem is they're just not buying it as much as they used to.

Picnic's previous campaign, 'Deliciously Ugly' was used exclusively on the brand from 2000 to 2008. Over this time the brand slowly lost relevance and, accordingly, it was in value decline for four years.

A second factor impacting Picnic sales was promotional activity that was driving purchase in route and convenience channels. These retail outlets make up 50 per cent of category sales due to the high impulse nature of the product. The constancy of the promotional calendar was beginning to train consumers to 'bulk' buy each time prices were low. Coupled with this, Picnic could not capitalise on the popular combo purchase of a chocolate bar and a Coke. Corporate ownership of Schweppes at the time rightfully prevented this. But it did leave room for the smaller portfolios to partner up and let the punter get a Mars Bar, a Snickers and the leading soft drink in their hands for a few dollars.

It's tough enough in the chocolate bar category with constant investment and innovations from your outside competition, but when the competition comes from both internal and external sources it is a nearly impossible fight to win.

Picnic's share had nosedived and there were a couple of reasons—first, the strong performance of Snickers, Picnic's biggest competitor, and second, place share was going to other Cadbury brands, Boost and Boost Totally Nuts. One brand was clearly cannibalising the other.

**Objective**

The situation was this—Picnic was not an 'on the go' eat, it was victim to aggressive pricing promotion, had suffered at the hands of its brother, lost ground, lost part of its ingredients story to Snickers and failed to defend itself. The culmination of all these factors meant that in 2009 the brand was losing share rapidly. Retail value sales on the brand in 2009 were down 12.5 per cent with Snickers up 7.2 per cent in value over the same period.

While soft measures around brand health were considered, the ultimate goal was to drive market share and dollar value of the brand in the category, because, after all, it had been declining steadily for four years. Picnic's compound annual growth rate of the four years was down 9.4 per cent, as opposed to Snickers, which was up 7.3 per cent.

**Strategy**

Faced with internal and external challenges George Patterson Y&R, alongside Cadbury, created a new campaign—'Picnic. It's no Picnic'.

Youth is the common fodder of marketing articles. They have been labelled everything from fickle to cynical, lazy, morally driven, ethically minded, indulgent and technical. The term 'Adultescent' has been bandied around to try to play on the phase of adults acting like teenagers, so we needed to find different room for the Picnic consumer. A process of working through trends reports and vox pops started to shape a different kind of picture.



Eating a Picnic is to create a cyclone of crumbs, bits of wafer, flying peanuts and chocolate droppings. You can't look cool eating a Picnic, but you can have a hell of a lot of fun if chaos is your thing. As well as messy, Picnic happens to be a big eat—something of a consumption challenge in fact. And who likes a silly challenge more than a young man with a naughty boy lurking just below the surface?

We had the beginnings of a strategic idea and we knew that to excite and engage our audience we had to wrap it in a media idea that was as innovative, spontaneous and silly as the challenge we were about to throw down—'Can you eat a whole Picnic within a specified time?'

As the campaign idea developed, playing with conventions and utilising all non-traditional media available seemed to be a prerequisite rather than an indulgence. Can you eat a whole Picnic bar in the space of a commercial? Actually, you can't—but you can certainly have a lot of fun trying.

We presented this challenge to Australians, encouraging them through online to try it. But in the spirit of keeping it real, they were going to create the ads for us.

The 'Picnic. It's no Picnic' campaign would rely completely on engagement and user-generated content.

The campaign was risky for its reliance on the punter, but also for Cadbury as a company. In an environment where responsible consumption is a mandate in pretty much every category, this campaign flew very close to the edge of encouraging irresponsible over-consumption.

### Execution

The 'Picnic. It's no Picnic' YouTube page also housed videos, so that people could share their videos with friends via Facebook to help grow the awareness and reach of the campaign.

### Results

'Picnic. It's no Picnic' saw more than 450 TV ads created on the website by consumers with over 100 individual ads airing during the five weeks of TV activity nationally.

At the end of 2009, Picnic had a 3.1 share of the bars market, with Snickers having a 7.7 share.

Enter 'Picnic. It's No Picnic' and its performance for February 2010 saw Picnic with a 5.1 share and Snickers a 6.2 share. In February Picnic grew retail value sales by 94.6 per cent, while Snickers' contracted 20 per cent.

In a category where one share point gain equates to \$5 million-plus over one year, Picnic is on track for an amazing turnaround in 2010. Importantly, Snickers media spend in 2009 alone was \$1.8 million compared to a zero spend for Picnic.

This campaign has shown the most promising results for Picnic in the past 10 years. Provoking mass conversation in the social media space is going a long way to once more cementing Picnic in the category.

*Source: Mr Briefcase, Marketing Magazine, 6 September 2009*

- 1 Why do you think the manufacturers of Picnic felt it needed to change its marketing strategy?
- 2 What specific competition did Cadbury face, both internally and externally?
- 3 What were the key aims or objectives of the new campaign?
- 4 What key features of the product did the advertising agency try to address?
- 5 Outline the steps/strategy undertaken by the agency to improve the brand.
- 6 Discuss the specific measurements used to gauge the success of the campaign.



## Task: Remembering and understanding

- 1 Explain why marketing is more than just advertising and promotion.
- 2 Explain the importance of identifying a target market for a product or service.
- 3 Outline how economic conditions can affect the purchasing decisions of consumers.
- 4 Explain the difference between qualitative and quantitative methods of market research.
- 5 Clearly describe the four elements of the marketing mix—product, price, place and promotion.
- 6 Describe two promotion strategies that a small business could use to promote a product or service.

## Task: Applying and analysing

Refer to Figure 7.2.3. Each photograph represents a possible target market.

- 1 Choose four of the target markets and provide a description of each in terms of the demographic, geographic and behavioural dimensions.
- 2 Suggest two products that would be attractive to each of the target markets.

You may like to use a table similar to the one below, where an example has been provided.

| Target market                 | Dimensions                                                                                                                                                                                                                                                   |                                                                                                                                          |                                                                                                                                                                                                                | Products                                                                                                                                                                                                                              |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                               | Demographic                                                                                                                                                                                                                                                  | Geographic                                                                                                                               | Behavioural                                                                                                                                                                                                    |                                                                                                                                                                                                                                       |
| Tina—successful businesswoman | <ul style="list-style-type: none"> <li>■ Age: 30+</li> <li>■ Gender: female</li> <li>■ Lifestyle: busy, probably very social, little time for recreation</li> <li>■ Education: tertiary qualification or further training</li> <li>■ Income: high</li> </ul> | <ul style="list-style-type: none"> <li>■ City or inner suburbs</li> <li>■ Large rural centre</li> <li>■ Any city, any country</li> </ul> | <ul style="list-style-type: none"> <li>■ Women tend to have brand loyalty</li> <li>■ A smart businesswoman would research purchase</li> <li>■ Would seek either usefulness or prestige from product</li> </ul> | <ul style="list-style-type: none"> <li>■ Office products</li> <li>■ Gym membership</li> <li>■ Luxury holidays</li> <li>■ Luggage</li> <li>■ Electronics</li> <li>■ Perfume</li> <li>■ Jewellery</li> <li>■ Designer labels</li> </ul> |

**Figure 7.2.6** Identifying market dimensions for a target market

## Task: Evaluating and creating

### 1 Advertising in the media

- a Working in groups, make a list of ten media through which advertising takes place, such as TV or radio.
- b Discuss the advantages and disadvantages of each of your ten options, recording your findings in a table.
- c As a group, decide the most appropriate media for each of the following products. Be as specific as possible; for example, identify the best time slot, name of magazine etc.
  - Take-away food
  - Curtains
  - Ice cream or other dessert
  - A children's movie
  - Power tools
  - Household cleaning products

Share your results with other groups in the class.

### 2 Selling without advertising

The Internet and sites such as eBay have become popular venues for selling.

- a Explain why buying and selling on the Internet is so successful.
- b Describe how individual sellers can use the Internet to promote their products.

## Task: Assessment

- 1 Choose one advertisement from a magazine or newspaper.
- 2 Identify and describe your target market. Provide as many demographic, geographic and behavioural factors that you think apply to your target market.
- 3 Refer to the factors that influence the consumers (motivational, sociological, economic, the purchasing situation). Write a brief description for each.
- 4 Describe the strategies that have been used to attract/influence the spending of your assigned target market.
  - a Location of advertisements
  - b Appearance
  - c Image portrayed

## 7.3

# Record-keeping for a small business

## source documents

documents that provide evidence of financial transactions. They are the raw data for the accounting process; examples include sales invoices, cash register receipts, cheque stubs

*Nothing is certain in life, but death and taxes.*

Benjamin Franklin

**Figure 7.3.1** Receipts need to be kept for record keeping.



Careful, accurate record-keeping and business success go hand in hand. A small business owner needs to ensure that business records are maintained so that accurate financial reports can be produced. These reports tell the owner how the business is performing and can provide valuable evidence for those wanting to obtain finance for expansion, attract new partners or even sell the business. As well, business owners are required to keep records for taxation purposes.

A simple recording and reporting system will be easy to maintain and, after some initial training, most work can usually be done by the owner. To ensure that the system works effectively, the owner should ensure that all **source documents** are retained, transactions are recorded regularly and any reports that are prepared meet legal and taxation requirements.

The following diagram outlines the simple recording and reporting system for a typical small business.

**Figure 7.3.2** A simplified recording and reporting system



| Barnacle Bob's Boat Hire<br>Cash book—December 2012 |           |             |         |                   |          |        |
|-----------------------------------------------------|-----------|-------------|---------|-------------------|----------|--------|
| Date                                                | Receipts  |             |         | Payments          |          |        |
|                                                     | Details   | Receipt No. | Bank    | Details           | Chq. No. | Bank   |
|                                                     |           |             | \$      |                   |          | \$     |
| 8 Dec                                               | Hire fees | 101         | 1200.00 |                   |          |        |
| 10 Dec                                              |           |             |         | Paint for repairs | 1025     | 450.00 |

**Figure 7.3.3** A simple cash book

## Recording

Accurate recording of business transactions is very important. Recording the details of each transaction and maintaining ongoing accounts will allow the owner to be aware of any issues that may arise. Ongoing recording will ensure that the business is alerted to any issues relating to **cash flow**.

Transactions can be recorded using a simple manual system or a computerised accounting system such as MYOB or QuickBooks. Computerised accounting packages have many advantages; they are reasonably easy to use and will allow the owner to easily maintain ongoing records and reports. However, they can be expensive to purchase and some computer expertise is required. Many small businesses use **cash books** or journals to manually record their transactions and these business tools can be purchased at most newsagents and stationery suppliers.

Each time a business buys or sells goods, a transaction occurs. Each transaction should produce a source document as evidence the transaction took place. The source document should contain the date of the transaction, the item being bought or sold and, of course, the amount being paid. These transactions can be cash or credit transactions. A cash transaction, as the name suggests, occurs when there is an exchange of goods for cash at the time it takes place. A credit transaction occurs when the goods are exchanged for a 'promise to pay at a later date'. A source document will be required regardless of whether the transaction is for cash or credit.

When a business provides a good for cash, the customer should receive a sales receipt. This could be hand-written or produced by computer or cash register. When a business purchases an item for cash it should receive a receipt from the supplier. Details of cash payments can also be recorded on the cheque butt if this form of payment is used. Any EFTPOS receipts should also be retained.

Credit transactions have their own set of documents, known as invoices. A sales invoice will be generated by the business for every credit sale.

At regular intervals, each day if possible, the data contained on the source documents needs to be recorded into the journals. Figure 7.3.3 above shows an example of a very simple cash book. Of course businesses have many different transactions and over time the owner will develop a more complex structure to suit the requirements of the business. Credit journals also need to be maintained.

### FOR DISCUSSION

Why do you think some small business owners have resisted changing to computerised accounting packages?

## Reporting

At frequent intervals the business owner will need to assess the performance of the business. This process is known as reporting. Typical business reports include profit and loss statements, balance sheets and cash flow statements.

### cash flow

the amount of money coming in to the business, compared to the amount of money being paid by the business. A healthy cash flow will ensure the business can continue to operate.

### cash book

a journal containing records of all cash received and paid by the business; allows a running balance, or total, of the business's cash position to be maintained

### DID YOU KNOW?

There were accountants and bookkeepers in medieval times. An Italian monk, Friar Luca dal Borgo, published a report on book-keeping in 1495, in which he described the double-entry book-keeping system used by Venetian traders. The principles he described are similar to those used by accountants today.



**revenue**

the income generated through the operation of the business; it can be in the form of sales or fees

**expenses**

the costs associated with earning the revenue; they can include items such as rent, raw materials, wages, electricity, stock etc. The purchase of assets such as furniture or equipment is not considered an operating expense.

**assets**

items that have financial value for the business

**debtors**

people or businesses that owe money to the business for goods or services already provided

**creditors**

people or businesses to whom the business owes money for goods or services already provided

**DID YOU KNOW?**

An international body, the International Accounting Standards Board, sets out the standards for all accounting procedures world-wide; a very important job in a world where multinational corporations earn billions of dollars every year.

A profit and loss statement is a financial report that states the amount earned by the business over a period of time (**revenue**) and the amount spent by the business (**expenses**) over the same time. Net profit is calculated by subtracting expenses from revenue.

| Barnacle Bob's Boat Hire<br>Profit and loss statement<br>for month ending 31 December 2012 |          |                 |
|--------------------------------------------------------------------------------------------|----------|-----------------|
| <b>Revenue</b>                                                                             | \$       | \$              |
| Boat hire fees                                                                             |          | 6 500.00        |
| <b>less Expenses</b>                                                                       |          |                 |
| Boathouse rent                                                                             | 1 200.00 |                 |
| Electricity                                                                                | 450.00   |                 |
| Phone                                                                                      | 120.00   |                 |
| Assistant's wages                                                                          | 300.00   |                 |
| Supplies                                                                                   | 1 600.00 |                 |
|                                                                                            |          | <u>3 670.00</u> |
| <b>Net profit</b>                                                                          |          | <u>2 830.00</u> |

**Figure 7.3.4** A simple profit and loss statement for a small business

A balance sheet is a statement of the financial position of the business at a point in time. The balance sheet identifies those items of value owned by the business or that will have future benefit to the business. These items are known as **assets** and include cash at bank, **debtors**, vehicles, and equipment etc. The balance sheet also identifies the people or businesses to which a debt is owed. These can be in the form of **creditors**, bank loans, mortgages etc. These are known as liabilities.

The final item displayed on the balance sheet is known as owner's equity. This item identifies the owner's investment in the business. It is calculated by subtracting the total liabilities from the total assets.

A cash flow statement is a report that states all the incoming and outgoing cash for a specific period of time. It is useful for determining the business's ability to meet future debts and perhaps finance further expansion.

| Barnacle Bob's Boat Hire<br>Cash flow statement<br>for month ending 31 December 2012 |           |                  |
|--------------------------------------------------------------------------------------|-----------|------------------|
| <b>Cash receipts</b>                                                                 | \$        | \$               |
| Fees                                                                                 | 4 500.00  |                  |
| Interest on bank account                                                             | 250.00    |                  |
| Loan from NZA bank                                                                   | 10 000.00 | 14 750.00        |
| <b>less Cash payments</b>                                                            |           |                  |
| Rent                                                                                 | 1 200.00  |                  |
| Electricity                                                                          | 450.00    |                  |
| Phone                                                                                | 120.00    |                  |
| Wages                                                                                | 300.00    |                  |
| Loan repayment                                                                       | 1 500.00  | <u>3 570.00</u>  |
|                                                                                      |           | <u>11 180.00</u> |

**Figure 7.3.6** A simple cash flow statement for a small business

Regardless of the type of report being prepared, there are rules about how and when each report needs to be prepared. These are called Accounting Standards.

| Barnacle Bob's Boat Hire<br>Balance sheet as at 31 December 2012 |                   |                        |                   |
|------------------------------------------------------------------|-------------------|------------------------|-------------------|
| <b>Assets</b>                                                    | \$                | <b>Liabilities</b>     | \$                |
| Cash at bank                                                     | 1 000.00          | Creditor: Sails 'R' Us | 22 000.00         |
| Debtor: P Smith                                                  | 400.00            | Mortgage: NZA Bank     | 85 000.00         |
| Debtor: A Jones                                                  | 550.00            |                        |                   |
| Computer equipment                                               | 450.00            | <b>Owner's equity</b>  |                   |
| Van                                                              | 11 500.00         | Capital: Bob           | 57 200.00         |
| Boats                                                            | 300.00            |                        |                   |
| Supplies                                                         | 150 000.00        |                        |                   |
|                                                                  | <u>164 200.00</u> |                        | <u>164 200.00</u> |

**Figure 7.3.5** A simple balance sheet for a small business

**FOR DISCUSSION**

Can you think of reasons why it is important that everybody uses the same rules to complete their financial recording and reporting?

## Recording and reporting for taxation

By law, the Australian Taxation Office (ATO) requires small business operators to keep certain business records for tax purposes. You are required to keep records for seven years after they are prepared, obtained or the transactions completed (whichever occurs later), and in English.

The registrations required by the ATO depend on your business structure; for instance, whether you operate as sole trader, partnership or private company. Regardless of the type of business you operate, there are three main requirements of the ATO.

### Tax file number

A tax file number (TFN) is a unique number issued to individuals and organisations to enable the ATO to administer the tax system. If you operate your business as a sole trader, you will use your individual TFN for all business and personal dealings with the ATO. A partnership, company or trust must also apply for a separate TFN.

### Australian business number

An Australian business number (ABN) is a unique, 11-digit identifier for all business dealings with the ATO, government departments and other businesses. It is not compulsory to register for an ABN; however, if you are supplying goods or services and do not quote an ABN on your invoice, you may be required to pay

a higher tax rate. If you are required to register for GST you will need to apply for an ABN as well.

## Goods and services tax

The goods and services tax (GST) is a broad-based tax of 10 per cent on most goods, services and other items sold or consumed in Australia. You must register for GST if your business earns more than \$75 000 per year. Some businesses—for example, taxi drivers or those who provide limousine or hire car services—are required to register for GST. A small business owner may choose to register for GST even if they do not earn \$75 000. Registering for GST means that you do not pay GST for any goods and services you have used in your business.

## Business activity statement

The business activity statement (BAS) is a form used by the business to detail the amount of tax that the business owes to the ATO. It allows the business to easily and quickly determine if they are owed a refund or if they are required to pay more tax. Most small businesses lodge a BAS every three months (quarterly). The BAS will include any GST paid or collected and any income tax due on revenue earned by the business.

## Task: Remembering and understanding

- 1 Explain three reasons why a business needs to keep accurate records.
- 2 Provide an explanation for the term 'source document' and give two examples of typical source documents a small business would use.
- 3 Identify two uses for the information contained in accounting reports.
- 4 Provide two reasons why a business may need to be aware of its cash flow situation.
- 5 Explain the difference between a cash transaction and a credit transaction.
- 6 Explain the difference between a TFN and an ABN and describe a situation where a business owner may need to provide both numbers to the ATO.

## Task: Applying and analysing

- 1 Classify each of the following accounting items as an asset, liability, revenue or expense.
 

|                                    |                             |
|------------------------------------|-----------------------------|
| <b>a</b> Cash at bank              | <b>f</b> Furniture          |
| <b>b</b> Wages                     | <b>g</b> Creditor: P Taylor |
| <b>c</b> Loan from Capital Finance | <b>h</b> Fees received      |
| <b>d</b> Vehicle                   | <b>i</b> Debtor: A Proudman |
| <b>e</b> Rent                      |                             |
- 2 For each of the following businesses, make a list of assets they may own and expenses they may incur

| Business                                                   | Assets | Expenses |
|------------------------------------------------------------|--------|----------|
| An independent movie theatre                               |        |          |
| A small art gallery, showing work on behalf of the artists |        |          |
| A bicycle repair shop                                      |        |          |
| A window cleaning service                                  |        |          |

## Task: Evaluating and creating

- 1 Why do you think some small business owners find it difficult to maintain and organise their financial records?
- 2 Explain why it is important for a business owner to maintain accurate, organised records. (Refer to your earlier work on this topic.)
- 3 Briefly outline six steps the author recommends for keeping financial records in order.
- 4 Why would it be a good idea to use a separate credit card or debit card for your business?

## Task: Assessment

Esther Duncan operates Framed, a small art gallery in Surrey Hills. She earns her income by holding exhibitions for artists. The artists pay a base fee to hire the gallery and a small commission on any work they sell during the exhibition. Framed has one employee who works on a casual basis whenever the venue is booked for a show. As part of her service, Esther provides refreshments for the first night of each exhibition. The premises are leased but all other equipment and furniture belongs to the business.

- 1 Design a suitable cash book for Esther's business. Include columns for those receipts and payments that Esther is likely to have on a regular basis.
- 2 Enter the following transactions into the cash book and total each column.

| Date   | Transaction                       | Amount (\$) |
|--------|-----------------------------------|-------------|
| 1 Aug  | Received fees for hire of gallery | 1 650       |
| 3 Aug  | Paid rent                         | 1 300       |
| 5 Aug  | Received artists' commissions     | 1 000       |
| 7 Aug  | Paid wages                        | 250         |
| 9 Aug  | Purchased refreshments            | 1 040       |
| 11 Aug | Received fees                     | 1 650       |
| 14 Aug | Paid electricity bill             | 520         |
| 16 Aug | Received artists' commissions     | 500         |
| 18 Aug | Paid telephone and Internet       | 280         |
| 21 Aug | Paid wages                        | 250         |

- 3 Esther provided the following totals for the month of August:
  - Revenue: Fees \$3000, Commissions \$4500
  - Expenses: Rent \$1300, Wages \$500, Refreshments \$2100, Electricity \$520, Telephone and Internet \$280

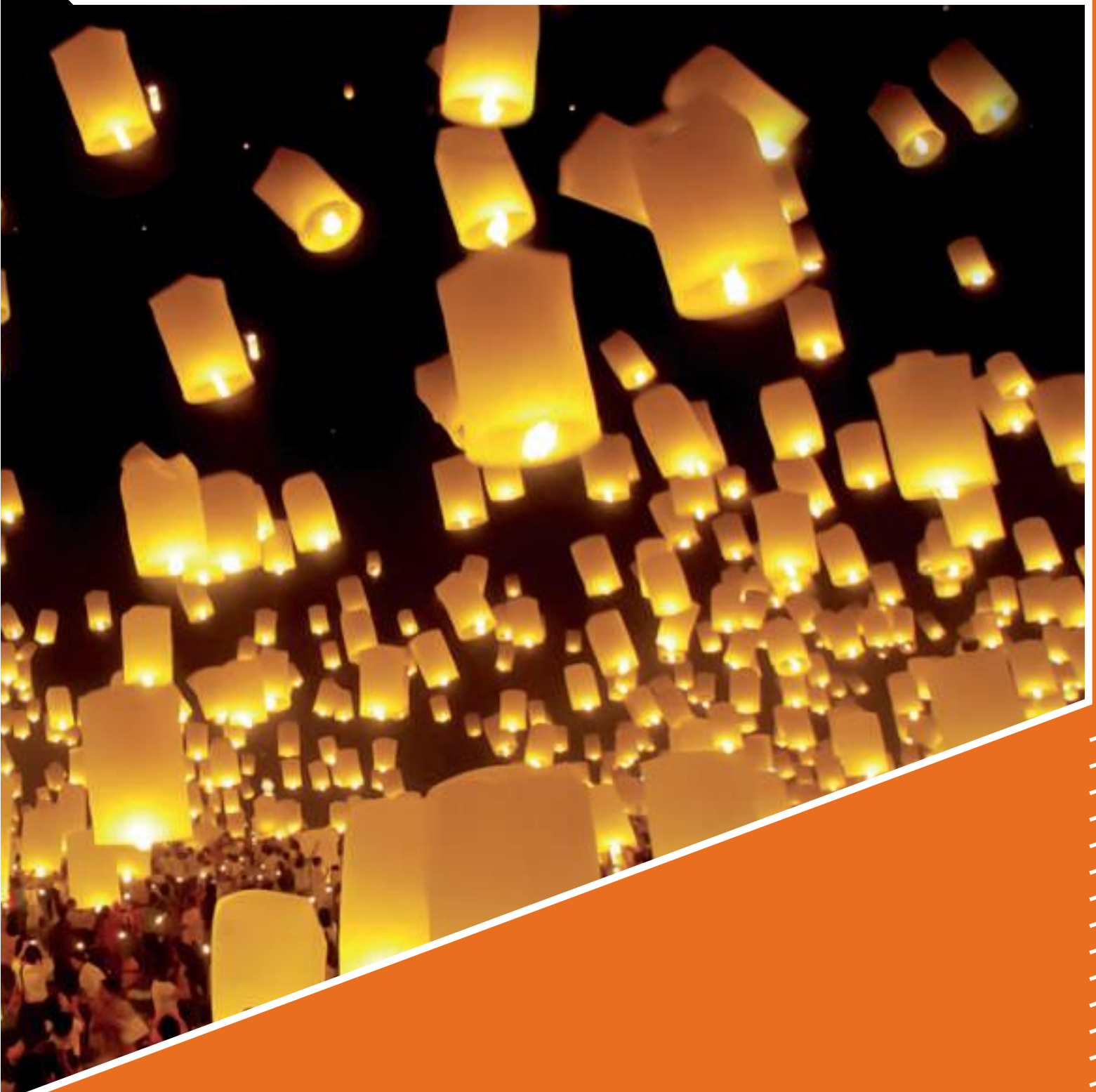
Use these totals to prepare a simple profit and loss statement for the month ended 31 August 2011.
- 4 Esther has the following assets and liabilities:
  - Assets: Bank \$1100, Debtor: V. Govan \$1200, Furniture \$300, Display equipment \$6500, Vehicle \$6000
  - Liabilities: Creditor: Party Pastries \$1300, Creditor: Dave's Liquor \$1500, Loan: BVD Bank \$2100

Calculate the owner's equity, and prepare a simple balance sheet for the business for August.





# CIVICS AND CITIZENSHIP



## CHAPTER EIGHT

# Political systems:

## GOVERNMENTS, ELECTIONS and VOTING

### Introduction

When we think about the term '**politics**' we often think about politicians, the Queen, presidents and prime ministers. However, politics encompasses more than just these people. Politics covers the different systems of government, the people who run them, the ideas these politicians rule by and the systems by which they are elected.



**Figure 8.1.0** A meeting of the Council of Australian Governments (COAG)



# 8.1

## What is a government?

*No man is good enough to govern another man without that other's consent.*

Abraham Lincoln

**Figure 8.1.1** The House of Representatives in 2010



What would the world look like if there were no governments; if there were no rules, no laws, and no control on what people could and could not do or simply where they could and could not go? How would this world function and operate? What would it mean for people and their daily lives? A legitimate political system and a good government provide a framework for a right and proper functioning society.

A government is a group of people, known as a political party or political unit, who exercise their power in order to control and administer public policy to ensure that society is safe, secure and harmonious. Governments can exist in many different areas within society but, in Australia, the term 'government' typically refers to an institution that looks after people either on a local, state or national scale.

A good government proceeds from a legitimate political system. A legitimate political system ensures that a government is elected fairly and that citizens can trust in the process. Elections need to be free, frequent and fair.

### politics

the knowledge and practice of government

### government

the governing body of persons in a state, community etc.



**ideology**

ideas at the basis of a political theory

**means of production**

machines, tools and factories that produce goods

**state**

political community under one government

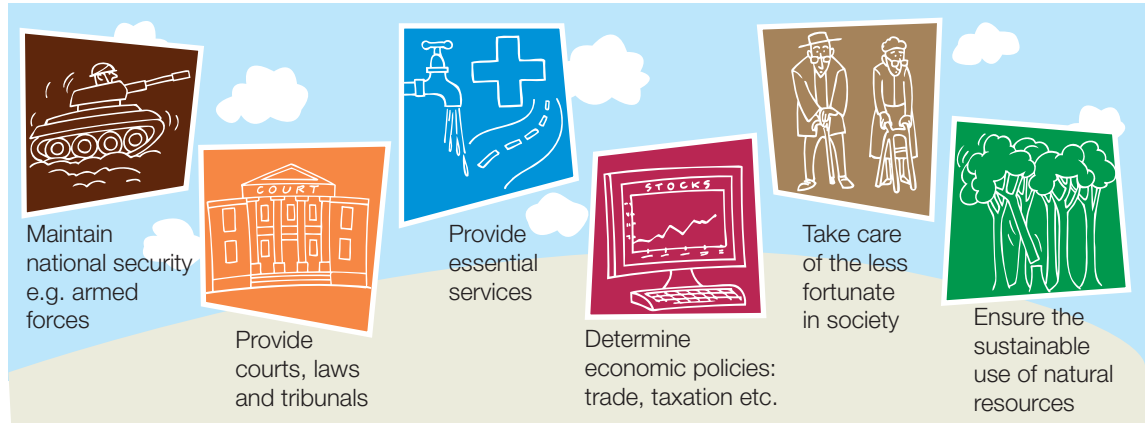


Figure 8.1.2 Government responsibilities

## What do governments do?

The responsibilities and actions of governments have evolved over time. There are many things governments do to ensure stability and social cohesion. Figure 8.1.2 provides examples of what governments work towards in Australia.

## The political spectrum

There are many different types of political beliefs all over the world; the different belief systems fit somewhere along what is called the political spectrum. Each political **ideology** along the spectrum has its own key characteristics that make it different from the next; there are, however, some similarities between those next to each other along the line. Governments follow one or more of these beliefs and base the governance of their country upon them.

- Anarchists hold the belief that government in any form is unnecessary and harmful to society, and reject any form of government or control. Anarchists believe in a stateless society, known as 'anarchy', in which people decide for themselves how to live in society.



Figure 8.1.3 A demonstrator spray painting an anarchist symbol on a police vehicle during demonstrations against budget cuts, London, 2011

- Communists believe in equality among all people, and consider that there should be no private ownership of property or wealth. In a communist state, all decisions about the provision of goods and services are made by the government and wealth is distributed based on need rather than merit. Communism in its purest form may be hard to realise; getting most people to agree on how society will work and how its resources should be shared can be hard to achieve.
- Socialism is a system in which many of the principles are similar to those of communism; specifically, the public or collective ownership of property and

**DID YOU KNOW?**

John Locke and Thomas Hobbes were two philosophers who influenced 'liberalism'. Hobbes wrote about the rights of the individual and the equality of all men, while Locke is known as the father of liberalism, whose writings influenced later thinkers.

**DID YOU KNOW?**

Karl Marx wrote *Das Kapital*, a critique of capitalism and the exploitation of workers by the owners of capital. The first volume was published in 1867. In it, Marx predicted that the people would overthrow the 'factory owners'. His writings had great influence on 'socialism' and 'capitalism'.

the **means of production**. However, collective ownership does not necessarily mean collective decision making. In a socialist **state**, decisions are often made by one individual legislator in authority on behalf of the collective. This is a system that lends itself to favouring those with political influence over the decision makers. Socialism is an economic as well as a political system, and the principles of socialism can and sometimes do exist to a degree within a capitalist society; for example, in the public ownership or control of certain types of markets and industries. The provision of utilities, large transport infrastructure, hospitals and schools are examples of these.

- Liberalism is a system of belief in individual liberty or freedom and equal rights. Definitions of liberalism can vary but, in general, the term includes the belief in frequent, free and fair elections, the rule of law, a free market economy (capitalism), freedom of thought, the separation of church and state and ensuring the protection of human rights.
- Capitalism is an economic system that is based on the private ownership of the means of production. All aspects of wealth are decided by market forces (production, supply and demand; see Chapter 3) rather than the government. Income is distributed through profits, rents and wages, and the role of government in the economy is minimal.
- Conservatism is an ideology that supports society remaining the same as much as possible, with change only occurring in moderation. This ideology supports the upholding of tradition and generally celebrates the ways of the past. Any new ideas or inventions are allowed as long as they are connected to a well known, established, traditional institution.
- Monarchy is a form of government in which an individual—king or queen, emperor or empress—holds either absolute or limited power. The monarch

usually inherits the office and may rule for life. An absolute monarch controls all aspects of state rule, while a limited or constitutional monarch shares power with a parliament or other ruling body.

- Fascism is an authoritarian system that rejects democracy and promotes military values, national pride, a powerful, strong government and extreme loyalty to the leader; people come second to the state. An example of a fascist state is Nazi Germany; in 1933, Adolf Hitler became **dictator** of Germany.

#### dictator

person in control of a government or country, who exercises power without a political mandate from the people

## Democracy

Democracy originates from two Greek words meaning ‘power’ and ‘people’. It means that (government) power originates from the people. Democracy is often described as ‘government of the people, by the people, for the people’.

### Democracy in Australia

Democracy is the system of government in Australia. There are two forms of democracy; the first is a democracy in which the people of the state have a direct say in the laws that are passed and the decisions that are made; this is known as participatory democracy or direct democracy. The second is a government by popular representation, where the people of the state elect members of society who represent them and their wishes; this is the system practised in Australia.

Australia, in common with the United States and the United Kingdom, is known as a liberal democracy. A liberal democracy is similar to a democracy in that the power to govern comes from the people through elections and the people have a representative government. In a liberal democracy, however, there are constraints placed on the elected government so that the liberty of the people is preserved. These include a free and independent media, free, frequent and fair elections and an independent judiciary.

#### DID YOU KNOW?

In the United States, ‘liberalism’—unlike in Australia and Europe—has generally been associated with socialism.

#### DID YOU KNOW?

Ancient Greece, most notably Athens, had a form of direct democracy. All Athenian citizens (who were all male) were able to participate in the decision-making process.

### Task: Remembering and understanding

- 1 Provide a definition of 'government'.
- 2 Provide a definition of 'political ideology'.

### Task: Applying and analysing

- 1 For each of the political ideologies or systems you have read about, find two or more advantages and two or more disadvantages of using that system of government.
- 2 Imagine you were the new head of government in Australia and you have the opportunity to change our political system. Which of the above ideologies would you adopt and why? Which one would you not wish to adopt and why?

### Task: Evaluating and creating

- 1 Read 'Year Zero' below and then complete the question that follows.

#### Year Zero

After five years of bloody civil war, the Khmer Rouge marched into Phnom Penh, the capital of Cambodia, on 17 April 1975. There was no resistance from the forces of the toppled republican government and the whole city, its population swollen by refugees from the fighting, was relieved that peace had come at last.



Figure 8.1.4 Cambodia's holocaust

That relief was short-lived. On the pretext that they were expecting the USA to bomb Phnom Penh, the Khmer Rouge forced the whole population to evacuate the city on foot. Those who refused were shot, as were hospital patients who were unable to walk. The roads out of the city were clogged with bewildered people, clutching a few belongings. Children were separated from their parents; the old and infirm who could not keep up were left to die at the roadside.

The same thing happened in all the cities and towns, and the whole country was effectively turned into a vast forced labour camp. Pol Pot, leader of the Khmer Rouge, was achieving his dream of Year Zero, the return of Cambodia to a peasant economy in which there would be no class divisions, no money, no books, no schools, no hospitals. 'Reactionary religion' was banned in the constitution of January 1976.

Those who had had any connection with the previous regime were eliminated. People who were deemed to have been the lazy elite, in other words the educated and the skilled, were also disposed of. Every vestige of the former corrupt way of life had to be destroyed. Many people tried to conceal their identity or former occupation, but were eventually found out or betrayed. Whole families would be executed.

*Source: Grant Evans and Kelvin Rowley, Red Brotherhood at War, 1984; cited in Cambodian Communities out of Crisis*

What type of government do you think was established by the Khmer Rouge in Cambodia? Why do you think this? Provide examples.

## **Task: Assessment**

### **Option 1 Democracy in Australia**

Investigate and evaluate Australia's democracy in action by examining an issue currently in the news.

This issue can be local, national or global; for example, clearway signs on local roads, introducing a carbon tax, signing an international treaty etc.

Include in your report the following:

- background information about the issue
- the different opinions about the issue and the different groups that support those points of view
- a description of the outcome that each group wants and how they attempt to promote their interests, including how they attempt to influence government policy
- an evaluation of the response of government as well as the democratic process in Australia.

### **Option 2 Political systems: the Middle East**

Select one (or more) of the following countries and research how and why the political system has changed since January 2011.

- Tunisia
- Egypt
- Libya

Include in your response:

- the recent political history
- background on the culture and people
- influential people (past and present)
- what happened before, during or after the political unrest
- what is likely to happen in the future; you will need to support your predictions.

Present your findings as a research essay, poster or oral presentation.



# 8.2

## Levels of government

*The first local government in Australia was formed in Adelaide in 1840.*

Australian Local Government Association

The Australian political system has evolved to have three levels of government: local, state and federal, each having its own area of responsibility.

Although each level of government has its area of responsibility, these areas can overlap or one level of government will seek to exercise its power over another level. For example, in Victoria, some local councils have been critical of the state government's decision to introduce legislation to override their local planning decisions. Meanwhile, some state governments have been critical of the federal government's introduction of a national Australian Curriculum.

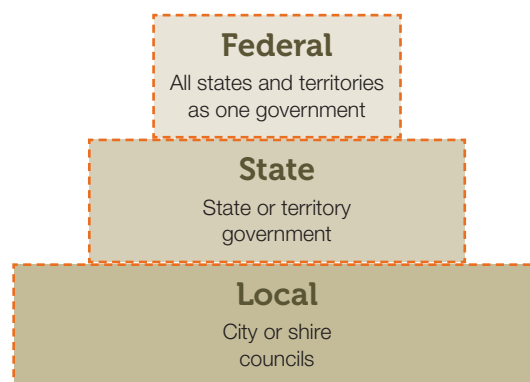


Figure 8.2.2 Levels of government



**CITY OF  
MELBOURNE**

**Figure 8.2.1** The City of Melbourne is responsible for the central business district, including North Melbourne, South Yarra, Port Melbourne, Parkville, Flemington, Kensington and Carlton.

### Local government

The first level of government is local government. Local governments are usually known as councils and their job is

to represent the people who live directly within their city or shire. Some examples of cities and shires are the City of Casey, City of Darebin and the Mornington Peninsula Shire. Because of its small size, the ACT is the only state within Australia that does not have any local councils.

Members of a local government are usually called councillors and the elected leader is the Mayor. These councils make decisions known as **by-laws** relating to matters of local interest.

Issues that local councils deal with include local roads, garbage collection, building regulations, land subdivision, sporting and recreation facilities, library services, street signage and domestic animal regulations. Councils obtain their funding through state government provisions, council rates (which are fees payable by owners of local land and buildings) and local fines, such as parking fines.

## State government

The second level of government is state government. Australia has six

state governments and two territory governments. Each of these meet in their state or territory capital city. State governments are represented by a parliament, which consists of two houses. The lower house is called either the Legislative Assembly or House of Assembly and the upper house is called the Legislative Council. Representatives in each house are known as members. Queensland, the Northern Territory and the ACT are exceptions, each only having a lower house. The leader of a state government is called the Premier; the leader of a territory government is called the Chief Minister.

State governments make and enforce laws that are specific to their state; in general, whatever the federal government isn't responsible for, the states are. State government responsibilities include justice, consumer affairs, health, primary and secondary education, forestry, public transportation, emergency services and major roads. State governments receive funding from the federal government, state taxes and fines such as speeding and other traffic offences.

Figure 8.2.3 State government responsibilities

### by-law

regulation made by councils, shires or other types of local government

### DID YOU KNOW?

According to the Local Government Association, there are currently 717 local governing bodies in Australia.

### DID YOU KNOW?

In 1994, then Victorian Premier Jeff Kennett, dissolved 210 local councils and sacked 1600 elected councillors.

### DID YOU KNOW?

The Australian Constitution lays out which areas state and federal governments can make laws about. One way to change the Constitution is by a vote called a referendum.



### goods and services tax (GST)

a tax paid on most goods and services purchased, with some exceptions such as fresh food

## Federal government

The third level of government is the federal government. As with state governments, the federal government is represented by a parliament made up of two houses; the lower house being the House of Representatives, which consists of elected members, and the upper house being the Senate, which consists of elected senators. The leader of the federal government is known as the Prime Minister and is also the leader of the country.

**Figure 8.2.4** Australian soldiers in Afghanistan; only the federal government can send Australian troops overseas.

The federal government is responsible for many areas, including: foreign affairs, social security, industrial relations, trade, immigration, currency, defence, health and education (universities/colleges/aid to schools). The federal government receives funding from taxes; these taxes include income tax, the **GST**, import tax, company profit tax and charges on government services.

### FOR DISCUSSION

Should there be different levels of government in Australia, or should the federal government look after all elements of our society?

### DID YOU KNOW?

Neither the words 'Prime Minister' nor 'Cabinet' (a group made up of the Prime Minister and senior Ministers) are mentioned in the Australian Constitution.



### Task: Remembering and understanding

- 1 What are the three levels of government in Australia?
- 2 What is the name given to a local government area?

### Task: Applying and analysing

- 1 For each of the following scenarios, decide which level of government would be responsible.
  - a Animal registration and the policing of animals on our streets
  - b Funding for local government schools
  - c Providing new train links to suburbs
  - d Taxing of foods in the local supermarket
  - e Deciding to send peacekeepers to another country
  - f Devising new laws on houses to be built in your neighbourhood
  - g Increasing the number of police on the streets

### Task: Evaluating and creating

- 1 Find out the name of your local council, city or shire.
- 2 Who is the current mayor?
- 3 What are some of the current projects your local council is undertaking? Complete the following table in your workbook; the first is an example for you.

| Local government | Current project                  |
|------------------|----------------------------------|
| Roads            | Building speed humps in Smith St |
|                  |                                  |
|                  |                                  |
|                  |                                  |

- 4 What is the name of the current premier of the state?
- 5 What are some of the current issues the state government is working on?

**Complete** the following table in your workbook; the first is an example for you.

| State government | Current project                       |
|------------------|---------------------------------------|
| Public transport | Introducing the Myki ticketing system |
|                  |                                       |
|                  |                                       |
|                  |                                       |



## 8.3

# Australian federal parliament

## DID YOU KNOW?

Melbourne was the first capital city of Australia and the first federal parliament met at the Royal Exhibition Building in the Carlton Gardens. Victoria's Parliament House hosted the federal parliament until 1926.

*If you want to be a government in a minority parliament, you have to work with other people*

Stephen Harper

Before 1901, Australia consisted of six separate British colonies, which were self-governed. In 1901, when Australia became a federation, the Australian Constitution established the federal government and six states we know today. The Constitution also set out the powers to be held by the federal government, state governments and the Crown (through the person of the Governor-General).

The federal parliament is at the centre of the federal government and consists of the Queen (through her representative, the Governor-General) and the two houses: the House of Representatives and the Senate.

Figure 8.3.1 Parliament House, Canberra



## The Parliament of Australia

Parliament has four important functions:

- to provide for the formation of a government
- to legislate
- to provide a forum for popular representation
- to scrutinise the actions of government.

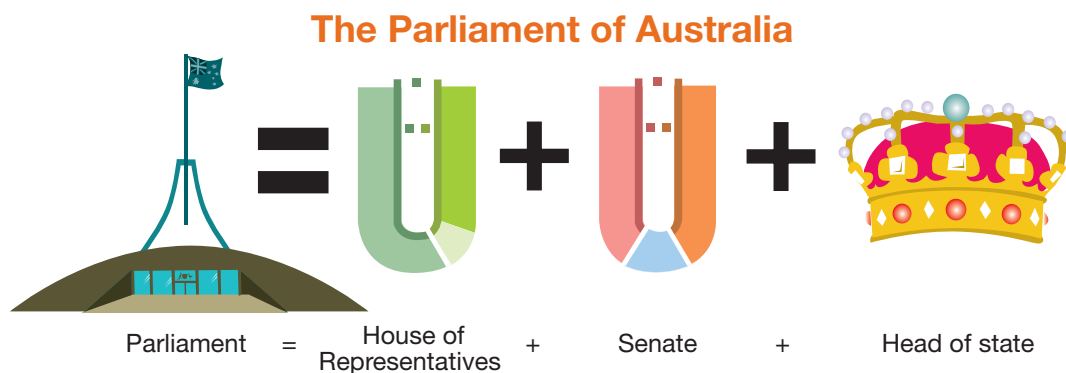


**Figure 8.3.2** Australia's federal parliament

## Formation of government

The government is formed by the political party that wins an election and has the majority of members in the House of Representatives. This party and/or its leader—the Prime Minister—selects fellow parliamentarians to be ministers. Ministers run departments within the government, such as the Department of Agriculture, Fisheries and Forestry or the Department of Foreign Affairs. Ministers are also found in the Senate.

## Legislation

Legislation is the most important function of the Parliament, which makes new laws and improves or changes old ones. The majority of laws are written by government departments and introduced into Parliament by their ministers. About 50 per cent of the work done by the House of Representatives is the debating of legislation.

## Popular representation

All members of Parliament are elected by the people of Australia. Each member of the 150-strong House of Representatives is voted in by the public within their **electorate**. The members of the Senate—senators—represent their state as a whole; there are 12 senators per state and two per territory.

## Scrutiny

Parliament is able to check on the actions of the government, especially the spending of government money; the opposition party plays a major role in the scrutiny of the activities of parliament. This scrutiny is done in a number of ways including: setting up committees to examine government Bills; investigating the money spent in the budget twice a year and through asking questions during daily Question Time in both houses of parliament.

## The Queen and the Governor-General

Australia's head of state is Her Majesty Queen Elizabeth II; she is formally recognised as its constitutional Head of State. As the Queen cannot be present at all government and parliamentary sessions, she appoints a Governor-General to act on her behalf. The Governor-General of Australia is currently Her Excellency Ms Quentin Bryce **AC**. Her role is to represent the Queen; her duties include the signing of Bills passed into law by the federal parliament, appointing of judges and government ministers, dissolving and opening the Parliament and acting as Commander-in-Chief of the armed forces.

### electorate

the specific district/ geographical area whose residents are represented by a member of Parliament

### Companion Order of Australia (AC)

a title created by Queen Elizabeth II in 1975; awarded to Australian citizens for their contribution to Australian society. Prior to the establishment of the AC, Australians received British awards.

### DID YOU KNOW?

Canberra was chosen as Australia's capital city in 1908 because Sydney and Melbourne could not decide on which city should be the capital.

### DID YOU KNOW?

Her Excellency Ms Quentin Bryce AC is the 25th Governor-General of Australia and first female to hold the position, which she took up in 2008.

**coalition**

formation of a political entity by the joining of two or more different political parties; for example in Australia, the Liberal and National parties have formed a coalition

**minority government**

a government formed when the governing party has not gained enough seats to govern in its own right, and relies on the support of other elected members to achieve its goals

## House of Representatives

As previously mentioned, the House of Representatives is one of two houses in federal parliament; it is sometimes known as 'the people's house'. Australia is divided into 150 electorates, each containing between 85 000 and 100 000 voters, and each electorate directly elects a member to sit in the house and represent their needs and wants. The House of Representatives is where the federal government is formed by the party—or parties, in the case of a **coalition**—that has a majority of members elected. That party's leader becomes the Prime Minister; it is worth noting, however, that it is the members of the political party that choose the leader and not the public.

After the 2010 Federal election, the government was formed by the Australian Labor Party, with the new Prime Minister

being their party leader, the Honourable Julia Gillard. However the Labor Party did not win enough seats to gain power in its own right. A party needs to gain 76 seats in order to form a government and, as noted in Figure 8.3.4, the Labor Party had only 72; it therefore had to join forces with the Greens candidate and three of the Independent candidates to make up the required number. This system of government is known as a **minority government**.

### FOR DISCUSSION

- 1 Do you feel that each federal electorate should consist of exactly the same number of people in order to show a true representation of the people?
- 2 Should we have minority governments or should the country or state have another election when this situation arises?

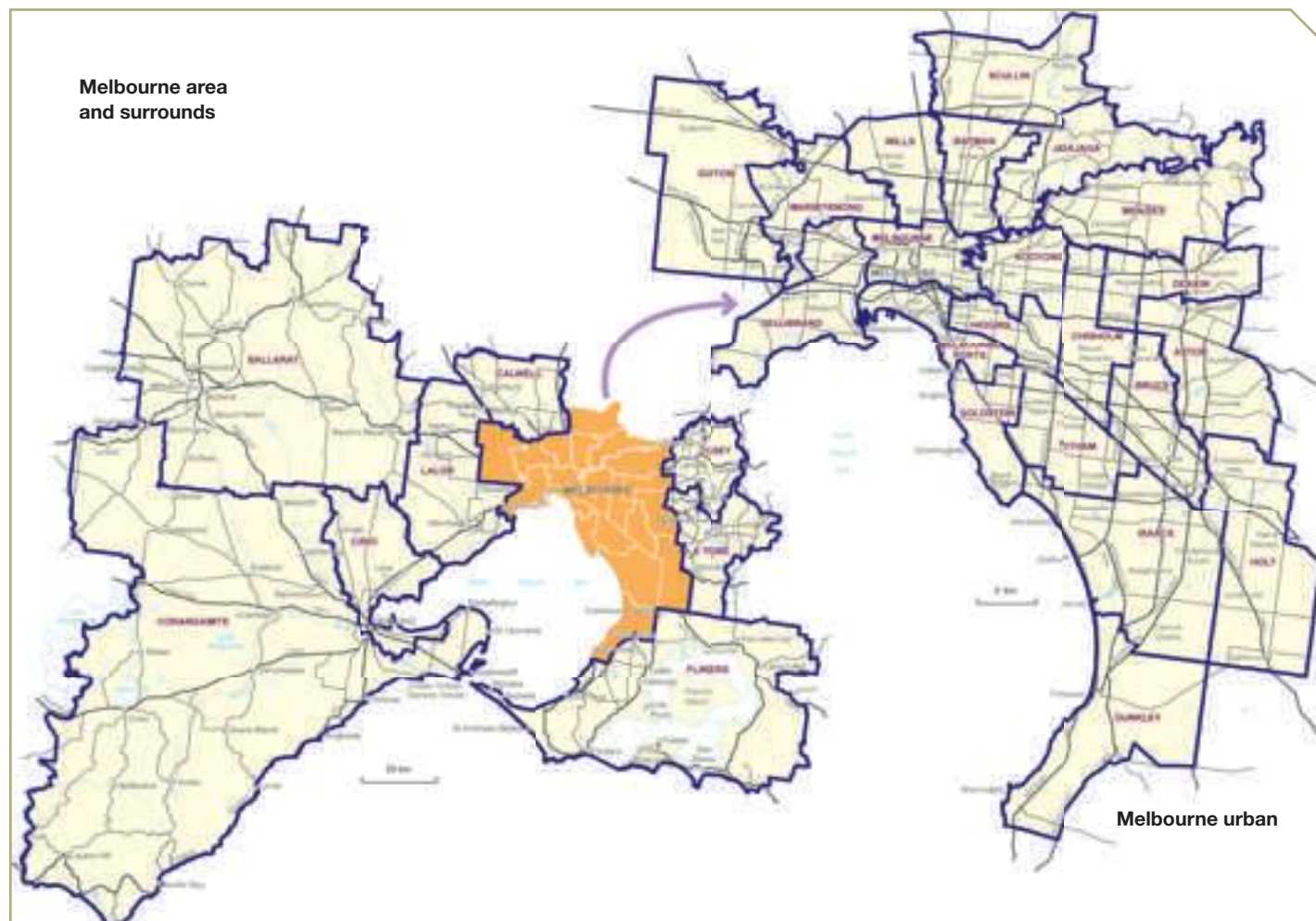


Figure 8.3.3 Federal electorates in Victoria



The House of Representatives within Parliament House at Canberra can be identified by its green colour. This colour was used by the British House of Commons and is used by the lower houses of both the federal and state governments. The current House of Representatives consists of 150 members. The public are welcome to visit the **chamber** and view parliament whenever it meets.

Nearly all members of the House of Representatives belong to a political party; those who do not have been elected as '**independents**'. Members are elected for a period of three years, but can serve for as long as they continue to be re-elected by their electorate. The composition of the House of Representatives after the 2010 federal election can be seen in Figure 8.3.4 opposite.

| Party                                                           | Number of seats |
|-----------------------------------------------------------------|-----------------|
| Australian Labor Party                                          | 72              |
| Liberal Coalition<br>(Liberals, Nationals,<br>Country Liberals) | 73              |
| The Greens                                                      | 1               |
| Independents                                                    | 4               |

**Figure 8.3.4** Composition of the House of Representatives after the 2010 election

## Jobs in the House of Representatives

The Speaker runs the House of Representatives in the same way that a chairperson runs a meeting. The Speaker's role is to ensure that the rules of the House are adhered to, and also to act as the spokesperson for the House in its dealings with the Senate, the Governor-General and other parliaments.

The Sergeant-at-Arms is responsible for keeping order within the chamber and also within the Parliament House building.

Ceremonial duties include escorting the Speaker into the House at the beginning

of each day's sitting, and carrying in the **mace**, a rod that symbolises the authority of the parliament and the Speaker.

## Who sits where?

Within the distinct U-shape of the House of Representatives, each member has a specific place to sit, as shown in Figure 8.3.5.

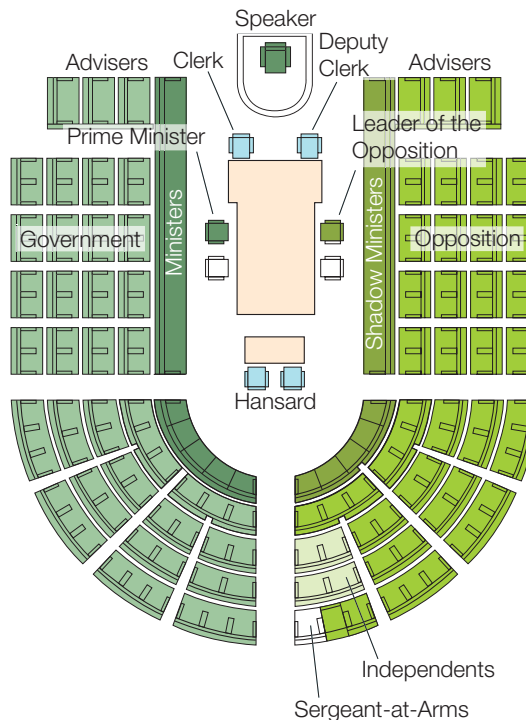


**Figure 8.3.5** House of Representatives seating plan

## Senate

The Senate is the second of the two houses of the Australian federal parliament. It is sometimes referred to as the 'states' house' as each state has an equal voice within the chamber. Each state is represented by 12 senators, regardless of its size or population. Each territory is represented by two senators; thus there are 76 senators elected altogether.

As with the House of Representatives, the Senate has its own unique features within Parliament House. It is identifiable by its red colour, which is the traditional colour of royalty as used in the British House of Lords. The Constitution sets out

### chamber

a house of parliament

### independent

a member of parliament who does not belong to a political party

### mace

a symbol of the authority of the House of Representatives and the Speaker; the mace is a rod made of silver gilt, topped with an orb and a cross, and weighs nearly 8 kilograms. Unless the mace is in its correct position, it is thought that the House is not properly constituted.

### DID YOU KNOW?

Australia's largest electorate is Kalgoorlie, Western Australia at 2 225 278 square kilometres; the smallest is Wentworth, New South Wales, at 26 square kilometres.

### DID YOU KNOW?

The traditional job of the Sergeant-at-Arms was to collect loans and arrest those suspected of treason.



that the number of seats in the House of Representatives must be double that in the Senate or as near practicable: hence 76 senators.

After the 2010 federal election, all current senators were members of a political party except for one independent senator. State senators are elected for a period of six years; however a system of rotation ensures that half of the state senators face re-election every three years. The four territory senators are elected for a period of three years, at the same time as the members of the House of Representatives and half the Senate. Senators can stand for re-election, and so may serve for longer than the six-year term. Although the 2010 federal election was held on 21 August, the new senate was not formed until 1 July 2011. The composition of the senate at that time can be seen in Figure 8.3.6 overleaf.

| Party                  | Number of seats |
|------------------------|-----------------|
| Australian Labor Party | 31              |
| Liberal Coalition      | 34              |
| Australian Greens      | 9               |
| Independent            | 1               |
| Democratic Labor Party | 1               |
| Total                  | 76              |

DID YOU KNOW?

Australia's parliament is sometimes referred to as the 'Washminster system', as it took ideas from both the United States (Washington DC) and the United Kingdom (Westminster).

Figure 8.3.6 Composition of the Senate from July 2011

Jobs in the Senate

- The President is elected by the senate to run the daily proceedings of the parliament within the Senate.
- The Usher of the Black Rod is responsible for maintaining order within the Senate and performs ceremonial duties on special occasions, such as opening the parliament after an election.
- The Leader of the Government in the Senate is a member of the government and is the most senior member within the Senate.

- The Leader of the Opposition in the Senate is the opposition's main spokesperson within the Senate and leads the opposition within the Senate.

Who sits where?

Like the House of Representatives, the seating in the Senate is arranged in a U-shape. The seating plan of the Senate is shown in Figure 8.3.7.

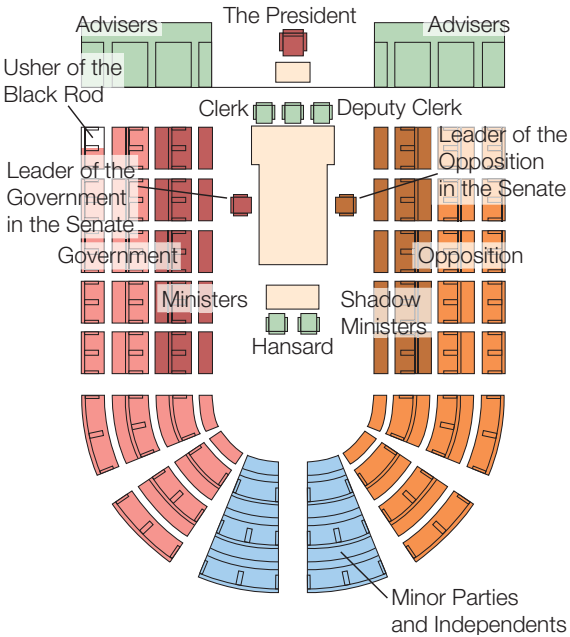


Figure 8.3.7 Seating plan in the Senate

Roles of the House and Senate

The House of Representatives and Senate perform a number of duties on a daily basis. These include proposed laws are that are debated and voted on; discussion of important national issues; votes on matters put before the House or Senate; questions that are asked of the Prime Minister and/or ministers during Question Time; statements about members' or senators' electorates; initiation of inquiries to parliamentary committees; and presentation of reports and documents.

# Passing Bills and making laws

One of the main roles of parliament is to make new laws or amend old ones; in order to do this something called a Bill is introduced into parliament. A Bill is another term for a draft **Act of Parliament**. A Bill has many parts; these include the title, which refers to the content of the Bill and its jurisdiction, such as the *Crimes Act 1914* (Cth); the date on which the Act will come into force; the main part of the Bill, which is divided into clauses, subclauses and paragraphs; a statement about its legal source (in Australia this is the Constitution). Occasionally a list of definitions is provided at the start. A Bill becomes an Act of Parliament after it has been read three times and passed by both the House of Representatives and the Senate, and has been signed by the Governor-General.

## Where Bills come from

Bills are created to solve problems or to prevent future problems within society. Each year, hundreds of new laws are suggested by many different members of the community, including:

- government departments
- community groups, businesses or **lobby groups**
- political parties—before and after elections
- parliamentary committees.

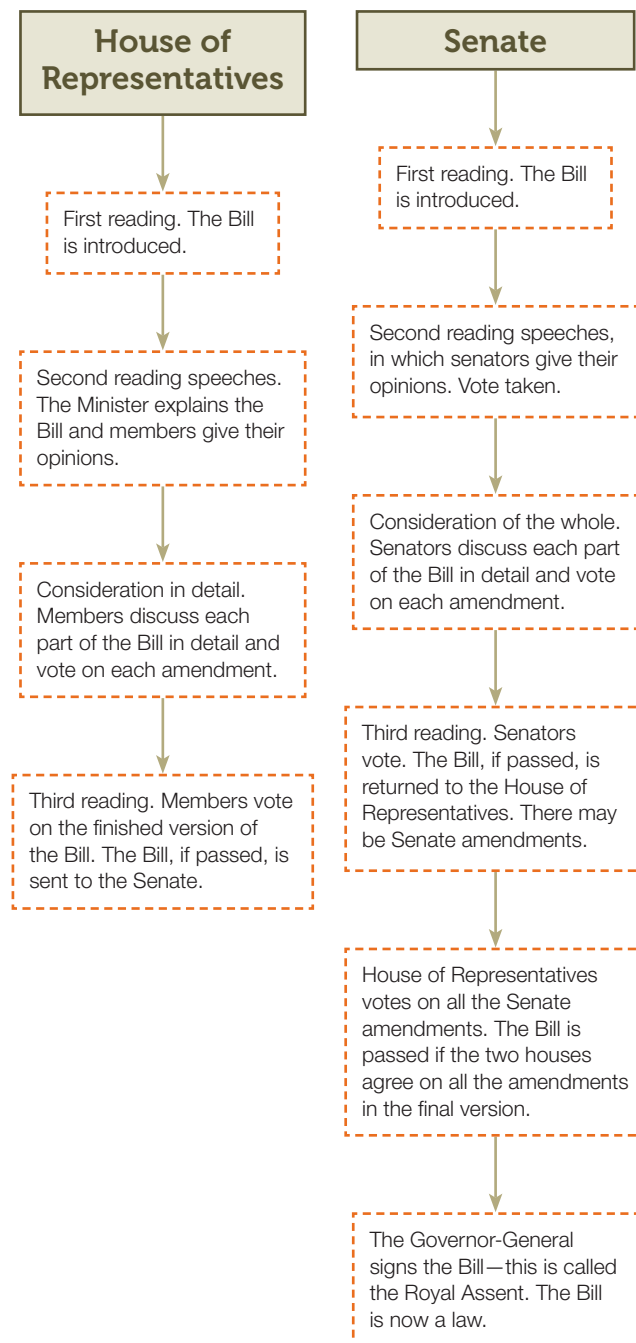
## Preparing a Bill for Parliament

It is a long process for a Bill to find its way to parliament. It starts with ministers of the government deciding to solve a specific problem with a piece of legislation. Bills may also be proposed to meet promises made by governments prior to election. Once agreed upon, the new Bill is drafted and introduced into parliament by the relevant minister.

## Passing a Bill

As well as the steps mentioned in the previous section, a Bill must also go through many more steps before it can become a law. The steps are shown in Figure 8.3.8.

Figure 8.3.8 Passing a Bill



### Act of Parliament

a law made by the parliament

### lobby group

a group of people who actively try to influence legislation in favour of their interests

**Task: Remembering and understanding**

- 1 Who is Australia's constitutional head of state?
- 2 Who represents the Queen in Australia and what are some of their specific duties?
- 3 Why is the House of Representatives often referred to as the 'people's house'?
- 4 Name the three people or groups of people that must be involved in passing a Bill.
- 5 In your own words, describe how parliaments makes laws.
- 6 Explain the difference between a Bill and an Act.
- 7 Why is the Senate often referred to as the 'states' house'?
- 8 Why do we have the specific number of 76 senators in the federal Senate?

**Task: Applying and analysing**

List three issues that the media are currently discussing. Suggest either a new law that needs to be made to address the issue or an amendment to a current law that would address the issue.

**Task: Evaluating and creating**

As a class, choose one of the issues you discussed in the task above, and write up a Bill that would address the issue you have chosen. It can be a new Bill or an amendment to a current law. Then, using the process discussed in the sections on p. 215, role-play the passing of your class Bill. Ensure you assign the roles of House of Representative members, Senators, the Governor-General and members of the Cabinet.

**Task: Assessment****Option 1 Research**

Using the Internet, research the Parliament House of Australia, investigating its location, year of build, design, layout and uses. Present this information as a 'Parliament House mini-guide' for tourists wishing to visit the site.

**Option 2 Debate**

Should Australia's head of state be the Queen? Should Australia become a republic?

# 8.4

## Voting and elections

*We'd all like to vote  
for the best man,  
but he's never a  
candidate.*

Frank McKinney Hubbard

**Figure 8.4.1** All political parties must register with the Australian Electoral Commission.

**Application to Register a Political Party for House of Representatives and Senate Elections**

This application form is a publicly available document.  
Please refer to the handbook on Federal Registration of Political Parties when completing this form.

**Party Details**

Party Name

Party Abbreviation (optional)

Postal Address

Postcode

Telephone number (BH)

Facsimile number

Is the party a branch/division of a federally registered political party? No ☐ Yes ☐ specify the party's name

Does the party wish to receive election funding? No ☐ Yes ☐

**Registered Officer Details**

Name

Address (This address must not be a Post Office box number.)

Postcode

Postal Address (if different from above)

Postcode

Signature

Day Month Year

**Enquiries and this application should be addressed to:**

FUNDING AND DISCLOSURE  
AUSTRALIAN ELECTORAL COMMISSION  
PO BOX 6172  
KINGSTON ACT 2604

Office Use Only  
Date Received:

Telephone: (02) 6271 4552 Fax: (02) 6271 4555 Email: [fed@aec.gov.au](mailto:fed@aec.gov.au)  
Australian Electoral Commission **AEC**

Australia is governed as a parliamentary democracy; this means citizens have the right to elect who represents them. In order to do this, there are elections at local, state and federal levels.

At the federal level, an election must be held within the first three years of a new government being formed, with the average period being two and a half years. Elections are held every four years in Victoria, but there are different terms in the other states and territories. Local elections are also held every four years in Victoria.

### platform

the collected policies of a political party

## Political parties

A political party is an organised group of people who share the same political views and ideals (known as **platforms**). Parties usually have the aim of gaining political power through the formation of government.

Political parties have many different functions. Some of these are listed below.

- They draw together people who have similar political philosophies and ideas.
- They are the chief means by which political power is exercised.
- They form the government and opposition within parliament.
- They develop policies.
- They provide community groups with a means of influencing decision making.



## Australian political parties

In Australia, all political parties must be registered with the Australian Electoral Commission.

There are two major political parties within Australia and these are the Australian Labor Party (ALP) and the Liberal Party of Australia. Other minor parties include the National Party of Australia and the Australian Greens.

### Australian Labor Party



Figure 8.4.2 The logo of the Australian Labor Party

The Australian Labor Party (ALP) was formed around 1891, making it the oldest political party in Australia. It was formed by trade unions in the years before federation and established itself as the 'workers' party'. It still holds links with trade unions today. Some of the key beliefs of the ALP include:

- equality and opportunity for disadvantaged members of society
- social security and universal health care
- full employment.

### Liberal Party of Australia



Figure 8.4.3 The logo of the Liberal Party of Australia

The Liberal Party of Australia was formed in 1944 when the then leader of the United Australia Party, Robert Menzies, thought that all non-Labor parties should join together to offer a strong alternative for government to the Australian people. The Liberal Party stands on a platform of individual freedom and free enterprise. Some of the party's key beliefs include:

- maximising individual and private sector initiative
- nurturing and encouraging its citizens through incentives
- the encouragement and facilitation of wealth so that all may enjoy the highest possible standards of living, health, education and social justice.

### National Party of Australia



Figure 8.4.4 The logo of the National Party of Australia

The Nationals are Australia's second oldest political party, forming on 22 January 1920 by members of parliament who supported the objectives of the Australian Farmers' Federal Organisation. The party, originally known as the Australian Country Party (ACP), changed its name to the National Party of Australia in 1982. Today, the party stands for all regional Australians, on a platform of equality of all services and lifestyle between the cities and the regions. Some of the key beliefs of the Nationals include:

- strong representation of local communities and the delivery of positive outcomes on issues affecting their lives
- security for communities and their families through preserving decent health, safety, social and economic standards

#### DID YOU KNOW?

Don't confuse the Liberal Party with 'liberalism'. One is a political party and the other is an ideology.

- the importance of free choice, reward for private enterprise and the need for investment and wealth generation.

## The Australian Greens



**Figure 8.4.5** The logo of the Australian Greens

The Australian Greens party was officially formed in 1992, after eight state and territory Greens parties merged. Since then, many members have been elected to parliament, especially in the 21st century, as an increasing number of Australians became concerned about environmental issues. Some of their key beliefs include:

- ecological sustainability
- grassroots participatory democracy
- social justice
- peace and non-violence.

## Independents

An Independent in Parliament is a person who does not belong to a particular political party. Independents are found in the House of Representatives and the Senate. After the 2010 election, three of the four Independents elected to the House of Representatives helped to decide who would form government. Independents are often elected because they are well-known and respected members of the community and have a strong personal following.

## Australia's voting system

In Australia, every person over the age of 18 who is an Australian citizen has the right to vote for their representatives. The

voting system is based on a strong set of rules that protects democracy.

- It provides for free, frequent and fair elections.
- It is based upon a secret ballot.
- It has a clear process for counting votes and determining a winner.
- It has results based on majority rule.
- It provides protection from false, misleading or unfair influence on voters.
- It ensures elections are administered in an impartial way.



**Figure 8.4.6** Voting in elections in Australia is compulsory.

## Voting rights and responsibilities

Voting in Australia is compulsory; all Australian adults are required by law to enrol to vote and then to vote in elections. Compulsory voting was introduced at the federal level in 1924, and in 1926 in Victorian state elections.

When a person votes at a polling centre, their name is marked off on the electoral roll, which is later scanned by a computer to identify those enrollers who did not vote. If an enrollee has not voted, a letter is sent by the Electoral Commission asking that person to explain their reason for not voting; if his or her reason is deemed not to be in accordance with the **legislation**, a fine can be issued to the non-voter.

### legislation

laws passed or enacted by a parliament

### DID YOU KNOW?

After the 2010 election, the Australian Greens gained their first-ever seat in the House of Representatives, in the electorate of Melbourne.

### DID YOU KNOW?

The Australian Democrats formed in 1977 and were a force in Australian politics for more than 20 years. Their catch-cry became 'To keep the bastards honest'. Their political fortunes declined and after the 2007 election there were no longer any Australian Democrats in the Senate.

**absolute majority**

fifty per cent of formal votes + one vote.

Australia is one of the few countries in the world to have compulsory voting; other countries include Belgium, Cyprus, Fiji, Luxembourg, Nauru, Singapore and Uruguay.

| <br>USA | <br>United Kingdom | <br>New Zealand |
|------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| In the 2008 presidential elections, 56.8 per cent of eligible voters cast their votes.   | In the 2010 general elections, 65.1 per cent of eligible voters cast their votes.                   | In the 2009 elections, 78.7 per cent of eligible voters cast their votes.                        |

**Figure 8.4.7** Voter turnout in non-compulsory voting countries

## Voter enrolment

In order to be able to vote, you must first enrol on the electoral enrolment register. The electoral roll is an alphabetical list of all the people who have enrolled to vote in Australia. Once enrolled, you are eligible to vote in all federal, state and local elections. In order to vote you must:

- be an Australian citizen
- be 18 years of age or older
- have lived in your current address for at least one month.

Failure to enrol is an offence.

When an election is called at state or federal level, people have seven days to enrol or update their enrolment details; if your information is already up to date, no action is required. If your name is not on the roll by the time it is closed, you are not able to vote.

Young people 17 years of age may provisionally enrol. This means that when they turn 18, their enrolment automatically becomes full enrolment and they are eligible to vote. An advantage of provisional enrolment is that if a person turns 18 on or just before an election, they will be eligible to vote even if rolls have closed.

### DID YOU KNOW?

In the August 2010 Australian Federal election there were 12 402 364 votes recorded.

### FOR DISCUSSION

- 1 Do you think it should be an offence to not enrol to vote?
- 2 Should you be fined if you do not vote?
- 3 Do you think Australia should have a compulsory voting system?

## Voting systems

There are three different systems for placing and counting votes: 'First Past the Post', 'Preferential' and 'Proportional' systems. In Australia, preferential and proportional voting systems are used.

### First past the post

A first-past-the-post system is perhaps the easiest of all electoral systems to administer and calculate. Voters simply place a tick or cross in the square of the person they wish to vote for, and the candidate with the highest number of formal votes is elected. While this system is not used to elect state or federal governments in Australia, it is still used in some local government elections and is used in countries such as the United Kingdom and the United States.

### 2010 Local Government Elections

Place a tick or a cross in one box only.

- ☐ Smith, Joe
- ☐ Doe, Jane
- ☒ Hill, Mary

**Figure 8.4.8** A ballot paper for a first-past-the-post election

## Preferential voting system

A preferential voting system is used to elect members into the lower houses of both the federal and Victorian governments. Under this system, a candidate must gain an **absolute majority** of the formal votes. On the ballot paper, voters place numbers in the boxes next to each candidate's name in order of preference: 1, 2, 3, 4, 5 and so on. When the votes are counted, those marked with a number 1 are counted first. If no candidate has gained more than 50 per cent of the votes at the first preference count, the candidate with the least number of

first-preference votes is excluded. His or her ballot papers are then distributed among the remaining candidates based on the allocated second preferences (those marked with a number 2 on the excluded candidate's ballot papers). This process of excluding the candidate with the lowest number of votes and distributing the next available preferences continues until one candidate is elected by an absolute majority.

### FOR DISCUSSION

Do you feel that preferential voting provides for a democratic system of government?

**Figure 8.4.9** A ballot paper for a preferential voting system



This diagram is a visual description of how preferential voting works.

#### Preferential voting

| Candidates                           | 1st count | Transfer vote | 2nd count | Transfer vote | 3rd count | Majority                                                                                                                                             |
|--------------------------------------|-----------|---------------|-----------|---------------|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> Cherry Some | 18        | 1             | 19        |               |           | Absolute majority is more than 50%.<br>With 100 votes the absolute majority is any number more than 50. Sonya Most is elected with 53% of the votes. |
| <input type="checkbox"/> Harold Sad  | 35        | 5             | 40        | 7             | 47        |                                                                                                                                                      |
| <input type="checkbox"/> Sonya Most  | 41        | 0             | 41        | 12            | 53        |                                                                                                                                                      |
| <input type="checkbox"/> Basil Least | 6         |               |           |               |           |                                                                                                                                                      |
| <b>Formal votes</b>                  | 100       | 6             | 100       | 19            | 100       |                                                                                                                                                      |

#### Description

There are four candidates, Cherry Some, Harold Sad, Sonya Most and Basil Least. A total of 100 votes are cast.

In the first preference count:

- Cherry Some receives 18 votes
- Harold Sad receives 35 votes
- Sonya Most receives 41 votes
- Basil Least receives 6 votes.

Basil Least has received the smallest number of votes. These votes are redistributed according to second preferences. This means that in the second preference count:

- Cherry Some receives 19 votes
- Harold Sad receives 40 votes
- Sonya Most receives 41 votes.

This time, Cherry Some has received the smallest number of votes. These votes are redistributed according to third preferences. This means that in the third count:

- Harold Sad receives 47 votes
- Sonya Most receives 53 votes.

Absolute majority is more than 50 per cent of the total votes. With 100 votes the absolute majority is any number more than 50. Sonya Most is elected with 53 per cent of the vote.

Source: Parliamentary Education Office, 2008

**Figure 8.4.10** How the preferential voting system works



# Proportional voting system

Proportional voting can be the most difficult voting system to understand. It is used to elect members of the upper houses of Victorian and federal parliaments. Voters can elect their candidates in two ways under this system; they can either place a number one in the box next to the political party they wish to vote for, or they can place numbered preferences next to the individual candidates as in the preferential system. However, unlike in the preferential system, where candidates must receive an absolute majority of formal votes to win a seat in parliament, candidates in a proportional system must gain a quota of the formal votes.

To calculate the quota, the total number of formal ballot papers is divided by one more than the number of vacant seats and then this number has one added to it.

$$\text{quota} = \frac{\text{number of formal ballot papers}}{\text{number of vacant seats} + 1} + 1$$

Then, when votes are counted, any candidate who has received first preference votes equal to or greater than the quota is automatically elected. If any candidate received more than the quota, their surplus votes are distributed amongst remaining candidates according to the preferences indicated on the ballot papers, just as in the preferential system. However, these surplus votes are redistributed at a reduced value known as the ‘transfer value’. This transfer value is calculated as follows:

$$\text{transfer value} = \frac{\text{elected candidate's number of surplus votes}}{\text{total number of ballot papers received by the elected candidate}}$$

Figure 8.4.11 A ballot paper for a proportional voting system

**YOU MAY VOTE IN ONE OF TWO WAYS**

**Either:**

**Above the line**  
By placing the single figure **1** in one and **only one** of these squares to indicate the voting ticket you wish to adopt as your vote

**Or:**

**Below the line**  
By placing the numbers **1 to 14** in the order of your preference

**SENATE Ballot Paper 2011**  
Your state  
Election of 6 Senators

**A** ☐ **POLITICAL PARTY**

**B** ☐ **POLITICAL PARTY**

**C** ☐ **POLITICAL PARTY**

**D** ☐ **POLITICAL PARTY**

**E** ☐ **POLITICAL PARTY**

**F** ☐ **POLITICAL PARTY**

**A** **6** **CANDIDATE**  
First name  
PARTY

**B** **3** **CANDIDATE**  
First name  
PARTY

**C** **4** **CANDIDATE**  
First name  
PARTY

**D** **7** **CANDIDATE**  
First name  
PARTY

**E** **9** **CANDIDATE**  
First name  
PARTY

**F** **13** **CANDIDATE**  
First name  
PARTY

**Ungrouped** **14** **CANDIDATE**  
First name  
PARTY

**B** **2** **CANDIDATE**  
First name  
PARTY

**C** **1** **CANDIDATE**  
First name  
PARTY

**D** **8** **CANDIDATE**  
First name  
PARTY

**E** **11** **CANDIDATE**  
First name  
PARTY

**F** **10** **CANDIDATE**  
First name  
PARTY

**A** **5** **CANDIDATE**  
First name  
PARTY

**E** **12** **CANDIDATE**  
First name  
PARTY

**AEC**  
Australian Electoral Commission

Votes are then recounted and the same process of exclusion and redistribution occurs until all available seats are filled.

**Figure 8.4.12** How the proportional voting system works

### Proportional representation counting method (This is a simplified explanation.)

#### Step 1

Count all candidates' formal first-preference ballot papers.

#### Step 2

Calculate the quota (Q).

$$\text{quota} = \frac{\text{number of formal ballot papers}}{\text{number of vacant seats} + 1} + 1$$

#### Step 3

Candidates who gain votes equal to or greater than the quota are elected. If all vacancies have been filled, or if the number of continuing candidates equals the number of remaining vacancies, those candidates are elected and the election is finalised.

If vacancies remain, check if any of the elected candidates received any surplus votes (that is, more votes than the quota).

#### IF YES:

Distribute the successful candidate's surplus votes at a 'transfer value' to continuing candidates according to next available preference marked on them.

$$\text{transfer value} = \frac{\text{elected candidate's number of surplus votes}}{\text{total number of ballot papers received by the elected candidate}}$$

Calculate continuing candidates' new totals.

Go to Step 3.

#### IF NO:

**Exclude** the candidate with the **least votes** and distribute all of his/her ballot papers to continuing candidates according to next available preference marked on them.

Calculate continuing candidates' new totals.

Go to Step 3.

**Note:** a 'continuing candidate' is one who is neither yet elected or excluded.

*Source: Electoral Commission SA*

## Which voting system?

The advantages and disadvantages of first past the post

### Advantages

- It is an easy voting system to understand.
- Votes are easily counted and give early results.
- Ballot papers are easy to use.

### Disadvantages

- If there are many candidates, a candidate can win with a very low number of votes—that is, more people did not vote for the winning candidate than those who did.
- Not all views are represented.
- Minor parties or alternatives do not have a voice.
- Parliament is dominated by the major parties.

The advantages and disadvantages of preferential voting system

### Advantages

- Candidates need more than 50 per cent of the vote to win.
- The 'most preferred' candidate wins over the 'least preferred'.
- If you don't get your first preference you may get your second.
- It can provide for the influence of minor parties.
- It generally provides a stable parliament.

### Disadvantages

- The ballot paper is complex.
- Ballot papers are often completed incorrectly and there is a high number of informal votes.
- It promotes the two-party system.

- Voters are forced to select more than one candidate when they might only have one preference.
- It is unlikely that a minor party or independent will be elected.

## The advantages and disadvantages of proportional voting system

### Advantages

- All views are expressed.
- One vote equals one value.
- Minor parties are given a voice.

### Disadvantages

- It generally does not provide for stable government.
- The system is complex and difficult to understand.
- Voting slips are very large.
- Minor parties are given 'too much' power.

### FOR DISCUSSION

- 1 Weigh up the advantages and disadvantages of each of the voting systems. Which one do you think better promotes democracy?
- 2 Should the federal parliament change its voting system for both houses? Why, or why not?

## Conducting an election

When a state or federal government calls an election, a number of steps must be followed to ensure the election is run according to legislation. These steps are as follows.

### Issuing the writs

The issue of a writ starts off the election process. A writ of election is a legal instruction issued by the Governor-General, requiring the Australian Electoral

Commissioner to hold elections in each electorate for the House of Representatives. The writs for the Senate are issued by the state Governors for the electorates in their state. The Governor-General writes directly to the electoral officer in each territory. State Governors issue the writs for elections in state legislatures.

After the election, the writs are returned to the Governor-General or the state Governors, with the names of the successful candidates attached. This must happen within 100 days of the writs being issued.

## The electoral roll

A period of seven days is allowed for eligible citizens to either enrol or update their details on the electoral roll, before it is closed for the specific electoral event. The Australian Electoral Commission arranges for paper rolls to be printed for use at polling places.

## Nominations

Candidates must then nominate for election. In order to be eligible as a candidate you must be an Australian citizen and be eligible to be on the electoral roll.

## Producing ballot papers and other polling materials

The order for names of candidates on ballot papers is determined by a random draw. Then, the Electoral Commission organises the printing of the ballot papers. Ballot boxes and voting screens are also produced to equip more than 7000 polling places around the country and overseas.

## Campaigning

Once the election is announced, political parties start their election campaigns. This usually includes, newspaper, television and radio advertisements, interviews, public meetings, door-knocking and the distribution of pamphlets.

## Voting arrangements

By law, an election day is always a Saturday. In the case of Victoria, state elections are always held on the last Saturday in November. Polling places open at 8:00 a.m. and close at 6:00 p.m. Electors unable to attend a polling place on the day of the election are able to cast a vote before the day at an early voting centre or via a postal vote. Australian citizens who are enrolled but are living or travelling overseas can cast their votes either by visiting a polling booth at an Australian embassy or consular office, or by postal vote.

### FOR DISCUSSION

- 1 What might be some of the reasons people would be unable to attend a polling place?
- 2 Should the federal election be set for the same time as the Victorian election? Why, or why not?

## The count

When voting finishes, the counting begins. On election night, the votes placed at a polling centre on that day are counted at the polling place. The count and distribution of preferences may go on for some time after election day, until all results are finalised.

There are two types of votes: a formal vote and an informal vote. A formal vote is a ballot paper that has been filled in correctly and can be counted towards the result. An informal vote is a ballot paper that has been incorrectly filled in and cannot be counted towards the result. A ballot paper will be considered informal if any one of the following errors is detected.

- A preference number is used more than once.
- Preferences are not indicated correctly; this could mean a mark, or a letter or letters, has been used instead of numbers.
- The voter omits to fill in all the boxes.

### DID YOU KNOW?

Before the 2010 election, eligible voters only had three days after an election was called to enrol. However, in August 2010 the High Court found that this was insufficient time and extended the period to seven days, after a case was made that when the writs were issued on a Saturday, voters effectively had only one day in which to enrol.

**Figure 8.4.13** In Australia, all votes are counted by hand.



**Figure 8.4.14** In some parts of the United States, touch screen voting machines are used.





## Task: Remembering and understanding

- 1 What is a political party?
- 2 What do you feel are the benefits of joining a political party? What are the disadvantages?
- 3 What is the difference between a formal and an informal vote?
- 4 What options are open to people who cannot attend a polling place on election day?
- 5 Which system of voting is used to elect the lower house in the state and federal governments?

## Task: Applying and analysing

- 1 List and describe three reasons why you think the ALP and Liberal Party are the two parties that have the greatest support in Australian politics.
- 2 Briefly describe each of the three systems of voting.
- 3 What are the advantages and disadvantages of each?

## Task: Evaluating and creating

- 1 Using the elements that make up Australia's voting system (see page 219), list the element that you feel is the most important down to the one that you think is the least important. Select the elements you listed in spots 1, 3 and 6, and explain why you put them in these spots.
- 2 List three advantages and three disadvantages of having compulsory voting.
- 3 As a class, conduct a vote on your favourite TV show, favourite musician or favourite pet, using the preferential voting system. Come up with at least four candidates for your vote and then complete the steps below.
  - a Draw up the ballot papers and conduct the poll, ensuring each voter indicates their preferences on the form (refer to Figure 8.4.9).
  - b Add up first preference votes for each candidate. Determine which candidate has the most votes. If the candidate does not have 50 per cent of the votes plus one, continue adding the preferential votes using the preferential system of counting (see Figure 8.4.10).
  - c Determine the winner. Which candidate was it?

## Task: Assessment

### Option 1 Poster

Create a campaign poster for one of the major Australian political parties; include their logo and at least one of their core beliefs on the poster.

### Option 2 Debate

As a class, debate the issue that the legal voting age should be lowered from eighteen to either sixteen or seventeen. Think about the advantages and disadvantages to the people of this age if the law was changed. Think about laws that affect people within this age range and why voting for their government might or might not be necessary based on these laws.

# CHAPTER NINE

# The LEGAL system

## Introduction

The legal system is a complex machine. This chapter examines the various areas of the law and introduces some legal concepts: What, exactly, is a law? Why are laws needed? Who makes these laws? What are the differences between civil law and criminal law? It is important to have an understanding of these concepts as you begin to interact more with the world beyond your parents and school. Your actions can have very real consequences in law, so it is necessary for you to be aware of your rights and responsibilities and of how the legal system functions so that you can make informed decisions.



Figure 9.1.0 Barristers outside the Supreme Court, Melbourne

# 9.1

## What is law?

*Law is order, and good law is good order.*

*Aristotle, Politics, 343 BC*

**Figure 9.1.1** The sports you enjoy would not be possible without rules.



### Rules of Australian Rules Football

- 1 Must perform a running bounce every 15 metres while holding ball.
- 2 Must not hold the ball when tackled on the ground.
- 3 Handballing must be done with the alternate fist to the hand holding it.
- 4 Ball cannot be thrown.
- 5 Players are allowed on any part of the oval during the match.

Everyone has heard of rules and laws, but what is the difference between the two? Simply put, a rule is a guideline governing a certain activity and only needs to be obeyed by those partaking in that activity and a law is a guideline by which society must abide, which is enforceable by police and the courts. The sections that follow will examine these two concepts in more detail.

## Rules

Rules, as opposed to laws, apply to a group of individuals rather than society as a whole. The members of this group all must agree to follow these rules; they must also understand that the law has no ability to enforce the rules. These rules are generally flexible and carry minor consequences. Rules are generally set up by parents, clubs, schools, places of employment and other institutions.

We encounter different rules in different areas of society.

- Parents make rules for their children. These rules are binding only for those within the household and would carry minor punishments such as loss of pocket money or no TV for unwanted behaviour. As you experienced these consequences, you quickly learnt how your parents wanted you to behave.

**FOR DISCUSSION**

- 1 What rules have your parents set up in your home?
- 2 What are the consequences of breaking these rules?
- 3 Are the consequences the same for all members of your household? Why, or why not?
- 4 Do you agree with their rules? Why, or why not?

- Sporting and gaming clubs have a set of rules on how to play the game, and which behaviours are acceptable and which are not; these rules are usually written as a code of conduct.
- Schools have a written set of rules covering uniform and the expected behaviour of students. These rules usually have some form of punishment for when students do not abide by the rules.

Society also establishes a set of rules for how it would like its members to live; these are usually based on customs. These societal rules will vary across cultural groups and nations and may often change with time.

**Figure 9.1.2** Societal rules in other countries

| <b>Fiji</b><br>                                                                                                           | <b>Kenya</b><br>                                                       | <b>Germany</b><br>                                                                                                                               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ol style="list-style-type: none"> <li>1 Do not wear a hat in a village.</li> <li>2 Do not walk past another person without giving a greeting.</li> <li>3 Remove footwear before entering a home.</li> </ol> | <ol style="list-style-type: none"> <li>1 Address people by their title and surname.</li> <li>2 Do not start eating until the eldest male does.</li> </ol> | <ol style="list-style-type: none"> <li>1 Always arrive at a social event punctually.</li> <li>2 When entering a room, shake everyone's hands, including children.</li> <li>3 Bring a gift when invited to someone's home.</li> </ol> |

## Laws

Laws are legal rules made by parliament and enforceable through the courts. There are two main types of law: criminal and civil. Criminal law deals with offences against society, while civil law deals with disputes between individuals and organisations. The differences between criminal and civil law will be discussed in more detail in Unit 9.3. Many of the enforceable laws in society are constantly brought to our attention through the media. For example, there are daily reports on the rapes, murders and thefts that have occurred and the sanctions dealt out to offenders. There are however, many other laws that affect the way individuals deal with each other; these are laws that cover agreements between individuals and ownership of property. Some examples of these laws include the age at which people can marry, the ways in which employers must protect their employees and the rights of individuals to purchase land and property.

The consequence for breaking a criminal law varies depending on the law broken; however, it can range from a monetary



**criminal record**

the written history of a person's past criminal convictions

fine to a period of time in prison. A person who has broken a law will also have this recorded by the courts on something known as a **criminal record**. This criminal record can be accessed by the police or accredited institutions, which can conduct background checks on behalf of potential employers or landlords. Having a criminal record may affect that person's ability to gain employment or a place to rent.

In civil law, the consequences of a breach of the law will vary depending on the nature of the law and on the nature of the breach. For example, the consequences of breaking a legally binding contract will depend partly upon the terms of that contract. Often, a sum of money will be paid as a consequence of breaching an agreement.

## Summary

The differences between rules and laws can be summed up as follows.

- Laws are the legal versions of rules.
- Laws are enforced by the police, courts and tribunals.
- Rules are set by individuals, groups and institutions.
- Laws are set by parliaments.
- Rules have minor punishments and may be flexible.
- Laws have set sanctions, some of which can be severe; they are often quite inflexible.

## Why we need laws

### Functions of the law

There are a number of reasons why laws are needed in society:

- 1 to protect society
- 2 to establish acceptable conduct in society
- 3 to facilitate change, and
- 4 to establish means for the resolution of disputes.

## Protection of society

Society in Australia is protected by laws that recognise the different values that society holds. While not all of society's values can be recognised by the law, the vast majority are. Some examples of the values recognised in law are: moral, social, economic and political values.

Moral values describe those behaviours that we classify as right or wrong, good or bad. Examples of moral values that are protected by law include the right to life; the right to be treated equally; the right to freedom of choice and the right to avoid self-incrimination. Infringements of these rights—for example, murder or discrimination based on age, gender, race or religion—all have consequences in our legal system.



Figure 9.1.3 Moral values

### DID YOU KNOW?

Employers have the right to check your past for criminal convictions. If you have been convicted of an offence and did not disclose it, they are within their rights to refuse to employ you.

Social values establish what is considered normal within society. Some examples of social values protected by the law include who has the right to marry, acceptable social behaviour on public premises, acceptable behaviour on the roads and acceptable behaviour towards children. Thus, marriage in Australia can only take place between a man and woman; smoking or drinking is prohibited in many public venues; children are protected from exploitation or physical harm; and it is unlawful to drink or take drugs and then drive a car. As with moral values, if a person breaks any of the laws protecting our social rights, there are legal sanctions that may be applied.

Economic values establish norms for businesses and the marketplace. This includes the production, distribution and trade of all goods and services within Australia. Laws have been set up to protect employers and employees, to protect consumers, to protect agreements made between individuals or businesses and to protect the sale and purchase of property. Some examples of these laws include the right to work in a safe environment, the right to exchange or refund a faulty product, the right to enter into and enforce a legally binding contract and the right to own and sell property. There are legal sanctions that may be applied for failing to comply with these laws.

All Australian employers are legally obliged to protect their employees by providing:

- safe premises
- safe machinery and materials
- safe systems of work
- information, instruction, training and supervision
- suitable work environment and facilities.

**Figure 9.1.4** Occupational health and safety obligations

Finally, political values protect our democratic society and determine how Australia is governed. Laws have been

established to protect this system; they include our right to vote, form and join a political party, to stand for election and to hold a political meeting. There are many nations around the world that do not have their political values protected. In the 2008 Zimbabwe elections, President Robert Mugabe was accused of intimidating voters into voting for his ZANU-PF party, and of threatening harm against supporters of his political opponents, the Movement for Democratic Change.



**Figure 9.1.5** Zimbabwe election poster

## Acceptable conduct

Laws aim to establish what people can and cannot do within society, thus allowing us to live in harmony. By regulating behaviour, the law is better able to control society and thus minimise chaos. Some examples of behaviours that are regulated by the law include how we are to behave while driving a car or taking public transport. In order to ensure that all members of society act within the limits set by the law, anyone found to be behaving outside of these limits may find themselves prosecuted and punished.

### FOR DISCUSSION

- 1 Why might anarchists believe that governments and laws cause harm rather than good?
- 2 Can you think of any situations in which they are correct?

### corporal punishment

the physical punishment of students in schools; usually involves the striking of students on the buttocks or hands

### DID YOU KNOW?

**Corporal punishment** was used on female school students in Australia until the mid-1930s. It was banned altogether in Victorian government schools in 1985 and independent schools in 2006.

### DID YOU KNOW?

There are people in society who believe that laws and governments are not necessary and cause harm rather than good. These people are called anarchists.

## Facilitating change

As society is an ever-changing, ever-growing entity, the law needs to be able to adapt to keep up with it. Thus, mechanisms exist so that changes can be made to existing laws, or new laws can be introduced as they are deemed necessary. There are a number of reasons why laws may need updating or why new laws may need to be introduced; these can include:

- advances in science, medicine or technology; for example, genetic cloning, advances in computer technology and new drugs/medications
- changes in our social or moral values; for example, on issues such as homosexuality, abortion, child abuse
- changes in our economic and political values; for example, in the early and mid-1900s, relatively few women owned property and most were not permitted to take out a bank loan without a male guarantor. All this has changed; women are now free to make their own economic decisions. Women were also not permitted to vote in elections until

1894 (in South Australia) or 1902 (in federal elections), but again, our values have changed; women now exercise their right to vote and run for election.

While the law is set up to allow changes to old laws and the introduction of new laws, there are some laws that have been in existence for many decades which have not been removed or changed and would be considered irrelevant today.

## Resolution of disputes

When individuals do not obey the law they may be prosecuted and punished. When individuals have disputes with other individuals or groups of people over issues in the law, these need to be settled in a fair and equitable manner. Thus, the law has set up courts and tribunals that interpret and apply the law to determine appropriate sanctions and to settle disputes. If there were no courts of law, individuals might take the law into their own hands and deal out their own sanctions. This does not exactly maintain the social unity the law sets out to protect.

**THE 2010 CORRUPTION PERCEPTIONS INDEX MEASURES THE PERCEIVED LEVELS OF PUBLIC-SECTOR CORRUPTION IN 178 COUNTRIES AROUND THE WORLD**

2010 CPI Score

|                |            |
|----------------|------------|
| Very Clean     | 9.0 - 10.0 |
|                | 8.0 - 8.9  |
|                | 7.0 - 7.9  |
|                | 6.0 - 6.9  |
|                | 5.0 - 5.9  |
|                | 4.0 - 4.9  |
|                | 3.0 - 3.9  |
|                | 2.0 - 2.9  |
|                | 1.0 - 1.9  |
| Highly Corrupt | 0.0 - 0.9  |
|                | No data    |

www.transparency.org

**TRANSPARENCY INTERNATIONAL**  
the global standard against corruption

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**Figure 9.1.6** Corruption in all levels of government, the law and police are a threat to the wellbeing of society. Source: Transparency International

### Task: Remembering and understanding

- 1 What is a rule? What is a law?
- 2 Briefly sum up the main difference between rules and laws.
- 3 Explain the reason why individuals and groups establish rules.
- 4 Who is responsible for setting rules and who is responsible for setting laws?
- 5 Explain what each of the following values aims to protect: moral, social, economic and political values.
- 6 Explain why courts and tribunals are established by the law.

### Task: Applying and analysing

- 1 Draw up a table with the following headings: Laws, Rules and Customs. Under each column, list ten different examples of laws, rules and customs that affect you in your daily life.
  - a Compare your answers with a partner. Did you have similar examples? Which ones were different?
  - b Why do you think you and your partner had some different examples?
  - c What examples do you think someone from Africa might give? Someone from Asia? Someone from America?
- 2 For each of the ideas listed below, state whether they would be moral, social, economic or political values that the law might protect.
  - Discrimination against a person with a physical or mental disability
  - Buying a house
  - Wanting to become the prime minister
  - Wear the hijab (Muslim head covering)
  - Smoking on the train
  - Starting your own business
  - Cruelty to animals
  - Stealing bread
  - Providing safety gear to employees

### Task: Evaluating and creating

Create a Venn diagram that demonstrates the similarities and differences between rules and laws. Ask yourself the following questions.

- What is the purpose of them?
- Who makes them?
- Who enforces them?
- What are the consequences of a failure to follow them?
- What are some examples?



## Task: Assessment

### Option 1 Investigation

- 1 Investigate one of the following topics where the law has not kept pace with social change demands or scientific development.
  - Genetically modified foods
  - Cloning
  - Surrogacy
  - Euthanasia
  - Same-sex marriage
- a Describe the background to the issue, including the different sides to the arguments.
- b Explain the laws that you believe need to be introduced in regards to your chosen topic.

### Option 2 Research

- 1 Define corruption and explain how it negatively influences:
  - politics
  - economics
  - society
  - the environment.
- 2 Using Figure 9.1.6, select one country that is 'highly corrupt', one that is 'very clean' and one that is 'in the middle'. Compare these countries, using the following information.
  - Type of government and leadership
  - Wealth of the country (economy and resources)
  - Statistics (GDP, infant mortality, literacy etc.)
  - Attempts to limit or fight corruption

# 9.2

## Who makes laws?

*Our world has evolved and grown more technologically savvy. Lawmakers need to adjust to these changes.*

Dennis Hastert

Most people, when they think of the law, think of the legal rules made by parliament. However, there are actually two types of law: laws made by parliament, which are known as statute laws and laws made by courts, which are known as common law.

### Commonwealth

the sovereign nation of Australia; being a federation of the six states and two territories

### Statute law

What, exactly, is 'statute law'? Very simply, statute law is law that is set down in an Act of Parliament. The process of making an Act of Parliament was described in Chapter 8 (pages 200–226) and you may wish to read over these pages again. The next question to be asked is: What gives state and federal parliaments the power to make laws?

### The division of powers

The Australian Constitution sets out the powers that state or federal governments can exercise when making laws. There are three different types of powers: exclusive powers, residual powers and concurrent powers.

#### Exclusive powers

Exclusive powers are those powers that can be exercised only by the **Commonwealth**; these include taxation, customs, printing of money, defence, immigration and the external affairs power, which covers foreign trade and international relations. When the Commonwealth signs an international agreement and incorporates it into law, this law takes precedence over state laws.

**Figure 9.2.1** The High Court of Australia—the highest court in Australia



## The Tasmanian Dam Case: the external affairs power at work



**Figures 9.2.2** The Franklin River

In 1978 the Tasmanian government approved the construction of a dam on the Gordon River just below the point at which the Franklin River flowed into it. When completed, the lake behind the dam would have flooded both rivers, which were in an environmentally sensitive area. In 1982 the area was listed as a World Heritage site, but in spite of this the Tasmanian government intended to continue with construction. However, Australia had ratified the United Nations Convention for the Protection of the World Cultural and Natural Heritage (1972), under which the two rivers were listed. When the Hawke Labor government came into power in 1983, it quickly enacted the *World Heritage Properties Conservation Act 1983* (Cth) and used it to stop the dam's construction. The Tasmanian government claimed that the federal government had no power to do so under the Constitution. The Commonwealth referred the matter to the High Court of Australia, which upheld the validity of the law, ruling that the Commonwealth was exercising its external affairs power under the Constitution. This meant that the federal government could intervene if a state sought to act in contravention of an international agreement that Australia had signed and codified into law.

### DID YOU KNOW?

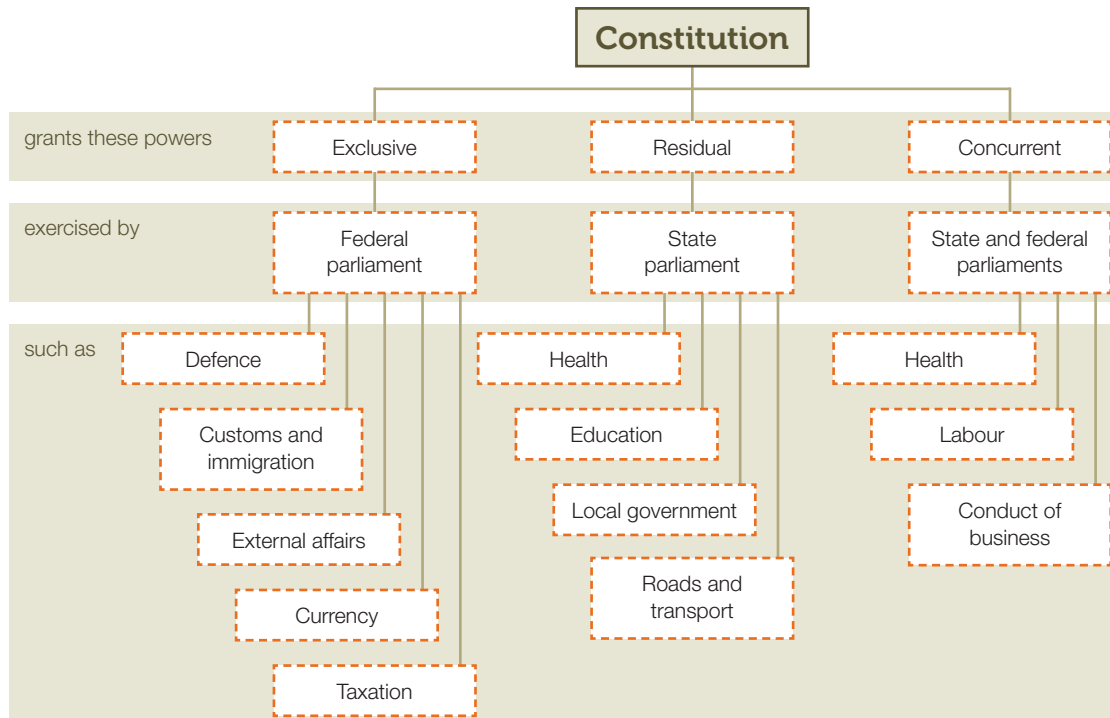
A majority of four out of seven judges found in favour of the federal government in the Tasmanian Dam Case. As a result, the Tasmanian Government was prevented from constructing its proposed dam on the Gordon River.

### Residual powers

After federation, states retained their own constitutions, government and laws. The powers exercised by states under their own constitutions are known as residual powers; effectively, they are all those functions of government not specifically identified in the Constitution as being granted exclusively to the Commonwealth. They include health (hospitals, health care services), education, local government, roads and transport, law and order.

### Concurrent powers

Concurrent powers may be exercised by both state and federal governments in many areas such as health, labour relations and the conduct of business; however, if laws made by a state parliament are inconsistent with those of the Commonwealth, then the Commonwealth or federal law prevails, to the extent of the inconsistency.



### statutory authorities and subordinate authorities

subordinate bodies to which parliament has delegated the power to make regulations

**Figure 9.2.3** The division of powers under the Australian Constitution

### Taxation: exclusive or residual?

In the Constitution, taxation was not defined as an exclusive power; the states could strike excise duties, sales and income taxes themselves. However, almost immediately the Commonwealth parliament began to take over the right to impose taxes; first excise duties, then in 1942, income tax. By the time that the GST was introduced in 2000, the states' ability to impose taxes and duties was severely limited, and taxation is now generally regarded as a de facto exclusive power.

### Separation of powers

It is easy to get confused between the division of powers discussed above and the separation of powers under the Australian Constitution. Our system of governance depends on separation of power between:

- the legislature (Parliament, which makes and amends laws)
- the executive (Cabinet and the wider ministry, which puts laws into action through government departments under the control of the prime minister and ministers of the Crown)

- the judiciary (the courts, which apply and interpret the law).

Each provides a check on the actions of the other branches of government and prevents the misuse of power by ensuring that one branch does not exercise total power.

### Statutory laws made by other groups

Parliaments simply do not have the time or expertise to make law on all aspects of public life. The government may therefore delegate some of its power to make law to government departments, **statutory authorities** and other subordinate authorities.

A statutory authority is created by passing an enabling Act, which establishes the authority and defines its goals; for example Australia Post, VicRoads and the Australian Taxation Office. These authorities are delegated the right to make rules relating to their area of expertise. Laws made by these bodies are usually known as regulations, or delegated legislation. They are accountable to the parliament, and must report on their activities. If they make



**policy**

a plan or action made  
by government

legislation that is beyond their power, the legislation is unenforceable.

The federal government can delegate power to federal government departments and federal statutory authorities. State governments can delegate power to state government departments, state statutory authorities and municipal bodies such as the local council.

Government departments are responsible for particular areas of government **policy** and they make rules and regulations about these policies. An example of a federal government department is the Department of Climate Change and Energy Efficiency; an example of a state government department is the Department of Justice.

Local municipal councils are run by elected members of a local community and they have the right to make rules and regulations that affect their local area. Areas that local councils can make laws on include garbage disposal, swimming pools, building construction, animal ownership, libraries and many more.

**FOR DISCUSSION**

What other reason(s) might the government have for allowing statutory authorities to make laws?

## Statutory laws made by VicRoads

- Children under seven years of age must be in a child restraint or booster seat when in a car.
- Learners and P1 drivers are prohibited from using a mobile phone, even hands-free, while driving.
- You must not drive with an animal on your lap.
- You must not cross a road to get on a tram until the tram has come to a complete stop.
- Pedestrians must not cross against an amber or red pedestrian light.

*Source: Driving in Victoria: rules and responsibilities, VicRoads, 2002*

**Figure 9.2.4** Regulations made by VicRoads

## Common law

Common law arises when judges make decisions on cases before the court. Much of the business of the court involves applying existing statute law to a particular case; for example, if someone is charged with a crime, that crime will have been defined in the Crimes Acts of Victoria or the Commonwealth and the judge's role will be to apply the relevant provisions of these Acts to the case.

## Interpreting the law

When a law is deemed to have been broken, it is the role of courts and judges to interpret and apply the law. There are two things that must be considered: what the law means and how the law applies to the particular facts in the case. It is the specific job of judges and magistrates to interpret the wording of Acts. This interpretation then becomes law for any future cases relating to that Act. There are two items that a judge can use when interpreting the law: the Acts themselves and precedents.

## Acts

When trying to interpret the law using an Act, the wording and phrasing of the Act itself may be used, or the 'purpose' section, which sets out what the Act aims to achieve, or the 'definitions' sections of the Act. If the intention of the Act is still unclear, a judge may refer to records of parliamentary debates, minutes of meetings, dictionaries and other legal texts to gain the understanding required to interpret the law. There are also specific Acts of parliament that give the courts guidance in how to interpret statutes.

## Precedents

Because all cases are slightly different in some way, the judge or magistrate might make a ruling that interprets the statute to make its application more clear. This ruling

becomes part of a legal principle known as precedent. Over time, precedents form a body of law known as common law or judge-made law. Judges who hear cases of a similar nature in the future can use this body of law as a guide to interpreting and applying the law in their case. This ensures that all people are treated equally before the law.

## Binding and persuasive precedents

Judges and magistrates in the Victorian court system are only legally bound to use precedents set by Victorian courts higher in the system than the one in which their case is heard, or by the High Court of Australia. For example, if a case heard in the Supreme Court of Victoria set a precedent and a similar case was then heard in the County Court of Victoria, the precedent would be binding; the Supreme Court is a higher court than the County Court and both are in the Victorian court system (see Unit 10.1).

A precedent set in an equivalent court in the same system—or any court in another state's system—is not binding, but it may be persuasive; that is, it might influence the judge's deliberations. For example, a case heard in the District Court of South Australia (the equivalent of the Victorian County Court) might set a precedent in that state but would not be binding on a case heard in Victoria's Magistrates' Court.

### *Donoghue v. Stevenson*

A famous case that set a very important precedent is *Donoghue v. Stevenson* [1932] AC 562. This case is about the issue of **duty of care**; that is, the requirement that people take reasonable care when performing acts that could cause harm to others. The events took place in Scotland, but the case went to the House of Lords in London before it was resolved. It has influenced the legal system in many countries, including Australia.

Mrs Donoghue went to a café with her friend, who bought her a drink known

as a 'knickerbocker glory'—a mixture of ginger beer and ice cream. The ginger beer was produced by a company owned by Mr Stevenson, a soft-drinks manufacturer, and sold in an opaque bottle. The drink was served by the owner of the café, who poured half of the bottle over the ice cream, leaving the rest for Mrs Donoghue to top up later. When she refilled her glass, the decomposing remnants of a snail fell from the bottle. Later, Mrs Donoghue complained of stomach pains and was diagnosed by her doctor as suffering from gastroenteritis and extreme shock.

At the time this case was first heard, the tort of **negligence** only applied if there had been a contractual relationship, or the goods were inherently dangerous, or there had been intent to defraud. Mrs Donoghue tried to claim damages for her illness from the café owner but, as her friend bought the drink and the café owner could not see inside the bottle, the case could not be upheld in court and was dismissed.

Mrs Donoghue then decided to sue Stevenson & Co., the manufacturer of the soft drink, claiming she had suffered illness, shock, mental depression and a loss of wages as a result of her discovery.

In the House of Lords, it was found that Stevenson & Co. had been negligent because the company had failed to exercise a duty of care to its consumers, whether there was a contractual relationship or not. Mrs Donoghue was awarded £500 in damages. This case overturned precedents that had previously applied to negligence, and established a new, important precedent: the general duty of care. This meant that everyone had to take reasonable care not to do anything that was likely to injure someone else, even when no contractual relations existed. The tort of negligence is further discussed on page 248.

#### **duty of care**

a person's obligation to exercise reasonable care in their conduct towards others

#### **negligence**

a civil wrong that results from the careless actions of another



**Figure 9.2.5** The guilty party?

### Task: Remembering and understanding

- 1 Explain the difference between statute law and common law.
- 2 Explain what precedent is.
- 3 Which level of government has exclusive powers to make some laws?
- 4 What items can be used to interpret the law?

### Task: Applying and analysing

- 1 For each of the cases below, state whether binding precedent would apply or not apply, and why.
  - a Andre, an employer, is heading to the Victorian County Court to defend himself against an employee who is suing him for an injury caused in an unsafe work environment. A similar case had been heard in the New South Wales District Court (the equivalent of the Victorian County Court) the year before, where a precedent was set.
  - b Chan lost his licence for drink driving, and was now using a bicycle as transport. However, Chan has since been caught riding his bicycle on the road while under the influence of alcohol and is being taken to the Melbourne Magistrates' Court, charged with driving under the influence. A case was heard last year in the same court, where a decision was made that the definition of 'vehicle' under which a drink-driving conviction could be handed down could include bicycles.
  - c Steve has been charged with rape and is attending his hearing in the Supreme Court of Victoria. The case has some similar facts to a case heard recently in the County Court of Victoria, a court lower in the court system. Precedent was set at this County Court case. Does this precedent now apply to Steve's case?

### Task: Evaluating and creating

- 1 Re-read the case *Donoghue v. Stevenson* and then complete the tasks below.
  - a Which area of law did this case establish?
  - b How does this case demonstrate common law?
  - c Do you think the manufacturer did owe Mrs Donoghue a duty of care? Explain.
  - d Do you think the owner of the café owed Mrs Donoghue a duty of care? Explain.
  - e Where else might the law regarding duty of care come into practice? Give four examples.

### Task: Assessment

Select one of the following cases and conduct research into how it has set a precedent.

- *Cole v. South Tweed Heads Rugby League Club* [2004] HCA 29 (about the liability of clubs and bars for intoxicated patrons)
- *Cattanach v. Melchior* [2003] HCA 38; (2003) 215 CLR 1 (about the liability of doctors for the wrongful birth of children where sterilisation procedures have failed)

# 9.3

## Criminal and civil law

*Imprisoning a single prisoner costs around \$269 a day in Victoria.*

*Source: Civil Liberties Australia*

There are two main types of law: civil law and criminal law. Civil law deals with disputes involving individuals and organisations and criminal law deals with acts or omissions proscribed by criminal law.

### Criminal law

Criminal law deals with offences against society. A crime may be carried out against an individual, but as a society we cannot allow individuals to take revenge. The Office of Public Prosecutions therefore acts on behalf of individuals by bringing offenders to justice and protecting the interests and rights of all members of society. Criminal law generally reflects the morals of society at any given time.

Most common-law crimes are now codified; that is, they have been incorporated into a piece of legislation. In Victoria, this legislation is the *Crimes Act 1958*.

A crime can be defined as intentionally doing something that is:

- harmful to another person, or
- immoral or offensive to society, and
- defined, prohibited, and punishable under the Crimes Act.

#### Harmfulness

'Harmfulness' implies that an action has caused damage or injury of some sort. There are three types of harmful behaviour

**Figure 9.3.1** Criminal being sent to jail





**criminal liability**

legal responsibility for  
one's acts or omissions

regulated by criminal law: a physical injury such as murder, rape or assault; an economic loss such as theft; or harm against society such as treason.

**Immorality**

Immorality is sometimes difficult to define in law, because not all members of society agree on what constitutes an immoral act. Our laws are therefore based upon what the majority of society feel is morally right. As society's views change, so do our laws. One example of a moral upheld by the law concerns the protection of children. Therefore, paedophilia and the distribution of pornographic material showing children are defined as criminal acts.

**Punishment**

Society determines what kinds of sanctions are acceptable penalties for those who commit a crime. In Australia, sanctions can range from monetary fines, community service and the loss of certain rights (such as the right to drive or the right to leave your home state or the country) to imprisonment. The aims of sanctions are to:

- punish offenders
- deter people from re-offending
- rehabilitate offenders
- protect the community
- denounce (express disapproval of) the offender's actions.

**FOR DISCUSSION**

Do you think sanctions for crimes need to be harsher to ensure the aims of criminal law are met?

**Criminal liability**

In order for a person to be charged with and convicted of a crime, they generally have to have known at the time that they committed the offence, that what they were doing was wrong. Two elements must be present, and proven, in order for an accused

person to be found guilty of committing a crime: *actus reus* and *mens rea*.

*Actus reus* means a 'wrongful act'; in other words, it must be proved that the person who is charged did in fact commit the crime. *Mens rea* means a 'guilty mind'; in other words, it must be proved that the person who committed the crime intended to do so and understood that their actions were wrong.

For a person to be convicted of theft, the prosecution would have to prove that the suspect stole the goods, intended to steal the goods and knew that doing so was wrong.

**The burden of proof**

A person who is charged with a crime is, however, entitled to the presumption of innocence; that is, they are presumed innocent until proven guilty. This 'burden of proof' rests with the prosecution, which must find evidence that proves both *actus reus* and *mens rea*.

There are some crimes, called strict liability offences, where it is not necessary to prove that the offender had a 'guilty mind'. For example, drink driving offences are strict liability offences in Victoria.

**The standard of proof**

The 'standard of proof' is the level of certainty of evidence required to prove the case, which must be presented by the prosecution. In criminal law, a very high level of certainty is required; it must be 'beyond a reasonable doubt'. This means that the judge and/or the jury must have no reasonable doubt as to the guilt of the accused. If there is any doubt in the minds of the jurors or judge, the person must be found not guilty of the crime.

**Age of criminal responsibility**

Age is also a factor in determining if a person is **criminally liable**. In Australia, children under the age of ten years cannot be charged with a crime because it is assumed that they are incapable; that is, they do not possess sufficient understanding of whether their actions are

right or wrong. Older children—between the ages of ten and 14—are also presumed to be incapable of committing a crime; however, if a prosecutor can find sufficient evidence that the child knew what he or she was doing and understood that it was wrong, a criminal charge can be laid. Young people over the age of 14 are generally considered responsible for any crimes they may commit.

## Participants in crime

There are two roles that a person can be charged with regarding their participation in a crime; a person is either the principal offender or an accessory. The principal offender is the person who actually committed the crime. A person who has assisted, counselled or organised another person to commit a crime is also charged as the principal offender. An accessory to a crime is a person who knowingly obstructs the apprehension, prosecution, conviction or punishment of an offender. An example of a principal offender is a person who commits murder, or who instructs someone else to murder for them. A person can be charged as an accessory if they hide the principal offender from the police or give false information to the police about their knowledge of the crime or the principal offender's involvement in the crime.

## Types of crime

Crime can be divided into two categories: indictable offences and summary offences. Indictable offences are the more serious offences such as murder, rape, assault, robbery and treason. These cases are generally heard before a judge and a jury. Summary offences are less serious offences, such as drink driving and not wearing a seat belt. These cases are heard before a magistrate, without a jury.

Some indictable offences can be heard summarily, without a jury present and in a lower court. This can be an advantage for an offender, as a hearing in a lower court costs less, and the maximum penalties that can be issued are less severe.

## Indictable offences

Indictable offences can again be divided up into two categories: crimes against the person and crimes against property. Crimes against the person include these four offences:

- 1 homicide—murder and manslaughter
- 2 assault
- 3 rape
- 4 driving offences—culpable driving and dangerous driving.

### DID YOU KNOW?

In some parts of the United States a child as young as seven can be considered criminally responsible and charged with a crime.

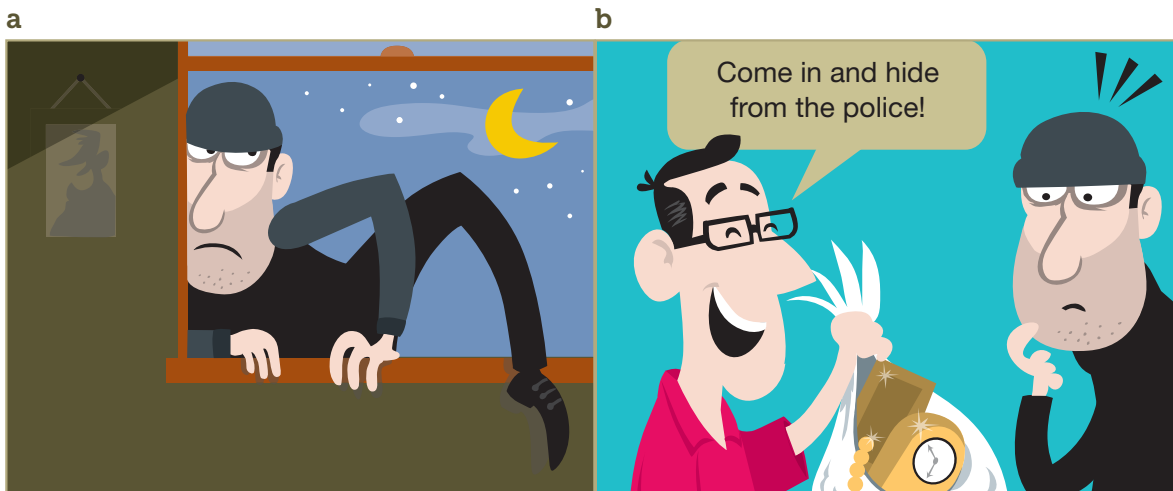


**Figure 9.3.2** Participants in a crime: **a** principal offender; **b** accessory

**defence**

a legally recognised justification for the defendant's actions

Crimes against property include these six offences:

- 1 theft and robbery
- 2 shop theft
- 3 burglary
- 4 property damage
- 5 arson
- 6 blackmail.

## Crimes against the person

### Murder

Murder is the unlawful and intentional killing of a person by another person, who is of sound mind and old enough to be aware of and responsible for their actions. Therefore, a person under the age of ten cannot be charged with murder as they are under the age at which a person is deemed to know the difference between right and wrong. In order to be found guilty of murder the following conditions must be met.

- The victim is a human being.
- The victim's death was caused by the accused.
- The killing was unlawful.
- *Mens rea*, or the intention to kill, was present.
- The accused was of sound mind; that is, not classified as insane.
- The accused is over the age of ten.

### Manslaughter

Manslaughter is the unlawful killing of a person that does not amount to murder because there was no intent to kill, or because the accused successfully pleads a **defence** that reduces the charge from murder to manslaughter.

Manslaughter occurs when the death is caused by an unlawful and dangerous act, such as assault; or when the death is caused by omission, such as failure to provide safety equipment in a workplace.

### Defences against murder or manslaughter

There are a number of defences that can be used by the accused in an attempt

to reduce the charge from murder to manslaughter; these are:

- accident: where the accused can prove that *mens rea* was not present and the death was caused by accident
- automatism: where the accused can claim they were not in control of their actions at the time that the crime occurred and therefore the action was involuntary; usually due to being concussed, sleep-walking or being under hypnosis
- mental impairment: where the accused can claim they were not of sound mind at the time the offence was committed; therefore they could not understand that what they were doing was wrong
- intoxication: (in certain situations only, where the intoxication was involuntary) where the accused can claim that they were under the influence of drugs, alcohol or another substance
- self-defence: where the accused can claim that it was necessary for them to act in a way that caused the victim to die, in order to defend himself or herself, or another person, from the infliction of death or serious injury
- duress: where a threat to inflict death or serious injury is made and the person reasonably believes that they will be harmed if they do not carry out the crime.

### Assault

A person can be charged with assault if they intentionally use direct or indirect force against another person, whether or not they cause actual harm. Even threatening to hurt another person is regarded as assault. For example, if you threaten to punch someone but do not actually go through with the action, this is still assault.

The force can be directed against a person's body, their clothing or equipment they are wearing or carrying at the time. 'Force' can be applied using either the body of the defendant (kicks, punches etc.) or an object.

### FOR DISCUSSION

Which of these defences do you think would be the hardest to prove? Why?

An object can take any form; as well as solid items (for example, a stick or a piece of equipment) it can include light, electrical current, sound, heat, liquids or gases.

### Rape

A person can be charged with rape under two different conditions. The first condition is when a person intentionally sexually penetrates another person without that person giving **consent** for the act to happen, or does not stop if a person who has previously given consent then withdraws it. The second condition in which a person can be charged with rape is when they are found guilty of persuading or forcing someone else to sexually penetrate another person without their consent.

### Driving offences

There are two indictable offenses related to driving: culpable driving causing death and dangerous driving causing death or serious injury. The charge of culpable driving causing death applies when a person has caused the death of another person through the reckless or negligent driving of a motor vehicle or driving while under the influence of drugs and alcohol.

'Reckless driving' means that the person disregarded the effects of their driving

on other people and continued driving in a way that led to injury or death, while 'negligent driving' means that the person failed to observe the standard of care expected of a person who is operating a motor vehicle. For example, a person who is aware their car is not roadworthy and has poor brakes, but continues to drive it knowing they could injure or kill someone, would be considered negligent.

The charge of dangerous driving causing death or serious injury is a lesser charge, which is often applied where excessive speed is involved.

## Crimes against property

### Theft and robbery

Theft is one of the most common crimes committed against property. Theft is considered to have occurred when a person dishonestly takes someone else's property with the intention of permanently keeping the object. Robbery occurs when a person illegally takes another person's property and uses force, or threatens to use force, in order to steal the object. Armed robbery is an extension of robbery, but the guilty person has with them a firearm, an imitation firearm or any other form of weapon, including explosives.

#### consent

permission given to act in a certain way; this does not include permission granted where a person did not understand what they were consenting to, or when force was used to gain consent

#### FOR DISCUSSION

Do you think culpable driving should be considered murder or manslaughter if the person is killed, rather than a stand-alone offence?

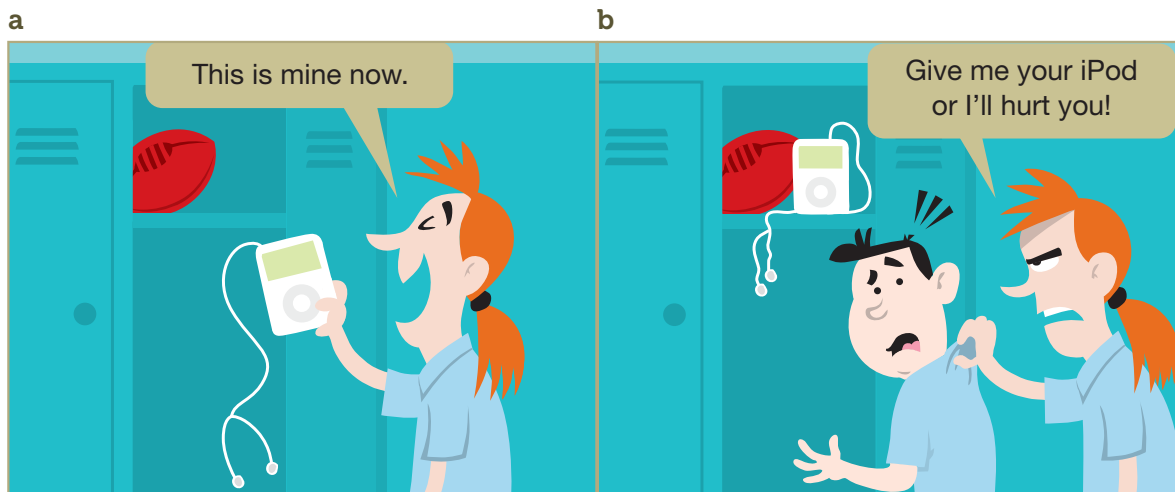


Figure 9.3.3 a Theft; b Robbery



**contract**

a legally enforceable agreement between two or more individuals

**Shop theft**

Shop theft or shoplifting is theft from a retail store of goods with a sale price of less than \$600. Although theft in general is an indictable offence, shop theft can be considered an infringement. In this case, once a fine is paid, no conviction is recorded.

**Burglary**

A person is considered to have committed burglary if they enter any building with the intention of stealing anything that is inside the building, or to commit an offence such as assault or property damage. Aggravated burglary is similar to armed robbery; however, a person can also be charged with aggravated burglary if they entered a building as a trespasser while knowing that someone was inside.

**Property damage**

Damage to property can occur in three different ways: first, when a person intentionally and illegally destroys or damages either their own property or property belonging to someone else; second, when a person intentionally and illegally damages or destroys property with the intention of endangering the life of another. The third is when a person dishonestly destroys or damages property with the intention to gain from its destruction; for example, destroying a car with the intention to claim the insurance money.

**Arson**

Arson is a specific type of property damage. It is the act of deliberately and unlawfully setting fire to a building or any other property such as cars, boats, electronic goods etc.

**Blackmail**

Blackmail occurs when one person makes any unjustified demand of another under the threat of causing harm if their demands are not met. This harm could be physical, mental or emotional.

## Civil law

Civil law is concerned with the rights and responsibilities of individuals. In particular, it aims to settle the disputes that arise between two or more private individuals or organisations. There are two areas that civil law covers: the law of contracts and the law of torts.

### The law of contracts

Contract law is interested in protecting the rights of those individuals who enter into legal contracts.

A **contract** can be both in written or verbal format and is usually made with the intention of being legally binding. Examples of contracts include the purchase of a house or the engagement of a plumber to fix your leaking pipes. An issue arises when one party who has agreed to the contract has allegedly not performed his or her part in the agreement; this might be not handing over the item purchased, not performing the services for which a person was hired or not paying for the item purchased or work performed when due. This is when the courts and tribunals can step in to resolve the dispute.

Any contract entered into must satisfy three conditions before it is considered to be a legally binding agreement. These three conditions are: offer, acceptance and consideration.

#### Offer

An offer can be either written or oral. An offer means that one person has indicated a willingness to enter a contract to do something. This might be an offer to buy or sell something, or to ask for or carry out a service. For example, Belle might offer to sell her motorbike to Amir for \$7000 or George might offer to tile Kim's bathroom floor for \$2000. As each of these offers is clear and unambiguous and the figures are exact amounts, they would be considered valid. However, if Belle had said to Amir that she wished to sell her

**DID YOU KNOW?**

In 2009, a Victorian man was imprisoned for four months for blackmailing a politician.

motorbike for between \$5000 and \$10 000, this would not be considered a valid offer; Belle had indicated that she wished to sell her motorbike, but the price at which she would be happy to do so is not clear.

Merely indicating that goods are for sale does not amount to an offer; for example, a price advertised on an item in a shop is not an offer but rather an invitation for a member of the public to enter the store and offer to buy the product. A statement such as Belle's above could be considered as an invitation instead of an offer. The legal term for this is an **invitation to treat**.

## Acceptance

The second condition that must be met before a contract can exist is acceptance of the offer. If Belle offers Amir her motorbike for \$7000, but Amir does not agree to pay Belle the specified price, then a contract cannot be entered into and the offer lapses. If acceptance is to occur, then the offeree (in this case, Amir) must agree to all terms set out by the offeror (in this case, Belle).

If the offeree wishes to negotiate different terms, a new offer must be made. For example, if Amir still wishes to purchase Belle's motorbike, but offers to pay her \$6500 instead of the \$7000 of Belle's original offer, he has submitted a counter-offer. Belle now has the opportunity to accept this offer.

In order for acceptance to be recognised, it must be communicated to the offeror in either written or verbal form. A letter sent to the offeror stating that the offer is accepted or a verbal statement claiming the offer is accepted will both be considered as legally binding.

## Consideration

The third condition that must be met is consideration; that is, an exchange of benefits between the parties. This is usually in the form of money in exchange for goods supplied or services carried out. For example, if Amir offers to buy Belle's motorbike for \$6500 and Belle agrees, and Amir then pays Belle the full amount and drives the motorbike away, consideration has been given and received by both parties in full. The contract is complete and there is nothing else to be done.

However, consideration can also be in the form of a promise to exchange money, goods or services at a future date. Perhaps Amir might decide to place an order for next year's model at a motorbike sales yard. He pays a deposit in exchange for a promise to supply the motorbike when it comes off the production line. Benefits have been exchanged, but the contract will not be complete until Amir has his new motorbike and the sales yard has received the full amount agreed to. Other forms of

### invitation to treat

an invitation to a person to make an offer before they enter into pre-contractual negotiations

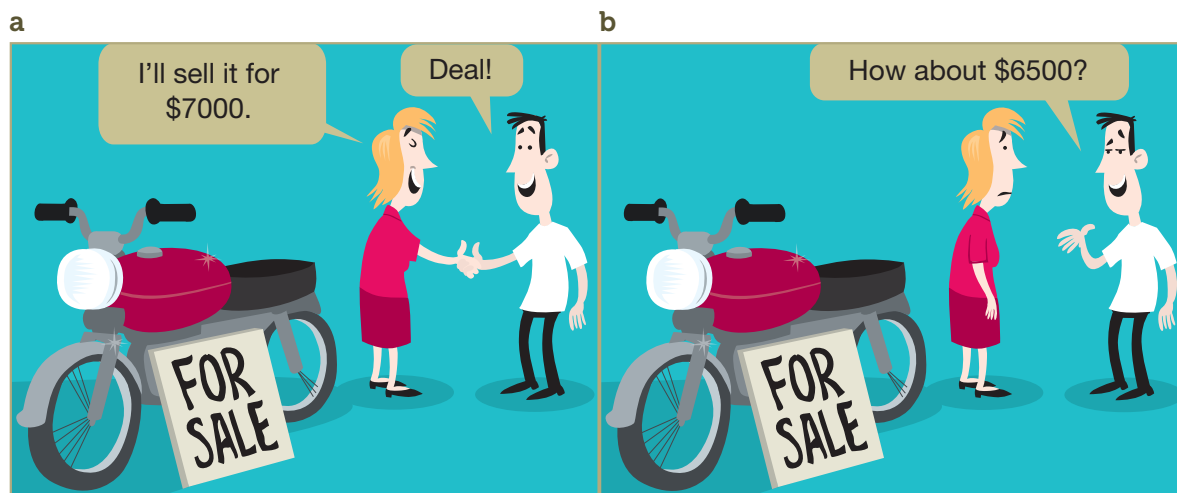


Figure 9.3.4 a Offer and acceptance; b Offer and counter-offer

**FOR DISCUSSION**

When might an agreement between two individuals not be considered a legal contract?

consideration could be the exchange of some physical labour or goods.

## The law of torts

A tort is a civil wrong; this means that an individual has acted in a way that has impinged on the civil rights of others. There are four main areas covered under the law of torts: defamation, negligence, nuisance and trespass.

### Defamation

Defamation is said to have occurred when a person's reputation is damaged by someone making false and derogatory statements; this can be by word of mouth or in writing. Defamation in writing is referred to as libel, and can include all forms of written statements that appear in magazines, newspapers, books or cartoons. Defamation by word of mouth is referred to as slander and can include any spoken statement made on television, radio or at a public meeting.

If a person wishes to defend themselves against a defamation action, they will need to prove that what they had said, written or drawn was in fact the truth and that the public needed to know this information.

### Negligence

Negligence as an independent cause of action first emerged in the 18th century. Negligence is a civil wrong that results from the careless actions of another.

In order to prove that negligence has occurred, four elements must be demonstrated:

- 1 that the defendant owed the victim a duty of care
- 2 how a 'reasonable person' would have acted in the same situation
- 3 that there was a breach of duty of care
- 4 that loss or injury was suffered and that this loss was caused by the defendant's actions.

An example of negligence could include a situation where the owner of a building company fails to provide his workers with harness equipment when they are working on a roof and a worker falls off, breaking his back. The owner owes his workers a duty of care as employees; a 'reasonable person' would see the need for safety equipment when working at heights and there was a breach of this duty of care as no safety equipment was provided.

When the case *Donoghue v. Stevenson* was tried in 1932 (see page 239), a general duty of care was established to include the 'neighbour principle': that people have a duty of care to conduct themselves so that they avoid harm to others, where a reasonable person could have foreseen that harm could occur. This extended the first condition of negligence beyond situations where there was a contractual relationship in existence.



**Figure 9.3.5** Mercedes Corby, sister of Schapelle Corby, successfully won her defamation case against Channel 7's *Today Tonight*. A jury found that 28 defamatory meanings had been conveyed in three *Today Tonight* programs and a television news story in February 2007.



**Figure 9.3.6** Vanessa Anderson was a victim of medical negligence; she did not die because her skull was fractured by a golf ball during a team event, but because of a series of medical mistakes made in the hospital where she was treated.

## Nuisance

When people's rights to the use and enjoyment of land, whether as an individual or a member of a community, are interfered with, nuisance is said to have occurred. There are two types of nuisance: public nuisance and private nuisance. Private nuisance is a civil wrong or tort; public nuisance is both a civil wrong and a criminal wrong, which in Victoria is a common-law offence.

Public nuisance occurs when the rights of the community as a whole—its health, morals, safety, comfort, convenience, or welfare—are interfered with. For example, disorderly or offensive behaviour in public is a public nuisance, or a leaking pipe on private property that causes water to spill out onto the street, creating a dangerous situation for motorists and pedestrians. The property's owner could be charged with public nuisance as a public order offence, and could also be **sued** by any individuals who are injured due to the water.

Private nuisance occurs when an individual's right to use and enjoy his or her own property is interfered with by the unreasonable or unlawful actions of another individual; for instance, smoke, loud music

or other noises intruding from adjoining properties, physical damage or the blocking of direct sunlight. Barking dogs or noise, smell and flies from backyard poultry are common examples of private nuisance.



**Figure 9.3.7** In many areas, drinking alcohol in public is an offence. People found drinking in public can be charged with public nuisance.

## Trespass

To trespass literally means to cross a boundary; to intrude upon the property, privacy or possessions of another without permission. Thus, trespass can occur in three ways: trespass to land, trespass to the person or trespass to goods or chattels.

Trespass to land means that an individual has entered another's property without permission, overstayed their welcome or placed something on or against another's land without permission.

Trespass to the person includes the aforementioned crime of assault, but also relates to **false imprisonment**.

Trespass to goods involves an individual interfering with personal property; this could be by physical contact or by taking, destroying or blocking access to the goods.

### sue

to bring a civil proceeding against another person to seek a suitable remedy for damage or injury caused by that person

### false imprisonment

the unlawful confinement of an individual's movements



### Task: Remembering and understanding

- 1 Explain the difference between criminal and civil law.
- 2 Explain the difference between murder and manslaughter.
- 3 Explain the difference between an indictable offence and a summary offence.
- 4 What three conditions are needed to make a contract legally binding?

### Task: Applying and analysing

- 1 Read each of the cases below and state whether they would amount to murder or manslaughter.
  - a Shaun and his girlfriend had been having problems for a few months. One night, after a particularly bad fight, Shaun grabs his gun and shoots his girlfriend; she dies later as a result of the wounds.
  - b Maggie was driving home one night after having a few drinks with dinner; at one rather dark corner she didn't notice a man crossing the road and she ran into him, killing him instantly.
  - c Tony owns a plumbing business and has been really busy lately; thus he neglected to check his gas tanks were in safe working order. One day while on a job, the gas tank exploded when one of Tony's employees turned it on. Tony's employee survived, but the owner of the house, who was watching the work, died.
  - d Fatima was out for lunch with a friend when she saw her husband enter the same restaurant with another woman. Fatima had suspected her husband was cheating on her and she now had proof. In a fit of rage, Fatima grabbed her butter knife and stabbed him and the other woman; both died.
- 2 Read each of the cases of nuisance below and state whether they are public or private nuisance.
  - a Jin was hosting a party for his 18th birthday. He lived next door to an elderly couple, who could not sleep because of the noise from Jin's party. At 1 a.m. the couple called the police, complaining of excessively loud music coming from Jin's house.
  - b A large manufacturing company's industrial plant was reported to the Environmental Protection Agency for polluting the air in the surrounding neighbourhoods.
  - c Suzannah and her husband, Michael, built a new extension on their home. The second storey was constructed without consulting their neighbour, who later complained that the extension was blocking the natural sunlight from her garden, killing all her plants.

### Task: Evaluating and creating

- 1 Study the Victorian crime statistics table opposite, then complete the tasks and questions below.
  - a For both crimes against the person and crimes against property, construct a bar graph that shows the number of reported cases in the period 2009/10.
  - b Which crime against the person was the most commonly reported in the period 2009/10?
  - c Has this changed from the previous reporting period of 2008/09?

- d Which crime against property was the most commonly reported in the period 2009/2010?
- e Which crime against property has experienced the most significant drop since the 2008/2009 period?
- f Why do you think this might be?

| Offences recorded        |                          |         |         |                       |                              |         |                       |
|--------------------------|--------------------------|---------|---------|-----------------------|------------------------------|---------|-----------------------|
| Type of crime            |                          | Number  |         | % change from 2008/09 | Rate per 100 000 population* |         | % change from 2008/09 |
|                          |                          | 2008/09 | 2009/10 |                       | 2008/09                      | 2009/10 |                       |
| Crime against the person | Homicide                 | 182     | 206     | 13.2                  | 3.4                          | 3.7     | 10.8                  |
|                          | Rape                     | 1 561   | 1 540   | -1.3                  | 29.0                         | 28.0    | -3.4                  |
|                          | Sex (non-rape)           | 5 007   | 5 125   | 2.4                   | 93.0                         | 93.2    | 0.2                   |
|                          | Robbery                  | 3 338   | 3 108   | -6.9                  | 62.0                         | 56.5    | -8.8                  |
|                          | Assault                  | 33 691  | 34 981  | 3.8                   | 626.0                        | 636.4   | 1.7                   |
|                          | Abduction/kidnap         | 345     | 425     | 23.2                  | 6.4                          | 7.7     | 20.6                  |
|                          | <b>Subtotal</b>          | 44 124  | 45 385  | 2.9                   | 819.9                        | 825.7   | 0.7                   |
| Crime against property   | Arson                    | 3 464   | 3 034   | -12.4                 | 64.4                         | 55.2    | -14.2                 |
|                          | Property damage          | 54 157  | 52 346  | -3.3                  | 1 006.3                      | 952.4   | -5.4                  |
|                          | Burglary (aggravated)    | 1 916   | 2 166   | 13.0                  | 35.6                         | 39.4    | 10.7                  |
|                          | Burglary (residential)   | 28 029  | 27 343  | -2.4                  | 520.8                        | 497.5   | -4.5                  |
|                          | Burglary (other)         | 17 208  | 16 223  | -5.7                  | 319.7                        | 295.2   | -7.7                  |
|                          | Deception                | 22 668  | 19 139  | -15.6                 | 421.2                        | 348.2   | -17.3                 |
|                          | Handle stolen goods      | 7 350   | 5 848   | -20.4                 | 136.6                        | 106.4   | -22.1                 |
|                          | Theft from motor vehicle | 47 480  | 45 435  | -4.3                  | 882.2                        | 826.6   | -6.3                  |
|                          | Theft (shop steal)       | 20 193  | 21 326  | 5.6                   | 375.2                        | 388.0   | 3.4                   |
|                          | Theft of motor vehicle   | 15 982  | 15 078  | -5.7                  | 297.0                        | 274.3   | -7.6                  |
|                          | Theft of bicycle         | 5 021   | 4 400   | -12.4                 | 93.3                         | 80.1    | -14.2                 |
|                          | Theft (other)            | 56 501  | 48 176  | -14.7                 | 1 049.8                      | 876.5   | -16.5                 |
|                          | <b>Subtotal</b>          | 279 969 | 260 514 | -6.9                  | 5 202.1                      | 4 739.7 | -8.9                  |

\* Rates were calculated using estimated resident population figures as at 31 December 2009 obtained from the Australian Bureau of Statistics (ABS Cat. No. 3101.0).

Note: All figures with decimal places in the above table have been rounded to one decimal place.

Source: Victoria Police. Crime Statistics 2009/2010, 6 September 2010

Figure 9.3.8 Victorian crime statistics 2008/09 and 2009/10

| Victims of offences against the person, by offence, 2008/2009 and 2009/2010 |                 |         |         |                       |         |         |                       |                |         |                       |
|-----------------------------------------------------------------------------|-----------------|---------|---------|-----------------------|---------|---------|-----------------------|----------------|---------|-----------------------|
| Type of crime                                                               | Age group       | Males   |         |                       | Females |         |                       | Total persons* |         |                       |
|                                                                             |                 | Number  | Number  | % change from 2008/09 | Number  | Number  | % change from 2008/09 | Number         | Number  | % change from 2008/09 |
|                                                                             |                 | 2008/09 | 2009/10 |                       | 2008/09 | 2009/10 |                       | 2008/09        | 2009/10 |                       |
| Homicide                                                                    | Juvenile (<18)  | 9       | 19      | 111.1                 | 4       | 13      | 225.0                 | 13             | 32      | 146.2                 |
|                                                                             | Adult (18–59)   | 102     | 102     | 0.0                   | 38      | 43      | 13.2                  | 140            | 145     | 3.6                   |
|                                                                             | Adult (60+)     | 10      | 13      | 30.0                  | 10      | 10      | 0.0                   | 20             | 25      | 25.0                  |
|                                                                             | Total Victims * | 123     | 136     | 10.6                  | 54      | 66      | 22.2                  | 177            | 204     | 15.3                  |
| Rape                                                                        | Juvenile (<18)  | 44      | 75      | 70.5                  | 369     | 381     | 3.3                   | 414            | 458     | 10.6                  |
|                                                                             | Adult (18–59)   | 57      | 59      | 3.5                   | 803     | 728     | –9.3                  | 862            | 787     | –8.7                  |
|                                                                             | Adult (60+)     | 1       | 0       | –100.0                | 19      | 9       | –52.6                 | 20             | 10      | –50.0                 |
|                                                                             | Total Victims * | 103     | 135     | 31.1                  | 1 202   | 1 127   | –6.2                  | 1 309          | 1 265   | –3.4                  |
| Sex (non rape)                                                              | Juvenile (<18)  | 432     | 507     | 17.4                  | 1 872   | 1 767   | –5.6                  | 2 305          | 2 280   | –1.1                  |
|                                                                             | Adult (18–59)   | 70      | 72      | 2.9                   | 605     | 731     | 20.8                  | 676            | 805     | 19.1                  |
|                                                                             | Adult (60+)     | 3       | 3       | 0.0                   | 22      | 38      | 72.7                  | 26             | 42      | 61.5                  |
|                                                                             | Total Victims * | 518     | 596     | 15.1                  | 2 528   | 2 579   | 2.0                   | 3 050          | 3 190   | 4.6                   |
| Robbery                                                                     | Juvenile (<18)  | 459     | 444     | –3.3                  | 93      | 79      | –15.1                 | 553            | 525     | –5.1                  |
|                                                                             | Adult (18–59)   | 1 890   | 1 712   | –9.4                  | 507     | 450     | –11.2                 | 2 404          | 2 176   | –9.5                  |
|                                                                             | Adult (60+)     | 50      | 56      | 12.0                  | 57      | 45      | –21.1                 | 107            | 103     | –3.7                  |
|                                                                             | Total Victims * | 2 419   | 2 240   | –7.4                  | 672     | 592     | –11.9                 | 3 103          | 2 851   | –8.1                  |
| Assault                                                                     | Juvenile (<18)  | 2 277   | 2 215   | –2.7                  | 1 705   | 1 720   | 0.9                   | 3 993          | 3 943   | –1.3                  |
|                                                                             | Adult (18–59)   | 14 387  | 14 492  | 0.7                   | 10 039  | 10 758  | 7.2                   | 24 484         | 25 367  | 3.6                   |
|                                                                             | Adult (60+)     | 675     | 692     | 2.5                   | 416     | 410     | –1.4                  | 1095           | 1 125   | 2.7                   |
|                                                                             | Total Victims * | 17 666  | 17 781  | 0.7                   | 12 401  | 13 132  | 5.9                   | 30 170         | 31 116  | 3.1                   |
| Abduction/<br>Kidnap                                                        | Juvenile (<18)  | 30      | 53      | 76.7                  | 59      | 89      | 50.8                  | 89             | 144     | 61.8                  |
|                                                                             | Adult (18–59)   | 69      | 72      | 4.3                   | 164     | 177     | 7.9                   | 234            | 249     | 6.4                   |
|                                                                             | Adult (60+)     | 0       | 4       | n/a                   | 3       | 3       | 0.0                   | 3              | 7       | 133.3                 |
|                                                                             | Total Victims * | 101     | 132     | 30.7                  | 230     | 272     | 18.3                  | 334            | 406     | 21.6                  |
| Total                                                                       | Juvenile (<18)  | 3 251   | 3 313   | 1.9                   | 4 102   | 4 049   | –1.3                  | 7 367          | 7 382   | 0.2                   |
|                                                                             | Adult (18–59)   | 16 575  | 16 509  | –0.4                  | 12 156  | 12 887  | 6.0                   | 28 800         | 29 529  | 2.5                   |
|                                                                             | Adult (60+)     | 739     | 768     | 3.9                   | 527     | 515     | –2.3                  | 1271           | 1312    | 3.2                   |
| <b>TOTAL*</b>                                                               |                 | 20 930  | 21 020  | 0.4                   | 17 087  | 17 768  | 4.0                   | 38 143         | 39 032  | 2.3                   |

\* Includes victims where age/sex is unknown. n.a. denotes that no calculation was possible.

Note: All figures with decimal places in the above table have been rounded to one decimal place.

Source: Victoria Police. Crime Statistics 2009/2010, 6 September 2010

**Figure 9.3.9** Victims of crime against the person by offence

- 2 Study the table opposite, which shows the number of victims of crime against the person over the 2008/10 period by age, and complete the tasks that follow.
  - a Which crime had the highest number of victims under the age of 18?
  - b Which crime had the lowest number of victims under the age of 18?
  - c Why do you think this might be?
  - d For which crime against the person was there the largest number of victims of all ages?
  - e Which crime had the highest number of victims over the age of 60?
  - f Why do you think this might be?

**recidivism**

a relapse or return to criminal behaviour

## Task: Assessment

### Option 1 Analysing crime statistics

Choose a particular crime against the person or crime against property from the choices below. Crimes to choose from are: murder, rape, robbery, assault, property damage, burglary and theft.

Log on to Pearson Places and follow the prompts to both the Victoria Police website and the Australian Bureau of Statistics website. Conduct some research into the following areas: the number of victims reported over the past ten years; the number of male offenders and the number of female offenders; the numbers in each age group reported as victims; the areas in which the crimes occurred; changes in the above areas across the ten-year time period.

Present your findings in the form of a poster, brochure or oral presentation.



### Option 2 Investigation: Sentencing and the prison system

In Australia, approximately 79 per cent of juvenile detainees will, within seven years of release, be subject to either community or custodial supervision, and almost half will have been imprisoned. It was estimated that 39.3 per cent of all prisoners who were released in 2006–07 would be in prison again within two years.

- 1 Due to the high rate of **recidivism**, is imprisonment the best method of dealing with people convicted of serious crimes?
- 2 Analyse the alternatives to detention. Present your findings in the form of a report or an oral presentation.



## CHAPTER TEN

# Who's who in the LEGAL system

**Figure 10.1.0** Robert French, the Chief Justice of the High Court of Australia



### Introduction

There are many people responsible for ensuring that the law is obeyed and properly upheld. There are also many systems in place that help these people do their jobs. This unit will investigate the people who work within the legal system and the many institutions that help them do so.

# 10.1

# The courts

*The first case heard in the Magistrates' Court was by Captain Lonsdale in October 1836.*

*Magistrates' Court of Victoria*

The courts that operate within Australia are arranged in a system known as a hierarchy; this means that courts are ranked from the lowest to the highest. Each court has its own set of limitations on the types of cases it can hear within civil or criminal law. This is known as a court's **jurisdiction**.

**jurisdiction**  
the authority of a court to hear and decide a particular dispute

## Victoria's hierarchy of courts

The Victorian court system consists of the Magistrates' Court, the County Court, the Supreme Court and the Court of Appeal (which is a division of the Supreme Court). There are also two specialist courts in the system: the Children's Court and the Coroner's Court. Cases from Victorian courts may be referred to the High Court of Australia in certain circumstances.

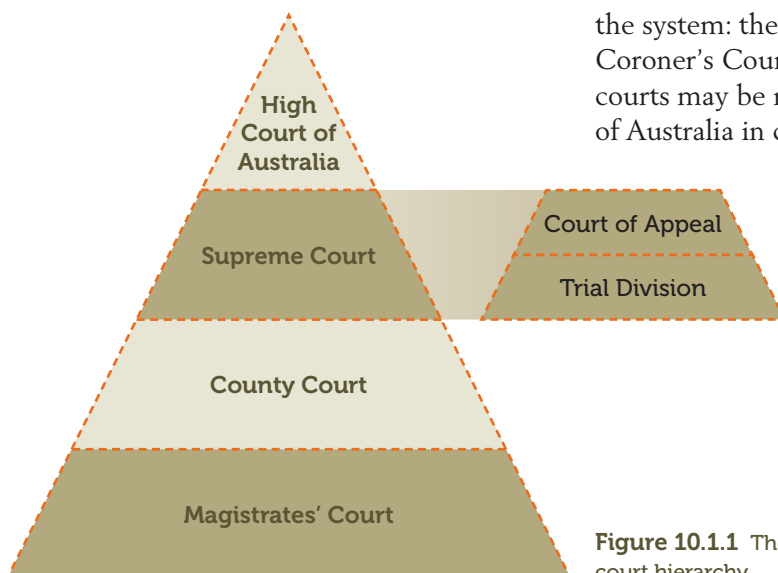


**Figure 10.1.1** The Victorian court hierarchy

**summarily**

heard by a magistrate without a jury; describes the less formal procedures for cases heard in the Magistrates' Court

**civil case**

a case between two private individuals; concerns areas such as contracts, negligence and defamation

## Magistrates' Court of Victoria



**Figure 10.1.2** The Melbourne Magistrates' Court in William Street

The Magistrates' Court is the lowest court in the Victorian system; however, it hears 90 per cent of all cases that pass through Victorian courts. Cases heard in the Magistrates' Court are decided **summarily**, by one person only: the magistrate. No jury is required for offences heard in this court.

The Magistrates' Court hears minor indictable offences and all summary offences, which are of a less serious nature. Summary offences include traffic offences, drink driving, minor assaults and failure to pay fines. Family matters and civil disputes are also heard in this court. Special divisions within the court include the Drug Court and the Koori Court.

Some minor indictable offences can be heard summarily. In general, indictable offences are of a more serious nature than summary offences and are usually heard by a judge and jury in a higher court; however, there are some indictable offences, such as burglary and theft, where the accused can elect to be heard by a magistrate in the same way as a summary offence. For example, robbery is classed as an indictable offence; however, a person accused of this

crime may elect to have their case heard summarily by a magistrate—perhaps because the court costs in a higher court may be higher than the cost of the goods stolen. Other indictable cases that can be heard by the Magistrates' Court are those that are punishable by a term of imprisonment up to ten years or a fine with a maximum value of approximately \$126 000.

Although they are ultimately determined in the County Court or Supreme Court, more serious indictable offences make their first appearance in the Magistrates' Court for a committal hearing. The purpose of a committal hearing is not to determine guilt or innocence—this is the job of a judge and jury—but for the magistrate to determine if there is enough evidence for the case to go to trial in a higher court.

The Magistrates' Court also hears **civil cases** with a claim value less than \$100 000.

## County Court of Victoria



**Figure 10.1.3** Victorian County Court

The County Court is the intermediate court in the state's judicial system. It hears all serious indictable offences except murder, some murder-related offences and treason. The majority of cases heard by

**FOR DISCUSSION**

What are some circumstances that might lead to a decision in the Magistrates' Court being heard as an appeal in the County Court?

**DID YOU KNOW?**

In the 2008/09 year, 167 359 cases were heard in the Magistrates' Court.

the County Court include armed robbery, major drug offences, major burglary, sexual assault, culpable driving and arson. If the accused pleads not guilty, then the case goes to trial and is heard by a judge and jury. The County Court has unlimited civil jurisdiction.

The County Court also hears criminal **appeals** from the Magistrates' Court; this occurs when a person is unhappy with their conviction or sentence and wants to challenge it in some way.

## Supreme Court of Victoria



**Figure 10.1.4** Supreme Court of Victoria

The Supreme Court is the highest court in the Victorian system. It has two divisions: the Court of Appeal and the Trial Division. The Court of Appeal hears appeals from the

County Court and from the decisions of single judges in the Trial Division. The Trial Division of the Supreme Court hears the most serious cases, such as murder and treason. When an accused person pleads not guilty to a charge, their case is heard before a judge and jury. The Supreme Court also has unlimited civil jurisdiction.

## High Court of Australia



**Figure 10.1.5** High Court of Australia

The High Court of Australia is a federal court that was set up in the Constitution. The functions of the High Court include hearing appeals from state Supreme Courts throughout Australia, and hearing cases that require interpretation of the Constitution.

## Specialist courts: Children's and Coroner's courts

The Children's Court hears all cases of people who were under the age of 18 when the crime was committed, or those who are under the age of 19 when the case goes to court. The court hears the following:

- all summary offences

### appeal

application to a higher court to have a judgment by a lower court reconsidered, based on the ground that the decision is flawed in some way



**Royal Commission**

an investigation headed by a judge who has been appointed by parliament to look into a particular matter and present a report to parliament on the commission's findings

**defence**

the term used to describe the accused and their legal representatives

**prosecution**

the legal team that presents the case against the accused on behalf of the Crown

- all indictable offences except murder, manslaughter and treason, which are heard in the Supreme Court
- committal hearings.

The Court also hears cases of people under the age of 17 who are considered to be in need of care or protection. This can be because they have been abandoned, neglected or abused.

The Coroner's Court investigates deaths and fires. The types of deaths investigated include those that occur suddenly and without apparent reason; when homicide is suspected; when the person has been held in state care or prison; when the identity of the deceased is unknown; when the death occurred under circumstances that may have included medication or anaesthetic or when the Attorney-General or state coroner directs an investigation to occur. Another instance when a death may be investigated is when a second or further death has occurred within the same family, usually to a child.

The coroner also has the responsibility to investigate the causes of fires and deaths and to report on how they might be prevented in the future. The bushfires that ravaged areas of Victoria in February 2009 are a recent example of this; during the aftermath of the bushfires, the coroner worked alongside the 2009 Victorian Bushfires **Royal Commission** to help identify those victims that were killed in the fires and then helped determine how the severity of bushfires could be minimised in the future.



**Figure 10.1.6** Victorian Bushfires Royal Commission hearing submissions

## Court personnel



**Figure 10.1.7** Court personnel

There are a number of people who work in the Victorian courts. Each of them has a different, yet important role in ensuring our legal system runs fairly and smoothly, ensuring the best outcome for all involved.

## Lawyers



**Figure 10.1.8** Lawyers: A barrister

There are two different types of lawyers: barristers and solicitors. Both have completed a law degree, but each is responsible for different aspects of a case.

Barristers are the lawyers who present cases in court; they are able to present for either the **defence** or the **prosecution** in criminal

### DID YOU KNOW?

When the media report on the proceedings of the Children's Court, they are not permitted to identify the participants or to make them identifiable to the public—even if they are found guilty.

matters and for either the **plaintiff** or the **defendant** in civil matters. A barrister can advise on the likely outcome of a case and is usually first contacted by a solicitor on behalf of their client. When in court, the job of the barrister is to present evidence and to cross-examine witnesses called by the opposing party.

Solicitors are usually the first port of call for someone needing legal advice or assistance. A solicitor will provide advice on how to comply with the law; but will also provide advice on the rights of their client and will point them in the right direction for the best course of action to take. A solicitor can appear on behalf of a client in the Magistrates' Court and they can also draw up legal documents such as wills and contracts.

## Judge or justice



Figure 10.1.9 A judge presiding in court

In the higher courts—the Supreme Court and High Court—the person who oversees the trial is known as a justice; in the County Court, the overseer is referred to as a judge. The role of a judge is to ensure that both parties obey the rules of the court. The judge also sums up the evidence for the jury and explains how the law applies to the case they have heard. If the jury reaches a verdict of 'guilty' in a criminal case, it is the judge that determines the appropriate sanction for the guilty party.

In a civil case, if there is no jury, the judge will also determine the type of civil remedy to be awarded in the matter. Often this will involve the award of a sum of money (damages) to one of the parties.

## Magistrate



Figure 10.1.10 Magistrate

The magistrate performs a similar role in the Magistrates' Court to that of the judge in higher courts. However, there is no jury in the Magistrates' Court so the magistrate performs the roles of both judge and jury: they oversee the case, interpret the evidence, determine the verdict and apply the appropriate sanction if a verdict of guilty is reached.

In civil matters, the magistrate determines the appropriate civil remedy.

## Judge's associate

A judge's associate acts as the judge's personal assistant and researcher, undertaking the majority of administrative duties; they also announce the charge/s laid against the accused in court in criminal matters.

## Tipstaff

The role of the tipstaff is to maintain order in the court, to call witnesses and to attend to the jury.

### plaintiff

the person bringing an action in a civil matter

### defendant

(in a criminal proceeding)  
the person accused of a crime

(in a civil proceeding) the person against whom an action is brought

### DID YOU KNOW?

The High Court of Australia has seven justices who can hear the one case at the same time. This is known as a 'full bench'.

**Crown**

term referring to the state or federal government in a legal case

## Crown prosecutor

The Crown prosecutor is a barrister who puts a case against the accused; they do this on behalf of the **Crown**. It is their job to present a case to the jury that shows that the accused is guilty of the crime they have been charged with.

## Defence barrister

The defence barrister represents the person accused of the crime; their job is to present evidence and to call witnesses who can prove beyond reasonable doubt that the defendant did not commit the crime.

## Solicitors

Solicitors assist the barrister with the case; they are familiar with the case, as they have conducted much of the preparatory work before the case went to trial.

## Witnesses

A witness is a person who has knowledge of the event that led to the case coming to court. A witness may be someone who saw or heard the event take place, they may be someone who was also involved in the event or they may be someone who has specialist or 'expert' knowledge that may shed light on the case. An example of an expert may be a fingerprint analyst, a psychiatrist, a computer analyst or a doctor. Both sides of the case can call witnesses and regardless of which side calls the witness, either side can ask them questions.

## Jury

The jury is made up of 12 citizens chosen at random from the state electoral roll. Their role is to listen to the evidence presented by both the defence and prosecution; to consider the evidence and then to make a decision based on the evidence. In order for a person to be found guilty, the jury must reach a decision that is 'beyond reasonable doubt'; that is, the jury considers that it is very highly probable that the accused committed the crime, based on the evidence presented. In all cases except

murder and treason, the decision of guilt or innocence may be made by the majority of the jury (11 jurors out of 12). In cases of murder, treason and some major drugs cases, all jurors must agree on the verdict. Jurors are used in the County Court and Supreme Court in Victoria.

## The jury system

The origin of juries is unclear, but it dates back at least to 11th-century England where offenders were tried by their peers. The values of the community were thus upheld within the justice system. This idea still exists in the jury system in Australia today, with the aim of ensuring justice is upheld by those it aims to serve. The way in which potential jurors are summoned to present themselves for selection also ensures that the values of society are represented by a cross-section of the community.

**Figure 10.1.11** Anyone who is on the electoral roll can be summoned to serve on a jury.





## Role of the jury

The role of the jury is to hear the evidence presented to the court and then to decide whether the accused is guilty or innocent of the charge based on this evidence. If a jury in a criminal trial is unable to reach a unanimous verdict after at least six hours, the judge may accept a majority verdict of 11 out of 12 jurors. In case of murder, treason and some major drug offences, however, a unanimous verdict must be reached. Currently, jurors are paid for their services in the state of Victoria.

## Jury selection

In order to be eligible for jury selection in Victoria you must be on the electoral roll; this means you must be 18 years or older, be an Australian citizen and be entitled to vote. When a jury is needed for a trial, potential jurors are selected at random from the electoral roll and are asked to fill out a juror questionnaire. The questionnaire is returned within seven days and is used to determine whether a person is able to be selected as a juror or if they are disqualified, deemed ineligible or excused from jury service. A person can also apply for their service to be postponed until a more convenient time.

People are ineligible for jury service if they:

- work within the legal system, such as police officers, lawyers and judges
- are unable to see or hear
- do not speak English.

People are disqualified from jury service if they:

- have been previously convicted of an indictable offence or treason that attracted a prison sentence of three or more years
- have been sentenced to three months' prison within the last ten years
- have, in the last five years, received a suspended sentence, served time in a youth detention centre or been placed on a community-based order.

People can be excused from jury service for a number of reasons; however the reason needs to be deemed as a 'good reason'.

Good reasons include:

- being ill
- being aged and living more than 50 kilometres away from the court where the case is being heard
- being able to prove that by being on the jury the person would suffer financial or other hardships
- being able to prove that if the person is on the jury, the public would suffer considerable hardship.



Figure 10.1.12 Good reasons not to serve on a jury

## Choosing a jury

For trials in the County or Supreme courts, a jury of twelve people is 'empanelled' or selected from the list of eligible, potential jurors. Both the defence and prosecution are entitled to 'challenge' or reject potential members of the jury. There is a right to an unlimited number of challenges 'for cause'. Challenges may also be 'peremptory'—that is, no reason for the challenge need be given. However, the number of these challenges is limited to between three and six for each defendant, depending on the number of people on trial and whether the proceedings are civil or criminal.

If it appears that a trial might be lengthy, a jury of 15 people may be selected.

### DID YOU KNOW?

The *Juries Act 2000* (Vic.) has been set up to protect people who serve on a jury; an employer who terminates a person for serving on a jury, or even threatens to do so, faces a fine of up to \$12 000 or one year in prison.



**hung jury**

a jury unable to reach a verdict

**FOR DISCUSSION**

Can you think of some reasons why a prosecutor or defence barrister might want to challenge a potential juror?

## The advantages and disadvantages of juries

### Advantages

Juries are selected at random from a cross-section of society so that they represent all views upheld within the community. This also means they are much less likely to have a connection to the case or to the person accused of committing the offence. This allows the jurors to bring an open, unbiased view to the evidence, allowing justice to be served in a fair manner.

As the jury is made up of members of the community, decisions made by these people are more likely to be respected and accepted by society. It also means that the legal system is able to best reflect society's values.

As a unanimous or majority decision is needed to convict or acquit a person standing trial, it means that a correct decision is more likely to be reached. If a jury is unable to reach a decision the judge can do one of two things: discharge the jury or extend their decision-making time. If the judge chooses to discharge the jury, a **hung jury** is declared, a new jury is selected and the trial is reheard. Despite the financial and emotional costs of a trial, this system is in place to ensure a correct decision is made.

The use of a jury system means that the justice system is made open for all members of the public. As jurors are everyday members of society, and so is the accused, it means that lawyers must explain the law in everyday terminology. Thus, everyone can see the legal system at work and understand what is going on, and that the courts are operating fairly.

### Disadvantages

- People have questioned whether 12 everyday members of society can really understand the complex issues raised in a legal trial.
- Some people feel that the use of a jury actually extends the legal process, making it more costly.
- Some people wonder whether a jury truly represents a cross-section of society, considering so many people are ineligible or can be excused from service.
- Some people feel that juries should be made to give reasons why they reached their verdict of guilt or innocence.

**FOR DISCUSSION**

How could some of these disadvantages be overcome in the future?



**Figure 10.1.13** There are no juries in the Dutch legal system.



**Figure 10.1.14** Japan has taken a different approach and introduced a jury system on the early 2000s. The jurors are known as 'lay judges'; most cases are heard by three professional judges and six lay judges.

### Task: Remembering and understanding

- 1 List the four courts within the Victorian court hierarchy in order from lowest to highest.
- 2 Explain what is meant by the term 'jurisdiction'.
- 3 Explain the difference between a summary offence and an indictable offence.
- 4 What is the role of a judge or justice?
- 5 How does the role of a magistrate differ from that of a judge or justice?
- 6 Explain what 'beyond reasonable doubt' means.
- 7 Explain what the jury system aims to do.
- 8 Explain the role of a jury.

### Task: Applying and analysing

- 1 Draw up a table similar to the one below and list the key court personnel and their role within it.

| Court personnel | Role |
|-----------------|------|
|                 |      |
|                 |      |
|                 |      |

- 2 For each of the cases below, determine which court in the Victorian hierarchy (or the High Court), would hear that case.
  - a Shooting someone, causing death
  - b Possession of marijuana
  - c Failure to pay speeding fines to the value of \$1500
  - d Theft of a motorbike
  - e Case involving the interpretation of the Constitution
  - f A civil case involving defamation where the claim is for \$150 000
  - g A case involving a suspicious death
  - h A case involving murder where the defendant was 17 years of age
  - i A civil case where the claim is for \$50 000
  - j An appeal from the County Court
  - k A case of negligence where the claim is for \$9000
  - l An appeal from the Magistrates' Court

## Task: Evaluating and creating

- 1 Over the course of a week, collect articles from the major newspapers that examine a case in the courts at present; then complete the questions below on your chosen case.
  - a What is the case about?
  - b Who was involved?
  - c Which court is hearing the case?
  - d What was the outcome of the case?
- 2 Choose a court role such as barrister, solicitor, judge, magistrate or tipstaff. Use the Internet to research how a person may enter into this role. Look at areas such as qualifications needed, work experience and any other skills needed. Present your findings as an information brochure.
- 3 Design a pamphlet for a prospective juror that will explain the process they will go through to discover if their services as a juror will be needed.

## Task: Assessment

### Option 1 Comparing two courts

Choose two of the courts in the Victorian hierarchy to conduct some research on. As part of your research, investigate the areas listed below.

- a Where the court is located in Victoria
- b The types of cases that are heard at the court
- c The name of the person or persons who make decisions on the cases seen at the court
- d The process that a case heard at the court goes through from start to finish
- e The rules of the court

Present your findings as a poster that compares the two courts you have investigated.

### Option 2 Debate

Prepare a classroom debate on the following topic:

'The jury system is outdated and should be abolished.'

# 10.2

## The police

*The Sydney Foot Police Force, established in 1790, was the first police force in Australia.*

NSW Police

The role of the police in society is an important one. Their job is to enforce the laws made by judges and the government, ensuring the community is protected from crime and helping to maintain a safe and orderly society. As well as enforcing the law, police have the duty to prevent and detect crime. They also may be called upon to assist in times of emergency, such as in the 2011 floods in northern Victoria or the 2009 Victorian bushfires.

**Figures 10.2.2** Police duties

**Figure 10.2.1** Police recruits



**a** Crime prevention

**b** Education



**c** Disaster management



**d** Road safety



## Police roles

### Prevention

Crime prevention is one of the most important functions of the police. There are a number of ways in which this can be done:

- 1 by patrolling areas where crimes either frequently happen or where they believe a crime is likely to occur; for example, by patrolling the nightclub district of Melbourne late at night, to prevent crimes caused by drunken patrons
- 2 by deterring people from committing crimes in the first place; this is best done by ensuring that criminals are caught and brought to justice
- 3 by educating the public about how to protect themselves and their property from crime; this is usually done through community programs such as Neighbourhood Watch. The police also have crime prevention information on their website.



**Figure 10.2.3** Neighbourhood Watch

### Detection

The second role of police is to detect and investigate crimes. The most obvious way a crime can be detected is when the police catch the offender in the act; such as when a driver is caught speeding. The police can also be called to the scene of a crime by the victim, a witness or the person who discovered the crime after it has happened. After a crime has been committed the police will undertake an investigation. This usually involves interviewing witnesses and the

person affected by the crime; they would also search the crime scene for any evidence that would link a suspect to the crime. Any evidence found would undergo forensic tests.



**Figure 10.2.4** Looking for clues: scientists at the Victoria Police Forensic Science Centre

### Prosecution

The final role of police is to prosecute offenders for certain crimes. For minor offences the police are able to issue a caution; this often happens when a young person has committed the offence for the first time, such as not wearing a helmet when riding a bicycle. Police may also hand out on-the-spot fines for certain offences, such as speeding and other traffic offences. If the person agrees with the police officer and they admit to having done the wrong thing then they simply pay the fine; however if they feel they were not in the wrong they may elect to have the matter heard in court.

Once the police have enough evidence to take a suspect to court, they charge them with the crime. The police often appear in court as expert witnesses, providing evidence to convict the accused.

#### DID YOU KNOW?

There are specially trained police officers who can act as Police Prosecutors in the Magistrates' Court, taking the place of the Crown Prosecutor.

#### FOR DISCUSSION

- 1 Why might a person issued with a fine choose to take the matter to court?
- 2 Why might a person choose to pay the fine rather than take it to court?

# Rights of the police and the individual

The police have certain rights to ensure they can perform their duties to uphold the law and to prevent and investigate crimes; however individuals within society also have certain civil rights.

## Personal information

The police have the right to obtain your name and address if they reasonably suspect that you have, or are about to, commit an offence; or if they believe you are able to help their investigations into an indictable offence. You are also required to give these details to a police officer if you have been involved in a traffic offence or have breached the *Transport Act 1983* (Vic.) and its amendments. In return, the individual whose information is being requested can ask the police officer to give their name, rank and place of duty.

## Searches

Police can conduct searches under two conditions: with a warrant, or without a warrant. A warrant is an order given by a judge or magistrate that allows the police to conduct a search. The police can search with a warrant when they want to find evidence of an offence, to secure any items that a person may intend to use in an offence or to secure stolen goods.

Police can conduct a search without a warrant if the owner of the premises agrees to the search going ahead. There are a number of circumstances that allow police to search premises without a warrant; these include situations where they feel they will locate a person who has committed a serious indictable offence (one that incurs a jail term of five or more years); has escaped from custody or is in the process of committing a serious indictable offence. They can also conduct a search if they believe that a person on the premises has a mental illness and may harm themselves or another person;

if they believe there are illegal drugs on the premises or they believe that a person present is in breach of an **intervention order**.

When a person has been arrested, the police have the right to search their clothes, body and other possessions in order to locate any concealed weapons or drugs or to secure evidence. If, while in a public area, the police suspect that a person or their vehicle may contain drugs, weapons or stolen items, they have the right to search them. Most searches conducted will be a pat-down search; this is, when the officer quickly runs their fingers over the suspect's clothing or asks them to remove the top layer of clothing for searching. A strip search is the removal and search of all of a suspect's clothing. This must be done at a police station. If the suspect is under 18, a parent or another independent adult must also be present.

## Other police rights

As well as obtaining a person's name and address and conducting searches, police have various other rights. These include:

- obtaining fingerprints from suspects over the age of 15 if they believe on reasonable grounds the person has committed an indictable offence
- collecting forensic samples such as hair, blood, saliva, fingernail scrapings etc. to assist investigations, only after informed consent has been given; a warrant is only necessary if consent is refused
- intercepting telecommunications such as telephone calls, mobile phone calls and faxes, after a warrant has been issued
- setting up surveillance devices such as cameras, listening and tracking devices; however a warrant is required first.

### intervention order

a court order preventing one person approaching another specified person, because they have threatened to inflict violence upon that person



Figure 10.2.5 Police rights

## CASE STUDY

## The rights of police to search

### Weapons searches

In early 2010, the Victorian government updated the *Control of Weapons Act 1990* (Vic.), which granted police the right to search people for weapons in public places set up as temporarily designated areas. These areas are declared by police for up to 12 hours. This can only happen if the Chief Commissioner of Police is satisfied that the area has experienced more than one act of weapon-based violence in the past 12 months and there is a likelihood it will occur again. A designated area can also be declared if there has been a violent occurrence with a weapon at a previous event or celebration and that event is happening again, with a likelihood of violence with a weapon occurring again. For example, if a person had been stabbed at the Moomba festival in 2009, then at the next Moomba festival in 2010 police could designate the area that hosts the festival as a search area and could stop and search any person, and anything in their possession, for weapons. Notice of a designated area is advertised in a daily newspaper for at least seven days before the area is designated for searches.

#### DID YOU KNOW?

The *Control of Weapons Act 1990* only covers the control of non-firearm weapons.

If the Commissioner feels that violence with a weapon is likely to occur in an area and that it is necessary to declare the area as a search area to prevent or discourage violence, he can do so without notice.

The powers police have in these areas include:

- the right to stop and search any person, any item in their possession and any vehicle or any item in that vehicle for weapons
- the right to detain a person or vehicle for any reasonable length of time deemed necessary to conduct a search
- the right to seize and detain any item the police officer suspects is a weapon
- the right to request the identity of a person, if a strip search is authorised and conducted.

A person will be charged with an offence if they obstruct or hinder a search under the Act.

From the time the legislation was introduced until May 2010, the police identified and searched for weapons at nine train stations. They searched more than 1300 people but found only 35 weapons.

There has been criticism of the legislation. When the amendment was being debated in the parliament, the Law Institute of Victoria wrote to all members of the Victorian Legislative Council, criticising the Bill and indicating that it contravened Victoria's *Charter of Human Rights and Responsibilities Act 2006* (Vic.) in relation to a person's right to privacy and liberty.

#### FOR DISCUSSION

Do you think police should have the right to declare certain areas of Victoria as designated weapons search areas?

**Figure 10.2.6** The police have the right to stop, search and seize weapons such as these knives.



### Task: Remembering and understanding

- 1 What is the role of the police in our society?
- 2 What are the three specific duties of the police that help them carry out their role?
- 3 Explain the differences between the circumstances that allow the police to conduct a search without a warrant and the circumstances when they must have a warrant to search.

### Task: Applying and analysing

- 1 For each of the situations below, explain what your rights and responsibilities are.
  - a A police officer asks you for your name and address.
  - b A police officer presents you with a warrant to conduct a search either of you or your property.
  - c A police officer asks to collect your fingerprints when you are aged 14.
- 2 Draw up a table similar to the one below and for each item in the left column, state whether a warrant is required or not.

| Item                                                      | Warrant Yes/No |
|-----------------------------------------------------------|----------------|
| Request to give your name and address                     |                |
| Request to search your property for stolen goods          |                |
| Request to search your premises for an escaped felon      |                |
| Request to frisk your person for weapons                  |                |
| Request to search your vehicle for drugs                  |                |
| Request to obtain hair samples for a police investigation |                |
| Police wish to set up surveillance on your telephone line |                |

### Task: Evaluating and creating

Log on to Pearson Places and follow the prompts to the Victoria Police website to obtain some more information regarding weapons search areas. Draw up an informative guide to assist young people in understanding their rights when it comes to designated search areas. Present your guide as either a multimedia campaign or print campaign.



### Task: Assessment

Conduct some research into the different roles within the police force, using the following questions as a guide:

- 1 What roles are available to police officers?
- 2 How does a police officer get into that area of the police force?
- 3 What specifically is each area of the police force responsible for?
- 4 What are the hazards, if any, of working within that area of the police force?

Present your findings as an oral presentation.



# CHAPTER ELEVEN

# The LAW and you

## Introduction

As a member of society, the law affects you in many ways and in many different areas. This chapter will examine how the law relates to you as a user of technology, as a potential owner of a motor vehicle and therefore a road user, and as a consumer. This chapter will also examine human rights and the rights and responsibilities of citizens.

**Figure 11.1.0** Freedom carries its own rights and responsibilities



# 11.1

## Human rights

*All human beings are born free and equal in dignity and rights*

Article 1, Universal Declaration of Human Rights, 1948

**Figure 11.1.1** Eleanor Roosevelt, one of the writers of the Declaration of Human Rights, said 'the destiny of human rights is in the hands of all our citizens in all our communities'.



Being a citizen of Australia brings with it many **rights**, all with the aim of making society a better place to live. Citizenship also carries a number of responsibilities; that is, ideas and behaviours that all members of society are expected to abide by and follow.

Some examples of these responsibilities include:

- observing the law at all levels
- enrolling to vote at the legal age of eighteen
- voting at all elections
- serving on a jury if called upon
- accepting Australian society and its principles
- accepting the ideas of Australian society, including the rights to freedom of speech and religion, democracy, tolerance and equality.

Many of these responsibilities are also reflected in the rights that citizenship affords. Examples of some of the rights that Australian citizens have include:

- the right to vote
- the right to permanent residency in Australia
- the right to obtain an Australian passport
- the right to seek assistance overseas from Australian consulates
- the right to serve on a jury
- the right to stand for election as a member of all levels of government.

### right

the entitlement, privilege or power to do something



**Figure 11.1.2** Rights and responsibilities of Australian citizens

Most of the rights of Australian citizens, such as the right to a fair trial, are protected by law. However, not all rights can be or have been recognised by the law and the Constitution. These are classified as implied rights, such as the implied right to freedom of political communication; if they are violated, the courts may act to restore them. The Australian Constitution does not include any reference to 'freedom of speech'.

After the events of World War II, the United Nations (UN) was created with a membership of 51 countries and in 1948 the Universal Declaration of Human Rights (UDHR) was drawn up. The rights set out in the Declaration aim to ensure that every citizen in every country is provided with the basic rights to which all human beings are entitled.

The Declaration contained 30 articles, most of which defined rights that every person should be able to enjoy. These rights are set out in Figure 11.1.4.

### DID YOU KNOW?

Australia was one of eight member states that helped draft the Universal Declaration of Human Rights. Dr H V Evatt, Australia's External Affairs Minister in 1948, was president of the General Assembly when the declaration was adopted.



**Figure 11.1.3** The United Nations headquarters in New York City, the location of the General Assembly

- Article 1** All humans are born free and equal in dignity and human rights.
- Article 2** Everyone is entitled to rights and freedoms without discrimination based on race, colour, sex, language, religion, nationality, political opinion, birth or status.
- Article 3** Everyone has the right to life, liberty and security of person.
- Article 4** No one shall be held in slavery or servitude.
- Article 5** No one shall be subjected to torture, cruel, inhumane or degrading treatment or punishment.
- Article 6** Everyone has the right to recognition as a person before the law.
- Article 7** All are equal before the law and entitled to its protection.
- Article 8** Everyone has the right to protection in law from breaches of human rights.
- Article 9** No one shall be subjected to arbitrary arrest, detention or exile.
- Article 10** Everyone has the right to a fair trial.
- Article 11** Everyone charged with a criminal offence has the right to be presumed innocent until proven guilty.
- Article 12** Governments should not interfere unfairly in people's lives.
- Article 13** Everyone has the right to freedom of movement and residence within their country, and the right to leave their country and return to it.
- Article 14** All people should be allowed to seek asylum in another country if they fear persecution in their own country.
- Article 15** Everyone has the right to a nationality, and to change that nationality.
- Article 16** Men and women have the right to marry and have a family; and have equal rights within marriage.
- Article 17** Everyone has the right to own property.
- Article 18** Everyone has the right to freedom of thought, conscience and religion.
- Article 19** Everyone has the right to freedom of opinion and expression.
- Article 20** Everyone has the right to freedom of peaceful assembly and association.
- Article 21** Everyone has the right to participate in government.
- Article 22** Everyone has the right to social security.
- Article 23** Everyone has the right to work, to choose where they work and to receive equal pay for equal work.
- Article 24** Everyone has the right to rest and leisure, limited working hours and paid holidays.
- Article 25** Everyone has the right to an adequate standard of living; mothers and children are entitled to special care.
- Article 26** Everyone has the right to an education.
- Article 27** Everyone has the right to participate in the cultural life of the community.
- Article 28** Everyone is entitled to a social and international order that allows these rights and freedoms to be achieved.
- Article 29** Everyone has duties in the community in which alone the free and full development of his personality is possible.
- Article 30** Nothing in this Declaration may be interpreted as implying for any State, group or person any right to engage in any activity or to perform any act aimed at the destruction of any of the rights and freedoms set forth herein.

*Source: United Nations, Universal Declaration of Human Rights, 1948 (adapted)*

### FOR DISCUSSION

- 1 Does everyone in Australia have access to the rights set out in the Universal Declaration of Human Rights?
- 2 Should all members of society have the same rights?
- 3 Under what circumstances might some people feel that not all members of society should have the same rights?

**Figure 11.1.4** The rights contained in the Universal Declaration of Human Rights



**subversion**

actions intended to weaken, destroy or overthrow a government

## Achieving human rights

The Universal Declaration of Human Rights sets out and describes the rights of all human beings, but it is a declaration only, not a law. So how are these rights achieved within society? Governments usually include these rights by codifying them (writing them into the laws of their nation). Australia is one country that has done this in many areas of law, such as the *Racial Discrimination Act 1975* (Cth), the *Sex Discrimination Act 1984* (Cth) and the *Equal Opportunity Act 1995* (Vic.).

The UDHR is not the only international agreement that deals with human rights. The United Nations has established many treaties and covenants, such as the International Covenant on Civil and Political Rights (1966) and the Convention on the Rights of the Child (1989). A nation that wants to uphold these rights for its citizens first signs the agreement and then ratifies it by enacting domestic laws that embody the terms of the agreement.

(Go back to page 236 and read again how the federal government was able to stop the construction of the Franklin dam in Tasmania; this shows how an international agreement becomes part of the law of Australia.)

If a nation that is a signatory to a treaty or covenant acts in breach of its obligations, other nations are able to step in and take action against that country; this action may include trade embargoes, taking members of government to court or perhaps even war.

The United Nations also has the power to take action when nations are not doing all they can to uphold civil rights. The UN has the right to check up on nations by asking them to submit reports discussing their past actions on human rights and their plans for improving them in the future. The UN can also set up international tribunals to prosecute individuals who choose to abuse human rights within their nation.

### Liu Xiaobo

The 54-year-old scholar and author, who won the [Nobel Peace] prize for his outstanding contribution to human rights, is currently serving an 11-year sentence on charges of 'inciting subversion of state power' imposed after an unfair trial.

Liu Xiaobo co-authored Charter 08, a proposal calling for legal and political reform in China to establish a democratic system that respects human rights. It was originally signed by around 300 Chinese scholars, lawyers and officials, and timed to mark International Human Rights Day, 10 December 2008.

Liu was detained on 8 December 2008, and the Charter was published online the next day. Since then, many of the original signatories have been questioned and harassed by the Chinese authorities. Meanwhile a further 12 000 people have signed in support online.

Liu Xiaobo was sentenced on 25 December 2009, the day after a two-hour trial and more than a year after he was first detained. Articles he wrote about the June 1989 pro-democracy movement were also cited in his verdict as evidence of 'inciting subversion'.

### Hu Jia

Hu Jia, a renowned Chinese human rights activist, is serving three-and-a-half years in prison after giving interviews to overseas media and writing articles for the Internet.

In April 2010, he was convicted of 'inciting **subversion** of state power'. The 35-year-old, who started out as an AIDS activist seven years ago, has been repeatedly harassed and beaten by police because of his activities and outspokenness.

'Not counting one time in 2002, when Hu was detained by police while interviewing AIDS village inhabitants, he will have been under various forms of imprisonment for exactly four years on 3 April 2008,' said his wife Zeng Jinyan, who herself remains under house arrest with the couple's baby daughter.

### DID YOU KNOW?

Victoria was the first state in Australia to adopt a Charter of Human Rights. In 2006, the *Charter of Human Rights and Responsibilities Act 2006* (Vic.) was passed, which set out the rights to which Victorians are entitled, including dignity, respect, freedom and equality.

## Chen Guangcheng

When authorities began forcing women from the village of Linyi to have abortions and sterilisations (under **China's one-child policy**) Chen Guangcheng decided to speak up.

The blind, self-trained lawyer helped the distraught villagers with a lawsuit against local authorities, whose adherence to China's strict birth quotas had reportedly affected thousands of women.

Since then he's been physically abused, placed under house arrest and jailed.

Chen Guangcheng (36) was last year awarded the Magsaysay Award, Asia's equivalent of the Nobel Peace Prize, and has been named by *Time* magazine as one of the world's 100 most influential people.

He is now serving four years and three months in a Chinese prison for 'damaging public property and gathering people to block traffic'.

Source: Amnesty International

Figure 11.1.5 Human rights violations in China

## Human rights around the world

Despite all the measures put in place by the United Nations to ensure that all human beings have access to the basic human rights, not all nations have supported all these human rights. There are many people in power around the world who feel that giving people certain rights such as freedom, equality and justice would undermine their political power. For example, in the nation of Turkmenistan, opposition to the government's beliefs and power is not tolerated and any criticism is crushed immediately. The government has also banned free press, which includes newspapers, television and radio, and has also banned opera, ballet and the circus from being performed within the nation.

### FOR DISCUSSION

Is it the responsibility of other nations to point out when human rights are being abused?

Another reason why not all people around the world have the same human rights is cultural tradition; for example, there are some groups around the world who don't see the benefit of sending their female children to school as their traditional role in society is to be wives and look after the men; however, the United Nations and people in other societies feel that they are denying these children a basic and necessary right that could help improve their futures.

### China's one-child policy

a policy designed to limit population growth by permitting couples to only having one child, introduced by the Chinese authorities in 1979



Figure 11.1.6 Women workers in Mexico

A further reason why some nations don't uphold human rights is economic. Many countries, especially developing countries, have set up export processing zones (EPZs) with tax-free or low-tax status to encourage multinational companies to invest in production facilities that provide local employment. However, abuses of human rights sometimes occur in these zones. Human Rights Watch, a non-government organisation, reported in 1996 that female workers in Mexican EPZs were obliged to have a pregnancy test as a condition

### DID YOU KNOW?

The Nobel Peace Prize is awarded each year to an individual or organisation that promotes peace. The first prize was awarded in 1901 jointly to Henry Dunant, the founder of the Red Cross, and Frédéric Passy, a leading international pacifist of his time.

**political prisoner**

a person who is imprisoned for their political beliefs or actions

**apartheid**

a policy or action that segregates on the basis of race

of employment. In some of these EPZs, women were routinely subjected to humiliating physical exams and if they were found to be pregnant then they were fired. This violated not only the UDHR, but also the labour laws of Mexico. However, as the factories in these zones provided jobs for over half a million people and earned almost US\$30 billion in export revenue for the government, the government officials refused to enforce the labour laws and the basic right to freedom from discrimination based on sex.

## Who helps to defend and promote human rights?

There are many people and organisations besides the United Nations that aim to defend the rights of all human beings around the world. Some of the individuals who are dedicated to ensuring that all humans have access to the same rights, are Nelson Mandela and Bishop Desmond Tutu in South Africa, Aung San Suu Kyi in Burma, Shirin Ebadi in Iran, Liu Xiaobo in China and Felicia Langer and Ezra Nawi in Israel. Groups such as Amnesty International and Human Rights Watch fight for human rights all over the world; while some groups such as the Anti Slavery Project and the International Labour Organization fight for specific human rights the world over.

The Dalai Lama (the spiritual leader of Tibetan Buddhists in exile) has made it his mission to use his influence to highlight human rights violations not only in his own country of Tibet but everywhere that they occur, and to campaign for the improvement of human rights in general. The Dalai Lama's main focus is on the right to religious freedom and respect for indigenous cultures.

**Figure 11.1.7** Human rights activists around the world



**a** Nelson Mandela—a **political prisoner** for 27 years, he was imprisoned for his opposition to **apartheid**. He was president of South Africa from 1994 to 1999.



**b** Aung San Suu Kyi—was placed under house arrest in Myanmar (Burma) in 1990, when she won the general election. She was released from detention in November 2010 and continues to work for a free Myanmar.

### DID YOU KNOW?

George Soros, an American billionaire, will donate US\$10 million each year for ten years to Human Rights Watch, to help expand and deepen their global reach to help protect and promote human rights around the world.



## How are human rights violators punished?

If members of society in a fair and just country feel that their rights have been violated, they are able to take the offender to court. However, there are times when this may not be possible, such as when countries are at war, when countries are being ruled by oppressive governments or when people in one country want to take action against something occurring in another.

So how do countries and international organisations help to bring justice when nations and individuals violate human rights? There are several different ways: courts and tribunals set up by the UN and other regional organisations of member states; actions by regional governments and non-government bodies; and actions by governments and individuals.

## Courts and tribunals

- The International Court of Justice in The Hague in the Netherlands is the principal court of the UN; it was set up to settle legal disputes between member nations and to give advisory opinions on matters of international law.
- The Council of Europe has set up the European Court of Human Rights to try cases from individuals and states where civil and political rights have been violated. More than 10 000 cases have been heard in which citizens of member states have taken their governments to the Court for breaches of these rights.
- The International Criminal Court was set up in 1998 by the UN to try individuals who have violated human rights where their own nation has failed to prosecute. The effectiveness of the court is limited because nations cannot be compelled to accept the court's authority.
- From time to time, the UN sets up special tribunals to deal with a specific area of conflict, such as genocide in Rwanda or ethnic cleansing in the former Yugoslavia.

### DID YOU KNOW?

The United States is not a signatory to the International Court of Justice and does not recognise the court.

### DID YOU KNOW?

The United States has signed but not ratified the treaty that acknowledges and recognises the powers of the International Criminal Court.

Figure 11.1.8 Some international courts



a International Court of Justice, the Peace Palace, The Hague, Netherlands



b European Court of Human Rights, Strasbourg



## Trade bans and consumer action

One way in which countries have found it possible to punish human rights violators in other countries is through trade embargoes; this usually means that countries refuse to trade with these countries until their human rights record is improved. Individuals can also take action. An example of this occurred in the 1970s and 1980s when consumers the world over refused to purchase any product that was made in South Africa as a protest against the apartheid regime. Governments also refused to sell aircraft and weapons to the South African armed forces because of the oppressive regime ruling the nation during this time.

## Actions of regional governments and non-government bodies

- Turkey's entry to the European Union in 2002 was delayed, as the leaders of the EU felt that the Turkish people did not have full human rights.
- The World Bank threatened to withdraw aid from Indonesia if it continued to kill East Timorese civilians who voted for independence from Indonesia.

## Difficulties in protecting civilians from human rights violations

Throughout the world there are too many people whose human rights have been violated. There are international courts to prosecute human rights violators, but not all countries are signatories to these courts and it can be difficult to locate and bring the perpetrators to justice. The imposition of United Nations sanctions for human rights violations can be a difficult, drawn-out process. Sanctions need to be approved

by the UN Security Council, and any one of the five permanent members of the Security Council can veto the sanction. The concepts of state sovereignty and national self-interest often come before the rights of civilians.

## Sudan

In 2004, the United Nations Security Council imposed sanctions on the government of Sudan in relation to ongoing human rights violations against civilians. It has been estimated that more than 300 000 people were killed in the years of violence in Darfur, while a further two million people were displaced. Darfur is located in the oil-rich region of southern Sudan. In 2005, the sanctions were modified and in 2010 an arms embargo was strengthened. However, the imposition of sanctions in Sudan has been complicated by China and Russia; both countries have strong trade links with the government in Sudan's capital city, Khartoum, and have been very reluctant supporters of the sanctions. It has been reported that China has done little to enforce the arms embargo in Sudan. China, in particular, has become one of Sudan's main trading partners and has helped to develop its oil industry. The Chinese government argued that there were better means than sanctions to end the violence in Darfur.



**Figure 11.1.9** Victims of the ongoing humanitarian crisis in Darfur, Sudan

### DID YOU KNOW?

The UN Security Council has five permanent members: the United States, the United Kingdom, France, Russia and China.

### Task: Remembering and understanding

- 1 Explain what is meant by the term 'rights'.
- 2 Explain what is meant by the term 'responsibilities'.
- 3 Explain what the term 'human rights' refers to.
- 4 What is the Universal Declaration of Human Rights?
- 5 Explain some of the reasons why not all humans have the same access to human rights.

### Task: Applying and analysing

- 1 What are some of the implied rights in Australian society?
- 2 What are some of the implied rights within your school?
- 3 Imagine you are asked to come up with a speech to present to a group of politicians from a country that violates human rights. Make a list of five reasons you would put forward to explain why they need to change their ways and improve the provision of basic human rights in their country.

### Task: Evaluating and creating

- 1 Design a poster that advertises to prospective Australians the main rights or responsibilities of Australian citizens.
- 2 Draw up the table below in your workbook ensuring it has space for 26 Articles of the Universal Declaration of Human Rights; then complete the activity that follows.

| Article of Declaration | Country/countries that uphold this right | Country/countries that do not uphold this right |
|------------------------|------------------------------------------|-------------------------------------------------|
|                        |                                          |                                                 |
|                        |                                          |                                                 |
|                        |                                          |                                                 |

Refer back to Figure 11.1.4 to find the Universal Declaration of Human Rights, or log on to Pearson Places and follow the prompts to the United Nations website to find the full version. For each article from 2 to 27, use the Internet to discover two or three countries that uphold the human right for their people and two or three countries that violate this human right. Then answer the following questions:

- a Does one continent appear to have more human rights violations than another?
- b Is there one category of human rights (social, political, economic) that is more violated than another?



### Task: Assessment

Prepare a classroom debate on the following topic:

'Should the implied rights of citizenship be enshrined in (written into) law?'

# 11.2

## Technology and the law

*Technology has advanced more in the last thirty years than in the last two thousand.*

Niels Bohr

Over the past 20 years the field of information technology has been one of the fastest growing and changing areas around the world. Mobile phones have become an essential part of everyday life, as has access to computers and the Internet. However, with these advances have come new crimes and laws to protect and punish those who use and abuse these technologies.

**Figure 11.2.1** The law needs to respond to new technology and how it is being used.



### Computers and the law

The rise of computer technology has meant that crime has become more sophisticated and harder to detect; because of computers and the Internet, some crimes are no longer committed locally, but may be occurring in a different state or country than the one where the victim lives. Crimes that used to be committed in person, such as theft, property damage and fraud, can now be committed via a computer. This means criminals have become faceless, unidentifiable people.

There are five different types of computer crime to be aware of: hacking, identity fraud, deception, piracy and skimming.



Figure 11.2.2 A white-collar criminal

## Hacking

Hacking is the information technology version of **burglary**; this is where one person uses their computer and modem to gain access to another person's computer with the aim of doing one of the following: stealing personal or business information; gaining free access to a computer system; altering or tampering with the other person's computer to obtain a financial gain; causing damage to a program or data on the other person's computer.

## Identity fraud

Fraud is a crime that occurs when someone deceives or acts dishonestly towards others. Identity fraud is when an element of a person's identification, such as their address, bank account details or birth records, are taken and used for an unlawful reason, such as financial gain or to evade the law. Some of the more common reasons for using someone else's information include obtaining a credit card or loan, setting up accounts including mobile phones and utilities such as gas and electricity or to obtain services such as those provided by Centrelink. These services or items are set up in the name of the person whose information has been stolen, but are used by the criminal; it often takes a while for the person whose

identity has been stolen to realise this, by which time thousands of dollars may have been fraudulently obtained. It is then up to the victim to prove that they were not the one who set up the accounts or accessed the services.

There are numerous ways to protect yourself from identity fraud via your computer and other electronic devices. Some of these are listed below.

- Never write down your PIN or account details; and never leave this information near your bank cards.
- Check your bank account and credit card statements to ensure all withdrawals and purchases were made by you.
- Keep all paperwork with identification information in a secure place.
- Ensure passwords are hard for people to crack; use different passwords for different accounts to ensure someone cannot access all of your information if one password is cracked.
- Do not give out personal information to anyone, especially over the phone, unless you can verify that they are from a legitimate organisation you can trust.

## Deception

Another form of fraud is deception, whereby one person persuades another to believe something to be true when in fact it is false. For example, since the early 2000s thousands of people the world over have been deceived into giving up millions of dollars to a Nigerian crime network. The victims received emails that claimed that they could share in a large sum of money that was to be transferred out of the country. The letter may have claimed that the money was trapped in a central bank during a civil war or **coup**; or that there was a large inheritance that was difficult to access because of government restriction or taxes in the scammer's country. The email asked the victim to pay money or provide their bank account details to help transfer the money out of the country. The money originally offered was never forwarded.

### burglary

entering a building with the intent to steal or commit another offence

### coup

violent or illegal change of government

### DID YOU KNOW?

Most computer-based crimes are committed by professional people. They are known as white-collar crimes because of the white shirts traditionally worn by professional workers.

### DID YOU KNOW?

The *Crimes Act 1958* (Vic.) has been amended to include the act of intentionally causing a computer to make a response that the person committing the act is not permitted to do.



**copyright**

the exclusive right to ownership of a work

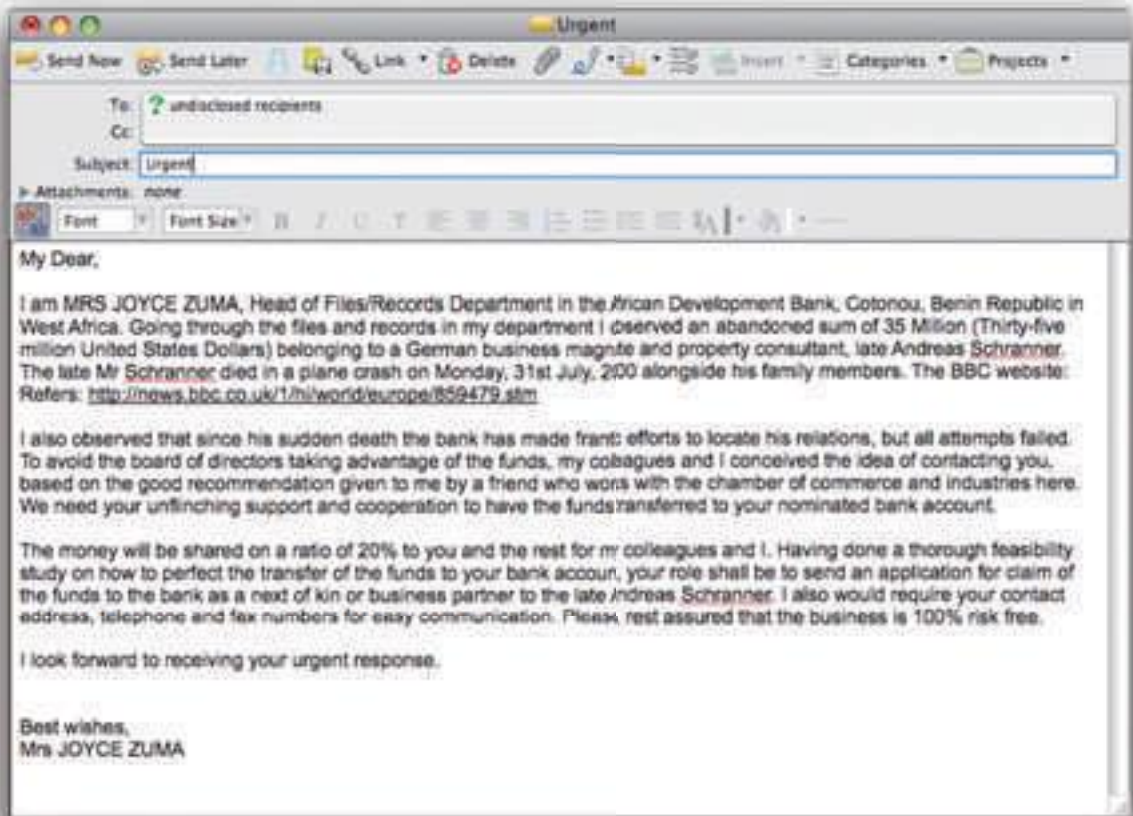


Figure 11.2.3 A Nigerian email scam

## Piracy

Piracy refers to the illegal copying of material that is subject to **copyright**; in the case of information technology this refers to software. As software is someone else's work and owned by that person, just like books, music and artwork are, anyone wanting to use that work must seek permission from the owner to do so; a fee may also apply. Items that are specifically held under copyright in the area of software are the program and the associated manual. The problem with protecting software copyright is that it is very easy to copy, but tracing the copies back to the original copier is difficult.

### FOR DISCUSSION

Can you think of any other products that are available online that might be subject to copyright laws?

## Skimming

Skimming occurs when the information from your bank or credit card is taken and used by someone else. Skimming usually occurs when you hand over your card to make a transaction in a retail store or food outlet; the card is taken by the worker to complete the transaction and while out of your sight the card gets swiped through a portable skimming machine. The skimming machine downloads to a computer all the important information needed, such as the card number, the owner's name and any other personal information. This information is then printed onto a blank card or stored in a database for use by the skimmer. Purchases can then be made using the new card or via online transactions. A new method for skimming cards has become apparent recently with banks reporting skimmers using automatic teller machines (ATMs) to skim customer cards.

Banks became aware of the devices on their machines after customers complained of transactions and withdrawals that were unexplained. New technologies to combat skimming have been developed, such as microchips on cards that make it harder for information to be retrieved.



Figure 11.2.4 A microchip in a credit card

## Technology and your privacy

The continual spread of computer use in all sectors of society has made it possible for individuals and organisations to collect and store large volumes of personal information with great ease. Governments at both federal and state levels have developed laws that allow individuals to access information that is stored about them in most government databases and documents; these laws are known as freedom-of-information (FOI) laws. The Commonwealth and Victorian governments have also established separate Privacy Commissioners, who have established principles on how personal information can be collected and stored by businesses and organisations. For example, personal information can only be collected if it is:

- deemed necessary
- done lawfully and fairly
- not disclosed to other parties
- not used for any other reason than it was originally collected
- done with the consent of the individual.

If someone feels their personal information has been mishandled they can make a complaint to the Commissioner.



Figure 11.2.5 The Australian Privacy Commissioner, Timothy Pilgrim

### cyber bullying

the use of communications technology to bully another person or persons

## Internet issues

The rise of the Internet has seen the rise of new legal issues, many of which affect young people. Issues that people need to be aware of when it comes to the Internet include those associated with pornography, copyright, circulating 'viruses', email abuse and privacy.

Email and the social media are the dominant forms of communication in the early 21st century. However, there are many issues that people need to be aware of when it comes to the law. For instance, many employers have been known to fire staff who have misused their internal email system to send mail that may be perceived as offensive; this has sometimes included emails that were originally sent as humorous time-fillers. Email has, however, also been used to find and capture criminals, including those who have committed sexual offences.

Chat rooms and social network sites such as MySpace and Facebook have also raised new legal issues. Some of these issues include the abuse of children by adults who use the sites to have explicit conversations or to access inappropriate images; or **cyber bullying**, where individuals continue the face-to-face bullying that occurs at school or in the workplace online via the chat rooms and social network sites. Both of these issues are hard to police, as it is often difficult to identify the person behind the inappropriate behaviour.

### DID YOU KNOW?

Google keeps a record of every user's search enquiries. In 2006, the company won a court case against the US State Department, which had requested that Google hand over its records of users' searches.

### FOR DISCUSSION

- 1 What rules are you aware of that social network sites such as MySpace and Facebook have put in place to help protect their users?
- 2 Do you know who to speak to if you feel unsafe on these sites?

## CASE STUDY

## Anonymity in the social media

*Cohen v. Google***vilified**

to be spoken of maliciously (cruelly) by another person

**defamatory**

intended to destroy or attempt to destroy someone's good reputation

**anonymous**

having no known or acknowledged name or authorship

**libellous**

a false or derogatory statement about another person, written, broadcast or printed

**allege**

to declare or announce something without actual proof

In 2008, New York model Liskula Cohen discovered by chance that there was a five-blog post called 'Skanks in New York' dedicated to comments about her that were not at all flattering, including photos and comments that **vilified** her. Liskula saw photos that had been taken out of context and cropped to convey her in a poor light and read comments about her that were derogatory and **defamatory**. And all this had been created by an **anonymous** blogger.

Liskula first attempted to find out who the blogger was but when she contacted Google they refused to reveal the name of the blogger, citing privacy. In response to Google's refusal, Liskula Cohen then took Google to court to compel them to reveal the name of the blogger, whose posts she described as **libellous** and negatively affecting her reputation. Google was forced to hand over the identity of the blogger after the New York Supreme Court ordered it to do so. The court rejected Google's argument that 'the Internet serves as a modern-day forum for conveying personal opinion and that statements found on a blog cannot be reasonably understood as factual assertions'.

The blogger was revealed to be a fashion student Rosemary Port, an acquaintance of Liskula's about whom she had **allegedly** made a negative comment.

Once the blogger had been identified, Liskula Cohen could then initiate a defamation case. Liskula did not sue Rosemary Port and dropped her \$3 million defamation case; but she did sit down with her to work out their differences. She did, however, ask for a public apology because she has so publicly been vilified.

Google sent Rosemary Port a legal bill of approximately US\$100 000, in order to recover their court costs.

Figure 11.2.6 Liskula Cohen outside the New York Supreme Court

## FOR DISCUSSION

- 1 Should Google have been forced to hand over the name of the anonymous blogger?
- 2 Should Google have been made responsible for what was on the blog?
- 3 Should comments on the Internet be totally anonymous?
- 4 Can you describe a situation in which you think it should be possible to make comments anonymously?



**Task: Remembering and understanding**

- 1 Explain what the crime of hacking involves.
- 2 Explain why software piracy is hard to control.
- 3 Under what circumstances can your personal information be obtained and stored?

**Task: Applying and analysing**

- 1 For each of the cases below, state which technology-based crime or issue applies.
  - a Bianca sends an email to all parents in her child's dance class asking them to donate money to the class so that they can host a concert with brand new costumes. When the money has been given to Bianca, she uses the money to buy her family a holiday instead of giving the money to the dance class.
  - b Trinh works for a crime gang that goes to different ATMs and places devices on them that read the personal information of customers; this information is then used to create new credit cards.
  - c Olga has access to the personal information of all staff in her workplace via an electronic database. She has used this information to obtain various loans and social services under different names.
  - d Ashley has purchased computer games for personal use; however he has also made copies of these games to sell to his friends and at the local computer swap meet.
  - e Rainer runs a retail store that collects personal information from its customers as part of its loyalty program. Rainer has taken this information and sold it to various companies so they can send his customers special offers via mail and email.
  - f Oscar chats to numerous young people online in chat rooms, but he doesn't use his real name. He often uses different identities depending on the person he is speaking to.

**Task: Evaluating and creating**

- 1 Conduct a survey amongst your classmates that looks at the issue of Internet privacy and security. Determine how many students share various forms of personal information with their friends and with strangers over the Internet, whether by email, in chat rooms or on social network sites. Present your findings in graph format.

**Task: Assessment**

- 1 Create a poster that informs young people on how to protect themselves against one of the following crimes: skimming, fraud, deception, email scams or invasion of privacy. Remember to outline how the crime occurs and the ways in which they can protect themselves from falling victim to it.
- 2 Conduct a classroom debate on the following topic:  
'Should Google be able to keep a record of all users' search enquiries?'  
Prepare for the debate by:
  - including arguments for and against the topic
  - finding similar examples about privacy issues.



# 11.3

## Motor vehicles and the law

### graduated licensing system

licensing system that allows drivers to move through various levels as they gain experience

*The number of young drivers (18–25) killed on Victorian roads in 2009 was 62, which was 10 fewer than in 2008.*

RACV

The car has become the main form of transport in our society and an integral part of our lifestyle; because of this, the legal system has developed many laws that aim to protect road and vehicle users by setting boundaries for acceptable conduct: laws relate to licensing, road safety, alcohol use and car safety.

### Licensing

In Victoria there are three stages of the licensing process before a full driver's licence can be held: the learner's permit and the two-stage probationary licence. Each driver under the age of 21 years must go through all three stages, gaining skills and experiences as they go. This system was introduced to help reduce the road toll and make Victoria's drivers safer. This new licensing system is known as the **graduated licensing system**.

### Learner permit

Anyone who is over the age of 16 is legally able to obtain a learner permit for a car (over the age of 18 years to obtain a permit for a motorcycle); however, there are a number of conditions and requirements that need to be followed.

- An application must be filled in and submitted to VicRoads.
- A road laws knowledge test must be passed. This is a multiple-choice test about road laws and road safety. The



Figure 11.3.1 L plate

prospective learner can obtain a Road to Solo Driving Handbook from VicRoads, which outlines the laws that all drivers need to know before getting on the roads.

- Evidence of identity and Victorian residency must be shown. Two original evidence-of-identity documents, such as a birth certificate or passport, and a document that shows your current address are needed. Any documents not in English must be officially translated.
- An eyesight test must be passed. If the driver needs to wear glasses or contact lenses while driving, this will be recorded on the learner's permit.

Once the learner's permit has been obtained, there are certain conditions that the learner must meet before moving on to obtaining their probationary licence and certain restrictions they must drive under.

### Driving restrictions for learner drivers

- All learner drivers must drive while being supervised by a full licence holder; this can be a professional driving instructor or a friend or relative. The

learner and supervisor must carry their learner permit and full licence while in the car.

- When driving, a learner driver must display the yellow L plate on both the front and rear of the vehicle; this can be the windows or the body of the car.
- When driving, the learner must have a blood alcohol reading of zero and their supervisor must have a blood alcohol level no higher than 0.05. An authorised driving instructor must have a blood alcohol reading of zero.
- Learner drivers are not permitted to tow other vehicles or trailers.
- Learner drivers must not use a mobile phone at any time. This includes phones in a hands-free device or equipped with Bluetooth technology.

### Driving conditions for learner drivers

All learner drivers under the age of 21 must complete a driving log; there must be at least 120 hours of supervised driving recorded in this log, with driving completed under as many different conditions as possible.

Figure 11.3.2 VicRoads Learner Logbook

| Date                                                                           | Time        |              |                                   |                                                                                                                                                                 |                                         |                                                                                                                                                                             | Car rego                                                                                                                                             | Odometer reading |        |
|--------------------------------------------------------------------------------|-------------|--------------|-----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------|
|                                                                                | Start am/pm | Finish am/pm | Driving time this trip (hrs/mins) | Driving time running total                                                                                                                                      | Night driving time this trip (hrs/mins) | Night driving time running total                                                                                                                                            |                                                                                                                                                      | Start            | Finish |
|                                                                                |             |              |                                   | Total – prev. page<br>hrs/mins: 52 h 10 m                                                                                                                       |                                         | Total – prev. page<br>hrs/mins: 5 h 10 m                                                                                                                                    |                                                                                                                                                      |                  |        |
| 02.07.10                                                                       | 2pm         | 2.30pm       | 30 m                              | 52 h 40 m                                                                                                                                                       | 0                                       | 5 h 10 m                                                                                                                                                                    | XYZ 123                                                                                                                                              | 123456           | 123481 |
| 07.07.10                                                                       | 11am        | 11.45am      | 45 m                              | 53 h 25 m                                                                                                                                                       | 0                                       | 5 h 10 m                                                                                                                                                                    | XYZ 123                                                                                                                                              | 123671           | 123721 |
| 08.07.10                                                                       | 7pm         | 8.15pm       | 1 h 15 m                          | 54 h 40 m                                                                                                                                                       | 1 h 15 m                                | 6 h 25 m                                                                                                                                                                    | XYZ 123                                                                                                                                              | 123721           | 123819 |
| ↑                                                                              | ↑           | ↑            | ↑                                 | ↑                                                                                                                                                               |                                         | ↑                                                                                                                                                                           | ↑                                                                                                                                                    | ↑                | ↑      |
| Record the date, time and duration of your practice sessions in these columns. |             |              |                                   | Record your driving time running total. Don't forget, when you get to the bottom of the page, move your driving time running total to the top of the next page. |                                         | Record your night driving time running total. Don't forget, when you get to the bottom of the page, move your night driving time running total to the top of the next page. | Record the registration of the car you are using for driving practice and the odometer reading at the beginning and the end of each driving session. |                  |        |
|                                                                                |             |              |                                   |                                                                                                                                                                 |                                         |                                                                                                                                                                             |                                                                                                                                                      |                  |        |
|                                                                                |             |              |                                   |                                                                                                                                                                 |                                         |                                                                                                                                                                             |                                                                                                                                                      |                  |        |
|                                                                                |             |              |                                   | <b>Total driving time – this page</b><br>hrs/mins: 54 h 40 m                                                                                                    |                                         | <b>Total night driving time – this page</b><br>hrs/mins: 6 h 25 m                                                                                                           |                                                                                                                                                      |                  |        |

**Warning:** Heavy penalties apply for false or misleading entries.

Driving conditions can include wet roads, country and city roads, and must include at least ten hours of night driving. The log must be kept in the official VicRoads logbook and must be signed by the supervisor after each session; if the record appears to be tampered with or falsified this can hinder the chances of the learner obtaining their probationary licence.

Learner drivers must hold their learner's permit for a specified minimum period before trying to obtain a probationary licence. For those under the age of 21, this is one year, while for those aged 21 to 24 it is six months and for those aged 25 or over, three months.

## Probationary licences

In Victoria there is a two-stage probationary licensing system: P1 and P2 licences. There are a number of conditions that must be met in order to gain the probationary licence (the P1 licence).

- A booking must be made with VicRoads.
- The applicant must show proof of 120 hours of driving while holding a learner permit, with at least 10 hours at night, via the VicRoads Learner Logbook.
- A practical drive test and a hazard perception test must be passed. The hazard perception test must be passed before a drive test can be conducted. The drive test ensures that the driver can control the car, obey road rules and work with other road users, and that they can drive safely.
- Evidence of identity and age must be supplied; the same documents as those provided for gaining a learner permit can be used (a learner permit card will suffice).
- An eye test must be passed; as with the learner permit, if glasses or contact lenses are needed while driving, this will be recorded on the probationary licence.

Once the above conditions have been met, the driver (if under the age of 21 years) will receive a P1 probationary licence, which they will hold for a minimum of a

year. If they have had a safe driving record over that year then they can move on to the P2 probationary licence, which must be held for a minimum of three more years. A driver over the age of 21 years will receive a P2 probationary licence.

## Conditions and restrictions

There are different conditions and restrictions placed on P1 and P2 drivers, which include the following.

- Both P1 and P2 drivers must display the relevant P plate on front and rear of vehicle—red for P1 drivers, green for P2 drivers.
- Both P1 and P2 drivers must carry their licence with them while driving and have a zero blood alcohol level.
- P1 drivers, like learner drivers, are not allowed to use a mobile phone—including hands-free and Bluetooth phones—at any time. However, P2 drivers are allowed to use a mobile phone as long as it is not hand-held.
- P1 and P2 drivers are not allowed to drive probationary prohibited vehicles; for instance, those with a V8 engine. P1 drivers are not allowed to tow other vehicles or trailers unless for work and at the request of the employer, or when driving solely in connection with agriculture, horticulture, dairying, pastoral or commercial fishing activities, or under instruction with an experienced driver in the vehicle.
- Both P1 and P2 drivers are restricted to driving a vehicle with an automatic transmission if the drive test was passed in a car with an automatic transmission.
- P1 drivers may only have one passenger in the car aged between 16 and 21.

### FOR DISCUSSION

- 1 Do you think that 120 hours is an appropriate length of time to learn how to handle a vehicle properly?
- 2 Why do you think older learner drivers are required to hold their permit for a shorter amount of time than younger learner drivers?



Figure 11.3.3 Victorian P plates

## Driving offences and the P plate driver

Probationary drivers have been identified as having a high accident rate and are subject to the special conditions mentioned above while on the roads. If a probationary driver is found guilty of a driving offence and their licence is suspended, the probationary period will be extended by the period of suspension plus six months.

If a probationary driver is found guilty of a drink-driving offence, their vehicle will be fitted with an **alcohol interlock** for a period of at least six months once their licence has been reinstated.



Figure 11.3.4 Alcohol interlock system

## Buying a car

Once people start learning to drive they start thinking about purchasing a car. Just as with driving on the road and obtaining licenses and permits, there are laws that relate to purchasing and registering a car. These laws cover the safety and **roadworthiness** of a car and the protection of those buying cars.

### Selling or buying a car

When buying a car the buyer and seller both must be aware of the laws involved. There are two ways in which a car can be purchased: through a licensed motor car trader (LMCT) or from a private owner. Both ways are legal. A LMCT is issued with a licence number, which must be displayed at their place of business and stated in all

advertising; private individuals do not need a licence to sell their car.

### Purchasing from a LMCT

A LMCT must show the prospective buyer of a vehicle that the vehicle has a current certificate of roadworthiness. This certificate states that the vehicle is safe for normal road use and covers tyres, steering and brakes, seat belts, lights, windscreen and wipers and structural soundness. It does not, however, guarantee that the car is in a good mechanical condition. The trader must also forward all paperwork, which includes the roadworthiness certificate, transfer forms, transfer fee and motor vehicle duty to VicRoads within 14 days of a sale.

When a sale is agreed upon, the contract must be in writing and contain all the details about the vehicle and the charges paid. A warranty must also be provided for both new and used cars, depending on the type of vehicle purchased (new or used) and the age and kilometres driven.

Buyers are also allowed a cooling-off period; that is, a length of time in which they can change their mind about the purchase and pull out of the sale. (In Victoria, this is three clear days.) If the sale is terminated during the cooling-off period the dealer must return any trade-in vehicle or deposit aid minus \$100 or 1 per cent of the sale price, whichever is greater.

### Purchasing from a private individual

There are two ways to buy a car from a private individual:

- registered, with a completed application for Transfer of Registration form and a Certificate of Roadworthiness, or
- unregistered, with the number plate removed and returned to VicRoads.

When cars are sold as registered, it is the buyer's responsibility to send the completed Application for Transfer of Registration, Certificate of Roadworthiness and payment of transfer fee and motor vehicle duty to VicRoads.

#### alcohol interlock

device that reads the blood alcohol level of a driver and only allows the vehicle to start if there is no alcohol present

#### roadworthy

deemed to be safe to operate on the road

#### FOR DISCUSSION

Genetics affects the way people metabolise alcohol; some people are able to metabolise alcohol faster than others. What other factors might influence the amount of alcohol in a driver's system?



demerit points

points recorded against a driver's licence for particular road traffic offences; if a driver accumulates 12 points within a three-year period, their licence may be cancelled. A learner or P plate driver will also have their licence cancelled if they incur five demerit points in any 12-month period.



Figure 11.3.5 Many people shop online for cars.

Buyers of unregistered cars need to obtain a receipt from the seller. It is the buyer's responsibility to arrange for the car to be re-registered.

Driving offences

There are a number of offences that can be committed while driving, including drink driving, drug driving and speeding.

Drink driving covers a number of offences, including driving a vehicle while being

under the influence of alcohol, driving with a blood alcohol level that exceeds 0.05 and failing to have a zero blood alcohol level (if a learner or P plate driver). It is also an offence to have a blood alcohol level greater than 0.05 if a person is acting as an accompanying driver (person accompanying a learner driver). There are various penalties for people caught committing one of the above offences and these are outlined in Figure 11.3.6 below.

| BAC                                                  | Licence type                                                                                 | Licence action/points                                                         |
|------------------------------------------------------|----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| Less than 0.05                                       | Zero BAC licence (e.g. professionals, P licence, L permit)                                   | Ten <b>demerit points</b>                                                     |
| 0.05 to less than 0.07                               | Zero BAC licence (e.g. professionals, P licence, L permit) and full licence (under 26 years) | Cancellation of licence and disqualification for 6 months                     |
| 0.05 to less than 0.07                               | Full licence (26 years or older)                                                             | Ten demerit points                                                            |
| 0.07 to less than 0.15                               | All drivers                                                                                  | Cancellation of licence and disqualification for 6–14 months depending on BAC |
| 0.15 or above; or for a second or subsequent offence | All drivers                                                                                  | On-the-spot licence suspension, then attend Magistrates' Court                |

Source: VicRoads, Drink & drug driving penalties, 29 September 2010

Figure 11.3.6 Drink driving penalties

| Roadside drug testing penalties             |                                                                                             |
|---------------------------------------------|---------------------------------------------------------------------------------------------|
| First offence—traffic infringement notice   | Three penalty units fine and 10 demerit points                                              |
| First offence—court penalty                 | Up to 12 penalty units fine<br>Up to six months licence cancellation, or 10 demerit points  |
| Second offence—court penalty                | Up to 60 penalty units fine<br>Up to 12 months licence cancellation, or 10 demerit points   |
| Third and subsequent offences—court penalty | Up to 120 penalty units fine<br>Up to six months licence cancellation, or 10 demerit points |

Source: VicRoads, *Drink & drug driving penalties*, 29 September 2010

Figure 11.3.7 Roadside drug testing penalties

| Driving while impaired by a drug            |                                                                                                                                                                            |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| First offence—court penalty                 | Up to 12 penalty units fine<br>Twelve months licence cancellation (minimum) OR two years licence cancellation (minimum—for refusal offence)                                |
| Second offence—court penalty                | Up to 120 penalty units fine or up to 12 months' imprisonment<br>Two years licence cancellation (minimum) OR four years licence cancellation (minimum—for refusal offence) |
| Third and subsequent offences—court penalty | Up to 180 penalty units fine or up to 18 months' imprisonment<br>Two years licence cancellation (minimum) OR four years licence cancellation (minimum—for refusal offence) |

Source: VicRoads, *Drink & drug driving penalties*, 29 September 2010

Figure 11.3.8 Driving while impaired by a drug penalties. A 'refusal offence' is one where the driver refuses to undergo a breath test or drug test.

Other possible penalties for drink driving can include completing a driver education program, zero blood alcohol restrictions, completing at least two assessments for alcohol problems or having an alcohol interlock device installed in their vehicle (see Figure 11.3.4).

Drivers who are found to be driving while affected by drugs have committed the offence of driving while impaired. The term 'drug' can mean an illegal, prescription or non-prescription drug. Figure 11.3.7 and Figure 11.3.8 outline the penalties for committing this offence.

#### FOR DISCUSSION

- 1 Do you feel the penalties for drink and drug driving are sufficient?
- 2 Do you think that the laws should be changed so that drivers should not be allowed to have any alcohol in their system at all while driving?

Speeding is the most commonly occurring driving offence, but receives the lightest penalty. Most people caught speeding will simply receive a **traffic infringement notice**. The driver will also incur some demerit points, depending on their speed at the time of the offence and the prevailing speed limit.

#### traffic infringement notice

fine given to a driver for exceeding the speed limit; payable within 28 days of receiving the notice

| Demerit point offences                                            | No. of points |
|-------------------------------------------------------------------|---------------|
| Exceed speed limit by 45 km/hour or more                          | 8             |
| Exceed speed limit by 35 km/hour or more but less than 45 km/hour | 6             |
| Exceed speed limit by 25 km/hour or more but less than 35 km/hour | 4             |
| Exceed speed limit by 10 km/hour or more but less than 25 km/hour | 3             |
| Exceed speed limit by less than 10 km/hour                        | 1             |

Source: VicRoads, Demerit point offences, 29 September 2010

Figure 11.3.9 Speeding penalties



Figure 11.3.10 Ways in which the police catch illegal drivers

**Task: Remembering and understanding**

- 1 Explain what the graduated licensing system means.
- 2 What are the conditions a prospective learner driver must meet to gain their learner's permit?
- 3 Explain the law as it relates to drink driving.

**Task: Applying and analysing**

- 1 For each of the cases below, state what penalties the driver might expect to receive.
  - a Scarlett is stopped by police and breath-tested for alcohol; her blood alcohol content is 0.125.
  - b June is caught speeding at 70 km/hour in a 40 km/hour zone.
  - c Akmed is stopped by police and drug tested. He is found to be driving while impaired and it is his second offence.
  - d Frank is caught speeding at 80 km/hour in a 60 km/hour zone.
  - e Spencer is a P1 driver who was stopped by police and alcohol tested. His blood alcohol content is 0.03.
  - f Margaret is stopped and drug tested by police. She is found to be driving while impaired but it is her first offence.
  - g Louis is caught speeding at 110 km/hour in a 50 km/hour zone.

**Task: Evaluating and creating**

- 1 Log on to Pearson Places and follow the prompts to access the websites for VicRoads and the Transport Accident Commission, and locate the statistics on road fatalities. Present a report on the causes of road fatalities in Victoria over the past five years. Investigate the roles of gender, age, location and licence type, and the factors that caused the accident (alcohol, drugs, seatbelts, weather conditions). As a conclusion to your report, state the factors that you found to have had the greatest impact on fatalities over this period of time.

**Task: Assessment**

- 1 As a class or in small groups, conduct a debate on whether P plate drivers should have further restrictions placed on them. Consider the current restrictions and the role these drivers play in road accidents and fatalities. For example, should a curfew be introduced for P plate drivers?



# 11.4

## Consumers and the law

### credit note

a voucher of the same value as the item originally purchased, which can be used within the store for another purchase

*Right or wrong, the customer is always right.*

Marshall Fields

### DID YOU KNOW?

Signs in shops that claim 'no refunds given' or 'exchanges only on products within this store' are illegal if a product is faulty.

Laws that cover refunds, exchanges, trading practices and credit are there to protect both the consumer and the trader; there are also consumer rights and responsibilities that ensure all purchases are fair.

## Refunds and exchanges

When a recently purchased item breaks or no longer works, the seller of the good generally will offer to repair the item, exchange it for a new one or offer a **credit note**. However, the purchaser of the product has the right to insist on a refund; the seller and manufacturer of the product do not have the right to deny a refund if the item is faulty. If the purchaser has simply changed their mind about the product, the seller does not have to grant a refund, but they can choose to do so if this is normal practice in that store.

While consumers have a right to a refund on faulty products, traders have rights also. Some of these are listed below.

- A refund does not need to be granted if the purchaser was aware that the item purchased was faulty at the time of purchase; for example, if the item was marked as a 'second' or 'parts missing'.
- A refund does not need to be granted if the item is being purchased on credit or 'lay-by'; the deposit and any payments already made must be refunded, but not the full purchase price.

Figure 11.4.1 Consumers have rights



- A refund does not have to be paid if the purchaser has changed their mind or caused damage to the goods; an exchange is also not compulsory in this case.

### FOR DISCUSSION

Should refund laws become stricter to protect traders from consumers who might take advantage of consumer rights?

## Unfair trading practices

The Victorian government has set up laws that protect the consumer from traders who wish to do the wrong thing by its customers; the *Fair Trading Act 1999* (Vic.) sets out the practices of traders that are considered unfair and can lead to heavy fines.

An unfair practice is one in which a trader:

- misleads consumers regarding the product or service it is selling; this includes misleading the consumer about how the product is manufactured, the intended use of the product or service, the number of products or services available and the characteristics of the product or service
- falsely represents the product or service being sold as a particular quality, performance, value, style, model, or endorsed by a particular person
- falsely represents the price of a product or service being sold; if a product or service is to be sold at a 'sale' price, it must be on sale for a reasonable length of time and there must be a reasonable quantity of the product or service available at that price
- misleads consumers about the availability of repairs, new parts, warranties and place of manufacture
- offers a prize or gift for purchase of a good or service and then fails to supply the advertised gift or prize, or supplies a different gift or prize
- accepts payment for a good or service but does not supply it within the specified time or within a reasonable time; or supplies a good or service different to that paid for
- uses physical force or harassment to force a consumer to make a purchase
- sends store-linked credit cards to consumers without being asked by the consumer to do so
- demands payment for a good or service not provided by the trader or for a good or service not asked for by the consumer.



Figure 11.4.2 Unfair trading

**overdraft**

the amount by which a bank or trader allows a customer's account to be overdrawn; that is, where withdrawals are greater than the funds available

## Credit

Credit is an agreement between the consumer and the trader to provide a good or service and to make payment at a later date. Credit includes credit cards, loans (house and personal), hire, credit accounts and **overdrafts**.

When entering into one of the credit agreements above, it is the responsibility of both the trader and consumer to be aware of all fees, charges, limits and other important points before agreeing to the contract.

Before entering an agreement, consumers need to be made aware of:

- the amount of credit they are borrowing or the maximum amount available to them
- the interest rate that applies to the borrowed amount and what effect this will have on the amount they will need to repay
- if there is an interest-free period applied to the credit amount, how long this period is and the amount of interest that will be payable over the length of the contract
- repayment methods, the repayment period and repayment amounts
- any fees and charges applicable to the credit contract.

Once all of these terms and conditions are understood and accepted by the consumer, the credit contract can be entered into.

## Credit cards

Credit cards allow consumers to purchase products immediately by using a credit facility provided by a bank or financial institution. The card-holder then owes the debt to the bank and not to the vendor, who has the certainty of knowing that the money is secure; the risk of non-payment is carried by the bank. The card-holder must pay the bank at a later date, either by paying the full amount when the monthly statement is received or by making partial payments over time. In the latter case, a high rate of interest is charged on the amount unpaid.

### FOR DISCUSSION

Should retailers have the right to search their customers' bags?

## Loans

Loans are usually single amounts of money borrowed from a bank or other financial institution to purchase large items such as motor vehicles, houses and overseas holidays. The loan depends on the borrower's income and assets and their ability to make the repayments. The borrower then makes fixed repayments over a set period of time to the institution that provided the loan. These repayments include any fees and charges applicable and any interest payable on the borrowed amount.

| My Loan Calculator |                  |               |  |
|--------------------|------------------|---------------|--|
| Loan Amount        | 250,000.00       |               |  |
| Annual Rate        | 5.5              | %             |  |
| Length (yrs)       | 30               |               |  |
| Payment            | 1,419.47         |               |  |
| Frequency          | Monthly (12/yr)  |               |  |
| Extra              | 100.00           |               |  |
| Total Interest:    | 216,132.28       |               |  |
| Total Payment      | Interest Savings | Pay Off (yrs) |  |
| 1,519.47           | 44,877.82        | 25.56         |  |
| Reset              | Copy             | Clear All     |  |

Figure 11.4.3 A loan repayment calculator

## Bag searches

Many shops display signs stating that it is a condition of entry to that store for consumers to present their bags for checks if asked to do so by an employee.

It is within the consumer's right to refuse a bag search, but the business owner or employee also has rights: they can refuse to sell the goods to the customer; they can ask the customer to leave the store as they have broken a condition of entry; they can call the police if they feel the customer has committed an offence such as shoplifting, although they need to detain the customer until the police arrive; or they can withdraw the request for a search and the customer is free to leave or continue with their purchase.

**Task: Remembering and understanding**

- 1 Under what circumstances can a consumer request a refund?
- 2 Under what circumstances can a trader refuse a refund?
- 3 List three unfair trading practices about which the Victorian government has enacted consumer protection laws.
- 4 Do shop owners or employees have the right to search your bag?

**Task: Applying and analysing**

- 1 For each of the cases below, state whether a refund would be granted by the trader.
  - a Kalliopi purchased a dress from a retailer that specialises in factory seconds. The fact that all items within the store are seconds is clearly displayed in the shop windows and on the clothing tags. Kalliopi wants to return her dress, as it appears different to the same dress in the trader's normal stores.
  - b Rene purchased a lawn mower, which worked for three months before breaking down.
  - c Imogen purchased a necklace to wear with a certain dress she had at home; after trying the necklace with the dress she decided it didn't match and wanted to get a refund for the purchase of the necklace.
  - d Mekhi purchased a new television using a store credit account; he paid a deposit and two repayments, but then the television stopped working.
  - e Lucy purchased a non-stick frying pan. Even though information about the correct use of the pan was provided, Lucy used cooking utensils that should not have been used on this type of pan and in a few weeks it was so badly scratched that it no longer had a non-stick surface. Lucy now wants to get a refund.

**Task: Evaluating and creating**

- 1 Conduct research into the amount of credit card debt in Australia in the most recent financial year for which figures are available. Present your findings in graph format and then provide a response to the statement below in one paragraph.

'Consumers should not be allowed to borrow more money than they can afford to repay.'

**Task: Assessment**

- 1 Conduct research into the groups that can assist consumers with disputes in relation to purchases. Once your research is complete, choose one of these groups and design an information brochure for young consumers aged between 15 and 18 years.

Groups to research include Consumer Affairs Victoria, the Consumer Law Centre of Victoria, Consumer Action Law Centre and the Victorian Civil and Administrative Tribunal (VCAT).



# 11.5

## Young people and the law

*No man is ever old enough to know better.*

Holbrook Jackson

Under the law, a 'young person' is considered to be anyone under 18 years of age; once you reach the age of 18 you are considered an adult and the law will treat you differently. However, as a young person there are many restrictions on what legally can and can't be done. Areas of law that affect young people include buying and drinking alcohol, buying tobacco products, graffiti and many more. However, there is no one set legal age that covers all areas of the law for young people; each area has its own age restrictions that define when a young person can participate in each activity.

**Figure 11.5.1** Young presenters on community TV, Channel 31



### Alcohol

It is illegal for a person under the age of 18 to purchase, consume or possess alcohol except under two circumstances.

- 1 They are in a private home, either their own or a friend's.
- 2 They are eating a meal at licensed premises such as a pub or restaurant and are accompanied by an adult who is their parent, guardian or spouse. It is illegal for a young person to enter licensed premises unless they are having a meal or staying the night and are accompanied by their parent, guardian or spouse (who is over 18 years of age).

The moment the young person leaves the private home or licensed premises with an alcoholic beverage, they are committing the offence of underage drinking in public. Not only will the young person be charged with an offence, but the person who supplied the drink may be charged or fined for supplying alcohol to a minor.



Figure 11.5.2 Alcohol laws and young people

## Young people and alcohol –

New legislation has been introduced making it illegal for adults to supply alcohol to minors at home.

In March 2011, the Victorian Government introduced a new 'secondary serving' law making it illegal for adults to supply alcohol to minors in their own home unless they have gained permission from their parents or guardians. Under the new legislation, police will be able to respond to and act on complaints by parents about their children drinking at another person's house. The police will be able to issue on-the-spot fines of up to \$7167 if they

attend a private party and find under 18s drinking without parental or guardian consent.

## Tobacco products

It is illegal for people under the age of 18 to purchase cigarettes and other related products such as tobacco; it is also illegal for young people to allow an adult to purchase cigarettes or tobacco for them. It is however, not illegal for a young person to smoke or to carry cigarettes and tobacco.



Figure 11.5.3 Tobacco laws and young people

### FOR DISCUSSION

- 1 Do you think that the law regarding smoking cigarettes and tobacco for young people is contradictory to the law about purchasing cigarettes and tobacco?
- 2 Should this law be changed to protect young people's health?

### DID YOU KNOW?

It is illegal for any person, regardless of age, to carry or drink alcohol in public places in the City of Melbourne.

**statutory declaration**

a written statement made by a person and signed in front of an authorised person such as a police officer, pharmacist or solicitor

## Graffiti

Graffiti is the term for images or lettering painted on property without the owner's permission. In Victoria, this problem has been addressed by the passing of the *Graffiti Protection Act 2007* (Vic.), which makes it illegal for anyone under the age of 18 to purchase spray paint cans unless it can be proven that they are for use at work; a letter or a **statutory declaration** from the employer is required to prove this.

A person over the age of 14 or someone who looks as if they are over the age of 14 can be searched by police for possessing spray cans; or if a young person (regardless of age) is on or near public transport and the police suspect they are carrying spray cans.

If the young person is found to have spray paint in their possession, they can be charged with a graffiti offence. The common offences are carrying spray paint cans on or near public transport, or carrying something that can be used to graffiti (such as permanent markers or other forms of paint), if the police suspect, or can prove, that you have used them or were going to use them for graffiti. A fine of at least \$550

can apply for these offences. A conviction for actually marking graffiti can bring a prison sentence of up to two years.

### FOR DISCUSSION

- 1 What conditions might make a police officer suspect a young person has produced graffiti or is about to?
- 2 Is there a difference between graffiti and tagging? Explain.

## Public transport and tickets

It is generally illegal to travel on any form of public transport without a valid ticket; however, there may be some circumstances where travel without a valid ticket is legal. These circumstances are hard to prove, but some are listed below.

- The ticketing machine was broken at the place where the journey started and there was no other opportunity while on the journey to purchase a ticket; in this case, the traveller should purchase a ticket at the end of their journey.



**Figure 11.5.4** Trains are often tagged by graffiti artists.



- The validating machines were not working and the ticket purchased could not be validated at the start of the journey; in this case, the traveller should validate their ticket at the end of their journey.
- The mode of transport, especially a tram, was so crowded that it was impossible for the traveller to reach the ticket machine to make a purchase; in this case, the traveller should purchase a ticket as soon as the machine becomes accessible.

If a ticket inspector feels that the reason for travel without a valid ticket is not acceptable, they have the right to obtain the name and address of the traveller and to issue a fine. Failure to provide a name and address or providing false information can result in further charges being issued against the traveller. The traveller also has the right to request the name and place of work of the ticket inspector.

## School

It is illegal for a young person to leave school until they have completed Year 10; even after this, the young person must participate in at least 25 hours per week of education, training or employment until they reach 17 years of age.

A young person can leave school prior to finishing Year 10 if one of the following reasons applies.

- They can prove their parent or guardian is home-schooling them on a regular basis.
- They are attending school via correspondence as there is no state school within five kilometres of their home.
- They are very ill and cannot attend school because of their illness.
- They are exempt for some other reason.

### FOR DISCUSSION

- 1 Should young people who choose to leave school be forced by law to either complete further education or get a job?
- 2 What are the benefits to young people of staying in school as long as they can?



Figure 11.5.5 School and the young person

## Work

The minimum age for young people to obtain employment is 13 years; however the types of jobs open to people below the age of 15 are restricted.

For people aged 11 to 14, it is possible to gain employment as a delivery person for newspapers or advertising material or as a delivery person for a pharmacist. Young people who are 15 years or over are allowed to participate in employment provided it does not restrict them from attending school and does not mean they are breaking the law—for example, selling alcohol or cigarettes.

## Working and tax

If you are in paid employment, your employer is responsible for paying part of your wage to the tax office each pay day. At the end of each financial year, every person who has received income, including young people, must submit a tax return.

### DID YOU KNOW?

Young people of any age can work in their parents' business as long as they are supervised by a parent and are not restricted from attending school.



**tax-free threshold**

the amount of income a person can earn that is free from being taxed

A tax return allows the government to ensure that you have paid the correct amount of income tax for your income and circumstances. If you have paid more than this, the excess tax is returned to you. The first \$6000 earned by a person each year is exempt from tax; this is known as the **tax-free threshold**. (Refer back to 'The cost of making money' on pages 19–20, and also 37 for more information about paying income tax.)

## Relationships

### Sexual relationships

There are laws regarding the age at which young people can engage in sexual relationships with other young people. These laws, which are outlined below, are designed to protect young people emotionally and physically.

- A person 12 years or younger cannot engage in any sexual act with another person of any age; if they do it is considered an offence.
- A person aged between 12 and 15 years cannot engage in any sexual act with a person that is more than two years older than them. For example, a 17-year-old and a 15-year-old can have a sexual relationship; however if the older person was 18, this would be illegal. The older person would need to prove that they honestly felt the younger person was within the age limit to not be charged with an offence.
- A person aged 16 or 17 cannot engage in a sexual act with a person who is in a carer or supervisor role, such as a teacher, employer or foster carer. If the carer/supervisor honestly believed the younger person to be 18 years or older they will not be charged with an offence.
- A person aged 18 can engage in a sexual act with anyone who is also 18 years or older.

## Marriage

A person who is under 16 years of age cannot legally get married; a person who is aged between 16 and 17 years can only get married under certain circumstances which includes having the agreement of a parent or guardian; having a boyfriend or girlfriend who is over the age of 18 years and have a court agree that the situation is special enough for the two people to get married (pregnancy is usually not enough). The court looks at the maturity of the young person, their financial situation, the independence level of the young person and how long the two people have been in a relationship; if the court agrees to allow the marriage, the couple has three months to do so.

People over the age of 18 can marry without anyone's permission.



Figure 11.5.6 Marriage and young people

## Health

As young people get older they can become more self-conscious about their bodies and what is happening to them, so seeking medical advice and making improvements to their bodies becomes an important issue.

## Medical advice and doctors

A young person has the right to choose their own doctor at any age and they can seek advice from this doctor alone if they wish. If they are 14 or 15, the doctor must keep the majority of issues discussed private unless the young person gives consent, or an infectious illness is involved or they feel the person has been abused or harmed in some way. The doctor may still seek consent from the young person's parent or guardian regarding medical treatment if they feel the young person is not mature enough to make a decision; for example matters such as abortion, major operations and treatment for eating disorders may be discussed with a parent or guardian.



Figure 11.5.7 Doctors and young people

### FOR DISCUSSION

Do you feel young people should have the right to choose to use tanning beds, given the research on their link to skin cancer?

## Body piercing and tattoos

It is illegal for a young person to get a tattoo, scarification, branding or a tongue splitting before they reach the age of 18 years. The only time when these treatments would be permitted is when they are required for medical reasons.

Young people under the age of 16 years must have their parent or guardian's permission to have a part of their body pierced; this includes ears and any other body part. It is illegal for anyone under the age of 18 to get a piercing in an intimate area of their body.

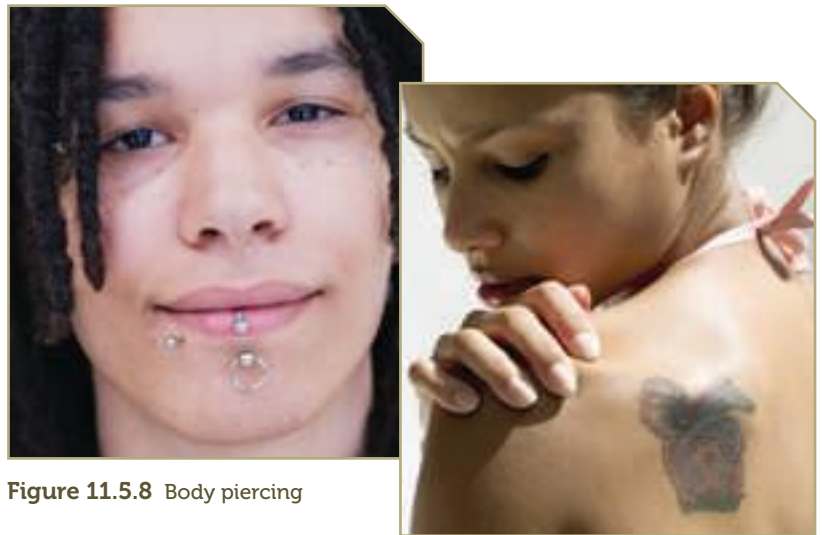


Figure 11.5.8 Body piercing

Figure 11.5.9 Tattoos

## Tanning beds

It is illegal for a person under the age of 16 to use a sun tanning bed; a person aged between 16 and 17 needs their parent's written consent to use one. Businesses can be charged and fined if they allow young people to use tanning beds.

### FOR DISCUSSION

- 1 Do you feel that a young person should have the right to change or enhance their body with tattoos, piercings or other markings regardless of their age?
- 2 Why might the law be so insistent with regards to body piercing and tattoos and young people?

**Task: Remembering and understanding**

- 1 How does the law define a 'young person'?
- 2 What is the law with regards to cigarettes and tobacco and young people?
- 3 Under what circumstances can a young person gain employment?
- 4 Under what circumstances can a young person travel on public transport without a valid ticket?

**Task: Applying and analysing**

- 1 For each of the scenarios below, advise the young people on their rights and obligations under the law.
  - a Kelsey's local milk bar sells her cigarettes even though she is 17. Who has broken the law?
  - b Billy is 16 and has a part-time job. Does he have to pay tax and submit a tax return?
  - c Hannah is 15 and has a sexual relationship with her 15-year-old boyfriend. Is this legal?
  - d Pierre is 16 and wants to marry his 19-year-old girlfriend within the next year. Can he do so?
  - e Quyen is 15 and is celebrating her brother's 21st birthday at the local licensed premises. Her mother gives her a glass of champagne to drink for the toasts. Is this allowed?
  - f Frank, who is 16, works at his parents' small supermarket, where he sometimes sells cigarettes and alcohol to customers. Is this legal?
  - g Jenny who is 15, wants to get a tattoo of her favourite band's name on her shoulder. Is she allowed to?
  - h Brad is 17 and wants to visit the doctor independently to discuss his acne problems. Can he do this?

**Task: Evaluating and creating**

- 1 As a class or in a small group, conduct a debate on whether or not one of the laws listed below should be changed.

Choose from laws about:

- body piercing
- tattoos
- marriage
- school leaving age.

**Task: Assessment**

- 1 Choose one of the legal areas discussed in Unit 11.5 to research further. Create a poster or PowerPoint presentation that explains the law in this area and how it applies to young people.

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