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ECONOMICS AND BUSINESS ALIVE

9

VICTORIAN CURRICULUM | SECOND EDITION



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BUSINESS ALIVE** 9
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Second edition published 2020 by
John Wiley & Sons Australia, Ltd
42 McDougall Street, Milton, Qld 4064

First edition published 2017

Typeset in 11/14 pt TimesLTStd

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ISBN: 978-0-7303-7843-3

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Front cover image: © Shustriks/Shutterstock

Illustrated by various artists, diacriTech and Wiley Composition Services

Typeset in India by diacriTech

Printed in Singapore by

Markono Print Media Pte Ltd



A catalogue record for this
book is available from the
National Library of Australia

10 9 8 7 6 5 4 3 2 1

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HOW TO USE

the *Jacaranda Economics and Business Alive* resource suite

The ever-popular *Jacaranda Economics and Business Alive for the Victorian Curriculum* is available as a standalone Economics and Business series or as part of the *Jacaranda Humanities Alive* series, which incorporates Economics and Business, History, Geography, and Civics and Citizenship in a 4-in-1 title. The series is available across a number of digital formats: learnON, eBookPLUS, eGuidePLUS, PDF and iPad app.

Skills development is integrated throughout, with key skills targeted through SkillBuilders.

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

Features

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

Topics open with an **inquiry question** to spark students' curiosity about the topic.

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

OnResources feature boxes provide guidance about additional resources online.

SkillBuilders, Thinking Big research projects and Reviews are available online for every topic.

Corrective feedback and sample responses are available online for every question.

Skills keys identify each question according to the skill targeted, providing insights into skills development. Progress and results can be tracked and filtered by skill online.

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

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

2 Managing financial risk

2.1 Overview

Spend, save or invest? What are the ways to minimise financial risk and hold onto your hard-earned money?

2.1.1 Balancing risks and rewards

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.



On Resources

- eWorkbook** Customisable worksheets for this topic
- Video eLesson** Managing risk (10:23:00)

LEARNING SEQUENCE

- 2.1 Overview
- 2.2 Banks and other deposit-taking institutions
- 2.3 Different types of investment
- 2.4 Protection from financial risk
- 2.5 Managing debt
- 2.6 **SkillBuilder:** Reading a sharemarket chart
- 2.7 **Thinking Big research project:** Share investment – a risky business?
- 2.8 **Review**

To access a pre-test and starter questions and receive immediate, **corrective feedback** and **sample responses** to every question, select your learnON format at www.jacplus.com.au.

1.11.5 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:

- Do not use forced or compulsory labour.
- Respect the rights of children to be protected from economic exploitation.
- Provide a safe and healthy working environment.
- Pay workers enough to ensure an adequate standard of living for them and their families.
- Recognise the rights of employees to join unions and other collective bargaining organisations.

On Resources

- WebLink** Tax Justice Network

1.11 ACTIVITY

Use the **Tax Justice Network** weblink in the Resources tab 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.

Examining, analysing, interpreting
Reasoning, creating, proposing

1.11 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and realising **ES5** Reasoning, creating **ES6** Communicating, reflecting

1.11 Exercise 1: Check your understanding

1. **ES1** Define the term transnational corporation and provide three examples.
2. **ES2** What is an economic entity? Give two examples.
3. **ES3** Which TNC is the most internationalised in the world, and what percentage of its sales occur outside its home country?
4. **ES5** What type of economic or business activity involves most of the largest transnational corporations? (Hint: Refer to **TABLE 2**.)

1.11 Exercise 2: Apply your understanding

1. **ES2** 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.
2. **ES6** 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?
3. **ES6** Why do you think the United Nations thought it necessary to draw up a code to govern TNC behaviour?
4. **ES3** What short-term and long-term benefits do you think could result for a TNC that always behaved ethically and respected human rights?
5. **ES3** A difficulty with TNCs is policing their activities when they breach local laws. Analyse why this may be a problem for some countries.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

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

3.4 ACTIVITY
Undertake research on one business that has tried to develop a culture of innovation among its staff. Use your research to:

- Identify the business
- Outline the products and services delivered by the business
- Describe the strategies the business has used to encourage a culture of innovation
- Recommend some strategies that you think would further assist the business in developing a culture of innovation.

Examining, analysing, interpreting

3.4 EXERCISES
Economics and Business skills key: E51 Remembering and understanding E52 Describing and explaining E53 Examining, analysing, interpreting E54 Questioning and evaluating E55 Reasoning, creating, proposing E56 Communicating, reflecting

3.4 Exercise 1: Check your understanding

- Why do businesses need to encourage entrepreneurial behaviours?
- Define the term *intrapreneur*.
- Identify three strategies used to encourage entrepreneurial behaviours.
- Explain how a business can encourage a culture of innovation.
- Explain the benefits for businesses of decentralising their decision-making.

3.4 Exercise 2: Apply your understanding

- Explain how training and development can encourage entrepreneurial behaviours.
- Isa is Google's '20% time' rule an effective way to maximise the output of employees? Provide some arguments for and against the policy.
- ES6 'A person is either entrepreneurial or not, and no amount of reward can influence that.' Do you agree or disagree with this statement? Provide reasons to support your response.
- ES3 'Providing employees with time to be "entrepreneurial" is a risk.' Write a paragraph analysing this statement.
- ES8 Explain how you might use a period of time equivalent to Google's '20% time' in your school day.

Try these questions in *learnON* for instant, corrective feedback. Go to www.jacplus.com.au.

3.5 SkillBuilder: Creating a mind map

What is a mind map?
A mind map is a visual tool that is used to organise and present large amounts of information. It can be used for a range of tasks such as note-taking and organising research for an assignment.

Select your learnON format to access:

- an explanation of the skill (Tell me)
- a step-by-step process to develop the skill (Show me)
- an activity to allow you to practise the skill (Let me do it).

Skillbuilders model and develop key skills in context.

FIGURE 6 Internal and external training and development methods

3.4.7 Rewards

Some people believe that creativity, innovation and entrepreneurship cannot be fostered or encouraged simply through the use of rewards. They believe that entrepreneurship is *innate*, and that rewards may actually inhibit creativity and innovation. However, many businesses have a range of reward systems that are designed to encourage entrepreneurial behaviours. Good rewards systems should be tailored to suit the specific needs of the business and its employees. Rewards can be monetary or non-monetary in nature, and a reward that motivates one employee may not have the same impact on other employees. Various types of reward are identified in **FIGURE 7**.

One example of a business with a clear rewards policy is 3M. Their policy involves giving awards to staff to recognise their work and achievements. The Innovator Award is given to employees who have successfully used their '15% Culture' time to create a new product, or to enhance an existing product. This reward system aims to encourage creativity, innovation and entrepreneurship among employees.

FIGURE 7 Monetary and non-monetary rewards

FIGURE 8 3M uses rewards systems to encourage entrepreneurial behaviours among its employees.

DISCUSS

Creativity is seen by many employers as the most desirable trait that they look for in employees, but it is also one of the most difficult to define and measure. How do you think you could measure creativity?
[Critical and Creative Thinking Capability]

Discuss features explicitly address Curriculum Capabilities.

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

3.6 Thinking Big research project: The next big thing!

SCENARIO
Fads come and go. Every now and then a new item hits the shops and creates a sensation – it becomes the 'must have' item that everybody wants. You will investigate past fads and bring your entrepreneurial talents to the fore to devise a new product designed to grab the attention of a specific target market. Can you create the next big thing?

Select your learnON format to access:

- the full project scenario
- details of the project task
- resources to guide your process work
- an assessment rubric.

Resources

ProjectsPLUS Thinking Big research project: The next big thing! (pr-0202)

3.7 Review

3.7.1 Key knowledge summary
Use this dot point summary to review the content covered in this topic.

3.7.2 Reflection
Reflect on your learning using the activities and resources provided.

Resources

eWorkbook Reflection (scc-31742)
Crossword (scc-31743)

Interactivity Being enterprising crossword (ri-7658)

KEY TERMS

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

entrepreneur a person who organises a business venture, and assumes the financial risks associated with it, usually in the hope of making a profit

innate inborn, an inherent characteristic, rather than being developed through experience

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

1.14 Review

1.14.1 Key knowledge summary
Use this dot point summary to review the content covered in this topic.

1.14.2 Reflection
Reflect on your learning using the activities and resources provided.

Resources

eWorkbook Reflection (scc-31728)
Crossword (scc-31729)

Interactivity The Australian and global economies crossword (ri-7656)

KEY TERMS

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

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

export goods and services sold by local businesses to overseas consumers

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

gross domestic product (GDP) the value of all the goods and services produced within a country in a given period of time (usually a year). It is often used as an indicator of a country's wealth.

import goods and services purchased by local consumers from overseas businesses

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

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

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

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

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.

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

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

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.

superannuation fund an account that holds and invests superannuation contributions made by employees, their employers or the government, for eventual distribution to help fund an individual's 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

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

Key terms are available in every topic review.

learnON

Jacaranda Economics and Business Alive learnON is an immersive digital learning platform that enables student and teacher connections, and tracks, monitors and reports progress for immediate insights into student learning and understanding.

It includes:

- a wide variety of embedded videos and interactivities
- questions that can be answered online, with sample responses and immediate, corrective feedback
- additional resources such as activities, an eWorkbook, worksheets, and more
- Thinking Big research projects
- SkillBuilders
- teachON, providing teachers with practical teaching advice, teacher-led videos and lesson plans.



teachON

Conveniently situated within the learnON format, teachON includes practical teaching advice, teacher-led videos and lesson plans, designed to support, save time and provide inspiration for teachers.



ACKNOWLEDGEMENTS

The authors and publisher would like to thank the following copyright holders, organisations and individuals for their assistance and for permission to reproduce copyright material in this book.

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1 The Australian and global economies

1.1 Overview

Markets, sectors, growth and trade: how are the economies of the world similar, different and interconnected?

1.1.1 Our needs and wants

We satisfy our needs and wants by acquiring goods and services. Our economic system is designed to produce the goods and services necessary to satisfy those needs and wants. However, the Australian economic system cannot produce all the goods and services we desire, so Australia is engaged in trading relationships with countries all over the world. In fact, all advanced economies rely on trade as a means of generating economic growth. 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 is because we consider the world to be a 'global economy'. This process of growing interdependence between countries is known as globalisation.

Resources



eWorkbook Customisable worksheets for this topic



Video eLesson What is economics? (eles-0253)

LEARNING SEQUENCE

- 1.1 Overview
- 1.2 Participants in the Australian economy
- 1.3 Objectives of the Australian economy
- 1.4 Indicators of economic performance
- 1.5 Trade with other economies
- 1.6 Imports and the Australian economy
- 1.7 Global events and the Australian economy
- 1.8 **SkillBuilder:** Questioning and research
- 1.9 Globalisation and the international economy
- 1.10 Global supply chains
- 1.11 Transnational corporations
- 1.12 **SkillBuilder:** Developing graphs from tables
- 1.13 **Thinking Big research project:** An international menu
- 1.14 **Review**









To access a pre-test and starter questions and receive immediate, **corrective feedback** and **sample responses** to every question, select your learnON format at www.jacplus.com.au.

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

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.

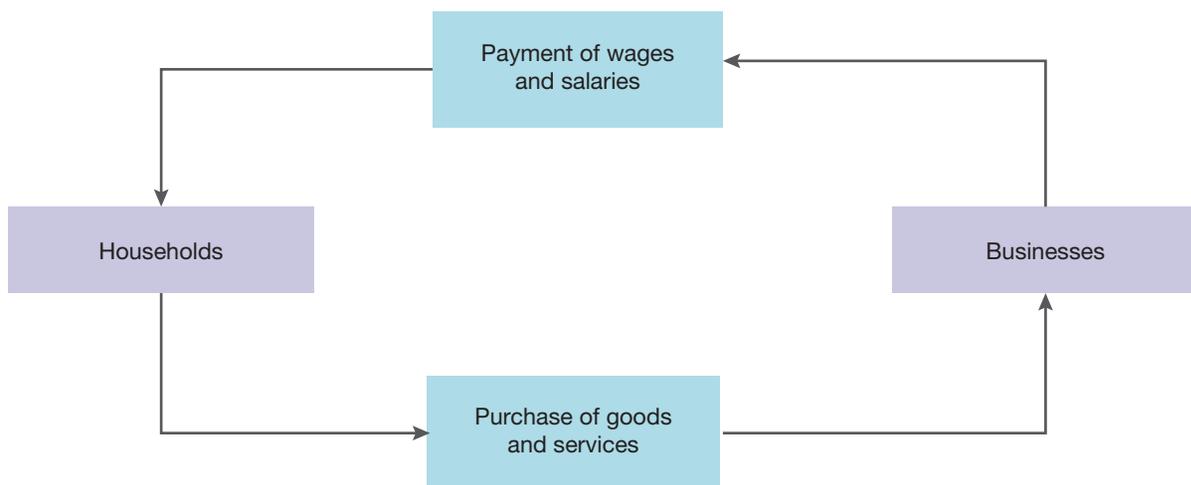
FIGURE 4 The interrelationship between consumers and business



- 1 Businesses are producers that make or supply goods and services that are distributed to households.
- 2 Consumers use money and cards 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 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.

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.

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.

FIGURE 6 Money performs four important economic functions.

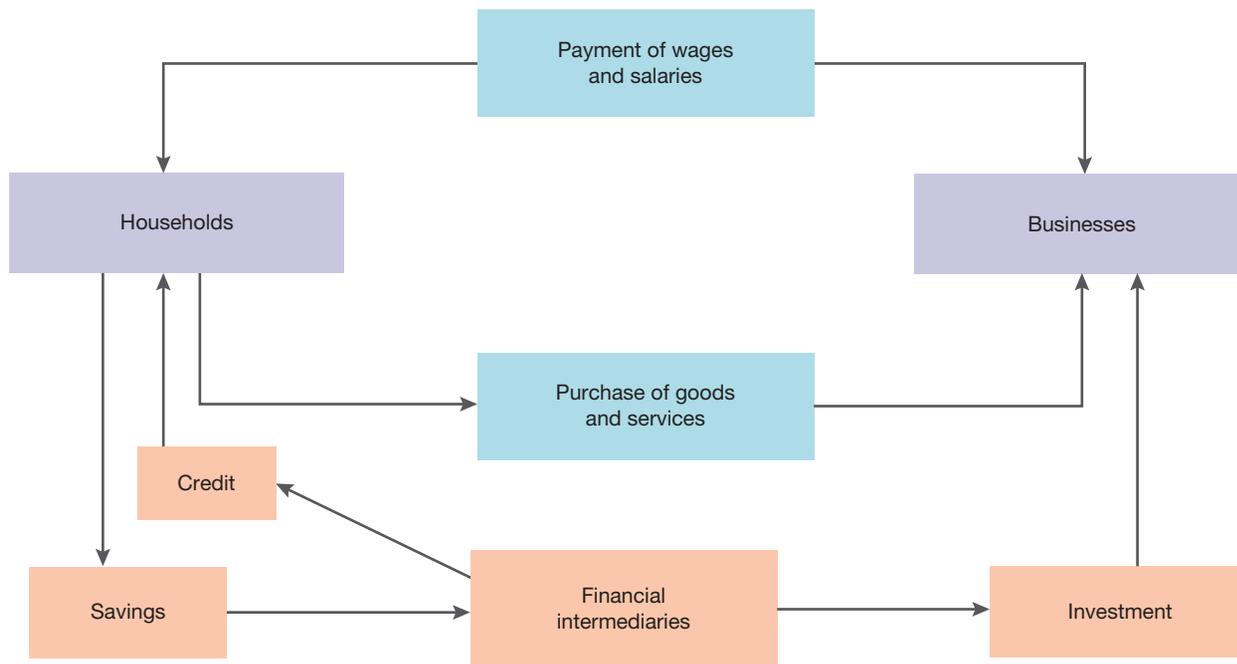


FIGURE 7 Financial intermediaries can direct savings into investment, which funds the growth of businesses.



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 the 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 also providing money for the businesses that do the actual building and thereby helping those businesses to grow and employ more people.

DISCUSS

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?

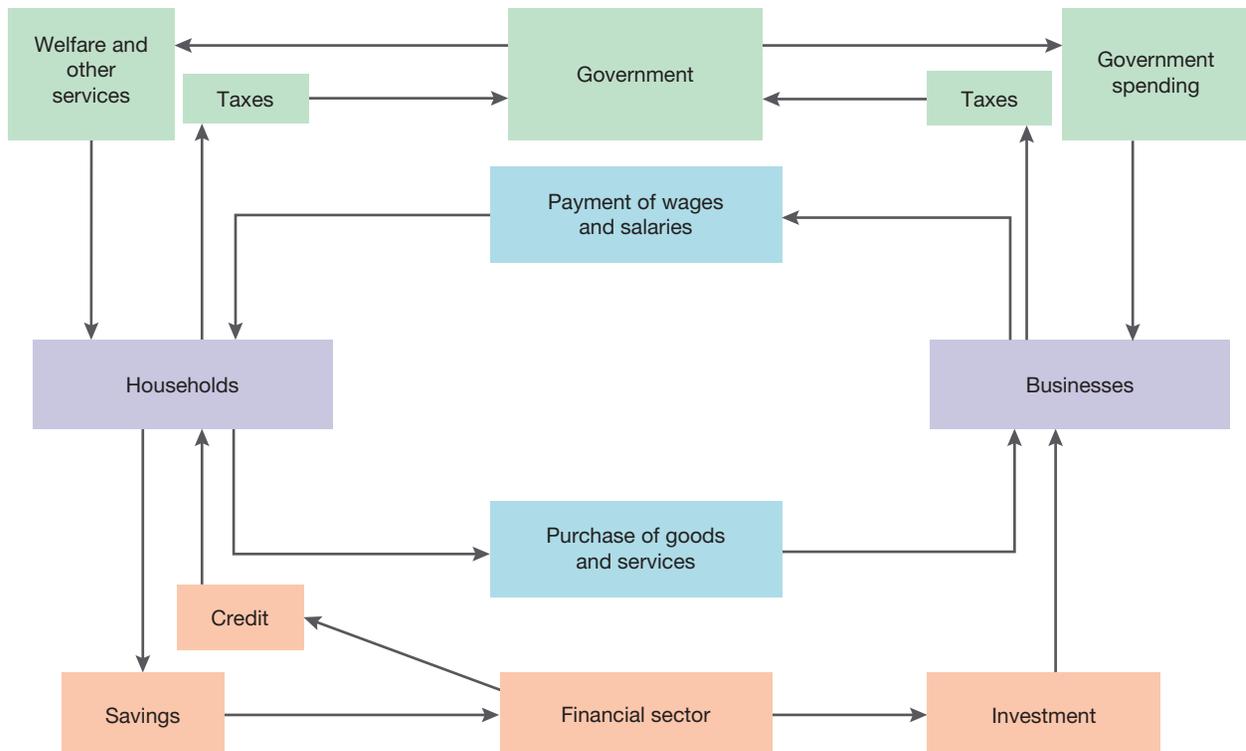
[Personal and Social Capability]

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

1. 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. **Examining, analysing, interpreting**
2. Use online resources to locate information regarding the Australian government's areas of spending. Identify and explain three areas where the federal government spends money. **Examining, analysing, interpreting**

1.2 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

1.2 Exercise 1: Check your understanding

1. **ES1** Define the following terms and provide an example of each.
 - (a) Labour
 - (b) Resources
 - (c) Consumer demand
 - (d) Financial intermediary
 - (e) Investment
2. **ES1** What do economists mean when they use the following words?
 - (a) Land
 - (b) Capital
3. **ES2** Why are the household sector and the business sector dependent on each other?
4. **ES2** Explain each of the four functions of money, and provide an example of each.
5. **ES2** How do financial intermediaries help markets to operate?

1.2 Exercise 2: Apply your understanding

1. **ES2** Explain the concept of *demand* and its importance to the business sector.
2. **ES2** Explain why it is important to consider the government sector as part of the Australian economy.
3. **ES2** Explain one way in which a government can influence the economy.
4. **ES2** Circular flow diagrams show how resources and money move around the economy. Explain why these diagrams are considered circular.
5. **ES6** 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.

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1.3 Objectives of the Australian economy

1.3.1 Satisfying needs and wants efficiently

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**. 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 the 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. Put together, these choices determine the 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 to consumers, other businesses will attempt to enter the same **market**, making or selling those goods or services that consumers have shown they wish to buy.

FIGURE 1 Changes in the market for cars saw the closure of the three remaining car manufacturers in Australia during 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 ceased in 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. 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.



DISCUSS

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?

[Critical and Creative Thinking Capability]

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.

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. 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.

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



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 will live 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.

Opportunity cost

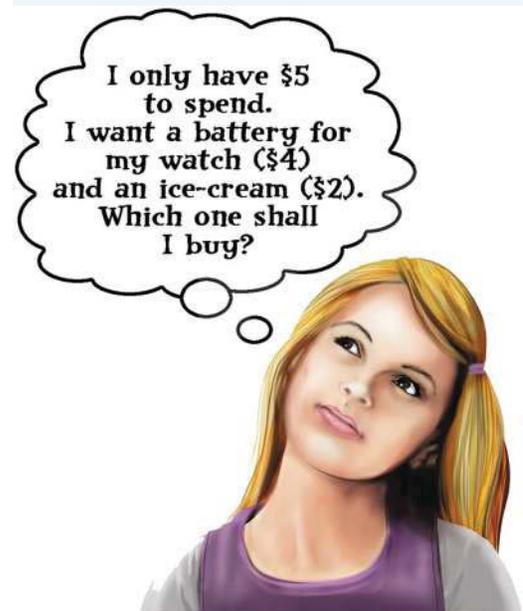
Whenever we make a choice between two or more alternatives, we may gain the benefits of the alternative we choose but we lose any benefits that may have come from choosing differently. Consider the following scenario:

You are hungry and thirsty on your way home from school, and have only \$7 to spend. A burger is going to cost \$5, a drink \$3 and a small serving of fries \$3. 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, which will satisfy your hunger more. To an economist, the real cost of choosing the burger is not the \$5 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 4 Prices can have a strong influence on which goods and services consumers will be able to buy.



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



1.3 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

1.3 Exercise 1: Check your understanding

1. **ES2** Why are choices needed in an economy?
2. **ES1** Outline the three key questions that have to be answered based on the choices made by all participants in the economy.
3. **ES1** What is a market?
4. **ES1** Identify three ways in which markets can help determine what to produce within the economy.
5. **ES2** Explain what is meant by 'for whom to produce?'

1.3 Exercise 2: Apply your understanding

1. **ES3** How can competition influence decisions made by a business about how to produce the goods or services it supplies?
2. **ES2** Explain how wages and prices work together to determine to whom goods and services are distributed in the economy.
3. **ES2** What do economists mean by the term 'opportunity cost'? Explain why opportunity cost is a natural result of relative scarcity.
4. **ES3** 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
5. **ES5** Selecting one of the businesses from question 4, give an example of opportunity cost that the business owner(s) might face.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

1.4 Indicators of economic performance

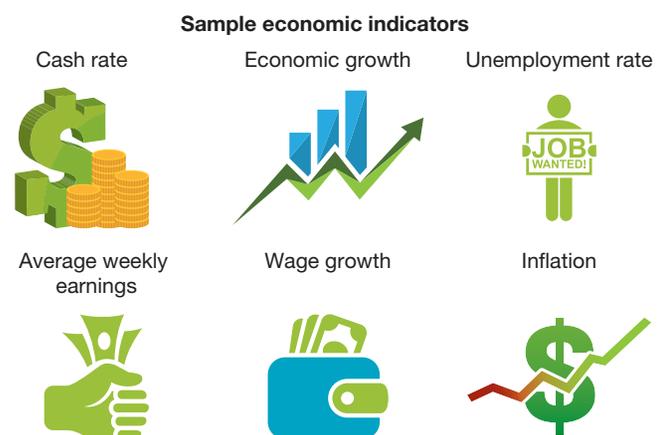
1.4.1 Indicators of economic performance

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 some of the indicators and not so well in 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 (see **FIGURE 1**). Each indicator provides a snapshot of the economy at a particular point in time and helps identify strengths and weaknesses within it.

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



As **FIGURE 1** shows, there are numerous indicators of economic performance. We will examine the following key indicators:

- 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 also 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.

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.

Generally, an acceptable rate of increase in GDP is 3–4 per cent per year. If the level of growth is less than 3 per cent, this indicates slow growth. If the level of growth is higher than 4 per cent, 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 2015 to 2018.

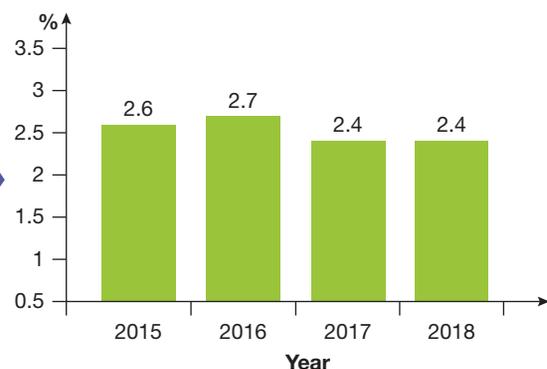
FIGURE 2 Economic growth occurs when an economy increases the volume of goods and services produced.



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



FIGURE 4 Australia's annual GDP growth rate, 2015–2018



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'.

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 person* — any person who works more than one hour per week
- *Unemployed person* — 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 Australian Bureau of Statistics (ABS) employment data for February 2019:

Number of people employed	Number of people unemployed	Total labour force (employed + unemployed)
12 762 800	673 100	13 435 900

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

$$\begin{aligned}\text{Unemployment rate (\%)} &= \frac{\text{number of unemployed}}{\text{total labour force}} \times \frac{100}{1} \\ &= \frac{673\,100}{13\,435\,900} \times \frac{100}{1} \\ &= 5.01\%\end{aligned}$$

As you can see from the example above, the unemployment rate is 5.01 per cent. This is slightly higher than the 5 per cent 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 5 Unemployed people are those who don't have a job but are actively looking for work.



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.

When there is a general increase in prices across the economy, this is known as **inflation**. 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.

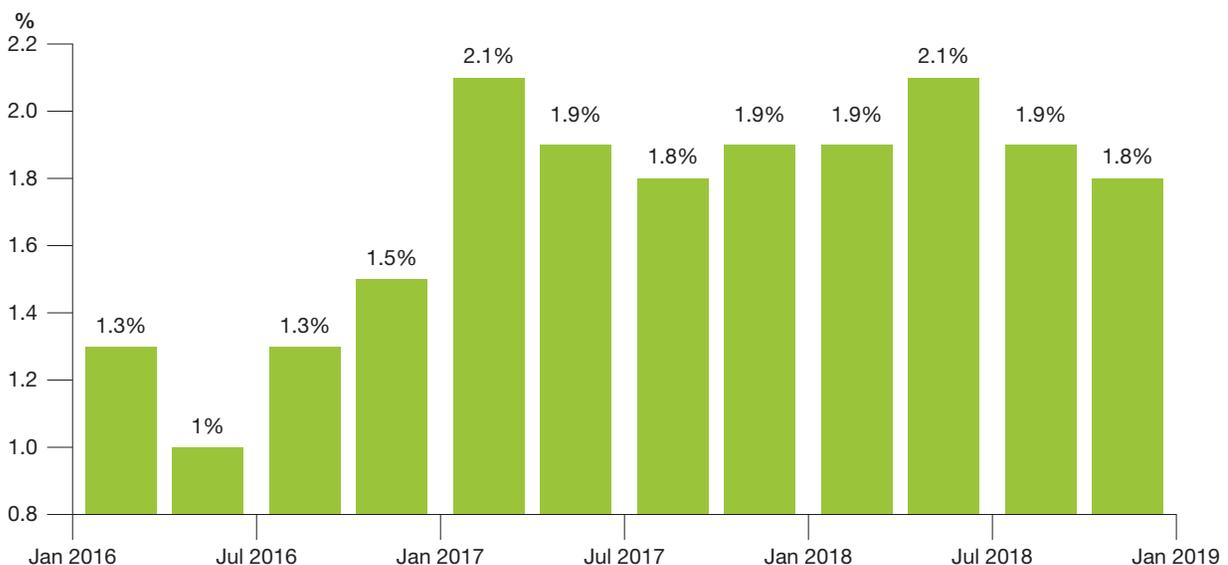
To measure inflation, the ABS calculates the Consumer Price Index (CPI). This is done by gathering data on the prices of goods and services in the economy. The CPI measures the average change in retail price of a 'basket of goods and services' over a certain period of time.

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 January 2018 to December 2018 was 1.8 per cent. This means that over that time period, the average prices of goods and services increased by 1.8 per cent. The government tries to manage inflation carefully and sets a target of between 2 and 3 per cent for the inflation rate. **FIGURE 7** provides information about Australia's inflation performance between January 2016 and January 2019.

FIGURE 7 Australia's inflation performance, January 2016–January 2019



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 ten most liveable cities in the world.
The World Happiness Report	The World Happiness Report was first published in 2012 and ranks 156 countries by their level of happiness. 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. TABLE 2 shows the countries that were ranked in the Top 15 for the 2016–18 period in the World Happiness Report 2019.

TABLE 2 The world's 15 happiest countries, 2016–2018

Rank	Country
1	Finland
2	Denmark
3	Norway
4	Iceland
5	Netherlands
6	Switzerland
7	Sweden
8	New Zealand
9	Canada
10	Austria
11	Australia
12	Costa Rica
13	Israel
14	Luxembourg
15	United Kingdom

Source: World Happiness Report, 2019

1.4 ACTIVITY

Undertake research in order to describe each of the following types of unemployment.

- Cyclical unemployment
- Seasonal unemployment
- Structural unemployment
- Frictional unemployment
- Hidden unemployment

Examining, analysing, interpreting

1.4 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

1.4 Exercise 1: Check your understanding

1. **ES1** Define the term *gross domestic product* (GDP).
2. **ES1** Who is included as part of the labour force?
3. **ES1** Define *inflation*.
4. **ES1** Explain how unemployment figures are calculated.
5. **ES1** Define *economic growth*.

1.4 Exercise 2: Apply your understanding

1. **ES2** Explain why GDP is a useful measure to determine the level of economic growth.
2. **ES2** Explain how the Consumer Price Index (CPI) is used to measure inflation.
3. **ES2** Explain why alternative indicators such as the Human Development Index (HDI) are important.
4. **ES3** 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	

5. **ES6** Traditional economic indicators don't consider all factors that contribute to our living standards. Explain the notion that non-material living standards, and their measurement, are just as important as material living standards.

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1.5 Trade with other economies

1.5.1 Changing trading partners

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

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.

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

- Australia has a relatively small population, so if overseas consumers are willing to buy the goods and services we produce, this can help our local businesses to grow and employ more people. A significant proportion of jobs in Australia are directly or indirectly connected with the production of exports.

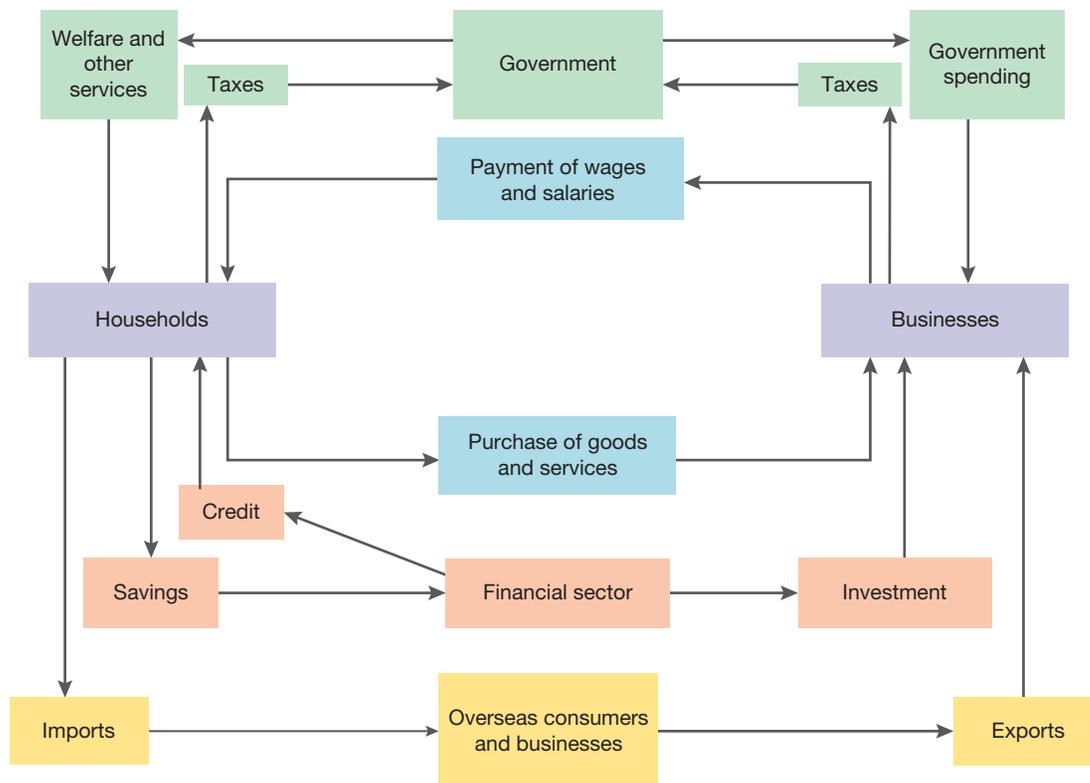
FIGURE 1 Australia imports many goods from overseas and exports to many other countries.



- Some products cannot be made here as efficiently as they can be 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 since the 1980s as cheaper imports from Asian countries have increased dramatically. While this may not be good for those Australian manufacturers, it is a positive trend for consumers because they have access to cheaper clothing.

By adding overseas trade to the circular flow diagram, we can see how overseas consumers and producers participate in the Australian economy. As shown in **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.

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



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.

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 **TABLE 1**, in 2017–18 over 82 per cent of Australia’s trade with our top ten trading partners was with Asian countries. Six of our top ten trading partners were Asian countries, including four of the top five.

TABLE 1 Australia's trade with our top ten trading partners in 2017–18

Trade with Asia

Position	Country	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
1	China	123 274	51.5	71 346	42.7	194 620	47.9
2	Japan	51 328	21.5	26 267	15.7	77 595	19.1
4	South Korea	23 628	9.9	28 764	17.2	52 302	12.9
5	India	21 145	8.8	7 971	4.8	29 116	7.2
8	Singapore	13 164	5.5	14 610	8.8	27 774	6.8
9	Thailand	6 610	2.8	18 078	10.8	24 688	6.1
	Total	239 149	100.0	166 946	100.0	406 095	100.0

Non-Asian trade

Position	Country	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
3	United States	21 424	41.4	48 752	50.3	70 176	47.2
6	New Zealand	14 370	27.8	13 905	14.4	28 275	19.0
7	United Kingdom	11 757	22.7	16 036	16.6	27 792	18.7
10	Germany	4 170	8.1	18 185	18.8	22 355	15.0
	Total	37 419	100.0	74 856	100.0	112 275	100.0

Asian and non-Asian trade

	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
Trade with Asia	239 149	82.2	166 946	63.3	406 095	73.2
Non-Asian trade	51 721	17.8	96 878	36.7	148 599	26.8
Total	290 870	100.0	263 824	100.0	554 694	100.0

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

Let us examine the importance of China as our largest trading partner. As you can see from **TABLE 1**, the value of our exports to China is A\$123 274 million. This represents 51.5 per cent of our exports to Asia, and is almost 73 per cent more than the value of imports from that country. The largest proportion of our exports to China is made up of iron ore and coal, which China buys to fuel its industrial growth. Japan and South Korea are also large buyers of Australian mineral resources. The value of our exports adds to Australia's wealth; we are able to use the money we earn from selling our exports to pay for the goods and services that we import from other countries.

More than 82 per cent of the value of our exports in 2017–18 was earned from selling to Asian countries. This money was particularly important because most of our non-Asian trade involved much higher levels of imports than exports. When we compare the value of exports with the value of imports, we can calculate Australia's **balance of trade**. If the value of exports is greater than the value of imports in a particular period of time, we are said to have a *trade surplus* for that period. If the value of imports is greater than the value of exports, we are said to have a *trade deficit*. We can see from **TABLE 1** that in 2017–18 Australia had an overall trade surplus with our ten largest trading partners. When we look at trade with individual countries, we see that we had a trade surplus with some of them and a trade deficit with others.



Weblink Department of Foreign Affairs and Trade

1.5 ACTIVITY

Use the **Department of Foreign Affairs and Trade** weblink in the Resources tab to answer the following.

- Which goods make up most of Australia's imports from China, Japan and Thailand?
- Which goods make up most of Australia's exports to the United States and New Zealand?
- Which goods make up most of Australia's imports from the United Kingdom and Germany?

Examining, analysing, interpreting

1.5 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

1.5 Exercise 1: Check your understanding

- ES2** Explain why countries trade.
- ES1** What is the difference between exports and imports?
- ES2** Explain the impact of international trade on the flow of money in the Australian economy.
- ES2** Explain what is meant by *trade deficit*.
- ES2** Explain what is meant by *trade surplus*.

1.5 Exercise 2: Apply your understanding

- ES3** Identify one benefit and one disadvantage of exporting goods to other countries.
- ES3** Identify one benefit and one disadvantage of importing goods into Australia from other countries.
- ES3** Australia generally has a trade deficit. Analyse why this occurs.
- ES3** Examine **TABLE 1** and answer the following:
 - Why was Australia's trade with China in 2017–18 of greater benefit to our economy than our trade with the United States?
 - With which country did Australia have its greatest trade deficit in 2017–18? Justify your answer.
 - With which country did Australia have its greatest trade surplus in 2017–18? Justify your answer.
- ES4** In 2017–18, 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.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

1.6 Imports and the Australian economy

1.6.1 Imports all around us

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.

As previously discussed, an import is a good or service that is produced overseas and then 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' and the spending of money here by overseas visitors as 'invisible exports'.

FIGURE 1 The spending of money by overseas tourists in Australia is an invisible export.



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 businesses that import goods to sell to Australian consumers.

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



1.6.2 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.

As we can see from **TABLE 1**, over 50 per cent of our imports in the 2017–18 financial year came from six of our ten largest trading partners. Our top 15 sources of imports accounted for 78 per cent of the total value of all imported goods.

TABLE 1 Australia's top 15 goods and services trade partners, 2017–18

Country of origin	Goods and services imported	
	A\$ million	% share
China	71 346	18.0
United States of America	48 752	12.3
South Korea	28 674	7.3
Japan	26 267	6.6
Germany	18 185	4.6
Thailand	18 078	4.6
United Kingdom	16 036	4.1
Singapore	14 610	3.7
New Zealand	13 905	3.5
Malaysia	12 562	3.2
Italy	9 131	2.3
Indonesia	8 384	2.1
India	7 971	2.0
France	7 416	1.9
Vietnam	6 946	1.8
Total top 15	308 263	78.0
Other	87 137	22.0
Total	395 400	100.0

1.6.3 What goods and services do we import?

TABLE 2 shows the top ten imports of goods and services into Australia in 2017–18. Although it only made up 10.7 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 home electrical goods in our shops, neither of these types of imports were included in the top ten in 2017–18.

FIGURE 3 Most electrical goods sold in Australia, such as TV sets, are imported.



TABLE 2 Australia's top ten goods and services imports in 2017–18 (A\$ million)

Rank	Commodity	A\$ million	% share
1	Personal travel (excl. education) services	42 496	10.7
2	Passenger motor vehicles	23 299	5.9
3	Refined petroleum	21 655	5.5
4	Ships, boats & floating structures	14 897	3.8
5	Telecom equipment & parts	13 412	3.4
6	Crude petroleum	11 738	3.0
7	Goods vehicles	10 181	2.6
8	Freight transport services	9 431	2.4
9	Computers	8 836	2.2
10	Medicaments (incl. veterinary)	7 169	1.8
	Total top ten	163 114	41.3
	Other	232 283	58.7
	Total	395 400	100.0

1.6.4 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 8.5 per cent of all imports in 2017–18. Similarly, the importation of passenger motor vehicles and goods vehicles amounted to 8.5 per cent of imports in 2017–18 and, with the closure of Australia's motor industry in 2017, this percentage is likely to increase.

FIGURE 4 Motor vehicles and petroleum are among the many imported products sold in Australia.

1.6.5 How do imports affect the economy?

In 2017–18, Australia’s income from goods and services exports was higher than its spending on imports, resulting in a trade surplus. The same was the case in the 2016–17 financial year. However, in many other years, Australia’s spending on imports has been higher than income earned from exports. Bringing imports into the country has both positive and negative effects for consumers and producers. These are outlined in

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.

DISCUSS

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

[Critical and Creative Thinking Capability]

1.6 ACTIVITY

Design an advertisement (webpage or poster) to encourage consumers to buy Australian products. In presenting your advertisement design to the class, explain why you believe it could work. **Reasoning, creating, proposing**

1.6 EXERCISES

Economics and Business skills key: ES1 Remembering and understanding ES2 Describing and explaining ES3 Examining, analysing, interpreting ES4 Questioning and evaluating ES5 Reasoning, creating, proposing ES6 Communicating, reflecting

1.6 Exercise 1: Check your understanding

1. **ES1** Define *imports*.
2. **ES3** Which countries were our top three sources of imports in 2017–18?
3. **ES3** Which type of goods made up our largest percentage of imports by value in 2017–18?
4. **ES2** Identify two reasons why Australia imports goods and services from overseas.
5. **ES3** Identify the region of the world where the majority of our imports are sourced, and provide a reason why this is the case.

1.6 Exercise 2: Apply your understanding

1. **ES2** What is meant by the terms *invisible imports* and *invisible exports*?
2. **ES2** Explain how purchasing imported goods can:
 - (a) improve our standard of living
 - (b) reduce our standard of living.
3. **ES3** Provide five examples of imports that you and your family purchase regularly. Identify their countries of origin.
4. **ES3** Name three stores in your local area and list some of the imported products they stock.
5. **ES6** What type of imports do you think will increase in Australia in years to come? Justify your response.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

1.7 Global events and the Australian economy

1.7.1 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 quick and easy, but they come with risks such as the possibility of spreading contagious diseases across the globe.



1.7.2 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 economic growth of China since the 1980s has had a beneficial effect on 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. From 1979 until 2010, China's average annual GDP growth was 9.9 per cent. Since 2010, the rate of growth has slowed somewhat, with a rate of 6.3 per cent recorded for 2018. One way in which the Chinese have been able to achieve this level of growth is through a rapid expansion in trade with other countries. As a result of this policy China has become the world's largest trading nation, with a total trade value of US\$4.1 trillion in 2017.

China 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. For a roughly 10-year period from the mid 2000s, this generated a mining boom in Australia that contributed significantly to our growth in GDP.

Australia also imports large quantities of consumer goods from China, particularly clothing and other textile products, as well as increasing quantities of electronic goods and other home appliances. Most of these are produced more cheaply than we can produce them ourselves, so Australian consumers benefit from paying lower prices for a wide variety of goods imported from China.

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

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

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

1.7.3 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, floods in Queensland damaged many homes and businesses, and 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. Drought throughout much of New South Wales, Queensland and South Australia in 2018 led to farmers needing government assistance to continue on the land. In February 2019, serious flooding in Queensland destroyed farmland and livestock, threatening future food supplies and placing farmers and graziers under significant financial stress. 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 rose to 24.8 million tonnes in 2016–17.

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



1.7 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

1.7 Exercise 1: Check your understanding

- ES1** Define each of the following:
 - recession
 - gross domestic product (GDP).
- ES2** Identify one way in which the greater interconnectedness of countries can have a detrimental effect.
- ES2** Outline one way in which the greater interconnectedness of countries can have a positive effect on Australia.
- ES2** Explain what is meant by *global financial crisis*.
- ES2** Explain how natural disasters can affect the Australian economy in:
 - a positive manner
 - a negative manner.

1.7 Exercise 2: Apply your understanding

1. **ES2** Describe two factors that have led to the greater interconnectedness of countries.
2. **ES2** How has Chinese economic growth benefited the Australian economy?
3. **ES2** Why did a fall in house prices in the United States lead to the global financial crisis of 2008–09?
4. **ES2** Explain one effect the Japanese earthquake and tsunami of 2011 had on the Australian economy.
5. **ES5** Northern Queensland has been subject to cyclones over the years. The same area has large numbers of sugar and banana plantations, and 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?

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

1.8 SkillBuilder: Questioning and research

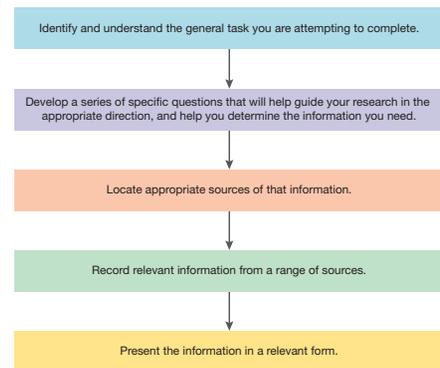
online only

What are the steps in carrying out research?

Carrying out effective research involves an organised process of identifying your research issue, developing specific questions to explore the issue, then finding sources of information to answer your questions.

Select your learnON format to access:

- an explanation of the skill (Tell me)
- a step-by-step process to develop the skill (Show me)
- an activity to allow you to practise the skill (Let me do it).



1.9 Globalisation and the international economy

1.9.1 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.

1.9.2 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 previously, a trade surplus with our trading partners will result in an increase in wealth coming into the country and contributes to the circular flow of money.

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

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



1.9.3 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 benefit flowing on to local communities.

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.



DISCUSS

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?

[Ethical Capability]

1.9.4 Who oversees the global market?

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

- the *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.
- the *International Monetary Fund (IMF)*. Established after World War II, the IMF's main function is to provide an orderly way of financially assisting developing countries.
- the *Organisation for Economic Co-operation and Development (OECD)*. The OECD develops economic and social policy for its members. Its 36 member countries include Australia, Japan, Korea, New Zealand and countries in Europe and North America.

1.9.5 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, food items, clothing and footwear, numerous television programs and even the family car.

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



1.9.6 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 ever-increasing quantities of goods results in increased pollution levels and many dangerous by-products. Other serious environmental problems associated with meeting increased demand include ozone layer depletion, 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.

1.9.7 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 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.



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



on Resources



Weblinks Globalisation

- What is globalisation?
- Fashion factories

1.9 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

1.9 Exercise 1: Check your understanding

- ES1** In your own words, define *globalisation*.
- ES1** Identify one international organisation that oversees global markets and outline its main function.
- ES1** List three advantages and three disadvantages of globalisation.
- ES2** Identify and explain two negative impacts of globalisation on the Australian economy.
- ES2** Identify and explain two positive impacts of globalisation on the Australian economy.

1.9 Exercise 2: Apply your understanding

- ES2** In what ways has globalisation placed additional pressures on the environment?
- ES3** Identify one product that you or a family member have purchased online recently from an overseas supplier.
 - What was the name of the online retailer supplying the product?
 - Which country did the product come from?
 - Is the product available from shops locally?
 - Why did you or the family member decide to use the internet to purchase this product?
- ES6** 'Many countries are being too heavily influenced by external culture and language, particularly US 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.
- ES6** 'Not only is our economy better off through globalisation but culturally we have improved as well.' Comment on this statement.
- ES6** 'Globalisation builds relationships.' Explain what this means and how this can benefit the world.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

1.10 Global supply chains

1.10.1 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, and one of the major concerns of any transnational corporation is supply chain management.

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

1.10.2 CASE STUDY: Supply chain management – Nokia

Nokia is one of the best known and successful mobile phone brands in the world, but it has not always produced mobile phones. It is a Finnish company that has been in operation since 1865, producing 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, it began the globalisation of the Nokia operation, with a particular emphasis on updating its supply chain management.

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-producing regions.

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



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 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.

Assembly

From 2011, with the increasingly competitive nature of the smartphone market, Nokia was forced to further restructure its operations. In 2012 it closed its last factory in Finland, and its phones were then produced (in some cases under licence by other manufacturers) in a number of factories throughout Asia, Europe, and North and South America (see **FIGURE 3**).

FIGURE 3 Nokia handset factories



The assembly of Nokia handsets in various factories worldwide was in response to a demand by telecommunications companies in different countries for telephones with key features under their particular brand. Nokia would take orders from the carriers (such as Vodafone) into their production system and make hundreds of thousands of specialised phones for each carrier. This meant that a carrier could have a unique faceplate with its own logo, or with specialised software installed.

Having become a highly successful transnational corporation, sourcing materials, manufacturing and assembling mobile phones across the globe, in 2013 Nokia sold its phone devices and services division to Microsoft. This meant that the division became part of the Microsoft transnational corporation, and its supply chain became integrated with that of Microsoft worldwide.

Subsequent restructuring, sales and acquisitions have seen the Nokia mobile phone brand continue to be a world leader — in more recent years under the ownership of HMD global, where Nokia phone manufacturing continues in factories located across the globe.

1.10.3 Responsibility and sustainability issues in supply chain management

When businesses source supplies and materials from a number of different countries, there are a range of issues that may arise. The issue of legal compliance is important, as large transnational companies must abide by the laws of the country in which they are operating. Above and beyond these legal requirements is the concept of corporate social responsibility. Some businesses will choose to operate in other countries because the laws regarding labour, wage rates, mining and the environment are less strict and they want to take advantage of these laws. In terms of supply chain management, businesses should ensure that they treat employees and contractors appropriately and that any waste that results from their operations is disposed of in a manner that doesn't harm the environment.

Corporate social responsibility is the obligation a business has, over and above its legal responsibilities, to the wellbeing of employees and customers, shareholders and the community, as well as to the environment. Ensuring sustainability is an important element among these responsibilities. Sustainability refers to the ability of a country or a business to meet the needs of its citizens now without jeopardising the ability of the country to meet those needs in the future. Mining, forestry, fishing and farming need to preserve resources so they can be used now but still be available for use in the future.

In sourcing materials and labour from various countries around the world, businesses need to ensure that their processes are ethical, responsible and sustainable in both human and environmental respects.

Resources

 **Weblink** Supply chain

1.10 ACTIVITIES

1. Use the **Supply chain** weblink in the Resources tab to learn how Microsoft ensures responsible sourcing in their supply chain. Create an infographic to outline the key elements of Microsoft's approach.

**Examining, analysing, interpreting
Reasoning, creating, proposing**

2. Investigate another transnational corporation that operates throughout the world and identify the key elements of its supply chain. (For example, you could research Nestlé or Ford, or use the internet to find examples of others.) Present your information in the form of a flowchart or map.

**Examining, analysing, interpreting
Reasoning, creating, proposing**

1.10 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

1.10 Exercise 1: Check your understanding

1. **ES1** What are the three elements in the production of goods?
2. **ES1** What is a supply chain?
3. **ES2** Why did Nokia have to globalise its phone manufacturing business?
4. **ES2** Identify three different raw materials that are used in the production of mobile phones and the countries where these materials are sourced.
5. **ES2** Explain one benefit to a business of operating as a transnational company.

1.10 Exercise 2: Apply your understanding

1. **ES2** Explain what is meant by *sustainability*.
2. **ES3** Transnational companies are often accused of not acting in a socially responsible manner. Explain social responsibility and analyse this statement.
3. **ES5** Corporate social responsibility is an issue that many consumers consider when purchasing goods and services. Describe how consumers may apply their views on social responsibility to their purchases.
4. **ES5** Describe how businesses should respond to consumer concerns over social responsibility and the global supply chain.
5. **ES3** Analyse how a developing country may welcome transnational businesses.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

1.11 Transnational corporations

1.11.1 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.

FIGURE 1 Neon signs in London advertising TNCs



1.11.2 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.

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. A substantial proportion 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.

FIGURE 2 A Toyota dealership in Lithuania



1.11.3 The biggest and richest

Some of the largest transnational corporations have annual revenues that exceed the GDP of many countries. In 2018, a number of companies reported revenue figures greater than many countries' GDP. US retail giant, Walmart, earned enough revenue to be ranked 24th in the world by GDP. Volkswagen would be ranked 43rd and Apple 47th if they were countries rather than corporations. The top ten transnational corporations by revenue for 2017 are shown in **TABLE 2**.

TABLE 2 Top ten transnational corporations by revenue, 2017

	Company	Home country	Activity	Revenue (US\$ million)
1	Walmart	USA	Retail	485 900
2	State Grid	China	Electricity supply	315 200
3	Sinopec Group	China	Oil and gas	267 500
4	China National Petroleum	China	Oil	262 600
5	Toyota Motor	Japan	Car manufacture	254 700
6	Volkswagen	Germany	Car manufacture	240 300
7	Royal Dutch Shell	Netherlands/Britain	Oil	240 000
8	Berkshire Hathaway	USA	Finance/investment	223 700
9	Apple	USA	ICT	215 600
10	Exxon Mobil	USA	Oil	205 000

1.11.4 Some positives and negatives of TNCs

In 2016, 69 corporations were on the list of the top 100 **economic entities** of the world. 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 and therefore economic growth into the 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.

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



- 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:

- 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.



1.11.5 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:

- Do not use forced or compulsory labour.
- Respect the rights of children to be protected from economic exploitation.
- Provide a safe and healthy working environment.
- Pay workers enough to ensure an adequate standard of living for them and their families.
- Recognise the rights of employees to join unions and other collective bargaining organisations.



Resources



Weblink Tax Justice Network

1.11 ACTIVITY

Use the **Tax Justice Network** weblink in the Resources tab to learn more about the issues associated with taxing corporations, and then use this information to answer the following.

- Identify two reasons why it is important to tax transnational corporations.
- What is the difference between tax evasion, tax avoidance and tax cheating?
- Explain the international system that currently exists to oversee the taxing of transnational corporations.
- Give an example of the way in which transfer pricing is used to avoid tax.
- Explain one possible solution to the current problem of TNCs avoiding tax.

**Examining, analysing, interpreting
Reasoning, creating, proposing**

1.11 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating proposing **ES6** Communicating, reflecting

1.11 Exercise 1: Check your understanding

- ES1** Define the term *transnational corporation* and provide three examples.
- ES2** What is an economic entity? Give two examples.
- ES3** Which TNC is the most internationalised in the world, and what percentage of its sales occur outside its home country?
- ES2** What type of economic or business activity involves most of the largest transnational corporations? (*Hint: Refer to TABLE 2.*)
- ES2** What is *transfer pricing* and what is the impact of its use by some TNCs?

1.11 Exercise 2: Apply your understanding

- ES2** 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.
- ES6** 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?
- ES5** Why do you think the United Nations thought it necessary to draw up a code to govern TNC behaviour?
- ES5** What short-term and long-term benefits do you think could result for a TNC that always behaved ethically and respected human rights?
- ES3** A difficulty with TNCs is policing their activities when they breach local laws. Analyse why this may be a problem for some countries.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

1.12 SkillBuilder: Developing graphs from tables

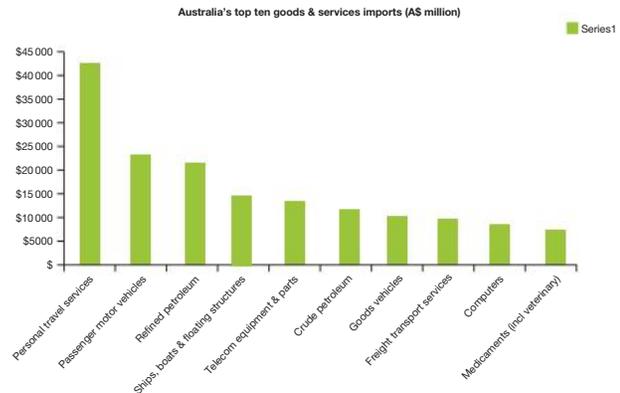
online only

Why develop graphs from a table?

A 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.

Select your learnON format to access:

- an explanation of the skill (Tell me)
- a step-by-step process to develop the skill (Show me)
- an activity to allow you to practise the skill (Let me do it).



1.13 Thinking Big research project: An international menu

online only

SCENARIO

Australia is part of the world economy. Our access to goods and services from overseas has increased exponentially in recent years, so our choices are greater and more varied. You will design a 3-course dinner menu, analyse where your ingredients are sourced from and prepare a report describing how the development of the global economy has impacted our daily lives.

Select your learnON format to access:

- the full project scenario
- details of the project task
- resources to guide your project work
- an assessment rubric.



on Resources



ProjectsPLUS Thinking Big research project: An international menu (pro-0200)

1.14 Review

online only

1.14.1 Key knowledge summary

Use this dot point summary to review the content covered in this topic.

1.14.2 Reflection

Reflect on your learning using the activities and resources provided.



Resources



eWorkbook Reflection (doc-31738)

Crossword (doc-31739)



Interactivity The Australian and global economies crossword (int-7656)

KEY TERMS

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

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

exports goods and services sold by local businesses to overseas consumers

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

gross domestic product (GDP) the value of all the goods and services produced within a country in a given period of time (usually a year). It is often used as an indicator of a country's wealth.

imports goods and services purchased by local consumers from overseas businesses

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

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

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

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

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.

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

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

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.

superannuation fund an account that holds and invests superannuation contributions made by employees, their employers or the government, for eventual distribution to help fund an individual's 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

1.8 SkillBuilder: Questioning and research

1.8.1 Tell me

What are the steps in carrying out research?

Carrying out effective research involves an organised process of identifying your research issue, developing specific questions to explore the issue, then finding sources of information to answer your questions.

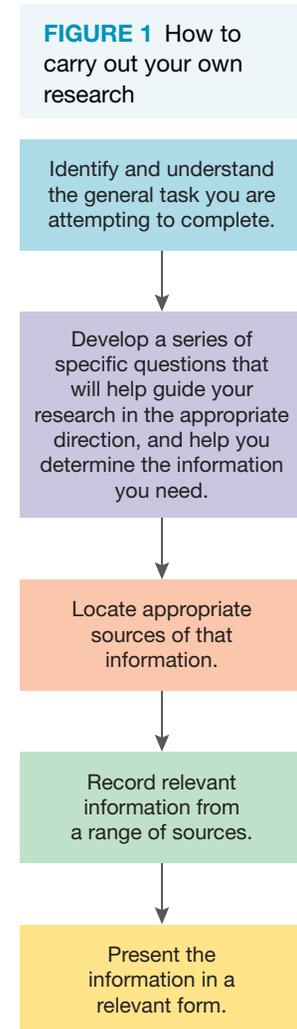
The steps in **FIGURE 1** can provide a useful guide for your research process.

1.8.2 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.

1. Your first step is to clearly identify the essential task. This could be expressed as: 'Prepare a report on Australia's trade with China. Include details of the major exports and imports, recent trends in our trade relationship with that country, and the value of this trade to the Australian economy.'
2. Now break this down into a series of more specific questions. These could include:
 - a. What are Australia's major exports to China?
 - b. What are the values and/or percentages of these exports?
 - c. What are our major imports from China?
 - d. How are these imports broken down, from most important to least important?
 - e. Which areas of trade have been growing most rapidly over the past few years, and which have been in decline?
 - f. How does trade with China affect the Australian economy? What are the benefits, and what are the disadvantages?
3. 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. Look for reliable sources relevant to your area of research. For investigating Australia's trade relationships, the Department of Foreign Affairs and Trade (DFAT) website would be a highly reputable source.
4. 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.
5. 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.
6. When you are satisfied that you have found answers to all the questions, you need to write the answers in order, using your own words as much as possible. Then use your 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 presentation, or any other appropriate format.

FIGURE 1 How to carry out your own research



1.8.3 Let me do it

Complete the following activity to practise your skills.

1.8 ACTIVITY

Using the process in the Show me section and **FIGURE 1** as a model, research and prepare a report on Australia's trade with one of these Asian countries: Japan, South Korea, India, Singapore or Thailand. 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.

1.12 SkillBuilder: Developing graphs from tables

1.12.1 Tell me

A 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.

1.12.2 Show me

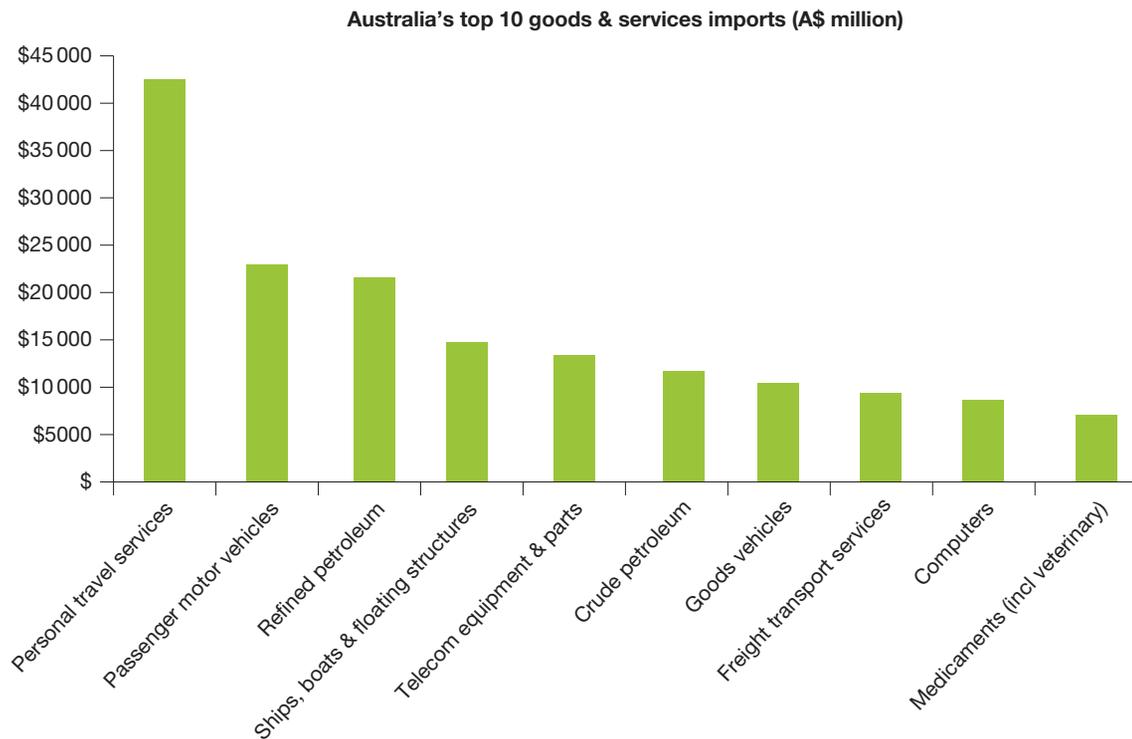
Using **TABLE 1** 'Australia's top ten goods and services imports in 2017–18 (A\$ million)' from subtopic 1.6, we can carry out the steps outlined below to create a graph from the table data.

Rank	Commodity	Value (A\$ million)	% share
1	Personal travel (excl. education) services	42 496	10.7
2	Passenger motor vehicles	23 299	5.9
3	Refined petroleum	21 655	5.5
4	Ships, boats & floating structures	14 897	3.8
5	Telecom equipment & parts	13 412	3.4
6	Crude petroleum	11 738	3.0
7	Goods vehicles	10 181	2.6
8	Freight transport services	9 431	2.4
9	Computers	8 836	2.2
10	Medicaments (incl. veterinary)	7 169	1.8
	Total top 10	163 114	41.3
	Other	232 283	58.7
	Total	395 400	100.0

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 the 'Insert column or bar chart' icon, and the column graph menu will drop down. You can choose various formats of column graphs to present your data, including 2D and 3D options.
7. Click on your selected format (in this case, use 2D column) and the data will be presented as a column graph in the centre of the Excel 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 'Chart title' to type in 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 2017–18 (A\$ million)



1.12.3 Let me do it

Complete the following activity to practise your skills.

ACTIVITY

Apply the process outlined in the Show me section to create graphs from three other tables in this topic:

- subtopic 1.6, **TABLE 1** Australia's top 15 goods and services trade partners, 2017–18
- subtopic 1.11, **TABLE 1** Ten largest TNCs by percentage of sales that occur outside home countries
- subtopic 1.11, **TABLE 2** Top 10 transnational corporations by revenue, 2017.

1.13 Thinking Big research project: An international menu

Scenario

Australia is part of the world economy. As globalisation has taken hold, the decisions we make affect other economies, and the actions and decisions of other economies similarly have an impact on us. Our access to goods and services from overseas has increased exponentially in recent years and so our choices are greater and more varied.

Task

Design a three-course menu for a dinner party to be hosted at your house. The meal should comprise an entrée, main course and dessert. You will then:

- conduct research into the country of origin of your menu ingredients
- prepare a world map to show where ingredients are sourced
- design a menu to place on your dinner table, which will outline the source ingredients and provide a brief report on how the development of the global economy impacts on our daily life.

Follow the steps detailed in the **Process** section to complete this task.

Process

- Open the ProjectsPLUS application in the Resources for this topic. Click on the **Start new project** button to enter the project due date and set up your project group if you wish. You may work individually or in pairs, depending on your teacher's preference. Save your settings and the project will be launched.
- Navigate to the **Research forum**, where you will find starter topics loaded to guide your research. You can add further topics to the Research forum if you wish. When you have completed your research, you can print out the **Research report** in the Research forum to easily view all the information you have gathered.
- In the **Media centre** you will find an assessment rubric to guide your work and some weblinks that will provide a starting point for your research.
- Use recipe books or cooking sites online to choose your entrée, main course and dessert, then prepare a list of ingredients needed (pre-packaged meals are not permitted).



- Research online or at your local shops to complete a table like the one below, detailing information about your ingredients (an example has been completed for you).

Menu item	Ingredient	Made by	Country of origin
Chocolate mousse (dessert)	Caster sugar	CSR (Colonial Sugar Refinery) a division of Wilmar	Australia

- On a blank world map, place a small symbol to represent the various ingredients on each of the countries from which your ingredients are sourced.
- Design and create a menu to place on your dinner table, for your guests. Include information about where your ingredients are sourced, and a short report on how the development of the global economy impacts our daily life.



on Resources

 **ProjectsPLUS** Thinking Big research project: An international menu (pro-0200)

1.14 Review

1.14.1 Key knowledge summary

1.2 Participants in the Australian economy

- The household sector makes decisions about which goods and services to purchase, and provides 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.

1.3 Objectives of the Australian economy

- The economic system aims to answer three key questions: what to produce, how to produce and for whom to produce.
- 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.

1.4 Indicators of economic performance

- Indicators such as economic growth, unemployment and inflation provide us with information about the performance of the Australian economy.
- The circular flow diagram represents the flow of money between households, businesses, financial intermediaries, government, and overseas consumers and businesses.

1.5 Trade with other economies

- 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 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.

1.6 Imports and the Australian economy

- Increased trade between nations has helped to fuel economic growth and assist poorer countries to achieve higher standards of living.
- Australia relies heavily on imported goods brought in from countries all around the world.
- Over 50 per cent of our imports in the 2017–18 financial year came from six of our ten largest trading partners, while our top 15 sources of imports accounted for almost 80 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.

1.7 Global events and the Australian economy

- 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. There are also negative effects of increased global connectedness, such as the rapid international spread of infectious diseases and the rise of internet fraud and identity theft.

- As a result of global interconnectedness, both positive and negative economic events can spread quickly between trading partners.
- The growth in the Chinese economy has had a significant impact on the global economy, with countries such as Australia benefiting from increased trade with China.
- The mortgage finance collapse that started in the US in 2006–07 soon spread throughout the world, becoming known as the global financial crisis of 2008–09.
- Natural disasters can have serious impacts on countries' economies, with funds needing to be allocated to relief and rebuilding therefore being unavailable to be used in other ways. International trade may also be impacted by these events.

1.9 Globalisation and the international economy

- Globalisation provides the means for increased interaction between consumers, producers, workers and governments in one economy with their counterparts in other economies.
- 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.

1.10 Global supply chains

- 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.
- 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.

1.11 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.

1.14.2 Reflection

Complete the following to reflect on your learning.

1.14 ACTIVITIES

Revisit the inquiry question posed in the Overview:

Markets, sectors, growth and trade. How are the economies of the world similar, different and interconnected?

1. Now that you have completed this topic, what is your view on the question? Discuss with a partner. Has your learning in this topic changed your view? If so, how?
2. Write a paragraph in response to the inquiry question, outlining your views.

Resources

-  **eWorkbook** Reflection (doc-31738)
Crossword (doc-31739)
-  **Interactivity** The Australian and global economies crossword (int-7656)

KEY TERMS

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

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

exports goods and services sold by local businesses to overseas consumers

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

gross domestic product (GDP) the value of all the goods and services produced within a country in a given period of time (usually a year). It is often used as an indicator of a country's wealth.

imports goods and services purchased by local consumers from overseas businesses

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

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

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

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

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.

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

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

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.

superannuation funds an account that holds and invests superannuation contributions made by employees, their employers or the government, for eventual distribution to help fund an individual's 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

2 Managing financial risk

2.1 Overview

Spend, save or invest? What are the ways to minimise financial risk and hold onto your hard-earned money?

2.1.1 Balancing risks and rewards

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.



on Resources

-  **eWorkbook** Customisable worksheets for this topic
-  **Video eLesson** Managing risk (eles-2386)

LEARNING SEQUENCE

- 2.1 Overview
- 2.2 Banks and other deposit-taking institutions
- 2.3 Different types of investment
- 2.4 Protection from financial risk
- 2.5 Managing debt
- 2.6 **SkillBuilder:** Reading a sharemarket chart
- 2.7 **Thinking Big research project:** Share investment — a risky business?
- 2.8 **Review**



To access a pre-test and starter questions and receive immediate, **corrective feedback** and **sample responses** to every question, select your learnON format at www.jacplus.com.au.

2.2 Banks and other deposit-taking institutions

2.2.1 The changing nature of banks

In 1973 the Australian government started the process of deregulation — removing some of the strict rules regarding how banks operated in Australia. The government allowed foreign banks to open branches and a range of alternative financial institutions, such as building societies, credit unions and superannuation funds, arose to compete with the banks. This deregulation continues today, with further changes to result from the completion of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in 2019.

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



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**.

2.2.2 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.

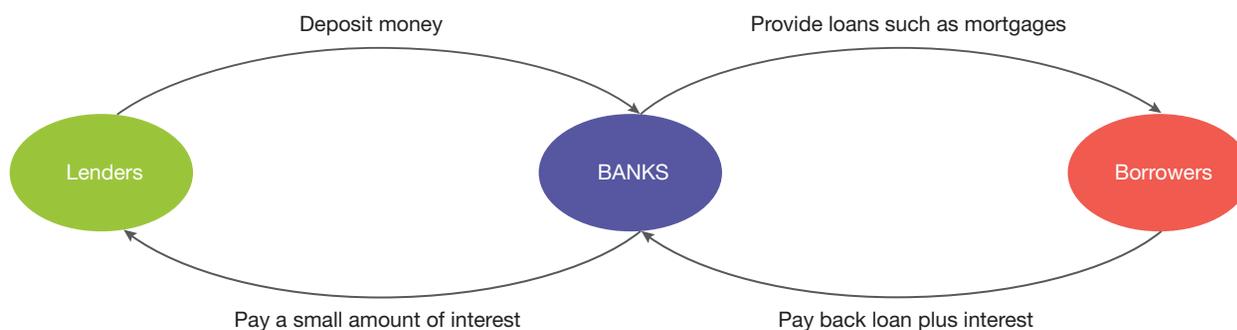
A bank savings account is an easy and safe place for people to keep their money. This type of account allows you to deposit money and make withdrawals. In return for your deposits, the bank pays you money known as **interest**. The amount of interest paid depends on the type of account, the number of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

A bank is a business that wants to make a profit, so it accepts money as savings (deposits) at a lower interest rate and lends that money at a higher interest rate. Depending upon the type of savings account you hold, your interest earnings could be anywhere from 0.2 per cent up to around 3 per cent. For borrowing, interest payments vary depending on the type of borrowing, and can range between around 3.5 per cent on a variable mortgage and over 13 per cent on some credit cards.

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



FIGURE 3 Banks act as intermediaries between lenders and borrowers.



2.2.3 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.



2.2.4 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 have converted to or merged with banks.

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



on Resources

 **Weblink** APRA

2.2 ACTIVITIES

1. Use the **APRA** weblink in the Resources tab to find one Australian-owned bank, one foreign-owned bank, one credit union and one building society.
Examining, analysing, interpreting
2. 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. Alternatively, create a short PowerPoint presentation, with one slide for each institution.
Examining, analysing, interpreting
Reasoning, creating, proposing
3. Construct a diagram showing how deposit-taking institutions pool savings and lend them to individuals and business.
Reasoning, creating, proposing

2.2 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

2.2 Exercise 1: Check your understanding

1. **ES1** What is an authorised deposit-taking institution?
2. **ES2** Define *mortgage*.
3. **ES2** Explain what is meant by *interest*.
4. **ES2** Define *loan*.
5. **ES2** Explain why banks offer low interest rates on savings but charge higher interest rates on loans.

2.2 Exercise 2: Apply your understanding

1. **ES5** Outline what might happen if banks, credit unions and building societies could no longer collect deposits.
2. **ES3** Interest is often referred to as ‘a reward for risk’. Explain what this means.
3. **ES3** Distinguish between a bank and a credit union.
4. **ES2** Explain why banks charge a lower rate of interest on mortgages than they do on personal loans.
5. **ES2** How has deregulation assisted consumers looking to borrow money or invest?

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

2.3 Different types of investment

2.3.1 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.



DISCUSS

Property prices rise and fall at various times. Property prices in Melbourne and Sydney hit their peak in 2017 but have since suffered falls of around 7 per cent and 11 per cent respectively. These fluctuations mean people's ability to buy their own home also fluctuates. Do you think property should be an investment to accumulate savings?

[Personal and Social Capability]

2.3.2 Shares

Buying **shares** means buying a certain number of units of ownership in a company. A person who owns shares in a company is 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.

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

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 that cover most sectors of the economy, from financial services to manufacturing and health care. 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 2 The electronic display board of the Australian Securities Exchange shows the prices of shares traded at the exchange.



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



2.3.3 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.

2.3.4 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.



2.3 ACTIVITY

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.

Examining, analysing, interpreting

2.3 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

2.3 Exercise 1: Check your understanding

1. **ES1** What is the ASX?
2. **ES1** What are dividends? What do they mean for an investor?
3. **ES2** What is the difference between a term deposit and a managed fund?
4. **ES1** Place the terms *financial sector* and *health care sector* in the following sentence.
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. **ES2** In your own words, explain why people invest in shares.
6. **ES2** Briefly outline the benefits and risks of:
 - (a) share ownership
 - (b) term deposits
 - (c) managed funds.

2.3 Exercise 2: Apply your understanding

1. **ES5** What do you think might happen if the price of shares you own fell to zero?
2. **ES2** Explain why investing in shares is considered risky.
3. **ES2** What is meant by the expression *managed fund*, and why do people invest in them?
4. **ES5** Share prices rise and fall on a daily basis. Provide one reason why share prices of a company may rise and one reason why they might fall.
5. **ES3** Compare the returns available on a term deposit and the return available from shares. Analyse why they are different.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

2.4 Protection from financial risk

2.4.1 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.

2.4.2 Financial risks

There are many types of financial risk (see **FIGURE 1**). 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.

Scams and identity theft are also financial risks. Let us examine these two financial risks in 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 give 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.

Some common scams are shown in **FIGURE 2**.

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.

FIGURE 1 Types of financial risk

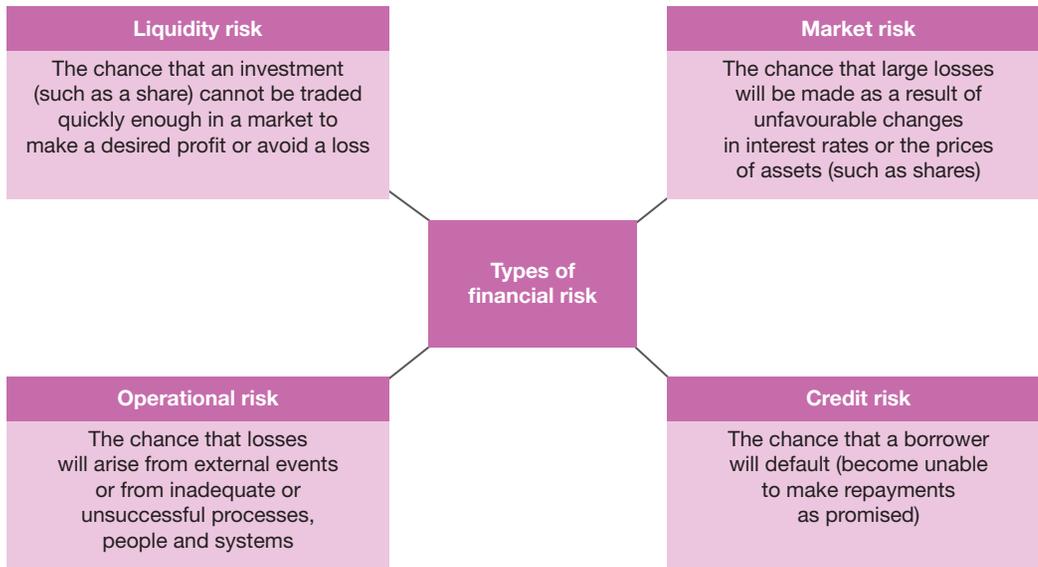
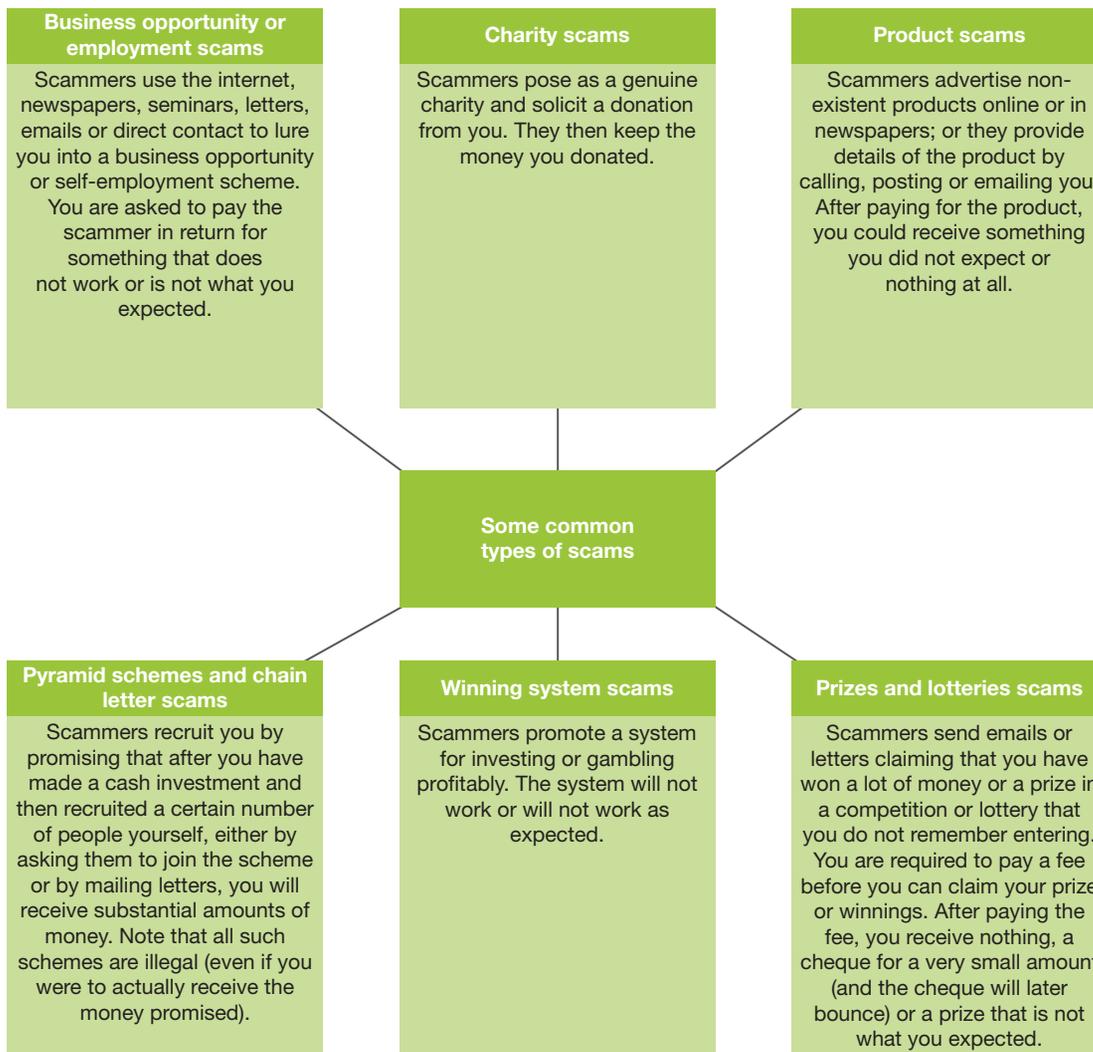


FIGURE 2 Some common types of scams



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.

2.4.3 Protecting yourself from financial risk

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

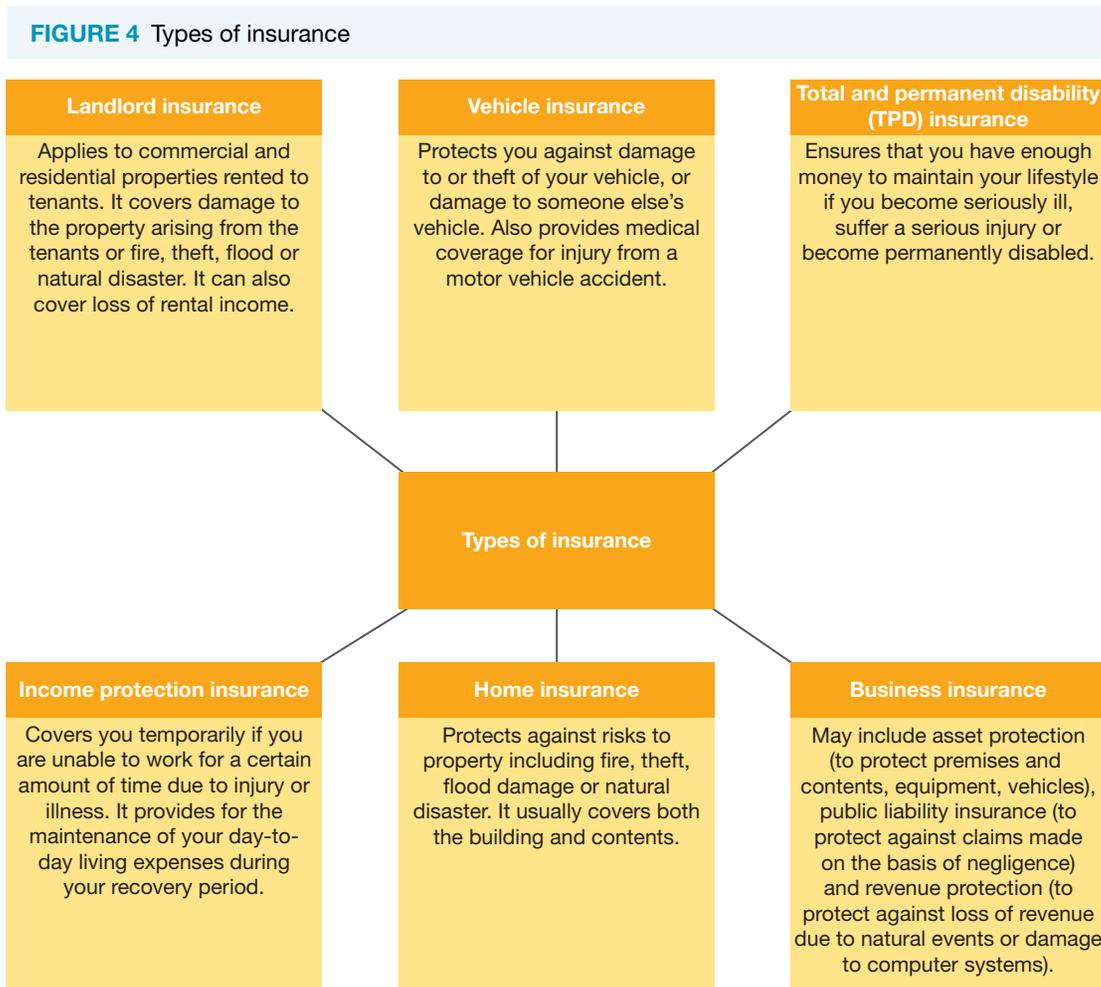
- Make informed decisions and seek advice from qualified financial advisers.
- Be aware that all investments involve some level of risk, and understand the need to weigh up risk and return.
- Diversify by investing in a wide range of assets. You could invest in several different shares and have the rest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

FIGURE 3 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 4**.



Savings

You can reduce financial risk by having savings — funds from which to draw when things go wrong. 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.

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. 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 the age of 60.

2.4.4 CASE STUDY: Australians feeling more comfortable with finances

Since 2011, ME Bank has been producing *The Household Financial Comfort Report*, which details how Australians feel about their level of comfort in terms of savings, income and debt. The report prepared for the six months ended December 2018 showed Australia's financial comfort gap had narrowed for the first time in seven years, with most households feeling better about their finances despite significant falls in residential property and share markets.

Income gains, easing living costs, increased cash savings and reduced overspending were key drivers in households' rising levels of financial comfort.

The number of households saving each month increased 3 points to 51 per cent in the past six months — its equal-highest level since the survey began — with the estimated average amount savers are putting away increasing 7 per cent to \$862 per month. Meanwhile, the estimated average amount overspenders drew down on savings or credit each month decreased 28 per cent to \$453 per month.

FIGURE 5 ME Bank conducts a survey to gauge Australians' level of financial comfort.



2.4 ACTIVITY

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.

Questioning and evaluating

2.4 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

2.4 Exercise 1: Check your understanding

- ES1** Identify two examples of financial risk.
- ES1** Suggest one way that you might protect yourself from each of the financial risks you identified in question 1.
- ES2** 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.
- ES2** 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.
- ES2** Choose one type of insurance and explain how it can protect you from financial risk.
- ES2** Read the case study 'Australians feeling more comfortable with finances' in this subtopic and answer the following questions.
 - Explain why more Australians currently feel more comfortable about their financial position.
 - Why is it important to have savings?
- ES2** Why is it so important to be ready for retirement? What options are there for people who have not saved for retirement?

2.4 Exercise 2: Apply your understanding

1. **ES5** What might happen if you had no insurance?
2. **ES5** What are some of the consequences of being ill-prepared for retirement?
3. **ES3** Analyse two options that are available for people who have not saved for retirement.
4. **ES2** Explain what is meant by *superannuation* and why it is important to start putting money into superannuation early in life.
5. **ES6** Being informed and making informed decisions can minimise risk. Write a paragraph discussing this statement.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

2.5 Managing debt

2.5.1 Making good decisions

Are you the type of person who burns through 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.

2.5.2 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.

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.

FIGURE 1 The temptation to spend money is everywhere.



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



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.

2.5.3 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. Prepare a **budget** to clearly track your income and expenses and determine how much you can put towards paying off the debt each week or month.

FIGURE 3 Gabrielle is aged 15 and is 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.



2.5.4 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 them more independence and security
- gives them a sense of satisfaction
- helps them pay for unexpected expenses
- avoids the need to borrow money and the worry about repaying the debt
- helps them 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.'

Saving money is a bit like an exercise program. You need 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.

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. Once your savings have built up, you may wish to consider other forms of investment, such as term deposits, managed funds, shares or property.

FIGURE 4 Developing a savings plan

STEP 1: Work out what expenses are essential and how much you have left over that could be saved.

STEP 2: Decide how much you can save each week to reach your goal(s).

STEP 3: Start saving immediately.

STEP 4: Re-evaluate your financial goals as the need arises.

DISCUSS

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?

[Personal and Social Capability]

on Resources

 **Weblink** Savings goal calculator

2.5 ACTIVITIES

1. Use the **Savings goal calculator** weblink in the Resources tab 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.

Examining, analysing, interpreting

2. With a partner, create a brochure for parents on money management. The aim of the brochure is to encourage parents to teach their children to be moneywise and to manage debt. It should state why it is important for young people to be able to save and suggest how parents can be positive role models for their children. Add any tips you think would be helpful.

Examining, analysing, interpreting

2.5 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

2.5 Exercise 1: Check your understanding

1. **ES1** What is debt?
2. **ES2** Briefly outline the difference between good and bad debt.
3. **ES2** Explain three consequences of getting into too much debt.
4. **ES1** How can you manage debt?
5. **ES2** Explain what a budget is.

2.5 Exercise 2: Apply your understanding

1. **ES2** Explain how a budget can be used to minimise debt.
2. **ES5** Consider the scenario in the **FIGURE 3** caption. Advise Gabrielle what steps to take to pay off her debts.
3. **ES1** Outline two consequences of filing for bankruptcy.
4. **ES3** Distinguish between needs and wants and explain how savings can assist in managing your wants.
5. **ES5** 'Everyone will have debt at some stage. The key is to manage it.' Analyse this statement.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

2.6 SkillBuilder: Reading a sharemarket chart

online only

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.

Select your learnON format to access:

- an explanation of the skill (Tell me)
- a step-by-step process to develop the skill (Show me)
- an activity to allow you to practise the skill (Let me do it)
- questions to consolidate your understanding of the skill.

SHARE	Share	Close	Move	Turnover 100s	Quotation		Div Yield	P/E Ratio	52 week		52-WEEK HIGH AND LOW
					Buy	Sell			High	Low	
SHARE The company's name, abbreviated by the Australian Securities Exchange. Different classes of a company's securities are given a separate line.	Bendigo Bank	67.88	-0.12	30 025	67.63	68.00	3.70	41.24	71.11	51.79	52-WEEK HIGH AND LOW This represents the highest and lowest sales recorded during the past year of trading.
	Bilby Bros.	1.29	-0.03	1094	1.29	1.30	N/A	647.50	1.54	0.73	
	Bogong Bank	44.43	-0.79	89 455	44.41	44.72	3.3	16.82	55.72	42.23	
	Cassowary Ltd	35.67	-0.56	2112	35.67	35.81	3.8	18.28	38.92	32.36	
	Dingo Deliveries	5.23	-0.09	9778	5.22	5.25	4.40	22.54	5.52	4.11	
	Dugong Chain	1.31	+0.05	2455	1.30	1.31	N/A	-8.52	1.55	0.95	

on Resources

- **Weblink** ASX listed companies
ASX

2.7 Thinking Big research project: Share investment — a risky business?

online only

SCENARIO

All manner of people invest in shares, in the hope that the business will do well and the share value will increase over time. However, buying shares can be a risky business, as they can also fall in value and this can occur quickly, sometimes leading to severe economic consequences. You will research and write a report on investing in shares, with reference to five companies of your own choosing. Is the potential reward worth the risk?

Select your learnON format to access:

- the full project scenario
- details of the project task
- resources to guide your project work
- an assessment rubric.



on Resources

- **ProjectsPLUS** Thinking Big research project: Share investment — a risky business? (pro-0201)

2.8 Review

online only

2.8.1 Key knowledge summary

Use this dot point summary to review the content covered in this topic.

2.8.2 Reflection

Reflect on your learning using the activities and resources provided.

Resources



eWorkbook Reflection (doc-31740)
Crossword (doc-31741)



Interactivity Managing financial risk crossword (int-7657)

KEY TERMS

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

agent a person acting for another in a business transaction

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

budget an itemised estimate of income and expenses for a given period

capital growth an increase in the value of an asset

debt a financial obligation to repay money owed

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

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

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

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)

mortgage 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.

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

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

superannuation a retirement fund mandated by the government

superannuation fund an account that holds and invests superannuation contributions made by employees, their employers or the government, for eventual distribution to help fund an individual's retirement

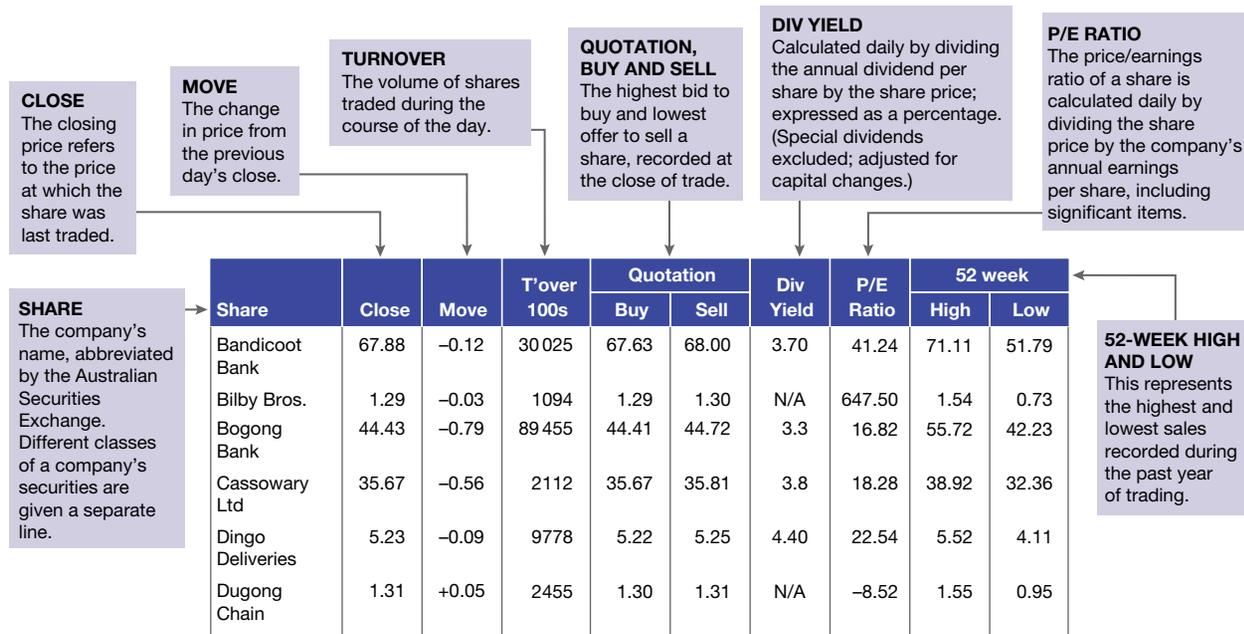
2.6 SkillBuilder: Reading a sharemarket chart

2.6.1 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**.

FIGURE 1 Reading a sharemarket chart



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

How 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 and helps you decide whether to buy (or sell) shares.

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

2.6.2 Show me

How to read a sharemarket chart

Procedure

Step 1

Recognise the type of sharemarket chart.

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

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

Step 2

Learn the meaning of column headings.

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

Step 3

Look at the data.

- Each listed company has a unique three-letter symbol, for ease of location in online charts or in daily newspapers. (Use the **ASX listed companies** weblink in the Resources tab to see the companies listed on the Australian Securities Exchange.)
- Use a ruler to help you read accurately across the columns.
- A '+' sign in front of a 'Move' number means that the value of a share rose against the previous day's closing value.
- A '-' sign indicates that the share value fell against the previous day's closing value.
- Online links allow people to find recent and past financial information about any listed company, using tables and interactive charts.

Step 4

Analyse the data.

- Examine the size of changes in data for a share from one period to another.
- Look for trends in the movement of shares 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

Make predictions.

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



Resources



Weblink ASX listed companies

2.6.3 Let me do it

Complete the following activity to practise your skills.

2.6 ACTIVITY

If hoping to invest in a company, it is often a good idea to check the performance of other companies in the same sector. Use the **ASX** weblink in the Resources tab to find a list of companies operating in the financial sector. Select four companies for that sector — one that you are considering investing in, and three competitors — then answer the following questions.

- a. Which companies are you looking at? Write down the name and code of each company.
- b. How does the current share price of each company compare with its highest price within the last year?
- c. Which company had the highest share price for the day and over the last year?
- d. Which company recorded the greatest range between highest and lowest sales price for its shares over the last year?
- e. Compare the number of rises and falls and identify whether, overall, bank shares rose or fell on the day.
- f. Explain why figures for one day are not necessarily a good basis on which to buy or sell shares.
- g. Using the code for the company whose shares you would consider buying, download or copy a graph showing its share price movements over a longer period, and explain how this might affect your initial decision.
- h. Summarise your findings for the four companies and justify whether the company you are interested in presents a good investment opportunity.

Resources

 [Weblink ASX](#)

2.7 Thinking Big research project: Share investment – a risky business?

Scenario

Shares are an ownership interest in a public company. Shareholders invest their money in these shares hoping that if the company does well, some of the profits will be returned to them in the form of dividends, or the value of the shares will increase over time and they will make a profit if and when they sell these shares at a later date.

All manner of people invest in shares. However, buying shares can be a risky business as they often fall in value and this can occur quickly, in some cases leading to severe economic consequences such as the Great Depression and the Global Financial Crisis. Is the potential reward worth the risk?



Task

You will research and write a report on investing in shares, with reference to five companies of your own choosing. Your report *for each company* should include:

- details of the industry in which the business operates
- a summary of what the business does and when it was established
- where the business is based and how many people it employs
- details of any major announcements made by the company in the past 12 months
- a graph showing the share price of the company over a 10-day period (or other timeframe as determined by your teacher)
- an assessment of whether or not the company is a good investment, and why.

Follow the steps detailed in the **Process** section to complete this task.

Process

- Open the ProjectsPLUS application in the Resources for this topic. Click on the **Start new project** button to enter the project due date and set up your project group if you wish. You may work individually or in pairs, depending on your teacher's preference. Save your settings and the project will be launched.
- Navigate to the **Research forum**, where you will find starter topics loaded to guide your research. You can add further topics to the Research forum if you wish. When you have completed your research, you can print out the **Research report** in the Research forum to easily view all the information you have gathered.
- In the **Media centre** you will find an assessment rubric to guide your work and some weblinks that will provide a starting point for your research.
- Use the weblinks provided to watch the videos and gain an insight into how the decline of the stock market caused the Great Depression and/or the Global Financial Crisis. Use your understanding of the concept of financial risk through investing in shares to inform your report writing.
- Use the **Australian Securities Exchange (ASX)** weblink to select five companies you may be interested in. Some companies that may be of interest include:
 - Woolworths
 - JB Hi-Fi
 - Commonwealth Bank
 - Qantas
 - Telstra
 - Capilano Honey
 - BHP
- For each of the five companies you choose, gather the details outlined in the **Task** section.
- Compile your report. Remember to include your five graphs, and any other images you choose, to add interest to the report. Check thoroughly to ensure you have used correct spelling and grammar, and that you have completed all elements listed in the **Task** section. When you are happy with your work, submit your report to your teacher for assessment.



on Resources



ProjectsPLUS Thinking Big research project: Share investment — a risky business? (pro-0201)

2.8 Review

2.8.1 Key knowledge summary

2.2 Banks and other deposit-taking institutions

- 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.
- There are many types of financial institutions in Australia including banks, credit unions and building societies.

2.3 Different types of investment

- You need to be aware of the different options available to you in financial institutions and financial products.
- Investments such as property, term deposits, shares and managed funds are all options to increase your return.
- Different types of investment all have different levels of risk and reward.

2.4 Protection from financial risk

- It is important to be aware of and cautious about financial risks such as scams and identity theft.
- Insurance, savings and superannuation all help you protect yourself from financial risk and plan for the future.

2.5 Managing debt

- Debt can be good or bad debt, but always needs to be managed wisely.
- Some consequences of debt can be very serious and include:
 - your credit rating being affected, making it difficult to borrow money
 - employment opportunities potentially being affected
 - your house having to be sold to help pay debts.
- Debt can be managed through devising and implementing a realistic savings plan.

2.8.2 Reflection

Complete the following to reflect on your learning.

2.8 ACTIVITIES

Revisit the inquiry question posed in the Overview:

Spend, save or invest? What are the ways to minimise financial risk and hold onto your hard-earned money?

1. Now that you have completed this topic, what is your view on the question? Discuss with a partner. Has your learning in this topic changed your view? If so, how?
2. Write a paragraph in response to the inquiry question, outlining your views.

Resources



eWorkbook Reflection (doc-31740)
Crossword (doc-31741)



Interactivity Managing financial risk crossword (int-7657)

KEY TERMS

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agent a person acting for another in a business transaction

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

budget an itemised estimate of income and expenses for a given period

capital growth an increase in the value of an asset

debt a financial obligation to repay money owed

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

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

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

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)

mortgage 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.

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

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

superannuation a retirement fund mandated by the government

superannuation fund an account that holds and invests superannuation contributions made by employees, their employers or the government, for eventual distribution to help fund an individual's retirement

3 Being enterprising

3.1 Overview

Having a great idea to help your business can be great, but is it worth taking the risk of trying it out?

3.1.1 The need for enterprising behaviour

The Australian economy is interconnected with the global economy, presenting opportunities as well as challenges. Globalisation has resulted in Australian businesses now having to compete on a global scale. As a result, businesses are constantly looking for an advantage or an ‘edge’ over their competitors. For many businesses this edge comes from being able to produce goods or deliver services at a cheaper price than their competitors. For other businesses, their edge comes from being innovative and demonstrating enterprising behaviour, such as:

- developing new technologies that other businesses don’t have
- creating new products that previously did not exist
- undertaking research and development and coming up with new ways of manufacturing existing or new products
- using brand new manufacturing processes.

All these factors ultimately affect the working and business environment. One such aspect is the expectation placed on employees.

Businesses attempt to recruit employees who not only have the suitable qualifications and skills for a job, but who also demonstrate **enterprising behaviours**. An enterprising employee is one who may be creative, inquiring, innovative, risk-taking, good at problem solving, and willing to try new ways of doing things and accept the consequences of failure. Employees with these skills often find new ways of doing things which help a business become more successful. Enterprising employees help establish a workplace culture that is focused on learning and innovation. These enterprising employees often become **entrepreneurs** and establish their own businesses.

Resources

 **eWorkbook** Customisable worksheets for this topic

 **Video eLesson** Being enterprising (eles-3498)

LEARNING SEQUENCE

- 3.1 Overview
- 3.2 Entrepreneurial behaviours
- 3.3 Famous entrepreneurs
- 3.4 Encouraging entrepreneurial behaviours within businesses
- 3.5 **SkillBuilder:** Creating a mind map
- 3.6 **Thinking Big research project:** The next big thing!
- 3.7 **Review**



To access a pre-test and starter questions and receive immediate, **corrective feedback** and **sample responses** to every question, select your learnON format at www.jacplus.com.au.

3.2 Entrepreneurial behaviours

3.2.1 Identifying an entrepreneur

On a cold night in Paris in 2008, two friends were unable to find a taxi to get them home. Surely, they thought, there had to be an easier way than calling and waiting for a taxi that might never arrive. They began to discuss the opportunities that new technologies presented to revolutionise the transport industry. After significant research and a lot of trial and error, Travis Kalanick and Garrett Camp created Uber in 2010. The two friends used their creativity and enterprise to come up with a truly unique idea for a business.

Although it started out small, Uber has grown rapidly and now exists in over 400 cities worldwide. By the end of 2015, the business was valued at well over \$50 billion. Kalanick and Camp were not afraid to think big. While most of us recognise Uber as a transport service, its founders say that it is more than that. They describe Uber primarily as a technology business — this shows that they are leaving their options open for other ventures that may arise from their original idea.

FIGURE 1 Entrepreneurial Uber co-founders Travis Kalanick and Garrett Camp came up with a unique idea and took a risk in order to make it a reality.



Not everyone knows how to turn their idea into a business. People such as Kalanick and Camp, who are willing to take a risk and have the qualities required to turn an idea into a successful business, are called entrepreneurs. An entrepreneur's ideas and methods are often groundbreaking and innovative. While there is significant personal and financial risk involved for an entrepreneur, a successful business venture can create huge rewards and profit.

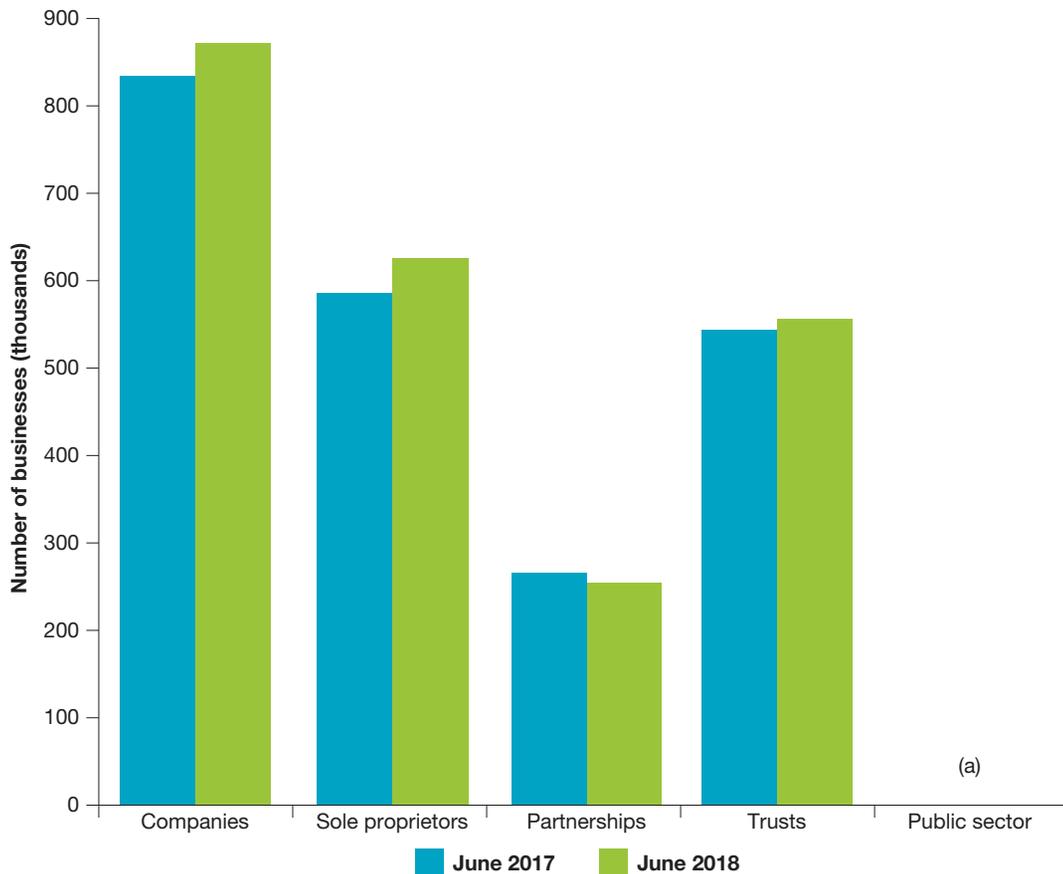
Any person can be an entrepreneur. However, typically entrepreneurs:

- have innovative ideas and act on them
- network with people who may be able to assist with their ideas
- look for opportunities to promote their ideas
- thrive on the challenge of creating their own successful ideas
- make money out of solving problems and selling their ideas
- start up their own businesses.

3.2.2 Business owner or entrepreneur?

As you know, there is a large number of businesses operating in Australia. Many of these businesses are large companies owned by shareholders. Many others, however, are micro- and small businesses, owned by and operated as either sole traders (also known as sole proprietors) or partnerships. **FIGURE 2** shows the different types of businesses operating in Australia and the numbers of each.

FIGURE 2 Australian businesses by type of legal organisation



(a) There were 393 actively trading public sector businesses in June 2017 and 375 in June 2018.

Source: Source ABS 8165.0: *Counts of Australian Businesses*

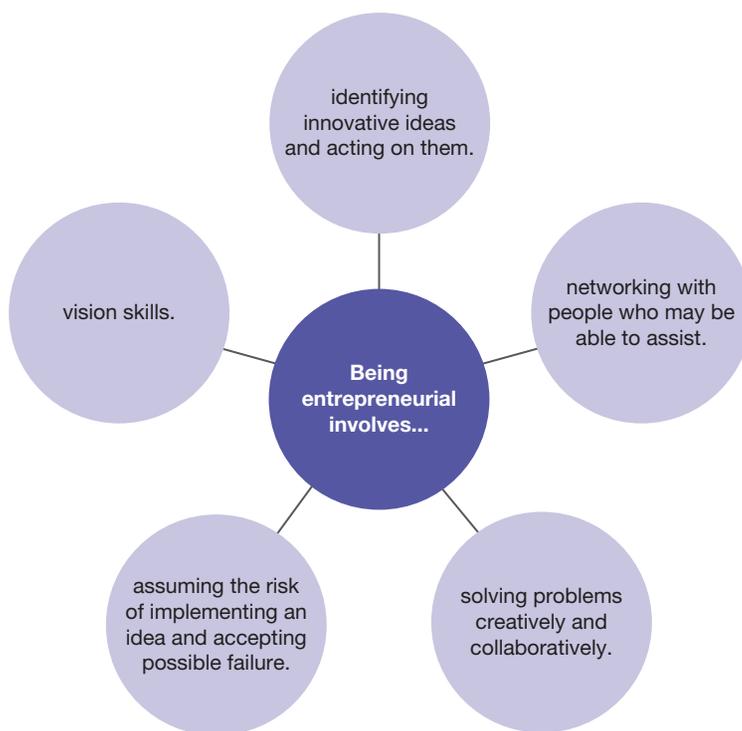
For many people, the terms ‘business owner’ and ‘entrepreneur’ mean one and the same thing. They believe that any person who establishes a business is an entrepreneur. Looking at **FIGURE 2**, would you consider all of the people operating businesses as sole proprietors or in partnerships to be entrepreneurs? While there are many similarities between a business owner and an entrepreneur, there are also some differences. In particular, the behaviours and skills that an entrepreneur brings to a business are what sets them apart from ordinary business owners. These behaviours and skills are outlined in the next section.

Business owners tend to be content with simply running a business on a day-to-day basis so that it makes a profit. They prefer to minimise risks and make calculated decisions so that the outcome is reasonably clear. Entrepreneurs, on the other hand, do much more than that. They take measured risks in order to find new and improved ways of doing things. They are focused on constantly learning, updating their skills, innovating and being creative.

3.2.3 Entrepreneurial behaviours and skills

FIGURE 3 identifies some of the important behaviours and skills of entrepreneurs. Each of these behaviours and skills is outlined below.

FIGURE 3 Behaviours and skills of an entrepreneur



Identifying innovative ideas and acting on them

Travis Kalanick and Garrett Camp, co-founders of Uber, identified a great idea. Their idea was innovative, unique, and took into account modern technologies and the needs of consumers. Not only did they identify the idea, but they set about acting on it. At times we all have what we think are great ideas. However, the key is coming up with an idea that will have broad appeal to consumers, potentially not only in Australia but also worldwide.

Networking with people who may be able to assist

While entrepreneurs often come up with a great idea, they may not have all of the skills or resources needed to implement it and make it profitable. An important skill of entrepreneurs is to be able to connect and network with others. This may be necessary to attract money to fund the idea — as was the case with Uber — or to take advantage of the technical skills of others.

Solving problems creatively and collaboratively

Entrepreneurs are creative in their approach to solving problems. Consider again the example of Uber. One solution to the problem of a limited supply of taxis could have been to start another taxi company. A person who chose this option may be considered a business owner. Kalanick and Camp, however, were creative in their approach to solving this particular problem. They came up with a solution that was completely unique. This skill of creative problem solving is what makes the difference between a business owner and an entrepreneur.

FIGURE 4 The ability to solve problems creatively is a key attribute of entrepreneurs.



Assuming the risk of implementing an idea and accepting possible failure

There is a degree of risk involved in implementing any idea. This risk can be both financial and personal. An entrepreneur must usually invest some of their own money in order to implement their idea, although venture capitalists (individuals willing to provide finance) may invest funds in ideas that they think may be profitable. While the rewards and profits may be great if the idea is successful, entrepreneurs also run the risk of losing their money. Like anything in life, it is often necessary to take measured risks in order to achieve great things.

Vision skills

People with vision skills don't react to new ideas and ways of doing things — they create them! Vision skills allow an entrepreneur to identify possible trends in a market and create goods and services that might satisfy future customer needs. In the globalised business world in which we operate, it is important for entrepreneurs to be constantly scanning the business environment for new opportunities that may arise.

FIGURE 5 Vision skills allow an entrepreneur to identify possible trends in a market and create goods and services which might satisfy future customer needs.



DISCUSS

Many of the most well-known individuals in business failed on several occasions before they finally succeeded.

Why do you think this is? What do people learn from failure?

[Critical and Creative Thinking Capability]

Australians are well known for their entrepreneurial behaviours and have a proud history of inventing useful and necessary products that have improved Australia's economy and changed the world. Some of these are listed below.

- In 1961 David Warren created the 'black box' flight recorder, used in all planes around the world.
- In 1999 Professor Fiona Wood patented her 'spray-on skin' for use in treating burn victims.
- In 1962 Dr Mark Lidwill created the first impromptu pacemaker for a newborn baby.
- Two Australian brothers, Lars and Jens Rasmussen, developed the platform for Google Maps.
- In 1939 Howard Florey, with a team of scientists, purified penicillin from mould, for which he won the Nobel Prize in Physiology or Medicine in 1945.
- Polymer banknotes were developed by the Reserve Bank and the CSIRO, and began circulation in 1988.
- In 1978 Professor Graeme Clark tested a 'bionic ear' and created cochlear implants.
- In 1889 Arthur James Arnot patented the first electric drill.
- Ben Lexcen created the winged keel for the yacht Australia II, which debuted in 1983 in the America's Cup.

- In 1992 the CSIRO and Dr John O’Sullivan developed wi-fi technology.
- In 2006 Professor Ian Frazer developed a vaccine for cervical cancer, now marketed as Gardasil and Cervarix.
- In 2013 a Melbourne medical research institution, Mercy Health, developed a blood test aimed at assisting in the prevention of stillbirths. They identified a method of analysing elements of a mother’s blood that indicate oxygen and nutrient deprivation in the foetus.
- In 2018 collaboration between the Victorian government, RMIT University, Swinburne University of Technology, Professor Peter Blamey and Professor Elaine Saunders led to the release of the modular self-fit hearing aid – the first hearing device with a modular design allowing users with severe dexterity issues to self-manage their hearing aids.

With each innovation, new employment opportunities arise and jobs are created; these workers earn income which then increases their buying power, thus promoting a healthy economy. All sectors of the economy experience a flow-on effect, from manufacturing, to marketing, education, or even medical fields and service sectors. Business environments change as well; employees are introduced to new ways of working, new hours of work, and new activities while at work.

If we consider the example of Uber once more, one of the truly amazing things about this business has been the way that it has created new business opportunities for other entrepreneurs. Uber has revolutionised the way that consumers and producers interact by using mobile technology to deliver services ‘on demand’. Things that we would previously have had to leave the house to obtain can now be delivered on demand.

Since the creation of Uber, many parts of our economy have become ‘Uberfied’. Businesses that use a similar model to Uber have sprung up in other industries, such as massage therapy, babysitting, dog walking and legal services. As you can see, the creativity and enterprise of Travis Kalanick and Garrett Camp has greatly influenced other businesses in our economy.

3.2 ACTIVITY

Research and describe the steps you would need to take to create and register a business.

Examining, analysing, interpreting

3.2 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

3.2 Exercise 1: Check your understanding

1. **ES1** Define the term *entrepreneur*.
2. **ES3** What entrepreneurial qualities do Travis Kalanick and Garrett Camp possess?
3. **ES1** Other than Uber, name another entrepreneur or business that has come up with a great business idea.
4. **ES2** Explain the difference between an entrepreneur and a business owner.
5. **ES2** Explain why vision skills are important for an entrepreneur.

3.2 Exercise 2: Apply your understanding

1. **ES2** Explain why being an entrepreneur can be risky.
2. **ES2** Explain why being an entrepreneur can be rewarding for the individual and the economy.
3. **ES4** Which of the five entrepreneurial behaviours and skills described in this unit of work do you consider to be the most important? Provide reasons to support your decision.
4. **ES6** Think of one situation in which you solved a problem creatively. Describe the situation and your creative solution to the problem.
5. **ES2** Explain how Uber has revolutionised the way that consumers and producers interact.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

3.3 Famous entrepreneurs

3.3.1 Brian Singer and Doug Warbrick (Rip Curl)

Rip Curl is an iconic Australian brand that was established in the backyard of surfers Brian Singer and Doug Warbrick. The business was established in 1969 in Victoria, initially to produce surfboards. Around the time of Rip Curl's establishment there was a shift from longer surfboards to the more common shortboards that we see today. This meant that there was a lot of experimentation with surfboard design, and Singer and Warbrick wanted to be part of it. They saw an opportunity in the surfboard market and were prepared to try their luck by starting a business.

FIGURE 1 Brian Singer and Doug Warbrick saw an opportunity in the surfboard market and were prepared to take it.



One of the strengths of Rip Curl throughout its existence has been the willingness of its owners to consult and interact with customers. In addition, Singer and Warbrick had extensive knowledge of the colder conditions in Victorian waters and the resulting needs of their consumers — namely, wetsuits to keep them warm in the colder surf conditions. They quickly realised that while there were many competitors producing a range of different surfboards, very few were producing wetsuits. They identified this opportunity in the market and went to work.

When asked in an interview how Rip Curl began, Brian Singer responded: ‘We were just looking for a quid to fund our next surfing holiday.’ While Rip Curl's beginnings were fairly humble, the business has become an international success. From the late 1970s, the business began selling their wetsuits overseas.

Today, Rip Curl products are made and sold in a range of countries all over the world, including Argentina, Brazil, Canada, Chile, France, Israel, Indonesia, Peru, South Africa and the United States.

When Singer and Warbrick first founded Rip Curl, they didn't consider themselves to be entrepreneurs. However, from observing their actions and success, it is clear that they demonstrated many characteristics of entrepreneurs. They came up with great ideas, were willing to take a risk to implement those ideas, and were also willing to be flexible. While they acknowledge that part of their success can be attributed to good luck and timing, their entrepreneurial abilities also played a significant role in their success.

FIGURE 2 One of the strengths of Rip Curl throughout its existence has been the willingness of its owners to consult and interact with customers.



3.3.2 Fred DeLuca (Subway)

Fred DeLuca demonstrated enterprising behaviours from a very young age. As a child, he would collect plastic drink bottles which he would exchange for money so that he could buy comic books. After reading the comic books, he would sell them to his friends so that he could buy more comic books. While these early signs may have pointed to a life as an entrepreneur for Fred DeLuca, few would have predicted that he would go on to create Subway, the global fast-food company.

In 1965, DeLuca borrowed \$1000 from a family friend, Peter Buck, with the aim of making some money to fund his studies at college. Armed with the loan from his friend and an idea to create a healthier fast-food outlet, he went about creating his business. Even DeLuca would have found it hard to believe that his first store would eventually pave the way for a global business with over 44 000 outlets in more than 110 countries.

TABLE 1 The top 10 countries by number of Subway stores

Rank	Country	Number of stores
1	United States	26 971
2	Canada	3258
3	United Kingdom	2166
4	Brazil	2092
5	Australia	1456
6	Mexico	1043
7	Russia	641
8	Germany	622
9	China	562
10	India	559

Source: Subway US website, 2016

Subway Australia's website provides the following facts about the global fast-food empire:

- The first store was opened in Connecticut (USA) in August 1965.
- By 1974 there were 16 stores throughout Connecticut.
- The first Subway store in Australia opened in 1988 in Perth.
- By February 2018, there were over 1400 Subway outlets in Australia.
- There are more than 44 000 Subway outlets in over 110 countries worldwide.

FIGURE 3 Starting out with a loan of \$1000 from a friend, Fred DeLuca created Subway. The business now has franchises throughout the world.



3.3 ACTIVITY

Research one successful entrepreneur not already examined in this subtopic. Use your research to:

- identify the entrepreneur or business
- outline the business idea
- describe the entrepreneurial skills and behaviours of the person(s)
- explain why the entrepreneur or business has been successful.

Examining, analysing, interpreting

3.3 EXERCISES

Economics and Business skills key: ES1 Remembering and understanding ES2 Describing and explaining ES3 Examining, analysing, interpreting ES4 Questioning and evaluating ES5 Reasoning, creating, proposing ES6 Communicating, reflecting

3.3 Exercise 1: Check your understanding

1. **ES1** What was the impetus for Rip Curl founders Brian Singer and Doug Warbrick in starting up their business?
2. **ES1** What are some of Rip Curl's strengths that have helped its success?
3. **ES1** Which market did Rip Curl cleverly tap into once they realised that many businesses were producing surfboards?
4. **ES1** What evidence is there to suggest that Subway is now a global business?
5. **ES2** Explain why Fred DeLuca can truly be considered an entrepreneur.

3.4.2 Business strategies to encourage entrepreneurial behaviours

Every business is completely different. Factors such as business size, industry sector and the skills of employees may affect the types of strategies used to encourage entrepreneurial behaviours. Naturally, a larger business may have more resources with which to foster entrepreneurial behaviours. However, because of their size, smaller businesses often find it easier to be flexible and therefore can be more innovative in their approach to solving problems. Some of the common strategies used by businesses to encourage entrepreneurial behaviours are identified in **FIGURE 2**.

FIGURE 2 Some common strategies used by businesses to encourage entrepreneurial behaviours



Businesses often use a combination of these strategies in an attempt to encourage entrepreneurial behaviours in their organisation. Each of these strategies is examined in more detail below.

3.4.3 Encouraging a culture of innovation

How many Post-it Notes do you think you might have used in the past year? Post-it Notes are one of the most well-known products created by 3M — a business that has worked hard to truly develop a culture of innovation. But how? What practical measures have 3M put in place to encourage a culture of innovation?

3M’s culture of innovation begins with their recruitment of staff. They have a philosophy that says, ‘hire good people and leave them alone’. This philosophy clearly identifies the value that 3M places on hiring the right people and giving them the freedom and flexibility they need to come up with innovative ideas for new products.

FIGURE 3 The Post-it Note is a product of the business 3M, a company that encourages innovation.



3M recognises that the greatest investment they can make is in their employees. They hold the view that if your people grow, then your business will also grow.

Companies that encourage a culture of innovation give employees time to explore their own ideas without worrying too much about failure. Employees must be allowed to be honest and should be encouraged to share new ideas. 3M is one such company that allows employees to use part of their work time to explore new ideas — this will be discussed further in the next section.

While today it is common in the modern business environment for businesses to encourage a culture of innovation and entrepreneurship, this was not always the case. In the past, many employers and managers thought that creativity and innovation might distract employees from their main tasks. Common strategies now used by businesses to encourage a culture of innovation include:

- employee time
- decentralisation of decision-making
- training and development
- rewards.

3.4.4 Employee time

Google is now one of the most well-known and profitable businesses in the world. For many people, whenever they have a question, they go to Google to find an answer. A lot of people communicate using Google's email system, Gmail. Google has revolutionised the way in which we access information. But how did they develop such innovative technological services? One part of the answer is in the way the business is structured and in how its employees are treated.

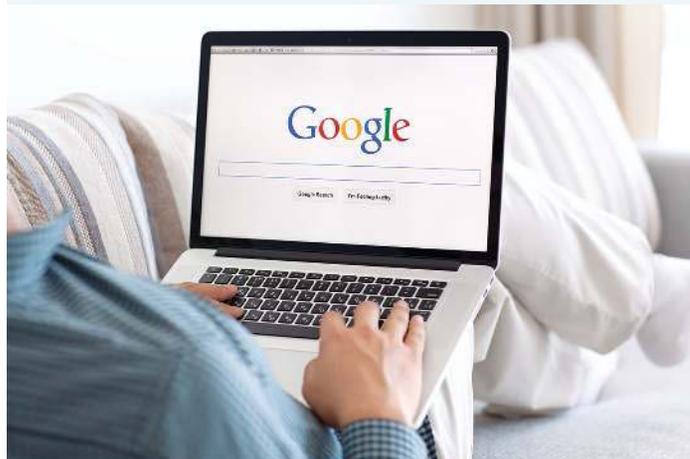
In order to encourage entrepreneurship and innovation amongst staff, Google implemented what is known as the '20% time' rule. This rule allows employees to spend 20 per cent of their time working on any project they think will benefit the business. The initiative was developed in order to provide employees with some time and flexibility at work, with the hope that great ideas would result from it. While there is no expectation that staff engage in the '20% time' initiative, many of them do. Another key aspect of the program is that failure is both accepted and embraced. Failure is recognised as a key part of innovation. Google products that have emerged from the '20% time' rule include Gmail and Google News.

3M is another business that has a policy of 'employee time' to foster entrepreneurship amongst staff. The Post-it note was developed as a result of this policy. Similarly to Google, 3M have a '15% Culture' whereby staff can spend 15 per cent of their work time on ideas that interest and excite them. This allows employees to take ownership of their ideas and contribute more meaningfully to the business.

3.4.5 Decentralisation of decision-making

Traditionally, many businesses have had very rigid organisational structures. This means that a business has many levels of management. Consider the organisation of your school. You probably have some or all of the following: principal, deputy principal, curriculum coordinator, year coordinators, subject coordinators and classroom teachers. While each school may have different positions with different titles, the reality is that there are many levels of management, and decision-making is usually centralised with these managers. Businesses are no different.

FIGURE 4 Google has a '20% time' rule, which allows employees to spend 20 per cent of their time working on anything they think will benefit the business.



While having many levels of management is not a bad thing in itself, it may mean that employees do not have a sense of control and ownership over their work and it may inhibit their entrepreneurial instincts. Increasingly, businesses have attempted to remove layers of management within their organisations in an attempt to save money and empower staff. This has resulted in the decentralisation of decision-making. By this, we mean that decisions are increasingly being made by employees, not just managers.

Some of the main benefits of decentralised decision making include:

- Employees are empowered to make decisions and find new, creative ways to solve problems.
- Management can focus on major decisions.
- Decisions are made by many people with different skills and perspectives.
- Employees are able to work without direct supervision from management.
- It helps build the skills of employees and therefore prepares them for possible promotion opportunities.

FIGURE 5 Decentralised decision-making empowers employees to find new ways to solve problems.



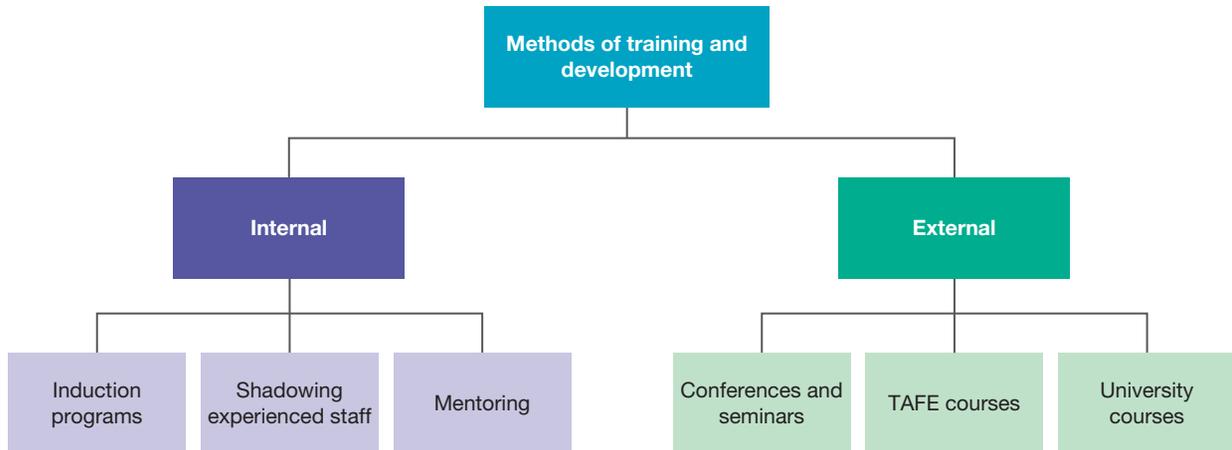
3.4.6 Training and development

Training and development are important tools used by businesses to encourage entrepreneurial behaviours. These processes are aimed at improving the performance of employees and allowing them to do their jobs more effectively. Improving the knowledge and skills of employees through training and development can be very powerful in encouraging entrepreneurial behaviours. More knowledgeable and skilled employees are often able to find creative and innovative ways of solving problems. Training is something that should be ongoing and can take place at many different stages, including:

- *prior to getting a job.* Some jobs require people to have a TAFE qualification, university degree or some other type of formal qualification such as a driving licence.
- *when beginning a job.* Many employers run an induction program to introduce employees to the culture and practices of their business.
- *upon receiving a promotion.* When employees receive a promotion, they may require extra knowledge and skills.

Training and development can take place both within a business (internal) and outside of a business (external). Depending on the nature of the business and the needs of their employees, a combination of both may be used. Some of the main methods of training and development are identified in **FIGURE 6**.

FIGURE 6 Internal and external training and development methods



3.4.7 Rewards

Some people believe that creativity, innovation and entrepreneurship cannot be fostered or encouraged simply through the use of rewards. They believe that entrepreneurship is **innate**, and that rewards may actually inhibit creativity and innovation. However, many businesses have a range of reward systems that are designed to encourage entrepreneurial behaviours. Good rewards systems should be tailored to suit the specific needs of the business and its employees. Rewards can be monetary or non-monetary in nature, and a reward that motivates one employee may not have the same impact on other employees. Various types of reward are identified in **FIGURE 7**.

One example of a business with a clear rewards policy is 3M. Their policy involves giving awards to staff to recognise their work and achievements. The Innovator Award is given to employees who have successfully used their '15% Culture' time to create a new product, or to enhance an existing product. This reward system aims to encourage creativity, innovation and entrepreneurship among employees.

FIGURE 7 Monetary and non-monetary rewards

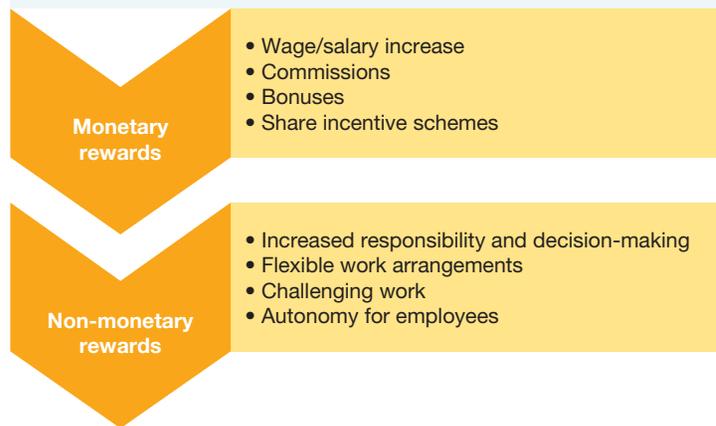


FIGURE 8 3M uses rewards systems to encourage entrepreneurial behaviours among its employees.



DISCUSS

Creativity is seen by many employers as the most desirable trait that they look for in employees, but it is also one of the most difficult to define and measure. How do you think you could measure creativity?

[Critical and Creative Thinking Capability]

3.4 ACTIVITY

Undertake research on one business that has tried to develop a culture of innovation among its staff. Use your research to:

- identify the business
- outline the products and services delivered by the business
- describe the strategies the business has used to encourage a culture of innovation
- recommend some strategies that you think would further assist the business in developing a culture of innovation.

Examining, analysing, interpreting

3.4 EXERCISES

Economics and Business skills key: ES1 Remembering and understanding ES2 Describing and explaining ES3 Examining, analysing, interpreting ES4 Questioning and evaluating ES5 Reasoning, creating, proposing ES6 Communicating, reflecting

3.4 Exercise 1: Check your understanding

- ES1** Why do businesses need to encourage entrepreneurial behaviours?
- ES1** Define the term *intrapreneur*.
- ES1** Identify three strategies used to encourage entrepreneurial behaviours.
- ES2** Explain how a business can encourage a culture of innovation.
- ES2** Explain the benefits for businesses of decentralising their decision-making.

3.4 Exercise 2: Apply your understanding

- ES2** Explain how training and development can encourage entrepreneurial behaviours.
- ES4** Is Google's '20% time' rule an effective way to maximise the output of employees? Provide some arguments for and against the policy.
- ES6** 'A person is either entrepreneurial or not, and no amount of reward can influence that.' Do you agree or disagree with this statement? Provide reasons to support your response.
- ES3** 'Providing employees with time to be "entrepreneurial" is a risk.' Write a paragraph analysing this statement.
- ES6** Explain how you might use a period of time equivalent to Google's '20% time' in your school day.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

3.5 SkillBuilder: Creating a mind map

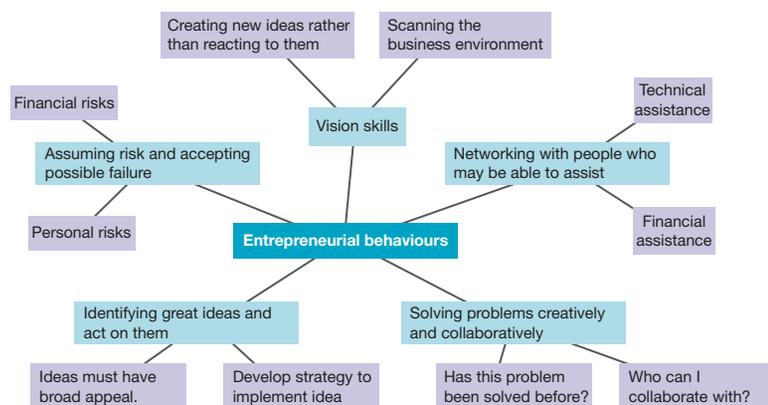


What is a mind map?

A mind map is a visual tool that is used to organise and present large amounts of information. It can be used for a range of tasks such as note-taking and organising research for an assignment.

Select your learnON format to access:

- an explanation of the skill (Tell me)
- a step-by-step process to develop the skill (Show me)
- an activity to allow you to practise the skill (Let me do it).



3.6 Thinking Big research project: The next big thing!

online only

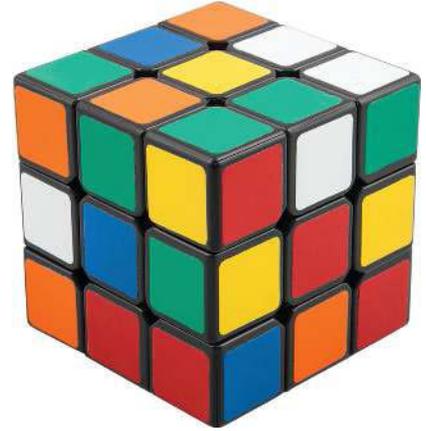
SCENARIO

Fads come and go. Every now and then a new item hits the shops and creates a sensation — it becomes the ‘must have’ item that everybody wants.

You will investigate past fads and bring your entrepreneurial talents to the fore to devise a new product designed to grab the attention of a specific target market. Can you create the next big thing?

Select your learnON format to access:

- the full project scenario
- details of the project task
- resources to guide your process work
- an assessment rubric.



on

Resources



ProjectsPLUS Thinking Big research project: The next big thing! (pro-0202)

3.7 Review

online only

3.7.1 Key knowledge summary

Use this dot point summary to review the content covered in this topic.

3.7.2 Reflection

Reflect on your learning using the activities and resources provided.

on

Resources



eWorkbook Reflection (doc-31742)
Crossword (doc-31743)



Interactivity Being enterprising crossword (int-7658)

KEY TERMS

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

entrepreneur a person who organises a business venture, and assumes the financial risks associated with it, usually in the hope of making a profit

innate inborn, an inherent characteristic, rather than being developed through experience

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

3.5 SkillBuilder: Creating a mind map

3.5.1 Tell me

A mind map is a visual tool that is used to organise and present large amounts of information. It can be used for a range of tasks such as note-taking and organising research for an assignment. Mind mapping usually starts with a central idea or question, which then branches out to related concepts or terms. A mind map allows you to show the links and connections between the concepts that you are exploring.

There are many different ways to construct a mind map and you should refine your mind mapping to suit your personal needs. When creating a mind map, some things that you can include are:

- key questions
- major terms and concepts
- images and different colours
- connective arrows to link concepts and to show relationships.

There are a wide variety of online mind mapping tools that can be easily accessed. While these can be useful, it is often just as effective to create a mind map with a pen and paper.

A mind map has some major advantages over traditional note-taking.

- It allows for complex concepts to be easily broken down.
- It allows for ideas to be represented visually, which may make them easier to remember.
- It allows you to more easily show connections or relationships between concepts.
- It allows you to look at a concept at a glance.

3.5.2 Show me

Imagine you have been asked to create a mind map to visually represent the major behaviours and skills of an entrepreneur. The five key skills/behaviours in this example will be:

1. vision skills
2. identifying great ideas and acting on them
3. solving problems creatively and collaboratively
4. assuming risk and accepting possible failure
5. networking with people who may be able to assist.

The information above can be represented in a mind map like the one in **FIGURE 1**.

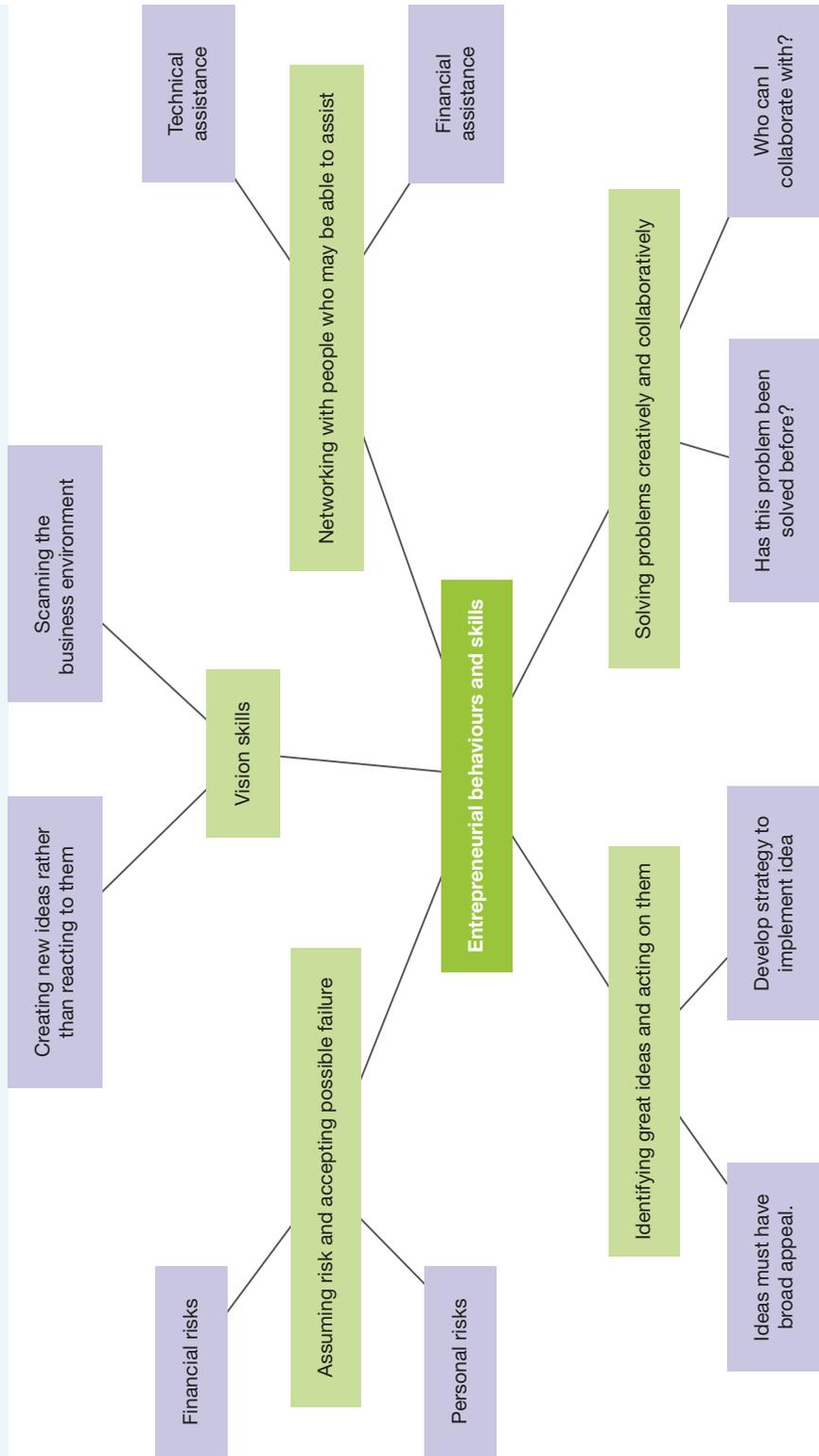
3.5.3 Let me do it

Complete the following activity to practise your skills.

3.5 ACTIVITY

Using the process in the Show me section as a model, construct a mind map to visually represent the common strategies used by businesses to encourage entrepreneurial behaviours. The mind map in **FIGURE 1** may assist you in getting started.

FIGURE 1 Mind map representing entrepreneurial behaviours and skills

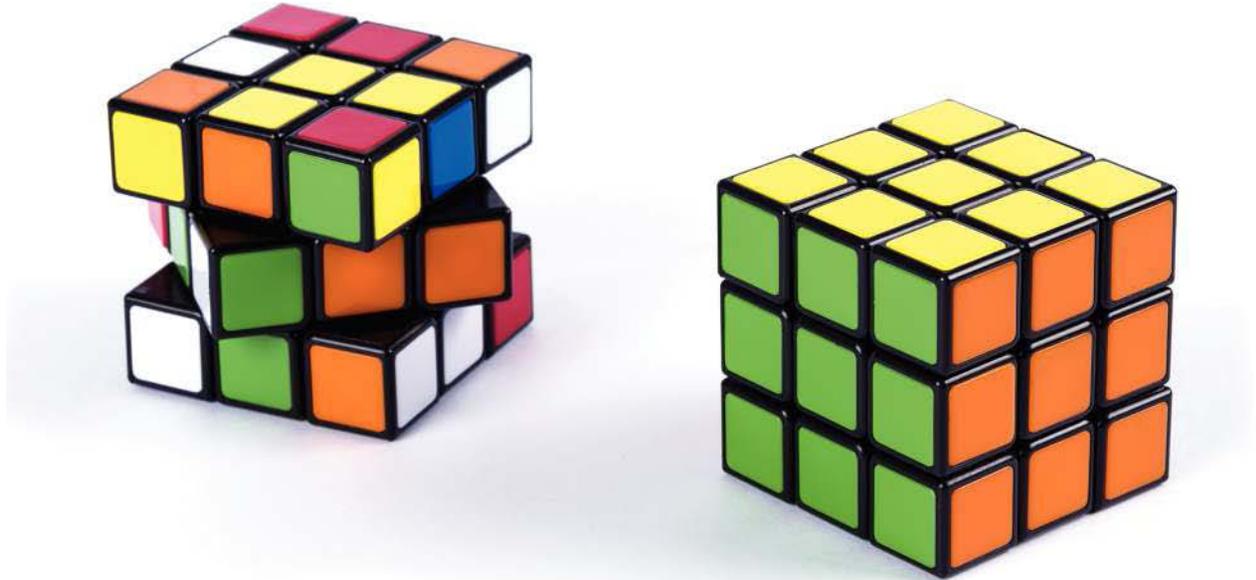


3.6 Thinking Big research project: The next big thing!

Scenario

Fads come and go. Every now and then a new item hits the shops and creates a sensation, becoming the must-have item that everybody wants.

You will investigate past fads and bring your entrepreneurial talents to the fore to devise a new product designed to grab the attention of a specific target market. Can you create the next big thing?



Task

You will need to complete the following elements for your project.

- Conduct research and prepare a brief report on five fad items.
 - What were they?
 - What did they do?
 - When were they introduced?
 - Who made them?
- Design a new fad product.
- Create a report detailing:
 - the type of market your product is targeted at
 - what the product would be used for
 - what is unique about your product and why it would be successful
 - costing details — how much it would cost to make and for how much you would sell it.

Process

- Open the ProjectsPLUS application in the Resources for this topic. Click on the **Start new project** button to enter the project due date and set up your project group. Working with a partner will allow you to swap ideas and share responsibility for the project. Save your settings and the project will be launched.

- Navigate to the **Research forum**, where you will find starter topics loaded to guide your research. You can add further topics to the Research forum if you wish. When you have completed your research, you can print out the **Research report** in the Research forum to easily view all the information you have gathered.
- In the **Media centre** you will find an assessment rubric to guide your work and some weblinks that will provide a starting point for your research.
- Conduct research and decide upon the five fad items you will report on. For each item, compile the information outlined in the Task section. Find an image or create your own illustration of each item to include in your report.
- Design your new product — create a diagram showing how the item works, to be included in your report. You might like to create a prototype of the item if you are able to, and if time allows.
- Identify your market, the product’s use(s), its unique features and why it would be successful. Write up this information in your report.
- Develop your product costing and add to your report.
- Check your report thoroughly to ensure you have used correct spelling and grammar, and that you have completed all elements listed in the **Task** section. When you are happy with your work, present your ‘next big thing’ to the class and submit your report to your teacher for assessment.



Resources



ProjectsPLUS Thinking Big research project: The next big thing! (pro-0202)

3.7 Review

3.7.1 Key knowledge summary

3.2 Entrepreneurial behaviours

- Enterprising behaviours are exhibited in people who are: creative, inquiring, innovative, risk-taking, good at problem solving, and willing to try new ways of doing things and accepting the consequences if they fail.
- Businesses are increasingly looking to employ people who display enterprising behaviours.
- A person who is willing to take a risk and has the qualities required to turn an idea into a successful business is called an entrepreneur.
- Being entrepreneurial involves a range of skills such as:
 - identifying innovative ideas and acting on them
 - networking with people who may be able to assist
 - solving problems creatively and collaboratively
 - assuming the risk of implementing an idea and accepting possible failure
 - vision skills.
- Travis Kalanick and Garrett Camp (co-founders of transport company Uber) have revolutionised the way that consumers and producers interact.

3.3 Famous entrepreneurs

- In establishing Rip Curl, Brian Singer and Doug Warbrick relied on their knowledge of the surfing world and a willingness to interact with customers.
- Fred DeLuca demonstrated enterprising behaviours from a very young age and went on to create global business Subway, which now has over 44 000 outlets in over 110 countries.

3.4 Encouraging entrepreneurial behaviours within businesses

Strategies that businesses can use to encourage entrepreneurial behaviours include:

- encouraging a culture of innovation
- employee time
- decentralisation of decision-making
- training and development
- rewards.

3.7.2 Reflection

Complete the following to reflect on your learning.

3.7 ACTIVITIES

Revisit the inquiry question posed in the Overview:

Having a great idea to help your business is one thing, but is it worth taking the risk of trying it out?

1. Now that you have completed this topic, what is your view on the question? Discuss with a partner. Has your learning in this topic changed your view? If so, how?
2. Write a paragraph in response to the inquiry question, outlining your views.



Resources



eWorkbook Reflection (doc-31742)

Crossword (doc-31743)



Interactivity Being enterprising crossword (int-7658)

KEY TERMS

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

4 Participants in the changing work environment

4.1 Overview

Employers provide jobs and employees do the work. Is that all there is to the Australian workplace?

4.1.1 The changing workplace

In order to appreciate the changes in Australia's contemporary work environment, it is useful to investigate the workplaces of the past. One hundred or so 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.

Fast-forward 50 years and Australian workplaces had undergone significant change. By 1964, Australia's reliance on the agricultural industry had declined 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. Workplaces at this time were typically small and family run, although some larger companies had begun to develop their influence.

Move forward another 55 years or so, and dramatic changes to the Australian workplace have again taken place. Although the agricultural industry remains strong, the Australian manufacturing industry has found itself unable to compete with cheaper overseas competitors, resulting in the closure of Australian-based operations of long-established manufacturers such as Holden, Ford and Toyota. Technological developments have 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.

Resources



eWorkbook Customisable worksheets for this topic



Video eLesson The changing work environment (eles-2388)

LEARNING SEQUENCE

- 4.1 Overview
- 4.2 Australian workplace participants
- 4.3 Changing roles of employees
- 4.4 Employer responsibilities
- 4.5 Government responsibilities
- 4.6 **SkillBuilder:** Preparing a résumé
- 4.7 **Thinking Big research project:** Workplace evolution presentation
- 4.8 **Review**



To access a pre-test and starter questions and receive immediate, **corrective feedback** and **sample responses** to every question, select your learnON format at www.jacplus.com.au.

4.2 Australian workplace participants

4.2.1 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 a larger scale, our country’s economy. In this topic, we identify and examine the participants in the Australian workplace.

FIGURE 1 The major participants in the Australian workplace



4.2.2 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 work in some other retail business, you are part of the Australian workforce. An employee is someone who works for another person or entity in return for financial compensation. This work may vary in a number of ways including the nature of the work completed, the level of responsibility and the time spent completing the work. Whether you work as a server at the drive-through at McDonald’s or as the company’s **chief executive officer (CEO)**, you are an employee of McDonald’s. Although their roles and responsibilities differ greatly, both the server and the CEO undertake specific jobs and are paid for their time and effort.

FIGURE 2 A McDonald's server and the company's CEO, Steve Easterbrook. Their jobs are very different but both are employees of the same company.



As of February 2019, more than 12.7 million Australians were working as employees. This figure equates to just over half of Australia's total population. Casual, seasonal, part-time and full-time employment are all included in this calculation. An increasing number of employees are looking for more flexible working conditions. It is estimated that just under 31 per cent of Australia's workforce is employed on a casual or contract basis. Although this kind of work provides employees with more flexibility, casual work does not come with the same rights and benefits as part-time or full-time employment.

4.2.3 Employers

A diverse range of employers exists within Australia. As at June 2018, there were more than 875 000 employing businesses in Australia. The majority of these were small businesses with only 1–4 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 2018

Number of employees	Number of businesses in Australia
1–19	823 551
20–199	50 338
200+	3 855
Total	877 744

Source: Data derived from ABS 8165.0 — *Counts of Australian businesses, including entries and exits* (June 2013 to Jun 2018)

From the smallest self-run business to the largest **multinational company**, all employers in Australia are subject to the same responsibilities and requirements. These include the provision of:

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

A number of government organisations hold employers to these responsibilities. The most influential of these is the Fair Work Commission (FWC). There have been several versions of the FWC including Fair Work Australia and the Australian Industrial Relations Commission. The Fair Work Commission 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.

4.2.4 Trade unions

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

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

FIGURE 3 Teachers protesting for higher wages and better conditions at Rod Laver Arena in Melbourne



4.2.5 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.

4.2 ACTIVITIES

Research an industrial action in Australian history. Write a summary of the dispute, answering the following questions:

- What was the dispute about?
- Who was involved in the dispute?
- What kind of industrial action was taken?
- How was the dispute resolved?

Examining, analysing, interpreting

4.2 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

4.2 Exercise 1: Check your understanding

1. **ES1** What proportion of Australia's population is currently employed in casual, part-time or full-time work?
2. **ES1** When did the first trade unions begin and what was their purpose?
3. **ES2** What is the main role of governments in the Australian workplace?
4. **ES3** 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. **ES2** Explain the role of the Fair Work Commission.

4.2 Exercise 2: Apply your understanding

1. **ES3** Copy **TABLE 1** from this subtopic and add a column titled 'Percentage of all Australian businesses'. For this new column, you will need to take each category of business and calculate the percentage of Australian businesses that fall into that category. For example, what percentage of Australian businesses have 1–19 employees? Complete this calculation for each category in the table.
2. **ES2** Describe the role played by trade unions in the workplace.
3. **ES2** Explain the benefit to employees of joining a trade union.
4. **ES3** Analyse how governments may assist in maintaining a work environment that benefits all parties.
5. **ES6** 'The bigger the business, the easier it is to manage the workplace.' Do you agree with this statement? Justify your response.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

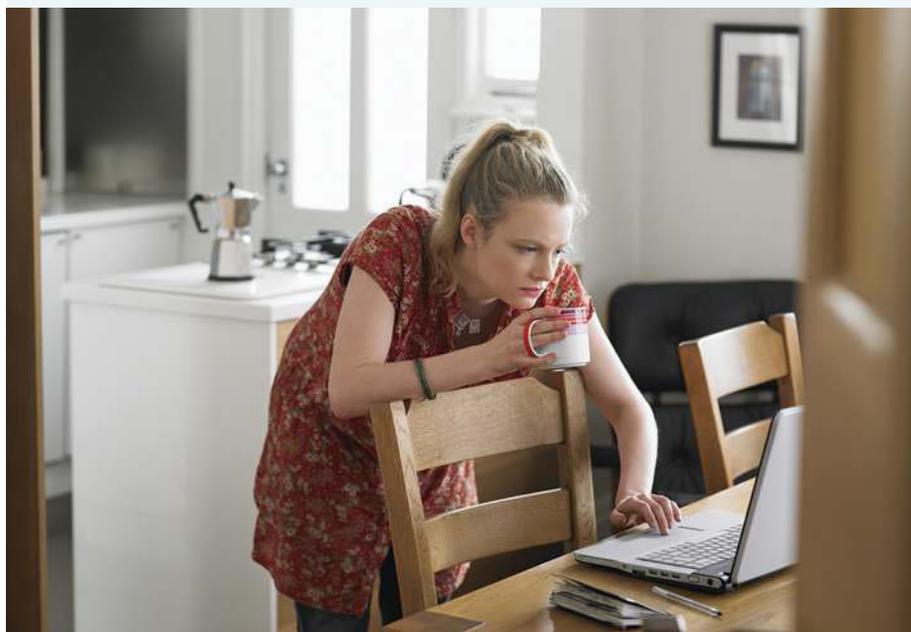
4.3 Changing roles of employees

4.3.1 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 career. 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 subtopic, 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.



DISCUSS

As mentioned, it is now expected that most people entering the workforce will work 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 succeed in your working life? **[Personal and Social Capability]**

4.3.2 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 engaging in effective teamwork, acting responsibly and showing initiative.

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



Intrapreneurship

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** (see topic 3, subtopic 3.4). There are often financial incentives and rewards for employees who demonstrate intrapreneurship, but 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.

4.3.3 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, and Holden have closed their manufacturing operations in Australia, with the resultant loss of over 4000 jobs. Telstra has also shed staff in recent years, and in 2018 National Australia Bank (NAB) announced they would cut 4000 jobs over 3 years. Even the Australian Bureau of Statistics (which provides the majority of statistics for this topic) axed 100 jobs in 2018. 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 (rounded to nearest hundred)
Agriculture, forestry and fishing	5 400
Mining	15 400
Manufacturing	39 900
Electricity, gas, water and waste services	8 700
Construction	64 700
Wholesale trade	14 700
Retail trade	40 400
Accommodation and food services	29 200
Transport, postal and warehousing	23 100
Information media and telecommunications	6 700
Financial and insurance services	12 200
Rental, hiring and real estate services	7 500
Professional, scientific and technical services	33 500
Administrative and support services	15 400
Public administration and safety	18 100
Education and training	12 300
Health care and social assistance	20 100
Arts and recreation services	3 400
Other services	10 400
Total	381 400^a

^aDifference due to rounding errors

Source: ABS 6105.0 – *Australian labour market statistics* (July 2014) NB: This is the most recent data available for this statistic.

The possibility of retrenchment in Australia has always been very real. When redundancies occur, competition for job vacancies increases. There is always only a finite number of job vacancies in the economy. As at February 2019 the number of job vacancies in Australia was 244 900, an increase of 1.1 per cent from November 2018. 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 applicants 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.

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.

4.3.4 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 possible that you will be asked to visit or work in a number of locations around the world. In 2017 alone, over \$1.3 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 career and expose them to new places and cultures.

4.3 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

4.3 Exercise 1: Check your understanding

1. **ES1** What kind of document describes the specific duties and responsibilities of an employee?
2. **ES1** What are the positive impacts of a global economy on employees?
3. **ES2** Why do you think it is important for businesses to send employees on business trips?
4. **ES2** Explain the benefit for an employee to spend time working overseas.
5. **ES2** How has increased competition for jobs affected the Australian workplace?

4.3 Exercise 2: Apply your understanding

1. **ES2** What is an intrapreneur? Provide an example in your answer.
2. **ES3** **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 jobs?
 - (b) Provide a likely explanation for the downturn in each of these industries.
3. **ES5** In question 2, you used the data from **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.
4. **ES2** Describe the benefit to businesses of an increasing number of job applicants for each job vacancy.
5. **ES3** Analyse how retrenchment may impact an employee and the employer.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

4.4 Employer responsibilities

4.4.1 The best places to work

Each year, Great Place to Work – Australia compiles a report detailing the 50 businesses with the best work environments in Australia. The eleventh annual study, released in 2018, consisted mainly of companies that are not well known to the general public – you probably have not heard of most of them! Among these are Atlassian, Canva and Salesforce. 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 Chicago, USA, are known for their quirky design.



4.4.2 Workplace health and safety

Whether employees spend their day working on a computer at a desk, or in a harness lopping trees, employers are equally obliged to provide safe working conditions. There are numerous official workplace responsibilities designed and enforced by government, and every employer in Australia must abide by them. Employers 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 logger, 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.

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



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.

4.4.3 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 qualify 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 fact sheet, *Introduction to the national employment standards*

DISCUSS

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?

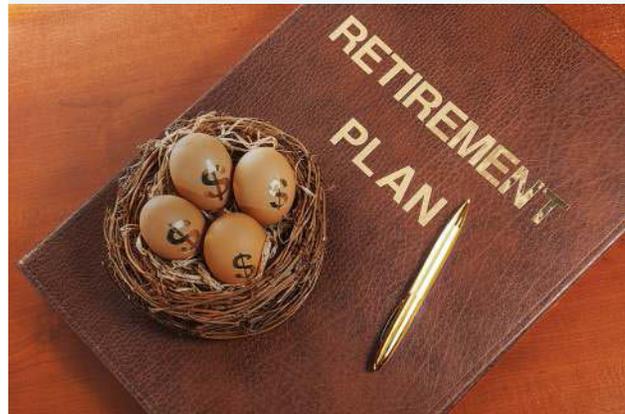
[Personal and Social Capability]

4.4.4 Taxation and superannuation

Whether a small family business or a large corporation, every Australian employer has 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 current minimum amount of 9.5 per cent of each employee's income was set in July 2014.) 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.



4.4 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

4.4 Exercise 1: Check your understanding

1. **ES1** What duty of care do employers have towards their employees?
2. **ES1** What are the national employment standards (NES)?
3. **ES2** What is superannuation and why is it important for an employee?
4. **ES1** What is the minimum amount employers must pay into an employee's superannuation account?
5. **ES2** Explain how WorkCover/WorkSafe can help injured workers.

4.4 Exercise 2: Apply your understanding

1. **ES3** 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 the workplace? What training and instruction has been provided to minimise these risks?
2. **ES5** Provide one argument for and one against the idea of compulsory superannuation.
3. **ES3** Analyse why the national employment standards (NES) are necessary.
4. **ES6** 'The more money you put into superannuation now, the better off you will be in retirement.' Comment on this statement.
5. **ES6** Are there any entitlements described under the NES that you believe are unnecessary? Justify your response.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

4.5 Government responsibilities

4.5.1 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* and 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 is unlawful under 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. One particular example of such law-making is 'Brodie's Law', which was passed in response to the suicide of 19-year-old Brodie Panlock, who endured ongoing humiliating and intimidating bullying in the course of her work at a Melbourne café.

FIGURE 1 'Brodie's Law' was established after incessant workplace bullying led to the suicide of teenager Brodie Panlock.

Take a stand against bullying



Handwritten on the palm: Brodie's Law

Serious bullying is a crime punishable by up to 10 years in jail

 **Are you a victim of bullying? Do you know somebody who might be?**
Help and support is available. Help say no to bullying by taking a stand.

For information about Victoria's anti-bullying laws visit www.justice.vic.gov.au/saynotobullying
Anyone who needs crisis support can call Lifeline 24/7 on 13 11 14 or your local police.



4.5.2 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. Some 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. The *Australia to 2050: future challenges* report published by the federal government has found the following facts:

- 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.

4.5.3 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 industrial actions can be disruptive, they can also be necessary for meaningful change to occur.

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



4.5 EXERCISES

Economics and Business skills key: **ES1** Remembering and understanding **ES2** Describing and explaining **ES3** Examining, analysing, interpreting **ES4** Questioning and evaluating **ES5** Reasoning, creating, proposing **ES6** Communicating, reflecting

4.5 Exercise 1: Check your understanding

1. **ES1** What is gross domestic product and how is it calculated?
2. **ES2** What is a workplace agreement? Why are workplace agreements important?
3. **ES2** Explain how governments can generate economic growth.
4. **ES2** Explain how governments can impact the level of unemployment.
5. **ES1** The role of government in the workplace is established in acts of Parliament. Identify one such act.

4.5 Exercise 2: Apply your understanding

1. **ES5** 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?
2. **ES3** Analyse the role of the government in establishing workplace agreements.
3. **ES6** The government has created occupational health and safety legislation. Discuss why you think this legislation was necessary and why it needs to be monitored.
4. **ES3** Analyse how governments can influence gross domestic product through their role in the workplace.
5. **ES6** Australia's population is ageing, so the government is progressively raising the age at which people are able to access the aged pension. Discuss why this is necessary.

Try these questions in learnON for instant, corrective feedback. Go to www.jacplus.com.au.

4.6 SkillBuilder: Preparing a résumé

online only

What is a résumé?

A résumé is a short summary of your skills, experience and qualifications (also known as a curriculum vitae, or CV) that is a crucial part of the job application process. Constructing an effective résumé is an important skill; a good résumé will help you stand out from other applicants and increase your chances of obtaining an interview for the position.

Select your learnON format to access:

- an explanation of the skill (Tell me)
- a step-by-step process to develop the skill (Show me)
- an activity to allow you to practise the skill (Let me do it).



on Resources

 **Weblink** How to write a résumé

4.7 Thinking Big research project: Workplace evolution presentation

online only

SCENARIO

Technological advances, online shopping, the introduction of parental leave and carer's leave for employees, the growth of part-time and casual work and 24-hour shopping have changed the way we work. You will choose an industry to investigate and present a report on how jobs have changed over time and how they might change in the future.

Select your learnON format to access:

- the full project scenario
- details of the project task
- resources to guide your project work
- an assessment rubric.



on Resources

 **ProjectsPLUS** Thinking Big research project: Workplace evolution presentation (pro-0203)

4.8 Review

online only

4.8.1 Key knowledge summary

Use this dot point summary to review the content covered in this topic.

4.8.2 Reflection

Reflect on your learning using the activities and resources provided.

on Resources



eWorkbook Reflection (doc-31744)

Crossword (doc-31988)



Interactivity Participants in the changing work environment crossword (int-7659)

KEY TERMS

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

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

gross domestic product (GDP) the value of all the goods and services produced within a country in a given period of time (usually a year). It is often used as an indicator of a country's wealth.

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

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

multinational company an organisation with interests and offices in several countries

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

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

superannuation a retirement fund mandated by the government

4.6 SkillBuilder: Preparing a résumé

4.6.1 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.

This SkillBuilder explains the various components of a résumé and presents examples and templates on which you can model your own résumé.

Let us now examine the elements of an effective résumé.

Length

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

Order

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

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

Contact details

Begin with your name, possibly in a slightly larger font than the rest of your résumé. You want to make a bold and positive impression from the first time an employer sees your résumé! You only need to provide your phone number and email address on a résumé. Make sure that your email address is

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



professional and does not include any nicknames or inappropriate words and phrases. An address such as john.smith@jacarandamail.com would be more suitable than one such as smithy9999@jacarandamail.com.

Opening statement/career overview

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

Key skills and personal attributes

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

Employment history

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

Education

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

Referees

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

4.6.2 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.

Résumé of Chris Fernandez

Contact details

Email: chris.fernandez@jacarandamail.com
Mobile: 0400 000 000

Career overview

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

Key skills and personal attributes

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

Employment history

McDonald's Restaurant (2018–present)

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

Achievements

- Employee of the Month, November 2018 and April 2019

Education

Heartback Secondary College
Years 7 to 11 (current)

Current subjects

Biology, Chemistry, Physics, English and Geography

Achievements

House Captain (2019); Debating Captain (2018–19); Student Environmental Group Coordinator (2017–18)

Volunteer placements

Green Valley Animal Shelter (2018–present)

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

Referees

Peter Parker
Franchise Manager
McDonald's Green Valley
Phone 01 9555 5555

April O'Neill
Manager
Green Valley Animal Shelter
Phone: 01 9555 5554

4.6.3 Let me do it

Complete the following activity to practise your skills.

4.6 ACTIVITY

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. Use the following checklist to make sure you've included all essential elements:

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

If you are happy with your final product, why not print off some copies and deliver them to businesses in your area at which you might like to work? Good luck!

4.7 Thinking Big research project: Workplace evolution presentation

Scenario

Technological advances, online shopping, the introduction of parental leave and carer's leave for employees, the growth of part-time and casual work, and 24-hour shopping have all changed the way we work. How will the workplace continue to evolve, and what will the future bring?



Task

You will choose an industry to investigate, and present a report on how jobs within that industry have changed over time and how they might change in the future.

The task is in two parts:

1. Use the case of supermarkets as an example of change over time. Conduct online research and/or interview adults you know, of different ages, about the way supermarkets operated in the 1960s and beyond. What has changed? What has stayed the same?
2. Select another job/field/industry that has undergone change in the past 50 years. Conduct online research and/or interview adults you know to learn about the industry. (Interviewing someone who has worked in your chosen industry would be particularly useful.) Outline the changes that have occurred and predict future changes that might be seen in this field.

Process

- Open the ProjectsPLUS application in the Resources for this topic. Click on the **Start new project** button to enter the project due date and set up your project group if you wish. You may work individually or in pairs, depending on your teacher's preference. Save your settings and the project will be launched.
- Navigate to the **Research forum**, where you will find starter topics loaded to guide your research. You can add further topics to the Research forum if you wish. When you have completed your research, you can print out the **Research report** in the Research forum to easily view all the information you have gathered.
- In the **Media centre** you will find an assessment rubric to guide your work and some weblinks that will provide a starting point for your research.
- Conduct your online research and/or interviews to learn about supermarkets in the past. Find images or draw diagrams to add to your report.
- Select a second job/area/industry to research. Conduct your research and/or interviews. Some ideas include:
 - banking — ATMs, payWave, etc.
 - construction — pre-fabricated housing, 'kit' homes
 - accounting — ICT, cloud technology.
- Create your report or presentation. Remember to include images and/or diagrams to add interest.
- Check your report thoroughly to ensure you have used correct spelling and grammar, and that you have completed all elements listed in the **Task** section. Once you are happy with your work, submit your report to your teacher for assessment.



Resources



ProjectsPLUS Thinking Big research project: Workplace evolution presentation (pro-0203)

4.8 Review

4.8.1 Key knowledge summary

4.2 Australian workplace participants

- Participants in the Australian workplace include employers and their employees, governments and independent organisations such as trade unions.
- People can be employed on a casual, seasonal, part-time or full-time basis.
- Employers have a range of responsibilities in relation to their employees and the workplace environment.
- A number of government organisations, such as the Fair Work Commission, hold employers to their responsibilities.
- Trade unions represent workers in a common industry in their quest for better pay, safer working conditions and increased job security.
- Governments set and enforce employment standards, and create and sustain employment through various infrastructure projects and training programs.

4.3 Changing roles of employees

- Modern workplaces are dynamic and ever-changing environments.
- Technological developments facilitate and encourage the fluidity of modern workplaces.
- Technology allows employees to work from multiple locations and with more flexible working conditions, but it also means they may be expected to be more readily contactable and responsive at all hours of the day.
- An employee's primary objective is to help their employer's business succeed, but their specific duties are outlined in their position description and/or employment contract.
- The global economy has created increased competition, which can place businesses at risk and lead to staff retrenchments.
- Rising job insecurity can lead to employees feeling increasingly pressured to work harder and longer to provide their worth to employers.
- An employee who develops their own ideas for the financial benefit of their employer is known as an intrapreneur.
- The global workplace presents opportunities for employees to work in other locations around the globe, experiencing new places and cultures.

4.4 Employer responsibilities

- Employers are obliged to provide safe working conditions.
- Workplace Health and Safety law covers the various responsibilities of employers.
- The National Employment Standards (NES) outline ten fundamental entitlements of all Australian workers.
- Employers have taxation and superannuation responsibilities in respect of all employees.

4.5 Government responsibilities

- Various acts of Parliament (at both state and federal level) protect workers and facilitate effective workplaces.
- By stimulating economic growth, the government helps maintain employment levels.
- Government must also develop and implement policies to ensure ongoing workforce capacity to power the economy.
- Government also plays a major role in the negotiation of workplace agreements with various professions.

4.8.2 Reflection

Complete the following to reflect on your learning.

4.8 ACTIVITIES

Revisit the inquiry question posed in the Overview:

Employers provide jobs and employees do the work. Is that all there is to the Australian workplace?

1. Now that you have completed this topic, what is your view on the question? Discuss with a partner. Has your learning in this topic changed your view? If so, how?
2. Write a paragraph in response to the inquiry question, outlining your views.



Resources



eWorkbook Reflection (doc-31744)

Crossword (doc-31988)



Interactivity Participants in the changing work environment crossword (int-7659)

KEY TERMS

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

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

gross domestic product (GDP) the value of all the goods and services produced within a country in a given period of time (usually a year). It is often used as an indicator of a country's wealth.

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

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

multinational company an organisation with interests and offices in several countries

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

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

superannuation a retirement fund mandated by the government

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
- budget** an itemised estimate of income and expenses for a given period
- capital growth** an increase in the value of an asset
- 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
- debt** a financial obligation to repay money owed
- 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 entity** any person or organisation engaged in economic activity. It could be an individual, a household, a business, a government or a country.
- enterprising behaviours** behaviours which an enterprising individual will possess, including being creative, inquisitive, innovative, imaginative and good at problem solving
- entrepreneur** a person who organises a business venture, and assumes the financial risks associated with it, usually in the hope of making a profit
- exports** goods and services sold by local businesses to overseas consumers
- financial intermediary** 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 value of all the goods and services produced within a country in a given period of time (usually a year). It is often used as an indicator of a country's wealth.
- 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
- inflation** a general rise in prices across all sectors of the economy
- innate** inborn, an inherent characteristic, rather than being developed through experience
- 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
- 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)
- intrapreneur** an employee of a business who demonstrates the qualities and skills of an entrepreneur
- investment** the use of money to purchase equipment or premises for the establishment of a new business or the expansion of an existing business
- labour** the human skills and effort required to produce goods and services
- market** any organised exchange of goods, services or resources between buyers and sellers
- mortgage** 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

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

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

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

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

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.

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

superannuation a retirement fund mandated by the government

superannuation fund an account that holds and invests superannuation contributions made by employees, their employers or the government, for eventual distribution to help fund an individual's 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

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