

Jacaranda Economics and Business Alive 9

Australian Curriculum eBookPLUS

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Chapter 1: The Australian economy

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1

The Australian economy



1.1 Overview

1.1.1 Our needs and wants

on Resources



Watch this eLesson: [What is economics?](#)

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The **economy** is often spoken about as if it were something separate with a life of its own, when in fact the economy is comprised of all of us. The Australian economy can be defined as the total of all activities undertaken for the purpose of producing, distributing and consuming the goods and services we require to satisfy our needs and wants. Because we all participate in one or more of these activities, we are all part of Australia's **economic system**.

Let us look at this definition in more detail. As human beings we all have needs and wants. Needs can be described as those things that are essential for survival. They include food, clothing and shelter. Wants include those things we desire but which are not necessary for survival or to meet the basic standard of living in a community. They can include everything from TV sets, to motor vehicles, to mobile phones.

FIGURE 1 Consumers have to make choices in order to satisfy their needs and wants.



We satisfy our needs and wants by acquiring goods and services. Goods are physical, tangible items that can be seen and touched. They include all those products we buy from shops. Services are the actions which are done for us by others, and are designed to satisfy needs and wants. They include the services provided by doctors, dentists, banks, telephone companies, entertainers, mechanics and teachers. Whenever we make use of goods and services we are said to consume those goods and services, and so are regarded as **consumers**. As we all consume goods and services, we are all participants in the Australian economy.

Goods and services have to be provided by someone, and we usually expect businesses or other organisations to do this. All individuals, organisations and businesses that provide goods and services are known as **producers**. This term does not just refer to the manufacture of goods in a factory but extends to all those who provide goods and services. To the economist, a producer can be a dentist filling teeth, a band performing at a venue, a supermarket selling groceries or a teacher in a classroom.

As individuals and as a society, our needs and wants will always be greater than our means of satisfying all those needs and wants. This is the fundamental problem facing any economy, no matter how wealthy it is. Economists refer to this as the problem of **relative scarcity**. The main aim of an economic system is to satisfy as many needs and wants as possible within the constraints imposed by relative scarcity. Inevitably, choices have to be made by both consumers and producers. We cannot have everything and so must choose what is most important to us.

The economic problem of relative scarcity

You are hungry and thirsty on your way home from school, and have only \$6 to spend. A burger is going to cost \$4, a drink \$3 and a small serving of fries \$3. If you buy the burger, you will have \$2 change but won't be able to afford a drink. You could afford a drink if you buy the fries, but the fries won't satisfy your hunger as much as a burger would. You are facing the fundamental economic problem of relative scarcity, and you have to make a choice.

Consumers and producers have to make choices all the time. It is through the totality of these choices that the economic system attempts to satisfy as many needs and wants as possible.

Learning objectives

Students will investigate:

- Australia as a trading nation and its place within the rising economies of Asia and broader global economy.

STARTER QUESTIONS

1. List fifteen items that you or your family have bought during the last week. Beside each item, state whether it was to satisfy a need or a want.
2. Food, clothing and shelter are usually considered to be basic needs for all human beings. Identify two types of food, two types of clothing and a type of shelter that could be classified as wants rather than needs.
3. Think of the last time you went to see a movie and caught public transport there and back. Make a list of all the goods and services you would have purchased, consumed or used during this outing.

4. In small groups, draw or find a map of your local shopping centre showing the businesses that operate at that centre.
 - a. Identify which of these businesses supply goods, which supply services, and which supply both.
 - b. Some businesses that compete against similar businesses are close together, while other types of competing businesses are spread throughout the centre. Discuss which types of competing businesses are likely to be close together and why.
5. Make a list of ten goods or services that are not supplied by businesses at your local shopping centre. Why do you think each of these goods or services are not available locally?
6. Make a list of five goods costing less than \$100 each that you would like to buy right now.
 - a. If you had exactly \$100 to spend, how would you rank these five goods in order of preference?
 - b. Which goods could you buy right now? Would you have any change left from \$100?
 - c. Explain why this activity is an example of the economic problem of relative scarcity.

1.2 Participants in the Australian economy

1.2.1 Who and what is part of our economy?

We know that the Australian economy is the total of all activities undertaken for the purpose of the production, distribution and consumption of goods and services in our country. This leads us to two questions:

1. *Who or what carries out all these activities to achieve this purpose?* We need to examine exactly who participates in the economy to achieve the production, distribution and consumption of goods and services. The major participants in the Australian economy include the household sector, the business sector, the financial sector and the government sector.
2. *What activities are undertaken in achieving this purpose?* We need to examine what each of those participants does to achieve this purpose, or what roles each of them performs in our economic system.

We will now examine each participant and the roles they play in the economy.

1.2.2 Household sector

The household sector is a term used by economists to refer to the total of all consumers in the economy. Of course, every person in the economy is a consumer — we all acquire goods and services to satisfy our needs and wants. As well as acquiring goods and services, the household sector provides the **labour** required by the business sector to produce those goods and services. Whether we consider ourselves part of the household sector or part of the business sector depends on the economic role we are performing at the time. When buying goods and services, we are part of the household sector. When at work, we are part of the business sector.

Members of the household sector make decisions about the particular goods and services they desire to satisfy their needs and wants. The amount of goods or services that consumers are willing and able to purchase at a particular point in time is known as consumer or household *demand*. If businesses wish to be successful, they need to respond to this demand. A business producing goods or services that do not meet consumer demand is likely to fail. While we can all identify food, clothing and shelter as basic needs that households demand, it is not always so easy to identify the *types* of food, clothing and shelter that will most successfully satisfy those needs.

FIGURE 1 Members of the household sector receive wages for their labour, and use the money they receive to buy goods and services to satisfy their needs and wants.



1.2.3 Business sector

The business sector is made up of a large number of producers, all seeking to provide goods and services to satisfy the needs and wants of households. In order to do so, businesses make use of **resources**.

Economists classify resources into four categories:

- land
- labour
- capital
- enterprise.

These are sometimes also called *factors of production*.

Land

'Land' is the word used by economists to refer to all the raw materials and other natural resources that go into the production of goods and services. It is a broad concept that includes minerals dug up from the earth, food crops ready for processing, timber harvested from forests, and raw fibres such as wool or cotton that are available for processing into clothing. Australia's diverse and abundant resource base has been an important source of export earnings for the Australian economy. Some of the most important export commodities for Australia include: iron ore, coal, natural gas, gold, beef and wheat.

FIGURE 2 In economics, 'land' refers to all the raw materials and other natural resources that go into the production process, including minerals that have been dug up from the earth.



Labour

Labour, as we have seen, is the human skills and effort required in the production process. It includes the physical effort contributed by a builder or process worker in a factory, and the intellectual skills applied by a computer programmer. Businesses usually rely on the household sector to provide them with labour. In return, businesses pay wages which are used by consumers to purchase goods and services from the business sector.

Capital

Capital is defined as all the equipment (machinery, buildings, tools) used by human labour in the process of production. For example, an accountant uses a computer, a bricklayer uses a trowel and a farmer uses a plough. In a supermarket, capital includes the actual building; shelving for storing goods for sale; refrigerators and freezers; trolleys and baskets for collecting goods; and the cash registers, scales, barcode readers and EFTPOS facilities used at the checkouts.

FIGURE 3 In economics, 'capital' refers to all equipment used in a production process.



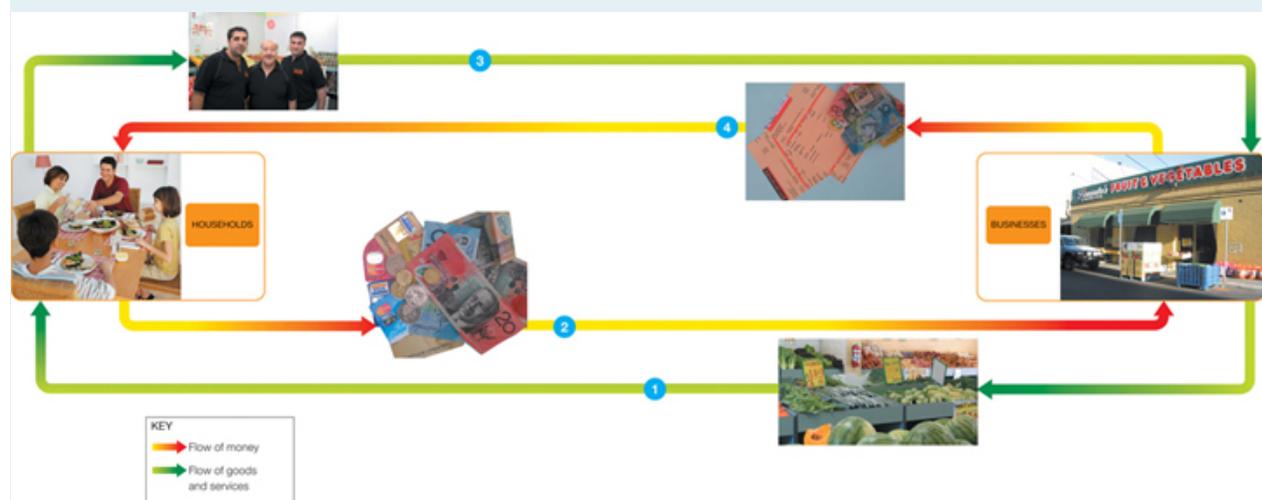
Enterprise

Enterprise is the ability to recognise the demand for new goods or services, and to start up a new business or expand an existing business to attempt to satisfy that demand. It also includes the ability to organise the resources necessary to produce the goods and services required, and a willingness to take the risks that can accompany these decisions. A person who demonstrates these abilities is sometimes known as an entrepreneur. People such as Google founder Larry Page and Facebook founder Mark Zuckerberg are regarded as entrepreneurs.

1.2.4 The relationship between households and business

As we have seen, the household sector and business sector depend heavily on each other. The household sector depends on the business sector to provide employment and wages, as well as the goods and services needed to satisfy demand. The business sector depends on the household sector to provide it with labour, as well as the consumers to purchase the goods and services produced. We can examine the relationship between the business sector and the household sector by looking at the model shown in figure 4. It demonstrates how labour is exchanged for money, and how that money is used to purchase goods and services.

FIGURE 4 The interrelationship between consumers and business



- 1 Businesses are producers that make or supply goods and services that are distributed to households.
- 2 Consumers use money, cards and cheques to purchase goods and services.
- 3 Consumers are usually also employees, who provide businesses with their labour in the production of goods and services.
- 4 Employees receive money in the form of wages for their labour.

We can simplify this model by removing the flow of goods and services, and simply showing the flow of money between households and businesses (see [figure 5](#)). This focuses on the financial relationship between consumers and producers in our economic system. Economists sometimes refer to this as a circular flow diagram because it illustrates how money circulates in the economy.

FIGURE 5 The circular flow of money between households and businesses in the Australian economy



1.2.5 The financial sector

Both the household and business sectors rely on a functioning financial sector. As the name suggests, the financial sector is concerned with money. In order to understand the role of the financial sector, we first need to examine the functions of money in our economy.

Money performs the following four very important functions in our economic system:

1. *Medium of exchange* — money allows us to pay for goods and services because it is accepted by everyone in our economy in exchange for goods and services. Hence employees exchange their labour for money, and businesses accept money in exchange for the goods and services they supply.
2. *Measure of value* — money allows us to put a price on the goods and services we exchange. The price is a measure of what we believe the goods or services to be worth when compared to other goods and services.
3. *Store of value* — money allows us to save our income or wealth for spending at a later date because it holds its value.
4. *Standard of deferred payment* — money allows us to purchase goods and services on credit, with both buyer and seller knowing exactly how much has to be paid at a later date.

FIGURE 6 Money performs four important economic functions.



The financial sector is made up of a number of **financial intermediaries**. These include banks and other similar organisations, such as **superannuation funds**. Financial intermediaries receive deposits and then use this money to lend out to others who need to borrow money. Most businesses will borrow money, particularly when they need to expand the business. This may involve buying new equipment or moving to larger premises. Money spent in this way is known as **investment** in capital. This is how financial intermediaries enable accumulated savings, collected from thousands of depositors, to be directed towards business growth. As businesses grow they can employ more people, and the people they employ in turn have more money to spend on goods and services.

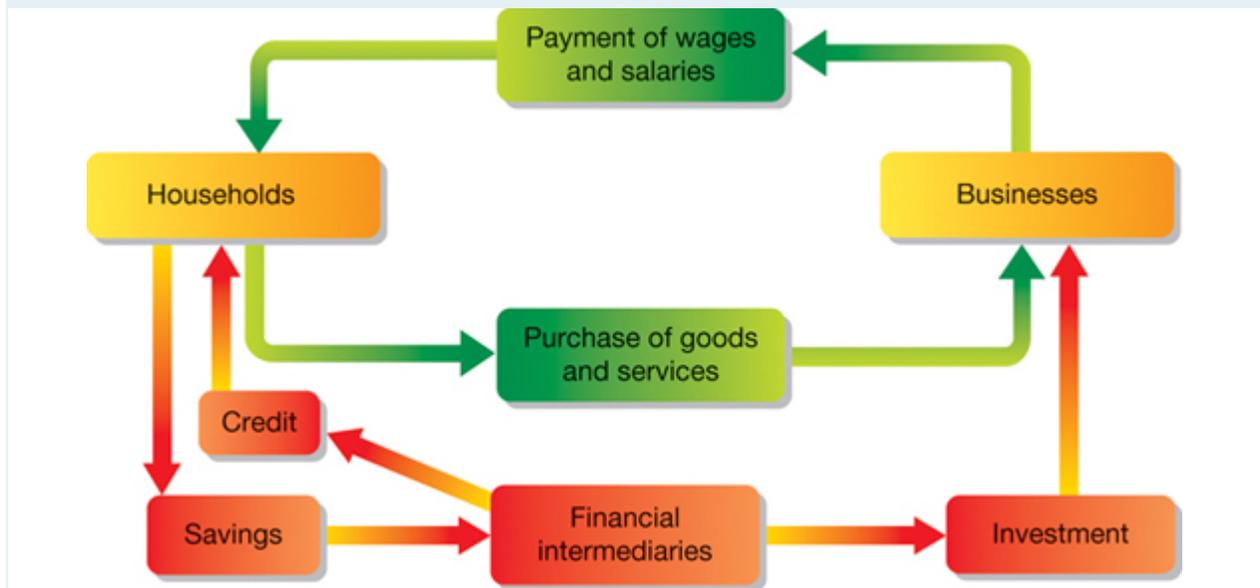
FIGURE 7 Financial intermediaries can direct savings into investment, which funds the growth of businesses.



In addition to providing the business sector with funds for investing in business growth, banks and other financial intermediaries provide credit to households. When consumers make a large purchase such as a house or car, it is usually easier to borrow the money to buy the item immediately (known as buying on credit) than to save up for years to pay cash for it. When purchasing a house or land, most people take out a **mortgage loan**. This enables the house purchaser to borrow to pay for the property now, and pay back the loan in instalments over a relatively long period of time (often 25 years). The size of the housing market depends on the amount of money available for mortgage loans. If more people can buy houses, more new houses can be built and therefore more jobs created in the construction industry.

By adding financial intermediaries to the circular flow diagram, we can see how the financial sector participates in the economy. As shown in **figure 8**, banks and other financial intermediaries receive savings from households. They use this money to lend to businesses for investment, and also lend the money back to households in the form of credit.

FIGURE 8 The circular flow of money between households, businesses and financial intermediaries in the Australian economy



1.2.6 The government sector

Another significant participant in our economic system is government. In Australia that refers to the federal government based in Canberra, the state and territory governments based in capital cities, and local councils across the country. In addition to using money to spend on consumption or accumulate in savings, households and businesses pay money to government in the form of taxes and receive certain goods and services from the government. The government plays an important role in the economy for a number of reasons:

1. The amount of money taken by the government in taxes can affect the amount of money consumers have available to spend on goods and services. High levels of taxation can leave consumers with less to spend, and businesses cannot grow as quickly and therefore employ as many people as they might if taxation was lower.
2. Money collected in taxes can be used to provide welfare payments in the form of pensions and unemployment benefits. Such payments allow many people to purchase more goods and services as consumers, thereby providing more income to businesses and creating more jobs as businesses grow.
3. Money collected in taxes from households and businesses can be used to provide essential services. By spending money on building roads, schools and hospitals, the government is providing money for the businesses that do the actual building and thereby helping those businesses to grow and employ more people.

DISCUSSION

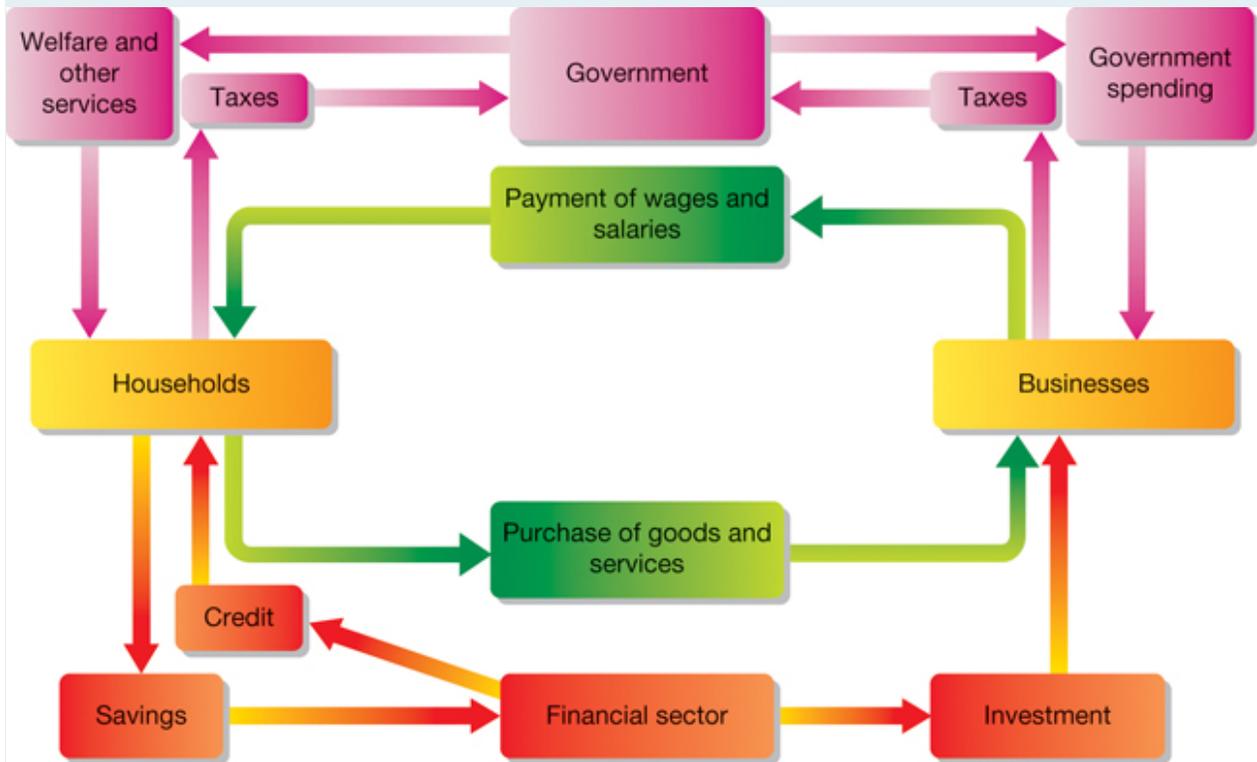
A high level of taxation gives the government more money to provide welfare payments and essential services - such as schools, hospitals and roads - whereas a low level of taxation gives individuals more money to spend as they would like. Do you think the current balance we have is right?

FIGURE 9 When a government pays businesses to build facilities such as hospitals, it helps those businesses to grow and employ more people.



By adding government to the circular flow diagram, we can see how the government sector participates in the economy. As shown in [figure 10](#), households and businesses pay taxes to the government. Some of this money comes back to households in the form of welfare payments such as pensions, or as services such as education and healthcare. Some of it comes back to businesses when the government buys goods and services from them, or pays them to build roads, schools and hospitals.

FIGURE 10 The circular flow of money between households, businesses, financial intermediaries and government in the Australian economy



1.2 ACTIVITIES

REMEMBER

1. Define the following and provide an example of each:
 - a. labour
 - b. resources
 - c. consumer demand
 - d. financial intermediary
 - e. investment.

EXPLAIN

2. What do economists mean when they use the following words?
 - a. Land
 - b. Capital
3. Why are the household sector and the business sector dependent on each other?
4. Explain each of the four functions of money, and provide an example of each.
5. How do financial intermediaries help markets to operate?
6. Explain one way in which a government can influence the economy.

DISCOVER

7. Use online resources to locate information on the Australian taxation system, and identify and explain three different types of taxes that are collected by the federal government.

PREDICT

8. Examine the circular flow diagram in [figure 10](#) and predict what impact each of the following might have on the level of goods and services sold by Australian businesses:
 - a. Households decide to save a larger proportion of their income.
 - b. Financial intermediaries make it easier for consumers to acquire credit cards.
 - c. Governments decide to increase the level of taxation for households.
 - d. Governments increase the level of welfare payments.

1.3 Objectives of the Australian economy

1.3.1 Satisfying needs and wants efficiently

The major issue facing any economy is the problem of relative scarcity. This problem cannot be completely solved or eliminated, but its impact can be minimised by ensuring the most efficient use of resources. The objectives of the Australian economy are to satisfy the greatest range of needs and wants by efficiently producing as many goods and services as possible. This is accomplished by addressing three key economic questions.

1.3.2 Key economic questions

All the participants in the Australian economy — consumers, producers, financial intermediaries and government — make choices to minimise the impact of the relative scarcity of resources and to maximise the range of needs and wants that can be satisfied. When put together, these choices provide answers to the following questions:

- *What to produce?* What goods and services should be produced, and in what quantities?
- *How to produce?* What methods should be used to produce those goods and services?
- *For whom to produce?* To whom should those goods and services be distributed?

What to produce?

How does our economic system help producers decide what goods and services to supply, and in what quantities to supply them? This is determined largely by trial and error. A producer may make certain goods or services available to consumers in the expectation that these will satisfy the needs and wants of those consumers. If the goods or services fail to sell, the producer will probably go out of business. When a business is successful in selling goods or services to consumers, other businesses will attempt to enter the same **market** and start making or selling those goods or services that consumers have shown they wish to buy.

FIGURE 1 Changes in the market for cars will see the closure of the three remaining car manufacturers in Australia by 2017.



In our economy, markets largely determine which businesses are likely to be successful. Factors that can influence markets include:

- *Established habits and experience.* Producers know from people's existing behaviour that there will always be a demand for certain types of goods or services. Families need to buy food on a regular basis, so a supermarket in a new suburb may well be successful. Most communities will need services such as medical and dental surgeries, schools, hairdressers and trades such as plumbers and electricians.

- *Changing tastes and preferences.* Changing consumer tastes and preferences influence what is produced, and in what quantities. An example of this is the market for Australian-made cars. For many years, family sedans and wagons such as the Holden and Falcon were Australia's best selling cars. Car manufacturing was so successful that Toyota and other car manufacturers also set up factories in Australia. Over time, consumers' preferences changed and smaller imported cars became more popular. As a result, car manufacturing in Australia has declined and will cease altogether by 2017.
- *Marketing and advertising.* Any business introducing a new product or service into the market needs to ensure that consumers are aware of its availability. Advertising is designed to inform consumers of new products and to convince them to buy a particular product instead of an alternative. Online advertising through search engines such as Google has increased dramatically, and an online presence is essential for most businesses these days.
- *Technological change.* As a society, we have become very enthusiastic about new technology over the last 20 years. Whenever a new model iPhone is released into the marketplace, consumers queue outside their nearest Apple store to be the first to buy it. Consumers monitor new developments in technology, and many will quickly replace outdated products with newer models. Producers can be quite confident that improvements in technology will quickly attract buyers to new goods and services.

FIGURE 2 Improvements in technology often persuade consumers to update their existing gadgets.



DISCUSSION

Technology companies, such as Apple and Samsung, encourage users to buy the latest models of their products every year, even if the improvements over last year's model are small. This can have a negative effect on the environment, as thousands of unwanted or broken products end up going to waste. Should consumers or technology companies look to change their behaviour?

How to produce?

The production of goods and services involves a combination of resources — land (raw materials), labour and capital (equipment). A factory producing frozen vegetables will be set up with different types of capital equipment. These include machines that cook the vegetables, and others that pack and seal them in plastic packaging before freezing them. The same factory will employ workers to control those machines and perhaps carry out other tasks such as managing the process. The raw materials are the vegetables that are processed during production, as well as the materials used in packaging.

FIGURE 3 The use of self-service checkouts is aimed at keeping costs down.



Competition from rival producers encourages businesses to keep their costs as low as possible. If new equipment becomes available that works more efficiently, it may be worthwhile for a business to change its methods of production to take advantage of the new equipment. Over the last 50 years or so, the use of robotics-based equipment has increased dramatically in factory production. In most cases it enables the factory to employ fewer workers, reducing wage costs and allowing the prices of products to be kept at a level where they can compete in the marketplace. The use of self-service checkouts in supermarkets is designed to have a similar effect.

For whom to produce?

Our economic system has to determine how to distribute goods and services to consumers. It makes use of markets and prices as a means of doing this. As we have seen, the basic model of the circular flow of income involves the household sector exchanging labour with the business sector for money in the form of wages. Those wages are then used to purchase goods and services from the business sector. So goods and services are distributed to those who are willing and able to pay the prices asked for them, although governments can intervene in these markets to ensure that the most disadvantaged in our society are able to have some of their needs and wants satisfied.

The quantities of goods and services that can be purchased by any household will depend on the levels of wages received. If wages across the economy are relatively low compared to prices, relatively large numbers of people may be living in poverty because they cannot afford to buy necessities. If prices are relatively low compared to wages, households will be able to buy more goods and services and fewer people may be living in poverty. The choices and decisions made by businesses about the wages they pay and the prices they charge affect the whole economy and determine to whom goods are distributed.

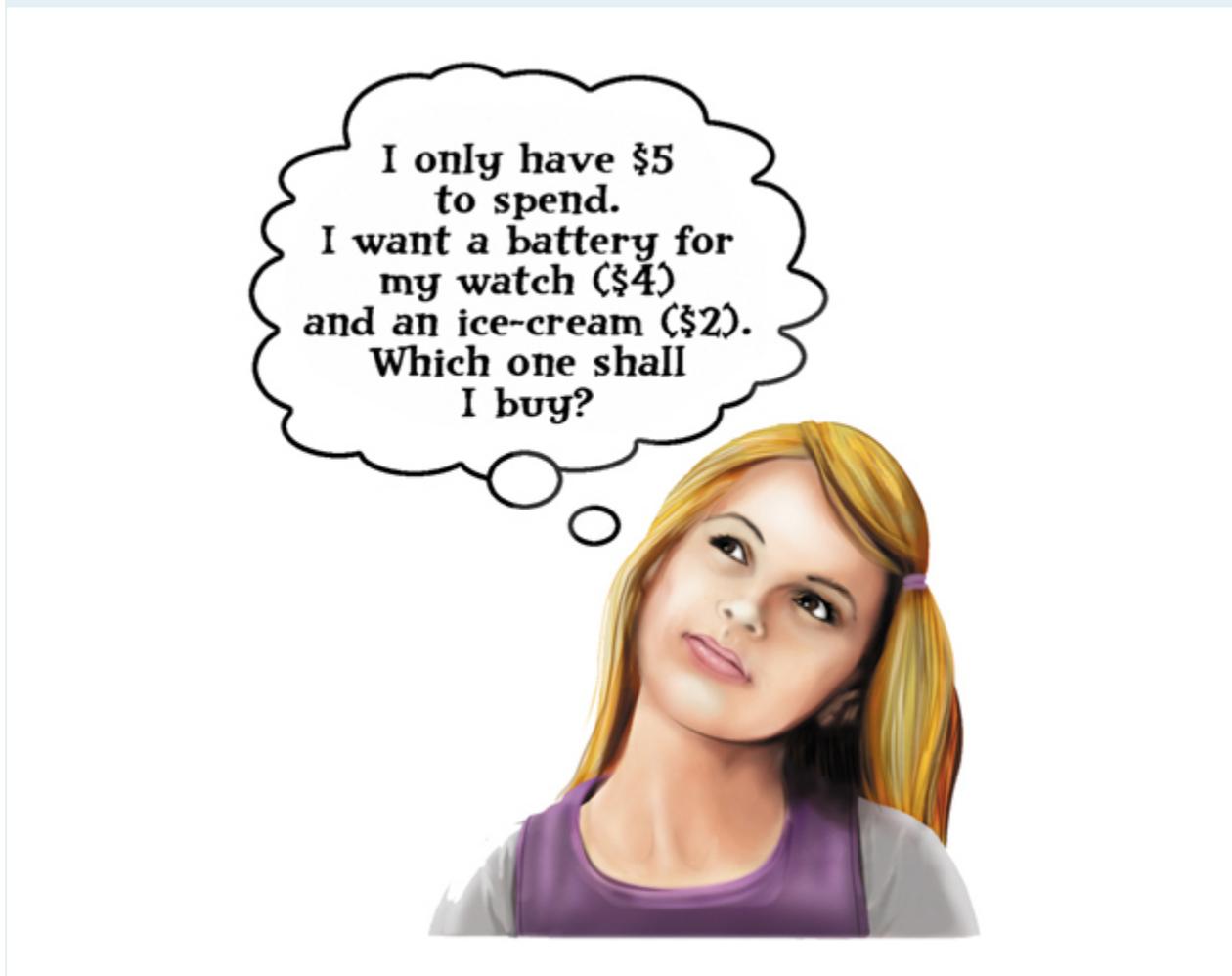
FIGURE 4 Prices can have a strong influence on which goods and services consumers will be able to buy.



Opportunity cost

Whenever we make a choice between two or more alternatives, we may gain the benefits of the alternative we choose but we lose any benefits that may have come from choosing differently. Think back to the example of relative scarcity discussed in [section 1.1.1](#): with only \$6 in your pocket, you have to choose between a burger for \$4 or a drink and fries for \$3 each. If you choose the burger, you will have to give up the fries and drink. If you choose the fries and drink, you miss out on the burger. To an economist, the real cost of choosing the burger is not the \$4 you spend, but missing out on the opportunity of enjoying the fries and drink. In the same way, the real cost of choosing the drink and fries is the opportunity to enjoy the burger. This is known as **opportunity cost**. When choices are made in the economy — regardless of whether they relate to what goods and services to produce, how to produce them, or to whom to distribute these goods and services — it is important to weigh up the opportunities that are lost before making a final choice.

FIGURE 5 There is an opportunity cost associated with all economic choices.



1.3 ACTIVITIES

REMEMBER

1. Outline the three key questions that have to be answered as a result of the choices made by all participants in the economy.
2. What is a market?
3. Identify three ways in which markets can help determine what to produce within the economy.

EXPLAIN

4. How can competition influence decisions made by a business about how to produce the goods or services it supplies?
5. Explain how wages and prices work together to determine to whom goods and services are distributed in the economy.
6. What do economists mean by the term 'opportunity cost'? Explain why opportunity cost is a natural result of relative scarcity.

THINK

7. For each of the following businesses, explain how land, labour and capital are combined to produce goods and services:
 - a. motor vehicle manufacturer
 - b. fruit and vegetable shop
 - c. house construction business
 - d. pizza shop
 - e. electricity supplier.

1.4 Indicators of economic performance

1.4.1 Indicators of economic performance

Have you ever tried to measure your own performance at school? If so, what indicators did you use? Perhaps you considered some of the following: your attendance rate, your homework completion rate, the marks you received for tests and assignments, comments on your report, and any awards you may have received. Each of these indicators provide an insight into how well you are performing at school. You may have performed very well in regards to some of the indicators and not so well for others.

Similarly, if you play a sport, you could measure the performance of your team. What kinds of indicators would give you information about how well your team is performing?

The performance of Australia's economy can also be measured by considering a range of economic indicators. Each indicator provides a snapshot of the economy at a particular point in time and helps identify strengths and weaknesses within it. [Figure 1](#) below provides a snapshot of the Australian economy at one point in time (7th June, 2017).

FIGURE 1 A range of indicators can provide information about the performance of the economy.



Source: Reserve Bank of Australia

While there are numerous indicators of economic performance, some of the key indicators that will be examined below include:

- economic growth
- unemployment
- inflation
- alternative indicators (e.g. sustainability, development, happiness)

1.4.2 Economic growth

Each day we consume a range of goods and services. This consumption ranges from the food we eat, to the transport we use to get to school, to the electricity required to charge our devices. Businesses within the Australian economy attempt to meet the demands of consumers. As the demands of customers change, businesses must offer new or modified products and services to ensure that they continue to meet the needs of customers. In addition, population increases mean that production levels must increase to satisfy demand.

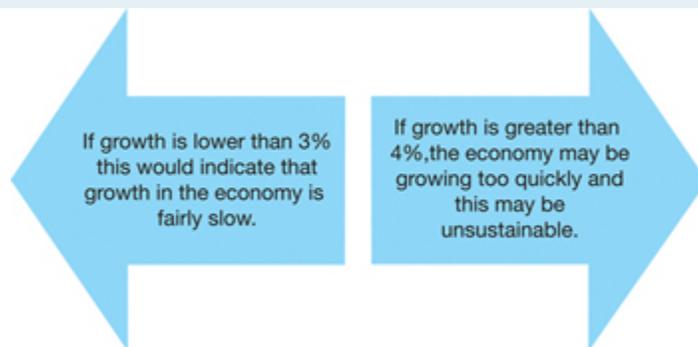
Economic growth is defined as the real growth in the volume (value) of goods and services produced by an economy over a period of time.

FIGURE 2 Economic growth occurs when an economy increases the volume of goods and services produced.



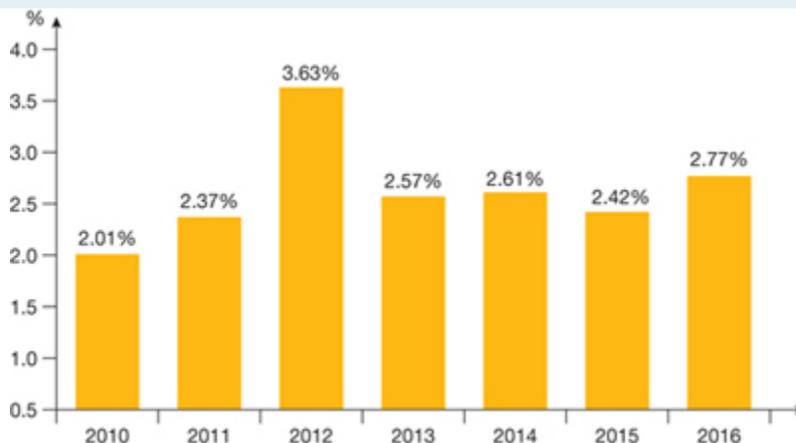
The most common method used to measure economic growth is by calculating the rate of growth of gross domestic product (GDP). GDP is the total value of goods and services produced in an economy over a certain period of time – for example a quarter or a year. This figure can be determined by comparing the GDP of one year with that of the previous year. The change in GDP from year to year is expressed as a percentage.

FIGURE 3 The change in GDP per year indicates the level of growth in the economy.



Generally, an acceptable rate of increase in GDP is 3–4% per year. If the level of growth is less than 3% this indicates slow growth. If the level of growth is higher than 4% it may mean that the economy is growing too quickly and the growth may not be sustainable. Figure 4 shows Australia's annual GDP growth rate from 2010–2016.

FIGURE 4 Australia's annual GDP growth rate, 2010–2016



Source: World Bank national accounts data, and OECD National Accounts data files.

License: <http://data.worldbank.org/summary-terms-of-use>

1.4.3 Unemployment

As a student you may have already thought about the type of job you would like to have as an adult. You may even have a part-time job now. Employment is important because it allows us to earn an income so that we can buy goods and services to improve our quality of life. Most people are able to secure employment. However, for a variety of reasons, others may not. Those people who are not employed but are actively looking for work are called 'unemployed'.

FIGURE 5 Unemployed people are those who don't have a job but are actively looking for work.



The unemployment rate is an important indicator that provides an insight into the performance of the Australian economy. It tells us what percentage of the total labour force is without a job but actively looking for work. Before trying to calculate the unemployment rate, it is important to understand the following key terms:

- Employed people – any person who works more than one hour per week
- Unemployed people – a person without a job who is actively looking for work
- Total labour force – the total of all employed people plus all unemployed people.

The unemployment rate is calculated using the formula below:

$$\text{Unemployment rate (\%)} = \frac{\text{Number of unemployed}}{\text{Total labour force}} \times \frac{100}{1}$$

Consider the following ABS employment data for March 2016:

Number of people employed	Number of people unemployed	Total labour force (employed + unemployed)
11 910 000	729 600	12 639 600

Using the above information, we can calculate the unemployment rate. Once calculated, the unemployment rate is expressed as a percentage:

$$\begin{aligned}
 \text{Unemployment rate (\%)} &= \frac{\text{Number of unemployed}}{\text{Total labour force}} \times \frac{100}{1} \\
 &= \frac{729\,600}{12\,639\,600} \times \frac{100}{1} \\
 &= 5.8\%
 \end{aligned}$$

As you can see from the example above, the unemployment rate is 5.8%. This is slightly higher than the 5% target that the Australian government sets for the unemployment rate. While the government recognises that there will always be some level of unemployment, it implements a range of policies and programs in an attempt to reduce the unemployment rate.

FIGURE 6 The government implements a range of programs to help people find jobs.



1.4.4 Inflation

The price of products and services is one of the most important considerations for us as consumers. All consumers wish to purchase good quality products for a reasonable price. When the price of a product rises, we may ask questions such as: why has the price increased? Should I still buy this product? Are there alternative products that I could purchase? Increases in the prices of goods and services mean we are not able to buy as much with our money. This may impact on our quality of life.

FIGURE 7 Price rises lead consumers to question whether or not they really need a product or service.



When there is a general increase in prices across the economy, this is known as **inflation**. Of course, inflation is considered a negative thing for both the government and for consumers, as it results in consumers being able to purchase less with their money.

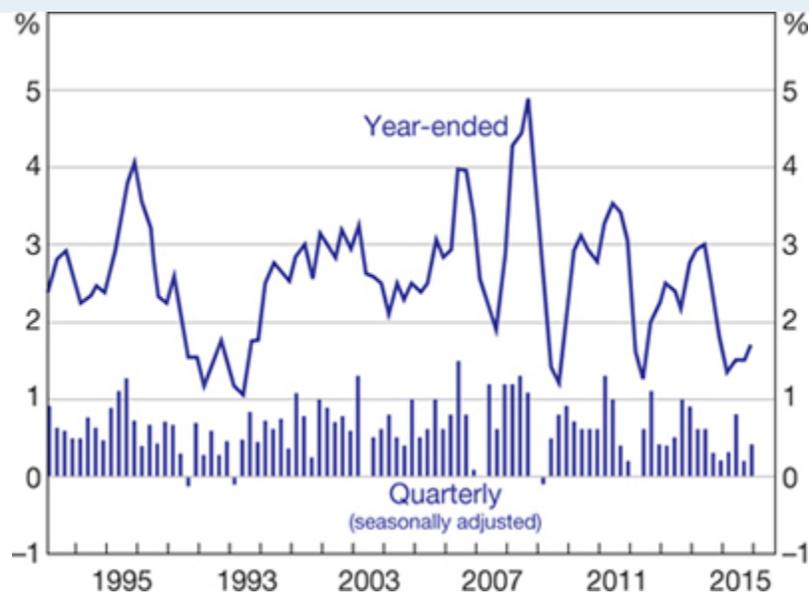
To measure inflation, the Australian Bureau of Statistics (ABS) calculates the Consumer Price Index (CPI). This is done by gathering data on the prices of goods and services in the economy. The CPI measures the average change in retail price of a 'basket of goods and services' over a certain period of time.

The 'basket of goods and services' contains over 80 000 items. All of the items fit into one of the following categories:

- food and non-alcoholic drinks
- alcohol and tobacco
- clothing and footwear
- housing
- furnishings, household equipment and services
- health
- transport
- communication
- recreation and culture
- education
- insurance and financial services

The inflation rate tells us about the change in the price of goods and services in the economy. For example, the inflation rate for the period from the December Quarter 2014 to the December Quarter 2015 was 1.7%. This means that over that time period, the average prices of goods and services increased by 1.7%. The government tries to manage inflation carefully and sets a target of between 2–3% for the inflation rate. Figure 8 provides information about Australia's inflation performance between 1995 and 2015.

FIGURE 8 Australia's inflation performance (yearly and quarterly) between 1995 and 2015.



Source: Reserve Bank of Australia website

1.4.5 Alternative indicators (e.g. development, liveability and happiness)

So far, we have considered a number of quantitative indicators which tell us about the performance of the Australian economy. These include economic growth, unemployment and inflation. As well as these indicators, there are a range of alternative indicators that attempt to provide a more complete picture of the performance of the economy. They measure a variety of things such as: the level of wellbeing of people in a country, how liveable a particular city or country is, and the level of happiness of people in different countries throughout the world.

Table 1 identifies three of these alternative indicators and provides a brief overview of each of them.

TABLE 1 Alternative indicators which attempt to provide a more complete picture of the performance of the Australian economy.

Alternative indicator	Overview
Human Development Index (HDI)	The United Nations Human Development Index (HDI) is a global indicator that compares the wellbeing of people in different countries. It considers positive and negative things about each country and generates a statistical index number. When a country's index number rises, it means there has been an improvement in the living standards of the country.
Global Liveability Ranking	This indicator attempts to rank cities throughout the world in terms of their 'liveability'. In order to rank the cities, a number of factors are considered, such as: safety, healthcare, population density, infrastructure and the state of the environment. Australian cities such as Melbourne, Adelaide and Sydney have consistently been ranked in the Top 10 most liveable cities.
The World Happiness Report	The World Happiness Report was first published in 2012 and ranks 155 countries by their happiness level. It considers a range of factors such as Gross Domestic Product (GDP), people's freedom to make decisions about their own lives, the level of social support, and life expectancy. Figure 9 shows the countries that were ranked in the Top 10 by the World Happiness Report 2017.

FIGURE 9 The world's 10 happiest countries according the World Happiness Report, 2017.

Rank	Country	Happiness score
1	Norway	7.537
2	Denmark	7.522
3	Iceland	7.504
4	Switzerland	7.494
5	Finland	7.469
6	Netherlands	7.377
7	Canada	7.316
8	New Zealand	7.314
9	Sweden	7.284
10	Australia	7.284

Source: *World Happiness Report, 2017*
<http://worldhappiness.report/>

1.4 ACTIVITIES

REMEMBER

1. Define the term *gross domestic product* (GDP).
2. Who is included as part of the *labour force*?
3. Define *inflation*

EXPLAIN

4. Explain why GDP is a useful measure to determine the level of economic growth.
5. Explain how the Consumer Price Index (CPI) is used to measure inflation.
6. Explain why alternative indicators such as the Human Development Index (HDI) are important.

THINK

7. Use the information and the formula in the section on unemployment to calculate the unemployment rates in the table below:

	Number of people employed	Number of people unemployed	Total labour force	Unemployment rate
A	3 500 000	200 000	3 700 000	
B	15 750 000	1 500 000	17 250 000	

DISCOVER

8. Undertake research in order to describe each of the following types of unemployment:
 - a. Cyclical unemployment
 - b. Seasonal unemployment
 - c. Structural unemployment
 - d. Frictional unemployment
 - e. Hidden unemployment

1.5 Trade with other economies

1.5.1 Changing trading partners

Australia has been involved in trade since European settlement. During the nineteenth century, the Australian colonies were a major source of agricultural products such as wool, and minerals such as gold, for Britain and its empire. In recent years Australia has developed strong trading links with our Asian neighbours: four of our five most important trading partners are now in Asia.

1.5.2 Trade and the Australian economy

Australia is an open economy, meaning that we trade in goods and services with other countries. Australian businesses sell **exports** to both consumers and producers in other countries. Australian consumers buy **imports** that have been manufactured in other parts of the world and brought into this country.

FIGURE 1 Australia imports many goods from overseas and exports to many other countries.



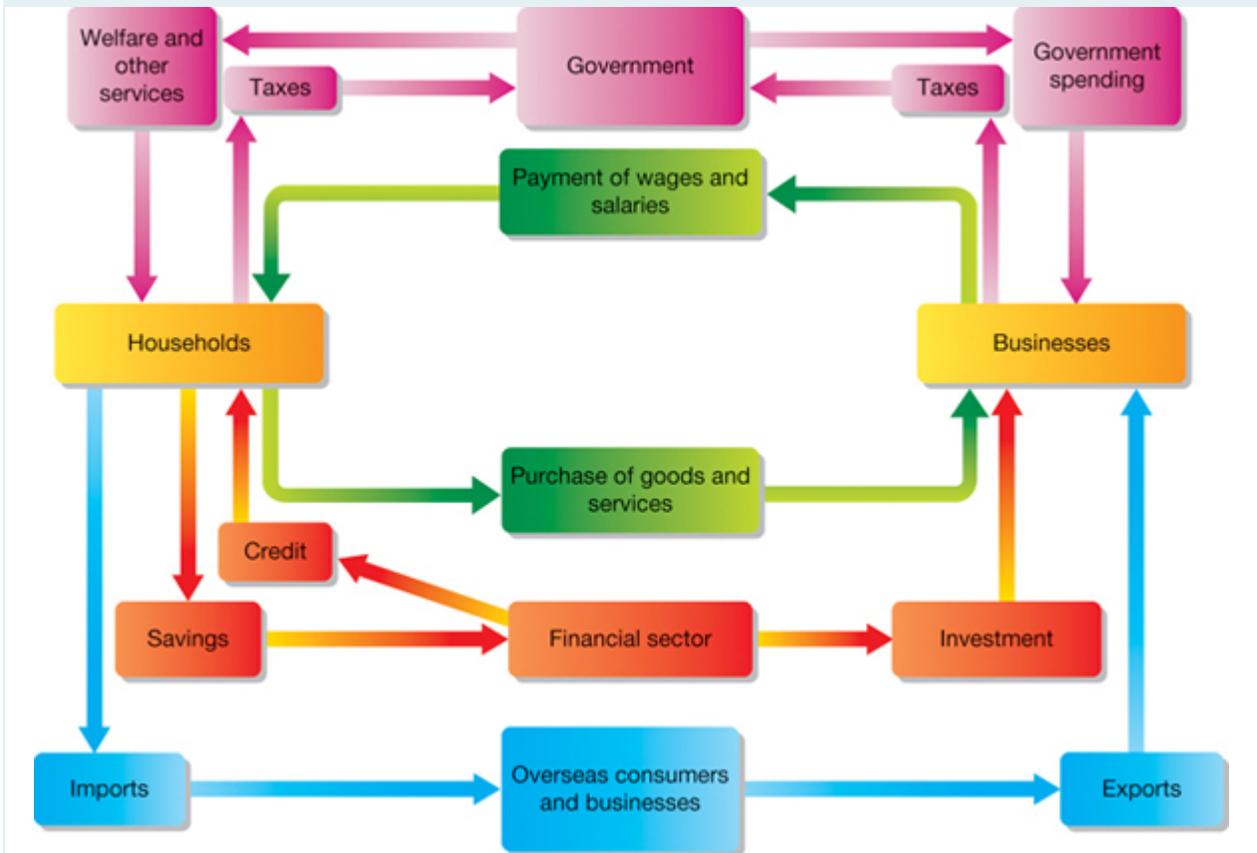
International trade can affect our economic system in a number of ways:

- Australia has a relatively small population, so if overseas consumers are willing to buy the goods and services we produce, this can help our local businesses to grow and employ more people. Today over 1.7 million jobs in Australia are directly or indirectly connected with the production of exports.
- Some products cannot be made here as efficiently as in other countries. A lot of the highly sophisticated machinery used in factories here is imported. However, such machinery can help local factories remain competitive by producing goods more cheaply.
- Imported goods are sometimes cheaper than locally produced goods, so local producers can find it difficult to compete with imported products. Some local producers may even be forced to close down. Australian clothing and footwear manufacturing has declined over the last 30 years as cheaper imports from Asian countries have increased dramatically. While this may not be good for those Australian manufacturers, it is a positive trend for consumers because they have access to cheaper clothing.

By adding overseas trade to the circular flow diagram, we can see how overseas consumers and producers participate in the Australian economy. As shown in [figure 2](#), we can see that households spend money buying imports from overseas businesses, while businesses can earn money from exporting goods and services to overseas consumers. Exports are good for the Australian economy because they bring money into our market system, while imports take money out of the country and pay it to overseas businesses.

If we consistently spend more on imports than we earn from exports, money will continue to flow out of the country. Ultimately this will leave us poorer as a nation. Ideally we want to sell enough exports to provide us with the extra money needed to pay for the goods and services we need to import. If we have more money flowing into Australia from exports than we have flowing out to pay for imports, this additional money can add to our wealth as a nation.

FIGURE 2 The circular flow of money between households, businesses, financial intermediaries, government, and overseas consumers and businesses in the Australian economy



1.5.3 Trade with the Asia region

As a relatively wealthy and advanced economy, Australia is an important trading nation for countries in the Asia region. As illustrated in [figure 3](#), in 2013 over 73 per cent of Australia's trade with our top ten trading partners was with Asian countries. Six of our top ten trading partners were Asian countries, including four of the top five.

FIGURE 3 Australia's trade with our top 10 trading partners in 2013*Trade with Asia*

Position	Country	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
1	China	101 590	52.3	49 329	39.8	150 919	47.4
2	Japan	49 532	25.5	21 221	17.1	70 753	22.2
4	South Korea	21 274	11.0	10 813	8.7	32 087	10.1
5	Singapore	9 209	4.7	17 878	14.4	27 087	8.5
8	Thailand	5 714	2.9	13 832	11.2	19 546	6.1
9	Malaysia	6 945	3.6	10 944	8.8	17 889	5.6
	Total	194 264	100.0	124 017	100.0	318 281	100.0

Non-Asian trade

Position	Country	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
3	United States	15 533	41.5	39 181	52.3	54 714	48.7
6	New Zealand	11 022	29.5	10 532	14.1	21 554	19.2
7	United Kingdom	7 841	21.0	12 044	16.1	19 885	17.7
10	Germany	3 023	8.1	13 099	17.5	16 122	14.4
	Total	37 419	100.0	74 856	100.0	112 275	100.0

Asian and non-Asian trade

	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
Trade with Asia	194 264	83.8	124 017	62.4	318 281	73.9
Non-Asian trade	37 419	16.2	74 856	37.6	112 275	26.1
Total	231 683	100.0	198 873	100.0	430 556	100.0

Source: Data derived from *Australia's trade at a glance*, Department of Foreign Affairs and Trade.

Let us examine the importance of China as our largest trading partner. As you can see from [figure 3](#), the value of our exports to China is A\$101 590 million. This represents just over 52 per cent of our exports to Asia, and is more than double the value of imports from that country. The largest proportion of our exports to China is made up of iron ore and coal, which China buys to fuel its industrial growth. Japan and South Korea are also large buyers of Australian mineral resources. The value of our exports to each of these countries is also much greater than the value of goods and services we import from them. This adds to Australia's wealth, allowing us to use the money we earn from selling our exports to pay for the goods and services we import from other countries.

More than 83 per cent of the value of our exports in 2013 was earned from selling to Asian countries. This money was particularly important because most of our non-Asian trade involved much higher levels of imports than exports. When we compare the value of exports with the value of imports, we can calculate Australia's **balance of trade**. If the value of exports is greater than the value of imports in a particular period of time, we are said to have a *trade surplus* for that period. If the value of imports is greater than the value of exports, we are said to have a *trade deficit*. We can see from [figure 3](#) that in 2013 Australia had an overall trade surplus with our ten largest trading partners. When we look at trade with individual countries, we see that we had a trade surplus with some of them and a trade deficit with others.

1.5 ACTIVITIES

REMEMBER

1. What is the difference between exports and imports?

EXPLAIN

2. Identify one benefit and one disadvantage of importing goods into Australia from other countries.
3. Explain the impact of international trade on the flow of money in the Australian economy.

DISCOVER

4. Use the **Department of Foreign Affairs and Trade** weblink in your Resources section to answer the following:
 - a. Which goods make up most of Australia's imports from Singapore, Thailand and Malaysia?
 - b. Which goods make up most of Australia's exports to the United States and New Zealand?
 - c. Which goods make up most of Australia's imports from the United Kingdom and Germany?

THINK

5. Examine [figure 3](#) and answer the following:
 - a. Why was Australia's trade with China in 2013 of greater benefit to our economy than our trade with the United States?
 - b. With which country did Australia have its greatest trade deficit in 2013? Justify your answer.
 - c. With which country did Australia have its greatest trade surplus in 2013? Justify your answer.
 - d. In 2013 Australia had a trade surplus with only four of our top ten trading partners and a trade deficit with the other six. Should we regard this as a serious problem? Explain your answer.

Resources



Explore more with this weblink: Department of Foreign Affairs and Trade

1.6 Global events and the Australian economy

1.6.1 Positive and negative effects

Today all countries are connected to a greater extent than ever before in human history. International trade has contributed to economic growth and the generation of wealth in all nations that engage in the import and export of goods and services. Developments in travel and communications have made trade easier and broken down many traditional barriers between countries. While we have benefited in many ways from these connections with other countries, there have also been some detrimental effects. The ease of travel between countries has seen the rapid international spread of infectious diseases, while the widespread use of electronic communication has made internet fraud and identity theft much easier for criminal groups.

FIGURE 1 International flights have made travel between countries both quick and easy, but they come with risks such as the possibility of spreading contagious diseases across the globe.



1.6.2 Our interconnected world

The growth of trade between almost all countries has created greater economic interdependence between those countries. As a result of this interconnectedness, both positive and negative economic events can spread quickly between trading partners. The rapid economic growth of China over the last 30 years has had a beneficial effect on the many other countries that trade with it. On the other hand, problems with housing loans that began in the United States in 2006 eventually spread to many other countries, creating a global financial crisis.

The growth of the Chinese economy

Since the early 1980s, the Chinese government has pursued a number of policies designed to bring about rapid economic growth. Economic growth is measured by increases in a country's **gross domestic product (GDP)**. As GDP is the total value of all goods and services produced in a country in any given year, the rate by which GDP increases each year is effectively the rate of economic growth of that country. China has averaged increases in GDP of more than 10 per cent a year for most of the last 30 years. One way in which the Chinese have been able to achieve this level of growth is through a rapid expansion in trade with other countries. As a result of this policy China has become the world's largest trading nation, with a total trade value of US\$3.87 trillion in 2012.

China has set out to increase its manufacturing capacity in order to provide all the goods and services required by its own huge population and also to export to other countries. It has had to import large quantities of raw materials from other countries, including the materials to build hundreds of new factories and the fuel to power them. Countries such as Australia have benefited enormously from this growth in the Chinese economy. As we have seen, China is Australia's largest export customer, buying large quantities of Australian iron ore and coal. This has generated a mining boom in Australia that has contributed significantly to our growth in GDP. Australia also imports large quantities of consumer goods from China, particularly clothing and other textiles products, as well as increasing quantities of electronic goods and other home appliances. Most of these are produced more cheaply than we can produce them ourselves, so Australian consumers benefit from paying lower prices for a wide variety of goods imported from China.

FIGURE 2 China produces high-quality electronic products more cheaply than we can in Australia.



Global financial crisis (GFC)

During the early years of this century, many American banks lent money in mortgage loans to people who were ultimately unable to repay the amount they had borrowed. In 2006 and 2007 a fall in US house prices left many of these people with houses that were valued less than the money owing on their mortgage loans. When large numbers of them defaulted on their loans and had to abandon their houses, many of the banks and other financial intermediaries lost a lot of money, severely damaging the reputation of the American financial system. This led to a tightening of credit, with banks lending less money and a slowing in growth of the United States economy. In 2008 the American economy went into **recession**. Around 9 million people lost their jobs in the following two years.

FIGURE 3 Many US home owners had to abandon their mortgaged homes when house prices fell dramatically during 2006 and 2007.



In response to the problems in the American banking system, other banking systems throughout the world placed restrictions on lending. This led to a recession throughout much of the rest of the world. In many European countries GDP declined by as much as 10 per cent, with some countries experiencing even greater decreases in economic growth and high levels of unemployment. Recession was largely avoided in Australia because the government rapidly increased spending, injecting more money into the circular flow and stimulating economic growth.

The global financial crisis (GFC) of 2008 and 2009 occurred because of the close connections between the economic and financial systems of most of the world's countries. International trade and the flow of money between nations means that events that occur in one country can have an influence on the economic conditions in other countries — for better or worse.

1.6.3 Natural disasters

A natural disaster can have a serious economic impact on a country. When houses and businesses are destroyed, money and resources are needed to repair and replace them. These resources cannot therefore be used for other purposes. In February 2009 the Black Saturday bushfires in Victoria caused damage to the Victorian economy valued at more than \$5 billion. In January 2011 the Queensland floods that damaged many homes and businesses also devastated a great deal of valuable farming land. The resulting shortages forced up food prices all over Australia. Rail lines and coal mines were also damaged. Natural disasters in other countries can also affect the Australian economy, particularly if they occur in the Asia region to which we are so closely tied.

FIGURE 4 The Queensland floods affected food prices all over Australia, as well as some of our export industries.



The 2011 Japanese earthquake and tsunami

In March 2011 the largest earthquake ever to hit Japan occurred under the ocean to the country's east, causing a 40-metre tsunami. As many as 18 000 people are believed to have died. Tens of thousands of buildings were destroyed, and a meltdown at the Fukushima nuclear power station led to serious radioactive pollution. There was an immediate slowdown in the growth of the Japanese economy, but the international economy was also seriously affected. Japan is a major trading nation and the world's third largest economy. Japanese cars, computers and electronics products are assembled in many factories around the world, and they rely on parts imported from Japan. The slowdown in the Japanese economy had an impact on many Japanese-owned businesses globally.

Japan is Australia's second largest trading partner, so an event as dramatic as the 2011 tsunami had an impact on Australia's economy although the effects were largely short term. These effects were positive as well as negative:

- The slowdown in the Japanese economy resulted in a reduction in demand for Australian exports such as coal, iron ore and beef. However, the reconstruction effort in Japan eventually led to a rise in demand for steel, so many of these exports subsequently increased.
- Pollution from the Fukushima nuclear power station raised concerns about the safety of the food supply in that area. This led to a rise in imports of food into Japan. As a significant supplier of food to Japan, Australia exported more food to that country in the period after the tsunami.
- The nuclear meltdown also caused Japan to reassess its reliance on nuclear power. As a result, it has been making greater use of coal- and gas-fired power stations. This is likely to result in a higher demand for coal and liquefied natural gas (LNG) from Australia. The 13 million tonnes of LNG exported from Australia to Japan in 2010 is expected to rise to 30 million tonnes by 2016.

FIGURE 5 The destruction caused by the 2011 tsunami had an impact on Japan's trading partners as well as on its own economy.



1.6 ACTIVITIES

REMEMBER

1. Define each of the following:
 - a. recession
 - b. gross domestic product (GDP).
2. Identify one way in which the greater interconnectedness of countries can have a detrimental effect.

EXPLAIN

3. How has Chinese economic growth benefited the Australian economy?
4. Why did a fall in house prices in the United States lead to the global financial crisis of 2008–09?
5. Explain one effect the Japanese earthquake and tsunami of 2011 had on the Australian economy.

PREDICT

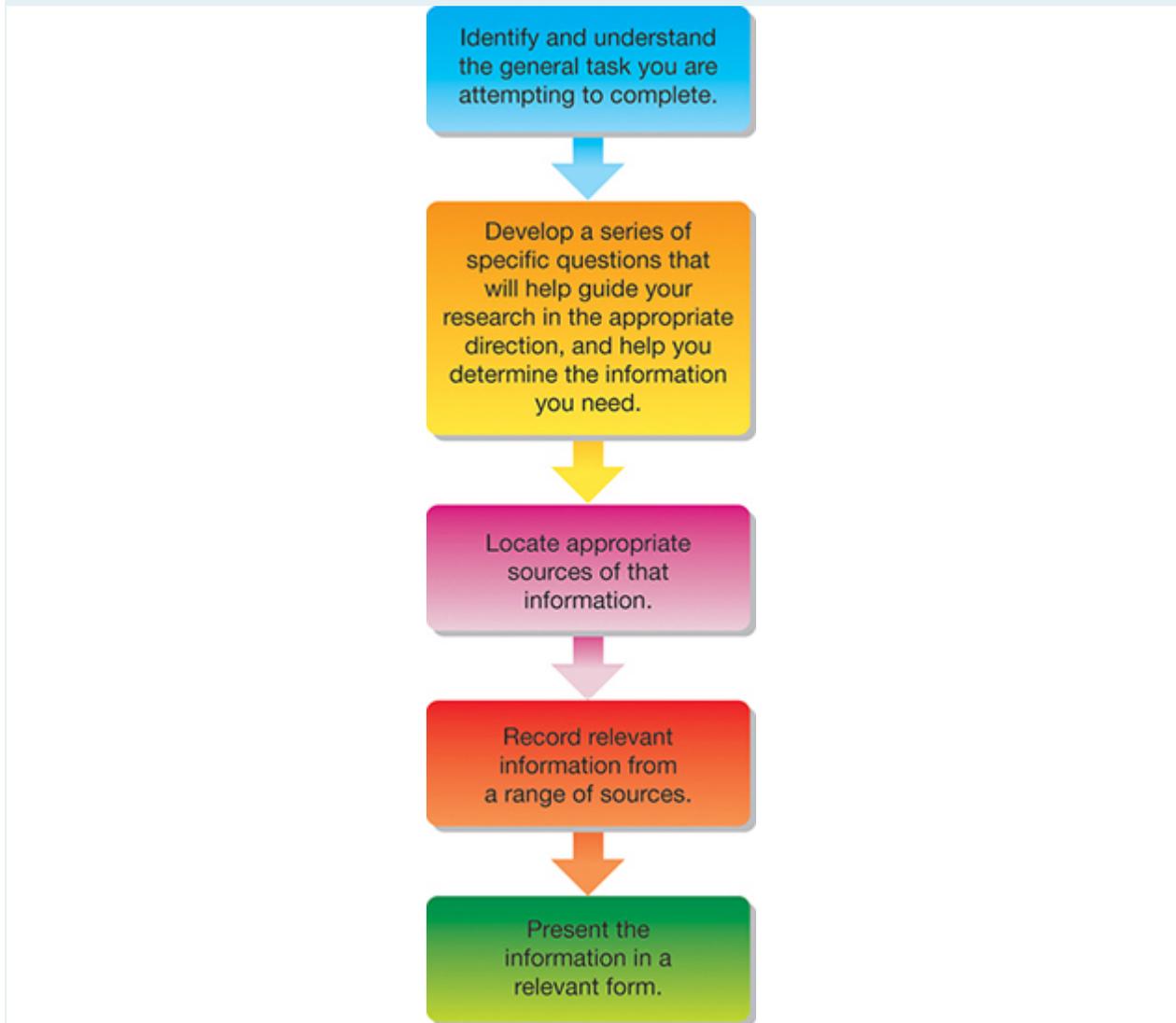
6. Northern Queensland has been subject to cyclones over the years. The same area has large numbers of sugar and banana plantations, as well as coal mines. The area provides sugar and bananas for the Australian domestic market, and refined sugar and coal for export. What impact do you think serious cyclone damage in this area would have on:
 - a. the price of bananas in Australian supermarkets?
 - b. Australia's export trade with our Asian neighbours?
 - c. the sugar plantation industry in India?
 - d. the Australian confectionary manufacturing industry?

1.7 SkillBuilder: Questioning and research

1.7.1 Tell me

When carrying out your own research, the steps in [figure 1](#) can provide a useful guide.

FIGURE 1 How to carry out your own research



1.7.2 Show me

Imagine you have been asked to investigate Australia's trade with China. You need to find out details of the major imports and exports between the two countries and any recent changes that have occurred in the trade relationship.

Your first step is to clearly identify the essential key task. This could be expressed as: 'Prepare a report on Australia's trade with China. Include the major exports and imports, recent trends in our trade relationship with that country, and the value of that trade to the Australian economy.'

Now break this down into a series of more specific questions. These could include:

1. What are Australia's major exports to China?
2. What are the values and/or percentages of these exports?
3. What are our major imports from China?
4. How are these imports broken down, from most important to least important?
5. Which areas of trade have been growing most rapidly over the last few years, and which have been in decline?
6. How does trade with China affect the Australian economy? What are the benefits, and what are the disadvantages?

The next step is to locate appropriate sources. By entering the search term 'Australian trade with China' in your favourite search engine, you will be presented with a number of sources. A Wikipedia entry is often found at or near the top of the list of sources, and many students will be familiar with this resource. There is no problem with using Wikipedia as one of your sources — so long as you remember that it is not always reliable, and any information gathered from Wikipedia should always be checked against another source to make sure it is accurate. To help ensure that your information is correct, it is a good idea to use at least two sources to answer each question.

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

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

1.7.3 Let me do it

1.7 ACTIVITIES

Practise the skill

Using the above process as a model, your research task is to prepare a report on Australia's trade with one of these Asian countries: Japan, South Korea, Singapore, Thailand or Malaysia. Your report should include details of goods and services traded, recent trends or changes in that trade, and the importance of that trade to the Australian economy

1.8 Review

1.8.1 Summary

The Australian economy is the total of all activities undertaken for the purpose of the production, distribution and consumption of goods and services in our country. Because Australia is a major trading nation, economic activities in this country can affect other countries, and activities in those countries can have an impact on our economy.

- The household sector makes decisions about which goods and services to purchase, as well as providing labour for businesses.
- The business sector is made up of a large number of producers, all seeking to provide goods and services to satisfy the needs and wants of households.
- Businesses make use of land, labour and capital to produce goods and services to sell to consumers.
- Financial intermediaries perform an important role because they enable accumulated savings to be directed towards business growth.
- Government plays an important role in the economy because households and businesses pay money to government in the form of taxes, and receive particular types of goods and services in return.
- The economic system aims to answer three key questions: what to produce, how to produce and for whom to produce.
- Indicators such as economic growth, unemployment and inflation provide us with information about the performance of the Australian economy.
- Whenever we make a choice between two or more alternatives, we may gain the benefits of the alternative we choose, but we lose any benefits that may have come from choosing the next best alternative. This is known as opportunity cost.
- Australia is a trading nation — it exports goods and services to other countries, and Australian businesses and consumers import goods and services from overseas.
- The circular flow diagram represents the flow of money between households, businesses, financial intermediaries, government, and overseas consumers and businesses.
- The balance of trade is the difference between the value of a country's exports and its imports over a specific period.
- Australia's largest trading partner is China, with other Asian countries making up four of our five top trading partners.
- Trade and other connections between countries mean that events in one part of the world can affect economies in other countries.

1.8.2 Your turn

1.8 ACTIVITIES

Australia regularly suffers from drought. These events can sometimes last for years, having a serious impact on the production of food and other agricultural products.

1. What do you think the impact of drought would be on the price of fruit, vegetables and meat in Australia? Give reasons for your answer.
2. How do you think a drought might affect Australia's trade in food products with our Asian neighbours? Give reasons for your answer.
3. What impact would a drought have on the circular flow of money in the economy? Explain why.
4. Imagine you are a grazier who sells beef to local and overseas butchers. You have 100 specially bred animals that in good condition are worth \$80 000 in total. The drought has left your pastures with nothing for the livestock to eat so, with no rain in sight, you believe your options are to:
 - A. pay \$8 per head per week to relocate them to a better farm for three months to reach peak quality for sale.
 - B. sell some or all of the cattle now for an average of \$500 per head, depending on their condition.
 - C. buy fodder and hand feed at a cost of \$20 per head per week for three months before selling them in prime condition.
 - D. any combination of the above.

After identifying the costs and benefits involved in each option, make a decision and justify your selected option.

Resources



Try out this interactivity: [Multiple choice](#)

Searchlight ID: [int-5550](#)



Try out this interactivity: [True/false](#)

Searchlight ID: [int-5551](#)

Chapter 2: The global economy

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- 2.4 Global supply chains
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2

The global economy



2.1 Overview

2.1.1 What is globalisation?

Australia is engaged in trading relationships with countries all over the world, particularly with those in the Asia region. In fact, all advanced economies rely on trade as a means of generating economic growth. The less advanced economies of Africa and Asia are also trying to advance their trading interests to generate growth and prosperity in their own countries. This flow of goods and services between countries, and the money flows that accompany this trade, have increased global interdependence between the trading countries' household, business, financial and government sectors. As a result, what happens in one country affects the activities of similar sectors in many other countries. This process of growing interdependence between countries is known as globalisation.

FIGURE 1 This recently cleared and burnt rainforest area in the Brazilian Amazon has been turned into a cattle ranch for the export of beef.



Globalisation presents many issues for businesses, households, governments and financial intermediaries to consider:

- When overseas businesses take over local businesses, decisions that affect local employees and customers may no longer be made by local management. This may not be in the interests of either the employees or consumers.
- The power and reach of the United States entertainment industry has meant that music, language, fashion and culture have become increasingly standardised throughout the world. This may or may not be regarded as a positive trend.
- Some large international businesses are wealthier and possibly more powerful than the governments of some smaller and medium-sized countries. If one of these companies wants access to the resources in such a country, can the country's government guarantee the best deal for its people?
- How well do we balance the economic interests of increased trade and globalisation with the importance of environmental sustainability?

on Resources



Explore more with this weblink: [Globalisation](#)

Learning objectives

Students will investigate:

- why and how participants in the global economy are dependent on each other.

STARTER QUESTIONS

1. Identify five transnational corporations that operate in Australia. Do these companies manufacture their products in this country or simply import from overseas?
2. Of the goods and services your family buys regularly, which are locally produced and which are imported? Of those locally produced, what proportion are made by overseas-owned companies? What conclusions can you draw about the influence of globalisation on the Australian economy?
3. Examine the TV schedule for your local commercial stations between 7 pm and 11 pm over one week. Calculate and compare the number of hours dedicated to overseas programs and Australian-produced programs during this period. Calculate the percentage of each.
4. Carry out similar calculations for music and movies by examining the current popular music charts and cinema advertisements. What conclusions can you draw in relation to our main entertainment influences in Australia?

2.2 Globalisation and the international economy

2.2.1 The economic issues of globalisation

Globalisation provides the means for increased interaction between the consumers, producers, workers and governments in one country's economy with their counterparts in the economies of other countries. Many people use the term 'globalisation' to describe the strengthening economic ties between nations, and the resulting trade and investment opportunities. Some use it to refer to the increasing exchanges between nations at the social, political, cultural and technological levels. For others, globalisation refers to our ability to rapidly communicate with and travel to other regions of the world. In this topic we focus on the economic issues associated with globalisation and the way they affect all participants in the global economy.

2.2.2 What are the benefits of globalisation?

Globalisation can be a driving force for economic growth (an increase in the size of the economy as measured by gross domestic product). As countries encourage free trade with other countries, new markets are created. Selling more products increases company profits, and this means companies can afford to hire more workers. As a result both companies and workers become wealthier, and the standard of living improves. As discussed in topic 1, a trade surplus with our trading partners will result in an increase in wealth coming into the country and contribute to the circular flow of money.

Trade helps to ensure that resources are used efficiently to produce goods and services. It enables nations to specialise in the products that they make efficiently or grow naturally. At the same time, producers competing on a global rather than a national level must operate efficiently to keep prices competitive. This increased focus on efficiency and cost savings provides flow-on benefits for both producers and consumers.

FIGURE 1 Greater choice and an increased variety of goods and services is a flow-on benefit of globalisation for consumers.



on Resources



Explore more with this weblink: Global issues explained

Explore more with this weblink: What is globalisation?

2.2.3 What is the downside of globalisation?

Globalisation can create unfair working conditions for many workers in poor countries. Large **transnational corporations (TNCs)**, for example, may shift their production factories to poorer countries where they can hire labour more cheaply. These workers may be forced to work long hours in unsafe and unhealthy factory environments for a very small wage. Workers in the home country of the TNC may lose their jobs altogether.

As well as choosing countries that have cheaper labour, TNCs may also choose to locate in countries where environmental regulation is less stringent. This may result in exploitation of natural resources and damage to the natural environment, often with little or no benefits flowing on to local communities.

DISCUSSION

Critics of TNCs who exploit labour laws by providing poor conditions and low wages for their workers often stage boycotts of the goods and services these companies provide. Do you think this is an effective strategy to put pressure on these companies? What else could be done to force a change in this behaviour?

TNCs also have the ability to undercut prices charged by competitors, often forcing smaller producers to close down. This results in job losses, less competition and less choice for consumers. Removal of competition can then allow TNCs to raise product prices.

FIGURE 2 A downside of globalisation is the deplorable working conditions faced by many workers in poorer countries.



on Resources



Explore more with this weblink: Fashion factories

2.2.4 Who oversees the global market?

A number of international organisations oversee the flow of goods, services and finance around the world. These include:

- *World Trade Organization (WTO)*. Established in 1995, the WTO administers the rules of international trade. It is an influential organisation that has the power to rule on international trade disputes.
- *International Monetary Fund (IMF)*. Established after World War II, its main function is to provide an orderly way of financially assisting developing countries.
- *Organisation for Economic Co-operation and Development (OECD)*. This organisation develops economic and social policy for its members. Its 30 member countries include Australia, Japan, Korea, New Zealand and countries in western Europe and North America.

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Explore more with this weblink: World Trade Organization

2.2.5 What does globalisation mean for Australia?

Globalisation has affected our country in many ways:

- Many Australian companies now operate internationally, increasing their profits by selling their goods and services worldwide. Some have established their production centres in regions such as Asia to reduce labour costs.
- Globalisation has forced Australian farmers to compete at a global level to sell products such as wheat and wool. Previously they could rely on selling their crops and stock to established trading partners.
- Overseas investment by Australian companies helps to create employment and wealth in those overseas countries. Similarly, investment in Australia by overseas companies may create growth and employment opportunities that improve our standard of living.

- Importing a huge variety of goods and services allows consumers greater choice, usually at cheaper prices. Overseas-made products in almost every Australian home include electrical goods, CDs, food items, clothing and footwear, numerous television programs and, increasingly, the family car.

FIGURE 3 Globalisation in the form of shipping goods to or from other countries has advantages for Australian businesses and consumers.



2.2.6 Is globalisation environmentally sustainable?

As the world population grows, demand for goods and services increases. Meeting this demand requires greater use of renewable and non-renewable natural resources. The manufacturing processes involved in producing the increased quantities of goods demanded results in increased pollution levels and many dangerous by-products. Other serious environmental problems associated with meeting increased demand include the hole in the ozone layer, destruction of old-growth forests, extinction of many plant and animal species, and climate change.

Both consumers and producers are becoming increasingly aware of the need for environmental sustainability.

FIGURE 4 Clear-felling forests helps to meet rising demands for timber. It also reduces the availability of tree hollows in old-growth forest needed by some Australian species as their habitat.



2.2.7 How does the internet benefit globalisation?

The internet allows huge amounts of information to be accessed or shared very quickly, facilitating the exchange of information and ideas between individuals, businesses and governments around the world. As e-commerce (commercial transactions such as advertising, buying and selling on the internet) increases, isolated groups such as rural exporters will be able to operate more competitively. This will provide growth opportunities for many country towns and out-of-the-way remote businesses that might otherwise have difficulty in reaching a large market.

FIGURE 5 Greater access to the internet enables even small or isolated businesses to compete efficiently in a globalised market.



2.2 ACTIVITIES

REMEMBER

1. In your own words, define globalisation.
2. Identify one international organisation that oversees global markets and outline its main function.

EXPLAIN

3. List three advantages and three disadvantages of globalisation.
4. Identify and explain two impacts of globalisation on the Australian economy.
5. In what ways has globalisation placed additional pressures on the environment?

DISCOVER

6. Identify one product that you or a family member has purchased online recently from an overseas supplier.
 - a. What was the name of the online retailer supplying the product?
 - b. Which country did the product come from?
 - c. Is the product available from shops locally?
 - d. Why did you or the family member decide to use the internet to purchase this product?

THINK

7. 'Many countries are being too heavily influenced by external culture and language, particularly American culture, and are losing unique elements of their traditional culture.' Think of the number of products we buy that have originated in the United States, including fast food, films, music and TV programs that are now available worldwide. Do you agree or disagree with the view that globalisation risks damaging local cultures in smaller countries? Give reasons for your answer.

2.3 Imported products in our local shops

2.3.1 Imports — positive or negative?

You may not realise it, but you have been living with and consuming imported products all your life. In fact if your parents used disposable nappies, you would have come into contact with imports the day you were born. But have you ever stopped to think about what effects imports have on the Australian economy? It can be argued that money going out of Australia to pay for imports is likely to reduce our wealth. Yet many imported goods are cheaper than those locally produced, allowing us to buy more and make our money go further.

2.3.2 What is an import?

An import is a good or service that is produced overseas and brought into Australia. Businesses bring imports into the country and then sell them to other businesses or directly to the public. When we travel and spend money on an overseas holiday, this has the same effect on the economy as importing goods and services. In this case we are taking our money to other countries to spend on goods and services there rather than physically bringing the products to our country. The economic effect is that the money goes to overseas businesses, so the impact on the Australian economy is the same.

Similarly when overseas tourists come to Australia and spend their money, this has the same impact on our economy as exporting goods and services. In this case, money from overseas consumers is coming into Australia and being paid to Australian businesses just as if those businesses had sent their products overseas. Economists sometimes refer to the spending of money by Australians overseas as 'invisible imports' while the spending of money here by overseas visitors is referred to as 'invisible exports'.

FIGURE 1 The spending of money by overseas tourists in Australia is called invisible exports.



2.3.3 Where do you find imports?

You will find imported products in most shops. Check the shelves in your local supermarket, or go into any store selling electrical goods. Look at the labels on the clothes in your wardrobe or other products you have bought recently. Most businesses carry a range of products that are made both locally and overseas. Imported products can also be bought online, bypassing local business that import goods to sell to Australian consumers.

FIGURE 2 Consumers can find imported goods in almost every store.



2.3.4 From whom do we import?

Australian imports come from all over the world. Globalisation allows us to buy overseas products in local stores or in our own homes using the internet or telephone.

As we can see from [table 1](#), over 50 per cent of our imports in the 2014–15 financial year came from six of our ten largest trading partners. Our top 30 sources of imports accounted for almost 90 per cent of the total value of all imported goods.

TABLE 1 Value of overseas imports of goods by top 30 countries of origin, Australia, 2014–15.

Country of origin	Goods imported	
	\$million	%
China	56,994.2	22.2
United States of America	27,449.0	10.7
Japan	18,236.0	7.1
Korea, Republic of	13,546.5	5.3
Thailand	12,116.3	4.7
Germany	11,761.5	4.6
Singapore	10,676.7	4.2
Malaysia	10,143.4	4.0
New Zealand	7,627.5	3.0
United Kingdom	6,242.7	2.4
Italy	5,925.2	2.3
Indonesia	5,337.5	2.1
Vietnam	4,893.9	1.9
Taiwan	4,765.8	1.9
France	4,133.7	1.6
India	3,799.6	1.5
Papua New Guinea	3,401.9	1.3
United Arab Emirates	3,115.4	1.2
Switzerland	2,984.7	1.2
Mexico	2,254.7	0.9

Country of origin	Goods imported	
Canada	2,219.5	0.9
Spain	1,984.1	0.8
Netherlands	1,974.7	0.8
Sweden	1,911.4	0.7
Ireland	1,822.9	0.7
Belgium	1,658.5	0.6
Hong Kong(SAR of China)	1,212.9	0.5
Denmark	1,090.6	0.4
South Africa	1,082.2	0.4
Austria	1,062.6	0.4
Total top 30	231,425.5	90.3
Other	24,996.6	9.7
Total	256,422.0	100.0
p = preliminary(as at June 2015 release)		

2.3.5 What goods and services do we import?

Table 2 shows the top ten imports of goods and services into Australia in 2014. Although it only made up 7.3 per cent of total imports by value, the largest single import was the invisible import of Australians travelling and spending money overseas. While we are used to seeing imported clothing and electrical goods in our shops, neither of these types of imports were included in the top ten in 2014.

TABLE 2 Australia's top ten goods and services imports in 2014 (A\$ million)

Rank	Commodity	Value	% share
	Total(b)	336,957	
1	Personal travel (excl.education) services	24,597	7.3
2	Crude petroleum	20,050	6.0
4	Refined petroleum	18,579	5.5
3	Passenger motor vehicles	17,566	5.2
6	Telecom equipment and parts	9,845	2.9
5	Freight transport services	9,686	2.9
7	Medicaments (incl.veterinary)	7,497	2.2
8	Computers	7,316	2.2
9	Passenger transport services	6,141	1.8
10	Goods vehicles	6,008	1.8

- a. Goods trade are on a recorded trade basis, Services trade are on a balance of payments basis.
- b. Total is balance of payments basis.
- c. Includes Related agency fees & commissions. Based on ABS trade data on DFAT STARS database and ABS catalogue 5368.0

FIGURE 3 Motor vehicles and petroleum are among the many imported products sold in Australia.



2.3.6 Why do we import goods and services?

Australia imports many products, and does so for many reasons. Australian producers may not make a product as efficiently as it is made in another country, or a particular raw material may not be produced in sufficient quantities to satisfy demand. Australia began mining its own reserves of petroleum in the 1960s, but production peaked in the year 2000 and has been in decline ever since. As a result the importation of both crude and refined petroleum has steadily increased since then, amounting to over 11 per cent of all imports in 2014. The importation of all motor vehicles amounted to almost 10 per cent of imports in 2014 and, with the expected closure of Australia's motor manufacturing plants after 2017, this percentage is likely to increase.

FIGURE 4 Most electrical goods sold in Australia, such as TV sets, are imported.



2.3.7 How do imports affect the economy?

Spending on imports is higher in most years than spending on exports. Bringing imports into the country has both positive and negative effects for consumers and producers (see [table 3](#)).

TABLE 3 Economic effects of imports

Positive effects	Negative effects
<ul style="list-style-type: none">● There is an enormous range of goods and services for consumers to buy.● Australian producers are forced to make goods and services using resources in the most efficient way because they have to compete against cheaper imported products.● Importing goods from other countries encourages those countries to buy our exports.● Australian workers may move overseas and learn other languages and cultures.● More trade between countries encourages peaceful relationships and cultural exchanges.	<ul style="list-style-type: none">● Australian jobs may be lost to countries with cheaper labour costs.● Imported resources may lower employment opportunities for Australian workers.● Australian industries find it difficult to compete with the lower production costs of some overseas countries. This leads to a closure of industries and loss of skills.● Money leaves the country to circulate overseas, rather than in Australia, affecting the exchange rate of the Australian dollar.● Harmful animal species as well as diseases, such as bird flu, may be brought into the country in various ways.

DISCUSSION

Overall, do you think that imports have a positive or negative effect? What made you reach your decision either way? Think about all of the effects of importing goods and services, from the increased range on offer, to the environmental consequences, and the impact on Australian workers.

2.3 ACTIVITIES

REMEMBER

1. Which three countries were our top three sources of imports in 2014–15?
2. Which type of goods made up our largest percentage of imports by value in 2014?
3. Identify two reasons why Australia imports goods and services from overseas.

EXPLAIN

4. What is meant by the terms 'invisible imports' and 'invisible exports'?
5. Explain how purchasing imported goods can:
 - a. improve our standard of living
 - b. reduce our standard of living.

DISCOVER

6. Provide ten examples of imports that you and your family purchase regularly. Identify their countries of origin.
7. Choose five stores in your local area, name them and list some of the imported products they stock.

THINK

8. Design an advertisement (web page or poster) to encourage consumers to buy Australian products. In presenting your design to the class, explain why you believe it could work.

2.4 Global supply chains

2.4.1 Land, labour and capital

In the globalised economy, the manufacture of many goods that we purchase is not restricted to one country. All goods are manufactured using a combination of raw materials (known to economists as land), human skill and effort (labour), and factory buildings and equipment (capital). Manufacturing today can have different combinations of these three resources located in many different parts of the world, with the final product sold in a variety of different countries. The combination of different resources, businesses and information that moves a product or service from producer to consumer is known as the supply chain.

2.4.2 Supply chain management

A major concern of any transnational corporation is the management of the supply chain. Raw materials have to be sourced from various parts of the world, and these raw materials may then be processed in a number of different countries. The manufacturing steps may occur in several locations before the finished product is available for sale.

Supply chain management can be illustrated by examining the production of the mobile phone. One of the most successful mobile phone suppliers of the last 20 years has been the Nokia company. Nokia is a Finnish company that has not always produced phones. It has been in operation for over 140 years and produced a variety of goods including cables, toilet paper and rubber boots.

In the early 1990s, Nokia reinvented itself and started focusing on technology in the mobile phone industry. With this change in focus the company began operations as a transnational business, operating factories and selling its product worldwide.

This transformation did not come without its problems. The popularity of mobile phones and the Nokia brand meant that in 1996 the company did not have the factories capable of producing the number of phones demanded. In response to this it began the globalisation of the Nokia operation, with a particular emphasis on updating its supply chain management.

FIGURE 1 The popularity of Nokia phones has prompted the company to globalise its operations.



2.4.3 The Nokia supply chain

The manufacture of a mobile phone is a worldwide process, with countries from every continent involved.

Raw materials

The electronic and electromechanical components of a mobile phone require a variety of minerals, sourced from all over the world. Copper for internal wiring comes mainly from Chile, Australia and Peru, although this important metal is also supplied by other countries in South America, Asia and Africa. Other minerals such as cobalt and tantalum from central Africa, and zinc, mercury and nickel from Africa, Asia, South America and Australia are all required in phone manufacturing. Plastics for the phone cases have to be processed as a by-product of petroleum from the Middle East and other oil producers.

FIGURE 2 Many of the minerals used in mobile phones are mined in Africa.



Production of components

Nokia originally made its mobile phones in Finland but, because it was unable to meet demand, opened factories in other locations around the world. For many years Nokia in Finland made a number of phone components itself, and purchased other components from around a hundred different specialist components manufacturers as well as a large number of software suppliers. Electronic circuits, liquid crystal displays, cases and batteries were all then shipped from different parts of the world to be assembled into mobile phones. Since 2011, Nokia has been forced by the competitive nature of the smartphone market to further restructure its operations. In 2012 it closed its last factory in Finland, and now only produces its phones in its remaining eight factories worldwide (see [figure 3](#)).

FIGURE 3 Nokia handset factories



Assembly

Assembly of Nokia handsets takes place at eight different factories worldwide — Asia, Europe, and North and South America (refer back to [figure 3](#)). This is in response to a demand by telecommunications companies in different countries for telephones that have key features under that particular brand. Nokia takes orders from the carriers (such as Vodafone) into its production system and transforms them into hundreds of thousands of specialised phones for each carrier. This can mean that a carrier can have a unique faceplate with its logo, or with specialised software installed. It costs on average \$90 to produce a telephone, although this can vary from \$20 to \$130 depending on the features of the telephone. Nokia then sells its product for 33 per cent more than its production costs.

In 2013 Nokia announced that its phone devices and services division would be sold to Microsoft, to become Microsoft Mobile. This means that the division became part of the Microsoft transnational corporation, and its supply chain became integrated with that of Microsoft worldwide.

FIGURE 4 Assembly of Nokia mobile phones takes place in factories all around the world, including China.



Sustainability issues in supply chain management

Many of the materials used in mobile phones are toxic to both humans and wildlife. Minerals such as coltan, mercury and lead can cause serious problems if they are released into the environment. Plastics, solvents and chemicals such as bromine and chlorine can also be hazardous if they seep into the soil or into the water table. It is important for phone producers to ensure their manufacturing processes do not allow dangerous materials to be released into the environment. The recycling of old mobile phones is also a significant issue.

Nokia is aware of the impacts its products have on the environment. Environmental concerns are built into its operations throughout the product life cycle – including design, production and the minimal use of energy – but it has less control over environmental impacts associated with consumer use and the disposal of old models. Consumers are increasingly encouraged to recycle old phones, and this has helped to reduce the landfill waste associated with the level of technological progress that has taken place.

FIGURE 5 The disposal of old mobile phones has a significant impact on landfill waste.



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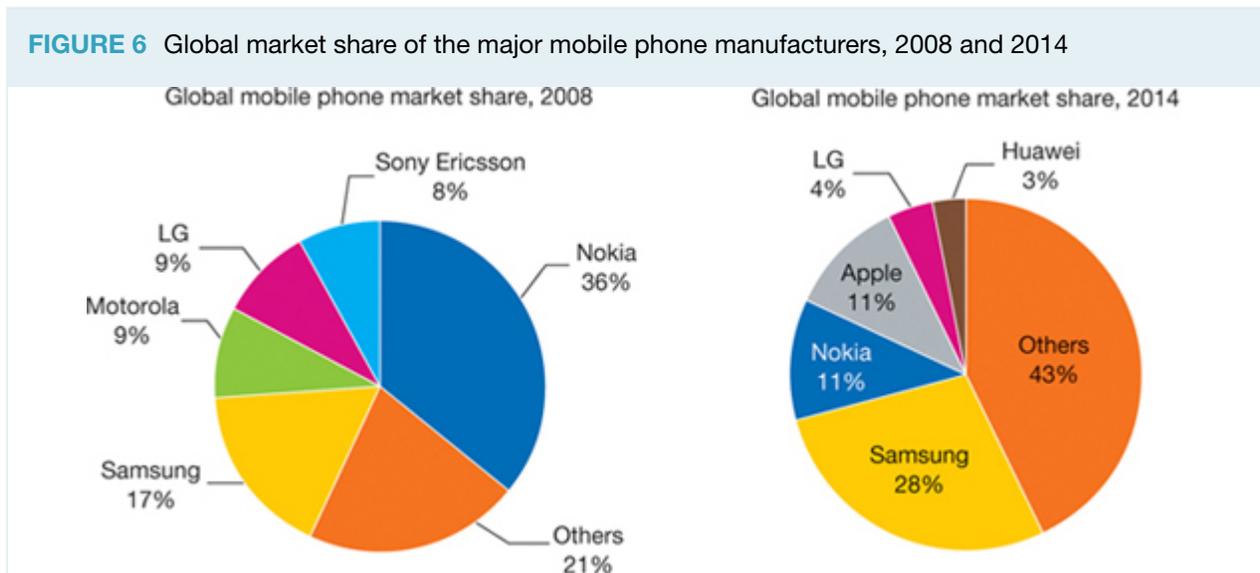


Explore more with this weblink: [Smartphones and sustainability](#)

Changing market share

Mobile phone sales have continued to grow. More than 1.2 billion mobile phones were sold worldwide in 2007, rising to around 1.8 billion in 2014. The development of the smartphone and advancements in smartphone technology have changed the fortunes of the world's mobile phone producers since 2007. In that year the Apple iPhone introduced touch-screen technology into the market, radically changing the way users could interact with their mobile phones. In 2008 Nokia was still the largest producer of mobile phones with 36 per cent of the market. By 2014 its market share had fallen to 11 per cent and Samsung had moved to first place with 28 per cent of the market, due in part to its use of the increasingly popular Android operating system.

FIGURE 6 Global market share of the major mobile phone manufacturers, 2008 and 2014



2.4 ACTIVITIES

REMEMBER

1. What is a supply chain?
2. Why did Nokia have to globalise its phone manufacturing business?
3. Identify three different raw materials that are used in the production of mobile phones and the countries where these materials are sourced.

EXPLAIN

4. Explain how Nokia can customise its phones to meet the needs of service providers in different countries.
5. Why has Nokia's market share fallen since 2008?

DISCOVER

6. Follow the **Microsoft's Supply chain** weblink in your Resources section to learn how Microsoft manages their supply chain to ensure that it:
 - a. minimises environmental impacts
 - b. improves social conditions
 - c. responsibly sources raw materials.
7. The disposal of mobile phones has been a problem in the past, but the recycling of phones is strongly encouraged nowadays. Use library or internet resources to investigate how and where this recycling takes place. What happens to the various components when this recycling occurs?
8. Investigate another transnational corporation that operates throughout the world and identify the key elements of its supply chain. (You could use Nestlé or Ford, or use the internet to find examples of others.) Present your information in the form of a flowchart or map.

Resources



Explore more with this weblink: Microsoft's supply chain

2.5 Transnational corporations

2.5.1 What is a TNC?

A transnational corporation (TNC) is a business that produces and sells its products in a number of countries throughout the world. TNCs have their headquarters in one country and they establish subsidiaries in other countries. The subsidiaries are located in countries that provide the resources and conditions necessary for them to operate. TNCs represent the highest level of involvement in global business, where national borders do not represent barriers to trade. TNCs conduct a large percentage of their business outside of their home country.

2.5.2 Worldwide assets and sales

TNCs come in many different forms. Sanyo, McDonald's, Unilever, Ford, News Corporation and BHP Billiton are just a few of the well-known foreign and Australian transnational corporations.

FIGURE 1 Neon signs in London showing examples of TNCs



The degree to which a business is a genuine transnational company can be measured by examining the proportion of its sales that occur outside its home country. [Table 1](#) shows ten of the largest transnational corporations and the percentage of their sales that occur outside their home countries.

TABLE 1 Ten largest TNCs by percentage of sales that occur outside home countries.

Company	Home country	Overseas sales as a percentage of total sales
Nestlé	Switzerland	97.8
Vodafone	Britain	88.3
Siemens	Germany	85.3
British Petroleum (BP)	Britain	79.8
Volkswagen	Germany	78.3
Honda	Japan	77.7
Total (oil)	France	76.9

Exxon Mobil	USA	73.0
GDF Suez (electricity)	France	65.6
Toyota	Japan	60.8

Source: Table based on information from the UN Committee on Trade and Development (UNCTAD).

Many of these corporations have factories and assembly plants spread around the world. For example, car manufacturer Toyota has manufacturing or assembly plants in 27 different countries spread across Europe, North and South America, Asia and Africa, in addition to its home base in Japan. Just under 40 per cent of Toyota's employees work in countries other than Japan, and in 2012 it became the first motor manufacturing company to produce more than 10 million cars in one year worldwide. Oil companies such as Exxon Mobil and BP drill for oil in different locations across the world and have oil refineries in many countries. French energy company GDF Suez owns electricity generation assets around the world, including a number of gas-fired power stations in Western Australia and South Australia, and the Hazelwood and Loy Yang B brown-coal power stations in Victoria.

FIGURE 2 A Toyota dealership in Lithuania



2.5.3 The biggest and richest

Some of the largest transnational corporations have annual revenues that exceed the GDP of many countries. In 2011, only 25 countries (out of a possible 193 that are members of the United Nations) had a GDP that was larger than the revenue of any of the top three transnational corporations. The top six transnationals filled six of the next ten positions between the 25th and 35th largest **economic entities**. Each of these six TNCs had revenues larger than the GDP of countries including Thailand, Denmark, Greece, Finland, Malaysia, Israel, Ireland and New Zealand. The top 15 transnational corporations by revenue for 2016 are shown in [table 2](#).

TABLE 2 Top 15 transnational corporations by revenue, 2016

Rank	Name	Home country	Industry/Activity	Revenue (\$US billion)
1	Walmart	USA	Retail	485,870
2	State Grid	China	Electric utility	329,601
3	China National Petroleum	China	Oil and gas	299,271
4	Sinopec Group	China	Oil and gas	294,344
5	Royal Dutch Shell	Netherlands/ Britain	Oil and gas	272,156
6	Exxon Mobil	USA	Oil and gas	246,204
7	Volkswagen	Germany	Automotive manufacture	236,600
8	Toyota	Japan	Automotive manufacture	236,592
9	Apple	USA	Consumer electronics	233,715
10	BP	Britain	Oil and gas	225,982
11	Berkshire Hathaway	USA	Finance/Investment	210,821
12	McKesson	USA	Health care	192,487
13	Samsung Electronics	South Korea	Electronics conglomerate	177,440
14	Glencore	Switzerland	Mining/Commodities	170,497
15	Industrial & Commercial Bank of China	China	Financial services	167,227

2.5.4 Some positives and negatives of TNCs

In recent years, over 60 per cent of the 175 largest economic entities in the world have been transnational corporations. If the wealthiest TNCs have revenue greater than many small to medium countries, they have enormous power. If a TNC uses this power in the best interests of the people of those countries in which it operates, those people can benefit enormously:

- Investment from TNCs brings money into the country, bringing economic growth to that country.
- Parent companies and their subsidiaries may share intellectual property such as design and technology concepts. This helps less developed economies become more advanced. The flow of ideas and talent is also supported by the movement of staff between countries even though they remain employed by the same TNC.
- The standard of living of people in less developed countries can be improved as jobs are created.
- Transnational corporations sometimes contribute towards the provision of new transport links to service their premises, and this can be of benefit to the local community.
- When a transnational company builds a new factory, this can stimulate other businesses in the surrounding area. Businesses supplying raw materials, equipment and components to the factory can benefit.

On the other hand, if the transnational company does not act ethically, there may be very little that the government of a host country can do simply because of the financial power wielded by the large company. Some transnational corporations have been found to have acted in ways that have exploited host countries and their people:

FIGURE 3 This railway line in the Pilbara in Western Australia is an example of a transport link built by a transnational mining company.



- Transnational corporations often set up production in countries that have high levels of poverty and low wages. They often employ young children, pay workers the minimum amount possible, and provide very little in the way of safe working conditions or employee benefits such as meal breaks, sick pay, holiday pay or superannuation.

- Profits are often returned to the home country rather than being used to benefit the economy of the host country.
- Many transnationals will bring their own managerial and skilled staff with them, leaving only menial work for the local population.
- Many transnational corporations have a poor record in environmental matters. They often exploit the laxity of environmental regulations in the host country to pollute the air and waterways there.
- Transnational companies often use complex systems of **transfer pricing** to avoid paying tax on profits earned in the host country. This means that the government of the host country does not gain much additional revenue from the operations of the TNC.

FIGURE 4 This young boy working in a textile factory in India is making clothes to supply a transnational clothing company.



2.5.5 Regulating the activities of TNCs

As a result of international concerns over the activities of some TNCs, the United Nations identified some key responsibilities for the largest transnational corporations:

1. Do not use forced or compulsory labour.
2. Respect the rights of children to be protected from economic exploitation.

3. Provide a safe and healthy working environment.
4. Pay workers enough to ensure an adequate standard of living for them and their families.
5. Recognise the rights of employees to join unions and other collective bargaining organisations.

2.5 ACTIVITIES

REMEMBER

1. Define the term 'transnational corporation' and provide three examples.
2. What is an economic entity? Give two examples.
3. Which TNC is the most internationalised in the world, and what percentage of its sales occur outside its home country?

EXPLAIN

4. What type of economic or business activity involves most of the largest transnational corporations? (*Hint: Refer to [table 2.](#)*)
5. Explain three possible advantages and three possible disadvantages for a host country of having a transnational corporation set up a factory or other operation in its territory.

DISCOVER

6. Use the **Tax Justice Network** weblink in your Resources section to learn more about the issues associated with taxing corporations, and then use this information to answer the following:
 - a. Identify two reasons why it is important to tax transnational corporations.
 - b. What is the difference between tax evasion, tax avoidance and tax cheating?
 - c. Explain the international system that currently exists to oversee the taxing of transnational corporations.
 - d. Give an example of the way in which transfer pricing is used to avoid tax.
 - e. Explain one possible solution to the current problem of TNCs avoiding tax.

PREDICT

7. What do you think might happen if the government of a relatively poor country decided to change the laws to collect more tax from TNCs operating within its borders?

THINK

8. Why do you think the United Nations thought it necessary to draw up a code to govern TNC behaviour?
9. What short- and long-term benefits do you think could result for a TNC that always behaved ethically and respected human rights?



Explore more with this weblink: Tax justice

2.6 SkillBuilder: Developing graphs from tables

2.6.1 Tell me

One picture is worth a thousand words. While a table of data can provide useful information, presenting this data as a graph can make the information more accessible and easier to read. Spreadsheet software such as Excel can be used to create graphs from tables, and the process is very simple.

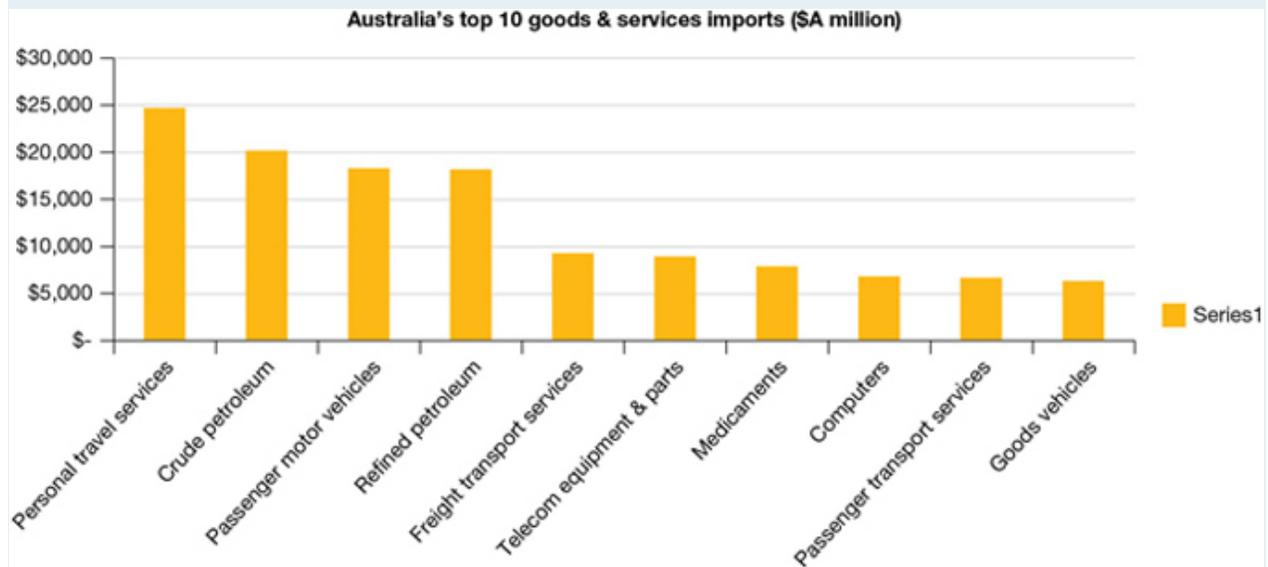
2.6.2 Show me

Using [table 2](#) 'Australia's top ten goods and services imports in 2014 (A\$ million)' in [section 2.3.5](#) of this chapter, we can carry out the following steps:

1. Open a new Excel file.
2. Copy the ten categories of imports into the first column. You may need to make the column wider to fit the text.
3. Next to each category of imports, copy the value of each of these imports in the second column.
4. Select all cells in the column with the figures and convert to dollars by clicking on the dollar sign in the number formatting section of the 'Home' toolbar.
5. Select both columns, and click on the 'Insert' tab. You will then see the 'Charts' creation section of the toolbar.
6. Click on 'Column', and the column graph menu will drop down. You can choose various formats of column graphs to present your data, including 2D, 3D, cones or cylinders.
7. Click on your selected format and the data will be presented as a column graph in the centre of the page.
8. Click anywhere within the boundary of the graph and the 'Chart Tools' toolbar will appear at the top of the page. Click on the 'Design' tab to change the design of your graph, including the colour of the columns.
9. Click on the 'Layout' tab and then on 'Chart title' to insert a title for the graph.

10. Your finished graph will present a comparison of the different categories of imports as shown in figure 1.

FIGURE 1 Graph showing Australia's top ten goods and services imports in 2014 (A\$ million)



2.6.3 Let me do it

2.6 ACTIVITIES

Apply the same process to the other three tables in this chapter:

- [section 2.3.4, table 1](#), 'Value of overseas imports of goods by top 30 countries of origin, Australia, 2014–15'
- [section 2.5.2, table 1](#), 'Ten largest TNCs by percentage of sales that occur outside home countries'
- [section 2.5.3, table 2](#), 'Top 15 transnational corporations by revenue, 2016'.

2.7 Review

2.7.1 Summary

- Globalisation provides the means for increased interaction between consumers, producers, workers and governments in one economy with their counterparts in other economies.
- Increased trade between nations has helped to fuel economic growth and assist poorer countries to achieve higher standards of living.
- Globalisation has also led to the growth of large transnational corporations, many of which have used their power to exploit workers in poorer countries.
- Australia has benefited from globalisation because of the overseas demand for our mineral resources and the access to cheaper imported products for consumers. On the downside, cheaper imports have led to the closure of many of our own manufacturing industries.
- Globalisation has created a great deal of environmental damage throughout the world, leading to the international community becoming more aware of the need for sustainability and environmental protection.
- Australia relies heavily on imported goods brought in from countries all around the world.
- Over 50 per cent of our imports in the 2014–15 financial year came from six of our ten largest trading partners, while our top 30 sources of imports accounted for almost 90 per cent of the total value of all imported goods.
- Australia imports goods and services because our local producers may not make a product as efficiently as it is made in another country, or a particular raw material may not be produced in sufficient quantities to satisfy demand.
- In globalised manufacturing industries, raw materials, components and machinery can come from a variety of sources from all over the world, making supply chain management a major task for transnational corporations.
- Mobile phone manufacturer Nokia is an example of a company that had to set up factories all over the world to satisfy demand for its products.
- With factories in eight different countries, supply chain management is a key concern for a company like Nokia.
- Environmental sustainability and the ethical treatment of workers in poorer countries are issues that must be considered in the supply chain management of all transnational corporations.
- Transnational corporations are large business organisations that have their home base in one country and operate partially owned or wholly owned businesses in other countries.
- Many of the most globalised TNCs conduct more than 70 per cent of their business outside their home country.

- Some of the largest transnational corporations have annual revenue that is larger than the GDP of many countries. This can give them greater power and influence than these countries, and lead to exploitation of these countries and their people.
- Transnational corporations can bring many benefits to countries in which they operate, such as employment and new technology.
- Some TNCs have been found to be acting unethically by not paying enough tax in countries in which they operate, by paying low wages and by not providing safe and healthy working conditions.

2.7.2 Your turn

2.7 ACTIVITIES

1. Over the last 20 years, many organisations opposed to the effects of globalisation and the increased power of TNCs have sprung up across the world. Supporters of these groups have held protests in various parts of the world, including in Australia in 2000, 2006, 2007 and 2011. In small groups, examine the arguments in favour of and against economic globalisation and the increasing power of transnational corporations. Use the arguments outlined in this topic and make use of online resources to provide statistics and evidence to support your arguments.
2. 'The growth of globalisation and the increasing power of transnational corporations has done more harm than good to the economies of Australia and many other countries.' Do you agree or disagree? Conduct a class debate on this issue.

Resources

-  **Try out this interactivity:** [Multiple choice](#)
Searchlight ID: [int-5552](#)
-  **Try out this interactivity:** [True/false](#)
Searchlight ID: [int-5553](#)

Chapter 3: Managing financial risk

Contents

- 3.1 Overview
- 3.2 The role of banks and other deposit-taking institutions
- 3.3 Different types of investment
- 3.4 Protection from financial risk
- 3.5 Managing debt
- 3.6 SkillBuilder: Reading a sharemarket chart
- 3.7 Review

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3

Managing financial risk



3.1 Overview

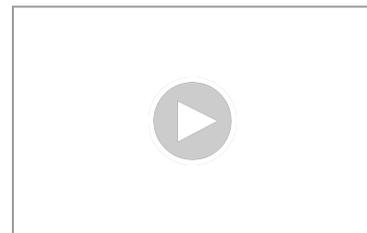
3.1.1 Balancing risks and rewards

on Resources



Watch this eLesson: [Managing risk](#)

Searchlight ID: [eles-2386](#)



Rock climbing is a risky activity. If you do it with no safety equipment, your risk of having a serious accident increases. Wearing safety equipment minimises the risk, but it is still not as safe as staying on the ground. However, staying on the ground can be less rewarding than climbing. Like rock climbing, making financial decisions can be risky but those risks can be minimised. A wise money manager knows that making financial decisions requires balancing the financial risks against the rewards through appropriate risk-management strategies.

FIGURE 1 Like rock climbing, financial decisions involve risks and rewards.



Learning objectives

Students will investigate:

- why and how people manage financial risks and rewards in the current Australian and global financial landscape.

STARTER QUESTIONS

1. List some of the risks associated with investing money.
2. List some of the rewards associated with investing money.
3. How prepared are you to take on financial risk?
4. What strategies are you aware of that can be used to manage financial risks and rewards?

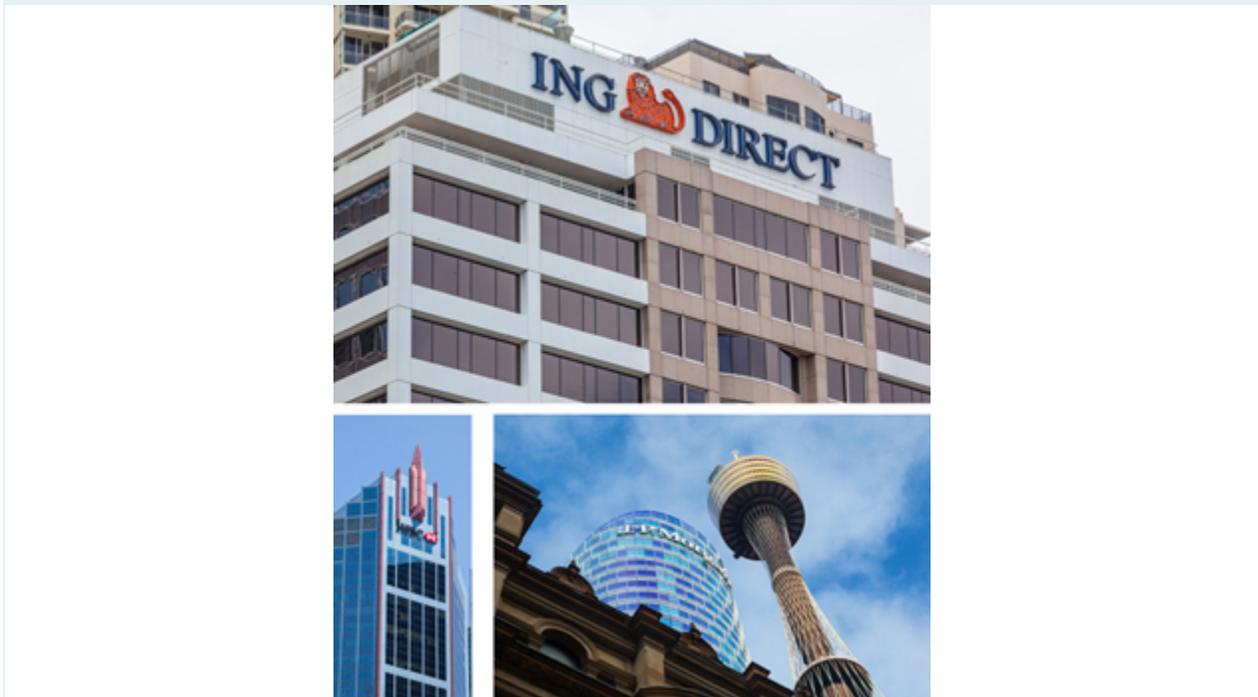
3.2 The role of banks and other deposit-taking institutions

3.2.1 The changing nature of banks

The Australian banking system has undergone great change over the last 30 years. Commencing with **deregulation** in the 1980s, the federal government removed many of the rules controlling the banking sector. Foreign banks were allowed to enter the Australian market and greater competition was encouraged. A wide range of institutions now offer financial products to customers. They include banks, building societies, credit unions, finance companies, superannuation funds, friendly societies and life insurance companies.

The Australian Prudential Regulation Authority (APRA) oversees authorised deposit-taking institutions (ADIs): banks, credit unions and building societies. ADIs are authorised to take deposits from customers under the *Banking Act 1959*. Deposit-taking institutions pool these deposits. This means they put them together and then lend them to individuals and businesses in the form of loans and **mortgages**.

FIGURE 1 Deregulation of the banking sector in Australia has allowed foreign banks to enter the market and compete with local banks.



3.2.2 Banks

Banks offer a wide range of financial services to all participants in the Australian economy — accepting deposits; offering credit cards, cheques, overdrafts, investment and savings accounts; and lending money through personal and business loans and mortgages. Banks also provide other typical banking services such as internet banking, automatic teller machines (ATMs) and financial advice.

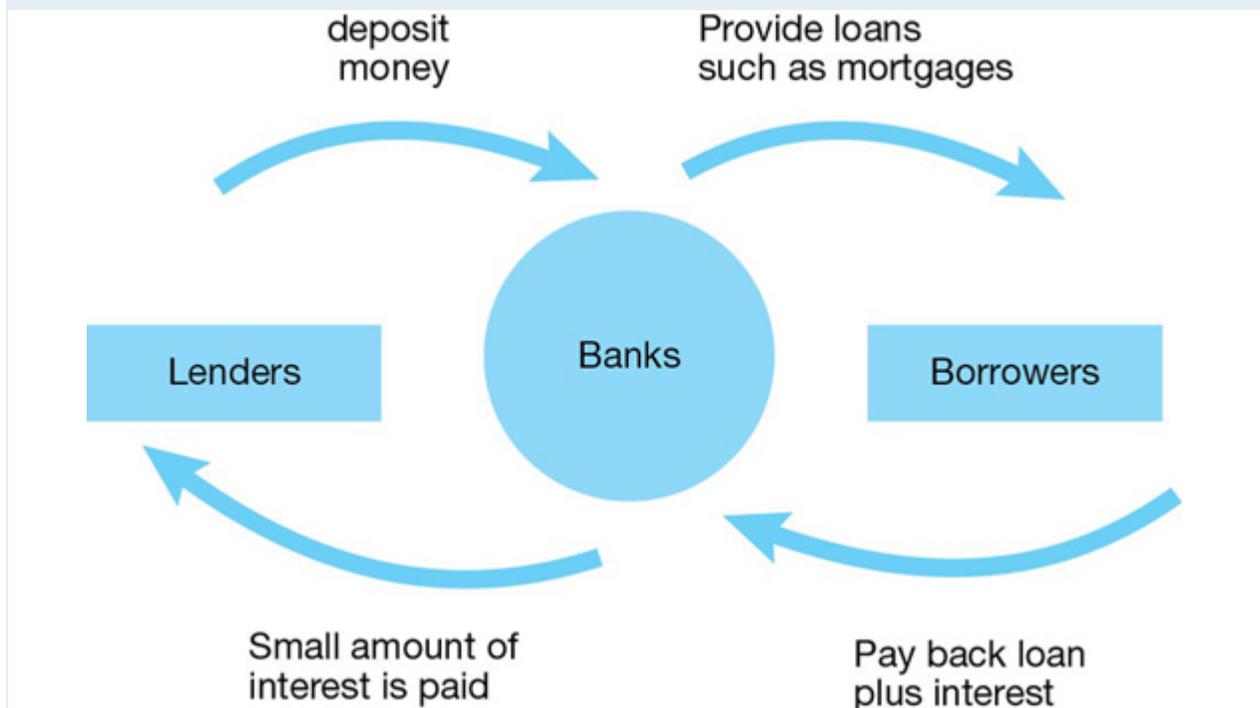
FIGURE 2 Providing ATMs is one of the many services offered by banks.



A bank savings account is an easy and safe place for people to keep their money. This type of account allows you to deposit money and make withdrawals. In return for your deposits, the bank pays you money known as **interest**. The amount of interest paid depends on the type of account, the number of times interest is paid into the account each year and the amount of money in the account.

A bank is a business that wants to make a profit, so it accepts money as savings (deposits) at a lower interest rate and lends that money at a higher interest rate. You may receive interest of between 2 and 4 per cent from the bank on your savings account, but the bank will charge between 5 and 15 per cent interest to those who borrow money. The difference between these two rates of interest is one of the ways a bank makes a profit.

FIGURE 3 Banks act as intermediaries between lenders and borrowers.



3.2.3 Credit unions

A credit union is a financial institution that is owned and operated entirely by its members. Credit unions provide a range of products and services that are similar to those offered by banks. These include accepting deposits, offering personal and home loans, and providing payment services such as credit cards. To open an account with a credit union, you have to be an 'eligible' member. Every credit union has its own rules for determining eligibility, but it sometimes means that you have to belong to an industry affiliated with the credit union or be related to an eligible member. Because a credit union is focused on the financial wellbeing of its members, maximising profit is not its main objective.

FIGURE 4 People's Choice Credit Union is owned by its members. Its purpose is to help members save and borrow money.



3.2.4 Building societies

Like credit unions, building societies are owned and operated by their members. As their name suggests, building societies historically supported their members in purchasing homes. In more recent times, building societies have expanded to offer similar services to banks. As deposit-taking institutions, building societies accept deposits from customers and provide loans and payment services. There are now less than ten building societies in Australia because many of them converted to banks or merged with banks.

FIGURE 5 Building societies originally helped their members to buy homes but over time they have become more like banks.



3.2 ACTIVITIES

REMEMBER

1. What is an authorised deposit-taking institution?
2. Define mortgage.

EXPLAIN

3. Explain why banks offer low interest rates on savings but charge higher interest rates on loans.
4. Construct a diagram showing how deposit-taking institutions pool savings and lend them to individuals and business.

DISCOVER

5. Use the **APRA** weblink in your Resources section to write down the name of one Australian-owned bank, one foreign-owned bank, one credit union and one building society.
6. Working in groups, use magazines and newspapers or internet resources to find pictures representing the three types of deposit-taking institutions (banks, credit unions and building societies). Paste the pictures onto poster paper and correctly label each one. Write a brief description of each type of deposit-taking institution.

PREDICT

7. Outline what might happen if banks, credit unions and building societies could no longer collect deposits.

Resources



Explore more with this weblink: [APRA](#)

3.3 Different types of investment

3.3.1 Saving for the future

There are many different types of investment that enable people to accumulate savings for the future. Some Australians choose to buy properties (such as a house, apartment or land) as investments. As property prices generally increase over time, so too does the value of their investment. Others choose to buy shares or invest in term deposits or managed funds.

FIGURE 1 The largest investment most people will ever make is buying their own home.



DISCUSSION

Property prices have risen substantially in the last 20 years, to the extent that many people are now priced out of the suburbs where they would like to live. Do you think property should be seen as an investment to accumulate savings?

3.3.2 Shares

Buying **shares** means buying a certain number of units of ownership in a company. This makes you a shareholder of that company. Some people might buy thousands of shares, others only a few. As the value of a company's shares goes up or down, so too does the value of the shareholder's investment. Owning shares allows you to benefit from the company's profits, which can be given to you as **dividends** or as extra shares. You may also benefit from **capital growth** if the value of your shares increases.

FIGURE 2 The electronic display board of the Australian Securities Exchange shows the prices of shares traded on that exchange.



Buying and selling shares takes place in the **sharemarket**. In Australia, such transactions take place through the Australian Securities Exchange (ASX), which was formed in 1987 by amalgamating the six capital-city stock exchanges. A stockbroker has direct access to the market for trading shares and, for a small fee, acts as an **agent** to buy and sell shares. This fee is known as brokerage.

It is important to diversify your investments so that all your 'eggs' are not in one basket if anything goes wrong. The Australian sharemarket makes this easier by offering a wide choice of companies in which to invest. There are over 2000 companies listed on the ASX. These companies are involved in a wide range of industries covering most sectors of the economy, from financial services to industrials and healthcare. Investing in a range of companies spreads the risk. Investing in shares also gives you flexibility. Shares can be bought and sold quickly — you can sell shares and generally have access to your money in three days or less.

FIGURE 3 On the Australian Securities Exchange, shares can be purchased in companies such as Telstra, Qantas and Woolworths.



3.3.3 Term deposits

One place to keep large sums of money is in a fixed-term deposit. All major banks offer term deposit accounts where you can place your money for a fixed period of time. The time can range from one month to five years. The banks offer a higher rate of interest on such deposits compared with at-call deposits that can be withdrawn at any time.

Term deposits are considered to be low-risk investments because the bank assures the return, but the return tends to be lower than that obtained from owning other types of investments such as shares. The funds in the term deposit are locked away until the end of the term unless you choose to make an early withdrawal, in which case penalty fees will be charged. You therefore need to select an account whose term and rate of interest best suit your needs.

3.3.4 Managed funds

Some people choose to invest in managed funds. These are portfolios of shares, property, public infrastructure, private equity and other investments that are chosen by a professional fund manager. Investing in a managed fund spreads the risk over different types of investment. Decisions about what to invest in are made by a professional, but this also means that investors have no say in the fund's investment decisions.

Most funds have entry and exit fees, and some have monthly fees. It can also be difficult to access your money quickly. Investing in a managed fund is therefore a good choice if you are happy to put your money into an investment and leave it there for a long period.

FIGURE 4 In a managed fund, a professional fund manager invests the money pooled from many individual investors into a range of assets, including shares and property.



3.3 ACTIVITIES

REMEMBER

1. What is the ASX?
2. What are dividends? What do they mean for an investor?
3. What is the difference between a term deposit and a managed fund?

EXPLAIN

4. Place the terms *financial sector* and *healthcare sector* in the following sentences.
When an individual buys shares in a pharmaceutical company they are investing in the _____, and when they buy shares in an insurance company they are investing in the _____.

5. In your own words, explain why people invest in shares.
6. Briefly outline the benefits and risks of:
 - a. share ownership
 - b. term deposits
 - c. managed funds.

PREDICT

7. What do you think might happen if the price of shares you own fell to zero?

THINK

8. Use internet resources to find information about term deposits from two banks. Imagine that you wish to invest \$5000 for 12 months. Compare the two term deposits by considering the following criteria: interest rates, when interest is received, account fees, application fees. Present your findings in a table. Decide which bank you would invest with.

3.4 Protection from financial risk

3.4.1 Looking after your money

People invest in order to earn a positive return on their money. Making any sort of investment involves a **financial risk**. Some financial decisions can have completely unexpected or unwanted outcomes. Thankfully, there are ways that consumers can protect themselves against risks.

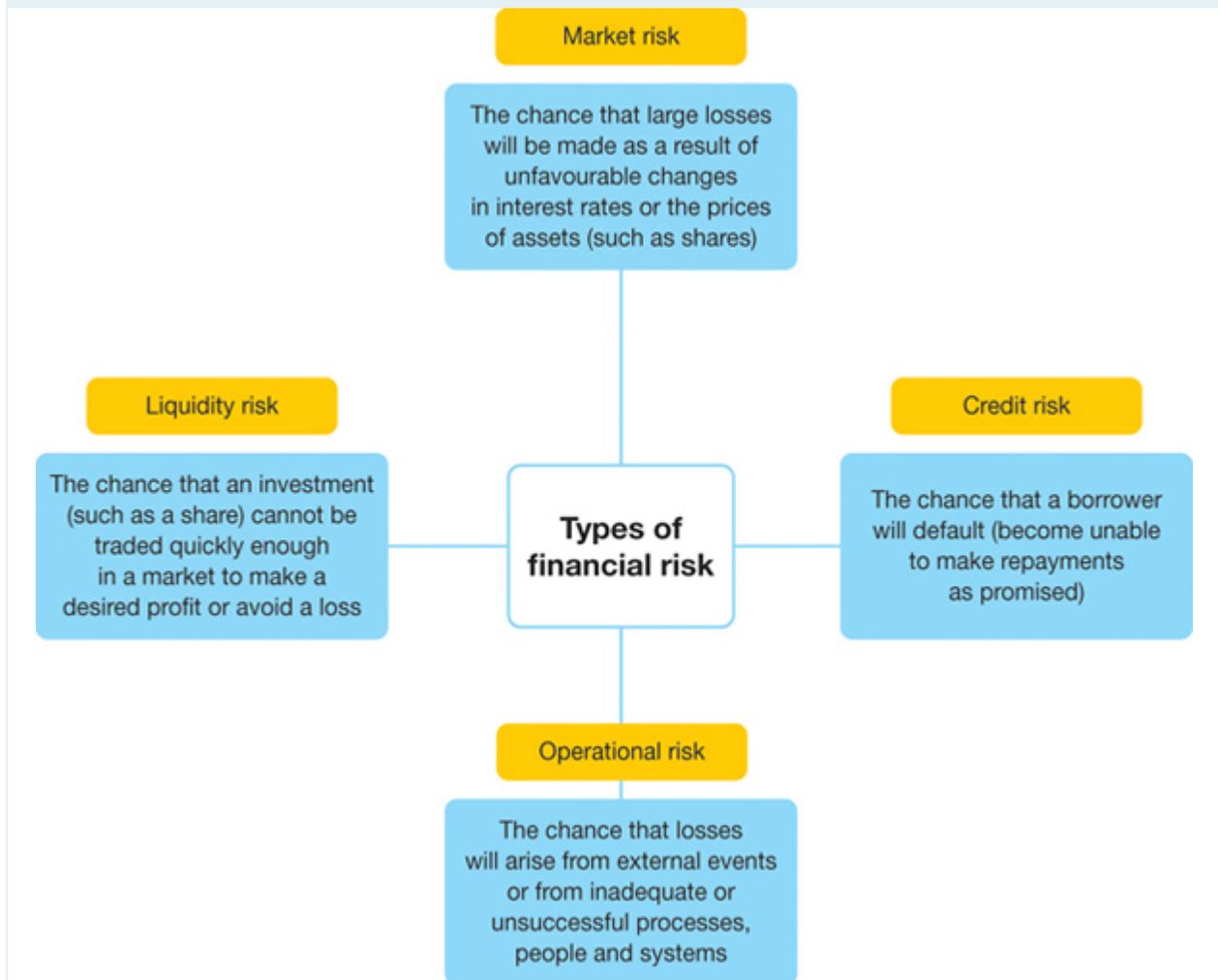
FIGURE 1 Protecting yourself from financial risk when making an investment is like having a lifebuoy aboard a ship in case it hits rough water and capsizes.



3.4.2 Financial risks

There are many types of financial risk (see [figure 2](#) below). The basic risk is that the value of the investment will fall and the person making the investment will lose everything. Note that making any sort of investment involves a risk. The only way to avoid risk altogether is to not invest money at all. However, doing so means that you miss out on any potential rewards.

FIGURE 2 Types of financial risk



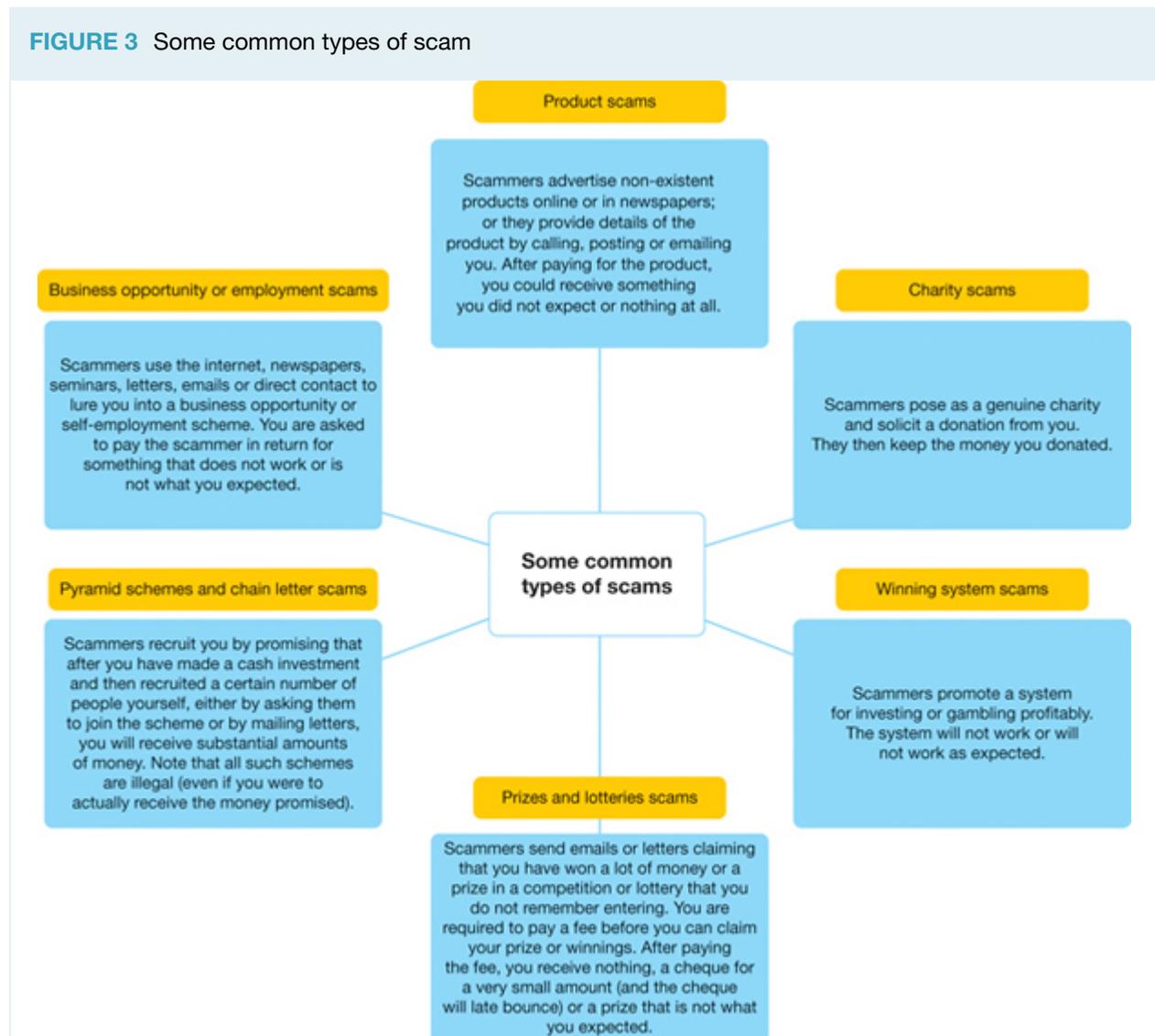
Scams and identify theft are also financial risks. Let us examine these two financial risks in a little more detail.

Scams

A scam is a dishonest scheme to trap you into parting with your money. The range of scams is limited only by the imagination of scammers themselves. Generally, scams fall under two categories:

- an attempt to convince you to send the scammer money in return for the promise to do something — a promise the scammer never intends to complete in full if at all
- the use of unscrupulous means to gain access to your personal details such as credit card information, bank account numbers and passport details. This is referred to as identity theft (examined in more detail in the next section).

Some common scams are shown in figure 3 below.



Scams are often successful because they look genuine. Scammers are also very skilled at manipulating people emotionally. To avoid being a victim of a scam, you should make the effort to research any offers made to you. Always ask questions and think carefully before making any decision.

Identity theft

Identity theft is a growing problem worldwide. It occurs when someone illegally obtains your personal details, such as bank account numbers, and uses those details to commit **fraud**. The identity thief uses your stolen identity to do the following things in your name:

- borrow money

- open a new credit card account
- buy goods.

Anyone who provides personal information to an unsecured website when shopping online risks becoming a victim of identity theft. If the online seller asks you for additional information such as your email address or phone number, do not provide them unless you are confident the seller can be trusted.

A growing number of consumers have had their identity stolen through phishing. In this type of fraud, you are sent an email that looks like it comes from a trusted source such as a bank. The thieves ask you for information that may seem reasonable, such as your account number and PIN (personal identification number). To avoid being a victim of phishing, you should be suspicious of any email that makes an urgent request for your personal financial details. Do not click on links within the email or reply to any pop-up screen that asks you for personal details.

FIGURE 4 Identity theft can result in your entire identity being assumed by a scammer who might use it to open bank accounts, obtain loans or credit cards, or conduct other illegal activities — all in your name.



3.4.3 Protecting yourself from financial risk

There are many ways that consumers can protect themselves from financial risk:

- Make informed decisions and seek advice from qualified financial advisers.
- Be aware that all investments involve some level of risk, and understand the need to weigh up risk and return.
- Diversify by investing in a wide range of assets. You could invest in several different shares and have the rest of your money split between term deposits, property and managed funds.
- Have insurance, savings and superannuation. This is examined in the following section.

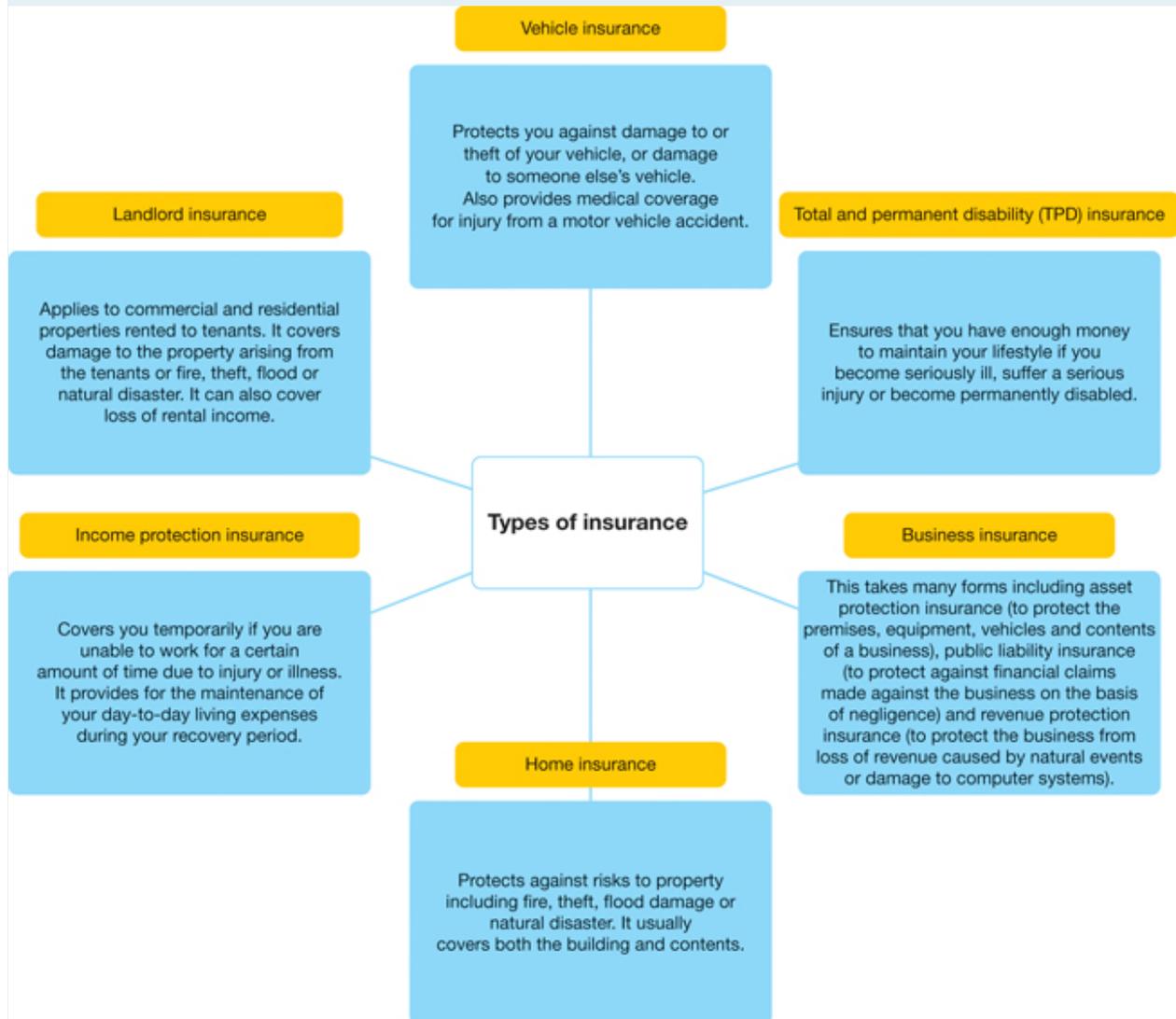
FIGURE 5 One way of protecting yourself from financial risk is to invest in a range of different assets with varying levels of risk.



Insurance

Taking out **insurance** protects you financially from any unexpected losses. Some common types of insurance are illustrated in [figure 6](#) below.

FIGURE 6 Types of insurance



Savings

You can reduce financial risk by having savings — funds from which to draw when things go wrong. (Savings are discussed in more detail in [subtopic 3.5](#).) You save by earning more money than you spend. Savings are usually kept in savings accounts, term deposits or any of the other investments explored in this topic. As the case study 'Australians struggling to save' explains, recent research indicates that many Australians struggle to save any money.

CASE STUDY

Australians struggling to save

A June 2014 report by ME Bank revealed that many Australians are finding it hard to save cash at the end of each month. The Household Financial Comfort Report showed that in June only 46 per cent of the 1500 households surveyed were able to save. This was the lowest percentage since ME Bank's first biannual survey in October 2011. For the households able to save each month, the amount they were saving fell by 12 per cent.



Approximately 42 per cent of families broke even at the end of the month and 12 per cent overspent, drawing on savings, loans or home equity. The households overspending increased their spending by 13 per cent. Almost one-quarter of the households surveyed said they would not be able to raise \$3000 in an emergency; this was a rise of 6 per cent. The bank's economic consultant, Jeff Oughton, said that 'households are most uncomfortable with their amount of savings, in both normal times and in cases of an emergency.'

Superannuation

When a person retires, they may be able to access an **age pension** in order to survive. This is an amount provided by the federal government to help an elderly person meet their basic needs. It does not allow for a luxurious or comfortable lifestyle, especially if debts have been accumulated. Although the government does provide a pension, it is not always sufficient to maintain a preferred lifestyle. As a result, a person may need to work longer or sell assets in order to generate the cash flow required.

You can make sure that you have a good lifestyle in retirement, and protect yourself from having to watch every dollar you spend, by taking advantage of **superannuation**. This is a compulsory savings scheme whereby employers contribute an additional percentage of an employee's **gross wage** into a **superannuation fund**. Employees can also choose to contribute to this fund, thus increasing the overall amount they will receive on retirement. How much employees choose to contribute is up to them. There are laws in place that determine when you are eligible to access your superannuation savings. Recent changes have made it attractive to remain working until at least age 60.

3.4 ACTIVITIES

REMEMBER

1. Identify two examples of financial risk.
2. Suggest one way that you might protect yourself from each of the financial risks you identified in question 1.

EXPLAIN

3. Max did not do any security checks when he made an online purchase of a new computer game. Explain why Max could fall victim to identity theft.
4. Patrick was surprised to receive an email from his bank. The email message read: 'We regularly verify our customer accounts. We were unable to verify your information. Please click here to update and verify your account information.' Explain why Patrick should be suspicious of this email. Advise him what to do next.
5. Choose one type of insurance and explain how it can protect you from financial risk.

6. Read the case study 'Australians struggling to save' in this section and answer the following questions:
 - a. According to ME Bank's June 2014 report, how many Australians households were able to save cash at the end of each month?
 - b. Why is it important to have savings?
7. Why is it so important to be ready for retirement? What options are there for people who have not saved for retirement?

DISCOVER

8. Ask your teacher to invite a guest speaker to talk to your class about the importance of having a lifetime savings plan, and to explain why superannuation is so important. Write down one or two questions you could ask if given the opportunity.

PREDICT

9. What might happen if you had no insurance?
10. What are some of the consequences of being ill-prepared for retirement?

3.5 Managing debt

3.5.1 Making good decisions

Are you the type of person who burns through their money fast? Money is great to have but it won't last long unless you make wise choices. If you keep track of your money and spending habits, you can become a wise money user and make your money work for you. Continuing to borrow money can land you in trouble.

FIGURE 1 The temptation to spend money is everywhere.



3.5.2 Good and bad debt

When you borrow money or owe money to someone, you are said to be in **debt**. You have a financial obligation to repay the borrowed money. Debt can be a good thing if it is used to leave you better off in the long-term. A mortgage, where you borrow money to purchase a home or property, is an example of good debt. Taking out a student loan or a loan to start a new business are also examples of good debt. These are borrowings to invest in assets that will grow in value over time.

Some adults and young people get into a lot of debt. Reasons for this include unemployment, illness, the rising cost of living, gambling and the overuse of credit cards. Unfortunately, instead of reducing expenditure and paying off debts, there is a temptation to borrow more money. This can lead to out-of-control or spiralling debt.

FIGURE 2 Excessive debt can cause stress, reduce savings and affect your ability to borrow money in the future.



The bad news is that the consequences of debt can be very serious. A person who cannot keep up with payments for the purchase of a car, for example, faces having the vehicle **repossessed**. They may get some of their money back, but there is no guarantee.

In really serious situations, a person who has many debts and no way of repaying them faces personal **bankruptcy**. This is a formal, legal way of saying that the person 'cannot pay their debts'. The period of bankruptcy usually lasts for three years, but it can affect the rest of your life. Some consequences are:

- Your credit rating is affected and you may find it difficult to borrow money.
- It can affect employment opportunities.
- Your residence may have to be sold to help pay your debts.

3.5.3 How to manage debt

Now for the good news! There are steps you can take to overcome being in debt. The first step is to face up to the problem instead of hoping it will go away. Make a list of your essential expenses and those that are optional. Avoid spending money on optional expenses. Buy only what you can afford without having to borrow. Lastly, work out a plan to repay the debt and stick to it.

FIGURE 3 Gabrielle is aged 14 and in debt. She borrowed \$40 from her brother for some clothes she 'just had to have'. Now she has discovered she owes \$100 for call costs from her mobile phone. She feels sick with worry and is scared to tell her parents.



3.5.4 Saving

There is no mystery about managing money, managing debt and building personal wealth. It's just a matter of regular saving. You can save money if you have more money coming in than you have going out. It requires only a simple maths calculation to work it out:

$$\$40 \text{ income} - \$20 \text{ expenses} = \$20 \text{ remaining that can be saved}$$

Wise money managers know that saving money:

- gives you more independence and security
- gives you a sense of satisfaction
- helps you pay for unexpected expenses
- avoids the need to borrow money and the worry about repaying the debt
- helps you plan for buying big items, such as a bike or a car.

It is easier to save money if you have clear financial goals in mind. The good thing about setting goals is that they give you a purpose for saving. Goals should be realistic and specific. For example, your goal might be 'to save \$100 in six months to reduce my debt.'

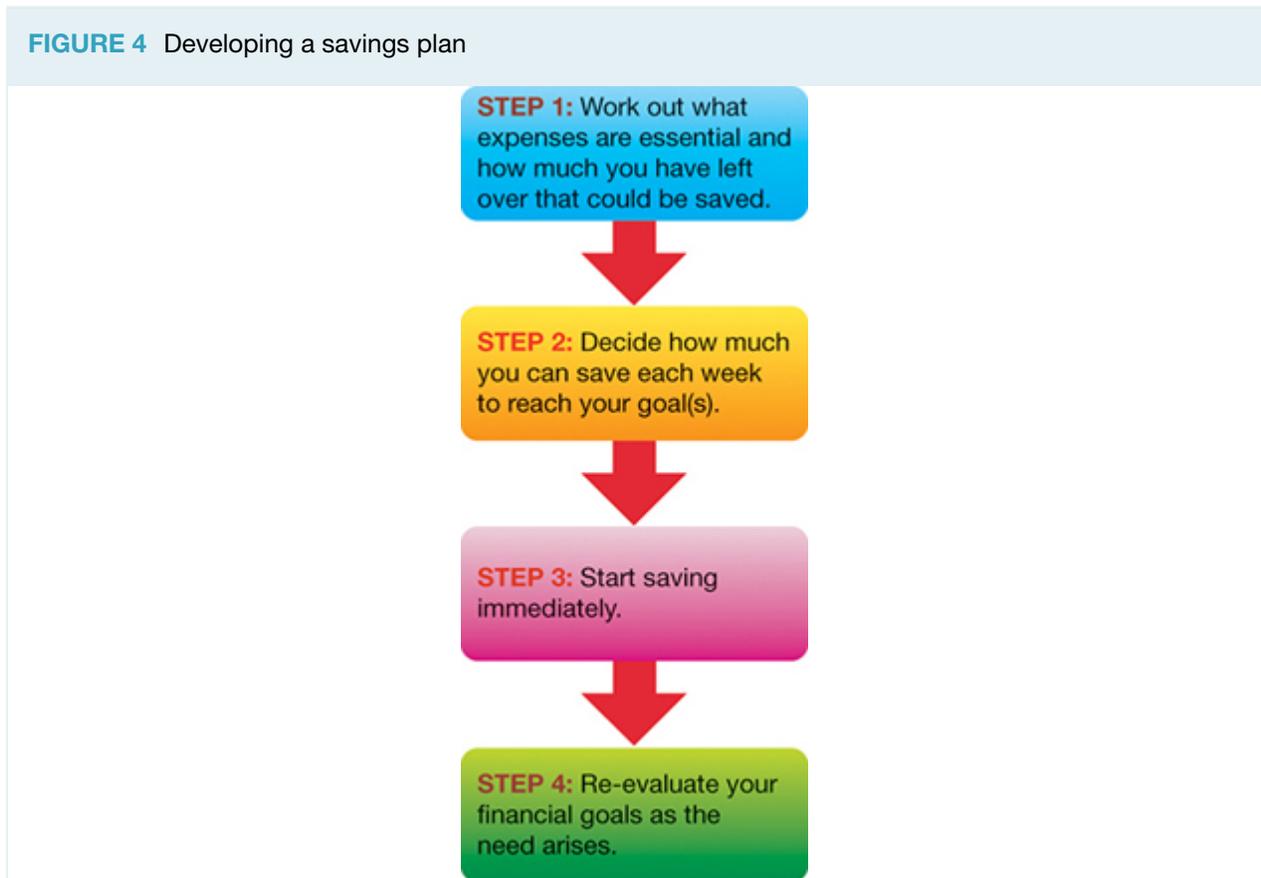
DISCUSSION

Many people wish they were better at saving their money. How do you deal with the temptation to spend versus the desire to save? Do you have any tips for how to become a more effective saver?

Saving money is a bit like an exercise program or a diet. You have to have a plan and stick to it to make a difference. You should aim to save a minimum of 10 per cent of your income. That means you should put aside 10 cents out of every dollar you earn. Alternatively, you might decide to save a specific amount, such as \$10 per week.

Use the following steps in [figure 4](#) as a guide to work out your savings plan.

FIGURE 4 Developing a savings plan



Once you have made the decision to develop a savings plan, your debt should gradually fall. When you have reduced your debt to a satisfactory level, an easy and safe place to keep your extra money is in a savings account. When your savings have built up, you may wish to consider other forms of investments, such as term deposits, managed funds, shares or property.

3.5 ACTIVITIES

REMEMBER

1. What is debt?
2. Briefly outline the difference between good and bad debt.

EXPLAIN

3. Explain three consequences of getting into too much debt.
4. How can you manage debt?

DISCOVER

5. Use the **MoneySmart savings goals calculator** weblink in your Resources section to calculate how long it would take you to save \$5000 if you started with \$500 and saved \$100 a month at an interest rate of 5 per cent. Write down the amount of time it would take to reach your goal. Experiment with other numbers.

THINK

6. Look at [figure 3](#). Advise Gabrielle as to what steps she could take to pay off her debts.
7. Together with a classmate, create a brochure for parents on money management. The aim of the brochure is to encourage parents to teach their children to be money wise and manage debt. It should state why it is important for young people to be able to save and suggest how parents can provide a positive role model for their children. Add any tips you think would be helpful.

Resources



Explore more with this weblink: MoneySmart savings goal calculator

3.6 SkillBuilder: Reading a sharemarket chart

3.6.1 Tell me

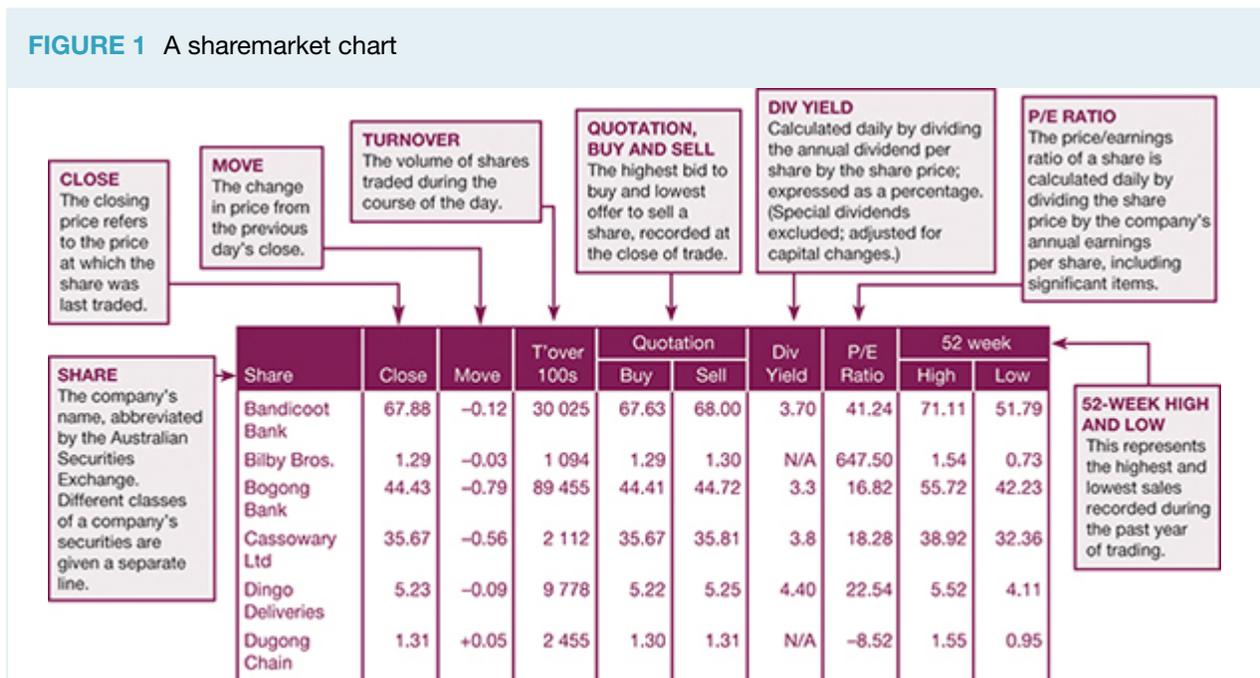
What is a sharemarket chart?

A sharemarket chart provides information on how shares are performing. It is one form of reporting changes in the sharemarket. Sharemarket charts are available in newspapers, on television and radio news and on the internet. Many factors are included in a sharemarket report, and not all media may provide data on the same factors. An example of a sharemarket chart is shown in [figure 1](#) below.

Some of the factors included in charts and other reports are: information on share prices, changes in price and percentage price changes. For example, when a sharemarket chart mentions 'net change', it is referring to the difference between the current end-of-day share prices and that of the same share on a previous day.

Other factors that a sharemarket chart usually includes are the share names, symbols, dividend rates and percentage yields. The dividend rate refers to the return per share a company pays to shareholders over a given period, while the percentage yield refers usually to the annual income per share, expressed as a percentage of the cost of the share.

FIGURE 1 A sharemarket chart



Why are sharemarket charts useful?

Just as a weather report informs people about conditions outside and helps them decide whether to put on a coat (or take off their jumper) for outdoors, similarly a sharemarket chart tells you about the conditions in the sharemarket but helps you decide whether to buy (or sell) shares.

An important reason why an investor should be able to read a sharemarket chart is that it provides important information needed to make decisions about investments. Information about movements in shares enables investors to decide whether to hold, sell or buy shares in any of the 2000 companies listed on the Australian Securities Exchange, or become involved in other sharemarket investments.

Furthermore, in a sharemarket chart, the amount of shares sold and the highest and lowest prices for such shares may be included. This information is relevant for most investors, economists and advisers because it helps them in their sharemarket analysis.

3.6.2 Show me

How to read a sharemarket chart

Procedure:

Step 1: Recognising the type of sharemarket chart

Look carefully at the chart heading and the headings of the columns to know what it is showing.

- Some charts divide listed companies into indices according to types such as industrial, metals and mining, energy and so on. This allows people to compare the financial performance of one company against other companies in the same sector by displaying the figures in one index.
- Other charts show the performance of the top 20, 50, 100, 200 or 300 listed companies, giving a more accurate general picture of the way the sharemarket is moving.
- For an overall picture of worldwide share price movements, other charts indicate the general picture in stock exchanges in the United States, Japan and elsewhere around the world.

Step 2: Learning the meaning of column headings

- Use an economics dictionary, glossary or the key (which accompanies the chart) to find out what each column is showing.

Step 3: Looking at the data

- Each listed company has a unique three-letter symbol, for ease of location in online charts or in daily newspapers. (Use the **ASX listed companies** weblink in your Resources section to see the companies listed on the Australian Securities Exchange.)
- Use a ruler to help you read accurately across the columns.

- + in front of a 'Move' number means that the value of a share rose against the previous day's closing value.
- – indicates that the share value fell against the previous day's closing value.
- Online links allow people to find recent and past financial information about any listed company, using tables and interactive charts.

Step 4: Analysing the data

- Examine the size of changes in data for a share from one period to another.
- Look for trends in the movement of shares in general or of particular shares.
- Compare shares to see how well or poorly one has performed against others.
- Use graphs and online interactive data to further analyse and compare data.

Step 5: Making predictions

- Consider whether a trend will continue, change pace or change direction.
- Apply your knowledge of current economic events to judge their likely effects on particular shares.

Resources



Explore more with this weblink: ASX listed companies

3.6.3 Let me do it

3.6 ACTIVITIES

Developing my skills in reading a sharemarket chart

Indexes, such as the Banks index, enable comparison between the financial indicators for similar companies (in this case, banks). Go to the **Financials** weblink in your Resources section to view another sharemarket chart. You will see that this chart has a different layout from the chart in [figure 1](#) above. The order of columns and some column headings have changed. Note that market cap is an abbreviation of *market capitalisation*. It refers to the value (capitalisation) the market puts on a company (obtained by multiplying the number of shares by the price per share).

Questions

Use the **Financials** weblink in your Resources section to answer the following questions.

1. Which bank's share recorded the highest price when last traded that day? (Use the code.)
2. How does this bank's share price compare with its highest price within the last year?
3. Which bank had the highest market capitalisation value for the day?
4. Which company recorded the greatest range between highest and lowest sales price for its shares over the last year?
5. How many of the codes do you recognise? Click on the codes of five of the banks and follow the links to find their full names.
6. Explain why a 'Move' figure of zero does not mean that the price of the share did not change during the day.
7. Compare the number of rises and falls and identify whether, overall, bank shares rose or fell on the day.
8. Select three bank shares that appear worth investing in. Justify your selection.
9. Explain why figures for one day are not necessarily a good basis on which to buy or sell shares.
10. Using the code for one of the banks whose shares you would consider buying, download or copy a graph showing its share price movements over a longer period, and explain how this might affect your initial decision.

on Resources



Explore more with this weblink: Financials

3.7 Review

3.7.1 Summary

Making financial decisions has both risks and rewards. The risks involved in managing your money and making investments can be minimised by smart and sensible decision making. You need to be aware of the different options available to you in both types of financial institution and financial product. Investments such as property, term deposits, shares and managed funds are all options to increase your return and offer different rewards and risks. Insurance, savings and superannuation are important ways to plan for your future and achieve your financial goals.

- There are many types of financial institution in Australia including banks, credit unions and building societies.
- There are different types of investment you can make to increase your money, but all have different levels of risk.
- It is important to be aware and cautious of financial risks such as scams and identity theft.
- Debt can be good or bad debt, but always needs to be managed wisely.
- Insurance, savings and superannuation all help you protect yourself from financial risk and plan for the future.

3.7.2 Your turn

3.7 ACTIVITIES

Lucky you! You have just inherited \$10 000 from an aunt living overseas that you did not even know existed. The lawyer contacting you tells your family that the aunt left no other beneficiaries. He directs you to a news article reporting her passing.

One week after finding out about your aunt, you receive a letter from the lawyer's firm in the mail. It tells you that the inheritance will be difficult to access because of government regulations. All you need to do is to provide your personal details, including credit card information, and a small amount of money to release the inheritance.



1. List some of the options available to you for investing the money you have inherited.
2. What financial risks are associated with these options?
3. Explain the action that should be taken with the inheritance letter.
4. Use the **SCAMwatch** weblink in your Resources section to find out what you should do in response to the news of your inheritance. Write down some of the tips for protecting yourself.

on Resources



Try out this interactivity: [Multiple choice](#)

Searchlight ID: [int-5554](#)



Try out this interactivity: [True/false](#)

Searchlight ID: [int-5555](#)



Explore more with this weblink: [SCAMwatch](#)

Chapter 4: Competition in the marketplace

Contents

- 4.1 Overview
- 4.2 Why do businesses seek to build or create a competitive advantage?
- 4.3 What strategies can businesses use to create competitive advantage?
- 4.4 Can acting in a socially responsible manner increase the competitive advantage of businesses?
- 4.5 How can businesses use emerging techniques to gain an advantage?
- 4.6 SkillBuilder: Analysing a business case study
- 4.7 Review

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4

Competition in the marketplace



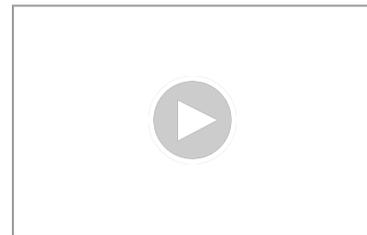
4.1 Overview

4.1.1 The relationship between competition and innovation

on Resources



Watch this eLesson: [Competing in the marketplace](#)
Searchlight ID: [eles-2387](#)



It's a competitive world out there. Every business must find strategies that will enable it to survive. A business competes with other businesses to sell products in a market. If a business cannot sell its product to customers, it will not last for very long. There are more than two million businesses actively trading in Australia right now, with an estimated 2400 opening each week. Some will fail and some will flourish. A business is more likely to continue if it can achieve a **competitive advantage**. This occurs when it can produce and sell goods or services better than its competitors, possibly through lower costs or by differentiating the product from those of competitors. Creating a competitive advantage means that a business can meet the changing demands of the market and improve its profit margin.

FIGURE 1 Businesses need to find a competitive advantage in order to survive.



Businesses must embrace innovation if they wish to achieve a competitive advantage. At a basic level, innovation refers to businesses coming up with new ways of doing things. When businesses come up with new ideas, processes or products, they give themselves an edge over their competitors. The next subtopic will examine the concept of innovation and look at some different ways that businesses can be innovative.

Learning objectives

Students will investigate:

- the nature of innovation and how and why businesses seek to create and maintain a competitive advantage in the market, including the global market.

STARTER QUESTIONS

1. Think of an industry (such as retail, banking or computing) and list five businesses that compete in that industry.
2. Explain what is meant by the term 'competitive advantage.'
3. Why is competitive advantage important to a business?
4. How can a business create or develop a competitive advantage?
5. Outline the link between competition and innovation.

4.2 Why do businesses seek to build or create a competitive advantage?

4.2.1 Surviving and thriving

A business will generally seek a competitive advantage to ensure that it performs as well if not better than its competitors, so that the business survives. That is, the business seeks to make enough profit to be able to continue into the future. Businesses also seek to build or create a competitive advantage to meet the changing demands of a competitive global market.

4.2.2 Meeting the changing demands of a competitive global market

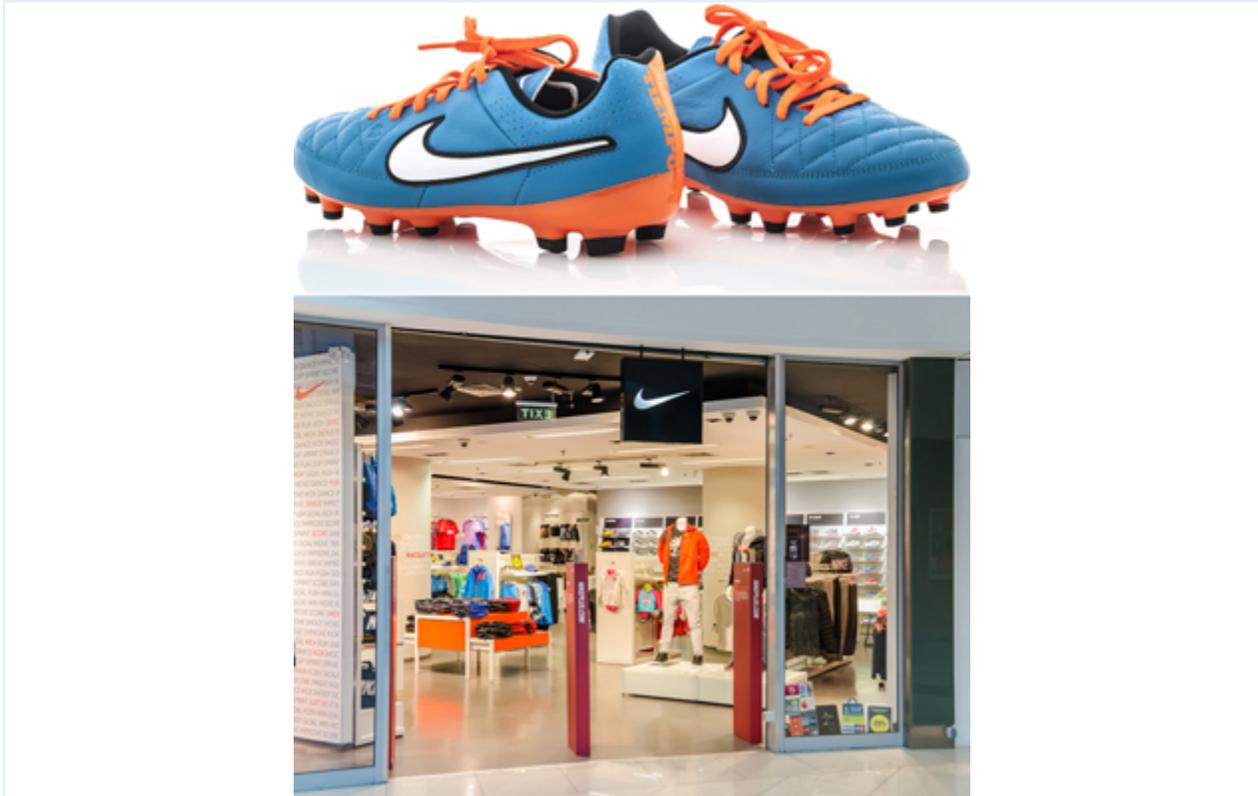
Businesses expect that they will operate in a **competitive market**. This is a market where a large number of businesses compete with each other to satisfy the demands of a large number of customers. In a competitive market no single buyer or seller has the power to exert control over the market or prices. Today, markets can be global. This means that goods and services are exchanged between businesses and customers across the world.

Demand is constantly changing in the global market. The demands of customers in any market can change due to:

- Changing incomes — either increasing (so customers are likely to demand more products, particularly luxury items) or diminishing (so it is likely that customers will demand fewer products).
- Changing tastes and fashions — which can increase or reduce the demand for certain products.
- Changing prices of complementary and substitute goods and services — some products are complementary (they go together like cars and petrol, or pens and paper); others are substitutes (they can replace each other like margarine and butter, or tea and coffee). This means, for example, that if the price of petrol increases then demand for petrol will fall, which can cause demand for cars to fall because cars and petrol are complementary. This may lead to the demand for cars switching from large to small cars that consume less petrol, because large cars and small cars are substitutes.
- Changing population — changes in age and gender distribution will impact on demand; for example, an ageing population is likely to demand products related to the health and retirement industries.
- Changing expectations about the market, including future prices and incomes — which means that customers will act in a certain way if they expect that something is going to happen.
- Changes in the number of potential customers — an increasing number of customers often generates greater demand for products, whereas a decline in the number of potential customers is likely to reduce demand.

If any of these factors change, then the demand from customers for a business's products will change — by increasing or decreasing. A business that operates in a competitive market will need to build or create a competitive advantage to meet these changing demands before competitors do.

FIGURE 1 Nike has created a competitive advantage by focusing on social media, including its own social network (Nike+), and introducing Nike concept stores.



4.2.3 Improving the profit margin

Profit is the financial reward that a business aims to achieve in return for taking the risk of producing a good or service and attempting to sell it to customers in a market. A business will normally have an owner (or owners) who have invested in the business and are relying on the business to make a profit so that they can earn a return. For this reason, profit is a good measurement of the success of a business. A business with a competitive advantage is more likely to make a profit.

Profit margin is more than just the difference between the money that has been collected from selling the completed product (sales revenue) and all the business expenses. Profit margin is an indicator of the financial health of a business. More specifically, it measures the amount of profit that a business earns from the sales of its product. Profit margin is expressed as a percentage and is calculated using the following formula:

$$\text{profit margin} = \frac{\text{profit}}{\text{sales}} \times \frac{100}{1}$$

Most businesses aim for a high profit margin. A business with a low profit margin would need to examine expenses to see whether reductions could be made. It follows then that a business with a competitive advantage, such as a low-cost manufacturer, should be able to improve its profit margin.

FIGURE 2 Aldi's competitive advantage is its low-cost strategy which it uses to offer customers value for money and improve its profit margin.



4.2.4 Achieving efficiencies and lower costs

As mentioned in the previous section, businesses seek to create a competitive advantage so that they can make a sufficient and sustainable profit in the long term. To do this, they must develop strategies to reduce their costs.

Many types of costs are incurred by a business, including:

- wages and other employee-related costs
- rent or mortgage repayments
- financial costs (such as interest on a loan)
- insurance
- cost of materials from suppliers
- advertising and other marketing costs.

While all businesses incur costs as part of their operations, it is important that a business look to achieve efficiencies in order to keep these costs to a minimum. By manufacturing products at a low cost, a business can generate more profit from each sale.

Consider the formula for net profit:

$$\text{net profit} = \text{total revenue} - \text{total expenses (costs)}$$

This formula clearly identifies two components of net profit: revenue and expenses (costs). Businesses are constantly seeking to establish a competitive advantage to improve their revenue and reduce their costs. That way, they are able to achieve their ultimate goal of sustainable profit maximisation.

FIGURE 3 Businesses aim to cut expenses (costs) in order to achieve their ultimate goal of sustainable profit maximisation.



4.2 ACTIVITIES

REMEMBER

1. What is a competitive market?
2. List the factors that can cause the demands of customers in a market to change.
3. Define the term 'profit margin'.

EXPLAIN

4. Construct a diagram showing how the changing demands of a market can impact on a business.
5. Explain why a business would seek to build or create a competitive advantage.
6. Outline how a profit margin is calculated and what it reflects.

PREDICT

7. What might happen to a business if it did not attempt to build or create a competitive advantage when facing changing demands in a market?

THINK

8. Consider each of the following cases and suggest how:
 - a. an increase in people's income would affect the demand for jewellery
 - b. an increase in the number of people concerned about the environment would affect demand for plastic bags
 - c. a surge in the price of petrol would affect demand for large cars
 - d. a fall in the price of butter would affect the demand for margarine
 - e. an increase in the average age of the population would affect the demand for health services
 - f. a decrease in the number of people who think that the economy will perform well in the next year will affect the demand for electrical products
 - g. an increase in the number of customers willing to purchase products will affect the demand for fruit and vegetables.
9. For each of your answers to question 8:
 - a. suggest if there is an opportunity for a business to develop a competitive advantage, and if so, briefly explain how this could be achieved
 - b. suggest if there is an urgent need for a business to develop a competitive advantage, and if so, briefly explain how this could be achieved.

10. Charlie owns and operates a teddy bear factory. Last year, he earned \$250 000 in sales revenue with expense of \$190 000.
 - a. Calculate whether or not Charlie has made a profit.
 - b. Calculate the profit margin for Charlie's business.
 - c. Comment on how successful Charlie's business has been in generating profit.
 - d. How successful has the successful been in generating profit if the industry standard is a profit margin of 20 per cent?
 - e. Advise Charlie on how he could improve his business's profit margin,

4.3 What strategies can businesses use to create competitive advantage?

4.3.1 A range of strategies

Businesses use a variety of strategies to create competitive advantage. These include offering a lower cost product, achieving improved productivity, differentiation (including improving quality and speed of delivery), implementing efficient internal operations strategies, and research and development.

FIGURE 1 Driverless trucks can help decrease costs and improve productivity.



4.3.2 Reducing the cost of a product

The price of a product can be lowered in two ways. First, the business can simply reduce the price. This will create a competitive advantage if the price is lower than the price offered by competitors and if customers choose the lower priced product. However, it will have the effect of reducing the potential profit that the business can earn.

A second method is to reduce costs. If production costs are lowered, the business can reduce the price while maintaining a healthy profit margin. As illustrates, there are several ways that a business can reduce costs. In 2014, Optus engaged in **outsourcing** and **offshoring** more than 70 jobs from its customer division in an effort to drive down costs through an ongoing **restructure**. This meant that jobs were sent overseas (offshoring) or sent to another business (outsourcing). By reducing staff expenses or by cutting staff numbers, businesses can reduce costs. Restructuring (reorganising the way the business is structured) is another way that businesses reduce staff and therefore cut costs. Coles is another business that engaged in restructuring in 2014. As a result, more than 400 jobs were lost at its store support centre in Melbourne.

FIGURE 2 Optus has lowered costs by offshoring and outsourcing jobs as part of a restructure.



A business can attempt to reduce costs by increasing the production capacity of its facilities. This is often referred to as achieving economies of scale, which means that the business will produce more units of a good or a service on a larger scale while reducing the per unit cost. Caltex Australia has expanded and upgraded facilities in Western Australia, Brisbane and Melbourne to keep up with the demand for its products from customers. For many businesses, reducing costs is a matter of working more efficiently (working smarter) by finding new and improved ways to manufacture goods or provide services.

FIGURE 3 How business can reduce costs



4.3.3 Achieving improved productivity

One of the main objectives of a business is to improve the efficiency of its operations and **productivity**. Productivity measures the amount of **output** compared to the amount of **input** that goes into production. By improving productivity, businesses can be more competitive as they produce products at lower costs than competitors. Productivity can be improved by reducing the number of inputs required to obtain the same level of output or an increased output. Alternatively, productivity can be improved if inputs remain the same but output increases, thereby obtaining more from the inputs.

There are many strategies that businesses can use to improve productivity. Some of these strategies include:

- capital investment
- investing in technology applications
- materials management.

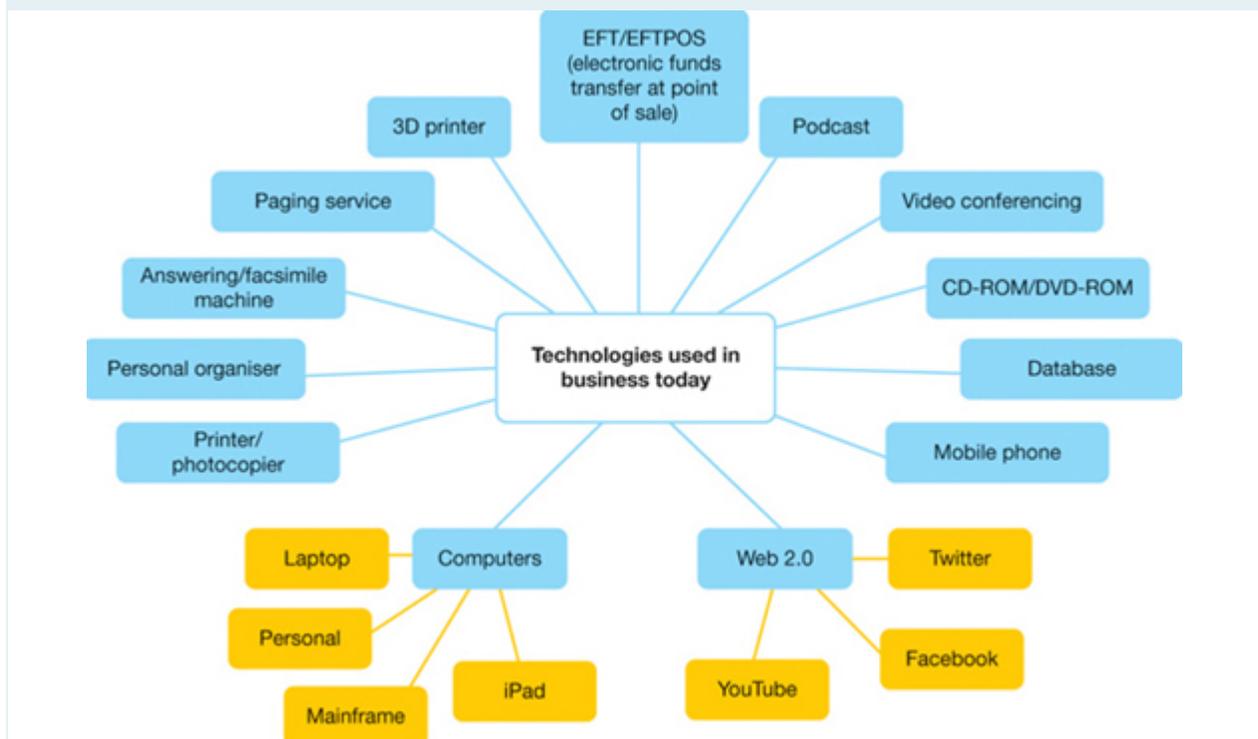
Capital investment

Capital investment involves putting financial resources into physical resources such as machinery, equipment and facilities. These investments are essential for a business to be able to provide goods and services to customers. Investing in **capital** can improve productivity. For example, building a modern assembly line in a factory will reduce costs and the use of labour while producing more products, which increases the productivity of the business's capital. An investment in capital also increases the productivity of labour and other resources employed by a business.

Investing in technology applications

Investment in **technology** is another way businesses can improve productivity. Regardless of whether they are manufacturing a good or producing a service, businesses can use technology to speed up or shorten processes and maximise the use of resources. Using technology means production can take place using less labour or fewer materials. Technology also enables businesses to drive **innovation**. New technology can support a business in designing or developing new products or processes. It can also be used to actually produce new or improved products or as part of a new innovative process.

FIGURE 4 Technologies used by businesses today



Materials management

Materials management is concerned with managing the way materials are received and stored, and making sure they are available to the operations process when required. Many businesses have large quantities of materials on hand to complete production. This is called stock or **inventory**. Businesses hold large inventories to make sure they do not run out of materials. However, this can become a huge cost for a business because the stock has to be stored. Stock that takes up storage space for a long time can also result in the business missing opportunities to invest money in other places. In addition, materials can become unusable after a certain period of time. It is very important to manage materials effectively so that costs can be kept down.

Some businesses use an inventory system called **just-in-time** (JIT). This system ensures that the correct materials arrive just as they are needed for production, which can reduce storage costs and reduce the risk of waste occurring in storage, thereby improving the business's productivity.

CASE STUDY

Just-in-time (JIT) real estate

REA Group is a global online real-estate advertising company based in Melbourne that owns and operates property-advertising sites in Australia, including www.realestate.com.au. The business has applied the just-in-time system to software development. Decisions are made based on having access to the right information at the right time. This supports its efforts to be focused on customers and their rapidly changing needs. The business avoids carrying out excessive planning or documentation because this is considered to be a waste. In this way, innovation and creativity are encouraged.

FIGURE 5 REA Group uses the just-in-time system to access the right information about customer needs at the right time.



4.3.4 Differentiation

A business can create a competitive advantage through **differentiation**. This refers to a business's efforts to make a product stand out by providing unique or superior value to customers in comparison with the products of its competitors. Unique or superior value can be offered through adding features, packaging, marketing, creating a flexible product, and speed of delivery or quality. Let us look at two of these factors: quality and speed of delivery.

FIGURE 6 Businesses have differentiated bottled water through marketing techniques. By packaging it differently and creating an image, one water bottle is different from the next.



Quality

Many businesses compete on **quality**. Quality essentially means that the customers get what they want. A quality product has a high degree of excellence and achieves the purpose for which it was designed. A quality product should be reliable, easy to use, durable, well designed and delivered on time. It should include after-sales service and have an agreeable appearance. A business that competes on quality will produce the best good or service available in the market. Quality is important to National Australia Bank (NAB). The bank says: 'Each of our brands is uniquely positioned, but built on a common commitment to provide our customers with quality products and services, fair fees and charges, and relationships built on the principles of help, guidance and advice.' This means that NAB listens to the needs of customers and addresses issues of concern. As illustrates, there are several ways that businesses can compete on quality.

FIGURE 7 National Australia Bank emphasises quality products and customer service to create competitive advantage.



FIGURE 8 How businesses can compete on quality



Speed of delivery

Many businesses create a competitive advantage by improving their speed of delivery. There are several ways that businesses can compete on speed of delivery, including being prepared to change and act on new trends quickly. These methods can be used to differentiate the business's product from those of competitors. Amazon, the world's largest internet company, has worked hard to improve its speed of delivery. To reduce delivery times it has added new fulfilment centres (warehousing facilities that receive, process and fill incoming orders), and is beginning to deliver orders directly to customers rather than using external package carriers. Increasingly high levels of automation are being developed to improve the speed of filling orders. The retail giant has also announced plans to use drones to improve the speed of package delivery.

FIGURE 9 Amazon creates a competitive advantage by ensuring that the products it sells are delivered quickly.



4.3.5 Implementing efficient internal operations strategies

Businesses can make use of **operations** strategies to reduce costs and differentiate a product. Operations strategies are used to manage the production of the business's product, whether it is a manufactured good or the provision of a service. Operations are responsible for the transformation of inputs, including materials, equipment and labour used in the process of production, into output — the finished product.

Operations strategies for lowering costs include:

- ensuring that there are stable production processes with limited interruptions
- ensuring that all resources are put to their best possible use
- constantly looking for opportunities to streamline production processes
- updating facilities and equipment with new, more efficient technology.

Operations strategies for improving quality and speed of delivery include:

- evaluating processes to ensure that there are minimal defects

- relying on extensive use of integrated technology and computerisation to minimise defects and to develop strong links with the customer
- establishing efficient relationships between suppliers and the business to ensure that quality materials are delivered on time and in the right quantity
- adapting the process used to transform inputs into output to respond to the need for constant improvement.

FIGURE 10 Operations strategies are used to manage the production of the business's goods and services.



4.3.6 Research and development

Businesses undertake **research and development (R&D)** in order to expand their knowledge of products and processes. **Invention** (developing something new) and innovation (improving something that already exists) are vital for providing a business with a competitive advantage. Researchers and scientists undertake R&D in a business to produce new products, improve existing products or develop new processes (find new ways to do things).

R&D can make a business more competitive. For example, it can develop new products in response to those of competitors, or improve existing products to make them superior to those of competitors. R&D can also lead to technological developments, such as robotics and information technology, that improve the way the product is produced or the way it is delivered to customers and thereby improve business competitiveness.

FIGURE 11 Businesses invest millions of dollars in research and development to gain a competitive advantage.



4.3 ACTIVITIES

REMEMBER

1. List the ways that businesses can lower costs.
2. What is meant by the word 'restructure'?
3. Define differentiation.
4. Briefly outline the features that form a quality product.
5. List the ways that businesses can compete on quality.
6. What is meant by the word 'operations'?
7. Define research and development

EXPLAIN

8. Outline the difference between outsourcing and offshoring.
9. Explain how Amazon has improved its speed of delivery.
10. Draw a concept map that outlines how a business can implement efficient internal operations strategies to create a competitive advantage.
11. Outline the difference between invention and innovation.

THINK

12. Explain how the following strategies will create a competitive advantage for a business:
 - a. offering a lower cost product
 - b. improving the speed of delivery
 - c. improving the quality of the product
 - d. implementing efficient internal operations strategies
 - e. undertaking research and development.

DISCOVER

13. Visit your local supermarket or convenience store and choose three different brands or bottled water. (If you can, take a photograph of your three bottles.) Describe the ways that each business has made its product appear to be different from the other water bottles.

4.4 Can acting in a socially responsible manner increase the competitive advantage of businesses?

4.4.1 Benefits of corporate social responsibility

Society today expects businesses to act in a socially responsible manner. Those that adopt strategies based around **corporate social responsibility** should improve their competitive advantage by bolstering their business reputation. Customers who believe that a business has a reputation for being socially responsible are more likely to continue to deal with that business. They are also likely to refer the business to other customers. Employees will want to work for the business, reducing the costs of replacing staff and increasing productivity. While it can be expensive and time consuming to introduce socially responsible strategies, doing so should increase sales and profits. Conversely, a lack of social responsibility can damage a business's reputation and reduce its competitive advantage.

FIGURE 1 Many palm oil producers are trying to demonstrate corporate social responsibility by sourcing their palm fruit from sustainable plantations that do not destroy the habitat of endangered species such as orangutans.



4.4.2 Corporate social responsibility strategies

Corporate social responsibility requires business managers or owners to take steps to ensure that the broader social welfare of the community — including employees, customers and suppliers, and the natural environment — is taken into consideration when conducting business dealings. A socially responsible business attempts to achieve two goals simultaneously: expanding the business and providing for the greater good of society. An important premise of social responsibility is to act in a way that is ‘above and beyond’ making a profit and obeying the law. Strategies based on corporate social responsibility include managing staff appropriately, sourcing raw materials from sustainable sources, managing customer relationships appropriately and conducting a social report.

Managing staff appropriately

A business that is socially responsible treats and pays its employees fairly, and maintains a safe working environment. We tend to take these responsibilities for granted in Australia, but they are often not legally required or enforced in developing countries. Irregular or incomplete maintenance of production facilities can result in injuries or even fatalities. Toxic production processes can threaten the health of employees, as has been the case with asbestos mining and manufacturing. Some businesses have been condemned for employing workers in sweat shops or using child labour. Others have been criticised for using suppliers that engage in these practices. Customers can react and stop purchasing a business’s products if they learn that the business is exploiting employees or failing to meet their health and safety needs.

DISCUSSION

Many stores sell clothes that are made in sweatshops. On the other hand, ensuring that all products are produced in ethical conditions will significantly raise the prices of these goods. With this in mind, should there be tighter restrictions to ensure that businesses are socially responsible?

on Resources



Watch this eLesson: [Sweatshop workers in Bali](#)

Searchlight ID: [eles-2611](#)

Sourcing raw materials from sustainable sources

Many businesses work with their suppliers to ensure that the suppliers follow guidelines on socially responsible behaviour. Customers will reward businesses that source raw materials in a way that does not pollute the environment, threaten endangered species, waste natural resources or contribute to global warming.

Managing customer relationships appropriately

A business needs to make sure that the goods and services it produces are of the required quality — that they are safe and reliable. Dangerously defective or harmful products can result in the injury or even death of consumers. The delivery of a product can raise issues around the socially responsible behaviour of managers, such as fair and equitable treatment of customers regardless of whether they come from wealthier or poorer regions. A business that develops a reputation for not caring about its customers is likely to find that they no longer purchase its products.

FIGURE 2 Most businesses are serious about providing safe and reliable products.



Conducting a social report

Today, many businesses assess their progress towards fulfilling their corporate social responsibilities by conducting a **social report**. A social report may also be referred to as a corporate social responsibility report, a values report, a social audit or a sustainability report. The report details what a business has done, and continues to do, to address the social and environmental issues that are relevant to the business. The report also assesses how the business's practices and operations affect society.

CASE STUDY

The Body Shop

Dame Anita Roddick founded The Body Shop in 1976 and since then it has grown to become a worldwide business. It has a range comprising 1200 products, including soaps, shampoos, moisturisers, cosmetics and make-up. There are over 2500 shops in more than 60 countries, with over 90 stores throughout Australia.

Anita Roddick's original vision was to build a socially responsible business that supports the community. She developed five values:

1. activate self-esteem
2. oppose animal testing
3. support community fair trade
4. defend human rights
5. protect the planet.

These values guided The Body Shop's employees and the business decisions they make for three decades.

Although Anita Roddick died in 2007 and the company now operates as an independent subsidiary partly owned by L'Oréal, The Body Shop has maintained a reputation for acting ethically and gained a competitive advantage by advocating for social and environmental causes.

The Body Shop pioneered the use of social audits and continues to produce a values report. It is renowned for its global campaign to raise self-esteem in women and rally against the beauty industry's stereotyping of women. More recently, the company has conducted a campaign to stop sex trafficking.

The Body Shop has a history of campaigning against animal testing. Its website explains, 'We believe that testing cosmetics on animals is unethical, unnecessary and should be banned. We do not test our cosmetic products or ingredients on animals, nor do we commission others to do so.' It is also among the few companies who comply with the requirements of the internationally recognised Humane Cosmetics Standard.

FIGURE 3 Social responsibility increases The Body Shop's competitive advantage by setting it apart from other businesses selling body care products and cosmetics.



Community Fair Trade was a program launched by The Body Shop with the aim of supporting direct trade with marginalised communities around the world. The Body Shop Foundation was established in 1990 to fund human rights and environmental protection groups. In 1998, The Body Shop organised a worldwide campaign with Amnesty International to raise awareness of the plight of human rights defenders throughout the world. More recently, The Body Shop has developed an ethical trade strategy with five steps for improving the working conditions of its staff and suppliers.

The Body Shop promotes environmental sustainability through such means as working with Greenpeace and funding energy efficiency projects in the developing world. The company has launched sustainable stores (called Pulse stores), attempted to reduce its carbon footprint by tracking the transportation of its products, reduced water consumption and energy use, and invested in renewable energy supplies. Waste has been cut, post-consumer recycle (materials that have been recycled) has been incorporated into its packaging, and sustainable materials are used in its products.

FIGURE 4 Anita Roddick called on the Cosmetic, Toiletry and Perfumery Association in 1996 to back a European Union (EU) ban on cosmetics testing on animals.



on Resources



Explore more with this weblink: [Corporate social responsibility](#)

4.4 ACTIVITIES

REMEMBER

1. What is corporate social responsibility?
2. Make a list of strategies based around corporate social responsibility.
3. What is the purpose of a social report?

EXPLAIN

4. Copy and complete the following table to identify the advantages and disadvantages of adopting socially responsible strategies.

Advantages	Disadvantages
Customers are more likely to want to deal with a socially responsible business.	Socially responsible strategies can be expensive to introduce and implement.

5. Read the case study 'The Body Shop' in this section and answer the following questions:
 - a. In not more than 60 words, identify and explain the chief reasons for The Body Shop's success.
 - b. Outline the socially responsible strategies that The Body Shop has introduced.

DISCOVER

6. The Body Shop aims to reduce the impact on the environment and empower local communities to share knowledge and trade equally. Follow **The Body Shop products** weblink in your Resources section to help you complete the following table:

Product	Community producer
All-in-One BB cream	The Eudafano women's Cooperative in northern Namibia
Cocoa butter hand and body lotion	
Shea lip butter	
White musk libertine eau de parfum	
Honeymania lip balm	
Wild argan oil bubbling bath	

7. Visit The Body Shop in your area. Collect evidence of the values that the business holds by examining products, checking ingredients and packaging, observing evidence of environmental concerns, and reading any information that challenges traditional views. Present your findings to the class by way of a talk, a computer application or a poster.
8. Visit your local shopping centre to observe business practices that promote recycling and protection of the environment. Record any examples of socially responsible strategies being practiced. Identify a business you believe is not environmentally aware and write a letter explaining why adopting strategies based around corporate social responsibility can increase the competitive advantage of their business. Suggest some ways that the business can promote recycling or other environmentally sound practices.

PREDICT

9. What do you think might happen to the competitive advantage of a business that does not adopt socially responsible strategies?

4.5 How can businesses use emerging techniques to gain an advantage?

4.5.1 Harnessing new ideas and techniques

The world is constantly changing. To keep pace with changing market conditions, businesses need to remain competitive by using emerging techniques — the latest ideas or new processes. Currently, this includes social media, blended marketing, open innovation and digital technologies.

4.5.2 Social media

The range of **social media** that individuals and businesses can access is both diverse and constantly changing. Social media includes social networks, blogs and microblogs, collaborative projects, content communities, virtual game-worlds and social worlds, social bookmarking and crowdsourcing.

Social media offers businesses a relatively inexpensive means to interact with customers and form stronger relationships with them. A business joining a social network can achieve a competitive advantage because it is able to communicate with customers directly and respond to their needs accordingly. This can develop customer loyalty. Social media also allows businesses to provide information about their products to customers and prospective customers that can be accessed by them at any time. By deciding who they will follow on social media, businesses can refine their target group and focus on communicating with a specific audience.

FIGURE 1 Examples of social media

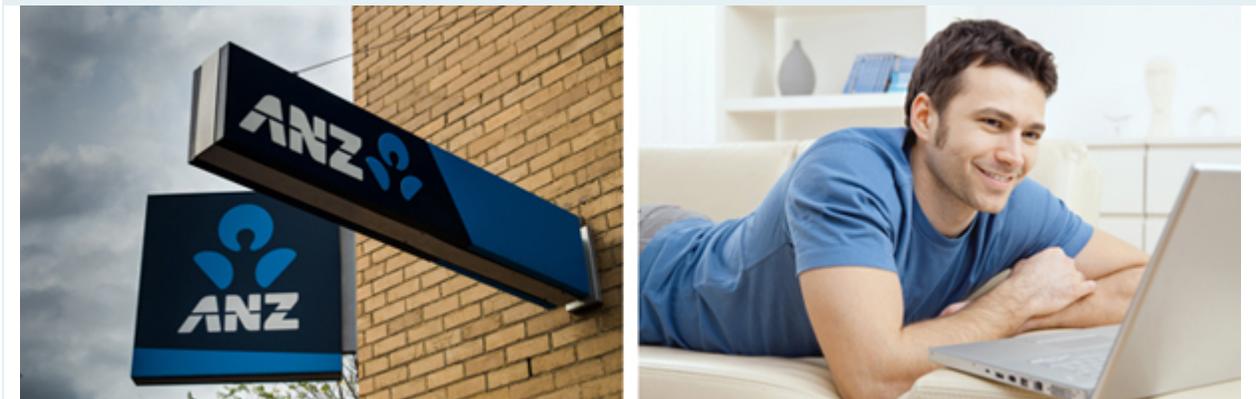


However, using social media can cause a business to lose control over what customers write or say about its product. Individuals using social media are free to discuss, review and criticise a product or a business. Various legal problems can arise from the use of social media such as false and misleading claims, copyright issues and privacy concerns. Nonetheless, customers today expect that businesses will have a social media presence. If a business does not meet this expectation, then customers may find an alternative outlet and the business will miss out on the chance to connect with them directly.

4.5.3 Blended marketing

Blended marketing is a mix of internet (online) **marketing** and traditional (offline) marketing methods to create a more wide-ranging and comprehensive marketing strategy. Successful businesses integrate the two methods to gain a competitive advantage. Because so many people spend substantial amounts of time online, it is vital that a business has an online presence. This can be done through online advertising, or by connecting or engaging with existing or potential customers through social media. Traditional marketing is still important because it allows a business to reach people who are not online and also appeals to a broad range of senses.

FIGURE 2 ANZ, which uses blended marketing, launched a new online media publication called *Blue Notes* that focuses on financial services news and trends for customers.



CASE STUDY

Birdsnest blends marketing strategies

When Jane Cay purchased a retail business in the regional New South Wales town of Cooma in 2004, she had no inkling of how large the store was going to grow. The business employed five staff and, after Ms Cay decided to focus on women's fashion and rename the business, it grew steadily over the following two years. Faced with the opportunity to open another store, Ms Cay opted for taking Birdsnest online and a website was launched in 2008. Since then, the business has grown to making approximately \$20 million in revenue annually and employing more than 100 people. The online business provides customers with the opportunity to shop by colour, by occasion or by body shape. Birdsnest now sells to customers throughout Australia and the world.

Birdsnest has recently established a presence on social media and can be found on Facebook, Twitter, Pinterest, Instagram and Google+. The business also has its own blog. A full-time staff member is employed to manage Birdsnest's social media presence. More than 100 000 people visit its Facebook page. The page is updated daily with postings for outfits of the day and regular promotions. Ms Cay says, 'Our Facebook page is at the forefront of what we do.'

Birdsnest also uses traditional marketing methods as part of a blended marketing strategy. When a customer buys something online, the website will suggest accessories that complement the outfit. This is a form of suggestive selling, which has been around for a long time, just executed differently. The business has also used more conventional print advertisements. Mini-magazines advertising Birdsnest's fashions were recently included in *Australian Women's Weekly*, *InStyle* and *Country Style*.

Resources



Explore more with this weblink: Birdsnest

FIGURE 3 Social media blended with traditional marketing techniques allows a retail business to reach and connect with more customers.



4.5.4 Open innovation

Open innovation is based on the notion that no business is capable or big enough to effectively innovate on its own. Open innovation can create opportunities for a business and make them more competitive because it can reduce costs, accelerate the time it takes to get a product to market, increase the differentiation of products in the market, and create new ways for a business to earn revenue.

A business might take advantage of open innovation by bringing suitable external ideas and technologies into its own innovation process. These ideas may come from universities, other businesses or individuals. A business may also realise that some of its own ideas and technologies are not suitable for its own purposes and could be better utilised by another business.

CASE STUDY

Open innovation at Samsung

Samsung has introduced open innovation as an initiative to identify and grow future technologies and infrastructure. Samsung Group is a South Korean multinational company that includes several subsidiaries. The company produces goods and services in many industries, including electronics, heavy industry, construction, defence, insurance, advertising and entertainment. Samsung Electronics is the most recognised of its subsidiaries, known for producing mobile phones, tablet computers, televisions, cameras and other home appliances.

To put open innovation into operation, Samsung has adopted a number of approaches. The company actively participates in global consortiums (associations of two or more individuals, businesses or organisations) that perform research and development. Samsung builds links between its industry and top universities. The company encourages independent research, and sponsors the training of students and employees in universities around the world. By cooperating with suppliers of equipment and materials to influence their manufacturing and quality processes, Samsung ensures that its own products are competitive. Several research facilities have been set up in a number of countries.

Samsung recently launched the Open Innovation Center in Silicon Valley, California. The complex includes an accelerator division that will support small businesses in getting their products off the ground while they gain access to Samsung's people, products and plans. A venture capital arm will allow Samsung to invest in new businesses that are trying to create new technologies. A mergers and acquisitions team will acquire companies that could assist Samsung, and a partnerships team will allow Samsung to find ways to work with all the other businesses that wish to partner with it.

Resources



Watch this eLesson: [Samsung's virtual reality Samsung Gear headset](#)

Searchlight ID: [eles-2610](#)

4.5.5 Digital technologies

The rapid expansion of digital technologies has allowed businesses and consumers to interact in different ways than ever before. These technologies allow for large amounts of information to be stored and transferred on tiny devices such as mobile phones. Many businesses have used digital technologies to try to differentiate themselves from competitors and gain an advantage. Businesses that do not engage with digital technologies run the risk of falling behind their competitors and losing some of their market share. Tesco, a British grocery retailer is one such business that has successfully used digital technologies.

CASE STUDY

Tesco's virtual supermarkets

In response to falling domestic sales, British supermarket giant Tesco turned to the growing Asian market to reverse their fortunes. The business realised that their traditional model of bricks-and-mortar supermarkets was just not meeting the needs of many of their busy customers, especially in South Korea. Tesco's own research revealed that employees in South Korea worked some of the longest hours in the world and this greatly restricted the time they had available to buy their groceries. Combined with this, a significant proportion of the South Korean workforce are young professionals who are very tech-savvy.

In 2011, Tesco combined with digital technology company Samsung to launch a 'virtual supermarket' in Seoul, South Korea. The virtual store consists of a series of posters designed to look like supermarket shelves (see figure below) that were placed on walls in public places such as subways and train stations. Customers download an app onto their phone and scan the QR code of the products they wish to buy. Once customers have scanned all the products they want to buy, they pay for groceries online and decide on a delivery time. The groceries are usually delivered on the same day that they are purchased. Tesco successfully used digital technology to gain an advantage over its competitors.

FIGURE 4 Tesco developed the virtual supermarket in South Korea in response to the busy lifestyle of many of their customers.



DISCUSSION

The pricing of digital products has been a controversial topic, with many critics claiming prices are too high, as no physical goods need to be created. However, defenders claim that as much time and effort needs to be put into producing digital products as physical goods, and that reducing prices would create inferior products, as shortcuts would need to be taken to cover costs. Do you think the current pricing models are fair?

on Resources



Explore more with this weblink: [TED](#)

4.5 ACTIVITIES

REMEMBER

1. List five examples of social media.
2. What is the difference between blended marketing and marketing?
3. Briefly outline what open innovation is about.

EXPLAIN

4. Describe *how* the following emerging techniques can support a business in gaining a competitive advantage:
 - a. social media
 - b. blended marketing
 - c. open innovation.
5. In what ways can social media damage a business's competitive advantage? Suggest some ways that a business might deal with these problems.
6. Read the case study 'Birdsnest blends marketing strategies' in this section and answer the following questions:
 - a. Outline the types of online marketing techniques that Birdsnest uses.
 - b. What traditional marketing technique is Birdsnest beginning to utilise?
7. Read the case study 'Open innovation at Samsung' in this section and answer the following questions:
 - a. How has Samsung put open innovation into action?
 - b. What has Samsung recently introduced to support open innovation?
 - c. Briefly Outline how the new complex will support the use of open innovation at Samsung.

DISCOVER

8. Use the **Birdsnest** weblink in your Resources section to identify the variety of social media that it uses. Find its blog and make a list of some of the items you can read about there.
9. Visit the websites of at least two different retail stores and compare the types of social media they use.
10. Follow the **TED** weblink in your Resources section to watch a video about open innovation. Search for 'open innovation' and then choose one of the results of your search. After watching the video, write down two new things that you did not already know about open innovation.

PREDICT

11. List the consequences of a business utilising emerging techniques.

4.6 SkillBuilder: Analysing a business case study

4.6.1 Tell me

A business case study helps you understand business concepts. It is a real-life example that shows how businesses work and how business concepts apply to individual situations.

Business people use case studies to understand the strategies that other businesses have introduced and to identify which ones have succeeded or failed. When you have identified the elements of a case study, you will be able to better understand business concepts.

CASE STUDY

Using innovation to create a long-term competitive advantage

BlueScope is a manufacturer of steel and supplier of steel products to global building and construction markets. It operates in Australia, New Zealand, Asia and North America. BlueScope has used open innovation and research and development to create a competitive advantage.

Working with several universities and industry partners, including BlueScope, the Australian Research Council (ARC) recently launched a steel research hub located at the University of Wollongong. The new facility brings scientists and researchers together from various steel manufacturers and research institutions to develop new technologies for the Australian market. A key focus of the steel research will be energy and sustainability, as well as more efficient building construction and solutions for harsh environments.

BlueScope has modified its products and changed the ways it interacts with customers, suppliers and competitors so that it is not just competing on price. The company strongly believes that by using innovation to create a competitive advantage, it will develop products that will allow it to keep manufacturing in Australia.

One of BlueScope's innovative new products is called Next Generation Zinalume. By combining magnesium with an aluminium, zinc and silicon coating, a unique protective barrier has been formed which makes steel more resistant to corrosion. Zinalume steel also has a smaller impact on the environment through a reduced use of zinc and aluminium.

Furthermore, BlueScope plans to transform its popular Colorbond product. A photovoltaic laminate will be added, resulting in a roof panel that can produce solar power. Panels will also transfer thermal energy in and out of buildings as required.

FIGURE 1 BlueScope's managing director and CEO, Paul O'Malley. In the 2014 financial year, BlueScope achieved an EBIT (earnings before interest and tax) of almost \$250 million, a significant increase of 237 per cent on the previous year.



4.6.2 Show me

How to analyse a business case study

Procedure:

STEP 1

Read the case study twice: once to get the general idea of the content and the second time to identify the key issues. As you read through the second time, use a highlighter, arrows and sticky notes to identify the key issues. To do this, double click on the text you have chosen, and choose the 'Highlight' option. You could choose a different colour of highlighting for each key issue. You may also choose to make notes, using the 'Add note' function.

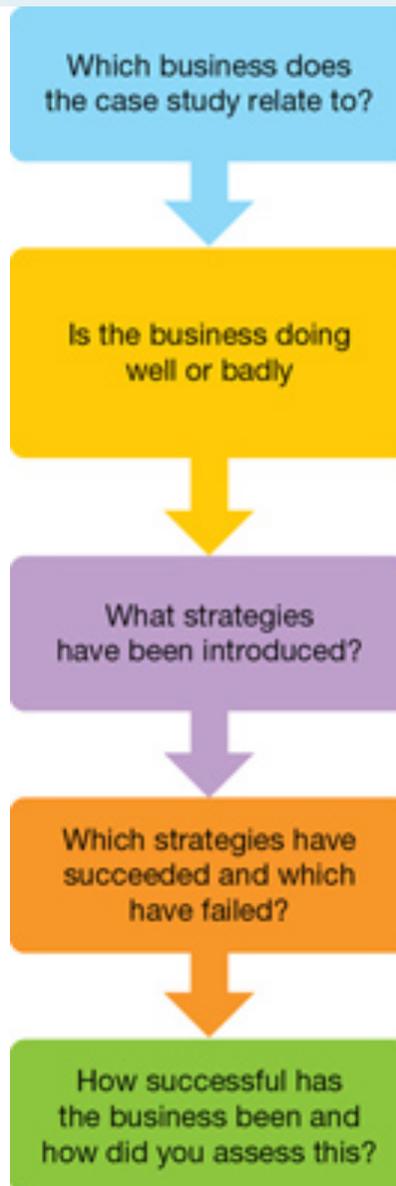
STEP 2

Identify and define important terms. Use a dictionary or the internet to find out what they mean.

STEP 3

Write your answers in dot points using the heading shown in the diagram in figure 2.

FIGURE 2 How to analyse a business case study.



4.6.3 Let me do it

4.6 ACTIVITIES

Developing my skills

Read the case study 'BHP Billiton plans to lower costs and lift production of iron ore' below. Use the steps on the diagram shown in figure 2 to analyse the case study.

CASE STUDY

BHP Billiton plans to lower costs and lift production of iron ore

BHP Billiton, the world's largest mining company, unveiled plans in 2014 to reduce costs and lift production at its Western Australian iron ore mines. It said that this would make it the world's lowest-cost supplier to China.

The company announced that it would cut costs at Western Australia Iron Ore (WAIO) by at least 25 per cent and that it should be able to boost capacity by 65 million tonnes per year. BHP Billiton's iron ore president Jimmy Wilson, said, 'We have already significantly cut the cost of production at WAIO and plan to go further.'

BHP Billiton has cut approximately 1000 jobs over the past two years during a major cost cutting drive in its iron ore division. It is likely that there will be many more job losses as a consequence of this announcement. Improving the efficiency of the performance of its existing equipment and infrastructure will also help to reduce costs. BHP Billiton will undoubtedly make better use of its mining equipment and increase the use of autonomous (driverless) drills and trucks.

The price of iron ore has fallen by 40 per cent in recent years and there is currently an oversupply of the product. China's production of steel, which makes use of iron ore, is expected to increase. However, by reducing its own costs while increasing production, BHP Billiton puts pressure on prices and creates difficulties for smaller competitors such as Atlas Iron and BC Iron, which have high production costs. They find it difficult to continue to make a profit in these conditions. This is what gives BHP Billiton its competitive advantage. BHP Billiton can cope with an overabundance or oversupply of iron ore because it can reduce its costs.

Mr Wilson said, 'We believe we have some sustainable advantages and our aspiration is to be down the bottom end of that cost curve.'

FIGURE 3 BHP Billiton's Mount Newman iron ore mine in Western Australia.



4.7 Review

4.7.1 Summary

Businesses seek to build or create a competitive advantage, often through innovation, to meet the changing demands of a competitive global market and improve their profit margins.

- Businesses use strategies such as offering a lower cost product or a differentiated product to create a competitive advantage. Implementing efficient internal operations strategies or investing in research and development can support the business in introducing these strategies.
- Business strategies based around corporate social responsibility can also increase competitive advantage by improving reputation.
- Businesses can use emerging techniques — such as social media, blended marketing, and open innovation — to gain an advantage over competitors.
- Reducing the price of the product or reducing costs (by restructuring, increasing production capacity or working more efficiently) can achieve a lower cost product.

- Differentiation can be achieved by offering a product that stands out as being unique or offering superior value through such means as packaging, marketing, quality or speed of delivery.
- Socially responsible strategies include managing staff appropriately, sourcing raw materials from sustainable sources, managing the customer relationship appropriately and conducting a social report.
- Using social media to interact with customers directly and promote products, and making use of online and offline marketing techniques (blended marketing), can improve the competitiveness of the business.
- Open innovation involves the use of internal and external ideas to support the business in improving its processes or products.

4.7.2 Your turn

4.7 ACTIVITIES

Read the following case study and then answer the questions:

CASE STUDY

Superior garden roses.

Zack has started a new small business called Superior Garden Roses and comes to you for advice. He has been growing roses in a nursery in his backyard and has built up a significant amount of stock. Most of his sales so far have been from word of mouth — his friends and family have bought roses and then recommended the business to other customers. Zack is aware that there are many competitors selling roses but he is determined to grow his business. He would very much like to build or create a competitive advantage.

1. Explain to Zack why businesses seek to build or create a competitive advantage.
2. Outline the different strategies that Zack's business could use to create a competitive advantage.
3. What are the advantages and disadvantages of adopting strategies based on corporate social responsibility?
4. Explain to Zack if, in your opinion, corporate social responsibility strategies would increase his business's competitive advantage.
5. Describe some emerging techniques that Zack's business could use to gain an advantage.

on Resources



Try out this interactivity: [Multiple choice](#)

Searchlight ID: [int-5556](#)



Try out this interactivity: [True/false](#)

Searchlight ID: [int-55657](#)



Try out this interactivity: [Crossword](#)

Searchlight ID: [int-55658](#)



Try out this interactivity: [Competition in the marketplace](#)

Searchlight ID: [int-5558](#)

Chapter 5: Participants in the changing work environment

Contents

- 5.1 Overview
- 5.2 Participants in the Australian workplace
- 5.3 Changing roles of employees
- 5.4 Employer responsibilities in the workplace
- 5.5 Government responsibilities in the workplace
- 5.6 SkillBuilder: Preparing a résumé
- 5.7 Review

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5 Participants in the changing work environment



5.1 Overview

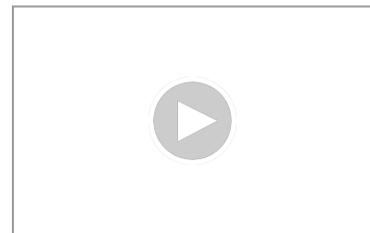
5.1.1 How have workplaces changed?

on Resources



Watch this eLesson: [The Changing Work Environment](#)

Searchlight ID: [eles-2388](#)



In order to appreciate the changes in Australia's contemporary work environment, it is useful to investigate the workplaces of the past. One hundred years ago, Australian workplaces looked dramatically different to the way they do now. In 1914, the Australian economy largely relied on the agricultural and manufacturing sectors. Although many women actively participated in the workforce, these industries mainly employed men. All this changed in April 1914 when Australia joined World War I. With thousands of men leaving to fight for their country, Australian women were charged with the responsibility of driving the economy. Women found themselves in unfamiliar jobs and unfamiliar industries. This rapid change in the Australian workforce paved the way for women's rights in Australia and laid the foundations for future development.

FIGURE 1 Australian women making bricks during World War I



Fast-forward 50 years and Australian workplaces had undergone significant change. In 1964, Australia's reliance on the agricultural industry had lessened thanks to a post-World War II focus on manufacturing and trade. The production of motor vehicles, metals and textiles increased significantly during this period. The focus of Australia's trade partners also shifted during this era. Australia's growing relationship with the United States of America had begun to overshadow our traditional ties with Great Britain. Workplaces at this time were typically small and family run, although some larger companies had begun to develop their influence.

In 2016, we again find dramatic changes in the Australian workplace. Although the agricultural industry remains strong, the Australian manufacturing industry has found itself unable to compete with cheaper overseas competitors. The powerful mining industry has risen to take the place of this once-important source of employment. Technological developments have also made modern workplaces more dynamic and flexible. As Australia's place in the global economy continues to develop, there is no doubt that our workplaces will change to follow suit.

Learning objectives

Students will investigate:

- the changing roles and responsibilities of participants in the Australian or global workplace.

STARTER QUESTIONS

1. How does the workplace of 1914 compare with that of today?
2. How has the focus of the Australian economy changed over the last 100 years?
3. Who are the main participants in Australian workplaces?
4. What impact did World War I have on the Australian workforce?
5. What impact did the post–World War II period have on the Australian economy?

5.2 Participants in the Australian workplace

5.2.1 Who is in the workplace?

You could be forgiven for assuming that the Australian workplace involves only two groups of people — employers and employees. Our nation’s work environments are much more complex than this simple relationship. Trade unions and governments have a significant impact on the nature of Australian workplaces. The ways in which these groups function and interact with each other form the basis of Australian work environments and, on larger scale, our country’s economy. In this chapter, we identify and examine the participants in the Australian workplace.

FIGURE 1 The major participants in the Australian workplace

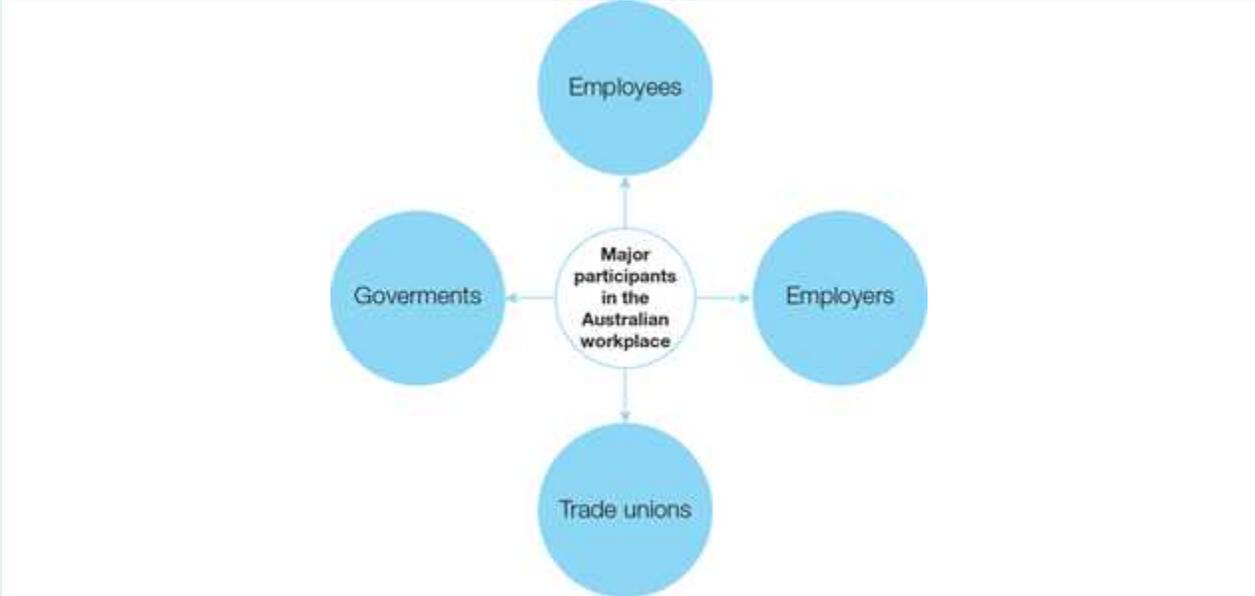


FIGURE 2 Employees, employers, trade unions and governments are all participants in the modern Australian workplace.



5.2.2 Employees

In the coming months, many of you will enter the Australian workforce for the first time. Some of you probably already have. Whether you flip burgers at the local fast-food shop, stack shelves at the supermarket or deliver medicines for the chemist, you are part of the Australian workforce. An employee is someone who works for another person or entity in return for financial compensation. This work may vary in a number of ways including the nature of the work completed, the level of responsibility and the time spent completing the work. Whether you work as a server at the drive-thru at McDonald's or as the company's **chief executive officer (CEO)**, you are still an employee of McDonald's. Although their roles and responsibilities vary, both the server and the CEO undertake specific jobs and are paid for their time and effort.

FIGURE 3 A McDonald's server and the company's CEO, Don Thompson. Their jobs are very different but both are employees of the same company.



As at March 2016, more than 11.9 million Australians were classified as employees. This figure equates to just under half (49 per cent) of Australia's total population. Casual, seasonal, part-time and full-time employment are all included in this calculation. An increasing number of employees are looking for more flexible working conditions. It is estimated that nearly 35 per cent of Australia's workforce is employed on a casual or contract basis. Although this kind of work provides employees with increased flexibility, casual work does not come with the same rights and benefits as part-time or full-time employment.

5.2.3 Employers

A diverse range of employers exists within Australia. As at June 2015, there were more than 800 000 employing businesses in Australia. The majority of these were small businesses with only one to four employees. The full breakdown of employing businesses in Australia is shown in [table 1](#).

TABLE 1 Number of businesses (by size) in Australia as at June 2015

Number of employees	Number of businesses in Australia
1–19	781 861
20–199	50 991
200+	3 522
Total	863 374

Source: Data derived from ABS 8165.0 — *Counts of Australian businesses, including entries and exits* (June 2013 to Jun 2015).

From the smallest self-run business to the largest **multinational company**, all employers in Australia are subject to the same responsibilities and requirements. As we investigate later in this chapter, employers are legally and ethically required to provide safe and fair working conditions for their employees. These responsibilities include the provision of:

- a safe workplace
- adequate financial compensation for work completed
- necessary and relevant education and training
- contributions to superannuation
- essential rights to employees (such as adequate breaks and supervision).

A number of government organisations hold employers to these responsibilities. The most influential of these is the Fair Work Commission (FWC). There have been several versions of the FWC including Fair Work Australia and the Australian Industrial Relations Commission. The Fair Work Commission ensures that employees' rights are protected and that employers comply with Australian employment law. It also acts as a tribunal for employees who feel their employers have failed in the discharge of their responsibilities.

5.2.4 Trade unions

The history of trade unions can be traced back to the merchants guilds of the Renaissance period. In those organisations, workers who held the same job banded together to organise their industry, set prices, agree upon standard practices and protect the rights of their members. Australian trade unions play a similar role. They are organisations of workers who actively seek better pay, safer working conditions and increased job security. It is not compulsory for workers in a particular industry to join a union, although it is strongly encouraged by union members.

A union with large numbers of active members can place more pressure on governments and employers than a smaller union. This pressure usually takes the form of **industrial action**, which can include strikes and work bans. Industrial action can be brief and isolated, or it can continue for days or weeks — even years in extreme cases. The longest industrial action in Australia occurred in 1946 and lasted for three years! It started when Aboriginal workers in Western Australia’s Pilbara region refused to work until they were properly paid and provided with safe working conditions. Participating in industrial action is one way in which trade unions can affect the Australian workplace. Through this mechanism, they can be a crucial part of the Australian working environment.

FIGURE 4 Teachers protesting for higher wages and better conditions at the Rod Laver Arena in Melbourne



5.2.5 Governments

Federal, state and local governments also play a crucial role in the Australian workplace. By setting and enforcing employment standards, our governments are one of the most important components of the Australian working environment. The regulation of minimum wages, leave and superannuation entitlements are just some examples of these standards. Government projects both create and sustain employment in Australian states and territories. All three levels of government are involved in the planning and implementation of new projects. Regardless of whether these projects involve the construction of new infrastructure or the creation of new training programs, they will generate jobs. Although private enterprise also generates jobs and helps set standards in certain industries, governments often have greater power and influence over job markets.

FIGURE 5 The Fair Work Commission is Australia's national workplace relations tribunal.

The screenshot shows the homepage of the Fair Work Commission. At the top, there is a navigation bar with links for 'ABOUT US', 'CONTACT US', 'GLOSSARY', and 'NEWS & MEDIA'. Below this is a dark blue header with the Fair Work Commission logo and the text 'Fair Work Commission Australia's national workplace relations tribunal'. A search bar is located on the right side of the header, with the text 'Enter a keyword, phrase or topic to begin...'. Below the header is a horizontal menu with categories: 'Awards & agreements', 'Cases, decisions & orders', 'Registered organisations', 'Resources', 'Termination of employment', and 'Disputes at work'. The main content area features a large image of a man and a woman sitting at a desk, with the text 'Welcome to the Commission' and a 'Find out more' button. To the right of the image is a 'Quick links for Public' dropdown menu with the following options: 'Welcome to the Commission', 'Find an award', 'Find an agreement', 'Unfair dismissal', and 'Anti-bullying'. Below the main content area are three columns of links: 'Forms', 'Hearings', and 'Decisions'. The 'Forms' column lists various application forms (F2, F3, F8, F8C, F10, F72, F16, F42). The 'Hearings' column lists cities: Adelaide, Brisbane, Canberra, Darwin, Hobart, Melbourne, Perth, and Sydney. The 'Decisions' column lists various decision types: Annual wage review decision 2015-16, Full Bench decisions, Decisions from today and yesterday, Decisions from the past week, Decisions from the past month, Find a decision, and All decisions.

5.2 ACTIVITIES

REMEMBER

1. What proportion of Australia's population is currently employed in casual, part-time or full-time work?
2. When did the first trade unions begin and what was their purpose?
3. What is the main role of governments in the Australian workplace?

EXPLAIN

4. Suggest reasons why someone would choose:
 - a. casual work over part-time/full-time work
 - b. part-time/full-time work over casual work.
5. Explain the role of the Fair Work Commission.

THINK

6. Copy [table 1](#) from this section and add a column titled 'Percentage of all Australian businesses'. For this new column, you will need to take each category of business and calculate the percentage of Australian businesses that fall into that category. For example, what percentage of Australian businesses have 1–4 employees? Complete this calculation for each category in the table.

EXPLORE

7. Research an industrial action in Australian history. Write a summary of the dispute which answers these questions:
 - a. What was the dispute about?
 - b. Who was involved in the dispute?
 - c. What kind of industrial action was taken?
 - d. How was the dispute resolved?

5.3 Changing roles of employees

5.3.1 The impact of competition and technology

As dynamic and ever-changing environments, modern workplaces look dramatically different from those of the past. Ask your grandparents about the jobs they used to have. Many will tell you that they worked for only one or two companies during their entire careers. This is extremely unusual in modern Australian workplaces. By the time you retire, you are likely to have worked for more than 20 employers!

With increased competition for business and jobs, a lot is expected of employees in the Australian economy. Technological developments facilitate and encourage the fluidity of modern workplaces. Through the use of internet and smartphone technology, for example, employers may expect their staff to regularly check emails and respond to customers at all times of the day. This same technology allows employees to work from multiple locations and have more flexible working conditions. In this section, we investigate how the Australian work environment continues to change and the impact such change is having on employees and their families.

FIGURE 1 As employers respond to increased competition, they demand more of their employees.



DISCUSSION

As mentioned above, it is expected that most people entering the workforce will have worked for more than 20 employers by the time they retire. In an ever-changing work environment in which you are likely to have many jobs, what skills do you think are most likely to help you to succeed in your working life?

5.3.2 Traditional employee roles

An employee's primary objective is to help their employer's business succeed. The specific role of an employee will depend on the nature of the business and the position they hold. The duties of an employee are usually detailed in a **position description** or outlined in their employment contract. Minimum targets or objectives may also be listed by employers in a contract. Once an employee signs a contract, they are legally bound to meet any targets and fulfil their obligations to the employer.

Employees are also required to follow company values and adhere to company policies. These policies often include ethical and behavioural guidelines as well as more straightforward requirements such as the wearing of a uniform. In addition to these legal obligations, employees are expected to demonstrate positive workplace qualities. These include displaying effective teamwork, acting responsibly and showing initiative.

FIGURE 2 An employee’s primary objective is to help their employer’s business succeed



5.3.3 Increased competition

The global economy is an uncertain place for many businesses. While some companies have remained successful in these tough economic conditions, many more have been forced to scale back their operations and **retrench** staff. Toyota, Ford, Telstra and Qantas have all sacked staff in recent times in order to remain financially viable in the face of increased competition. Even the Australian Bureau of Statistics (which provides the majority of statistics for this chapter) recently announced it would be cutting 100 jobs. Refer to [table 1](#) to see the number of retrenchments by industry in 2013.

TABLE 1 Retrenchments by industry (2013)

Industry	Number of persons retrenched ('000)
Agriculture, forestry and fishing	5.4
Mining	15.4
Manufacturing	39.9

Electricity, gas, water and waste services	8.7
Construction	64.7
Wholesale trade	14.7
Retail trade	40.4
Accommodation and food services	29.2
Transport, postal and warehousing	23.1
Information media and telecommunications	6.7
Financial and insurance services	12.2
Rental, hiring and real estate services	7.5
Professional, scientific and technical services	33.5
Administrative and support services	15.4
Public administration and safety	18.1
Education and training	12.3
Health care and social assistance	20.1
Arts and recreation services	3.4
Other services	10.4
Total	381.4 ^a

^a Difference due to rounding errors.

Source: ABS 6105.0 — *Australian labour market statistics* (July 2014).

With job insecurity rising and the threat of retrenchment ever present, employees find themselves under increased pressure to perform in their positions. Many feel compelled to work longer hours and push themselves harder in order to prove their worth to their employers. This may create stressful and unsustainable workplaces, and have an adverse impact on employees' personal lives.

The rising rate of retrenchment in Australia has also increased competition for job vacancies. There is always only a finite number of job vacancies in the economy. As at May 2014, this number was 146 100. A higher number of retrenchments results in a higher number of people applying for these vacant positions. Such increased competition has both positive and negative consequences. Employers often see this competition in a positive light — it can result in a higher quality of applicant and more dedicated employees. Employees are more likely to see this competition in a negative light — it can increase workplace stress and also result in longer periods of unemployment if they lose their jobs. In this way, competition for employment can dramatically influence an employee in the workplace.

Resources



Explore more with this weblink: [Car manufacturing](#)

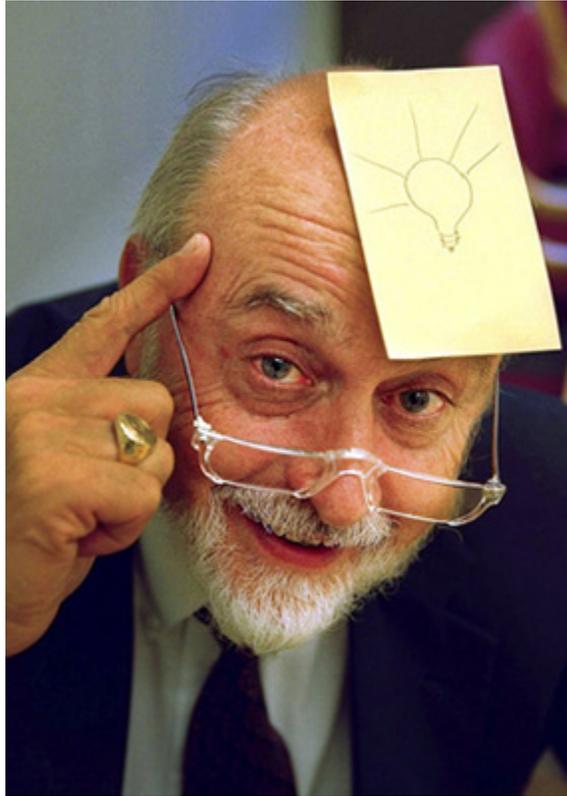
5.3.4 The rise of the intrapreneur

Employers constantly seek a **competitive advantage** in their industries. As a result, it is now expected that employees will actively seek ways to improve not only their own roles, but also the general functioning of the entire business. An employee who develops their own ideas for the financial benefit of their employer is known as an intrapreneur. (An entrepreneur, in contrast, is self-employed and develops ideas for the benefit of their own business.)

The word was first used in the 1970s, and today there are many famous examples of intrapreneurship. The indispensable sticky note was invented in 1968 by an employee of stationery giant 3M. The 3M scientist invented a reusable adhesive that led to the creation of the sticky note. The Sony PlayStation and the Java programming language also resulted from employees demonstrating initiative in the workplace.

There are often financial incentives and rewards for employees who demonstrate intrapreneurship. Employees also receive non-financial rewards, such as the opportunity to use a broader set of skills and show creativity in the workplace. The benefits of these last two points should not be underestimated. 3M values intrapreneurship so much that employees are allowed to spend 15 per cent of their time working on their own projects.

FIGURE 3 Sticky note inventor, Arthur Fry



5.3.5 A global workplace

Imagine you're happily working at your desk in the near future when your boss calls you into her office and says, 'How would you like to work in our New York office for six months?' The emergence of a truly global economy means that opportunities like this occur every day. If you are lucky enough to work for a multinational company, it is likely that you will be asked to visit or work in a number of locations around the world. In 2013 alone, over \$1 trillion was spent by individuals and companies on business trips. This remarkable figure reflects the changing nature of modern working environments. Employees are frequently presented with incredible opportunities which further their careers at the same time as exposing them to new places and cultures.

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Explore more with this weblink: [World air traffic](#)

5.3 ACTIVITIES

REMEMBER

1. What kind of document describes the specific duties and responsibilities of an employee?
2. What are the positive impacts of a global economy on employees?

EXPLAIN

3. How has increased competition for jobs affected the Australian workplace?
4. What is an intrapreneur? Provide an example in your answer.

THINK

5. [Table 1](#) shows the number of retrenchments by industry in 2013. Use the data in the table to answer the following questions:
 - a. Which three industries shed the most number of jobs in 2012?
 - b. Provide a likely explanation for the downturn in each of these industries.

PREDICT

6. In question 5, you used the data in [table 1](#) to rank the three worst performing industries. Now use the same data to predict which other industries are showing negative signs. Once you have identified these struggling industries (choose at least three), suggest what governments could do to rectify these patterns.

5.4 Employer responsibilities in the workplace

5.4.1 The best places to work

Each year the business magazine *Business Review Weekly* (BRW) publishes its list of companies with the best work environments in Australia. The 2014 top ten consists mainly of companies that are not well known to the general public. You have probably never heard of most of them. What these companies have in common is that they take their responsibilities to their employees very seriously. These employers view employee satisfaction as crucial to the success of the company itself. From free personal training and education programs to generous salaries, smart employers will provide the best possible work environments for their employees.

FIGURE 1 Google offices like this one in Tel Aviv (Israel) are known for their quirky design.



There are also official workplace responsibilities designed and enforced by government, and every employer in Australia must abide by them. We identify and discuss these responsibilities in this section.

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Explore more with this weblink: Best places to work in Australia

5.4.2 Workplace health and safety

Whether employees spend their day working at a computer or harnessed to a tree, employers are obliged to provide safe working conditions. They have a **duty of care** to provide proper training programs, equipment and facilities for their employees. The nature of this support, known as workplace health and safety (WHS), is determined by the duties undertaken by the employee. For an office worker, this may require the provision of an ergonomic work station and regular breaks. For a tree lopper, this could necessitate more complex training programs and proper safety equipment.

WHS law is described in the *Work Health and Safety Act 2011*. This Commonwealth legislation has corresponding state government Acts, with each state responsible for running its own WorkCover/WorkSafe authority. These government organisations hold employers to their WHS responsibilities. They conduct random spot checks on employers, imposing fines and other penalties should any breaches be found. WorkCover also serves to protect employees who suffer injuries resulting from an employer's negligent behaviour. If any such injuries occur, it is also the employer's responsibility to provide suitable alternative work for the injured worker. Mental health issues as well as workplace harassment and bullying are also covered by the federal Act.

FIGURE 2 WorkSafe officials conduct spot checks to ensure that employers are providing safe working environments



5.4.3 National Employment Standards (NES)

All Australian employers must abide by the ten national employment standards (NES). Developed under the *Fair Work Act 2009*, these standards were established to protect the fundamental rights of Australian workers. It is therefore the responsibility of all Australian employers to follow the NES. Failure to comply with the standards can result in fines for individuals or companies. The details of the NES are listed in [figure 3](#).

FIGURE 3 Entitlements under the ten national employment standards

The ten NES entitlements

- **Maximum weekly hours of work** — 38 hours per week, plus reasonable additional hours.
- **Requests for flexible working arrangements** — an entitlement allowing employees in certain circumstances as set out in the *Fair Work Act 2009* to request a change in their working arrangements because of those circumstances.
- **Parental leave and related entitlements** — up to 12 months' unpaid leave per employee, plus a right to request an additional 12 months' unpaid leave, plus other forms of maternity, paternity and adoption related leave.
- **Annual leave** — four weeks' paid leave per year, plus an additional week for certain shift workers.
- **Personal/carer's leave and compassionate leave** — 10 days' paid personal/carer's leave, two days' unpaid carer's leave as required, and two days' compassionate leave (unpaid for casuals) as required.
- **Community service leave** — unpaid leave for voluntary emergency activities and leave for jury service, with an entitlement to be paid for up to ten days for jury service.
- **Long service leave** — after working at an organisation for an extended period of time, employees qualified for a prolonged period of paid leave.
- **Public holidays** — a paid day off on a public holiday, except where reasonably requested to work.
- **Notice of termination and redundancy pay** — up to five weeks' notice of termination and up to 16 weeks' severance pay on redundancy, both based on length of service.
- **Provision of a Fair Work Information Statement** — must be provided by employers to all new employees, and contains information about the NES.

Source: Adapted from Fair Work Ombudsman factsheet, *Introduction to the national employment standards*.

DISCUSSION

The maximum weekly hours of work in Australia are set at 38, plus reasonable additional hours. However, many workers find themselves under pressure to consistently work longer hours. Do you think the 38-hour guideline is fair? What do you think reasonable additional hours are?

5.4.4 Taxation and superannuation

From small family businesses to large corporations, all Australian employers have taxation and **superannuation** obligations. Employers must provide staff with necessary taxation documentation and ensure they are taxed at the correct amount. Adequate records of tax withheld must be kept and passed on to employees at the end of each financial year. Employers are also required to lodge the company's own taxation documents.

Australian employers must also make regular contributions to their employees' superannuation accounts. Each pay period, a small proportion of money is diverted into a retirement fund mandated by the federal government. (The minimum amount from July 2014 was 9.5 per cent of each employee's income.) This fund is known as superannuation and is paid to all employees over 18 years of age. While employees are allowed to make additional payments to their own superannuation accounts, it is an employer's responsibility to make at least a minimum payment for each employee. Many superannuation funds invest this money for the employees. In this way, an employee's superannuation fund can grow significantly over time.

FIGURE 4 Superannuation is intended to provide a 'nest egg' that grows over a person's working life and accumulates enough money for them to live on when they retire.



5.4 ACTIVITIES

REMEMBER

1. What duty of care do employers have towards their employees?
2. What are the national employment standards (NES)?

EXPLAIN

3. What is superannuation and why is it important for an employee?
4. Explain how WorkCover/WorkSafe can help injured workers.

THINK

5. Consider your own part-time job (or that of a friend if you do not have one yourself). What occupational dangers and risks are there at your workplace? What training and instruction have you had to minimise these risks?
6. Provide one argument for and one against the idea of compulsory superannuation.
7. Are there any entitlements described under the NES which you believe are unnecessary? Justify your response.

5.5 Government responsibilities in the workplace

5.5.1 Passing workplace legislation

Federal, state and (to a lesser extent) local governments are involved in developing and implementing the laws that facilitate effective workplaces. The *Fair Work Act 2009*, the *Work Health and Safety Act 2011*, as well as the various acts relating to anti-discrimination, are all examples of legislation that protects the rights and conditions of Australian workers. Discrimination on the basis of age, race, gender and sexual orientation are all subject to stringent federal and state legislation. Governments have a responsibility to make laws such as these to ensure the health and safety of employees and the productivity of the Australian economy. In this subtopic, we examine the responsibilities of government in the Australian workplace.

FIGURE 1 ‘Brodie’s law’ was established after incessant workplace bullying led teenager Brodie Panlock to suicide.



5.5.2 Generating growth

Economic growth, as measured by **gross domestic product (GDP)**, creates employment and generates income. High growth usually translates to low unemployment. By stimulating growth the government helps to keep people employed and earning incomes, and the businesses that employ them operating and making profits. You could argue that generating economic growth is one of the most important roles played by government in the workplace.

The problem in Australia as elsewhere in the developed world is the ageing of the population. According to a federal government report published in 2010 (*Australia to 2050: future challenges*):

- In 1970 there were 7.5 people of working age supporting each Australian over 65.
- In 2010 there were 5 people of working age supporting each Australian over 65.
- In 2050 it is predicted at current trends there will be only 2.7 people of working age supporting each Australian over 65.

Where will we find the people to do all the jobs that keep the nation running? Without enough people in the workforce, an economy can cease to function and an entire country can be crippled.

It is the responsibility of government to develop and implement policies that avert this projected decline. It must redesign the vehicle that is the Australian economy to ensure it is heading in the right direction. Possible strategies include the funding of training and education programs, as well as programs targeting skilled migrants.

FIGURE 2 Governments create a system which allows for workplace agreements to be negotiated between employers and employees.



5.5.3 Negotiating workplace agreements

Governments are also heavily involved in negotiating workplace agreements with various professions. Workplace agreements can take several forms. Essentially, they document the terms and conditions of employment between an employee (or group of employees) and their employer. Professionals in the public service such as teachers, nurses and paramedics regularly negotiate agreements with their state governments. It is the responsibility of these governments to work with employees and trade unions to develop fair and equitable agreements. Such negotiations are often challenging and sometimes lead to industrial action. While these actions can be disruptive, they can also be necessary for meaningful change to occur.

5.5 ACTIVITIES

REMEMBER

1. What is gross domestic product and how is it calculated?
2. What is a workplace agreement? Why are workplace agreements important?

EXPLAIN

3. Explain how governments can generate economic growth.

THINK

4. Imagine you are a government adviser. In order to boost employment rates in Australia, which areas of the Australian economy would you prioritise? For example, would you encourage the immigration of skilled workers, or invest in education and training programs?

5.6 SkillBuilder: Preparing a résumé

5.6.1 Tell me

The first step in gaining employment is applying for a job. To do this, you will need a résumé: a short summary of your skills, experience and qualifications. (It is also known as a curriculum vitae, or CV.) A résumé is a crucial part of the job application process, and yours needs to stand out from the résumé of everyone else who has applied for the same position. With so many applicants, a poorly presented or badly written résumé may be the difference between getting the job and not even getting an interview! Employers are not concerned with fancy résumés, nor do they want to spend 20 minutes reading your entire life story. They are often put off by résumés with photographs and will not consider your application if you don't have the necessary skills. An effective (and ultimately successful) résumé will be:

- brief and succinct
- relevant to the position for which you are applying
- a strong and confident description of your skills, experience and qualifications.

The following SkillBuilder will explain the various components of a résumé and present examples and templates on which you can model your own résumés.

FIGURE 1 Your résumé needs to stand out from the crowd to secure the interview that eventually leads to the job.



Let us now examine the elements of an effective résumé.

Length

An effective résumé should be between one and two pages long. Remember that your résumé is merely a summary and an introduction to who you are as a prospective employee. If there is other important information that you wish to provide, you can do so through a cover letter or during the interview process. Do not be concerned if your résumé is only one page long. Some people are tempted to add irrelevant information simply to make a résumé longer and seem more impressive. This is a common résumé mistake and can impede your chances of getting the job.

Order

The order of your résumé is important and the information in it should flow logically. Use the following list as a guide:

- contact details
- opening statement/career overview
- key skills and personal attributes
- employment history
- education
- referees.

Contact details

Begin with your name, possibly in a slightly larger font than the rest of your résumé. You want to make a bold and positive impression from the first time an employer sees your résumé! You only need to provide your phone number and email address on a résumé. Make sure that your email address is professional and does not include any nicknames or inappropriate words and phrases. An address such as john.smith@jacarandamail.com would be more suitable than one such as smithy9999@jacarandamail.com.

Opening statement/career overview

A component usually seen in the résumés of older professionals, a brief opening statement or career overview can add a touch of maturity to your résumé. If you choose to include this component, make sure it is relevant to the position. There is no point explaining your experience and passion for babysitting if you are applying for a job as a dog washer.

Key skills and personal attributes

This section can be included as a simple bullet-point list of your relevant skills (including any technical skills) and personal attributes. You need to list the skills for which this particular employer is looking. In other words, the skills you list for one job application may differ from those you list for another, depending on the job requirements. Many applicants use the same résumé, changing only the employer name and job title (and sometimes forgetting to do even this), and then wonder why they have no success in their job hunting. Do not make this mistake.

Employment history

The convention for listing your previous jobs is to start from the most recent position and work backwards to the oldest. For each position you should provide the job title, the name of the employer and the dates (in months or years) during which you worked. You can also include a bullet-point summary of the main responsibilities of each job held.

Education

There is no need to list your entire educational history in a résumé. Instead, you need only include the highest level of education you have obtained. It is also a good idea to describe any achievements or positions of responsibility which you may have had during your time at school.

Referees

Ideally, at the end of your résumé you should include the names of two people who are willing to provide references. A reference is a written or verbal testimony about you by someone (the referee) who knows you well or for whom you have worked. One referee should be a past employer who can attest to your work ethic and professional performance. The second referee could be from a non-employer (such as your sporting coach or former teacher/principal) who can vouch for your character and personality. Make sure that you ask your referees for permission before listing them on your résumé.

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Explore more with this weblink: How to write a résumé

5.6.2 Show me

Figure 2 contains the résumé of a Year 11 student who is applying for a casual position at a veterinary clinic. Consider how this student uses the components we have just discussed.

FIGURE 2 Résumé of Chris Fernandez

Résumé of Chris Fernandez

Contact details
Email: chris.fernandez@pcaranbanal.com
Mobile: 0400 000 000

Career overview
Current Year 11 student seeking career opportunities in veterinary sciences. Highly motivated and passionate individual with demonstrated experience working in high-pressure working environments. Dedicated to the health and wellbeing of animals and to the emotional welfare of their owners and families. Strong communication skills and the ability to learn quickly and effectively.

Key skills and personal attributes

- Customer service
- Relevant scientific background
- Caring and enthusiastic personality
- Proficiency in Microsoft Office Suite
- Verbal and written communication skills
- Occupational health and safety procedures
- Point-of-sale experience
- Proficiency in Macintosh operating environments

Employment history
McDonald's Restaurant (2013–present)

- Customer service: Provided customer service at register. Responded to all customer enquiries, providing support and guidance as required.
- Cash management: Ensured accurate management of all cash and electronic sales.
- Stock control: Conducted regular and thorough stocktake of inventory.

Achievements

- Employee of the Month, November 2013 and April 2014

Education
Hearthack Secondary College
Years 7 to 11 (current)

Current subjects
Biology, Chemistry, Physics, English and Geography

Achievements
House Captain (2014), Debating Captain (2013–14), Student Environmental Group Coordinator (2012–13)

Volunteer placements
Green Valley Animal Shelter (2013–present)

- Customer Service: Responded to incoming calls and customer inquiries. Liaison between customers and veterinary clinics.
- Practical duties: Cleaning of pens, involvement with welfare of animals.

Referees

Peter Parker Franchise Manager McDonald's Green Valley Phone: 01 9555 5555	April O'Neill Manager Green Valley Animal Shelter Phone: 01 9555 5554
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5.6.3 Let me do it

5.6 ACTIVITIES

Using the example in [figure 2](#) as a guide, create your own résumé. Make sure you follow the guidelines as to what to include and what to omit from your résumé. If you are happy with the final product, why not print off some copies and deliver them to businesses in your area at which you might like to work? Good luck!

5.7 Review

5.7.1 Summary

The Australian workplace is a dynamic environment. It is shaped by a host of important participants including employers and their employees, governments and independent organisations such as trade unions. Each of these participants has a range of responsibilities. The fulfilment of these duties keeps the Australian economy moving in a positive direction. As our economy grows, it continues to become part of the larger global economy. This developing relationship has created new opportunities for individuals in the workforce. Employees in many industries benefit from the increased use of technology in the workplace and more flexible working hours and conditions. The global workplace is a creative workplace and one that fosters diversity and inclusion. The Australian community benefits as these positive elements of the changing Australian workplace filter through to the community level.

- Australian workplaces are ever-changing, dynamic environments.
- All participants in the Australian workplace have their own responsibilities.
- As Australia's place in the global economy grows, the roles of individuals and organisations in our workplaces will continue to develop accordingly.

5.7.2 Your turn

5.7 ACTIVITIES

A cost/benefit table is a method of analysis frequently used in the business world. [Table 1](#) is an example of a cost/benefit table applied to school attendance.

TABLE 1 Cost/benefit table for attending school

Costs	Benefits
<ul style="list-style-type: none">● Waking up early● Wearing a uniform● Too much homework● Not enough free time● Peer pressure● School fees and other financial costs	<ul style="list-style-type: none">● Making lifelong friends● Learning new skills and knowledge● Co-curricular opportunities● Preparation for life after school● Sport● The school canteen

In 2014, car manufacturer Toyota announced it would be shutting down the bulk of its Australian operations. While the company will maintain a presence in Australia, cars will no longer be produced by Australian workers. This move follows the trend set by other car companies and large-scale manufacturers. In order to understand this decision, complete a cost/benefit table for Toyota's Australian operations using the example in [table 1](#) as a guide. Remember that the costs to Toyota of continuing to manufacture cars in Australia could be financial pressures or any other negative consequences of this activity. The benefits could be financial benefits or any secondary positive consequences.

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Try out this interactivity: [True/false](#)

Searchlight ID: [int-5560](#)



Try out this interactivity: [Crossword](#)

Searchlight ID: [int-5561](#)

GLOSSARY

age pension regular payments made to elderly people to support them in retirement

agent a person acting for another in a business transaction

balance of trade the difference between the value of a country's exports and the value of its imports over a specific period of time

bankruptcy a legal process that declares that a person cannot pay their debts and allows them to make a fresh start

blended marketing a mix of internet and traditional marketing methods

capital growth an increase in the value of an asset

capital physical resources owned by a business and used in production, including factories, machinery and equipment

chief executive officer (CEO) the most senior position in an organisation

competitive advantage occurs when a business is able to produce and sell goods or services better than its competitors

competitive market a market where a large number of businesses compete with each other to satisfy the demands of a large number of customers

consumers a person or group that is the final user of goods and services produced in an economy

corporate social responsibility a duty for management to take into consideration the broader social welfare of the community, including its people and the environment, when making business decisions

debt a financial obligation to repay money owed

demand the amount of a particular good or service that a customer will want to purchase at a given price

deregulation the process of removing or reducing government regulatory controls

differentiation making a product stand out by providing unique or superior value to customers in comparison with competitors' products

dividends company profits paid to shareholders, in cash or in additional shares, in proportion to the number of shares they already own

duty of care the legal obligation of employers for the health and wellbeing of their employees

economic entities any person or organisation engaged in economic activity. It could be an individual, a household, a business, a government or a country.

economic system the system that coordinates the production and distribution of goods and services

economy all activities undertaken for the purpose of producing, distributing and consuming goods and services in a region or country

enterprising behaviours behaviours which an enterprising individual will possess, including being creative, inquisitive, innovative, imaginative and good at problem solving

entrepreneurs people who have an innovative idea, and from this start their own business

exports goods and services sold by local businesses to overseas consumers

financial intermediaries any organisation that takes deposits from those with surplus funds and makes those funds available to borrowers

financial risk the chance that a financial decision may result in a loss or inadequate return

fraud a criminal offence where one person deliberately tricks another to gain personal advantage

gross domestic product (GDP) the total value of all goods and services produced in a country in a given period of time (usually a year)

gross wage a person's wage or salary before it is taxed by the government

imports goods and services purchased by local consumers from overseas businesses

industrial action official protest activities (such as strikes and go-slows) undertaken by members of trade unions, usually with the aim of improving or protecting the working conditions of their members

innovation adding a new product (which can be a good or service) to an existing product line, or significantly improving an existing product or process

insurance an arrangement where an insurer promises to compensate the insured person for specific potential losses in the future in exchange for a periodic payment called a premium

intrapreneur an employee of a business who demonstrates the qualities and skills of an entrepreneur

inflation a general rise in prices across all sectors of the economy

Inflation a general rise in prices across all sectors of the economy

interest an amount that is paid regularly for the use of borrowed money, usually expressed as an annual percentage of the sum of money lent (the interest rate)

input the resources — including materials, equipment and labour — used in the process of production

invention the development of something new

investment the use of money to purchase equipment or premises for the establishment of a new business or the expansion of an existing business

inventory the goods and materials held as stock by a business

just-in-time an inventory system that ensures the correct materials arrive just as they are needed in the operations process

labour the human skills and effort required to produce goods and services

market any organised exchange of goods, services or resources between buyers and sellers

marketing the process of planning and executing the development of the product as well as its pricing, promotion and distribution

Materials management an operations strategy that manages the use, storage and delivery of materials to ensure the correct number of inputs is available to the operations system when required

mortgages money advanced by a bank, credit union or building society to a person for the purchase of a house or other property. The property itself is used as security for the loan, allowing the lender to seize the property if the borrower fails to make the regular repayments.

mortgage loan money advanced to a person for the purchase of a house or other property, where the property itself is used as security for the loan. This means the bank or other lender can take possession of the property if the borrower fails to make the regular repayments.

multinational company an organisation with interests and offices in several countries

offshoring the practice of relocating a business's processes from one country to another, to take advantage of lower costs

open innovation the use of internal and external ideas by a business to improve its processes or products

operations the area of a business that consists of all the activities engaged in producing goods and services

opportunity cost what you have to give up if you choose to do A rather than B; the value of the next best alternative that is given up whenever a choice is made

outsourcing reducing costs by transferring tasks normally completed by the business to outside suppliers

output the end result of a business's efforts; the good or service that is delivered or provided to a consumer

position description a document that explains the duties and responsibilities of an employee

producers individuals and businesses involved in the production of goods and services

profit what remains after all business expenses have been deducted from the money that has been collected from selling goods and services

profit margin an indicator of the financial health of a business, expressed as a percentage, that measures the amount of profit that a business earns from the sales of its product

productivity a measure of efficiency; the amount of output produced compared to the amount of input required in production

profit what remains after all business expenses have been deducted from the money that has been collected from selling goods and services

profit margin an indicator of the financial health of a business, expressed as a percentage, that measures the amount of profit that a business earns from the sales of its product

quality the degree of excellence of goods or services and their fitness for a stated purpose

recession a period of decline in economic growth when GDP decreases

relative scarcity the economic problem of having unlimited needs and wants with only limited means to satisfy them

repossessed a legal process by which an item can be reclaimed to cover the cost of a debt

research and development (R&D) refers to activities undertaken to improve existing products or create new products

resources the land, labour, capital and enterprise used to produce goods and services that satisfy needs and wants. Production usually requires a combination of these resources.

restructure to significantly modify the management or ownership structure of a company

retrench to remove a person from their job, usually because of the employer's cost cutting or difficult economic circumstances

sharemarket a market for trading shares in listed companies; also called a stockmarket

shares units of ownership in a company that entitle the possessor of the shares (the shareholder) to a proportion of any profits that the company makes

social media the websites, platforms and applications that enable users to interact in virtual networks and communities and create, share or exchange information and ideas

social report a report outlining what a business has done, and is doing, to meet its corporate social responsibilities

superannuation a retirement fund mandated by the government

superannuation fund an account that accepts, holds, invests, accumulates and eventually distributes superannuation contributions made by employees, their employers or the government

superannuation funds organisations that receive a combination of employer and employee contributions so that money can be accumulated for the employees' retirement

transfer pricing when one subsidiary of a transnational corporation charges another subsidiary for providing goods or services, often resulting in profits being moved between different countries to avoid the payment of tax on those profits

transnational corporations (TNCs) large business organisations that have a home base in one country and operate partially or wholly owned businesses in other countries