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JACARANDA

ECONOMICS AND BUSINESS ALIVE

9

AUSTRALIAN CURRICULUM | THIRD EDITION

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ECONOMICS AND
BUSINESS ALIVE 9
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SIMON PHELAN

HELEN RABENDA

MATTHEW RICHARDSON

REVIEWED BY

Courtney Rubie, Wiradjuri woman

Rachel Wallis, Wiradjuri woman



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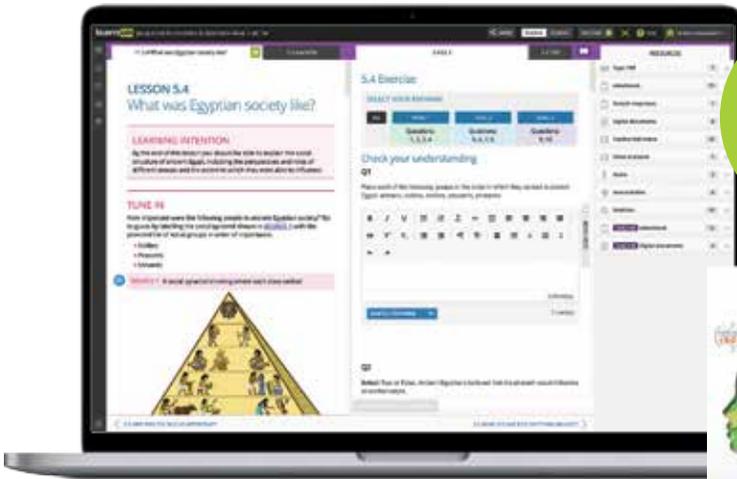
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The Publisher acknowledges ongoing discussions related to gender-based population data. At the time of publishing, there was insufficient data available to allow for the meaningful analysis of trends and patterns to broaden our discussion of demographics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

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About this resource



NEW FOR

AUSTRALIAN CURRICULUM V9.0



JACARANDA

ECONOMICS AND BUSINESS ALIVE 9

AUSTRALIAN CURRICULUM
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The screenshot shows the learnON website interface. At the top, it says 'learnON Jacaranda Economics & Business Alive 7 AC 3e'. The main heading is '5.4 What was Egyptian society like?' and '5.4 teachON'. The lesson title is 'LESSON 5.4 What was Egyptian society like?'. Below this is a 'LEARNING INTENTION' box: '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.' This is followed by a 'TUNE IN' section: '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 this is 'SOURCE 1 A social pyramid showing where each class ranked'. The pyramid is divided into four horizontal layers, each with an illustration of people performing different tasks. The top layer shows a pharaoh, the second layer shows scribes, the third layer shows peasants, and the bottom layer shows servants. To the right of the main content, there are sections for '5.4 Exercises', 'SELECT YOUR', 'ALL', 'Q1', 'Check your', 'Q1', 'Place each of the f', 'Egypt: artisans, not', 'B / U', 'Q2', 'Select True or Fals', 'or control nature.', and 'STUDENT RESULTS & M'.

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 'SHARE', 'Teacher', 'Student', 'No Class', 'Help', and a user profile 'Lindsey 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). Below the levels, there is a section titled 'Understanding' with a question: 'Following groups in the order in which they ranked in ancient Egypt: scribes, peasants, pharaohs'. A text entry field is visible with '0 Word(s)' and '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' and 'Student' buttons; '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 question entry field.

Differentiated question sets

Teacher and student views

Textbook questions

eWorkbook

Answers and sample responses

Digital documents

Video eLessons

Interactivities

Extra teaching-support resources

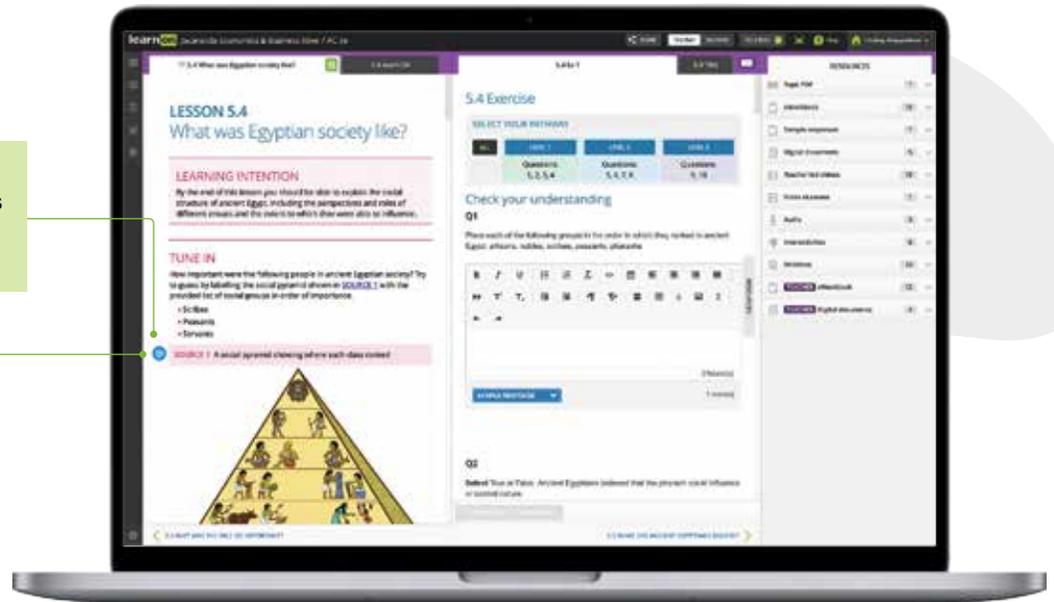
Interactive questions with immediate feedback

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.

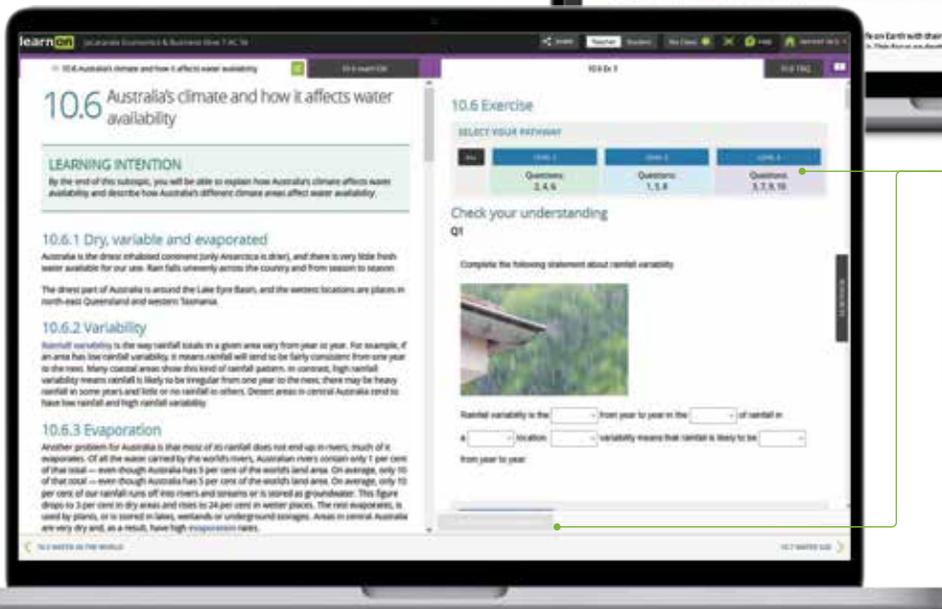
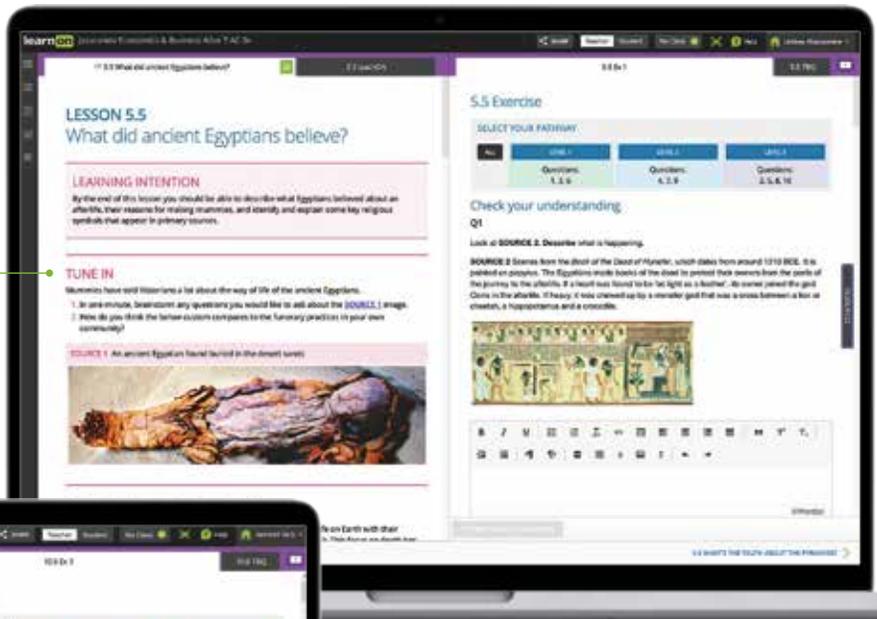
Embedded interactivities and videos enable students to explore concepts and learn deeply by 'doing'.



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.

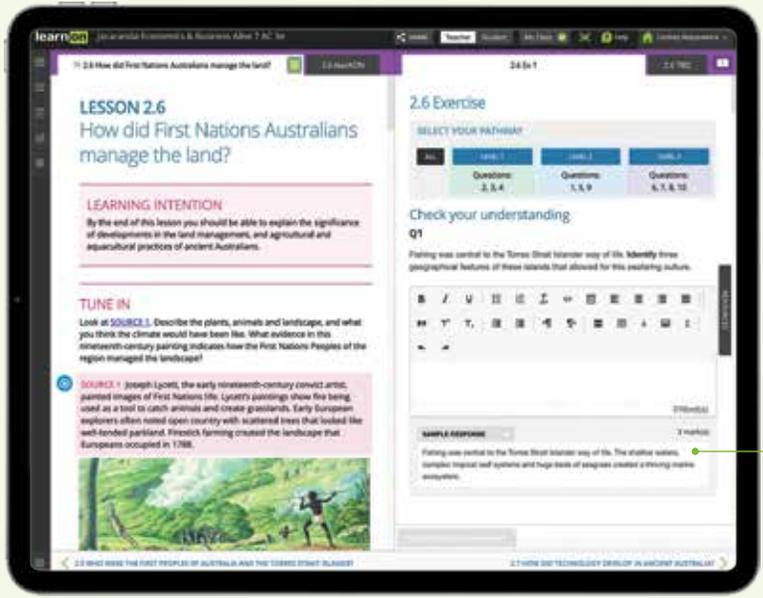
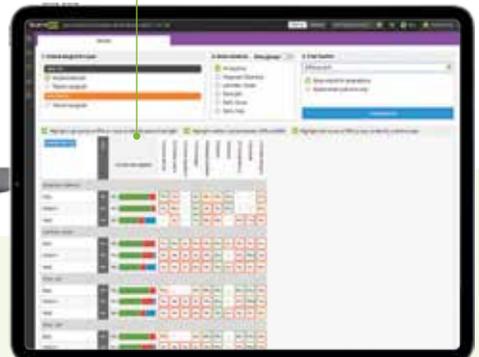


Brand new! Tune in activities to spark interest and kick off every lesson with discussion and source analysis



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

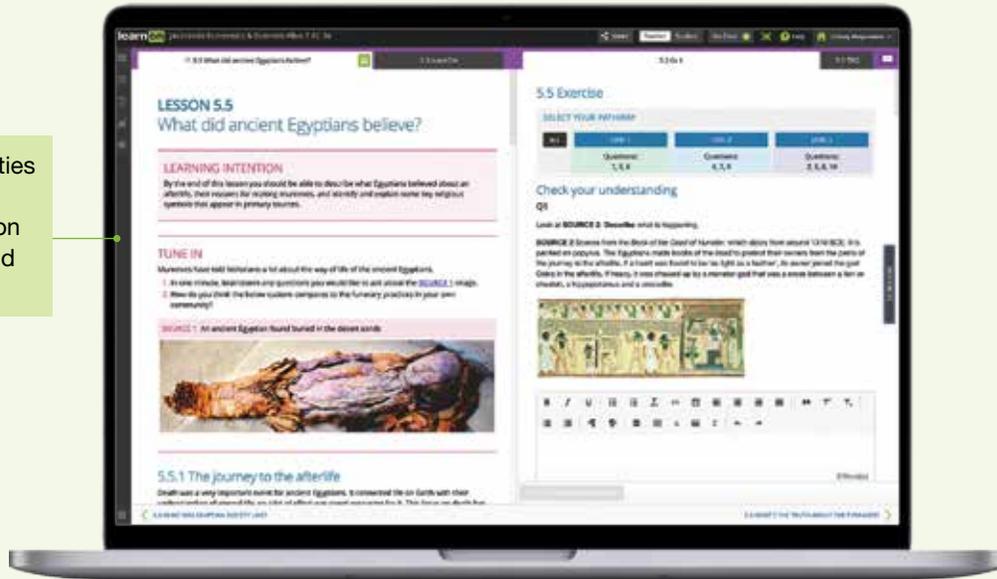
Instant reports give students visibility into progress and performance.



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.

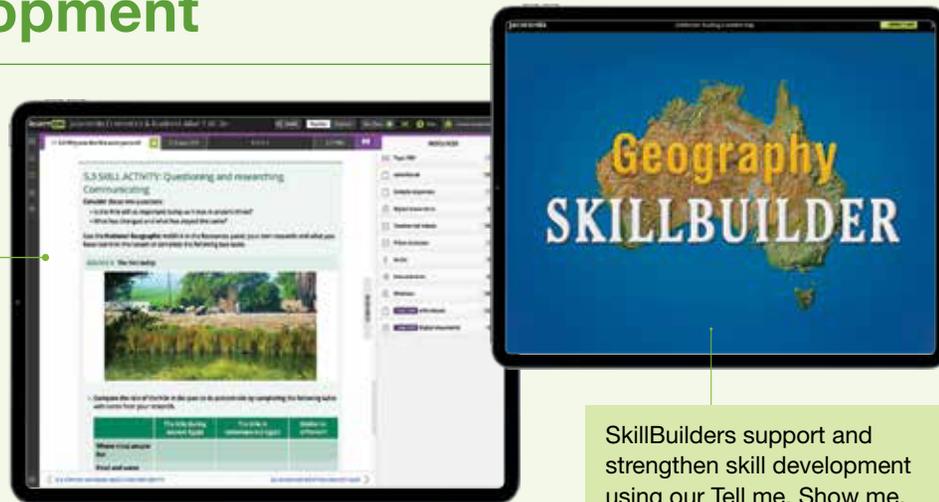
TUNE IN lesson starters

New Tune In activities spark interest and kick off every lesson with discussion and source analysis.



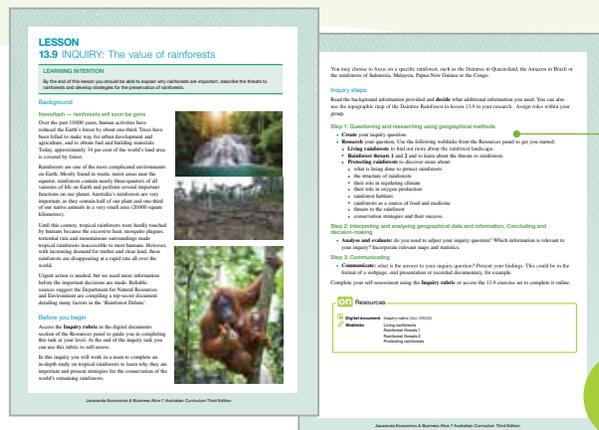
Skill development

New skill activities provide opportunities to develop and build crucial Economics and Business skills using research, collaboration and analysis.



SkillBuilders support and strengthen skill development using our Tell me, Show me, Let me do it approach.

Inquiry projects



New Inquiry lessons use project-based learning and a clear skill structure for a deep dive into every topic while practising the curriculum-specific skills.

A wealth of teacher resources

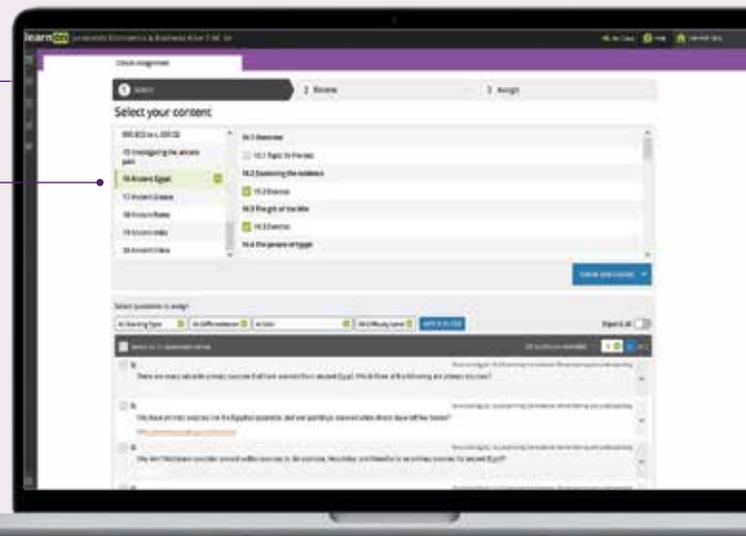


Enhanced teaching-support resources for every lesson, including:

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

Customise and assign

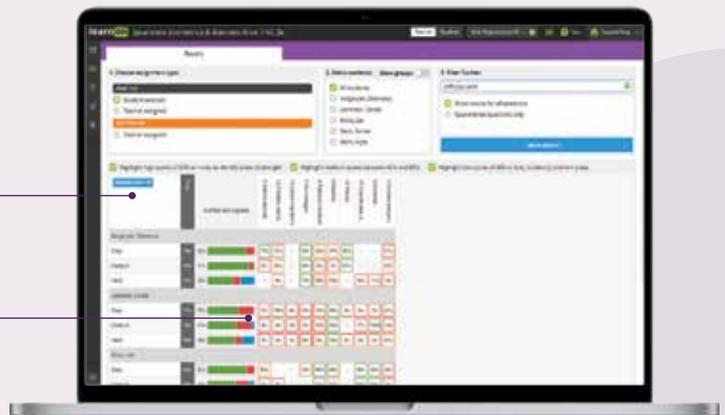
An inbuilt testmaker enables you to create custom assignments and tests from the complete bank of thousands of questions for immediate, spaced and mixed practice.



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

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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

Whether you know it or not, you have been involved in the **economy** today. If you have consumed food that was purchased from a supermarket, used electricity, caught public transport or been driven in a car that uses fuel, used a bank account, or sent a text to a friend you have been engaged in the world of economics and business.

When we buy goods and services, deposit money in a bank account or obtain a casual job, we are all contributing to the economy.

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. Studying Economics and Business provides you with valuable knowledge for making decisions in everyday life.

FIGURE 1 Economics is the study of the decisions made by individuals, businesses and governments about how limited resources are used to satisfy society's unlimited needs and wants.



economy a system established to determine what to produce, how to produce and to whom production will be distributed

Resources



eWorkbook Customisable worksheets for this topic (ewbk-11582)



Video eLesson Economics and Business concepts and skills (eles-6130)

LESSON

1.2 Concepts in Economics and Business

LEARNING INTENTION

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

1.2.1 The world of Economics and Business

Economics is a social science (a study of human behaviour) which 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. Basically, 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** is something that you are already familiar with. You probably know someone who owns a business or works for a business. It's possible that you have a job, working for a business. You will most likely buy from different types of businesses every day, and interact with business entrepreneurs or people who are employed by a business. You may have your own idea for a business venture. Perhaps you have even operated your own 'business' — mowing neighbours' lawns, babysitting, washing windows or selling crafts online.

A business can be any activity that sells goods and services with the hope of making a profit. As well as making profit for owners, businesses make important contributions to the economy.

FIGURE 1 The key concepts you learn about 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

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: resource allocation and decision-making, the business environment, entrepreneurship, work and work futures, and consumer and financial literacy. The focus of learning in Year 9 is the topic ‘international trade and interdependence’ within a global context. This includes learning about trade between Australia and the countries of Asia.

1.2.2 Resource allocation and decision-making

The core problem in economics and business is **economic scarcity**. This is a concept which recognises that we all have limited **resources** available to satisfy our unlimited **wants** and **needs**.

Economic scarcity is often referred to as the ‘basic economic problem’. This is because it always exists, and it exists in all economies across the world.

In Year 8 we learned how economic resources can be used by businesses to produce the goods and services that satisfy our needs and wants. 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 architects, chefs, mechanics and real estate agents.
- 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 as 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 together so as to create value. Entrepreneurs take on risk by starting businesses in the hope of making a profit.

FIGURE 2 The basic economic problem is scarcity: where we have unlimited needs and wants, but limited resources to satisfy them with. This creates an imbalance.

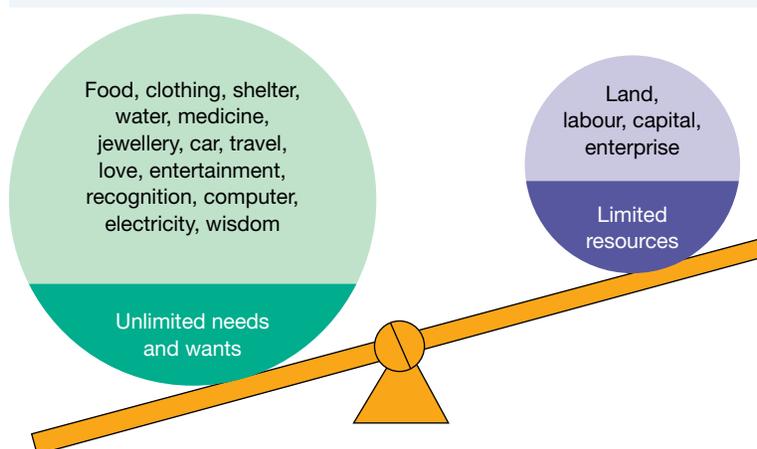
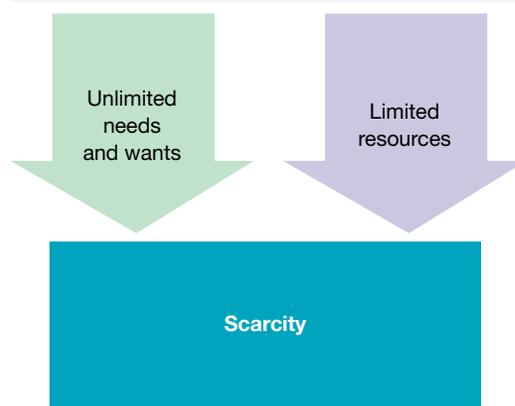


FIGURE 3 Unlimited wants combined with limited resources creates scarcity.



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

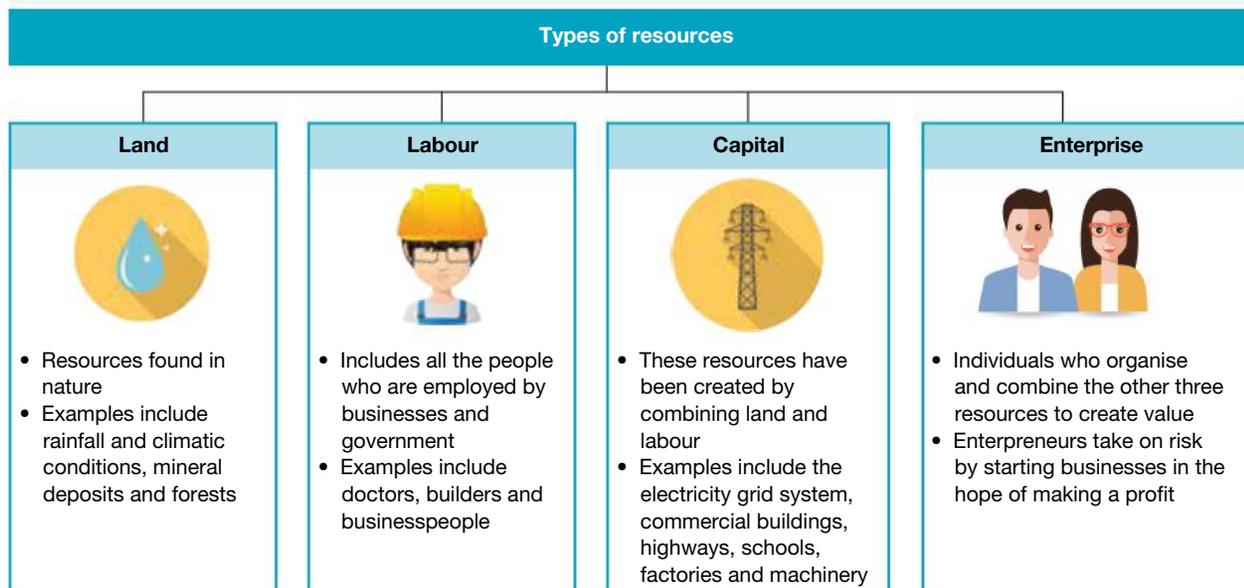
resources items of value that we use to produce goods and services to satisfy needs and wants, which include land, labour, capital and enterprise

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

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

Production will usually require the combination of the resources shown in **FIGURE 4**. However, because resources are limited, the amount of goods and services that can be produced from them is also restricted. This economic scarcity means we cannot have everything and people must choose to have some things but not others.

FIGURE 4 There are four main types of economic resources: land, labour, capital and enterprise.



Just as people make choices about what to have, economies overall have to decide how to use their scarce resources to satisfy their unlimited needs and wants. All societies have an **economic system** of production and distribution, which allocates resources from one use to another. As we may remember, all economic systems must answer three basic economic questions:

- what to produce? – decisions must be made about what goods and services are to be produced and in what quantities. Should we produce innovative cars, crops such as wheat, and animal produce such as beef or lamb, and how many of each? All of these production possibilities involve different allocations of resources.
- how to produce? – decisions must be made about how we produce those goods and services. Do we use labour intensive production methods (predominantly making use of people) or capital intensive methods of production (predominantly making use of technology or machinery)?
- for whom to produce? – decisions must be made about how those goods and services are distributed; that is, we need to determine who will receive the goods and services produced. Does the first person in a line acquire the good or service? Should it go to the person who pays the highest price? Or do the goods and services go to those who need them the most?

Australia's financial sector plays a very significant role in **resource allocation** and economic decision-making. Financial institutions such as banks, credit unions and building societies are able to lend funds to consumers and businesses, which can influence what goods and services are produced and consumed.

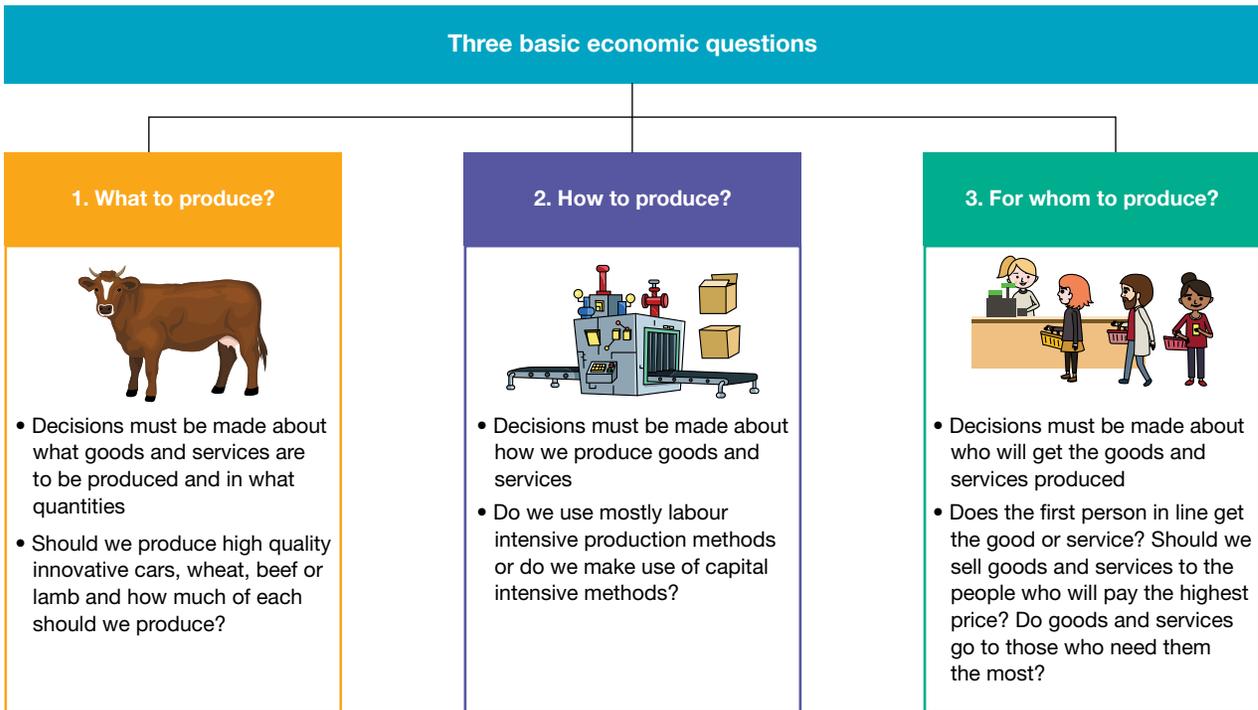
In this topic we will learn about Australia's financial institutions and their relevance to consumers and how they can support businesses in global markets.

We will learn that economic decision-making does not happen in isolation; rather it is reliant on the interdependent nature of consumers, businesses, the financial sector and the government.

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

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

FIGURE 5 All economic systems must answer three basic economic questions.



1.2.3 The business environment

Modern economies have developed a method of production called **specialisation** to increase production and provide a surplus of products which can be used to **trade**. Awareness of this concept means that an individual, business or nation will be making the most efficient use of resources.

Specialisation can be seen in an assembly line. Each worker and each piece of machinery will specialise in one distinct task. Think of a car being manufactured. When every participant in the production of the car is focused on their task, output will be higher than if a single person was responsible for making the car. One person on their own would have little chance of producing a car at all! Specialisation is clearly visible in businesses such as restaurants and bakeries.

Countries also make use of specialisation. If one country is more efficient at producing a certain product and another country is efficient at producing a different product, then it makes sense for the two countries to trade. Australia is a major producer and exporter of iron ore, coal, gold, natural gas and wheat. We import many products such as processed fuels, cars and electrical equipment from other countries that are more efficient at producing such products. Australia relies on its trade with other nations.

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

FIGURE 6 The Reserve Bank of Australia (RBA) is Australia's central bank, and it provides certain banking services as required to the Australian Government and its agencies, and to overseas central banks and official institutions.



In this topic we will investigate why countries trade, and the benefits that trade between Australia and other countries brings to our households and businesses.

Regular trade between nations is another example of interdependence.

The term **interdependence** refers to the way in which two or more people or things affect each other or depend on each other. In Economics, it is used to describe the way that participants in the economy rely on each other. That is, consumers, workers, businesses and governments are all connected and very much dependent on each other.

FIGURE 7 Individuals, businesses and nations trade with other individuals, businesses or nations to get something which they could not provide or produce for themselves.

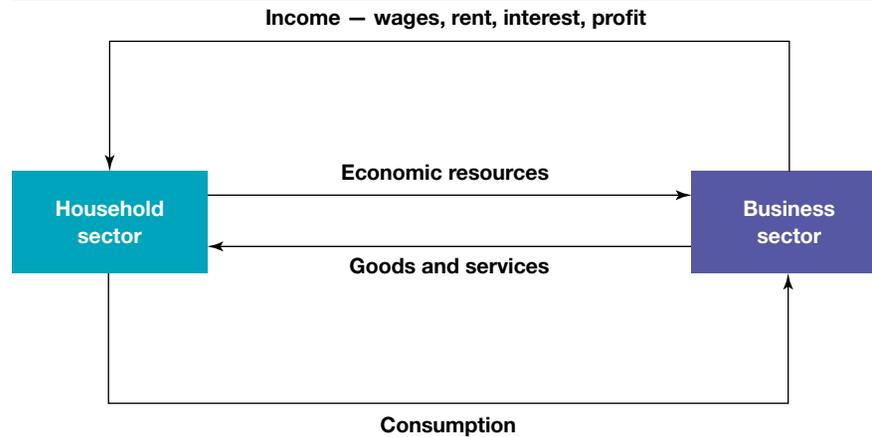


For example, businesses will struggle to survive without consumers buying their goods and services. Consumers rely on businesses to provide them with the goods and services they demand to satisfy their needs and wants, as well as to provide them with income in the form of wages. Furthermore, the financial sector provides investment. This refers to the banks and other institutions who lend money to customers and businesses, so that they can spend or invest.

The exchange of goods and services between producers and consumers and countries results in increased interdependence between the groups (or sectors) in economies, as well as between overseas economies. Economists understand that the actions of one participant will impact on other participants in the economy. In the same way, our own economic conditions (for example, high unemployment) might affect consumer demand in another country due to a reduction in demand for their exports.

interdependence the mutual dependence between participants in an economy; that is, the reliance of consumers, workers, businesses and governments on each other

FIGURE 8 A simple two-sector circular flow model of income demonstrating the interdependence between consumers and businesses who rely on each other for goods and services, labour and income.



1.2.4 Entrepreneurship

You may know about entrepreneurship already; you may know an **entrepreneur** or even be one yourself. 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.

In this topic we will investigate how entrepreneurs, including First Nations Australians, might out-perform their competitors through unique product offerings and meeting the ever-changing demand in a competitive global marketplace. This is a challenging issue that requires businesses to constantly research, improve efficiency and production, and market their products in new and innovative ways.

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

FIGURE 9 A business selling running shoes will continually develop new and improved fabrics and innovative 'technology', while attempting to lower costs.



1.2.5 Work and work futures

Throughout this topic, work and business processes remain at the centre of Australia's participation in the global market and economic decision-making processes. Employees play a vital role in innovating processes that businesses use to create and maintain competitive advantage, including the role of entrepreneurs.

1.2.6 Consumer and financial literacy

Both consumers and businesses need to be aware of the different types of financial risks that might confront them. On a personal level we may have received an SMS promising a big prize win, or we may know someone who has been a victim of bank fraud. In this topic we will investigate examples of consumer and financial risk to individuals and businesses, and conversely, we will investigate the more respectable (and pleasing) examples of reward programs, loyalty schemes and investments which offer a benefit to consumers.

Identifying such practices as the ones described above allows us to become more informed as consumers and highlights the importance of the need for ethics in consumer and financial decision-making.

FIGURE 10 In this topic we reflect on the importance of ethical decision-making when making consumer financial decisions such as the consequences of poor financial decisions.



LESSON

1.3 Skills in Economics and Business

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 summaries below are to remind you of these four key skills.

1. **Questioning and researching** involves locating relevant and detailed information and/or data from a range of appropriate sources. In Year 9 Economics and Business, this includes conducting research about how Australia is connected to the rest of the world through trade and business.
2. **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 9 Economics and Business this includes analysing the trends for money lost in scams.
3. **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 9 Economics and Business, this includes evaluating why an Australian bank may prioritise support for an existing business rather than an emerging one.
4. **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 9 Economics and Business, this includes communicating a complex or interconnected topic such as ‘interdependence’ or ‘financial landscape’.

FIGURE 1 The skills that you learn in Economics and Business form the foundations of understanding many aspects of global trade and employment.



1.3.2 SkillBuilders in the 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 topics in this section will tell 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 9 are listed below:

- Conducting research into Australia's connections with the world
- Interpreting the trends for money lost in scams
- Evaluating an insurance policy
- Preparing a reasoned argument in relation to an economic or business issue

LESSON

1.4 SkillBuilder: Conducting research into Australia's connections with the world

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 Australia's connection with the world.

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: Interpreting the trends for money lost in scams

online only

How do you read and explain trends?

Scams are attempts to trick people out of something, usually money. To get a better understanding of this topic, we can interpret and analyse information and data trends on scams.

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: Evaluating an insurance policy

online only

What is insurance and how do you evaluate options?

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 it. When looking at insurance, it is important that businesses or individuals evaluate policies from a number of registered insurance companies. Prices can vary, and insurers can have different exclusions, conditions and discounts.

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 reasoned argument in relation to an economic or business issue

online only

What makes a reasoned argument?

Economic and business issues may prompt discussion and argument. An argument generally involves developing a response to an issue which is both reasoned and balanced. This means that you have explored it fully to arrive upon a conclusion. This SkillBuilder will help you prepare a reasoned argument using relevant business terminology.

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:



Review your results



Watch teacher-led videos



Practise questions with immediate feedback

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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

- Resource allocation and decision-making is a central Economics and Business concept. This involves the idea of economic scarcity, which 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.
- 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 and for whom to produce?
- Australia's financial sector has an effect on economic decision-making by consumers, businesses and global markets.
- 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 which can be used to trade.
- Participants in an economy are mutually dependent (or interdependent); that is, consumers, businesses, the financial sector and government are reliant on each other.
- Businesses have processes for creating and maintaining a competitive advantage. Entrepreneurs are central to these processes.
- Individuals and businesses need to be aware of financial risks and rewards and manage them appropriately.

1.3 Skills in Economics and Business

- Questioning involves posing statements that require answers, particularly in regard 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.
- 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 scarcity the economic problem of having unlimited needs and wants, but limited resources to satisfy them

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

economy a system established to determine what to produce, how to produce and to whom production will be distributed

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

interdependence the mutual dependence between participants in an economy; that is, the reliance of consumers, workers, businesses and governments on each other

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

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

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

 **eWorkbook** Customisable worksheets for this topic (ewbk-11582)
Reflection (ewbk-11584)

 **Interactivity** Economics and Business concepts and skills crossword (int-9096)

Hey teachers! Create custom assignments for this topic

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LESSON

1.4 SkillBuilder: Conducting research into Australia's connections with the world

LEARNING INTENTION

By the end of this lesson you should be able to conduct a research task specifically in relation to Australia's connection with the world.

1.4.1 Introduction

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 regard 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.

1.4.2 Tell me

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.

FIGURE 1 Shipping helps to keep Australians connected with the world by allowing for the movement of goods on a large scale.



1.4.3 Show me

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

Step 1

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

Prepare a report on Australia's trade with China. Include details of the major exports and imports, recent trends in our trade relationship with that country, and the value of this trade to the Australian economy.

Step 2

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

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

FIGURE 2 A cargo ship in docks on the Huangpu River, Shanghai, China



Step 3

The next step is to locate appropriate sources. By entering the search term 'Australian trade with China' in your favourite search engine, you will be presented with a number of sources. Look for reliable sources relevant to your area of research. For investigating Australia's trade relationships, the Department of Foreign Affairs and Trade (DFAT) website would be a highly reputable source.

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.

Step 4

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 presentation, or any other format that is appropriate.

1.4.4 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 topic:

Prepare a report on Australia's trade with one of these Asian countries: Japan, South Korea, India, Singapore or Thailand. Your report should include details of goods and services traded, recent trends or changes in that trade, and the importance of that trade to the Australian economy.

LESSON

1.5 SkillBuilder: Interpreting the trends for money lost in scams

LEARNING INTENTION

By the end of this lesson you should be able to interpret the trends for money lost in scam activity.

1.5.1 Introduction

Interpreting and 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 analyse in Economics and Business is by interpreting information on the trend for money lost in scams.

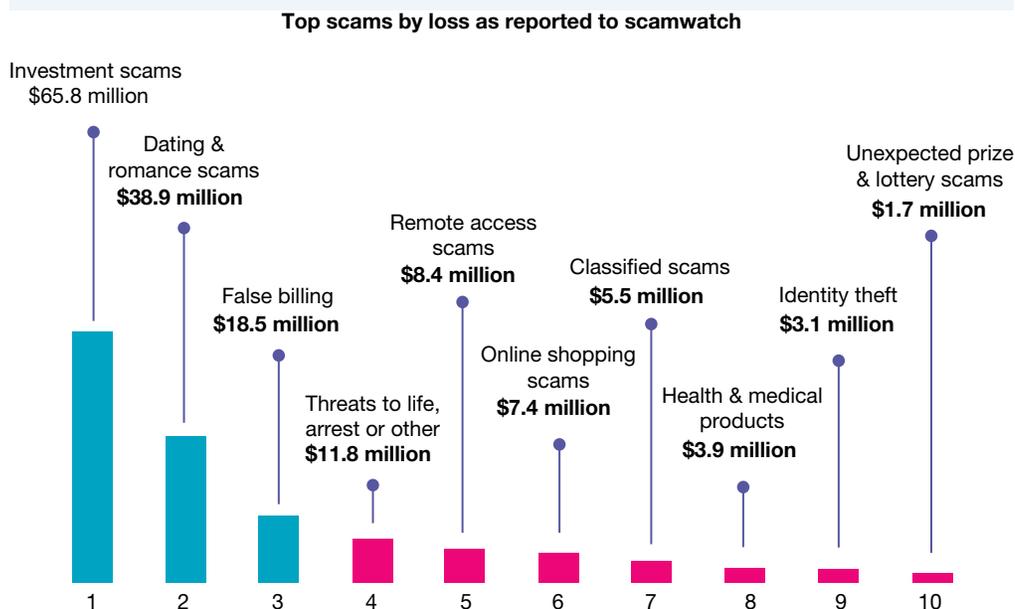
1.5.2 Tell me

Scams are attempts to trick people out of something, usually money. Scams can be sophisticated messages, often using professional looking brands and logos to look like they come from a business you know.

A scam message can be sent by email, SMS, dating sites, social networking sites, instant messaging or even through videophone communications such as FaceTime.

To get a better understand of this topic, we can interpret and analyse information and data trends on scams. This can tell us how much money is lost in scams and which age groups are most affected.

FIGURE 1 An infographic of the top scams by loss in 2020



1.5.3 Show me

Infographics are increasingly used as a more visually appealing and engaging way to present information. Below are the step for how to read an infographic.

Step 1

Look carefully at the infographic — does it have a heading?

Step 2

Can you easily identify what it is showing? What is the theme or idea? The infographic provided in **Figure 1** shows the top scams reported to Scamwatch. It appears to be clearly labelled, but can it be deceiving at first glance?

Step 3

Look at the data. Each scam type has a number and the amount of money in dollars lost to that scam type.

Step 4

Analyse the data. What trends can you see? What is the most or least common scam?

Step 5

Apply your knowledge of scams and financial risks to predict what the data will be like a year later. Consider what else you need to find out.

1.5.4 Let me do it

Complete the following activity to practise this skill.

1.5 ACTIVITY

Use the **ACCC scam** weblink in the Resources panel to locate the latest scam activity report. This will be listed as a publication. Download the report and view the infographics to practise your skills by completing the following questions.

- a. Which scams cause the most financial harm?
- b. How much in total is lost to scams each year?
- c. Which age groups are most affected by scams - what might explain this data?
- d. Do scams affect more men or women? **Explain** the possible reasons for the answer.
- e. **Summarise** the most common methods of contacting people that scammers might use
- f. **Describe** a time when scamming increase and explain the reasons why this occurred.

Present your findings to your class.

LESSON

1.6 SkillBuilder: Evaluating an insurance policy

LEARNING INTENTION

By the end of this lesson you should be able to accurately and appropriately evaluate a simple insurance policy.

1.6.1 Introduction

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 benefits or advantages of something and then examining the costs or disadvantages of something. Making decisions about insurance and evaluating insurance policies is a skill that business owners and individuals need.

1.6.2 Tell me

Insurance is an arrangement whereby an insurer promises to compensate the insured business or individual for a specified loss, damage, illness or death in return for the periodic payment of a premium. There are many types of insurance including landlord insurance, vehicle insurance, total and permanent disability (TPD) insurance, income protection insurance, home insurance, and business insurance. An insurance policy is a legally binding contract between the policy holder and the insurer. Both will have responsibilities that must be complied with for the contract to be valid.

It's important that businesses or individuals compare policies from a number of registered insurance companies. Prices can vary, and insurers can have different exclusions, conditions and discounts.

Understanding the policy

When evaluating an insurance policy, the business or individual considering insurance should understand the policy they are evaluating. An insurer must give the business or individual a product disclosure statement (PDS) that explains the insurance product, including:

- who offers the insurance
- what the policy covers and what is excluded, and in what circumstances
- any contract terms
- any information that will need to be given to the insurer
- information on the premium (the amount the policy holder pays an insurer for insurance cover) and how it will change over time
- information on the excess (the amount the policy holder must contribute towards each claim made)
- definitions of common words for unforeseen events, so that the business or individual knows what they are covered for
- how to make a claim
- how the policy holder will be paid — will it be an agreed amount, a market value or a percentage of a market value?
- how to complain about the claims process or decision.

FIGURE 1 Insurance protects businesses and individuals from financial loss.



A PDS may have several pages. However, reading the document will help the business or individual to compare policies and make an informed choice about the policy that best suits their needs.

Awareness of terms and conditions

When evaluating an insurance policy, the business or individual considering insurance should also be aware of the terms and conditions of the policy they are evaluating. An insurance policy will have terms and conditions that must be met for the insured business or individual to be covered. The PDS should include these details.

Conditions of cover may include such details as:

- having smoke alarms or security alarms installed in a building
- what the insured policy holder must do if a loss or claim occurs
- ensuring that a vehicle is serviced
- the amount of time before the insurance policy needs to be renewed
- exclusions such as the poor health of a traveller or leaving a home vacant for an extended period of time.

1.6.3 Show me

FIGURE 2 contains a renewal document provided to Shannon Sample for his car insurance policy. Consider how this document includes some of the components that we have just explored.

FIGURE 2 An insurance policy renewal document for Shannon Sample

Dear Shannon

Thank you for being an Ensure insurance customer.
We look forward to providing you with everything you need for the next year, and into the future. Please be sure to contact us if you have any queries regarding your policy.


 Contact
Insurance Agent

Portfolio

What's covered	Policy type	Renewal date
2018 Honda CRV	Comprehensive	16 July 2020

To view all your policy details visit ensureinsurance.com.au/myaccount

Ensure Insurance Partner Repairers
Access the network of Ensure Insurance Partner Repairers to ensure that all repairs are carried out to the highest of standards.
For further information visit ensureinsurance.com.au/myaccount

Thank you for choosing paperless
 Going green helps you and the environment.
Digital versions of your policy documentation mean you can track it down easily.


 Auto Insurance

Your policy summary

Policy holders	Shannon Sample
Vehicle	2018 Honda CRV
Registration	SAM 123
Start date	16 July 2020
End date	16 July 2021
Last year's value	\$25000
This year's value	\$25000
Basic excess	\$800
Last year's premium	\$1098.00

This year's premium	\$1050.00	
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Due date	16 July 2020	
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1.6.4 Let me do it

Complete the following activity to practise this skill.

1.6 ACTIVITY

Imagine that you are an 18-year-old looking for insurance for your first car.

Construct a comparison table like the one shown below. You can either use the headings provided, or you can alter this table to suit your own search parameters. Use online information or call the company directly to obtain the information you need.

There are many different insurance companies in Australia, so it will be easier if you limit your search by investigating only some of the companies, including:

- AAMI
- Budget Direct
- Youi
- NRMA
- RAC Western Australia.

There are several websites that present information and compare plans for a number of different insurance companies.

When searching for quotes online, use consistent information for each company (for example, the same model car, no modifications, no finance on the car and so on).

Insurance company	Comprehensive		Third party property fire and theft		Roadside assistance	Choice of repairer	Agreed or market value	Other benefits
	Excess	Premium	Excess	Premium				
AAMI								
Budget Direct								
Youi								
NRMA								
RAC Western Australia								

Once you have completed the summary table above, you need to evaluate the costs and benefits of the different alternatives. To do this, complete the following tasks.

- a. Complete a cost–benefit analysis for each of the insurance policies that you researched. Use a table like the one below to help you.

Insurance company	Costs	Benefits

- b. Considering your own needs as a future car owner, rank the insurance companies from most to least suitable.
 c. Write a one-paragraph response that justifies your rankings.

LESSON

1.7 SkillBuilder: Preparing a reasoned argument in relation to an economic or business issue

LEARNING INTENTION

By the end of this lesson you should be able to develop a reasoned and balanced response to an economic or business issue..

1.7.1 Introduction

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. Another form of communication that you will need to learn is interacting with businesses. One example of this type of communication is when presenting a reasoned argument in relation to an economic or business issue.

1.7.2 Tell me

Economic and business issues may prompt discussion and argument. An argument generally involves developing a response to an issue which is both reasoned and balanced. This means that you have explored it fully to arrive upon a conclusion.

An effective argument will:

- use relevant business terminology
- include both sides (the positives and negatives)
- include an explanation and or use of data to support your reasoning.

1.7.3 Show me

To develop an argument, we generally need to study an issue and develop a response to that issue. For example, we might wish to consider personal or consumer debt, and whether it is a good or bad thing in the context of our economy.

To begin with we will need to make sure that we understand the concept of debt, and the different types. This will allow us to identify some positives or negatives.

We might summarise these in a table, for example.

FIGURE 1 An argument needs to be balanced, with both sides considered.



TABLE 1 The positives and negatives of personal debt

Positives	Negatives
Debt can allow individuals to purchase products that will satisfy their wants and needs if their income is low.	Debt incurs a cost known as interest and this is an added expense which must be paid back on top of any money borrowed.
Debt is essential for most people who wish to own a home as they will take out a mortgage.	Some people might argue that having debt is irresponsible money management.

Once you have identified the positives and negatives, you may be able to develop an effective argument as to which side or position you agree with most. You may be asked to present the findings and your argument in an essay, question or in a presentation.

1.7.4 Let me do it

Complete the following activity to practise this skill.

1.7 ACTIVITY

1. Choose an economic topic or issue. This might be overseas trade, outsourcing labour, or ethics in financial decision making.
2. Use the concepts and learning associated with this topic, and your own independent research, to **develop** an argument which supports or rejects the use of the concept.
To do this you must **develop** an argument of the positives and negatives associated with the concept.
3. Once you are happy that you can present a well reasoned and balanced argument, **communicate** this verbally to your teacher.

2 The Australian and global economies

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LESSON

2.1 Overview

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

2.1.1 Introduction

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

However, the Australian economic system cannot produce all the goods and services we desire, so Australia is engaged in trading relationships with countries all over the world. In fact, all advanced economies rely on trade as a means of generating economic growth.

This flow of goods and services between countries, and the money flows that accompany this trade, have increased global interdependence between the trading countries' household, business, financial and government sectors. As a result, what happens in one country affects the activities of similar sectors in many other countries. This is because we consider the world to be a 'global economy'. This process of growing interdependence between countries is known as globalisation.

FIGURE 1 Each time you buy something, or sell something, you are participating in our economic system.



economy a system established to determine what to produce, how to produce and to whom production will be distributed
economic system a way of organising the production and distribution of the nation's goods, services and incomes

on Resources



eWorkbook Customisable worksheets for this topic (ewbk-13465)



Video eLesson What is economics? (eles-0253)

LESSON

2.2 How does Australia trade with other economies?

LEARNING INTENTION

By the end of this lesson you should be able to explain how other economies throughout the world play a role in satisfying our needs and wants.

TUNE IN

All countries engage in trade. However, it is the people within each country that undertake trade with people or businesses overseas.

FIGURE 1 Goods that you use each day may have taken quite a journey to reach you.



Conduct an audit of your possessions in the classroom and the class itself (or at home, if appropriate).

1. What items were purchased from overseas? (State the item and the country it came from.)
2. How many items were identified as made in Australia? (Create a list.)
3. Combine all the data collected by your class showing where items are made and how many are from overseas.

2.2.1 Australia's trade history

First Nations Australian cultural groups had been trading with each other for tens of thousands of years before Europeans arrived in the 1700s. Trade was important to First Nations Australians, as it allowed them to gain items they needed that they didn't have in their Country. Trade was also important for social connections between different First Nations Australian communities. Social interactions allowed groups to share stories, gifts and specific cultural knowledge.

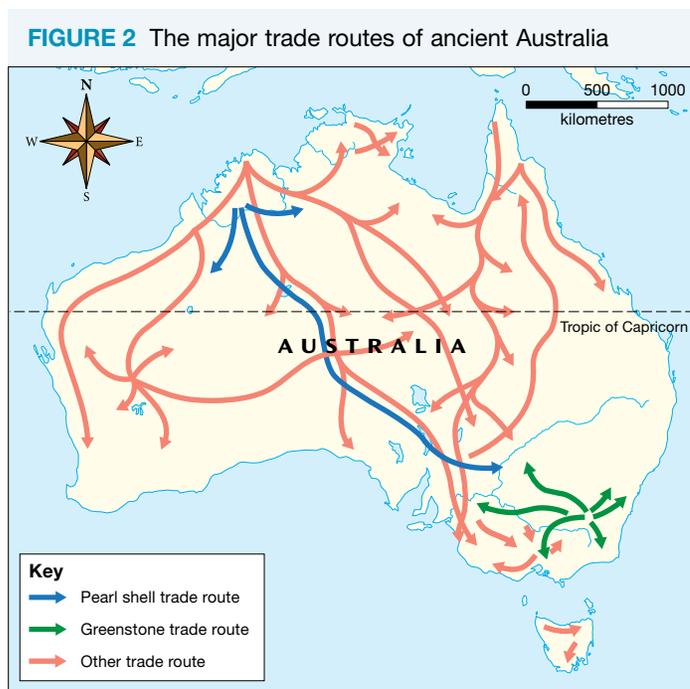
Over time, established trade routes were developed that connected different communities throughout Australia and the waters of the Torres Strait. There were many valuable natural resources traded across the trading

int-9097 routes, including kangaroo skin, pearl shells (for decoration), and raw materials (rock, wood) used to make axes and spears used in hunting.

One particularly important trading item was ochre. This is a mineral used in painting and applied to bark, rock, boomerangs and to the body for ceremonial purposes.

First Nations Australians also traded with fishermen from Indonesia called the Macassans. As early as 1451, trading took place between the Yolngu people from the Northern Territory and the Macassan. This long history of trading contact and trade between the Macassans and the Yolngu is remembered through oral history, songs, dances and rock paintings.

The Macassans sought sea cucumbers, which was valuable to them as a food and a medicine. The right to fish for these was traded by the Yolngu for items such as cloth, tobacco, rice, axes and knives.



Source: Adapted from Museum of Australia, Cited in Barlow, Alex, *Aboriginal Technology*, 1994.

2.2.2 Why do countries trade?

Countries have always engaged in trade. Trade is a means of improving a country's economy and the living standards of consumers.

The main reasons why countries trade are to:

- Access cheaper goods and services from overseas — some countries are able to produce goods and services cheaper than what Australia can and so we trade with those countries so consumers can access these goods and services — something they may not be able to do if they had to pay a higher price.
- Access better quality or innovative products — in a similar manner, some countries are able to develop better quality goods and services or innovative products that Australia is unable to produce. We buy these goods and services to improve our living standards. It is also true that Australia is able to produce high-quality products and innovative products that we sell to the world.
- Sell excess products — in some areas, Australia has an abundance of some resources which we can sell overseas. This creates employment in Australia and generates income for Australian businesses.
- Formalise agreements with other countries — Australia signs trade agreements with other countries as a means of earning revenue for ourselves, creating jobs in Australia, improving the quality and range of goods and services available for consumers and to formalise peaceful relations with other countries.

2.2.3 Trade and the Australian economy

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

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

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

exports goods and services sold by local businesses to overseas consumers

imports goods and services purchased by local consumers from overseas businesses

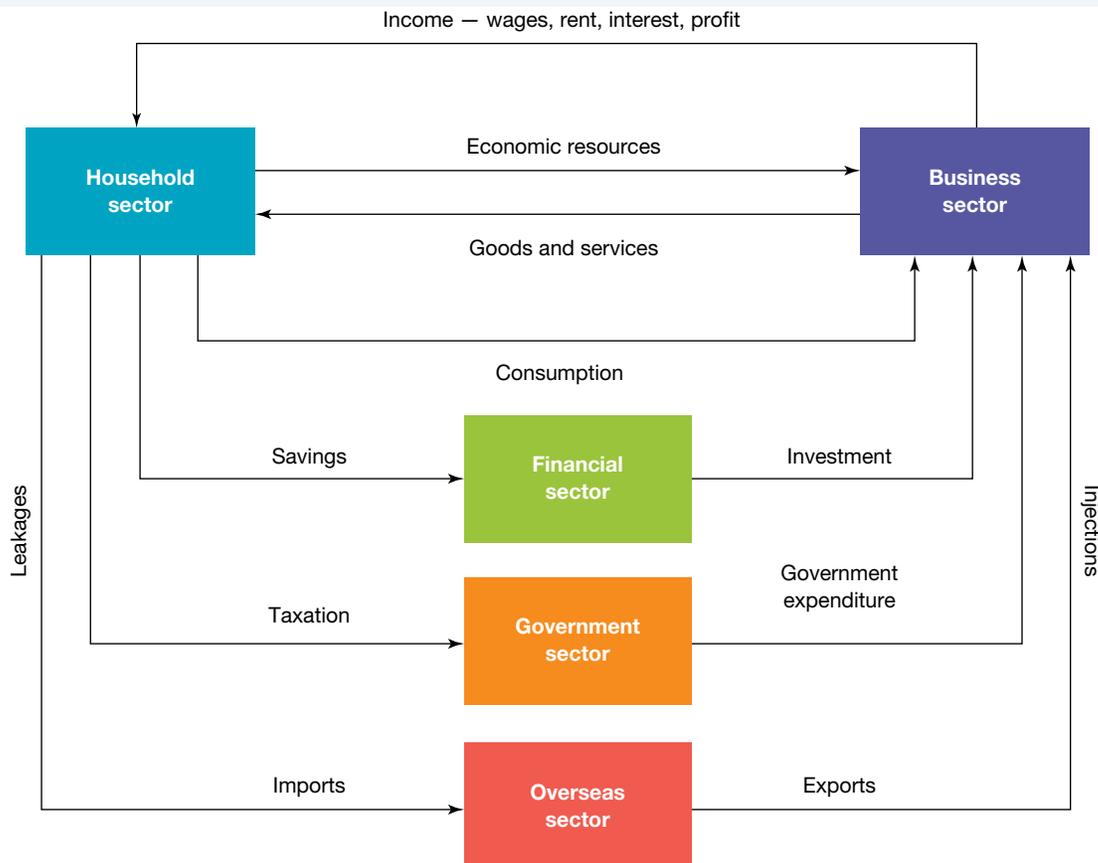
- Some products cannot be made here as efficiently as they can be in other countries. A lot of the highly sophisticated machinery used in factories here is imported. However, such machinery can help local factories remain competitive by producing goods more cheaply.
- Imported goods are sometimes cheaper than locally produced goods, so local producers can find it difficult to compete with imported products. Some local producers may even be forced to close down. Australian clothing and footwear manufacturing has declined since the 1980s as cheaper imports from Asian countries have increased dramatically. While this may not be good for those Australian manufacturers, it is a positive trend for consumers because they have access to cheaper clothing.

FIGURE 3 Australia imports many goods from overseas and exports to many other countries.



By adding overseas trade to the circular flow diagram, we can see how overseas consumers and producers participate in the Australian economy. As shown in **FIGURE 4**, we can see that households spend money buying imports from overseas businesses, while businesses can earn money from exporting goods and services to overseas consumers. Exports are good for the Australian economy because they bring money into our market system, while imports take money out of the country and pay it to overseas businesses.

FIGURE 4 The circular flow of money between households, businesses, financial intermediaries, government, and overseas consumers and businesses in the Australian economy



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

2.2.4 Trade with the Asia region

As a relatively wealthy and advanced economy, Australia is an important trading nation for countries in the Asia region. As illustrated in **TABLES 1** and **2**, in 2019–20 over 82 per cent of Australia’s trade with our top ten trading partners was with Asian countries. Seven of our top ten trading partners were Asian countries, including three of the top five.

Let us examine the importance of China as our largest trading partner. As you can see from **TABLE 1**, the value of our exports to China is A\$167.6 million. This represents 46.3 per cent of our exports to Asia, and is just over 50 per cent more than the value of imports from that country. The largest proportion of our exports to China is made up of iron ore and coal, which China buys to fuel its industrial growth. Japan and South Korea are also large buyers of Australian mineral resources. The value of our exports adds to Australia’s wealth; we are able to use the money we earn from selling our exports to pay for the goods and services that we import from other countries.

TABLE 1 Australia’s trade with our top ten Asian country trading partners in 2019–20

Position	Country	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
1	China	167.6	46.3%	83.4	34.5%	251	41.6%
3	Japan	56.2	15.5%	23	9.5%	79.2	13.1%
4	Republic of Korea	27.6	7.6%	11.2	4.6%	38.8	6.4%
6	Singapore	17	4.7%	14.3	5.9%	31.3	5.2%
8	Malaysia	10.5	2.9%	11.2	4.6%	21.7	3.6%
9	India	18.6	5.1%		0.0%	18.6	3.1%
10	Thailand		0.0%	16.3	6.7%	16.3	2.7%
	Total	297.5	82%	159.4	66%	456.9	76%

Source: Data derived from Trade and Investment at a glance 2021, Australian Government-Department of Foreign Affairs and Trade.

TABLE 2 Australia’s trade with our top ten non-Asian country trading partners in 2019–20

Position	Country	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
2	United States	27.4	7.6%	53.4	22.1%	80.8	13.4%
5	United Kingdom	21	5.8%	15.7	6.5%	36.7	6.1%
7	New Zealand	15.7	4.3%	13	5.4%	28.7	4.8%
	Total	64.1	18%	82.1	34%	146.2	24%

Source: Data derived from Trade and Investment at a glance 2021, Australian Government-Department of Foreign Affairs and Trade.

More than 82 per cent of the value of our exports in 2019–20 was earned from selling to Asian countries. This money was particularly important because most of our non-Asian trade involved much higher levels of imports than exports. When we compare the value of exports with the value of imports, we can calculate

Australia's **balance of trade**. If the value of exports is greater than the value of imports in a particular period of time, we are said to have a *trade surplus* for that period. If the value of imports is greater than the value of exports, we are said to have a *trade deficit*. We can see from **TABLE 3** that in 2019–20 Australia had an overall trade surplus with our ten largest trading partners. When we look at trade with individual countries, we see that we had a trade surplus with some of them and a trade deficit with others.

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

TABLE 3 Australia's trade with our top ten trading partners in 2019–20 (Asia and non-Asian countries)

Position	Country	Exports A\$ million	%	Imports A\$ million	%	Total trade A\$ million	%
2	Trade with Asia	297.5	82.3%	159.4	66.0%	456.9	75.8%
5	Non-Asian trade	64.1	17.7%	82.1	34.0%	146.2	24.2%
	Total	361.6	100%	241.5	100%	603.1	100%

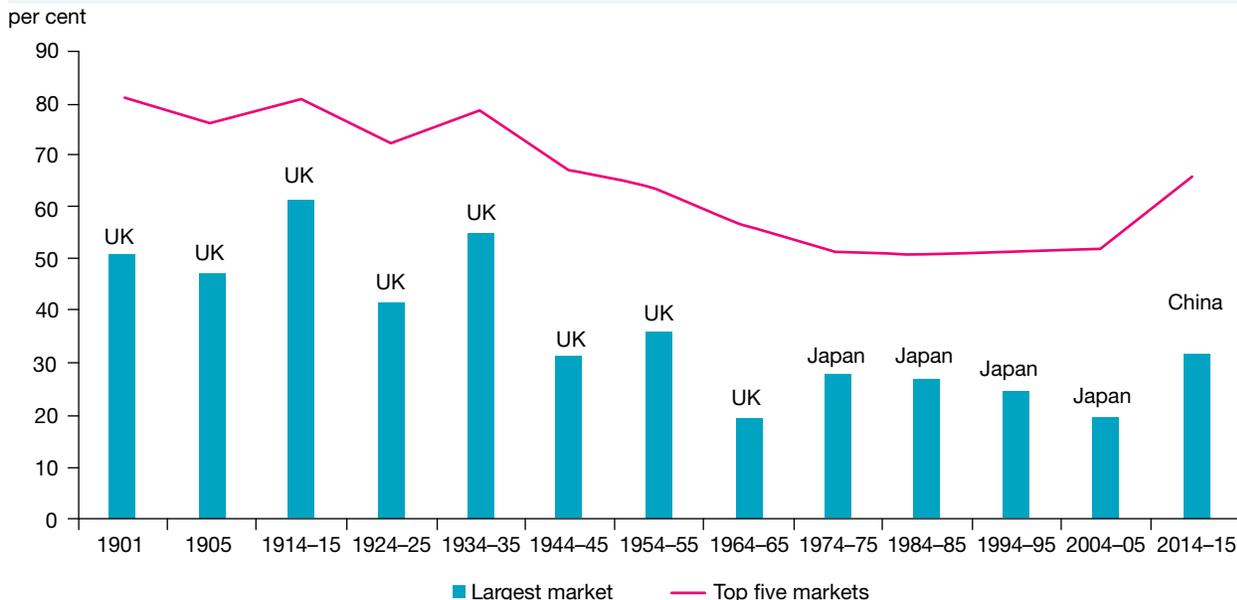
Source: Data derived from Trade and Investment at a glance 2021, Australian Government–Department of Foreign Affairs and Trade.

2.2.5 Trade patterns with the Asia region

Trade between Australia and the countries of Asia has not always been as significant as it currently is. Traditionally, due to our historic and symbolic ties with the United Kingdom, much of our trade has been with the United Kingdom and similar Western nations.

FIGURE 5 shows how trade with Western nations such as the United Kingdom, the United States and New Zealand have lessened in importance compared with trade to China, Korea, Japan and Singapore.

FIGURE 5 Share of top five export markets to total exports, 1901–2015



Source: Data based on Australia's Trade since federation, p.6., 2016. Department of Foreign Affairs and Trade website – <http://www.dfat.gov.au>.

Since 1949–50, trade with China has increased significantly — the value of our exports has increased 16025300% while the value of our imports has increased 4302920%. This is in comparison with our trade with the United Kingdom where the value of our exports has increased 3853% while the value of our imports has increased 2233%.

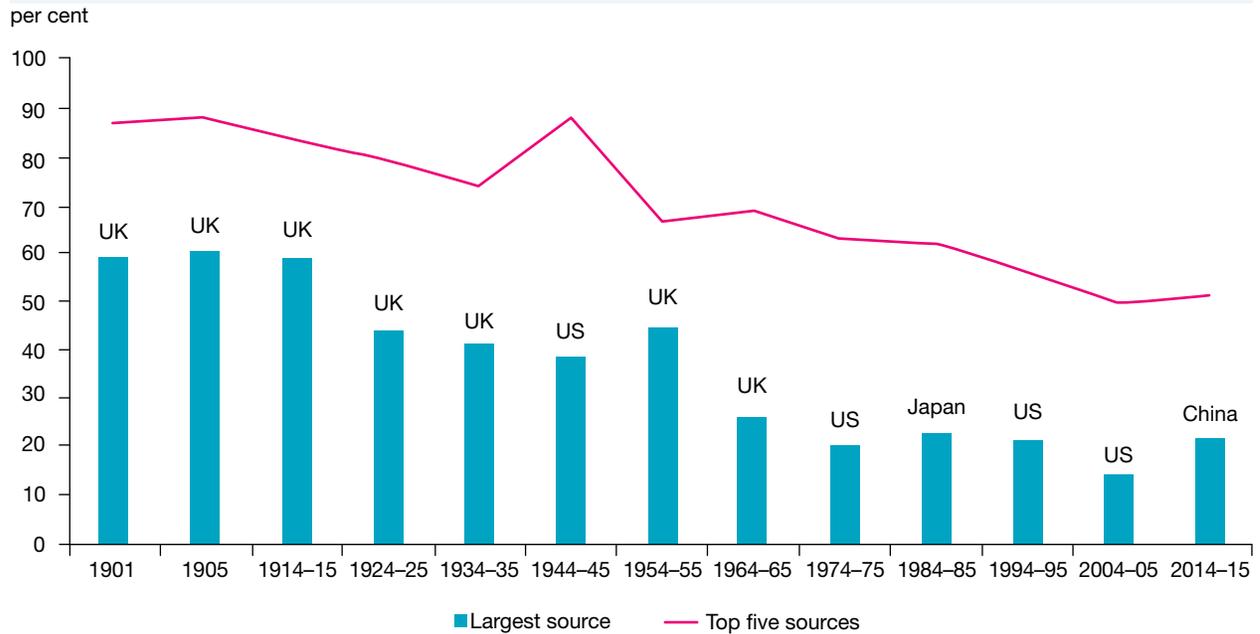
A summary of the changing nature of Australia's trade since Federation is shown in **FIGURE 6**.

In the same manner, the composition of Australia's trade has changed over time. A phrase used since Federation was 'Australia rides on the sheep's back' — a reference to our dependence on wool exports from

1901 through to the 1960s. Since the 1980s, Australia has relied more heavily on our resources — coal and iron ore being the dominant exports.

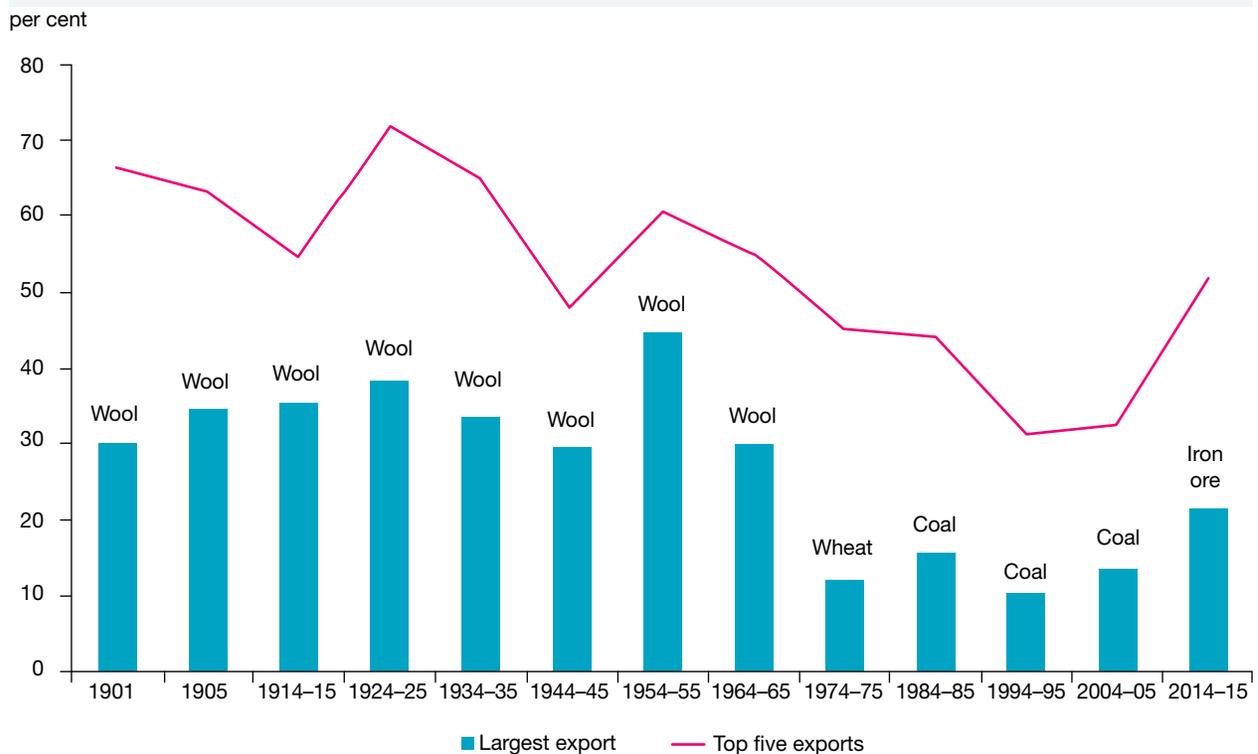
FIGURE 7 shows the trend in exports since Federation and **FIGURE 8** shows the industry share of GDP since Federation.

FIGURE 6 Share of top five import sources to total imports, 1901–2015



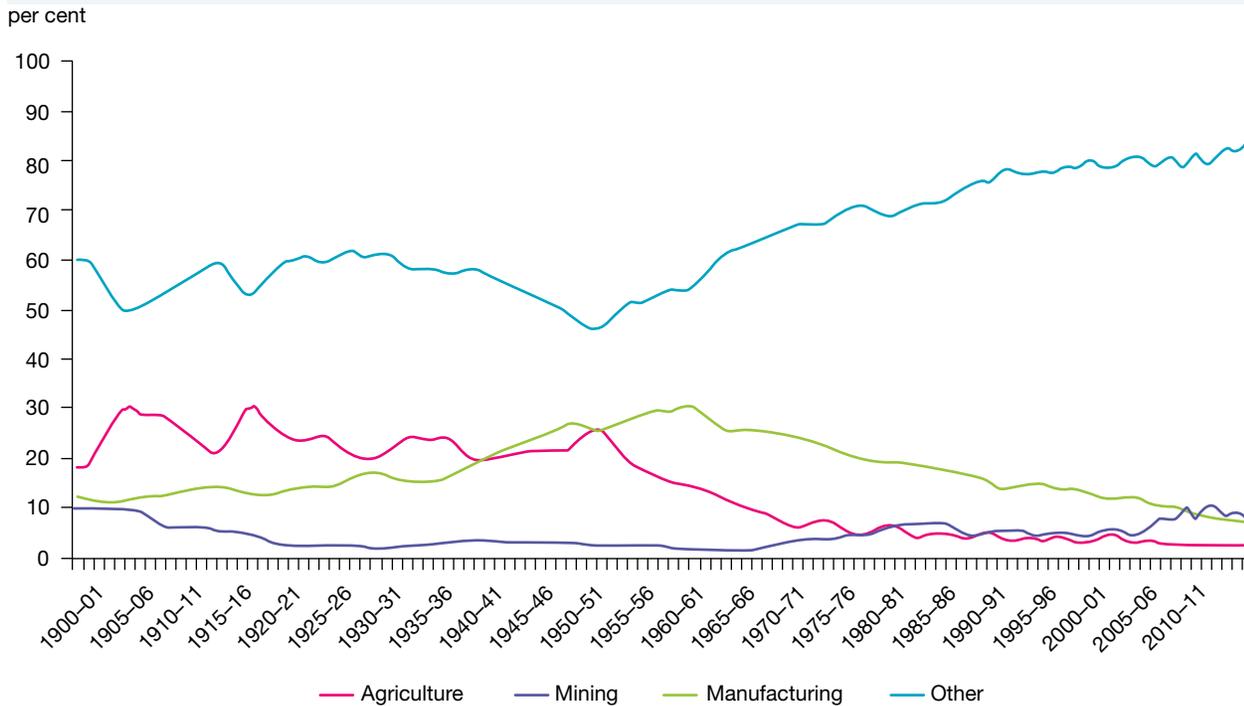
Source: Data based on Australia's Trade since federation, p.6., 2016. Department of Foreign Affairs and Trade website – <http://www.dfat.gov.au>.

FIGURE 7 Share of top five export commodities to total exports, 1901–2015



Source: Data based on Australia's Trade since federation, p.6., 2016. Department of Foreign Affairs and Trade website – <http://www.dfat.gov.au>.

FIGURE 8 Industry share of GDP in Australia, 1901–2015



Source: Data based on Australia's Trade since federation, p.6., 2016. Department of Foreign Affairs and Trade website – <http://www.dfat.gov.au>.

on Resources

 **Weblink** Department of Foreign Affairs and Trade

2.2 SKILL ACTIVITY: Interpreting and analysing

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

- Which goods make up most of Australia's imports from China, Japan and Thailand?
- Which goods make up most of Australia's exports to the United States and New Zealand?
- Which goods make up most of Australia's imports from the United Kingdom and Germany?
- Suggest** one reason why Australia imports the products it does from China.
- Provide** one reason to explain why Australia imports goods and services from the United Kingdom despite the long distance between Australia and the United Kingdom.

2.2 Exercise

Learning pathways

■ LEVEL 1

1, 2, 3, 6, 7

■ LEVEL 2

8, 9

■ LEVEL 3

4, 5, 10

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Check your understanding

- Exports are goods and services which are bought from other countries and imports are those which are sold to other countries. True or false?
- A trade deficit is where the:
 - value of imports exceeds the value of exports.
 - value of exports exceeds the value of imports.
 - value of exports matches the value of imports.
- A trade surplus is where the:
 - value of imports exceeds the value of exports.
 - value of exports exceeds the value of imports.
 - value of exports matches the value of imports.
- Explain** why countries trade.
- Explain** the impact of international trade on the flow of money in the Australian economy.

Apply your understanding

Evaluating, concluding and decision-making

- Identify** one benefit and one disadvantage of exporting goods to other countries.
- Identify** one benefit and one disadvantage of importing goods into Australia from other countries.
- Australia generally has a trade deficit. **Outline** why this occurs.
- Examine TABLES 1, 2 and 3** and answer the following:
 - Why was Australia's trade with China in 2019–20 of greater benefit to our economy than our trade with the United States?
 - With which country did Australia have its greatest trade deficit in 2019–20? **Justify** your answer.
 - With which country did Australia have its greatest trade surplus in 2019–20? **Justify** your answer.
- In 2019–20, Australia had a trade surplus with only four of our top ten trading partners and a trade deficit with the other six. **Explain** whether or not we should regard this as a serious problem.

LESSON

2.3 What goods and services are imported into Australia?

LEARNING INTENTION

By the end of this lesson you should be able to identify what goods and services we import into Australia and from where, and explain why we import these goods and services.

TUNE IN

Australia relies on imports for goods and services we can't produce by ourselves, can't produce at a reasonable price or as part of a trade agreement with other countries.

So, who do we buy from and why?

In small groups, brainstorm a list of products we buy from overseas and why we may buy them. Share your group's thoughts with the class.

FIGURE 1 Australia imports many goods and services from other countries



2.3.1 Imports all around us

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

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

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

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

FIGURE 2 The spending of money by overseas tourists in Australia is an invisible export.



FIGURE 3 Consumers can find imported goods in almost every store.



2.3.2 Where do we import from?

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

As we can see from **TABLE 1**, over 40 per cent of our imports in 2019–20 came from our top ten trading partners in Asia and over 64 per cent of our total imports came from our top ten trading partners.

TABLE 1 Australia's top ten goods and services imports in 2019–20 (\$ billion)

Rank	Sources	Goods	Services	Total	% share
1	China	81	2.4	83.4	21
2	United States	37.4	15.9	53.4	13.4
3	Japan	19.2	3.7	23	5.8
4	Germany	13.7	3	16.7	4.2
5	Thailand	14.6	1.8	16.3	4.1
6	United Kingdom	7	8.8	15.7	4
7	Singapore	9.2	5.1	14.3	3.6
8	New Zealand	7.5	5.5	13	3.3
9	Republic of Korea	10.6	0.6	11.2	2.8
10	Malaysia	10.1	1.1	11.2	2.8
Total top ten sources		210.3	47.8	258.1	64.9
Total imports		310.8	87.1	397.9	100
of which:	APEC	219.9	48.1	267.9	67.3
	ASEAN	47.3	13.8	61.1	15.4
	EU (excl UK)	47	12.9	59.9	15.1
	OECD	140.4	51.6	192.1	48.3

Source: Trade and Investment at a glance 2021, Australian Government-Department of Foreign Affairs and Trade.

2.3.3 What goods and services do we import?

TABLE 2 shows the top twenty imports of goods and services into Australia in 2019–20. Although it only made up 8.4 per cent of total imports by value, the largest single import was the invisible import of Australians travelling and spending money overseas.

While we are used to seeing imported clothing and home electrical goods in our shops, neither of these types of imports were included in the top ten in 2019–20 (excluding computers).

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



2.3.4 Why do we import goods and services?

Australia imports many products, and does so for many reasons. Australian producers may not make a product as efficiently as it is made in another country, or a particular raw material may not be produced in sufficient quantities to satisfy demand. Australia began mining its own reserves of petroleum in the 1960s,

but production peaked in the year 2000 and has been in decline ever since. As a result the importation of both crude and refined petroleum has steadily increased since then, amounting to 8.5 per cent of all imports in 2019–20. Similarly, the importation of passenger motor vehicles and goods vehicles amounted to 8.5 per cent of imports in 2019–20 and, with the closure of Australia’s motor industry in 2017, this percentage is likely to increase.

TABLE 2 Australia’s top 20 goods and services imports in 2019–20 (\$ billion)

Rank	Commodity	\$ million	% share
1	Personal travel (excl education) services	33288	8.4
2	Refined petroleum	21721	5.5
3	Passenger motor vehicles	19093	4.8
4	Telecom equipment & parts	15230	3.8
5	Computers	10398	2.6
6	Freight services	10363	2.6
7	Crude petroleum	9474	2.4
8	Gold	8812	2.2
9	Professional services	8291	2.1
10	Medicaments (incl veterinary)	8124	2
11	Goods vehicles	8075	2
12	Pharmaceuticals products (excl medicaments)	6075	1.5
13	Telecom, computer & information services	5952	1.5
14	Technical & other business services	5792	1.5
15	Passenger transport services	5242	1.3
16	Charges for intellectual property	4914	1.2
17	Furniture, mattresses & cushions	4828	1.2
18	Civil engineering equipment & parts	4453	1.1
19	Plastic articles	4099	1
20	Electrical machinery & parts	3954	1
	Total imports	397905	100

Source: Trade and Investment at a glance 2021, Australian Government-Department of Foreign Affairs and Trade.

FIGURE 5 Motor vehicles and petroleum are among the many imported products sold in Australia.



2.3.5 How do imports affect the economy?

In 2017–18, Australia’s income from goods and services exports was higher than its spending on imports, resulting in a trade surplus. The same was the case in the 2016–17 financial year. However, in many other years, Australia’s spending on imports has been higher than income earned from exports. Bringing imports into the country has both positive and negative effects for consumers and producers. These are outlined in **TABLE 3**.

TABLE 3 Economic effects of imports

Positive effects	Negative effects
<ul style="list-style-type: none">• There is an enormous range of goods and services for consumers to buy.• Australian producers are forced to make goods and services using resources in the most efficient way because they have to compete against cheaper imported products.• Importing goods from other countries encourages those countries to buy our exports.• Australian workers may move overseas and learn other languages and cultures. <p>More trade between countries encourages peaceful relationships and cultural exchanges.</p>	<ul style="list-style-type: none">• Australian jobs may be lost to countries with cheaper labour costs.• Imported resources may lower employment opportunities for Australian workers.• Australian industries find it difficult to compete with the lower production costs of some overseas countries. This leads to a closure of industries and loss of skills.• Money leaves the country to circulate overseas, rather than in Australia, affecting the exchange rate of the Australian dollar.• Harmful animal species as well as diseases, such as COVID-19, may be brought into the country in various ways.

DISCUSS

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

2.3 SKILL ACTIVITY: Evaluating, concluding and decision-making

Until 2017 Australia manufactured motor vehicles in Australia. Both Ford and Holden had factories in Australia.

These factories closed down in 2017 as the costs of producing motor vehicles in Australia was higher than the cost of importing cars. Other industries have suffered a similar fate. These closures could have been prevented if more Australians were willing to buy Australian-made products.

1. **Select** a product that is made in Australia but can also be purchased from overseas — name the product and the country that we could import from; for example, tinned tomatoes. Coles and Woolworths both sell tinned tomatoes made in Australia but also tins imported from overseas.
2. **Create** an advertisement (webpage or poster) to encourage consumers to buy Australian products.
3. **Present** your advertisement to the class and **explain** why you believe it could encourage the purchase of the Australian-made product.
4. **Explain** one reason why the promotion of Australian-made products may cause conflict with our trading partners.

2.3 Exercise

Learning pathways

■ LEVEL 1

1, 2, 6

■ LEVEL 2

3, 4, 7, 8

■ LEVEL 3

5, 9, 10

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Check your understanding

- 1. Define** 'imports'. Imports are goods and _____ produced _____ but sold in _____.
Australia / services / overseas
- 2. Identify** two reasons Australia imports goods and services from overseas.
 - A. To support smaller, local businesses
 - B. A particular product may not be available in the domestic market
 - C. To increase employment opportunities for Australian workers
 - D. Raw materials needed for the production of a particular product may not be in enough supply to fulfill demand
- Which type of goods made up our largest percentage of imports by value in 2019–20?
 - A. Computers
 - B. Crude petroleum
 - C. Personal travel services
 - D. Refined petroleum
- Which countries were our top three sources of imports in 2019–20?
- 5. Identify** the region of the world where the majority of our imports are sourced, and provide a reason for why this is the case.

Apply your understanding

Communicating

- 6. Explain** what is meant by the terms 'invisible imports' and 'invisible exports'.
- 7. Explain** how purchasing imported goods can:
 - a. improve our standard of living
 - b. reduce our standard of living.

Questioning and researching

- 8. Name** five examples of imports that you and your family purchase regularly. **Identify** their countries of origin.
- 9. State** three stores in your local area and list some of the imported products they stock.

Evaluating, concluding and decision-making

- 10.** What type of imports do you think will increase in Australia in years to come? **Justify** your response.

LESSON

2.4 How do global events impact the Australian economy?

LEARNING INTENTION

By the end of this lesson you should be able to provide examples of global events that have affected the Australian economy and explain how events overseas can have an impact on Australia and our economy.

TUNE IN

In 2020 parts of Australia were being ravaged by bushfires. Responding to a request for assistance, both the United States and Canada sent firefighters to Australia to assist in managing the fires.

FIGURE 1 Firefighters from around the world banded together to manage the devastating fires.



1. Consider why the United States and Canada would send firefighters to Australia.
2. Are there any other circumstances you can imagine where one country may send assistance to another country?
3. Discuss this question and your answers as a class.

2.4.1 Positive and negative effects

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

FIGURE 2 International flights have made travel between countries quick and easy, but they come with risks such as the possibility of spreading contagious diseases across the globe.



2.4.2 Our interconnected world

The growth of trade between almost all countries has created greater economic interdependence between those countries. As a result of this interconnectedness, both positive and negative economic events can spread quickly between trading partners. The economic growth of China since the 1980s has had a beneficial effect on many other countries that trade with it. On the other hand, problems with housing loans that began in the United States in 2006 eventually spread to many other countries, creating a global financial crisis.

The growth of the Chinese economy

Since the early 1980s, the Chinese government has pursued a number of policies designed to bring about rapid economic growth. Economic growth is measured by increases in a country's **gross domestic product (GDP)**. As GDP is the total value of all goods and services produced in a country in any given year, the rate by which GDP increases each year is effectively the rate of economic growth of that country. From 1979 until 2010, China's average annual GDP growth was 9.9 per cent. Since 2010, the rate of growth has slowed somewhat, with a rate of 6.3 per cent recorded for 2018. One way in which the Chinese have been able to achieve this level of growth is through a rapid expansion in trade with other countries. As a result of this policy China has become the world's largest trading nation, with a total trade value of US\$4.1 trillion in 2017.

China has set out to increase its manufacturing capacity in order to provide all the goods and services required by its own huge population and also to export to other countries. It has had to import large quantities of raw materials from other countries, including the materials to build hundreds of new factories and the fuel to power them. Countries such as Australia have benefited enormously from this growth in the Chinese economy. As we have seen, China is Australia's largest export customer, buying large quantities of Australian iron ore and coal. For a roughly 10-year period from the mid 2000s, this generated a mining boom in Australia that contributed significantly to our growth in GDP.

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

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

Global financial crisis (GFC)

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

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

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

2.4.3 Natural disasters

A natural disaster can have a serious economic impact on a country. When houses and businesses are destroyed, money and resources are needed to repair and replace them. These resources cannot therefore be used for other purposes. In February 2009 the Black Saturday bushfires in Victoria caused damage to the Victorian economy valued at more than \$5 billion. In January 2011, floods in Queensland damaged many homes and businesses, and also devastated a great deal of valuable farming land. The resulting shortages forced up food prices all over Australia. Rail lines and coal mines were also damaged. Drought throughout much of New South Wales, Queensland and South Australia in 2018 led to farmers needing government assistance to continue on the land. In February 2022, serious flooding in Queensland destroyed farmland and livestock, threatening future food supplies and placing farmers and graziers under significant financial stress.

A 2012 report by the Centre for Australian Weather and Climate research at the Bureau of Meteorology found that the impact of tropical cyclones in the north of Western Australia costs the Australian economy between \$40 and \$100 million per year from direct damage alone. In addition, the economy is indirectly affected by the impact of natural disasters on industry; for example, mining and agricultural operations in the north of the state that are vulnerable to extreme weather events.

FIGURE 3 China produces high-quality electronic products more cheaply than we can in Australia.



FIGURE 4 Many US home owners had to abandon their mortgaged homes when house prices fell dramatically during 2006 and 2007.



recession a period of decline in economic growth when GDP decreases

FIGURE 5 The Queensland floods affected food prices all over Australia, as well as some of our export industries.



Natural disasters in other countries can also affect the Australian economy, particularly if they occur in the Asia region to which we are so closely tied.

The 2011 Japanese earthquake and tsunami

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

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

- The slowdown in the Japanese economy resulted in a reduction in demand for Australian exports such as coal, iron ore and beef. However, the reconstruction effort in Japan eventually led to a rise in demand for steel, so many of these exports subsequently increased.
- Pollution from the Fukushima nuclear power station raised concerns about the safety of the food supply in that area. This led to a rise in imports of food into Japan. As a significant supplier of food to Japan, Australia exported more food to that country in the period after the tsunami.
- The nuclear meltdown also caused Japan to reassess its reliance on nuclear power. As a result, it has been making greater use of coal- and gas-fired power stations. This is likely to result in a higher demand for coal and liquefied natural gas (LNG) from Australia. The 13 million tonnes of LNG exported from Australia to Japan in 2010 rose to 24.8 million tonnes in 2016–17.

FIGURE 6 The destruction caused by the 2011 tsunami had an impact on Japan’s trading partners as well as on its own economy.



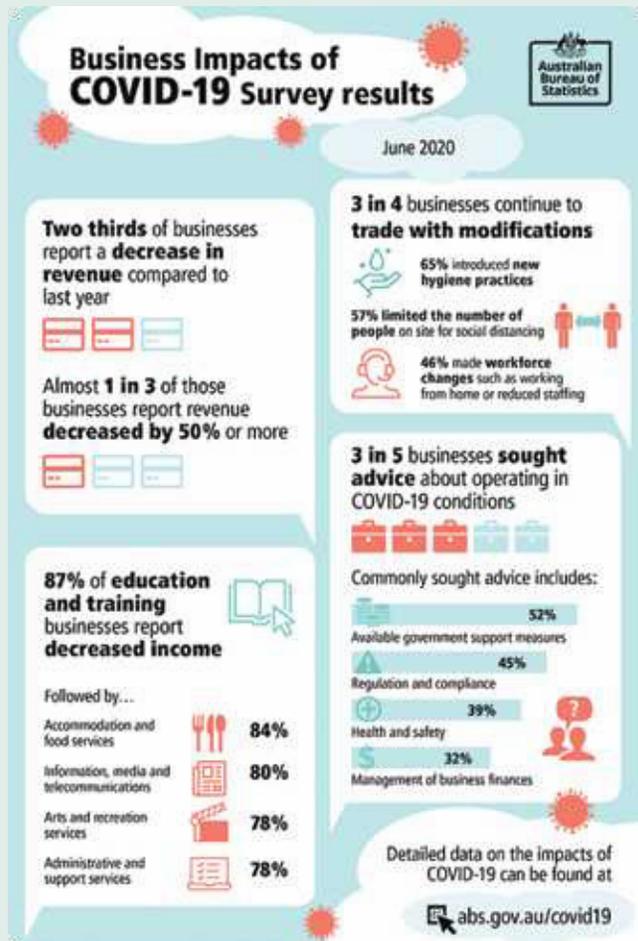
2.4 SKILL ACTIVITY: Communicating

The COVID-19 pandemic of 2020 had an unprecedented impact on global trade in goods and services. The grounding of international airlines and the closing of borders (both international and within Australia) closed tourism businesses. Lockdowns led to significant downturns, and in many cases closing of businesses, in retail, hospitality and various other industries.

1. Use the **ABS: COVID-19 impacts** weblink in your Resources panel to **research** the impacts of the pandemic. Use the reports from the Australia Bureau of Statistics about the impacts of COVID-19 on Australian businesses and the economy to **create** an infographic about how the pandemic affected one specific part of the Australian economy.

Examples could include:

- the impact on a specific industry, such as hospitality or agriculture
- the impact on imports and exports to/from a specific country or region, such as China
- the impact on a specific area in Australia, such as your local area.



Source: © Commonwealth of Australia. Retrieved from Australian Bureau of Statistics, 5676.0.55.003 — Business Indicators, Business Impacts of COVID-19, June 2020.

2.4 Exercise

2.4 Exercise

Learning pathways

■ **LEVEL 1**

1, 2, 3, 4, 6

■ **LEVEL 2**

7, 8, 9

■ **LEVEL 3**

5, 10

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Check your understanding

- A recession is
 - a period of negative economic growth during which GDP decreases.
 - a period of positive economic growth.
 - a period in which GDP increases.
 - a period of time in which a country has a trade surplus.
- Explain** what is meant by 'global financial crisis'.
 - A crisis that affected many countries across the world.
 - The total value of all goods and services produced in a country in a given period of time (usually a year).
 - A period of incline in economic growth when GDP decreases.
 - When houses and businesses are destroyed and money and resources are needed to repair and replace them.
- Determine** whether the following statements are true or false.
 - Greater interconnectedness of countries can't have a positive effect on Australia.
 - The rate of economic growth in China has remained constant since the 1980s.
 - Natural disasters can have a serious economic impact on a country.
- Identify** one way in which the greater interconnectedness of countries can have a detrimental effect.
- Explain** how natural disasters can affect the Australian economy in the following:
 - a positive manner
 - a negative manner.

Apply your understanding

Evaluating, concluding and decision-making

- Describe** two factors that have led to the greater interconnectedness of countries.
- Describe** how Chinese economic growth has benefited the Australian economy.
- Explain** why a fall in house prices in the United States led to the global financial crisis of 2008–09.
- Explain** one effect the Japanese earthquake and tsunami of 2011 had on the Australian economy.
- Northern Queensland has been subject to cyclones over the years. The same area has large numbers of sugar and banana plantations, and coal mines. The area provides sugar and bananas for the Australian domestic market, and refined sugar and coal for export. **Predict** the impact serious cyclone damage in this area would have on the following:
 - The price of bananas in Australian supermarkets
 - Australia's export trade with our Asian neighbours
 - The sugar plantation industry in India
 - The Australian confectionary manufacturing industry

LESSON

2.5 How do global supply chains operate?

LEARNING INTENTION

By the end of this lesson you should be able to explain how global supply chains operate and discuss some of the challenges inherent in their use.

TUNE IN

Businesses all around the world engage suppliers from other countries to assist them in producing their products. For example, materials may be sourced from one country, before being turned into garments in another and then sold in a third country. Analyse **FIGURE 1** to assist you in brainstorming some answers to the following questions.

FIGURE 1 Businesses around the globe are connected through the global supply chain



Source: <https://www.nbcnews.com/id/wbna19421415>.

1. Why do businesses use suppliers from different countries to produce a product?
2. What are the benefits?
3. What are the potential issues?

2.5.1 Land, labour and capital

In the globalised economy, the manufacture of many goods that we purchase is not restricted to one country. All goods are manufactured using a combination of raw materials (known to economists as land), human skill and effort (labour), and factory buildings and equipment (capital). Manufacturing today can have different combinations of these three resources located in many different parts of the world, with the final product sold in a variety of different countries. This situation has been aided by globalisation. Improved technology, communication and transportation networks allow businesses to source materials from anywhere in the world and also manufacture and sell anywhere in the world.

The combination of different resources, businesses and information that moves a product or service from producer to consumer is known as the supply chain, and one of the major concerns of any multinational corporation is supply chain management.

Raw materials have to be sourced from various parts of the world, and these raw materials may then be processed in a number of different countries. The manufacturing steps may occur in several locations before the finished product is available for sale. Supply chain management can be illustrated by examining the production of the mobile phone. The manufacture of a mobile phone is a worldwide process, with countries from every continent involved.

2.5.2 CASE STUDY: Supply chain management – Nokia

Nokia is one of the best known and successful mobile phone brands in the world, but it has not always produced mobile phones. It is a Finnish company that has been in operation since 1865, producing a variety of goods including cables, toilet paper and rubber boots.

In the early 1990s, Nokia reinvented itself and started focusing on technology in the mobile phone industry. With this change in focus the company began operations as a multinational business, operating factories and selling its product worldwide. This transformation did not come without its problems. The popularity of mobile phones and the Nokia brand meant that in 1996 the company did not have the factories capable of producing the number of phones demanded. In response, it began the globalisation of the Nokia operation, with a particular emphasis on updating its supply chain management.

Raw materials

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

FIGURE 2 The popularity of Nokia phones prompted the company to globalise its operations.



Production of components

Nokia originally made its mobile phones in Finland but because it was unable to meet demand, opened factories in other locations around the world. For many years, Nokia in Finland made a number of phone components itself and purchased other components from around a hundred different specialist manufacturers, as well as a large number of software suppliers. Electronic circuits, liquid crystal displays, cases and batteries were all then shipped from different parts of the world to be assembled into mobile phones.

Assembly

From 2011, with the increasingly competitive nature of the smartphone market, Nokia was forced to further restructure its operations. In 2012 it closed its last factory in Finland, and its phones were then produced (in some cases under licence by other manufacturers) in a number of factories throughout Asia, Europe, and North and South America (see **FIGURE 4**).

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

FIGURE 3 Many of the minerals used in mobile phones are mined in Africa.



FIGURE 4 Nokia handset factories



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

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

2.5.3 CASE STUDY: COVID-19 disruptions to global supply chains

aud-0552

The COVID-19 shock to supply chains

By Professor William Ho

The coronavirus pandemic is only the latest shock to supply chains — but COVID-19 is a wake-up call to businesses in terms of the cost of being under-prepared.

The Australian supermarket chain, Woolworths, has announced that it's closing all of its supermarkets nationwide early for one night, so it can restock stores in an effort to manage panic buying in the face of [the] COVID-19 pandemic.

But it's not just here in Australia. Community fears over COVID-19 has led to consumers around the world panic-buying goods.

And it highlights the risk this pandemic is posing to supply chains.

In Australia, shoppers have stripped supermarkets of toilet paper, hand sanitiser and dried goods like rice and pasta. Some have even come to blows in the aisles.

Distributors like the toilet roll subscription service Who Gives A Crap? have been unable to fulfil its orders, and the supermarket chains have put in place limits on the number of purchases.

However, with most toilet paper made in Australia, manufacturers assure they can rapidly increase production to manage the surge in demand.

But this panic-buying provides us with a prime example of something called a 'demand risk' to supply chains — or a sudden surge in demand that catches manufacturers and retailers by surprise.

This can also affect other sectors on the frontline of the pandemic including the health system, tourism and hospitality, and universities.

The economic fallout of this pandemic is already telling us that businesses were ill-prepared for supply chain risks on this scale. But my research suggests most businesses can do much more to prepare.

Supply chain shock

COVID-19 is only the latest shock to supply chains.

In 2010, for instance, the eruption of Eyjafjallajökull in Iceland cost airlines \$A1.7 billion as flights were grounded due to ash.

FIGURE 5 Panic buying during COVID-19 again exposed supply chain risks



The following year, the earthquake, tsunami and nuclear disaster in Japan caused car maker Toyota to cut production by 40,000 vehicles, costing the company \$US72 million each day.

Nor is COVID-19 the first disease to threaten supply chains. The 2009 H1N1 flu pandemic reduced GDPs around the world by between 0.5 and 1.5 per cent.

But COVID-19's impact on supply chains is making itself felt in a range of industries.

Apple has suffered component shortages for iPhones because of [a] temporary manufacturing plant closure in China.

Car maker, Hyundai Motors has closed seven factories in South Korea, which makes up approximately 40 per cent of global output, because of supply shortages from its China-based suppliers.

According to Channel News Asia, Airbus has shut its Tianjin factory for assembling both A320 and A330 aircrafts.

While, consumer goods company Procter & Gamble has also faced challenges as a result of its 387 suppliers across China.

Many types of risk

When most business leaders think about risks to their supply chains they focus quite narrowly on risks to supply, like raw goods or products.

But businesses need to think much more broadly than this. In our 2015 research, we identified seven different types of supply chain risk.

These include:

- Macro risks: including things like natural disasters, disease, war and major economic downturns
- Demand risks: these are sudden surges in demand, forecasting errors and misinformation
- Manufacturing risks: including strikes, accidents and poor working conditions
- Supply risks: like having only one supplier or a small supply base, supplier disruption and supplier bankruptcy
- Information risks: IT system breakdowns, information delays and lack of transparency
- Transportation risks: including disruptions to transport as a result of strikes, accidents or government controls
- Financial risks: fluctuations in exchange rates, wages and currency.

Interestingly, almost all of these risk categories are in action during the COVID-19 pandemic, but importantly, all of them can be identified and mitigated.

Doing better

The global economy has been caught by surprise by COVID-19 because, bluntly, business leaders were unwilling to invest in preparation.

There is a saying, 'chance favours the prepared', and that is what we are seeing in the COVID-19 pandemic.

Countries that were prepared to manage the virus early have managed to slow its spread — like Taiwan, Hong Kong, and Singapore — while others, like Italy and the US, are now facing major health and economic impacts.

And there are businesses that were well-prepared for the shock of COVID-19.

Printer and ink company HP has its manufacturing distributed across several different countries, including the US and Singapore. As more of us work from home in an effort to isolate ourselves, HP CEO Enrique Lorres says the company even stands to benefit from increasing demand.

Companies can better prepare for future supply chain risks by investing in capability, big data analytics and technology, like the Internet-of-Things.

In the end, the only way to mitigate the risk posed by COVID-19 is to slow down and halt the pandemic — both through containment and developing a vaccine.

While it's impossible to predict the ultimate cost of the pandemic, business should take COVID-19 as an opportunity to learn the costs of under-preparation.

Perhaps next time there's a shocking event like this, more businesses will be prepared and the damage to supply chains will be much less.

Source: © University of Melbourne. William Ho. 'The COVID-19 shock to supply chains', retrieved from <https://pursuit.unimelb.edu.au/articles/the-covid-19-shock-to-supply-chains> [online resource]. Reproduced by permission under Creative Commons Attribution-No Derivatives 3.0 Australia (CC BY-ND 3.0 AU) <https://creativecommons.org/licenses/by-nd/3.0/au>.

2.5.4 Responsibility and sustainability issues in supply chain management

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

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

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

2.5.5 Costs and benefits of globalisation and the supply chain

Businesses that take advantage of these global supply chains are often able to benefit financially. Sourcing inputs from overseas or hiring overseas businesses to manufacture their products overseas can result in a lower cost of production. This can lead to greater profits for businesses. It can also improve the quality of the good or service as the business may access better quality inputs or take advantage of the most advanced technology to produce the good or service.

In some cases employees may also benefit as they may find employment as a result of overseas businesses sourcing Australian supplies or overseas workers gaining employment from Australian businesses sourcing inputs from their country. However, the ability to access cheaper labour and other inputs can create

FIGURE 6 Sandy Creek Organic Farm in Australia is a certified organic farm focusing on sustainability and preserving resources.



unemployment in Australia as inputs may be cheaper overseas. It is also possible that cheaper labour overseas may see businesses exploit workers overseas through hiring them under local conditions which may not meet Australian wage and safety standards.

However, consumers are often the main winners from globalisation as the prices of goods and services are generally lower when businesses take advantage of cheaper inputs and labour and manufacturing around the world.

on Resources

 **Weblink** Supply chain

2.5 SKILL ACTIVITY: Interpreting and analysing

Investigate another multinational corporation that operates throughout the world. For example, you could **research** Nestlé or Ford, or use the internet to find examples of others.

1. **State** the home country of the selected multinational corporation.
2. **Identify** the key elements of the supply chain of the selected multinational corporation.
3. Present your information in the form of a flowchart or map.
4. **Justify** through a written statement why your selected multinational corporation may choose to operate such an international supply chain.

2.5 Exercise

learn on

2.5 Exercise

Learning pathways

■ LEVEL 1

1, 2, 3, 4

■ LEVEL 2

5, 7, 8

■ LEVEL 3

9, 10

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Check your understanding

1. What is a supply chain?
 - A. The land, labour, capital and enterprise used to produce goods and services.
 - B. A market for trading shares in listed companies.
 - C. The sequence of processes involved in the manufacture and distribution of a product.
 - D. A type of free trade agreement.
2. What is one benefit to a business of operating as a multinational company?
 - A. Access to fewer customers as they sell in fewer countries.
 - B. Access to more customers as they sell in more countries.
 - C. Access to fewer customers as they sell in more countries.
 - D. Access to more customers as they sell in fewer countries.
3. Cobalt and tantalum, copper wiring and plastics are used in the production of mobile phones. **Identify** the countries where each of these materials are sourced.
 - a. Middle East
 - b. Australia
 - c. Central Africa
 - d. Brazil
4. **Identify** the three elements in the production of goods.
5. **Explain** why Nokia had to globalise its phone manufacturing business.

Apply your understanding

Communicating

6. **Explain** what is meant by 'sustainability'.
7. Multinational companies are often accused of not acting in a socially responsible manner. **Explain** social responsibility and **analyse** this statement.
8. Corporate social responsibility is an issue that many consumers consider when purchasing goods and services. **Describe** how consumers may apply their views on social responsibility to their purchases.
9. **Describe** how businesses should respond to consumer concerns over social responsibility and the global supply chain.

Interpreting and analysing

10. **Analyse** how a developing country may welcome multinational businesses.

LESSON

2.6 What are transnational corporations?

LEARNING INTENTION

By the end of this lesson you should be able to describe the growth and development of transnational corporations and explain the benefits and challenges associated with these entities.

TUNE IN

Car manufacturers are well-known for having manufacturing plants or factories around the world — indeed, until 2017 Ford had two such factories in Victoria, one in Geelong and one in Broadmeadows.

FIGURE 1 The location of Fiat car manufacturing plants around the world



1. Why do you think Fiat would operate such factories?
2. What is the benefit of having multiple factories in multiple locations?

2.6.1 What is the difference between an MNC and a TNC?

A **multinational corporation (MNC)** is a business that produces and sells its products in a number of countries throughout the world. MNCs have their headquarters in one country and they establish subsidiaries in other countries. The subsidiaries are located in countries that provide the resources and conditions necessary for them to operate. MNCs have many features in common with transnational corporations, or TNCs. Both are large companies that operate in many different countries; however, TNCs have a less centralised management and operational structure, managing their branches from the countries they operate within, rather than from one main location in their home country. MNCs represent the highest level of involvement in global business, where national borders do not represent barriers to trade. MNCs conduct a large percentage of their business outside of their home country.

FIGURE 2 Video screen billboards in London advertising MNCs



multinational corporation (MNC) a large business organisation that has a home base in one country and operates partially or wholly owned businesses in other countries

2.6.2 Worldwide assets and sales

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

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

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

FIGURE 3 A Toyota dealership in Lithuania



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

Company	Home country	Overseas sales as a percentage of total sales
Nestlé	Switzerland	97.8
Vodafone	Britain	88.3
Siemens	Germany	85.3
British Petroleum (BP)	Britain	79.8
Volkswagen	Germany	78.3
Honda	Japan	77.7
Total (oil)	France	76.9
Exxon Mobil	USA	73.0
GDF Suez (electricity)	France	65.6
Toyota	Japan	60.8

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

2.6.3 The biggest and richest

Some of the largest MNCs have annual revenues that exceed the GDP of many countries. In 2021, a number of companies reported revenue figures in excess of \$250 000 million. US retail giant Walmart earned over \$500 000 million exceeding the \$485 900 million it earned in 2018 when it was ranked as the 24th in terms of GDP if it were a country. The top ten MNCs by revenue for 2021 are shown in **TABLE 2**.

TABLE 2 Top ten multinational corporations by revenue, 2021

	Company	Home country	Activity	Revenue (US\$ million)
1	Walmart	USA	Retail	523 964
2	Sinopec Group	China	Oil & gas	407 009
3	State Grid	China	Electricity supply	383 906
4	China National Petroleum	China	Oil	379 130
5	Volkswagen	Germany	Car manufacturing	282 760
6	Amazon	USA	Retail	280 522
7	Toyota	Japan	Car manufacturing	275 288
8	Apple	USA	ICT	260 174
9	CVS Health	USA	Healthcare	256 776
10	United Health Group	USA	Healthcare	242 155

Source: Based on data from List of largest companies by revenue - Fortune Global 500 2022 rankings, Wikipedia, https://en.wikipedia.org/wiki/List_of_largest_companies_by_revenue#cite_note-W-1.

2.6.4 Some positives and negatives of MNCs

In 2016, 69 corporations were on the list of the top 100 **economic entities** of the world. If the wealthiest MNCs have revenue greater than many small to medium countries, they have enormous power. If an MNC acts in the best interests of the people of those countries in which it operates, those people can benefit enormously.

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

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

FIGURE 4 This railway line in the Pilbara in Western Australia is an example of a transport link built by a multinational mining company.



FIGURE 5 This young boy working in a textile factory in India is making clothes to supply a multinational clothing company.



On the other hand, if the multinational company does not act ethically, there may be very little that the government of a host country can do, simply because of the financial power wielded by the large company. Some MNCs have exploited host countries and their people. Examples include:

- Multinational corporations often set up production in countries that have high levels of poverty and low wages. They often employ young children, pay workers the minimum amount possible, and provide very little in the way of safe working conditions or employee benefits such as meal breaks, sick pay, holiday pay or superannuation.
- Profits are often returned to the home country rather than being used to benefit the economy of the host country.
- Many multinational will bring their own managerial and skilled staff with them, leaving only menial work for the local population.
- Many multinational corporations have a poor record in environmental matters. They often exploit the laxity of environmental regulations in the host country to pollute the air and waterways there.
- Multinational companies often use complex systems of **transfer pricing** to avoid paying tax on profits earned in the host country. This means that the government of the host country does not gain much additional revenue from the operations of the MNC.

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

2.6.5 Regulating the activities of MNCs

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

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

2.6. SKILL ACTIVITY: Evaluating, concluding and decision-making

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

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

2.6 Exercise

2.6 Exercise

Learning pathways

■ **LEVEL 1**
1, 2, 3, 6

■ **LEVEL 2**
4, 8, 9

■ **LEVEL 3**
5, 7, 10

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Check your understanding

- Companies that operate across several different countries are referred to as _____ corporations.
- What is an economic entity?
 - An individual person who is engaged in economic activity.
 - A business that is engaged in economic activity.
 - A country that is engaged in economic activity.
 - Any person or organisation engaged in economic activity.
- Energy production (electricity, oil and gas) represents the largest sector of business activity of transnational corporations. True or false?
- Which MNC is the most internationalised in the world, and what percentage of its sales occur outside its home country?
- What is 'transfer pricing' and what is the impact of its use by some MNCs?

Apply your understanding

Evaluating, concluding and decision-making

- Explain** three possible advantages and three possible disadvantages for a host country of having a multinational corporation set up a factory or other operation in its territory.
- What do you think might happen if the government of a relatively poor country decided to change the laws to collect more tax from MNCs operating within its borders? **Suggest** two possible effects.

Interpreting and analysing

- Explain** why the United Nations might have thought it necessary to draw up a code to govern MNC behaviour.
- What short-term and long-term benefits do you think could result for an MNC that always behaved ethically and respected human rights? **Outline** at least two of each.
- A difficulty with MNCs is policing their activities when they breach local laws. **Analyse** why this may be a problem for some countries, and suggest a possible solution.

LESSON

2.7 How does globalisation impact the international economy?

LEARNING INTENTION

By the end of this lesson you should be able to define and give examples of globalisation and explain how it affects the Australian economy.

TUNE IN

In 2013 a clothing factory in Bangladesh collapsed killing 1134 people. The factory owners were informed that the building was structurally unsafe but they ordered employees back to work the day after the warning was issued. The building collapsed the next day.

Globalisation allows businesses to operate on a global scale. What responsibilities come with global operations?

FIGURE 1 The Rana Plaza after it collapsed.



2.7.1 The economic issues of globalisation

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

2.7.2 Effects of globalisation

Positive effects of globalisation

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

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

FIGURE 2 Greater choice and variety of goods and services are flow-on benefits of globalisation for consumers.



Negative effects of globalisation

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

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

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

FIGURE 3 A downside of globalisation is the deplorable working conditions faced by many workers in poorer countries.



What does globalisation mean for Australia?

Globalisation has affected our country in many ways:

- Many Australian companies now operate internationally, increasing their profits by selling their goods and services worldwide. Some have established their production centres in regions such as Asia to reduce labour costs.
- Globalisation has forced Australian farmers to compete at a global level to sell products such as wheat and wool. Previously they could rely on selling their crops and stock to established trading partners.
- Overseas investment by Australian companies helps to create employment and wealth in those overseas countries. Similarly, investment in Australia by overseas companies may create growth and employment opportunities that improve our standard of living.
- Importing a huge variety of goods and services allows consumers greater choice, usually at cheaper prices. Overseas-made products in almost every Australian home include electrical goods, food items, clothing and footwear, numerous television programs and even the family car.

DISCUSS

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

FIGURE 4 Globalisation in the form of shipping goods to or from other countries has advantages for Australian businesses and consumers.



2.7.3 Who oversees the global market?

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

- the *World Trade Organization (WTO)*. Established in 1995, the WTO administers the rules of international trade. It is an influential organisation that has the power to rule on international trade disputes.
- the *International Monetary Fund (IMF)*. Established after World War II, the IMF's main function is to provide an orderly way of financially assisting developing countries.
- the *Organisation for Economic Co-operation and Development (OECD)*. The OECD develops economic and social policy for its members. Its 36 member countries include Australia, Japan, Korea, New Zealand and countries in Europe and North America.

FIGURE 5 Clear-felling forests helps to meet rising demands for timber. It also reduces the availability of tree hollows in old-growth forest needed by some Australian species as their habitat.



2.7.4 Is globalisation environmentally sustainable?

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

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

2.7.5 How does the internet benefit globalisation?

The internet allows huge amounts of information to be accessed or shared very quickly, facilitating the exchange of information and ideas between individuals, businesses and governments around the world.

As e-commerce (commercial transactions such as advertising, buying and selling on the internet) increases, isolated groups such as rural exporters will be able to operate more competitively. This will provide growth opportunities for many country towns and out-of-the-way remote businesses that might otherwise have difficulty in reaching a large market.

FIGURE 6 Greater access to the internet enables even small or isolated businesses to compete efficiently in a globalised market.



2.7 SKILL ACTIVITY: Interpreting and analysing

In 1985 the world was shocked by images from Ethiopia of the impact of a prolonged drought in that country. A global music concert was organised, known as Live Aid, which saw around 40 per cent of the world's population tune into television coverage of concerts occurring in over ten different countries.

The event raised \$50 million and further fundraising saw the amount exceed \$150 million eventually. It was the first time an event was held on such a global scale for a global issue.

Globalisation has allowed worldwide events to occur and to be seen around the world — the Olympics, the World Cup, the falling of the Berlin Wall, the release of Nelson Mandela and the destruction of the World Trade Center in New York.

Globalisation allows people to interact with others on a global scale. It also means that decisions by consumers, producers and governments in one country may impact the decisions of consumers, producers and governments in other countries.

FIGURE 7 Live Aid at Wembley Stadium, London, 1985



1. **Identify** a current or recent global event that may require or did require a global solution.
2. **Summarise** some background to this global event — causes, when it started, when it ended (if appropriate).
3. **Explain** how this event impacted the decisions of consumers, businesses and the government in Australia.
4. **Identify** and **explain** one specific impact that resulted from this global event.
5. **Explain** how this event impacted the consumers, producers and government of one other nation.
6. **Present** your findings to the class in a PowerPoint presentation.

on Resources

-  **Weblinks** Globalisation
What is globalisation?

2.7 Exercise

Learning pathways

■ LEVEL 1

1, 2, 3, 7

■ LEVEL 2

4, 6

■ LEVEL 3

5, 8, 9, 10

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Check your understanding

- Define** 'globalisation'.
 - The growing dependence of countries
 - A period of decline in economic growth when GDP decreases
 - The process of growing interdependence between countries
 - All of the above
- Identify** two negative impacts of globalisation on the Australian economy.
 - It allows for access to better-quality goods and services.
 - It can cost jobs in Australia.
 - It can allow multinational companies to dominate markets, leading to increased prices.
 - It allows for access to more goods and services.
- Select** three advantages of globalisation.
 - It leads to free trade agreements between countries.
 - It leads to economic growth.
 - It increases competition between companies.
 - It decreases economic growth.
- Identify** one international organisation that oversees global markets and outline its main function.
- Identify** and **explain** two positive impacts of globalisation on the Australian economy.

Apply your understanding

Evaluating, concluding and decision-making

- Explain** in what ways globalisation has placed additional pressures on the environment.

Questioning and researching

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

Interpreting and analysing

- 'Many countries are being too heavily influenced by external culture and language, particularly US culture, and are losing unique elements of their traditional culture.' Think of the number of products we buy that have originated in the United States, including fast food, films, music and television programs that are now available worldwide. Do you agree or disagree with the view that globalisation risks damaging local cultures in smaller countries? **Justify** your answer.
- 'Not only is our economy better off through globalisation but culturally we have improved as well.' **Comment** on this statement.
- 'Globalisation builds relationships.' **Explain** what this means and **elaborate** on how this can benefit the world.

LESSON

2.8 INQUIRY: How would you do it?

LEARNING INTENTION

By the end of this lesson you should have a comprehensive understanding of the role of the government in negotiating free trade agreements and the potential impacts that free trade agreements can have.

Background

In this inquiry, you will investigate the role of the government in negotiating free trade agreements and the reasons why these agreements are created.

As part of the global economy, Australia has negotiated a number of free trade agreements (FTAs) with other countries or groups.

Free trade agreements allow countries to trade with each other without taxes or subsidies impacting prices — the trade is free from government interference.

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.

Discuss the following:

- Free trade agreements are beneficial for consumers and businesses in all aspects of economic life.
- There are no negatives for the economy of free trade agreements.

Inquiry steps

Step 1: Questioning and researching

In this inquiry, you will **investigate** why agreements are created and the role of the government in negotiating free trade agreements.

Use the **DFAT Trade agreements** weblink in your Resources panel and **conduct research** into one such FTA.

Your task is to **investigate** one such FTA. In conducting your investigation you must:

- **Identify** the signatories to the FTA.
- **Identify** when it came into effect.
- **State** the products or industries that are affected.
- **Describe** the impact this FTA may have on industries in Australia.

Step 2: Interpreting and analysing

Interpret and **analyse** any negative commentary in Australia surrounding the negotiation of the FTA.

FIGURE 1 Prime Minister Scott Morrison and UK Prime Minister Boris Johnson meet to discuss trade agreements.



Step 3: Evaluating, concluding and decision-making

Discuss the benefits that an FTA brings to our economy.

Step 4: Communicating

Communicate your findings to the class through an appropriate presentation.

Complete your self-assessment using the **Inquiry rubric** document or access the 2.8 exercise set to complete it online.

FIGURE 2 Free trade agreements are intended to be beneficial for both consumers and businesses.



on Resources

 **Digital document** Inquiry rubric (doc-39805)

 **Weblink** DFAT Trade agreements

LESSON

2.9 Review

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2.9.1 Key knowledge summary

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

2.2 How does Australia trade with other economies?

- First Nations Australians have been conducting trade for thousands of years, developing sophisticated trade routes.
- Countries engage in trade to improve the living standards of consumers.
- Australia is a trading nation — it exports goods and services to other countries, and Australian businesses and consumers import goods and services from overseas.
- The balance of trade is the difference between the value of a country's exports and its imports over a specific period.
- Australia's largest trading partner is China, with other Asian countries making up four of our five top trading partners.
- Trade and other connections between countries mean that events in one part of the world can affect economies in other countries.

2.3 What goods and services are imported into Australia?

- Increased trade between nations has helped to fuel economic growth and assist poorer countries to achieve higher standards of living.
- Australia relies heavily on imported goods brought in from countries all around the world.
- Over 50 per cent of our imports in the 2017–18 financial year came from six of our ten largest trading partners, while our top 15 sources of imports accounted for almost 80 per cent of the total value of all imported goods.
- Australia imports goods and services because our local producers may not make a product as efficiently as it is made in another country, or a particular raw material may not be produced in sufficient quantities to satisfy demand.

2.4 How do global events impact the Australian economy?

- International trade has contributed to economic growth and the generation of wealth in all nations that engage in the import and export of goods and services. There are also negative effects of increased global connectedness, such as the rapid international spread of infectious diseases and the rise of internet fraud and identity theft.
- As a result of global interconnectedness, both positive and negative economic events can spread quickly between trading partners.
- The growth in the Chinese economy has had a significant impact on the global economy, with countries such as Australia benefiting from increased trade with China.
- The mortgage finance collapse that started in the US in 2006–07 soon spread throughout the world, becoming known as the global financial crisis of 2008–09.
- Natural disasters can have serious impacts on countries' economies, with funds needing to be allocated to relief and rebuilding therefore being unavailable to be used in other ways. International trade may also be impacted by these events.

2.5 How do global supply chains operate?

- In globalised manufacturing industries, raw materials, components and machinery can come from a variety of sources from all over the world, making supply chain management a major task for multinational corporations.
- Globalisation supports global supply chains through improved communication and transportation networks.
- Mobile phone manufacturer Nokia is an example of a company that had to set up factories all over the world to satisfy demand for its products.
- The global supply chain can improve living standards through improved quality of products, reduced prices for products and greater employment.
- Environmental sustainability and the ethical treatment of workers in poorer countries are issues that must be considered in the supply chain management of all multinational corporations.

2.6 What are transnational corporations?

- Multinational corporations are large business organisations that have their home base in one country and operate partially owned or wholly owned businesses in other countries.
- Many of the most globalised MNCs conduct more than 70 per cent of their business outside their home country.
- Some of the largest multinational corporations have annual revenue that is larger than the GDP of many countries. This can give them greater power and influence than these countries, and lead to exploitation of these countries and their people.
- Multinational corporations can bring many benefits to countries in which they operate, such as employment and new technology.
- Some MNCs have been found to be acting unethically by not paying enough tax in countries in which they operate, by paying low wages and by not providing safe and healthy working conditions.

2.7 How does globalisation impact the international economy?

- Globalisation provides the means for increased interaction between consumers, producers, workers and governments in one economy with their counterparts in other economies.
- Globalisation has also led to the growth of large multinational corporations, many of which have used their power to exploit workers in poorer countries.
- Australia has benefited from globalisation because of the overseas demand for our mineral resources and the access to cheaper imported products for consumers. On the downside, cheaper imports have led to the closure of many of our own manufacturing industries.
- Globalisation has created a great deal of environmental damage throughout the world, leading to the international community becoming more aware of the need for sustainability and environmental protection.

2.8 INQUIRY: How would you do it?

- What is a trade agreement?
- Why do countries enter into trade agreements?
- What is the role of the government in relation to trade agreements?
- What are the potential impacts of trade agreements?

2.9.2 Key terms

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

economy a system established to determine what to produce, how to produce and to whom production will be distributed

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

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

exports goods and services sold by local businesses to overseas consumers

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

imports goods and services purchased by local consumers from overseas businesses

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

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

multinational corporation (MNC) a large business organisation that has a home base in one country and operates partially or wholly owned businesses in other countries

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

recession a period of decline in economic growth when GDP decreases

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

2.9.3 Reflection

Revisit the inquiry question posed in the Overview:

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

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

on Resources

 **eWorkbook** Customisable worksheets for this topic (ewbk-13465)
Reflection (ewbk-10681)
Crossword (ewbk-10682)

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

2.9 Review exercise

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Multiple choice

1. What do economists refer to capital as?
 - A. The most important city in any state or country.
 - B. The money used to pay employees of a business.
 - C. The ability to start up a new business.
 - D. All buildings and equipment used in the production process

2. Australia undertakes trade with other countries because
 - A. there are some items Australia can't produce itself.
 - B. there are some products that can be sourced from overseas at a cheaper price.
 - C. there is an obligation to purchase from overseas as part of a treaty or trade agreement.
 - D. All of the above
3. Which of the following is not considered an export of Australia?
 - A. Coal
 - B. Iron ore
 - C. Australian students studying at universities overseas
 - D. International tourists visiting Australia
4. FTA stands for
 - A. Free Trade Agreement
 - B. Fair Trade Agreement
 - C. Free Trade Arrangement
 - D. Fair Tax Arrangement
5. To be considered a multinational company a business must
 - A. sell their goods and services to other countries.
 - B. have offices/factories located in more than one country.
 - C. source some of their materials from other countries.
 - D. sell their products online.
6. Approximately what percentage of Australia's trade with Asia was with China in 2019–20?
 - A. 25 per cent
 - B. 50 per cent
 - C. 75 per cent
 - D. 100 per cent
7. A country has a trade surplus when the value of exports is _____ the value of imports.
 - A. less than
 - B. greater than
 - C. the same as
 - D. double
8. How has globalisation had an impact on Australia?
 - A. Many Australian companies have increased profits by selling goods and services internationally.
 - B. Australian farmers no longer have to compete at a global level to sell products such as wheat and wool.
 - C. Overseas companies no longer invest in Australia because it is too expensive to produce goods and services here.
 - D. Overseas-made products are of much inferior quality to those produced in Australia, so Australian consumers prefer not to buy them.
9. In what way can the importation of goods from overseas have a positive effect on the Australian economy?
 - A. It can force Australian producers to become more efficient.
 - B. It leads to more jobs being created in Australian manufacturing.
 - C. It can result in improvements to Australian tourist industries.
 - D. It brings more overseas money into the Australian economy.
10. Which of the following characteristics would be most typical of a multinational corporation?
 - A. Most of its employees work outside its home country.
 - B. It has revenue greater than the GDP of most countries.
 - C. It takes no notice of national boundaries as these are only lines on a map.
 - D. It operates businesses in many countries outside its home country.

Short answer

Communicating

11. **Identify** and **explain** two ways in which international trade can affect our economic system.
12. **Explain** the role of the government sector in the Australian economy.
13. **Identify** and **explain** three factors that can influence whether a business will be successful.
14. **Describe** one positive and one negative impact of importing cheaper clothing into Australia.
15. Give one example of a natural disaster that occurred outside Australia but had a negative effect on the Australian economy. **Describe** the main ways in which the Australian economy was affected by this event.
16. **Suggest** two strategies a business could employ to ensure that the goods it is importing were
 - a. sustainably produced
 - b. ethically produced.

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3 Innovation and risk

LESSON SEQUENCE

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LESSON

3.1 Overview

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What strategies can be used to manage financial risks and rewards?

3.1.1 Introduction

Every time you make a purchase you are taking a risk. If you purchase something that is inexpensive, normally your financial risk is small. However, the larger the purchase, the greater the financial risk.

As consumers, we all hope to earn the income necessary to purchase our needs and many of our wants. We would expect to be treated fairly by businesses and we would like to know our rights, but we should also recognise that some business owners and employees fail the fairness test when it comes to serving their customers. This is where we need the government to provide a legal and justice system so that buying and selling occurs within a set of rules that is fair to all participants.

In this topic, we will examine the economic and business practices that present a financial risk to consumers. We will also consider the ways that businesses can reward their customers; this is an important part of business marketing and can create loyalty and trust. We will then explain the types of government intervention that exist to help protect the safety of consumers (for example, mandatory and voluntary standards, product safety recalls or cooling-off periods).

FIGURE 1 Australian consumers should be aware of their rights when dealing with all types of businesses.



Resources



eWorkbook

Customisable worksheets for this topic (ewbk-13467)



Video eLesson

Innovation and risk (eles-6005)

LESSON

3.2 What is the role of banks and other deposit-taking institutions?

LEARNING INTENTION

By the end of this lesson you will be able to explain the changing nature of banks in Australia and explain the similarities and differences between banks, credit unions and building societies.

TUNE IN

It is thought that the modern banking system has its origins in the wealthy cities of Europe in the fourteenth century. The first bank in Australia was established in 1817 as the Bank of New South Wales — it is now Westpac.

There is evidence of bartering in almost all ancient civilisations going back thousands of years. Bartering involves the exchange of goods and services without money.

1. What kinds of items might ancient civilisations have exchanged (or bartered)?
2. Over time, civilisations used other units of value for exchange such as shells. It is thought that money (coins) came into use nearly 5000 years ago. Why do you think coins were used?
3. Discuss why civilisations needed a banking system. What would a bank be used for in ancient times? Who would use it and why?

FIGURE 1 The Historic Westpac Bank Building in NSW. It is typical of banks from the early settlement of Australia.



3.2.1 The changing nature of banks

Banks used to be highly regulated businesses with many strict rules about how they operated and who they were able to lend money to. In the 1970s the Australian government started the process of deregulating Australia's banking industry. The government allowed foreign banks to open branches and a range of alternative financial institutions, such as building societies, credit unions and superannuation funds, arose to compete with the banks. This deregulation continues today, with further changes to result from the completion of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in 2019.

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

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

FIGURE 2 Deregulation of the banking sector in Australia has allowed foreign banks to enter the market and compete with local banks.



3.2.2 Banks

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

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

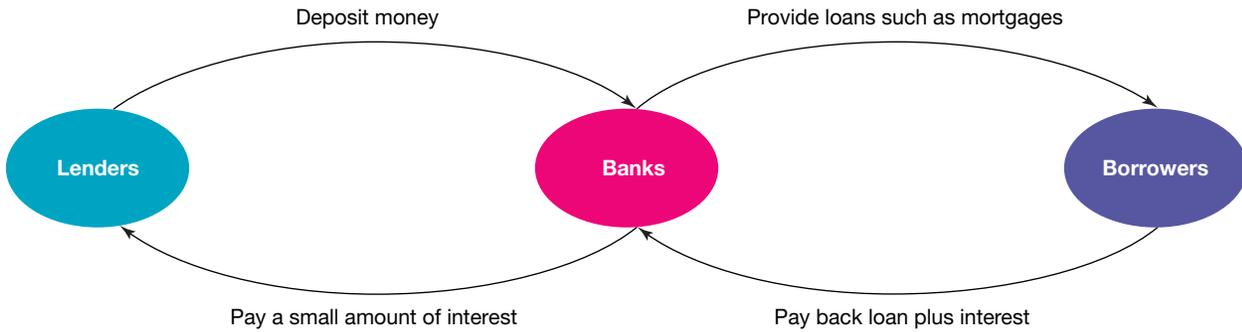
A bank is a business that wants to make a profit, so it accepts money as savings (deposits) at a lower interest rate and lends that money at a higher interest rate. Depending upon the type of savings account you hold, your interest earnings could be anywhere from 0.2 per cent up to around 3 per cent.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

FIGURE 3 Providing ATMs is one of the many services offered by banks.



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

FIGURE 4 Banks act as intermediaries between lenders and borrowers.



3.2.3 Credit unions

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

FIGURE 5 People’s Choice Credit Union is owned by its members. Its purpose is to help members save and borrow money.



3.2.4 Building societies

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

3.2 SKILL ACTIVITY: Questioning and researching, Communicating

1. Use the **APRA** weblink in the Resources panel to find one Australian-owned bank, one foreign-owned bank, one credit union and one building society.
2. Working in groups, use magazines and newspapers or internet resources to find pictures representing the three types of deposit-taking institutions (banks, credit unions and building societies). Paste the pictures onto poster paper and correctly **label** each one.
3. Briefly **describe** each type of deposit-taking institution. Alternatively, **create** a short PowerPoint presentation, with one slide for each institution.

3.2 Exercise

3.2 Exercise

Learning pathways

■ LEVEL 1

1, 2, 4, 10

■ LEVEL 2

3, 5, 8

■ LEVEL 3

6, 7, 9

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Check your understanding

- What is an authorised deposit-taking institution?
 - A bank
 - A building society
 - A credit union
 - All of the above
- Identify** which of the following best defines a mortgage.
 - The process of removing or reducing government regulatory controls
 - An amount that is paid regularly for the use of borrowed money, usually expressed as an annual percentage of the sum of money lent
 - Money advanced by a bank, credit union or building society to a person for the purchase of a house or other property
 - A financial institution that is owned and operated entirely by its members
- Explain** why banks offer low interest rates on savings but charge higher interest rates on loans.
- A building society is different to a bank because
 - it does not charge interest on loans.
 - it does not have physical branches.
 - it is owned by its members.
 - it does not offer loans for purchasing property.
- Suggest** two reasons why a person may benefit from saving their money in a bank or building society, rather than keeping it at home.

Apply your understanding

Communicating

- Construct** a diagram showing how deposit-taking institutions pool savings and lend them to individuals and business.
- Outline** what might happen if banks, credit unions and building societies could no longer collect deposits.
- Imagine that all of the banks stopped operating in Australia. **List** some of the possible consequences.
- Describe** how a financial institution makes a profit.
- Outline** three services that a bank or building society can offer to customers.

LESSON

3.3 What financial risks do consumers face?

LEARNING INTENTION

By the end of this lesson you should be able to state examples of economic and business practices that present a financial risk to consumers, and identify actions or responses that reduce the risk. You should also be able to describe *how* consumers can be affected by risks.

TUNE IN

Unfortunately, not all businesses are interested in being fair to the customer. There are many ways in which consumers might be tricked by businesses.

1. Make a list of the different ways that consumers might be tricked by businesses.
2. Discuss your list with a partner. Is there anything on your list that has affected you personally?

FIGURE 1 Sometimes things don't look quite right.



There are many types of financial risk. Sometimes we associate this risk with our financial goals such as buying shares or a house. The basic risk with these types of purchase is that the value of the investment will fall. However, making any sort of purchase involves some risk; for instance that the product does not work, or wider risks such as identity theft or fraud.

3.3.1 Scams

A scam is a dishonest scheme with the aim of tricking you into parting with your money or your bank account or credit card details. The range of scams is extensive, and it changes regularly as scammers develop new ways to try to trick people. The Australian Competition and Consumer Commission (ACCC) attempts to track scammers and raise awareness among customers of the most common and dangerous scams. During the COVID-19 pandemic there was an increase in online shopping scams, online dating scams and incidences of scammers taking over people's computers remotely.

FIGURE 2 The ACCC runs an annual scam week, during which it raises awareness of the different types of scams that exist.

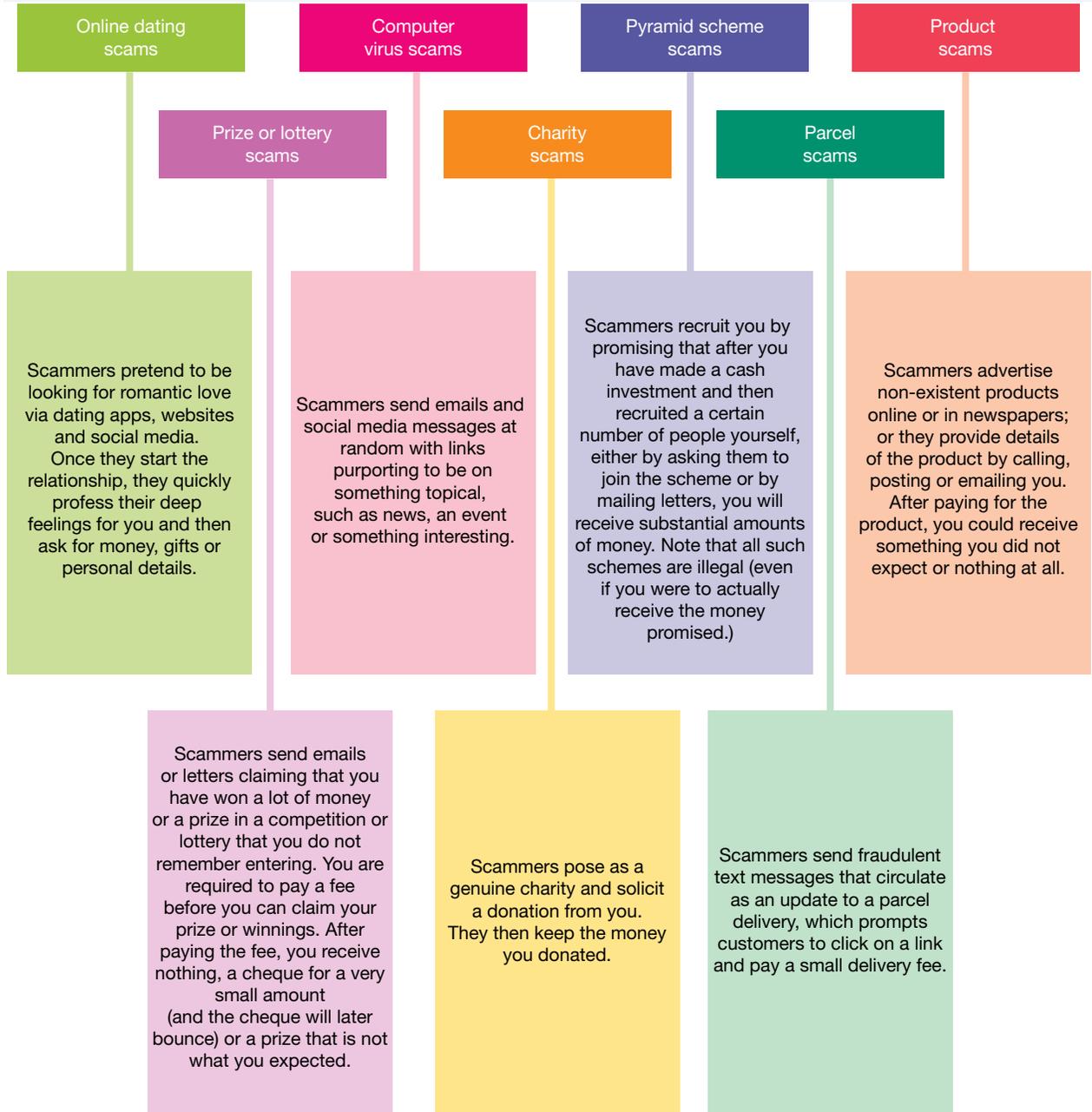


Scams are often successful because they look genuine. Scammers are also very skilled at manipulating people emotionally.



int-9099

FIGURE 3 Common types of scams



3.3.2 Identity theft

Identity theft is a growing problem worldwide and it is closely related to scamming. It occurs when someone illegally obtains your personal details, such as credit card numbers, and uses those details to commit **fraud**. An identity thief uses your stolen identity to do the following things in your name:

- borrow money
- open a new credit card account
- buy goods.

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

Anyone who provides personal information via an unsecured website, through a text message link or when shopping online on unfamiliar and unsecure websites risks becoming a victim of identity theft.

A growing number of consumers have had their identity stolen through phishing. In this type of fraud, you are sent an email that looks like it comes from a trusted source, such as a bank. The thieves ask you for information that may seem reasonable, such as your account number and PIN (personal identification number).

3.3.3 Fraudulent transactions

A fraudulent or unauthorised transaction is when someone transfers money from your bank or credit card account without your permission. There are many different types of credit card fraud, but at its simplest, it's when someone obtains your card details and make transactions on your card without you knowing. Unfortunately, this can amount to someone spending thousands of dollars in your name. Banks are alert to fraudulent transactions and will act to reimburse customers, provided that the customer has not contributed to the loss and has contacted their bank promptly.

3.3.4 Reducing the risk

There are ways that consumers can protect themselves from financial risk.

TABLE 1 Ways to protect yourself from scams

Risk	Protection
Scam	<p>Make the effort to research any offers made to you.</p> <p>Always ask questions and think carefully before making any decision.</p>
Identity fraud and phishing	<p>Be suspicious of any email that makes an urgent request for your personal financial details.</p> <p>Do not click on links within the email or reply to any pop-up screen that asks you for personal details.</p>
Fraudulent transactions	Banks advise you to check statements regularly for unusual activity on your card.

3.3 SKILL ACTIVITY: Questioning and researching, Communicating

1. The ACCC has a webpage called Scamwatch.
 - a. Access the **Scamwatch** weblink in the Resources panel. Use the information you find to write a **summary** of three types of scams.
 - b. Visit the scam statistics page. Choose the most recent month and answer the following.
 - How many scams have been reported?
 - What is the most reported type of scam?
 - How much money has been lost?
 - Which age group is affected the most?
 - c. Explore the 'get help' pages to find out more about what to do if you are scammed.
 - d. **Outline** five steps that you could take to protect yourself from scams.



3.3 Exercise

3.3 Exercise

Learning pathways

■ **LEVEL 1**
1, 2, 5

■ **LEVEL 2**
3, 4, 6, 7

■ **LEVEL 3**
8, 9, 10

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Check your understanding

- Identify** what is meant by a scam.
 - A dishonest scheme with the aim of tricking you into parting with your money
 - A dishonest scheme with the aim of tricking you into parting with your bank account details
 - A dishonest scheme with the aim of tricking you into parting with credit card details
 - All of the above
- Select** the body that is tasked with raising awareness of scams in Australia.
 - ACCC (Australian Competition and Consumer Commission)
 - ACC (Australian Copyright Council)
 - Australian banks
 - AFCA (Australian Financial Complaints Authority)
- Describe** what is meant by 'identity theft'.
- Identify** three actions which might make you more vulnerable to identity theft.
- Determine** whether the following statement is true or false: An example of phishing would be receiving an email that looks like it comes from your bank, asking for your online banking password.

Apply your understanding

Evaluating, concluding and decision-making

- State** one way that you might protect yourself from each of these financial risks:
 - Scams
 - Identity fraud
 - Fraudulent transactions

Communicating

- Outline** the difference between identity theft and fraudulent transactions.
- Describe** how a bank might support you if you have been a victim of fraudulent transactions.
- Select** three types of scam and **explain** how each might affect a consumer.
- Explain** the purpose of the ACCC.

LESSON

3.4 What are the different types of investment?

LEARNING INTENTION

By the end of this lesson you should be able to recognise examples of economic and business practices that present a financial risk to consumers and identify actions or responses that reduce the risk.

TUNE IN

What do you know about your local housing market? How much does a family home cost? What about an apartment? What is happening to prices — are they rising or falling? These questions may not affect you now, but one day you might need to know this information.

1. List some possible reasons why people often have the goal of purchasing a property.
2. What do you think are the risks associated with investing your money into a property?

FIGURE 1 Buying a property can be a financial risk.



There are many different types of investment that enable people to achieve their long-term goals of financial stability. This involves planning for the future. Some Australians choose to buy properties (such as a house, apartment or land) as investments. As property prices generally increase over time, so too does the value of their investment. Others choose to buy shares or invest in term deposits or managed funds. In this lesson we will explore these investments and consider the financial risk and reward that they might bring.

DISCUSS

Property prices rise and fall. These fluctuations mean people's ability to enter the property market and buy their first home can change. Recently, the government has stepped in to help with the First Home Owners Grant. Do you think a person's home should be treated as another form of savings or investment?

3.4.1 Shares

Buying **shares** is a financial transaction that can carry a risk. Buying shares means buying a certain number of units of ownership in a company. A person who owns shares in a company is a shareholder of that company. Some people might buy thousands of shares, others only a few. As the value of a company's shares goes up or down, so too does the value of the shareholder's investment.

Owning shares allows you to benefit from the company's profits, which can be given to you as **dividends** or as extra shares. You may also benefit from **capital growth** if the value of your shares increases.

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

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

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

capital growth an increase in the value of an asset

share market a market for trading shares in listed companies; also called a stock market

agent a person acting for another in a business transaction

It is important to diversify your investments so that all your ‘eggs’ are not in one basket if anything goes wrong. The Australian share market makes this easier by offering a wide choice of companies in which to invest. There are over 2000 companies listed on the ASX.

These companies are involved in a wide range of industries that cover most sectors of the economy, from financial services to manufacturing and health care.

Investing in a range of companies spreads the risk. Investing in shares also gives you flexibility. Shares can be bought and sold quickly — you can sell shares and generally have access to your money in three days or less.

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



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



3.4.2 Term deposits

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

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

3.4.3 Managed funds

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

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

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



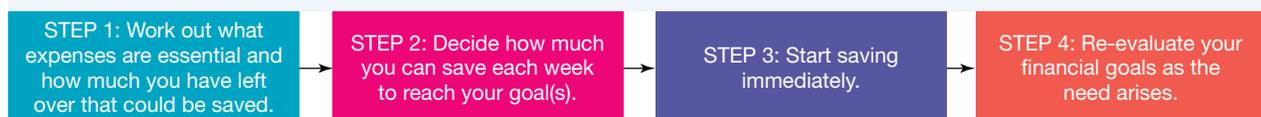
3.4.4 Prevention of risks

Savings and financial goals

You can reduce financial risk by having savings. Savings are usually kept in savings accounts, term deposits or any of the other investments explored in this topic. Having savings does not eliminate you from financial risk, however it does mean that you have something to fall back on. Savings are almost like compensation for any other investment losses that you might have. It is easier to save money if you have clear financial goals in mind. The good thing about setting goals is that they give you a purpose for saving. Goals should be realistic and specific; for example, your goal might be 'to save \$100 in six months to reduce my debt'.

Saving money requires some thought. Some people choose to save by putting aside 10 per cent of their income. Alternatively, other people commit to saving by making the decision to buy nothing new, or cutting down on the amount of small purchases that they make.

FIGURE 5 Developing a savings plan



Superannuation

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

You can make sure that you have a good lifestyle in retirement, and protect yourself from having to watch every dollar you spend, by taking advantage of superannuation. This is a compulsory savings scheme whereby employers contribute an additional percentage of an employee's **gross wage** into a **superannuation fund**.

Employees can also choose to contribute to this fund, thus increasing the overall amount they will receive on retirement. How much employees choose to contribute is up to them. There are laws in place that determine when you are eligible to access your superannuation savings. Recent changes have made it attractive to remain working until at least the age of 60.

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

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

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

Insurance

Many businesses and individual consumers might seek to protect themselves from financial risk by taking out insurance.

Financial insurance is a type of insurance policy that can be purchased by a business. It provides coverage that protects them from losses due to a partner in a contract failing to meet their obligations or a trading partner going bankrupt.

There are many different types of insurance that protect consumers. These range from car insurance, life insurance, pet insurance and travel insurance. All forms of insurance work on the same principle. You pay a monthly amount, called a premium, to the insurance company.

In return, the insurance company should provide you with financial protection and support, if things go wrong. For example, you may pay \$200 in travel insurance, which means the insurance company will support you financially for any travel delay expenses, loss of or damage to luggage and medical emergencies when travelling within Australia or overseas.

Allianz, AAMI and Budget Direct are some well-known insurance companies.

FIGURE 6 Allianz is a well-known insurance company. Insurance companies can help businesses and consumers reduce their financial risks.



3.4.5 Risk vs reward

As we have discovered there are some common types of investment, such as purchasing shares, building savings and buying a house, which can be a financial risk. There are also measures that consumers can use to protect themselves from risk, such as taking out insurance or having your own savings.

It is important to remember that with all financial decisions there may be a risk, but there is of course the potential for reward.

TABLE 1 A table summarising the common risks and rewards associated with each financial decision

Financial decision	Risk	Reward
Savings	Your savings may only grow at a small rate, especially if the bank pays a low rate of interest.	Your money is relatively 'safe' in the bank. You are able to earn interest at a rate determined by the bank.
Investing in shares	If the company that you buy shares in does not perform well, or collapses, you risk losing your money.	If the company that you buy shares in performs well, you may earn good returns (otherwise known as dividends) on your investment.
Managed funds	The managed fund does not perform as well as expected. A managed fund may come with high fees.	The managed fund performs well, or better than expected, and you earn a good return on your investment.
Buying a property	The property needs repairs or maintenance, which may cost a significant amount of money. You do not receive as much monthly rent as you anticipate. The property may not increase in value as you had expected.	The property can be rented out and so you have a monthly income. This rent can cover your home loan (mortgage repayments). The property may increase significantly in value over time. You will make a substantial amount of money in this case.

3.4 SKILL ACTIVITY: Interpreting and analysing

1. Access the **Market Index** weblink in the Resources panel to see the value of the whole of the ASX200 share market at a certain point in time.
2. View the overall trend of share prices across the whole of the share market — adjust the time to six months.
 - a. **Describe** the overall trend in the market for shares over the last six months.
 - b. If you had invested in a large portfolio of shares across this market, what would have happened to the value of your investment over this time?
 - c. Would you be satisfied with this type of investment?
3. Use the internet to find information about term deposits from two banks. Imagine that you wish to invest \$5000 for 12 months.
 - a. **Compare** the two term deposits by considering the following criteria: interest rates, when interest is received, account fees and application fees. Present your findings in a table.
 - b. **Decide** which bank you would invest with.

3.4 Exercise

3.4 Exercise

Learning pathways

■ **LEVEL 1**

1, 5, 8

■ **LEVEL 2**

2, 4, 6, 9

■ **LEVEL 3**

3, 7, 10

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Check your understanding

1. **Select** the correct response: what is the ASX?
 - A. The Australian Sharemarket Exchange
 - B. The Australian Service Exchange
 - C. The Australian Stock Exchange
 - D. The Australian Securities Exchange
2. **Explain** why some people invest their money in the ASX.
3. **Select** the correct definition for the term 'dividends'.
 - A. Increases in the value of an asset
 - B. Profits paid to shareholders
 - C. Units of ownership in a company that entitle the shareholder to a proportion of any profits that the company makes
 - D. All of the above
4. **Explain** the difference between a term deposit and a managed fund.
5. Term deposits are considered to be low-risk investments. True or false?

Apply your understanding

Communicating

6. Briefly **outline** the benefits and risks of:
 - a. share ownership
 - b. term deposits
 - c. managed funds.
7. **Explain** what you think might happen if the share price of a company fell to zero.
8. **Explain** which form of investment you might make in the future and why (you may include investing in property in your choice).
9. **Explain** what is meant by the following:
 - a. savings
 - b. superannuation.

Evaluating, concluding and decision-making

10. From the forms of investment that you have studied, which do you think has the highest risk and which has the lowest risk? **Justify** your response.

LESSON

3.5 What financial rewards can consumers receive?

LEARNING INTENTION

By the end of this lesson you should be able to explain how consumers can be affected by rewards (for example, choice, innovative products and services, or benefits accrued through loyalty schemes).

TUNE IN

Tim Tams are a popular biscuit that are sold in most grocery and food stores across Australia. Arnott's (the manufacturer) often introduce new flavours.

1. Why do you think they introduce new varieties?
2. Arnott's ran a 'three wishes' promotional campaign in 2021, where customers could win up to \$100 000 for discovering a golden Tim Tam. What are the benefits of this for the business and the customer?
3. Are you influenced by special offers from businesses? With a partner, discuss which brands you and your family or friends regularly buy. What are the reasons for this brand loyalty?

FIGURE 1 Tim Tams were introduced in Australia in 1964. Varieties include chewy caramel, choc-mint and white.



This lesson explores how consumers can be positively affected by businesses who choose to offer rewards through choice, innovative products and loyalty schemes.

FIGURE 2 Businesses invest millions of dollars in research and development to gain a competitive advantage.

3.5.1 Innovative products

We know that businesses undertake **research and development (R&D)** to expand their knowledge of products and processes. **Invention** is generally the name given to the process of developing a product which results in the creation of something entirely new. Inventions are often at the stage where they have not had any impact or sales in the market. **Innovation** differs as it is the process of improving a product that already exists. Both invention and innovation are vital for providing businesses with a competitive advantage.

Researchers and scientists undertake R&D in a business to produce new products, improve existing products or develop new processes (find new ways to do things).

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



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

invention the process of improving a product that already exists

innovation the process of improving a product that already exists

However, the innovation that comes from research and development is also of ultimate benefit to the customer. It is the end user that has a better product or user experience because of innovation. It is this innovation that maintains customer loyalty.

3.5.2 Consumer choice and competitive markets

The marketplace is a highly competitive environment. Businesses go to extraordinary lengths to win and keep customers. It is this competitive environment that benefits the customer. As businesses try to beat each other — through innovation, price or quality — the constant competition means that customers can benefit from a wider choice of products.

The Australian Competition and Consumer Commission (ACCC) monitors and regulates competitive marketplaces. It encourages competition, ensuring that businesses operate with fair and reasonable economic conduct, including setting reasonable prices. The ACCC will also try to ensure that one company does not become too dominant within the marketplace, and provides consumers with independently researched product information. The ACCC often holds its own investigations into business and product standards, publishing its findings for the public to read. Each state and territory of Australia also has a consumer affairs department. These state government bodies fulfil several roles for the ACCC and are avenues through which consumers can exercise their rights.

FIGURE 3 Technology companies constantly innovate their products to stay ahead of competitors.



The benefits of competition

One of the best forms of protection and reward that consumers can have is a market with many sellers, all competing to attract customers. Competition can help keep prices lower, and if one business treats consumers badly, there are plenty of alternatives available. As the name suggests, the *Competition and Consumer Act 2010* is concerned with encouraging fair competition between businesses in all markets. The Act makes it illegal to engage in business practices that interfere with competition, or that give some businesses an unfair advantage over others. The ACCC has the power to enforce the law to encourage greater competition in the marketplace.

Banned anti-competitive practices

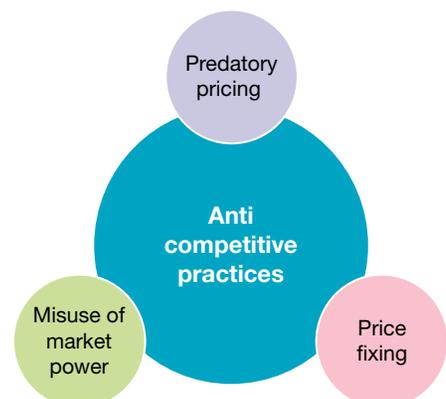
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The Competition and Consumer Act lists several business practices that are prohibited and regulated by the ACCC to ensure that the customer benefits from choice and competition. These include price fixing, misuse of market power and predatory pricing. Each of these practices are explained below.

Price fixing

It is illegal for two businesses in competition with each other to agree to set identical prices for their products. Businesses will probably have similar prices for similar products because of market forces, but they cannot actively work together to raise or lower prices by an exact amount. This has been an issue over the years with petrol pricing and the pricing of airline tickets.

FIGURE 4 The practices below are illegal, to ensure that customers benefit from competition.



Predatory pricing

Selling goods at a below-cost price can be okay; however, it may be illegal if it is done for the purpose of eliminating or substantially damaging a competitor. This is known as predatory pricing. Whether the law has been broken will depend on several factors, such as for how long the goods were sold below cost and how much market power the seller has.

Misuse of market power

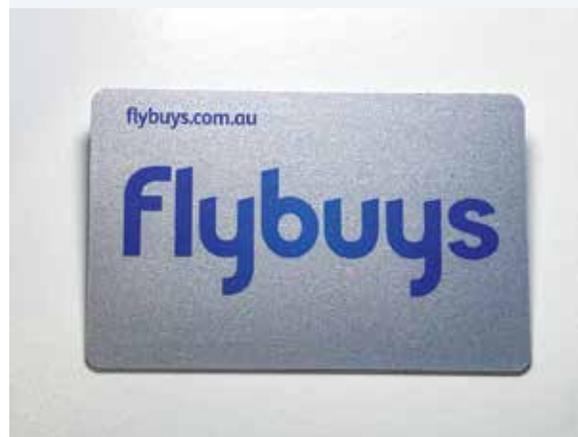
Not all businesses are the same size, and there is a risk that larger businesses may use their power unfairly to drive smaller competitors out of business. Any action aimed at damaging or getting rid of a competitor or preventing another business from entering the market is illegal. While it is not illegal for two businesses to merge with each other to create a bigger business, the ACCC will look carefully at mergers or take overs between big businesses. It may decide that they are not in the interest of the consumer, especially if a merger or takeover means that consumers have no other choice in the market place.

3.5.3 Customer loyalty schemes

Customer loyalty schemes are marketing and promotional tools used to encourage consumers to have a connection to a particular brand and encourage repeat business. Consumers often join these schemes to earn discounts or points, which can be redeemed for rewards including goods and services.

- Loyalty schemes don't exist just to reward you for your loyalty. If you join a loyalty scheme, the business can track your purchases and buying habits.
- Personal information could be collected about you when you sign up and make purchases, combined with information gathered from other sources, including your social media and web browsing habits. This can build a detailed profile about you, which may be used to send you targeted advertising.
- Being a member of a loyalty scheme may encourage you to make purchases you wouldn't usually make just to earn more points.
- Weigh up the cost of redeeming your points. You may ultimately be better off simply shopping around if you're looking for the cheapest way to get a particular product or service.
- When redeeming frequent flyer points to book a flight, be aware that you might have to pay taxes and other charges on top of using your points. In some cases, the cost of purchasing an airfare without using points might be similar to the taxes and charges you'll pay when using points to book a flight.
- Find out whether the points you've earned in the loyalty scheme will expire. Many loyalty schemes have conditions where the points will expire if you don't continue to participate in the program.

FIGURE 5 Coles' Flybuys is one of many rewards schemes offered by businesses in Australia.



Free products

Another form of customer loyalty is to offer the customer a free product after they have made several purchases. This is common with smaller businesses such as coffee shops who may offer a free cup of coffee after the tenth purchase.

Some online retailers will reward customer loyalty by offering free postage on orders over a certain amount. Conversely, they may offer free postage to attract a new shopper. This tactic reduces the price of online shopping and can encourage additional purchases.

3.5 SKILL ACTIVITY: Evaluating, concluding and decision-making, Communicating

1. Choose a business that you know offers some form of reward to its customers. This may be through a loyalty card points scheme or through a free product. Write down the name of the product and the company.
2. **Research** the terms and conditions of the scheme. Record the following:
 - Product/company
 - Reward type (points/free product etc.)
 - How do you 'earn' the reward?
 - Where can you earn the reward?
 - What are the terms of the reward (does it expire?/where can you use it?)
3. In your opinion, how does the reward affect the consumer? Does it influence the consumer to purchase more?
4. What are the downsides to the reward scheme? Overall, would you recommend it to a friend?
5. Present your ideas to the class.

FIGURE 6 Rewards from businesses can influence our buying habits



3.5 Exercise

learnon

3.5 Exercise

Learning pathways

■ LEVEL 1

1, 4, 8, 9

■ LEVEL 2

3, 5, 6

■ LEVEL 3

2, 7, 10

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Check your understanding

1. **Identify** which of the following is the best explanation of the difference between 'invention' and 'innovation'.
 - A. Innovation is vital for providing a business with a competitive advantage, while invention is not.
 - B. Invention is vital for providing a business with a competitive advantage, while innovation is not.
 - C. Invention is the process of developing something new, while innovation is the process of improving an existing product.
 - D. Invention is the process of improving an existing product, while innovation is the process of developing something new.
2. **Explain** how undertaking research and development can create a competitive advantage for a business.
3. **Explain** how a consumer can benefit from the processes of R&D and innovation.
4. Competition between businesses is not beneficial for consumers as it increases prices. True or false?
5. **Identify** the practices that the Competition and Consumer Act is designed to prevent.
 - A. Predatory pricing
 - B. Misuse of market power
 - C. Price fixing
 - D. All of the above

Apply your understanding

Evaluating, concluding and decision-making

6. **Outline** the ways you would expect the ACCC to deal with the following situations.
 - a. The two largest national supermarkets have developed a plan to merge to form one business.
 - b. The owners of five petrol retailers along a major stretch of road meet each week to determine how much they will all charge on each day of the week.
 - c. The manufacturer of a range of electrical goods provides all retail outlets selling its products with a list of recommended retail prices for each of its products, and refuses to supply them unless they stick to those prices.

7. 'If businesses compete fairly then consumers and businesses are both winners.' **Discuss** this statement.
8. **Describe** each of the following:
 - a. price fixing
 - b. predatory pricing.

Communicating

9. **Explain** what is meant by a 'customer reward scheme' and provide an example.
10. **Explain** what is meant by the statement, 'Markets and businesses can regulate themselves from within to give customers a good deal'.

LESSON

3.6 What is the importance of ethical decision-making and corporate social responsibility?

LEARNING INTENTION

By the end of this lesson you should be able to analyse the importance of ethical decision-making and corporate social responsibility when making consumer and financial decisions.

TUNE IN

Frank is aged 16 and in debt. He borrowed \$50 from his brother for some clothes he 'just had to have'. Now he has discovered he owes \$100 for data costs from his mobile phone.

1. Should Frank be concerned about getting into debt?
2. What is your opinion on Frank's debt? Would the clothes and data be 'worth' going into debt for?
3. Do you think debt is seen as a positive or negative thing? Is it the right thing to do?

FIGURE 1 Is Frank's debt an issue?



Ethical decision-making means considering a decision in terms of whether it is respectable or 'the right thing to do'. When consumers make financial decisions, ethical decision-making is an important factor. You could ask yourself, is this the right thing to do with my money or is this the right investment to make? If you borrow money, you could ask yourself whether you are borrowing it for the right reasons.

3.6.1 Good and bad debt

When you borrow money or owe money to someone, you are said to be in **debt**. You have a financial obligation to repay the borrowed money. Debt can be a good thing if it is used to leave you better off in the long term. A mortgage, where you borrow money to purchase a home or property, is an example of good debt. Taking out a student loan or a loan to start a new business are also examples of good debt. These are borrowings to invest in assets that will grow in value over time. Of course, there is the opposite of this which is known as 'bad debt'. Bad debt results from a decision to borrow and spend money, only to find out that the items that you have bought have quickly lost value, or they will lessen in value over time.

ethical decision-making a way of making decisions based on using values and doing the 'right thing' by yourself and others

debt a financial obligation to repay money owed

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

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

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

- Your credit rating is affected, and you may find it difficult to borrow money.
- You may find that banking institutions do not trust you to repay loans, so you will find getting a mortgage (home loan) very difficult.
- A rental agent may also doubt your ability to pay on time.
- It can affect employment opportunities.
- Your residence may have to be sold to help pay your debts.

What other consequences can you think of?

3.6.2 Responsibilities as well as rights

While Australian Consumer Law contains a strong emphasis on protecting the rights of consumers and enforcing the responsibilities of sellers, consumers also have responsibilities in the marketplace. This is closely related to the ethics of decision-making as a consumer. Some of these responsibilities are:

- Whenever you buy goods or services, you are entering into a legally binding contract. As a buyer you have a responsibility to pay the required amount for the goods or services you purchase. This is particularly relevant if you purchase goods or services on credit, with an expectation that you will pay by instalments, or if you buy an item using afterpay services.
- Consumers who borrow money or who use a credit card to make purchases have a responsibility to make repayments. Failure to do so can leave the consumer with a poor credit rating.
- A consumer cannot return goods and claim a refund if the goods have been used, other than for the purposes for which they were intended. If you damage a product by using it inappropriately, or even injure yourself while doing so, you have very little chance of being compensated. Consumers have a responsibility to use goods in the way the manufacturer intended.

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



FIGURE 3 Customers must commit to repaying in full and on time.



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

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

Hopefully you have been able to think about the importance of ethical decision-making and corporate social responsibility when making consumer and financial decisions. There are clear responsibilities that we have as consumers but we are also called on to use our own values and ethics for our decisions.

For example, is it ethical to borrow money from a friend if you know you have no way of paying it back? In a similar way, is it ethical to wear an outfit to an event knowing full well that you have left the tags on and will return it for a refund tomorrow?

3.6.3 Corporate social responsibility

Businesses are not exempt from thinking about ethics and doing the right thing. As we have learnt, businesses are expected to do the right thing (such as remain competitive for the consumer's benefit) and they are regulated by law to make sure that they do so. In lesson 3.7 we will learn more about the ways that producers are required to protect consumers.

However, there is increasing pressure on businesses to take voluntary responsibility, not only for the legal or economic consequences of their activities, but also for the social and environmental implications. This means that businesses consider the consequences of their actions on the local and wider community and on the environment. This is known as taking corporate social responsibility (CSR).

Some examples of businesses displaying corporate social responsibility include:

- supporting and engaging in charity work/volunteer work
- sourcing organic and fair-trade suppliers for production
- reducing carbon footprint
- investing in other environmentally conscious businesses.

There are many businesses that have very public CSR initiatives. An example is the banking corporation, Westpac. Westpac has a Disaster Relief Package which is available for customers who are suffering hardship because of natural disasters such as bushfires and flood. Disaster Relief Packages aim to offer immediate practical help to assist customers to manage the impact of natural disasters on their finances. Westpac doesn't need to offer this, but rather it does so to go above and beyond its legal obligations. In doing so, it assists the wider community.

FIGURE 4 Westpac's Disaster Relief Packages are an example of corporate social responsibility.



3.6 SKILL ACTIVITY Interpreting and analysing, Communicating

Corporate social responsibility can also be referred to as 'social responsibility', being 'sustainable' or simply 'sustainability'. Remember, it is the things businesses do to show that they are considering the community and environment.

1. **Visit** one of the following weblinks in the Resources panel: **Coles, Ikea sustainability, Patagonia footprint.**

This will show you information about how the business considers the wider community and the environment. Use this information to answer the following questions.

- a. **Summarise** the goods and services that the business sells.

FIGURE 5 Corporate social responsibility can be achieved in many ways.



- b. **Discuss** with a partner the potential negative effects that the business's operations may have on the local community and the environment.
 - c. **Outline** at least five things that your chosen business does to lessen its negative impact on the environment.
 - d. **Analyse** why you think the business has chosen the courses of action above. Who do they benefit?
2. a. **Identify** a business of your own and repeat the steps in question 1.
- b. **Communicate** your findings back to the class via a short presentation.

3.6 Exercise

learn on

3.6 Exercise

Learning pathways

LEVEL 1

1, 3, 6, 9

LEVEL 2

2, 5, 7

LEVEL 3

4, 8, 10

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Check your understanding

1. **Identify** the correct definition of 'debt'.
 - A. A method of saving money
 - B. A criminal offence where one person deliberately tricks another to gain personal advantage
 - C. A financial obligation to repay money to an individual or institution from which you have borrowed
 - D. An arrangement where an insurer promises to compensate the insured person for specific potential losses in the future in exchange for a periodic payment called a premium
2. There is no such thing as 'good debt'. True or false?
3. **Select** three consequences of having bad debt.
 - A. You will be better off in the long term.
 - B. Your credit rating is affected, and you may find it difficult to borrow money.
 - C. It can affect employment opportunities.
 - D. Your assets will grow in value over time.
 - E. Your residence or other assets may have to be sold to help pay your debts.
4. **Explain** what is meant by 'ethical decision-making' in relation to financial decisions.
5. A business may refuse a refund if the buyer has simply changed their mind or if there is nothing wrong with the purchased item. True or false?

Apply your understanding

Communicating

6. **Describe** two responsibilities that consumers have in relation to goods or services they purchase.
7. **Explain** the difference between 'good and bad debt'.
8. **Identify** what is meant by 'bankruptcy' and list three consequences.
9. **Describe** what is meant by 'corporate social responsibility'.
10. **Decide** how corporate social responsibility can benefit a business.

LESSON

3.7 How are consumers protected?

LEARNING INTENTION

By the end of this lesson you should be able to explain the ways producers are required by government to protect the safety of consumers (for example, mandatory and voluntary standards, product safety recalls or cooling-off periods).

TUNE IN

It is Australian law that the goods that consumers purchase must be safe for use or consumption.

1. Consider **FIGURE 1**. List the products that the consumer has bought.
2. What features must these products have to ensure that they are safe for the consumer? You may wish to produce this information in a table.
3. Create a mind map to outline the options that are available to the consumer if they find a problem with a product.

FIGURE 1 Safety considerations have increased over the last few years.



3.7.1 Law and justice

Governments at all levels involve themselves in the market in a variety of ways. Politicians, commentators and the media often refer to the issue of ‘economic management’ as a responsibility of government. People expect the government to take action to encourage growth in the economy and to avoid high unemployment. Government activity within a market economy goes well beyond these aims. The successful operation of markets often depends on the level of government involvement.

The government provides a legal framework that allows buying and selling in the marketplace to occur within a set of rules that should be fair to all participants. Australian Consumer Law protects consumers from the actions of businesses.

3.7.2 Treating consumers fairly

Mostly, consumers are able to plan for purchases to satisfy their needs and wants. However, there are occasions when consumers may make a rushed or impulsive purchase. This can happen for many reasons, for example when a consumer is short of time, or when they have not been able to do their research. Regardless of the situation, consumers are entitled to fair treatment when making a purchase. Consumers have a set of rights under Australian Consumer Law. Some of these rights are:

- Any contract or agreement that a consumer enters into must be fair and balanced. It must be written in clear language that is easy to understand. It should not contain any provisions that allow the seller to change the conditions of the agreement without informing the buyer. For example, it would be illegal for a mobile phone contract to allow the service provider to make changes to their prices and charges without notifying the customer. However, the consumer is responsible for reading the contract carefully to make sure they understand it.

- A consumer has the right to ask for a receipt for any transaction, no matter how small the amount involved. For all transactions over \$75, a receipt is compulsory.
- Anyone attempting to sell goods or services door-to-door or over the phone can only do so between 9 am and 6 pm on weekdays, and from 9 am to 5 pm on Saturdays. These types of sales are not permitted on Sundays or public holidays. This rule does not apply when consumers have agreed in advance to an appointment time for the seller to visit their home. A salesperson must leave immediately if requested and must not contact the consumer again for at least thirty days (with that same product). If a consumer agrees to purchase goods or services from a door-to-door salesperson, or over the phone, the Australian Consumer Law allows for a ten-day ‘cooling off period’. This means that the consumer has the right to cancel the agreement within ten days, without having to pay anything.
- Buy now, pay later agreements must be in writing and must be expressed in plain language that is clear and easy to understand. The agreement must include all terms and conditions.
- Businesses that display ‘No refunds’ signs are breaking the law. If a product is faulty or is unfit for its usual purpose a refund must be offered to the buyer. However, a business may refuse to provide a refund if consumers simply change their minds and there is nothing wrong with the product.

FIGURE 2 If a product is faulty or is unfit for its usual purpose a refund must be offered to the buyer.



Although the Australian Consumer Law is a law of the Commonwealth parliament, enforcement of the laws protecting consumers is usually carried out by the relevant state or territory Office of Fair Trading or Consumer Affairs Office.

When a consumer has a complaint against a seller, these offices will usually recommend that the consumer attempt to sort out the problem directly with the seller. If direct contact with the business does not produce a result, the Fair Trading or Consumer Affairs Office may contact the business on the consumer’s behalf and attempt to resolve the matter.

If the business fails to resolve the problem, Fair Trading or Consumer Affairs Offices can take legal action on behalf of the consumer. If the legal action is successful, the seller may be required to compensate the consumer or to replace or repair any faulty goods. The business can also be fined for failing to comply with the Australian Consumer Law.

3.7.3 Who keeps us safe?

Several different bodies are responsible for ensuring that the goods and services we buy are not going to cause us harm. These bodies include government regulators. The roles of these different entities are discussed briefly below.

Government regulators

Governments at federal, state, territory and local level have established a number of bodies to ensure product safety. These include:

- The Australian Competition and Consumer Commission (the ACCC) includes issues of product safety among its various roles.
- State and territory Consumer Affairs and Fair Trading authorities have a major role within their respective states.
- Customs and quarantine bodies are able to monitor goods coming in from overseas, and can identify any products that might be dangerous.
- Specific industry regulators are organisations that have particular powers in relation to certain types of products. For example, the Therapeutic Goods Administration has a role in regulating medicines, as well as devices such as wheelchairs.
- Local government health authorities carry out inspections on food premises such as restaurants, cafés and school canteens to make sure cleanliness and hygiene regulations are followed.

FIGURE 3 Customs officers check containers of goods from overseas to prevent dangerous or illegal goods from entering the Australian market.



Other groups

Responsibility for product safety is spread broadly across the community, with a number of organisations involved, including:

- **Businesses:** manufacturers and sellers take responsibility to ensure their products are safe. A business selling a product that causes harm to one or more consumers can be sued by those affected. It makes sense to avoid legal action by closely controlling the production process to keep products safe.
- **Technical bodies:** worldwide organisations such as the International Organization for Standardisation (ISO) set acceptable standards for all types of products. Any product that conforms to those standards is entitled to display an ISO number, so consumers know it conforms to the highest quality.
- **Consumers:** buyers and their representatives also have a responsibility for safety. Choice, formerly the Australian Consumers' Association, publishes journals and a website called *Choice*, which examines and tests all types of products.
- **Individual consumers** also have a responsibility to maintain items to keep them safe, such as checking electrical cords and enabling safety features on motor vehicles.

FIGURE 4 Consumers can be assured that any product carrying ISO certification will be safe and will conform to the highest standards of quality.



▶ 3.7.4 What do the government regulators do?

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Federal, state and territory bodies have wide-ranging powers and responsibilities to ensure product safety. They carry out a variety of different activities in exercising these responsibilities.

General market monitoring

Government regulatory bodies examine all areas of all markets to detect possibly unsafe products. They monitor the media for any death or injury reports that may suggest a particular product could be dangerous. They examine and arrange testing of new types of products coming onto the market. They also respond to consumer complaints and monitor information on new products from around the world.

Encouraging safe practices

Regulatory bodies encourage safe practices through various measures. These include:

- Removing dangerous goods from sale.
- Recalling unsafe goods, so that the issue can be solved by the manufacturer.
- Making sure that manufacturers and suppliers comply with all mandatory safety standards.
- Providing a range of information related to product safety, which can be accessed by the community. This might include media releases and product safety websites.

on Resources

 **Weblink** ACCC Product Safety Recalls

FIGURE 5 Manufacturers that discover a fault in any of their products are expected to recall these products for repair, replacement or refund.



FIGURE 6 All packaged food must provide nutritional information on the packaging.



3.7 SKILL ACTIVITY: Evaluating, concluding and decision-making

1. Using the **ACCC Product Safety Recalls** weblink in the Resources panel, **select** three 'Recall categories'. From each of these three categories, **select** one product that has been recalled and answer the following.
 - a. What was the name of the product?
 - b. What was the defect in the product?
 - c. Why was that defect dangerous/What are the hazards?
 - d. What advice is given to consumers?
 - e. How did the matter come to the attention of the ACCC?
 - f. What decisions, actions or recommendations did the ACCC make in relation to the issue?
2. Aside from the legal requirements, **suggest** how a manufacturer might respond when its products are found to be faulty or dangerous.

FIGURE 7 Cars are one of the products that are subject to product recalls.



3.7 Exercise

Learning pathways

■ LEVEL 1

1, 4, 8

■ LEVEL 2

2, 6

■ LEVEL 3

3, 5, 7

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Check your understanding

1. Government regulators can take legal action if a person is injured after a supplier fails to remove a banned product from sale. True or false?
2. **Identify** one way consumers can play a role in product safety.
 - A. Buy less products
 - B. Only buy products from expensive stores
 - C. Report faulty products to the business or the government body
 - D. Complain about the product on social media
3. **a. Explain** the responsibilities consumers have in relation to product safety.
b. Outline what is meant by ISO and how this body contributes to product safety.

Apply your understanding

Communicating

4. **Describe** the role of each of the following in ensuring product safety:
 - a. industry regulators
 - b. customs and quarantine
 - c. local government authorities.
5. **Explain** the role of education in product safety.

Evaluating, concluding and decision-making

6. Do you think the potential fines and bans for failing to meet safety standards are appropriate? **Justify** your opinion.
7. **Explain** how the internet and globalisation have impacted the need for consumer protection.
8. Buyers are often recommended to attempt to solve an issue with a product themselves directly with the seller. **Discuss** this method of resolution.

LESSON

3.8 Why is innovation important to businesses?

LEARNING INTENTION

By the end of this lesson you should be able to explain the reasons businesses seek to build or create a competitive advantage. You should also be able to describe processes that businesses use to innovate and differentiate products and services from competitors.

TUNE IN

Consider the computer in **FIGURE 1**. Apple considered this computer as 'revolutionary'. It had a 16-bit processor and 256KB of memory (this was expandable to 8MB at significant cost).

It also boasted the best graphics — with 4096 different colours and 259 of them could be shown on screen at any one time!

1. What are your observations on this desktop PC?
2. How long was the Apple II GS on the market for? Why did it stop selling? What happened next?
3. How do the specifications on this Apple II compare with the latest Apple desktop computers or laptops? Do some research to compare.

FIGURE 1 An Apple IIGS, which was released in 1986 and discontinued in 1992



3.8.1 Defining innovation

Innovation is about coming up with new and improved ways of doing things. This can include many things such as: developing ideas for a new good or service (invention), improving an existing good or service, and changing the way that a good or service is produced or delivered. As Australian businesses are increasingly forced to compete on a global scale, they rely on innovation to help them establish an advantage over their competitors, wherever they are based.

FIGURE 2 Innovation involves many skills and processes.



3.8.2 Types of innovation

There are many different types of innovation, however, two of the most common types are **product innovation** and **process innovation**, these types of innovation are developed in the following ways:

- *Product innovation* occurs when a new product is created or an existing product is improved. This may mean modifying the features of a product or changing the features altogether. Product innovation results in the final product or service being changed and hopefully improved, in some way. As an example, TVs have been innovated to include 3D display, smart functions, High Dynamic Range, and more recently a ‘rollable’ flat screen has been developed by LG. As technology moves so fast, these innovations quickly become replaced with newer ones.
- *Process innovation* occurs when changes and improvements are made to the production process of a product or service. The final product may not necessarily change but the way it is produced does change. Process innovation is usually aimed at improving efficiency; that is, producing the same product or service with fewer resources. An example of process innovation is the use of robotics in the manufacturing process of a car. While the final product is the same, innovation has occurred in the production process.

product innovation when a new product is created or an existing product is improved

process innovation when changes and improvements are made to the production process of a product or service

3.8.3 How can a business foster innovation?

The Department of Industry, Innovation and Science (DIIS) is a department within the Australian Government. The DIIS has created an online hub to provide businesses with practical advice on how they can foster innovation within their organisation. It encourages businesses to recognise that innovation is the key to establishing a competitive advantage. While all business are different, the online hub identifies six key steps towards business innovation. They are outlined in **FIGURE 2**.

3.8.4 Surviving and thriving

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

3.8.5 Meeting the changing demands of a competitive global market

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

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

- Changing incomes — either increasing (so customers are likely to demand more products, particularly luxury items) or diminishing (so it is likely that customers will demand fewer products).

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

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

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

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

FIGURE 3 Nike has created a competitive advantage by focusing on social media, including its own social network (Nike+), and introducing Nike concept stores.



3.8.6 Improving the profit margin

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

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

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

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

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

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

FIGURE 4 Aldi's competitive advantage is its low-cost strategy which it uses to offer customers value for money and improve its profit margin.



3.8.7 Achieving efficiencies and lower costs

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

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

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

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

Consider the formula for net profit:

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

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

3.8 SKILL ACTIVITY: Questioning and researching

Undertake research to **identify** a business that has engaged in either product innovation or process innovation. Use your research to complete the following.

- Name** the business.
- Outline** the nature of the business's innovation.
- Classify** the innovation as either product or process innovation.
- Explain** how this innovation has helped the business establish a competitive advantage.

3.8 Exercise

Learning pathways

■ LEVEL 1

1, 5, 6

■ LEVEL 2

2, 3, 4, 7

■ LEVEL 3

8, 9, 10

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Check your understanding

- What is a competitive market?
 - One in which a large number of businesses are selling different products
 - One in which a small number of businesses are competing with each other to satisfy the demands of a large number of customers
 - One in which a large number of businesses are competing with each other to satisfy the demands of a large number of customers
 - All of the above
- List the factors that can cause the demands of customers in a market to change.
- Define the term 'profit margin'.
 - Outline how a profit margin is calculated and explain what it reflects.
- Define 'innovation'.
 - Identify two examples of innovation in business.
- A business would seek a competitive advantage because it's the law to do so. True or false?
- Which of the following is an example of innovation in business?
 - Developing ideas for a new product or service
 - Improving an existing product or service
 - Changing the way that a product or service is produced or delivered
 - All of the above

Apply your understanding

Evaluating, concluding and decision-making

- Explain what might happen to a business if it did not attempt to build or create a competitive advantage when facing changing demands in a market.
- Consider each of the following cases and explain how:
 - an increase in people's income would affect the demand for jewellery
 - an increase in the number of people concerned about the environment would affect demand for plastic bags
 - a surge in the price of petrol would affect demand for large cars
 - a fall in the price of butter would affect the demand for margarine
 - an increase in the average age of the population would affect the demand for health services
 - a decrease in the number of people who think that the economy will perform well in the next year will affect the demand for electrical products
 - an increase in the number of customers willing to purchase products will affect the demand for fruit and vegetables.

Communicating

- Other than product and process innovation, describe how else a business might engage in innovation.
- Suggest three sources of information or strategies a business could use to conduct an analysis of the trends in the market environment, including their customers' needs and wants and their competitors' products.

LESSON

3.9 How do building connections and innovation help a business?

LEARNING INTENTION

By the end of this lesson you should be able to explain processes that businesses use to build connections, and innovate and differentiate products.

TUNE IN

Over half of Australia's land use is devoted to agriculture – the growing of crops and the raising of livestock (animals). Agricultural exports were valued at around \$75 billion in 2023. China is one of our biggest importers of agricultural products. The Australian government connects with farmers and agricultural businesses through varied support schemes. This includes grants, events and network groups.

FIGURE 1 This farm in Victoria has allocated land to sheep grazing.



1. Suggest, through the creation of a list or mind map, what you think Australia's most exported products are.
2. The government has many things to spend money on. Why would it seek to connect with, and help, farmers and businesses in the agricultural sector?
3. The government offers up to \$15 000 for small scale agricultural businesses to diversify their product ranges. Suggest the reasons for this.

3.9.1 Building connections

Businesses rely on other businesses. This can be seen in the relationship between two businesses; one business makes a product and the other business provides supplies to that business. The producer business will need to have a close relationship with its supplier business. This will help to ensure that it receives exactly what it needs and in good time for manufacture or production. The supplier business may also offer favourable discounts to the businesses it works with. This will reward them for their repeat purchases and business. This lesson will explore the ways that businesses build connections with other organisations to improve efficiency.

3.9.2 Sharing promotion costs

Promotion refers to the activities and methods that a business might use to promote its self and its products. This includes generating sales, engaging in public relations, direct marketing and advertising. For example, a growing sports business might add sponsorships to its marketing mix to help promote it to a wider audience.

Some businesses engage in shared promotion, and therefore shared promotional costs in order to create cost efficiencies. One of the most well known examples of this involves the fast food company McDonalds and Coca-Cola. McDonalds may run ads for its products but always includes references to Coca-Cola. Both businesses share the cost and benefit equally.

3.9.3 Government assistance

If a business can increase its market, and sell more products, it can benefit from increased economies of scale. In simple terms, this means that a business can spread its fixed costs over a larger output. When this happens cost per unit falls, which is a significant efficiency.

In Australia, businesses have relatively easy access to Asia-Pacific markets. These markets will readily buy Australian products, in particular our dairy produce (milk and cheese), our wines and meat. The Australian Government provides assistance to businesses considering selling their products overseas.

The Export Market Development Grants (EMDG) scheme, administered by Austrade on behalf of the Australian government, provides financial assistance for aspiring and current export businesses. Grants allow business to have the money to market and promote their products overseas. Furthermore, the government works directly with exporters and their banks to provide loans and insurance.

FIGURE 2 McDonald's ads always include references to Coca Cola.



FIGURE 3 Around half of Australia's cheese exports are sold in Japan.



3.9.4 Developing highly skilled professionals and leaders

A business that is able to train and develop the skills of its staff is more likely to be productive and efficient.

Businesses have several options that will help them develop a highly skilled and more efficient workforce, these include; embracing continual training, and developing partnerships with other businesses including not-for-profit organisations and government. This may allow businesses to access grants for training programs or to relocate workers that are no longer needed.

When employees in a business are highly skilled, they are more able to produce innovative and high quality products.

Australia has a reputation for producing high quality products that can be exported around the world. This is a type of efficiency that economists call technical efficiency as skilled people produce more innovative goods and services more effectively.

FIGURE 4 Training a workforce leads to an increase in skills.



3.9 SKILL ACTIVITY: Questioning and researching

Most businesses have a connection to their customers through social media. **FIGURE 5** shows how a small business entrepreneur may use video to connect with customers and show products or services. This connection is more personal than traditional forms of advertising such as TV commercials or billboards.

1. Make a list, or mind map, of some of the businesses that connect with you on a more personal level through social media, email or even more traditional forms such as post. What methods do these businesses use to connect with you? Is it video? Through a survey or through images?
2. **Research** which companies, brands or celebrities have the most followers on Instagram, or X (formerly known as Twitter). Typing 'most followed instagram accounts' will get you started. Record and organise your results – you may find a table works well.
3. **Explain** why businesses connect with customers in the ways that you have explored. How else can businesses benefit apart from increased sales?

FIGURE 5 Technology allows small business owners to connect with a wider market.



3.9 Exercise

Learning pathways

■ LEVEL 1

1, 3, 4

■ LEVEL 2

2, 5, 6, 8

■ LEVEL 3

7, 9, 10

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Check your understanding

1. **Identify** two common methods that businesses use to build connections with their customers.
2. **Outline** two benefits of a business being more connected to its customers.
3. Australian businesses are discouraged from exporting to overseas countries. True or false?
4. A Government grant is
 - A. money, provided by a government, to achieve government policies in areas such as business, education or sports.
 - B. money, provided by businesses, to the government in the form of a tax.
 - C. money, supplied to businesses from the government, which is used for marketing and promotion.
 - D. a form of prize money for businesses, like a lottery.

Apply your understanding

Communicating

5. The Export Market Development Grants (EMDG) is an example of a government-led scheme to help businesses. **Explain** what they do.
6. Why is it important for businesses to innovate?
7. A collaboration is where businesses come together to develop or market a product. **Suggest** one example of collaboration.
8. **Explain** why some businesses work together to promote and develop their their products.
9. **Outline** two reasons why it is important for a business to have highly trained staff.
10. Sponsorship is a way that two businesses might work together. **Explain** how sponsorship works and how it benefits both businesses.

LESSON

3.10 How can businesses reduce costs?

LEARNING INTENTION

By the end of this lesson you should be able to explain processes that businesses use to produce goods and services at a lower cost.

TUNE IN

You have no doubt heard the stories about old mobile phones and the size of them! Mobile phones have been around since the 1980s with some of the very first models weighing in at well over 10 kg. What was also significant was the price. In 1984 a Motorola DynaTAC (total area coverage) would have cost nearly \$4000. As such, only the very wealthiest of Australians would have been able to afford one.

1. Why do you think that the mobile phone was so expensive back in 1984?
2. What is the price of a mobile phone today? Provide a range of examples.
3. Why did mobile phone technology come at such a high price in the past? What has happened to change things?

FIGURE 1 An early mobile phone



3.10.1 A range of strategies

Businesses use a variety of strategies to create competitive advantage. These include offering a lower cost product.

3.10.2 Reducing the cost of a product

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

FIGURE 2 Driverless trucks can help decrease costs and improve productivity.



A second method is to reduce costs. If production costs are lowered, the business can reduce the price while maintaining a healthy profit margin. Aldi chooses a business model that concentrates on lowering costs for the business. Aldi stores are basic, without self-serve checkouts and any of the ‘in shop’ features like a deli or bakery. The range of products is also small in comparison to other supermarkets. Both of these things mean that Aldi can keep costs low and pass this onto the consumer through lower prices. Furthermore, Aldi stores operate with only a few members of staff. By reducing staff expenses or by cutting staff numbers, businesses can reduce costs. Restructuring (reorganising the way the business is structured) is another way that businesses reduce staff and therefore cut costs.

A business can attempt to reduce costs by increasing the production capacity of its facilities. A bigger production facility means that more items can be made. This uses the same principle of when you buy items in bulk. Buying in bulk as we know is often much cheaper.

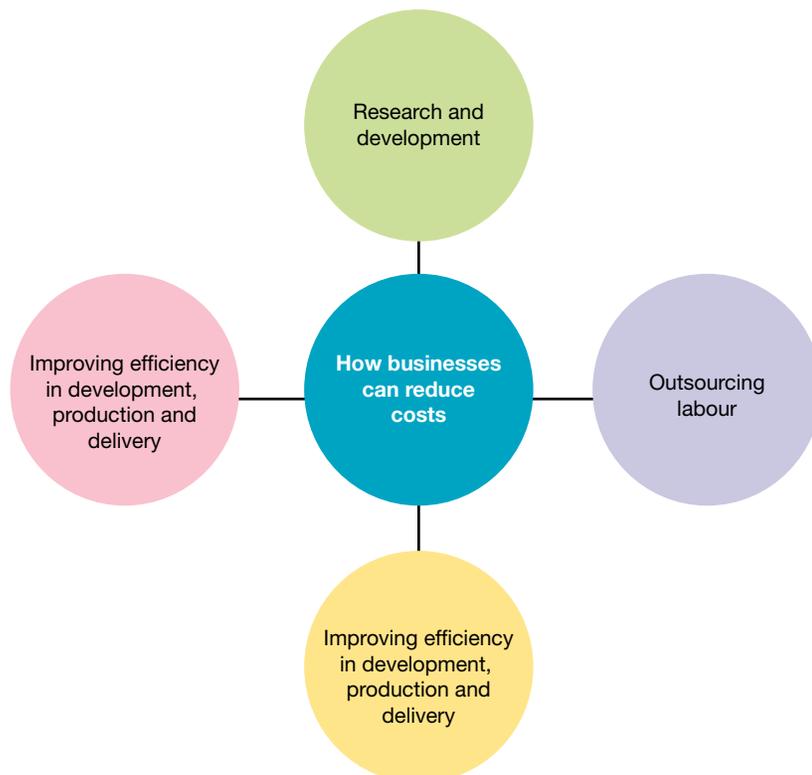
Think about the baking of cookies for example. Buying ingredients in bulk, and producing thousands of cookies with machines and huge ovens works out much cheaper per item than handcrafting items on a small scale in a home kitchen. For many businesses, reducing costs is a matter of working more efficiently (working smarter) by finding new and improved ways to manufacture goods or provide services.

FIGURE 3 Aldi is well known for its business model of cheapness over choice.



tlvd-10718

FIGURE 4 How a business can reduce costs



3.10.3 Achieving improved efficiency

One of the main objectives of a business is to improve the efficiency of its operations. Being efficient refers to how well a business uses its resources. When a business is producing a good or service with the least waste of time, energy, or material it is described as efficient and productive. **Productivity** measures the amount of **output** compared to the amount of **input** that goes into production. By improving productivity, businesses can be more competitive as they produce products at lower costs than competitors. Productivity can be improved by reducing the number of inputs required to obtain the same level of output or an increased output. Alternatively, productivity can be improved if inputs remain the same but output increases, thereby obtaining more from the inputs.

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

- capital investment to buy more efficient machines, for example
- investing in technology to speed up production of a good or provision of a service
- managing materials so that there is neither too much or too little stock.

Implementing efficiency in development

A business can create efficiency in the development stages of a product. This might mean that they make use of planning and that they pursue ideas that they have tested and developed as a group to avoid poor decision-making. Efficient development should include lots of research and product testing before the product gets launched.

Efficiency in delivery processes

Many businesses create efficiencies and lower costs by innovating different delivery methods. Amazon, the world's largest internet company, has worked hard to improve its speed of delivery.

To reduce delivery times it has added new fulfilment centres (warehousing facilities that receive, process and fill incoming orders), and is beginning to deliver orders directly to customers rather than using external package carriers. Increasingly high levels of automation are being developed to improve the speed of filling orders.

The retail giant has also announced plans to use drones to improve the speed of package delivery. Having a competitive advantage in delivery means that many customers will choose that business for that particular reason. Businesses are also using route management software to make delivery more efficient and cost effective.

FIGURE 5 Tesla is developing the Tesla Bot as one of its newest technologies. Cost efficiencies can be achieved as Tesla will use some of its existing car, robot and brain machine intertechnology in the Tesla Bot.



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

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

3.10.4 Implementing efficiency in production

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

Operations strategies for lowering costs include:

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

Operations strategies for improving quality and efficiency include:

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

3.10.5 Research and development

Businesses undertake research and development (R&D) in order to expand their knowledge of products and processes. Invention (developing something new) and innovation (improving something that already exists) are vital for providing a business with a competitive advantage. Researchers and scientists undertake R&D in a business to produce new products, improve existing products or develop new processes (find new ways to do things). The latest figures from the Australian Bureau of Statistics tell us that expenditure on research and development was around \$18 171 million. Around 40 per cent of this expenditure was in the field of Information and Computing Sciences.

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

FIGURE 6 Operations strategies are used to manage the production of the business's goods and services.



FIGURE 7 Businesses that have good quality management systems will be able to reduce defective products and costs of wastage.



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

Utilising local resources

Using local suppliers is an advantage for businesses when it means that this will make production more efficient and costs lower. Local suppliers are more likely to get the products needed for a business' production in the right place and on time. Local suppliers will also have reduced transportation costs. Both of these things mean that a business can keep its costs and prices lower. There are many businesses that claim to use and support local suppliers and this includes multinational businesses such as KFC and McDonalds.

However, in some cases local resources may be more expensive. This is the case if the local product is specialist or produced in smaller quantities such as with organic fruit and vegetables.

Outsourced labour

Outsourcing is a practice where a business contracts out tasks, roles or processes to a third-party provider. Companies across a range of industries outsource many types of jobs to cut costs, improve efficiency and deliver higher quality goods or services. By shifting business functions to a cheaper and more efficient provider, a business can focus on growing and gaining a competitive advantage. Businesses often outsource tasks to overseas businesses or employees who can take advantage of lower labour and production costs.

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

3.10 SKILL ACTIVITY: Communicating

1. Working in small groups, **select** a product from the list below:

- A loaf of bread
- A tennis ball
- 1 litre of milk
- A pair of runners
- A pair of socks

You may also use your own product suggestions.

2. In your groups, **create** a mind map of how you might reduce the manufacturing cost of your item. To do this you need to:

- **research** what your item is made of, or where the raw materials come from.
- **identify** how the product is made and who is involved in the production. (Is it made by machine or by people or both?)
- **identify** where it is made.

3. **Decide** how best to reduce the cost of producing your item and present this to your teacher or class using a suitable communication tool.

3.10 Exercise

learn on

3.10 Exercise

Learning pathways

■ LEVEL 1

2, 6, 7

■ LEVEL 2

1, 3, 4, 8

■ LEVEL 3

5, 9, 10

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Check your understanding

1. **Determine** whether the following statements are true or false.
 - a. Lowering the price of a product can create a competitive advantage if it is lower than the price offered by competitors.
 - b. Using local suppliers can make production more efficient and lower costs for businesses.
 - c. Aldi's business model focuses on ensuring they have a wide range of different products weekly, to ensure customers return.

2. **Define** output and input in your own words. Reference a particular company, organisation or product in your answer.
3. Briefly **outline** the features that form a quality product.
4. **Identify** the ways that businesses can compete on quality. **Select** all that apply.
 - A. Decreasing efficiency in development
 - B. Outsourcing labour
 - C. Raising the overall cost of a product
 - D. Using local resources where possible
 - E. Decreasing production capacity
 - F. Implementing efficiency in delivery
5. What is meant by the word 'operations'?
6. Complete the following statement: Research and development is when a business expands their _____ of a product or _____ technique in order to look for ways to _____ it. This might give the business a _____.

Apply your understanding

Communicating

7. **Explain** why the efficiency of a business's operations can play a big part in their level of success.
8. **Explain** how Amazon has improved its speed of delivery.
9. **Outline** how invention and innovation are different and provide examples to support your answer.

Evaluating, concluding and decision-making

10. **Explain** how the following strategies will create a competitive advantage for a business.
 - a. Offering a lower cost product
 - b. Improving the speed of delivery
 - c. Improving the quality of the product
 - d. Implementing efficient internal operations strategies
 - e. Undertaking research and development

LESSON

3.11 INQUIRY: Financial risks and rewards

LEARNING INTENTION

By the end of this lesson you should be able to describe how individuals manage financial risks and rewards.

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

What strategies can be used to manage financial risks and rewards?



Step 2: Interpreting and analysing

Answer the following:

1. Jordan has just finished secondary school. Her financial goals for her future include saving for a deposit to buy a small apartment. This is a long-term goal. First, Jordan will attend tertiary education. Jordan has a bank account with money in that she has saved from her part-time job at the local swimming pool.
 - a. As Jordan is now more independent, **outline** three financial risks that she might be exposed to.
 - b. Choose one of these financial risks and **explain** how Jordan might protect herself from this risk.
 - c. Jordan is saving for a deposit for an apartment. Is this considered a financial risk? **Explain** your answer.
2. Franz finished school at the same time as Jordan. Franz would like to buy shares on the share market.
 - a. Advise Franz of the financial risk associated with this.
 - b. **Outline** what Franz can do to reduce his risk.
 - c. What other options would Franz have if he wanted to earn a return on his money?
3. Consider both Jordan and Franz and their financial goals.
 - a. **Compare** the risk and reward of both goals.
 - b. **Analyse** how Jordan and Franz's goals might reflect their individual ethical decision-making.

Step 3: Evaluating, concluding and decision-making

As Jordan and Franz get older their financial responsibilities will increase.

- a. **Outline** some of the financial responsibilities that they will face.
- b. **Describe** some of the risks that the pair will face as they start to make more frequent consumer purchases.
- c. **Outline** the different forms of consumer protection that exist for consumers like Jordan and Franz.

Step 4: Communicating

Create an A4 information leaflet aimed at young adults who are about to gain their independence. The leaflet must inform a young person about the risks associated with being an active consumer. It must include the strategies that consumers can use to protect themselves. It must also include the protection that is offered by Government bodies.

Complete your self-assessment using the **Inquiry rubric** or access the 3.11 exercise set to complete it online.

Resources

 **Digital document** Inquiry rubric (doc-39805)

LESSON

3.12 Review

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



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3.12.1 Key knowledge summary

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

3.2 What is the role of banks and other deposit-taking institutions?

- Making financial decisions has both risks and rewards.
- The risks involved in managing your money and making investments can be minimised by smart and sensible decision-making.
- There are many types of financial institutions in Australia including banks, credit unions and building societies.

3.3 What financial risks do consumers face?

- It is important to be aware and cautious of financial risks such as scams, identity theft and fraudulent transactions.
- A scam is a dishonest scheme with the aim of tricking you into parting with your money or your bank account or credit card details.
- Identity theft occurs when someone illegally obtains your personal details, such as credit card numbers, and uses those details to commit fraud.
- A fraudulent or unauthorised transaction is when someone transfers money from your bank or credit card account without your permission.
- There are ways that consumers can protect themselves from financial risk including researching offers, asking questions, being cautious about clicking on links and checking their statements.

3.4 What are the different types of investment?

- There are different types of investment you can make to increase your money, but all have different levels of risk.
- Investments include shares, term deposits and managed funds.
- Savings and superannuation help you protect yourself from financial risk and plan for the future.

3.5 What financial rewards can consumers receive?

- Consumers can be affected by rewards; for example, choice, innovative products and services or benefits accrued through loyalty schemes.
- Research and development can make a business more innovative and more competitive.
- The Australian Competition and Consumer Commission (ACCC) monitors and regulates competitive marketplaces.
- Customer loyalty schemes are marketing and promotional tools used to encourage consumers to have a connection to a particular brand and encourage repeat business.

3.6 What is the importance of ethical decision-making and corporate social responsibility?

- Ethical decision-making means considering a decision in terms of whether it is respectable or 'the right thing to do'.
- Debt can be good or bad debt, but always needs to be managed wisely.
- Businesses increasingly need to consider the consequences of their actions on the local and wider community and on the environment. This is known as taking corporate social responsibility (CSR).

3.7 How are consumers protected?

- Producers are required by government to protect the safety of consumers.
- Several different bodies are responsible for ensuring that the goods and services we buy are not going to cause us harm. These bodies include government regulators.
- The safety of consumers is protected in various ways including mandatory and voluntary standards, product safety recalls or cooling-off periods.

3.8 Why is innovation important to businesses?

- Businesses seek to build or create a competitive advantage, often through innovation, to meet the changing demands of a competitive global market and improve their profit margins.
- Reducing the price of the product or reducing costs (by restructuring, increasing production capacity or working more efficiently) can achieve a lower cost product.

3.9 How do building connections and innovation help a business?

- Businesses build connections with their customers, with other businesses and with government organisations to help them to improve their products and their competitiveness.
- Businesses can also improve connections with their staff and connect with organisations that help with investment in training. Well-trained staff are often more innovative.

3.10 How can businesses reduce costs?

- Businesses use strategies such as offering a lower cost product or a differentiated product to create a competitive advantage. Implementing efficient internal operations strategies or investing in research and development can support the business in introducing these strategies.
- Businesses often focus on improving efficiency of operations including how well they use their resources, producing a good or service with the least amount of waste, energy and/or materials and ensuring that the amount of input and output is balanced.

3.11 INQUIRY: Financial risks and rewards

- Having an awareness of financial risks and rewards can be important for the future and may help prevent poor financial decisions.
- Understanding strategies to manage financial risk can be helpful.

3.12.2 Key terms

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

agent a person acting for another in a business transaction

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

capital growth an increase in the value of an asset

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

debt a financial obligation to repay money owed

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

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

ethical decision-making a way of making decisions based on using values and doing the 'right thing' by yourself and others

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

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

innovation the process of improving a product that already exists

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

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

invention the process of improving a product that already exists

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

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

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

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

process innovation when changes and improvements are made to the production process of a product or service

product innovation when a new product is created or an existing product is improved

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

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

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

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

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

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

share market a market for trading shares in listed companies; also called a stock market

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

3.12.3 Reflection

Revisit the inquiry question posed in the Overview:

What strategies can be used to manage financial risks and rewards?

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

Resources

 **eWorkbook** Customisable worksheets for this topic (ewbk-13467)
Reflection (ewbk-11587)
Crossword (ewbk-11588)

 **Interactivity** Financial risk crossword (int-9100)

3.12 Review exercise

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Multiple choice

- A customer has the right to return goods and demand a refund when.
 - the product is found to be unfit for its usual purpose.
 - the customer drops and damages the product in the car park outside the shop.
 - the customer finds a cheaper product in another shop.
 - the customer changes his or her mind the same day as the purchase took place.
- Food safety in cafés and restaurants is monitored by.
 - state and territory Fair Trading and Consumer Protection authorities.
 - the Therapeutic Goods Administration.
 - the ACCC.
 - local government health authorities.
- If a business becomes aware that a product it has sold has harmed someone,
 - it must recall the product.
 - it must refund the price to the injured customer.
 - it must inform government regulators within two days.
 - it must conduct an educational program on product safety for all its employees.
- Ethical decision-making by a consumer is.
 - considering a decision in terms of whether it is respectable or 'the right thing to do'.
 - considering a decision in terms of what brings you the biggest financial benefit.
 - avoiding financial decisions of all kinds.
 - considering a decision in terms of the long-term gain.
- Corporate social responsibility can be explained as.
 - a business considering the consequences of its actions on the community and on the environment.
 - a business considering that it must put profit first for the benefit of shareholders.
 - a business considering that it must behave responsibly with respect to finances.
 - a business considering its responsibility to its customers.
- Interest on a bank account is.
 - money that is paid regularly for the use of borrowed funds.
 - reading your bank statement carefully every month.
 - your monthly account-keeping fee.
 - a percentage of what you save every month, called an interest rate.
- Which of the following refers to moving a company's processes or services overseas?
 - Offshoring
 - Outsourcing
 - Restructuring
 - Differentiation
- Which of the following is not a good strategy for avoiding scams?
 - Researching offers, asking questions and thinking carefully before deciding
 - Being cautious if asked to provide your personal details
 - Responding immediately to any email that asks for your personal financial details
 - Checking that online shopping sites are secure

9. Which is not a benefit of saving money?
- A. Greater independence and security
 - B. Allows planning for buying big items
 - C. Helps you pay for unexpected expenses
 - D. Greater financial insecurity and worries
10. If you find yourself in debt, the best strategy is to
- A. get a new credit card so you can pay off your other cards.
 - B. borrow some money from your parents.
 - C. work out a savings plan and start paying off your debts.
 - D. ignore it and hope it goes away.

Short answer

Communicating

11. **Explain** why businesses seek to build or create a competitive advantage.
12. Competitive markets help to protect consumers. **Explain** what is meant by a competitive market. **Describe** two anti-competitive practices that a business might undertake if not regulated.
13. a. **Identify** two forms of financial reward that businesses may offer to consumers.
b. **Explain** what the purpose of these rewards is and **discuss** the effectiveness of them.
14. **Explain** how investing in technology can improve a business's competitive advantage and increase productivity.
15. 'Everyone will have debt at some stage. The key is to manage it.' **Analyse** this statement.

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GLOSSARY

- agent** a person acting for another in a business transaction
- age pension** regular payments made to elderly people to support them in retirement
- balance of trade** the difference between the value of a country's exports and the value of its imports over a specific period of time
- bankruptcy** a legal process that declares that a person cannot pay their debts and allows them to make a fresh start
- business** any activity conducted by an individual or individuals to produce and sell goods and services to make a profit
- capital growth** an increase in the value of an asset
- competitive market** a market where a large number of businesses compete with each other to satisfy the demands of a large number of customers
- debt** a financial obligation to repay money owed
- demand** the amount of a particular good or service that a customer will want to purchase at a given price
- dividends** company profits paid to shareholders, in cash or in additional shares, in proportion to the number of shares they already own
- economic entity** any person or organisation engaged in economic activity; this could be an individual, a household, a business, a government or a country
- 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 scarcity** the economic problem of having unlimited needs and wants, but limited resources to satisfy them
- economic system** a way of organising the production and distribution of the nation's goods, services and incomes
- economy** a system established to determine what to produce, how to produce and to whom production will be distributed
- entrepreneur** a person who sets up a business or businesses, taking on financial risks in the hope of profit
- ethical decision-making** a way of making decisions based on using values and doing the 'right thing' by yourself and others
- exports** goods and services sold by local businesses to overseas consumers
- fraud** a criminal offence where one person deliberately tricks another to gain personal advantage
- gross domestic product (GDP)** the value of all the goods and services produced within a country in a given period of time (usually a year). It is often used as an indicator of a country's wealth.
- gross wage** a person's wage or salary before it is taxed by the government
- imports** goods and services purchased by local consumers from overseas businesses
- innovation** the process of improving a product that already exists
- input** the resources — including materials, equipment and labour — used in the process of production
- interdependence** the mutual dependence between participants in an economy; that is, the reliance of consumers, workers, businesses and governments on each other
- interest** an amount that is paid regularly for the use of borrowed money, usually expressed as an annual percentage of the sum of money lent (the interest rate)
- invention** the process of improving a product that already exists
- labour** the human skills and effort required to produce goods and services
- market** any organised exchange of goods, services or resources between buyers and sellers

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

multinational corporation (MNC) a large business organisation that has a home base in one country and operates partially or wholly owned businesses in other countries

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

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

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

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

process innovation when changes and improvements are made to the production process of a product or service

product innovation when a new product is created or an existing product is improved

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

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

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

recession a period of decline in economic growth when GDP decreases

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

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

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

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

share market a market for trading shares in listed companies; also called a stock market

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

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

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

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

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

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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