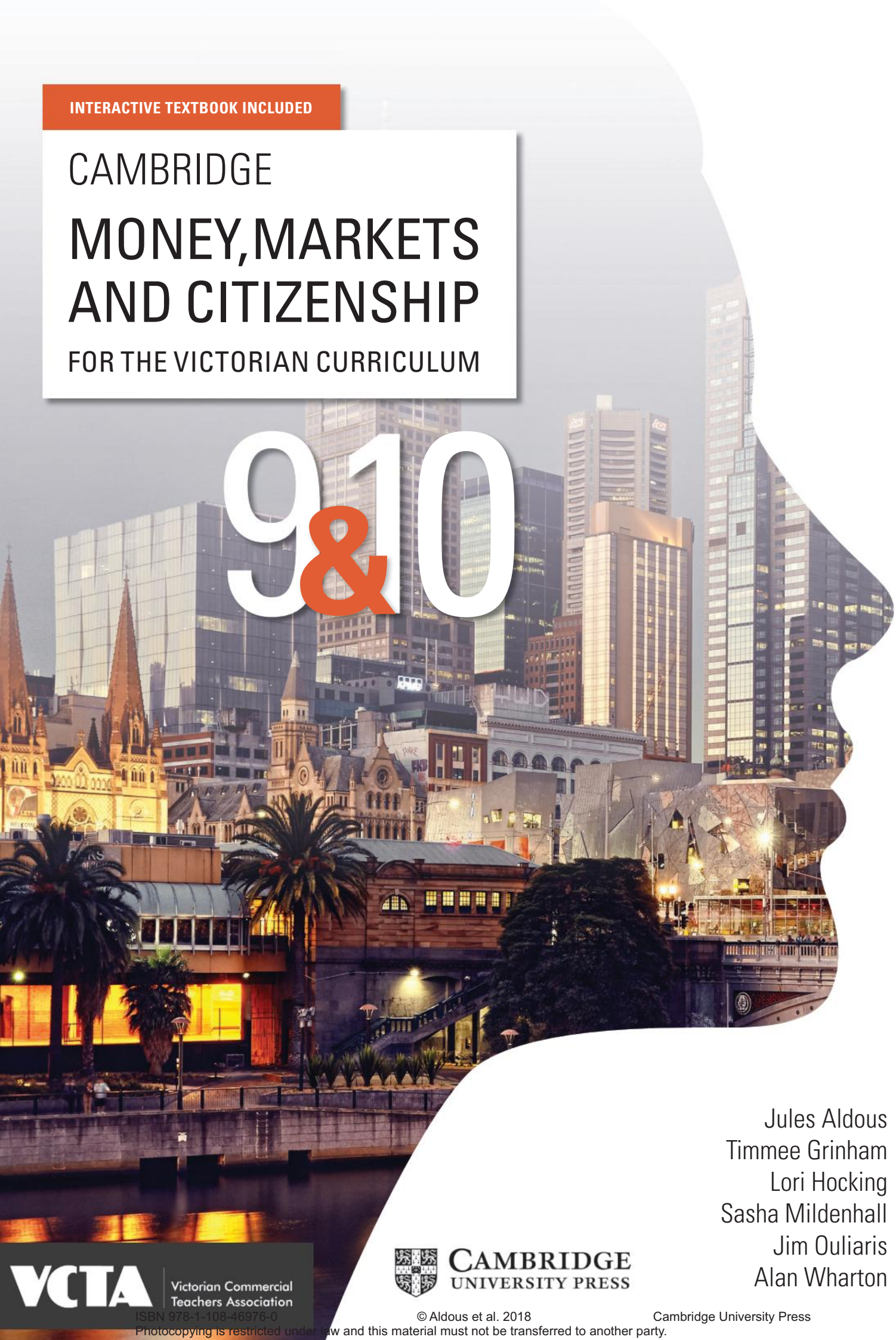
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CAMBRIDGE

MONEY, MARKETS AND CITIZENSHIP

FOR THE VICTORIAN CURRICULUM

9&10



Jules Aldous
Timmee Grinham
Lori Hocking
Sasha Mildenhall
Jim Ouliaris
Alan Wharton

VCTA Victorian Commercial Teachers Association

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Introduction

To the student

Economics and Business and Civics and Citizenship are areas within the curriculum which will expose you to relevant learning material to enable you to become an active and informed citizen in an increasingly complex environment.

As a secondary school student you may be thinking about life beyond school – will you be prepared?

Cambridge Money, Markets and Citizenship provides you with knowledge and skills to help equip you for life now and in the future. You will learn about many aspects of everyday life, such as:

- what an economy is and who the players are
- how businesses operate
- the power of money and choice
- work and how this may look different in the future
- how Australia's court system works in support of a democratic and just society
- the influences which shape the operation of Australia's political system, both locally and globally
- governments and what they do
- being an active citizen.

We hope you enjoy your journey through this textbook.

To the teacher

Cambridge Money, Markets and Citizenship is a rich classroom resource written to assist teachers using the Victorian Curriculum. It has been written by dynamic classroom teachers in conjunction with the Victorian Commercial Teachers Association (VCTA). The content and activities directly link to Levels 9 and 10 content descriptors and achievement standards in the Economics and Business and Civics and Citizenship strands of the Victorian Curriculum. In addition some background curriculum provided by Levels 7 and 8 was necessary by way of 'context' or 'introduction'; this has been provided for recapping or preparatory purposes.

Content descriptors in the Victorian Curriculum describe what is to be taught; achievement standards describe what students should know and be able to do; elaborations provide guidance on how the curriculum can be applied. *Cambridge Money, Markets and Citizenship* follows these three key components to guide teachers toward the construction and implementation of a rich curriculum. Learning activities provide stimulating, engaging and challenging tasks through which students can demonstrate their understanding of the knowledge and skills described in the Victorian Curriculum.

Within each section of *Cambridge Money, Markets and Citizenship*, clear and student-friendly theory components are supported by a range of contemporary case studies, examples, data, photos, cartoons, diagrams, illustrations and extracts to provide access to important Economics and Business and Civics and Citizenship knowledge and understanding. Rich learning activities provide opportunities for teachers to observe and assess student skills and knowledge from the strands.

Importantly, learning activities also integrate standards from the capabilities of the Victorian Curriculum – Critical and Creative thinking, Ethical, Intercultural and Personal and Social.

Cambridge Money, Markets and Citizenship provides a comprehensive Victorian Curriculum-aligned resource for teachers of Economics and Business and Civics and Citizenship. It is a resource to assist teachers in planning and teaching curriculum strongly aligned with the Victorian Curriculum Level 9 and 10 achievement standards.

A comprehensive curriculum correlation grid is available in the online version of the textbook.

Tony Kuc, Project Manager – *Cambridge Money, Markets and Citizenship*

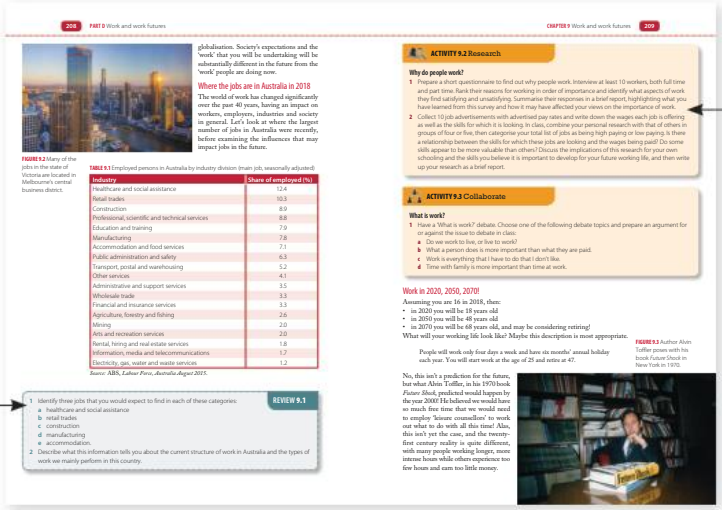
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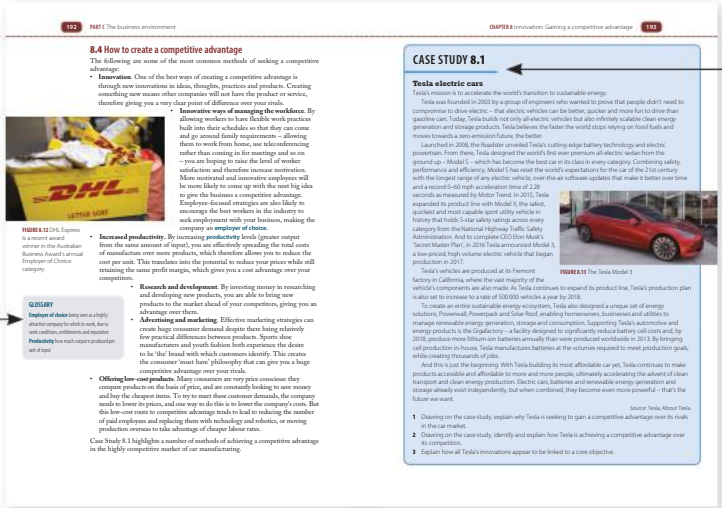
Part openers show syllabus outcomes and key questions.

Review* tasks help you check and extend your understanding of the material covered. You can complete Review tasks in an exercise book, or directly in the online version of the textbook, which enables teacher reporting.



A variety of **Activities*** allow you to **research** areas further, **collaborate** with your classmates, **create** a variety of different responses and **reflect** on your own behaviours.

Glossary terms are bolded in the text, defined in the margins and collated at the end of the textbook for easy reference.

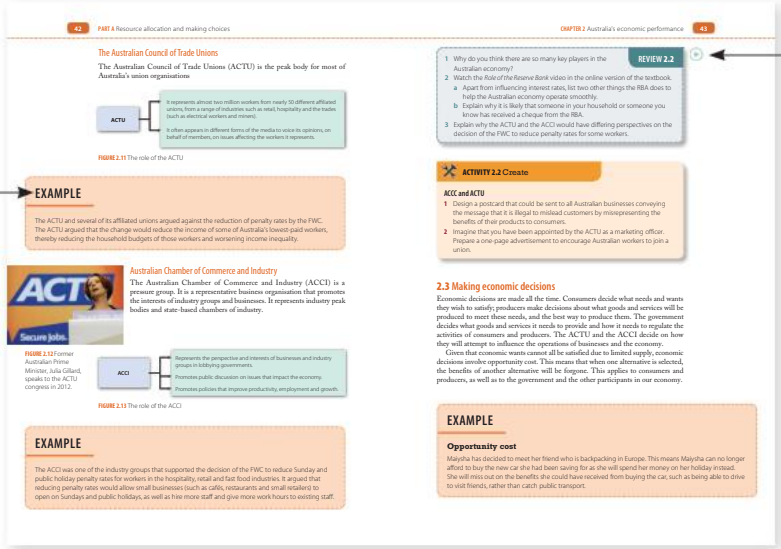


Case studies* extend on information to add another layer to your knowledge and understanding.

* Some of the Review tasks, Activities and Case studies are digital-only, not included in the print version of the textbook. However, they can all be downloaded as Word documents for printing or distribution to the class.

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Example and **Did you know?** boxes highlight interesting information to enrich your learning.



Icons indicate where videos and interactives are available in the online version of the textbook.

Consolidate your learning activities at the end of each chapter include a range of in-depth activities that draw on material covered throughout the chapter.



The **online version of the textbook** includes videos, interactive activities, and a range of reporting and management tools.

Every chapter has a **Scorcher** quiz that lets you check your knowledge, and compete against your classmates.

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Part A

Resource allocation and making choices

In Part A, you will:

- Investigate Australia as a trading nation and its place within Asia and the global economy:
  - Describe the characteristics of the Australian economy, such as its participants and resource base
  - Identify economic objectives of the Australian economy from the point of view of consumers, businesses, workers and governments and explain how these may be used as indicators of economic performance
- Identify and explain the indicators of economic performance and examine how Australia's economy is performing
  - Identify and explain indicators of economic performance such as economic growth rates, unemployment rates, inflation rates, sustainability indexes, business confidence, human development index, liveability and the World Happiness Report
  - Investigate the performance of the Australian economy using key indicators to form a conclusion

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- Explain the links between economic performance and standard of living, including the variations that exist within and between economies, and give reasons for the possible causes of variations
  - Compare Australia's resource base with that of another economy and explore how this may influence trading relationships – for example, why a particular economy manufactures electronic goods while another focuses on mining
  - Define 'living standards' and discuss why it is considered the ultimate goal for economic activity and explain its relationship to economic performance
  - Investigate economic performance and living standards and discuss how they can mean different things to different people and countries
  - Investigate the ways living standards can be measured – for example, gross domestic product (GDP), Human Development Index (HDI) or Total Quality of Life Index
  - Identify policy options designed to improve living standards, such as education, training and workforce development, taxation, migration, government spending on health and infrastructure, and environmental policies
- Generate a range of viable options, taking into account multiple perspectives, use simple cost–benefit analysis to recommend and justify a course of action and predict the intended and unintended consequences of economic and business decisions
  - Examine the trade-offs businesses may need to consider, including social consequences, when determining methods to improve their productivity – for example, when employing more staff compared with up-skilling existing staff or replacing staff with technology, or outsourcing work to overseas countries
  - Evaluate the costs and benefits of different alternatives
  - Use a range of criteria (social, economic, environmental) to select and justify a preferred option
  - Use a range of strategies to help decide on a potential major purchase – for example, a car – by investigating options, calculating the costs of different purchasing methods and estimating the long-term costs and benefits of owning the asset and repaying the debt
  - Discuss the outcomes of a decision, identifying those that were intended and unintended, and reflecting on strategies that may address the unintended consequences

Key questions:

- How might the performance of an economy be measured?
- What is the link between economic performance and living standards?
- Why are there variations in living standards in different economies?

By the end of Level 10, you will be able to:

- Describe how resources are allocated and distributed in the Australian economy and the way economic performance is measured
- Provide explanations for variations in economic performance and standards of living within and between economies
- Identify economic and business trends, explain relationships and make predictions
- Generate alternative responses to familiar, unfamiliar and complex problems, taking into account multiple perspectives and using cost–benefit analysis and appropriate criteria to propose and justify a course of action
- Analyse the intended and unintended effects of economic and business decisions and the potential consequences of alternative actions.

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FIGURE 1.1 Our changing economy

Chapter 1

What is economics and what is an economy?

This chapter explores the concept of economics. It reveals that every individual and every society experiences the basic **economic problem** – that the limited resources we have available will never be able to satisfy all our possible needs and wants. This means we need to make choices about how we use our scarce resources. In Australia, these choices are made mostly by the operation of markets. In this chapter, we consider the basic concepts related to what markets do, how they work and the effects they can have on the wider world. We also consider how and why governments choose to intervene in the operation of some markets.

GLOSSARY

Economic problem how to satisfy unlimited wants with only limited resources

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1.1 What is economics?

Economists (people who study economics) like to say 'economics is everywhere'. Economics determines the products you will be able to buy, how much they cost and how available they will be to you. Many young people plan their careers based on economic considerations: How much will I earn? What are the prospects for a job?

In simple terms, economics is the study of the decisions, outcomes and activities that occur as a result of a scarcity of resources. It is the study of how society uses its limited resources to satisfy unlimited needs and wants through the **production** and consumption of goods and services. Any time you make a choice between different options, you are making an economic decision. Many people mistakenly think that economics is all about money, but in fact economics is all about choices – choices about how resources are used, shared and consumed – and the consequences of those choices.

An economy is an area in which economic 'agents' (people who are part of the **economy**) produce (make), purchase and consume goods and services. For example, Australia has an economy, but Melbourne also has an economy. Australia also operates within a global economy, which includes the economies of all the countries in the world.

GLOSSARY

Production the total value of all the goods and services that are produced in an economy over a period of time

Economy an area in which economic 'agents' (people who are part of the economy) produce (make), and purchase and consume goods and services

Goods and services

Goods are physical objects – natural or manufactured – that command a price in the market, such as food, clothing, machines or land. Services are not so clearly defined. In general, they are activities that are intangible – they cannot be touched in the same way goods can be (for example, an airline flight) – and non-transferable – which means they cannot be passed on to someone else (for example, a nail manicure or haircut). But some services have tangible elements – for example, your printed boarding pass is a physical aspect of an airline's service. And some services have transferable elements – for example, the knowledge that is provided to you as a service by a dance instructor can be passed on by you to someone else.



FIGURE 1.2 A muesli bar is clearly a 'good', as it is tangible and can be transferred from one consumer to another, whereas a haircut is a 'service', because it cannot be 'touched' and, once provided to one consumer, it cannot be transferred to another.

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The economic problem

Economics begins with an important assumption – that human wants are *unlimited*. Economics assumes people have a never-ending desire for more or better material possessions.

Economics differentiates between 'needs' and 'wants'. *Needs* are those things necessary for survival – the main material needs are food, water, clothing and shelter. *Wants* are things that are not necessary for survival but that we desire to make our lives better. These items provide us with satisfaction. At the most basic level, people *need* regular food and shelter. At another level, people *want* a more luxurious car, a bigger home, a pool or the newest smartphone.

Is it really true that people's needs and wants just keep growing? Economists have observed that, once our basic needs have been met, we want something better, and once we have satisfied that 'want', we want something else again. In fact, some things that we do not *need* for 'survival' have become 'needs' over time.

In reality, none of us has infinite amounts of anything. Suppose your school had a spare area in the playground and that the school had set aside some money that could be used to create a new outdoor activity area. There would probably be a difference of views between groups in the school. Some students might want play equipment, others a vegetable garden and a third group might want a new space for playing handball. But there is only one piece of land available. This illustrates the second important assumption in economics: that *resources are limited*.

When the two assumptions of limited resources versus unlimited wants are put together, a conflict results. The problem of limited resources being available to satisfy unlimited wants is called *relative scarcity*.

Relative scarcity is the economic problem. But why is this *the economic problem*? To return to the example of your school's decision about the schoolyard, each group in the school has competing priorities and a choice must be made between all the possible uses of the space. Not all wants can be satisfied. The decision is an *economic* issue because it is about making a choice between all the possible uses of the resources available to satisfy the needs and wants of the school community.

At its most fundamental, economics is about analysing and managing the problem of relative scarcity and its consequences, and studying the choices people make to deal with relative scarcity.

CASE STUDY 1.1

Affluenza

This case study is available in the online version of the textbook.



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REVIEW 1.1

1 Classify the products in the table according to whether they would be considered 'goods' or 'services'. Are there any products that you found difficult to classify? Why?

Product	Good	Service
Chocolate bar		
Restaurant meal		
Singing lesson		
Hamburger		
Netflix subscription		
Haircut		
Twelve-month plan for smartphone (including phone, data, texts and calls)		
Printer		

2 Name three items that you think are *needs*, but your parents would have thought were *wants* when they were young. Explain how the fact that our wants have changed over time might support the claim that human wants are ultimately infinite (unlimited).

3 Some people argue that economists are wrong about human nature – that in fact human wants are not really unlimited. They claim that, 'If wants were so unlimited we wouldn't need advertising.' Outline an argument that supports this view and another argument that does not. What is your overall opinion? Is it valid to assume that humans really have unlimited wants?

4 Discuss whether the following resources are limited globally:
- a clean atmosphere
- water
- fish in the sea
- machinery
- human creativity
- human effort.

Overall, do you think it is valid for economics to assume that resources are finite (limited)? Justify your answer.

5 'Unlike poorer developing countries, Australia does not experience the economic problem of relative scarcity.' Is this statement correct or incorrect? Justify your answer.

ACTIVITY 1.1 Research

Ecological footprint

One way of comparing the resources available and the demand on those resources is the 'ecological footprint'. According to conservation group the World Wildlife Fund (WWF), an ecological footprint is 'the amount of environment necessary to produce the goods and services necessary to support a particular lifestyle'. It tells us how much land and water are required to produce the goods and services we consume, and to reabsorb the waste we create. One way to reflect on our own individual consumption and its impact on our environment is to measure our own ecological footprint.

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1 Explain how the concept of an ecological footprint is related to the economic problem.

2 The Global Footprint Network is an international non-profit organisation. Its website offers an ecological footprint calculator. Sign up and complete the quiz on consumption habits as accurately as you can, based on what you know about your own household. (You may wish to complete the questions a second time at home, with the support of those with whom you live, as they may be able to provide you with further information.)



FIGURE 1.3 Many people today are conscious of their ecological footprint.

- **a** Record the results of your own ecological footprint and explain what each measure shows (i.e. 'number of Earths required' and 'personal Earth Overshoot Day').
- **b** Do your results indicate that you and those with whom you live should reduce your footprint? If so, identify five things you or your household could do to reduce your footprint. (To help you, reflect on the kinds of activities that were asked about in the questions, such as how often you eat animal products and your travel behaviour.)
- **c** Once you have identified the five actions you could take to reduce your ecological footprint, click on 'Re-take the Quiz' icon at the bottom of the page and re-do the quiz, factoring in your five actions. Record your new results. Did your actions reduce your ecological footprint? If so, by how much and was it as much as you would like?
- **d** Reflect on your results. Write five sentences on your results, reflecting on anything that surprised you, and how you felt about the results.
- **e** Explore the website further according to your own interests. For example, clicking on the orange 'See Details' button will allow you to explore your resource use in more detail, and investigate possible solutions.

1.2 Economic resources

So far, we have learned that human wants are infinite, but the resources required to make the goods and services required to satisfy those needs and wants are finite. What exactly do we mean by 'resources'?

For producers to supply the goods and services wanted by consumers, they must set about the process of production. The **production process** involves the actual making of goods or provision of services to consumers or other businesses.

To complete this production, the producer will require various **economic resources**. Economic resources are the inputs required by the producer to complete the production process. They are also sometimes referred to by economists as 'factors of production'.

GLOSSARY

Production process the actual making of goods or provision of services

Economic resources the inputs required by the producer to complete the production process

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EXAMPLE

Developing an app

Ayaan studied IT at school. She loves designing online pages and video games, and taught herself how to code via an online course. She recently completed a TAFE course in programming. She has decided to start up her own small business developing apps for businesses in her local area. For Ayaan, the production process will be how her apps are developed using her skills and the IT equipment she requires. The 'inputs' will be the economic resources she needs. One week into operation, Ayaan has received her first order to develop an app. A local soccer club wants her to design an app that allows players and supporters to keep track of the club's progress, join up online, check the latest game fixture and buy merchandise from the club's shop.

The economic resources needed in the production process can be classified into four groups:

- land
- labour
- capital
- enterprise (management).

Land

Land refers to natural resources, sometimes called the 'gifts of nature'. This includes:

- fertile pastures for crops and farm animals
- mineral reserves, which could be used in construction of buildings, bridges, motor vehicles and so on
- forests, which provide timber for building, specimens for medical research and so on
- oceans, which provide fish to eat, pearls to wear and much more.

Australia is a very lucky country because it has an abundance of naturally occurring resources. There is one major natural resource that Australia is short of, though: fresh water.

GLOSSARY

Land natural resources



FIGURE 1.4 Australia has an abundance of naturally occurring resources.

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ACTIVITY 1.2 Collaborate

Land resources

Working alone or in small groups, consider the production process for Ayaan to develop the app she has been commissioned to design for her first customer – the local soccer club. Write a list of steps that Ayaan will need to go through in producing the app.

Outline the various 'land resources' needed by Ayaan in creating an app. Express as a mind map or flow chart. This map or flow chart will be added to in the next three activities so take this into account in your design.

Labour

The **labour** resource is the people power (human skills and effort) available to work in the production process. Labour can be both physical human effort – such as builders, cleaners and other 'blue-collar workers' – but also mental effort such as that provided by teachers, doctors, accountants and computer engineers. Australia has a highly skilled workforce.



FIGURE 1.5 Australia has a highly skilled workforce.

ACTIVITY 1.3 Collaborate

Labour resources

1. Working alone or in the same small groups as before, recall the production process created for Ayaan as she develops a new app for her local soccer club.
2. Using the mind map or flow chart you have started, outline the various 'labour resources' needed for the production of the app. Explain the role to be played by each labour resource.

GLOSSARY

Labour the people power available to work in the production process

Capital the machinery, plant and equipment made by people to assist in the manufacture of goods and provision of services

Capital

The **capital** resource is the machinery, technology, plant and buildings made by people to assist in the manufacture of goods and provision of services. Capital greatly increases the efficiency of the production process and includes computers, ladders, trucks, cranes, tractors, ships and so on. (Economists do not consider money to be an economic resource. Rather, it is an asset used to purchase economic resources. So it is important not to confuse the idea of money as 'capital' used in business and finance with the idea of 'capital' economic resources.)

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FIGURE 1.6 Capital resources include equipment and tools such as tractors, cargo ships, robotics, computers and medical technology.

ACTIVITY 1.4 Collaborate

Capital resources

1. Working alone or in the same small groups as before, recall the production process created for Ayaan as she develops a new app for her local soccer club.
2. Add the various 'capital resources' needed for the production of the app.
3. Explain the role to be played by each capital resource.

Enterprise

The **enterprise** resource involves the qualities some individuals possess to accurately perceive market opportunities and effectively coordinate the production process. These people can manage workers, capital and land resources to produce the goods and services that will be bought by consumers. Enterprise is a subset of the labour resource.

An **entrepreneur** is the name given to an individual who possesses the quality of enterprise, and who is willing to take risks and start a new business venture with the intention of making money. Entrepreneurs are considered risk-takers because they will often borrow large sums of money or invest a lifetime of savings in order to start their own business. Many small businesses fail within the first few years.

GLOSSARY

Enterprise the qualities some individuals possess that make them able to accurately perceive market opportunities and effectively coordinate the production process

Entrepreneur someone who is willing to take risks and start a new business venture with the intention of making money

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These economic resources are combined in different ways to complete the final product or service. For example, to produce a hamburger, an entrepreneur might coordinate the production process of combining land, labour and capital resources to produce and sell a product: a hamburger from a food truck, as shown in Figure 1.7.



FIGURE 1.7 Combining labour, capital and land resources to produce and sell a product: a hamburger from a food truck

In addition to combining these resources in the production process, the entrepreneur must arrange advertising, comply with taxation laws and much more. To make any given product ready for consumers to purchase in a market, all four different resources are necessary.

ACTIVITY 1.5 Collaborate

Using enterprise

1. Working alone or in the same small groups as before, recall the production process created for Ayaan as she develops a new app for her local soccer club. Using the mind map or flowchart you have developed, outline how enterprise will be used by Ayaan in developing the app.
2. Imagine that you wanted to go into business and needed a business partner. Make a list of the qualities of entrepreneurship for which you would be looking. You might need to do some further research online on the characteristics of entrepreneurs.

REVIEW 1.2

Tick the box that most appropriately identifies the type of economic resource.

Economic resource	Land	Labour	Capital	Enterprise
1 Secondary school teacher				
2 Oven in a restaurant				
3 Computer programmer				
4 Uranium				
5 Solar panels and battery				
6 International airport				
7 Dictionary				
8 Dentist				
9 Gina Rinehart (businesswoman)				
10 River				

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REVIEW 1.3

Test your understanding: match the terms in column A with the correct definitions in column B.

Column A	Column B
Land	Machinery and equipment
Labour	Ability to spot opportunities, take risks and coordinate the production process
Capital	Natural resources, the gifts of nature
Enterprise	Human skills and effort

REVIEW 1.4

Identify one example of each economic resource required to produce the product.

Product	Land	Labour	Capital	Enterprise
Car				
Haircut				
Chair				
Violin lesson				

ACTIVITY 1.6 Research

Land resources

This activity is available in the online version of the textbook.

1.3 Costs

Opportunity cost

We have seen that scarcity involves having to make choices about the alternative uses of a resource. Suppose the school we were discussing earlier chose to use the space in its yard to create a handball court.

This means that alternative uses – such as the veggie garden or new play equipment – are lost. In a sense, the cost of using the ground as a handball court is the lost opportunity of using it as a veggie patch or playground. Some might say that giving up a veggie patch that could grow vegetables for the school canteen and be used to teach students about caring for the environment is a high price to pay for a handball court that will only be used by students keen on that game.



FIGURE 1.8 A green space used for play may mean an opportunity lost to grow vegetables.

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GLOSSARY

Opportunity cost the value of the lost alternative use to which the economic resources could have been allocated

Opportunity cost is the value of the lost alternative use to which the economic resources could have been allocated. It is the next best use of the resources that is forgone (given up) when resources are used for a particular purpose.

The opportunity cost of going to the movies might be the enjoyment you would have had if you had gone to a concert instead. As you can see from this example, the opportunity cost of something is not the same as the cost of the item itself. If someone chooses a career in computer programming, then that individual cannot become a carpenter – at least not without extensive retraining. By becoming a computer programmer, the economy loses the production from that person had they become a carpenter. If limited resources are directed towards supplying new hospitals with equipment, then those same resources cannot be used in education for renovating school buildings. The opportunity cost of better healthcare, therefore, is fewer renovated school buildings.

The notion of opportunity cost goes beyond the monetary outlay alone and tries to capture the problem of scarcity by showing that an alternative want must go unsatisfied when a limited resource is used for something else.

Difficulties in measuring opportunity cost arise when we consider that virtually an unlimited number of wants may have been given up. Economists are therefore careful when measuring the opportunity cost of a decision. They specify that the opportunity cost is the value of the next best alternative use for that resource. In other words, they don't consider all possible uses of the resource, just the one that would have been the next best option – but was not chosen.

As you can imagine, the choice between uses of resources requires a value judgement. We must decide what we value the most and what the next most valued alternative is. As stated already, the benefit we would have gained from next most valued option that we did not choose is the opportunity cost of an economic decision.

In choosing the handball court, the school is reflecting a particular set of values, beliefs and cultures. It is easy to see that the more people who are involved, the more complex the decision-making task will be. Compare deciding with a group of friends what to do after school with simply deciding on your own. While governments at various levels make many choices about the satisfaction of wants with limited resources, in our economy markets are more commonly used as a means of expressing values and choices. We will see how this is done later.

REVIEW 1.5

1 Write a definition of the opportunity cost of a decision to produce a certain product.
2 Sophie works part time at a local café on Saturday afternoon. Her friends have asked her to come with them to see a film this Saturday. If she chooses to work, she will earn $33. Sophie decides that the best option for her Saturday afternoon is to go to the film with her friends. What is the opportunity cost of Sophie's choice?
3 Explain the opportunity cost that might be involved in making the following choices:
   a starting work full-time at the end of Year 12
   b buying a new car instead of saving your money
   c government funding for the Olympic team.
4 Think of your own example: Now that you know about opportunity cost, identify two times recently when you have experienced it.

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5 Imagine you are a producer. What good or service would you choose to produce with society's limited resources from the following choices? Give reasons for each one.
   a basic housing or a new sports stadium
   b legal advice to corporations or legal aid to drug addicts
   c tutoring English to VCE students or migrants
   d clothing for the Red Cross or for sale in Myer
   e computer games or software to help analyse the stock market in a more sophisticated way
   f scientific research into new medicines or more environmentally friendly cars.

ACTIVITY 1.7 Create

Opportunity cost

Be creative: Draw a cartoon showing the opportunity cost of one of your recent decisions. You could try using a free online cartoon drawing program or animation software to create a video explaining opportunity cost to other young people.

GLOSSARY

Cost–benefit analysis involves making a list of the costs and benefits of each alternative proposal and comparing them to reach a conclusion

Cost–benefit analysis

One way of deciding what choice to make with limited resources is to complete a **cost–benefit analysis**. This analysis involves making a detailed list of the costs and benefits of each proposal. By comparing the total benefits and total costs of a decision, a more systematic and logical decision can be made. It becomes possible to determine whether the decision itself will result in a net benefit – which occurs when the benefits of a decision outweigh the costs. It also means that it is possible to compare different choices by working out which has the greatest net benefit.

The main steps involved in conducting a cost–benefit analysis have been outlined in the box.



FIGURE 1.9 A cost–benefit analysis allows us to compare the overall cost and benefit of a decision, and then choose the best option.

Steps in conducting a cost–benefit analysis

1 Identify all groups that will be affected by the decision.
2 Identify and assess all costs that will occur as a result of the decision. Includes estimating a monetary value for costs that are not directly monetary in nature, such as the loss of space or loss of enjoyment.
3 Identify and assess all the benefits that will occur as a result of the decision. Again, this includes estimating a monetary value for benefits that are not directly monetary in nature, such as a reduction in traffic congestion or an increase in harmony in the community.
4 Consider other possible future costs or benefits that will stem from the decision but won't impact in the near future. This could include the loss of future options.
5 Calculate the total benefit and the total cost of the decision to see whether the benefit is greater than the cost. If so, the decision will have a net benefit. It is usually a good idea to proceed with decisions that will yield a net benefit.
6 If there are two options, the one with the greatest net benefit is the best choice.

Source: Adapted from Victorian Government Department of Treasury and Finance, *Victorian Guide to Regulation, Toolkit 2: Cost–benefit analysis*, updated July 2014.

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As you can see from the steps in the box, it is important to identify all the costs and benefits that could potentially arise from the different options. Where possible, the costs and benefits should be assigned dollar values.

CASE STUDY 1.2

Providing housing for homeless saves more than $10 000 a year

This case study is available in the online version of the textbook.



REVIEW 1.6

1 What is meant by a 'cost-benefit analysis'?
2 Using a hypothetical example of your own, explain the benefit of using a 'cost-benefit analysis'.



ACTIVITY 1.8 Collaborate

Spending a school grant

Suppose that your school has received a grant of $5000 and the Student Representative Council (SRC) has been asked to help decide what to spend it on.

1 As a class, brainstorm a list of ways in which $5000 could be spent. Narrow the list down to two.
2 As a class, complete a more formal cost–benefit analysis for each option by copying and using the table below.

Cost–benefit analysis for each option for spending the $5000 grant	
Costs	**Benefits**

3 As a class, determine which choice has the greater 'net benefit', and should be your choice for how to use the $5000.
4 In pairs, write a submission to the SRC explaining the class's choice and the reasons for it.

This activity could be modified to consider a real situation within the school. Perhaps the SRC really does have funds available, or a resource such as a spare classroom that needs to be allocated a use.

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ACTIVITY 1.9 Research

Community resource allocation

This activity is available in the online version of the textbook.

1.4 Markets and the economy

A simple economy

As we learned earlier, an economy is an area in which economic 'agents' (people who are part of the economy) produce, purchase and consume goods and services. In the simplest economy, there are two groups of participants or sectors:

- **households**, which provide resources needed for production of goods and services, and then buy the goods and services produced by businesses
- **businesses**, which buy the resources from the households and turn them into goods and services via the production process.

Individuals in households have two key roles in any economy. First, they provide resources to the production process. In a country like Australia, most resources are owned privately, so the individuals living in households sell these resources to the business sector. In return for the resources provided by the households, the businesses provide income to the households. The businesses then use the resources they have purchased to produce goods and services. Since the households have received income from selling their resources (such as their labour or land) to the businesses, they then use that income to buy goods and services from the businesses.

When households are purchasing goods and services, they are known as consumers. A consumer is a person who purchases goods and services for their own personal use. The products they purchase are not then used to manufacture products for sale. By definition, consumers focus on consumption – the products they purchase will be used by them rather than being used as an input into the production process.

This process is circular, so this simple model of an economy is called the circular flow of income, **expenditure** and production. The model is depicted in Figure 1.10.

GLOSSARY

Expenditure the total value of the spending on all the goods and services that have been produced

TABLE 1.1 Key terms from the model

Production	The total value of all the goods and services that are produced in an economy over a period of time
Income	The total amount of income earned by those who have contributed to the production of the goods and services (in the production process)
Expenditure	The total value of the spending on all the goods and services produced
Economic activity	The real value of the production, employment, incomes and expenditure in an economy. In Australia, the most common way to measure the level of economic activity is gross domestic product (GDP) – the value of all goods and services produced in Australia in one year

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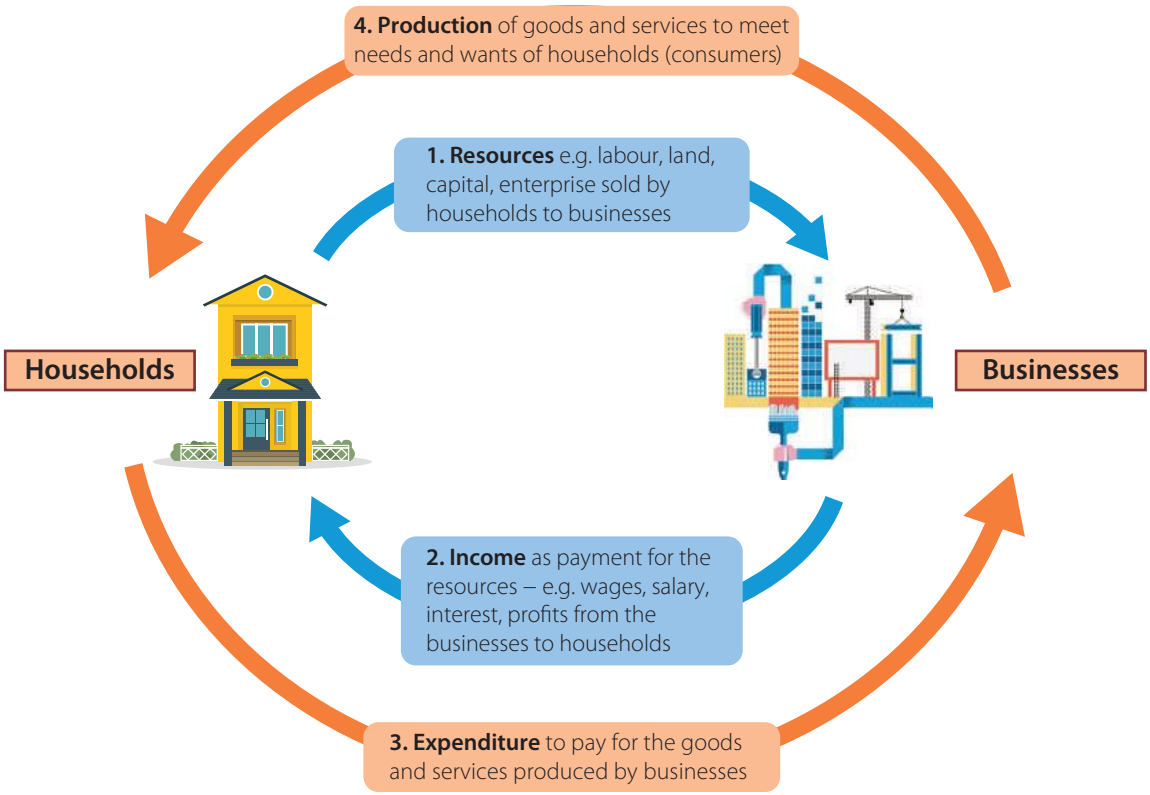


FIGURE 1.10 The model of a simple economy shows the interaction between households and businesses in creating income, expenditure and production.

Markets

In Australia's economy, most economic decisions are made by the **market.** A market is any situation where potential buyers are in contact with potential sellers and there is a **means of exchange**. The buyer and seller just need to be in 'contact', which means that markets include places where buyers and sellers meet in person, and also virtual meetings, such as online shopping or trading where the buyer and seller never meet face to face. A 'means of exchange' is a way of paying for the goods and services that are traded. In most markets, money is used as the means of exchange, but if the two traders in the market exchange one good or service directly for another good or service, this is called **barter** (the use of goods and services as a means of exchange).

If you consider the model of a simple economy described in previous pages, the consumers (households) act as the buyers, and businesses act as the sellers of final goods and services. At the same time, households are sellers of resources, and businesses are the buyers of those resources in resource markets.

GLOSSARY

Market a situation where potential buyers are in contact with potential sellers and there is a means of exchange

Means of exchange a method of payment for goods and services

Barter the use of goods or services as a means of exchange

Australia's economy

Unlike the simple economic model in Figure 1.10, in Australia the government plays a major decision-making role, and this is considered in more detail at the end of this chapter. Australians also save some of their income into financial institutions, and Australia sells some of its production to overseas countries through international trade. This trade involves the export of goods and services to other countries, along with Australians buying goods and services from overseas in the form of imports.

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Although Australia's economy is not as simple as the one depicted, this model provides a basic idea of how an economy works through the use of resources, the payment of incomes, and the production and consumption of goods and services.

REVIEW 1.7

1 Complete the following table by identifying whether each event is an example of the supply of resources, the payment of income, expenditure on goods/services or the production of goods and services. The first one has been done for you.

Event	Supply of resources	Payment of income	Expenditure on G/S	Production of G/S
1 Trisha works 10 hours each week at KFC	✔			
2 Ali uses his pocket money to buy a new smartphone				
3 Petra earns $30 for coaching soccer				
4 After four years of study, Iksha gets a job as a lawyer				
5 Zelda's patisserie makes 25 croissants				
6 Viboo rents an office in her building to a small accountancy firm				
7 Frank uses his babysitting money to go to the cinema				
8 Niamh makes and sells cupcakes as her small business				

REVIEW 1.8

1 Explain why the simple model of the economy shown in Figure 1.10 is referred to as a 'circular flow model'.

2 Is a market created in the following situations? Give a reason for your answer in each case. In the cases where there *is* a market, specify what is being bought, what is being sold and the means of exchange.

- **a** Samina goes to Apple to buy a new iPhone 8.
- **b** Tayla is heading to Spain for the school Spanish language tour and needs some euros.
- **c** Trudy has two tickets for the upcoming Taylor Swift concert. As a birthday gift, she offers to take her friend Manuela.

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d An buys shares in Bega Cheese on the Australian Securities Exchange (ASX).
e Nathan and Henry are good friends at school. Nathan offers to tutor Henry in Maths if Henry helps Nathan with his English homework.
f Petra and Peony have created a babysitting club where they look after neighbourhood children for cash.
g Nina wants to form a band and posts a notice at school asking for a drummer, singer and bass guitarist to audition.
h Tran's parents think he has too much 'stuff', so he agrees to clear out his room and have a garage sale to get rid of things he doesn't want.
i Following the garage sale, Tran still has lots of stuff left over. He leaves his old bike and skateboard on the nature strip, hoping someone will take them away.



FIGURE 1.11 Primary sector



FIGURE 1.12 Secondary sector



FIGURE 1.13 Tertiary sector

1.5 Producers – primary, secondary or tertiary?

In any economy, production can be classified into three types of industries, or 'sectors'.

- The **primary sector** refers to the part of the economy that contains industries that either extract or produce raw materials. The raw materials can include minerals, wood, fruit and vegetables, and other agricultural products. In Australia, we most closely associate primary industries with mining and agriculture (farming). Someone who works on a farm or for a mining company would be working in the primary sector.
- The **secondary sector** refers to the part of the economy that contains industries that transform the raw materials and components into goods. For example, until recently Australia had a car manufacturing industry that transformed steel, rubber, paint, technology and lots of plastic into cars. Someone who works in a factory or on a building site would be working in the secondary sector.
- The **tertiary sector** refers to the part of the economy that contains industries that supply services to businesses and consumers. These services can be as simple as an accountant who keeps the books for several small businesses, and as large as Australia's major banking corporations. If you have a casual job working at a fast-food restaurant, you are working in the services sector.

In recent years, it has been suggested that a new 'sector' needs to be added to the economy, in recognition of how production is changing. Some have suggested the existence of a 'quaternary' sector, which refers to the knowledge-based part of the economy that trades in information services. The businesses classified as part of this sector would include those that focus on information technology, media, education, blogging and designing, along with social media.

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REVIEW 1.9

Classify the following workplaces and jobs according to whether they produce in the primary, secondary or tertiary sectors of the Australian economy.

Example	Primary, secondary or tertiary sector?
1 Stephanie employs 15 staff at her café.	
2 Naomi works as a dentist.	
3 Abdul is a kindergarten teacher.	
4 Mina drives a truck at a mining site.	
5 Jayesh owns a company that builds apartment blocks.	
6 Hiran and Melissa operate a mango farm near Townsville.	
7 Kiara is a software engineer for a company that prints catalogues and magazines.	
8 Alessandro is the manager of the local ANZ Bank.	

Key industry areas in Australia

Table 1.2 shows the breakdown of output (the value of production) and number of people employed by each of the five key industry areas in Australia in 2015–16. It also shows what proportion of all of Australia's production (GDP) is produced by each industry area. If you compare this data with the information contained in Table 1.3, you will see that the structure of Australia's economy and what it produces have changed significantly over time. The table shows a snapshot of output at the time of Federation, and again during the early 1950s.

Data provides an important tool for economists, as it allows us to measure our economy and understand it better. Activity 1.10 (available in the online version of the textbook) requires you to work with and analyse this data to reach some conclusions.

TABLE 1.2 Output and employment by industry, 2015–16

Industry	Value of production (output) $billion	Employment (millions of people)	Share of total Australian production (GDP)
Services	1015	9.4	61.1
Mining	115	0.2	6.9
Construction	134	1.1	8.1
Manufacturing	99	0.9	6.0
Agriculture	37	0.3	2.2

Source: Department of Industry, Innovation and Science; *Australian Industry Report 2016*.

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TABLE 1.3 Output by industry, 1900–01 and 1950–51

Industry	Share of total Australian production (GDP)	
	1900–01	1950–51
Services	31.0	24.0
Mining	12.0	2.6
Construction	7.0	7.0
Manufacturing	12.0	22.4
Agriculture	19.4	30.0

Source: Australian Bureau of Statistics, *Year Book Australia 2005*.



ACTIVITY 1.10 Research

Australian production by industry

This activity is available in the online version of the textbook.



1.6 Markets

The three basic economic questions

Returning to the simple model of the economy considered earlier, some key questions arise. How does an economy decide what goods and services to produce? What combination of resources will be used to create those goods and services? And who receives the goods and services once they have been produced?

As we have seen so far, economics is about making choices. The problem of satisfying unlimited wants with limited resources means that any economy faces the following decisions:

- what to produce
- how to produce it
- for whom to produce it.

In Australia, these three questions are mostly answered by the operation of markets. Markets determine the three basic economic questions through the *price mechanism*, which we will examine in detail later.

How do markets work?

Before examining the price mechanism, we will provide a broad overview of how markets work to determine what to produce, how to produce it and for whom.

What to produce?

Zaynab is studying Food Technology. She loves cooking and thinks that a dessert dish she developed called Magic Mango Mousse is particularly delicious. She is considering going into business selling it. What should she do before committing her hard-earned savings to buying limited resources of lemons, limes and so on, setting up a kitchen and hiring people? There are many factors Zaynab needs to consider in setting up the business, but one of the most important is whether anyone else is going to find her mango mousse delicious. If not, then the business will fail.

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In a free market economy, it is the consumer who decides what the limited resources will be used for. If no one likes Zaynab's mousse, then the farmer's mangoes will be used for something else that the consumer does like. If consumers do like Zaynab's Magic Mango Mousse, and therefore demand to buy it, as an entrepreneur Zaynab will coordinate the resources required in the production process and make the mousse. These resources will be used to produce Zaynab's Magic Mango Mousse rather than produce something else that is not as popular with the consumer.

As a producer, Zaynab will focus on making a product from which she can make a profit. In this example, resources are being allocated according to what the consumer wants to purchase – so the consumer is queen (or king) in deciding where resources are allocated in a market economy. This is called **consumer sovereignty**.

GLOSSARY

Consumer sovereignty the consumer is in charge when it comes to deciding where resources are allocated in a market economy

How to produce?

Zaynab has asked around and done some surveys, and she has found that there is consumer demand for her Magic Mango Mousse. She will now need to decide exactly what method of production and what resources she will use. She will have to decide the set-up of her kitchen and how she will distribute her product. Decisions will include the equipment and the extent of technology used, location of her kitchen, the quality of ingredients and the kind of staff required.

In a market economy like Australia's, most producers choose to use the lowest cost method available to them. This will allow them to maximise their profit. If Zaynab found she could employ five chefs or two robots to make her mousse, she would carefully consider which option was likely to make her the most profit by keeping her costs of production low. In countries like Australia, where wages are relatively high, more capital-intensive production methods are quite popular. This is because it can be much cheaper to replace workers with machines or technology. The case study on artificial intelligence (AI) on the website (Case Study 1.3) considers exactly this issue.



FIGURE 1.14 Decisions include the equipment and the extent of technology used

For whom to produce?

This refers to how the economic benefits from production will be distributed. In simple terms, it is about who gets what is produced. Once goods and services have been made, how will it be determined who receives the goods and services? Should the goods and services go exclusively to those people who can afford to pay for them, or should there be some guaranteed minimum level of access to goods and services that everyone gets to enjoy, regardless of their ability to pay?

In a market economy like Australia's, the question 'For whom to produce?' is mostly answered by the market. Most goods and services go to those who can afford to pay for them – by buying them in the marketplace. However, the government also collects tax and uses that money to provide certain services, such as education and health.

In setting up and running her business, Zaynab will need to determine how much to pay her employees (workers) and how her profit will be split with business partners, if she has any. She will also sell her product on the market. Given that her product is not a necessity, it is likely that the answer to 'For whom to produce?' in relation to Zaynab's Magic Mango Mousse will be 'Whoever can afford to pay for it'.

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CASE STUDY 1.3

Artificial intelligence, technology and the future of labour, capital and the three economic questions

This case study is available in the online version of the textbook.



The price mechanism

We have already learned that a market is any situation where potential buyers are in contact with potential sellers and there is a means of exchange. Markets are the main way by which Australia decides what and how to produce with our scarce resources, and who will receive the benefits of economic production.

Markets decide what to produce and how to produce through the operation of the price (or market) mechanism. The **price mechanism** is the system whereby the willingness of producers to supply and consumers to demand interact in the marketplace to set prices for goods and services. **Consumer demand** is the willingness and ability of the buyer to pay the actual asking price for the good. **Supply** is the quantity of that commodity that will be provided by the producer at a particular price.

An understanding of how demand and supply interact helps us understand how markets operate, which in turn is useful for business managers, share market investors, consumers and government policy-makers.

GLOSSARY

Price mechanism the system whereby producer supply and consumer demand interact in the marketplace to set prices for goods and services

Consumer demand the willingness and ability of the buyer to pay the asking price for the good

Supply the quantity of a commodity that will be provided by the producer at a particular price

Law of demand states that consumer demand for a product will move inversely to the movement in the price of the product, so that as the price rises, demand falls

The law of demand

Consumer behaviour in response to price changes is expressed as the **law of demand**. It states that the quantity of a product people are prepared to buy will fall as the price rises. What affects the willingness and ability of the consumer to spend?

What are the top three goods on your current wish list? Let's say a new smartphone is one of them. Your ability to buy one is going to be driven mainly by your income. What about your willingness to buy one? How long do you think your new smartphone will be current before a new version comes along? What else could you buy with the money you would spend on a new smartphone?

The law of demand shows the relationship between price movements and consumer demand for a product, and is illustrated in Figure 1.15. The law of demand states that consumer demand is inverse to the movement in price of that product – that is, as the price rises, demand falls, and as the price falls, demand rises.

If the price of a given product is high – say, $800 – then the quantity demanded by consumers is low – say, 100 units. This is because fewer consumers can afford and/or are willing to pay the higher price. Conversely, if the price falls to say $400, then the quantity demanded increases – in this example, to 500 units. This is because more consumers can afford and/or are willing to pay the lower price.

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The straight line drawn between these two points is called the *demand line* (and sometimes the *demand curve*).

The law of demand assumes that all other things that would influence consumers' demand are held constant. So, for example, the movement from consumer demand of 100 at a price of $800 to demand of 500 when the price falls to $400 would occur just because of the change in price, not a change in anything else that might influence how much consumers are willing and able to buy (demand) of a product. Can you think of other events or factors that might influence consumers' willingness and ability to purchase a product? These are called **demand factors**. They include things like:

- the level of a consumer's income
- preferences and expectations of the consumer (such as popularity)
- the price of **substitute** products
- the price of complementary products – which need to go with the product.

However, when considering the law of demand, we assume that all those other demand factors are held constant – and only the price of the product changes.

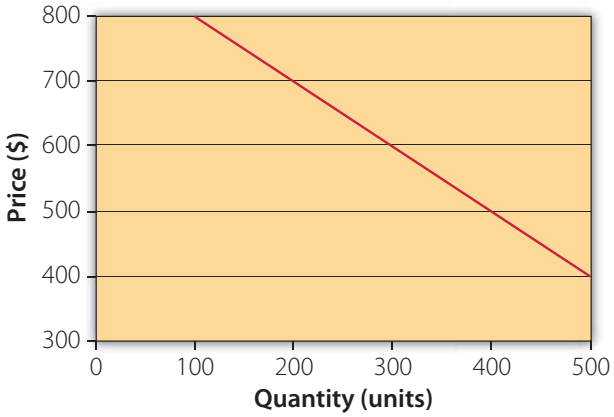


FIGURE 1.15 The downward slope of a demand curve illustrates the law of demand.

GLOSSARY

Demand factors events that change consumer willingness and ability to pay without a change in the price of the product itself

Substitute an alternative good or service that can be used for the same purpose

When only price changes, we see a movement along the demand curve. So, for example, if the demand curve in Figure 1.15 was for smartphones, and they decreased in price from $600 to $500, we might see an increase (also called an 'expansion') in the quantity demanded from A to B, as shown in Figure 1.16. The quantity demanded would increase from 300 to 400 units.

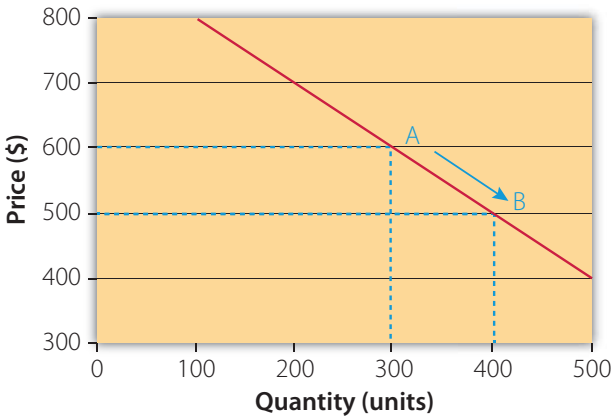


FIGURE 1.16 A reduction in price of the product will see as increase (expansion) in the quantity demanded.

If a demand factor other than the price of the product changed, then we would see a shift in the demand curve itself. Suppose that the price of internet-connected tablets (a substitute for the smartphone) suddenly went down significantly. It is likely that more consumers would buy an internet-connected tablet instead, meaning that for each possible price of the latest smartphone there is now a smaller quantity demanded. A decrease in demand entails a shift to the left of the demand curve, as shown in Figure 1.17.

Of course, if a change in a demand factor led to an increase in demand, we would see a shift in the demand curve to the right.

Note the language that is used to express these concepts. When only the price of the product itself changes, we say there is an increase or decrease in the quantity demanded, and a movement along the demand curve. When a demand factor affects demand, we say there is an increase or decrease in demand, and a shift of the demand curve.

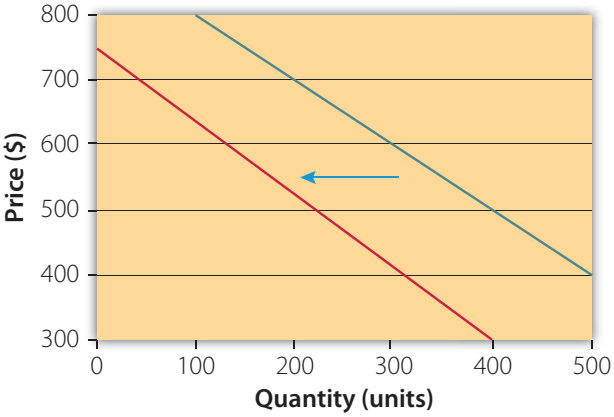


FIGURE 1.17 Demand factors shift the demand curve.

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REVIEW 1.10

Test your understanding: supply the missing word or words to complete the following sentences.

1 The law of demand states that as prices _____, demand will _____.
2 The price mechanism is a _____ that explains interaction between producer _____ and consumer _____ in the _____.
3 Consumer _____ is not only the desire of the consumer to _____ the product, but also the _____ to do so.
4 A demand factor is a factor that causes a _____ in the quantity demand without any change in the _____ of the product itself.
5 If the price of a substitute product for smartphones increased, this would lead to an _____ in demand for smartphones.
6 If consumers decided that they preferred smartphones to tablet computers, the demand for smartphones would _____.

ACTIVITY 1.11 Collaborate

Law of demand

This activity is available in the online version of the textbook.

GLOSSARY

Law of supply states that the quantity of goods supplied by a producer will move in line with the movement in the price of the product, so that as the price rises, supply rises

The law of supply

In order to understand the **law of supply**, we need to think about the market from the perspective of the seller.

Suppliers desire to maximise their profit. The law of supply states that if the price of a product rises and nothing else changes, producers will be prepared and able to increase the amount of the product they offer to the market. Why? Imagine that the cost of making the product does not change but the price the producer can sell it for increases. Each new product that the producer sells will provide them with even more profit!

The law of supply explains the relationship between price movements and the quantity of goods supplied by the producer. Note that this refers to planned supply, not to what is actually sold.

The law of supply states that the quantity of goods supplied by a producer will increase in line with the movement in price of that product. That is, as the price rises, supply rises, and as the price falls, supply falls. The law of supply can be presented graphically, as shown in Figure 1.18.

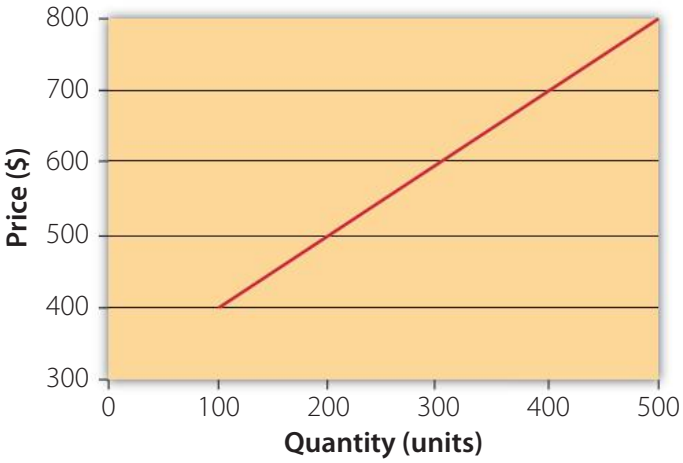


FIGURE 1.18 The upward slope of a supply curve illustrates the law of supply.

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If the price of a given product is high – say, $800 – then the quantity supplied by producers is also high – say, 500 units. Conversely, if the price falls to, say, $400, producers reduce supply – in this example, to 100 units. The straight line drawn between these two points is called the *supply line* or *supply curve*. In this example, if the price decreased from $800 to $400, then there would be a movement along the supply curve from C to D, as shown in Figure 1.19. The quantity supplied would decrease from 500 to 100 units.

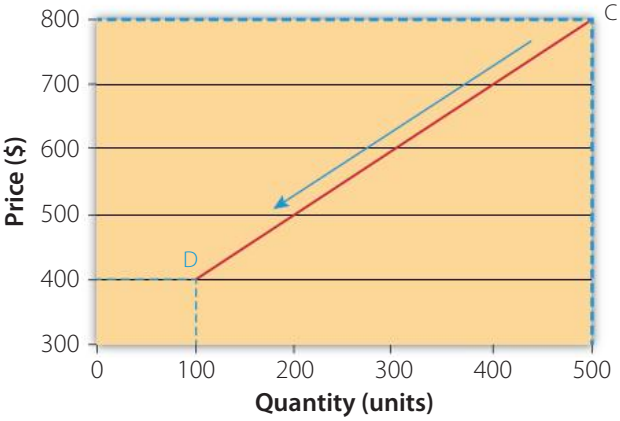


FIGURE 1.19 A reduction in price of the product will see a decrease (contraction) in the quantity supplied.

Supply factors

Supply factors are those events that change the willingness and ability of a supplier to supply goods and services without a change in the price of the product itself. Just as in the case of demand, sometimes a factor other than the price of the product changes, and encourages producers to supply more or less of the product at the existing price. The supply factors are:

- the price of inputs and other costs of production – the lower the price of inputs, the more profit per unit and so the greater the quantities producers are willing to supply
- the price of other products – for example, if the price of other products rises and there is a perception of increased profits from selling those products, then producers may switch to supplying more of those products and less of the original.

Changes in either of these supply factors will lead to a *shift* of the supply curve itself. For example, in our smartphone example, if the price of inputs such as electricity or steel decreased, then the producer would stand to gain a higher profit at every price point and so would be willing to supply more at any given price. This would lead to a shift in the supply curve to the right. This is illustrated in Figure 1.20.

GLOSSARY

Supply factors those events that change the willingness and ability of a supplier to supply goods and services without a change in the price of the product itself

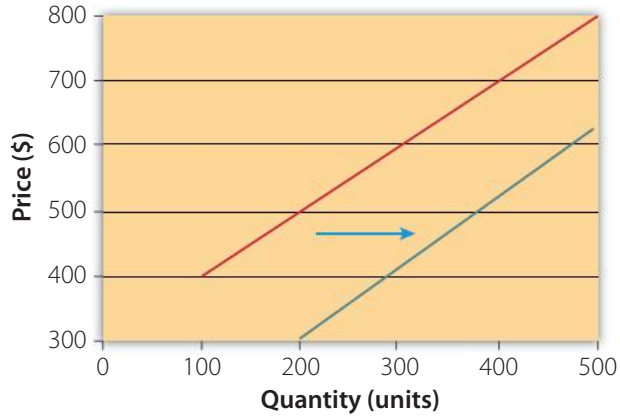


FIGURE 1.20 Shift in supply curve

REVIEW 1.11

Test your understanding: supply the missing word or words to complete the sentences.

1 The law of supply states that as prices _____, supply will rise.
2 The reason supply increases with _____ is that the price contains _____, which is the producer's _____ for productive effort.
3 The law of supply states that as prices _____, supply will fall.
4 A supply factor is a factor that causes a _____ in the quantity supplied without any change in the _____ of the product itself.
5 If the cost of paying workers in the smartphone factory increased, this would lead to a _____ in the supply of smartphones.
6 If the cost of electricity in the smartphone factory decreased, the supply of smartphones would _____.

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ACTIVITY 1.12 Collaborate

Law of supply

This activity is available in the online version of the textbook.

The equilibrium price

So far, we have seen how many smartphones consumers are willing to buy (demand) at every possible price. We have also seen how many smartphones sellers are willing to sell (supply) at every possible price. But how do we know what the *actual* price of smartphones will be and how many smartphones will be sold?

GLOSSARY

Equilibrium price the price where consumer demand equals the supply of goods; where the demand and supply lines intersect

In order for there to be a trade in a market, the buyer and the seller must agree on the price. The **equilibrium price** is the price at which consumer demand equals the supply of goods. The equilibrium price contains enough profit to motivate producers to make the product. Consumers are also willing to spend their money on the product at the equilibrium price. At the equilibrium price, all that is produced is sold. The quantity demanded by consumers at that price is satisfied exactly by the quantity supplied by the producer. This situation is represented graphically in Figure 1.21.

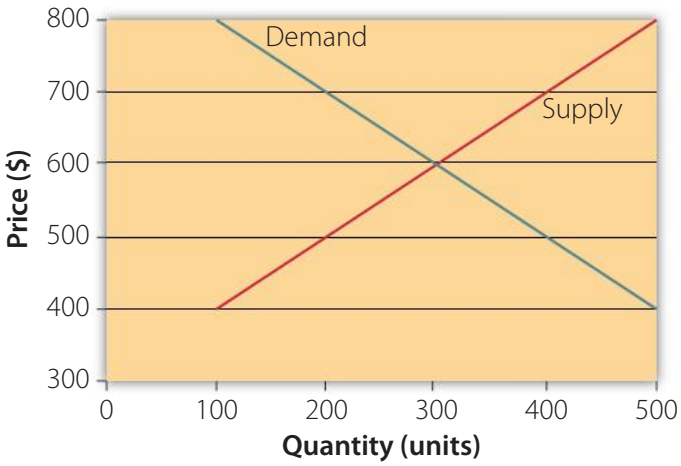


FIGURE 1.21 Equilibrium price

The equilibrium price graph demonstrates the point at which intersection occurs between the demand and supply lines. In this example, the equilibrium price is $600 per unit. At the equilibrium price of $600, producers will supply 300 units and consumers demand 300 units.

CASE STUDY 1.4

The equilibrium point

The Australian Football League (AFL) launched a new women's league, the Australian Football League Women's (AFLW), in 2017. For the first season of the AFLW, there was free entry to the games. The AFL plans to continue with free entry in the 2018 seasons, but is considering charging for entry in subsequent seasons. If it does charge for tickets, it will make the tickets a 'family' ticket, so the whole family can attend for one price. The decision to bring in charging for entry to the AFLW games follows a highly successful season that saw lockouts at some games because the demand for entry exceeded the supply of space.

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The AFL has conducted some market research on possible demand for the tickets for season 2019 onwards. The survey data illustrated the relationship between consumer demand for the tickets to the games and its price – that is, the demand schedule. The AFLW then crunched some numbers on how much it would cost it to charge for entry and how many seats it would like to offer to these games at each ticket price. Charging for entry means the games will need to be held at larger grounds with better facilities than previously, which means they will clearly cost the AFLW more to run. The AFLW will also need to set up and pay for a ticketing system. From this information, the AFL was able to develop a supply schedule.

The combined hypothetical data is presented in Table 1.4, which shows the quantity of family passes demanded and supplied each weekend across all the games, at each possible price.



FIGURE 1.22 AFLW players warm up before a Collingwood Magpies men's and women's joint AFL pre-season training session at the Holden Centre in Melbourne, on 6 December 2017.

TABLE 1.4 AFLW tickets demand and supply (hypothetical)

Price	Quantity demanded	Quantity supplied
$20	60 000	30 000
$30	50 000	35 000
$40	40 000	40 000
$50	30 000	45 000
$60	20 000	50 000

Read Case Study 1.4, then complete the following questions.

1. Using a Microsoft Excel spreadsheet and Chart Wizard (or graphing paper), create a graph from the data in Table 1.4 showing both the demand and supply curves. (*Hint:* choose the XY Scatter chart type.)
2. What are the equilibrium price and equilibrium quantity for the family passes to the AFLW games? Explain what it means for the demand and supply curves to be in equilibrium.
3. How would the following events affect consumer demand? In what direction would the demand line shift? Explain for each event.
   - **a** Soccer Australia offered free entry to all its matches (for male and female teams) in 2019.
   - **b** Lots of people in Melbourne lost their jobs, and were no longer able to afford to spend money on non-essential items.
   - **c** The AFLW doubled the number of teams competing in the competition.
4. The owners of one of the stadiums the AFL is considering using for the AFLW games has advised the AFL that it needs to charge the AFL twice as much for each game played at the stadium.
   - **a** Explain the impact this new information will have on the profit the AFL will make for each family pass sold.
   - **b** How will this information influence the supply curve? Clearly explain your reasoning.
5. Imagine that the AFLW conducted a highly successful marketing campaign that saw the demand for family passes increase significantly. If the AFL did not increase the supply of family passes, what would happen to the equilibrium price?

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Surpluses and shortages

Consider Question 5 in Case Study 1.4. The highly successful marketing campaign would lead to an increase in demand (a shift of the demand curve to the right). There would be more family passes demanded at each price, including the equilibrium price. If the supply of family passes was capped at 40 000 units despite the increased popularity of the game, there would be a shortage of family passes at the equilibrium price. More people would be wanting to buy family passes at that price than would be available.

Shortages

When there is a **shortage** in a market, producers respond by increasing prices, as they see an opportunity for more profit – providing consumers are willing and able to pay a higher price to get the product that is in short supply. Some consumers may drop out of the market as the price rises, depending on how strong the demand is. As entrepreneurs spot the chance for profits in that industry, they may enter the market, which may increase competition (and supply) and then drive down the price, enticing more consumers back again. And so the cycle continues.

GLOSSARY

Shortage a market situation where the quantity demanded is greater than the quantity supplied, and the market is not in equilibrium

EXAMPLE

Hot chocolate in winter!

Imagine you decide to set up a stand selling hot chocolate at school during a long, cold winter. The canteen refuses to make hot chocolate for students, and at the start of winter you are the only one supplying hot chocolate. In a large school, you would probably be unable to supply all the hot chocolate that is demanded. You would probably sell out, even if you increased your price and some customers dropped off. While you are negotiating to take on friends as business partners, it is likely that other students will set up hot chocolate stands, having noticed your success. They may try to steal business from you by offering their hot chocolate at lower prices. In response, you lower yours. Eventually things will settle down to an equilibrium price, where all suppliers are still making a profit and more customers are satisfied than when it was just you supplying the hot chocolate at school.



FIGURE 1.23 Selling hot chocolate during winter could be a viable business idea.

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Surpluses

We can follow our hot chocolate story further to illustrate the concept of **surplus.**

EXAMPLE

Hot chocolate in summer

Imagine now that spring is nearly over and it is early summer. Demand for hot chocolate falls off and you and your competitors find that you have hot chocolate left over at the end of recess and lunchtime. The market now has a surplus of hot chocolate. You and your competitors may respond by decreasing the price, hoping that this would bring customers back. It would probably bring some customers back and at the same time some suppliers may decide it is no longer worth it and gear up to sell icy poles instead. Eventually things would settle down to a new equilibrium price.



FIGURE 1.24 Trying to sell hot chocolate during summer might not be wise.

In summary, when there is a surplus:

- Producers have stock left over.
- Producers respond by lowering prices, hoping to win more customers.
- Some producers may leave the market if profits are falling.
- Some consumers would increase the quantity demanded in response to the lower price.
- This may mean that producers raise the price a little to test the market.
- Eventually the market will settle at a new equilibrium price.

Resource allocation between markets

It should be clearer now how the price mechanism works in our economy to ration out limited resources among consumers with unlimited wants.

When one product becomes more popular or more profitable compared with another, markets reallocate resources from the production of the product that is less popular or profitable to the market that is more popular or profitable.

As you will have noticed in the discussion of shortages and surpluses previously, as a demand factor (for example, the product becomes more popular) causes an increase in demand for a product, the price of the product tends to rise. This will encourage profit-seeking producers to supply more of the product. To do this, they will shift resources into producing that product.

Conversely, when a factor causes a decrease in demand (for example, hot chocolate becoming less popular because of warm weather), the price of the product will fall and some of the producers of hot chocolate will stop making that product. The resources they were using to make the hot chocolate (such as the milk, chocolate powder, paper cups) would now be used to produce icy poles, which are much more popular in summer.

The scenario in Figure 1.25 on the next page illustrates, in a basic way, **resource allocation** between markets.

GLOSSARY

Surplus a market situation where the quantity supplied is greater than the quantity demanded, and the market is not in equilibrium

Resource allocation the way in which land, labour, capital and enterprise are used to satisfy what to produce, how to produce and for whom to produce

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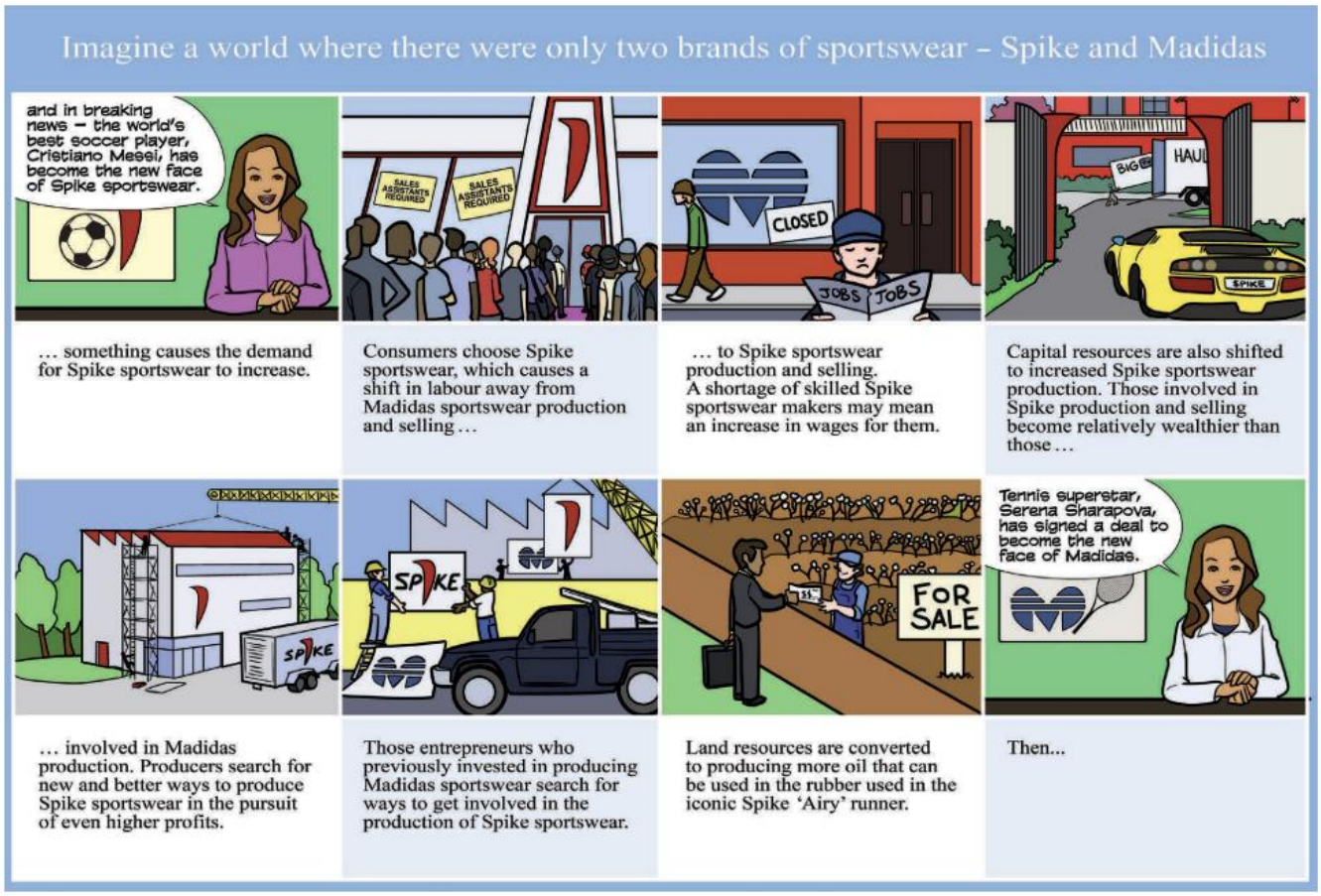


FIGURE 1.25 Resource allocation: Spike and Madidas

Shifting resource allocation

The story of Spike and Madidas sneakers recaps the concept of shifting resource allocation. The increase in popularity has led to an increase in demand for Spike sneakers. This acts as a vital signal to consumers and producers. In Figure 1.25, the endorsement of Christiano Messi means that shoe consumers are willing to pay more for a particular quantity of Spike sneakers than before. Producers will raise the price of Spike sneakers (and resources used to make them), seeking more profit. Other producers will notice this and shift their resources into Spike sneakers production because this is where greater profits are. Of course, increased competition may eventually drive prices down and lead to further shifts in resource allocation.

ACTIVITY 1.13 Create

Resource allocation

Continue the comic strip from Figure 1.25, showing a shift in resource allocation to Madidas sneakers production and selling. Include appropriate captions.

Price helps consumers to decide which of their wants is the most important, and a desire for profit stimulates efficient resource use by each supplier and helps to smooth out imbalances in over-supply and under-supply. The price mechanism also has a role to play in the distribution of wealth, through the generation of profit and wages for successful suppliers in markets where there is demand.

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REVIEW 1.12

For each of the following scenarios, estimate whether prices will increase, decrease or stay the same. Give a reason for your choice. State whether you think demand will increase, decrease or stay the same in response to the price movement and give a reason for your opinion:

1 a surplus of winter clothing due to an unusually warm winter
2 a shortage of Ed Sheeran tickets due to the popularity of his most recent album
3 a surplus of an old textbook for economics due to a new course being taught
4 a shortage of wheat due to drought.

1.7 Specific markets

We will now examine a particular market in more detail.

The residential real estate market and the auction

The residential real estate market provides an example of a market where buyers and sellers come together to do business.

Property agents frequently hold **auctions** to sell property. The seller can set a **reserve price**, which is a price below which the auctioneer cannot sell the property. An auction is a transaction in which the buyer of an item and the price paid for it are decided after potential buyers have declared what they are willing to pay. In an English auction (the most common kind of auction used to sell residential property in Australia), buyers bid against each other in a process coordinated by the auctioneer, with the highest bidder purchasing the product. An advantage of an auction is that often the sale is brought to a head on the day rather than the seller having to wait many weeks or months for the property to be sold.

GLOSSARY

Auction a transaction where the buyer of an item and the price paid for it are decided after potential buyers have declared what they are willing to pay

Reserve price a price below which the auctioneer cannot sell a product

The housing auction market is made up partly of investment properties and partly of owner-occupied housing. The demand and supply factors in the text boxes that follow may be relevant in one or both of these elements.

Demand factors that operate in a residential auction market

- **Price of the property**. Ongoing costs, such as rates, maintenance.
- **Income of buyers**. This, together with interest levels, influences purchasing power.
- **Preferences**. Includes the house itself, plus lifestyle factors (such as amenities and schools near property).
- **Price of substitute properties**. Price of substitute investments, such as the share market.
- **Prevailing tax regime**. Includes stamp duty, land tax and negative gearing allowances on investment properties.
- **Expectations**. Includes the potential buyer's perception of the value of the property, as well as expectations regarding their own circumstances and expectations regarding the return on the property should it be an investment.

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Supply factors that operate in a residential auction market

- **Price of the property**. For residents, the price expected at an auction will influence a decision to move or stay. For investors, the expected price will determine whether they will realise a profit by selling.
- **Price of other properties or investments**. Investors may switch to supplying office space rather than apartment space if greater profits are perceived.
- **Price of inputs**. The original cost of the property and costs associated with preparation for sale, such as renovations, will influence willingness to sell.
- **Seller's own circumstances**. The extent to which the seller needs the proceeds of the auction to finance another property or for a different purpose.

CASE STUDY 1.5

Hirun and Keesha

Hirun and Keesha have decided to sell their family home located in Northcote, an up-and-coming inner northern suburb in metropolitan Melbourne. Housing prices in Melbourne have been booming lately, and Hirun and Keesha are keen to make the most of the increased value of their property. They want to move to a country town, which will be a nice place to raise their children. They plan to move north to a warmer climate and will buy in Swan Hill on the Murray River in northern Victoria. Hirun and Keesha appoint a local real estate agent to handle their sale.

After careful thought and discussion, Hirun and Keesha decide to auction their home. The auction date is set for Saturday, 29 October, which is two months away. The agent advertises extensively throughout the local area and Melbourne in general prior to the auction. By chance, two days before the auction, the Reserve Bank announces a cut of 0.5 per cent in official interest rates.

The day of the auction arrives and the weather is perfect – warm and sunny, without a cloud in the sky.

1 How do auctions work? Describe what is involved in the English auction process.

2 Carefully read the case study above.
- **a** Is this auction likely to achieve a higher or lower than expected sale price for the home? Why?
- **b** What other factors may affect a sale on auction day? Explain how these factors may affect the price achieved. You should include in your explanation an analysis of why similar houses may vary widely in price from town to town or suburb to suburb, as well as a discussion of other factors that may influence price.

3 Another kind of auction market is eBay. Explain how an equilibrium price is reached for a particular good on eBay.

CASE STUDY 1.6

Changing consumer attitudes and the effect on resource allocation

This case study is available in the online version of the textbook.



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Government intervention in markets

The price mechanism does not necessarily mean that all consumers are satisfied and, in our economy, the government may intervene in certain markets to increase the number of satisfied consumers. The government also intervenes to ensure that everyone can access goods or services that are necessities of life or that are required for a person to live a dignified life, befitting someone living in modern Australia.

Public transport is an example. If it were run at a profit, the price of a ticket would be much higher than it is now, which would exclude many of those who rely on public transport, such as those who cannot afford a car or are unable to drive. Government subsidies keep ticket prices lower.

Even more important is the role of the government in ensuring all Australians are able to access healthcare. If it were left to the market to provide healthcare for everyone in Australia, it is possible that the prices of some healthcare services would be far too high for some people to afford. It would make sense for healthcare providers to try to maximise their profits by charging as high a price as the market will allow; however, this would result in large numbers of Australians who couldn't afford to pay for the healthcare they needed. As a country, we would be much sicker – and much less productive. The government collects taxes (discussed in more detail in Chapter 2) and uses the money collected to fund the free and subsidised provision of healthcare to Australians. For example, all Australians are entitled to a Medicare card. This allows the holder to receive free care in any public hospital, and to see a doctor for free if the doctor is willing to 'bulk bill' Medicare and be paid the fee that the government provides. The government also subsidises prescription medicines. For most Australians, the most they will pay to fill a pharmaceutical prescription is around $40, and those who have a low-income healthcare card or receive welfare benefits pay substantially less.

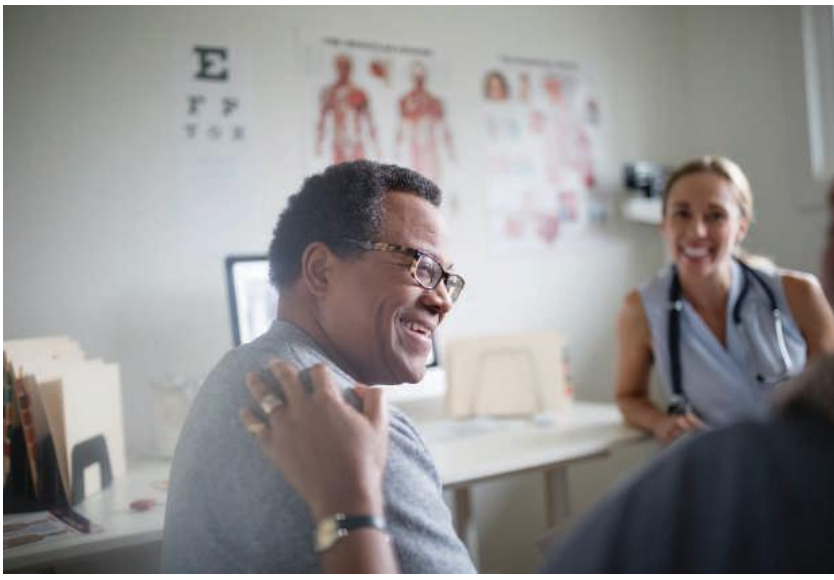


FIGURE 1.26 All Australians are entitled to a Medicare card.

Another reason for government intervention in markets is that sometimes markets produce too much of products that are not good for us. For example, the government imposes extra taxes in the form of tobacco excise on all tobacco products. This includes cigarettes, loose tobacco and cigars. Health experts agree that tobacco is very bad for human health. It is a major contributor to cancer in smokers. It also has a negative effect on those around them – the experience of 'passive smoking'. This negative secondary impact is another reason why the government wants to discourage smoking.

As a result, the excises on tobacco are very high – they make up about 70 per cent of the price of a packet of cigarettes. This compares favourably with the rest of the world, where tobacco taxes make up about half the price of a packet of cigarettes. Tobacco excise is also much higher than the taxes on other goods and services in Australia – such as the GST (goods and services tax), which is levied at 10 per cent of the price of the product.

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FIGURE 1.27 The federal government imposes high excise taxes on tobacco products to discourage their consumption.

By imposing these high tobacco taxes, the government is trying to send a price signal to consumers. It is hoping that by increasing the price that consumers have to pay for cigarettes, many consumers will be discouraged from purchasing cigarettes (and other tobacco products), and will instead quit.

The role of the government in managing the economy is covered in more detail in Chapter 2.

REVIEW 1.13

1 Why might it be necessary or desirable for the government to intervene in markets? Consider the costs and benefits of such intervention in your discussion.

2 For each of the issues below:
- state whether it primarily concerns what, how and/or for whom to produce
- discuss how the government could intervene in the market to resolve this issue
- list arguments for and against government intervention in the market.

An example has been completed for you below.

Example

Parent bodies are concerned that junk food advertising during children's TV programs is contributing to childhood obesity.
- This issue concerns how to produce. Advertising is part of the selling strategy, which is part of the production process.
- The government could intervene by asking media organisations to introduce no junk food advertising during children's TV as part of their Code of Practice. A stronger intervention would be for the government to ban such advertising.
- Some arguments in favour of government intervention:
  - This is a serious issue with long-term implications for the health of the population.
  - Profit-maximising junk food companies and media companies cannot be trusted to regulate themselves.

  Some arguments against government intervention:
  - This is an issue for parents. They should be monitoring what their children watch on TV and what their children eat.
  - Too much government intervention risks creating a 'nanny state'.

a The burning of fossil fuels (coal and oil) is contributing to the acceleration of global warming and climate change.

b The flood of cheap imports is threatening the Australian-made souvenir market.

c Young fashion designers are finding that their designs are appearing under major labels with minimal or no payments to them.

d It has been found that nano-particles in make-up cause damage to sea life.

e Scalpers are selling tickets to events at highly inflated prices.

f Increasing inequality in incomes is leading to a major gap between the 'haves' and the 'have nots' in Australia.

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CONSOLIDATE YOUR LEARNING

Research a market

There are many different types of markets in Australia.

1 Choose a market that interests you from the below list:
   - the labour market
   - the stock market (also referred to as the share market)
   - the foreign exchange market
   - the retail market (e.g. clothes, books, electronics)
   - the telecommunications market (phones or internet/data services)
   - the music market
   - the market for soccer or AFL players
   - the retail petrol market
   - another market not listed (check with your teacher).

2 Prepare a research report on the market you have chosen. You will need to write up a series of research questions and a research plan. You should consider:
   - the most important features of the market – the buyers, the sellers and the product
   - the location of the market (physical or virtual location)
   - how prices are determined in this market
   - whether prices vary between similar goods and services within the market, and why this is so
   - whether there are lots of suppliers and lots of consumers in this market at the moment (i.e. how competitive the market is)
   - demand and supply factors that affect the market or have affected the market in recent years. Illustrate your answer with examples.
   - any government intervention in the market (state or federal governments set rules or regulations to control how the market works)
   - the current 'state' of the market – is it 'booming' or going through a 'downturn'? Is it worth a new supplier considering investing in this market by opening a new business?

3 Present your findings as a research report, complete with sub-headings and illustrations.

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FIGURE 2.1 ATM machines

Chapter 2
Australia's economic performance

Understanding how an economy operates and evaluating how it is performing involve gaining an insight into the key participants in the economy and how their behaviour influences economic activity. It also means that we need to consider how economic policy options available to governments can be used to influence the way the economy is performing. Furthermore, we need to investigate how a society's values can impact the economy.

This chapter looks at how Australia measures the performance of our economy. This includes considering how we measure our standard of living. To do this, we investigate issues such as economic growth, unemployment, inflation and the distribution of income and wealth. We discuss the economic indicators we use to measure that economic performance.

In this chapter, the simple model of the Australian economy is expanded to include the role of the government and key economic players.

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2.1 Circular flow of money and income

The circular flow of money and resources (Figure 2.2) reminds us of the way resources flow from households to businesses. Households supply their time and effort to businesses in return for **income**. The businesses then use the resources provided by households to produce goods and services. Consumers (in households) use the income they earned from selling their productive resources (their labour, their skills, any capital or land they may own) to purchase the goods and services produced by businesses.

In this simple economy, all the 'flows' are of equal value. For example, all the income earned by households is spent on goods and services produced by businesses. The value of the income to households is equal to the value of resources supplied by the households to the businesses. In economics, we refer to the amount of goods and services produced, the level of income received and the amount of spending as the level of **economic activity**.

All economies need to have an adequate level of economic activity or they will encounter economic problems like poverty, unemployment, inflation, inequality or unsustainable debt levels. For example, if households chose not to spend all of their income, that would reduce the amount of spending. The reduction in spending on goods and services would tell businesses that they did not need to make as many products. In response, businesses would reduce their production and buy fewer resources from the household sector. This would, in turn, reduce the amount of income paid to the households. Overall, the level of economic activity would fall.

If economic activity is too low or too high, governments use **economic policies** to help increase or decrease the level of economic activity in order to address the economic problems that are caused when there is too much or too little economic activity.

GLOSSARY

Income money received in the form of wages from working, dividends from shares owned or rent received from property owned over a period of time

Economic activity the real value of production, employment, incomes and expenditure in an economy

Economic policy policies designed to meet economic objectives set by the government

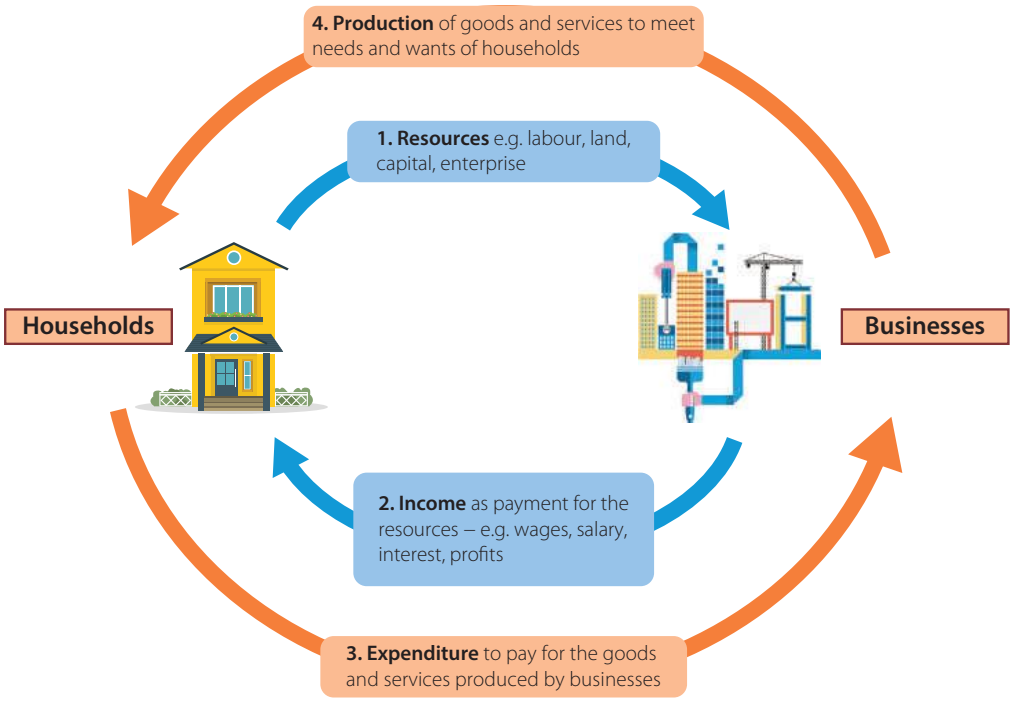


FIGURE 2.2 In the circular flow model of the economy, the flows are represented by the arrows and all the flows are equal.

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REVIEW 2.1

1 Define the following key terms in your own words:
   a income
   b economic policy
   c economic activity.
2 List four issues that may arise in a society that does not have an adequate level of economic activity.

ACTIVITY 2.1 Create

A simple economy

1 Imagine a simple economy where the following economic activity takes place:
   - Households sell economic resources to businesses worth $1 million.
   - Businesses use the resources to produce $1 million worth of goods and services.

   In your notebook, sketch the model of the simple economy based on Figure 2.2. Add in the two above pieces of economic activity at the appropriate places in the model. Label each flow with the amount that is being spent or earned.
2 In the same economy as Question 1, imagine that households decide to save $100 000 worth of their income. Explain what would happen to spending in the economy, and the effect it would have on production. Re-label your diagram, showing how each flow has changed.
3 Consider the change to economic activity you explained in Question 2.
   a What might happen to employment when economic activity changes in this way?
   b Imagine you were a member of the government. How would you view this change to economic activity? Do you think it is positive, negative or neutral? Justify your response.

2.2 Key participants in Australia's economy

The simple economic model does not include the influence of numerous other participants on how much spending happens in the economy or how the economy operates.

FIGURE 2.3 Trade unions act in the interest of their members and have in the past organised rallies and strikes in protest of changes to labour laws, a lack of wage increases or decreasing job security. These protests can help shape government economic policy.



As you learned in Chapter 1, the government influences markets in various ways. In addition to its role in regulating markets, the government also intervenes in the overall economy. In addition to government influence, trade unions and pressure groups also have a significant influence on the economy. The roles of some of these key participants, together with some examples, are outlined in the following pages.

These key participants include the federal government, the Australian Consumer and Competition Commission (ACCC), the Reserve Bank of Australia (RBA), the Fair Work Commission (FWC), the Australian Council of Trade Unions (ACTU) and the Australian Chamber of Commerce and Industry (ACCI).

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Federal government





FIGURE 2.4 Public schools and hospitals are essential services provided or subsidised by state and territory governments with the assistance of federal government funds collected via taxation

Federal government

- Introduces laws and economic policies that affect the Australian economy – for example, the introduction of the Goods and Services Tax (GST).
- Collects taxes and undertakes spending as part of the federal Budget. The government uses the Budget to improve Australia's economy and society.
- Government spending includes providing important community services such as schools and hospitals, which are essential to the efficient functioning of an economy and which otherwise are not provided to the marketplace.
- Government spending also helps to support the most disadvantaged in society by providing a 'social safety net' of pensions and unemployment payments.
- Manages the Australian economy as it moves through its various **economic cycles** – the government has a range of economic tools at its disposal to try to manage the economy.

GLOSSARY

Economic cycles fluctuations that can occur in an economy over a period of time

FIGURE 2.5 The role of the federal government

EXAMPLE

As the world becomes increasingly reliant on digital technologies, the federal government has spent millions of dollars building the NBN – a fast national broadband network. Building the NBN is stimulating the economy by providing employment and, as its coverage grows, it will allow Australia to develop new industries and become more efficient in the digital age.



FIGURE 2.6 Increasingly, reliable broadband will be central to our economy in the digital age.

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The Reserve Bank of Australia



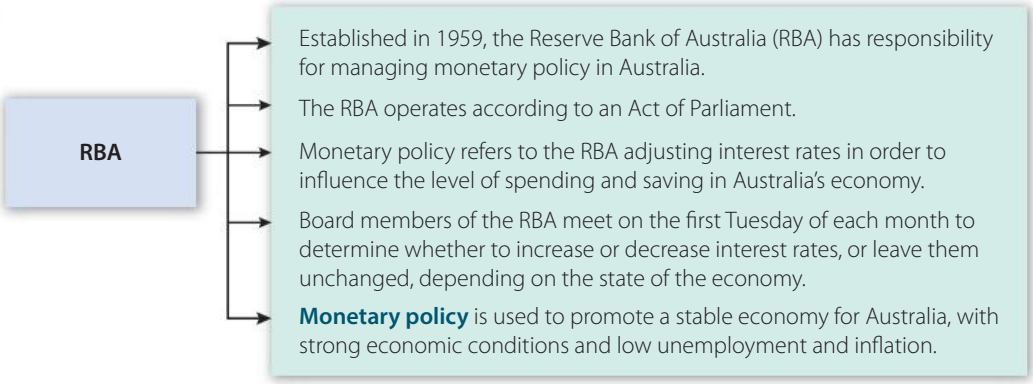


FIGURE 2.7 The role of the RBA

EXAMPLE

Since the end of the mining boom of the 2000s, the RBA has been concerned that Australia's rate of economic growth has been too low. The RBA has adjusted interest rates several times to give Australian consumers more money to spend, and to encourage businesses to borrow and grow. This was designed to increase employment, encourage consumers to be confident about spending rather than saving, and help to maintain a stable economy.

GLOSSARY

Monetary policy involves setting the interest rate on overnight loans in the money market; this usually flows on to interest rates charged by banks and other financial institutions



FIGURE 2.8 Towns such as Kalgoorlie have been hit hard by the end of the mining boom, and are a symptom of the downturn in Australia's economic growth the RBA is trying to correct.

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Australian Competition and Consumer Commission

The Australian Competition and Consumer Commission (ACCC) is an independent authority with the main function of enforcing the *Competition and Consumer Act 2010*. This means promoting competition in the marketplace, promoting fair trading and regulating national infrastructure for the benefit of all Australians. The ACCC investigates cases where businesses are considered to be acting in an anti-competitive manner that will harm the interests of consumers or other businesses.

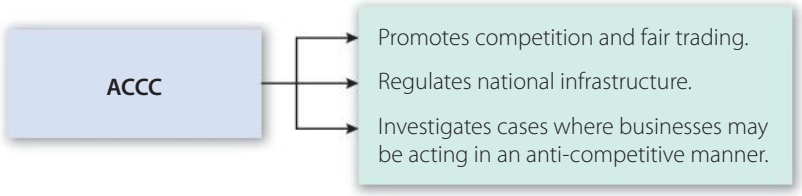


FIGURE 2.9 The role of the ACCC

EXAMPLE

The ACCC has investigated a number of cases and fined businesses for misleading their customers. When companies promote a product as having benefits that it does not have, consumers end up paying more for goods and services than they should. For example, in 2016 the ACCC won a court case against Reckitt Benckiser (Australia) Pty Ltd for contravening Australian consumer law. The court found the Nurofen Specific Pain products (such as for back pain and migraine pain) were not actually formulated differently to treat a particular type of pain, but instead used the same active ingredient as basic Nurofen. Standard Nurofen was cheaper, which meant that customers who bought the Specific Pain products were being deceived into paying extra for no reason. The company was required to pay a fine of $6 million for making misleading claims.

Fair Work Commission

The Fair Work Commission (FWC) is the national workplace relations tribunal. It was set up under federal government law, but operates independently of the government.

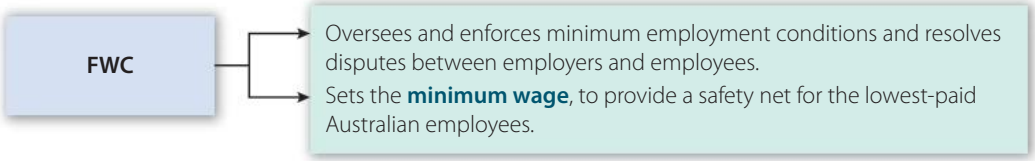


FIGURE 2.10 The role of the FWC

EXAMPLE

In early 2017, the FWC announced a decision to reduce Sunday and public holiday **penalty rates** for workers in the hospitality, retail and fast food industries. The decision followed a review of the employment arrangements for workers in these industries. Business organisations and union groups provided arguments to the FWC in order to inform the Commission's decision.

GLOSSARY

Minimum wage set by the Fair Work Commission in Australia, it is the minimum hourly rate of pay that a paid adult employee can receive for paid work; in 2017, the minimum wage was $18.29 per hour

Penalty rates an increased rate of pay for overtime or hours worked outside of normal working hours, such as on Sundays and public holidays

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The Australian Council of Trade Unions

The Australian Council of Trade Unions (ACTU) is the peak body for most of Australia's union organisations

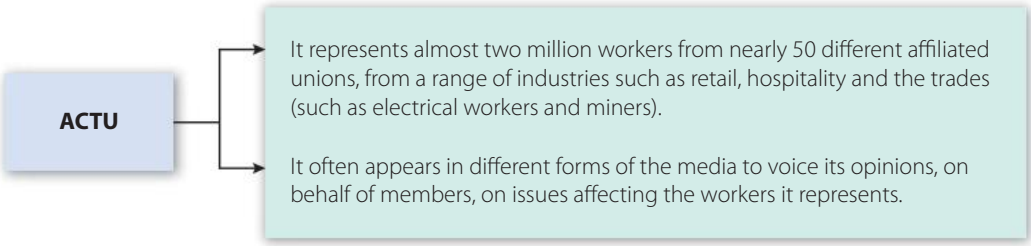


FIGURE 2.11 The role of the ACTU

EXAMPLE

The ACTU and several of its affiliated unions argued against the reduction of penalty rates by the FWC. The ACTU argued that the change would reduce the income of some of Australia's lowest-paid workers, thereby reducing the household budgets of those workers and worsening income inequality.



FIGURE 2.12 Former Australian Prime Minister, Julia Gillard, speaks to the ACTU congress in 2012.

Australian Chamber of Commerce and Industry

The Australian Chamber of Commerce and Industry (ACCI) is a pressure group. It is a representative business organisation that promotes the interests of industry groups and businesses. It represents industry peak bodies and state-based chambers of industry.



FIGURE 2.13 The role of the ACCI

EXAMPLE

The ACCI was one of the industry groups that supported the decision of the FWC to reduce Sunday and public holiday penalty rates for workers in the hospitality, retail and fast food industries. It argued that reducing penalty rates would allow small businesses (such as cafés, restaurants and small retailers) to open on Sundays and public holidays, as well as hire more staff and give more work hours to existing staff.

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REVIEW 2.2

1 Why do you think there are so many key players in the Australian economy?
2 Watch the *Role of the Reserve Bank* video in the online version of the textbook.
   a Apart from influencing interest rates, list two other things the RBA does to help the Australian economy operate smoothly.
   b Explain why it is likely that someone in your household or someone you know has received a cheque from the RBA.
3 Explain why the ACTU and the ACCI would have differing perspectives on the decision of the FWC to reduce penalty rates for some workers.

ACTIVITY 2.2 Create

ACCC and ACTU

1 Design a postcard that could be sent to all Australian businesses conveying the message that it is illegal to mislead customers by misrepresenting the benefits of their products to consumers.
2 Imagine that you have been appointed by the ACTU as a marketing officer. Prepare a one-page advertisement to encourage Australian workers to join a union.

2.3 Making economic decisions

Economic decisions are made all the time. Consumers decide what needs and wants they wish to satisfy; producers make decisions about what goods and services will be produced to meet these needs, and the best way to produce them. The government decides what goods and services it needs to provide and how it needs to regulate the activities of consumers and producers. The ACTU and the ACCI decide on how they will attempt to influence the operations of businesses and the economy.

Given that economic wants cannot all be satisfied due to limited supply, economic decisions involve opportunity cost. This means that when one alternative is selected, the benefits of another alternative will be forgone. This applies to consumers and producers, as well as to the government and the other participants in our economy.

EXAMPLE

Opportunity cost

Maiysha has decided to meet her friend who is backpacking in Europe. This means Maiysha can no longer afford to buy the new car she had been saving for as she will spend her money on her holiday instead. She will miss out on the benefits she could have received from buying the car, such as being able to drive to visit friends, rather than catch public transport.

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EXAMPLE

Economic decision

The federal government has decided to increase taxes on businesses that are heavy polluters. Should this money be used to improve hospitals and schools, for tax cuts or for environmental initiatives, or should it be distributed to increase Centrelink payments?

Satisfying every need and want for all members of society is impossible. Decisions about how limited resources should best be allocated always need to be made.

Economic decisions cannot be looked at in isolation because decisions made by consumers, producers, the government and the other participants in the economy have broader implications for the whole economy. They will affect the circular flow of income and the level of economic activity. There is now more focus and expectation that economic decisions will take other considerations into account, such as any impact on the environment. Figure 2.14 highlights some of the factors involved in economic decision-making.

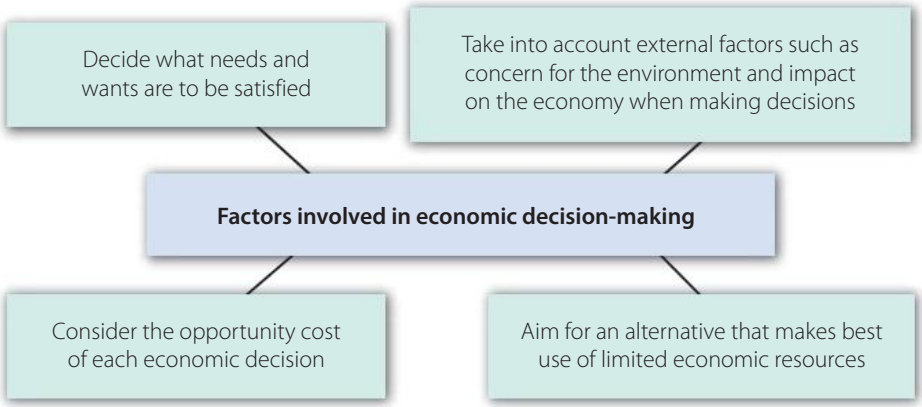


FIGURE 2.14 Factors involved in economic decision-making

Values affect economic decision making

Values are what people believe in and think are significant. Every individual has their own values system, which can influence the choices they make. In economics, the values shared by consumers, producers, trade unions, industry groups and governments can be quite diverse, and all those different values will influence economic decision-making.

GLOSSARY

Values what people believe in and regard as significant

REVIEW 2.3

1 Why is it not possible to satisfy every consumer need and want?
2 Why do you think most Australians are comfortable with paying extra tax in order to fund the NDIS (see example on p. 45)?

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EXAMPLE

Values affecting economic decisions

Economics looks at how to satisfy the needs and wants of the community and how the distribution of income and **wealth** generated in the economy should be shared between members of the community. In recent years, the federal government has rolled out a major new support system for people with disabilities and their families. The National Disability Insurance Scheme (NDIS) will help around 460 000 Australians to access better care and services, to improve their quality of life and help them participate fully as members of society. In order to fund the NDIS, the government increased the **Medicare levy**, which meant an increase in tax for every Australian worker. Most Australians support this change, even though it will mean an increase in tax and result in resources not being available for the provision of other services by the government. The decision to allocate resources to the NDIS reflects a shared value that every Australian should have access to a dignified standard of living and be able to function as a full member of society. As is clear from this example, value judgements do influence decisions made by consumers, producers and governments in a market economy.

GLOSSARY

Wealth the total amount of assets an individual has accumulated and owns – for example, value of housing, shares and amount held in bank accounts; can also refer to a country

Medicare levy a 2 per cent fee on taxpayers' taxable income that gives Australian residents access to free healthcare

ACTIVITY 2.3 Reflect

Values

1 Consider your own values. What decision would you make in each of the hypothetical situations described below?
   - **a** **You are a consumer**. Imagine that you are choosing between taking a holiday in Broome, Western Australia or travelling to Bali for a resort holiday, which would be significantly cheaper. Which would you choose and why?
   - **b** **You are a producer**. When manufacturing muesli bars, you have a choice of using organic, Australian-grown canola oil or imported palm oil, which costs less. The palm oil is sourced from plantations grown after bulldozing rainforest habitats. A number of groups have been lobbying to ban palm oil because of the impact on orang-utans. Which input would you choose? What values does your decision reflect?

ACTIVITY 2.4 Collaborate

Economic decision-making

This activity is available in the online version of the textbook.

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2.4 Measuring Australia's economic performance

Living standards

The ultimate measure of Australia's economic performance is the overall **standard of living** enjoyed by Australians. Living standards can be measured in terms of both the **material standard of living** of a person or society and the **non-material factors** that influence quality of life. Increased material comfort can be great, but there are many other factors aside from access to material things that contribute to our quality of life.

Economic activity helps to improve the standard of living of both individuals and the whole of society. This is because economic activity contributes to our material standard of living by allowing us to earn incomes we can use to purchase goods and services. Having a comfortable standard of living is also likely to enhance our non-material quality of life in some ways, by reducing stress and ensuring we can access healthcare and education that will enhance our quality of life.

It is also possible that economic activity can have a negative effect on our non-material living standards. This will be discussed later in this chapter.

Measuring the performance of Australia's economy involves collecting data on various indicators of economic performance. These include the level of economic growth, unemployment, inflation, sustainability, consumer and business confidence, and how well our quality of life compares with a global standard and those of other countries.

GLOSSARY

Standard of living an individual's material quality of life

Material standard of living the ability of individuals and households to purchase or access goods and services; sometimes referred to as 'material prosperity'

Non-material living standards those factors that influence a person's wellbeing that cannot be measured by monetary factors, but relate to quality of life

Economic objectives government goals or aims – for example, low unemployment, low inflation



FIGURE 2.15 A key goal for all participants in Australia's economy

GLOSSARY

Inflation an average rise in the general level of prices of goods and services over a period of time, leading to a reduction in the purchasing power of money

Macroeconomics the whole economy and the variables affecting it, such as unemployment, inflation, monetary and government budgetary policy

Microeconomics the behaviour of individuals and businesses within the economy and how they interact with the market

The federal government has a number of **economic objectives**, such as promoting full employment, strong economic growth and keeping **inflation** under control. Economic activity tends to fluctuate over time, so government policy-makers need to use a range of suitable **macroeconomic** and **microeconomic** policies to help keep the economy on track and meet their desired objectives.

Some of these objectives may be incompatible. Therefore, delicate decisions between conflicting economic objectives must sometimes be made. For example, meeting the objective of strong and sustained economic growth could make it difficult to achieve the objective of keeping inflation low, or the objective of being ecologically sustainable.

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REVIEW 2.4

1 For each of the following factors, decide whether it will influence material or non-material living standards, or both. Will the factor generally improve or worsen an individual's standard of living?
   - **a** improved access to healthcare
   - **b** access to green, outdoor environments
   - **c** higher levels of social conflict
   - **d** income tax cuts
   - **e** how happy you are in your job
   - **f** higher unemployment
   - **g** higher levels of education
   - **h** higher levels of wages
   - **i** reduced crime levels
   - **j** more noise and congestion on the roads
   - **k** quality of relationships
   - **l** shortages of many essential goods

GLOSSARY

Economic growth an increase in the real value of output produced in the economy over time, usually measured by increase in real GDP

Gross domestic product (GDP) a measure of the value of all goods and services produced in Australia during a year; obtained by adding together the total amount (in dollars)

ACTIVITY 2.5 Research

OECD Better Life Index

1 Which country has the better life?

Visit the OECD Better Life Index online.

- **a** What does the Better Life Index measure?
- **b** Decide on several factors you would like to compare. Use the tool on the first page to create your own Better Life Index based on what you value.
- **c** Collect data on Australia and two other countries of your choosing based on the factors chosen in part b.
- **d** Research reasons for variations between countries.
- **e** Write up a report comparing Australia's standard of living with that of other countries.

2.5 Economic growth and the economic cycle

As students of economics, you will have heard talk of 'economic growth', 'recessions', economic downturns, unemployment, booms, inflation and other terms that are used to refer to the overall 'health' of the Australian economy. All these terms relate in some way to the level of economic activity. When the level of economic activity is too high or too low, it can create economic problems. It can compromise the 'health' of the economy.

The economic cycle is the name given to the fluctuations that occur in an economy over a period of time. Generally, governments aim for positive economic growth, since this means more jobs are created, more consumer needs and wants can be met and a higher standard of living can be enjoyed by citizens.

Economic growth gives a good economic picture of the health of the economy. The commonly used measure of economic growth is **gross domestic product (GDP)**. GDP is measured by adding together the total amount (in dollars) of all goods and services produced in Australia during a year. It is also often expressed in percentage

Note that although GDP is measured over a 12-month period, the GDP figures are released every 'quarter' – at the end of three months.

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terms to make comparisons between periods easier. If the rate of growth of GDP is greater than 0 per cent, this represents positive growth, whereas a figure below 0 per cent represents negative growth. A rate of GDP growth of 3 per cent, for example, indicates that the value of goods and services produced in the economy this year is 3 per cent greater than last year.

When assessing how much an economy's output has increased, it is important to remove the effects of increasing prices. If the value of a nation's output increases just because average prices have increased, this means there has been no increase in the real amount of actual output. This measure is referred to as 'nominal' GDP – GDP in dollar terms.

To illustrate, imagine that a nation produced $100 million output in Year 1 and $110 million in Year 2. If everything also cost 10 per cent more in Year 2 compared with Year 1, there has been no real increase in output – just an increase in average prices. The physical amount of output will not have changed, so there has been no increase in the amount of goods and services available to the consumers in the nation. Growth in **real GDP** removes the effects of increasing prices.

Growth in real GDP means that the real amount of goods and services produced in a country is increasing, which usually means that consumers also have access to more goods and services, and their material living standards are improving. A more accurate measure of improving material living standards is the increase in **real GDP per capita**, which takes into account the increase in population. The growth in real GDP is compared with the increase in the population among whom the output will be shared.

Table 2.1 shows the difference between growth in Australia's GDP, real GDP and real GDP per capita between 2014 and 2017. The measure is from July in the first year to June in the second year. This is called a 'financial year'.

GLOSSARY

Real GDP the value of output produced in a country over time, after removing the effects of changes in prices

Real GDP per capita the value of real output in a country divided by its population

TABLE 2.1 Growth in nominal GDP, real GDP and real GDP per capita, 2014–17

Measure	July 2014–June 2015	July 2015–June 2016	July 2016–June 2017
GDP (nominal)	1.7	2.4	6.0
Real GDP	2.4	2.7	1.9
Real GDP per capita	1.0	1.3	0.4

Source: ABS, *Australian National Accounts: National Income, Expenditure and Product* (2017).

Limits of GDP in measuring living standards

There are some limitations of real GDP growth (and real GDP per capita) as indicators of living standards. These include:

- Real GDP does not measure all the activity that contributes to people's material standard of living. For example, it does not measure activity that improves our lives but is not traded in the market. This includes home-cooked meals, unpaid care and home-grown food.
- Real GDP does not consider whether increased output has resulted in people having less leisure time or being more stressed. It also does not consider the possible harmful side-effects of increases in output, such as more pollution being created as the economy grows.

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- Real GDP does not measure 'black market' activities, such as bartering and cash transactions that are not reported, or illegal activity.
- Real GDP per capita provides an average measure, but it does not tell us how the output is distributed. It is possible that some people receive a very large share of the output, while others receive a much smaller share.

The economic cycle: How GDP can vary over time

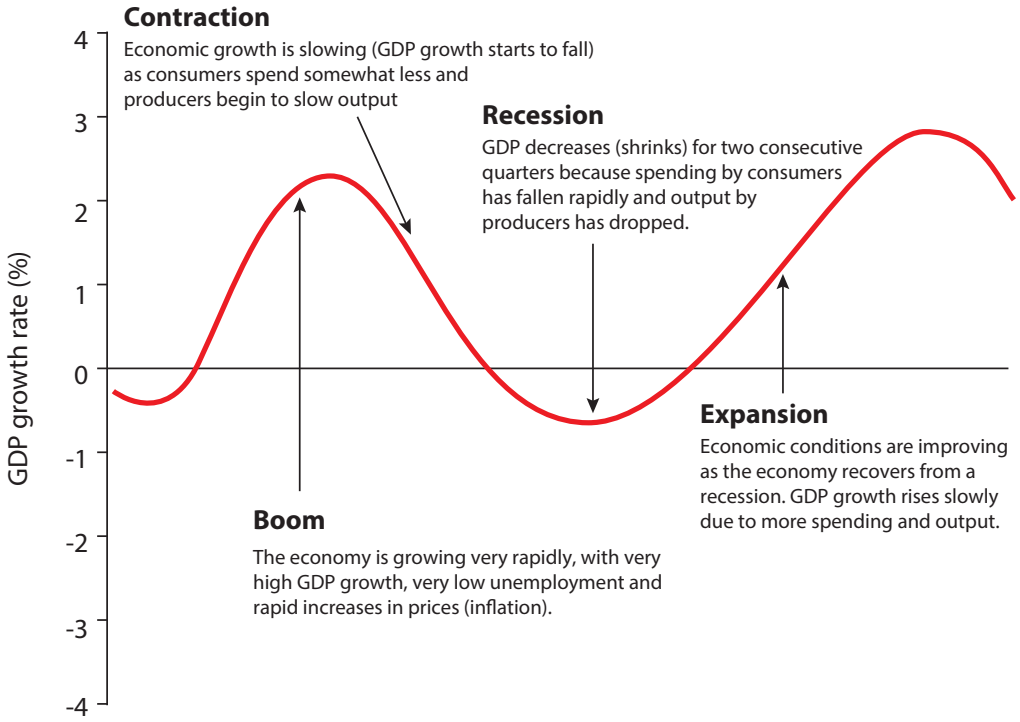


FIGURE 2.16 The economic cycle

Thinking back to the circular flow model of the economy, there are a number of reasons why the level of economic activity can fluctuate over time. These include the following:

- If consumers or businesses feel very positive (they have high levels of confidence), they may choose to borrow and spend more. This encourages more output and higher GDP.
- If Australian consumers choose to buy a lot of products (**imports**) from other countries instead of from Australian producers, this reduces the level of spending and GDP falls.
- If foreigners decide they particularly like Australian products – for example, if our pristine beaches and wide open spaces attract lots of tourists – we may end up selling a lot more products to overseas customers (**exports**), so more need to be produced, more jobs need to be filled and GDP rises.
- If the federal government decides to reduce the amount of tax all **PAYG taxpayers** pay on their salaries and wages, people have more money to spend so producers need to produce more output, and GDP rises.

GLOSSARY

Imports goods and services purchased from an overseas seller and sold in the Australian market

Exports goods and services produced in Australia and purchased by overseas countries

PAYG taxpayers those who work in wage or salary jobs and pay income tax instalments each time they receive a payment from their employer

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REVIEW 2.5

1 Describe the differences between GDP, real GDP and real GDP per capita, and identify which provides the best measure of material living standards in a country.
2 Look at Table 2.1. Which measure has grown the fastest and the slowest between 2014–15 and 2016–17? Use the data in the table. Can you think of a reason why the measures are growing at different rates? (*Hint:* it relates to what each measures.)
3 List two limitations of real GDP as a measure of living standards. Identify two examples of activities in which you participate that would not be included in GDP but that contribute to your standard of living.
4 Explain in your own words why economic activity fluctuates over time.
5 Explain the likely impact on GDP (economic growth) of each of the following. To answer, think about whether the event will encourage or discourage spending and production in the economy. The first one has been done for you.
   a The US government imposes taxes to discourage Americans from buying products from other countries. *If the US government made it more difficult for Americans to buy products from other countries, they may stop purchasing so many Australian products. This would lead to a decrease in exports from Australia. If Australian producers are selling fewer products, they will probably reduce their output, and this will reduce GDP.*
   b The enormous popularity of smartphones means Australians are buying a lot more iPhones, Samsung Galaxies and Google Pixel phones. They are all made overseas.
   c The government announces it is going to spend an extra $10 billion on building new roads next year. This will create more jobs.
   d Consumers feel pessimistic about their current employment conditions (they are worried they may lose their jobs), so they save more.
   e The federal government increases the Medicare levy paid by all taxpayers.
   f Banks are worried about instability in the global financial system, so they make it harder for consumers and businesses to borrow money.
   g Chinese factories decide to increase the amount of coal and iron they buy from Australia in order to expand their steel production.
6 What is an **economic recession** and why might it be undesirable for consumers, producers and the government?
7 Consider each of the situations below and explain whether you think it best describes an economic contraction, recession, expansion or boom.
   a very strong consumer confidence; low unemployment; strong retail spending; rapidly rising prices
   b consumers very nervous about the state of the economy; difficulty finding a job; consumers not spending on luxury items
   c consumer confidence improving; more jobs becoming available; consumers starting to spend more freely.

GLOSSARY

Economic recession when GDP declines for two consecutive quarters, there is a decline in demand from consumers and a drop in output by producers, and the employment market is weak

Extension activity: To investigate the circular flow model in more detail, download the worksheet 'What is an economy?' from the online version of the textbook.

ACTIVITY 2.6 Create

The Great Depression

1 Between 1929 and 1932, Australia (along with much of the rest of Western society) experienced an economic depression. Find out how a recession differs from a depression.
2 Called the Great Depression, this was a time of despair for many Australians, with an unemployment rate of over 30 per cent, and much poverty and hunger. Prepare a collage of words and pictures that conveys the mood of the Great Depression and why governments would wish to avoid a situation like this happening ever again.

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CASE STUDY 2.1

When economic growth is too low: The Global Financial Crisis

This case study is available in the online version of the textbook.

Current Australian economic growth performance

Since the end of the Global Financial Crisis (GFC), the Australian economy has been in the 'expansion' stage of the economic cycle. Australia has consistently experienced economic growth as GDP has grown in almost every quarter. This is shown in Figure 2.17. In the last decade, Australia's GDP has grown more slowly than in the preceding 10 years. This can be seen in Figure 2.17 where the 'Year-ended' GDP growth is on average closer to 2 per cent, while it was more often closer to 3 or 4 per cent between 1997 and 2007.

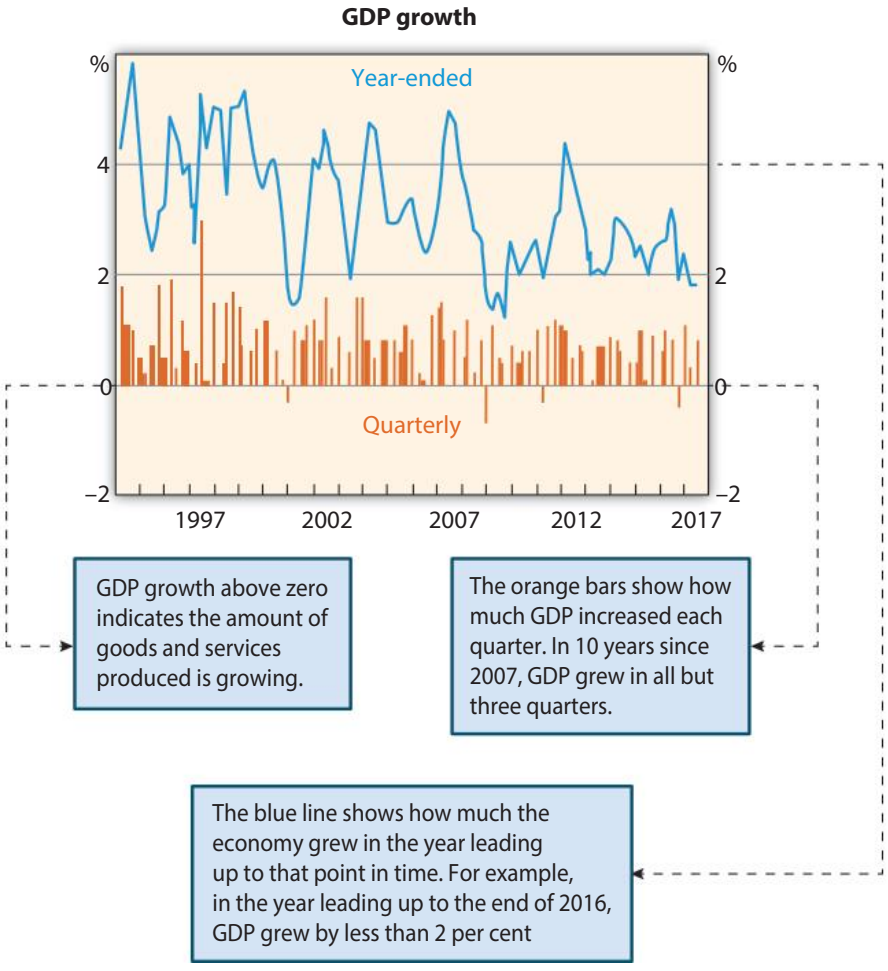


FIGURE 2.17 GDP growth

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Interpreting economic charts

The ability to interpret reports about current national economic conditions and explain how these can influence the decision-making process of consumers, producers and government policy-makers is an important skill.

For many people, it is easier to understand economic data presented in a graph than the same information presented in table or written format. In fact, every graph tells a story, and being able to interpret this story will help you to understand more about how Australia is performing as a country.

A few tips on reading economic graphs/charts:

- Explain what is being measured in the graph.
- Describe the general 'trend' in the data – is it going up or down overall?
- With data that measures growth in something positive (such as economic growth), an upward trend is favourable and a downward trend is unfavourable

Two measures that have a significant effect on the willingness and ability of households and businesses to borrow and spend, and that therefore affect economic growth, are business confidence and consumer confidence (also called consumer sentiment).

Business confidence

Expressed as a percentage above or below zero, business confidence indicates how optimistic (above 0) or how pessimistic (below 0) businesses feel about the company's prospects.

Consumer confidence

Expressed as a number above or below 100, consumer confidence indicates how optimistic consumers are feeling about their current economic situation, such as incomes and jobs. A measure above 100 means there are more optimists than pessimists and a number below 100 means pessimists outweigh optimists.

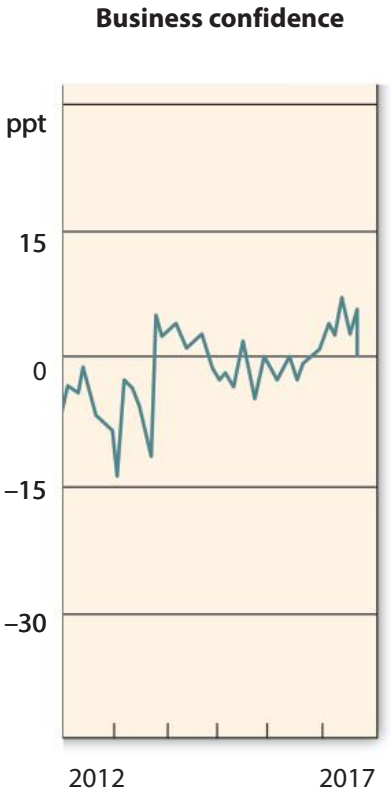


FIGURE 2.18 Business confidence

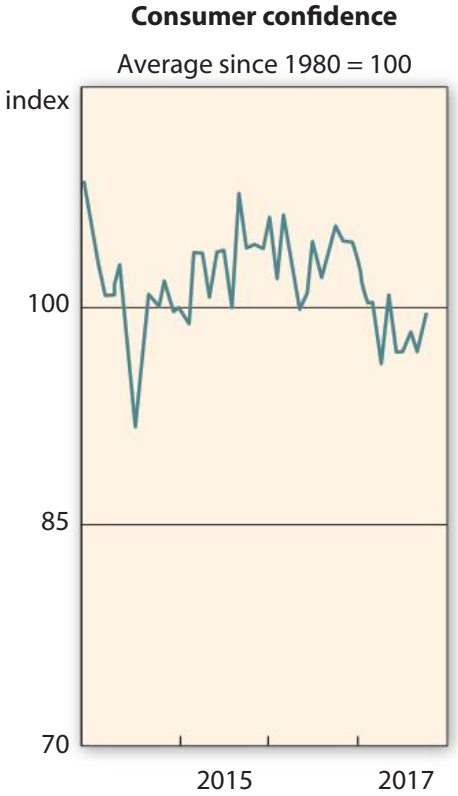


FIGURE 2.19 Consumer confidence

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REVIEW 2.6

1 Look at the two charts of business confidence in Figure 2.18 and consumer confidence in Figure 2.19. For each graph, comment on:
   - **a** what the graph represents and what it says about current levels of confidence in the economy
   - **b** whether the recent levels of confidence shown in the charts are likely to be positive or negative for economic growth
   - **c** whether there is an alternative way to present this information that may be easier to understand.

ACTIVITY 2.7 Research

Economic data

For this activity, you need to collect charts of economic data.

1 Go to the Reserve Bank of Australia (RBA) or Australian Bureau of Statistics (ABS) websites and find some economic charts.
2 Download or print off at least three other economics graphs that contain information on current national economic conditions. For each graph, explain what the graph represents and describe the trend in the economic data over the last three years.

Other indicators of Australia's economic performance

We can use economic growth as one measure of the performance of Australia's economy. In order to assess the performance of the Australian economy, a range of other economic measurements or indicators can also be used.

Table 2.2 identifies some of the key economic indicators used in Australia. We have already considered GDP previously.

TABLE 2.2 Some key economic indicators

Key economic indicator	Description of economic indicator and how it is measured
Gross domestic product (GDP)	An important measure of economic activity, as it measures the estimated total amounts of goods and services produced in Australia in a year.
Inflation rate	Expressed as a percentage, inflation is measured by the Consumer Price Index (CPI).
Unemployment rate	Expressed as a percentage, the unemployment rate is a measure of the number of people aged over 15, actively seeking work but not able to find it.
Measures of Australia's Progress (MAP)	Expressed in terms of performance on a series of measures, MAP is designed to help answer the question 'Is life in Australia getting better?'
Sustainability indices	The Dow Jones Sustainability index, which assesses the environmental, social and economic sustainability of corporations.

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2.6 Measuring and tackling unemployment

Unemployment results when an economy is unable to generate enough jobs for those workers who are willing and able to work. Traditionally, an important economic objective of successive federal governments is to provide **full employment**.

The Australian Bureau of Statistics (ABS) measures the level of unemployment. To be classified as unemployed, a person must be aged over 15, actively seeking work and not currently working. The ABS defines employed persons as: 'All persons aged 15 years and over who (during the week of the employment survey) worked for one hour or more for pay, profit, commission or payment in kind in a job or business or on a farm.' This means that those working more than one hour per week in paid employment will not be classified as unemployed, even if they would like to work more hours than they currently do. An example of ABS classifications is shown opposite.

GLOSSARY

Full employment a situation where every person who is willing and able to work is able to find employment

Participation rate the percentage of the population making itself available for work

The unemployment rate can be influenced by the **participation rate**. A higher participation rate means more people are actively seeking work, potentially increasing the unemployment rate if those people are unable to find a job.

There are different classifications of unemployment. Table 2.3 summarises the main types of unemployment experienced in Australia.

TABLE 2.3 Types of unemployment

Type of unemployment	Explanation
Seasonal unemployment	Factors usually related to the climate that cause some workers to be out of work at certain times of the year *Example:* cherry pickers are very busy during the summer months, but may struggle to find work at other times of the year.
Structural unemployment	Where workers have skills that are not needed by the jobs that are available, often as a result of changes to the way the economy is structured and operates *Example:* many manufacturing workers have been replaced by machinery and robotics, which results in unemployment if workers are unable to retrain for new positions
Cyclical unemployment	Changes in the economic cycle, such as a downturn in the Australian economy *Example:* a drop in demand for workers producing particular goods and services, leading to job losses
Frictional unemployment	When people are leaving one job to look for another, there will often be a short time of unemployment before a new position is found.
Long-term unemployment	These are people who have been out of work for 12 months or more and struggle to find jobs, possibly due to lack of education or skills, or because of personal problems.

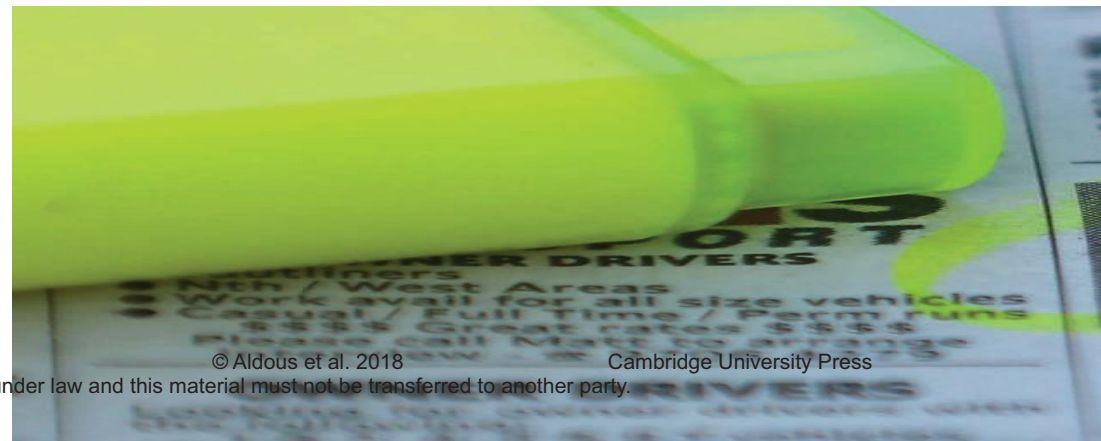


FIGURE 2.20 Searching for work can be time-consuming, overwhelming and stressful.

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EXAMPLE

ABS unemployment classification

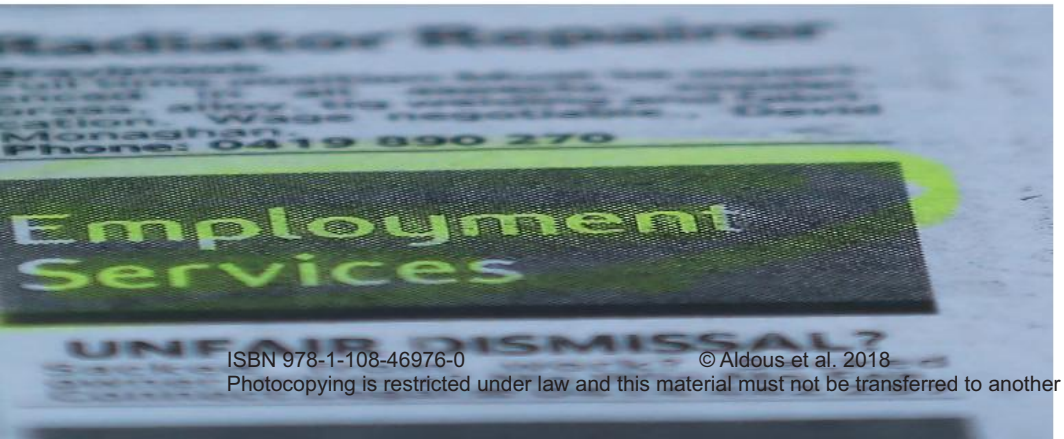
Lily currently works eight hours a week at a supermarket, but wishes she were in full-time employment. Peter is ready to start work at any time but currently is not employed anywhere and is actively seeking a job.

In these examples, Peter is classified as unemployed – he is actively seeking work and currently does not work at all. However, Lily is not classified as unemployed because she is working for more than one hour each week in paid employment.

REVIEW 2.7

1 Explain the difference between frictional unemployment and seasonal unemployment.
2 Explain the difference between structural unemployment and cyclical unemployment.
3 Why do you think achieving an unemployment rate of 0 per cent is unrealistic and undesirable? (*Hint:* Consider frictional unemployment in your answer.)
4 Carefully consider each of the following unemployment scenarios.
   - Categorise each as being seasonal, structural, cyclical, frictional or long-term unemployment. Explain the reasons for your answer.
   - Provide some advice to help these unemployed job-seekers find jobs.
   - Of the five unemployed scenarios, are there any people who you believe will find getting a job more difficult? Explain.

   a **Scenario 1:** Aahana resigned from her teaching job last week, as she felt it was time for a change. Although not working at the moment, Aahana has already lined up three interviews next week for work in the hospitality industry.
   b **Scenario 2:** Tomalee has been actively seeking work for two years after losing her last job due to an alcohol addiction. Tomalee has turned her life around now and is hoping an employer will give her a chance.
   c **Scenario 3:** Guillaume has spent the summer outdoors picking strawberries at a strawberry farm. Now that summer is over, Guillaume is struggling to find similar work.
   d **Scenario 4:** Pablo lost his job four weeks ago when the car manufacturer for which he was working closed. In fact, all the workers in Pablo's factory lost their jobs when the manufacturer ceased production in Australia.
   e **Scenario 5:** A large downturn in the Australian economy has seen a drop in the number of people going on holidays. This has led to Anushri losing her job as a tour guide. She is now actively seeking work in other areas of the tourism industry, but with the economic downturn, no one is hiring.



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What the government can do to manage unemployment

Why is unemployment a problem? Think back to the circular flow of income. High unemployment affects the performance of the economy. Unemployed people earn much lower incomes (or no income) compared with those in work. This means that they have less money to spend in the economy, which in turn impacts on economic growth and makes achieving other government economic objectives difficult.

Unemployment often rises when economic growth is too slow because businesses don't need as many workers to produce output – for example, during a contraction (downturn) and definitely during a recession.

Other positive reasons for the government to prioritise keeping unemployment low include the following:

- **Reducing the need for welfare payments.** High unemployment results in more government spending on welfare.
- **Social benefits.** Being unemployed can affect a person's self-esteem and opportunities for social contact with other people.
- **Unemployment is an inefficient use of resources.** Labour resources are sitting idle and not being used efficiently, as they would in the workplace.

Figure 2.21 outlines some of the policies governments can use to tackle unemployment.

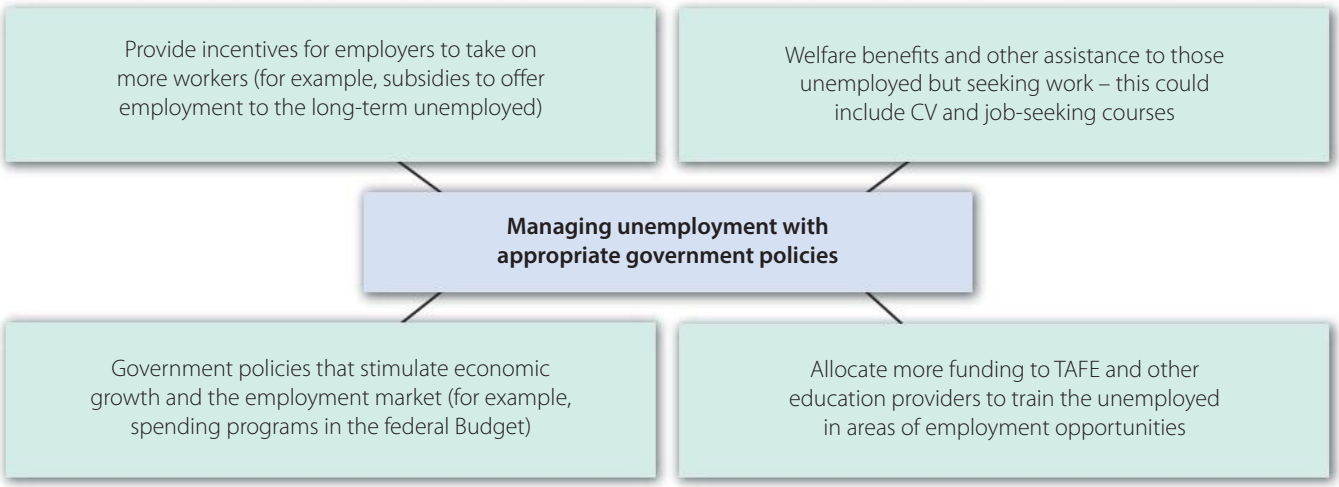


FIGURE 2.21 Managing unemployment

REVIEW 2.8

1 Describe how the official rate of unemployment is measured and who measures it. Given that someone working only two or three hours a week in paid employment is not classified as unemployed, do you see any problems with this measurement? Does it accurately reflect the impact of a lack of employment on Australia? Explain.

2 The graph in Figure 2.22 shows the unemployment rates between September 2016 and September 2017. Describe the trend in unemployment. What reasons can you give for Australia's rate of unemployment not changing significantly over the 12-month period?

3 Due to an unemployment rate of 5.5 per cent in September 2017:
   - There were just over 13 million Australians in the labour force.
   - Of those in the labour force:
     - 12 290 200 were employed
     - 711 500 were unemployed.

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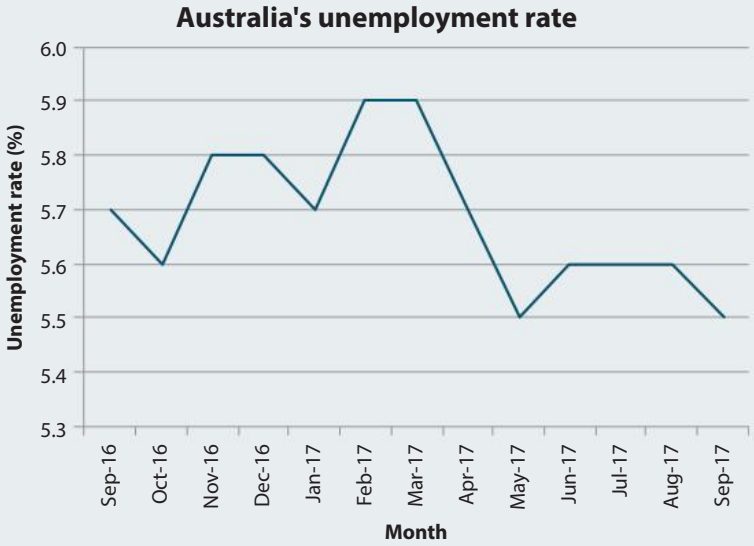


FIGURE 2.22 Australia's unemployment rate, September 2016 to September 2017

Source: Seasonally adjusted data taken from ABS, *Labour Force Figures, September 2017*.

Consider the figures provided. Reflect on whether you think the Australian government and broader Australian community would be happy with the current level of unemployment in Australia. Use at least two pieces of data in your answer.

4 According to the definition provided by the ABS, which of these people are considered unemployed? Give reasons for your answer.
- Tina currently spends three hours a day applying for positions advertised in the newspaper. She is ready to start a new job today as she currently doesn't work.
- Juan is a Year 9 student aged 14 years and nine months. He has begun the search for a casual after-school position.
- Gabriella works three hours a week at a newsagency. As this does not provide her with much income, she is very keen to take on more hours in another position.
- Phillip was injured in a fall last week in his job as a painter. As he now has six weeks' paid sick leave owing, he has decided to use this before returning to his job.

5 Finding employment can present extra challenges for some groups in Australian society, such as those lacking experience, with a disability or with language difficulties. In your notebook, complete the following table by outlining the challenges and advantages you think each of these groups may face when applying for jobs.

Type of person	Potential challenges they may face when looking for a job	Positives of employing this type of person
A 16-year-old school leaver looking for their first job		
A newly arrived immigrant where little English is spoken at home		
A 47-year-old woman trying to return to the workforce after spending the last 20 years raising a family		
A 25-year-old paraplegic man		
A 32-year-old accountant who has recently finished a two-year prison term for criminal offences		
An 18-year-old Indigenous woman moving to Melbourne to look for her first full-time job		

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CASE STUDY 2.2

Unexpected economic consequences of unemployment

Unemployment falls, but under-employment is rising

In recent years, Australia's unemployment rate has been trending downwards while the **under-employment** rate has been trending upwards. The rise in the under-employment rate has led to a growing sentiment that the level of slack in Australia's labour market is not wholly represented by the unemployment rate, and that it is increasingly important to consider the under-employment rate.

- The International Labour Organization (ILO) defines under-employment as the under-utilisation of the productive capacity of the employed population.
- The under-employed [are] those in the employed population who are willing and available to work more.
- Since 2003, the under-employment rate has been higher than the unemployment rate.
- The 15–24 years age group has consistently had the highest under-employment rate.

The prevalence of under-employment has consistently been greatest in the lower skilled occupation groups, and lowest in the higher skilled groups.

Source: ABS.

Questions

Read the article 'Unemployment falls, but under-employment is rising', then answer the following questions.

1 Explain the difference between unemployment and under-employment.

2 Classify each of the following people according to whether they are unemployed, under-employed, fully employed or not in the labour force (not working and not seeking a job). Explain your classifications and compare them with those of a classmate.
- **a** a 15-year-old Year 10 student, studying full time.
- **b** a café employee who works 20 hours a week but wants more shifts.
- **c** a nurse who happily works part time because he looks after his children the rest of the time
- **d** a full-time warehouse forklift driver who is on paid leave from her job
- **e** a hairdresser who works a total of 40 hours a week at two different salons
- **f** a qualified gym instructor who has applied for 15 jobs this month but can't find employment
- **g** a retired teacher who does 10 hours' voluntary work each week.

3 Which particular workers does under-employment affect the most? Consider how under-employment might affect living standards.

GLOSSARY

Under-employment those who are employed but are available and want to work more hours than they do

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ACTIVITY 2.8 Research

JobActive

JobActive is the federal government employment service designed to help Australians into work and help employers find the right staff for their business.

1 Visit the JobActive website and choose one of the programs offered by the government to assist employers to find staff or job-seekers to find employment.
2 Create a poster explaining what is on offer from the particular program, how it might help reduce unemployment and why this might benefit the Australian economy.

2.7 Measuring and tackling inflation

Consumer Price Index (CPI) comparison of the costs of a basket of goods to see what price movements there have been over time

Inflation is an economic issue that has the potential to greatly influence the performance of the Australian economy. Inflation occurs when the average price level of goods and services rises over time. Inflation is often referred to as an increase in the 'cost of living'.

The ABS measures inflation using the **Consumer Price Index (CPI)**. The inflation rate is usually expressed as an annual rate. During the 1970s and 1980s, Australia had very high levels of inflation, with some years experiencing rates in excess of 15 per cent. Currently, the government and the Reserve Bank of Australia consider an inflation rate of between 2 and 3 per cent each year to be an acceptable and healthy level of inflation. This is called the inflation target.

EXAMPLE

In 1976 inflation was at 14 per cent. Therefore, if your trolley of shopping items at the supermarket cost $100 at the beginning of that year, by the end of the year the same trolley of groceries would cost you approximately $114.



Year 1 Year 2

FIGURE 2.23 In 1976, inflation was at 14 per cent.

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GLOSSARY

Regimen the basket of goods and services (approximately 100 000 items) that make up the main purchases of households in the eight Australian capital cities. It is used by the ABS to measure the CPI

Economic boom when GDP grows rapidly, with a strong employment market and strong spending and confidence shown by consumers and producers

The CPI

Every three months, the ABS collects prices on the same basket of goods and services. This basket, also called the **regimen**, includes over 100 000 products that are purchased by consumers. The basket is then divided into 11 categories. In order to determine whether average prices have risen, the ABS weights each of the price changes according to the percentage of household expenditure spent on that product. For example, the transport category accounts for nearly 12 per cent of household spending, whereas clothing and footwear only account for 4 per cent of spending. Increases in the price of transport (such as higher petrol prices and increases in public transport fares) would be weighted more heavily than increases in the prices of clothing. This is because increases in the price of transport would have more impact on a household's cost of living than increases in the price of clothing.

To calculate the rate of inflation, the ABS compares the cost of purchasing the 'basket' in one period of time with the cost of purchasing the basket in the previous period. The increase in the cost becomes the rate of inflation.

Possible reasons for high inflation

The following are the main reasons for high inflation:

- **Strong economic growth**. During an **economic boom**, the economy is growing at a rapid rate and production is at capacity so it can be difficult for producers to access more resources to increase their output. Producers and retailers may increase their prices to take advantage of the strong economic climate.
- **Inflationary expectations**. This can be a problem during times of high inflation if consumers believe prices will keep increasing at a fast rate. Workers (who are also consumers) may demand large pay rises to compensate for the expected future higher inflation rate.
- **Costs of inputs**. Substantial rises in the cost of inputs, such as petrol or wages, can flow through to the wider economy and put pressure on the inflation rate.

FIGURE 2.24 Over-inflation can severely impact the day-to-day life and budgets of Australian families.



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Effects of inflation

Inflation has a number of undesirable side-effects.

Gap between rich and poor

High inflation can make the gap between rich and poor much bigger. This is because inflation leads to a redistribution of income, making some better off and some worse off during inflationary times.

Those on fixed government benefits, such as pensioners or people on unemployment benefits, will find the purchasing power of their income reduced. They will be less able to afford goods and services unless their benefits are increased substantially. In contrast, people owning assets such as property are usually better off, as the value of these assets tends to rise during times of high inflation.

Economic performance

Inflation can unfavourably affect the performance of the economy. In times of rising oil, grocery and energy prices, consumer confidence can fall as airfares, petrol and electricity bills all go up in price. Increasing prices of necessities means less money is available for general retail, unfavourably affecting this sector of the market.



ACTIVITY 2.9 Research

CPI and inflation

1 Visit the Australian Bureau of Statistics (ABS) website.
   - **a** On the front page is data for key economic indicators. Record the current CPI figure. Is the current rate within the RBA's 'target band' for inflation of 2–3 per cent? Explain whether inflation in Australia is currently too high, too low or 'just right'.
   - **b** Click on the CPI link and find the 'Explanatory Notes' tab. Compile a list of all the main categories of items included in the CPI. Next to each category, list two items you or your family purchase that would be included in calculating the CPI.
   - **c** Use the list of CPI categories created in part b. Rank the categories from the category on which you think your family spends the most to the least.
2 At home, talk to members of your family about recent price changes. Do they think inflation is currently high or low? Ask them to identify which prices are rising most rapidly, and which prices are not rising rapidly.
3 Describe the importance of low inflation to the performance of the economy.
4 At the end of World War II, the German government printed huge amounts of money to solve the country's severe economic problems. Type the words 'Germany hyperinflation' into a search engine to research how effective this strategy was. From your research, explain why all governments don't just print more money to pay off their debts.

What the government can do about inflation

The RBA implements and provides the direction for monetary policy in Australia. Monetary policy is a strong economic tool that can be used by the RBA to help keep inflation under control. The RBA has set a medium-term objective for inflation of between 2 and 3 per cent. If the RBA does change interest rates, the effect flows through to economic activity. An increase in interest rates equals a rise in the cost of borrowing, and this generally leads to a slowdown in consumer and business

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FIGURE 2.25 The Reserve Bank of Australia

spending. Conversely, a decrease in interest rates equals a fall in the cost of borrowing money. This generally leads to an increase in consumer and business spending.

If the RBA believes that inflation is likely to be too high in the near future, it is likely to increase interest rates to slow the economy down and reduce inflationary pressures. Higher interest rates mean higher loan repayments for both households and businesses. This means consumers will have less cash left over for shopping, reducing retail sales and taking pressure off prices.

REVIEW 2.9

Copy the following passage about interest rates and inflation into your notebook, filling in the blanks with the correct words from the list, or complete the exercise in the online version of the textbook.

save	RBA	inflation
living	Tuesday	decrease
contraction	consumers	monetary
2–3 per cent	borrowing	spending

1 Interest rates and inflation

In Australia interest rates are set by the _____. The use of interest rates to influence the economy is called _____ policy. One of the main aims of this policy is to control _____ so that the cost of everyday _____ doesn't rise too much. The RBA meets on the first _____ of every month to determine whether interest rates will increase, _____ or remain unchanged. During an economic _____ it is likely that interest rates will be reduced to try to increase _____. This will happen because it is now cheaper to borrow money. Increased borrowing and spending will lead to an increase in inflation, to bring it back within the range of _____ targeted by the RBA. In contrast, when the economy is growing too rapidly, inflation will be high and it is likely interest rates will be raised to encourage _____ to _____ more. Raising interest rates increases the cost of _____ money.

REVIEW 2.10



FIGURE 2.26 Housing loan interest rates and the RBA cash rate

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1 Look at Figure 2.26, which shows Australia's housing loan interest rates over time.
   a Describe the trend in housing loan interest rates since 2012.
   b Explain the likely effect on Australia's economy of the trend you described in part a.
2 You are a member of the RBA Board for the day. Examine the hypothetical data in the two scenarios below. For each scenario, explain what the RBA should do and why. In your answer, explain the likely impact on spending, economic growth and inflation of *your* RBA decision, and why this is important.
   a **Boom! Boom! Boom**! After several years of extremely low interest rates, Australia is booming. China has increased its demand for our exports of coal and iron ore. The unemployment rate is very low and producers say they are finding it difficult to find skilled workers to fill job vacancies. In fact, they have had to offer higher wages to attract good staff. Because of this, they will also have to raise the prices of what they sell in order to cover their higher costs. Consumers are feeling quite confident and they are borrowing a lot, spending heaps and saving very little of their income. The ABS has reported the CPI inflation rate was 5 per cent last year.
   b **Consumers feeling bleak.** Unemployment has been rising in recent years. More and more people are reporting difficulty in finding employment as businesses have stopped hiring. Producers say that consumers have just stopped spending, since they seem to be saving a lot more than usual. The ABS has reported the CPI showed **deflation** last year as the average price of consumer items actually fell.
3 What effect would a substantial rise in interest rates have on each of the following groups:
   a a family with four young children and a home loan
   b a young couple with no loans who have $50 000 invested in an internet savings account
   c a new small business owner who has borrowed substantially to open a business?

CASE STUDY 2.3

Unintended consequences of economic decisions

This case study is available in the online version of the textbook.



GLOSSARY

Deflation when the average price of goods and services falls over time

2.8 Measures of Australia's Progress (MAP)

A number of criticisms have been made of economic measures such as GDP, unemployment and inflation in terms of their appropriateness as measures of Australia's living standards. One of these is that they do not measure all those non-material factors that influence the quality of life of Australians.

The Australian Bureau of Statistics has developed a publication called *Measures of Australia's Progress (MAP)*, which is designed to help Australians address the question, 'Is life in Australia getting better?' *MAP* measures much more than just GDP in order to give Australians the information required to answer this question for themselves.

The ABS has collected data across four 'domains' that it believes represent the most important areas that Australians consider when determining whether or not life is getting better for Australians on average. In other words, is Australia 'progressing' in each of these four areas, or are we going backwards as a country?

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The four 'domains' of *MAP* and what Australians *aspire to* in each domain are outlined in Table 2.4. You will see that 'the economy' is only one of the four areas considered important by Australians when judging their own quality of life and Australia's progress.

TABLE 2.4 The four 'domains' of *Measures of Australia's Progress* (*MAP*)

Society *Australians aspire to:* Positive human relationships, health and wellbeing, positive social cohesion, access to opportunities for everyone	**Economy** *Australians aspire to:* Business and employment opportunities, safe and satisfying jobs, sufficient income, fair distribution of economic prosperity, a resilient and sustainable economy
Environment *Australians aspire to:* A healthy natural and built environment that can be sustained for future generations, working together to protect and sustain the environment	**Governance** *Australians aspire to:* A free society where the governance processes, systems and institutions that regulate our lives are trusted and everyone is able to participate in decision-making that affects their lives

REVIEW 2.11

1 In your own words, explain why *MAP* might provide a better indication of Australia's living standards than just using GDP.
2 Look at the four 'domains' measured in the *MAP*. Rank the four domains from the most important to the least important for you in terms of your own living standards and quality of life. Compare your response with that of a classmate, and discuss how your ranking is influenced by your own values.



ACTIVITY 2.10 Research

Measures of Australia's Progress

1 Watch the *What is MAP*? video in the online version of the textbook.
   a Record the meaning of each of the four coloured symbols used to measure performance.
   b Choose three 'headline progress indicators' (measures) for each of the domains. In a table like the one below, record the name of the measure and how we are performing in that measure.

Society	Economy
1	1
2	2
3	3
Environment	**Governance**
1	1
2	2
3	3

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c Choose one of the indicators where there is a 'data gap'. Why do you think we don't have a measure for this indicator? Do you personally think it is important to measure this indicator? Explain your response.

2 Using what you have learned and the data you collected from the ABS *MAP* page, respond to the following statement: 'Overall living standards have not improved in Australia in recent years.' You could draft a written response, or create a postcard or annotated poster or PowerPoint presentation. Your response needs to address performance in different areas of *MAP*, and to refer to both material and non-material living standards.

2.9 Measuring sustainability

The economic problem is that human needs and wants are unlimited, but the resources used to satisfy them are limited. Those resources include the natural resources provided by our environment – and we live on a finite planet.

Increasingly, businesses and government are measuring the **sustainability** of production and consumption. In 1987, the United Nations defined 'sustainable development' as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. Think carefully about what this might mean. It would include living in a way that means the environment and the planet remain in good condition for future generations. We would need to avoid depleting natural resources or polluting our environment so much that future generations wouldn't be able to have the same quality of life that we do. We will consider two ways by which sustainability of production and consumption could be measured.

GLOSSARY

Sustainability avoidance of the depletion of natural resources in order to maintain an ecological balance

Greenhouse gas emissions

Australia is a signatory to the United Nations Framework Convention on Climate Change (UNFCCC). The UNFCCC began in 1994 in recognition that the world was facing a potential catastrophe with the rise of human-induced climate change. At numerous meetings since then, the UNFCCC has agreed to actions to reduce greenhouse gas emissions (GHG) in an effort to avoid dangerous climate change. Most countries in the world are signatories to the UNFCCC. The Convention requires Australia to monitor our emissions of GHGs and reduce them to meet an agreed target. The most recent target, to which the Australian Government agreed in 2015, requires us to reduce our emissions to below the levels of 2005 by the year 2030.

The ultimate objective of the UNFCCC is 'to stabilise greenhouse gas concentrations at a level that would prevent dangerous anthropogenic (human induced) interference with the climate system'.

There has been increasing evidence over the last 20 years that human behaviour – particularly human economic activity – has been responsible for the exponential rise in greenhouse gases in the atmosphere, and that increased concentrations of these gases are causing changes to our climate. These changes include the increased incidence of more severe weather like extreme storms and bushfires, and rising sea levels.

So how is Australia performing on this measure of sustainability? Table 2.5 over the page provides some details on Australia's greenhouse gas emissions in 2013.



FIGURE 2.27 Industrial pollution is one of the largest sources of greenhouse gas emissions.

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TABLE 2.5 Australia's greenhouse gas emissions

Economic activity	Contribution to total GHG emissions (%)
Stationary energy and transport	76.4
Agriculture	15.8
Industrial processes and product use	6.0
Waste	2.5

Note: Total emissions are greater than 100 per cent because some emissions were also removed.

Source: Australian Government, *Australia's Second Biennial Report*, December 2015.

As you can see, around 77 per cent of Australia's GHG emissions occur as a result of burning coal and gas to create energy (such as electricity) or burning oil (as petrol) for transport.

Australia's GHG emissions rose by 0.8 per cent between June 2015 and June 2016. The latest data from the National Greenhouse Gas Inventory show that emissions rose 1.6 per cent in the March quarter of 2017 – the biggest increase in nine years.

Figure 2.28 shows the trend in Australia's GHG emissions since 2007.

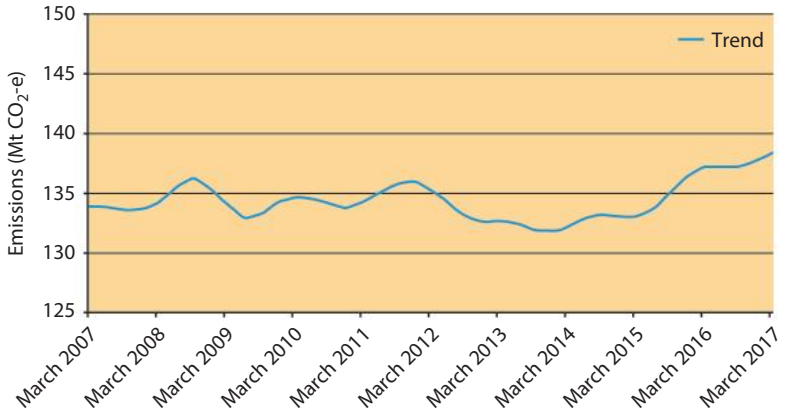


FIGURE 2.28 Australia's GHG emissions since 2007

Source: Department of the Environment and Energy, *Quarterly Update of Australia's National Greenhouse Gas Inventory: March 2017*.

REVIEW 2.12

1. Explain why economic activity can contribute to environmental damage.
2. Examine Figure 2.28. Describe the trend in Australia's GHGs since March 2014.
3. Based on the data provided, evaluate Australia's current performance in terms of sustainable development.

ACTIVITY 2.11 Research

Energy creation

1. Look at the data in Table 2.5. Research how Australia creates energy and explain why Australia creates such a large proportion of its GHGs from 'stationary energy and transport'. Investigate alternative means of creating energy that will produce fewer GHGs.
2. What other measures could Australia use to evaluate its performance in terms of sustainable development?

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CASE STUDY 2.4

Coal-fired power, wind and batteries

This case study is available in the online version of the textbook.

Corporate social responsibility

Sustainability can be measured by evaluating the operations and management of producers (businesses). A common measure is evaluating a company's **corporate social responsibility**.

> Corporate social responsibility (CSR) is generally understood to mean that corporations have a degree of responsibility not only for the economic consequences of their activities, but also for the social and environmental implications. This is sometimes referred to as a 'triple bottom line' approach that considers the economic, social and environmental aspects of their corporate activity.
>
> *Source:* Australian Human Rights Commission, *Annual Report 2012–2013*.

GLOSSARY

Corporate social responsibility an approach to measuring business performance that considers the social and environmental impact of a corporation, in addition to its economic performance



FIGURE 2.29 In 2012, Sainsbury's new Kings Lynn supermarket opened its 72 000 square feet store, featuring a range of green technologies to help it consume less energy and generate renewable energy on site. These included 1000 solar panels on the roof, ground-source heat pumps under the car park, rainwater harvesting and natural refrigeration for fridges and freezers.

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GLOSSARY

Listed companies companies whose shares can be traded on a stock exchange; members of the general public are able to buy part-ownership of listed companies by purchasing company shares

EXAMPLE

A measure of sustainable business practices

The RobecoSAM Corporate Sustainability Assessment is an annual evaluation of companies' sustainability practices. Over 3000 large companies are asked to provide information on economic, environmental and social factors relating to their operations. RobecoSAM then uses the data to create an overall score for the company. The company can then be added to or deleted from the Dow Jones Sustainability Index (DJSI). For example, BHP Billiton was added in 2015, and Samsung was deleted in 2016. The DJSI can be used by investors to help them decide on whether or not to invest (buy shares) in **listed companies**. Investors concerned about sustainability are more likely to buy shares in companies that are listed on sustainability indices like the DJSI.

According to RobecoSAM, businesses are facing long-term challenges, including resource scarcity, demographic shifts and climate change, and they must respond to this by improving the sustainability of their practices.

REVIEW 2.13

1 What is meant by the 'triple bottom line' approach to measuring company performance? Identify one thing a corporation could measure for each aspect of the triple bottom line.
2 Imagine you are the CEO of a global car manufacturing company. List three ways you could increase the sustainability of your business by reducing its impact on the environment.

ACTIVITY 2.12 Research

Sustainability

1 Go to the RobecoSAM Sustainability Indices website and read the media release on the DJSI Annual Review. List two companies that have been added to and two companies that have been deleted from the DJSI. Did any of the additions or deletions surprise you? Why? For one of the 'deleted' companies, see whether you can find out why it was deleted.
2 Sustainability and CSR measures, such as the RobecoSAM assessment, do have critics. Type 'criticisms of sustainability indices' or 'criticisms CSR' into a search engine. List examples of criticisms.

FIGURE 2.30 Using solar panels is one way that a business can reduce their impact on the environment.



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2.10 The federal Budget

GLOSSARY

Budgetary policy an economic tool of the government concerned with the level and composition of government outlays and revenues; it can be used to assist in achieving economic objectives

Each year, the federal Treasurer presents the annual federal Budget. This is referred to as **budgetary policy**, whereby the government of the day forecasts expected government receipts (money coming in, mostly from taxes) and expected outlays (money going out, spent on the provision of goods and services) for the coming 12 months. The federal Budget is the way money is allocated for various government projects. It is also a useful macroeconomic tool to help the government manage the economy. It can be used to promote economic growth and employment, or reduce inflation. It can also be used to promote certain social and community goals, such as education and providing healthcare, or addressing disadvantage in certain communities.

Outcomes of the federal Budget

When the federal Treasurer presents the annual Budget, there are three types of possible outcomes:

- **budget surplus** – when expected receipts are greater than expected outlays
- **budget deficit** – when expected receipts are less than expected outlays
- **balanced budget** – when expected receipts are equal to expected outlays.

Table 2.6 shows that in 2017–18 there was an expected Budget deficit of $29.4 billion. This contrasts markedly with the Budget surplus of $19.7 billion in 2007–08. There are a number of reasons why the Budget has moved from a surplus to a deficit over the 10-year period. These include the Global Financial Crisis of 2008–09, which saw the government try to stimulate the economy with extra spending, and the end of the mining boom of the mid-2000s.

TABLE 2.6 Recent budget outcomes

	Actual 2016–17	Estimate 2017–18
Underlying cash balance ($billion)	–33.2	–29.4

Sources: Budget 2016–17 and Budget 2017–18.

Impact of the federal Budget on economic activity

Figure 2.31 identifies the impact the federal Budget can have on economic activity.

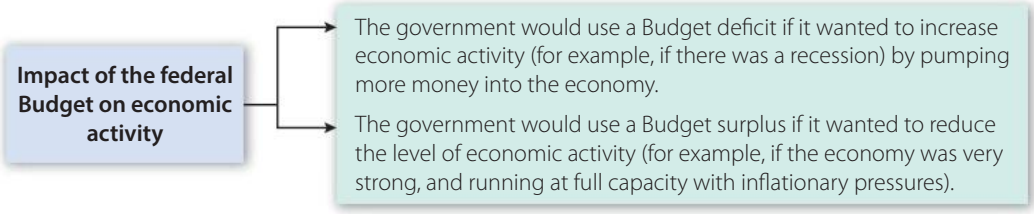


FIGURE 2.31 Impact of the federal Budget on economic activity

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REVIEW 2.14

1 Explain what a Budget deficit indicates about the relationship between the money received by the government and the money spent by the government over the course of a year.
2 Describe what has happened to the size of the Budget deficit between 2016–17 and 2017–18.
3 Explain how a federal Budget can be used to influence the level of economic activity and explain the likely impact of the 2017–18 Budget outcome on economic activity.

ACTIVITY 2.13 Research

Federal Budget

1 Go to the federal Budget website. What were the main points in this year's budget? Were there any obvious Budget 'winners' or 'losers'?
2 From the Budget website, choose a positive budget initiative, such as spending on education and training programs and subsidies. Briefly explain the details of the program and how it is likely to improve the living standards of those affected.
3 Investigate different economic issues that could impact on the Australian economy (for example, inflation and interest rates). Collect three relevant articles from newspapers and summarise the source of and key points about each article. Demonstrate your results to your class in a five-minute presentation.
4 Read the following scenario.

Treasurer for a day

You have just been appointed to the position of federal Treasurer. This is your chance to shine on the national stage and sell the government's intention of being a good economic manager with a commitment to a fair society. Assume the economy is currently experiencing an economic slowdown, so you are intending to announce that next year will see a large Budget deficit to stimulate the economy and to encourage consumer spending. You are concerned that Australian voters might react negatively to your idea of running a budget deficit next year so you are keen to promote the reasons why Australia needs a Budget deficit.

5 Write a two-minute speech that could be used to sell the current year's Budget. For guidance about what you might include in your speech, research online and find what was said at this year's Budget launch. Remember that this is an important promotional tool for any federal government, so you need to be upbeat and positive, and sell the benefits of the Budget to the Australian people.



FIGURE 2.32 Australia's treasurer Scott Morrison delivers his 2017 Post Budget National Press Club Address at Parliament House on May 10, 2017 in Canberra. The 2018–2019 Federal Budget was presented on Tuesday May 8, 2018.

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CONSOLIDATE YOUR LEARNING

Dear Economist

You have been approached by a business magazine that wishes to introduce a new column called 'Dear Economist' where readers write in with any economics questions they have. As the editor knows you have been learning about economics, she wants you to take up this exciting new position. The first three letters from readers have arrived and are shown below. Your task is to reply to each letter and help answer their economics queries.

To find information about what an economist does, visit the Economic Society of Australia's website.

Letter 1

Dear Economist,

My wife has been unemployed for the last eight months. She is actively seeking work in the manufacturing industry. Could you explain to me what causes unemployment and whether there is anything the government can do to solve the problem?

Concerned, Geelong

Letter 2

Dear Economist,

I have noticed that each time I shop for groceries, prices of the necessities seem to have risen and yet my income is not increasing. Can you please explain what the government means when it talks about 'inflation' and what causes prices to rise? Is there anything the government can do to make life a bit more affordable?

Worried, Thomastown

Letter 3

Dear Economist,

I am wondering just how good life in Australia really is. I get the impression that we live in a prosperous society but I sometimes wonder whether we focus too much on money and ignore the most important things. People seem quite stressed and I wonder just how happy Australians are. Can you please explain to me whether Australians are better off materially and in terms of quality of life now than we were 20 years ago? And how can we tell?

Confused, South Yarra

Report card on Australia's economy

In this chapter, you have learned a lot about the different indicators used to measure the performance of Australia's economy. As a student, you will have experienced having your performance evaluated many times – in reports! Now it is time for you to evaluate the overall performance of Australia's economy.

1 Present your findings as a report card on the Australian economy, assigning a grade and brief comment on each area of performance, and an overall grade for the economy in the last two years. What are the areas that need attention? What are the areas of strength in Australia's economy?

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2 Collect data on Australia's recent performance in terms of each of the measures studied:
   - economic growth
   - inflation
   - unemployment and under-employment
   - federal Budget outcome
   - sustainability
   - overall living standards/how Australia is progressing overall.
3 Visit the RBA Education page for the data. There are several options to choose from. You can also use the websites referred to throughout this chapter and news sites to find updated data on some of the measures.
4 Present your report card using an appropriate structure, and be creative in your design.



FIGURE 2.33 What sort of report card will you give the Australian economy?

Economic Idol

Imagine living in an economy with low unemployment and no under-employment, low inflation – an environmentally sustainable economy with a high standard of living. This task requires you to consider what you would do to help solve some economic problems in order to achieve such an outcome.

Are you up to the challenge of becoming an 'Economic Idol' and helping to make Australia's economic dream a reality?

1 **The need for economic growth.** Managing the economic cycle to avoid economic recessions and depressions is a key goal of any Treasurer. What economic policies or initiatives would you use to promote a stable economy with consistent economic growth? Consider how the federal Budget and monetary policy could be used to manage the level of economic growth.
2 **Minimising Australia's unemployment and under-employment rate.** What strategies would you suggest to help reduce Australia's unemployment rate? Consider the role of education and training, stimulating the economy and so on.
3 **Addressing inflation.** Maintaining an inflation rate of between 2 and 3 per cent per year is important to providing Australia with a stable economy. What strategies would you suggest to help keep Australia's inflation rate within this target? Consider how policies such as monetary policy could be used.
4 **A sustainable economy with high levels of wellbeing.** How does Australia promote a sustainable economy and improve human wellbeing? Consider the factors that contribute to sustainability and wellbeing, and what governments and society can do to promote these.
5 **Report and presentation.** This task needs to be completed on your computer, and should include a range of visuals and/or graphs to convey your economic strategies.
6 **Presentation.** At the completion of your economics report, you will be required to present your ideas to the class in a two- to three-minute presentation. Do you have what it takes to be an Economic Idol?

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FIGURE 3.1 The global economy

Chapter 3
Australia in the global economy

Australia's economy cannot be examined in isolation. What happens in another part of the world will inevitably affect Australia, as the world has become more closely connected than ever before. Globalisation has presented our economy with many new opportunities, but also many challenges.

In this chapter, we investigate Australia's place in the global economy and look at the importance of exports and imports for Australia's economic growth and development. Other issues, such as the effect of foreign currency on trade and the role of multinational corporations in the national economy, are also discussed. We compare Australia's living standards with those in other countries. Along with trade, this chapter considers Australian foreign aid and other policies that can be used to improve living standards locally and in other countries.

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3.1 Australia as a trading nation

What is globalisation?

GLOSSARY

Trade the exchange of goods and services between nations

Globalisation the expansion of business operations into other countries as a result of the removal of economic barriers and increases in global technology

Multinational corporations (or companies) organisations that operate in more than one country; their head office is based in one country but they have branches in other countries

Trade barriers restrictions on free trade between countries, including the imposition of taxes and quantity limits on imports, and rules banning imports of certain foods and agricultural products

Trade between countries has become an increasingly important feature of the world's economy over the last 30 years. **Globalisation** is the expansion of business operations across international borders as a result of the removal of economic barriers and advances in global technology. This has freed up international trade and encouraged foreign investment. Competition between countries for trade has intensified in recent years, and the growth of **multinational corporations** continues unabated. Since the 1980s, the trend towards a global marketplace has intensified. This has been as a result of a number of important factors, including:

- rapid advances in technology (for example, the internet makes the exchange of information between countries easier, as well as providing more potential global customers)
- the relaxation of laws regarding foreign investment in many countries (for example, German-owned supermarket Aldi has nearly 500 stores in Australia; many foreign banks, such as Citibank, are now popular in Australia too)
- a reduction in **trade barriers** through trade agreements between countries, making the exchange of goods and services between countries much easier.

ACTIVITY 3.1 Collaborate

Changes over the past 100 years

1 Working in groups, brainstorm the different changes that have taken place over the past 100 years in:
   - **a** communications
   - **b** trade
   - **c** transport
   - **d** technology.

2 For each change, describe its impact on society and the economy.

REVIEW 3.1

1 Name the significant Australians who you think have had a global influence in the following areas:
   - **a** business
   - **b** art
   - **c** literature
   - **d** science
   - **e** entertainment
   - **f** sport.

2 What has contributed to the rise of the global economy?

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Australia's place in the global economy

The world has undergone radical change over the last decades. Geographic and cultural distances have shrunk with the advent of jet air travel, email, the internet and digital communication. These technological advances have all made a **global economy** possible. This century presents nations with a range of new challenges, including:

- environmental deterioration
- global warming
- economic stagnation
- changing demands for labour
- the conservation of non-renewable resources.

The events that occur within a country on the other side of the world directly affect Australia. No longer can we think of an event as only affecting just one country or one continent. A drop in the stock market in Tokyo or London will be felt within hours on stock markets in Australia. Global issues and problems have local consequences. We cannot think of ourselves as an isolated nation: Australia is one nation within a global community.

GLOSSARY

Global economy the production, distribution and consumption of goods and services on an international level

Multinational corporations

Multinational corporations (MNCs) – also referred to as transnational corporations – have evolved strongly in the global economy. Multinational corporations are not linked to one city or town, or even a single nation. They operate simultaneously in many countries. Amazon, Pepsi, KFC, Apple, Ikea and Facebook are all examples of successful multinational companies that have contributed to the growth of globalisation. Such corporations are able to raise funds from a much wider range of sources.



FIGURE 3.2 Apple is a very successful global company, and an example of an MNC.

ACTIVITY 3.2 Research

Brand origins

1 The following story illustrates how much of our everyday life is involved with the global economy. Find out the countries from which each of the italicised brands originated. (*Hint:* type the company's name into an internet search engine to locate its website.)

Hamid was being picked up from school by his dad, Akhil, who parked the family's *Toyota Kluger* by the school gate. When Hamid got into the car, they decided to head off for some takeaway chicken at a *Nando's* restaurant. Akhil checked *Facebook* on his *iPhone* during his meal while sipping a bottle of *Perrier* water. Hamid wasn't in the mood to chat, as he was using *Snapchat* on his *Galaxy* smartphone to catch up with friends while drinking his *Coke Zero*. Arriving home, Hamid switched on the *Panasonic* television and then turned on the *Carrier* air conditioner to cool down after a hard day at school.

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Growth of multinationals

GLOSSARY

Economies of scale the economic benefits of being able to reduce the 'per unit' price of a product made due to increased production runs

There are a number of reasons for the growth of multinational corporations:

- It is often economical for a multinational to establish part of its business operations in a country other than where its headquarters are. This may be because of cheaper manufacturing costs due to lower labour rates.
- **Economies of scale**, due partly to rapid advances in technology, have enabled multinationals to gain substantial market share.
- These economies of scale have also led multinationals to develop new markets and use the increased accessibility to money and other resources available to them to grow their businesses.
- Multinational corporations, such as Coca-Cola, have developed products that are popular with consumers in all parts of the world.

Some criticisms have been levelled at the rise of multinational corporations. It is felt by some that local cultures and traditions are being lost as consumers buy more and more of the same types of products from the multinationals, at the expense of smaller local businesses. This even applies to the movies and television programs that people watch. For example, American movies are often more popular than those produced locally.

In addition, some concerns have been raised that some corporations are too powerful because they are becoming very large. In 2016, each of the top 10 largest multinational corporations had an annual revenue that was greater than the GDP (annual output) of 125 nations. The world's largest corporation, Walmart, would rank as the world's 39th largest 'economy' if it were a country! This would place it just behind Sweden and way ahead of Norway, Portugal and New Zealand.

REVIEW 3.2

1 Explain what has led to the growth of multinational corporations. Are there any possible undesirable effects of the rapid rise of multinational corporations?
2 Table 3.1 shows the annual revenue of some of the world's largest multinational corporations, compared with the annual GDP (output) of selected countries.

TABLE 3.1 Comparison, annual GDP (selected countries) and annual revenue (selected corporations), 2016

Global ranking by size of output	Country or MNC	Annual revenue or annual GDP(US $ billion, PPP)
1	China	21 417
2	United States	18 569
5	Germany	4 028
20	Australia	1 128
39	Walmart	482
43	Austria	438
49	Ireland	328
53	State Grid	315
54	Norway	310
62	Toyota	255
63	Royal Dutch Shell	240
64	Finland	236
65	Apple	215
66	Uzbekistan	207
67	Exxon Mobil	205

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Global ranking by size of output	Country or MNC	Annual revenue or annual GDP(US $ billion, PPP)
71	New Zealand	183
99	Amazon.com	136
100	Tunisia	132
148	Alphabet (Google)	90
150	Lithuania	86
154	Microsoft	85

Source: GDP data – World Bank, GDP ranking, PPP, 2016; MNC data – Fortune Global 500 (2016).

a Identify the largest global corporation in 2016. How much revenue did this corporation make in that year?
b Identify the number of corporations with an annual output (revenue) greater than the output of New Zealand in 2016.
c Briefly research each corporation in the table to find out what types of products it makes. Can you identify any products you own or have bought that were made by any of the corporations in the list?
d Why do you think critics of MNCs are concerned that a number of corporations are much larger than the countries in which the MNCs may operate?

CASE STUDY 3.1

Amazon.com

Amazon.com Inc., usually shortened to Amazon, is an example of a multinational company that started out on a small scale in the United States but has now expanded globally.

Amazon was launched by founder Jeff Bezos in 1995 as a website that sold only books. Amazon promised to deliver any book to any reader anywhere. At the time, there were a large number of 'bricks and mortar' bookstores (including very large chains), and sceptics wondered whether Bezos could compete against them. Amazon kept its costs down by operating out of large fulfilment centres and ordering books directly from publishers.



FIGURE 3.3 Amazon uses vast warehouses to fulfil its online orders.

Bezos has since said that he always wanted Amazon to be an 'everything' store, and over time it has evolved into just that. It now sells Kindle e-readers, software, music, clothing, shoes, toys, tools, art, car parts, computers, musical instruments and much more. Amazon rents out computer processing and data storage to businesses through cloud computing. It bought shoe retailer Zappos in 2009, and in 2017 it took over supermarket chain Wholefoods, moving into the fresh food business.

Amazon is currently testing using drones to reduce delivery costs, by building beehive-like structures attached to fulfilment centres. Drones would fly in and out of the 'hive' through portals, collecting their deliveries and heading to their destination.

Today, Amazon is the largest internet-based retailer in the world by total sales and the value of its shares. It employs over 300 000 people worldwide, sells into more than 180 countries and has more than 120 fulfilment centres.

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In late 2017, Australia was abuzz with news that the global online retailer was about to enter the Australian market. It is opening a warehouse near Dandenong in Melbourne. Local retailers are worried about Amazon's arrival. A local warehouse will allow Amazon to stock 'hundreds of thousands of products' – adding to what Australian customers can already purchase on Amazon. One piece of research found that large retailers like Harvey Norman, Myer and JB Hi-Fi could lose up to 50 per cent of their business within five years of Amazon opening here.

1 Explain why Amazon would be considered a 'multinational corporation'.
2 Have you ever bought products online (maybe even from Amazon)? If so, explain what motivated your purchase.
3 Describe how technology helped Amazon to grow, and how it plans to increase its use of technology in the future to increase sales.
4 Consider the arrival of Amazon in Australia from the perspective of each of these members of the Australian economy. Explain their likely response.
   a an unemployed person living in Dandenong
   b a Myer shareholder
   c a keen gamer, who wants to buy the latest games as soon as possible
   d a customer in the market for a new guitar
   e the store manager of JB Hi-Fi at Chadstone
   f a checkout operator at Coles
   g a family of five who live on a low income and need to economise on their spending
   h the Australian government.

3.2 Exporting and importing

A key part of Australia's connection to the global community is through trading. Economists refer to Australia as a relatively small, open economy. This means that Australia relies heavily on the rest of the world to purchase the products we produce, and to supply products that we consume. As a result, we are heavily reliant on international trade. Australia is a country rich with natural resources. Australia exports a wide range of goods and services to overseas customers. This generates vital income for our economy. Examples of Australian exports include iron ore, tourism, coal, education, meat and livestock, wool and wine. Examining the list of Australia's exports reveals that our main exports are predominantly natural resources or services. Whether a business is large or small,

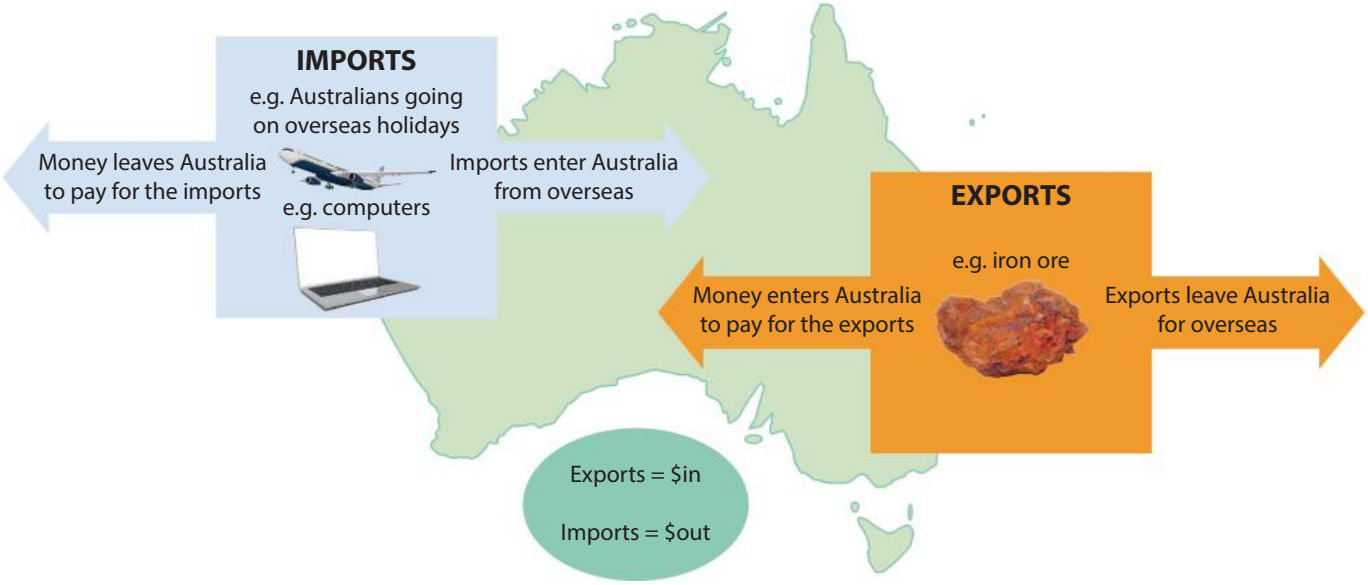


FIGURE 3.4 Following the money is one way to determine whether a product is an export or an import.

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to be a successful exporter, it must continually strive to find innovative ways to improve on the goods or services it sells in order to remain competitive in an international marketplace.

Many of the goods and services Australians purchase are imports. There are a number of reasons why Australia imports, including the following:

- Consumers may desire an item that is different from those being provided by Australian businesses.
- The price of the item is cheaper.
- The particular good or service may not be produced in Australia.



FIGURE 3.5 Increasing numbers of the products purchased by Australians come from overseas.

ACTIVITY 3.3 Research

Country of origin

1 Create a table similar to the one below. Collect the country of origin of at least 10 items or services that you own, have recently purchased or find around your home (check the 'Made in/product of … ' label). Some suggestions have been included in the table. Add or delete items of your choosing.

Item	Made in/product of
Mobile/smartphone	
Favourite shoes	
Favourite jeans	
Laptop or desktop computer	
Family car	
Textbook (printed in)	
Tin of tomatoes	
Frozen or fresh berries	
A streaming service (e.g. Netflix, Stan or iView)	
A film you recently watched at the cinema	
School uniform	

2 Analyse the data you have collected

- Choose five items that were made in countries other than Australia, and investigate the reasons why those goods or services were imported from overseas rather than being made in Australia.
- Record the number of items made in each country listed, and use this information to create a pie chart showing the percentages of items made in each country of origin. You can use a spreadsheet program, such as Excel.
- If your parents had conducted a similar activity when they were your age, do you think the results would have been different? Explain your answer.

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REVIEW 3.3

Classify each of the following transactions as either an export or an import for Australia. (*Hint:* A great way to remember whether something is an export or an import is 'following the money' as explained in Figure 3.4.)

Scenario	Export or import?
1 Fionnuala's grandparents come to Melbourne from Ireland for a visit.	
2 Simon buys a t-shirt from H&M (Swedish-owned company).	
3 Rachel goes on holiday to Bali.	
4 BHP Billiton sells a shipload of coal to a Chinese factory.	
5 Natalka's family subscribes to Netflix.	
6 Jayaram's furniture company pays a Panamanian shipping company to ship its outdoor furniture to New Zealand.	
7 Jerry's cousin comes from Shanghai to study at University of Melbourne.	
8 Ms Graham goes to a conference in Berlin.	
9 William plays an online game from a US app developer.	
10 Hannah's sister goes to boarding school in Seoul (Korea).	
11 Genta buys a new BMW car.	
12 Westpac opens a branch in Wellington, New Zealand.	

Australia's exports, imports and trading partners

Over time, Australia has ceased producing a large variety of **manufactured products**, such a televisions, white goods (fridges and microwaves), consumer electronics, clothing and shoes, and, most recently, motor vehicles. The vast majority of manufactured products consumed by Australians are now produced overseas and imported. For example, many people elect to buy electrical items manufactured in China. Lower labour and set-up costs (e.g. factory and equipment) make manufacturing there cost-effective.

GLOSSARY

Manufactured products goods that are made using machinery, especially on a large scale in a factory setting

Other consumers may elect to buy cars made in Germany or Sweden because of personal reasons, such as prestige or safety. Improvements in transport technology have led to a dramatic increase in world trade over the past 50 years. One figure sometimes quoted is that, for a pair of sneakers made in China and sold in Australia for around $150, only about 25 cents of the cost of production is the transport.



FIGURE 3.6 Advances in transport technology have dramatically reduced the cost of international trade.

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TABLE 3.2 Australia's top 10 exports and imports, 2016

Exports		Imports	
1	Iron ore and concentrates	1	Personal travel services (excluding education)
2	Coal	2	Passenger motor vehicles
3	Education-related travel services	3	Refined petroleum
4	Gold	4	Telecommunication equipment and parts
5	Natural gas	5	Freight transport services
6	Personal travel (not for education)	6	Crude petroleum
7	Beef	7	Medicaments (medicines)
8	Aluminium ores	8	Goods vehicles
9	Wheat	9	Gold
10	Professional services	10	Computers

Source: DFAT, *Australia's Trade in Goods and Service 2016*.

REVIEW 3.4

1 Look at Table 3.2. Categorise each export and import according to whether it is a natural resource, a manufactured good or a service.

TABLE 3.3 Top 10 two-way trading partners, 2016

Ranking	Country	% of Australia's trade	Region
1	China	23.1	
2	United States	9.6	
3	Japan	9.1	
4	Republic of Korea	4.8	
5	United Kingdom	4.3	
6	New Zealand	3.7	
7	Singapore	3.4	
8	Thailand	3.2	
9	India	3.1	
10	Germany	3.0	

Source: DFAT, *Australia's Trade in Goods and Service 2016*.

REVIEW 3.5

1 Look at Table 3.3. Complete the final column by identifying the world region of each of Australia's main trading partners.

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ACTIVITY 3.4 Research

Imports and exports from China

The table shows that China is Australia's most significant trading partner. Investigate further to find out what Australia exports to China and what we import from China. (The DFAT website is a great place to start, under the 'Trade and Investment' tab.) Write an explanation of why Australia and China's endowment of natural and human resources has influenced how the two countries trade with each other.

ACTIVITY 3.5 Create

Trade with other countries

Produce an illustrated poster to explain to your friend (who doesn't study economics) what Australia exports and imports, and why it benefits Australia to trade with other countries.

REVIEW 3.6

1 Use the information in Tables 3.2 and 3.3, and your answer to Question 1 in Review 3.4, to evaluate the claim that Australia relies heavily on the export of unprocessed natural resources, and imports mainly manufactured products.
2 Calculate the percentage of Australia's trade that takes place with countries in the Asia/Pacific region. Why do you think Australia trades so much with countries in this region?

Benefits of and impediments to trading with other countries

Following are the main benefits and impediments to trading with other countries.

Benefits of trade

- Trade allows countries to specialise and export goods and services that they produce efficiently. As already noted, Australia exports a large variety of natural resources and imports all its cars from countries that are more efficient producers.
- Trade presents consumers with a wider range of product and service choices.
- Greater global competition has forced businesses to produce more efficiently, reducing the cost of many consumer items and increasing consumers' purchasing power.

Impediments to trade

- Major events, such as war, terrorist attacks or economic collapse, can make trading with certain 'high-risk' countries difficult and problematic.
- Natural disasters can affect the flow of production and availability of certain products that other countries have come to rely upon. For example, after the massive earthquake and tsunami in Japan in 2011, a lack of available parts led to a scarcity of Toyota cars in Australia.
- When countries implement protectionist policies, such as **tariffs**, to look after their own producers, it can lead to inefficiencies, since tariffs make imports more expensive.
- Fluctuations in the value of the Australian dollar can make importing and exporting more difficult. The Australian mining boom of the 2000s pushed the Australian dollar very high in relation to the

GLOSSARY
Tariff: a tax on imported goods

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US dollar and other currencies. Tourism and education providers in Australia struggled to compete as overseas customers had to pay more to come to Australia. The impact of exchange rates on trade is considered in more detail later in this chapter.

GLOSSARY

Subsidies: government-provided financial assistance to local industry to make it more competitive relative to imported goods

CASE STUDY 3.2

Why does Australia no longer make cars?

On 20 October 2017, the last Australian-made Commodore rolled off the Holden assembly line in Adelaide. Between 1990 and 2016, Nissan, Mitsubishi, Ford and Toyota all ceased making cars in Australia. The closure of the Adelaide Holden factory marked the end of Australia's motor vehicle manufacturing industry. Since then, there have been no large-scale vehicle manufacturers operating in Australia. One estimate is that over the last five years, as the final car manufacturers have closed down, around 50 000 jobs have been lost.

Many factors have contributed to the end of vehicle manufacturing in Australia. These include the following:

- Corporations relocated their vehicle manufacturing and assembly plants to low-wage nations and globally integrated their production. For example, they might make engines in South Africa, and the car body in Mexico, assemble the vehicle in Thailand and sell it in Australia.
- Automation and use of robots meant that facilities could be located anywhere, regardless of the skill level of workers.
- The removal of barriers to trade, such as tariffs, meant that imported cars became much cheaper compared with Australian cars. Between the 1980s and 2016, the tariff on vehicles imported into Australia was reduced from 50 per cent to 5 per cent.
- The withdrawal of government **subsidies** to car producers resulted in increased costs of production and lower profits over time.
- Australian consumer tastes changed from buying larger vehicles like the Australian-made Ford Falcon and Holden Commodore to more compact vehicles like the Toyota Corolla and all-terrain vehicles like the Mazda 5. In 2002, the Holden Commodore was the market leader, with 100 000 sales that year.
- The high Australian dollar during the mining boom of the 2000s made it very difficult for Australian car manufacturers to export their vehicles, as overseas buyers had to pay much more.

Country	Skilled manufacturing average weekly wage
Australia	A$1505
Thailand	A$240

In 2005, Australia signed a free trade agreement that removed all tariffs on cars imported from Thailand. That country is now the biggest supplier of cars to the Australian market. In 2015, 250 000 cars were imported from Thailand. The Ford Fiesta, Ford Focus, Toyota HiLux, Holden Colorado and Mazda 2 are all made in Thailand.



FIGURE 3.7 Wages for skilled manufacturing workers in Thailand were one-sixth those of Australian car factory workers in 2015.

Go to the online version of the textbook for a class role-play and report activity on the decline of the car industry.

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ACTIVITY 3.6 Research

Multinational corporations, global supply chains and ethics

One criticism of large multinational corporations is that they can exploit workers and damage the environment with their operations. In response, some corporations have taken initiatives to improve the operation of their **supply chain** by sourcing their inputs from ethical sources or ensuring that their workers are paid well and work in safe conditions.

In this activity, you may choose between investigating an MNC **or** a particular product produced by an MNC.

Option 1

Choose a multinational corporation to research. You will create a presentation on the corporation's operations. It should include the following:

a basic details about the company such as its locations, size and what it sells

b any criticisms of the company in relation to how it has operated. This could include concerns over its products, its behaviour in the marketplace, how it treats its workers, how and where it sources its inputs, its impact on the environment or its global supply chain.

c how the company has responded to its critics. Has it made changes to its operations or introduced any policies to address the concerns?

To get you started, here are some companies you may wish to consider: Facebook, Toyota, Cadbury, Apple, Nike, Google, Microsoft, Volkswagen, BP.

Option 2

Choose a product produced by a multinational corporation (for example, Cadbury Dairy Milk chocolate, an Apple iPhone or a Sherrin football). You will create a presentation on the global supply chain involved in making this product, and consider the ethics of its production. Your report should include the following:

a information about the product and who makes it

b the global supply chain used to produce the product and get it to market. This includes its main inputs/ingredients, where these are sourced, where the product is made/assembled, how it is packaged and how it is transported to where customers buy it.

c any concerns that have been raised about how the product is made, how workers are treated or the impact on the environment

d how the producer has responded to the concerns – for example, have they adopted fair trade practices or new rules on how their production facilities operate?

GLOSSARY

Supply chain the sequence of processes involved in the production and distribution of a product

Australia's trade with Asia

Australia's trade with Asia has been a key factor in our economic prosperity over the last 20 years. In the 21st century, Asia will become not only the world's largest producer of goods and services, but also the world's largest consumer of them. It is the world's most populous region, and will soon be home to the majority of the world's middle class. Australia has benefited greatly from its proximity to Asia and the growing Asian demand for our abundance of natural and cultural resources.

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Between 2002 and 2012, China's economy grew at an average rate of 10.5 per cent each year. In recent years, it has continued to grow at a rate of between 6 and 7 per cent each year. This growth has involved enormous amounts of building and infrastructure construction, both of which require the iron ore and coal that Australia has in abundance. China is Australia's number one trading partner. Australia's top exports to China are all natural resources – iron ore, coal, gold and wool; however, exports of services to China are growing, including tourism and education.

China's rapid growth has also produced a very large population of well-off to extremely wealthy Chinese consumers. Increasingly, these consumers are interested in purchasing high-value items like organic food and overseas holidays, both of which Australia can supply in abundance.



FIGURE 3.8 Shanghai, China, Asia – Pudong skyline and financial district

CASE STUDY 3.3

Carman's: Profile of a successful exporter making inroads into Asia

Carolyn Creswell is the founder and managing director of Carman's (originally Carman's Fine Foods). In 1992, Carolyn was an 18-year-old university student who was working part time making muesli for a small business that supplied local cafés and restaurants with bakery-style products. When the owners told Carolyn they were going to close the business down, she offered them $1000 to buy the muesli part of the business. When the owners accepted Carolyn's offer, Carman's Fine Foods was born.

Through lots of hard work, taking risks, smart business acumen and a positive attitude, Carolyn has been able to grow the business to the point where its products are exported to 32 countries and annual turnover is more than A$100 million. In 2013, Carolyn was named Telstra Businesswoman of the Year, and was host of the TV show *Recipe to Riches*.

Carman's Fine Foods offers an ever-expanding range of muesli-based products, from Premium Traditional Oats and Apricot Muesli Bites through to Deluxe Fruit Muesli Bars. The company holds more than 17 per cent of the snack bar market in Australia. Carman's is also a supplier of in-flight snacks to Qantas. The key to success for Carolyn has been offering premium-quality products free of artificial colours, flavours and preservatives.

Exporting Carman's Fine Foods products overseas also boosts the performance of the Australian economy. In 2017, Carolyn announced that the company was expanding into China. She noted that 'China is the most exciting opportunity I can think of for the business'. Carman's Fine Foods spent a lot of money and over a year planning for the entry to the Chinese market. They will be selling products including nut bars and muesli in over 500 stores in the first six months.

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Australian producers have a 'clean, green' image in China, making Australian food popular with the increasingly affluent and growing Chinese middle class. On the other hand, there are risks to operating in China – including regulations that can change without warning.

1. Why do you think Carman's Fine Foods has been such a successful business venture? Find and explore the company's website. Prepare a one-page fact sheet about Carman's Fine Foods, covering information on the product range, new recipes and other interesting facts about the business.
2. Why do you think Carman's has decided to focus on exporting to China? Use the data on China found in this chapter and investigate some of the benefits and risks involved in expanding into the Chinese market for an Australian exporter. Make a list of pros and cons of expanding to China.
3. Australia recently signed a free trade agreement with China, and many businesses are keen to take advantage of the new opportunities this presents. Prepare a brochure for Australian businesses considering moving into the Chinese market. The brochure should cover all the important information about business protocols in this new market. It should contain information on:
   - business hours
   - business practices – particularly regarding business card formalities, gifts, lunches and dinner, and bribery of officials
   - import restrictions and ownership restrictions
   - any other information you think is relevant.

   Use the DFAT website to help you complete this activity. From the list of free trade agreements under Trade & Investments, look for information on the ChAFTA – the China–Australia Free Trade Agreement.
4. Imagine that you have decided to become a successful food exporter like Carolyn Creswell. This task requires creativity and passion for food, as you aim to create a new food product that you could export overseas.

Use the template below to present information about your product. Each member of the class is required to make their food product and take part in a taste test to judge the best new Master Chef!

Master Chef Challenge: Recipe card **Name of Master Chef:**
Description of food idea (include a sketch):
Target market (age, gender, income level, countries to be sold in):
List of ingredients:
Description of packaging:
Cooking/storage instructions:
Marketing ideas to promote the product:



FIGURE 3.9 Carman's is not the only company that has taken advantage of the Australia–China free trade agreement. Devondale is another Australian product now available for sale in China.

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Australia's trade performance

The **balance of trade** is the value of exports minus the value of imports. Countries can have either a **trade surplus** or a **trade deficit**. This means that either the value of imports is more than the value of exports (a deficit) or vice versa. In recent years, Australia's balance of trade has fluctuated between a trade deficit and a small trade surplus. It is generally better for Australia to have a trade surplus, as this means we are selling more exports overseas than we import.

On the other hand, when Australia runs a trade deficit, it means Australians have bought more imported goods from overseas countries than the country has exported. This is an unfavourable situation – it means that Australian consumers are buying too many imported goods. This can affect the health of the Australian economy as **foreign debt** becomes an issue.

Since late 2016, Australia has had a trade surplus.

GLOSSARY

Balance of trade calculated by subtracting the value of imports from the value of exports

Trade surplus when the value of exports is greater than the value of imports

Trade deficit when the value of exports is less than the value of imports

Foreign debt the total amount of borrowings from overseas made by both the government and private sectors

Terms of trade: calculated by dividing the prices paid for exports by the prices paid for imports; represents the overall trading position of a country

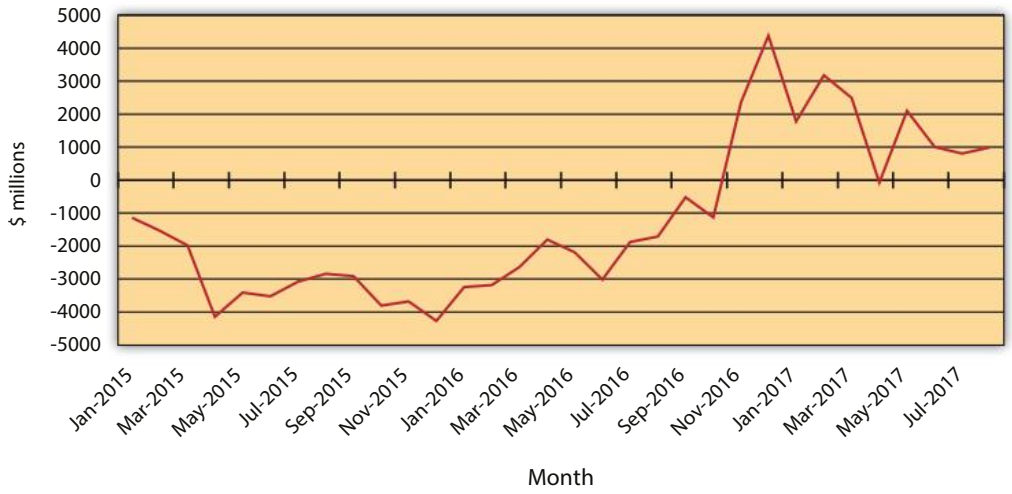


FIGURE 3.10 Australia's trade balance
Source: ABS, *International Trade in Goods and Services, August 2017.*

Terms of trade

The Australian Bureau of Statistics (ABS) also measures and reports on Australia's **terms of trade**. Figure 3.10 shows that between 2003 and 2011, export prices generally rose at a much faster rate than import prices. This led to a favourable movement in Australia's terms of trade over this nine-year period, apart from a dip in 2009. However, due to a decrease in the global price paid for commodities (Australia's key exports), the terms of trade declined unfavourably from 2011 to mid-2016. Since late 2016, the terms of trade have once again improved as export prices have increased rapidly, mainly due to improving commodity prices.

An improvement in the terms of trade is a little like Australian exporters receiving a 'pay rise', as the following story shows.



FIGURE 3.11 Iron ore and canola are just some of Australia's major exports, with both products' quality and abundance desired by international consumers.

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To put Australia's terms of trade wealth in simple terms: [In 2004], a shipload of iron ore exported to China was worth about the same as 2200 flat-screen televisions imported from China. [In 2014] the same shipload of iron ore is worth 22 000 flat screen televisions! Iron ore has become more expensive as the global demand outstrips global supply, and televisions have become cheaper as China ships them at lower and lower cost. This illustrates how China's rise has improved our standard of living: as a result of changing prices, Australia is now exchanging the things we export for ten times more of the goods we import.

Extract from Andrew Charlton, *Dragon's Tail: The Lucky Country After the China Boom, Quarterly Essay,* 54 (2014), p. 33.



FIGURE 3.12 Terms of trade over the past 14 years in Australia

Source: Parliament of Australia, *Monthly Statistical Bulletin.*

REVIEW 3.7

1 What does the balance of trade measure and why is it important to the performance of the Australian economy?
2 Look at Figure 3.12. Describe the trend in Australia's trade balance since January 2016 and explain which was greater in July 2017 – exports or imports.
3 Explain why an improving (rising) terms of trade was good for both Australian exporters and Australian consumers in the 2000s.

The impact of currency value on trade

Most countries have their own measures of currency. The **exchange rate** is the price at which one currency is exchanged for another. The exchange rate is important for importing and exporting. When an Australian buyer wants to purchase a product from overseas, they first need to buy the currency of that country in order to use it to purchase the product.

One of the most commonly quoted measures of Australia's exchange rate is the A$ to US$ exchange rate. If A$1 (one Australian dollar) buys US$0.75 (75 US cents) and next week buys US$0.90, Australia's currency is said to have appreciated (increased) compared with the

GLOSSARY
Exchange rate the price at which one currency is exchanged for another

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US dollar. This is good news for Australian consumers, as it makes imports cheaper. However, it is bad for Australian businesses exporting, as their products become more expensive for buyers in the US market. In contrast, if A$1 buys US$0.85 the following week, Australia's currency is said to have depreciated. This makes it more expensive for Australian consumers. However, it is good news for Australian businesses selling their goods to the United States.

EXAMPLE

If Meghan bought a surfboard from the United States that cost US$150, how much would this be in Australian dollars if the exchange rate was A$1 buys US$0.75? The answer would be: A$1 ÷ US$0.75 x $150 = A$200.



FIGURE 3.13 How does the exchange rate affect the cost of imported goods?

EXAMPLE

Galen's designer shoe company sells to customers in the United States via its online store. Last week, he sold one pair of shoes for A$200 at an exchange rate of A$1 buys US$0.80. Galen's customer will need to buy Australian dollars in order to pay for the shoes. How much will Galen's US customer need to pay in US dollars? The answer would be: A$1 x US$0.80 x $200 = US$160.



FIGURE 3.14 How does the exchange rate affect goods exported from Australia?

Rising and falling exchange rates, as they are measured daily, can affect Australian consumers and businesses. Australia introduced a floating exchange rate in 1983, which means that Australia's exchange rate is left to the forces of supply and demand to determine its level. If more people demand our currency, then the value of the Australian dollar rises. On the other hand, if there is a drop in demand for the Australian dollar (as occurred in 1999 and again in early 2009), then the value of the Australian dollar will fall.

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REVIEW 3.8

1 Identify whether each of the following represents an appreciation or a depreciation of the Australian dollar.
   - **a** The A$ exchange rate was US$0.95, and now it is US$1.00.
   - **b** The A$ exchange rate was US$1.20, and now it is US$1.05.
   - **c** The A$ exchange rate was US$0.98, and now it is US$0.92.
   - **d** The A$ exchange rate was US$1.01, and now it is US$0.98.

2 Calculate the following:
   - **a** Convert A$100 into US$ at an exchange rate of A$1 buys US$0.76.
   - **b** Convert A$100 into US$ at an exchange rate of A$1 buys US$0.99.
   - **c** If you were a customer in the United States buying an Australian export for A$100, which exchange rate would you prefer? Explain why.

REVIEW 3.9

1 Explain how the exchange rate can affect Australian consumers and producers.

2 With regard to currency conversion:
   - **a** Convert US$100 into A$ at an exchange rate of A$1 buys US$0.76.
   - **b** Convert US$100 into A$ at an exchange rate of A$1 buys US$0.99.
   - **c** If you were a customer in Australia buying an import from the United States for US$100, which exchange rate would you prefer? Explain why.

3 A number of hypothetical situations are presented below. Consider how the exchange rate affects each person's situation. Calculate the amounts involved in each situation.
   - **a** Raheela has seen an amazing leather jacket advertised on eBay. It costs US$900, so she wants to know how much it will cost her in A$. The exchange rate is A$1 buys US$0.90.
   - **b** Treyvon recently booked a seven-night holiday at a leading resort in Fiji. The cost of each night's accommodation is FJ$120 and he wants to know how much it will cost him in A$. The exchange rate is A$1 buys FJ$1.75.
   - **c** Asmitha imports rare and exotic sports cars from all around the world. She recently saw a 1960 Mini Minor for sale in an English car magazine, and she intends to buy it. The price of the Mini is £7000. How much will it cost Asmitha in A$? The exchange rate is A$1 buys £0.55.

ACTIVITY 3.7 Research

The Australian dollar

1 Keep a record over a two-week period that tracks the performance of the Australian dollar against three leading currencies. (This information can be found in the business section of the newspaper, on TV news reports or on the Reserve Bank website.) Use the format shown below to set out your diary.

Currency diary														
	Day													
Currency	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Yen														
US dollar														
Euro														

2 How has the Australian dollar performed? Are there economic reasons or other external factors you can suggest for Australia's currency appreciating or depreciating? Explain. (*Hint:* Has there been any good or bad economic news that may have led to the currency appreciating or depreciating?)

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3.3 Global living standards

The increasing integration of the world into one globalised economy means we are all much more aware of variations in living standards across the globe. It is impossible for those of us living in affluent, Western, industrialised countries like Australia not to notice the enormous difference between the material comfort (and often luxury) in which we live and the difficult lives of the majority of people around the world.

There are a number of limitations in using GDP to compare living standards between countries, so economists prefer to use **gross national income (GNI) per capita**. Table 3.4 shows the enormous disparity in GNI per capita across the globe.

GLOSSARY

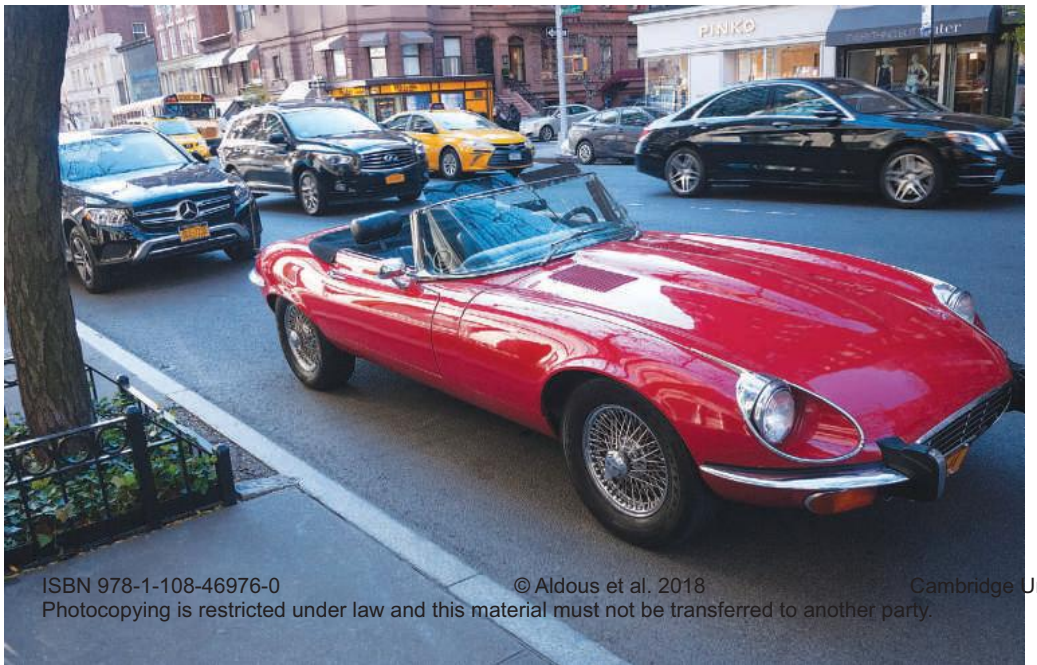
Gross national income (GNI) per capita the value of all income earned by residents of a country, plus income received from foreign transfers such as aid and remittances from workers resident overseas

TABLE 3.4 GNI per capita, selected countries, 2015

Country	GNI per capita (PPP)	Country	GNI per capita (PPP)
Australia	$45 510	Lao PDR	$5 530
Argentina	$19 950	Mexico	$17 120
Bangladesh	$3 550	Nepal	$2 490
Benin	$2 110	Niger	$950
Bhutan	$7 510	Pakistan	$5 300
Bolivia	$6 720	Philippines	$8 850
Brazil	$15 280	Qatar	$124 740
Burkina Faso	$1 600	Russian Federation	$23 060
Cambodia	$3 290	Rwanda	$1 780
Cameroon	$3 140	Sierra Leone	$1 380
Chile	$22 940	South Africa	$12 900
China	$14 390	Sri Lanka	$11 480
Denmark	$50 620	Turkey	$23 780
Haiti	$1 770	United Kingdom	$41 190
Indonesia	$10 680	United States	$57 640

Source: World Bank, DataBank, World Development, 2015.

FIGURE 3.15 There is often a big difference between the standard of living in Western industrialised countries and that in the rest of the world.



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REVIEW 3.10

Look at Table 3.4 and complete the following questions.

1. Identify the country with the lowest GNI per capita and the highest GNI per capita.
2. Calculate how many times larger the GNI per capita is for the country with the highest GNI per capita compared with the country with the lowest GNI per capita.
3. Work out the average weekly income of the following people:
   - a someone living in Australia who earns the average income
   - b someone living in Rwanda who earns the average income
   - c someone living in Cambodia who earns the average income.
4. Using your answers to question 3, part c, compare what daily life might be like for each of these people.

ACTIVITY 3.8 Research

Gapminder

Visit the Gapminder website.

1. What is Gapminder and what does it aim to do?
2. Take the Gapminder Test. How well did you do? Did the results challenge any of your assumptions about the state of the world?
3. Frame a research question on some aspect of standard of living that interests you.
   - a Use the 'Gapminder Tools' to investigate it. You can choose country or region-specific data; clicking on the axes allows you to change what you are comparing in your chart.
   - b Create charts and make a presentation to your class about your findings. You will need a computer, the internet and a projector in the classroom.

3.4 Comparing wellbeing between countries

Access to income is not the only measure we can use to compare the quality of life of people in different countries. There are also a number of indices that use a broader measure of human wellbeing to indicate people's quality of life.

Human Development Index

The Human Development Index (HDI) is a composite statistic. It measures performance on three key dimensions of development: economics, health and longevity, and education. According to Amartya Sen, an economist who helped create it, the HDI was designed for measuring 'the richness of human life rather than the richness of the economy'.

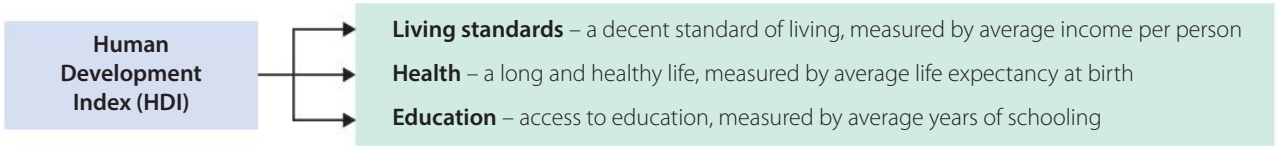


FIGURE 3.16 Human Development Index

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The United Nations (UN) collects the data on the performance of each of these areas for countries throughout the world. It then assigns each country a score between 0 and 1, where a higher score indicates a higher level of human development and an HDI closer to 0 indicates a lower level of human development. The HDI can therefore be used to compare the overall standard of living available in different countries. Countries can be classified according to whether their populations experience a very high, high, medium or low level of human development on average. The UN provides an annual ranking of countries according to their HDI.

TABLE 3.5 HDI rankings of selected countries, 2015

Ranking	Country	HDI value
1	Norway	0.949
2	Australia	0.939
10	United States	0.920
45	Argentina	0.827
59	Malaysia	0.789
104	Samoa	0.704
113	Indonesia	0.689
146	Kenya	0.555
174	Ethiopia	0.448
188	Central African Republic	0.352

Source: UNDP, *Human Development Report 2016 – Human Development for Everyone.*

REVIEW 3.11

1 In your own words, explain how the HDI can be used to measure standard of living.
2 Explain why the HDI might provide more information about the standard of living in a country than just measuring average income.

ACTIVITY 3.9 Research

Human Development Report

Locate and visit the UN Development Program's Human Development Report website and find the 'Country Profiles'.

1 Describe the global distribution of human development shown on the world map.
2 Click on three countries on the map – one with high human development, one from the Asian region with medium human development and one with low human development. Collect information about each country and use it to create a poster comparing human development in the three countries.
3 Undertake some further research on the causes of differences in living standards between countries. Add to your poster a possible explanation for the variation between the three countries. You could include:
   - information about each country's resource endowment
   - information about each country's history and recent economic growth
   - information about each country's level of savings and debt.

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Why are there such large global variations in standard of living?

There are a large number of reasons why the standard of living – material and non-material – varies so widely across countries. These include the following:

- **Wide variations in resource endowments**. Some countries have large quantities of natural resources, well-educated and highly skilled labour, and significant capital resources and infrastructure. Other countries have fewer natural and capital resources, and their labour resources may not have the same level of education and skills.
- **Historical and social factors.** Many countries with very low standards of living are former colonies. Enormous economic benefits were gained by the European powers, but these same powers set in place structures and economic systems that continue to make their former colonies the world's poorest countries. There is also a correlation between low levels of development and exclusion of women from full participation in the government, society and economy.
- **High levels of indebtedness**. Many of the poorest countries in the world have large amounts of debt. These countries borrowed to improve capital and labour resources but, due to mismanagement and corruption, sometimes the borrowing simply contributed to the amount of debt owed by the countries. Large amounts of income have had to be diverted to repay the debt, rather than being spent on the wellbeing of the local populations.

GLOSSARY
Indebtedness: the amount of money owed by someone

REVIEW 3.12

1 Does everyone agree on what causes differences in standards of living?
2 Watch the video *Why Some Countries are Poor and Others are Rich* in the online version of the textbook.
   a What are the three factors that the film claims will determine whether a country is rich or poor?
   b Do you agree or disagree with the film's contention? Explain your response based on evidence presented and what you have learned in your own investigations.

World Happiness Report

Governments around the world are increasingly finding that people's happiness and wellbeing are extremely important, and must be factored in when governments are developing policies.

The World Happiness Report began in 2012. It ranks 155 countries by their happiness levels to provide an indication of the state of global happiness.

FIGURE 3.17 People's happiness and wellbeing are important.



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ACTIVITY 3.10 Research

World Happiness Report

1 Watch the video about the World Happiness Report in the online version of the textbook. List the six key indicators used to measure 'happiness'. Why do you think each of those measures was chosen to contribute to a measure of happiness?

2 Explain why countries can fall down the rankings in the World Happiness Report even though they have high incomes (a high material standard of living).

3 Locate the World Happiness Report website and download the World Happiness Report document. Find the 'Rankings of happiness' diagram and draw a table similar to the one below, with 10 rows. Choose 10 countries with different levels of happiness. Record their ranking in the World Happiness Report and provide a brief explanation of what factors have contributed to their ranking. The example of Norway has been done for you.

Country	Ranking	Factors contributing to ranking
Norway	1	Invested its abundant natural resources in long-term sustainable growth; rich country; high levels of social support.

4 Compare Australia's ranking on the World Happiness Index and the Human Development Index. Suggest some reasons for the difference in rankings between the two measures.

5 Explain how the World Happiness Report measures are similar to and different from the HDI measure of wellbeing. Which measure do you think provides a better indicator of people's overall wellbeing? Justify your answer.

3.5 Policy options for improving living standards

Governments have many policy options for improving living standards within Australia. These include spending on education, training, health and infrastructure. They can also introduce environmental policies. As well as focusing on improving living standards in Australia, the Australian Government chooses to provide foreign aid to help improve living standards in other countries.

Education and training

Spending on education is a priority for both federal and state governments in Australia. In the 2017–18 Budget, the federal government announced that it would spend nearly $34 billion on education. There will be a major new needs-based funding model for schools, funded in conjunction with the state governments. There will also be a new fund to improve the skills of Australians as our economy adapts to changes in the global economy and advancing technology.

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The following are some economic and social benefits of spending on education and training:

- People who receive a quality education throughout their schooling are more likely to find good employment and improve their material living standards over time.
- An educated population means citizens are more likely to be actively involved in decision-making and more able to contribute to their community.
- Because education improves employment prospects, a more educated population reduces the demand on **welfare assistance** programs.
- Improved education improves health outcomes for individuals and the community.
- Improved training helps people to adapt to the changing workplace (for example, the rise of automation), ensuring that they remain employable.

GLOSSARY

Welfare assistance refers to government support for those in need, or who are unable to support themselves, including unemployment benefits and pensions

Infrastructure the basic physical facilities required for an economy or society to operate; includes roads, buildings and power supplies

Health

Spending on health is also a priority for both federal and state governments in Australia. In the 2017–18 Budget, the federal government announced that it would spend over $75 billion on health. This includes the provision of Medicare, where all Australian citizens and residents can receive free healthcare in public hospitals and subsidised visits to the doctor.

The following are some economic and social benefits of spending on health:

- Free healthcare reduces inequality in access to goods and services, ensuring all Australians are able to receive quality healthcare, regardless of their ability to pay.
- Healthier individuals are more productive and more able to contribute to both the economy and the community.
- Free vaccinations produce herd immunity and reduce the spread of communicable diseases to the broader community.

Infrastructure

The federal government has focused on spending on **infrastructure** in recent Budgets. Projects such as building new road networks, improving energy systems and improving rail networks have been announced. Between 2013–14 and 2020–21, $70 billion will have been spent on transport infrastructure.

The following are some economic and social benefits of spending on infrastructure:

- Improved transport infrastructure reduces travel time, and therefore the cost of producing goods and services and getting them to market.
- Improved energy infrastructure makes energy more reliable and (possibly) cheaper, which reduces costs for businesses and consumers.
- Improved transport systems reduce stress by reducing congestion and pollution, improving non-material living standards.

FIGURE 3.18 Metro Tunnel will expand the underground station network in inner Melbourne and improve traffic flows in the city.



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Cambridge University Press

REVIEW 3.13

1 Explain why government spending on health and education produce both social and economic benefits.

ACTIVITY 3.11 Research

Government infrastructure projects

1 Investigate one recent infrastructure project announced by the federal or state government.
2 Explain the nature and cost of the project and how it is expected to improve living standards in Australia.
3 Based on your research, do you consider the infrastructure spending to be a good use of resources? Explain your answer.

Examples of recent major projects you could investigate are the Metro Tunnel (Melbourne), the new Western Sydney Airport, the Geelong Rail Line upgrade, the Melbourne-to-Brisbane Inland Rail Project and the Snowy Hydro 2.0 project.

Australia's role in foreign aid

GLOSSARY
Foreign aid providing financial and other resources to assist overseas programs to help the poor

Australians are involved in giving to a number of different **foreign aid** programs. For example, the public donates to organisations such as Oxfam Australia (which assists in helping some of the poorest people in the world to become self-sufficient), as well as other organisations like Medicins Sans Frontiers (MSF or Doctors Without Borders), which provides medical services in war-torn regions and developing countries.

Oxfam Australia is an independent, not-for-profit community-based aid organisation that has developed partnerships across more than 30 countries. Oxfam believes that simply giving handouts will not alleviate poverty. Its preferred approach is to provide people and communities with the skills and resources to help them create their own solutions to alleviating poverty.

The Australian government also contributes resources to overseas aid as a way of reducing poverty in developing countries. The government focuses on providing aid mostly to the Asia-Pacific region, which is one of the poorest areas in the world. In the 2016–17 Budget, the government allocated $3.8 billion to overseas development assistance (ODA). This represents 0.22 per cent of Australia's GNI. It represents a significant cut to foreign aid – both in monetary terms and as a proportion of our national income. For example, in 2009–10, ODA represented 0.34 per cent of GNI.

Three decades ago, richer countries promised to commit a minimum of 0.7 per cent of their GNI to foreign aid. Several countries, including the United Kingdom, have met that commitment, arguing that raising aid to this level will substantially help to reduce poverty around the world. They argue that it is affordable and also the right thing to do.

FIGURE 3.19 Oxfam works with disadvantaged communities throughout the world.



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While aid groups such as MSF and Oxfam Australia argue for more resources for various foreign aid programs, there are others who believe that such programs are not the most efficient use of resources. Table 3.6 presents a summary of arguments both for and against Australia providing foreign aid.

TABLE 3.6 Pros and cons of spending more on foreign aid programs

Arguments for	Arguments against
• Spending more will lead to a reduction in deaths from diseases such as AIDS, hepatitis and TB, and provide a better quality of life. • Aid can help promote economic growth by improving essential services such as schools, hospitals and clean, fresh water supplies. • Aid will lead to a healthier and better educated population, helping the country to become self-sufficient. • An expansion of foreign aid can open up new markets for Australian exporters. • Aid to the Asia-Pacific region helps to improve stability in those countries, and make the region safer.	• Large amounts of money for aid are wasted on administration costs, misused or spent on wasteful projects that don't provide long-term economic benefits to the countries involved, particularly if the governments are corrupt. • Some poorer countries become too reliant on aid, so the cycle of poverty continues. • Foreign aid won't solve the problem of poverty until there are better economic policies in some developing countries. • Foreign aid won't help the world's poorest countries until trade barriers and debts are reduced so that poor countries can receive fair prices for their exports.

REVIEW 3.14

1 Describe the forms of foreign aid provided to overseas countries.
2 Select one of the 'for' and one of the 'against' arguments listed in Table 3.6 and research it further to find at least one example that supports the argument.



ACTIVITY 3.12 Create

Australian aid overseas

Prepare a set of three postcards to highlight the importance of Australia providing aid to poorer nations. To ensure your postcard series communicates the message effectively to its audience, you need to ensure you select appropriate images and words that convey the point you are trying to get across.



ACTIVITY 3.13 Research

Extension activity: Cost–benefit analysis

Undertake a cost–benefit analysis of the Australian government's decision to reduce its foreign aid spending in recent years. The following steps should be undertaken:

- Compile a list of benefits of the decision and attempt to place a monetary value on each benefit.
- Compile a list of costs and attempt to place a monetary value on each cost.
- Calculate a benefit–cost ratio (BCR) and outline what this number represents.

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CONSOLIDATE YOUR LEARNING

1 Write a newspaper article that reports on the growth of multinational companies around the world. In your article, take a position on whether you see this as being a positive or negative trend. Include photos in your article that highlight successful multinational companies.

2 **Debate foreign aid:** Further investigate foreign aid and respond to the statement 'Australia should reduce its foreign aid commitments'. You can support or refute the statement. In your response, ensure you provide evidence to back up your claims and conclusions. Conduct a class debate on the topic.

3 Read the following scenario and complete the activities as required.

Margarita is 23 years old, loves gaming and regularly travels to the United States, South Korea and Japan to compete in gaming conventions and competitions. She most recently attended PAX AUS in Melbourne.

Margarita also has a passion for creating new games and has recently completed a Bachelor of Design (Games) at university. Two nights a week, Margarita has also been studying marketing at her local TAFE.

Margarita has recently designed a new game called ***Kingdom of Marg***. At the PAX AUS convention, she saw a lot of other Australian game designers who are now exporting their products. She plans to market her game online in Australia, but also wants to start exporting disc copies directly to China, as she knows there are a lot of really keen gamers there and they like to be able to purchase the games in store.

Margarita needs your advice:

a Does Australia have a free trade agreement with China?

b What currency is used in China and what effect could the exchange rate have on Margarita's business?

c What expert assistance can DFAT provide for Margarita?

d How will exporting help Australia's economy?

e How has globalisation affected the Australian gaming industry?

f Margarita is also considering targeting her products to the South Korean market as she knows many South Koreans are also keen gamers. Are there any customs she needs to know about when dealing with South Korean businesspeople?

Present your responses in a professional-looking report. It should also include appropriate visuals. Use the DFAT website in your research, and also research Australia's gaming industry.

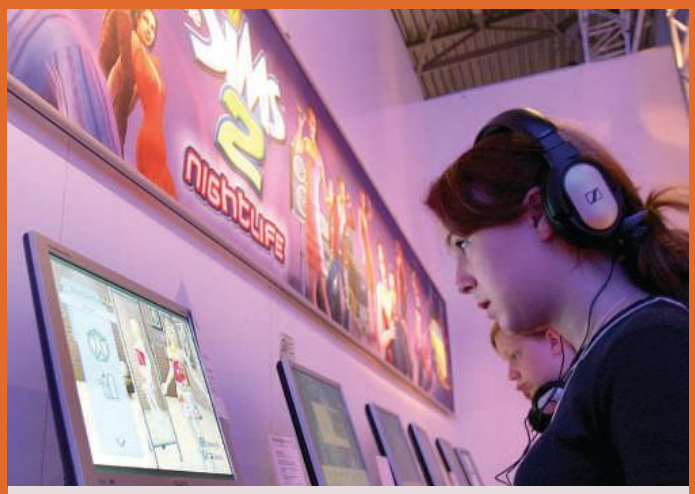


FIGURE 3.20 Margarita

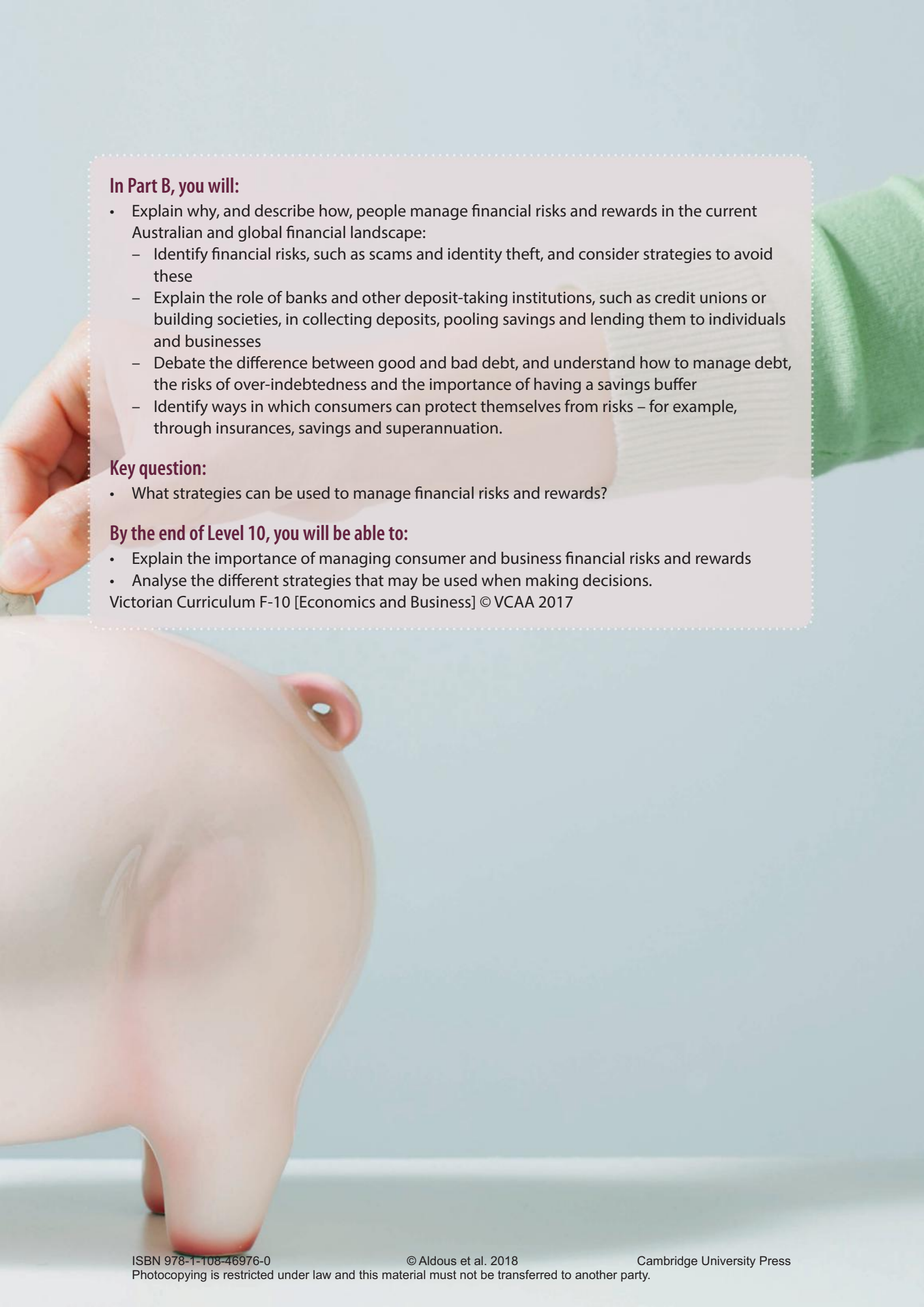
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Part B

Consumer and financial literacy



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In Part B, you will:

- Explain why, and describe how, people manage financial risks and rewards in the current Australian and global financial landscape:
  - Identify financial risks, such as scams and identity theft, and consider strategies to avoid these
  - Explain the role of banks and other deposit-taking institutions, such as credit unions or building societies, in collecting deposits, pooling savings and lending them to individuals and businesses
  - Debate the difference between good and bad debt, and understand how to manage debt, the risks of over-indebtedness and the importance of having a savings buffer
  - Identify ways in which consumers can protect themselves from risks – for example, through insurances, savings and superannuation.

Key question:

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

By the end of Level 10, you will be able to:

- Explain the importance of managing consumer and business financial risks and rewards
- Analyse the different strategies that may be used when making decisions.

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FIGURE 4.1 Australian currency

Chapter 4
The power of money and choice

Money is one of the most powerful commodities in the world. Money allows people to do many of the things they want to do and to have the lifestyle they want. It can drive the decisions made by individuals, households, businesses and even governments. Whether you are a consumer or a business owner, knowing how to make the most of the money you have is essential to improving your financial position and achieving your financial and lifestyle goals. In this chapter, we explore the role that money plays in our society, the **rights** and **responsibilities** of consumers and businesses, and the impact of technology in the financial sector. As technology changes the way we shop, our access to online financial products such as savings accounts and the way we communicate, it can be argued that money is more and more invisible. You can now use your phone, Fitbit and other devices to make payments, so how do you ensure that you can manage your finances and make the most of your hard-earned money? Some large companies such as Amazon are now even trialling stores where you simply make your purchase selections and leave the store, then are billed automatically.

GLOSSARY

Money often received for providing goods and services to others (e.g. wages) and a way of making payments, usually by notes and coins or electronic funds transfer (EFT)

Rights legal entitlements to have or to do

Responsibilities obligations or expectations to do

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4.1 The importance and function of money

Money is an essential part of everyday life. Money is a way of making payment for goods and services, usually by notes and coins; it is used every day in exchange for goods and services, and it is essential to keep the economy functioning. Money has many important functions in today's society.

Functions of money

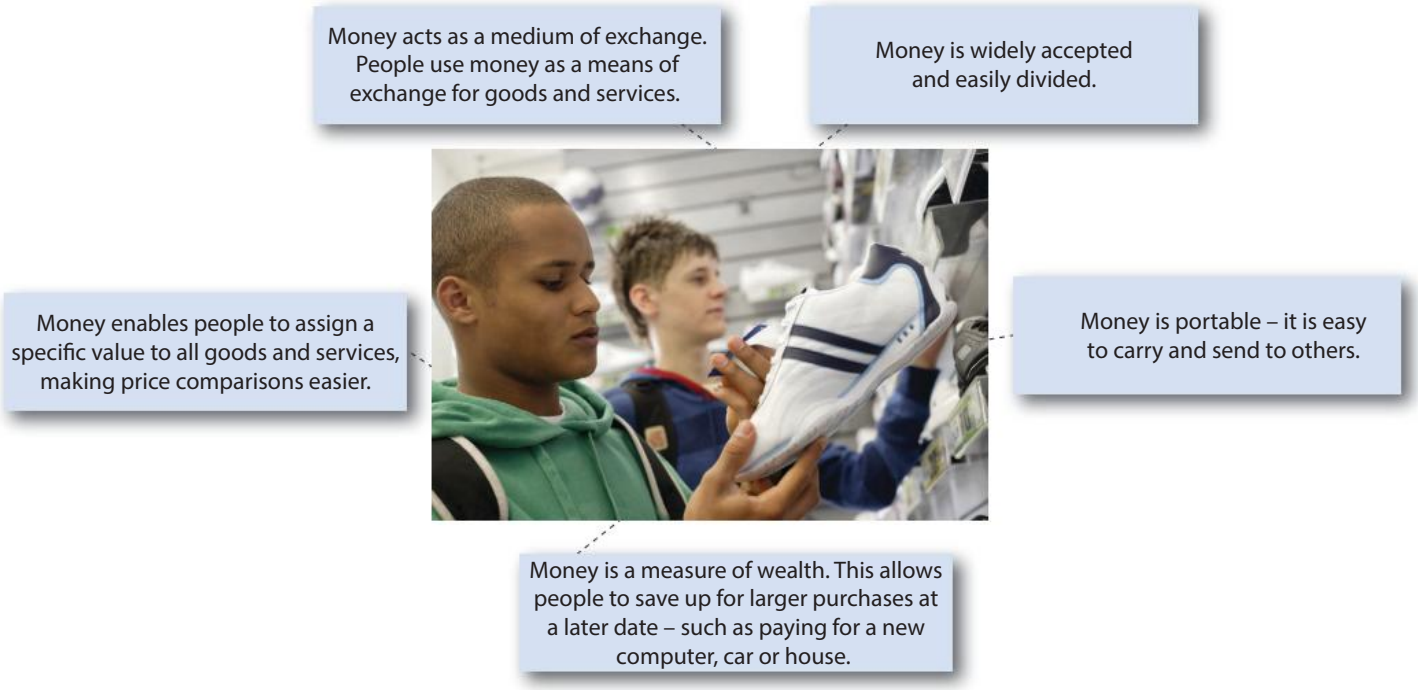


FIGURE 4.2 Functions of money

Banking and other financial institutions

Australia's financial system is made up of banks and non-bank financial institutions. The Australian banking system was deregulated in 1985. This meant that the government permitted overseas competitors to enter the Australian banking system. This has led to much greater competition in recent years, as a wide range of financial institutions offer products to entice new customers and retain existing ones. This means it is more important than ever to shop around for the best possible deal, whether you are opening a savings account, applying for a credit card or loan, or investing for the future.

FIGURE 4.3 The Hongkong and Shanghai Banking Corporation entered the Australian banking system in 1986.



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TABLE 4.1 Financial institutions in Australia

Type of financial institution	Description of financial institution
Banks	Banks are the most common type of financial institution. They offer a range of functions, from accepting deposits (in exchange, customers receive interest) to offering credit card and savings account options, home, business and personal loans, as well as typical banking services such as automatic teller machines (ATMs) and other banking products.
Credit unions and building societies	The range of services offered by credit unions and building societies has increased in recent years to be similar to banks. For example, many now offer home loans and provide savings and credit cards. To open an account with a credit union, you must be an eligible member. For example, the Woolworths Employees' Credit Union is open to employees and families of the Woolworths (Aust) Limited group of companies, and the Fire Service Credit Union is for Emergency Services personnel and their families. The main service of credit unions is to their members so, unlike banks, profit maximisation isn't the main goal.
Finance companies	Finance companies are more specialised than the previous two categories of financial institutions. Finance companies commonly offer consumers credit (particularly with credit contracts offered by furniture and electrical stores, where consumers can 'buy now and pay later') and also lend money to businesses for a range of projects.
Online financial providers	More and more companies are moving their businesses online and doing away with shopfronts and their associated costs. In the financial sector, this is very true. A growing number of online businesses offer financial products such as credit cards and savings accounts. These businesses claim that they offer better rates because they have lower costs. For example, ING Direct, ME Bank and even the more traditional banks often offer better rates for accounts that you can only manage online.

FIGURE 4.4 Some former building societies have become banks. Bendigo Bank started out in 1858 as a building society on the Victorian goldfields.



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Currencies

National currencies

Australian money consists of coins and banknotes that make up our **currency**.

From time to time, changes may be made to the types of notes and coins a country circulates.



FIGURE 4.5 Australia used to have a $1 banknote in circulation before it became a coin.

Did you know?

In 1966, Australia made significant changes to its national currency, moving to decimal currency. Prior to this, Australians used pounds, shillings and pence – just like citizens of some other countries, such as the United Kingdom.

If you travel anywhere in Australia, you will find that all retailers accept Australian currency. This makes it easy to pay for goods or services, no matter where you are within the country. However, if you travel overseas – on holiday, for example – you will notice that other countries have developed their own currencies. As shops within each country usually accept only their own country's currency, it is necessary to exchange any Australian notes and coins you have for those of the country you are visiting. This can usually be done at a currency exchange centre or **bank**. More commonly, consumers purchase foreign currency to be loaded onto travel or banking cards.

GLOSSARY

Currency the notes and coins accepted in a particular country

Bank a financial institution authorised to hold money, make loans, pay interest, accept deposits, change money and produce cheques

For those living on continents such as Europe, where countries are geographically much smaller than Australia and linked by common borders, having a different currency in every country is inefficient and inconvenient for consumers. As a result, 12 European countries agreed to introduce a uniform currency, known as the euro. The euro is accepted throughout countries such as Finland, Italy and Germany.

Cryptocurrency

Virtual currency commenced in 2009 with the creation of the world's first cryptocurrency, Bitcoin. Cryptocurrency is a digital asset working as a medium of exchange using cryptography (a sophisticated digital coding system) to allow the creation and use of virtual currency for purchase and payment. While Bitcoin is the best known, there are over 1000 cryptocurrencies, including Litecoin, Etherunit and Minero.

REVIEW 4.1

1. Why is money considered so important to helping an economy operate efficiently?
2. What are the main denominations of currency used in Australia? Explain why there is such a large range of denominations.
3. There is a lot of debate at the moment over whether we still need 5 cent pieces. Given that they now actually cost more to produce than their face value, do we still need them? What do you think? What factors need to be considered before a decision can be made?
4. If travelling overseas, what consideration would you need to keep in mind when buying goods or services in other countries?

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ACTIVITY 4.1 Research

Foreign currency

1 Prepare a table similar to the one below that provides a comparison between currencies used in different countries. Use the internet to find an image of each currency type. To find the current exchange rate, you can use an exchange rate website or app, or look through the business section of the newspaper.

Currency	Image of currency	Exchange rate (how much A$1 buys in exchange for this currency)
Euro		
Swiss francs		
Indonesian rupiahs		
US dollars		
UK pounds		
Japanese yen		

2 Whether buying online or locally, it is often important to consider the real cost of the product or service.

a Complete the table below for the following five products you would like to own, showing the comparable costs in Australian dollars. Use a currency converter website or app for up-to-date price conversions.

Product	Domestic price	Country 1	Country 2

b What other costs might you have to consider if purchasing from overseas?

ACTIVITY 4.2 Create

Design a $50 note



Imagine that you have been approached by the federal Treasury to design a new $50 note. You are permitted to choose the colour of the note, font style and two people to appear on the note. The two people you choose must have made significant contributions to Australian society. The Treasury wants you to design a contemporary and modern note, so you should choose people who have made their contributions during the last 20 years and are still alive today.

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4.2 Making payments

Payment choices

There are many payment options available for consumers in Australia today. While cash has traditionally been the most popular, its popularity has declined in recent years as consumers take advantage of other payment choices available. With cash, there is a risk of it being lost or stolen. Cash transactions are also difficult to record and trace.

There are now many other options available for making payments apart from cash. Credit cards have been around for decades, and with the development of **tap and go** technology, credit and debit cards are a very popular and quick payment option. In recent years, however, the growth in the use of alternative forms of payment such as debit and prepaid cards has been rapid in Australia, with debit cards now the most frequently used non-cash payment option.

GLOSSARY

Tap and go paying electronically with a card or your phone, often without the need for a signature or PIN number

Debit cards (EFTPOS)

Across the world, the use of debit cards as a payment option has grown dramatically. Debit cards are a 'buy now and pay now' form of payment card. These cards are linked to everyday transaction accounts, with the funds withdrawn from the consumer's account when the debit card is used. There are two forms in Australia: domestic debit (EFTPOS) cards and scheme debit cards.



FIGURE 4.6 Most businesses now accept payment using EFTPOS facilities.

- **Domestic debit (EFTPOS) cards**. Rather than carrying around large sums of money, it is more convenient and safer to carry a plastic payment card that enables you to access the funds you have in your bank account (such as a savings account). Most businesses now accept payment using electronic funds transfer at point of sale (EFTPOS) facilities. When the card is swiped through the electronic terminal, money is transferred from the customer's account to the retailer's account. The EFTPOS system requires you to enter a personal identification number (PIN). However, the convenience of using your plastic card can also be accompanied by bank fees. Students are normally exempt from paying bank fees on their savings accounts; however, charges may still apply – for example, if you make a number of transactions over a certain limit in any one month. For each transaction performed using EFTPOS facilities, retailers are also charged a **merchant service fee**. This is the reason you will sometimes find retailers offering customers a discount for paying with cash.

GLOSSARY

Merchant service fee a charge applied by a bank for using its services (often for credit cards)

- **Scheme debit cards – MasterCard or Visa**. Scheme debit cards are offered by a variety of banks and are a very flexible payment option that can be used in retail stores across the world as well as for telephone and online payments. As you are accessing your own money, a scheme debit card makes it easier for you to control your own finances and not spend beyond your means – which can be a temptation with credit cards! These cards operate under a system of global rules, so you can use these cards overseas, unlike the EFTPOS system, which is for domestic use in Australia only. Scheme debit cards also offer greater purchase protection and more cardholder services than ETFPOS.

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Prepaid cards

Prepaid cards are a 'pay now, buy later' form of payment card. They are easy to use, convenient and involve a consumer loading funds onto a prepaid card for later use. Prepaid cards can be used for a wide variety of purchases, such as prepaid mobile phone cards, prepaid fuel cards, iTunes, Google Play and a prepaid Visa or MasterCard. Some cards are for use only at a particular store or chain; however, more and more cards are flexible, allowing you to purchase from a whole shopping centre, range of stores or even any store with the newer EFTPOS gift cards. With a prepaid card, a consumer can spend up to the amount of the card's prepaid value. This means it is not possible for you to go into **debt**; once the money on the prepaid card is down to zero, you must top the card up again with funds. Companies such as FlyBuys now also allow you to convert your points into FlyBuys dollars, which are then loaded onto your FlyBuys card and can be used anywhere you earn FlyBuys points. They are accessed by scanning your FlyBuys card at the register and entering your pre-chosen PIN.

Gift cards are often seen as a win for both consumers and retailers. Gift cards are a very popular option, and it is estimated that in 2018 there will be around A$160 billion dollars worth of gift cards sold. They provide flexibility for the gift recipient to purchase something they really need or want. Gift cards are not only popular with consumers, but also with retailers. Statistics regularly show that consumers are likely to spend around 40 per cent more than the value of the gift card when they redeem it. Another very interesting statistic is that around 40 per cent of consumers report losing their gift cards or not redeeming them before they expire. The current growth in digital gift cards, which can be stored on your phone, may help consumers to ensure that they get the most out of their gift cards. One potential issue with gift cards is that if the business fails, stores may put restrictions on redeeming gift cards during the closing down period, or even refuse to accept them at all.

GLOSSARY

Debt the state of owing money

Credit cards

Buying on credit means to 'buy now, pay later'. With more than 200 credit cards on offer in Australia, payment by this method has become a very popular option. To apply for one of these cards, a person undergoes a credit check by the financial institution involved. It is important to check the fine print for any fees and annual charges that can apply in relation to owning a credit card. Each credit card has a specified credit limit that cannot be exceeded. If someone would like to access cash as part of this line of credit, they can also take money out as a cash advance. To pay using a credit card, the customer must present their card to the retailer. The credit card is swiped, inserted or tapped on the EFTPOS machine and then the customer may need to enter a PIN into the machine as part of the authentication process. Often if a customer uses the tap and go feature and the amount is less than $100, a PIN will not be needed.

FIGURE 4.7 Technological advances have also improved EFTPOS devices so they can now be portable, wireless and can attach to other devices like a phone or tablet.



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At the end of each month, the customer receives a statement showing how much they have spent on credit. The credit card statement will set out the minimum payment required for that month and the date by which payment must be made. Interest charges apply to those customers who fail to pay the outstanding balance in full at the end of each period, so it is best to pay more than the minimum payment and as close to the complete outstanding payment as possible to avoid hefty interest costs. The interest rate (expressed as percentage per annum) varies according to the type of credit card – for example, a low-interest card, a standard card, a premium card. The annual interest payable can therefore vary from approximately 8 per cent to just over 20 per cent per annum.

GLOSSARY

Cheque a document that orders a bank to pay money from a specified account to an individual or organisation

Cheques

A **cheque** is a promise to pay a specified amount of money to an individual or organisation. Although still used by many businesses as well as some individuals to pay bills, there has been a significant long-term decline in the use of cheques in Australia.

When a cheque has been written, it must be cleared by the financial institution at which the cheque account is held. Note that not all businesses accept payments by cheque. There are some advantages of paying by cheques:

- They incorporate an easy-to-use record-keeping system (cheque butts).
- They are easily traced and relatively secure.



FIGURE 4.8 There are some advantages to paying by cheque.

Lay-by

The downturn following the Global Financial Crisis (GFC) has seen the popularity of lay-by as a payment choice increase again. A lay-by is used when a shopper picks out an item(s) in a retail store, but does not take delivery of the goods until the whole of the purchase price is paid off. Most stores offer lay-by as an option, usually with few or no additional fees. Lay-by is a great way to budget for an item, as you can pay it off in instalments and then pick up the lay-by item once you have paid it off in full. Lay-by allows you to take advantage of lower prices while a sale is on, then collect the goods later when you have paid for them. The retail store at which you lay-by will usually have a fixed period by which the final payment must be made.

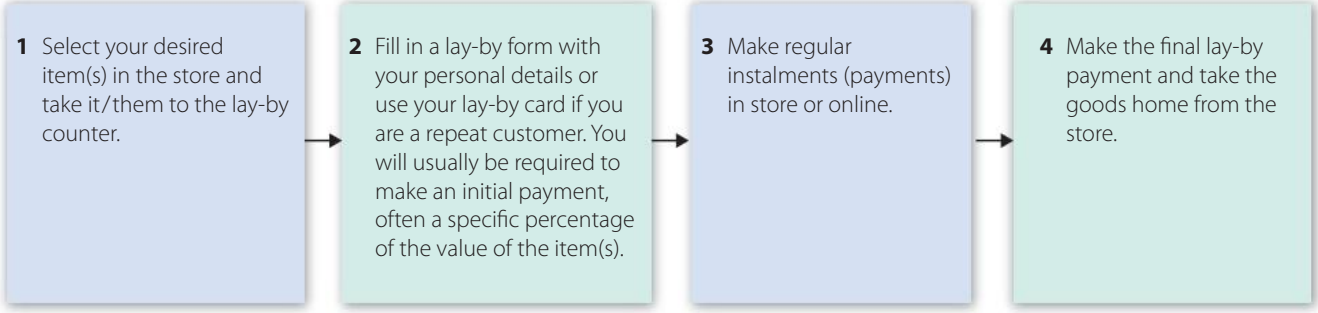


FIGURE 4.9 The typical steps in a lay-by from a department store

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Direct debit

In addition to these payment options, it is also possible to set up direct debit arrangements between yourself and another individual or business to which you need to make regular payments. For example, if you joined a gym, membership payments could be deducted from your savings account or credit card once a month. This amount would then automatically be transferred to the bank account of the business you are paying. Loan repayments are another example of a common direct debit.

How technology is changing the way we pay

Tap and go

As technology has advanced, so has our ability to quickly and easily access our money or credit facilities. By tapping your credit or debit card against a card reader in store, you can easily make your purchases, and if the amount is less than $100 you often do not even need to enter your PIN. Likewise, recent technological advances have made it possible to tap your phone or other device instead of a card, with options such as ApplePay, Fitbit and banking rings.

e-TAGs

As technology advances, so too do the payment options available to consumers. A good example is toll roads. A toll road is one that requires payment in order to drive along it. There are still some toll roads operating in Australia that require the driver to stop at a designated toll point to throw coins into a machine before proceeding through a barrier. The problem with this approach is that it slows traffic down dramatically. This is inconvenient, so most toll roads have been developed using new technologically advanced forms of payment. When CityLink opened a toll road in Melbourne, it introduced an electronic payment device called an e-TAG. Drivers who use this toll road regularly are required to install a transponder device on the front windscreen of the vehicle. As the driver travels along the toll road, an overhead tolling system scans the e-TAG at various points. A charge is then electronically recorded against the person's account.

It is also possible to open an account with CityLink, providing your car's registration details as well as your contact details. Whenever you use the toll road, the registration number is photographed and you are emailed an invoice. Alternatively, you can set up a direct debit of a pre-set amount (for example, $100) with CityLink and as your e-TAG is scanned on trips, the pre-set amount is reduced. When the amount reaches a pre-determined low, the direct debit is automatically 'topped up'.

Smart cards

Smart cards are also gaining more acceptance as a method of payment in Australia. A smart card is usually made of plastic and is of a similar thickness to a credit card. A smart card contains a thin microprocessor capable of storing data.

Myki is a smartcard (containing a microchip) that replaced the paper tickets used on Victoria's public transport system. Myki was first trialled in country Victoria in 2009 and is now used across Melbourne.

When you get on a bus, train or tram that uses Myki, there is a reader near the front door. You must touch your Myki card onto the reader when you get on and off the public transport. Your Myki card will then be charged depending on how long your trip is. Myki is like a prepaid phone – you need to regularly top up your card to ensure you have enough credit to pay for your trip. A red light on the Myki reader will show if you don't have enough credit on your Myki card.

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In-app purchasing



FIGURE 4.10 Ensure you manage in-app purchases.

When is money not cash? When it is transferred into other things such as jewels, crystals or Pokécoins. Many gaming apps these days require you to purchase additional game levels, jewels to pay for extra time or moves to complete a level or to gain extra items that help you win. These in-app purchases initially require you to pay using a gift card such as an iTunes card or provide your credit card details, either directly or through your iTunes or Google Play account. It is not uncommon for people to get themselves into financial difficulty because once your cash is converted to jewels or Pokécoins, you may feel like you are no longer spending your hard-earned money, or you may lose track of your spending because these packs can add up very quickly when you like an app or game, and you may not check your emailed receipts carefully to see how much you have spent.

Some tips for managing in-app purchases include:

- Set yourself a limit per week or month and stick to it.
- Make in-app purchases during special events when discounts are offered.
- Purchase iTunes or Google Play gift cards when they are on special – for example, 10 per cent off – so you get more for your money, then use these to make purchases.
- Buying higher quantities is often cheaper, but check the details carefully. Sometimes the biggest in-app purchasing pack is not always the cheapest option. Pokémon GO is a good example of this. Which pack of Pokécoins represents the best value?

What will they think of next?

Many financial institutions are working with technology companies to develop wearable payment bracelets or rings. These bracelets will link to the wearer's bank account and consumers will no longer need to carry their cards with them. These are very similar to businesses such as Starbucks, which are trialling smart watch payment systems. Some businesses are trialling bracelets and rings that also require some biometric data, such as a fingerprint, to ensure that the wearer is the owner of the bracelet or ring. There are also rumours of trials of microchip technology where a chip under your skin could be used in a similar way to a bracelet or ring.

REVIEW 4.2

With improvements in technology, the options for possible payment methods may seem limitless.

1. Create a table of different payment options and list pros and cons.
2. What do you see as the possible advantages and disadvantages of future options such as wearable banking bracelets?
3. Suggest ways to overcome some of the issues you identified in questions 1 and 2.

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GLOSSARY

Credit rating credit reporting agencies collect information from credit providers (e.g. banks) about customers who have failed to make payments on time; credit providers often check the credit rating of new applicants, to assess whether they will pay back the debt.

4.3 Managing credit effectively

Using credit wisely is an important strategy for being a smart consumer. Credit enables a person to purchase goods and/or services now and then pay back this amount at a later date. In recent years, Australian consumers have used credit to purchase a range of products, including new cars, clothes, holidays and houses. The key to using credit is that you must be able to pay it back on time. Unfortunately for many people, they get carried away and borrow too much. Not paying back credit on time will result in high interest charges and the possibility of a poor **credit rating**.

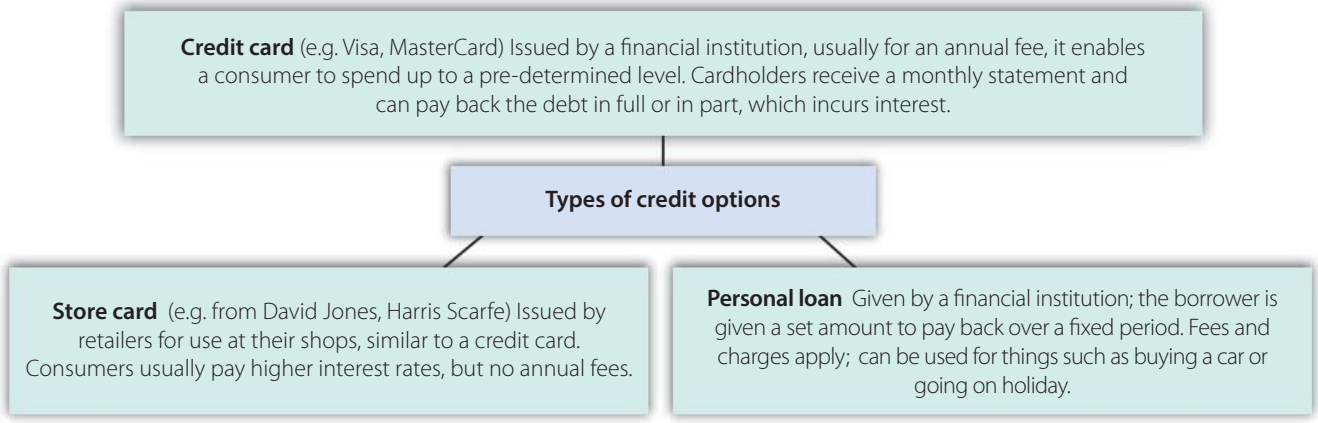


FIGURE 4.11 Some of the more common types of credit arrangements available to consumers

REVIEW 4.3

For each of the scenarios below, advise each person which type of credit arrangement would be the most suitable from the options available (credit card, store card and personal loan).

1. John works full time and earns an average income as a sales assistant. Although not keen on using credit, John is interested in getting a credit product that will allow him to purchase airline tickets on the internet as well as bid for his favourite Kylie Minogue memorabilia on eBay. Which credit arrangement would suit John?
2. Maddy has a high-paying job with significant income. She shops regularly at David Jones and particularly likes its range of high-quality cutlery and dinnerware. While shopping there last weekend, she saw a special offer, offering four years' interest-free credit. This offer, however, only applies to credit arrangements taken out through David Jones. Which credit arrangement would suit Maddy?
3. Andy has always had a desire to buy a retro 1970s Volkswagen Beetle. He recently saw one advertised in the Trading Post Online for $8000 that was in immaculate condition. Having already saved a $2000 deposit, he wishes to borrow $6000 over a five-year period. Which credit arrangement would suit Andy?

The pros and cons of using credit

While there are advantages to using credit, there are also many pitfalls. The advantages include the ability to purchase items immediately, convenience (particularly with internet purchases such as airline tickets) and the ability to take advantage of special offers (such as interest-free credit terms). However, easy credit can lead to impulse purchases because people forget that they will have to repay the debt. Another pitfall is accepting a credit limit that is too high. Credit purchases also incur a range of fees and charges, such as interest, set-up charges and late-payment fees.

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ACTIVITY 4.3 Research

Credit survey

1 Survey at least five people to see how much they depend on credit when shopping. The questionnaire should include questions such as:
   - **a** Do you own a credit card? If yes, how many?
   - **b** What type of items do you buy regularly using credit?
   - **c** Did you pay cash for your car or was it purchased on credit?
   - **d** What do you see as the advantages and the disadvantages of using credit?
   - **e** Do you think that credit is too easily available in Australia?

2 Graph your results using a program such as Microsoft Excel. These results can then be pooled with those obtained by the rest of the class.

Credit files: Someone is watching you!

If you have ever used a credit card, taken out a loan or taken a plan to buy a mobile phone, a credit file with your name and all these details will be recorded. Many young people enter into contracts to buy mobile phones. If you are more than 60 days overdue with the bill, then a black mark will be recorded against your credit rating. This stays on your record for five years and may make getting a car or home loan very difficult later on.

ACTIVITY 4.4 Create

Equifax website

1 Using the information in the articles section on the Equifax website, prepare a written report, video, TED Talk-style presentation or audio program that other teenagers could download that covers:
   - what a credit file is
   - how to obtain a copy of your own credit file
   - what you should do if you are declined credit
   - what to do if you have an overdue account
   - maintaining creditworthiness
   - how to deal with identity fraud.

   This activity can be completed either individually or in pairs. A fact sheet that highlights the key points contained on the program should also be completed to accompany the download.

FIGURE 4.12 Don't let your credit card use tumble out of control!



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REVIEW 4.4

1 Comment on the statement, 'You can't spend more than you earn.' How do you think this relates to being financially literate?
2 Outline three strategies to manage personal finances effectively.
3 What is the relationship between spending wisely and improving your own financial position?
4 What factors could influence a person's desire to spend too much using credit?
5 Explain the similarities and differences between credit cards, store cards and a personal loan.
6 How could a person's credit file affect their ability to obtain finance for a house or car?

ACTIVITY 4.5 Research

Television advertising

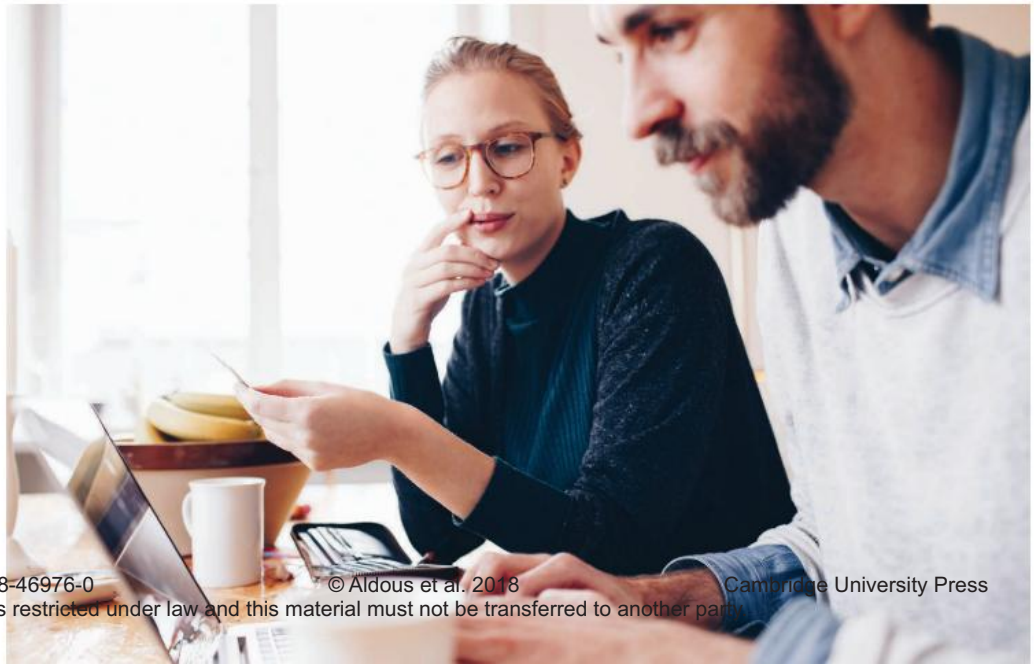
1 Watch commercial television for at least an hour each night over a period of five nights. Note down any advertisements that encourage consumers to take out credit. Do you think there should be any restrictions on the types of advertisements that encourage people to obtain credit cards or take out loans?

ACTIVITY 4.6 Collaborate

Brand names

This activity is available in the online version of the textbook.

FIGURE 4.13 It is easy to go into debt using credit and it is important to track, monitor and limit your spending on credit.



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4.4 Consumer choice

Every day, consumers are faced with choices when they are looking to buy goods or services. Money is a limited resource, so consumers must make decisions when trying to satisfy their **needs** and **wants**. For you to make your money last longer and get the best possible value from it, you need to make intelligent consumer decisions. It pays not to go beyond your budget and not to act on impulse when shopping.

GLOSSARY

Needs goods and services that are necessary

Wants goods and services that are desired but not necessary

Choosing what to buy; choosing where to buy

The following are some smart options available to consumers when buying goods and/or services.

Plan, plan, plan!

By saving towards a goal and then paying cash for an item, you are able to save on unnecessary interest fees and charges. You are also less likely to impulse buy items if you plan your purchases in advance. It is also wise to think about the best time of the year to buy the good or service you are considering. For example, it is cheaper to get air conditioning or a new swimming pool installed during winter when it is cold and wet – during the hot summer months, there is likely to be higher demand.

Compare prices and brands

When shopping, many consumers purchase items they see without comparing prices. As there can be large differences in prices between retailers, this can lead to substantial extra costs when buying identical items. The cost of the same PS4 game can often vary by $15 or more between retailers.

It is also worth checking out the differences between brands, as there can sometimes be substantial price differences, yet the differences in quality may be minimal. While some people may be happy to pay extra for certain features in a product or service, in many cases it is possible to find a suitable alternative at a reduced price.

Use the internet to your advantage

Many opportunities are available on the internet to purchase goods or services at prices that are lower than elsewhere.

Sites such as eBay and Gumtree have gained in popularity, both in Australia and overseas, as a way for people to sell unwanted goods or buy items that may no longer be available in shops. 'ShopBot' sites such as 'my shopping' quickly compare different brands and retailers and the availability of personal internet on devices such as phones puts the power literally right in the hands of the consumer, allowing consumers to haggle for the best possible price.

Specialised internet sites such as TripAdvisor and Wotif.com offer holiday accommodation at substantial discounts to normal room rates. It is also possible to buy other items such as theatre tickets, perfume and restaurant meals on specialised sites. To obtain the best deals, you need to scan such sites regularly to find out what is on offer. The internet can also be used to find information on purchases.

The impulse buyer

To be an informed consumer is to be armed with as much information as possible when making important consumer decisions. Yet one aspect of the decision-making process that is often overlooked is impulse buying.

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Buying on impulse occurs when a purchase of any goods or services is unplanned. Retailers often make extra sales in their shops through setting out their stores in a way that entices customers to make spur-of-the-moment, impulsive buying decisions. For example, if you go into a supermarket to purchase a carton of milk, you usually need to go to the back of the supermarket. This means that to get to the cash register to pay for the milk, you will walk through a large section of the supermarket with many potential impulse purchases tempting you along the way.

Also, while queuing at the cash register, there will be magazines and confectionery to further tempt you. You could end up walking out of the supermarket with more than the milk.

How advertising influences consumer choices

Advertising is a method used to inform potential customers about products that are being sold. The purpose of effective advertising is to persuade consumers to buy what a producer has to offer. A good advertisement will understand its target market well.

Despite a relatively small budget, Tourism Queensland generated much media attention and three awards at the Cannes International Advertising Festival for its 2009 campaign. The 'Best Job in the World' advertisement offered the successful job seeker $150 000 to live rent-free on Hamilton Island on the Great Barrier Reef for six months. The winning job seeker was Ben Southall, and he was required to keep a blog, give media interviews and keep a photo diary to promote tourism in Queensland as part of his contract. This advertising campaign attracted 34 000 applicants from around the world. The advertising campaign was a big success, as it was both interesting and creative. When the winner was announced, many television stations and newspapers within Australia and across the world publicised the story, giving Queensland lots of exposure as a great holiday location.



FIGURE 4.14 Hamilton Island on the Great Barrier Reef

Online advertising is all-pervasive. Have you ever searched for a product online and then found that all your social media accounts such as Facebook are now full of advertisements for similar products? It can feel like a barrage of information. Marketing companies are now even building into store apps technology to track where you are, using your device's location services to send you special deals and sales

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information when you come within a few hundred metres of their store. It is all very deliberate and is designed to get customers spending more.

A wise consumer needs to be wary of claims that are made in advertisements and to do some background research. For example, some moisturisers claim they can eliminate wrinkles; other products on the market tell consumers that they can lose weight easily. Many of these claims are an exaggeration of what the products can really do. Being bombarded with advertising in all aspects of our lives can lead us to impulse buy or spend beyond our means to conform to **peer group pressure**. Remember that one strategy to avoid impulse buying is to distinguish between your needs and your wants. If you see a product advertised that is a want, and that is beyond your budget, ask yourself whether you really need to buy it.

GLOSSARY

Peer group pressure the added influence of people within a similar group, such as a school, sports or other group

REVIEW 4.5

1 Suggest three advantages of the internet for the consumer.
2 What is 'impulse buying'? Explain using an example.
3 Why do consumers need to be wary regarding advertising of products/services?

ACTIVITY 4.7 Reflect

Shopping

1 Are you the type of shopper who plans what you will buy before going shopping, or do you take an unplanned approach and impulse buy? Write a brief account of the type of shopper you think you are.
2 Describe a time when you have been persuaded to buy a product because of effective advertising. What was the product you bought? How did advertising influence you to buy the good? Are you normally influenced by outside pressures such as advertising or peer group pressure when you make buying decisions?

ACTIVITY 4.8 Research

Media advertising

1 Look through newspapers, magazines or online to find examples of advertisements making claims about their products that seem to exaggerate benefits or those making claims that are hard to believe. Cut out the ads and place them in your workbook, then explain why you think these claims are possibly unjustified.
2 Watch television between 6.00 pm and 10.00 pm on a weeknight. In a journal, record advertisements you see using a table – use the column headings indicated below as a guide to creating your table. To write down all the details, it may be easier to record the advertisements so that you can replay them if necessary. You need to comment on 15 different advertisements. Draw up the headings in your notebook as shown below.

Advertisement number	Time of advertisement	Product being advertised	Style of advertisement	Score out of 10	Effectiveness: Would you buy the product?

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FIGURE 4.15 Consumers and businesses have both rights and responsibilities.

4.5 Rights and responsibilities of consumers and businesses

When purchasing goods or services it is important to be aware of your rights as a consumer.

There has been a trend towards looking after the legitimate rights of consumers, not only in Australia but also around the world. Consumers and businesses have both rights and responsibilities. Rights are in the main legal entitlements to have or to do, whereas responsibilities are obligations or expectations to do. Generally speaking, a right of a consumer becomes a responsibility of the business with which the consumer is transacting.

A summary is provided below of the role of the Australian Consumers' Association (ACA), which was established in 1959, and the United Nations Guidelines for Consumer Protection.

The Australian Consumers' Association

- Founded in 1959.
- Acts as a 'voice' on a range of consumer issues – for example, if the ACA believes consumers are being treated unfairly by banks or other businesses, a spokesperson may appear on television or in other media to express this.
- Releases a monthly magazine called *Choice* to which consumers can subscribe. It contains articles on important consumer issues and consumer protection, as well as the results of tests for quality and reliability conducted on a range of consumer products.
- Helps maintain pressure on all organisations to 'do the right thing' by consumers.

United Nations Guidelines for Consumer Protection

- First adopted in 1985.
- Contain eight key rights to which consumers should be entitled:
  1. Consumers' right to choose products at competitive prices
  2. Right to be informed about their choices
  3. Protection against dangerous products
  4. Importance of consumer education
  5. Right to have access to basic needs
  6. Being able to live in a healthy environment
  7. Right to have their voice heard
  8. Right to settle any disputes that may arise over faulty or inappropriate goods or services.

How the consumer is protected

Consumer laws apply in each state and territory of Australia and, while there are some variations, protection is available in the forms discussed in the following pages. Essentially, the protections represent the law ensuring that the business's responsibilities to the consumer are adhered to.

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Warranties

A **warranty** is a written promise by the dealer or manufacturer that a product is free from faults. Warranties offer consumers protection when buying certain goods or services. A warranty assures the buyer of the item that if something breaks down or doesn't work properly, the retailer will guarantee either to rectify the fault or, if necessary, to replace the item with a new one. Often with larger purchases such as electrical appliances, you can also purchase an extended warranty to provide a longer period of cover.

GLOSSARY

Warranty a written promise by the dealer or manufacturer that a product is free from faults

For example, various different warranties are offered to car buyers, depending on the brand of car being purchased. Some people prefer to buy a brand new car because they know that if something major breaks down, the manufacturer will repair the car at no charge. It is important to note that normal wear and tear (such as replacing the oil or windscreen wipers) or damage caused by the consumer through misuse are not covered by a car's warranty. It pays to read the fine print in any warranty and to be aware that it will expire after a set period of time.

Product standards

When buying a product or service, there is a strict understanding that the consumer can expect to be safe if they use the product correctly. The *Fair Trading Act 1994* was established to set out product safety regulations in a range of areas, from sunglasses through to children's toys. This applies to both Australian-made and imported products. Consumer Affairs Victoria developed a Toy Safety Checklist that provides advice on what to look for in toy safety. Areas covered include looking out for small parts (and how this could cause choking in young children); toys with sharp edges; and the need to check toy guns that fire projectiles at high speed. All these measures are aimed at protecting young children from danger.

If a product is sold in the community and later found to be dangerous, then the manufacturer of the product will be required to recall every item sold and to provide a refund to consumers. In 2017 and 2018, there was a worldwide recall of some brands of car airbags, which had been proven to be faulty. This affected many consumers and many different car manufacturers, who had to issue recall notices and replace the airbags in all affected cars. This cost many millions of dollars globally.

FIGURE 4.16 It is important for car manufacturers to fully test all elements of their product. When they fail, as some did in the testing of their air bags, lives are at risk.



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GLOSSARY

Cooling-off periods offer the consumer the chance to cancel a particular consumer transaction within a set period of time

Door-to-door sales a method of selling whereby a salesperson visits a customer's home with the intention of selling a particular product

Cooling-off periods

Cooling-off periods are designed to protect consumers when purchasing particular products or services. For example, if a consumer bought a cable television subscription through **door-to-door sales** in Victoria, they would be entitled to 10 business days during which time they could change their minds and cancel the contract. This law was introduced by the government to protect consumers from salespeople who were putting pressure on consumers to buy particular products on the spot. Cooling-off periods also apply to the purchase of cars and houses, although specific conditions apply.



FIGURE 4.17 If you buy a product that is faulty, then you are entitled to a refund or exchange.

Refunds or exchanges

When shopping, it is important to be aware of your rights if something goes wrong. In some shops you might see a sign near the cash register that states 'No refunds or exchanges'. This sign is actually illegal because if you buy a product that is faulty, then you are entitled to a refund or exchange. The *Trade Practices Act* is federal legislation that sets out the conditions under which the consumer is entitled to a refund or exchange if goods are purchased that are not of 'merchantable quality or fit for the purpose they were intended for'. Therefore:

- If you buy a product that doesn't work properly, the retailer must exchange or refund your money.
- Where the product inside the packaging is different from that displayed, or if the product is different from the way it is described in advertising, you are also entitled to an exchange or refund.
- If you return an item simply because you have changed your mind, the retailer is under no obligation to give you a refund.

Whatever the reason for returning goods, the receipt must be kept as proof of purchase.

There is a problem: What do you do?

If you are not satisfied with a particular purchase (for example, the goods are faulty), the first step should always be to contact the retailer about your concerns. Show your receipt and warranty (if applicable) and explain the reasons why you would like a refund or exchange. In most cases, the problems will be resolved as businesses prefer to keep their customers happy. If this approach doesn't work, other avenues are available.

Many industries have set up their own associations or have had an **ombudsman** appointed. Consumers may make complaints through either of these avenues. Many consumers have experienced problems with their telephone or internet service providers. Complaints range from being over-charged when making calls, to poor or inadequate reception, to faulty repairs of phone or internet services. If consumers are unhappy with the service provided for telephone or internet services, help is available. Unhappy consumers can seek assistance from the Telecommunications Industry Ombudsman (TIO),

GLOSSARY

Ombudsman an official appointed by the government whose job it is to investigate consumer complaints within a specific industry

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a free and independent service that aims to help consumers resolve disputes they may be having with their telephone or internet service provider.

Another avenue of redress of an issue for consumers is to contact Consumer Affairs Victoria. This organisation is able to inform you of your rights and what you should do next.

REVIEW 4.6

1 Compare the 'rights' of a consumer with 'responsibilities' of a business.
2 Explain how a warranty can protect a consumer.

ACTIVITY 4.9 Research

Consumer protection

1 What are the steps involved in lodging a complaint with the Telecommunications Industry Ombudsman? Visit the website to find out.
2 Many stores, such as Target and Big W, go beyond the minimum required by law in regard to consumer refunds or exchanges. Visit their websites to obtain a copy of their refund and exchange policies. What reasons can you offer for shops such as these giving customers the option of returning goods, even if they have just changed their minds? How could this attract extra customers?
3 Identify the warranties offered with the following brands of new cars: Mitsubishi, Holden, Toyota and Honda. You can get this information from looking through the motor vehicle classifieds or by visiting each car company's website. Why do you think there are differences? Could these differences affect a consumer's decision to buy a particular brand of car? What items are usually excluded under these warranties? Collect copies of the warranties you have found from the internet or newspaper.
4 Research and provide a one-page profile on the role of the Australian Consumers' Association. What does it do? How do you contact it? Why is it important in advancing the rights of Australian consumers?

FIGURE 4.18 As a consumer, you have certain rights in regards to the goods and services you purchase.



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CONSOLIDATE YOUR LEARNING

1. **Hold a class debate on the topic 'Advertising encourages consumers to buy more products than they need'. You will need three people on the affirmative side to argue in favour of this statement and three people on the opposing side to disagree with this statement. Make sure you complete adequate background research to back up your arguments with appropriate factual information.**
2. **Prepare a short video, photo-story or poster for teenagers that will show them the dangers of being an impulse buyer. On your poster, include information on strategies to improve buying habits, such as planning the decision-making process, using the internet to grab a great deal and shopping around for the best price.**
3. **Design a mind-map that provides a summary of the various payment methods available in Australia, such as using money, credit cards, BPAY, lay-by and direct debits. Include an outline of the advantages and disadvantages of each method of payment.**



FIGURE 4.19 Cash is now only one of the ways that you can purchase goods and services.

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4 Carefully read the following information about Dean and then devise a plan of action.

It is going to be an exciting year for Dean. He recently completed Year 12 and has landed a full-time job as a mobile phone salesperson. Dean's plans for the coming year include buying a new small car with the money he has saved from a previous casual job and taking a six-week world trip, including the United States and Germany.

Taking into account the information you have about Dean and the knowledge you have gained in this chapter, prepare an information booklet you can give to Dean prior to his departure. The document should address the following:

- **a Locate a new small car for Dean that costs less than $16 000. Dean would really like a car that offers a warranty period of at least three years for his peace of mind. Dean also wants to know whether any cooling-off period applies to buying a new car.**
- **b Dean lives with his parents 20 minutes from the city. He needs to take a tram to work each day. Dean is not sure whether he should buy his public transport tickets weekly, monthly or yearly. Dean has also heard that he may need to use the Myki smartcard to travel on public transport. Visit the VicLink and Myki websites and advise Dean on ticket prices.**
- **c Dean has heard from friends that the internet offers some great deals when booking flights. He wants to fly from Melbourne to the United States and then to Germany around Christmas time. Go online and find Dean the best flight deal. Include information on how many stopovers the flight has, the name of the airline, the price of the flight, taxes that need to be paid and what is included with the flight (such as seating allocation and onboard food). Also provide Dean with some travel tips at the airport – for example, not carrying liquids on board an international flight and how long to arrive before the departure time.**
- **d Using a currency calculator, explain to Dean how much A$1000 will buy in US$ and also in euros (for when Dean is in Germany). Provide Dean with advice on options available when spending money overseas, such as cash, credit cards and travel money cards. You may wish to include a table that outlines the advantages and disadvantages of each option. You will need to visit the website of any major bank to help you with the research on the differences in payment methods.**
- **e Provide Dean with any other tips or hints you think will help him to achieve his goals this year – for example, the importance of planning his purchasing decisions carefully, resisting impulse buying and not wasting money unnecessarily.**
- **f This information booklet should be at least three pages in length, digitally prepared and visually interesting. Use a range of text and visuals in the page layout that could include images of the currency of the countries Dean is visiting or of the new car recommended for him to buy.**

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FIGURE 5.1 Build a nest egg

Chapter 5
Making the most of your money

In this chapter, you will explore a range of key financial issues that are faced by individuals and businesses and look at the importance of financial planning, including budgeting and saving. Debt management will also be examined, as will investing and wealth creation. Applications to both individuals and businesses will be considered. In a society where cash is becoming more and more invisible, it is essential to develop sound financial management skills.

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5.1 Financial planning

Knowing how to manage personal finances effectively is a skill that everyone should learn before they leave school. In today's world, money is becoming less visible. The increased use of technology such as 'tap and go' or 'pay by phone', and the growth of online shopping all make it easier and faster than ever to buy the things you want. The decisions people make every day have an impact on their financial position, wellbeing and lifestyle.

In the past, you had to first go out to the shops when they were open, look around for the product you wanted and then make your decision. This often provided a lot of time to carefully consider the product and the features you needed or wanted, and how much you were willing to pay. It can be argued that now consumers have a lot more information and power at their fingertips. Online research is often completed before major purchases, to find the best price and features. Consumers may then go and purchase in store or buy online, either locally or from interstate or overseas, and not need to leave the house at all.

With all this convenience come some challenges, including those related to ease of buying. For example, how do you effectively keep track of your overall spending when you simply have to tap your card or phone? When shopping online, how do you ensure that you are buying from a supplier that will ensure your goods will actually arrive? How do you keep your financial details and banking information safe?

Household debt in Australia remains at an all-time high. Many Australian consumers make poor financial decisions by spending more than they earn. Becoming an informed consumer is essential, and developing the skills to successfully manage money is also essential for any individual or business owner.

Needs and wants

Among the factors people take into account when making financial decisions are their needs and wants. Lifestyle choices and income may not always match, so it is important to really weigh up whether something is an essential item – a need – or a want.

The line between needs and wants can often be blurred. In today's society, it can be argued that a mobile phone may be an essential item for many reasons, including personal safety. A person may need a new phone because their current one is not working properly. However, this need may be filled easily without purchasing the newest phone on a 24-month lock-in contract that will end up costing four or five times more than the phone released 12 months ago. So, while someone may need a phone, the decisions about which one, the types of features available and the type of plan will usually involve some sort of consideration of needs versus wants. For example, wanting a bigger screen, a better camera and more memory will cost more.

Income

Income can be defined as money received in the form of **wages** or a **salary** paid by an employer. Other types of income include interest (earned from money held in the bank), rental income from property owned, **dividends** received from shares or government payments such as unemployment benefits, childcare rebates and youth allowance.

GLOSSARY

Wages the money an employee receives from an employer in exchange for the completion of set tasks

Salary a yearly payment amount to an employee that is then divided into fortnightly or monthly payments.

Dividend a payment made to shareholders when a company performs well

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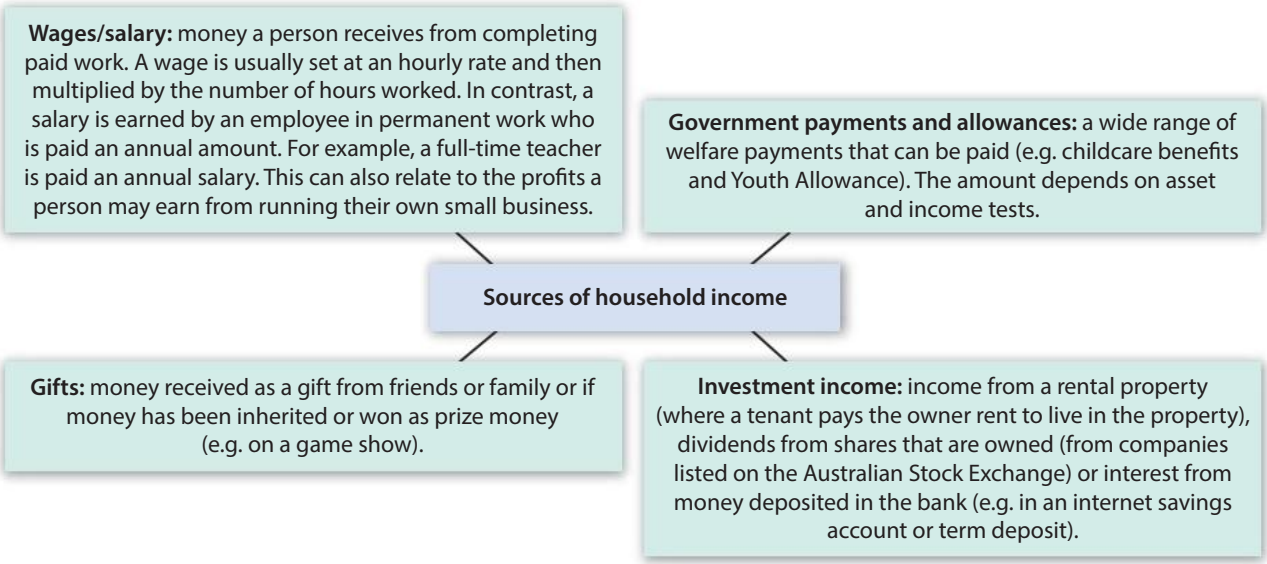


FIGURE 5.2 Common sources of household income in Australia

Personal income

You may already be earning some income. Many people begin earning income in the form of pocket money or money for doing odd jobs for family and friends or as birthday or Christmas gifts. Many young people also begin to get their first part-time job when they turn 15. The following are some sources of income for a young person.



FIGURE 5.3 There are various options for teenagers to earn money.

- **Pocket money.** Some parents give a weekly allowance (pocket money) and sometimes there are some responsibilities/jobs that must be done to receive it.
- **Odd jobs.** Occasional jobs for which you receive money – for example, washing a car, babysitting, looking after pets.
- **Casual jobs.** Part-time work completed either after school or on weekends – for example, retail sales, coaching junior sporting teams.
- **Youth allowance.** A payment for which some students are eligible to assist them with the costs of studying so they can continue their education.
- **Interest.** Income earned on money you have in a bank account or other investment account.
- **Gifts.** Money or gift cards received at certain times of year to either celebrate a special occasion or as a thank you for helping someone.

ACTIVITY 5.1 Collaborate

Types of income

1 Think about your current situation. Do you earn any income? Copy the following table and make a list of the types of income you currently receive. Include the type of income, amount and how frequently you receive it.

Type of income	Amount	Frequency (e.g. weekly, monthly, annually)

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2 Pair up with someone else and compare your lists. In what ways are they similar or different?
3 After sharing the types of income students in your class receive, discuss how you could potentially increase your income in the future.



ACTIVITY 5.2 Reflect

Annual income

1 Calculate the total amount of income you receive in a year (annually).
2 Make a list of the types of things you use that income for. What do you buy? Do you save any of this money?
3 **Reflection:** Are you surprised about how much money you receive or how you use it? Is there anything you would like to change about this in the next six months?

Business revenue

Potential business owners decide to set up businesses for a range of reasons, such as earning an income, filling a need in the community by providing a product or service, or even running an organisation that supports a particular issue or cause, known as a not-for-profit organisation – for example, the Cancer Council of Australia, World Vision or the World Wildlife Fund (WWF).

Whatever the reason for going into business, it is essential that any business owner or manager has a good understanding of where the business is going to obtain the cash flow it needs to provide its services and/or produce its products. They must also understand the expenses (costs) that the business will have, such as for supplies to make its products, charges for advertising and wages for employees. Being able to cover these costs is essential for a business to continue to operate. Many businesses fail due to inadequate cash flow, trading losses and poor strategic management and planning.

REVIEW 5.1

There are many different types of businesses. List the types of income that each of the businesses listed below may earn. Try to come up with as many opportunities to earn revenue as you can think of.

Hint: Consider similar businesses that you may have visited.

Business description	Revenue earning opportunities
1 A local coffee shop that has just opened in town	
2 A pet shelter run by a charity, which wants to better educate the community about responsible pet ownership	
3 A mechanic who has opened a local workshop	
4 A clothing franchise that has just opened up a new store in a local shopping centre	
5 A physical education teacher who has decided to leave teaching and establish her own personal training business	

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FIGURE 5.4 Learn how to manage your personal finances effectively.

Managing your personal finances effectively

Learning how to manage your personal finances effectively will enable you to achieve your goals, have the lifestyle you want and build your financial security and wealth.

Managing your finances effectively requires clear goal-setting, carefully budgeting and an ability to save money. Throughout this chapter, we will explore these three concepts, which are important when considering your own personal finances but also just as important for any business.

The following are some key points to remember when managing your finances.

- **Maximise potential income.** There may be opportunities to increase your income. When you are young, this could include doing additional odd jobs or working more hours at your part-time job. As you move into full-time employment, it can include taking on additional responsibilities or a promotion to a higher position.
- **Understand financial information and take control of financial decisions.** This includes carefully weighing up big purchases and never buying on impulse, keeping track of your spending even when it is easy to tap and go, and shopping around for the best deal. Ensuring you regularly save a proportion of your income is one of the most powerful things you can do to ensure you have financial security.
- **Keep control of debt.** If money has been borrowed, it will need to be repaid. If it has been borrowed from a financial institution, then there will also be interest that must be repaid. There are many different financial products available, so it is essential to do your homework to find the most appropriate type of loan for the lowest rate – especially when purchasing larger assets such as a car or a house.
- **Maintain good financial records.** To help with realistic goal-setting, budgeting and taxation, it is essential to have a well-organised system and check important documents such as bank statements against your own records. This will help you to ensure that any errors are identified. It may include keeping all documents such as pay slips, EFTPOS receipts, shopping dockets and other documents such as loan statements. These should all be kept in an organised, secure place so they can easily be referred to.

5.2 Savings

When people talk about saving money, they are usually referring to one of two things: saving for the future or saving on purchases.

Saving for the future

The first step in saving is the ability to regularly set aside part of your income, often into a bank account, so it is available in the future or in case of an emergency. This may be for a specific purpose such as a holiday, a computer, a car or even a house.

Successful savers usually develop this habit from a young age. An ability to save also means that a person may be able to put some of this surplus money towards improving their financial future by buying an **asset** that grows in value – for example, saving a deposit for a house or apartment. A good saving habit practised throughout life will also ensure you have enough money later in life to enjoy retirement.

GLOSSARY

Asset something owned or controlled that will provide economic benefits into the future

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While personality can play a large part in how much money a person saves, a person's age and circumstances will also affect their savings ability and spending patterns. For example, a university student living out of home and earning money from a part-time job will find it more difficult to save than a person who is in a high-paying job and has paid off the house in which they live.

Money that is saved will often be put into a savings account. There are many different types of savings accounts available from banks and other financial institutions. Some accounts are only available online; others offer bonus interest if you deposit a minimum amount over a certain period of time; and some offer an increased interest rate if there are no withdrawals within a particular period.

Many different types of savings accounts are available. Table 5.1 contains a few examples and some details of their different features.

TABLE 5.1 Types of savings accounts

Type of account	Common features
Basic bank accounts	No or very low fees No minimum deposit withdrawal amounts
Online savings accounts	No or very low fees May offer slightly higher interest May offer rewards for no withdrawal within a certain period of time May require minimum deposit
Higher interest accounts	A minimum balance required May limit the number of withdrawals
Child or student savings accounts	No fees Potentially higher interest (but not always)



ACTIVITY 5.3 Reflect

Savings characteristics

Understanding your savings characteristics can help you to identify the best type of savings account for you. Consider the following table and identify the characteristics that may describe your saving pattern.

Savings characteristics	Not important	Somewhat important	Very Important
I can regularly save some money (at least once a month).			
My savings style is not consistent.			
I do not need to easily access my savings once I have deposited them into the account.			
I would prefer to have regular access to the account in case I need to access my savings quickly.			
I am putting the money away and won't need it for at least six to 12 months.			
I feel confident about using an online banking system.			
I would prefer to be able to go to a bank to talk to someone when I want to access my savings.			
I would like to be able to access my savings through an ATM.			

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ACTIVITY 5.4 Research



FIGURE 5.5 Different accounts have different features that can either help or hinder your savings.

Online tools for savings accounts

1 With the growth of savings account options, a range of organisations now provide tools to help you choose the best type of savings account. One such tool is finder.com.au. Sites such as this allow you to view details about a range of accounts and then select the ones for which you would like to compare features before making an informed choice.

a Taking into account your previous responses and using finder.com.au, research four potential savings accounts that might suit your savings pattern. For each account, provide:
- the name of the financial institution
- the name of the account type
- the current interest rate
- features of the account – for example, bonus interest with no withdrawals within the month.

b Select the account that you feel would best meet your needs. Justify your selection.

2 Make a list of the potential advantages and disadvantages of using online tools to source information about savings accounts.

Saving on purchases

The second way people use the term 'saving' is when talking about purchasing goods and services. In this sense, saving means getting a good deal or how much was saved compared with purchasing something different or even the same product from somewhere else. Getting the best deal is another way to ensure you are spending money wisely.

Minimising expenses and shopping around for the best deals means you can make the most of the money you have, and can increase your potential to save money. The best way to do this is to spend your money carefully. This does not mean you need to go without things. A range of sensible strategies can help you to save your money and improve your finances.



FIGURE 5.6 Items that have been reduced can help with spending money wisely.

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TABLE 5.2 Strategies for saving money

Tips for spending wisely	Applying good advice
Shop around for the best deal. 	• Throughout the year, there are many sales where prices are reduced on many items. If you compare prices and buy when items are on sale, you can save a lot of money. Department stores in particular have sales on a regular basis where items are reduced in price. • Take the time to do some research online, either before you go shopping or via mobile internet while you are shopping. Taking a break to sit down and evaluate the price and product specifications could lead to savings. • When shopping around for the best deals, it is also important to take hidden costs into account – for example, travelling a long distance to buy the product, online shipping and even exchange rates if you are considering purchasing a product online. Sometimes these costs can outweigh the original saving you were hoping to make.
Avoid impulse buying. 	• It is very easy to get caught up in the moment and end up buying something before you have considered whether it is a want or a need, and also whether the price is the best one possible. Sometimes self-discipline is needed to ensure you don't buy things you can't really afford or may not use.
Ask for the best price. 	• Most products and services have advertised prices. However, you may be surprised to know that quite often you can actually buy the product for less simply by asking whether the retailer can give you a better price. Often we consider this when making significant purchases such as a car or a house; however, this strategy can also work with smaller purchases. Try these simple questions: – Is this the best possible price you can offer me? – Is there a discount if I pay cash? – Do you **price match**? I found another store that is offering the same product and brand for less.
Assess quality against price. 	• Sometimes spending a little more for a longer lasting product can avoid false economy. But don't pay for features you don't need now, or in the future.

GLOSSARY

Price match where a store may offer to sell a product below the ticketed price because another store is offering the same product or service at a lower price

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Tips for spending wisely	Applying good advice
Take advantage of loyalty programs and cards. 	• For regular purchases, it makes sense to take advantage of loyalty programs that offer you discounts or free products when you spend a certain amount – for example, every fifth cup of coffee is free.
Make a shopping list and stick to it. 	• Many people over-spend because they are impulse shoppers who buy things they don't really need. Making a list of what you need to buy before you go shopping will help overcome the temptation to buy things that you don't require. Of course, the challenge is always to stick to the list.
Buy in bulk. 	• This is a strategy that is often used by businesses and can also be used by consumers. Sometimes you can get a reduced price per item if you buy in bulk. The growth in popularity of businesses such as Costco highlights the possible advantages of doing this.
Buy **generic** products. 	• There are many products, such as milk, sugar and paper goods, where money can be saved by buying a cheaper generic (that is, non-specific) good instead of its more expensive brand alternative. For example, a generic shampoo sold through a particular supermarket may be cheaper than its branded counterpart, but is still considered good quality.
Shop at factory outlets. 	• In all large cities, there are factory outlets that offer products at reduced prices, often because the item is a discontinued one or has a slight fault. Many well-known companies, such as Sportsgirl, Nike and Converse, have factory outlets. DFO (Direct Factory Outlets) has three shopping centres in Melbourne, where a large number of different factory outlets are clustered together in the one centre.

GLOSSARY

Generic products sold with plain packaging, little marketing and usually at much lower prices than the name-branded products

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Tips for spending wisely	Applying good advice
Get the best mobile phone plan. 	• One of the biggest expenses that young people in particular face is operating a mobile phone. With hundreds of mobile plans to choose from, it is important to do your research to come up with the mobile plan that best suits your calling patterns. Consider joining the same mobile phone company as friends and family, as there are often free calls and special deals available.
Monitor your 'in-app' purchasing. 	• Many mobile phone apps offer in-app purchasing. These apps are often free to download; however, you have limited access to the tools you need unless you sign up for a higher level of access. Many games require you to purchase additional levels, gems or crystals to progress through the games. Pokémon GO is one of the world's most popular games, making Niantic a very profitable company. In the game, you can exchange your money for Pokécoins and then exchange these for additional Pokéballs and other items. It could be easy to lose track of how much actual money you are spending in these types of environments.
Sign up for notifications about sales. 	• There are now many businesses that offer sales using your social media accounts such as Facebook and Twitter or an email address. It is easier than ever to receive notifications about upcoming sales from your favourite stores.

ACTIVITY 5.5 Reflect

Strategies

Reflect on each of the tips in Table 5.2. List an example of a situation where you or someone you know has not used the strategy.

ACTIVITY 5.6 Create

Spending wisely

Select one of the strategies listed that interests you. Research and design an engaging visual representation (hard copy or digital) to encourage other young people of a similar age to be wiser with their spending.

REVIEW 5.2

1 Explain the two types of 'savings' a person may make.
2 Select what you think are the TWO most important or beneficial strategies for saving money on purchases. Justify why you selected these.

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5.3 Budgeting

Being financially literate means that you make well-informed decisions about how to use and manage your money. It is an important strategy to ensure you are not spending more than you have. Budgeting can also help to ensure that you achieve your savings goal.

ACTIVITY 5.7 Reflect

Managing personal finances

To find out how good you are at managing your personal finances, do the following quiz. Read each statement carefully and circle the response that relates most to you. Make sure you are honest with your responses!

Quiz: How money smart are you?

	Statement	Always	Sometimes	Never/ rarely
1	When I receive my bank statements, I read them closely to see how my finances are going.	A	B	C
2	Budgeting is something I do regularly to ensure I have enough money left over at the end of each week.	A	B	C
3	I'm not an impulse buyer – I make a list of items to buy before I go shopping.	A	B	C
4	Any savings I have are put into a high-interest account with low bank fees.	A	B	C
5	Whenever I want to make a major purchase, I like to shop around to get the best possible price.	A	B	C
6	I am very careful about how I use my mobile phone – I monitor my usage and find the most suitable mobile plan	A	B	C
7	I am cautious with my spending habits to ensure my income is greater than my expenses.	A	B	C
8	I like to set financial goals so I can save up for the things I want to buy.	A	B	C
9	I like to maximise my income by taking on chores around the house or working extra hours in a casual job.	A	B	C
10	I am not too influenced by peer group pressure to buy all the latest clothes and technological gadgets.	A	B	C

Guide to scoring

- **Mostly As (always)**: Congratulations! You are well on your way to being a money-smart consumer. You plan your purchases in advance and try to shop around for the best deals wherever possible. You also understand the importance of not spending more than you earn.
- **Mostly Bs (sometimes)**: You are starting to get on the right track with your personal finances. You make some good financial decisions, but are not always as smart as you can be with your money. Be sure to look around for the best deals and make budgeting a priority.
- **Mostly Cs (never/rarely)**: Unfortunately, you are not money smart yet. This situation can be improved if you are willing to change your habits. Keep track of your financial records, make a list of what you need to buy before you go shopping and stop spending more than you earn. It is never too late to change your poor financial habits.

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The importance of preparing a budget

Knowing how to prepare a budget is a skill that can help you to manage your personal finances. If you decide to start your own business one day, then being able to budget will be essential. A cash budget lists all expected receipts (income) and payments for a given period of time in the future. This could be a month, six months or a year. It can help you to determine whether a budget surplus or deficit will occur. A budget surplus is good because receipts, or income, are predicted to be greater than payments. However, a budget deficit is bad because it means you are planning to spend more money than the income you have coming in.

Cash budget for the month ending July		
Expected cash receipts		
Wage – supermarket	$220	
Pocket money from parents	$40	
Total cash receipts:		$260
Less expected cash payments		
Mobile phone	$40	
Clothing	$70	
Movies/entertainment	$50	
Takeaway food	$40	
Spotify account	$30	
Total cash payments:		$230
Excess of receipts over payments		$30
Bank balance as at beginning of July		$65
Bank balance at end of July		$95

FIGURE 5.7 A monthly budget

Whether using budgets when considering your personal finances or in a business, there are two important reasons for budgeting. First, a budget can help you to achieve your financial goals. For example, if you are hoping to purchase your first car when you get your licence, you will need to consider how much money you will require to buy it, and then consider even smaller goals in the meantime. You may feel you need $6000 to purchase a second-hand car in three years and this might mean setting smaller goals such as saving $2000 each year. Likewise, it is essential for businesses to set goals as they plan for their future success and growth.



FIGURE 5.8 Budgets provide control over your finances.

Simply preparing a budget is not the end of the process. Budgets also provide a greater level of control over your finances. Once you have a realistic budget prepared, it is important to regularly compare your actual results against the budget so you can identify any potential variances and possible issues before they become bigger issues. Businesses should do this on a regular basis – preferably monthly – to ensure that they keep control of expenses and can respond to any changes quickly.

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ACTIVITY 5.8 Reflect

Weekly spending

Before preparing a budget, you really need to have a good understanding of the possible income you are likely to receive and your regular expenses.

1 Make a list of everything you spend over the next week. You might make this a paper list or keep track of it digitally, such as on your phone. Be honest: include everything you pay for.

2 Were you surprised by how much or how little you spent? How much of your spending was on needs and how much on wants? Was there any expenditure that surprised you? What could you do to reduce this expenditure? Share your findings.

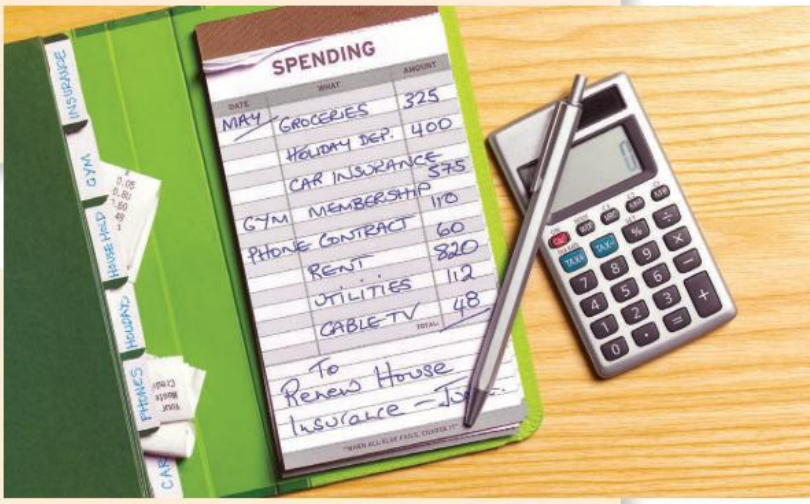


FIGURE 5.9 Learning how to budget is a valuable life skill and will only increase in importance as you buy a car, move out of home and become independent from your family.

ACTIVITY 5.9 Create

Cash budget

1 Using the information below, prepare a cash budget for the year for Ben Smithson, a 17-year-old who lives at home with his parents. Ben works part time at the local cinema and is currently completing Year 12 at the local high school. Ben's goal is to purchase his first car when he turns 18 next January and, after doing some research, he believes he will need around $5000 to do this. He currently has $3000 in his bank account.

Expected income

Ben anticipates that he will earn an average of $250 a month from his part-time job, except in November and December when he will have finished school and will able to work more hours. He expects to earn around $400 in November and $600 in December.

He also expects to receive around $50 in interest from the bank for the year. His grandparents have offered to give him $370 for Christmas to assist him with the cost of his new car.

Expected expenses

Ben expects to have a number of expenses during the year:

- food – $50 per month
- entertainment – $50 per month
- gifts for friends – $20 per month.

Ben has a mobile phone plan that costs $60 per month; however, his parents have agreed to pay half of this to help him save for his car. Ben is also budgeting $200 to spend on his graduation celebrations.

2 Now that you have completed his cash budget, answer the following questions:
   - **a** Will Ben achieve his goal?
   - **b** Are there any changes you would suggest to possibly increase his income or decrease his payments? Provide details.

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ACTIVITY 5.10 Create

Cash budget

A new business, Gone to the Dogs Doggie Day Care, has just been established. The business is in its first year of operation and the owners are hoping to be able to expand it in the next few years and open a second location. In order to achieve this, they estimate that they will need $20 000 in two years' time.

1 The owners have provided you with the following financial information and asked you to prepare a cash budget for each of the two years to see whether they are likely to achieve this goal. The business currently has $2000 in its bank account.
   - **Estimated revenue:** Day care fees $7000 per month from January to June each year and $9000 per month for the rest of the year. The business also hopes to earn around $500 a month from the sale of pet accessories to its very busy customers. In January of the second year, the business hopes to add a small dog-grooming service, which it is hoped will generate $1000 per month.
   - **Estimated expenses:** Rent of the warehouse $1000 per month, wages for staff $2000 per month, electricity $500 per month, advertising $150 per month, office expenses $300 per month, dog treats $500 per month, pet accessories to sell to customers $300 per month, purchase of a new dog bath in January of the second year for $2000. Grooming supplies will also be an additional expense from then on; these are predicted to cost around $330 per month.
2 Provide feedback to the owners of Gone to the Dogs. Are they likely to achieve their goal? Can you suggest any ways in which they could increase their potential revenue? What could they consider doing to reduce any of their anticipated expenses?

Consequences of being a poor budgeter

The ability to manage your money properly is one skill that can help you to lead a more comfortable life. Being in debt and not having enough money to pay bills as they fall due can be stressful, lead to high interest charges and even lead to a bad credit rating. It doesn't have to be like this. Through preparing a regular budget, watching how and where you spend your money and shopping around for the best deals, it is possible to live within your means. People who experience financial difficulties and who are having problems budgeting should seek professional advice. This might involve a meeting with an accountant or a financial adviser. Anyone can develop a financial plan that is tailored to suit their circumstances.

Kim's budgeting dilemma

REVIEW 5.3

1 A new student, Kim, has just arrived in your class and you become friends with her. She constantly complains when you go out together about never having enough money to buy a movie ticket or lunch. You think this is a little strange, as Kim has a casual job in a shop and also receives a small amount of pocket money. Kim is always dressed in the latest clothes, communicates with friends using her mobile phone and prefers to catch Ubers when going out rather than using public transport.

   Write a script of a conversation with Kim about how a budget could be of great benefit to her. What advice would you give Kim to help her stick to a budget?

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FIGURE 5.10 A home loan is an example of a large personal debt.

5.4 Managing debt

There are times in life and business where it may be necessary to borrow money. This debt is usually repaid over a period of time and with interest, which is essentially the fee you pay for borrowing the money.

People borrow money for a range of purposes, such as obtaining a bank loan to buy a large asset such as a car or a house, or using a credit card to purchase smaller items such as clothing and electronics. These are just a few examples. Businesses also borrow money and incur debts. Larger examples include loans for the purchase of equipment or even buying from suppliers on credit. Whether the debt is personal or business, having an ability to manage this debt and maintain a good credit rating is essential.

Credit cards

Using credit wisely is an important strategy for being a smart consumer. Credit enables a person to purchase goods and services now and then pay this amount back later, usually with interest. In recent years, Australian consumers have used credit to purchase a wide range of products, including larger items such as cars, household appliances and holidays. Credit is also used to purchase smaller items such as clothing, new technology and any other product you can think of. With the development of tap and go facilities, many people now use credit on a daily basis because they perceive it to be quicker and easier. If people do not monitor this closely, they risk building up a high level of debt very quickly and then struggling to repay it.

Debit cards, which only access your funds in your bank account, are another option that offers the convenience of tap and go without the risk of high levels of debt.

Bank overdraft

An **overdraft** facility is sometimes provided by a bank to personal and business customers. This is a situation where the bank or other financial institution agrees to allow your account to temporarily go into a negative balance, meaning you have spent more cash than you have in the account. Usually an overdraft facility will be pre-approved and it will have a maximum limit. Like other forms of debt, interest will be charged on the balance of the account while it is in overdraft.

Loans

A loan is a formal agreement between one person or business and another. When applying for a loan from a financial institution such as a bank, a number of criteria must usually be met, such as having evidence of your income and savings history. Loans must be paid off within a set time and generally have a lower interest rate than credit cards. They may also need to be secured against the item you purchase.

GLOSSARY

Overdraft an agreement by which a bank or other financial institution will allow an account to temporarily go into a negative balance

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For example, a mortgage to purchase a house is secured against the house. If you were unable to pay off the mortgage, the bank may decide to sell the house to collect its money.

With so many types of loans available, there has also been a growth in the number of businesses that act as brokers and help you to find the right product to meet your needs. Some examples include iSelect and RAMS. These businesses often have connections to a number of providers and will assist you to choose a product from that group of providers. It is important to understand that these types of businesses often operate on commission. This means that they receive their income from the financial institutions once you sign up, and that they only have a selection of products available – not every loan option.



FIGURE 5.11 Loans must be paid off within a set amount of time.

Store credit

Its quite common for stores to offer credit to their customers to encourage them to buy now and pay later, and potentially spend more money then they may otherwise have spent. Often this store debt is not really a debt to the actual store from which you have purchased the products, but rather a finance company. As with any debt, it is important to understand the details of the contract you are entering into, the costs of the debt (such as interest charges) and any additional costs you may have to pay if you default on the debt and cannot pay it off in time.

Other types of business debt

Creditors

Just as we can take on personal debt, businesses can also take on debt in the form of credit cards, **creditors** from the purchase of stock and several types of loans. Businesses that sell products to customers often have most of their money tied up in stock. This means the stock sitting in their stores is often their biggest asset; however, it is critical that the stock gets sold in a timely fashion. This is because while stock is the biggest asset, often credit is a large debt that must be repaid, usually within 30 to 60 days. Some businesses fail because they do not have adequate cash coming into the business in time to pay the creditors. If creditors don't get paid, they may stop supplying the business with stock.

GLOSSARY

Creditors people or organisations to whom a business owes money

Crowdfunding listing a project/business on a website such as Kickstarter or GoFundMe in order to obtain funding from members of the public

Crowdfunding

In more recent years, we have started to hear people using the term '**crowdfunding**'. Organisations such as Kickstarter and GoFundMe offer the opportunity for individuals and businesses to register their project or business online and then for other people to provide funding to that project or business. This can include donations to a cause – for example, funding a project that offers discounts for being one of the first to support the business. The return to the investor from the business usually comes either in the form of discounts or rewards – often products and sometimes services – or possibly equity (part-ownership of the business).

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Afterpay

This is a credit service offered by many retail businesses that can be used to purchase products and services in store or online. The cost of the product is broken down into a small number of instalments and then you log into your Afterpay account to make payments and manage your account.

Ability to repay debt

There are many types of loans and credit cards available, and just like savings accounts, it is important to take the time to do your homework and find the best option for you. A personal loan often has a lower rate than a credit card, but may also be secured by the product you are purchasing – for example, a car. Credit cards and store cards offer a lot of flexibility, and you can purchase whatever you want; however, the interest rate is often much higher than for personal loans.

Regardless of the type of debt, it is essential to always consider your ability to meet the repayments and whether it is the appropriate type of debt for the purpose. As with anything else, it is important to shop around for the best deal. For example, some credit cards will have much lower interest rates than others; some also have an annual fee. Some loans will provide the opportunity for you to fix the interest rate so that if interest rates go up, your rate won't change. Some loans allow you to make more frequent repayments that can save you a lot of money over the duration of the loan. Understanding the type of debt you are entering into and the terms of that debt will empower you to get value for money.

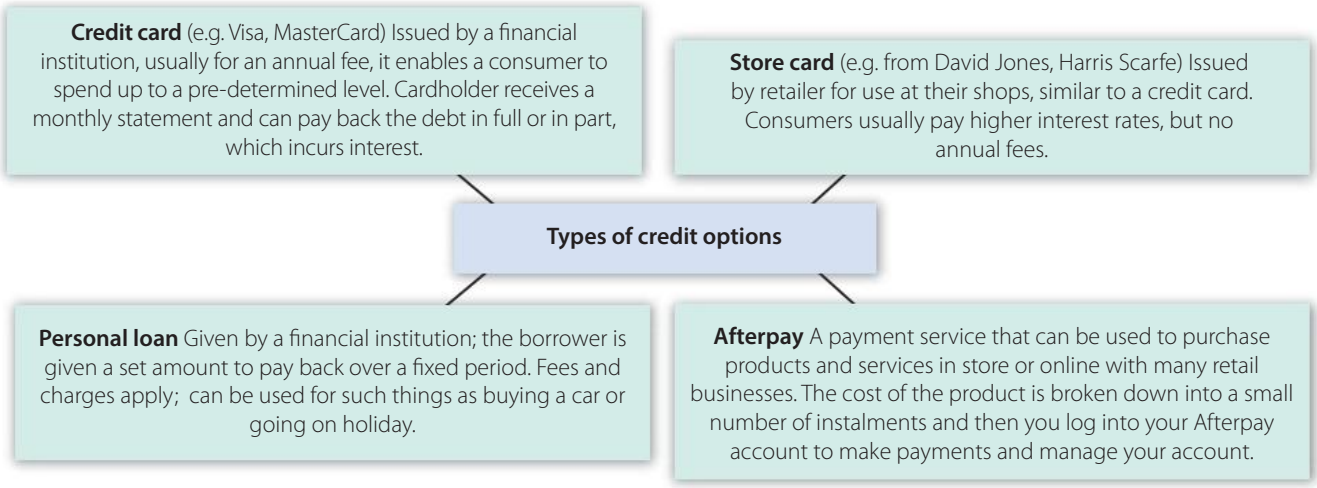


FIGURE 5.12 Some of the more common types of credit arrangements available to consumers

REVIEW 5.4

While there are advantages to using credit, there are also many pitfalls to watch out for.

1. Create a list of the advantages and disadvantages of using credit.
2. Provide an example of a situation where you would consider using credit.
   - a. What type of credit would be most appropriate?
   - b. What factors would you need to consider before taking on that debt?
   - c. Are there any things you could do to ensure you can repay your debt or minimise the interest you may need to pay?

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What's your credit rating?



FIGURE 5.13 Most adults have a credit history.

Did you know that you might already have a credit history? If you have your own mobile phone contract, this may be true. Anyone who has ever had a phone contract, used a credit card or taken out a loan will have a credit file. This will contain your name and personal details plus any information about your ability to repay your debt. If you have trouble meeting your obligations, this will reflect badly on your credit file and could make it much harder for you to access credit in the future. Failure to pay a mobile phone bill for 60 days or more will be recorded as a black mark against you, and will stay on your credit file for five years. This means that a default on a bill when you are 18 could make it harder for you to take out a loan until you are at least 23 years old. For a research activity on credit ratings, refer to Activity 4.4 on page 113.

5.5 Investing and wealth creation

As well as understanding the concepts of savings and credit and managing debt, it is essential to have an understanding of the concepts of investing and wealth creation. Whether you are an individual or a business, you can improve your financial position through careful goal-setting budgeting and control. When you have more money than you need for day-to-day survival, you have the opportunity to consider how you might use that additional money to maximise your financial position; however, this comes with a need to understand the level of risk with which you are comfortable.

Savings versus investment

Saving and investing are not the same. Savings consist of 'money' that remains after income is spent on goods and services, and repaying debts. The funds could be just stored in a safe place or, more probably, placed into a bank on a regular basis. This is a safe method of wealth creation, but the return from savings in terms of interest gained is relatively small. Investing is also a means of using 'left over' money (plus borrowed money) to create wealth. The difference is that it is placed into a form of saving or other investment for a longer time period, and the returns can be much greater than savings – although the risks are sometimes higher.

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Types of investments

Term deposits

As well as savings accounts, many financial institutions also offer **term deposits**. These accounts usually offer a higher level of interest; however, they also require you to guarantee that you will leave your money with them for a certain amount of time – for example, three, six or 12 months. Generally, the longer you can leave your money with them, the higher the interest rate will be. It is important to be realistic about when you might need access to this money because you may not be able to access it in an emergency, or if you can access it there may be a significant financial penalty for doing so.

GLOSSARY

Term deposit savings account offering a higher level of interest, but with a requirement to leave the money for a specified amount of time

Superannuation by law, employers must contribute a set percentage of each employee's wage into a superannuation fund of their choice – the employee can not access it until later in life, when they are considering retiring

Superannuation

Superannuation is a form of investment that everyone makes as they enter the workforce. It is considered a compulsory form of saving. You elect to join a superannuation account provider and by law your employer must put an additional amount, which is a set percentage of your wage (currently 9.25 per cent), into it each month. You can access it later in life when you are considering retiring. People born after 1 July 1964 can access their superannuation at the age of 60.



ACTIVITY 5.11 Research

Superannuation

1 Access the Australian Super website and find the projections calculator under the 'Tools & Advice' dropdown menu. Calculate the likely retirement superannuation for each person in the table below and complete the table.

Investor	Lifestyle details	Strategies to improve superannuation and retirement lifestyle
Ben	Ben is a 25-year-old recent graduate from university. He is hoping to earn around $120 000 per year and retire when he is 60 years old. He currently has $10 000 in savings from part-time jobs he has had over the years.	
Naomi	Naomi is a 42-year-old mother of three who has worked before and since raising her children. She earns an average of $95 000 per year She hopes to retire at 65 years of age and currently has $130 000 superannuation	
Trinh	Trinh is 30 years old and earns around $200 000 per year. She currently has $160 000 invested in superannuation. She is hoping to retire at 65 years of age.	
Alexander	Alex is a 50-year-old man who currently has $320 000 invested in superannuation and is hoping to retire at 70 years of age. Alex was recently retrenched and has a new job, from which he earns $99 000 per annum.	

2 Describe the factors that can impact your lifestyle when you retire and the level of superannuation you could earn.

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While there is a minimum amount that must be invested into superannuation by your employer, there are many options you can use to increase your own contributions.

Property

Another form of investment is to buy property. Purchasing a house is a major investment for many people. Sometimes people or businesses will decide to invest surplus cash into property – for example, buying a second house or commercial property that can be rented out to provide additional rental income. As well as rental income, most investors hope to be able to sell the property for more than they paid for it at a future date – for example, selling a house purchased for $400 000 for $800 000 in 10 or 15 years' time.

Shares

On any given day on the news, there will be an update of the stock market. Many people invest in shares. When investing in **shares**, you are buying part-ownership in a company. Income is earned in terms of dividends paid back to the shareholders from the profits made by the business, and many shareholders hope to buy their shares when the share price is lower and sell them for a higher amount at a later date. A share investor can start with as little as $500 while others may have hundreds or even thousands invested in shares.

GLOSSARY

Shares part-ownership in a company, where profits made by the business are paid to shareholders as dividends; income can also be generated by selling shares for an amount higher than the original purchase price

ACTIVITY 5.12 Research

Share market

1. Assuming you have $10 000 to invest in shares, select at least three different companies to invest in and track their share prices over the next week. Note down how much each share price changes and the impact this has on your investment. Write a reflection on what you have observed over the week to share with the class.
2. The share market can often be referred to as a 'bull market' or a 'bear market'. What do these terms mean? How would you describe the Australian share market at the moment?

Risk versus return

When investing, it is essential to understand the type of investor characteristics you have. Not all investments are the same. There is always risk associated with investing, and investment options that have the potential of a higher reward also come with a higher degree of risk. Investing in shares may provide a higher return than a term deposit; however, if share prices drop you may make a loss and end up with a lower-value investment than when it was first made. A term deposit carries far less risk of a loss, but the return may not be as high as for shares.
Even within the share market, there are different levels of risk. These can include investing in only one company or investing in a diversified portfolio containing a range of different companies.



FIGURE 5.14 Investing in shares may provide a higher return that a term deposit, but the risks are also higher.

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Ethical and social considerations

Another factor that many people consider when deciding between investments is the type of investment or the company in which they may be investing. For example, when investing in shares, one investor may decide to invest in the mining industry because there has been a lot of growth in that area and strong returns, while another investor may not want to invest in this industry because they have concerns about the impacts of mining on the environment. Likewise, some investors may want to consider only investing in businesses that have a strong social profile and give funds back to the community for community projects or health research.

When it comes to investing, there are many opportunities; however, knowing yourself, your needs and the level of risk with which you are comfortable is essential to select the most appropriate investments for you – whether as a personal investor or a business owner.



FIGURE 5.15 Think about other industries that may be potentially unethical to invest in such as tobacco, oil and pharmaceuticals. Are there any other examples can you think of?

REVIEW 5.5

1 What is the difference between savings and investment?
2 Outline each of the following types of investment:
   - **a** term deposit
   - **b** superannuation
   - **c** property
   - **d** shares.
3 What are important considerations for an investor other than just focusing on the likely financial gain? Explain.

ACTIVITY 5.13 Research

ASIC MoneySmart

1 With so many types of investment opportunities out there, how do you decide which types of options might be suitable for you?
   - **a** Using the ASIC MoneySmart website, consider the common forms of investment and select at least four types of investment that you may want to consider in the future.
   - **b** In your own words, explain how that type of investment works and the potential returns that may be received, as well as the potential risks involved. Identify the pros and cons of each type of investment.
2 How much risk would you be comfortable with? Using the ASIC MoneySmart website, take the Investing Challenge to learn more about yourself as a potential investor. Write a short reflection on your results and the impact they may have on the types of investments you would consider.

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CONSOLIDATE YOUR LEARNING

Australian consumer debt

Generation debt – Y Australians are credit crazy

Laine Gordon 6 August 2014

New research* from Australia's leading financial comparison site, RateCity, shows Generation Y are credit crazy and spending up big.

The consumer study has revealed that Australians are now taking on debt earlier in life, with age 20 the new average age for young people to purchase their first credit card. This compares with the average age for older generations (such as those aged 65 years and older), who applied for their first credit cards at age 34.

Alex Parsons, CEO of RateCity.com.au, said it's a worrying trend, given that young Australians are struggling with higher levels of debt.

'Our research shows 42 per cent of young people under the age of 24 have between $10 000 and $30 000 of personal debt, not including a mortgage,' he said.

'Australians aged 24 and under are also four times more likely to get a weekly cash advance from their credit card than were their parents' generation.

'More than half (56 per cent) of Generation Ys with a credit card have never had a $0 balance on their credit card in the last year, and 63 per cent are not aware what interest rate they are paying. It's a real concern, given that the average credit card rate is close to 17 per cent – that's a lot of interest we're talking about there,' he said.

The number of credit cards issued is on the rise – with around 117 000 incremental cards on the market compared to last year – growing to 15.5 million in May (ABS May data), and Generation Y are the most likely to sign up.

The RateCity research found 34 per cent of people under the age of 34 have applied for a credit card online in the last six months.

Parsons said among the leading causes of the growth in credit appetite among young Australians was the shift in the way we use money.

'We're becoming an increasingly cashless society and that is breeding new attitudes towards the disposable nature of money, which is increasing the ability to rack up debt,' he said.

'These are alarming new statistics and we think a number of factors are at play here, but regardless of the causes I'd urge young people to get in control of their money today to avoid a financial nightmare down the track – starting life in your 20s with tens of thousands of dollars' debt can be crippling.'

*RateCity Consumer Study August 2014

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1 **Is Gen Y simply made up of people who are all shopaholics? What evidence is presented in the article to support the claims that Gen Y has more debt than other generations?**
2 **Why is the level of debt for people under the age of 24 concerning?**
3 **What advice would you give to someone who was under 24 and had $10 000 in credit card debt?**
4 **What are the short-term and long-term consequences of having too much debt?**
5 **Some say money is essential for independence. Consider the information presented in this chapter and prepare a multimedia presentation, short film or flyer to provide appropriate advice to a student who is just finishing school and wants to take control of their finances as they move onto TAFE or university. How can they maximise their potential income while studying, build their savings and use credit effectively?**



FIGURE 5.16 It is important for young people to track and monitor their spending.

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FIGURE 6.1 Protect your online identity

Chapter 6

Managing identity and money in a global economy

This chapter explores the key features of managing identity and money in a global economy. We examine managing your online identity, including how to keep your personal information safe and the ways in which your online information is used and accessed. It also investigates the range of scams used online and provides details on how you can protect your identity and avoid falling victim to the scams. Understanding how you can access help is also a key part of this chapter.

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6.1 The importance and role of identity

Having a distinct and unique identity is incredibly important. It signifies who we are and the impressions we leave on others. Our identity helps shape how people deal with us and how we best interact with the world. For example, our features and characteristics, such as whether we are male, female, have blue eyes or brown eyes, and many more personal traits help shape a picture of just how unique we really are. Governments in particular need to understand our identities, as that is their way of distinguishing us as individuals but also of working on our behalf to create societies and economies that are relevant to both our collective and individual identities.

In a technology-driven age, creating and maintaining an identity online is important. Even more crucial is being aware that our identity remains unique to us and that we need to protect and maintain it. Creating an online identity is largely driven by the information we provide about ourselves – we construct that identity in many ways, such as entering our name, where we live, our age and where we study into websites, social media and more. This information is captured and stored as data, then used for a range of purposes, as explored in this chapter.

Types and levels of identity information

There are many different types of **identity information** that you currently have and use in your every day life. You carry these in a variety of ways, including in your wallet, your bag or your mobile phone – they are unique forms of identification specific to you. Some identity information is considered more private and not required for everyday use – for example, a passport or birth certificate – so often we store and file these documents in a safe, secure place at home.

The top forms of everyday identity information include:

- Medicare number
- driver's licence
- utility bills (gas or electricity)
- rates notice
- passport
- student ID number
- unique student identifier (USI).

You may find that most people have many more and different forms of identity information than you. This is not uncommon, as they often require more forms of identification.

There are two key sets of identity information:

- **primary identity documents**, such as driver's licence, student ID card and passport
- **secondary identity documents**, such as rates notice, motor vehicle registration and utility bills.

Documents relating to your place of birth are separate again, and are considered the most valuable source of identity information. Often you will be required to have a variety of primary and secondary documents to prove your identity. Your identification is also rated in points, with each form of identification having a value – your passport and driver's licence are considered to be worth 70 points of identification each. To create a new bank account, you need 100 points of identification, including a primary and a secondary source of identification. This means you will be required to have both forms of identification to ensure a total of 100 points.

GLOSSARY

Identity information sources of information that are unique to you and identify who you are

Primary identity documents include such things as driver's licence, student ID card and passport

Secondary identity documents include such things as rates notice, motor vehicle registration and utility bills

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Your identity information sometimes needs to be confirmed as 'true and accurate'. In many cases, where a hard copy is requested you will need to provide a 'certified copy'. This means that the information has been certified by someone such as a Justice of the Peace (or JP) as being true and accurate.

The Australian Government, via the Department of Human Services website, lists some 30 forms of identify information for any individual claiming a payment or service. To access a government service or receive a government payment, you need to supply identity information. The website details a wide variety of identity information and its various uses.

REVIEW 6.1

1 Using an example of each, explain the difference between primary identity documents and secondary identity documents.
2 What are considered to be the most valuable version of identity documents? Explain why.

ACTIVITY 6.1 Research

Identification

Visit the Department of Human Services website and click on 'Confirm your identity'. Complete the following information based on the questions on the website:

1 List how many forms of identification you currently have.
2 List five different forms of identity documents not listed on the website.
3 Choose three different forms of identification – one from each section (i.e. one in original, one in primary and one in secondary). Research online how you can obtain this form of identification – do you need to apply and does it require further identification?
4 Discuss with a partner why originals of identification must be used rather than certified copies?
5 Choose either a passport application or a new bank account application – each requires a number of both primary and secondary identification documents to support it. Research your chosen application process and detail what information you need, what identification you require and the process of successfully obtaining a passport or opening a new bank account.

6.2 Managing privacy and your online presence

It is extremely important that we all manage our online presence – we all do so much online, including internet banking and shopping, subscribing to websites and participating in social media forums, as well as far more. We therefore need to protect ourselves as much as we can to ensure our online presence is safe and secure.

So how do you manage your online presence? Do you change your passwords often? Do you share your passwords or personal identification numbers (PINs) with your friends or parents?

We have already noted how much of our daily lives requires us to be online. This was not the case five or 10 years ago, but as technology is introduced into many more aspects of our daily life, we are required to use it more and more. In many cases, it is more effective, more efficient and saves us time. Given how much more



FIGURE 6.2 We must manage our online presence and ensure our details are secure.

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we now do online, we need to ensure that we manage our online presence and do what we can to ensure our information remains safe and secure. It is also important to keep other identity items safe – for example:

- **Credit cards.** These should be stored either in your wallet or in a safe place out of public view. Always make sure cards are signed, as this prevents them from being used if they are stolen. Do not store your PIN with your card. If your credit card is stolen, report it immediately to your bank, which can cancel or deactivate the card.
- **Driver's licence.** It is often a requirement that you carry your driver's licence when you are driving a motor vehicle. Your driver's licence should be kept as secure as possible and details should not be shared.
- **Student cards.** This form of identification often includes a photo of you and your home address. Again, keep it secure and only share information if requested to do so and for legitimate reasons.
- **Mobile phone.** Your mobile phone contains significant personal information and data, as well as being a valuable possession, so ensure you have a passcode and, if possible, fingerprint access protection. Ensure your browsing history is safe and back up your phone for protection as often as is required.

It is extremely important to protect your sources of identity. In particular, as noted throughout this chapter, protecting your unique identity is crucial.

It is important to highlight what is required in each situation when managing your online presence.

Passwords

When you sign up to internet banking, online shopping sites and many other internet sites, you will usually be required to create an account specific to you. Often the site will require an email address and, most importantly, you will be asked to create a password. It is necessary to provide this information but avoid using the same password that you use for other sites and avoid writing it down or sharing with other people.

It is also strongly advisable that you change your password often! If you visit the site regularly, update your details and change your password on a regular basis.

It is hard remembering all your passwords for all your different accounts, so where possible take advantage of the option of 'security questions' to help guide or prompt your memory in relation to your password.

Profiles

Social media and other online accounts require you to create a profile. Be careful what information you provide – do not provide personal information such as banking information, student ID numbers, passport numbers or any information that is distinct or unique to you.

Profiles also need to be managed so ensure your information is correct – often people post information that may not represent them in the best way. It is important to remember that information posted to the internet can be changed and altered without your knowledge or permission. A simple solution is not to post information that you do not want to share – it is often hard to do, but remember why you are connecting with the site in the first instance and only provide the essential information requested.

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Be safe with your information – it is extremely important to protect your identity, both online and in your day-to-day life. Identity theft is a major issue, both in Australia and across the world. Later on in this chapter, we focus on many different types of scams and their outcomes, including identity theft.

The following are some quick tips for protecting your personal information:

- Do not give out any personal, banking or credit card information to anyone who makes contact with you.
- Check your bank and credit card statements every month.
- Destroy all documents with your personal information on them.
- Choose passwords that are hard to work out and never share your passwords with anyone else.
- Avoid using the same password for multiple log-ins.
- Be careful what you post online and, if you can, try to limit what you share.
- Make sure your privacy settings are up to date on your social media accounts and share personal information with 'friends only'. Beware friend requests from people you don't know, as they may be trying to gain access to your information.



FIGURE 6.3 How safe are your passwords?

Source: ASIC Money Smart website, *Avoiding Scams: Protecting Yourself from Scams*, May 2018.

REVIEW 6.2

1 Why is it important to protect your password/s?
2 Should you store password/s and, if so, where should you store them?
3 Read the following statement:
'There is very little need to store and protect your online information. There are ways to crack passwords, open secure accounts and obtain personal information. All personal information once on the internet is available for public use.'
Do you agree with this statement? Explain your response.

ACTIVITY 6.2 Research

Passwords

1 Generate five 'security questions' to be used for retrieving your password. What tips will help you remember the correct answers?
2 Visit the Secure Passwords Generator website or a similar website and generate at least three passwords. What are the general characteristics of a strong password?

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6.3 On-selling of data

What is it and how do you find out where your data is going?

To better understand how we spend our money and other details such as our age, our income, what suburb we live in and much, much more, data is collected when we log on and visit specific sites on the internet. Such data is incredibly valuable, as it helps to provide a profile or 'persona' of us and enables marketing to be targeted directly to us as consumers.

Collecting data extends beyond marketing products and services to us. For example, online shopping sites collect data in relation to the time of day when people do the most online shopping, approximately what they spend, what they buy and even how old they are.

Do you or your parents have any loyalty cards for supermarkets, game shops, specific clothing brands and sporting stores? If you answered yes, these retailers are all collecting data in relation to your profile or persona, and monitoring your actions when you spend with them. You might be surprised, but such data is very valuable.

GLOSSARY

Volunteered data content and data created and shared by an individual, such as their social media profile

Observed data captured data recorded by the actions of an individual, such as location data sourced from mobile phone use

Inferred data what companies can determine about you from your shopping habits and what you spend your money on

Selling data is big business and is worth billions of dollars per year. There are different types of data that are of interest, including:

- **volunteered data** – content and data created and shared by an individual, such as their social media profile
- **observed data** – captured data is recorded by the actions of an individual, such as location data sourced from mobile phone use
- **inferred data** – what companies can determine about you from the above and from what you spend your money on.

Source: B. Ehrenberg, 'How much is your personal data worth?', *The Guardian*, 22 April 2014.

The most valuable data is the inferred data – this form of data helps to shape and create a picture of you and your habits. This includes how you spend your money, what products you buy at the supermarket, even what kind of car you drive. Volunteered and observed data help support inferred data – for example, what you volunteer on social media (volunteered data) about your family holidays overseas and your use of location accuracy on a mobile phone (observed data), which lets your phone provider know exactly where you are, and helps travel agents, accommodation providers and others contact you to sell you products and services.

An example that illustrates how much your data can be worth relates to contact lists. Across Australia, information is kept and stored about all schools in Australia. This information can be searched and bought. For example, a marketer may need to promote information on a new learning program to all the public primary schools in Victoria. That person can buy this specific list, which enables them to contact the principal and send them information. The cost for this is approximately $250. Alternatively, a marketer may decide it is better to send the information to all primary schools across Australia – this list costs approximately $2000. The lists are provided electronically and contain the name of the school, the address, the principal's name and the direct email and contact number of the school. As you can imagine, lists such as these are incredibly valuable, and while they are not that expensive for one person, when numerous third parties access these lists, the income generated can be substantial.

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ACTIVITY 6.3 Research

How much is your personal data worth?

Take a quiz on the *Financial Times* How Much is Your Data Worth? website to determine how much your personal data is worth.

Complete the following questions:

1. Discuss how much your data is worth individually and collectively as a class.
2. What are the top three highest value data sets?
3. What are the top three lowest value data sets?
4. For each data set – Demographics, Family and Health, Property, Activities and Consumer – which one adds the most value to your total score? Why do you think this data set is the most valuable?
5. Choose one of your social media accounts and refer to the last post or activity you generated. Explain why this information might be useful to a company or another third party interested in marketing a product or service to you.
6. Are there products and services that should not be marketed to the following groups:
   a. young people under 10 years of age
   b. young people between 16 and 24 years of age?

   Explain your response.

Online target marketing: A growing industry

Could someone use data collected from Facebook, such as your age and where you live, to directly target you and market a product or a service to you? If you answered yes, you are correct.

Online **target marketing** is increasingly being used, and is considered highly effective and very successful. It allows a product or service to be tailored or designed specifically to meet your needs. In previous sections, we have discussed how data is collected to create a unique profile of you. It makes sense to use that information to target you directly. It can even be as simple as knowing whether you are a vegetarian and avoiding sending you offers or information relating to meat. It seems very simple, and in many cases it is.

GLOSSARY

Target marketing marketing that targets a particular market segment – for example, young people aged 16–24 years

Online target marketing is effective for many other reasons too, including the following:

- **Buying and accessing data sets is super cheap.** Sets of information can be bought from various organisations for a range of monetary values, and most are very affordable. Data sets can cost as little as $10, and the more detailed they become – that is, the more specific data they include – the more expensive they get.
- **Buying data sets for target marketing gets better results.** Many companies that employ online target marketing report better outcomes in terms of consumers buying their products or accessing their services. It also allows the results to be monitored and, if required, for marketing parameters to be changed or altered. Online marketing often refers to 'campaigns' for each trial or test group used for a particular product or service. For example, if marketing campaigns target a consumer age group, campaigns can be altered or expanded at any time.



FIGURE 6.4 Online marketing campaigns reach their target audience instantly.

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- **Search engine optimisation (SEO) is very important in online target marketing.** Search engines such as Google, Bing or Yahoo are paid to place key words related to a product or service on their websites. Further, companies can pay more and have their key search words listed at the top of any search. This means that, if a business is prepared to pay more, it can be guaranteed that, with the right key words, its product or service will be displayed at the top of the page using search engines. This is an incredibly powerful tool, as we usually start our search at the top and therefore can choose our chosen product or service easily and quickly.
- **Marketing campaigns can be designed and implemented much faster, and can be done by anyone (with the right skills), anywhere there is a computer connected to the internet.** This means that campaigns reach their target audience much more quickly than traditional forms of advertising.

CASE STUDY 6.1

What do Australians really spend their money on?

Given how much data is collected to create a profile of each Australian, understanding how we spend our money is big business in Australia.

The infographic in Figure 6.5 highlights what we spend our money on and compares each of the states and territories. It is interesting to see what each of the states spends its income on.



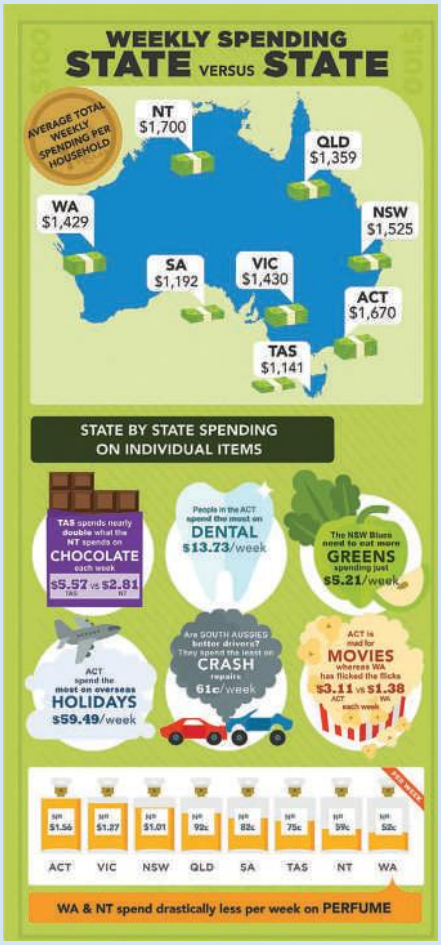


FIGURE 6.5 What the states and territories spend their money on

Source: ASIC Money Smart, *Australian Spending Habits* (2016).

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1. Decide on a partner to work with for this exercise.
2. Initially, read the information contained in the infographic – this is extremely important for the work you are about to undertake.
3. Understand and detail or list the types of data (e.g. spending per person on bakery goods) and the data sets (e.g. data for Victoria, New South Wales).
4. Replicate the same information as a prediction for 2050.

Note the following points:

- Much of the information on the existing infographic was obtained through the Census process, and is available on the Australian Bureau of Statistics (ABS) website.
- The ABS website does not include predictions, but you can research further. This process involves an understanding of trends and growth in the Australian economy, which is also supported by other chapters in this text.
- You may use visual guides and illustrations, or you can simply list the information.
- You will need to justify your responses, so ensure you undertake some research to validate your work.

Managing your data

Previously, we discussed how you can protect your online presence. It is equally important to protect your online data. Given that there are three distinct types of data sets that we know are valuable and that create a unique profile of you, you must ensure that your volunteered and observed data is kept safe, current and secure.

The *Privacy Act 1988* is an Australian law that regulates how personal information about an individual is handled, including its collection and use. The *Privacy Act* refers to personal information as 'information or an opinion about an identified individual, or an individual who is reasonably identifiable'.

The *Privacy Act* outlines rights and responsibilities in relation to use of your personal information. Your rights include:

- the right to request that information relating to you, if incorrect, be changed or altered to ensure it is correct
- the right to request information about you, and to know why it is being collected, how it is being collected and what will be done with it
- the right to be 'de-identified' in certain circumstances
- the right to remove yourself from direct marketing campaigns
- the right to make a complaint if you believe your personal information has been mishandled.

Source: Office of the Australian Information Commissioner, *Rights and Responsibilities* (2017).

While the *Privacy Act* may provide you with rights in relation to protecting your personal information and data, the safest way to protect yourself is to limit what you share and with whom you share it. Once information is posted online, it is very hard to remove it. Be careful, be alert and be sensible: what you share and post now could affect you both personally and professionally in the future.

REVIEW 6.3

1. What is meant by online target marketing? Explain.
2. Explain two reasons why online target marketing can be so effective.

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6.4 Identity theft

Identity theft is on the rise, both in Australia and globally. Identity theft is a crime that generates significant profit within the economy.

Identity theft is a deliberate action or offence whereby another person uses a false, fabricated, manipulated and stolen identity to commit or facilitate a crime. This definition is extremely important, as it demonstrates that while your actual true identity may be stolen, if it is also changed or manipulated and used in a crime, this still constitutes identity theft.

There are clearly many ways in which a person can obtain personal information, including about you. They might include:

- researching you on the internet and creating a profile of you, including where you work, your family and more
- accessing your mail, such as bank statements, utility bills and other sources, including personal information
- **skimming** information and data from credit cards
- accessing your mobile phone, either by stealing it or downloading your user history and accessing restricted and unrestricted sites. Passwords are often stored, so quick and easy access is assured to secure sites.

GLOSSARY

Skimming accessing and transferring data using credit cards and other cards; information is removed and then used for personal gain

There are many more ways in which information can be accessed, but these are the most common forms.

Once a criminal has the information they need to commit identity theft, they could:

- apply for a credit card in your name
- open a bank or building society account in your name
- apply for other financial services in your name
- run up debts (e.g. use your credit/debit card details to make purchases) or obtain a loan in your name
- apply for any benefits in your name (e.g. housing benefit, new tax credits, income support, job seeker's allowance, child care benefit)
- apply for a driver's licence in your name
- register a vehicle in your name
- apply for a job/employment in your name
- apply for a passport in your name
- apply for a mobile phone contract in your name.

Source: Australian Federal Police (AFP), *Identity Crime, 2017.*



FIGURE 6.6 Identity theft is a real concern today.

It is concerning that there are so many ways in which your information can be used and, given the advancement of technology, this list will continue to evolve.

We have highlighted what criminals may be able to do, but the most vital question to ask is how you will know whether you are a victim of identity theft.

The following may indicate that you have become a victim:

- There are charges on your bank statements, including your credit card, for transactions you did not make.
- Fines, bills or receipts arrive by mail for goods and/or services about which you have no knowledge.

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- You receive letters from debt collectors, lawyers and other third parties claiming you owe money (debts), but you have not incurred these debts.
- You are refused a loan or credit card or similar as your credit history has been tarnished as a result of charges, expenses or loans incurred by someone else.
- You attempt to claim a benefit from the government and are told you are already receiving one.

It is important that you thoroughly check bank statements, mobile phone bills, contracts and other important documents on a regular basis. If something looks odd or requires exploration, it is wise to speak with your parents and, if necessary, report it to your local police or online via agencies such as:

- **SCAMWatch** – this website is run by the Australian Competition and Consumer Commission (ACCC), and you can report identity theft online
- **the Australian Cybercrime Online Reporting Network (ACORN)**, which also allows you to report identity theft.

REVIEW 6.4

1 What is identity theft? Explain in a paragraph.



ACTIVITY 6.4 Research

SCAMWatch and ACORN

1 Visit both the SCAMWatch and ACORN websites and explain how much of a problem identity theft is.
2 Discuss and propose what else can be done to reduce the risk of identity theft. Which actions will be the most effective and why?
3 Prepare a one-page fact sheet for your peers, outlining 10 ways you can reduce the risk of becoming a victim of identity theft. Once completed, present your fact sheet to the class.



ACTIVITY 6.5 Research

Identity theft

1 If you know someone affected by identity theft, interview them and detail:
   a what happened (without divulging personal information – be respectful of their privacy)
   b whether the person reported the identity theft and the result or outcome
   c whether the victim can offer any further or different advice for protecting your identity.

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6.5 Scams

GLOSSARY

Scam a dishonest or 'fake' scheme that seeks to access money and/or services

As technology advances and the use of technology in our everyday lives increases, the ways in which we can be scammed increase too. **Scams** can be defined as dishonest or 'fake' schemes that seek to access money and/or services. Scams are on the rise and the scams themselves are becoming more complex and more and more difficult to identify as scams.

The format of scams

Scams generally have a common format:

- **The approach.** Scammers must make initial contact with their victims, which can be done via email, phone, social media or face to face, including visiting you at home. The initial approach is very important – the information with which you are provided is designed to make you believe that what you are being told is true, but it is always certainly a lie. If it sounds too good to be true, it usually is!

  Approaches take a variety of different forms because this enables scammers to represent themselves confidently. For example, if scammers are operating overseas, the first method of contact will usually be via email or social media, as this is obviously easier and more practical than visiting you at home. The initial method of contact will depend on the type of scam.
- **Communication and grooming.** The communication that scammers use is very important. Often they will use very emotive language that is designed to connect and engage. They use official-looking documents and they will often already know your personal details. Once they can connect, they will groom their victim and continue to provide information and advice that appears to be very genuine and accurate. This in an important stage in the scam process – once scammers have a person's trust and interest, they can act and move onto the final stage: requesting money.

FIGURE 6.7 Sending money online can be risky.



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- **Sending the money!** This is the final tell-tale sign of a scam and, depending on the type of scam, scammers will seek money very quickly or after months of grooming and building trust. Money is requested in a variety of ways, including bank transfers, via Bitcoin (virtual money), through credit card payments, using iTunes and other vouchers, and more. It probably sounds very obvious, but it is so important that you do not send money to anyone you don't know. Many people do, and if they send money once, they most certainly will be asked to send more. Victims don't benefit, and are usually left out of pocket.

Types of scams

Scams come in a variety of forms. The following information sourced from SCAMWatch outlines the diversity of scams. They vary in approach, but all involve making money. Broadly, scams fall into the following categories:

- **Unexpected money.** Scammers invent convincing and seemingly legitimate reasons to give you false hope about offers of money. There are no get-rich-quick schemes, so always think twice before handing over your details or dollars.
- **Unexpected winnings.** Don't be lured by a surprise win. These scams try to trick you into giving money up front or your personal information in order to receive a prize from a lottery or competition that you never entered.
- **Fake charities.** Scammers impersonate genuine charities and ask for donations or contact you claiming to be collecting money for relief efforts after natural disasters.
- **Dating and romance.** Scammers take advantage of people looking for romantic partners, often via dating websites, apps or social media, by pretending to be prospective companions. They play on emotional triggers to get you to provide money, gifts or personal details.
- **Buying or selling.** Scammers prey on consumers and businesses that are buying or selling products and services. Not every transaction is legitimate.
- **Jobs and investment.** If you are looking for a fast way to make money, watch out – scammers have invented all sorts of fake money-making opportunities to prey on your enthusiasm and get hold of your cash.
- **Attempts to gain your personal information.** Scammers use all kinds of sneaky approaches to steal your personal details. Once obtained, they can use your identity to commit fraudulent activities, such as using your credit card or opening a bank account.
- **Threats and extortion.** Scammers will use any means possible to steal your identity or your money – including threatening your life or 'hijacking' your computer.
- **Fake apps.** With so many digital devices being used by so many people, 'apps' are constantly being developed for games, business, personal development, sport and education, to name just a few categories. Scammers are also in the business of developing apps – fake apps! People generally do not look closely enough at an app to notice something is amiss, but the aim of the scammer could range from stealing money and personal information to just being a nuisance.

Source: SCAMWatch, *Types of Scams* (2017).

Within each of these broad areas, there are also multiple levels and multiple scams.

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Phishing? What is it? How to spot it and what to do?

GLOSSARY

Phishing involves the practice of obtaining information such as passwords, financial data such as bank account or credit card numbers, or personal information; the information is then used to establish an identity or connect with the individual via a scam

Phishing involves the practice of obtaining information such as passwords, financial data such as bank account or credit card numbers, or personal information. Requests for this information appear genuine; however, they will most certainly be used for fraudulent or illegal activity, exposing victims in a variety of ways.

Like many of the other scams we have highlighted, requests for personal information appear to be genuine or legitimate, and seem to come from a reputable source. You may be contacted via email, text message or social media. Emails may look exactly like those sent from the legitimate company, although you may notice small errors such as in spelling or the email address, which may be a generic email rather than a company email.

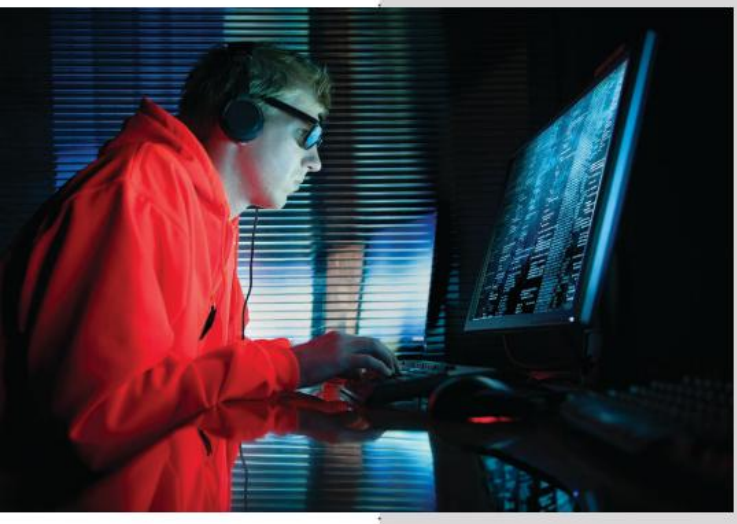


FIGURE 6.8 Phishing scams are a common ploy by hackers.

In many phishing scams, you will be asked to provide information or verify your personal details. This is obviously the action undertaken to source information about you in order to scam you. In many cases, the requests are obvious – you may receive a phone call from someone who states that you are entitled to a refund and therefore they need your bank account details. You should ask questions – Where are they from? What does the refund relate to? When was the original transaction? – but the key is to never hand over personal information. If requests are genuine, they should be providing you with information and not the other way around.

Phishing scams can be very elaborate. In many cases, it may take you some research to determine whether the request is genuine. If the requests are repeated and you are still unsure, talk with friends and family to see whether they have had similar experiences and undertake an online search to find out more.

Types of threats and extortion

Scammers attempt to threaten or extort in various ways, which could include the following:

- **Malware or ransomware.** This is done online or via your computer. Either threats are made to infect your computer files if you refuse to pay a ransom (ransomware), or scammers insist that you download infected files to your computer (malware) to gain access to it. Both are incredibly common and have been used more and more frequently in recent years.
- **Direct threats to your life.** This can be done in variety of ways, but usually occurs via email; the threats involve demands for money. This type of scam is confronting, as it generates fear and scares many people, who often end up paying – or at least offering to pay.

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It is important with all scams to think clearly and report anything unusual as soon as possible. This helps to avoid the scam spreading and capturing more victims.



ACTIVITY 6.6 Research

SCAMWatch

1 Quick quiz: Visit the SCAMWatch website and complete the following questions and activities. Answer all for the current month and year.
   - **a** How many different types of scams can you list?
   - **b** Which scam is currently generating the highest return for scammers?
   - **c** What are the top three current scams generating the highest return for scammers?
   - **d** Do these vary from the previous month? If yes, what are the top three scams generating the highest rate of return for scammers the previous month?
   - **e** What are the bottom three current scams generating the highest return for scammers?
   - **f** Which scam is currently attracting the most female involvement?
   - **g** Which scam is currently attracting the most male involvement?
   - **h** Which scam is currently being reported the most?
   - **i** Are more scams delivered via text message or email?
   - **j** What scam is the most successful via social media?

2 Choose one of the real-life stories included on the website. Read the story and answer the following questions:
   - **a** How obvious was the scam and why?
   - **b** When would you have reported this scam and why?
   - **c** What advice could you offer to ensure this scam does not impact others?

Protecting yourself from scams

The following information is provided by the Australian Competition and Consumer Commission (ACCC) in *The Little Black Book of Scams*, and is extremely useful not only for scams but also for many of the topics we have covered in this chapter.
To protect yourself from scams, take the following steps.

- **Be alert to the fact that scams exist.** When dealing with uninvited contacts from people or businesses, whether it is over the phone, by mail, email, in person or on a social networking site, always consider the possibility that the approach may be a scam. Remember, if it looks too good to be true, it probably is.
- **Know who you're dealing with.** If you've only ever met someone online or are unsure of the legitimacy of a business, take some time to do a bit more research. Do a Google Image search on photos or search the internet for others who may have had dealings with them.
- **Do not open suspicious texts, pop-up windows or emails – delete them**. If unsure, verify the identity of the contact through an independent source such as a phone book or online search. Don't use the contact details provided in the message sent to you.
- **Keep your personal details secure.** Put a lock on your mailbox and shred your bills and other important documents before throwing them out. Keep your passwords and PINs in a safe place. Be very careful about how much personal information you share on social media sites. Scammers can use your information and pictures to create a fake identity or to target you with a scam.

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- **Beware of unusual payment methods.** Scammers often ask for payment by wire transfers, preloaded cards and even iTunes cards and Bitcoin. These are nearly always a sign that it is part of a scam.
- **Keep your mobile devices and computers secure.** Always use password protection, don't share access with others (including remotely), update security software and back up content. Protect your WiFi network with a password and avoid using public computers or WiFi hotspots to access online banking or provide personal information.
- **Choose your passwords carefully.** Choose passwords that would be difficult for others to guess and update them regularly. A strong password should include a mix of upper and lower case letters, numbers and symbols. Don't use the same password for every account/profile, and don't share your passwords with anyone.
- **Beware of any requests for your details or money.** Never send money or give credit card numbers, online account details or copies of personal documents to anyone you don't know or trust. Don't agree to transfer money or goods for someone else: money laundering is a criminal offence.
- **Be careful when shopping online.** Beware of offers that seem too good to be true, and always use an online shopping service that you know and trust. Think twice before using virtual currencies like Bitcoin – they do not have the same protections as other transaction methods, which means you can't get your money back once you send it.

Source: ACCC, *The Little Black Book of Scams* (2016), pp. 32–3.



FIGURE 6.9 Phishing emails look more realistic every year. Make sure you look at all the details of the email before you open it or provide personal information.

Protecting against phishing

The following provides some easy simple steps you can undertake to ensure you don't become a victim to phishing scams:

- Do not open emails and their attachments if they do not look genuine and be particularly careful with emails requesting you to do this from banks or other financial institutions. When in doubt, delete the email!
- Search the internet using the names or key terms from the email, including the name of the author. This may result in further information about the phishing scam and alert you to other scams currently being used.
- Look for the secure symbol (🔒) used before the use of 'https' in web addresses – this symbol signifies that the website is secure. If this symbol does not exist, it means that the website is probably not legitimate and that your information can be obtained. Websites with the secure symbol are encrypted and your information is protected.
- Do not provide personal information. Organisations such as banks and government organisations that request personal information already have some personal information and they will verify it with you. They will not ask you to provide bank account details or home addresses without protection, such as the use of security questions.

REVIEW 6.5

1 What is phishing?
2 Outline three key steps to protect yourself from becoming a victim of phishing.

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ACTIVITY 6.7 Research

The Little Black Book of Scams

Read *The Little Black Book of Scams* from the ACCC site and complete the following activities.

1. Collect one or two different types of scams that have recently been sent to you. They could include a fake email that is a bill or inheritance scam, a text message notifying you of Bitcoin wins or something else. You will be sharing this information with the class.
2. Share your scams with the class – outline the scam and highlight the signs that identity it as a scam.
3. Capture the following information for the class:
   - **a** How many different scams have been used?
   - **b** What is the top scam?
   - **c** Where you can identify the amount of money requested, what is the total value requested for the class?
   - **d** Do the scams vary much between females and males?



ACTIVITY 6.8 Create

Extension activity: Key data

Create an infographic like the one used earlier in this chapter, which outlines the key data collected from this class activity. Determine the key data you wish to represent. You may even be able to use comparison data obtained from SCAMWatch.

6.6 Other online risks: Spotting the issue and knowing where to get help

We have largely concentrated on scams, identity theft and a range of other risks we all face in the online environment. It is important to highlight, however, that there are other online risks for young people, including cyberbullying, image-based abuse, inappropriate behaviour or content, **trolling** and more. Trolling is posting inflammatory, offensive or off-topic messages in online communities such as blogs, social media and forums. Their main aim is to provoke readers into responding or to disrupt normal on-topic discussion.

GLOSSARY

Trolling posting inflammatory, offensive or off-topic messages in online communities, such as blogs, social media, forums and more

The range of risks for young people online has increased. Young people are more exposed to these risks, as often they need to use the internet and social media for education/learning purposes as well as for personal fun and social engagement. It is important to understand the potential risks and to recognise issues, and to know where to find advice and help if required.

It is never okay to harass or denigrate someone online. Never respond directly to trolling or to scams. Ignore or report them, and move on.

Reporting

The most important thing you can do if you are experiencing any form of harassment, trolling or other unwanted contact is to report the behaviour immediately. There are laws that protect your online presence, so make sure you and your family are appropriately informed.

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FIGURE 6.10 You have the right to feel safe and secure online. Know what organisations exist to help you.

Young people have every right to feel safe and secure online, and therefore it is important to protect yourself and rid yourself of any inappropriate or unsafe exposure.

The Australian Government has established the Office of the eSafety Commissioner, and the website is packed with information for your use. The website details:

- types and forms of inappropriate behaviour online
- information regarding e-safety legislation and regulations
- reporting mechanisms for the young people affected
- guides and information on popular social media sites and apps
- information for parents/carers and schools about common and current issues.

Search for the Office of the eSafety Commissioner site online.

Getting help with online risks

The following websites are helpful for understanding and providing support against cyberbullying.

- **The Office of the eSafety Commissioner.** Designed to provide positive, safe support for young people online.
- **Cybersmart.** A national cybersafety and cybersecurity education program operated by the Australian Communications and Media Authority (ACMA), which is intended to help protect everyone, ranging from children and young people to their parents, teachers and librarians.
- **Kids Helpline.** A service for children and young people aged from five to 25, providing free online or phone counselling services.

Getting help with online safety

The following websites are helpful for understanding scams and accessing current, accurate information about scams.

- **Stay Smart Online**. This website, focused on online security and safety, is operated by the Australian Government. Its purpose is to make people aware of online risks and to help them understand how to protect their information – personal and financial – online.
- **ATO scam advice**. A website operated by the Australian Taxation Office, which advises on recognising and avoiding fraud and taxation scams.
- **Australian Cybercrime Online Reporting Network**. This national online network provides the capacity for people to report instances of cybercrime in a secure way. It also helps with recognising and avoiding common forms of cybercrime.

REVIEW 6.6

1 A friend has heard about 'trolling'. Explain what this involves.
2 Advise your friend about reporting options if they come across inappropriate or unsafe exposure.

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CONSOLIDATE YOUR LEARNING

1 Write two or three paragraphs outlining how you will protect your identity in the future. Focus on why this is so important, including how your personal information can be misused.
2 With a partner, research two or three different companies that access, collect, collate and use your personal information to sell you products and services. Prepare a poster to highlight the following:
   a What personal information is collected?
   b How is it collected?
   c How does the information collected enable direct target marketing?
3 As a class, debate one of the following topics:
   a Is identity theft a real crime?
   b Should the government be able to collect personal information and use it?
   c Should there be limitations on what they use it for?
4 Log on to the MoneySmart site and find the Scams Quiz. Take the quiz to see how well you can identify and avoid scams. There are 10 questions in total and you will be provided with feedback for each answer and a total score at the end.
5 Write an essay response to one of the following:
   a Scamming is on the rise in Australia. Detail a scam and what it involves, and outline the types of scams currently in existence.
   b Young people in Australia are careless and reckless with their use of websites, social media and technology generally. They fail to adequately protect themselves, and as a result parents/carers and schools are constantly managing anti social and inappropriate behaviour online. Do you agree or disagree? How can young people better protect themselves?
6 Write a letter to your young brother or sister outlining why it is so important to protect your information and your online presence. Detail the ways a young person needs to protect themselves and why protection is important, but also include the reasons why reporting inappropriate behaviour online is so vital.



FIGURE 6.11 You likely share more of your personal data than you realise.

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Part C

The business environment



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In Part C, you will:

- Explore the nature of innovation and discuss how businesses seek to create and maintain a competitive advantage in the market, including the global market
  - Identify a variety of innovations in business and discuss how this has benefited the particular business
  - Explore emerging techniques that businesses can use to gain an advantage, such as blended marketing, open innovation, use of digital technologies and social media, and the adoption of sustainable production practices
  - Identify the reasons why businesses seek to build or create a competitive advantage – for example, to stay in business, meet the changing demands of a competitive global market, achieve efficiencies, lower costs and improve their profit margins
  - Investigate the different strategies businesses use to create competitive advantage – for example, improving productivity, undertaking research and development, adopting innovative and efficient practices, advertising and marketing, offering a lower-cost product, innovative ways of managing the workforce or implementing efficient internal operational strategies
  - Discuss whether the adoption of strategies based around corporate social responsibility can increase the competitive advantage of businesses
- Identify the ways enterprising behaviours and capabilities can be developed to improve the work and business environments
  - Identify types of entrepreneurial behaviours and their importance for work, business and the economy
  - Identify, within a specific business context, enterprising behaviours and capabilities that may need to be improved, and develop a plan to assist with this improvement
  - Explore which particular behaviours and capabilities a business needs to encourage, and propose strategies for the business to do this.

Key questions:

- How can enterprising behaviours and capabilities be used in the workplace?
- How does creating a competitive advantage benefit business?

By the end of Level 10, you will be able to:

- Explain the nature of innovation and why businesses need to create a competitive advantage
- Discuss ways that innovation and the creation of competitive advantage may be achieved and the enterprising behaviours and capabilities that could be developed by individuals to assist the work and business environments

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FIGURE 7.1 An entrepreneur

Chapter 7
Being an entrepreneur

Australia is a fortunate country, in which its citizens enjoy a high standard of living. If Australia is to enjoy continuing strong economic conditions, then the importance of innovation and enterprise cannot be overlooked.

This chapter investigates the concept of enterprise and what it means to be an entrepreneur. It highlights some of our leading Australian entrepreneurs and investigates the ways in which enterprising behaviours and capabilities can be developed within all of us to improve life for the individual, the business and the Australian economy.

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7.1 What is an entrepreneur?

Entrepreneurs are people willing to take risks and start new business ventures with the intention of making money. An enterprising person is someone who comes up with original and creative business ideas, then puts them into action. This means identifying unique business opportunities and getting the money together to finance these ideas.

Entrepreneurs are not afraid to take risks and will work hard to achieve their goals and objectives.

EXAMPLE

Daniel Flynn, Justine Flynn and Jarryd Burns – Thankyou

Thankyou is an Australian **social enterprise** that was created by Daniel Flynn, Justine Flynn and Jarryd Burns in 2008 to respond to global social issues. The three were initially confronted with the facts about how many people in the world suffered from a lack of water and basic sanitation. From this position of shock and disbelief, they decided to do something about it and Thankyou was born.

They came up with the business concept of selling bottled water, the very product to which so many people overseas lacked access, but also a product that had a very large **mark-up** in developed countries like Australia. The concept was to sell bottled water under a new brand, Thankyou, and use the profits from these sales to donate funds to safe water, hygiene and sanitation programs in 16 countries.



FIGURE 7.2 Thankyou's Daniel Flynn, Justine Flynn and Jarryd Burns

The three also understood the emerging power that could be drawn from social media and digital marketing and gained attention for their creative use of public lobbying of young people on social media and through this to TV programs like Channel 7's *Sunrise* in order to leverage supermarket retailers to purchase their wares. They piloted helicopters flying banners that read 'Changing the world (if you say yes)' above Coles' Melbourne headquarters and main Sydney office.

Daniel Flynn was named as the Victorian Young Australian of the Year in 2014. Two years later, in 2016, Thankyou had successfully raised $3.7 million to go towards giving over 190 000 people access to clean water, 300 000 access to hygiene and sanitation and, finally, funding 19.1 million days' of food aid.

GLOSSARY

Social enterprise a business that exists to reinvest the money it makes back into the business or local community to tackle unemployment, environmental issues or social challenges

Mark-up an amount added to the cost price of goods or services

REVIEW 7.1

1 What is an entrepreneur?
2 From your reading, suggest some of the characteristics of an entrepreneur.

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EXAMPLE



FIGURE 7.3 Entrepreneur Janine Allis

Janine Allis – Boost Juice and Retail Zoo

Janine Allis opened her first Boost Juice bar in Adelaide in 2000. She started working at 17 years of age as a media assistant at the advertising agency McCann-Erikson, and travelled the world as an Aussie backpacker with holiday jobs as an American camp counsellor in the United States and a nanny in France, and even a stewardess on David Bowie's yacht. After a trip to the United States in 1999, where she watched the emerging juice and smoothie business growing, she came back home to start the Boost Juice brand in 2000 from a kitchen table in the suburbs of Melbourne. Her business empire now includes Salsa's Fresh Mex Grill, Cibo Espresso and Hatch, as well as Boost Juice. Her franchises of over 500 stores now operate in 15 countries, with the BRW Rich List (2016) putting her personal fortune at $66 million. As an entrepreneur, she sees business opportunities, analyses the situation, weighs up the risks and then makes confident, decisive decisions about how to progress. Janine also stars as one of the 'sharks' on TEN's reality show *Shark Tank*, where she assesses other people's entrepreneurial flair and can then choose whether to invest in their concept with financial support and business acumen.

7.2 Enterprising skills, behaviours and capabilities

An enterprising person is someone who comes up with original and creative business ideas and then puts them into action. This means identifying unique business opportunities and then getting the money together to finance them. Individuals who possess the behaviours and characteristics of an enterprising person are often referred to as entrepreneurs. Entrepreneurs are not afraid to take risks and will work hard to achieve their goals and objectives. But what skills, behaviours and characteristics does an entrepreneur need?

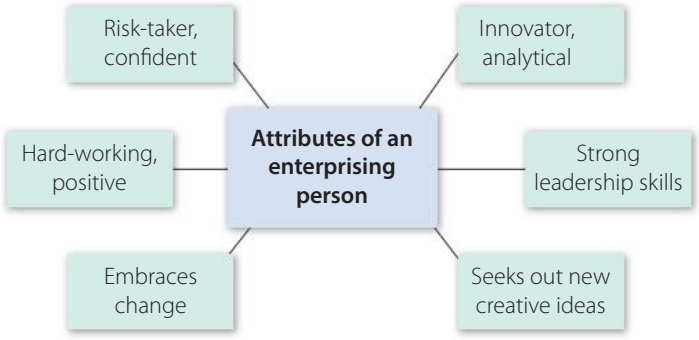


FIGURE 7.4 An enterprising person must possess certain characteristics and attributes to be successful.

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ACTIVITY 7.1 Collaborate

Australian entrepreneurs

1 The following individuals have been nominated as some of the best Australian entrepreneurs. As a class, work in pairs and select one of the following entrepreneurs on whom to do some background research. After 15 minutes, come together as a class to share these profiles. Nominate someone as a class scribe and see whether the class can identify the skills and behaviours they all seem to share.
   - Janine Allis – Boost Juice and Retail Zoo
   - Daniel Flynn – co-founder of Thankyou
   - David Rohrsheim – general manager of Uber Australia & New Zealand
   - Karen Stocks – managing director of Twitter Australia
   - Naomi Simson – RedBalloon
   - Lisa Messenger – founder and CEO of The Messenger Group
   - Fred Schebesta – co-founder of Finder.com.au
   - Mitch Harper – co-founder of Bigcommerce
   - Jodie Fox – co-founder of Shoes of Prey.

ACTIVITY 7.2 Create

Profile of an Australian entrepreneur

1 Imagine that the editor of an entrepreneurial magazine has approached you to write a feature article for its online newsletter. Your task is to write a detailed profile of an Australian entrepreneur who interests you.
2 Include images that show this entrepreneur at work.

Important enterprising behaviours and capabilities

Enterprising people are important to the success of business as well as to the wider community. Enterprising people are not afraid to use their initiative to assess and identify new opportunities and to find new ways of doing things. They are resourceful people who adopt a determined and flexible approach to new opportunities when they are confronted with them.

Enterprising people must also possess a range of important behaviours and skills if they are to capitalise on new opportunities or business ventures, and adapt to changing circumstances as they present themselves.



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ACTIVITY 7.3 Reflect

Skills and behaviours to become an enterprising person

This quiz looks at some of the skills and behaviours needed to become an enterprising person. Read each statement carefully and circle the response that relates most to you. Make sure you are honest with your responses.

Quiz: Are you an enterprising person?

	Statement	A (Always)	B (Sometimes)	C (Never)
1	When making plans and decisions, I enjoy taking risks and seeking new adventures.			
2	I am positive in my approach to life and I like to think on the bright side wherever possible.			
3	I am a goal-oriented person and set high standards for myself with school work and outside activities.			
4	I am not afraid to express my opinion and have confidence in what I do.			
5	When faced with challenges, I'm determined and don't give up easily.			
6	I sometimes come up with thoughtful and unique solutions to resolve any problems I come across.			
7	I enthusiastically approach everyday work tasks and don't tire easily.			
8	When I communicate my ideas to others, people usually seem interested in my thoughts and opinions.			

Guide to scoring

- **Mostly As (always):** You have many of the skills and attributes necessary to become an enterprising person. You don't give up easily and are ambitious and confident in your ability to get things done. You are enthusiastic in your approach to life and are a good problem-solver.
- **Mostly Bs (sometimes):** You have some of the attributes required to become an enterprising person. You are mostly positive and are improving in your ability to communicate your ideas to others. Remember to show confidence in your skills and don't be afraid to take risks if you believe you are on to a winning idea.
- **Mostly Cs (never):** To develop the necessary attributes to be an enterprising person, you need to start setting goals, taking a positive approach to problem-solving and being brave about expressing your ideas and opinions to others. Try not to give up if faced with a challenge. It is never too late to learn.

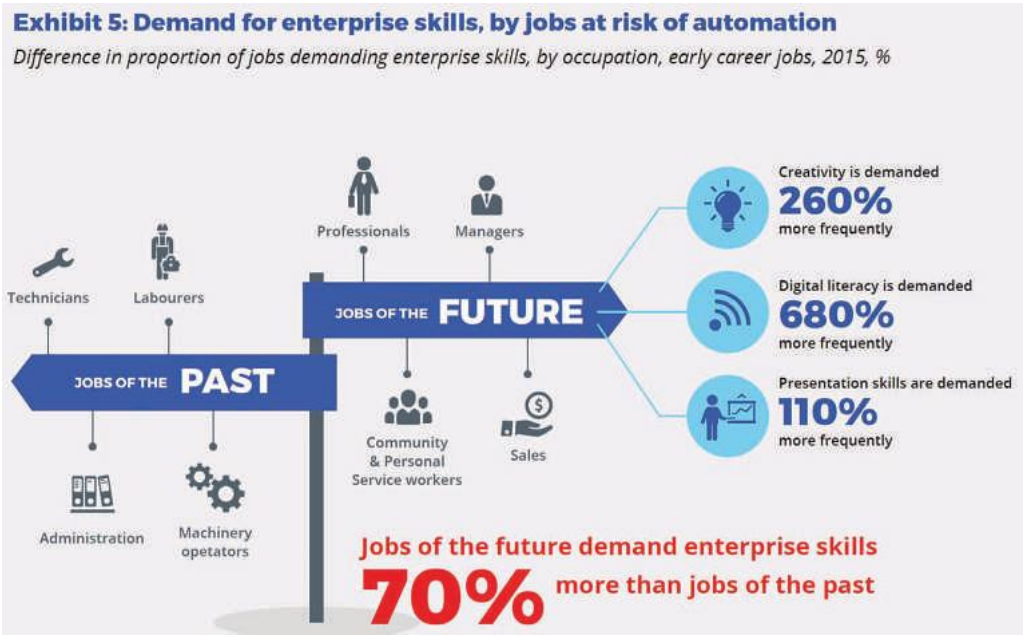
The demand for enterprise skills is on the rise

Enterprise skills are transferable skills that enable everyone to engage with a complex and ever-changing world and navigate the challenges we will all face in our lives. Importantly, enterprise skills are not just for entrepreneurs; they are skills that are required in many jobs, and indeed for society as a whole. So developing enterprise skills will not only benefit you and your own pay packet in the future, but will also have a major impact on where Australia is positioned in the years to come.

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Some of these enterprise skills are:

- problem-solving
- creativity
- financial literacy
- digital literacy
- critical thinking
- presentation skills.



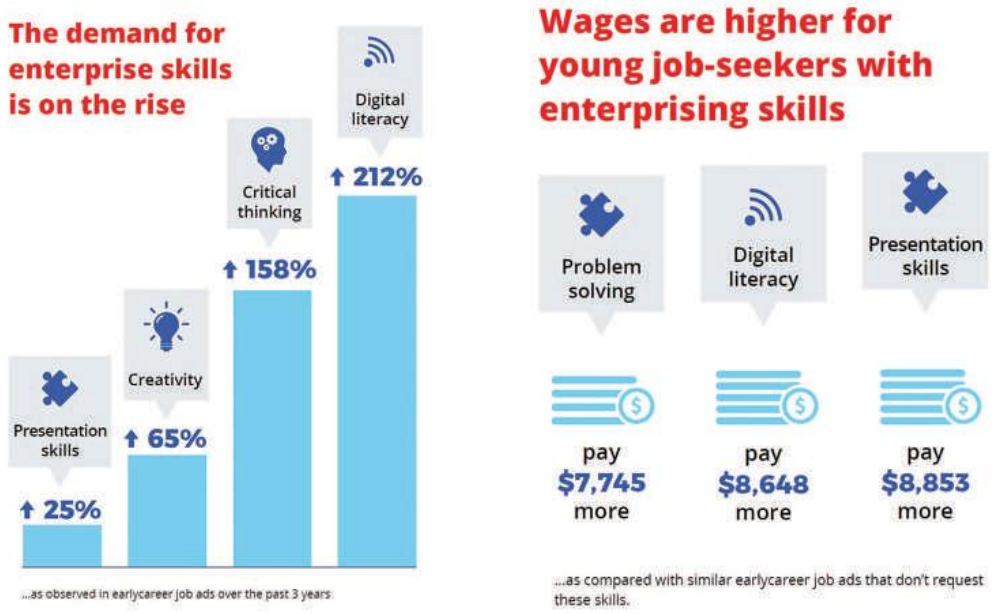


FIGURE 7.5 Diagrams from the Foundation for Young Australians (FYA)'s 2016 report *The New Basics: Big Data Reveals the Skills Young People Need for the New Work Order*

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Motivation, passion, goal orientation

Enterprising people must be highly motivated to achieve their goals despite all the hurdles and resistance they will face. They may be told, 'It's not going to work' hundreds of times and they must have the determination and persistence to break through this. To help them achieve this, they often have a very clear goal for where they want to be in the future and be highly driven to achieve this.

> Figure out what it is you stand for, go and stand up for it.
>
> *– Karen Stocks, managing director at Twitter Australia*

> Goals without routines are wishes; routines without goals are aimless.
>
> *– Naomi Simson, founder and CEO of Red Balloon*

Creativity and problem-solving

Enterprising people must be creative and look for innovative means to solve their problems. They don't always have to be creative themselves, but they do need to know people who can contribute this aspect of the business.

Inevitably, problems will be encountered in a business; it is what happens next that determines the level of success. If the individual can stay calm, concentrate on the ultimate objective, think broadly and draw on past experiences and knowledgeable colleagues and contacts, then the problem needn't freeze the business but rather can be seen as a positive opportunity to make the most of.

> Get really good at learning.
>
> *– Mitch Harper, co-founder of Bigcommerce*

Financial literacy

Financial literacy is about understanding money: where you can get it, what it will cost you to use it, what you can do with it and how it can affect both you individually and the business you own. Financial literacy is of fundamental importance to you and your business idea. Terms like 'interest', 'credit', 'debit' and 'inflation' need to be part of your vocabulary.

GLOSSARY

Financial literacy understanding how money is made, spent and saved

Digital literacy

Being familiar with and confident about using technology, social media, internet research and computer-based presentation tools to develop your business interests is increasingly important in the modern world.



FIGURE 7.6 Critical thinking and communication are key business skills.

Critical thinking

The objective analysis and evaluation of an issue in order to form a judgement – to break down an issue into all its parts and logically and calmly work through these to determine the best path to follow in the future – is a central part of developing and growing a business.

Communication

This skill relates to how well a person is able to express their ideas and relate to others. Communication can

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take many forms – it can be written (email, fax or letter), verbal (business presentation or interview) or non-verbal (body language or dress).

Good communicators will be able to express their views and visions to others in an easy to understand way, and in a style that motivates those around them to work towards their goals. They understand how **networking** effectively and initiating contact with others can help their ideas to be successful.

GLOSSARY

Networking interacting with other people within a professional or social setting to exchange information or ideas

> Listen more than talk.
>
> *– Janine Allis, founder of Boost Juice*

Presentation skills

You can have the best idea in the world, but if you can't convince anyone else of its importance, then it is just a wasted opportunity. The ability to stand in front of people and communicate, convince, inspire or persuade them to believe in you, your idea or what you would like them to do to help you is really important.

Risk taking, self-belief and confidence

Enterprising people must be willing to take a risk and have the self-confidence and self-belief in themselves to carry it through. The fact that no one else has established this business idea means entrepreneurs are travelling in uncharted waters, and this inherently comes with a degree of risk. Statistics suggest that many new business ideas fail, so it takes a lot of inner belief to push through each day and make it a success.

> You can be whatever it is that you want to be.
>
> *– Jodie Fox, co-founder of Shoes of Prey*

> In order to become a genius, you must first risk being seen as a fool.
>
> *– David Rohrsheim, General Manager of Uber Australia & New Zealand*

> Focus on the one thing that you can be the best in the world at and just do that over and over again.
>
> *– Fred Schebesta, co-founder of Finder.com.au*

Decision-making

Enterprising people regularly identify, assess and make decisions about new and emerging opportunities as they arise. They need to use all the traits of an enterprising person, such as creativity, embracing change and risk-taking, to assess new opportunities. Calculated risk-taking is something enterprising people are willing to do to meet their goals. This means maintaining an open mind about potential business opportunities and being able to critically analyse new opportunities to determine whether there is a potential market for the new idea. Enterprising people will be prepared to take an informed risk if they believe it makes good business sense and they can create value. Enterprising people are also not afraid to ask for help, and will seek out expert advice



FIGURE 7.7 Being decisive with decision-making and planning is important for any business venture.

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where required – such as consulting their lawyer about the legal aspects of any new opportunity before proceeding.

Planning

Once an opportunity has been identified, an enterprising person will then plan in detail all the decisions that need to be taken to make this idea a success. Planning may be long term (referred to as strategic planning), but it is also necessary to undertake short-term planning, which covers all the immediate decisions that need to be made.

For example, an enterprising person starting up a new business venture would plan exactly what the business will sell, where it will be located to maximise sales and who will be consulted to make sure all the right decisions are made.

Leadership

Leadership refers to the ability to influence, lead and motivate others. Leaders are people who possess strong organisational skills and are able to confidently direct others in the day-to-day activities on which they may be working.

Enterprising people know how to manage the financial and physical resources needed to bring their idea to life. They are able to adopt a leadership style to meet the situation at hand (for example, by using a consultative style where workers are encouraged to express their opinions about the best ways of doing things). Leaders also know how to negotiate effectively and realise that compromises may sometimes be needed to work towards any goals that have been set.

> Leadership is learning, just in front of more people.
>
> *– Daniel Flynn, co-founder and managing director of Thankyou*

REVIEW 7.2

1. Make a list of at least five ways in which an entrepreneur can benefit society. Provide examples where possible.
2. Describe what you consider to be the three most important enterprising behaviours and capabilities for entrepreneurs.

FIGURES 7.8 Good leaders help those in their team, they show them the way and help them reach their goals.



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7.3 How enterprising behaviours can be developed

Developing the necessary skills

Some people believe that we are all born with the characteristics of an enterprising person, while others believe that these enterprising attributes can be learned. Practising your enterprise skills can fine-tune and develop those you already have, and the experience can add to the pool of knowledge on which you can draw for the next time you need to be enterprising. Learning to be enterprising can help you achieve in all areas of your life, from school through to sporting activities, as well as in your later working life.

Activities 7.4 to 7.7 can help you develop enterprising skills. Choose the Activity, or Activities, that you think will work best for your class.

ACTIVITY 7.4 Collaborate



How to become more enterprising

You'll need one tennis ball and an area with plenty of space for this activity. You can either go outside or rearrange the classroom.

1. The teacher will arrange the class in a circle standing side by side. The first student throws the ball to another person in the class across the circle. The thrower can now take a step back, remembering who they threw the ball to. The receiver can now throw the ball to another random person, and they can again take a step back, remembering who they threw the ball to. The sequence continues until everyone has received the ball and the final person then throws the ball back to the original student who began the whole chain.
2. To ensure that everyone is aware of who they threw the ball to, everyone should point at this person, then afterwards point at who they received the ball from.
3. You are now ready to face the challenge. Throw the ball around the circle again in sequence, but this time you are going to time yourselves from the time the ball first leaves the original student to the time it returns to that same student's hands, having passed around the circle in the same order. Note the time.
4. Take a vote as to whether the class believes they can beat this time, and a prediction of what each person believes is the fastest time in which the challenge can be completed and note down these results.
5. Repeat the challenge and try to get quicker and quicker, bearing in mind that the only rules are that 'the ball must pass from person to person in exactly the same order as the first sequence' and that 'the time is taken from the time the ball leaves the original student's hands until it returns to that person'. Discuss whether there is any better way to complete this task while staying within these two rules.
6. The final challenge for the group is to decide whether you are smart enough to complete the cycle in less than five seconds for the entire class. Once you have gone as far as you can, write down your final time.
7. Now return to the classroom and as a group discuss the following questions.

Sample discussion questions

- **a** How much quicker was the final time than your predictions?
- **b** Who was right with their predictions?
- **c** Who was amazed at how quick the group could become?
- **d** What group ideas did you have to solve the problem?
- **e** Which group ideas did you listen to? Which did you discard? Why?
- **f** How did you make your decisions? Did everyone agree?
- **g** What things did you do well? What things could you do better next time?
- **h** What enterprise skills did you identify that were used within the group?

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ACTIVITY 7.5 Collaborate

Recipe for disaster

This short activity is designed to give you an understanding of what makes a good idea and where such ideas come from.

You'll need a pad of Post-it® notes and a box or a waste paper bin.



1. A Post-it® note is handed out to each member of the class
2. Each person writes down a 'bad idea for a product' on a sheet of paper.
3. Each person then screws the paper up and puts it in the box in the centre of the class.
4. Each class member takes an idea out of the box. They tell the class about it, present a case for why it is a bad idea and propose an alternative – how they might turn it into a good idea.

ACTIVITY 7.6 Collaborate

School heroes

This activity can be a natural extension of the previous warm-up exercise.



1. Once again, a Post-it® note is handed out to each member of the class.
2. This time each person writes on it one thing they would like to improve at school – for example, more things to do at lunchtime, more play equipment, less litter around the school, raising money for a special cause. Each note is put into a box in the middle of the classroom.
3. Ideas should then be drawn from the box. As a class, decide which one you think should be given the highest priority.
4. You then have the challenge of solving this within four weeks.
5. Your teacher will assist you, but consider some of these thoughts:
   - surveying wider community feelings on this issue – for example, fellow students in other classes, year levels, teachers, parents – using a digital online survey technique
   - brainstorming a range of ways to solve this issue
   - constructing a formal presentation with solution to the principal to outline your ideas and gain their commitment
   - considering the financial requirements to solve this problem and where you could access this money
   - listing the resources you require and identifying supporters who can help you locate and access them.

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ACTIVITY 7.7 Collaborate

Be your own boss



Plan to run a school market day for students or a night market after school for the wider community where the key rules are that you must make the goods or services yourselves and you are limited to a maximum of $20 **seed funding**, which needs to be repaid to the investor at the end of the program.

You will have to think creatively, like using recycled goods or materials and turning them into new products. Internet sites like Pinterest can help here, and you will also need to consider the occupational health and safety and legal requirements at your school before embarking on any project.

The Foundation for Young Australians (FYA) and the National Australia Bank created the $20 Boss challenge, which can be used as a formal extension of the previous activity. Teachers run an internal challenge for the school, giving students $20 to create their own business. At the end of the challenge, the students are asked to return the start-up money, with a $1 legacy payment. More information about the program is available from the Foundation for Young Australians' $20 Boss website.

GLOSSARY

Seed funding when a business owner receives money in exchange for a small amount of equity in the company

EXAMPLE

$20 Boss challenge: Catholic College Bendigo

The students at Catholic College Bendigo decided to pool their money so they had more capital and overall success. Establishing a school café called Barista Bar with their collective starting money, each student worked as part of a sub-group that addressed areas from finance and training to coffee-making and management. The aim was to develop a hub for students to enjoy and establish a stronger sense of school community. The total profits from the café were over $900.

Source: Shona McPherson, Victoria's enterprising ideas celebrated at $20 Boss Awards, Foundation for Young Australians (2016).

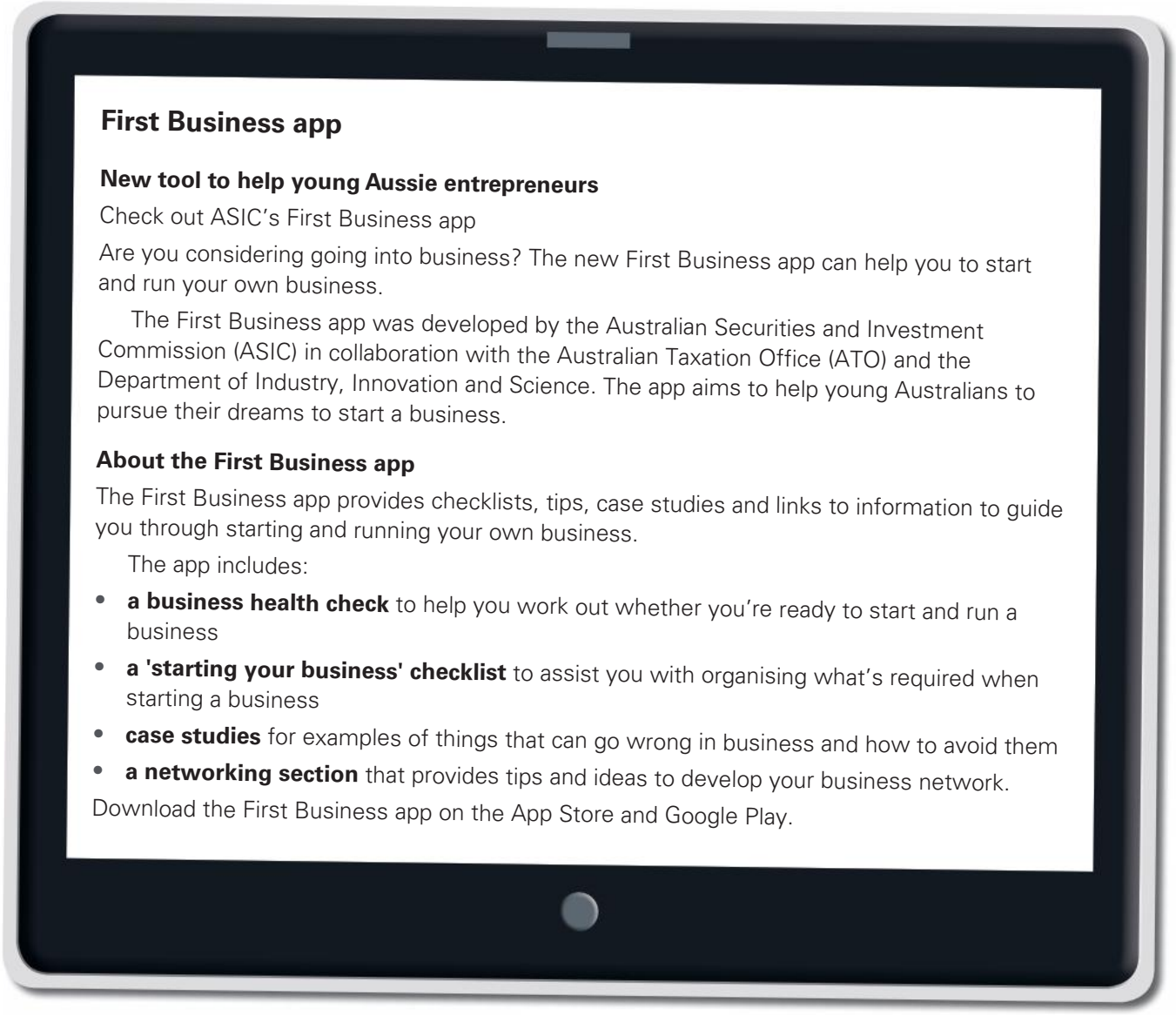
Post school

Relevant studies can also enhance your skill base and help make you more enterprising. A number of universities offer combined business and enterprise degrees that are designed to help graduates develop enterprising attributes and to launch their own business ventures at the same time. By the end of these degrees, it is expected that each student will have the ability and confidence to be able to identify potential business opportunities to enable them to start their own business ventures.

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Government support

The government also offers budding young entrepreneurs advice and assistance from a number of sources.



First Business app

New tool to help young Aussie entrepreneurs

Check out ASIC's First Business app

Are you considering going into business? The new First Business app can help you to start and run your own business.

The First Business app was developed by the Australian Securities and Investment Commission (ASIC) in collaboration with the Australian Taxation Office (ATO) and the Department of Industry, Innovation and Science. The app aims to help young Australians to pursue their dreams to start a business.

About the First Business app

The First Business app provides checklists, tips, case studies and links to information to guide you through starting and running your own business.

The app includes:

- **a business health check** to help you work out whether you're ready to start and run a business
- **a 'starting your business' checklist** to assist you with organising what's required when starting a business
- **case studies** for examples of things that can go wrong in business and how to avoid them
- **a networking section** that provides tips and ideas to develop your business network.

Download the First Business app on the App Store and Google Play.

ACTIVITY 7.8 Research

First Business app

1. Download the First Business app
2. Read the case studies on the app
3. In small groups, identify and describe the problems that each of the individuals ran into and complete a think–pair–share activity to work out how you would avoid this problem occurring in the first place and what the entrepreneurs should now do to resolve it.
4. Complete the app checklist activity and, using this information, complete a poster summarising 10 important points that a small business starting out should consider.

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Encouraging entrepreneurship and self-employment initiative

Are you a young Australian with a great business idea? If so, our friends at the Department of Employment have launched the Encouraging Entrepreneurship and Self-Employment initiative to help young Australians start and run their own businesses.

The initiative is made up of four key measures to support young people starting a business:

- **New Enterprise Incentive Scheme (NEIS)** – provides help by offering tailored training, mentoring and income support to young people who want to become self-employed by starting a business.
- **SelfStart online hub** – provides information to guide young people through the first stages of starting their own business including planning, validating your idea, finding local support and perfecting your pitch.
- **Entrepreneurship facilitators** – facilitators work in areas of high youth unemployment promoting entrepreneurship to help young people get their business ideas up and running.
- **'Exploring being my own boss' workshops** – the two-week workshops provide young job-seekers with a taste of what's involved in self-employment and starting a business. After these workshops, participants will have the opportunity to gain first-hand experience in running a small business.

Business support

Businesses also need to investigate ways of improving their enterprising behaviours – and to develop a plan to assist with this implementation. This involves being reactive, by identifying areas where the business is lacking in these skill areas and responding to them; and also proactive, by recruiting individuals with these skills so that, as opportunities arise in the future, they will be able to apply their enterprise skills to them.



FIGURE 7.9 Learning to be enterprising requires dedication and time, but can be fulfilling and financially successful.

REVIEW 7.3

1. Are all enterprising people born with enterprising skills or do you think it is possible to develop these skills?
2. Explain the difference between businesses being reactive and proactive. Suggest why both are important for planning and development.

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7.4 The benefits to businesses and the economy of being enterprising

Enterprising skills and behaviour benefit the individual, the community, society and the economy, whether or not they are converted into financial business models. By being enterprising, individuals can solve problems in their own lives – from creating their own fancy dress outfit for a party rather than going out and buying one through to helping their local community by organising a fundraising event for a charity or local community organisation. Then, if the enterprising idea is turned into a commercial reality and experiences business success, it is likely to expand, generating revenue that will be shared among the economy through the owner's purchases, and lead to an increase in employment, therefore generating income for more Australians and through the business profits being taxed, with a percentage of the income being reinvested into the Australian economy and society.

As we will explore in Chapter 9, enterprise skills are a vital component of all Australians enjoying the lifestyle to which we have all become accustomed. Improving all our enterprise skills is essential, not a choice.

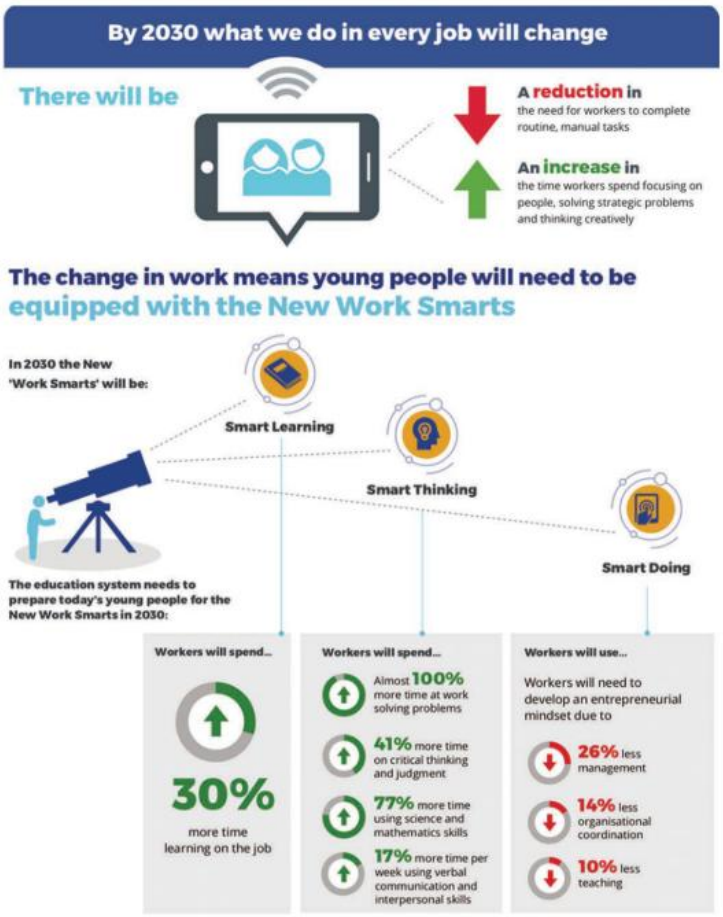


FIGURE 7.10 Jobs of the future: Diagram from the Foundation for Young Australians (FYA)'s 2017 report *New Work Smarts: Thriving in the New Work Order*

REVIEW 7.4

1 The 2017 report *New Work Smarts: Thriving in the New Work Order* contains the prediction that by 2030 every job will change. Is this something to fear or something to be excited about? Discuss.

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CONSOLIDATE YOUR LEARNING

The Enterprising Shark Tank: Do you have what it takes?

This activity is a hands-on team game that will pit team against team in your class to see who is the most entrepreneurial. It brings together the concepts covered in this chapter. It requires you to be entrepreneurial, think creatively and use your business sense to come up with a winning enterprising idea.

1 Divide the class into groups of three or four students. Each team must appoint a project manager whose job it is to allocate duties among their team members as well as encourage and manage their individual team during the task.

2 The class needs to vote on an activity that can be planned and marketed in advance and completed during a school lunchtime. Each team must be competing in the same business. Possible suggestions for business activities are a cake stall, a car wash for teachers' cars, takeaway food stalls or any other business enterprise you think is appropriate and that complies with the school regulations.

3 Your team is required to submit a formal business report at the end of the activity and present this to your teacher in a Shark Tank presentation format as if you wanted to seek teacher finance to take your pilot business to full commercial scale.

Your business report must be professionally presented. You should include the following items within your business report:

a a **description of your target market** (including age, gender, income levels, geographic location and occupation type of your customers)

b a **marketing strategy** that will maximise sales and your group's chance of winning this activity. Your marketing strategy should include a description of each of the following:

- **product:** the goods and/or services you will be selling to the public. You must make your product appealing or desirable to potential buyers.
- **price:** a pricing strategy that will enable you to make a profit while at the same time being competitive
- **place:** the best location to operate your business venture
- **promotion:** the promotional strategies that you would use to generate publicity/sales – for example, flyers and posters.

c **financial results** – list all revenues received and all expenses incurred in running your business, then calculate your **net profit** figure

d **reflection** – each member of the group is required to write a half-page personal reflection on how they thought the team worked together. In your reflection, include comments on the strengths and weaknesses of the team as well as whether you would do anything differently next time. Also include a comment on your own contribution to the group.

e Include photos of the business enterprise, representing the product or services you offer.

f Attach any promotional materials that were used by your group to attract customers.

4 Your teacher will closely follow the progress of each team, both leading up to and during the business enterprise. Ultimately, the team that makes the most compelling presentation, showing that they could take their pilot business enterprise to full-scale commercial success, will be crowned the winning school enterprise and Shark Tank winner.

GLOSSARY

Net profit the difference between the revenue earned by a business and the costs incurred in earning that revenue; where there is more revenue than expenses, the business is deemed to have made a net profit; if expenses exceed revenue, the business will have made a net loss

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FIGURE 8.1 Innovation

Chapter 8

Innovation: Gaining a competitive advantage

This chapter explores the importance of innovation and its link to enterprising behaviours. It investigates practical examples of innovation in business and looks at how innovation can help give businesses a competitive advantage over their competitors, both domestically and globally. The chapter looks at emerging techniques in both product and service innovations and explores the role government can play in promoting innovation in the Australian economy.

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8.1 Innovation – what is it? The link between enterprising behaviours and innovation

Before we begin this chapter, let's have a little challenge!

Below you will see nine dots laid out in three separate rows. Your task is to draw four sequential lines that touch the middle of all nine dots without taking the pencil from the paper. Each line should start where the last line ended.

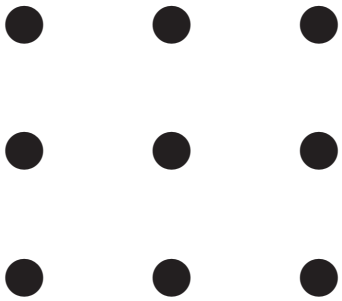


FIGURE 8.2 Draw these dots yourself and join them using four straight lines without taking the pencil off the paper.

If you are struggling, there is a clue that links the solution to this puzzle and this chapter on innovation. You need to THINK OUTSIDE THE SQUARE. (Once you have finished, go to Figure 8.23 at the end of this chapter to see the solution.)

How did you solve the puzzle?

Did you practise a number of times over, did it just come to you or were you frustrated as you kept using the same strategy to solve it? The real key to the nine-dot puzzle is that you literally have to 'think outside the square' in order to solve it.

The approach most people take is to try and draw all the lines within the dots. This is a result of the fact that:

- There seems to be nothing beyond the dots that can be 'joined up'. There is nothing to join a line with around the edges of the nine-dot puzzle, so most assume a boundary exists.
- It seems that drawing lines beyond the dots is outside the scope of the problem.

The puzzle demonstrates the need to look beyond the 'normal' rules of the problem:

- Analyse the rules to find out what is allowed and what is not.
- Do not accept other people's definitions of problems.

To complete such puzzles, it is important to investigate the 'boundaries':

- What are the boundaries into which the solution must fit?
- Are the boundaries real, or did you create them?
- If you break these boundaries, what possibilities open up?

Innovation is much the same. Innovation is an idea, a thought, an invention, a system or a process that is completely new. Innovators are not just inventors; they are observers, listeners, thinkers and doers. In business, innovators are people who come up with ideas that can translate into new products or services for business application. Everyone can innovate. We do it every day with a whole range of tasks. To be innovative, you need to believe in yourself and feel that your ideas are important. An innovator needs to be optimistic, resilient, persistent and curious.

GLOSSARY

Innovation an idea, a thought, an invention, a system or a process that is completely new

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ACTIVITY 8.1 Reflect

Further innovative lateral thinking puzzles pushing the boundaries

Lateral thinking is a concept attributed to Edward de Bono in 1967. Essentially, it is a way of looking at things from other angles as opposed to the more traditional ways. It can foster different approaches to seeing something or linking thoughts, and it can lead to new, original and innovative ideas.

Read the following and provide a response:

1 **The coin.** Patrick and Julian are adrift on a raft in the ocean with a few other shipwreck survivors. They are the only two who can swim, so one of them will need to swim and seek assistance from a nearby island. There are sharks in the water, so whoever swims probably won't make it, but there are no other options. Julian takes two coins from his pocket and puts them both in a bucket. He says that one coin is from 2016 and the other from 2009, and asks Patrick to draw one out and leave the other for him. If Patrick gets the 2016 coin, he will make the swim; if he has the 2009 coin, Julian will do it. Before Julian put the coins in the bucket, Patrick notices that they are both dated 2016. He doesn't want to make the swim, but he also doesn't want to expose Julian as a fraud. How can he make sure Julian has to swim?



FIGURE 8.3 Does Patrick or Julian make it to the island?

2 **Switching on.** Outside a closed room, there are three switches on the wall. Imagine that inside the room there are three lamps. You are given the opportunity to flip each switch as much as you want while the room is closed, but after this you should enter the room and decide which switch is connected to the corresponding lamp. How would you solve this?

3 **DVD deaths.** A man is sitting at home one night watching TV. At one stage he gets up and turns off the lights. He later goes outside and finds hundreds of people lying dead around his house. Why did the people die?

4 **Pipe dreams.** A pipe, a carrot and a couple of sticks are found lying together in a paddock. Explain why.

5 **That's torn it.** A man is doing his job when his suit is torn. He dies three minutes later. Explain why.

(Solutions to these puzzles can be found at the end of the chapter.)

ACTIVITY 8.2 Collaborate

Group lateral thinking puzzle

Tackle this final puzzle in small groups.

Imagine some keys in the bottom of a 1 metre-deep bucket of water. You want to retrieve them without getting your hands wet. If you have only a cardboard box, a piece of plastic and a box of matches, how many ways can you think of to get the keys out of the bucket?'

Are you more innovative when others are there to help?

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This approach of lateral thinking and innovative thought can also translate into business applications. In business, innovations are ideas that can lead to new products and services. Businesses need individuals who are innovative to help them grow. Innovation is about constant change.

Innovation has positive benefits for the wider community as well as the original creator or business that came up with the new idea. Australia has been known for its culture of innovation over the last century, with a wide range of inventions and ideas contributing economic benefits as well as making life easier for members of the community. Australians have always been innovative: from boomerangs to the Granny Smith apple, from the Royal Flying Doctor Service to zinc cream, from polymer bank notes to a picnic esky, from Cochlear Implants and nanotechnology to the Hill's Hoist. These innovations have revolutionised our lives and been sources of employment and income for society. They have also contributed to our high standard of living.

For an innovation to be a commercial success, there needs to be a market for the idea. Coming up with an innovation that will appeal to a large number of buyers will offer the creator the opportunity for financial success. Innovations also benefit the community by providing a new product or service, or improving an existing product to help enhance our lives and make things easier. An innovation can also boost the economy as more jobs are created, and new techniques and better ways of doing things are found.

Linking enterprise and innovation

There is a very important link between enterprise and innovation. Enterprising people possess a range of important attributes, such as being risk-takers, being confident and creative, and embracing change. Encouraging a culture of enterprise in Australia, where people embrace change, and where they possess a positive 'can do' attitude and are open to new possibilities, will promote greater innovation. Therefore, people who have enterprising characteristics will often think innovatively to seek out new opportunities, products and processes. But even if they are not innovative themselves, entrepreneurial people will often search out innovative people, so that they can tap into their new ideas, products and services, then seek to apply them to a business.

FIGURE 8.4 The esky is a pretty cool Australian invention!



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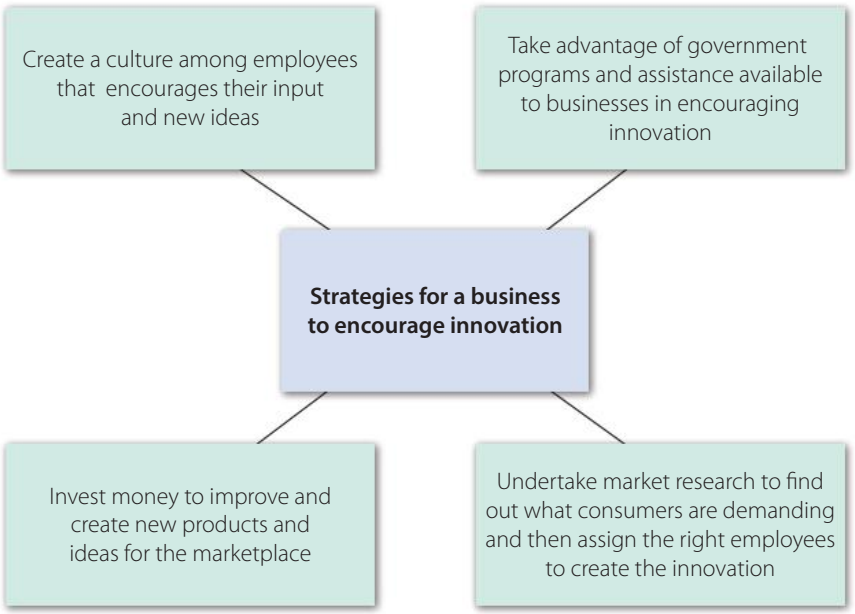


FIGURE 8.5 Encouraging the culture of innovation

REVIEW 8.1

1 What is 'innovation'?
2 Suggest and explain two strategies a business may use to encourage innovation.

8.2 Innovation in business

The following examples show four major Australian innovations that have occurred during the past century. These items have all been highly successful and have had an important impact on society. The final example is of a more recent international innovator.

FIGURE 8.6 Inventor Dr Graeme Clark and the bionic ear, which is surgically implanted



EXAMPLE

The bionic ear

The introduction of the bionic ear in 1979 by the company Cochlear was considered an innovation that has improved the hearing and quality of life for many hearing-impaired people around the world.

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EXAMPLE

The Black Box flight recorder

The Black Box flight recorder was invented in 1958 by Melbourne resident Dr David Warren. It records the conversations of airline pilots and is used if an aircraft crashes to find out what happened in the last minutes of the flight. This innovation is used by airlines all over the world.



FIGURE 8.7 Inventor Dr David Warren and the black box flight recorder

EXAMPLE

The Hill's Hoist

The Hill's Hoist rotary clothes line was invented in Adelaide in 1946 by Lance Hill. It has gone on to be an enduring success and is considered an icon of Australian culture that was even featured in the closing ceremony of the Sydney Olympics in 2000. The Hill's Hoist was considered an innovation because it was a new and efficient way to dry clothes. It had the advantages of being cheap to buy and easy to operate, and it fits into a small area, but has lots of space for wet washing.



FIGURE 8.8 The Hill's Hoist

EXAMPLE

Spray-on skin

Dr Fiona Wood is a plastic surgeon and burns specialist in Western Australia who has received worldwide acclaim for developing 'spray-on skin', which is used to treat burns victims. Dr Wood was named Australian of the Year in 2005 for using this innovation to treat people in the 2002 Bali bombings. The 'spray-on skin' substantially speeds up the recovery process for those suffering burns and increases the survival rate of those suffering severe burns.



FIGURE 8.9 Dr Fiona Wood, inventor of 'spray-on skin'

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EXAMPLE



FIGURE 8.10 Elon Musk

Elon Musk and Tesla

One of the most famous innovators of our time is Elon Musk, the South African entrepreneur most famous for founding Tesla (formerly Tesla Motors) and aerospace manufacturer and developer SpaceX. Born in 1971, Musk had become a multimillionaire by his late twenties when his start-up company, Zip2, was acquired by Compaq. He then founded X.com (the progenitor of Paypal) in 1999, and began Tesla and SpaceX a few years later. SpaceX rose to fame when in May of 2012 it became the first private company to send a spacecraft to the International Space Station, and has since hit further milestones. In 2016, Musk co-founded Neuralink, a company that develops interfaces between computers and the brain.

REVIEW 8.2

1. Describe some personal characteristics of an innovative person.
2. Outline three benefits to Australia of encouraging a culture of innovation.
3. Make a list of what you believe to be the 10 most important innovations over the last 100 years. Why do you think these are so important to your current lifestyle?
4. Very few new innovations get off the ground and become commercial successes. What reasons can you give for the high failure rate of new innovations?

ACTIVITY 8.3 Create

Innovations that could change the world

Consider three innovations that you think could change the world, but have not yet been developed. Draw a rough sketch of what you think each of these innovations would look like as well as the features of the idea. Why do you think each idea could be a success?

ACTIVITY 8.4 Research

Successful Australian innovation

Identify an Australian innovation that has been commercially successful and has benefited a large number of people. Prepare a presentation to the class on this innovation, which explains:

- the name of the innovation and who came up with the idea
- who developed the innovation into a commercial success
- a timeline of how the idea developed into a commercial success
- any issues they encountered (positive or negative) on the journey to commercial success and how they overcame or developed from them.

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8.3 Why seek to gain a competitive advantage?

In a globalised world where ideas can be shared quickly and products copied very easily, it is very rare for a business to be the sole producer of a good or service for very long, if at all. Just about all businesses will have to face competitors, and if they fail in this task they will lose sales and revenue and eventually be forced out of business.

Businesses therefore need to strive to attain a **competitive advantage** over their rivals – something that sets them apart and makes consumers want to choose their products or services over the others in the same market. They can do this in the following ways:

- **Stay in business**. If all your competitors are bringing out new products, which better meet customer needs on price, quality or customer-need criteria, then customers are going to divert their purchases to these other companies. This leads to falling **market share** and falling sales, and eventually the business doesn't earn enough **revenue** to match its expenses and it goes out of business – it is **bankrupt**.
- **Meet the changing demands of a competitive global market**. With the advances occurring in globalisation and technology, consumers can buy products online from anywhere in the world and therefore nearly all businesses now need to compete globally and respond to customer needs in a variety of countries.
- **Achieve efficiencies**. As businesses become larger, they are sometimes able to negotiate cheaper deals with manufacturers of their components – for example, buying in bulk. This can lead to reduced costs per unit (economies of scale), which can translate into lower prices and therefore a bigger market share which allows a business to operate more efficiently than its rivals.
- **Lower costs**. Many consumers are very **price conscious** – in other words, they compare products on price and are constantly looking to save money and buy the cheapest items; therefore a business may need to seek to lower costs to remain competitive in an industry.
- **Improve profit margins**. Businesses have the objective of trying to make a profit from the money that has been invested into the business. To increase profits, we need to increase revenue or reduce **expenses**, or both.
- **Fulfil a social need**. Some businesses gain a competitive advantage by offering something that meets a social objective, so consumers are keen to support this initiative. For example, Thankyou uses the profits from selling bottled water to fund water security measures in developing countries.
- **Fulfil a market need**. For example, remote control devices save an individual from getting up to change the television channel, and allow them more time to relax and watch their favourite shows.

GLOSSARY

Competitive advantage the ability to beat your competitors in terms of price or quality, translating into greater sales and profits

Market share the percentage of a total industry's sales that a company controls

Revenue money earned from selling products or services

Bankrupt being unable to pay bills, leading to the closure of a business

Price conscious consumers who are looking for low-priced items and place this feature very high on their list of priorities when making purchasing decisions

Expenses costs of producing a product



FIGURE 8.11 Coca-Cola and Pepsi share a long history of brand competition, with each trying to secure a competitive advantage over the other.

REVIEW 8.3

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8.4 How to create a competitive advantage

The following are some of the most common methods of seeking a competitive advantage:

- **Innovation**. One of the best ways of creating a competitive advantage is through new innovations in ideas, thoughts, practices and products. Creating something new means other companies will not have the product or service, therefore giving you a very clear point of difference over your rivals.
- **Innovative ways of managing the workforce**. By allowing workers to have flexible work practices built into their schedules so that they can come and go around family requirements – allowing them to work from home, use teleconferencing rather than coming in for meetings and so on – you are hoping to raise the level of worker satisfaction and therefore increase motivation. More motivated and innovative employees will be more likely to come up with the next big idea to give the business a competitive advantage. Employee-focused strategies are also likely to encourage the best workers in the industry to seek employment with your business, making the company an **employer of choice.**



FIGURE 8.12 DHL Express is a recent award winner in the Australian Business Award's annual Employer of Choice category.

- **Increased productivity.** By increasing **productivity** levels (greater output from the same amount of input), you are effectively spreading the total costs of manufacture over more products, which therefore allows you to reduce the cost per unit. This translates into the potential to reduce your prices while still retaining the same profit margin, which gives you a cost advantage over your competitors.
- **Research and development**. By investing money in researching and developing new products, you are able to bring new products to the market ahead of your competitors, giving you an advantage over them.
- **Advertising and marketing**. Effective marketing strategies can create huge consumer demand despite there being relatively few practical differences between products. Sports shoe manufacturers and youth fashion both experience the desire to be 'the' brand with which customers identify. This creates the consumer 'must have' philosophy that can give you a huge competitive advantage over your rivals.
- **Offering low-cost products**. Many consumers are very price conscious: they compare products on the basis of price, and are constantly looking to save money and buy the cheapest items. To try to meet these customer demands, the company needs to lower its prices, and one way to do this is to lower the company's costs. But this low-cost route to competitive advantage tends to lead to reducing the number of paid employees and replacing them with technology and robotics, or moving production overseas to take advantage of cheaper labour rates.

Case Study 8.1 highlights a number of methods of achieving a competitive advantage in the highly competitive market of car manufacturing.

GLOSSARY

Employer of choice being seen as a highly attractive company for which to work, due to work conditions, entitlements and reputation

Productivity how much output is produced per unit of input

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CASE STUDY 8.1

Tesla electric cars

Tesla's mission is to accelerate the world's transition to sustainable energy.

Tesla was founded in 2003 by a group of engineers who wanted to prove that people didn't need to compromise to drive electric – that electric vehicles can be better, quicker and more fun to drive than gasoline cars. Today, Tesla builds not only all-electric vehicles but also infinitely scalable clean energy generation and storage products. Tesla believes the faster the world stops relying on fossil fuels and moves towards a zero-emission future, the better.

Launched in 2008, the Roadster unveiled Tesla's cutting-edge battery technology and electric powertrain. From there, Tesla designed the world's first ever premium all-electric sedan from the ground up – Model S – which has become the best car in its class in every category. Combining safety, performance and efficiency, Model S has reset the world's expectations for the car of the 21st century with the longest range of any electric vehicle, over-the-air software updates that make it better over time and a record 0–60 mph acceleration time of 2.28 seconds as measured by Motor Trend. In 2015, Tesla expanded its product line with Model X, the safest, quickest and most capable sport utility vehicle in history that holds 5-star safety ratings across every category from the National Highway Traffic Safety Administration. And to complete CEO Elon Musk's 'Secret Master Plan', in 2016 Tesla announced Model 3, a low-priced, high-volume electric vehicle that began production in 2017.



FIGURE 8.13 The Tesla Model 3

Tesla's vehicles are produced at its Fremont factory in California, where the vast majority of the vehicle's components are also made. As Tesla continues to expand its product line, Tesla's production plan is also set to increase to a rate of 500 000 vehicles a year by 2018.

To create an entire sustainable energy ecosystem, Tesla also designed a unique set of energy solutions, Powerwall, Powerpack and Solar Roof, enabling homeowners, businesses and utilities to manage renewable energy generation, storage and consumption. Supporting Tesla's automotive and energy products is the Gigafactory – a facility designed to significantly reduce battery cell costs and, by 2018, produce more lithium-ion batteries annually than were produced worldwide in 2013. By bringing cell production in-house, Tesla manufactures batteries at the volumes required to meet production goals, while creating thousands of jobs.

And this is just the beginning. With Tesla building its most affordable car yet, Tesla continues to make products accessible and affordable to more and more people, ultimately accelerating the advent of clean transport and clean energy production. Electric cars, batteries and renewable energy generation and storage already exist independently, but when combined, they become even more powerful – that's the future we want.

Source: Tesla, About Tesla.

1. Drawing on the case study, explain *why* Tesla is seeking to gain a competitive advantage over its rivals in the car market.
2. Drawing on the case study, identify and explain *how* Tesla is achieving a competitive advantage over its competitors.
3. Explain how all Tesla's innovations appear to be linked to a core objective.

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4 Propose another innovation that you believe would add to Tesla's objective of accelerating the world's transition to sustainable energy.

5 **Extension activity:** If you want to gain an understanding of one of the innovative minds behind Tesla, in a 2017 TED Talk, *The Future We're Building – and Boring*, Elon Musk discusses some of the future innovations he is proposing to develop in the next few years. Watch the video and then summarise his proposed innovations.

REVIEW 8.4

This review is available in the online version of the textbook.

ACTIVITY 8.5 Collaborate

PotBiz: The innovation game

Use the following link http://cambridge.edu.au/redirect/8091 to find PotBiz online. This computer simulation game introduces you to the steps of bringing a new innovation to the market. As a single player, or as a team of two, you will need to successfully navigate the issues around establishing a new business and defend the competitive advantage you have around a new innovation in the plant pot market.

Just a heads up! The game has been archived by the Powerhouse Museum. We apologise if it is no longer accessible when you try and play it. The game was available at the time of publication.



FIGURE 8.14 The PotBiz game will guide you through innovating decomposable plant pots.

About the game

- Learn how to be a successful innovator as you try to turn an idea for a decomposing plant pot into a profitable business.
- You have a great idea – make a range of biodegradable plant pots that hold the plant roots and potting mix together during planting, in a material that will be decomposed by micro-organisms in the soil.
- To turn this idea into a successful product, you must develop a suitable material; design the pots; borrow money for equipment; make, promote and sell them; and stay ahead of imitators and competitors. It won't be easy – being an innovator never is. In PotBiz, the decisions you make could lead to success and profits, with an innovative product that helps in planting millions of trees and shrubs, or it could lead to you going out of business with debts to pay.

Source: Powerhouse Museum, Innovation Game PotBiz.

As you play the game, summarise the decisions you make in the table below and see whether you can identify the effect these decisions have on your ultimate success. After your first attempt at this game, discuss your decisions and results with another team and see whether you can identify a strategy that will give you better success at your second attempt.

Have a class competition to see who can be most successful. Copy and post the following leader board up on your classroom whiteboard.

Sales after year 1 =	Decisions made in year 1:
Sales after year 2 =	Decisions made in year 2:
Sales after year 3 =	Decisions made in year 3:

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ACTIVITY 8.6 Collaborate

Market a mystery item

Work in groups of two or three. Each group will be given a mystery item by the teacher.

Your group has three lessons to work out how you are going to create and market an innovative use for your mystery item. You are to build a prototype of your product from the mystery item you have been given and then create a presentation (PowerPoint, multimedia or speech) to convince the rest of the class to buy your innovation.

In your presentation, you must:

- establish a brand name and design for your product
- identify the target market
- identify the key innovative features of your product
- explain factors that will affect the pricing of the product – for example, special deals or promotions
- select any two key promotional activities (personal selling, advertising, sales promotion, direct marketing, social media, public relations) and explain how these will be used in the marketing of your innovation.



FIGURE 8.15 What type of product will your group design?

After creating a working prototype of your product, you are to display this in your classroom. The intention of the presentations is to convince the buyers that your product /service is the one to buy. Each student in the class (prospective buyers) has a fictitious $50 to spend. After listening to all the presentations, each prospective buyer is to place their $50 behind the most innovative product that they feel is most likely to be a commercial success. A buyer cannot purchase their own product.

8.5 Emerging techniques

As well as the development of innovative products and services, innovative techniques have been applied to the production of these products and how they are marketed to consumers. Following are some examples of new innovative techniques being employed by businesses.

Use of digital technologies and social media

Some companies have integrated their marketing with the rapid emergence of social media and digital technologies, to reach a younger audience who are already using these spaces. An example of one such company is GoPro, which has made full use of YouTube to demonstrate every conceivable situation in which to use one, from base jumping to surfing to motorbikes to parachute jumps to close encounters with lions.



FIGURE 8.16 Extreme sports enthusiasts can film their adventures using a GoPro, which can then be uploaded to social media.

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Blended marketing

With the emergence of social media, some businesses have taken advantage of the **blended marketing** opportunities offered by Facebook, Instagram and Snapchat, for example, to reach younger audiences. As online shopping becomes increasingly popular, it is predicted that shoppers are unlikely to visit retail stores, and will instead choose to scroll through a web page, ordering products with the click of a mouse or the swish of a finger, before having their products shipped to their door. The trick for businesses now is how to create a consistent message in both digital marketing and traditional media (blended marketing), which creates a harmonious message but takes advantage of the benefits of both approaches. For example, Red Bull Media has managed to create engaging content on social media that is clearly tied to real venues.

GLOSSARY

Blended marketing the seamless integration of digital and traditional marketing techniques

CASE STUDY 8.2

Red Bull

The energy drink Red Bull gets fairly negative feedback in taste tests. But despite this considerable drawback, it has managed to gain a serious foothold over the past 15 years. The drink holds a 70 to 90 per cent market share in over 100 countries across the globe, beating out competitors such as Monster (partly owned by Coca-Cola) and Rockstar (PepsiCo).



FIGURE 8.17 The pressurised suit Baumgartner wore to break the sound barrier in 2012, with sponsor Red Bull's logos displayed prominently

Red Bull's founder Dietrich Mateschitz points out that the company created a market which did not previously exist. The company's $1.6 billion worth can be credited to its 'buzz-marketing' strategy. By supporting highly publicised and exciting events, Mateschitz says the focus is on bringing consumers to Red Bull, rather than taking Red Bull to consumers. By supporting almost 500 extreme sports athletes in the top of their field, viewers are exposed to Red Bull brand even if they are unaware of it.

Red Bull's perhaps most famous and successful attempt at blended marketing occurred in 2012, when Austrian daredevil Felix Baumgartner freefell from 39 kilometres above the Earth. Diving from this high up meant that Baumgartner was in the Earth's stratosphere, changing the stunt from mere 'skydiving' to 'space diving'. During the freefall, Baumgartner became the first person to break the sound barrier without any machine assistance. The entire stunt, viewed by over 8 million people on YouTube, was conceived and sponsored by Red Bull.

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1. Investigate Red Bull's web page and identify and describe another event sponsored by the company.
2. Describe the benefits to a business of using social media and blended marketing to get a message to consumers.
3. It is alleged to have cost US$50 million to put together the team, resources and film for Felix Baumgartner's space jump. Discuss in detail whether you think the cost was worthwhile.
4. Explain the potential issues or concerns that can also accompany using social media as your marketing strategy, as opposed to traditional television or magazine advertising.
5. On the basis of your answers to questions 2, 3 and 4, pretend you were a marketing adviser for ANZ Bank. What marketing advice would you give ANZ Bank about which marketing strategy it should use for a new marketing campaign and then justify your answer.

Open innovation

In the past, it was often believed that companies needed to have a cloak of secrecy over all their ideas to ensure they were never copied, and research and development teams were never allowed to share information. However, following the work of Henry Chesbrough in 2003, benefits were identified as a result of 'open innovation', where ideas can be shared freely inside and outside the company. An example of such a company is LEGO®, which started the 'LEGO® Ideas' program. On the LEGO® website, customers can design their own individual LEGO® sets by using computer 3D applications and LEGO® bricks. Other people can discuss the idea and vote for it. If the idea gets a certain number of votes, LEGO® will choose it as the new LEGO® set to hit stores, while giving a small revenue share to the set's creator.



FIGURE 8.18 The LEGO® Ideas program gives people the chance to vote on potential new products designed by fellow consumers.

Social responsibility and ecological sustainability

Much media attention in recent years has been given to corporate social responsibility. This is the result of a number of high-profile individuals and businesses acting in an unethical and dishonest manner. This has not only harmed the reputation of the people involved, but has also meant greater scrutiny by consumers of all businesses to ensure they are acting in a just and ethical manner to their employees, the community and society at large – for example, in relation to environmental concerns.

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CASE STUDY 8.3

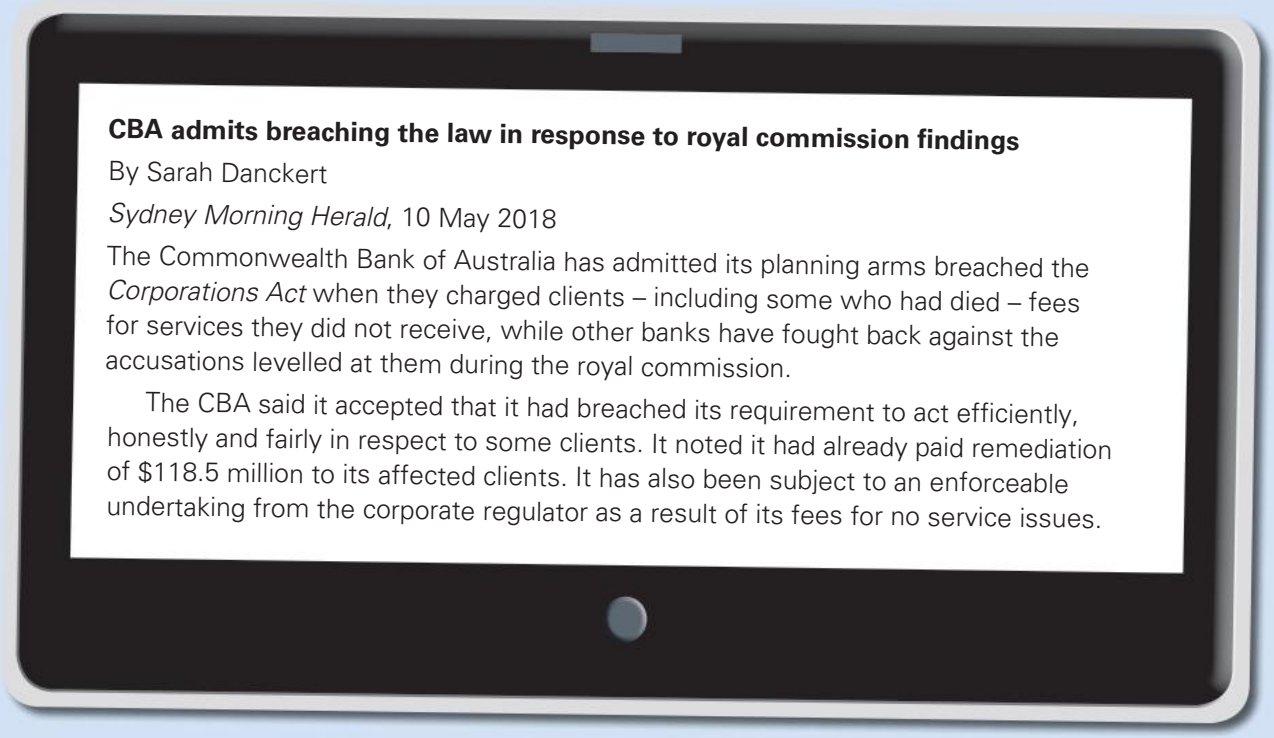
Commonwealth Bank of Australia

In contemporary society, the importance of social responsibility and sustainability is felt by businesses large and small. For instance, the Commonwealth Bank of Australia Group was found to be the most sustainable bank in the world according to the 2018 Global 100 index, ranking at 24. The Commonwealth Bank has achieved this through a number of different means according to its Corporate Responsibility Report, including:

- Offering financial assistance and partnering up in support of environmental causes such as Earth Hour, Clean Up Australia Day and the Great Barrier Reef Foundation.
- Ensuring environmental efficiency internally by means of reducing its greenhouse emissions, investing in technology with a focus on energy efficiency and by promoting the use of recycling.
- Encouraging volunteering by staff across 264 international and domestic organisations, totalling up to 31 000 volunteer hours.

Locate the Commonwealth Bank Corporate Responsibility Report 2017 online for more information and details on their social and environmental policies

However, with the 2018 Royal Commission into banks and revelations of fraud and unfair dealings with the public, another side of the company is revealed. The Commonwealth Bank has admitted to being the worst financial services institution in Australia when it comes to charging fees for no services whatsoever, in some instances up to $10 000. This reveals the importance of corporate transparency in allowing the expectations of society as a whole to be met.



CBA admits breaching the law in response to royal commission findings

By Sarah Danckert

Sydney Morning Herald, 10 May 2018

The Commonwealth Bank of Australia has admitted its planning arms breached the *Corporations Act* when they charged clients – including some who had died – fees for services they did not receive, while other banks have fought back against the accusations levelled at them during the royal commission.

The CBA said it accepted that it had breached its requirement to act efficiently, honestly and fairly in respect to some clients. It noted it had already paid remediation of $118.5 million to its affected clients. It has also been subject to an enforceable undertaking from the corporate regulator as a result of its fees for no service issues.

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1. Why do you think increasing importance has been placed on both producers and consumers acting in a socially responsible manner?
2. Banks often receive negative press and face criticism within the community about perceived unethical behaviour. Explain why it may be particularly important to the banking industry to be seen to support corporate social responsibility initiatives.
3. Prepare a press release for the Commonwealth Bank that details all the socially responsible things it is doing in Australia. Go to the Commonwealth Bank website and search for the latest *Corporate Social Responsibility Report*.
4. Make a list of 10 things that you could do as a consumer to encourage producers to be more socially responsible and ecologically sustainable – for example, not accepting plastic bags from retailers, but using your own calico bags instead.
5. Use the internet to find other examples of Australian businesses that are tackling the issue of social responsibility and ecological sustainability in a serious manner. Prepare a written summary that provides an overview of each business and the programs it uses to be ecologically sustainable in its market.
6. Assume that you have been appointed the CEO of a new Australian bank called Eastpac. Design and write a new one-page environmental policy to be distributed to all new employees. Outline the range of environmental policies that Eastpac will use to promote an ecologically sustainable workplace.
7. On a sheet of cardboard, create a collage of images representing some of the different approaches that large Australian organisations are using to promote ecological sustainability in their workplaces. Companies such as Westpac, Woolworths, BHP Billiton and Coca-Cola have information on their websites about how they are approaching the issue of ecological sustainability.

REVIEW 8.5

1. Provide an example of using digital technologies or social media to create a competitive advantage.
2. Describe what is meant by 'open innovation'.
3. Why are the aspects of social responsibility and ecological sustainability important for businesses?

FIGURE 8.19 Many businesses today are very conscious of the importance of ecological sustainability.



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FIGURE 8.20 The New Enterprise Incentive Scheme is a government program designed to help job seekers registered with Centrelink.

8.6 The government's role in promoting innovation

If a country such as Australia wants to have a strong economy and continued high living standards, it needs to strive to do the best it possibly can. Finding innovative ways of doing things and encouraging an enterprising spirit will help to establish and promote successful businesses, which in turn will employ large workforces. The government can help promote innovation and enterprise by establishing policies that both encourage and assist individuals and businesses to find better ways of doing things.

How governments encourage innovation and enterprise

The federal government has set up a range of websites aimed at fostering and promoting innovation and entrepreneurship among Australians. One such website is Enterprise Connect, which is aimed at small and medium-sized business enterprises in Australia. Small business owners wanting to grow their business and enhance their ideas can apply for a free review of their business by an experienced business adviser. As well, they can apply for financial grants through Enterprise Connect.

Some of the main innovation assistance available includes the following:

- **AusIndustry**. Helps a range of businesses with issues such as applying for tax or duty concessions, undertaking market research and expanding business operations.
- **Austrade**. Set up to assist Australian businesses that wish to expand their ventures to overseas locations.
- **Business.gov.au**. A free website that provides information on all aspects of running your own business, from starting out to business planning.
- **The New Enterprise Incentive Scheme**. Enables job-seekers who are registered for Centrelink benefits to undertake market research into a business idea that could be developed for a new viable business venture. For those coming up with an approved business idea, financial assistance is provided in the early stages of the business's life.
- **Melbourne Innovation Centre**. Allows small businesses space and services to accelerate their growth. The Centre endeavours to assist in the development and future success of young entrepreneurs and start-up companies by providing world-class incubation and acceleration programs.
- **INNOVIC**. This is a not-for-profit organisation assisting more than 1000 innovators and entrepreneurs every year. The Victorian Innovation Centre aims to transform new ideas into viable products in order to lay the foundation for the businesses of the future. It offers seminars, practical services and other resources to help people turn their ideas into commercial realities.

For more information about these initiatives, search for the official sites online.

REVIEW 8.6

1 Why is innovation and enterprise important to the performance of the Australian economy?

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ACTIVITY 8.7 Research

Government agencies

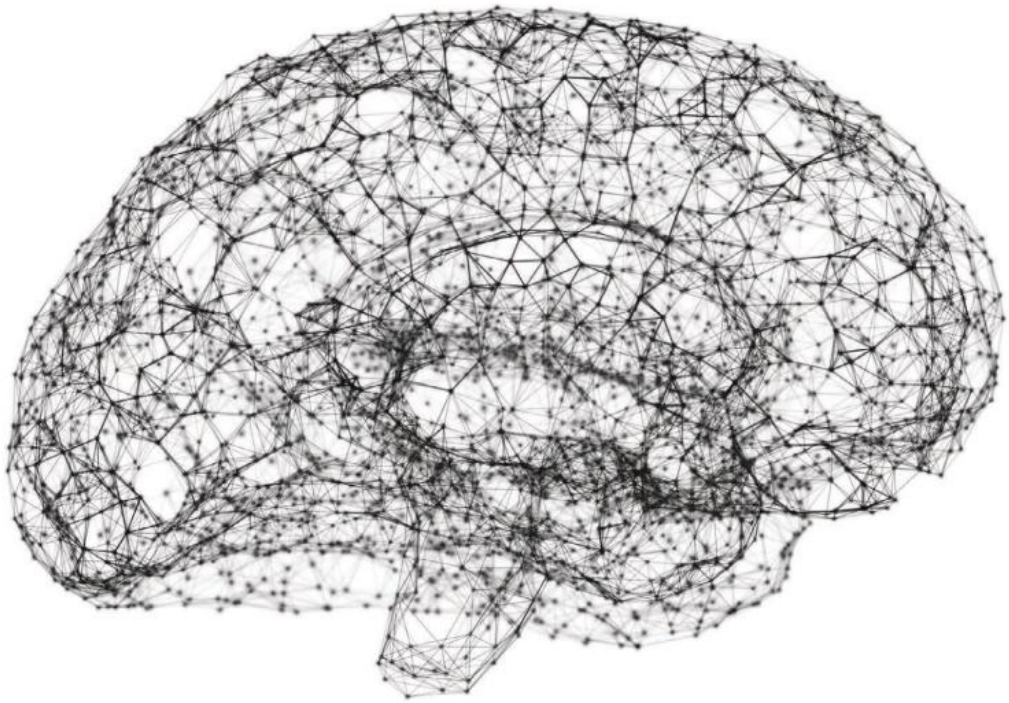
Your teacher will assign you one of the government agencies previously listed to conduct some further research. Investigate the agency's website and imagine you are a new start-up business. Research the type of assistance the agency could provide to you. Take screen shots of the pages or information that would be most useful to you and then present this to the class.

ACTIVITY 8.8 Collaborate

Government support of innovation

1. Discuss as a class what further policies or measures could be developed by governments in Australia to encourage a culture of innovation and enterprise.
2. Prepare a class debate on the topic 'Governments can and should do more to promote innovation and enterprise throughout the nation'.

FIGURE 8.21 It is important that Australia continues to innovate, to help both ourselves and also the global community.





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CONSOLIDATE YOUR LEARNING

A winning innovative idea

This is a practical activity that brings together the concepts covered in this chapter. It requires you to be innovative, think creatively and use your business sense to come up with a winning innovative idea.

- **Step 1: Brainstorm possible ideas.** In this step, you need to brainstorm a list of possible innovations that you believe could be a success. You can make up a hypothetical good or service that hasn't been invented yet (but that you think consumers would love) or you can modify and improve an existing good or service that is already in the marketplace.
- **Step 2: Decide on your idea, then identify the target market.** Once you have decided on the innovation you believe has the most potential, identify the characteristics of your target market. It may be useful to perform some market research first in order to test out your ideas.
- **Step 3: Prepare a business plan.** There should be five parts to your business plan:
  1. **Executive summary.** This is a summary of your overall business report/idea.
  2. **Business objectives.** Formulate at least five business objectives for your innovation – for example, to expand the business by exporting the product. You should also prepare a mission statement that captures the overall aim of the business.
  3. **Marketing plan.** Here you will need to outline the target market for your innovation, provide a SWOT analysis and detail the marketing methods you will use to promote your innovation.
  4. **Operational plan.** You must specify the number and type of staff you need, the location of the business, the type of ownership structure you will use and all the resources required to produce the good or service.
  5. **Financial plan.** Here you need to detail how much money you require to make the innovation a success. You should also specify where the finance would come from and include an estimate of expected sales figures for the first 12 months of operation.



FIGURE 8.22 A successful innovation means that every detail has been thought through.

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- **Step 4: Identify potential export markets.** In today's globalised world, there are many opportunities for the enterprising individual. In light of your innovation, undertake some research and then nominate at least five countries to which you believe you could export your innovation. Justify your reasons.
- **Step 5: Be ecologically sustainable.** In your report, you also need to describe how your innovation is ecologically sustainable – that is, how you will aim to minimise any harm to the environment and how great care will be taken to use resources efficiently.
- **Step 6: The presentation.** The final step is to prepare a three-minute presentation to your classmates. During your speech, you will need to describe all aspects of your innovation to the audience as well as describe why you believe it will be a winner. You must convince everybody that you are the real deal and are truly innovative and enterprising!

Solutions to lateral thinking puzzles

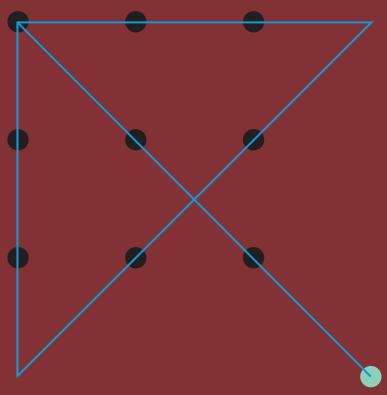


FIGURE 8.23 Suggested solution to the test from the start of the chapter

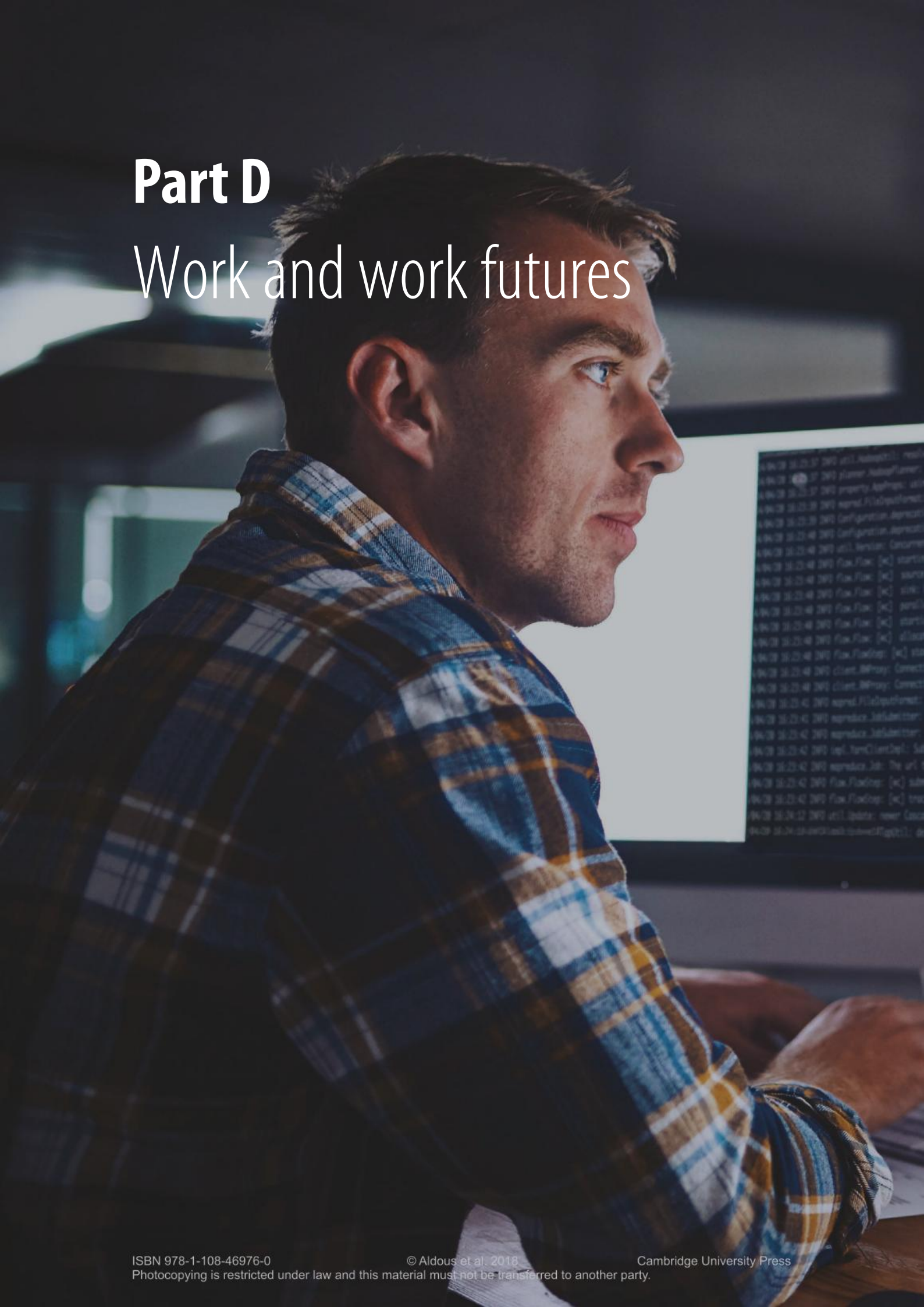
Activity 8.1 answers

1 **The coin.** Patrick takes a coin, but 'accidentally' drops it into the ocean. He points out that if the remaining coin is the 2016 one, he must have picked up the 2009 coin. Julian cannot reject this logic unless he admits to lying about the coins. This means that Julian must swim.
2 **Switching on.** Turn the first switch on for about sixty seconds before turning it off. Then, turn the second switch on. Upon entering the closed room, feel the two lightbulbs. The warmest bulb is turned on by the first switch, the light that is on corresponds with the second and the remaining lamp with the third.
3 **DVD deaths.** The man lives in a lighthouse.
4 **Pipe dreams.** The items are what is left of a melted snowman.
5 **That's torn it.** The man is an astronaut completing repairs on a space walk.

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Part D

Work and work futures



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In Part D, you will:

- Research the way the work environment is changing in contemporary Australia and analyse the implications for current and future work
  - Research current trends in the types of work available, the changes occurring and the implications for future employment
  - Analyse how technology, globalisation and sustainability have affected the way we work
  - Investigate a range of occupations, and the skills and dispositions required in different fields
- Examine the roles and responsibilities of participants in the changing Australian or global workplace
  - Explore emerging global needs and related opportunities in the workplace
  - Identify the responsibilities of various participants in a particular workplace – for example, employers, employees, industrial organisations and the state, territory and Commonwealth governments
  - Examine changes to the roles of employees in the workplace – for example, the increasing encouragement of workers to show initiative or act as intrapreneurs
  - Identify employer responsibilities to workers and the government – for example, superannuation, paid parental leave, income tax, company tax and the Goods and Services Tax (GST)
  - Discuss the responsibilities of government for improving the conditions of workers – for example, occupational health and safety and anti-discrimination laws

Key question:

- How do changing workplaces affect workers?

By the end of Level 10, you will be able to:

- Analyse the reasons why and how the work environment is changing
- Discuss the implications for individuals, businesses and the economy.

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FIGURE 9.1 Work futures

Chapter 9
Work and work futures

This chapter investigates some of the major forces at play in the world today and looks at how these may develop and impact on what it means to 'work' in the future. It examines the current trends in the types of work available, the changes occurring and the implications for future employment, analysing how technology and globalisation have affected the way we work now and will work in the future. The chapter also examines the roles and responsibilities of both employers and employees in this changing environment.

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9.1 Work: What is it?

'Hard work', 'home work', 'class work', real 'work', 'working rich'. We all hear the term 'work' in our everyday language, but do we all agree about what it means?

ACTIVITY 9.1 Collaborate

Definition of work

1 Tick each of these activities as being either work or not work, according to your understanding of the term 'work'.

	Work	Not work
A farmer growing oranges for Woolworths supermarkets		
Making homemade lemonade and selling it outside the front of your home		
Growing broccoli in your backyard veggie patch to eat yourself		
A teacher correcting school work at school		
A teacher correcting school work at home		
Attending classes, but wasting time and not completing set tasks		
Cleaning a neighbour's car for $5		
Cleaning your mum's car without getting paid		
A mother looking after a young child at home		
A caregiver looking after a young child in a childcare centre		
A volunteer giving up their weekend to guide tourists around Melbourne		
Playing in the Australian Open tennis tournament		
Watching television programs as a TV reviewer for a magazine		
Sitting at home and watching the weekend movie on TV		

2 Compare your results with those of a partner and see what you agreed or disagreed on. How did you determine whether each of the activities was work? Use this discussion to come up with your own definition of 'work'. Then, as a class, discuss your different definitions to try to find one 'best' definition for the term 'work'.

3 Did the class come to an agreement on what led you to distinguish between work and leisure activities? Do you think your opinions reflect how these activities are valued by the community? Discuss.

Defining work

Formally, we define **work** as 'performing an activity that produces something of value for other people', so both paid and unpaid work are classified as 'work' activities. Work is a very important aspect of society, and it gives meaning and structure to the lives of many of us. One of the main reasons for working is to improve the quality of our lives. This refers not only to earning money to improve our lifestyles, but also to the personal fulfilment and satisfaction that work can give us. But much of what we see as 'work' is rapidly changing as society changes due to increasing technology and rapid

GLOSSARY

Work performing an activity that produces something of value for other people

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FIGURE 9.2 Many of the jobs in the state of Victoria are located in Melbourne's central business district.

globalisation. Society's expectations and the 'work' that you will be undertaking will be substantially different in the future from the 'work' people are doing now.

Where the jobs are in Australia in 2018

The world of work has changed significantly over the past 40 years, having an impact on workers, employers, industries and society in general. Let's look at where the largest number of jobs in Australia were recently, before examining the influences that may impact jobs in the future.

TABLE 9.1 Employed persons in Australia by industry division (main job, seasonally adjusted)

Industry	Share of employed (%)
Healthcare and social assistance	12.4
Retail trades	10.3
Construction	8.9
Professional, scientific and technical services	8.8
Education and training	7.9
Manufacturing	7.8
Accommodation and food services	7.1
Public administration and safety	6.3
Transport, postal and warehousing	5.2
Other services	4.1
Administrative and support services	3.5
Wholesale trade	3.3
Financial and insurance services	3.3
Agriculture, forestry and fishing	2.6
Mining	2.0
Arts and recreation services	2.0
Rental, hiring and real estate services	1.8
Information, media and telecommunications	1.7
Electricity, gas, water and waste services	1.2

Source: ABS, *Labour Force, Australia August 2015*.

REVIEW 9.1

1 Identify three jobs that you would expect to find in each of these categories:
   - **a** healthcare and social assistance
   - **b** retail trades
   - **c** construction
   - **d** manufacturing
   - **e** accommodation.

2 Describe what this information tells you about the current structure of work in Australia and the types of work we mainly perform in this country.

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ACTIVITY 9.2 Research

Why do people work?

1 Prepare a short questionnaire to find out why people work. Interview at least 10 workers, both full time and part time. Rank their reasons for working in order of importance and identify what aspects of work they find satisfying and unsatisfying. Summarise their responses in a brief report, highlighting what you have learned from this survey and how it may have affected your views on the importance of work.

2 Collect 10 job advertisements with advertised pay rates and write down the wages each job is offering as well as the skills for which it is looking. In class, combine your personal research with that of others in groups of four or five, then categorise your total list of jobs as being high paying or low paying. Is there a relationship between the skills for which these jobs are looking and the wages being paid? Do some skills appear to be more valuable than others? Discuss the implications of this research for your own schooling and the skills you believe it is important to develop for your future working life, and then write up your research as a brief report.

ACTIVITY 9.3 Collaborate

What is work?

1 Have a 'What is work?' debate. Choose one of the following debate topics and prepare an argument for or against the issue to debate in class:
- **a** Do we work to live, or live to work?
- **b** What a person does is more important than what they are paid.
- **c** Work is everything that I have to do that I don't like.
- **d** Time with family is more important than time at work.

Work in 2020, 2050, 2070!

Assuming you are 16 in 2018, then:
- in 2020 you will be 18 years old
- in 2050 you will be 48 years old
- in 2070 you will be 68 years old, and may be considering retiring!

What will your working life look like? Maybe this description is most appropriate.

> People will work only four days a week and have six months' annual holiday each year. You will start work at the age of 25 and retire at 47.

No, this isn't a prediction for the future, but what Alvin Toffler, in his 1970 book *Future Shock*, predicted would happen by the year 2000! He believed we would have so much free time that we would need to employ 'leisure counsellors' to work out what to do with all this time! Alas, this isn't yet the case, and the twenty-first century reality is quite different, with many people working longer, more intense hours while others experience too few hours and earn too little money.



FIGURE 9.3 Author Alvin Toffler poses with his book *Future Shock* in New York in 1970.

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So if Toffler couldn't predict the future 30 years ahead in 1970, what can we predict for your future careers and the work you will be doing in 30 years' time, and the skills and knowledge that will be necessary for you to be successful in your career?

REVIEW 9.2

This review is available in the online version of the textbook.

ACTIVITY 9.4 Research

Careers

Already within three generations, the notion of a career has completely altered.

1 Interview your own parents and grandparents and compare their values, attitudes and experiences of work with what you expect for your own career. Use the following questions as guides to your interview
   - **a** How many careers have you had?
   - **b** How many jobs have you had and how long did you work in each one?
   - **c** What were the hours like for each job and how many days of the week did you work?
   - **d** How much holiday time did you have each year?

With these recent past examples of working lives in your mind, let's investigate the values you have regarding a future world of work for yourself and how this may look for you.

2 Write down your first responses to the following statements. Do you agree/disagree, and to what extent?
   - **a** Most people like to follow traditional career paths.
   - **b** Career success means establishing one career direction and pursuing it for life.
   - **c** It is important to never step back or sideways in your career.
   - **d** If I don't know what to do in the future, then following the same path as my family is a good idea.
   - **e** Money is the main career motivator.
   - **f** The best career opportunities are the ones in large organisations.
   - **g** The most qualified individual always gets the job.

What implications do your own values and expectations have for what you would like to experience in your own future world of work?



FIGURE 9.4 How have evolving ideas of gender roles affected career paths for men and women?

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9.2 The emerging Australian workplace

The emerging Australian workplace is moving away from the traditional model of a Monday-to-Friday, 9.00 am to 5.00 pm **full-time worker** to a new range of flexible and individual working conditions with **part-time workers**, **casual workers**, freelancers, contractors, agency workers and **telecommuting**, to name but a few of the new work patterns. Women have a very large role to play in the workforce, and it is now regarded as normal for both partners to work in couple families. The **service sector** has replaced the manufacturing sector as the location of the majority of jobs in Australia.

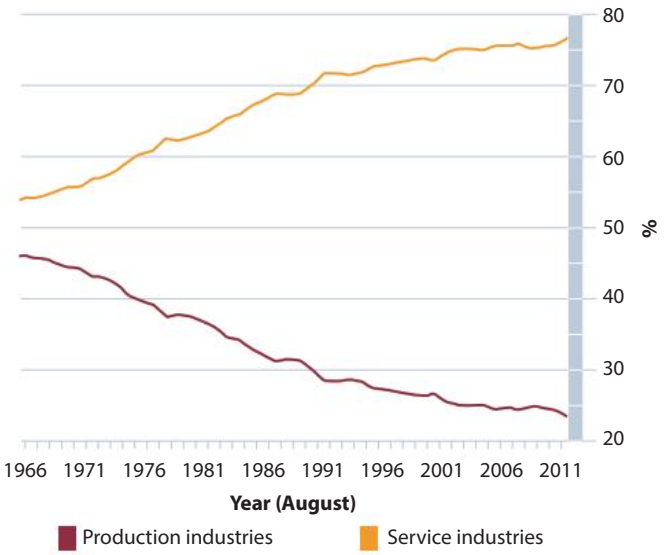


FIGURE 9.5 Proportion of all employed people in the production and service industries, 1966–2011

Source: ABS, *Australian Social Trends 2011*.

GLOSSARY

Full-time worker according to the ABS, someone who usually works 35 hours or more each week in their main job

Part-time worker someone who generally works less than 35 hours each week; they receive the same entitlements as full-time workers but work fewer hours

Casual worker someone who is not guaranteed regular hours of employment each week; usually paid a higher hourly wage rate but sacrifices sick leave and holiday pay

Telecommuting working from home using technology such as the internet, video conferencing and the telephone to remain in contact with colleagues and clients

Service sector businesses that earn money from selling intangible products or services – for example, in banking, finance, retail, transport, distribution, food services and entertainment

Australian Bureau of Statistics (ABS) figures (2008) indicate that:

- Only 49% of employees work a standard Monday to Friday week.
- Only 7% of workers work all their weekday hours from 9 am to 5 pm.
- Twenty-five per cent of workers work at least part of the weekend.
- More than 60% of employers and 24% of employees work more than 50 hours a week – that is 1.7 million Australians, twice as many as 20 years ago.
- Sixty-five per cent of jobs for 15 to 19 year olds are casual.
- Casual jobs have grown (these jobs have no access to sick leave or annual leave). The proportion of employed people who worked part time rose from 19% in 1986–87 to 28% in 2006–07.
- In the past 20 years there has been an explosion in part-time jobs, most of them on lower incomes and reduced hours.

Source: Year Book Australia 2008.

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Traditional male breadwinner arrangements have declined since the 1960s.

- Today both partners of couple families are likely to be employed (55% in 2011).
- Women's participation in the labour force in August 2011 was 59%, almost double that of August 1961 (34%).
- There has been a noticeable decline in the labour force participation of men (82% in August 1961 to 72% in August 2011).
- In August 1966, 80% of men aged 15 years and over were employed full time. By August 2011, this proportion had fallen to 57%.
- In August 1966, nearly half (46%) of all employed people in Australia worked in **production industries**. By 2011 that proportion has halved to 23%.
- The service sector workforce has more than tripled from 2.6 million to 8.7 million.
- The most common occupations in August 1966 were tradesmen, production process workers and labourers (44%), farmers, fishermen, timber getters (12%) and clerical (9%).
- The most common occupations in August 2011 were professionals (22%), clerical and administrative workers (15%) and technicians and trade workers (14%).

Source: ABS, *Australian Social Trends, 2011*.

GLOSSARY

Production industries also known as the manufacturing sector; companies that make products – for example, cars, iPhones, clothing, footwear

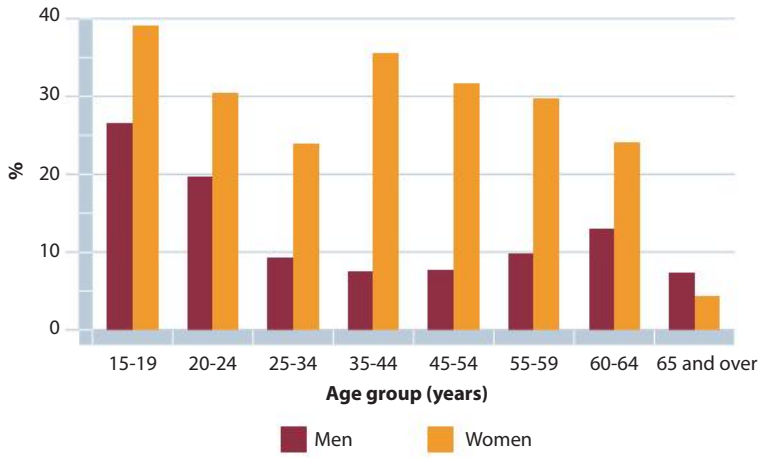


FIGURE 9.6 Part-time employed persons as a percentage of the population.

Source: ABS, *Labour Force Historical Time Series, Australia 2011*.

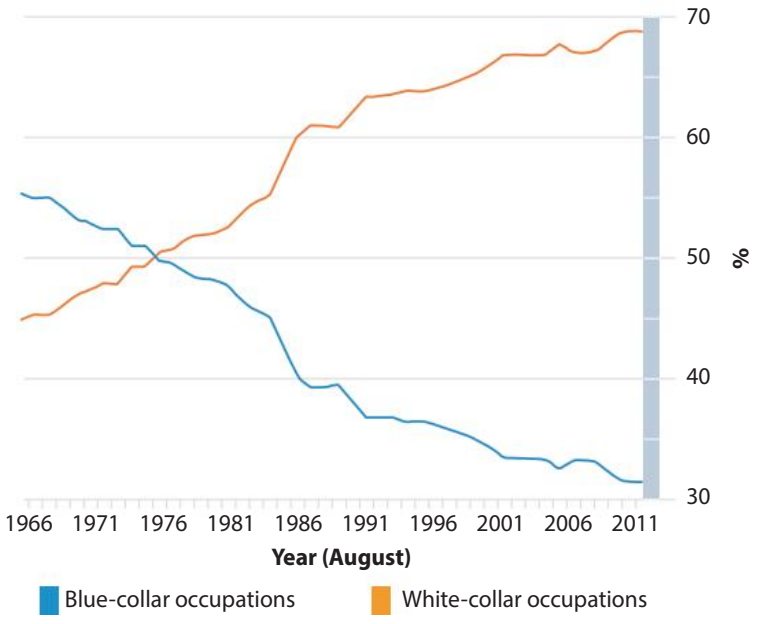


FIGURE 9.7 Proportion of all employed people in the blue- and white-collar occupations, 1966–2011

Source: ABS, *Labour Force Historical Time Series, Australia 2011*.

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ACTIVITY 9.5 Create

Labour force participation rate

Using the data showing labour force participation rate by gender (the percentage of people of that gender having work or actively seeking work) in the table:

1 Draw a graph of the changes that have occurred to the number of males and females in the working population over the past 30 years. Continue your horizontal axis to go on for another 20 years to 2035 and draw lines predicting what may occur to these percentages in your lifetime.

Year	1985	1995	2005	2015
Males (%)	76	74	72	78
Females (%)	46	54	57	65

Source: Australian Bureau of Statistics.

2 What could this mean for the opportunities that will exist for men and women to work in your lifetime?

3 What implications may these developments have for:

- **a** families – for example, the ages at which parents have children, the previous generation's notion of women staying at home to raise the children
- **b** employers
- **c** society in general?

Working patterns

The examples in Case Study 9.1 illustrate some of the changes occurring in Australia's current world of work, and the impact they are having on workers, their families and their lifestyles.

CASE STUDY 9.1

Changes occurring in Australia's current world of work

The overtime worker: More money means less life

Dominic DuFaur has a dilemma. The more the IT accounts manager works, the more money he makes; and the more money he makes, the better lifestyle he, wife Tracy and baby Ivy can have. But the more he works, the less time there is for 'lifestyle'. In a normal week he spends 50 to 60 hours in the office. In a busy week, he works 70 hours. And he takes work home with him.

'Long hours can be stressful, especially with a brand new addition,' he says. 'I'd love to get home at five and be as involved as I can but that's not always possible … I'd love to think I could change direction tomorrow but it's very hard to start again when you've got a family and commitments … bills to pay, a mortgage.'

The permanent part-timer: Nice work if you can afford it

Part-time bank worker Belinda Moule has achieved balance in her life: four days at work, three days off, so she has a long weekend every weekend. Eight per cent of the workforce is classified as permanent part-time and Moule can see how the idea might catch on.

'If you can afford to do it, why not?' she says. 'You only get one life, so enjoy it while you can. Being permanent part-time, you get that balance between your work and your life. As a casual you're not always going to get the same hours. You can't plan things. I don't work Fridays, so I can plan to go away for the weekend.'

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The agency worker: Choice, freedom and the best of both worlds

Samantha Van Drine has escaped crabby hospital administrators and inflexible rosters to design a regime that fits her life nicely.

One of a growing number of part-time agency nurses, Van Drine tailors her working week to include three nights in acute care so that she can pay the bills without putting her son Bailey, three, into a crèche. 'Occasionally I get a bit run down and niggly, but the beauty of agency work is that I can skip a shift if I need a rest or if Bailey gets sick. I choose my own hours and my own type of work,' Van Drina says.

She earns more per hour because casuals attract a 25 per cent loading to compensate for holiday and sick pay, while her employment agency contributes superannuation.



FIGURE 9.8 Samantha works as a part-time nurse.

Self-employed entrepreneur: Freedom with a price

Enok Tan, 19, dropped out of a science degree at university disillusioned that it wasn't the course she thought it was going to be. To make ends meet, she has been doing babysitting in her local area and has realised that without word of mouth, parents find it very difficult to find babysitters. In what started out as a fun project, Enok has now created an app that links parents with a pool of vetted babysitters to give them instant access to last-minute babysitters and assurance that their children are being looked after properly. What started out as a few nights on the computer has turned into a full-time software developer self-employed job, which brings in a good income and allows Enok complete flexibility regarding when she wants to work and from where. She is quite happy to work from home, cafés, friends' houses and even the beach – as long as it has a good WiFi connection. However, despite the great flexibility, she sometimes finds herself 'wedded' to the project, with countless hours developing and promoting it in the first year of operation and financial issues constantly occupying her mind.

1 Copy and complete the following table by drawing out from the case studies the positives and negatives in each of the situations.

	Advantages	Disadvantages
The overtime worker		
The permanent part-timer		
The agency worker		
The self-employed entrepreneur		

2 Who seem to be the winners in this new world of more flexible working conditions?

3 Suggest ways in which each worker could try to overcome the disadvantages of their position and achieve better working arrangements for themselves.

4 What do you predict will be the impact on people's working lives, families and friends as these trends become more widespread in the future?

5 What skills and characteristics need to be developed in order to make yourself a winner in this new working environment?

REVIEW 9.3

1 Define the following terms and explain the differences between them:
- **a** agency worker
- **b** permanent part-timer.

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Pressures on work today

What we observe from these statistics and stories of the emerging Australian workforce of the future is that very dramatic changes are occurring to the work we are performing, who is doing it and how it is being done. We live in a constantly and rapidly changing landscape, and there are some major forces at play in the world of work. Table 9.2 summarises a CSIRO report on some of the major categories of trends that are affecting the Australian world of work today.

TABLE 9.2 Future trends in the world of work

Category	Observed trend
Geopolitical	Globalisation Population growth Migration Mobility of labour Intergenerational disadvantage Terrorism Offshoring of jobs Income distribution – inequity; precarious employment; unstable employment Focus/role/structure of education system; continuous learning; MOOCs Gender equity The governance of employment; the role of unions Age of the voting population
Economic	Participation rates Youth unemployment Wage rates Self-employment; entrepreneurs Business structures; vertically integrated firms; small micro-multinationals; global value chains Taxation
Environmental	Urbanisation; redesigning cities; decentralisation Climate change Green/clean energy; renewables vs. fossil fuels; transition to a 'green' economy Water: desalination/manufactured water
Social	An ageing population Redesigned/flexible work arrangements; boundary-less work; freelancing Open/flexible working spaces; activity-based operating environments Non-skilled vs. skilled workers; EQ vs. IQ; STEM skills Mental health Value on quality/niche/individualised products; service design; customer experience Social services/protection systems: pensions, health Human factor; face-to-face contact
Technological	Digitisation Automation and job substitution; replaced vs. redefined vs. new How people communicate: social media; privacy Online services; personalisation; flexibility Big data; integrated systems; analysis and interpretations; data mining Advanced manufacturing Robotics; AI, 3D printing; driverless cars; super computers; 'Watson'; telepresence

Source: Hajkowicz et al., *Tomorrow's Digitally Enabled Workforce* (2016).

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FIGURE 9.9 How will migration affect the future of work in Australia?

REVIEW 9.4

Use an online dictionary to define the following terms:

1 globalisation
2 migration
3 offshoring of jobs
4 multinationals
5 ageing population
6 digitisation
7 big data
8 robotics.

ACTIVITY 9.6 Collaborate

Work trends

1 Think/pair/share with a partner about how the following trends could affect work in the future. For the purpose of this activity, imagine that you are employed in one of the following industries (choose from part a) and consider how these trends could affect your employment in it (choose from part b).
   - **a** choice of employment:
     - hospitality
     - education
     - nursing
     - farming
     - software programming
   - **b** impacting trends to consider on your chosen industry/career:
     - globalisation
     - self-employment
     - climate change
     - ageing population
     - social media.
2 Share these first thoughts in pairs within an open class discussion.

FIGURE 9.10 Working from home and self-employment are growing trends in the Australian workforce.



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9.3 Technology and work (robots, AI, the cloud, IoT, Big Data)

One issue that has already had major implications for work patterns, and will definitely affect your working life in the future, is technology.

Rapid changes in technology have meant that many jobs are now done by machines that are faster and cheaper than people, and the need to cut costs has caused many jobs to disappear and employers to switch to cheaper casual employment. But technology has also allowed some workers to work from home, and take on more exciting and creative tasks, and workplace safety has improved by leaving dangerous or mundane tasks to machines.

Technological advances have always been a part of human civilisation; however, it is important to consider to what extent this increasing speed and complexity of recent technology will have on the capacity to impact our lives.

Let's consider the humble computer, which has evolved radically in just four generations.

- Someone born in the 1950s would have used a fountain pen or quill and had an inkwell on their desk at school.
- Someone born in the 1980s would have grown up with computer games as a teenager, and upon entering the workforce would have felt comfortable with using a computer and emails to communicate.
- People of your era have been exposed to computers throughout your childhood, which is why you are known as digital natives.
- Children born today (the next generation) will probably have been playing with iPads and tablets since they were babies, and most pre-schoolers and primary school students will be comfortable using Smartboards and iPads.

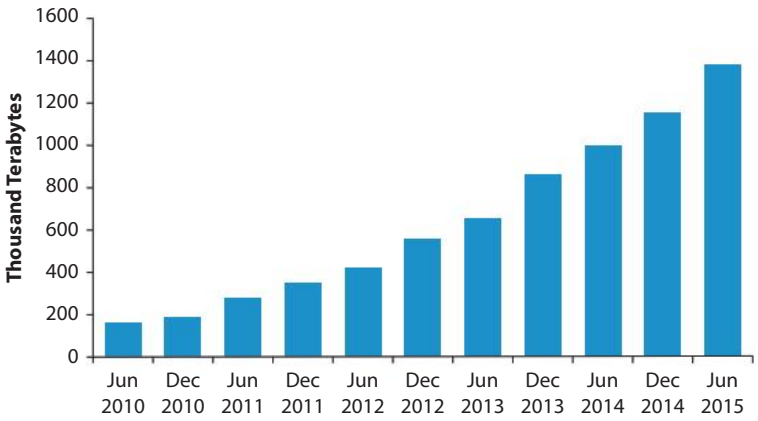


FIGURE 9.11 Changes and advances with personal computer power

ACTIVITY 9.7 Collaborate

Impact of computers

Consider the development of personal computers and discuss the following questions in class:

1. How do you believe the growing skills of young people with computers will affect businesses?
2. What tasks and work activities can today's employees do that previous employees probably couldn't?
3. How do future employers who are part of the 1980s generation help to train and skill the digital native generation of employees who may well know more than they do about computers?
4. How has technology affected the world of work for teachers and students?
5. What should schools be doing to prepare students for a future that will experience such rapid technological developments?

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CASE STUDY 9.2

Almost 40 per cent of Australian jobs could be replaced by technology by 2025, report finds

By Loretta Florance and Lily Partland
Updated 16 Jun 2015, 4:22pm

Technology could make almost 40 per cent of Australian jobs, including highly skilled roles, redundant in 10 to 15 years, a new report has found.

The Committee for Economic Development of Australia (CEDA) report highlighted the need for more funding and a cooperative approach to prepare for huge changes in the workforce.

Almost five million jobs face a high probability of being replaced in the next two decades, while a further 18.4 per cent of the workforce had a 'medium probability' of their jobs being eliminated, the report found.

CEDA chief executive Professor Stephen Martin said the world was on the cusp of another industrial revolution being driven by technology, and it was not just low-paid, manual jobs at risk.

'What we've found is that going right through to dentists, and clergy and chemical engineers – and, dare I say, even editors or newspaper proprietors and, heaven forbid, even economists – all of these are in grave danger of perhaps outliving their usefulness,' Professor Martin said.

While automation had already replaced many jobs in manufacturing, agriculture and mining, in the coming decades industries such as the health sector would also be impacted, it was found.

The report found that advances in technologies such as cloud computing, artificial intelligence and big data were largely driving the change.

Autonomous driving to revolutionise labour market

With approximately a quarter of Australians employed in jobs involving driving, the patenting of a driverless car by Google, enabled by big data, could profoundly change the labour market, the report found.

'Based on the progression of Moore's Law, we shall see computing technology improve approximately 10 000 fold over the next 20 years,' the report said.

'The affordability of autonomous driving systems will improve dramatically.



FIGURE 9.12 A self-driving car being trialled

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'Furthermore, if the statistic that 90 per cent of road accidents are caused by human error is correct, governments will inevitably regulate that such systems are mandatory because of the savings to life and health costs.'

CEDA estimated that in December 2012, of the 11.5 million Australians employed nationally, about 28 per cent had jobs that involved driving (Table 9.3).

TABLE 9.3 Australian driving jobs

Job	Number employed nationally
Commercial vehicles (excluding motorcycles)	3 266 521
Commercial motorcycles	10 000
Train drivers	11 900
Total:	3 288 421

If all vehicles become autonomous in the next 20 years, the report said, those jobs would need to change as the 'human skill of driving a vehicle is no longer an essential part of the job'.

If Parliament did not start shaping workplace policy around technological changes, the country would be left behind, Professor Martin warned.

The CEDA report said Australia had adapted well to the impact of changing technologies on the workforce so far. 'The nation created over six times the number of jobs it lost over the five years to June 2014,' the report said.

But the report said where the new jobs would be and why they were being created was the most important challenge for future governments.

Source: ABC News, 16 June 2015.

Questions

1 According to the CEDA report, how many jobs in Australia may be replaced by technology in the next 20 years?
2 According to the article, describe the job characteristics that are likely to be replaced by automation.
3 Identify three jobs identified in the article that may be in danger in the future.
4 According to the CEDA report, how many more jobs has the nation created than it lost in the last five years?
5 Explain why you think this may be the case.
6 Identify three careers that you think may be more in demand in the future as a result of these developments.
7 Describe the skills and experiences that workers in the future will need to perform these roles.
8 Describe some policy ideas that you think the government and schools could be generating to prepare the future workforce for these changes.

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As shown in the article, technological developments go beyond automated production lines, web pages and the intranet. A whole suite of new and emerging technologies will impact the nature of work in Australia.

TABLE 9.4 Emerging technologies

Trend	Description	Impact
Cloud services	The cloud means business can operate on the same data and applications on any device and are no longer tied to their PC/ laptop/desk	Work can be completed anywhere – office, home, café or beach – and there is a seamless usage of software programs and documents, so telecommuting and work from home options become viable and there is no longer a need to operate an office.
Internet of Things (IoT)	Refers to a new generation of cheap sensors connected to the internet that can report measurements of their physical environment. This will enable the digitisation of the physical world, making it far more controllable.	IoT will be used in many areas and fields – for example, medical monitoring without disrupting daily routines, food ordering services, temperature monitoring and adjustment in buildings, automatic lighting adjustment. Cisco predicts 50 billion things will be connected to the internet by 2020.
Big data	Enormously large volumes of data are kept in a pool of information that can be analysed retrospectively or in real time. For example, hundreds of years of car crash data in different locations can be analysed to provide more accurate risk-assessment insurance premiums.	Analytical software used to dissect data for business use. Consumer patterns are instantly monitored to predict marketing effectiveness, cause and effect patterns in medical histories compiled and analysed by remote doctors, etc.
Artificial intelligence (AI) and robotics	Huge amounts of data and storage available are leading to greater development of AI machine-learning techniques, where machines can now self-learn from their mistakes. The next 10 years will see significant progress.	AI enables computers to perform tasks that only humans could do previously, and they can perform these tasks better than a person can – for example, IBM Watson used to outperform humans in the quiz show *Jeopardy!* (see Case Study 9.3). This could lead to a large number of work tasks replaced by AI – for example, Google's self-driving car.
Immersive communications	A new generation of broadband networks, combined with rapidly developing screen technology, creates the tech platforms for real-time high-quality video communications. This means the tech is able to deliver high-definition, realistic representations of distance scenes both from video and audio perspectives (which is immersive communication), thereby allowing effective telepresence.	Conferences, meetings and company discussions can all be done from anywhere so there will be no need for business travel or even big office structures. Business-to-consumer communication will improve and may lead to a reduction in the need for shopping malls, which may be replaced by a fully immersive online virtual shopping experience.

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FIGURE 9.13 Consider the evolution of the phone

CASE STUDY 9.3

Artificial intelligence: IBM Watson

IBM Watson is an AI platform that gained fame when it managed to beat human contestants in the popular television show, *Jeopardy*!

Initially an IBM research project, IBM Watson has now expanded into a number of commercial applications where a large volume of data and also natural human language conversations, interactions, facial recognition and so on can be analysed and responded to extremely quickly. According to Business Insider, IBM has invested a billion dollars in the Watson Group with the intention of creating a platform that start-ups and businesses can use to build further computing programs.



FIGURE 9.14 In 2011, IBM computer Watson competed on the TV show *Jeopardy!*

Applications of Watson

Despite having worked together for more than 20 years, the relationship between Wimbledon and IBM achieved new heights in 2017 through a shared focus on cognitive computing and AI. Wimbledon's video software is powered by AI and can create automated video highlights through IBM Watson. This means that the video editor does not have to rapidly cut and edit a highlights package together. IBM's Watson engine develops video highlights through measuring crowd noise, traction on social media, sentiment analysis of players and facial recognition after a point ends in order to auto-curate a highlights package.

Health applications have also been enormous, with Watson having the ability to analyse 'big data' for patients and use this to diagnose illnesses, predict future ailments and analyse real-time data from personal health devices (e.g. Fitbit). For example, in April 2016, IBM Watson worked together with the American Cancer Society to develop a virtual adviser using machine learning techniques to give patients personalised advice and information.

Artificial Intelligence has the ability to revolutionise the world of work. A system like Watson can analyse huge quantities of information incredibly

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quickly, but also respond to human emotions, facial recognition, language, eye movements and social interaction to replicate the decisions and actions of human beings.

Questions

1 In groups of four, brainstorm potential business and work applications that a system like Watson could perform in each of the following areas:
   - **a** healthcare
   - **b** education
   - **c** marketing
   - **d** police and law enforcement
   - **e** aviation
   - **f** entertainment, films and music
   - **g** finance, stock markets and investments
   - **h** transportation
   - **i** marketing
   - **j** weather forecasting.

2 Share the results of these brainstorms with the class.



FIGURE 9.15 The lobby of IBM Watson Health, IBM's new health care division, in the United States

REVIEW 9.5

Suggest one advantage and one disadvantage for employees in the workplace of:

1 work emails
2 work-provided mobile phones.

ACTIVITY 9.8 Collaborate

Emerging technologies

1 In pairs, research an emerging technology. Find rich multimedia examples of the use of this emerging technology and then produce a brief presentation to the class demonstrating a video application of your emerging technology (use TED Talks, YouTube clips, Google videos).
2 Explain the positive and negative impacts of this emerging technology on business.
3 Propose one additional new application of this emerging technology for another business or industry.

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9.4 Digital disruption: What is it?

Digital disruption is a major event that completely replaces an existing market, industry or technology, and produces something new and more efficient. It is both hugely destructive and creative at the same time.

EXAMPLE

Uber

One great example to get your mind around 'digital disruption' is the rise of Uber. Before Uber, if an individual wanted to get from A to B quickly and didn't have their own car, they would hail a taxi. And thus a whole industry was born, with taxi company owners, fleets of vehicles, deals with car suppliers, taxi maintenance, trained drivers with specialist knowledge of the local area and the quickest routes to get around, phone line coordinators and dispatch centres.

In March 2009, a global transportation technology company based in San Francisco named Uber Technologies Inc. created Uber, now a multibillion dollar company (in 2016 it made US$6.5 billion). Now established in more than 630 cities worldwide, Uber manages and operates the Uber food-delivery and car-transportation mobile apps that give Uber drivers the opportunity to use their own vehicles to make money. It is now experimenting with self-drive autonomous vehicles, which may completely do away with the need for drivers in the future.

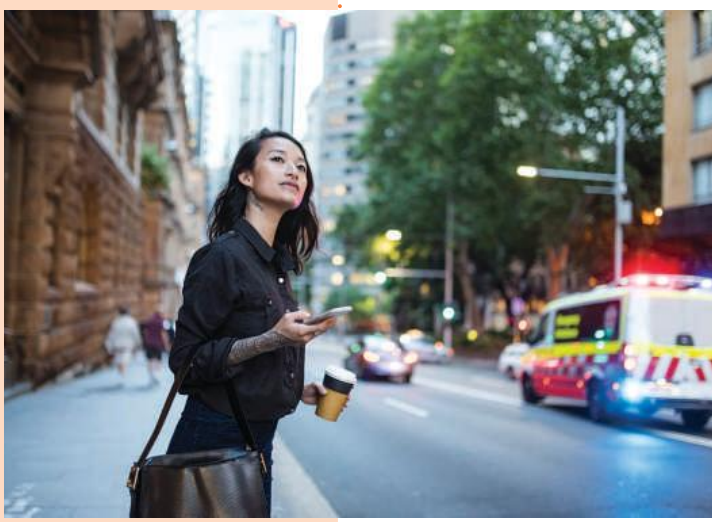


FIGURE 9.16 Uber has revolutionised the way people access transport, including popularising the use of smartphone apps to book cars.

The following are some other examples of digital disruption:

- Kodak cameras had a massive industry in camera design and usage for film rolls, and never believed digital images and iPhone technology would replace film. But today, most people use their phones rather than cameras for photos and videos.
- In the music industry, Apple iTunes replaced bricks and mortar music stores, and now subscription streaming services like Apple Music have replaced the purchase of individual albums and tracks.
- In sport, watching online has partly replaced watching on free-to-air delayed coverage, and may also have partly replaced attending the game in person.
- Bricks and mortar retail stores are rapidly being replaced by 24/7 online retailers like eBay and Amazon.
- In the tourism industry, online organisations such as Airbnb, Couchsurfing, Homestay, TripAdvisor, Booking.com, Trivago and Wotif are replacing travel agents and hotels.
- DVD dispensing machines replaced video stores, but these are rapidly being replaced by digital streaming services such as Foxtel, Netflix and Stan.
- In the share market, online trading is replacing official stockbrokers.
- Takeaway food orders are being customised and tracked online, and Uber Eats and similar apps are being used to provide cheap and fast delivery to the consumer's door.
- In manufacturing, 3D printing will soon replace much manufactured production.

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ACTIVITY 9.9 Collaborate

Changes occurring in industry

1 In pairs, undertake extensive research to investigate the digital disruption occurring in the industry/area allocated to you. As a guide, aim to answer the following questions:
- What changes are occurring in your industry/area?
- Why are these changes occurring? What is driving change?
- Who gains and who loses?
- Why might some businesses fail and others survive?
- What do/does your business/industry need to do to survive?

Some suggestions:
- Music industry: CDs and records vs. iTunes/sound cloud/Spotify/Pandora
- Music industry: artists signed to record companies vs. independent releases and YouTube
- Retail: online vs. retail stores
- Tourism: travel agents vs. online bookings
- Sharing economy: Uber vs. the taxi industry
- Sharing economy: Airbnb vs. hotels/motels
- Takeaway food: Domino's pizza ordering and delivery innovations
- Education platforms: massive open online courses (MOOCs) vs. traditional classrooms and universities
- Photography: Kodak vs. digital photography
- Books: Borders vs. e-readers/Kindle
- Phones: Nokia and Blackberry vs. Apple and Samsung
- Videos/DVDs: Blockbuster vs. Netflix vs. free-to-air TV
- Australia Post: Changing nature of the mail-delivery service
- Robotics/robots: for consumers/households, for business and for manufacturing

2 **Presentation:** Prepare an engaging oral presentation for the class. The answers to the above questions MUST be included, as well as any other research you think is relevant.



FIGURE 9.17 Digital disruption has affected industries and communities in both good and bad ways. For example, Airbnb has allowed travellers to book private or shared accommodation at cheaper prices and with better atmosphere. Some critics suggest it has driven up rent and reduced housing availability in popular tourist cities such as Barcelona, as more and more homes are exclusively rented for holiday makers and not residents.

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CASE STUDY 9.4

Digital disruption could threaten 40% of jobs: Productivity Commission

The World Today

By AM business editor Peter Ryan, Posted 15 Jun 2016, 1:23pm

Digital disruption has the potential to threaten 40 per cent of jobs over the next 10 to 15 years as automation and machine learning shake up the economy, according to a Productivity Commission report out today.

In research entitled *Digital Disruption: What Do Governments Need to Do?*, the Commission warned that governments and regulators need to prepare for changing times as 'disruption' moves beyond Uber and Airbnb.

Productivity Commission Chairman Peter Harris said developing disruptive technologies of machine intelligence and automation will gradually change economies.

'There's little doubt that in some sectors there will be dislocation of labour and dislocation of capital.

'It's not just a cost to employees, it will be a cost to certain businesses as well,' Mr Harris told *The World Today*.

'Things like 3D printing are going to have an impact. Right now it's more of a niche product but over time, you're going to see this applied to manufacturing.

However, Mr Harris said despite a new world of hyper-connected technology and big data, some of the early fears about humans being replaced by machines were overstated.

'The majority of jobs in our economies today are services kind of jobs and that requires some form of human interface. So simply saying that we have automated or can automate something doesn't mean to say it will be readily acceptable to consumers,' Mr Harris said.

'You can't necessarily imagine that a doctor will be replaced by a robot to whom you will speak and get an analysis.'

While smart technology will inevitably replace humans, especially in manufacturing, the Productivity Commission said Australia's social safety net, including a strong Medicare, could be critical.

'We do have an important social safety net and maintaining that will be essential for the purposes of people who will have their lives disrupted as a consequence of this,' Mr Harris said.

The era of digital disruption will also be a challenge for governments and regulators, but the report recommends that new companies and businesses should not be given a heavy handed approach.

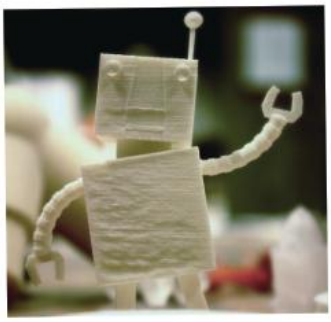


FIGURE 9.18 A small robot produced on a 3D printer at the Architecture and Design School in Oslo.

Refer to the online version of the textbook for practice test questions on digital disruption.

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In summary, technology developments are likely to have seismic impacts on the way we work in the future, and have led to a string of terms to describe what is expected to occur:

- **Dawn of the specialist.** Technology has moved so fast and requires such complex skills to train on and operate it that some companies have moved to training employees with specialist skills just to handle a specific piece of technology.
- **Automation.** Research indicates that there is a 'high probability that 40 per cent of Australia's workforce – more than five million people – could be replaced by automation within the next 10 to 20 years' (CEDA, *Reimagining Childhood*, 2017).
- **The hollowing out of work.** This will leave jobs that are non-routine at both the high and low ends of the skill continuum. The low-end jobs aren't outsourced easily (e.g. food preparation, café, hospitality) or have a non-routine physical element (such as caring for the elderly). As a result of the low-skilled nature of this work, these jobs are occupied predominantly by those who have recently entered the labour market, such as students and immigrants, and the wages are usually low.
- **Non-routine high-skilled work.** This will most likely survive because as yet these jobs can't be replaced by technology and can't easily be outsourced (typical management roles fall into this category). This particular type of work will in all likelihood continue to evolve, while the routine low-skilled work is replaced by developments in technology. This leaves the more complex aspects of the workplace, such as teamwork, innovation, arbitration and entrepreneurial thought, for human skills.
- **Electronic leash.** In previous generations, it was possible to leave work at 5.00 pm without having to think about it until the next day. You also weren't expected to answer the phone or work while sick or on holidays. Today, the use of emails, mobile phones and pagers has increased the length of the average work day and also extended the exposure of an employee to their managers and clients. This has blurred the line between home and work.
- **Constant renewal.** With technological developments coming so quickly, employees will need to keep retraining, refocusing and relearning at many points in their careers.
- **Entrepreneurship and innovation.** The amazing possibilities that technological advances can and will provide will open up a whole new range of industries and jobs in the future, like those created by digital disruption.

If we look at the direction in which our present world of work appears to be moving, we may be able to predict the skills and knowledge that will be most important in order for you to be successful in your own future world of work, so you can take advantage of the amazing opportunities that will come your way.

REVIEW 9.6

Refer to the online version of the textbook for an exercise on the impact of technology on the workforce.



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ACTIVITY 9.10 Reflect

Skills, knowledge and experience

This activity is available in the online version of the textbook.

9.5 How globalisation is affecting work

A further developing issue that will affect your work in the future is increasing business competitiveness, both domestically and globally.

The increase in trade, communication and transportation on a global scale creates many drivers for business to change. Some businesses may be exposed to global competitors, or have opportunities to expand into global markets through free trade agreements and expanding internet and electronic communication channels.

Others may be driven to seek global manufacturing options to reduce labour costs, by outsourcing or obtaining raw materials from around the globe based on quality and price.

Australia is part of the global marketplace, and this includes the world of work. Many businesses in Australia have employees and managers who are from overseas, and many of Australia's workers and managers work overseas. The market for labour is now global, and we can expect people to be far more mobile and work in more countries around the world in the future.

For example, Telstra – which we see as an Australian-based company – has around 36 000 employees, with more than 3000 based in 22 countries outside of Australia. Similarly, the Commonwealth Bank is a multinational bank with operations in Australia, New Zealand, the United States, the United Kingdom, Asia and Fiji. Therefore, the ability for workers in Australian companies to be relocated to work in other countries or communicate with clients or colleagues around the world is a very real part of the company.



FIGURE 9.19 Many businesses seek to trade their goods across global markets.



FIGURE 9.20 Moving production overseas can often mean decreased labour costs, but businesses must ensure that their international workers are not exploited.

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The globalisation of work – and people

Viewpoint by Professor Lynda Gratton, Director, Future of Work Consortium
BBC News, 7 September 2012

In the near future, at least five billion people around the world will use some form of mobile device to download information, access knowledge, and coach and teach each other.

Some will have the intellectual capacity and motivation to really make something of this opportunity, wherever they happen to be born.

These people will want to join the global talent pool and, if possible, migrate to creative and vibrant cities.

By doing so, this vast crowd of talented people will increasingly compete with each other, continuously upping the stakes for what it takes to succeed.

It seems to me that this will impact all of us in three ways – the hollowing out of work, the globalisation of virtual work and the rise of the 'transnational'.

Hollowing out of work

As a result of connectivity and globalisation, millions of jobs across the world are disappearing.

This hollowing out of work is seeing the disappearance of middle-wage, middle-skilled jobs such as managers, secretaries or assembly line workers.

These jobs are at risk because they can either be outsourced to a region with lower wages, or they can be replaced by technology.

So what is left of the jobs at each end of the skill and wage spectrum?

At one end there are high-skill, high-wage jobs – like investment bankers, lawyers, engineers or IT specialists – which need complex knowledge and expertise and cannot (yet) be substituted by technology.

You can expect these jobs to be paid increasingly well.

At the other end are the low-skilled, low-wage jobs like hairdressers, waiters, bank tellers and shop assistants.

The jobs are difficult to automate because you have to be there to do them. But because many of these jobs require limited training, there is always a willing supply of workers – so wages will always be highly competitive.



FIGURE 9.21 Hairdressing is a job with a large supply of skilled workers.

Globalisation of virtual work

The West's positional advantage in educating its population will be rapidly eroded even for higher skilled jobs as online education platforms like MIT's OpenCourseWare, Open Yale, iTunes U and Khan Academy connect students in vast numbers, while enabling them to have very similar learning experiences and work towards similar qualifications.

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It might mean a youngster in an Indian village will have some of the same experience as her contemporary in downtown New York.

Being educated is one part of the work equation, but there is also the question of jobs.

What will a highly educated person in an Indian village actually do? It seems that in the coming decade even people in the remotest parts of the world will be able to work on online global tasks and projects.

So in principle, whether you live in Uzbekistan, Uruguay or Uganda, the state of your national economy will not necessarily affect your ability to find work, as the virtual market transcends national economies.

Right now, platforms like oDesk, eLance and Guru are able to connect buyers of specialist skills to sellers of these skills, providing access to web designers, software programmers, salespeople, translators and administrators from across the world.

These platforms are enabling distributed buyers and sellers to be combined with speed and accuracy.

There is every possibility that this combination of scaled education and scaled job finding will move work to regions where the most talented and motivated happen to be living.

Rise of the 'transnational'

The implications of the globalisation of education and job market is the rise of what we might call **transnationals**.

In the past, this was a word to describe corporations – now it's a word to describe people. These are a worldwide group of people who are able to relocate at any time, making decisions based on relative global employment and investment opportunities.

This global elite, with hybrid associations among multiple cultures and societies, will build competencies that bridge societies in terms of their management style, cultural sensitivities and social networks.

Transnationals, able to speak more than one language and often carrying dual citizenship, will be able to adapt to the sort of cross-cultural communication that is so important for global organisations.

In the past, people with these transnational capabilities predominately came from the developed West.

Now, they are emerging from many countries around the world, amid clear signals that this re-balancing will continue.

Expect to see a whole cohort of leaders emerging from India in the coming decade, and from China in the following decade as these countries' diasporas create ever stronger corridors between markets.

Lynda Gratton is Professor of Management Practice and director of the Future of Work Consortium. Her last book – about the future of work – was The Shift.

GLOSSARY

Transnationals workers who can speak more than one language, and who are able to easily relocate around the world for work

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REVIEW 9.7

Read Lynda Gratton's article 'The globalisation of work – and people', then answer the following questions.

1 Summarise in your own words how Lynda believes the future of work will be affected by globalisation in these three areas:
   - **a** hollowing out of work
   - **b** globalisation of virtual work
   - **c** rise of transnationals.
2 Explain the role governments, education, employer associations and unions could play in preparing Australia to make the most of the globalised world of work.
3 What skills, knowledge and experiences will allow someone to succeed in this globalised world of work?
4 Identify what you can do to help prepare you for these skills and experiences.

9.6 Work, society and productivity

The impact of an ageing population

Australia has an ageing population, which means that as a percentage of the total population, there will progressively be more older people (+65 years old) in our society. Figure 9.22 shows this in a visual way. In 1911, there is a smaller total

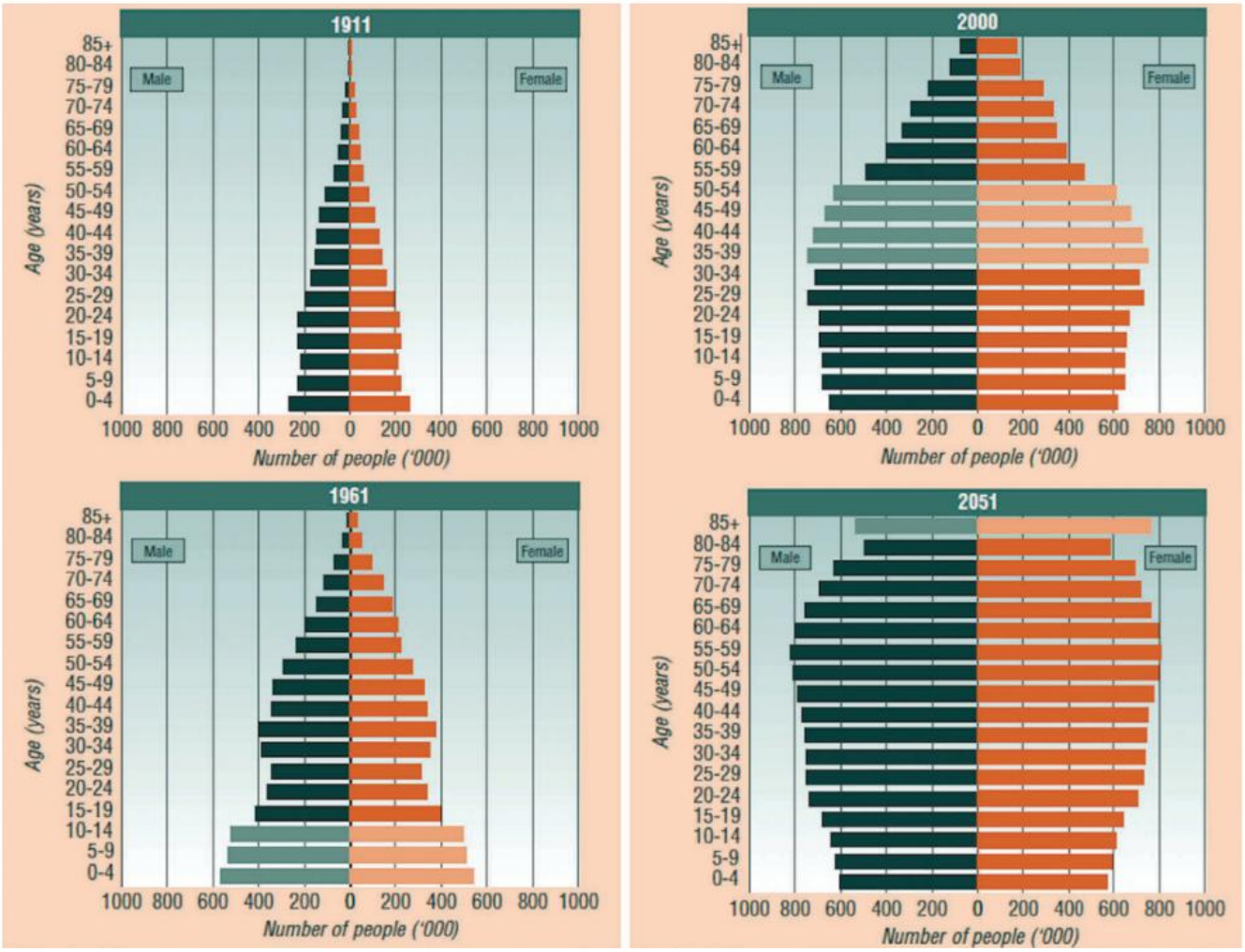


FIGURE 9.22 Age and gender structure of Australia's population

Source: Australian Bureau of Statistics.

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population but, as we would expect with natural life progression, there are a greater number of young people who, as they progressively get older and pass away, get smaller in numbers and a classic triangular shape is seen. However, by 1961 we see bulges and contractions caused by world war, migration and the post-war baby boom. As these baby boomers age and move up the pyramid over time, they remain a bulging group, but successive generations are having fewer children than they used to, so the base of the triangle doesn't grow outwards but remains straight. This develops to such an extent that by 2051 it is predicted that there will be more older people than young – an ageing population.

Among a range of other social implications, this ageing population will also impact on work in the future:

- There will be a need for more workers in aged care-related industries such as healthcare, residential homes and leisure activities targeted to older people.
- 'The working-age population is traditionally defined as 15–64 years, although in practice many of those aged 15–19 years remain in education, and workforce participation rates fall considerably after age 55. While the proportion of the population of working age is currently growing (61 per cent in 1901; 64 per cent in 1976; and 67 per cent in 2000), it is projected to begin shrinking between 2011 and 2021, and to return to around 60 per cent by 2050.
- As this older group retires from the workforce, in theory there should be plenty of job opportunities available to the next generation. However, as we have already explored, there have been major structural changes throughout the workforce in the areas of technology and globalisation that may lessen this impact.



FIGURE 9.23 Australia's ageing population will increasingly be forced to work for longer in the future.

The rise of self-employment

With the traditional view of work as a traditional 9 am to 5 pm office-based position for life being shattered over the last century, myriad new opportunities have arisen, one of which has been the growth in self-employment.

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The number of independent contractors is on the rise, as can be seen in the most recent update from the Australian Bureau of Statistics, from 8.5 per cent (986 000) of the workforce in 2013 to 11.2 per cent (1 310 000) in 2015. This is the highest figure since the ABS started keeping records in 1978.

The total number of self-employed individuals went up from 17.2 per cent to 17.8 per cent of the workforce.

In addition, jobs marketplace Upwork estimates that around 4.1 million people, or 32 per cent of the workforce, performed freelance work in 2015. Around 51 per cent of those who have left traditional employment already earn more, and 58 per cent said they would no longer go back.

Source: David Marriner, 'Wave of the future: Self-employed numbers on the rise', *Certica*, 5 January 2017.

The following are some factors that have supported this surge in self-employment:

- Technology allows work to be carried out in different locations without the need for a central office, so working from home is a very viable option.
- Large-scale businesses have been restructuring to gain greater efficiencies out of their workforce, and some of those who have found themselves made redundant have sought to become their own bosses rather than to work for an employer again.
- The freedom to make your own decisions and be your own boss that comes with self-employment is hard to resist.
- Technology also opens up a global market where a single individual can provide a service to a global market, and age, gender and experience are less important than the quality or price of the good or service being sold.
- Self-employment allows the individual to create their working life around their family and social life rather than the other way around.

However, while self-employment offers incredible opportunities and freedoms, people seeking this form of work in the future need to consider that they must also be responsible for the administration that would normally be carried out by the business and look after their own taxation compliance, superannuation payments, holidays, sick leave and insurance.

CASE STUDY 9.5

Self employment case studies

Make a list of the advantages and disadvantages for each of the following self-employment case studies, then think about what sort of business you could start while still at school.

Travel the world while working

Some people have realised the freedom that technology has allowed in relation to work and have literally taken to the world.

There has been a rise in the number of people who have set off to travel the world, funding their trips through travel blogging, travel writing, photography or sponsorship of clothing/sportswear/travel locations.

Search for some examples of these self-employed travellers and then consider the advantages and disadvantages of this type of working lifestyle.

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- **nomadicmatt.com.** Providing advice for budget travellers has brought many visitors to Matt Kepnes' site, as well as advertising revenue.
- **europealacarte.co.uk.** In 2006, Karen Bryan started a European travel blog, and it became so popular that she was able to leave her day job to manage it.
- **indietravelpodcast.com.** New Zealand couple Craig and Linda Martin are a fantastic example of bloggers who are working on capitalising on the trends of social networking and multimedia blogging.



FIGURE 9.24 Some travellers have self-funded their trips through writing blogs and sharing photos of their journeys.

What are some advantages and disadvantages of travelling the world while working? Copy and complete the following table.

Advantages	Disadvantages

Starting a business while still at school

Technology also allows anyone to start a business and be judged only by the work they have created and not their age or gender. One such example is a Year 9 student who experimented with taking drone footage as a hobby, inspired by his principal, who had a passion for technology.

When the student participated in his school's Year 9 small business enterprise program, he was given the freedom and support to set up his own small business for the program's night market, printing and framing aerial artistic photographs.

He learned about budgeting, cash flow, break-even pricing, marketing and sustainable business practices by also allocating the 'taxed' component of his night's profits to the charity Opportunity International, which provides microfinance loans to enterprising communities in developing countries, operating as a 'hand up rather than a hand out of poverty'.



FIGURE 9.25 The student had experimented with taking drone footage as a hobby.

Buoyed by his success on the night, and the support and encouragement of the school community and his parents, he has now made this project into a working business, selling prints, framed photographs and merchandise on his own website and at weekend markets.

What are some of the advantages and disadvantages of establishing your own business while still at school? Complete the following table.

Advantages	Disadvantages

Now brainstorm some ideas for your own small self-employed business that you could start up in your free time.

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Driving productivity: Why is this important?

With an ageing population, fewer workers as a percentage of the total population and more competition from a globalised world of business, the competitive pressures on Australia have never been greater. One way to maintain a competitive advantage and maintain our present standard of living is to achieve productivity gains in our economy.

Increased productivity is where the same amount of input produces a greater amount of output. This can help us as a society in a number of ways:

- There is more output for our society to share so we feel 'richer'.
- The cost of making that output is shared over more units of output, and therefore the cost per unit should fall. This should lead to the capacity of businesses to lower their prices, which will give them a competitive advantage over their rivals, or allow them to maintain present prices and make larger profits.
- Both of these competitive advantages should lead to success in global markets, increased global sales and stronger Australian businesses, which should in theory lead to greater job opportunities for Australians in the future.

The pursuit of productivity gains in workforces as an example of competitive advantage is therefore a very important one to pursue.

REVIEW 9.8

1 'Self-employment is the future for everyone.' What is 'self-employment'?
2 Suggest reasons for the rise in the number of self-employed people.

FIGURE 9.26 How do we help to drive productivity in all areas of our economy?



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ACTIVITY 9.11 Collaborate

Productivity experiment

1 Experiment 1

Input: 1 (you)

Your task is to individually create as many fully cut-out, coloured, folded, stuck-together and completed paper cars as you can in 10 minutes using a template like the one below. A PDF file of the below template is available in the online version of the textbook: you or your teacher can download it and print out copies.

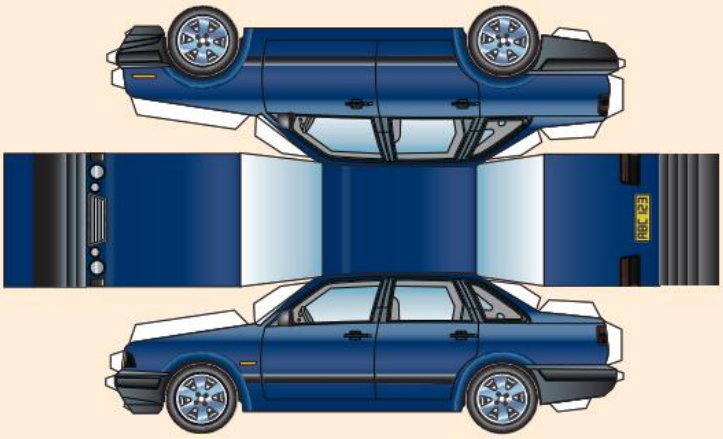


FIGURE 9.27 Paper car template

Your productivity rate is the amount of outputs you produce from your input (an input of 1).

The winner will be the student who can make the most fully completed cars in the 10 minutes; half-completed cars do not count.

The results of this competition will be recorded on the class board, before having a class discussion about how successful each individual's strategy was.

2 Experiment 2

Input: number of people in class

The social experiment is to see whether you can improve you productivity rate by repeating the activity, but this time working together as a complete class.

You will firstly have 15 minutes as a class to discuss your strategy, work out roles and tasks, organise groups and reorganise tables, resources or whatever else you think will work to increase your productivity as a complete class before repeating this task over 10 minutes..

Copy the following table into your textbook to record your results.

	Input (number of people)	Output	Productivity rate (output / input)
Experiment 1 (individual)	1		
Experiment 2 (class)			

After the results are in, engage in a class discussion about what helped or hindered your performance and whether there were other ways you could reorganise yourselves to become more productive.

Consider the strategies you employed and how they could apply to businesses. Could they also achieve productivity gains through:

- specialisation of workers
- restructuring the workforce and production area
- team learning and employee development
- staff motivation?

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9.7 The future of work

The impact on you

As we stated at the beginning, trying to predict your work future involves a degree of crystal ball gazing; however, observing some of the major trends impacting on work today, we can say that the following are likely to apply to *your* work future:

- Technology and the ability to use and take advantage of the opportunities that technology provide will become increasingly important.
- There will be greater use of technology, such as computers, robotics and AI, and there will be a need to regularly retrain to keep up to date with them.
- Technology is likely to replace non-skilled routine tasks, but is also likely to enhance highly skilled problem-solving tasks.
- Creativity, entrepreneurship, problem-solving, emotional intelligence and the skills for jobs that require a high degree of human interaction will be in high demand.
- There will be an increase in the number of people who work from home.
- There will be more opportunities to live and work overseas.
- The idea of a job for life will most likely have disappeared, and even a career for life is less likely for many people.
- It is expected that there will be movement between occupations in the region of five to seven career changes per worker over their working life, with workers needing to retrain in order to keep up with the pace of change.
- Full-time, permanent jobs are likely to be replaced by flexible, part-time, casual jobs and temporary contract work.
- There may be greater flexibility of working hours and conditions (flexitime, weekend work, rosters).
- A greater variety of jobs will be available to men and women.

As the workers of the future, it will be important for you to have certain skills and personal characteristics, including the following:

- **The ability to adapt well to change.** Those who understand change and manage it effectively will be more successful.
- **Constantly developing knowledge and learning new skills.** Workers will need to be able and willing to continually learn new things throughout their careers to keep up with the pace of change.
- **Building skills in a range of areas.** Being flexible and being able to apply your skills to a range of areas will make you more employable and also more flexible to change to other careers if you need or want to shift your career trajectory.
- **Being self-reliant.** The world of work is changing quickly, so you will have to be adaptable and take responsibility for making the most of opportunities that arise rather than waiting for someone else to do it for you.
- **Being enterprising and innovative.** Having the ability to be creative and flexible will open up many opportunities for you, and you may also be able to predict a future need before anyone else (and even become the next Bill Gates!).
- **Networking:** The ability to stay in touch with a wide range of people will keep you in tune with developments and trends, and open up new opportunities.



FIGURE 9.28 Technology visionary Bill Gates founded Microsoft in the 1980s and brought computers into the homes of millions of people around the world.

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ACTIVITY 9.12 Reflect

Skills and characteristics

Each of these skills/characteristics has been placed in the following table, which you should copy into your notebook. Rate yourself against each and then give yourself a brief action plan as to how you could further develop these characteristics.

Skill/characteristic	Self-rating out of 10	Action plan
The ability to adapt to change well		
Constantly developing knowledge and learning new skills		
Building up skills in a range of areas		
Being self-reliant		
Being enterprising and innovative		
Networking		

The impact on employers

In a changing workplace, there are changing impacts on employers and their responsibilities in the workplace, as well as for employees. Employers are responsible for the success of the business and trying to get the best out of their employees, and they are also responsible for the safety and welfare of their workforce.

REVIEW 9.9

Imagine you are the boss and employer of a small business.

1. Identify the prime objective for you as an employer in operating a small business.
2. Identify the prime objective for an employee working for your small business.
3. Describe how these two objectives (questions 1 and 2) could potentially be in conflict.
4. As an employer, how could you avoid the potential for conflict between you and your employees?



FIGURE 9.29 Each workplace has different requirements for what ensures the health and welfare of its employees. What might an office worker, teacher, chef or welder need from their employer and their workplace that is different from the others?

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ACTIVITY 9.13 Research

Work-focused organisations

Imagine you are the boss and employer of a small business. Use the internet to find out about work-focused organisations and your responsibilities to employees.

1 Identify the following work-focused organisations, their role in the workplace and how they may be involved with your business.

Organisation	Their role in the workplace	Possible impact on a small business
Unions – ACTU		
Fair Work Commission		
Government – Safe Work Australia		

2 Search the Australian Government Business website for information that outlines your responsibilities to employees in a workplace.

3 Define the following terms and explain how they are likely to impact you as an employer:
- **a** worker's compensation insurance
- **b** anti-discrimination provisions
- **c** 10 minimum employment standards that you must provide to all employees – also called the National Employment Standards (NES)
- **d** pay-as-you-go (PAYG) tax
- **e** superannuation
- **f** paid parental leave
- **g** income tax
- **h** company tax
- **i** Goods and Services Tax (GST)
- **j** occupational health and safety.



FIGURE 9.30 How do the various forms of tax impact an employer?

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CONSOLIDATE YOUR LEARNING

Future employment trends

1 Watch the YouTube video *Jobs of the Future: What Will Yours Be?* about future employment trends.
   a The narrator says that careers used to be 'stable and linear', but are now 'fragmented'. What does he mean by this statement?
   b The narrator says that future work will consist of a 'portfolio of micro careers'. Explain his view.
   c What is the average number of years for which you will be likely to hold a job in the future?
   d Explain the likely impact of technology on jobs of the future.
   e What types of jobs will be in high demand in the future?
   f What advice is given about how to improve your chances of employment in the future?

2 Copy and complete the following table, stating whether you agree with each statement and giving a reason for each answer. Share your answers in a class discussion.

Statement	Do you agree – yes or no?	The reason for your answer
Technology is changing the types of jobs that exist in Australia.		
I will have one career or job in my lifetime.		
I would rather work for one employer full time, because there are more benefits, than do casual work or work for myself.		
Australia is well placed to compete in the new global economy and will continue to be a wealthy country.		
Jobs that involve driving might disappear in the future.		
Jobs that involve lots of social interaction and interpersonal skills (like nursing and teaching) will be in demand in the future.		
Jobs that involve operating machines (like factory jobs) will be in demand in the future.		
Driving for Uber or delivering takeaway food on a bike for Deliveroo would be a great way to make money because you can be your own boss and work when you want.		

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Deeper inquiry

Reviewing your knowledge from this complete chapter, you are now going to complete a far deeper inquiry into one aspect of the chapter that most interests you.

You will be given a week of class time, and any additional time required for homework, to complete the following task. Do your own independent research to deepen your knowledge in your chosen area.

You are to complete one of the learning tasks below or another of similar complexity in discussion with your teacher.

1. Create a multimedia presentation, which will alert students to how the world of work is changing and the implications it will have for their futures in terms of the types of jobs that will exist and the skills and abilities they will require to perform them. You will need to undertake some additional independent research into this topic and then carefully consider how to present this information in an engaging way to capture the students' interest.
2. If permitted, start a social media blog on your school website about the future of work. Post a few articles/video clips for students to watch/read that will provoke responses and then compile a series of 10 questions to which you would like your year level at school to respond. Then collate and analyse the poll results and, using your knowledge from the chapter, predict where you see the future heading for your generation.
3. Create your own research profile on a career path or specific job in which you are interested for the future. To help focus your research, answer the following questions in your profile:
   a. What is the job?
   b. What is the average income, and what are the hours and duties performed in this employment?
   c. What are the current job prospects in this career?
   d. What qualifications are required to be employed in the position?
   e. What institutes/further education locations offer these qualifications and what is required to attain them?
4. Investigate a career path that you are interested in pursuing and research the global opportunities that are available for you to be able to pursue this career overseas in the future. Produce a personal report on the skills and abilities you will need to allow you to pursue this career overseas and the countries that have opportunities available to you, targeting at least one country in which you would definitely like to work.
5. Organise an interview with a lecturer from a university to further explore how technology and globalisation will affect the future of work and video this interview for your classmates to review.
6. Create your own 30-second occupational health and safety commercial to help raise awareness of the risks faced by young people on their work experience rounds. If permission can be obtained, the commercial may be posted on the school intranet and made available for all students to see prior to their work experience round.

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7 Create a brochure for local small business employers, using a professional software program like Microsoft Publisher, that identifies employer responsibilities to workers and the government, such as superannuation, paid parental leave, income tax, company tax or the Goods and Services Tax (GST).
8 Undertake another task of similar complexity in consultation with your teacher.

Future work

1 Describe two pressures currently faced by businesses operating in Australia.
2 Identify four of the technological changes occurring in business today and describe the impact of any two of these changes on workers and/or the workplace.
3 Explain what is meant by digital disruption, using an example to illustrate this term.
4 Define productivity and describe why increased productivity and business competitiveness are important for business success.
5 Describe the impacts that globalisation may have on work in the future.
6 Is the ageing population a blessing or a curse for the future of work in Australia? Discuss.



FIGURE 9.31 How will increasing globalisation affect the future of what you want to do?

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Part E

Civics and citizenship



In Part E, you will:

- Discuss the role of political parties and independent representatives in Australia's system of government, including the formation of governments, and explain the process through which government policy is shaped and developed:
  - Investigate how the contemporary party system operates in Australia's liberal democracy and how governments are formed in parliament
  - Discuss the meaning of key concepts such as parliamentary majority, the opposition, a hung parliament, minority government, party platform and mandate
  - Investigate the role of the Prime Minister and Cabinet, the bureaucracy and the parliament in policy-making
  - Discuss the development of government policy such as health, education and disability
- Explain the values and features of Australia's system of government compared with at least one other system of government in the Asian region
  - Categorise the key features of Australia's system of government – for example, democratic elections and the separation of powers, and comparing and contrasting these to the key features found in another country in the Asian region, such as Japan, India or Indonesia
  - Interview people with connections to a country in the Asian region to compare the values they associate with the system of government in that country with those of Australia
- Analyse how citizens' political choices are shaped, including the influence of the media:
  - Analyse a range of strategies used to persuade citizens' electoral choices, such as public debate, media, opinion polls, advertising, interest groups and political party campaigns
  - Discuss how social media is used to influence people's understanding of issues
- Explain the Australian government's roles and responsibilities at a global level, including provision of foreign aid, peacekeeping and the United Nations:
  - Identify and explain the types of participation that Australia has in the Asian region and internationally – for example, exchange programs, peacekeeping, election monitoring, health programs and disaster management

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  - Investigate Australia's involvement with the United Nations – for example, representation in the organisation and adherence to conventions and declarations that Australia has ratified
- Explain how Australia's international legal obligations shape Australian law and government policies, including in relation to Aboriginal and Torres Strait Islander peoples:
  - List some of the international agreements Australia has ratified and identify examples of how each one might shape government policies and laws – for example, the protection of World Heritage Areas
  - Research the International Convention on the Elimination of All Forms of Racial Discrimination, Convention on the Rights of the Child and the Declaration on the Rights of Indigenous Peoples
  - Identify how international conventions and declarations have shaped Australian government policies with regard to Aboriginal and Torres Strait Islander peoples
- Describe the key features of Australia's court system, including jurisdictions and how courts apply and interpret the law, resolve disputes and make law through judgments, and describe the role of the High Court in interpreting the Constitution:
  - Create a visual representation of the court jurisdictions in Australia
  - Categorise sample cases in relation to the courts in which they would be heard – for example, cases from criminal, consumer, family, human rights and environmental law
  - Describe the role of a particular court – for example, a Supreme Court, a Magistrates' Court or the Family Court of Australia
  - Analyse how court judgments impact on the development of law – for example, the role of precedents
  - Examine the jurisdiction of the High Court
  - Investigate an example of a High Court judgment in interpreting and applying Australian law, such as the *Mabo* decision
- Discuss the key principles of Australia's justice system, including equality before the law, independent judiciary and right of appeal:
  - Identify the key principles and explain what is meant by each principle, and discuss how each works to protect citizens and contribute to a fair society
  - Identify and explain factors that can undermine the application of the principles of justice – for example, bribery, coercion of witnesses, trial by media and court delays

Key questions:

- What influences shape the operation of Australia's political system?
- How is Australia's democracy defined and shaped by the global context?
- How are government policies shaped by Australia's international legal obligations?
- How does Australia's court system work in support of a democratic and just society?

By the end of Level 10, you will be able to:

- Evaluate features of Australia's political system
- Compare and evaluate the key features and values of systems of government
- Analyse the influences on people's electoral choices
- Explain how Australia's international legal obligations influence law and government policy
- Analyse the role of Australia's court system
- Analyse the role of the High Court
- Explain the key principles of Australia's system of justice

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FIGURE 10.1 Parliament House, Canberra

Chapter 10
Government and democracy

Before very long, you will probably be a voter. Civic knowledge is crucial for understanding how our system operates. Having an understanding about our system is one thing, but getting involved is another. Citizenship imposes a responsibility on individuals to get involved. This can include responsibilities through participation, representation and community involvement.

This chapter explores the importance of democracy and democratic values, and looks at the role of political parties and independent representatives in Australia's system of government, including its formation. It also includes an explanation of the key features of our system of government and compares this system with that of Indonesia. How citizens' political choices are shaped, including the influence of the media, will also be analysed.

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10.1 What is democracy

The system of government in Australia is based on the concept of **democracy**. Understanding the term 'democracy' is crucial to the study of civics and citizenship. The definition of democracy that many people use is the one specified by US President Abraham Lincoln (1809–65) as 'Government of the people, by the people, for the people'.

GLOSSARY

Democracy a system of government by the people in which representatives are elected

Many in the media use the term 'democracy' as a principle to which to aspire. A society that is democratic provides for its citizens to directly elect a parliament and governing body through a system of majority rule. Australia has been a stable democracy, and was one of the first countries in the modern era to establish the principles of democracy through its constitution, which produced democratically elected parliaments.

ACTIVITY 10.1 Research

The democracy scale

1 Draw up the following scale in your workbook or device.

Most democratic — **Least democratic**

2 Using the list of the following countries, where do you believe each country sits on this scale: Afghanistan, Australia, Brazil, Cambodia, Canada, Chile, China, Cuba, Denmark, Finland, France, Greece, India, Indonesia, Iran, Iraq, Italy, Japan, Mexico, New Zealand, North Korea, Russia, Saudi Arabia, Sudan, South Korea, Syria, United Kingdom, United States, Uruguay and Zimbabwe?

3 Describe your criteria or principles for ranking countries from most democratic to least democratic.

4 Using the WorldAudit.org website, identify where the countries in the above list fit on a democracy scale from most democratic to least democratic. Comment on similarities to and differences from your own ranking.

CASE STUDY 10.1

Democracy: Top 10 reasons for success

In a modern, interconnected world, democracy is seen as one of the most stable forms of government. Democracy relies on active participation and citizenship. The following list presents the top 10 reasons why democracy is successful.

1 **The people**. Democracy is government by the people, for the people. Governments need to represent and appeal to the view of the community, so they need to make laws that will gain a high rate of approval. If they do not, then the voter has the ultimate authority at the next election. Voting in Australia is compulsory, but secret, so voters will vote for the person who best represents them.

2 **Checks and balances**. Democracy provides for open government with good governance. There are two houses in our federal parliament (and in most states) and the role of the upper house is to review laws made by the lower house. The separation of powers exist so that no one arm of government holds ultimate control. These arms are the executive, the legislature and the judiciary.

3 **Basic rights**. Democracy protects basic human rights and freedoms. Remember that government by the people, for the people means that human rights are respected and protected by government, as they reflect the view of the majority.

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4 **Freedom**. For democracy to thrive and survive, all individuals must be able to speak their mind (within the limits of the law). This is known as freedom of speech. This freedom means that people can voice their views – positive or negative – about a decision taken by government. This freedom also relies on having a free media that can report these views.
5 **Equality**. Democracy thrives when all citizens are treated equally. Equal opportunity and natural justice are provided to all citizens and, regardless of race, gender, religion or political view, democracy enables citizens to promote and follow their own views.
6 **Accountability**. Democracy provides for regular elections, which means that governments must act responsibly. Government is kept accountable through freedom of speech and the media. The checks provided by the separation of powers provide for transparent decision-making.
7 **Public debate**. Linked to freedom of speech, democracy encourages public debate and discourse. Institutions such as parliament and government departments are accessible to the public. This allows citizens to input their views and opinions about decisions and laws that are made. Government by the people provides many opportunities for discussion and consideration. This allows for greater access to the decision-making process.
8 **Elections**. Democracy ultimately puts the power to govern in the hands of the people who vote in elections. Elections must occur every three years at the federal level and every four years at the state level. If the government is not performing according to the will of the people (or the majority of the people), then the people have an opportunity to cast a different vote. This makes democracy hungry to respond effectively.
9 **Constitution**. Democracy is effective when everyone knows, and works within, specific rules. A constitution is a rule book for how a government and parliament will operate. This document carries the hopes of its citizens. It encourages and protects human rights and provides for mechanisms of ongoing renewal or to deal with any misuse of power.
10 **Democracy is infectious**. Democratic systems build more democratic systems. Australia has three levels of democratic government, and all citizens expect that democracy will provide a basic rulebook that will protect rights, freedoms and equality, as well as opportunities for checks and balances, accountability, public debate and elections. Democratic nations then expect to work cooperatively with other democratic nations, thus making the world in which we live a better place.

Questions

1 Read the above information and explain the importance of democracy to the people of Australia.
2 Working with a partner, order the items in the above list from most important as number 1 to least important as number 10.
3 To what extent does democracy give people hope? In your response, use evidence from the above list.
4 Provide examples and illustrations of how Australia's democracy demonstrates the above reasons for success.
5 Have a discussion with a parent or guardian about the most important advantages of a democracy. Ask them to justify their response.

Participatory democracy

The ancient Greeks were the first to establish a system of participatory democracy. The word *demos* means 'the people'. The word *kratia* means 'to rule'. A participatory democracy is therefore a system of government in which the people – or **citizens** – have a direct say in what laws are passed and what decisions are made by the government.

GLOSSARY
Citizens members of a state or nation

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Ancient Greece

In ancient Greece, all citizens formed the ruling group. However, the Ancient Greek definition of 'citizen' was quite narrow. Resident foreigners, women, slaves and peasants were not recognised as citizens.

Athens was one of the many city-states that made up the country of ancient Greece. It was the duty of adult male citizens in Athens to attend government meetings. These meetings were held in the *agora*, or marketplace, and decisions affecting the city were made at them. Sometimes everyone who attended agreed on what needed to be done – a consensus decision. Often there was disagreement about the action that needed to be taken. When this happened, a system of **majority rule** was used. In majority rule, the side receiving more than half the votes won.

GLOSSARY

Majority rule the power to rule or govern by the agreement of the great proportion of voters

Athens: How democratic was it?

The majority of people living in ancient Athens had no voting rights. Women, children, slaves, foreigners and those living in Athens but born outside Athens were not permitted to vote.

Some positions in government were decided by drawing lots. For instance, the chairman of the Council of 50 was chosen by lot from all the members of the Council. Citizens who formed the Assembly were also chosen by lot.

The Assembly met every nine days. All those selected as members were expected to attend. If they didn't participate, they would be publicly humiliated by having their togas smeared with red paint so that everyone would know they had not fulfilled their duty.

The Assembly voted on decisions directly. In Athens, elected officials did not make decisions for the people. The ancient Greeks described decision-making by elected representatives as an oligarchy, not a democracy.

Voting took place in public. Sometimes this involved a physical indication of which way you intended to vote.

Voting was also used for ostracism, which meant that a person could be excluded from the community. Ostracism required a general consensus. A written ballot would be taken, and voters would scratch a name on a potsherd (a fragment of pottery) known as an *ostracon*.

Many of the Greek philosophers were very critical of the Athenian democracy and described it as *okhlocratia*, which means rule by 'the mob'.

Source: Thucydides, *The History of the Peloponnesian War*, trans. Richard Crawley.

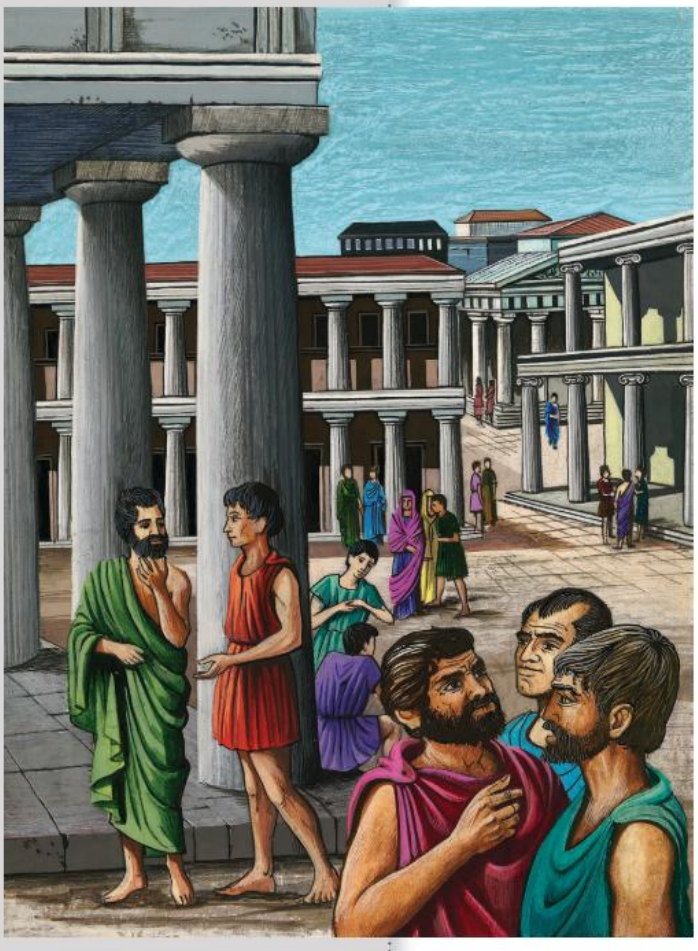


FIGURE 10.2 An artist's depiction of life in ancient Athens

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GLOSSARY

Constitution a set of rules, guidelines or a framework for how a nation or state is governed

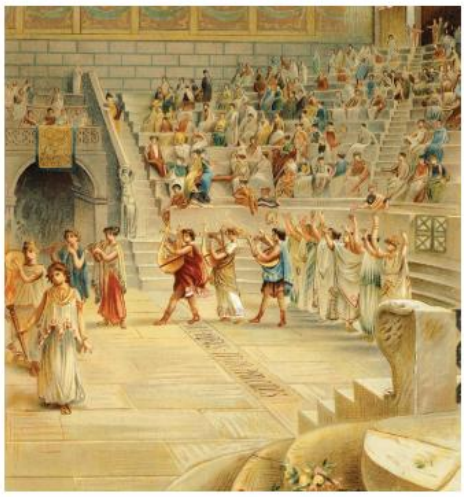


FIGURE 10.3 Illustration representing the Roman Senate, with senators who had been elected by assemblies made up of citizens

Ancient Rome

A broader definition of democracy was developed in Roman times. The Romans developed a **constitution** and allowed for decisions to be made by elected representatives of the citizens of Rome. In theory, the Romans developed a definition of democracy that included the idea of all citizens being equal before the law. In practice, however, not all people in the community were recognised as citizens. Although the Romans recognised the rights of women, they did not permit women to hold government positions.

In the period of the Roman Republic, there were three main parts of the government: the Senate, the consuls and the Assemblies. Representatives in the Senate were known as senators and elected by the Assemblies. The senators elected two consuls to act as leaders.

An Assembly was a meeting of Roman citizens. These meetings discussed changes in the law and elected new senators. However, the rich and powerful patricians and property owners dominated these meetings. Women, slaves and those people born in the provinces did not have the right to vote.

REVIEW 10.1

1. What does the term 'participatory democracy' mean?
2. To what extent do you think that the democracy of ancient Athens provided for participatory democracy? Give reasons for your answer.
3. What is a consensus decision? How did the Athenians reach a decision if consensus could not be reached?
4. Define the term 'citizen' as it is used today.
5. Compare the characteristics of being a citizen in Ancient Greece with those of being a citizen in Australia.
6. Discuss what you consider to be the key features of democracy in Australia today.

10.2 The formation of government

All groups need some way of forming government and maintaining order between individuals to achieve common or shared needs. This is where **government** comes in. Government is part of our everyday life. Simply being able to travel to school or work every morning is made possible by government. Government provides us with a community in which we can move around freely and safely, and is responsible for the defence of the nation, the law and the police.

GLOSSARY

Government the system of political rule and administration over a society

Surveys show that Australians have limited knowledge about some aspects of their government. For example, fewer than half have adequate knowledge about the:

- principles of a representative democracy
- formation and responsibilities of the government
- rights and responsibilities of citizenship
- sharing of powers between the Commonwealth Government, and the state and local governments
- role of political parties.

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Government must perform a number of tasks or roles to ensure that the community is working towards common aims. It has traditionally done this by providing:

- **national security** – defending the country from threats of invasion or violence
- **public order** – protecting individuals in the community from harmful actions
- **justice** – providing the means to resolve disputes, such as courts and tribunals
- **public works and essential services** – establishing and maintaining services such as roads and hospitals.

Security, order, justice, public works and essential services are considered to be the basic functions of government. In more recent times, governments have taken on other important functions as well, including:

- **social welfare** – helping the poor, sick and needy
- **economic policy** – the development and implementation of policies in relation to employment, inflation and economic growth
- **conservation and development** – planning for the use of natural resources.



ACTIVITY 10.2 Collaborate

Desert island survival

Imagine that you and seven other people are the survivors of a disaster that has destroyed your community. Working as a small group, respond to the following questions.

1. Briefly describe your situation.
2. What do you think would be your immediate needs for survival?
3. Develop a list of jobs that will need to be done immediately if the group is to survive.
4. How will you organise who is to complete each job?
5. How will your group make decisions about the actions you will need to take to survive?
6. What rules or policies will your group need and how will these be enforced?
7. What conflicts may develop between the members of the group? How might you resolve these conflicts?

Key concepts of government in Australia

We inherited our form of government from Britain. Our system of government is based on the British system of **parliamentary government**.

The word 'parliament' comes from the French *parler*, meaning 'to talk'. Parliament is where the representatives elected by the people can discuss and debate decisions that need to be made to help the community run smoothly. The term 'parliamentary government' means that the government is formed from the elected members of the parliament.

GLOSSARY

Parliamentary government a government formed from the elected members of parliament

Constitutional monarchy

Australia is a constitutional monarchy. A constitutional monarchy is a system in which the head of state is a monarch (king or queen), known as the Crown. However, the real power of government rests with the parliament. In theory, the monarch, through the Governor-General, acts as a check on the exercise of that power.

In a republic, the people hold power through their elected representatives and an elected president. The president is the head of state.

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CASE STUDY 10.2

Australian republic discussion

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Bicameralism

A **bicameral** parliament consists of two houses and the Crown. The British parliament consists of an upper house (known as the House of Lords), a lower house (known as the House of Commons) and the Queen.

Australia has nine parliaments, the Commonwealth parliament in Canberra, six state parliaments and two territory parliaments. Each of these parliaments is structured in a similar way to the British parliament. Most parliaments in Australia are bicameral, except for Queensland, the Northern Territory and the Australian Capital Territory, and consist of a lower house, an upper house and the Crown.

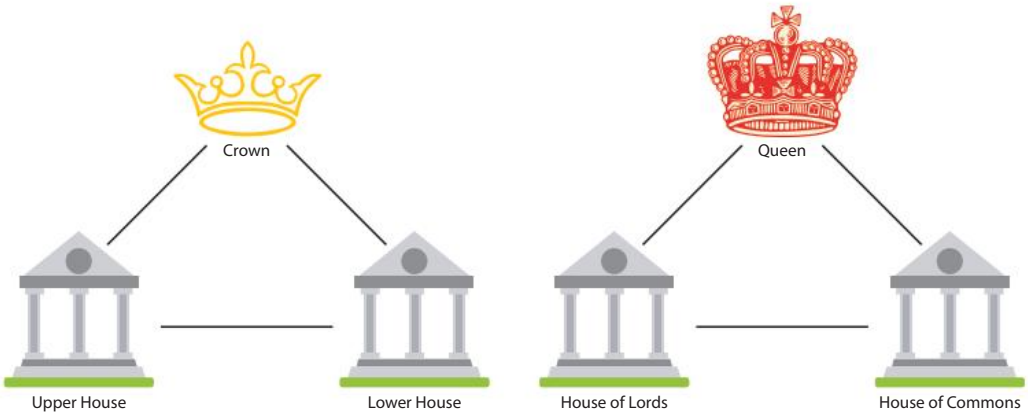


FIGURE 10.4 The Australian and British bicameral parliamentary systems

The lower house in the Commonwealth parliament is called the **House of Representatives**. The upper house in the Commonwealth parliament is called the **Senate**. The role of the Crown is performed by the **Governor-General**. The lower house of the Victorian parliament is known as the **Legislative Assembly**. The upper house is known as the **Legislative Council**. The role of the Crown is performed by the **Governor**.

GLOSSARY

Bicameral a parliament consisting of two houses or chambers

House of Representatives the lower house of the Commonwealth parliament

Senate the upper house of the Commonwealth parliament

Governor-General represents the Crown at the federal level

Legislative Assembly the lower house of the state parliament

Legislative Council the upper house of the state parliament

Governor represents the Crown at the state level

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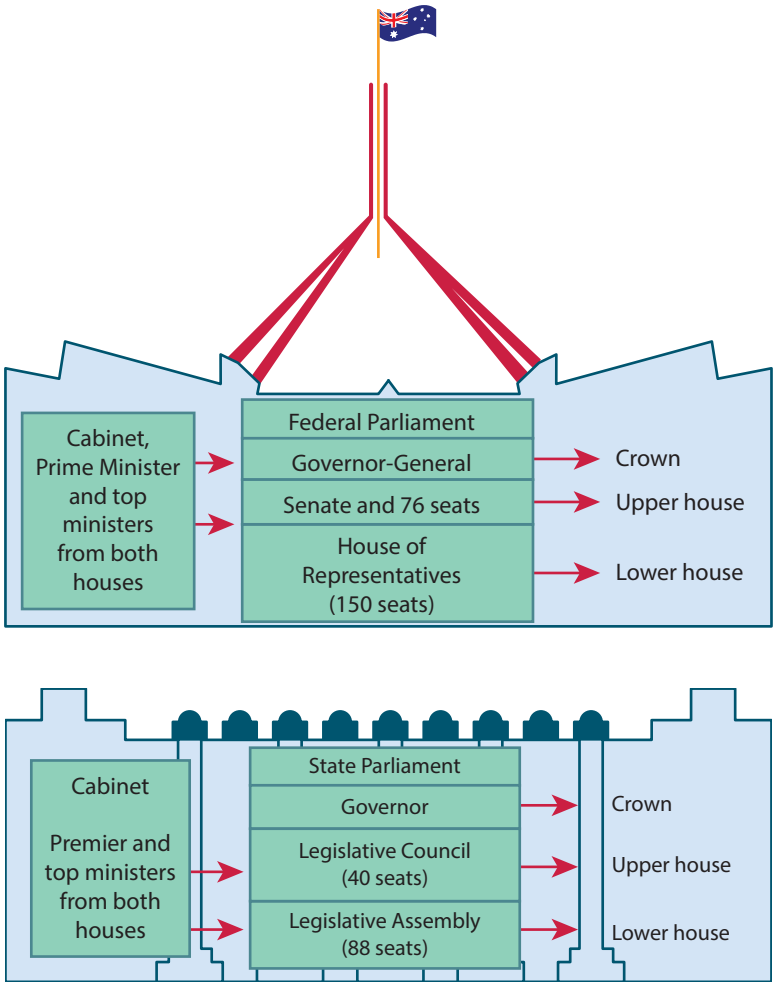


FIGURE 10.5 Structure of Australia's federal parliament and Victoria's parliament.

Parliaments in Queensland, the Northern Territory and ACT are **unicameral**. This means that these parliaments have only one house. They consist of a lower house that is called a Legislative Assembly. The parliaments in the territories have more limited powers than the state parliaments. Although the territories have self-government, some matters remain under the direct control of the federal government. There are no governors in the territories. An administrator appointed by the federal government performs this role.

GLOSSARY

Unicameral a parliament consisting of one house or chamber

Representative democracy a system of government in which parliamentarians represent the view of their community within their electorate

Electorate a geographic area consisting of approximately 80 000 voters who vote for one representative

Representative government in Australia

Australia is a **representative democracy**. This means that the government is representative of the people within a geographic area known as an **electorate**. In other words, the politicians who make up the government are elected from members of the community, by members of the community, to represent the views and wishes of the people in that community. Elections are held for local, state or territory and federal governments.

In a representative democracy, elections allow people to show their approval or disapproval of the government. Although voters do not participate in making laws and policy on a daily basis, elections allow them to choose the people who will directly participate in making laws and forming the government. Individual members of parliament, and through them governments, can be voted out of parliament by voters who are unhappy with their performance. This makes them answerable for their actions to the people who elect them.

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GLOSSARY

Federation the joining together of individual states for a common purpose

Tiers of government the division of power into federal, state and local government levels

In order to understand how our democracy and government are formed in Australia, we need to have an understanding of two important concepts: **federation** and the Constitution.

A federation is a union of states (or, in Australia's case, colonies prior to 1901) in which authority or power is divided between a central authority (the Commonwealth), state authorities and local authorities. There are three **tiers of government** in Australia, with each area having power over certain matters. These three tiers are:

- the **federal government** – located in Canberra
- the **state (and territory) governments** – located in the capital cities of the various states (and territories)
- **local government** – located in towns and cities across Australia.

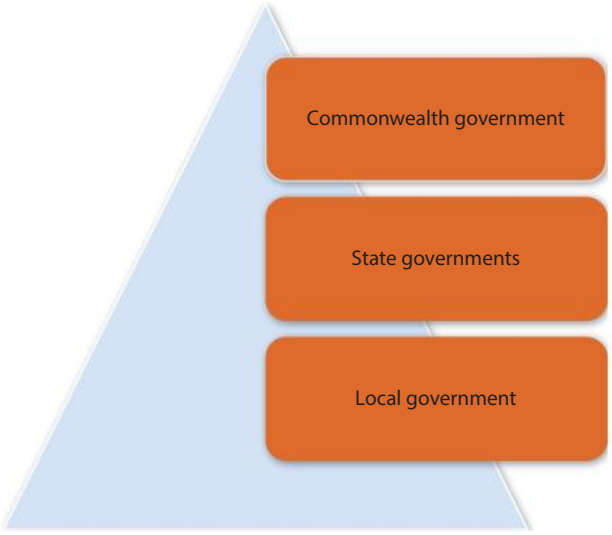


FIGURE 10.6 The three levels of government in Australia

ACTIVITY 10.3 Research

Local council

This activity is available in the online version of the textbook.

Federation

Within a federation, states join together for a common purpose. In a federal system, there are two layers of government:

- the **national (federal or central) government** that governs the entire country
- the **state or territory governments** that govern particular states or territories.

Before federation, a system of local government had been established for towns and cities. This local government tier forms the third layer of our modern system of government.

Why did the colonies federate?

Before federation, Australia consisted of a group of separate British colonies. The colonies did not need federation in order to gain the right to self-government.

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This right was achieved by the colonies of New South Wales and Victoria in the 1850s. They had already made their own laws for trade, transport, immigration and defence. In some ways, the right to self-government was a deterrent to federation, because colonial parliaments were reluctant to give up the law-making powers they already had.

There were a number of reasons for the colonies wanting to federate. They were concerned about foreign affairs, immigration and defence, trade and commerce, and industrial relations. A central government was also needed to make policies about economic development and international trade.

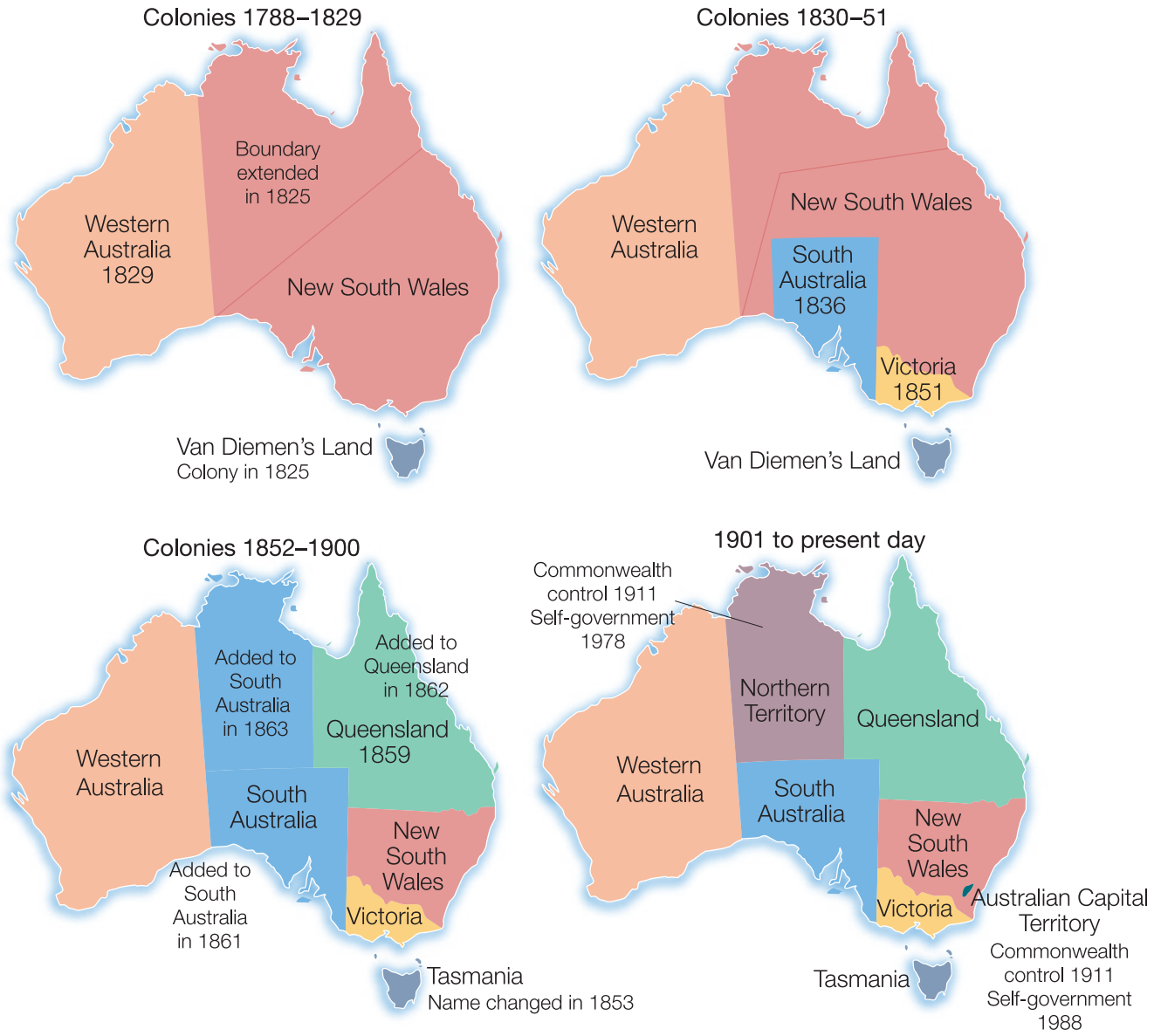


FIGURE 10.7 The historical development of Australia's federal system of government

Federation: A matter of compromise

By 1860, all Australian colonies except Western Australia were self-governing. They were fiercely independent and incredibly jealous of each other. They were suspicious and distrustful.

This was an age in which prejudices flourished. There was dislike for the wealthiest and most populous colonies – New South Wales and Victoria.

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Although the colonies saw themselves as part of the British Empire, the governors of each colony answered only to Queen Victoria and the British Parliament.

Commercial and political forces argued that benefits would flow from having a central government. Trade and defence were primary reasons for creating a nation.

There emerged a spirit of Australian nationalism. Sporting teams represented Australia, not the colonies. In the birth of the Ashes, Australia defeated England in a Test cricket match in 1877.

Popular authors such as Henry Lawson and Banjo Paterson wrote of Australians battling to forge a living from the harsh environment; painters captured on canvas romantic images of men shearing sheep and Cobb & Co stage coaches being held up by bushrangers. Australia was moving from an age of gold rushes to a period of pastoral wealth, described as 'riding on the sheep's back'.

Influential politicians advocating federation travelled the country promoting the idea. Inter-colonial conferences were held and nationalistic organisations such as the Australian Natives Association represented the thinking of many native-born Australians, who were Australian born of European descent.

Constitutional conventions were held, culminating in 1898 with a document ready for the necessary **referendum**. From these meetings came the Constitution of the Commonwealth of Australia. Australia would be governed by the Westminster system with a lower house and a Senate styled on the US house of review.

Having equal status with Canada, the new nation would also be a dominion of the British Empire. The new nation of Australia was born on 1 January 1901.

GLOSSARY

Referendum a formal process to change the Constitution

REVIEW 10.2

1. In your own words, define the term 'federation'.
2. Outline the reasons why the colonies wanted a federation.
3. Do you think that these reasons for federation would be accepted or considered important today? Explain.

ACTIVITY 10.4 Collaborate

Constitutional Conventions

This activity is available in the online version of the textbook.

The Australian Constitution

A constitution is a written statement outlining the basic structure of laws and government. It provides a framework for the operation of government. The formal title of the Australian Constitution is the *Commonwealth of Australia Constitution Act*. This Act was passed by the British Parliament in 1900. It came into force in Australia in 1901, at which time the separate colonies joined to become one nation called the Commonwealth of Australia.

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CASE STUDY 10.3

Section 44 and the 2017–2018 citizenship crisis

Section 44 of the Australian Constitution provides a number of categories of disqualification for individuals who wish to run as members of parliament. It sets out a list of five categories of disqualification.

The purpose of this section is to provide the Commonwealth parliament with the conditions of who could stand for parliament. However, the part of Section 44 that created the most issues is Section 44(i), which deals with the question of allegiance and **dual citizenship**. This section provides that any person who is under any acknowledgement of allegiance, obedience or adherence to a foreign power, or is a subject or a citizen, or entitled to the rights or privileges of a subject or a citizen, of a foreign power shall be incapable of being chosen or of sitting as a senator or a member of the House of Representatives. In recent times, this has meant that a number of members of parliament have had to test their ability to remain in the Commonwealth parliament.

GLOSSARY

Dual citizen a person who holds two nationalities at the same time

Parliament referred a number of politicians to the High Court to test section 44 against their foreign citizenship. The High Court had to consider whether the politicians had breached the requirement of section 44 (i) – that is, citizens of a foreign power – and on what grounds a politician can be disqualified for having dual citizenship. Not only does the High Court have the power to hear cases involving the wording of the Constitution, but all matters dealt with are final. In other words, the Commonwealth Parliament is not able to override this decision through making a law.




Fiona Nash, National Party Senator and former Deputy Leader – UK citizenship


Matthew Canavan, National Party Senator and Resource Minister – Italian citizenship


Barnaby Joyce, National Party, former Deputy Leader of the Government, House of Representatives – New Zealand citizenship


Malcolm Roberts, One Nation Senator – UK citizenship


Larissa Waters, Greens Senator – Canadian citizenship


Scott Ludlum, Greens Senator – New Zealand citizenship


Senator Nick Xenaphon – UK citizenship by descent


Senator Derryn Hinch – Holding a US social security card

FIGURE 10.8 Some of the politicians referred to the High Court for holding dual citizenship

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Commonwealth of Australia Constitution Act – section 44

Disqualification

Any person who:

(i) is under any acknowledgment of allegiance, obedience, or adherence to a foreign power, or is a subject or a citizen or entitled to the rights or privileges of a subject or a citizen of a foreign power; or

(ii) is attainted of treason, or has been convicted and is under sentence, or subject to be sentenced, for any offence punishable under the law of the Commonwealth or of a State by imprisonment for one year or longer; or

(iii) is an undischarged bankrupt or insolvent; or

(iv) holds any office of profit under the Crown, or any pension payable during the pleasure of the Crown out of any of the revenues of the Commonwealth; or

(v) has any direct or indirect pecuniary interest in any agreement with the Public Service of the Commonwealth otherwise than as a member and in common with the other members of an incorporated company consisting of more than twenty-five persons;

shall be incapable of being chosen or of sitting as a senator or a member of the House of Representatives.



ACTIVITY 10.5 Research

1. Explain the term 'constitution'.
2. What does section 44 of the Australian Constitution cover?
3. Outline the reason for the founding contributors placing section 44 in the Australian Constitution.
4. Discuss the role of the High Court in dealing with section 44 of the Australian Constitution.
5. Find out more about the people caught up in the section 44 controversy. Research one of the people listed below:
   - **a** Fiona Nash
   - **b** Matthew Canavan
   - **c** Barnaby Joyce
   - **d** Malcolm Roberts
   - **e** Larissa Waters
   - **f** Scott Ludlum
   - **g** Nick Xenophon
   - **h** Derryn Hinch.
6. Design a brief class presentation that includes:
   - a brief biography – name, party, role
   - an explanation of the issue in question related to section 44 – dual citizenship, office of profit, direct or indirect pecuniary interest, etc.
   - the outcome delivered by the High Court.

Parliamentary majority

In Australia, approximately 16 million Australians vote for their federal representatives. The federal parliament is made up of 226 federal representatives. Citizens vote for each member of the House of Representatives using a preferential system. In total, 150 members come from the House of Representatives. Citizens from each state elect 12 senators and two from each territory, providing for 76 senators in total. Government is formed by the party (or parties in coalition)

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that holds a **parliamentary majority** in the lower house. A majority is more than 50 per cent support. Therefore the party (or parties in coalition) with more than 76 representatives in the lower house forms government. In order for a government to enact its policy, though, it must also gain a majority vote in the Senate. This means that it needs 39 Senate votes to pass its legislation. In some cases, this may mean that it will need to negotiate with the independents and minor parties in opposition.

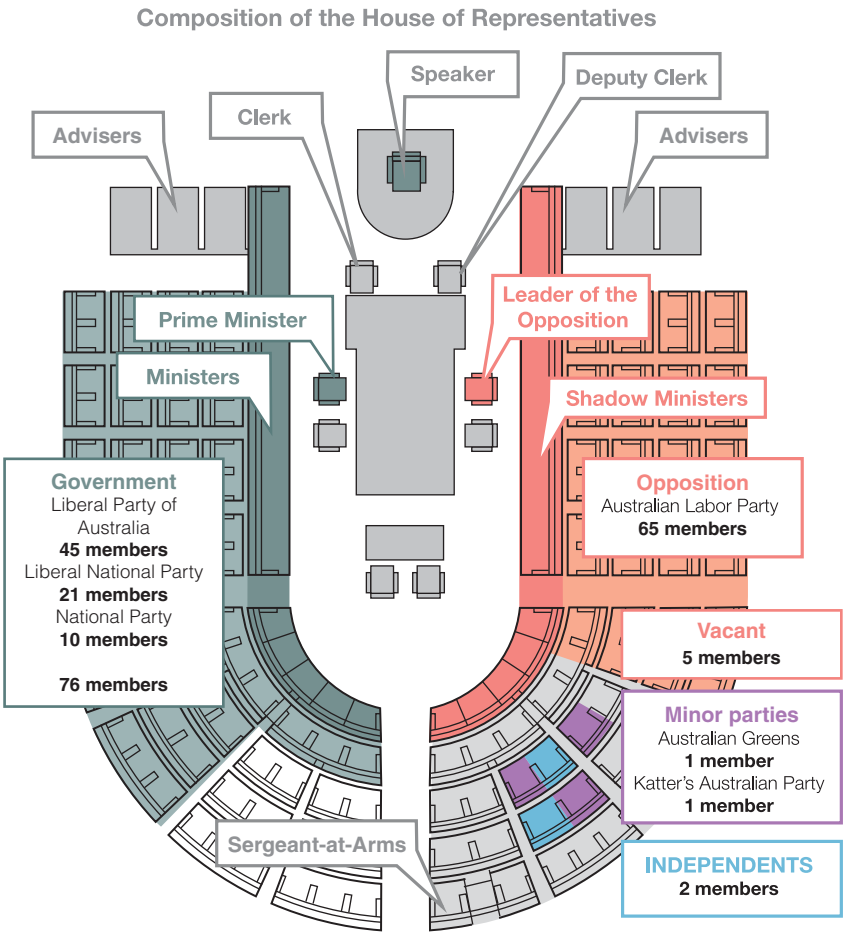


FIGURE 10.9 Composition of the House of Representatives, as at July 2018. This may change following a national election, or if circumstances lead to a member resigning.

The opposition

The **opposition** is formed by the largest party (or parties in coalition) that does not have the support of the majority of representatives in the lower house. The role of the opposition in parliament includes commenting on decisions made by the government, debating proposed laws and checking on the administration of the government. In its role of scrutinising the work of the government and keeping it accountable, the opposition is sometimes called the alternative government, and provides alternative points of view to government policies.

While the government has ministers, the opposition has shadow ministers. These are senior members of the opposition, who will usually be appointed as ministers if their party is elected to power. The leader of the opposition is usually appointed prime minister if their party wins office.

Figure 10.9 provides a visual representation of the seats which are shaded as the government, the opposition, minor parties and independents.

GLOSSARY

Parliamentary majority the party (or parties in coalition) with more than 50 per cent support in the lower house forms government

Opposition the largest party (or parties in coalition) that does not have the support of the majority of representatives in the lower house

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FIGURE 10.10 The Australian House of Representatives

Party platform and mandate

Party platforms are what political parties stand for, their values, promises and policy intentions. This helps to attract likeminded voters, and is a guide or an indication of what work a party will do or accomplish when in government. **Political parties** work tirelessly to have their members elected to parliament so that their ideas can affect the way Australia is governed. Political parties will often use the notion of a **mandate** when they win an election, claiming that they have electoral or voter permission to enact or implement their election promises. The size of the mandate is important in political terms, and provides the ability of a government to implement its program. For example, a sizeable majority will provide the government with great moral purpose to implement its election promises, which then places pressure on the opposition to support popular policies.

GLOSSARY

Party platform the policies and promises of a political party seeking election to government

Political party a group representing individuals with similar political views

Mandate the authority of the winning political party to implement its policies as a result of its election campaign

Hung parliament if no political party (or parties in coalition) achieves a majority in the lower house of parliament

Minority government where government cannot form a majority in its own right and strikes a deal with the support of other members of parliament, known as independents, or a minor party to hold government

Hung parliament or minority government

In order to form government, a party needs a majority of representatives in the lower house. However, if no political party (or coalition of parties) achieves a majority in the House of Representatives, the result is called a **hung parliament**. It is still possible for a government to be formed if a majority can be achieved through the support of other members of parliament, known as independents, or from a minor party. This type of government is known as a **minority government**.

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For example, in 2010 Julia Gillard and the Australian Labor Party formed a minority government with the support of three independent members and one member of The Greens.

REVIEW 10.3

1 There are a number of key concepts of government in Australia. Using this chapter and a dictionary, define each of the following terms:
   - **a** democracy
   - **b** government
   - **c** parliamentary government.
2 Explain the task or role of government in Australia.
3 What do you think is the most important role of the opposition? Explain.
4 How do you think that the role of the opposition contributes to representative government?
5 What is meant by a basic function of government? Create a list of basic functions in which governments should be involved.

10.3 Political parties and their importance to our democracy

Democratic governments, such as the system of government in Australia, rely on citizens voting for representatives from political parties. These elected people represent citizens' views in debates and proposed laws. In return, the representatives are responsible to the voters. If the voters are not satisfied, the representatives may not be re-elected. The system of representative democracy in Australia is complex and relies on political parties.



FIGURE 10.11 An Australian citizen registering to vote at a voting centre

A political party is a group of individuals with similar political views. You do not have to be a member of a political party. Membership is voluntary. In some ways a political party is like a club or association; however, its aims are different from the aims of other clubs or associations. The aim of a political party is to have members of its group elected to parliament in order to represent the party's views.

Most political parties aim to form a government. By winning government, the elected representatives of political parties can make changes in order to implement their views. The views of political parties are called their policies or platforms. The policies of a political party are therefore a statement about what action the political party will take if it forms a government.

People form political parties for a range of reasons, including:

- dissatisfaction with the existing government
- the desire to promote a particular issue
- dissatisfaction with an existing political party – in this case, the group may break away from an existing political party to form a new party.

Political parties in Australia

Countries with democratic governments allow a range of political parties to exist. Two major political parties dominate Australian politics. These are the Liberal Party and the Australian Labor Party. The Nationals generally act in partnership with the Liberal Party to form a coalition. The Greens also have a large presence in the Senate and a small presence in the House of Representatives.

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FIGURE 10.12 The logo of the Australian Labor Party (ALP)



FIGURE 10.13 The logo of the Liberal Party



FIGURE 10.14 The logo of the National Party

Australian Labor Party

The Australian Labor Party (ALP) was formed by trade unions before federation. This makes it the oldest political party in Australia. The ALP's main goal was originally to represent the interests of working-class people. Trade unions continue to maintain close links with the ALP.

The key political ideal of the ALP is democratic socialism. This includes:

- equality and opportunity – particularly for women, Aboriginal and Torres Strait Islander people and other groups that experience disadvantage
- redistribution of income, wealth and economic power
- social security and universal healthcare
- full employment.

Liberal Party

The Liberal Party was officially formed in 1944, but its origins can be traced to the first federal parliament. The Liberal Party was formed to unite anti-Labor groups, and is seen as representing the interests of business and private enterprise.

In recent years, Liberal Party policies have placed an emphasis on:

- privatisation – selling selected government enterprises
- deregulation – removing controls over industry, commerce and labour
- small government.

The Nationals

The National Party was originally formed in 1918 and called the Country Party. It became the National Party in 1982. The National Party represents the interests of graziers, farmers and rural communities. At a federal level, the National Party works with the Liberal Party to form a coalition.



FIGURE 10.15 The logo of the Australian Greens

The Australian Greens (The Greens)

The Australian Greens party was founded on four main principles: ecological sustainability; social and economic justice; peace and non-violence; and grassroots democracy.

Formed in 1992, The Greens are a national confederation of state and territory Greens parties. The party has elected representatives at all levels of government. The Greens are a member-centred, grassroots party, with all decisions made by consensus.

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Other parties

Although the majority of voters support one of the major political parties, some people will always be dissatisfied with the views represented by these parties. Often such people will hold strong views about a particular issue that they feel is ignored by the mainstream parties. When enough people share a common view on an issue, they can form a minor political party. In Australia, there are a number of minor political parties. They include:

- Centre Alliance
- Pauline Hanson's One Nation
- Katter's Australian Party
- the Jacqui Lambie Network
- Derryn Hinch's Justice Party
- the Liberal Democratic Party
- the Australian Conservatives.

Each of these parties has different aims and ideas about how to govern Australia.



FIGURE 10.16 Bob Katter of Katter's Australian Party

Independents

You do not need to be a member or representative of a political party to stand for election. A person who stands for election without being endorsed by a political party is called an **independent**. Although an independent can be elected, they cannot form a government. This is because only a political party can form a government in Australia.



FIGURE 10.17 Independent MP Andrew Wilkie

What do political parties do?

The main aims of a political party are to represent the common views of a particular group and to form government. To achieve this, political parties need to form policies, select candidates and win votes.

Develop political platforms

Parties discuss how they believe Australia should be governed and what action needs to be taken. A member of a political party can express a view on a particular issue. Platforms are revised and changed over time. For instance, restricted immigration was based on race and known as the White Australia policy. It is no longer the policy of any major party in Australia.

Preselect candidates

Another important role of political parties is to select **candidates** for elections. A political party endorses candidates to represent the party at an election. To be endorsed, a candidate must go through a process called **preselection**. Preselection policies vary from party to party.

GLOSSARY

Independent a member of parliament who does not belong to a political party

Candidates people who run for election to a political office

Preselection where a political party approves a candidate for an election

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ACTIVITY 10.6 Research

Political parties in Australia

Find out more about political parties in Australia. Select two political parties – one major party and one other party.

Major parties

- Australia Labor Party
- Liberal Party
- The Nationals
- The Australian Greens

Other parties

- Centre Alliance
- Pauline Hanson's One Nation
- Katter's Australian Party
- Jacqui Lambie Network
- Derryn Hinch's Justice Party
- Liberal Democratic Party
- Australian Conservatives

Your research may include materials from the internet, the library, newspaper and magazine articles, television and radio reports, or direct contact with the office of the political party.

Prepare a class report highlighting the following:

1. what they stand for – their values or principles
2. the key policies of the party
3. the leader of the party at the federal and state levels
4. why the party was formed
5. how people can get involved.



FIGURE 10.18 Prime Minister and leader of the Liberal Party Malcolm Turnbull greets a voter in Brisbane during the 2016 election campaign.

GLOSSARY

Pork-barrelling promising inappropriate government spending in exchange for political support

Conduct election campaigns

Political parties also conduct election campaigns, which aim to gain the support of voters by promoting the party's policies. Such campaigns include:

- organising visits by a candidate to public places in the electorate (touring a factory, visiting a community health centre)
- conducting rallies
- advertising
- delivering pamphlets to homes
- distributing how-to-vote material
- making policy speeches
- writing press releases
- liaising with the media.

Sometimes candidates may make lavish promises during an election campaign. They might promise to reduce taxation, increase spending on schools and hospitals, and build roads. Candidates who make such promises may be said to be buying votes, or **pork-barrelling**.

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REVIEW 10.4

1 What is a political party?
2 Suggest reasons why a group may want to form a political party.
3 Describe the similarities and differences between the various major political parties in Australia.
4 To what extent do you believe that political parties are anti-democratic as they seek to impose the views of a select group of people on the will of the majority of the community? In your answer, identify the importance of political parties to the democratic process.

ACTIVITY 10.7 Collaborate

Create a political party

This activity is available in the online version of the textbook.

10.4 Executive government

The political party with a majority of members in the House of Representatives forms the **executive government** of Australia. The political party with a minority of members in this house forms the Opposition. Sometimes political parties may act together (in coalition).

GLOSSARY

Executive government the branch of government that carries the law into force
Prime Minister the leader of the Commonwealth government
Ministers members of the government with responsibility for areas of government policies or departments

The Prime Minister

The leader of the political party with a majority in the House of Representatives is summoned by the Governor-General to form a government. This leader becomes the **Prime Minister** of Australia. Although this position is not mentioned in the Australian Constitution, the Prime Minister is the most important and senior minister in the Commonwealth parliament. The role and powers of the Prime Minister include:

- leading their political party
- exercising control over who should become a minister
- acting as the main spokesperson for the government
- being head of Cabinet, and thus influencing government policy
- representing the country at international events
- chairing Council of Australian Governments (COAG) meetings
- advising the Governor-General.



FIGURE 10.19 Australia's first prime minister, Sir Edmund Barton

Ministers

Other members of the political party with a majority in the House of Representatives are appointed as **ministers**. The Governor-General appoints ministers on the recommendation of the Prime Minister. Ministers can be members of either the Senate or the House of Representatives. Each minister has an area of responsibility known as a portfolio. This usually includes responsibility for a government department. Ministers are responsible for the actions of their departments

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GLOSSARY

Ministry a meeting of all ministers

Cabinet a meeting of senior ministers to advise on government policies

Bureaucracy also known as the public service; government departments responsible for administering government policy

to the Governor-General, the Prime Minister and the parliament. During question time in parliament, members may ask questions about the actions taken by government departments. The relevant minister is expected to answer these questions.

The ministry and Cabinet

A meeting of all ministers is called the **ministry**. A meeting of only the most important or senior ministers is referred to as an 'inner ministry', or **Cabinet**. This group has the main responsibility for the administrative decisions of the government.

REVIEW 10.5

1 What is meant by the term 'executive government'?
2 Explain the role and importance of the Prime Minister.
3 What is a portfolio?

ACTIVITY 10.8 Research

Ministers

Undertake research and prepare a fact sheet about one minister. Answer the following questions:

1 Name the minister.
2 Is the minister a member of the House of Representatives or the Senate?
3 Name and describe their area of responsibility.

ACTIVITY 10.9 Create

Prime Minister

This activity is available in the online version of the textbook.

The bureaucracy, or the public service

Implementing and upholding the laws passed by parliament is too great a task for ministers to accomplish by themselves. Ministers are helped in this regard by the **bureaucracy**, or public service. Each level of government in Australia is supported by its own public service, which creates, implements and regulates laws, policies and programs in order to support the community, protect Australia's borders and strengthen the economy. These tasks are taken up by over 200 Commonwealth organisations that employ more than 300 000 people.



FIGURE 10.20 Australia Post is a government-owned corporation

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Some public service functions with which you may be familiar include:

- Australia's welfare system, which is administered by the Department of Human Services
- the National Broadband Network, which is overseen by the Department of Communications
- our mail delivery system, operated through Australia Post
- TV and broadcasting rules and regulations, overseen by the Australian Communications and Media Authority
- maintaining Australia's voting and electoral system through the Australian Electoral Commission.

There are also a lot of things done by the Commonwealth bureaucracy or the Public Service that might surprise you. The Australian Federal Police and Defence Force personnel are part of the Australian government. The Commonwealth Scientific and Industrial Research Organisation (CSIRO) invented WiFi, plastic bank notes and a wellbeing diet. The Australian Sports Commission drives participation in sport and has been integral to the development of Australia's sporting stars.

Source: IndigenousCareers.gov.au.

Policy-making

Elections give Australia's political parties an opportunity to present their **policies** to the community. While governments are presented with an electoral mandate to put these policies into place, the reality of politics makes **policy-making** an arduous, uncertain process. The exercise of power by the elected representatives is known as policy, which is an outline of a general action or plan. There are many influences on policy-making in Australia. Figure 10.21 provides a snapshot of the various groups the executive needs to consider.

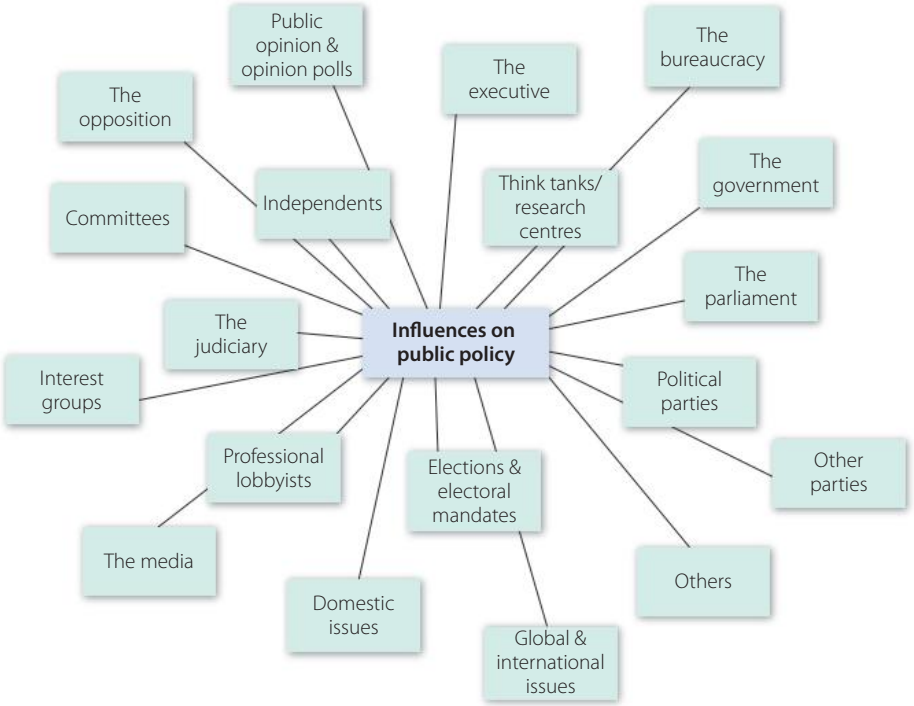


FIGURE 10.21 Some of the influences on the creation of public policy by the Australian government

GLOSSARY

Policy a plan of action or a position taken by a political party

Policy-making the process of formulating a policy

REVIEW 10.6

1. Who or what is the bureaucracy or the public service?
2. Explain some of the functions carried out by the bureaucracy or public service.
3. Define the term 'policy'.

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ACTIVITY 10.10 Research

Government policy

1 Choose a current government policy such as:
- Aboriginal and Torres Strait Islander peoples' recognition in the Australian Constitution
- healthcare, mandatory vaccinations, public or private health
- education, university funding, public funding
- the National Disability Insurance Scheme
- climate change, energy policy, nuclear power
- cybersecurity, laptop travel ban
- Sunday penalty rates and the Fair Work Commission; equal pay for men and women
- parental leave and childcare funding
- immigration, asylum seekers, citizenship test
- the National Broadband Network
- the banking tax, corporate tax cuts, negative gearing or another important government policy.

2 Using the internet and library resources, prepare a flip card that discusses the development of one of the government policies in Question 1. On one side of the flip card, identify the influence on the government policy and on the other side provide examples of this influence.

ACTIVITY 10.11 Research

Influences on government policy

This activity is available in the online version of the textbook.

10.5 Australia's system of government compared with that of Indonesia

Australia and Indonesia share a system of government built on freely elected representatives making laws for the good of the nation. These national parliaments consist of two chambers: a lower house elected to stand for the interests of regional communities, and an upper house standing for the interests of the states and territories.

Elections are the foundation of democracy. Australia and Indonesia share regular elections, in which citizens vote to elect other representatives to act for them in a national parliament.

FIGURE 10.22 The Australian coat of arms



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Australia and Indonesia hold similar values when forming government:

- **Laws should reflect the will of the people**. This means that both Australia and Indonesia enjoy representative democracy and laws are created to reflect community attitudes and values.
- **The rule of law.** Both countries have a written constitution. This document also provides for ways to add or amend the constitution through the vote of a majority.
- **The right to vote.** Both countries provide their citizens with the opportunity to vote for elected representatives.
- **Free and fair elections.** Elections and political parties are an important part of both democratic societies.
- **Checks and balances.** Both countries believe in good governance through the three branches of government: the legislature (law-makers), the executive (high-ranking government decision-makers) and the judiciary (the federal courts).

However, Australia operates with a **constitutional monarchy**, whereas Indonesia is a **republic**. The essential difference lies in the overall structure of the national parliament and in the powers of the head of state.



FIGURE 10.23 The Indonesian coat of arms

GLOSSARY

Constitutional monarchy the exercise of power by a king or queen under a constitution

Republic the power is vested in the people to elect their leader, such as a president

TABLE 10.1 Constitutional monarchy vs. republic: Australia and Indonesia

Australia	Indonesia
• Australia is a constitutional monarchy. This means that in theory executive power is exercised by the Governor-General on behalf of the Queen. • The Governor-General has a five-year term. • The Queen is the head of state, while the Prime Minister is the head of government. • Although the Prime Minister and Cabinet are not mentioned in the Constitution, in practice, due to convention, executive power is exercised by the Prime Minister and Cabinet.	• Indonesia is a republic. This means that the President is elected directly by the people of Indonesia for a fixed five-year term, with a maximum of two terms. • The Indonesian Constitution gives executive power to the President. • The President is both head of state and head of government, with a central role in the law-making process.

ACTIVITY 10.12 Research

Constitutional monarchy and republic

1 Research and describe two differences between a constitutional monarchy and a republic.
2 Describe the role of the head of state in both a constitutional monarchy and a republic.

Written constitution

As we saw earlier in this chapter, a constitution is a written statement outlining the basic structure of laws and government. It provides a framework for the operation of government. The formal title of the Australian Constitution is the *Commonwealth of Australia Constitution Act*. This Act was passed by the British parliament in 1900.

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It came into force in Australia in 1901, at which time the separate colonies joined to become one nation called the Commonwealth of Australia. The Constitution of the Republic of Indonesia – more usually known as the 1945 Constitution – was enacted as the Republic of Indonesia announced its independence from a European power, the Netherlands, on 17 August 1945. It was intended to serve as a temporary constitution that would eventually be replaced by a permanent version, written by the representatives of a national parliament.

Table 10.2 compares the means necessary in Australia and Indonesia in order to change each country's constitution. Table 10.3 compares the election and voting processes in Australia and Indonesia.

FIGURE 10.24 A procession to mark the opening of the Australian federal parliament makes its way down Swanston Street, Melbourne, in May 1901.

TABLE 10.2 Amending the constitution: Australia and Indonesia

Australia	Indonesia
To change the Constitution, the following must apply: • Passed by parliament. • Passed by the people via a referendum vote with a double majority – that is, a majority of voters in a majority of states, and a majority of all voters nationwide. • The Australian Constitution has been amended eight times.	To change the Constitution, the following must apply: • Must be proposed by one-third of MPR members (the DPR and DPD sitting together as one body). • Two-thirds of MPR members must attend the session when the proposed amendment is discussed. • An absolute majority (more than half) of all MPR members must agree to the proposed amendment. • The Indonesian Constitution has been amended four times.

TABLE 10.3 Elections and voting: Australia and Indonesia

Australia	Indonesia
House of Representatives • 150 members. • Three-year election terms. • **Preferential voting**. • Government is formed in this house. • One member = one electorate (constituents). Senate • Equal representation from each state = 12 senators and two from each territory. • Six-year fixed terms, but half-Senate election every three years. Elections • Proportional voting. • Compulsory voting. • Australian citizens must be 18 years of age to vote. • Conducted independently by the Australian Electoral Commission.	DPR (People's Representative Council) • 560 members. • Fixed five-year terms. • **Proportional representation voting**. • Between three and 12 members = one electorate (constituents). DPD (Regional Representative Council) • Total of 132 members. • Four members from each province. • Elected for fixed five-year terms. Elections • Proportional representational voting. • Non-compulsory voting. • Indonesian citizens must be either 17 years of age to vote or can vote earlier if married. • Conducted independently by the General Election Commission.

GLOSSARY

Preferential voting a system of voting in which votes are allocated to candidates in order of preference

Proportional voting a system of voting in which political parties receive a percentage of representatives according to the total vote won by the party

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REVIEW 10.7

1 Comment on the conditions needed to amend both the Australian and Indonesian constitutions. Which system appears to be more democratic? Explain your response.
2 Explain the difference between preferential voting and proportional voting. You may need to undertake some internet research to complete this task. Why do you think the upper house uses proportional representation as a voting system?
3 Why is there such a big difference in the number of elected representatives in the two countries' lower houses?
4 Indonesia's voting age is 17 or earlier if married. Discuss where you believe lowering the voting age could work in Australia.

ACTIVITY 10.13 Collaborate

Preambles to the Australian and Indonesian Constitutions

This activity is available in the online version of the textbook.

Separation of powers

The Constitutions of Australia and Indonesia both allow for three branches of governance: legislature (law-makers), executive (members of government) and judiciary (federal courts). The ability to implement and organise federal law is divided up between these branches of governance. This division is known as the **separation of powers**. Under this principle, the power to make and manage laws is shared in order to avoid the misuse of power.

GLOSSARY

Separation of powers the three independent branches of government – the legislature, the executive and the judiciary – working independently but sharing power

Neither Australia nor Indonesia has an absolute separation of powers, as in both systems of government the functions of parliament and the executive branch overlap. The Prime Minister and ministers of Australia must be members of parliament, whereas in Indonesia the President of Indonesia and the DPR (People's Representative Council) need to agree on a Bill before it becomes law. In addition, all members of the judiciary branch (the High Court of Australia and the Supreme Court of Indonesia) are assigned by the Governor-General and President respectively.

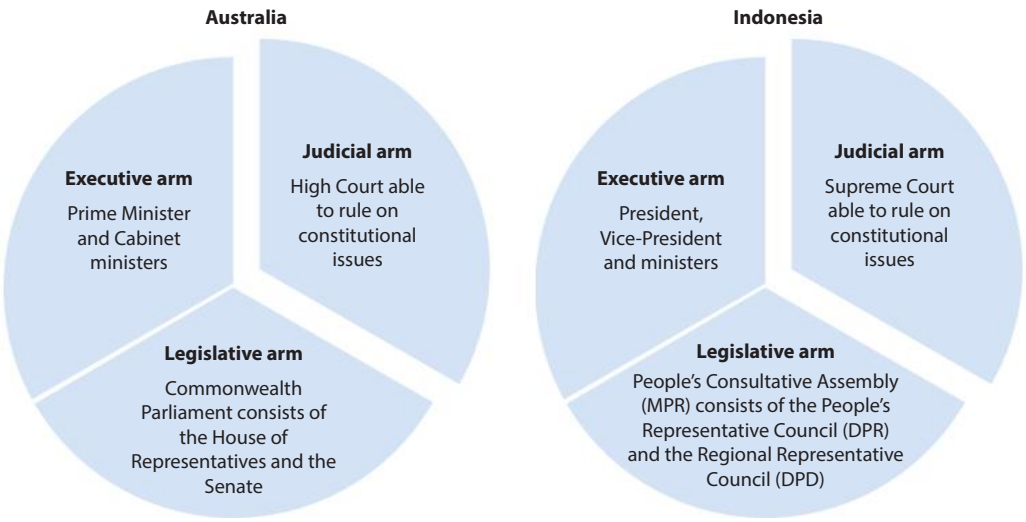


FIGURE 10.25 The separation of powers in Australia and Indonesia

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TABLE 10.4 Comparing the separation of powers – the executive

Australia	Indonesia
The executive in government • Consists of the Prime Minister and approximately 30 ministers – some senior and some junior. • The Prime Minister is elected by their own party. • Ministers are appointed by the Prime Minister and are responsible for their department or portfolio. • This group meets in Cabinet to deliberate matters of policy. • The executive can be scrutinised by both houses of parliament through Question Time and Committees.	The executive in government • Consists of the President, Vice-President and ministers responsible for a particular area of government activity, who meet in Cabinet. • The President appoints and removes ministers, who tend to come from the president's party. Ministers cannot be members of the MPR. • Ministers are answerable to the President for the operation of their ministry (department) or policy area. • Ministers can be scrutinised by DPR commissions (committees).

TABLE 10.5 Comparing the separation of powers – the legislature

Australia	Indonesia
The law-making process • All laws in Australia must be debated and passed by both houses of Parliament. • Proposed laws (**Bills**) can be introduced by a minister (government Bills) generally in the House of Representatives, sometimes the Senate or by a Private Member's Bill. • Committees are used for further scrutiny, investigation and recommendations. • When a Bill has been passed by the Parliament, it receives **Royal assent** (is signed into law) from the Governor-General.	The law-making process • Laws in Indonesia are usually discussed and agreed to by consensus through the deliberation of representatives in the commissions (committees) of small groups. • Commissions do most of the law-making work, meaning that when agreement has been reached on a Bill in a commission, it will almost certainly be accepted by the whole DPR. • Most decisions are made by consensus, either agreeing to support the Bill or to not oppose it. • After it is passed by the DPR, a Bill is presented to the President for signing into law. The President has 30 days to oppose it; otherwise it automatically becomes law.

GLOSSARY

Bill a proposed law

Royal assent the last step in the process of a proposed law in parliament; signed off by the Governor-General

TABLE 10.6 Comparing the separation of powers – the judiciary

Australia	Indonesia
High Court • The High Court of Australia was set up by the Constitution and is completely independent of the executive and legislature. • The High Court not only has the power to change the Constitution, but it can review decisions of the executive or legislature if challenged. • A dispute may arise out of legislation or a section in the Constitution. If this occurs, then an individual, a state or the Commonwealth may challenge this section in the High Court.	Supreme Court • The Supreme Court is the judicial arm of the state and exists beside the legislative and the executive branches. • Judges of the Supreme Court are appointed by the President with the approval of the DPR. • The court is free from government intervention in the exercise of justice.

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REVIEW 10.8

1 Define the following terms:
   a the executive
   b the legislature
   c the judiciary.
2 How do Australia and Indonesia demonstrate the separation of powers?
3 Suggest three reasons to justify the separation of powers.
4 Explain the main differences in the law-making process between Australia and Indonesia.
5 Which system is more democratic – Australia's majority vote or Indonesia's consensus through deliberation? Explain your reasons.
6 Outline three reasons why the judicial arm in both countries is completely independent.
7 To what extent is the executive arm separate from the legislative arm in both Australia and Indonesia? You may need to do some research to answer this question.

The importance of Indonesia to Australia

Indonesia is the third largest democracy in the world and has the world's largest Muslim population. For this reason, this is one of the most important bilateral relationships Australia has. The term 'bilateral' means that Australia and Indonesia respectfully share their views. A bilateral relationship is grounded in frequent high-level meetings, such as the Foreign and Defence Ministers' 2+2 Dialogue, the Indonesia–Australia Annual Leaders' Meeting, the Ministerial Council on Law and Security and the Trade Ministers' Meeting.

The President of Indonesia, Joko Widodo, came to Australia on 26 February 2017 to meet with Prime Minister Malcolm Turnbull. At the meeting, each leader acknowledged the long-standing relationship between Australia and Indonesia as the foundation of a strong connection for the future. Leaders proposed mutual investment, safeguarding borders, creating jobs, cooperating to counter terrorism while deterring international crime, and praising the diversity of both countries by establishing further awareness of each other's country.

Indonesia is seen as one of Australia's closest strategic partners. The relationship between the two countries spans a number of areas, such as political, economic, security, development, education and people-to-people ties.

The Australian Department of Foreign Affairs and Trade website lists a number of areas of cooperation with Indonesia.

FIGURE 10.26 Indonesian President Joko Widodo and Australian Prime Minister Malcolm Turnbull



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Cooperation between Australia and Indonesia

Strategic and security cooperation

Cooperation between Australia and Indonesia on security matters is underpinned by the Lombok Treaty (2006), with a Defence Cooperation Arrangement signed in September 2012. Both countries reaffirmed their commitment to strengthening bilateral relations in August 2014 by signing a Joint Understanding on the implementation of the Lombok Treaty, which provides an agreed approach to enhancing intelligence cooperation. Australia and Indonesia also work closely on a range of common strategic interests in regional and global settings.

Cooperation on counter-terrorism

Australian and Indonesian authorities have cooperated closely to detect and deter terrorist attacks in Indonesia since the 2002 Bali bombings. Our counter-terrorism cooperation now involves a wide range of partnerships in law enforcement, legal framework development, criminal justice, counter-terrorism financing, countering violent extremism, defence, transport and border security, intelligence, and the security of chemical, biological, radiological, nuclear and explosive (CBRNE) materials. A Memorandum of Understanding on Combatting International Terrorism signed at the 2+2 Dialogue in Sydney on 21 December 2015 underpinned counter-terrorism cooperation with Indonesia up to 2018.

Cooperation on combatting people smuggling

Australia and Indonesia work closely together to combat people smuggling and human trafficking, including by co-chairing the Bali Process on People Smuggling, Trafficking in Persons and Related Transnational Crime. We strongly support cooperative measures with Indonesia to improve border integrity and enforcement. We also continue to work with our regional partners to combat people smuggling and human trafficking, by strengthening legal frameworks and boosting the capabilities of criminal justice agencies and civil society organisations.

Trade and investment

There is considerable opportunity for Australia to expand its trade, investment and economic cooperation relationship with Indonesia, which is the largest economy in Southeast Asia and the 16th largest economy in the world. Demand in Indonesia for consumer goods and services – particularly for premium food and beverages, education and healthcare, financial and ICT services and tourism – and its ambitious infrastructure investment agenda aligns well with Australian industry capabilities. Australian companies are among the leading investors in Indonesia's resources and energy sector.

Two-way investment between Australia and Indonesia was valued at $9.8 billion in 2015, with Australian investment in Indonesia at $8.4 billion and Indonesian investment in Australia at $1.4 billion.



FIGURE 10.27 The New Colombo Plan provides scholarships and flexible mobility grants to support Australian undergraduates to study and undertake internships in the Indo-Pacific region.

At the time of writing Australia and Indonesia were negotiating a trade agreement called the Indonesia–Australia Comprehensive Economic Partnership Agreement (IA-CEPA), to create the framework for a new era of closer economic engagement between Australia and Indonesia and open new markets and opportunities for businesses, primary producers, service providers and investors.

Development cooperation

Australia works in an economic partnership with Indonesia, supporting its efforts to leverage its own resources to generate growth and distribute those benefits to a larger number of its people. Australia provides policy and technical advice that will improve the quality of Indonesia's investments in infrastructure, economic governance, human development and social policy.

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Priority areas include good governance, improved productivity and competitiveness, and human resource quality. There is a focus on eastern Indonesia to help address regional disparities in development, while maintaining growth momentum in other parts of the country.

Education

Indonesia and Australia enjoy a strong relationship in education. Indonesia is the most popular destination for students under the Australian government's New Colombo Plan, an initiative to encourage young Australians to work and study in the region. The New Colombo Plan will have supported more than 3000 Australian students to live, study and undertake work placements in Indonesia by the end of 2017, representing nearly one-fifth of the total.

People-to-people links

People-to-people links are an important component of the bilateral relationship with Indonesia. Through cultural, sporting and educational engagement and tourism, Australian and Indonesian people and communities enhance their mutual understanding of each other. Links between schools, exchanges, visits and scholarships provide an important foundation for engagement.

Source: DFAT, *Indonesian Country Brief* (2017).

REVIEW 10.9

1 Read the information about links between Australia and Indonesia in the box and write a paragraph summarising the importance of Australia's relationship with Indonesia.

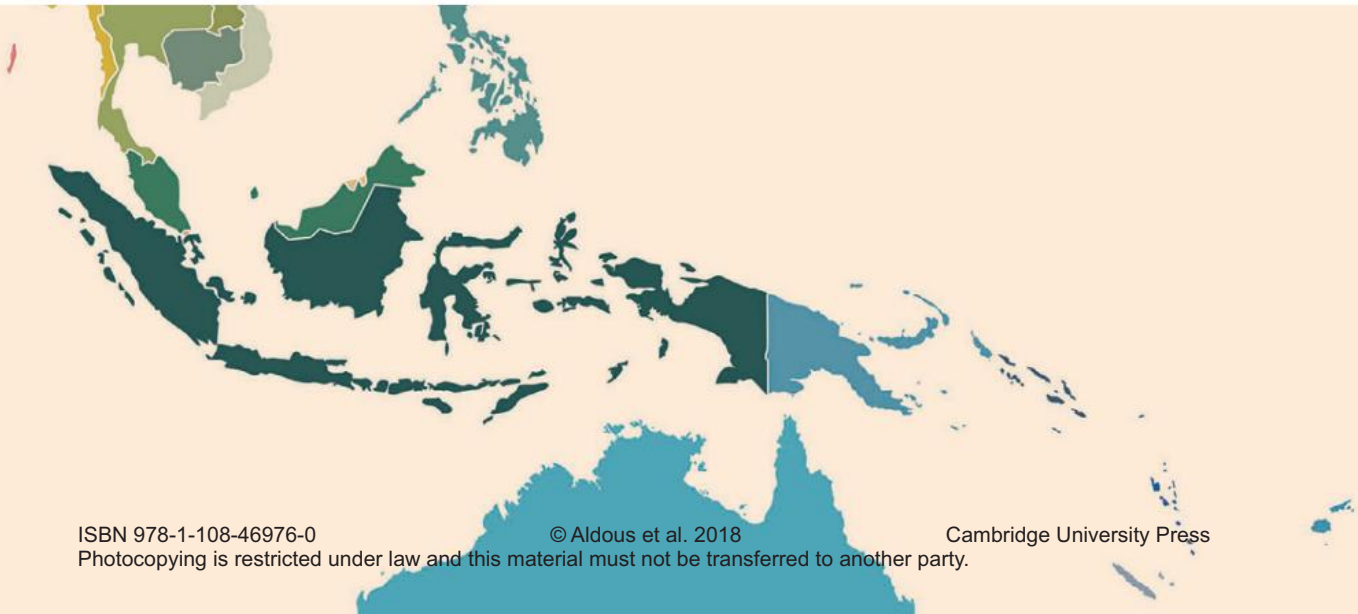
ACTIVITY 10.14 Research

Current issues between Australia and Indonesia

Prepare a folio of current issues between Australia and Indonesia. You may need to look at the overseas news section of the newspaper. For each newspaper article, record:

- the source of the article
- a summary of the article
- the issue being discussed
- what is being done by Australia and Indonesia
- how effective you believe the cooperation discussed in the article has been.

FIGURE 10.28 As one of our closest geographic neighbours, international relations with Indonesia are very important.



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10.6 Shaping political choices

Parliaments are meant to represent the views and wishes of the people, and make laws, policies and other decisions on their behalf. Australian citizens have a right to be involved in this decision-making process, and parliament should be interested in their opinions. There are various ways by which Australian citizens and larger organisations can influence the actions and decisions made in parliament. Democracy provides citizens with many opportunities to take effective action to influence policy-makers.

GLOSSARY

Public debate where citizens actively involve themselves in the decision-making process by putting their views forward

Free media the freedom of the media to report on political matters without undue interference from government

Public debate

Public debate in any society is crucial to upholding democratic values. Our society works on the principle of representation. This also means that citizens need to be active in the decision-making process.

Australians who are concerned about an issue can organise a public meeting or protest about that issue. They may invite members of parliament to attend their public meetings to hear what the people have to say, or answer questions from the public. Media coverage of these meetings and protests may then put pressure on the Parliament to act on the issue. People can also express their opinion by participating in online forums and discussions, writing a letter to the newspaper or calling up talk-back radio.

Source: Parliamentary Education Office (2018).



FIGURE 10.29 Newspapers in Australia have the right to publish what they wish under our right to free speech.

Public debate is crucial to the democratic process. Policy and law-making should reflect the views, values and expectations of the majority in the community. Public debate assists our policy-makers in government to gain an understanding of what issues exist. Government must ensure that the community is working towards common aims, and in order to fulfil this members of the community need the opportunity voice their opinions.

The media

The hallmark of a democratic society is the notion of **free media**. This means that the media must not have any undue restrictions placed upon them. The right to freedom of speech relies on media that are not subjected to government interference.

As the citizens of a democracy, Australians value freedoms which may not be enjoyed in some other countries. Democratic government is about 'government by the people', and in order to make choices about representatives and hold them accountable, modern democracies require a well-informed citizenry. The media plays an important role in this process by providing information, commentary and opinion. In so doing, it shapes our understanding of the world and influences our decision-making.

Source: Education Services Australia (2018).

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ACTIVITY 10.15 Research

Public debate

1 Using an online news service, prepare a report on an issue that has caused a great deal of public debate, such as:
   - constitutional recognition of Aboriginal and Torres Strait Islander peoples
   - climate change
   - cybersecurity
   - equal pay for women
   - asylum seekers
   - another issue of your choice, chosen in conjunction with your teacher.

2 In your report, describe the issue, identify the key stakeholders, describe what they believed and why, and examine the role of the media in promoting this issue. To conclude, explain the government's response to the issue.

CASE STUDY 10.4

Freedom of political speech

Freedom of political communication was determined by the High Court in *Australian Capital Television Pty Ltd v The Commonwealth (No. 2)* (1992) 66 ALJR 695, also known as the *Political Advertising Case*.

The High Court found that the Australian Constitution contains an implied right to free political communication, which is necessary for the effective functioning of the representative government that is established by the Constitution.

The case concerned new Commonwealth legislation, which sought to substantially control political advertising on radio and television. In general terms, judges indicated that, as our Constitution established a system of representative government, free political communication was necessary for that system to operate properly.

This protects the rights of people to express opinions on parliamentary or political affairs – including the political views and public conduct of people who are engaged in activities that have become the subject of political debate. It limits the ability of parliaments to restrict free political communication, rather than guaranteeing the rights of individuals.

Several cases have discussed the extent of this right; however, in *Lange v Australian Broadcasting Corporation* (1997) 189 CLR 520, the High Court decided that the implied right to freedom of political communication was required by sections 7, 24, 64, 128 and other related sections of the Constitution. There is no absolute right to freedom of communication, only a right in regard to matters that can be described as 'political communications'.

Questions

1 What is meant by the term 'political communication'?

2 Discuss the impact of the *Political Advertising Case* on the ability of the media to remain free. How do you think this case promotes democratic government?

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Opinion polls

An **opinion poll** is a snapshot of what voters think on a specific issue or political party, and these undoubtedly influence politicians. On one occasion, Malcolm Turnbull said he wasn't interested in opinion polls, but in 2015 he used the fact that the government had lost 30 sequential Newspolls to argue against his predecessor as Prime Minister: 'It is clear that the people have made up their mind about Mr Abbott's leadership.'

GLOSSARY

Opinion poll a snapshot of the views of voters on a specific issue or political party



FIGURE 10.30 Opinion polls may reflect the views of the voters with regard to political issues and party preferences.

Many opinion polls are published during a government's term, and these increase in frequency during an election campaign. It is suggested that when voters see or hear the results, many Australian citizens could believe that their fellow punters are equally split, at least in terms of their voting intentions.

The impact of political opinion polls on the everyday voter is complex. There are a number of factors that can play a part.

The first is known as 'the bandwagon effect'. This is where people vote for the party they believe will win the election. If the trends in social media suggest that an election has already been won, the bandwagon effect is greater still.

The second, which is more recent, is the use of sports betting to predict election results. The psychology of betting can be compared with the psychology of the election. The trends in sports betting, though, have heightened this psychology further by declaring the winners of an election before the election is even held. Therefore, political opinion polls will not always be a true reflection of broader public opinion. This is not to say that political opinion polls have no effect on voter intentions, or on those who attempt to influence the outcome of an election, such as Sportsbet.

REVIEW 10.10

1 Explain the importance of opinion polls in determining policy or even government.
2 Describe the bandwagon effect.
3 What role can sports betting play in predicting an election?

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ACTIVITY 10.16 Research

Opinion polls

Find an example of a recent opinion poll in the media. You may need to look at the political news section. Answer the following questions:

1. Explain the topic of the poll.
2. Draw up a column graph of the results of the poll.
3. Discuss the reasons for the results of the poll.
4. To what extent do you agree with the results? Explain your views.

CASE STUDY 10.5

The Trump effect

Sometimes opinion polls just get it wrong. A good example of this occurred in the 2016 US presidential election, where Republican presidential nominee Donald Trump became the president of the United States. Many of the polls were predicting a Hillary Clinton victory. There have been a number of explanations for the US opinion polls being so inaccurate. Some commentators believe that there was a Brexit influence, or backlash, against the current political establishment. Perhaps voters had just had enough of the current political system and voted against the established or recognised candidate, Clinton. Another reason also put forward for the inaccurate polls was that very few citizens wanted to own up to voting for Trump. He was unpopular in the mainstream media, so those who voted for him did not make their intention known to opinion polls.



FIGURE 10.31 US President Donald Trump

1. To what extent were opinion polls accurate in the US presidential election? In your response, provide an opinion about why this occurred.

Government advertising campaigns

The government is able to 'use advertising campaigns designed to inform, educate, motivate or change behaviour'. The government must follow a number of guidelines when advertising its policies, including the following:

- Campaigns should be relevant to government responsibilities, such as providing 'information on government programs or services' to which the public are entitled – for example, Centrelink.
- 'Campaigns should be presented in an objective, fair and accessible manner, and be designed to meet the objectives of the campaign.'

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- 'Campaigns should be objective and not directed at promoting party political interests.' For example, they 'must not mention the party in government by name' or include party political slogans or images.
- 'Campaigns should be justified and undertaken in an efficient, effective and relevant manner.' This means that advertising activities should be cost effective and justifiable within the budget allocated to the campaign.
- 'Campaigns must comply with legal requirements and procurement policies and procedures', such as compliance with all relevant laws including broadcasting and media, privacy and electoral laws.

Source: Department of Finance, *Guidelines on Information and Advertising* (2014).



ACTIVITY 10.17 Research

Government advertising

Find a current government advertisement. Apply the government guidelines and illustrate how they apply.

GLOSSARY

Interest group an organised group of people who share interests in common

Interest groups

Interest groups attempt to exert pressure on governments or in the political debate. They can do this through face-to-face access to ministers or through advertising their position to influence public opinion. This is particularly effective during election campaigns. The methods that interest groups use to influence government include:

- hiring lobbyists
- running campaigns during elections to put pressure on the major political parties
- networking and gaining access to ministers or senior public servants by running publicity campaigns
- using their expertise in a particular area to garner community support on matters of policy
- using oppositional or protest power to pressure governments by disrupting the public
- interacting with the media
- galvanising members via non-traditional means such as social media to pressure parliament.

Interest groups have become far more sophisticated at finding ways to influence governments. However, they tread a fine line, as interest groups may not be successful if their views are too radical. Sometimes the methods and strategies used may harm their approach, which leads to a lack of public support. In recent times, interest groups have used lobbying as a way to promote their interests.

REVIEW 10.11

1 Define the term 'interest group'.
2 Describe the role played by interest groups in our political process.

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ACTIVITY 10.18 Collaborate

Interest groups

Interest groups can use many methods to influence government. In pairs, copy the following table in your notes and discuss the strategies used by various interest groups.

Strategy	Identify a current example of an interest group attempting to influence government	Discuss the effectiveness of the influence by the interest group on government
Hiring lobbyists		
Running campaigns during elections		
Networking with ministers or public servants		
Publicity campaigns		
Using expertise to garner community support		
Using oppositional or protest power		
Interacting with the press		
Galvanising members via social media		

ACTIVITY 10.19 Research

GetUp!

This activity is available in the online version of the textbook.

Social media and fake news

Social media include many platforms such as Facebook, Instagram and Twitter. These forms of communication provide citizens with up-to-date information on current events. They provide an opportunity for active citizenship – in other words, sharing views and opinions about issues that affect people directly, as well as forming groups and networks to influence government.

The use of social media in political campaigns is now an important part of the way political parties influence how people think about issues. Political parties and candidates regularly post their views on social media platforms. Each political party has its own social media accounts, and provides content on a range of platforms.

GLOSSARY

Social media online applications that enable the sharing of views, opinions and social networking

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FIGURE 10.32 Many interest groups use social media platforms.



FIGURE 10.33 The rise of social media has influenced the 24-hour news cycle.

The internet, social media and politics have collided in some interesting ways over the last few years. Some countries around the world have trialled the idea of online voting. Imagine a situation whereby, prior to casting their vote, a voter has access to their social media account and is bombarded with views and opinions online prior to voting.

The 24-hour news cycle

One of the ways in which social media have influenced politics is through the 24-hour news cycle. Prior to the advent of social media and the internet, members of the community consumed political issues in traditional ways, such as printed newspapers, TV news services or talkback radio, all of which discussed events that had happened over the past 24 to 48 hours. However, with the use of social media and online news services, people can consume news and political issues as they break, anytime, anywhere. There is no need to wait, and this provides political organisations with trending news stories and opinions.

Targeting your audience

Members of parliament use social media to target their message to a specific audience. This is done to great effect by Google, Facebook and their competitors. A great deal of data is collected, which can lead to the personalisation of messages. This is known as 'internet of you' – that is, technology tailored to you personally, with your own data driving the experience. Members of parliament use their social media accounts to target messages to specific audiences. For example, if a politician wants to be re-elected and there are issues of crime against the elderly, then they will target the older audience. In this case, it seems that the parliamentarian is talking directly to the affected individuals.

Polls, polls and more online polls

Polls, polls and more polls. Not only do the media report on opinion polls, they now report on online polls from a range of social media platforms. These polls have increased in number due to the ease of collating a multitude of opinion polls on any issue, at any time. As we saw earlier in this chapter, opinion polls can impact an election through the bandwagon effect or sports betting odds. The effect of political opinion polls on voters is a complex matter, however, they do place pressure on candidates to respond to polling and their results, favourable or otherwise. In the future, social media will make it much easier to poll opinions quickly and accurately.

Direct contact with members of parliament

Before social media, Australians used methods such as writing to or visiting a member of parliament, when they were in their office, to discuss particular subjects (such as same-sex marriage, social services or education). Contact details of members of parliament are available on the Parliament House website. However, social media have made contact with politicians far more accessible. Many of these members of parliament have a Facebook page or Twitter account, and respond quickly to the concerns of their constituents. On some occasions, voters are able to attend online streaming events where they can interact with the politicians and answers are virtually instant.

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Fake news: The first casualty of an election campaign is the truth

It is often stated that 'the first casualty of war is truth'. This also applies to the use of social media in an election campaign. In some cases, it can now be stated that 'the first casualty of an election campaign is the truth'. This is mainly due to the proliferation of what has been termed **fake news**. Stories in an election campaign can take hold like a bushfire. True or not true, social media can spread this story through many platforms. Unfortunately, social media can make the distinction between truth or rumour very confusing, and in some cases almost impossible. Social media rely on the links between people. For example, if a reader receives a post from a friend or colleague that they trust, there is an assumed expectation that it must be true.

GLOSSARY

Fake news the sharing of views, opinions, rumours and gossip in the guise of genuine news on social media



FIGURE 10.34 Prime Minister Malcolm Turnbull triggers a social media storm.

Organisations also use the fake news strategy to mislead readers or to place pressure on a member of parliament to respond to a particular story or policy position. In this case, they can then attack the position stated or mount a defence. This in turn places greater pressure on the politician to respond carefully.

Imagine the following headline: 'Irresponsible: Why Malcolm Turnbull's footy photo is causing a huge backlash'. Facebook and Twitter provided plenty of opportunity for social media users to comment on this photo (Figure 10.34). Unfortunately, many of these comments were undesirable. This led the Prime Minister to respond to the negative comments made about the photo that was taken of him holding his granddaughter at the football while simultaneously holding a beer in his hand. Social media provide everyone with the opportunity to express an opinion.

Group think

The friends you have on social media platforms most likely share a number of common factors and views. When an opinion is shared, it is not unreasonable to expect that a high majority of the people on that site will agree with the view expressed. In terms of politics, we tend to follow people, groups or parties with which we agree, therefore reinforcing our view. In this case, social media can give the impression that we all think the same way. In terms of controversial political issues, social media can make it difficult for people to express an alternative viewpoint. Can you remember the social media exchanges that occurred on the issue of marriage equality during the 2017 postal survey.

REVIEW 10.12

1. Explain what is meant by the 24-hour news cycle? How has this changed the way we consume news and political issues?
2. Provide an explanation for, and an example of, the way social media can target individual audiences.
3. Explain why it is easy and effective to run online polls. Have you provided your opinion to an online poll? If so, describe the poll and explain how it was done.
4. How effective do you believe social media are in providing direct contact to members of parliament?
5. Define 'fake news' and explain its impact on politics in Australia.

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CONSOLIDATE YOUR LEARNING

Different political systems

1 The ancient Greeks were the first to establish a democracy. This system of government has become very popular around the world; however, it is not the only system that governs the lives of people. Find out more about different political systems. Using text-based resources, the internet or another source such as a political dictionary, explain the following terms and provide examples.

Type of government	Explain this type of government	Countries that use this style of government
Autocracy		
Communism		
Constitutional monarchy		
Despotism		
Dictatorship		
Monarchy		
Oligarchy		
Socialism		
Totalitarian		
Other …		

2 Choose two countries from the third column of the table you completed in Question 1. Using your own knowledge and additional research, compare and contrast the key concepts of government in Australia with those of the two countries to complete the following table.

	Australia	Country 1	Country 2
Strategies on representing the views of the people			
Political representation, such as political parties, an opposition, etc.			
Constitution			
Decision-making, such as parliamentary majority			
Checks and balances, such as bicameralism, separation of powers, etc.			

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3 Fill out the following table, which outlines the civic knowledge required to understand our system.

Political system	Australia
What is the full title of our constitution?	
When did Australia become a nation?	
How many levels of government exist in Australia? Name them.	
Name the three arms of government.	
What is the role of the federal parliament?	
How many politicians make up the federal parliament?	
Identify the head of state.	
Who is the Governor-General?	
Other than Royal Assent, name two functions of the Governor-General?	
What is the upper house of the federal parliament called?	
How many members are elected to the upper house?	
What electoral system does the upper house of the federal parliament use?	
For how many years is an upper house politician elected to parliament?	
What is the lower house of the federal parliament called?	
How many members are elected to the lower house?	
What electoral system does the lower house of the federal parliament use?	
For how many years is a lower house politician elected to parliament?	
What electorate do you live in?	
Who is your local member of the federal parliament?	
Name the Prime Minister.	
Do you know what COAG is?	
Describe the role of COAG.	
What is the local council called in your area?	
What is the local council responsible for, and what types of laws can it make? Provide three examples.	
Name the highest court in our country and state how many judges sit in this court?	
Name the last three Prime Ministers in chronological order.	

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Political parties in Australia

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FIGURE 10.35 Placards outside voting centres display the number of political parties from which citizens can choose during elections.

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FIGURE 11.1 Supreme Court of Victoria

Chapter 11
Law, courts and justice

This chapter explores the key features of Australia's court system, including the jurisdictions of the courts and the operation of tribunals. It examines the role of the courts in applying and interpreting laws, resolving disputes and making law through judgments. It also investigates the role of the High Court in interpreting the Australian Constitution. Emphasis is placed on the key principles of the Australian justice system: equality before the law, the independence of the judiciary and the right of appeal. Throughout this chapter, students investigate contemporary issues and examine recent cases.

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11.1 Key features of Australia's court system

The courts perform two essential functions in the community:

- they deal with wrongdoers
- they provide a means of resolving disputes between individuals.

Decisions made by the courts are final.

GLOSSARY

Hierarchy a ranking in order

Appeals when a higher court reviews the decision of a lower court

Doctrine of precedent the legal rules governing the application of precedents

Court hierarchy

The system of courts is organised as a **hierarchy**, or a ranking in order. Courts are ranked according to the types of cases they hear and determine. Some courts operate at a federal level. These courts hear cases throughout Australia. Some courts operate at a state level. These courts only hear matters relating to a particular state.

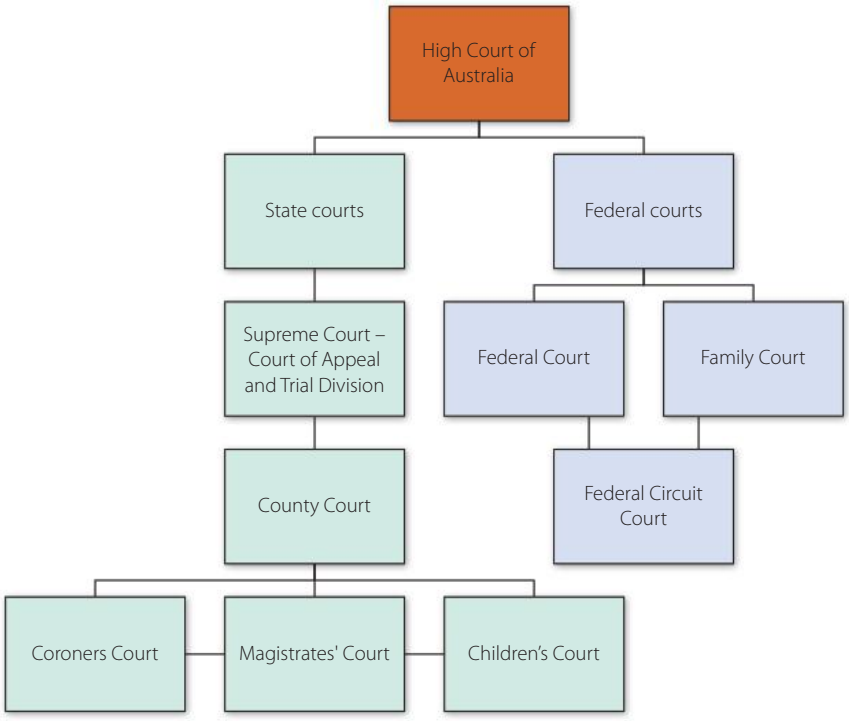


FIGURE 11.2 Court hierarchy

Organising our courts in a hierarchy has a number of advantages, including:

- **Appeals**. **Appeals** provide for higher courts to review the decisions made by lower courts. A system of appeals is essential to the concept of natural justice and fairness. A system of appeals could not exist without a court hierarchy.
- **Precedent**. A hierarchy of courts is essential to the operation of the **doctrine of precedent**. By referring to past decisions as a guide to determining what the law should be, courts provide consistency. The operation of the doctrine of precedent is discussed in more detail later in this chapter.
- **Specialisation**. Courts can develop special processes and procedures to deal with specific types of disputes. For instance, the Children's Court uses procedures that take into account the age of the children with whom it is dealing. Having specialist courts also allows judges and magistrates to develop expertise in dealing with specific types of disputes.

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- **Administrative convenience.** A hierarchy of courts provides for an administrative structure that allows cases of a similar nature to be heard by a particular court. This allows for the effective allocation of appropriate resources and personnel.

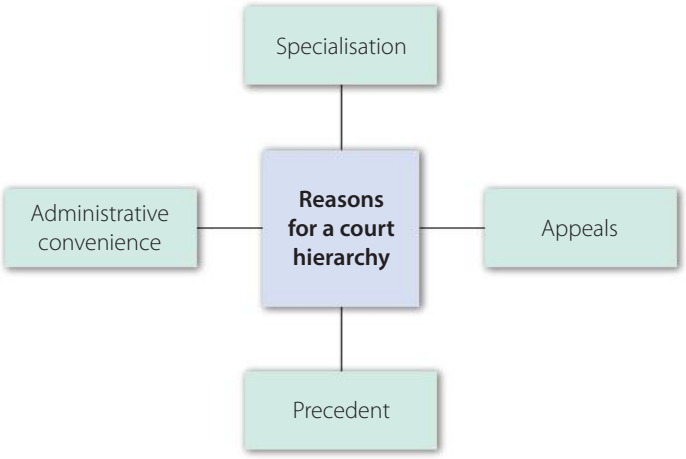


FIGURE 11.3 Reasons for a court hierarchy

Court jurisdictions

The power of a court to hear and determine a case is known as the court's **jurisdiction**. Each court within the hierarchy has its own jurisdiction. A court can be described as having original and/or appellate jurisdiction:

- **Original jurisdiction.** The court has the power to hear and determine a case in the first instance – that is, the case has not been heard and determined in another court.
- **Appellate jurisdiction.** Some courts also have an appellate jurisdiction. This means that they have the power to review the decision made in a case by another court.

There are two main types of law: criminal law and civil law. Courts can also be described as having either criminal or civil jurisdiction:

- **Criminal jurisdiction.** Criminal jurisdiction is the power of a court to hear and determine a criminal case.
- **Civil jurisdiction.** Civil jurisdiction is the power of a court to hear and determine a civil matter.

Criminal law

Criminal law is concerned with cases in which a person has committed an offence against the wellbeing of the community. It includes offences against:

- **the state**, such as treason or sabotage
- **a person**, such as murder or assault
- **property**, such as theft or damage
- **public order**, such as traffic offences and abusive language.

Criminal offences are classified according to the seriousness of the offence. Less serious offences are referred to as **summary offences**. They include offences relating to public order, speeding offences and jaywalking. The more serious offences are referred to as **indictable offences**. These are the more serious crimes that are heard before a judge and jury. Indictable offences include theft and homicide.

GLOSSARY

Jurisdiction the right, power or authority to administer justice by hearing and determining disputes

Summary offences minor offences heard by a magistrate

Indictable offences serious offences that are heard before a judge and jury

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GLOSSARY

Defendant a person against whom either a criminal or civil matter is taken to court; someone charged with a criminal offence in a court

To prosecute someone is to accuse them of a crime and take them to court, in order for the court to determine their guilt or innocence. A person being prosecuted for a criminal offence in court is known as the **defendant** or accused. People accused of committing a crime are considered to be innocent until proven guilty. This means that it is up to the prosecution to prove that the accused is guilty.

EXAMPLE

Senseless deaths lead to coward punch laws

It is called the coward's punch or the king hit: death caused by one unprovoked punch to the head.

There have been numerous cases of death being caused by a punch to the head. Many shock the community, such as a surgeon going into a coma when punched outside a hospital because he allegedly asked a man to stop smoking near the entrance.

Heart surgeon Patrick Pritzwald-Stegmann, 41, died almost a month after he was punched at the entrance to Box Hill Hospital. Joseph Esmaili, 22, of Mill Park was charged with intentionally causing serious injury. Appearing in court, he did not apply for bail and was remanded in custody.

David Cassai, 22, was killed in an unprovoked attack by an 18-year-old in Rye in 2012. Dylan Closter pleaded guilty to assault and was sentenced to nine years and three months' jail, with a non-parole period of six years.

Cassai's death led to state parliament passing the *Sentencing Amendment (Coward's Punch Manslaughter and Other Matters) Act 2014* (Vic), which ensures that adult offenders who cause death by inflicting a coward's punch or in circumstances of gross gang violence will go to jail for at least 10 years.

Similarly, the NSW Government acted following the death of Thomas Kelly, 18. Thomas was walking along a Kings Cross street with his girl friend when he was struck by a fatal blow. The assailant, Kieran Loveridge, was sentenced to four years' jail for manslaughter but the NSW Court of Criminal Appeal found the sentence to be 'manifestly inadequate' and made it a minimum of 10 years. The NSW Government bowed to public pressure and introduced stricter mandatory sentencing laws for violent offences fuelled by drugs or alcohol.

A 2013 Monash University study found that more than 90 Australians had died following one-punch assaults. This figure continues to rise.

GLOSSARY

Contract a legally binding agreement

Civil law

Civil law is concerned with cases in which there is a dispute between two private individuals. (For the purpose of the law, a corporation or a company is considered to be an individual.) The courts hear civil cases in order to determine the rights of individuals and to settle the dispute. Examples of civil cases include:

- ownership of property
- **contracts** or other legally binding agreements
- divorce.

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EXAMPLE

Actor wins defamation case



FIGURE 11.4 Actress and comedian Rebel Wilson

Film actor Rebel Wilson won Australia's biggest-ever defamation case against international media company Bauer Media.

She was to be paid $4 567 472, reportedly four times the previous record for an Australian defamation case. However, the case was appealed and Ms Wilson ordered to return the majority of the funds, including interest.

Ms Wilson alleged that eight articles – published in *Woman's Day, Australian Women's Weekly, New Weekly* and *OK!* – claimed she was a serial liar about her name, age and childhood in order to make it to Hollywood.

The star of *Pitch Perfect* further claimed that the articles resulted in her failing to get several lead roles, as well as being sacked from two films, *Kung Fu Panda 3* and *Trolls*.

A six-woman jury spent two days deliberating, during which they considered 40 questions about the articles. The jury found that the eight articles portrayed Wilson as a serial liar, that each article was substantially untrue and that Wilson had suffered serious harm because of their publication.

Justice Dixon concluded that a large award of damages was necessary in order to vindicate Ms Wilson, stating:

> Only a substantial sum in damages could convince the public that Ms Wilson is not a dishonest person and bring home the gravity of the reputational injury established before the jury. In the full media glare, Bauer Media's defence of this case attempted to characterise its articles as true or as trivial or not likely to be taken seriously. Unless substantial damages are awarded there is a real risk that the public will not be convinced of the seriousness of the defamation, but will rather wrongly conclude that the articles were trivial or not that serious. The jury comprehensively rejected the defences and only a substantial damages award can now vindicate the plaintiff.
>
> Justice Dixon found that the conduct of the defendants in the circumstances of the publication entitled Ms Wilson to an award of aggravated damages. For that reason, the cap on general damages in defamation proceedings (currently $389 500) imposed by the *Defamation Act 2005* (Vic) did not apply.
>
> *Source:* Supreme Court of Victoria (2017).

The damages awarded against Bauer Media Pty Ltd and Bauer Media Australia Pty Ltd by Justice John Dixon consist of:

- $650 000 in general damages, including aggravated damages, and
- $3 917 472 in special damages for Ms Wilson's opportunity for new screen roles lost by reason of the defendants' publications.

Ms Wilson said she would donate the money to the Australian film industry and to various charities.

In June of 2018, the Victorian Court of Appeal set aside the decision as it found 'there was no basis in the evidence for making any award of damages for economic loss'. It also found that Justice Dixon had made a number of 'critical inferences' in regards to the trajectory of Ms Wilson's career that 'could not be upheld'.

An important area of civil law is known as **torts**. Tort is a French word meaning 'wrong'. A tort is a wrongful act committed by one individual against another. Examples of torts include:

- **negligence** – failing to take adequate care that your acts or omissions do not adversely affect another person

GLOSSARY

Tort a civil wrong

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- **nuisance** – causing an obstruction, inconvenience or damage to property
- **defamation** – harming a person's reputation
- **trespass** – entering another person's property without permission, handling another person's possessions without permission, threatening to attack or harm a person (this is also known as a civil law assault).

REVIEW 11.1

1 Read the section describing criminal law and the example about coward punches. Prepare a list of words that are used when describing criminal offences. What other terms do you associate with criminal law?
2 Read the section describing civil law and the Rebel Wilson example. Prepare a list of words that are used when describing civil matters. Are there any other terms that you associate with civil law?

ACTIVITY 11.1 Research

Create a folio

This activity is available in the online version of the textbook.

11.2 Victorian state courts

Courts in the Victorian court hierarchy include the Magistrates' Court, the County Court and the Supreme Court (including the Supreme Court – Court of Appeal). Specialist courts have also been established to deal with specific types of cases such as the Children's Court and the Coroners Court.



FIGURE 11.5 The Magistrates' Court of Victoria

The Magistrates' Court

The Magistrates' Court hears relatively minor cases. In criminal matters, this court deals with minor or summary offences. In civil matters, it deals with most disputes over money up to the value of $100 000.

Criminal jurisdiction

The criminal jurisdiction of the Magistrates' Court of Victoria hears and determines all summary offences and some indictable offences. Summary offences are offences of a less-serious nature, such as traffic offences, property damage and offensive behaviour.

The Magistrates' Court also conducts **committal hearings** in relation to indictable offences. A committal hearing is held to determine whether there is sufficient weight of evidence to support a conviction by a jury in a higher court. If a magistrate is satisfied that there is sufficient evidence to justify a conviction in a higher court, the defendant will be sent to trial in either the County Court or the Supreme Court.

GLOSSARY

Committal hearing a hearing to determine whether there is sufficient evidence to obtain a conviction in a higher court

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Some indictable offences may be heard and determined by a magistrate with the accused's consent. This process is known as 'indictable offences heard summarily'. Indictable offences that can be heard summarily are listed in the *Criminal Procedure Act 2009*, and include burglary and theft where the amount does not exceed $100 000. Not all indictable offences can be heard summarily. For example, the indictable offences of murder and rape must be heard in a higher court.

***Criminal Procedure Act 2009*, section 28**
Indictable offences that may be heard and determined summarily

1 A charge for any of the following indictable offences may be heard and determined summarily by the Magistrates' Court, if section 29 is satisfied:
   - **a** an offence referred to in Schedule 2
   - **b** an indictable offence under an Act or subordinate instrument or an offence at common law if the offence is described by an Act or subordinate instrument as being –
     - **i** a level 5 offence or level 6 offence; or
     - **ii** punishable by level 5 or level 6 imprisonment or fine or both; or
     - **iii** punishable by a term of imprisonment not exceeding 10 years or a fine not exceeding 1200 penalty units or both – unless the contrary intention appears in this or any other Act or in any subordinate instrument.

Bail applications

The Magistrates' Court also hears **bail** applications. Bail provides for the release of a person who has been charged with offences and held in **custody** on the undertaking that they will appear in court on a date set. Although in many cases bail is granted to a defendant on 'their own undertaking', conditions can be placed on bail to ensure that the defendant appears in court or does not constitute a risk to the community. If a person charged with an offence is not granted bail, they will be held on remand in custody.

GLOSSARY

Bail to allow a person charged with a criminal offence to be released from police custody until the trial starts

Custody legal authority to control, detain or care for a person

Are you entitled to bail?

The granting of bail is consistent with the concept of being innocent until proven guilty. A person who has been charged with an offence is not guilty until found guilty by a court. They are therefore entitled to their liberty unless there is a good reason not to release them. Bail applications can be heard by the Magistrates' Court or, in some circumstances, by the officer in charge of a police station or a bail justice.

Civil jurisdiction

The civil jurisdiction of the Magistrates' Court is determined by the monetary value of the case. The Magistrates' Court will hear civil matters up to the value of $100 000. Note that juries are not used in the Magistrates' Court. Civil matters heard by the Magistrates' Court include claims for debts, breach of contract, damage to property, fencing disputes and claims for compensation for workplace injuries.

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CASE STUDY 11.1

Victoria's Drug Court is a success

Victoria's Drug Court – a division of the Magistrates' Court – is designed to keep people out of prison. It focuses on rehabilitation of offenders with a drug or alcohol dependency and helps in reintegrating them into the community. The Justice Department is also trialling a Family Drug Treatment Court as part of the Children's Court.

The operation of the Drug Court is straightforward: drug users who have committed non-violent crimes can opt for an intensive treatment program if they plead guilty. The treatment order, which is the responsibility of the Drug Court Magistrate, has conditions attached. If the conditions are broken, the order results in sanctions or a cancellation of the order, leading to a prison term.

The court's process starts with a screening to determine the offender's suitability to participate in the Drug Treatment Order. If it happens that the Drug Court magistrate deems that the offender is unsatisfactory, they can sentence the offender or refer them to the Magistrates' Court to be sentenced. The next part of the process is assessment – an intensive inspection of multiple factors relating to the offending behaviour of the participant. This leads to the development of plans that will respond to the treatment of the offender and any case-management needs that are necessary.

The supervisorial component of the order lasts for two years or until that part of the order is annulled under the *Sentencing Act 1991* (Vic).

After the success of the inaugural Drug Court at Dandenong, the Melbourne Magistrates' Court established its own Drug Court.

One way to measure the success of the Drug Court is to examine the rate of reoffending or 'recidivism'. According to the Victorian Alcohol and Drug Association, people who complete drug treatment orders have a recidivism rate 25 per cent lower than other drug offenders. People are twice as likely to be in full-time employment after completing drug treatment orders.

The Family Drug Treatment Court (FDTC) aims to help defendants who are parents stop using drugs and alcohol, and promote family reunification. The court is chaired by a Children's Court magistrate and is supported by a multi-disciplinary team. Upon being assessed as suitable for the FDTC, parents must attend court as required, be drug tested up to three times a week, attend treatment appointments that may include residential rehabilitation programs and play their role in a Family Recovery Plan.

The program involves working with various agencies providing services, such as accommodation, drug and alcohol counselling, mental health counselling and parenting programs.

Questions

1. Explain how the Drug Court functions as part of the Magistrates' Court.
2. What evidence is presented in the case study to indicate that the Drug Court process is successful?
3. How has the Drug Court process been adapted for use in the Children's Court?



FIGURE 11.6 The Drug Court places a focus on rehabilitation in the hopes of reintegrating them into the community.

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ACTIVITY 11.2 Create

The Magistrates' Court

Explore the virtual tour of the Magistrates' Court in the online version of the textbook.

1 Based on the virtual tour, sketch the floor plan of the courtroom.
2 What roles do the various people in the courtroom play? Label where each participant sits.

ACTIVITY 11.3 Research

Cases in the Magistrates' Court

1 Collect five newspaper articles about cases heard in the Magistrates' Court. Copy the following record into your workbook using the newspaper articles collected.

Name of defendant	Criminal charge or civil matter	Summary of facts of the case	Outcome

2 Write a report that addresses the following questions:
- **a** What was the most common criminal offence heard by the court?
- **b** Were most of the offenders male or female?
- **c** What sort of outcomes were reached in the cases about which you collected articles?
- **d** Did you agree with the outcomes in the cases described in the articles you collected? Explain.

County Court

The County Court has both a criminal and a civil jurisdiction. It also has the power to hear appeals.

Criminal jurisdiction

The County Court hears the more serious criminal matters, but not the most serious offences such as murder, which are heard in the Supreme Court. The County Court is presided over by a judge. Juries may also be used when the defendant pleads not guilty. A jury in a criminal case has to decide the guilt or innocence of the defendant.



FIGURE 11.7 The County Court of Victoria

Civil jurisdiction

The County Court can hear civil cases involving unlimited amounts of money. In civil matters, a jury will be used if one of the parties requests it. In a civil matter, the jury must decide who is liable and/or the level of damages to be awarded. (In defamation cases, juries cannot determine the level of damages.)

Appellate jurisdiction

The County Court also hears appeals against conviction or sentence (severity or leniency) in criminal matters that were heard in the Magistrates' Court.

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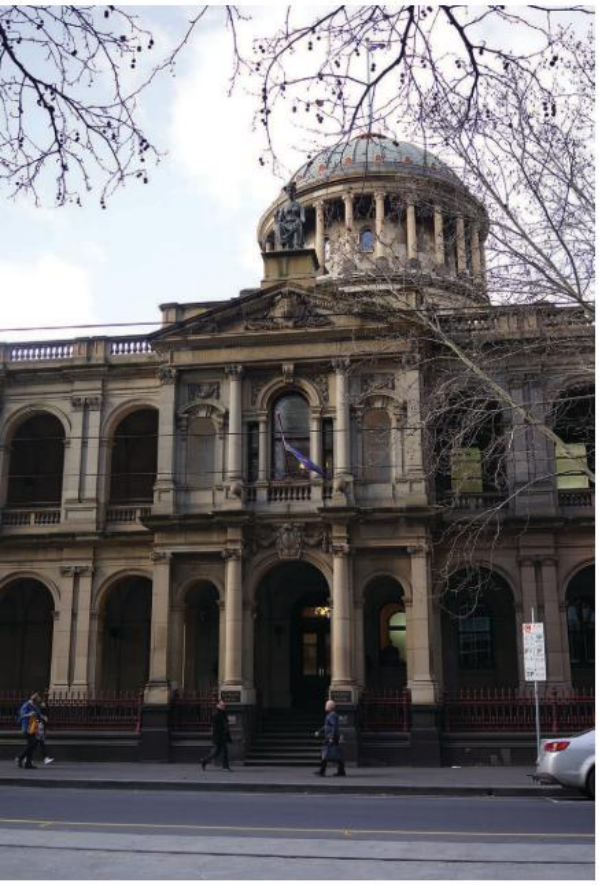


FIGURE 11.8 The Supreme Court of Victoria

Supreme Court

The Supreme Court is divided into a Trial Division and a Court of Appeal. The Supreme Court is the highest Victorian court and the decisions of the Supreme Court can only be reviewed by the High Court of Australia.

Trial Division

The Trial Division has both a criminal and a civil jurisdiction. The criminal jurisdiction of the Trial Division is to hear the most serious criminal cases such as murder and attempted murder. A judge and jury hear all cases in which the defendant pleads not guilty. The jury will make the final decision regarding guilt or innocence and the judge will determine the sanction. The civil jurisdiction of the Trial Division includes civil actions for unlimited amounts or involving complex legal issues. The Trial Division can also hear appeals from the Magistrates' Court on a point of law.

Supreme Court – Court of Appeal

The Court of Appeal hears appeals from the County Court or the Supreme Court – Trial Division in both criminal cases and civil matters. Three judges (known as 'judges of appeal') usually hear appeal cases. If an appeal is successful, the Court of Appeal may:

- order a retrial of the case
- change the decision (such as reducing or increasing a sentence).

Alternatively, the Court of Appeal may decide that there has not been an error made by the earlier court and uphold the decision of the earlier court.

ACTIVITY 11.4 Research

Cases in the Supreme Court and County Court

1 Collect newspaper articles discussing cases in the Supreme Court and County Court. For each article, discuss:
   - **a** the facts of the case
   - **b** whether it is a criminal or civil case
   - **c** the jurisdiction of the court involved
   - **d** the outcome of the case.

State courts with special functions

In addition to the Magistrates' Court, County Court and Supreme Court, specialist courts have evolved to deal with specific matters. These courts feature processes and procedures that are specific to the different types of matters that they hear.

Coroners Court

The Coroners Court is a specialist court responsible for investigating reportable and reviewable deaths and fires and for reducing preventable deaths.

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The Coroners Court also has a role in promoting public health and safety in the community. The Coroners Court has the responsibility to (where possible):

- identify the deceased
- determine the cause and circumstances of reportable deaths
- determine the cause and origin of reportable fires.

Reportable deaths include instances where:

- the death appears to have been unexpected, unnatural or violent or to have resulted, directly or indirectly, from an accident or injury
- the death occurred during a medical procedure, or following a medical procedure where the death is or may be causally related to the medical procedure and a registered medical practitioner would not, immediately before the procedure was undertaken, have reasonably expected the death to occur
- a medical practitioner has not signed, and is not likely to sign, a death certificate certifying the cause of death
- the person, immediately before their death, was a person placed in 'custody or care'
- the person, immediately before their death, was a patient within the meaning of the *Mental Health Act 1986*
- the person was under the control or custody of the Secretary to the Department of Justice and Regulation or a member of the police force
- the person was subject to a non-custodial supervision order under section 26 of the *Crimes (Mental Impairment and Unfitness to be Tried) Act 1997*.

Source: Coroners Court of Victoria (2013).

A 'reviewable death' is the death of a second or subsequent child of a parent (with some exceptions). A child is defined as anyone under the age of 18 years. The child must have died in Victoria, or the cause of death must have occurred in Victoria, or the child must have lived in Victoria but died elsewhere.

The Coroner will investigate a reportable fire after receiving a request to investigate from the Country Fire Authority or Metropolitan Fire and Emergency Services Board.

The Coroner can make recommendations on any matter connected with a death or fire. In making recommendations, the Coroner may influence changes in the law and public policies. The Coroner can make recommendations to public statutory bodies. If the Coroner makes such a recommendation, then that body must respond within three months, stating what action, if any, has been taken.

CASE STUDY 11.2

Drowning of a child under 12 years of age

The Coroner's investigation

The Coroner's investigation revealed that although BP had swimming lessons while at primary school, he was not a good swimmer and was fearful of deep water. The beach where he was playing was described as shallow with a sand bank 10 metres from shore.

The water gained depth between two sandbanks to reach a depth above a child's head. Drowning is the leading cause of death of children aged 0–14 years. A recent report from Life Saving Victoria estimated that three out of five children are leaving primary school without the ability to swim to basic standards, defined as being able to swim 50 metres or stay afloat for two minutes.

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What the Coroner found

The Coroner noted neither the state curriculum Australian Victoria Essential Learning Standards (AusVELS) nor the Australian Curriculum, the two curricula applicable to Victorian schools, had water safety education or swimming lessons as part of the compulsory curriculum.

Agreeing with the recommendation in the Life Saving Victoria report *Sink or Swim: the State of Victorian Primary School Children's Swimming Ability,* the Coroner recommended that swimming and water safety education should be a compulsory skill taught within the primary school curriculum to all Victorian children. The response from the Commonwealth Department of Education and Training recognised the importance of water safety skills. It indicated that the Australian Curriculum allows state and territory education authorities to deliver programs, such as water safety skills, should they choose to implement the curriculum in this way.

The response from the Victorian Department of Education and Training supported the recommendation that swimming instruction and water safety education be part of the curriculum in all Victorian primary schools.

It noted that swimming skills are within AusVELS; however, schools make local decisions about how they will implement this curriculum. The Department indicated that it does not collect data about the implementation of swimming instruction in Victorian government schools.

What has been done as a result?

As a result of the Coroner's recommendation, the Department indicated its commitment to taking a range of actions to promote and encourage swimming instruction and water safety education in Victorian government schools.

It also indicated that it would inform the Catholic Education Commission of Victoria, Independent Schools Victoria and other school system owners of the Coroner's recommendation and the Department's response.

Source: Coroners Court of Victoria, *2016 Annual Report.*

Questions

1. Briefly outline the facts of this case.
2. Why was the case heard by the Coroners Court?
3. Outline the Coroner's role in relation to this case.
4. What issues did the Coroner identify and what action has been taken in relation to those issues?

Children's Court

The Children's Court is a special court that has been established to deal with matters relating to young persons. The Children's Court is divided into two divisions: a Criminal Division and a Family Division.

The Criminal Division of the Children's Court hears cases where the defendant was aged between 10 and 17 years when they committed the crime and under the age of 19 years on the date of the trial. The Criminal Division of the Children's Court may deal with all charges except:

- murder
- attempted murder
- manslaughter
- child homicide
- arson causing death, and
- culpable driving causing death.

Source: Children's Court of Victoria (2018).

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The Children's Court conducts the committal proceedings in relation to young people charged with these offences. Young offenders charged with murder are tried in the Supreme Court due to the serious nature of the alleged offence.

When are you old enough to commit a crime?

If a person is aged 18 or older when they committed the crime, the law assumes that the person knew what they were doing at the time of the offence. However, the law treats people under the age of 18 (juveniles) in a special way:

- Young people under 10 cannot commit an offence because they are believed to be too young to know the difference between right and wrong.
- Young people between 10 and 14 can be found guilty of committing an offence if it can be established that they knew what they were doing was wrong.
- Young people between 15 and 18 are treated as being capable of committing a criminal offence; however, they are not punished in the same way as adults.

The Family Division of the Children's Court hears cases about children under the age of 17 years who are in need of care and protection. These are known as protection applications.

A protection application can be made by a police officer or a community welfare worker who believes that the young person is at risk for the following reasons:

- the child has been abandoned by their parents
- the parents are dead or incapacitated
- the child has suffered physical abuse
- the child has suffered sexual abuse
- the child has suffered emotional or psychological abuse
- the child has been neglected.

Source: Children's Court of Victoria (2018).

These cases differ from criminal cases. The court hears evidence relating to the welfare of the young person and makes a decision about what is in the best interests of that young person.

REVIEW 11.2

1 Suggest reasons why a separate court has been established to hear cases concerned with young people.
2 What is the difference between the Criminal Division and the Family Division of the Children's Court?

ACTIVITY 11.5 Research

Juvenile crime: Statistical analysis

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11.3 Federal courts

Federal courts include the High Court, the Family Court and the Federal Court. The Federal Circuit Court shares its jurisdiction with the Federal Court and the Family Court.

Federal Circuit Court

The jurisdiction of the Federal Circuit Court involves family law and child support, admiralty law, administrative law, copyright, bankruptcy, industrial law, human rights, privacy, migration and trade practices. The family law jurisdiction of the Federal Circuit Court includes applications for divorce, applications concerning spousal and de facto maintenance, and property disputes. The Federal Circuit Court manages parenting orders, including matters such as where a child lives and with whom the child interacts. Applications for the enactment of orders are decided by either the Family Court or the Federal Circuit Court.

Around 90 per cent of the Federal Circuit Court's work is to do with family law. In addition, approximately 95 per cent of bankruptcy and migration applications filed in the federal courts are handled by the Federal Circuit Court.

Federal Court

The Federal Court was established in 1976. It has a broad jurisdiction, including developments in Commonwealth legislation, such as taxation, native title, trade practices, intellectual property, corporations, industrial relations, bankruptcy and immigration.

The Federal Court also handles applications for judicial review of the decisions made by the officers of the Commonwealth. In this regard, the court hears appeals on speculations of law and taxation matters as referred from the Administrative Appeals Tribunal. The Federal Court also handles the appeal of decisions made by single judges of the court and those coming from the Federal Circuit Court in non-family law matters.

In cases relating to intellectual property, where issues of patents, trademarks, circuit layouts, designs and copyright emerge, the Federal Court shares jurisdiction with the Supreme Courts of the states and territories. Appeals in these cases, including those from the Supreme Courts, are given to a Full Court of the Federal Court.

Family Court

The Family Court was created by the *Family Law Act 1975*. It has original jurisdiction to handle cases relating to family law, including divorce applications, the division of property and assets when a couple separate and parenting disputes. It can also work as an appeal court to hear the decisions of single judges of the Family Court of Australia in addition to the Federal Circuit of Australia.

The Family Court deals with the most complex legal family disputes. These family disputes may include:

- parenting cases
- financial cases.

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The Family Court also hears matters relating to international child abduction as well as medical procedures requiring court authorisation. The court has adopted special procedures to deal with these sensitive cases.

In May 2018, the federal Attorney-General announced that the Family Court and the Federal Court are to be combined, commencing in 2019. This change is a response to the long delays experienced in Family Court matters – a move that the government says will 'speed up the process of settling family disputes'.

High Court

The High Court is the final court of appeal in the Australian judicial system. The High Court consists of seven justices. A panel of all seven justices will preside over the most important cases. This includes cases involving interpretation of the Australian Constitution or where the court considers the principle of law involved to be one of major public importance. Appeals against the decisions of state or territory Supreme Courts, of the Federal Court of Australia and of the Family Court of Australia are heard by not less than two justices. These cases are determined by a majority decision. In addition, there are certain matters that can be heard and determined by a single justice.



FIGURE 11.9 The High Court of Australia

The High Court is the highest authority on the interpretation and application of all Australian laws. It is also the ultimate authority on the application of common law rules or principles in Australia. As the High Court plays an important role in the interpretation of the meaning of the words and phrases in the Australian Constitution, it is often regarded as the 'guardian' of the Constitution.

Original jurisdiction

The original jurisdiction of the High Court is set out in sections 75 and 76 of the Australian Constitution.

Section 75 of the Constitution confers original jurisdiction in regard to all matters:

- **i** arising under any treaty
- **ii** affecting consuls or other representatives of other countries
- **iii** in which the Commonwealth, or a person suing or being sued on behalf of the Commonwealth, is a party
- **iv** between States, or between residents of different States, or between a State and a resident of another State
- **v** in which a writ of mandamus or prohibition or an injunction is sought against an officer of the Commonwealth.

Section 76 provides that Parliament *may* confer original jurisdiction in relation to matters:

- **i** arising under the constitution or involving its interpretation
- **ii** arising under any laws made by the Parliament
- **iii** of admiralty and maritime jurisdiction
- **iv** relating to the same subject matter claimed under the laws of different states.

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Appellate jurisdiction

The High Court hears appeals from the state and territory Supreme Courts. It may also hear appeals from the Family Court and the Federal Court. Parties who wish to appeal must seek 'leave' to do so. The High Court will hold a hearing to determine whether there are special reasons to cause the appeal to be heard. Appeals to the High Court will only be permitted if the matter concerns an important legal or constitutional issue.

The decisions of the High Court are final. The High Court is the final court of appeal and the decisions of the High Court are binding on all other courts throughout Australia.

REVIEW 11.3

This activity is available in the online version of the textbook.



ACTIVITY 11.6 Create

Cases heard in Australian courts

Prepare a chart to summarise the different types of cases heard in Australian courts. Create a table similar to the following.

Level in the court hierarchy	Name of court(s)	Type of cases heard	Appeals

11.4 Courts, dispute resolution and justice

Court cases are conducted according to the **adversary trial**. Under this system, the parties to a case are responsible for preparing and presenting their case to the court. Usually they will employ a legal representative to act for them. Each party will put their case before the court by presenting witnesses and other evidence to support their case. Each party has the right to question witnesses and the evidence presented against them.

In an adversary trial, the judge or magistrate acts as an impartial umpire. They do not present an argument for or against one side, but are responsible for deciding the admissibility of evidence and questions of law. In cases where there is no jury, the judge or magistrate is also responsible for making a decision in favour of one of the parties. In a criminal case, this means deciding whether the defendant is guilty or not guilty. In a civil case, it means deciding which party is liable.

The adversary trial relies on evidence being given orally by witnesses in an open court. The case is conducted by strict rules of evidence and procedure. These rules ensure that only reliable evidence is presented in court and the cases are conducted in an orderly and fair manner.

GLOSSARY

Adversary trial a trial before an impartial judge in which each party is responsible for the preparation and presentation of the case

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Features of an adversary trial

An adversary trial has the following features:

- an impartial judge
- parties who prepare and present their case
- lawyers who may present a case for the parties
- strict rules of evidence and procedure
- the requirement that the party bringing the case to court must prove the case.

People in the court

An individual may become involved in the legal system by:

- being the victim of a crime
- suffering damage and seeking compensation under civil law
- being a defendant in a criminal or civil claim.

Alternatively, a person could become involved in the legal system by:

- being a judge, magistrate or lawyer
- serving as a jury member.

The jury

The jury system is based on a person's right to be tried by fellow members of the community. We know this as 'the right to trial by one's peers'. There are a number of reasons why this right is seen as so important. The use of the jury system gives the community a say in the decisions made by the courts and ensures that community values are represented in the courts. The community, through the members of the jury, also sees how the courts work. This is seen as a safeguard against the possible abuse of power by the courts.

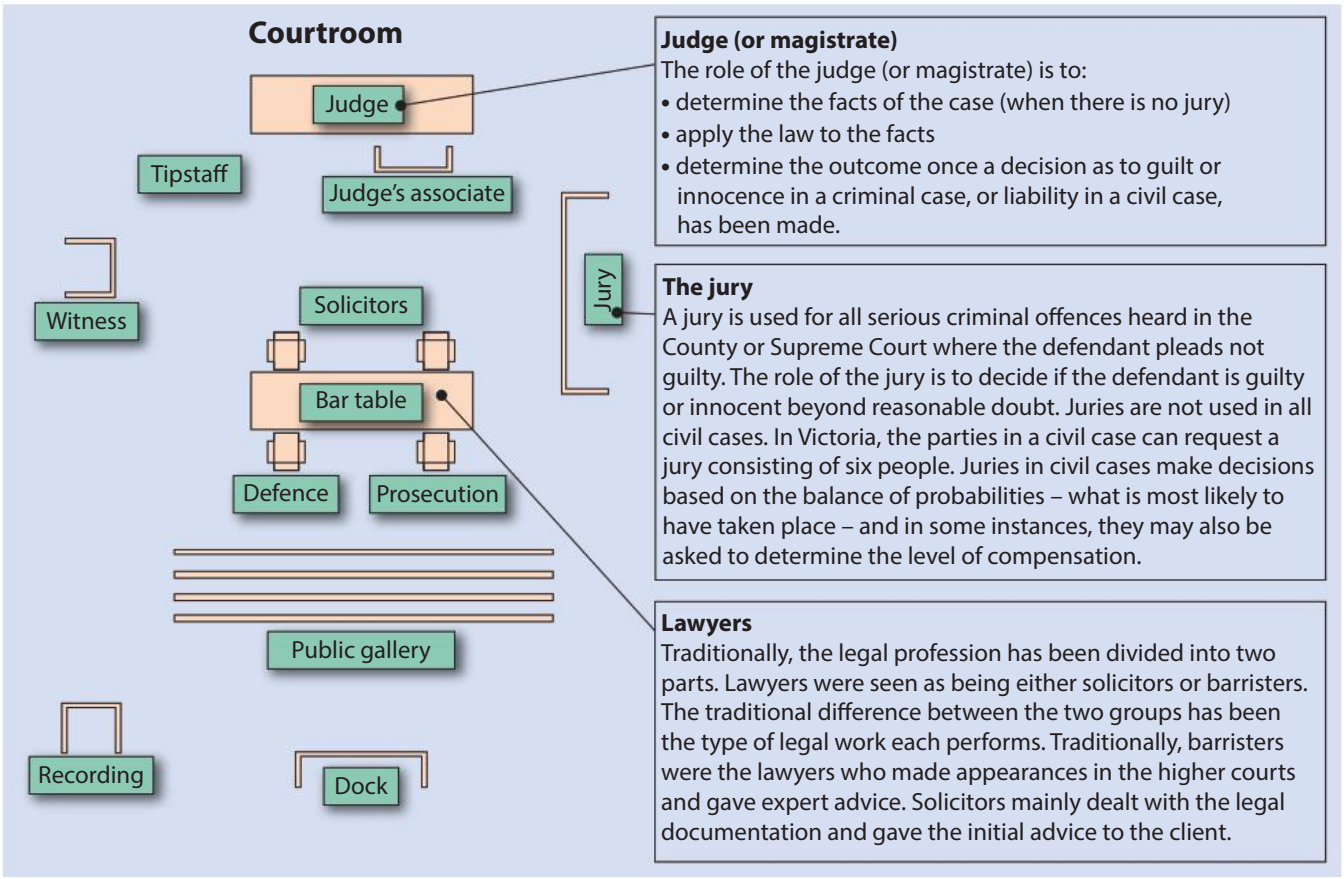


FIGURE 11.10 Diagram of a courtroom

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Jury members are selected at random from the electoral roll. Jury service is considered to be one of the duties of a citizen and is compulsory. Any person eligible to vote in state elections may be called for jury service. Penalties may be imposed for refusing to do jury service. However, some people may not be required to complete jury service. You do not have to undertake jury duty if you are disqualified, ineligible or excused for a good reason.

Potential jurors are sent a questionnaire to determine whether they are eligible for jury service. The questionnaire will identify whether people fall into one of the following categories:

- **disqualified** – people who are not permitted to do jury service for a particular reason, such as being in prison or currently serving a Community Corrections Order
- **ineligible** – this includes court officers, lawyers and police officers
- **excused for a good reason** – people who may be excused from duty if they provide a good reason why they cannot attend.

To be a member of a jury, a person must be able to speak English. Following the responses to the questionnaire, a list of names of jurors still eligible for jury service will be compiled. People still eligible for jury duty may be sent a summons. This is a court order. The summons will set out the address of the court and the time and date that the person is expected to appear at the court for jury service.

Jurors will be called to form a jury pool, from which jurors are selected to form jury panels that will hear court cases. (Generally, several cases will be heard at a court building.) Jurors usually do not know which case they will be hearing when they are called up for jury service.

In criminal cases, the defendant is permitted to challenge potential jury members. These challenges may be with or without cause. A challenge without cause, also known as a peremptory challenge, is when the defence makes a challenge without giving any reason. The prosecution can ask a potential juror to 'stand aside' without giving any reason. Challenges without cause are limited. The defendant can only make three peremptory challenges and the prosecution can ask three potential jurors to stand aside (the number of challenges will vary where there is more than one defendant). Both the defendant and the prosecution have the right to challenge an unlimited number of potential juries with cause, provided the judge thinks that the cause is reasonable. In civil cases, the plaintiff and the defendant have two peremptory challenges each.

The *Justice Legislation Amendment (Court Security, Juries and Other Matters) Act 2017* (Vic) reduces the number of peremptory challenges in criminal cases from six to three, and the number of challenges for each party in civil matters from three to two. These changes were scheduled to come into effect from 1 May 2018.



FIGURE 11.11 A jury, shown here with 12 jurors and two alternates, is an important part of any trial and must be strategically selected by both the prosecution and the defence.

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The role of jurors

The demanding process of selecting a jury is designed to ensure fairness to the accused. It starts with people being summoned to a jury pool in a court as a result of being selected randomly from the electoral roll.

They assemble in a courtroom – in this case, the Supreme Court. When the judge enters, the jurors are ordered by the tipstaff to stand. The judge nods and takes his seat behind a huge bench, while the accused sits silently at the back of the room.

The judge says, 'Ladies and gentlemen, you have been summoned as jurors to hear the trial of … ' The judge then explains the charges.

The judge asks whether any members of the jury panel know the accused. If anyone does, that person will immediately be excused from jury duty.

The judge tells the jury pool that if anyone suffers personal or physical hardship by sitting for a long trial, they can apply to be excused. The excuses accepted are: childcare, study, medical conditions, pre-booked holidays, work demands including running a one-person business and working on contract.

The judge's associate, seated in front of the judge, calls out the names of the people who answer 'present' or 'excused'.

The judge explains the role of jurors: 'The judge decides the questions of law and procedure, the jury decides the facts. Each juror must take an oath or affirm to give a true verdict according to the evidence. And after hearing all the evidence, the jury decides whether the accused has been proved, beyond reasonable doubt, guilty of the charges.'

The jurors walk into the jury box, pick up Bibles in their right hands and swear to give a true verdict according to the evidence. A minority elects to affirm, rather than swear on the Bible.

The charge is read to the accused who is asked to give a plea. 'Not guilty, Your Honour.'

The defence solicitor helps his client select the jury.

The judge's associate randomly draws the names of the jurors.

The first is a middle-aged storeman who walks slowly past the dock and into the jury box. Next is a retired gentleman who is 'challenged'. The tipstaff tells him to return to his seat. A local council worker and an engineer are empanelled. A female TAB worker who stares at the accused is challenged. The Crown prosecutor challenges an unkempt labourer.

The accused accepts a train driver, a dentist, an economist, an accountant, a parking inspector, a housewife, a librarian, a female pensioner and a mature-age student.

The judge instructs the jury to choose a foreman or woman. The jurors retire to the jurors' room. Several minutes later, they return to the court to advise of their decision. The judge tells them not to discuss the case with anyone except fellow jurors. He warns them about publicity.

'The media has an appropriate function to inform the public, but what you may hear, see or read is not relevant for you,' he says. 'Your decision rests solely on the evidence heard in court.'



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REVIEW 11.4

Carefully read the article 'The Role of Jurors' and then answer the questions.

1. According to the judge, what is the role of the jury when a case is heard by judge and jury?
2. What reasons does the judge accept for people to be excused from jury service?
3. Why do you think that the defendant and the Crown prosecutor have a right to challenge a possible member of the jury?
4. What factors do you think a defendant would take into account in deciding whether to challenge a potential member of the jury?
5. The judge warns members of the jury about talking to people outside the courtroom. Suggest reasons why the judge would give this advice.
6. What effect do you think media reports of a case might have on the jury?

Criminal cases

In an adversary trial, the onus to prove a case is always on the party bringing the case to court. In a criminal case, this means that the **prosecution** must prove the case. The prosecution must prove the defendant is guilty 'beyond reasonable doubt'.

If the defendant has been charged with a summary (minor) offence, their case will be heard in the Magistrates' Court. The court will hear the charge and the defendant will be asked whether they plead guilty or not guilty.

If they plead guilty, the magistrate will impose an appropriate sanction. If they plead not guilty, witnesses will be called. Each witness is sworn in – by **oath** or **affirmation** – and questioned. After hearing the evidence and witnesses by both the prosecution and the defence, the magistrate must reach a decision.

A judge and a jury will hear the case when the accused pleads not guilty in the higher court. If the accused pleads guilty, a jury is not needed. The role of the jury in the case is to determine whether the accused is guilty or not guilty. Both the prosecution and the defence will present their case. If the accused is found guilty, the judge will determine the appropriate sanction.

GLOSSARY

Prosecution the person responsible for presenting a case that an alleged offender has committed an offence

Oath a formal pledge to tell the truth

Affirmation a declaration that is accepted in place of an oath

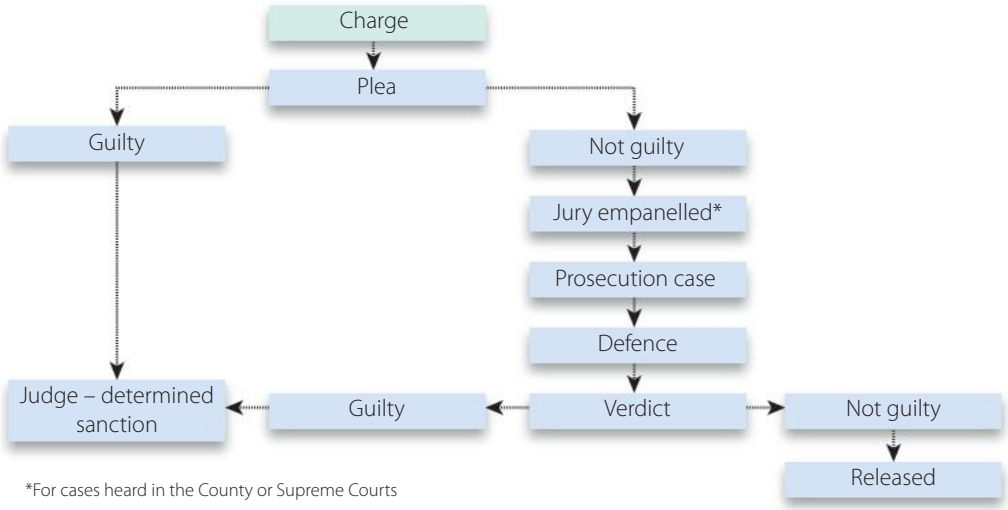


FIGURE 11.12 Hearing a criminal case

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Civil cases

A civil case starts when the **plaintiff** issues a **writ**. This is a legal document ordering the defendant to appear at court on a set date to answer a claim against them. If the defendant intends to argue the case, they lodge a document called an appearance with the court. This indicates that they will be contesting the case.

The parties exchange details about the case in a process known as **pleadings**. During this process, the parties clarify the issues. They may even negotiate a settlement to the case. This means they reach an agreement that puts an end to the claim without the need to go to court. The process of **discovery** allows the parties to find out more about each other's case by requesting copies of documents that may be used in court and requesting answers to specific questions.

During the pre-trial stages, the parties will attend what is known as a Directions hearing. This hearing allows the court to oversee the pre-trial stages. During Directions, the judge can set timeframes for the completion of the pre-trial stages as well as direct the parties to attend mediation.

If the parties cannot resolve the issue, the case proceeds to court. In court, each party is required to present witnesses and evidence to support their claim. The court will decide, on the balance of probabilities, which party is liable for the claim. The court will also determine an appropriate **remedy** to the problem. Often the remedy is monetary compensation for the damage suffered.

GLOSSARY

Plaintiff a person bringing a civil action to court

Writ a court order informing a person that there is a claim against them; a legal instruction

Pleadings the exchange of information leading up to the hearing of a civil matter in court

Discovery the exchange of documents leading up to the hearing of a civil matter

Remedy the outcome of a civil case aimed at restoring the injured party to their original position

REVIEW 11.5

1 Describe the role of the following people in the hearing of a criminal case:
   - **a** judge
   - **b** jury
   - **c** prosecution
   - **d** defendant
   - **e** defence
   - **f** victim
   - **g** barrister.

2 How does the hearing of a civil matter differ from the hearing of a criminal case?

3 Criminal cases must be proven beyond reasonable doubt. What do you think would be a 'reasonable doubt'? How does 'beyond reasonable doubt' differ from 'on the balance of probabilities'?

FIGURE 11.13 Each party in a civil trial is required to give evidence to support their claim.



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11.5 Is it just?

The Victorian justice system includes policymaking and law reform, policing, courts and tribunals, dispute resolution, penalties and fines, prisons, corrections and parole, legal assistance and victim support.

Source: Victoria State Government, *Justice System* (2018).

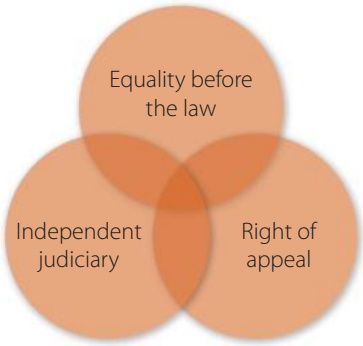


FIGURE 11.14 The key principles of the Australian justice system

The justice system aims to protect the rights of citizens and to maintain a fair society. The key principles of the Australian justice system are as follows:

- **Equality before the law** is the principle that each human being must be treated equally by the law and all people are entitled to equal protection by the law (without discrimination).
- An **independent judiciary** is the principle that judges should be free from the improper influence of government or other private or partisan interests.
- **Right of appeal** is fundamental to the concept of natural justice. A person aggrieved by a decision of a court can request that the decision be reviewed.

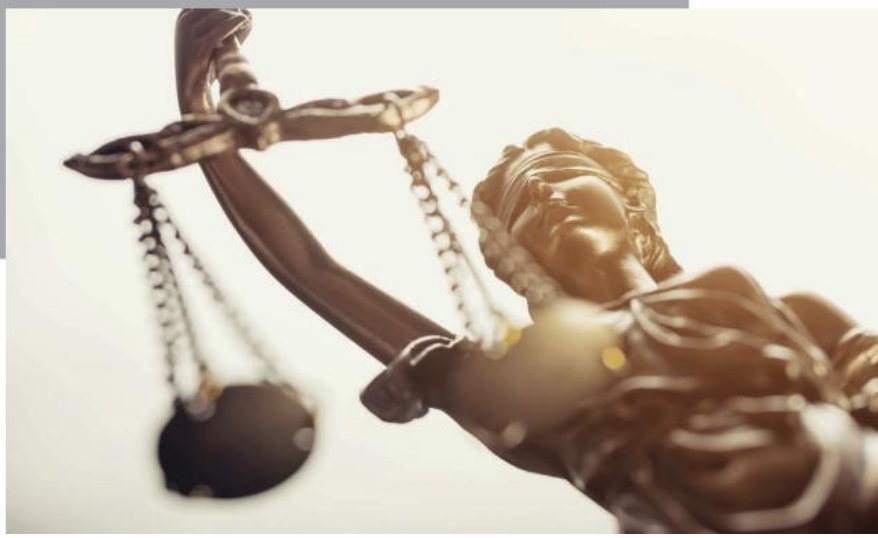
Equality before the law

Equality before the law is a key principle of justice, which recognises that all people are regarded by the law as equal and should be protected equally by the law.

Equality before the law is a fundamental concept of our legal system. All judicial officers take an oath to administer the law without fear, favour, affection or ill will. Judicial officers must treat all parties fairly regardless of gender, ethnicity, disability, sexuality, age, religious affiliation, socioeconomic background, size or nature of family, literacy level or any other such characteristic. Respect and courtesy should be the hallmarks of judicial conduct. Paternalistic or patronizing attitudes have no place in the courtroom. Equality before the law is sometimes misunderstood. It does not necessarily mean "same treatment". As McHugh J succinctly explained, discrimination can arise just as readily from an act which treats as equals those who are different as it can from an act which treats differently persons whose circumstances are not materially different.

Source: Equality Before the Law Bench Book (2017).

FIGURE 11.15 The Australian justice system demands that all people are treated equally.



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The importance of equality before the law is recognized by the Victorian Charter of Rights and Responsibilities.

Charter of Human Rights And Responsibilities Act 2006

Section 8 – Recognition and equality before the law

1 Every person has the right to recognition as a person before the law.
2 Every person has the right to enjoy his or her human rights without discrimination.
3 Every person is equal before the law and is entitled to the equal protection of the law without discrimination and has the right to equal and effective protection against discrimination.
4 Measures taken for the purpose of assisting or advancing persons or groups of persons disadvantaged because of discrimination do not constitute discrimination.

Various features of our legal system promote the equal treatment of individuals. For instance, the operation of the adversary trial treats individuals equally by providing that every individual has the opportunity to prepare and present their case before an impartial and independent judge. The presumption of innocence also ensures that all individuals are equal before the law by providing that every person is considered to be innocent until proven guilty.

Independent judiciary

There are two aspects to an independent judiciary. First, the judiciary is seen as independent from the legislative and executive functions of government. This is known as the separation of powers. Second, the judiciary should be independent of personal or partisan interests in a case.

Separation of powers

The principle of the separation of powers says that the power to govern should be distributed between the executive function, the legislative function and the judicial function:

- **Executive function**. Administers the rules developed for the benefit of the whole community. This includes developing new laws to present to the body responsible for law-making (parliament or local council), providing specialist information and assisting in carrying out the rules.
- **Legislative function**. Makes the rules.
- **Judicial function**. Judges whether the rules have been broken and what should happen to those who break the rules.

TABLE 11.1 Separation of powers

Executive	Legislative	Judicial
Crown Cabinet: Prime Minister and ministers Public service	Parliament	Courts

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Maintaining the independence of the judiciary from the legislative and executive functions means that the judiciary can act as a check on the possible abuse of power. The judiciary can strike down laws made by parliament. It can also declare the actions of the executive unlawful, thereby providing individuals with the means to challenge the decisions of governments.

An independent and impartial judiciary

It is also important that the judiciary remains independent of any personal interest in a case so that judges and magistrates can maintain their impartiality. This is fundamental to the concept of natural justice. This is based on two key ideas:

- **No person should be a judge in their own cause** – in other words, a judge should not make a decision in a case in which they have a financial or other interest in the outcome of the case or any bias that may affect their impartiality.
- **Hear the other side** – in other words, the parties must be given a fair opportunity to state their case.

The importance of an independent and impartial judiciary is also recognised by the Victorian Charter of Rights and Responsibilities.

> **Section 24 – Fair hearing**
> **1** A person charged with a criminal offence or a party to a civil proceeding has the right to have the charge or proceeding decided by a competent, independent and impartial court or tribunal after a fair and public hearing.

The independence of the judiciary is protected in a number of ways:

- Judges, not the government, oversee the administration of the courts.
- Judges enjoy security of tenure – for instance, High Court judges can remain on the Bench until they retire or reach the age of 70. This means that judges can make unpopular decisions without the fear that they will lose their position.
- Judges can only be removed from office by a special process. For instance, section 72 of the Constitution sets out a special process for the removal of a High Court judge.

FIGURE 11.16 Judges must remain impartial and independent so that their judgements are fair.



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The right of appeal

An appeal is when a higher court reviews the decision made in a lower court. The right of appeal is fundamental to the concept of natural justice. The right exists in both criminal cases and civil matters. For instance, in criminal cases heard in the Magistrates' Court, an appeal can be lodged by the defendant if the defendant questions the decision to convict, the severity of the sentence or the interpretation of the law. Although the grounds for appeal may vary according to the nature of the case and the court, the provision for an appeal provides for justice. Allowing for a right of appeal also holds judges accountable. The right of appeal allows for the appellate court to correct errors by a trial judge.

The adversary trial

The features of the adversary trial reflect the key principles of the Australian justice system. But to what extent? The adversary trial provides that each party prepares and presents their case before an impartial judge or magistrate. Each party may be represented by a lawyer.

However, in most cases there is no absolute right to legal representation. The individual parties must pay for their own lawyers and legal representation can be expensive. In civil cases, this may mean that many people cannot afford to go to court to enforce their rights. In a criminal case, the consequences may be more serious. Without legal representation, they may not be able to present a defence and risk possible imprisonment.

The cost of legal representation in court is not the only problem. To exercise your rights, you need to know what your rights are. There are many groups of people in the community who may not know their rights, may not know how to find out about their rights or do not have an adequate understanding of English to exercise their rights. The impact of social media has also raised questions about the capacity of the system of trial to provide for a fair and unbiased hearing.

REVIEW 11.6

Suggest how each of the following features of an adversary trial contributes to the key principles of the Australian justice system as reflected in the adversary system of trial:

1. an impartial judge
2. parties preparing and presenting their cases
3. lawyers presenting a case for the parties
4. strict rules of evidence and procedure
5. the party bringing the case to court having to prove the case
6. the requirement for criminal cases to be proven 'beyond reasonable doubt'.

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CASE STUDY 11.3

Trial by social media?

Such is the all-pervasive power of social media that it can affect jury decisions, leading to the phrase 'trial by Google'. It can impact on courtrooms, potentially putting at risk the right of the defendant to get a fair trial or lead to trials being aborted.

There have been instances in Australia and overseas of jurors running their own investigations, using the internet and social media. Convictions have been overturned and mistrials declared when it was discovered that jurors had accessed information on the internet that had not been presented in court.

In 2014, a murder trial in Queensland was aborted after a juror used Facebook to find out more information about the accused and the victim. In a Western Australian case, a juror was dismissed for having talked about the case on Facebook.



FIGURE 11.17 The impact of social media raises questions about the capacity of the system of trial.

Probably the most famous case of misusing social media came during the trial of *A-G v Fraill*. In 2011, the London High Court gave Joanne Fraill an eight-month prison sentence for contempt of court when it was found that, while on jury duty for a drug trial, she had exchanged Facebook messages with the accused. Fraill also chose to search for information about another defendant while she and the jurors were deliberating. This was despite a judicial instruction to avoid using the internet during the trial.

Using social media to reveal information regarding an ongoing trial, or to provide a commentary on a trial following its conclusion, can affect any appeals that will be lodged in future.

In *Benbrika v The Queen*, the Victorian Court of Appeal affirmed Justice Bongiorno's handling of the situation where jurors had used internet sites to find definitions of the various terms used in a terrorism trial. The definitions they found were similar to those used in court. The trial judge had found it to be 'distinctly possible that they had interpreted his directions as meaning that they should not seek information about the case, rather than using the internet for more general purposes'. The Appeal Court agreed that searching for definitions was significantly different from searching for 'information that is both inadmissible at trial, and prejudicial to the accused', which could lead to the jury being discharged.

Victoria, New South Wales and Queensland have laws for jurors who offend. The *Bench Book* used in the NSW Judicial Commission's criminal trials includes a specific warning to all jurors that they must not use the internet to research a matter relating to the case. The Victorian model directions contain a similar warning, but don't specifically require that the judge address the question of social media use.

In Western Australia, one of the responsibilities of the jury officer is to take jurors' mobile phones from them as they consider their verdict. Other states have a complete ban on the use of all electronic devices in the courtroom.

A report prepared for the Victorian Department of Justice, *Juries and Social Media*, found that courts have worked towards balancing the conflict of rights and principles in trial. It further found that the use of social media by jurors can irrevocably damage the capacity of courts to establish a balance of these rights and principles.

Recommendations in the report included the following:

- jurors should be told why they are banned from doing their own research
- the written and judicial guidelines relating to social media should be determined

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- a brief pre-trial jury training module for pre-trial juries should be developed and used when the jury is empanelled.

In her 2012 research paper that forms part of her PhD, 'Guilty as Tweeted: Jurors Using Social Media Inappropriately During the Trial Process', civil procedure lecturer and lawyer Marilyn Krawitz states that 'one of the reasons jurors use social media is because, simply, some people are addicted to it'. Her research states that despite a court's instructions against using social media during a trial, 'jurors feel "empowered" and "emotionally satisfied" from using social media to deliberate on the future or the final outcome of a case'.

There is an upside to social media being involved in court procedures: 'In some Australian courts, court officials send information to the public via social media, which results in people becoming more engaged with the court's work.'

1 How do you think that the use of the jury contributes to independent and impartial decision-making in our courts?
2 What is the impact of social media on the ability of the courts to achieve the key principles of the Australian justice system?

11.6 Other ways of resolving disputes

Many different types of disputes may occur daily in a community – for example, a dispute at home or at school. Not all of these disputes result in court action; usually they can be resolved without the need to go to court. Minor disputes can be resolved quickly and efficiently through cooperation.

There are a number of bodies in the community – other than courts – that have been set up to help people resolve disputes. However, anyone who wants to resolve a dispute without going to court must know where to go for help. For example, disputes between a landlord and a tenant can be resolved by seeking the assistance of the real estate agency, a tenants' union, a citizens' advice body or the Victorian Civil and Administrative Tribunal. Numerous community organisations can provide assistance and advice to help resolve minor disputes.

Alternative methods of dispute resolution

The main forms of alternative dispute resolution (ADR) are **mediation**, **conciliation** and **arbitration**.

Mediation can be used to resolve minor disputes. Mediation involves a neutral third party, known as a mediator. The mediator helps the parties to discuss their problem and identify the issues. However, the mediator does not make a decision. They help the parties to identify ways to solve their dispute. The parties make the final decision. The aim of mediation is for the parties to reach a mutually acceptable agreement about how to put an end to their dispute.

Conciliation is a process whereby a third person discusses the issues with both parties. The third person attempts to get the two parties to agree to a solution to the problem. Although the third person can suggest ways to resolve the dispute, they cannot force the parties to reach agreement.

Arbitration is a dispute-resolution method in which the third person acts like an independent umpire. The third person discusses the issues with the parties and attempts to reach a solution with which the parties agree. If there is no agreement, they will reach a decision that is binding on the parties.

GLOSSARY

Mediation where an impartial third party assists the parties in a dispute to identify issues and reach an agreement

Conciliation where an impartial third person assists the parties to identify the issues and suggest possible solutions to help the parties reach an agreement

Arbitration where an impartial third party discusses the issues, suggests ways to resolve the dispute and, if the parties cannot agree, makes a decision for them

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GLOSSARY

Tribunal a body set up as an alternative to a court to settle disputes

Tribunals

State and federal governments have established special bodies known as **tribunals**. These tribunals deal with specific legal problems, such as disputes between consumers and traders or between tenants and landlords. Tribunals are generally less formal than courts. Tribunals do not have strict rules of evidence and parties to a dispute may not need to have a lawyer.

Victorian Civil and Administrative Tribunal

The Victorian Civil and Administrative Tribunal (VCAT) deals with a range of disputes. It consists of four divisions: civil, administrative, residential tenancies and human rights. Each division has lists specialising in particular types of cases.
The civil division hears disputes about:

- domestic building contracts
- small civil claims
- credit matters
- retail tenancies.

The administrative division hears disputes between people and the government about matters such as land valuation, licences to carry on business, planning and state taxation. The residential tenancies division hears disputes between landlords and tenants. The human rights division hears matters relating to discrimination.

REVIEW 11.7

1 What does the ADR method of 'arbitration' involve?
2 Explain the difference between the ADR methods of 'mediation' and 'conciliation'.

FIGURE 11.18 The owner of this home in Camberwell took his builders to the VCAT in relation to a building dispute.



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ACTIVITY 11.7 Collaborate

Disputes

1 Working in groups, discuss some disputes in which you have recently been involved. You may want to discuss a dispute at home or at school.
   - **a** Identify the methods that were used to resolve the dispute.
   - **b** Suggest situations in which each of the alternative dispute-resolution methods discussed in this chapter would be useful.

2 Working in groups, consider the disputes in each of the following cases and select one to discuss.
   - **a** What steps could each party in the case you have selected take to resolve the dispute?
   - **b** Prepare a role-play to demonstrate how each dispute can be resolved by using either conciliation or arbitration.

Case 1

Joe and Annika live next door to Sian and Damien, and the two couples are on good terms. The fence between the houses is in poor repair, so Sian and Damien suggest replacing it and splitting the cost. Joe and Annika agree to this if the new fence is the same height. Sian and Damien arrange for a new fence to be installed, but a few days later they ask the fencer to come back and reduce the height by a metre, which he does. Joe and Annika refuse to pay half the cost of the new fence, complaining that it is not what they had agreed to.

Case 2

Lisa has two children. She applies to rent a house advertised in a local newspaper. The owner of the house tells Lisa he cannot rent the house to her. He explains that he has rented houses to mothers on the supporting parent's benefit in the past and that it has always been a disaster.

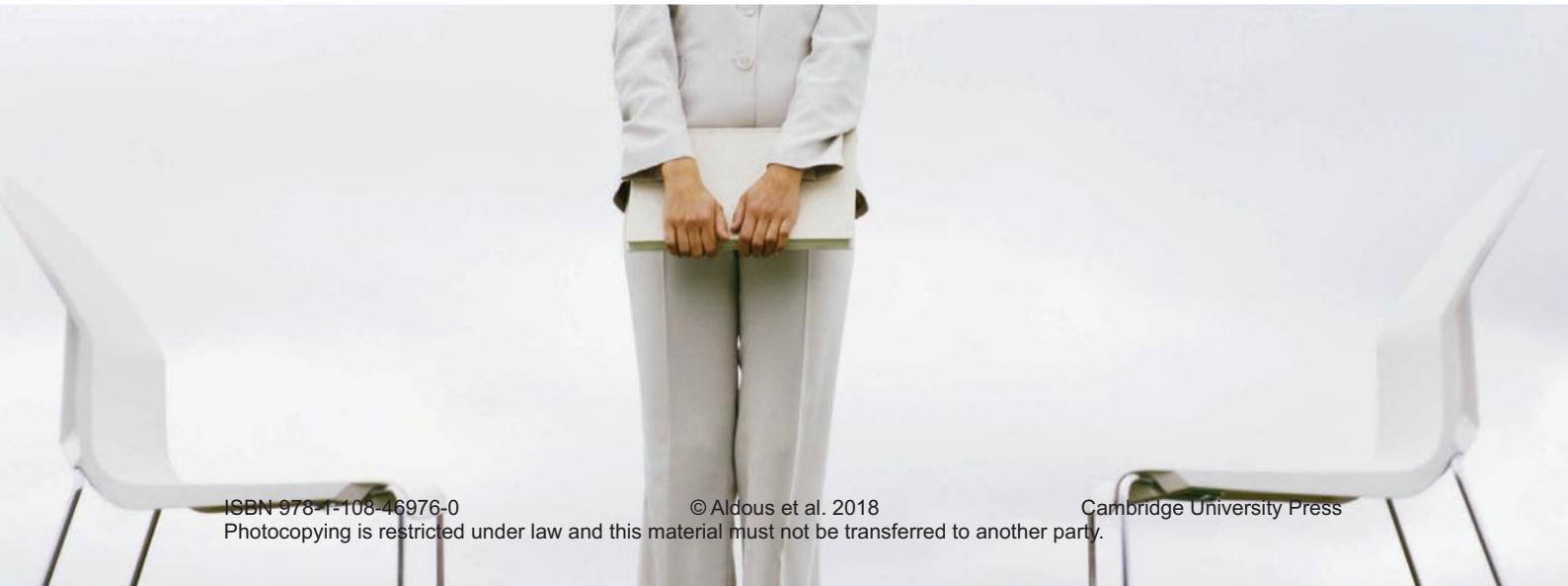
Case 3

Mary is an apprentice motor mechanic. Three months ago, she complained to her boss about some of the pictures in the lunchroom, which featured naked women. These made her feel uncomfortable eating in the lunchroom while the men looked at and commented on the pictures. The boss said the men were entitled to decorate the lunchroom and if she wanted to work in a 'man's job' she would have to learn how to deal with it.

Case 4

Peter purchased a diamond stud earring for $35 during a sale. After it had been worn a few times, he noticed the clasp that kept the earring in place was wearing and appeared to be coming apart. He returned the earring to the store. The store manager said that because it was a sale item, the store did not have to repair or replace it.

FIGURE 11.19 Can you think of other examples where alternative dispute resolution would be better than going to court?



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11.7 Courts and law-making

The courts play an important role in applying and interpreting the law. In the process of resolving disputes, the courts can interpret the application of statutes or develop the principles of common law.

Common law

Australia inherited its system of common law from the United Kingdom. This law originally developed from customs and has evolved over centuries. If judges make a decision on an issue not covered by legislation, their decision is recorded. Other judges hearing similar cases refer back to this decision to decide what the law should be.

This process of judges referring back to past decisions, recorded in law reports, to decide what the law should be is known as **precedent**. A precedent is a legal principle developed by the courts. Precedents are found in the recorded decisions of judges – the precedent is the legal reason for the decision. Judges hearing cases in which the facts are similar refer to these past decisions as a guide in determining how the law should be applied. This system is also sometimes referred to as case law or judge-made law because judges decide what the law should be by referring to past cases.

GLOSSARY

Precedent a principle developed by the courts that provides a guide in similar cases

What is a law report?

A law report records judgments that lay down a new principle of law, or change and clarify an existing principle. The law report is a formal statement outlining the facts of the case, the decision between the parties and the reasons given by the judge for the decision reached.

When a court creates a new precedent or interprets an existing precedent to apply to a new situation, it is adding to the body of law known as common law. However, judges are not free to interpret the common law whenever they feel a change is needed. They can only interpret the common law when:

- a case comes before them in court
- there is no existing statute, or parliament-made law, that applies
- they are not bound to follow an existing principle of common law.

Courts cannot interpret the law in a way that contradicts the laws made by parliament. Parliament, as the elected body that represents the people, has the final say on what the law should be.

FIGURE 11.20 Believe it or not, but a snail in a bottle helped to define a legal precedent still important today - the duty of care towards your 'neighbour'.



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EXAMPLE

The case of the snail in the ginger beer bottle

A woman and a friend went out to a cafe. The friend bought the woman a 'Scottish Floater', which is made of ice cream and ginger beer. The ginger beer was sold in bottles made of dark glass. The shop assistant opened the bottle and poured out half the ginger beer for the woman. Later the woman poured out the rest. She discovered the decomposed remains of a snail. When she saw this, she became very ill. She sued the manufacturer of the ginger beer.

This 1932 case, *Donoghve V Stevenson*, was the first case in which a consumer successfully sued a manufacturer for not taking reasonable care in manufacturing products. The woman argued that the manufacturer had presented the ginger beer in bottles that were not transparent and that the manufacturer knew that the consumer would be drinking the product without the opportunity to inspect the contents. She argued that the manufacturer therefore had a duty of care and that not exercising that duty was negligence.

The court agreed and said that manufacturers owed consumers a duty of care. The court said, 'You must take reasonable care to avoid acts of omission which you can reasonably foresee would be likely to injure your neighbour.' Your neighbour is any person who you can reasonably foresee may be affected by your actions. This common law principle forms the basis of the tort of negligence.

Doctrine of precedent

The rules that guide judges in how to apply precedents are known as the doctrine of precedent. When looking at past decisions, judges will look at the legal reason given for the decision. This part of the judgment is known as the *ratio decidendi*. Judges in lower courts in the same court hierarchy will apply the *ratio decidendi* of past cases when hearing a case with a similar fact situation. The principle that courts will follow the past decisions of higher courts in similar or like cases is known as *stare decisis*.

Stare decisis means to stand by what has been decided. In other words, when a lower court is hearing a case with a 'like' factual situation to a past case determined by a higher court, the lower court will be bound to decide that case by applying the same legal principle. The adherence to the principle of *stare decisis* allows for consistency in the way the law is applied.

Some decisions are binding

Some past decisions are considered binding and must be followed in future cases. A precedent is considered binding when the facts in the previous case are similar to the case being considered by the judge and the precedent was set by a higher court in the same court system. For example, the Supreme Court of Victoria is hearing a case. The case concerns a similar fact situation to a case that has already been decided in the High Court. The judge in the Supreme Court would be bound to apply the legal principles from the High Court.

Some decisions are persuasive

A persuasive precedent is a past decision that does not have to be followed by a court. Judges do not have to follow precedents made in lower courts or decisions from other court systems. Other court systems include courts from other states or other countries. Although a court is not bound by these decisions, if there is no binding precedent, a court may refer to these decisions.

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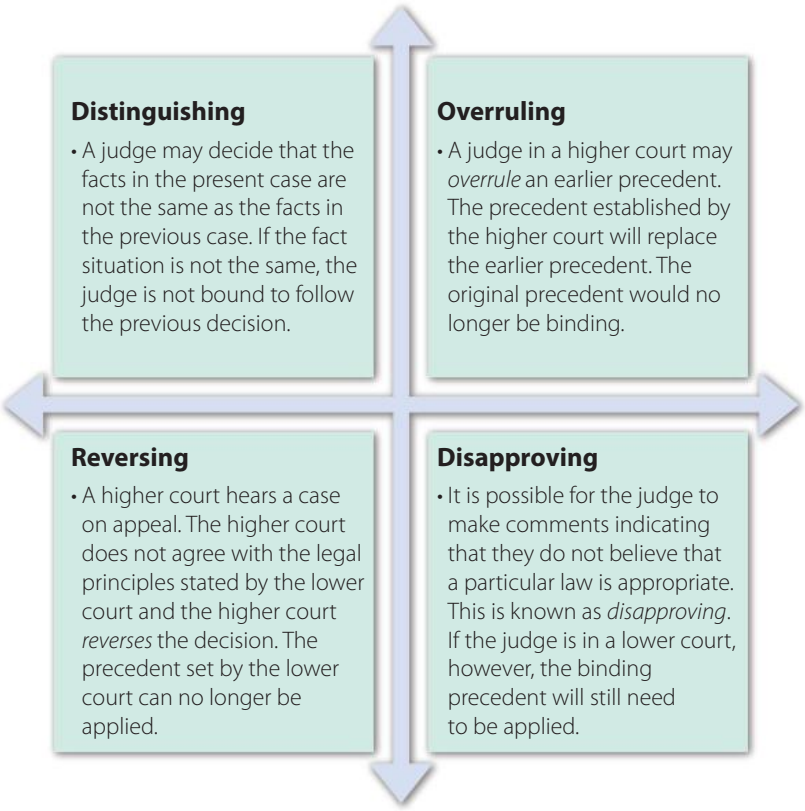


FIGURE 11.21 Flexibility and precedent

Can precedent change?

Higher courts do not have to follow the decisions of lower courts. The doctrine of precedent provides a number of ways in which a court may avoid following a precedent. Refer to Figure 11.21.

Interpreting Acts

When hearing a case, a judge must apply the provision of a statute to the specific circumstances. In some instances, the meaning of the terms used in the Act are clear and the application is straightforward. However, in some cases judges may need to interpret the meaning of the words or terms used in the Act in order to apply it to the case they are hearing.

When a judge interprets the meaning of the terms used in an Act, they will give reasons for the decision they have made. These reasons for the interpretation of the Act will form a precedent. In future cases, where the meaning of the terms used in the Act are questioned, the courts will refer back to these reasons to decide what the words or terms in the Act mean.

CASE STUDY 11.4

Does Uber supply taxi travel?

In August 2015, the Australian Taxation Office (ATO) ruled that Uber drivers must register for Goods and Services Tax (GST), regardless of turnover. Uber commenced a legal challenge to this finding and in July 2016 the matter was heard in the Federal Court of Australia.

Griffiths J handed down the decision on 17 February 2017.

Issue to be determined

The issue to be determined was whether Uber drivers were operators who 'supply taxi travel' for the purposes of the *A New Tax System (Goods and Services Tax) Act* 1999 (the *GST Act*). If Uber drivers did 'supply taxi travel', they would be required to be registered for GST, regardless of their turnover.

The *GST Act* defines the phrase 'taxi travel' as meaning 'travel that involves transporting passengers, by taxi or limousine, for fares'.

Uber's submissions

Uber argued that its drivers were not considered taxi operators. Uber drivers could not use taxi ranks, pick up passengers on the roadside or drive in a bus lane or transit lane (unless transporting the required number of passengers). Uber drivers did not need a physical marking on the vehicle identifying it as a taxi or a light affixed to it indicating its availability.

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Uber also claimed that technological differences set its drivers apart from traditional taxi operators. For example:

1 Traditional taxi vehicles must be fitted with a taximeter visible to the passenger, which progressively calculates and displays the fare, whereas the Uber app allows riders to obtain an estimate of the cost of the ride.
2 At the end of the taxi hire, the hirer must pay to the driver the authorised fare by tending cash or by using another approved payment method, whereas Uber riders pay for the trip through the app.



FIGURE 11.22 In August 2015, the ATO ruled that Uber drivers must register for GST regardless of turnover.

Uber also argued, in the alternative, that where legislation for the purpose of revenue is directed to a particular sector of commerce or industry, the technical meaning a word bears in that sector ordinarily prevails. Section 144–5(l) was directed, at least in part, to the taxi industry and the term 'taxi' has a recognised meaning in that industry, arising from the regulation of that sector in each of the states and territories.

The Commissioner's submissions

The Commissioner of Taxation contended that the definition of 'taxi travel' is to be construed as a whole and connotes the transportation by a person driving a private vehicle of a passenger from one point to another at the passenger's direction and for a fare, irrespective of whether the fare is calculated by reference to a taximeter.

Court's finding

Applying principles of statutory interpretation outlined in the leading decision by the High Court in *Project Blue Sky*, His Honour held that the statutory text must be considered in its context, including its legislative history and extrinsic materials.

The parliament was concerned to ensure that all persons who supplied 'taxi travel' were subject to GST to ensure an equal tax impact on passengers. Having regard to this legislative purpose, His Honour noted that the term 'taxi travel' should be broadly construed.

His Honour adopted the finding of Young J in *Saga Holidays* that the *GST Act* should be construed in a practical and commonsense way. He concluded, 'I accept the [Tax] Commissioner's submission that the ordinary meaning of the word "taxi" is a vehicle available for hire by the public and which transports a passenger at his or her direction for the payment of a fare that will often, but not always, be calculated by reference to a taximeter.'

Griffiths J found that Uber fell within this definition and could be designated as a taxi service. Accordingly, Uber drivers are required to register for GST despite the fact that the software and service offered by them may not have been contemplated at the time the *GST Act* was created.

Source: McCabes Lawyers, Sydney, 7 March 2017.

Questions

1 Outline the facts of the case.
2 Why did the Federal Court need to interpret the meaning of the phrase 'supply taxi travel'.
3 Draw up a table like the one below to compare Uber and taxi services.

Uber	Taxi

4 How did the Federal Court define the term 'taxi'?

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REVIEW 11.8

1 When will judges use precedent to determine what the law should be?
2 What is the doctrine of precedent?
3 What is the significance of the *ratio decidendi*?
4 Under what circumstances will a judge be bound to follow a decision made by a judge in a previous case?
5 What is a persuasive precedent?
6 Can precedent change? Explain.
7 Can the interpretation of an Act become a precedent?

ACTIVITY 11.8 Create

Doctrine of precedent
Design a poster to explain the operation of the doctrine of precedent.

CASE STUDY 11.5

Aboriginal and Torres Strait Islander peoples and native title

The recognition of Aboriginal native title in Australian law is an example of the relationship between statute law made by parliament and common law developed through the courts.

On 22 August 1770, at Possession Island (off Cape York Peninsula), James Cook claimed possession of the east coast of Australia for the British. Australia was seen as *terra nullius* – a land that belonged to no one. The rights of Aboriginal and Torres Strait Islander peoples to ownership of the land were not recognised. European settlers who seized land from Indigenous groups gave little consideration to the rights of the original inhabitants. Some Indigenous groups resisted and a number of massacres took place.

Prior to 1992, Australian law did not recognise the rights of Aboriginal and Torres Strait Islander peoples to claim native title. Native title is not the same thing as land rights. Native title recognises rights and interests in land according to traditional law and customs. It does not replace someone else's rights to use the land. It does not apply where the land is privately owned.

Challenging *terra nullius*

In May 1982, a group of Meriam from the Eastern Torres Strait, including David Passi, Sam Passi, Celuia Mapo Salee and James Rice, and led by Eddie Koiki Mabo, lodged a case with the High Court of Australia for legal ownership of the island.

Over a period of 10 years, 33 Meriam people, including the plaintiffs, generated 4000 pages of transcripts of evidence. The evidence presented included proof that the eight clans of Mer (Murray Island) had occupied clearly defined territories on the island for hundreds of years, and proved the continuity of custom on Mer.

The High Court resolved that the Supreme Court of Queensland should determine the parameters of the case. While this decision was underway, the Queensland Parliament passed the *Torres Strait Islands Coastal Islands Act 1985*, which 'extinguished without compensation' any Torres Strait Islander claims to their traditional lands.

In February 1986, the Meriam people challenged the legislation and in December 1988 the High Court ruled in the *Mabo No. 1* case that the Act contravened the *Commonwealth Racial Discrimination Act 1975*. This enabled the High Court to begin hearing *Mabo No. 2*, the Meriam people's land rights case.

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On 3 June 1992, six of the seven judges agreed that the Meriam held traditional ownership of the lands of Mer. The decision led to the passing of the *Native Title Act 1993*, providing the framework for all Aboriginal and Torres Strait Islander peoples to make claims of native title.

By that time, three of the five plaintiffs – including Eddie Mabo – had died.

Source: National Museum of Australia.

Recognition of native title, 1992

In the *Mabo Case*, the High Court of Australia changed the legal principle that Australia was *terra nullius* at the time of British colonisation. In overturning this common law principle, the High Court said that the common law of Australia does recognise that land ownership by Aboriginal and Torres Strait Islander people had existed before 1788.

The *Mabo Case* decision recognised that Aboriginal and Torres Strait Islander peoples continued to possess and enjoy their traditional lands. The High Court said that native title existed where the people could prove a continuing traditional connection to the land and where governments had not extinguished that connection. Rights were extinguished where private ownership had been granted to another person.

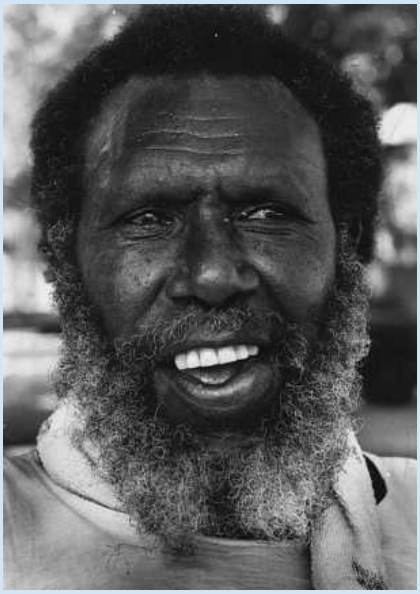


FIGURE 11.23 Eddie Koiki Mabo (1936-92)

Native Title Act 1993

The government responded to the *Mabo* decision by passing the *Native Title Act 1993*. The Act was passed to clarify the law about native title. The Act established a National Native Title Tribunal and set out a process for hearing native title claims.

Wik Case

In 1996, the High Court heard a case concerning the Wik people. The Wik people claimed native title rights to use land covered by pastoral leases in far north Queensland. A pastoral lease is when the government leases land to farmers or other businesses. In this case the government had leased land to farmers to graze cattle. The High Court decided that native title rights and the rights of leaseholders should coexist. Where there is a conflict, the rights of the leaseholder prevail. This means that Aboriginal and Torres Strait Islander peoples can go onto leasehold land to hunt and fish, according to traditional and customary practice.

Changes to the *Native Title Act*

The government amended the *Native Title Act* in 1998. These changes either extinguished or limited native title on some pastoral leases and areas of government-owned land in towns and cities. It also changed native title rights over waterways and airspace. The Act provided that people could negotiate agreements about rights to land.

In 2009, the *Native Title Act* was again amended. These changes gave the Federal Court a central role in managing all native title claims. The Federal Court can settle native title claims using mediation. Alternatively, the Federal Court can send a claim to the National Native Title Tribunal.



FIGURE 11.24 A case was lodged with the High Court of Australia by a group of Meriam from the Eastern Torres Strait in May 1982.

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Questions

1 What does *terra nullius* mean?
2 What actions had been taken by Aboriginal and Torres Strait Islander people to influence a change in government policy about land rights?
3 Who was Eddie Mabo?
4 What was the *Mabo Case* about?
5 What is native title?
6 Why was the *Native Title Act* passed?
7 Which individuals and groups in the community may be affected by the *Wik* decision? How did the government respond to this decision?

ACTIVITY 11.9 Research

Recognition of Aboriginal and Torres Strait Islander rights

This activity is available in the online version of the textbook.

ACTIVITY 11.10 Research

Aboriginal and Torres Strait Islander leaders

This activity is available in the online version of the textbook.

FIGURE 11.25 Judges will look at the precedents set when determining how to apply the law.



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CONSOLIDATE YOUR LEARNING

Equality before the law

Court cases delayed due to shortage of translators in Victoria's court system

Shannon Deery, *Herald Sun*, 5 May 2017

A shortage of qualified translators is wreaking havoc with Victoria's court system, forcing some victims of crime to wait for justice.

Court hearings are being abandoned regularly, suspects are being held in custody for days awaiting interview, and those accused are being denied a chance of bail.

Legal sources say there is a significant shortage of interpreters for many languages, including Vietnamese, Arabic and Tamil.

Last week a preliminary hearing for three men on serious charges was adjourned after a Tamil interpreter could not be found.

While an interpreter was required for each of the men, only one with the sufficient qualification was available to the court.

Magistrate Graeme Keil said the court had recently decided to enforce a policy that only level 3 qualified interpreters would be accepted at preliminary hearings.

He questioned whether a lower-grade level 2 interpreter booked for the day even understood English before adjourning the hearing at 'massive community expense'.

Lawyer George Balot said the right to an interpreter was fundamental, entrenched in the human rights, charter.

'Where an interpreter is not available, the case can't possibly proceed and it will inevitably be adjourned,' he said.

'Adjournments due to lack of interpreters are not only expensive, but are a serious interference with the proper administration of justice because they waste the court's time, financial resources and significant expenses.

'They also lead to substantial delays for accused persons and witnesses before facing a criminal trial and having swift access to justice,' he said.

Mr Balot said the problem was more prevalent in outer Melbourne, where police frequently can't access interpreters during the critical stages of the interrogation of suspects.

'I have had the experience of legally representing non-English speaking suspects who were not afforded an interpreter for the purpose of a police interview, despite a genuine police effort to do so, who ended up spending several days in custody remanded without interview until an interpreter could be arranged many days later. I am also aware of cases where the delay was several weeks,' he said.

'The problem stifles vital cooperation from non-English speaking suspects who are genuinely willing to co-operate with police.'

Explain how a lack of interpreters in the Victorian Court system undermines the application of the key principles of the Australian justice system. In answering this question, you should refer to the principle of equality before the law.

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Understanding specialist courts

Research one of the following Victorian courts: the Coroners Court or the Children's Court. You should aim to provide simple explanations of the jurisdiction and operation of your chosen court. Provide and explain the details of an actual case to demonstrate your understanding.

Know your rights

One reason why people end up in disputes is because they do not understand their rights and responsibilities. If the legal system is to function effectively, people must know how to resolve disputes. Working as a class, plan a 'Know Your Rights' booklet or web page. The booklet or web page should explain the basic laws that affect young people. Your booklet should also explain how disputes relating to these issues can be resolved.

- Working in groups, find out more about the law. Each group should select one of the following areas of law:
  - driving offences
  - consumers and the law
  - employment
  - police powers
  - family law
  - neighbourhood disputes.
- Write one chapter of your class booklet or build one screen of your web page. Your chapter or screen should:
  - outline the rights and responsibilities
  - describe the relevant law
  - discuss the relevant courts and/or tribunal
  - identify possible sources of legal advice or assistance
  - include a glossary of terms.

Remember that your booklet or web page is designed for young people and aims to help them to become aware of their rights. Present your work in a format that you think will be easy for young people to use. Each group should present its completed chapter or web page to the class.

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FIGURE 12.1 Peacekeeping operations

Chapter 12

Australia: Global citizenship and international legal obligations

In this chapter, we move from domestic government and legal arrangements into the international domain. We analyse the roles and responsibilities the Australian government has at a global level, including provision of foreign aid, peacekeeping and as a member of the United Nations (UN). From the legal perspective, we consider how international obligations have shaped Australian law and government policies, including in relation to Aboriginal and Torres Strait Islander peoples. Contemporary issues and recent cases are investigated.

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12.1 Global citizenship

The United Nations and Australia

The United Nations (UN) is a global body with 193 members representing countries from all over the globe. It deals with peace and security, **human rights** and international law. It was formed after World War II. It is called on to have a global view of issues, to consider matters that extend beyond national boundaries and to broker peace. In times of hostility or international difficulty, UN troops can be called on to quell conflict, assist innocent civilians and try to work with dissenting groups to resolve disputes. The United Nations Association of Australia website points out that:

GLOSSARY

Human rights the rights considered by most societies to belong automatically to everyone

> Australia is a founding member of the United Nations, and has consistently supported the UN's role in world affairs. Australia was an active participant at the 1945 San Francisco Conference, during which the UN Charter was negotiated. Australia held the first Presidency of the Security Council in 1946 and in 1947 provided military observer assistance to Indonesia as part of their struggles to gain independence under UN support.
>
> Australian foreign policy has been informed by the underlying principles and purposes of the United Nations: to maintain international peace and security, to develop friendly relations among nations, and to achieve global cooperation. Australia regards the United Nations as an essential forum through which to influence world affairs, promote a stable international framework, defend Australia's security and sovereignty, pursue trade and economic interests and promote Australian values. Australia has made important contributions to UN activity, including in the areas of peace and security, human rights, development assistance and social, economic and environmental affairs. Australia also provides significant financial support to the UN. Australia is the 13th largest contributor to the UN budget and provides modest support to UN peace operations.
>
> In addition, Australia provides voluntary funding to many UN agencies. The level of support to UN agencies is based on their relevance to the priorities of Australia's aid program, their focus on the Asia-Pacific region and their continued effective performance.



FIGURE 12.2 Russian Foreign Minister Sergei Lavrov addresses the UN Human Rights Council.

The United Nations has set up a number of bodies to protect and report on human rights. These are the Human Rights Council, the Human Rights Committee and the International Court of Justice.

Australia and the Human Rights Council

The Human Rights Council is made up of 47 members, which are responsible for promoting and protecting human rights around the world. Its main role is to report on human rights violations and make recommendations on addressing those violations.

Australia was elected to the Human Rights Council for a three-year term, beginning in 2018.

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The United Nations Association of Australia website explains Australia's role on the Human Rights Council:



To become a member of the Council, states must demonstrate the highest standards in the promotion and protection of human rights and receive the support of the majority vote of the General Assembly.

Current member states serving in Australia's 'Western European and other' regional group include Austria, France, Germany, Ireland, Italy, United Kingdom and the United States.

Key areas of interest to Australia include:

- gender equality – a prerequisite for development
- good governance essential for promoting a positive human rights environment
- freedom of expression and association – a key ingredient for democracy, development and a human rights-orientated society
- transparent working methods for the Human Rights Council – ensuring the Council is impartial, equitable and pragmatic to encourage clarity and predictability.

Australia and UNESCO

The United Nations Educational, Scientific and Cultural Organization (UNESCO) is responsible for coordinating international cooperation in education, the natural sciences, the social and human sciences, culture and communications/information technology. UNESCO was established in 1946 as a specialised agency of the United Nations, and Australia is a founding member. The Australian Government also set up the Australian National Commission for UNESCO. This body acts as a point of liaison between government, the community and UNESCO in Australia. It provides expert analysis and policy advice to the Australian Government on UNESCO matters.

The Australian National Commission for UNESCO assists in many projects around the world. These projects promote the National Commission's and UNESCO's priorities and objectives, including:

- attaining quality education for all and lifelong learning
- mobilising science knowledge and policy for sustainable development
- addressing emerging social and ethical challenges
- fostering cultural diversity and intercultural dialogue, and
- building inclusive knowledge societies through information and communication.

Source: Australian National Commission for UNESCO Grants Scheme.

REVIEW 12.1

1 Why do you think the United Nations was formed?
2 Explain the role of the Human Rights Council.
3 Identify the key areas of interest to Australia for the Human Rights Council. Provide examples of how these areas are covered in Australia.

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ACTIVITY 12.1 Research

Australia's involvement with the United Nations

1 Research and investigate Australia's involvement with the United Nations. What role did Australia have in forming the United Nations?
2 Why do you think UNESCO was introduced by the United Nations? Describe Australia's role in assisting UNESCO. Research and provide examples of Australia's assistance around the world.

ACTIVITY 12.2 Create

Australia's role in international affairs

This activity is available in the online version of the textbook.

Australia and international law

Types of international agreements

International legal obligations can have a significant influence on Australian government policies and law. These international legal obligations are known as treaties. A treaty may also be called a 'convention', a 'protocol', a 'covenant' or an 'exchange of letters'. A treaty is an agreement between countries. Under international law, these agreements are not binding unless the countries signing the agreement intend it to be a binding treaty.

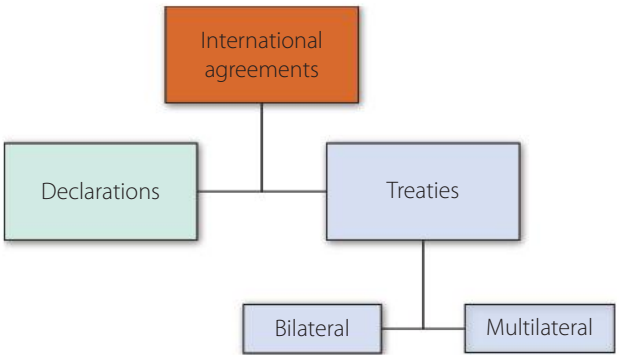


FIGURE 12.3 Types of international agreements

TABLE 12.1 Types of international agreements

Type of treaty	Description
Bilateral treaty	A treaty between Australia and one other country
Multilateral treaty	A treaty between three or more countries
Conventions	Legally binding agreements between countries
Covenant	A formal agreement between two or more countries
Protocol	A document that describes the detail of a formal agreement between countries

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A **convention** is a binding formal agreement or instrument that is between states (also known as countries or nations), or between states and non-state entities, like the United Nations.

Sometimes countries will agree to an international agreement called a 'declaration'. A **declaration** is an international agreement or instrument, which is also used and relied upon by states for various international purposes. However, this agreement or instrument is not always legally binding. These instruments form a system of rules and values concerning the relationships between governments (states) and international organisations such as the United Nations. A declaration is not a treaty as it is not intended to be legally binding. A declaration may, however, be part of the process that leads to the negotiation of a convention.

GLOSSARY

Convention a binding formal agreement or instrument that is between states (also known as countries or nations), or between states and non-state entities

Declaration an international agreement or instrument, which is also used and relied upon by states for various international purposes

The Australian Constitution

The Australian Constitution came into operation on 1 January 1901, when the six colonies decided to combine into one nation, also known as a federation. As part of this, a constitution was required to establish the law-making powers of each of these parliaments. This is known as the division of powers, where the Commonwealth looks after the national interest, while the states deal with and administer local or state issues. Conventions and declarations are covered by section 51(xxix), also known as 'external affairs'. The external affairs power provides the Australian government with the power to make laws on:

- conventions and declarations – for example, signing and ratifying the International Covenant on Civil and Political Rights covered by the Universal Declaration of Human Rights
- matters physically external to Australia – for example, sending troops on peacekeeping missions overseas
- Australia's relationship with other countries – for example, trade agreements.

REVIEW 12.2

1 Explain the basic difference between a convention and a declaration.
2 Speculate on three reasons why the Australian government legislates for conventions and declarations.



FIGURE 12.4 Federation celebrations, or the opening of the First Parliament of the Commonwealth, at the Exhibition Building, Melbourne, 9 May 1902.

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12.2 Conventions and declarations

Australia is a party to many conventions and declarations that cover important national and international priorities.

Universal Declaration of Human Rights

Universal Declaration of Human Rights
a declaration passed by the United Nations outlining the basic human rights of all people

The **Universal Declaration of Human Rights** is an example of a declaration. It was adopted by the General Assembly of the United Nations on 10 December 1948. The Universal Declaration of Human Rights recognises that 'the inherent dignity of all members of the human family is the foundation of freedom, justice and peace in the world'.

Preamble

Whereas recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world.

Whereas disregard and contempt for human rights have resulted in barbarous acts which have outraged the conscience of mankind, and the advent of a world in which human beings shall enjoy freedom of speech and belief and freedom from fear and want has been proclaimed as the highest aspiration of the common people.

Whereas it is essential, if man is not to be compelled to have recourse, as a last resort, to rebellion against tyranny and oppression, that human rights should be protected by the rule of law.

Whereas it is essential to promote the development of friendly relations between nations.

Whereas the peoples of the United Nations have in the Charter reaffirmed their faith in fundamental human rights, in the dignity and worth of the human person and in the equal rights of men and women and have determined to promote social progress and better standards of life in larger freedom …

Article 1. All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.

Article 2. Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status. Furthermore, no distinction shall be made on the basis of the political, jurisdictional or international status of the country or territory to which a person belongs, whether it be independent, trust, non-self-governing or under any other limitation of sovereignty.

Article 3. Everyone has the right to life, liberty and security of person.

Article 4. No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms.

Article 5. No one shall be subjected to torture or to cruel, inhuman or degrading treatment or punishment.

Article 6. Everyone has the right to recognition everywhere as a person before the law.

Article 7. All are equal before the law and are entitled without any discrimination to equal protection of the law. All are entitled to equal protection against any discrimination in violation of this Declaration and against any incitement to such discrimination …

The Universal Declaration of Human Rights is not a treaty. It is a statement of the principles shared by members of the United Nations, which are shared by all members of the international community. However, it has had a significant impact on the development of human rights law – both internationally and within Australia. Many of the rights stated in the United Nations Declaration of Human Rights have been restated in legally binding agreements that have been signed by Australia.

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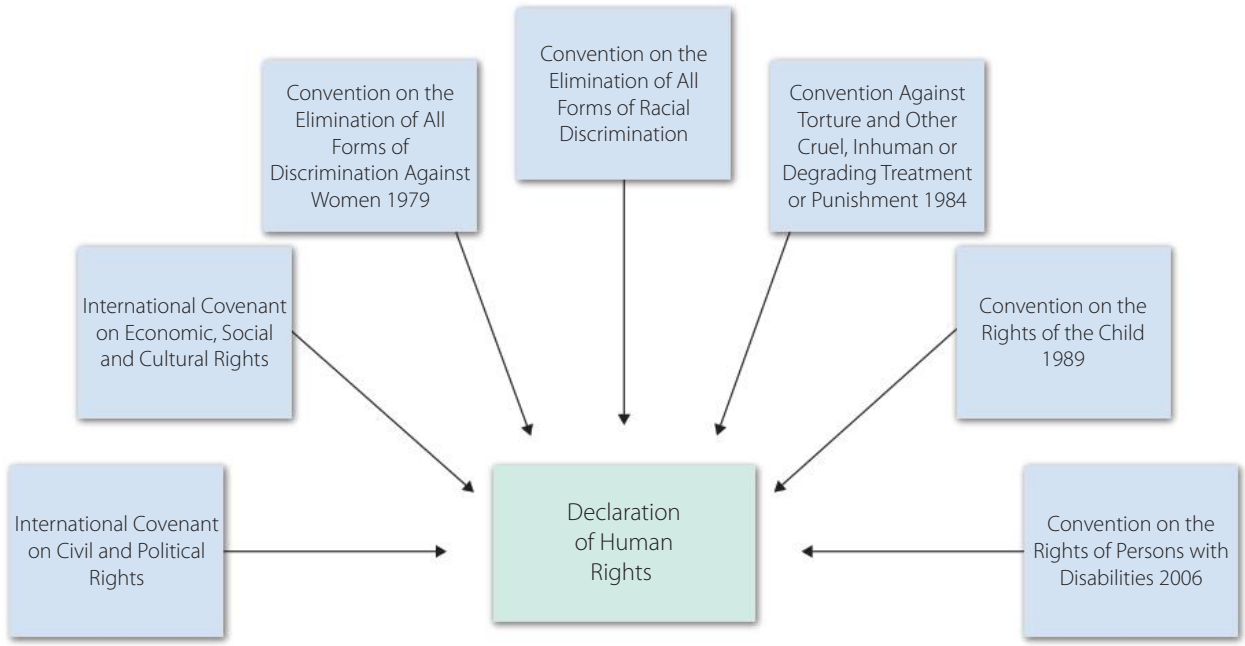


FIGURE 12.5 Human rights agreements signed by Australia

ACTIVITY 12.3 Research

The Universal Declaration of Human Rights

The Universal Declaration of Human Rights covers 30 articles related to human rights. Using the United Nations website, research two articles and answer these questions:

1. Identify and explain two articles that interest you.
2. Provide examples of human rights abuses around the world that relate to these articles.
3. What can be done by the United Nations to overcome these abuses?
4. Explain how these articles are demonstrated in Australian law.

International Covenant on Civil and Political Rights

Since 1980, the Australian government has been bound to promote and observe the International Covenant on Civil and Political Rights (ICCPR). Although Australia is a signatory to the covenant, the covenant is not part of the law in Australia, unless the convention has been specifically enacted into Australian law through legislation. For example, the *Human Rights (Sexual Conduct) Act 1994* (Cth) and the Human Rights and Equal Opportunity Commission, established in 1986, enforce many of the provisions contained in the ICCPR.

The ICCPR gives legal force to the Universal Declaration of Human Rights. The Universal Declaration of Human Rights covers the rights to life and liberty; to be free from slavery and torture; to be equal before the law; and to freedom of thought, conscience and religion.

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For example, the ICCPR includes an extensive list of rights such as:

- the right to life
- the right to freedom from torture and inhuman or degrading treatment
- the right to freedom from slavery and forced labour
- the right to liberty and security
- the right of detained persons to be treated with humanity
- the right to privacy
- the right to freedom of thought, conscience and religion
- prohibition of propaganda for war and of incitement to national, racial or religious hatred
- the rights of the child
- the right to equality before the law
- the rights of minorities.

REVIEW 12.3

1 Describe the connection between the ICCPR and the Universal Declaration of Human Rights.

12.3 Treaties

Are treaties law?

Treaties set out rights and obligations. The executive government has the power to enter into treaties. However, the rights and responsibilities stated in a treaty do not automatically become law in Australia. For the terms of a treaty to become law in Australia, parliament must pass legislation recognising the rights and obligations stated in the treaty. A treaty is generally tabled in both Houses of the Commonwealth parliament after it has been signed, at least 15 sitting days prior to binding treaty action being taken. At the time the treaty is tabled in parliament, the government will also table a National Interest Analysis, which sets out the reasons why Australia should be a party to the treaty.

To implement the rights set out in the key human rights covenants that Australia has signed, the Commonwealth parliament has passed the legislation listed in Table 12.2.

TABLE 12.2 International treaties and domestic legislation

International treaty	Domestic legislation
International Convention on the Elimination of All Forms of Racial Discrimination	*Racial Discrimination Act 1975* (Cth)
Convention on the Elimination of All Forms of Discrimination Against Women	*Sex Discrimination Act 1984* (Cth)
Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment	*Crimes (Torture) Act 1988* (Cth)
Convention on the Rights of Persons with Disabilities 2006	*Disability Discrimination Act 1992* (Cth)

Source: Based on Australian Human Rights Commission, *Human Rights in the School Classroom.*

Australian Constitution

Section 51(xxix) of the Constitution gives the Commonwealth parliament the power to make laws on 'external affairs'.

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This section of the Constitution enables the Commonwealth parliament to make laws to give effect to treaties and international agreements. The position of the Commonwealth parliament in relation to treaties was clarified in the *Tasmanian Dam Case* (see Case Study 12.1). This case indicated that the Commonwealth parliament has a broad power to make laws to implement the terms of an international agreement.

CASE STUDY 12.1

The Commonwealth v Tasmania (1983) 158 CLR 1; 46 ALR 625

This case is also known as the *Tasmanian Dam Case*. The Tasmanian Government challenged the validity of the *World Heritage Properties Conservation Act 1983*. This Act was passed by the Commonwealth parliament, and prohibited the clearing, excavation and building of a dam in protected areas. This included an area on the Gordon River (below its junction with the Franklin River). The Gordon and Franklin Rivers run through large areas of wilderness and were recognised as having many unique features. It was also recognised that the flooding of the two rivers would seriously damage the area.



FIGURE 12.6 The Gordon and Franklin Rivers, Tasmania

The area was nominated by the Commonwealth Government to be included in the World Heritage list (which was established by an international treaty that Australia had signed). The World Heritage list was designed to protect the world's cultural and natural heritage and the Commonwealth banned the building of a dam in the World Heritage list area. The High Court was asked to determine whether the Commonwealth parliament had the power to ban the building of a dam in Tasmania.

The High Court decided that the external affairs power gave the Commonwealth parliament the power to make laws that fulfilled Australia's obligations under international treaties. Australia had signed a treaty to protect World Heritage areas.

Today, the validity of much of our national environmental law depends on the decision in the *Tasmanian Dam Case*. This includes the protection of World Heritage areas, including the Great Barrier Reef, as well as threatened and migratory species.

Questions

1 According to the decision in the *Tasmanian Dam Case*, what is the law-making power of the Commonwealth in relation to external affairs?

Further questions on the *Tasmanian Dam Case* are available in the online version of the textbook.

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The courts and treaties

Treaties can also influence how the law is applied by our courts. The courts may look at treaties when interpreting legislation and as a guide to developing the common law. High Court decisions have emphasised the importance of treaty obligations.

CASE STUDY 12.2

Minister of State for Immigration & Ethnic Affairs v Ah Hin Teoh (1995) 183 CLR 273

Mr Teoh was a Malaysian citizen with a wife and children who were Australian citizens. He was living in Australia on a temporary entry permit and applied for resident status. While this application was being processed, Mr Teoh was convicted for heroin importation and possession. The Immigration Minister of Australia ordered that Mr Teoh be deported from Australia. The case went to the High Court, with the issue being how Mr Teoh's deportation would impact his wife and children.

During the appeal, the court was asked to consider the extent to which the Convention on the Rights of the Child applied in Australia law, given that Australia had ratified the convention but not incorporated the provisions in to Australian legislation. The Court decided that agreeing to a treaty agreement could lead to the 'legitimate expectation' that government decision-makers might make decisions in accordance with treaty provisions. With regard to this case, the immigration official determining Mr Teoh's deportation should have taken the Convention on the Rights of the Child into consideration, regardless of the fact there was no Australian legislation in place.

This decision was considered to be very controversial. Critics suggested that the right of Australian law to recognise treaty provisions should instead stay with the democratically elected parliament.

Question

1 What was the basis of the *Teoh Case*? Why was the decision in this case considered controversial?

Impact of treaties on government policies

There are many issues with which governments deal that are not restricted to national boundaries. Global issues, such as climate change, extend beyond national borders and require solutions to be worked out by nations in collaboration. Issues such as global warming, depletion of the ozone layer and threats to biodiversity cannot be addressed effectively by nations working alone. Treaties play an important role in setting expectations for governments to implement policies to address these problems.

Some treaties relate to fundamental values. These agreed values are also reflected in government policies. Australia is a signatory to the UN Convention on the Rights of the Child, and 'Protecting Children is Everyone's Business' is an initiative of the Council of Australian Governments (COAG). It sets out a national framework for the development of child welfare services in Australia to protect children from abuse and neglect.

Principles to guide our actions

Children have a right to be safe, valued and cared for. As a signatory to the United Nations Convention on the Rights of the Child, Australia has a responsibility to protect children, provide the services necessary for them to develop and achieve positive outcomes, and enable them to participate in the wider community.

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In line with Australia's obligations as a signatory to the UN Convention, the National Framework is underpinned by the following principles:

- All children have a right to grow up in an environment free from neglect and abuse. Their best interests are paramount in all decisions affecting them.
- Children and their families have a right to participate in decisions affecting them.
- Improving the safety and wellbeing of children is a national priority.
- The safety and wellbeing of children is primarily the responsibility of their families, who should be supported by their communities and governments.
- Australian society values, supports and works in partnership with parents, families and others in fulfilling their caring responsibilities for children.
- Children's rights are upheld by systems and institutions.
- Policies and interventions are evidence based.

The National Framework also recognises the importance of promoting the wellbeing of Aboriginal and Torres Strait Islander children, young people and families across all outcome areas.

Source: COAG, Protecting Children is Everyone's Business (2009).

REVIEW 12.4

1 Outline the role of the High Court in relation to treaties.
2 What is the external affairs power?
3 Explain why treaties relating to fundamental values are reflected in government policy.

12.4 Australia's involvement in Asia and internationally: Foreign policy

The Australian government understands that we live in a complex, interconnected region where countries need to coordinate their responses to the major challenges we all face today. Australia's strategy in relation to other countries is known as its **foreign policy**. This allows the Australian government to be firmly committed to effective involvement in Asia and internationally by engaging with the multilateral system, which is a key pillar of Australia's foreign policy. Involvement within our region and internationally presents both opportunities and challenges in terms of promoting Australia's national interests. The Australian government participates in a range of programs that also promote the security and prosperity of Australians. These programs are funded through our foreign aid budget, and include education and exchange programs, peacekeeping, election monitoring, health programs and disaster management.

GLOSSARY

Foreign policy a government's policy on dealing with other countries – for example, in matters relating to trade or defence

REVIEW 12.5

1 Explain what is meant by the term 'foreign aid'.
2 Watch the *Foreign policy in action* video in the online version of the textbook. Identify the role of each person interviewed, and the aspect of foreign policy they are connected with.

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Education or exchange programs

Many young people in our region leave school without the necessary skills to get a job and fully participate in society. Women, young girls and people with a disability are left disadvantaged by education services that are of a poor quality or incomplete. The Australian government understands that education is key to enhancing livelihood, positioning poorer citizens to participate in the local economy and lifting overall living standards. Australia is supporting changes to these education policies in order to implement better services to our area.

Education can be a powerful tool to reduce disadvantage and accelerate economic growth.

Australia is investing in better education outcomes for children and youth across the Indo-Pacific region, to contribute to reduced poverty, sustainable economic growth and enhanced stability. In line with the Strategy for Australia's aid investments in education, investments target four strategic priorities:

- getting the foundations right
- learning for all
- universal participation
- skills for prosperity.

Source: DFAT, *National Framework for Protecting Australia's Children* (2017).

CASE STUDY 12.3

Education aid

Australia's education aid approach is outlined in the Strategy for Australia's Aid Investments in Education 2015–20. It is estimated that in 2017–18, the Australian government spent $675.3 million on improving the educational outcomes of our neighbours.

Australia's investments in education enable children, particularly girls and children with a disability, to gain the skills they need to obtain work or go on to further study and to lead productive lives. Australia's education investments in the Indo-Pacific include:

- supporting teacher training, curriculum reform and improved learning assessment;
- increasing opportunities for girls to learn;
- supporting inclusion of children with a disability in education;
- supporting technical education, skills development and training aligned with labour market needs;
- supporting regional stability through increased access to education in conflict-affected areas;
- constructing and improving education infrastructure in disadvantaged regions;
- investing in innovative approaches and research with the private sector and civil society to improve access, reach and the quality of education; and
- strengthening the management and accountability of education policies and systems, to ensure the sustainability of our investments.

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In addition, Australia Awards scholarships and fellowships support emerging leaders from developing countries to study in Australia or within their region, build people-to-people links and return home to contribute to economic and social development.

Source: DFAT, *Overview of Australia's Assistance for Education* (2018).

In 2015–16, Australia provided aid to more than 1.1 million children in schools throughout the region, training up to 135 000 teachers to support the quality of education, while helping over 5600 men and women attain recognised post-secondary qualifications.

Questions

1 Explain the impact that education aid can have on our neighbours. Where possible, give examples.

2 Evaluate the effectiveness of providing education aid. In your answer, explain three advantages and three disadvantages of this type of aid.



FIGURE 12.7 Australia Indonesia Basic Education Program, Indonesia

ACTIVITY 12.4 Research

Foreign aid

1 Find out how much money is spent on the foreign aid budget by the Australian government.

2 Working with a partner, describe two reasons why foreign aid is important to Australia.

Peacekeeping and peacebuilding

As part of its charter, the United Nations is tasked with upholding international peace and security by taking combined measures to prevent and remove threats to peace. Peacekeeping is also known as peacemaking or peacebuilding. This includes monitoring ceasefires, re-establishing law and order, removing land and sea mines, educating others in mine detection and clearance, intercepting merchant ships, detecting and examining weapons and, if required, supervising their elimination. Support is also given by assisting asylum seekers and refugees with medical, dental services and the means to communication. The United Nations also provides support for the preparation and supervision of elections – for example, electoral education – and for assuming responsibilities in transitional administrations.

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Australia has been actively involved in peace operations for nearly 70 years. We have provided military and police personnel to more than 50 United Nations and other multilateral peace and security operations since 1947. Australian peacekeepers are currently serving in:

- the Middle East UN Truce Supervision Organisation (UNTSO)
- the UN Mission in the Republic of South Sudan (UNMISS).

Australia has played a leading role in successful regional missions in the Solomon Islands, Timor-Leste and Bougainville, Papua New Guinea. Australia was instrumental in the diplomacy that led to the Cambodian Peace Settlement. Australia made a major contribution to the UN Transitional Authority in Cambodia, including sending the first military contingent and providing the commander of the military component of the mission. Australia has also contributed to Commonwealth missions in Zimbabwe and Uganda and continues to deploy personnel to the Multinational Force and Observers in the Sinai (Egypt/Israel) and to international stabilisation efforts in Afghanistan.

Source: DFAT, *Peacekeeping and Peacebuilding* (2018).

Peacekeeping by Australia not only includes military personnel, but also other experts: police, scientific specialists and public servants such as those from DFAT, AusAID, the Australian Electoral Commission and Treasury.

REVIEW 12.6

1 Explain why peacekeeping is an important part of the UN Charter.
2 Describe the roles undertaken by Australian peacekeepers.

ACTIVITY 12.5 Research

Australian peacekeepers

Research a recent Australian peacekeeping mission and answer the following questions:

1 Name the peacekeeping mission and the country.
2 Explain why Australian peacekeepers were used.
3 What role or function did our peacekeepers undertake?
4 Assess the effectiveness of this mission.



FIGURE 12.8 Australia has a long history as part of the United Nations Peacekeeping Forces, which won the Nobel Peace Prize in 1988. Here, a member of the Australian Air Force releases a white dove in commemoration and celebration.

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Election monitoring

The Australian Electoral Commission (AEC) is an independent, government-funded body that exists to ensure the delivery of free and fair elections within Australia. However, the AEC also offers a number of international electoral services. The aim is to enhance democracy and good governance by developing and implementing programs for electoral assistance, with an emphasis on developing local expertise to run elections. The international electoral services offered by the AEC also enhance the standing of Australia in the eyes of the international community.



FIGURE 12.9 Australian peacekeeping soldiers aiding election monitoring in Dili, East Timor in 2007.

The AEC undertakes international electoral work in accordance with the *Commonwealth Electoral Act 1918* in cooperation with a number of government agencies such as the Department of Foreign Affairs and Trade (DFAT), the Australian Agency for International Development (AusAID) and, in relation to peacekeeping, the Australian Defence Force and the Australian Federal Police.

The AEC's international electoral services objectives cover:

- technical assistance and building electoral capacity with the electoral authorities of other countries to ensure that sufficient skills and resources are available within a community to carry out the requirements for future elections
- participation in election observation missions in countries such as South Africa
- survey missions for the planning of peacekeeping operations in countries such as Cambodia.

AEC officers have provided expert electoral assistance in a range of countries, including Bangladesh, Botswana, Cambodia, East Timor, Ethiopia, the Federated States of Micronesia, Fiji, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Rhodesia (now Zimbabwe), South Africa, Tanzania and Zanzibar, Uganda, Western Sahara, Indonesia and Papua New Guinea. AEC officers assist as advisers, observers and polling officials. AEC officers have also been made available to serve in a private capacity in Croatia, Montenegro, Liberia, Kosovo and Albania.

Source: Australian Electoral Commission, *International Electoral Services*.

CASE STUDY 12.4

BRIDGE

This case study is available in the online version of the textbook.



REVIEW 12.7

1 Outline the role of the AEC.
2 Explain the objectives of the AEC's International Electoral Services.

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Health programs

The Australian government, through its programs run by DFAT, is involved in many international health programs.

It understands that health investments save lives, underpin economic growth and prosperity, and protect Australia and the region against the risk of cross-border disease threats. The Health for Development Strategy 2015–20 covers investments in health; water, sanitation and hygiene; and basic nutrition – three areas that are crucial to improving health outcomes in a population.

This Strategy provides guidance to DFAT for policy engagement and investment which assist to build country-level systems and services that are responsive to people's health needs. It also assists in strengthening regional preparedness and capacity to respond to emerging health threats. The Strategy's main geographic focus is South-East Asia and the Pacific, with priority investments in:

- core public health systems and capacities in key partner countries
- combatting health threats that cross national borders
- a more effective global health response
- access to clean water, sanitation, hygiene and good nutrition as pre-conditions for good health
- health innovation, and new approaches and solutions that benefit our region.

In 2015–16, The Health for Development Strategy undertook over 2.8 million vaccinations of children and nearly 100,000 additional births were attended by a skilled birth attendant. In Cambodia's north-east provinces, 71 percent of mid wives received training which improved their capacity to provide quality reproductive, maternal and neonatal health services. This Strategy also increased access to safe water for over 1.79 million people and increased access to basic sanitation for over 1.77 million people. Read the case study on WASH for more detail on this matter.

Source: DFAT, *Health Aid Fact Sheet* (2017).



FIGURE 12.10 The Health for Development Strategy 2015–20 covers investments in areas that are crucial to improving health outcomes in a population.

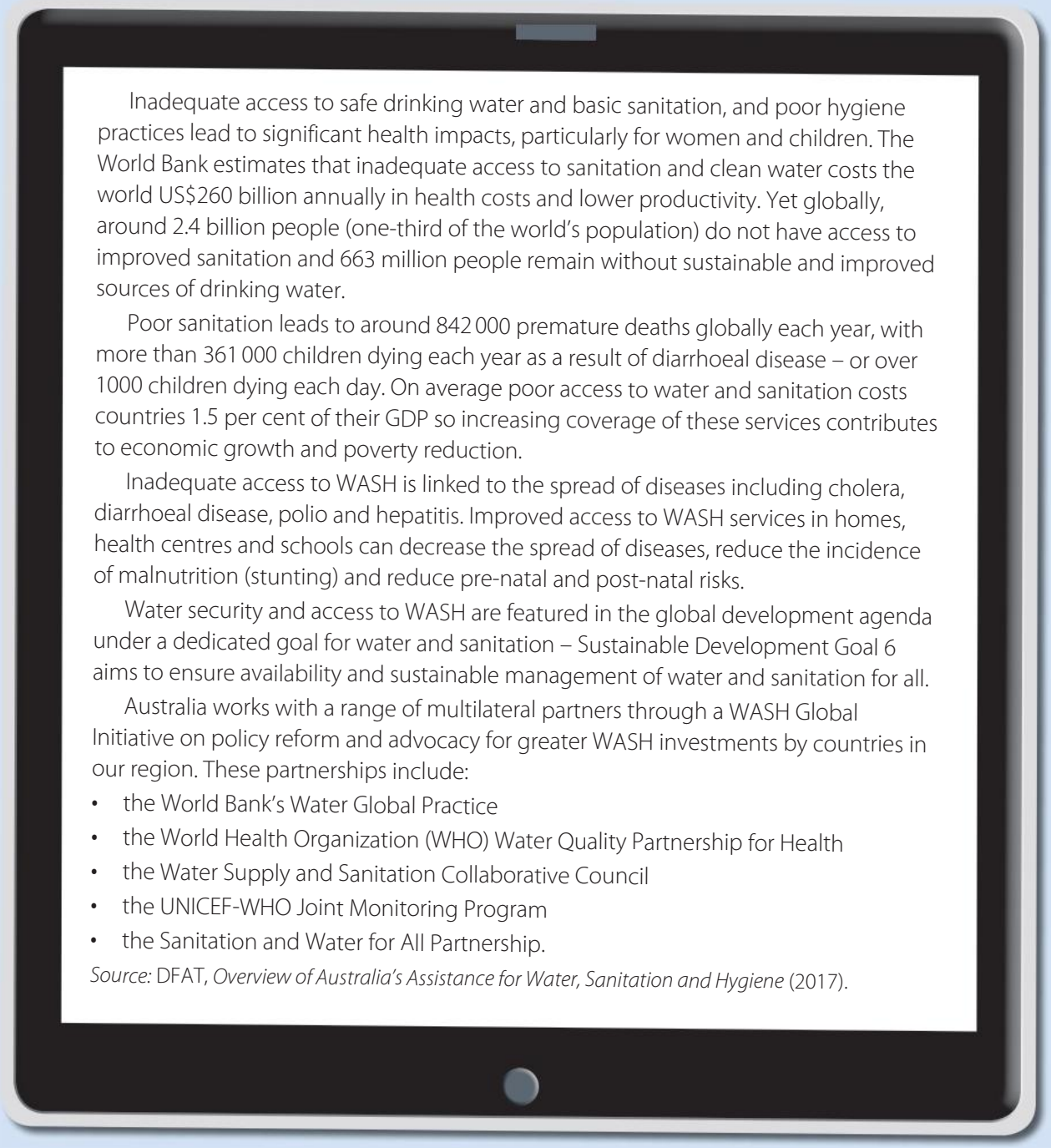
CASE STUDY 12.5

WASH

Overview of Australia's assistance for water, sanitation and hygiene

The Health for Development Strategy in 2017–18 will spend $47.9 million as part of its investment in access to water sanitation and hygiene (WASH). The Australian government acknowledges that health is critical to improving livelihoods, enabling poor people to participate in the economy, and lifting standards and the quality of life.

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Inadequate access to safe drinking water and basic sanitation, and poor hygiene practices lead to significant health impacts, particularly for women and children. The World Bank estimates that inadequate access to sanitation and clean water costs the world US$260 billion annually in health costs and lower productivity. Yet globally, around 2.4 billion people (one-third of the world's population) do not have access to improved sanitation and 663 million people remain without sustainable and improved sources of drinking water.

Poor sanitation leads to around 842 000 premature deaths globally each year, with more than 361 000 children dying each year as a result of diarrhoeal disease – or over 1000 children dying each day. On average poor access to water and sanitation costs countries 1.5 per cent of their GDP so increasing coverage of these services contributes to economic growth and poverty reduction.

Inadequate access to WASH is linked to the spread of diseases including cholera, diarrhoeal disease, polio and hepatitis. Improved access to WASH services in homes, health centres and schools can decrease the spread of diseases, reduce the incidence of malnutrition (stunting) and reduce pre-natal and post-natal risks.

Water security and access to WASH are featured in the global development agenda under a dedicated goal for water and sanitation – Sustainable Development Goal 6 aims to ensure availability and sustainable management of water and sanitation for all.

Australia works with a range of multilateral partners through a WASH Global Initiative on policy reform and advocacy for greater WASH investments by countries in our region. These partnerships include:

- the World Bank's Water Global Practice
- the World Health Organization (WHO) Water Quality Partnership for Health
- the Water Supply and Sanitation Collaborative Council
- the UNICEF-WHO Joint Monitoring Program
- the Sanitation and Water for All Partnership.

Source: DFAT, *Overview of Australia's Assistance for Water, Sanitation and Hygiene* (2017).

The water sanitation and hygiene (WASH) program has been used to build the capacity of overseas government institutions and water utilities to deliver affordable WASH services to the poor. Where these services have not reached their targeted audience, the WASH program has worked with small private-sector providers and civil society organisations to improve access to the supply of water and sanitation. This program has also been used to promote good hygiene behaviours in schools and health centres. This has had a large benefit for women and girls, which contributes to increased school attendance.

Questions

1 What is WASH and why is this program so important to our region?

2 Explain the term 'water security'.

3 To what extent has the WASH program made an impact on the provision of clean water and sanitation?

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REVIEW 12.8

1 How does foreign aid investment in health services assist Australia?
2 Explain the focus areas of this investment. Why do you think the Australian government chose these areas?
3 Identify the impact of the Health for Development Strategy for our region.

Disaster management

Australia is susceptible to natural disasters, and we are recognised globally for our disaster risk-management expertise in governance, preparedness, hazard identification and technological innovation. Through its aid program, Australia also supports partner countries in the Indo-Pacific region to protect the most vulnerable communities and to build a platform for strengthening disaster resilience.

The Australian government recognises that investing in disaster risk reduction (DRR) is a precondition for making development efforts sustainable. Disasters destroy lives, livelihoods and infrastructure; they undermine development, create instability and reverse economic growth. DRR protects lives, health, livelihoods and assets, and it enables service and business continuity when natural disasters and hazards occur.

The impact of disasters in the Indo-Pacific region prevents millions of people from breaking out of the cycle of poverty. The impact is a direct result of vulnerability related to a range of complex, interrelated factors, such as poverty, environmental degradation, disability and gender inequality. Reducing risk and building resilience to future disasters is a priority not only to save lives but also for sustainable economic growth.

CASE STUDY 12.6

Disaster risk reduction 2015–30

This case study is available in the online version of the textbook.



Refugees

In 1951, Australia signed the United Nations Convention Relating to the Status of Refugees. In the Convention, the United Nations defines a refugee as a person who,

> owing to well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, is outside the country of his nationality and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country; or who, not having a nationality and being outside the country of his former habitual residence as a result of such events, is unable or, owing to such fear, is unwilling to return to it.

A person who has decided to flee from persecution to seek protection may be granted refugee status. A refugee could be living in a refugee camp for an opportunity to go back to their home country, or they might have been resettled in another country such as Australia.

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Migrants and asylum seekers

What is a migrant?

A migrant is a person who willingly chooses to depart from their home country to seek professional employment, begin studies abroad or be reunited with family. They have the option to return home at any point if this doesn't work out.

What is an asylum seeker?

An asylum seeker is a person who has fled their country and seeks protection as a refugee in another country

> because they have a well-founded fear of being persecuted for reasons of their race, religion, nationality, political opinion or membership of a particular social group. An asylum seeker could also be someone who is fleeing other serious human rights violations, including torture or cruel, inhumane or degrading treatment or punishment. Not every asylum seeker will ultimately be recognised as a refugee, but every refugee is initially an asylum seeker.
>
> *Source:* Australian Red Cross, *Refugee and Asylum Seekers Facts.*

Asylum seekers in Australia

Asylum seekers can apply for protection visas. There is a comprehensive assessment process that includes checking to see whether there is a legitimate reason for staying in Australia. This may be a long process. Many asylum seekers have no proof of identity, and confirming the identity of an asylum seeker may take months. From the late 1990s, the number of asylum seekers arriving in Australia – often without official documents or classification as refugees – increased.

Many asylum seekers are allowed to live in the community while their applications to stay in Australia are considered. In some circumstances, some asylum seekers are detained. Mandatory detention applies to asylum seekers who:

- pose a risk to the wider community
- repeatedly breach their visa conditions
- pose security or health risks.



FIGURE 12.11 This photo, taken on 14 September 2017, shows a coach talking to her players during a football match organised by Football United, a program helping refugees to integrate in Australia.

Offshore detention centres

Sometimes asylum seekers will pay people to bring them illegally into Australia by air or boat. This practice is known as people smuggling. People smuggling is considered a serious offence. These offences can result in a prison sentence of up to 20 years.

Asylum seekers attempting to reach Australia by boat are intercepted at sea and referred to as 'illegal maritime arrivals', or IMAs. Asylum seekers who arrived in Australia by boat after 19 July 2013 have been sent to offshore detention centres, such as Christmas Island and Nauru. This practice, known as 'offshore' or 'regional' processing, has been controversial.

In 2016, Papua New Guinea's Supreme Court declared that the detention of refugees on Manus Island was 'unconstitutional and illegal', and that the holding of refugees as prisoners regardless of their circumstances 'is to offend against their

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rights and freedoms'. In 2017, the power of the Australian government to pass laws providing for the offshore processing and detention of asylum seekers on Manus Island was challenged in the High Court. The Full Bench of the High Court unanimously rejected the challenge.

In 2017, the President of Australia's Human Rights Commission, Professor Gillian Triggs, warned that living conditions on Manus Island and Nauru

> remain below international standards; there has been an increase in safety concerns, including multiple reports of physical and sexual assault; and durable solutions for people found to be refugees have proven difficult to find.
>
> *Source:* DFAT, *Immigration Snapshot,* 30 March 2017.

Manus Island closed in October 2017, and some Manus Island refugees were resettled in the United States. However, a number of men refused to leave.

Australia's treaty obligations relevant to refugees and people seeking asylum are summarised in Table 12.3.

Boat arrivals to Australia

32 boats and 771 people turned back

Known boat turn-backs since September 2013 under Operation Sovereign Borders: the last boat turned around was in August 2017 and contained 7 people.

Source: Sydney Morning Herald, 27 August 2017.

Under the Howard Coalition government, from 2001 to 2003, five boats containing 614 people were turned back.

Sources: Australian Government Press Release and ReliefWeb Report.

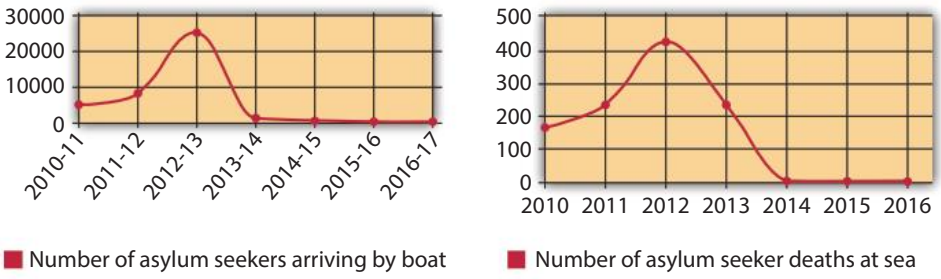


FIGURE 12.12 Boat arrivals in Australia

Sources: Parliamentary Library & Australian Customs, and Australian Border Deaths Database.

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FIGURE 12.13 Protesters at a rally against Australia's asylum seeker policy.

TABLE 12.3 Treaty obligations relevant to refugees and people seeking asylum

Obligation	Relevant treaties
Everyone has the right to *enjoy human rights without discrimination of any kind*. No one should be subjected to *discrimination* on any ground (including, in the case of children, *discrimination or punishment on the basis of the status and activities of their parents*). Refugees who enter or are present in a country without authorisation *should not be penalised*.	ICCPR articles 2(1) and 26, ICESCR article 2(2), CRC article 2(1), Refugee Convention article 31(1)
In all actions concerning children, the *best interests of the child* shall be a primary consideration.	CRC article 3(1)
Everyone has the right to *life* and *security of person*. The *survival and development* of the child should be ensured to the maximum extent possible. Children should be protected from *all forms of physical and mental violence, including sexual abuse*.	ICCPR articles 6(1) and 9(1), CRC articles 6(2), 19(1) and 34, CRPD article 10
No one should be subjected to *cruel, inhuman or degrading treatment or punishment*. No one should be returned to another country if they would be *in danger of being persecuted or subjected to torture or cruel, inhuman or degrading treatment*. The *recovery and social reintegration* of a child victim of torture or cruel, inhuman or degrading treatment or punishment should be promoted.	ICCPR article 7, CRC articles 37(a) and 39, CAT article 3(1), CRPD article 15(1), Refugee Convention article 33(1)
No one should be subjected to *arbitrary detention*, and children should only be detained as a *last resort* and for the *shortest appropriate period of time*. Anyone who is arrested has the right to be informed of the *reasons for their arrest and the charges against them*. Anyone who is detained has the right to *challenge the legality of their detention in court*.	ICCPR articles 9(1), 9(2) and 9(4), CRC articles 37(b) and 37(d), CRPD article 14(b)
People in detention should be treated with *humanity and respect* for the inherent dignity of the human person. Children in detention should be treated in a manner which *takes into account the needs of people their age*.	ICCPR article 10(1), CRC article 37(c)
Everyone has the right to *work*. Refugees should be treated *at least as favourably as non-citizens in the same circumstances* with regard to employment.	ICESCR article 6(1), Refugee Convention articles 17, 18 and 19
Everyone has the right to an *adequate standard of living*, including adequate food, clothing and housing. Children have a right to a standard of living adequate for their physical, mental, spiritual, moral and social development. Refugees should be treated *at least as favourably as non-citizens in the same circumstances* with regards to housing, and in the same *manner as citizens* with regards to public relief and social security.	ICESCR article 11(1), CRC article 27(1), CRPD article 28(1), Refugee Convention articles 21, 23 and 24

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Obligation	Relevant treaties
Everyone has the right to enjoy the *highest attainable standard of health*.	ICESCR article 12(1), CRC article 24(1), CRPD article 25
Everyone has the right to *education*. Primary education must be compulsory and available free to all. Refugees should be treated in *the same manner as citizens* with regards to primary education and *at least as favourably as non-citizens in the same circumstances* with regards to secondary and tertiary education.	ICESCR article 13, CRC article 28, CRPD article 24(1), Refugee Convention article 22
The family is entitled to *protection and assistance* as the natural and fundamental group unit of society. No one should be subjected to *arbitrary or unlawful interference with their family*. Applications by a child or their parents for family reunification should be dealt with in a *positive, humane and expeditious manner*.	ICCPR articles 17(1) and 23(1), ICESCR article 10(1), CRC articles 10(1) and 16(1)
The *assimilation and naturalisation* of refugees should be facilitated as far as possible. A child who is seeking or has refugee status should receive *appropriate protection and humanitarian assistance*. All necessary measures should be taken to ensure the *safety of people with disabilities in situations of risk*, including humanitarian emergencies.	Refugee Convention article 34, CRC article 22(1), CRPD article 11

Source: Australian Human Rights Commission, *Asylum Seekers, Refugees and Human Rights* (2017).

REVIEW 12.9

1 What is the difference between a migrant, a refugee and an asylum seeker?
2 Why were asylum seekers held on Manus Island? Suggest reasons why this policy was stopped.

ACTIVITY 12.6 Research

1 Construct a mind map outlining the rights of asylum seekers and refugees protected by international agreements. You will need to refer to the *Asylum Seekers, Refugees and Human Rights: Snapshot Report* (2nd ed.) (2017), available on the Australian Human Rights Commission website.
2 Find out more about the government's current policy on asylum seekers. Using dot points, outline the government's approach to dealing with illegal maritime arrivals.

ACTIVITY 12.7 Collaborate

1 A number of groups in Australia express concerns about the rights of asylum seekers. Working in groups, find out about the views expressed by one of the following organisations:
   - Amnesty International Australia
   - Red Cross Australia
   - Australian Lawyers for Human Rights
   - Australian Catholic Social Justice Council
   - Oxfam Australia
   - Human Rights Council of Australia.
2 Present a summary of the issues raised.

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CONSOLIDATE YOUR LEARNING

1 Undertake research into some of the international agreements Australia has ratified in relation to the following areas:
   - the protection of the environment and World Heritage areas
   - the International Convention on the Elimination of All Forms of Racial Discrimination
   - the Convention on the Rights of the Child.
2 Prepare a poster identifying examples of how each one of these international agreements might shape government policies and law in Australia.
3 The Australian Human Rights Commission website has information about the United Nations Declaration on the Rights of Indigenous People.
   Find out more about the United Nations Declaration on the Rights of Indigenous People and answer the following questions:
   a What is the difference between a treaty and a declaration?
   b Why is the declaration considered significant?
   c Outline the reasons for the declaration.
   d Give examples of actions that have been undertaken to recognise the rights identified in the declaration. What further actions do you think need to be taken?



FIGURE 12.14 Opening of an exhibition titled *Dignity: Tribes in Transition* by American photographer Dana Gluckstein at the United Nations, 11 July 2011.

4 Working in groups, select a human rights issue. Investigate the human rights issue using the information in this chapter and further online research, and form a recommendation for action. Use the Planning for Future Action worksheet, available in the online version of the textbook, to prepare a diagram outlining the following.
   a In the box labelled 'What are the key facts relating to the issue?', using dot points, list the key facts that you have identified.
   b In the boxes under the heading 'What are the different views on the issue?', list the key arguments for and against the human rights issue you have identified.
   c In the box labelled 'Possible solutions', list ways in which this issue could be resolved.

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d In the box labelled 'Further information', list the questions that might still need to be answered or the further information that you would need to be able to make a decision.

e In the final box, list the action that could be taken to address this human rights issue.

5 Prepare an information kit on the United Nations Declaration on the Rights of Indigenous People. In your kit, you should have:

- a poster to show what the declaration means to Indigenous People
- a set of fact sheets giving details of the rights referred to in the declaration
- a bookmark – on one side you should provide information on the role of the United Nations and on the other side you should provide contact details for groups working towards the recognition of the rights of Indigenous people in Australia.

6 Conduct a class forum on human rights. Each group should report back to the class on its investigation and outline its recommendations for action.



FIGURE 12.15 International Human Rights Day in Melbourne, 2015

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Glossary

Adversary trial a trial before an impartial judge in which each party is responsible for the preparation and presentation of the case

Affirmation a declaration that is accepted in place of an oath

Appeals when a higher court reviews the decision of a lower court

Arbitration where an impartial third party discusses the issues, suggests ways to resolve the dispute and, if the parties cannot agree, makes a decision for them

Asset something owned or controlled that will provide economic benefits into the future

Auction a transaction where the buyer of an item and the price paid for it are decided after potential buyers have declared what they are willing to pay

Bail to allow a person charged with a criminal offence to be released from police custody until the trial starts

Balance of trade calculated by subtracting the value of imports from the value of exports

Bank a financial institution authorised to hold money, make loans, pay interest, accept deposits, change money and produce cheques

Bankrupt being unable to pay bills, leading to the closure of a business

Barter the use of goods or services as a means of exchange

Bicameral a parliament consisting of two houses or chambers

Bill a proposed law

Blended marketing the seamless integration of digital and traditional marketing techniques

Budgetary policy an economic tool of the government concerned with the level and composition of government outlays and revenues; it can be used to assist in achieving economic objectives

Bureaucracy also known as the public service; government departments responsible for administering government policy

Cabinet a meeting of senior ministers to advise on government policies

Candidates people who run for election to a political office

Capital the machinery, plant and equipment made by people to assist in the manufacture of goods and provision of services

Casual worker someone who is not guaranteed regular hours of employment each week; usually paid a higher hourly wage rate but sacrifices sick leave and holiday pay

Cheque a document that orders a bank to pay money from a specified account to an individual or organisation

Citizens members of a state or nation

Committal hearing a hearing to determine whether there is sufficient evidence to obtain a conviction in a higher court

Competitive advantage the ability to beat your competitors in terms of price or quality, translating into greater sales and profits

Conciliation where an impartial third person assists the parties to identify the issues and suggest possible solutions to help the parties reach an agreement

Constitution a set of rules, guidelines or a framework for how a nation or state is governed

Constitutional monarchy the exercise of power by a king or queen under a constitution

Consumer demand the willingness and ability of the buyer to pay the asking price for the good

Consumer Price Index (CPI) comparison of the costs of a basket of goods to see what price movements there have been over time

Consumer sovereignty the consumer is in charge when it comes to deciding where resources are allocated in a market economy

Contract a legally binding agreement

Convention a binding formal agreement or instrument that is between states (also known as countries or nations), or between states and non-state entities

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Cooling-off periods offer the consumer the chance to cancel a particular consumer transaction within a set period of time

Corporate social responsibility an approach to measuring business performance that considers the social and environmental impact of a corporation, in addition to its economic performance

Cost–benefit analysis involves making a list of the costs and benefits of each alternative proposal and comparing them to reach a conclusion

Credit rating credit reporting agencies collect information from credit providers (e.g. banks) about customers who have failed to make payments on time; credit providers often check the credit rating of new applicants, to assess whether they will pay back the debt

Creditors people or organisations to whom a business owes money

Crowdfunding listing a project/business on a website such as Kickstarter or GoFundMe in order to obtain funding from members of the public

Currency the notes and coins accepted in a particular country

Custody legal authority to control, detain or care for a person

Debt the state of owing money

Declaration an international agreement or instrument, which is also used and relied upon by states for various international purposes

Defendant a person against whom either a criminal or civil matter is taken to court; someone charged with a criminal offence in a court

Deflation when the average price of goods and services falls over time

Demand factors events that change consumer willingness and ability to pay without a change in the price of the product itself

Democracy a system of government by the people in which representatives are elected

Discovery the exchange of documents leading up to the hearing of a civil matter

Dividend a payment made to shareholders when a company performs well.

Doctrine of precedent the legal rules governing the application of precedents

Door-to-door sales a method of selling whereby a salesperson visits a customer's home with the intention of selling a particular product

Dual citizen a person who holds two nationalities at the same time

Economic activity the real value of production, employment, incomes and expenditure in an economy.

Economic boom when GDP grows rapidly, with a strong employment market and strong spending and confidence shown by consumers and producers

Economic cycles fluctuations that can occur in an economy over a period of time

Economic growth an increase in the real value of output produced in the economy over time, usually measured by increase in real GDP

Economic objectives government goals or aims – for example, low unemployment, low inflation

Economic policy policies designed to meet economic objectives set by the government

Economic problem how to satisfy unlimited wants with only limited resources

Economic recession when GDP declines for two consecutive quarters, there is a decline in demand from consumers and a drop in output by producers, and the employment market is weak

Economic resources the inputs required by the producer to complete the production process

Economies of scale the economic benefits of being able to reduce the 'per unit' price of a product made due to increased production runs

Economy an area in which economic 'agents' (people who are part of the economy) produce (make), and purchase and consume goods and services

Electorate a geographic area consisting of approximately 80 000 voters who vote for one representative

Employer of choice being seen as a highly attractive company for which to work, due to work conditions, entitlements and reputation

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Enterprise the qualities some individuals possess that make them able to accurately perceive market opportunities and effectively coordinate the production process

Entrepreneur someone who is willing to take risks and start a new business venture with the intention of making money

Equilibrium price the price where consumer demand equals the supply of goods; where the demand and supply lines intersect

Exchange rate the price at which one currency is exchanged for another

Executive government the branch of government that carries the law into force

Expenditure the total value of the spending on all the goods and services that have been produced

Expenses costs of producing a product

Exports goods and services produced in Australia and purchased by overseas countries

Fake news the sharing of views, opinions, rumours and gossip in the guise of genuine news on social media

Federation the joining together of individual states for a common purpose

Financial literacy understanding how money is made, spent and saved

Foreign aid providing financial and other resources to assist overseas programs to help the poor

Foreign debt the total amount of borrowings from overseas made by both the government and private sectors

Foreign policy a government's policy on dealing with other countries – for example, in matters relating to trade or defence

Free media the freedom of the media to report on political matters without undue interference from government

Full employment a situation where every person who is willing and able to work is able to find employment

Full-time worker according to the ABS, someone who usually works 35 hours or more each week in their main job

Generic products sold with plain packaging, little marketing and usually at much lower prices than the name-branded products

Global economy the production, distribution and consumption of goods and services on an international level

Globalisation the expansion of business operations into other countries as a result of the removal of economic barriers and increases in global technology

Government the system of political rule and administration over a society

Governor represents the Crown at the state level

Governor-General represents the Crown at the federal level

Gross domestic product (GDP) a measure of the value of all goods and services produced in Australia during a year; obtained by adding together the total amount (in dollars)

Gross national income (GNI) per capita the value of all income earned by residents of a country, plus income received from foreign transfers such as aid and remittances from workers resident overseas

Hierarchy a ranking in order

House of Representatives the lower house of the Commonwealth parliament

Human rights the rights considered by most societies to belong automatically to everyone

Hung parliament if no political party (or parties in coalition) achieves a majority in the lower house of parliament

Identity information sources of information that are unique to you and identify who you are

Imports goods and services purchased from an overseas seller and sold in the Australian market

Income money received in the form of wages from working, dividends from shares owned or rent received from property owned over a period of time

Indebtedness the amount of money owed by someone

Independent a member of parliament who does not belong to a political party

Indictable offences serious offences that are heard before a judge and jury

Inferred data what companies can determine about you from your shopping habits and what you spend your money on

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Inflation an average rise in the general level of prices of goods and services over a period of time, leading to a reduction in the purchasing power of money

Infrastructure the basic physical facilities required for an economy or society to operate; includes roads, buildings and power supplies

Innovation an idea, a thought, an invention, a system or a process that is completely new

Interest group an organised group of people who share interests in common

Jurisdiction the right, power or authority to administer justice by hearing and determining disputes

Labour the people power available to work in the production process

Land natural resources

Law of demand states that consumer demand for a product will move inversely to the movement in the price of the product, so that as the price rises, demand falls

Law of supply states that the quantity of goods supplied by a producer will move in line with the movement in the price of the product, so that as the price rises, supply rises

Legislative Assembly the lower house of the state parliament

Legislative Council the upper house of the state parliament

Listed companies companies whose shares can be traded on a stock exchange; members general public are able to buy part-ownership of listed companies by purchasing company shares

Macroeconomics the whole economy and the variables affecting it, such as unemployment, inflation, monetary and government budgetary policy

Majority rule the power to rule or govern by the agreement of the great proportion of voters

Mandate the authority of the winning political party to implement its policies as a result of its election campaign

Manufactured products goods that are made using machinery, especially on a large scale in a factory setting

Mark-up an amount added to the cost price of goods or services

Market a situation where potential buyers are in contact with potential sellers and there is a means of exchange

Market share the percentage of a total industry's sales that a company controls

Material standard of living the ability of individuals and households to purchase or access goods and services; sometimes referred to as 'material prosperity'

Means of exchange a method of payment for goods and services

Mediation where an impartial third party assists the parties in a dispute to identify issues and reach an agreement

Medicare levy a 2 per cent fee on taxpayers' taxable income that gives Australian residents access to free healthcare

Merchant service fee a charge applied by a bank for using its services (often for credit cards)

Microeconomics the behaviour of individuals and businesses within the economy and how they interact with the market

Minimum wage set by the Fair Work Commission in Australia, it is the minimum hourly rate of pay a paid adult employee can receive for paid work; in 2017, the minimum wage was $18.29 per hour

Ministers members of the government with responsibility for areas of government policies or departments

Ministry a meeting of all ministers

Minority government where government cannot form a majority in its own right and strikes a deal with the support of other members of parliament, known as independents, or a minor party to hold government

Monetary policy involves setting the interest rate on overnight loans in the money market; this usually flows on to interest rates charged by banks and other financial institutions

Money often received for providing goods and services to others (e.g. wages) and a way of making payments, usually by notes and coins or electronic funds transfer (EFT)

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Multinational corporations (or companies) organisations that operate in more than one country; their head office is based in one country but they have branches in other countries

Needs goods and services that are necessary

Net profit the difference between the revenue earned by a business and the costs incurred in earning that revenue; where there is more revenue than expenses, the business is deemed to have made a net profit; if expenses exceed revenue, the business will have made a net loss

Networking interacting with other people within a professional or social setting to exchange information or ideas

Non-material living standards those factors that influence a person's wellbeing that cannot be measured by monetary factors, but relate to quality of life

Oath a formal pledge to tell the truth

Observed data captured data recorded by the actions of an individual, such as location data sourced from mobile phone use

Ombudsman an official appointed by the government whose job it is to investigate consumer complaints within a specific industry

Opinion poll a snapshot of the views of voters on a specific issue or political party

Opportunity cost the value of the lost alternative use to which the economic resources could have been allocated

Opposition the largest party (or parties in coalition) that does not have the support of the majority of representatives in the lower house

Overdraft an agreement by which a bank or other financial institution will allow an account to temporarily go into a negative balance

Parliamentary government a government formed from the elected members of parliament

Parliamentary majority the party (or parties in coalition) with more than 50 per cent support in the lower house forms government

Part-time worker someone who generally works less than 35 hours each week; they receive the same entitlements as full-time workers but work fewer hours

Participation rate the percentage of the population making itself available for work

Party platform the policies and promises of a political party seeking election to government

PAYG taxpayers those who work in wage or salary jobs and pay income tax instalments each time they receive a payment from their employer

Peer group pressure the added influence of people within a similar group, such as a school, sports or other group

Penalty rates an increased rate of pay for overtime or hours worked outside of normal working hours, such as on Sundays and public holidays

Phishing involves the practice of obtaining information such as passwords, financial data such as bank account or credit card numbers, or personal information; the information is then used to establish an identity or connect with the individual via a scam

Plaintiff a person bringing a civil action to court

Pleadings the exchange of information leading up to the hearing of a civil matter in court

Policy a plan of action or a position taken by a political party

Policy-making the process of formulating a policy

Political party a group representing individuals with similar political views

Pork-barrelling promising inappropriate government spending in exchange for political support

Precedent a principle developed by the courts that provides a guide in similar cases

Preferential voting a system of voting in which votes are allocated to candidates in order of preference

Preselection where a political party approves a candidate for an election

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Price conscious consumers who are looking for low-priced items and place this feature very high on their list of priorities when making purchasing decisions

Price match where a store may offer to sell a product below the ticketed price because another store is offering the same product or service at a lower price

Price mechanism the system whereby producer supply and consumer demand interact in the marketplace to set prices for goods and services

Primary identity documents include such things as driver's licence, student ID card and passport

Prime Minister the leader of the Commonwealth government

Production the total value of all the goods and services that are produced in an economy over a period of time

Production industries also known as the manufacturing sector; companies that make products – for example, cars, iPhones, clothing, footwear

Production process the actual making of goods or provision of services

Productivity how much output is produced per unit of input

Proportional voting a system of voting in which political parties receive a percentage of representatives according to the total vote won by the party

Prosecution the person responsible for presenting a case that an alleged offender has committed an offence

Public debate where citizens actively involve themselves in the decision-making process by putting their views forward

Real GDP the value of output produced in a country over time, after removing the effects of changes in prices

Real GDP per capita the value of real output in a country divided by its population

Referendum a formal process to change the Constitution

Regimen the basket of goods and services (approximately 100 000 items) that make up the main purchases of households in the eight Australian capital cities. It is used by the ABS to measure the CPI

Remedy the outcome of a civil case aimed at restoring the injured party to their original position

Representative democracy a system of government in which parliamentarians represent the view of their community within their electorate

Republic the power is vested in the people to elect their leader, such as a president

Reserve price a price below which the auctioneer cannot sell a product

Resource allocation the way in which land, labour, capital and enterprise are used to satisfy what to produce, how to produce and for whom to produce

Responsibilities obligations or expectations to do

Revenue money earned from selling products or services

Rights legal entitlements to have or to do

Royal assent the last step in the process of a proposed law in parliament; signed off by the Governor-General

Salary a yearly payment amount to an employee that is then divided into fortnightly or monthly payments

Scam a dishonest or 'fake' scheme that seeks to access money and/or services

Secondary identity documents include such things as rates notice, motor vehicle registration and utility bills

Seed funding when a business owner receives money in exchange for a small amount of equity in the company

Senate the upper house of the Commonwealth parliament

Separation of powers the three independent branches of government – the legislature, the executive and the judiciary – working independently but sharing power

Service sector businesses that earn money from selling intangible products or services – for example, in banking, finance, retail, transport, distribution, food services and entertainment

Shares part-ownership in a company, where profits made by the business are paid to shareholders as dividends; income can also be generated by selling shares for an amount higher than the original purchase price

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Shortage a market situation where the quantity demanded is greater than the quantity supplied, and the market is not in equilibrium

Skimming accessing and transferring data using credit cards and other cards; information is removed and then used for personal gain

Social enterprise a business that exists to reinvest the money it makes back into the business or local community to tackle unemployment, environmental issues or social challenges

Social media online applications that enable the sharing of views, opinions and social networking

Standard of living an individual's material quality of life

Subsidies government-provided financial assistance to local industry to make it more competitive relative to imported goods

Substitute an alternative good or service that can be used for the same purpose

Summary offences minor offences heard by a magistrate

Superannuation by law, employers must contribute a set percentage of each employee's wage into a superannuation fund of their choice – the employee can not access it until later in life, when they are considering retiring

Supply the quantity of a commodity that will be provided by the producer at a particular price

Supply chain the sequence of processes involved in the production and distribution of a product

Supply factors those events that change the willingness and ability of a supplier to supply goods and services without a change in the price of the product itself

Surplus a market situation where the quantity supplied is greater than the quantity demanded, and the market is not in equilibrium

Sustainability avoidance of the depletion of natural resources in order to maintain an ecological balance

Tap and go paying electronically with a card or your phone, often without the need for a signature or PIN number

Target marketing marketing that targets a particular market segment – for example, young people aged 16–24 years

Tariff a tax on imported goods

Telecommuting working from home using technology such as the internet, video conferencing and the telephone to remain in contact with colleagues and clients

Term deposit savings account offering a higher level of interest, but with a requirement to leave the money for a specified amount of time

Terms of trade calculated by dividing the prices paid for exports by the prices paid for imports; represents the overall trading position of a country

Tiers of government the division of power into federal, state and local government levels

Tort a civil wrong

Trade the exchange of goods and services between nations

Trade barriers restrictions on free trade between countries, including the imposition of taxes and quantity limits on imports, and rules banning imports of certain foods and agricultural products

Trade deficit when the value of exports is less than the value of imports

Trade surplus when the value of exports is greater than the value of imports

Transnationals workers who can speak more than one language, and who are able to easily relocate around the world for work

Tribunal a body set up as an alternative to a court to settle disputes

Trolling inflammatory, offensive or off-topic messages in online communities such as blogs, social media, forums and more

Under-employment those who are employed but are available and want to work more hours than they do

Unicameral a parliament consisting of one house or chamber

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Universal Declaration of Human Rights a declaration passed by the United Nations outlining the basic human rights of all people

Values what people believe in and regard as significant

Volunteered data content and data created and shared by an individual, such as their social media profile

Wages the money an employee receives from an employer in exchange for the completion of set tasks

Wants goods and services that are desired but not necessary

Warranty a written promise by the dealer or manufacturer that a product is free from faults

Wealth the total amount of assets an individual has accumulated and owns – for example, value of housing, shares and amount held in bank accounts; can also refer to a country

Welfare assistance refers to government support for those in need, or who are unable to support themselves, including unemployment benefits and pensions

Work performing an activity that produces something of value for other people

Writ a court order informing a person that there is a claim against them; a legal instruction

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