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ECONOMICS AND BUSINESS ALIVE

AUSTRALIAN CURRICULUM | THIRD EDITION

10



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BUSINESS ALIVE 10
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This suite of resources may include references to (including names, images, footage or voices of) people of Aboriginal and/or Torres Strait Islander heritage who are deceased. These images and references have been included to help Australian students from all cultural backgrounds develop a better understanding of Aboriginal and Torres Strait Islander Peoples' history, culture and lived experience.

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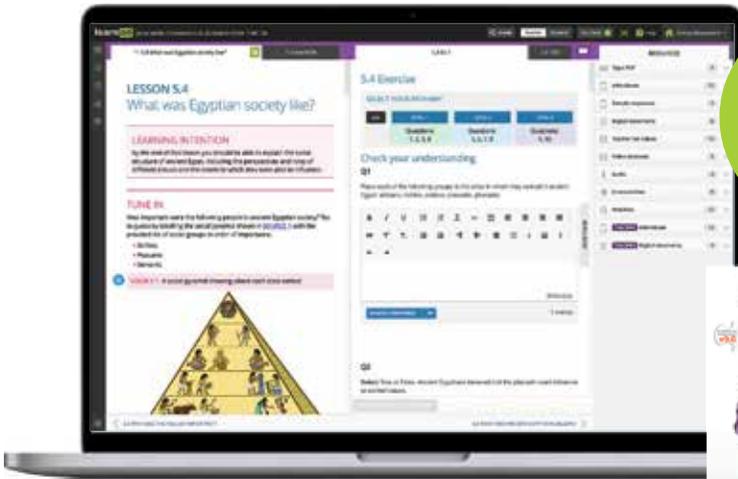
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The Publisher acknowledges ongoing discussions related to gender-based population data. At the time of publishing, there was insufficient data available to allow for the meaningful analysis of trends and patterns to broaden our discussion of demographics beyond male and female gender identification.

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About this resource



NEW FOR

AUSTRALIAN CURRICULUM V9.0



JACARANDA

ECONOMICS AND BUSINESS ALIVE 10

AUSTRALIAN CURRICULUM
THIRD EDITION

Developed by teachers for students

Tried, tested and trusted. Every lesson in the new *Jacaranda Economics and Business Alive* series has been carefully designed to support teachers and help students evoke curiosity through inquiry-based learning while developing key skills.

Because both *what* and *how* students learn matter



Learning is personal

Whether students need a challenge or a helping hand, you'll find what you need to create engaging lessons.

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Learn online with Australia's most

Everything you need for each of your lessons in one simple view

- Trusted, curriculum-aligned content
- Engaging, rich multimedia
- All the teaching-support resources you need
- Deep insights into progress
- Immediate feedback for students
- Create custom assignments in just a few clicks.

Practical teaching advice and ideas for each lesson provided in teachON

Teaching videos explain key ideas and analyse sources

Reading content and rich media including embedded videos, interactivities and audio files.

The screenshot shows the learnON website interface for Lesson 5.4: "What was Egyptian society like?". The page is titled "5.4 What was Egyptian society like?" and "5.4 teachON". The main content area includes a "LEARNING INTENTION" section stating: "By the end of this lesson you should be able to explain the social structure of ancient Egypt, including the perspectives and roles of different groups and the extent to which they were able to influence." Below this is a "TUNE IN" section with the text: "How important were the following people in ancient Egyptian society? Try to guess by labelling the social pyramid shown in SOURCE 1 with the provided list of social groups in order of importance." The list includes: Scribes, Peasants, and Servants. Below the list is "SOURCE 1 A social pyramid showing where each class ranked". The pyramid is a yellow triangle divided into four horizontal layers. The top layer contains a pharaoh. The second layer contains a scribe and a peasant. The third layer contains a peasant and a servant. The bottom layer contains a peasant and a servant. To the right of the main content area, there is a "5.4 Exercise" section with a "SELECT YOUR" dropdown menu, a "Check your" section with a "Q1" question, and a "Q2" question. The bottom of the page shows a navigation bar with a back arrow and the text "5.3 WHY WAS THE NILE SO IMPORTANT?".

powerful learning tool, learnON

The image shows a screenshot of the learnON software interface on a laptop. The interface is divided into several sections. At the top, there is a navigation bar with options like 'SHARE', 'Teacher', 'Student', 'No Class', 'Help', and a user profile 'Lindsay Abeyasekera'. Below this, there are tabs for '5.4 Ex 1' and '5.4 TBQ'. The main content area is titled 'PATHWAY' and has three levels: 'LEVEL 1' (Questions: 1, 2, 3, 4), 'LEVEL 2' (Questions: 5, 6, 7, 8), and 'LEVEL 3' (Questions: 9, 10). The current level is 'LEVEL 2'. Below the levels, there is a section titled 'Understanding' with a text prompt: 'Following groups in the order in which they ranked in ancient Egypt: scribes, peasants, pharaohs'. There is a text input area with a word count of '0 Word(s)' and a mark count of '1 mark(s)'. On the right side, there is a 'RESOURCES' panel with a list of items and their counts: Topic PDF (1), eWorkbook (15), Sample responses (1), Digital documents (5), Teacher-led videos (10), Video eLessons (1), Audio (3), Interactivities (6), Weblinks (10), TEACHER eWorkbook (12), and TEACHER Digital documents (4). Callout boxes with green lines point to various features: 'Differentiated question sets' points to the level tabs; 'Teacher and student views' points to the 'Teacher' button; 'Textbook questions' points to the '5.4 TBQ' tab; 'eWorkbook' points to the 'eWorkbook' resource; 'Answers and sample responses' points to the 'Sample responses' resource; 'Digital documents' points to the 'Digital documents' resource; 'Video eLessons' points to the 'Video eLessons' resource; 'Interactivities' points to the 'Interactivities' resource; 'Extra teaching-support resources' points to the 'TEACHER eWorkbook' and 'TEACHER Digital documents' resources; and 'Interactive questions with immediate feedback' points to the text input area.

Differentiated question sets

Teacher and student views

Textbook questions

eWorkbook

Answers and sample responses

Digital documents

Video eLessons

Interactivities

Extra teaching-support resources

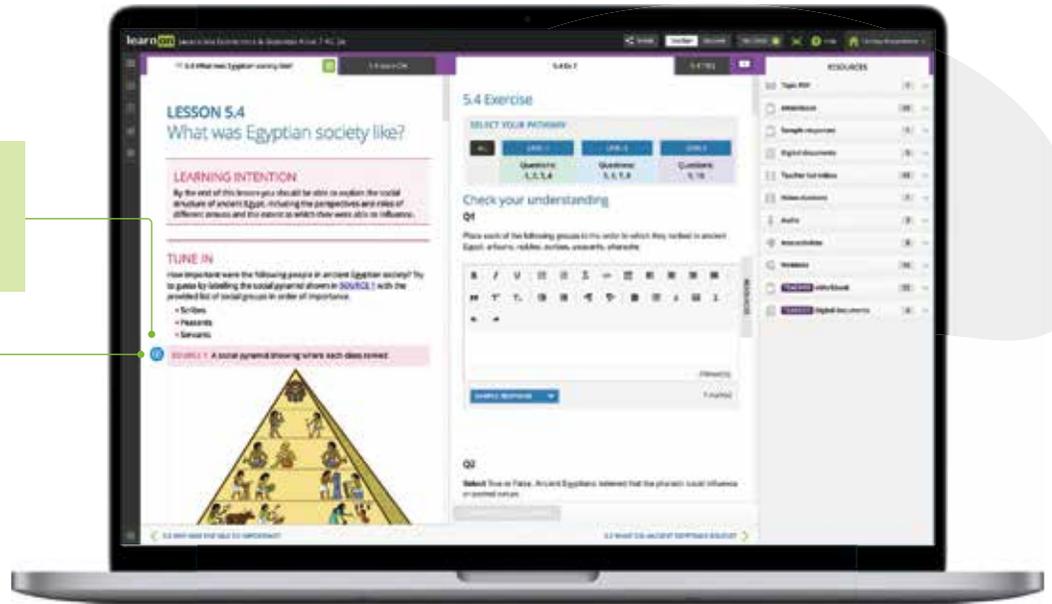
Interactive questions with immediate feedback

Get the most from your online resources

Online, these new editions are the complete package

Trusted Jacaranda theory, plus tools to support teaching and make learning more engaging, personalised and visible.

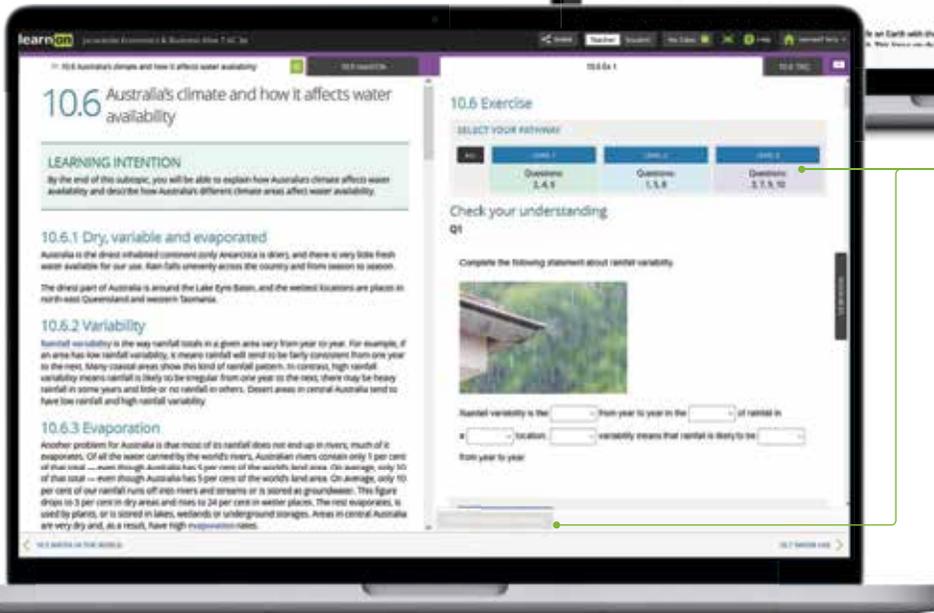
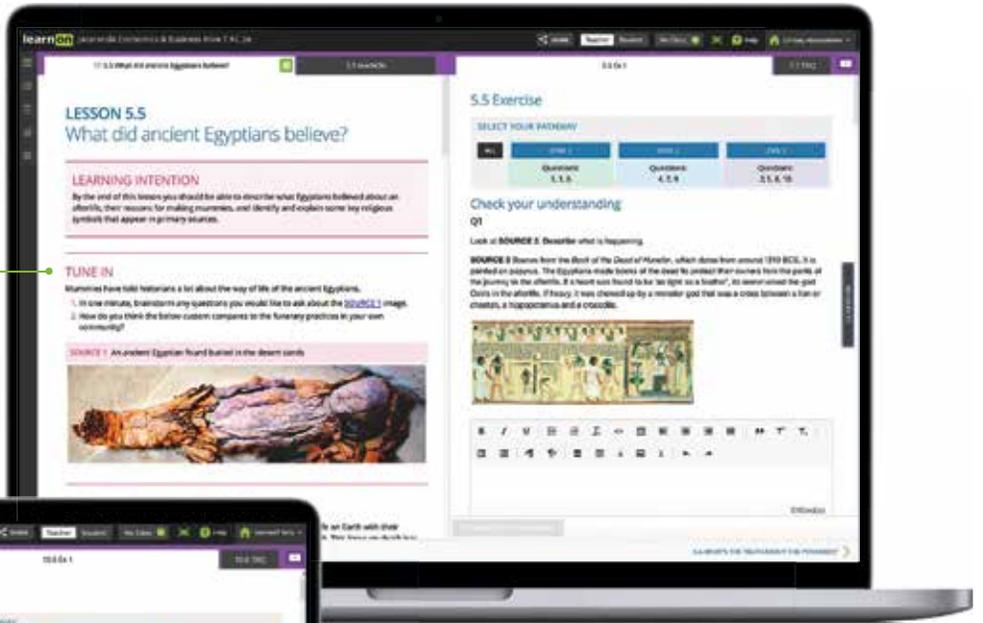
Embedded interactivities and videos enable students to explore concepts and learn deeply by 'doing'.



New teaching videos are designed to help students learn concepts by having a 'teacher at home', and are flexible enough to be used for pre- and post-learning, flipped classrooms, class discussions, remediation and more.

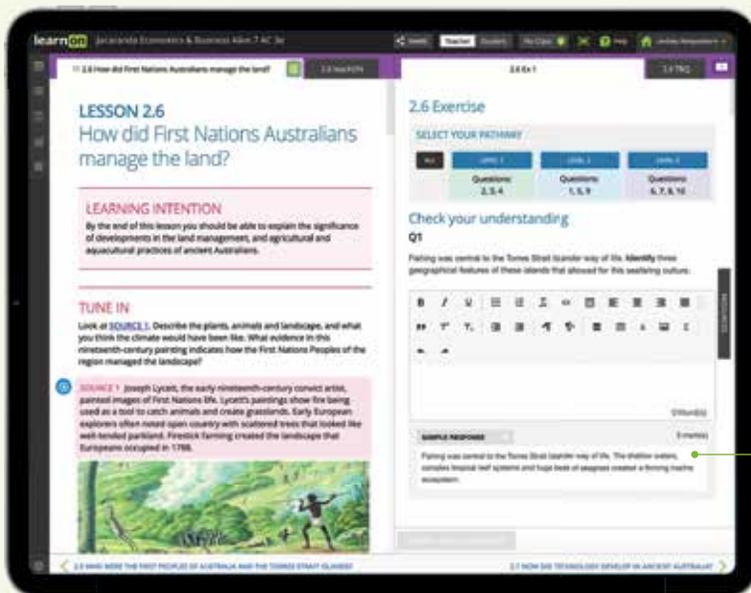
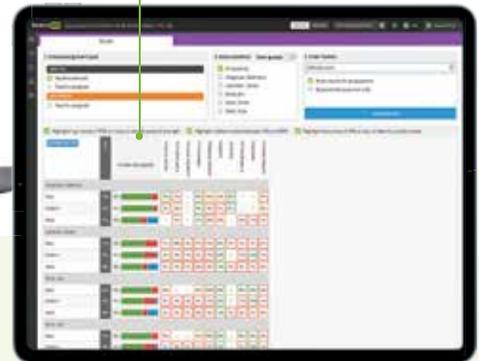


Brand new! Tune in activities to spark interest and kick off every lesson with discussion and source analysis



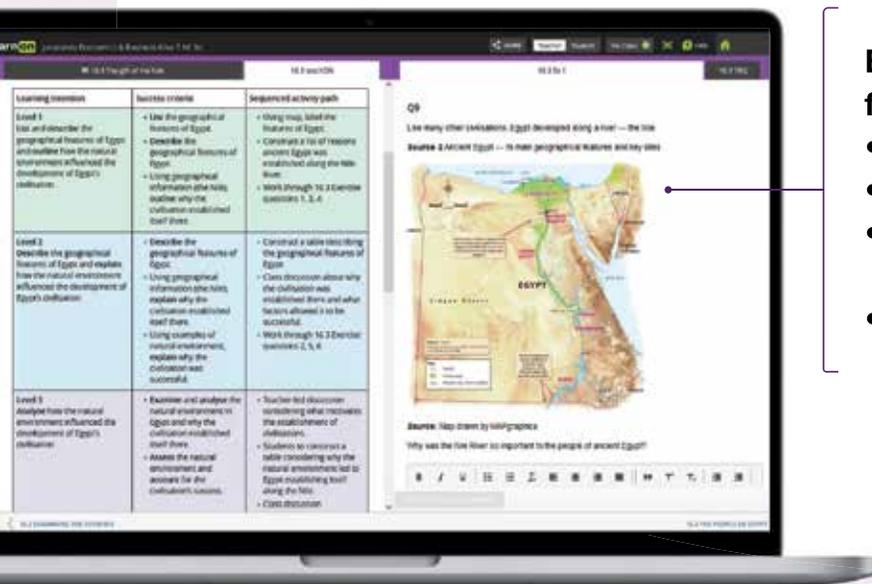
Three differentiated Question sets, with immediate feedback in every lesson, enable students to challenge themselves at their own level.

Instant reports give students visibility into progress and performance.



Every question has immediate, feedback to help students overcome misconceptions as they occur and get unstuck as they study independently – in class and at home.

A wealth of teacher resources

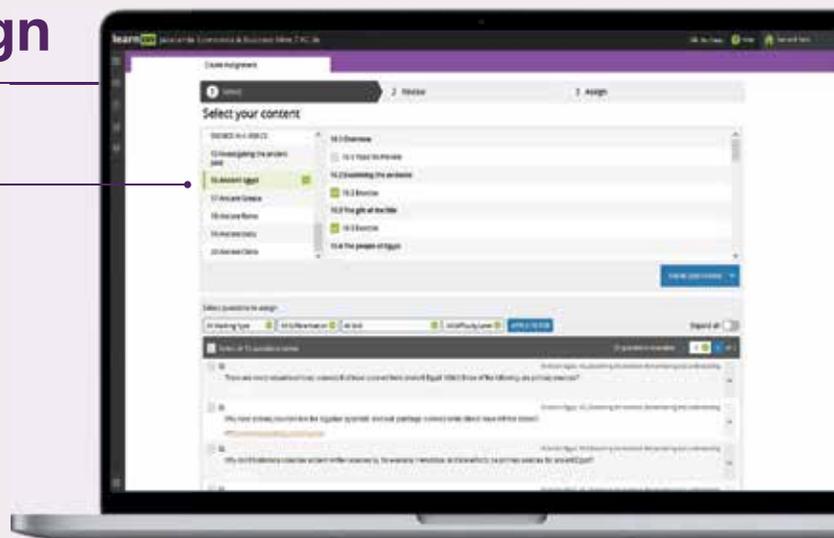


Enhanced teaching-support resources for every lesson, including:

- work programs and curriculum grids
- practical teaching advice
- three levels of differentiated teaching programs
- quarantined topic tests (with solutions)

Customise and assign

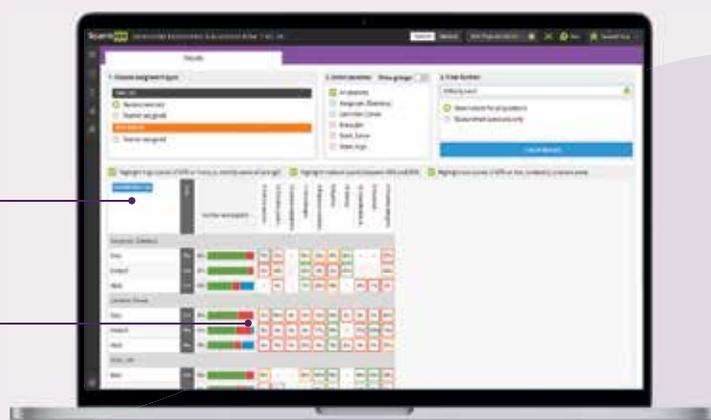
An inbuilt testmaker enables you to create custom assignments and tests from the complete bank of thousands of questions for immediate, spaced and mixed practice.



Reports and results

Data analytics and instant reports provide data-driven insights into progress and performance within each lesson and across the entire course.

Show students (and their parents or carers) their own assessment data in fine detail. You can filter their results to identify areas of strength and weakness.



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Understanding cognitive verbs

Cognitive verbs in the Australian Curriculum

The Australian Curriculum aims to develop students' disciplinary knowledge, skills, understanding and general capabilities across the curriculum. Students are also expected to progressively develop their thinking skills.

In the Australian Curriculum, cognitive verbs are used as signposts for this depth of thinking. Cognitive verbs signify different types of thinking and are already used in the classroom by many teachers and students.

Questions within Jacaranda resources use these cognitive verbs to support students in cognitive verb 'thinking'. The following list describes the cognitive verbs that are frequently used in Years 9 and 10.

| Cognitive verb | Description |
|----------------|--|
| analyse | considering something in detail, finding meaning or relationships and identifying patterns. In an analysis you may reorganise ideas and find similarities and differences. |
| apply | using knowledge and understanding in order to solve a problem or complete an activity; activities and problems may be familiar or unfamiliar; applying knowledge and understanding can require recalling previous experiences. |
| compare | recognising how things are similar and dissimilar. Concepts or items are generally grouped before a comparison is made. |
| decide | selecting from available options. This may involve considering criteria on which to base your selection. |
| describe | giving an account of a situation, event, pattern or process. A description may require a sequence or order. |
| develop | bringing something to a more advanced state. Processing and understanding are required to develop an idea or opinion. Developing an idea or opinion may also involve considering feedback or the collective thoughts of a group. |
| evaluate | making a judgement using a set of criteria. This may include considering strengths and limitations of something in order to make a judgement on a preferred option. |
| examine | considering the information given and recognising key features. This might require making a decision, which involves gathering more information. |
| explain | making an idea, concept or relationship between two things clear by giving in-depth information. Explanations may include details of who, what, when, where, why and how in a step-by-step format. |
| identify | recognising and showing particular features of something. This might also include showing what or who something or someone is. |
| interpret | gaining meaning from text, graphs, data or other visuals. An interpretation includes stating what something might mean and drawing a conclusion. |
| select | choosing the most suitable option from a number of alternatives. This might require some consideration of context. |
| investigate | planning, collecting and interpreting data and information, and drawing conclusions. |
| synthesise | combining elements (information, ideas and components) into a connected or coherent whole. |

Source: Adapted from the QCAA Cognitive Verbs.

1 Economics and Business concepts and skills

LESSON SEQUENCE

| | |
|--|--------------------|
| 1.1 Overview | 3 |
| 1.2 Concepts in Economics and Business | 4 |
| 1.3 Skills in Economics and Business | 10 |
| 1.4 SkillBuilder: Conducting research into indicators of economic performance..... | online only |
| 1.5 SkillBuilder: Analysing a business case study | online only |
| 1.6 SkillBuilder: Predicting the outcomes of economic and business decisions..... | online only |
| 1.7 SkillBuilder: Preparing a budget | online only |
| 1.8 Review | 13 |

LESSON

1.1 Overview

Hey students! Bring these pages to life online



Watch videos



Engage with interactivities



Answer questions and check results

Find all this and MORE in jacPLUS



1.1.1 Introduction to the world of Economics and Business

Have you ever negotiated at a market? Traded lunch with friends? Been paid for a part-time job or doing chores around the house? Or have you ever seen an ad for a product from a long time ago where the price was a fraction of what it is now?

If you answered ‘yes’ to just one of those questions, chances are you already know a lot about economics and business.

This topic looks at economics and business concepts including resource allocation and decision-making, the business environment, entrepreneurship, work and work futures, and consumer and financial literacy. The key focus of learning is on productivity, growth and living standards.

Studying Economics and Business provides you with valuable knowledge for making decisions in everyday life. You will develop skills including questioning and researching, interpreting and analysing, evaluating, concluding and decision-making, and communicating.

FIGURE 1 Have you ever seen an ad for a product from a long time ago where the price was a fraction of what it is now?



Resources



eWorkbook Customisable worksheets for this topic (ewbk-11522)



Video eLesson Economics and Business concepts and skills (eles-6136)

LESSON

1.2 Concepts in Economics and Business

LEARNING INTENTION

By the end of this lesson you should be able to explain the five Economics and Business key concepts: resource allocation and decision-making, the business environment, entrepreneurship, work and work futures, and consumer and financial literacy.

The world of Economics

As you have learned in previous years, **economics** is a social science (a study of human behaviour) that explores how individuals, businesses and governments make decisions. Economics also examines how limited resources are used to produce and distribute goods and services that will satisfy society's unlimited needs and wants. Economists investigate choices and how to make people better off in terms of their living standards. The world of economics is everywhere; it is occurring right now all around you, happening day and night, going on today and will continue tomorrow. The economic environment is also always changing. This means that it is a dynamic and exciting world, full of surprises and opportunities.

The world of Business

The world of **business** is all around us too. You may have a job working for a business, or know someone else who does. You have most likely purchased something from a business at some stage this week or perhaps today? Perhaps you have even operated your own 'business' — mowing neighbours' lawns, babysitting, washing cars or setting up a stall at a local market. A business is any activity that is conducted by an individual or individuals to produce and sell goods and services that will satisfy the needs of society, with the main objective of making a profit. As well as making profit for owners, businesses make important contributions to the economy.

The Economics and Business concepts can help us to make sense of the world. By using these concepts you can identify questions, guide your investigations or assist decision-making about the world you live in, and you can use them to try to imagine a different world. The five key concepts are shown in **FIGURE 1**.

FIGURE 1 There are five key concepts in Economics and Business.



economics a social science (study of human behaviour) that analyses the decisions made by individuals, businesses and governments about how limited resources are used to satisfy society's unlimited needs and wants

business any activity conducted by an individual or individuals to produce and sell goods and services to make a profit

1.2.1 Resource allocation and decision-making

As we have learnt, economic **scarcity** is one of the fundamental concepts in Economics and Business. This situation involves people having limited **resources** available to satisfy their unlimited **needs** and **wants**.

Economic scarcity is often referred to as the ‘basic economic problem’. Therefore, scarcity of resources creates the need to study economics to ensure we share or allocate resources fairly.

Economists define needs as goods or services that people must have in order to survive. They typically distinguish *needs* from *wants*, which are goods and services that are not necessary for survival. Wants are a wish or desire for something that will make life more enjoyable for a person. Sometimes, the difference between what is a need and what is a want is not clear.

For example, most people in Australia consider public transport, health care and telecommunications to be needs, along with the traditional needs of food, clothing and shelter.

To satisfy our needs and wants, businesses use resources to produce the goods and services that we desire. There are four main types of economic resources. These are:

- **Land:** These resources are found in nature, and include fertile soil, forests, fruit and vegetables, minerals, oceans and rivers.
- **Labour:** These resources relate to both the mental and physical effort of people who are working. Labour includes all of the people who are employed by businesses and government to transform resources into goods or services that can be purchased. Examples of labour include farmers, teachers, pilots and baristas.
- **Capital:** These resources have been created by combining land and labour to produce manufactured items used by businesses and governments to assist in making other goods and services. For this reason, capital is considered a human-made resource. Examples of capital include computers, dams, factories, machinery, railways, roads and tractors.
- **Enterprise:** This resource refers to the ability of individuals who organise and combine the other three resources in order to create value. Managers organise the other economic resources efficiently in order to run their business successfully.

To produce goods and services, a combination of economic resources will be utilised. For example, on a sheep farm, the farm manager organises all of the land, labour and capital resources to ensure shearing goes smoothly and efficiently. Land resources such as fertile soil, rain and grass are used to raise the sheep. Labour resources such as shearers, roustabouts and wool classers are used to cut and organise the wool from the sheep. Capital resources such as the wool shed, shearing machines and wool press are used to make the process of shearing more efficient. However, as we have seen, the resources available to us are limited.

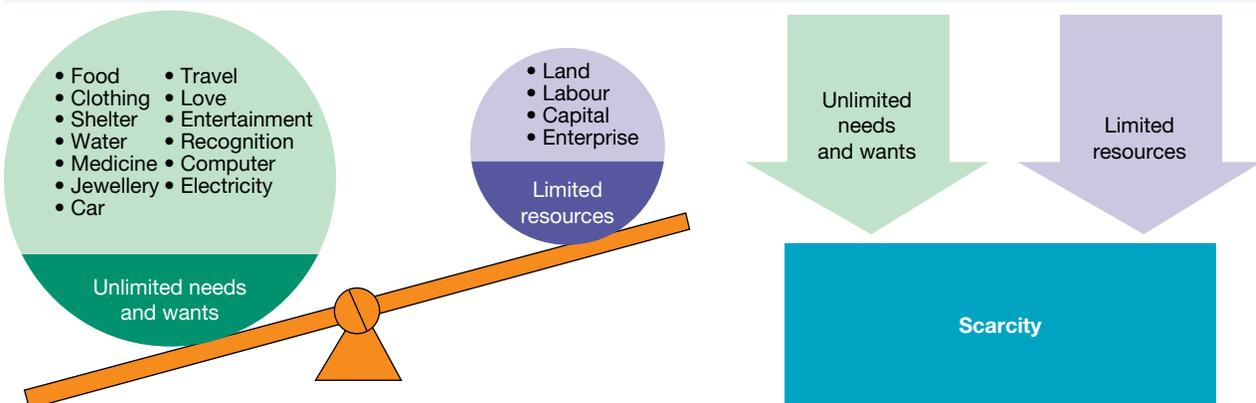
scarcity the economic problem of having unlimited needs and wants, but limited resources to satisfy them

resources items of value that we use to produce goods and services to satisfy needs and wants, which include land, labour, capital and enterprise

needs goods or services that consumers consider necessary to maintain their standard of living

wants goods or services that are desired in order to provide satisfaction to the user, but which are not necessary for survival or to meet the basic standard of living in a community

FIGURE 2 The basic economic problem is scarcity, where we have unlimited needs and wants, but limited resources to satisfy them — an imbalance between wants and resources exists.



For instance, the farm may have had less rainfall this year, so the farm manager may not be able to run as many sheep. There may be fewer shearers in the labour market, so the farm manager may not be able to shear the sheep at the best time of year. Or they may not be able to afford enough shearing machines so shearing may take longer to complete. Because of scarcity, people must choose some things but give up others.

FIGURE 3 There are four main types of economic resources: land, labour, capital and enterprise.

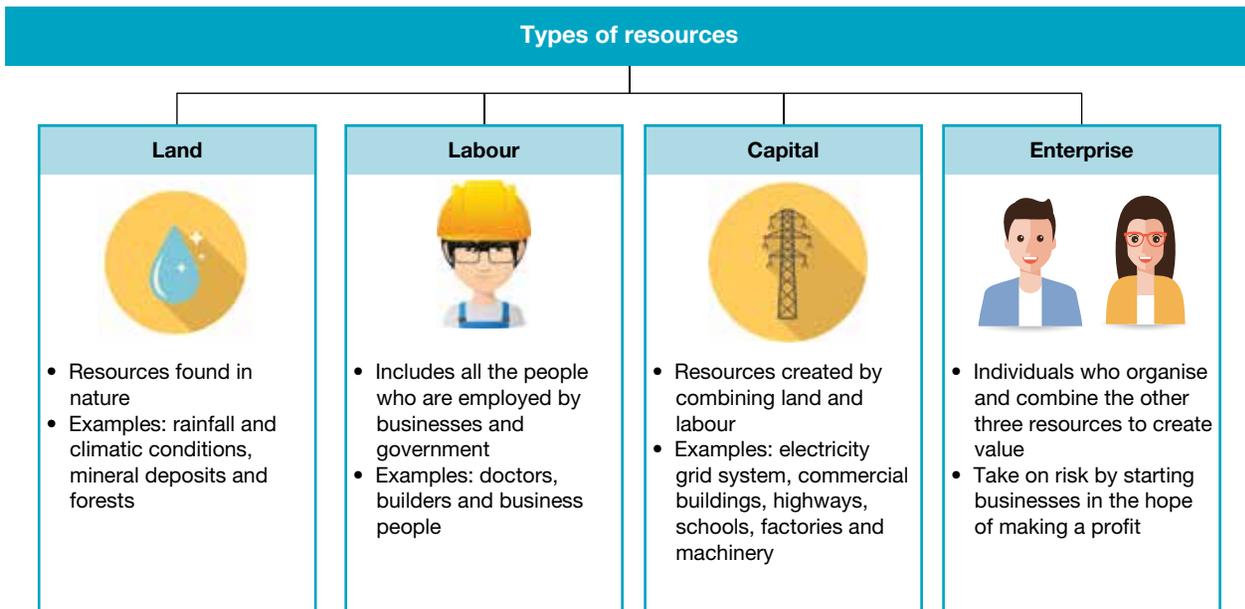


FIGURE 4 Businesses use economic resources (land, labour, capital and enterprise) to produce the goods and services that society wants and needs.



FIGURE 5 Scarcity means making choices about how resources are used.

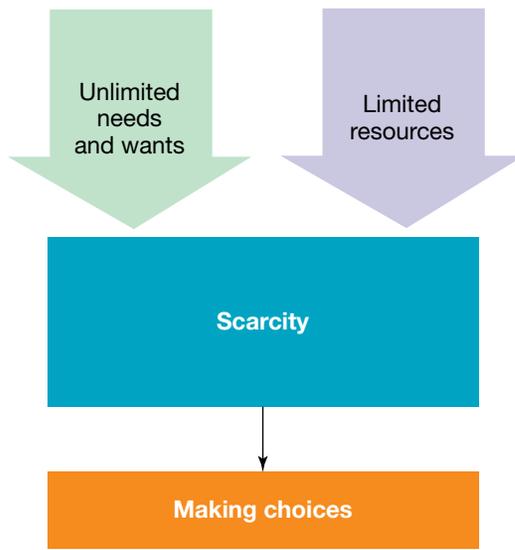


FIGURE 6 Economists understand that the cost of producing bread is not simply the price paid for the ingredients, labour and equipment used, it is also the value of the next best alternative given up. This is the opportunity cost.



Due to the problem of scarcity, we must make choices or decisions about how our limited resources are used. Making choices about alternatives is the essence of economics.

Every choice we make involves an **opportunity cost**. Opportunity cost is the value of the next best alternative that is given up when making a decision. In other words, it is the loss of a potential benefit from one alternative when another alternative is chosen. Economies and businesses face the concept of opportunity cost when making decisions. A simple decision about what to produce with available resources includes an opportunity cost. For example if a business wants to bake bread, it will forgo the opportunity to make cakes with the same resources (or ingredients).

Consumers, business and the government all need to consider opportunity cost when they make choices. Consumers constantly have to make choices when they purchase goods and services, and about how they will use their time and earn an income. Businesses need to make choices about what goods to produce and how. Governments must make choices about how to intervene in the economy.

Making decisions about how scarce resources will be used to satisfy needs and wants is known as **resource allocation**. To make choices to overcome the economic problem, all societies have developed systems of production and distribution of goods and services, which we call the **economic system**. We have learnt that all economic systems must answer the three basic economic questions, outlined in **FIGURE 7**.

The type of economic system we have in Australia is called a **market capitalist economy**, meaning that we rely on the **market** to allocate resources. This is done through the actions of consumers and producers. For instance, producers decide what they will supply based on their available resources and what they are willing to charge for their products. However, consumers will choose whether they wish to purchase the products offered and can pressure producers to lower their prices or alter their product to better suit their needs. In a market capitalist economy, resources are generally owned by private individuals and businesses, and there is little government intervention.

opportunity cost the next best alternative given up whenever a choice is made

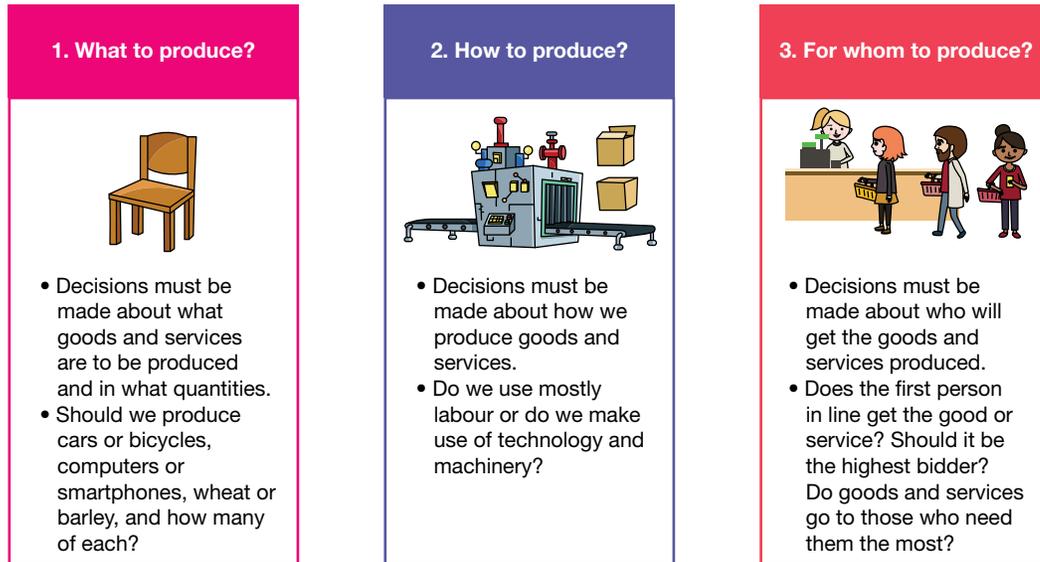
resource allocation relates to decisions about how scarce resources are distributed among producers, and which types of goods and services will be produced to satisfy wants and needs

economic system a way of organising the production and distribution of the nation's goods, services and incomes

market capitalist economy an economic system that relies on the market to allocate resources based on the actions of consumers and producers, and where resources are generally owned by private individuals and businesses

market the place where goods, services or resources are exchanged between buyers and sellers

FIGURE 7 The three basic economic questions



In Australia, the three economic questions are largely answered by the market. For example:

- *What to produce?* The market is used to make most decisions about the types and quantities of goods or services to be produced. The goods and services produced will be determined by the wants and needs of consumers and availability of resources. For instance, Australia's climate means consumers have a need for high-quality sunscreen and will demand this product from the market.
- *How to produce?* The market helps to make decisions about the production methods to be used by businesses in order to make each good or service. The aim of every business is to make a profit. Therefore, businesses producing sunscreen will aim to make the highest quality product using the most efficient methods possible.
- *For whom to produce?* The market determines how the nation's goods and services will be accessed by members of society. When individuals supply land resources, labour or capital to a sunscreen manufacturer they are paid for their contribution to production.

Left to its own devices, the market can allocate resources inefficiently. For example, well-educated or well-trained income earners usually earn more than unskilled workers and therefore have the greatest access to goods and services, meaning lower-income earners may miss out on the goods or services that they need.

At times the profit-seeking nature of businesses can lead to negative outcomes for society and the environment. For example, while the increased use of capital resources and machinery can create more efficiency for a business, it may lead to more carbon emissions in the atmosphere and less work for human labour.

This can create higher unemployment and increase wealth inequality in the economy. Governments may intervene in these situations, particularly if businesses are not allocating resources to basic needs such as affordable health care. In this topic we will consider the nature and extent of government intervention in the economy.

FIGURE 8 In Australia's market capitalist economy, consumers and producers answer the three economic questions.



1.2.2 The business environment

We know that different businesses exist for different reasons and that most businesses use **specialisation** to increase production and **trade**.

This expertise allows the business to maximise efficiency, and to produce items at a lower cost. Consumers need to be aware of the business environment around them, and in this topic we will investigate the factors that influence major consumer and financial decisions. This includes aspects such as price, marketing and availability.

FIGURE 9 In a dynamic business environment, consumers need to make decisions, and these decisions are guided by many factors.



FIGURE 10 Businesses need customers to survive, and customers rely on businesses to provide the goods and services they need.



1.2.3 Entrepreneurship

Entrepreneurs are people who set up a business or businesses, taking on financial risks in the hope of profit. The activities of entrepreneurs include developing ideas, making connections with other businesses, capitalising on licensing opportunities, and working with governments to innovate and differentiate their products. It is very likely that, by now, you can identify some entrepreneurs, either in your own community or some more well-known ones.

In this topic we will investigate how entrepreneurs, including First Nations Australians, are supported by the government and other non-government organisations.

1.2.4 Work and work futures

In this topic you will learn about the contribution of work to human and financial wellbeing and a prosperous society. As you investigate the world of work, you will identify processes that businesses, including First Nations Australian businesses, use to improve the workforce, including training, **flexible work arrangements** and the use of strategies that can improve productivity.

1.2.5 Consumer and financial literacy

Identifying and understanding the financial decisions you will face allows you to become more informed as a consumer and highlights the importance of skills in consumer and financial decision-making.

specialisation a method of production where a worker, business or nation focuses on the production of a limited range of goods or services in order to increase production and make the most efficient use of resources

trade the activity of buying, selling or exchanging goods and services between producers and consumers and/or countries

entrepreneur a person who sets up a business or businesses, taking on financial risks in the hope of profit

flexible work arrangements changes to existing work patterns such as changes to hours, shift patterns or locations of work (e.g. working from home)

LESSON

1.3 Skills in Economics and Business

LEARNING INTENTION

By the end of this lesson you should be able to explain each of the four categories of skills in Economics and Business, and how to apply these skills.

1.3.1 What skills will you build this year?

This year, you will continue to build your ability to use the four broad categories of skills in Economics and Business. The following summaries are to remind you of these four key skills.

Questioning and researching

Involves locating relevant and detailed information and/or data from a range of appropriate sources. In Year 10 Economics and Business, this includes conducting research into indicators of **economic performance**.

Interpreting and analysing

Involves interpreting information to identify the main features or ideas, then examining the information closely to determine how the parts relate to the whole. In Year 10 Economics and Business, this includes analysing a business case study.

Evaluating, concluding and decision-making

Means examining your interpretations of information to draw evidence-based conclusions. It requires taking into account ambiguities and multiple perspectives in a source and proposing potential responses to contemporary challenges or issues. In Year 10 Economics and Business, this includes predicting the outcomes of economic and business decisions.

Communicating

Your ideas means presenting information in a range of formats to suit the intended audience and purpose. This includes essays, oral presentations, debates, tables and cartoons. Reflecting on your skills is also an important part of the process. In Year 10 Economics and Business, this includes preparing a budget.

economic performance the measure of how well an economy is performing based on whether it is achieving its economic objectives

FIGURE 1 Communication is a skill that you will continually build on as you move through education, and into the workplace.



1.3.2 SkillBuilders in this topic

In addition to these broad skills, there is a range of essential practical skills that you will learn as you study Economics and Business. The SkillBuilder lessons in this topic will teach you about the skill, show you how to apply the skill and let you practise the skill with tasks related to the topics covered in this subject.

The SkillBuilders you will use in Year 10 are:

- SkillBuilder: Conducting research into indicators of economic performance
- SkillBuilder: Analysing a business case study
- SkillBuilder: Predicting the outcomes of economic and business decisions
- SkillBuilder: Preparing a budget

LESSON

1.4 SkillBuilder: Conducting research into indicators of economic performance

online only

Why is research important?

When you are asked to 'do research' you need to ask questions about a particular topic or event. Asking questions will help you to complete research (through discovering or verifying knowledge about something). The purpose of this skill is to help you understand how to approach researching in relation to economic indicators to analyse the performance of the Australian economy.

In relation to economic indicators to analyse the performance of the Australian economy.

Select your learnON format to access:

- an overview of the skill and its application (Tell me)
- a step-by-step process to explain the skill (Show me)
- an activity for you to practise the skill (Let me do it).



LESSON

1.5 SkillBuilder: Analysing a business case study

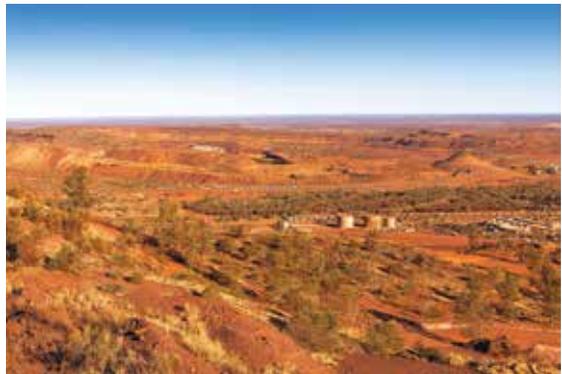
online only

How do you read and explain a business case study?

A business case study helps you understand business concepts. It is a real-life example that shows how businesses work and how business concepts apply to individual situations. When you have identified the elements of a case study, you will be able to better understand business concepts.

Select your learnON format to access:

- an overview of the skill and its application (Tell me)
- a step-by-step process to explain the skill (Show me)
- an activity for you to practise the skill (Let me do it).



LESSON

1.6 SkillBuilder: Predicting the outcomes of economic and business decisions

online only

How do you evaluate business decisions?

Evaluating means to propose explanations for events or issues and to make overall judgements based on the evidence. This is a skill that you might develop in Economics and Business by looking at the benefit or advantages of something and then examining the costs or disadvantages of something. Economic and business decisions are made every day in workplaces throughout Australia and when making economic and business decisions, it is important to consider all possible outcomes of the decisions.

Select your learnON format to access:

- an overview of the skill and its application (Tell me)
- a step-by-step process to explain the skill (Show me)
- an activity for you to practise the skill (Let me do it).



LESSON

1.7 SkillBuilder: Preparing a budget

online only

What makes a good budget?

One way in which governments and businesses, and even individuals, communicate is through a budget. A budget is defined as a plan for the future. There are many different ways to present a budget and a range of online tools that can help you establish, monitor and stick to a budget.

Select your learnON format to access:

- an overview of the skill and its application (Tell me)
- a step-by-step process to explain the skill (Show me)
- an activity for you to practise the skill (Let me do it).



LESSON

1.8 Review

Hey students! Now that it's time to revise this topic, go online to:



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1.8.1 Key knowledge summary

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

1.2 Concepts in Economics and Business

- The concept of resource allocation and decision-making involves the idea of 'economic scarcity'. Scarcity is the 'basic economic problem' — this involves society having limited resources available to satisfy unlimited needs and wants.
- There are four main types of economic resources: land, labour, capital and enterprise.
- Every choice made involves an opportunity cost; this is the next best alternative given up whenever a choice is made.
- All economies must make decisions about how resources will be allocated among producers and what types of goods and services will be produced. Economies must answer the three economic questions: What to produce? How to produce? For whom to produce?
- Australia is a market capitalist economy; this means that most answers to the three economic questions are made by the market (where buyers and sellers negotiate prices for goods and services).
- Governments may need to intervene in the economy to reduce inefficiencies.
- Modern economies have developed a method of production called specialisation (where a worker, business or nation focuses on the production of a limited range of goods or services) to increase production and provide a surplus that can be used to trade.
- Minor and major consumer decision-making is influenced by a number of factors which have both short- and long-term consequences.
- Our economy and our government have a number of economic objectives, including satisfying the needs and wants of citizens by efficiently producing as many goods and services as possible, achieving low inflation, economic growth and full employment.
- Economic performance can be measured using key economic indicators including gross domestic product, the unemployment rate and inflation rate.
- Standard of living refers to the quality of life of individuals or countries; this is influenced by the level of economic activity.
- Businesses use strategies to improve workforces, including training, flexible work arrangements and techniques to improve productivity.
- Australia has a superannuation system which can affect consumer and financial decision-making.

1.3 Skills in Economics and Business

- Questioning and researching involves posing statements that require answers, particularly in regard to what is known and what is not known in order to improve your knowledge.
- Researching is important because it allows us to find out what is unknown and contributes to filling in gaps in our knowledge.
- Interpreting and analysing involves interpreting information to identify the main features or ideas, then examining the information closely to determine how the parts relate to the whole.

- Evaluating, concluding and decision-making involves proposing explanations for events or issues and making overall judgements based on the evidence. A cost–benefit analysis can be used to recommend a course of action.
- Communicating involves presenting findings or representing information using an appropriate format to suit a particular audience. The appropriate use of Economics terminology and Business terminology is very important.

1.8.2 Key terms

business any activity conducted by an individual or individuals to produce and sell goods and services to make a profit

economic performance the measure of how well an economy is performing based on whether it is achieving its economic objectives

economic system a way of organising the production and distribution of the nation’s goods, services and incomes

economics a social science (study of human behaviour) that analyses the decisions made by individuals, businesses and governments about how limited resources are used to satisfy society’s unlimited needs and wants

entrepreneur a person who sets up a business or businesses, taking on financial risks in the hope of profit

flexible work arrangements changes to existing work patterns such as changes to hours, shift patterns or locations of work (e.g. working from home)

market the place where goods, services or resources are exchanged between buyers and sellers

market capitalist economy an economic system that relies on the market to allocate resources based on the actions of consumers and producers, and where resources are generally owned by private individuals and businesses

needs goods or services that consumers consider necessary to maintain their standard of living

opportunity cost the next best alternative given up whenever a choice is made

resource allocation relates to decisions about how scarce resources are distributed among producers, and which types of goods and services will be produced to satisfy wants and needs

resources items of value that we use to produce goods and services to satisfy needs and wants, which include land, labour, capital and enterprise

scarcity the economic problem of having unlimited needs and wants, but limited resources to satisfy them

specialisation a method of production where a worker, business or nation focuses on the production of a limited range of goods or services in order to increase production and make the most efficient use of resources

trade the activity of buying, selling or exchanging goods and services between producers and consumers and/or countries

wants goods or services that are desired in order to provide satisfaction to the user, but which are not necessary for survival or to meet the basic standard of living in a community

on Resources

-  **eWorkbooks** Customisable worksheets for this topic (ewbk-11522)
Reflection (ewbk-11806)
-  **Interactivity** Economics and Business concepts and skills crossword (int-9144)

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LESSON

1.4 SkillBuilder: Conducting research into indicators of economic performance

LEARNING INTENTION

By the end of this lesson you should be able to research indicators of economic performance.

1.4.1 Tell me

While studying Economics and Business you will develop the skill of asking questions in order to complete research (a systematic inquiry for discovering or verifying knowledge about something). Questioning is the action of posing statements that require answers, particularly in relation to what is known and what is not known in order to improve your knowledge. Research is important because it allows us to find out what is unknown and contributes to filling in gaps in our knowledge.

The following steps provide a useful guide to the process of writing questions and carrying out research.

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



1.4.2 Show me

Imagine you have been asked to investigate how economic indicators are used to analyse the performance of the Australian economy.

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

Prepare a report on economic growth rates and how this indicator is useful in providing information about the performance of Australia's economy.

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

1. What is economic growth?
2. What is an economic growth rate?
3. What is GDP and how is it measured?
4. What is the difference between real and nominal GDP.
5. How has Australia been performing in terms of economic growth over the last five years? Over the last ten years? Over the last 20 years?
6. How accurate is GDP in measuring Australia's economic performance?

The next step is to locate appropriate sources. By entering the search term ‘Australian economic growth rates’ 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 economic growth, the Reserve Bank of Australia (RBA) website would be a highly reputable source.

A Wikipedia entry is often found at or near the top of the list of sources, and many students will be familiar with this resource. There is no problem with using Wikipedia as one of your sources — so long as you remember that it is not always reliable and any information gathered from Wikipedia should always be checked against another source to make sure it is accurate. To help ensure that your information is correct, it is a good idea to use at least two sources to answer each question.

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

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

1.4.3 Let me do it

Complete the following activity to practise this skill.

1.4 ACTIVITY

Using the above process as a model, devise a series of questions and carry out the research to produce a report on the following key question:

Prepare a report on one selected indicator of economic performance and how this indicator is useful in providing information about the performance of our economy.

There are a number of indicators you could choose for this task, including economic growth rates, unemployment trends, the inflation rate, Human Development Index, quality-of-life index and sustainability indexes.



LESSON

1.5 SkillBuilder: Analysing a business case study

LEARNING INTENTION

By the end of this lesson you should be able to analyse a business case study.

1.5.1 Tell me

Analysing is another skill that you will develop while studying Economics and Business. This skill involves interpreting information to identify the main features or ideas, then examining the information closely to determine how the parts relate to the whole. One way in which you might use this skill in Economics and Business is by analysing a business case study.

A business case study helps you understand business concepts. It is a real-life example that shows how businesses work and how business concepts apply to individual situations. Business people use case studies to understand the strategies that other businesses have introduced and to identify which ones have succeeded or failed. When you have identified the elements of a case study, you will be able to better understand business concepts.

CASE STUDY: BlueScope

Using innovation to create a long-term competitive advantage

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

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

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

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

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

FIGURE 1 BlueScope's managing director and CEO, Mark Vassella, announced in 2019 that the company had reported a half-year EBIT (earnings before interest and tax) of almost \$840 million, an increase of 65 per cent on the previous year.



1.5.2 Show me

How to analyse a business case study

Step 1

Read the case study twice — once to get a general idea of the content and the second time to focus on the key issues. As you read through the second time, identify the key issues. You could choose a different colour highlighter for each key issue. You may also choose to make notes on the case study.

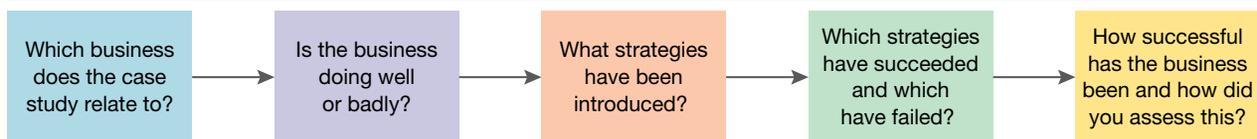
Step 2

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

Step 3

Complete your analysis by writing dot point answers to the questions shown in the **FIGURE 2** diagram. (Use the questions as headings under which to write your points.)

FIGURE 2 How to analyse a business case study



1.5.3 Let me do it

Complete the following activity to practise this skill.

1.5 ACTIVITY

Read the following BHP case study, then analyse it using the questions from **FIGURE 2**.

CASE STUDY: BHP

In 2016 BHP, the world's biggest mining company, announced a plan to grow the base value of its business by more than 70 per cent, even without a significant recovery in commodity prices to help turn around falling revenue and profitability.

BHP's CEO outlined a roadmap based solely on existing opportunities, identifying six areas of attack to lift profits:

1. Costs

Productivity improvements have delivered annual gains since 2012 of more than US\$10 billion. BHP can reduce costs faster and more profoundly than the rest of the industry.

2. Volume

Another 10 per cent can be added to current annual production. This will increase revenue.

3. Oil

The oil shale assets, which are currently closed, give the company a large resource base to quickly increase production when prices increase.

4. New projects

BHP's portfolio of growth projects has an aggregate net present value of US\$25 billion.

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



5. Exploration

The company plans to increase exploration, a counter-cyclical move, mainly in oil, to take advantage of falling costs as others pull back.

6. Technology

BHP plans to invest in technology to further reduce costs, improve safety and increase production volumes.

LESSON

1.6 SkillBuilder: Predicting the outcomes of economic and business decisions

LEARNING INTENTION

By the end of this lesson you should be able to predict the outcomes of economic and business decisions.

1.6.1 Tell me

Evaluating means to propose explanations for events or issues and to make overall judgements or decisions based on the evidence. This is a skill that you might develop in economics and business by looking at the benefits or advantages of something and then examining the costs or disadvantages of something.

Economic and business decisions are made every day in workplaces throughout Australia. A range of people such as employees, supervisors, managers and business owners make these decisions. Examples of economic and business decisions may include:

- which good or service to make
- how to produce a particular good or service
- which suppliers a business will use
- how many people will be employed
- whether to outsource a task or complete it within the business
- how much to charge for a product.

When making economic and business decisions, it is important to consider all possible outcomes of the decision. In particular, a business must plan for:

- intended outcomes — the projected goals or objectives of a decision
- unintended outcomes — the consequences of a decision that are unplanned and unexpected.

After making an economic or business decision, a business must identify the unintended outcomes of the decision. If these unintended outcomes have the potential to have a negative impact on the business, strategies must be developed to address them.

One tool that a business can use to identify the possible outcomes of a decision is a graphic organiser like the following one. This tool allows a business to identify the different outcomes/impacts of a decision, be they intended or unintended.

| Business or economic decision to be identified here | |
|---|---------------------|
| Intended outcomes | Unintended outcomes |
| | |

1.6.2 Show me

The following hypothetical scenario relates to a business decision made by Dayna Clothing Designs.

Dayna Clothing Designs is an Australian manufacturer of clothing and accessories. In response to increased competition, rising costs and declining profits, the business has considered making a number of changes. In particular, Dayna Clothing Designs has made the decision to outsource the production of its goods to another business in Vietnam.

The main objectives (intended consequences) of this decision are to:

- reduce labour costs
- access cheaper raw materials
- establish a new customer base.



In relation to the business's decision to outsource its production, a number of outcomes can be identified using the following graphic organiser.

| Business or economic decision: Dayna Clothing Designs decision to outsource the production of its goods to another business in Vietnam | |
|--|--|
| Intended outcomes | Unintended outcomes |
| To reduce labour costs by relocating to Vietnam, which is a low-wage country | Products made by the Vietnamese company may not be of the same quality |
| To access cheaper raw materials, which will further reduce production costs | Possible exploitation of workers in Vietnam may lead to negative publicity |
| To establish a new customer base in Vietnam in order to increase sales | Loss of jobs in Australia may lead to a negative reaction from consumers |

While many of the intended outcomes of this decision will benefit Dayna Clothing Designs, a number of unintended outcomes must be considered. The business must develop strategies to address each of these unintended outcomes. Failure to do so may mean that any benefits gained from the decision are quickly lost. The following table identifies each unintended outcome and recommends a strategy to deal with each.

| Unintended outcome | Strategy to address this outcome |
|---|--|
| <ul style="list-style-type: none"> • Products made by the Vietnamese company may not be of the same quality. | <ul style="list-style-type: none"> • Dayna Clothing Designs could conduct quality control tests before the products are sold to ensure that each item meets their quality standards. |
| <ul style="list-style-type: none"> • Possible exploitation of workers in Vietnam may lead to negative publicity. | <ul style="list-style-type: none"> • Dayna Clothing Designs must ensure that the Vietnamese company that produces its products complies with laws relating to wages and working conditions. If they do not, a new manufacturer should be found. |
| <ul style="list-style-type: none"> • Loss of jobs in Australia may lead to a negative reaction from consumers. | <ul style="list-style-type: none"> • Dayna Clothing Designs can invest money in programs to help retrain workers who have lost their jobs. |

1.6.3 Let me do it

Complete the following activity to practise this skill.

1.6 ACTIVITY

Read the following hypothetical scenario that relates to a business decision made by Luke's Lolly Land.

Luke's Lolly Land is an Australian manufacturer of lollies and other confectionery. The business has operated in Australia for 26 years. Luke's Lolly Land has developed a reputation for high-quality handmade products. In order to deal with growing competition, the business has decided to purchase new machinery to automate its production process. The main objectives (intended consequences) of this decision are to:



- reduce the number of errors in production
- increase the speed of production
- reduce labour costs.

Using the Dayna Clothing Designs example in the Show me section as a model, analyse the outcomes of the business decision for Luke's Lolly Land by completing the activities.

In the following table identify three intended and three unintended outcomes of the business decision by Luke's Lolly Land.

| Business or economic decision: Luke's Lolly Land decision to purchase new machinery to automate its production process | |
|--|---------------------|
| Intended outcomes | Unintended outcomes |
| | |
| | |
| | |

In the following table recommend a strategy to help address each of the unintended outcomes of the business decision by Luke's Lolly Land.

| Unintended outcome | Strategy to address this outcome |
|--------------------|----------------------------------|
| | |
| | |
| | |

After considering all of the intended and unintended outcomes for Luke's Lolly Land, do you think the business should proceed with its decision? Write a one-paragraph response justifying your decision.

LESSON

1.7 SkillBuilder: Preparing a budget

LEARNING INTENTION

By the end of this lesson you should be able to prepare a budget.

1.7.1 Tell me

When you use the skill of Communicating and reflecting in Economics and Business, you will be presenting your findings or representing information using an appropriate format to suit a particular audience. You will also need to use terminology that is used by economists and people in the world of business. One way in which governments and businesses, and even individuals, communicate is through a budget.

A budget is defined as a plan for the future. The government plans for the future of the economy on an annual basis by preparing and releasing its budget each May. The budget establishes the sources of the government's expected revenues or receipts — that is, the amount of money it is expecting to receive and from where that money will be sourced. It also establishes where (location) and in which areas of the economy the money will be spent.

The government is not the only group that prepares a budget. Many businesses prepare budgets to provide information about their future and to assist them in deciding on a course of action. Many families also prepare budgets to enable them to manage their household finances and save for particular things such as a holiday, a new car or new furniture. It is not uncommon for teenagers to prepare a budget when they start working part time and want to save to buy a car.

FIGURE 1 A budget can be used to assist with finances and planning.



1.7.2 Show me

How to prepare a budget

There are many different ways to present a budget and a range of online tools that can help you establish, monitor and stick to a budget. You can see two examples of budgets in this subtopic. Regardless of how the budget is presented, there are some basic steps to follow in preparing one. It helps to have a basic understanding of budgeting principles and to be able to create a simple budget plan on paper.

Step 1

If you have a regular job, or other regular income such as pocket money, start by listing the amount/s you generally expect to receive and when.

Step 2

Now think of all the regular expenses you incur. These might include mobile phone plan charges, daily food and drink expenses, public transport costs and regular entertainment expenses (e.g. basketball game fees, monthly movie catch-up with friends, etc.). List these under the heading 'Payments' (or 'Expenses').

Step 3

By deducting the expected payments from the anticipated income (receipts) you can gain an indication of whether you will have a surplus (extra) or deficit (shortfall) of funds for the month. You will need to adjust your expenses or earn more income if you have a deficit. If you have a surplus, you have excess funds that you can put towards saving.

The following table contains the budget of a first year university student who is hoping to go on an overseas holiday at the end of the year. She wants to save \$7000. Consider how this student uses the components we have just discussed.

| Lee's budget | | | | | | | | | | | | |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec |
| Expenses | | | | | | | | | | | | |
| Rent | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 |
| Food | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 |
| Telephone | | | \$100 | | | \$100 | | | \$100 | | | \$100 |
| Electricity | | | \$150 | | | \$150 | | | \$150 | | | \$150 |
| Car – petrol | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 |
| Entertainment | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 |
| Car registration | | | | | | \$400 | | | | | | |
| Other | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 | \$200 |
| Total expenses | \$1300 | \$1300 | \$1550 | \$1300 | \$1300 | \$1950 | \$1300 | \$1300 | \$1550 | \$1300 | \$1300 | \$1550 |
| Total income | \$2000 | \$2000 | \$2000 | \$2000 | \$2000 | \$2000 | \$2000 | \$2000 | \$2000 | \$2000 | \$2000 | \$2000 |
| Amount saved | \$700 | \$700 | \$450 | \$700 | \$700 | \$50 | \$700 | \$700 | \$450 | \$700 | \$700 | \$450 |
| Amount saved at month end | \$700 | \$1400 | \$1850 | \$2550 | \$3250 | \$3300 | \$4000 | \$4700 | \$5150 | \$5850 | \$6550 | \$7000 |

1.7.3 Let me do it

Complete the following activity to practise this skill.

1.7 ACTIVITY

Prepare a budget for the coming month. Use the following template (or design your own) and record your expected receipts and expenditure on a weekly basis for the next month. Adjust the terms in the rows to suit your personal circumstances.

| Item | Month: _____ |
|----------|--------------|--------------|--------------|--------------|--------------|
| Receipts | | | | | |
| Work | | | | | |
| Parents | | | | | |
| Presents | | | | | |
| | | | | | |

| Item | Month: _____ | Month: _____ | Month: _____ | Month: _____ | Month: _____ |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Payments | | | | | |
| Mobile phone | | | | | |
| Travel | | | | | |
| Food | | | | | |
| Clothes | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Cash at start of month | | | | | |
| Cash at end of month | | | | | |

Use your skills to analyse your budget.

Did you receive more than you expected?

Did you spend more than you expected?

Calculate the percentage contribution to your total receipts for each area of receipts.

Calculate the percentage contribution to your total spending for each area of expenditure.

If you were to adjust your spending, in which area would you be most able to reduce your spending?

If you were to adjust your spending, in which area would you be least able to reduce your spending? Why?

What could you do to increase your receipts?

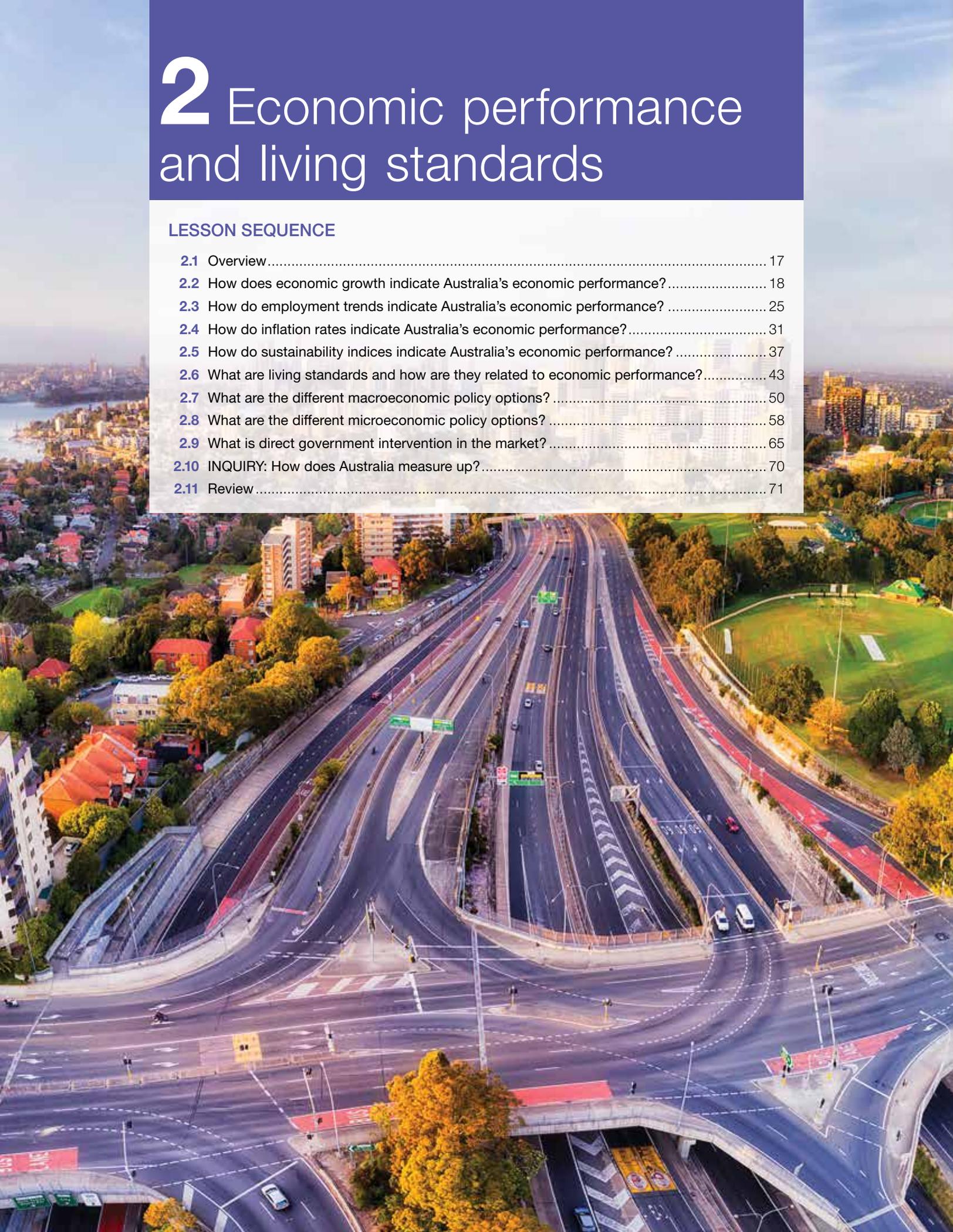
Compare your results with those of your classmates. There is no need to share dollar amounts. Use the percentages and the analysis to explain your financial situation.



2 Economic performance and living standards

LESSON SEQUENCE

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| 2.3 How do employment trends indicate Australia's economic performance? | 25 |
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LESSON

2.1 Overview

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What can our purchases and level of happiness tell us about the health of the economy?

2.1.1 Introduction

It is important that an economy satisfies as many of the needs and wants of its citizens as possible. It does this by providing a structure — such as a market — that enables buyers and sellers to meet and exchange goods and services. One way to measure how well an economy is performing is through a calculation of a person's living standards. Living standards refers to how well-off a nation or country is overall.

In this topic we will discuss some of the key areas of economic performance assessment and more closely examine how the Australian economy has performed in terms of improving people's living standards. Throughout this topic we will be exploring what we mean by living standards in more detail. But by way of introduction, economists usually break living standards into two facets: material and non-material. Material living standards refers to our ability to access goods and services. The more things we can afford to buy, and that are available to buy, the higher our material living standards. Non-material living standards refer to our quality of life, and can be more subjective and harder to define. They tend to cover aspects such as leisure time, pollution, education rates, life expectancy, crime rates, and so on. If we are getting more leisure time, then we would say our non-material living standards are rising; but higher levels of pollution would lower our non-material living standards. As we will see, sometimes there is a trade-off between the two. For instance, working longer hours may entail a rise in your income, which means you can afford more goods and services and raise your material living standards, but it means you have less time to spend with family and friends, which may reduce your non-material living standards.

FIGURE 1 The performance of the Australian economy affects people's living standards, including access to owning your own home.



Resources



eWorkbook

Customisable worksheets for this topic (ewbk-11524)



Video eLesson

Living standards around the world (eles-2382)

LESSON

2.2 How does economic growth indicate Australia's economic performance?

LEARNING INTENTION

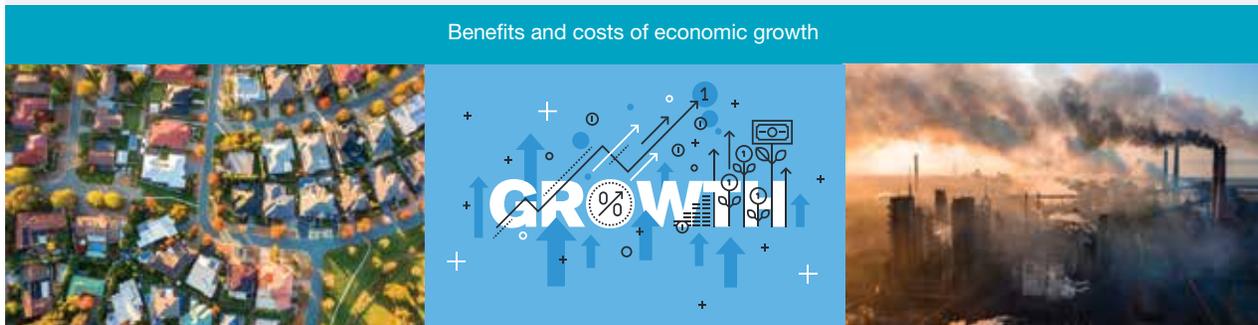
By the end of this lesson you should be able to identify how economic growth rates are an indicator of Australia's economic performance.

TUNE IN

All economies need to grow.

The population of any economy grows from year to year, people age and require different products, and there are people less 'well-off' than others who look to improve their economic position.

FIGURE 1 All economies need to grow but what does that mean?



Consider your current economic position.

Complete a table like the one below identifying how your choice of goods and services may change as you age and how the economy must grow to meet your changing needs.

| Age range | Products |
|-----------|----------|
| 18–30 | |
| 31–45 | |
| 46–60 | |
| 61+ | |

2.2.1 Economic growth = increased volume of goods and services

Every day you use goods and services. Think of the things you use on a daily basis: bread for breakfast, a bus or train service to get to school, pens and paper to complete homework and electricity for charging your laptop or smart device. And you will need all of these goods and services again tomorrow.

The need for an economy to produce goods and services to replace the ones that have been used or **consumed** is one of the main reasons why economies must grow each year. Other reasons why economies must grow include population growth — which requires additional goods and services — and the desire to continually improve the

consume to purchase goods and services for direct use or ownership

quality of products. Imagine if producers never improved telecommunication: mobile phones and the internet would not have been invented. **Economic growth** is defined as real growth in the volume (value) of goods and services produced by an economy over a period of time.

Measuring economic growth is important as it is linked to many other aspects of the economy and to its ability to satisfy the needs and wants of consumers.

2.2.2 Measuring economic growth

Economic growth occurs when an economy increases the volume of goods and services produced over a period of time. The most commonly used general measure of this is the annual rate of growth in real gross domestic product (GDP). GDP represents the total market value of final goods and services produced by a country over a period of time. This figure is adjusted to remove the effects of any inflation existing within the economy over the same period.

The most common means of measuring GDP is by using the Aggregate Demand (or Aggregate Expenditure) method shown in **FIGURE 4**.

It is generally considered acceptable for the rate of increase in GDP to be between 3 per cent and 4 per cent per year. This rate allows for an increase in population, the replacement of goods and services that have been consumed, improvements and new products.

Anything less than 3 per cent is considered slow growth and suggests the economy is not keeping up with the demand for goods and services. A figure above 4 per cent is often considered to be too high; in other words, the economy is growing too quickly and the rate of growth will not be **sustainable**.

A sustained rate of growth means the economy is able to maintain that level over a significant period. Sustainable growth also means our environment can cope with the level of growth and we are preserving resources for the future.

FIGURE 2 Economic growth leads to employment and infrastructure growth.



economic growth a measurement of the increase in a country's gross domestic product (GDP)
sustainable able to last or continue for a long time

FIGURE 3 Consumer goods must be continually produced to replace the ones that have been consumed.





tlvd-10792



int-6003

FIGURE 4 Aggregate Demand method of measuring GDP

$$\text{Aggregate Demand} = C + I + G1 + G2 + X - M$$

Private sector consumption expenditure (C):

Spending by individuals, households and businesses on goods and services to satisfy immediate needs and wants such as food, clothing and household items

Private sector investment expenditure (I):

Spending by individuals, households and businesses on the accumulation of capital goods (for future use) used to produce other goods and services such as computers, houses, factories and machinery

Government sector consumption expenditure (G1):

Spending by all levels of government on goods and services to satisfy immediate needs and wants such as spending on the day-to-day running costs of government departments

Government sector investment expenditure (G2):

Spending by all levels of government on the accumulation of capital goods used to produce other goods such as roads, hospitals and schools

Expenditure on exports (X):

Spending by households, businesses and governments overseas on goods and services produced in Australia

Expenditure on imports (M):

Expenditure by Australian individuals, households, businesses and governments on goods and services produced overseas

2.2.3 Australia's recent performance

FIGURE 5 charts Australia's rate of economic growth, as measured by changes in GDP, from January 2020 to the end of the December quarter in 2022.

Changes to Australia's GDP growth rate are published **quarterly** so the annual rate of GDP growth must be drawn from the quarterly figures provided. For example, the annual growth rate of 4.3 per cent for 2021 shown in **FIGURE 6** is calculated by summing the rate for each quarter of 2021 shown in **FIGURE 5** ($1.9 + 0.6 + -2 + 3.8$).

FIGURE 6 shows that each year from 2016 to 2022 Australia's growth rate fluctuated but remained below the rate of 4 per cent (the figure identified as too high) except for 2021 when the rate was 4.3 per cent. The goal of achieving a rate of growth of between 3 per cent and 4 per cent, however, was not consistently reached.

quarterly every three months

FIGURE 5 Australia's rate of economic growth, as measured by changes in GDP, from January 2020 to the end of the December quarter in 2022

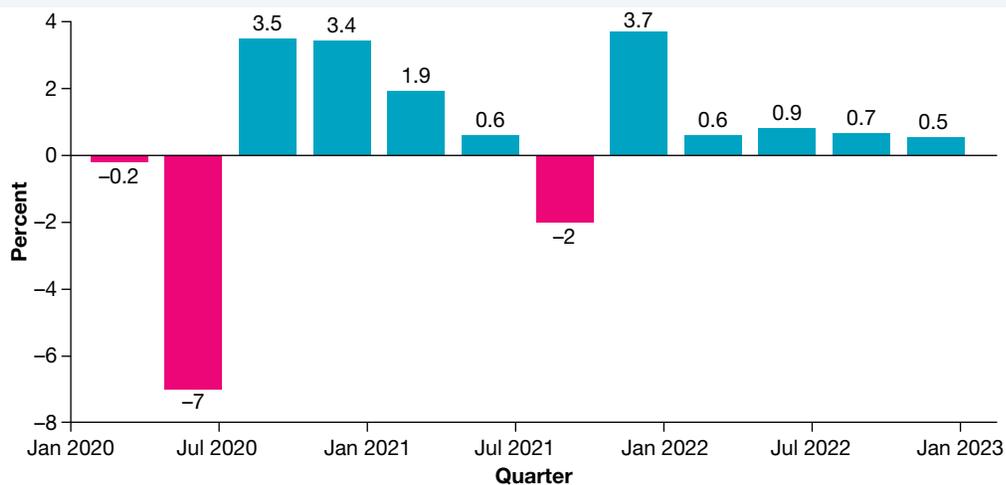
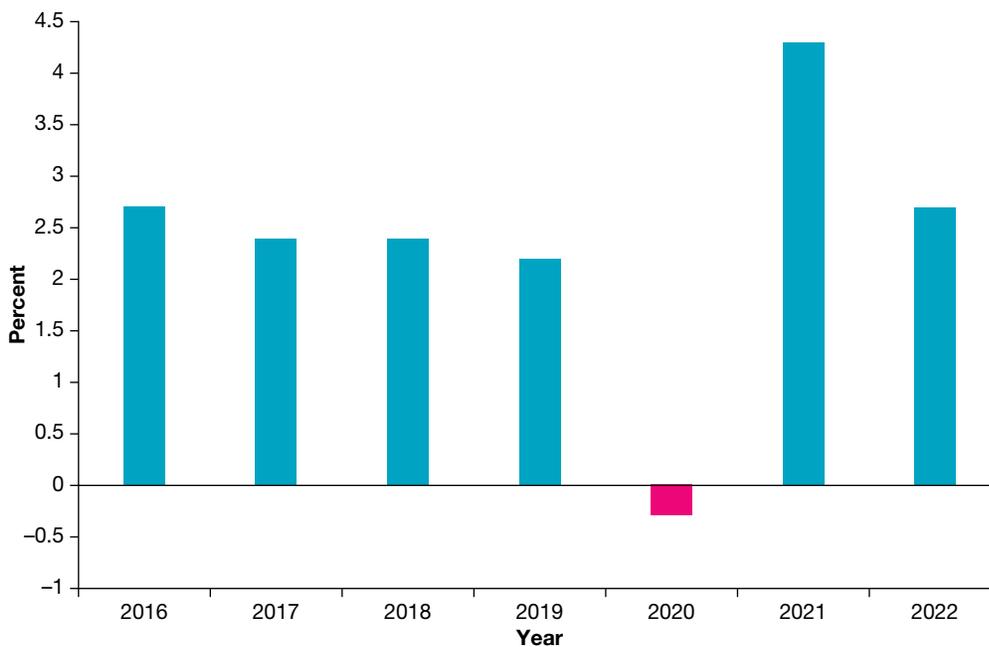


FIGURE 6 Australia's annual GDP growth rate, 2016–22



The negative growth in 2020 was the result of COVID-19 and the lockdowns and border closures impacting numerous industries. The increased growth in 2021 was a result of increased spending by the government to support people impacted by COVID-19, and the opening of borders and cessation of lockdowns.

2.2.4 International comparison

It is useful to compare Australia’s economic performance with that of other countries. The United States is often considered to be the world’s biggest economy and Australia’s performance is regularly compared to its performance.

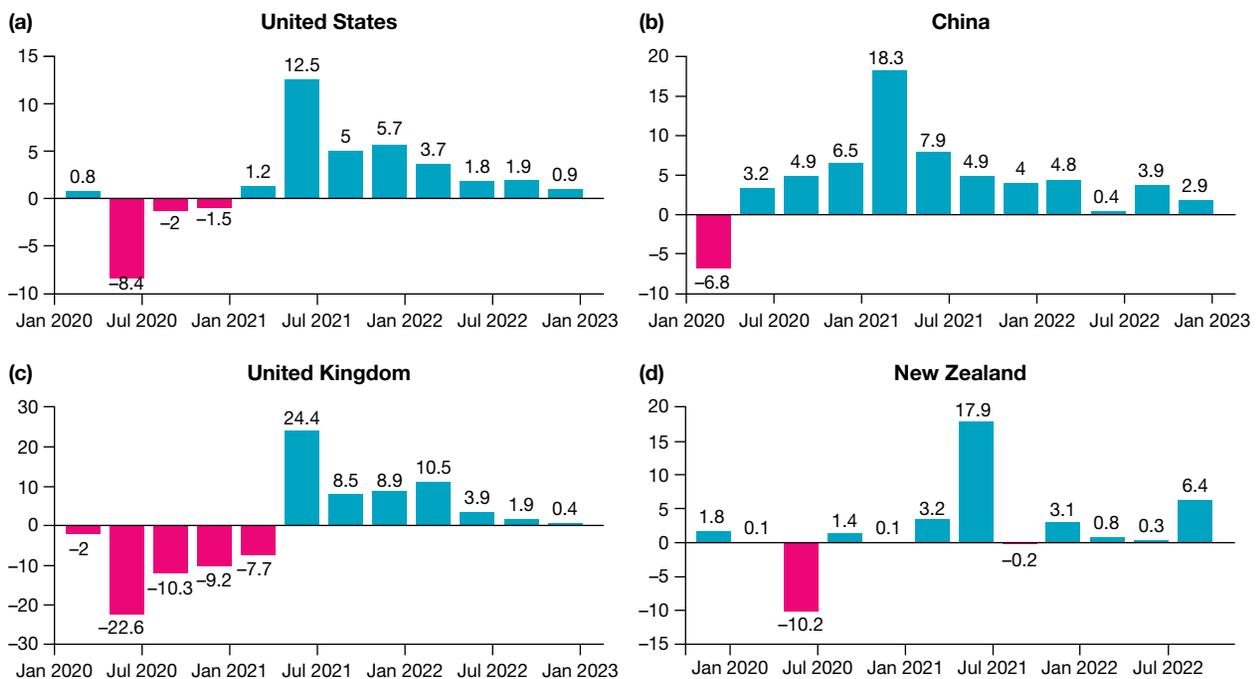
China is an important trading partner for Australia and changes in its growth can lead to a change in our growth. China buys large quantities of our mineral exports, so a decline in China’s growth will have a negative impact on our mining sector and hence our growth.

Australia has historic ties to the United Kingdom. It is still one of our major trading partners and its economy is one of the main ones in Europe.

New Zealand is our closest neighbour and trading partner. The ties between the two countries are strong and New Zealand’s economy often mirrors changes in our economy.

The graphs in **FIGURE 7** show the growth rates of those four economies. For the most current growth rates for each of these four countries, see the **Trading Economics** weblink in your online Resources.

FIGURE 7 Growth rates of other economies, January 2020–December 2022: (a) the United States, (b) China, (c) the United Kingdom and (d) New Zealand



Note: The figures for the United States are not quarterly but rather are annual growth rates to the end of that quarter. The annual rate can be approximated by averaging the growth rates of the four quarters of the year; that is, for 2022 the United States economy grew by approximately 2 per cent. The vertical scale is different for each graph.

2.2.5 Limitations of measuring economic growth

While tracking changes in our GDP is the main means of measuring our economic growth, there are limitations to this form of measurement. Some of these limitations include:

- GDP doesn't include non-market production.
- GDP doesn't provide information about the distribution of production.
- GDP doesn't consider the impact of production on the environment.
- GDP involves some 'guesstimates' of production.

Let's look at each of these limitations.

GDP doesn't include non-market production

If someone carries out jobs around their own home that could be done by a paid worker they are contributing to economic growth, but this contribution is not included because it can't be measured. For example, when someone paints their own home, the Australian Bureau of Statistics (ABS) can't put a value on the work done, so this is not included in the official GDP figures.

GDP doesn't provide information about the distribution of production

GDP only measures changes in the quantity of goods and services produced, but there is no information about who receives this increased number of goods and services. If the increased production is not shared equally among the citizens of the economy, it can be argued that the economy hasn't really 'grown'.

GDP doesn't consider the impact of production on the environment

Increased production can mean increased pollution, quicker deterioration of the environment, depletion of non-renewable resources and increased climate change. These effects are referred to as **negative externality** as they are considered negative outcomes of production. These externalities will all negatively affect our national wealth in the future.

GDP involves some 'guesstimates' of production

The value of some non-marketed (not sold) production making up GDP has to be 'guesstimated', leading to inaccuracies. For example, estimations are made for the part of a farmer's production that is consumed on the farm, as is the annual value of accommodation provided by houses occupied by their owners. This leads to inaccuracies in Australia's GDP figures.

negative externality a production outcome that was not intended and that negatively affects our economy and/or society

Resources

 **Weblinks** Australia GDP growth rate
Trading Economics

2.2 SKILL ACTIVITY: Questioning and researching, Interpreting and analysing

Use the **Trading Economics** weblink in your online Resources and search for the most recent data regarding Australia's economic growth to complete the following tasks and questions.

1. **Identify** the most recent data for the following indicators:
 - GDP growth rate
 - GDP annual growth rate
 - GDP constant prices
 - GDP per capita.
2. **Describe** what each of these indicators shows.
3. **Describe** the trend in each of these indicators.
4. In your opinion, have the living standards of Australians improved or worsened over the last 12 months? **Justify** your answer.

2.2 Exercise

learnon

2.2 Exercise

Learning pathways

■ LEVEL 1

1, 3, 4, 5, 6

■ LEVEL 2

7, 8, 9

■ LEVEL 3

2, 10, 11

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Check your understanding

1. **Define** 'economic growth'.
 - A. An individual's wage
 - B. Real growth in the volume (value) of goods and services produced by an economy over a period of time
 - C. The amount of money a business loses in a year
 - D. The growth in the number of employees within a company over a period of time
2. **Identify** the formula used to calculate economic growth.
3. **Determine** whether the following statements are true or false.
 - a. The ideal range for Australia's annual growth rate is between 3 per cent and 4 per cent. True or false?
 - b. It is not useful to compare Australia to other economies, because each country is run separately. True or false?
4. **Identify** why it is important for an economy to grow each year.
 - A. To replace the goods and services that have been used or consumed
 - B. To make as much money as possible
 - C. To exploit small businesses
 - D. All of the above
5. **Explain** what is meant by 'GDP'.

Apply your understanding

Interpreting and analysing

6. **Explain** why it is important for an economy to measure its performance in terms of economic growth.
7. **Analyse** why it is important for Australia to compare its performance in terms of economic growth with other countries.
8. **Identify** Australia's current economic growth rate and describe what this means for the economy.
9. **Analyse** two limitations of using GDP as a measure of a country's economic growth.
10. **Analyse** what may occur if economic growth is too high or too low.

Evaluating, concluding and decision-making

11. **Determine** how a rising economic growth rate may affect living standards in Australia.

LESSON

2.3 How do employment trends indicate Australia's economic performance?

LEARNING INTENTION

By the end of this lesson you should be able to identify how unemployment trends are an indicator of Australia's economic performance.

TUNE IN

FIGURE 1 provides one reason why it is important for an economy to minimise the rate of unemployment.

FIGURE 1 Unemployed people have to rely on the government and welfare for their income.



Consider the following two questions.

1. What is unemployment?
2. Why do you think it is important to minimise unemployment?

2.3.1 The importance of reducing unemployment

As a student you are constantly asked to think about your future and what you want to do when you finish school. While this may not necessarily be your immediate goal, eventually you will hope to gain employment. Employment enables us to earn an **income** so we can purchase the goods and services we need and want. In the workplace we can form relationships, and often our friendship groups later in life include our work colleagues. Employment also enables us to feel good about ourselves as we are contributing to society, being productive and interacting with others.

However, not everyone is always able to find employment, and sometimes circumstances arise that lead to a person losing their job. Unemployment is a situation where people who are willing and able to work are unable to find employment. The government recognises that there will always be some level of unemployment, but tries to reduce it. Its goal is to maintain the rate of

income the reward earned from supplying productive resources; providing labour earns income in the form of wages or salaries

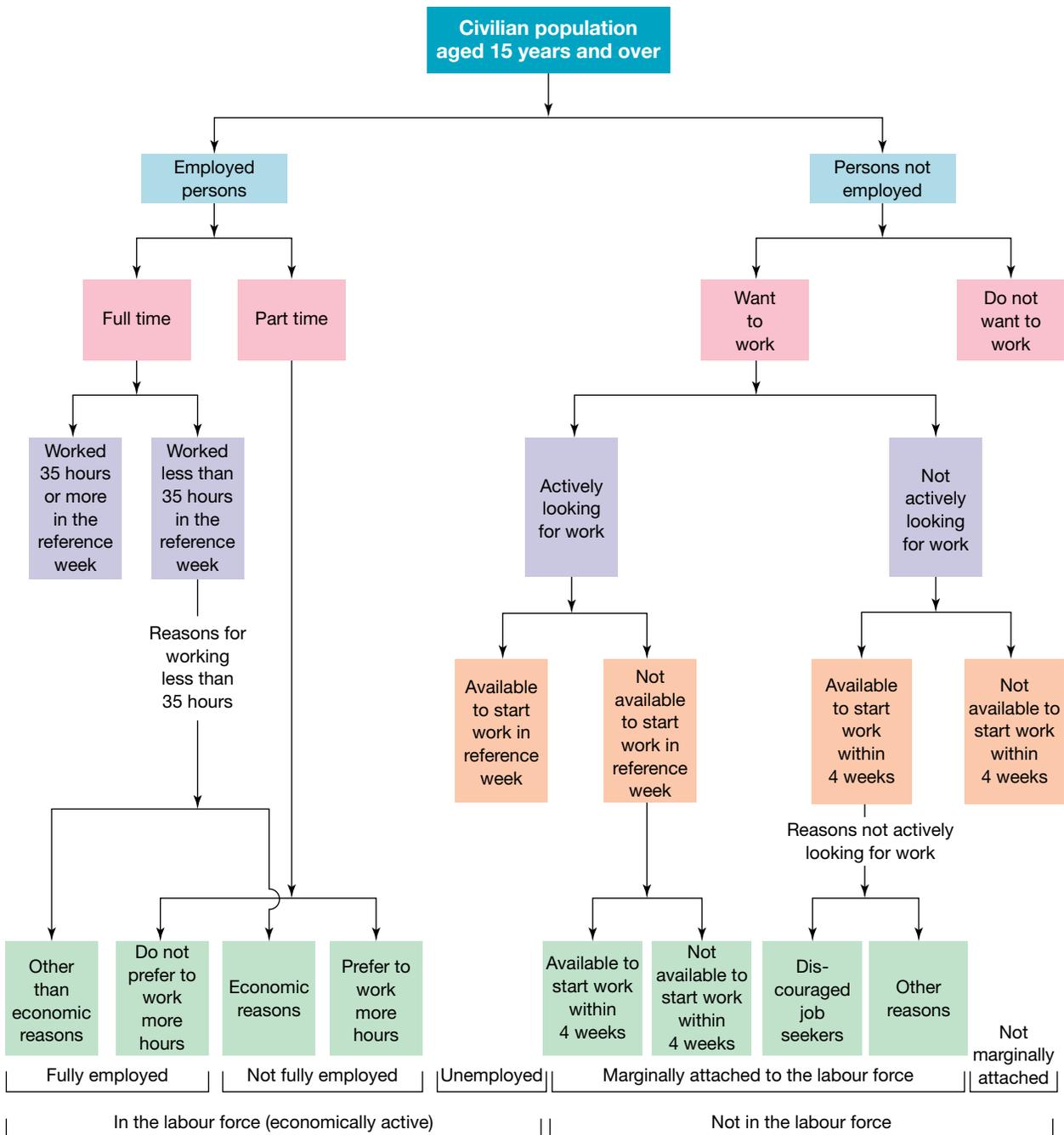
unemployment at about 5 per cent of the workforce, or at a level where cyclical unemployment is avoided. We will talk about cyclical unemployment later in this topic; it refers to unemployment caused by cyclical or regular decreases in the level of economic activity.

Let's first look at how unemployment is measured and what the causes of unemployment are.

2.3.2 Measuring unemployment

In Australia, the unemployment rate is measured using the Labour Force Survey. The Labour Force Survey is conducted monthly and involves about 0.32 per cent of the civilian population of Australia aged 15 years and over. This survey sample is selected from around the country. As shown in **FIGURE 2**, people in the labour force are classified and measured according to their labour force status.

FIGURE 2 The structure of Australia's Labour Force Survey



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The ABS defines the labour force as people who are older than 15 years and who are able and willing to work. This definition includes people who are classified as employed, that is, they work full time (usually more than 35 hours per week) or part time (more than one hour per week), work for payment or profit, are self-employed, work in a family business, or have a job but are prevented from working due to illness, strikes, holidays or other similar situations in the survey week.

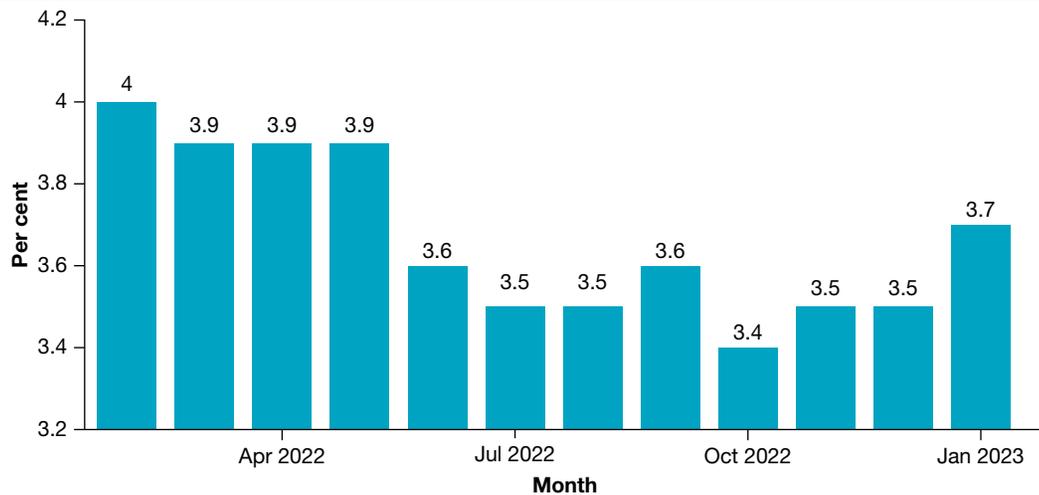
The definition also includes people who are unemployed — that is, those who do not have a paid job but who are actively looking for work by completing job applications and/or registering with Centrelink as a job seeker, either on a full-time or part-time basis, in the week prior to the survey. It also includes those who were able and willing to start employment in the week prior to the survey week or are waiting to resume a job after being laid off or stood down without pay. This group of people is expressed as a percentage of the total labour force, and this percentage is called the unemployment rate.

We can see in **FIGURE 4** that from February 2022 to January 2023, unemployment has fallen from 5.7 per cent to 4 per cent, with a slight rise in September and October 2021.

FIGURE 3 Job seekers are included in the labour force.



FIGURE 4 Australia's unemployment rates, February 2022–January 2023



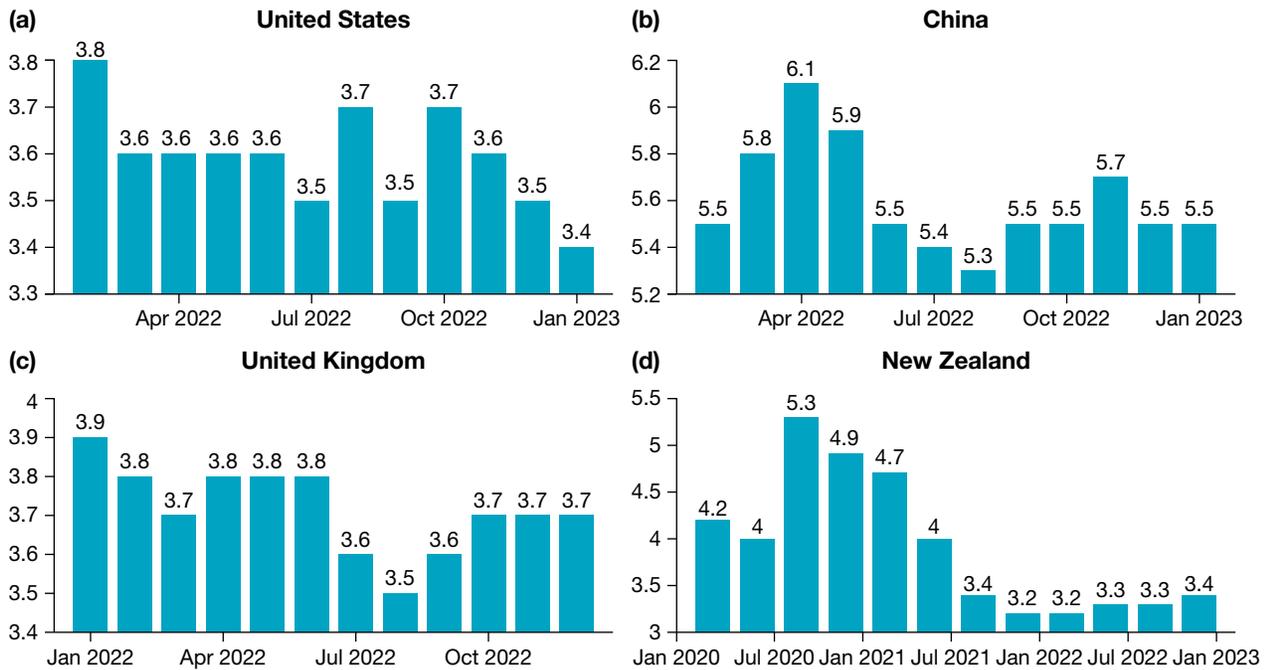
on Resources

Video eLesson Job numbers (eles-2435)

2.3.3 International comparison

As with economic growth, it is worthwhile comparing Australia's employment performance with that of some of Australia's trading partners. The graphs in **FIGURE 5** show the recent unemployment rates of the United States, China, the United Kingdom and New Zealand.

FIGURE 5 Unemployment rate of other economies 2022–23: (a) United States, (b) China, (c) United Kingdom and (d) New Zealand



2.3.4 Causes of unemployment

When examining our unemployment rate it is important to understand the causes of unemployment and the various types of unemployment that exist. It is possible to identify four key types of unemployment:

- cyclical unemployment
- structural unemployment
- seasonal unemployment
- frictional unemployment.

recession a technical term referring to two consecutive quarters of negative growth in an economy

Cyclical unemployment

Cyclical unemployment occurs when the level of spending in the economy falls. When consumers or businesses feel pessimistic about the economy they tend to save rather than spend. This leads to reduced spending, reduced production and hence a reduced need for labour. If the pessimism persists, the economy can move into a period of negative growth. Two consecutive quarters of negative growth is referred to as a **recession** and this can cause further negativity about the state of the economy.

Cyclical unemployment can also occur because of a reduction in consumer incomes, higher interest rates leading to less money available for spending, poor economic conditions overseas among our trading partners, and a decrease in government spending to reduce budget deficits and debt.

Structural unemployment

Structural unemployment occurs as a result of changes in the way goods and services are produced. Generally, this takes place when production methods change, leading

FIGURE 6 Structural unemployment can be caused by the outsourcing of jobs such as call-centre operators.



to a mismatch of skills; that is, the skills currently in use are outdated and are not transferrable to the new production methods. This causes job losses, often due to changes in technology. Another cause of structural unemployment is outsourcing. This is when one section or department of a business is closed and its work is done overseas.

Seasonal unemployment

Seasonal unemployment results from the termination of jobs at the same time each year due to the regular change in seasons. Common examples of these types of jobs include fruit picking, tourism, working for holiday operators, sheep shearing and working in the ski fields.

Frictional unemployment

Frictional unemployment occurs when people are unemployed between finishing one job and starting another. This is common in the building trades and in some areas of rural industry.

2.3.5 Effects of unemployment

Unemployment has a number of negative effects on the economy, society and individuals. Let's look at three of these effects:

- deteriorating living standards
- decreased national production
- changed government budget position.

Deteriorating living standards

Unemployment affects both **material** and **non-material living standards**. When an individual becomes unemployed, their standard of living is likely to deteriorate considerably because the average wage of \$1807.70 per week (as at November 2022) is replaced by an average unemployment benefit of \$333 per week (as at September 2022). This results in less spending on goods and services, and reduced savings as individuals re-adjust their spending patterns.

A reduced income can place stress on families and relationships as it often means cutting back spending on such things as children's activities or family social outings. Unemployed people often develop a feeling of personal failure associated with the loss of status and friends. Knockbacks from unsuccessful job applications reinforce this feeling and individuals may lose their skills and possibly their work ethic if they are out of work for long periods.

Decreased national production

When some of a nation's resources are not used or are lying idle, the economy does not produce at its optimum or productive capacity. Fewer goods and services are available and national output, or GDP, is lower than its potential level, causing lower material living standards.

Changed government budget position

Unemployment negatively affects government revenue and government payments. On the one hand, unemployment lowers the number of income earners, thereby reducing government tax revenues. At the same time, unemployment also raises government spending on welfare benefits, leaving fewer resources for other areas of need, such as health, education and infrastructure.

material living standards refers to the number of goods and services we can afford to buy
non-material living standards value-based elements of human wellbeing that are not connected to material possessions

Resources

-  **Weblinks** Australia's unemployment rate
Australia's youth unemployment rate

2.3 SKILL ACTIVITY: Interpreting and analysing

Unemployment benefits are paid to job seekers and unemployed persons to provide a minimum adequate standard of living. As of September 2022, the JobSeeker Payment was \$668.40 per fortnight for a single person with no children. During the COVID-19 crisis, the allowance was set at \$1115.70 per fortnight, with the extra money being labelled a Coronavirus supplement.

Consider the following questions and prepare responses to discuss in class.

1. **Describe** why you think the government created this supplement.
2. **Explain** if you think the government should have kept the JobSeeker Payment at \$1115.70 per fortnight.
3. **Consider** one disadvantage of keeping the JobSeeker Payment at \$1115.70 per fortnight.

2.3 Exercise

learnon

2.3 Exercise

Learning pathways

■ LEVEL 1

1, 2, 3, 5

■ LEVEL 2

4, 6, 7

■ LEVEL 3

8, 9, 10

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- Receive immediate feedback
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Check your understanding

1. **Determine** whether the following statements are true or false.
 - a. People who are older than 16 years and who are able and willing to work are considered part of the labour force. True or False?
 - b. Cyclical and structural unemployment are the same. True or false?
2. **Select** the group from the below list that is not included in definition of the labour force.
 - A. Unemployed adults
 - B. Adults actively looking for work
 - C. People who work full time (more than 35 hours per week)
 - D. None of the above
3. **Identify** the correct definition of 'structural unemployment'.
 - A. Unemployment resulting from the termination of jobs at the same time each year due to the regular change in seasons
 - B. Unemployment occurring when people are unemployed between finishing one job and starting another.
 - C. Unemployment occurring as a result of changes in the way goods and services are produced
 - D. Unemployment occurring when the level of spending in the economy falls.
4. **Describe** seasonal unemployment. Use an example to **illustrate** your answer.
5. **Define** the term 'unemployment'.

Apply your understanding

Interpreting and analysing

6. **Explain** how the trend in Australia's unemployment rate may have affected the Australian economy over the last four years.
7. **Explain** how unemployment may affect an individual.
8. **Analyse** the effect of rising unemployment on material living standards.
9. **Analyse** the effect of rising unemployment on non-material living standards.

Evaluating, concluding and decision-making

10. **Determine** if you believe new technologies, such as self-scanning in shops, that cause structural unemployment are beneficial to our living standards.

LESSON

2.4 How do inflation rates indicate Australia's economic performance?

LEARNING INTENTION

By the end of this lesson you should be able to identify how inflation rates are an indicator of Australia's economic performance.

TUNE IN

Why control inflation? In March 2022 the price of petrol hit historic high levels — over \$2 per litre.

FIGURE 1 In March 2022 the price of petrol hit new highs across Australia.



Consider this price increase and answer the following questions in preparation for a class discussion.

1. Identify the immediate impact on consumers of this increase in price.
2. Identify a secondary impact on consumers of this increase in price.
3. Describe how the government reacted in March 2022 to this price increase. (Note: Some research might be needed here.)

2.4.1 Getting value for our money

As consumers, we are constantly looking for value for money — that is, for good-quality goods and services at reasonable prices. When the price of a good or service increases, we are naturally concerned because this represents a decrease in the value we are getting for our money for that particular good or service.

When the price of a good or service increases, we think of this as inflation.

However, inflation is more than just the price of a good or service increasing.

Inflation occurs when there is an increase in the general level of prices across the economy.

inflation a general rise in the prices of goods and services within an economy

2.4.2 Measuring inflation

Inflation in Australia is traditionally measured by calculating the Consumer Price Index (CPI). This index is calculated every quarter by the ABS. The CPI measures the average change in retail price of a basket of local and imported goods and services that represent a high proportion of expenditure by metropolitan households.

This basket of goods and services is referred to as the **regimen** and it includes only those items considered important to Australian households. The regimen comprises more than 80 000 items, which can be grouped into the following 11 categories:

- food
- clothing and footwear
- housing
- household contents and services
- transportation
- recreation
- financial and insurance services
- communication
- alcohol and tobacco
- health
- education.

Once the items are selected, they are weighted. Next, the relative importance of each item to the overall household budget is determined and a weighting is applied. Weighting is based on the frequency of purchase and the relative cost of the item.

With the regimen and categories determined, prices for the goods and services included are surveyed at a range of representative retail outlets such as supermarkets, fast-food shops, chemists, department stores and service providers. Prices are only surveyed at these outlets in the eight capital cities of Australia. These prices are then compared to the prices of the same items in what is termed a 'base year' to determine the change in price. For more information see the **RBA inflation** weblink in your online Resources.

2.4.3 Causes of inflation

There are generally considered to be two main types of inflation:

- *demand-side factors*. These factors cause an increase in demand that exceeds the current level of goods and services.
- *supply-side factors*. These factors lead to an increase in the cost of producing goods and services.

FIGURE 2 Inflation causes the value of money to fall.



FIGURE 3 The ABS regularly conducts a survey of prices to calculate inflation.



regimen a basket of goods and services whose prices are surveyed to calculate inflation

Demand-side factors

Demand-side factors are those factors that influence the level of spending or demand in the economy. If there is too much demand chasing too few Australian-made goods and services, the economy is operating ahead of productive capacity. This can lead to shortages of goods and services because businesses cannot produce more goods and services or access the resources needed to produce additional goods and services. As a result, the general price level will rise. This is called **demand inflation** and it generally occurs when the economy is going through a period of strong growth and employment. A good way to think of this is as buyers at an auction who compete for only one property: the highest bidder will win the auction.

This excessive demand can result from a variety of factors, including:

- *an increase in consumer optimism about the future.* Consumers are encouraged to spend more money because they don't see a need to save for 'a rainy day'.
- *an increase in business confidence.* This can lead businesses to spend and invest in new assets, hire more employees or replace old equipment.
- *an increase in income.* If consumers have a higher income — either through wage increases determined by the government or through a reduction in income tax imposed by the government — they are likely to increase their spending on goods and services.
- *an increase in our exports.* If the economies of our major trading partners are performing well and they are experiencing good economic growth, they may increase their demand for our goods and services.

Demand inflation occurs periodically in our economy, as every economy goes through cycles. It is the Australian government's role to manage these cycles and the effect of demand inflation on the economy.

Supply-side factors

The supply of goods and services is the task of suppliers or producers. In producing goods and services for sale, producers and suppliers may experience an increase in their costs. When costs increase, some producers and suppliers may choose to absorb the cost increase themselves and operate with a smaller **mark-up**. However, not all businesses do this, choosing instead to pass on this increased cost to consumers in the form of higher prices. This is known as **cost inflation**.

The most common supply-side causes of cost inflation include:

- *an increase in wages paid to employees.* Wages are often the main cost for a producer and rising wages represent a large cost increase, which is passed on to consumers.
- *an increase in interest rates.* This raises the producer's cost of finance and borrowing. These costs are usually passed on to consumers.
- *an increase in government taxes, oil prices and prices for utilities (such as electricity, gas and water services).* These costs are outside the control of the producer and are also usually passed on to consumers.
- *an increase in the cost of raw materials.* One-off supply-side shocks due to a one-off event can cause this.
- *Australia's trading partners experiencing a period of inflation.* Many component parts are imported so, if our trading partners are experiencing inflation, that inflation may be passed on to Australian producers and suppliers, who then pass the cost on to consumers.

The Australian government has worked hard to minimise the incidence of cost inflation by making significant changes to the way some industries are organised and structured.

Reducing **tariffs** means that imported goods and services have become cheaper and Australian producers have had to cut costs to remain competitive. This has led to lower prices in some industries, such as the motor vehicle industry.

demand inflation price increases that result from an excess of demand over supply for the economy as a whole

mark-up a fixed percentage or dollar figure added to the cost price of goods and services to determine the selling price

cost inflation a sustained increase in the price of goods and services caused by producers passing on increased production costs to consumers

tariff a tax imposed on imported goods to make them more expensive

The government has also opened up some industries to increased competition. Industries such as gas and electricity were previously dominated by one provider. By allowing more competition there has been a lowering of prices as these new providers seek to attract customers.

2.4.4 Effects of inflation

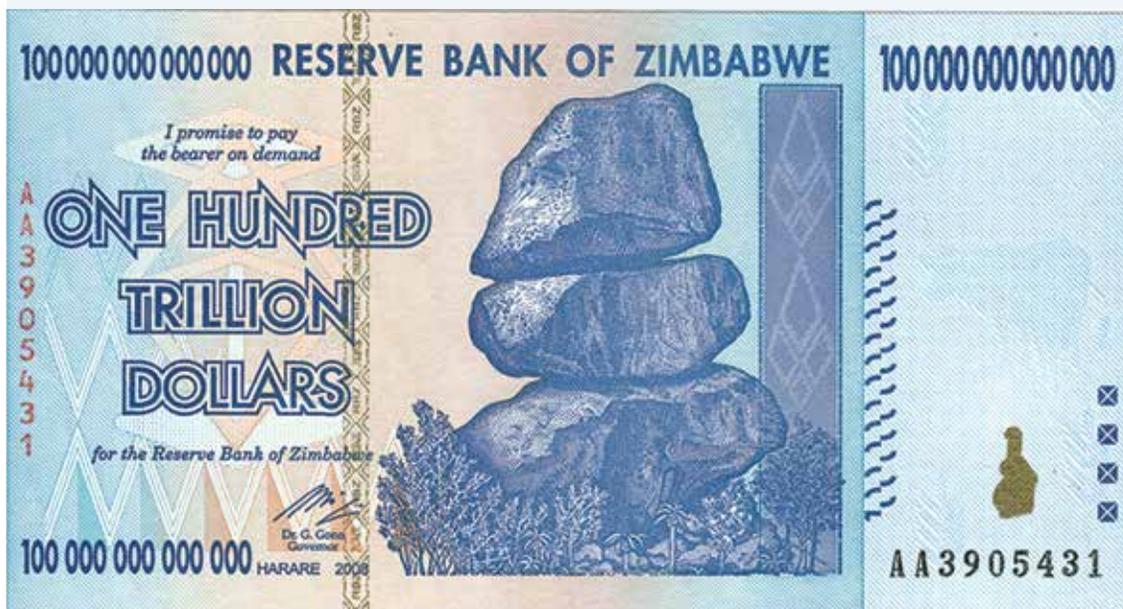
Inflation is considered to be an unfavourable occurrence for an economy. Inflation makes it difficult for the government to achieve any of its other economic objectives and it can negatively affect the living standards of consumers. This happens because, among other things, inflation:

- *causes local producers to lose out to overseas competitors.* Inflation raises the price of goods and services produced locally. This hurts Australian producers who wish to compete internationally as the prices they sell their products for cannot compete with the lower overseas prices. This inability to compete can cause business closures, resulting in higher rates of structural unemployment.
- *undermines economic growth.* Inflation erodes consumer and business confidence as consumers stop spending and producers stop investing in productive assets when prices are rising. This can reduce the level of spending, negatively affecting the rate of economic growth.
- *changes the allocation of resources.* When inflation occurs, people with excess income often invest in what is referred to as unproductive resources — that is, resources such as shares and property, which generally increase in value at a faster rate than inflation. So, instead of being used to purchase productive resources that generate goods and services, this money goes into resources that only produce an income for those wealthy enough to invest.
- *affects income distribution.* Inflation can reduce the purchasing power of the dollar and have a negative impact on income distribution. People on a fixed wage are not able to increase their income to cope with price increases, so their purchasing power declines.

FIGURE 4 Drought in Australia causes higher production costs and lower level of supplies.



FIGURE 5 In 2009, inflation in Zimbabwe saw its government produce a 100 trillion dollar banknote.

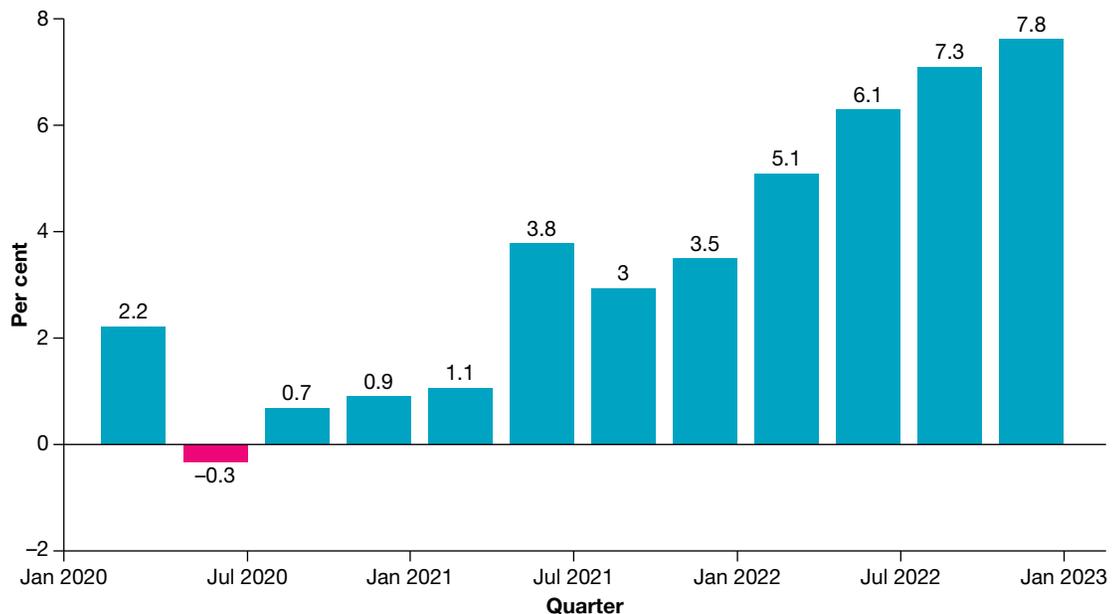


2.4.5 Australia's inflation rate

The Australian government has set a target for inflation of 2 to 3 per cent over the course of a business cycle. One business cycle is a period of five to seven years, during which time it is expected that the economy will go through certain stages such as a peak or boom, an economic downturn, a trough and an expansionary phase.

FIGURE 6 charts Australia's inflation performance from January 2020 to December 2022. It shows that Australia's inflation rate has been climbing above the target of 3 per cent per annum, which is the upper limit of the target rate for inflation. In December 2022 inflation had jumped to 7.8 per cent, well above the target rate.

FIGURE 6 Australia's inflation performance, January 2020–December 2022



on Resources

 **Weblinks** RBA inflation
Trading Economics

SkillBuilders to support skill development

- 1.4 SkillBuilder: Conducting research into indicators of economic performance

2.4 SKILL ACTIVITY: Questioning and researching, Interpreting and analysing

All countries experience inflation at various points in time. In section 2.4.4 we saw an example of how inflation impacted Zimbabwe in 2009.

Use the **Trading Economics** weblink in your online Resources to research two countries that have excessively high rates of inflation (over 10 per cent per annum).

1. **Identify** the countries researched.
2. Show and **describe** the trend in the inflation rates of these two countries.
3. **Explain** how these rates of inflation may impact the living standards of consumers in these countries.
4. **Describe** how the high inflation rates in these countries may affect their relationship with Australia.

2.4 Exercise

Learning pathways

■ LEVEL 1

1, 2, 5, 6

■ LEVEL 2

3, 7, 8

■ LEVEL 3

4, 9, 10

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Check your understanding

- Determine** whether the following statements are true or false.
 - Inflation is a general rise in the prices of goods and services within an economy.
 - Australia experienced the problem of low inflation in 2022 and 2023.
- Identify** one group who may benefit from inflation.
 - Australian consumers
 - Overseas producers
 - Local farmers
 - Australian manufacturers
- Explain** the difference between the two types of inflation.
- Explain** why inflation is bad for the economy.
- Identify** two groups in society that would be negatively affected by high inflation and **explain** why.

Apply your understanding

Interpreting and analysing

- Describe** how rising prices might affect material living standards.
- Describe** how rising prices might affect non-material living standards.
- Define** how inflation is measured.
- Identify** any problems with the way inflation is calculated.

Communicating

- Prepare a list of all the items you have spent money on over the past week. **Classify** the items into the categories used by the ABS to calculate the CPI.
 - Select** which category is most important to you.
 - Identify** what percentage of your spending belongs to each category.
 - Explain** the item of expenditure that is most important to you. Is your spending reflected in your response?
 - Assuming your income remained constant, **explain** how a rise in prices of 5 per cent may affect your spending.

LESSON

2.5 How do sustainability indices indicate Australia's economic performance?

LEARNING INTENTION

By the end of this lesson you should be able to identify how sustainability indices and other indicators are a measure of Australia's economic performance.

TUNE IN

A lot of economic indicators are quantitative and/or financial. They consider only the financial aspect of an economy. However, there are other considerations when measuring growth and economic performance.

FIGURE 1 Economic growth can affect other parts of life.



1. What do these images suggest to you?
2. How might these images suggest that there is a cost to economic growth?
3. If these images do indeed suggest a cost of economic growth, who pays this cost?

Consider your answers and discuss as a class.

2.5.1 Qualitative measures

Many measures of economic performance are quantitative; that is, they measure the dollar value or the percentage value change in an item. For example, unemployment measures the number of people unemployed as a percentage of the labour force. Inflation measures the percentage change in the price of goods and services.

While these measures provide useful information, this is not the only information available or relevant to an economy. There is a range of qualitative measures that can be calculated and examined to measure the performance of our economy. Qualitative

FIGURE 2 Deforestation is an issue for economies that wish to develop in a sustainable manner.



measures determine or measure the quality of our life and the economy. We will examine two of these qualitative measures (or indices):

- the Genuine Progress Indicator (GPI)
- the Human Development Index (HDI).

Genuine Progress Indicator (GPI)

The GPI was developed in the late 1980s to measure the overall progress of an economy in achieving improved living standards. In simple terms, it calculates GDP but then makes both negative and positive adjustments to the values to reflect the good or bad effects on society's welfare of some types of activity and spending.

Deductions from the figures are made to reflect costs such as:

- environmental damage due to pollution
- depletion of non-renewable energy resources such as coal and petrol
- reduced leisure time due to increased hours of work or travel times
- inequality in the distribution of income
- increased crime rates.

Some items that add to the GDP include:

- ongoing services provided by public infrastructure
- contributions made by the socially productive use of time, such as volunteer work and housework.

Human Development Index (HDI)

The United Nations' HDI is a measure that compares the wellbeing of people in different countries. It reflects and takes into account both positive indicators (such as long life expectancy at birth, educational attainment and average level of income per head per year) and negative ones (such as infant mortality and prevalence of child labour), combining these into a single statistical index number. When a country's index rises, it is a sign that there has been progress and living standards have increased. The main weaknesses of the HDI include the subjective nature of the indicators used to compile the index and the unreliability of the statistical data for some countries.

quantitative indicators

objective indices that are easily measured and can be stated numerically, such as annual income or the number of doctors in a country

qualitative indicators subjective measures that cannot easily be calculated or measured; e.g. indices that measure a particular aspect of quality of life or that describe living conditions, such as freedom or security

2.5.2 Other indicators of economic performance

As we have already discovered, both **quantitative indicators** (such as unemployment) and **qualitative indicators** (such as the HDI) are useful in providing information about the performance of the economy. By using a combination of quantitative and qualitative indicators, we are able to get a clearer understanding of the state of the economy.

In addition to those already mentioned, there are a range of other indicators that give us information about how the performance of the economy is affecting the quality of people's lives. Three examples that will be examined in this section are:

- Business Confidence Index
- Liveability Ranking
- World Happiness Report.

Business Confidence Index

Imagine you had a casual job and the hours that you worked changed significantly each week. One week you may work 18 hours and the next week you may only work four hours. This uncertainty about your working hours may affect your confidence as a consumer. You may decide to save your money rather than spend it, just in case you don't work many hours in the next week.

FIGURE 3 When business confidence in the economy is high, more employees are hired.



Businesses are no different. Their decisions are based on their confidence in the performance of the economy. When businesses are confident that the economy is performing well, they are more likely to borrow money to invest and expand, increase their levels of production and hire more staff. Of course, when business confidence is down, the reverse occurs.

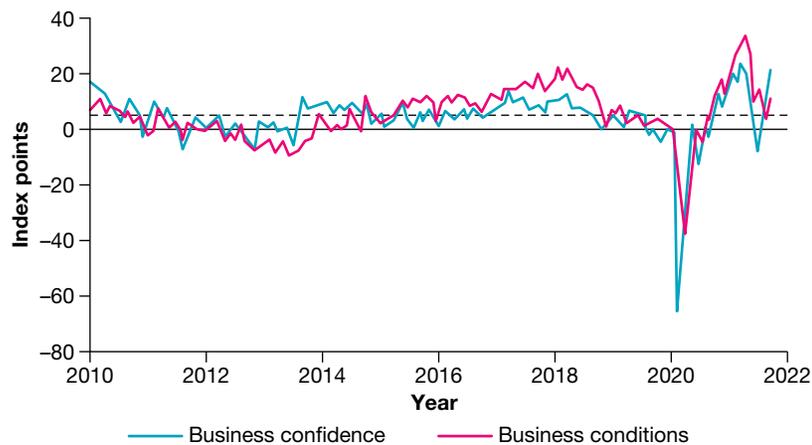
The National Australia Bank (NAB) has developed a well-respected and commonly used indicator to measure business confidence. The NAB conducts a monthly business survey of more than 500 businesses to gauge how confident they are about the economy. In particular, data is gathered on the expectations of businesses in relation to matters such as their projected trading levels, profitability and employment. This data is then used to create an index that represents the level of business confidence in the economy.

As **FIGURE 4** shows, the level of business confidence can change significantly over time. Business confidence is influenced by both domestic and global events. Examples of domestic factors that may affect business confidence include a change of government, new laws or changes to the level of interest rates.



int-9159

FIGURE 4 The NAB Business Confidence Index for March 2010–March 2022



Note: Dotted lines are long-run averages since March 1997.

Source: NAB Monthly Business Survey, February 2022.

Business confidence in one industry sector (such as mining) may be very different to that of other industry sectors. As such, the Business Confidence Index provides data about different industries. For example, the April 2020 NAB Business Survey indicated that business confidence was negative in all industry sectors due to the negative economic effect of the COVID-19 pandemic.

Liveability Ranking

While economic indicators are very important, it is also necessary to consider if the benefits of a strong economy are improving our quality of life. A number of indicators such as the Liveability Ranking have been developed to try to measure this. The Liveability Ranking considers a wide range of factors (outlined in **FIGURE 5**) to determine which cities are the most desirable to live in.

The 2022 *Global Liveability Index* surveyed 173 cities using the criteria set out in **FIGURE 5**. Overall, the report identified a range of factors that had contributed to changing ‘liveability’ in cities throughout the world.

In particular, economic crisis, civil unrest, acts of terror and violence have reduced stability throughout the world and caused many cities to become less ‘liveable’. Cities such as Damascus (Syria), Lagos (Nigeria) and Port Moresby (Papua New Guinea) are all considered less liveable, owing to such factors.

FIGURE 5 The major categories used to determine the Liveability Ranking (and the weighting of each)

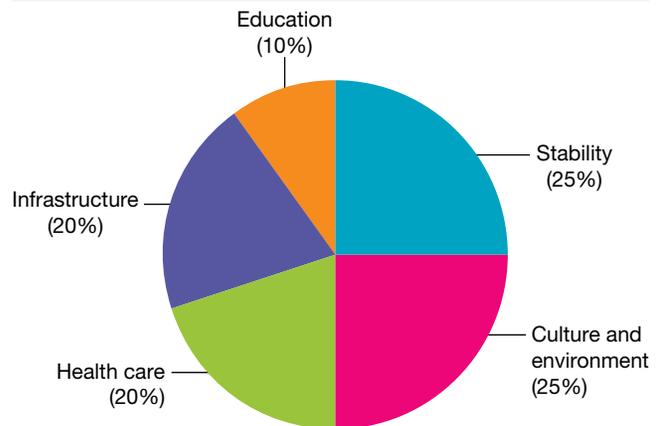


FIGURE 6 In recent times, Australia's major cities have ranked well in liveability rankings. From 2011 to 2017, Melbourne topped the list of the world's most liveable cities, and Adelaide, Perth and Brisbane each featured in the top 10 in 2021. In 2022, Melbourne shared tenth position with Osaka, Japan.



The World Happiness Report

What use is a strong and productive economy if people are not happy? If an economy is strong because people spend the majority of their lives working, with little time to enjoy themselves or see their family and friends, is it really of any benefit? The main aim of having a strong national economy is to ensure that people can benefit from it and enjoy a higher standard of living.

The World Happiness Report is a survey that was first conducted in 2012. It collects data on more than 150 countries and ranks them based on the level of happiness of their citizens. Increasingly, governments are interested in ‘happiness’ data because it not only tells them about the performance of the economy, but also the benefits that people derive from the performance of the economy.

FIGURE 7 The main aim of having a strong economy is to ensure people can benefit from it and enjoy a higher standard of living.



Some of the major areas used to calculate the ranking in the World Happiness Report are:

- gross domestic product (GDP) per capita
- social support
- healthy life expectancy
- freedom of life choices
- generosity
- perceptions of corruption.

TABLE 1 The top 12 and bottom 12 countries according to the World Happiness Report, 2022

| Top 12 countries | | Bottom 12 countries | |
|------------------|-------------|---------------------|--------------|
| Rank | Country | Rank | Country |
| 1 | Finland | 146 | Afghanistan |
| 2 | Denmark | 145 | Lebanon |
| 3 | Iceland | 144 | Zimbabwe |
| 4 | Switzerland | 143 | Rwanda |
| 5 | Netherlands | 142 | Botswana |
| 6 | Luxembourg | 141 | Lesotho |
| 7 | Sweden | 140 | Sierra Leone |
| 8 | Norway | 139 | Tanzania |
| 9 | Israel | 138 | Malawi |
| 10 | New Zealand | 137 | Zambia |
| 11 | Austria | 136 | India |
| 12 | Australia | 135 | Togo |

DISCUSS

Happiness is usually reported as the primary goal in individuals' lives; however, many people believe there is much more to a rewarding life than just seeking happiness. What else do you think people should pursue in life? Discuss in groups or as a class.

2.5 SKILL ACTIVITY: Interpreting and analysing

The most recent data for the HDI is available at the **HDR UNDP** weblink in your online Resources.

Based on this data:

1. **List** the three highest ranking countries.
2. **Analyse** if having a high gross national income (GNI) means a country will be at the top of the HDI, above all other countries. Use data from the table to support your answer.
3. Find the countries with the lowest HDI ranking. **Identify** in what geographic region these countries are found. Brainstorm some reasons that might explain why this is the case.

 Resources

 **Weblink** HDR UNDP

2.5 Exercise

Learning pathways

■ LEVEL 1

1, 5

■ LEVEL 2

2, 3, 6, 9

■ LEVEL 3

4, 7, 8, 10

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Check your understanding

- Define** the term 'sustainability', in terms of the environment.
 - Environmental damage due to pollution
 - Using resources in a way that ensures their continued availability for future generations
 - Using non-renewable resources such as coal and petrol
 - All of the above
- Define** 'liveability'.
 - The conditions of a decent life for all inhabitants of communities including their physical and mental wellbeing
 - The conditions of a decent life for the majority of inhabitants of communities in terms of physical wellbeing, e.g. access to food, water and shelter
 - A low cost of living for citizens of a particular community
 - Stability of the conditions of life in a community over time
- Determine** whether the following statements are true or false.
 - The HDI reflects and takes into account both positive and negative indicators to compare the wellbeing of people in different countries.
 - In general, Australian cities score highly in the liveability rankings.
- Explain** how non-material living standards may factor into a measure of sustainability.
- Identify** one international and one domestic factor that may influence business confidence.

Apply your understanding

Interpreting and analysing

- Analyse** why alternative measures of performance are needed.
- Why do you think statistics for material living standards (GDP) are published but data measuring non-material living standards is not? **Justify** your view.
- Explain** how the level of business confidence can have an impact on economic growth and employment.
- Analyse** why the World Happiness Report is a useful indicator for governments.

Evaluating, concluding and decision-making

- Media reports throughout 2022 referred to the 'housing affordability crisis' in Australia. **Explain** what you think is meant by this term and **discuss** why this is a key indicator for non-material living standards, liveability and happiness.

LESSON

2.6 What are living standards and how are they related to economic performance?

LEARNING INTENTION

By the end of this lesson you should be able to define 'living standards' and explain their relationship to economic performance, and identify ways living standards can be measured.

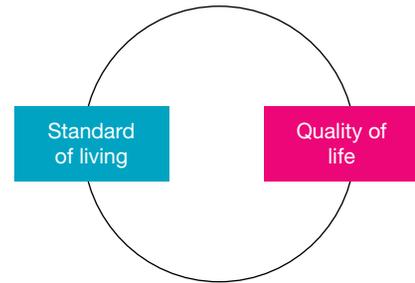
TUNE IN

What do we mean by living standards? How do you measure them? And how are standard of living and quality of life different?

Consider **FIGURE 1** and complete the following:

1. Provide a ranking between 1 and 10 indicating where you believe your standard of living and quality of life are currently (1 being the lowest and 10 being the highest).
2. List the factors you considered when determining your ranking.
3. Share your ranking with the class and, as a class, consider all rankings and reasons.

FIGURE 1 Standard of living and quality of life can be mistaken for the same measurement, but there are key differences.



2.6.1 Getting the balance right

Economies measure their economic performance to determine how well the economy is providing for its citizens. Measures such as unemployment rates, inflation rates and the rate of economic growth, however, do not provide information about living standards.

FIGURE 2 Living standards can be improved by economic growth.



Changes in the performance of an economy as measured by indicators such as inflation and unemployment rates and the rate of economic growth can have an impact on both material and non-material living standards. As such it is important that the government — which is responsible for managing economic performance — takes changes to living standards into consideration when implementing policies and strategies to improve economic performance.

As we will see, this can require a delicate balance in policy implementation as some policies may improve material living standards but may negatively affect non-material living standards, and vice versa.

Let's examine the link between the indicators of economic performance and material and non-material living standards. As mentioned in section 2.3.5, living standards refer to how well off a nation or country is overall. Material living standards relate to the level of economic wellbeing, influenced by annual levels of gross domestic product (GDP) per capita, incomes, and consumption of goods and services. The second type of living standard is referred to as non-material living standards. Non-material living standards are value-based elements of human wellbeing that are not connected to material possessions. They affect the quality of our daily lives. Elements of non-material living standards include our level of personal happiness and self-fulfilment, crime and death rates, the absence of pollution and political freedom. Many of these are difficult to measure.

2.6.2 Living standards and economic growth

Improvements in material living standards are most often measured by changes in GDP, the same measure used to calculate the economic growth rate of an economy. The difference in the calculation is that the value of GDP is then divided by the number of people in the economy (GDP per capita). This measure aims to calculate the value of goods and services each member of the economy has access to. If there is an increase in the value of GDP per capita, it is assumed that the material living standards of each individual in the economy have improved. However, this is not always the case.

FIGURE 3 Material and non-material living standards can be improved by owning your own home.



Strong and sustainable economic growth

It is expected that economic growth will be both strong and sustainable. Strong economic growth is defined as a growth rate of between 3 per cent and 4 per cent on average per year. At this rate of economic growth, goals such as low inflation, full employment and external stability should be achievable. However, a higher rate of growth — such as 5 per cent — would lead to economic problems, and living standards would ultimately suffer. At a rate of 5 per cent per year, the pace of the economy would be pressed beyond its productive capacity. The producers of goods and services would not be able to keep up with the demand. This would cause cost and demand inflation due to general shortages of resources and of finished goods and services. It would also cause spending on imports to grow quickly.

However, an economic growth rate of less than 2 per cent per year would also endanger the government's economic goals. The unemployment rate would rise since there would not be enough jobs and incomes created for a growing labour force. Higher unemployment would lead to poverty and falling material living standards, because living standards suffer unless economic growth takes place at the right speed.

Growth should also be sustainable. Sustainable growth refers to the rate at which Australia's economy can grow its production of goods and services without jeopardising the living standards of future generations. The obvious problem in this context is that our demand for non-renewable natural resources is creating serious environmental problems such as pollution, global warming, resource depletion and loss of biodiversity. For example, clearing old growth forests and land, discharging waste into our waterways and the atmosphere, building in sensitive areas, building more freeways and encouraging excessive consumerism may maximise our short-term living standards and lifestyles, but what future will our children have? Will they be able to enjoy the same material and non-material living standards as we do? So, in this sense, the rate of economic growth is only sustainable in the long term if it does not deplete non-renewable resources, degrade the environment and reduce the ability of future generations to meet their needs and wants. In some ways, a trade-off exists between economic growth and some aspects of current and future living standards.

DISCUSS

Many non-renewable natural resources are being used up to maintain our current living standards. As a class, discuss whether tighter restrictions should be placed on using these resources even if it means that economic growth will be damaged as a result.

on Resources

 **Video eLesson** Clearing forest for an oil well in the Amazon (eles-2437)

2.6.3 The weaknesses of GDP per capita as a measure of living standards

An increase in the value of goods and services produced per year divided by the number of people in the economy does not necessarily mean that people are better off or that their standard of living has improved. There are a number of things to consider when using GDP per capita as a measure of living standards.

GDP per capita is an average

GDP per capita gives only a rough idea about average material living standards, provided there is also a fairly even distribution of the goods and services produced, and provided the extra production makes people happier. There is no evidence to suggest that an increase in GDP is shared equally among the people in the economy. These are assumptions that can make rises in GDP per capita quite meaningless.

GDP per capita assumes improvements in living standards

It is assumed that an increase in GDP per capita results in better employment opportunities, an increased life expectancy, increased consumer choice, improved provision of government services, and better health and education services. These improvements should help to raise both material and non-material living standards. However, there is no information that tells us whether these improved GDP figures and employment figures have resulted from people working longer hours or from machinery and computers being introduced to replace labour in performing some jobs.

FIGURE 4 An increase in GDP doesn't necessarily mean a reduction in poverty rates.



These factors can reduce our leisure time and perhaps the quality of family life, as well as resulting in increased unemployment and an increased need for welfare.

GDP per capita doesn't measure the environmental impact

Pollution and environmental damage, resource depletion, stress, urban problems, overcrowding and possible increases in crime and divorce rates are not measured by GDP per capita, yet they have a significant impact on our living standards. Money spent on combatting crime, legal fees involved in family divorce and the costs of dealing with pollution are actually recorded as additions to GDP's value. GDP does not distinguish between good economic activity and bad activity or negative external events.

Resources

 **Weblink** Australia's GDP annual growth rate

2.6.4 Alternative ways to measure living standards

GDP is the total value of goods and services produced by the economy in a given period (usually a year). By calculating GDP per capita (per head of population) we can use this figure as a measure of changes to living standards. If this figure rises, it can be argued that living standards have risen because we all have more goods and services.

However, GDP has limitations as a measure of living standards because some production is not included, no measure is taken of the quality of changes considered, and GDP provides no information on how the goods and services are distributed. In addition, non-material living standards are not accounted for.

There are alternative measures that can be used to better measure living standards.

Genuine Progress Indicator (GPI)

As discussed in section 2.5.1, the GPI index of overall living standards identifies some of the same consumption data involved in calculating GDP, but it then makes both negative and positive adjustments to some of the values calculated. The changes are designed to reflect the positive or negative effects on society and our living standards of certain types of activity and spending. Supporters of the measure argue that these adjustments make the statistics a far better indicator of the sustainable level of economic welfare or living standards than simply using GDP.

Human Development Index (HDI)

Earlier in the topic you were introduced to the United Nations' Human Development Index. The HDI is a measure that compares the wellbeing of people in different countries. It is a composite statistic of positive and negative indicators. These indicators are combined into a single statistical index number. When a country's index rises, it means there has been progress and living standards have increased.

In 2021 Australia was ranked fifth in the HDI with an index of 0.951, a similar value it has had since 2013. The two main weaknesses of the HDI are the subjective nature of indicators used to compile the index and the unreliability of the statistical data for some countries.

FIGURE 5 Factors to consider when determining living standards



Quality-of-life index

The quality-of-life index is a measure calculated by a private organisation that attempts to measure which country will provide the best opportunity for a healthy, safe and prosperous life in the future. It is based on a method that links subjective life-satisfaction surveys and objective determinants of the quality of life across countries.

The index was calculated in 2022 for 71 countries and territories using ten quality-of-life factors along with forecasts of future GDP per capita to determine a nation's score.

The ten quality-of-life factors are:

- material wellbeing as measured by GDP per capita
- life expectancy at birth
- the quality of family life based primarily on divorce rates
- the state of political freedoms

- job security as measured by the unemployment rate
- climate, measured by two variables: the average deviation of minimum and maximum monthly temperatures from 14°C and the number of months in the year with less than 30 millimetres of rainfall
- personal physical security ratings based primarily on recorded homicide rates and ratings for risk of crime and terrorism
- the quality of community life, based on membership in social organisations
- governance, measured by ratings for corruption in public office
- gender equality, measured by the share of seats in parliament held by women.

In 2022 Australia was ranked fifth with a score of 181.81 out of 200. Denmark, Switzerland, the Netherlands and Finland filled the top four places.

2.6.5 Other indicators

A range of other indicators are used by some countries to measure the changes in living standards of society. These include:

- Green Gross Domestic Product (GGDP)
- Happy Planet Index (HPI).

Green Gross Domestic Product (GGDP)

The GGDP is an index of economic growth with the environmental consequences of that growth factored into a country's conventional GDP. The GGDP places a price/cost on the loss of biodiversity, environmental damage and climate change. When calculating the GGDP the net natural capital consumption — including resource depletion, environmental degradation, and protective and restorative environmental initiatives — is subtracted from the traditional GDP.

Happy Planet Index (HPI)

The Happy Planet Index (HPI) is an index designed to measure human wellbeing and environmental impact. It was introduced by the New Economics Foundation (NEF) in July 2006, with the aim to give progressively higher scores to nations with lower ecological footprints. It was developed in response to the belief that measures such as GDP and HDI were seen as not taking sustainability into account.

The index is made up of three components:

- experienced wellbeing
- life expectancy
- ecological footprint.

In 2021, 140 countries were surveyed, with some 'poor' countries scoring high due to their low ecological footprint and high life expectancy. Australia ranked 88th and the USA 122nd. Costa Rica ranked first. New Zealand ranked 11th. Use the **Happy Planet Index** weblink in your online Resources to explore the data and the methodology used.



Resources



Weblink Happy Planet Index

2.6 SKILL ACTIVITY: Questioning and researching, Interpreting and analysing

In this lesson we have considered a range of measures related to the measurement of living standards.

- Using the following measures, **select** the most recent data available for each measure for Australia:
 - GDP
 - GDP per capita
 - GPI
 - HDI
 - Quality-of-life index
 - Green Gross Domestic Product
 - Happy Planet Index.
- Compare** these data gathered for Australia with another country of your choosing (consider New Zealand, our closest neighbour or the USA, the largest economy in the world).
- Compare** the results, **consider** the reasons why there may be discrepancies in Australia's rankings and **elaborate** why we may rank differently to your other selected country.

2.6 Exercise

learnon

2.6 Exercise

Learning pathways

LEVEL 1

1, 5

LEVEL 2

3, 6, 7, 8, 9

LEVEL 3

2, 4, 10

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Check your understanding

- Define** 'GDP per capita':
 - The sum of all goods and services consumed by a family divided by the number of people in that family
 - The sum of all goods and services produced by a business divided by the number of people employed by that business
 - The population of a country divided by the sum of all goods and services produced by that country
 - The sum of all goods and services produced by a country divided by its population
- Determine** whether the following statements are true or false.
 - It is possible for economic growth to be both strong and sustainable.
 - The Happy Planet Index (HPI) is an index designed to measure human wellbeing and environmental impact.
- Identify** which of the following is **not** an alternative measure of living standards.
 - Genuine Progress Indicator (GPI)
 - Human Development Index (HDI)
 - Quality-of-life index
 - World Happiness Report
- Describe** three limitations of one of the traditional measures of living standards.
- Distinguish** between 'material' and 'non-material' living standards.

Apply your understanding

Interpreting and analysing

- Explain** why GDP per capita may not be considered an appropriate measure of living standards.
- Explain** why GDP per capita may be a better measure of material living standards than economic growth rates.
- Explain** why alternative methods of measurement are necessary.
- Identify** five factors that are important to you and should be included in a calculation of your living standards. **Explain** which one you consider most important and why.

Communicating

- 'When measuring living standards, material living standards are more important than non-material living standards.' Do you agree with this statement? **Justify** your response.

LESSON

2.7 What are the different macroeconomic policy options?

LEARNING INTENTION

By the end of this lesson you should be able to identify macroeconomic policy areas: budgetary/fiscal policy and monetary policy.

TUNE IN

In 2022 the war between Russia and the Ukraine impacted the supply of oil. As a result, the price of petrol in Australia hit record highs.

In its budget in March 2022, the federal government reduced the excise duty on petrol (a tax) by 22 cents, thereby reducing the price of petrol.

This is an example of the government stepping in to provide assistance to consumers.

As a class, discuss other ways the government assists consumers.

FIGURE 1 The price of petrol has increased dramatically in recent years.



2.7.1 The bigger picture

Macroeconomics refers to the branch of economics that involves the level of expenditure (the amount) or aggregate demand (total demand for goods and services in an economy). It involves looking at the general influences on national spending, national output, national income, employment and overall material living standards. It emphasises the need for some degree of government involvement and manipulation of aggregate demand and economic activity demand-side policies.

Macroeconomic policies involve two key areas of influence by the government: budgetary/fiscal policy and monetary policy. Each of these policy areas attempts to manipulate the level of demand and spending in the economy to achieve the economic goals of the government. Let's examine each of these policies.

2.7.2 Budgetary/fiscal policy

Budgetary policy (also called **fiscal policy**) is a government economic policy that involves altering the level of government spending and government receipts. Each year the government prepares its **budget**, which outlines its priorities for the coming year and, in some cases, for the years ahead. The budget is a document outlining where the government plans on receiving money from (receipts) and where it intends to spend that money (expenditure).

The difference between the receipts of the government and the expenditure by the government is known as the budget outcome. There are three possible budget outcomes:

- budget deficit, where the level of government receipts is less than the level of government expenditure

macroeconomics the branch of economics that emphasises the central role played by the level of expenditure or aggregate demand
budgetary policy (or fiscal policy) a macroeconomic or aggregate demand management strategy involving the government's estimates of the expected value of its receipts and the expected value of its outlays
budget a plan for the future; in economics it is a plan about the government's financial performance and framework for the coming financial year, and is estimated by calculating its expected revenues and expenditures

- budget surplus, where the level of government receipts is greater than the level of government expenditure
- balanced budget, where the level of government receipts equals the level of government expenditure. This is a rare event, and the government usually aims for a fiscal balance, where the value of budget deficits equals the value of budget surpluses over the business-cycle period (seven years).

To better understand how the government uses the budget to achieve its economic goals, it is important to understand the two components of the budget: budget receipts and budget spending.

Government budget receipts

Budget receipts are the government's incoming receipts of money that pay for budget spending. The most common form of government receipt is **taxation**. There are generally considered to be two types of taxes:

- direct taxes — those that refer to levies imposed directly onto the incomes of individuals and companies
- indirect taxes — those placed on the sale of goods and services and added onto the price of items.

A third type of government receipt is non-tax revenue — that is, receipts from a source other than taxation, such as asset sales, interest, the repayment of HECS debts by university students and profits from government business enterprises such as Australia Post.

Direct taxes

Examples of direct taxes include:

- *personal income tax*. This is a direct tax paid by individuals who earn incomes in the form of wages, salaries, rent, interest and dividends. For most people, income tax is deducted by their employer from their pay packet before they are paid (pay-as-you-go or PAYG). However, for self-employed individuals, a different system exists for estimating income and tax that must be paid.
- *capital gains tax (CGT)*. This tax is levied on the real profits made from the sale of capital assets such as land and shares purchased after 1985.
- *the Medicare levy*. This direct tax is designed to provide medical insurance to help cover the basic costs of family health care. It is normally levied at a rate of 2 per cent of personal taxable incomes.
- *withholding tax*. This is applied to individuals who fail to register their tax file number when receiving income such as dividends and interest. It is currently levied at the top tax rate of 47 per cent (including the Medicare levy).
- *company tax*. This is a flat or proportional tax levied directly on business profits. In 2018 the government passed a law to reduce this tax to 25 per cent by 2021–22.

FIGURE 2 The budget is delivered to parliament annually by the Treasurer.



FIGURE 3 Budgets can have a negative impact on some members of society.



taxation a government levy or revenue measure that can be used as part of the budget to affect the level of prices, the growth rate and the distribution of income

- *fringe benefits tax (FBT)*. This represents a direct tax paid by firms on the value of ‘perks’ provided to employees, such as a company-provided car or house. It is currently levied at 47 per cent of the taxable benefit.
- *superannuation fund tax*. This tax is levied at 15 per cent of most contributions as well as on the interest from fund investments. People aged over 60 can currently withdraw their super tax-free.
- *petroleum resource rent tax (PRRT)*. This is levied at 40 per cent of the profits made from petroleum operations.

Indirect taxes

Examples of indirect taxes include:

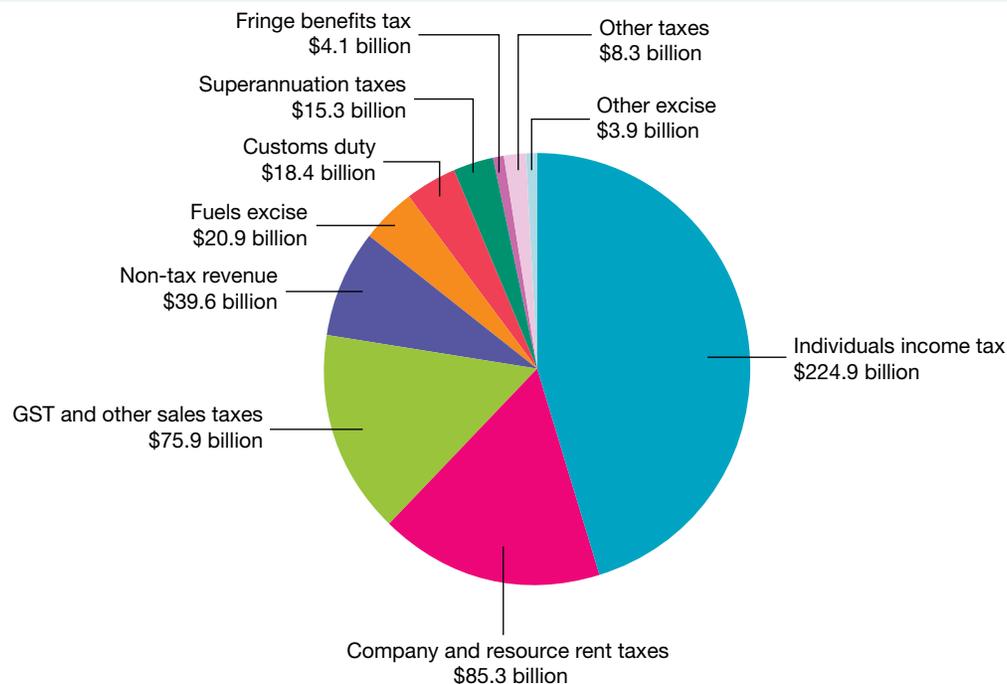
- *excise duty*. This is an indirect tax imposed on selected, locally produced goods such as petrol, LPG, beer, spirits, wine and tobacco. It is a flat percentage added to the cost of the product. For example, the excise on unleaded petrol is about 30 per cent of the price of each litre sold. The precise rates applied are adjusted twice a year and are generally linked to changes in the Consumer Price Index.
- *customs duties*. These are taxes levied on certain imported goods to raise revenue and protect local producers from foreign competition. Since the 1970s governments have had a policy of reducing tariffs to increase competition in Australia and to reduce prices for consumers.
- *goods and services tax (GST)*. This tax was introduced in July 2000. It is a broad-based, indirect tax levied at the rate of 10 per cent on many goods and services in the economy.

FIGURE 4 The tax on petrol provides the government with a significant source of revenue.



FIGURE 5 summarises the sources of government revenue in 2021–22. Income tax on individuals is easily the main source of receipts, followed by revenues from company and resource rent taxes.

FIGURE 5 Sources of government budget revenue for 2021–22



tlvd-10794

Government budget spending

Budget spending is how the government uses the receipts it collects to provide certain goods and services for the community. Government spending is designed to affect the incomes of consumers, the level of demand and economic activity in the economy, inflation, trade and living standards.

Government budget spending is allocated mainly to:

- *social security and welfare*. These payments go to the neediest groups in society including the unemployed, aged pensioners and people with disabilities. The main aim is to redistribute income, thereby helping to reduce poverty and improve general living standards.
- *health*. This involves providing medical attention to consumers, paying the wages and salaries of hospital staff, and outlays on building and furnishing hospitals.
- *defence*. This money is used for the payment of staff and day-to-day running expenses for the armed services, which includes payments for peacekeeping activities.
- *education*. Public education is provided by paying staff at universities, supporting state and non-government schools; vocational education and training; and building programs.
- *transport and communications*. This involves spending on government infrastructure such as roads, shipping, aviation and rail services.
- *housing and community amenities*. This includes spending on public housing and the First Home Owner Grant.
- *public-debt interest*. This is the cost to the government of paying interest on its debts or borrowings. Much of the debt incurred by the government comes from having to finance a budget deficit.
- *net payments to other governments*. These are federal payments to state and local governments to enable them to provide community services including public education, health, housing and transport.

Other areas to which government budget spending is allocated include mining, manufacturing and construction, other economic affairs, agriculture, forestry and fishing, recreation and culture, public order and safety, and fuel and energy.

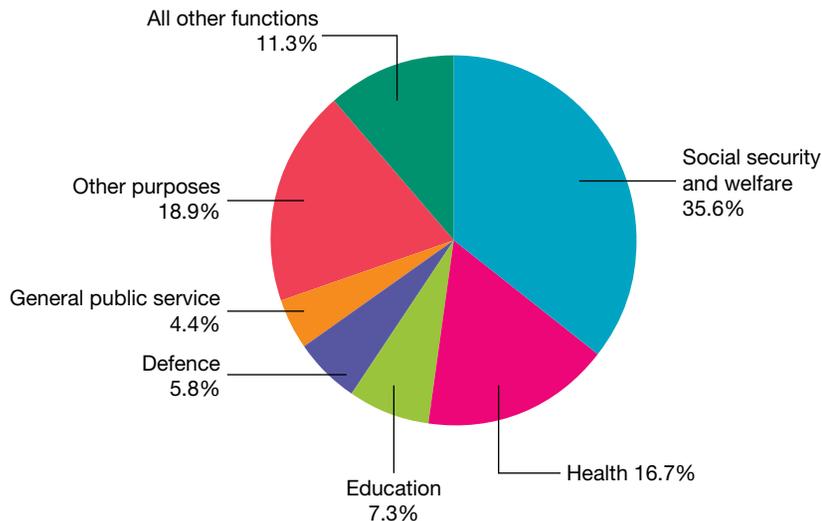
FIGURE 7 shows the relative importance of the government's main areas of spending in 2021–22.

FIGURE 6 A part of government spending goes to the provision of welfare.



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FIGURE 7 Allocation of government spending for 2021–22



Impact of the budget outcome

When the government delivers its budget it has an outcome in mind.

Budget deficits are designed to be expansionary; they encourage spending through tax reductions and increased government spending. It is expected that the increase in spending by the government and by consumers (due to lower taxation payments) will lead to increased economic growth and consequently increased living standards.

Budget surpluses are designed to be contractionary; they discourage spending through tax increases and decreased government spending. It is expected that the decrease in spending by the government and by consumers (due to higher taxation payments) will lead to a slowing of the economy.

2.7.3 Monetary policy

In addition to altering the level of spending in the economy through taxation and direct government spending, the government can also manage the economy through monetary policy. The government may announce major changes during times of dramatic economic events. For example, both during the GFC in 2008 and the COVID-19 pandemic of 2020, the government announced special ‘stimulus packages’, which led to large amounts of government spending in order to prevent the economy from crashing and causing high levels of unemployment.

Monetary policy is a policy operated by the Reserve Bank of Australia (RBA) that seeks to manage the level of spending in the economy. It involves controlling the money in the economy and the rate at which money flows around the economy. The primary instrument of monetary policy is the manipulation of interest rates to alter the cost, availability and demand for borrowing money. Because interest rates have the capacity to alter the level of spending in the economy, they can help to achieve the government’s goals of low inflation, strong and sustainable economic growth and full employment, ultimately improving Australia’s living standards. Monetary policy operates without the approval of parliament and can be altered quickly through changes to the cash rate by the RBA at its monthly meetings.

The RBA has three means of influencing the flow of money, which affects how money is spent in the economy. These are:

- *changing interest rates*. It does this through market operations.
- *influencing the exchange rate*. It achieves this by buying and selling Australian dollars.
- *persuasion*. It uses its influence to achieve the desired direction of lending activities.

Changing interest rates

Interest rates represent the cost of borrowing money. Whenever you borrow money you are required to repay that money, generally with interest. There is a price for borrowing money and that price can change. An increase in the price of borrowing money will generally see a decrease in the demand for money. The opposite is also true.

The official price of borrowing money is called the **cash rate**. The cash rate is the interest rate that applies to a specialised market called the short-term money market. This cash rate depends on the overall deposits of cash in the short-term money market, which, in turn, is controlled by the RBA through its market operations. Market operations involve the RBA either buying back or selling second-hand government

FIGURE 8 The Reserve Bank of Australia controls the amount of money in the economy.



monetary policy a major category of government aggregate demand management or macroeconomic policy; it is implemented by the RBA and is designed to influence the cost, availability and demand for credit and money

cash rate the official price of borrowing money; the interest rate that applies to the short-term money market

bonds through the short-term money market. Whether the cash rate rises or falls depends on the RBA's decision to either buy back or sell these bonds.

Increasing interest rates — a contractionary stance

If the RBA wanted to increase economic growth and inflation, it would encourage interest rates to decrease. This would encourage borrowing and spending. How would this happen? First, the RBA would announce a fall in the cash rate target at its monthly meeting (held on the first Tuesday of each month) and provide the reasons for its decision. This sends a signal to the market of the direction in which the RBA believes the economy is heading. It would then set out to

achieve this target by buying government bonds in the short-term money market. Financial institutions such as banks — which are keen to make a profit — would enter the short-term money market and sell these bonds because they are selling at a higher price. This creates a situation where financial institutions receive payments from the RBA for the bonds, meaning banks are holding a lot of money, much more than they need to. To make more profit, they lend out this money, but because they have large amounts of cash on hand they do so at a lower interest rate to attract lenders. They also lower the interest for depositors as they do not need to attract deposits to fund their lending.

The opposite is true if the RBA wishes to raise interest rates to reduce demand. Selling bonds to the banks and other financial institutions provides less funds for the banks to lend, which would raise interest rates and discourage borrowing from consumers.

Lower interest rates make borrowing less expensive because the amount of interest to be repaid decreases. This means a lower percentage of a person's income is required to repay debt — and that's more money that can now be used to buy goods and services. This is particularly true for home loans. Because of the high amounts borrowed, interest-rate reductions can mean less income is needed to maintain repayments on home loans, decreasing the financial stress on families. Plus, those with excess cash have less incentive to save due to the lower return, so this helps to encourage spending, create jobs and boost economic growth.

Higher rates will do the opposite. With larger repayments, households will devote more of their income to loan repayments and less to spending on goods and services. At the extreme end, it can lead to **mortgage** defaults and families losing their homes. Those with excess cash may choose to save rather than spend in order to take advantage of the higher returns on offer.

Overall, spending falls, aggregate demand falls and economic growth slows down. The negative impact can be a decline in material living standards as consumers have less access to goods and services. Unemployment can also result from

FIGURE 9 Interest rates are the cost of borrowing money.



FIGURE 10 Higher interest rates can lead to mortgage defaults, causing families to lose their homes.



mortgage a loan used to finance the purchase of a house or property

decreased spending, leading to negative effects on non-material living standards through financial stress, marriage breakdowns and increased bankruptcies.

Influencing the exchange rate

The exchange rate is the price at which the Australian dollar is traded against other currencies. When the Australian dollar appreciates in value, our currency is able to buy more of another currency. In effect, this means imported goods and services become cheaper as fewer Australian dollars are needed to buy the same quantity of imports.

The RBA can influence the value of the exchange rate by entering the foreign exchange market and buying or selling Australian dollars. If the RBA wanted to increase the level of economic activity and employment it would sell Australian dollars, increasing the supply and lowering the price. Imports would become more expensive and consumers would switch to locally produced goods and services. The opposite is also true.

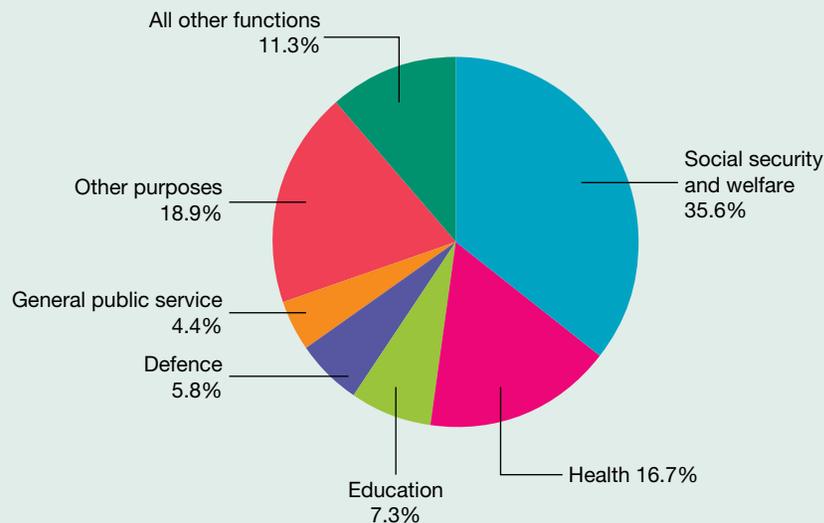
While influencing the exchange rate is an instrument of monetary policy, it is seldom used now and is generally reserved for times when the value of the Australian dollar is changing erratically.

Persuasion

Persuasion is a strategy used by the RBA to talk up or down the level of borrowing, spending and economic activity. As a result of this, consumers and investors react and change their level of spending and borrowing. Statements by the RBA that suggest the economy is performing well will see an increase in consumer and business confidence and therefore an increase in the level of economic activity.

2.7 SKILL ACTIVITY: Questioning and researching

Referring to **FIGURE 7**, the government has a plan for its spending based on its priorities. Imagine you are the Treasurer for the day and have the power to allocate government revenue for the coming year.



1. Allocate government revenue to the areas you **consider** most important.
2. **Justify** your allocation.
3. Share your allocations with the class.
4. As a class, come to a consensus as to how best to allocate the revenue the government collects.
5. **State** your three main considerations in determining your allocation.

2.7 Exercise

Learning pathways

■ LEVEL 1

1, 2, 3, 5, 6

■ LEVEL 2

7, 8, 9

■ LEVEL 3

4, 10, 11

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Check your understanding

- 1. Explain** what is meant by the term 'budget'.
 - A. A government's plan for the financial performance and framework for the coming financial year
 - B. A strategy implemented to achieve a specific goal or objective
 - C. A tax imposed on imported goods to make them more expensive
 - D. A cash payment by the government designed to help producers compete by enabling them to sell their product at a lower price than would otherwise occur
- 2. Determine** whether the following statements are true or false.
 - a. If a government spends more than it earns, it is said to be in budget deficit.
 - b. Capital gains tax is an example of an indirect tax.
- 3. Explain** the term 'cash rate'.
 - A. The price at which the Australian dollar is traded against other currencies
 - B. A loan used to finance the purchase of a house or property
 - C. The official price of borrowing money and the interest rate that applies to the short-term money market
 - D. All of the above
- 4. Explain** what is meant by a 'balanced budget'. Why do you think it is very unlikely we would ever have a balanced budget?
- 5. Identify** what is meant by 'interest rates'.

Apply your understanding

Communicating

- 6. Outline** what is meant by 'budgetary policy'.

Interpreting and analysing

- 7. Describe** how a smaller budget deficit may affect economic growth and spending in the economy.
- 8. Identify** the difference between a direct tax and an indirect tax.
- 9. Explain** how monetary policy works.
- 10.** In 2018 and 2019 banks raised interest rates without waiting for the RBA to change the cash rate. **Elaborate** how this may affect the government's published monetary policy position.
- 11.** In early 2020 the cash rate had fallen to 0.5 per cent. **Determine** the impact you would expect this to have on both borrowing and saving.

LESSON

2.8 What are the different microeconomic policy options?

LEARNING INTENTION

By the end of this lesson you should be able to identify microeconomic policy areas.

TUNE IN

Fixing the issues of an economy can be a daunting task — unemployment, climate change, inflation and government debt are all large-scale problems that require large-scale solutions.

Sometimes it is easier to start small and fix one problem at a time.

Looking at **FIGURE 1**:

1. What is the problem identified by the image?
2. How might this problem be minimised or reduced?
3. Share your ideas with the class.
4. Assuming your solutions work, identify the next 'small' problem we could fix and provide a possible solution.

FIGURE 1 Focusing on one issue at a time can make a big impact.



2.8.1 The smaller picture

Microeconomics involves examining the operation of the smaller fragments or units making up the whole economy, such as a particular business, an industry or a specific market or small sector of the economy.

Microeconomic policies involve government actions to assist industries or markets improve their productivity to make them more competitive and to improve outcomes for consumers through lower prices, greater choice and increased employment opportunities. All of these outcomes should lead to an improvement in the living standards of Australians. This is generally known as microeconomic reform.

In recent years the microeconomic reform policy has centred on four main areas:

- trade liberalisation
- labour market reforms
- market deregulation
- the national reform agenda.

microeconomics the branch of economics that studies the smaller fragments or units making up the whole economy

In addition to these areas, microeconomic policies have also been specifically directed at small areas of the economy such as:

- immigration
- the environment.

Let's look at these areas in more detail.

2.8.2 Trade liberalisation

Trade between nations has often been subject to protection from governments. The imposition of tariffs and **quotas** and the provision of **subsidies** have all worked to protect local industries from overseas competitors.

Tariffs are a tax on imports that raise the price of those imported goods, making the locally produced goods more price competitive. Quotas are a limit on the number of goods allowed into Australia. This meant at some point locally produced goods had to be purchased as there were no imports available to purchase. Subsidies were an amount given to local producers to help them lower their price and compete with imports.

quota a quantity limit or target for production or imports
subsidy a cash payment by the government designed to help producers compete by enabling them to sell their product at a lower price than would otherwise occur

FIGURE 2 Trade liberalisation has had some negative effects on Australian manufacturers, particularly in the motor-vehicle industry.



Trade liberalisation works to reduce these protection mechanisms, making it necessary for local businesses to improve their productivity so they can lower their costs and improve their ability to compete with overseas products on a level playing field. The result should be reduced prices for locally made goods and services so consumers benefit from choice options and lower prices. This enables more goods and services to be purchased and so material living standards are raised.

Trade liberalisation operates through:

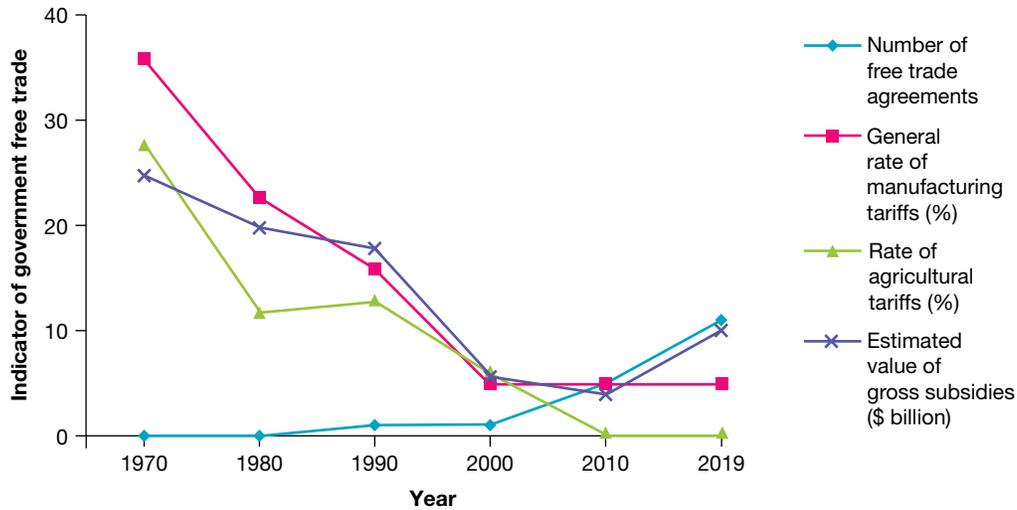
- cutting tariffs
- reducing subsidies
- abolishing import quotas
- increasing the number of bilateral free-trade agreements.

Reducing the level of protection has had some negative impacts. Industries where local manufacturers were unable to significantly change have ceased to operate, causing unemployment (the motor vehicle industry is an example). The rise in unemployment has negative impacts on non-material living standards because stress, financial pressures, mortgage defaults and marriage breakdowns often result.

FIGURE 3 summarises changes made to Australia’s level of protection since 1970.

int-9160

FIGURE 3 Indicators of the Australian government’s adoption of trade liberalisation measures between 1970 and 2019



| Year | 1970 | 1980 | 1990 | 2000 | 2010 | 2019 |
|--|------|------|------|------|------|------|
| Number of free-trade agreements | 0 | 0 | 1 | 1 | 5 | 11 |
| General rate of manufacturing tariffs (percentage) | 36 | 23 | 16 | 5 | 5 | 5 |
| Rate of agricultural tariffs (percentage) | 28 | 12 | 13 | 6 | 0 | 0 |
| Estimated value or gross subsidies (\$ billion) | 25 | 20 | 18 | 6 | 4 | 9 |

2.8.3 Labour market reforms

The **labour market** is the market in which wage levels and working conditions, such as hours of work, leave and terms of dismissal, are determined. Since the 1980s, various governments have introduced major microeconomic reforms by reducing their control over wages and wage determination. In tandem with trade liberalisation, these policies were aimed at lifting labour efficiency (a higher level of GDP per hour worked), keeping labour costs down and increasing Australia’s productive capacity.

This was done by shifting from the centralised wage system to one involving greater deregulation of wages based on collective bargaining or individual workplace agreements. In most cases this created a situation where wages were linked to efficiency and determined at the workplace level, rather than by the government. Since 2010 more than 85 per cent of workers have been covered by enterprise bargaining or other arrangements.

The deregulation of the labour market enabled some workers to access wage increases as a result of their increased productivity. This benefited both employer and employee

FIGURE 4 Labour market reforms have resulted in many employees signing individual contracts with their employers.



labour market the place, region or institution where buyers and sellers of labour negotiate wages

as increased productivity meant lower costs and improved competitiveness. Wage increases could then be sourced from improved profits.

Improved competitiveness can also lead to increased employment levels and improved material living standards. On the other hand, non-material living standards may fall because increasing productivity usually means working more hours.

2.8.4 Market deregulation

Deregulation is the removal of unnecessary government controls, restrictions and supervision in various areas of the economy. In Australia this has seen progressive changes to key markets such as telecommunications, airlines, ports, shipping, primary produce and retail. Because economists believe that markets allocate resources most efficiently, a deregulated market should lead to lower prices due to stronger competition.

FIGURE 5 Market deregulation has led to increased competition in markets previously dominated by one company.



Market deregulation is seen as an important area of government microeconomic reform because it is a way of promoting many government economic goals including:

- *lower cost inflation* through lower prices due to competition between firms
- *strong and sustainable economic growth* through increased spending on goods and services due to lower prices (meaning higher demand)
- *higher employment in the long term* because new businesses will open in markets previously blocked, creating new jobs
- *external stability* through increased exports and less reliance on imports as locally produced goods become price competitive.

The result is that both material and non-material living standards will improve over time as the new competitors establish a share of the market.

deregulation the removal of unnecessary direct government controls, restrictions and supervision in various areas of the economy

2.8.5 National reform agenda

Microeconomic reform in Australia is currently undertaken as part of a national reform agenda designed to improve the lives of all Australians. From 1995 to 2005, reform occurred under the National Competition Policy (NCP), a broad collection of microeconomic reform measures designed to strengthen the level of competition and efficiency in markets. Strong competition results in greater efficiency, lower costs of production, cheaper prices and better quality of service and product.

In 1995, as part of the NCP reforms, the Australian Competition and Consumer Commission (ACCC) was established to help prevent powerful companies from artificially raising prices to exploit consumers. The ACCC now enforces the *Competition and Consumer Act 2010*, under which a number of anti-competitive practices are illegal, including:

- *price fixing*. This is when firms collaborate to set common or similar prices that are higher than normal.
- *exclusive dealing*. This occurs when companies refuse to supply their products or services to one or more firms.
- *collusive bidding*. This is when supposedly competing firms that are submitting a tender or quote for the completion of works or to supply goods or services meet secretly beforehand to agree whose tender should be most attractive, cheapest and likely to win the contract.
- *predatory pricing*. This is when dominant firms conduct a price war involving big cuts in selling prices with the intention of driving rival firms bankrupt, then later enjoying the market without competition.
- *market zoning*. This happens when competing firms in a region divide the market into zones, areas or regions within which they agree not to compete with each other over prices.

In 2006, the Council of Australian Governments, which represents all of the state and territory governments and the federal government, adopted a national reform agenda to continue competition and regulatory reform.

FIGURE 6 Firms should be able to compete on a level playing field without one firm getting an unfair advantage because of its size or power.



on Resources

 **Weblink** Anti-competitive behaviour

2.8.6 Immigration policy

Australia's immigration policy has been used as an approach to managing the number and composition of migrants coming to Australia from overseas. In other words, apart from important humanitarian and family considerations, the federal government's current immigration program tries to attract young and suitably skilled people who are likely to make a valuable and ongoing contribution to the labour force and the Australian economy.

By prioritising skilled persons as the majority of our yearly immigration intake, Australia is able to fill vacancies in industries where local skills are lacking. This can result in improved productivity, leading to expansion in those industries as they increase their profits.

FIGURE 7 Skilled migrants can improve the productivity of local businesses.



These migrants also assist in improving non-material living standards as they further develop our multicultural society, bringing elements of their culture to Australia.

It can be argued, however, that if money was spent on training within Australia, we could fill these skill vacancies with people who are currently unemployed, raising their incomes and living standards.

2.8.7 Environmental policy

Environmental policy refers to specific policies created by the government to improve the quality of our environment and move away from traditional power generation methods by promoting industries that offer an alternative. Some measures introduced include:

- a government scheme that provides rebates for households that install domestic water tanks to collect rainwater and cut down on water usage from dams
- a government scheme that provides rebates for households that install insulation in their homes to reduce power bills
- a government scheme that provides rebates to households that install solar panels to provide their household with solar power and possibly return unused energy into the power grid, reducing reliance on fossil-fuel generated power
- the creation of the Renewable Energy Target (RET) scheme, whereby 23.5 per cent of Australia’s electricity now comes from renewable energy sources
- the signing of the Kyoto agreement in 2008 to commit Australia to reduce emissions
- the imposition of a carbon tax (repealed in 2014).



FIGURE 8 Our environmental policy has led to the creation of a number of new industries.

These policies, among others, aimed to create new industries and provide a cleaner environment for future generations — a means of improving our non-material living standards. They also create jobs in new industries and make it important for traditional energy providers to become more efficient to remain competitive.

2.8 SKILL ACTIVITY: Evaluating, concluding and decision-making

1. Complete the following table to compare the sole providers of services during the 1980s with the range of providers available today. Conduct research or consult an adult you know to help you with this task. The first item has been completed for you.

| Service | Previous provider | Providers today |
|-------------------|-------------------|--------------------------|
| Telecommunication | Telecom | Telstra, Optus, Vodafone |
| Electricity | | |
| Water | | |
| Gas | | |

2. Competition is good for the economy and the consumer. The government has acted in the past to increase competition in the market.
 - a. **Explain** how consumers benefit from competition in the market.

- b. **Consider** the infrastructure involved in the electricity market. What might be one issue of having multiple providers of electricity?
- c. Can you **identify** other markets where increased competition might be beneficial to consumers?
- d. **Outline** any negatives associated with the increased competition in the four identified markets and **propose** a reason why the government should have kept control of them.



2.8 Exercise

learnon

2.8 Exercise

Learning pathways

■ **LEVEL 1**
1, 2, 3, 5

■ **LEVEL 2**
6, 8

■ **LEVEL 3**
4, 7, 9, 10

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Check your understanding

1. **State** which of the areas have been a point of focus in microeconomic reform policy in recent years.
 - A. labour market reforms
 - B. market deregulation
 - C. the national reform agenda
 - D. All of the above
2. **Explain** what is meant by a 'subsidy'.
 - A. A cash payment by the government designed to help producers compete by enabling them to sell their product at a lower price than would otherwise occur
 - B. A tax rebate by the government designed to help producers compete by enabling them to sell their product at a lower price than would otherwise occur
 - C. A bulk purchase of goods by the government to enable producers to sell their product at a lower price than would otherwise occur
 - D. A cash payment by the government designed to help consumers purchase goods at a higher price than would otherwise occur
3. **Determine** whether the following statements are true or false.
 - a. Strong competition results in greater efficiency, cheaper prices and better quality of service and product, though it can increase the cost of production.
 - b. Deregulation is the addition of unnecessary government controls, restrictions and supervision in various areas of the economy.
4. **Explain** how one microeconomic reform can assist the government in achieving one economic objective.
5. **Outline** two key areas of government microeconomic policy.

Apply your understanding

Interpreting and analysing

6. In 2018 and 2019 the US government and the Chinese government both introduced tariffs on imported goods from each other. **Analyse** how these tariffs may affect the Australian economy.
7. In your opinion, should Australia follow the lead of the US government and impose tariffs on Chinese imports? **Justify** your answer.

Communicating

8. **Define** what is meant by environmental policies, listing two important examples of such measures.
9. **Explain** how our immigration policy can work to improve both material and non-material living standards.
10. Government policies can overlap — the government has offered subsidies (or rebates) to consumers who install water tanks, home insulation and solar power panels. **Determine** how these subsidies form part of a government's environment policy.

LESSON

2.9 What is direct government intervention in the market?

LEARNING INTENTION

By the end of this lesson you should be able to describe direct government intervention in the market, and identify the reasons for this.

TUNE IN

We have all been to a food court — lots of choices but only time for one meal. Sometimes we go with friends and we all select a different type of food.

This is the perfect example of opportunity cost — the cost of what we don't buy by making a decision to buy something else (you can't buy pizza if you buy Chinese food).

Governments have to make similar choices. We know from lesson 2.7 that the government collects revenue from taxpayers and then distributes it back into the economy through government spending. But why? Why is it necessary for the government to intervene in the economy?

Propose a list of the government services that would not be provided if the government didn't provide them and consumers had to pay for them directly.

FIGURE 1 Every decision has a trade-off — understanding opportunity cost helps us make better choices.



2.9.1 Reasons for government intervention

So far we have identified the economic goals of the government, how it measures its performance in relation to those goals and the impact that achieving or not achieving those goals has on the living standards of Australians. Setting economic goals and implementing policies to achieve them is one key way the government is actively involved in the economy. However, the government also intervenes in other areas.

FIGURE 2 The government plays an important role in the market.



The reasons governments directly intervene in the market are:

- to stabilise the economy
- to reallocate resources
- to distribute income.

2.9.2 Stabilisation of the economy

The level of economic activity involves the overall pace or speed at which the economy is performing and production is growing. The speed at which this occurs can affect:

- *inflation*. If the economy is moving too quickly, inflation will result as demand will pull prices upwards.
- *unemployment*. If the economy is moving too slowly, demand will fall and businesses may be forced to lay off workers or close down, leading to rising unemployment.

If the economy is unregulated, it can be very unstable and it can sometimes experience large and sudden changes to production and activity. It is the government's job to directly intervene in the market to stabilise the level of economic activity. As we have seen, the government does this through the implementation of budgetary, monetary and microeconomic reform policies.

2.9.3 Reallocation of resources

If left to itself, a market can be an efficient allocator of resources. This is because the owners of those resources are always seeking to maximise their profits and incomes. They do this by producing only those goods and services that are likely to deliver the most profit because they are the most in demand.

However, this is not always the case and there are a number of circumstances where the market does not use resources efficiently, for example:

- *The market may not produce enough socially desirable goods and services*. The government intervenes to ensure an adequate supply of these products. The private sector may under-produce these goods because they are expensive to produce and it is difficult to make a profit from them. Such items include products related to health care, education, public housing and public transport.
- *The government may intervene to provide goods that the private sector won't supply*. These are services such as defence, public toilets and street lighting, which are not profitable because it is not possible to make users pay for such services.
- *The market may produce socially undesirable items*. Some products are deemed to be undesirable but can still be profitable. For example, the existence and availability of certain guns and other weapons can have negative effects on communities, so the government tries to shift resources away from the production and provision of these things. The government has passed laws banning specific types of guns and weapons so there is less production of these items, meaning resources will be used in the production of other goods.

FIGURE 3 The government is responsible for stabilising the economy to ensure economic goals are met and living standards are maintained.



- *The government may, in some instances, intervene to allocate resources.* These resources may be used for producing goods and services that compete with the private sector to ensure the product is available to everyone, not just to those who can afford it. One example is the ABC (Australian Broadcasting Corporation). This company initially provided television and radio services to all Australians because commercial television channels (7, 9 and 10) did not provide a service to remote areas. The same applied to telephone services through Telecom (now Telstra) and banking services (the Commonwealth Bank was originally established to compete with private banks before it was privatised).

FIGURE 4 The government will intervene to provide services such as public toilets, which offer no profit appeal to the private sector.



2.9.4 Distribution of income

In a market economy, people earn an income according to the demand and supply of the labour they offer. Some people earn high incomes and some earn low incomes. We also know that because of changes in the level of economic activity some people lose their jobs and spend some time earning no income.

The private sector does not provide for people who don't, can't or are limited in their ability to earn an income. In these circumstances the government intervenes to provide these people with a minimum level of income through welfare payments.

Modern Australia (and society in general) recognises that it has an obligation to look after the more vulnerable in our society and that those who can most afford to should carry the majority of the burden for providing for these vulnerable people. As a result, the following government measures are used to redistribute income and provide support to some groups in society.

- *Welfare benefits.* The government provides direct payments through its welfare system to vulnerable Australians. Unemployment benefits are the most visible payment made, but the government also makes welfare payments to aged pensioners, disabled people, veterans and First Nations Australians. The government also makes payments to certain groups for various reasons from time to time. Examples include:
 - *the First Home Owner Grant.* This helps young people move into their first home and out of renting or public housing.
 - *an extra Family Tax Benefit payment.* This is an extra amount for eligible families when a child is born. It helps with the cost of raising children.

FIGURE 5 The government uses taxation and its budget to ensure a minimum level of income for all Australians.



- *Progressive taxes.* Income tax is applied progressively. Higher income earners pay a larger percentage of their income in tax than low-income earners. The money collected from this taxation can be used to pay for welfare benefits to those in need and to provide necessary government services such as health care, education and housing. Taxation rates change periodically according to government policy and aims for the economy.
- *Provision of essential services.* The government does not only pay money directly to underprivileged people. It also redistributes income by providing services to low-income earners, giving them benefits such as health care, public education, concession travel cards for school children and rental assistance.
- *Compulsory superannuation.* To protect the future of Australians and reduce future reliance on government pensions, the government introduced a compulsory national superannuation scheme for all employees through a levy (currently 9.5 per cent of wages earned) on employers. The objective is for workers to be able to live off this superannuation and have less need for welfare when they retire.

DISCUSS

Income inequality has risen substantially in Australia over the past two decades, even with the current distribution-of-income methods in place. Do you think the Australian government should do more to try to reduce income inequality?

2.9 SKILL ACTIVITY: Interpreting and analysing

The government intervenes in the market for a variety of reasons as has been discussed. Sometimes the intervention is designed to benefit the economy in both the short and long term. For over 10 years the federal (and now Victorian) government had a scheme where the cost of installing solar panels on the roof of your house was subsidised (made cheaper).



This scheme was designed to improve the economy in both the short term and the long term.

1. Copy the table below into your notebook.
2. Complete the table below **outlining** the short-term and long-term benefits of each scheme. (*Note:* You will need to undertake some **research**.)

| Scheme | Short-term benefit | Long-term benefit |
|-------------------------------|--------------------|-------------------|
| Solar panel rebate scheme | | |
| Home insulation rebate scheme | | |
| Water tank rebate scheme | | |

3. **Analyse** the information and **create** a report [200 words] detailing why the government implemented these schemes and **summarising** the commonality in each scheme.

2.9 Exercise

Learning pathways

■ LEVEL 1

1, 2, 3, 6

■ LEVEL 2

5, 7, 8

■ LEVEL 3

4, 9, 10

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Check your understanding

- Select** which of the following is not one of the three main reasons the government intervenes in the market.
 - To stabilise the economy
 - To reallocate resources
 - To stimulate economic growth
 - To distribute income
- Determine** whether the following statements are true or false.
 - The market does not provide all the goods and services Australians need because the owners of those resources are always seeking to maximise their profits and incomes. True or false?
 - When the private sector does not provide for people who don't, can't or are limited in their ability to earn an income, the government intervenes to provide these people with a minimum level of income through welfare payments. True or false?
- Select** which of the following is **not** one of the measures used to redistribute income and provide support to some groups in society.
 - Compulsory superannuation
 - Price fixing
 - Welfare benefits
 - Provision of essential services
- For what reasons might the government need to reallocate resources?
- How can the pace at which the economy is performing affect:
 - inflation
 - unemployment

Apply your understanding

Communicating

- Explain** why the government needs to allocate resources.
- Identify** why the government needs to redistribute income.
- Explain** what is meant by a 'progressive tax system'.
- Discuss** what is meant by 'compulsory superannuation' and why it is needed.

Evaluating, concluding and decision-making

- Evaluate** why government welfare benefits are needed in the economy.

LESSON

2.10 INQUIRY: How does Australia measure up?

LEARNING INTENTION

By the end of this lesson you should have a comprehensive understanding of how Australia's economic performance compares to that of other countries around the world.

Background

You have considered data showing Australia's performance in terms of economic measures such as inflation, unemployment and economic growth, and have made comparisons with four other countries of importance to Australia's economy: China, New Zealand, the United Kingdom and the United States. But these are not the only countries of importance to Australia, and the economic measures identified above are not the only measures that are important to the citizens of a country.

Before you begin

Access the **Inquiry rubric** in the digital documents section of the Resources panel to guide you in completing this task at your level. At the end of the inquiry task you can use this rubric to self-assess.

Inquiry steps

How does Australia measure up when compared with many other countries, and on measures beyond pure economic performance?

Select a country that Australia has a relationship with other than China, New Zealand, the United Kingdom and the United States.

You might choose India — in 2022 Australia and India signed a Free Trade Agreement — or Japan which has long been a major trading partner.

Step 1: Questioning and researching

Identify statistics that measure Australia's performance as well as the performance of the selected country. The measures should consider economic data such as unemployment, inflation and economic growth as well as other measures of performance — the Human Development Index, the Quality of Life Index and the Genuine Progress Indicator.

Step 2: Interpreting and analysing

Determine the relevant performance of each country, **identifying** areas where Australia has performed well relative to the selected country and vice versa. **Select** a way to organise your data, such as a table, spreadsheet, graph or similar, to help you analyse it.

Step 3: Evaluating, concluding and decision-making

Conclude your study by **determining** which country has performed better and include a **justification** of that conclusion.

Step 4: Communicating

Communicate your findings in a report using PowerPoint.

Complete your self-assessment using the **Inquiry rubric** or access the 2.10 exercise set to complete it online.

Resources

 **Digital document** Inquiry rubric (doc-39967)

LESSON

2.11 Review

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Receive immediate feedback and access sample responses



Access additional questions



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2.11.1 Key knowledge summary

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

2.2 How does economic growth indicate Australia's economic performance?

- Assessing the performance of an economy is important because it enables a country to evaluate how it is performing its role as 'manager'.
- Measuring an economy's performance also enables us to assess the wellbeing of a country's citizens.
- Economic growth is one important area that can be used to measure economic performance.

2.3 How do employment trends indicate Australia's economic performance?

- Unemployment is one important area that can be used to measure economic performance.
- In Australia, the unemployment rate is measured using the monthly Labour Force Survey.

2.4 How do inflation rates indicate Australia's economic performance?

- Inflation is one important area that can be used to measure economic performance.
- Inflation occurs when there is an increase in the general level of prices across the economy.
- Inflation in Australia is measured quarterly by calculating the Consumer Price Index (CPI).
- Inflation can have a negative impact on the living standards of consumers.

2.5 How do sustainability indices indicate Australia's economic performance?

- Sustainability indices and other indicators of economic performance provide a lot of information about the economy.
- The Human Development Index (HDI), the Genuine Progress Indicator (GPI) and the World Happiness Report are alternative measures of an economy's performance.
- Quantitative measures are those that measure the dollar value or the percentage value change in an item.
- Qualitative measures determine or measure the quality of our life and the economy.
- By using a combination of quantitative and qualitative indicators, we are able to get a clearer understanding of the state of the economy.
- It is important to understand how these indicators are measured and the effects these problems have on our living standards.
- The Liveability Ranking and the World Happiness Report are used to determine whether a strong economy improves our quality of life.

2.6 What are living standards and how are they related to economic performance?

- How an economy performs in terms of achieving its economic goals will affect the living standards of citizens of that country.
- There are two types of living standards: material and non-material.
 - Material living standards relate to the acquisition of material goods and services.
 - Non-material living standards relate to the qualitative elements of human wellbeing, which influence the aspects of living standards unconnected with material possessions.



- Living standards are very important to individuals and families.
- By calculating GDP per capita, we can use this figure as a measure of change in living standards.
- Achieving full employment, low inflation, strong economic growth and external stability through balanced trade will work to improve our living standards.
- The government is involved in assisting the economy in order to improve living standards.

2.7 What are the different macroeconomic policy options?

- Macroeconomic policies aim to keep inflation under control, minimise unemployment, create a sustainable level of economic growth and keep our trade situation balanced by looking at the general influences on national spending, national output, national income, employment and overall material living standards.
- Macroeconomic policies involve two key areas of influence by the government: budgetary/fiscal policy and monetary policy.
- Budget spending is how the government uses the receipts it collects to provide certain goods and services for the community.

2.8 What are the different microeconomic policy options?

- Microeconomic policies aim to keep inflation under control, minimise unemployment, create a sustainable level of economic growth and keep our trade situation balanced by examining the operation of the smaller fragments or units making up the whole economy.

2.9 What is direct government intervention in the market?

- Governments directly intervene in the market to:
 - stabilise the economy
 - reallocate resources
 - distribute income.
- In a market economy, people earn an income according to the demand and supply of the labour they offer.

2.10 INQUIRY: How does Australia measure up?

- How does Australia compare to other countries in terms of economic growth and living standards?
- Other countries will focus on different measures of living standards.

2.11.2 Key terms

budget a plan for the future; in economics it is a plan about the government's financial performance and framework for the coming financial year, and is estimated by calculating its expected revenues and expenditures

budgetary policy (or fiscal policy) a macroeconomic or aggregate demand management strategy involving the government's estimates of the expected value of its receipts and the expected value of its outlays

cash rate the official price of borrowing money; the interest rate that applies to the short-term money market

consume to purchase goods and services for direct use or ownership

cost inflation a sustained increase in the price of goods and services caused by producers passing on increased production costs to consumers

demand inflation price increases that result from an excess of demand over supply for the economy as a whole

deregulation the removal of unnecessary direct government controls, restrictions and supervision in various areas of the economy

economic growth a measurement of the increase in a country's gross domestic product (GDP)

income the reward earned from supplying productive resources; providing labour earns income in the form of wages or salaries

inflation a general rise in the prices of goods and services within an economy

labour market the place, region or institution where buyers and sellers of labour negotiate wages

macroeconomics the branch of economics that emphasises the central role played by the level of expenditure or aggregate demand

mark-up a fixed percentage or dollar figure added to the cost price of goods and services to determine the selling price

material living standards refers to the number of goods and services we can afford to buy

microeconomics the branch of economics that studies the smaller fragments or units making up the whole economy

monetary policy a major category of government aggregate demand management or macroeconomic policy; it is implemented by the RBA and is designed to influence the cost, availability and demand for credit and money

mortgage a loan used to finance the purchase of a house or property

negative externality a production outcome that was not intended and that negatively affects our economy and/or society

non-material living standards value-based elements of human wellbeing that are not connected to material possessions

qualitative indicators subjective measures that cannot easily be calculated or measured; e.g. indices that measure a particular aspect of quality of life or that describe living conditions, such as freedom or security

quantitative indicators objective indices that are easily measured and can be stated numerically, such as annual income or the number of doctors in a country

quarterly every three months

quota a quantity limit or target for production or imports

recession a technical term referring to two consecutive quarters of negative growth in an economy

regimen a basket of goods and services whose prices are surveyed to calculate inflation

subsidy a cash payment by the government designed to help producers compete by enabling them to sell their product at a lower price than would otherwise occur

sustainable able to last or continue for a long time

tariff a tax imposed on imported goods to make them more expensive

taxation a government levy or revenue measure that can be used as part of the budget to affect the level of prices, the growth rate and the distribution of income

2.11.3 Reflection

Complete the following to reflect on your learning.

Revisit the inquiry question posed in the Overview:

What can our purchases and level of happiness tell us about the health of the economy?

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

 **eWorkbooks** Customisable worksheets for this topic (ewbk-11524)
Reflection (ewbk-11845)
Crossword (ewbk-11846)

 **Interactivity** Economic performance and living standards crossword (int-7681)

2.11 Review exercise

Hey students! Now that it's time to revise this topic, go online to:



Review your results



Watch teacher-led videos



Practise questions with immediate feedback

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Multiple choice

- Which of the following is used to measure economic growth?
 - Gross domestic product
 - Genuine Progress Indicator
 - Unemployment rate
 - Consumer Price Index
- What growth rate does the Australian government hope to achieve?
 - Between 1 and 2 per cent
 - Between 2 and 3 per cent
 - Between 3 and 4 per cent
 - Between 4 and 5 per cent
- The government considers the economy to be at full employment when the unemployment rate is approximately what percentage?
 - 2 per cent
 - 3 per cent
 - 4 per cent
 - 5 per cent
- What type of unemployment results from a downturn in the level of economic activity?
 - Cyclical unemployment
 - Hidden unemployment
 - Seasonal unemployment
 - Structural unemployment
- To be considered unemployed, during a survey period a person must do paid work for less than how long?
 - One month
 - One week
 - One day
 - One hour
- Which of the following are *not* considered sustainability indices?
 - Genuine Progress Indicator
 - Current Account Deficit
 - Business Confidence Index
 - Human Development Index
- Which of the following is *not* an indicator of a non-material living standard?
 - GDP per capita
 - The crime rate
 - The divorce rate
 - Working hours per week

8. Which of the following is *not* an assumed result from an increase in GDP?
- A. Better employment opportunities
 - B. Better health and education services
 - C. Increased life expectancy
 - D. Decrease in crime rates
9. Which of the following is *not* an alternative measure of living standards?
- A. Genuine Progress Indicator
 - B. Quality-of-life index
 - C. The social wage
 - D. Human Development Index
10. Which of the following is *not* a quality-of-life factor according to the quality-of-life index?
- A. Life expectancy at birth
 - B. Job security
 - C. Access to health care
 - D. Gender equality

Short answer

Communicating

11. **Explain** the most common measure of economic growth and Australia's target growth rate per year.
12. **Explain** how being unemployed can negatively affect a person's material and non-material living standards.
13. **State** what the Genuine Progress Indicator (GPI) is.
14. There are two broad factors affecting prices in Australia: demand factors and supply factors. **Describe** two demand factors and two supply factors that could negatively affect the rate of inflation in Australia.
15. **Identify** one measure of living standards and describe how it works.

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3 Consumer and financial decision-making

LESSON SEQUENCE

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LESSON

3.1 Overview

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What factors influence economic decision-making within consumer and financial contexts and how are participants involved?

3.1.1 Introduction

Think about your day so far. What decisions have you made? Did these decisions include making a purchase? Perhaps you paid for your lunch or a train fare?

Or maybe you are thinking about purchasing something more exciting like a new watch or a phone? Which business are you thinking about buying from and why? Is it a new business? Is it a small business or large business, or a business that is continually evolving to provide its customers with innovative and exciting products?

There are many factors that influence what you purchase and whom you purchase from.

In this topic you will consider the purchases that you make, both minor and major, and what influences your decisions to buy, remembering that the bigger the purchase, the more considerations you might need to make.

Of course, it is not just consumers who buy things: businesses also make purchases. These purchases are of a different kind to consumer decisions and may involve a business making investments in new technology or increasing its expenditure on marketing to gain more customers.

FIGURE 1 Businesses need to try to differentiate themselves from their competitors and convince consumers to purchase their products.



Resources



eWorkbook

Customisable worksheets for this topic (ewbk-11526)



Video eLesson

Consumer and financial decision-making (eles-6139)

LESSON

3.2 What are consumer and financial decisions?

LEARNING INTENTION

By the end of this lesson you should be able to identify examples of minor and major consumer and financial decisions, and explain the processes that guide decision-making.

TUNE IN

Imagine that you are a business professional who works in the city. You do not own a car, instead you use public transport to commute to work. You often start work early in the morning and work until after 5 pm on most days, except for Friday when you finish early.

1. Make a list of the purchases that you might make as the business professional who works in the city.
2. Group your purchases into minor and major purchases.
3. For each purchase, think about whether the purchase would be classed as a necessity.
4. For each purchase, think about what would be the main influence on your purchasing decision.

FIGURE 1 What influences the purchase we make?



3.2.1 Consumer decisions

Consumer decisions are the decisions that we make to buy certain goods and services. We make these decisions every single day; sometimes we agonise over a purchase and at other times we purchase something very quickly, with little obvious thought. Academics who study business behaviour have identified five stages in consumer decision-making.

These are:

- recognising the need for something; ‘a thirst’ for a drink, for example
- gaining information on a product
- comparing alternative product offerings from different businesses
- purchase of the item
- post-purchase feelings of satisfaction, pleasure or, sometimes, regret.

Our daily purchases as consumers are often small and regular — bread, milk, coffee. These types of decisions are classed as minor consumer decisions. While our larger purchases as consumers are more infrequent, these may include high-priced items such as bikes, cars, phones and houses. The decision-making that goes into these purchases is far greater. Consumers typically undertake the following:

- lots of research into the type of product they need
- evaluations of brands and selecting brands that are ‘acceptable’ or ‘unacceptable’
- comparisons of price within a range.

In fact, it is best practice to approach any ‘big spends’ in this way, and this includes plans for buying shares and investing.

FIGURE 2 Major consumer purchases that happen infrequently usually require a lot of research.



3.2.2 Financial decisions

Financial decisions differ from consumer decisions because they are decisions taken by consumers and businesses that generally involve decisions to buy things such as assets which are likely to generate extra money for the consumer or business. An example for a consumer is the financial decision to buy a second home that could be rented out for income.

An example for a business is the financial decision to invest in new machinery to improve productivity and, therefore, business profits. This is an example of a major purchase; however, businesses may also make minor financial purchases such as the purchase of a new computer.

Business decision-making, like consumer decision-making, is typically carefully considered. Before making any financial decisions, businesses will do the following:

- assess their retained profits
- consider the return on their investment (i.e., whether spending money on one thing will likely lead to the business cutting costs or being more profitable)
- consider the cost of finance if they have to take a business loan.

FIGURE 3 Financial decisions are business decisions that generally involve expenditure on day to day items; however, they also include major equipment decisions, such as new robotics technology.



DISCUSS

Major consumer and financial decisions come with risks. Discuss the risks associated with purchasing a new house or new business premises.

3.2 SKILL ACTIVITY: Evaluating, concluding and decision-making

Making a sound consumer decision should involve comparing alternative product offerings from different businesses.

1. **Select** a product that you either have bought or would like to buy.
2. **Identify** two similar, but alternative, offerings to this product.
3. **Create** a table which effectively compares the three products — you will need to decide on categories for comparison such as price, availability, size and colour.
4. Which product should you choose? **Justify** your answer.

3.2 Exercise

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3.2 Exercise

Learning pathways

■ LEVEL 1
1, 2, 5

■ LEVEL 2
3, 4, 9, 10

■ LEVEL 3
6, 7, 8

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Check your understanding

1. **Determine** whether the following statements are true or false.
 - a. A mobile phone is considered a minor purchase for an individual.
 - b. Major purchases are those that we make on a regular basis.
 - c. Purchasing an item comes *after* the five stages of consumer decision-making.
2. **Identify** two minor purchases that a business might make.
 - A. A new production line machine
 - B. A new computer
 - C. A new phone
 - D. A promotional campaign
 - E. A company car
3. _____ decisions are decisions taken by managers of a _____ to buy things such as business _____, or to invest in the _____ of employees.
4. **Differentiate** between a minor consumer purchase and a major consumer purchase.

Apply your understanding

Communicating

5. **State** three examples of major financial decisions.
6. **Outline** the five steps in consumer decision-making.
7. **Explain** why we sometimes feel regret, even after a minor purchase.
8. **Explain** why it is important for consumers to gain information on products before they make a major purchase.
9. **Outline** two things that a business might consider before making a major purchase.
10. What advice would you give to a consumer who was looking to purchase a new laptop computer?

LESSON

3.3 What can influence consumer and financial decision-making?

LEARNING INTENTION

By the end of this lesson you should be able to explain the factors influencing both consumer and financial decisions.

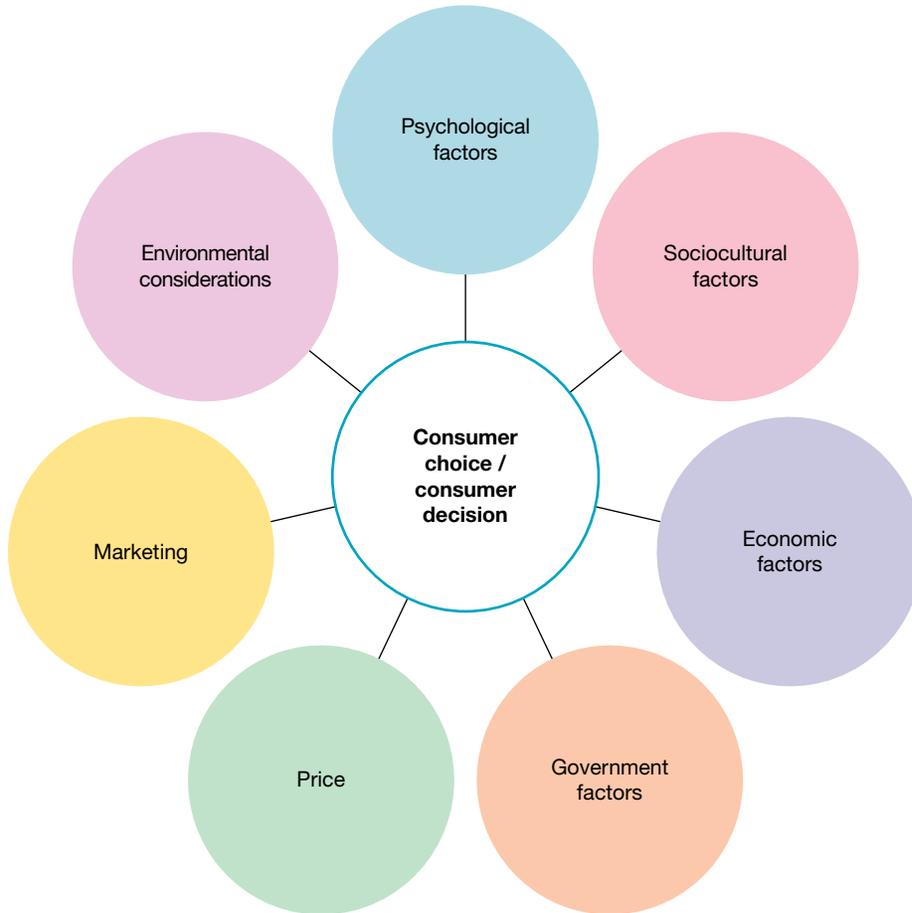
TUNE IN

FIGURE 1 shows seven things that have been shown to influence a consumer purchasing decision.



tlvd-10771

FIGURE 1 A selection of the main factors influencing consumer choice



1. Think of five more things that might influence your decision to buy something.
2. From the factors that influence consumer choice, choose two which you think have the most influence on a consumer. Why do you think these are so significant?
3. Which two factors do you think are least important in influencing a consumer's choice?
4. Think of two significant purchases that you have made recently. Explain, using the diagram, why you made these purchases.

3.3.1 Factors affecting consumer decisions

Consumers make purchases daily, but have you ever stopped to think why you may have chosen to purchase one product over the other? Was it because a product was on special offer or because it was available at a convenient location? **FIGURE 1** shows some of the main factors that are thought to affect a consumer's purchasing decisions.

Psychological factors

Psychological factors are those things which are to do with what we think or feel. As individuals we tend to act on our **perceptions** of products, and we are influenced to purchase products that we feel are good quality or have a good reputation.

We also have **motives**, or reasons, for choosing certain products over others. This might be because we seek safety, pleasure or the approval of others. Finally, we may find that we decide to buy a certain product because of our personality — some people seek bright and fun brands of clothing to reflect their outgoing nature.

Sociocultural factors

Sociocultural factors describe our roles within our families and society, and our relations to our peer groups. These factors also include the common beliefs present in a specific population or group. For example, while gender-specific roles are outdated, research shows that males are more likely to make purchases related to home maintenance or cars. We may make purchases because our peers do, and if we belong to a certain **sub-culture**, our purchases will be heavily influenced by what others in that group are doing.

Economic factors

Economic conditions impact whether a consumer is willing or able to make a purchase. If the economy is performing well and employment is high, consumers will have the confidence to make more purchases. This may mean increasing the frequency and type of smaller purchases, but also increasing the number of major purchases made. This might include buying a new car or new TV.

Government factors

The government affects our choices and purchasing habits through several direct and indirect ways. Government policy (to increase interest rates, for example) will have an indirect effect on our spending. Interest rate rises will mean that any major purchases made on credit are more expensive for a consumer and, as a consequence, consumers may limit, or postpone, their major purchases during that time.

FIGURE 2 Subcultures and interests tend to influence our purchasing decisions.



Price

Is it true that we buy the cheapest products? Does price always influence our purchasing decisions? Price is an interesting factor, which is related to other factors. We may be very much persuaded by a low price if we are young or earning a low income, or if price is part of our inbuilt motive to buy. However, some of us may always perceive a high price as being reflective of a high quality and, as a result, a low price would not persuade this type of consumer to make a purchase.

Environmental considerations

Consumers are increasingly tuned in to environmental issues and this is reflected in their consumer decision-making. Research shows that a significant percentage of consumers would like to buy more environmentally friendly products. However, sometimes other factors get in the way, such as higher price, and so consumers do not always follow through with this decision.

Marketing

Marketing is more than selling a product. It is the whole process of providing goods and services to satisfy the needs and wants of consumers at the right place and time, using the right promotions. A catchy definition of marketing is 'the right product, in the right place, at the right time, at the right price'. This is sometimes called the 4Ps: product, price, place and promotion.

marketing the process of planning and executing the development, pricing, promotion and distribution of products to create exchanges that satisfy individual and organisational objectives

FIGURE 3 The 4Ps of marketing



Successful marketing needs to involve the following elements:

- *research* — gathering information from potential consumers about their wants and needs
- *publicity* — providing information about a new product or service
- *promotions* — assisting the launch of products and services (for example, events)
- *advertising* — promoting new behaviours (for example, anti-litter, Quit campaign, road safety programs)
- *evaluation* — finding out the success of the product or campaign.

In conjunction with traditional methods of promotion such as billboard advertisements and commercials, many elements of marketing take place online and through various social media platforms.

DISCUSS

Businesses use Facebook and other social media platforms to reach potential customers in several ways, including to gather information about consumers and as a platform to promote new products.

1. Provide three examples of businesses that use social media platforms to reach potential customers. You may have seen these businesses in your own social media feed.
2. Discuss the effectiveness of this type of marketing. Remember a discussion considers both the positives and negatives.

FIGURE 4 A lot of marketing takes place online or through various social media platforms.



DISCUSS

Businesses will split up a market to identify similar customers with similar needs.

What different groups can you identify in the market for a takeaway pizza? How would you categorise the different groups of people that these types of businesses might target? What age might they be? What factors are influencing them the most?

FIGURE 5 What is your favourite type of pizza?



Target markets

Consumer decisions are undoubtedly influenced by the products that are available to them. Entrepreneurs are careful to craft their product offerings and aim them at very specific target markets. This means breaking the market down into smaller groups or segments and targeting customers by age, gender, income, occupation, education or geographical location.

Marketing analysts break down target markets further to show how the types of products and brands purchased reflect the personality and lifestyle of the user (psychographic segmentation).

Through market research, such as online surveys or 'telemarketing', information about products and users is gathered. Feedback may reveal information about brand loyalty, or how memorable a brand or advertisement is.

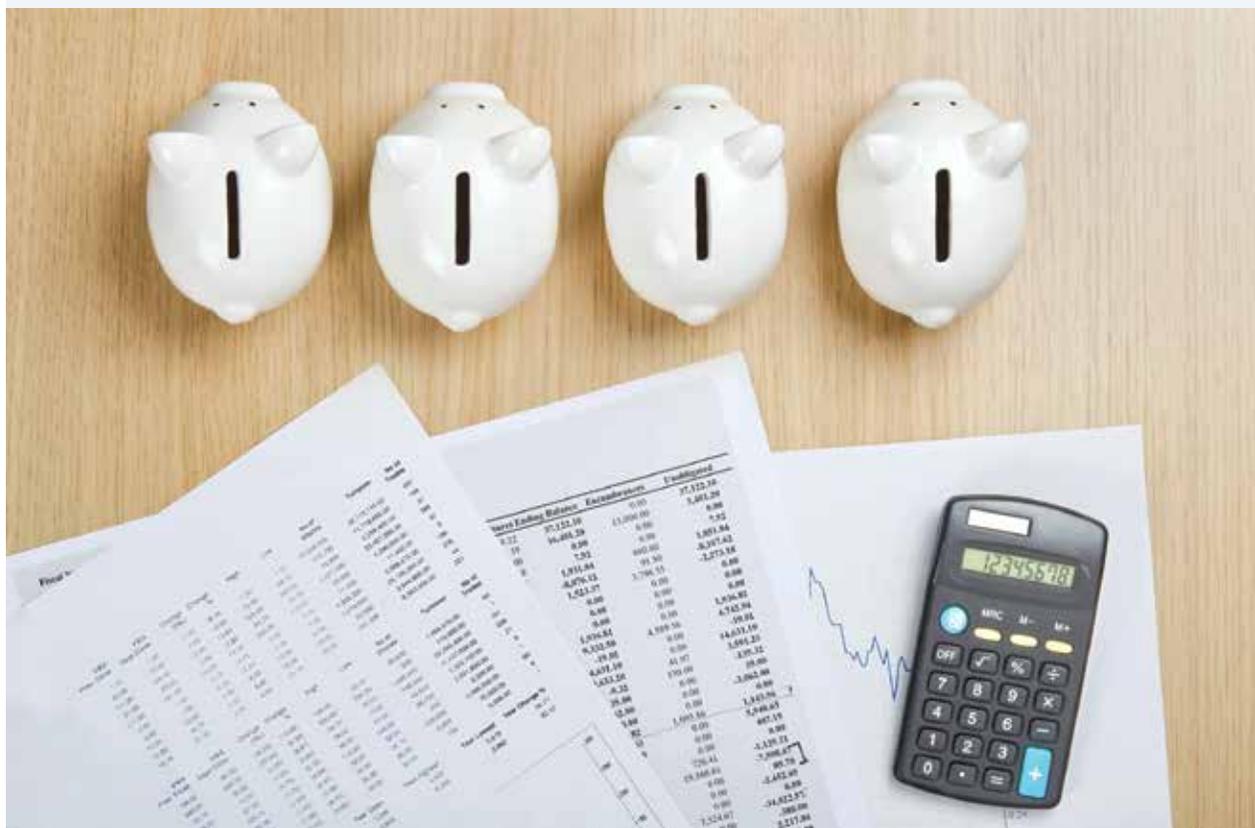
3.3.2 Factors affecting financial decisions

As you already know, both consumers and businesses make financial decisions which are focused on investment and generating more money or an income. Financial decisions are influenced by a different set of factors than consumer decisions.

Let us consider the decision by a business to undertake a large financial decision. The business is considering investing in the innovation of a new product. It expects that this financial decision will earn the business extra profits in the future. This decision will be affected by influences such as the state of the economy and the cost of finance and the ability of the business to pay back a loan if needed.

When there is a downturn in the economy, a business will be reluctant to make a major financial decision for fear that it will not be able to earn enough money back to make it worthwhile. Consumers making financial decisions are also influenced by a number of factors including: the cost of borrowing and the amount of savings that they have.

FIGURE 6 Save or spend? Businesses also face these tough decisions.



3.3 SKILL ACTIVITY: Evaluating, concluding and decision-making

Brand loyalty is when customers favour one company's brand of goods (or services) over a competing brand; for example, you may know someone who will purchase only an Apple iPhone as their smartphone.

1. **Discuss** the advantages and disadvantages of being loyal to brands.
2. **Select** a branded product. **Identify** what market segment this product is aimed at. Remember that customers are targeted by factors such as age, gender, income, occupation, education or geographical location.
3. **Select** one of the 4Ps of marketing (product, price, place or promotion). **Describe** how this element is presented in the case of your chosen product.



3.3 Exercise

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3.3 Exercise

Learning pathways

LEVEL 1

2, 3, 5

LEVEL 2

1, 4, 7

LEVEL 3

6, 8, 9, 10

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Check your understanding

1. **Determine** whether the following statements are true or false.
 - a. A target market means breaking the market down into smaller segments and targeting customers by certain factors. True or false?
 - b. Price is always the most important factor in purchasing decisions. True or false?
2. **Identify** the 4Ps of marketing.
 - A. Price, place, purchase and promotion
 - B. Price, product, place and promotion
 - C. Price, purchase, promotion and packaging
 - D. Price, product, place and public
3. _____ refers to how much a consumer is willing to pay for a _____. Sometimes a low price is chosen if we have a lower _____. It is perceived that products of higher price are of higher _____.
4. **List** four factors influencing consumer behaviour and give an example of each.
5. **Outline** what is meant by a consumer decision.

Apply your understanding

Communicating

6. **Outline** the main points of difference between consumer decisions and financial decisions.
7. **Identify** two market segments.
8. **Identify** an advertising campaign that you have seen recently. **Explain** how two of the 4Ps of marketing were used.

Interpreting and analysing

9. **Explain** how peer groups might influence buying behaviour.
10. **Examine** why a financial decision may need more planning than a typical consumer decision.

LESSON

3.4 What are the costs of consumer and financial decisions?

LEARNING INTENTION

By the end of this lesson you should be able to identify the costs over time related to consumer and financial decisions.

TUNE IN

You will make many purchasing decisions when you move out of home or once you are an adult.

1. Think of five major purchases you might need to make.
2. Buying a car could be the first major purchase of your life. What should you consider when deciding what kind of car to buy (e.g. fuel consumption)?
3. What three factors would influence you most if you were making a major purchase such as buying a car?
4. Brainstorm the sources of help that you could use to research a major purchasing decision.

FIGURE 1 A car is probably the first major purchase you will make in your life.



In this topic we have considered different types of purchases, both minor and major, and the factors that influence us to make those purchases. In this lesson we will consider some of the important considerations that consumers need to make for major purchases such as cars or houses. This information will allow you to evaluate some of your future decisions effectively, as you will identify the costs incurred over time of relevant consumer and economic decisions.

3.4.1 Choosing a car

Before making a major purchase such as a car, you may spend some time deciding what it is that you really want or need. In this respect you may spend much more time considering the purchase than you would with a minor inexpensive purchase. You may consider the needs that you have, such as the need for a fuel-efficient car, or one that is smaller and easier to park. Your most important influence might be affordability (price) or the model and brand that your parents always chose.

Alternatively, you may look for safe options and find that you need to do additional research. Websites such as **RedBook** and **Carsales** (use the weblinks in your Resources panel) contain detailed statistics on new and used cars. You can search these sites for your preferred car and find lists of previous sales, safety records and other useful information. Another valuable website is **How safe is your car?** (go to the weblink in your Resources panel). This site provides independent safety information on new and used cars. If you purchase a used car, the seller is required by law to obtain a **roadworthy certificate**. This document is proof that the car meets the necessary mechanical and safety standards.

roadworthy certificate official proof that a used car has been properly tested and is safe to operate and drive

Motoring organisations such as the RAC, and some insurance companies, provide pre-purchase, pre-selling and end-of-warranty inspections on new and used cars, as well as independent valuations and owners' reports. These services can inform you of the history and condition of the car and whether it has been in an accident. This helps you make an informed purchase — you know what you are buying. Your last choice in these initial stages of purchasing a car is perhaps your most important one — deciding how you will pay for it.

While there are many factors to consider to making a major purchase such as a car, it can of course bring many benefits, such as freedom, responsibility, and the convenience that comes with being able to get to and from employment, further education and leisure activities.

FIGURE 2 Safety should be a major factor of concern when buying a car.



DISCUSS

All new cars sold in Australia have to meet specified minimum safety standards. As a result, newer cars perform significantly better than older cars in accidents. Should there be increased safety standards for second-hand cars to bring them in line with the new-car safety standards?

on Resources

 **Weblinks** RedBook
Carsales
How safe is your car?

3.4.2 Influences on decision-making for major purchases

There are some factors that are specific influences on the decision-making for major purchases, these are detailed below.

Savings

You may be able to make a major purchasing decision with a lot more ease if you have some savings in your bank account. You may have been able to save money from a part-time job, or perhaps you have diligently saved up all your allowance or gifted money. Making a major purchase with your savings is most straightforward, although it comes with the disadvantage that you will have depleted your savings.

Loans

You may not have enough money to make a major purchase; however, once you are eighteen you can take out a **loan**. This involves borrowing a sum of money from a bank or other financial institution on the understanding that you pay them back over an agreed time period (between one and five years). This is done by making periodic repayments, which include a percentage of interest. It is through these interest payments that lenders make their money. Interest is the amount paid by a borrower to a lender for the privilege of borrowing money. A fixed or variable interest rate is usually agreed upon at the beginning of the loan. For example, a lender could charge an interest rate of 7.25 per cent.

Maintenance and insurance costs

Major purchases such as cars and houses come with a range of additional costs that occur throughout the life of the item. Most major purchases need maintenance; for example, when you consider buying a car you will need to factor in the costs of maintaining the car and repairing it when things go wrong.

loan the temporary lending of money, usually by a financial institution

FIGURE 3 Only comprehensive car insurance protects you regardless of who is at fault.



All car owners need to purchase car insurance. This can be expensive, but it provides a safeguard in the event of an accident. Comprehensive car insurance protects you no matter who is at fault. ‘Third-party’ insurance is compulsory and protects others if you are at fault and protects you if others are at fault. If you cause an accident while driving an uninsured car, the damage to your car and other cars could cost tens of thousands of dollars.

Joining an emergency road-side assistance provider is another cost for car owners. While joining these services is not essential, they can help you if your vehicle breaks down in a remote area or on a freeway. There is also the cost of any permanent additions you may want to add to the car (for example, a sound system, tinted windows, alloy wheels). These additions are a personal choice but can add significant costs to car ownership.

Depreciation

Finally, you need to consider that some purchases will never be worth as much as they were the day you bought them. Typically, as most cars gets older, they depreciate. This means that they fall in value over time and therefore you are never guaranteed to get back what you paid for them.

SkillBuilders to support skill development

- 1.6 SkillBuilder: Predicting the outcomes of economic and business decisions

3.4 SKILL ACTIVITY: Interpreting and analysing

1. **Identify** how much you will need to pay back in total. State how much the loan has cost you.
2. **Money Smart** is a government website which offers advice for consumers (see the weblink in the Resources panel).
 - a. Using the loan calculator, enter the following amounts and, for each, **identify** how much you need to pay back in total and how much the loan has cost you at an interest rate of 8.6%:
 - \$20 000
 - \$15 000
 - \$150 000
 - b. **Discuss** the advantages and disadvantages associated with taking out a loan for a major purchase.
3. Use the table below to research your ideal first car. **Explain** what other information you might wish to include to make your decision more informed.

FIGURE 4 The graph shows the typical loan repayments both per month and in total of a five-year loan of \$20 000 with an interest rate of 7.5%.



Your repayments will be: **\$411 per month**

| | |
|------------------------|--|
| Make | |
| Model and year | |
| Body type | |
| Transmission | |
| Condition | |
| Fuel efficiency | |
| Safety rating | |

3.4 Exercise

3.4 Exercise

Learning pathways

■ **LEVEL 1**

1, 2, 3, 4, 5

■ **LEVEL 2**

6, 7, 10

■ **LEVEL 3**

8, 9

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Check your understanding

- A loan is
 - lending a sum of money to a bank or other financial institution.
 - a down-payment or a deposit on a major purchase.
 - borrowing a sum of money from a bank or other financial institution.
 - protection and safeguard from accidents.
- Interest on a loan is
 - the amount paid by a borrower to a lender for the privilege of borrowing money.
 - the amount paid by a lender to a borrower for the privilege of borrowing money.
 - a percentage rate that changes daily when borrowing money.
 - the fall in value of an item over time.
- Determine** whether the following statements are true or false.
 - Depreciation is considered as the fall in value of an item over a period of time.
 - Maintenance and insurance costs do not need to be planned for.
- Identify** the largest purchase that you have made in your life so far. Or consider a major purchase that a teenager may make. Remember teenage years extend to the age of 19!
- Explain** how the funds might be obtained by a teenager to purchase a major item.

Apply your understanding

Evaluating, concluding and decision-making

- State** the costs involved with car ownership. Choose three costs and **examine** them in more detail.
- Explain** why insurance is essential for all car owners.

Communicating

- Outline** the difference between comprehensive car insurance and third-party car insurance.
- Insurance costs and loan repayment costs need to be considered when making a major purchase such as a car. **Identify** and **explain** two other costs of car ownership.
- Describe** the benefits that come with car ownership.

LESSON

3.5 What is the role of the superannuation system?

LEARNING INTENTION

By the end of this lesson you should be able to explain the superannuation system and its importance to the Australian economy.

TUNE IN

As a student, you may have a part-time job or you may rely on an adult for the money that you spend. Either way, the last thing on your mind is savings and retirement. However, soon you will finish your formal education and move into tertiary study or employment.

With advances in medical technology and health care, it is likely that a student in Year 10 today will enter the workforce at the age of 18 to 25 and live until the age of 89 or more. If you retire between the ages of 68 and 72, then you have about 50 years of work ahead of you.

So retirement isn't something at the front of your mind. However, consider the following questions.

1. Why should you plan for your retirement?
2. Why will you need money in your retirement?
3. What are some of the costs you might have in retirement?
4. Discuss your answers with the class.

FIGURE 1 It's never too early to plan for the future.



3.5.1 What is superannuation?

Superannuation, usually referred to as 'super', is a retirement pension benefit scheme. The scheme was introduced in an attempt to make employees save for their retirement and reduce their future dependence on government welfare handouts — the 'old age pension'. It has undergone many changes over the years and will continue to change until July 2025 when the most recent legislated changes come into effect.

3.5.2 How superannuation works

Every employee over the age of 18 earning over \$450 per month is required to pay a set percentage of their income (before tax) into a fund opened on their behalf. Employers make similar regular contributions. The contributions made started at 3 per cent in 1983, and increased slowly to 9 per cent by July 2002. The rate was increased further to 10 per cent by July 2021 and will increase incrementally to 12 per cent by July 2025.

Increases in the contribution rate allow consumers to increase their balance and benefit from the increased interest returns gained. The higher the balance upon retirement, the greater the amount retirees will have to live on, allowing them to make better decisions about their future. It will also reduce the need to access the pension from the government.

FIGURE 2 Superannuation has highlighted the importance of saving for your future.

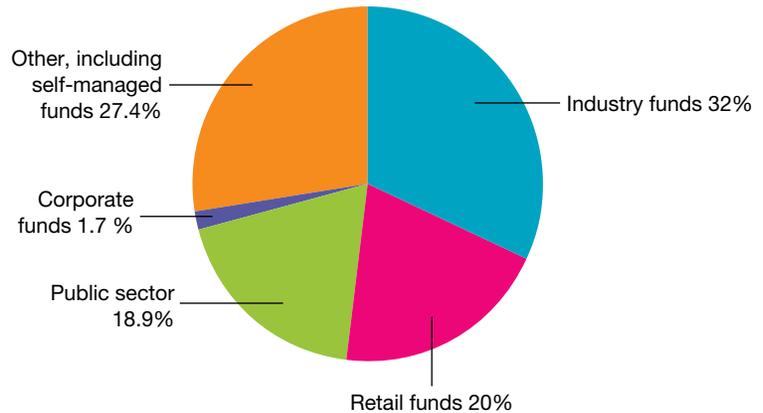


superannuation a retirement pension benefit scheme

3.5.3 Superannuation funds

Employees have a choice of the type of fund they join. Most employees contribute to large funds, known as industry funds. These types of funds are run jointly by unions and employers. They may also join a retail fund managed by a financial institution. The third type of fund is a self-managed fund. More than a million Australians have a self-managed superannuation fund. Other types of funds include Wholesale Master Trusts, Employer Funds and Public Sector Funds.

FIGURE 3 The share of superannuation funds in Australia in 2021



3.5.4 Superannuation today

Since July 2005, many Australian employees have been able to choose the fund that they and their employer pay into. The system also allows employees to change their superannuation fund. If they have more than one superannuation fund they are able to maintain both of their superannuation accounts or 'roll over' one account into the other.

They may choose to change funds, for example, because:

- their current fund is not available with a new employer
- they wish to consolidate superannuation accounts to cut costs and paperwork
- a lower-fee and/or better service superannuation fund is available
- a better performing superannuation fund is available
- a fund invests in assets and companies that align with their personal beliefs.

In 2019–20 the federal government allowed people financially affected by COVID-19 to access their superannuation account early so as to relieve some of the financial burden of COVID-19 and the lockdowns. People could access up to \$10 000.

Employees are also able to make additional contributions to their superannuation fund over and above the minimum amount required. This allows consumers to build their fund in anticipation of retirement.

3.5 SKILL ACTIVITY: Interpreting and analysing, Communicating

How much will I have? Let's **consider** how much money a person will need when they retire.

Consider the following two people:

- Adam has just completed Year 12 and enters the workforce as an 18 year old. He will be earning the minimum wage, which in 2022 was \$1305 per week.
- Benita has just graduated from university with a teaching degree and at the age of 22 is about to commence her first teaching job. Her average wage as a teacher in 2022 will be \$1728 per week.



Assuming the superannuation from the employer and employee is 10 per cent.

1. **Calculate** how much each employee would contribute:
 - per week
 - per year
 - over their working life (assume 50 years of working).
2. Recalculate these figures assuming each employee receives a 10 per cent wage increase every 10 years.
3. **Explain** if you think the amounts calculated are sufficient for a person to retire on, assuming they live to be 89 years old.
4. **Analyse** what other factors we need to consider when determining if the amount in their superannuation fund is sufficient for retirement.
5. **Discuss** your answers with the class.

3.5 Exercise

learnon

3.5 Exercise

Learning pathways

■ LEVEL 1

1, 2, 3, 4

■ LEVEL 2

5, 6, 7

■ LEVEL 3

8, 9, 10

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Check your understanding

1. **Define** superannuation.
2. Employees over the age of 18 are required to contribute to superannuation once their income reaches:
 - A. \$450 per week.
 - B. \$450 per fortnight.
 - C. \$450 per month.
 - D. \$450 per quarter.
3. **Determine** whether the following statements are true or false.
 - a. The employee can't make contributions to a superannuation fund over and above the contributions made by their employer.
 - b. The current rate of superannuation is 9 percent.
4. What is the current percentage of employer contributions to superannuation?
5. **Identify** two types of superannuation funds.

Apply your understanding

Communicating

6. Is it possible for employees to have more than one superannuation account? **Explain** your answer.
7. **Identify** the term used to describe when a person combines multiple superannuation accounts.
8. **Describe** what is meant by an industry super fund.
9. **Explain** what is meant by a self-managed superannuation account.
10. **Identify** what percentage the government is raising employer contributions by 2025.

LESSON

3.6 How can entrepreneurship improve business operations?

LEARNING INTENTION

By the end of this lesson you should be able to explain what is meant by an entrepreneur, and outline how entrepreneurship can improve workforce management, and productivity in a business.

TUNE IN

If you watch the news or use social media, you've probably heard a lot about entrepreneurs such as Elon Musk.

1. Brainstorm 10 people that you know, or have heard of, and who you consider to be entrepreneurs.
2. Select five people from your list and discuss exactly what it is that makes them entrepreneurial.
3. Mind map the skills that entrepreneurs might need to possess.

FIGURE 1 How many entrepreneurs can you name?



3.6.1 Entrepreneurism

The term entrepreneur is a somewhat evolving and fluid term. The name 'entrepreneur' has historically been given to someone who starts their own business, especially when this involves seeing a new opportunity. When someone acts upon a business opportunity and decides to market and sell a product, they could be described as 'entrepreneurial'. It is also accepted that entrepreneurs can be existing business owners and managers of businesses who pursue new ideas or take risks to seize a specific opportunity or fulfil a need.

FIGURE 2 When do the best ideas happen?



3.6.2 How entrepreneurship improves productivity

One of the main objectives of a business is to improve **productivity**, which can lead to an increase in profit. According to our explanation of an entrepreneur, it is understood that entrepreneurs can be existing business owners and managers who are working to improve the business. This means that entrepreneurs will be instigators of changes which will allow the business to be more efficient and productive.

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

DISCUSS

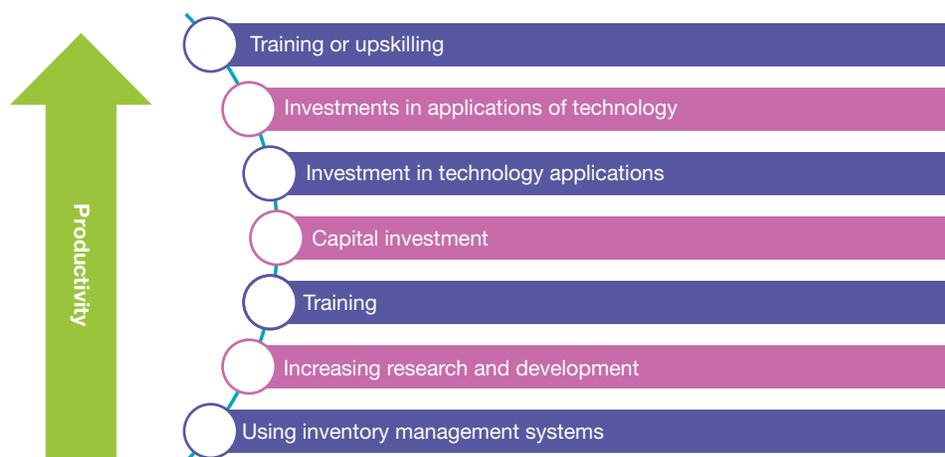
Entrepreneurial behaviour is associated with new ideas. In pairs, brainstorm a topic such as how to make doing homework more enjoyable. Discuss which of your ideas would be feasible.

Productivity measures the amount of **output** compared to the amount of **input** that goes into production. By coming up with ways to improve productivity (for example, through reducing waste) a business can be more competitive as it produces products at lower costs than competitors. Productivity can be improved by reducing the number of inputs required to obtain the same level of output or an increased output. Alternatively, productivity can be improved if inputs remain the same but output increases, therefore obtaining more from the inputs. There are many strategies that businesses can use to improve productivity. These are summarised and explored below.



FIGURE 3 There are many factors that can increase productivity within a business.

int-9130



Training or up-skilling

Upskilling is a workplace strategy that improves the productivity of employees. To be upskilled means that an employee is given the opportunity to develop their knowledge, abilities and skills. The employer will do this through providing appropriate training programs for the employee.

When an employee has received relevant training, this should mean that they can perform their job more efficiently and effectively. New employees and existing employees require training, depending on their level of experience. By giving employees the opportunity to develop their skills and knowledge, employees are more likely to feel valued within the business. Well-trained staff are likely to be more motivated and perform their jobs more efficiently. They will have the capacity to explore new ideas and all this combined will result in improved productivity. Staff who are well-trained are also less likely to leave the business, which results in reduced costs.

Training can take many forms. Common methods of training include:

- off-the-job training. This takes place at a site away from the workplace. It may involve classroom activities, lectures and simulations.
- on-the-job training. This takes place at the workplace. It may involve coaching, hands-on training and job rotation (where workers move from one area of a business to another).
- competency-based training. This involves employees learning one competency and identifying areas where further training is required.

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

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

upskilling where an employee is given the opportunity to develop their knowledge, abilities and skills; this is done through various forms of training

Capital investment

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

Investment in applications of technology

Regardless of whether they are manufacturing a good or producing a service, businesses can use applications of technology to speed up or shorten processes and maximise the use of resources. Using technology means production can take place using less labour or fewer materials, which improves productivity.

Using technology also enables businesses to drive **innovation**. New technology can support a business in designing or developing new products or processes. It can also be used to produce new or improved products or as part of a new innovative process. For example, where fruit growers once used employees to inspect and pick fruit, they can now consider emerging technology which makes use of robotic fruit pickers that can map, detect spoilage and pick the fruits with more accuracy than a human being.

FIGURE 4 It is hoped fruit-picking robots will address the seasonal worker shortage.



Robotics

Robotics is form of technology capable of complex tasks. Robots are used in manufacturing, on assembly lines, in engineering or in research where a programmable machine capable of doing several different tasks is required. Such machines can perform some tasks with greater precision and accuracy than any human worker can. Robots work without complaint and do not demand higher wages.

They work in conditions that are often far too dangerous for employees. By performing tasks faster and with greater accuracy in places where humans often cannot, robots improve productivity. However, robots come with disadvantages such as high installation costs and the loss of employees' jobs.

capital physical resources owned by a business and used in production, including factories, machinery and equipment
innovation adding a new product (which can be a good or a service) to an existing product line, or significantly improving an existing product or process

DISCUSS

FIGURE 5 shows robotics technology that is used in many areas of business, including manufacturing and packing. Discuss the effects of introducing such technology into a business.

FIGURE 5 Robotics speeds up production, but does it bring benefits for all members of a business?



Using inventory management systems

The use of inventory systems is part of materials management. **Materials management** concerns managing the way materials are received and stored, and making sure they are available to the operations process when required. Many businesses have large quantities of materials on hand to complete production. This is called stock or **inventory**. Businesses hold large inventories to make sure they do not run out of materials.

However, this can become a huge cost for a business because the stock must be stored. Stock that takes up storage space for a long time can also result in the business missing opportunities to invest money in other places. In addition, materials can become spoiled, outdated and unusable after a certain period of time.

The 'just-in-time' inventory system

When faced with managing materials, some businesses use an inventory system called **just-in-time** (JIT). This system functions exactly like it sounds. It ensures that the correct materials arrive just as they are needed for production, which can reduce storage costs and the risk of waste occurring in storage, thereby improving the business's productivity. Just-in-time relies on prompt delivery from suppliers, if this does not occur the business can be left without enough stock for manufacturing. Therefore, just-in-time systems rely on data analysis which can detect stock levels and trigger automatic re-order for when it is needed.

3.6.3 How entrepreneurship improves workforce management

Entrepreneurs may bring new ideas into the workplace to help better organise working environments. This might involve providing flexible working conditions, which will help employees achieve a better work–life balance. Flexible working conditions include variations to the hours that employees work; varying where employees may work from; making additional leave entitlements available, including sick leave and long-service leave; or offering other arrangements such as childcare facilities.

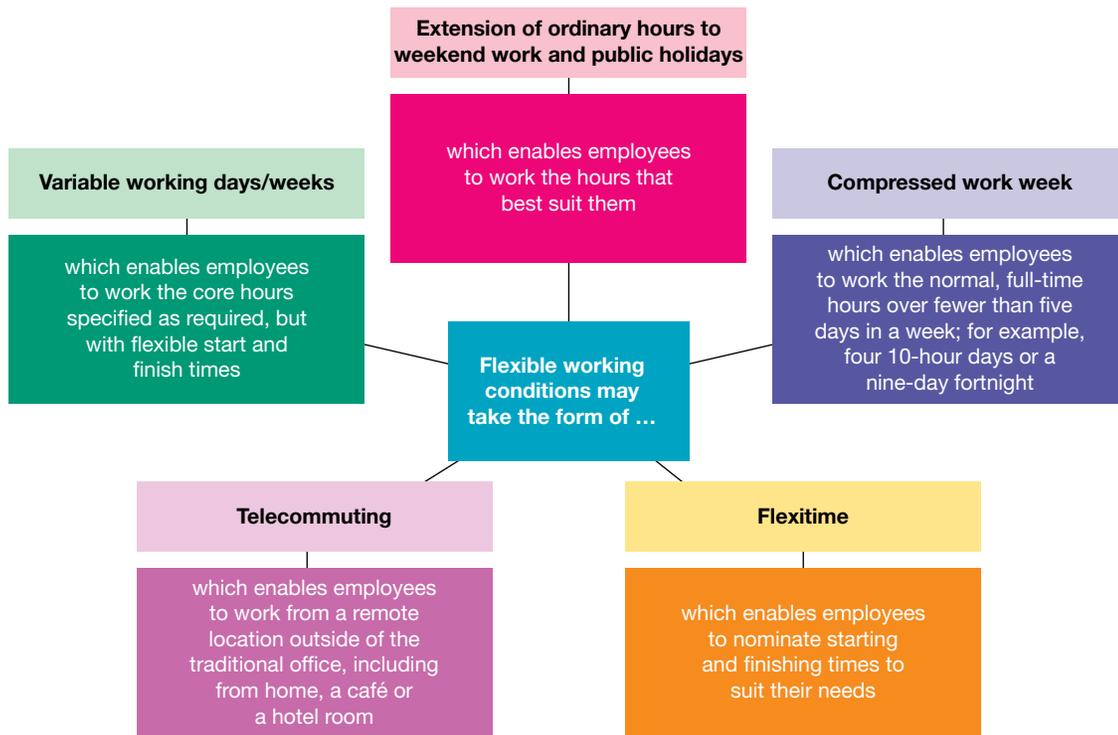
A flexible workplace means that employees are more able to achieve the right combination of time devoted to work, and time devoted to family and personal life. Many businesses actively seek to improve their employees' work–life balance to improve productivity. Flexible workplace conditions enable employers to attract and retain staff by facilitating flexible employment options to meet individual staff needs and to access a larger pool of employees.

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

inventory the goods and materials held as stock by a business

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

FIGURE 6 There are many ways businesses can offer flexible working conditions.



DISCUSS

Study **FIGURE 6** and choose the three flexible work conditions that you think are most important. Explain the reasons for your choices.

Horizontal or vertical organisational structures

Finding creative ways of organising the workplace can also lead to improved workforce management. There are two main ways that a workforce might be organised; however, an entrepreneur might adapt these to benefit the employees and the business. **Vertical organisational structures** have clearly defined roles with specific responsibilities for each person, which reduces the level of employee autonomy. Some businesses rely on **horizontal structures**, which have fewer levels, often providing employees with more autonomy and equal opportunities. The downside to this is a lack of control.

vertical organisational structure has a well-defined reporting procedure, decisions usually move from the top down, layer by layer, and people at the bottom have the least autonomy
horizontal organisational structure has only a few layers of management; managers oversee a greater number of employees and allow them more autonomy in decision-making

FIGURE 7 A horizontal organisational structure



Transparency in decision-making

Transparency in decision-making means that everyone understands both the decision-making process and the thinking behind any decisions that take place in the work environment. Entrepreneurs have a big role to play in fostering transparency in decision-making, as they are responsible for fostering the culture within a business. When there is transparency in decision-making, employees tend to feel more involved, and this in itself can be motivating and can lead to increases in employee productivity.

Showing initiative

When employees are allowed to show initiative, this means they are being encouraged to do things without being told. Many employees show initiative naturally, and you may do this yourself — particularly if you are the kind of person who finds out what you need to know; who keeps going when things get tough; and who spots and take advantage of opportunities that others pass by. Using initiative is acting instead of reacting. An entrepreneur may encourage initiative by rewarding it through praise or promotion.

Paid parental leave

Paid parental leave is a leave entitlement for the primary carer of a newborn or adopted child. If a parent or primary care giver meets the criteria for paid parental leave as set out in the Australian Government Parental Leave Pay Scheme, they are eligible for 18 weeks paid parental leave from work.

Some employers may choose to offer paid parental leave above and beyond the standard requirement. If they do so, employees may feel more motivated and encouraged to work more productively in the business once they return.

FIGURE 8 Paid parental leave above and beyond what is required has benefits for the business.



3.6 SKILL ACTIVITY: Questioning and researching, Communicating

Entrepreneurs can be responsible for new ideas and innovations that aim to improve the productivity and working conditions in a business.

1. Use the **FM magazine** weblink in the Resources panel to locate an article on one of the following topics:
 - a. a new improved production process
 - b. a change to working environments.
2. **Explain** how the innovation or change will have a positive effect on workplace productivity or workplace flexibility.
3. **Communicate** your findings to the class.

FIGURE 9 Changing the ways of doing things in the workplace can have many benefits.



on Resources

 **Weblink** FM Magazine

3.6 Exercise

Learning pathways

■ LEVEL 1

3, 4, 6

■ LEVEL 2

1, 2, 10

■ LEVEL 3

5, 7, 8, 9

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Check your understanding

- Define** what is meant by an entrepreneur. **Select** all options that apply.
 - Anyone who starts a business
 - Someone who starts their own business, especially involving seeing a new opportunity
 - Anyone who runs a business
 - Business owners who pursue new ideas or take risks to seize a specific opportunity
- Identify** three ways that businesses can provide flexible workplaces.
 - Making everyone work in the office rather than at home or at a café
 - Ensuring all workers are in the office between the hours of 9 am and 5 pm
 - Varying the hours their employees work
 - Making leave entitlements available
 - Offering other arrangements, such as childcare facilities
- Determine** whether the following statements are true or false.
 - Four ways that a business can provide a flexible workplace are: a compressed work week, telecommuting, flexitime and variable working times. True or false?
 - Just-in-case inventory system ensures the correct materials arrive just as they are needed in the operations process. True or false?
- Materials management concerns managing the way _____ are received and stored and making sure they are available to the _____ process when required.
- Explain** how an entrepreneur can improve the productivity of a business.

Apply your understanding

Evaluating, concluding and decision-making

- Shell Australia provides flexible working conditions for office roles wherever possible. Employees may be able to 'telecommute' and work from home or start their working day earlier or later, depending on staffing needs. Shell attempts to provide a working environment in which employees can balance their work and family commitments. Shell also offers an Employee Assistance Program, which is a professional, confidential counselling service for employees and their immediate family members. More than half of Shell's workforce have taken advantage of the flexible work arrangements.
 - List** some of the ways Shell offers flexible working conditions.
 - Explain** how Shell might benefit from offering its employees flexible work arrangements.
- Outline** the benefits of upskilling to employees and businesses.
- Outline** what might happen to a business if it does not use human resource management strategies such as offering training or flexible working conditions to staff.

Communicating

- Do you think more workplaces will offer flexible working in the future? **Justify** your answer.
- Explain** what is meant by transparency in decision-making.

LESSON

3.7 How are First Nations Australian businesses supported?

LEARNING INTENTION

By the end of this lesson you should be able to explain the processes used to support First Nations start-up businesses, and the initiatives that First Nations entrepreneurs may use to improve workforce participation.

TUNE IN

Cole Supplies is a proudly Noongar-owned and-operated, Supply Nation-certified supplier of high-quality bulk corporate apparel and industrial supplies. Cole Supplies were the first, and are the only, First Nations Australian safety wholesaler in Australia, bringing quality back to workwear.

The business was founded in late 2013 as Cole Workwear, when Perth businessman and Noongar community leader, Gordon Cole, joined forces with Michael Cima, experienced importer and founder of Australia's first First Nations workwear company, with a shared focus on supporting local communities.

FIGURE 1 Cole Supplies offers a range of workwear for various industries.



1. Make a list of five business enterprises that you have heard of or know, that do not have profit as their main objective. What are the objectives of these businesses?
2. Brainstorm the sources of help that new and growing businesses can access.
3. What benefits do businesses bring to local, rural and First Nations communities?

3.7.1 Supporting start-up businesses

All start-up businesses are different. Some start-ups operate as sole traders, and others as partnerships. Many start-up businesses engage with support services. This means that they might initiate collaborations and joint business ventures with supporting groups such as businesses, government and non-government organisations.

These collaborations are able to assist entrepreneurs in managing their workforce and improving business productivity, while also addressing societal issues and producing outcomes that governments, businesses and not-for-profit organisations could not achieve alone.

All business entrepreneurs have the opportunity to work with others and form corporate community partnerships. Some businesses choose to work with St John Ambulance, for example, while others may collaborate with a well-known bank. Examples include Bendigo Bank, or CSR and Assistance Dogs Australia. First Nations entrepreneurs often collaborate and work with supporting organisations in the same way.

The assistance of extra capital and sometimes expertise can help First Nations Australians to achieve their business ideas, and this in turn provides many benefits for the First Nations Australian community. This includes the benefit of additional jobs and incomes. First Nations Australian businesses can have a competitive advantage in many industries, especially those associated with culture and tourism. This is especially true where interest in authentic cultural experiences through goods and services (such as paintings, tours and retreats) can drive tourist demand in rural and otherwise remote areas.

DISCUSS

Explore the benefits that a successful business venture can bring for First Nations Australians and those living in rural and remote Australia.

3.7.2 Government and non-government support

There are many support services for entrepreneurs who wish to establish start-up businesses. For example, First Australians Capital is a **non-government organisation** that provides a range of services to assist First Nations Australian entrepreneurs, including advice and access to start-up finance.

First Australians Capital itself is funded by charitable donations and social impact investors. These are people who invest their money in businesses that benefit local communities and society. There are in addition many philanthropic entrepreneurs and investors themselves who support First Nations Australians by sharing advice and making capital available through investment.

non-government organisation
set up and operated independently from local, state or federal governments, but can receive government funding in some cases; usually address social and political issues

FIGURE 2 Bamaga Dreamtime Store in Queensland is 100 per cent owned and operated by First Nations Australians.



Both state and federal government offer assistance to First Nations Australian businesses, much as they do for any other business in Australia. First Nations Australian entrepreneurs and business owners may be eligible for additional support and assistance to start, develop and grow their businesses. This assistance is provided in the form of advice, training and grants from business.gov.au. Furthermore, opportunities to promote the success of First Nations Australian entrepreneurs such as the Indigenous Business Month Awards are vital in maintaining motivation and productivity.

Indigenous Business Australia (IBA) is an additional government organisation whose objective is to assist First Nations Australians in achieving greater economic participation and self-reliance. IBA provides workshops, advice and business support programmes. They also provide business finance to eligible First Nations business owners. A further source of government assistance is the Indigenous Procurement Policy (IPP). The primary purpose of the IPP is to ‘stimulate Indigenous entrepreneurship, business and economic development, providing First Nations Australians with more opportunities to participate in the economy’. The IPP allows First Nations businesses to be given the first chance on contracts or tenders to supply to participating businesses.

The Indigenous Business Month Awards showcase the outstanding achievements of First Nations Australian businesses, and provide identifiable national and local role models to inspire all Australians.

Improving workforce participation

First Nations Australian entrepreneurs are often engaged in businesses which keep their connection to culture and community alive.

All Australian governments continue to work with First Nations Australian entrepreneurs, businesses and associated organisations to implement the National Agreement on Closing the Gap at the national, state and territory, and local levels.

Many First Nations Australians and their communities have a strong connection to their culture. However, the impact of removal from Country, policies such as the forced removal of children (Stolen Generations) and experiences of systemic racism and discrimination have led to poorer economic outcomes and workforce participation.

Closing the Gap was established as an Australian government strategy in 2008 and aimed to reduce disadvantage among First Nations Australians, based on seven targets. These include the encouragement of strong economic participation and development of people and their communities. The targets for reducing the gaps in unemployment and education in First Nations Australians are part of an ongoing process to grow the workforce and improve productivity.

3.7 SKILL ACTIVITY: Interpreting and analysing

Phil and Cherie Thompson are co-founders of Native Secrets. Native Secrets is a skincare business founded on ancient knowledge about Australian native flora and fauna. This is knowledge that has been passed down to Phil Thompson, a Bidjara Bidjara/Kara Kara man, and his wife Cherie, a Wailwan woman.

FIGURE 3 Phil and Cherie Thompson



Phil and Cherie work to help restore the habitat of creatures and native flora in regional and mining areas. At the same time, they extract white cypress pine oil (a tree known for crowding out other plant life) for use in their shampoos and skin care ranges.

1. Native Secrets is a successful First Nations Australian business. Brainstorm the benefits that this type of business can bring to a rural community in Australia.
2. **Outline** the type of government assistance that this type of business might receive.
3. **Analyse** what you think the objectives of a business such as Native Secrets might be. **Explain** how these objectives might differ from another business that you are familiar with.

3.7 Exercise

learnon

3.7 Exercise

Learning pathways

■ LEVEL 1

1, 3, 5

■ LEVEL 2

2, 4, 6

■ LEVEL 3

7, 8, 9

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Check your knowledge

1. Relationships between different organisations can assist First Nations entrepreneurs by
 - A. allowing entrepreneurs to maximise sales and profits.
 - B. providing opportunities for support, promotion of success and the sharing of expertise.
 - C. providing charity and donations to entrepreneurs.
 - D. allowing entrepreneurs to have the orders that other businesses cannot fulfil.
2. Closing the Gap is
 - A. a start up finance scheme for First Nations entrepreneurs.
 - B. a private business support group for First Nations entrepreneurs.
 - C. a government strategy to reduce disadvantage and improve workforce participation and productivity for First Nations Australians.
 - D. a First Nations Australian charity.
3. **Determine** whether the following statements are true or false.
 - a. Philanthropic entrepreneurs only support businesses that aim for maximum productivity and profit.
 - b. A non-government organisation is set up and operated independently from local, state or federal governments, but can receive government funding in some cases.
4. **Identify** two specific government assistance schemes that are aimed at First Nations entrepreneurs.
5. **Outline** the different types of support that the government can offer to new and emerging businesses.
6. **Explain** how First Nations entrepreneurs might work with other organisations to achieve success.

Apply your knowledge

Communicating

7. **Outline** the main benefits of government support for First Nations Australian entrepreneurs.
8. **State** what is meant by a social impact investor.
9. **Explain** the difference between government support and non-government support for businesses.

Interpreting and analysing

10. Support is crucial for all emerging businesses. **Discuss**.

LESSON

3.8 How can entrepreneurs respond to changing economic conditions?

LEARNING INTENTION

By the end of this lesson you should be able to explain how entrepreneurs lead responses to changing economic conditions.

TUNE IN

A skilled workforce is important for a strong economy.

FIGURE 1 What is a skilled workforce?



1. What do you think is meant by a 'skilled workforce'?
2. Make a list of skills that a worker may possess.
3. How could you categorise a worker's skills?
4. Come up with reasons why a skilled workforce is important for a strong economy.

3.8.1 Changing economic conditions

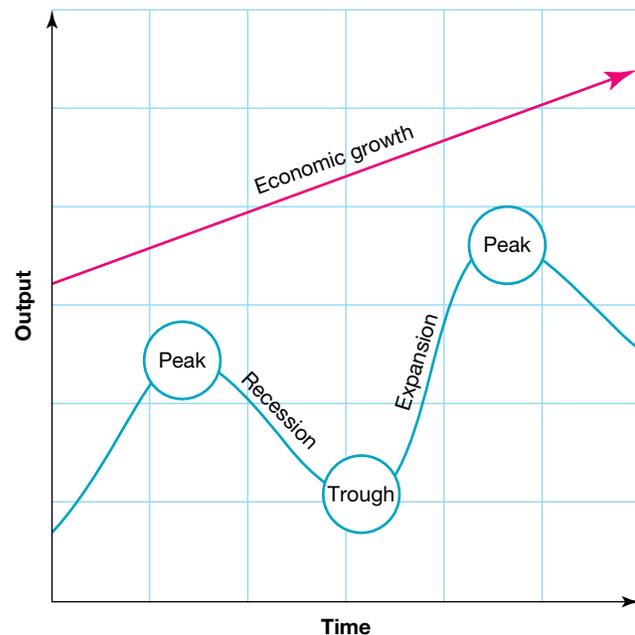


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FIGURE 2 The economy moves through various stages — known as the economic cycle or the business cycle.

We know that economic growth occurs when an economy increases the volume of goods and services produced over time. Economic growth is measured by Gross Domestic Product (GDP). GDP represents the total market value of final goods and services produced by a country over a period of time. Economic growth does not stay the same; rather, it changes based on the spending patterns of both businesses and consumers.

FIGURE 2 shows us that the economy can be in various stages in a business cycle. These include a peak, a recession, a trough and an expansion. At each of these stages, different economic conditions exist. As an example, during a trough, businesses may need to respond to falling demand for their goods and services.



Australia aims for an economic growth rate of around 3 to 4 per cent per year to achieve strong and sustainable economic growth. This will ensure that businesses can prosper, people will have access to all the goods and services that they may need and that unemployment will stay low.

The unemployment rate is also a key measure of economic performance. This tells us about the percentage of the total labour force that is without a job but actively looking for work. The unemployment rate is measured using the labour force survey, which involves Australians aged over 15. The Australian government aims for a low unemployment rate of approximately 5 per cent.

The inflation rate measures the change in the price of goods and services in the economy. To ensure that prices remain stable, Australia's monetary policy aims for an inflation rate of 2 to 3 per cent.

3.8.2 How entrepreneurs respond to economic conditions

Changing economic conditions provide an opportunity for an entrepreneur to change their business strategy, particularly in times of an economic peak or trough. An entrepreneur may be challenged by fewer sales during a recession. In times of a peak they may find that it is a perfect opportunity to introduce a new product. Furthermore, in a peak, a business might need to keep up with consumer demand and improvements in productivity will need to be made. This may require an upgrade in technology.

FIGURE 3 Entrepreneurs may need to respond to the changing economy in several different ways.



Increasing research and development to innovate new products

Research and development (R&D) includes activities that businesses (and the entrepreneurs within them) undertake to innovate and introduce new products and services. Research and development is often the first stage in the development process. The goal is typically to introduce new or improved products to the market, in the hope of making more sales and expanding market share. R&D is expensive, as it may require the introduction of new technology and an increasingly skilled workforce. As a result, R&D might only be feasible in an economic climate when the business is doing well.

FIGURE 4 Research and development relies on new technology and a skilled workforce.



DISCUSS

Research and development can be expensive and relies on an analysis of what the market might want, but it is a key step in innovating new products. Discuss the risks of research and development.

Adjusting marketing strategies

A marketing strategy is the business's overall approach towards marketing its products. A marketing strategy should combine the business's marketing activities to concentrate its resources and efforts on the most effective way to increase sales and achieve a sustainable competitive advantage.

There are many different theories about marketing strategies; however, most businesses tend to focus on the combination of the 4Ps. As economic conditions change there may be an opportunity make changes to the marketing strategy. As an example, during a recession (otherwise known as an economic downturn), a business may choose to reduce the price of a product to try to stimulate demand.

Upskilling the workforce

It is vital that both managers and employees have skills that help them complete tasks effectively. The term 'skill' can refer to:

- general cognitive and non-cognitive abilities; for example, information-processing skills, teamwork and problem-solving skills
- knowledge and abilities that are specific to a particular job, occupation or sector; for example, an accounting degree for accounting or a practical training course for hair colouring.

Upskilling involves providing training and further education for a business's workforce so it can learn any additional skills that it needs to. This is especially important if the business wants to develop and improve productivity. Employees who have appropriate skills are more likely to be productive and motivated. They are also more likely to earn more. Upskilling workers can make them more able to change jobs if needed — especially in reaction to changing economic conditions.

The Organisation for Economic Co-operation and Development (OECD) collects and analyses data that assists governments around the world in understanding the level and distribution of skills among their adult populations, as well as the use of skills in different contexts, as part of its Programme for the International Assessment of Adult Competencies (PIAAC). Developed with the support of the Australian Council for Educational Research (ACER), the study assessed people aged from 15 to 74 years in 25 countries in terms of proficiency in literacy, numeracy and problem solving in a technology-rich environment. Australia scores above the OECD average in areas such as literacy and problem solving in technology-rich environments, indicating a further strength in ICT-related skills. However, Australia performs less well in numeracy skills.

Using technologies to drive innovation

Investment in technology is another way a business can respond to changing economic conditions. Regardless of whether they are manufacturing a good or producing a service, businesses can use technology to speed up or shorten processes and maximise the use of resources. Using technology means production can take place using less labour or fewer materials. This is important in times of an expansion, as they can increase production quickly without having to hire new staff.

FIGURE 5 Innovative crop growing methods use water and light technology to grow produce which uses fewer resources and lessens damage to the environment.



Technology also enables businesses to drive innovation. New technology can support a business in designing or developing new products or processes. An innovation may be pioneered in the production process, which relates to how materials are used or the sustainable use of energy in production.

Collecting and analysing data

Businesses collect data on customers through customer relationship management (CRM) systems. These are the systems that businesses use to maintain customer contact. CRM applications can be used to improve productivity by storing information about existing and potential customers. This includes information such as purchasing habits, which signal to a business when production needs to increase.

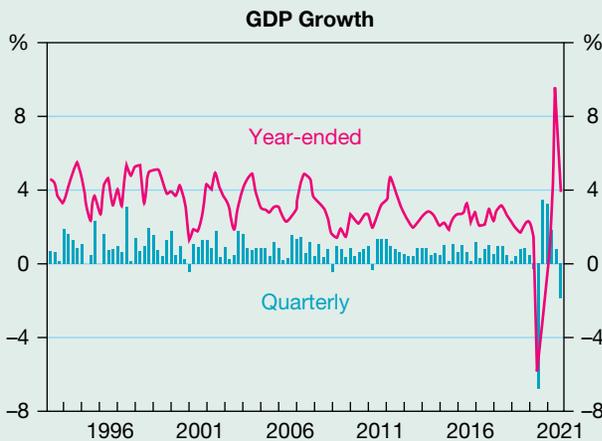
Customer information can be entered and retrieved by employees from different areas in the business, including the sales, marketing and operations departments.

3.8 SKILL ACTIVITY: Interpreting and analysing

The charts below show two indicators of economic conditions in Australia: the level of economic growth and the level of unemployment.

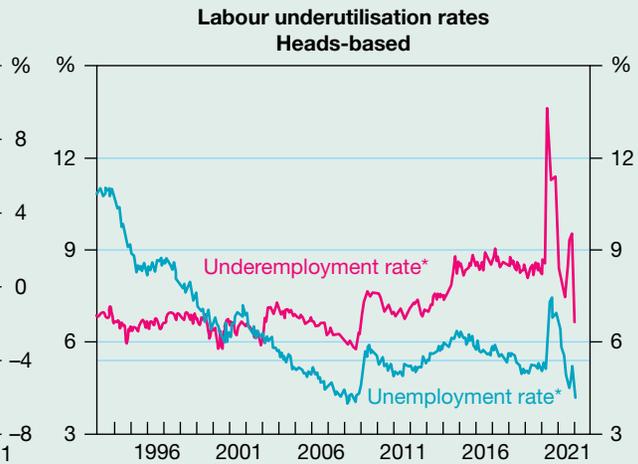
- 1. Describe** the information shown in **FIGURE 6**. **Outline** the trend in economic growth within the last 10 years.
- 2. Describe** the information shown in **FIGURE 7**. **Outline** the trend in Australia's unemployment rate (shown in blue).
- 3. Identify** some of the issues that a business might face in a period of economic growth.
- 4. Discuss** the problems associated with periods of high unemployment.

FIGURE 6 Gross Domestic Product (Economic Growth) for Australia



Source: <https://www.rba.gov.au/chart-pack/>

FIGURE 7 The underemployment rate for working Australians and the underlying unemployment rate



* Full-time workers on reduced hours for economic reasons and part-time workers who would like, and are available, to work more hours.

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3.8 Exercise

Learning pathways

■ LEVEL 1

1, 2, 7

■ LEVEL 2

3, 4, 5, 6

■ LEVEL 3

8, 9, 10

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Check your knowledge

- Select** what is meant by the business cycle.
 - The different stages that exist for a business during different economic conditions
 - The rise and fall of interest rates
 - The different stages that exist for a government during different economic conditions
 - The cyclical nature of business
- Determine** whether the following statements are true or false.
 - The four different stages of the business cycle are: boom, peak, recession and downturn. True or false?
 - Changing economic conditions require an entrepreneur to maintain the same business strategy. True or false?
- Define** the term 'research and development'. (**select** the option that is most correct.)
 - Development of alternative versions of existing products
 - Includes activities that businesses (and the entrepreneurs within them) undertake to innovate and introduce new products and services
 - Market research into consumer preferences
 - Activities that employees carry out in order to promote new goods and services
- Describe** how a business might be affected during an economic peak.
- Explain** what is meant by the phrase 'technologies to drive innovation'.

Apply your knowledge

Communicating

- In relation to the economic cycle, **explain** when a business might need to consider innovating new production processes or new products.
- Describe** what is meant by a business's marketing strategy.
- In relation to the economic cycle, **explain** when a business may need to develop a new marketing strategy.
- Complete the following table. The first column has been done for you.

| Economic conditions | Expansion | Peak | Recession | Trough |
|---------------------------------|---|------|-----------|--------|
| Unemployment | Low | | | |
| Inflation | Increasing | | Falling | |
| Business and marketing strategy | Innovate a new product or production technique Increase production | | | |

- Describe** how a business's marketing strategy might change during a peak in the economy.

LESSON

3.9 INQUIRY: Consumer behaviour

LEARNING INTENTION

By the end of this lesson you should be able to identify and describe the factors that influence economic decision-making within consumer and financial contexts.

Background

In this inquiry, you will investigate contemporary economic and business issues surrounding consumer and business behaviour and the influences on each.

Before you begin

Access the **Inquiry rubric** in the digital documents section of the Resources panel to guide you in completing this task at your level. At the end of the inquiry task you can use this rubric to self-assess.

Inquiry steps

Step 1: Questioning and researching

Discuss the following:

- Why do we buy the things that we buy?
- What do businesses do to try to persuade us to buy products?

Consider the advertisement provided. Who is this aimed at?

Explain how it is trying to influence a consumer.

Investigate. Name a similar or substitute product to the one shown.

Using a Venn diagram or table comparison, answer the following questions:

- What is the same about the products?
- What is different?
- Why are there differences?
- Which product is most innovative?
- Which product would you choose and why?



Step 2: Interpreting and analysing

Working in a small group, **select** a well-known advertisement for a product. You may use an online, TV, magazine or social media example.

Analyse the advertisement. **Identify** the target market and the market segments that the advertisement is aimed at.

Step 3: Evaluating, concluding and decision-making

Decide. Discuss the benefits that this product brings to society.

Step 4: Communicating

Communicate your findings to the class through an appropriate presentation of your research.

Complete your self-assessment using the **Inquiry rubric** or access the 3.9 exercise set to complete it online.

Resources

 **Digital document** Inquiry rubric (doc-40176)

LESSON

3.10 Review

Hey students! Now that it's time to revise this topic, go online to:



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3.10.1 Key knowledge summary

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

3.2 What are consumer and financial decisions?

- Consumers make minor purchases daily and these can happen without much thought.
- When consumers make major purchases (including ones relating to investment), they generally undertake a lot more research before buying.
- Businesses also make purchase decisions and these are sometimes referred to as financial decisions. These decisions also require careful consideration and must make good business sense.

3.3 What can influence consumer and financial decision-making?

- The decisions consumers make can affect not only their own lives but also the viability of businesses and markets.
- Businesses and companies go to considerable lengths to understand consumer attitudes and desires.
- Consumers need to be aware of the various strategies employed by businesses.
- Some businesses and companies may indulge in unethical behaviour.

3.4 What are the costs of consumer and financial decisions?

- Consumers should conduct thorough research on companies and the products they offer.
- Before making a major purchase such as a car, you need to decide exactly what you want. It is crucial that you conduct proper research on the car itself and the method of payment you choose to purchase that car.

3.5 What is the role of the superannuation system?

- Superannuation is a retirement pension benefit scheme.
- Employers and employees contribute a percentage of an employee's salary to a fund for their retirement.

3.6 How can entrepreneurship improve business operations?

- Entrepreneurism is a conceptual term to describe someone who sees opportunities and acts on them to fulfil a market need.
- Entrepreneurs will work to improve productivity by trying to find better ways of doing things.
- Highly trained employees can improve a business's productivity.
- Robotics and investment in technology can improve a business's productivity.
- Productivity can be improved through effective management and exceptional treatment of employees.

3.7 How are First Nations Australian businesses supported?

- All start-up businesses can access and benefit from a wide range of support services.
- The federal and state governments provides support for First Nations Australian entrepreneurs.
- Many non-government organisations work with First Nations Australian entrepreneurs to develop their business ideas.

3.8 How can entrepreneurs respond to changing economic conditions?

- The economy changes and businesses need to be able to react to the resulting changes in consumer spending to survive.
- Investing in research and development and technology can help a business increase its sales despite changes in the economy.
- Having a skilled workforce means that Australia's labour market can adapt as the economy changes.

3.9 INQUIRY: Consumer behaviour

- Consumer behaviour is a concept that allows us to think about why we make the choices that we do in relation to buying goods and services.
- Sometimes consumer purchasing decisions are conscious and well thought through; at other times, they may be highly influenced by advertising and media.
- Businesses cleverly target specific markets for the products that they sell.

3.10.2 Key terms

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

horizontal organisational structure has only a few layers of management; managers oversee a greater number of employees and allow them more autonomy in decision-making

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

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

inventory the goods and materials held as stock by a business

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

loan the temporary lending of money, usually by a financial institution

marketing the process of planning and executing the development, pricing, promotion and distribution of products to create exchanges that satisfy individual and organisational objectives

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

non-government organisation set up and operated independently from local, state or federal governments, but can receive government funding in some cases; usually address social and political issues

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

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

superannuation a retirement pension benefit scheme

roadworthy certificate official proof that a used car has been properly tested and is safe to operate and drive

upskilling where an employee is given the opportunity to develop their knowledge, abilities and skills; this is done through various forms of training

vertical organisational structure has a well-defined reporting procedure, decisions usually move from the top down, layer by layer, and people at the bottom have the least autonomy

3.10.3 Reflection

Complete the following to reflect on your learning.

Revisit the inquiry question posed in the Overview:

What factors influence economic decision-making within consumer and financial contexts?

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.

on Resources

 **eWorkbooks** Customisable worksheet for this topic (ewbk-11526)
Reflection (ewbk-12766)
Crossword (ewbk-12767)

 **Interactivity** Consumer and financial decision-making crossword (int-7682)

3.10 Review exercise

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Multiple choice

1. What are the four main influences on consumer behaviour?
 - A. Psychological, socioeconomic, cultural and governmental
 - B. Psychological, socioeconomic, emotional and governmental
 - C. Psychological, sociocultural, economic and governmental
 - D. Psychological, sociocultural, emotional and governmental
2. Which of the following is not a psychological factor that influences consumer behaviour?
 - A. Perception
 - B. Motive
 - C. Attitude
 - D. Guilt
3. The consequences of buying a car are
 - A. long-term.
 - B. short-term.
 - C. immediate.
 - D. both short-term and long-term.
4. What does productivity measure?
 - A. The amount of output produced
 - B. The amount of output compared to the amount of inputs that go into production
 - C. The cost of producing output
 - D. The amount of input compared to the amount of output that goes into production
5. How can productivity be improved?
 - A. Keeping inputs the same and increasing output
 - B. Increasing inputs to obtain the same output
 - C. Reducing input to obtain less output
 - D. All of the above

6. Which of the options below is the main reason businesses allow employees to have flexible working conditions?
 - A. To increase productivity
 - B. To enable employers to attract and retain staff
 - C. To allow employees to have a better work–life balance
 - D. To allow employers to hire more staff
7. Businesses that invest in and undertake research and development are able to
 - A. improve the planning, pricing, promotion and distribution of new products.
 - B. improve the efficiency under which products are produced.
 - C. increase Australia’s knowledge and existing products, as well as creating new products.
 - D. do all of the above.
8. What is the inventory system that can reduce storage costs and improve productivity?
 - A. Training
 - B. Robotics
 - C. Just-in-time
 - D. Marketing
9. Why is economic growth desirable in an economy?
 - A. To help businesses to earn an income
 - B. To keep unemployment low
 - C. To allow people to have the products that they want and need
 - D. All of the above
10. The main effect of technology on a business is to:
 - A. increase costs and increase productivity.
 - B. reduce costs and increase productivity.
 - C. reduce wastage and slow production down.
 - D. replace all workers.

Short answer

Communicating

11. **Describe** the difference influences on decision-making between a minor and major purchase.
12. **Explain** how the 4Ps of marketing might work to persuade a consumer to buy a new product.
13. **Outline** two benefits of the superannuation scheme that exists in Australia.

Interpreting and analysing

14. **Discuss** two ways in which economic conditions can impact a business.
15. **Describe** the relationship between new technology and innovation.

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GLOSSARY

- budget** a plan for the future; in economics it is a plan about the government's financial performance and framework for the coming financial year, and is estimated by calculating its expected revenues and expenditures
- budgetary policy (or fiscal policy)** a macroeconomic or aggregate demand management strategy involving the government's estimates of the expected value of its receipts and the expected value of its outlays
- business** any activity conducted by an individual or individuals to produce and sell goods and services to make a profit
- capital** physical resources owned by a business and used in production, including factories, machinery and equipment
- cash rate** the official price of borrowing money; the interest rate that applies to the short-term money market
- consume** to purchase goods and services for direct use or ownership
- cost inflation** a sustained increase in the price of goods and services caused by producers passing on increased production costs to consumers
- demand inflation** price increases that result from an excess of demand over supply for the economy as a whole
- deregulation** the removal of unnecessary direct government controls, restrictions and supervision in various areas of the economy
- economic growth** a measurement of the increase in a country's gross domestic product (GDP)
- economic performance** the measure of how well an economy is performing based on whether it is achieving its economic objectives
- economics** a social science (study of human behaviour) that analyses the decisions made by individuals, businesses and governments about how limited resources are used to satisfy society's unlimited needs and wants
- economic system** a way of organising the production and distribution of the nation's goods, services and incomes
- entrepreneur** a person who sets up a business or businesses, taking on financial risks in the hope of profit
- flexible work arrangements** changes to existing work patterns such as changes to hours, shift patterns or locations of work (e.g. working from home)
- horizontal organisational structure** has only a few layers of management; managers oversee a greater number of employees and allow them more autonomy in decision-making
- income** the reward earned from supplying productive resources; providing labour earns income in the form of wages or salaries
- inflation** a general rise in the prices of goods and services within an economy
- innovation** adding a new product (which can be a good or a service) to an existing product line, or significantly improving an existing product or process
- input** the resources — including materials, equipment and labour — used in the process of production
- inventory** the goods and materials held as stock by a business
- just-in-time** an inventory system that ensures the correct materials arrive just as they are needed in the operations process
- labour market** the place, region or institution where buyers and sellers of labour negotiate wages
- loan** the temporary lending of money, usually by a financial institution
- macroeconomics** the branch of economics that emphasises the central role played by the level of expenditure or aggregate demand
- market capitalist economy** an economic system that relies on the market to allocate resources based on the actions of consumers and producers, and where resources are generally owned by private individuals and businesses
- market** the place where goods, services or resources are exchanged between buyers and sellers
- marketing** the process of planning and executing the development, pricing, promotion and distribution of products to create exchanges that satisfy individual and organisational objectives
- mark-up** a fixed percentage or dollar figure added to the cost price of goods and services to determine the selling price

material living standards refers to the number of goods and services we can afford to buy

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

microeconomics the branch of economics that studies the smaller fragments or units making up the whole economy

monetary policy a major category of government aggregate demand management or macroeconomic policy; it is implemented by the Reserve Bank of Australia (RBA) and is designed to influence the cost, availability and demand for credit and money

mortgage a loan used to finance the purchase of a house or property

needs goods or services that consumers consider necessary to maintain their standard of living

negative externality a production outcome that was not intended and that negatively affects our economy and/or society

non-government organisation set up and operated independently from local, state or federal governments, but can receive government funding in some cases; usually address social and political issues

non-material living standards value-based elements of human wellbeing that are not connected to material possessions

opportunity cost the next best alternative given up whenever a choice is made

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

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

qualitative indicators subjective measures that cannot easily be calculated or measured; e.g. indices that measure a particular aspect of quality of life or that describe living conditions, such as freedom or security

quantitative indicators objective indices that are easily measured and can be stated numerically, such as annual income or the number of doctors in a country

quarterly every three months

quota a quantity limit or target for production or imports

recession a technical term referring to two consecutive quarters of negative growth in an economy

regimen a basket of goods and services whose prices are surveyed to calculate inflation

resource allocation relates to decisions about how scarce resources are distributed among producers, and which types of goods and services will be produced to satisfy wants and needs

resources items of value that we use to produce goods and services to satisfy needs and wants, which include land, labour, capital and enterprise

roadworthy certificate official proof that a used car has been properly tested and is safe to operate and drive

scarcity the economic problem of having unlimited needs and wants, but limited resources to satisfy them

specialisation a method of production where a worker, business or nation focuses on the production of a limited range of goods or services in order to increase production and make the most efficient use of resources

subsidy a cash payment by the government designed to help producers compete by enabling them to sell their product at a lower price than would otherwise occur

superannuation a retirement pension benefit scheme

sustainable able to last or continue for a long time

tariff a tax imposed on imported goods to make them more expensive

taxation a government levy or revenue measure that can be used as part of the budget to affect the level of prices, the growth rate and the distribution of income

trade the activity of buying, selling or exchanging goods and services between producers and consumers and/or countries

upskilling where an employee is given the opportunity to develop their knowledge, abilities and skills; this is done through various forms of training

vertical organisational structure has a well-defined reporting procedure, decisions usually move from the top down, layer by layer, and people at the bottom have the least autonomy

wants goods or services that are desired in order to provide satisfaction to the user, but which are not necessary for survival or to meet the basic standard of living in a community

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