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# ECONOMICS AND BUSINESS ALIVE

# 10

VICTORIAN CURRICULUM | SECOND EDITION



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JACARANDA  
**ECONOMICS AND  
BUSINESS ALIVE** 10  
VICTORIAN CURRICULUM | SECOND EDITION



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BUSINESS ALIVE** 10  
VICTORIAN CURRICULUM | SECOND EDITION

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# HOW TO USE

## the *Jacaranda Economics and Business Alive* resource suite

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

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

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

## Features

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

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

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

**OnResources feature boxes provide guidance about additional resources online.**

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

**Corrective feedback and Sample responses are available online for every question.**

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

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

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

### 3 The changing work environment in Australia

#### 3.1 Overview

Go to work. Go home. Get paid. Repeat. The way we work hasn't changed at all. Has it?

#### 3.1.1 The work environment in contemporary Australia

Work has always been an extremely important part of the lives of Australians. It consumes much of our time and provides many financial and social benefits. Financially, work enables people to earn an income so that they can pay for goods and services that improve their quality of life. Work also provides many social benefits. One social benefit may be the personal satisfaction derived from doing a job that you love and knowing that you have done it well. In addition, work provides an opportunity to meet people and form new relationships with others.

While the importance of work remains a constant, the nature of work in Australia has changed dramatically. While there are many factors, both economic and social, that have influenced the nature of work in Australia, a number of key influences can be identified. The process of globalisation and the rapid development of technology have revolutionised the world of work as we know it. Some of these changes have been positive; however, the loss of a healthy work-life balance is a major concern for many workers. Issues of sustainability have also affected the nature of work in Australia in recent years.

**OnResources**

- Workbook** Customisable worksheets for this topic
- eVideo Lesson** The changing work environment in Australia (4:34:57)

**LEARNING SEQUENCE**

- 3.1 Overview
- 3.2 Influences on the way we work
- 3.3 Occupations and skills
- 3.4 Trends and changes to the workforce
- 3.5 Employment in the future
- 3.6 **SkillBuilder** Predicting the outcomes of economic and business decisions
- 3.7 **Thinking Big research project** How will I work? presentation
- 3.8 Review

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

- the creation of the Renewable Energy Target (RET) scheme whereby 23.5 per cent of Australia's electricity will come from renewable energy sources by 2020
- the signing of the Kyoto agreement in 2008 to control Australia to reduce emissions
- the imposition of a carbon tax (repealed in 2014).

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

**1.11 ACTIVITIES**

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

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

2. Describe two anti-competitive behaviours that businesses may not engage in. Use the **Anti-competitive behaviour** widget in the Resources tab to help you answer the question. **Questioning and evaluating**

**1.11 EXERCISES**

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

**1.11 Exercise 1: Check your understanding**

- E51** Define the term microeconomic reform.
- E51** Outline two key areas of government microeconomic policy.
- E51** Explain what is meant by a subsidy and how it may assist businesses.
- E51** Explain how one microeconomic reform can assist the government in achieving one economic objective.
- E51** How may reducing tariffs negatively affect one government economic objective?

**1.11 Exercise 2: Apply your understanding**

- E55** In 2018 and 2019 the US government and the Chinese government both introduced tariffs on imported goods from each other. Analyse how these tariffs may affect the Australian economy.
- E56** In your opinion, should Australia follow the lead of the US government and impose tariffs on Chinese imports? Justify your answer.
- E52** Define what is meant by environmental policies, listing two important examples of such measures.
- E52** How can our immigration policy work to improve both material and non-material living standards?
- E52** Government policies can 'over-protect' — the government has offered subsidies (or rebates) to consumers who install water tanks, home insulation and solar power panels. Describe how these subsidies form part of a government's environment policy.

Try these questions in learnON for instant, **corrective feedback**. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

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

Skillbuilders model and develop key skills in context.

**1.6 Exercise 2: Apply your understanding**

- 1.6E2 Explain why business confidence may vary between industry sectors.
- 1.6E3 Explain how the level of business confidence can have an impact on economic growth and employment.
- 1.6E4 Explain why the World Happiness Report is a useful indicator for governments.
- 1.6E5 Imagine the Australian government has asked you to design a new index or indicator that provides information about the economy and standard of living in Australia. What would you call your index/indicator and how would it be calculated?
- 1.6E6 Media reports throughout 2019 referred to the 'housing affordability crisis' in Australia. Explain what you think is meant by this term and explain why this is a key indicator for non-material living standards, livability and happiness.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

**1.7 SkillBuilder: Calculating inflation** online

What is calculating inflation?

Calculating the inflation rate for Australia involves collecting data about changes in the prices of goods and services. This information is not readily available and requires time to collect and the ability to conduct surveys at regular intervals.

**Select your learnON format to access:**

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



**1.8 Living standards related to economic performance**

**1.8.1 Getting the balance right**

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

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

**FIGURE 1** Living standards can be improved by economic growth.



The following extract is a set of guidelines for marketing a new product written by successful entrepreneur Janine Allis, who founded Boost Juice.

**ADVICE FROM JANINE FOR ALL BUSINESS PEOPLE**

- Surround yourself with people who have done it before because you will save on mistakes and every mistake costs money.
- Put a promise to the brand.
- Question whether your company name tells people what you do.
- Your company name should be something you are passionate about.
- Your brand should crystallise your message.
- Clearly identify and promote to your target market.
- Changing a brand name is costly and can bring angst and heartache.
- Take what you've got but update it to reflect growth and expansion.

**FIGURE 5** Boost Juice founder Janine Allis



Everyone in a business needs to know the business's plan, so that all departments work towards achieving the business's objectives. Such a plan is referred to as an *integrated marketing plan*.

There is no one set format for developing a marketing plan. Each plan will reflect the individual characteristics of the business. However, all marketing plans should have two features in common:

- They should be realistic, given the business's present situation.
- They should be achievable within the business's resources and budgets.

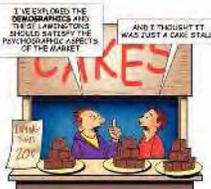
**Target markets**

Entrepreneurs aim their products at target markets. These market segments may be determined by age, gender, income, occupation, education or geographical location. Marketing analysis breaks down target markets further to show how the types of products and brands purchased reflect the personality and lifestyle of the user (psychographic segmentation). Through market research, such as surveys and telephone marketing, information about products and users is gathered. Feedback may reveal information about brand loyalty, or how memorable a brand or advertisement is.

**DISCUSS**

Brand loyalty is when customers favour one company's brand of goods (or services) over a competing brand; for example, you may know someone who will purchase only an Apple iPhone as their smart phone. Are there both advantages and disadvantages to being loyal to brands? [Critical and Creative Thinking Capability]

**FIGURE 6** Marketing is not necessarily about selling something for a profit. For example, you can run a marketing campaign for a free concert or a cake stall.



Discuss features explicitly address Curriculum Capabilities.

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

**2.11 SkillBuilder: Analysing a business case study** online

**Why are business case studies important?**

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

**Select your learnON format to access:**

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



**2.12 Thinking Big research project: Hitting the target — multimedia advertising campaign** online

**SCENARIO**

Advertising is designed to influence consumer decisions and, as with many things, it has undergone changes as society and technology have changed — from posters, billboards and newspapers to radio, television and now social media. You will create and adapt a product advertisement for use across different media types, aiming to hit the target market of each medium.

**Select your learnON format to access:**

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

**on Resources**

**ProjectsPLUS** Thinking Big research project: Hitting the target — multimedia advertising campaign (pro-020)



**2.13 Review** online

**2.13.1 Key knowledge summary**

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

**2.13.2 Reflection**

Reflect on your learning using the activities and resources provided.

**on Resources**

- **eWorkbook** Reflection (9cc-32060)  
Crossword (9cc-32063)
- **Interactively** Innovation and competition in the marketplace crossword (v1-7680)

**KEY TERMS**

**bias** prejudice, leaning towards one view of things; showing favouritism towards one entity over another

**blended marketing** a mix of internet and traditional marketing methods

**boycott** choosing to avoid the purchase of particular products or brands for ethical, moral or political reasons

**capital** physical resources a business owns and uses in production; includes factories, machinery and equipment

**competitive advantage** when a business can produce and sell goods or services better than its competitors

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

**consumer attitude** a person's overall feeling about an object or activity

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

**culture** all the learnt values, beliefs, behaviours and traditions shared by a society

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

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

**ethical consumerism** making a purchasing decision based on a company's values and behaviours

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

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

**invention** the development of something new

**inventory** the goods and materials held as stock by a business

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

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

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

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

**motives** the reasons why individuals do something

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

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

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

**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

**peer group** a group of people with whom a person closely identifies, adopting their attitudes, values and beliefs

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

Key terms are available in every topic review.

# learnON

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

It includes:

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



# teachON

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



# ACKNOWLEDGEMENTS

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# 1 Economic performance and living standards

## 1.1 Overview

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

### 1.1.1 Measuring economic performance

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

This topic will discuss some of the key areas of economic performance assessment and more closely examine how the Australian economy has performed in terms of improving people's living standards.

#### Resources



**eWorkbook** Customisable worksheets for this topic



**Video eLesson** Living standards around the world (eles-2382)

#### LEARNING SEQUENCE

- 1.1 Overview
- 1.2 Economic growth and Australia's economy
- 1.3 Employment trends and Australia's economy
- 1.4 Inflation rates and Australia's economy
- 1.5 Sustainability indices and Australia's economy
- 1.6 Other indicators of economic performance and Australia's economy
- 1.7 **SkillBuilder:** Calculating inflation 
- 1.8 Living standards related to economic performance
- 1.9 Measuring living standards
- 1.10 Macroeconomic policy options
- 1.11 Microeconomic policy options
- 1.12 Direct government intervention in the market
- 1.13 **SkillBuilder:** Preparing a budget 
- 1.14 **Thinking Big research project:** How does Australia measure up? 
- 1.15 **Review** 

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

# 1.2 Economic growth and Australia's economy

## 1.2.1 Economic growth = increased volume of goods and services

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

The need for an economy to produce goods and services to replace the ones that have been used or **consumed** is one of the main reasons why economies must grow each year. Other reasons why economies must grow include population growth — which requires additional goods and services — and the desire to continually improve the quality of products. Imagine if producers never improved telecommunication: mobile phones and the internet would not have been invented. **Economic growth** is defined as real growth in the volume (value) of goods and services produced by an economy over a period of time.

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

**FIGURE 1** Economic growth leads to employment and infrastructure growth.



## 1.2.2 Measuring economic growth

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

The most common means of measuring GDP is by using the Aggregate Demand (or Aggregate Expenditure) method shown in **FIGURE 3**.

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

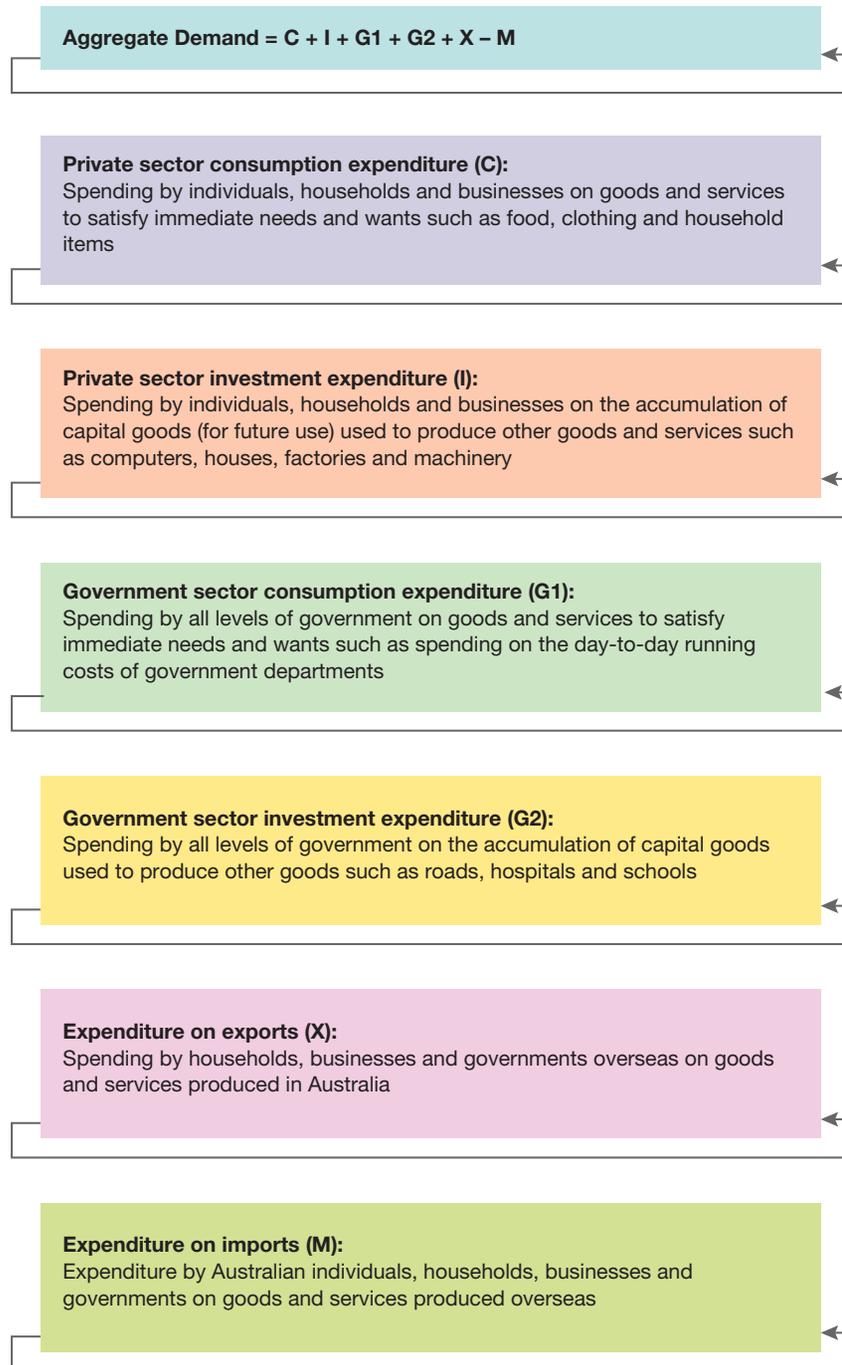
Anything less than 3 per cent is considered slow growth and suggests the economy is not keeping up with the demand for goods and services.

A figure above 4 per cent is often considered to be too high; in other words, the economy is growing too quickly and the rate of growth will not be **sustainable**. A sustained rate of growth means the economy is able to maintain that level over a significant period.

**FIGURE 2** Consumer goods must be continually produced to replace the ones that have been consumed.



**FIGURE 3** Aggregate Demand method of measuring GDP

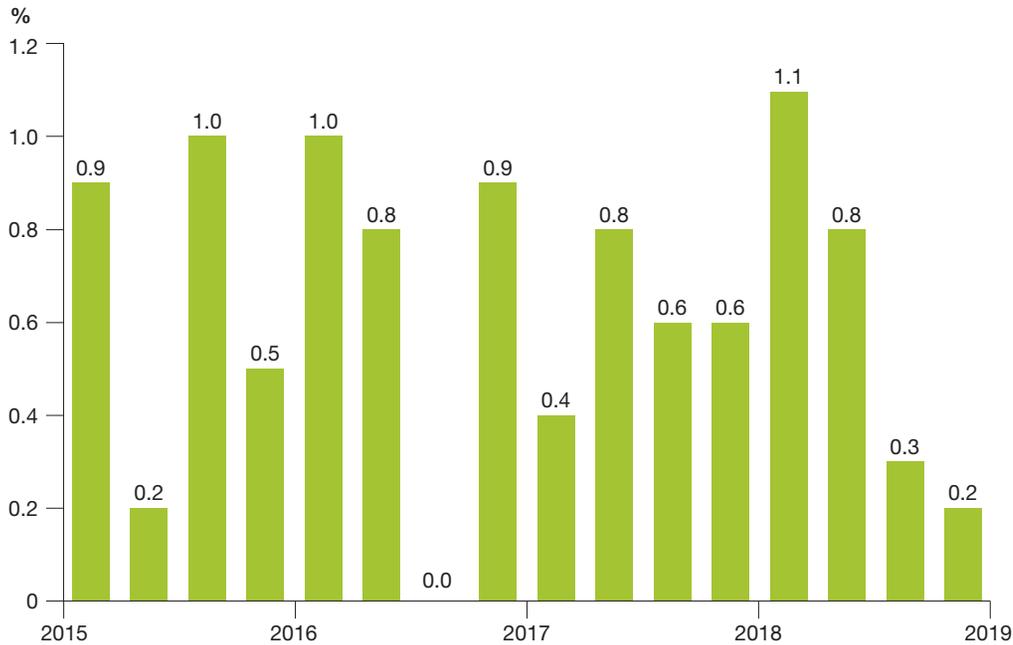


### 1.2.3 Australia's recent performance

**FIGURE 4** charts Australia's rate of economic growth, as measured by changes in real GDP (GDP adjusted for the effect of inflation), from January 2015 to the end of the December quarter in 2018.

Changes to Australia's GDP growth rate are published **quarterly** so the annual rate of GDP growth must be drawn from the quarterly figures provided. For example, the annual growth rate of 2.4 per cent for 2018 shown in **FIGURE 5** is calculated by summing the rate for each quarter of 2018 shown in **FIGURE 4** (1.1 + 0.8 + 0.3 + 0.2).

**FIGURE 4** Australia's GDP quarterly growth rate, January 2015–December 2018



**FIGURE 5** shows that each year from 2015 to 2018 Australia's growth rate fluctuated but remained below the rate of 4 per cent (the figure identified as too high). The goal of achieving a rate of growth of between 3 per cent and 4 per cent, however, was not reached.

The Australian economy advanced 0.2 per cent (seasonally adjusted) in the October–December 2018 quarter, slowing slightly from the 0.3 per cent expansion (growth) in the previous quarter. This was the smallest quarterly increase since the July–September quarter in 2016, when a zero increase was recorded. Growth in the last half of 2018 was slow due to lower housing prices and consumer spending also slowing.

### 1.2.4 International comparison

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

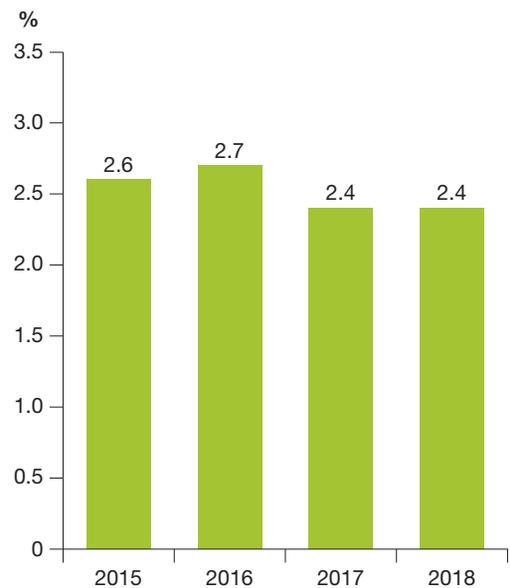
China is an important trading partner for Australia and changes in its growth can lead to a change in our growth. China buys large quantities of our mineral exports, so a decline in China's growth will have a negative impact on our mining sector and hence our growth.

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

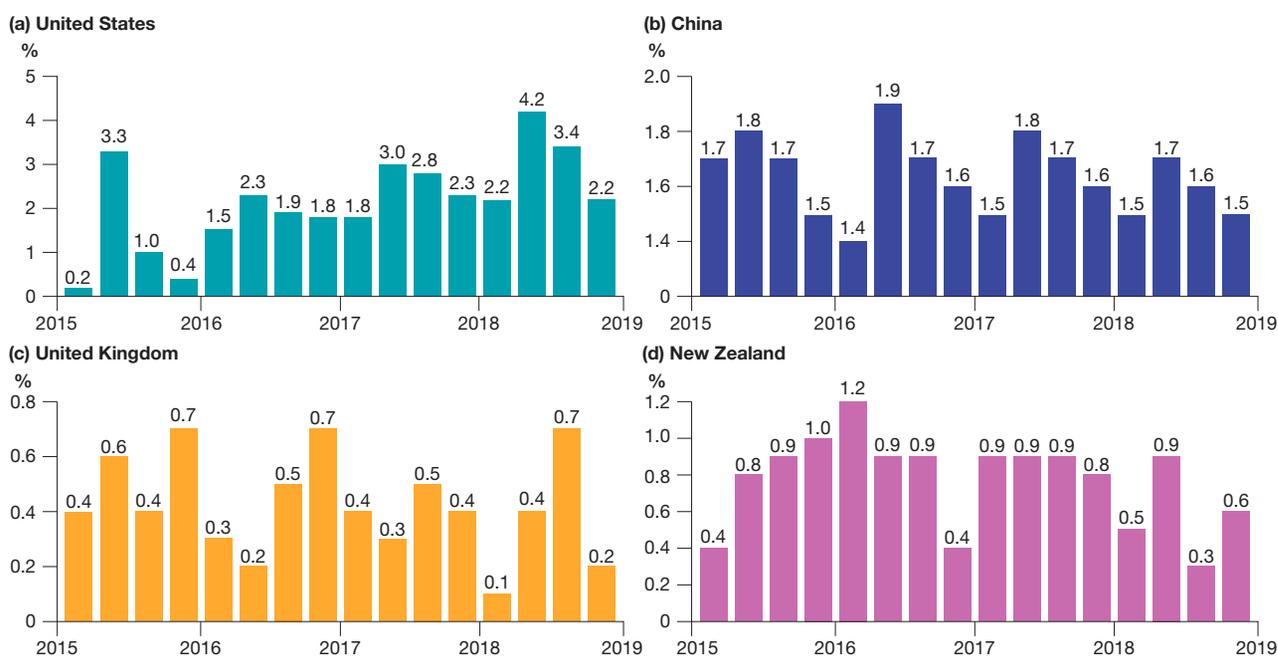
Finally, New Zealand is our closest neighbour and trading partner. The ties between the two countries are strong and New Zealand's economy often mirrors changes in our economy.

The graphs in **FIGURE 6** show the growth rates of those four economies.

**FIGURE 5** Australia's annual GDP growth rate, 2015–18



**FIGURE 6** Growth rates of other economies, Jan 2015–Dec 2018: (a) the United States, (b) China, (c) the United Kingdom and (d) New Zealand



## 1.2.5 Limitations of measuring economic growth

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

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

Let's look at each of these limitations.

### GDP doesn't include non-market production

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

### GDP doesn't provide information about the distribution of production

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

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

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

### GDP involves some 'guesstimates' of production

The value of some non-marketed (not sold) production making up GDP has to be 'guesstimated', leading to inaccuracies. For example, estimations are made for the part of a farmer's production that is consumed on

the farm, as is the annual value of accommodation provided by houses occupied by their owners. This leads to inaccuracies in Australia's GDP figures.

## on Resources

 **Weblink** Australia GDP growth rate

### 1.2 EXERCISES

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

#### 1.2 Exercise 1: Check your understanding

1. **ES1** Define *economic growth*.
2. **ES1** Identify the formula used to calculate economic growth.
3. **ES2** Explain what is meant by *GDP*.
4. **ES2** Explain why it is important for an economy to grow each year.
5. **ES1** Identify the ideal range for Australia's annual growth rate.

#### 1.2 Exercise 2: Apply your understanding

1. **ES2** Explain why it is important for an economy to measure its performance in terms of economic growth.
2. **ES3** Analyse why it is important for Australia to compare its performance in terms of economic growth with other countries.
3. **ES2** Identify Australia's current economic growth rate and describe what this means for the economy.
4. **ES3** Analyse two limitations of using GDP as a measure of a country's economic growth.
5. **ES3** Analyse how a rising growth rate may affect living standards in Australia.

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## 1.3 Employment trends and Australia's economy

### 1.3.1 The importance of reducing unemployment

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

However, not everyone is always able to find employment, and sometimes circumstances arise that lead to a person losing their job. Unemployment is a situation where people who are willing and able to work are unable to find employment. The government recognises that there will always be some level of unemployment, but tries to reduce it. Its goal is to maintain the rate of unemployment at about 5 per cent of the workforce, or at a level where cyclical unemployment is avoided. We will talk about cyclical unemployment later in this topic; it refers to unemployment caused by cyclical or regular decreases in the level of economic activity.

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

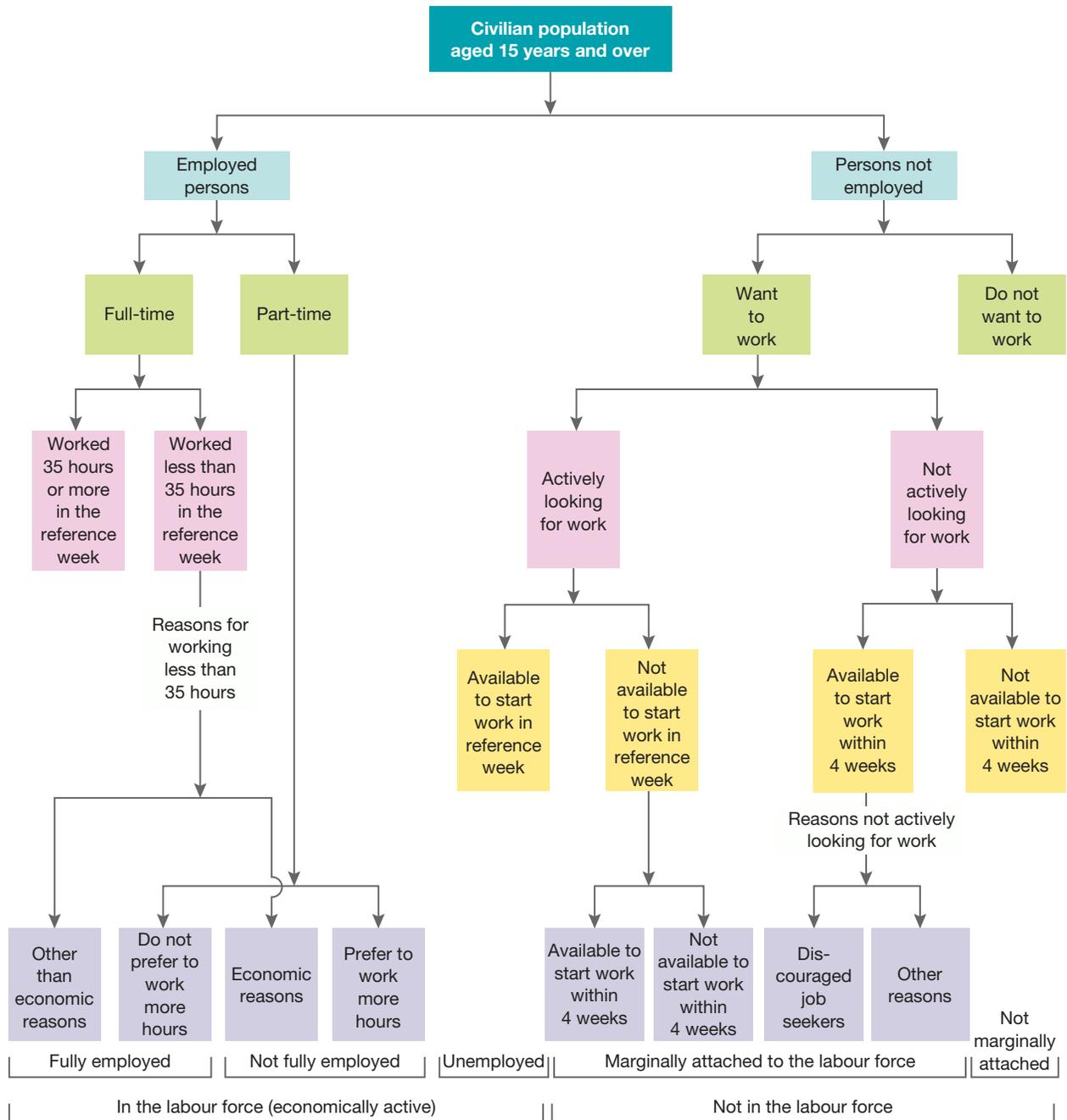
**FIGURE 1** Unemployed people have to rely on the government and welfare for their income.



### 1.3.2 Measuring unemployment

In Australia, the unemployment rate is measured using the Labour Force Survey. The Labour Force Survey is conducted monthly and involves about 32 per cent of the civilian population aged 15 years and over. This survey sample is selected from around the country. As shown in **FIGURE 2**, people in the labour force are classified and measured according to their labour force status.

**FIGURE 2** The structure of Australia’s Labour Force Survey



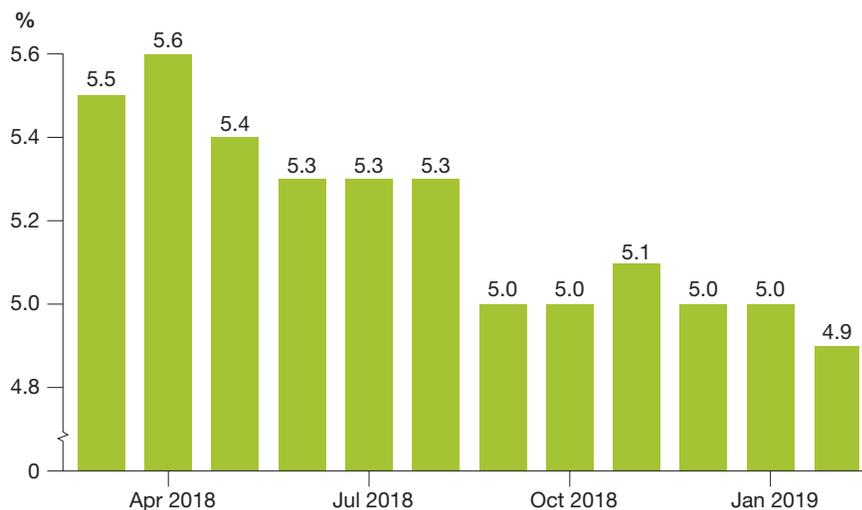
The Australian Bureau of Statistics (ABS) defines the labour force as people who are older than 15 years and who are able and willing to work. This definition includes people who are classified as employed — that is, they work full time (usually more than 35 hours per week) or part time (more than one hour per

week); work for payment or profit; are self-employed; work in a family business; or have a job but are prevented from working due to illness, strikes, holidays or other similar situations in the survey week.

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

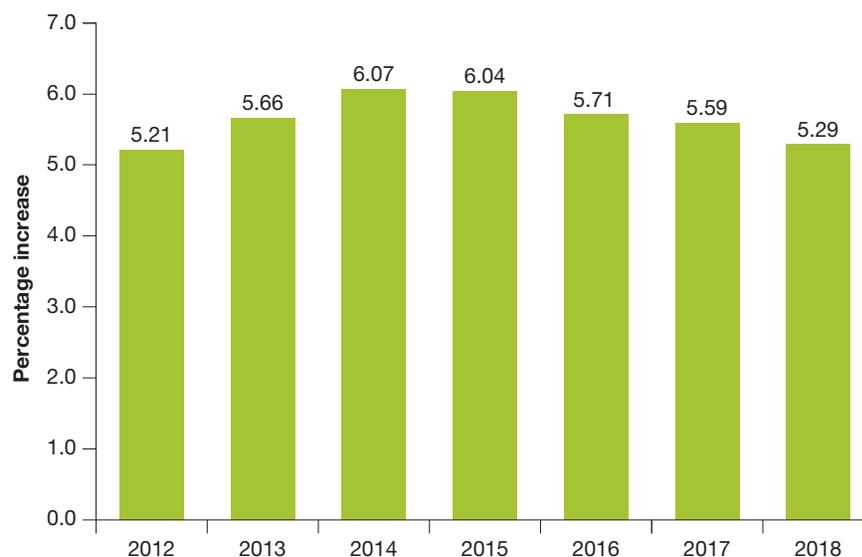
As seen in **FIGURE 3**, Australia's unemployment rate fluctuated over the 12 months to February 2019, but an overall downward trend is evident.

**FIGURE 3** Australia's unemployment rates, March 2018–February 2019



We can see in **FIGURE 4** that from 2012 to 2018, unemployment has remained above 5 per cent, peaking at just over 6 per cent in 2014 and 2015, with an overall downward trend since that point.

**FIGURE 4** Australia's unemployment rates, 2012–18

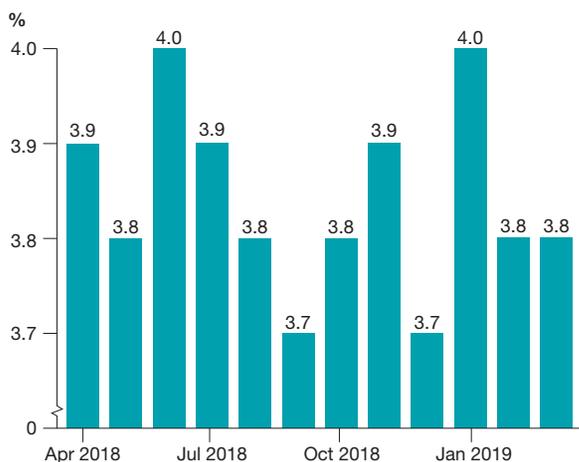


### 1.3.3 International comparison

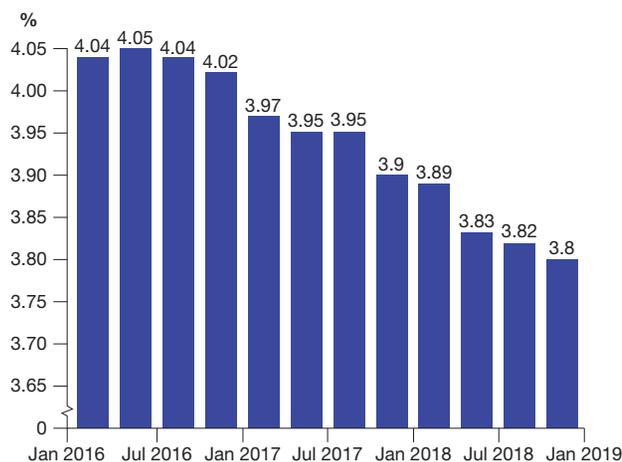
As with economic growth, it is worthwhile comparing Australia's employment performance with that of some of Australia's trading partners. The graphs in **FIGURE 5** show the recent unemployment rates of the United States, China, the United Kingdom and New Zealand.

**FIGURE 5** Unemployment rate of other economies 2018–19: (a) United States, (b) China, (c) United Kingdom and (d) New Zealand

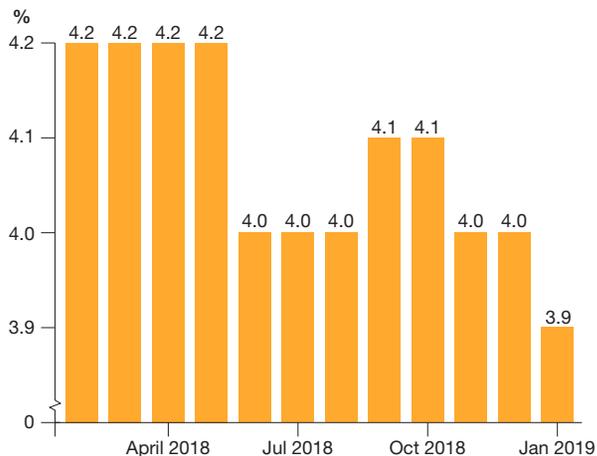
(a) United States



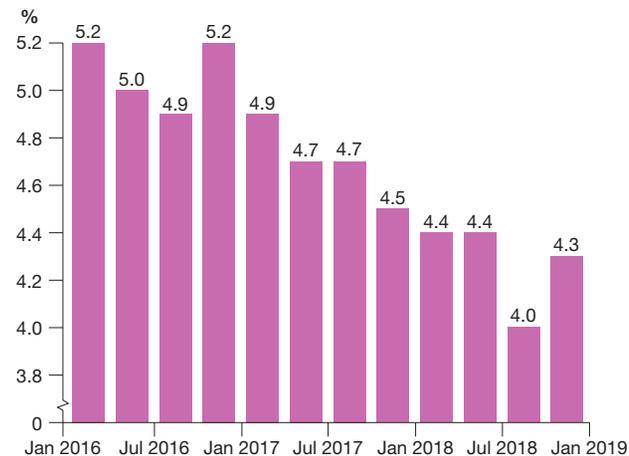
(b) China



(c) United Kingdom



(d) New Zealand



### 1.3.4 Causes of unemployment

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

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

## Cyclical unemployment

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

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

## Structural unemployment

Structural unemployment occurs as a result of changes in the way goods and services are produced. Generally, this takes place when production methods change, leading to a mismatch of skills; that is, the skills currently in use are outdated and are not transferrable to the new production methods. This causes job losses, often due to changes in technology. Another cause of structural unemployment is outsourcing. This is when one section or department of a business is closed and its work is done overseas.

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



## Seasonal unemployment

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

**FIGURE 7** Fruit picking is one example of a seasonal job.



## Frictional unemployment

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

### 1.3.5 Effects of unemployment

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

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

#### Deteriorating living standards

Unemployment affects both **material** and **non-material living standards**. When an individual becomes unemployed, their standard of living is likely to deteriorate considerably because the average wage of \$1604 per week (as at November 2018) is replaced by an average unemployment benefit of \$277 per week (as at March 2019). This results in less spending on goods and services, and reduced savings as individuals readjust their spending patterns.

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

#### Decreased national production

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

#### Changed government budget position

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

#### DISCUSS

Unemployment benefits are paid to job seekers to provide a minimum adequate standard of living to people who are temporarily out of the workforce. As of March 2019, the Newstart Allowance for a single person aged 22 or over with no children is a maximum of \$555.70 per fortnight. Do you think this is about right, or should it be a higher or lower figure?

[Ethical Capability]

#### Resources

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

## 1.3 EXERCISES

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

### 1.3 Exercise 1: Check your understanding

1. **ES1** Define the term *labour force*.
2. **ES1** Outline the groups that make up the labour force.
3. **ES1** Define the term *unemployment*.
4. **ES1** Describe seasonal unemployment.
5. **ES1** Explain what is meant by *structural unemployment*.

### 1.3 Exercise 2: Apply your understanding

1. **ES2** Explain how the trend in Australia's unemployment rate may have affected the Australian economy over the past four years.
2. **ES2** Explain how unemployment may affect an individual.
3. **ES3** Analyse the effect of rising unemployment on material living standards.
4. **ES3** Analyse the effect of rising unemployment on non-material living standards.
5. **ES2** Explain how unemployment levels are linked to economic growth.

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# 1.4 Inflation rates and Australia's economy

## 1.4.1 Getting value for our money

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

When the price of a good or service increases, we think of this as inflation. However, inflation is more than just the price of a good or service increasing. **Inflation** occurs when there is an increase in the general level of prices across the economy.

## 1.4.2 Measuring inflation

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

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

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

**FIGURE 1** Inflation causes the value of money to fall.



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

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

**FIGURE 2** The ABS regularly conducts a survey of prices to calculate inflation.



### 1.4.3 Causes of inflation

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

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

#### Demand-side factors

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

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

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

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

#### Supply-side factors

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

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

- *an increase in wages paid to employees.* Wages are often the main cost for a producer and rising wages represent a large cost increase, which is passed on to consumers.
- *an increase in interest rates.* This raises the producer's cost of finance and borrowing. These costs are usually passed on to consumers.
- *an increase in government taxes, oil prices and prices for utilities (such as electricity, gas and water services).* These costs are outside the control of the producer and are also usually passed on to consumers.
- *an increase in the cost of raw materials.* One-off supply-side shocks due to a one-off event can cause this. An example may be a severe storm that negatively affects the yield of a crop, such as Cyclone Larry, which hit Queensland in 2006 and wiped out much of the banana crop for that year. The price of bananas and banana-based products rose as the supply had decreased.
- *Australia's trading partners experiencing a period of inflation.* Many component parts are imported so, if our trading partners are experiencing inflation, that inflation may be passed on to Australian producers and suppliers, who then pass the cost on to consumers.

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

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

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

**FIGURE 3** Cyclone Larry hit Queensland in 2006, damaging banana crops and causing banana prices to rise dramatically.



### 1.4.4 Effects of inflation

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

- *causes local producers to lose out to overseas competitors.* Inflation raises the price of goods and services produced locally. This hurts Australian producers who wish to compete internationally as the prices they sell their products for cannot compete with the lower overseas prices. This inability to compete can cause business closures, resulting in higher rates of structural unemployment.
- *undermines economic growth.* Inflation erodes consumer and business confidence as consumers stop spending and producers stop investing in productive assets when prices are rising. This can reduce the level of spending, negatively affecting the rate of economic growth.
- *changes the allocation of resources.* When inflation occurs, people with excess income often invest in what is referred to as unproductive resources; that is, resources such as shares and property, which generally increase in value at a faster rate than inflation. So, instead of being used to purchase

**FIGURE 4** In 2009, inflation in Zimbabwe saw its government produce a 100 trillion dollar banknote.



productive resources that generate goods and services, this money goes into resources that only produce an income for those wealthy enough to invest.

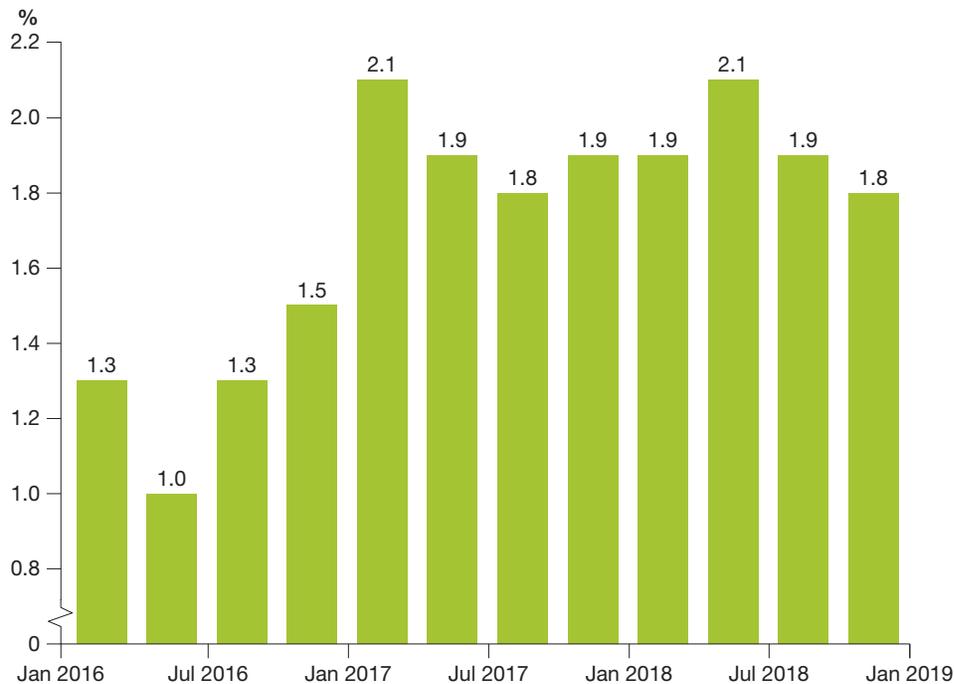
- *affects income distribution.* Inflation can reduce the purchasing power of the dollar and have a negative impact on income distribution. People on a fixed wage are not able to increase their income to cope with price increases, so their purchasing power declines.

### 1.4.5 Australia's inflation rate

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

**FIGURE 5** charts Australia's inflation performance from January 2016 to the end of December 2018. It shows that Australia's inflation rate stayed under 3 per cent per annum, which is the upper limit of the target rate for inflation.

**FIGURE 5** Australia's inflation performance, Jan 2016–Dec 2018



### 1.4 EXERCISES

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

#### 1.4 Exercise 1: Check your understanding

1. **ES1** What is meant by *inflation*?
2. **ES1** What are the two types of inflation?
3. **ES1** Explain why inflation is bad for the economy.
4. **ES2** Identify two groups in society that would be negatively affected by high inflation and explain why.
5. **ES2** Identify one group who may benefit from inflation and explain why this may occur.

#### 1.4 Exercise 2: Apply your understanding

1. **ES4** How might rising prices affect material living standards?
2. **ES4** How might rising prices affect non-material living standards?
3. **ES1** How is inflation measured?

4. **ES4** Can you identify any problems with the way inflation is calculated?
5. **ES4** Prepare a list of all the items you have spent money on over the past week. Classify the items into the categories used by the ABS to calculate the CPI.
  - (a) Which category is most important to you?
  - (b) What percentage of your spending belongs to each category?
  - (c) Explain the item of expenditure that is most important to you. Is your spending reflected in your response?
  - (d) Assuming your income remained constant, explain how a rise in prices of 5 per cent may affect your spending.

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## 1.5 Sustainability indices and Australia's economy

### 1.5.1 Qualitative measures

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

While these measures provide useful information, this is not the only information available or relevant to an economy. There is a range of qualitative measures that can be calculated and examined to measure the performance of our economy. Qualitative measures determine or measure the quality of our life and the economy. Let's examine three of these qualitative measures (or indices) now:

- the Genuine Progress Indicator (GPI)
- Measuring Australia's Progress (MAP)
- the Human Development Index (HDI).

**FIGURE 1** Deforestation is an issue for economies that wish to develop in a sustainable manner.



### 1.5.2 Genuine Progress Indicator (GPI)

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

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

Some items that add to the GDP include:

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

### 1.5.3 Measuring Australia's Progress (MAP)

MAP is a collection of measures published periodically by the Australian Bureau of Statistics (ABS). It arose partly out of public interest in determining whether or not life in our country was getting better, and if so, whether this improvement could be sustained indefinitely.

There are four main categories of measures used by the ABS to compile this indicator. **TABLE 1** summarises some of the key elements that make up each category of measure.

**TABLE 1** Measuring Australia's progress (MAP) – a summary of the concept's structure

Key dimensions, specific headline and supplementary measures, and brief description of recent trends		
<b>1. Individuals</b>	<ul style="list-style-type: none"> <li>• <b>Health</b>, including life expectancy, infant mortality, causes of death, burden of disease</li> <li>• <b>Education and training</b>, including participation and retention rates, qualifications, literacy</li> <li>• <b>Work</b>, including the unemployment rate, labour underutilisation rate and participation rate</li> <li>• <b>Culture and leisure</b>, including attendance at cultural and sporting events</li> </ul>	All sets of statistics suggest progress over the past five years.
<b>2. The economy and economic resources</b>	<ul style="list-style-type: none"> <li>• <b>National income</b>, including real GDP per capita, real disposable income per capita, real household consumption spending per head and saving as a percentage of GDP</li> <li>• <b>Economic hardship</b>, including the distribution of average real equivalised disposable household income by quintile</li> <li>• <b>National wealth</b>, including real assets and liabilities per capita, economically demonstrated natural resources per head, real net foreign debt and mean household net worth</li> <li>• <b>Housing</b> (no specific indicator)</li> <li>• <b>Productivity</b>, including both labour and multifactor measures of efficiency, research and development as a percentage of GDP, and hours worked</li> <li>• <b>Competitiveness and openness</b>, including ratio of imports to GDP, real unit labour costs in production, foreign ownership and exchange rate</li> <li>• <b>Inflation</b>, including the CPI and other measures of prices</li> </ul>	There appears to have been overall progress in most of these areas but economic hardship and wealth were not evenly distributed across society.
<b>3. The environment</b>	<ul style="list-style-type: none"> <li>• <b>The natural landscape</b>, including threatened species, weed problems, native forest area, water storage capacity, water diversions and river condition index</li> <li>• <b>The air and atmosphere</b>, including days of excess ozone levels, highest hour averages of sulfur dioxide concentrations, greenhouse gas emissions by sector, carbon dioxide concentrations</li> <li>• <b>Oceans and estuaries</b>, including visitors to the Great Barrier Reef, number of reported oil spills</li> </ul>	Data suggests regression for the environment in some areas and progress in others over the past five years.
<b>4. Living together</b>	<ul style="list-style-type: none"> <li>• <b>Family, community and social cohesion</b>, including proportion of children with lone mother families, children without an employed parent, primary carers of the elderly, voluntary work, suicide and drug-induced death rates, participation in religious activities</li> <li>• <b>Crime</b>, including homicide rate, imprisonment rates, victims of personal and household crime</li> <li>• <b>Democracy, government and citizenship</b>, including proportion of overseas born eligible residents who are citizens, voter turnout, proportion of women in federal parliament and major listed companies</li> <li>• <b>Communication</b>, including computer ownership and internet access for households</li> <li>• <b>Transport</b>, including passenger vehicles per 1000 people, road facilities</li> </ul>	Trends in this area are mixed, with some showing progress and others regression.

## 1.5.4 Human Development Index (HDI)

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

### 1.5 ACTIVITY

What things are important to you? Conduct a survey of the class to ascertain the three most important things for each member of the class. Using this information provide an explanation of what we should measure to determine our progress in terms of economic performance.

**Examining, analysing, interpreting**

### 1.5 EXERCISES

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

#### 1.5 Exercise 1: Check your understanding

1. **ES1** What is meant by the term *sustainability*?
2. **ES2** Explain why sustainability is more than just pollution.
3. **ES2** Explain how non-material living standards may factor into a measure of sustainability.
4. **ES1** Identify what is meant by the *HDI*.
5. **ES1** Why is it important to consider sustainability when measuring economic performance?

#### 1.5 Exercise 2: Apply your understanding

1. **ES2** Explain what is meant by the *Genuine Progress Indicator*.
2. **ES2** Select two key dimensions in the MAP and explain them.
3. **ES2** Explain democracy and crime as concepts in the MAP.
4. **ES3** Analyse why you think alternative measures of performance are needed.
5. **ES5** Why do you think statistics for material living standards (GDP) are published but data measuring non-material living standards is not publicised? Explain your view.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 1.6 Other indicators of economic performance and Australia's economy

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

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

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

## 1.6.1 The Business Confidence Index

Imagine you had a casual job and the hours that you worked changed significantly each week. One week you may work 18 hours and the next week you may only work 4 hours. This uncertainty about your working hours may affect your confidence as a consumer. You may decide to save your money rather than spend it, just in case you don't work many hours in the next week.

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

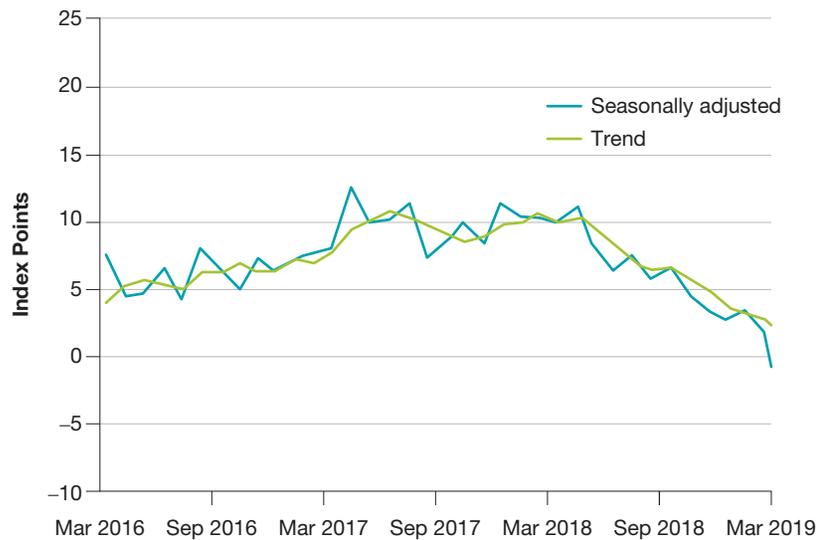
The National Australia Bank (NAB) has developed a well-respected and commonly used indicator to measure business confidence. The NAB conducts a monthly business survey of more than 500 businesses to gauge how confident they are about the economy. In particular, data is gathered on the expectations of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

As **FIGURE 2** shows, the level of business confidence can change significantly over time. Business confidence is influenced by both domestic and global events. Examples of domestic factors that may affect business confidence include a change of government, new laws or changes to the level of interest rates.

**FIGURE 1** When business confidence in the economy is high, more employees are hired.



**FIGURE 2** The NAB Business Confidence Index for March 2016–March 2019



Source: NAB Monthly Business Survey, March 2019.

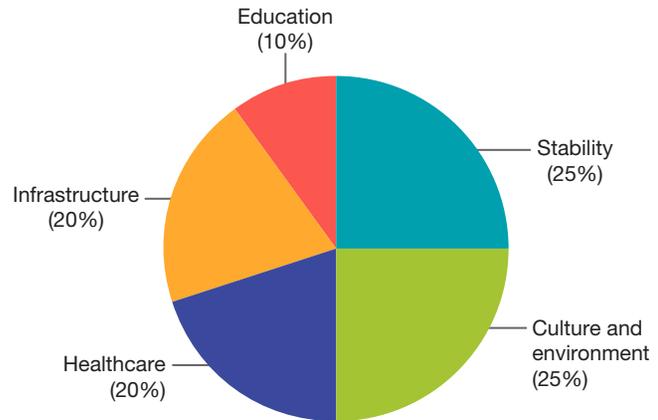
Business confidence in one industry sector (such as mining) may be very different to that of other industry sectors. As such, the Business Confidence Index provides data about different industries. For example, the March 2019 NAB Business Survey indicated that business confidence was positive in most industry sectors apart from mining and wholesale. It also provided data to show that the largest gains in business confidence occurred in the construction and retail industries.

## 1.6.2 Liveability Ranking

While economic indicators are very important, it is also necessary to consider if the benefits of a strong economy are improving our quality of life. A number of indicators such as the Liveability Ranking have been developed to try to measure this. The Liveability Ranking considers a wide range of factors (outlined in **FIGURE 3**) to determine which cities are the most desirable to live in.

The 2019 *Liveability Ranking Report* surveyed 140 cities using the criteria set out in **FIGURE 3**. Overall, the report identified a range of factors that had contributed to changing 'liveability' in cities throughout the world. In particular, economic crisis, civil unrest, acts of terror and violence have reduced stability throughout the world and caused many cities to become less 'liveable'. Cities such as Damascus (Syria), Lagos (Nigeria) and Tripoli (Libya) are all considered less liveable, owing to such factors.

**FIGURE 3** The major categories used to determine the Liveability Ranking (and the weighting of each)



**FIGURE 4** Melbourne topped the list of the world's most liveable cities for seven years in a row from 2011 to 2017. In 2018 and again in 2019, Vienna, Austria took the top spot, with Melbourne in second place.



## 1.6.3 The World Happiness Report

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

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

**FIGURE 5** The main aim of having a strong economy is to ensure that people can benefit from it and enjoy a higher standard of living.



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

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

**FIGURE 6** The top ten and bottom ten countries according to the *World Happiness Report*, 2019

Top ten countries		Bottom ten countries	
Rank	Country	Rank	Country
1	Finland	156	South Sudan
2	Denmark	155	Central African Republic
3	Norway	154	Afghanistan
4	Iceland	153	Tanzania
5	Netherlands	152	Rwanda
6	Switzerland	151	Yemen
7	Sweden	150	Malawi
8	New Zealand	149	Syria
9	Canada	148	Botswana
10	Austria	147	Haiti

## DISCUSS

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

**[Personal and Social Capability]**

## 1.6 ACTIVITY

Choose *one* country that is not listed in the top ten or bottom ten of the World Happiness Report, 2019.

- For your chosen country, undertake research in relation to its possible happiness levels.
- Use your research to predict where your chosen country would be ranked on the World Happiness Report for 2019. Check to see how close your estimated ranking was with the actual ranking for your country on the report.

**Questioning and evaluating**

## 1.6 EXERCISES

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

### 1.6 Exercise 1: Check your understanding

- ES1** Define *business confidence*.
- ES1** Identify one international and one domestic factor that may influence business confidence.
- ES1** Define *liveability*.
- ES1** What are the five major categories used to determine the liveability ranking?
- ES1** According to the 2019 World Happiness Report, what are the:
  - three happiest countries
  - three least happy countries?



## 1.6 Exercise 2: Apply your understanding

1. **ES2** Explain why business confidence may vary between industry sectors.
2. **ES2** Explain how the level of business confidence can have an impact on economic growth and employment.
3. **ES2** Explain why the World Happiness Report is a useful indicator for governments.
4. **ES5** Imagine the Australian government has asked you to design a new index or indicator that provides information about the economy and standard of living in Australia. What would you call your index/indicator and how would it be calculated?
5. **ES5** Media reports throughout 2019 referred to the 'housing affordability crisis' in Australia. Explain what you think is meant by this term and explain why this is a key indicator for non-material living standards, liveability and happiness.

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# 1.7 SkillBuilder: Calculating inflation

online only

## What is calculating inflation?

Calculating the inflation rate for Australia involves collecting data about changes in the prices of goods and services. This information is not readily available and requires time to collect and the ability to conduct surveys at regular intervals.

### Select your learnON format to access:

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



# 1.8 Living standards related to economic performance

## 1.8.1 Getting the balance right

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

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

**FIGURE 1** Living standards can be improved by economic growth.



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

Let's examine the link between the indicators of economic performance and material and non-material living standards. As mentioned in section 1.3.5, living standards refer to how well off a nation or country is overall. Material living standards relate to the level of economic wellbeing, influenced by annual levels of gross domestic product (GDP) per capita, incomes, and consumption of goods and services. The second type of living standard is referred to as non-material living standards. Non-material living standards are value-based elements of human wellbeing that are not connected to material possessions. They affect the quality of our daily lives. Elements of non-material living standards include our level of personal happiness and self-fulfilment, crime and death rates, the absence of pollution and political freedom. Many of these are difficult to measure.

## 1.8.2 Living standards and economic growth

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

**FIGURE 2** Material and non-material living standards can be improved by owning your own home.



### Strong and sustainable economic growth

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

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

Growth should also be sustainable. Sustainable growth refers to the rate at which Australia's economy can grow its production of goods and services without jeopardising the living standards of future generations. The obvious problem in this context is that our demand for non-renewable natural resources is creating serious environmental problems such as pollution, global warming, resource depletion and loss of biodiversity. For example, clearing old growth forests and land, discharging waste into our waterways and the atmosphere, building in sensitive areas, building more freeways, and encouraging excessive

consumerism may maximise our short-term living standards and lifestyles, but what future will our children have? Will they be able to enjoy the same material and non-material living standards as we do? So, in this sense, the rate of economic growth is only sustainable in the long term if it does not deplete non-renewable resources, degrade the environment and reduce the ability of future generations to meet their needs and wants. In some ways, a trade-off exists between economic growth and some aspects of current and future living standards.

### DISCUSS

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

[Ethical Capability]

## on Resources

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

### 1.8.3 The weaknesses of GDP per capita as a measure of living standards

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

#### GDP per capita is an average

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

**FIGURE 3** An increase in GDP doesn't necessarily mean a reduction in poverty rates.



#### GDP per capita assumes improvements in living standards

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

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

## GDP per capita doesn't measure the environmental impact

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



### Resources



Weblink Australia GDP annual growth rate

## 1.8 EXERCISES

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

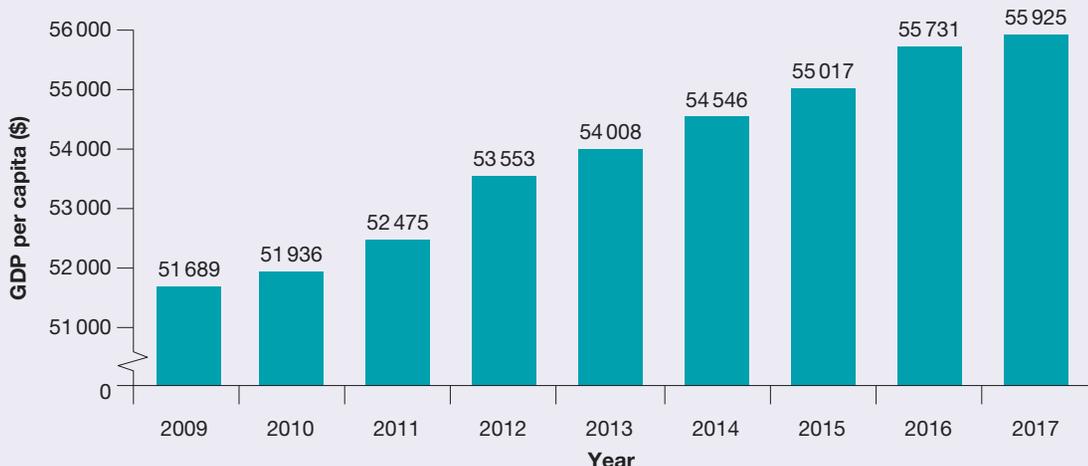
### 1.8 Exercise 1: Check your understanding

1. **ES1** Define *economic growth*.
2. **ES1** Explain what is meant by *GDP*.
3. **ES1** Define *GDP per capita*.
4. **ES1** Distinguish between *strong* and *sustainable* economic growth.
5. **ES1** Distinguish between *material* and *non-material* living standards.

### 1.8 Exercise 2: Apply your understanding

1. **ES2** Explain why economic growth may be considered a good measure of living standards.
2. **ES2** Explain why GDP per capita may not be considered an appropriate measure of living standards.
3. **ES2** Explain why GDP per capita may be a better measure of material living standards than economic growth rates.
4. **ES2** Explain why GDP per capita is not a useful measure of changes in non-material living standards.
5. **ES3** Explain what is shown in the graph in **FIGURE 4**.

**FIGURE 4** GDP per capita in Australia



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# 1.9 Measuring living standards

## 1.9.1 Alternative ways to measure living standards

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

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

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

**FIGURE 1** Factors to consider when determining living standards



## 1.9.2 Genuine Progress Indicator (GPI)

As discussed in section 1.5.2, the GPI index of overall living standards identifies some of the same consumption data involved in calculating GDP, but it then makes both negative and positive adjustments to some of the values calculated. The changes are designed to reflect the positive or negative effects on society and our living standards of certain types of activity and spending. Supporters of the measure argue

that these adjustments make the statistics a far better indicator of the sustainable level of economic welfare or living standards than simply using GDP.

### 1.9.3 Human Development Index (HDI)

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

In 2017 Australia was ranked third in the HDI with an index of 0.94, the same value it has had since 2013. The two main weaknesses of the HDI are the subjective nature of indicators used to compile the index and the unreliability of the statistical data for some countries.

### 1.9.4 Quality-of-life index

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

The index was calculated in 2019 for 71 countries and territories using ten quality-of-life factors along with forecasts of future GDP per capita to determine a nation's score.

The ten quality-of-life factors are:

- material wellbeing as measured by GDP per capita
- life expectancy at birth
- the quality of family life based primarily on divorce rates
- the state of political freedoms
- job security as measured by the unemployment rate
- climate, measured by two variables: the average deviation of minimum and maximum monthly temperatures from 14 degrees Celsius; and the number of months in the year with less than 30 millimetres of rainfall
- personal physical security ratings based primarily on recorded homicide rates and ratings for risk of crime and terrorism
- the quality of community life, based on membership in social organisations
- governance, measured by ratings for corruption in public office
- gender equality, measured by the share of seats in parliament held by women.

In 2019 Australia was ranked fourth with a score of 191.13 out of 200. Denmark, Switzerland and Finland filled the top three places. Only Switzerland (second) ranked higher than Australia (third) in the HDI in 2019.

### 1.9.5 Other indicators

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

- the Green Gross Domestic Product (green GDP)
- the Happy Planet Index (HPI).

#### Green Gross Domestic Product

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

## Happy Planet Index

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

The index is made up of three components:

- experienced wellbeing
- life expectancy
- ecological footprint.

In 2016, 140 countries were surveyed, with some 'poor' countries scoring high due to their low ecological footprint and high life expectancy. Australia ranked one hundred and fifth, with a score of 21.2. Costa Rica ranked first with a score of 44.7. Switzerland ranked 24th with a score of 34.3.

### 1.9 EXERCISES

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

#### 1.9 Exercise 1: Check your understanding

1. **ES2** Describe why measuring living standards is important.
2. **ES1** Identify a traditional measure of living standards.
3. **ES1** Outline three limitations of the measure identified in question 2.
4. **ES1** Identify one alternative measure of living standards.
5. **ES2** What does it mean if a country's Human Development Index score has gone down?

#### 1.9 Exercise 2: Apply your understanding

1. **ES2** Explain why other measures of measurement are necessary.
2. **ES4** Prepare a list of five factors that are important to you and should be included in a calculation of your living standards.
3. **ES4** Rank the five factors you identified in question 2 and explain which one you consider most important and why. Share your rankings with the rest of the class.
4. **ES3** Analyse why your list is different from others in the class.
5. **ES5** 'When measuring living standards, material living standards are more important than non-material living standards.' Write a response, either agreeing or disagreeing with this statement.

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## 1.10 Macroeconomic policy options

### 1.10.1 The bigger picture

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

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

**FIGURE 1** The budget is delivered to parliament annually by the treasurer.



## 1.10.2 Budgetary/fiscal policy

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

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

- budget deficit, where the level of government receipts is less than the level of government expenditure
- budget surplus, where the level of government receipts is greater than the level of government expenditure
- balanced budget, where the level of government receipts equals the level of government expenditure. This is a rare event, and the government usually aims for a

fiscal balance, where the value of budget deficits equals the value of budget surpluses over the business-cycle period (seven years).

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

### Government budget receipts

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

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

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

#### Direct taxes

Examples of direct taxes include:

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

**FIGURE 2** Budgets can have a negative impact on some members of society.



- *company tax*. This is a flat or proportional tax levied directly on business profits. In 2018 the government passed a law to reduce this tax to 25 per cent by 2021–22.
- *fringe benefits tax (FBT)*. This represents a direct tax paid by firms on the value of ‘perks’ provided to employees, such as a company-provided car or house. It is currently levied at 47 per cent of the taxable benefit.
- *superannuation fund tax*. This tax is levied at 15 per cent of most contributions as well as on the interest from fund investments. People aged over 60 can currently withdraw their super tax-free.
- *petroleum resource rent tax (PRRT)*. This is levied at 40 per cent of the profits made from petroleum operations.

### Indirect taxes

Examples of indirect taxes include:

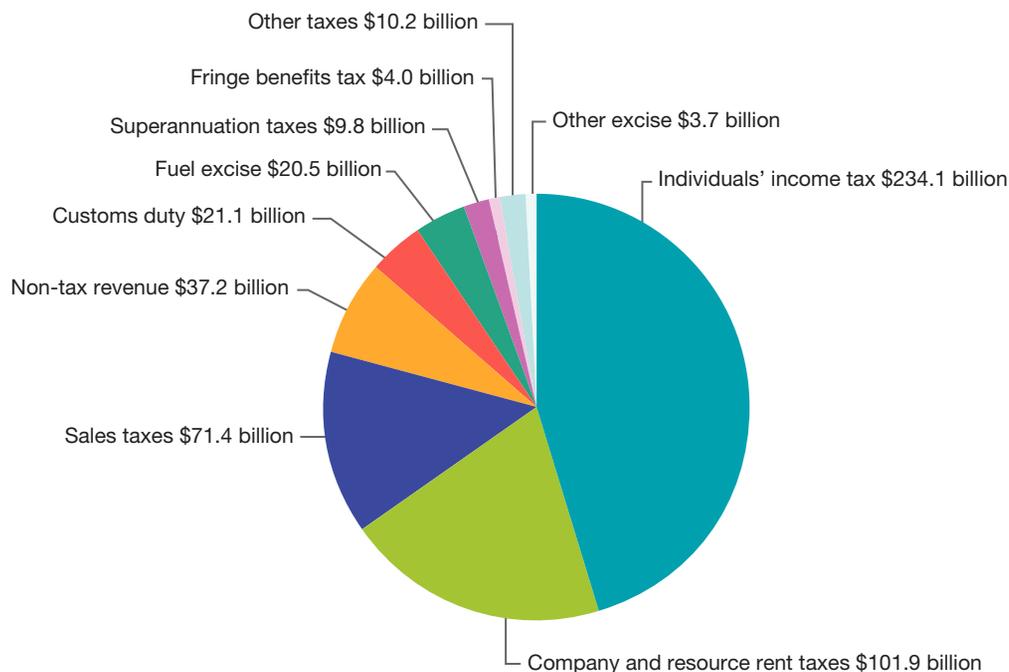
- *excise duty*. This is an indirect tax imposed on selected, locally produced goods such as petrol, LPG, beer, spirits, wine and tobacco. It is a flat percentage added to the cost of the product. For example, the excise on unleaded petrol is about 30 per cent of the price of each litre sold. The precise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

**FIGURE 4** summarises the sources of government revenue in 2019–20. Income tax on individuals is easily the main source of receipts, followed by revenues from company and resource rent taxes.

**FIGURE 3** The tax on petrol provides the government with a significant source of revenue.



**FIGURE 4** Sources of government budget revenue for 2019–20



## Government budget spending

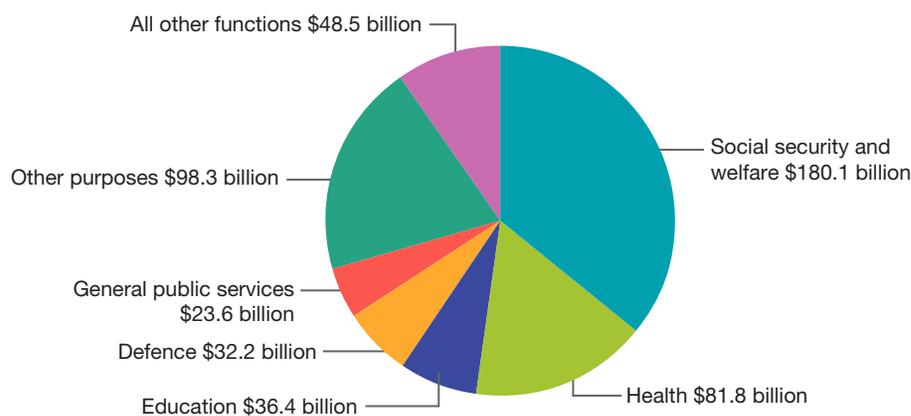
Budget spending is how the government uses the receipts it collects to provide certain goods and services for the community. Government spending is designed to affect the incomes of consumers, the level of demand and economic activity in the economy, inflation, trade and living standards. Government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

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

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

**FIGURE 6** shows the relative importance of the government's main areas of spending in 2019–20.

**FIGURE 6** Allocation of government spending for 2019–20



**FIGURE 5** A part of government spending goes to the provision of welfare.



## Impact of the budget outcome

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

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

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

## 1.10.3 Monetary policy

In addition to altering the level of spending in the economy through taxation and direct government spending, the government can also manage the economy through monetary policy.

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

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

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

## Changing interest rates

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

The official price of borrowing money is called the **cash rate**. The cash rate is the interest rate that applies to a specialised market called the short-term money market. This cash rate depends on the overall deposits of cash in the short-term money market, which, in turn, is controlled by the RBA through its market operations. Market operations involve the Reserve Bank of Australia either buying back or selling second-hand government bonds through the short-term money market. Whether the cash rate rises or falls depends on the Reserve Bank of Australia's decision to either buy back or sell these bonds.

**FIGURE 7** The Reserve Bank of Australia controls the amount of money in the economy.



**FIGURE 8** Interest rates are the cost of borrowing money.



## Increasing interest rates — a contractionary stance

If the Reserve Bank of Australia (RBA) wanted to slow inflation, it would encourage interest rates to rise. This would discourage borrowing and spending. How would this happen? First, the RBA would announce a rise in the cash rate target at its monthly meeting (held on the first Tuesday of each month) and provide the reasons for its decision. This sends a signal to the market of the direction in which the RBA believes the economy is heading. It would then set out to achieve this target by selling government bonds in the short-term money market. Financial institutions such as banks — which are keen to make a profit — would enter the short-term money market and buy these bonds because they are selling at a lower price with an attractive rate of interest. This creates a situation where financial institutions earn a better return, increasing their profits. The RBA achieves its aim as money is withdrawn from the market leaving less money available for borrowing and interest rates — the cost of borrowing — rise as there is a reduced supply. Financial institutions buying these bonds would then transfer deposits to the RBA to pay for the bonds. This directly reduces deposits or the supply of cash held by financial institutions.

The opposite is true if the Reserve Bank wishes to lower interest rates to stimulate demand. Buying back bonds from the banks and other financial institutions provides additional funds for the banks to lend, which would lower interest rates and encourage borrowing from consumers.

Higher interest rates make borrowing more expensive because the amount of interest to be repaid increases. Borrowing would mean a greater percentage of a person's income is required to repay debt — and that's money that could otherwise be used to buy goods and services. This is particularly true for home loans. Because of the high amounts borrowed, interest-rate rises can mean more income is needed to maintain repayments on home loans, increasing the financial stress on families. At the extreme end, it can lead to **mortgage** defaults and families losing their homes.

**FIGURE 9** Higher interest rates can lead to mortgage defaults, causing families to lose their homes.



At a time when interest rates on borrowings are higher, interest rates on deposits will also be higher. This is good for people with excess cash, who may choose to deposit their money in a bank account and earn interest on it rather than spending this excess cash.

Overall, spending falls, aggregate demand falls and economic growth slows down. The negative impact can be a decline in material living standards as consumers have less access to goods and services. Unemployment can also result from decreased spending, leading to negative effects on non-material living standards through financial stress, marriage breakdowns and increased bankruptcies.

## Influencing the exchange rate

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

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

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

## Persuasion

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

### 1.10 EXERCISES

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

#### 1.10 Exercise 1: Check your understanding

1. **ES1** Explain what is meant by the term *budget*.
2. **ES1** What are the two main possible budget outcomes?
3. **ES1** Explain what is meant by a *balanced budget*.
4. **ES1** What is a *cash rate*?
5. **ES1** What is meant by *interest rates*?

#### 1.10 Exercise 2: Apply your understanding

1. **ES2** Explain what is meant by *budgetary policy*.
2. **ES2** Explain how a smaller budget deficit may affect economic growth and spending in the economy.
3. **ES2** Explain the difference between a direct tax and an indirect tax.
4. **ES2** Explain how monetary policy works.
5. **ES5** In 2018 and 2019 banks raised interest rates without waiting for the Reserve Bank to change the cash rate. Explain how this may affect the government's published monetary policy position.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

# 1.11 Microeconomic policy options

## 1.11.1 The smaller picture

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

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

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

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

- immigration
- the environment.

Let's look at these areas in more detail.

**FIGURE 1** Microeconomics involves attempting to improve productivity.



## 1.11.2 Trade liberalisation

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

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

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

Trade liberalisation operates through:

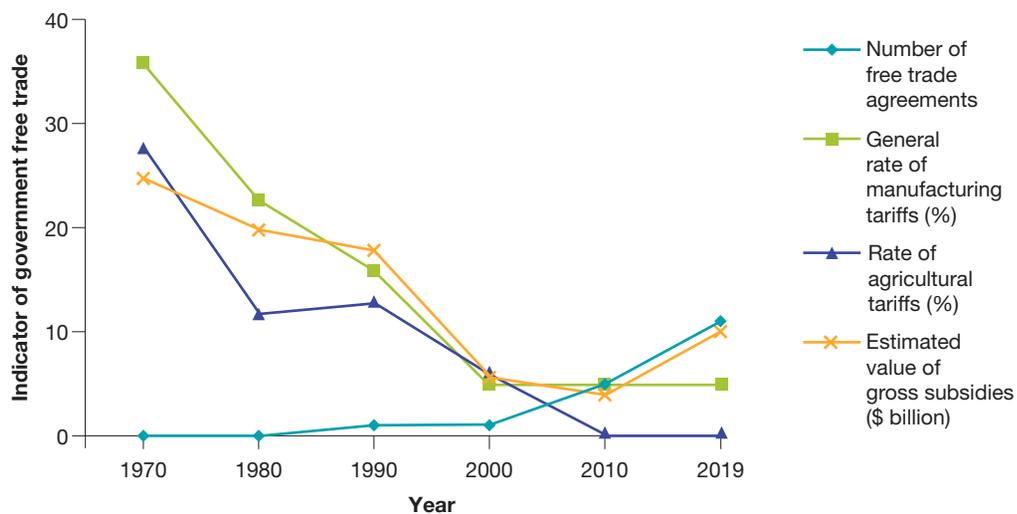
- cutting tariffs
- reducing subsidies
- abolishing import quotas
- increasing the number of bilateral free-trade agreements.

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

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



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



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

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

### 1.11.3 Labour market reforms

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

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

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



The deregulation of the labour market enabled some workers to access wage increases as a result of their increased productivity. This benefited both employer and employee as increased productivity meant lower costs and improved competitiveness. Wage increases could then be sourced from improved profits.

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

## 1.11.4 Market deregulation

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

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

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

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

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



## 1.11.5 National reform agenda

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

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

- *Price fixing*. This is when firms collaborate to set common or similar prices that are higher than normal.
- *Exclusive dealing*. This occurs when companies refuse to supply their products or services to one or more firms.
- *Collusive bidding*. This is when supposedly competing firms that are submitting a tender or quote for the completion of works or to supply goods or services meet secretly beforehand to agree whose tender should be most attractive, cheapest and likely to win the contract.

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



- *Predatory pricing.* This is when dominant firms conduct a price war involving big cuts in selling prices with the intention of driving rival firms bankrupt, then later enjoying the market without competition.
- *Market zoning.* This happens when competing firms in a region divide the market into zones, areas or regions within which they agree not to compete with each other over prices.

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

## on Resources

 **Weblink** Anti-competitive behaviour

### 1.11.6 Immigration policy

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

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

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

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

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



### 1.11.7 Environmental policy

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

- a government scheme that provides rebates for households that install domestic water tanks to collect rainwater and cut down on water usage from dams
- a government scheme that provides rebates for households that install insulation in their homes to reduce power bills
- a government scheme that provides rebates to households that install solar panels to provide their household with solar power and possibly return unused energy into the power grid, reducing reliance on fossil-fuel generated power

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



- the creation of the Renewable Energy Target (RET) scheme whereby 23.5 per cent of Australia’s electricity will come from renewable energy sources by 2020
- the signing of the Kyoto agreement in 2008 to commit Australia to reduce emissions
- the imposition of a carbon tax (repealed in 2014).

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

### 1.11 ACTIVITIES

1. Complete the table below to compare the sole providers of services during the 1980s with the range of providers available today. Conduct research or consult an adult you know to help you with this task.

The first item has been completed for you.

**Examining, analysing, interpreting**

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

2. Describe two anti-competitive behaviours that businesses may not engage in. Use the **Anti-competitive behaviour** weblink in the Resources tab to help you answer the question.

**Questioning and evaluating**

### 1.11 EXERCISES

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

#### 1.11 Exercise 1: Check your understanding

1. **ES1** Define the term *microeconomic reform*.
2. **ES1** Outline two key areas of government microeconomic policy.
3. **ES1** Explain what is meant by a *subsidy* and how it may assist businesses.
4. **ES1** Explain how one microeconomic reform can assist the government in achieving one economic objective.
5. **ES1** How may reducing tariffs negatively affect one government economic objective?

#### 1.11 Exercise 2: Apply your understanding

1. **ES3** In 2018 and 2019 the US government and the Chinese government both introduced tariffs on imported goods from each other. Analyse how these tariffs may affect the Australian economy.
2. **ES6** In your opinion, should Australia follow the lead of the US government and impose tariffs on Chinese imports? Justify your answer.
3. **ES2** Define what is meant by *environmental policies*, listing two important examples of such measures.
4. **ES2** How can our immigration policy work to improve both material and non-material living standards?
5. **ES2** Government policies can overlap — the government has offered subsidies (or rebates) to consumers who install water tanks, home insulation and solar power panels. Describe how these subsidies form part of a government’s environment policy.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

# 1.12 Direct government intervention in the market

## 1.12.1 Reasons for government intervention

So far we have identified the economic goals of the government, how it measures its performance in relation to those goals and the impact that achieving or not achieving those goals has on the living standards of Australians.

Setting economic goals and implementing policies to achieve them is one key way the government is actively involved in the economy. However, the government also intervenes in other areas.

The reasons governments directly intervene in the market are:

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

**FIGURE 1** The government plays an important role in the market.



## 1.12.2 Stabilisation of the economy

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

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

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

## 1.12.3 Reallocation of resources

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

**FIGURE 2** The government is responsible for stabilising the economy to ensure economic goals are met and living standards are maintained.



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

- *the market may not produce enough socially desirable goods and services.* The government intervenes to ensure an adequate supply of these products. The private sector may under-produce these goods because they are expensive to produce and it is difficult to make a profit from them. Such items include products related to health care, education, public housing and public transport.
- *the government may intervene to provide goods that the private sector won't supply.* These are services such as defence, public toilets and street lighting, which are not profitable because it is not possible to make users pay for such services.

**FIGURE 3** The government will intervene to provide services such as public toilets, which offer no profit appeal to the private sector.



- *the market may produce socially undesirable items.* Some products are deemed to be undesirable but can still be profitable. For example, the existence and availability of certain guns and other weapons can have negative effects on communities, so the government tries to shift resources away from the production and provision of these things. The government has passed laws banning specific types of guns and weapons so there is less production of these items, meaning resources will be used in the production of other goods.
- *the government may, in some instances, intervene to allocate resources.* These resources may be used for producing goods and services that compete with the private sector to ensure the product is available to everyone, not just to those who can afford it. One example is the ABC (Australian Broadcasting Corporation). This company initially provided television and radio services to all Australians because commercial television channels (7, 9 and 10) did not provide a service to remote areas. The same applied to telephone services through Telecom (now Telstra) and banking services (the Commonwealth Bank was originally established to compete with private banks before it was privatised).

### 1.12.4 Distribution of income

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

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

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

- *Welfare benefits.* The government provides direct payments through its welfare system to vulnerable Australians. Unemployment benefits are the most visible payment made, but the government also makes welfare payments to aged pensioners, disabled people, veterans and Indigenous Australians. The government also makes payments to certain groups for various reasons from time to time.

Examples include:

- *the First Home Owner Grant.* This helps young people move into their first home and out of renting or public housing.
- *an extra Family Tax Benefit payment.* This is an extra amount for eligible families when a child is born. It helps with the cost of raising children.

**FIGURE 4** The government uses taxation and its budget to ensure a minimum level of income for all Australians.



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

## DISCUSS

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

**[Personal and Social Capability]**

## 1.12 EXERCISES

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

### 1.12 Exercise 1: Check your understanding

1. **ES1** For what three main reasons does the government intervene in the market?
2. **ES1** How can the pace at which the economy is performing affect:
  - (a) inflation
  - (b) unemployment?
3. **ES1** How does the government act to stabilise the level of economic activity?
4. **ES1** For what reasons might the government need to reallocate resources?
5. **ES1** Why might the market not provide all the goods and services Australians need?

### 1.12 Exercise 2: Apply your understanding

1. **ES2** Explain why the government needs to allocate resources.
2. **ES2** Why does the government need to redistribute income?
3. **ES2** Explain what is meant by a *progressive tax system*.
4. **ES2** Explain what is meant by *compulsory superannuation* and why it is needed.
5. **ES5** Explain why government welfare benefits are needed in the economy.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

# 1.13 SkillBuilder: Preparing a budget

online only

## What is a budget?

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



## Select your learnON format to access:

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

# 1.14 Thinking Big research project: How does Australia measure up?

online only

## SCENARIO

You have considered data showing Australia's performance in terms of economic measures such as inflation, unemployment and economic growth, but how does Australia measure up when compared with other countries? You will research and compare the recent economic performance, and material and non-material living standards of Australia and another country, then prepare a report or PowerPoint presentation summarising your findings.

### Select your learnON format to access:

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



## on Resources



**ProjectsPLUS** Thinking Big research project: How does Australia measure up? (pro-0223)

# 1.15 Review

online only

## 1.15.1 Key knowledge summary

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

## 1.15.2 Reflection

Reflect on your learning using the activities and resources provided.

## on Resources



**eWorkbook** Reflection (doc-31787)  
Crossword (doc-31788)



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

## KEY TERMS

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

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

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

**consume** to purchase goods and services for direct use or ownership

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

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

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

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

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

**income** the reward earned from supplying productive resources. Providing labour earns income in the form of wages or salaries

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

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

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

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

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

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

**monetary policy** a major category of government aggregate demand management or macroeconomic policy. It is implemented by the Reserve Bank and is designed to influence the cost, availability and demand for credit and money

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

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

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

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

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

**quarterly** every three months

**quotas** quantity limits or targets for production or imports

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

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

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

**sustainable** able to last or continue for a long time

**tariffs** taxes imposed on imported goods to make them more expensive

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

# 1.7 SkillBuilder: Calculating inflation

## 1.7.1 Tell me

### What is calculating inflation?

Calculating the inflation rate for Australia involves collecting data about changes in the prices of goods and services. This information is not readily available and requires time to collect and the ability to conduct surveys at regular intervals. However, on a smaller scale, we can gain an idea of inflation rates through monitoring the changes in price of particular everyday items.

## 1.7.2 Show me

Monitoring and recording the changes in price of a single product can give us an indication of what is occurring in the economy. For example, you could monitor the changes in the price of petrol or some other frequently used commodity.

Calculating changes in the price of petrol over a period of time can give an insight into how inflation is calculated and the effect the change in price may have on other areas of the economy.

**FIGURE 1** Monitoring the prices of everyday items can give us an indication of inflation rates.



## 1.7.3 Let me do it

Complete the following activities to practise this skill.

### 1.7 ACTIVITIES

a. To gain an idea of inflation rates, carry out the following task.

- Identify a two-week period and a location you pass regularly where the price of petrol can be observed on a daily basis. (If there is more than one location available, select one and use that same location each day.)
- Each day for the two-week period record the price at your chosen service station of:
  - unleaded petrol
  - premium petrol
  - diesel
  - LP gas.
- Record the date and time you visit the location and then record the price advertised for each of the four products listed above. (*Note:* When recording the price per litre ensure the price is the 'actual' price and not the price available to customers using discount offers or supermarket docketts.)
- Once you have collected this information, calculate the percentage change in price for each product each day. Use this calculation formula:

$$\% \text{ increase on day 2} = \frac{\text{price day 2} - \text{price day 1}}{\text{price day 1}} \times \frac{100}{1}$$

- At the end of the survey period, calculate the overall inflation rate for the four products using this formula:

$$\% \text{ increase over the period} = \frac{\text{price on last day} - \text{price on day 1}}{\text{price day 1}} \times \frac{100}{1}$$

- b. Write a report outlining the inflation rates for the four types of fuel and then explain how the change in price of these may affect individuals, families and other businesses. Comment on the reliability of the data collected. What could be done to make the data more reliable?

# 1.13 SkillBuilder: Preparing a budget

## 1.13.1 Tell me

### What is a budget?

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

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



The government is not the only group that prepares a budget. Many businesses prepare budgets to provide information about their future and to assist them in deciding on a course of action.

Many families also prepare budgets to enable them to manage their household finances and to save for particular things such as a holiday, a new car or new furniture.

## 1.13.2 Show me

### How to prepare a budget

It is not uncommon for teenagers to prepare a budget when they start working part time and want to save to buy a car.

There are a range of online tools that can help you establish, monitor and stick to a budget, but it helps to have a basic understanding of budgeting principles and to be able to create a simple budget plan on paper.

#### Procedure

##### Step 1

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

##### Step 2

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

### Step 3

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

### 1.13.3 Let me do it

Complete the following activities to practise this skill.

#### 1.13 ACTIVITIES

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

Item	Month: _____	Month: _____	Month: _____	Month: _____	Total: _____
<b>Receipts</b>					
Work					
Parents					
Presents					
<b>Payments</b>					
Mobile phone					
Travel					
Food					
Clothes					
<b>Cash at start of month</b>					
<b>Cash at end of month</b>					

2. Use your skills to analyse your budget.
  - (a) Did you receive more than you expected?
  - (b) Did you spend more than you expected?
  - (c) Calculate the percentage contribution to your total receipts for each area of receipts.
  - (d) Calculate the percentage contribution to your total spending for each area of expenditure.
  - (e) If you were to adjust your spending, in which area would you be most able to reduce your spending?
  - (f) If you were to adjust your spending, in which area would you be least able to reduce your spending? Why?
  - (g) What could you do to increase your receipts?
3. Compare your results with those of your classmates. There is no need to share dollar amounts. Use the percentages and the analysis to explain your financial situation.

# 1.14 Thinking Big research project: How does Australia measure up?

## Scenario

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

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



## Task

Your task is to research and create a report or PowerPoint presentation on the recent economic performance of a country with which Australia has a relationship — a country other than the four already considered in this topic (China, New Zealand, the UK and the US). In addition to economic performance, your research should include information about material and non-material living standards experienced in this country, and make comparisons with Australia across all measures.

## Process

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

- Select a country that has a relationship with Australia. Such relationships are usually trade related. Navigate to the **Research forum**, where you will find starter topics loaded to guide your research. You can add further topics to the Research forum if you wish. In the **Media centre** you will find an assessment rubric and some weblinks that will provide a starting point for your research.
- Your research should cover the following aspects and include recent statistics on:
  - inflation
  - unemployment
  - GDP, real GDP, real GDP per capita
  - education and literacy
  - health measures — life expectancy, maternal mortality, infant mortality etc.
  - any other measures that you think are relevant and appropriate.
- Research the relationship between Australia and your selected country. In this section:
  - provide information on the trade relationship (what is traded, by whom and in what quantities?)
  - include trade statistics
  - outline any other relevant information about the relationship.
- Make notes of your research and remember to record details of your sources so you can create a bibliography to include in your report. Add your research notes and source details to the relevant topic pages in the Research forum. When you have completed your research, you can print out the **Research report** in the Research forum to easily view all the information you have gathered, if you wish.
- Include relevant table data, images and graphs to illustrate your report and present data in a clear, understandable format.
- Check your report or PowerPoint presentation thoroughly, ensuring you have used correct spelling and grammar, and when satisfied, submit it to your teacher (along with your bibliography) for assessment.



## **on** Resources



**ProjectsPLUS** Thinking Big research project: How does Australia measure up? (pro-0223)

# 1.15 Review

## 1.15.1 Key knowledge summary

### 1.2 Economic growth and Australia's economy

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

### 1.3 Employment trends and Australia's economy

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

### 1.4 Inflation rates and Australia's economy

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

### 1.5 Sustainability indices and Australia's economy

- Sustainability indices and other indicators of economic performance provide a lot of information about the economy.
- The Human Development Index (HDI), the Genuine Progress Indicator (GPI) and the World Happiness Report are alternative measures of an economy's performance.
- Quantitative measures are those that measure the dollar value or the percentage value change in an item.
- Qualitative measures determine or measure the quality of our life and the economy.

### 1.6 Other indicators of economic performance and Australia's economy

- By using a combination of quantitative and qualitative indicators, we are able to get a clearer understanding of the state of the economy.
- It is important to understand how these indicators are measured and the effects these problems have on our living standards.
- The Liveability Ranking and the World Happiness Report are used to determine if a strong economy improves our quality of life.

### 1.8 Living standards related to economic performance

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

### 1.9 Measuring living standards

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

### 1.10 Macroeconomic policy options

- Macroeconomic policies aim to keep inflation under control, minimise unemployment, create a sustainable level of economic growth and keep our trade situation balanced by looking at the general

influences on national spending, national output, national income, employment and overall material living standards.

- Macroeconomic policies involve two key areas of influence by the government: budgetary/fiscal policy and monetary policy.
- Budget spending is how the government uses the receipts it collects to provide certain goods and services for the community.

### 1.11 Microeconomic policy options

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

### 1.12 Direct government intervention in the market

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

## 1.15.2 Reflection

Complete the following to reflect on your learning.

### 1.15 ACTIVITIES

Revisit the inquiry question posed in the Overview:

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

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



### Resources



**eWorkbook** Reflection (doc-31787)  
Crossword (doc-31788)



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

### KEY TERMS

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

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

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

**consume** to purchase goods and services for direct use or ownership

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

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

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

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

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

**income** the reward earned from supplying productive resources. Providing labour earns income in the form of wages or salaries

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

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

**monetary policy** a major category of government aggregate demand management or macroeconomic policy. It is implemented by the Reserve Bank and is designed to influence the cost, availability and demand for credit and money

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

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**quarterly** every three months

**quotas** quantity limits or targets for production or imports

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

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

**sustainable** able to last or continue for a long time

**tariffs** taxes imposed on imported goods to make them more expensive

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

# 2 Influencing consumers: innovation and competition in the marketplace

## 2.1 Overview

People may think they make consumer choices on their own, but how do businesses influence and attract customers?

### 2.1.1 The relationship between competition and innovation

It's a competitive world out there. Every business must find strategies that will enable it to survive. A business competes with other businesses to sell products in a market. If a business cannot sell its product to customers, it will not last for very long.

For businesses, one way to succeed is to develop a **competitive advantage**. Creating a competitive advantage means that a business can meet the changing demands of the market and improve its profit margin. Businesses must embrace **innovation** if they wish to achieve a competitive advantage. At a basic level, innovation refers to coming up with new ways of doing things. When businesses devise new ideas, processes or products, they give themselves an edge over their competitors.

#### Resources

 **eWorkbook** Customisable worksheets for this topic

 **Video eLesson** The relationship between businesses and consumers (eles-2384)

#### LEARNING SEQUENCE

- 2.1 Overview
- 2.2 Business influences on consumer decisions
- 2.3 Consumer choice, attitude and preference
- 2.4 Making major purchases
- 2.5 **SkillBuilder:** Choosing a mobile phone plan
- 2.6 Innovation
- 2.7 Emerging techniques
- 2.8 Pursuing competitive advantage
- 2.9 Strategies to create competitive advantage
- 2.10 Corporate social responsibility and competitive advantage
- 2.11 **SkillBuilder:** Analysing a business case study
- 2.12 **Thinking Big research project:** Hitting the target — multimedia advertising campaign
- 2.13 **Review**









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

## 2.2 Business influences on consumer decisions

### 2.2.1 The power of advertising

Be honest: when you look at **FIGURE 1**, which soft drink do you think of? Ask your classmates as well. If you said Coca-Cola, this advertising campaign was successful. The image was indeed part of a campaign run by global soft-drink giant Coca-Cola. Besides the shape of the silhouette, there is nothing to suggest this is an advertisement for Coca-Cola. There are no colours and there are no logos. Yet you instantly think of Coca-Cola's product. This advertisement is only successful because of previous marketing campaigns run by the company. For more than 100 years, Coca-Cola has dominated the soft-drink market. The company's creative and distinctive marketing strategies have been a key reason for its market position. Advertising and marketing have incredible power and influence over our lives and the consumer decisions we make. Let's examine why businesses need to consider consumer behaviour before they develop their advertising and marketing strategies.

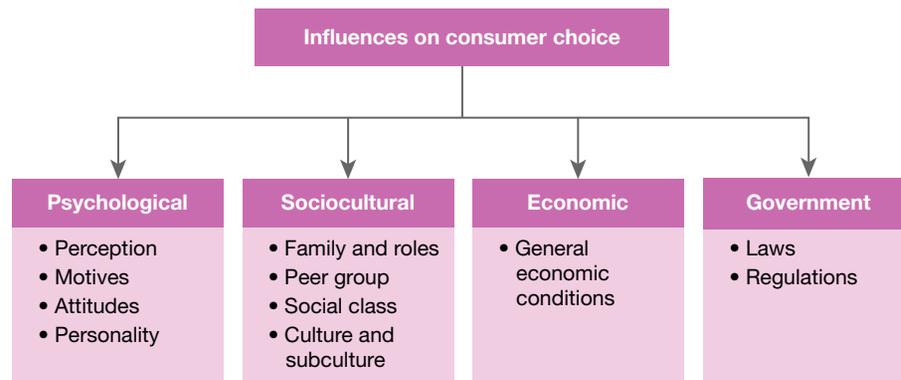
**FIGURE 1** Which soft drink do you think of when you see this silhouette?



### 2.2.2 Factors influencing consumer decisions

As shown in **FIGURE 2**, four main factors influence consumer purchasing decisions.

**FIGURE 2** The four main factors influencing consumer choice



#### Psychological influences

Four main **psychological factors** influence consumer choice.

1. **Perception.** As individuals, we often act on our perceptions of reality rather than reality itself. Consequently, marketers are extremely aware that they must create a positive or favourable perception of their product in the mind of the consumer. Consumers will not normally purchase a product that they perceive as being of poor quality or inferior to similar brands.
2. **Motives.** The main **motives** that influence consumer choice include comfort, health, safety, ambition, taste, pleasure, fear, amusement, cleanliness and the approval of others. As it does with a consumer's perception of the product, so advertising also attempts to influence an individual's motives to choose a product.
3. **Attitude.** **Consumer attitude** towards a business and its products generally influences the success or failure of the business's marketing strategy.
4. **Personality.** To some extent, **personality** influences the types and brands of product that a person buys.

## Sociocultural influences

There are four main **sociocultural influences** that affect consumer choice:

1. **Family and roles.** All of us occupy different roles within the family and groups in the wider community. These roles influence buying behaviour. Although women's roles are changing, market research shows that most women still make buying decisions related to, for example, healthcare products, food and laundry supplies.
2. **Peer groups.** A consumer's buying behaviour may change to be more in line with that person's **peer group**, beliefs and attitudes.
3. **Social class.** In our society, the factors generally used to classify people are education, occupation and income. Social class, therefore, influences the type, quality and quantity of products that a consumer buys.
4. **Culture and subculture.** **Culture** influences buying behaviour because it infiltrates all that we do in our everyday life. It determines what people wear, what and how they eat, and where and how they live. Subcultures differentiate themselves from a larger culture to which they belong (for example, goths are a subculture).

**FIGURE 3** Buying behaviour may change to be more in line with peer group beliefs and attitudes.



## Economic influences

Economic forces have an enormous impact on consumers' willingness and ability to spend. During an economic boom, for example, consumers are willing to spend because they feel secure about their jobs and source of income. During a recession, consumer spending falls to a very low level.

## Government influences

Governments use a number of economic policy measures to influence the level of economic activity. These policies directly or indirectly influence consumers' spending habits.

Of more direct and immediate impact is the influence of government regulations. Laws dealing with misleading and deceptive advertising, for example, protect consumers and influence business practices.

## 2.2.3 What is marketing?

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

Successful marketing needs to involve the following elements:

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

**FIGURE 4** The 4Ps of marketing



The following extract is a set of guidelines for marketing a new product written by successful entrepreneur Janine Allis, who founded Boost Juice.

### ADVICE FROM JANINE FOR ALL BUSINESS PEOPLE

- Surround yourself with people who have done it before because you will save on mistakes and every mistake costs money.
- Put a promise to the brand.
- Question whether your company name tells people what you do.
- Your company name should be something you are passionate about.
- Your brand should crystallise your message.
- Clearly identify and promote to your target market.
- Changing a brand name is costly and can bring angst and heartache.
- Take what you've got but update it to reflect growth and expansion.

**FIGURE 5** Boost Juice founder Janine Allis



Everyone in a business needs to know the business's plan, so that all departments work towards achieving the business's objectives. Such a plan is referred to as an *integrated* marketing plan.

There is no one set format for developing a marketing plan. Each plan will reflect the individual characteristics of the business. However, all marketing plans should have two features in common:

- They should be realistic, given the business's present situation.
- They should be achievable within the business's resources and budgets.

### Target markets

Entrepreneurs aim their products at target markets. These market segments may be determined by age, gender, income, occupation, education or geographical location. Marketing analysts break down target markets further to show how the types of products and brands purchased reflect the personality and lifestyle of the user (psychographic segmentation). Through market research, such as surveys and telephone marketing, information about products and users is gathered. Feedback may reveal information about brand loyalty, or how memorable a brand or advertisement is.

**FIGURE 6** Marketing is not necessarily about selling something for a profit. For example, you can run a marketing campaign for a free concert or a cake stall.



### DISCUSS

Brand loyalty is when customers favour one company's brand of goods (or services) over a competing brand; for example, you may know someone who will purchase only an Apple iPhone as their smart phone. Are there both advantages and disadvantages to being loyal to brands?

**[Critical and Creative Thinking Capability]**

## 2.2 ACTIVITY

Collect a number of print advertisements from a magazine. Suggest the psychological and/or sociocultural influence to which each advertisement is appealing.

**Examining, analysing, interpreting**

## 2.2 EXERCISES

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

### 2.2 Exercise 1: Check your understanding

1. **ES2** Explain what a *target market* is.
2. **ES1** List four factors influencing consumer behaviour and give an example of each.
3. **ES2** Define each of the following terms:
  - (a) market research
  - (b) marketing campaign
  - (c) market segments.
4. **ES1** Identify two market segments.
5. **ES1** Identify the 4Ps of marketing.

### 2.2 Exercise 2: Apply your understanding

1. **ES2** Explain two of the 4Ps of marketing.
2. **ES3** Explain how perception and motive influence consumer buying behaviour. Distinguish between the sociocultural and psychological factors that influence consumer choice.
3. **ES2** How do peer groups influence buying behaviour?
4. **ES6** Name some of your own peer groups and suggest how they influence your buying decisions.
5. **ES1** What two features should all marketing plans have?

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 2.3 Consumer choice, attitude and preference

### 2.3.1 The influence of consumers on businesses

Consumers wield incredible power. As the purchase of products drives the marketplace, businesses find themselves at the mercy of consumer behaviour. If consumers stop buying particular products, the consequences can be serious and widespread. Businesses and retail distributors, as well as the manufacturers of components, can lose money when consumers change their purchasing behaviours. For this reason, businesses and retailers must also keep their consumers in mind. Let's investigate how consumers can hold companies responsible for their activities.

**FIGURE 1** Eager customers queuing before the release of the latest iPhone



### 2.3.2 Consumer choices

As we have just learned, the marketplace is a highly competitive environment. Businesses and vendors go to extraordinary lengths to win and keep customers. For this reason, it is crucial that consumers and the choices they make are protected. There are several organisations in Australia that serve this role. The independent organisation CHOICE is one example. Founded in 1959, CHOICE began as a magazine

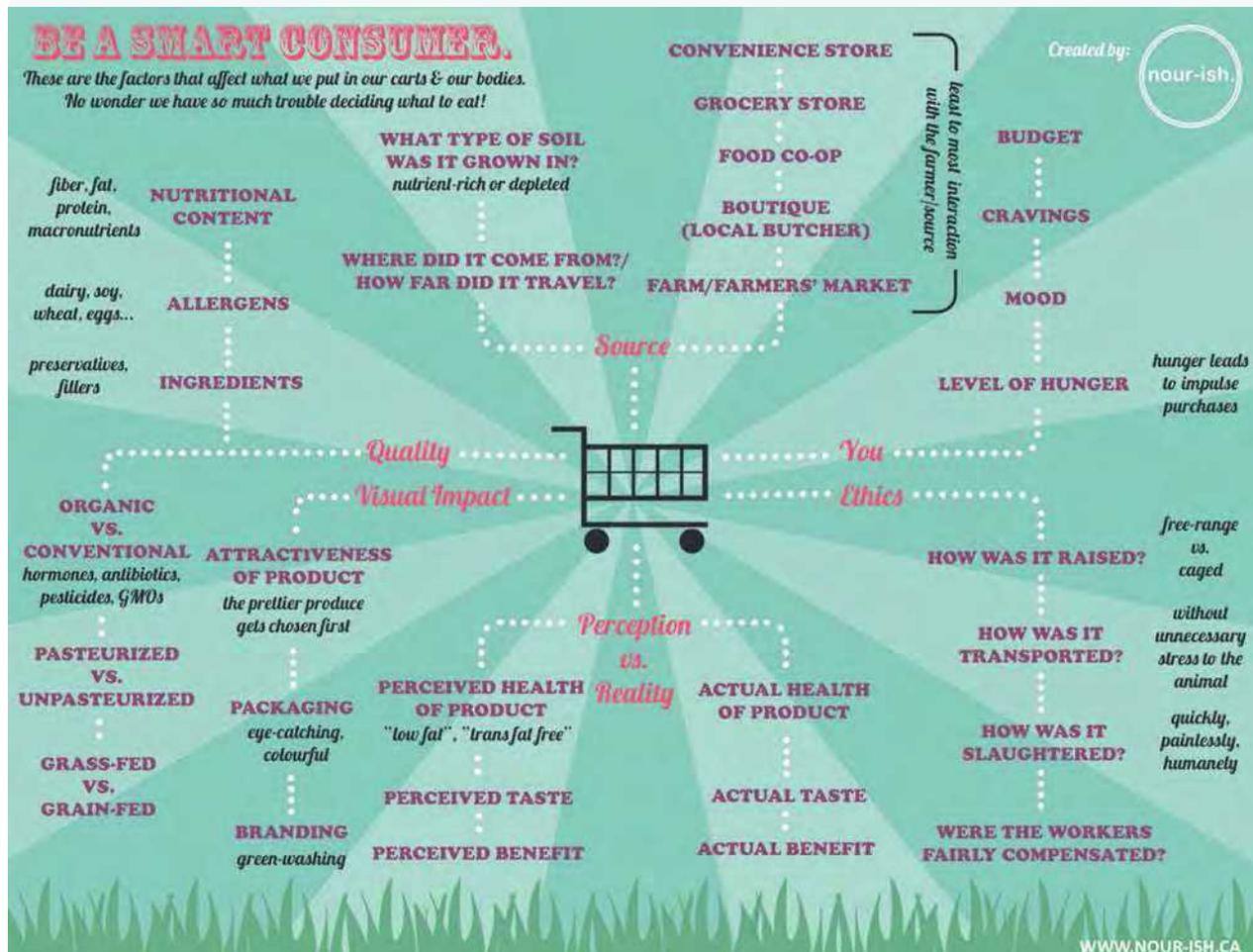
published by the Australian Consumers' Association (ACA). The magazine, as well as the organisation behind it, aims to help consumers make wise purchasing decisions. CHOICE was also founded to protect consumers against substandard products and services. Now including an extensive web-based service (choice.com.au), CHOICE provides comprehensive product tests and reviews. Consumers can use these services to research products and compare brands. By using organisations such as CHOICE, consumers are able to make educated and informed purchasing decisions.

The Australian Competition and Consumer Commission (ACCC) is another organisation that helps protect the rights of consumers. Although the ACCC is a federal government body, it operates independently of any political bias. Its role is to regulate and oversee business operations while protecting the rights of the consumer. The ACCC monitors and regulates competitive marketplaces, ensuring that businesses operate with fair and reasonable economic conduct (including the setting of prices). The ACCC also provides consumers with independently researched product information. The ACCC often holds its own investigations into work 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.

### 2.3.3 Ethical and environmental consumerism

Consumers have the ability to hold businesses accountable for their ethical and environmental practices. By demanding proper business behaviour, consumers have the power to influence the standards that businesses must meet.

**FIGURE 2** The many factors considered by consumers seeking to make ethical purchasing choices



Businesses that violate these ethical or environmental standards can find themselves the target of awareness campaigns or even **boycotts**. It is in the best interest of a business to learn and understand the concerns of its customers in order to avoid any such action. In fact, businesses can often gain customers by promoting ethical behaviour and positive environmental activities.

The booming bottled water industry provides many examples of the effects of **ethical consumerism**. The following case studies explain the potential negative and positive impacts of consumer behaviour on businesses.

### 2.3.4 CASE STUDY: FIJI Water

One of the world's most popular brands of bottled water, FIJI Water is also the small island nation's major foreign export. An incredible 10 per cent of Fiji's total export income is generated from the bottled water industry. What makes this statistic hard to swallow is the fact that 53 per cent of Fijians lack access to clean drinking water. The location of the company's main processing plant also diverts water away from local communities, dramatically lowering agricultural production as well as causing environmental damage. These and other criticisms are published on the website Shop ethical!, an Australian-based website for ethical consumers. In an effort to present consumers with balanced information, this website also promotes any positive activities undertaken by the companies in question. Companies such as FIJI Water suffer from negative attention when consumers make ethical decisions. In the billion-dollar bottled water industry, this can result in a serious loss of revenue.

### 2.3.5 CASE STUDY: Thank You Water

At the other end of the bottled water spectrum is Australian company Thank You Water. The founders of this company saw both a problem and an opportunity with the world's growing preference for bottled water. With the money earned from its water sales, the Thank You group funds safe water projects across Australia and the world. By actively promoting its ethical business activities, Thank You Water has quickly become one of Australia's most popular brands of bottled water. In just four years, Thank You Water increased its bottle production from 40 000 (per year) in 2008 to 320 000 (per year) in 2013. It has since gone on to launch numerous other products in their personal care and baby care ranges. In this way, the company has used consumers' preferences for ethical and positive environmental action to its favour. Through its product sales, Thank You Water has given more than \$6 million to fund water access, sanitation and hygiene programs globally.

**FIGURE 3** Australian company Thank You Water uses profits from bottled-water sales to fund safe water projects.



#### **on** Resources



**Video eLesson** Consumer outrage over appalling treatment of chickens (eles-2439)



**Weblink** Shop ethical!

## 2.3 EXERCISES

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

### 2.3 Exercise 1: Check your understanding

1. **ES2** How and when did CHOICE Australia begin?
2. **ES1** List the services that CHOICE provides for consumers.
3. **ES2** Explain the differences in the ethical and environmental approaches of FIJI Water and Thank You Water and how these may affect their consumer base.
4. **ES1** What does ACCC stand for?
5. **ES1** Which branch of government controls the ACCC?

### 2.3 Exercise 2: Apply your understanding

1. **ES2** What is the role of the ACCC?
2. **ES2** How does the ACCC differ from CHOICE Australia?
3. **ES4** Consumers are charged a small fee for some of the services provided by CHOICE (including research reports into products). Do you believe it is fair and reasonable for CHOICE to charge consumers? Explain your position.
4. **ES5** Do you believe it is practical to be an ethical consumer? What are some of the difficulties ethical consumers may encounter?
5. **ES5** Being an ethical consumer would be easier if businesses acted ethically in all circumstances. Do you agree? Justify your answer.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 2.4 Making major purchases

### 2.4.1 Consumer choices

People often vividly remember their first car. Perhaps it was a rusty but reliable bomb handed down from your grandmother to your older brother and now to you. Or maybe it was your dream car: the one you had worked towards owning since your first shift at the fish-and-chip shop. Whatever the case, owning your first car is a significant milestone in your life. Now that you are only a few years away from that milestone, you need to start making some decisions. Do you spend a small amount of money on that rusty bomb and hope it doesn't need repairs? Do you pour all your savings into one large purchase? Or do you take out a loan in order to afford that car you've always wanted?

Buying a car is not the only challenging, long-term financial decision that you will be faced with. Let's identify and evaluate the consumer choices that surround major purchases.

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



## 2.4.2 Choosing a car

Before making a major purchase such as a car, you need to decide exactly what you want. You would be foolish to go out and buy the first car that attracts your eye. Instead, you need to determine what kind of car you want. The size of the car you buy will depend on your needs — your lifestyle and your purpose for buying the car. You may want a small car (to help you save on petrol costs and to best suit your limited garage space) or a station wagon (in which you can easily transport your surfboard each weekend). As well as the size and look of the car, you also need to consider its age, condition and fuel efficiency. One last consideration is whether the car you *want* is the car you *need*. Is it worth spending money on a new car or are you better off buying your grandmother's old bomb? You need to weigh up all these options before making your choice.

### How safe is your car?

Once you have a car in mind, the next step is to conduct proper research. Websites such as **RedBook** and **Carsales** (use the weblinks in the Resources tab) contain detailed statistics on new and used cars. You can search these sites for your preferred car and find lists of previous sales, safety records and other useful information. Another valuable website to investigate is How safe is your car? (go to the **How safe is your car?** weblink in the Resources tab). Developed and maintained by the Transport Accident Commission (TAC), this site provides independent car safety information. If you purchase a used car, the seller is required by law to obtain a **roadworthy certificate**. This document is proof that the car meets the necessary mechanical and safety standards. You can possibly save hundreds of dollars by avoiding a bad car purchase (commonly known as 'buying a lemon'). To this end, motoring organisations such as the RACV and NRMA, and some insurance companies, provide pre-purchase, pre-selling and end-of-warranty inspections on new and used cars, as well as independent valuations and owners' reports. These services can inform you of the history and condition of the car and whether it has been in an accident. This helps you make an informed purchase — you know what you are buying. Your last choice in these initial stages of purchasing a car is perhaps your most important one — deciding how you will pay for it.

**FIGURE 2** Safety should be a major consideration when buying a car.



### DISCUSS

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

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

### 2.4.3 The costs of car ownership

There are a number of costs that you need to consider when buying a car. First, there is the purchase price of the car. Before taking delivery of the car, you will also be required to pay **stamp duty** and dealer charges (if it is a new car). If you buy the car second-hand, you will need to re-register the car in your name and pay the relevant charges. Next there are ancillary costs, which are essential for all car owners. Purchasing car insurance can be expensive, but it provides a safeguard in the event of an accident. Comprehensive car insurance protects you no matter who is at fault. ‘Third-party’ insurance is compulsory and protects others if you are at fault, and protects you if others are at fault. If you cause an accident while driving an uninsured car, the damage to your car and other cars could cost tens of thousands of dollars.

Joining an emergency road-side assistance provider is another cost for car owners. While joining these services is not essential, they can help you out of a lot of troublesome situations. There is also the cost of any permanent additions you may want (for example, a sound system, tinted windows, alloy wheels). The extent of these additions is a strictly personal choice but can add significant costs to car ownership. Finally, you need to consider that your car will never be worth as much as it was the day you bought it. As your car gets older, it depreciates in value. The rate of depreciation increases as newer models with better technology are produced.

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

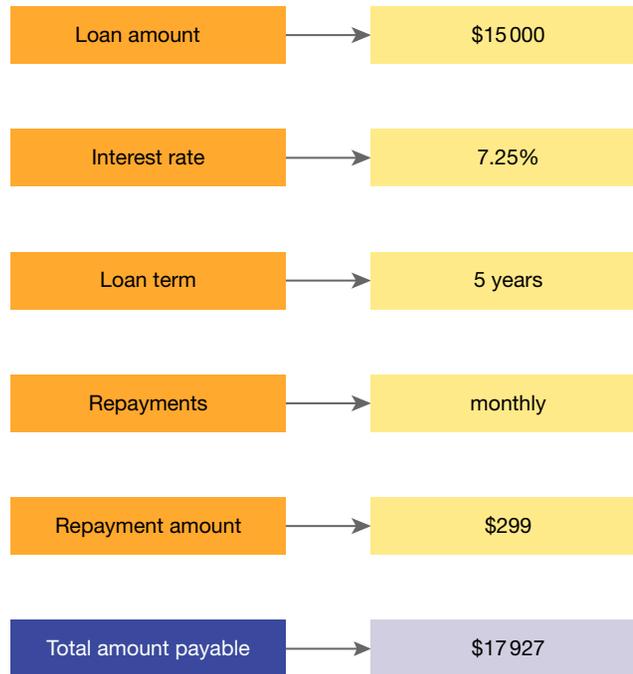


### Loans

If you do not have enough money to purchase a car outright you can take out a **loan**. This involves borrowing a sum of money from a bank or other financial institution. Let’s say the car you want costs \$20 000 and you only have \$5000. A bank can lend you the remaining amount so that you can afford your car. Over the course of an agreed period of time (usually between one and five years), you are required to pay the money back to the bank or lender. This is done by making periodic repayments, which include a percentage of interest. It is through these interest payments that lenders make their money. Interest is the amount paid by a borrower to a lender for the privilege of borrowing money. A fixed or variable interest rate is usually agreed upon at the beginning of the loan. For example, a lender could offer a rate of 7.25 per cent.

**FIGURE 4** applies this rate to the example discussed above. As you see in **FIGURE 4**, there is nearly \$3000 difference between the original loan amount and the total amount payable. This means that the lending organisation makes a considerable profit from each loan agreement it signs. On a \$15 000 car loan, a bank would only make a relatively small amount of money. Yet on a \$500 000 home loan (at 5.5 per cent interest over 30 years), a bank would make more than \$500 000 in interest. Profit from interest payments is one of the main sources of revenue for banks and lending organisations.

**FIGURE 4** An example showing repayments for a car loan



### 2.4.4 Making the right decision

Purchasing your first car is a milestone that you'll remember for the rest of your life. When you make any major purchase, it is important that you consider both short-term and long-term consequences. Spending only \$2000 on your grandmother's old car may seem like the most cost-effective option at the time. However, older cars can often be more expensive to run. They lack modern fuel efficiency technology and can be expensive to repair. Although you may spend more initially on a newer car, the long-term costs can often turn out to be more manageable. Whatever your decision, it is crucial that you conduct proper research on the car itself and the method of payment you choose to purchase that memorable first car.

#### 2.4 ACTIVITY

Use the information in this subtopic to choose your ideal first car. Conduct internet research to complete the table below.

<b>Make</b>	
<b>Model and year</b>	
<b>Body type</b>	
<b>Transmission</b>	
<b>Condition</b>	
<b>Fuel efficiency</b>	
<b>Safety rating</b>	

**Examining, analysing, interpreting**

## 2.4 EXERCISES

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

### 2.4 Exercise 1: Check your understanding

1. **ES1** Identify the largest purchase you have made in your life so far.
2. **ES2** Explain how you obtained the funds to purchase the item identified in question 1.
3. **ES1** Buying a car is likely to be the next major purchase of your life. List the options you should consider when deciding what kind of car to buy.
4. **ES2** Before a used car is sold, what tests does it need to have?
5. **ES1** List the costs involved with car ownership. Choose three of these costs and describe them in more detail.

### 2.4 Exercise 2: Apply your understanding

1. **ES2** Explain why insurance is beneficial for a young person buying their first car.
2. **ES2** Explain what is meant by 'stamp-duty'.
3. **ES2** How do banks make money from car loans?
4. **ES3** What is the difference between comprehensive and third-party car insurance?
5. **ES2** Insurance, stamp duty and loan repayment costs all need to be considered when buying a car. Identify and explain other costs of car ownership.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 2.5 SkillBuilder: Choosing a mobile phone plan

online only

### What questions do we need to ask when choosing a mobile phone plan?

Do you have a pre-paid mobile or do you pay a bill at the end of every month? Do you have free calls included and can you send as many text messages as you want? How many gigabytes of data are you allowed to download and is social media included? You need to consider all these questions and more when you choose a mobile phone plan.

### Select your learnON format to access:

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



## 2.6 Innovation

### 2.6.1 Defining innovation

Innovation can mean many things to different people but essentially it is about devising 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 competitors.

**FIGURE 1** Innovation involves many skills and processes.



### 2.6.2 Types of innovation

There are many different types of innovation; however, two of the most common are **product innovation** and **process innovation**:

- 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 in some way. For example, each time that Apple releases a new iPhone, they change some of the phone's features.
- 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.

## 2.6.3 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 businesses are different, the online hub identifies six key steps towards business innovation. They are outlined in **FIGURE 2**.

## 2.6.4 Examples of innovation in business

### Process innovation

#### Example 1 — Bertalli's Alpine Breads

In May 2014, Bertalli's Alpine Breads Benalla received a \$75 000 grant from the Victorian government's regional growth fund to commence a \$450 000 expansion of its production line. Bertalli's Alpine Breads supplies specialty breads to Coles, Woolworths and independent stores in Victoria. An innovative new packaging machine, which replaced the traditional bread-loaf packaging with sealed clear packaging, extends the shelf life of the business's bread by up to ten days. This means the business can now potentially supply a range of interstate markets including supermarkets, retail health food businesses and specialty food outlets. A further, more recent, innovation occurred in 2017 when the bakery was granted a licence to make and sell hemp bread.

#### Example 2 — Snap Laundromat

Snap Laundromat in Brisbane has introduced an innovative new technology to its washing machines and dryers that enables customers to pay for and operate the laundry services with their smart phones. The founder of Snap Laundromat, Ian McFarlane, created a small network controller about the size of a cake of soap to go inside each machine.

The customer can either swipe a QR code on the machine or visit a website to create an account. Once the account has a balance, they can select a dryer or washing machine of their choice. Mr McFarlane said that customers, particularly young people and travellers, have been very quick to take up the new technology. He has started a new business, Eziwash, to make the controllers available to other laundromats. The use of this technology application means that customers can quickly and easily pay for their laundry service, particularly if they do not have cash, and could encourage more people to use the laundromat. Eventually the technology will have the ability to download customer data and to reward customers for their loyalty.

**FIGURE 2** The six key steps towards business innovation

1. Conduct an analysis of the trends in the market environment, your customers' wants and needs, and your competitors.
2. Consult with customers and employees for ideas on improving processes, products and services, both internally and external.
3. Seek advice. Use available resources such as business advisers, grants and assistance to drive innovation in your business. This may include seeking intellectual property (IP) protection to commercialise your ideas.
4. Be open to new ideas and adaptive to change.
5. Develop a strategic, responsive plan, which promotes innovation as a key business process across the entire business.
6. Train and empower your employees to think innovatively from the top down.

**FIGURE 3** Use of technology applications can make the customer experience simpler, quicker and more worthwhile.



## Product innovation

### Example 1 – McDonald's mymacca's

McDonald's is one of the world's most recognisable brands. Its products and business model have existed for many decades with very little modification. In response to increased competition, growing demand for customised products and consumers' greater health awareness, McDonald's has engaged in various product innovations. In 2014, the business launched its 'Create Your Taste' menu that allowed customers to design their own burger, either in-store or online. In 2017, they discontinued Create Your Taste and instead launched their 'Gourmet Creations' range. In 2018, the company announced its 'All Day Menu', which allows customers the choice of their full breakfast and daytime menu at any time of the day. Further innovation has come via the 'mymacca's' app, which allows customers to order ahead, save favourite orders, provide feedback, receive offers and access product information.

These innovations are an attempt by McDonald's to differentiate itself from other businesses in the fast food industry and establish a competitive advantage.

**FIGURE 4** McDonald's has engaged in product innovation with its 'Gourmet Creations' range, its 'All Day Menu' and its 'mymacca's' app.



## 2.6 ACTIVITY

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

- Identify 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.

**Examining, analysing, interpreting**

## 2.6 EXERCISES

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

### 2.6 Exercise 1: Check your understanding

- ES1** Define *innovation*.
- ES1** Provide an example of how a business can innovate.
- ES1** List the six key steps to business innovation.
- ES2** Identify two examples of innovation in business.
- ES2** Distinguish between product innovation and process innovation.

### 2.6 Exercise 2: Apply your understanding

- ES2** Define *competitive advantage*.
- ES2** Explain how innovation can help a business achieve a competitive advantage.
- ES2** Explain how a business can foster innovation.
- ES1** Other than product and process innovation, how else might a business engage in innovation?
- ES5** 'Businesses that don't innovate will fail.' This is a dramatic statement. Analyse this statement, and indicate whether you agree or disagree. Provide examples in your response.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 2.7 Emerging techniques

### 2.7.1 Harnessing new ideas and techniques

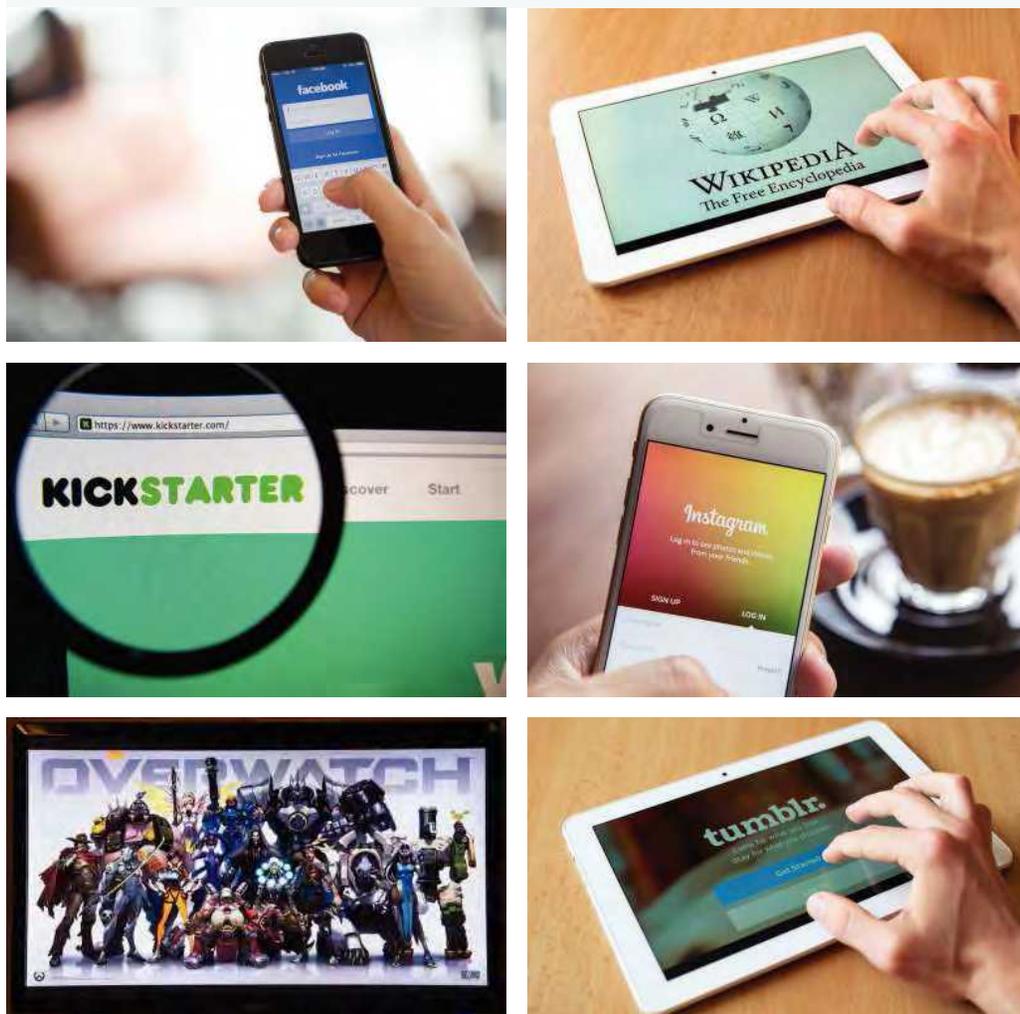
The world is constantly changing. To keep pace with changing market conditions, businesses need to remain competitive by using emerging techniques — the latest ideas or new processes. Currently, this includes social media, blended marketing, open innovation and digital technologies.

### 2.7.2 Social media

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

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

**FIGURE 1** Examples of social media



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

### 2.7.3 Blended marketing

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

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



### 2.7.4 CASE STUDY: Birdsnest blends marketing strategies

When Jane Cay purchased a retail business in the regional New South Wales town of Cooma in 2004, she had no inkling of how large the store was going to grow. The business employed five staff and, after Ms Cay decided to focus on women's fashion and rename the business, it grew steadily over the following two years.

Faced with the opportunity to open another store, Ms Cay opted for taking Birdsnest online and a website was launched in 2008. Since then, the business has grown to making approximately \$20 million in revenue annually and employing more than 100 people. The online business provides customers with the opportunity to shop by colour, by occasion or by body shape. Birdsnest now sells to customers throughout Australia and the world.

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

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



Birdsnest's willingness to innovate has seen it recognised by industry, peers and the community through various awards.

- Owner Jane Cay was announced number 1 in the Top 50 People in E-commerce list by Internet Retailing in 2018.
- Birdsnest was the winner of the Hot Innovator Award at the Power Retail's All Star Bash 2018.
- Birdsnest was voted the fourth best place to work in Australia for the over 100 employees category in the BRW Great Places to Work Awards 2017.
- The business was the winner of Best Online Marketing Initiative for their 'Changeroom' service in the Online Retailer Industry Awards (ORIAS) 2017.
- Birdsnest won Best Online Customer Service in the Online Retailer Industry Awards (ORIAS) in 2015 and 2016.

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

## Resources

 [Weblink Birdsnest](#)

### 2.7.5 Open innovation

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

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

### 2.7.6 CASE STUDY: Open innovation at Samsung

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

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

In 2013 Samsung launched the Open Innovation Center in Silicon Valley, California. The complex includes an accelerator division that will support small businesses in getting their products off the ground while they gain access to Samsung's people, products and plans. A venture capital arm will allow Samsung to invest in new businesses that are trying to create new technologies. A mergers and acquisitions team will

acquire companies that could assist Samsung, and a partnerships team will allow Samsung to find ways to work with all the other businesses that wish to partner with it.

### 2.7.7 Digital technologies

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

### 2.7.8 CASE STUDY: Tesco's virtual supermarkets

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

In 2011, Tesco combined with digital technology company Samsung to launch a 'virtual supermarket' in Seoul, South Korea. The virtual store consists of a series of posters designed to look like supermarket shelves (see **FIGURE 4**) that were placed on walls in public places such as subways and train stations. Customers download an app onto their phone and scan the QR code of the products they wish to buy. Once customers have scanned all the products they want to buy, they pay for groceries online and decide on a delivery time. The groceries are usually delivered on the same day that they are purchased. Tesco successfully used digital technology to gain an advantage over its competitors.

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



#### DISCUSS

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

**[Critical and Creative Thinking Capability]**

#### 2.7 ACTIVITY

Visit the websites of at least two different retail stores and compare the types of social media they use.

**Examining, analysing, interpreting**

## 2.7 EXERCISES

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

### 2.7 Exercise 1: Check your understanding

1. **ES1** List five examples of social media.
2. **ES1** What is the difference between blended marketing and marketing?
3. **ES1** Briefly outline what open innovation is about.
4. **ES2** Describe how the following emerging techniques can help a business gain a competitive advantage:
  - (a) social media
  - (b) blended marketing
  - (c) open innovation.
5. **ES3** In what ways can social media damage a business's competitive advantage? Suggest some ways that a business might deal with these problems.

### 2.7 Exercise 2: Apply your understanding

1. **ES3** Read the case study 'Birdsnest blends marketing strategies' in this subtopic and answer the following questions.
  - (a) Outline the types of online marketing techniques that Birdsnest uses.
  - (b) What traditional marketing technique is Birdsnest beginning to use?
2. **ES3** Read the case study 'Open innovation at Samsung' in this subtopic and answer the following questions.
  - (a) How has Samsung put open innovation into action?
  - (b) What has Samsung introduced to support open innovation?
  - (c) Briefly outline how the new complex supports the use of open innovation at Samsung.
3. **ES2** List the consequences of a business using emerging techniques.
4. **ES2** Describe two benefits to consumers of businesses using emerging technologies.
5. **ES6** 'Social media has changed marketing forever and for the better.' Discuss this statement.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 2.8 Pursuing competitive advantage

### 2.8.1 Surviving and thriving

A business will generally seek a competitive advantage to ensure that it performs as well, if not better than its competitors; 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.

### 2.8.2 Meeting the changing demands of a competitive global market

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

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

- Changing incomes — either increasing (so customers are likely to demand more products, particularly luxury items) or diminishing (so it is likely that customers will demand fewer products).
- Changing tastes and fashions — which can increase or reduce the demand for certain products.
- Changing prices of complementary and substitute goods and services — some products are complementary (they go together like cars and petrol, or pens and paper); others are substitutes (they

can replace each other like margarine and butter, or tea and coffee). This means, for example, that if the price of petrol increases then demand for petrol will fall, which can cause demand for cars to fall because cars and petrol are complementary. This may lead to the demand for cars switching from large to small cars that consume less petrol, because large cars and small cars are substitutes.

- Changing population — changes in age and gender distribution will affect demand; for example, an ageing population is likely to demand products related to the health and retirement industries.
- Changing expectations about the market, including future prices and incomes — which means that customers will act in a certain way if they expect that something is going to happen.
- Changes in the number of potential customers — an increasing number of customers often generates greater demand for products, whereas a decline in the number of potential customers is likely to reduce demand.

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

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



## 2.8.3 Improving the profit margin

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

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

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

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

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



## 2.8.4 Achieving efficiencies and lower costs

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

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

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

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

Consider the formula for net profit:

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

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

## 2.8 EXERCISES

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

### 2.8 Exercise 1: Check your understanding

1. **ES1** What is a *competitive market*?
2. **ES1** List the factors that can cause the demands of customers in a market to change.
3. **ES2** Define the term *profit margin*.
4. **ES5** Construct a diagram showing how the changing demands of a market can have an impact on a business.
5. **ES2** Explain why a business would seek to build or create a competitive advantage.

### 2.8 Exercise 2: Apply your understanding

1. **ES3** Outline how a profit margin is calculated and what it reflects.
2. **ES3** 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?
3. **ES4** Consider each of the following cases and suggest how:
  - (a) an increase in people's income would affect the demand for jewellery
  - (b) an increase in the number of people concerned about the environment would affect demand for plastic bags
  - (c) a surge in the price of petrol would affect demand for large cars
  - (d) a fall in the price of butter would affect the demand for margarine
  - (e) an increase in the average age of the population would affect the demand for health services
  - (f) a decrease in the number of people who think that the economy will perform well in the next year will affect the demand for electrical products
  - (g) an increase in the number of customers willing to purchase products will affect the demand for fruit and vegetables.
4. **ES3** For each of your answers to question 3:
  - (a) suggest whether there is an opportunity for a business to develop a competitive advantage, and if so, briefly explain how this could be achieved
  - (b) suggest whether there is an urgent need for a business to develop a competitive advantage, and if so, briefly explain how this could be achieved.
5. **ES3** Charlie owns and operates a teddy bear factory. Last year, he earned \$250 000 in sales revenue with expense of \$190 000.
  - (a) Calculate whether or not Charlie has made a profit.
  - (b) Calculate the profit margin for Charlie's business.
  - (c) Comment on how successful Charlie's business has been in generating profit.
  - (d) How successful has the business been in generating profit if the industry standard is a profit margin of 20 per cent?
  - (e) Advise Charlie on how he could improve his business's profit margin.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 2.9 Strategies to create competitive advantage

### 2.9.1 A range of strategies

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

### 2.9.2 Reducing the cost of a product

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

A second method is to reduce costs. If production or operating costs are lowered, the business can reduce the price while maintaining a healthy profit margin. There are several ways that a business can reduce costs, including **restructuring**, **outsourcing** and **offshoring**.

In 2019 National Australia Bank (NAB) announced it was cutting 180 jobs by reducing the number of customer advisors operating in branches. In 2018 Telstra announced it would cut 8000 jobs amid a restructure program labelled 'Telstra2022', along with a reduction of 'several layers of management'. Restructuring (reorganising the way the business is structured) is another way that businesses reduce staff and therefore cut costs.

In 2014, Optus engaged in outsourcing and offshoring more than 70 jobs from its customer division in an effort to drive down costs through an ongoing restructure. This meant that jobs were sent overseas (offshoring) or sent to another business (outsourcing). Reducing staff expenses or cutting staff numbers in this way allows businesses to reduce overall costs.

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

**FIGURE 1** Driverless trucks may decrease costs and improve productivity.



**FIGURE 2** Telstra lowered costs by cutting 8000 jobs and restructuring management.



**FIGURE 3** How businesses can reduce costs



### 2.9.3 Achieving improved productivity

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

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

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

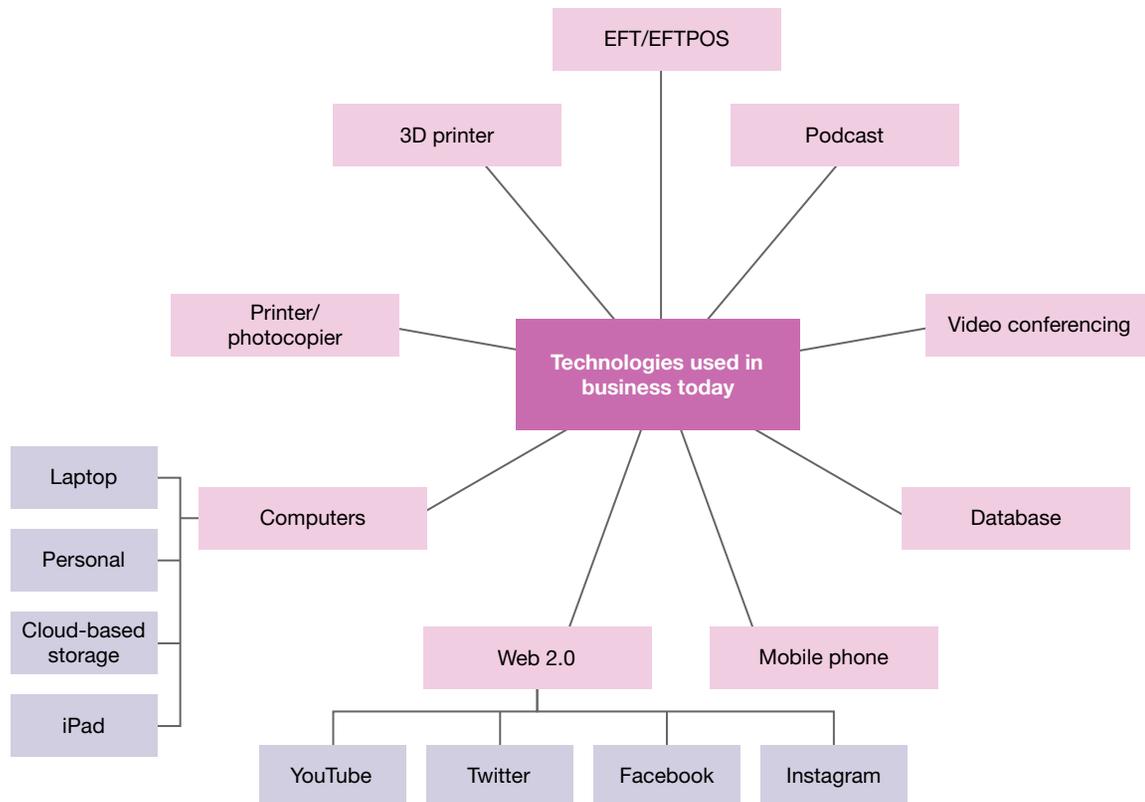
#### Capital investment

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

#### Investing in technology applications

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

**FIGURE 4** Technologies that businesses use today



## Materials management

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

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

### 2.9.4 CASE STUDY: Just-in-time (JIT) real estate

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

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



## 2.9.5 Differentiation

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

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



### Quality

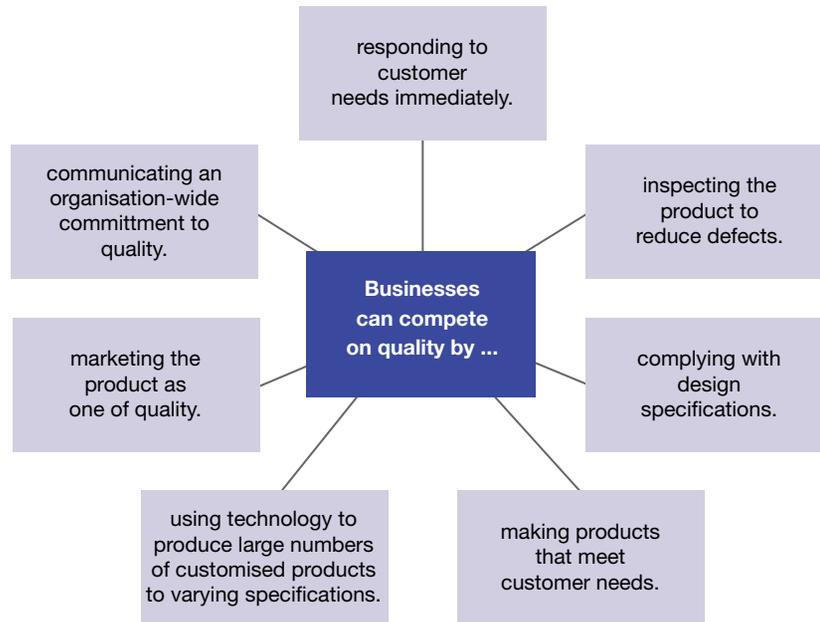
Many businesses compete on **quality**.

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

**FIGURE 7** NAB emphasises quality products and customer service to create competitive advantage.



**FIGURE 8** How businesses can compete on quality



### Speed of delivery

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

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



### 2.9.6 Implementing efficient internal operations strategies

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

Operations strategies for lowering costs include:

- ensuring that there are stable production processes with limited interruptions
- ensuring that all resources are put to their best possible use

- constantly looking for opportunities to streamline production processes
  - updating facilities and equipment with new, more efficient technology.
- Operations strategies for improving quality and speed of delivery include:
- evaluating processes to ensure that there are minimal defects
  - relying on extensive use of integrated technology and computerisation to minimise defects and to develop strong links with the customer
  - establishing efficient relationships between suppliers and the business to ensure that quality materials are delivered on time and in the right quantity
  - adapting the process used to transform inputs into outputs to respond to the need for constant improvement.

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



## 2.9.7 Research and development

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

R&D can make a business more competitive. For example, it can develop new products in response to those of competitors, or improve existing products to make them

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



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.

### 2.9 ACTIVITY

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

**Describing and explaining**

### 2.9 EXERCISES

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

#### 2.9 Exercise 1: Check your understanding

1. **ES1** List the ways in which businesses can lower costs.
2. **ES2** What is meant by the word *restructure*?
3. **ES2** Define *differentiation*.
4. **ES2** Briefly outline the features that form a quality product.
5. **ES1** List five ways in which businesses can compete on quality.
6. **ES2** What is meant by the word *operations*?
7. **ES2** Define *research and development*.

#### 2.9 Exercise 2: Apply your understanding

1. **ES3** Outline the difference between outsourcing and offshoring.
2. **ES2** Explain how Amazon has improved its speed of delivery.
3. **ES5** Draw a concept map that outlines how a business can implement efficient internal operations strategies to create a competitive advantage.
4. **ES3** Outline the difference between invention and innovation.
5. **ES2** 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.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 2.10 Corporate social responsibility and competitive advantage

### 2.10.1 Benefits of corporate social responsibility

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

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



## 2.10.2 Corporate social responsibility strategies

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

### Managing staff appropriately

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

#### DISCUSS

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

**[Ethical Capability]**

### Sourcing raw materials from sustainable sources

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

### Managing customer relationships appropriately

A business needs to make sure that the goods and services it produces are of the required quality — that they are safe and reliable. Dangerously defective or harmful products can result in the injury or even death of consumers. The delivery of a product can raise issues around the socially responsible behaviour of managers, such as fair and equitable treatment of customers regardless of whether they come from wealthier

or poorer regions. A business that develops a reputation for not caring about its customers is likely to find that they no longer purchase its products.

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



### Conducting a social report

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

### 2.10.3 CASE STUDY: The Body Shop

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

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

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

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

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

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

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

few companies who comply with the requirements of the internationally recognised Humane Cosmetics Standard.

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



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



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

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

## on Resources

- [Weblinks](#) Corporate social responsibility  
Body Shop products

### 2.10 ACTIVITIES

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

Product	Community producer
All-in-One BB cream	The Eudafano Women's Cooperative in northern Namibia
Cocoa butter hand and body lotion	
Shea Lip Butter	
White Musk Libertine Eau de Toilette	
Honeymania Soap	
Wild Argan Oil Bubbling Bath	

Examining, analysing, interpreting

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

## 2.10 EXERCISES

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

### 2.10 Exercise 1: Check your understanding

1. **ES2** What is corporate social responsibility?
2. **ES1** Identify two benefits to a business of being socially responsible.
3. **ES1** Identify two benefits to society of a business acting in a socially responsible manner.
4. **ES1** Make a list of strategies based on corporate social responsibility.
5. **ES2** What is the purpose of a social report?

### 2.10 Exercise 2: Apply your understanding

1. **ES2** Explain two ways in which a business can demonstrate its willingness to be socially responsible.
2. **ES2** Describe one business you know (other than the Body Shop) and explain how that business demonstrates its commitment to social responsibility.
3. **ES3** Copy and complete the following table to identify the advantages and disadvantages of adopting socially responsible strategies.

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

4. **ES3** Read the case study 'The Body Shop' in this subtopic and answer the following questions:
  - (a) In no more than 60 words, identify and explain the chief reasons for The Body Shop's success.
  - (b) Outline the socially responsible strategies that The Body Shop has introduced.
5. **ES5** What do you think might happen to the competitive advantage of a business that does not adopt socially responsible strategies?

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 2.11 SkillBuilder: Analysing a business case study

online only

### Why are business case studies important?

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

### Select your learnON format to access:

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



## 2.12 Thinking Big research project: Hitting the target — multimedia advertising campaign

online only

### SCENARIO

Advertising is designed to influence consumer decisions and, as with many things, it has undergone changes as society and technology have changed — from posters, billboards and newspapers to radio, television and now social media. You will create and adapt a product advertisement for use across different media types, aiming to hit the target market of each medium.

### Select your learnON format to access:

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



### on Resources



**ProjectsPLUS** Thinking Big research project: Hitting the target — multimedia advertising campaign (pro-0224)

# 2.13 Review

online only

## 2.13.1 Key knowledge summary

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

## 2.13.2 Reflection

Reflect on your learning using the activities and resources provided.

### Resources



**eWorkbook** Reflection (doc-32092)  
Crossword (doc-32093)



**Interactivity** Innovation and competition in the marketplace crossword (int-7682)

## KEY TERMS

**bias** prejudice, leaning towards one view of things; showing favouritism towards one entity over another

**blended marketing** a mix of internet and traditional marketing methods

**boycott** choosing to avoid the purchase of particular products or brands for ethical, moral or political reasons

**capital** physical resources a business owns and uses in production; includes factories, machinery and equipment

**competitive advantage** when a business can produce and sell goods or services better than its competitors

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

**consumer attitude** a person's overall feeling about an object or activity

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

**culture** all the learnt values, beliefs, behaviours and traditions shared by a society

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

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

**ethical consumerism** making a purchasing decision based on a company's values and behaviours

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

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

**invention** the development of something new

**inventory** the goods and materials held as stock by a business

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

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

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

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

**motives** the reasons why individuals do something

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

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

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

**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

**peer group** a group of people with whom a person closely identifies, adopting their attitudes, values and beliefs

**personality** a collection of all the behaviours and characteristics that make up a person

**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 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

**psychological factors** influences within an individual that affect their buying behaviour

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

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

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

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

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

**social report** a report stating what a business has done, and is doing, to meet corporate social responsibilities

**sociocultural influences** forces exerted by other people that affect customer behaviour

**stamp duty** a compulsory fee (a percentage of the total purchase price) charged by state governments

**technology** the use of scientific knowledge to develop machinery and devices to solve business problems

## 2.5 SkillBuilder: Choosing a mobile phone plan

### 2.5.1 Tell me

What questions do we need to ask when choosing a mobile phone plan?

Do you have a pre-paid mobile or do you pay a bill at the end of every month? Do you have unlimited standard calls and can you send as many text messages as you want? How many gigabytes of data are you allowed and is social media included? You need to consider all these questions and more when you choose a mobile phone plan.

In this SkillBuilder, you will find out what mobile phone plans are and how you can select the one that best suits your needs. You will also find out how to compare the many options offered by the various providers that operate in Australia.

**FIGURE 1** Choosing the right mobile phone plan can save you a lot of money over time.



### 2.5.2 Show me

Mobile phones are usually purchased through telecommunications providers. Companies such as Telstra, Optus and Vodafone sell phone handsets as well as contract agreements known as 'plans'. Although some people choose to purchase their mobile phones outright, the majority of Australian consumers sign up to either a pre-paid or post-paid mobile phone plan. Usually included in the plan are essential mobile phone functions such as calls, text messages, multimedia messaging, data charges and voicemail. Tailored plans are often available that enable consumers to choose a plan that suits their specific needs. For example, as business owners tend to make the majority of their phone calls during the day, business plans offer a lower charge for calls made during business hours. Mobile phones can also provide portable internet access when used as personal 'hotspots'. Before purchasing a phone and signing up to a plan, it is important to compare mobile phone providers and the options they offer to consumers.

### 2.5.3 Let me do it

Complete the following activities to practise this skill.

#### 2.5 ACTIVITIES

1. 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. As mobile phone providers offer a huge range of products, it is best to narrow your search before you begin this phase. A good way to do this is to choose one specific brand and model of phone to research. There are also many different mobile phone providers in Australia, so it will be easier if you limit your search by investigating only some of the following companies:

- Telstra
- Optus
- Vodafone
- Virgin Mobile
- Belong
- Dodo
- iiNet
- Amaysim.

There are several websites that present information and compare plans for a number of different mobile phone providers. Use the **Mobile phone providers** weblinks in the Resources tab to find information on pricing of mobile phone plans offered by three different telecommunications companies.

Phone provider	Length of contract (months)	Calls included (\$)	Min. monthly charge (\$)	Data included (GB)	Additional data costs (\$ per GB)	Flagfall (\$)	SMS costs (\$)	MMS costs (\$)
Telstra								
Optus								
Vodafone								
Virgin Mobile								

2. 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 mobile phone plans that you researched. Use a table like the one below to help you.

Phone provider	Costs	Benefits
Telstra		
Optus		
Vodafone		
Virgin Mobile		

- (b) Considering your own needs as a mobile phone user, rank the providers from most suitable to least suitable.
- (c) Write a one-paragraph response that justifies your rankings.

## Resources

-  **Weblinks** Mobile phone providers 1  
 Mobile phone providers 2  
 Mobile phone providers 3

## 2.11 SkillBuilder: Analysing a business case study

### 2.11.1 Tell me

#### Why are business case studies important?

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

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

#### CASE STUDY: Bluescope

##### Using innovation to create a long-term competitive advantage

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

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

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

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

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

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



## 2.11.2 Show me

### How to analyse a business case study

#### Procedure

##### Step 1

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

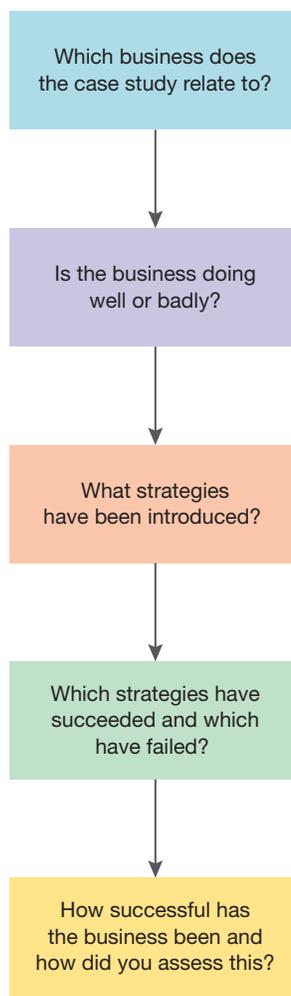
##### Step 2

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

##### Step 3

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

**FIGURE 2** How to analyse a business case study



## 2.11.3 Let me do it

Complete the following activity to practise this skill.

### 2.11 ACTIVITY

Read the **BHP** case study, then analyse it using the questions from **FIGURE 2** in the Show me section.

#### CASE STUDY: BHP

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

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

**1. Costs**

Productivity improvements have delivered annual gains since 2012 of more than \$US10 billion. BHP can reduce costs faster and more profoundly than the rest of the industry.

**2. Volume**

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

**3. Oil**

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

**4. New projects**

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

**5. Exploration**

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

**6. Technology**

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

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



## 2.12 Thinking Big research project: Hitting the target — multimedia advertising campaign

### Scenario

Advertising is designed to influence consumer decisions and, as with many things, it has undergone changes as society and technology have changed — from posters, billboards and newspapers to radio, television and now social media. You will create and adapt a product advertisement for use across different media types, aiming to hit the target market of each medium.



### Task

Your task contains various parts, all relating to advertising one product across different media. You should complete the following:

1. Collect a newspaper advertisement for a product you are familiar with.
2. Analyse the advertisement — identify the target market and market segments at which the advertisement is directed.
3. Write a script for a radio advertisement for the same product. (Radio advertisements are generally between 15 and 30 seconds long.) Write an outline of the target market and market segments it may be directed towards.
4. Record the script in an audio format.
5. Write a script for a television commercial for the product and an outline of the target market and market segments it may be directed towards. (Television advertisements are traditionally 30 seconds long.) *Note:* the television ad must be different from the radio ad.

6. Write a script for a social media advertisement for the product (to appear on Facebook, Instagram or an online game site such as Candy Crush) and an outline of the target market and market segments it may be directed towards. Social media advertisements can be as short as 5 seconds or as long as 30 seconds. *Note:* The social media ad must be different from the other ads created.



## Process

- Open the ProjectsPLUS application in the Resources for this topic. Click on the **Start new project** button to enter the project due date and set up your project group. Working in groups of three or four will allow you to swap ideas and share responsibility for the project. Save your settings and the project will be launched.
- Select an advertisement for a product — check with your teacher for approval to work with this product.
- Navigate to the **Research forum**, where you will find starter topics loaded to help structure your work. You can add further topics to the Research forum if you wish. In the **Media centre** you will find an assessment rubric and some weblinks that will provide some inspiration for your task.
- Develop your scripts and target market outlines for each advertising form, as detailed in the **Task** section.
- If you have the equipment and appropriate permissions, you can film the television and social media advertisements to present to the class.
- Prepare a summary of how your advertisements differ depending on the type of media you are using.
- Submit your completed scripts, target market outlines and summary of advertising differences to your teacher for assessment.



## on Resources



ProjectsPLUS Thinking Big research project: Hitting the target — multimedia advertising campaign (pro-0224)

## 2.13 Review

### 2.13.1 Key knowledge summary

#### 2.2 Business influences on consumer decisions

- Four main factors influence consumer purchasing decisions: psychological, sociocultural, economic and government factors.
- Psychological factors that influence consumer choice include perception, motive, attitude and personality.
- Sociocultural factors that influence consumer choice include family, peer groups, social class and culture.
- Marketing campaigns are designed specifically with consumer attitudes in mind.

#### 2.3 Consumer choice, attitude and preference

- The decisions consumers make can affect not only their own lives but also the viability of businesses and markets.
- Businesses and companies go to considerable lengths to understand consumer attitudes and desires.
- Consumers need to be aware of the various strategies employed by businesses.
- Some businesses and companies may indulge in unethical behaviour.

#### 2.4 Making major purchases

- Consumers should conduct thorough research on companies and the products they offer.
- Before making a major purchase such as a car, you need to decide exactly what you want. It is crucial that you conduct proper research on the car itself and the method of payment you choose to purchase that car.

#### 2.6 Innovation

- Businesses seek to build or create a competitive advantage, often through innovation, to improve their profit margins.
- *Product* innovation occurs when a new product is created or an existing product is improved.
- *Process* innovation occurs when changes and improvements are made to the production process of a product or service.
- Open innovation involves the use of internal and external ideas to support the business in improving its processes or products.

#### 2.7 Emerging techniques

- To gain an advantage over competitors, businesses can use emerging techniques such as social media, blended marketing, and open innovation.
- Using social media to interact with customers directly and promote products, and making use of online and offline marketing techniques (blended marketing), can improve the competitiveness of a business.

#### 2.8 Pursuing competitive advantage

- Reducing the price of the product or reducing costs (by restructuring, increasing production capacity or working more efficiently) can achieve a lower cost product.
- Differentiation can be achieved by offering a product that stands out as being unique or offering superior value through such means as packaging, marketing, quality or speed of delivery.

#### 2.9 Strategies to create competitive advantage

- 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.

## 2.10 Corporate social responsibility and competitive advantage

- Business strategies based on corporate social responsibility can also increase competitive advantage by improving reputation.
- Socially responsible strategies include managing staff appropriately, sourcing raw materials from sustainable sources, managing the customer relationship appropriately and conducting a social report.

## 2.13.2 Reflection

Complete the following to reflect on your learning.

### 2.13 ACTIVITIES

Revisit the inquiry question posed in the Overview:

**People may think they make consumer choices on their own, but how do businesses influence and attract customers?**

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



### Resources



**eWorkbook** Reflection (doc-32092)

Crossword (doc-32093)



**Interactivity** Innovation and competition in the marketplace crossword (int-7682)

### KEY TERMS

**bias** prejudice, leaning towards one view of things; showing favouritism towards one entity over another

**blended marketing** a mix of internet and traditional marketing methods

**boycott** choosing to avoid the purchase of particular products or brands for ethical, moral or political reasons

**capital** physical resources a business owns and uses in production; includes factories, machinery and equipment

**competitive advantage** when a business can produce and sell goods or services better than its competitors

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

**consumer attitude** a person's overall feeling about an object or activity

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

**culture** all the learnt values, beliefs, behaviours and traditions shared by a society

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

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

**ethical consumerism** making a purchasing decision based on a company's values and behaviours

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

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

**invention** the development of something new

**inventory** the goods and materials held as stock by a business

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

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

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

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

**motives** the reasons why individuals do something

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

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

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

**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

**peer group** a group of people with whom a person closely identifies, adopting their attitudes, values and beliefs

**personality** a collection of all the behaviours and characteristics that make up a person

**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 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

**psychological factors** influences within an individual that affect their buying behaviour

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

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

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

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

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

**social report** a report stating what a business has done, and is doing, to meet corporate social responsibilities

**sociocultural influences** forces exerted by other people that affect customer behaviour

**stamp duty** a compulsory fee (a percentage of the total purchase price) charged by state governments

**technology** the use of scientific knowledge to develop machinery and devices to solve business problems

# 3 The changing work environment in Australia

## 3.1 Overview

Go to work. Go home. Get paid. Repeat. The way we work hasn't changed at all. Has it?

### 3.1.1 The work environment in contemporary Australia

Work has always been an extremely important part of the lives of Australians. It consumes much of our time and provides many financial and social benefits. Financially, work enables people to earn an income so that they can pay for goods and services that improve their quality of life. Work also provides many social benefits. One social benefit may be the personal satisfaction derived from doing a job that you love and knowing that you have done it well. In addition, work provides an opportunity to meet people and form new relationships with others.



While the importance of work remains a constant, the nature of work in Australia has changed dramatically. While there are many factors, both economic and social, that have influenced the nature of work in Australia, a number of key influences can be identified. The process of globalisation and the rapid development of technology have revolutionised the world of work as we know it. Some of these changes have been positive; however, the loss of a healthy work–life balance is a major concern for many workers. Issues of sustainability have also affected the nature of work in Australia in recent years.

#### on Resources



**eWorkbook** Customisable worksheets for this topic



**Video eLesson** The changing work environment in Australia (eles-3497)

#### LEARNING SEQUENCE

- 3.1 Overview
- 3.2 Influences on the way we work
- 3.3 Occupations and skills
- 3.4 Trends and changes to the workforce
- 3.5 Employment in the future
- 3.6 **SkillBuilder:** Predicting the outcomes of economic and business decisions
- 3.7 **Thinking Big research project:** How will I work? presentation
- 3.8 **Review**



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## 3.2 Influences on the way we work

### 3.2.1 Historical influences

Prior to the late eighteenth century, the main type of work available was in **primary production**, in areas such as crop farming, fishing or livestock rearing. Life was very different to that of today's developed societies. People produced the bulk of their own food, clothes and other needs. Manufacturing was done on a small scale, in people's homes using hand tools or basic machines.

From the late 1700s to the mid 1800s, technological advances associated with the Industrial Revolution — in particular the development of steam power and the steam engine, the mechanised cotton mill and loom and the use of processed fuel to fire and heat the furnaces in iron ore production in England — changed the way that people lived and worked. People who previously worked in the primary industries outlined above moved to towns and cities to work in factories (**secondary industries**). The working conditions in these early factories were harsh. Men, women and children had few rights. They were forced to work long hours in noisy, dirty and dangerous workplaces. Accidents often happened around machinery, but there was no compensation or sick leave. If a person was injured, someone else took their job and no unemployment benefits were provided to those who could not find work.

Substantial workplace reforms in the many decades since this time have greatly improved on-the-job conditions for the great majority of workers in industrialised, developed countries such as Australia. In some countries, however, harsh and unsafe work environments still exist, with workers paid poorly for long hours of labour in difficult conditions. This is one of the ethical challenges of globalisation, which is discussed further in the sections that follow.

**FIGURE 1** Before the Industrial Revolution people manufactured items in their homes



**FIGURE 2** Despite workplace reforms, many people still work in sweatshop conditions.



### 3.2.2 Globalisation

Advances in technology (especially communications technology), more effective, lower cost methods of transportation, and largely unrestricted trade between countries have moved the whole world towards becoming a single, integrated marketplace. The term **globalisation** refers to this ever-increasing international cultural and economic interaction.

In Australia, globalisation has had an ongoing significant effect on work opportunities, the way people work and the composition of the workforce. Some of the major impacts of globalisation on the Australian work environment include:

- increased use of outsourcing
- more culturally diverse workplaces
- the decline and growth of different industries.

## Increased use of outsourcing

Globalisation and the growing links between countries have facilitated increased outsourcing by businesses. **Outsourcing** involves engaging individuals or businesses outside of an organisation to fulfil functions previously carried out within the organisation itself. In an attempt to improve productivity, cut costs and increase their ability to compete on a global scale, many Australian businesses now outsource some of their non-core functions.

Outsourcing can be done in two ways:

1. *onshore outsourcing*. This involves outsourcing to a business within the same country. For example, a large law firm may contract a cleaning company to clean their offices for them.
2. *offshore outsourcing*. This occurs when a business outsources one of its functions to an overseas company, usually with the aim of reducing costs or accessing skills or services that are not available locally.

Globalisation and rapid developments in communication and transport technology have made offshore outsourcing far easier for businesses. Australian companies have outsourced many functions — ranging from production to marketing, maintenance and customer assistance — to overseas businesses. One example is the Australian aviation business Qantas, which has outsourced some of the maintenance of its aircraft to South-East Asia. When Qantas first closed its maintenance base in Avalon, Victoria in 2014 and outsourced some of this work to a company in Hong Kong, there was an outcry from employees, trade unions and some members of the public. Employees and trade unions were angry that such an iconic Australian business would move Australian jobs overseas. In addition, some members of the public expressed concern that the quality of the maintenance work done overseas may not be of the same standard as that done in Australia.

Offshore outsourcing has provided many benefits for Australian businesses, some of which are outlined in **TABLE 1**. Despite these benefits, businesses must also be aware of the problems that may arise from offshore outsourcing.

**FIGURE 3** Qantas has outsourced some of its maintenance work to overseas businesses.



**TABLE 1** The advantages and disadvantages of offshore outsourcing

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Outsourcing to low-wage countries can enable a business to reduce costs.</li><li>• A business can access skills and services that may not be available in Australia.</li><li>• Raw materials and technology may be cheaper in the overseas country.</li><li>• A business may be able to tap into a new market and broaden its customer base.</li></ul>	<ul style="list-style-type: none"><li>• The loss of jobs in Australia may cause a backlash from consumers.</li><li>• Possible exploitation of overseas workers may damage the reputation of the business.</li><li>• The quality of the outsourced work may not meet the expectations of the business.</li><li>• Cultural differences between Australia and the other country may present challenges.</li></ul>

## Culturally diverse workplaces

Globalisation has greatly enhanced the mobility of workers. As a result of this, many of Australia's workplaces are more culturally diverse than they have been in the past. This can be of great benefit to businesses as they can draw on the education, skills and experience of workers from all over the globe. A diverse workforce may give a business an insight into foreign markets and new ways of doing things. Just as cultural diversity can present some issues in broader society, they may also pose challenges in the workplace.

## CASE STUDY: Commonwealth Bank embraces diversity in its workforce

Many businesses such as the Commonwealth Bank of Australia (CBA) have recognised that a diverse workforce can be a great advantage and help achieve improved economic performance. Accordingly, CBA developed a ‘diversity policy’ to help educate staff and ensure that diversity is embraced. CBA’s diversity policy recognises that differences can include a range of factors, such as ethnicity and cultural background, gender, sexual orientation, age, physical abilities, family status and religious beliefs. The existence of such a policy makes it clear to staff that diversity is something to be welcomed and celebrated. It aims to recognise the unique contribution that all workers can make to the success of a business.

Some of the elements of CBA’s diversity policy include:

- a commitment to diversity in recruitment and leadership
- providing flexible work arrangements to cater for the individual circumstances of staff
- structuring the leave policy in a way that provides flexibility for the diverse workforce
- promoting respect and inclusion among staff.

**FIGURE 4** The Commonwealth Bank has developed a diversity policy to increase staff awareness and acceptance of diversity.



### on Resources

 **Weblink** Diversity and inclusion

## The decline and growth of different industries

With many companies moving part or all of their operations overseas, the employment opportunities in some industries have decreased. For example, the closure of the production plants of the three major car manufacturers in Australia (Ford, Holden and Toyota) meant that workers in this industry had to seek employment in other fields. While ongoing technological advances can lead to job losses in some cases, where tasks that were once carried out by people are now able to be done by machines, they can also present opportunities for new businesses to develop; for example, in areas such as telecommunications and digital technologies. In the 1980s, jobs such as website designers, social media managers, e-commerce consultants and app developers didn’t exist. More than 30 years later, they are a common part of the business world. Many of the jobs that will exist in the future may be roles that we cannot even imagine today.

**FIGURE 5** The closure of Ford, Holden and Toyota’s manufacturing plants in Australia in 2017 meant over 4000 workers needed to seek employment elsewhere.



### on Resources

 **Weblink** Car manufacturing

### 3.2.3 Technology

The Australian work environment has changed significantly since the 1980s. Much of this change can be attributed to the development of technology and rapid communications advances that have altered the way the world does business.

#### Significant technological change

The world of work changed dramatically in the late 1980s with the development of the desktop computer, but it was the widespread adoption of the public internet in the 1990s that has brought arguably the greatest change to the world of work since the Industrial Revolution. The internet, computers and devices such as smartphones and tablets are now part of our everyday lives and, for many workers, have been integrated significantly into the way that they undertake and complete their work. The ability to communicate virtually instantaneously with anyone almost anywhere in the world has changed the way people do business and has been a major factor in the process of globalisation.

#### Types of new technology

Technological advances have changed many aspects of business operation, from administration tasks to internal and external communications, service provision and manufacturing processes. The list of technological advances that have changed the way we work is enormous. It includes:

- video conferencing and webinars — using technology to meet or conduct information and training sessions, rather than needing to have face-to-face interactions
- smart technology (smartphones) — enabling 24/7 communication through phone, email, SMS, MMS
- e-commerce — internet banking, online shopping, microchip credit cards, EFTPOS, PayPal, BPAY, PayPass, Afterpay, Apple Pay, Google Pay
- software developments — word processing, spreadsheets, database, accounting and other software programs that streamline administrative tasks
- robotics — their use in manufacturing, especially in assembly lines
- computer-aided design (CAD) — using computers to design new products, buildings and production processes
- computer-aided manufacturing (CAM) — using computers to assist with the manufacturing process of goods and services
- cloud computing — external data storage away from the organisation, allowing access to information from anywhere
- communication — discussion forums, blogs, social networking — creating new ways to reach potential customers.

**FIGURE 6** Video conferencing allows workers to meet even though they may be in different countries.



## How technology has changed working lives

The impact of technological advances has been felt significantly in the workplace. For example, where once it was necessary to send written materials via the post (which may take several days or even weeks to be delivered, depending on the distances involved), email now makes it possible for correspondence to be sent and delivered within the same minute. Computer software enables once tedious administrative, accounting and other processes to be completed in a fraction of the time that they once required. Computer-operated machines now perform many manufacturing line tasks that once required meticulous human completion. Similarly, in many cases where manual labour was once the norm, computers and robots now control the lifting and movement of heavy objects. Interestingly, the law has followed this process and various requirements have been introduced that seek to protect workers and ensure that employers provide a safe environment for them. Work (Occupational) Health and Safety laws cover issues such as manual handling, machine operation, safety guards and shut-off mechanisms, acceptable noise levels, and other hazard management in relation to the use of technology in the workplace.

### Manufacturing

The use of computers in production has sped up the manufacturing process significantly and, in turn, productivity levels have increased. Assembly lines, computer-aided design, and computer-driven manufacturing processes (in which computers control and direct the machinery and equipment) have meant that fewer workers are needed to undertake the manual aspects of production. However, the increase in production output, combined with access to new markets through globalised trade opportunities, has allowed the growth of some businesses, and a need for increased numbers of workers to meet the demands of expansion. Further, the nature of many roles in computer-assisted manufacturing operations has changed, with workers gaining higher level skills as they are trained to be able to monitor equipment and carry out any adjustments or even repairs that may be required.

**FIGURE 7** As a result of technological advances, fewer workers are needed to undertake the manual aspects of production.



### Rapid communication changes

Technology has changed the concept of communication. For example, the growth of the internet has meant that news events, when they occur, can be instantly disseminated and shared through instant messaging, blogs, emails and websites. This change has made a huge impact on print media such as newspapers. Many people no longer buy a printed newspaper, but will instead read the news online. It is not just local newspapers that they can access, but also newspapers from around the world.

In the workplace, these rapid changes have led to enormous shifts in the way people communicate and work. No longer is there a need to have ‘face time’, where people have to be in the same room to meet and discuss business. ‘Face time’ has been replaced by ‘virtual meeting time’. Smart devices allow for instant communication and access to workers, employers, suppliers and producers.

Where once distance may have been a prohibitive factor in applying for and obtaining a job, this is no longer the case. In many fields of work, employees increasingly have the opportunity to work remotely, based from their own homes. The use of technology such as tele- or video-conferencing, email, cloud computing and so on effectively eliminates the distance between people, and creates opportunities for more flexible work arrangements that are beneficial for both the employee and the employer.

## Staying connected or switching off?

The developments that have occurred in communications technology make it difficult to ‘switch off’. For example, how many people in your class have a smartphone? Do you check your phone or device as soon as an instant message, email or Facebook post hits your inbox? If you do, you are not alone. Many of us are obsessed with our smartphones, tablets, laptops and other devices, along with the social media so easily accessed on them. While such technologies allow us unprecedented opportunities for social connection and access to information, they also play a role in the gradual blurring of the boundaries between work and home life. It is now easy to stay connected with the office or work while at home, or even on holidays! Many people now work beyond the traditional office hours of 9 to 5, using laptops and other devices to access work networks remotely, checking work emails while they have breakfast or during their commute to work on the train, or perhaps to teleconference during their home time with other people working in a different time zone.

### DISCUSS

With many people now working outside of traditional hours, achieving a healthy work–life balance is more difficult than ever. Do you think companies should encourage people to access email outside of work hours? What might be the positives and negatives of switching off?

**[Personal and Social Capability]**

## 3.2.4 Sustainability

Consumers and society in general are increasingly aware of the impact of humans on the environment. As such, organisations, their management and employees have been prompted to reconsider some of their business practices in order to become more sustainable. Sustainability refers to our ability to satisfy current needs without compromising the ability of future generations to meet *their* needs. This growing focus on sustainability has resulted in significant shifts in the activities of business and the way we work. These changes can happen at different levels of a business. In analysing these changes, we will consider how sustainability has influenced:

- employees and the work they do
- management practices
- organisational decision making.

**FIGURE 8** The growing focus on sustainability has led to changes to business activities and the way we work.



### Employees and the work they do

Many employees bring a personal interest in environmental sustainability to their work. As well as this, businesses are increasingly expecting employees to be at the frontline of their efforts to become more sustainable. In doing their work, employees need to embed into practice the sustainability measures that have been developed by the business. Some businesses even offer incentives or rewards to employees who develop and implement new, more sustainable practices in their workplace.

## Management practices

Some businesses are promoting sustainability by developing and implementing sustainable practices. The aim of these practices is twofold:

1. to ensure that the business is playing its part in preserving the environment
2. to establish a competitive advantage.

One common management practice in business has been to promote the ‘3 Rs’ policy. This policy encourages businesses to:

- *recycle* — businesses should recycle the goods that they use and also consider whether the products that they produce are recyclable
- *reuse* — businesses should choose durable, reusable products within their business rather than encouraging a ‘disposable culture’
- *reduce* — where possible, a business should look to reduce their use of resources, especially non-renewable resources.

This is a particularly important consideration in regard to the packaging of products.

Another common management practice aimed at improving sustainability is the development of the ‘paperless office’. This refers to work environments that attempt to greatly reduce or completely eliminate the use of paper. While the environmental benefits of such a practice are significant, it does result in changes to the way that we work. Many businesses set reduction targets in terms of their paper usage. Other businesses use strategies such as photocopy limits — this means that employees are only allowed to make a certain number of copies per week or month. All of these strategies aim to reduce the environmental footprint of a business and, of course, they also reduce business costs.

## Organisational decision making

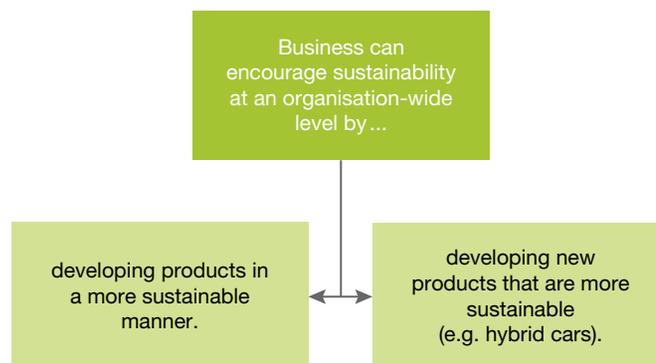
As we have discovered in the previous sections, employees and managers play an important role in promoting sustainability in modern businesses. However, organisational decision making is perhaps the most significant factor in determining how sustainable a business’s operations will be in the long term.

**FIGURE 10** identifies the two major organisational decisions that can be made in support of sustainability.

**FIGURE 9** Promoting the 3Rs policy is a common sustainability management practice.



**FIGURE 10** Sustainability should be an important consideration in all organisational decisions.



## CASE STUDY: Sustainable production processes at De Bortoli Wines

The NSW Department of Environment, Climate Change and Water developed the ‘Sustainability Advantage’ program to advise and encourage businesses to become more sustainable. It provides practical workshops, one-on-one support and opportunities to network with other sustainable businesses. One business that has been involved in the program is De Bortoli Wines.

De Bortoli Wines has worked hard to reduce the environmental impact of its manufacturing process. Some of De Bortoli’s major savings and sustainability achievements, as identified by the NSW Department of Environment, Climate Change and Water, are outlined in **TABLE 2**.

**TABLE 2** De Bortoli’s sustainability achievements

<b>Energy</b>	<ul style="list-style-type: none"><li>• 392 kilowatt-hours of electricity saved annually</li><li>• Reduced projected capital spend of over \$350 000 on new energy equipment by optimising existing systems</li><li>• Reduction in greenhouse gases of 247 tonnes of carbon dioxide per annum</li></ul>
<b>Waste</b>	<ul style="list-style-type: none"><li>• 150 tonnes of waste diverted from landfill</li><li>• Complete reuse of winery wastewater, generating \$200 000 in forage crop income</li></ul>
<b>Performance</b>	<ul style="list-style-type: none"><li>• Productivity gains of between 20 and 37 per cent on all packaging lines</li><li>• Customer complaints down by 42 per cent</li></ul>
<b>Engagement</b>	<ul style="list-style-type: none"><li>• Engaged suppliers and staff as shown by:<ul style="list-style-type: none"><li>• lost time injury rates down by over 80 per cent</li><li>• process non-conformances down by 26 per cent</li></ul></li></ul>
<b>Research</b>	<ul style="list-style-type: none"><li>• The confidence to commit \$1 million in research and development to the ‘Zero Waste Winery’ program</li></ul>

**FIGURE 11** De Bortoli’s operations have become far more sustainable as a result of the company’s involvement in the ‘Sustainability Advantage’ program.



## 3.2 EXERCISES

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

### 3.2 Exercise 1: Check your understanding

1. **ES2** Explain how the Industrial Revolution changed the way that people worked.
2. **ES1** Define *globalisation*.
3. **ES1** Identify three industries that have declined as a result of technological developments and three that have emerged/grown.
4. **ES1** Identify some of the main technological advances that have changed the way we work.
5. **ES1** Define *sustainability*.

### 3.2 Exercise 2: Apply your understanding

1. **ES3** Identify two issues that have arisen from the changing technologies in the workplace.
2. **ES2** Explain why offshore outsourcing may be a high-risk strategy for business.
3. **ES2** Explain how issues of sustainability have influenced the way we work.
4. **ES6** 'Technology has had more negative impacts on workplaces than positive.' Do you agree or disagree with this statement? Provide reasons for your answer.
5. **ES5** You have been asked to design a sustainability strategy for your school. The aim of the strategy is to increase the school community's awareness of their impact on the environment and to suggest changes that could be made.
  - (a) Identify some of the major sustainability issues within your school.
  - (b) Outline the main features of your sustainability strategy.
  - (c) Explain how the strategy will make your school more environmentally sustainable.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 3.3 Occupations and skills

### 3.3.1 What kind of worker are you?

Even as a teenager, you have probably been asked the question, 'What do you want to do when you grow up?' From a young age, some people have a strong interest and desire to work in a particular job. In many cases, this interest comes from observing a parent, sibling or family friend who works in a particular industry. Other people spend much of their teenage life and young adult life trying to decide exactly what they would like to do for work. In the contemporary Australian workforce, people may change their mind about what they want to do for work many times in their working lives.

Choosing a career is a significant decision. It is natural for people to feel confused, unsure and nervous about making such a decision. A common tool people use to help them determine the type of work that may be suited to them is a 'personality and career aptitude test'. This tool aims to identify the strengths, weaknesses, interests and personality traits of a particular person in order to suggest industries or occupations that may suit them. While these tests are useful, they are just one of many tools that young people can use to help determine the type of work they may be suited to. Parents, siblings, friends, teachers, career counsellors and employment agencies may also provide useful information.

**FIGURE 1** Making career decisions can be an uncertain process, but there are many sources of helpful information available.



### 3.3.2 The range of industries in the Australian work environment

Australian employees have a wide range of occupations to choose from in a variety of industries. An **industry** refers to a group of businesses involved in similar or related work. An occupation relates to the work or activities that a person performs in order to earn a living. New occupations and industries are constantly being created as the Australian economy responds to influences such as technology, globalisation and sustainability.

The 'Job Outlook' website is an initiative of the Australian government's Department of Employment. The website provides useful data about the characteristics and trends in different industries and occupations. The 'Job Outlook' website identifies a range of industries in the Australian economy, including:

- agriculture, forestry, fishing
- mining
- manufacturing
- electricity, gas, water, waste services
- construction
- wholesale trade
- retail trade
- accommodation and food services
- transport, postal and warehousing
- information, media and telecommunications
- financial and insurance services
- rental, hiring and real estate services
- professional, scientific, technical services
- administrative and support services
- public administration and safety
- education and training
- health care and social assistance
- arts and recreation services.

**FIGURE 2** The retail industry employs a large number of people in Australia.



In the following sections, we will examine some of the occupations found within five of these industries.

#### Occupations in the mining industry

TABLE 1 outlines two of the many occupations that exist within the mining industry.

**TABLE 1** Mining industry occupations

Occupation: Miner	
<b>Occupation summary</b>	Miners operate heavy machinery and equipment to excavate, extract and transport ore, coal, rock and other minerals from mines in regional and sometimes remote areas. They drill and blast into rock to create tunnels deep underground or, in the case of open-cut mines, remove top soil and cut into the earth with bulldozers, drills and explosives. They ensure the mine site is safe by installing reinforcing, lighting, cabling, pumps and, where appropriate, air vents.
<b>Skills and disposition required</b>	A miner needs: <ul style="list-style-type: none"> <li>• to enjoy manual and technical work</li> <li>• to be able to follow precise instructions and safety standards</li> <li>• good fitness, with an ability to do heavy lifting and physically demanding work</li> <li>• good eyesight and hand-eye coordination</li> <li>• to be comfortable working in confined spaces</li> <li>• the ability to stay calm in emergencies</li> <li>• excellent team work skills.</li> </ul>
<b>Estimated weekly earnings</b>	\$2670

(continued)

**TABLE 1** Mining industry occupations (*continued*)

Occupation: Archaeologist	
<b>Occupation summary</b>	Archaeologists survey, map and record details about archaeological sites. They organise and carry out fieldwork, including excavation and surface collections. They may clean, conserve, restore, reconstruct and display material found at sites. They may photograph or draw characteristics or artefacts at the site for later analysis. They then analyse things found at the site and document their findings. They will also often write journal articles for publication.
<b>Skills and disposition required</b>	An archaeologist needs: <ul style="list-style-type: none"> <li>• to enjoy science and research and to remain objective</li> <li>• an eye for detail</li> <li>• to be willing to live in harsh conditions when doing field work</li> <li>• patience, perseverance and determination</li> <li>• to be able to work as part of a team</li> <li>• strong written and computing skills.</li> </ul>
<b>Estimated weekly earnings</b>	\$1225–\$1711

## Occupations in the manufacturing industry

A wide range of occupations exist within the manufacturing industry. Two of these occupations are outlined in **TABLE 2**.

**TABLE 2** Manufacturing industry occupations

Occupation: Textile, clothing and footwear mechanic	
<b>Occupation summary</b>	Textile mechanics set up, adjust and maintain machines used in textile, clothing and footwear industries. They generally perform tasks that include diagnosing and fixing faults, repairing and replacing faulty parts and, overall, ensuring shifts run smoothly.
<b>Skills and disposition required</b>	Textile, footwear and clothing mechanics should: <ul style="list-style-type: none"> <li>• enjoy practical and manual work</li> <li>• possess good eyesight (may be corrected) and normal colour vision</li> <li>• have a mechanical aptitude</li> <li>• display good hand–eye coordination</li> <li>• be able to work quickly to locate and fix problems</li> <li>• have good problem-solving, troubleshooting and communication skills.</li> </ul>
<b>Estimated weekly earnings</b>	\$943
Occupation: Winemaker	
<b>Occupation summary</b>	Winemakers plan, organise and undertake the production of wine, spirits and other alcoholic beverages. They select grapes, organise their crushing and pressing and monitor the fermentation process, as well as filtering, bottling and packaging wine for sale. They research and develop new varieties and styles of wine, ensure that all their wine meets legal standards and specifications, supervise the activities of cellar personnel, and supervise the maintenance of the winery’s laboratory, factory and cellar door areas. They may also market and sell wine, conduct tours, and train staff.

(*continued*)

**TABLE 2** Manufacturing industry occupations (*continued*)

<b>Skills and disposition required</b>	<p>A winemaker needs:</p> <ul style="list-style-type: none"> <li>• a passion for wine</li> <li>• good eyesight and an acute sense of smell and taste</li> <li>• the ability to undertake detailed tasks accurately</li> <li>• planning and organisational skills</li> <li>• analytical and observational skills</li> <li>• good interpersonal and communication skills.</li> </ul>
<b>Estimated weekly earnings</b>	\$1029–\$1755

## Occupations in the education and training industry

**TABLE 3** outlines two of the many occupations that exist within the education and training industry.

**TABLE 3** Education and training industry occupations

<b>Occupation: Primary school teacher</b>	
<b>Occupation summary</b>	<p>Primary school teachers educate children between the ages of 5 and 12. They plan and conduct educational programs that assist in the intellectual, physical and social growth of children, and aid the development of their literacy, numeracy and other academic skills. They prepare daily lesson plans that fit within wider curriculum requirements, and teach a wide range of subject areas including Mathematics, English, Science and Technology, Society and Environment, Health, Creative Arts and Physical Education.</p>
<b>Skills and disposition required</b>	<p>A primary school teacher needs:</p> <ul style="list-style-type: none"> <li>• to enjoy working with children</li> <li>• a friendly and personable demeanour</li> <li>• patience and tolerance</li> <li>• organisational skills</li> <li>• leadership and motivational skills</li> <li>• a supportive and caring nature.</li> </ul>
<b>Estimated weekly earnings</b>	\$807–\$1749
<b>Occupation: University lecturer</b>	
<b>Occupation summary</b>	<p>University lecturers plan and direct the learning of university students in one or more specific topics, as well as conducting their own research in those areas. They write and present lectures, plan and conduct tutorials, and undertake research into topics that are closely linked to their area of expertise. They also prepare and mark assignments, examinations and other course work, provide advice to students on academic matters, attend meetings in their faculty, school or department, and undertake administrative tasks. They may also organise and run conferences.</p>
<b>Skills and disposition required</b>	<p>A university lecturer needs:</p> <ul style="list-style-type: none"> <li>• strong written and oral communication skills</li> <li>• excellent research skills</li> <li>• leadership and motivational ability</li> <li>• organisational skills</li> <li>• analytical and interpreting skills</li> <li>• a passion for and commitment to teaching.</li> </ul>
<b>Estimated weekly earnings</b>	\$2023

## Occupations in the professional, scientific and technical services industry

A wide range of occupations exist within the professional, scientific and technical services industry. Two of these occupations are outlined in **TABLE 4**.

**TABLE 4** Professional, scientific and technical services industry occupations

Occupation: Civil engineer	
<b>Occupation summary</b>	Civil engineers design, construct and maintain the buildings, bridges, dams, roads and other types of infrastructure that make up our cities and towns. Civil engineers visit building sites and assess proposed plans to determine the environmental impact of large-scale projects, and whether the building materials will be sufficient to create a safe and stable structure.
<b>Skills and disposition required</b>	A civil engineer needs: <ul style="list-style-type: none"> <li>• good planning and organisation skills</li> <li>• excellent problem-solving skills</li> <li>• good communication skills</li> <li>• to be willing to adhere to strict safety regulations</li> <li>• to be able to work independently and as part of a team.</li> </ul>
<b>Estimated weekly earnings</b>	\$1376
Occupation: Architect	
<b>Occupation summary</b>	Architects apply technical skills and creativity to design commercial, industrial, institutional, residential and recreational buildings that are both practical in use and beautiful in appearance. Unlike other construction or building professionals, architects focus more on the look of a building as opposed to its structure. They work with a number of construction professionals as well as town planners and project clients to ensure that the use of the building is supplemented and complemented by its design and look. They may work on multilevel skyscrapers in the CBD, or small heritage buildings that require conservation work, as well as a wide range of domestic and commercial buildings.
<b>Skills and disposition required</b>	Architects need: <ul style="list-style-type: none"> <li>• creativity and artistic ability</li> <li>• technical ability and spatial awareness</li> <li>• the ability to sketch and draw</li> <li>• a good level of English, mathematics and physics</li> <li>• good communication skills</li> <li>• the ability to work, liaise and negotiate with other people</li> <li>• the ability to meet strict deadlines.</li> </ul>
<b>Estimated weekly earnings</b>	\$1575–\$1967

## Occupations in the information, media and telecommunications industry

As with many other industries, the information, media and telecommunications industry has developed significantly in response to our ever-evolving new technologies. Two of the many occupations that exist within this field are outlined in **TABLE 5**.

**TABLE 5** Information, media and telecommunications industry occupations

Occupation: Web designer	
<b>Occupation summary</b>	Web designers use a combination of design and IT skills to create, develop and maintain websites. They must find a balance between the visual appeal of a website and its functionality. To achieve this, web designers must consult with clients to determine their specific requirements, design the underlying architecture of the website, design the visual layout of each page and in some cases develop custom programs to improve the functionality of the website.
<b>Skills and disposition required</b>	A web designer needs: <ul style="list-style-type: none"> <li>• to be able to work independently or as part of a team</li> <li>• to be able to work well under pressure</li> <li>• good communication skills</li> <li>• an aptitude for design</li> <li>• to be familiar with computer programming languages</li> <li>• to keep up to date with new web technologies and trends.</li> </ul>
<b>Estimated weekly earnings</b>	\$1346–\$1731
Occupation: Journalist	
<b>Occupation summary</b>	Journalists write and present news and current affairs stories for print media, radio, television and the internet. They conduct research and plan stories, interview people to obtain information, and write the copy for the final story as it appears in the media. They may even present the story on radio or television. Journalists may specialise in a particular area such as sport, politics, entertainment, economics and finance, or other specific topics.
<b>Skills and disposition required</b>	A journalist needs: <ul style="list-style-type: none"> <li>• strong written and oral communication skills</li> <li>• an interest in current affairs or a specific topic</li> <li>• good general knowledge</li> <li>• good research skills</li> <li>• to be able to work to deadlines</li> <li>• excellent organisational and time management skills.</li> </ul>
<b>Estimated weekly earnings</b>	\$1024–\$1545

## Resources



### Weblinks

- Career quiz
- The Good Universities Guide
- Australian Apprenticeships

### 3.3 ACTIVITY

Use the **Career quiz** weblink in the Resources tab to complete a career quiz. Look at the results to view the occupations you are most likely to enjoy or be good at. Choose some of the occupations that interest you and research them using **The Good Universities Guide** or the **Australian Apprenticeships** weblinks.

**Examining, analysing, interpreting**

### 3.3 EXERCISES

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

#### 3.3 Exercise 1: Check your understanding

1. **ES1** Identify three industries in the Australian economy.
2. **ES1** Select one of the industries identified in question 1 and list five different occupations in that industry.
3. **ES1** What is the purpose of a ‘personality and career aptitude test’?
4. **ES1** Distinguish between an occupation and an industry.
5. **ES2** Suggest a range of reasons why some occupations have higher incomes than others.

#### 3.3 Exercise 2: Apply your understanding

1. **ES2** Explain why there is often a wide range between the minimum and maximum salary for an occupation.
2. **ES3** In the past, workers chose an occupation and stayed in it for life. This is no longer the case in contemporary Australia. Explain the reasons for this trend in the workforce.
3. **ES5** Explain what you think is meant by the term *job mobility*.
4. **ES6** Of all the occupations examined in this subtopic, select the one that you think best suits your skills and interests. Provide reasons for your decision.
5. **ES5** Select *one* of the following industries:

- Agriculture, forestry, fishing
- Health care and social assistance
- Construction

Complete the following in relation to your chosen industry:

- (a) Identify two occupations within the industry.
- (b) Provide a summary of what you think would be the main tasks involved in each occupation.
- (c) Identify the skills and disposition you think are required for each occupation.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 3.4 Trends and changes to the workforce

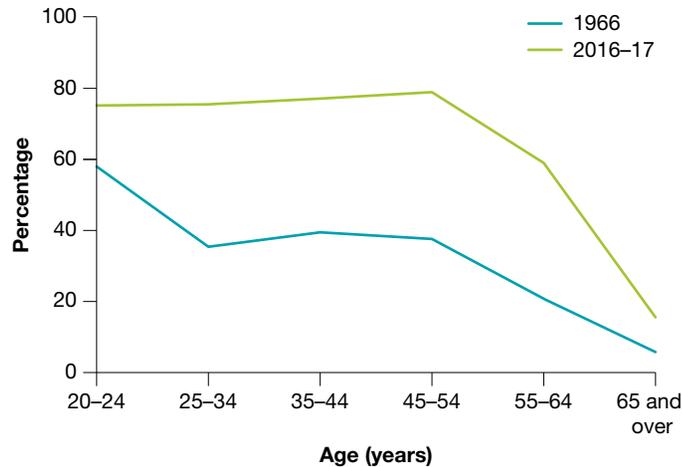
### 3.4.1 Changes in the Australian workplace

The world of work has gone through many major transformations in the past century. One of these changes has been in the amount of hours people in the workforce are now employed for, with jobs far more likely to be part-time or casual than before. People are less likely to do the one job for their entire working lives; instead they are more likely to move, not just from one role to another in the same field, but into new careers, possibly several times, in a bid to find work that continues to provide a sense of purpose and satisfaction. With this shift in the way people approach their careers, human resource management has become increasingly important within the business world — emphasising the value placed on finding the right person for a particular role. In this subtopic, we will explore these and other changes to the Australian workforce.

### 3.4.2 The changing roles of women and men

Fifty years ago, the majority of the Australian workforce was male. Most of these men were the family breadwinners — supporting their wives and families until retiring in their sixties. Women often ‘retired’ from the workforce when they married, and it was relatively uncommon for a woman to work if she had young children. Today, the two-income family is more common, with women continuing to work throughout the period of having dependent children. **FIGURE 1** shows the change in female workforce participation rates from 1966 to 2016–17.

**FIGURE 1** Age-specific labour force participation rates for females, 1966 and 2016–17



**Source:** Australian Bureau of Statistics.

The **FIGURE 1** graph clearly depicts the overall increase in participation, and, in particular, the virtual absence in 2016–17 of the ‘dip’ in participation seen in the 1966 data during the traditional child-rearing ages of 20–35. This indicates that a much higher proportion of women today are continuing to work throughout this period.

As women have entered the workforce in greater numbers and continued to work after having children, the need for formal childcare has increased. This has led to the growth of the childcare industry and has created significant new job opportunities in early childhood development and childcare. Another significant change has been an increase in flexible work options, offering benefits such as parental leave (for both females and males) and part-time work, that allows greater flexibility to juggle the demands of work and parenthood.

**FIGURE 2** Proportion of males and females in the paid workforce in 2018, and their average weekly earnings



**Source:** Adapted from Australian Bureau of Statistics, *Employee Earnings and Hours, Australia, May 2018* (cat. no. 6306.0).

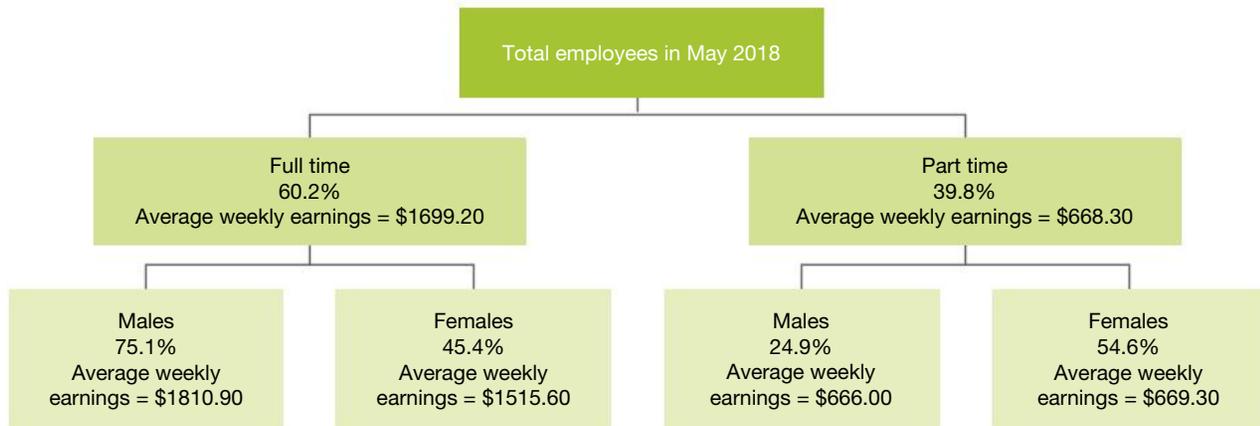
Female employees actually slightly outnumber males, but as can clearly be seen, the average weekly earnings of females is significantly lower than that of men. This can be explained to some extent by looking at the differences in full-time and part-time participation rates.

### Full-time and part-time participation rates

**FIGURE 3** shows that in May 2018 there were more full-time employees (60.2 per cent) than part-time employees (39.8 per cent), and that, as would be expected, average full-time earnings (\$1699.20/week) were significantly higher than average part-time earnings (\$668.30/week). However, 54.6 per cent of females were employed on a part-time basis, compared with only 24.9 per cent of males; that is, the vast

majority of male workers (75.1 per cent) were employed full-time, which accounts for much of the disparity in average weekly earnings between men and women.

**FIGURE 3** Full-time and part-time employees in May 2018



**Source:** Adapted from Australian Bureau of Statistics, *Employee Earnings and Hours, Australia, May 2018* (cat. no 6306.0).

### 3.4.3 Hours of work

In today’s work environment, there is a perception that people are expected to be available outside of traditional work hours due to technology-enabled connectivity, and that they are generally working longer hours than ever before. While in some industries this may indeed be the case, Australian Bureau of Statistics figures show that since the 1980s there have only been minor fluctuations in the average weekly hours worked from the 1980s through to 2016. **FIGURE 4** depicts these averages.

**FIGURE 4** The average number of hours worked by employed Australians shows only moderate fluctuation from 1980 through to 2016.



**Source:** Adapted from Australian Bureau of Statistics, *Labour Force, Australia, Detailed, Electronic Delivery, April 2019* (cat. no. 6291.0.55.001).

As detailed in section 3.4.2, a significant proportion of the workforce is now employed on a part-time basis. Part-time roles now exist in almost all industries, and are particularly prevalent in areas such as retail trade and hospitality.

There has also been a significant shift in the times that people work. Where once the world of work was largely framed around the 9 to 5 workday, this is no longer the case. For example, changes to regulations in retail trade have created a demand for employees to work vastly different hours to those of the past, with weekend and late-night trading now allowing businesses to operate well

outside the traditional 9 to 5 trading hours. Similarly, venues such as bars, restaurants and nightclubs are now able to stay open much later, creating a need for staff who are willing and able to work shifts into the early hours of the morning. Consumer demand has also created a need to provide call-centre sales and helpline staff in certain industries from early in the morning until late in the evening. Thus, employees working in such fields may work a range of hours that are significantly different to what was once the case.

**FIGURE 5** Changes to trading hours have had a significant impact on the hours of work for many Australians.



### DISCUSS

Penalty rates, whereby workers can earn multiples of their set hourly wages for working unsociable hours (including weekends and public holidays), were the subject of much political debate in 2016. Do you agree with the concept of penalty rates? Why or why not?

**[Personal and Social Capability]**

## 3.4.4 Job availability

In the late 1960s almost half of Australia's labour force was employed in production industries such as mining, manufacturing, construction, electricity, gas and water, agriculture, forestry and fishing. In 1997, some 30 years later, that proportion had decreased to 28 per cent. During the same period, service industries grew substantially. These include property and business services, accommodation, cafés and restaurants, culture and recreational services, personal and other services, health and community services, retail, education, transport and communication, trade and finance, and insurance. This trend continues today, and is a major factor in shaping the ongoing changes seen in the Australian workforce.

## 3.4.5 Career lengths

Recent studies in the United States of America, based on US labour statistics, indicate that the average US worker stays in a job for a period of 4.6 years. In Australia, the average is thought to be even less — as little as two years — largely as a result of younger workers being prepared to change jobs on a much more frequent basis than their older colleagues.

Anecdotal evidence suggests that members of **Generation X** are likely to change jobs about 11 times during their working life. It is anticipated that this number may double for **Generation Y** or **Generation Z** and increase even further for **Generation Alpha**.

Research has found that the reason for changing jobs varies from person to person, but may include:

- *social reasons* — in response to life events, such as having children
- *economic reasons* — wanting to obtain better working arrangements
- *career-related reasons* — wanting to gain further career experience
- *other personal reasons* — a desire to gain new experiences.

It is interesting to note that for many workers, there is a reluctance to change. Possible reasons some workers choose to stay in the same job may include:

- a lack of opportunity to change jobs
- security
- convenience
- feeling valued in a role
- they like the people they work with
- a fast commute (quick to get to and from work)
- the need to build/consolidate retirement (superannuation) funds.

**FIGURE 6** Today's workers change jobs far more often than they did in the past. This trend is expected to continue into the future.



### 3.4.6 Human resource management

The term **human resources** refers to the people who work within an organisation. In any business, the human resources are one of the most vital elements. With the world of work undergoing such rapid and ongoing changes, the effective management of a business's employees — **human resource management** — has become increasingly important. Human resource management involves many aspects, such as staff recruitment, negotiation of employment conditions, training, professional development, and carrying out staff performance reviews. The goal of successful human resource management is to ensure an organisation has the right people with the skills and knowledge necessary to meet the needs of the business.

Finding the best employees with the most appropriate skills and other attributes that will suit the organisation and its culture is an important part of the human resource manager's role. This recruitment process has changed significantly since the 1990s as a result of technological advances including software development and, of course, the internet.

Online sites that act as repositories of potential workers' résumés, such as SEEK.com.au, allow people in search of work to place their details online, enabling employers to find them more quickly and easily. Job ads are posted in these online forums and many employers require prospective employees to complete the application process online, which can significantly streamline the whole recruitment process compared to traditional paper-based job applications.

**FIGURE 7** Employees are one of a business's most important assets.



Perhaps on the downside for potential employees, however, is the way in which the online environment has also made it easier for employers to ‘background check’ job applicants. It has become increasingly common for an employer to look on social media sites to find information about the employee they are considering hiring. Applicants therefore need to be mindful of their ‘online presence’ in order to ensure that it does not potentially limit their employment opportunities.

The internet has provided a new way for people to advertise and search for work roles. Employers are now able to reach a whole world of potential employees easily and in a cost-effective manner; and job hunters are able to browse the thousands of jobs advertised around the world in their search for a role that fulfils their needs and ambitions.

**FIGURE 8** Employers are increasingly using social media sites to find information about the employees they are considering hiring.



### 3.4.7 The value of work

The value placed on work can be linked to one of the four reasons people work:

1. *To obtain personal satisfaction*

It is never easy to separate the work you do from who you are. For many workers the tasks they perform are done to a very high quality and reflect the attitude that they have towards their work and their employers. They take pride in the work they do and this in turn raises their level of work satisfaction. When workers have ownership of their work and are proud of their achievements, they are more likely to work harder and longer to achieve the objectives of the organisation. For example, 200 employees of a factory were asked to write down the most important aspect of their work. Their responses revealed that it was not money that motivated them. Sixty-seven per cent of the employees said that knowing they had done the job well and received some praise from the supervisor were the most rewarding aspects. Thus, recognition of a job well done increases the value of the work itself.

2. *To gain status and prestige*

The type of work a person does is often used to measure their status and prestige within our society. In other words, their status comes from their occupation. The value we place on a person’s job determines his or her income. For example, a heart surgeon’s highly skilled work is valued more than a labourer’s, so the surgeon receives a higher income. This is partly due to the education and training needed to become a surgeon as well as their high skill level and specialisation. Historically, society has tended to place a lower value on work in what are referred to as the ‘caring professions’, such as childcare, nursing and aged care. For this reason, salaries for people who work in these areas have generally been lower than in many other fields. Women have traditionally filled these roles, and this provides another reason for the disparity that is often seen between the relative wages of men and women in Australia. This attitude is slowly changing, with wage rises being fought for and won in many of these areas. Interestingly, in a 2017 survey that asked Australians to rate professions in terms of their perceived ethics and honesty, nursing emerged as the number one ranked profession. Doctors were ranked second in the survey.

3. *To enjoy social interactions with others*

The social aspects of work increase its value. On average, employees spend more time at work with their co-workers than they do at home with their families (not including sleep time). Work provides the opportunity to meet other people and make friends. Some workplaces have social clubs that employees can join, to participate in organised activities aimed at increasing the sense of staff connectedness and satisfaction.

#### 4. *To help others*

For many people, the need to make a difference and contribute to society is an important part of the motivation to work. This may be particularly so in the case of those who work in the ‘caring professions’, or who choose to work for not-for-profit organisations. Some people place such a high value on the desire to help others that they are prepared to offer their time and skills through volunteer work, seeking no payment for the work they do.

**FIGURE 9** Some people are driven by a desire to help other people in their work.



### 3.4 ACTIVITY

Select one large business and research how it manages human resources. Use your research to:

- identify your chosen business
- provide details about the size and composition of the business’s employee base
- describe strategies that the business uses to develop their staff (human resources).

**Examining, analysing, interpreting**

### 3.4 EXERCISES

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

#### 3.4 Exercise 1: Check your understanding

- ES1** Identify the major changes to the workforce in the past 50 years.
- ES1** Identify three reasons why people might change jobs.
- ES1** Identify three reasons why people might decide to stay in the same job.
- ES1** Outline why people value work.
- ES2** Explain the reasons why the proportion of people involved in part-time work has increased.

#### 3.4 Exercise 2: Apply your understanding

- ES2** Explain the social changes that have led to increased female participation in the workforce.
- ES2** Explain why there is limited availability of jobs in some industries such as manufacturing.
- ES3** ‘Employees are the most important resource for any business.’ Discuss this statement.
- ES3** Examine the information about male and female average weekly earnings in **FIGURES 2** and **3**. Use this information, your own knowledge and other research to explain why the average weekly earnings for females are lower than they are for males.
- ES2** Describe the role of a human resources manager and explain why this position is important in a business.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 3.5 Employment in the future

### 3.5.1 Predicting future changes to work and possible outcomes

Can you imagine what work will be like in the year 2050? Will new jobs exist that are like the ones we see in sci-fi movies, or will they continue to be much the same as they are now? Although it is very difficult to predict how work will change, what form it will take, what activities will need to be performed and what skills, knowledge and abilities workers will need to have, it is worth noting that one of the challenges of government is to do just that — to attempt to predict some of these changes and to make policies and economic plans that will support the future world of work in Australia.

Work as we know it will slowly change. Exactly how it will change is unknown, but it is likely to be dependent on a range of factors, which in turn could have particular outcomes. **TABLE 1** summarises some of these potential factors and outcomes.

**FIGURE 1** One role of government is to try to predict what work will be like in the future and make policies and economic plans to support the future world of work.



**TABLE 1** Potential changes and outcomes in the future world of work

Factor	Outcome
Skills required in the future workplace	Future employees will require more education and higher skills development to participate in the workforce.
Changes in the <b>gender segregation</b> of the workforce	More equal representation of men and women in all types of work across all industries; the gender gap in average wages will continue to decrease
More employment in certain sectors of industry (service) and decreased employment opportunities in other sectors of industry (manufacturing)	More service-oriented roles; more focus on case work that follows a customer from start to finish, multi-skilling of the workforce, to enable the same employee to assist a customer throughout their entire customer experience
Further advances and increased use of technology in the workplace	Employees will need to continue to learn how to operate new equipment and software in order to perform their jobs. Some roles may become obsolete as new technology provides more efficient ways of completing particular tasks.
Changing worker attitudes and the desire for work-life balance	The provision of more flexible work arrangements to accommodate employees' needs, increase satisfaction and productivity, and retain staff
Changing workplace environments	Creation of more creative, ideas-driven environments that encourage workers to think independently and be creative in their problem-solving Greater focus on having healthy and happy employees who will work longer and stay with an organisation, rather than frequently changing jobs; employees supported through the provision of benefits such as an onsite gym, canteen or café, childcare facilities etc.

## Increased education and skill levels

Two interrelated service areas that are experiencing distinct growth and an increase in employment opportunities are professional, scientific and technical services; and education and training. In the future, these areas will continue to grow as the need for higher skilled workers increases. Lower skilled jobs are decreasing and being replaced by roles that require a higher level of education and which are more skills-focused. Thus, the need for workers to be multi-skilled, educated and more technically oriented, to enable them to work with the newest technological advances, is becoming increasingly evident.

Without appropriate, accessible training and education opportunities, it will be difficult to meet Australia's future workplace requirements. Thus, the need to provide such opportunities is an issue of constant focus for government.

## Changing attitudes to gender segregation

Another possible change is in the area of gender segregation. This is where one gender, male or female, is more likely to be employed in a particular area than the other gender. Gender segregation is common in some industries. This is particularly evident in construction and mining. For example, in 2018, in the Victorian construction industry, women accounted for only 11 per cent of workers; in mining they account for only 16 per cent of workers. However, in the more traditionally female-dominated occupations such as health care, social assistance, education and training, women continue to occupy the vast majority of roles. What might be the outcome if more men started to work in these typically female-dominated occupations and more women started working in typically male-dominated professions?

Certainly, it would have an impact on the gender gap that still exists in average wages of men and women. It might also lead to an increase in the perceived value (and the higher wages that go with it) of the traditionally lower paid female-dominated industries. Would it also change the way that we view the genders, or perhaps the industries? Or might it simply be a natural progression that comes as part of an ever-changing work environment?

## Declining industries and growth industries

Over the past 100 years, the work people do has changed significantly. This is clearly demonstrated by looking at the industries in which they work. The three main employment industries are the primary, secondary and **tertiary** industries. In the past, much of the workforce was involved in the primary and secondary industries. In recent years, however, there has been a shift towards greater participation in the tertiary industry, and in what have now been termed the **quaternary** and **quinary** industries also. **FIGURE 2** outlines the various features of each of these industry types.

In Australia, there are numerous sub-industries into which people's work can be classified. These include agriculture, mining, manufacturing, retail, construction, accommodation and food services, transport, education, health and others. **TABLE 2** examines the four main employing industries and compares the proportion of people employed in 2000–2001 with the proportion employed in those same industries in 2018.

As **TABLE 2** shows, during this 17-year period, while retail trade remained steady as the second-highest employing industry, the health care and social assistance industry and the construction industry saw strong increases in the percentage of people employed in those fields, while the manufacturing industry saw a decrease of nearly 5 per cent. This is representative of the growth and decline of these particular fields of employment.

**FIGURE 3** provides another view of the employment figures in certain industries from 2007 to 2016.

These graphs clearly show the significant growth in a number of industries, such as retail trade, construction and mining, and the distinct decline of the manufacturing industry in Australia during this period.

**FIGURE 2** The five key industries of the Australian work environment



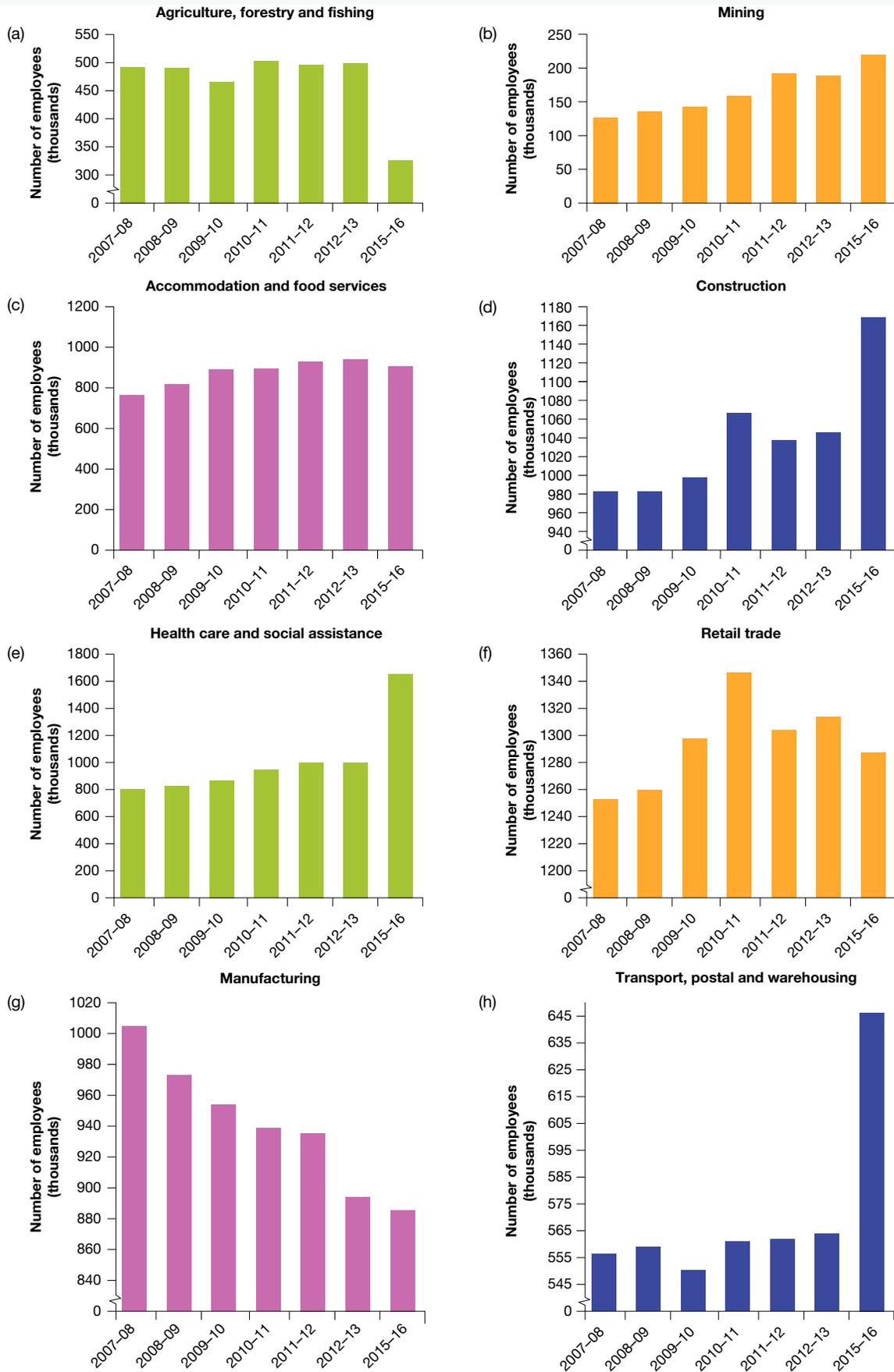
- A PRIMARY INDUSTRY** A primary industry is one that produces raw materials (for example, fresh fruit) from what nature has provided. All types of farming, mining, fishing, grazing and forestry are primary industries. Primary industries provide all our food. Hence, the work of employees in these industries is essential. As well, approximately 60 per cent of all Australia’s exports are primary industry products.
- B SECONDARY INDUSTRY** Secondary industries include all workers involved in turning raw materials into finished or semi-finished products. For example, iron ore, coal and limestone are turned into steel — a semi-finished product. Steel is then used to manufacture cars and steel-framed houses — finished products.
- C TERTIARY INDUSTRY** People who work in the tertiary industry provide a service to others (for example, retailers, dentists, bankers and solicitors). Over the past 50 years, the number of employees in tertiary industries has grown rapidly. Today, three out of every four employees work in this sector. The growth has been so fast that some jobs in the tertiary industry have been broken down into the quaternary industry and quinary industry.
- D QUATERNARY INDUSTRY** The quaternary industry is made up of service industries involved in the transfer and processing of information and knowledge. Telecommunications, property, computing and education are some examples.
- E QUINARY INDUSTRY** The quinary industry is made up of domestic service, many of which were once carried out by people within their own homes. Hospitality, childcare, domestic cleaning and home maintenance services are examples of quinary industry services. They include both paid and unpaid workers.

**TABLE 2** The proportion of people employed in 2000–2001 compared to 2018, by industry, in Australia

Industry	Proportion of all employed, 2000–01	Proportion of all employed, 2018
Health care and social assistance	10%	13.3%
Retail trade	11%	10.0%
Construction	7%	9.2%
Manufacturing	12%	7.2%

**Source:** Adapted from Australian Bureau of Statistics, *Year Book Australia, 2012* (cat. no. 1301.0) and Department of Employment, *Australian Jobs 2018*.

**FIGURE 3** A series of graphs showing changes in numbers of people employed various industry sectors



**Source:** Adapted from Australian Bureau of Statistics, *Labour Force, Australia Detailed, Quarterly, May 2016* (cat. no. 6291.0.55.003).

## Further advances in technology

With ongoing technological developments comes the need for workers to continue to up-skill in order to be able to use new equipment or software to its potential. In some instances, however, we may see a decrease in the number of jobs available in particular fields due to the automation of tasks. Many laborious tasks have been made simpler and quicker through the use of technology. Such increased efficiencies mean fewer people are required to complete the same amount of work and, hence, fewer work positions are available in that field.

It is difficult to know how far the impact of technology will reach in the workplace — which jobs of today may become obsolete in the future as a result of new technological developments. But equally, the new areas of work that will emerge through technological development are largely unknown. It is hoped that these new fields will open up increasing opportunities that will be more than adequate to replace the roles that are lost.

## Changing attitudes, the desire for work–life balance and changing workplace environments

As Generations Y, Z and Alpha join the workforce, we may see a shift in the style of environments within which people work. Employers may need to create a new style of workplace, one that encourages workers to stay, rather than changing jobs on a regular basis, as is the tendency of these younger generations. More flexible working arrangements and benefits that promote staff satisfaction and increase productivity may become an increasingly common feature of the future world of work. American company Google provides an example of this kind of workplace.

In addition to businesses making changes to their working arrangements, governments throughout the world are also considering their role in ensuring a healthier work–life balance for employees. Many national governments, especially in developed nations, are beginning to understand that employees' inability to 'switch off' from their work may in fact be resulting in declining productivity and many social issues such as increased stress levels. The following case study outlines the actions of the French government in attempting to ensure a healthier work–life balance for its citizens.

### 3.5.2 CASE STUDY: French employees 'switch off' from work

Significant research has been undertaken that points to the fact that levels of work-related stress are higher than ever before, both in Australia and globally. Many workers in modern workplaces feel the pressures of high workloads and increasing demands from their employers. Technological developments have meant that workers are constantly connected to their jobs and rarely get the opportunity to 'switch off'.

In 2016, French President François Hollande and his governing party introduced legislation to discourage employees from sending emails outside of set work hours. The law requires all companies with 50 or more employees to develop a code of conduct to regulate the emailing activities of employees. The code of conduct must identify set work hours within which employees can send and respond to emails. Outside of these hours, emailing is to be banned.

There were numerous opponents of the policy, who asserted that it was not the role of the government to regulate the behaviour of businesses or employees in such a way. They also suggested that the law would not achieve its intended goal of reducing work-related stress. Whether this particular law makes a difference or not, one thing is clear — employees, businesses and governments are increasingly recognising the need in the future to create a healthier work–life balance for workers.

**FIGURE 4** Large French companies are obliged by law to have a code of conduct that bans employees from work email at night, on weekends and on holidays.



### 3.5 ACTIVITY

Investigate one business that has developed flexible workplace practices for its employees. Outline the nature of the flexible workplace practices offered by the business and explain the impact they have had on the employees and business.

**Examining, analysing, interpreting**

### 3.5 EXERCISES

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

#### 3.5 Exercise 1: Check your understanding

1. **ES1** Define *gender segregation*.
2. **ES1** Define *tertiary industry*.
3. **ES1** Identify the five key industries in the Australian work environment.
4. **ES1** Identify one job in each of the following industries:
  - (a) primary industry
  - (b) secondary industry
  - (c) quinary industry.
5. **ES2** Examine **TABLE 2**. Using this information, explain the changing importance of different industry sectors to employment. Support your answer with statistics.

#### 3.5 Exercise 2: Apply your understanding

1. **ES2** Explain why, in the future, businesses will increasingly need to create new styles of workplaces.
2. **ES2** Explain a range of factors that may contribute to the gender gap in earnings that still exists between the average wages of men and women.
3. **ES4** 'The French government has no right to tell employees when they can send and receive emails.' Do you agree or disagree with this statement? Justify your decision.
4. **ES6** 'We all need a break from work — work-life balance is important.' Comment on this statement, providing reasons why you agree or disagree with the statement.
5. **ES2** Globalisation has changed the way people work. Working remotely is a reality for many people who work for transnational companies. Explain what is meant by 'working remotely' and why it is important for businesses to cater for this type of work arrangement.

Try these questions in learnON for instant, corrective feedback. Go to [www.jacplus.com.au](http://www.jacplus.com.au).

## 3.6 SkillBuilder: Predicting the outcomes of economic and business decisions

online only

### What is predicting outcomes of economic and business decisions?

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



### Select your learnON format to access:

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

## 3.7 Thinking Big research project: How will I work? presentation

online only

### SCENARIO

Technology has changed the way we work. From assembly lines to robotics; computer-aided manufacturing to scanning, online shopping and apps — the way we do business continues to change. You will complete a career quiz then research a potential career based on the results. How might technology change the nature of this career in the future?



### Select your learnON format to access:

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

### on Resources



**ProjectsPLUS** Thinking Big research project: How will I work? presentation (pro-0225)

## 3.8 Review

online only

### 3.8.1 Key knowledge summary

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

### 3.8.2 Reflection

Reflect on your learning using the activities and resources provided.

#### Resources



**eWorkbook** Reflection (doc-32094)  
Crossword (doc-32095)



**Interactivity** The changing work environment in Australia crossword (int-7683)

#### KEY TERMS

**gender segregation** the division of males and females into separate groupings

**Generation Alpha** people born from 2010 onwards

**Generation X** people born between 1965 and 1979

**Generation Y** people born between 1980 and 1994

**Generation Z** people born between 1995 and 2009

**globalisation** the process of interacting with markets in other countries around the world, as part of an integrated global economic system

**human resource management** the process of managing the people who work within an organisation

**human resources** the area of a business that manages the relationship between the employer and employees, from acquiring to terminating staff

**industry** the way that different parts of the economy are grouped; for example, manufacturing, mining

**intended outcomes** the projected goals or objectives of a decision

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

**primary production** the production of crops, livestock or other basic materials which may then be used by other branches of industry

**quaternary industry** service industries involved in the processing and transfer of information and knowledge; for example, IT consultants, education services

**quinary industry** domestic service providers; for example, cleaning, childcare, home maintenance

**secondary industry** industry involved in the processing of primary resources to manufacture other goods

**tertiary industry** industry that involves the provision of services to others; for example, doctors, accountants, retailers

**unintended outcomes** the unplanned or unexpected consequences of a decision

## 3.6 SkillBuilder: Predicting the outcomes of economic and business decisions

### 3.6.1 Tell me

#### What is predicting outcomes of economic and business decisions?

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

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

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

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

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

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

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

### 3.6.2 Show me

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

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

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

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



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

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

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

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

### 3.6.3 Let me do it

Complete the following activities to practise this skill.

#### 3.6 ACTIVITIES

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

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

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

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



- (i) In the table below, identify three intended and three unintended outcomes of the business decision by Luke's Lolly Land.

<b>Business or economic decision: Luke's Lolly Land has decided to purchase new machinery to automate its production process.</b>	
<b>Intended outcomes</b>	<b>Unintended outcomes</b>

- (ii) In the table below, recommend a strategy to help address each of the unintended outcomes of the business decision by Luke's Lolly Land.

<b>Unintended outcome</b>	<b>Strategy to address this outcome</b>

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

## 3.7 Thinking Big research project: How will I work? presentation

### Scenario

Technology has changed the way we work. From assembly lines to robotics, computer-aided manufacturing to scanning, online shopping and apps — the way we do business continues to change. The Australian Government Department of Employment's Job Outlook website identifies 18 industries in which we may work. These are:

- agriculture, forestry, fishing
- mining
- manufacturing
- electricity, gas, water, waste services
- construction
- wholesale trade
- retail trade
- accommodation and food services
- transport, postal and warehousing
- information, media and telecommunications
- financial and insurance services
- rental, hiring and real estate services
- professional, scientific, technical services
- administrative and support services
- public administration and safety
- education and training
- health care and social assistance
- arts and recreation services.

How will the working environment change by the time you finish your education?

How will this environment look when you are ready to retire (probably when you are 72!)?

How will this environment look when your children enter the workforce? In this project, you will explore these future possibilities!



## Task

You will complete a career quiz, then research a potential career based on the results and create a PowerPoint file to present your findings. There are a number of elements involved in completing this project task; these are outlined in the **Process** section.

## Process

- Open the ProjectsPLUS application in the Resources for this topic. Click on the **Start new project** button to enter the project due date. Save your settings and the project will be launched.
- Using the **Job Outlook** weblink in the **Media centre**, complete the career quiz.
- Summarise the results of the quiz, identifying the five most suitable careers based on your answers to the questions.
- Select one of the careers from the top five identified.
- Identify the industry that career fits into from the list of 18 in the **Scenario** section.
- Research the requirements and tasks performed by a person holding that job.
- Prepare a summary of how you envisage that technology might be employed to change the way the job is performed.
- Present your findings in a PowerPoint presentation. Use appropriate images or diagrams to add interest to your information.
- Check that you've completed all steps and refer to the assessment rubric in the **Media centre** to ensure you've met all task requirements, then submit your PowerPoint to your teacher for assessment.



Resources



**ProjectsPLUS** Thinking Big research project: How will I work? presentation (pro-0225)

## 3.8 Review

### 3.8.1 Key knowledge summary

#### 3.2 Influences on the way we work

- Businesses and work environments in Australia, and globally, have continued to change in response to a number of influences.
- Influences such as globalisation, technology and sustainability will continue to transform work environments in Australia.

#### 3.3 Occupations and skills

- An industry refers to a group of businesses involved in similar or related work.
- An occupation relates to the work or activities that a person performs in order to earn a living.
- The five key industries of the Australian work environment are primary, secondary, tertiary, quaternary and quinary.

#### 3.4 Trends and changes to the workforce

- Some of the major changes and trends in the workforce include:
  - the changing participation and roles of women and men
  - the hours worked by employees
  - the availability of jobs
  - career length.

#### 3.5 Employment in the future

- Some predicted future changes to work include:
  - increasing education and skills of employees
  - changing attitudes to gender segregation
  - the decline of some industries and the growth of others
  - further advances in technology
  - the need for flexible workplaces and greater work–life balance.

### 3.8.2 Reflection

Complete the following to reflect on your learning.

#### 3.8 ACTIVITIES

Revisit the inquiry question posed in the Overview:

**Go to work. Go home. Get paid. Repeat. The way we work hasn't changed at all. Has it?**

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



#### Resources



**eWorkbook** Reflection (doc-32094)  
Crossword (doc-32095)



**Interactivity** The changing work environment in Australia crossword (int-7683)

## KEY TERMS

**gender segregation** the division of males and females into separate groupings

**Generation Alpha** people born from 2010 onwards

**Generation X** people born between 1965 and 1979

**Generation Y** people born between 1980 and 1994

**Generation Z** people born between 1995 and 2009

**globalisation** the process of interacting with markets in other countries around the world, as part of an integrated global economic system

**human resource management** the process of managing the people who work within an organisation

**human resources** the area of a business that manages the relationship between the employer and employees, from acquiring to terminating staff

**industry** the way that different parts of the economy are grouped; for example, manufacturing, mining

**intended outcomes** the projected goals or objectives of a decision

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

**primary production** the production of crops, livestock or other basic materials which may then be used by other branches of industry

**quaternary industry** service industries involved in the processing and transfer of information and knowledge; for example, IT consultants, education services

**quinary industry** domestic service providers; for example, cleaning, childcare, home maintenance

**secondary industry** industry involved in the processing of primary resources to manufacture other goods

**tertiary industry** industry that involves the provision of services to others; for example, doctors, accountants, retailers

**unintended outcomes** the unplanned or unexpected consequences of a decision

# GLOSSARY

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**bias** prejudice, leaning towards one view of things; showing favouritism towards one entity over another

**blended marketing** a mix of internet and traditional marketing methods

**boycott** choosing to avoid the purchase of particular products or brands for ethical, moral or political reasons

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

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

**capital** physical resources a business owns and uses in production; includes factories, machinery and equipment

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

**competitive advantage** when a business can produce and sell goods or services better than its competitors

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

**consume** to purchase goods and services for direct use or ownership

**consumer attitude** a person's overall feeling about an object or activity

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

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

**culture** all the learnt values, beliefs, behaviours and traditions shared by a society

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

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

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

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

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

**ethical consumerism** making a purchasing decision based on a company's values and behaviours

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

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**human resource management** the process of managing the people who work within an organisation

**human resources** the area of a business that manages the relationship between the employer and employees, from acquiring to terminating staff

**income** the reward earned from supplying productive resources. Providing labour earns income in the form of wages or salaries

**industry** the way that different parts of the economy are grouped; for example, manufacturing, mining

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

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

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

**intended outcomes** the projected goals or objectives of a decision

**invention** the development of something new

**inventory** the goods and materials held as stock by a business

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

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

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

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

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

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

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

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

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

**monetary policy** a major category of government aggregate demand management or macroeconomic policy. It is implemented by the Reserve Bank and is designed to influence the cost, availability and demand for credit and money

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

**motives** the reasons why individuals do something

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

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

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

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

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

**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

**peer group** a group of people with whom a person closely identifies, adopting their attitudes, values and beliefs

**personality** a collection of all the behaviours and characteristics that make up a person

**primary production** the production of crops, livestock or other basic materials which may then be used by other branches of industry

**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 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

**psychological factors** influences within an individual that affect their buying behaviour

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

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

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

**quarterly** every three months

**quaternary industry** service industries involved in the processing and transfer of information and knowledge; for example, IT consultants, education services

**quinary industry** domestic service providers; for example, cleaning, childcare, home maintenance

**quotas** quantity limits or targets for production or imports

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

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

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

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

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

**secondary industry** industry involved in the processing of primary resources to manufacture other goods

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

**social report** a report stating what a business has done, and is doing, to meet corporate social responsibilities

**sociocultural influences** forces exerted by other people that affect customer behaviour

**stamp duty** a compulsory fee (a percentage of the total purchase price) charged by state governments

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

**sustainable** able to last or continue for a long time

**tariffs** taxes imposed on imported goods to make them more expensive

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

**technology** the use of scientific knowledge to develop machinery and devices to solve business problems

**tertiary industry** industry that involves the provision of services to others; for example, doctors, accountants, retailers

**unintended outcomes** the unplanned or unexpected consequences of a decision

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